

How Has China Responded to the Tariffs it Placed on American Soybeans?

An Undergraduate Briefing Paper

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Introduction

President Donald Trump campaigned on promises to decrease the U.S. trade deficit and stop unfair trade practices by the Chinese government. Tariffs have been used as a tool to try and keep these promises, but have sent the country into a trade war with China. U.S. agricultural goods, soybeans in particular, have been a major target of Chinese retaliatory tariffs.

Background

In March of 2018, the office of the U.S. Trade Representative concluded its Section 301 investigation, which found that China's policies and practices of forced technology transfer, intellectual property theft, and joint venture requirements are "unreasonable and discriminatory and burden or restrict U.S. commerce."¹ Following this investigation, President Trump announced the list of Chinese goods to which U.S. tariffs could be applied.² In July 2018, after some failed attempts to negotiate a resolution, President Trump applied a 25 percent tariff on \$34 billion worth of Chinese imports.³ China responded on July 6, 2018, with a 25 percent tariff on \$50 billion of U.S. goods, including agricultural products such as soybeans, corn, wheat, poultry, and beef.⁴ The previous Chinese tariff on soybean imports was just 3 percent.⁵

Analysis

China uses the most soybeans in the world and buys much of its supply from the United States, so an additional 25 percent Chinese tariff on U.S. soybeans has had enormous consequences for both countries. Iowa farmer Branon Osmundson told National Public Radio in an interview that due to these tariffs and so much uncertainty in the market, he will get \$2 less per bushel of soybeans in 2018 compared to 2017.⁶ The Chinese government has had to take several steps to try and meet the country's significant demand for soybeans.

Diversify Import Sources

One important change China had to undertake was identifying alternative sources of soybeans. China imports the most soybeans in the world, about 95 million metric tons in 2017.⁷ This

number dropped by 7 million metric tons in 2018.⁸ Chinese imports of U.S. soybeans decreased from about 32.9 million tons in 2017 to 16.6 million tons in 2018, with a massive decrease in the later months of the year when purchases from the United States typically pick up.⁹ China has relied on Brazilian soybeans to make up for the lost supply from the United States. Brazilian soybean exports to China more than doubled in December 2018 while U.S. soybean exports fell by 99 percent in October and 100 percent in November 2018.¹⁰ For the 2018-2019 season, China is aiming to import 70 million metric tons from Brazil and 7.5 million metric tons from Argentina to avoid buying any from the United States.¹¹ Brazil's growing season for soybeans is during the winter in the United States, so fewer crops will be available for export through the beginning of the year until harvest. Brazil requires significant infrastructure investment to take over the portion of soybeans China typically buys from the United States. It is likely that China will have to purchase some soybeans from the United States as Brazil runs out of supply in the beginning of 2019, but with agricultural and infrastructure investment, Brazil will be able to grow its domestic supply in the coming years.

Increase Domestic Production

China's own agricultural industry is inefficient, but has become a primary target for growth and innovation since the beginning of the trade war. China's first policy document of the year, the 2019 No. 1 Document, outlined ways the government hoped to increase its domestic soybean production.¹² The Ministry of Agriculture announced after the document's release that measures could include subsidies to increase the amount of acres planted with soybeans and a plan to utilize and develop higher yield and protein soybean species.¹³ The Chinese government increased soybean subsidies and cut corn subsidies in 2018 in response to the soybean tariffs and a massive inventory of corn.¹⁴ Soybean subsidies nearly doubled from 2017 to 2018 to about \$340 per acre.¹⁵ Corn subsidies were cut from about \$142 to \$26 per acre.¹⁶ Since much of the excess inventory of corn was able to be sold off or used, corn subsidies are expected to return to around their higher 2017 levels in 2019.¹⁷ Chinese farmers could end up much better off as their government realizes they need a strong agricultural base to become less vulnerable to external threats.

Reduce Soybean Use in Hog Feed

China has an estimated 433 million hogs, just over half of the entire world population, making the country the largest producer and consumer of pork in the world.¹⁸ These hogs require soybeans for protein in their food; the Chinese government sets standards for protein content in hog feed. Soybeans are processed into meal and used as the protein portion of hog feed. Chinese hog feed standards set in 2008 had only minimums set in a tiered level based on how old or heavy the hogs were.¹⁹ The current standards that took effect on November 1, 2018 have a lower minimum standard at each tier and set a maximum amount.²⁰ The China Feed Industry

Association, which sets these standards, says that with an increased understanding of animal nutrition science and added amino acids, the reduced protein ratio should be effective at lowering the amount of soybeans needed by China's hog industry.²¹ There is some dispute about how large an impact these standards will have on soybean demand. The Chinese Ministry of Agriculture claims that soybean use will shrink by 14 million metric tons per year.²² Analyst Monica Tu at Shanghai JC Intelligence Co. estimates a reduction of only 5-6 million metric tons.²³ She believes that soybean and hog prices will likely have the most effect on soybean usage in hog feed. Less protein will cause pigs to take longer to fatten for slaughter, and farmers may end up buying more hog feed to make up for lower protein ratios, which would offset the soybean savings. Also, the new maximum protein mix standard is higher than past minimums, so there is no guarantee that the use of soybeans will have to go down at all. It will depend on how much protein from soybeans the feed manufacturers decide to use and how much feed farmers buy.

Outlook

Increased Chinese tariffs on U.S. soybeans have created massive supply and demand issues for both the United States and China. China will still rely on some soybeans from the United States in the current year, but the steps the government has taken will reduce the country's dependence on the United States. China's infrastructure investment in Brazil hit a recent annual high in 2017 at \$24 billion; several projects were related to agricultural transportation.²⁴ A lack of infrastructure in Brazil has allowed the United States to remain competitive with Brazil's soybeans, but this may not be the case in the future. Also, increased local production in China through subsidies may help in the short run, but agricultural reform and innovation, which has been a main focus in the 2019 No. 1 Document, will benefit the country in the long run through a decrease in dependence on foreign agricultural products. The change in hog feed protein standards may help reduce some demand for soybeans, but it will cost farmers if it takes longer and more feed to get a hog ready for market. It also remains to be seen how long-lasting the impacts of China's responses to its tariffs on U.S. soybeans will be if negotiations underway as of this writing to ease trade tensions between the two countries result in large Chinese purchases of U.S. soybeans or a lifting of the Chinese tariffs.

Endnotes

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¹⁶ Ibid.

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