US-China Trade War and Phase-One Trade Deal

Wendong Zhang
Assistant Professor and Extension Economist
wdzhang@iastate.edu, 515-294-2536

South Central College - Ag Symposium
Mankato, MN    February 19, 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/]
  agriculture and the environment
China Ag center [www.card.iastate.edu/china]
The 2.3% hike in Iowa Land Values Just Exceeded the Pace of Inflation

Average Iowa Farmland Values: $7,432/acre (2.3% increase)
Average values of all farmland 1942–2019

ISU Farmland Portal  www.card.iastate.edu/farmland/
GLOBAL TREND

Last update: 2020-02-18 08:08:04 PST  Click a place to review local trend.

Confirmed  Recovered  Death

73461  13151  1875

https://hgis.uw.edu/virus/

IOWA STATE UNIVERSITY
Extension and Outreach

CARD
Center for Agricultural and Rural Development
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
U.S.-China Deal Key Passages

For the category of agricultural goods identified in Annex 6.1, no less than $12.5 billion above the corresponding 2017 baseline amount is purchased and imported into China from the United States in calendar year 2020, and no less than $19.5 billion above the corresponding 2017 baseline amount is purchased and imported into China from the United States in calendar year 2021;

The Parties project that the trajectory of increases in the amounts of manufactured goods, agricultural goods, energy products, and services purchased and imported into China from the United States will continue in calendar years 2022 through 2025.

The Parties acknowledge that 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.
Unappreciated hazards of the US-China phase one deal

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

Figure 2

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
US-China Phase 1 Trade Deal and US agriculture: A big win for farmers or too good to be true?

By Wendong Zhang, extension economist, 515-294-2536, wdzhang@iastate.edu

Seven things to know about China to understand the trade war

By Wendong Zhang, extension economist, 515-294-2536, wdzhang@iastate.edu
US-China Trade Pattern is likely to change

Figure 1. Key US agricultural exports by commodity and country in 2017

- Soybeans
- Soybean meal
- Coarse Grains (ex. corn)
- Cotton
- Corn
- Wheat
- Rice
- Beef & Beef Products
- Pork & Pork Products
- Poultry Meat & Prods. (ex. eggs)
- Hides & Skins
- Live Animals
- Dairy Products
- Ethanol, incl. bev.
- Distillers Grains
- Fish Products
- Forest Products
- Fresh Fruit
- Fresh Vegetables
- Non-Alcoholic Bev. (ex. juices, coffee,...
- Processed Fruit
- Processed Vegetables
- Wine & Beer
- Distilled Spirits
- China
- Other Countries
- Canada
- Europe
- Mexico
- Indonesia
- Japan
- Korea, South
- Malaysia
- Philippines
- Taiwan
- Thailand
- Brazil
- India
- Other
1. I think the market’s reaction to the Phase 1 trade agreement with China can be characterized as, “If something looks too good to be true, it probably is.” But I think it is worth pushing the analysis further than that.
A possible & more balanced pathway for China’s ag import surge?

Figure 2. Key Chinese agricultural imports by commodity and country in 2017
Chinese surge at the expenses of non-FTA partners?
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% in 2018
- 7.2% in 2019
- 6.7% in 2020

US tariffs on Chinese exports
- 3.1% in 2018
- 3.8% in 2019
- 4.6% in 2020
The Long-term Consequences
Figure 1. State-level trade war burden with and without 2019 MFP compensation ($B EV) and 2019 MPF payments ($B).
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 2. U.S. and South American Soybean Production**

1977/78 to 2017/18

- Yellow: Argentina
- Blue: Brazil
- Red: United States

Source: USDA FAS
China’s Belt and Road Initiative - Started in 2013/4

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

BROOKINGS

IOWA STATE UNIVERSITY
Extension and Outreach

CARD
Center for Agricultural and Rural Development
China is a Country of Rapid Change

High Speed Rail
Charts of the Day: China’s Growing Meat Consumption

A Meatier Middle Kingdom

Unit: Kilograms per capita

Source: Caixin

Co-operation and development of the United Nations

U.S. Meat Consumption Has Shifted from Beef toward Chicken

Source: World Resources Institute
My hometown: Shenxian, Shandong Province

Greenhouse – plastic film - Shandong Province
#4: Arguably strategic misjudgments early on by both sides, exposing lack of mutual understandings and mistrust
Chinese Lesson Time

美国

中华民族伟大复兴
Learn more about contemporary Chinese economy.
Broaden your information sources!

www.foodandagpolicy.org

South China Morning Post  
www.scmp.com

Ag Decision Maker
A Business Newsletter for Agriculture
Vol. 24, No. 4  
www.extension.iastate.edu/agdm  
February 2020
Thank You!

Wendong Zhang
Assistant Professor and Extension Economist
478C Heady Hall, Iowa State University
515-294-2536
wdzhang@iastate.edu

www.card.iastate.edu/china
www.card.iastate.edu/farmland

This institution is an equal opportunity provider. For the full non-discrimination statement or accommodation inquiries, go to www.extension.iastate.edu/diversity/ext.