

Review of Current Trade Issues

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A Change in Trade Strategy

- The U.S. has made a significant shift in trade strategy:
 - Move away from multi-lateral agreements.
 - Withdrawal from Trans-Pacific Partnership (TPP)
 - Did renegotiate sections of North American Free Trade Agreement (NAFTA) to create U.S. – Mexico – Canada Agreement (USMCA).
 - Move towards bi-lateral agreement negotiation.
 - U.S. - China
 - U.S. - Japan
 - U.S. - EU
 - U.S. - Britain
 - Using tariffs to increase negotiating pressure rather than protect domestic industries.



What are the “Benefits from Trade”?

- Trade between individuals:
 - Each party has a net gain, otherwise trade would not occur.
- Trade between nations:
 - Each nation has an **aggregate** net gain, otherwise a trade agreement will not be signed or will not be stable.
 - However, some industries or sectors within the nation will expand while other industries or sectors will contract.
 - Gains from Expansion > Losses from Contraction for each nation.



What are the “Benefits from Trade”?

- Gains from Expansion vs. Losses from Contraction:
 - Two key assumptions made for economic analysis:
 - Labor mobility is high – it is easy for displaced workers to be retrained and find jobs in the expanding industries/sectors.
 - Is there a need for education and training programs?
 - The currencies of the trading nations can adjust based on market factors (currencies can “float”).
 - This is where political pressure plays a role.



U.S. – China Trade War

- Verbal commitment for a “Phase One” trade deal.
 - Negotiators are working on agreement details.
 - Proposed signing at Asia-Pacific Economic Cooperation (APEC) forum in Santiago, Chili on Nov. 16-17, 2019.
 - U.S. is saying China made a “serious commitment” to scale up purchases of U.S. agricultural products to \$40 to \$50 billion.
 - U.S. ag. exports to China peaked at \$25.8 billion in 2012.



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Cancelled

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China is arguing these levels are not attainable

U.S. – China Trade War

- “Phase One” continued:
 - China is expected to make concessions on non-tariff barriers and standards that have prevented U.S. ag. products from entering China.
 - The commitments are for dollar amounts not physical quantities.
 - Chinese officials have said purchases will depend upon market conditions and needs of private companies.
 - Suggests that China will be free to choose the quantity, timing and type of agricultural products.



U.S. – China Trade War

- “Phase Two”?
 - Expected to address more difficult issues including forced technology transfer and non-financial services.
 - China has said tariffs must be removed before a final agreement can be reached.
 - Phase One agreement prevents new tariffs, scheduled for Oct. 15, to be postponed.
 - Proposed tariffs scheduled for Dec. 15, 2019 are still being discussed.



Key Questions for Agriculture

- What “agricultural products” will China purchase and when?
 - Previous purchases include - pork, beef, chicken, animal hides, soybeans, ethanol, DDGs, corn, sorghum, cotton, spring wheat, rice, hay, dairy products, various fruits and vegetables.
- Core issues remain the same:
 - Forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions/theft, services and agriculture.



Other Trade Agreements

- U.S., Mexico and Canada Agreement (USMCA).
 - U.S. Congress and Canadian Parliament must ratify the agreement.
 - Mexican Congress was first to pass agreement.
 - Allows more access for U.S. dairy products into Canada.
 - Faster approval of biotechnologies, including new technologies like gene editing.
 - Canada agreed to grade U.S. wheat the same as Canadian wheat and not require country of origin statement.
 - Enhanced rules for science-based sanitary and phytosanitary measures.
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Other Trade Agreements

- U.S – Japan Trade Agreement.
 - Signed Oct. 7, 2019, but very few details have been released.
 - Tariff **elimination** on fruits and vegetables and staged tariff elimination on processed pork, beef offal, frozen poultry, frozen potatoes, ethanol and other fruits.
 - Tariff **reductions** to match CP-TPP countries on fresh and frozen beef and pork.



Other Trade Agreements

- U.S – Japan Trade Agreement.
 - Country Specific Quotas (CSQ) at preferential tariff rates for wheat, wheat products, malt, glucose, fructose, corn and potato starch and inulin.
 - Wheat grows from 120,000 metric tons to 150,000 metric tons over six years.
 - “Mark Up” – Japan will provide the same reductions to its wheat and barley mark up as provided to CP-TPP suppliers.



CPTPP Wheat Tariff Reductions

Date	Japanese Wheat Tariff Rate (Yen/Kg)	Tariff in USD/Bu	Tariff in USD/MT	Difference USD/Bu	Difference USD/MT
2018	17.0	4.28	157.41	0.00	0.00
Jan 2019	16.2	4.08	150.00	0.20	7.41
Apr 2019	15.3	3.86	141.67	0.43	15.74
Apr 2020	14.5	3.65	134.26	0.63	23.15
Apr 2021	13.6	3.43	125.93	0.86	31.48
Apr 2022	12.8	3.23	118.52	1.06	38.89
Apr 2023	11.9	3.00	110.19	1.29	47.22
Apr 2024	11.1	2.80	102.78	1.49	54.63
Apr 2025	10.2	2.57	94.44	1.71	62.96
Apr 2026	9.4	2.37	87.04	1.92	70.37

Assumes 108 Japanese Yen = 1.00 U.S. Dollar

Other Trade Agreements

- Comprehensive Economic and Trade Agreement (CETA).
 - Canada – EU agreement expected to be signed soon.
 - Canadian Parliament has ratified the agreement.
- U.S. and EU have just begun negotiations.
 - Steel (25%) and Aluminum (10%) tariffs are still in place.
 - **Agriculture is one of the key hurdles in future negotiations.**
- **Brexit?**



Other Trade Agreements

- **“Brexit” – The exit of Britain from the European Union.**
 - British and the EU leaders have agreed to an exit plan.
 - British Parliament must still approve the plan by October 31, 2019, or they will “leave” the EU without a plan.
- **Britain is seeking a trade agreement with the U.S.**



Questions?

