Tariffs and Trade: Chaos Theory on a Global Level
Session Speakers

Julie Adams, ABC

Jason Hafemeister, USDA Special Trade Advisor

Cynthia Xing, Yuan Associates
TRADE & TARIFFS: CHAOS THEORY ON A GLOBAL LEVEL!
chaos theory

noun

…. complex systems whose behavior is highly sensitive to slight changes in conditions, so that small alterations can give rise to strikingly great consequences.
Diversity of Shipments – Essential with a Changing Trade Environment

ALMOND EXPORTS BY REGION
- Asia-Pacific: 41%
- Western Europe: 38%
- Middle East/Africa: 13%
- Canada/Mexico: 5%
- Central/Eastern Europe: 2%
- Latin America: 1%

Top Ten Export Destinations
- U.S.A.
- India
- Spain
- China/Hong Kong
- Germany
- Japan
- Netherlands
- U.A.E.
- Italy
- Canada
- Vietnam

Diversity of Shipments – Essential with a Changing Trade Environment
China:
- 60% tariff on kernel/inshell U.S. almonds
- 20% tariff on preserved nuts (in cans)
- 40% tariff on processed or preserved

Japan:
- “Partial” FTA
- Import testing

E.U.:
- Brexit
- Import testing
- Pesticide MRLs

Turkey:
- 25% tariff on U.S. Almonds

India:
- 35→41 rupees/kg on inshell
- 100→120 rupees/kg on kernels
- Labeling
- Grades/standards

Turkey:
- 25% tariff on U.S. Almonds
China: Tariffs Impacting the Entire Supply Chain

- Now the world’s 2nd largest economy
- Still #3 export market for CA almonds – despite 25% reduced shipments
- A 60% tariff on kernel (0802.12) and inshell (0802.11)
- Effective December 15(?), Prepared/preserved 20%, 40%
- Impact of “phase one” agreement?
- Broader concerns: rule of law, internal turbulence, NGO, social responsibility

Tariff Impact on Purchasing Chinese Food Imported from America
(Total Aware of Tariff n=845)

- Still buy at same frequency as now
- Still buy, but not as often
- Will only buy a small amount
- May not buy before tariff is cancelled

July | September | November | March | October
--- | --- | --- | --- | ---
38% | 42% | 15% | 5% | 8%
56% | 35% | 12% | 6% | 2%
49% | 34% | 9% | 2% | 2%
25% | 47% | 21% | 8% | 8%
A Few Thoughts…..

Can we get back to a “collaborative” approach to trade rather than an “I win, you lose” philosophy?

How will our trading partners view U.S. commitments in the future?

What are the other emerging events that could impact global trade challenges going forward?
December 9, 2019

Ag Trade Policy Overview

December 9, 2019
Top 6 Export Markets Account for 60% of Total US Ag Exports

China
Canada
Mexico
EU
Japan
S. Korea

Fiscal Year
A Classic “long tail distribution”
Almost 30 markets over $1 billion in Ag Exports

U.S. Ag Exports 2018, Billion $

Data Source: U.S. Census Bureau Trade Data
We Want USMCA

Change in U.S. agricultural export revenues, $ million

Source: How U.S. Agriculture Will Fare Under USMCA and Retaliatory Tariffs. Farm Foundation. October 2018
U.S. Ag Exports to China

Billion Dollars

USDA/FAS/Bico Agricultural Products, calendar year
U.S. Exports to China
Retaliation Amplified on Agriculture

U.S. Exports to China: Commodities vs. Manufacturers
(NAICS Categories, Trailing 12 Month Sums, % Change from End 2013)

Source: U.S. Census Bureau/Haver Analytics
CRF Categories
Brad Setser
crf.org/blog/setser
Key U.S. Ag Exports to Japan: 2018

- **Value in Billion Dollars**
  - **Feed Grains**
  - **Beef**
  - **Pork**
  - **Soybeans**
  - **Wheat, Unmilled**
  - **Vegetables & Prep**
  - **Fruits & Prep**
  - **Nuts & Prep**
  - **Variety Meats**
  - **Dairy Prods**

- **Significant Tariff Barriers**
  - Top (#1) US Export Market
  - #2 US Export Market

2018 USDA/GATS/FATUS
Key U.S. Ag Exports to Japan: 2018

Source: USDA, FAS, Global Agricultural Trade System (GATS), FATUS
Major U.S. Agricultural Exports to the EU

* Odoriferous mixtures as ingredients

Source: USDA Global Agricultural Trade System (GATS) – BICO-HS-10
Major U.S. Agricultural Imports from the EU

* Processed; ** Enzymes as food ingredients; *** Fresh/Chilled/Frozen

Source: USDA Global Agricultural Trade System (GATS) – BICO-HS-10
U.S. Agricultural Exports: Before and After FTAs and WTO Accessions
(Comparison average pre and post five years)

Source: USDA/FAS/GATS CY data

Notes:
• Canada timeline is for US-Canada FTA. Mexico timeline is for NAFTA.
• China is included for pre- and post- WTO accession comparison purposes.
Priority Asian Markets for U.S. Agricultural Exports*

U.S. Agricultural Exports

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (millions)</th>
<th>New Middle Class Households (millions) (2016-2025)</th>
<th>GDP Growth Rate (2017-2026)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1379</td>
<td>151</td>
<td>5.4%</td>
</tr>
<tr>
<td>Japan</td>
<td>126</td>
<td>3</td>
<td>0.8%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>96</td>
<td>4</td>
<td>6.2%</td>
</tr>
<tr>
<td>India</td>
<td>1282</td>
<td>150</td>
<td>7.6%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>261</td>
<td>28</td>
<td>4.7%</td>
</tr>
<tr>
<td>Philippines</td>
<td>104</td>
<td>7</td>
<td>4.9%</td>
</tr>
<tr>
<td>Thailand</td>
<td>68</td>
<td>6</td>
<td>3.0%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>24</td>
<td>1</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

Legend

<table>
<thead>
<tr>
<th>U.S. Ag Exports (CY 2017)</th>
<th>$ bil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>$11.9 bil</td>
</tr>
<tr>
<td>China</td>
<td>$19.6 bil</td>
</tr>
<tr>
<td>Taiwan</td>
<td>$3.3 bil</td>
</tr>
<tr>
<td>Philippines</td>
<td>$2.6 bil</td>
</tr>
<tr>
<td>Vietnam</td>
<td>$2.5 bil</td>
</tr>
<tr>
<td>India</td>
<td>$1.6 bil</td>
</tr>
<tr>
<td>Thailand</td>
<td>$1.8 bil</td>
</tr>
</tbody>
</table>

*Export data represents 33% of total U.S. agricultural exports.
Trade and Public Opinion

International Trade and the US Economy

Overall, do you think international trade is good or bad for the US economy? (% good)

- Overall
- Republican
- Democrat
- Independent

Legend:
- Overall: Black line
- Republican: Red line
- Democrat: Blue line
- Independent: Orange line

Data Points:
- 2004: Overall 57, Republican 57, Democrat 55, Independent 52
- 2006: Overall 59, Republican 54, Democrat 55, Independent 53
- 2016: Overall 84, Republican 82, Democrat 82, Independent 81
- 2017: Overall 80, Republican 80, Democrat 80, Independent 80
- 2018: Overall 82, Republican 82, Democrat 82, Independent 82

Source: Chicago Council Surveys

July 12-31, 2018 | n=2046
What do you think foreign trade means for America? Do you see foreign trade more as an opportunity for economic growth through increased U.S. exports or a threat to the economy from foreign imports?

Source: Gallup - “Slim Majority in U.S. See Trade as Benefiting American Workers” 3/21/2019
Public Generally Positive about FTAs, More Critical of Tariff Increases

Republicans move in a more positive direction on free trade agreements

% who say free trade agreements between the U.S. and other countries have been a ____ for the United States

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>'09</td>
<td>'11</td>
<td>'13</td>
<td>'15</td>
<td>'17</td>
</tr>
<tr>
<td>Good thing</td>
<td>52</td>
<td>65</td>
<td>57</td>
<td>22</td>
<td>59</td>
</tr>
<tr>
<td>Bad thing</td>
<td>34</td>
<td>31</td>
<td>31</td>
<td>42</td>
<td>29</td>
</tr>
</tbody>
</table>

Note: Don’t know responses not seen.

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China’s Perspective of Trade: Globalization

Cynthia Xing
December 10, 2019
Why Are US-China Trade Talks So Difficult?

• The US government’s focuses of trade negotiation kept shifting
• China was over-optimistic for the bilateral relationships at the beginning, unprepared for evolved bilateral relationship in a new era
• More disagreements than consensus: long-lasting issues cannot be solved in months: IPR, National treatment, SOE reform
• Politicized negotiation vs. rising nationalism on both sides
China’s Positioning and Strategy

• Positioning:
  – Globalization: collaborative and mutuality

• Strategy:
  – Internal stabilization
  – Sustainability and Predictability
  – Diversification (products and countries)
  – US-China: Tariffs + Qualitive countermeasures
# China’s Stance and Efforts

<table>
<thead>
<tr>
<th>Shifting Focus</th>
<th>China’s Stance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Trade Balance</td>
<td>China promotes import:</td>
</tr>
<tr>
<td></td>
<td>• Reduced value-added tax (VAT) for imported commodities</td>
</tr>
<tr>
<td></td>
<td>Almond: 2018: 11%-10%; 2019: 10%-9%</td>
</tr>
<tr>
<td></td>
<td>• China International Import Expo</td>
</tr>
<tr>
<td></td>
<td>• Streamlined import inspection procedure</td>
</tr>
<tr>
<td>2 Policy and structure issues behind the trade unbalance</td>
<td>China has made concessions to the US, but in fact these actions are needed for China’s own economic development: market access, IPR, industry policies, SOE reform, RMB exchange, agriculture and supervision mechanisms</td>
</tr>
<tr>
<td>3 Competition at global level</td>
<td>Global supply chain and a competition for market share: “Made in China” to “Made by China”</td>
</tr>
<tr>
<td>4 Enforcement Mechanisms: Mutual Trust</td>
<td>• US: removal of additional tariffs is the leverage for trade talk and subject to China’s enforcement progress</td>
</tr>
<tr>
<td></td>
<td>Almond: 60% on kernel/inshell (2019.9.1); 20% on preserved nuts in cans and 40% on processed or preserved (2019.12.15)</td>
</tr>
<tr>
<td></td>
<td>• China: both sides should honor the principle agreement to roll back tariffs on each other’s goods in the same proportion and simultaneously in phases</td>
</tr>
</tbody>
</table>
China’s Attitude Towards Trade Talks

**Trigger:** US imposed additional tariffs on Chinese products (subject to 232 and 301).

- China issued 1st White Paper, emphasizing US and China are deeply complementary in terms of trade, hoping US to change course to resolve trade issues

**Trigger:** US increased from 10% to 25% on $200 billion of Chinese products

- China issued 2nd White Paper, reiterating a) US should bear the sole and entire responsibility for setbacks, b) China will not give ground on issues of principle.

- China acted “reactively”; “the ball is on the US side”
- China stated that US should not hope to force concessions by pressuring China
- China: both sides should roll back tariffs in the same proportion and simultaneously in phases
China Perspective – A Single flower does not make Spring

Protectionism

Globalization
What’s Next?

Conclusion

• New normal: piecemeal agreements in the context of ongoing and inevitable frictions
• China’s efforts to end the war – a more open attitude
• It is always about “win-win” partnership to grow trade: mutuality
• ABC’s continued market promotion to pave way for smooth trade in a global level, China included.

Recommendation

• Short-term:
  ➢ Tariff exemption in China
  ➢ China’s USD $ 40-50 billion purchase

• Medium to long-term:
  ➢ Elevate partnership with industry associations
  ➢ Strengthen industry reputation from new perspectives: sustainability
  ➢ Diversify business mode and supply chains exporting to China: Cross-Border E-Commerce (CBEC), Processing in the FTZs