MR. KOTKINS: Thank you very much. I appreciate the opportunity to speak with you today.

By way of background, my company, Skyway Luggage Company, is an 89-year-old wholesaler of luggage products. For 88 of those years we actually operated factories in various places in the U.S., certainly here in Seattle, and at one point for eleven years we had a maquilladora factory in Mexico under the 807 program. Today all of our manufacturing takes place in Asia.

We ship products from those factories in Asia, primarily China and Thailand this year. But it's moved around over the years. We ship our products primarily to North America, but we also have customers in Mexico, Europe, the Middle East, Africa, Australia, New Zealand and some of the other Asian countries.

I, like Paul, have submitted a number of written comments, but I would like to highlight just four points from the comments that I have submitted. It's interesting, Mr. Chairman, you stated in the beginning that you have heard from people who have been hurt from imports and people that have been helped by exports. Well, I'm going to add to your background today because I'm a person to tell you who's been helped by imports and I’m here to talk about people who have been helped by imports.

First we have a terminology problem. Deficit or imbalance are, in and of themselves, negative terms. The common connotations of those terms automatically color any conversation that looks at the topic. Those of us who are importers who are often put in the position of having to be defenders or apologists for what we know to be activities that in fact do benefit parties, both at home and abroad, and really hurt no one.

The second point I want to make is the importance of understanding the role of the consumer in all of our discussions. Our imports, whether finished goods or inputs into U.S.-made products, ultimately result from the desire of the consumer to purchase the best value available. In the very best application of the principles of free enterprise, imports are the result of choice on the part of consumers. My company, with a long history of manufacturing in the U.S., did not reach its present 100 percent import situation as the result of some grand strategy. We did not reach it as the result of some external mandate.

We became an importer as the result of the need to continually supply consumers with products that they wanted to buy at the prices that they want to pay for them. The number one beneficiary of the trade deficit is our own consumers. It is their quest for value and their exercising of freedom of choice that has created the demand for imported products. I've heard many accounts that ascribe incredible power to the government, to the big corporations, and recently here in Seattle incredible power to the WTO.

In my experience, none of that power comes even close to the power of the U.S. consumer. They have proven remarkably resistant to efforts to get them to behave in ways that are not in their own interest. They have proven brutally willing to reject products and services they do not perceive as worth their own money.

So if I only had one message to pass along to the Commission -- I have others, but if I only had one, it is to never forget that the international trading economy is driven by consumers who make daily choices with their money.

The third point harkens back to the old adage, "Give a man a fish and you feed him for a day, teach a man to fish and you feed him for a lifetime." I think we've all heard that. Our country is committed to foreign aid. Whether it is out of humanitarian concern, out of political expediency or any other reason, we spend billions to help other countries to help themselves. Our government gives people fish every day of the week. As an employer, however, I am also engaged in foreign aid. I have provided the funds by which people work themselves up out of poverty. We provide funding that allows them to learn how to fish.

Let me tell you about Mr. Luo. Mr. Luo is one of our suppliers in Chang Hua, Taiwan. And 20 years ago he had a factory that was literally a shed making stamped metal parts. He and his kids and his wife were all there in the shed working this metal stamping machine. In the back they had little vats of chemicals that they would use for nickel plating, and at the end of the day they would take the chemicals and dump them in the stream that went behind the factory.

Well, you can't really call it a factory. It was just a shed. Well, today Mr. Luo has a modern building. It's well lit. It's air-conditioned. He has clean machines. His workers wear matching uniforms. They provide free meals. There's a basketball hoop for their break time. And they have a state of the art environmentally sound system for handling their effluents, both because of their own desire and also because it's mandated in Taiwan. His son is a university graduate. He did that with the money we provided.

I'm also in the foreign aid business, but here are the differences. First, my foreign aid costs the U.S. taxpayers nothing. In fact, it benefits U.S. taxpayers because they get high value products as a result of the money --

COMMISSIONER LEWIS: Two minutes.

MR. KOTKINS: -- yes -- that I send overseas to purchase luggage. Second, my foreign aid happens on a people-to-people basis.

The last point is that it's very easy to oversimplify global economics. There's been a lot of sound bite “exports are good,” “imports are bad” rhetoric over the year. Ross Perot told us about the giant sucking sound.

Well, reality has proven Ross wrong. You cannot employ simplistic analysis to the complexity of trade. We do know for a fact that our country has engaged in the highest levels of trade in our history over the past decade, and we also know, prophets of doom notwithstanding, that we are today at record low levels of unemployment, and we have sustained low inflation, and sustained economic prosperity.

I know that not one person in my business, which is, by the way, a union shop, member of AFL-CIO, is affiliated with the Service Workers Union, lost their job, and today they are making a third better wage distributing luggage than they did when they were making luggage.

Well, the State of Washington did a study that I call to your attention, on the impact of imports on the Washington state economy. The study points out the role of imports is in keeping inflation low, it points out the role of imports in providing the funds needed for overseas trading partners to purchase our exports, and many other things. I have appended to my written comments some excerpts from that. I also have full copies of that study. It's a very, very important piece of work because it's the only one I've ever seen that talks about how imports fit into the overall picture. So I do recommend that to your reading. (SEE INSERT 1)

So as a small business man whose business is alive and well after almost 90 years because of our ability to be an importer, I want to thank the Commission for inviting me, a little guy, to come and talk to you. Thank you very much.

COMMISSIONER LEWIS: Thank you for taking the time to be with us. The next person is Richard Feldman with King County AFL-CIO.

FOREIGN IMPORTS AND THE WASHINGTON STATE ECONOMY

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THE IMPORTANCE OF IMPORTS

This study documents the role of imports in the Washington State economy. Large and positive impacts on jobs are strong arguments for the value of imports. Yet the case for imports is by no means obvious. Consider these political facts:

◊ Every nation believes it must have an export strategy but no nation has an import strategy.

◊ An excess af exports over imports is defined as a "positive" balance of trade while an excess of imports over exports is defined as a "negative" balance of trade.

◊ Exports are seen as "good" because they create an inflow of capital from abroad while imports are seen as "bad" because they require an outflow of capital to foreigners.

◊ Exports are reassuring as proof of national productivity and competitiveness while imports are perceived as stealing jobs from the workers of one's own nation.

These views are so widespread that they often pass unchallenged when expressed by leaders in government, business, and labor. Yet, an equally valid set of statements exists on behalf of imports. Consider these economic facts:

◊ Without imports, there can be no exports. In fact, the two must be of equal value for world trade accounts to-balance.

◊ "Export-only" strategies can easily backfire on nations that adopt them. They risk the hazards of currency devaluation, falling wages and depressed domestic demand.

◊ "Export-only" strategies worldwide would bring on a global depression, as they did in the 1930s when tariff walls were erected to discourage imports.

◊ U.S. willingness to run a large "imbalance" of trade has become the major Stabilizer in the world economy—crucial to the recovery in Asia and Latin America.

Yes, there is concern about the imbalance between U.S. imports and exports. Our "trade gap" is currently running at more than $200 billion a year, a pace that does not seem indefinitely sustainable. But if the U.S. erected trade barriers that suppressed imports the consequences would be felt worldwide. The world trade picture is a puzzle made of over 300 pieces—the imports and exports of each nation. The global economy could adjust to the removal of almost any piece except one-U.S. imports. In the debate about trade policy and amidst concern about the trade balance, this simple fact must be kept in mind.

Global concerns aside, imports benefit the U.S. economy in many ways:

◊ Most obvious, imports allow U.S. consumers to buy a wider selection of the goods they want at lower prices that stretch the purchasing power of the average paycheck.

◊ Low-priced imports help hold down inflation. This allows the Federal Reserve Bank to reduce interest rates and keep credit affordable-a key ingredient in our long boom.

◊ As much as 40 percent of U.S. imports are producer goods-inputs to products that US. firms export or 'sell at competitive prices to consumers here.

◊ Our purchase of foreign imports assists the economic recovery in other nations and boosts their ability to purchase our exports-the reverse of a depression spiral.

◊ In states with major ports, the import trade is a major source of economic vitality. Washington is an outstanding example. Seattle and Tacoma are often called "the Port of Chicago."

It is these benefits and impacts of imports that this study documents.

EXECUTIVE SUMMARY

THE GROWING ROLE OF TRADE

◊ The two most significant trends in post-war U.S. economic development have been the rapid expansion of the services sector and the growing importance of international trade.

◊ Between 1970 and 1998, U.S. gross domestic product grew at an average annual rate of 2.9 percent while US. exports and imports grew at annual rates of 6.9 percent and 6.5 percent, respectively (all numbers adjusted for inflation).

◊ Washington State leads the nation in per capita exports, and the export trade directly or indirectly supports one out of every four jobs in the state, according to 1997 research by economist Dick Conway.

◊ Washington State handles 6 percent of America's trade flows (exports and imports) although the state accounts for only 2 percent of U.S. population.

◊ The largest single category of trade through Washington's marine ports and airports is not exports produced in this state but foreign imports that are landed here and then shipped from Washington to purchasers elsewhere in the U.S. and Canada.

◊ Similarly, while Washington ports handle a large volume of exports from other states destined for foreign markets, a greater trade is in foreign imports for purchase within the state of Washington.

EXPORTS AND IMPORTS: THE LINKED EQUATION

◊ Since 1960, growth in U.S. exports and imports has been comparable. Exports have risen from 4 to 13 percent of national product, while imports have climbed from 5 to 16 percent.

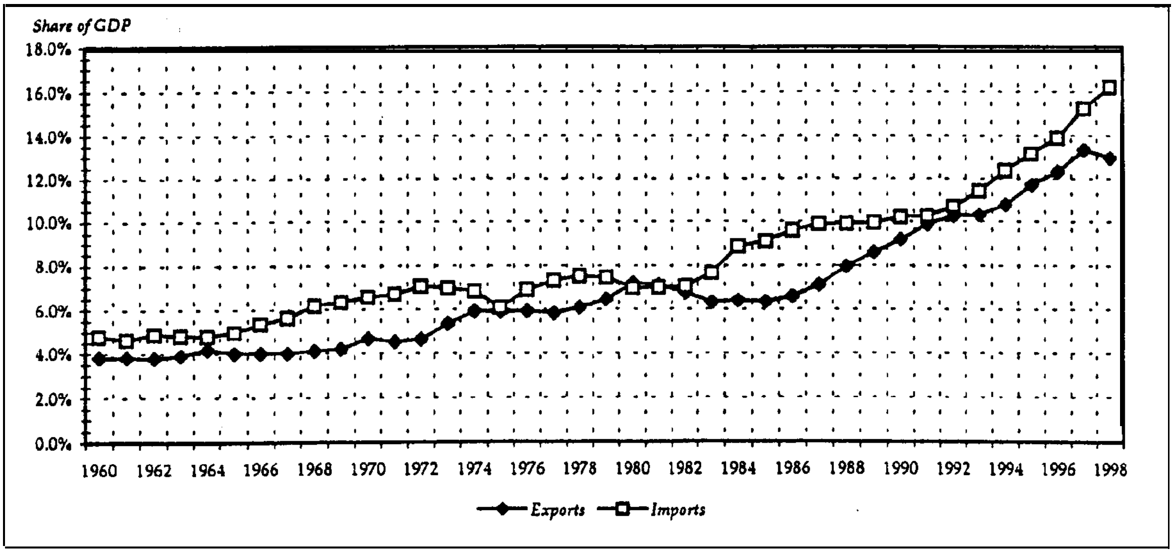
◊ Trade is founded on comparative advantage: each nation's production of goods and services in which it enjoys a cost and/or quality edge, and use of income from sales of these products to purchase exports from other nations in their areas of comparative advantage.

◊ Wide variation exists in the ratio of dollars spent by Americans on imports versus dollars we receive through exports to our trading partners. The ratio ranges from a 20 percent return with China and a 54 percent return with Japan, to a 259 percent return with The Netherlands and a 244 percent return with Australia. The overall ratio is a 77 percent return on exports per dollar of imports.

II. *RATIONALE FOR IMPORTS*

International trade has become more important to the U.S. economy in recent decades. Figures for 1998 indicate that exports of goods and services (measured in constant 1992 dollars) were equivalent to 13.0 percent of Gross Domestic Product (GDP), nearly 3.4 times the share in 1960 (Figure 2). Imports were equivalent to 16.2 percent of GDP, about 3.4 times the share recorded in 1960. Exports clearly play a vital role within the nation's economy. Foreign exports now account for more than one-quarter of the output of U.S. goods-producing industries. Imports, as a share of total goods consumption, have increased over time and now account for about one-third of total consumption. Quite clearly,, the international sector has become progressively more important to the U.S. economy since 1960. The U.S. economy's transformation into an international market has blurred the distinction between domestic and foreign markets for producers and consumers.

Figure 2
Ratio of Exports and Imports to U.S. Gross Domestic Product, 1960-1998



Note: Based on real gross domestic product using the chained (1992) dollar index.
Source: U.S. Bureau of Economic Analysis, *Survey of Current Business.*

There are several reasons for trading between regions and nations. These reasons include:

Comparative Advantage. International trade between regions or nations has been a major source of economic growth and improvement in standards of living. A region or nation specializes in producing goods or services for which it has a "comparative advantage"; that is, the region or nation focuses on products it can make better or more efficiently than others can. That region can then trade those goods or services for other goods and services produced by regions that have a comparative advantage in those other products. By specializing and trading, the range, quality, and quantity of goods and services produced in the economy as a whole is vastly increased. An underlying implication is that because nations specialize in what they are comparatively best at producing, they must import goods and services that other countries produce best. Thus, nations are mutually better off in trading goods and services in which they enjoy a comparative advantage in exchange for goods and services that they can purchase more cheaply from others.

Imports and U.S. Competitiveness for Businesses. Belated to comparative advantage is competition and competitiveness. Competition is the process by which regions and nations sort out their comparative advantage and identify their specialties. Invariably, competition encourages innovation, improvements, and gains in efficiency and productivity. Within an increasingly global market, an industry must also be competitive in domestic markets. The provincial view that these two markets are separate, at least for tradable, goods and services, is no longer appropriate. Importation of capital goods, industrial suppliers and materials used in domestic production reduce costs and spur innovation for U.S. businesses. Supplies

Interdependence of Exports & Imports. The United States is the world's largest exporter of goods and services; concomitantly, the U.S. generally imports even more than it exports. In an international environment of open trade, the size of the market increases and all trading countries gain. If the United States did not import, exporting would be difficult because other countries would not have the dollars needed to purchase U.S. goods and dollars. Table 1 shows that overall 77 cents of every dollar spent by Americans on foreign goods (i.e., imports) returns to the United States when foreign countries purchase U.S. goods (i.e., exports). For example, Canadians use about 90 cents of every dollar they earn from selling goods to American producers and consumers to purchase U.S. goods. For some trading partners, the return rate is significantly higher.

Export Assistance at the Sub-national Level. Exporters from individual states benefit from import trade flowing into and through their borders. For instance, Washington State exporters enjoy reduced freight rates shipping their goods to foreign customers due to an efficient multi-modal transportation system coupled with the volume of imports passing through Washington ports to inland destinations. A specific impact is lower backhaul rates on westbound cargo containers, estimated to save Washington exporters $150-$500 per container.