

Chinese demand boom and the Australian baby formula shortage: how can Australia get it right?

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Images of empty supermarket shelves and angry parents unable to buy baby formula for their children highlight the impact of a trading practice that needs to be better regulated in Australia, according to Deakin University economic experts.

Researchers with the Deakin Business School's Department of Economics have explored the financial impact of parallel trade by cross-border travellers, a form of export whereby products are bought in one country and sold in another without the permission of the manufacturer by people travelling between the two countries, and a practice that is challenging for not only Australia but also other countries and territories such as Japan, Hong Kong, Canada, and the United States. The results of their research are published in the prestigious journal *The World Economy*.

"We found that while there are winners and losers in the practice of parallel trade, depending on how you look at it, it is possible for countries like Australia to ensure everyone, from producers to consumers, can benefit," said Department of Economics senior lecturer Dr Xuan Nguyen.

In the study, the researchers considered the impact of parallel trade on the financial welfare of the home country (based on a combination of the financial benefits to consumers, producers and government revenue)

and what actions could be taken to ensure no one was disadvantaged.

Through their modelling of various scenarios, the researchers found that, compared to typical exporting, parallel trade by cross-border travellers reduced the financial welfare of the home country because the loss for consumers tended to exceed the gains made by producers. If properly controlled, however, parallel trade was found to enhance the financial welfare of the home country, suggesting an important role for government regulation.

"The current situation with [baby formula](#) sales in Australia is a prime example of parallel trade causing financial, and possibly social, welfare issues in the country where the product is produced," Dr Nguyen explained.

"In this situation there is a demand in China for high quality baby formula. This demand is being met by parallel traders who travel to Australia, buy large amounts of baby formula and then sell the product back in China. Here we see that the manufacturers of the baby formula benefit from the sales because of the increased demand and the parallel traders make a profit from selling the formula at a higher price back in China. However, Australian consumers lose out because they pay higher prices and are hit by product shortages."

The researchers found it was possible to get the balance right with parallel trade, rather than outright banning the practice.

"The baby formula scenario we are seeing in Australia is a clear example of parallel trade tipping the balance in favour of the producers, traders and the Chinese at the expense of Australian customers," Dr Nguyen said.

"A key recommendation from our study is the implementation of good

government policy measures to control the quantity of product people can take out of Australia via the parallel trade channel. This would involve a change of policy for many players from the producers, to the pharmacies and supermarkets, as well as customs.

"Our study has shown that if the government got on board in this way it would be possible to influence, if not control, the amount of parallel trade by cross-border travellers and bring balance to the financial welfare of customers, producers and government revenue."

While it may smack of the black market, parallel trade is legal and condoned by many countries.

"Many countries allow parallel trade as a way to bring about efficiency in the market," Dr Nguyen said.

"Australia allows parallel trade in most products, with the exception of those restricted by copyright restrictions such as books and CDs. European countries encourage parallel trade as they believe it is one way to reduce price discrimination and, for the most part, this is in fact the case."

More information: Xuan Nguyen et al. Cross-border Travellers and Parallel Trade: Implications for Asian Economies, *The World Economy* (2016). [DOI: 10.1111/twec.12381](https://doi.org/10.1111/twec.12381)

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