Trade Creation and Trade Diversion Resulting from the Phase 1 Trade Agreement for Agriculture

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The U.S-China trade war initiated in 2018 dramatically reduced U.S. exports of agricultural goods to China. China's retaliatory tariffs on U.S. exports of agricultural goods contributed to a 53% reduction in U.S. exports to China in 2018 and a 30% reduction in 2019 (relative to 2017). The Phase 1 trade agreement signed in 2022 between the two countries establishes purchase targets for U.S. agricultural exports to China in 2021 and 2022, and also includes provisions for structural reforms of China's regulatory framework for agricultural imports. Our research investigates the effect of the Phase 1 agreement on U.S.-China agricultural trade. Conceptually, China could achieve the purchase targets by import shares of key commodities from the rest of the world and towards the U.S, in other words, trade diversion. Alternatively, structural reforms may increase China's demand for U.S. agriculture, i.e., trade creation. We model and measure these effects using the GTAP version 7 model (Corong et al., 2017) calibrated to the GTAP version 11 Data Base with a 2017 base year (Aguiar et. al., forthcoming). In addition to providing evidence on the effects of the Phase 1 trade agreement, our analysis will shed light on a key trade policy and trade modeling question raised by the Phase 1 agreement: what are the consequences of replacing tariff reductions and market access with explicit purchase targets in trade agreements?

References:

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