

A satellite map of Washington State and the surrounding Pacific Northwest region, including parts of Oregon and Idaho. The map shows the coastline, major water bodies like Puget Sound and the Strait of Juan de Fuca, and the mountainous interior. A semi-transparent teal banner is overlaid on the bottom half of the image.

Seattle Economics Council

# U.S.-China Trade War

## Impacts to Washington State

### UPDATE

November 6, 2019

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**Why trade and China matter for Washington**

**How we got here**

**Context and what's happening in China**

**Outlook and the “bigger picture”**

# Big Themes and Questions

- China is—and will continue—to matter importantly for Washington state's economy.
- But...China's economy is slowing down, and facing headwinds.
- The trade war is not just about trade.
- No one “wins” trade wars.
- Setting aside the rhetoric, some core grievances about China's trade practices and domestic policy toward foreign firms.
- Are we entering a new “normal”?

# **Washington-State China Economic Ties**



# History of Washington State-China Relations

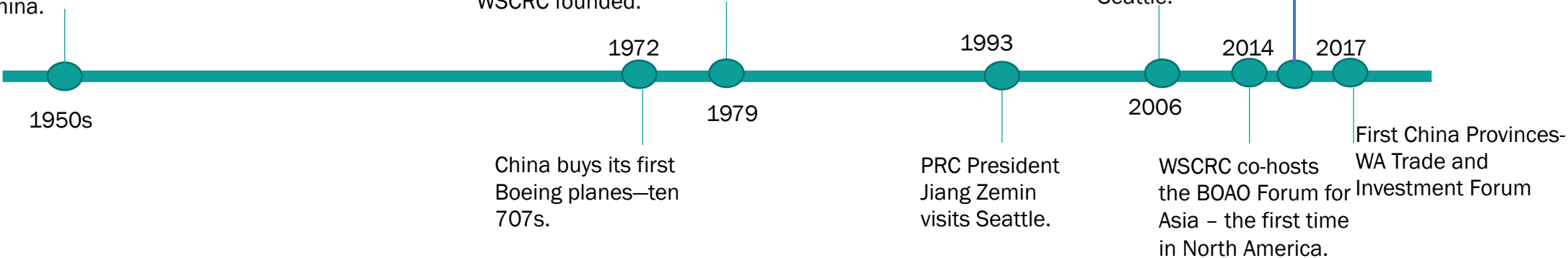
40 years of close ties



U.S. Sen. Warren Magnuson advocates for normalized relations and trade with China.

Deng Xiaoping visits Seattle.  
WA Governor Dixie Lee Ray's 1<sup>st</sup> trade mission to China.  
Arrival of M.V. Liu Lin Hai to Seattle.  
WSCRC founded.

PRC President Xi Jinping and Madame Peng Liyuan visit Seattle.  
The first Shenzhen Day Event—8 agreements signed.



# China's Importance to Washington State

## Trade and investment in Washington

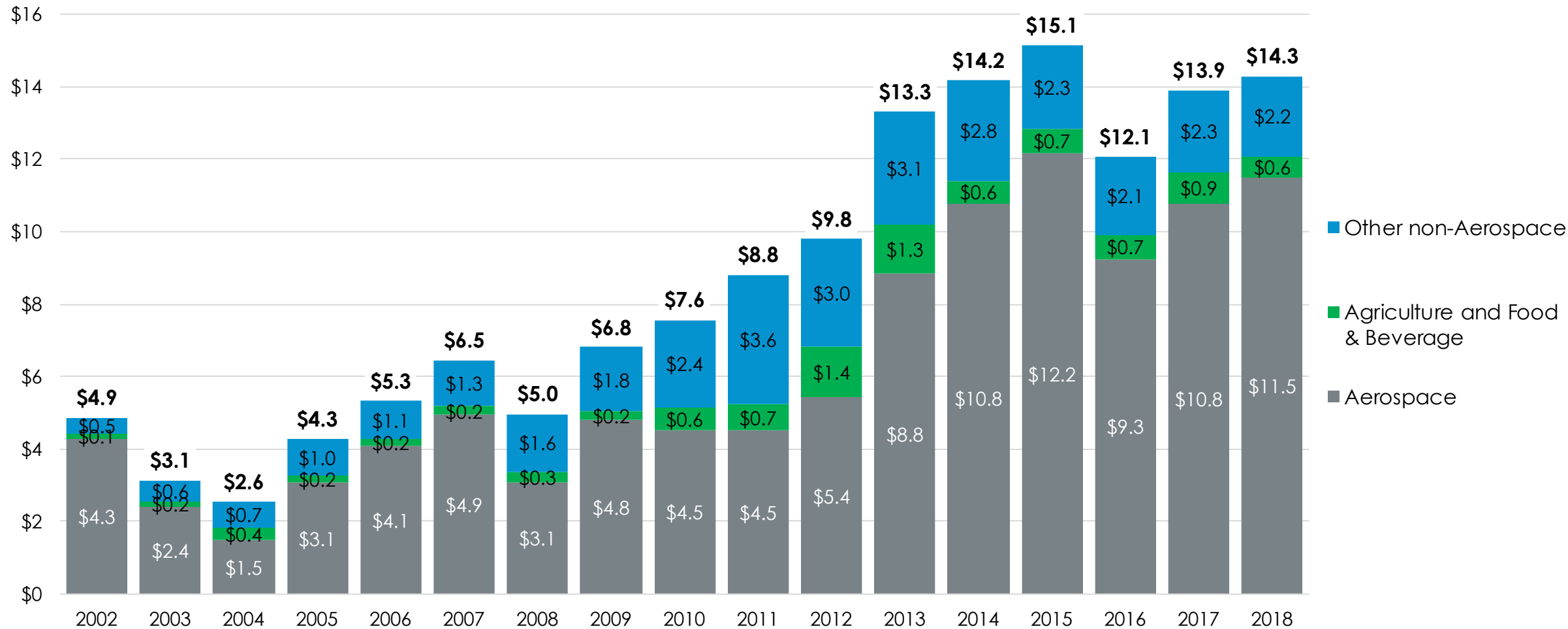
- **Exports of goods and services**
- **Cargo handling of containers and other products at our ports**
- **Services exports**
  - Software royalties
  - Architecture services
  - Tourism
  - Foreign students
- **Investment**
  - Chinese companies in Washington
  - Household investments, e.g., real estate



# Washington State Exports to China

State-of-origin exports, 2002-2018, 2019 \$

Billions 2019 \$



Note: data has been adjusted to correct for several pass-through products, e.g., soybeans.  
Sources: U.S. Census Bureau, 2019; Community Attributes Inc., 2019.



# Washington State Exports to China

Agriculture and Food & Beverage Exports, 2018

- **Frozen potato products: \$82 M**
- **Wheat: \$70 M**
- **Cherries: \$68 M**
- **Grain sorghum: \$45 M**
- **Apples: \$14 M**

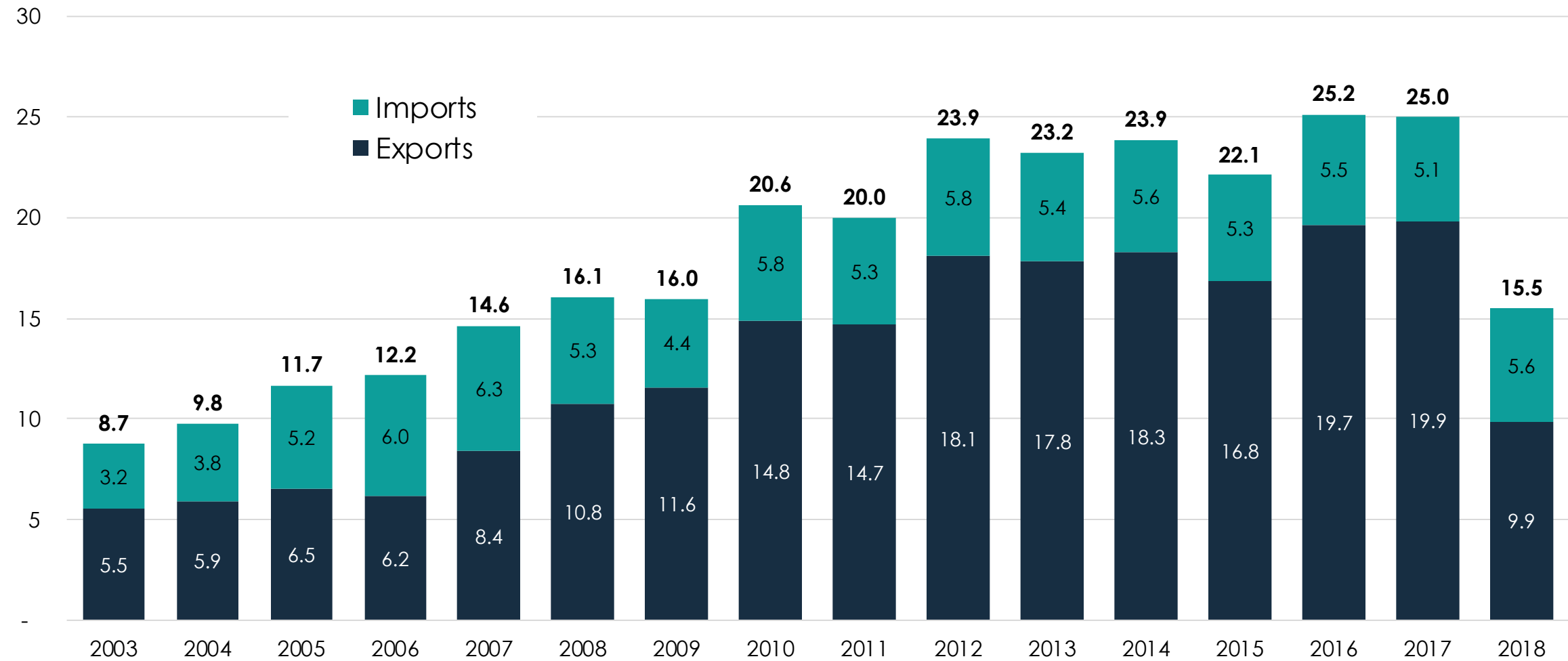


*Sources: U.S. Census Bureau, 2019; Community Attributes Inc., 2019.*

# Washington State Port Trade with China

Cargo handled at Washington's ports, 2003-2018

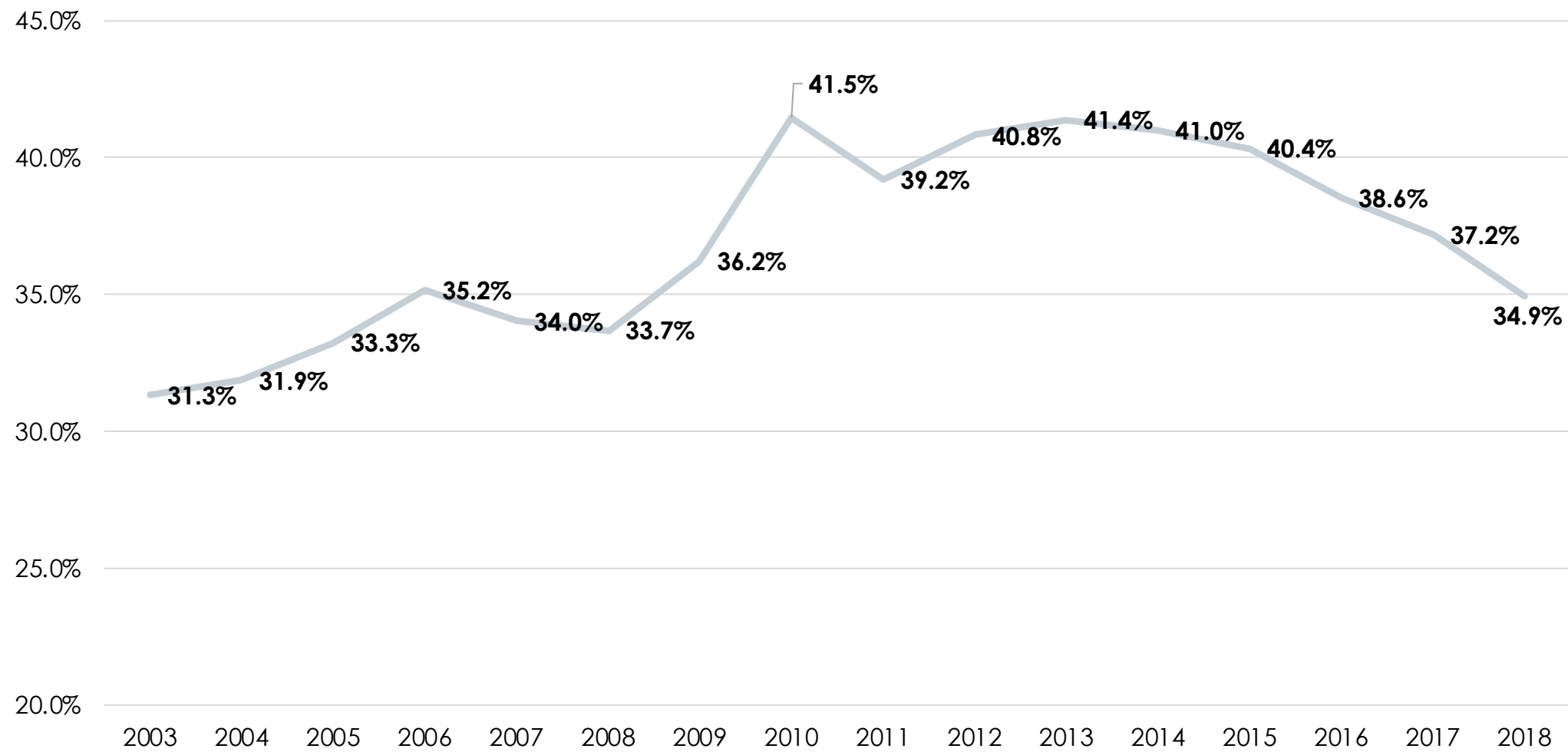
Millions Metric Tons



Sources: U.S. Census Bureau, 2019; Community Attributes Inc., 2019.

# Containerized Cargo to/from China

Share of all containerized traffic handled at Washington ports, by metric tons



Sources: U.S. Census Bureau, 2019; The Northwest Seaport Alliance, 2019; Community Attributes Inc., 2019.



# Washington as a Pacific Gateway

- **94,200:** Number of jobs supported by cargo handling in Washington state in 2017.
- **\$11.4 billion:** revenues generated in cargo handling in 2017.
- **60%:** Share of all inbound containers through Northwest Seaport Alliance originate in China.
- **25%:** Share of all outbound containers through Northwest Seaport Alliance destined for China.
- **32%** of import cargo handled in Washington is from China by value.
  - 13% for exports to China.
- China about **31% by tonnage** of shipments through Washington state ports, including bulk, break-bulk, and containerized.

# **U.S.-China Trade War and Impacts on Washington**

# How Trade Wars Negatively Affect Washington's Economy

Who's affected, and how

Type	Who	How
Loss of exports	Washington businesses, farmers	Displacement of Washington market share in China with cheaper competitors, such as Russia. Impairment of existing buyer relations.
Reduction in cargo handling	Cargo handling operations, e.g., terminal operators, rail, trucking, logistics	Reduction of cargo flows, especially on imports, will potentially lead to labor reductions.
Supply chain disruptions	Washington businesses	Too expensive to procure from established sources due to U.S. tariffs, need to find new suppliers and likely more expensive.
Consumer goods more expensive	Washington households	Many products that are no longer produced in the U.S. and with inelastic demand will be more expensive for families.
Services exports and investment impacts	Washington services providers	While tariffs do not directly apply to services exports, services markets often follow development of goods markets. Similar for FDI.



# How We Got Here

## Long-standing issues and background

- Trump Administration using Section 301 in Trade Act of 1974
  - Allows President to impose tariffs and other measures to “protect U.S. intellectual property from foreign government practices.”
- Different from anti-dumping or countervailing duties
- Also different from steel and aluminum tariffs, which can be used on national security basis (under separate law).
- Can be invoked against a country with most favored nation status, i.e., member of the WTO.
- USTR launched investigation on China in August 2017 under Section 301
- Concluded in March 2018 China unfairly required foreign firms to transfer IP and targeted industrial sectors.

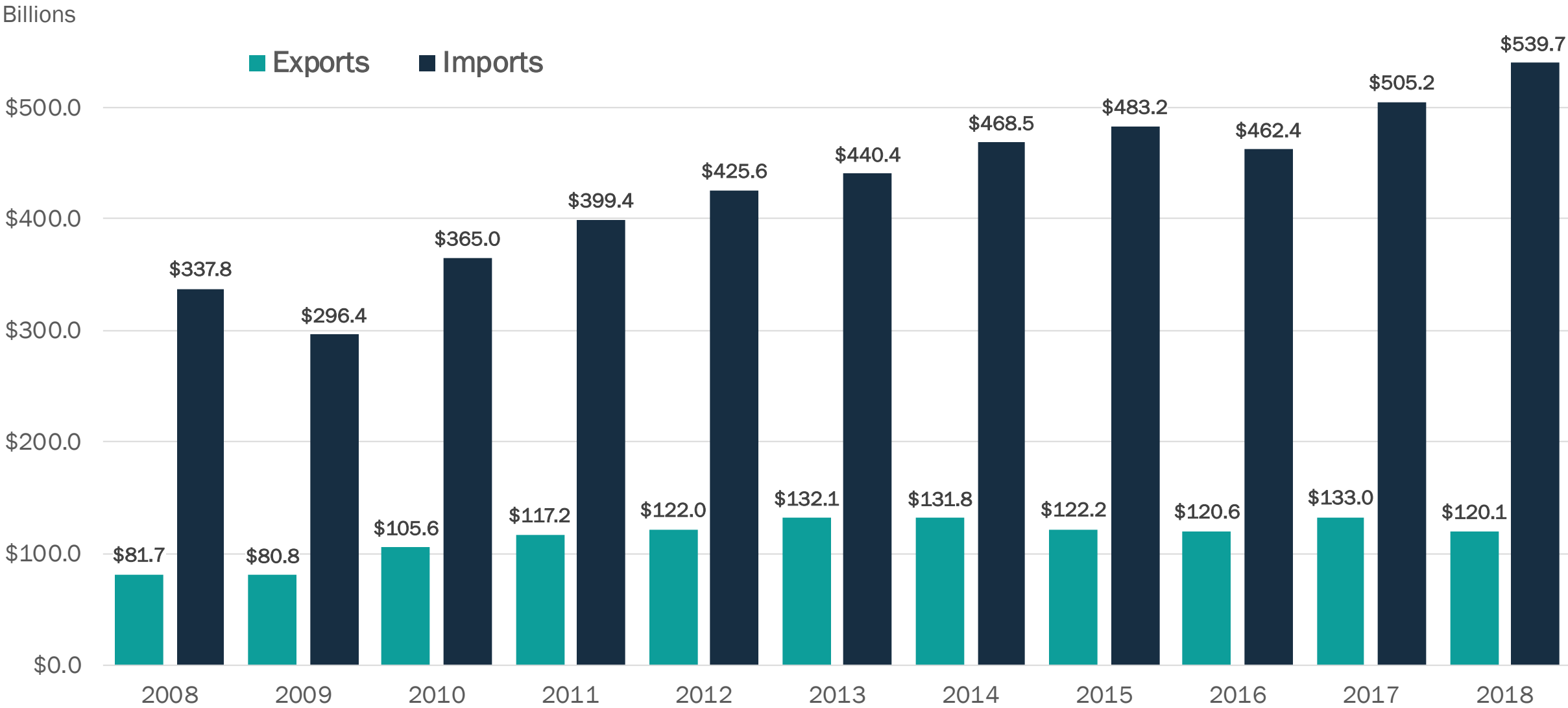
# How We Got Here

## Long-standing issues and background

- U.S. bilateral trade deficit with China has grown substantially since 2001, when China entered the WTO.
  - Above \$300 billion (inflation-adjusted) for commodity and merchandise trade for most years since 2007.
- U.S. manufacturing employment over same period has fallen from 16.4 million (2001) to low of 11.5 million in 2010 (12.4 million in 2017).
- Between 1999 and 2016, U.S. share of global exports fell from 12.3% to 8.3%, while China's share increased from 3.5% to 13.6%.
- China has not met the “spirit” of its WTO requirements
- Investment remains historically high as share of GDP, consumption in 2017 only 39%.
- IPR protection challenges
- State sector remains powerful
- Industrial policy, e.g., China 2025

# U.S. – China Merchandise and Goods Trade

2008 - 2018 | Adjusted for Inflation (2018 \$)



Sources: U.S. Census Bureau, 2019.



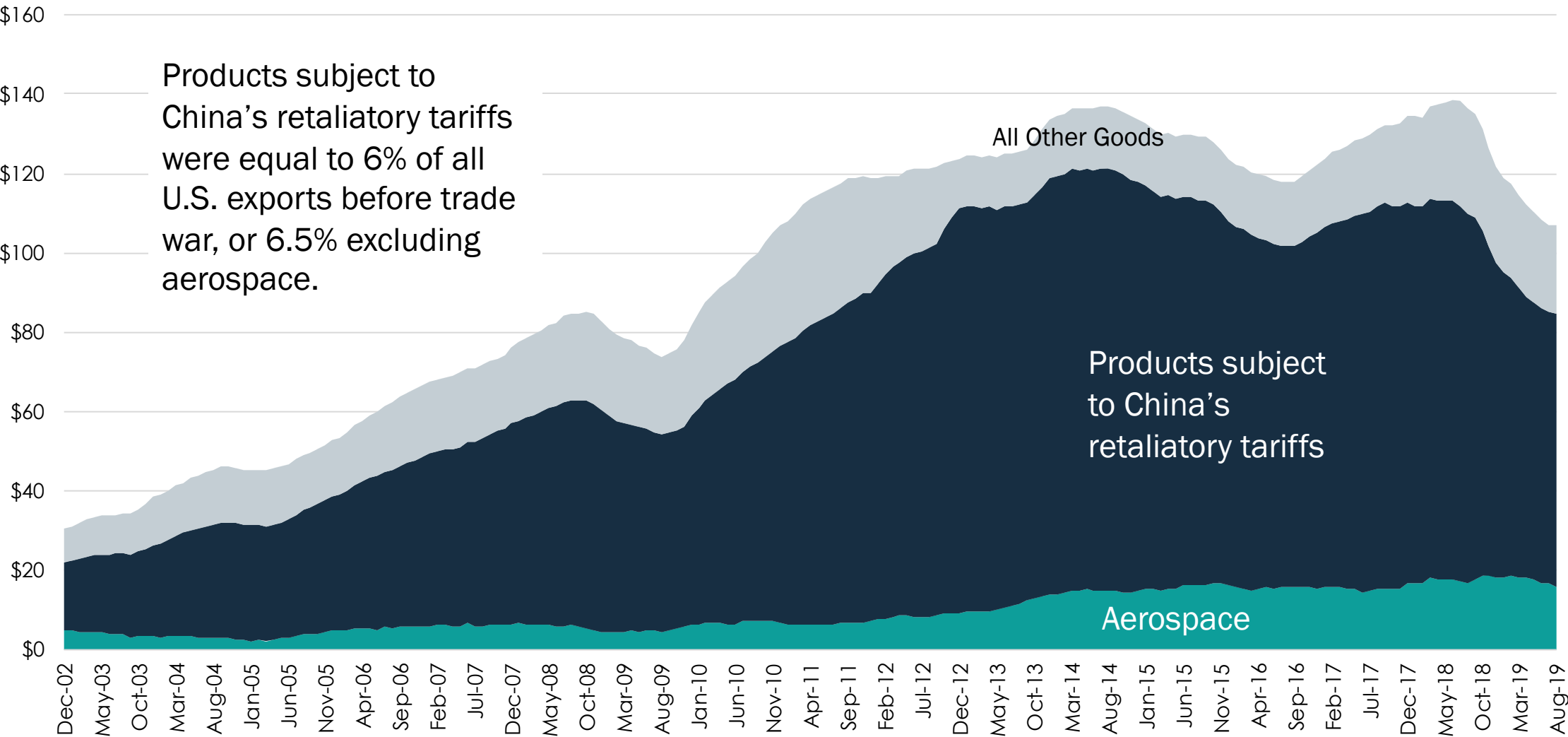
# U.S.-China Trade War

Date	U.S. Action	China Action
June 1, 2018	Additional duties of 25% on steel, 10% on aluminum, worth \$48 billion.	Reciprocal tariffs on 128 products.
July 6, 2018	25% duty on 818 goods worth \$34 billion.	Reciprocal tariffs on 545 products.
August 23, 2018	25% duty on 279 goods worth \$16 billion.	Reciprocal tariffs on 333 products.
September 24, 2018	10% (25% beginning January 1, 2019) duties on 6,031 products worth \$200 billion.	Tariffs of 5-10% on 5,207 products worth \$60 billion and non-tariff actions.
December 1, 2018	Buenos Aires meeting: U.S.-China enact 90-day halt to new tariffs, Trump delays 25% tariffs set for January 1.	
Feb. 24, 2019	Trump tweets that he intends to raise the tariffs rate on \$200 billion of Chinese goods to 25% on May 10.	
May 5, 2019	Trump tweets that he intends to raise the tariffs rate on \$200 billion of Chinese goods to 25% on May 10.	
May 8, 2019	The Trump administration gives formal notice of its intent to raise tariffs on \$200 billion of Chinese imports to 25% from 10%, effective May 10.	
May 10, 2019	New increase goes into effect.	5/13: China retaliates with 25% tariffs applied to \$60 B in U.S. goods, effective June 1, affecting 5,140 U.S. products.
August 1, 2019	Talks falter; Trump tweets U.S. will apply 10% tariffs to remaining \$300 B in Chinese imports starting 9/1	<ul style="list-style-type: none"><li>China's MOFCOM announces will halt U.S. agriculture purchases.</li><li>Chinese RMB falls below 7/USD (8/5); China will not defend RMB to remain above this level.</li></ul>
August 5, 2019	U.S. Treasury labels China is a currency manipulator, first time since 1994.	Certain Chinese companies suspend ag purchases.
August 13, 2019	Trump Administration announces delay to remaining \$300 B until 12/15	
September 1, 2019	Tariffs go into force on \$125 B in Chinese imports.	China imposes additional tariffs on \$75 B in U.S. goods.
September 11, 2019		China unveils tariff exemption list.
September 13, 2019		China rolls back soy and pork tariffs.

# U.S. Exports to China

Monthly 12-month rolling sum, 2019 \$

Billions 2019 \$



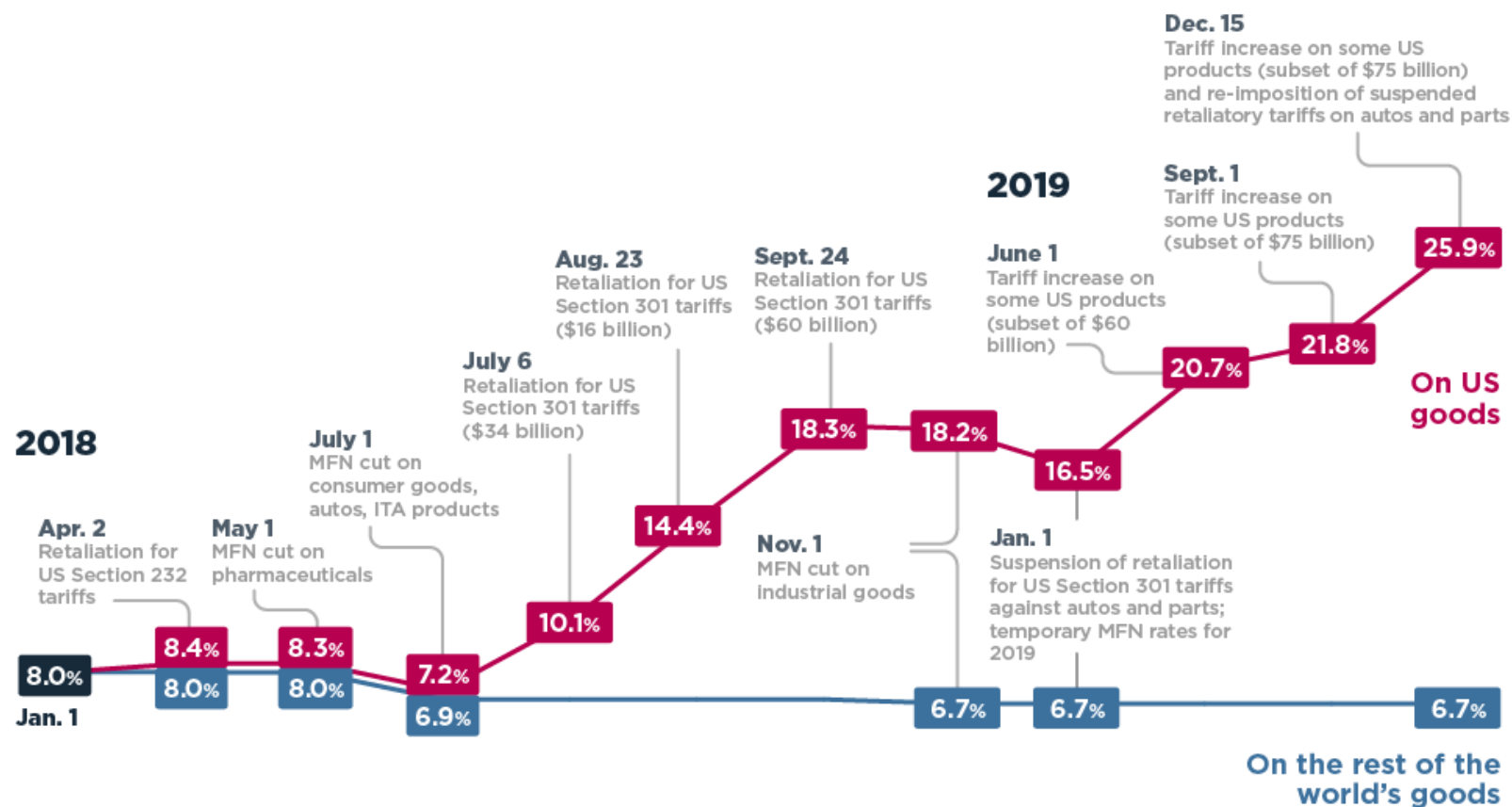
Sources: U.S. Census Bureau, 2019.

# Trade War in Context

## Competitiveness

- Rest of world has seen decline in Chinese tariff rates since start of trade war.
- 56 to 58 percent of U.S. exports to China subject to special tariffs September 1. Will then expand to 69 percent on December 15.
- Exports to China supported 230,000 U.S. jobs in 2018.
- 150,000 jobs directly supported by exports subject to China's retaliatory tariffs in 2018.

## China's average tariff rate is climbing on US goods and falling for the rest of the world



Source: Chad Brown, "U.S.-China Trade War: The Guns of August," Peterson Institute for International Economics, August 26, 2019. Accessed at: <https://www.piie.com/blogs/trade-and-investment-policy-watch/us-china-trade-war-guns-august>

# Leading Exports Subject to China’s Retaliatory Tariff List

Millions 2019 \$, 2018 and July August YTD Percent Change

Product	2018 Exports (mils 2019 \$)	Change, August 2018 YTD to August 2019 YTD
Ultrasound equipment	\$368.4	-23%
Chemical wood pulp	\$129.7	-9%
Frozen potato products	\$82.8	-26%
Other coniferous wood in the rough*	\$74.7	39%
Copper ores and concentrates	\$72.7	-100%
Wheat	\$70.7	-85%
Fresh cherries	\$68.3	-11%
Non-coniferous wood, sliced	\$61.1	-55%
Paper board	\$50.0	25%
Pacific salmon, frozen	\$45.7	-39%
Corn (other than seed corn)	\$45.6	-100%
Grain sorghum	\$42.9	-70%
Optical radiation equipment	\$41.4	-19%
Lasers (other than laser diodes)	\$40.3	-51%
Hides and skins	\$39.5	-41%
All other products	\$1,219.5	-27%
<b>Total</b>	<b>\$2,453.4</b>	<b>-28%</b>

Exports subject to China’s retaliatory tariffs in 2018 represented about 3% of all Washington exports, worldwide, but about 8% of all non-aerospace exports.

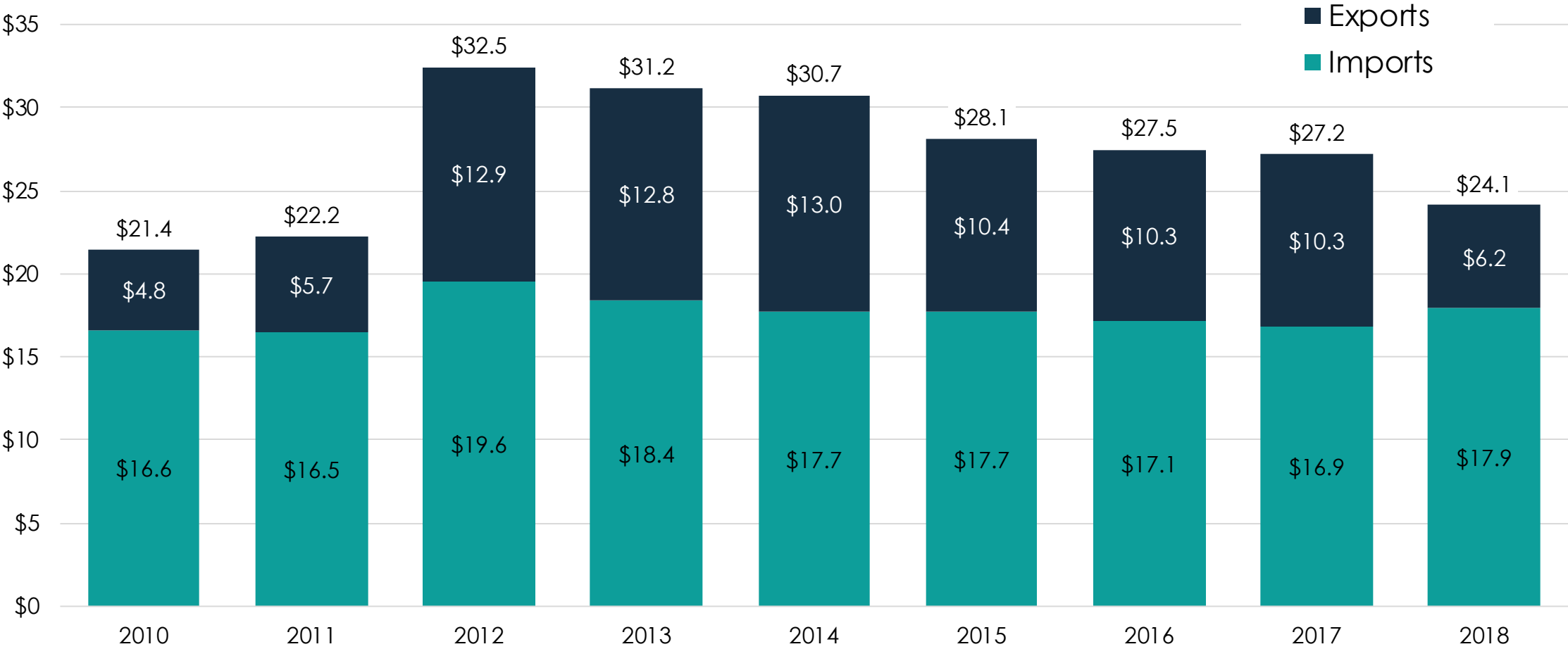
Sources: U.S. Census Bureau, 2019; Community Attributes Inc., 2019.

\*Exports for this one case based on the latter part of 2018, since no exports before October.

# Cargo Handling Impacts

Imports and exports through Washington ports by value to/from China subject to tariff increases

Billions 2018 \$



Sources: U.S. Census Bureau, 2019; Community Attributes Inc., 2019.



# Trade with China through September 2019 YTD

Changes in imports and exports handled at Washington ports, mils \$

	2018 September YTD	2019 September YTD	Change
<i>A. All Washington Port Trade with China (2019 \$)</i>			
All Exports	\$8,209	\$7,930	-3%
All Imports	\$23,378	\$19,636	-16%
<b>Total</b>	<b>\$31,587</b>	<b>\$27,566</b>	<b>-13%</b>
<i>B. Products Subject to New Tariffs Since 2018 (2019 \$)</i>			
China List	\$5,249	\$4,772	-9%
USTR List	\$13,095	\$9,627	-26%
<b>Total</b>	<b>\$18,344</b>	<b>\$14,399</b>	<b>-22%</b>
<i>C. Remaining Products (2019 \$)</i>			
Exports	\$2,960	\$3,159	7%
Imports	\$10,283	\$10,008	-3%
<b>Total</b>	<b>\$13,243</b>	<b>\$13,167</b>	<b>-1%</b>

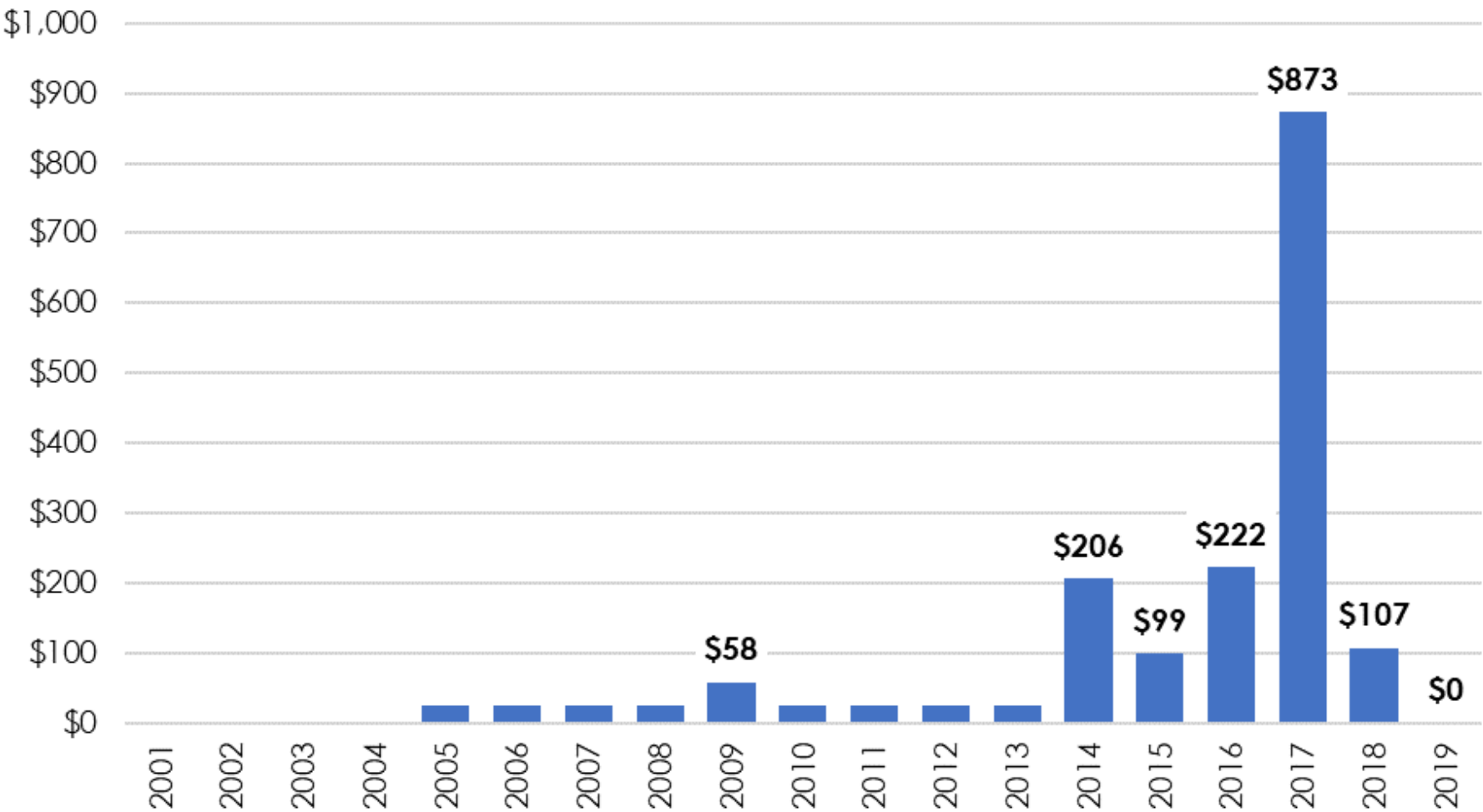
Sources: U.S. Census Bureau, 2019; Community Attributes Inc., 2019.

- Tariff-affected trade handled at Washington ports down 22% year-over-year through September 2019.

# Chinese Foreign Direct Investment

U.S. and Washington state, 2001 to June 2019

Millions USD

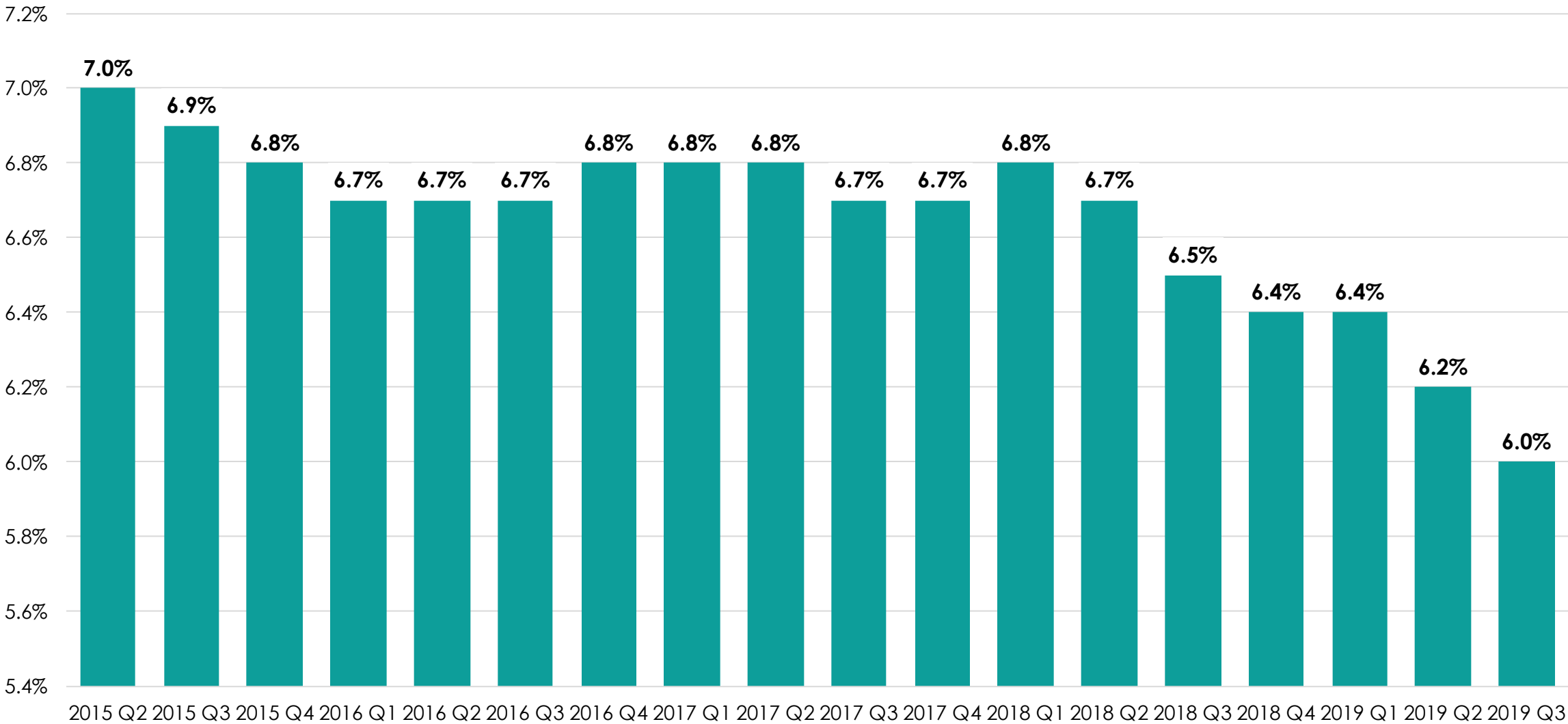


- Fell 88% in 2018, and to zero in 2019.
- Chinese FDI across the U.S. fell 82% in 2018 and thus far 42% in 2019 through June.

Source: Rhodium Group, 2019.

# Chinese Real GDP

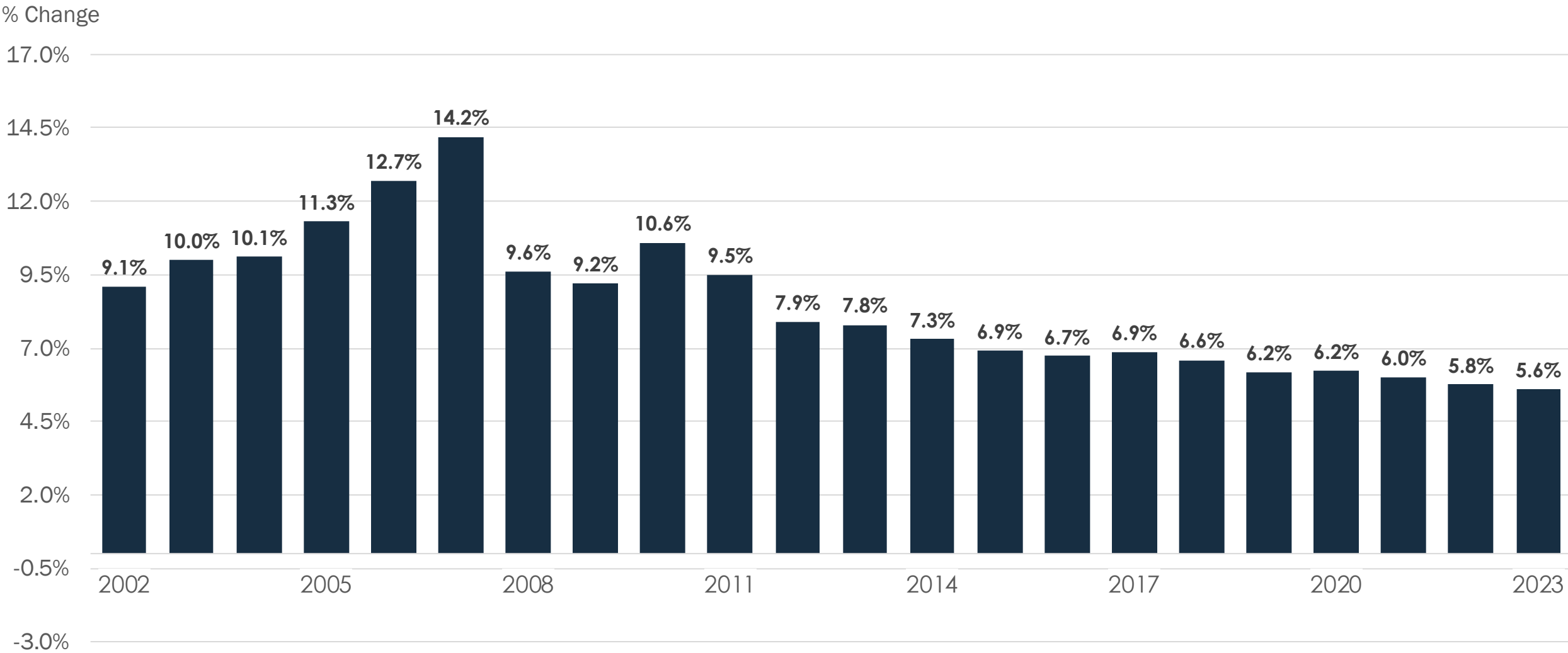
Quarterly, based y/y change (%)



Source: China National Statistics Bureau, 2019.

# China's Slowing GDP Growth

2002-2023 | Real GDP

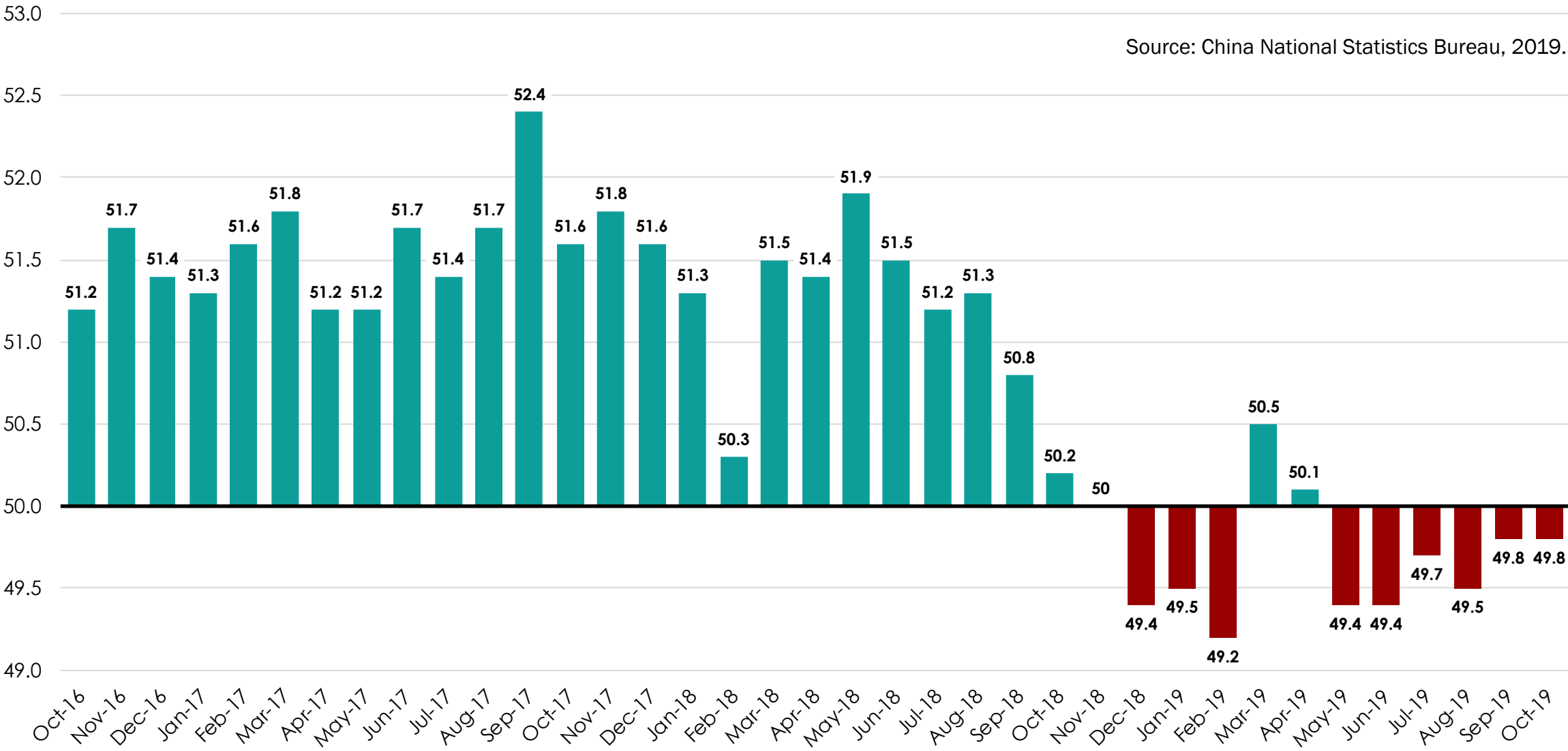


Source: IMF World Economic Outlook, April 2019.

# Purchasing Managers' Index, Manufacturing

China, October 2016-October 2019

Source: China National Statistics Bureau, 2019.



# Outlook

Where do we go from here?



A satellite map of the Pacific Northwest region, showing the coastline of Washington, Oregon, and California. A semi-transparent teal band runs horizontally across the middle of the image, serving as a background for the text.

# Thank you!

Spencer Cohen, PhD  
Senior Economist

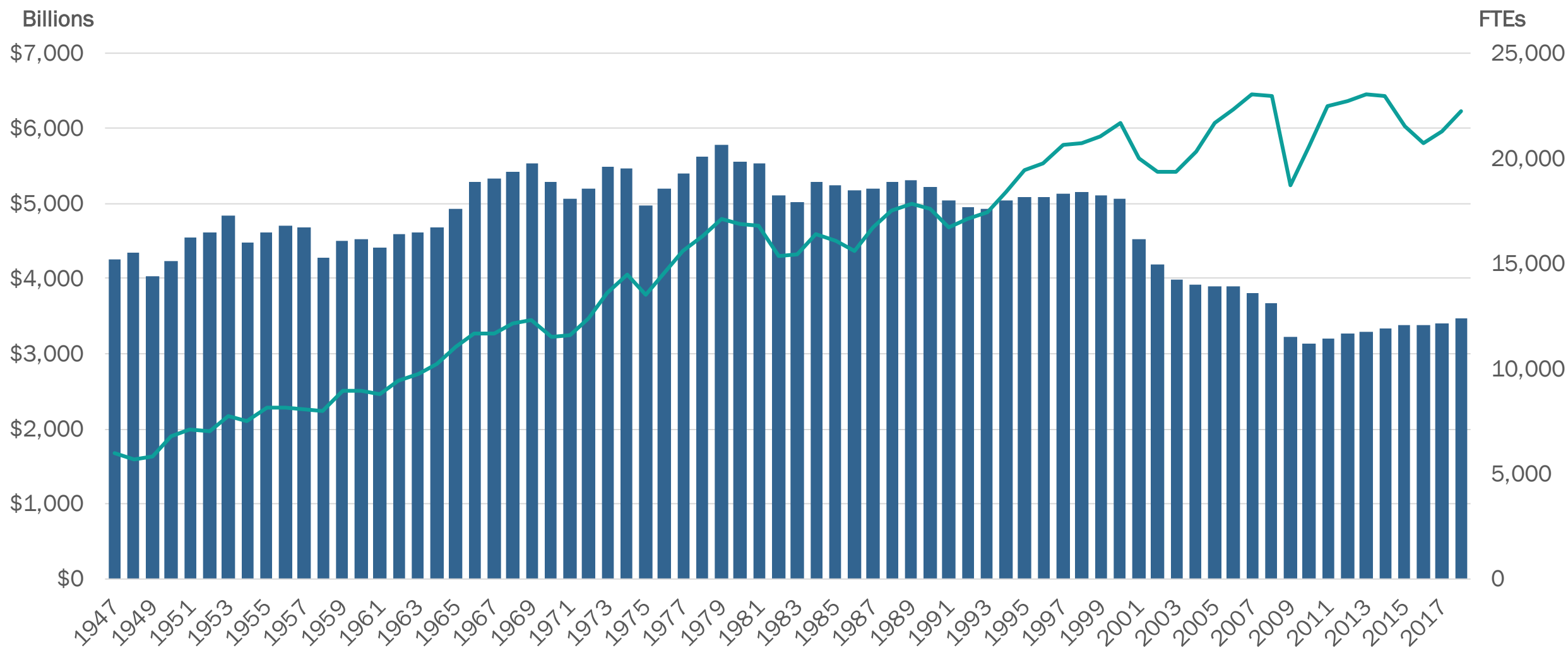
[spencer@communityattributes.com](mailto:spencer@communityattributes.com)

Ph: 206 523 6683

**cai** community  
attributes inc

# U.S. Manufacturing Output and Employment

1947 - 2018 | Billions 2018 \$ and FTEs



Sources: U.S. Bureau of Economic Analysis, 2019.



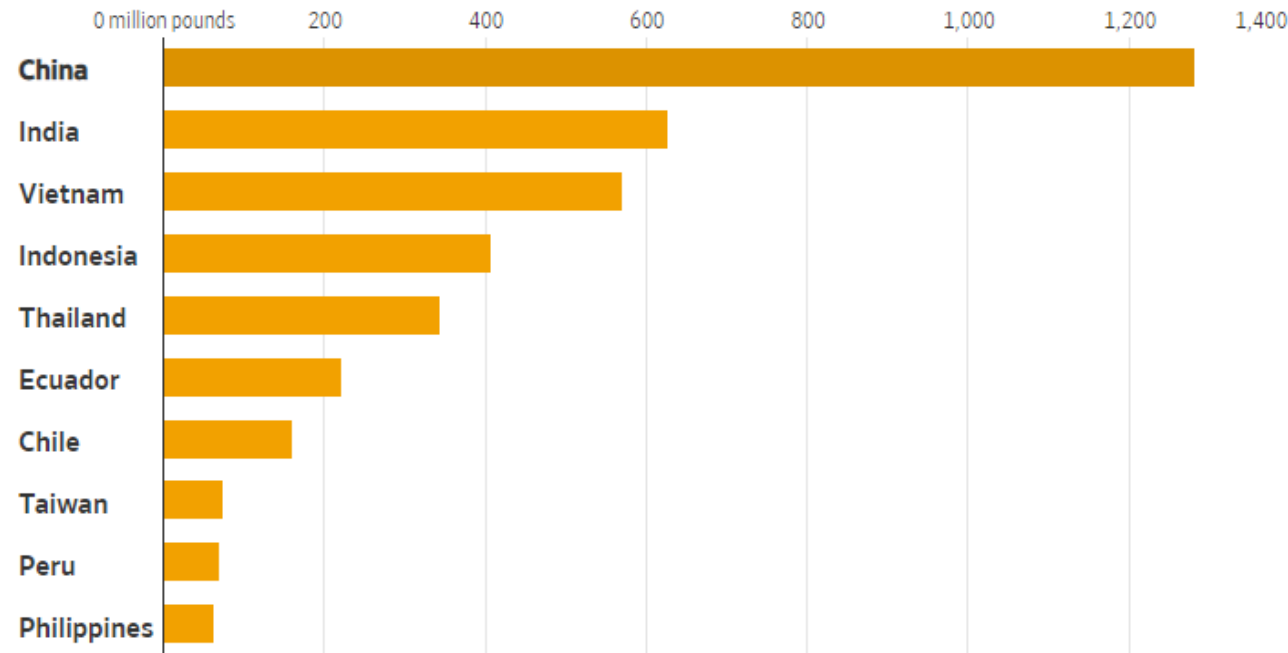
# Trade and Complex Supply Chains

## Seafood processing

### Big Fish

China is the top exporter of fish to the U.S. About a third of the fish and seafood sent to the U.S. was originally caught domestically and processed in China to save costs.

### Top fish imports to the U.S., by country



Source: Urner Barry

Source: Heather Haddon and Jesse Newman, "Fish Caught in America, Processed in China Get Trapped by Trade Dispute," The Wall Street Journal, August 9, 2018.

- Seafood is a global supply chain.
- More than half of all AK-caught seafood is processed in China and then re-exported including up to 95% of sole.
- Pink salmon are head-and-tail processed in AK, frozen and sent to China to be thawed and deboned, smoked, filleted, or turned into salmon burgers, and then reshipped to the U.S. and elsewhere for final sale to consumers.
- AK fisheries represent 60% of U.S. fishing catch by tonnage and supports many jobs in the Washington state.
- China does allow for exemptions for re-exported seafood goods, if in bonded zone or registered as exporter.

# Trade with China through July 2019 YTD

Changes in imports and exports handled at Washington ports, metric tons containerized goods

	2018 July YTD	2019 July YTD	Change
<i>A. All Washington Port Trade with China (metric tons)</i>			
All Exports	1,376,436	822,388	-40%
All Imports	2,805,819	2,629,698	-6%
<b>Total</b>	<b>4,182,255</b>	<b>3,452,086</b>	<b>-17%</b>
<i>B. Products Subject to New Tariffs Since 2018 (metric tons)</i>			
China List	1,200,651	796,261	-34%
USTR List	1,968,519	1,611,046	-18%
<b>Total</b>	<b>3,169,170</b>	<b>2,407,307</b>	<b>-24%</b>
<i>C. Remaining Products (metric tons)</i>			
Exports	175,785	26,127	-85%
Imports	837,300	1,018,652	22%
<b>Total</b>	<b>1,013,085</b>	<b>1,044,779</b>	<b>3%</b>

Tariff-affected  
containerized trade  
handled at Washington  
ports down 24% by  
tonnage.