Seven Things You Should Know about China to Understand the Trade War

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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 [www.card.iastate.edu/farmland/](http://www.card.iastate.edu/farmland/)
  - agriculture and the environment
  - China Ag center [www.card.iastate.edu/china](http://www.card.iastate.edu/china)
Pigs have a beautiful personality and are blessed with good fortune in life.

The World's Most Watched TV Show Will Be Hosted By Artificial Intelligences

The world's first artificial intelligence (AI) TV hosts will preside over this year's China Central Television (CCTV) New Year's Gala – the world's most-watched TV broadcast.

~1 billion viewers
#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


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CARD
Center for Agricultural and Rural Development
Mainland China vs. US
China Corn Yield

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

China Soybean Yield
U.S., China launch high-level trade talks amid deep differences

Xi Jinping and Donald Trump ‘may meet in Da Nang, Vietnam’ at the end of February

- Source familiar with discussions says the two sides are considering a meeting in the coastal city on February 27 and 28
- The presidents are expected to continue pushing to resolve the trade dispute between the two nations

A breakthrough deal was unlikely this week as both sides may wait to reveal their best offers, said Erin Ennis, senior vice president of the U.S.-China Business Council.

“I don’t think there’s going to be any big outcome,” Ennis said of the talks. “Hopefully they make some good progress that will set them up to be able to get to completion at the end of the 90 days.”

But the Chinese side would likely have to bring to the table a new offer that goes significantly beyond its previous offers to significantly increase purchases of U.S. goods, including soybeans, energy and manufactured goods.

China is fast-tracking that new law, with the country’s largely rubber-stamp parliament likely to approve it in March.

A crucial component of any progress in the talks, according to top Trump administration officials, is agreement on a mechanism to verify and “enforce” China’s follow-through on any reform pledges that it makes. This could maintain the threat of U.S. tariffs on Chinese goods for the long term.
#2: Why China decided to talk? China suffers greater economic loss overall, but also for US ag states like Iowa.

Figure 1. Welfare changes in selected countries.

Scenario 2: Tariff increases in scenario 1 and additional tariff increases between the United States and China, including the $50 billion round and the $200 billion/$60 billion round of tariff increases. The scenario reflects the current tariffs (as in October 2018).

Scenario 3: Tariff increases in scenario 1 and 2, and additional tariff increases that are scheduled to happen at the end of 2018, i.e., the U.S. tariffs on $200 billion Chinese products will increase by another 15%, and China’s retaliatory tariffs will increase by 0~15%.
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.
What Have We Learned from China’s Past Trade Retaliation Strategies?

Minghao Li, Wendong 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 seeks to maintain the status quo and avoid dispute escalations. As the two cases above demonstrate, China retaliation strategies target commodities with trade flows comparable to U.S. targets in order to send a clear message to the U.S.

Target Products That Are Substitutable
In these two cases, China chose commodities that are easily substitutable across production and demand, with a high degree of domestic production. Half of the U.S. broiler products were chicken feet, a replacement that is commonly used for feed and can be replaced by corn or other coarse grains. In terms of pork, China chose another important feed component, soymeal.

Inflict Economic and Political Costs
From the perspective of China’s government, the ultimate goal of retaliatory tariffs is to stimulate politically influential interest groups in the United States, turning them into lobbyists for the Chinese government. For retaliation measures to be effective, China’s market as an export destination for soybeans should be important for U.S. producers, as is the case for broiler products and sorghum. Foreign governments have 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.
Trade disruptions give China strategic incentives to further diversify away from U.S., potentially benefitting our competitors.

### China’s Ag Import Sources

China can produce 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).

<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>Canada: 11%</td>
<td></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>U-21%</td>
<td></td>
</tr>
<tr>
<td>Poultry ($1.11 Bil.)</td>
<td></td>
<td>79%</td>
<td></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>
Bolsonaro wins Brazilian presidency
The former military officer is the latest in a global wave of far-right nationalists to surge at the ballot box.
washingtonpost.com

Soybean Export Market Share
(2016 crop vs. 2018 crop)

Soy Stats Worrying

CARD Center for Agricultural and Rural Development
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

Hog Inventory in 2016
unit: millions (MM)
- <5 MM
- 5 - 10 MM
- 10 - 20 MM
- 20+ MM

Quarantine Active
Quarantine Lifted
Arguably strategic misjudgments early on by both sides, exposing lack of mutual understandings and mistrust
China Plays Down Liu He’s Meeting With Trump

Not a single piece of news about this significant meeting has been broadcast by China’s TV stations.

By Charlotte Gao
February 04, 2019

Last week, the United States and China wrapped up a new round of high-level trade negotiations in Washington D.C. On January 31, Chinese Vice Premier Liu He, Beijing’s top negotiator in the U.S.-China trade dispute, also had a meeting with U.S. President Donald Trump in the Oval Office.

The New York Times

Trump Optimistic on Trade Deal With China, but May Keep Tariffs Anyway

By Alan Rappeport and Mark Landler
Jan. 31, 2019

“Would love to see a comprehensive, major relationship with China restored,” said Perdue on Friday at the Cattle Industry Convention in New Orleans. The administration imposed tariffs on a wide range of Chinese goods as leverage for reform of China’s trade policies, which the U.S. says include theft of intellectual property and forced transfer of trade secrets. Perdue told reporters that an agreement between the nations must include enforcement provisions. “We’re a long way” from a final package, he said. “We were heartened by the spirit of negotiations.”
China-U.S. trade talks make important progress for current stage, says Chinese delegation

Liu and Lighthizer held candid, specific and constructive discussions in particular on such topics of common concern as trade balance, technology transfer, IPR protection and enforcement mechanism, as well as certain issues of particular concern for the Chinese side, according to the Chinese delegation.

The two sides have agreed to take effective measures to promote a more balanced development of bilateral trade. The Chinese side will make active efforts to expand imports from the United States in the sectors of agriculture, energy, manufacturing and services, which will help China's pursuit of high-quality economic development and meet the people's demand for a better life.

The two sides also discussed some specific concerns of the Chinese side, and the U.S. side said it would seriously address these concerns.

Both sides believe that it is very important to establish an effective two-way enforcement mechanism, so as to ensure all measures agreed upon through consultations will be implemented. They have reached consensus in principle on the framework and basic elements of the enforcement mechanism, and will continue to hammer out more details.
Statement of the United States Regarding China Talks

The talks covered a wide range of issues, including: (1) the ways in which United States companies are pressured to transfer technology to Chinese companies; (2) the need for stronger protection and enforcement of intellectual property rights in China; (3) the numerous tariff and non-tariff barriers faced by United States companies in China; (4) the harm resulting from China’s cyber-theft of United States commercial property; (5) how market-distorting forces, including subsidies and state-owned enterprises, can lead to excess capacity; (6) the need to remove market barriers and tariffs that limit United States sales of manufactured goods, services, and agriculture to China; and (7) the role of currencies in the United States-China trading relationship. The two sides also discussed the need to reduce the enormous and growing trade deficit that the United States has with China. The purchase of United States products by China from our farmers, ranchers, manufacturers, and businesses is a critical part of the negotiations.

The two sides showed a helpful willingness to engage on all major issues, and the negotiating sessions featured productive and technical discussions on how to resolve our differences. The United States is particularly focused on reaching meaningful commitments on structural issues and deficit reduction. Both parties have agreed that any resolution will be fully enforceable.

While progress has been made, much work remains to be done. President Donald J. Trump has reiterated that the 90-day process agreed to in Buenos Aires represents a hard deadline, and that United States tariffs will increase unless the United States and China reach a satisfactory outcome by March 1, 2019. The United States looks forward to further talks with China on these vital topics.
#5: China is a Country of Rapid Change

High Speed Rail
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

WORLD RESOURCES INSTITUTE

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

by Richard Waite - January 24, 2018
**Fish and seafood consumption per capita**

Annual consumption of fish and seafood per person per year, measured in kilograms. Data is inclusive of all fish and major seafood commodities, including crustaceans, cephalopods and other mollusc species. Data is based on capita food supply at the consumer level, but does not account for food waste at the consumer level.

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**Rabobank: China to drive more than half of global seafood consumption growth over next decade**

By **Louis Harkell**

Jan. 12, 2018 09:19 GMT

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Source: UN Food and Agriculture Organization (FAO)
My hometown: Shenzxian, 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 an integral in

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

China vows 'decisive' role for markets, results by 2020
Faster reform progress could pave the way for higher, more sustainable growth.

(GDP in percent, year-on-year growth)

China: growth rate (GDP) from 2011 to 2023

World Bank expects China's economic growth to slow to 6.2 percent in 2019
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

<table>
<thead>
<tr>
<th>Period</th>
<th>Ruling Power</th>
<th>Rising Power</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  First half of 16th century</td>
<td>France</td>
<td>Hapsburgs</td>
<td>War</td>
</tr>
<tr>
<td>2  16th–17th centuries</td>
<td>Hapsburgs</td>
<td>Ottoman Empire</td>
<td>War</td>
</tr>
<tr>
<td>3  17th century</td>
<td>Hapsburgs</td>
<td>Sweden</td>
<td>War</td>
</tr>
<tr>
<td>4  17th century</td>
<td>Dutch Republic</td>
<td>England</td>
<td>War</td>
</tr>
<tr>
<td>5  Late 17th–early 18th centuries</td>
<td>France</td>
<td>Great Britain</td>
<td>War</td>
</tr>
<tr>
<td>6  Late 18th–early 19th centuries</td>
<td>United Kingdom</td>
<td>France</td>
<td>War</td>
</tr>
<tr>
<td>7  Mid-19th century</td>
<td>United Kingdom, France</td>
<td>Russia</td>
<td>War</td>
</tr>
<tr>
<td>8  19th century</td>
<td>France</td>
<td>Germany</td>
<td>War</td>
</tr>
<tr>
<td>9  Late 19th–early 20th centuries</td>
<td>Russia, China</td>
<td>Japan</td>
<td>War</td>
</tr>
<tr>
<td>10 Early 20th century</td>
<td>United Kingdom</td>
<td>United States</td>
<td>No war</td>
</tr>
<tr>
<td>11 Early 20th century</td>
<td>Russia, U.K., France</td>
<td>Germany</td>
<td>War</td>
</tr>
<tr>
<td>12 Mid-20th century</td>
<td>Soviet Union, U.K.</td>
<td>Germany</td>
<td>War</td>
</tr>
<tr>
<td>13 Mid-20th century</td>
<td>United States</td>
<td>Japan</td>
<td>War</td>
</tr>
<tr>
<td>14 1970s–1980s</td>
<td>Soviet Union</td>
<td>Japan</td>
<td>No war</td>
</tr>
<tr>
<td>15 1940s–1980s</td>
<td>United States</td>
<td>Soviet Union</td>
<td>No war</td>
</tr>
<tr>
<td>16 1990s–present</td>
<td>United Kingdom, France</td>
<td>Germany</td>
<td>No war</td>
</tr>
</tbody>
</table>
The Trump administration is right to redefine relations with China

It is also very bad at managing them

US-China Business Council Statement on January Trade Talks

WASHINGTON - January 31, 2019 - In response to the White House’s statement about this week’s negotiations in Washington, US-China Business Council (USCBC) President Craig Allen said:

“We understand that this week’s discussions covered familiar ground on structural issues and look forward to hearing details about any progress that was made. The long-standing concerns that foreign companies have about protection of intellectual property rights, technology transfer, and market access in China are ones that we believe are prime for resolution. We urge both governments to use the next month to address these issues.

“We are pleased to learn that both sides have agreed that any outcomes will be fully enforceable. As we have stated repeatedly, a viable outcome must include a regularized, results-oriented government-to-government dialogue that produces measurable, commercially meaningful outcomes addressing the concerns of American companies.

“In addition, any agreement between the governments should include positive incentives when China produces milestone deliverables, including a mechanism for removing US tariffs and Chinese retaliatory tariffs as progress is made. Removal of these tariffs must be a priority.

3 Types of Chinese Reactions to Mike Pence’s China Speech

These diverse views show that China is still debating how to handle an increasingly aggressive United States.
#7: Chinese consumers, producers, and gov’t increasingly like U.S.

Sky-high Housing
Chinese real estate is the most unaffordable in the world

Average house price to income ratio

- Beijing
- Hong Kong
- Shenzhen
- Shanghai
- Hanoi
- Mumbai
- London
- Singapore
- Guangzhou
- Tokyo
- Paris
- New York

The average price of a home in Beijing is now 40 times higher than the average annual income of a local resident.

Source: Numbeo

Corrupt Officials, Pollution Are Top Concerns

How big of a problem is/are...

- Corrupt officials
- Air pollution
- Water pollution
- Gap between rich and poor
- Crime
- Rising prices
- Safety of food
- Quality of manufactured goods
- Safety of medicine
- Health care
- Corrupt businesspeople
- Education
- Conditions for workers
- Traffic
- Unemployment

Very big problem
Moderately big problem
Total

- 44%
- 35
- 34
- 33
- 23
- 30
- 32
- 28
- 28
- 25
- 21
- 21
- 19
- 19
- 20

84%
76
75
75
74
72
71
71
70
62
61
60
58
57
55

Source: Spring 2015 Global Attitudes survey. Q60a, bCHI, d-f, h-q.
PEW RESEARCH CENTER
Urban Chinese prefer to travel, stay connected, buy protein rich food, durable goods & recreation
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

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The videos feature an Asian woman in a lavish Dolce & Gabbana dress attempting to eat pizza, spaghetti and cannoli. With Chinese folk music playing in the background, a Mandarin-speaking voiceover kicks in: "Welcome to the first episode of 'Eating with Chopsticks' by Dolce & Gabbana" — pronounced incorrectly on purpose in a way that mocks Chinese speech.

The male voice proceeds to mansplain how to "properly" eat the dishes. "Is it too big for you?" mocks the voiceover when the woman doesn't know what to do with the gigantic cannoli. "Let's use these small stick-like things to eat our great pizza margherita," he instructs in another video.

"That's explicit racism," one person commented on Weibo. "D&G's stereotyping China. [The videos] only show the brand's outdated view about China."
Key Messages (on Ag Decision Maker): Understand Contemporary China!

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
• 82% of Iowa land is debt-free
• 60% of land owned by owners 65+ years old, one-third of land owned by 75+ years old, 13% of land owned by women landowner 80+ years old
• Ownership continues to shift from sole ownership to trusts and corporations
• 53% of Iowa land rented out – mainly cash rent
• 34% of Iowa land owned by landlords with no farming experience, 23% of land owned by retired farmers who do not currently farm
• 29% of Iowa land owned primarily for family/sentimental reasons

($5 each print copy!)
https://store.extension.iastate.edu/product/6492
2018 IOWA LAND VALUE

$7,264
Nov 2018

down 0.8%
down $62

Double Downward Pressure

Land Value = income / interest rate
Thank You!

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www.card.iastate.edu/farmland