China trade war could permanently scar US soya bean industry

By Karen Braun, Reuters

As the trade fight between the United States (US) and China escalates, many agricultural market participants have taken comfort in the idea that China cannot fulfil its soya bean needs without importing massive quantities of the US product.

Nevertheless, that situation only holds in the short term. As the world's top buyer, China needs US soya beans today, in a few months, and likely even next year. Yet it is not unreasonable for China to eventually wean itself off American beans in the longer term, which could have detrimental and irreversible effects on US markets.

On paper, a soya bean trade war involving the US and China makes no sense for either party. China imports roughly 100 million tons of soya beans each year, primarily from Brazil and the US, which together produces 70% of the global supply.

US farmer the biggest loser

Simple math demonstrates that under the current structure China cannot avoid US soya beans right now if it is to meet its import schedule. Besides, why would China want to pay more for a product it clearly needs? Why would the US threaten its number two export (behind aircraft) to the East Asian country?

Apparently, logic doesn't matter in this case, as these are the choices that have ultimately been made under the decision to proceed with the tariff tit-for-tat, and potentially a full-on trade war. Unfortunately, the US farmer could become the biggest loser in this fight, without a resolution between both sides at some point soon as China likely has more options to work with.

No one wins a trade war in the short term, but over the longer term, the soya bean opportunity for China may be greater than for the US farmer. Underestimating China's ability to seek and develop new sources could mask the risky bigger picture for American producers.

China's own soya bean crop can cover up to seven weeks of the country's annual needs, which is why it relies so heavily on imports. The first obvious possibility is for China to materially expand production over the next several years, but variation in climate and competition with other crops could be barriers to that effort.

Expand agricultural land use

Finding other overseas markets may be the preferred option. For one, lead exporter Brazil planted a record soya bean area in 2017/18 and will very likely top that in 2018/19. Brazil hardly has any soya beans left over at the end of its marketing cycles, so China will not be able to simply grab more exports from Brazil without a production increase.

However, Brazil has already risen to the challenge of supplying more protein to the world over the last two decades. In 20 years, the South American country has increased soya bean production by 266%, compared to 63% for the US. China's import volume has multiplied by 33 times over that period.

Brazil also has the possibility to expand agricultural land use, but it may not have to do it alone. If China wants to curb reliance on US supply, Chinese investors may be looking to buy and develop land in Brazil, another country in South America, Africa, or somewhere else that is affordable and suitable for growing soya beans and other crops.

This might be the best option for China as relying solely on Brazil as the supplier would drive up the import cost. Additionally, Brazil's agricultural minister said that a US-China trade war "will only hurt Brazil", emphasising cost strain on its animal protein producers. The Chinese land investment scenario would take a few years at least, but it could be worst case for the US soya bean industry since the domestic market would be entirely different without China.

Forced to produce less

The US would need to replace more than 30 million tons of global soya bean business if China were eventually to walk out the door for good. Global soya bean demand is not growing at such a rate, so US farmers may be forced to cut hectares significantly due to much lower prices and lack of demand.

Maize would likely pick up a lot of the lost soya bean hectares. Over time, the huge surplus of maize that might result from this could also depress prices in that market, so the impact of a possible US-China trade war could reach well beyond soya beans.

Right now, the Chinese crusher is feeling the pain of having to buy US supply at a higher cost in a couple of months. US farmers are feeling the pain of seeing soya bean futures plunge to near ten-year lows after some optimism about prices earlier this year.

So, instead of teaching the Chinese a lesson when it comes to trade, the unintentional result over the long term might be that China learns to get along without US soya beans.