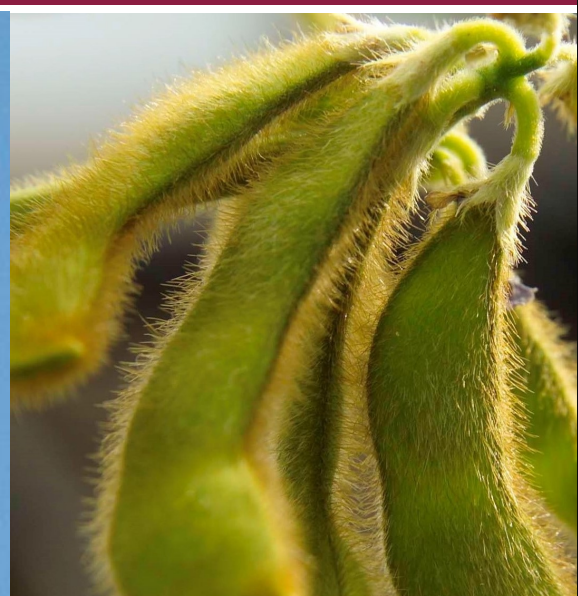


COVID-19 & Agricultural Exports

under the U.S.-China Trade

Deal

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<https://aaec.vt.edu/extension/Agricultural-Trade-Center.html>

Background

- In 2018, the U.S. became engulfed in trade disputes with some of its largest and most significant trading partners including China, Canada, Mexico, the European Union (EU), Turkey and India. The trade dispute with China which began in 2018 witnessed several rounds of tariff increases between the two countries.
- U.S. agriculture was particularly hard hit by China's retaliatory tariffs.¹ All told, nearly \$30 billion of U.S. agricultural trade was facing retaliatory tariffs.
- As a result, U.S. agricultural exports to China decreased by 54%, from \$20 billion in 2017 to \$9.2 billion in 2018 and the difference between U.S. agricultural exports and imports – the agricultural trade surplus – fell to just \$10 billion down from \$18 billion in 2017 (Figure 1).
- 2019 saw a slight uptick to \$13.8 billion in U.S. agricultural exports to China. However, exports are still well behind 2017 values prior to the trade conflict and the overall agricultural trade surplus narrowed to just over \$5 billion (Figure 1).
- After nearly two years of trade conflict, the U.S. and China signed the U.S.-China Trade Deal on January 15, 2020. The agreement entered into force February 14, 2020.²

COVID-19

- At the time the Trade Deal was signed, few could have predicted that a global pandemic was on the horizon.
- The global coronavirus pandemic and the illness, deaths and economic devastation it has wrought are the most severe test of the resilience of the North American food system since World War II.³
- The novel coronavirus that causes Covid-19 is rapidly changing world trade, including domestic and international supply chains, and has impacted the U.S. just as China was starting to offer tariff waivers to facilitate agricultural import purchases from the U.S.⁴

¹ Grant, J.H, S. Arita, C. Emlinger and S. Sydow. 2020. "The 2018/19 Trade Conflict: A One-Year Assessment and Impacts on U.S. Agricultural Exports," *Choices* 34(4): 1-8.

² USTR.2020. Economic and Trade Agreement Between the Government of The United States of America and the Government of The People's Republic Of China, Phase One, Washington, DC, January 15. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/january/economic-and-trade-agreement-between-government-united-states-and-government-peoples-republic-china>

³ Orden, D. 2020. "Resilience Test of the North American Food System," *Canadian Journal of Agricultural Economics*, Special Issue, DOI: 10.1111/cjag.12238. <https://onlinelibrary.wiley.com/doi/10.1111/cjag.12238>

⁴ Grant, J.H, C. Emlinger, and M. Marchant. 2020. "COVID-19 could alter agricultural trade relationships; change view of globalization and interdependency for food." https://vtnews.vt.edu/articles/2020/04/agriculturetrade_expert.html

- The U.S. economy shrank 4.8% in first quarter (Q1, January-March) of 2020, according to official numbers from the Commerce Department. Eurozone GDP contracted 3.8% in Q1 - the largest single quarter drop since this region started collecting GDP statistics in 1995.⁵
- In March, Goldman Sachs predicted U.S. Gross Domestic Product (GDP) could shrink 5% in the second quarter (Q2) of 2020. Later that same month, as stay-at-home or shelter-in-place orders began surfacing and the U.S. economy was heading towards shutdown, Goldman revised its April-June Q2 projection to an alarming 24% drop in U.S. GDP (Figure 2).⁶

2020 First Quarter Agricultural Imports by China

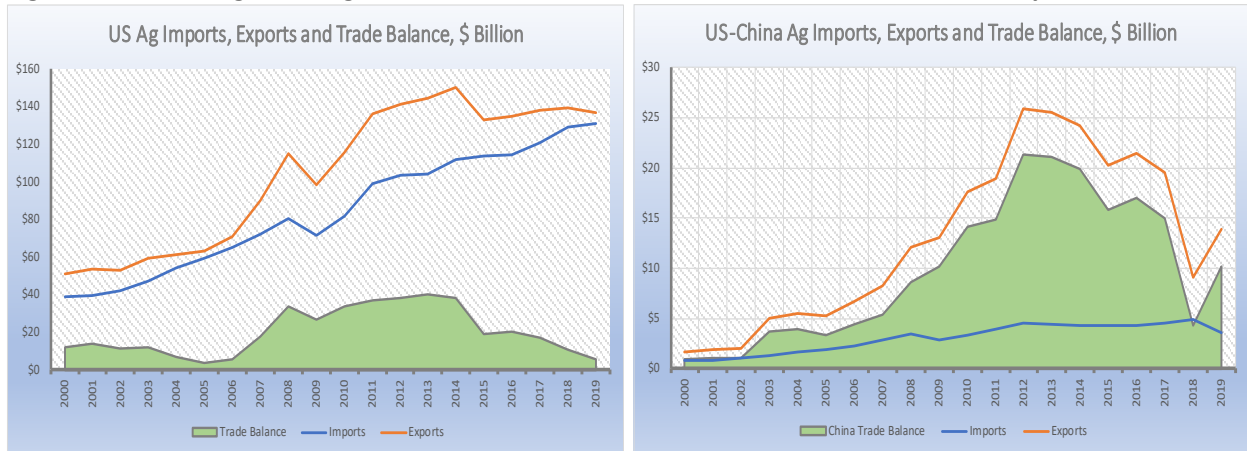
- Figure 3 plots China's total 2020Q1 (January-March) agricultural imports from the United States for each of four years 2017-2020 for total agriculture and for five sectors (Cereals, Cotton, Meat, Oilseeds and Other Ag).
- The Trade Deal stipulates that China will buy \$12.5 billion more worth of total agricultural and seafood imports compared to 2017 baseline imports from the U.S. in 2020 and \$19.5 billion more in 2021.⁷
- While improving on 2019 totals during the depths of the trade dispute, 2020Q1 totals in Figure 3 suggest U.S. agricultural exports continue to run behind 2017 values.
- Through March 2020, China's agricultural purchases from the U.S. stood at \$5.08 billion – only 55% of 2017 value of \$9.09 billion.
- Figure 3 also makes it clear that China's imports of U.S. soybean in 2020Q1 – while ahead of 2019Q1 values – are still well short of a normal year. U.S. soybean imports by China made up nearly two-thirds of China's total imports of U.S. agricultural products in 2017.
- With the Trade Deal just coming into effect February 14, 2020 a lag before China's imports from the U.S. rise could be expected.
- On the other hand, the global COVID-19 pandemic has likely decreased buying activity in China in the first quarter of 2020 and could impact China meeting the agreed import levels well into 2020.

⁵ <https://www.ft.com/content/dd6cfafa-a56d-48f3-a9fd-aa71d17d49a8>

⁶ <https://thebasispoint.com/u-s-economic-growth-to-shrink-24-april-to-june-2020-goldman-sachs/>

⁷ https://ustr.gov/sites/default/files/files/agreements/phase%20one%20agreement/Phase_One_Agreement-Ag_Summary_Long_Fact_Sheet.pdf

Figure 1. Narrowing of US Agricultural Trade Balance Related to U.S.-China Trade Dispute



Source: Authors Calculations, FAS/GATS: <https://apps.fas.usda.gov/gats/default.aspx>

Figure 2: Goldman Sachs Revised GDP Forecast Due to COVID-19



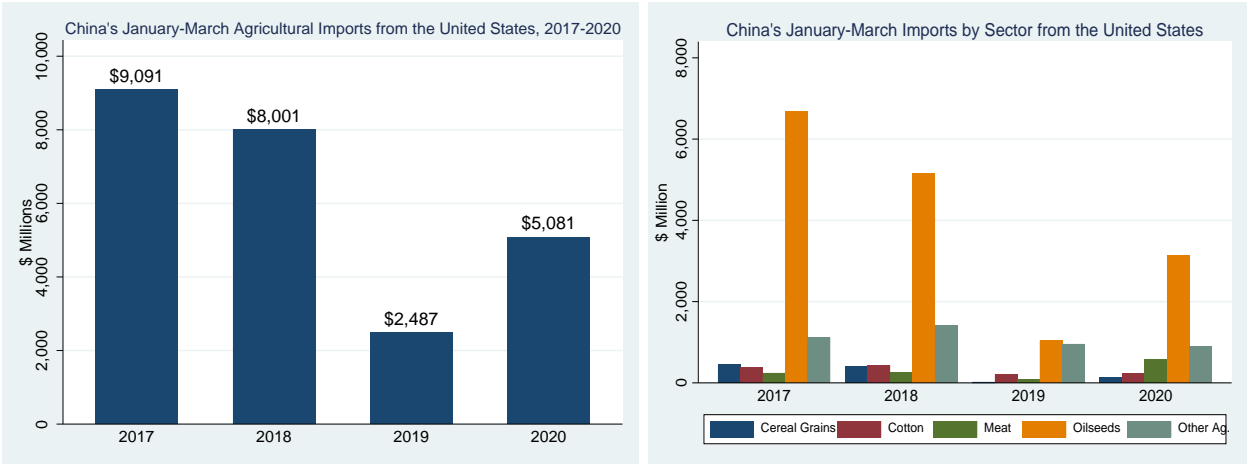
* Includes cutbacks to consumption categories requiring face-to-face interaction.

** Includes reduced domestic and foreign demand for goods, supply chain disruptions, and plant shutdowns.

*** Includes cutbacks to structures investment, homebuilding, and home sales.

Source: Goldman Sachs Global Investment Research, retrieved from: <https://thebasispoint.com/u-s-economic-growth-to-shrink-24-april-to-june-2020-goldman-sachs/>

Figure 3. China Q1 (January-March) Agricultural & Sectoral Imports from the United States



Source: Authors' calculations from China Customs Statistics