Challenges face agricultural exports to China

What impact will the US imposition of tariffs on Chinese products have on US agricultural exports? When we were kids, a question like that was called a $64,000 question, named after a popular television game show in the late 1950s. When asked a difficult question, it became common for someone to respond, “That’s a $64,000 question.”

Whether it’s a $64,000 question or not, it does require more than a quick response one way or the other. And in the end, we may not fully know the answer until it is all over.

What we do know is that the US has threatened to impose a 25 percent tariff on steel and aluminum imports. While some countries have been given an exemption, China has not. In addition, the US has also threatened to take action on the violation of US intellectual property by China.

The greatest concern for the agricultural sector has been the impact on US soybean exports to China, followed by pork exports. In recent marketing years, 60 percent of US soybean exports have been to China so any decline could have an impact on already low prices.

The challenge with both soybean and pork exports is sorting out the impact of tariffs from long-term trends that have already been set in motion as well as variation in soybean yields in China, the US, Brazil and Argentina.

What we do know is that Brazil has already surpassed the US in soybean exports to China and is on a path to become the world’s largest producer of soybeans as well; it may happen as soon as the 2018 crop.

In addition, China has shifted its agricultural focus, shifting from emphasizing corn production to placing a renewed focus on soybeans. This shift has been several years in the making as China has taken steps to reduce its large carryover levels of corn.

We also know that soybeans are fungible. That is soybeans are like the game of Whack-a-Mole. You swing at the mole here and it pops up there. In the short-run there are only so many soybeans produced and demand is also relatively fixed. If Brazil captures more of China’s soybean exports, then they will have to give up exports somewhere else in the world and the US can then supply those users. Will it be enough? That’s the question.

If we were talking about automobiles the analysis would be rather simple. The imposition of tariffs by a major importer would be devastating as our export competitors added shifts to their production lines.

But with soybeans, we are talking about the world’s largest importer and the world’s three largest exporters—the US, Brazil, and Argentina—and production cannot be turned on and off as quickly as an automobile assembly line.

In the meantime, China will need to source some of its soybeans from the US; Brazil does not have enough export capacity to fully supplant the US. With other markets opening up to US soybeans, it is unlikely that the US price would drop sufficiently to make the US price plus the 25 percent tariff equal to the Brazilian price. In that case, is China willing to impose a surcharge on its soybean processors and feed users in order to obtain US soybeans?

In the longer run, if the tariffs on US soybeans were to become semi-permanent, certainly Brazil would increase production as a faster rate than it already is.

Another longer-run concern is China’s purchase of Syngenta and the access that gives Chinese farmers and researchers to state-of-the-art biotechnology.

With regard to pork, China already owns Smithfields and is taking hog production technology that was developed in the US and making it available to domestic producers. The number of Chinese farms on which hogs are produced in China has followed earlier changes seen in the US; there has been a 70 percent decline in the number of farms raising hogs as the number of hogs per farm has increased. There are now twice the number of hogs in China as there are people in the US and there is one hog for every two people in China.

Even if the tariffs are short-lived, the greatest impact on US agricultural exports will result from long-term trends over which US farmers and policy makers have little control. In the meantime, we need US policy makers to focus on addressing the low prices farmers are facing today.

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