

Soyabean wars: China tries to hit Donald Trump where it hurts

As the US and China threaten a trade war, the widely used crop has become one of the main areas of dispute

Patti Waldmeir in Yorkville, Illinois and Tom Hancock in Shanghai APRIL 6, 2018

“I look out across my bean field, and I know that every third row goes to China,” says Bill Wykes, who farms in a slim slice of the Illinois soyabean belt an hour and a half from Chicago, the city that grain built.

Over the past decade, Mr Wykes and many of the surrounding family farms in Kendall County have made a large bet [on China and its rising meat consumption](#), which has driven purchases of animal feed made from [soyabeans](#).

“Fifteen years ago we hardly put a bean into China,” says Mr Wykes, 63, who has doubled his soyabean acreage in order to meet demand.

Those fields are now at the centre of a [looming trade war](#) between the two biggest economies in the world after the US and China threatened to [impose billions of dollars in tariffs](#) on each other.

While the US has accused China of theft of intellectual property to justify its tariffs, Beijing is trying to drive a wedge between [US President Donald Trump and the supporters](#) in rural areas he will need in this year’s midterms and in his 2020 bid for re-election.

The US and China are still in [the phase of shadow boxing](#); no actual tariffs are expected for another two months. But the dispute has escalated rapidly over the past week. After the Trump administration unveiled plans for tariffs on about 1,300 Chinese imports on Tuesday, Beijing responded within hours that it would impose 25 per cent duties on, among other things, US soyabean imports.

Since then, the US has sent out mixed signals. Larry Kudlow, the White House’s new top economic adviser, indicated on Thursday that the administration was open to negotiation. “It’s nothing around the corner. There’s going to be big discussion about it,” he told

reporters. However, later in the day, Mr Trump threatened to impose tariffs on a further \$100bn of Chinese imports.

With both governments happy to escalate the rhetoric, the stand-off is becoming a test of political will. In theory, Beijing is more exposed [in a trade war](#) because it is more reliant on exports to the US than the American economy is on sending goods to China. Mr Trump might also hope to benefit politically from taking a tough line on China.

However, Beijing believes the Trump administration will come under heavy pressure from farmers and other lobby groups to back off from a trade war — especially in an election year. China is by far the largest foreign market for American soybeans, taking about 56 per cent of its \$22bn of exports last year. Economic interdependence means many US manufacturers rely on Chinese parts.

“Beijing believes it can withstand more pain than the US,” says Evan Medeiros, former White House Asia director now at Eurasia Group, adding that its tariff list “amounts to micro-targeting of some key Trump constituencies”.



Swing state: an Iowa voter attends a Republican party gathering held by Donald Trump during campaigning in 2016 © Getty

Kendall County, in Illinois’ 14th congressional district, is the sort of area that will be closely watched by politicians in the coming weeks. The district was won comfortably by the Republicans two years ago, but amid signs of a potential wave

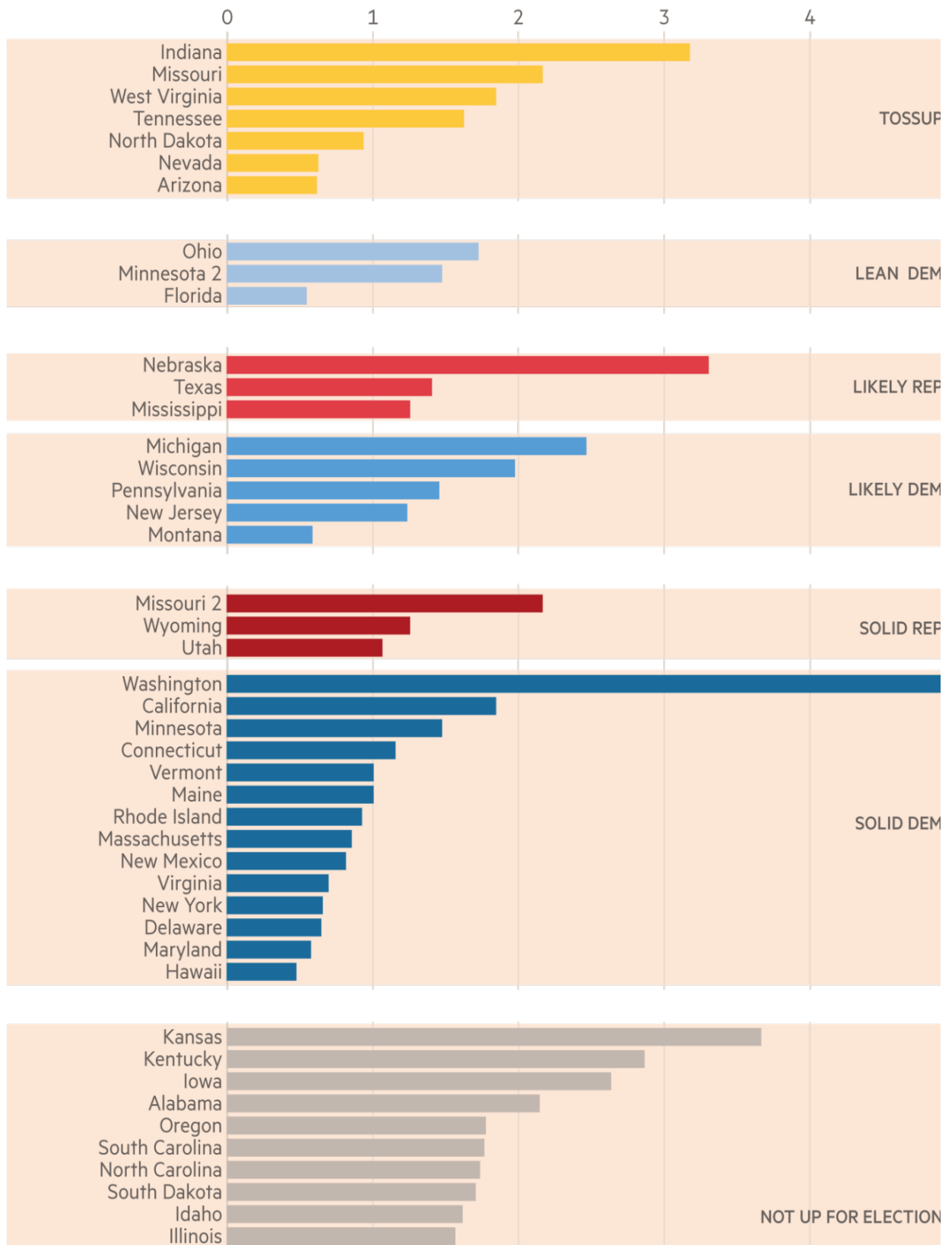
for the Democrats in the November elections, the non-partisan Cook Political Report has shifted it into the column of races that could become competitive this year.

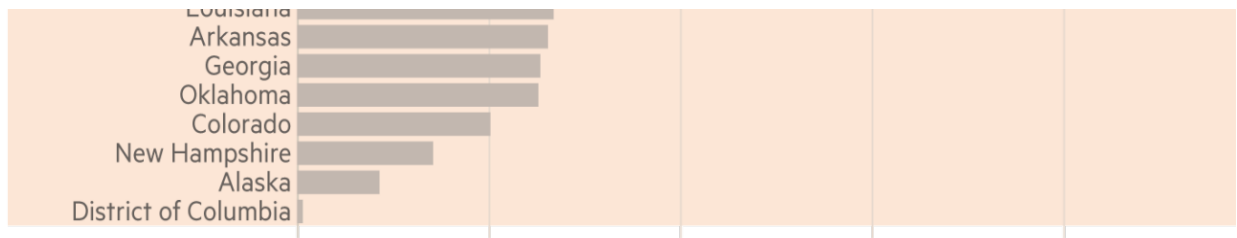
The US soyabean belt stretches across the midwest from Illinois to Minnesota and Nebraska and down the Mississippi river valley to Arkansas. It includes areas that voted heavily for Mr Trump in 2016 as well as crucial swing states such as Iowa. According to the Peterson Institute in Washington DC, a major disruption in soyabean exports could lead to job losses of more than 20 per cent in Mississippi County in Missouri, which will hold one of the most closely contested Senate races this year.

“[Trump] is threatening to light American agriculture on fire,” said Ben Sasse, Republican senator from Nebraska. “Let’s absolutely take on Chinese bad behaviour, but with a plan that punishes them instead of us.”

Jobs potentially affected by China's tariffs on US imports

% of all jobs (by Senate seats up for election)





Graphic: Steve Bernard
 Sources: Brookings; Cook Political Report
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When China announced its soyabean tariff plans on Wednesday, the price of soyabeans fell 40 cents a bushel, says Mr Wykes. “For an average farmer with 500 acres, that’s a \$12,000 drop in 10 minutes, it can be devastating,” he says.

However, so far there are few indications of soya farmers turning against Mr Trump. “I don’t think anyone has got to that point yet,” says Mr Wykes. Kendall County Republican party chairman James Marter says tariff threats are just a ploy: “I think Trump is using a big stick as a negotiating tool.”

Bob Stewart, another Illinois farmer, puts this week’s tariff announcement into perspective. “My family settled here in the 1860s,” he says, “this isn’t going to put us out of business.” Although the family’s farming operations “probably lost \$200,000” on Wednesday because of the tariff announcement, he is still planning to plant soyabeans in fields that would normally be rotated to corn this year — “which is unheard of for us” — because of strong demand.



Soyabean farmer Bob Stewart at his property in Illinois

He doubts tariffs will damage Mr Trump's election prospects. Soyabean farmers have a strong lobby, "but in terms of voting power, we are not very strong: there are very few farmers left".

John Green, an expert on Midwest politics at the University of Akron, says many voters in the region are conflicted: they support the symbolic goal of striking "fairer" trade terms with foreign countries, even though it could hurt them financially. But the pain may not hit for some time to come.

"So far it's all rhetoric, these things take time to put in place. It's entirely possible that we won't see the economic impact by the 2018 elections," he says.

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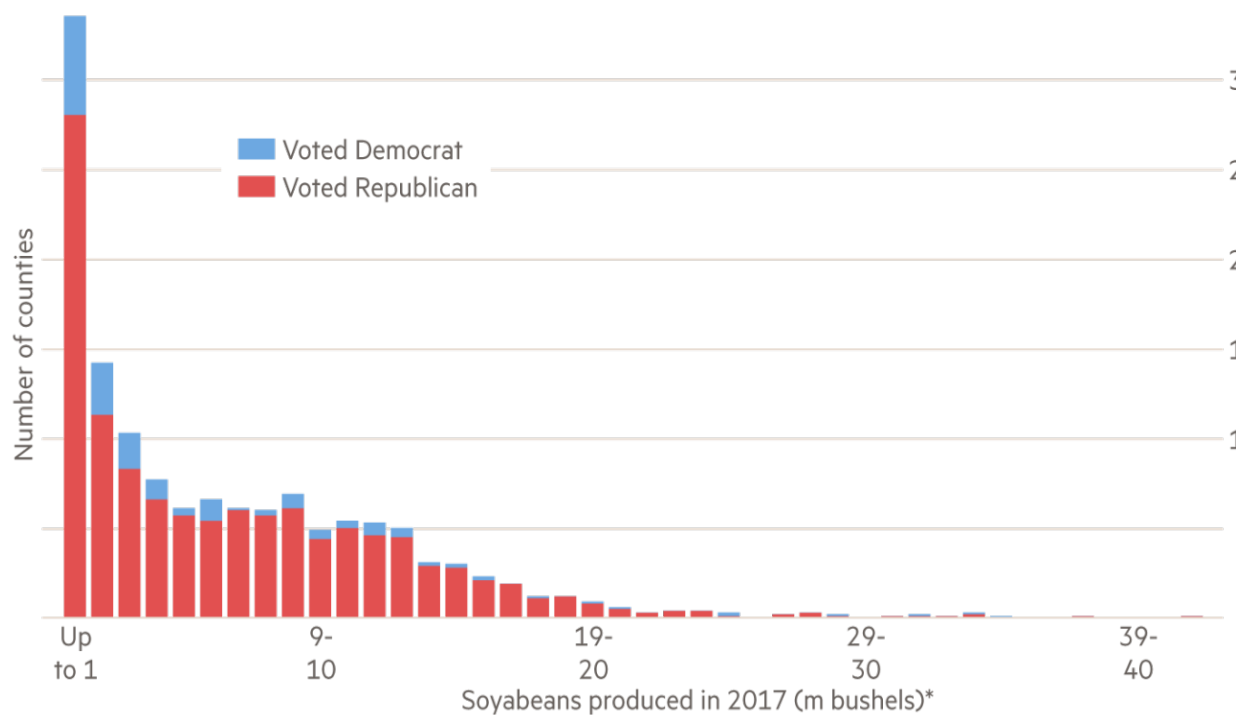
Charlie Cook, editor of the Cook Political Report, argues that many Trump voters are not really motivated by the economic interests that could be affected in a trade dispute. "I think a lot of it is driven by animosity towards elites, animosity towards people in urban areas and people who live on the east and west coast," he says.

If there is a trade war, the Chinese government could come under political pressure too, given the unique role of soyabeans in its economy. The explosive growth in soyabean trade over the past two decades is also the story of the expansion of the Chinese middle class.

Three decades of rising incomes have driven China’s annual per capita meat consumption to more than double from 20kg to 50kg since the late 1980s. Pork is China’s most popular meat and the number of pigs slaughtered in the country rose from less than 400m to 700m a year over the same period.

Meat was a rarity 40 years ago, recalls Zhao Guifang, 87, who grew up in rural Sichuan. “We ate pork once or twice a year. Pigs were fed grass, so raising them took a year,” she says.

Soyabean producing areas overwhelmingly voted for Donald Trump



*Data not available for all counties
 Sources: USDA; FT research
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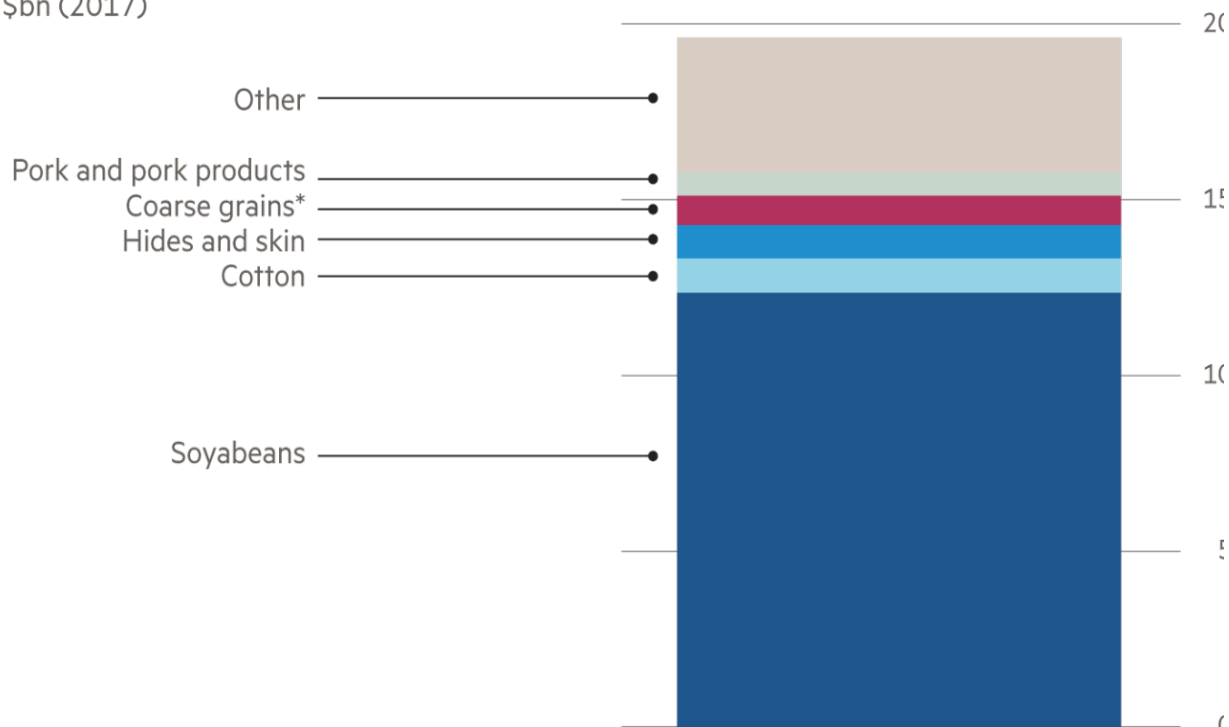
Such an increase in demand could not be met by the backyard producers that once dominated the market. Instead, China has promoted the rise of large pig breeders which are supplied by agribusiness groups that produce feed from protein-rich soyabeans, ideally suited to fattening animals.

China’s own soyabean production accounts for 4 per cent of global supply, enough to cover just six weeks of its own consumption. As a result China’s soyabean imports exploded from half a million tonnes 20 years ago to 96m tonnes last year — a third of the world’s supply.

Beijing also has few choices about where to import from. The US, Brazil and Argentina produce about 90 per cent of the world’s soybeans — and Argentina mainly exports ground beans that are not favoured in Beijing. “China can basically only choose from Brazil and the US,” analysts at Guotai Junan Securities said in a recent note.

Soyabeans account for almost two thirds of all US agricultural exports to China

\$bn (2017)



* excludes corn
 Source: USDA
 © FT

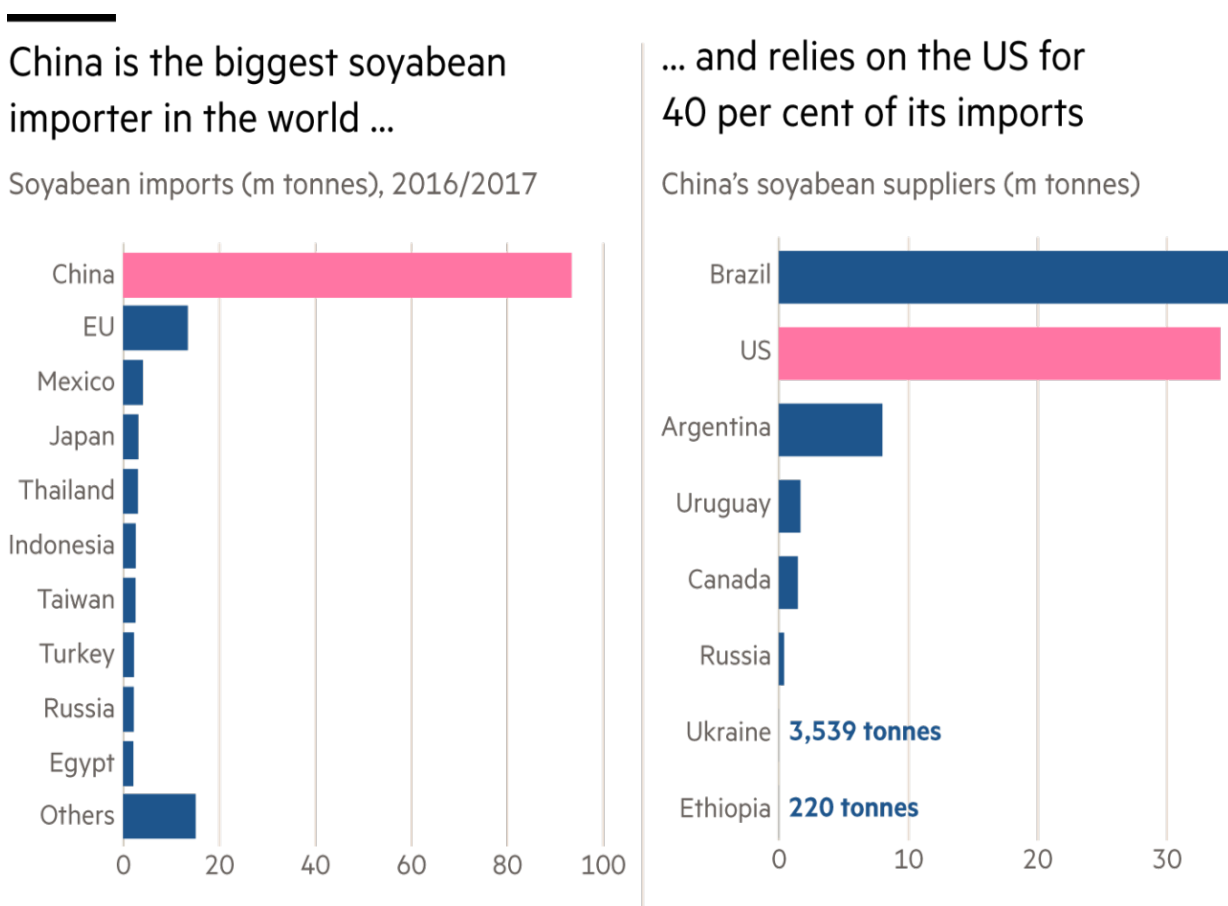
Beijing has the calendar on its side. The autumn and early winter in the southern hemisphere are the season when it imports soyabeans from Brazil: there is a six-month window before it starts to rely on shipments from the US.

Beyond that, Chinese planners are investigating whether it can import more from Brazil. “Without US soy, then other countries like Brazil should be able to take care of our needs,” Wen Pengcheng, a founder of Wens Foodstuffs, one of China’s largest animal feed groups, said earlier this month.

The big risk for Beijing is that a trade war drives up inflation — something the Communist party has always been allergic to, given the potential for social unrest. While even switching

5-10m tonnes of supply from the US to Brazil would cause pain to US farmers, that would hand Brazil more pricing power.

“Soaring soyabean prices will transmit to downstream meat and oil prices, which will increase domestic inflation,” adds Guotai Junan. While some Chinese bloggers have suggested adopting a vegetable-based diet for patriotic reasons, it is unlikely that fried chicken-loving city dwellers will give up their taste for meat.



Source: International Trade Center calculations based on UN Comtrade statistics
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However, the consultancy TS Lombard estimates a 10 per cent rise in soyabean prices would lift inflation by less than 0.2 per cent, suggesting China has room for manoeuvre.

Beijing will also face pressure from its new soyabean industry. Hundreds of importers, crushers, feed companies and meat producers employ hundreds of thousands of people. The sector is plagued by overcapacity, meaning companies will struggle with rising costs.

“Companies will definitely be talking to the government about this,” says Feng Yonghui, a pork industry analyst.

The only way for China to wean itself off [US soyabeans](#) entirely would be to pour money into new regions to boost their soyabean output. Some officials have talked, for instance, about Black Sea countries such as Ukraine.

In doing so, it would be following in a trail blazed by Japan, which invested heavily in soyabean production in Brazil in the 1970s. That effort ultimately contributed to Brazil's emergence as a major soyabean producer.

“Chinese government and agribusiness leaders will surely get busy trying to create the next Brazil somewhere in the world,” wrote US agriculture department analyst Fred Gale. But such a plan will not help Beijing in its current stand-off with Mr Trump.

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