

## The Countermeasures of Sino-US Trade War——Based on the Perspective of Industrial Policy

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**Abstract.** Soybeans, as important food crops, oil crops and high-protein feed ingredients, are increasingly becoming an indispensable part of our people's lives. However, the output of soybeans in China is far from meeting the needs of the Chinese people. Of soybeans in China mainly depends on imports, the dependence on foreign countries is very high, and soybeans imported from the United States account for about 1/3 of the total imports. The consumption of soybeans in the United States is dependent on exports, and China is an important soybean customer of the United States. However, the Sino-US trade war broke the original import pattern of China. The reduction of soybean imports from the United States has increased the import of soybeans from other countries. Therefore, based on the general situation of trade war, this paper studies the soybean problem in the trade war from the situation of soybean production, consumption and Sino-US soybean trade in China, and analyzes the impact of trade war on China's soybean trade to propose countermeasures.

### Introduction

Soybeans are widely used and are important food crops, oil crops and high protein feed ingredients. Soybean meal, a by-product of soybean extracted from edible oil, is also an important protein material for livestock and aquaculture industries. Moreover, with the continuous improvement of per capita consumption capacity and people's pursuit of quality of life, the demand for high-protein food soybeans is also increasing rapidly, and the demand is increasing, but the production of domestic soybeans is basically stable and does not increase simultaneously. The demand for soybeans in China is mainly dependent on imports. China's soybean imports and consumption are the highest in the world, and soybean trade is particularly important for China. The Sino-US trade war has had a certain impact on China's soybean import pattern. Therefore, this paper starts from the soybean production, consumption and Sino-US soybean trade situation in China, the soybean problem in the trade war and analyzes the impact of the intensified trade war on China's soybean industry to propose countermeasures.

### The Analysis of the Current Situation of Production, Consumption and Sino-US Trade in China's Soybean Market

**China's Soybean Production.** China's soybean production has fluctuated slightly in the past 10 years, and the output in 2012-2015 is at a low level. The increase in production in 2015-2017 was mainly due to the increase in government subsidies for soybeans, which further stimulated the enthusiasm of farmers in large soybean producing provinces such as Heilongjiang Province. In general, the output of domestic soybeans has remained at around 13 million tons, far from meeting the needs of our people. And with the continuous improvement of China's per capita consumption capacity and the pursuit of quality of life, people pay more attention to the intake of protein foods, and the consumption of soybeans, which are an important source of protein, is increasing. The gap between domestic supply and demand is expanding, and so does the import of soybeans.

At the same time, compared with the annual output of the United States, the world's largest soybean producer, the annual output of US soybeans has increased steadily in the past 20 years, from 75.06 million tons at the end of 2000 to 123.66 million tons at the end of 2018, in comparison. The total yield of soybeans in China is quite low.

**Soybean Consumption Situation.** In 2017, China's soybean consumption was about 110 million tons, accounting for about 30% of the total global soybean consumption. In the same period, the domestic soybean production was only about 14 million tons, and there was a production gap of about 96 million tons, which caused the dependence of China's soybeans to be very high. About 90% of soybeans were imported.[1] However, the lack of domestic supply and high external dependence also have certain hidden dangers, which may cause large fluctuations in China's soybean consumption.

**Sino-US Soybean Trade.** According to customs statistics, in January-February 2019, China imported 11.832 million tons of soybeans, a decrease of 14.9% compared with the same period of last year. Imports from the United States reached 1.044 million tons, a decrease of 88.6%, accounting for 8.8%. Imports from Brazil, Canada and Argentina were 6.919 million tons, 1.778 million tons and 1.826 million tons, respectively, increasing by 81.1%, 2.9 times and 19.5 times, respectively, accounting for 58.5%, 15.9% and 15.4%.

Affected by two factors, one is the Sino-US trade war, and the other is the decline in production in Argentina and other countries. In 2018, China's soybean imports fell. China's soybean imports amounted to 88.031 million tons, a decrease of 7.9% over the previous year. China imported 66.82 million tons of soybeans from Brazil, an increase of 29.8%, accounting for 75.1 percentage points of total imports, a significant increase of 21.8% over the previous year; China imported 16.64 million tons from the United States, a decrease of 49.4%, accounting for 18.9% of total imports, down 15.5%. In the same period, imports from Canada were 1.792 million tons, a decrease of 12.5%, imports from Argentina were 1.464 million tons, a decrease of 77.8%, while imports from Russia increased by 60.8% to 817,000 tons.

From 2017 to 2018, the global soybean import volume was 153 million tons, and China imported 95.53 million tons of soybeans, accounting for about 60% of the world's imports. China has thus become the world's largest soybean importer. China's consumption of soybeans is mainly imported. The pattern will not change. In the past years, China's imports of soybeans from the United States accounted for about 30% of total imports. In 2018, affected by the Sino-US trade war, China's imports of soybeans from the United States dropped sharply to 18.9%. As the world's largest soybean producer and the world's second largest soybean exporter, the United States has a higher dependence on exports than imports, and its dependence on exports is over 40%. From 2017 to 2018, US soybean exports were 57.95 million tons, accounting for 48% of its annual output.

In Sino-US trade, from the perspective of resource endowment and industry competitiveness of the two countries, agriculture is the most export-competitive industry in the United States. From the total imports of the United States in various industries in 2016 and 2017, the total import value of agriculture ranked first and second respectively, indicating that all kinds of agricultural products in the United States have a large market in China and are highly competitive.[2]

Based on the above analysis, China is the main soybean customer in the United States, and the United States is China's main soybean importing country. The soybean trade between the two countries has greater mutual dependence. In the trade war, the increase in soybean tariffs will affect China's soybean import sources, which in turn will affect domestic consumption, and the US-produced soybeans may be difficult to digest and harm farmers' interests.

## **The Soybean Problem in the Sino-US Trade War**

On March 23, 2018, the United States imposed tariffs on US\$60 billion of goods imported from China. The products involved included aerospace, information and communication technologies, etc., which imposed a 25% tariff. On April 2, 2018, China began to impose tariffs on 128 products imported from the United States, and imposed 15% tariffs on more than 120 items such as fruits and products, and imposed a 25% tariff on 8 imported products such as soybeans. On September 18, 2018, the United States imposed a 10% tariff on about 200 billion US dollars of goods imported from China, and said that on January 1, 2019, the tariff rate will be raised to 25%. In response, China has also decided to impose a 5% or 10% tariff on approximately \$60 billion of goods imported from the United States, including soy oil and refined products. Although on December 1,

2018, China and the United States reached a consensus on stopping the new tariffs at the G20 summit, and during the period, China and the United States continued to conduct economic and trade consultations. However, on May 5, 2019, US President Trump issued a tweet saying that from May 10, the tariff on Chinese goods worth 200 billion US dollars will increase to 25 percentage points.

With the intensification of Sino-US trade wars, soybeans are China's main import-dependent agricultural products, and China's imports of soybeans from the United States account for about one-third of total imports. The United States also has high exports to China's soybean market. Dependence. Soybeans have also become one of the focuses of Sino-US trade wars. China uses soybeans as one of the tools for the US system, which is bound to have a greater impact on the global soybean trade market. If the trade war continues, in the long run, it will change the status quo of China's soybean imports and help build new soybean supply patterns in China.

### **Analysis of the Impact of the Intensified Sino-US Trade War on China's Soybean Industry**

**China's Imports of Soybeans from the United States have Decreased, and the Domestic Soybean Market has Stabilized.** In 2017, China imported 31.86 million tons of soybeans from the United States, accounting for 34.4% of total imports. In 2018, imports of soybeans from the United States reached 16.64 million tons, accounting for 18.9% of total imports, and imports decreased by 49.4%. In January-February 2019, soybean imports from the United States reached 1.044 million tons, a decrease of 88.6%, accounting for 8.8% of the total imports. From 2018 to the present, China's imports and proportion of US soybeans have been decreasing.

From July 6, 2018, due to the trade war, China was forced to impose a 25% tariff on imported soybeans from the United States, which increased the import cost of US soybeans by an average of 700 yuan per ton, 300 times higher than that of Brazilian soybeans. Around the dollar, the competitiveness of US soybeans in the Chinese market has weakened, resulting in a decrease in imports of US soybeans by Chinese companies, thereby increasing soybean imports in South America such as Brazil and Argentina.[3]

From 2018, China's soybean market production price index was basically stable in the quarter, except for the slight increase in prices in the fourth quarter of 2018, indicating that after the increase in tariffs on imported soybeans in the United States, China's soybean prices did not show a big ups and downs. The price of imported soybeans increased in the fourth quarter, mainly due to the fact that China imported mainly South American soybeans from March to September each year, while the supply of soybeans in South American soybean production areas in the fourth quarter came to an end. At this time, mainly imported US soybeans, but in 18 years, tariffs increased, and domestic enterprises' inventories fell to the end of the year, and the gap between supply and demand expanded, leading to an increase in domestic soybean prices. Therefore, the soybean market in China has not caused large fluctuations in soybean prices due to the increase in tariffs, and the soybean market is basically stable.

**China has the Ability to Cope with the Reduction of Imports from the United States, and has a long-term Impact on China's Soybean Import Trade.** Although the fourth quarter of 2018, due to the reduction of South American soybean supply and the increase in tariffs on US soybeans, the soybean price in the fourth quarter showed a slight increase, but in the first quarter of 2019, China's soybean prices returned to the previous level, without causing the violent fluctuations in China's soybean market. China has the ability to cope with the gap in imports from the United States, based on the following points: (i) In 2018, China's soybean imports from South America, such as Brazil and Argentina, have increased significantly. Soybean export earnings in these regions are good. And due to the long-term and complex nature of trade wars in the future, China's soybean imports from South America will remain at a high level, and the trade transfer effect signal from China's reduction in US soybean imports will be strong. Soybean production in the region is expected to increase significantly in soybean acreage in these areas. (ii) China's continuous expansion and opening up, while China's dependence on imports will not change, will attract more soybean producing countries to expand production. For example, the "One Belt, One Road"

countries in Central Asia benefit from China's "One Belt, One Road" policy and good relations with China, so these countries may also increase soybean acreage. (iii) In terms of domestic soybean supply, Heilongjiang province is an important production base of China's soybean industry. The province's soybean production conditions are good. In 2018, the province's soybean production surged, about 13.16 million tons, accounting for more than half of the country's total soybean production. In addition, the government has given higher subsidies to support soybean production in Heilongjiang province, which is conducive to stimulating farmers' planting enthusiasm. It is expected that the planting area of the province will be further expanded.[4]

Therefore, the short-term Sino-US trade war has a certain impact on China's soybean imports. However, due to the trade transfer effect, it will stimulate soybean cultivation in other regions. The long-term impact on China is limited. It is conducive to China's reconstruction of soybean import pattern, improving China's past excessive dependence on the soybean market in a few countries, ensuring the effective supply of soybeans and stabilizing prices.

**Conducive to China's Active Expansion of the Source of Soybean Imports and Rebuilding China's Soybean Global Supply Pattern.** Before 2018, US soybean imports accounted for about 30% of China's total imports, and fell to 18.9% in 2018. The gap was mainly made up by expanding import sources, and some were imported from Canada, Argentina, Uruguay and Russia. In order to reduce the impact of trade wars on China's soybean market supply, China has actively expanded the country of soybean import and increased soybean imports to South American countries and Russia.

China can actively expand the source of soybean imports from the following aspects. First, China can further deepen cooperation with South American countries such as Brazil and Argentina, and import more soybean meal from these countries to ease the gap in China's demand for soybeans. Second, through the Sino-Russian "food corridor", COFCO's purchase of soybeans in southern Russia is also conducive to alleviating the gap in soybean imports in China.[5] Third, the State Council Tariff Commission issued a notice stating that since July 2018, China will reduce the tariff rate on imported soybeans originating in India, Bangladesh, Laos, Sri Lanka and South Korea from 3% to zero. Although the amount of imported soybeans from Southeast Asia is relatively small, as an emerging soybean exporting country, it can objectively promote the diversification of China's soybean import sources, which is conducive to the new global supply pattern of China's soybeans.

**Conducive to Improving the Enthusiasm of Chinese Farmers and Promoting the Technological Progress of Feed Enterprises.** The Sino-US trade war has intensified, and the amount of soybeans imported from the United States has decreased. However, the demand for soybeans in China has increased rapidly with the improvement of living standards. To meet the growing demand, on the one hand, it is possible to increase imports of soybeans from other countries by increasing the source of imports; on the other hand, by increasing the cultivation of domestic soybeans, improving production technology, increasing yields, and increasing the supply of domestic soybeans.

By increasing support for soybean cultivation, the government will increase subsidies, increase farmers' enthusiasm for production, develop new technologies, increase domestic soybean production, and reduce China's dependence on soybean imports to reduce the risks brought about by changes in the international situation.[6]

About 70% of imported soybeans in China are used in the processing of soybean meal to produce feed. China's Ministry of Agriculture and Rural Affairs and other relevant agencies have begun to study how to improve the diversification of protein required in feed, which will reduce the dependence of feed production enterprises on the demand of soybean meal, and promote the technological progress of feed enterprises. It is conducive to promoting the oil plant to accelerate the optimization of raw material structure, transfer refinery raw materials to other alternatives, and reduce the external dependence of China's soybeans.[7]

## **Suggestions**

In order to cope with the impact of the recent intensified Sino-US trade war on China's soybean imports, China can take measures from the following aspects.

**Actively Expand the Source of Imports and Build a New Pattern of China's Soybean Imports.** Previously, China's soybean imports were over-reliant on a few countries, such as the United States, Brazil, and Argentina. This led to fluctuations in the international situation that would lead to a rise in soybean prices and potential supply risks. From this Sino-US trade war, we also realized that China must actively expand the source of imports to maintain the stability of soybean supply. Due to the trade transfer effect, the planting scale of other soybean producing countries tends to increase, and China can expand the procurement scale from major soybean producing areas such as South America and Canada.

The "Belt and Road" countries may also expand the cultivation of soybeans, which will promote the diversification of China's soybean import sources and reduce the impact of Sino-US trade wars.[8]

With the establishment of the "food corridor" between China and Russia, China can establish an import grain port through Heilongjiang Province and increase imports of Russian soybeans.

China will reduce the tariff rate of imported soybeans from five Southeast Asian countries such as India to zero, which will help increase the import of soybeans from Southeast Asian countries.

In recent years, the rapid growth of soybeans imported from countries such as Uruguay, Ukraine, and Ethiopia has alleviated the pressure from the reduction of US soybean imports to some extent.

If the Sino-US trade war continues for a long time, the import pattern of new soybeans will be changed, which will also change the pattern of world soybean trade.

**Improve the Self-Sufficiency Rate of Domestic Soybeans.** China's foreign dependence on soybeans is too high, and because of the impact of Sino-US trade wars, we also realized that China needs to change the existing pattern and further increase the supply rate of domestic soybeans. Because the price of soybeans in the international market has continued to decline in recent years, the price gap between domestic soybeans and imported soybeans has become larger and larger, and domestic soybeans are at a disadvantage in the Chinese market and lack competitiveness. If the trade war continues, the tariff on US soybeans will further highlight the advantages of China's soybeans. The price advantage of domestic soybeans can increase farmers' enthusiasm for planting soybeans, and the planting area and output of soybeans will increase. At the same time, China's soybean production efficiency is low, and the single yield is lower than other countries. China needs to actively promote structural reform of agricultural supply side, adjust agricultural planting structure, introduce advanced technology, and increase support for agricultural science and technology to increase yield. rate.[9] In recent years, the adjustment of soybean planting structure in China has achieved results. After years of decline in soybean planting area and output, it has achieved growth since 2015. From 2018 to 2019, China's soybean planting area reached 8.47 million hectares. It will reach 15.8 million tons.

**Actively Seek Alternatives to Soybeans and Guide Healthy Consumption Concepts.** In order to cope with the reduction of imported soybeans from the United States, China can import more soybean meal, rapeseed, cottonseed and even other peptones to replace some soybean meal for feed production.

Since rapeseed meal can replace soybean meal for feed production to a certain extent, the import of rapeseed in China has increased rapidly in recent years. In order to change the situation that feed protein is over-reliant on soybean meal, China can increase investment in agricultural research and develop deep-processed protein products using rice, wheat and corn.[10]

At the consumer demand side, we should actively promote and disseminate healthy consumption habits, and develop more soy protein products to meet the needs of residents for plant protein, thereby reducing the consumption of livestock and poultry products, and reducing the consumption of soybeans and Import of cardamom. In terms of edible oil, in addition to importing soybeans from Brazil, Argentina, the United States and other countries to meet domestic edible oil demand, we can also import rapeseed and rapeseed oil from Canada, palm oil from Indonesia, and domestic soybean oil and vegetables in recent years. The self-sufficiency rate of seed oil, cottonseed oil and grape seed oil has been improved to varying degrees.

**Deepen Trade Layout and Actively Deploy Global Industrial Chain.** To enhance the competitiveness of China's agriculture in the international market, it is necessary to focus on building some internationally competitive multinational agricultural enterprises with high production efficiency, and guide these agricultural enterprises to actively "go global" and expand the space for agricultural development in China, for example multinational enterprises actively learning foreign advanced agricultural technology, promoting the structural reform of China's agricultural supply side, increasing cooperation with foreign agricultural enterprises, increasing foreign investment, promoting the layout of China's agriculture in the global industrial chain and ensuring the safety of China's related agricultural products.

## Summary

China's domestic soybean production is stable and slow, so it is difficult to meet the growing demand for soybeans. About 90% of China's soybeans are imported. In the long run, the pattern of China's soybean market consumption will not change. At the same time, US soybean exports accounted for more than 40% of total production. China and the United States have great interdependence on soybean trade. Due to the impact of the Sino-US trade war, the number of soybeans imported from the United States has decreased, but the domestic soybean market is stable. China can respond to the gap in imports from the United States through various measures. The trade war has limited impact on China's soybean import trade. The Sino-US trade war will surely become an important opportunity for the transformation of China's soybean industry. China will actively seek alternatives to soybeans, guide the concept of healthy consumption, actively expand the source of imports, build a new pattern of China's soybean imports, increase the self-sufficiency rate of domestic soybeans, deepen the trade layout and actively deploy the global industrial chain.

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