Seven things to know about China to understand the trade war

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Farmer Mac Webinar
May 8th, 2019
A Quick Introduction: Dr. Wendong Zhang

– Grown up in a rural county in NE China
– Attended college in Shanghai and Hong Kong
– Ph.D. in Ag Econ in 2015 from Ohio State
– 2012 summer intern at USDA-ERS on farm economy and farmland values
– Research and extension interests:
  land value/ownership [website]
  agriculture and the environment
China Ag center [website]
Mainland China vs. US
#1: Ag is comparative advantage for US, not for China

Navigating the Chinese agricultural economy through the lens of Iowa

By Wendong Zhang, extension economist, 515-294-2536, wdzhang@iastate.edu; Minghao Li, postdoctoral researcher, Center for Agricultural and Rural Development, Iowa State University
Chinese land is owned by collectives
(Contract Right Certificate)

- Family Rep.
- 30-year term
- With at least one 30-year renewal
- All family members

China’s New Rural Land Transfer Reform

2016: 77 million acres (35% of cropland) transferred; 2007: 5%
Among them: 30% to co-ops or corps; 80% non-grain production

China Corn Yield

2015 Soybean Yield
US: 48 Bu/acre
Iowa: 56 Bu/acre
China: 26 Bu/acre

China Soybean Yield
CRUNCH TIME FOR U.S.-CHINA TRADE TALKS: Mnuchin and U.S. Trade Representative Robert Lighthizer resume trade negotiations today in Beijing with a Chinese team led by Vice Premier Liu He, as both sides look to finalize a deal in the coming weeks.

“We hope within the next two rounds, in China and in D.C., to be at the point where we can either recommend to the president we have a deal or make a recommendation that we don’t,” Mnuchin said in an interview Monday with Fox Business.

Liu and Chinese negotiators are scheduled to be in Washington for the final round of talks beginning on May 8.

Are we there yet? U.S. officials have said both sides have made areas, including agreement on a strong enforcement mechanism, seen how a deal will address President Donald Trump’s tariffs worth of Chinese goods and Beijing’s retaliatory duties on $110 billion of U.S. goods.

Mnuchin noted that “there’s still some important issues, so we work to do.” More here.
The United States has been losing, for many years, 600 to 800 Billion Dollars a year on Trade. With China we lose 500 Billion Dollars. Sorry, we're not going to be doing that anymore!

For 10 months, China has been paying Tariffs to the USA of 25% on 50 Billion Dollars of High Tech, and 10% on 200 Billion Dollars of other goods. These payments are partially responsible for our great economic results. The 10% will go up to 25% on Friday. 325 Billions Dollars....

...of additional goods sent to us by China remain untaxed, but will be shortly, at a rate of 25%. The Tariffs paid to the USA have had little impact on product cost, mostly borne by China. The Trade Deal with China continues, but too slowly, as they attempt to renegotiate. No!

The Dow Jones Industrial Average DJIA, -0.74% slid 226 points, or 0.9%, to 26,278, with the benchmark hitting an intraday low at 26,033.95. The S&P 500 index SPX, -0.81% declined 28 points, or 1%, to 2,917, while the Nasdaq

China stocks drop 5.5%
Why China decided to talk?

China suffers greater economic Loss overall, but also for US ag states like Iowa.
The Impact of the 2018 Trade Disruptions on the Iowa Economy

- Overall losses in Iowa’s Gross State Product are calculated to be $1 to $2 billion (off of a Gross State Product of $190 billion).
- Overall losses to Iowa’s Soybean industry of $159 to $891 million, with an average revenue loss across all models of $545 million (Iowa soybeans are a $5.2 billion industry).
- Overall losses to Iowa’s Corn industry of $90 to $579 million, with an average revenue loss across all models of $333 million (Iowa corn is an $8.5 billion industry).
- Overall losses to Iowa’s Pork/Hog industry of $558 to $955 million, with an average revenue loss across all models of $776 million (the Iowa pork/hog industry is a $7.1 billion industry).
- A 2% drop in Ethanol prices resulting in approximately $105 million in lost revenues to Iowa ethanol producers.
- Revenue losses in these industries translate into additional lost labor income across the state. Labor income declines from the impacts to the corn, soybean, and hog industries range from $366 to $484 million without federal offsets and $245 to $364 million with federal offsets.
- Iowa tax revenue losses (personal income and sales taxes) range from $111 to $146 million. Federal offsets would reduce tax losses to $75 to $110 million.
CARD researchers win three AAEA awards

Researchers from the Center for Agricultural and Rural Development at Iowa State University will be presented with three awards from the Agricultural and Applied Economics Association.

Edward Balistreri, Chad Hart, Dermot Hayes, Minghao Li, Lee Schulz, Wendong Zhang, and John Crespi, along with David Swenson of the Department of Economics at Iowa State University, will be presented with the prestigious Bruce Gardner Memorial Prize for Applied Policy Analysis Award. The AAEA presents the Bruce Gardner prize as recognition for “outstanding impact on agricultural and related policy.”

Balistreri et al. are receiving recognition for their work on the CARD Policy Brief “The Impact of the 2018 Trade Disruptions on the Iowa Economy,” which examines the effects of recent trade disruptions on Iowa’s economy and finds overall losses in Iowa’s Gross State Product from $1 to $2 billion.
#3: Trade disruptions give China strategic incentives to further diversify away from U.S., potentially benefitting our competitors

<table>
<thead>
<tr>
<th>Commodity (2016 value of China ag imports)</th>
<th>USA</th>
<th>Brazil</th>
<th>Europe</th>
<th>Australia</th>
<th>Argentina or Uruguay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soybean ($34.4 Bil.) (China increased production by 9% in 2018)</td>
<td>38%</td>
<td>47%</td>
<td></td>
<td></td>
<td>A-10%</td>
</tr>
<tr>
<td>Pork ($2.32 Bil.)</td>
<td>13%</td>
<td></td>
<td>50%</td>
<td></td>
<td>Canada: 11%</td>
</tr>
<tr>
<td>Ethanol ($0.38 Bil.)</td>
<td>70%</td>
<td>11%</td>
<td></td>
<td>Pakistan 15%</td>
<td></td>
</tr>
<tr>
<td>Beef ($2.42 Bil.)</td>
<td>0%</td>
<td>22%</td>
<td>28%</td>
<td></td>
<td>U-21%</td>
</tr>
<tr>
<td>Poultry ($1.11 Bil.)</td>
<td></td>
<td></td>
<td>79%</td>
<td></td>
<td>A-9%</td>
</tr>
<tr>
<td>Corn ($0.87 Bil.)</td>
<td>10%</td>
<td></td>
<td></td>
<td>Ukraine: 79%</td>
<td></td>
</tr>
</tbody>
</table>

**China’s Ag Import Sources**

China can produces 97% of its pork, but only 15% of its soybean demand domestically. China provided about US$200/acre subsidy to increase soy production (up 9% 2018).
What Have We Learned from China’s Past Trade Retaliation Strategies?

Minghao Li, Wendiong Zhang, and Chad Hart

JEL Classifications: Q17, F10
Keywords: Agricultural Commodities, China, Tariff, Trade Retaliation

Proportional, Restrained Response
Currently, China has a huge overall trade surplus with the United States, and thus naturally want to maintain the status quo and avoid dispute escalations. As the two cases above demonstrate, China chose commodities with trade flows comparable to U.S. targets in order to send a clear message.

Target Products That Are Substitutable
In these two cases, China chose commodities that are easily substitutable across products. For example, half of the U.S. broiler products were chicken feet, a replacement for chicken feet commonly used for feed and can be replaced by corn or other coarse grains. In terms of costs...

Inflict Economic and Political Costs
From the perspective of China’s government, the ultimate goal of retaliatory tariffs is to hit politically influential interest groups in the United States, turning them into lobbyists. For retaliation measures to be effective, China’s market as an export destination for feed and other agricultural products will be important for U.S. producers, as is the case for broiler products and sorghum. For this reason, the government has long recognized the political significance of the U.S. agricultural industry, which is why it targets U.S. agricultural exports in trade spats.

China’s Feed Industry Association on Friday approved new standards for feed for pigs and chickens, lowering the protein levels in pig feed by 1.5 percentage points and those for chickens by one percentage point, the agriculture ministry said in a statement that day. It did not say when the new standards would take effect.

The ministry also said in the statement that China’s overall yearly consumption of soymeal would fall by 11 million tonnes. The country used 71 million tonnes of soymeal to make animal feed in the 2017-18 crop year.
Soybean Export Market Share
(2016 crop vs. 2018 crop)

China 60%
EU 15%
Unknown 22%
Mexico 15%
Argentina 7%
Japan 4%
Thailand 4%
Others 14%
Unknown 3%
Japan 4%
Egypt 1%
Indonesia 4%
Mexico 6%

Soy Stats Worrying
US Loses Market Share as China Increases Meat Imports from the World

Source: Choices 2017 Q2 Issue
China’s Belt and Road Initiative creates a global infrastructure network. China uses, acquires and builds railroads, ports and pipelines.
China cannot produce enough ethanol domestically to fulfill the 2020 E10 ethanol mandate.

4th largest producer – 1 Bil gal.
- After US, Brazil and EU
- Corn ethanol 64%
- Also uses cassava, sorghum, corn stover
- Imported 225 mil. gal, mainly from U.S.
- Tariff rose from 5% to 30%

China consumes 40 bil. gal gasoline; 1 bil. gal ethanol in 2016.

China sets 2020 target for nationwide ethanol use to cut corn stocks.
World’s Largest Pork Producer in Crisis: China’s African Swine Fever Outbreak

by Yongtong Shao, Minghao Li, Wendong Zhang, Yongjie Ji, and Dermot Hayes

TOP PORK PRODUCERS BY SHARE
In percent as share of total in 2017

- S. Korea
- Mexico
- Philippines
- Canada
- Vietnam
- Russia
- Brazil
- Rest of World
- U.S.A.
- E.U.
- China

Map showing hog inventory in 2016 and quarantine status in China.
African Swine Fever in China: An Update

Minghao Li, Tao Xiong, Yongjie Ji, Dermot Hayes, and Wendong Zhang
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Lean Hogs

Latest Price & Chart for Lean Hogs

End of day Commodity Futures Price Quotes for Lean Hogs

Figure 1. Monthly changes in China’s hog inventory
Source: Ministry of Agriculture of China

Chinese tariff
Surging Chinese pork imports
Arguably strategic misjudgments early on by both sides, exposing lack of mutual understandings and mistrust
#5: China is a Country of Rapid Change

High Speed Rail

IOWA STATE UNIVERSITY
Extension and Outreach

CARD
Center for Agricultural and Rural Development
Chinese People Are Getting Richer, and will need more protein and better environment.
A Meatier Middle Kingdom

Charts of the Day: China’s Growing Meat Consumption

Source: Caixin Data
Original Sources: Organization for Economic Co-operation and Development, Food and Agriculture Organization of the United Nations

2018 Will See High Meat Consumption in the U.S., but the American Diet is Shifting

by Richard Waite - January 24, 2018
My hometown: Shenxian, Shandong Province

Greenhouse – plastic film - Shandong Province
#6: Chinese economy and U.S.-China Relations at Inflection Points

Description this book

How China Became Capitalist details the extraordinary, and often unanticipated, journey that China has taken over the past thirty five years in transforming itself from a closed agrarian socialist economy to an indomitable economic force in the international arena. The authors revitalise the debate around the rise of the Chinese economy through the use of primary sources, persuasively arguing that the reforms implemented by the Chinese leaders did not represent a concerted attempt to create a capitalist economy, and that it was marginal revolutions that introduced the market and entrepreneurship back to China. Lessons from the West were guided by the traditional Chinese principle of seeking truth from facts. By turning to capitalism, China re-embraced her own cultural roots. How China Became Capitalist challenges received wisdom about the future of the Chinese economy, warning that while China has enormous potential for further growth, the future is clouded by the government’s monopoly of ideas and power. Coase and Wang argue that the development of a

Xi says China will let the market play decisive role in resource allocation

China vows 'decisive' role for markets, results by 2020
U.S.-China Relations at Critical Inflection Point

"It was the rise of Athens, and the fear that this inspired in Sparta, that made war inevitable." — Thucydides

Is a War between China and America Simply Unstoppable?

Building his analysis on Thucydides’ study of the Peloponnesian War, Graham Allison and his colleagues have studied the classic international relations problem of military conflict between a rising power and an established dominant power. They identified 16 such situations over the past 500 years, and found that 12 of them ended in war — painting a gloomy picture of the future of US-China relations.

Lesson 4: Domestic performance is decisive.
Lesson 5: Hope is not a strategy.
**What is the Thucydides Trap?**

“It was the rise of Athens, and the fear that this inspired in Sparta, that made war inevitable.”

- Thucydides

“We all need to work together to avoid the Thucydides trap—destructive tensions between an emerging power and established powers.”

- Xi Jinping

President of China

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<table>
<thead>
<tr>
<th>Period</th>
<th>Ruling Power</th>
<th>Rising Power</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>First half of 16th century</td>
<td>France</td>
<td>Hapsburgs</td>
<td>War</td>
</tr>
<tr>
<td>16th–17th centuries</td>
<td>Hapsburgs</td>
<td>Ottoman Empire</td>
<td>War</td>
</tr>
<tr>
<td>17th century</td>
<td>Hapsburgs</td>
<td>Sweden</td>
<td>War</td>
</tr>
<tr>
<td>17th century</td>
<td>Dutch Republic</td>
<td>England</td>
<td>War</td>
</tr>
<tr>
<td>Late 17th–early 18th centuries</td>
<td>France</td>
<td>Great Britain</td>
<td>War</td>
</tr>
<tr>
<td>Late 18th–early 19th centuries</td>
<td>United Kingdom</td>
<td>France</td>
<td>War</td>
</tr>
<tr>
<td>Mid-19th century</td>
<td>United Kingdom, France</td>
<td>Russia</td>
<td>War</td>
</tr>
<tr>
<td>19th century</td>
<td>France</td>
<td>Germany</td>
<td>War</td>
</tr>
<tr>
<td>Late 19th–early 20th centuries</td>
<td>Russia, China</td>
<td>Japan</td>
<td>War</td>
</tr>
<tr>
<td>Early 20th century</td>
<td>United Kingdom</td>
<td>United States</td>
<td>War</td>
</tr>
<tr>
<td>Early 20th century</td>
<td>Russia, U.K., France</td>
<td>Germany</td>
<td>War</td>
</tr>
<tr>
<td>Mid-20th century</td>
<td>Soviet Union, U.K. France</td>
<td>Germany</td>
<td>War</td>
</tr>
<tr>
<td>Mid-20th century</td>
<td>United States</td>
<td>Japan</td>
<td>No war</td>
</tr>
<tr>
<td>1970s–1980s</td>
<td>Soviet Union</td>
<td>Japan</td>
<td>No war</td>
</tr>
<tr>
<td>1940s–1980s</td>
<td>United States</td>
<td>Soviet Union</td>
<td>No war</td>
</tr>
<tr>
<td>1990s–present</td>
<td>United Kingdom, France</td>
<td>Germany</td>
<td>No war</td>
</tr>
</tbody>
</table>
#7: Chinese consumers, producers, and gov’t increasingly like U.S.

Urban Chinese prefer to travel, stay connected, buy protein rich food, durable goods & recreation

Corruption, Pollution, Inequality Are Top Concerns in China
Many Worry about Threats to Traditions and Culture
2018: 1 Billion Users
2013: 195 Mil. Users

What’s Wechat?

WeChat is a smartphone application that consists of...

- Movie Ticket
- Bill payment
- Free calling
- Investment
- Social network
- Mobile payment
- User Review
- Group buying
- Taxi order
- Free messaging

A staff member jumps for a photo to celebrate after Alibaba's "Double 11" shopping festival, also known as Singles' Day, set a new record of 213.5 billion yuan ($30.7 billion) in Shanghai on Monday. Online shoppers in China on Sunday shattered last year's record of $24 billion in sales during the country's annual buying frenzy. This year's extravaganza was the 10th one to be held. | AP

China's Alibaba nets record $30 billion in Singles' Day sales extravaganza, but growth rate plunges

REUTERS

NOV 12, 2018

CARD

Center for Agricultural and Rural Development
1. Ag is not China’s comparative advantage
2. China suffers more economically, but retaliate on ag states like Iowa
3. Trade war makes China further diversify away from US
4. Trade war exposes early strategic misjudgments and growing mistrust
5. China is a country of rapid change
6. Chinese economy and relations with US at inflection points
7. Chinese producers and consumers increasingly think and act like Americans

https://www.extension.iastate.edu/agdm/articles/zhang/ZhaFeb19.html
Thank You!

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