



An International Competitiveness Strategy for Washington State

A Project of the Washington Council on International Trade
& the Trade Development Alliance of Greater Seattle

Executive Summary

International trade is a key driver of our state’s economy, cutting across nearly every industry sector. **In fact, based on our research, at least 40% of all jobs in Washington can be tied to trade-related activity, making our state one of the most trade-engaged economies in the country.**¹

The implications of this finding are two-fold. First, it means that our state is full of strengths that make it highly competitive in the global economy; thanks to a number of factors (including the luck of having high status global brands like Boeing, Microsoft, Amazon, and Starbucks choose to locate here), Washington companies are able to successfully export and leverage global supply chains, and our state is a draw for international business, tourists, students and investments. Second, it is remarkable that this 40% figure has been achieved without a comprehensive, coordinated, statewide strategy for how we leverage our assets and new investments to increase our international competitiveness; with such a plan, Washington can create tens of thousands of jobs and economic benefits for our state’s residents.

<p><i>Top Strengths</i></p> <ul style="list-style-type: none"> • Geography & Infrastructure • Businesses & Products • Workforce 	<p><i>Top Challenges</i></p> <ul style="list-style-type: none"> • # of Companies Engaged in Trade • WA’s International Visibility • Coordination Among Int’l Organizations
<p><i>Top Opportunities</i></p> <ul style="list-style-type: none"> • Services Exports • Immigrants and Foreign-born Residents • Developing Countries • China • Foreign Direct Investment 	<p><i>Top Threats</i></p> <ul style="list-style-type: none"> • Port Competition from Canada, Mexico and the Panama Canal • Access to and from International Markets • Public Support for Trade

Strategies To Increase International Competitiveness

- 1) A “Washington State Trade Communications Campaign” to communicate the benefits of trade;
- 2) A coordinated state legislative advocacy effort to increase state investments in international competitiveness;
- 3) The continued growth of Washington’s federal trade policy advocacy efforts;
- 4) A focus on increasing the competitiveness of our ports;
- 5) Efforts to coordinate all of the key stakeholders in our state who play a role in boosting our international competitiveness; and
- 6) A focus on increasing trade by Washington companies in key industries, and to targeted countries.

By taking these steps, the positive impact of Washington’s international activity can be boosted even further, with broad benefits for Washington residents and increased competitiveness for Washington companies in the global economy.

¹ See Exhibit 22 and Appendix A for a thorough description of how this figure was calculated, and the related assumptions used to arrive at this estimate.

I. Introduction

Washington is widely considered to be one of the most trade-supported state economies in the country. Thanks to its significant number of high stature and globally focused companies, its highly competitive goods and services offerings and its natural advantages, Washington state has become internationally recognized as a leader in import and export businesses, and an attractive market for foreign direct investment. Its diverse residents, innovative workforce and strong international relationships also contribute to Washington's success in the global economy.

Yet, despite the significant revenues and jobs generated by its export and import activity, the state has the potential to do even more internationally. The lack of a comprehensive strategy has prevented Washington from fully leveraging its assets and resources toward maximizing the international competitiveness of its globally focused businesses and organizations, and from engaging additional companies and organizations in global opportunities. While we have had great international success, we have in many ways only begun to realize our state's potential for economic growth based on global engagement.

For example, how can we harness the growing population of foreign-born residents in our state to develop new business relationships in countries across the world? Or how do our for-profit companies build on the work of our global health and development organizations to increase market share in developing economies? Most importantly, what are the investments that we – both public sector and private sector – need to make to better attract international investment, visitors and customers? The *International Competitiveness Strategy for Washington State* was created to answer those questions, and to provide a tactical plan for implementing the solutions.

The following pages are divided into three main sections: 1) **Findings**, in which we provide a quantitative and qualitative description of Washington's international economy; 2) **Analysis**, in which we lay out the implications of the data; and 3) **Recommendations**, where we identify clear action steps for our state to take greater advantage of its opportunities for increased international activity.

II. Findings

In 1997, a study found that 25% of all jobs in Washington state were related to exports.² Two years later, the Washington State Department of Commerce (then known as the Washington State Department of Community, Trade and Economic Development) released a report measuring the impacts of imports on the state economy, which concluded that 7% of all jobs were import-related.³ The 1999 study went further, adding the import and export numbers together (25%+7%=32%) to conclude that approximately 1 in 3 jobs in Washington state were tied to international trade.

In 2012, there are several problems with those findings. First, they are now over 13 years old, and no longer accurately represent an economy as dynamic and fast-growing as Washington state; not only are our major industries like aerospace and IT much more internationally-focused, but also trade partners like China have grown significantly as both import and export markets. Second, the study did not include key sectors of our economy which we now understand to be important aspects of international trade, like the foreign tourists who visit our state and the foreign students who study here. Third, several of the industries that have developed into major economic drivers were barely thought of at that time, from global health to clean technology.

Therefore, an effort to create an international competitiveness strategy for Washington must begin with an updated understanding of the quantitative impacts of international trade on our economy.

² Foreign Exports and the Washington State Economy (Conway, 1997)

³ Foreign Imports and Washington State Economy (Chase & Pascall, 1999)

Exports

In 2011, Washington exported more than \$64 billion in merchandise and commodities (see Exhibit 1).⁴ Not only is this a significant figure overall, but also it is immense compared to many other states; in fact, Washington state exports per capita are now more than double the average U.S. state (see Exhibit 2). Over the last 15 years, Washington merchandise and commodities exports have essentially doubled, in large part due to the rise of our state's Asian trade partners like China. Overall, exports support approximately 75% of all jobs tied to trade in our state (see Exhibit 22).

Exhibit 1. Washington Merchandise and Commodities Exports, 2011⁵

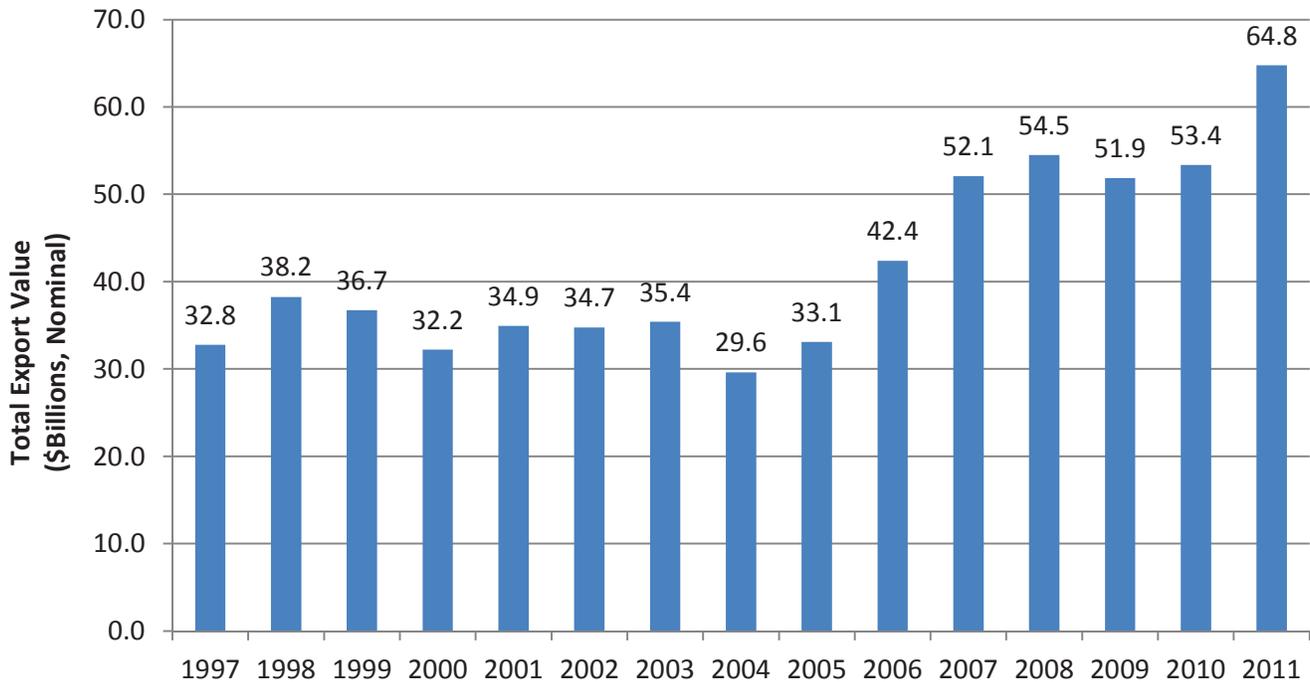
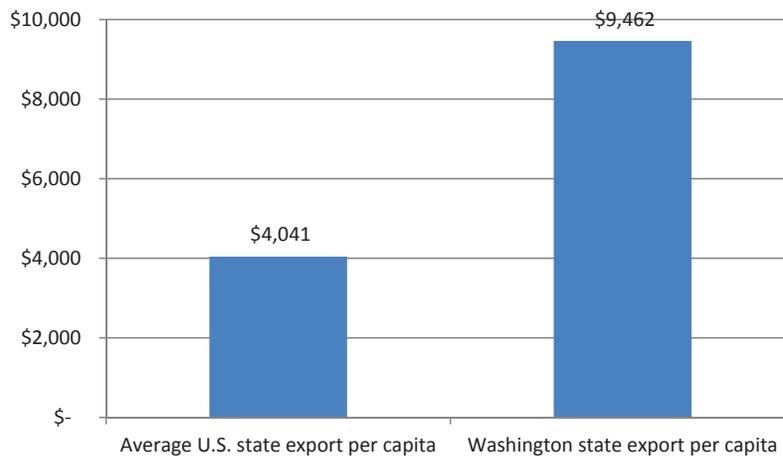


Exhibit 2. Washington State Merchandise and Commodities Exports Per Capita, 2011⁶



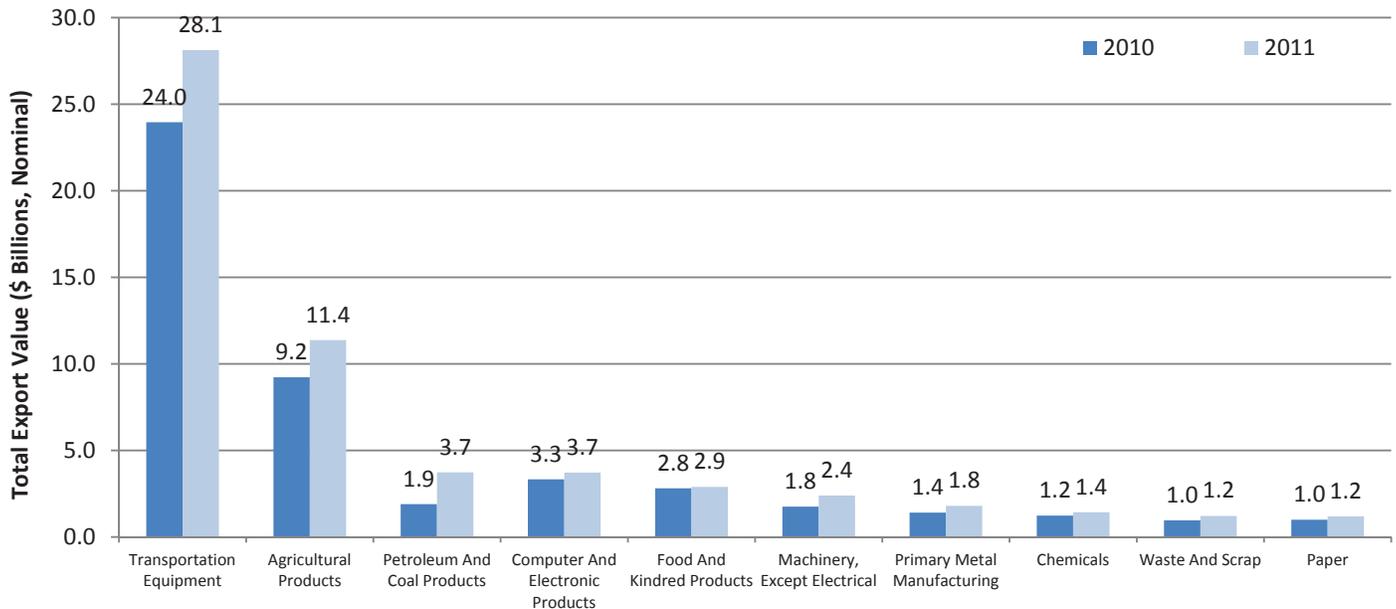
⁴ This figure represents total value of products that “originate” in our state. Therefore, it includes both products that are only consolidated here, as well as the value of imported inputs that are exported as part of finished goods. Both issues are addressed later in this document.

⁵ WISERTrade, 2012

⁶ US Census Bureau, Foreign Trade Division, 2011

The goods exported from Washington are diverse (see Exhibit 3), but two in particular stand out as major drivers of our state’s merchandise and commodities export economy: transportation equipment (a majority of which is aerospace-related) and agricultural products (which include both crops grown in Washington, as well as pass-through commodities from other states).

Exhibit 3. Top 10 Washington Export Industries by Commodity and Merchandise Export Value, 2010-2011⁷



Overall, Washington is the fifth largest goods exporting state in the country and third largest per capita.⁸ As mentioned, a majority of these exports go to Asia; China is Washington’s number one export market, and is our state’s top market for a number of specific categories of goods as well. The dramatic rise of China as an economic power is reflected in the dramatic increase in Washington state exports to China, which increased by 230 percent since 2004.⁹ Some of these export statistics are driven by products from other states (like soybeans) which are not grown here but are shipped to China through our ports.

Exports to Canada have increased 71 percent since 2004.¹⁰ Some of the other top export markets of Washington have either remained flat – such as Japan – or grown at a slower rate such as South Korea; however, the recently signed free trade agreement between the United States and South Korea may change the latter trend.

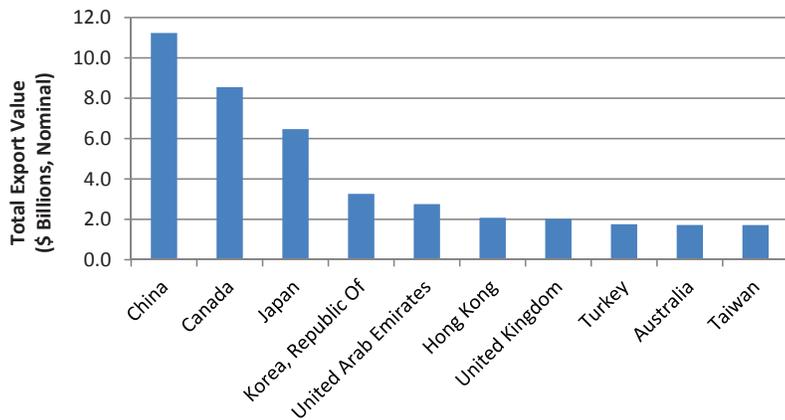
⁷ WISERTrade, 2012

⁸ US Census Bureau, Foreign Trade Division, 2011

⁹ WISERTrade, 2012

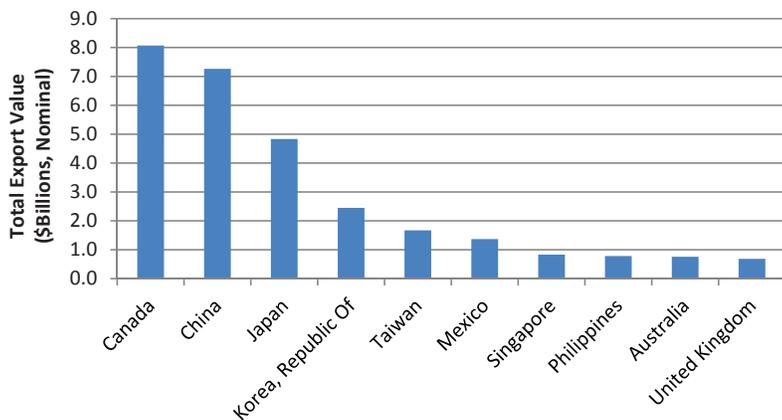
¹⁰ WISERTrade, 2012

Exhibit 4. Top 10 Countries of Destination for Washington Commodities and Merchandise Exports, 2011¹¹



Because aerospace is such a significant export for our state, it is instructive to look at our state’s goods export statistics without those numbers. Without aerospace, Washington exported \$37.5 billion in 2011, compared to the \$64.6 billion overall figure in Exhibit 1. In addition, by removing aerospace exports, Canada becomes the number one destination for Washington state goods exports, with China second (see Exhibit 5).

Exhibit 5. Top 10 Countries of Destination for Non-Aerospace Washington Commodities and Merchandise Exports, 2011¹²



In addition to the growth in goods exports over the last few years, services exports – from software and tourism to professional services like architecture, law and finance – are playing an increasingly important role. In 2011, our state services exports exceeded \$23 billion (see Exhibit 8). As shown in the chart below, the largest category by far is “computer software

11 WISERTrade, 2012
12 WISERTrade, 2012

The Importance of Freight Mobility to Washington’s International Competitiveness

A significant portion of our state’s imported and exported goods are carried by one of Washington’s many freight rail connections. In 2007, the state rail system carried 116 million tons of freight, compared with 64 million tons in 1991, for an annual growth rate of 3.8 percent. As shown in Exhibit 6 below, this includes freight that travels to Washington state from other states and Canada for export, as well as imported goods travelling to our state and to the rest of the country; as shown in Exhibit 7, a large majority of this freight is agricultural products and other commodities.

Exhibit 6. Washington State Rail Freight Directional Flows, 2007 (Million Tons)

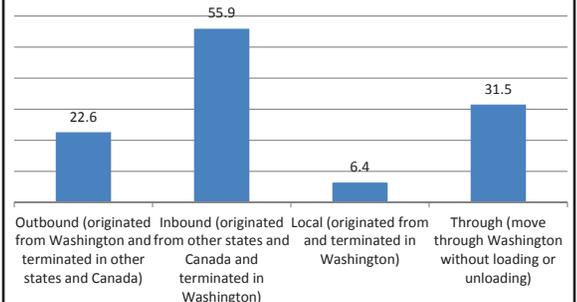
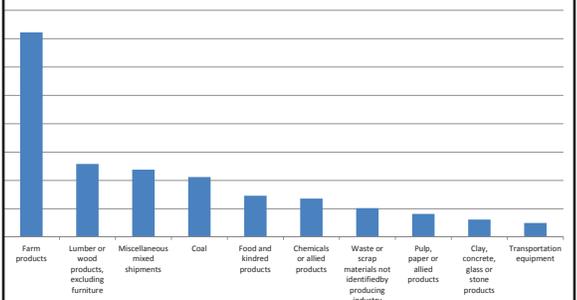


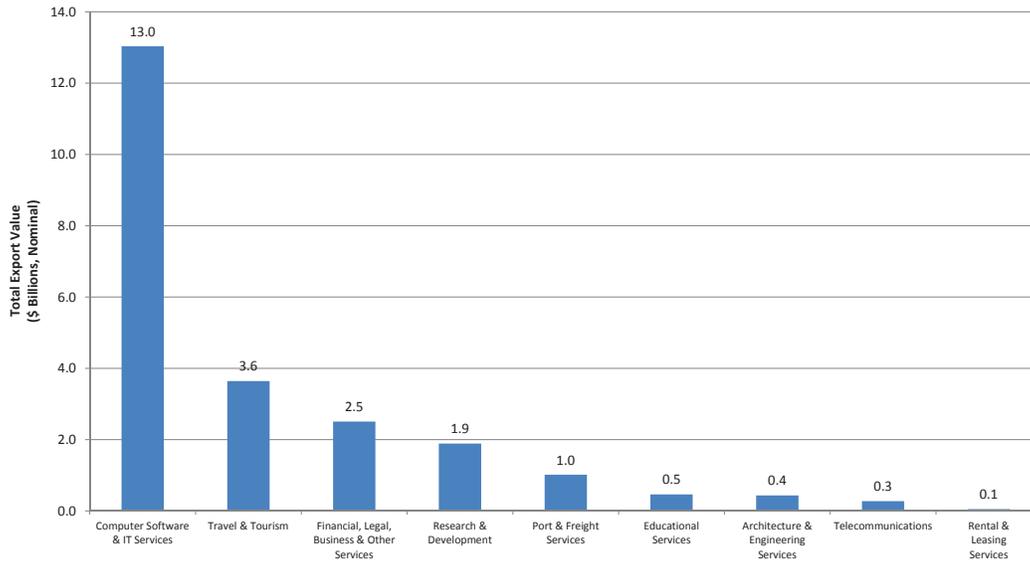
Exhibit 7. Top 10 Commodities Shipped by Rail, Washington State 2007



Sources: Washington State 2010-2030 Freight Rail Plan, Washington State Department of Transportation, December 2009 & WSDOT State Rail and Marine Office – 2007 Surface Transportation Board Waybill Sample Data Analysis

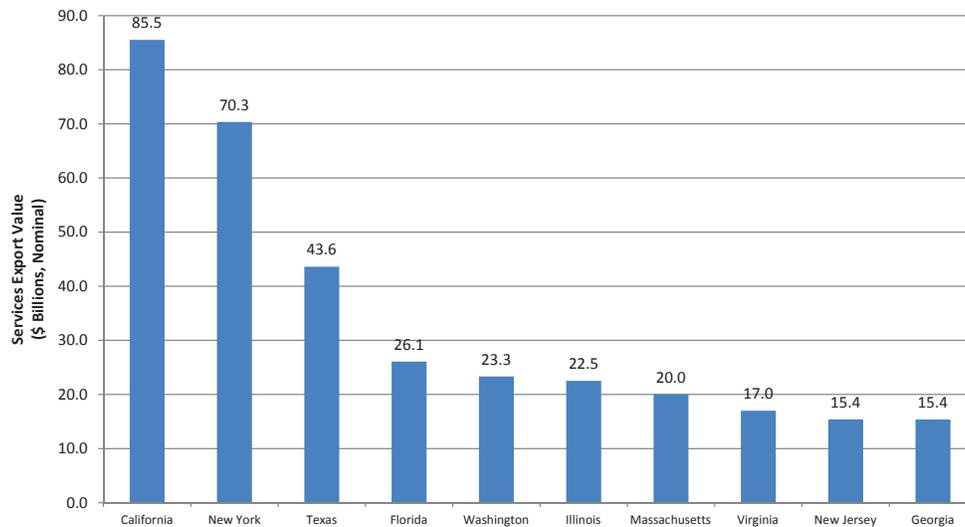
and IT services,” which accounted for \$13 billion in services exports.

Exhibit 8. Washington Services Exports, 2010¹³



As with merchandise exports, Washington compares favorably to other states, ranking fifth in total service exports behind only the much larger population states of California, New York, Texas and Florida (see Exhibit 9).

Exhibit 9. Top 10 US Services Export Value by State, 2010¹⁴

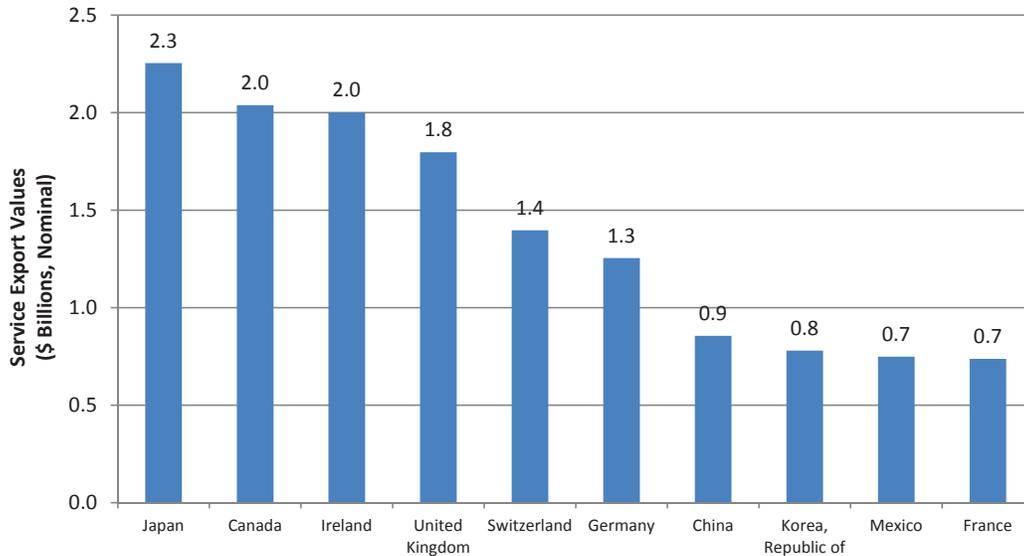


The destinations of our service exports show the diversity of our trade markets (see Exhibit 10). As seen above, Asian countries represent five of the top ten goods export destinations for Washington. However, European countries represent five of the top ten destinations for service exports. Ireland is number three, which may reflect its role as a key European hub for Microsoft and not as the ultimate destination of these service exports. As with goods exports, Canada is one of our most important services export markets. China, South Korea and Mexico are relatively small markets compared to others on this list, which could be an opportunity for services export growth.

¹³ The Trade Partnership, 2012

¹⁴ The Trade Partnership, 2012

Exhibit 10. Top 10 Washington Services Export Value by Destination, 2010¹⁵



Sector-by-Sector Export Data

A closer view of the sectors driving our export economy is also instructive to Washington's global competitiveness picture.

Aerospace

The aerospace industry is a flagship industry for our state. It is also the largest exporting sector by dollar value, and one of our state's largest importers as well. In fact, exports and global supply chains are so crucial to Boeing's and other Washington aerospace companies' success that it can be argued this industry would not exist in our state without international markets. For example, Boeing reports that historically approximately 70 percent of its commercial airplane revenue sales (by value) is from customers outside of the United States; in recent years, this proportion has been even higher.¹⁶

Computer/IT Services

The second-largest exporting industry in Washington has also often been a stealth exporter due to the paucity of export data on services. Yet we now know that – at \$13 billion in services exports and \$3.7 billion in goods – computer products and IT services surpass agriculture as our state's second largest export. Nationally, exports of intellectual property (IP) intensive service-providing industries accounted for at least 19% of total U.S. services exports, with software accounting for the largest portion of that total.¹⁷ The implications of this finding are that the opportunity to grow our state's software exports depends in large part on better enforcement of intellectual property rights internationally.

Agriculture

In terms of dollar value, agriculture continues to be the third-largest exporting sector in Washington state. Notably, although a majority of agricultural products are produced in Eastern Washington, there is agricultural production in all 39 counties. In addition to farms, the industry is served by processors, ports, and logistics and services firms that are found in every part of the state.

¹⁵ The Trade Partnership, 2012

¹⁶ <http://www.boeing.com/companyoffices/aboutus/brief.html>

¹⁷ Intellectual Property and the U.S. Economy: Industries in Focus, Economics and Statistics Administration & the United States Patent and Trademark Office, March 2012

Exhibit 11. Top 10 Locally Produced Agriculture Exports, Washington State, 2010¹⁸

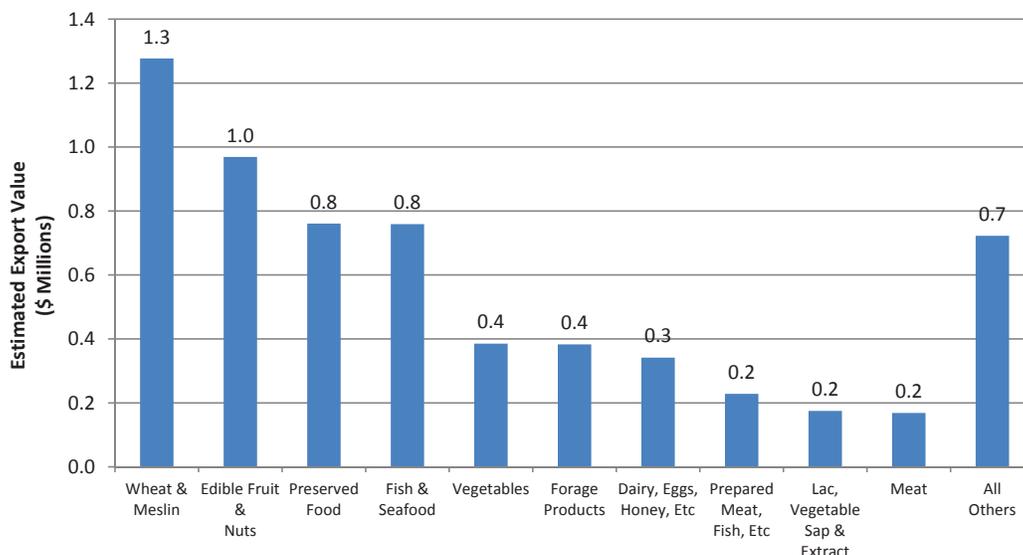


Exhibit 11, above, lists the top exports of agricultural commodities that are grown in Washington state; however, a large segment of the agriculture exported from our state is transported to our ports from origins throughout the country. For example, national trade data shows that Puget Sound ports are top exporters of soy beans, which are not grown in Washington. This is because the U.S. Customs definition of “state-of-origin” includes where a product is consolidated, thereby crediting our state with these exports.

Port and Freight Services

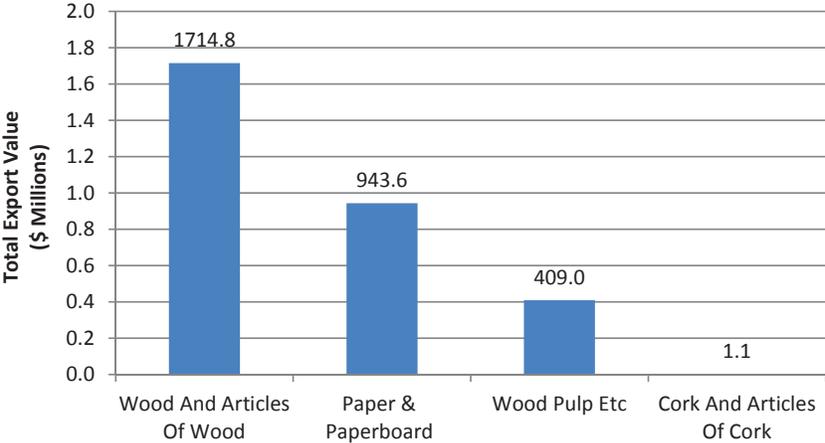
This is an industry with a variety of unique attributes. Not only does the port and freight services industry account for many trade-dependent jobs on its own but it is also a conduit for other industries that are exporting and importing; the ports of Washington are key enablers for our state’s trade economy. At the same time, they are in one of the more competitive industries of a fast-changing world. Puget Sound area ports, for example, face increased competitive pressure from Canadian ports and from the widening of the Panama Canal. Other ports throughout the state face competitive pressures from shortfalls in state and national infrastructure investments. At the same time as global trade increases, there are also opportunities for growth for our state’s ports. Notably, many of our ports manage airports as well as seaports, and these facilities are growing drivers of international trade; international tourists arrive via flights, and air freight is a significant international transportation method for products ranging from aerospace to agricultural products.

Forest Products

Like aerospace, a large percentage of forest product employment is trade-dependent. This trend has only increased over the last several years, as the national economic downturn has significantly reduced domestic construction; instead it is foreign economies such as China that have continued to need building materials to feed their growth. The benefit to Washington state has been twofold: 1) these export have bolstered forest products industry sales (ensuring jobs for Washington residents), and 2) our proximity to these markets has made continued operation in Washington a logistics advantage. In fact, without exports, it could be argued that this industry would have become much smaller in Washington. Unlike aerospace and other industries that export value-added goods, a significant portion of the forest products exported out of Washington are raw logs that are processed in other parts of the world.

¹⁸ Washington State Department of Agriculture, 2011. Estimated export value represents agricultural products produced in Washington, compiled by the Washington State Department of Agriculture through communication with Washington Agriculture Commissions. Data reflects commodities represented by the commissions; not all commodities are reflected in survey data. Total values are assigned using the Harmonized Tariff System (HS Code), which uses product form and function to classify goods.

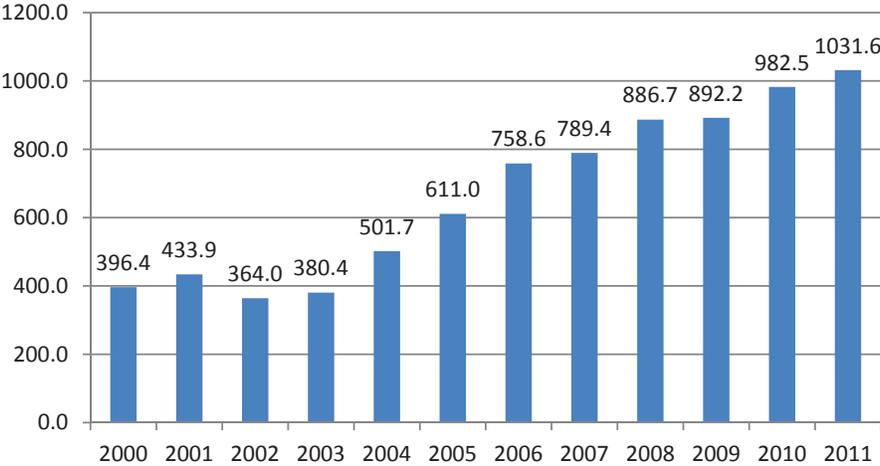
Exhibit 12. Total Value of Forest Resources Exports by Type, Washington State, 2011¹⁹



Medical Devices

In 2011, medical device exports from Washington reached a record \$1.01 billion, a 5% increase over 2010 and an overall 9.1% per annum increase since 2000 (Exhibit 13). The largest single export product within this category has consistently been ultrasound equipment, which reached \$588.8 million in foreign sales in 2011 – a 10% increase over 2010. Bothell, WA has long been home to an international cluster for ultrasound technology, including firms like Philips Healthcare, Sonosite and Siemens. Other major medical device exports in 2011 included electro-diagnostic equipment (\$209.6 million; 7.4% increase over 2010) and medical, surgical, dental and veterinary instruments and appliances (\$206.8 million; 9.9% increase over 2010). The industry has significantly benefited from growing demand from China, which has been the state’s largest medical device market for the past three years, reaching \$166.6 million in sales in 2011. China has been Washington’s largest market for ultrasound equipment for five straight years, reaching \$128.5 million in 2011 (compared with just \$1.6 million in 2000).

Exhibit 13. Medical Device Exports, 2000-2011²⁰



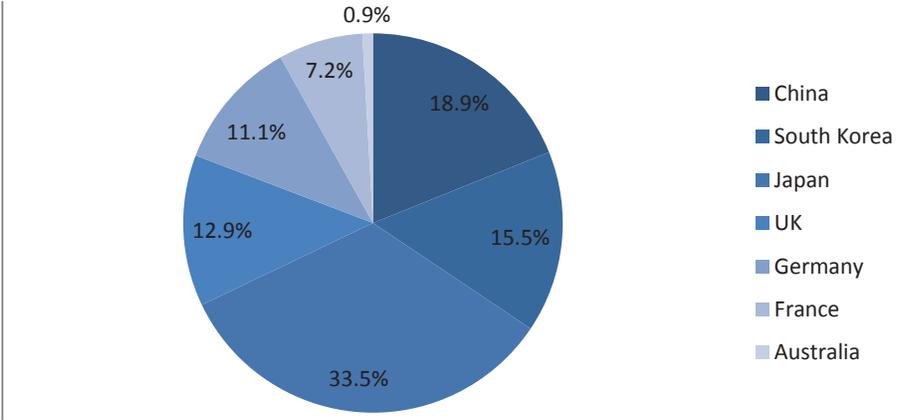
Travel and Tourism

Approximately a half million international tourists travel to Washington state annually, a trend that has increased dramatically over the last few years. In fact, in 2010, Washington state posted a 32% increase

¹⁹ WISERTrade, 2012
²⁰ Ibid.

over 2009 overseas visitor volumes – the largest increase in the nation, and compared to overall U.S. growth in that same period of only 11%.²¹ This growth has been led by visitors from Europe, Japan and increasingly China; in 2011 alone, visits to Seattle from China increased by 48%, from 27,000 to almost 40,000.²² The top overseas markets (not including Canada and Mexico) are shown in Exhibit 14, below. These statistics are rather remarkable, given that Seattle does not have the international tourism brand of places like New York, Los Angeles or Las Vegas. It is even more surprising since Washington has recently ended state-funded support for tourism promotion.

Exhibit 14. Top Overseas Tourism Markets for Seattle/Washington State²³



Of course, the above chart only captures overseas tourism, not the thousands of trips to Washington from Canada that happen daily – some for only hours at a time – via car, boat and rail. Canadian visits are, however, included in the below international flight data; historically 8-9% of all passengers in and out of Seattle-Tacoma International Airport are from other countries (see Exhibit 15). Note that international visitors coming to Seattle via a domestic connection (i.e. – a German tourist who spends a week in New York City before flying Alaska Airlines to Seattle) are not counted in these statistics.

Exhibit 15. Historic Air Passenger Levels, Sea-Tac Airport, 2000-2010²⁴

Year	Domestic			International			% International	
	Deplaned	Enplaned	Total	Deplaned	Enplaned	Total	Total	Flights
2000	12,999,473	12,962,578	25,962,051	1,235,328	1,211,174	2,446,502	28,408,553	8.61%
2001	12,339,268	12,344,569	24,683,837	1,190,825	1,161,411	2,352,236	27,036,073	8.70%
2002	12,193,528	12,247,185	24,440,713	1,182,716	1,115,129	2,297,845	26,738,558	8.59%
2003	12,277,315	12,250,155	24,527,470	1,166,931	1,105,512	2,272,443	26,799,913	8.48%
2004	13,214,819	13,153,619	26,368,438	1,225,493	1,210,623	2,436,116	28,804,554	8.46%
2005	13,410,018	13,407,973	26,817,991	1,246,871	1,224,164	2,471,035	29,289,026	8.44%
2006	13,753,511	13,764,088	27,517,599	1,252,266	1,226,559	2,478,825	29,996,424	8.26%
2007	14,272,440	14,313,379	28,585,819	1,362,517	1,348,292	2,710,809	31,296,628	8.66%
2008	14,626,611	14,647,483	29,274,094	1,484,978	1,437,456	2,922,434	32,196,528	9.08%
2009	14,297,596	14,296,186	28,593,782	1,319,718	1,314,012	2,633,730	31,227,512	8.43%
2010	14,381,433	14,363,581	28,745,014	1,398,385	1,409,767	2,808,152	31,553,166	8.90%

²¹ U.S.Department of Commerce Office of Travel and Tourism Industries, 2012

²² Ibid.

²³ 2012 Seattle Convention and Visitors Bureau Annual Report

²⁴ Seattle-Tacoma International Airport Activity Report, 2010

Global Health and Development

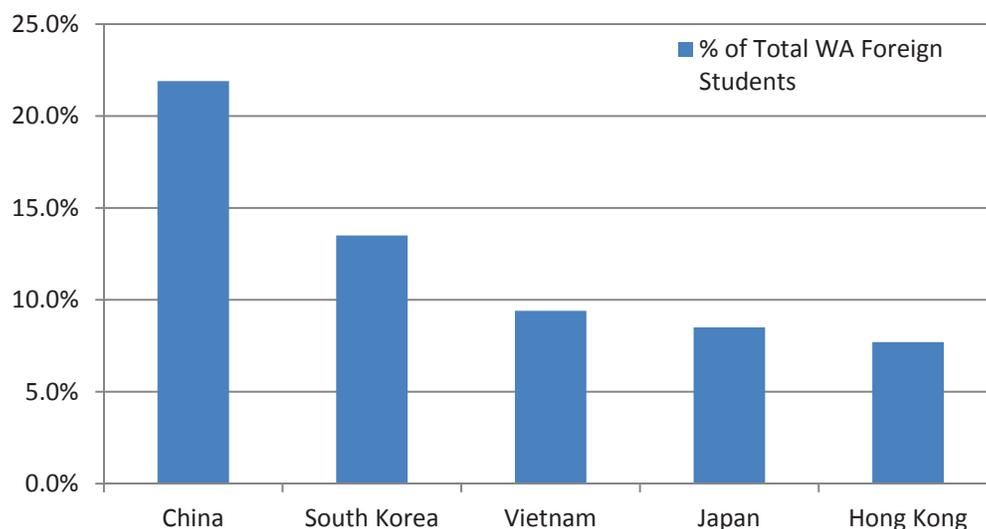
One of the most exciting new aspects of Washington's economy in the past 10-15 years has been the emergence of the global health and development sector. In its combination of the discovery, development and delivery of new products and services to improve the lives of the world's most vulnerable citizens, our state rivals Atlanta, Geneva and London as one of the premier centers for this sector in the entire world. Organizations like PATH, World Vision and the Gates Foundation are global leaders in this space, along with dozens of additional local stakeholders – from Seattle BioMed and SightLife in Seattle to SIGN and the Paul G. Allen School for Global Animal Health at Washington State University in Eastern Washington.

Nonprofit and public institutions are rarely included in estimates of trade-related employment, but global health and development fits the basic definition: it is a service performed by Washington employees for international clients, and brings money and jobs into the state. Furthermore, there is significant potential to leverage the activities of these organizations in developing countries around the world for increased trade in other industries. A further description of this possibility is explored in the Opportunities section of this document.

International Education

Our state ranked 11th in the nation in 2011 for number of international students, contributing \$463.7 million into our state's economy.²⁵ Of course, the long-term impact is more subtle: these students either stay here – contributing to our diverse workforce – or they leave to become successful foreign business and government leaders (in either their home countries or elsewhere), ones with special ties to, and knowledge of, our state. Not surprisingly, Asian countries dominate the top spots in terms of sources of these students (see Exhibit 16).

Exhibit 16. Top Five Places of Origin for Washington's Foreign Students, 2011²⁶



Imports

While exports often get a majority of the attention when discussing the job creation benefits of trade,

²⁵ NAFSA, 2010-2011. Washington State Department of Revenue, 2011. Community Attributes, Inc., 2012

²⁶ *Open Doors: Report on International Educational Exchange*, Institute of International Education, 2011

imports also provide a significant economic impact for our state. At first glance, this idea may seem counterintuitive, given that imports are often associated with terms like “outsourcing” and “trade deficits”; indeed, many products once made in the United States are now made overseas, displacing domestic workers from those industries. More must be done to ensure living-wage job creation in the United States, and to help retrain those workers negatively impacted by globalization. However, this strategy does not take a position on how to address complicated import policy issues, but rather addresses ways that Washington can compete better in the current framework.

For Washington state, imports are linked to job creation; in fact, 25% of all trade-related jobs are tied to imports. This is because of two significant factors: 1) our status as an international gateway to the rest of the country, and 2) the fact that we are home to a wide diversity of retail and manufacturing companies that leverage global supply chains as part of their market competitiveness. As a gateway for Asian goods, our state has tens of thousands of people who are engaged in the logistics of taking imported freight off of ships and airplanes and then transporting it to the rest of the country. The greater the percentage of goods coming to the United States from Asia that pass through our state’s ports, the more jobs that are created in our state.

Many Washington manufacturers and retailers also rely on imported goods to maintain their international competitiveness. Whether because of cost, quality, lack of locally available supply (i.e. – coffee beans for Starbucks) or other strategic reasons, these companies decide that using international suppliers helps them increase sales and profits. While that means that certain jobs are no longer located in Washington, these companies are using some of their increased revenues to create and retain well-paid headquarters-based jobs – such as marketing, sales, design, logistics management and engineering. This is particularly true in the case of those imports into our state that are used as inputs into final products that are then exported; the added value provided by Washington workers in utilizing these imports – for example, machinists assembling airplanes – is an important factor in measuring the cost-benefit to our economy of imported goods. A recent WTO report calculated that the U.S.-China trade balance in 2008 would be about 40% lower if estimated in value-added terms.²⁷

One final point about the job creation linked to imports has to do with the relationship between imported goods and the capacity to export. The goods that are exported from our state’s ports are often shipped in containers that are here because they arrived carrying imported goods. Were it not for the volume of imported containers that travel through our ports, we would not have the containers to ship our goods out.

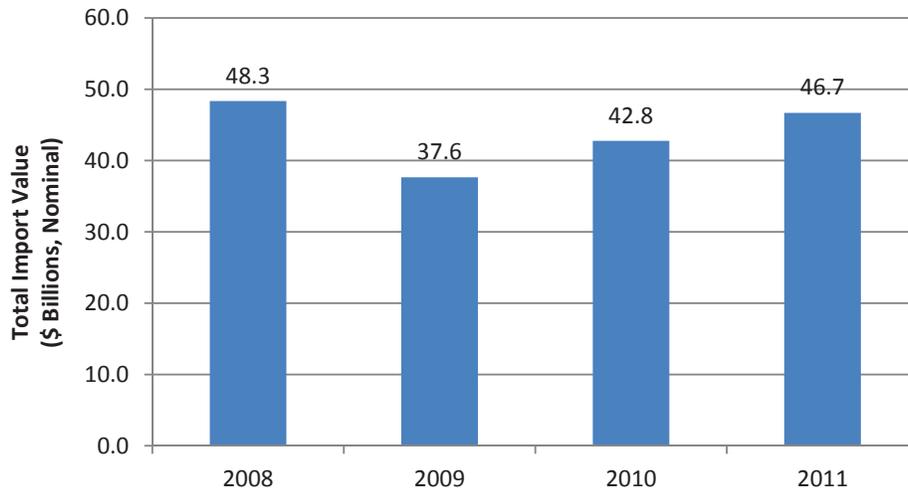
It is important to note that the implications of this finding are not that Washington companies should import as much as possible, nor that maximizing imports by Washington-based firms is the best job creation strategy. As mentioned above, increased importing leads to the loss of certain kinds of jobs for Washington residents, and – while there is a net benefit to our state’s economy – the pain of globalization is clearly felt by many workers. However, given that many Washington firms will continue to use global supply chains for the foreseeable future, it is incumbent upon our state to continue to invest in the transportation and logistics systems that make this a competitive location for such firms. In fact, many companies are based here primarily because this is a great place to import from, given our geographic proximity to Asia and our freight mobility infrastructure; many of these companies will only continue to maintain operations here as long as this is the most efficient place from which to manage their supply chains. Similarly, the only way that our state’s ports will continue to attract cargo in increasing volumes is if they can efficiently and expeditiously move this freight to the rest of the country. So, while debate will continue at the national level in terms of how federal policy can properly incent domestic job creation, Washington state must focus on infrastructure investments that allow it to take advantage of the current

²⁷ Trade in Value-Added: Concepts, Methodologies and Challenges, World Trade Organization, March 2012

global economic system.

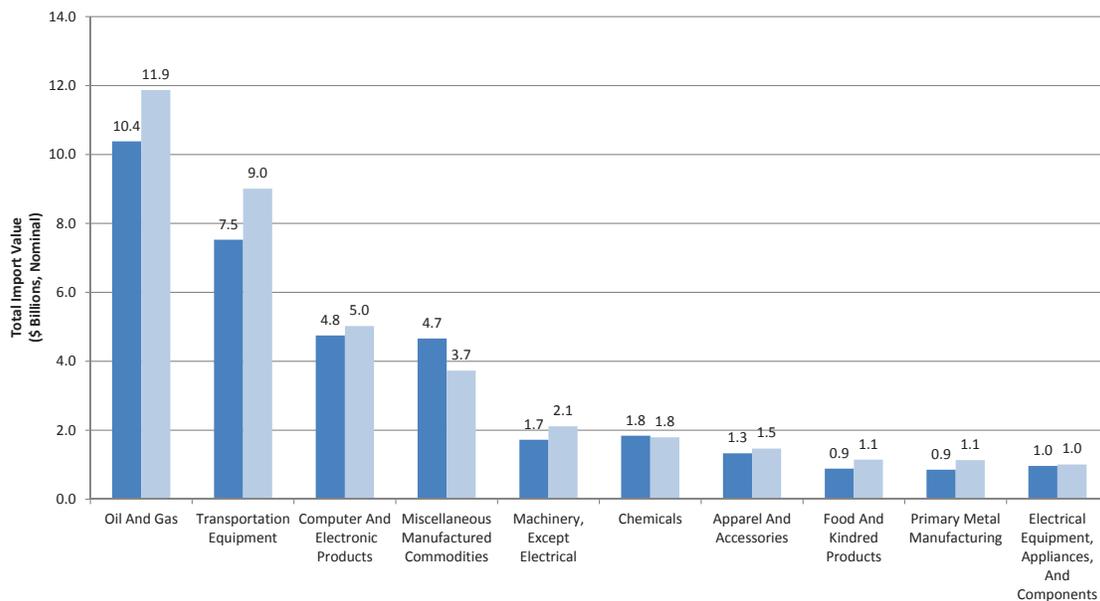
As shown below, Washington has seen a drop-off and then gradual recovery of its import totals over the past few years, in large part due to the global economic downturn.

Exhibit 17. Washington Commodities and Merchandise Import Totals, 2008-2011²⁸



As with exports, Washington imports vary across a wide variety of products, many of which only pass through our state. For example, the Ports of Seattle and Tacoma estimate that approximately 70% of the imported containers that arrive at their facilities are destined for states other than Washington.

Exhibit 18. Top 10 Washington Commodities and Merchandise Imports, 2011²⁹



Also similar to our state’s goods exports, Washington’s import partners are mainly in Canada and Asia (see Exhibit 19 below). Canada imported approximately \$13.8 billion in 2011, with more than three-fifths of this value in the form of oil and gas imports (\$8.5 billion); these Canadian oil and gas imports are a

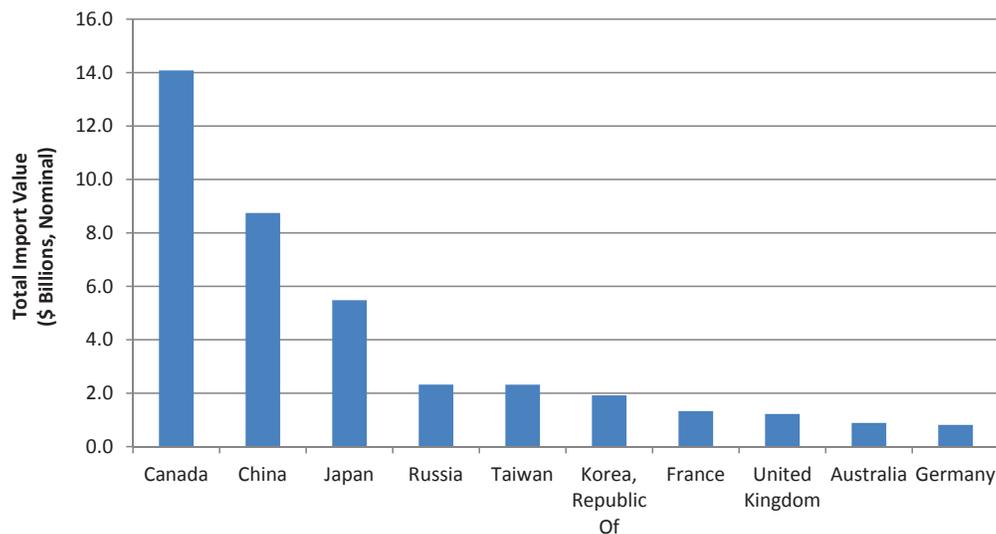
²⁸ WISERTrade, 2012

²⁹ WISERTrade, 2012

large reason why Exhibit 18 shows oil and gas as our state’s top import. The big change over the last ten years has been the rise of China as our state’s largest source of imports, supplanting Japan and Canada. Again, many of these products only pass through our state, on their way to other markets throughout the United States.

Some of Washington’s goods imports are also inputs into products that are then counted in our state’s export statistics. For example, transportation equipment imports include aerospace parts made internationally, assembled into Boeing airplanes here in Washington state, and then exported as final products. Washington does import services as well (i.e. – the contractor building the SR-99 bored tunnel is from Spain), but there is not readily available data to quantify the economic impact of this activity.

Exhibit 19. Top 10 Countries of Origin for Washington State Imports, 2011³⁰



As is discussed below in the “Total Jobs Related to Trade” section, calculating the number of jobs tied to imports is much more complicated and problematic than jobs tied to exports. Whereas increased exports has a direct relationship to increased output (and therefore increased job creation), increased imports influence our state’s economy in conflicting ways. For example, increased imports lead to the loss of certain types of jobs even as they might allow a company to invest more in the high-wage, high-skill headquarters-based jobs. However, based on our best estimates, approximately 25% of all jobs tied to trade in our state are linked to imports (see Exhibit 22).

Other International Inputs

When we look at Washington state’s international economy, we need to also include economic activity that goes beyond “imports” and “exports.” Foreign direct investment is the term used to describe foreign-owned companies with Washington-based operations, or investments by international individuals or companies that are made in Washington state businesses or infrastructure. These foreign-owned companies have a number of benefits – including direct employment of Washington residents – and play a key role in enhancing our state’s international connections. There is at least one foreign-owned company in every legislative district in the state, representing the breadth of this input’s importance.

³⁰ WISERTrade, 2012

Exhibit 20. Sample International Companies in Washington State Legislative Districts, 2011³¹



In 2009, foreign-owned firms employed 93,000 people in Washington.³² In terms of employment, the top sources for FDI in Washington are Germany, Canada, the UK, Japan and France (see Exhibit 21). Since 2002, employment from German-owned companies has increased 65 percent; Canada has seen a slight decrease; the UK a slight increase; Japan has been flat; and France has increased by 25 percent.³³ Washington is ranked 18th among states for number of employees at foreign-owned companies.³⁴

Some of the same reasons Washington is a good place from which to export and import – location and transportation connections – also play a role in companies choosing to set up offices and facilities in Washington. In addition, the presence of prominent companies in key sectors such as Boeing and Microsoft attracts international suppliers and service providers to our state.

Exhibit 21. Total Washington-based U.S. Affiliate Employment by Country, 2007-2009³⁵

Country	Total Employment		
	2007	2008	2009
Canada	13,600	12,400	13,300
France	8,000	8,200	8,000
Germany	14,700	14,700	13,900
Netherlands	5,600	5,200	4,600
Switzerland	4,900	4,100	4,300
United Kingdom	14,100	13,800	13,300
Japan	10,800	11,800	11,800
Other	18,800	23,600	24,100
All Countries	90,500	93,800	93,300

31 Trade Development Alliance of Greater Seattle, 2011

32 Bureau of Economic Analysis, 2012

33 Bureau of Economic Analysis, 2012

34 Bureau of Economic Analysis, 2012

35 Bureau of Economic Analysis, 2012

Another important input is the number of immigrants and foreign-born residents (such as those here on H-1B and H-2A visas) in Washington state. High-skill foreign-born residents have been shown to be more likely to start entrepreneurial endeavors that do business abroad; for example, in the Silicon Valley, over 50 percent of CEOs are foreign-born.³⁶ Similarly, a high percentage of agricultural labor is foreign-born, and these individuals are key to ensuring the success of the trade-dependent agricultural industry in our state. A one year count by the American Community Survey (2010 1-year estimates) identifies 886,262 total foreign-born residents in our state, or 13.1% of Washington population.³⁷ The more internationally diverse our state becomes, the more there will be opportunities to leverage those residents for increased international success.

Total Jobs Related to Trade

For the last thirteen years, people have trumpeted that “one in three jobs in our state is tied to international trade.” As globalization has expanded and as our companies, organizations and institutions have engaged even more deeply and widely in the international economy, that number has increased.

As mentioned above, the process for calculating total jobs tied to trade is complicated. We can very directly make the claim that approximately 325,000 jobs are tied to exports, because we know the approximate value of exported goods; using the state’s input/output model gives us total jobs tied, directly and indirectly, to exports.

Calculating for imports is more difficult (see sidebar for our calculation method). But by using the state input/output model we have calculated a conservative estimate of import tied jobs.

Adding together export-related output and import-related output allows us to use the Washington I-O Model Simple Analysis tool to estimate the full employment impact of trade. As shown in Exhibit 22, we can conservatively say that 433,076 direct jobs are tied to trade, and the I/O model allows us to also calculate indirect jobs that are generated by this employment, giving us a “total jobs tied to trade” of approximately 1,109,909. Using a figure of total covered employment of 2,808,698 jobs in Washington state overall,³⁸ that means at least 40% of all jobs fall into this category. And this is a conservative estimate (excluding some categories like construction and utilities that contribute to the import side), meaning that the number is likely higher.

Calculating Import Related Jobs

The state input/output model is based on the assumptions of demand-side increases to support jobs, which is how the jobs multiplier is calculated. Yet, because imports of certain products are in lieu of those products being created here in Washington, it raises issues of substitution effect. True job creation related to imports can only be tied to three major factors: an increase in sales of import-related products to non-Washington residents; the use of imported products as components that cannot be sourced within Washington (i.e. -coffee beans); and services related to supporting the importing and transportation of these products, such as customs brokerage, freight forwarding and transportation services. We do know, however, that many of these jobs do exist in Washington in exactly these categories.

Therefore, we used an assumption that the amount of industry output dependent on foreign imports is proportional to the amount of imported intermediate goods required to produce a unit of output in that industry. Thus the “import intensity” of an industry’s production process quantifies the share of output that is import-supported. An estimate of import intensity for each industry was derived from the Washington I-O model, and then import-supported output was calculated by multiplying industry output (after removing foreign exports) by import intensity. A longer explanation of this method, including its assumptions and potential shortcomings, is available as Appendix A.

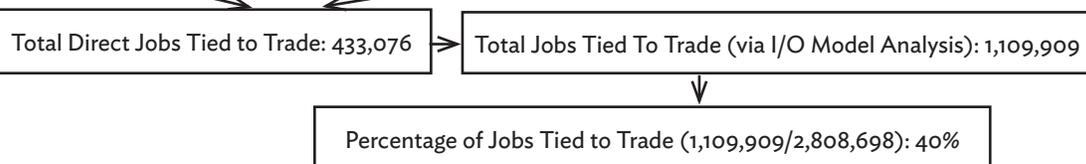
³⁶ Education, Entrepreneurship and Immigration: America’s New Immigrant Entrepreneurs, Part II, Wadhwa, et al., Ewing Marion Kauffman Foundation, June 2007

³⁷ American Community Survey, 2010

³⁸ Quarterly Census of Employment and Wages, U.S. Bureau of Labor Statistics via the Washington State Employment Security Department; data is 2010, the last full year for which data is available.

Exhibit 22. 40% of Jobs are Tied to International Trade in Washington State³⁹

Sector ⁴⁰	Import Intensity	Import Supported Output (millions)	Direct Employment from Imports	Foreign Exports (millions)	Direct Employment from Exports	Export Percentage of Industry Employment	Trade Percentage of Industry Employment	Total Trade Supported Output (millions)
Agricultural Products ⁴¹	2.7%	\$154	852	\$6,170	34,145	52%	52%	\$6,170
Forest Products	0.3%	\$-	2	\$690	3,219	85%	85%	\$691
Food & Maritime Products	8.0%	\$703	1,558	\$3,705	11,704	30%	34%	\$4,408
Wood & Paper Products	9.6%	\$617	2,105	\$1,613	4,413	20%	30%	\$2,229
Machinery	24.7%	\$395	1,280	\$1,743	6,033	52%	63%	\$2,138
Computers & Electronics	29.6%	\$732	2,004	\$3,856	13,936	61%	70%	\$4,588
Aircraft & Other Transportation	15.1%	\$203	437	\$23,929	84,723	95%	95%	\$24,132
Other Manufacturing & Commodities	16.4%	\$4,038	9,376	\$7,112	16,406	22%	35%	\$11,150
Travel & Tourism	3.2%	\$368	5,735	\$3,643	56,761	24%	27%	\$4,012
Computer Software & IT Services	13.4%	\$1,432	6,178	\$13,035	56,254	55%	61%	\$14,466
Telecommunications	1.4%	\$157	409	\$275	717	2%	4%	\$432
Financial, Legal, Business and Other Services	1.6%	\$941	3,535	\$2,504	9,407	4%	6%	\$3,444
Architecture & Engineering Services	1.1%	\$65	363	\$423	2,371	7%	8%	\$488
Research & Development	10.2%	\$158	959	\$1,889	11,468	55%	59%	\$2,047
Educational Services	70.0%	\$18	192	\$464	4,958	15%	15%	\$482
Global Health/ Development Services ⁴²	NA	NA	NA	NA	2,324	NA	NA	NA
Port and Freight Services ⁴³	1.6%	\$1,024	5,979	\$1,016	5,932	22%	43%	\$2,039
Rental and Leasing Services	0.4%	\$8	35	\$51	235	2%	3%	\$59
Wholesale Trade	16.3%	\$19,348	19,279	\$-	0	0%	16%	\$19,348
Retail Trade	10.4%	\$12,027	47,792	\$-	0	0%	16%	\$12,027
Total		\$42,388	108,070 (25% of jobs tied to trade)	\$72,118	325,006 (75% of total jobs tied to trade)			\$114,350



³⁹ See footnotes included in the graphic

⁴⁰ The Trade Partnership, Washington DC, from the U.S. Bureau of Economic Analysis, U.S. Bureau of the Census, U.S. Internal Revenue Service, National Science Foundation, Moody's Analytics, NAFSA: Association of International Educators, 2012

⁴¹ Washington exports of agricultural products are from the Washington State Department of Agriculture, 2011.

⁴² The direct employment estimate for Global Health Services from the University of Washington's report "Economic Impact Assessment of Global Health on Washington State's Economy", 2007

⁴³ Import supported output for Port and Freight Services includes the movement of imported goods from the Washington ports to the final destinations outside of Washington (presumed to be 75% of domestic exports of Port and Freight Services).

Now, instead of saying that “one in three jobs in Washington state are tied to trade,” we can say that “40% of all jobs in Washington state are tied to international trade.”

The implications of this finding are significant and multiple. As a horizontal that crosses multiple industries, trade is our state’s largest economic driver. Therefore, as the state looks to grow jobs and recover from the recent economic downturn, focusing on improving Washington’s international competitiveness is one of the best opportunities for significant impact.

III. Analysis

The data in section II describes the strength and diversity of Washington’s international economy. Yet, it doesn’t paint the full picture of how our state has built such significant strength in international trade, what opportunities we’re missing out on, and what are the factors that are holding us back from even greater international competitiveness. The following presents a strategic analysis of Washington’s advantages and disadvantages as a place for international business.

Exhibit 23. Analysis of Washington’s International Competitiveness

<p><i>Top Strengths</i></p> <ul style="list-style-type: none"> • Geography & Infrastructure • Businesses & Products • Workforce 	<p><i>Top Challenges</i></p> <ul style="list-style-type: none"> • # of Companies Engaged in Trade • WA’s International Visibility • Coordination Among Int’l Organizations
<p><i>Top Opportunities</i></p> <ul style="list-style-type: none"> • Services Exports • Immigrants and Foreign-born Residents • Developing Countries • China • Foreign Direct Investment 	<p><i>Top Threats</i></p> <ul style="list-style-type: none"> • Port Competition from Canada, Mexico and the Panama Canal • Access to and from International Markets • Public Support for Trade

Top Strengths

- **Geography and Infrastructure** – Washington’s attractiveness as a base for international activity begins with its geography. Proximity to Asia and Canada (and, through polar air routes, to Europe), even in today’s digitally connected world, matters significantly because goods and people still must move physically. Our state’s natural deep water harbors and highly navigable rivers provide a basis for cargo to travel efficiently and affordably. Washington’s natural beauty also contributes to its high quality of life, making it easier to attract a highly-skilled workforce that serves industries engaged in international trade.

Washington has also developed an infrastructure to take advantage of these natural assets. Its ports – both water and air – serve as gateways in and out of the country, including 19 non-stop flights to international cities. The state’s rail network has extended across many parts of the state; now thirty-two of the state’s 39 counties are served by one of the state’s

freight railroads, and there are three major rail corridors in the state.⁴⁴ Overall, our state's extensive transportation system facilitates the movement of both goods and services, and is further supported by a diverse network of warehouses and distribution centers, factories and office buildings. However, there is a significant need for more investment to maintain and expand this infrastructure; a close examination of choke points and strategic investments in missing or existing pieces of infrastructure is needed for Washington to maintain its reputation as an excellent place from which to do international business.

- **Businesses and Products** – The *sine qua non* of exporting is producing internationally competitive goods and services that customers around the globe want to buy; there are few places like Washington state in this regard. The diversity and quality of its products – timber, food, airplanes, software and professional services, to name a few – are world-renown, and the innovation for which Washington is famous continues to generate new market-leading goods and services.

The same holds true on the import side, where our companies leverage global supply chains to produce and distribute the innovative products that are designed, marketed and sold domestically. In fact, that expertise in global supply chain management has, in itself, become a key product that our state offers, with leading firms in logistics and freight mobility invested here.

While these factors are currently listed as strengths, it is often stated that Washington's economic success is based on "the luck of being the birthplace of two Bills – Boeing and Gates;" we cannot rely on past accidents of fate to ensure that our state will continue to be the home for such a wide array of successful global enterprises. Washington must stay vigilant to maintain our competitiveness in a global economy in which other regions are continually offering lower costs and higher incentives to attract and retain businesses and talented employees.

- **Workforce** – None of the abovementioned businesses and products could exist without the presence of a sufficiently large and appropriately skilled workforce, and Washington has one of the most highly-skilled workforces in the country. Our state consistently ranks at the top of the list in terms of bachelor's degrees per capita, science and engineering degrees per capita and the number of highly-trained machinists. We are in the top five in fashion designers⁴⁵ (contributing to our great fashion and apparel industry) and our workforce has a large and diverse expertise in supply chain logistics, customs brokerage and freight forwarding.

Our state's vibrant economy also attracts the best and brightest from around the world, which has led to the fact that – as referenced above – approximately 13.1% of Washington's population is foreign-born. The global nature of our workforce leads to increased ability to engage internationally, as these individuals often have connections in their home countries that can lead to business opportunities; additionally, they possess an understanding of their home country's laws, regulations and business culture that can facilitate commerce. Many of these highly-educated immigrants also form companies in our state that conduct international business; for 25.3% of technology and engineering companies started in the United

⁴⁴ Unlike other freight mobility infrastructure, rail development is mainly driven by private sector investment, and therefore is inextricably linked to increases in freight being shipped in, around and out of our state.

⁴⁵ *Washington State Fashion and Apparel Industry Cluster Study*, Community Attributes, October 2010

States from 1995 to 2005, at least one key founder was foreign-born.⁴⁶

While workforce is listed as a strength, it could also easily be described as a weakness – specifically with regard to our state’s higher education system. While Washington’s colleges and universities play an important role in helping to generate this workforce (with programs like the Center of Excellence for International Trade, Transportation and Logistics at Highline Community College), our state is 38th in the country in producing STEM degrees – the most important degrees for a globally competitive economy. This is a major concern, for two reasons: 1) in the global competition for talent, we cannot assume that Washington will continue to be able to overcome this shortcoming through in-migration, and 2) by failing to educate our own students for these jobs, we limit their options to achieve family-wage employment in their home state. Washington must continue to increase investment in education and workforce development to maintain this advantage.

Top Challenges

- **Number of Companies Engaged in International Trade** – Slightly less than one percent of America’s 30 million companies are directly engaged in exporting – a percentage that is significantly lower than all other developed countries – despite the fact that 96% of the world’s customers are outside the United States.⁴⁷ Of U.S. companies that do directly export, 58 percent export to only one country.⁴⁸ Yet, according to a study published by the Institute for International Economics, U.S. companies that export not only grow faster, but are nearly 8.5 percent less likely to go out of business than non-exporting companies.⁴⁹ Similarly, the number of U.S. companies that import is closer to half a percent, which means that many companies are missing out on opportunities to leverage a global supply chain to increase the efficiency and profitability of their operations.

In Washington, our numbers are better than the national average, but still less than 5% of our state’s companies are directly engaged in exporting and/or importing goods (although this does not include service exporting firms).⁵⁰ These figures are somewhat misleading, given that there are a number of supplier firms in our state that – while not engaging in trade directly – supply inputs into products that are exported; for example, a local company that sells bolts to Boeing has its products exported as part of the large majority of airplanes assembled here that are sold to international customers. This logic can be extended to local retailers of imported goods as well, such as the electronics store that sells a product made in China even if they did not directly import it.

This general statement does not hold true for all industries in our state; some – such as agriculture or aerospace – have a much higher percentage of firms directly engaged in selling their products internationally. Nonetheless, there is ample room for more companies in Washington to be engaged internationally. The reasons that Washington companies choose not to engage internationally are many and varied, from fear and lack of awareness to cost and quality control concerns. Only through a concentrated, comprehensive effort will our state be able to encourage more companies to export and/or import.

46 Education, Entrepreneurship and Immigration: America’s New Immigrant Entrepreneurs, Part II, Wadhwa, et al., Ewing Marion Kauffman Foundation, June 2007

47 United States International Trade Administration, 2010

48 Ibid

49 Why Global Commitment Really Matters, Peterson Institute for International Economics, October 2001

50 Washington State Department of Commerce

One key to success in this area will be to simply better communicate about the existing services available to Washington state businesses to help them export. The state government has significant resources allocated for service provision, and – once firms learn about this export assistance – they’re interested. However, most businesses are unaware these programs exist because of a lack of marketing. Increasing awareness of these resources will be part of the work of the International Competitiveness Coordinating Committee, described in Recommendation 5 below.

- **Washington’s International Visibility** – While many individual companies have well-known global brands – from Starbucks to Boeing – the world still does not know much about Washington state. A major driver of this lack of brand recognition is that the state has been decreasing its funding for such efforts over the last decade. Shrinking revenues have led to cuts in trade promotion functions – from closing foreign sales offices to decreasing numbers of trade missions by both the Department of Commerce and Department of Agriculture – limiting their ability to effectively spread the word about the state’s advantages. Meanwhile, the state’s elimination of its Tourism Office makes Washington one of the only states not to invest directly in attracting foreign visitors.

This lack of promotion and global awareness building leads to a lack of international interest in doing business with Washington companies, in investing capital in Washington businesses, in locating facilities in Washington or in visiting Washington as a student or tourist. Washington is an excellent platform from which to operate globally, and Washington businesses produce excellent products and services. We must market that excellence.

- **Coordination Among International Organizations** – Washington state, because of its international orientation, has a significant number of organizations that focus on international engagement. While this can be a good thing – increasing the diversity and reach of our state’s international activities – it also has the potential to lead to duplication of effort and scarce dollars spread too thin, particularly those efforts that rely on contributed revenues from individuals and corporations. In fact, the last few years have seen the shrinkage or termination of a number of international organizations, such as the Foundation for Russian-American Economic Cooperation.

There are some excellent examples of multi-organizational coordination, particularly within specific industries. For example, the Washington tree fruit industry is significantly engaged in a coordinated effort to increase exports; growers collectively tax themselves millions of dollars each year to support promotion and policy efforts, while the State Department of Agriculture and individual commodity commissions work with a number of other voluntarily-funded groups to maximize sales. Yet, comprehensive, cross-sector coordinating efforts in Washington – attempting to support trade by multiple industries through overarching, statewide efforts – are still somewhat minimal; examples include the Trade Development Alliance’s Foreign Direct Investment Working Group and the State’s Export Working Group.

The below matrix only begins to list the stakeholders that have at least a partial role in international business and/or engagement. Without more communication about the unique roles of these organizations and how they productively interact, as well as the development of new collaborations and cross-sector synergies, there is great potential for lost opportunity.

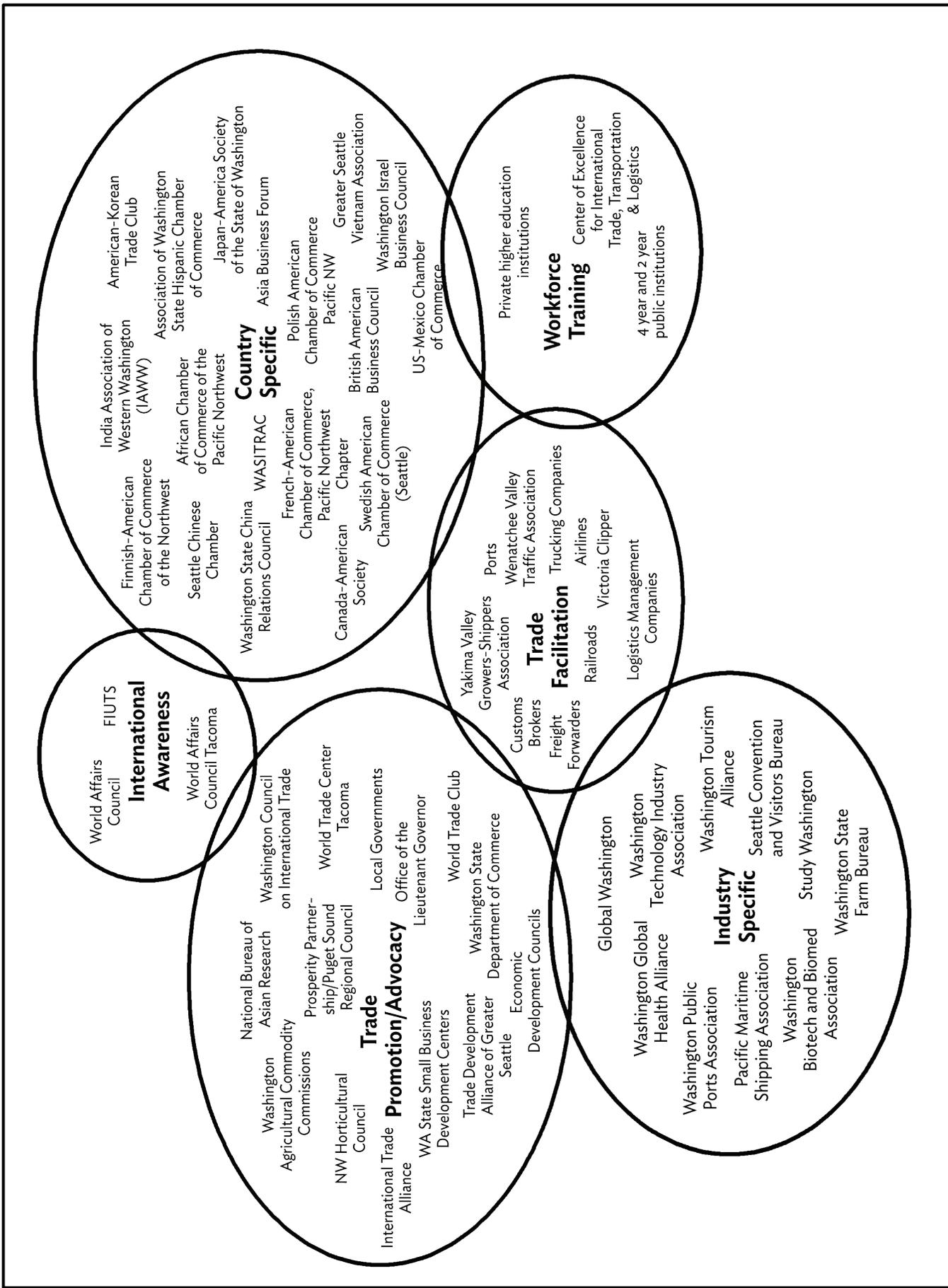


Exhibit 24. A Sampling of Washington's International Institutions (Non-Comprehensive)

Top Opportunities

- **Services Exports** – Either because the data on services exports are less available or because services themselves are less tangible, trade promotion efforts mainly focus on goods exports. Yet, as our state and country transition toward a more services-based economy, trade in services will become increasingly important for our international competitiveness. A look at the data (Exhibit 8) shows that – of our state’s \$23 billion in services exports – more than half of our services exports are software-based. This is not surprising, given our strong IT sector, which includes not only Microsoft and Amazon but also a broad diversity of small and medium-sized companies working in video games, cloud computing, mobile applications and more. Increasingly, these services are delivered through online portals, meaning that the main barriers to success have to do with internet access and consumer demand. However, one of the key areas where Washington can play a vital role supporting software exports is to ensure that intellectual property is protected internationally. In 2010, the amount of legal software sales worldwide totaled \$95 billion, yet the commercial value of pirated software added up to \$59 billion worldwide, meaning 42% of the world’s PC software is pirated; in China alone, the commercial value of stolen software was \$7.7 billion.⁵¹ The more that IP enforcement is achieved globally, the greater the opportunity for Washington software exporters.

The second large services export opportunity is international tourism, which accounts for \$3.6 billion in Washington services exports. As mentioned above, Washington is a large and fast-growing international tourism market, and there is potential to significantly increase that market given the rapid growth in Chinese tourists and other Asian travelers; China alone is expected to have 100 million tourists traveling internationally by 2020.⁵² Chinese and other visitors want to come to our state because of its natural beauty, diverse cultural activities, geographic proximity and long-standing cultural, social and economic ties with China. Yet, Washington is now the only state in the country that does not fund tourism promotion, forcing our state’s tourism businesses and local convention and visitors bureaus to try to compensate; the creation of the Washington Tourism Alliance represents such an effort. However, to truly leverage this opportunity, more must be done by the state to support the promotion of our brand to potential international visitors and to engage these visitors for other international activities. Today’s tourist could be tomorrow’s investor, importer or partner if we play our cards right.

- **Immigrants and Foreign-born Residents** – As mentioned above, Washington’s immigrants and foreign-born residents are essential assets for our state’s international competitiveness – in industries ranging from IT to agriculture. However, there are currently only limited efforts to actively and strategically take advantage of this opportunity, and the solutions are both programmatic and policy-based.

On the programmatic side, Washington needs a comprehensive, systematic, statewide way to bring together immigrants and foreign-born residents with the companies that need help building relationships with specific countries. While there are some examples of this kind of convening already – such as the annual ethnic chamber reception co-hosted by the Trade Development Alliance and the Seattle Metropolitan Chamber of Commerce – more can be done. In fact, some of these foreign-born residents already work for the companies that are doing international business in the employee’s home countries,

⁵¹ Business Software Alliance, Global Software Piracy Study, 2010

⁵² United Nations World Tourism Organization, 2011

and it is simply a matter of educating both parties about the best ways to leverage this connection; others are entrepreneurs who have already used their international connections for business success, and can serve as mentors for their potential peers. The possibilities are significant for turning our diversity into actionable trade relationships.

On the policy side, Washington needs to continue to advocate at the federal level for comprehensive immigration reform. High technology companies are stymied in their efforts to attract and retain the best and the brightest from around the world, while Washington colleges and universities spend valuable resources and limited capacity educating students who are then forced to leave the country – sometimes working for foreign companies that compete with us. Meanwhile, our state’s agricultural community suffers from the lack of a legal and reliable labor force, putting the successful harvesting of our crops at risk. Washington is one of the few states with immigration concerns across the range of skills, and could be a powerful voice in the call for common sense reforms that benefit our state’s – and our country’s – international competitiveness.

- **Developing Countries** –When people think about developing countries, much of the focus is on aid to some of the world’s most vulnerable people. Increasingly, however, businesses are seeing these same places as emerging markets for their goods and services. Between 2001 and 2010, six of the ten fastest growing economies in the world were in Africa.⁵³ The International Monetary Fund predicts that, between 2011 and 2015, African countries will account for seven of the top ten spots.⁵⁴ As developing countries grow, their consumers become more receptive to branded products, and the brands that get there first have the best chance to establish themselves.

Washington is in a uniquely strong position to take advantage of these emerging markets, for a number of reasons. For example, Washington has increasingly become known as the center for global health and development activities; from the Gates Foundation to World Vision, our state is home to a large number of organizations and philanthropies that are dedicated to improving the lives of the world’s most vulnerable people. Yet, as these NGOs are out doing their good work, they are also developing relationships with businesses and governments that can be leveraged into economic opportunities. Take India, which is a country that is both a major focus for NGOs like PATH and SightLife while simultaneously serving as a fast-growing market for Washington products ranging from apples to airplanes.

There is therefore significant potential to capitalize on the relationships and expertise of our global health and development stakeholders – as well as immigrants and foreign-born residents from those countries – to increase the success of our for-profit businesses in the developing world.⁵⁵ Washington’s NGOs can make introductions, explain local customs and even provide insight into supply chain logistics. Even more, there is an opportunity for mutual benefit, in which nonprofits provide new access to these markets in exchange for support of their operations. For example, when a company’s goods are being delivered to India, they could also donate some of that capacity to deliver health supplies or aid workers as part of the shipment. Bringing together the global health and develop-

⁵³ “The lion kings? Africa is now one of the world’s fastest-growing regions,” *The Economist*, January 6, 2011

⁵⁴ *Ibid*

⁵⁵ While this opportunity is significant, it must be pursued with the understanding that it can take years to develop these relationships, and therefore careful attention to standards of behavior must be taken to ensure that these relationships are safeguarded and not merely exploited for profit.

ment organizations in Washington with companies doing business in the developing world could yield a wide variety of exciting possibilities.

- **China** – It seems strange to suggest that our state’s largest trading partner is an opportunity, but that speaks less to the scope of the current Washington-China relationship than to the sheer magnitude of the Chinese marketplace. That is, our existing two-way trade is only the tip of the iceberg for the potential economic opportunity that China provides for Washington businesses in a broad diversity of industries, from tourism and professional services to aerospace and energy to consumer products such as wine and candy. This can be seen, for example, in services exports; despite intellectual property rights (IPR) enforcement concerns and other limiting factors, China is already the seventh largest destination for service exports. The biggest limiting factors are two-fold: the size and complexity of the Chinese market, and the level-playing field that Washington companies need in order to ensure their competitiveness in that marketplace.

Each of the two factors has its own potential solution. Helping Washington companies navigate China requires very specific strategies aimed at gaining access and building markets there; mentorship and technical assistance are key. Since government-to-government contact is important to doing business in China, state and local governments can also play an important role.

The need for a level playing field requires addressing some of China’s current trade policies through a mix of negotiation and legislation. For example, U.S. businesses currently lack the same trade and investment rights in China as Chinese businesses have here; reductions in foreign ownership restrictions and equal treatment in government procurement for all legal entities regardless of ownership would be important steps. China’s recent efforts to steadily increase the valuation of their currency are also positive, and the U.S. should continue to engage China in bilateral and multilateral discussions on this topic. Most vital to Washington’s knowledge-based economy is getting China to aggressively enforce IPR; IPR impacts a wide diversity of Washington companies, from IT, life sciences and other high tech companies to manufacturers and retailers with innovative products.

- **Foreign Direct Investment Attraction** – Except for California and Texas, all of the top 17 states for FDI are east of the Mississippi.⁵⁶ This reflects the fact that, in the past, a significant source of foreign direct investment was European countries, which had better relationships and closer geographic ties with east coast states (although Japan was also a major source of FDI). However, with the rise of other Asian countries as well as resource-rich Middle East countries, those advantages are beginning to shift to the west coast. Washington state is closer geographically to potential new FDI resources markets such as China and Korea, and has long and deep relationships with them.

An additional reason that FDI is a significant opportunity for Washington is the tendency of investment dollars to concentrate in areas with strong industry clusters. According to a report produced by the Puget Sound Regional Council, foreign firms often locate their acquisitions and new capacity near the predominant centers of their U.S. counterparts.⁵⁷ Washington state is fortunate to have strong industry clusters in IT, aerospace, life sci-

⁵⁶ Bureau of Economic Analysis, 2012

⁵⁷ “Attracting Foreign Direct Investment to Your Community”, Puget Sound Regional Council, January 2009 (<http://psrc.org/assets/5764/FDIsmallreport.pdf>).

ences and agriculture, which provides a chance to attract foreign companies and investments in those sectors. By targeting efforts to these sectors, our state can also maximize the use of its limited FDI attraction resources.

FDI attraction and recruitment requires not only a business climate that incentivizes inward-bound investment but also hands-on work with individual companies and investors. Unfortunately, Washington state has an extremely limited footprint overseas for FDI efforts, and the State Department of Commerce's overseas trade offices and contracts have been severely cut in recent years. In addition, there is a negative perception of FDI, which inhibits additional efforts; according to a recent Gallatin Public Affairs poll, 42% of Washington state residents believe FDI is a bad thing because "it gives foreign governments' power and control over Washington companies."⁵⁸ So, it is not surprising that, despite its potential to be a significant beneficiary of FDI, Washington ranks only 35th among states for number of employees at foreign owned firms per capita.⁵⁹

A number of stakeholders have responsibility for FDI attraction, from the Washington State Department of Commerce and the county-specific associate development organizations to ports and regional organizations like the Trade Development Alliance. While the Trade Development Alliance's FDI Working Group brings together some of these entities to coordinate efforts, enhanced collaboration is necessary to truly maximize the potential of this sector, particularly if the suggested industry-specific approach is adopted; there is also the potential for these stakeholders to better leverage the EB-5 Immigrant Investor Program for greater return. In addition, state government might consider ways to change current tax structures to make our state more appealing for such investments.

Top Threats

- **Port Competition from Canada, Mexico and the Panama Canal** – The competitiveness of Washington's ports is one of the most essential ingredients for our state's international success. We need vibrant ports not only because of the jobs tied directly and indirectly to port activities but also because of the importance of these facilities as a gateway for our companies to import and export their goods. Many companies are located in Washington because of their ability to easily ship goods in and out. When shipping shifts to our competitors in Canada, Mexico and (with the widening of the Panama Canal) the southeast and eastern United States, capacity issues arise that increase transportation costs and limit our companies' ability to leverage global supply chains. This is not a problem of the future; Washington has already seen Puget Sound area ports lose market share to British Columbian ports. Given the importance of our state's ports to our economy, the civic and business community is not yet as engaged in these issues as might be expected.

The competitiveness of our ports is determined by two basic factors: the direct costs to shippers and their customers, and the speed and convenience that it takes to get goods from our ports to their ultimate destination. With 70 percent of cargo through Puget Sound ports discretionary, shipping can quickly shift to cheaper, faster and/or more convenient routes.⁶⁰ A wide variety of factors – from investments in freight mobility to taxes and fees that impact shipping costs – are vital to our ports' success. The Harbor Maintenance Tax, for example, not only serves as a disincentive for shippers to choose Puget

⁵⁸ *The State of Washington: Perceptions of Today and Tomorrow*, GS Strategy Group/Gallatin Public Affairs, May 2011

⁵⁹ Bureau of Economic Analysis and U.S. Census Bureau, 2012

⁶⁰ Estimate provided by Port of Seattle and Port of Tacoma

Sound ports over British Columbian ones, but also does not provide sufficient resources to address all of the dredging needs in our state (a key issue for our ports, for example, that rely on a well-dredged Columbia River for their freight mobility). The lack of a national freight investment program also hampers our ability to transport goods to and from the rest of the country.

Many of these issues are federal, and therefore require advocacy for national solutions. However, state and local governments can also play a key role in making investments that maintain competitiveness; as the state considers a multi-modal transportation investment package, it is essential that they consider including funding for critical freight mobility projects like the extension of SR 509, the completion of SR 167 to the Port of Tacoma, and building a new Columbia River Crossing.

Although this is listed as a threat, the opportunity exists to significantly increase business to our ports as well. Just as non-competitive ports may lose business, highly functioning, infrastructure-invested, cost-effective competitive ports have the ability to attract flow through trade away from other ports throughout North America. For example, by implementing its Century Agenda strategic plan over the next 25 years, the Port of Seattle believes that it can grow seaport cargo to 3.5 million TEUs and triple air cargo; the Port of Tacoma has a strategic plan calling for an increase to 3 million TEUs in the next ten years. Supporting their efforts is essential, and could yield significant benefits.

- **Access to and from International Markets** – Washington goods and services are some of the world’s best, but they are only competitive on a relatively level international playing field. High tariffs and quotas, restrictive regulations, and other obstacles can limit the ability of Washington companies to import and export goods and services efficiently and affordably (or at all). This is especially true because of our shift away from the multilateral trading framework established by the World Trade Organization toward bilateral agreements that advantage some countries over others in international markets. For example, before the United States finally approved its free trade agreement with South Korea in October 2011, the European Union had significantly increased its exports to South Korea thanks to a July 2011 agreement; it is not only the five months of extra sales that the EU enjoyed but also an early jump on long-term relationships that were sealed before U.S. firms had the opportunity to compete for them. An example on the import side is that we continue to charge high tariffs on imported shoes and high-performance outdoor wear, despite the fact that almost no domestic industry exists.

As one of the most trade-supported economies in the country, Washington has a unique interest in ensuring that our country both creates and enforces trade regulations that give our businesses the opportunity to fairly compete. Producers need input into the crafting of those regulations so they are consistent; need to have barriers addressed quickly and effectively; and need help in complying with new regulations. Without these policy interventions, Washington companies face an uneven competitive landscape.

- **Public Support for Trade** – Public support for international trade has been decreasing, in large part because of the disruptions and shifts caused by globalization – making certain skills and industries less competitive domestically, and forcing workers to either gain new skills or face long-term economic challenges. While new jobs have been created that help compensate for these losses, our country has not invested enough in ensuring

that our educational system prepares workers for these new opportunities. Overall, the international trade community has failed to consistently make a compelling case for the net benefits to our economy.

All of the abovementioned opportunities are at risk if the people of Washington state do not feel that ensuring our state's international competitiveness is worthwhile. Without a more positive environment for trade, we risk having the public vote against freight mobility investments, or against elected officials who are willing to take votes that support trade priorities. While the stories of those who have lost out from trade have been amply told, we have not put a public face on those who have benefitted from trade; the winners' stories are too often forgotten, and their compelling stories left on the cutting room floor.

IV. Recommendations

The goal of the *International Competitiveness Strategy for Washington State* is to provide clear, actionable tactics to improve Washington's international competitiveness. Based on the Data and Analysis sections above, the following recommendations target those strategies that will have the maximum impact in increasing the ability of Washington state to successfully engage internationally:

- 1) A "Washington State Trade Communications Campaign" to communicate the benefits of trade;
- 2) A coordinated state legislative advocacy effort to increase state investments in international competitiveness;
- 3) The continued growth of Washington's federal trade policy advocacy efforts;
- 4) A focus on increasing the competitiveness of our ports;
- 5) Efforts to coordinate all of the key stakeholders in our state who play a role in boosting our international competitiveness; and
- 6) A focus on increasing trade by Washington companies in key industries, and to targeted countries.

Of course, some of these strategies will take longer to implement, while others will require consistent implementation over a period of time. Therefore, these strategies should be considered as a three-year strategic plan for the state's global competitiveness.

1. A Washington State Trade Communications Campaign: As important as trade is to the economy of Washington state, trade is still widely misunderstood. Too often, only the negative stories of trade and our foreign trading partners are highlighted, leading to policy proposals that would negatively impact the trade jobs that are so important for our state. While we must acknowledge that there are some disruptions due to trade and support efforts to help those impacted, we must be forceful in emphasizing that trade also creates jobs and has the potential to create far more, especially here in Washington state. The messages of the net benefits of trade and the importance of trade to our state's economy need to be reinforced broadly and consistently. The other pieces of the strategy, especially those that cost money or require organizational change, will be easier if the public, civic leadership and elected leaders appreciate the importance of the state's global competitiveness and connectivity.

Of course, to successfully "advertise" the trade story to all of Washington's residents in an impactful way would take overwhelming resources; even then, a large portion of the population is unlikely to drastically switch their opinions, which have been built up over

time and can include powerful personal experiences with some of the negative aspects of globalization. Therefore, the Trade Communications Campaign must be targeted to select audiences with a set of strategic goals. Specifically, elected officials, business leaders and stakeholders from key industries could be targeted, not only to ensure that they fully appreciate the impact of trade on our state but also to supply them with key messages, facts and examples to make them better advocates for trade on their own. This effort must align completely with the below recommendation for “State-level Advocacy for Increased Investments in International Competitiveness”.

A key to success in this endeavor is personalizing the trade story, including case studies and vignettes that demystify trade and create a memorable narrative. For example, one might share the story of a product or service as it moves from origin to destination, like a grain of wheat from the farm in the Palouse to the bakery in China. Or it might track a student from Argentina attending a university in Washington, who then goes back to their new employer in Argentina and does business with a Washington state company. Or it might describe how a Seattle-based architect works with a developer in Dubai on a new building. In each story, it would be possible to describe all the people who get involved along the way as a technique to illustrate how trade and movement of people benefit the state and provide employment.

Finally, in addition to the overall “impact of trade” message, the campaign needs to include specific messages on key issues, such as the number of jobs tied to trade in Washington state, the role of imports in our state economy, the increasing role of services as exports and the positive impact of foreign direct investment.

Tactics

- *Publicizing the International Competitiveness Strategy* – The first step to building support for international trade is showing its impact on Washington’s economy. The data contained in this document is the most up-to-date analysis of the jobs tied to trade in our state, and we plan to do a full communications rollout of this document – including earned media, events, and presentations to key stakeholder groups. (*Timeline: September 2012 – May 2013*)
- *Comprehensive Trade Communications Campaign* – The fully realized Trade Communications Campaign will be a professionally designed and implemented marketing and public relations campaign, incorporating traditional media, social media and other online tools such as a campaign website and online video. Funding for this campaign will be raised from both local and national partners, and audiences will be segmented based on specific messages. Although the major focus of the campaign will be in 2013, some of the resources created as part of this effort will have ongoing use, such as the campaign website, social media tools and videos. (*Timeline: Fundraising, January – June 2013; Campaign Development, April – September 2013; Campaign Implementation, September 2013 – June 2014 and ongoing*)

2. State-level Advocacy for Increased Investments in International Competitiveness: This document highlights several areas where the state government plays a vital role in increasing our state’s international competitiveness. Through general fund appropriations and targeted user fees, government departments like Agriculture and Commerce already work to market and brand our state globally, and to facilitate increased sales of Washington goods and services. Yet, additional investments by the state are

needed to help bring new business, foreign direct investment and tourism to Washington; to improve freight mobility; and to ensure a globally competitive workforce.⁶¹ In addition, the state needs to adopt policies that maintain a competitive business climate for companies that want to use Washington as their headquarters for global operations, and for foreign investors that might want to invest in our state's economy.

These state investments and policy decisions will not happen without an active, organized effort to educate our state legislature – getting them to see not only the benefits of trade broadly, but specifically their role in increasing our international competitiveness. An effective advocacy campaign will not only highlight the investments that they can make specifically in international trade but also how the decisions they make on other issues (from tax policy to education systems) impact our international competitiveness.

Tactics

- *Annual International Orientations for State Legislators* – In the months leading up to the start of the State Legislative Session each year, state legislators and their staff will be visited in their home districts to highlight the role of international activity in Washington state and how they as elected officials can play a role to improve our state's international competitiveness. The presentation will involve key stakeholders – such as local businesses from that legislative district – who can help reinforce these “impact of trade” messages. In addition to these individual meetings, there will also be a reception in Olympia immediately after the start of the legislative session for all state legislators, at which these points will be reinforced. While these activities are important every year, 2012 offers a unique opportunity to not only reach state legislators but also the two major party candidates for governor; it is essential that the eventual Governor enter office with a strong understanding of the importance of international competitiveness and the state's role in supporting it. (*Timeline: September 2012 – January 2013 and each year afterwards*)
- *Coalition for International Competitiveness* – To effectively communicate with state legislators throughout the legislative session on international competitiveness issues, there will need to be an active and strategic presence in Olympia. To coordinate this advocacy and communications, a new Coalition for International Competitiveness will form. This coalition will be a loose association of businesses, ports, associations, nonprofits and individuals who share information, messaging and resources to address legislation and policy that can impact our state's international competitiveness. As the coalition develops, a formal legislative agenda will be created that highlights existing legislative efforts for which an international trade perspective could be helpful in achieving success; examples might include participating in the statewide coalition in support of increased transportation funding, or supporting efforts to increase state funding for export promotion and marketing efforts. (*Timeline: September 2012 – April 2013 and each year afterwards*)

3. Continued Growth of Washington's Federal Trade Policy Advocacy Capacity: The revitalization of the Washington Council on International Trade has once again provided our state with a strong voice at the federal level on trade policy and its impact on Washington state. Despite recent successes, however, there is much more that can be done to

⁶¹ A globally competitive workforce is not only one that has the hard skills necessary for the most competitive global industries but also a better understanding of global diversity. So, in addition to focusing on targeted academic majors, the state can increase international competitiveness by encouraging more foreign-language learning, facilitating more study abroad opportunities and developing new partnerships between universities in Washington and Asia.

grow our collective capacity to ensure that Washington receives maximum benefit from federal trade policy.

The recent coalition led by WCIT in support of Export-Import Bank reauthorization shows that business, labor and government can come together productively on trade issues that all see as mutually beneficial. Other issues in the coming year that fit that collaborative mold include efforts to ensure that Washington ports benefit more from the Harbor Maintenance Tax⁶²; lowering barriers for international leisure and business travelers from fast-growing economies to visit the United States; ensuring that our trading partners enforce rules and regulations around intellectual property protection that create a level playing field for Washington companies to compete globally; and comprehensive national immigration reform.

Tactics

- *Advocate for Harbor Maintenance Tax Reform* – There are three important aspects of the HMT that impact Washington state’s international competitiveness: 1) the tax is not charged when cargo travels to Canadian, Mexican, and other non-U.S. ports and then is shipped to the U.S. via rail or roads, incentivizing the diversion of cargo away from U.S. ports; 2) current U.S. law does not require Harbor Maintenance Trust Fund (HMTF) revenues – those dollars collected through the HMT – to be fully spent on harbor maintenance related investments; and 3) the geography of HMT expenditures does not correlate with the states where HMT revenues are generated. The Federal Maritime Commission inquiry into the HMT and the inclusion of RAMP (Realize America’s Maritime Promise) Act language (dedicating HMT funds to HMT purposes) in the recent federal surface transportation reauthorization provides momentum to address these issues. (*Timeline: September 2012 – October 2013*)
- *Increase International Tourism Through Travel Visa Reform* – International visitors to the United States are our country’s largest export, with \$134.4 billion in travel exports supporting 1.8 million jobs; yet in 2010, the U.S. hosted the same number of international visitors as in 2000.⁶³ Visa barriers make it difficult for not only leisure travelers but also for local businesses’ international customers and employees, foreign owned companies located in Washington and foreign students. In order to increase international visitation and make up for the lost opportunities over the past decade in the travel industry, the U.S. Travel Association has proposed increasing international visitors through visa reforms – concentrating on Brazil, China, and India – that would reduce visa wait times, extend visa expiration periods, allow the use of videoconferencing technology, and increase staffing. With travel visa reforms, Washington has the opportunity to be a top destination for travelers from these three countries due to our geographic location and existing partnerships with Asian and South American countries. (*Timeline: September 2012 – October 2013*)
- *Increase Enforcement of Global Intellectual Property Rights* – Advanced technology is a significant and growing source of U.S. exports. In fact, the U.S. receives 40% of all international IPR revenue.⁶⁴ However, this vital economic driver is threatened by the growth of global intellectual property piracy and counterfeits. Counterfeit products are most commonly PC software but other counterfeit products include apparel,

62 For example, Harbor Maintenance Tax reform is also called out in the *Prosperity Partnership’s Regional Economic Strategy for the Central Puget Sound Region*, as part of Strategy 2.5 (<http://psrc.org/assets/8335/RES.pdf>). The Prosperity Partnership can be an important partner in the implementation of this goal, as reflected in Exhibit E.

63 Ready for Takeoff, U.S. Travel Association, 2011

64 Global Works Foundation Progressive Economy, March 14, 2012

footwear and manufactured goods. This is a key issue for Washington, and one on which we can partner with a wide variety of stakeholders to improve competitiveness for our knowledge-based companies. (Timeline: September 2012 – October 2013 and ongoing)

- *Institute Comprehensive Immigration Reform* – Washington needs to continue to advocate at the federal level for comprehensive immigration reform. High technology companies are stymied in their efforts to attract and retain the best and the brightest from around the world, while Washington colleges and universities spend valuable resources and limited capacity educating students who are then forced to leave the country – sometimes working for foreign companies that compete with us. Meanwhile, our state’s agricultural community suffers from the lack of a legal and reliable labor force, putting the successful harvesting of our crops at risk. Washington is one of the few states with immigration concerns across the range of skills, and could be a powerful voice in the call for common sense reforms that benefit our state’s – and our country’s – international competitiveness. (Timeline: January– October 2013 and ongoing)

4. Leverage Other Strategies to Increase Port Competitiveness: The growing competitive pressures on our state’s ports and the opportunities to grow our ports are one of the most important issues that this strategy can address, but the solutions are multiple and diverse. The items listed throughout the document include: encouraging increased investment at the local, state and federal level for freight mobility infrastructure; ensuring that Washington ports benefit more from the Harbor Maintenance Tax; and raising awareness of the vital role that ports play in our economy.

These tactics are already part of the other strategies in this section. Increased investment is part of the federal and state advocacy strategies. HMT is a federal advocacy issue. And port awareness will be part of the Trade Communications Campaign. However, this issue is so vital to our state’s international competitiveness that it is called out here to ensure that it doesn’t get minimized among the other priorities. Refer to strategies 1, 2 & 3 above for specific tactics and timelines. In addition, other specific tactics should be considered for implementation, including:

- Creating a coalition of key business, government and civic leaders supporting our ports, based on the successful Washington Aerospace Partnership model (Timeline: January 2013 and ongoing);
- Convening ports to identify key common infrastructure, funding and legislation to increase regional competitiveness and develop joint initiatives (Timeline: January 2013 and ongoing);⁶⁵
- Identifying the workforce development needs of the transportation, logistics and maritime industries and developing an action plan to ensure these needs are met (Timeline: September 2013 and ongoing).

5. Statewide International Competitiveness Coordinating Committee and Annual Conference: Many of the opportunities and challenges listed above center on either lost potential from failure to coordinate similar activities (i.e. – the multiple international organizations in Washington) or the need to coordinate diverse groups to maximize new possibilities (i.e. – bringing together global health and development NGOs with business-

⁶⁵ This tactic is also called out in the Prosperity Partnership’s *Regional Economic Strategy for the Central Puget Sound Region*, as part of Strategy 2.5 (<http://psrc.org/assets/8335/RES.pdf>). The Prosperity Partnership can be an important partner in the implementation of this goal as reflected in Exhibit E.

es interested in emerging markets). Coordination is a difficult task, particularly with so many diverse groups that have a role to play (see Exhibit 24 above). In fact, some of the key stakeholders – like foreign-born residents and immigrant entrepreneurs – might not even realize that they need to be included in this ecosystem, and are difficult to identify through casual outreach.

Even in today's online world, the best way to engender coordination and cooperation is through face-to-face communications that are then aided by digital tools. A new International Competitiveness Coordinating Committee that includes the stakeholders listed in Exhibit 24 will gather 2-3 times per year to discuss issues and opportunities, and lead the implementation of the other tactics below. An annual conference can gather stakeholders from across the state to identify and implement new coordination strategies.

Tactics

- **Creation of an International Competitiveness Coordinating Committee:** This body will be a table around which all of the key stakeholders in the international community can meet to identify opportunities for collaboration, address issues of concern and develop tactics to increase coordination. Invitations to participate will be open to heads of the organizations, associations and sectors listed in Exhibit 24, and the meetings will be half-day sessions with carefully planned and facilitated agendas. Possible targets of focus for the committee include growing Washington's international brand; connecting immigrant communities with trade development activities; export promotion; and attracting increased foreign direct investment. In addition, the committee will be charged with recommending policy and structural changes to the state government to better leverage our international trade assets and grow the sector; for example, there is not a single, official point of ownership of trade within the state administration overseeing coordination between state departments and ensuring alignment between policy, programs and investments. (*Timeline: March 2013 and ongoing*)
- *International Competitiveness Conference:* As a way to attract a broader public engagement in the opportunities of coordination – and to better identify those stakeholders who aren't otherwise easily reached – the annual International Competitiveness Conference will be an event that highlights progress on the International Competitiveness Strategy and encourages involvement in its implementation. (*Timeline: October 2013 and ongoing*)

6. Increase Trade By Washington Companies in Key Industries, and With Targeted Countries: While Washington's overall economy has had an impressive performance with regard to international trade, there are key industries that have a notably lower global percentage of their overall activities. Rather than seeing these as shortcomings, this is an opportunity to focus targeted outreach and assistance to companies in those sectors. For example, a look at the non-aerospace, non-agriculture export data shows growth in high tech goods, such as ultrasound equipment and diagnostics, which might benefit from increased and focused assistance. In addition, by looking at targeted sectors, it will be easier to address industry specific barriers and identify opportunities for foreign direct investment attraction. For instance, barriers to exporting for a medical device company are substantively different from those for an architecture firm; meanwhile, targeting certain markets and sectors for foreign direct investment can better leverage limited FDI recruitment resources to better effect. This approach will offer the biggest return

on investment to increase the percentage of Washington companies that import and/or export, and the overall amount of FDI in our economy.

Similarly, this document identifies key markets that are major opportunities for Washington – China and developing countries in Asia, the Middle East and Africa; the 95% increase in U.S. trade that is expected by 2026, will be led by shipments to developing countries.⁶⁶ By focusing on growing relationships and trade opportunities in these countries, Washington can target its limited resources for maximum impact.

Tactics

- *Craft a Statewide International Branding Effort:* The International Competitiveness Coordinating Committee can bring together the Washington State Department of Commerce, economic development councils from across Washington, the newly formed Washington Tourism Alliance, chambers of commerce, the Trade Development Alliance and others to more effectively reach targeted markets with clear, concise messages about the benefits of doing business in Washington and/or with Washington companies. The Trade Development Alliance has already created messages for the Puget Sound region, and continues to work to have that region speak with one voice. A similar effort is needed for the state. With state government and other entities cutting back or short on resources, the various entities engaged with international audiences need to coordinate and build off of each other. The Committee would identify the targeted markets on which to focus our branding efforts, in coordination with the State Department of Commerce's ongoing target market analysis and selection. (*Timeline: April – September 2013 and ongoing*)
- *Create a China Working Group:* China is Washington state's largest trading partner across a variety of categories. Engagement with China is deep and widespread across the state from agriculture to airplanes, and tourism to ports. The magnitude of the market and our state's deep Chinese ties makes it a unique opportunity for Washington. To take full advantage of this opportunity, the state needs a China Working group that is focused on branding, export promotion and foreign direct investment recruitment, as well as helping individual companies develop successful China business strategies. One of the key tasks of this group will be to look at how Washington can increase its presence on the ground in China, supplementing the State Department of Commerce's limited resources; a potential shared effort – funded in part by key public and private sector stakeholders – should be explored. A key partner in this effort will be the Washington State China Relations Council. (*Timeline: May – December 2013 and ongoing*)

Implementation of these strategies cannot be the sole work of the Washington Council on International Trade and the Trade Development Alliance of Greater Seattle; large coalitions of business, government and community stakeholders will need to be engaged in order to successfully move these tactics forward. However, there is clear support for this work and existing efforts that can be leveraged. For example, the Prosperity Partnership – a large coalition of business, government, labor, nonprofit and education organizations from the Puget Sound region – has already committed to supporting the work of the *International Competitiveness Strategy* as part of their recently approved *Regional Economic Strategy for the Central Puget Sound Region*.⁶⁷ A summary of all of the abovementioned tactics, with associated timelines and potential key collaborators, is available as Appendix D.

⁶⁶ HSBC Global Connections Trade Forecast, June 2012

⁶⁷ See Strategy 2.5 as part of their plan (<http://psrc.org/assets/8335/RES.pdf>)

V. Conclusion

The finding that at least 40% of all jobs in Washington state are tied to trade has significant implications for Washington state businesses and residents. It is something to celebrate, as a sign of how successfully we've been able to engage in the increasingly global economy. But it is also a tantalizing promise of the economic potential for our state if we are able to leverage our assets strategically to maximize our international competitiveness.

The coordinated strategies described above are straightforward, tactical approaches to achieving this goal, but they will take participation from a broad cross-section of Washington stakeholders to successfully implement. This document cannot be thought of as a passive report but rather a pro-active strategy and call to action. The release of this strategy is only the beginning of a long-term change in how we as businesses, government and community leaders work together to achieve this increased international competitiveness.

Particularly in today's difficult economic environment, scarce resources need to be targeted to the greatest return on investment. International trade – as shown by the data above – is the largest driver of Washington's economy, and should therefore be at the forefront as decisions are made on how to support job creation and long-term prosperity for all of our state's residents. "How will this impact our state's international competitiveness?" needs to be a filter for evaluating policies, as well as a major criterion for funding decisions on everything from education to infrastructure. While that prospect represents a major shift in the way that we have traditionally acted, the benefits will be significant. By focusing on what the data demonstrates for our state's international economy – such as the importance of services exports and the economic impacts of imports – and the advantages and disadvantages identified above, Washington can create tens of thousands of additional jobs and economic benefits for our state's residents.

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Quantitative Data Collection and Analysis: Community Attributes International

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Steering Committee Members:

- Diane Adachi, University of Washington
- Al AuYeung, Schwabe Williamson & Wyatt
- Janet Christopher, Seattle’s Convention & Visitors Bureau
- Spencer Cohen, Washington Economic Development Commission
- John Cooper, Yakima Valley Visitors & Convention Bureau
- Andy Dale, Montlake Capital
- Tom Davis, Washington State Farm Bureau
- Marcia Garrett, Washington State University
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About the Washington Council on International Trade

For 38 years, the Washington Council on International Trade (WCIT) has been the leading policy resource for Washington state companies engaged in international trade. Broadly respected for its credible and independent voice, WCIT is the primary information resource on international trade issues for elected representatives, business leaders, the media, educators and community groups in Washington state. WCIT is an affiliate of the Greater Seattle Chamber of Commerce. Please visit us at www.wcit.org.

About the Trade Development Alliance of Greater Seattle

The Trade Development Alliance of Greater Seattle is a collaboration of the City of Bellevue, City of Everett, City of Seattle, Seattle Metropolitan Chamber of Commerce, Pierce County Government, Port of Everett, Port of Seattle, Port of Tacoma, Snohomish County Government, and union leadership. The mission of the Trade Alliance is to promote the Greater Seattle region in international markets, connect the region – its businesses and organizations – to those markets, bring the region together to be more successful internationally and to educate our region on the importance of international business broadly defined.

Appendix A. Methodology

The International Competitiveness Strategy employed both qualitative and quantitative research. The following section outlines the methodologies for both. While no data analysis can be entirely comprehensive or 100% certain, this Strategy represents both a sufficiently reliable exploration of Washington's international competitiveness as well as a significant improvement on the currently available data.

On the qualitative side, interviews were conducted with over twenty individuals from key organizations playing a role in Washington's international competitiveness: the Washington Biotechnology and Biomedical Association, Washington State University, Port of Seattle, International Trade Alliance, the Boeing Company, Greater Spokane Inc., Port of Tacoma, Washington Grain Commission, Bryant Christie, Washington Apple Commission, Fairmont Hotel, Washington State Department of Commerce, African Chamber of Commerce, Chinese Chamber of Commerce, Brown and Haley, enterpriseSeattle, REI, Seattle Metropolitan Chamber of Commerce, NW Horticultural Council, Tacoma-Pierce County Economic Development Board, Port of Pasco and Global Washington.

The interview questions are shown as Appendix B and Appendix C below, although not all questions were asked in each interview; rather, the questions were used as a launching point for a wide ranging conversation based on the insights and interests of each stakeholder. The feedback from these interviews was categorized based on themes, and served as the basis for the Analysis and Recommendations sections above. Additional inputs into those sections were provided by the project's Steering Committee members and funders, as well as the staff and board members of WCIT and TDA.

The quantitative aspects of the Strategy rely heavily on existing data. The primary sources for national and state estimates of traded goods and services are The Trade Partnership, a consulting firm in Washington D.C. that specializes in international trade analysis and WISERTrade, a clearinghouse for federal and state merchandise trade data operated by the World Institute for Strategic Economic Research. The Washington Input-Output Model provides metrics on the use of foreign imports in the supply chains of Washington companies, a measure of how critical imported goods are in local production processes. Total state employment impacts of output related to international trade also come from the Washington I-O Model.

WISERTrade

WISERTrade data are organized by the North American Industry Classification System (NAICS). The NAICS industry assignment for traded goods is based on assumed production process, regardless of where or how actual imported or exported merchandise is produced. The origin of goods export data, whether classified by merchandise (HS code) or the industry in which they were produced (NAICS), is intended to reflect the location in which the goods were made. However, known limitations exist in the accuracy of these data for some goods, particularly non-manufactured and agricultural goods. Required US Customs reporting does not specify whether goods have been consolidated in-transit to export, and in many cases, the state of "origin of movement" reflects the point of product consolidation or storage before export. Similarly, in some cases, import products reported to customs reflect the state of port of entry, and do not always indicate the final state of destination for the good. However, good evidence exists to suggest that the majority of WISERTrade-reported export figures represent goods produced in the state. Finally, customs reporting requires only shipments of \$2,000 or higher to be reported.

The Trade Partnership

The value of Washington state exports by industry was provided by The Trade Partnership. For exported

commodities and merchandise, The Trade Partnership also provided trade-supported direct employment. The Trade Partnership drew from WISER data for commodities and merchandise exports. The Trade Partnership's services exports estimates were calculated using Moody's Analytics county value-added output data, identifying each industry that exports services according to national export data. Separately, they calculated estimated expected county-level output for the categories based on employment data from CBP. By comparing the Moody's output data to the expected output estimates, they determined which counties produced a "surplus" of particular services – i.e., more than the county was likely to consume within the county. For counties with a "surplus," county-level export figures were created by allocating each county a share of national exports for a given service industry based on its share of national surplus services production. Counties with output of a particular industry that was less than the expected output (i.e., a production "deficit") were assigned an export value of zero. A full explanation of the Trade Partnership's methodology can be found at http://www.tradepartnership.com/pdf_files/CDx%20Methodology.pdf

Local Data

In a few cases, local data from employers and trade associations was used for specific industry sectors in situations where national sources of trade data did not provide complete information. The analysis uses local data sources for export estimates of agriculture, and direct employment estimates for the global health sector. We did not include foreign direct employment data in the overall calculation of jobs tied to trade (as shown in Exhibit 21, the Bureau of Economic Analysis estimates 93,300 were employed by foreign owned firms in 2009), due to double counting concerns.

Washington Input-Output Model

The analysis relies on the Washington Input-Output Model to calculate the value of import-supported economic activity and derive the state-wide employment impact of both import and export-related economic output. Although import data can be more complicated to analyze than exports, there is no question that Washington state is affected by imports. Therefore, we felt it essential to select the most defensible methodology we could derive to calculate the number of jobs tied to import-related activity. The assumptions made in this methodology are described below. These assumptions undoubtedly led to some over-counting and under-counting, and efforts were made to minimize both. Abundant caution was used in examining the numbers. For example, because of anomalies in the import data for the construction sector, we did not use that data in counting import related jobs.

The following chart reflects the process by which we calculated jobs tied to trade. The "Methods and Formulas" line at the top of the chart demonstrates the math used to arrive at our conclusions:

Methods and Formulas	I/O Analysis	A * J	B * (Jobs/Revenue)	Trade Partnership/WISERTrade	Trade Partnership	E / Total Jobs per Industry	(C+E)/ Total Jobs per Industry	B + D	D/F	I - D
	A	B	C	D	E	F	G	H	I	J
Sector	Import Intensity	Import Supported Output (millions)	Direct Employment from Imports	Foreign Exports (millions)	Direct Employment from Exports	Export Percentage of Industry Employment	Trade Percentage of Industry Employment	Total Trade Supported Output (millions)	Total Output Implied (millions)	Non-Export Output Implied (millions)
Agricultural Products	2.7%	\$154	852	\$6,170	34,145	52%	52%	\$6,170	\$11,827	\$5,657
Forest Products	0.3%	\$-	2	\$690	3,219	85%	85%	\$691	\$813	\$123
Food & Maritime Products	8.0%	\$703	1,558	\$3,705	11,704	30%	34%	\$4,408	\$12,506	\$8,801
Wood & Paper Products	9.6%	\$617	2,105	\$1,613	4,413	20%	30%	\$2,229	\$8,056	\$6,444
Machinery	24.7%	\$395	1,280	\$1,743	6,033	52%	63%	\$2,138	\$3,338	\$1,595
Computers & Electronics	29.6%	\$732	2,004	\$3,856	13,936	61%	70%	\$4,588	\$6,332	\$2,476
Aircraft & Other Transportation	15.1%	\$203	437	\$23,929	84,723	95%	95%	\$24,132	\$25,274	\$1,344
Other Manufacturing & Commodities	16.4%	\$4,038	9,376	\$7,112	16,406	22%	35%	\$11,150	\$31,684	\$24,572
Travel & Tourism	3.2%	\$368	5,735	\$3,643	56,761	24%	27%	\$4,012	\$15,088	\$11,444
Computer Software & IT Services	13.4%	\$1,432	6,178	\$13,035	56,254	55%	61%	\$14,466	\$23,680	\$10,645
Telecommunications	1.4%	\$157	409	\$275	717	2%	4%	\$432	\$11,042	\$10,767
Financial, Legal, Business and Other Services	1.6%	\$941	3,535	\$2,504	9,407	4%	6%	\$3,444	\$59,582	\$57,078
Architecture & Engineering Services	1.1%	\$65	363	\$423	2,371	7%	8%	\$488	\$6,489	\$6,066
Research & Development	10.2%	\$158	959	\$1,889	11,468	55%	59%	\$2,047	\$3,445	\$1,556
Educational Services	70.0%	\$18	192	\$464	4,958	15%	15%	\$482	\$3,157	\$2,693
Global Health/Development Services	NA	\$-	NA	NA	2,324	NA	NA	NA	NA	NA
Port and Freight Services	1.6%	\$1,024	5,979	\$1,016	5,932	22%	43%	\$2,039	\$4,690	\$3,674
Rental and Leasing Services	0.4%	\$8	35	\$51	235	2%	3%	\$59	\$2,169	\$2,117
Wholesale Trade	16.3%	\$19,348	19,279	\$-	0	0%	16%	\$19,348	\$118,654	\$118,654
Retail Trade	10.4%	\$12,027	47,792	\$-	0	0%	16%	\$12,027	\$115,723	\$115,723
Total		\$42,388	108,070	\$72,118	325,006			\$114,350	\$463,549	\$391,429

Total Direct Jobs Tied to Trade: 433,076

Total Jobs Tied To Trade (via I/O Model Analysis): 1,109,909

Percentage of Jobs Tied to Trade (1,109,909/2,905,380): 38%

The following two sections further describe our process:

Import-related economic activity as a percentage of all economic activity. Intermediate goods imported from abroad create jobs in Washington state by facilitating a production process that utilizes local labor. This analysis uses a simplifying assumption that the amount of industry output dependent on foreign imports is proportional to the amount of imported intermediate goods required to produce a unit of output in that industry. Thus the “import intensity” of an industry’s production process quantifies the share of output that is import-supported.

The import analysis first required aligning the 22 sectors of interest identified in this report with the industry categories used by the Washington I-O model. Next, an estimate of import intensity was derived from the Washington I-O model. Import Intensity is a ratio of Washington I-O estimates, where the numerator is “Imports from Foreign” and the denominator is total industry inputs (calculated as “Total Intermediate Input” plus “Imports”).

The analysis then calculates import-supported output by multiplying industry output (after removing foreign exports) by import intensity. (The methodology requires removing foreign exports from output before calculating import-supported output in order to avoid double-counting final demand that is accounted for in the export impact analysis.)

Employment impacts of trade-related output. Drawing on the final estimate for Total Trade-Supported Output, the analysis uses the Washington I-O Model Simple Analysis tool to estimate the full employment impact of trade. Total Trade-Supported Output was mapped back into Washington I-O categories and entered as inputs in the Simple Analysis. The output of the model is total employment impact (both direct and indirect) of the marginal increase in output related to trade.

Appendix B. Stakeholder Interview Questions – Businesses

1. Your organization

- Tell me about your company? How do you engage in the global economy, in terms of creating and selling your products/services?
- What is your primary international customer base? How do you market to them and/or communicate with them?
- Who are your primary competitors, nationally and internationally?
- Do you have a strategic plan? What general direction does it set for you in terms of increasing your international activities? If not, do you plan to expand your current international activities?
- How have government and/or nonprofit organizations partnered with you to help increase your success internationally?

2. The state and region in the global economy

- Overall, how would you characterize Washington’s competitiveness in the global economy? Has that position been improving, deteriorating or staying the same?
- What factors will drive Washington’s global economic competitiveness over the next five years? The next decade?
- Of these factors, which present the biggest opportunities for growth and risks of economic harm?
- Are there “sleeper” issues that could arise as major opportunities and risks?
- Of the opportunities and risks you have just described, which are of most importance to Washington State and the Puget Sound region? Which are of most concern to your company in terms of their influence on your ability to be successful?
- Are we strategically positioned as a state to address the most critical factors? If not, are we organized to get ourselves positioned?

3. Becoming more globally competitive as a state

- What are the two or three strategic imperatives for our state as we work to enhance our position in the global economy?
- Do we have the infrastructure -- physical, business, organizational -- to compete effectively?
- What are two or three specific policy and/or programmatic changes that we need to make at the following levels:
 - o State government
 - o Local government/ports
 - o nonprofits/industry associations

Appendix C. Proposed Stakeholder Interview Questions – International Organizations

1. Your organization

- What is your mission? What parts of your efforts are focused on increasing international competitiveness for Washington and/or your clients?
- What is your primary constituency in Washington? (sector, geography, interest) How do you market to them and/or communicate with them?
- What are some secondary constituencies that benefit from your efforts?
- Do you find there is overlap between your internationally focused activities and the missions of other organizations?
- Do you have a strategic plan for your international activities? What general direction does it set for you? If not, what do you see as the future of your organization’s international activities? Do you plan to expand beyond your current international programmatic work or geographic reach?
- How do you measure success?
- Within the general scope of your mission, do you see gaps that need to be filled? Do you have ideas on how those gaps might get filled?
- What might state and local governments and civic organizations do to help you pursue your international activities?
- How do you partner with other organizations on international activities? Are there partnerships you have not been able to pursue but would like to pursue?

2. The state and region in the global economy

- Overall, how would you characterize Washington’s position in the global economy? Has that position been improving, deteriorating or staying the same?
- What factors will drive Washington’s global economic competitiveness over the next five years? The next decade?
- Of these factors, which present the biggest opportunities for growth and risks of economic harm?
- Are there “sleeper” issues that could arise as major opportunities and risks?
- Of the opportunities and risks you have just described, which are of most importance to Washington State and the Puget Sound region? Which are of most concern to your organization in terms of their influence on your ability to pursue your mission?
- Are we strategically positioned as a state to address the most critical factors? If not, are we organized to get ourselves positioned?

3. Becoming more globally competitive as a state

- What are the two or three strategic imperatives for our state as we work to enhance our position in the global economy?
- Do we have the infrastructure -- physical, business, organizational -- to compete effectively?
- What are two or three specific policy and/or programmatic changes that we need to make at the following levels:
 - o State government
 - o Local government/ports
 - o nonprofits/industry associations

Appendix D. Strategy Implementation Matrix

Strategy	Tactic	Key Stakeholders	Fall 2012	2013	2014	2015
1) Washington State Trade Communications Campaign						
	A. Publicizing the Strategy	WCIT & TDA (with support from Nyhus Communications)				
	B. Trade Communications Campaign	WCIT & TDA (with support from Nyhus Communications)		starting in January		
2) State-level Advocacy						
	A. Annual International Orientations for State Legislators	WCIT & TDA (with support from key business and industry stakeholders)				
	B. Coalition for International Competitiveness	WCIT, TDA, businesses, ports and industry associations				
3) Federal Trade Policy Advocacy						
	A. Harbor Maintenance Tax Reform	WCIT, Prosperity Partnership and Port stakeholders				
	B. Travel Visa Reform	WCIT and tourism stakeholders				
	C. Global Intellectual Property Protection	WCIT and IP stakeholders				
	D. Comprehensive Immigration Reform	WCIT, agricultural stakeholders, high tech stakeholders		starting in January		
4) Increase Port Competitiveness						
	A. Washington Ports Coalition	TDA, Ports, Chambers, key maritime businesses		starting in January		
	B. Port Shared Priorities Convening	TDA, Prosperity Partnership, Ports and maritime businesses		starting in January		
	C. Port Workforce Development Action Plan	TDA, Ports, Chambers, Center of Excellence for International Trade, Transportation & Logistics		starting in September		
5) Coordinating Committee and Annual Conference						
	A. International Competitiveness Committee	TDA, WCIT, State Department of Commerce		starting in March		
	B. International Competitiveness Conference	TDA, WCIT, State Department of Commerce		starting in October		
6) Increase Trade By Washington Companies in Key Industries, and With Targeted Countries						
	A. Statewide International Branding Effort	TDA, State Department of Commerce, economic development councils, Washington Tourism Alliance, Chambers		starting in April		
	B. Create a China Working Group	TDA, State Department of Commerce, Washington China Relations Council		starting in May		

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