THE USMCA
AND ITS IMPACT ON ARIZONA

POLICY REVIEW | MARCH 2019

Prepared by the North American Research Partnership and Crossborder Group

The USMCA and Its Impact on Arizona

Dear Readers,

We are pleased to present this policy review that assesses, from Arizona's perspective, the United States-Mexico-Canada Agreement (USMCA), the successor trade pact to the North American Free Trade Agreement (NAFTA).

Arizona's economy expanded under NAFTA, and it's positioned to do even better under the USMCA.

It's hard to overstate the importance of Arizona's relationship with Mexico and Canada, our state's top two export markets. On average, between 2015-2017, Arizona exported $10.5 billion annually to these two critical markets. Additionally, more than 228,000 Arizona jobs are dependent on the annual trade and investment relationship with our neighbors to the north and south.

The USMCA modernizes NAFTA in way that positions Arizona for even more robust economic growth. Thanks to improvements in areas like rules of origin, expanded agricultural sector access, and enhanced protections for intellectual property, the USMCA builds on Arizona's already highly competitive business environment, one of the nation's best for job growth.

Arizona continues to be recognized as a prime location for investments geared toward the domestic and North American markets. Arizona already enjoys a unique relationship with Sonora and Mexico, a relationship that stands to grow with the implementation of the USMCA. And the level of investment by Canadian companies that are looking at Arizona and the Western United States continues to develop. Even more, we are seeing Canadian investments looking to Arizona as their bridge to the Mexican market—truly a North American framework and Arizona is right in the middle.

North American trade has proven advantageous to Arizona's producers and consumers; more markets are available for goods manufactured and grown here, while consumers benefit from a wide variety of quality products at affordable prices. The USMCA not only updates the existing trade framework for tomorrow's economy, but is also central to Arizona's future competitive standing in North America and beyond. We look forward to working with our Congressional delegation in advocating for the swift ratification of the USMCA.

Sincerely,

Emily Anne Gullickson
Chief Executive Officer
Arizona Chamber Foundation

Juan Ciscomani
Vice-Chair
Arizona-Mexico Commission

Glenn Hamer
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Arizona Chamber of Commerce & Industry

Jessica Pacheco
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Chairman | Arizona Chamber Foundation

EXECUTIVE SUMMARY

Arizona companies that depend on trade policies to provide stability and help open international markets are faced with, in a word, uncertainty. While the 25-year-old North American Free Trade Agreement (NAFTA) is still in use, it will potentially be replaced by the United States-Mexico-Canada Agreement (USMCA).

However, updating NAFTA with the USMCA isn't a sure thing. Federal legislatures in each of the three signatory countries of the USMCA must still pass implementing legislation.

This policy review provides Arizona businesses and decision-makers with an overview of the new USMCA, describes some of the key changes it would make in comparison to NAFTA, and outlines the benefits to Arizona's economy and communities. Some highlights include:

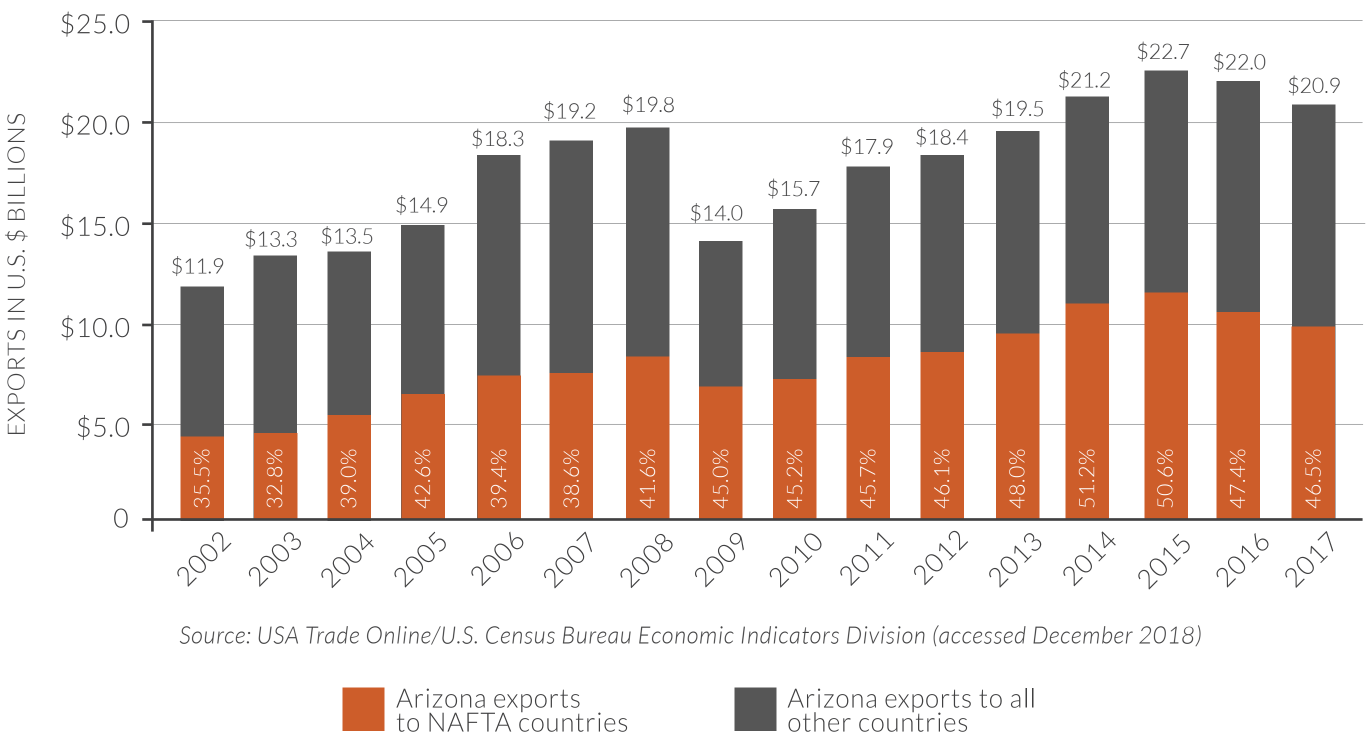
- The ratification of the USMCA offers certainty for future investment in North America, while ensuring North America remains the most desired market and place to invest in the world.
- Canada and Mexico are Arizona's top two trading partners (total trade) as well as the top two destinations for Arizona products and services.
- More than 228,000 jobs in Arizona are dependent on trade and investment with Mexico and Canada. The USMCA ensures that U.S. products and services will have preferred access to the Mexican and Canadian markets.
- The USMCA includes significant commitments to reduce trade distorting policies, improve transparency, and ensure non-discrimination treatment for agricultural standards, which will offer a more transparent process for U.S. exporters.
- USMCA builds on market access that was created by NAFTA and enhances protections for new market opportunities.
- The USMCA includes penalties if Mexico and Canada manipulate their currency in order to gain a competitive advantage.
- The new digital trade chapter contains the strongest disciplines of any international agreement, providing a firm foundation for the expansion and investment in innovative products and services where Arizona companies and the U.S. has a competitive advantage.
- Chapters on labor and the environment have been included in the USMCA, giving greater enforceability on these issues now that they are part of the actual agreement.
- Greater protection in the agricultural sector is offered in the new agreement, which is an industry of great interest to Arizona.
- The USMCA strengthens and modernizes intellectual property (IP) protections and increases statutory penalties for violating trade secrets or trading counterfeit goods, protecting IP property rights of businesses.

ARIZONA UNDER NAFTA

In November 1993, Arizona's congressional delegation voted unanimously in favor of NAFTA, which was implemented in 1994 and has since allowed the state of Arizona to take advantage of its unique economic history, proximity to Mexico and pro-business culture. Arizona has been able to attract investment from Mexico and Canada, as well as grow a range of export- and import-oriented industries, including electronics, agricultural goods, mining, machinery, logistics and services.

As seen below, Arizona's global exports have nearly doubled since the early-2000s, when NAFTA policies hit their stride. The overall proportion of exports to NAFTA partners have grown from just over a third of total exports to an average of 48 percent of total exports between 2015-2017[1].

Arizona Exports
Total to World, Percent NAFTA (in U.S. $B)

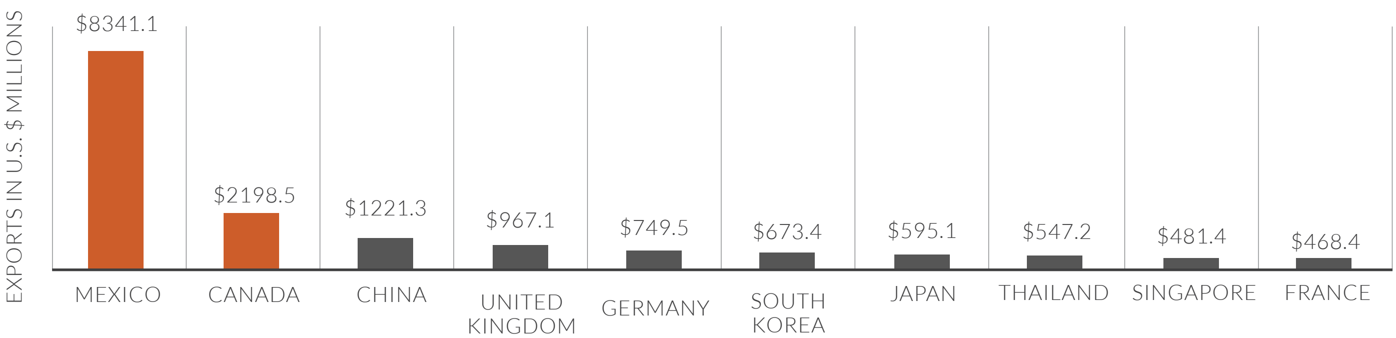


Source: USA Trade Online/U.S. Census Bureau Economic Indicators Division (accessed December 2018)

Looked at another way, Arizona's strong integration with NAFTA markets has placed Mexico and Canada as the leading markets for state exporters, with an annual average of over $10.5 billion in exports to NAFTA partners during 2015-2017, an amount that is nearly twice the combined market size for Arizona's next eight export markets[2]:

Arizona's Top 10 Export Markets

2015-2017 Average Goods Exported to Top 10 Markets (in U.S. $M)



Source: U.S. Department of Commerce/International Trade Administration

Additional proof of this growing trade tendency: data from the U.S. Department of Commerce show that the value of goods exported to Mexico and Canada from Phoenix metropolitan regional companies alone grew from $1.7 billion in 2005 to an average of $4.9 billion each year between 2015-20173.

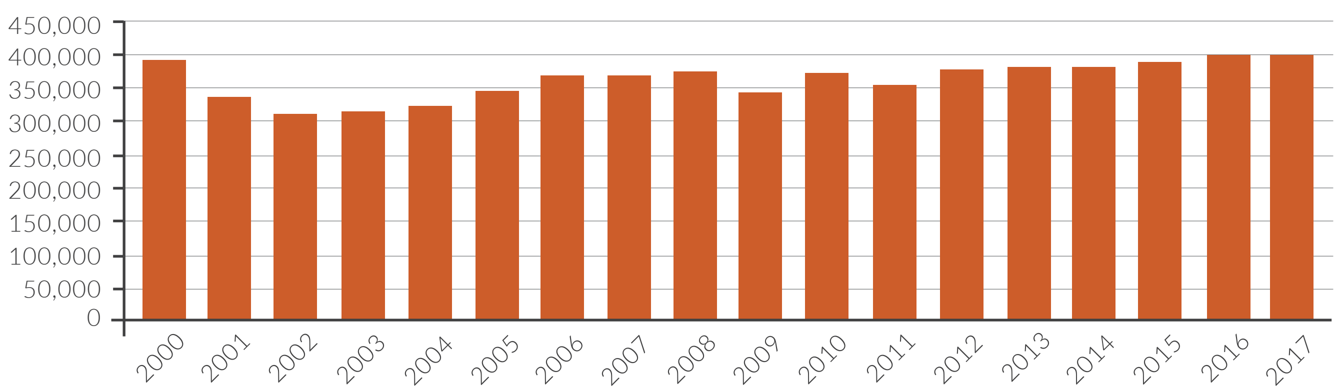
NAFTA and the USMCA: Growing Trade and Jobs

In 2018, Arizona had $20.4 billion in total trade with USMCA markets, according to the U.S. Census Bureau. In addition, a wide variety of economic and trade indicators underscore Arizona's increased integration as well as the competitive opportunities that have developed over the past two decades under NAFTA, and that could grow further under the USMCA.

Transportation and border infrastructure investment provide one perspective of this growth potential. Between 2015-2017, Arizona land ports of entry (POEs) also known as border crossings, processed an average of nearly 400,000 northbound trucks and nearly $28 billion in trade (Arizona and other state's goods) with Mexico. They also processed an average of 9 million personal vehicles, 17.3 million car passengers, and 6.9 million pedestrians each year4. In other words, nearly 67,000 individuals (on average) cross each day (legally) through Arizona border crossings, with the majority of these being residents of Sonora, Mexico and Arizona.

Border Crossings into Arizona

Northbound Commercial Vehicles

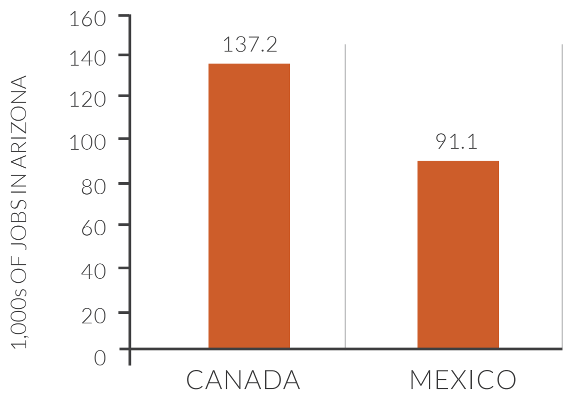


Source: Crossborder Group analysis of CBP/U.S. Department of Transportation - Bureau of Transportation statistics data

According to at-border surveys conducted by Crossborder Group5 and by the University of Arizona6, cross-border shopping drives millions of day and overnight trips by Mexican visitors to Arizona each year, creating a multibillion-dollar retail and tourism impact. Nearly 900,000 annual trips are also taken by Canadian tourists7 who largely fly into Arizona on longer-term and higher expenditure leisure and business visits.

Such trade and travel are strongly correlated with positive economic impact and job creation in Arizona. In a newly released 2019 study produced for Business Roundtable, the highly respected firm, Trade Partnership Worldwide LLC, estimated that in 2017 there were over 228,300 net jobs in Arizona8 resulting from trade with Canada and Mexico. This figure likely is conservative, as it does not include employment impacts from Mexico- and Canada-originating tourism to Arizona.

Net Arizona Jobs
Related to Trade with NAFTA Countries, 2017



Source: Trade Partnership Worldwide

These jobs aren't only concentrated in urban areas. On a more local level, cross-border trade in Arizona's border communities also contributes to new business creation and employment as well. Beyond cross-border retail and tourism impacts from Mexican visitors, binational trade has helped transportation and warehousing jobs in Arizona's border counties to increase by over 33 percent—from just over 8,700 positions in 2009 to over 11,660 in 20179.

Many of the job-creating effects of trade and tourism are not in the goods-producing sectors, but actually in services, including transportation, finance, IT, education, insurance and more. U.S. exports to both Canada and Mexico have actually resulted in an average of a $32.7 billion trade surplus with the USMCA partners between 2015-2017[10], and present additional opportunities for Arizona firms under the USMCA.

Agreements that Foster Foreign Investment

Stability in foreign investment rules—a cornerstone of both NAFTA and the USMCA agreements—has also been a significant benefit to Arizona's economy, particularly in the attraction of Foreign Direct Investment (FDI) from Canada. Experts interviewed for this study identified more than 300 Arizona-based firms that are either wholly-owned by Canadian parent companies or have significant Canadian investment. These include companies from a wide range of industries, including aerospace (Bombardier), convenience stores (Circle K), engineering (Stantec), energy (UNS Energy Corp.), hospitality (Fairmont Hotels), mining (Freeport-McMoRan Inc.), restaurants (Kahala Brands), security (Corporation de Sécurité/Garda World), software (OpenText Corp.), telecommunications (Mitel), water (EPCOR Water), and hundreds of others in these sectors as well as the health care, real estate, and construction sectors.

While the USMCA currently does modify some investor protections, it still largely provides the legal framework and stability to keep attracting foreign investment to Arizona.

THE USMCA: WHAT ARE THE PROPOSED KEY CHANGES?

Trade negotiations never take place in a vacuum, and the USMCA negotiations have been no exception to this rule. Geopolitical shifts and domestic politics interact with trade policy discussion and each other in a constant fashion. Following a period of public input and several rounds of closed-door negotiations, each country's leader agreed to and signed the USMCA in Buenos Aires on November 30, 2018.

At more than 1,800 pages long, the USMCA is a complex agreement[11] containing 34 chapters (12 more than NAFTA), 18 annexes, and 12 side letters. The stated purpose of the USMCA, as outlined in the Agreement's preamble, is to deepen gains from trade, and specifically, to "[p]reserve and expand regional trade and production by further incentivizing the production and sourcing of goods and materials in the region"[12].

Given the gains made following NAFTA's implementation, and the new areas covered by the USMCA, Arizona businesses may be well positioned to take advantage of expanded opportunities, particularly if the USMCA does not undergo significant changes in the approval process. Summarized below are the most high-profile changes, as well as those that might most impact Arizona businesses and consumers.

> "(Rules of Origin are), in part, what has driven the strong supply chain integration in the U.S., Canada and Mexico following the implementation of NAFTA."

New Rules of Origin

Rules of Origin (ROO) are defined as the criteria needed to determine the national source of a product. ROO help regulate duties and restrictions based on the source of the import. Free trade agreements generally provide preferential (or zero) tariffs on those products that come from the signatory countries, while applying higher tariffs (or other restrictions) on products that come from outside of the free trade region. This is, in part, what has driven the strong supply chain integration in the U.S., Canada and Mexico following the implementation of NAFTA and its largely tariff-free treatment of products from within North America.

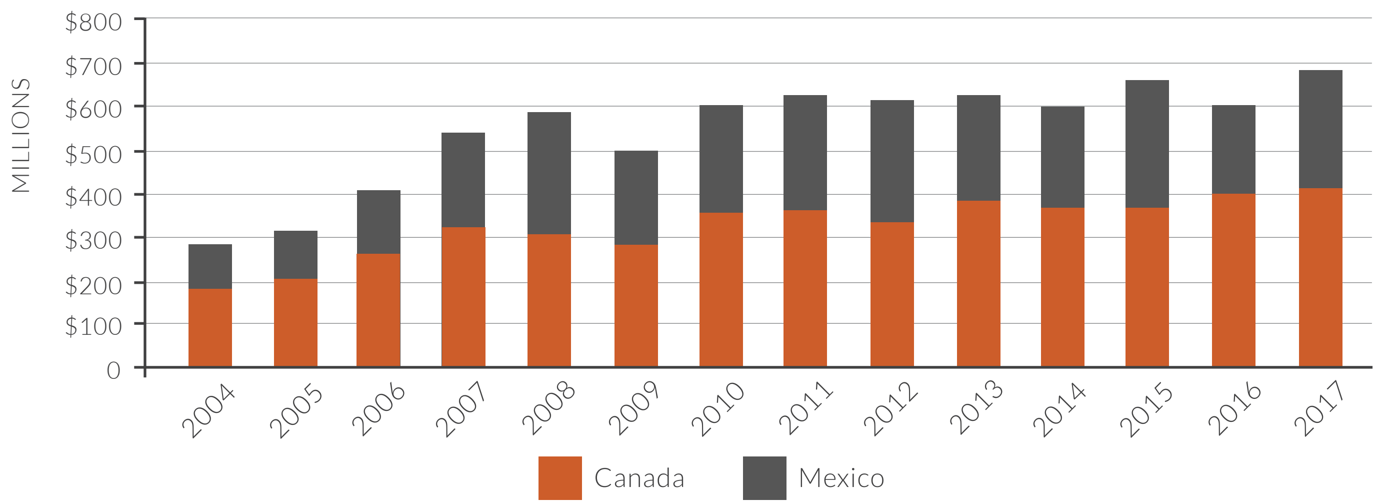
The USMCA continues providing these preferential ROOs for companies within North America with notably more stringent rules for the auto industry, which not only will incrementally have to reach a 75 percent North American regional content (up from 62.5 percent under NAFTA) to be traded duty free, but also will have a new "Labor Content Value" that requires 40-45 percent of the labor involved with manufacturing a car to be earning a minimum of US$16 per hour. Beyond possible effects on consumer prices for automobiles, it is likely that the new automotive ROOs in the USMCA may continue to tilt automotive original equipment manufacturers (OEMs) toward the southern part of the United States and Mexico, and away from Canada in the long term. This could benefit Arizona given its proximity to OEMs in Northwest Mexico such as Ford in Sonora, and Toyota in Baja California, its connectivity (via I-19) to Mexico's Highway 15 corridor leading to the Bajío automotive cluster, and easy access to the U.S. southern auto corridor.

Even electric vehicle (EV) manufacturers are covered by the USMCA's new ROOs, which include EV components under new North American regional content rules of 65-75 percent. Notably, binational EV projects, such as the proposed Lucid Motors factory planned for Pinal County, Arizona[13], may be well positioned to meet both regional content value *and* labor content value goals of the USMCA by leveraging research and development and auto assembly in the U.S. with a mix of automotive and electronics components from the U.S., Mexico and Canada.

U.S. Agricultural Access and a Possible Threat

Arizona farmers and agricultural industry regularly export around 55 percent of their products to Canada and Mexico—nearly $800 million of goods each year[14]. Of that, as seen below, the vast majority are considered consumer oriented agricultural goods like fresh fruits, vegetables, dairy, beverages, snacks and a range of items geared toward the consumer market. In 2017, Arizona exports for these goods was valued at over $680 million and growing.

Arizona Exports of Consumer-Oriented Agricultural Products to NAFTA Countries (in U.S. $M)



Source: U.S. Department of Agriculture/Economic Research Services

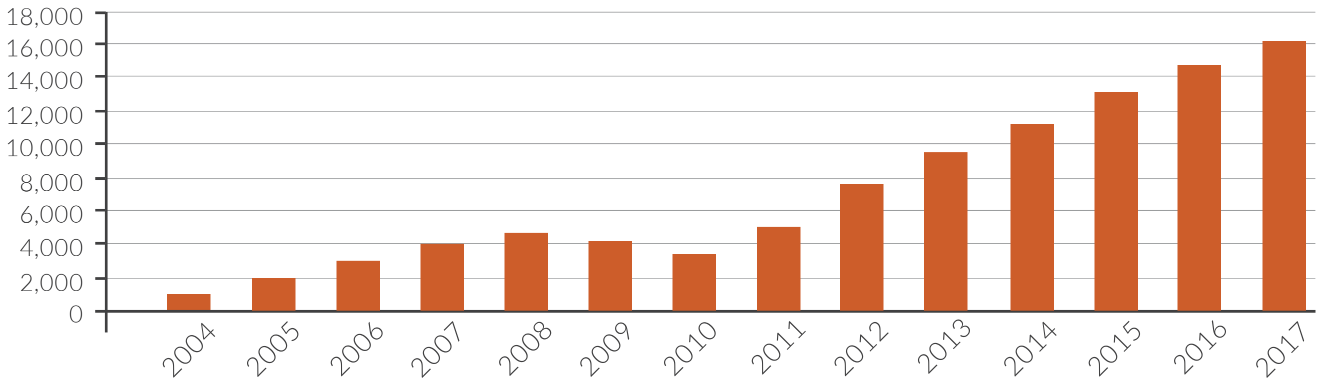
Overall, the USMCA preserves market access for Arizona's agricultural industry, and even expands U.S. access to Canada's poultry, dairy and wine markets, which could further benefit Arizona farmers and food producers. There are also additional mechanisms for improving phytosanitary inspection rules between the three countries.

That said, political forces in the Southeast U.S. are already advocating for additional changes to the USMCA, designed to reduce seasonal imports of fresh produce from Mexico that compete directly with growers from Florida and surrounding U.S. states. Specifically, what has become known as the "seasonality" provision, which would have facilitated anti-dumping measures against Mexican tomatoes and other goods under certain circumstances, was *not* included by negotiators in the text of the USMCA. Including this provision would have complicated the business panorama for the state's fresh produce distribution industry, which depends on the Nogales-Mariposa Port of Entry and is heavily concentrated in that city. Should such modifications be enacted by the U.S., it is possible that both Canada and Mexico could retaliate, potentially damaging Arizona's steadily growing agricultural exports.

Preservation of Business Visas

One major change not made during the USMCA negotiations was elimination or reduction of the increasingly popular NAFTA Professional Visa (TN visa). Established during the initial NAFTA negotiations, this visa is specifically for highly skilled, designated Canadian and Mexican professionals. It was largely unused during its first two decades of existence. However, as U.S. TN visa issuance has increased primarily due to business professionals from Mexico, there was some concern that this visa might be significantly cut or even eliminated during the USMCA negotiation process.

NAFTA Professional Visas Issued by U.S.
Fiscal Year 2004-2017



Source: U.S. Department of State

As seen in the final USMCA text (Chapter 16, "Temporary Entry for Business Persons"), the professional categories targeted by the TN visa have been preserved, potentially allowing a range of skilled workers from architects, economists, nurses, teachers and zoologists to temporarily work across North American borders.

Higher De Minimis Thresholds for Canada and Mexico

The concept of *de minimis* is utilized to determine a ceiling for valuable goods below which no duty or tax is charged, and clearance procedures are minimal. For several sectors covered by the USMCA, the *de minimis* threshold was increased to allow many products with global supply chains to include minor (but slightly higher) percentages of "non-USMCA" region items, yet still be able to meet ROO requirements to be considered a "USMCA-region" product, given that the vast majority of the product would come from the USMCA countries. This should allow for some additional flexibility in sourcing globally, while also keeping the tariff-free incentive to source from North America.

Everyday consumers and small businesses will also benefit from the increase in the *de minimis* threshold, which will allow them to import and export more goods per day as "informal" (low value) entries. Since 2016, the U.S. has set this "personal, low-value import" threshold amount to $800, facilitating the growth of e-commerce imports via parcel shipping into the United States. Historically, Canada and Mexico have had more restrictive levels—C$20 and US$50 respectively—impeding small parcel and e-commerce exports into those countries.

As part of the USMCA, Canada and Mexico both agreed on raising their *de minimis* thresholds at two levels: one for "tax free" entry of goods (C$40 for Canada, US$50 for Mexico), and another level for "tariff free and simple customs forms" (C$150 for Canada, and US$117 for Mexico)[15].

The Canadian and Mexican increases, while still relatively low compared to the U.S., should present new opportunities for Arizona's small and medium-sized businesses to take advantage of Mexico's fast-growing e-commerce demand, as well as Canada's more mature market.

In addition, Mexico's higher *de minimis* rates should also have a positive impact on the SkyBridge initiative at Phoenix-Mesa Gateway Airport, a new operation that capitalizes on the U.S.-Mexico Unified Cargo Processing, which expedites import and export processing times of cross-border goods between the U.S. and Mexico.

Stronger IP Protections

The USMCA also largely harmonizes intellectual property (IP) protections in Mexico and Canada with those of the U.S., requiring an extension of patent protections to 10 years from eight currently in Canada, including for biologics; expands copyright protections to the life of the author plus 70 years (up from 50 for Canada); and broadens trademark rules to cover sound marks and scent marks.

The USMCA would also increase statutory penalties for violating trade secrets or trading counterfeit goods, modify customs rules to detain illegal counterfeits (both imported and exported from Canada and Mexico, as well as goods that may be passing through in-transit to another destination); and require that internet service providers implement a "notice and takedown" system in Mexico when digital information infringes on ownership rights. Canada has its own system currently.

Digital Trade & Cybersecurity

Digital trade, such as e-books, music, software, and video games, takes on an important new role in the USMCA, one that wasn't envisioned when NAFTA was negotiated. Specific changes that should enhance the ability of Arizona's digital industries to grow include a new prohibition among the three countries for applying tariffs on digital products that are distributed electronically; the implementation of rules to recognize the validity of e-signature and e-documents (something that will likely affect interactions with Mexico most); new anti-spam measures; and new coordinated cybersecurity measures among the three countries whose telecommunication systems are highly integrated.

16-Year Sunset Clause

One significant but unusual change made at the insistence of the U.S. was the inclusion of both a six-year "periodic review" of the impacts of the USMCA, as well as an automatic termination of the USMCA after 16 years unless the three parties choose to extend it.

ARIZONA EXPORTS TO NORTH AMERICAN MARKETS

In order to better understand how the USMCA might impact Arizona exporters, it is useful to take a deeper look into what general types of goods are currently exported from Arizona into Mexico and Canada, as well as understand the relative proportion that these exports make when compared to Arizona exports to the world. Below is a summary of the top 15 goods exported to both Mexico and Canada, as well as the percentage of Arizona's total exports for that good that are consumed by Mexico and Canada. Exports are listed by values and two-digit harmonized tariff schedule commodity type[16].

Top 15 Exports to NAFTA Countries

TOP 15 ARIZONA EXPORTS TO MEXICO *(By Harmonized Tariff Schedule, 2017)*	EXPORT TOTALS *(U.S. Dollars)*	MEXICO MARKET SHARE *(Arizona Exports)*
85 Electric Machinery Etc; Sound Equip; Tv Equip; Pts	$2,530,113,841	38.4%
26 Ores, Slag And Ash	$1,055,186,781	89.3%
84 Nuclear Reactors, Boilers, Machinery Etc.; Parts	$641,184,193	26.1%
39 Plastics And Articles Thereof	$573,598,715	75.6%
90 Optic, Photo Etc, Medic Or Surgical Instrments Etc	$328,031,203	24.6%
87 Vehicles, Except Railway Or Tramway, And Parts Etc	$282,464,086	48.7%
27 Mineral Fuel, Oil Etc.; Bitumin Subst; Mineral Wax	$265,445,051	97.8%
48 Paper & Paperboard & Articles (inc Papr Pulp Artl)	$175,547,502	91.8%
73 Articles Of Iron Or Steel	$144,018,952	67.3%
88 Aircraft, Spacecraft, And Parts Thereof	$138,426,747	5.9%
74 Copper And Articles Thereof	$133,804,562	58.3%
08 Edible Fruit & Nuts; Citrus Fruit Or Melon Peel	$127,177,247	42.9%
40 Rubber And Articles Thereof	$116,208,567	75.5%
94 Furniture; Bedding Etc; Lamps Nesoi Etc; Prefab Bd	$77,394,758	60.4%
82 Tools, Cutlery Etc. Of Base Metal & Parts Thereof	$75,521,608	87.2%

TOP 15 ARIZONA EXPORTS TO CANADA *(By Harmonized Tariff Schedule, 2017)*	EXPORT TOTALS *(U.S. Dollars)*	CANADA MARKET SHARE *(Arizona Exports)*
85 Electric Machinery Etc; Sound Equip; Tv Equip; Pts	$623,953,473	9.5%
84 Nuclear Reactors, Boilers, Machinery Etc.; Parts	$383,727,593	15.6%
07 Edible Vegetables & Certain Roots & Tubers	$252,529,523	94.6%
87 Vehicles, Except Railway Or Tramway, And Parts Etc	$167,225,564	28.8%
88 Aircraft, Spacecraft, And Parts Thereof	$162,761,424	7.0%
90 Optic, Photo Etc, Medic Or Surgical Instrments Etc	$98,875,615	7.4%
08 Edible Fruit & Nuts; Citrus Fruit Or Melon Peel	$92,226,165	31.1%
39 Plastics And Articles Thereof	$39,380,897	5.2%
21 Miscellaneous Edible Preparations	$36,881,498	27.7%
98 Special Classification Provisions, Nesoi	$23,342,184	8.1%
38 Miscellaneous Chemical Products	$22,301,539	7.7%
71 Nat Etc Pearls, Prec Etc Stones, Pr Met Etc; Coin	$21,346,450	10.7%
73 Articles Of Iron Or Steel	$20,370,107	9.5%
94 Furniture; Bedding Etc; Lamps Nesoi Etc; Prefab Bd	$17,525,314	13.7%
95 Toys, Games & Sport Equipment; Parts & Accessories	$15,708,955	19.5%

What stands out in the above table of top Arizona exports to North American markets is the (not surprising) stronger dependency on Mexico as a market than Canada, with Mexico often consuming 40-90 percent of Arizona's exports in those categories. Many of these are tied closely to Arizona's electronics, mining, plastics, paper, aerospace, and agricultural sectors. While exports to Canada often make up a smaller percentage of the total export market for a good, Canada's demand for agricultural goods and consumer-oriented agricultural products, as well as vehicle parts, is critical to protect during the future USMCA ratification.

It also should be noted that in some cases Arizona's small and medium-sized businesses may not be exporting the "top" categories of goods by value. However, it is clear that some categories of Arizona exports are almost *entirely* consumed by the two USMCA partners. Products below made up more than $1 billion in exports by Arizona firms in 2017, and between 90-100 percent of these goods were exported only to Mexico and Canada, underscoring the importance of maintaining a stable North American trade environment for Arizona businesses, small and large:

Arizona Export Products to NAFTA Countries

ARIZONA EXPORT PRODUCTS *(By Harmonized Tariff Schedule, 2017)*	TOTAL AZ EXPORTS *(U.S. Dollars)*	NAFTA MARKET CONSUMPTION
46 Mfr Of Straw, Esparto Etc.; Basketware & Wickerwrk	$200,311	100.0%
45 Cork And Articles Of Cork	$37,935	100.0%
51 Wool & Animal Hair, Including Yarn & Woven Fabric	$15,164	100.0%
50 Silk, Including Yarns And Woven Fabric Thereof	$3,274	100.0%
79 Zinc And Articles Thereof	$9,560,433	99.9%
27 Mineral Fuel, Oil Etc.; Bitumin Subst; Mineral Wax	$269,380,400	99.2%
60 Knitted Or Crocheted Fabrics	$7,400,084	98.7%
06 Live Trees, Plants, Bulbs Etc.; Cut Flowers Etc.	$3,723,322	98.7%
07 Edible Vegetables & Certain Roots & Tubers	$262,401,574	98.3%
44 Wood And Articles Of Wood; Wood Charcoal	$34,937,730	98.1%
57 Carpets And Other Textile Floor Coverings	$2,427,451	98.1%
01 Live Animals	$6,597,581	97.7%
56 Wadding, Felt Etc; Sp Yarn; Twine, Ropes Etc.	$60,194,683	97.2%
53 Veg Text Fib Nesoi; Veg Fib & Paper Yns & Wov Fab	$460,090	96.3%
48 Paper & Paperboard & Articles (inc Papr Pulp Artl)	$180,918,710	94.6%
61 Apparel Articles And Accessories, Knit Or Crochet	$8,963,990	94.1%
11 Milling Products; Malt; Starch; Inulin; Wht Gluten	$171,815	94.0%
72 Iron And Steel	$50,122,520	92.0%
67 Prep Feathers, Down Etc; Artif Flowers; H Hair Art	$132,700	91.9%
75 Nickel And Articles Thereof	$21,147,080	91.9%
82 Tools, Cutlery Etc. Of Base Metal & Parts Thereof	$79,048,518	91.3%
55 Manmade Staple Fibers, Incl Yarns & Woven Fabrics	$2,947,997	90.7%

WHAT'S NEXT? ARIZONA WITH OR WITHOUT THE USMCA OR NAFTA

As seen throughout this document, much is at stake for Arizona with the USMCA and the promise of continuing integrated supply chains, investments, and public policies that have grown under NAFTA. On the whole, much of the state's current leadership, as well as Arizona's international trade community, has been proactive in promoting and investing in projects that continue such connectivity with North American markets. As Arizona Governor Doug Ducey recently noted, "As we seek to secure Arizona's economic future, a strong trade deal with Mexico and Canada is crucial.[17]"

Infrastructure investments spurred by Arizona's trade and tourism with Mexico, including the $244 million expansion of the Mariposa POE in Nogales, the $6 million pedestrian facility modernization at the San Luis I POE, the planned improvements at the Raúl H. Castro POE in Douglas, or the new SkyBridge-Arizona international air cargo hub could potentially be undermined without NAFTA and the USMCA. In addition, significant foreign direct investments that have been made by Canadian and Mexican firms into a range of Arizona industries and firms may also be at risk.

USMCA Ratification, NAFTA Withdrawal, or None of the Above?

As is the case with all trade agreements, the ratification of the USMCA faces an uncertain future in the U.S. Congress. Following interviews with a dozen experts on NAFTA and trade agreements in government, the private sector and various think tanks, the answers to *When will this get done?* vary greatly. All timelines begin following the requirements of the 2015 Trade Promotion Authority (TPA) legislation, which requires that the US International Trade Commission (ITC) provide a report outlining the economic impact of the Agreement.

TPA then dictates that the next milestone would be for the Administration to submit implementing legislation for introduction in the House and Senate, followed by a maximum of 90 legislative days of debate on the bill in the House and Senate before an up or down vote on the USMCA by both chambers. Following this step, the President would then sign it.

> "Should the USMCA win approval from the legislatures of all three countries, it would be implemented three months later."

Notably, both Canadian and Mexican officials have indicated an interest in waiting for the U.S. to pass the USMCA prior to completing their own legislative processes.

What is clear is that the longer the ratification process in the United States stretches out, the more objections and requests for changes to the USMCA will begin to gain ground not just in the U.S., but also in Canada and Mexico. Should the USMCA win approval from the legislatures of all three countries, it would be implemented three months later.

However, a potential complication of the USMCA ratification is that the Trump Administration has discussed withdrawing from NAFTA in order to move the USMCA forward. Although the unilateral withdrawal from NAFTA would be unprecedented, Arizona business leaders we interviewed believe it would be wise to plan for this contingency.

Indeed, given the large proportion of top Arizona exports consumed by Mexico and Canada, the specter of reverting to a North America without consistent standards combined with potentially significant tariffs could put tens of thousands of

Arizona jobs at risk. It's for this reason that the U.S. Chamber of Commerce ranked Arizona ninth among "states that would suffer most if the United States withdraws from NAFTA"[18].

A third, more distant possibility: none of the above, with NAFTA continuing in force should there be neither passage of the USMCA nor the withdrawal from NAFTA. However, this option is not considered likely.

> "the U.S. Chamber of Commerce ranked Arizona ninth among "states that would suffer most if the United States withdraws from NAFTA." "

The Strategic View of USMCA

In this highly uncertain global trade environment, the USMCA could be the best game in town for Arizona exporters. As such, there is considerable downside for Arizona if the state were to consider a future without a trade agreement with our neighbors. Arizona has thrived under NAFTA, and it is poised for even more significant economic growth under the USMCA. If the signatory nations fail to ratify the USMCA, it would represent a major missed opportunity for Arizona, as the new agreement's modernized elements play to the state's strengths and strategically advantageous location as a border state.

Continuing the economic integration started under NAFTA and ratifying the USMCA will help to offset potential competitive and other emerging global trade blocs, as well as avoid significant harm that would impact Arizona's economy, its communities, and its cross-border investments.

The ratification of the USMCA offers certainty for future investment in North America, while ensuring North America remains the most desired market and competitive region in the world.

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ACKNOWLEDGMENTS

The authors would like to acknowledge the generous efforts made by the following individuals who graciously took time to provide additional insights and perspectives about the USMCA, NAFTA's impact on Arizona, and how the state might find new opportunities should the USMCA be ratified. The authors deeply appreciate their time and contribution:

- Gary Hufbauer, Senior Non-Resident Fellow, Peterson Institute for International Economics
- Francisco Sandoval, International Trade Advisor, Secretaría de Economía, Embassy of Mexico
- Christopher Wilson, Deputy Director, Mexico Institute, Woodrow Wilson International Center for Scholars
- Duncan Wood, Mexico Institute, Woodrow Wilson International Center for Scholars
- Eric Miller, Global Fellow, Canada Institute, Woodrow Wilson International Center for Scholars
- Christopher Sands, Director, Center for Canadian Studies, School of Advanced International Studies, Johns Hopkins University
- Glenn Williamson, CEO and Founder, Canada-Arizona Business Council
- Edward M. Ranger, Attorney Licensed in Arizona and Mexico
- Jim Peach, Regents Professor of Economics, New Mexico State University
- Lance Jungemeyer, President, Fresh Produce Association of the Americas
- Russell Jones, Chairman, RL Jones Customhouse Brokers
- Melissa Sanderson, Vice President, International Affairs, Freeport McMoRan
- Eduardo González, Trade Representative formerly with Phoenix Office of ProMéxico

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This policy review was supported in partnership with