



ADVANCE WASHINGTON'S TRADE PRIORITIES ON CHINA

Policy Factsheet

Why it Matters

China is Washington state's largest trading partner. The relationship creates a destination for 29% of Washington goods sent outside of the United States and benefits Washingtonians across industries and from all walks of life.⁹ Our state's retail and manufacturing companies rely on China as part of their global supply chain, and Washington port, freight and logistics employees benefit from this strong trading partnership. Washington's technology industry sells more than \$1.5 billion in services – like software – to China.¹⁰ In fact, in 2017 alone, our state exported \$18.3 billion in goods to China while importing \$14.6 million in Chinese goods and, between 2005 to 2016, Washington exports to China increased 300%.¹

Yet despite these ties, significant challenges need to be addressed. Recently President Trump issued tariffs on Chinese steel and aluminum imports, and China responded with its own set of tariffs on 128 U.S. products. These tariffs will directly impact Washington's agriculture and aerospace industries – our two top exporters – and could lead to a deepening rift that hurts other sectors. With so many of Washington's jobs depending on Chinese trade, it's essential to address these challenges and build an even stronger relationship with our largest trading partner.



5 MILLION
U.S. jobs would be lost if a trade war began between the U.S. and China.⁷

127,000
of those jobs would be from Washington, making it the hardest-hit state.⁷



Industry Impact

Aerospace

Boeing is the largest aerospace supplier in the world and delivered over 7000 planes to China this year.² As China's middle class continues to grow, air travel will become more popular, and Washington companies are well positioned to continue contributing to this growing market.²

Agriculture

China is one of Washington's top five agricultural export markets, taking in \$650 million in Washington-produced agriculture exports.¹ Washington apples, cherries and wine are all in high demand but will suffer under China's retaliatory tariffs.

Tourism

In 2014, Seattle was the 6th most popular tourism destination for Chinese nationals and, as the middle class grows, more Chinese visitors are adding Washington to their lists of travel destinations.³ Chinese students also play a role in growing Washington's economy by paying tuition and paying living costs; Chinese students are the largest population of foreign students studying in Washington at 33.5%.⁴

Information Technology

Washington exported \$251 million in software to China in 2015. As of 2014, China was the 16th largest consumer of U.S. IT-services, a number that could be much higher if intellectual property infringement and other related trade policy concerns were addressed.

Retail

Washington imported \$1 billion of apparel and \$1 billion in footwear from China in 2016.¹ These imports allow our retailers to maintain their global competitiveness, creating jobs in design, sales, marketing and logistics here at home. Many Washington retailers also have successful stores in China.



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Policy Concerns

Policy Concerns with China

Market Access Barriers for U.S. Goods and Services

Numerous barriers prevent Washington state exports from having a level playing field in China. This includes discriminatory and unpredictable regulations intentionally put in place to restrict the sale of U.S. products and services, industrial policies that favor Chinese companies and state-owned enterprises, requirements for localization of data or manufacturing, high tariffs and unfair countervailing duties. WCIT recommends addressing these concerns through both the WTO and bilateral dialogue between the U.S. and China to create enforceable outcomes, such as the recently-announced U.S.-China Comprehensive Dialogue.

Lax Enforcement of Current Trade Policies

China, a fellow WTO member, is party to several WTO trade agreements. It has agreed to participate in the new U.S.-China Comprehensive Dialogue in order to discuss and abide by high-standard trade rules. Historically, however, China has often failed to enforce rules that are put in place to ensure a level playing field for U.S. businesses. We must ensure that these trade rules are enforced and that dialogues are effective vehicles to address policy challenges.

Significant Digital Trade Barriers and Cyber Theft

Digital trade, one of the largest drivers of our state's economy, faces substantial barriers that prevent our state's businesses from growing in China. Cyber theft of trade secrets, software piracy, data localization requirements and blockages on cross-border data flows, limitations on the Internet and legitimate websites (often called the Great Firewall), and restrictions on cloud computing services are just a few examples. These digital trade barriers impact Washington businesses across a variety of sectors and need to be addressed in a comprehensive and productive manner.

Highly Restrictive Foreign Investment Rules

China protects its domestic industries through restrictions on foreign investment across a range of sectors. In fact, the OECD ranked China's investment policies as five times more restrictive than the average of the G20 and OECD countries surveyed. In addition to restricting foreign investments, approval processes are opaque and unpredictable, with Chinese officials sometimes conditioning investment approval on the transfer of technology. The United States is much more open to foreign investment by Chinese firms in the U.S. than China is for U.S. investment in China, and we must address this imbalance.

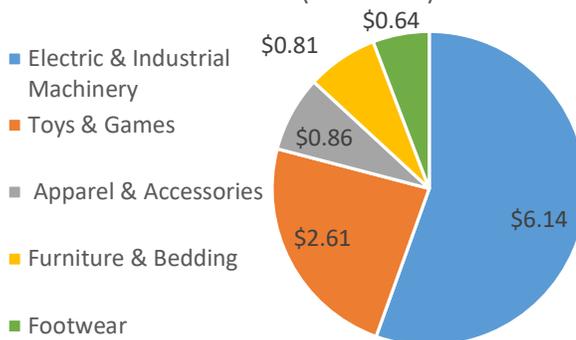
Intellectual property rights infringements

IPR protection remains a serious challenge for U.S. companies in China. China has been on the USTR's Priority Watch list for almost two decades due to counterfeit issues in the retail, manufacturing and pharmaceutical sectors, copyright and software piracy, and a host of other issues. Experts estimate that decreasing China's software piracy by 50% could increase legal software sales by \$4 billion.⁶ Enforcing IPR more assertively is critical for many Washington industries, from technology and manufacturing to agriculture.

What does a Trade War Mean for Washington?

While several Washington products are directly threatened by China's tariffs, our status as a critical gateway to Asia increases the impacts of a trade war on our state. For example, while Washington is not one of our country's top soybean producers, soybeans are actually our second most valuable export. Why? Because other states send their soybeans – and other goods – to Washington on their way to China. Successful trading relationships depend on strong supply chains, and Washington state is a critical link. Tit-for-tat tariffs weaken the links and jeopardize the entire system.

Washington Top Goods Imported From China in 2017 (in Billions)



Quick Citations

1 WISER Trade, 2018 | 2 The Boeing Company, "Current Market Outlook," June 2017 | 3 Intercontinental Hotels Group, "The Future of Chinese Travel" 2015 | 4 Institute of International Education, "Open Doors Washington Factsheet," 2015 | 5 FDI Regulatory Restrictiveness Index, 2017 | 6 USTR, "US-China Economic Issues," January 2011 | 7 PIIE, Assessing Trade Agendas in the US Presidential Campaign, 2016 | 8 Washington Department of Commerce and Washington Military Alliance, "Export Market Research," 2016 | 9 United States Census Bureau, 2018 | U.S. China Business Council "State Export Report," 2018