

PAUL S. ISAKI

Special Trade Representative
Office of the Governor

Governor Gary Locke appointed Paul Isaki to the position of Special State Trade Representative in April 1999. As Special Trade Representative, Isaki is the governor's principal adviser, spokesperson and personal representative on international trade policy matters--focused on removing foreign tariff and **non-tariff** barriers that unduly restrict exports from Washington State. Mr. Isaki is also coordinating the Washington state government's participation with the Seattle Host Committee, which is the local non-profit organization that is providing the venue and support for the United States to host the World Trade Organization's Ministerial Meeting in Seattle, November 29-December 4, 1999.

Isaki's professional career has included challenging positions in government and the private sector. He returns to state government from the private sector, and the Seattle Mariners Baseball Club, where he served as Vice President for Business Development for six years beginning in 1993. In that capacity, Mr. Isaki managed the club's participation in the development of SAFECO FIELD, which opened in July 1999. Seattle baseball fans believe SAFECO FIELD is the most beautiful ballpark in the country. He led the Mariners' efforts to secure their first regional cable-TV agreement in 1994, and was also responsible for the Mariners market development efforts in Japan, as well as in British Columbia, Canada.

Appointment to the Trade Representative position represents a return to Washington State government for Isaki, who held key positions in the administration of former two-term Governor Booth Gardner. From 1985 to 1990, Isaki served as Governor Gardner's chief policy adviser on trade and business matters. In 1990, Governor Gardner appointed Isaki to head the Department of Trade and Economic Development, which was responsible for the state's export trade promotion, business development and tourism programs. He served as department director until 1993. During his tenure with the Gardner Administration, Paul Isaki played important roles in a number of strategic state initiatives, including the development and expansions of the Washington State Trade and Convention Center; the development of the Washington State Technology Center Program at the University of Washington; and the Environmental Clean-up Program at Hanford Nuclear Reservation.

Paul Isaki is a graduate of the University of California. He resides in Seattle with his wife, Lucy.

U.S. TRADE DEFICIT REVIEW COMMISSION

HEARINGS

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Mr. Paul S. Isaki

Washington State Special Trade Representative

Seattle, Washington

November 16, 1999

TESTIMONY TO THE TRADE DEFICIT COMMISSION

INTRO: Trade Barriers Worsen the Trade Deficit

- The U.S. market is one of the most open in the world. By contrast, US companies frequently face tariff and non-tariff barriers when attempting to export their products and services overseas.
- These barriers, which artificially restrict U.S. exports, are a significant factor behind the trade deficit.
- In the course of my testimony, I will cite a few specific trade barriers to the export of Washington State products, with a particular focus on Asia. Obviously, the total impact of these trade barriers on the United States trade deficit is much greater when we consider their impact on all exporters across the country, not just those located in Washington State. The reduction or elimination of these trade barriers would help reduce the trade deficit

Non-Agricultural Tariff Barriers

- **Tariffs**: Although tariffs have decreased dramatically since World War II, they still restrict Washington state exports. Washington State companies are hopeful that the **Information Technology II Agreement (ITA II)** and the **Accelerated Tariff Liberalization initiative (ATL)** will be concluded in the near future.

- The ITA II will eliminate tariffs on many high-tech products and the ATL will eliminate tariffs on chemicals, energy and energy equipment, environmental goods and services, fish and fishery products, forest products, gems and jewelry, medical equipment and scientific instruments.
- Intellectual Property Rights: The protection of intellectual property rights around the world is of vital importance to the more than 2,400 **Washington State software companies**. Although there are no figures available for Washington State specifically, the Business Software Alliance (BSA) estimated that the piracy of business and entertainment software resulted in **\$11 billion in lost U.S. revenue last year**.
 - For example, BSA estimates the software piracy rate is 97% in Vietnam, 95% in China 95% and 92% in Indonesia.
- Product Standards: With the reduction of tariffs, many of our trading partners are adopting product standards as a way of protecting their domestic industries. Frequently, Washington manufacturers must re-label, re-package, and re-certify their products for sale in new markets. Washington companies must incur these additional costs even though their product standards frequently meet or surpass the requirements of the standards in new markets.

- **Corruption:** Washington State companies have complained that they have lost contracts overseas due to widespread corruption and bribery. The signing of the Convention on Combating Bribery of Foreign Public Officials in International Transactions by the 29 member countries of the Organization for Economic Cooperation and Development (OECD), as well as Argentina, Brazil, Bulgaria, Chile, and the Slovak Republic was a step towards remedying this situation.

Agricultural Tariff Barriers

- I would be remiss if I did not mention a few of the barriers to the export of agricultural products because of the importance of that sector to the Washington State economy. Over 28% of our agricultural production worth nearly \$6 billion is exported each year, most of it to Asia. Washington agricultural exports would be much higher if trade barriers were reduced or eliminated'. Examples of barriers to trade in agricultural products include:
 - **Tariffs:** US tariffs on Agricultural imports average roughly 10% compared to the average of 40% - 50% rate imposed by our trading partners.
 - Philippines imposes a 20% tariff compounded by a 10% VAT on frozen french fries
 - Taiwan levies a 40% tariff on imports of US apples

- China imposes an effective duty rate of approximately 47%, which is the result of a 30% tariff compounded by a 13% value added tax (VAT).
- Export Subsidies: Agricultural subsidies hurt Washington exports. The EU is the main culprit, accounting for 80% of the world's total export subsidies.
- State Trade Enterprises: The pricing policies of state trading entities such as the Canadian Wheat Board and the Australian Wheat Board place our wheat exporters at a competitive disadvantage.

Upcoming Round of Negotiations - Agriculture

- Although the Uruguay Round resulted in a significant reduction in barriers to trade in agricultural products, much work remains to be done. The good news is that the Uruguay Round's built-in agenda mandates additional agricultural negotiations. These negotiations will be initiated at the WTO Ministerial in Seattle this fall. Leveling the playing field for trade in agricultural products would help correct our trade deficit.

WTO Accessions

- The accession of China, Taiwan and other countries to the WTO should also help balance the trade deficit by further opening these markets to American products and services. We were pleased by the recent announcement of a WTO accession agreement between the United States and China.

- The accession of China and Taiwan will lead to increased Washington State exports. Here are a few examples of current barriers that would be reduced upon the accession of these countries to the WTO:
 - Although on October 1, 1997 China lowered its average tariff rate to 17%, import duties remain a significant barrier to exports
 - For example, apple and cherry exports to China currently face an effective duty rate of approximately 47% which is the result of a 30% tariff compounded by a 13% value added tax (VAT).
 - In addition to facing high tariffs, Washington exports of apples, other than red and golden delicious apples, are prohibited by the Chinese government because of phytosanitary concerns. These phytosanitary restrictions could be challenged successfully under WTO rules, as was the case with Japan's ban on the import of US apples other than red and golden delicious apples.
 - Washington State agricultural exports to Taiwan also face high tariff rates of 40-50% for products such as apples, peaches, pears, cherries, fruit juice, seafood and dehydrated fruits. It is estimated that the elimination of these tariffs could lead to more than \$20 million in increased exports of agricultural products from Washington.

Fast-Track Negotiating Authority

- Although the upcoming round of WTO negotiations and the accession of new members to the organization will increase our exports, more markets could be opened to our products if the president was granted fast-track negotiating authority.
- The absence of fast-track authority has severely hindered the country's ability to conclude new trade agreements because our trading partners are concerned that Congress will attempt to re-negotiate any preliminary agreement.
- In the meantime, our trading partners have not been sitting on the sidelines.
- Rather, they have aggressively begun negotiating new agreements that will place US products at a disadvantage.
- For example, almost every major economy in the Western Hemisphere has a preferential trade agreement with Chile, except the United States. As a result, our competitors in the hemisphere have a 11% across the board tariff advantage, over American producers.

Conclusion

In general, there are very few barriers to importing products into the United States. The renewal of fast-track authority, the upcoming round of negotiations and the accession of additional countries to the WTO are three factors, which will help remove foreign barriers to US products. This leveling of the playing field will also serve to trim the trade deficit.