

# BACKGROUND

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## Agricultural Trade with China: What's at Stake for American Farmers, Ranchers, and Families

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### Abstract

*There is much at stake for agricultural producers and American families as a result of the current trade dispute with China. China is both a leading agricultural export market and leading source of agricultural imports for the United States. It is also a critical market, as farmers and ranchers look to increase their exports in the future. Instead of imposing self-defeating tariffs, the United States should be looking to tear down barriers. By applying the principles outlined in this Background, agricultural trade between China and the United States will continue to flourish.*

Agricultural trade provides many benefits to American farmers, ranchers, and consumers. Exports enable farmers and ranchers to sell their goods to new markets, helping them to increase revenue and build stronger businesses. According to the U.S. Department of Agriculture, 95 percent of the world's consumers live outside the United States.<sup>1</sup> Imports make it possible for Americans and their families to purchase more affordable, better-quality agricultural products—such as staple items like fruits and vegetables—more readily throughout the year.

China is one of the primary agricultural trade partners for the United States. This year, however, the United States has been imposing tariffs on China, and in response, China has imposed retaliatory tariffs on the United States.

This *Background* provides a picture of what is at stake from this tit-for-tat trade dispute with China by highlighting the importance of U.S. agricultural trade with China at both a national and state level. It also details some specific principles to inform how the U.S. should move forward with agricultural trade with China, so that—at a minimum—the many benefits that the U.S. currently enjoys from agricultural trade are not threatened.

### KEY POINTS

- In 2017, China was the second-largest agricultural export market for the U.S. and the fourth-largest supplier of agricultural imports. China was also the top agricultural export market for eight states and a top five market for 38 states.
- For many agricultural products like soybeans and grain sorghum, China is the top agricultural export market.
- From an economy-wide perspective, in 2016, agricultural exports created an additional \$172 billion in economic activity and over 1 million full-time jobs. Agricultural imports provide significant benefits to American consumers, making it possible to purchase more affordable, better-quality agricultural products.
- This year, the U.S. began imposing tariffs on China, and in response, China has been imposing retaliatory tariffs on the United States.
- By promoting more—not less—trade, utilizing the World Trade Organization dispute-resolution process, and promoting the freedom to trade at each opportunity, the U.S. can benefit its agricultural producers and consumers at the same time.

This paper, in its entirety, can be found at <http://report.heritage.org/bg3340>

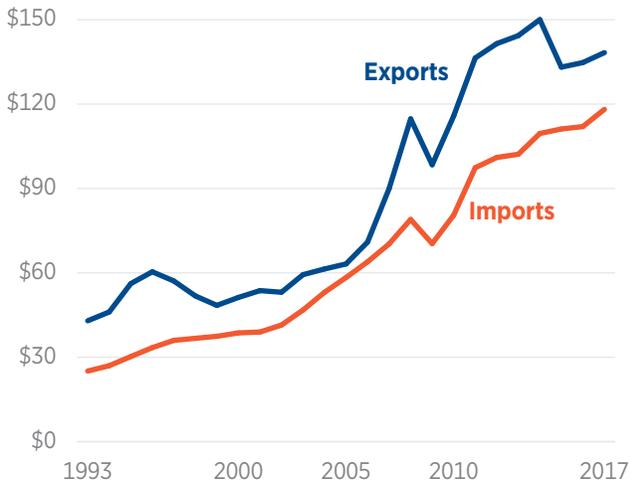
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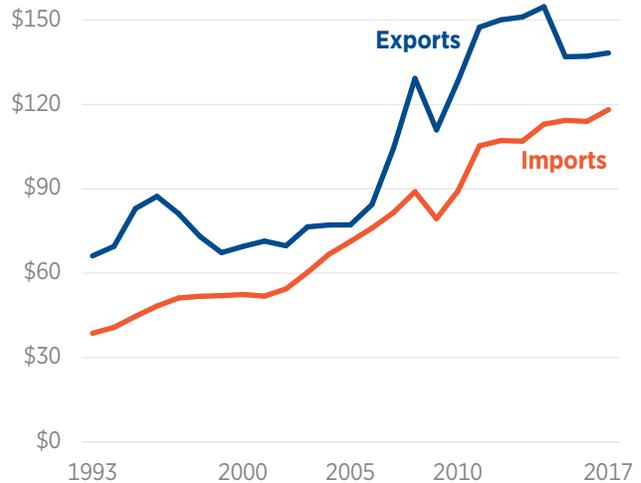
CHART 1

## Total U.S. Agricultural Imports and Exports

IN BILLIONS OF U.S. DOLLARS



IN BILLIONS OF REAL 2017 U.S. DOLLARS



SOURCE: U.S. Department of Agriculture, “GATS Home,” <https://apps.fas.usda.gov/gats/default.aspx> (accessed August, 8, 2018).

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### The Importance of Agricultural Trade in General

As Chart 1 shows, both U.S. agricultural exports and imports have increased dramatically. In 1993, agricultural exports were about \$43 billion (\$66.1 billion in 2017 dollars)—and by 2017 had increased to \$138.3 billion. During that same time, agricultural imports increased from \$25.1 billion (\$38.7 billion in 2017 dollars) in 1993 to about \$118.1 billion in 2017.<sup>2</sup>

**Exports.** For many American farmers and ranchers, exports are a necessity because they produce more than they can sell domestically. The U.S. Department of Agriculture’s (USDA’s) Economic Research Service (ERS) explains, “With the produc-

tivity of U.S. agriculture growing faster than domestic food and fiber demand, U.S. farmers and agricultural firms rely heavily on export markets to sustain prices and revenues.”<sup>3</sup>

Based on volume, agricultural exports averaged about 22 percent of agricultural production from 2014 to 2016.<sup>4</sup> For certain agricultural products, exports are even more important. For example, exports accounted for over 70 percent of the volume for both cotton and tree nuts (primarily almonds) and over 50 percent for wheat and rice.<sup>5</sup> From an economy-wide perspective, according to the ERS, in 2016, agricultural exports created an additional \$172 billion in economic activity and over 1 million full-time jobs.<sup>6</sup>

1. U.S. Department of Agriculture, Foreign Agricultural Service, “Benefits of Trade,” <https://www.fas.usda.gov/topics/benefits-trade> (accessed August 9, 2018).
2. U.S. Department of Agriculture Foreign Agricultural Service, “Global Agricultural Trade System,” [GATS], <https://apps.fas.usda.gov/gats/default.aspx> (accessed July 19, 2018). The following criteria were used: Data Source: FAS U.S. Trade; Product Type: Exports (for exports) and Imports–Consumption (for imports); Product Group: BICO (HS-6); Partners: World Total; Products: Agricultural Total; Series Range: Annual; Monthly Range: Jan–Dec; Year Range: 1993–2017; End Month: Dec. Note: This *Backgrounder*, for consistency purposes, uses the GATS system except where noted.
3. U.S. Department of Agriculture, Economic Research Service, “U.S. Agricultural Trade Overview,” <https://www.ers.usda.gov/topics/international-markets-trade/us-agricultural-trade/> (accessed July 19, 2018).
4. *Ibid.*
5. *Ibid.*
6. U.S. Department of Agriculture, Economic Research Service, “Agricultural Trade Multipliers, Effects of Trade on the U.S. Economy: 2015,” <https://www.ers.usda.gov/data-products/agricultural-trade-multipliers/effects-of-trade-on-the-us-economy-2015/> (accessed July 19, 2018).

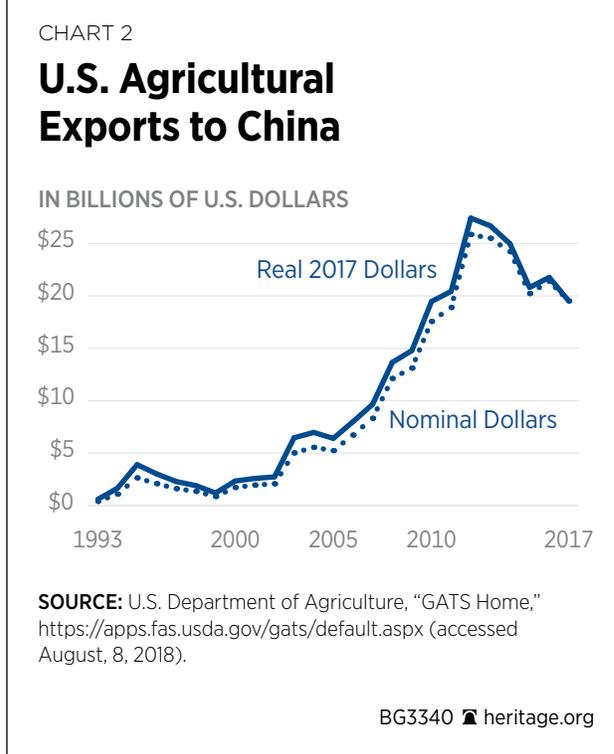
**Imports.** Agricultural imports provide significant benefits to American consumers. Imports for some agricultural products are critical because consumer demand exceeds domestic production capabilities.<sup>7</sup> As an example, the ERS explains that “[o]ver 95 percent of coffee/cocoa/spices and fish/shellfish products consumed in the United States are imported.”<sup>8</sup>

The Office of the United States Trade Representative has explained: “It’s important to remember that United States agricultural imports benefit consumers with lower prices and expanded choices.”<sup>9</sup> The ERS notes that “U.S. consumers benefit from imports because imports expand food variety, stabilize year-round supplies of fresh fruits and vegetables, and temper increases in food prices.”<sup>10</sup> In a recent report, the CRS highlights perceived market benefits of fruit and vegetable imports, such as “lowering costs (given a wider supply network)” and “improving eating quality.”<sup>11</sup>

Further, high food prices have a disproportionate impact on low-income households. The lowest-income households spend 33.0 percent of their after-tax income on food whereas the highest-income households spend only 8.7 percent.<sup>12</sup> By making food more affordable, including for staple items like fruits and vegetables, agricultural imports particularly help low-income households.

## The Importance of Agricultural Exports to China

China is a major agricultural export market for the United States that has grown tremendously over the past 25 years. As shown in Chart 2, U.S. exports to



China have gone from \$376.2 million in 1993 (\$579.3 million in 2017 dollars) to \$19.5 billion in 2017. Over the past 10 years, U.S. exports to China have gone from \$12.1 billion (\$13.7 billion in 2017 dollars) in 2008 to \$19.5 billion in 2017.<sup>13</sup>

China’s market share of U.S. agricultural exports now rivals Canada and Mexico. In fact, China was the second-largest export market for the United States in 2017, behind Canada, accounting for 14 percent of U.S. agricultural exports.<sup>14</sup> Just one year

7. U.S. Department of Agriculture, Economic Research Service, “American Diet Includes Many High-Value Imported Products,” Chart, <https://www.ers.usda.gov/data-products/chart-gallery/gallery/chart-detail/?chartId=58398> (accessed July 19, 2017).

8. Ibid.

9. U.S. Trade Representative, “NAFTA Good for Farmers, Good for America,” <https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/archives/2001/june/nafta-good-farmers-good-america> (accessed July 19, 2017).

10. U.S. Department of Agriculture, Economic Research Service, “U.S. Agricultural Trade Overview.”

11. Renee Johnson, “The U.S. Trade Situation for Fruit and Vegetable Products,” Congressional Research Service *Report for Congress*, December 1, 2016, <https://fas.org/sgp/crs/misc/RL34468.pdf> (accessed July 19, 2018).

12. Daren Bakst and Patrick Tyrrell, eds., “Big Government Policies that Hurt the Poor and How to Address Them,” Heritage Foundation *Special Report* No. 176, April 5, 2017, <http://www.heritage.org/poverty-and-inequality/report/big-government-policies-hurt-the-poor-and-how-address-them>.

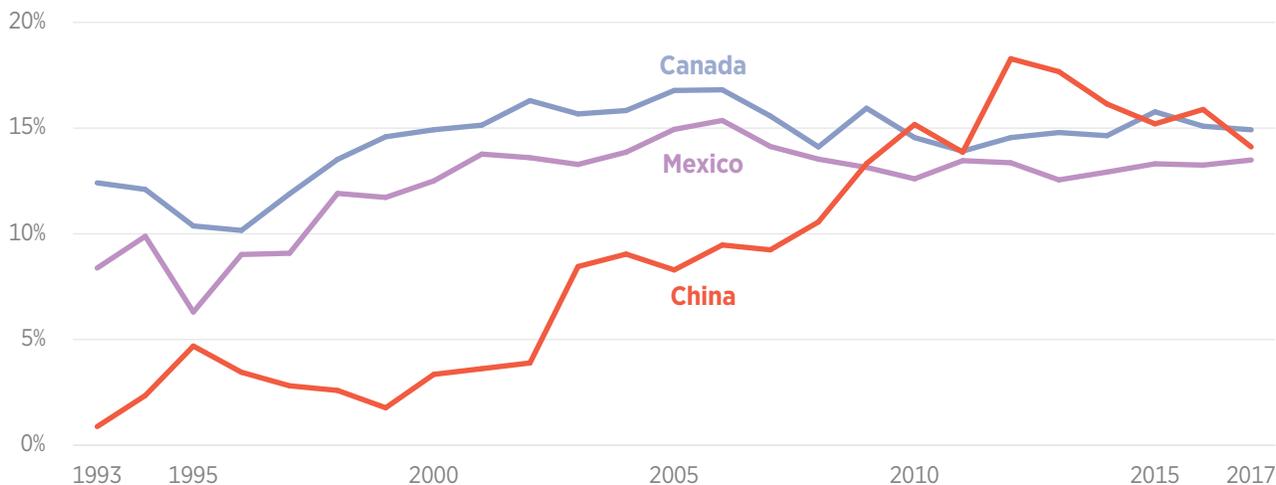
13. U.S. Department of Agriculture Foreign Agricultural Service, “Global Agricultural Trade System,” [GATS], <https://apps.fas.usda.gov/gats/default.aspx> (accessed July 19, 2018). The following criteria were used: Data Source: FAS U.S. Trade; Product Type: Exports; Product Group: BICO (HS-6); Partners: China; Products: Agricultural Total; Series Range: Annual; Monthly Range: Jan-Dec; Year Range: 1993-2017; End Month: Dec.

14. U.S. Department of Agriculture Foreign Agricultural Service, “Global Agricultural Trade System.” The following criteria were used: Data Source: FAS U.S. Trade; Product Type: Exports; Product Group: BICO (HS-6); Partners: World Total, Products: Agricultural Total; Series Range: Annual; Monthly Range: Jan-Dec; Year Range: 1993-2017; End Month: Dec; In Detail: Partner.

CHART 3

## Top U.S. Agricultural Export Markets

PERCENTAGE OF TOTAL U.S. WORLD AGRICULTURAL EXPORTS



**SOURCE:** U.S. Department of Agriculture, “GATS Home,” <https://apps.fas.usda.gov/gats/default.aspx> (accessed August 8, 2018).

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earlier, in 2016, China was the largest agricultural export market for the United States. (In recent years, China has been swapping the top spot with Canada. See Chart 3.)<sup>15</sup>

For agricultural exports, China will continue to be an important market with great potential. As explained by the USDA, “China offers our best opportunity for major export growth in the future.”<sup>16</sup>

**Export Data by Agricultural Products.** Table 1 lists 10 major agricultural products that have sig-

nificant exports to China.<sup>17</sup> For each of the products listed, China is a top-five agricultural export market. For seven of the products, at least 10 percent of the exports went to China in 2017.<sup>18</sup> “Coarse grains,” as listed in the table—which almost exclusively includes grain sorghum and excludes corn—had the largest share of its exports go to China (75 percent) compared to the other products listed.

The largest U.S. agricultural export to China (in terms of value) was soybeans<sup>19</sup> totaling over \$12.3

15. U.S. Department of Agriculture Foreign Agricultural Service, “Global Agricultural Trade System.” The following criteria were used: Data Source: FAS U.S. Trade; Product Type: Exports; Product Group: BICO (HS-6); Partners: China, Mexico, and Canada; Products: Agricultural Total; Series Range: Annual; Monthly Range: Jan-Dec; Year Range: 1993-2017; End Month: Dec.

16. U.S. Department of Agriculture Foreign Agricultural Service, “Despite Continued Challenges, China Offers Huge Potential for U.S. Farm Exports,” <https://www.fas.usda.gov/newsroom/despite-continued-challenges-china-offers-huge-potential-us-farm-exports> (accessed August 10, 2018).

17. This includes products that are listed under “Agricultural Total” in U.S. Department of Agriculture Foreign Agricultural Service, “Global Agricultural Trade System,” [GATS]. It does not include products under “Agricultural and Related Products Total,” such as forest products and fish products that have significant exports to China.

18. U.S. Department of Agriculture Foreign Agricultural Service, “Global Agricultural Trade System,” [GATS], <https://apps.fas.usda.gov/gats/default.aspx> (accessed July 19, 2018). The following criteria were used: Data Source: FAS U.S. Trade; Product Type: Exports; Product Group: BICO (HS-6); Partners: China; Products: Agricultural Total; Series Range: Annual; Monthly Range: Jan-Dec; Year Range: 2017; End Month: Dec; In Detail: Product. To get specific ranking data for an agricultural export market, by commodity: U.S. Department of Agriculture Foreign Agricultural Service, “Global Agricultural Trade System,” [GATS], <https://apps.fas.usda.gov/gats/default.aspx> (accessed July 19, 2018). The following criteria were used: Data Source: FAS U.S. Trade; Product Type: Exports; Product Group: BICO (HS-6); Partners: World Total; Products: [the specific commodity to be analyzed]; Series Range: Annual; Monthly Range: Jan-Dec; Year Range: 2017; End Month: Dec; In Detail: Partner.

19. Ian Sheldon, “Why China’s Soybean Tariffs Matter,” *The Conversation*, April 5, 2018, <http://theconversation.com/why-chinas-soybean-tariffs-matter-94476> (accessed August 10, 2018).

TABLE 1

## Select U.S. Agricultural Exports to China

Product	Rank of the China Market	Share of Product's World Exports	Value (in billions of U.S. dollars)	Product Share of Total Agricultural Exports to China
Soybeans	1	57%	\$12.25	63%
Cotton	2	17%	\$0.98	5%
Hides & Skins	1	50%	\$0.94	5%
Coarse Grains (excl. corn)	1	75%	\$0.84	4%
Dairy Products	2	11%	\$0.57	3%
Pork & Pork Products	4	8%	\$0.49	3%
Hay	2	27%	\$0.38	2%
Wheat	5	6%	\$0.35	2%
Tobacco	2	16%	\$0.16	1%
Processed Fruit	3	8%	\$0.14	1%

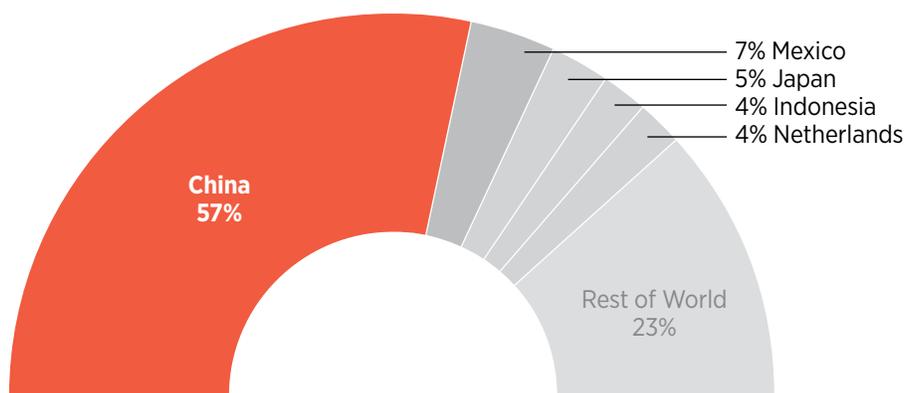
**NOTE:** "Coarse Grains" primarily includes grain sorghum and excludes corn. This table does not include products under "Agricultural and Related Products Total," such as forest products and fish products that have significant exports to China. This table includes products under "Agricultural Total" only.

**SOURCE:** U.S. Department of Agriculture, Foreign Agricultural Service, "Global Agricultural Trade System," <https://apps.fas.usda.gov/gats/default.aspx> (accessed August 8, 2018).

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CHART 4

## Destination of U.S. Soybean Exports



**SOURCE:** U.S. Department of Agriculture, "GATS Home," <https://apps.fas.usda.gov/gats/default.aspx> (accessed August, 8, 2018).

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billion in 2017.<sup>20</sup> In fact, soybeans were by far the largest agricultural export.<sup>21</sup> They accounted for 63 percent of all U.S. agricultural exports to China. The United States exported 57 percent of its soy-

beans to China. Chart 4 provides a breakdown of destinations for U.S. soybean exports.

**Export Data by States.** Map 1 shows that China, in 2017, was the top agricultural export

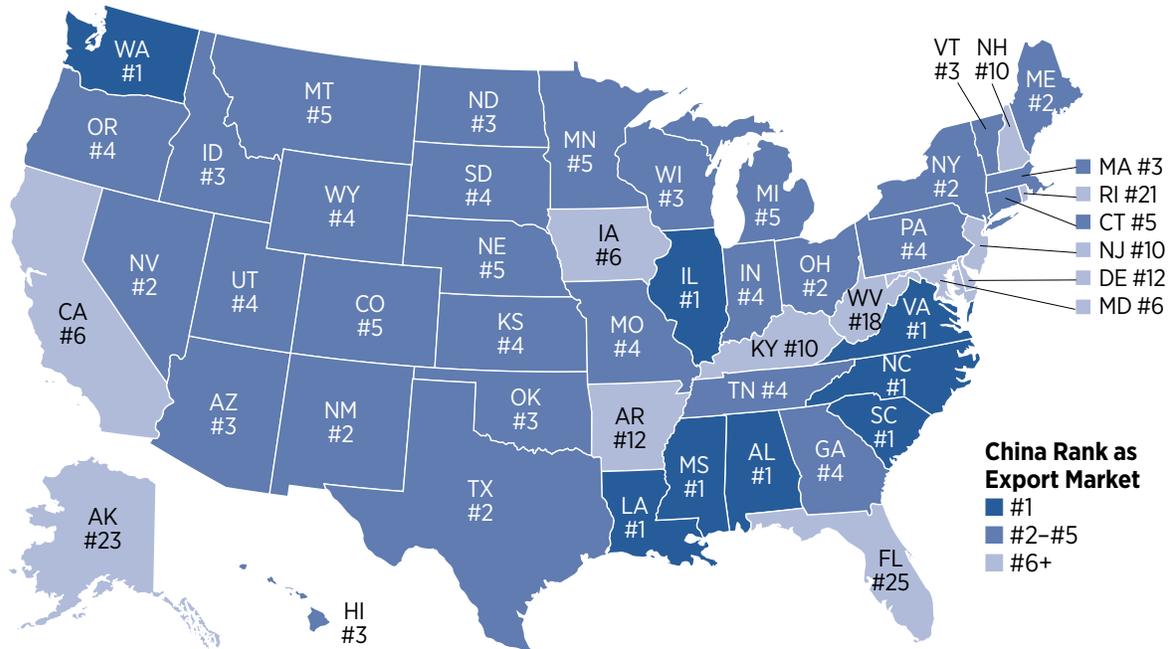
20. U.S. Department of Agriculture, Foreign Agricultural Service, "Global Agricultural Trade System." The following criteria were used: Data Source: FAS U.S. Trade; Product Type: Exports; Product Group: BICO (HS-6); Partners: China; Products: Agricultural Total; Series Range: Annual; Monthly Range: Jan-Dec; Year Range: 2017; End Month: Dec; In Detail: Product.

21. U.S. Department of Agriculture Foreign Agricultural Service, "Top U.S. Agricultural Exports in 2017," <https://www.fas.usda.gov/data/top-us-agricultural-exports-2017> (accessed August 10, 2018).

MAP 1

## The Importance of China to State Agricultural Exports

HOW CHINA RANKS AS AN AGRICULTURAL EXPORT MARKET, BY STATE



SOURCE: U.S. Department of Agriculture, Foreign Agricultural Service, "Global Agricultural Trade System," <https://apps.fas.usda.gov/gats/default.aspx> (accessed August 8, 2018).

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market for eight states and a top five market for 38 states.<sup>22</sup>

### The Importance of Agricultural Imports from China

As shown in Chart 5, agricultural imports from China were \$458.6 million (\$706.1 million in 2017 dollars) in 1993. Twenty-five years later, in 2017, this number had grown to \$4.3 billion.<sup>23</sup> China was the United States' fourth-largest supplier of agricultural imports in 2017.<sup>24</sup>

### Principles to Inform U.S. Agricultural Trade with China

The United States should be seeking to increase agricultural trade with China, not imposing self-inflicted harmful policies (i.e., tariffs) that will undermine agricultural trade. There are several principles that should inform how the U.S. engages in agricultural trade, including agricultural trade with China.

**Promote More—Not Less—Trade.** Agricultural producers have been stressing the importance of trade. They have also made it clear that trade, not

22. To get ranking data for top agricultural export markets for each state, data were obtained from the U.S. Department of Agriculture, Foreign Agricultural Service, "Global Agricultural Trade System." The following criteria were used: Data Source: U.S. States; Product Type: Exports; Product Group: BICO (HS-6); Reporters: All states; Partners: World Total; Products: Agricultural Total; Series Range: Annual; Monthly Range: Jan-Dec; Year Range: 2017; End Month: Dec; In Detail: Partner.

23. U.S. Department of Agriculture Foreign Agricultural Service, "Global Agricultural Trade System." The following criteria were used: Data Source: FAS U.S. Trade; Product Type: Imports-Consumption; Product Group: BICO (HS-6); Partners: China; Products: Agricultural Total; Series Range: Annual; Monthly Range: Jan-Dec; Year Range: 1993-2017; End Month: Dec.

24. To determine the ranking of China in terms of agricultural imports into the U.S., data were obtained from the U.S. Department of Agriculture, Foreign Agricultural Service, "Global Agricultural Trade System." The following criteria were used: Data Source: FAS U.S. Trade; Product Type: Imports-Consumption; Product Group: BICO (HS-6); Partners: World Total; Products: Agricultural Total; Series Range: Annual; Monthly Range: Jan-Dec; Year Range: 2017; End Month: Dec; In Detail: Partner.

CHART 5

## U.S. Agricultural Imports from China

IN BILLIONS OF U.S. DOLLARS



**SOURCE:** U.S. Department of Agriculture, "GATS Home," <https://apps.fas.usda.gov/gats/default.aspx> (accessed August 8, 2018).

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farm aid, is what they want. Yet the Trump Administration has proposed to provide as much as \$12 billion in aid to farmers to help offset the harm caused by tariffs. This aid does nothing to improve trade conditions. It is merely adopting bad policy to help offset the harm of bad policy.

Senate Agriculture Committee Chairman Pat Roberts (R-KS), stated in April, "We don't need another subsidy program. We need to sell our product. We need a major sale."<sup>25</sup> Senator Ben Sasse (R-NE) has argued, "We want more trade, not less.

Farmers want to feed the world and win with trade. Now, some in Washington instead want to pay them to lose. That's a bad idea and not a real strategy to fight Chinese cheating."<sup>26</sup>

The American Soybean Association, which represents soybean producers who will likely feel the brunt of Chinese retaliation,<sup>27</sup> has stated:

The announcement of additional tariffs on China is a move in the opposite direction. We're focused on increasing trade opportunities and keeping the robust and growing Chinese market we have worked for decades to secure. Our message to the administration and lawmakers remains the same: these tariffs needlessly hurt soy growers and rural communities.<sup>28</sup>

**First, Do No Harm.** There had been a constant<sup>29</sup> mantra from many in the agricultural community regarding the North American Free Trade Agreement renegotiations, including USDA Secretary Sonny Perdue: "Do no harm."<sup>30</sup> This important principle has certainly been ignored when it comes to China. The U.S. has been doing the exact opposite: first, do harm. China has targeted numerous agricultural products through retaliatory tariffs, including soybeans, grain sorghum, pork, fish, and shellfish.<sup>31</sup>

**Recognize that Temporary Tit-for-Tat Trade Disputes Can Cause Significant Harm.** Even assuming the tariffs on China are a temporary measure to achieve a larger trade objective, there is significant harm being done in the interim. For consumers, this means higher prices.

25. Ed White, "Emergency Subsidies Get Rough Ride in U.S.," *The Western Producer*, April 26, 2018, <https://www.producer.com/2018/04/emergency-subsidies-get-rough-ride-in-u-s/> (accessed August 10, 2018).

26. Bob Davis et al., "Trump Looks to Assuage Trade Critics With Farm Package," *The Wall Street Journal*, April 11, 2018, <https://www.wsj.com/articles/trump-looks-to-assuage-trade-critics-with-farm-package-1523453857> (accessed August 10, 2018).

27. American Soybean Association, "After Months of Asking for an Alternative, Soy Farmers Hit by China Tariff," July 6, 2018, <https://soygrowers.com/months-asking-alternative-soy-farmers-hit-china-tariff/> (accessed August 10, 2018).

28. American Soybean Association, "Soy Growers Disappointed in Additional Tariffs, Continue to Seek Export Stability with Largest Customer," July 12, 2018, <https://soygrowers.com/soy-growers-disappointed-additional-tariffs-continue-look-export-stability-largest-customer/> (accessed August 10, 2018).

29. Keith Good, "Farm State Senators to USTR: On NAFTA, 'Do No Harm,'" *Farm Policy News*, June 22, 2017, <http://farmpolicynews.illinois.edu/2017/06/farm-state-senators-ustr-nafta-no-harm/> (accessed July 19, 2018).

30. David Alire Garcia, "U.S. Hopes NAFTA Update Avoids Pitting Farms Against Manufacturers," Reuters, <https://ca.reuters.com/article/businessNews/idCAKBN1AD1XZ-OCABS> (accessed July 19, 2018).

31. Chad P. Bown and Eva Zhang, "First Tariffs, Then Subsidies: Soybeans Illustrate Trump's Wrongfooted Approach on Trade," Peterson Institute for International Economics, July 30, 2018, <https://piie.com/blogs/trade-investment-policy-watch/first-tariffs-then-subsidies-soybeans-illustrate-trumps> (accessed August 10, 2018).

For farmers, China's retaliatory tariffs will make it more difficult for them to rely on the Chinese export market. This may not just be a short-term problem. As the United States closes off opportunities, agricultural producers from other countries will be more than happy to meet demand in China. This could mean long-term harm that could undermine the trade gains that have already been achieved by the agricultural sector.

Even if there were no tariffs, but merely threats of tariffs, this would be a problem. American farmers and ranchers compete in a global agricultural marketplace, and factors that create uncertainty only make securing foreign customers more difficult. For trade negotiators, predictability should be a major objective.

**Utilize the WTO Dispute-Settlement Process.**

The United States should focus more on using the World Trade Organization (WTO) dispute-settlement process instead of relying on tariffs. In fact, one of the most important benefits of the WTO is having a legal venue to challenge foreign trade barriers. As explained in Heritage's *Farms and Free Enterprise* book:

Prior to the WTO, these foreign trade barriers [barriers to U.S. farm exports, including non-tariff barriers, discriminatory health and safety rules, and subsidies] were virtually impossible to challenge without self-defeating U.S. protectionism.... The WTO broke this painful cycle by providing a formal legal venue for enforcing other WTO members' trade-liberalization commitments.<sup>32</sup>

The United States has had major success utilizing the WTO dispute-settlement process.<sup>33</sup> It should become even more aggressive in using this important alternative to addressing foreign trade barriers.

**Promote Freedom to Trade.** Trade is often discussed in connection with how it affects countries, but, as a general matter, trade is truly about the freedom of individuals and businesses to voluntarily exchange goods and services with customers.<sup>34</sup> American farmers and ranchers, just like other businesses, should be free to sell to customers all over the world. Further, consumers should be free to purchase goods and services that best meet their needs, regardless of national origin. Government-imposed barriers, such as tariffs, undermine these freedoms. As the U.S. works through trade challenges with China, this principle of freedom to trade should be front and center.

**Conclusion**

There is much at stake for agricultural producers and American families as a result of the current trade dispute with China. China is both a leading agricultural export market and leading source of agricultural imports for the United States. It is also a critical market, as farmers and ranchers look to increase their exports in the future.

Instead of imposing self-defeating tariffs, the United States should be looking to tear down barriers. By applying the outlined principles, agricultural trade between China and the United States will continue to flourish.

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32. Scott Lincicome, "Promoting Free Trade in Agriculture," Section 7, in Daren Bakst, *Farms and Free Enterprise: A Blueprint for Agricultural Policy* (Washington, DC: The Heritage Foundation, 2016), [http://thf-reports.s3.amazonaws.com/2016/Farms\\_and\\_Free\\_Enterprise.pdf](http://thf-reports.s3.amazonaws.com/2016/Farms_and_Free_Enterprise.pdf) (accessed August 10, 2018).

33. *Ibid.*

34. For a more comprehensive discussion of "freedom to trade," see Bryan Riley and Anthony Kim, "Freedom to Trade: A Guide for Policymakers," Heritage Foundation *Background* No. 3064, October 20, 2015, <http://www.heritage.org/trade/report/freedom-trade-guide-policymakers> (accessed August 10, 2018).