The Trade and Policy Environment for Agriculture

Darren Hudson
Combest Endowed Chair for Agricultural Competitiveness
Texas Tech University
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The Trade Environment

- China, China, and...China
- Macroeconomic conditions globally
- Political instability
China

- Trade dispute with China
- Tariffs, retaliation, negotiation, outcome??
- Agricultural subsidization in China
- Will a trade agreement save the day?
China’s average tariff rate is climbing on US goods and falling for the rest of the world

2018
- Apr. 2: Retaliation for US Section 232 tariffs (8.0%)
- May 1: MFN cut on pharmaceuticals (8.3%)
- July 1: MFN cut on consumer goods, autos, ITA products (8.0%)
- July 6: Retaliation for US Section 301 tariffs ($34 billion) (14.4%)
- Aug. 23: Retaliation for US Section 301 tariffs ($16 billion) (10.1%)
- Sept. 24: Retaliation for US Section 301 tariffs ($60 billion) (18.3%)

2019
- June 1: Tariff increase on some US products (subset of $60 billion) (18.2%)
- Jan. 1: Suspension of retaliation for US Section 301 tariffs against autos and parts; temporary MFN rates for 2019 (16.5%)
- Sept. 1: Tariff increase on some US products (subset of $75 billion) (20.7%)
- Dec. 15: Tariff increase on some US products (subset of $75 billion) (25.9%)

On US goods: 6.7%
On the rest of the world’s goods: 6.7%

ITA = Information Technology Agreement; MFN = most favored nation

Note: Trade-weighted average tariffs computed from product-level tariff and trade data, weighted by US exports to the world in 2017.

Sources: Updated on August 23, 2019, from Bown, Jung, and Zhang (2019). Constructed by the author with data from Trade Map and Market Access Map (International Trade Centre, marketanalysis.intracen.org) and China’s Ministry of Finance’s announcements.
WASHINGTON (Reuters) - U.S. President Donald Trump said on Monday he expected to sign a significant part of the trade deal with China ahead of schedule but did not elaborate on the timing.
In short, if Trump accepts what he is calling a “massive” deal with China, he will actually be leaving American farmers at least $7 billion worse... See More

Details scant, but early indications are that “Phase 1” gets us back to even...
China and Agricultural Subsidies—AMS for Cotton
China and Agricultural Subsidies—AMS for Corn
China has been a consistent and egregious violator of their World Trade Organization (WTO) subsidy commitments

China has maintained internal support prices for cotton well in excess of $1.00/lb, for example

China has met its import commitments, but fails on the subsidy side of the equation
Will a Trade Agreement Save the Day?

Weekly Export Sales, Cotton
Source: USDA
2018, tariffs placed  

Large drop in soybean price 

Smaller drop in cotton price  

Higher cotton acreage b/c relative prices 

Much lower cotton price 

The evolution of the price effects on cotton, for example, imply that a trade agreement would not be an immediate impact on cotton.
Energy Prices

Refiner’s Acquisition Price for Crude Oil
Source: IHS-Markit
Macroeconomic Assumptions--GDP

Real GDP Growth Rate
Source: USDA
Macroeconomic Assumptions—Interest Rate

10-Year Treasury Bond Rate
Source: USDA
Commodity Prices

Price Projections for Major Row Crops
Source: USDA (projections) and FAPRI (historical)
Political Instability

- Impeachment
- Hong Kong/China
- Long-term economic/income growth and demand
Conclusions

- The China trade dispute rolls on—negotiations are sloppy, disjointed, and uneven...don’t pay too much attention to the daily chatter
- Dispute resolution will help stabilize markets and even help agriculture regain footing, but there are structural issues in trade that need to be resolved in the long-term; TPP, USMCA, and other agreements
- Macroeconomics are largely neutral to bearish, which is reflected in flat price projections in the near term
- Of all commodities, cotton appears to have the only slightly positive bias
  - All projections assume current policy and trade rules