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Theme Overview: U.S.–China Trade Dispute and Potential Impacts on Agriculture

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JEL Classifications: F1, P2, Q13, Q17, Q18

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The United States and China, the world's largest economic powers, have dueled in an escalating trade dispute since January 2018. This ever-changing story continues to evolve, with additional tariffs announced by the United States as we go to press in late May 2018. Given this recent dispute that has moved agriculture from the back pages to the front pages of media, *Choices* publishes this special issue on "U.S.–China Trade Dispute and Potential Impacts on Agriculture." This trade dispute is important to U.S. agriculture, because China has been the United States' top agricultural export market outside of North America since 2009 with an annual sale of nearly \$20 billion in 2017 (USDA, 2018b). In 2017, top U.S. agricultural exports to China included soybeans, cotton, hides and skins for leather products, fish, dairy, sorghum, wheat, nuts and pork (USDA, 2018a).

Noting the theory of comparative advantage and that China has one-fifth of the world's population—four times that of the United States—but only one-tenth of the world's arable land, China primarily exports labor-intensive manufactured products to the United States (e.g., electronics), and the United States primarily exports land-intensive agricultural commodities to China (e.g., soybeans). While the United States has a large trade deficit with China, it has a trade surplus in agricultural products.

As background to the 2018 trade dispute, the U.S. Trade Representative issued its *2017 Report to Congress on China's WTO Compliance* in January 2018. The first tariff action occurred on January 22, when the United States imposed import duties on Chinese solar panels and washing machines. China then announced an anti-dumping and countervailing duty investigation on U.S. sorghum imports on February 4. Next, the United States imposed tariffs on imported steel (25%) and aluminum (10%) products from China on March 23. China responded on April 2 by imposing tariffs on \$3 billion of U.S. products, including a 25% tariff on pork and a 15% tariff on fruits, nuts, wine, and other agricultural products.

For round two, on April 3, Washington released a potential list of 1,333 products subject to a forthcoming 25% tariff on \$46.2 billion on imported Chinese products. Beijing responded immediately on April 4, with a forthcoming 25% tariff on a potential list of 106 products worth \$49.8 billion of U.S. goods, including soybeans, DDGS, beef, cotton, and other agricultural products as well as automobiles and aircraft (Bown, 2018a, b). On April 5, President Trump asked the U.S. Trade Representative for an additional list of potential Chinese imports worth \$100 billion to be considered for tariffs. On April 17, China announced an import duty of 178.6% on sorghum imports, to be applied the next day. Tension between the two governments mounted and rounds of negotiations were in vain.

On May 20, Treasury Secretary Mnuchin announced the trade war was put on hold as the two governments agreed to work out a solution for the huge deficit. This cooperation was short-lived. As this publication goes to press during the week of June 3, 2018, the White House announced on May 29, 2018 its "Statement on Steps to Protect Domestic Technology and Intellectual Property from China's Discriminatory and Burdensome Trade Practices,"

which proposed 25% tariffs on \$50 billion of goods imported from China containing “industrially significant technology,” with specific products to be identified in June 2018 and tariffs applied soon after.

Threats of Chinese tariffs on U.S. agricultural imports shook the U.S. agricultural sector. Attention focused on the potential loss of farm income, with a surge of short articles published in the popular media. To help provide a deeper analysis on the trade policy impact, we organize this China theme issue with five articles: Zheng et al. and Taheripour and Tyner estimate the loss on multiple relevant crops using a partial equilibrium model and a general equilibrium model, respectively. Both studies focus on soybeans, while wheat, pork, and a few other commodities are also considered. Hansen et al., Countryman and Muhammad, and Liu et al. examine sorghum, wine, and cotton, respectively, and point out potential export reductions as a result of such tariffs.

Although the current trade dispute continues to evolve, it is valuable for us to understand the potential negative impact and to be informed of possible consequences. It is our sincere hope that U.S. and Chinese negotiators will reach an agreement, since both countries ultimately lose with a trade war, as seen from the 1930s Smoot–Hawley Tariff.

Finally, this theme issue builds upon two prior *Choices* issues on China: 1) “U.S. Commodity Markets Respond to Changes in China’s Ag Policies” (Marchant, 2017) and 2) “China as the Leading U.S. Agricultural Export Market” (Wang, 2015).

For More Information

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