

# U.S.-China Trade Dispute and Impacts to Washington State

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**cai** community  
attributes inc

# Potential Long-Term Impacts

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.

# Outline for Today's Talk

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- Brief overview of current situation and how we got here.
- Washington state's trade relationship with China, abridged, and impacts
  - State-of-origin exports
  - Cargo handling
- Concluding remarks and discussion

# Data to Be Discussion

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- Exports to China originating from Washington
  - U.S. Customs State-of-Origin Export Data
- Two-way trade—cargo handled in Washington (regardless of final destination or source)
  - U.S. Customs Port District Data
- National imports from China
  - U.S. Customs National Import Data

# Current Situation

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- 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.

# Current Situation

Value of Imports	Additional Duty	Status	Number of Products	China's Actions
\$48 billion	25% for steel, 10% for aluminum	June 1		Reciprocal tariffs on 128 products
\$34 billion	25%	Imposed July 6	818	Reciprocal tariffs on 545 products
\$16 billion	25%	Imposed August 23	279	Reciprocal tariffs on 333 products
\$200 billion	10% (25% beginning January 1, 2019)	Took effect September 24	6,031	Tariffs of 5-10% on 5,207 products worth \$60 billion and non-tariff actions

- U.S. has now imposed tariffs on 7,128 Chinese products.
- China has imposed retaliatory tariffs on 6,213 products.
- Chinese government imposed tariffs on goods worth 6% of all U.S. exports.

# How We Got Here (a short list)

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- 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 since 2007 with one exception of 2009.
- 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%.

# How We Got Here (a short list)

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- China has only partially met all its WTO requirements
  - Pegged currency throughout 2000s.
  - Despite *de jure* IPR laws, weak enforcement.
  - Seen as trying to game the system.
- Investment remains historically high as share of GDP, consumption in 2017 only 39%.
- State enterprise sector, despite reforms, remains powerful base.
- Efforts to compel IP transfer by foreign firms in China.
  - Government estimates \$50 billion in annual damages on U.S. companies from coerced tech transfer.
- “China 2025” concerns.



# Trade Wars Not Always about Trade

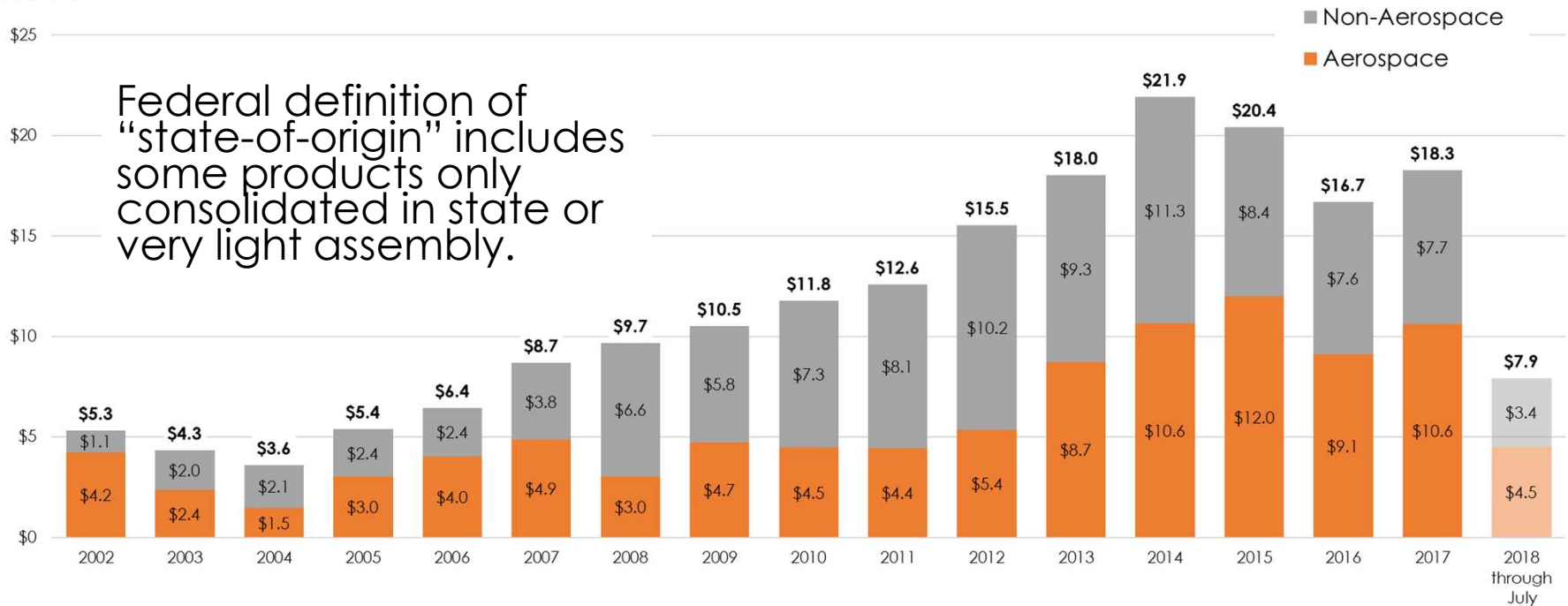
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- Hopes that trade would lead China towards a less illiberal, less autocratic regime have not come to fruition.
- China has begun to increasingly assert itself, using both hard power (South China Sea) and soft power (Belt and Road Initiative, Asia Infrastructure Development Bank).
- Trump Administration views trade as a **zero-sum game**.

# Washington Exports to China

Total goods exports, annual, 2002-2017, 2018\$

Billions 2018 \$



Source: U.S. Census Bureau, Foreign Trade Division, 2018; St. Louis Federal Reserve, 2018; Community Attributes Inc., 2018.

# Washington Exports to China

Leading exports to China, 2017 and as share (%) of total WA product exports

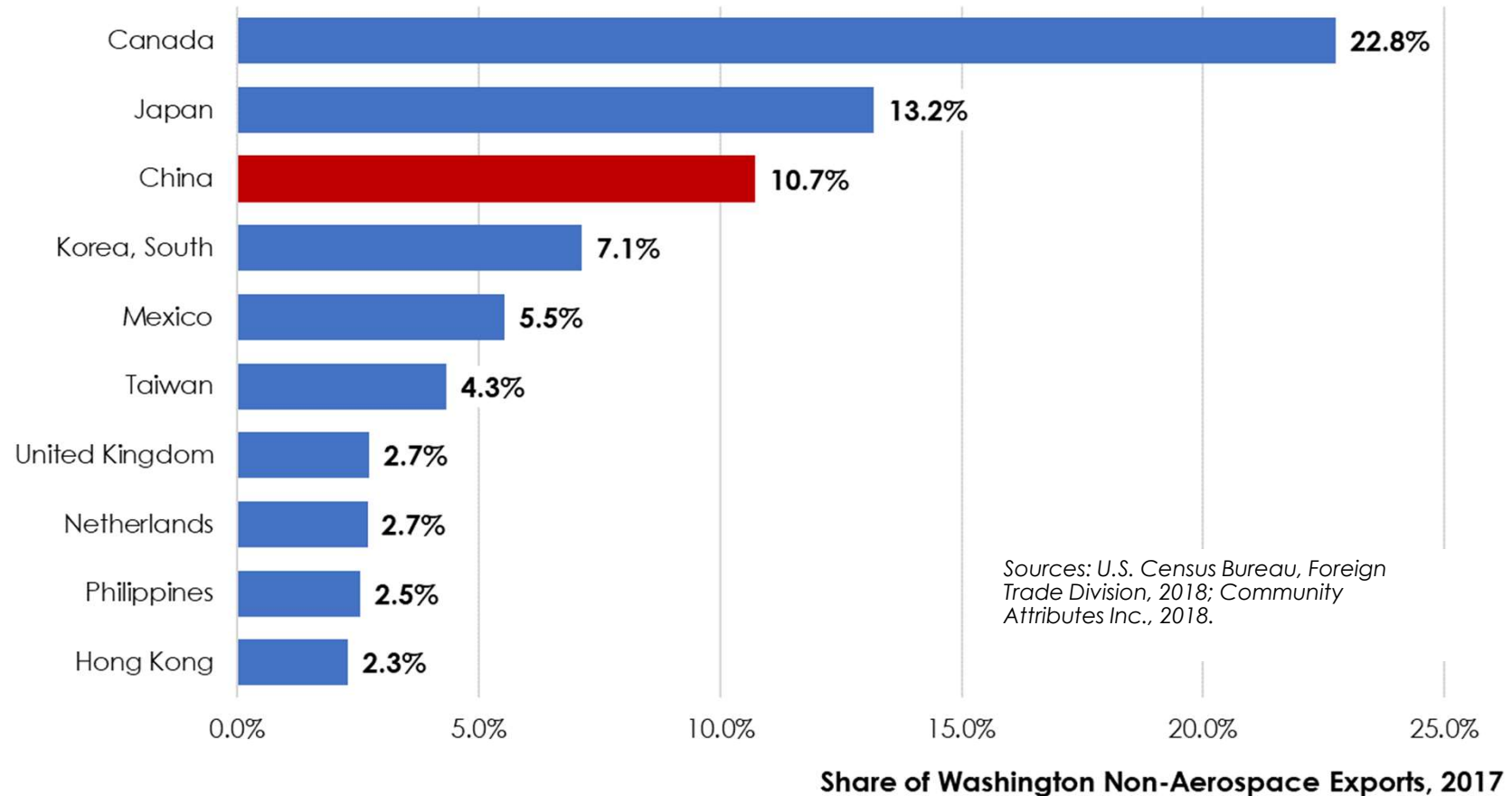
Product	Exports to China (mils \$)	Share of All Markets
Civilian Aircraft, Engines, And Parts	\$10,435.7	25.1%
Wood In The Rough, Stripped Or Not Of Sapwood Etc	\$363.0	19.3%
Medical, Surgical, Dental Or Vet Inst, No Elec, Pt	\$303.5	19.6%
Wheat And Meslin	\$248.4	22.3%
Copper Ores And Concentrates	\$139.0	17.3%
Chemical Woodpulp, Dissolving Grades	\$119.2	15.2%
Apricots, Cherries, Peaches, Plums & Sloes, Fresh	\$105.1	13.7%
Rutabagas, Hay, Clover & Other Forage Products	\$103.9	14.6%
Fish, Frozen (no Fish Fillets Or Other Fish Meat)	\$89.7	17.7%
Grain Sorghum	\$89.0	17.7%

- Leading products, after removing those only consolidated in state but not produced here (e.g., soybeans) or with minimal value-added (e.g., cars).
- More than a quarter of aircraft sales to China in 2017.

Source: U.S. Census Bureau, Foreign Trade Division, 2018; St. Louis Federal Reserve, 2018; Community Attributes Inc., 2018.

# Washington's Non-aero Export Markets

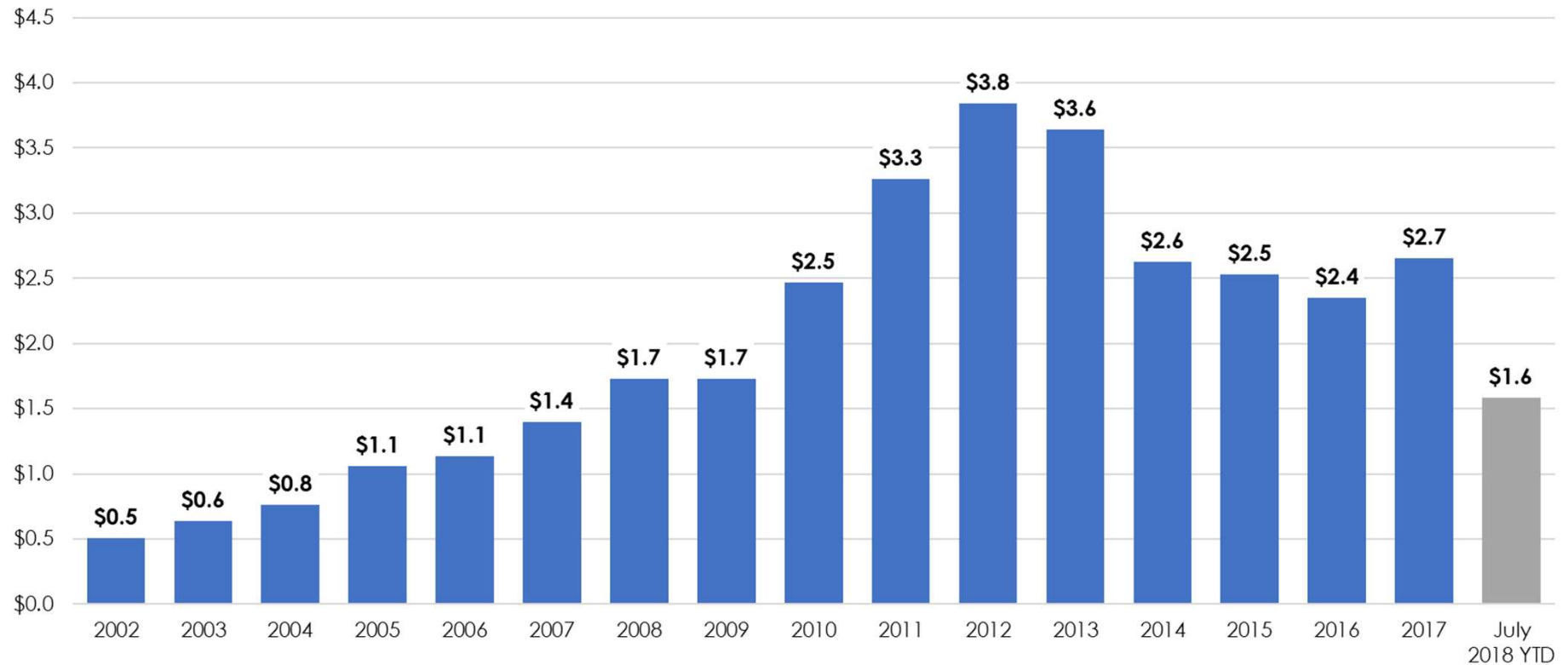
2017, with manual adjustments to remove commodities only consolidated in WA



# Potential Impacts

WA products included in Chinese tariff list, 2018 \$

Billions 2018 \$



Select products, such as soy beans and passenger vehicles, were manually removed from the data.

Sources: U.S. Census Bureau, Foreign Trade Division, 2018; Community Attributes Inc., 2018.

# Leading Products Impacted

Washington exports to China, 2017 and July 2018 YTD

Product	Exports, 2017	July 2018 YTD
Ultrasound equipment	\$281.5	\$199.4
Wheat	\$248.2	\$70.0
Copper	\$139.0	\$71.8
Chemical woodpulp	\$119.2	\$67.0
Cherries	\$99.7	\$66.7
Grain sorghum	\$89.0	\$42.4
Corn	\$85.1	\$45.0
Lumber (non-coniferous)	\$67.4	\$43.2
Hides and skins	\$60.3	\$25.7
Potatoes	\$54.4	\$53.3
Pacific salmon	\$53.7	\$23.9
Furskins	\$51.1	\$0.0
Aluminum scrap	\$49.1	\$28.1
Other products	\$1,214.9	\$848.5
<b>Total</b>	<b>\$2,612.7</b>	<b>\$1,585.0</b>

- In 2017, sales to China represented more than 1/3 of all wheat sales from Washington (domestic and foreign).
- Washington ultrasound sales to China in 2017 represented nearly 40% of all exports, and 13% of revenues industry-wide.
- China stopped buying U.S. wheat in March 2018.
- Wheat exports from WA to China down 62% YTD compared with same time last year.

Sources: U.S. Census Bureau, Foreign Trade Division, 2018; Community Attributes Inc., 2018.

# Tariff Impacts on Wheat

Total wheat production

100 million metric tons



Source: Marson, James, "Struggling U.S. Farmers Worry About a Resurgent Russia," *Wall Street Journal*, September 23, 2018.

# Estimated Economic Impacts

WA products included in Chinese tariff list

	<b>Direct</b>	<b>Indirect &amp; Induced</b>	<b>Total</b>
Jobs	9,800	18,900	28,700
Labor Income (mils \$)	\$593.0	\$1,129.4	\$1,722.4
Business Revenues (mils \$)	\$2,612.7	\$3,402.7	\$6,015.3

- Export products included in China's tariff list supported an estimated 28,700 jobs in Washington in 2017.
- Every million dollars in exports associated with 11 jobs (direct and secondary)
- Jobs multiplier of 2.9, compared with 2.7 for aerospace.

*Sources: Washington State Office of Financial Management, 2017; U.S. Census Bureau, 2018; Community Attributes Inc., 2018.*



# Washington as a Pacific Gateway

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- **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.

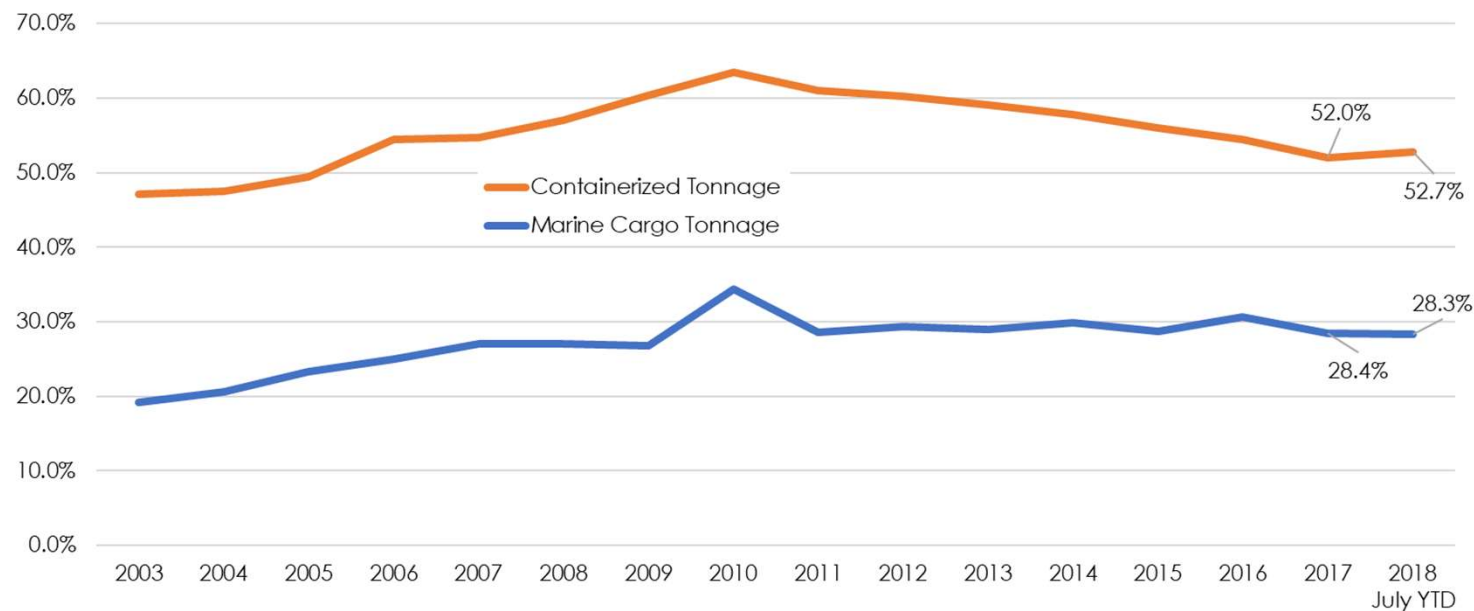
# Washington as a Pacific Gateway

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- **94,200**: Number of jobs supported by cargo handling in Washington state in 2017.
- **\$11.4 billion**: revenues generated in cargo handling in 2017.
- **50,400**: additional jobs in global trade & supply chain management across the state in 2017.
- **192,500**: total jobs supported through direct and secondary impacts of cargo handling, logistics, and supply chain management in 2017.

# Marine Cargo China Imports Tonnage

Percentage of cargo from China as share of total tonnage



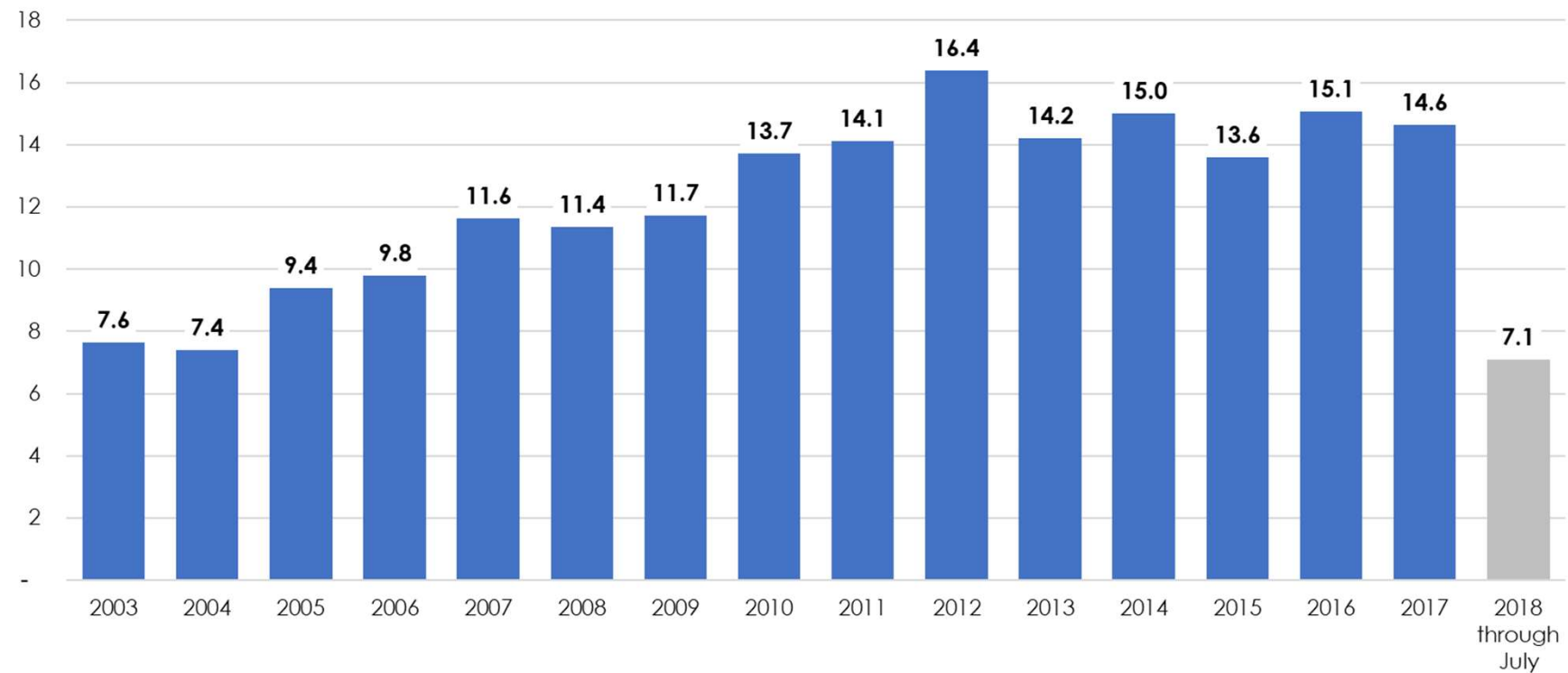
- Roughly 8% of all containerized import cargo by tonnage passed through Washington state in 2017.
- Ranked 4<sup>th</sup> in U.S.

Sources: U.S. Census Bureau, Foreign Trade Division, 2018; Community Attributes Inc., 2018.

# Cargo to/from China Handled in WA

Including marine cargo and air freight, imports AND exports, 2003-2018 YTD

Billions KG

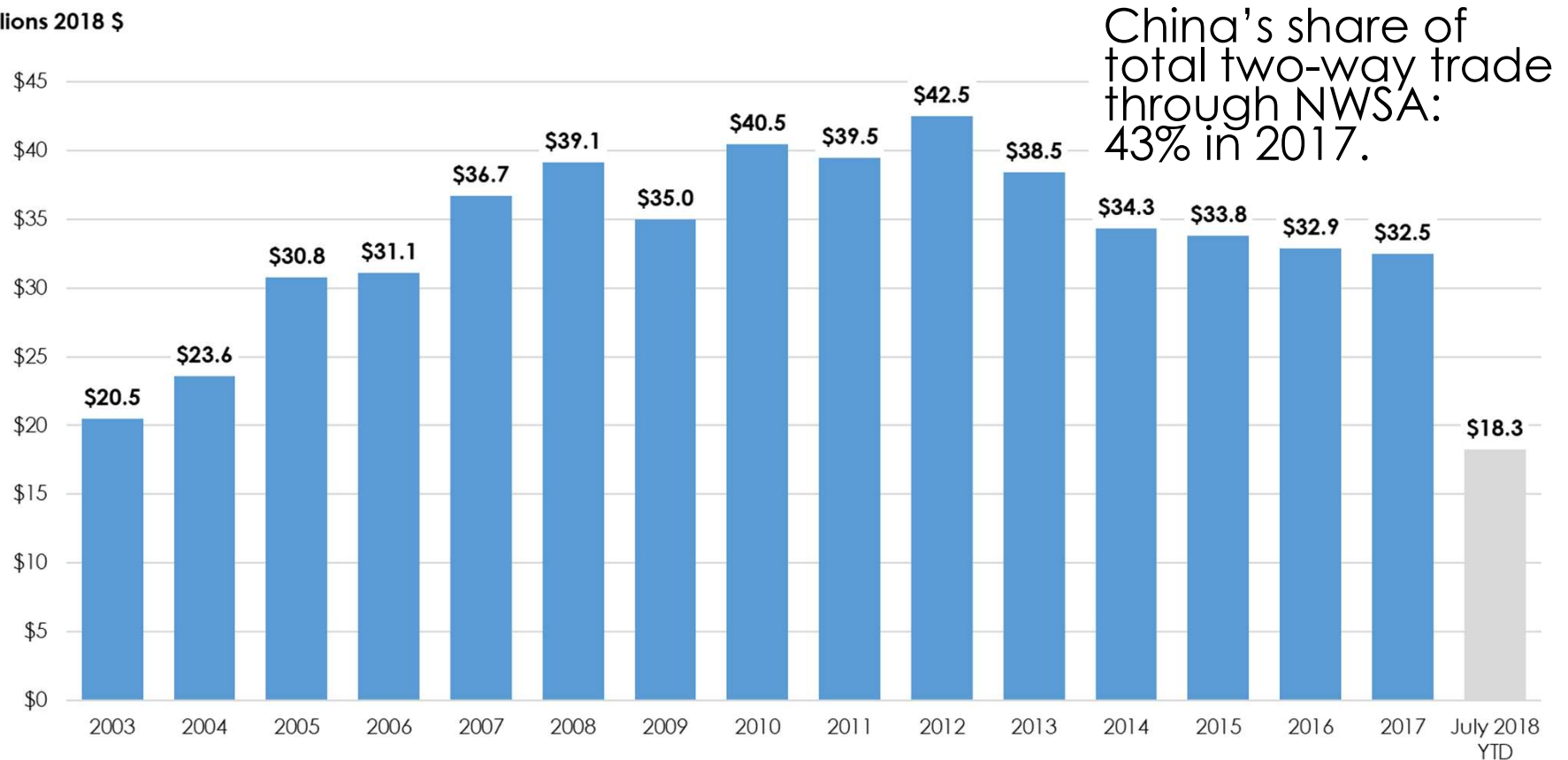


Sources: U.S. Census Bureau, Foreign Trade Division, 2018; Community Attributes Inc., 2018.

# Two-way China Trade through NWSA

Imports and exports, by value (billions 2018 \$), 2003 to July 2018 YTD

Billions 2018 \$

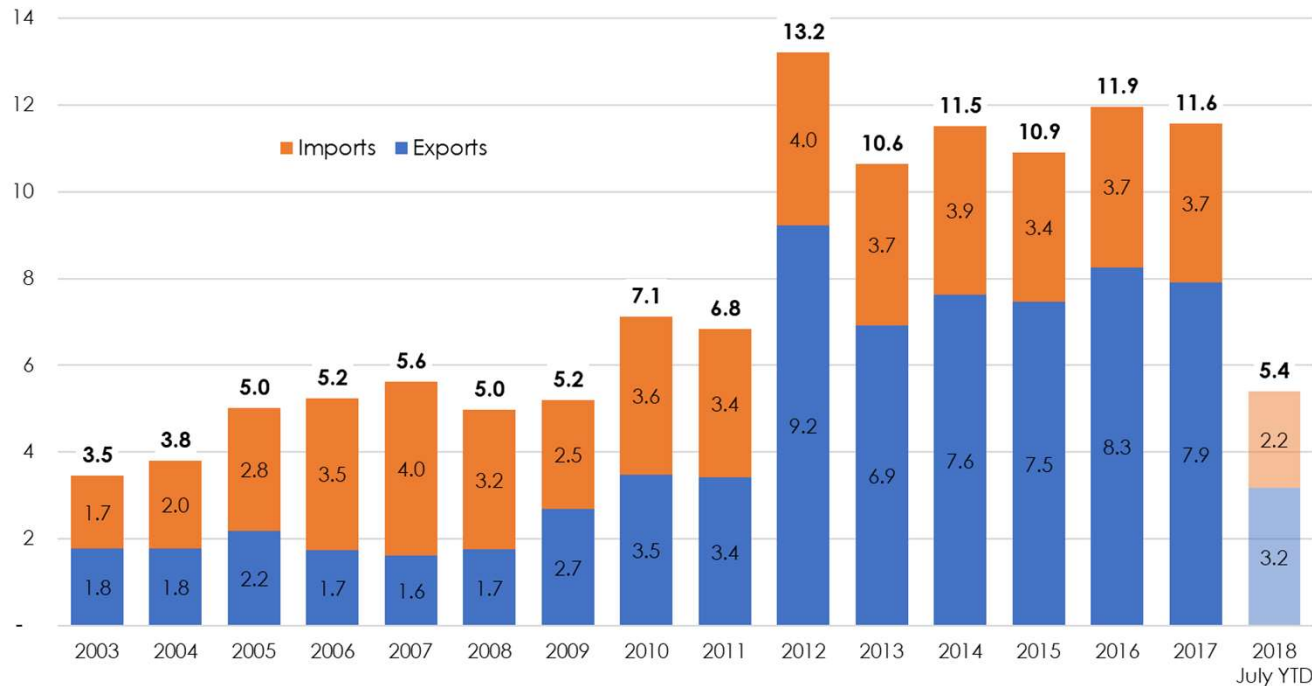


Sources: U.S. Census Bureau, Foreign Trade Division, 2018; Community Attributes Inc., 2018.

# Potential Impacts

Cargo handled in Washington on either U.S. or Chinese tariff list

Millions Metric Tons



- Products on either tariff list averaged 9% of all international cargo by tonnage handed in Washington between 2012 and 2017.
- \$1.9 billion in soy shipments.
- \$631 million in passenger autos.

Sources: U.S. Census Bureau, Foreign Trade Division, 2018; Community Attributes Inc., 2018.

# Cargo to/from China through WA

Major exports and imports on either tariff list shipped through WA, 2017

<b>Export</b>	<b>Value, 2017 (mils \$)</b>	<b>Import</b>	<b>Value, 2017 (mils \$)</b>
Soybeans	\$1,889.9	Imaging and Voice Machines	\$1,170.1
Passenger Vehicles	\$619.0	Transmission Apparatus for Radio or TV	\$589.7
Ultrasound Equipment	\$274.6	Reception Apparatus for TV	\$392.7
Pacific Salmon	\$144.0	Static Converters	\$365.1
Transistors	\$138.4	Metal and Wood Furniture	\$952.4
Precious Metal Ores & Concentrates	\$134.2	Aerospace Parts	\$275.4
Leather Hides and Skins	\$130.6	Lamps and Lighting Fittings	\$237.6
Chemical Woodpulp	\$119.2	Bags and Cases	\$233.3
Forage Products, e.g., Hay	\$110.6	Electrical Conductors	\$200.6
Aluminum Waste and Scrap	\$106.7	Ceiling Chandeliers and Wall Lighting Fittings	\$197.7
Copper Waste and Scrap	\$94.8	Print and Copier Parts	\$197.4
Potatoes and Processed Potatoes	\$83.6	Electrical Machines and Apparatus	\$196.3
Fresh Cherries	\$83.2	Transmission Apparatus for Radio or TV	\$589.7
Nonconiferous Wood	\$81.3	Plastic Articles	\$191.7
Whey	\$75.5	Electrical Controls	\$175.3
Mink Furskins	\$51.1	Digital Processing Units	\$163.3

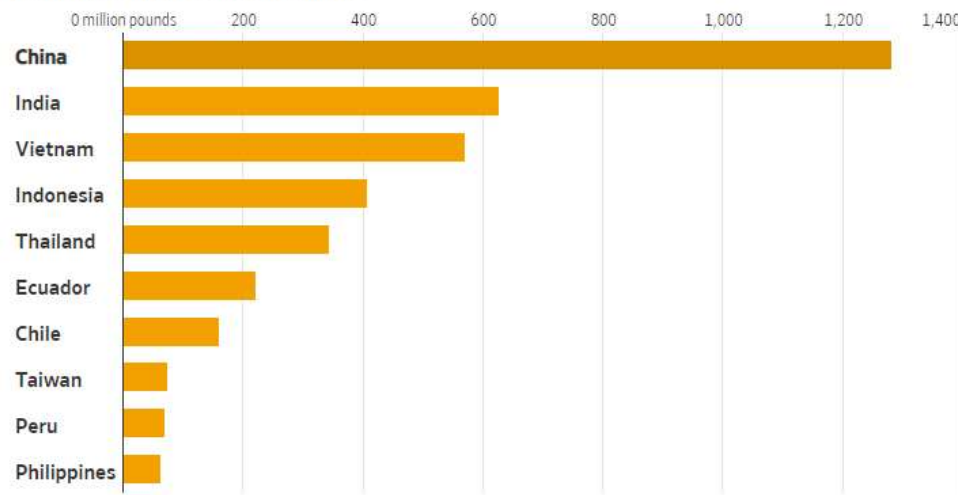
Sources: U.S. Census Bureau, Foreign Trade Division, 2018; Community Attributes Inc., 2018.

# Complex Supply Chains

## 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: Haddon, Heather and Jesse Newman, "Fish Caught in America, Processed in China Get Trapped by Trade Dispute," *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.



# Concluding Remarks

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- Trade is a core aspect to Washington's economy
  - 40% of all jobs in the state tied in some way to trade.
  - Any disruption to trade, imports and exports, will adversely impact the state.
- Current tariff list excludes aircraft, but this could change in the future.
  - As China continues to build out own commercial aircraft capacity (COMAC C919).

# Concluding Remarks

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- This trade war is not entirely about trade
  - We could be seeing the beginnings of a new paradigm for U.S.-China relations.
  - Washington has benefited from this relationship, but may not bode as well going forward.
- Potential ripple effects on inbound FDI and services trade.
- How China responds, and how it can mitigate this conflict in the long-term, may have significant implications for Washington state.

# Thank You!

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# APPENDIX

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# China Tariff Schedule

List	Products
China 232 Retaliation List	128
China 301 List 1   Released June 16, 2018	545
China 301 List 2, Version 2   Released August 8, 2018	333
China 301 List 3.1   Released August 3, 2018   Finalized September 18, 2018   10% Tariff	2,493
China 301 List 3.2   Released August 3, 2018   Finalized September 18, 2018   10% Tariff	1,078
China 301 List 3.3   Released August 3, 2018   Finalized September 18, 2018   5% Tariff	974
China 301 List 3.4   Released August 3, 2018   Finalized September 18, 2018   5% Tariff	662
<b>Total Count</b>	<b>6,213</b>

## Key Findings (cont.)

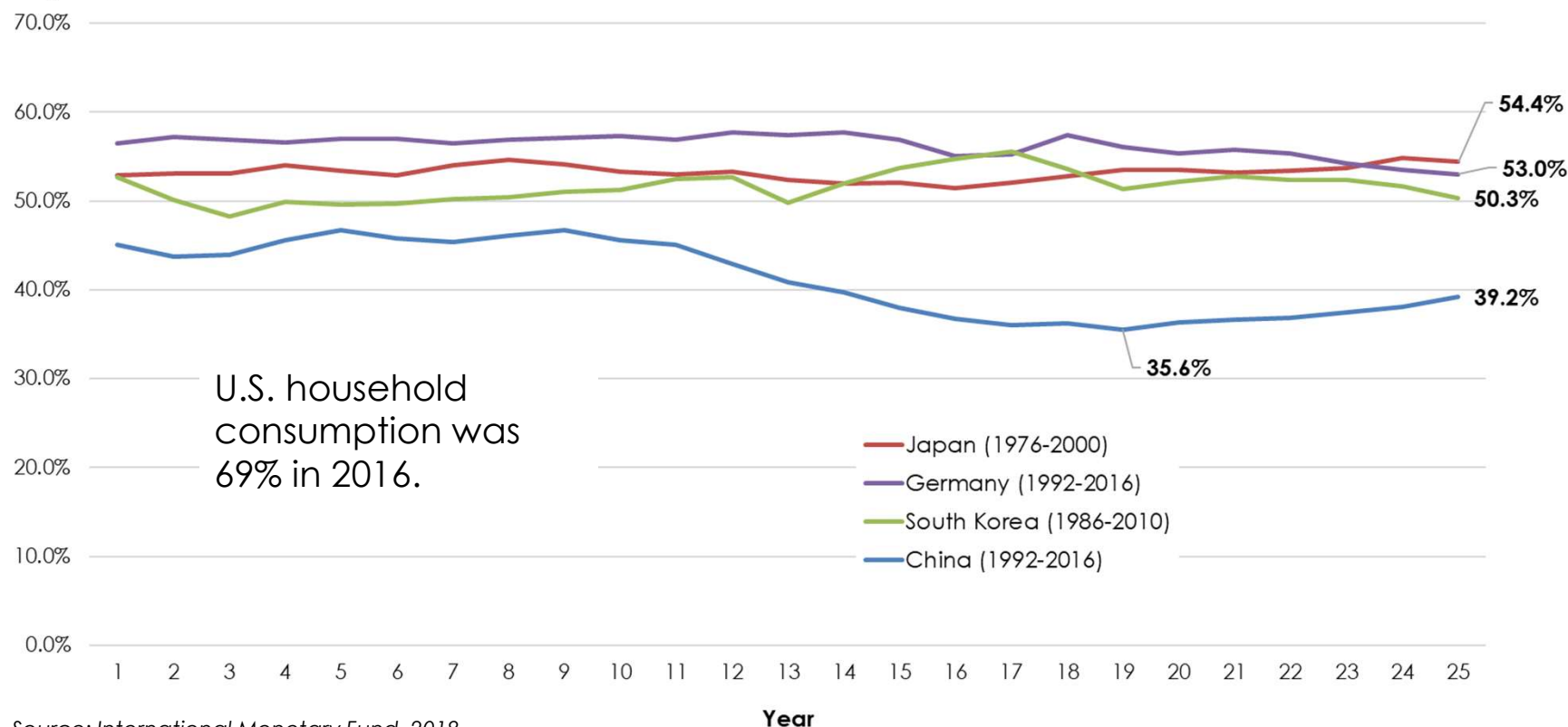
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- Tariffs by USTR will affect the movement of air and marine cargo that in 2017 equaled 3.2 metric tons worth \$13.1 billion.
  - Equal to 7% of all two-way cargo movements by weight.
- The global trade and supply chain management sector supports 94,500 jobs.
- Trade is complicated and not one-way
  - Tariffs on \$2.7 B in Chinese seafood imports, but this actually affects the North Pacific Fishing Fleet

# Chinese Private Consumption

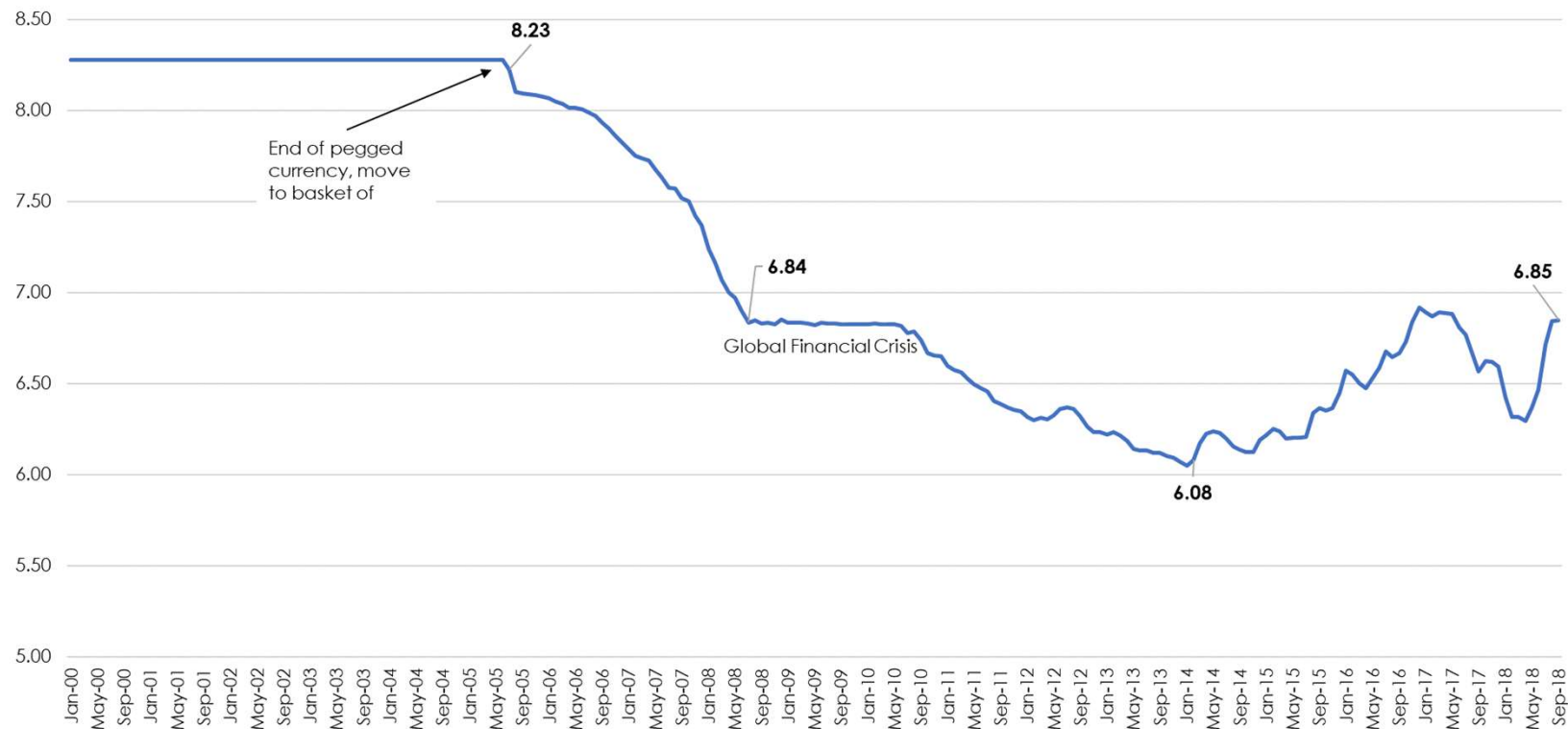
As a share (%) of GDP, compared against other nations during growth periods

Final Household  
Consumption as % GDP



Source: International Monetary Fund, 2018.

# Renminbi-USD Exchange Rate

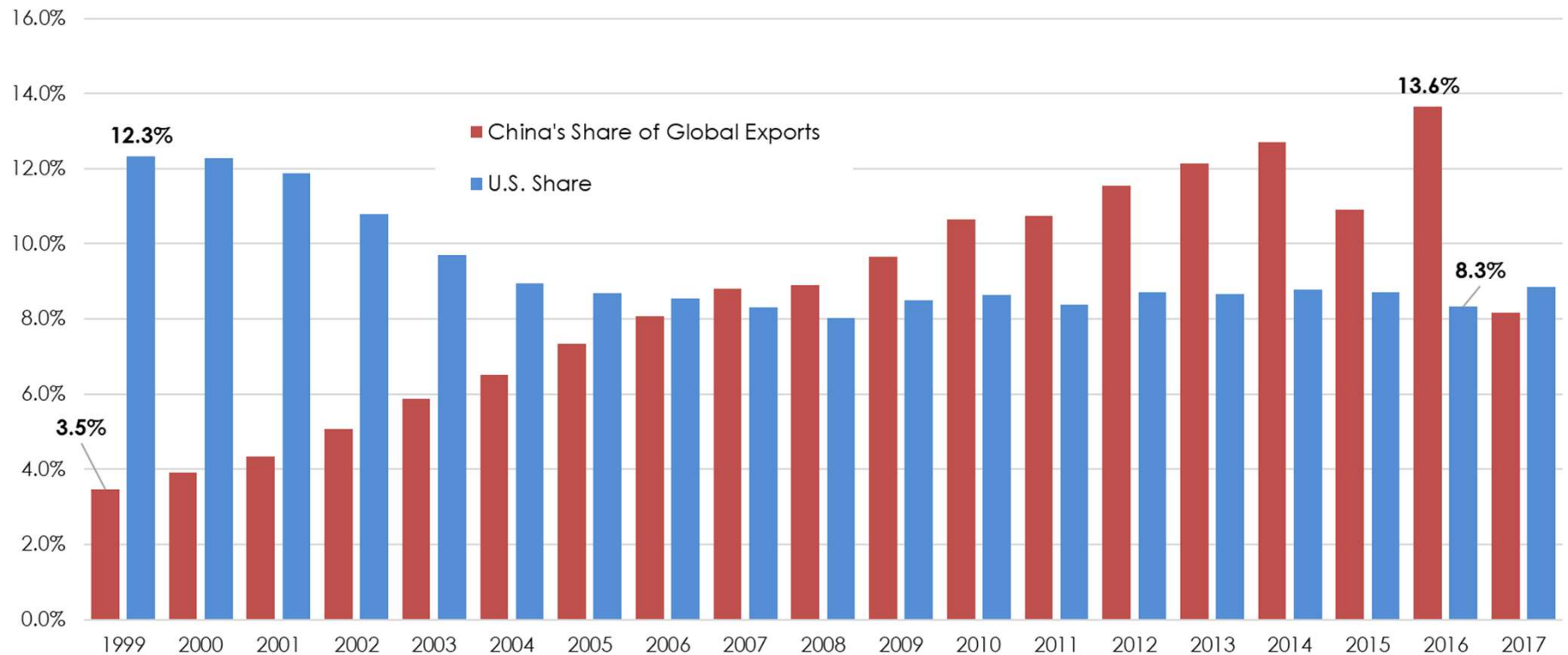


Source: Federal Reserve Bank of St. Louis, 2018.



# Share of Global Goods Exports (%)

Based on dollar-denominated exports, China and U.S., 1999-2017

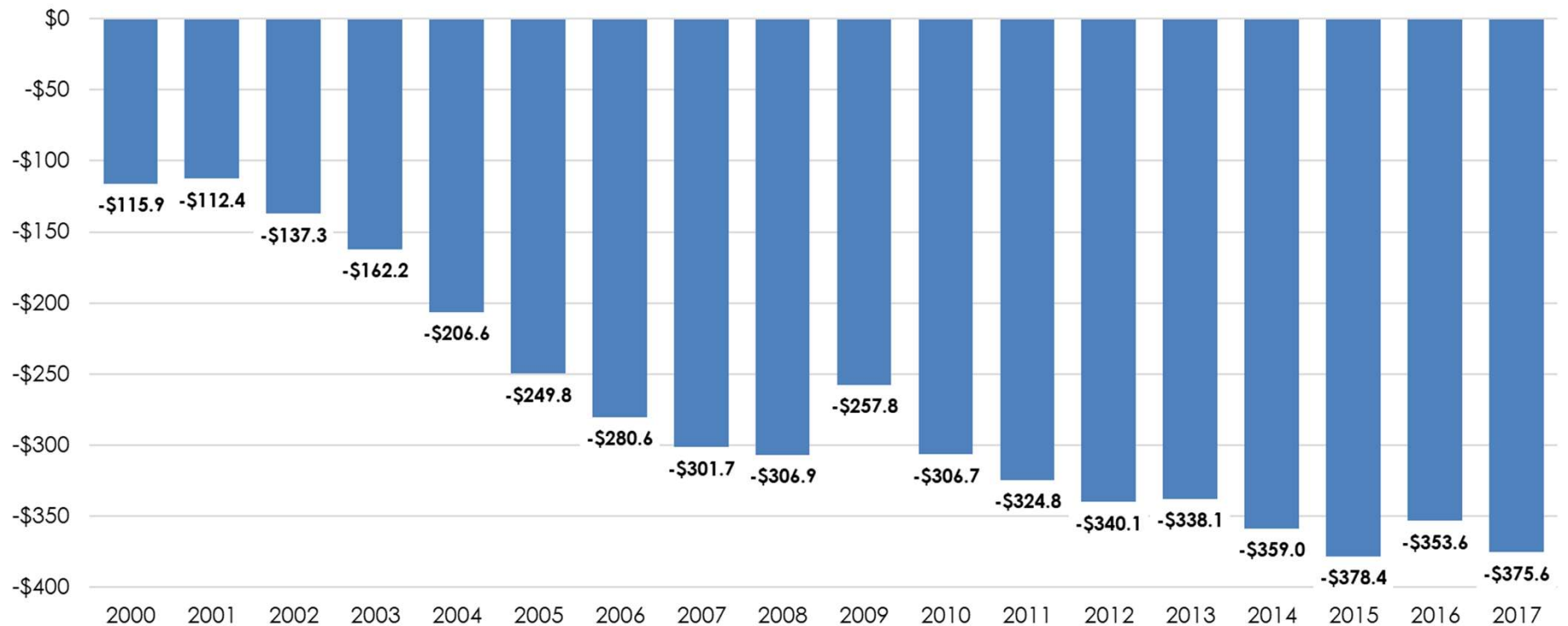


Source: International Monetary Fund, 2018.

# Annual U.S. Trade Deficit with China

2000-2017, 2017 \$

Billions USD, 2017 \$

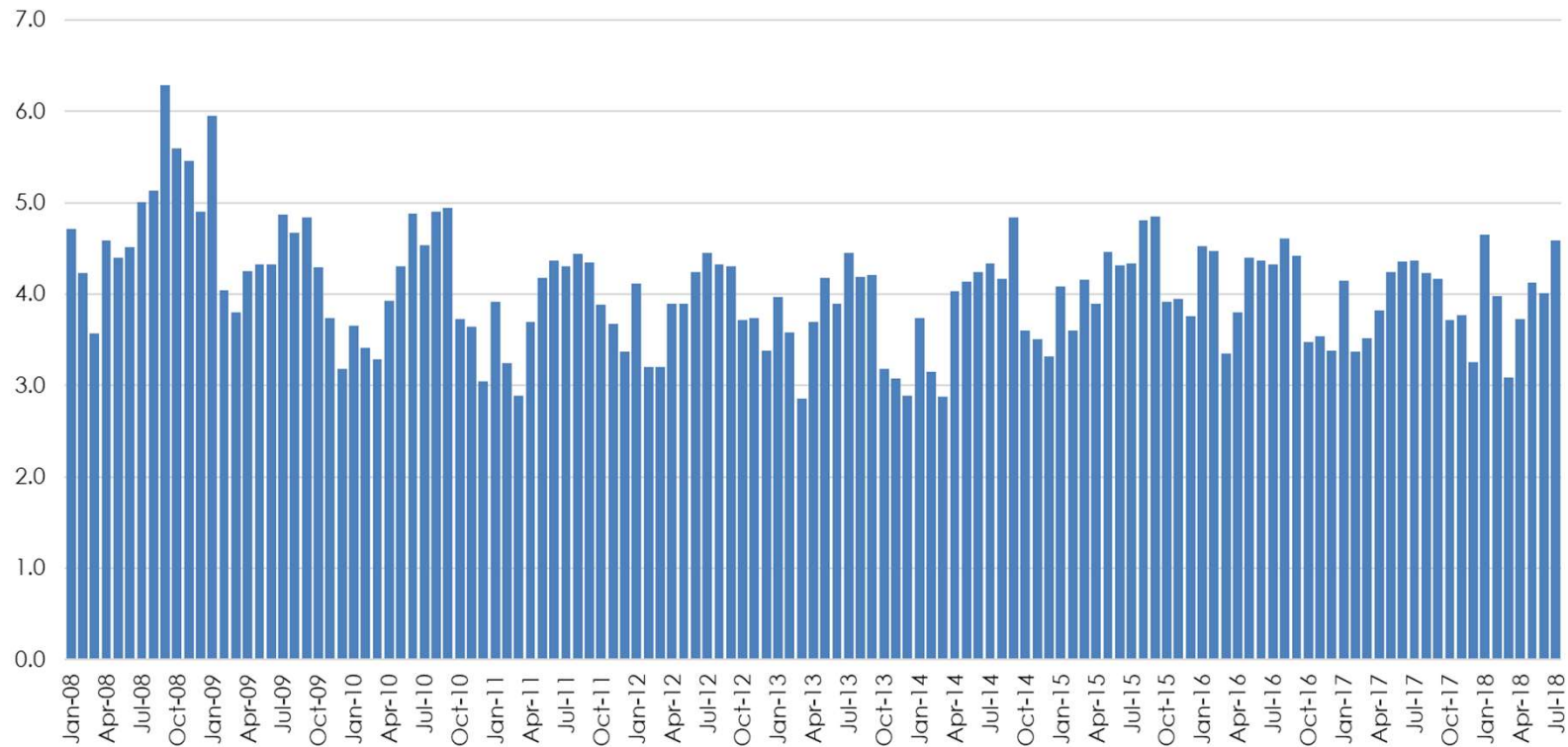


Source: U.S. Census Bureau, Foreign Trade Division, 2018.

# Monthly U.S. Trade Deficit with China

## Imports / Exports

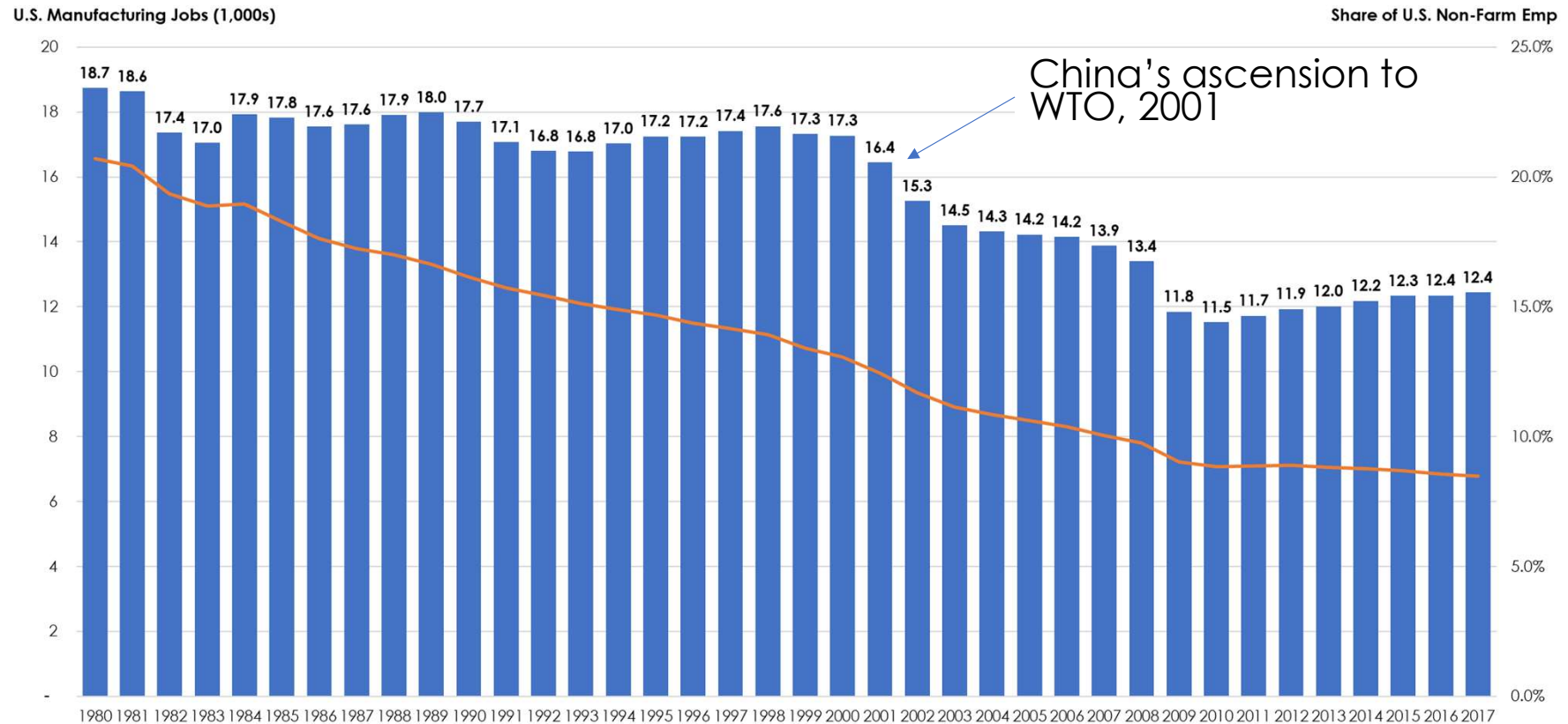
Imports from China/  
Exports to China



Source: U.S. Census Bureau, Foreign Trade Division, 2018.

# U.S. Manufacturing Employment

1980-2016, total and as share (%) of non-farm employment

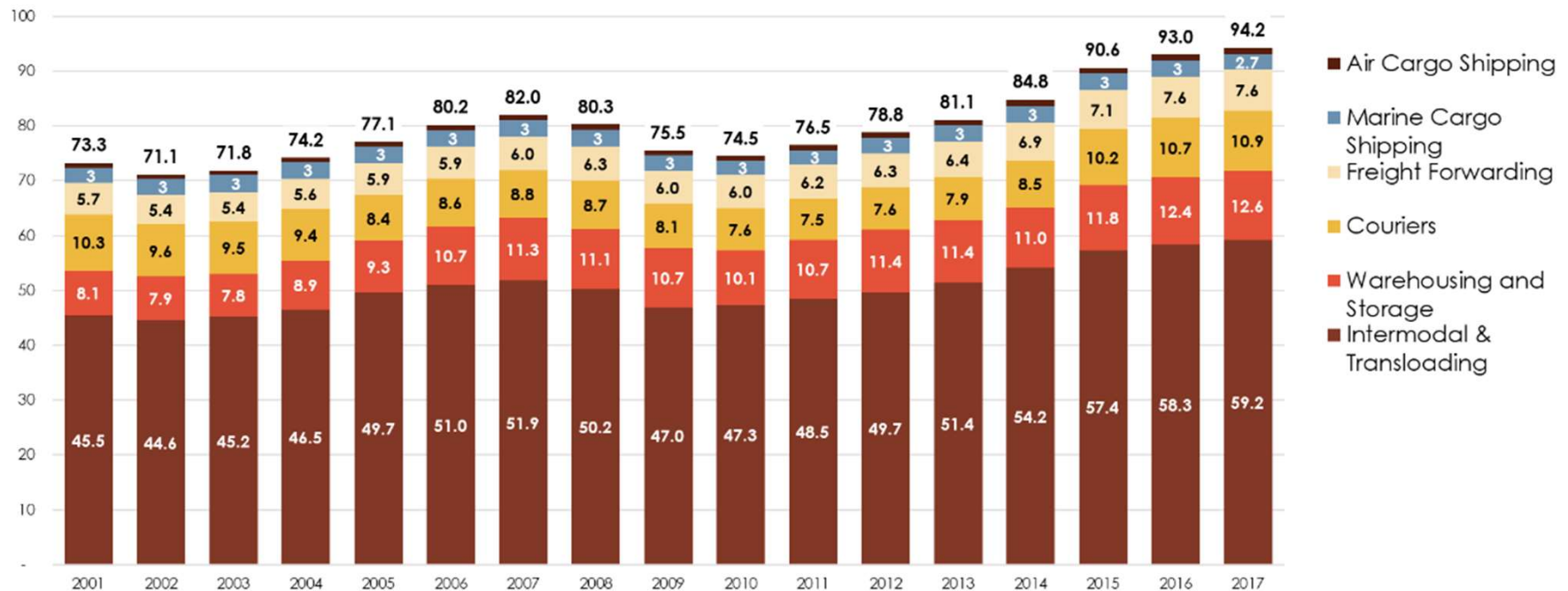


Source: Federal Reserve Bank of St. Louis, 2018.

# Cargo Handling in Washington State

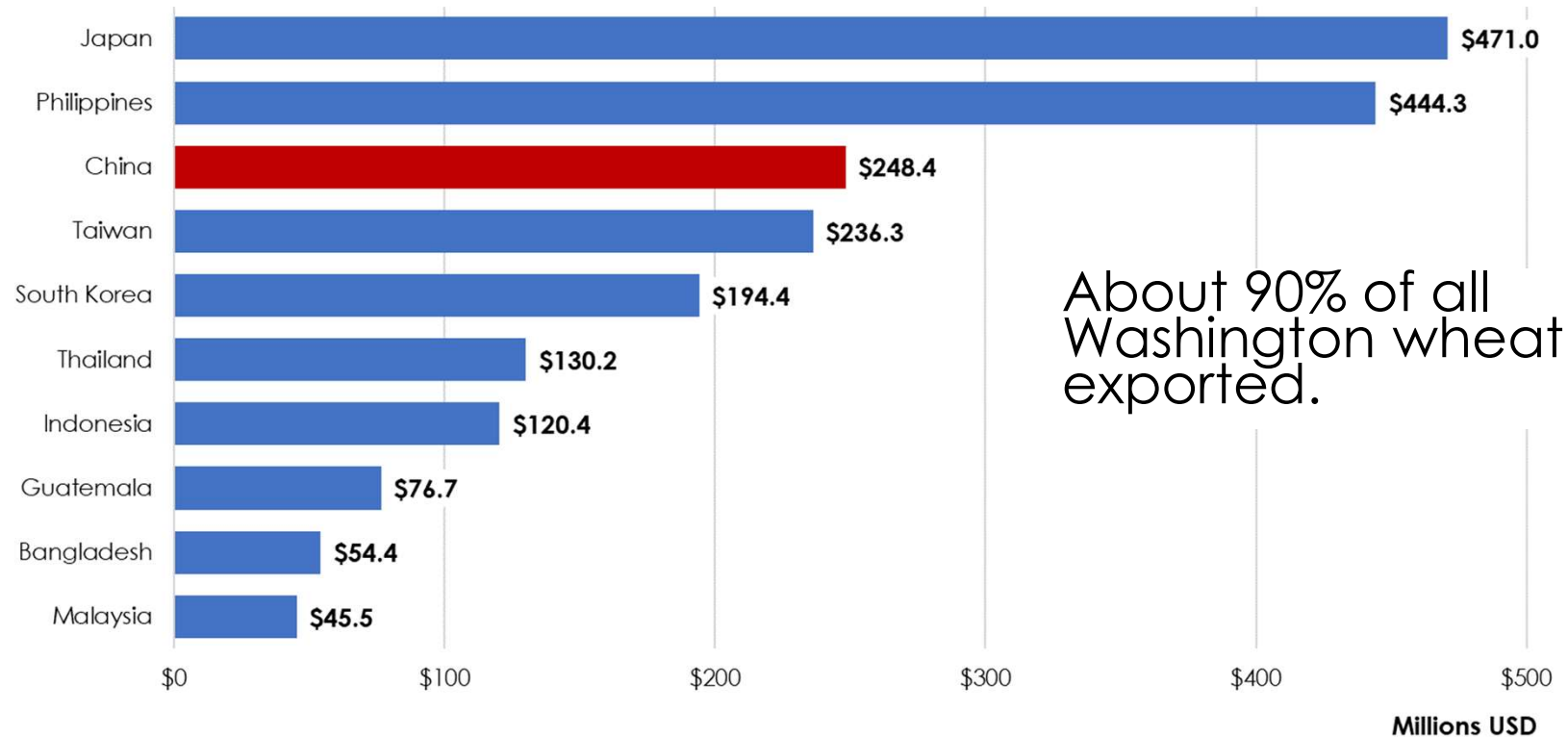
## Jobs, 2001-2017

Jobs, Thousands



Sources: U.S. Bureau of Labor Statistics, 2018; Community Attributes Inc., 2018.

# Washington Wheat Shipments, 2017



Sources: U.S. Census Bureau, Foreign Trade Division, 2018; Community Attributes Inc., 2018.