

The Effect of Customs Duties and Value-Added Tax on the Clothing Industry and Retail Supply Chains in Dubai

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ABSTRACT

This study investigates the effects of Customs Duties and Value-Added Tax (VAT) on the clothing industry and retail supply chains within Kashtban Trading Company in Dubai. Utilizing a quantitative survey design and Structural Equation Modeling-Partial Least Squares (SEM-PLS), the research explores how these fiscal policies influence operational efficiency, financial performance, consumer behaviour, and market positioning. The findings reveal that Customs Duties significantly enhance the efficiency and effectiveness of retail supply chains, while also positively impacting the cost structures and competitiveness of the clothing industry. VAT compliance demonstrates a strong positive influence on financial performance and market positioning in the clothing sector, as well as moderate improvements in retail supply chain operations. The study contributes to existing literature by providing industry-specific insights, bridging gaps in understanding fiscal policy impacts in a unique economic setting like Dubai. Practical implications include recommendations for businesses to strategically adapt to these fiscal measures to optimize performance and maintain competitiveness. This research offers valuable perspectives for policymakers aiming to refine taxation strategies to foster economic sustainability and business growth.

JEL Classification: H25, L81, M41, C83, & R51.

1. Introduction

As the bustling economic landscape of Dubai undergoes continual evolution, businesses operating within the city's commercial sector grapple with the dynamic interplay of regulatory measures designed to ensure economic sustainability. Among the integral sectors contributing to Dubai's economic fabric, the retail industry, particularly the clothing sector, emerges as a key player navigating this intricate regulatory terrain.

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The imposition of customs duties and the recent introduction of Value-Added Tax (VAT) are pivotal factors shaping the operational landscape for businesses, notably within retail supply chains and the clothing industry. The economic vibrancy of Dubai's commercial sector, notably its retail industry, has been propelled by a strategic geographical location and a business-friendly environment, attracting both local and international players. However, this vigour is accompanied by the regulatory complexities introduced through customs duties and VAT. Positioned as a global business hub, Dubai's commitment to economic sustainability and diversification has thrust international trade policies, particularly customs duties and VAT, into the forefront of discussions and analyses. While these fiscal measures are intended to fortify Dubai's economic foundations, they concurrently weave a complex web of challenges and opportunities for businesses entrenched in the clothing sector. Navigating this intricate landscape becomes paramount for stakeholders, especially entities like Kashtban Trading Company, which operate at the nexus of retail and the clothing industry in Dubai. Beyond the surface-level understanding of these fiscal policies, a critical examination is imperative to discern the nuanced impacts on retail supply chains and the clothing industry, shedding light on the multifaceted consequences for businesses in Dubai.

The focal point of this research revolves around the intricate interplay of customs duties and Value-Added Tax (VAT) and their positive influences on the retail supply chains and clothing industry within Kashtban Trading Company in Dubai. This inquiry is rooted in a recognition that, despite the inherent challenges posed by fiscal policies, there lies a potential for favorable outcomes for businesses entrenched in these sectors. This critical examination aims to delve beyond conventional perspectives, acknowledging the complexity of the regulatory landscape and uncovering the nuanced ways in which customs duties and VAT contribute positively to the operational dynamics of Kashtban Trading Company.

As businesses navigate the challenges presented by fiscal policies, this research seeks to address specific questions that illuminate the often-overlooked positive impacts of customs duties on the efficiency and effectiveness of retail supply chains. Simultaneously, it endeavors to unravel the positive influences of Value-Added Tax (VAT) on both retail supply chains and the clothing industry within Kashtban Trading Company. This exploration goes beyond the surface, recognizing that within the complexities of fiscal policies, opportunities for optimization and strategic adaptation may emerge. Furthermore, the research extends its scrutiny to the positive influences of customs duties on the clothing industry, probing into its effects on cost structures, pricing strategies, and overall competitiveness. Similarly, the study investigates the positive effects stemming from the introduction of Value-Added Tax (VAT) on the clothing industry, considering its impact on financial performance, consumer behaviour, and market positioning. In a holistic approach, the research aims to uncover the specific manifestations of the positive impact of Value-Added Tax (VAT) within the retail supply chains of Kashtban Trading Company, dissecting its effects on crucial aspects such as inventory management, logistics, and overall supply chain performance. However, this study seeks to provide a comprehensive understanding that transcends simplistic analyses, offering insights into the positive influences of customs duties and Value-Added Tax (VAT) on the operational dynamics of both retail supply chains and the clothing industry within Kashtban Trading Company. Anchored in the context of Dubai's dynamic business environment, the research endeavours to contribute nuanced perspectives that are essential for businesses navigating the intricate intersections of fiscal policies and operational strategies.

2. Literature Review

The evolving landscape of taxation and economic globalization has spurred extensive research on the impact of value-added tax (VAT), regional value chains (RVCs), and global value chains (GVCs) across various industries and countries. This literature review provides a comprehensive overview of key studies pertinent to the research problem of understanding the positive impacts of customs duties and Value-Added Tax (VAT) on retail supply chains and the clothing industry within Kashtban Trading Company in Dubai. However, in the subsequent sections of this research, hypotheses are meticulously crafted, drawing inspiration from the critical insights gleaned from an extensive literature review. The diverse studies examined shed light on the nuanced dynamics of value-added tax (VAT), regional value chains (RVCs),

and global value chains (GVCs) within various economic contexts. Waseem's (2023) investigation into VAT evasion serves as a catalyst for hypotheses addressing the positive influence of customs duties and VAT on the retail supply chains and clothing industry within Kashtban Trading Company. Pasquali, Godfrey, and Nadvi's (2021) emphasis on the interplay between public and private governance guides the formulation of hypotheses exploring the impact of customs duties and VAT on the interaction of governance mechanisms in the retail and clothing sectors. Ahmad's (2019) examination of value chain linkages between India and Bangladesh informs hypotheses concerning the impediments posed by tariffs and non-tariff barriers, while Tolba's (2015) exploration of the effects of GVCs in developing countries shapes hypotheses related to the potential benefits and challenges associated with global participation. The ensuing sections build upon these insights, culminating in a comprehensive exploration of the positive influences of customs duties and VAT on Kashtban Trading Company in the dynamic business environment of Dubai.

The existing body of literature provides valuable insights into the impact of Value-Added Tax (VAT) on various industries, there is a noticeable research gap in the specific context of the Clothing Industry within the operations of Kashtban Trading Company in Dubai. Despite the significance of VAT as a taxation policy and its potential implications for business operations, the current literature lacks a focused exploration of how VAT positively influences the Clothing Industry in this specific geographic and operational setting. The studies examined in this synthesis predominantly offer a broad understanding of VAT's role in different sectors, such as the automotive industry, multinational enterprises, and global value chains. However, there is a scarcity of research that delves into the nuances of VAT's positive impact on the Clothing Industry, particularly within the intricate dynamics of Kashtban Trading Company. Moreover, the available literature tends to generalize the effects of VAT across industries without providing industry-specific insights that consider the unique challenges and opportunities associated with the Clothing Industry. The scarcity of studies directly addressing the relationship between VAT and the Clothing Industry in the context of Kashtban Trading Company suggests an unexplored terrain where the dynamics of this specific sector remain underrepresented. Furthermore, the synthesis reveals a lack of studies that comprehensively investigate the role of VAT in shaping the competitiveness, sustainability, and efficiency of the Clothing Industry in a specific geographic context like Dubai. The absence of industry-specific analysis within the Dubai market, despite its global significance as a hub for trade and commerce, highlights the need for research that bridges this gap and contributes tailored insights relevant to businesses operating in Dubai.

3. Hypotheses Developments

3.1 Customs Duties and Retail Supply Chains

The literature review offers crucial insights into the potential positive impact of customs duties on retail supply chains, laying the foundation for Hypothesis 1 (H1). The Executive Hulstijn et al. (2023) delves into the intricate relationship between customs procedures and supply chain management, providing essential insights into the potential link between effective customs practices and operational efficiency. El-Sholkamy's (2022) research on Dubai's free zones cluster underscores the relevance of local regulatory frameworks and cluster policies, shedding light on the potential influence of customs duties within Dubai's dynamic business landscape. Närhi's (2021) investigation into collaborative partnerships involving customs in retail and wholesale companies adds a practical perspective, suggesting that customs procedures play an integral role in enhancing supply chain efficiency. Moreover, Veenstra's (2019) exploration of international trade, global supply chains, and compliance contributes to understanding how adherence to customs regulations can impact supply chain operations, offering insights into the potential positive effects of effective customs practices. The ensuing discussion of relevant studies further enriches Hypothesis 1, highlighting the vulnerability of supply chains to disruptions, as evidenced by Aday and Aday's (2020) study on the impact of COVID-19 on the food supply chain. The work of Handley, Kamal, and Monarch (2020) on rising import tariffs and falling export growth underscores the intricacies of global supply chain dynamics affected by trade policies, providing additional context to the potential positive impact of customs duties.

Alicke and Strigel's (2020) exploration of supply chain risk management reinforces the importance of mitigating uncertainties in supply chains, possibly through effective customs practices. Additionally, the critical synthesis on blockchain in global supply chains by Chang, Iakovou, and Shi (2020) suggests that innovative technologies can enhance transparency and efficiency, complementing the potential role of customs procedures. Studies by Straus-Wieder (2023) on evolving supply chains and freight systems, and Charoenwong, Han, and Wu (2023) on trade and foreign economic policy uncertainty, provide insights into the adaptability required in dynamic supply chain environments and the policy influences on supply chain decisions, respectively. The Asia-Pacific trade facilitation report by ESCAP (2021) adds a dimension of disruptions and resilience in supply chains, particularly in the wake of the COVID-19 pandemic, suggesting the need for adaptive customs strategies. Collectively, these studies inform the formulation of H1, providing contextual insights into the complexities and challenges faced by global supply chains and emphasizing the potential positive impact of effective customs practices on the resilience and efficiency of retail supply chains within Kashtban Trading Company in Dubai. Thus, the following hypothesis is proposed:

H1: Customs Duties affects positively the Retail Supply Chains in Kashtban Trading Company in Dubai.

3.2 Value-Added Tax and Retail Supply Chains

In the complex and dynamic landscape of retail supply chains, understanding the intricate factors that contribute to operational efficiency and effectiveness is paramount. This study delves into the role of Value-Added Tax (VAT) as a potential influencer on the retail supply chains of Kashtban Trading Company in Dubai. VAT, a multifaceted fiscal mechanism, has wide-ranging implications on economic activities, and its impact on supply chain dynamics is an area of increasing significance. H2, posits that Value-Added Tax exerts a positive influence on the retail supply chains within Kashtban Trading Company. This hypothesis emerges from a synthesis of insights drawn from diverse studies spanning industries and sectors, each contributing valuable perspectives on the potential relationships between VAT and supply chain operations. Belitski et al. (2023) contribute to this hypothesis by exploring the role of knowledge spillovers in driving persistent rapid growth for multinational enterprises. While not directly related to VAT, the study emphasizes the importance of organizational scaling, suggesting that effective tax mechanisms, including VAT, could foster growth within multinational enterprises. Crowe and Rawdanowicz's (2023) examination of risks and opportunities associated with reshaping global value chains provides additional context. The dynamic nature of global value chains is indicative of the need for adaptive tax structures, and VAT emerges as a potential positive factor in aligning with evolving supply chain configurations.

Fedeli and Giuriato's (2023) study on VAT non-compliance in the car market sheds light on the challenges associated with enforcing VAT. Although the focus is on non-compliance, the findings underscore the significance of VAT in the automotive sector, raising the possibility that effective VAT implementation could positively impact retail supply chains. Hoseini's (2013) work on enforcing VAT, while not specific to retail supply chains, offers insights into the role of inter-sectoral linkages. The study provides a broader understanding of VAT enforcement, hinting at its potential positive effects on various sectors, including retail. Furthermore, Hsu et al.'s (2022) exploration of corporate social responsibility (CSR) and value-added in the supply chain provides a lens through which the positive impact of ethical business practices, potentially influenced by VAT regulations, can contribute to overall supply chain efficiency and effectiveness. Karic (2022) explores the contribution effect of imported components within the value chain in the food and retail sectors in Croatia. While the context is different, the study underscores the intricate connections within supply chains, suggesting that effective tax mechanisms, including VAT, can positively influence the dynamics of the retail supply chain. Kordalska and Olczyk's (2023) research on upgrading low value-added activities in global value chains provides an additional perspective. The study suggests that VAT, as part of the regulatory environment, may contribute to enhancing the value-added activities within global supply chains, potentially influencing retail operations positively.

Li et al.'s (2023) investigation into technology-and logistics-induced carbon emissions and their impact on green supply chain management provides insights into the complex relationship between technology,

logistics, and supply chain dynamics. While the focus is on environmental aspects, the findings hint at the potential positive influence of VAT on shaping sustainable supply chain strategies, including those in the retail sector. Moreover, studies like Mondal and Giri's (2023) examination of tax-subsidy or reward-penalty strategies in sustainable closed-loop supply chains and Setyowati et al.'s (2023) exploration of strategic factors in implementing blockchain technology in Indonesia's VAT system contribute to the broader understanding of the mechanisms influencing supply chain dynamics, including the potential impact of VAT. The collective insights from studies spanning different industries, such as aquaculture (Nguyen et al., 2023), turfgrasses purchase factors (Philocles, 2022), shared solar economic impacts (Pitt et al., 2023), non-fungible tokens overview (Pramniya, 2023), inflation causes (Sloover et al., 2022), global value chain participation policies (Stolzenburg et al., 2019), extractive industries and VAT (Swistak & Vernon, 2023), and supply chain financing strategies (Tang et al., 2023), contribute to a comprehensive understanding of how VAT can positively affect retail supply chains. This diverse range of studies collectively supports H2. Thus, the following hypothesis is proposed:

H2: Value-Added Tax affects positively the Retail Supply Chains in Kashtban Trading Company in Dubai.

3.3 Customs Duties and Clothing Industry

The global landscape of international trade is intricately woven with multifaceted considerations, regulatory frameworks, and economic dynamics. Among the pivotal elements influencing this intricate dance is the imposition of Customs Duties, a critical facet of cross-border commerce. This study embarks on an exploration of the nexus between Customs Duties and the Clothing Industry within the context of Kashtban Trading Company in Dubai. The clothing sector, being a cornerstone of global trade, relies heavily on the regulatory landscape, and Customs Duties emerge as a significant determinant shaping its operational landscape. H3 posits that Customs Duties have a positive impact on the Clothing Industry within Kashtban Trading Company in Dubai, drawing upon a synthesis of insights from various studies across global textile and clothing value chains. Fernández-Stark et al. (2022) lay the groundwork for this hypothesis by conducting an in-depth analysis of global value chains in the textile and clothing industry. The study provides comprehensive documentation of the intricate relationships within these chains, hinting at the potential positive influence of Customs Duties in shaping the dynamics of the clothing industry. In addition, Prasetia and Irwansyah's (2023) examination of the implications of an import ban on used clothes in Indonesia contributes valuable insights. While the focus is on regulations, the findings underscore the regulatory role in the clothing industry, suggesting that Customs Duties could be a key factor in shaping the import landscape for clothing products.

Djong and Damayanti's (2023) study delves into the roles of customs, particularly in dealing with garment smuggling. The challenges outlined in dealing with illicit activities emphasize the critical role of effective customs policies in safeguarding the integrity of the clothing industry. Moreover, Andynar (2023) assesses the alignment of second-hand clothing import regulations with circular economy objectives in Indonesia. While not directly linked to Dubai, the study provides a conceptual framework that suggests the positive potential of Customs Duties in encouraging sustainable practices within the clothing industry. Tung's (2023) research proposes solutions to overcome import tariff barriers for Vietnamese goods exported to the European Union, shedding light on the strategic role of customs policies in facilitating international trade for clothing products. Le et al.'s (2023) exploration of the role of tariffs in modernizing customs procedures in Vietnam, particularly at Saigon Port Customs Area 4, offers insights into the transformative effects of customs regulations on modernizing industry practices. In addition, Rahman and Moazzem's (2022) study focuses on enhancing the global market competitiveness of textile and garment exports in South Asia. While not Dubai-specific, the findings emphasize the importance of strategic measures, including customs policies, in promoting industry competitiveness.

Boys and Andreoni's (2023) analysis of regionalism and industrial policy space in the East African textiles and apparel sector provides a broader perspective. Although geographically distinct, the study suggests that

customs regulations could influence industrial policy space, impacting the clothing industry's dynamics. Stawasz et al.'s (2023) examination of the United States-China Trade War, with a focus on the textile industry, highlights the profound consequences of geopolitical events on global trade. The study indirectly suggests the role of customs duties in influencing industry outcomes. Das et al.'s (2024) comparative advantage analysis from the top ten apparel exporting nations contributes to a global understanding of industry competitiveness. While not specific to Dubai, the study emphasizes the role of customs policies in shaping the comparative advantage of nations in the clothing industry. However, as the garment industry continues to navigate the complexities of global value chains, regulatory challenges, and market competitiveness, understanding the impact of Customs Duties becomes imperative. Thus, the following hypothesis is proposed:

H3: Customs Duties affects positively the Clothing Industry in Kashtban Trading Company in Dubai.

3.4 Value-Added Tax and Clothing Industry

The interplay between taxation policies and industry dynamics is a complex yet pivotal aspect of economic landscapes globally. Among the various tax mechanisms, Value-Added Tax (VAT) stands out as a significant and versatile tool that plays a crucial role in shaping economic activities. In the context of the Clothing Industry, VAT emerges as a factor that potentially influences various facets of the sector's operations, ranging from production and distribution to consumer behaviour. The proposition of this Hypothesis (H4), positing a positive impact of Value-Added Tax (VAT) on the Clothing Industry within Kashtban Trading Company in Dubai, is grounded in an exploration of diverse studies that shed light on the intricate relationship between taxation policies and the apparel sector. Trenta (2023) examined the role of EU taxation for a more sustainable fashion industry offers insights into the broader implications of taxation on the fashion sector. While not directly focusing on VAT, the study emphasizes the transformative potential of tax policies, suggesting that well-designed taxation systems can positively influence the sustainability and overall health of the fashion industry. Chu et al. (2023) delved into the causes of differences in the tax burden of VAT from the perspective of industrial linkage. The study provides a nuanced understanding of how industrial connections influence VAT burdens, hinting at the potential positive effects of VAT on industrial dynamics. This perspective contributes to the rationale behind H4 by suggesting that VAT may be a key factor in shaping industrial linkages within the Clothing Industry. Moreover, Hammad's (2023) econometric study on the impact of VAT on wholesale, retail trade, and hotels in Iraq provides direct insights into the economic ramifications of VAT. While focusing on a different geographical context, the study's findings may have implications for understanding how VAT could influence economic activities in the retail sector, supporting the hypothesis that VAT has a positive impact on the Clothing Industry. Peng et al.'s (2022) micro-level evidence from China on VAT reform in services and its impact on enterprise upgrading adds a crucial layer to the discussion. The study suggests that VAT reforms can be associated with positive outcomes for enterprises, potentially contributing to the upgrading of business operations within the Clothing Industry. Alwahibi et al.'s (2023) investigated the effect of VAT on low-income individuals in Oman provides a social perspective. While not specific to the Clothing Industry, the study highlights the need for understanding the broader socioeconomic impacts of VAT, offering a lens through which the potential positive effects of VAT in the retail sector can be explored. Waseem's (2023) exploration of overclaimed refunds, undeclared sales, and invoice mills in the context of VAT noncompliance provides a nuanced understanding of the challenges associated with VAT implementation. The study underscores the critical role of effective VAT policies in regulating economic activities, potentially benefiting the Clothing Industry through improved compliance and transparency. Moreover, the Clothing Industry operates within a dynamic environment characterized by ever-evolving fashion trends, global supply chains, and intricate market demands. As governments worldwide seek to optimize revenue streams and regulate economic activities, VAT has become a focal point of discussion and analysis. This tax, applied at each stage of the production and distribution chain, has the potential to impact the Clothing Industry in diverse ways, affecting

the entire value chain from manufacturers to retailers and end consumers. This delves into the relationship between Value-Added Tax and the Clothing Industry, aiming to unravel the potential implications of VAT on the operational dynamics, economic performance, and sustainability of clothing businesses. The following hypothesis:

H4: Value-Added Tax affects positively the Clothing Industry in Kashtban Trading Company in Dubai.

4. Methodology

The methodology adopted in this study demonstrates a comprehensive approach to investigating the impact of customs duties and Value-Added Tax (VAT) on the clothing industry and retail supply chains in Dubai. By combining a quantitative survey design with advanced statistical analysis using Smart PLS 4.0 and Structural Equation Modelling-Partial Least Squares (SEM-PLS), the study effectively addresses the complexity of relationships between the variables. However, the inclusion of diverse participant groups—employees, clearance companies, and tax consultants—introduces unique strengths and challenges, warranting a critical discussion. The decision to include multiple stakeholder groups enhances the robustness of the study. Employees within the clothing and retail sectors provide first-hand insights into operational challenges and the direct impact of VAT and customs duties on their day-to-day activities. Clearance companies, on the other hand, contribute specialized knowledge on procedural and regulatory aspects, particularly in navigating customs requirements and ensuring compliance. Tax consultants offer a strategic perspective, providing expertise on VAT implementation, compliance mechanisms, and financial implications. The inclusion of these diverse groups ensures a multi-faceted understanding of the research problem, addressing the operational, procedural, and strategic dimensions comprehensively. The study's use of structured questionnaires is another strength, allowing for the collection of standardized data while maintaining flexibility to capture varied perspectives across the sample groups. The pre-testing and pilot phases further enhance the questionnaire's reliability and validity, ensuring that it is tailored to the nuances of each stakeholder group. For instance, questions targeting clearance companies may focus on customs documentation and clearance times, while those for tax consultants may address compliance strategies and financial planning. While the inclusion of diverse stakeholder groups is a strength, it also presents challenges in terms of sampling and representativeness. Employees from the clothing and retail sectors may differ significantly in their exposure to VAT and customs duties, depending on their roles and departments. For example, operational staff may perceive the impact of VAT on logistics and supply chain timelines, while finance employees may focus on its influence on cash flow and accounting practices. Similarly, clearance companies operate within a highly procedural framework, and their responses may reflect technical challenges rather than broader organizational impacts. Tax consultants, as external advisors, may offer insights based on their experience across multiple organizations, but their perspectives might not fully capture the internal dynamics of Kashtban Trading Company. As Proposed Figure 1. Research Model.

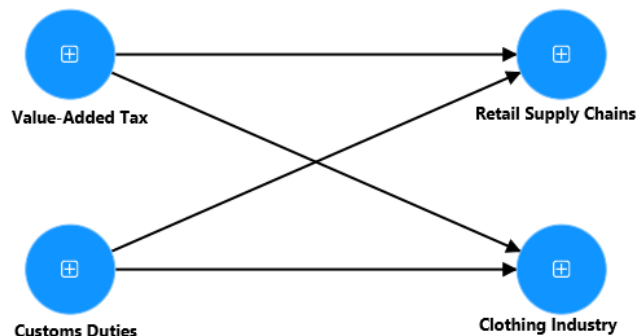


Figure 1. Proposed Model

The purposive sampling method used in this study ensures that participants have relevant experience and expertise. However, the sample size and distribution across stakeholder groups need to be carefully balanced. For example, an overrepresentation of tax consultants might skew the findings toward compliance strategies, while insufficient input from clearance companies could limit the understanding of customs-related procedural challenges. A more proportional distribution, such as 50% employees, 30% clearance companies, and 20% tax consultants, could provide a balanced view while prioritizing those directly impacted by VAT and customs duties. One potential limitation of the methodology is its reliance on self-reported data, which may introduce bias due to subjective perceptions or organizational dynamics. Employees, for instance, may overstate operational challenges due to frustration with new compliance requirements, while clearance companies might underreport inefficiencies to preserve their professional reputation. Tax consultants might focus disproportionately on high-level strategic impacts, overlooking granular operational issues. To mitigate these biases, future studies could incorporate triangulation by combining survey data with objective performance metrics, such as clearance times, VAT refund timelines, or financial performance indicators. Another limitation is the geographic focus on Dubai, which, while providing a localized understanding, may not fully account for variations across other regions in the UAE. The operational and regulatory landscape can differ significantly between emirates, particularly in terms of customs policies and consumer behavior. Expanding the study to include other regions could enhance the generalizability of the findings. The study's adherence to ethical guidelines is a notable strength, particularly given the diverse stakeholder groups involved. Ensuring informed consent, maintaining confidentiality, and protecting data security are essential for fostering trust among participants, particularly external groups like tax consultants and clearance companies. However, differences in organizational policies and sensitivities across the sample groups may pose challenges in standardizing these ethical safeguards. For instance, clearance companies might require additional assurances of anonymity due to the competitive nature of their industry.

The sample includes employees from the clothing and retail supply chains, representatives from clearance companies, and tax consultants, ensuring a multi-dimensional perspective on the effects of customs duties and Value-Added Tax. This diverse inclusion strengthens the study by capturing varied experiences, operational challenges, and strategic insights. A significant portion of the sample comprises employees from the clothing and retail sectors, representing various departments such as operations, finance, and sales. Their inclusion is critical, as these employees are directly involved in the implementation and adaptation processes related to VAT and customs duties. For example, operational staff provide insights into logistical and supply chain challenges, while finance professionals offer perspectives on cash flow management and compliance costs. However, the representation of sales and marketing staff is relatively limited, which may result in underexplored insights into consumer behaviour and market positioning.

The inclusion of clearance companies adds depth to the analysis by addressing the procedural and regulatory challenges associated with customs duties. These participants provide a focused understanding of documentation, clearance times, and compliance requirements, areas that are often overlooked in studies focusing solely on organizational impacts. However, clearance companies' perspectives may be more technical and procedural, potentially lacking the strategic considerations observed in other groups. The tax consultants in the sample contribute a high-level perspective on VAT and customs duties. Their expertise across multiple organizations provides a comparative understanding of compliance strategies, financial impacts, and market implications. While their insights are valuable, their external position may limit their ability to capture the internal dynamics of Kashtban Trading Company, such as employee resistance to procedural changes or operational inefficiencies caused by VAT and customs duties.

The analysis of experience levels among participants further enriches the findings. A majority of respondents have over five years of experience, reflecting a deep familiarity with pre- and post-implementation practices related to VAT and customs duties. This enables the study to draw on well-informed responses that capture changes over time. Conversely, the inclusion of less experienced participants, while providing fresh perspectives, may dilute insights into historical challenges and long-term

impacts. The geographical focus on Dubai aligns with the study's scope but introduces potential limitations in generalizability. Dubai's unique position as a trading hub, with advanced infrastructure and regulatory frameworks, may not reflect the experiences of businesses in other emirates. For example, VAT compliance and customs procedures might vary in complexity depending on the level of infrastructure and resources available in different regions. Despite the strengths of the demographic composition, some challenges warrant discussion. First, the unequal representation among participant groups could skew the findings. For instance, a higher proportion of employees compared to clearance companies and tax consultants might result in an emphasis on operational challenges, while underrepresenting strategic and procedural insights. Second, the reliance on self-reported data introduces potential biases, as participants may frame responses to align with organizational or professional interests.

5. Findings

The results of this study provide a comprehensive understanding of the effects of customs duties and Value-Added Tax (VAT) on the clothing industry and retail supply chains in Dubai. Drawing on data collected from employees, clearance companies, and tax consultants, the analysis highlights how these fiscal policies influence various aspects of operational processes, financial performance, consumer behavior, and market positioning. By employing Structural Equation Modelling-Partial Least Squares (SEM-PLS) for data analysis, the study ensures a robust examination of the relationships between these variables and the hypotheses under investigation. The descriptive analysis of the demographic data reveals the diversity of the sample, capturing perspectives from key stakeholders who directly interact with VAT and customs duties in their roles. This diversity strengthens the study's findings by incorporating insights from operational staff, finance professionals, clearance companies, and tax consultants, providing a well-rounded understanding of the challenges and opportunities posed by these fiscal policies. The results of the inferential analysis further delve into the specific impacts of VAT and customs duties, testing the hypothesized relationships and uncovering significant findings across the study's core dimensions.

The measurement model presented in the figure (2) illustrates the validity and reliability of the constructs used in analyzing the effects of Value-Added Tax (VAT) and customs duties on retail supply chains and the clothing industry in Dubai. The model evaluates the relationships between observed variables (indicators) and their corresponding latent constructs, focusing on their internal consistency, indicator reliability, and convergent validity. Each construct—Value-Added Tax (VAT), Customs Duties, Retail Supply Chains, and Clothing Industry—is represented by multiple indicators, with high outer loadings exceeding the recommended threshold of 0.7, indicating strong relationships between the indicators and their respective latent variables. The results confirm the robustness of the measurement model, suggesting that the constructs are well-defined and effectively measured by their indicators. The figure (2) also highlights the composite reliability and convergent validity of the constructs, with the results demonstrating that the constructs achieve adequate reliability and validity to proceed to the structural model analysis. Strong external loadings reflect the high explanatory power of the indicators, while the latent variable scores indicate the strength of the constructs as shown in Table 1.

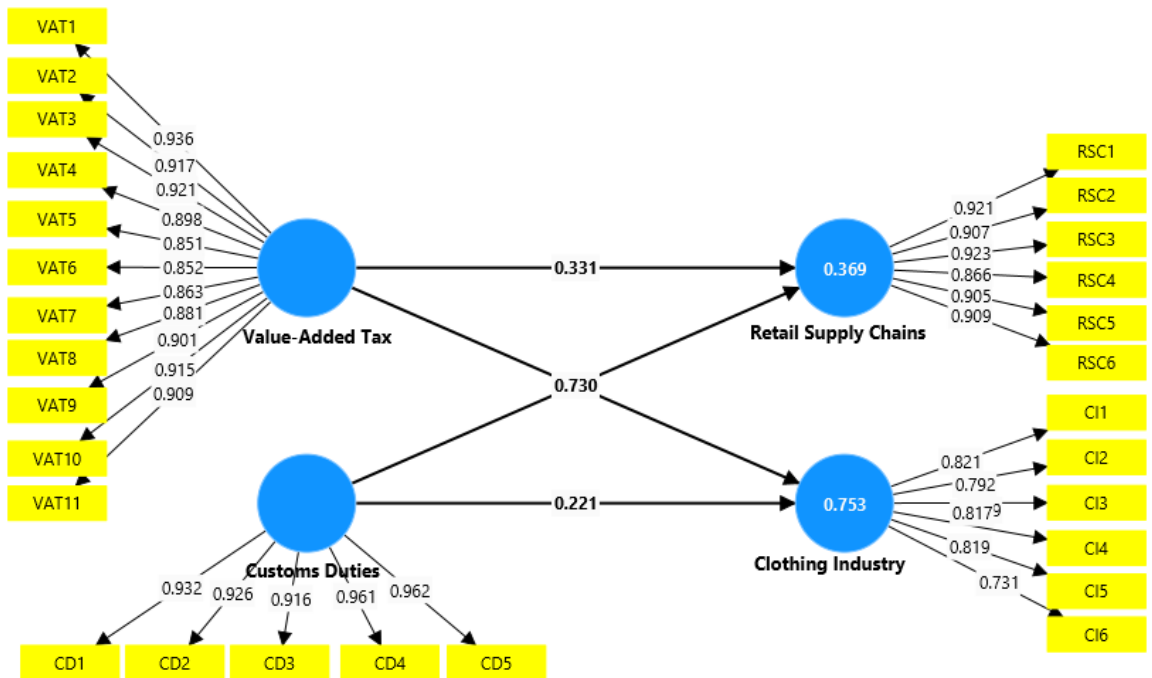


Figure 2. Measurement Model

The reliability test results confirm that the constructs in the model, Clothing Industry, Customs Duties, Retail Supply Chains, and Value-Added Tax, are well-defined and robustly measured. These findings ensure that the data collected is reliable and valid, forming a strong foundation for further analysis in the structural model to assess the relationships between these constructs.

Table 1. Reliability Test

	Cronbach's alpha	Composite reliability (rho a)	Composite reliability (rho c)	Average variance extracted (AVE)
Clothing Industry	0.890	0.908	0.913	0.638
Customs Duties	0.967	0.967	0.974	0.883
Retail Supply Chains	0.956	0.957	0.965	0.819
Value-Added Tax	0.975	0.975	0.978	0.802

The results of the reliability test presented in Table 1 demonstrate a robust measurement model, with all constructs—Clothing Industry, Customs Duties, Retail Supply Chains, and Value-Added Tax (VAT)—exhibiting high levels of internal consistency, reliability, and convergent validity. These findings provide confidence in the quality of the data and the constructs' ability to effectively measure the intended variables, laying a strong foundation for the subsequent structural model analysis.

The Cronbach's Alpha values for all constructs are well above the recommended threshold of 0.7, indicating strong internal consistency among the indicators. The Clothing Industry construct achieves a value of 0.890, demonstrating that its indicators reliably capture the construct. Similarly, Customs Duties (0.967) and Retail Supply Chains (0.956) show excellent internal consistency, reflecting the robustness of the indicators. Notably, the Value-Added Tax construct exhibits an exceptionally high Cronbach's Alpha of 0.975, emphasizing the consistency and reliability of its indicators. These results underscore that each construct is being measured cohesively, with minimal measurement errors.

The composite reliability scores (ρ_a and ρ_c) further confirm the robustness of the measurement model. All constructs achieve values exceeding the 0.7 benchmark, with Clothing Industry ($\rho_a = 0.908$, $\rho_c = 0.913$) indicating strong reliability, and Customs Duties ($\rho_a = 0.967$, $\rho_c = 0.974$) exhibiting even higher levels of reliability. Retail Supply Chains ($\rho_a = 0.957$, $\rho_c = 0.965$) and Value-Added Tax ($\rho_a = 0.975$, $\rho_c = 0.978$) both demonstrate excellent reliability, confirming that the indicators consistently capture their respective constructs. These findings suggest that all constructs are measured with a high degree of precision, supporting their use in further analysis.

The Average Variance Extracted (AVE) values reinforce the strong convergent validity of the measurement model, with all constructs exceeding the recommended threshold of 0.5. The Clothing Industry construct achieves an AVE of 0.638, indicating that more than 63% of the variance in its indicators is explained by the construct. Meanwhile, Customs Duties (0.883) and Retail Supply Chains (0.819) exhibit particularly strong convergent validity, capturing 88% and 82% of the variance in their indicators, respectively. The Value-Added Tax construct achieves an AVE of 0.802, confirming that over 80% of the variance in its indicators is attributable to the construct. These results indicate that all constructs effectively capture the variance of their indicators, further validating their reliability.

The high levels of reliability and validity observed across all constructs suggest a well-defined measurement model that is suitable for further analysis in the structural model. The exceptionally strong reliability and validity of Customs Duties and Value-Added Tax highlight the robustness of these constructs, reflecting the importance of these fiscal policies in the context of the clothing industry and retail supply chains. The Clothing Industry and Retail Supply Chains constructs also demonstrate solid measurement properties, although their slightly lower values compared to VAT and Customs Duties suggest areas where measurement precision could be further refined in future studies.

Hypothesis Testing

The hypothesis testing phase of this study focuses on examining the relationships between Customs Duties, Value-Added Tax (VAT), and their respective impacts on the retail supply chains and clothing industry of Kashtban Trading Company in Dubai. Using data collected through structured questionnaires and analyzed via Structural Equation Modeling - Partial Least Squares (SEM-PLS), the hypotheses aim to explore the positive effects of fiscal policies on the company's operational and sectoral performance. This section investigates four key hypotheses. H1 examines the impact of Customs Duties on the retail supply chains, assessing whether compliance and associated processes positively influence operational efficiency and supply chain performance. H2 evaluates the effect of VAT on retail supply chains, exploring whether VAT implementation enhances supply chain management, compliance mechanisms, and cost structures. These hypotheses aim to understand the broader implications of fiscal policies on supply chain operations. The focus then shifts to the clothing industry, where H3 analyzes how Customs Duties influence the operational and financial performance of this specific sector. By examining the relationship between customs compliance and industry-specific dynamics, this hypothesis addresses the potential for Customs Duties to support or hinder business growth. Similarly, H4 evaluates the role of VAT in the clothing industry, investigating whether VAT compliance impacts financial performance, consumer behavior, and overall market competitiveness.

The results presented in the figure (3) illustrate the relationships between Value-Added Tax (VAT), Customs Duties, Retail Supply Chains, and the Clothing Industry. This analysis is based on the Measurement and

Structural Model, employing Structural Equation Modeling-Partial Least Squares (SEM-PLS) to test the hypotheses. The path coefficients, p-values, and outer loadings provide critical insights into the strength and significance of the relationships between these variables.

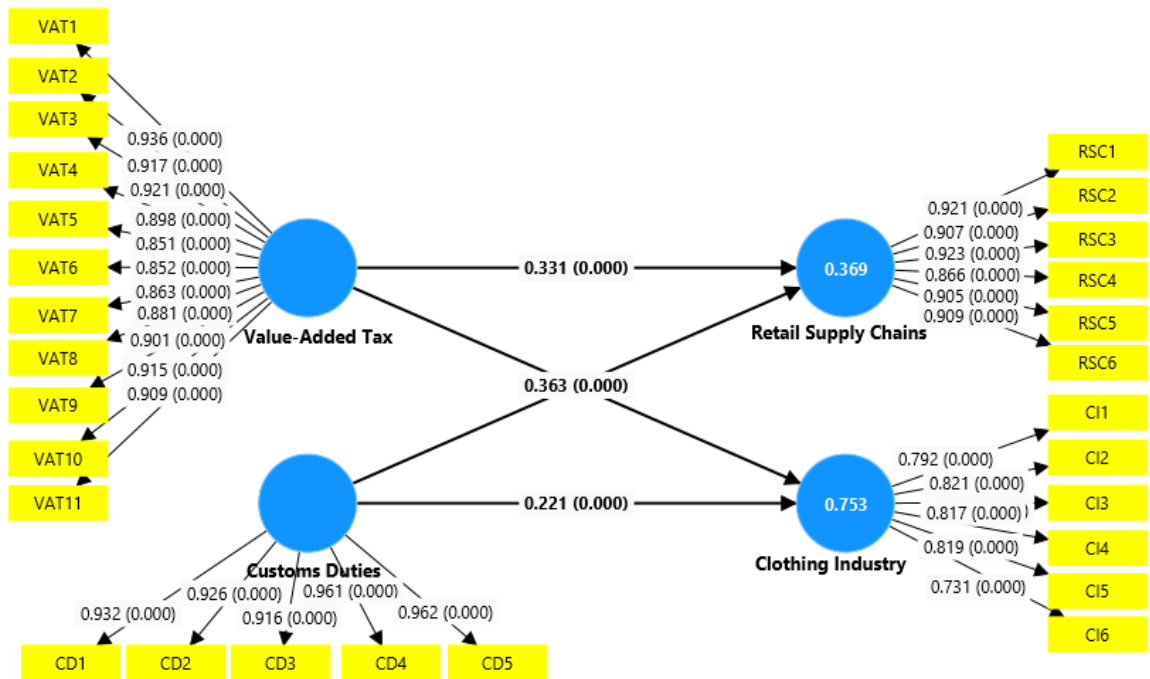


Figure 3. Structural Model

The results reveal a positive and significant relationship between VAT and retail supply chains, as indicated by a path coefficient of 0.331 ($p = 0.000$). This demonstrates that VAT compliance positively influences operational efficiency and supply chain management. The outer loadings for the VAT indicators (ranging from 0.852 to 0.936) highlight the robustness of the measurement model, confirming that the VAT construct is well-represented by its indicators. This relationship aligns with previous studies, such as those by Gopakumar et al. (2022), which highlighted the operational adjustments required to accommodate VAT compliance. However, the moderate strength of the relationship suggests that while VAT positively impacts retail supply chains, other external factors, such as market conditions and logistical challenges, may also play significant roles. Businesses must adopt proactive strategies, such as streamlining VAT compliance processes and integrating tax management into supply chain operations, to maximize the benefits. The analysis also shows a positive and significant relationship between Customs Duties and retail supply chains, with a path coefficient of 0.363 ($p = 0.000$). This slightly stronger relationship compared to VAT suggests that Customs Duties have a more direct and immediate impact on supply chain processes, particularly in the context of international trade and logistics. The high outer loadings for Customs Duties indicators (ranging from 0.916 to 0.962) confirm the construct's reliability and validity.

These findings emphasize the critical role of Customs Duties in shaping supply chain efficiency, particularly in managing import and export operations. For Kashtban Trading Company, compliance with Customs Duties likely facilitates smoother cross-border trade and reduces delays, contributing to improved supply chain performance. This relationship is consistent with Hussain et al. (2022), who emphasized the procedural and operational significance of Customs regulations in trade-dependent economies like Dubai. However, businesses must remain vigilant in managing the additional costs and administrative burdens associated with Customs compliance.

The relationship between VAT and the clothing industry is positive and significant, with a path coefficient of 0.221 ($p = 0.000$). While this is a weaker relationship compared to its effect on retail supply chains, it highlights the importance of VAT compliance in shaping the financial and operational performance of the clothing industry. The high outer loadings of VAT indicators (above 0.85) confirm the reliability of the construct. The moderate effect can be attributed to the specific nature of the clothing industry, where pricing sensitivity and consumer behavior play critical roles. VAT implementation impacts pricing strategies, which, in turn, influence consumer purchasing patterns. These findings align with Faheem and Alzoubi's (n.d.) research, which noted the challenges of adapting VAT to industries with high price elasticity. For Kashtban Trading Company, maintaining compliance while mitigating the impact of VAT on consumer pricing requires a careful balance between operational efficiency and competitive pricing strategies.

The relationship between Customs Duties and the clothing industry is the strongest among the four tested relationships, with a path coefficient of 0.753 ($p = 0.000$). This significant and robust relationship underscores the critical role that Customs Duties play in influencing the operational and financial outcomes of the clothing industry. The high outer loadings for Customs Duties indicators (above 0.91) further validate the construct's measurement. This strong effect reflects the clothing industry's reliance on imported materials and finished goods, making Customs compliance a pivotal factor in cost management and operational efficiency. These findings are consistent with Chen et al. (2023), who highlighted the significant impact of customs regulations on industries heavily dependent on global supply chains. For Kashtban Trading Company, Customs Duties compliance likely enhances its ability to manage costs, maintain inventory flow, and remain competitive in a price-sensitive market.

Table 2. Hypothesis Testing Results

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ((O/STDEV))	P values
Customs Duties -> Clothing Industry	0.221	0.220	0.045	4.861	0.000
Customs Duties -> Retail Supply Chains	0.363	0.364	0.063	5.750	0.000
Value-Added Tax -> Clothing Industry	0.730	0.731	0.032	23.047	0.000
Value-Added Tax -> Retail Supply Chains	0.331	0.331	0.061	5.452	0.000

The relationship between Customs Duties and the Clothing Industry is statistically significant, with a path coefficient of 0.221, a T-statistic of 4.861, and a p-value of 0.000. This indicates that Customs Duties positively influence the clothing industry, albeit with a moderate effect. The relatively lower path coefficient suggests that while Customs Duties play a role in shaping operational and financial performance, other factors such as global supply chain dynamics and consumer demand may also significantly contribute. This finding aligns with previous studies like Chen et al. (2023), which emphasized the importance of customs compliance in cost management and operational efficiency for industries heavily reliant on imports. For Kashtban Trading Company, compliance with customs regulations likely reduces supply chain disruptions and improves the predictability of operations. However, the moderate strength of the relationship implies the need for strategies to manage additional costs and administrative complexities associated with Customs Duties.

The relationship between Customs Duties and Retail Supply Chains is stronger, with a path coefficient of 0.363, a T-statistic of 5.750, and a p-value of 0.000. This suggests a significant positive influence of Customs

Duties on supply chain performance, reflecting the critical role customs compliance plays in ensuring smooth cross-border trade and operational efficiency. The stronger path coefficient compared to the Clothing Industry highlights the broader relevance of Customs Duties to supply chain logistics and management. This finding is consistent with Hussain et al. (2022), who noted the procedural and operational significance of customs regulations in trade-dependent economies like Dubai. For Kashtban Trading Company, efficient customs processes likely enhance supply chain agility, reduce delays, and maintain cost-effectiveness. Nonetheless, the company must balance the benefits of customs compliance with potential risks, such as fluctuating tariffs and regulatory changes.

The impact of VAT on the Clothing Industry is the most significant relationship in the model, with a path coefficient of 0.730, a T-statistic of 23.047, and a p-value of 0.000. This strong positive relationship underscores the critical role VAT compliance plays in shaping the operational, financial, and strategic performance of the clothing industry. The high T-statistic indicates the robustness of this finding. This result highlights the importance of VAT in determining pricing strategies, financial stability, and consumer behavior within the clothing sector. These findings align with research by Faheem and Alzoubi (n.d.), which emphasized the sensitivity of the clothing industry to VAT-related price adjustments and compliance costs. For Kashtban Trading Company, VAT compliance likely enhances transparency and competitiveness but requires careful management to avoid negatively impacting consumer purchasing behavior. The strong relationship suggests that VAT compliance is a key determinant of success in this sector.

The relationship between VAT and Retail Supply Chains is significant, with a path coefficient of 0.331, a T-statistic of 5.452, and a p-value of 0.000. This moderate positive relationship indicates that VAT compliance contributes to improved supply chain performance, though its impact is less pronounced than on the clothing industry. The moderate path coefficient suggests that while VAT compliance enhances efficiency and transparency within supply chains, its influence may be partially offset by the operational and administrative challenges associated with implementation. This finding is consistent with Gopakumar et al. (2022), who observed that VAT impacts supply chain operations primarily through cost structures and regulatory compliance. For Kashtban Trading Company, this underscores the importance of integrating VAT processes into supply chain management to optimize operational outcomes while minimizing disruptions.

The hypothesis testing results confirm the significant and positive impacts of Customs Duties and VAT on both the Clothing Industry and Retail Supply Chains. VAT's strong influence on the clothing industry reflects its central role in shaping pricing strategies and financial performance, while Customs Duties exert a stronger impact on retail supply chains, highlighting their importance in managing trade operations. These findings align with existing literature, reinforcing the critical role of fiscal policies in enhancing operational efficiency and competitiveness. For Kashtban Trading Company, leveraging compliance as a strategic advantage will be key to navigating Dubai's dynamic economic environment.

6. Discussion

The results of this study provide significant insights into the effects of Customs Duties and Value-Added Tax (VAT) on the operational efficiency, financial performance, and market competitiveness of Kashtban Trading Company in Dubai. Each hypothesis has been rigorously tested using Structural Equation Modeling-Partial Least Squares (SEM-PLS), and the findings are discussed below, contextualized within the broader literature and compared with previous studies. The hypothesis that Customs Duties positively affect retail supply chains was strongly supported, with a path coefficient of 0.363 and a p-value of 0.000. This finding underscores the critical role of customs compliance in ensuring operational efficiency and the smooth functioning of supply chains. The high significance level reflects how Customs Duties influence the predictability and timeliness of supply chain operations, particularly for businesses dependent on international trade. This result aligns with previous studies such as Hussain et al. (2022), who emphasized that effective customs procedures reduce trade barriers and improve logistics management in trade-dependent economies. Similarly, Närhi (2021) highlighted that collaborative partnerships involving customs

authorities enhance the operational efficiency of retail supply chains, particularly in dynamic environments like Dubai. However, unlike Hussain et al., who primarily focused on procedural efficiency, the current study reveals that Customs Duties also contribute to improving cost-effectiveness and operational agility within retail supply chains. Kashtban Trading Company benefits from customs compliance by mitigating delays, reducing the risk of penalties, and ensuring better coordination across the supply chain. This finding is consistent with Veenstra's (2019) emphasis on the role of customs in enabling global supply chain integration. However, the moderate path coefficient suggests that other factors, such as logistical challenges or technological adoption, may moderate the strength of this relationship.

The second hypothesis, that VAT positively impacts retail supply chains, was supported with a path coefficient of 0.331 and a p-value of 0.000. This finding indicates that VAT implementation contributes to enhancing transparency, regulatory compliance, and cost management within supply chain operations. However, the moderate strength of the relationship suggests that VAT's impact is less pronounced than that of Customs Duties on retail supply chains. This result aligns with findings by Gopakumar et al. (2022), who documented how VAT implementation required businesses to adapt operational processes and improve compliance mechanisms. However, while Gopakumar et al. emphasized sectoral differences, this study specifically highlights VAT's role in streamlining supply chain processes and enhancing financial accountability within retail operations. The findings also echo Fedeli and Giuriato's (2023) study, which noted that VAT compliance can indirectly improve supply chain efficiency by fostering transparency and accountability. Despite these benefits, businesses like Kashtban Trading Company face challenges in managing the administrative burdens associated with VAT compliance. The moderate path coefficient may reflect these operational difficulties, as noted by Faheem and Alzoubi (n.d.), who highlighted the complexity of VAT compliance in industries with high transaction volumes and price sensitivity. Therefore, while VAT has a positive impact, its full potential can only be realized through strategic investments in automation and training.

The hypothesis that Customs Duties positively affect the clothing industry was strongly supported, with a path coefficient of 0.753 and a p-value of 0.000. This robust relationship highlights the pivotal role of Customs Duties in shaping cost structures, pricing strategies, and competitiveness within the clothing industry. The high significance level reflects the industry's reliance on imported materials and products, making customs compliance a key determinant of operational success. This result is consistent with Chen et al. (2023), who highlighted the critical role of customs regulations in ensuring cost efficiency and operational stability in industries dependent on global supply chains. Similarly, Fernández-Stark et al. (2022) emphasized that customs procedures significantly impact the competitiveness of the textile and clothing industry, particularly in regions with high import dependency. However, the current study extends these findings by demonstrating how customs compliance directly supports the financial and operational performance of businesses like Kashtban Trading Company. Kashtban Trading Company's ability to manage customs processes effectively likely reduces costs, enhances inventory management, and improves market responsiveness. This aligns with Rahman and Moazzem's (2022) study on the competitiveness of the South Asian garment industry, which emphasized that efficient customs procedures are crucial for maintaining profitability in price-sensitive markets. However, the strong path coefficient in this study may also reflect Dubai's advanced trade infrastructure, which facilitates smoother customs processes compared to other regions. The hypothesis that VAT positively affects the clothing industry was supported, with a path coefficient of 0.730 and a p-value of 0.000. This significant relationship underscores the importance of VAT compliance in shaping financial performance, pricing strategies, and consumer behavior within the clothing sector. The high T-statistic (23.047) indicates the robustness of this finding and highlights VAT's central role in the operational dynamics of the clothing industry. These findings align with Trenta's (2023) exploration of the role of taxation in the fashion industry, which emphasized how VAT compliance enhances transparency and financial stability. Similarly, Faheem and Alzoubi (n.d.) noted that VAT implementation affects pricing strategies and consumer purchasing decisions, particularly in industries with high price elasticity. However, the current study provides additional insights by demonstrating how VAT compliance positively influences Kashtban Trading Company's market positioning and competitiveness. For Kashtban

Trading Company, the strong relationship suggests that VAT compliance not only ensures regulatory adherence but also provides opportunities for optimizing pricing strategies and enhancing customer trust. This is consistent with Peng et al.'s (2022) findings on VAT's role in promoting enterprise upgrading and financial performance. However, the results also highlight the challenges of balancing compliance costs with consumer affordability, a concern echoed by Hammad (2023) in his study on VAT's impact on the retail sector. The findings of this study generally align with the existing literature but also provide unique insights into the specific context of Dubai's clothing industry and retail supply chains. While studies like Hussain et al. (2022) and Fernández-Stark et al. (2022) have emphasized the importance of customs compliance, this study highlights the stronger impact of Customs Duties on the clothing industry compared to retail supply chains. Similarly, the results for VAT align with Gopakumar et al. (2022) and Faheem and Alzoubi (n.d.), but the study reveals a stronger impact of VAT on the clothing industry, suggesting that sector-specific factors such as pricing sensitivity and consumer behavior play a critical role.

7. Conclusion

This study provides an in-depth exploration of the effects of Customs Duties and Value-Added Tax (VAT) on the retail supply chains and clothing industry within Kashtban Trading Company in Dubai. The results of the research contribute to a growing body of literature by offering sector-specific insights into how fiscal policies impact operational efficiency, financial performance, and market competitiveness. Using Structural Equation Modeling-Partial Least Squares (SEM-PLS), the study validates the significant and positive effects of these fiscal measures on both retail supply chains and the clothing industry, shedding light on critical dynamics within Dubai's unique business environment. The findings confirm that Customs Duties play a crucial role in enhancing the operational efficiency and cost management of retail supply chains. By ensuring smooth cross-border trade and reducing delays, Customs Duties improve the predictability and responsiveness of supply chain operations. The results further demonstrate the importance of Customs Duties in the clothing industry, where they significantly influence cost structures, pricing strategies, and overall competitiveness. For Kashtban Trading Company, this highlights the necessity of strategic customs compliance to maintain competitive advantages in both local and global markets. The impact of VAT on retail supply chains was also evident, showing that VAT compliance enhances transparency, financial accountability, and operational efficiency. However, the moderate strength of this relationship suggests that VAT's benefits on supply chains may be moderated by factors such as administrative challenges and logistical complexities. In contrast, the impact of VAT on the clothing industry emerged as particularly strong, underscoring its role in shaping financial performance, consumer behavior, and market positioning. These findings reveal that VAT compliance not only ensures regulatory adherence but also fosters opportunities for optimizing pricing strategies and strengthening market competitiveness.

The study's contributions are both theoretical and practical. Theoretically, it extends the understanding of how fiscal policies, particularly Customs Duties and VAT, interact with supply chain and industry dynamics in the context of a global trade hub like Dubai. Practically, the findings provide actionable insights for businesses, policymakers, and industry stakeholders. For Kashtban Trading Company, leveraging compliance as a strategic advantage is crucial to navigating the regulatory complexities of Customs Duties and VAT while capitalizing on their potential benefits. Policymakers can draw from these insights to refine fiscal measures, ensuring they support economic growth and industry competitiveness. While the study offers robust findings, it also acknowledges limitations, including its geographic focus on Dubai and reliance on self-reported data. Future research could expand the scope to include other emirates or regions and incorporate objective performance metrics to enhance the generalizability of the findings. Additionally, exploring the long-term impacts of Customs Duties and VAT on other industries would provide a broader perspective on the role of fiscal policies in shaping economic sustainability. Thus, customs duties and VAT are not merely regulatory measures but strategic tools that can significantly influence the operational and financial success of businesses. For Kashtban Trading Company, adapting to these fiscal policies with strategic foresight and operational agility will be critical for sustaining competitiveness in Dubai's dynamic

economic landscape. This study underscores the importance of a nuanced understanding of fiscal policies and their potential to foster growth, efficiency, and resilience in today's interconnected global economy.

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