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China's Most-Favored-Nation Status: U.S. Wheat, Corn, and Soybean Exports

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Summary

On May 29, the President formally declared a one-year extension of most-favored-nation (MFN) treatment for China. MFN treatment allows China's products to enter the United States at the same (lower) tariff rates that apply to virtually all trading partners. If MFN were denied and China chose to retaliate, U.S. agricultural exports could be affected. China has become a leading market for a number of U.S. agricultural products.

The President's declaration makes MFN automatic unless Congress passes a joint resolution of disapproval by the end of August. Disapproval resolutions were introduced into the House and Senate on June 3 (H.J.Res. 79 and S.J.Res. 31, respectively). A House floor vote on the resolution is expected the week of June 23.[1]

An economic analysis prepared for CRS by the WEFA Group indicates that, if MFN status were not renewed and China ended imports of U.S. wheat, corn, and soybean products, total U.S. exports of these commodities would decline, lowering U.S. farm prices and income. However, WEFA cautions, its no-MFN scenario assumes that corn and wheat exports to China would decline from the highest levels of the past 4 marketing years--although with MFN China is predicted to import from the United States very little corn over the next 2 or 3 years and only a little wheat this year.

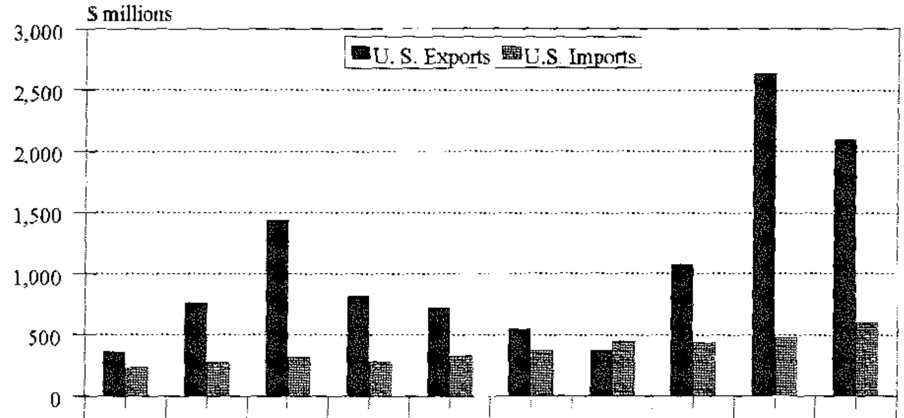
U.S.-China Agricultural Trade

Over the last decade, the United States usually has had an agricultural trade surplus with China, which has become an increasingly important--if variable--market (see figure

[1] On June 18, the House Ways and Means Committee cleared but did not recommend H.J. Res. 79. Besides this resolution of disapproval, other alternatives that would change or modify MFN status for China, including making it permanent rather than year-to-year, are options. For background on China and MFN, including its legislative basis and implications for trade, see CRS Issue Brief 92094, *Most-Favored-Nation Status of the People's Republic of China*.

1). In 1993, it was the 21st leading market for U.S. agricultural exports. In 1994, 1995, and 1996, it was one of the top 10 markets. Further, the U.S. Department of Agriculture (USDA) forecasts that exports there will rise moderately in coming years.[2]

Fig. 1. Agricultural Trade Between the United States and China
Calendar Years 1987-1996



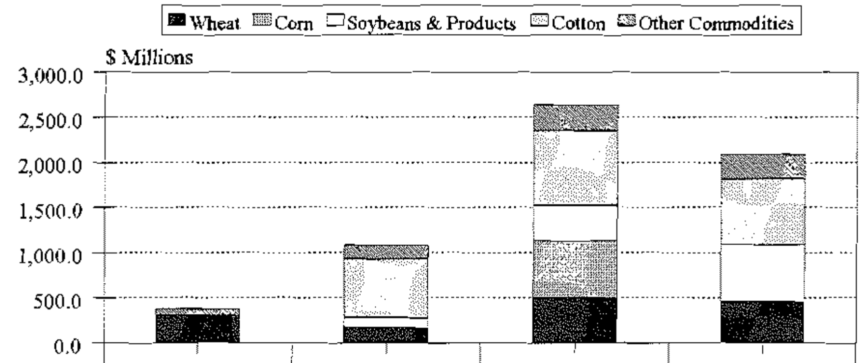
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
U. S. Exports	362	759	1,435	814	722	545	376	1,080	2,633	2,092
U.S. Imports	237	280	319	271	328	379	451	440	479	597
Trade Balance	125	479	1,116	543	394	166	-75	640	2,154	1,495

Source: U.S. Department of Agriculture. Economic Research Service.

U.S. exports to China have been concentrated among a few commodities (see figure 2). In 1993, most U.S. exports to China, measured by value, were wheat. In 1994, most U.S. exports were cotton, with significant but smaller amounts of wheat, and soybeans/soybean products. In 1995 and 1996, cotton, wheat, and soybeans/soybean products again were leading exports, with soybeans/soybean products showing major growth. Corn became a leading export item in 1995, but exports declined dramatically the following year after an unexpectedly good grain harvest in China. Although not shown in figure 2, other areas of recent growth include animal hides and skins, which increased in value from about $13 million in 1993 to $107 million in 1996; and chicken meat, which increased from about $17 million in 1993 to about $59 million in 1996.

[2] Agricultural trade contrasts significantly with the overall U.S.-China trade picture. The United States trade deficit with China grew from $2.8 billion in 1987 to $39.5 billion in 1996, a faster rate of increase than that of any other major U.S. trading partner. For details see CRS Issue Brief 91121: *China-U.S. Trade Issues.*

Fig. 2. U.S. Agricultural Exports to China, 1993-1996



	1993	1994	1995	1996
Other Commodities	74.5	152.8	282.9	278.1
Cotton	0.2	645.0	828.8	727.5
Soybeans & Products	23.3	112.8	392.0	635.7
Corn	0.0	3.5	629.3	13.8
Wheat	278.4	166.3	499.8	437.3

Source: U.S. Department of Agriculture. Economic Research Service.

China's MFN Status and the U.S. Wheat, Corn, and Soybean Sectors[3]

If the United States denied China MFN status, and China chose to retaliate, one of its options might be to block some or all U.S. agricultural imports (although sanctions against imports other than farm and food products might also be possible). Over the last 4 years, wheat, corn, and soybeans and soybean products accounted for more than half the value of U.S. agricultural exports to China.

CRS requested that the WEFA Group examine two scenarios. The **first scenario** assumes that during 1997-1999, China continues its MFN status and annually imports wheat, corn, soybeans, and soybean meal at the highest levels that occurred over the past 4 years. Soybean oil imports were assumed at a somewhat lower (what WEFA says is a more typical) level. The first scenario is the baseline. The **second scenario** shows what would happen if, because of denial of MFN status, China stopped all imports of these commodities from the United States. Under the two scenarios, the WEFA Group examined exports, farm prices, income, and stocks for each commodity, through 1999.

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[3] This section is based on estimates and analysis prepared by the WEFA Group for CRS. It is an update of an analysis WEFA prepared for CRS in May 1996 (see CRS Rept.96-502 ENR, *China's Most-Favored-Nation Status: U.S. Wheat, Corn, and Soybean Exports*). The WEFA Group is an economic consulting firm located in Eddystone, Pennsylvania. Forecasts represent each commodity's marketing year, beginning June 1 for wheat, September 1 for corn and soybeans, and October 1 for soybean meal and oil.

Because the baseline generally follows a period when these exports were enjoying robust growth (in fact, these farm exports tend to fluctuate depending on the size of China's own harvests each year), this first scenario may be considered optimistic. Moreover, the analysis does not predict that China actually would retaliate without MFN by cutting all U.S. imports, but projects what might happen if China did--which can be considered a pessimistic scenario. WEFA also notes that a one-for-one decline in U.S. exports worldwide does not occur if China retaliates. That's because world trade patterns would shift as China purchased wheat, corn, and/or soybean products from other countries, and the United States competes for the markets formerly served by those countries. The U.S. price decrease entices other global buyers to purchase from the United States. Nonetheless, under the scenario, U.S. exports would decline.

Table 1. Wheat: WEFA Baseline (MFN) Projections vs. No-MFN Scenario*

		1995	1996	1997	1998	1999
MFN	US Wheat Exports (mil. bu.)	1,241.2	989.7	1,043.0	1,123.0	1,220.3
No MFN	US Wheat Exports (mil. bu.)	1,241.2	989.7	964.8	1,035.1	1,125.3
	Difference	0.0	0.0	-78.2	-87.9	-95.0
MFN	US Wheat Imports (mil. bu.)	68.0	90.0	87.7	91.9	93.4
No MFN	US Wheat Imports (mil. bu.)	68.0	90.0	72.7	74.9	73.4
	Difference	0.0	0.0	-15.0	-17.0	-20.0
MFN	US Wheat Ending Stocks (mil. bu.)	376.0	461.3	556.9	700.1	808.4
No MFN	US Wheat Ending Stocks (mil. bu.)	376.0	461.3	614.4	790.8	937.7
	Difference	0.0	0.0	57.5	90.7	129.3
MFN	US Average Wheat Farm Price ($/bu.)	4.76	4.28	3.71	3.59	3.43
No MFN	US Average Wheat Farm Price ($/bu.)	4.76	4.28	3.62	3.44	3.28
	Difference	0.00	0.00	-0.09	-0.15	-0.15

*Marketing years

Comparing the baseline to the no-MFN scenario, world exports of U.S. **wheat** would drop by 78 million bushels in 1997, 88 million bushels in 1998, and 95 million bushels in 1999--7% to 8% annually (table 1). However, U.S. wheat imports also would drop, by 15 million bushels in 1997, 17 million bushels in 1998, and 20 million bushels in 1999, as other countries shifted supplies to China, and world prices increased relative to U.S. prices. U.S. wheat ending stocks would increase and farm prices for wheat decline from the baseline by 9 cents per bushel in 1997 and 15 cents in each of 1998 and 1999.

Table 2. Corn: WEFA Baseline (MFN) Projections vs. No-MFN Scenario*

		1995	1996	1997	1998	1999
MFN	US Corn Exports (mil. bu.)	2,227.9	1,835.4	2,004.3	2,125.0	2,256.0
No MFN	US Corn Exports (mil. bu.)	2,227.9	1,835.4	1,949.3	2,062.2	2,185.2
	Difference	0.0	0.0	-55.0	-62.8	-70.8
MFN	US Corn Ending Stocks (mil. bu.)	425.9	903.9	1,245.0	1,473.1	1,601.2
No MFN	US Corn Ending Stocks (mil. bu.)	425.9	903.9	1,324.2	1,582.3	1,726.8
	Difference	0.0	0.0	79.2	109.2	125.6
MFN	US Average Corn Farm Price ($/bu.)	3.53	2.79	2.53	2.42	2.35
No MFN	US Average Corn Farm Price ($/bu.)	3.53	2.79	2.51	2.37	2.30
	Difference	0.00	0.00	-0.02	-0.05	-0.05

*Marketing years

The WEFA analysis projects that U.S. **corn** exports (world) would decline from the baseline by 55 million bushels in 1997, 63 million bushels in 1998, and 71 million bushels in 1999 under the no-MFN scenario--about 3% annually (table 2). Ending stocks do rise, but changes in the farm price are considered somewhat modest: a decline by 2 cents per bushel in 1997, and 5 cents in each of 1998 and 1999. Imports do not change, according to WEFA, which points out that the United States historically provides 60-70% of world corn trade. As other suppliers shift their corn to China, the United States is expected to fill the markets left by those suppliers.

Table 3. Soybeans: WEFA Baseline (MFN) Projections vs. No-MFN Scenario*

		1995	1996	1997	1998	1999
MFN	US Soybean Exports (mil. bu.)	851.2	899.6	870.0	883.0	901.3
No MFN	US Soybean Exports (mil. bu.)	851.2	899.6	846.4	855.4	867.7
	Difference	0.0	0.0	-23.6	-27.6	-33.6
MFN	US Meal and Cake Exports (mil. short tons.)	6.0	6.8	6.3	6.4	6.3
No MFN	US Meal and Cake Exports (mil. short tons.)	6.0	6.8	5.8	5.8	5.8
	Difference	0.0	0.0	-0.5	-0.6	-0.5
MFN	Oil Exports (mil. lbs.)	991.8	1,800.0	1,875.6	1,911.2	1,941.8
No MFN	Oil Exports (mil. lbs.)	991.8	1,800.0	1,496.6	1,542.2	1,592.8
	Difference	0.0	0.0	-379.0	-369.0	-349.0
MFN	US Soybean Ending Stocks (mil. bu.)	183.5	119.6	276.1	311.8	332.7
No MFN	US Soybean Ending Stocks (mil. bu.)	183.5	119.6	311.6	331.6	340.8
	Difference	0.0	0.0	35.5	19.8	8.1
MFN	US Average Soybean Farm Price ($/bu.)	7.01	7.77	6.17	5.93	5.76
No MFN	US Average Soybean Farm Price ($/bu.)	7.01	7.77	5.93	5.78	5.68
	Difference	0.00	0.00	-0.24	-0.15	-0.08
MFN	Soybean Oil: In Tanks, FOB Decatur, IL ($/cwt.)	24.71	22.89	22.83	22.53	22.40
No MFN	Soybean Oil: In Tanks, FOB Decatur, IL ($/cwt.)	24.71	22.89	21.32	20.32	19.77
	Difference	0.00	0.00	-1.51	-2.21	-2.63
MFN	Soybean Meal: 44% Protein, Decatur, IL ($/ton)	225.08	263.73	199.98	191.53	186.37
No MFN	Soybean Meal: 44% Protein, Decatur, IL ($/ton)	225.08	263.73	196.83	191.12	185.94
	Difference	0.00	0.00	-3.15	-0.41	-0.43

*Marketing years

U.S. exports and prices for **soybeans, soy oil, and soy meal** also would decline under the no MFN-scenario (table 3). **Soybean** exports would decrease by 24 million bushels in 1997, 28 million bushels in 1998, and 34 million bushels in 1999 (3% to 4% annually); farm prices would be 24 cents, 15 cents, and 8 cents per bushel below the baseline in those respective years. **Soy meal and cake** exports would decline half a million tons each year (8% to 9% annually), and **soy oil** would be 379 million pounds below baseline in 1997, 369 million pounds lower in 1998, and 349 million pounds lower in 1999 (18% to 20% annually), according to WEFA. WEFA noted that China has been purchasing more soybeans and meal in 1997 than in the past, when it was not a major market, and these higher purchases are assumed. China has been a steady oil customer (purchasing about 30% of U.S. oil exports) and would continue to be so under the WEFA baseline.

Table 4. Effects of China's MFN Status on Net Farm Income*

	1993	1994	1995	1996	1997	1998	1999
Net Farm Income (bil. $) MFN	43.6	48.4	34.8	47.6	44.1	44.3	41.2
Net Farm Income (bil. $) no MFN	43.6	48.4	34.8	47.6	43.2	42.5	39.5
Difference	0.0	0.0	0.0	0.0	-1.0	-1.8	-1.7
Total Direct Government Payments (bil.$)	13.4	7.9	7.3	7.5	7.7	8.1	7.9

*Marketing years

The decrease in farm prices for wheat, corn, and soybeans under the no-MFN scenario would lead to a decline in farm income from the baseline. Because the Federal Agriculture Improvement and Reform Act of 1996 (P.L. 104-127) replaced traditional acreage reduction programs and income support payments (which were tied to market prices) with fixed transition payments to farmers, only cash receipts change (downward) under WEFA's no-MFN scenario. Net farm income (after expenses) declines from the baseline by $1 billion (by 2%) in 1997, $1.8 billion (by 4%) in 1998, and $1.7 billion (by 4%) in 1999.

The WEFA analysis compares two relatively extreme scenarios for the wheat, corn, and soybean sectors: one where MFN continues and exports remain at or near their highest levels of recent years; and another where MFN is denied, China retaliates, and accepts no U.S. imports of these commodities. However, as WEFA itself suggests, alternative scenarios might be just as likely. For example, Chinese grain imports in fact have varied widely from year to year, increasing when Chinese harvests are poor, and declining when they are good. WEFA observes that China probably will import a small amount of wheat this year and very little corn over the next 2 or 3 years. Also, denial of MFN might not necessarily cause China to impose sanctions on U.S. grain imports; other non-agricultural products might become targets. On the other hand, the WEFA analysis is short-term; it does not examine the longer-term effects. USDA has predicted overall agricultural trade with China to increase substantially over the next decade or more, suggesting that retaliatory actions against U.S. exporters, if taken, might have longer-term effects if other foreign suppliers can step in and develop strong commercial ties with China. crsphpgw