EDITORIAL

Trade Wars and the United States Farmer

From July 2018, the United States and China have been engaged in a bitter trade war. The United States has raised tariffs (to the rate of 25 per cent in May 2019) on US $250 billion worth of goods that China exports to it. United States President Donald Trump has threatened to impose tariffs on more Chinese exports in the coming days, and also to crack down on the American operations of Chinese technology firms such as Huawei.

The Chinese have retaliated to the strong-arm tactics of the United States by hitting at a constituency that is electorally very important for Mr Trump – the United States farmer. China has imposed tariffs on a number of agricultural products it imports from the United States, including soybean, peanut butter, beef, orange juice, and pork. The raising of tariffs on soybean imports from the United States is turning out to be a powerful weapon for China in the ongoing trade war.

Over the last two decades, there has been a huge increase in demand in China for soybean, mostly as animal feed. This is a consequence of the rising consumption of meat (pork, poultry, and beef) by an increasingly affluent Chinese population. Brazil and the United States have been the two largest producers and exporters of soybean worldwide. In 2017, the value of exports of soybean by Brazil and the United States was $25.7 billion and $21.6 billion. At the same time, China has been the largest market in the world for soybean, accounting for almost two-thirds of the total imports of this commodity worldwide. In 2017, the value of soybean sold by the United States to China was $13.9 billion, 64.4 per cent of its total export ($21.6 billion) of soybean in that year, according to an analysis published in the media outlet *The Conversation.*

Given the scale of imports, soybean has emerged as an effective target for China as it battles with the United States on the trade front. The export of soybean from the United States to China has fallen drastically after China raised the tariff barrier for American producers. This soybean trade was 80 per cent lower in the current marketing year (starting September 1, 2018) than the average value of trade during the corresponding period in three previous marketing years. To compensate for lower inputs from the United States, China has increased imports of soybean from Brazil, making that country a significant beneficiary in this ongoing trade war.

The decline in demand from China has affected soybean farmers in north-central States (the Midwest), especially Illinois, Iowa, Minnesota, Nebraska, Ohio, Indiana, and Missouri (most of these States supported Mr Trump in the 2016 elections). In response, the United States administration has acted quickly to support the farmers. Last year, the government provided $12 billion as emergency relief for farmers, including $7.2 billion in payments for soybean farmers. In May 2019, Mr Trump, contending that the "farmers have been attacked by China," announced another bailout package for farmers, which amounted to $16 billion.

The US-China clash over trade in soybean brings into focus some of the issues related to the global trading system, especially its unfairness towards farmers in developing countries. The Agreement on Agriculture signed in 1994 as part of the Uruguay Round of General Agreement on Tariffs and Trade (GATT) prevented developing countries from protecting their agricultural sector through tariffs or subsidies. Nevertheless, it allowed developed countries to continue supporting farmers in their countries through what has been described as non-trade-distorting (or "green box") subsidies.

In 2018, the agricultural sector employed only 1 per cent of the total workforce in the United States and 4 per cent in the European Union, as compared to 27 per cent in China and 44 per cent in India (according to data from World Development Indicators compiled by the World Bank). Nevertheless, the United States and European Union are among the largest producers and exporters of many agricultural products, including corn, wheat, oilseeds, and meat. The high levels of agricultural productivity achieved by the United States and European Union are based on subsidies and trade protection enjoyed by farmers in these countries.

In fact, the United States policy of offering direct support to its farmers is completely at odds with its championing of free trade and free markets elsewhere in the world. Further, the food-related aid that the United States extends to poor, developing countries pales in comparison to its financial support for the relatively small farming population within its own country. A study by Kimberly Ann Elliott of the Centre for Global Development finds that between 2000 and 2008, the United States government spent $10 billion as aid for agriculture and nutrition in developing countries while its assistance to American farmers amounted to as much as $300 billion. A small number of big farmers in the United States receive the bulk of subsidy for agriculture. A report in the *Financial Times* on May 19, 2019 suggested that of the recently offered government support to farmers affected by trade with China, around 3,000 farm businesses received assistance of more than $125,000, 100 firms received at least $500,000, and a few firms collected almost $1 million.

Subsidies received by farmers in rich countries have been instrumental in suppressing global agricultural prices and depressing the incomes of farmers in developing countries. In India, the liberalisation of agricultural trade and the consequent stagnation in agricultural prices had led to severe distress among farmers, particularly during the 1990s and the first half of the 2000s. Unlike farmers in the United States or European Union, farmers in developing countries get very little in the way of subsidies or other forms of assistance from their governments. In India, the decline of public investment in agriculture, including in irrigation and agricultural research and development, from the 1990s onwards, has worsened the crisis in this sector.

Global trading rules have been unfair to developing countries in other ways too. Tropical products such as coffee, cocoa, and tea face very low tariffs from developed countries when sold as unprocessed commodities, but attract high tariffs when processed even minimally. The United States maintains quantitative restrictions on imports even from least developed countries (LDCs), although other high-income countries exempt LDCs from such restrictions.

The United States opposed certain provisions of India's food security bill, arguing that public procurement of foodgrain from farmers at administered prices and holding stocks of grain violated principles of free trade. The World Trade Organisation's (WTO) Doha Round of negotiations began with the objective of reducing trade-distorting agricultural subsidies received by farmers in rich countries, thereby making agricultural trade fairer. However, the negotiations have failed to reach an agreement, and the Doha Round effectively ended with the Nairobi meeting of WTO in 2015.

It is too early to predict how the clash between the United States and China over trade will turn out. The generous government assistance received by American farmers hurt by the trade war highlights the iniquitous nature of the global trading regime on agriculture. At the same time, the Chinese government has been pursuing a rural rejuvenation strategy from 2017 to improve agricultural incomes and to support the production of crops that it imports, such as soybean and oil seeds. International trade in agriculture is going to witness more intense action in the coming days and months.