Southern States Among Hardest Hit by China Tariffs

Andrew Soergel

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Exporters in manufacturing-heavy states such as Alabama, South Carolina and Kentucky are among those that stand to lose the most from a protracted trade war with China, according to a U.S. News analysis of government trade data that suggests newly erected trade barriers into the Chinese market could stifle industries shipping billions of dollars of goods into Asia's largest economy each year.

The U.S. Census Bureau estimates the U.S. exported nearly $130 billion in commodities to China last year, an increase of nearly $14 billion from 2016's trade total. Newly erected tariffs on some of those goods – a byproduct of a tit-for-tat trade conflict that's developed between President Donald Trump's administration and members of Chinese President Xi Jinping's regime – stand to raise prices on U.S. exports, with farmers and manufacturers, in particular, concerned about their products getting priced out of the world's second-largest economy.

"What is clear is that we are in a trade war," Daniel Ikenson, director of the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies, said in a statement last week. "With very little substantive dialogue underway between the governments, matters are likely to get much worse before they get better."

The average U.S. state shipped 9 percent of its total commodity exports to China in 2017 – valued at an average of $2.5 billion. Washington, California and Texas led the way in China exports, each shipping more than $16 billion in goods to the country in 2017.

For many states, agriculture and automotive vehicle exports are among the most commonly shipped products to China, but the Asian economy's tariffs are poised to hit a wide array of industries. In Washington, for example, tariffs threaten an aluminum waste and scrap industry that saw nearly $50 million in product exported to China last year. In New Jersey, the duties stand in the way of certain types of U.S. paper supply companies that shipped more than $30 million in product to China in 2017.

But Alabama stands as the state with the greatest potential for business disruption as a result of Chinese tariffs targeting 333 individual U.S. export products valued at roughly $16 billion. Of the nearly $3.6 billion in commodities Alabama shipped to China last year, tariffs threaten to raise prices on more than $2.3 billion worth of exports.

That's nearly two-thirds of all exports Alabama companies shipped to China in 2017 – and more than 10 percent of the state's total exports from last year – that are now threatened by Chinese tariffs. No other state topped Alabama in terms of the threat tariffs pose to its total export portfolio from 2017. Automotive vehicle and scrap metal exports are expected to be among those hardest hit by the duties.

But Alabama has company among its fellow Southern states. More than 8 percent of all South Carolina exports have been threatened by the new Chinese duties, making it the third-most heavily impacted state. Kentucky wasn't far behind, with more than 3 percent of its exports staring down the prospects of higher prices in China.

Among the 10 states whose global exports are most heavily impacted by the tariffs' introduction, half are located in the geographic South, with Maryland and Virginia ranked ninth and 10th, respectively. Eight of the top 20 and 10 of the top 25 were Southern states.

States Most Heavily Impacted by Chinese Tariffs

1. Alabama (10.72 percent)
2. Hawaii (8.41 percent)
3. South Carolina (8.03 percent)
4. California (6.82 percent)
5. New Mexico (4.97 percent)
6. Kentucky (3.32 percent)
7. Alaska (2.29 percent)
8. Oregon (1.85 percent)
9. Maryland (1.84 percent)
10. Virginia (1.69 percent)

Chinese tariffs are expected to ding the median state's total export market by slightly less than 0.8 percent. And for three states, North Dakota, Wyoming and Idaho, their exports are largely in the clear, with tariffs weighing on just a fraction of their global exports.

But many other states – especially manufacturing-heavy ones in the South – aren't expected to be as lucky. Alabama, for example, is expected to suffer from exports targeting a passenger-vehicle market that sent more than $2 billion in products to Asia's largest economy last year. Similar dynamics are expected to play out in South Carolina and Kentucky – two other manufacturing- and automotive-heavy states.

In terms of sheer value, California, Texas and South Carolina carry the largest export portfolios that are now threatened by Chinese tariffs. Alabama and Washington rounded out the top five, with the South again accounting for a larger share of the top 10 states (four) than any other region.

States With Highest Value of Exports to China Now Threatened by Tariffs

1. California ($11.73 billion)
2. Texas ($4.16 billion)
3. South Carolina ($2.59 billion)
4. Alabama ($2.33 billion)
5. Washington ($1.23 billion)
6. Kentucky ($1.03 billion)
7. Illinois ($980.21 million)
8. Michigan ($692.55 million)
9. New York ($683.10 million)
10. Pennsylvania ($472.30 million)

But for trade-heavy states such as California and Texas, Chinese tariffs are only expected to impact 6.8 percent and 1.6 percent of their total export markets, respectively. States that shipped the smallest value of commodities to China in 2017 include Wyoming, South Dakota and North Dakota.

The results add credence to the narrative that Southern manufacturing-heavy states are among the most susceptible to trade shake-ups as a result of the ongoing friction between the U.S. and China.

"The ongoing rattling of the U.S.-China relationship will keep U.S. businesses on edge and will likely constrain industrial activity going forward," Gregory Daco, chief U.S. economist at Oxford Economics, wrote in a research note Wednesday.

The Chinese government on Aug. 8 announced tariffs on roughly $16 billion of U.S. goods, ranging from petroleum jelly to certain kinds of cars and motorcycles. The new tariffs expanded on an original list of duties impacting 114 individual U.S. export products.

The Trump administration has threatened to further boost tariffs on $200 billion of Chinese exports to the U.S. – a move that, should it be carried out, is expected to spur China into raising additional duties on at least $60 billion of U.S. products.

Both U.S. and Chinese trade representatives have publicly left the door open to discuss trade practices and back away from more substantial tariff threats. But many analysts expect things to get worse before they get better, with neither American nor Chinese officials wanting to appear conciliatory.

And although tariffs are likely to raise prices for consumers in both the U.S. and China – and, in effect, complicate business for American and Chinese exporters – a substantial economic pullback isn't expected for some time.

"China has signaled no intention of retreating from a trade war and continues to blame the U.S. for 'intensifying conflicts and damaging the interests of all parties,'" a team of researchers at Oxford Economics indicated in a statement published last week, also noting that the "economic impact in the U.S. that could make the Trump administration more amenable to start talking again may not emerge in time given the schedule for the next round of U.S. tariff imposition."

"Thus, even if bilateral talks resume, it is unlikely that the U.S. government will consider the results of these discussions significant enough to call off the next round of tariffs," according to the note. "In all, while de-escalation is still possible, the risk of tension ratcheting up further is high."