International Agri Insights

with Professor Bill Bailey

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What if US-China trade turns bad?

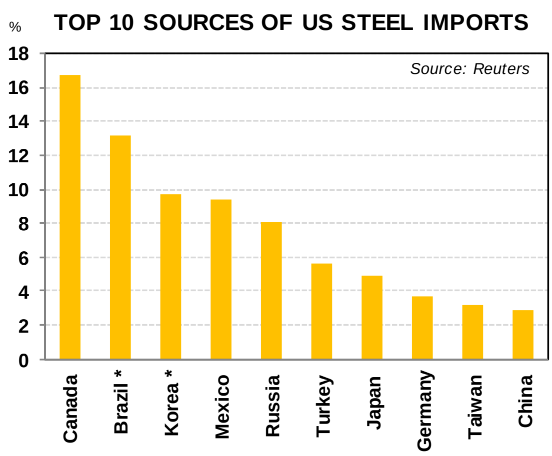
In this latest edition of International Agri Insights, our US-based expert, Prof. Bill Bailey, gives his insider's take on the US-China trade tensions and the likely impacts on global, including NZ's, agricultural trade.

- The US is China's leading export destination, while China ranks third as a destination for US exports.
- Both countries have proposed tariffs on imported products.
- Discussions continue, both in public and in private, to address the existing trade conflicts.
- At present, the clock continues to run with no clear indication of a peaceful resolution of the US-China trade conflict.
- Despite the magnitude of the conflict, it appears the impact on New Zealand agriculture would be limited.

The previous ASB International Agri Insights column, "US-China trade tensions: The art of the deal", detailed the thinking of many that the US-China tariff issue will end in a rational, negotiated manner. However, stuff happens and this column will take a closer look at the "what if" aspect of failed negotiations and the potential consequences for New Zealand agriculture of a possible trade war between the US and China that might follow such a failure.

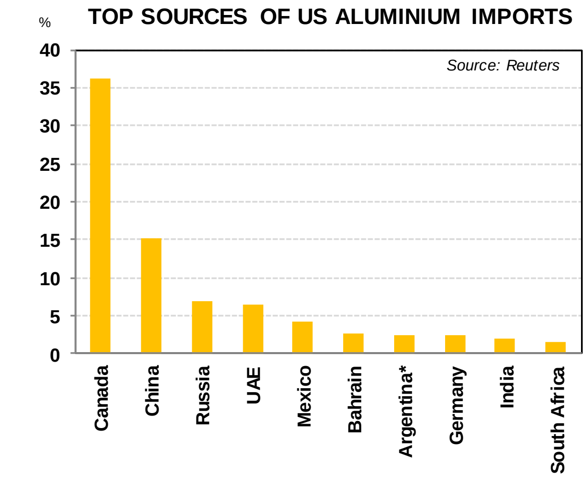
There have been several recent tariff-related exchanges between the US and Chinese governments. While those exchanges have focused on specific areas, such as steel and technology, the trade exchanges have created a broad impact zone if the initial negotiations fail, tariffs are imposed and a more general adverse trade environment between the US and China transpires.

The initial trade proposal from the US was to place tariffs on all steel and aluminium imports, not just from China. On March 8, the US signed a notice that a 25% tariff on imported steel and a 10% tariff on imported aluminium would be put into effect on March 23. Following the announcement, a number of countries were excluded from the steel import tariffs. Leading steel import countries are listed in the adjoining figure, with an asterisk denoting those countries currently excluded from the tariffs. Not included in this figure, because of the limited scale of their steel imports, are Argentina and Australia. They are also exempted from the tariffs. The next chart below provides the same information on aluminium imports into the US. The countries exempt from steel tariffs were also exempt from aluminium tariffs.

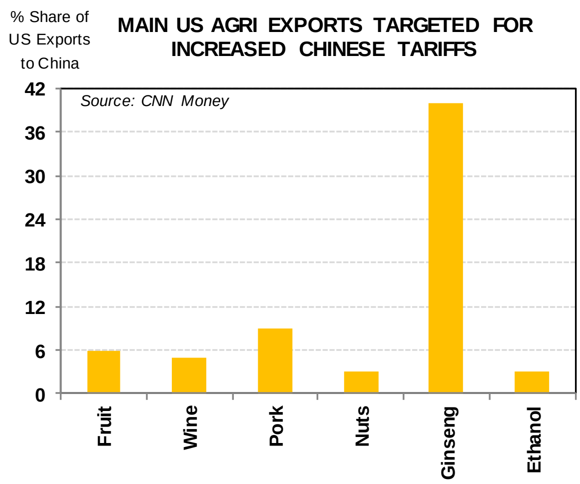


Nathan Penny – Senior Rural Economist (649) 448 8778 nathan.penny@asb.co.nz
Nick Tuffley – Chief Economist (649) 301 5659 nick.tuffley@asb.co.nz

On May 31, the US ended temporary exclusion on tariffs and made 25% tariffs on steel imports and 10% tariffs on aluminium imports permanent on imports of those products from Mexico, Canada and the European Union.

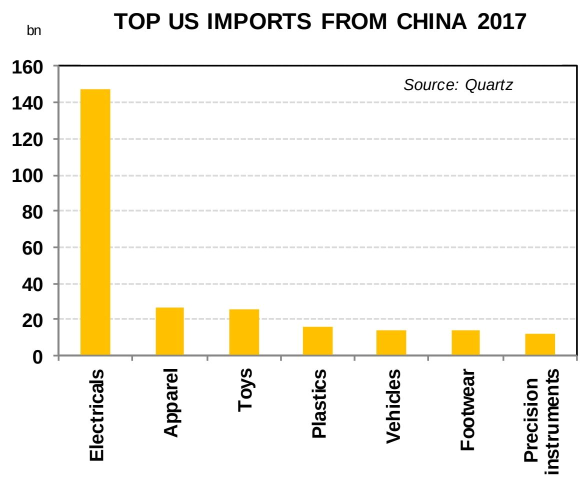


In response to the imposition of steel and aluminium tariffs, China announced tariffs on $3 billion of US imports, with imports of agricultural products heading the tariff list. China announced the tariffs on March 23 and offered to begin negotiations on March 26. The US did not respond. The products identified by China for tariffs were mostly agricultural products, although China announced tariffs on a number of products which the US and China do not trade, for example, swine livers, avocados and kiwifruit. Such action might be considered a potential negotiation tactic.



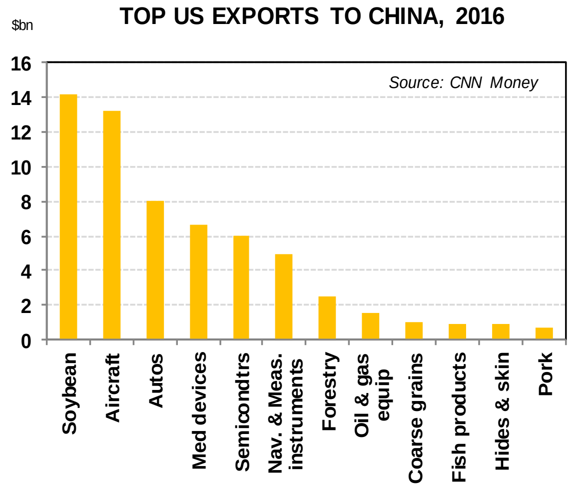
But the plot thickened on April 4 when the US announced additional tariffs on 1,300 products the US imports from China. The list was exhaustive, covering high-tech industries like medicine, aviation and semiconductor machinery, intermediate goods like machinery and chemicals and consumer standards such as dishwashers, snow ploughs and motorcycles. The list of goods excludes many Chinese-made consumer products available for sale at Target or Walmart, including clothing, shoes and toys. Also excluded were imports from China such as mobile phones (which comprise 14% of US imports from China) and computers and computer accessories (15%). In contrast, tariffs did cover items such as “parts for offshore oil and natural gas, drilling and production platforms”; “sewing machine needles”; and “lithium primary cells and primary batteries”.

The reason the US announced the most recent tariffs was an attempt to discourage China from taking US technology. The Chinese Ministry of Commerce, following the Trump announcement on additional tariffs, said it plans to impose a 25% tariff on 106 US export items, valued at $50 billion. The affected products will include soybeans and chemicals. China eventually counter-proposed that if the tariffs were dropped, that country would import an additional $70 billion of American farm, energy and other products. The US declined to drop the tariffs because, in its view, the goal of the tariff imposition was the improvement of overall trading terms between the two countries.

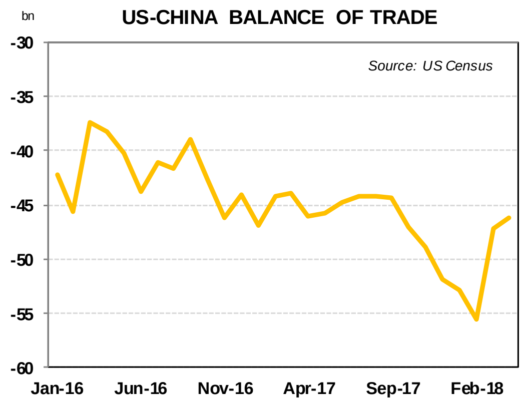


Against these very specific lists of items selected by each country for tariffs is the broader picture of US and China trade. The adjoining figure details the list of major US imports from China with the next one below detailing Chinese imports of US products. The key, and most relevant data, is contained in the final figure, showing the balance of trade between the two countries. Note the negative US balance of trade with China has increased significantly over the past few years.

Two questions arise – will the tariff discussions between China and the US become increasingly acrimonious and lead to a major trade conflict between the two countries? If so, what might the impact be on New Zealand agricultural trade with China?



This column will assume there is no agreement between the US and China on these tariff issues. Clearly, one major consequence will be less trade, potentially significantly reduced trade, between the two countries. A key question follows from this article's assumption of no agreement – if the US is not buying products from China and if China is not buying products from the US, from whom will they buy the affected products? The US is China's leading export market and China is the third largest US export market, so "no trade" would have significant national and economic impacts. For simplicity and relevance, the focus will be on agricultural trade between the two countries and the potential impact of agricultural trade realignment on New Zealand agricultural exports.



According to Statistics New Zealand, the main agricultural items New Zealand exported to China were dairy products – milk powder, butter, and cheese. The 2017 exports of those products increased 52% from recent levels. In 2017 New Zealand had its highest level of dairy product exports to China since 2013/14. Other New Zealand agricultural products exported to China are untreated logs and meat (beef and lamb). Currently, US dairy exports and exports of logs and sheep meat to China are not subject to the proposed tariffs. A recent agreement between the US Dairy Export Council and a major Chinese university indicate dairy trade between the US and China will probably not be included, at some point in the future, for trade restrictions. It is concluded that dairy trade between the US and China will continue uninterrupted, with limited consequences on New Zealand dairy exports to China. However, China is the 4th largest dairy market for US exports, so the potential impact on dairy trade is significant.

There are two areas that might provide new opportunities to New Zealand agriculture if trade negotiations fail. Although a very small opportunity, China has proposed placing tariffs on imports of US ginseng. US-grown ginseng, particularly from Wisconsin, is highly valued in China and constitutes the majority of Chinese ginseng imports. Tariffs could make US ginseng too expensive to import and potentially open trade opportunities for New Zealand ginseng producers. The second area is Chinese meat imports. The proposed tariffs on US pork and beef exports to China could open some new opportunities for New Zealand exporters. However, the opportunities would be reasonably limited, in view of Chinese eating preferences.

In summary, a trade war between the US and China would create a challenging environment for New Zealand agricultural exporters. In view of the current exclusion of dairy from the list of Chinese imposed import tariffs, potential opportunities for New Zealand exporters to replace US products in China seem limited. On the other hand, the real challenge for New Zealand exporters could be a situation where US agricultural exporters – priced out of the Chinese market because of tariffs – pursue new markets, including markets in which they might constitute new competition for New Zealand exports.

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 Phone: +1 309 333 5117

ASB Economics & Research			**Phone**
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5957
Senior Rural Economist	Nathan Penny	nathan.penny@asb.co.nz	(649) 448 8778
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915
Economist	Kim Mundy	kim.mundy@asb.co.nz	(649) 301 5661
Data & Publication Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660

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