

# FBB FEDERAL RELATIONS

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## **Peter Friedmann's View from Washington DC**

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The US -China trade relationship is changing in ways that are defying expectations. As the US adapts, we are seeing far reaching impacts on our domestic economy - although it is too soon to know whether these will be positive or negative in the long term.

The tariffs have accelerated the trend which already existed: the transition of sourcing away from China to other countries, such as Vietnam, and even further afield. But the pace is even faster than most expected.

In turn, the international logistics to carry those consumer and other goods from the new source countries (such as Vietnam, Indonesia, Philippines) to the United States is changing much quicker than predicted.

Ocean carriers are reducing the number of sailings and freight capacity from China to the US, while increasing the number of sailings from South Asia, such as Vietnam. This in turn is being felt at US and Canadian ports, railroads, trucking, warehouses, marine terminals and by all who are employed at these gateways. Some are winners, some are losers.

If 2/3 of the US population-- meaning consumers -- is living in the Eastern 1/3 of the US ocean carriers are increasingly landing imported consumer goods at the ports closest to those consumers, namely the ports in the East Coast and Southeast.

The impact on the US logistics and supply chain will be substantial. More cargo for Eastern railroads, less cargo for Western railroads; more cargo moving across Eastern docks, and less cargo moving across West Coast docks. More work for trucking, longshore, warehousing on the east and gulf coasts, less on the West Coast.

All of these changes will take time to work out, but the point is that our US-China trade dispute will have long term impacts much deeper into the US economy than simply an increase in the price of some goods coming from China.

At the same time, China is feeling pain from the tariff battle. China appears to be trying to find ways to walk back some retaliatory tariffs it imposed on US exports. The US implemented an exclusion process by which a US manufacturer or supplier could seek exemption from specific tariffs we have imposed on certain imports from China. Now China is doing the same. Chinese importers can petition the Chinese government to create an exclusion from its retaliatory measures against US exports. For instance, China textile mills are petitioning the Chinese government to lift the tariffs it had imposed on US cotton.

This is something we did not anticipate, thinking China's President Xi would have full control and not allow any exceptions from his mandated retaliatory tariffs. It is now clear that President Xi does not exercise the control over China's trade policies that many had initially thought. He has had to back track due to pressure from so called China's hardliners. Who are they?

Many do not know that the Chinese military also controls and owns elements of the China's economy, including manufacturing plants -- something unheard of here in the US. It has added complexity to President Xi's ability to negotiate a resolution of the US China tariff dispute.

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And now for the real unexpected -- some believe there is diminishing incentive to resolve the trade dispute. Obviously a resolution of disputes requires compromise on both sides. If compromise is viewed as weakness, then we could expect neither President Xi nor President Trump to be eager to compromise. Here in the US, Congress (both Republicans and Democrats) remain largely united in supporting the tariffs imposed by President Trump. So where is the political motivation for the President to compromise, to retract tariffs? And if Chinese importers are successful in getting China to lift its tariffs on some US exports, particularly in agriculture, the pain felt here in the US will be diminished.

All this suggests that the tariffs may remain in place for years to come while the global logistics and transportation network, across the oceans and within our country, will continue to shift --- impacting employment and economic health of communities in ways that were unexpected before the tariff dispute began.