

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

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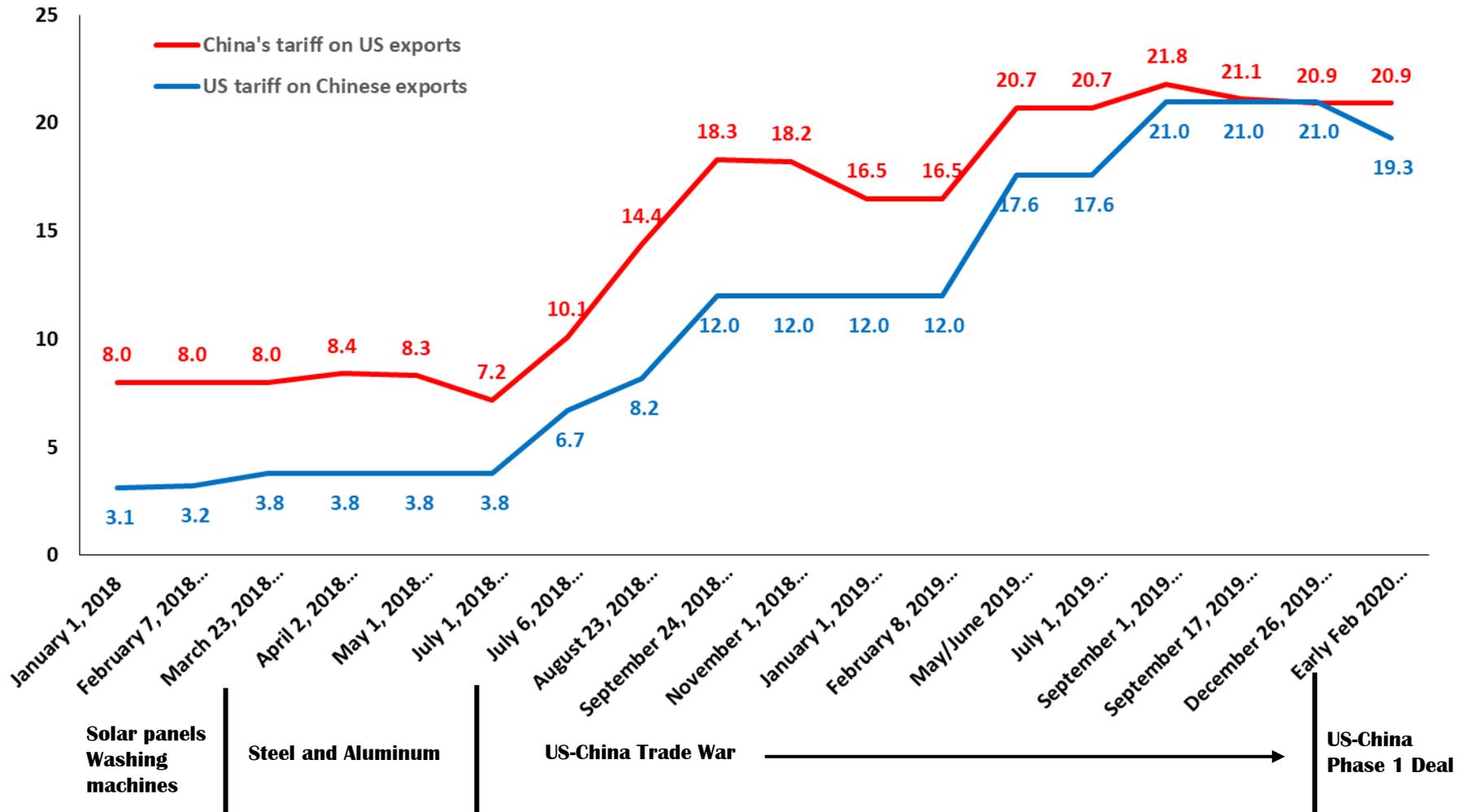
**THE OHIO STATE UNIVERSITY**  
COLLEGE OF FOOD, AGRICULTURAL,  
AND ENVIRONMENTAL SCIENCES

# **US shift to “power-based” bargaining**

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- **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?**

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- **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

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- **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?**

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- **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**

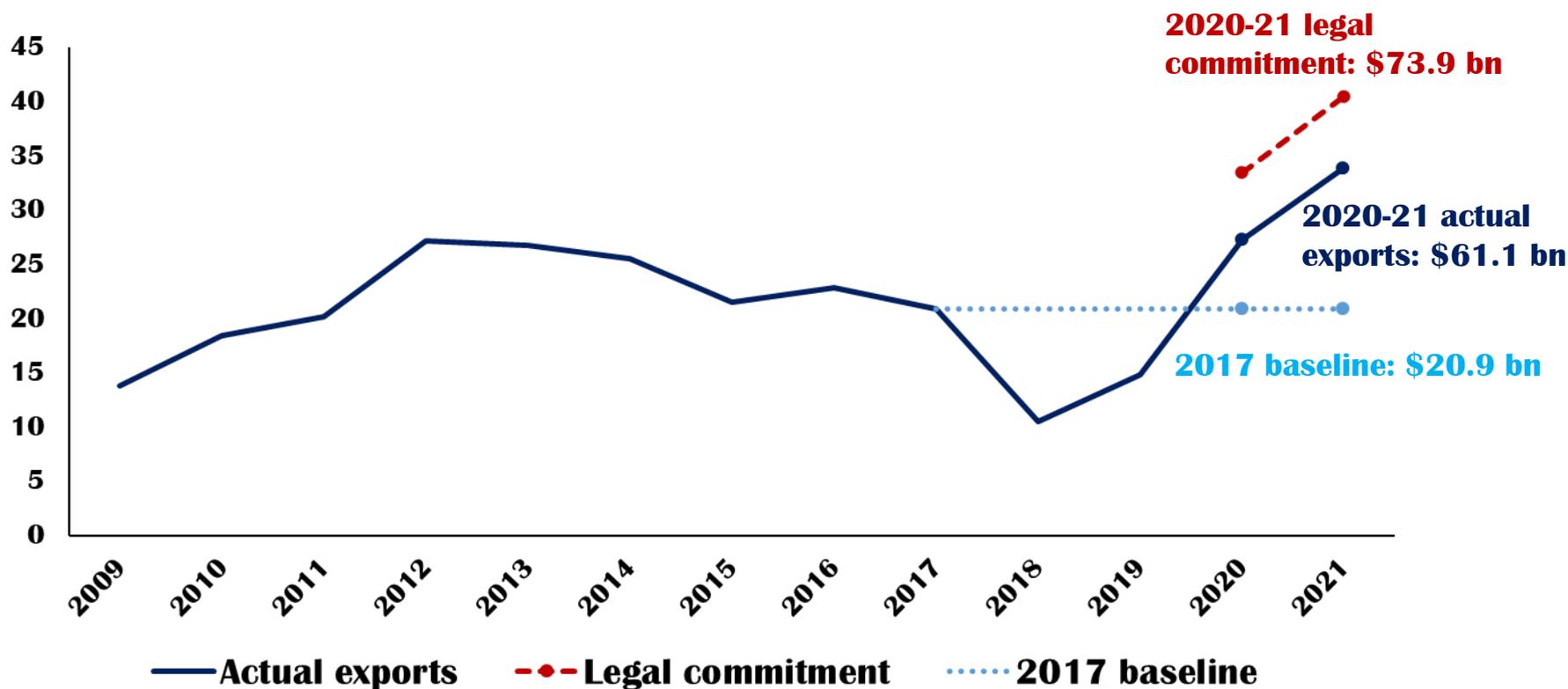
# USCTA: Where are we?

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- **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

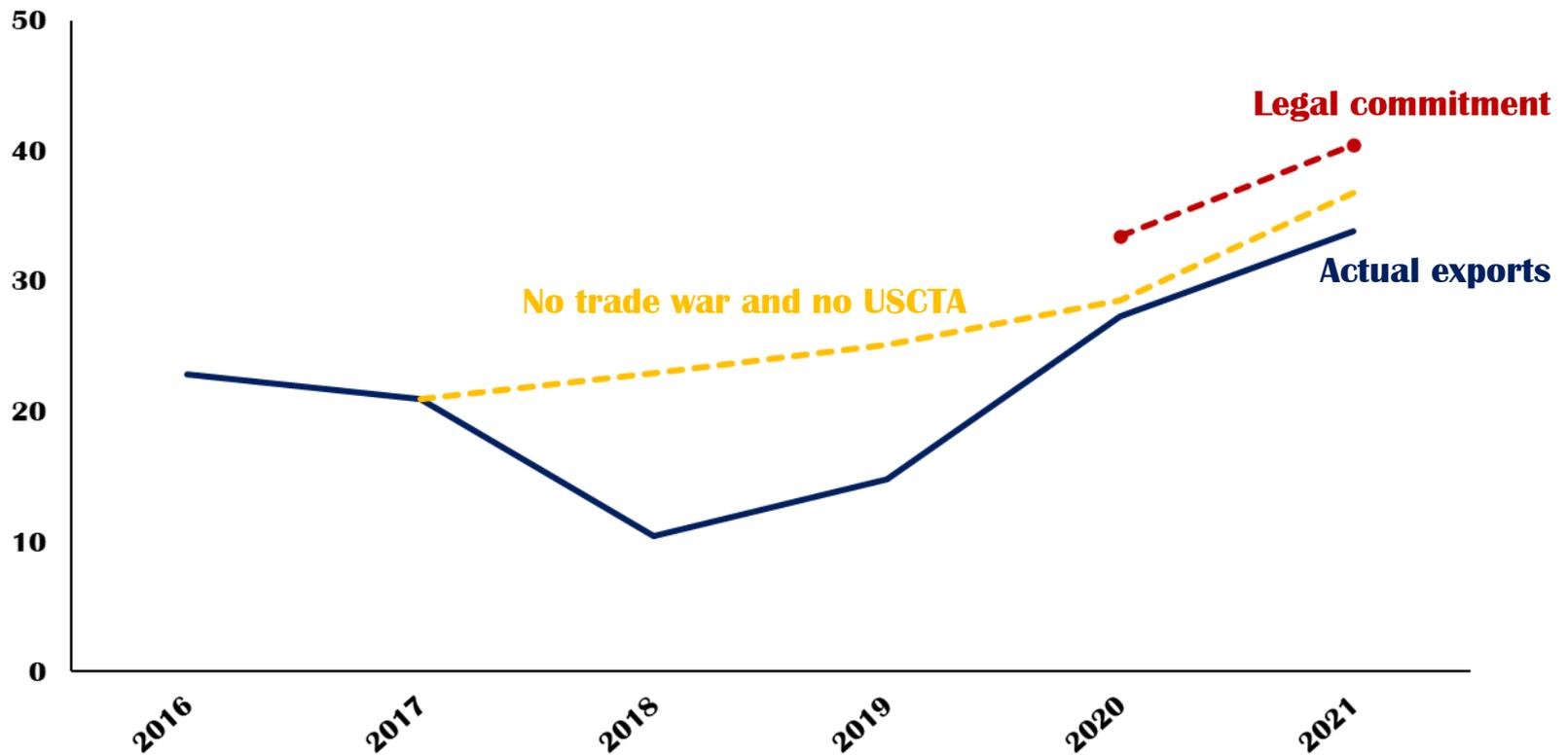
\$ billions



Source: Bown, February 8, 2022

# No trade war/USCTA?

\$ billions



Source: Bown, February 8, 2022

# **Market access and “managed” trade**

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- **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?**

# **Invasion of Ukraine**

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- **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**

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- **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

20 rubles per U.S. dollar



**How Much a Ruble Is Worth**

# **Disruption to commodity markets**

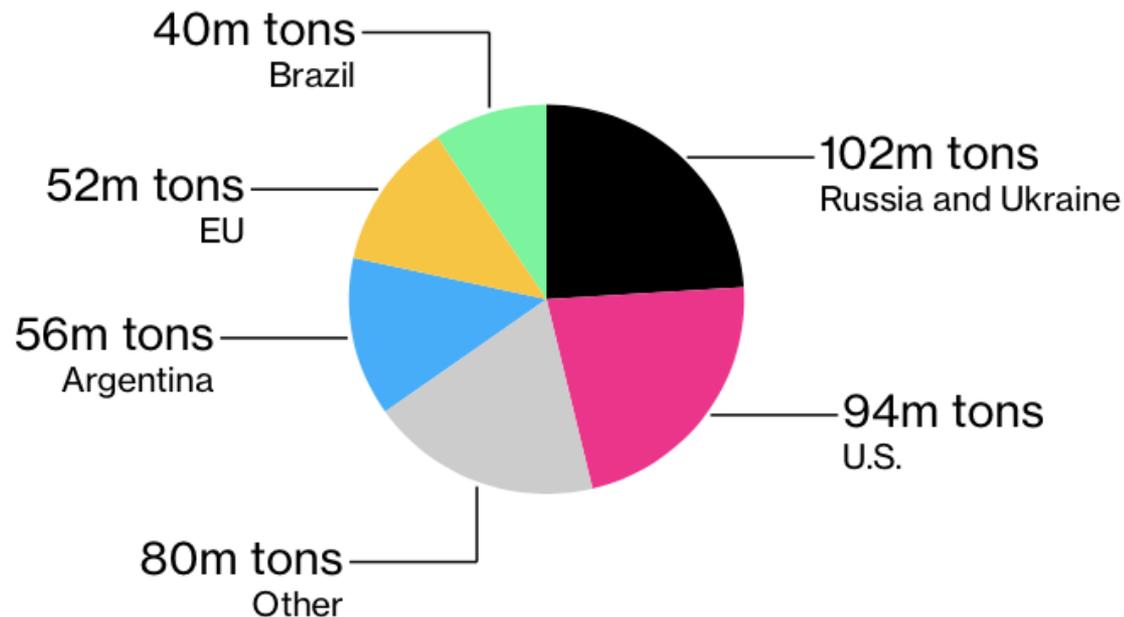
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- **Ukraine/Russia key agricultural exporters:**
  - **29%, 18%, 32% and 75% of world wheat, corn, barley, and sunflower oil exports respectively**
  - **trade out of Ukrainian Black Sea ports stopped**
  - **key production locations under attack**
  - **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

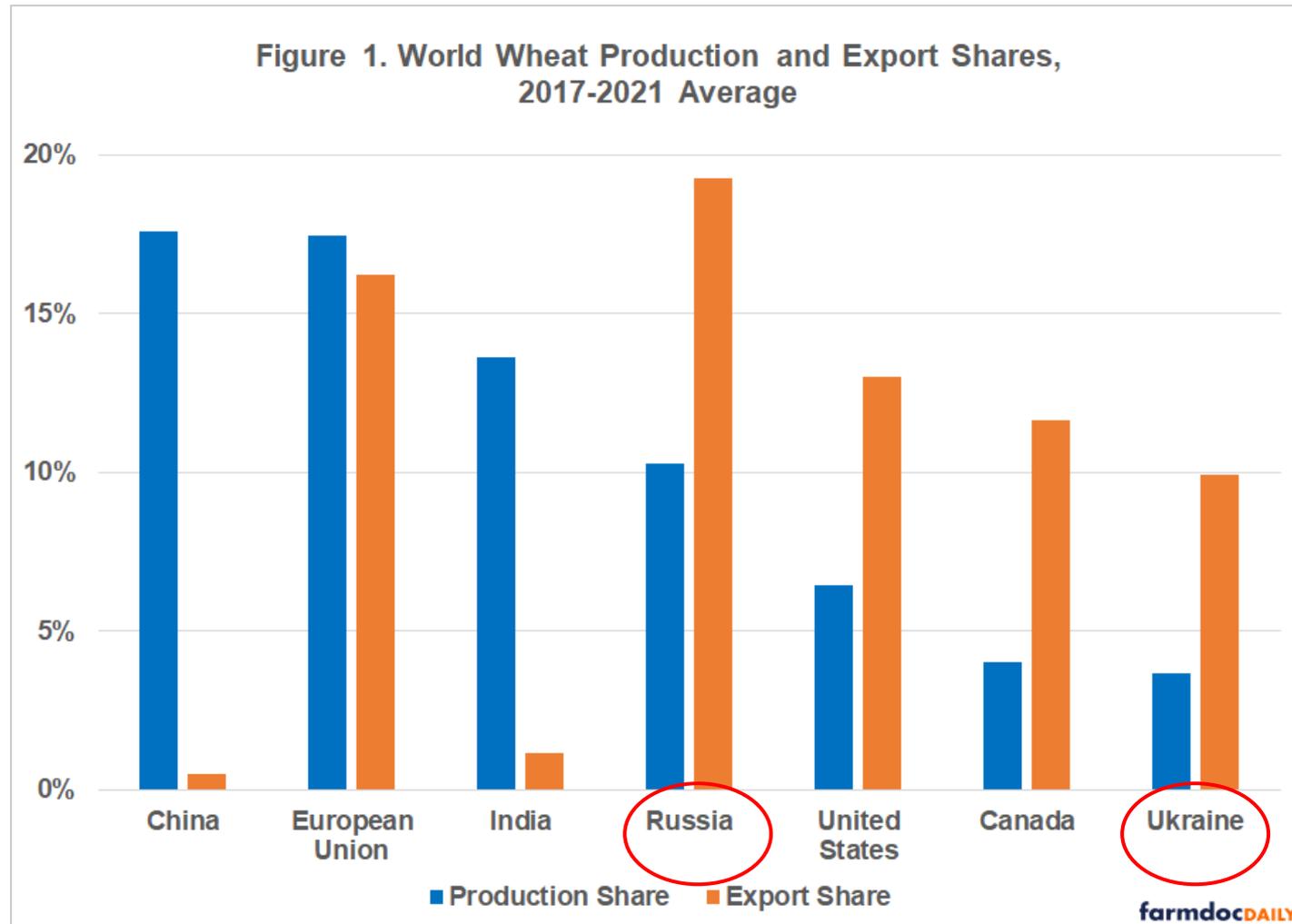
Russia and Ukraine account for a quarter of global grains trade



Source: International Grains Council

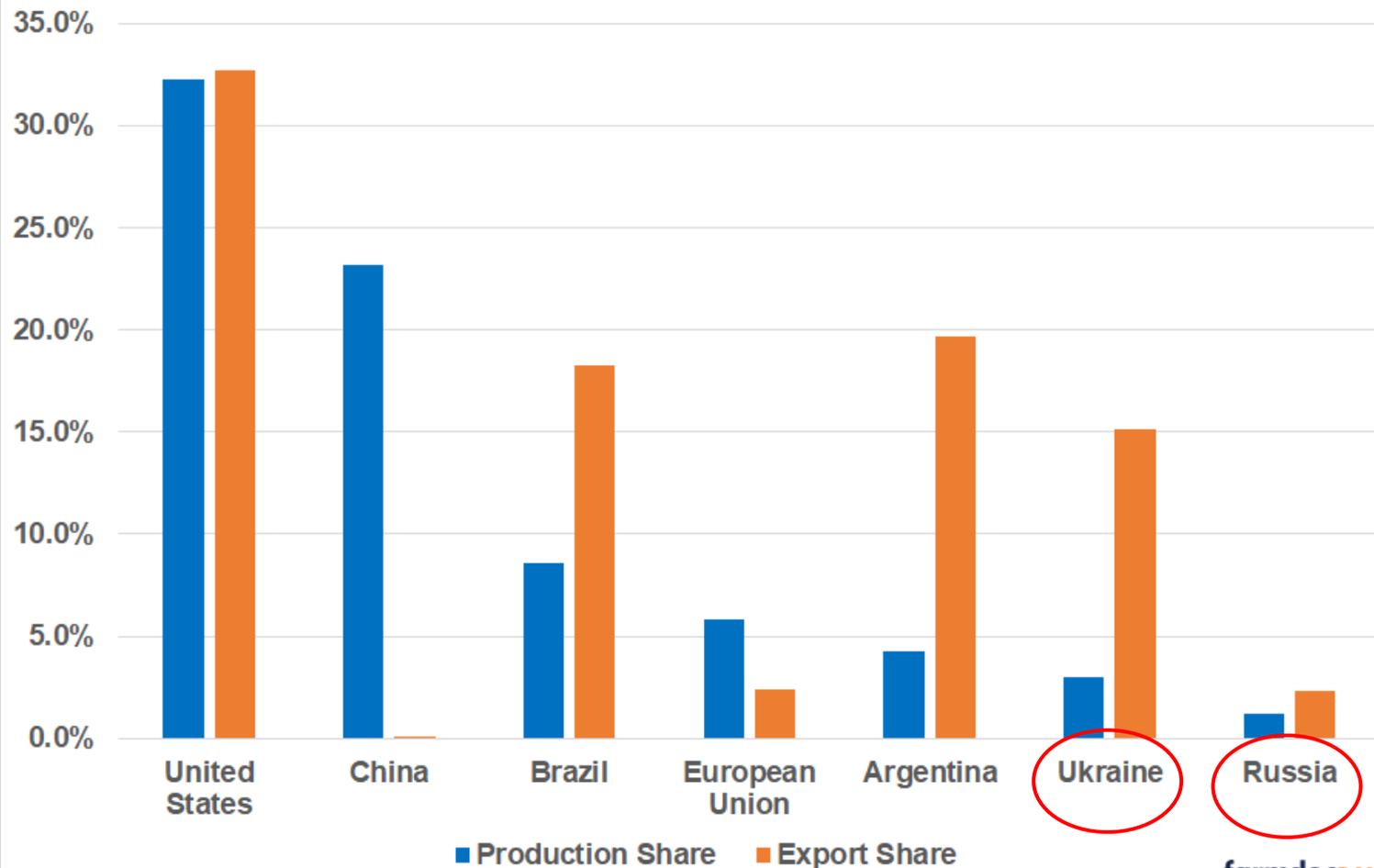
Note: Estimates for the 2021-22 season, for wheat and coarse grains

# Ukraine/Russia: wheat exports



# Ukraine/Russia: corn exports

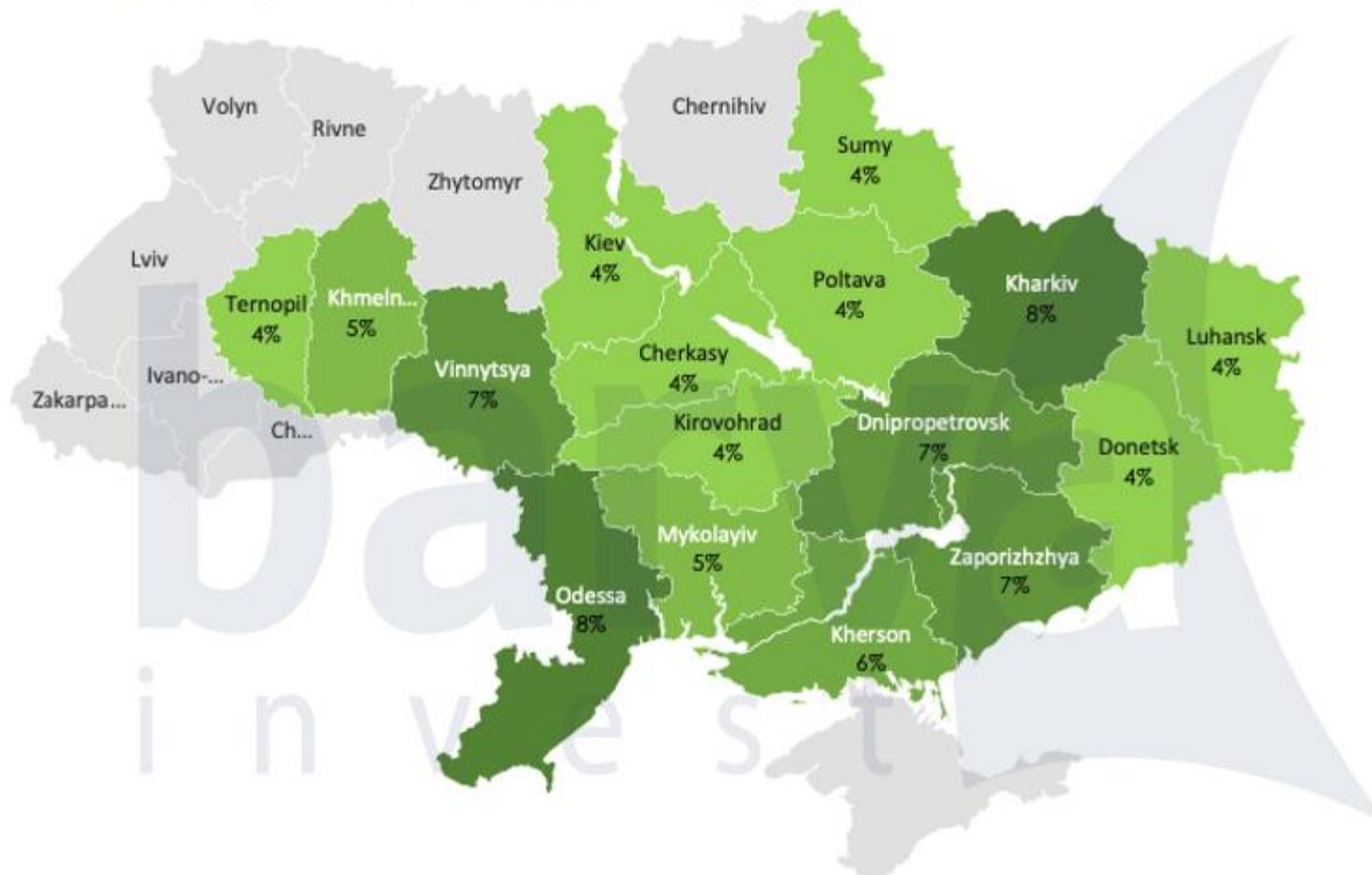
Figure 2. World Corn Production and Export Shares, 2017-2021 Average



# 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

Bloomberg

# Global food prices

## Food Fears

Food and agriculture prices hit levels not seen since Arab Spring

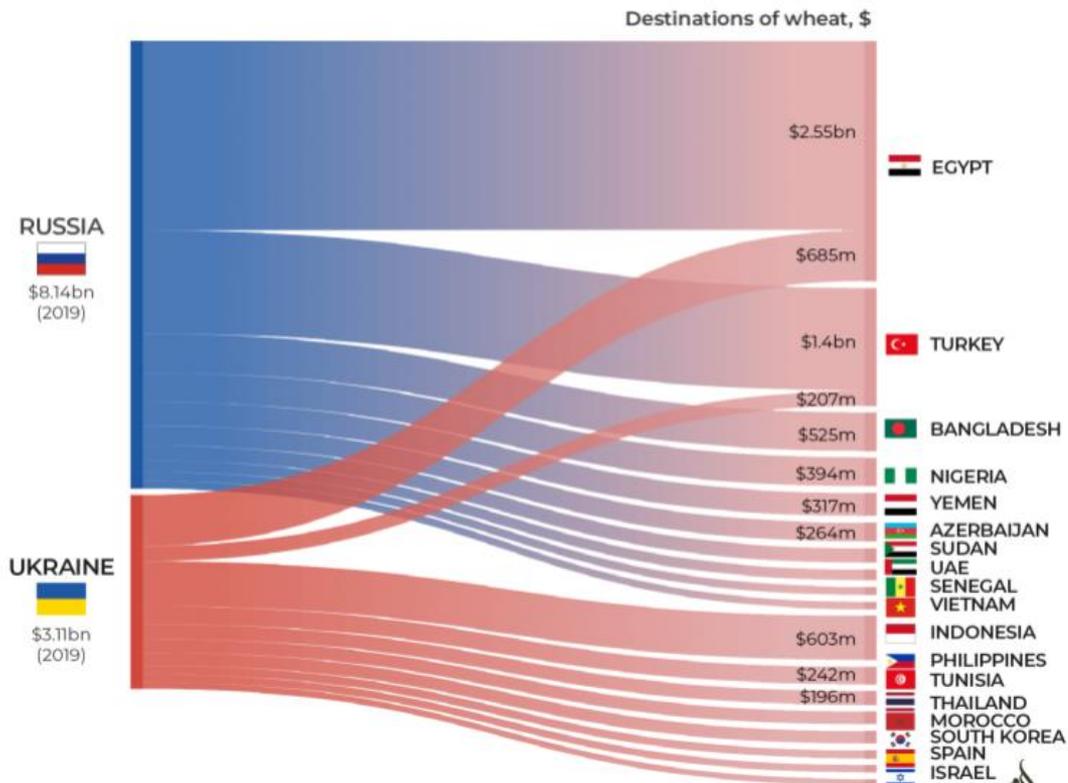


# Russian/Ukrainian wheat exports

## TRADE

### Who buys Russian and Ukrainian wheat?

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



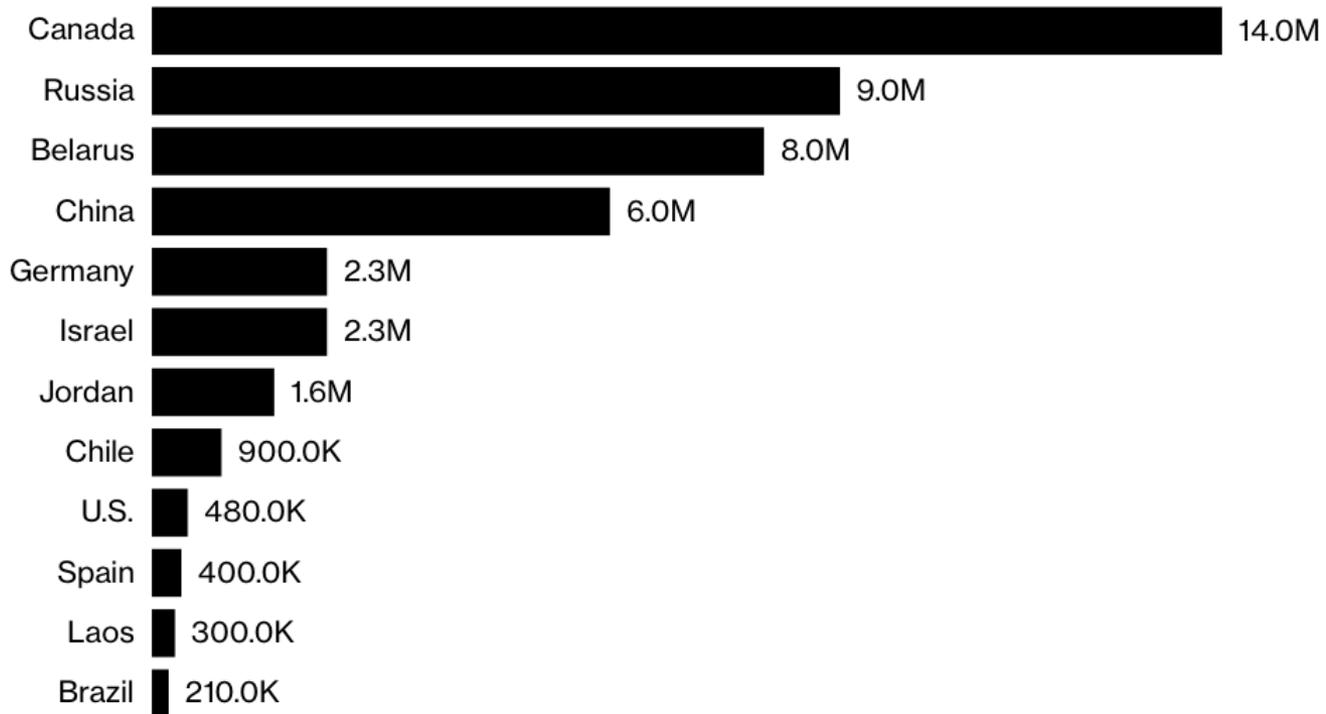
Source: Observatory for Economic Complexity, 2019

# Potash production

## Fertilizer Giants

Canada, Russia were the top potash producers in 2021

■ Metric tons



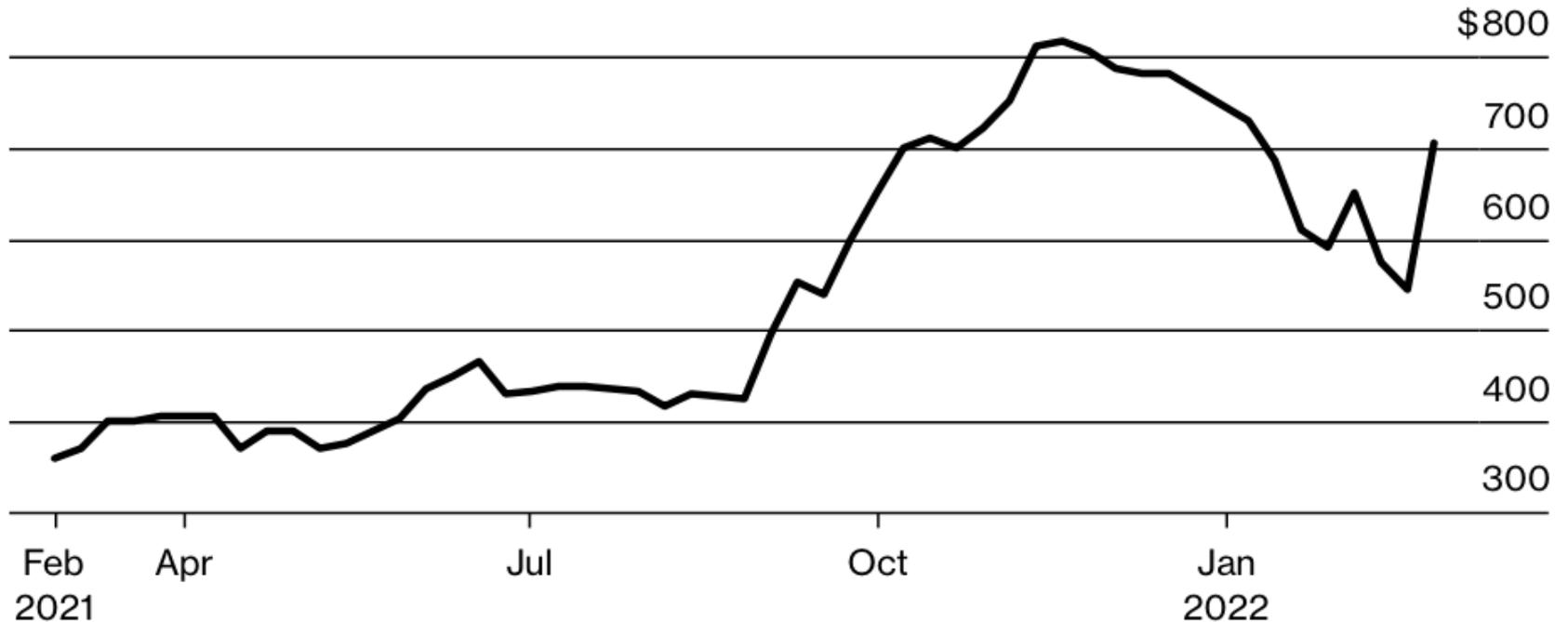
Country

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 and Ukraine

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- **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**

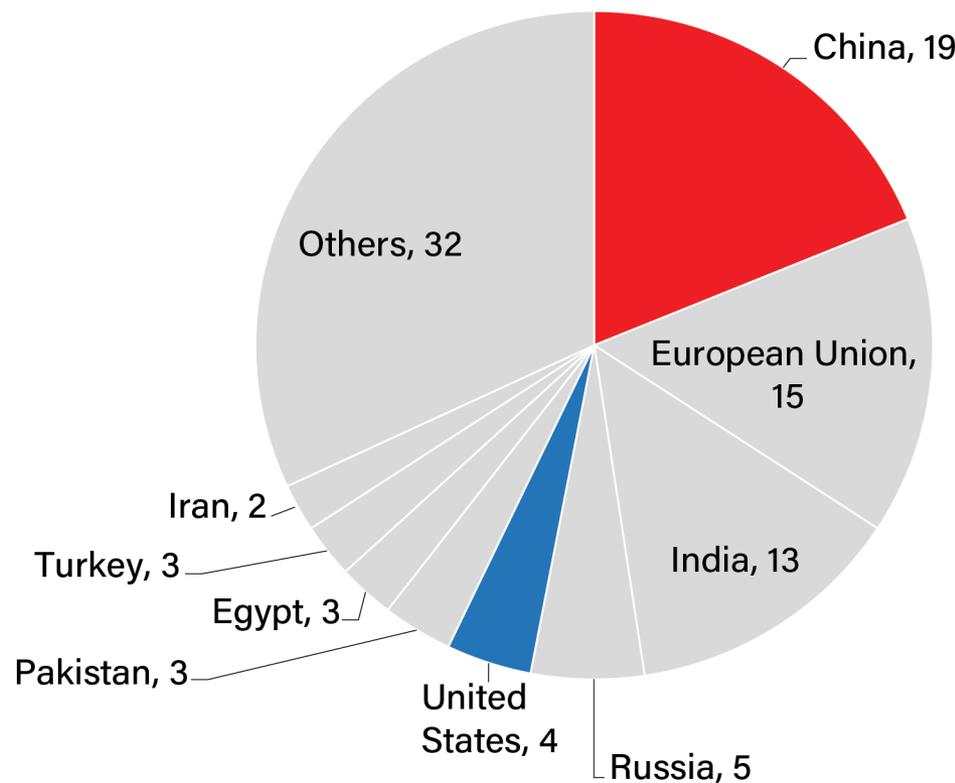
# **Impact of commodity market shock**

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- **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



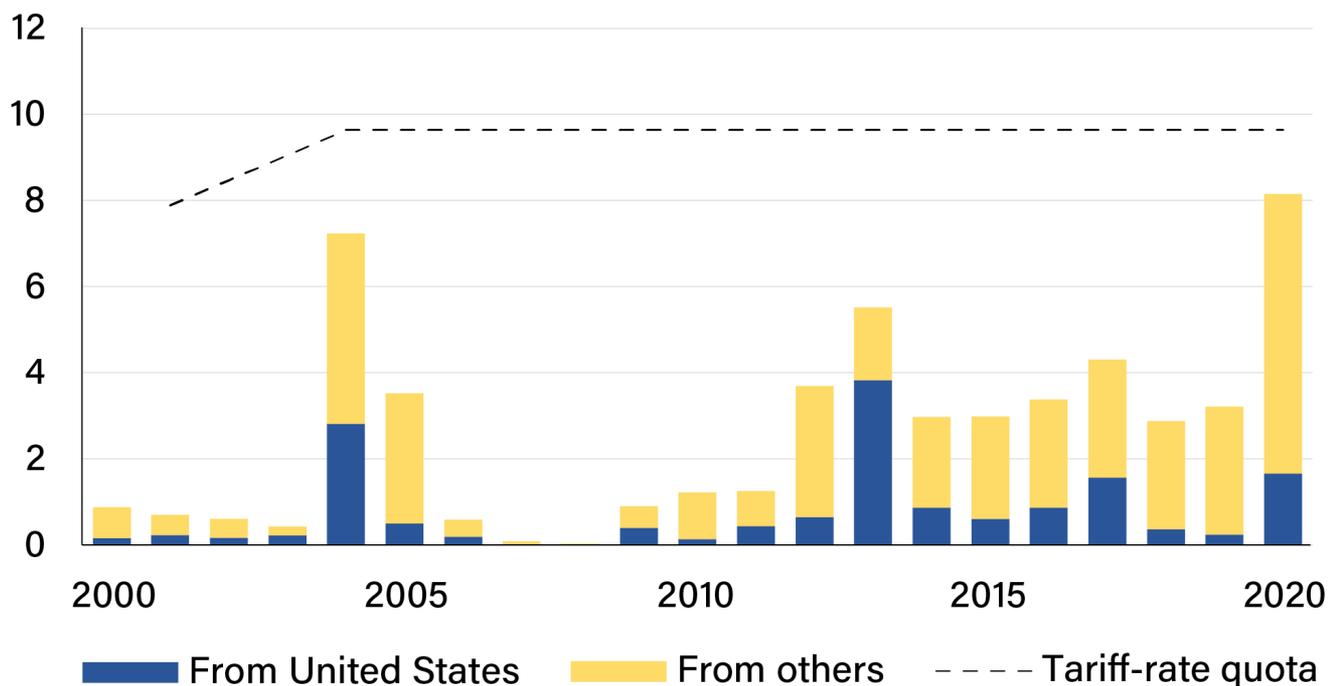
Note: Market year (June–May) data as of March 2021. **Others** refers to all other nations that each account for less than 2 percent of global wheat consumption.

Source: USDA, Economic Research Service using data from the USDA, Foreign Agricultural Service, Production, Supply, and Distribution database.

# Chinese wheat TRQ

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

Million metric tons



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.

Source: USDA, Economic Research Service using China customs data accessed through Trade Data Monitor and the World Trade Organization.

# **“Power-based” bargaining**

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- **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**