US “power-based” bargaining: Implications for agricultural trade?

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US shift to “power-based” bargaining

- 2018 - US shifted from “rules-based” (multilateral) to “power-based” (bilateral) approach to trade negotiations

- Superficially, it worked - import commitments by China under US-China Trade Agreement (USCTA)

- However, did not “…avoid a narrow, deficit-focused bilateral deal…” (Hillman, 2018)

- Approach essentially failed (Sheldon, 2022):
  - Pushed average tariffs towards pre-GATT levels, undermining multilateral system
  - Come at cost to US consumers, taxpayers, and exporters
  - Failed to address issues relating to China’s economic model, and weakness of WTO disciplines on subsidies
Tariff escalation and the trade war

Source: Bown, (Trade and Investment Policy Watch, PIIE, December 19, 2019)
What has driven US approach?

- US concerns over China’s trade policies widely documented (USTR, 2018)
- Provoked trade policy “crisis”:
  - China no longer transitioning to market economy – extensive use of explicit/implicit subsidies
  - Concerns about ineffectiveness of WTO-permitted remedies, e.g., anti-dumping/countervailing duties
  - Dissatisfaction with WTO’s Appellate Body (AB) and some of its rulings
  - Lack of WTO negotiating function to develop new trade rules targeted at “China Inc.”
Concerns about agricultural trade

- Focus on China’s compliance with URAA’s disciplines:
  - Market access: tariff-rate quota (TRQ) administration; approval process for GM crops; SPS/TBT measures
  - Domestic support: increased spending levels and non-transparency of methodology for calculating support
  - Export subsidies: incomplete subsidy notifications

- US filed separate WTO complaints in September and December 2016 respectively:
  - China’s domestic support for corn, rice, and wheat
  - TRQ administration for corn, rice, and wheat
WTO dispute settlement works?

- WTO panels established in 2017 for both, with rulings against China in each case in 2019
- Despite shift to “power-based” bargaining, US has continued to abide by WTO dispute settlement process
- US sought authorization to suspend concessions on grounds China not in compliance with panel ruling(s) relating in 2020/21
- US continues to engage in multilateral governance of agricultural trade at same time it has adopted bilateral bargaining with China through USCTA
USCTA: Where are we?

- US agricultural exports a “bright” spot, 83% of target as of December 2021, but still short of legal commitment

- Soybeans which account for 60% of value of covered agricultural exports, below target by -36%

- Other exports ran either close to or well above target: corn (+1176%), pork (+303%), wheat (+110%), and sorghum (+102%)

- Key question: is this due to USCTA or other factors?

- Rebuilding of Chinese hog production capacity key in driving imports of animal feed – especially corn
USCTA: Total Agricultural Exports

$ billions

2020-21 legal commitment: $73.9 bn
2020-21 actual exports: $61.1 bn
2017 baseline: $20.9 bn

Source: Bown, February 8, 2022
No trade war/USCTA?

$ billions


No trade war and no USCTA

Legal commitment

Actual exports

Source: Bown, February 8, 2022
Market access and “managed” trade

- GATT/WTO disciplines focus on tariff bindings and disciplines on countries’ policies such as TRQs.

- USCTA shifted to contracting on market access, i.e., “managed trade”

- Requires commitments on amounts of trade, but does not solve problem that shocks internal/external to China can affect trade volumes, i.e., how is import performance evaluated?

- Also, what trade remedies can be applied if China is actively not meeting its bilateral import commitments?
Russian invasion of Ukraine is type of extreme shock with clear potential to undermine “managed trade”

Economic shock has two key dimensions:

• impact of financial sanctions against Russia
• disruption to agricultural commodity markets

Prospects for US agricultural exports depend on both China’s response, and extent to which global supply and demand react to disruption
Impact of financial sanctions

- Key financial sanctions:
  - removal of select Russian banks from SWIFT
  - Russia’s central bank cannot access its foreign currency reserves

- Sanctions unprecedented – “immiseration”:
  - collapse of ruble, run on Russian banks, and likelihood of hyperinflation
  - recession and high unemployment in Russia
  - potential for debt default with ratings downgrade

- Payments for oil, natural gas, fertilizer, and other commodities continue for now – some self-sanctioning
Value of ruble

Disruption to commodity markets

- Ukraine/Russia key agricultural exporters:
  - 29%, 18%, 32% and 75% of world wheat, corn, barley, and sunflower oil exports respectively
  - trade out of Ukrainian Black Sea ports stopped
  - key production locations under attack
  - ban on Ukrainian exports of rye/barley
  - price run up to ration demand, exacerbating pressure on global food security, and low global wheat stocks

- Russia accounts for 25% of Europe’s supply of crop nutrients (nitrogen, potash and phosphate),
- Significant pressure on oil and natural gas prices
Ukraine/Russia: grain exports

Breadbasket to the World
Russia and Ukraine account for a quarter of global grains trade

- 102m tons Russia and Ukraine
- 94m tons U.S.
- 56m tons Argentina
- 52m tons EU
- 40m tons Brazil
- 80m tons Other

Source: International Grains Council
Note: Estimates for the 2021-22 season, for wheat and coarse grains
Ukraine/Russia: wheat exports

Figure 1. World Wheat Production and Export Shares, 2017-2021 Average

- China
- European Union
- India
- Russia
- United States
- Canada
- Ukraine

Production Share vs Export Share
Ukraine/Russia: corn exports

Figure 2. World Corn Production and Export Shares, 2017-2021 Average

- United States
- China
- Brazil
- European Union
- Argentina
- Ukraine
- Russia

Legend:
- Production Share
- Export Share
Ukraine: wheat producing regions

Key wheat producing regions in Ukraine
Green-marked regions account for 85% of the total country’s production
Wheat futures prices

Hot Wheat
Futures close at highest price on record

$13.65/bushel

Source: CME, Bloomberg
Global food prices

Food Fears
Food and agriculture prices hit levels not seen since Arab Spring

Source: UN/FAO March 2022
Russian/Ukrainian wheat exports

Who buys Russian and Ukrainian wheat?

A quarter of the world’s wheat exports came from Russia and Ukraine in 2019.

Destinations of wheat, $

- Egypt ($2.55bn, 2019)
- Turkey ($685m)
- Bangladesh ($525m)
- Nigeria ($394m)
- Yemen ($317m)
- Azerbaijan ($264m)
- Sudan ($207m)
- UAE ($196m)
- Senegal ($167m)
- Vietnam ($156m)
- Indonesia ($152m)
- Philippines ($142m)
- Tunisia ($127m)
- Thailand ($121m)
- Morocco ($114m)
- South Korea ($104m)
- Spain ($72m)
- Israel ($59m)

Source: Observatory for Economic Complexity, 2019
**Potash production**

**Fertilizer Giants**
Canada, Russia were the top potash producers in 2021

- **Metric tons**
  - Canada: 14.0M
  - Russia: 9.0M
  - Belarus: 8.0M
  - China: 6.0M
  - Germany: 2.3M
  - Israel: 2.3M
  - Jordan: 1.6M
  - Chile: 900.0K
  - U.S.: 480.0K
  - Spain: 400.0K
  - Laos: 300.0K
  - Brazil: 210.0K

Source: USGS 2022 Mineral Commodity Summary
Note: Volumes are USGS estimates.
Fertilizer prices

New Orleans Urea
Price per short ton

Source: Green Markets, Bloomberg
China has leapfrogged Russia to become Ukraine’s largest single trading partner - $18.9 billion in 2021

Key Ukrainian exports to China are iron ore, corn, and sunflower oil - $8.0 billion in 2021

Ukraine accounted for 30% of China’s corn imports in 2021

Ukraine important hub within China’s Belt and Road Initiative (BRI), e.g., port investments:

- COFCO (SOE) – $75 million investment in Mykolaiv grain terminal
- CHEC completed dredging of Chonomorsk
Impact of commodity market shock

- How China adapts to shock has clear potential to affect US agricultural exports

- China’s wheat market case in point:
  - Imports controlled under TRQ, with quota filling for first time in 2021 (quota of 9.636 mmt, in-quota tariff of 1%, and over-quota tariff of 65%)
  - Increase in relative price of corn resulted in surge in demand for wheat in feed use in 2021, with some coming from imports (USDA/ERS, 2021)

- US wheat exports to China grew in 2020/21, but so did those of other exporters, e.g., Canada, and Australia

- Even minimum market access commitments under WTO-legal TRQ subject to market volatility
Chinese wheat consumption

China accounted for 19 percent of the world’s wheat consumption in marketing year 2020/21

- China, 19
- European Union, 15
- India, 13
- Russia, 5
- United States, 4
- Pakistan, 3
- Turkey, 3
- Egypt, 3
- Iran, 2
- Others, 32

Note: Market year (June-May) data as of March 2021. Others refers to all other nations that each account for less than 2 percent of global wheat consumption.

China’s imports of wheat fluctuated from 2000 to 2020, always falling short of the tariff-rate quota

Notes: Data are for calendar years. The tariff-rate quota is the volume of wheat that can be imported at a 1-percent tariff. The quota was phased in from 2001 to 2004.
US approach has undermined multilateral system – although WTO is currently moribund

USCTA did not address key issue of SOEs and subsidies – WTO needs to revise rulebook to address “China Inc.”

Contracting on market access with economy such as China is movement back to principle of managed trade popular in 1980s viz. Japan

90% of imported wheat under TRQ allocated to COFCO, i.e., relying on Chinese SOE(s) to meet import targets is inconsistent with principle of market-driven trade

External/internal shocks will continue to make it difficult to evaluate “managed” agricultural trade with China