CARD Agricultural Policy Review
IOWA STATE UNIVERSITY OF SCIENCE AND TECHNOLOGY
All the Ag Policy that's fit to print!
Ames, Iowa ● Spring 2018

Lessons from Previous U.S.-China Trade Disputes

Minghao Li, Wendong Zhang, and Chad Hart
minghao@iastate.edu; wdzhang@iastate.edu; chart@iastate.edu

Photo credit: Thomas Hawk

TRADE ISSUES have recently erupted between the United States and China and the battle over newly announced tariffs has escalated quickly. At the beginning of 2018, the United States imposed tariffs on imported solar panels and washing machines, and China responded by initiating an anti-dumping investigation into US sorghum. In early March, President Trump announced steel and aluminum tariffs with China being one of the primary targets. Within two weeks, China responded by announcing a list of 128 US products that are the targets of retaliatory tariffs effective on April 2, 2018. The list included pork products and ethanol, which are of critical importance to the US Midwest. As those tariffs went into effect, the US Trade Representative announced 25 percent tariffs on $50 billion worth of Chinese imports, along with investment restrictions, and the submission of a case to the World Trade Organization (WTO) over China's trade practices (Trump 2018; United States Trade Representative 2018). The Chinese government responded immediately with its own tariff package, targeting roughly $50 billion of US imports, including the largest agricultural import, soybeans. For both the United States and China, the $50 billion tariffs are scheduled to take effect in a couple of months. The volleying may continue as President Trump has mentioned the possibility of another round of proposed tariffs on a list of Chinese imports with $100 billion in value (Davis 2018).

The United States exports over $24 billion worth of agricultural and related products to China every year (USDA FAS GATS 2018) and has an approximate $13.6 billion trade surplus in agriculture. Therefore, it is difficult to overestimate the importance of the US-China agricultural trade relationship. Stakeholders in the US agricultural industry are nervously speculating China's next move, fearing that the already announced tariffs will be put in place, as has happened for sorghum and pork, and that additional tariffs or other trade barriers will be erected.

China's Previous Agricultural Trade Retaliations

Tires vs. Chicken 2009: In April 2009, a trade union filed a complaint against China with the United States International Trade Commission (USITC). The USITC determined that some tires from China were being imported in quantities or under conditions that were causing market disruption for domestic producers (USITC 2009). In September 2009, President Obama announced a tariff increase on tires from China, which at the time were valued at $2.1 billion annually (Andrews 2009).

China filed a WTO complaint, which it ultimately lost, and initiated its own anti-dumping investigations into US broiler chicken products (The Chinese Ministry of Commerce 2009). China's Ministry of Commerce (MOC) began their investigation days after the US announcement, and a year later announced that China would impose an anti-dumping tariff on US broiler products (AP 2010). The value of broiler products exported from the United States to China was $800 million in

Inside this issue

The *Agricultural Policy Review* is primarily an online publication. This printed copy is produced in limited numbers as a convenience only. For more information please visit the *Agricultural Policy Review* website at: *www.card.iastate.edu/ag_policy_review.*

the previous year, which constitutes a smaller, but somewhat comparable, trade flow to the Chinese tires targeted by the United States.

The US tariff against Chinese tires was effective in limiting Chinese exports. However, China's tariff on US broilers was even more effective—the value of US broiler exports to China dropped 83 percent from 2009 to 2010 ($660 million). Soon after, a further round of sanctions would decrease US broiler exports to China to almost zero. The cost to China was rather small. About half of the chicken exported to China was in the form of chicken feet, which although popular in China, is not essential for Chinese consumers. Furthermore, China was able to shift imports from the United States to other countries. Figure 1 shows that the $511 million decrease in imports from the United States was accompanied by a $636 million increase in imports from other countries.

Solar panels and washing machines vs. sorghum: In January 2018, after a three-month anti-dumping investigation, President Trump approved tariffs on solar panels and washing machines. Within two weeks, China responded by initiating an anti-dumping investigation on US sorghum (The Chinese Ministry of Commerce 2018). As with chickens, China responded proportionally by choosing a commodity with a smaller, yet comparable, trade value ($837 million) relative to the US targets ($1.4 billion for solar panels and $0.2 billion for washing machines) (UN Comtrade 2018). If China does impose an import tariff on US sorghum, it is expected be significant—38 percent of the sorghum produced in the United States and 81 percent of total US sorghum exports go to China. Although China heavily relies on US sorghum (82 percent of imports and 51 percent of domestic consumption), it is mainly used for livestock feed, so there are plenty of substitutes such as other

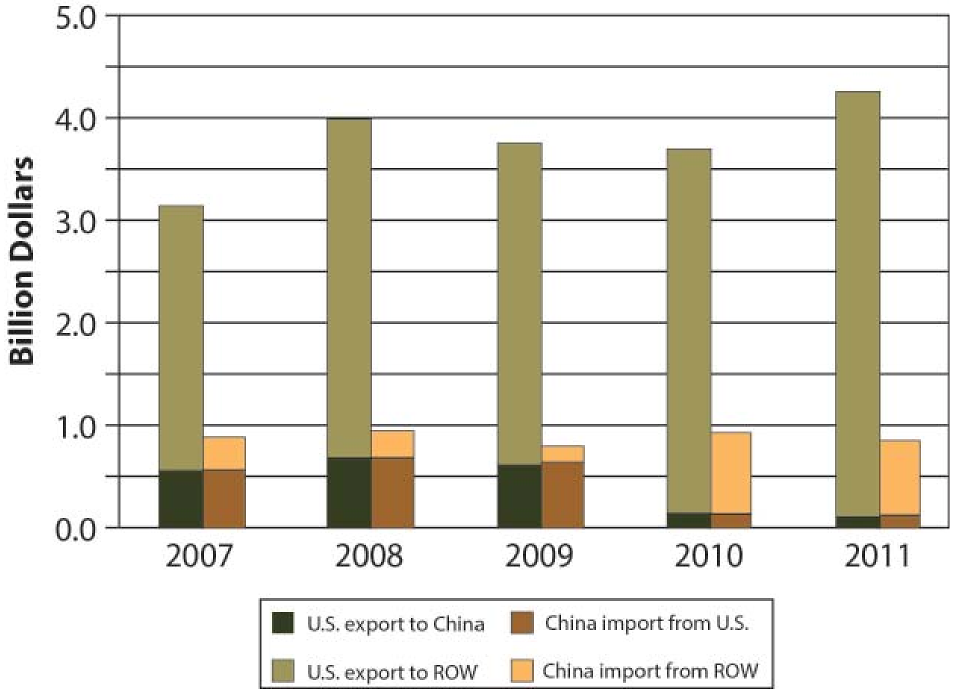

Figure 1. Chicken trade between the US, China, and the rest of the world (ROW).

Sources: USDA FAS GATS, 2018; USDA PSD, 2018; and UN Comtrade, 2018.

Table 1. Summary of Two Chinese Retaliation Cases on US Agricultural Exports

	Case 1	Case 2
US target products	**Solar panels, Washing machines**	**Certain tires**
US target trade value	$1.6 billion	$2.19 billion
US investigation start date	09/19/2017	04/29/2009
US decision announcement date	01/22/2018	09/17/2009
China's target products	**Sorghum**	**Broiler products**
China's target trade value	$0.84 billion	$0.79 billion
China announcement date	02/04/2018	09/27/2009
US % in China's import (quantity)	82%	69%
US% in China's consumption (quantity)	52%	7%
China's import in world's total export (quantity)	72%	11%
China's import in world's total production (quantity)	10%	1%

Source: Author calculations from USDA FAS GATS, 2018 and UN Comtrade, 2018.

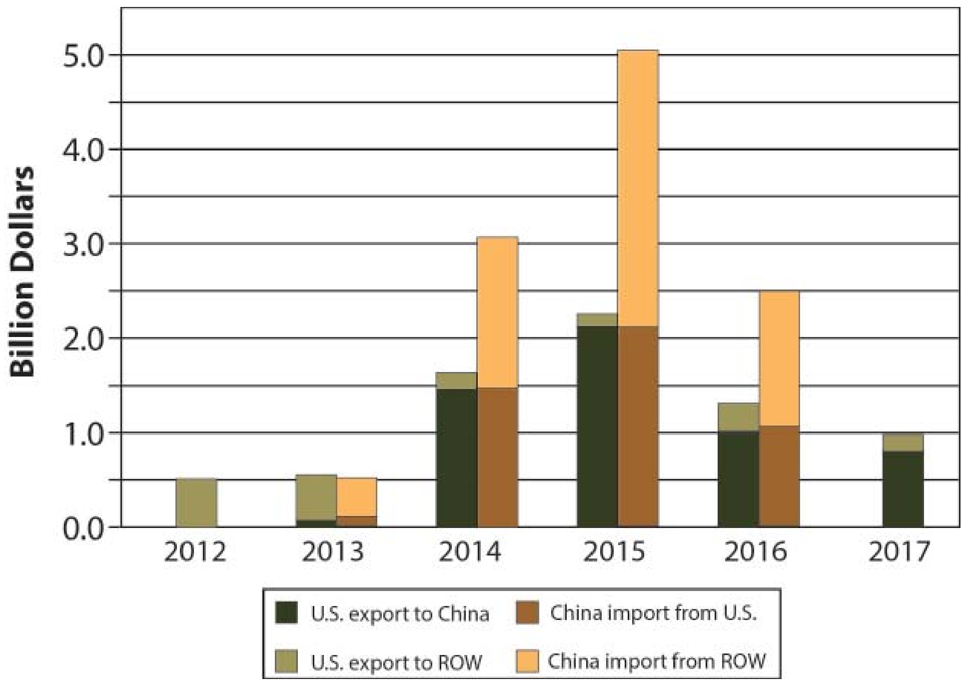

Figure 2. Sorghum trade between the US, China, and the rest of the world (ROW).

Source: USDA FAS GATS, 2018; USDA PSD, 2018; and UN Comtrade, 2018.

coarse grains and corn (Reidy 2018). Therefore, the domestic cost to China is likely to be small.

What Lessons Can Be Learned from China's Previous Retaliations?

As the two cases above demonstrate, China's approach to trade disputes can be summarized in the following three principles: First, China tends to target agricultural commodities with trade flows comparable to US targets in order to send a clear message. At the same time, China has carefully avoided escalation by choosing targets with a smaller trade value. Second, China choses commodities that are easily substitutable across products and across sources. The Chinese government actively pursues substitutability across sources by diversifying the sources of agricultural imports. Third, China uses retaliatory tariffs to inflict economic loss on politically influential interest groups, in hopes that they will in turn put political pressure on the government to ease the trade restrictions. China has chosen agricultural products as they see the affected US producers to be politically powerful.

Understanding China's Recent Trade Moves

The three principles discussed above do help shed light on China's potential moves. The fact that China did not target soybeans as the target of retaliation for the steel and aluminum tariff is not surprising in light of the "proportional response" principle: while China exports $2.8 billion of steel and aluminum products to the United States, it imports more than $12 billion in soybeans from the United States. Choosing soybeans at that point would have been a dramatic escalation and deviation from China's past strategy.

However, for the Trump administration's proposed tariffs on $50 billion of Chinese imports, a retaliation on soybeans had to be on the table as far as proportional response is concerned. In fact, the total value of US agricultural exports to China (including related products) is $21 billion. Currently, China relies on soybeans from Brazil and the United States to supply about 90 percent of its soybean consumption, predominately for feed. The sheer volume of the exports makes it more difficult to displace than other products. However, if need be, China could shift some significant share of imports to other countries such as Brazil and Argentina, and look to replace soybeans with other products.

Trade relations worldwide are in a period of flux right now. The trade-dependent US agriculture system has been dragged into the trade drama before, and unfortunately is being targeted again. The tariffs that have been imposed and threatened have already impacted agricultural markets, driving prices lower on the prospects of reduced trade flows. However, with the delayed implementation of the tariffs from the $50 billion announcements on both sides, there is some time for trade negotiations to reduce or eliminate these tariffs. But both sides will need to step up to the negotiating table.

References

Andrews, E. L. 2009. "U.S. Adds Tariffs on Chinese Tires." *New York Times*. Available at *http://www.nytimes.com/2009/09/12/business/global/12tires.html*.

The Associated Press. 2010. "China Imposes Tariff on US Chicken." *CBS News Moneywatch*. Available at *https://www.cbsnews.com/news/china-imposes-tariff-on-us-chicken/*.

China, People's Republic of, Ministry of Commerce (MOC). 2009. "Public announcement no. 74, 2009: Announcement for initiating anti-dumping investigation into imported U.S. poultry products." Available at *http://www.mofcom.gov.cn/article/b/g/200911/20091106600585.shtml.*

continued on page 10