

THE U.S. TARIFF DISPUTE WITH CHINA: CALIFORNIA IMPACTS

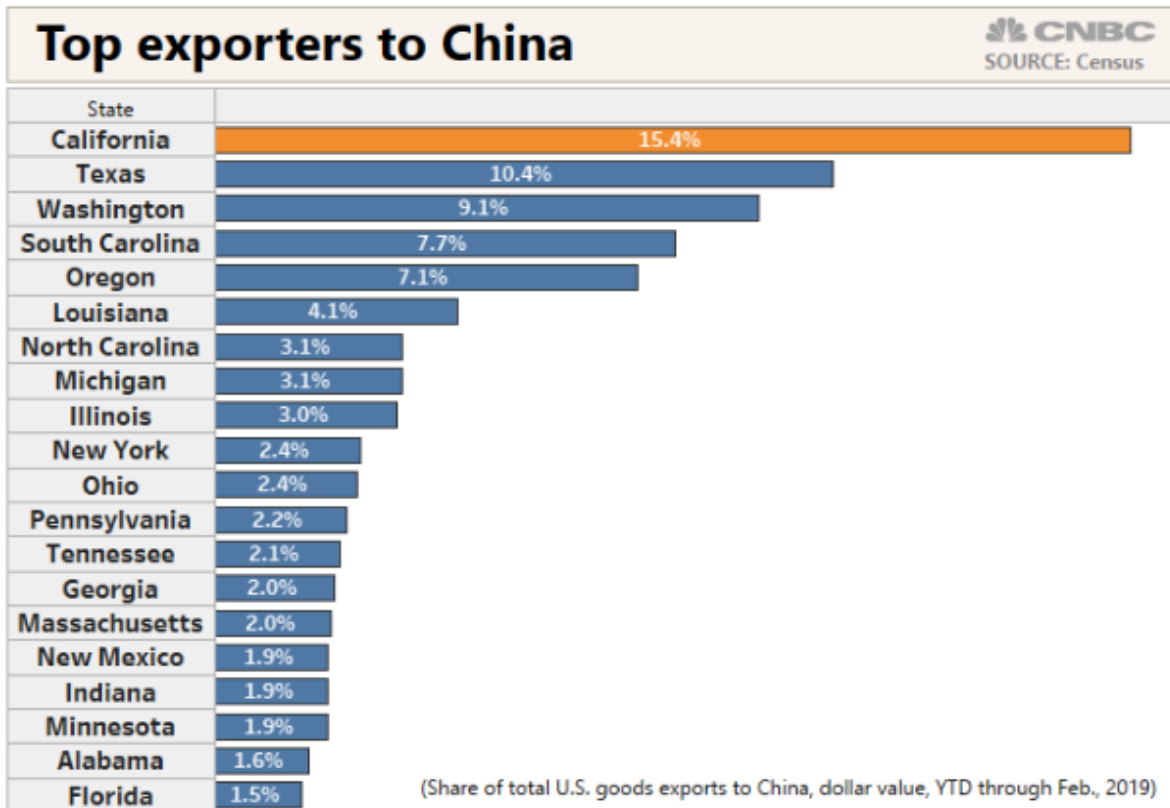
The Tariff Hikes by the U.S. and China Began in the Summer of 2018

At the direction of President Donald Trump, during July of 2018, the U.S. began collecting a new and exclusive 25 percent tariff on 818 imported Chinese products valued at \$34 billion. Since that time, the list of products subject to tariffs, which includes steel, electronic items and machinery, has increased significantly, and the value of those products has grown to over \$200 billion. (For a complete timeline, please see attachment)

China retaliated by imposing, as of mid-May 2019, \$110 million in tariffs exclusively on U.S. products, with agricultural goods and a wide array of other commodities taking the biggest hits. Both countries have engaged in discussions to resolve trade disagreements, but the path to a resolution has been elusive as both sides have been unwilling to concede much ground.

California has Significant Economic Ties with China

Numerous American companies are fearful China's retaliation will kill off their exports to the world's biggest consumer market. A fair number of those companies and producers are in California, which, as the chart below shows, is by far the largest exporter to China of any state in the nation.



The contiguous California ports of Los Angeles and Long Beach together comprise one of the largest port complexes in the world and the largest in the U.S. China represents about 60% of the trade volumes at the Port of Los Angeles. The port's executive director, Gene Seroka, recently told CNBC that exports to China last year declined by about 25%. He said cargo that goes through the port includes items not only produced in California but coming via rail from Midwestern states, including soybeans. Other sectors hit by the trade war on the export side, he further noted, are electronic products, household goods and recyclables. Seroka said many exports were down double-digit percentage levels in 2018 from the prior year.¹

Agricultural products have been Particularly Hard Hit by Chinese Tariffs

The director of the University of California Davis' Agricultural Issues Center, Professor Daniel Sumner, has identified fruit and tree nut exports as particularly vulnerable to Chinese tariffs. Roughly two-thirds of fruits and nuts are produced in California. All told, Sumner estimated last year that U.S. fruit and nut companies could lose more than \$3 billion annually due to tariff increases.²

U.S. wine exports to China have fallen almost in perfect correlation with Chinese tariffs. Two lots of tariffs in April and September 2018 added 25 per cent to the duty on American wines entering the booming Chinese market. This led to a 25 per cent slump in U.S. wine exports to China, 90 percent of which came from California.³

On May 23rd, President Trump announced a \$16 billion aid package for U.S. farmers who've been hurt by the tariff dispute. However, the aid is targeted at Midwestern farmers who produce crops such as corn and soybeans, and not the California specialty crops that are critical to the state's agriculture revenues.

As California Congressional Representative Jim Costa said, "This rushed and poorly planned plan bailout raises the troubling possibility that some of the nation's most valuable agricultural products, like the fruit and vegetable crops produced in central California, will receive a different and possibly reduced level of aid."⁴

The Cost of Imported Consumer Goods has Increased Due to U.S. Tariffs

While Chinese tariffs mainly hurt California agricultural exports, U.S. tariffs on popular Chinese goods will impact consumers. Last month, the *Los Angeles Times* declared that "Major retailers

¹ *CNBC*, "Trump's escalated trade war with China could hit California ports especially hard," by Jeff Daniels. May 6, 2019.

² *CALmatters*, "A year into Trump's trade turmoil, an Iconic California industry struggles to resist," by Martha Groves. April 4, 2019.

³ *South China Morning Post*. "U.S. firms fear retaliation to Donald Trump's tariffs will be 'final nail in the coffin' for exports to China," by Finbarr Bermingham. May 10, 2019.

⁴ *Successful Farming* (www.agriculture.com), "U.S.D.A. offers explainer on \$16 billion trade war buffer to farmers," by Chuck Abbott. May 23, 2019.

are sounding the alarm: The U.S.- China trade battle could be coming to a mall near you in the form of higher prices in time for the back-to-school and holiday shopping seasons.”⁵

According to Katheryn Russ, an economics professor at the University of California, Davis specializing in international trade, at the outset of the trade war, only about one percent of goods on the Trump administration’s initial tariff list of Chinese goods were final consumer products. But as the tariffs expanded, consumer items became more prevalent on the lists, including lamps, vinyl floor tile coverings, air conditioning units, televisions, cameras and mattresses, Russ noted. These are items which the U.S. imports in good part from China.⁶

The Poor and Working Class are Most Vulnerable to the Tariff War Impacts

As Russ told *Bloomberg Businessweek* last month, “lower-income consumers tend to spend a lot of their money on low-priced apparel and other items imported from China. On the other hand, higher-income people spend a lot on high-end consumer electronics that are also from China. The biggest reason tariffs pinch the poor the most is that the poor have less of a cushion: A higher share of their incomes goes for consumption of all kinds. The rich save a higher share of theirs.”⁷

As for the negative impact of Chinese retaliatory tariffs on U.S. goods, Southern California economist John Husing said that “it’s getting deep enough into the trade war that it’s starting to get a little bit scary — it’s starting to have a serious impact. That makes it more difficult to sell things to China, so it hurts our employee base here.”⁸

As of today there is no clear end to the tariff war in sight. The U.S. and China have been negotiating a new trade pact, but it is not clear that any significant progress will be made prior to President Trump’s meeting Chinese President Xi Jinping at the G20 summit in late June in Japan; and it remains to be seen if real progress can be made at the summit.

⁵ *Los Angeles Times*, “Price hikes from rising tariffs loom ahead of busy shopping seasons,” by James F. Peltz. May 19, 2019.

⁶ *Bankrate.com*, “Here’s how much Trump’s tariffs on China could cost American consumers,” by Sarah Foster. May 24, 2019

⁷ *Bloomberg Businessweek*, “Trump’s China tariffs hit America’s poor and working class the hardest,” by Peter Coy. May 15, 2019.

⁸ *Daily Democrat*, “Trade war escalation rattles California industry leaders,” by Kevin Smith and Donna Littlejohn. May 15, 2019.