



# Trade and US Agriculture: What to Expect from the Biden Administration

By Joseph W. Glauber

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## Key Points

- Following four years of contentious trade wars and unilateral trade actions against key US partners under the previous administration, the Joe Biden administration must decide whether to continue those policies or change course to work multilaterally to achieve its goals. Thus far, trade policy under the new administration looks a lot like it did with the previous one.
- US farmers and ranchers have genuinely benefited from the multilateral trading system, but, as the past four years have shown, they are also vulnerable when the system is not working as intended.
- The next four years will present an opportunity for the United States to again lead in global trade policy. The recent agreement to remove tariffs on EU steel and aluminum exports is a good start.

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The past four years under the Donald Trump administration were tumultuous for US agriculture and agricultural trade. Within days of taking office, the administration had pulled out of the Trans-Pacific Partnership (TPP), a trade agreement the Barack Obama administration negotiated that had enjoyed strong support from the agricultural sector. Soon after, the Trump administration threatened to pull out of the North American Free Trade Agreement (NAFTA) and the US-Korea Free Trade Agreement (KORUS), actions that might have happened if not for strong pushback from the agricultural lobby and then-Secretary of Agriculture Sonny Perdue. Instead, the United States spent almost two years renegotiating and modernizing NAFTA and making changes in the KORUS agreement. All the while, the remaining 11 countries concluded negotiations on TPP (now called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, or

CPTPP), and US farmers are now concerned about being disadvantaged in key Asian markets such as Japan and Vietnam.<sup>1</sup>

The Trump administration's aggressive unilateralism with protective trade remedies resulted in costly trade wars in which agriculture was often the target for retaliatory tariffs. By the end of 2018, US agriculture was reeling from trade wars affecting its top five export markets (Canada, China, the European Union, Japan, and Mexico). US exports to China, one of the largest destinations for US products, fell by 52 percent from 2017 to 2018, led by a 75 percent drop in soybean exports. Exports to China began to recover in 2020 after the signing of the phase 1 deal with China in early 2020. However, supplemental tariffs remain in place.

Because of the trade wars, farm prices and farm receipts fell, and without the aid of a costly \$28 billion bailout for the sector, farm incomes would

have declined sharply.<sup>2</sup> Those subsidies, combined with payments under the price and income support program and federal crop insurance program, have significantly increased trade-distorting support reported to the World Trade Organization (WTO). As a result, US trade-distorting support came close to exceeding its cap under WTO rules for 2019 and 2020 and could trigger trade disputes with other exporting members.

Lastly, the Trump administration’s refusal to appoint new members to serve on the WTO’s Appellate Body has effectively rendered the body moribund since 2019 and has jeopardized the functioning of the Dispute Settlement Body to settle trade disputes among WTO members. The United States has brought numerous agricultural cases to the WTO, successfully resolving 60 percent of those cases involving the WTO Agreement on Agriculture (AoA) before they went to a panel hearing. For those cases that went to a panel, the US prevailed on 80 percent of the claims brought in those cases.<sup>3</sup>

### Should Agricultural Producers Care About Trade Policy?

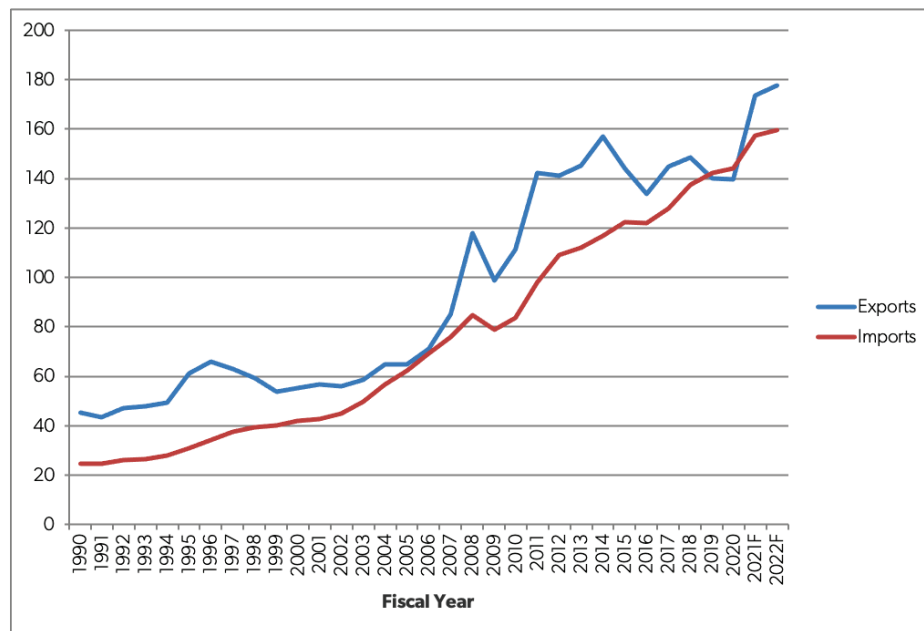
Despite the turmoil caused by trade wars and other unilateral actions by the previous administration,

agricultural trade has been remarkably resilient. US agricultural exports have recovered and surpassed pre-trade war levels and are projected to be a record \$177.5 billion in fiscal year (FY) 2022, up almost \$38 billion from FY2020 levels (Figure 1). Notwithstanding any impacts of the global pandemic, US agricultural imports also are projected to reach a record \$159.5 billion.

The United States is the second-largest exporter of agricultural products (after the EU) and the second-largest market for imported agricultural products (after China). The US Department of Agriculture’s Economic Research Service (ERS) estimates that about 22 percent of US annual agricultural production is exported, and for some commodities, this percentage is far higher (Figure 2). For a commodity like soybeans, in which half of US production is exported and half of that goes to China, loss of access to that market can devastatingly affect prices and farm receipts, as we saw in the recent trade war.

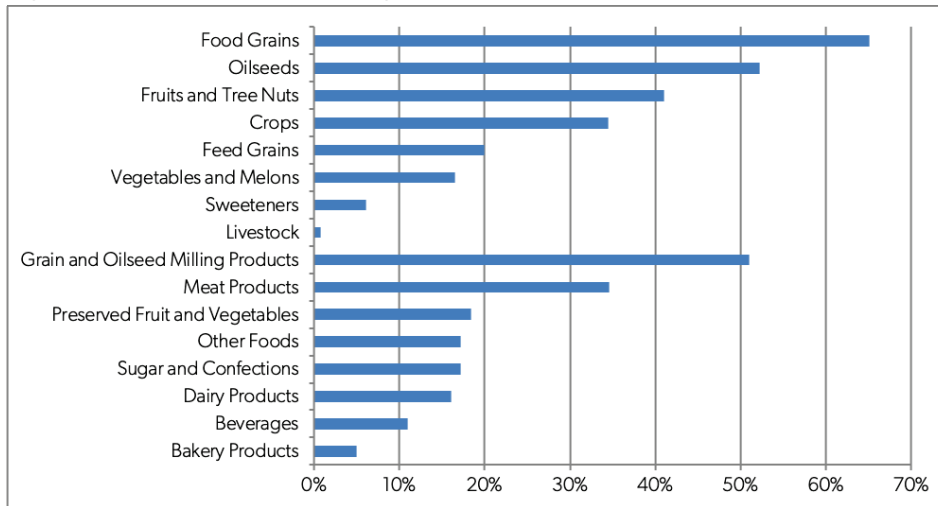
Trade also means jobs. Based on 2018 data, the US Department of Agriculture ERS has estimated that each dollar of agricultural exports stimulated another \$1.17 in business activity. Each \$1 billion of agricultural exports is associated with 7,000 jobs

**Figure 1. US Agricultural Trade (USD Billion)**



Source: US Department of Agriculture, Foreign Agricultural Service, Global Agricultural Trade System, <https://apps.fas.usda.gov/GATS/default.aspx>.

**Figure 2. Exports as a Percentage of Domestic Production**



Source: US Department of Agriculture, Economic Research Service, "U.S. Agricultural Trade at a Glance," <https://www.ers.usda.gov/topics/international-markets-us-trade/u-s-agricultural-trade/us-agricultural-trade-at-a-glance/>.

throughout the economy, including more than 70 percent off the farm.<sup>4</sup>

### Quo Vadis, Biden Administration?

Thus far, trade policy under the Biden administration seems more like a kinder, gentler version of trade policy under President Trump. If other countries hoped that the Biden administration would resume the US's traditional leadership role in multilateral negotiations, those hopes have not yet been realized. Supplemental tariffs imposed on China during the Trump administration remain in place, though the Biden administration has recently removed costly tariffs on EU suppliers of steel and aluminum. While the new administration has proclaimed support for the multilateral system, it has yet to put forward concrete proposals on how to resolve the Appellate Body crisis.

Recent comments by Secretary of Agriculture Tom Vilsack suggest there is strong support for joining CPTPP. US Trade Representative Katherine Tai has been more circumspect, suggesting that any new efforts concerning negotiations about trade agreements are a low priority for the Biden administration, at least for the near future.<sup>5</sup> In the meantime, China, South Korea, Taiwan, and the UK have formally applied for membership or indicated interest in joining CPTPP.

The following are steps the Biden administration could take to improve and promote the world trading system.

**Resolve the Appellate Body Crisis.** The current impasse over appointing new members for the WTO Appellate Body points to what many members would agree are legitimate concerns with the Appellate Body's operation.<sup>6</sup> The danger is that, without resolution, the impasse will paralyze the dispute settlement process, which, in turn, threatens the stability of the multilateral trading system. As we have seen in the past, there could be consequences in agriculture that could have human costs for countries that rely on food trade, exacerbating hunger and hurting food producers' income opportunities.

**Reengage Negotiations to Join CPTPP.** During the presidential campaign, candidate Biden indicated interest in rejoining CPTPP—but only if the agreement were broadened to include labor and environmental concerns. Those are important concerns, but delaying negotiations runs the risk of being left behind by our competitors, particularly in the emerging markets of Asia.

**Work Multilaterally to Push Reforms in China.** Here, the Biden administration has begun talks with like-minded trade partners to push for needed reforms in China to address industrial subsidies,

trade-distorting practices by state-owned enterprises, intellectual property protection, and other trade concerns. A functioning WTO Dispute Settlement Body would allow the US and others to address those concerns in the rules-based system. Indeed, one of the ironies of the Trump administration's trade policy was that while the administration was taking unilateral actions against China that precipitated counterretaliations and a disruptive trade war, the United States successfully argued and won two WTO dispute panels involving US agricultural products (China—Domestic Support for Agricultural Producers and China—Tariff Rate Quotas for Certain Agricultural Products) that had been launched during the Obama administration.<sup>7</sup>

### **Reengage with the WTO on Agricultural Reforms.**

In addition to reforming the Appellate Body process, the Biden administration should reengage with trading partners to push for further reforms of the world trading system. Since the completion of the Uruguay Round and creation of the WTO in 1995, reforms in agriculture have been limited. After failure to reach a comprehensive agreement in the Doha Development Round in 2008, WTO members were able to reach an agreement eliminating export subsidies in Nairobi in 2015 (at the WTO's 10th Ministerial Conference), but almost no progress has been made on further disciplining domestic support or increasing market access.

The Uruguay Round AoA marked a major achievement that resulted in significant reductions in domestic support, but reform efforts have largely stalled, and support levels have been flat since 2010 and have risen in the past few years to address trade wars and COVID-19 impacts on farm incomes. Moreover, domestic support levels among emerging-market economies such as China and India have been rising over the past 15 years and

rival those of some of the large subsidizing developed economies such as the United States and the European Union. The AoA has a confusing array of commitments and loopholes. A big step toward further reform would be to close some of those loopholes and focus on capping and harmonizing trade-distorting support.<sup>8</sup>

## **Conclusions**

As one of its founding architects and long recognized as one of its stalwart proponents, the United States has been a major beneficiary of the WTO rules-based system for managing international trade and trade relations. US farmers and ranchers have genuinely benefited from that system, but, as the past four years have shown, they are also vulnerable when the system is not working as intended. The next four years will present an opportunity for the United States to again lead in global trade policy. But this will mean abandoning the unilateralist approach and instead working with its trading partners and within the WTO's framework of trade rules to find solutions to those problems.

The challenges of meeting future food needs will require a concerted effort from governments to improve the functioning of food and agricultural markets. The WTO can play an enormously important role by reducing trade-distorting support, improving market access, ending distortions caused by export restrictions and subsidies, and—perhaps most importantly—continuing to provide a forum to which members can bring and hopefully resolve trade disputes rather than engaging in unilateral trade actions that can quickly escalate trade tensions. The Biden administration must act on this opportunity and take up the leadership mantle it once held in promoting a more open and fair trading system.

## **About the Author**

**Joseph W. Glauber** is a senior research fellow at the International Food Policy Research Institute and a former chief economist at the US Department of Agriculture.

## Notes

1. The US concluded a limited agreement with Japan in October 2019 that restored market access for many, but not all, agricultural goods covered under the original Trans-Pacific Partnership.
2. Joseph W. Glauber, “US Trade Aid Payments and the WTO,” *Applied Economic Perspectives and Policy* 43, no. 2 (December 2020).
3. Joseph W. Glauber and Xiaorong Xing, “WTO Dispute Settlement Cases Involving the Agreement on Agriculture, 1995–2019,” International Food Policy Research Institute, 2020, <https://www.ifpri.org/publication/wto-dispute-settlement-cases-involving-agreement-agriculture-19952019>.
4. US Department of Agriculture, Economic Research Service, “US Agricultural Trade at a Glance,” <https://www.ers.usda.gov/topics/international-markets-us-trade/u-s-agricultural-trade/us-agricultural-trade-at-a-glance/>.
5. Tom Vilsack, “Vilsack Calls for TPA Renewal, Consideration of CPTPP,” Fence Post, April 1, 2021, <https://www.thefencepost.com/news/vilsack-calls-for-tpa-renewal-consideration-of-cptpp/>.
6. See, for example, Jennifer Hillman, “Three Approaches to Fixing the World Trade Organization’s Appellate Body: The Good, the Bad and the Ugly?,” Georgetown University Law Center, Institute of International Economic Law, 2019, <https://www.law.georgetown.edu/wp-content/uploads/2018/12/Hillman-Good-Bad-Ugly-Fix-to-WTO-AB.pdf>; and Gary Clyde Hufbauer, “How to Revive Dispute Settlement in the World Trade Organization,” in *Making the Most of the 2021 WTO Ministerial—What the United States Should Do*, ed. Chad P. Bown et al., Peterson Institute of International Economics, October 2021, <https://www.piie.com/sites/default/files/documents/piieb21-3.pdf>.
7. See Joseph W. Glauber and Simon Lester, “China—Tariff Rate Quotas for Certain Agricultural Products: Against the Grain: Can the WTO Open Chinese Markets? A Contaminated Experiment,” *World Trade Review* 20, no. 4 (April 2021): 1–16, <https://doi.org/10.1017/S1474745621000148>.
8. See Carmel Cahill et al., *New Pathways for Progress in Multilateral Trade Negotiations in Agriculture*, New Pathways, May 24, 2021, <https://newpathwaysagric.files.wordpress.com/2021/05/new-pathways.pdf>.

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