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BACKGROUNDER

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How the U.S.–China Trade Dispute Affects U.S. Agriculture: What You Should Know

Daren Bakst, Gabriella Beaumont-Smith, and Riley Walters

Abstract
The current trade dispute between the U.S. and China has negatively impacted the U.S. agricultural sector and will likely continue to do so in the future. U.S. tariffs imposed on China, including those for alleged unfair trade practices, are self-defeating and have resulted in China imposing large retaliatory tariffs on U.S. agricultural exports. Due to this trade dispute, American farmers and ranchers are at risk of losing important trading relationships and opportunities in China. Any alleged unfair practices should be addressed at the World Trade Organization using the dispute-settlement process, a process that the U.S. has used very successfully in the past. The U.S. should fight to reduce trade barriers so that American farmers and ranchers can have access to new customers all over the world, and American families can have access to a greater variety of agricultural products year-round.

The United States and China are in the midst of a major trade dispute, with the U.S. imposing tariffs on Chinese goods, and China responding with retaliatory tariffs on American goods. There has been some hope that current negotiations between the two countries could help to put an end to this tit-for-tat dispute, but to date, it remains very much alive.

This *Backgrounder* analyzes the dispute, with a specific focus on how it affects U.S. agriculture. Further, it identifies measures for eliminating the harm resulting from the trade dispute, while addressing any legitimate concerns over China's trade practices.

Key Points

- In the U.S.–China trade dispute, U.S. tariffs are a self-inflicted wound on the entire U.S. economy, including the agricultural sector.
- The dispute risks losing important opportunities in the critical China market for U.S. farmers and ranchers, a leading market for U.S. agricultural exports.
- China is now imposing costly retaliatory tariffs on U.S. food and agricultural products, including major agricultural exports to China, such as soybeans and pork products.
- To address unfair practices, the U.S. should make greater use of the WTO dispute-settlement process, in which the U.S. has had major successes.
- The U.S. should be fighting to free up trade by removing domestic and foreign trade barriers, not by creating more barriers. A commitment to free trade will help the U.S. prosper, and expand opportunities for the nation's farmers and ranchers to sell even more of their products around the world.

This paper, in its entirety, can be found at **http://report.heritage.org/bg3391**

The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

The U.S.–China Trade Dispute

In 2018, the United States imposed major tariffs on imports through three different legal provisions:[1]

1. Section 201 of the Trade Act of 1974. The U.S. imposed tariffs on washing machines and solar products on the grounds that imports were allegedly causing serious injury or threat of serious injury to domestic industries.[2] These tariffs apply to a wide number of countries, including China. In justifying the Section 201 tariffs on solar products, the Office of the United States Trade Representative (USTR) focused on China's actions.[3] According to the USTR, China is a major player in the solar market, producing "60 percent of the world's solar cells and 71 percent of solar modules."[4]

2. Section 232 of the Trade Expansion Act of 1962. Based on national security concerns,[5] the U.S. imposed tariffs on aluminum (10 percent) and steel imports (25 percent).[6] This was the first time the U.S. has imposed Section 232 tariffs in over 30 years.[7] These tariffs apply to a wide number of countries, including China.

3. Section 301 of the Trade Act of 1974. Section 301 tariffs are justified, according to the USTR, due to "China's unfair trade practices related to the forced transfer of U.S. technology and intellectual property."[8] Unlike the Section 201 and Section 232 tariffs, these Section 301 tariffs only target China.[9] Throughout 2018, the Section 301 tariffs went into effect:

- July 6, 2018: The United States imposed Section 301 tariffs (25 percent tariffs) on about $34 billion worth of Chinese imports.[10]

1. Brock Williams, "Escalating Tariffs: Timeline," Congressional Research Service, September 24, 2018, https://fas.org/sgp/crs/row/IN10943.pdf (accessed February 6, 2019).
2. U.S. International Trade Commission, "Understanding Safeguard Investigations," https://www.usitc.gov/press_room/us_safeguard.htm (accessed February 6, 2019).
3. U.S. Trade Representative, "Section 201 Cases: Imported Large Residential Washing Machines and Imported Solar Cells and Modules," https://ustr.gov/sites/default/files/files/Press/fs/201%20Cases%20Fact%20Sheet.pdf (accessed February 6, 2019), and Kristen Korosec, "Solar Trade Case: Trump Says Yes to New Tariffs That Target China," *Fortune*, January 23, 2018, http://fortune.com/2018/01/22/solar-trade-case-trump-says-yes-to-new-tariffs-that-target-china/ (accessed February 6, 2019).
4. U.S. Trade Representative, "Section 201 Cases: Imported Large Residential Washing Machines and Imported Solar Cells and Modules," https://ustr.gov/sites/default/files/files/Press/fs/201%20Cases%20Fact%20Sheet.pdf (accessed February 6, 2019).
5. To learn more about the recent Section 232 process, see Rachel Fefer et al., "Section 232 Investigations: Overview and Issues for Congress," Congressional Research Service *Report for Congress*, November 21, 2018, https://fas.org/sgp/crs/misc/R45249.pdf (accessed February 7, 2019).
6. Randy Schnepf et al., "Farm Policy: USDA's Trade Aid Package," Congressional Research Service, January 10, 2019, https://fas.org/sgp/crs/misc/R45310.pdf (accessed February 6, 2019). This is in addition to existing aluminum tariffs. For example, in 2017, the tariff on unwrought aluminum (HTS code 7601) was 2.6 percent per kilogram. See U.S. International Trade Commission, "Harmonized Tariff Schedule of the United States (2017) Basic Edition," February 2017, https://hts.usitc.gov/view/release?release=basicCorrections2 (accessed February 7, 2019), and U.S. Department of Commerce, Bureau of Industry and Security, "The Effect of Imports of Aluminum on the National Security," January 17, 2018, https://www.commerce.gov/sites/default/files/the_effect_of_imports_of_aluminum_on_the_national_security_-_with_redactions_-_20180117.pdf (accessed February 7, 2019). The United States also has extensive antidumping and countervailing duties (AD/CVDs) on steel, particularly on imports from China. See Rachel Fefer et al., "Section 232 Investigations: Overview and Issues for Congress."
7. A CRS report indicates that 1982 was the last time Section 232 tariffs were imposed. However, another CRS report explains that "a President arguably last acted under Section 232 in 1986." Instead of the imposition of tariffs, the President sought voluntary export restraints. See Brock Williams et al., "Escalating Tariffs: Timeline," and Fefer et al., "Section 232 Investigations: Overview and Issues for Congress."
8. U.S. Trade Representative, "Under Section 301 Action, USTR Releases Proposed Tariff List on Chinese Products," April 3, 2018, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/april/under-section-301-action-ustr (accessed February 6, 2019), and U.S. Trade Representative, "USTR Finalizes Tariffs on $200 Billion of Chinese Imports in Response to China's Unfair Trade Practices," September 18, 2018, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/september/ustr-finalizes-tariffs-200 (accessed February 6, 2019).
9. In March 2018, the United States filed a case with the World Trade Organization (WTO) against China for noncompliance with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Instead of waiting for a resolution, the United States imposed the Section 301 tariffs on China. World Trade Organization, "China—Certain Measures Concerning the Protection of Intellectual Property Rights," January 16, 2019, https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds542_e.htm (accessed February 6, 2019).
10. U.S. Trade Representative, "USTR Finalizes Second Tranche of Tariffs on Chinese Products in Response to China's Unfair Trade Practices," August 7, 2018, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/august/ustr-finalizes-second-tranche (accessed February 6, 2019).

- August 23, 2018: The United States imposed Section 301 tariffs (25 percent tariffs) on about an additional $16 billion worth of Chinese imports.[11]

- September 24, 2018: The United States imposed Section 301 tariffs (10 percent tariffs) on about an additional $200 billion worth of Chinese imports.[12]

In 2018, the USTR looked specifically at whether the Section 301 tariffs imposed on China changed the country's alleged unfair trade practices. However, according to the USTR, China "made clear—both in public statements and in government-to-government communications—that it would not change its policies in response to the initial Section 301 action [tariffs]."[13]

The USTR also found that the tariffs were not effective in altering China's "acts, policies, and practices related to technology transfer, intellectual property, and innovation."[14]

In response to the Section 232 tariffs and Section 301 tariffs, China instituted retaliatory tariffs[15] on U.S. exports, including agricultural exports. The Congressional Research Service (CRS) has explained that China "has levied retaliatory tariffs on about 800 U.S. food and agricultural products that were worth about $20.6 billion in exports to that country in 2017."[16]

Current U.S.–China Discussions. The Section 301 tariffs that went into effect on September 24, 2018, were set at a rate of 10 percent. On January 1, 2019, this tariff rate was set to increase to 25 percent; however, after a meeting between Presidents Donald Trump and Xi Jinping at the G20 Summit in Argentina on December 1, 2018, both sides decided to enter into a new phase of trade negotiations and delay the tariff increase until March 2, 2019 (the deadline to reach a deal is March 1).[17] On February 24, 2019, President Trump delayed this March 1 deadline.[18]

Overview of U.S. Agricultural Trade with China

For many American farmers and ranchers, agricultural trade is a necessity, since they produce more than they can sell domestically.[19] Free trade makes it possible for them to find customers outside the U.S. for their production and to expand into new markets. American consumers, for their part, benefit from agricultural trade by having access to a greater number of agricultural products throughout the year. Products that may have once been seasonal can be purchased throughout the year, and the increased supply can help to reduce consumer costs.

This trade dispute is an even greater concern because China is a key agricultural trading partner. China is both a leading agricultural export market for the United States, and a leading supplier of agricultural imports into the U.S.

U.S. Agricultural Exports to China. China was the second-largest market for U.S. agricultural exports in 2017, behind Canada, accounting for 14 percent of total U.S. agricultural exports. Just one year earlier, in 2016, China was the largest agricultural

11. Ibid.
12. U.S. Trade Representative, "USTR Finalizes Tariffs on $200 Billion of Chinese Imports in Response to China's Unfair Trade Practices."
13. U.S. Trade Representative, "Update Concerning China's Acts, Policies and Practices Related to Technology Transfer, Intellectual Property, and Innovation," November 20, 2018, https://ustr.gov/sites/default/files/enforcement/301Investigations/301%20Report%20Update.pdf (accessed February 6, 2019).
14. Ibid.
15. These retaliatory tariffs are in addition to whatever existing tariffs might already exist for U.S. agricultural exports to China.
16. Schnepf et al., "Farm Policy: USDA's Trade Aid Package."
17. The White House, "Statement from the Press Secretary Regarding the President's Working Dinner with China," December 1, 2018, https://www.whitehouse.gov/briefings-statements/statement-press-secretary-regarding-presidents-working-dinner-china/ (accessed February 6, 2019), and U.S. Trade Representative, "Notice of Modification of Section 301 Action: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation," *Federal Register*, Vol. 83, No. 243 (December 19, 2018), https://www.federalregister.gov/documents/2018/12/19/2018-27458/notice-of-modification-of-section-301-action-chinas-acts-policies-and-practices-related-to (accessed February 6, 2019).
18. Michael Burke, "Trump Says He's Delaying March 1 Deadline for China Trade Deal," *The Hill*, February 24, 2019, https://thehill.com/policy/finance/431354-trump-says-hes-delaying-march-1-deadline-for-china-trade-deal (accessed February 25, 2019).
19. U.S. Department of Agriculture, Economic Research Service, "U.S. Agricultural Trade at a Glance," https://www.ers.usda.gov/topics/international-markets-us-trade/us-agricultural-trade/us-agricultural-trade-at-a-glance/ (accessed February 11, 2019).

TABLE 1

Select U.S. Agricultural Exports to China, 2017

Product	Rank of the China Market	Share of Product's World Exports	Value (in billions of U.S. dollars)	Product Share of Total Agricultural Exports to China
Soybeans	1	57%	$12.25	63%
Cotton	2	17%	$0.98	5%
Hides & Skins	1	50%	$0.94	5%
Coarse Grains (excl. corn)	1	75%	$0.84	4%
Dairy Products	2	11%	$0.57	3%
Pork & Pork Products	4	8%	$0.49	3%
Hay	2	27%	$0.38	2%
Wheat	5	6%	$0.35	2%
Tobacco	2	16%	$0.16	1%
Processed Fruit	3	8%	$0.14	1%

NOTE: "Coarse Grains" primarily includes grain sorghum and excludes corn. This table does not include products under USDA's "Agricultural and Related Products Total," such as forest products and fish products that have significant exports to China. This table includes products under USDA's "Agricultural Total" only.
SOURCE: U.S. Department of Agriculture, Foreign Agricultural Service, "Global Agricultural Trade System," https://apps.fas.usda.gov/gats/default.aspx (accessed August 8, 2018).

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export market for the United States. (In recent years, China has been swapping the top spot with Canada.)[20]

There has been major growth in U.S. agricultural exports to China. U.S. exports to China have gone from $376.2 million in 1993 ($579.3 million in 2017 dollars) to $19.5 billion in 2017.

For agricultural exports, China will continue to be an important market with great potential. As explained by the U.S. Department of Agriculture (USDA), "China offers our best opportunity for major export growth in the future."[21]

As shown in Table 1, China is a very important export destination for many U.S. agricultural products. China is especially important for soybeans; the United States exported 57 percent of its soybeans to China in 2017. Soybeans are the largest agricultural export to China, accounting for 63 percent of all U.S. agricultural exports to China and totaling over $12.3 billion in 2017.

Chinese Agricultural Imports to the U.S. China was the United States' fourth-largest supplier of agricultural imports in 2017. Agricultural imports from China were $458.6 million ($706.1 million in 2017 dollars) in 1993. Twenty-five years later, in 2017, this number had grown to $4.3 billion.

The Trade Dispute's Harmful Impact on Agriculture

The U.S. tariffs are a self-inflicted wound on the entire economy, including the agricultural sector. These tariffs serve as a tax on a wide range of imported goods; American businesses importing the Chinese goods pay the tariffs (not Chinese businesses), and then they likely pass the costs on to their customers. These tariffs also lead to retaliatory tariffs that reduce U.S. exports to China. This dispute risks losing important opportunities in the critical China

20. Daren Bakst and Gabriella Beaumont-Smith, "Agricultural Trade with China: What's at Stake for American Farmers, Ranchers, and Families," Heritage Foundation *Backgrounder* No. 3340, August 29, 2018, https://www.heritage.org/agriculture/report/agricultural-trade-china-whats-stake-american-farmers-ranchers-and-families.

21. U.S. Department of Agriculture, Foreign Agricultural Service, "Despite Continued Challenges, China Offers Huge Potential for U.S. Farm Exports," January 31, 2018, https://www.fas.usda.gov/newsroom/despite-continued-challenges-china-offers-huge-potential-us-farm-exports (accessed February 11, 2019).

TABLE 2

China's Retaliatory Tariffs on Select U.S. Agricultural Products

Select U.S. Food and Agricultural Products Subject to China's Retaliatory Tariffs	Retaliatory Tariff Imposed by China	U.S. Tariffs that China Is Responding To
Cotton	50%	301
Pork*	25% and 25%	232 and 301
Apples	40%	232
Cherries	40%	232
Cheese	25%	301
Ginseng	25%	232
Seafood**	25%	301
Sorghum	25%	301
Soybeans	25%	301
Whiskey	25%	301

* Does not include all pork product exports to China, and not all pork product exports to China are subject to both retaliatory tariffs.
** Includes more than 150 varieties of seafood and seafood products, but not all U.S. seafood exports.
SOURCES: "Profiles and Effects of Retaliatory Tariffs on U.S. Agricultural Exports," Congressional Research Service, December 31, 2018, https://www.everycrsreport.com/files/20181231_R45448_c4b1356e5c8d996016a49d20b9ee9aba54db46c4.pdf (accessed February 8, 2019); American Farm Bureau Federation, "Statement to the Hearing before the Senate Committee on Agriculture: Perspectives on U.S. Agricultural Trade," September 13, 2018, https://www.ilfb.org/media/3529/trade-afbf-statement-180912.pdf (accessed February 8, 2019); and U.S. Trade Representative, "USTR Finalizes Tariffs on $200 Billion of Chinese Imports in Response to China's Unfair Trade Practices," September 18, 2018, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/september/ustr-finalizes-tariffs-200 (accessed February 8, 2019).

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market for American farmers and ranchers and, as the dispute continues, the costs will likely become more significant.

As noted, China has imposed retaliatory tariffs on about 800 food and agricultural products from the U.S. Like other countries, including the U.S., China is being strategic in how it applies its retaliatory tariffs, in part imposing tariffs that will inflict the most "pain."

As shown in Table 2, China is imposing significant tariffs on important U.S. agricultural exports, such as soybeans (25 percent), pork products (50 percent),[22] and sorghum (25 percent). These tariffs will make it more difficult for U.S. producers to sell these products in China.

One of the most telling statistics regarding this trade dispute is the USDA's current forecast that China will drop from the second-largest to the fifth-largest agricultural export market for the United States in 2019.[23]

The extent of the harm is still difficult to ascertain because the trade dispute is ongoing and the full harm from tariffs may not be immediate. However, there is already a significant amount of evidence show-

22. This includes a 25 percent retaliatory tariff in response to Section 232 tariffs and another 25 percent retaliatory tariff in response to Section 301 tariffs. "Profiles and Effects of Retaliatory Tariffs on U.S. Agricultural Exports," Congressional Research Service, December 31, 2018, https://www.everycrsreport.com/files/20181231_R45448_c4b1356e5c8d996016a49d20b9ee9aba54db46c4.pdf (accessed February 8, 2019). This is in addition to an existing 12 percent tariff. See Ashley Williams, "Escalating Chinese Pork Tariffs Could Put US Producers 'Out of Business,'" GlobalMeatNews.com, July 11, 2018, https://www.globalmeatnews.com/Article/2018/07/11/China-raises-US-pork-tariffs-to-62 (accessed February 6, 2019), and "China Tariff On U.S. Pork Now Tops 60%," National Hog Farmer, July 6, 2018, https://www.nationalhogfarmer.com/business/china-tariff-us-pork-now-tops-60 (accessed February 6, 2019). Not all U.S. pork product exports to China that are subject to retaliatory tariffs are subjected to both tariffs.
23. U.S. Department of Agriculture Economic Research Service, "Outlook for U.S. Agricultural Trade," December 4, 2018, https://www.ers.usda.gov/topics/international-markets-us-trade/us-agricultural-trade/outlook-for-us-agricultural-trade/ (accessed February 6, 2019).

ing harm across U.S. food and agricultural products. For example:

- The value of U.S. cheese exports to China between July 2018—the month the tariffs took effect—and October 2018 declined by 51 percent from the same period in 2017.[24]

- According to CRS, "Total U.S. sorghum exports for FY2018 were valued at $759 million and are forecast to decline to $500 million in FY2019."[25] China has easily been the biggest market for U.S. sorghum exports, accounting for about 80 percent of sorghum exports in recent years.[26]

- Informa Economics, in a study commissioned by the U.S. Dairy Export Council, found that China's retaliatory tariffs on dairy products would reduce U.S. dairy exports to China by $3.1 billion through 2023.[27]

Soybeans. Lost soybean sales to China will likely play the biggest role in reducing total U.S. agricultural exports to China. Soybeans are easily the largest U.S. agricultural export to China, accounting for 63 percent of all U.S. agricultural exports to China in 2017. (See Table 1.)

In December 2018, CRS noted that "U.S. soybean exports for January through October 2018 are 63% lower than during that time period in 2017." CRS further noted: "After China hiked its tariff on U.S. soybeans in early July 2018, U.S. exports to China essentially halted, even as USDA was forecasting a record U.S. soybean crop."

Farzad Taheripour and Wallace Tyner, two Purdue University agricultural economists, writing in *Choices* (a publication of the Agricultural & Applied Economics Association) analyzed the potential impact of a Chinese 25 percent tariff on U.S. soybeans and other agricultural commodities. They found that U.S. soybean exports to China would fall by 48 percent, and total U.S. soybean exports would fall by 24 percent.[28]

Further, Taheripour and Tyner explain, "Exports to other countries make up about half of the loss in Chinese exports. Brazil and other exporters capture more of the Chinese market, and the United States takes some of the markets that other exporters give up."[29]

The USDA has also concluded that increased soybean exports to other countries would not make up for lost sales to China.[30]

As the U.S. loses soybean sales to China, other countries, such as Argentina and Brazil, will likely fill the void to meet China's demand for soybeans.[31] There is a very real possibility that there could be long-term damage to U.S. soybean sales to China.[32]

24. "Profiles and Effects of Retaliatory Tariffs on U.S. Agricultural Exports," Congressional Research Service, December 31, 2018, https://www.everycrsreport.com/files/20181231_R45448_c4b1356e5c8d996016a49d20b9ee9aba54db46c4.pdf (accessed February 6, 2019).
25. Ibid.
26. Ibid.
27. Informa Agribusiness Consulting, "Economic Impact of Retaliatory Tariffs from Mexico and China on the US Dairy Sector," August 2018, http://www.nmpf.org/files/files/USDEC%20Retaliatory%20Tariff%20Report%20-%20Final.pdf (accessed February 6, 2019).
28. Farzad Taheripour and Wallace Tyner, "Impacts of Possible Chinese 25% Tariff on U.S. Soybeans and Other Agricultural Commodities," *Choices*, Quarter 2 (2018), http://www.choicesmagazine.org/choices-magazine/theme-articles/us-china-trade-dispute-and-potential-impacts-to-agriculture/impacts-of-possible-chinese-25-tariff-on-us-soybeans-and-other-agricultural-commodities (accessed February 6, 2019).
29. Ibid.
30. Author name redacted, "Profiles and Effects of Retaliatory Tariffs on U.S. Agricultural Exports," Congressional Research Service, December 31, 2018, p. 14, https://www.everycrsreport.com/files/20181231_R45448_c4b1356e5c8d996016a49d20b9ee9aba54db46c4.pdf (accessed February 6, 2019).
31. See, for example, Jake Spring, "Brazil Exports 80 percent of Soy to China in January-August: Agriculture Ministry," Reuters, September 14, 2018, https://www.reuters.com/article/us-brazil-agriculture-soybeans/brazil-exports-80-percent-of-soy-to-china-in-january-august-agriculture-ministry-idUSKCN1LU2MT (accessed February 8, 2019), and "China Says it Will Buy More Soybeans, but American Farmers See a Bleak Future," *South China Morning Post*, February 4, 2019 (updated February 8, 2019), https://www.scmp.com/news/china/diplomacy/article/2184825/china-says-it-will-buy-more-soybeans-american-farmers-see-bleak (accessed February 6, 2019), and Michael Hogan, "China to Start Buying More Argentine Soybeans: Oil World," Reuters, September 25, 2018, https://in.reuters.com/article/soybeans-china/china-to-start-buying-more-argentine-soybeans-oil-world-idINKCN1M51T5 (accessed February 8, 2019).
32. Yujun Zhou et al., "Evaluating Potential Long-Run Impacts of Chinese Tariff on US Soybeans," September 26, 2018, https://farmdocdaily.illinois.edu/2018/09/evaluating-potential-long-run-impacts-of-chinese-tariff-on-us-soybeans.html (accessed February 6, 2019).

The American Soybean Association has asserted that when and if the U.S. rescinds the Section 301 tariffs on China, and China then lifts its 25 percent retaliatory tariffs, "the process of rebuilding the U.S. market in China could take years."[33]

There has been some promising news regarding soybeans. In January 2019, China agreed to buy 5 million tons of U.S. soybeans, in addition to the 5 million tons they agreed to buy in December 2018. There have also been reports in late February that China has agreed to buy an additional 10 million tons. These are still small numbers though when compared to the usual annual soybean sales to China of 30 million to 35 million tons.[34] However, these purchases do help to mitigate the harm caused by the trade dispute.[35]

Policy Recommendations

There is a very simple overarching policy recommendation to eliminate the harm caused by the U.S.–China trade dispute: *The United States should rescind the 201, 232, and 301 tariffs.* This would not only help agricultural producers in connection with exports to China, but also in connection with exports to other nations that have imposed retaliatory tariffs. Such a move also helps to offset the harm imposed across the economy by these U.S. tariffs.

The United States should also:

Make More Frequent Use of the World Trade Organization's (WTO) Dispute Settlement System. Admittedly, eliminating tariffs does not help the U.S. to address China's alleged unfair trade practices. To address unfair practices, the United States should use the WTO dispute-settlement system instead of relying on tariffs. In fact, one of the most important benefits of the WTO is having a legal venue to challenge foreign trade barriers. As explained in the 2016 Heritage Foundation *Farms and Free Enterprise*:

> Prior to the WTO, these foreign trade barriers [barriers to U.S. farm exports, including non-tariff barriers, discriminatory health and safety rules, and subsidies] were virtually impossible to challenge without self-defeating U.S. protectionism.... The WTO broke this painful cycle by providing a formal legal venue for enforcing other WTO members' trade-liberalization commitments.[36]

The United States has had major success utilizing the WTO dispute-settlement process. For example:

- In 2017, Cato Institute trade scholar Dan Ikenson explained that the United States has been the complaining party in 114 of 522 WTO disputes over 22 years and has succeeded in 91 percent of the adjudicated 114 cases.[37]

- The United States has had significant success in the agricultural context as well. From 2016's *Farms and Free Enterprise*:

> The United States government has initiated 29 dispute settlement proceedings over

33. American Soybean Association, "ASA Policy Priorities for 2019," January 3, 2019, https://soygrowers.com/asa-policy-priorities-2019/ (accessed February 6, 2019).
34. Shruti Singh et al., "Trump Says China Soybean Purchase Is A 'Fantastic Sign of Faith,'" Bloomberg, January 31, 2019, https://www.bloomberg.com/news/articles/2019-01-31/trump-says-china-soybean-purchase-to-take-place-now-amid-talks (accessed February 6, 2019), and Kirk Maltais and Jacob Bunge, "Soybean Futures Rise on China Purchase Plans," *The Wall Street Journal*, February 1, 2019, https://www.wsj.com/articles/soybean-futures-rise-on-china-purchase-plans-11549037765 (accessed February 6, 2019). Jay Sjerven, "Progress Made in U.S.-China Trade Talks," Food Business News, February 28, 2019, https://www.foodbusinessnews.net/articles/13392-progress-made-in-us-china-trade-talks (accessed February 28, 2019).
35. The timing of the soybean purchases are unclear. For example, the January 5 million-ton commitment is not expected to be a single purchase, but multiple purchases. See, for example, Karl Plume, "Exclusive: China Buys U.S. Soybeans a Day After Trade Talks–Traders," Reuters, February 1, 2019, https://www.reuters.com/article/us-usa-trade-china-soybeans/exclusive-china-buys-u-s-soybeans-a-day-after-trade-talks-traders-idUSKCN1PQ5CK (accessed February 6, 2019), and John Bennett, "Soybean Shocker: China Surprises Trump Administration with Oval Office Announcement," *Roll Call*, January 31, 2019, https://www.rollcall.com/news/whitehouse/soybean-shocker-china-surprises-trump-administration-with-oval-announcement (accessed February 6, 2019).
36. Daren Bakst, ed., *Farms and Free Enterprise: A Blueprint for Agricultural Policy* (Washington, DC: The Heritage Foundation, 2016), p. 98, https://www.heritage.org/agriculture/report/farms-and-free-enterprise-blueprint-agricultural-policy.
37. Dan Ikenson, "US Trade Laws and the Sovereignty Canard," *Forbes*, March 9, 2017, https://www.forbes.com/sites/danikenson/2017/03/09/u-s-trade-laws-and-the-sovereignty-canard/#7027ac45203f (accessed February 6, 2019). Complaining parties have also had success against the United States, succeeding in 89 percent of adjudicated cases. Success in a case was determined by whether the complaining party won the major issue in question in the case. E-mail communication with Dan Ikenson, February 6, 2019.

> other WTO members' barriers to U.S. farm exports, including non-tariff barriers, discriminatory health and safety rules, and subsidies.... [T]he United States achieved a "victory"—an affirmative ruling and/or the elimination or modification of the measure at issue—in every single WTO case that moved beyond the first government-to-government "consultations" stage (and even in many of the consultations-only disputes). In only two cases did the offending WTO member refuse to comply with an adverse ruling, and only once did the United States need to resort to retaliation in order to convince one of these members to implement the WTO ruling at issue.[38]

This is not to say that the WTO dispute-settlement system is without flaws. To the extent that there are concerns regarding the process, the United States should work toward improving the system.[39] It is much better to have a venue to resolve disputes than to hurt Americans through tariffs.

Stop Compounding the Harm from Tariffs by Providing Special Aid to Farmers. On July 24, 2018, the USDA announced that it would authorize up to $12 billion in aid to help farmers.[40] This aid, as the USDA explained in August 2018, was "in response to trade damage from unjustified retaliation by foreign nations."[41] Despite such assertions, this aid really exists because of the self-inflicted damage caused by the United States' own tariffs, not the retaliatory tariffs that are the logical and expected response to the U.S. tariffs.

The federal government is certainly correct in recognizing the harm that it is causing farmers. However, providing aid to offset this harm is misguided.[42] The federal government is trying to solve one harmful policy by creating another harmful policy. This "solution" could also lead to a terrible precedent: creating a justification for maintaining tariffs instead of opening up trade opportunities.

The federal government is also inappropriately picking winners and losers. Farmers are certainly not winners in these trade disputes, including the trade dispute with China. However, these trade disputes (including the one between the U.S. and China) are hurting far more people than farmers. For example:

- Consumers are going to be hurt through the tariffs (import taxes) on goods.
- Higher consumer prices, especially for products that meet basic needs, such as food items, are regressive in nature, therefore having a disproportionate impact on lower-income households.[43]
- Taxpayers are paying out billions of dollars in aid.
- Many other industries (including small businesses within these industries) are feeling the harmful effects of the trade disputes, just like the agricultural sector.

38. Bakst, ed., *Farms and Free Enterprise: A Blueprint for Agricultural Policy*.
39. For an excellent discussion on the WTO and its role in terms of addressing challenges with China, see James Bacchus et al., "The WTO and the China Challenge," Heritage Foundation *Lecture* No. 1299, November 30, 2018, https://www.heritage.org/trade/report/the-wto-and-the-china-challenge. It should be noted that the European Union has developed ideas for modernizing the WTO. There are ideas (such as developed by the EU) that exist to help make the WTO work better; the U.S. should play a leading role in identifying solutions to improve the WTO, including the dispute-settlement system. See European Commission, "European Commission Presents Comprehensive Approach for the Modernisation of the World Trade Organisation," September 18, 2018, http://europa.eu/rapid/press-release_IP-18-5786_en.htm (accessed February 6, 2019).
40. Schnepf et al., "Farm Policy: USDA's Trade Aid Package."
41. U.S. Department of Agriculture, "USDA Announces Details of Assistance for Farmers Impacted by Unjustified Retaliation," August 27, 2018, https://www.usda.gov/media/press-releases/2018/08/27/usda-announces-details-assistance-farmers-impacted-unjustified (accessed February 6, 2019).
42. For an excellent discussion about the problems with this special aid to farmers, see Joseph Glauber and Vincent Smith, "Opinion: Trade-Policy Folly: 5 Ways President Trump's Efforts to Placate the Farm Lobby are Misguided," Market Watch, April 11, 2018, https://www.marketwatch.com/story/trade-policy-folly-5-ways-president-trumps-efforts-to-placate-the-farm-lobby-are-misguided-2018-04-10 (accessed February 6, 2019).
43. Daren Bakst and Patrick Tyrrell, eds., "Big Government Policies that Hurt the Poor and How to Address Them," Heritage Foundation *Special Report* No. 176, April 5, 2017, https://www.heritage.org/poverty-and-inequality/report/big-government-policies-hurt-the-poor-and-how-address-them.

While the USDA asserts that this $12 billion authorization is a one-time deal (issued in different rounds of payments),[44] there is little reason to think that this will be the case as the trade disputes continue.

This entire aid package also seems to ignore the fact that it is duplicative in nature. Taxpayers already provide about $15 billion a year to agricultural producers, largely to inappropriately help insulate some producers from having to compete in the market.[45] This includes triggering payments to producers when they do not meet revenue targets or when commodity prices decline.

Soybean farmers receive about $2 billion a year to address revenue and price issues from multiple programs, and receive the third-most farm-program support of all commodities.[46] In addition, the recently enacted 2018 farm bill ignored subsidy reform[47] and actually made existing overgenerous subsidies even more generous.[48]

Promote Freedom to Trade. Trade is often discussed in connection with how it affects countries, but, as a general matter, trade is truly about the freedom of individuals and businesses to voluntarily exchange goods and services with customers.[49]

As a general principle, American farmers and ranchers, just like other businesses, should be free to sell to customers all over the world. Further, consumers should be free to purchase goods and services that best meet their needs, regardless of national origin. Government-imposed barriers, such as tariffs, undermine these freedoms. As the U.S. works through trade challenges with China, this principle of freedom to trade should be front and center.

Conclusion

Near the end of his presidency, President Ronald Reagan delivered a radio address to the nation during Thanksgiving week of 1988 in which he espoused the benefits of free trade:

> Here in America, as we reflect on the many things we have to be grateful for, we should take a moment to recognize that one of the key factors behind our nation's great prosperity is the open trade policy that allows the American people to freely exchange goods and services with free people around the world.... Over the past 200 years, not only has the argument against tariffs and trade barriers won nearly universal agreement among economists but it has also proven itself in the real world, where we have seen free-trading nations prosper while protectionist countries fall behind.[50]

His powerful words were true then and are still true today. Unfortunately, the current U.S.–China trade dispute runs counter to President Reagan's crucial message. The U.S. should be fighting to free up trade by removing both domestic and foreign trade barriers, not creating more barriers. A commitment to free trade will help the United States prosper, and expand opportunities for the nation's farmers and ranchers so they can sell even more of their products around the world.

*—**Daren Bakst** is Senior Research Fellow in Agricultural Policy in the Thomas A. Roe Institute for Economic Policy Studies, of the Institute for Economic Freedom; **Gabriella Beaumont-Smith** is Policy Analyst in Macroeconomics in the Center for Data Analysis, of the Institute for Economic Freedom; and **Riley Walters** is Policy Analyst in the Asian Studies Center, of the Kathryn and Shelby Cullom Davis Institute for National Security and Foreign Policy, at The Heritage Foundation.*

44. Schnepf et al., "Farm Policy: USDA's Trade Aid Package."
45. Bakst, ed., *Farms and Free Enterprise: A Blueprint for Agricultural Policy*.
46. Randy Schnepf, "Farm Safety-Net Payments under the 2014 Farm Bill: Comparison by Program Crop," Congressional Research Service, August 11, 2017, https://fas.org/sgp/crs/misc/R44914.pdf (accessed February 6, 2019).
47. Daren Bakst, "Significant—and Necessary—Farm Subsidy Reforms for the Next Farm Bill," Heritage Foundation *Issue Brief* No. 4839, April 17, 2018, https://www.heritage.org/agriculture/report/significant-and-necessary-farm-subsidy-reforms-the-next-farm-bill?_ga=2.73979410.1237585981.1544110742-1345822751.1520621331.
48. Some of the changes that made the subsidies even more generous can be found in Daren Bakst, "The New Farm Bill Is So Bad That Supporters Don't Want Its Details Released," Heritage Foundation *Commentary*, December 7, 2018, https://www.heritage.org/agriculture/commentary/the-new-farm-bill-so-bad-supporters-dont-want-its-details-released.
49. For a more comprehensive discussion of "freedom to trade," see Bryan Riley and Anthony Kim, "Freedom to Trade: A Guide for Policymakers," Heritage Foundation *Backgrounder* No. 3064, October 20, 2015, http://www.heritage.org/trade/report/freedom-trade-guide-policymakers.
50. Ronald Reagan, "Radio Address to the Nation on the Canadian Elections and Free Trade," Ronald Reagan Presidential Library and Museum, November 26, 1988, https://www.reaganlibrary.gov/research/speeches/112688a (accessed February 6, 2019).