

# International Agri Insights

with Professor Bill Bailey

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## US-China trade tensions: thrust and counter-thrust

**In this latest edition of International Agri Insights, our US-based expert, Prof. Bill Bailey, gives his take on the flare-up in trade tensions between the US and China as well as the status of other ongoing US trade negotiations.**

Although there has been a limited reduction in trade tension between the United States and other countries, significant trade uncertainty continues to be an important factor in the world's agriculture trade environment.

Ongoing US trade challenges include:

- The US Congress has not yet formally ratified the US Mexico Canada Agreement – the replacement for the North American Free Trade Agreement – and its ratification faces potentially significant Congressional opposition.
- The EU and the US are attempting to reach an agreement to begin negotiations on a broad range of trade issues, with the EU insisting agriculture will not be part of the negotiations and the US insisting it must be included.
- President Trump is currently negotiating directly with the Prime Minister of Japan on tariff reductions on US agriculture, but no final outcome is yet in place.

### US-China trade tensions reignite

In addition to the above ongoing trade challenges faced by the US, a major new rough patch between China and the US appeared very recently. Public assurances had been made, by both US and Chinese trade negotiators, that the two countries were nearing a trade deal that would lift tariffs, open the Chinese market to more American companies and potentially strengthen intellectual property protections. However, discussions suddenly ended, and the two countries have returned to a trade war that many analysts thought was coming to an end. So, in response to the collapse of talks, both countries have now set (or planned to set) in place a new series of tariffs.

At the start of May 2019, total US tariffs were applied to US\$200 billion Chinese goods. And the US has announced they will hold a public hearing June 17, 2019 on the possibility of imposing 25 percent tariffs on a further US\$300 billion worth of Chinese imports, including cellphones, clothing, laptops, and some agricultural and dairy products. Such a move would bring the total value of Chinese goods potentially having US tariffs imposed to \$500 billion.

For China, at the start of May 2019, total Chinese tariffs had been applied to US\$110 billion US goods. In the latest tariff move, China announced that it will increase tariffs on US\$60 billion worth of US goods beginning 1 June 2019, in response to the tariff increases imposed by the US on May 10. US export products affected include beef, lamb, pork, vegetables, juice, cooking oil, tea, coffee, refrigerators, and furniture, among many other products. A possible bright side of the 1 June tariff implementation date is that it leaves open a window for negotiations to continue on a possible trade agreement.

The real impact of US trade problems with China will be felt by many American farmers and reflected in changing US agricultural trade patterns. The first chart on this page shows the change in US soybean export destinations between 2017 and 2018. While some of the soybeans found new homes, overall soybean exports were down, notably to China.

In contrast (despite a troubling international trade environment), US dairy exports in 2018 reached a record high volume, increasing 2% over 2017 levels. However, US dairy exports to China declined more than 40% as new tariffs were placed on US dairy imports. While China depends extensively

on imported dairy products to meet the needs of its consumers, it also has been attempting to diversify its import sourcing and the US was beginning to play an increasingly important role in that diversification. With tariffs now pricing US dairy out of the Chinese market, Chinese buyers will potentially look more closely at NZ, Australian or European Union sourcing.

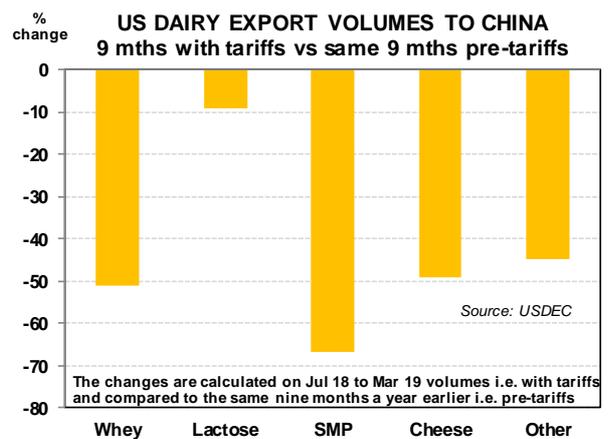
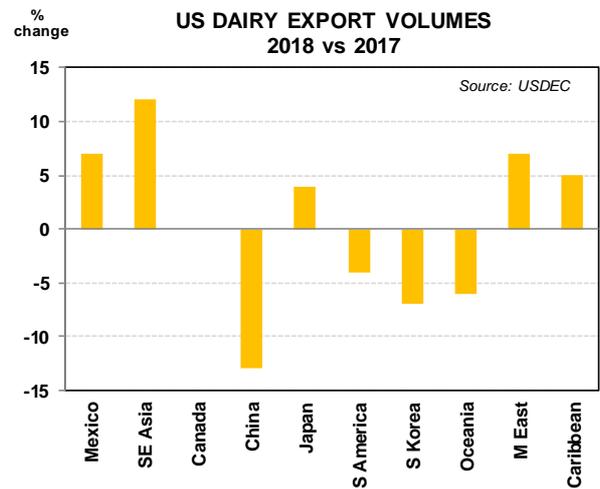
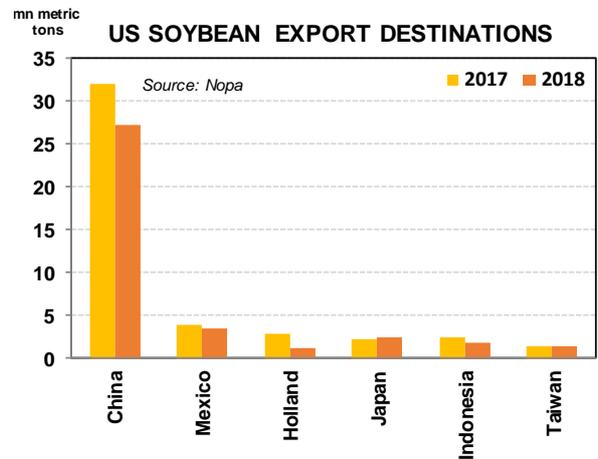
Two other factors could have an additional impact on how the tariff battle between the US and China evolves. The Chinese currency has weakened considerably against the US dollar over the past several months. Its weakening has created an additional problem for Chinese consumers who wish to

purchase, what have now become, more expensive US products. And a second challenge has arisen – the spread of African Swine Fever across China – potentially affecting a significant part of China’s hog herd, the largest in the world. Analysts see China purchasing significant amounts of protein to compensate for the much smaller hog herd.

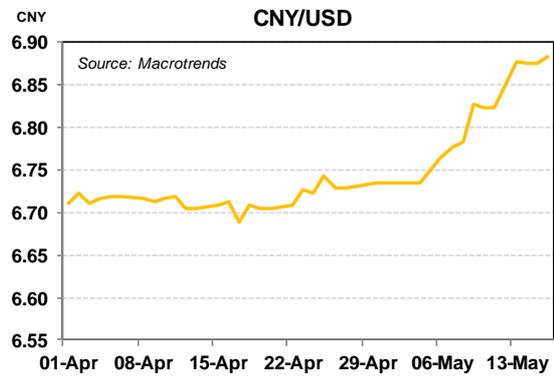
Consequently, with the US potentially out of the China protein market because of tariffs, the potential for significant new Chinese purchases from other countries has arisen. Seeing an opportunity, Russia has very recently indicated its willingness to expand exports of meat, soy and grain to China. Both countries have shown an increased interest to expand their agri-food cooperation.

At this point, the eventual outcome of the US-China trade troubles is not clear. As noted, the US has numerous trade issues, with several countries, currently unresolved.

Sometimes agreements are reached when the negative impact of the impasse becomes clear. China holds US\$1.2 trillion worth of US debt, primarily in the form of US Treasuries. China could begin to sell that debt and the impact on both world trade and US-China relations would not be positive. Further, China could halt completely the imports of US agricultural products and stop purchases of Boeing aircraft. As this column was written, the US had indicated it would like to set a time for trade negotiations with China to resume. In contrast, China has recently accused the US of playing games. And both the US and China have used the phrase “Never surrender” when discussing next steps.



Some analysts see the US using a tactical approach to get China back to the bargaining table. The analysts also see China using strategic goals to, eventually, gain the upper hand over the US. If the analysis of China’s use of strategy and looking at the long run rather than taking a tactical approach is correct, trade tensions could continue for some time. Whether or not both the US and China could be posturing and looking for a quick solution is not clear, but the possibility of ongoing trade tensions is much higher now than it was earlier in the year.



### About the author

William C Bailey was Chair of Agribusiness at Massey University for 13 years. He has written weekly world dairy market columns for ASB Bank for almost 15 years. He currently is President of Topker Consulting, specializing in agricultural market research and supply chain issues relevant to agriculture. He retired as Dean, College of Business and Technology, at Western Illinois University, in Macomb, Illinois, in July, 2017. Bill spent 5 years in the US Marine Corps and received his PhD in Agricultural Economics from the University of Missouri. Before shifting to New Zealand, Bill was Chief Economist for the US Senate Committee on Agriculture, Nutrition and Forestry, served as Deputy Undersecretary of Agriculture and was Vice President and Director of Research for World Perspectives in Washington, DC. His beer of choice is Tui. Contact Bill: [topkerconsulting@gmail.com](mailto:topkerconsulting@gmail.com) Phone: +1 309 333 5117



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[nick.tuffley@asb.co.nz](mailto:nick.tuffley@asb.co.nz)  
[jane.turner@asb.co.nz](mailto:jane.turner@asb.co.nz)  
[mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)  
[nathan.penny@asb.co.nz](mailto:nathan.penny@asb.co.nz)  
[chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)  
[judith.pinto@asb.co.nz](mailto:judith.pinto@asb.co.nz)

#### Phone

(649) 301 5659  
(649) 301 5853  
(649) 301 5957  
(649) 448 8778  
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(649) 301 5660

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