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Exclusive: China sugar industry to lobby government for extension of hefty tariffs on imports - sources

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BEIJING (Reuters) - Chinese sugar mills plan to ask the nation's Ministry of Commerce to extend hefty tariffs on sugar imports that Beijing imposed in 2017 to protect China's struggling domestic sector, according to two sources and a draft document viewed by Reuters.



FILE PHOTO: A farmer prepares to spray pesticides at a sugar cane field at a village of Menghai county in Xishuangbanna Dai Autonomous Prefecture, Yunnan Province, China, July 12, 2019. REUTERS/Aly Song

The plan to request an extension of the tariffs was discussed at a meeting organized by the China Sugar Association on Thursday.

Beijing's trade measures on sugar imports, set to expire on May 21, 2020, "have played an effective role in safeguarding the interest of the domestic industry, and promoting healthy and stable development of the sector," said the draft document that was dated Sept. 5.

China's domestic sugar sector has struggled to compete with foreign rivals due to higher production costs. Chinese white sugar prices CSRC1 also plunged in 2018, amid a global supply surplus, pushing many producers into the red.

The Guangxi Sugar Association, in China's top producing region for the sweetener, will submit the application for the extension of the tariffs on behalf of the entire domestic sugar industry, according to the document.

A source familiar with the matter confirmed that the industry group is consulting lawyers and experts, and drafting the application to be submitted to the government.

It is not clear when the Guangxi association will submit the plan or what Beijing's response will be, as other major sugar exporters continue to pressure China to drop the trade measure to curb imports.

"The safeguard measures are a very complicated issue. Application is still only an plan. It is not easy to extend (the measures)," said one of the sources who was briefed on the plan.

Separately, China Sugar Association will also look into the possibility of an anti-dumping and anti-subsidy investigation into imported sugar products, according to a second draft document discussed at the Thursday meeting.

Some sugar exporting countries and regions have exported sugar products at below cost prices, or with subsidies, which has damaged China's domestic sugar industry, the document said.

The draft does not outline proposed tariff rates if the safeguard measures are extended.

China in May 2017 hit major exporting nations with hefty tariffs on sugar shipments after years of lobbying by domestic mills. Beijing started to levy extra tariffs on out-of-quota sugar imports from all origins last August.

China allows 1.94 million tonnes of sugar imports a year at a tariff of 15% as part of its commitments to the World Trade Organization. Out-of-quota imports are charged a higher tariff and need special permits.

Imports beyond 1.94 million tonnes attract a 50% levy. The 2017 ruling added an extra 45% duty to these imports in that fiscal year, taking the total to 95%. The rate fell to 90% 2018-2019 and 85% in 2019-2020.

This article talks about China’s government considering to extend the tariffs on sugar imports to “protect China’s struggling domestic sector.” “A tariff is a tax placed on imports.”¹ Tariffs are a form of trade protection, used by the government to help local producers develop, however, a welfare loss arises in the process (Figure 1).

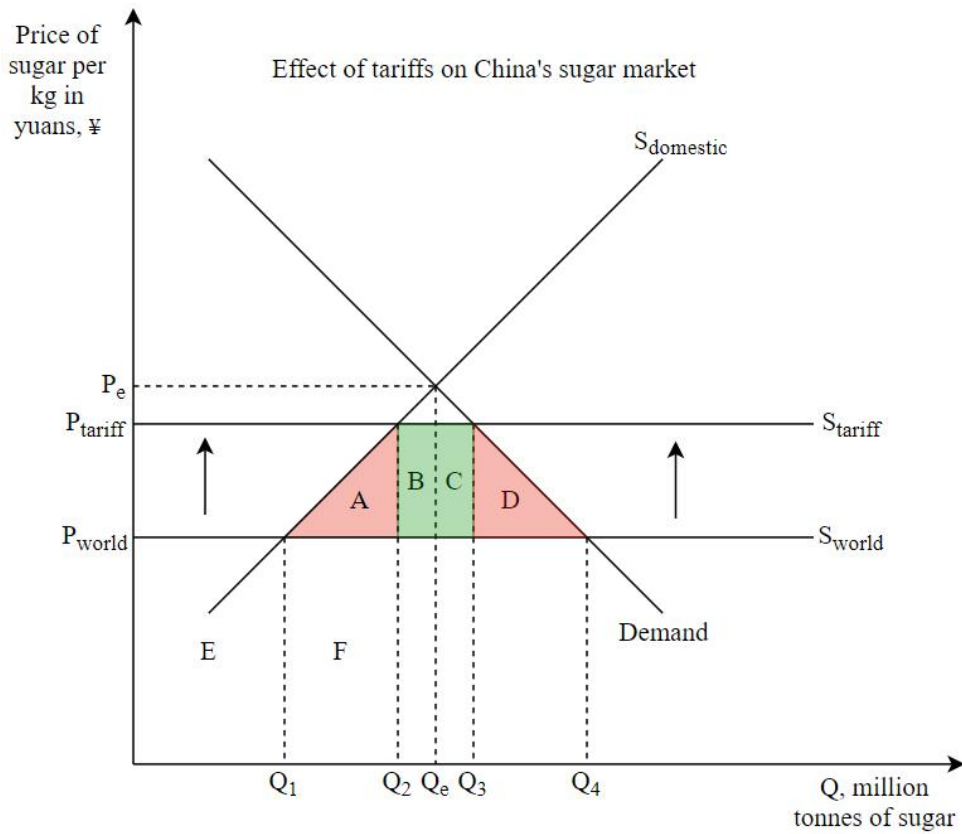


Figure 1

After the tariff, the world producers want to pass tariff costs to the consumers, therefore the supply curve shifts upwards from S_{world} to S_{tariff} and the equilibrium price increases from P_{world} to P_{tariff} . After the price increase consumers buy less — the equilibrium quantity falls from Q_4 to Q_3 . Due to the increased price domestic suppliers now supply more, thus their share of the market increases from Q_1 to Q_2 . After the tariff quantity imported has fallen from $Q_4 - Q_1$ to $Q_3 - Q_2$. They must pay a fixed tax to the government for each unit they sell, thus area B+C represent the government revenue (green area).

The minimum amount of revenue for international producers to produce Q_2 is $E+F$, however, after the tariff, quantity Q_2 is produced by local producers who need a minimum revenue $E+F+A$, thus from society’s standpoint the revenue from area A is lost. Area D is lost as well, because consumer surplus is lost as they now purchase less at a higher price, and this doesn’t become producer surplus. Thus the area $A+D$ is the welfare loss associated with the tariff (red area).

¹ Finamore, David. “International trade: Restrictions on free trade: Trade protection” in *Economics: Supporting Every Learner across the IB Continuum*, edited by Christian Bryan, page 202. Harlow, Essex: Pearson Education Limited, 2014.

The domestic producers benefit in this situation as they now face less competition and don't need to engage in price wars, but can rather keep “*promoting healthy and stable development of the sector.*” This development means, that producers expand their businesses and open new factories, which benefits the domestic labour force as now there is a bigger demand for workers and unemployment decreases.

In addition, less competition means, that domestic firms can invest some money into research and development, which would shift the potential LRAS curve outwards, thus promoting long-term growth for the whole country. (Figure 2)

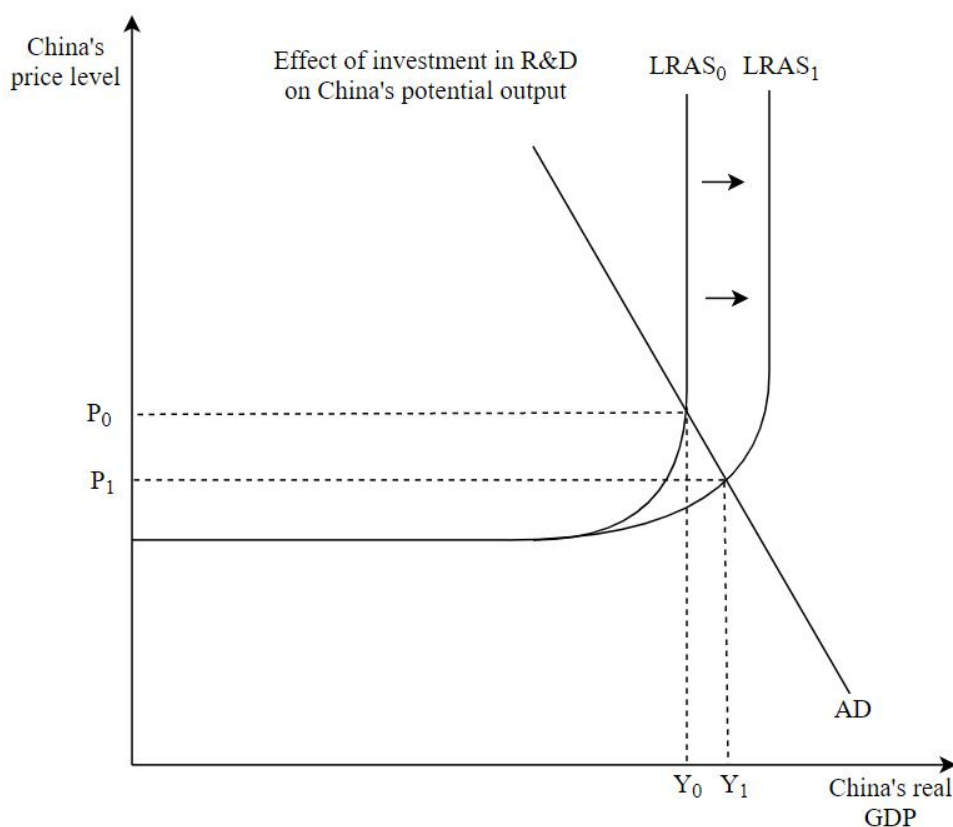


Figure 2

After investing in research and development, manufacturers can now produce more using the same resources, thus LRAS curve shifts outwards from $LRAS_0$ to $LRAS_1$. There is a movement alongside the AD curve and the market clearing point changes from $(Y_0;P_0)$ to $(Y_1;P_1)$, thus China's Real GDP has increased ($Y_1 > Y_0$) and deflation has happened ($P_1 < P_0$).

Additionally, research and development would improve China's international competitiveness, which is crucial as currently “*amid a global supply surplus*” the local producers cannot “*compete with foreign rivals due to higher production costs.*” Improving international competitiveness would improve the balance of trade, which would lead to an increase in real GDP once again promoting economic development in the country — If real GDP increases, then firms in the country grow

bigger, which allows them to experience economies of scale — Reduction of production costs and increased efficiency which leads to outwards LRAS shift.

Furthermore, government benefits from tariffs in the form of tariff revenue it gets from the foreign producers. This money could then be spent on public goods or other underdeveloped sectors to further promote economic growth.

However, there are also disadvantages to this tariff, with one of the concerns being cost-push inflation. Local manufacturers requiring sugar for their products, such as candy makers would get hurt from this as their costs of production increase. Additionally, regular consumers lose out from tariffs, because now the market provides less sugar at a higher price, thus reducing their purchasing power.

Another concern regarding the tariff is the associated welfare loss. In the long-run, tariffs might prove detrimental to the society as a whole due to the inefficient manufacturers producing more than the efficient ones, however, this effect might be offset if the local producers don't stay inefficient due to decreased competition but rather finally develop and become competitive after not being damaged by some regions who in the past *“have exported sugar products at below cost prices.”*

To conclude, the tariff could greatly benefit the domestic sugar sector, which would be able to develop due to decreased competition. This development paired together with the extra government revenue from tariffs could play a substantial role in promoting China's long-term economic growth, however, if this policy will work depends on whether domestic producers will become more efficient due to economies of scale or rather will stay less efficient due to decreased competition. Additionally, it still remains to be seen how badly will domestic consumers and sugar-related manufacturers be hurt from cost-push inflation.

Word count: 749

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