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'Phase one' China trade deal signals hope for U.S. ag exports

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The U.S. and China hope to sign an initial, "phase one" trade deal in coming weeks that could signal the beginning of the end of their trade war. The deal will likely include a provision for China to purchase a set amount of U.S. agricultural goods, among other provisions.

It's unclear whether current U.S. agricultural export levels would support increased Chinese purchases. In 2017 — the most recent year not affected by major U.S. or Chinese trade war tariffs — total U.S. agricultural exports were about $100 billion, for which China accounted for about $17.3 billion in exports.

At the start of the trade war, China "just went to South America and elsewhere around the world ... to fill their needs," explained Mark Schultz, chief analyst at Northstar Commodity, a commodities brokerage in Minneapolis. If China agreed to purchase additional U.S. ag goods, it would shift back to purchasing from the U.S. rather than increasing total agricultural purchases.

The relative size of Chinese ag orders would benefit American exporters, Schultz said. "It's easy to get a big purchase order" from Chinese buyers, he said, explaining Chinese orders can be as large as multiple countries' orders combined.

China is already a top destination for U.S. ag exports
U.S. agricultural exports, 2017

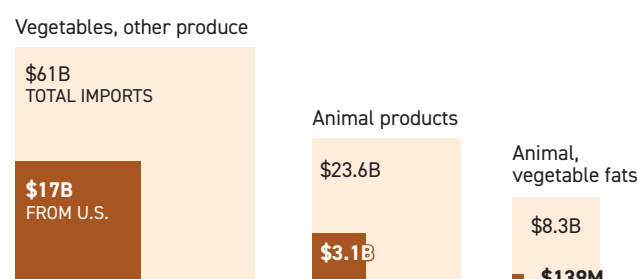|	
$100B Total ag exports	TO CHINA **$17.3B**
	TO MEXICO **$13.3B**
	TO CANADA **$12.5B**
	TO JAPAN **$10.7B**
	TO EU **$8.6B**
	TO SOUTH KOREA **$5.5B**
	TO REST OF WORLD **$31.6B**

Note: Data shown here includes exports classified under the first 15 chapters of the Harmonized System. They include live animals, animal products, vegetable products, animal and vegetable fats and related products. They do not include manufactured food products, prepared foods, beverages, tobacco or similar products.

Where China can increase purchases of U.S. ag products

If China agrees to increase U.S. ag purchases, it is most likely to shift existing purchases to U.S. goods, rather than increasing total purchases. Schultz predicted China could be interested in U.S. meat, like pork and poultry, and other products like soybeans, wheat and corn. Schultz also said China could increase U.S. ethanol purchases again, if it were on the table for ag purchases. An outbreak of African Swine Fever in China could also increase demand for U.S. pork.
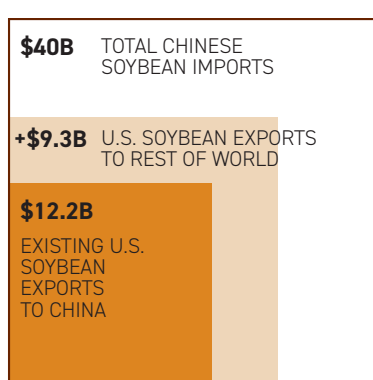
POLITICO used 2017 trade data to illustrate how China could reach $40 billion in total U.S. ag purchases. Two ways China could increase purchases would be to buy more of its top agricultural imports, overall, from the U.S., or to ramp up existing purchases of U.S. ag products. China's increased purchases would be limited by two factors: The extent of Chinese demand, and of U.S. supply.
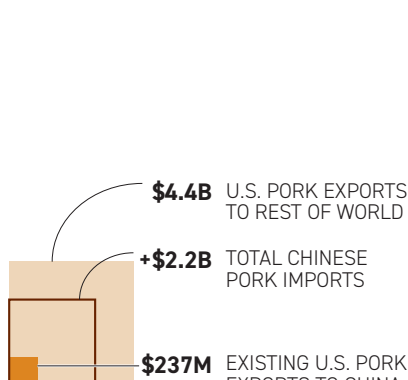
Chinese agricultural imports, 2017

Vegetables, other produce
$61B TOTAL IMPORTS
$17B FROM U.S.

Animal products
$23.6B
$3.1B

Animal, vegetable fats
$8.3B
$139M

EXAMPLE:
Maxing out U.S. supply: China could buy $9.3B more of U.S. soybeans

$40B TOTAL CHINESE SOYBEAN IMPORTS

+$9.3B U.S. SOYBEAN EXPORTS TO REST OF WORLD

$12.2B EXISTING U.S. SOYBEAN EXPORTS TO CHINA

In 2017, China reported importing about $40 billion worth of soybeans. That year, the U.S. exported about $21.5 billion in soybeans, $12.2 billion of which went to China. If China purchased as much U.S. soybeans as supply allowed — an additional $9.3 billion — total Chinese ag purchases would grow from $17.3 billion to $26.6 billion.

EXAMPLE:
Maxing out Chinese demand: China could buy $2B more of U.S. pork

$4.4B U.S. PORK EXPORTS TO REST OF WORLD

+$2.2B TOTAL CHINESE PORK IMPORTS

$237M EXISTING U.S. PORK EXPORTS TO CHINA

In 2017, China reported importing about $2.2 billion worth of pork. That year, the U.S. exported about $4.6 billion in pork, $237 million of which went to China. If China purchased as much pork as domestic demand allowed — an additional $2 billion — total Chinese ag purchases would grow from $17.3 billion to $19.3 billion.

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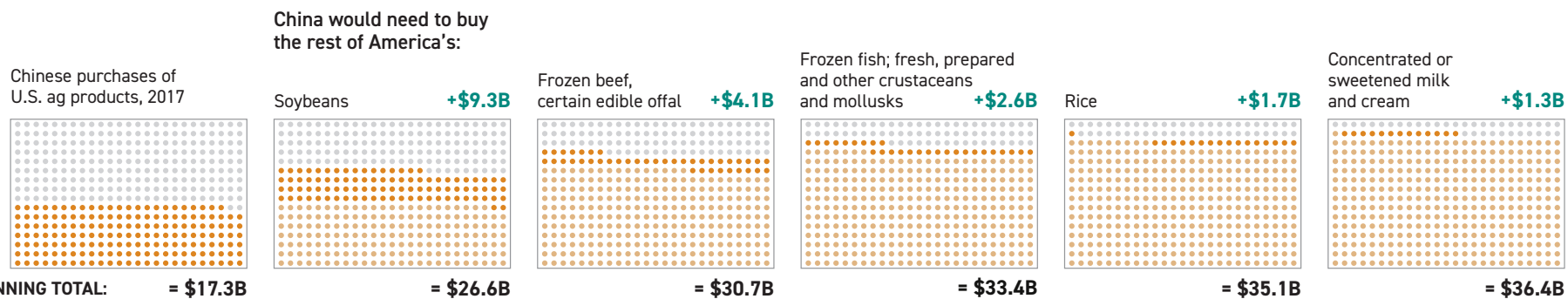**and your Account Manager will follow up shortly.**

Scenario 1: China increases U.S. purchases of its largest ag imports

In this hypothetical scenario, China would buy as much of its top agricultural imports from the U.S. as possible. In some instances, this would be limited by U.S. supply — for example, in 2017, U.S. soybean exports were less than Chinese soybean imports. In others, it is constrained by Chinese demand — for example, in 2017 the U.S. exported more pork than China imported.
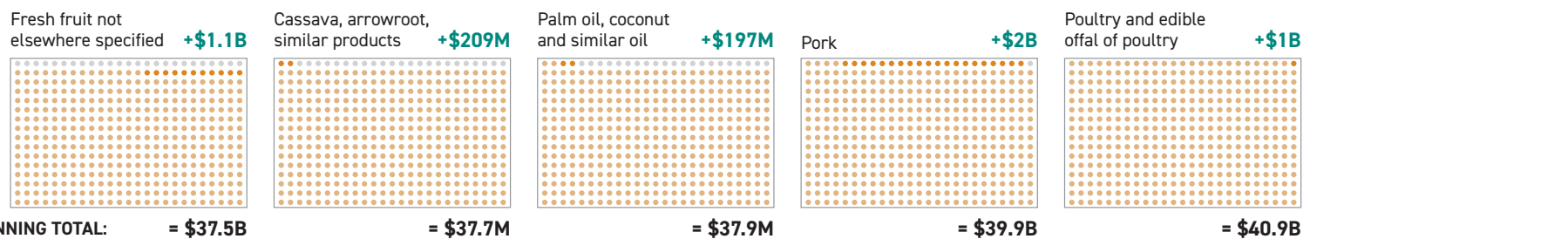
This scenario assumes a base level of Chinese purchases of $17.3 billion, the level of Chinese ag purchases in 2017 before the trade war began. In 2017, their top imports included soybeans, frozen fish, palm oil, beef and crustaceans. China would have to max out purchases of 14 classes of goods to reach total ag purchases of about $40 million.

To reach $40B, China would have to buy all of America's soybeans, frozen beef and fish, rice ... and buy exclusively American pork and poultry

● = $100 MILLION

China would need to buy the rest of America's:

Chinese purchases of U.S. ag products, 2017	Soybeans **+$9.3B**	Frozen beef, certain edible offal **+$4.1B**	Frozen fish; fresh, prepared and other crustaceans and mollusks **+$2.6B**	Rice **+$1.7B**	Concentrated or sweetened milk and cream **+$1.3B**
RUNNING TOTAL: = $17.3B	= $26.6B	= $30.7B	= $33.4B	= $35.1B	= $36.4B

And China would also need to buy the rest of its pork and poultry imports only from the U.S.:

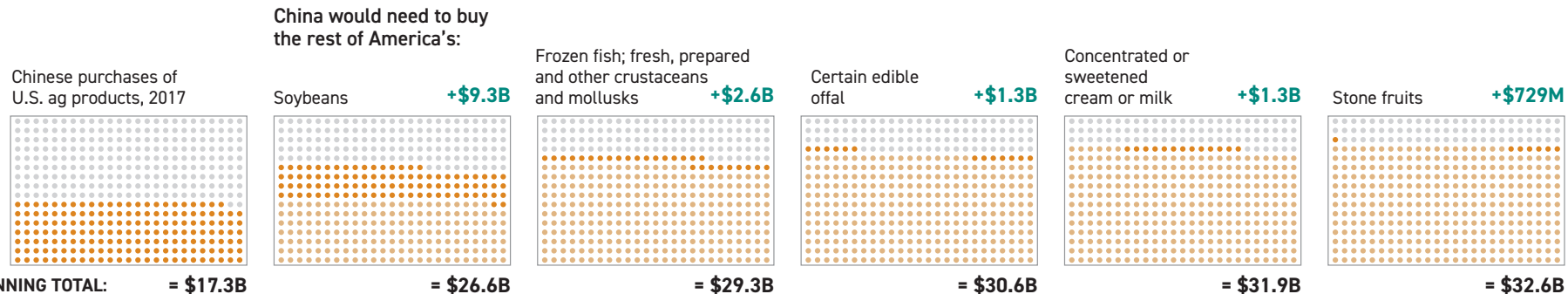| Fresh fruit not elsewhere specified **+$1.1B**	Cassava, arrowroot, similar products **+$209M**	Palm oil, coconut and similar oil **+$197M**	Pork **+$2B**	Poultry and edible offal of poultry **+$1B**
RUNNING TOTAL: = $37.5B	= $37.7M	= $37.9M	= $39.9B	= $40.9B

Scenario 2: China increases purchases of top goods from U.S.

In this hypothetical scenario, China would buy more of the top agricultural goods it already buys from the U.S. In some instances, this would be constrained by either Chinese demand — as is the case for products like sorghum and wheat. In others it is constrained by U.S. supply — like for soybeans and stone fruits.

This scenario assumes a base level of Chinese purchases of $17.3 billion, the level of Chinese ag purchases in 2017, before the trade war began. Based on top U.S. exports to China in 2017, China would have to increase purchases of 24 classes of goods to reach total ag purchases of about $40 million.

To reach $40B, China would have to buy all of America's soybeans and frozen fish ... and buy exclusively American sorghum and citrus

● = $100 MILLION

China would need to buy the rest of America's:

Chinese purchases of U.S. ag products, 2017	Soybeans **+$9.3B**	Frozen fish; fresh, prepared and other crustaceans and mollusks **+$2.6B**	Certain edible offal **+$1.3B**	Concentrated or sweetened cream or milk **+$1.3B**	Stone fruits **+$729M**
RUNNING TOTAL: = $17.3B	= $26.6B	= $29.3B	= $30.6B	= $31.9B	= $32.6B

And China would also need to buy the rest of its following imports only from the U.S.:

Pork; guts, bladders, stomachs and parts **+$2.1B**	Citrus fruits, grapes; other nuts **+$1.6BM**	Sorghum, corn and wheat **+$1.3B**	Whey, milk products; cheese and curds **+$856M**	Vegetable saps and extracts, soybean oil **+$687M**	Raw peanuts; rutabagas, other forage products; seeds for sowing **+$542M**
RUNNING TOTAL: = $34.7B	= $36.3B	= $37.7B	= $38.5B	= $39.2B	= $39.7B

Dried, shelled legumes **+$480M**	Fish fillets **+$171M**
RUNNING TOTAL: = $40.2B	= $40.4B

Notes: Dollar values of U.S. exports to China are determined by USA Trade database, while Chinese import data is based on China-reported numbers in the U.N. Comtrade database. Values for "remaining U.S. exports" are U.S. exports less U.S. exports to China; values for "remaining Chinese demand" are Chinese imports less U.S. exports to China. In Scenario 1, Chinese purchases of rapeseed and colza and of barley are not shown because the U.S. did not report any exports to China of these goods. In Scenario 2, U.S. exports of bones and horn-cores to China are not shown as neither total U.S. exports nor Chinese imports exceeded $100 million.

Sources: USTR, USA Trade database, U.S. Census Bureau, POLITICO Pro reports, Bloomberg, Business Insider, CNBC, Supply Chain Dive, The Wall Street Journal

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