



The United States-China Trade Dispute

Implications for Washington State

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Overview of Recent Developments

China and Washington state have a long history of close trade relations, with representatives from both sides of the aisle focused on improving the situation for Washington's interests. Despite the importance of two-way trade, there is bipartisan sentiment that China trade is fraught with increasing challenges. President Trump campaigned on a trade policy that would be tough on China. Under his administration, U.S.-China relations have been marked by a focus on trade and an increasing effort by the U.S. to leverage market access in exchange for economic and structural reforms. These changes include addressing the trade deficit (primarily in goods), changing China's industrial policies aimed at obtaining U.S. technology and dealing with alleged unfair trade practices in steel and aluminum.

In early 2018, the Trump administration concluded two trade investigations. The first, under Section 232 of the Trade Expansion Act of 1962, considered the national security risks of U.S. reliance on imported steel and aluminum. The second, under Section 301 of the Trade Act of 1974, examined Chinese trade policies on technology transfer and intellectual property rights. Recommendations on another Section 232 National Security investigation on autos and auto parts could be announced before the end of February. There are concerns that this investigation will result in tariff increases in the auto sector that would have wide-ranging implications for Washington state's trade interests. In retaliation to U.S. tariffs on steel and aluminum, China placed tariffs on U.S. goods, including 61 agricultural products in Washington state. These tariffs hit exporters on top of the retaliatory actions taken by other important trading partners, including Canada and Mexico.

After the Section 301 investigation found China's trade policies unfair, the U.S. announced tariffs on approximately \$50 billion worth of Chinese goods, filed a dispute on China's discriminatory licensing practices in the World Trade Organization (WTO) and addressed China's investment practices involving the acquisition of sensitive technology.^{1,2} This began an escalating trade war resulting in the U.S. placing 10-25% tariffs on approximately \$250 billion of Chinese imports and China putting 5-10% tariffs on \$110 billion worth of U.S. goods. At the G-20 meeting in Buenos Aires on December 1, 2018, Presidents Trump and Xi met and agreed to halt tariff increases until March 1, 2019 and give negotiations a chance to resolve the issues. (See **Exhibit 3** in **Appendix**.)

Trade negotiations were held in Washington at the end of January between Chinese Vice Premier Liu He and U.S. Trade Representative Robert Lighthizer. Negotiations continued at various levels in Beijing in February and a meeting between Presidents Trump and Xi is anticipated.³ It is too early to predict the outcome, but the March deadline is focusing both sides' attention on finding a way forward.³ China's recent economic slowdown may motivate concessions. In 2018, China's economy grew at its lowest rate since 1990, driven by low consumer spending, rising debt and the trade war with the U.S.^{4,5}

The Trump administration wants to reduce the U.S. trade deficit with China, which in 2017 totaled \$375.6 billion in goods. In contrast, the U.S. had a \$40.2 billion trade surplus in services, reflecting another important part of overall trade with China that is critical for Washington state's technology and services interests. As part of the comprehensive effort to address U.S. China trade, the Trump administration is seeking greater market access to China's market for goods and services, as well as structural changes to China's economy, notably its industrial and state-led policies that harm foreign interests, particularly those related to foreign investment, IP protection, and technology transfer. Finally, the U.S. wants a mechanism to verify and enforce these changes. Among other issues, China is looking for reduced tariffs on its exports. It has also offered to make additional purchases of agricultural products, like soybeans, but there are few details on this to date.

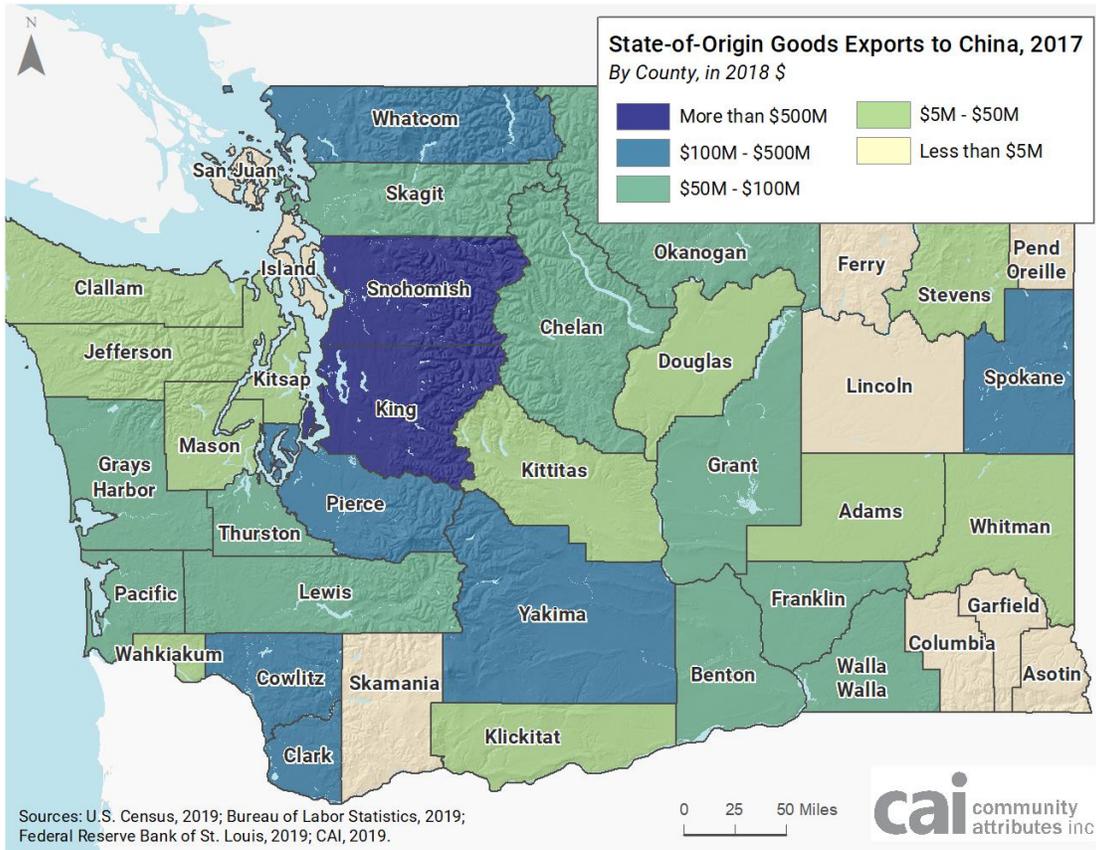
Washington state is among the largest exporting states, especially to China. Washington accounts for 5% of U.S. goods exports to the world, and 14% of U.S. exports to China. Over the past five years, Washington state overall exports have dropped slightly, but exports to China have grown by 3% (in 2017 \$). Controlling for oilseeds exports, which are only consolidated in Washington state, China's tariffs affect roughly \$2.7 billion of Washington state exports in 2017. Export products included in China's tariff list supported an estimated 28,700 jobs in Washington in 2017.

While a few industries, such as lumber and aerospace, have been relatively isolated from U.S.-China tariffs, the overall effect on Washington trade could be damaging. Iconic and important exports like apples, cherries and seafood have all been targeted. In addition, two of the products at the center of the conflict are soybeans and autos, which pass through Washington's ports in large amounts and support various shipping and logistics jobs. As tariffs continue, exporters lose market share and importers are forced to make suboptimal sourcing decisions. These changes will adversely impact business and can be difficult to bounce back from. CPTPP, the trade deal between 11 Pacific nations that the U.S. backed out of under President Trump, went into effect January 1. In addition to the uncertainty surrounding trade with China, Canada and Mexico, the state is at a disadvantage competing in markets where CPTPP members share preferential access, particularly on agricultural products. However, there is potential for long lasting benefits. If negotiations lead to increased protection from IP theft and forced technology transfer, all U.S. companies doing business in China will be better off.

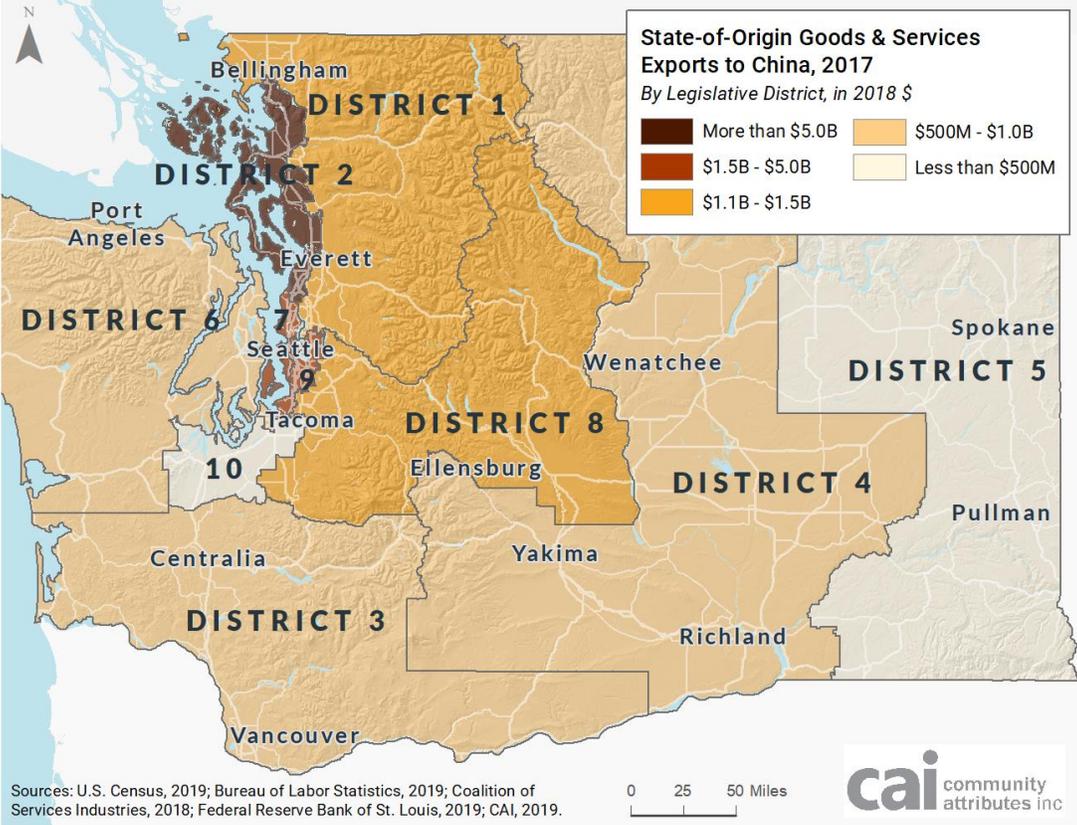
County and Congressional District-Level Impacts

Washington's economic ties with China reach communities across the state. In 2017 (latest available full-year data), Washington exporters sold an estimated \$13.8 billion in merchandise and commodities to China,⁶ and an additional \$1.6 billion in services (all values in 2018 \$).⁷ The largest source of Washington state merchandise and commodities exports to China in 2017 was King County, with an estimated \$5.9 billion in sales, of which 86% were aerospace exports. Snohomish County followed, with \$5.4 billion (95% aerospace). By congressional district, District 2 (representing parts of Snohomish, Skagit and Whatcom counties) exported more than an estimated \$6.0 billion in 2017 to China. (Note: estimated services exports are only available by congressional district and not by county.)

Exhibit 1. State-of-Origin Goods Exports by Washington State County, 2017 (mils 2018 \$)



**Exhibit 2. State-of-Origin Goods and Services Exports by Washington State Congressional District, 2017
(mils 2018 \$)**



Below are examples of China’s importance to Washington businesses and communities by congressional district.

District 1

Dairy exports were an intensely debated issue in the USMCA negotiations and have been targeted again in the trade war with China. Washington exported \$25 billion of dairy products (milk, cream, whey and cheese) to China in 2017. All those products are under a 25% tariff. High tech supply chains have also been disrupted by U.S. tariffs on Chinese exports. The U.S. \$200 billion list of products, currently at 10% but scheduled to rise to 25% in March if negotiations fail, includes printed circuit boards, power assemblies, computer chips and other inputs for technology manufacturing.⁸

District 2

Washington’s aerospace industry is concentrated in King and Snohomish counties, in Districts 2, 7 and 9. There are numerous firms in District 2 that each support hundreds of jobs doing aerospace design, supply and manufacture. In 2017, China imported over \$10.4 billion in civilian aircraft, engines, and parts. Currently, these products are not included in China’s retaliatory tariff list, though China has previously threatened a 25% tariff on smaller planes.⁹

District 3

In 2017, Washington exported approximately \$360 million of logs to China. Over half the state's logging employment is in Districts 3 and 6, in the southwest corner of the state and on the Olympic Peninsula. Oak wood in the rough has been subject to a 10% tariff since September 2018.

District 4

Washington exported \$17.6 million of fresh apples and \$99.7 million of cherries to China in 2017. Over 90% of Washington's apples are grown in District 4, primarily in Grant and Yakima counties.¹⁰ Since the first round of Section 301 retaliatory tariffs, Washington apples and cherries have been subject to a 25% tariff by China. Like apples, most of the state's cherries are grown in District 4. Tariffs make Washington's fruit exports less price competitive in China, potentially helping competitors, such as Canada and New Zealand, expand their market share of these commodities.

District 5

The easternmost counties that form District 5 are responsible for most of the state's wheat production.¹¹ China imported \$248.4 million of wheat from Washington in 2017 (though a share of this total is wheat consolidated in Washington originating from other parts of the country). This and other wheat products have been placed under a 25% tariff. This region also produces a significant amount of the state's cattle, which has been hit by China's 25% tariff on beef.

District 6

Washington exported \$646.8 million and imported \$210 million in cars and auto parts to China in 2017, a two-way trade of \$857 million. The Port of Grays Harbor is the primary gateway for these auto exports. In 2017, the port facilitated the export of \$637.6 million in auto exports to China, though this amount has since fallen to \$159.7 million through the November 2018 year-to-date. The port also handled more than \$23 million in forest product exports in 2017.¹²

District 7

Washington exported \$154.2 million worth of seafood to China in 2017.¹³ Of that, 99.9% is now subject to 25% tariffs from China.¹⁴ King County is responsible for an estimated 64% of the state's seafood exports, approximately \$105.8 million.¹⁵ Frozen pacific salmon, frozen crabs, clams, fresh crabs and frozen cod are among the top exports to China, accounting for \$115.6 million of exports in 2017. Seafood has a complex supply chain in which Washington-based fishing fleets catch and process fish in Alaska and then send them to China where they are processed further. This fish is then shipped back to the U.S. as fillets, smoked salmon or fish burgers.¹⁶

District 8

District 8 is an important supplier of Washington agricultural products, including apples, pears, peaches and cherries. These valuable products are fragile and have a small window in which they can be picked

and shipped to market. Since China imposed tariffs, cherry shipments and air cargo traffic to Asia has dropped, meaning more product is left in the domestic market. This lowers profits for cherry growers and encourages Chinese consumers to seek cheaper alternatives.¹⁷ In the short term, farmers are forced to cancel improvements, delay purchase of new equipment and scale back jobs.¹⁸

District 9

This district is a crucial center of transportation and logistics that enables trade. Firms specializing in marine cargo, air freight, supply chain management, freight forwarding, trade finance and trucking allow importers and exporters to move their goods efficiently. The Northwest Seaport Alliance represents one of the largest container loading centers in North America. In 2017, an estimated 20,100 workers were directly employed in marine cargo handling activities tied to the Northwest Seaport Alliance, including in transloading, warehousing, stevedoring, trucking, and support services.¹⁹ Total containerized trade in 2017 through the NWSA summed to 2.7 million TEUs (twenty-foot equivalents), of which nearly half were to and from China (1.1 million TEUs). Sea-Tac International Airport, also within District 9, is a major hub for the movement of air cargo and shipment of high value, perishable commodities like cherries to China.

Much of this China-bound or originated cargo is handled within the Kent Valley, the 4th largest warehousing and distribution center in the U.S. An estimated 6.5% of cargo by value of trade moving through the ports of Seattle and Tacoma and Sea-Tac International Airport are handled at some point *en route* in the Kent Valley.²⁰ Many aerospace companies and activities are also based in District 9, including aircraft manufacture, design and supply of parts and components.

District 10

The roll-on/roll-off facility at the Port of Olympia exports autos to Asia and sends logs to China for milling and use in construction. Washington and China had two-way trade in cars and auto parts worth \$857 million 2017, of which over 75% were exports. Washington's ports play a vital role in connecting automakers to consumers in Asia. Shipping automobiles supports hundreds of jobs in the transportation industry, including port facilities, trucking, warehousing, logistics, and customs brokerage.

Appendix

Exhibit 3. Timeline and Summary of U.S-China Trade Actions and Retaliations

Feb. 16, 2018	The U.S. Department of Commerce releases findings from Section 232 investigation into steel and aluminum. The report recommends trade remedies intended to increase domestic production. ²¹
Mar. 22, 2018	U.S. Trade Representative's Section 301 Investigation concludes that China conducts unfair trade practices. ²² Trump administration suggests tariffs on \$60 billion worth of Chinese goods, among other remedies.
Mar. 23, 2018	232 tariffs of 25% on steel and 10% on aluminum go into effect for all U.S. trading partners that export over \$10.2 billion worth of steel and \$7.7 billion worth of aluminum to the U.S., with temporary exemptions for some countries. China is subject to tariffs on \$2.8 billion worth of steel and aluminum.
Apr. 2, 2018	In response to Section 232 tariffs, China places 25% tariffs on aluminum waste and scrap, pork, fruits and nuts, and other products totaling \$2.4 billion of U.S. exports to China.
Jul. 6, 2018	Phase 1 of Section 301 tariffs begin. U.S. places \$34 billion worth of Chinese exports under a 25% tariff. Most products are intermediate inputs and capital, not consumer goods. China retaliates by putting 25% tariffs on \$34 billion of U.S. goods, including soybeans and cars. These tariffs are the first phase of a tariff list totaling \$50 billion.
Jul. 24, 2018	Trump administration announces an approximately \$12 billion bailout for farmers because of lost export sales due to retaliatory trade actions taken against the U.S. by all trade partners. ²³
Aug. 7, 2018	Phase 2 of U.S. tariff list is finalized, adding \$16 billion. Public hearings to ask for exemptions resulted in just \$400 million worth of goods being taken off the list. Phase 2 is set to begin August 23 rd .
Aug. 13, 2018	John S McCain National Defense Act affecting foreign investments (FIRRMA) and outbound tech transfers (ECRA). ^{24,25,26,27}
Aug. 23, 2018	Phase 2 of Section 301 tariffs are imposed. U.S. now has 25% tariffs on \$46.2 billion worth of Chinese goods. China responds immediately with 25% tariffs that cover a total of \$49.8 billion worth of U.S. goods.
Sep. 24, 2018	The U.S. begins the third round of 301 tariffs on China. U.S. puts 10% tariffs on \$200 billion worth of Chinese exports with the Trump administration threatening to raise that rate to 25% in 2019. China retaliates by placing a 5-10% tariff on \$60 billion of U.S. exports.
Nov. 29, 2018	USDA's FY 2019 forecast shows agricultural exports down \$1.9 billion from FY18, partly due to trade war with China. USDA now expects \$2.3 billion less in oilseeds exports than the previous forecast in August 2018 as China begins sourcing soybeans from Brazil. ²⁸
Dec. 1, 2018	Trade war truce after Trump-Xi meeting at the G-20. Both sides agree to halt increases until March 1. Trump does not increase tariff on \$200 billion from 10% to 25%, as he had threatened.

Dec. 12, 2018	China begins buying U.S. soybeans again.
Jan. 1, 2019	China suspends the 25% tariff on 144 U.S. vehicles and auto parts and the 5% tariff on 67 auto parts until March 2019. ²⁹ CPTPP comes into effect (for Mexico, Japan, Singapore, New Zealand, Canada, Australia).
Jan. 11, 2019	USTR announces that companies can request exemption from the most recent 10% tariff on \$200 billion tariffs if the trade talks fail and the tariff is increased to 25% on March 1. ³⁰ The 90-day application period for exemptions from the original \$50 billion tariff list ended October 9, 2018. ³¹
Jan. 18, 2019	China offers to buy \$1 trillion worth of U.S. soy beans over six years to eliminate U.S.-China trade imbalance. ³²
Jan. 30, 2018	Two days of trade talks begin in Washington D.C. between Vice Premier Liu He and Trade Representative Lighthizer.
Feb. 1, 2019	China buys 2 million tons of U.S. soybeans to be shipped April-July via the Gulf of Mexico and Pacific Northwest. ³³
February, 2019	Trade Representative Lighthizer and Treasury Secretary Steve Mnuchin travel to Beijing to continue trade negotiations. ^{34, 35}

Appendix

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