Update on US-China Trade Deal and Land Values

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Crop Advantage Series
Multiple Locations in Iowa  January 2020
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)
## Land Values by District and Quality, Nov 2019

<table>
<thead>
<tr>
<th>District</th>
<th>Average Value</th>
<th>% Change</th>
<th>High Quality</th>
<th>% Change</th>
<th>Medium Quality</th>
<th>% Change</th>
<th>Low Quality</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northwest</td>
<td>$9,352</td>
<td>0.4%</td>
<td>$10,757</td>
<td>-0.1%</td>
<td>$8,633</td>
<td>1.0%</td>
<td>$6,099</td>
<td>1.3%</td>
</tr>
<tr>
<td>North Central</td>
<td>$7,912</td>
<td>1.6%</td>
<td>$8,858</td>
<td>1.8%</td>
<td>$7,248</td>
<td>0.5%</td>
<td>$5,325</td>
<td>3.2%</td>
</tr>
<tr>
<td>Northeast</td>
<td>$7,325</td>
<td>-2.9%</td>
<td>$9,050</td>
<td>-1.6%</td>
<td>$6,833</td>
<td>-4.0%</td>
<td>$4,803</td>
<td>-5.0%</td>
</tr>
<tr>
<td>West Central</td>
<td>$7,564</td>
<td>2.0%</td>
<td>$9,017</td>
<td>2.1%</td>
<td>$7,076</td>
<td>2.0%</td>
<td>$4,950</td>
<td>4.9%</td>
</tr>
<tr>
<td>Central</td>
<td>$8,336</td>
<td>5.5%</td>
<td>$9,749</td>
<td>4.7%</td>
<td>$7,649</td>
<td>4.2%</td>
<td>$5,467</td>
<td>10.9%</td>
</tr>
<tr>
<td>East Central</td>
<td>$8,475</td>
<td>5.9%</td>
<td>$10,421</td>
<td>6.7%</td>
<td>$7,823</td>
<td>5.0%</td>
<td>$5,279</td>
<td>7.5%</td>
</tr>
<tr>
<td>Southwest</td>
<td>$6,166</td>
<td>1.7%</td>
<td>$7,768</td>
<td>0.4%</td>
<td>$5,841</td>
<td>3.0%</td>
<td>$3,844</td>
<td>1.4%</td>
</tr>
<tr>
<td>South Central</td>
<td>$4,487</td>
<td>3.6%</td>
<td>$6,416</td>
<td>6.0%</td>
<td>$4,371</td>
<td>3.0%</td>
<td>$2,955</td>
<td>0.1%</td>
</tr>
<tr>
<td>Southeast</td>
<td>$6,868</td>
<td>3.8%</td>
<td>$9,341</td>
<td>3.1%</td>
<td>$6,616</td>
<td>4.1%</td>
<td>$3,790</td>
<td>3.7%</td>
</tr>
<tr>
<td>Iowa Avg.</td>
<td>$7,432</td>
<td>2.3%</td>
<td>$9,078</td>
<td>2.4%</td>
<td>$6,938</td>
<td>2.0%</td>
<td>$4,759</td>
<td>3.3%</td>
</tr>
</tbody>
</table>
2019 hike represents 2\textsuperscript{nd} rise in past 6 years

\textbf{% Change in Nominal Iowa Farmland Values 1942-2019}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{chart.png}
\caption{Percent change in nominal land values.}
\end{figure}
2019 Iowa Land Values

Land Values by County, 2019

Dollar Values
- $5,000 or less
- $5,000-$7,000
- $7,000-$8,000
- $8,000-$9,000
- $9,000 or more
Percentage Change in Iowa Land Values 2018 to 2019

Percent Changes in Land Values from Nov 2018

- Lyon -0.0
- Osceola -0.0
- Dickinson -0.0
- Emmet 1.1
- Kossuth 3.4
- Winnebago 2.0
- Worth 0.4
- Mitchell -1.1
- Howard -1.5
- Winnebago -1.9
- Allamakee -2.2
- Sioux -1.0
- O'Brien 1.1
- Clay 2.3
- Palo Alto 3.4
- Hancock 2.0
- Cerro Gordo 0.4
- Floyd -1.1
- Chickasaw -1.5
- Clayton -2.2
- Plymouth 2.2
- Cherokee 1.0
- Buena Vista 1.0
- Pocahontas 3.4
- Humboldt 4.2
- Wright 4.2
- Franklin 2.8
- Butler 0.8
- Bremer -1.5
- Buchanan -1.9
- Delaware -2.2
- Dubuque -1.8
- Woodbury 3.4
- Ida 2.2
- Sac 1.3
- Calhoun 4.0
- Webster 4.8
- Hamilton 4.9
- Hardin 4.9
- Grundy 3.3
- Tama 4.4
- Benton 4.3
- Linn 2.9
- Johnson 2.9
- Muscatine 3.4
- Clinton 3.5
- Linn -0.3
- Cameron 1.4
- Fayette 2.8
- Louisa 4.2
- Mills 1.9
- Montgomery 1.9
- Union 2.2
- Pottawattamie 2.4
- Hardin 2.6
- Madison 2.6
- Warren 3.2
- Marion 3.6
- Mahaska 4.3
- Keokuk 4.9
- Washington 4.9
- Louisa 4.2
- Delaware 1.3
- Dubuque 1.8
- Tama 3.3
- Winneshiek 0.9
- Buchanan 0.9
- Delaware 1.3
- Dubuque 1.8
- State Average +2.3 %

*Percent Change*
- Increase 3% or less
- Increase less than 1%
- Increase 1%–2%
- Increase 2%–4%
- Increase 4% or more
Mainland China vs. US
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
The Trade War Challenge and the Phase One Trade Deal
Donald J. Trump @realDonaldTrump · 2h
One of the greatest trade deals ever made! Also good for China and our long term relationship. 250 Billion Dollars will be coming back to our Country, and we are now in a great position for a Phase Two start. There has never been anything like this in U.S. history! USMCA NEXT!

Donald J. Trump @realDonaldTrump · 6m
The farmers are really happy with the new China Trade Deal and the soon to be signed deal with Mexico and Canada, but I hope the thing they will most remember is the fact that I was able to take massive incoming Tariff money and use it to help them get through the tough times!

Beijing’s $200 Billion Buying Spree
China has committed to increase purchases from the U.S. over two years*

- Year 1
- Year 2

Source: U.S. White House
Note: *additional U.S. exports to China on top of 2017 baseline
"Purchases will be made at market prices based on commercial considerations and that market conditions, particularly in the case of agricultural goods, may dictate the timing of purchases within any given year," according to the agreement.

The deal includes some terms that some observers say China could use to claim that the U.S. is at fault if it doesn’t meet the purchase targets. For example, China could request consultations if China’s purchases are “affected by an action or inaction by the United States,” the text says. That could come into play if U.S. export rules limit the technology products the U.S. lets China buy. A senior administration official said the provision just allows for discussions and wouldn’t be a basis for China to claim it can’t fulfill its commitments.

**Trade Breakdown**
U.S. averaged $22b annually of agriculture exports to China pre-trade war

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Value (billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soybeans</td>
<td>$12.9B</td>
</tr>
<tr>
<td>Hides &amp; Skins</td>
<td>1.3B</td>
</tr>
<tr>
<td>Cotton</td>
<td>1.1B</td>
</tr>
<tr>
<td>Coarse Grains (ex. corn)</td>
<td>1.1B</td>
</tr>
<tr>
<td>Distillers Grains</td>
<td>959M</td>
</tr>
<tr>
<td>Pork &amp; Pork Products</td>
<td>596M</td>
</tr>
<tr>
<td>Dairy Products</td>
<td>563M</td>
</tr>
<tr>
<td>Wheat</td>
<td>439M</td>
</tr>
<tr>
<td>Other Intermediate Products</td>
<td>438M</td>
</tr>
<tr>
<td>Feeds &amp; Fodders NESOI</td>
<td>338M</td>
</tr>
<tr>
<td>Other</td>
<td>2.4B</td>
</tr>
</tbody>
</table>

Source: USDA
Note: Average of 2013-17
Unappreciated hazards of the US-China phase one deal

Chad P. Bown (PIIE)
January 21, 2020 5:00 AM

WHAT THE AGREEMENT COMMITS CHINA TO BUY IS UNREALISTIC

Figure 1
The phase one deal does not cover all US exports to China, yet still sets incredibly ambitious targets

Total US goods and services exports to China, billions USD

- Goods covered
- Services covered
- Goods and services not covered in phase one deal
- Export value required by phase one deal

$257.5 bn
$210.9 bn
US export targets for agriculture, energy, and manufactured goods under phase one deal may be difficult to achieve

Total US exports to China by covered sector, billions USD

a. Agriculture

b. Manufactured goods

Chad P. Bown (PIIE)
January 21, 2020 5:00 AM
Scott Irwin @ScottIrwinUI · 19h
1. I think the market’s reaction to the Phase 1 trade agreement with China can be characterized as, "If something looks too be good to be true, it probably is." But I think it is worth pushing the analysis further than that.
Purchases: China will purchase and import on average at least $40 billion of U.S. food, agricultural, and seafood products annually for a total of at least $80 billion over the next two years. Products will cover the full range of U.S. food, agricultural, and seafood products. On top of that, China will strive to import an additional $5 billion per year over the next two years.

- Poultry: $0.5 bil. (2013) to $1 Bil.
- Pork: $0.7 Bil. (2017) to $1.7 Bil.
- Beef: $0 to $1 Bil.
- Live breeding cattle: $0.25-0.5 Bil.
- Processed meat: $0 to 0.25 bil.
- Rice/dairy/fruits: $0.3 bil.
- DDGS/feed additives: $0.7 Bil.
- Pet food: $0.3 Bil.
- Conduct a risk assessment on ractopamine
- Review TRQ and domestic support for corn and wheat
China may divert trade from a number of trading partners to meet US export targets in phase one deal

Chinese imports by sector and country, 2017

<table>
<thead>
<tr>
<th>Agriculture</th>
<th>Amount, billions USD</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US</td>
<td>Rest of world</td>
</tr>
<tr>
<td>Oilseeds</td>
<td>13.9</td>
<td>25.7</td>
</tr>
<tr>
<td>Meats</td>
<td>1.2</td>
<td>8.3</td>
</tr>
<tr>
<td>Seafood</td>
<td>1.3</td>
<td>6.9</td>
</tr>
<tr>
<td>Cereals</td>
<td>1.5</td>
<td>5.8</td>
</tr>
<tr>
<td>Cotton</td>
<td>1.0</td>
<td>1.3</td>
</tr>
<tr>
<td>Other agricultural commodities</td>
<td>5.1</td>
<td>51.9</td>
</tr>
</tbody>
</table>
Figure 15. China Poultry, Meat, Eggs and Products Imports by Value and Import Market Share

Source: John Newton, American Farm Bureau Federation
Figure 4. China Dairy Product Imports by Value and Import Market Share

Source: Trade Data Monitor

Source: John Newton, American Farm Bureau Federation
## China’s Agricultural Import Potential

**by Minghao Li, Wendong Zhang, and Dermot Hayes**

### Table 4. Predicting China’s Import Potential from the United States

<table>
<thead>
<tr>
<th></th>
<th>Increase in import quantity</th>
<th>Increase in import value ($billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
<td>Middle</td>
</tr>
<tr>
<td>Corn</td>
<td>16.5 MMT</td>
<td>33.1 MMT</td>
</tr>
<tr>
<td>Wheat</td>
<td>8.9 MMT</td>
<td>17.9 MMT</td>
</tr>
<tr>
<td>Beef</td>
<td>0.2 MMT</td>
<td>0.5 MMT</td>
</tr>
<tr>
<td>Pork</td>
<td>2.2 MMT</td>
<td>4.3 MMT</td>
</tr>
<tr>
<td>Chicken</td>
<td>0.6 MMT</td>
<td>1.3 MMT</td>
</tr>
<tr>
<td>Cotton</td>
<td>55 TMT</td>
<td>110 TMT</td>
</tr>
<tr>
<td>Ethanol</td>
<td>110 Mil. L</td>
<td>220 Mil. L</td>
</tr>
<tr>
<td>Distiller grains</td>
<td>0.66 MMT</td>
<td>1.33 MMT</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>17.6</td>
<td>35.3</td>
</tr>
</tbody>
</table>

*Note: Projections for corn, wheat, beef, pork, and chicken are calculated using the domestic elasticity method; projections for cotton, ethanol, distiller grains, and others are calculated using the import elasticity method. See text for descriptions.*

MMT: million metric tons; TMT: thousand metric tons; Mil. L: million liters.
Phase one deal only slightly reduces average US tariff on imports from China

Average tariff rate, percent

Chad P. Bown (PIIE)
December 19, 2019 5:30 PM

China's tariffs on US exports
8.0% six months
7.2
8.2 6.7
8.3 7.2
8.4 8.3
8.0%
3.1%

US tariffs on Chinese exports
3.1% six months
3.8
10.1
14.4
12.0
8.2
8.1
8.4
8.3
7.2
6.7

+11.1 pp in three months
+8.2 pp in three months
+14.4 pp in four months
+9.0 pp in three months
+4.6 pp in four months
-0.2 pp on December 26, 2019
five months
three months
-1.7 pp in February 2020
The Long-term Consequences
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.
Figure 9. China Swine, Pork and Pork Product Imports by Value and Import Market Share

Source: Trade Data Monitor

Source: John Newton, American Farm Bureau Federation
China’s Belt and Road Initiative Started in 2013/4
The Future of US-China Trade
Why China is Indispensable?

88 percent of the next billion entrants into the middle class will be in Asia

By 2030, Asia could represent 2/3 of the global middle class population.

350m in CHINA
380m in INDIA
210m in rest of ASIA
130m in rest of the WORLD
China is a Country of Rapid Change

High Speed Rail
A Meatier Middle Kingdom

Charts of the Day: China’s Growing Meat Consumption

U.S. Meat Consumption Has Shifted from Beef toward Chicken
My hometown: Shenxian, Shandong Province

Greenhouse – plastic film - Shandong Province
Arguably strategic misjudgments early on by both sides, exposing lack of mutual understandings and mistrust.
美国

中华民族伟大复兴
#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

DESTINED FOR WAR
CAN AMERICA AND CHINA ESCAPE THUCYDIDES’S TRAP?

GRAHAM ALLISON

Lesson 4: Domestic performance is decisive.
Lesson 5: Hope is not a strategy.

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.
Thank You!

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www.card.iastate.edu/farmland