

# WASHINGTON STATE TRADE WITH TRANS-PACIFIC PARTNERS

By  
**Andrew J. Cassey**, School of Economic Sciences, Washington State  
University.

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## Introduction

The Trans-Pacific Partnership (TPP) is a proposed trade agreement among twelve countries bordering the Pacific Ocean. Negotiations began in February 2008 among Brunei, Chile, New Zealand, Singapore, and the United States. Australia, Peru, and Vietnam joined negotiations in November 2008. By May 2013, Canada, Japan, Malaysia, and Mexico had joined the talks. The proposal was agreed to on October 5, 2015, and sent to each country for ratification. Though not part of the 2015 agreement, Colombia, Indonesia, Philippines, South Korea, and Thailand have formally announced interest in joining the TPP.

The economic aims of the agreement are to lower tariffs, establish a common framework for intellectual property, and enforce standards for labor and environmental law. The goals are to increase trade and investment among members; to promote economic growth, development, and innovation; and to support the creation and retention of jobs (USTR 2015a). One of the features of the agreement is to establish a dispute resolution tribunal.

Washington is one of the largest states in terms of the percentage of value produced that is exported. Furthermore, Washington is the closest of the 48 contiguous states by great circle distance to northeast Asian countries, such as South Korea and Japan. Therefore, there is reason to expect that the effects of the TPP will be larger in Washington relative to other states. Gunay (2015) predicts that, of all US states, Washington will be the largest beneficiary in terms of an increase in statewide wages. However, this publication neither assesses the benefits and costs of the agreement nor discusses points of controversy. Rather, this paper documents the past trade patterns between Washington State and TPP members in order to establish the facts on recent trade trends with TPP countries. With that knowledge, small and medium-sized businesses in Washington can plan for the implementation of the TPP not only in terms of entering new markets but also in response to foreign products entering the Washington market. To see the effects on Washington exports from the most recently enacted bilateral free trade agreements (with South Korea, Panama, and Colombia), see Cassey and Dhanireddy (2013).

## The TPP Countries and Current Tariff Barriers

The countries in the TPP agreement as of October 2015 are listed in alphabetical order in the top portion of Table 1. The bottom portion of Table 1 lists countries that are not TPP members yet, but who have publicly announced interest in joining the agreement. Columns indicate each country's gross domestic product (GDP), population, and distance from Washington State.

The United States is by far the largest TPP member in terms of GDP and population and is 1,000 times larger than the smallest member, Brunei, in terms of GDP and population. In fact, the GDP of the United States is twice that of the other eleven countries combined, though the population of the United States is only two-thirds of the other countries together. The United States currently has as bilateral trade agreement with Australia, Canada, Chile, Mexico, Peru, and Singapore (USTR 2015b). Thus, the biggest country in the TPP that is not yet a part of a free trade agreement with the United States is Japan. The United States recently entered into bilateral free trade agreements with potential TPP member countries Colombia and South Korea in 2012.

Despite the many free trade agreements the United States currently has in place with TPP members, there are still many barriers facing US exports. This is due to the fact that the United States does not have a free trade agreement with every TPP member country as well as that many of the bilateral free trade agreements the United States already has have exceptions allowing for barriers to trade on some goods.

Table 2 shows the extent of the trade barriers faced by a selection of the TPP members by other TPP countries. Table 2 also lists the trade barriers the non-TPP member countries of China, Germany, and South Korea face when trading with TPP members, for comparison. The overall barrier is the size of the tariff (or tax on imports—a percentage over the free trade price) that would be applied to a typical shipment of US exports to TPP countries. As can be seen in Table 2, the overall barrier is not particularly large for US exports. The overall tariff barrier is only 2.26%. The same is true of other countries as well, with Canada facing the largest barriers at 7.77%.

Table 1. Countries and characteristics

Country	2014 GDP (billions)	2014 Population (millions)	Distance to capital from WA (miles)	Date of free trade agreement
TPP Countries as of Oct. 5, 2015				
Australia	1453.7	24.4	7926	Jan. 1, 2005
Brunei	17.3	0.4	7462	
Canada	1786.7	35.5	2161	Jan. 2, 1988
Chile	258.1	17.8	6418	Jan. 1, 2004
Japan	4601.5	127.1	4820	
Malaysia	326.9	29.9	8077	
Mexico	1282.7	125.4	2307	Jan. 1, 1994
New Zealand	164.1	4.5	7417	
Peru	202.9	31.0	4939	Feb. 1, 2009
Singapore	307.9	5.5	8107	Jan. 1, 2004
United States	17,419.0	318.9	1647	—
Vietnam	186.2	90.7	6871	
Select Non-TPP Countries that Have Announced Interest in Joining TPP				
Colombia	377.7	47.8	4037	May 15, 2012
Indonesia	888.5	253.5	8414	
Philippines	284.6	99.1	6682	
South Korea	1410.4	50.4	5212	Mar. 15, 2012
Thailand	373.8	67.7	7483	

Notes: GDP is the value of a country's total income in one year. Distance is the great circle distance from the population center of Washington State to the capital of each country. Taiwan has announced interest in joining, but data for it are not available.

Sources: GDP data is from The World Bank (2016a), except for New Zealand, which is from the OECD (2016). Population data is from The World Bank (2016b). Distance is the author's calculation.

Table 2. Tariff rates imposed by TPP countries on exporting countries

Exporting Country	Overall	Agriculture, Food, and Beverages	Textiles & Apparel
		(%)	
United States	2.26	36.93	3.09
Japan	4.07	6.89	9.96
Mexico	2.72	19.45	4.54
Canada	7.77	18.92	8.01
Australia	2.51	12.73	5.57
New Zealand	3.37	7.00	0.75
Malaysia	0.35	1.24	3.56
Vietnam	3.51	8.80	7.94
China	3.74	9.55	10.33
Germany	2.64	10.02	10.89
South Korea	2.62	14.98	9.60

Notes: Each entry is the average tariff as a percentage imposed by every TPP country on the exporting country. The order of the rows is by region. Non-TPP countries are listed below for comparison.

Source: Adapted from Gunay (2015).

There are, however, much more substantial barriers facing the United States and other countries when exporting agricultural goods, food, and beverages. The barrier facing the United States on these goods is almost 37%. Textiles and apparel is another category that has high tariff rates, although the tariff facing the United States is not large. (Likely due to the fact that the United States does not export many textile goods.) One of the reasons for the higher trade barriers for agricultural and textile products is that these categories are often allowed to have high tariff rates by current free trade agreements.

## A Description of the Trade Data

Some state-level trade data are available for free at [TradeStats Express](#). The data reported here, however, are from the World Institute for Strategic Economic Research (WISER). These data are the official trade data of the United States.

The export data are collected at the port of exit as a shipment leaves the country. The data record the state from where the shipment begins its international journey, which is not necessarily the state in which the export was produced. For example, Louisiana exports twelve times more corn than it grows because of corn from the Midwest being consolidated for shipment at the Port of New Orleans. Though this problem of which state an export is really from is large for agricultural and mining sectors, the problem is far less serious for manufacturing. Thus, we limit the analysis to Washington manufacturing data only, though that does include processed agricultural food products, such as packaged seafood and fruit and vegetable juices and preserves. For a complete description of how the data are collected and how they should be interpreted, see Cassey (2010). Export data from the last decade, 2005–2014, will be used to illustrate the recent trade trends.

The import data are also from WISER. The import data are collected at the port of entry. The US state recorded is the state where the shipment is first destined. Thus a shipment from Japan to Montana that enters the United States in Tacoma, WA, would be recorded as a Montana import. If that shipment arrives in Montana and then is sold to someone in Nebraska, Montana is still the state of record. This issue of import pass-through is once again large for the unprocessed agricultural and mining sectors, but less so for manufactured goods. Thus, once again the scope of analysis is limited to manufactured imports shipped to Washington. Import data are not available before 2008, so only the years 2008–2014 will be used.

The trade values reported here are adjusted to account for inflation to reflect the 2014 value of the US dollar. The adjustment of trade value for inflation is done using the Consumer Price Index for the Seattle-Tacoma-Bremerton area for all items (BLS various).

## Washington State Total Manufacturing Trade with TPP Countries

Exports to a specific country can increase in two ways. First, the amount of exports in goods already being exported to that country can increase. Second, the number of exported goods to that country can increase. Studies from past free trade area policies like NAFTA have shown that most of the impact of tariff reduction policies occurs from goods entering new markets (Ruhl and Kehoe 2013). The same is true for imports. Imports can grow because there is more trade in the goods that were already being traded. Or they can grow because the goods from countries that were previously unavailable are now being sold. Figures 1–4 use this decomposition to see if the recent trends in Washington trade are due to changes in sales of the same products or a change in the number of products traded.

Figure 1 displays the total value of Washington manufactured exports to each country in the TPP from 2005–2014. Though there is year-over-year volatility, the overall trend is clear for just about every TPP member country: Washington is exporting more value recently. Figure 1 is divided in two, with values for the smaller trading partners, such as Brunei and Vietnam, on the left axis and values for larger trading partners, such as Canada and Japan, on the right axis. Although there are some decreases in exports from Washington to partner countries in 2014, the overall decade-long trend is for increasing exports to each of the TPP markets regardless of whether the partner country is small or large. Figure 1 also shows that there is room for growth in exports to some TPP partners. Peru is an example of a market with some size that is not currently importing much value from Washington. Though Washington currently does not export much to Peru, there is a noticeable increase in exports after 2009 when the Peru-United States bilateral free trade agreement was enacted. Japan is another example of a country with room for growth in trade. Though already a large trading partner, Japan is not at the level of NAFTA partners Canada and Mexico despite being a larger economy.

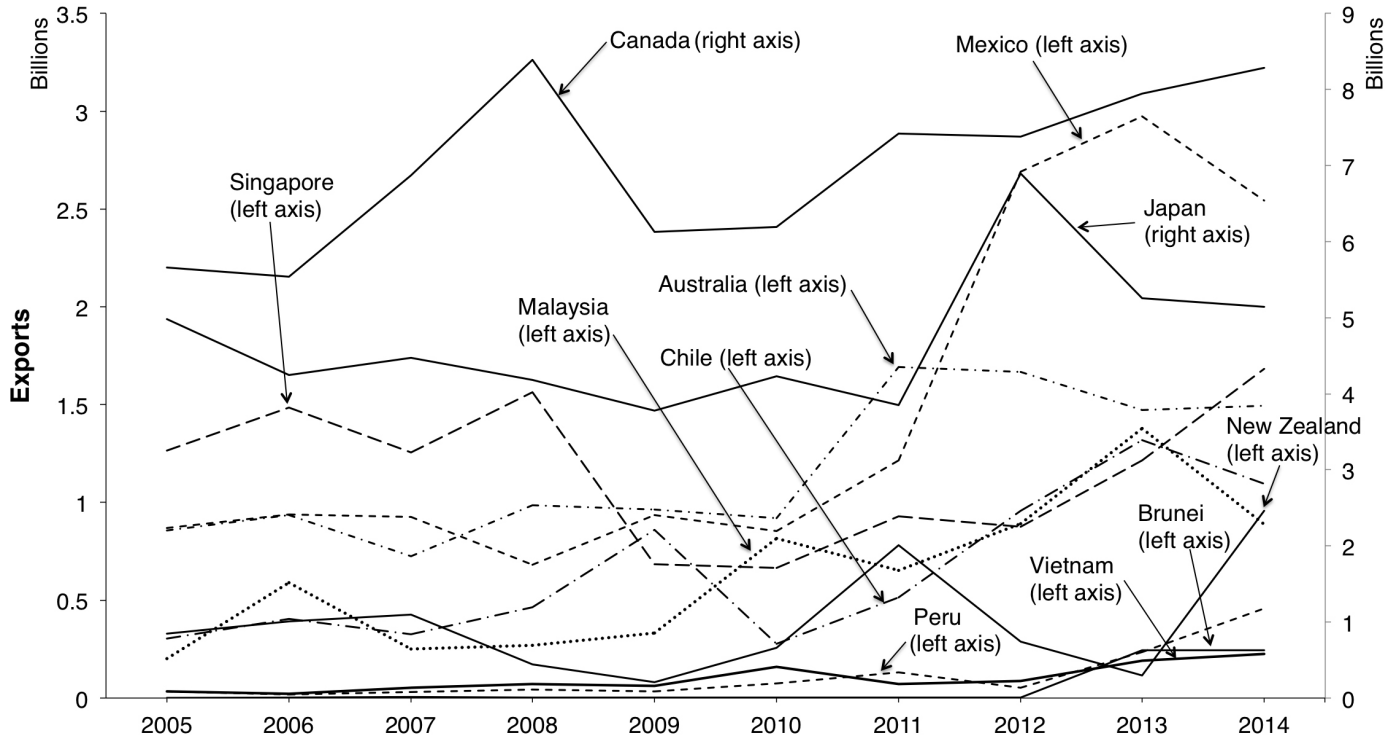


Figure 1. Washington State inflation-adjusted exports of manufactured products to TPP countries, 2005–2014.

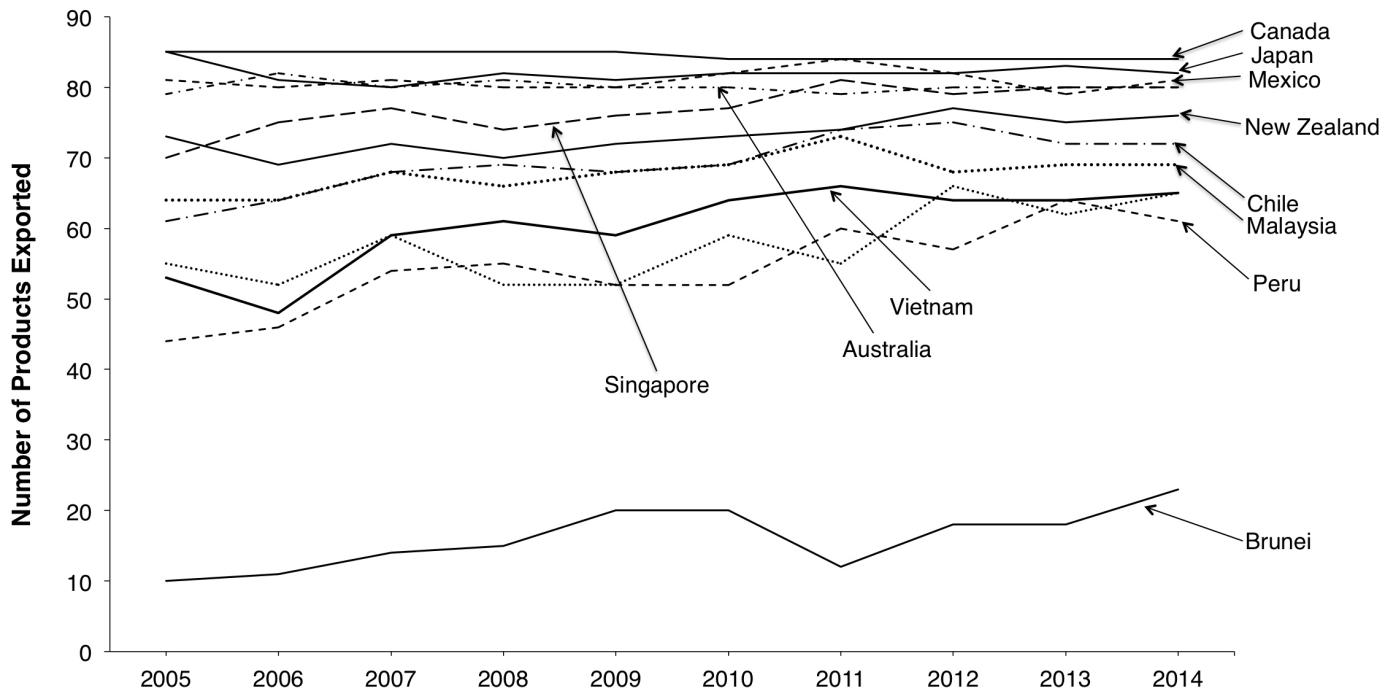


Figure 2. Number of manufactured products exported from Washington State to TPP countries, 2005–2014.

Because Figure 1 shows the value of exports, it cannot be used to see if the increase in exports is due to more sales of the same goods or the entry of new goods into the market. Figure 2 plots the number of goods Washington exports to each TPP country. In Figure 1, Washington’s largest trade partners, in terms of value, are also the partners that receive the most goods from Washington. The trends are stable, especially toward the top, but there is an increase in exported goods to the smallest countries. The implication is that all countries could receive more exported goods from Washington State, at least up until the level of Canada.

Ruhl and Kehoe (2013) show that the effects of trade liberalization are often seen in the number of products exported and not export value. This is apparent in a comparison of Figures 1 and 2. The data in Figure 2 suggest there is less room to grow in Japan than in Figure 1 because Japan is already importing most of the goods exported by Washington State. But there is plenty of room to grow in Peru.

Figure 3 shows imports into Washington from TPP members. As in Figure 1, the disparity in import level requires that small countries use the left axis and large countries use the right axis. And as in Figure 1, though there is a dip in imports in 2014, the overall trend from 2008 is increasing imports from all countries. Unlike Figure 1, however, Washington receives most of its imports from Japan, with Canada in second.

Though Washington receives most of its import value from Japan, it only receives the second-most number of different goods from there. Washington receives the most import goods from Canada, with Mexico in third place. And though the trends here are once again fairly stable, we see that the number of goods imported from TPP countries, such as Australia, Chile, and Peru, are decreasing over time. Given that export value is increasing, imported goods are being valued higher than in the past.

## Washington State Processed Agriculture and Food, Beverages, and Textiles Trade with TPP Countries

As noted in Table 2, the United States is not facing large tariff barriers with TPP countries on most traded goods. But it does face substantial trade barriers on food products, beverages, and textiles. Because of the high tariff rates and other barriers that face United States exports of processed agricultural products, beverages, and textiles, Figure 5 focuses on Washington trade in only those items to TPP members. As in Figure 1 and Figure 3, Figure 5 has a split axis with smaller countries using the left and larger countries using the right.

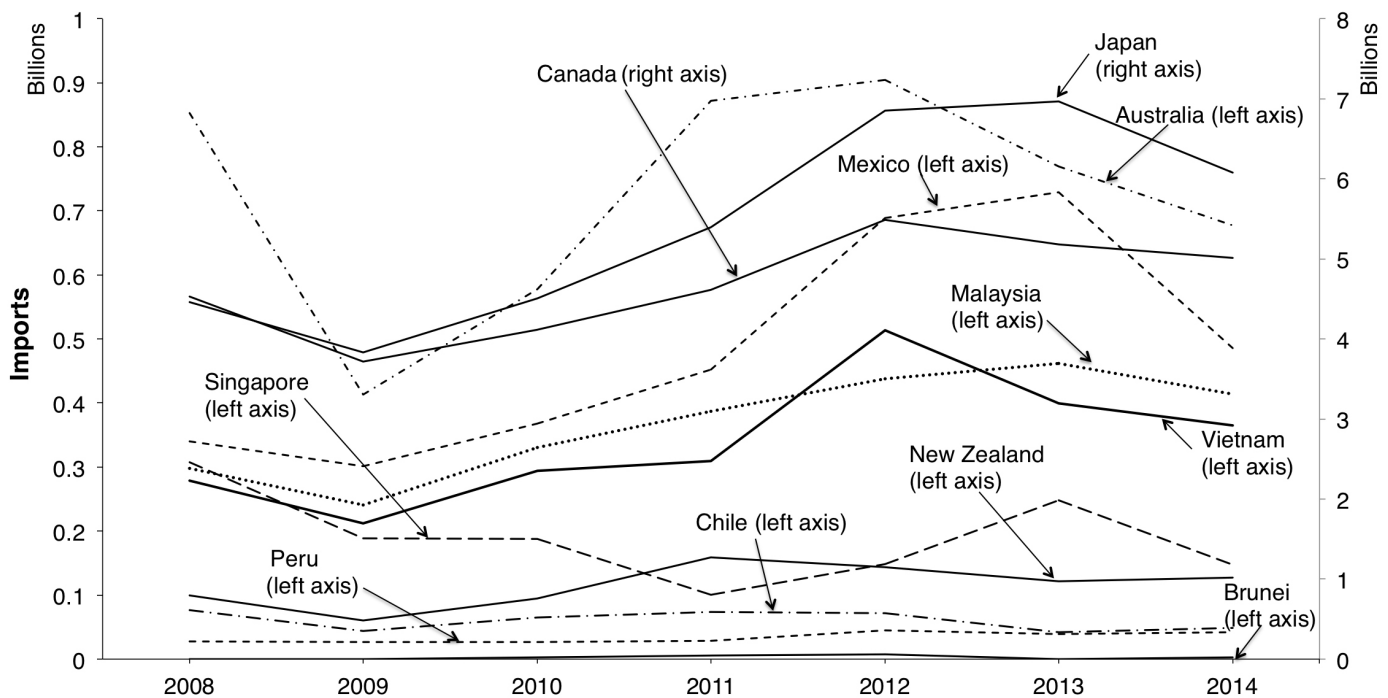


Figure 3. Washington State inflation-adjusted imports of manufactured products from TPP countries, 2008–2014.

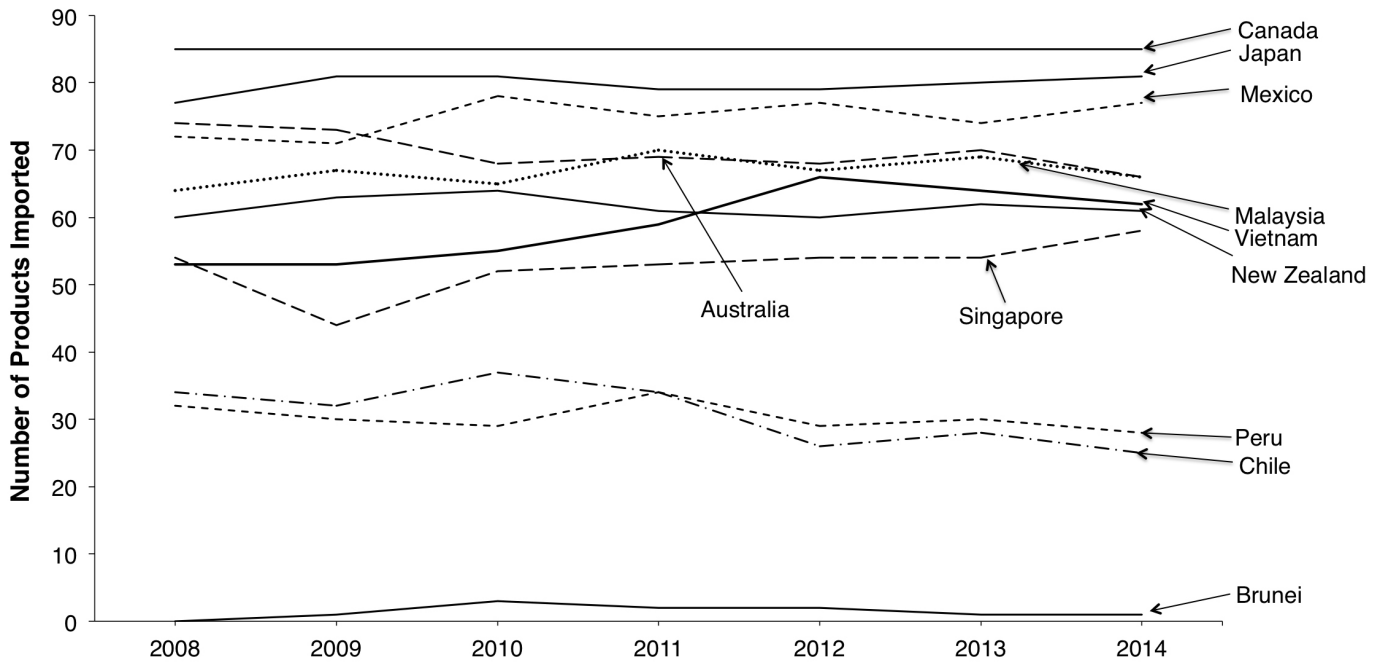


Figure 4. Number of manufactured products imported into Washington State from TPP countries, 2008–2014.

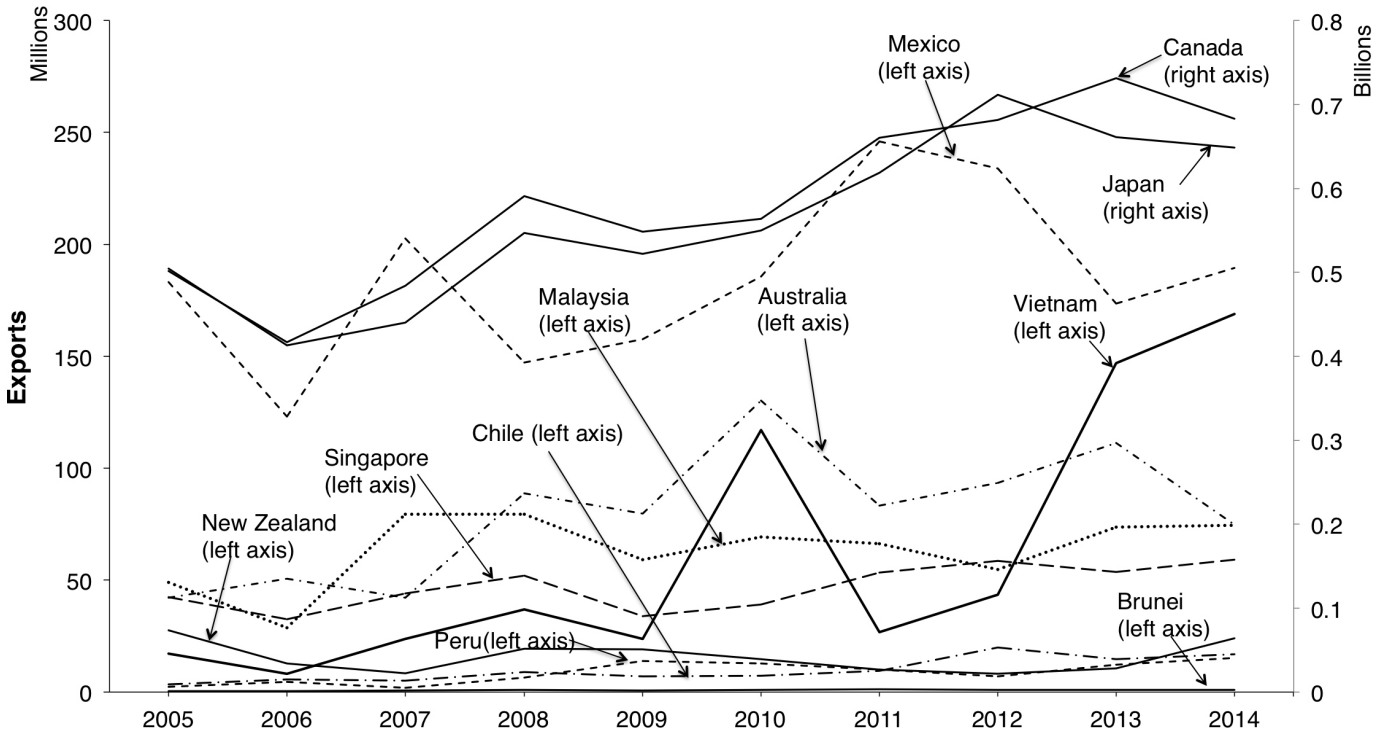


Figure 5. Washington State inflation-adjusted exports of processed agricultural products, beverages, and textiles to TPP Countries, 2005–2014.

The two facts to notice are (1) more or less, exports in these products are increasing to TPP countries in the past decade and (2) exports are not that large. Exports to Brunei are essentially zero and those to Chile, New Zealand, and Peru are less than \$25 million. Singapore receives only slightly more in Washington exports, around \$50 million. There have been some increases to Japan, which imposes some of the strongest restrictions against imports of food from the United States. Australia and Vietnam are two other countries with a trend of increased imports from Washington.

Washington imports from each country in food products, beverages, and textiles are seen in Figure 6. Washington imports less than \$25 million in these products from Brunei, Singapore, and Japan. Most of this has to do with the fact that these types of products are not produced in those countries and thus they are not available anywhere rather than it being an issue of a trade barrier. Canada is, by far, the biggest trade partner, followed distantly by Vietnam and Australia. Figure 6 shows a bit of volatility year-over-year. It is an open question if the trade liberalization in the TPP would reduce that volatility.

## Summary

The TPP is a negotiated free trade agreement among twelve Pacific Rim countries that, if enacted, would create the largest free trade area in the world. This would allow for goods from member countries to enter other member countries at reduced costs from a decrease in trade barriers. The agreement is complicated and there are many controversial issues not addressed here. The aim of this publication is to document Washington's trade with TPP members over the last decade to anticipate what could happen to trade patterns if the TPP is enacted.

Trade with TPP countries has been increasing in the past decade and will likely continue to do so regardless of whether the TPP is enacted. The decomposition of exports and imports in their total value as in Figures 1 and 3 and the number of goods as in Figures 2 and 4 is designed to show that most of the growth in exports and imports has come from more sales and not more goods.

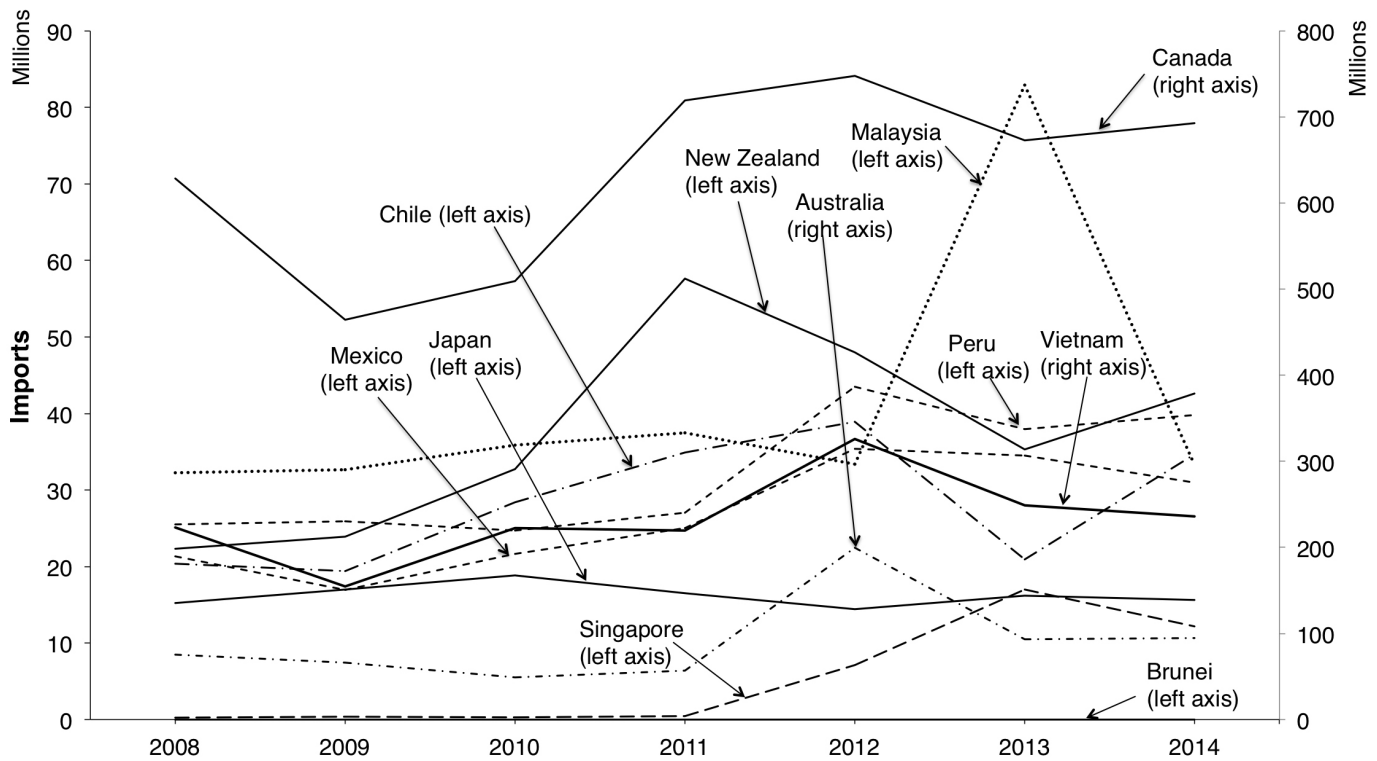


Figure 6. Washington State inflation-adjusted imports of processed agricultural products, beverages, and textiles from TPP countries, 2008–2014.

But the experience of past trade liberalizations shows that the biggest opportunities from decreases in trade barriers are in the introduction of goods to new markets (not in more sales to existing markets) and the availability of more foreign products for purchase in Washington State. Most of the trade barriers facing Washington are on agricultural and food products, and these products would see the greatest decrease in trade barriers to TPP members.

TPP economic success depends on the extent to which the agreement allows firms to access markets that were previously unreachable. If accessibility to new markets happens on a large scale, the benefit goes to the consumers in those markets (or firms that buy inputs) who now have more goods and more types of goods available to them at lower prices. Benefits also reach exporting firms and their employees who would now be able to sell to more markets.

Additional resources for interested readers can be found through the WSU School of Economic Sciences, including a list of [Trade and Development Organizations](#) and a step-by-step guide to [Assessing Export Readiness](#).

## Acknowledgements

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