

## WASHINGTON ECONOMIC TRENDS

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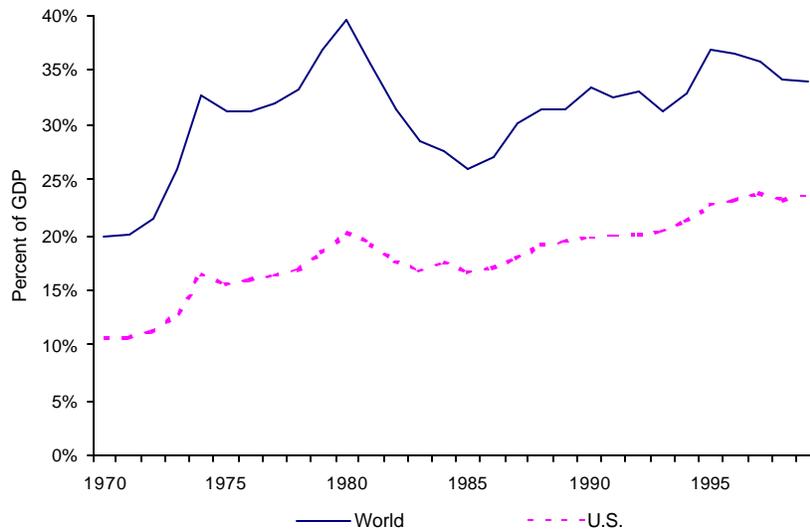
## International Trade and Washington Exports

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**T**HE TREND TOWARD GLOBALIZATION OF THE ECONOMY has been accelerating over the past three decades. An important component of the globalization process is intensified trade of goods and services among countries. Between 1980 and 1998, worldwide trade volume increased at an average annual rate of 5.6 percent, much higher than the 3.3 percent growth rate for global production. As a result, international trade (i.e. exports plus imports) as a share of total world production rose from 19.9 percent in 1970 to 34.2 percent in 1998.<sup>1</sup>

The United States is the leader in world trade, representing about one-seventh of global trading value. Exports and imports accounted for 10.7 percent of the U.S. Gross Domestic Product (GDP) in 1970; the share more than doubled to 23.6 percent by 1999. While manufacturing and agricultural products contributed to most of the export growth in the 1970s, the export of services grew significantly in the 1980s and 1990s. The services share of total exports rose from an average of 22 percent in the 1970s to 24 percent in the 1980s, and 28 percent in the 1990s.

### International Trade As a Share of Production



Sources: International Monetary Fund; U.S. Bureau of Economic Analysis.

<sup>1</sup> International Monetary Fund, "World Economic Outlook". June, 1999.

The State of Washington's geographic location gives it the advantage of serving as the nation's gateway to East Asia. With this strategic position, the state greatly benefits from the growing integration of the world economy. According to a study evaluating the impact of international trade on the state economy, foreign exports constituted approximately 19 percent of the state's gross output in 1995, rising from 8 percent in 1967 and 14 percent in 1982.<sup>2</sup> About one out of every four jobs in Washington State is directly or indirectly related to foreign exports; and the import trade supports roughly 7 percent of employment in the state. Together, close to one third of Washington jobs are related to international trade<sup>3</sup>.

## Washington Exports

Exports include goods and services. Although the export of services at the state level is not systematically tracked, it is reasonable to assume that Washington has a sizeable service export value, judging by the state's large software industry, which derives a high proportion of revenue from overseas sales. It is likely that, parallel to the national trend, the state's services exports have been increasing as a share of total foreign trade value. Lacking the data on services export, the following discussions only cover goods export.

Washington has ranked among the top export states in the nation. In 1999, the state ranked fourth in total value of exports among the 50 states. Only California, Texas, and New York exported more. Over the past decade, total state exports in real terms increased 22 percent; the export value dipped 4 percent in 1999 due to the weak world economy.

### Washington Exports (Millions, 1999\$)

	1990	1995	1998	1999	1990-99 % Change
TOTAL	32,979.5	25,113.9	42,034.9	40,235.7	22.0
Agriculture, Forestry & Fishing	3,432.5	4,358.2	2,278.7	2,443.2	-28.8
Ag. Production – Crops	2,968.9	3,770.8	1,758.5	1,879.7	-36.7
Mining	83.7	103.6	43.8	31.4	-62.5
Manufacturing	29,176.4	20,346.3	39,377.4	37,296.9	27.8
Food and Kindred Products	898.3	1,521.9	1,299.9	1,275.7	42.0
Lumber & Wood Products	2,952.8	2,342.8	1,198.8	1,121.5	-62.0
Paper and Allied Products	899.6	1,238.0	931.7	993.0	10.4
Primary Metals	1,031.0	581.3	559.6	634.3	-38.5
Industrial Machinery/Computer Equip.	468.5	950.0	1,499.0	1,493.8	218.9
Electronic & Electrical Equip.	341.2	1,012.3	973.1	810.1	137.5
Transportation Equipment	20,820.0	10,677.4	30,340.9	28,152.5	35.2
Instruments	478.0	615.9	771.6	885.3	85.2
Other	286.9	305.7	335.0	464.3	61.8

Source: The Massachusetts Institute for Social and Economic Research (MISER). The constant dollar estimates are calculated using the Bureau of Labor Statistics' chained implicit deflators for industrial output.

<sup>2</sup> Conway, R. S., Jr. "Foreign Exports and the Washington State Economy", Washington State Community, Trade and Economic Development, 1997.

<sup>3</sup> Chase, Robert A. and Glenn Pascall, "Foreign Imports and the Washington Economy", Washington State Community, Trade and Economic Development, 1999.

## Export Industries

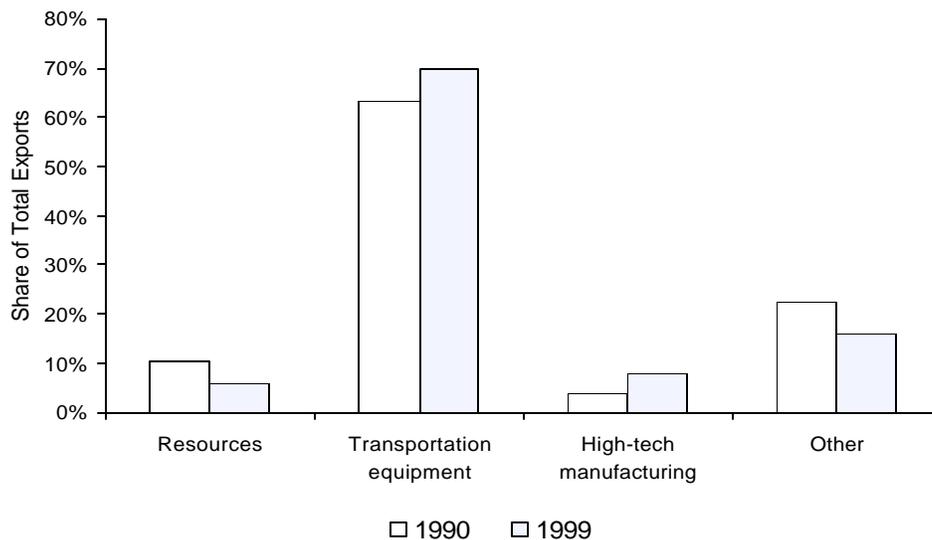
Transportation equipment, mainly aircraft and aircraft parts, is Washington's leading export sector. In the 1990s, transportation equipment on average accounted for 59 percent of the value of total state exports. In 1999, transportation equipment exports came off a cyclical peak in the previous year, making up 70 percent of the state's total export value.

Washington's second leading export industry during the 1990s was agricultural crops. Throughout the decade crops averaged about 8.6 percent of the value of Washington exports. However, export of agricultural crops dropped to \$1.9 billion in 1999, only 4.7 percent of total state exports. The drop occurred mainly in the last two years, reflecting the soft demand from East Asian countries that are the main export market for the state's agricultural products.

In the past decade the state's third leading export was lumber and wood products. However, the state's lumber and wood exports had been falling throughout the 1990s due to export bans and declining timber supplies. During the decade, lumber and wood products on average constituted 6.8 percent of all Washington exports, but that share fell to 2.8 percent in 1999.

The high-tech manufacturing industries in Washington, excluding transportation equipment, had been experiencing substantial export growth in the 1990s. Over the decade the real value of export of industrial machinery and computer equipment tripled, the export of electronic and electrical equipment more than doubled, and the instruments export increased 85 percent. Consequently, these high-tech sectors had increased their shares of the state's export. By 1999, industrial machinery and computer equipment had surpassed lumber and wood products as Washington's third-leading exporter.

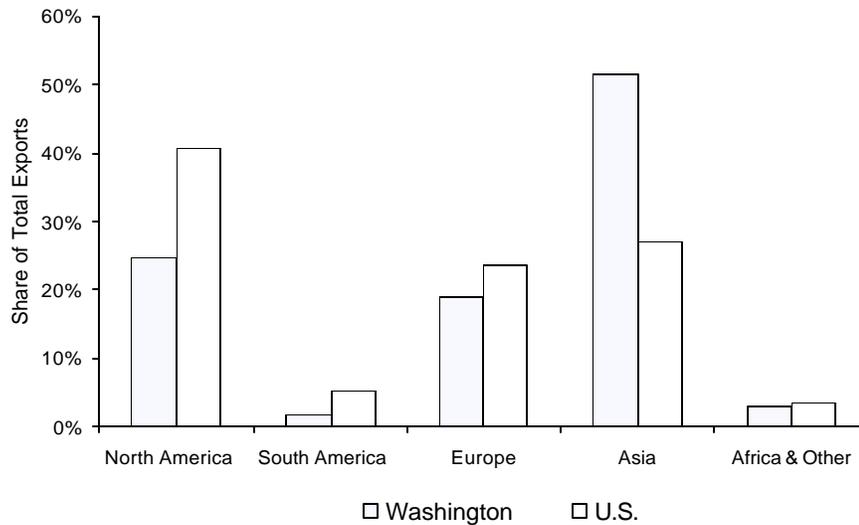
### Industrial Share of Washington Exports



## Export Destinations

Serving as the nation's gateway to East Asia., Washington maintains a close trading relationship with the Pacific Rim countries. As a result, the state's exports exhibit a geographic distribution quite different from all U.S. exports.

### Distribution of Non-Transportation Merchandise Exports



### Washington and U.S., 1999

In 1999, East Asian countries<sup>4</sup> accounted for 35 percent of total state exports, in contrast to only 25 percent for U.S. exports. Excluding transportation equipment, whose exports fluctuated widely over time and among geographic regions, about 50 percent of the state exports went to East Asian.

Washington's top five export destinations in 1999 were Japan, United Kingdom, Canada, Germany, and China; they together accounted for 44 percent of the state's total exports. The distribution of exports excluding transportation equipment is much less concentrated, with 28 percent of the non-transportation exports going to the top five nations -- Japan, Canada, South Korea, Taiwan, United Kingdom.

### Factors Affecting Foreign Exports

Declining transportation costs, and advancements in communication and computing technologies are important factors contributing to rising international trade. The emerging cross-continent digital communication networks will substantially increase producers' access to markets around the globe.

<sup>4</sup> The East Asian countries includes Mainland China, Taiwan, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Philippines, Singapore, and Thailand.

A critical factor behind the growth in international trade has been the willingness of countries around the world to dismantle import barriers. In addition, there has been a proliferation of regional trading arrangements/blocs in the past 20 years. Today, by the World Bank's account, there are 24 major regional trading blocs. (One of the most known is the North American Free Trade Agreement, NAFTA). Some agreements go one step further by adopting a common currency (e.g. the European Union). These regional agreements encourage and enhance internal exchanges – i.e. trade among members of the same bloc.

But the world today is still far from being frictionless in terms of commodity and services exchanges. Some goods trading faces severe resistance – e.g. tariffs on farm products average more than 50 percent globally. Adding to this are non-tariff barriers such as quotas, control on international capital flow, ownership restrictions, etc.. Besides, the regional trade agreements, while promoting internal trade, may stifle trading with countries outside the bloc

Globalization and the accompanied escalating international trade sometimes can cause painful disruptions. When plants are moved to another region/country for more efficient production and resources are transferred to more competitive sectors, local environmental quality may be degraded and workers in certain sectors will be displaced. All these concerns, if not properly dealt with by the economic and political institutions, can be deterrents to further trade liberalization.

## **Summary**

International trade has become more and more important to the economic growth, both nationally and statewide. As the nation's gateway to East Asia, Washington has particularly close trading relationships with Pacific Rim countries. Transportation equipment and resource products have been Washington's major exports, but recently export of the state's high-tech manufacturing products have been growing vigorously. Many factors affecting international trade are determined at the national level (e.g. tariff and quotas), but the state can enhance its stance in the global trading environment through investment in human capital, and transportation and communication infrastructure.

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