



The Future of Trade: Positioning Washington state for Economic Growth in the Next Decade

Executive Summary

Favorable geography, a diverse economy, and an expansive public port system have enabled Washington state's economy to reap the benefits of international trade helping the state's businesses and farmers to thrive in the global marketplace. Indeed, trade supports roughly one in five jobs in Washington. Exports of Washington-made goods and services directly support nearly a quarter of a million jobs across a diverse range of economic sectors including agricultural products, manufacturing, and professional services. These factors have made the state an attractive destination for foreign investment and U.S.-based activities of foreign businesses. As a result, Washington's economy is globally prominent, innovation centric, and well positioned to benefit from globalization.

However, over the past five years, three main factors have hampered international trade growth in Washington and taken a toll on businesses: (1) U.S. trade tensions with China; (2) a retreat from globalization resulting in a protectionist trade policy; and (3) disruptions stemming from the COVID-19 pandemic.

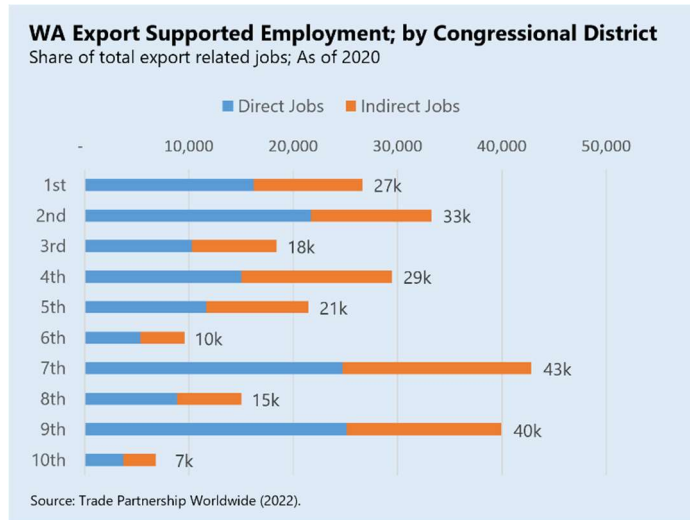
Washington state can overcome these challenges by pursuing smart public policies. To create a more favorable environment for international trade, public policy and private sector priorities should be centered on three foundational pillars: (1) leverage the state's strengths; (2) address current trade challenges and explore new market opportunities; and (3) position our economy to turn new challenges into opportunities.

Unprecedented and unpredictable forces have altered what was once a steady upward trajectory for Washington's trade economy. While recent developments, like the Infrastructure Investment and Jobs Act, have the potential to create a more favorable environment for future trade growth, smart policies and incentives are needed to achieve Washington's full potential. Fortunately, the state has the tools and natural advantages to be the epicenter of a West Coast innovation economy. Accelerating economic and job growth with increased trade can improve the well-being of all Washingtonians in the decade ahead.

International Trade Drives Washington’s Economy

Trade is a critical engine of economic growth and job creation in Washington state. The state’s geographic advantages, diversified economy, and extensive port system have created an environment where businesses of all shapes and sizes can thrive and benefit from trade. In fact, roughly **one in five jobs in the state are supported by trade** with other states and other nations – **approximately 900,000 total jobs.**¹

The benefits of trade extend to every corner of the state. Washington has an extensive public port system that stretches across the entire state from the Pacific Coast to the Idaho Border and includes 75 port districts.² This infrastructure ensures that the benefits of trade are shared throughout every Congressional district and provide essential access to international markets for all **12,000 exporting businesses in the state — 89% of which are small and medium businesses.** These organizations run the gamut from cherry and apple orchards in the Yakima Valley to fishermen in the Columbia Basin to advanced manufacturing companies in the Puget Sound region.^{3,4}



International exports are a particularly important source of growth and jobs in Washington state. In 2020, **exports of Washington-made goods and services directly supported nearly a quarter of a million jobs** across a diverse range of economic sectors. Transportation equipment exports — typically the state’s highest value export sector — **supported roughly 30,000 jobs, while business/professional services and agricultural product exports supported 37,000 and 32,000 jobs, respectively.**⁵ Exports also contributed to a higher quality of life for families. On average, **export-dependent employers in Washington paid their employees ~16% higher wages** compared to less export-intensive businesses.⁶

The state’s technology sector plays a prominent role in Washington’s trade-based economy. The sector employs more than 280,000 people and has made the economy an attractive destination for foreign-owned companies and investment.^{7,8} In fact, employment in the Seattle region’s tech sector increased more than 35% from 2016 to 2020 – more than any other region in the country.⁹ The global footprint of the state’s tech sector further underscores the value of trade and international relationships to Washington’s economy. In total, **Washington businesses exported more than \$23 billion of digitally tradeable information and communications technology services in 2020.** By delivering high-demand digital exports to a worldwide customer base without traditional trade infrastructure, the sector proved to be highly resilient to the effects of the COVID-19 pandemic. For example, the state’s digital exports decreased a mere 6% in 2020 – a stark contrast to goods and services exports, which declined by more than 30% over the same timeframe.^{10,11}

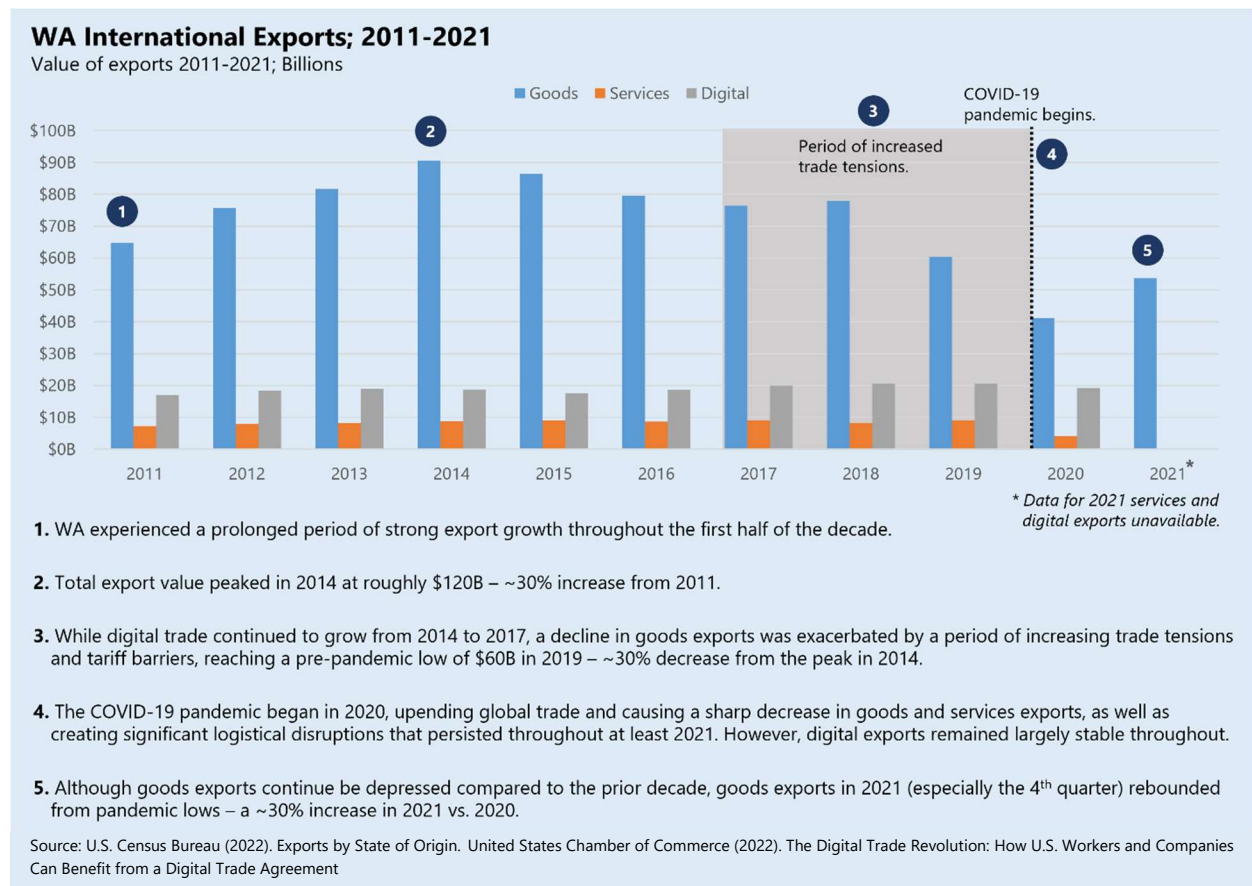
Despite the sharp decrease in international goods and services trade due to the COVID-19 pandemic, exports have shown signs of a rebound over the past year. As a result of the declining impact of the pandemic, goods exports in 2021 were 30% higher than in 2020. In fact, 2021 fourth quarter exports were higher than in any quarter since 2018.¹²

Headwinds to Growth and Emerging Opportunities

Trade-oriented businesses in Washington state have experienced many ups and downs over the past decade. From 2010 to 2014, exports steadily increased in large part due to growing trade with China. Since 2015, however, exports of traditional goods and services have significantly decreased and taken a toll on businesses.

The decline in exports since 2015 is due to three key factors:

- (1) **Trade tensions with China** interrupted a long period of export growth between Washington and China;
- (2) **Trade policy priorities** shifted away from new free trade agreements and towards tariff barriers; and
- (3) **The COVID-19 pandemic** caused widespread economic pain, upended logistics and continues to constrain business operations.



Collateral Damage from United States-China Trade Tensions

International exports have been an essential component of Washington’s economy throughout the 21st century. In the early 2010s, trade with China was a key driver of export growth as Washington’s port system made the state a gateway to the Chinese economy for U.S. businesses. However, over the past several years, deteriorating trade relations between the U.S. and China has negatively impacted Washington exporters. Although China remains an important destination for Washington exports, the relationship has become more complex given economic competitiveness, security, and strategic concerns.

Major U.S.-China trade disputes from 2017 to 2019, including the imposition of tariffs for trade in both directions, caused a steep decrease in Washington exports to China.¹³ As a result, companies in the state ceded global market share in key sectors including transportation equipment and agricultural products — Washington’s top two export sectors by trade value.¹⁴ **For example, the share of Chinese agriculture imports from the U.S. fell from 19% to 10% between 2017 and 2019, the lowest level in 20 years of available data.¹⁵ This decline disproportionately impacted Washington’s agriculture sector. From September 2018 to August 2019, total exports of Washington-grown wheat declined by 94%, dairy exports declined by 75%, and fruit exports declined by 16%.¹⁶** By 2019, many Washington farmers were reliant on federally funded bailouts to remain in business.¹⁷



Although, in 2020, then President Trump signed a deal to normalize trade relations with China, trade between Washington and China has not yet returned to pre-trade war levels. **As part of the agreement, China committed to purchasing an additional \$200B of U.S. exports by the end of 2021, but due to a confluence of factors (including the pandemic, deaccelerating Chinese economic growth, and outstanding tariff barriers) China’s purchases only fulfilled 57% of the total commitment and none of the additional \$200B included in the trade deal.¹⁸** Although exports to China began to rebound in late 2021, it will likely take years to make up ground lost during the recent trade war.¹⁹

A Shift to “Tariff first” Trade Policy

Since 2017, the federal government’s approach to trade has created an environment of confusion and unpredictability with a reliance on tariffs as a tool of first resort upending years of relatively consistent trade policy. This new approach was apparent early in the Trump Administration with the U.S. withdrawal in 2017

from the Trans-Pacific Partnership (TPP) — a comprehensive free trade agreement that included most countries with a trade presence in the Pacific Ocean (including many of Washington’s top export destinations). The withdrawal from TPP had a substantial impact on the prospects of Washington exporters. For instance, **under the TPP, Washington’s agricultural exporters were projected to generate an additional \$67M in annual cash receipts** compared to the baseline.²⁰

Despite the Biden Administration’s efforts to reset America’s relationship with the world, it has not removed – and even reinstated – many of the tariffs on Chinese goods put in place by the prior administration.²¹ There has also been little forward progress to renegotiate, expand, or pursue new Free Trade Agreements (FTAs) such as a post-Brexit FTA with the U.K. Although the administration has made some progress addressing tariffs with the European Union, it hasn’t leveraged improved diplomatic relations to update or forge new FTAs with important trade partners.²² The importance of expanding and establishing new FTAs cannot be understated: **on a per capita basis, U.S. FTA partners purchase approximately 8x more exports from Washington state than non-FTA countries.**²³ Additionally, establishing trade agreements that reflect the realities of an increasingly digital economy can foster a mutually beneficial trade environment by providing much needed regulatory certainty to Washington’s tech sector.²⁴

The Russian invasion of Ukraine has created another point of uncertainty for trade-focused businesses in Washington. Western sanctions have cut off most trade between the U.S. and Russia, and it is unclear how long these sanctions will remain in place even if the conflict should end. The invasion has also hastened a new period of geopolitical uncertainty and may impact trade relationships with other economies bordering the Pacific that have maintained a neutral stance with Russia thus far.

COVID-19 and Washington state trade

The COVID-19 pandemic had a significant impact on Washington’s trade-driven economy.²⁵ Although Washington has fared better than many states, the state’s employment remains below pre-pandemic levels.²⁶ The state’s port system has also borne the brunt of logistical issues resulting from the rapid stop and start of the global economy. While the acute short-term pressures caused by an unprecedented backlog of containers have eased in recent months, Canadian government investment to modernize and improve port infrastructure and increase capacity has shifted the competitive balance in favor of nearby ports in British Columbia, resulting in reduced volume and potential revenue for Washington state ports.²⁷

Emerging Opportunities: A Bright Future for Washington’s Trade-related Infrastructure

Despite a challenging five years, Washington’s economy stands to benefit from recent legislative developments that can facilitate trade by making the state’s infrastructure more efficient and reliable. The recently enacted Infrastructure Investment and Jobs Act gives the state’s ports access to a total nationwide pool of \$5 billion in funding for port-specific projects and \$27 billion for trade-related infrastructure improvements.²⁸ This funding offers the promise to support a widespread improvement of the state’s extensive trade infrastructure — including important rail and highway links — and bolster Washington’s role as a trade hub for states across the Northwest and Upper Midwest. Federal investment in our nation’s infrastructure should also increase the competitiveness of Washington’s ports compared to nearby Canadian locations. Combined with focused policymaking that shifts national priorities from tariffs and managed trade to global free trade, recent developments could help the state’s businesses turn the corner from recent challenges and begin a new decade of consistent trade growth.

Spotlight on Washington Agricultural Exports

Top 10 Exports – 2021

1. Soybeans (\$8,125M)
2. Corn (\$3,850M)
3. Wheat & meslin (\$2,532M)
4. Prepared potatoes (\$847M)
5. Apples (\$643M)
6. Forage products (\$601M)
7. Cherries (\$267M)
8. Hops (\$242M)
9. Sorghum (\$233M)
10. Fresh potatoes (\$90M)

Top 10 Customers – 2021

1. China (\$9,575M)
2. Japan (\$2,206M)
3. South Korea (\$1,160M)
4. Philippines (\$804M)
5. Canada (\$566M)
6. Taiwan (\$535M)
7. Mexico (\$243M)
8. Thailand (\$190M)
9. Vietnam (\$128M)
10. Netherlands (\$70M)

Source: U.S. Census Bureau (2022). Exports by State of Origin.

WA Agricultural Exports; Year-over-year Growth Rate

Year-over-year growth rate 2012 -2021; % change



Source: U.S. Census Bureau (2022). Exports by State of Origin.

Pursuing Trade Policies to Advance the Washington State Economy

To reap the benefits of international trade in a way that contributes to the overall health, stability and vibrancy of the regional economy, smart and effective public policies will need to be pursued and enacted. Federal and state policymakers and other stakeholders including businesses and agriculture interests should actively support effective strategies, policies, and investment decisions that recognize the value of trade to the Washington state economy and are focused around three core pillars:

Leverage Washington's strengths through smart policies and investments.

Washington's geographical advantages, supporting infrastructure, and diverse economy are well suited for trade growth. The state hosts the world's largest public port system that is connected to an expansive rail and highway network that allows farmers and manufacturers west of the Mississippi to efficiently transport their goods to global customers through Washington ports. Increased infrastructure funding made possible through the Infrastructure Investment and Jobs Act should be strategically deployed with an eye towards helping improve and expand the state's ports and improve freight mobility. The state's diverse economy sits at the nexus of both West Coast innovation and an expansive agricultural network spanning the North and Upper Midwest U.S.

The Puget Sound region provides attractive tax and labor market policies, especially when compared to other startup "hotspots" on the West Coast.²⁹ Washington's businesses have the expertise, access to capital, and global prominence in their respective industries to catalyze economic growth on a national scale. But effective advocacy is necessary to unlock the full potential of Washington's trade-based economy. These advantages underscore the important link between economic growth and international trade in the region. Washington's elected officials, and community and business leaders must continue to recognize this important link between trade and economic growth and pursue policies that reflect this.

Address traditional challenges while looking for new opportunities.

The reverse is true as well. Policies that undermine the free flow of goods and services, factors that disrupt global trade and postures that discourage the exploration of new market opportunities hit Washington states' economy disproportionately. Our elected officials and community leaders must be active in addressing trade-disrupting factors and vocal in opposing policies and measures that undermine international trade. In addition to continuing to strengthen Washington's position as a global trade hub

and key gateway to Asian markets, advocacy efforts should focus on normalizing strained trade relationships, clearing tariff and non-tariff barriers to trade, and establishing new and updated FTAs that can expand the market share and access of the state's businesses. Special attention should be given to restoring the competitive edge of Washington's port system and agricultural sector, as well as ensuring that federal funding from the Infrastructure Investment and Jobs Act is directed to improve the state's trade infrastructure. Through new and updated agreements that can open sectors in existing markets, open new markets and create a stable and predictable environment, Washington businesses can more confidently and actively pursue new opportunities that will benefit communities and workers throughout the region.

Ensure Washington state is well-positioned to turn potential challenges into opportunities

Major trends are shaping the future of the global economy. One is the tech-driven transformation of the global economy and the impact of emerging forces like artificial intelligence and cloud computing. Washington state has been at the cutting edge of technology from the emergence of the aerospace industry to the advent of the internet. To remain a global tech hub, the environment for innovation, exploration, investment and discovery must be maintained and strengthened through ongoing constructive public-private partnerships.

That same innovative approach can also help Washington state manage another emerging trend – the transition to a 'green' economy where alternative sources of energy and new technologies will present new opportunities for businesses throughout the region. In addition to leveraging new market opportunities in this area, policymakers should closely monitor the impact that a patchwork of various laws and regulations from different countries may have on global trade. This includes understanding the potential impact measures like carbon border adjustment taxes, and supporting new innovations that will make global trade more efficient and sustainable.

Did you know that Washington...



...is the **number 1 U.S. producer** of apples, sweet cherries, blueberries, hops, pears, and spearmint oil.



... operates the **largest public port system in the world, with 75 port districts.**



...is situated roughly an equal distance from **Asia and Europe markets.**



...increased exports to **Morocco by almost 600%** since signing an FTA with the country in 2006.



...has the **largest share of technology-related services exports in the U.S.**



... **technology sector wages grew 15% over the past five years**—second only to Silicon Valley.



...space industry startups **generated \$4.6B of gross domestic product and \$1.6B of labor income** in 2021.

Sources: WA State Department of Commerce. (n.d.). Washington State: Agriculture and Food Manufacturing; Washington Public Ports Association (n.d.). Frequently Asked Questions; Business Roundtable (2022). How Washington's Economy Benefits from Trade & Investment; WA State Department of Commerce (n.d.). Our Key Sectors: ICT; Bishop, T. (2021). "Seattle leads nation in 'brain gain,' adds tech jobs faster than any other big U.S. market over 5 years." GeekWire.; Puget Sound Regional Council (2022). The Washington State Space Economy: 2022 Update.

Conclusion

The challenges of the past five years have upended decades of steady trade growth for Washington businesses. Although the state's technology sector has proven incredibly resilient, the twin headwinds of protectionist trade policies and a massive, pandemic-induced shutdown of the global economy have created a difficult environment for export-oriented businesses in Washington. While recent months have shown a rebound in international trade flows, these trends may not be sustainable as obstacles preventing a speedy return to consistent growth and the impact of global inflationary pressures continue to affect the economy. Although recent legislation to direct federal funding to the state's port infrastructure has increased the potential of future growth, effective policymaker and stakeholder advocacy will be essential to returning to the consistent trade growth of the early-to-mid 2010s.

Through smart and effective advocacy, stakeholders can help direct the funding and investments needed to bolster Washington's trade infrastructure and establish new and updated market relationships that can increase trade flows with both new and existing partners. With the right environment, Washington has the cutting-edge economy, beneficial geography, and world-class talent to capitalize on the new opportunities created by the rapidly changing 21st century economy. Leveraging the state's advantages to solidify Washington as the epicenter of a West Coast innovation economy can accelerate growth, create jobs, and improve the well-being of all Washingtonians in the coming decade.

Endnotes

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