BACKGROUNDER

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Trade and Prosperity in the States: The Case of Washington

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KEY TAKEAWAYS

The benefits of free trade in Washington are undeniable—directly supporting 600,000 jobs across the state.

While considering future trade agreements, Congress should take note of the negative consequences of current protectionist policies in Washington State.

Eliminating barriers to trade—not erecting new ones—should guide policymaking.

International trade and investment directly support nearly 600,000 jobs in Washington State—roughly one-fifth of private-sector employment.[1] The state is ranked fourth in the country for exports, and the Seattle–Tacoma–Bellevue metropolitan area is the third-largest exporting metro area in the country.[2] The key export industry in Washington is transportation equipment, primarily in the subsectors of civilian aircraft, engines, and parts. Manufacturers in Washington rely on intermediate goods imports from around the world to remain competitive, and 84 percent of Washington's imports from Canada and Mexico in 2017 were intermediate goods.

Support for free trade in recent years by Washington's congressional delegation has been strong and bipartisan. In 1993, support for the North American Free Trade Agreement (NAFTA) was virtually unanimous, with eight of nine votes cast in favor of

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the agreement. The most recent votes cast by Washington's congressional delegation were unanimously in support for free trade, signaling that the Members recognize the vital role that international trade plays in the state's economy.

The congressional delegation from Washington could have the opportunity to vote on the United States–Mexico–Canada Agreement (USMCA) and advise the Trump Administration as it negotiates new trade agreements with Japan, the European Union, and the United Kingdom. It is crucial that these negotiations seek to ease and facilitate the freedom of Americans to buy and sell around the world, not to erect new barriers. Members from Washington should also push for the United States to unilaterally eliminate trade barriers, including the tariffs imposed by the Trump Administration over the past two years.

Washington Ranked Fourth for Exports

In 2017, Washington's goods exports were valued at roughly $77 billion. Almost 90 percent of the 12,000 companies that export from Washington were small and medium-sized businesses. In 2016, Washington's goods exports supported 332,599 jobs, 91 percent of which were in manufacturing.[3] Exports from Washington have increased by 141 percent since 2000, including a 742 percent increase in exports to China.

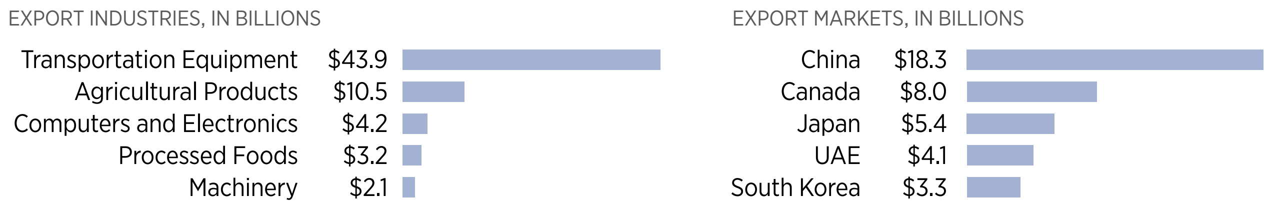
In the services sector, Washington's exports grew by approximately 50 percent between 2007 and 2017, from $18.4 billion to $27.5 billion, including exports in categories such as royalties and license fees and travel services. Washington services exports supported 150,140 jobs in 2017.[4] This services trade growth is a representation of the broader direction of trade in the U.S. While goods trade continues to grow, services are becoming vital to the economy.

As shown in Chart 1, Washington's top export industry is transportation equipment, valued at $43.9 billion. This industry accounts for over 50 percent of Washington's entire goods export market. The remaining largest categories include agricultural products ($10.5 billion), computers and electronic products ($4.2 billion), processed foods ($3.2 billion), and machinery ($2.1 billion).[5] Major export subsectors including civilian aircraft, engines, and parts lead the state's exports; followed by corn, soybeans, wheat, petroleum, medical devices, and potatoes.[6]

Washington's largest export markets are China and Canada, with exports from the state totaling $18.3 billion and $8.0 billion, respectively. These two nations comprise a third of all of Washington's goods exports. Besides

CHART 1

Washington's Leading Exports in 2017



SOURCE: International Trade Administration, "Washington Exports, Jobs, and Foreign Investment," http://www.trade.gov/mas/ian/statereports/states/wa.pdf (accessed July 9, 2019).

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China and Canada, Washington's top five export markets include Japan ($5.4 billion), the United Arab Emirates ($4.1 billion), and South Korea ($3.3 billion). In 2017, around a quarter of Washington's exports went to countries with which the U.S. has a free trade agreement (FTA). And, since 2007, this number has increased by approximately 24 percent.[7]

Transportation Equipment Exports Lead in Washington. Washington's annual export values make it the fourth-largest exporting state. Civilian aircraft, engines, and parts, which are by far the most prevalent subsector of transportation equipment exported from Washington, were valued at roughly $41.8 billion in 2018.[8] The success in this area is due in large part to Washington State being home to one of Boeing's leading manufacturing plants, which "hired more than 8,500 new employees in Washington state in 2018, extending its status as the largest private employer in the state."[9]

Trade Benefits Washington Farmers and Ranchers. Washington State's agricultural exports have more than tripled since 2000 (in nominal dollars).[10] The state ranks 11th in the United States in agricultural exports, with more than $4 billion in 2017.[11]

Leading agricultural exports include fresh fruit, processed fruit, processed vegetables, and other plant products.[12] Washington State ranks first in the U.S. for production of nine specific agricultural products: hops, pears, concord grapes, spearmint oil, sweet cherries, apples, red raspberries, cultivated blueberries, and wrinkled seed peas.[13]

Washington farmers and ranchers receive over 23 times more income from exports than they do from federal support payments.[14] Furthermore, only about one Washington farm in six receives federal support, but nearly 100 percent of farms benefit either directly or indirectly from exports.[15] This suggests that farmers in Washington have a lot to lose through adverse trade policy.

In 2018, *The Seattle Times* predicted economic losses due to a potential trade war with China: "Nearly 154,000 of Washington's employees work in industries that would be affected by China's countermeasures, a higher number of workers than in any other state besides California or Texas." They go on to write, "By one measure, Washington would be the worst off of any state in the nation. Jobs in directly affected industries here make up 4.8 percent of the total workforce, a larger share than in any other state.[16]

As *The Seattle Times* predicted, Washington farmers were heavily impacted by the tariff increases. On January 28, the retired president of the Association of Washington Business, Don Brunell, wrote about the dramatic impact of the tariffs: Sales of sweet cherries to China from the Pacific Northwest fell nearly 50 percent from 2017 as rival growers in Turkey stepped in to meet demand, leaving farmers reeling from their losses as they struggled to find new markets and fought to keep existing customers through expensive buyer incentives.[17] By May 20, there were reports that overseas shipments of Washington apples, dairy products, wheat, and seafood had plummeted due to the increased tariffs, and Washington winemakers were experiencing a freeze in what had been rapid growth in exports to China because of retaliatory duties totaling 91 percent.[18]

Imports Vital for Washington

While exports are crucial, the gains from the other side of trade are often overlooked. Imports are not only consumed by Americans every day, they are vital inputs for manufacturing and other U.S. industries. In 2018, Washington imported roughly $55.6 billion in goods, including intermediate goods, such as crude oil, aerospace parts, and electrical machines.[19] Washington's top three import markets in 2018 were China, Canada, and Japan, and 84 percent of Washington's imports from Canada and Mexico in 2017 were intermediate goods.[20]

Washingtonians are gouged on a daily basis by double-digit U.S. taxes on imported products like shoes and T-shirts. In 2016, the average U.S. tariff rate for shoes and clothing was 13.1 percent—which is more than 13 times higher than the average tax on other imports. Clothing and shoes account for 5 percent of U.S. imports, yet duties on textiles and apparel generated 40 percent of U.S. tariff revenue in 2016.[21] In total, these import taxes cost Washington residents more than $1 billion in 2017.[22] They are especially harmful to low-income consumers in Washington State and across the country.[23]

China Tariffs Hurting Washington

In May 2019, President Donald Trump called for the U.S. Trade Representative to begin placing additional tariffs of up to 25 percent on $300 billion worth of Chinese goods.[24] This means that the Trump Administration has now imposed upwards of $550 billion in tariffs on Chinese goods.[25] Since Washington accounts for roughly 14 percent of all U.S. exports to China, these tariffs could severely affect the state's economic climate. It is estimated that the current tariffs on imports will cost Washington 24,000 jobs over three years, and if President Trump follows through with threats to impose tariffs of 25 percent on all remaining goods from China, as many as 2 million American jobs could be at risk.[26]

Much of the harm inflicted by the President's tariffs has been felt by manufacturers, but Washington's agricultural sector could also suffer from China's retaliation. In 2017, of Washington's $4 billion worth of tariffed goods, agricultural products accounted for $1 billion alone, and companies across the state are feeling the impact.[27] Darigold, a cooperative of dairy farmers in Washington, saw sales plummet in summer 2018. Almost immediately after Darigold executives opened an office in Shanghai, China raised tariffs on dairy products from 10 percent to 25 percent in response to President Trump's own tariff measures. As a result, the cooperative lost $50 million worth of Chinese sales.[28]

F.C. Bloxom Company, a Seattle-based produce exporter, is also expressing its concern for the trickle-down effects of President Trump's policies. Prior to the second round of retaliatory tariffs, the company estimated that its orders would be around $4.5 million, but its Chinese partners in Shenzhen said they would be looking elsewhere should Trump impose new tariffs. This came to fruition when President Trump increased tariffs on $200 billion worth of goods from 10 percent to 25 percent earlier this spring. F.C. Bloxom remains uncertain of how it will not only keep its business afloat, but also how this loss will affect business for its growers, packers, and shippers.[29]

The new tariffs vary in rate, but the overall effect has been consistent: increased prices for both imported and domestic products covered by the tariffs. It is time for them to go, before the negative effects on Washington, and the rest of the country, get worse.

The Buy American Act

Many U.S. government policies have unintended harmful consequences. The Buy American Act of 1933, for instance, requires projects funded by federal dollars to use U.S.-made products, instead of the best-made products at the best prices.

This can waste taxpayer dollars that would be better left in the pocketbooks of American families. It can add costly delays to projects if domestic products are not readily available. A state or local agency can obtain a waiver in some cases where American-made products do not exist, but the process takes time. Meanwhile, the laws can cause safety issues when old infrastructure or transportation equipment has to be used past its advisable use date. Other issues arise when the American-made sources used are not as durable as a foreign source the state or local government would otherwise use.

Because of the Buy American Act, Washington State has experienced many difficulties and hang-ups in the maintenance of the Marine Highway, a federally funded ferry service that provides vital freight and passenger links between Washington, British Columbia, and remote towns and villages in Alaska, many of which have no road connections. These vital ferries require specialized parts made only in certain countries around the world and require congressional approval for use in the U.S. The act's bureaucratic barriers cause extreme maintenance delays, as illustrated by the recent attempts to replace the aging *Tustumena* ferry.

The *Tustumena* ferry was built in 1964. The ferry has been put out of service for age-related repairs for long stretches twice over the past decade, leaving towns, such as Unalaska, without ferry service for years at a time. As an article in the *Juneau Empire* explains:

> The Tustumena's distinctive aft elevator makes it one of only two ships that can deal with the vast tides and fixed docks at remote western ports. The other ship, the Kennicott, is also one of the few that can travel between Alaska and Washington state, which means it doesn't make the "chain run" to Unalaska.[30]

At the time of that writing, in 2017, because the *Tustumena* was offline, Unalaska had been without ferry service for an entire year. The ship missed its first scheduled voyages of 2018 and 2019 due to age-related repairs both years.[31] Because a *Tustumena* replacement vessel must adhere to Buy American Act requirements, it was estimated in 2017 that building a new *Tustumena*-type ferry would require 75 waivers. As of May 8, 2019, the timeline to build a replacement vessel for the *Tustumena* remained uncertain.[32]

The Buy American Act also snarled an Alaska ferry terminal. In December 2013, a storm damaged a ferry terminal in Gustavus and the state needed three Buy American waivers to fix it. One of the waivers was needed for steel support cables that were a patented design from Great

Britain. The only compatible American cables that were available were guaranteed for only two years, while the British-made cables were guaranteed for 10 years.

Alaska Department of Transportation spokeswoman Aurah Landau stated that the American cables are "not really a good solution for the state. We'd have to pay the maintenance costs. If we can't get them from the manufacturer, we either have to redesign or build as much as we can and hope the waiver comes through."[33]

Protectionism on the High Seas

The U.S. government also has a series of shipping and passenger laws that increase the cost of transportation on waterways. The Jones Act requires all ships transporting goods within the U.S. to be U.S.-built, U.S.-owned, and at least 75 percent U.S.-crewed.

U.S.-built vessels are six to eight times more expensive than ships built abroad.[34]

Because the Jones Act forbids the use of more affordable foreign-built ships for domestic shipping, it serves as a major impediment to transporting goods from one U.S. port to another, which in turn contributes to air pollution and traffic congestion on U.S. highways. Since 1980, the volume of goods transported between U.S. coastal ports has been cut in half.[35]

The Jones Act has been an obstacle to prosperity in Washington State even more than in most other states because of the large amount of seafaring activity that happens there. The recent story of American-built fishing trawler *America's Finest* is a case in point of how the Jones Act has caused Washington State to lose jobs.

Fisherman's Finest is an American fishing company headquartered in Washington State. The company commissioned a ship, *America's Finest*, for $75 million from a shipyard in Anacortes, Washington. In building the vessel, the shipyard violated Jones Act stipulations, which require that ships plying U.S. waters be built with no more than 1.5 percent foreign steel. *America's Finest* contains 7 percent steel cold-formed in the Netherlands, which the Coast Guard interpreted as "fabrication," thus keeping the ship legally banned from fishing American waters.

The efforts of Fishermen's Finest to appeal to the Coast Guard for a waiver were foiled for a long time by the town of Unalaska and its mayor, who stood to lose tax revenue and business from processing fishing deliveries in the Bering Sea if Fishermen's Finest were granted a waiver to the Jones Act.[36]

America's Finest's Jones Act waiver was not cleared by Congress until December 2018. The nearly two-year bureaucratic delay kept the future of the whole Fisherman's Finest company in limbo, causing layoffs at the shipyard that built the ship, as well as lost fishing jobs on board the vessel, and millions in lost economic activity that would have come into Washington State. In a further bureaucratic snafu, the waiver itself created a new headache for the company because attached to the waiver were catch limits on 53 different types of fish at the urging of rival Pacific Northwest fishing companies which will force the *America's Finest* crew to throw caught (and dead) fish overboard if the fishermen unintentionally exceed the limits.[37]

One of the most common refrains from Jones Act supporters is that the Jones Act protects the jobs of American shipyard workers and of U.S. seamen; however, the evidence from Washington State clearly points in the opposite direction—the direction of lost jobs.

Like the Jones Act, a similar protectionist law was enacted in 1886: the Passenger Vessel Services Act (PVSA), which requires the use of U.S.-built vessels for domestic passenger transportation. In the 133 years since, the building of U.S. ships has become prohibitively expensive. Because of this, it is rare to see a company offering a cruise along the west coast of the United States or from Washington State to Alaska—unless it includes a stop in Canada, in which case affordable foreign-built ships can be used.

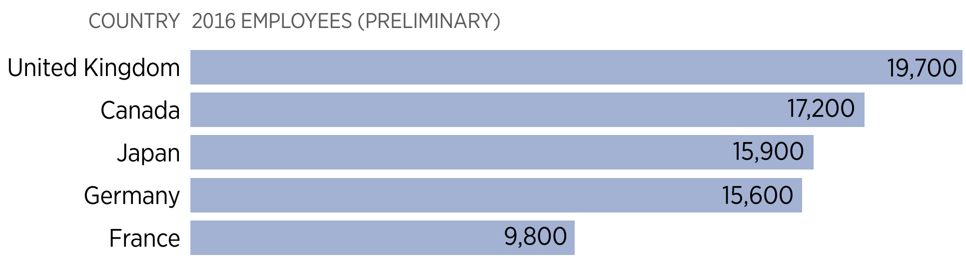
Because of this, cruise ships from the West Coast to Alaska mostly depart from Vancouver. Vancouver hosts three times as many cruise-ship sailings as Seattle.[38] Without the PVSA, dozens more cruises would fill Washington State ports daily, and hundreds of millions of cruise-ship-generated revenues would remain in the state economy, creating thousands of total jobs for Washington longshoremen, bellhops, tour guides, taxi drivers, and farmers, among others.

In 1998, the chairman of the Western States Tourism Policy Council, which represents the state tourism office of Washington State, testified before Congress in support of reforming the PVSA:

> Ironically, most of the passengers aboard cruise ships today are Americans. Yet they are prevented from sailing to their own country by their own government. Instead, our Government has forced Americans to visit other countries if they want to take a cruise vacation. I ask, "What's wrong with this picture," and I answer, "It's the Passenger Services Act." . . . Imagine, if America's ports were open to cruises, cruise ships would soon call on a regular basis at the Great Lakes, New England, along the Mid-Atlantic Seaboard, from Charleston south around the entire State of Florida and through the Gulf Coast. New Orleans and Texas

CHART 2

Washington's Top Five Sources of Foreign Investment Jobs



SOURCE: Bureau of Economic Analysis, "Activities of U.S. Affiliates of Foreign Multinational Enterprises: Preliminary 2016 Statistics," https://www.bea.gov/international/activities-us-affiliates-foreign-multinational-enterprises-preliminary-2016-statistics (accessed July 9, 2019).

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> would be opened up, as would the entire west coast, Alaska and to and from the mainland to the Hawaiian Islands. Additional tours from coastal ports would lead inland, spreading economic and job benefits throughout our country.[39]

Americans use foreign-built cars, trucks, and aircraft for domestic transportation. Allowing them to also use foreign-built ships would have tremendous benefits for Washington State and other parts of the country.

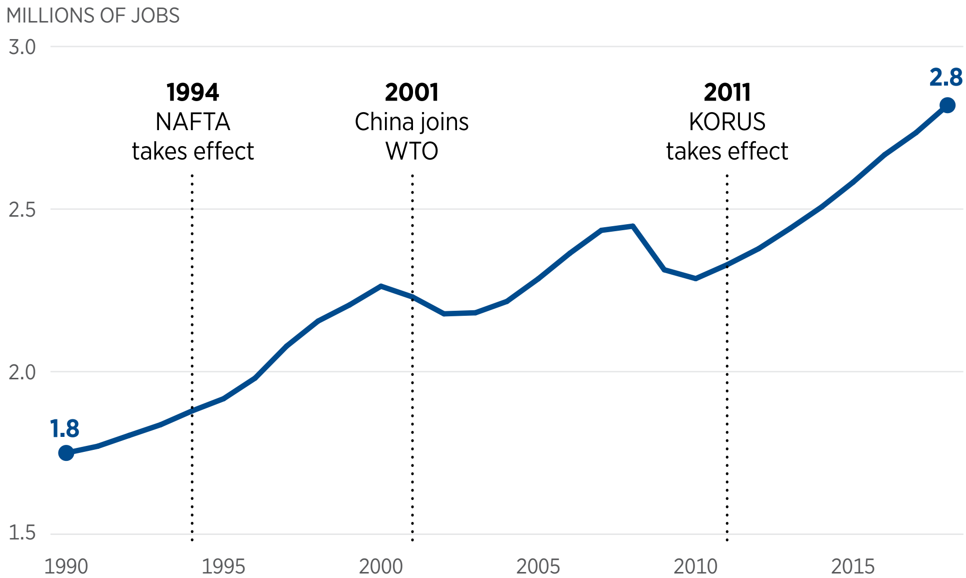
Foreign Direct Investment Creates Jobs

In addition to exports, foreign direct investment (FDI) significantly benefits the economy and helps to create jobs. Roughly 115,500 Washingtonians were employed by foreign-owned companies in 2016, accounting for 4 percent of all private-sector employment, and 28 percent of manufacturing employment.[40] As shown in Chart 2, Washington's top five sources of FDI employment represent roughly 65 percent of all FDI jobs in the state: the United Kingdom (19,700 jobs), Canada (17,200 jobs), Japan (15,900), Germany (15,600 jobs), and France (9,800 jobs).[41]

There are countless examples of foreign investment creating jobs for Washingtonians in a variety of industries, including manufacturing. In 2018, ACG Biologics, a contract development and manufacturing organization with a focus on clinical products, established its global headquarters in Bothell, Washington.[42] The company currently boasts 850 employees across the globe, and its new headquarters, which includes administrative offices and labs for continued research and development, is another open door

CHART 3

Washington Private-Sector Employment



SOURCE: Bureau of Labor Statistics, "State and Metro Area Employment, Hours, & Earnings," https://www.bls.gov/sae/ (accessed July 9, 2019).

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for hiring in Washington.[43] When making their decision, company officials recognized Washington's growing life sciences sector, and felt that establishing a home base in Bothell was a "meaningful step for AGC Biologics in [its] continued expansion into the United States."[44]

SVZ-USA, a Netherlands-based food processing facility, also recognized Washington's potential. In April 2019, the company added 17 new manufacturing jobs in Othello.[45] And that is not all: The company believes that its success "requires long-term relationships with customers, farmers, employees, and the communities in which [it] operate[s]." Not only does SVZ-USA hope to provide more business by seeking local partnerships for its agro supply needs, the company is also actively involved in the Othello Career Showcase—a community-sponsored event that introduces grade school students to local companies as a means of exploring careers and opportunities in their own neighborhoods.[46]

No Net Job Loss from Trade

Free trade skeptics often claim that millions of American jobs have been lost due to economic openness. The Economic Policy Institute claimed in a

CHART 4

How Washington Voted on Trade Agreements

Votes For / Against

Trade Agreement		U.S. House of Representatives: All Members (For)	U.S. House of Representatives: All Members (Against)	U.S. House of Representatives: Washington (For)	U.S. House of Representatives: Washington (Against)	U.S. Senate: All Members (For)	U.S. Senate: All Members (Against)	U.S. Senate: Washington (For)	U.S. Senate: Washington (Against)
NAFTA	1993	234	200	8	1	61	38	2	0
WTO	1994	288	146	8	1	76	24	2	0
China PNTR*	2000	237	197	8	1	83	15	2	0
CAFTA-DR**	2005	217	215	4	5	55	45	2	0
Colombia	2011	262	167	8	1	66	33	2	0
Korea	2011	278	151	9	0	83	15	2	0
Panama	2011	300	129	9	0	77	22	2	0

* Permanent normal trade relations
** Central America–Dominican Republic FTA
SOURCE: Govtrack.us, https://www.govtrack.us/ (accessed July 9, 2019).

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report that 55,900 jobs in the state of Washington were "lost or displaced by the goods trade deficit with China between 2001 and 2013."[47] This claim is misleading because it attempts to draw a direct, causal relationship between these jobs and what is often referred to as the "China shock." This claim also leaves out a fundamental aspect of trade, and any other driver of competition and innovation in an economy: creative destruction. Yes, trade can result in the elimination of some jobs in less-efficient sectors, but new jobs are created in more-efficient sectors. Similar effects can be observed in relation to technological advancements.

Contrary to popular belief, there has been no net job loss in Washington, or in the U.S. more broadly, due to trade with China or any other country. In fact, as Chart 3 shows, private-sector employment in Washington increased by nearly 1.1 million jobs between 1990 and 2018, despite the U.S. entering NAFTA in 1994 and China joining the World Trade Organization in 2001.[48] Any claims otherwise fail to present the full details of the data and economic situations being discussed.

Support for FTAs. Chart 4 shows that Washington's congressional delegation has remained committed to supporting free trade. In 1993, support for NAFTA was virtually unanimous, with eight of nine total votes cast in favor of the agreement. Washington's Senators also voted in favor of NAFTA and that unanimous, and at times bipartisan, support for trade agreements has remained firm over the years. The only FTA largely opposed by Washington House Members was the Dominican Republic–Central America FTA, which fell mostly along party lines.

Congress could have the opportunity to decide the fate of several new trade agreements, including the renegotiated NAFTA, called the USMCA. The Trump Administration also notified Congress of its intent to negotiate trade agreements with Japan, the European Union, and the United Kingdom early last year. These negotiations will take time, but Washington's delegation is positioned to play a vital role in the process, given that Senator Maria Cantwell (D–WA) sits on the Senate Finance Committee, which has jurisdiction over trade matters.

Conclusion

The benefits of trade for Washington are undeniable, and the nearly unanimous support for free trade agreements by the state's congressional delegation is evidence of that. New trade agreements and the elimination of tariffs imposed by the Trump Administration would contribute to the already positive relationship between trade and the economy in Washington.

Members should remember that trade is really about increasing the freedom of individuals to buy and sell without government intervention. As new trade agreements are being considered and negotiated, eliminating trade barriers, not erecting new ones, should be the objective. It is also in the interest of Washington State for the tariffs imposed by the Trump Administration to be eliminated as soon as possible.

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Endnotes

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