



---

# MEMORANDUM

---

Date: March 28, 2017

To: The Honorable Chair and Members  
Pima County Board of Supervisors

From: C.H. Huckelberry  
County Administrator

A handwritten signature in black ink, appearing to be "C.H. Huckelberry", is written over the typed name and title.

Re: **Facts Regarding the March 21, 2017 Mexico Trade Resolution**

A number of questions and misconceptions arose at the March 21, 2017 Board of Supervisors meeting in which the Board voted 3 to 2 to approve the *Resolution in Support of Trade with Mexico and in Opposition to Newly Proposed Federal Taxes and Tariffs on Cross-border Trade* (Attachment 1).

It is important to note that while political rhetoric at the federal level may be driving recent trade-related proposals, Pima County's resolution is based on the clear economic damage to our region that will be sustained if such policies are implemented as proposed. The effect of increased taxes and tariffs on Mexican goods entering the United States, along with the very real prospect of retaliatory taxes and tariffs imposed by Mexico on US goods imported into Mexico, would have a direct, significant and markedly negative effect on Pima County businesses. In addition to the impact on Pima County companies directly involved in Mexican trade, the negative effect would extend to related secondary supporting companies, logistics, tourism and the overall flow of capital in our county. It is an undisputed fact that a substantial reduction in Mexican trade would be detrimental to our regional economy and would have far-reaching economic impacts on the citizens of Pima County.

In my transmittal memorandum for the March 21, 2017 resolution, I noted the direct ties between Mexican trade and Chapter 8 of the Board-approved Pima County Economic Development Plan. The Economic Development Plan is also the first finding listed in the text of the resolution. I also conveyed to the Board that Mexico is our State's largest trading partner, with \$532 billion in total trade in 2015 and \$9.2 billion in total exports from Arizona to Mexico during the same period. Additionally, The University of Arizona Eller College of Management's Economic and Business Research Center maintains data on its Arizona-Mexico Economic Indicators page that tracks Mexican trade data, including monthly updates on import and export activity. The Center's data shows a significant reduction in trade activity since the recent federal trade changes were first proposed. I would encourage Board members to explore this data at <https://azmex.eller.arizona.edu/> and monitor it closely, as it will have direct bearing on our local economic conditions.

I have provided the most recent quarterly update from the Economic and Business Research Center as Attachment 2. Additionally, I have provided an excerpt from a whitepaper released

The Honorable Chair and Members, Pima County Board of Supervisors  
Re: **Facts Regarding the March 21, 2017 Mexico Trade Resolution**  
March 28, 2017  
Page 2

earlier this month from the Wilson Center's Mexico Institute (Attachment 3), a well-regarded think-tank that provided some of the data used in the initial formulation of the Pima County Economic Development Plan. In the first chapter of the Economics section of *Charting a New Course: Policy Options for the Next Stage in U.S.-Mexico Relations*, the Wilson Center writes:

*"The immense importance of U.S.-Mexico economic collaboration can only be appreciated when one considers the unique nature of U.S.-Mexico trade. While imports from most countries are what they appear to be, foreign products, the United States and Mexico actually work together to manufacture products; with parts and materials zigzagging their way back and forth across the border as finished goods, from flat screen televisions to automobiles, are produced. In fact, approximately 50 percent of all U.S.-Mexico merchandise trade is in parts and materials, fueling each other's industries. Further evidence of the way in which co-production has come to characterize U.S.-Mexico trade is the fact that the top four broad categories of U.S. exports to Mexico are also the top four Mexican exports to the United States: machinery, vehicles, electrical machinery, and mineral fuels. We trade goods in the same categories because industries - including the automotive, aerospace and medical device industries - have built their supply chains across the binational region in ways that make the most of the advantages and specializations of each country. The construction of these regional value chains has fundamentally altered the way we must understand the U.S.-Mexico economic relationship. They link our business cycles, productivity and long-term competitiveness in such a way that the prosperity of our nations is tightly bound together."*

This also describes Pima County's core strategy in the *"Enhancing our Relationship with Mexico"* section of the Pima County Economic Development Plan. Harnessing our geography to access supply chains for Mexican manufacturing - which often involves repeated crossing of materials and goods for manufacturing supplied by southern Arizona - is an economic strength for Pima County. Increased tariffs or a Border Adjustment Tax will severely impede our economic base.

The County is not alone in advocating caution on renegotiating NAFTA, opposing a Border Adjustment Tax or raising concerns about any federal proposals that would curtail trade in Arizona. On January 3, 2017, I transmitted to the Board a memorandum entitled *"Letter from the Arizona District Export Council Regarding the Importance of Trade to Arizona"* that detailed a statewide concern over "anti-trade rhetoric" (Attachment 4). The Arizona District Export Council's letter to Arizona's Congressional delegation was signed by representatives from southern Arizona organizations such as Sun Corridor, Inc., Visit Tucson and the Tucson Hispanic Chamber of Commerce; as well as the Arizona Chamber of Commerce & Industry; Arizona Small Business Association; Arizona Mexico Commission; Arizona Manufacturers

The Honorable Chair and Members, Pima County Board of Supervisors  
Re: **Facts Regarding the March 21, 2017 Mexico Trade Resolution**  
March 28, 2017  
Page 3

Council; Greater Phoenix Chamber of Commerce; Canada Arizona Business Council; Arizona Technology Council; and many other leading business organizations across the state. These are clearly organizations concerned more about business, trade and our State's prosperity than political gamesmanship.

In terms of politics, both US Senators and several members of the House of Representatives from Arizona have urged caution or flatly rejected the recent political rhetoric toward Mexico and the trade proposals that have arisen from the White House. Attachment 5 includes an Arizona Republic guest opinion authored by Senators John McCain and Jeff Flake with Glenn Hamer, president and CEO of the Arizona Chamber of Commerce & Industry. I do not believe the opinion, entitled "*Senators: Careful how we renegotiate NAFTA,*" differs much in tone or substance from the approved Pima County Mexico trade resolution.

The core purpose of the resolution was clear in the "Resolved" section of the trade resolution:

- "1. The Pima County Board of Supervisors recognizes and supports the important business, trade and cultural ties between Pima County and Mexico.*
- 2. The Pima County Board of Supervisors supports a moderate, engaged and fair approach to the United States trade relationship with Mexico and Canada through the trilateral framework of NAFTA.*
- 3. The Pima County Board of Supervisors opposes the imposition of a Border Adjustment Tax or any additional tariffs that that would curtail Mexican trade and have a deleterious effect on the economy and job creation efforts of Pima County."*

These are not political statements. They are rooted in the concern for the economic wellbeing of Pima County and its citizens and intended to demonstrate support for our business relationship with Mexico. It is perplexing that a February 11, 2014 Pima County Board of Supervisors agenda item entitled "*A Resolution of the Pima County Board of Supervisors Declaring Pima County to be Immigrant Welcoming*" also cited the value of Mexican trade but resulted in no political objections from the Board. It was approved unanimously, and my recollection is the discussion was mostly positive toward Mexico and Mexican trade, in particular.

CHH/mjk

Attachments

c: Dr. John Moffatt, Director, Economic Development  
Patrick Cavanaugh, Deputy Director, Economic Development

# ATTACHMENT 1



# Board of Supervisors Memorandum

March 21, 2017

**Resolution 2017-\_\_\_\_, Pima County Resolution in Support of Trade with Mexico and in Opposition to Newly Proposed Federal Taxes and Tariffs on Cross-border Trade**

Background

Arizona, Pima County and Mexico have an historical relationship. In fact, most of southern Arizona was Mexico until 1854 when the Gadsden Purchase transferred southern Arizona to the United States. Our culture is intertwined with the culture of Mexico.

Our economic ties are contemporary as enumerated in Chapter 8 of the Board of Supervisors adopted Economic Development Plan. Chapter 8 discusses the importance of maintaining a close, cooperative relationship with Mexico as a trading partner and partner in economic development and growth on both sides of the border. Mexico is the third largest trading partner for the United States and the first for Arizona. Total trade in 2015 was \$532 billion; and in 2015, Arizona's exports to Mexico were nearly \$9.2 billion. We cannot support changing federal policies that seem founded in rhetoric rather than fact and that do not articulate our beneficial, documented relationship with Mexico regarding economic benefit.

Economic scholars and practitioners have documented the false economy of creating or establishing any border taxes or tariffs. It is critical that all local governments, including the counties in Arizona and others, articulate their opposition to any action that will impede, restrict or retard free trade between the United States and Mexico, the State of Arizona and the State of Sonora, and Pima County with all of Mexico.

In January this year, Pima County received a visit from former Mexico President Vicente Fox. During his visit, he reaffirmed Mexico's desire to cooperate fully in trade, educational exchanges and other activities with the United States, including Mexico's entry into technology revolution by supporting the Mexico startup parallel to Startup Tucson.

Recommendation

I recommend the Board of Supervisors adopt Resolution 2017-\_\_\_\_, Pima County Resolution in Support of Trade with Mexico and in Opposition to Newly Proposed Federal Taxes and Tariffs on Cross-border Trade, and forward the Resolution to the members of Arizona's Congressional Delegation, the County Supervisors Association and the Arizona Border Counties Coalition.

Respectfully submitted,

A handwritten signature in cursive script, reading "C.H. Huckelberry".

C.H. Huckelberry  
County Administrator

CHH/mjk – March 13, 2017  
Attachment

RESOLUTION 2017-\_\_\_\_\_

**PIMA COUNTY RESOLUTION IN SUPPORT OF TRADE WITH MEXICO AND IN  
OPPOSITION TO NEWLY PROPOSED FEDERAL TAXES AND TARIFFS ON CROSS-  
BORDER TRADE**

**The Board of Supervisors of Pima County, Arizona finds:**

1. Pima County has implemented a comprehensive economic development plan to promote economic development, job growth, higher wages and increased wealth within our region.
2. A critical component of the Pima County Economic Development Plan is the cross-border trade with Mexico and Canada facilitated by the North American Free Trade Agreement, more commonly referred to as NAFTA.
3. Pima County has a long history of bilateral trade with Mexico and cultural ties that extend throughout the Pima County business community, which is deeply intertwined and dependent on trade with our NAFTA partners.
4. Pima County is facilitating the creation of the Arizona Border Counties Coalition, an affiliation with Cochise, Santa Cruz and Yuma Counties that seeks to advance economic development and trade opportunities along the Arizona-Mexico border and address disproportionate federal fiscal cost transfers to border counties.
5. On December 21, 2016, the Arizona District Export Council sent letters to the Arizona Congressional delegation signed by 22 statewide business and trade associations, including Sun Corridor Inc., Visit Tucson and the Tucson Hispanic Chamber of Commerce, urging the support of rational and reasonable trade policies that strengthen the state's economy.
6. On February 22, 2017, the Arizona District Export Council hosted a private meeting between Arizona's congressional delegation and 50 business and economic development leaders, including representatives from Pima County, Sun Corridor Inc. and Visit Tucson, in which the state's business leaders expressed concern about implementation of a Border Adjustment Tax or increased tariffs on Mexico and urged caution in renegotiating NAFTA.
7. According to The University of Arizona's Economic and Business Research Center, Arizona maintained a net trade surplus with Mexico of \$870 million in 2016 and Mexico remains the state's top trade partner.
8. Numerous manufacturers located in Pima County and throughout Arizona are part of supply chains in Mexico that contribute to finished product that are then exported around the world from Pima County and Arizona.
9. Economists consider exports to be a key driver of regional economic growth because they bring new money into a regional economy and, through direct and induced effects, support a multitude of other businesses and generally pay higher wages that contribute to a higher living standard.

10. President Donald Trump has repeatedly made statements regarding a possible repeal or major changes to NAFTA, the imposition of unilateral tariffs on Mexico and other steps that would curtail trade.
11. The leadership of the United States House of Representatives is reportedly finalizing a federal tax bill that would include a Border Adjustment Tax, which would negatively impact manufacturers and export-based business in Pima County and the well-paying jobs they provide.
12. Additional tariffs and taxes targeted at Mexico would likely result in retaliatory tariffs and taxes being placed on American exports to Mexico, resulting in the destabilization of Pima County's vital trade and tourism relationship with Mexico and severely curtailing business and job growth in Pima County.

**NOW, THEREFORE, BE IT RESOLVED THAT,**

1. The Pima County Board of Supervisors recognizes and supports the important business, trade and cultural ties between Pima County and Mexico.
2. The Pima County Board of Supervisors supports a moderate, engaged and fair approach to the United States' trade relationship with Mexico and Canada through the trilateral framework of NAFTA.
3. The Pima County Board of Supervisors opposes the imposition of a Border Adjustment Tax or any additional tariffs that would curtail Mexican trade and have a deleterious effect on the economy and job creation efforts of Pima County.

Passed and adopted by the Pima County Board of Supervisors this \_\_\_\_ day of March, 2017.

\_\_\_\_\_  
Chair, Pima County Board of Supervisors

ATTEST

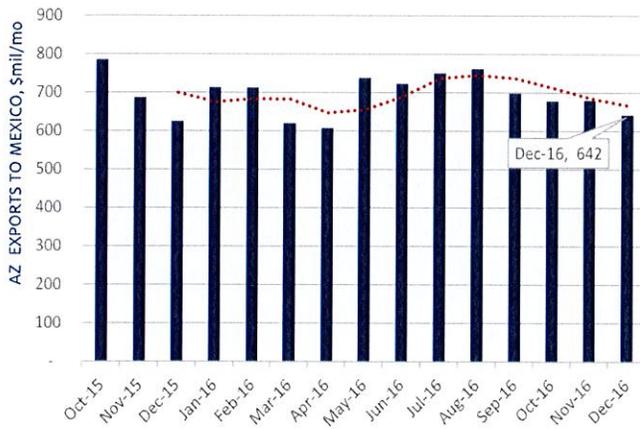
\_\_\_\_\_  
Clerk of the Board

APPROVED AS TO FORM

  
\_\_\_\_\_  
Deputy County Attorney

**TOM WEAVER**

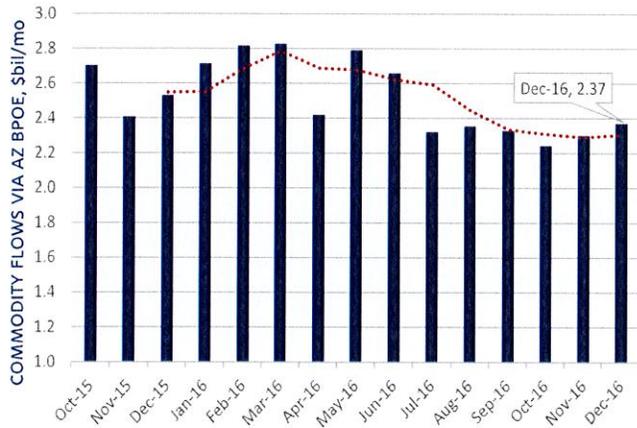
# ATTACHMENT 2



## \$667 mil/mo AZ EXPORTS TO MEXICO

the average \$ value for latest three months of data, October-December 2016, is **down 9.5%** over the previous three-month average, and is **4.6% less** than a year ago.

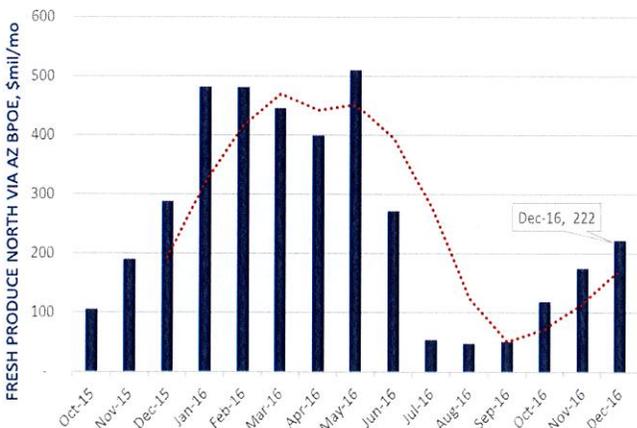
Arizona exports to Mexico did substantially worse than the other border state's exports, which declined less than one percent.



## \$2.3 bil/mo COMMODITY FLOWS TO MEXICO VIA AZ BPOE

the average \$ value for latest three months of data, October-December 2016, is **down only 1.3%** from the previous three-month average, but is **9.5% less** than a year ago.

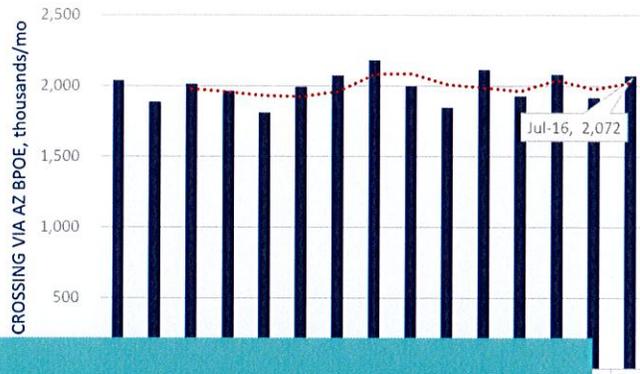
Arizona's BPOE experienced larger declines than BPOE in other border states in 2016. Other states' BPOE experienced a slight increase from previous three months.



## \$171 mil/mo FRESH PRODUCE VIA AZ BPOE

the average \$ value for latest three months of data, October-December 2016, is **up 252.4%** from the previous three-month average (low season). This is **down 11.5%** from the same three months of 2015.

Fresh produce production is highly seasonal, as is the flow of fresh produce north. BPOE in other border states experienced a 14.7% increase over previous year.



The Bureau of Transportation Statistics has **not** released new border crossing data since our last Quarterly Update (released December, 2016). Thus, the most recent data remains July 2016.

## 2 mil/mo PERSONS CROSSING AZ BORDER NORTHBOUND

the average number for latest three months of data, May-July 2016, is **up 3.0%** over the previous three-month average, and is **2.2% higher** than a year ago.

crossers, 27.5% come on foot, and 1.1% by bus. Pedestrian



## 779,679/mo VEHICLES CROSSING AZ BORDER NORTHBOUND

the average number for latest three months of data, May-July 2016, is **up 2.0%** over the previous three-month average, but is **down 1.0%** from a year ago.

Personal vehicles comprised 95.7% of all vehicle crossings and remained unchanged from a year ago. Trucks accounted for a little over 4.0% of all vehicle crossings, and declined 1.1% over the year.



## 20.7 pesos/\$US EXCHANGE RATE

the average exchange rate over the latest three months of data, December 2016 through February 2017, is a **7.0% drop** in the peso's value from the previous three-month average, and a **16.2% decline** from a year ago.

This dramatic decline in the value of the Mexican peso against the U.S. dollar began in December of 2014 (14.5 pesos/\$US) and reached an historic low of 21.4 pesos/\$US in January 2017.

# ATTACHMENT 3



# CHARTING A NEW COURSE: Policy Options for the Next Stage in U.S.-Mexico Relations

By  
Christopher E. Wilson  
Eric L. Olson  
Andrew Selee  
Duncan Wood  
E. Anthony Wayne  
Arturo Sarukhan

Edited by Duncan Wood



Mexico Institute  
Woodrow Wilson International Center for Scholars  
One Woodrow Wilson Plaza  
1300 Pennsylvania Avenue NW  
Washington, DC 20004-3027

-  [www.wilsoncenter.org/mexico](http://www.wilsoncenter.org/mexico)
-  [mexico@wilsoncenter.org](mailto:mexico@wilsoncenter.org)
-  [facebook.com/MexicoInstitute](https://facebook.com/MexicoInstitute)
-  [@MexicoInstitute](https://twitter.com/MexicoInstitute)
-  202.691.4325

ISBN: 978-1-938027-67-3

March, 2017

# LEVERAGING THE U.S.-MEXICO RELATIONSHIP TO STRENGTHEN OUR ECONOMIES

Christopher Wilson<sup>1</sup>

**T**ied together by both an accident of geographic proximity and through the deliberate integration institutionalized in the North American Free Trade Agreement (NAFTA) and other economic accords, the United States and Mexico have seen their economies become deeply intertwined. Since the 1990s, trade between the United States and Mexico has grown tremendously, with bilateral goods and services trade in 2015 reaching a total six times greater than before the North American Free Trade Agreement (NAFTA) was implemented in 1993.<sup>2</sup> In 2015, bilateral trade reached \$584 billion dollars, meaning that the United States and Mexico trade more than a million dollars' worth of goods and services every minute. The United States is Mexico's top export market, and Mexico is the second-largest foreign buyer of U.S. goods, second only to Canada. The bilateral trade relationship is enormous in size, and the U.S. and Mexican economies each depend significantly upon one another.

The crux of the partnership, though, lies in the way that cooperation within North America supports the region's competitiveness in the global economy. The U.S.-Mexico economic partnership has the potential to play a key role in boosting regional exports to the rest of the world, which would support job growth in the United States and Mexico while helping to address the trade deficits currently run by both countries.

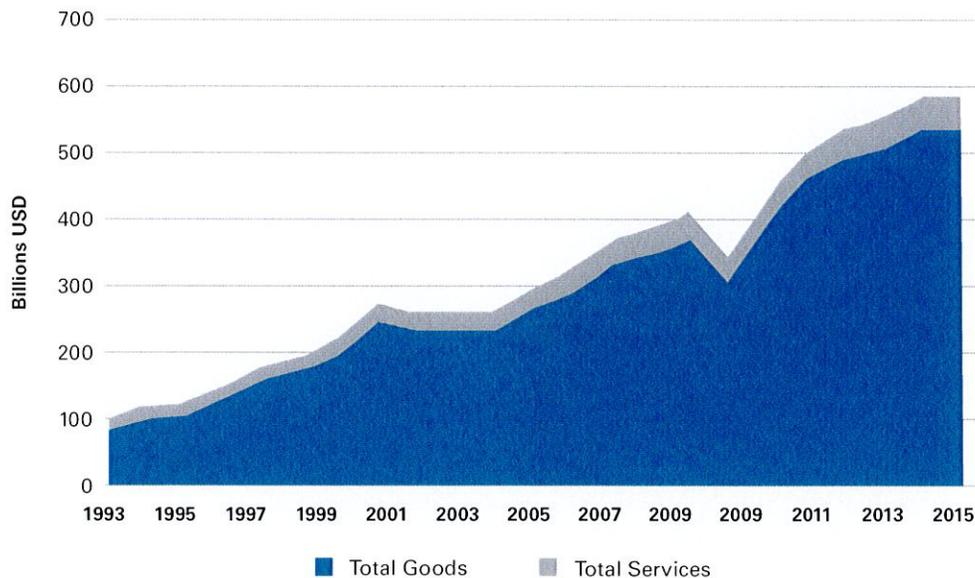
## REGIONAL VALUE CHAINS LINK OUR ECONOMIC PROSPECTS

The immense importance of U.S.-Mexico economic collaboration can only be appreciated when one considers the unique nature of U.S.-Mexico trade. While imports from most countries are what they appear to be, foreign products, the United States and Mexico actually work together to manufacture products, with parts and materials zigzagging their way back and forth across the border as finished goods, from flat screen televisions to automobiles, are produced. In fact, approximately 50 percent of all U.S.-Mexico merchandise trade is in parts and materials, fueling each other's industries.<sup>3</sup> Further evidence of the way in which co-production has come to characterize U.S.-Mexico trade is the fact that the top four broad categories of U.S. exports to Mexico are also the top four Mexican exports to the United States: machinery, vehicles, electrical machinery, and mineral fuels.<sup>4</sup> We trade goods in the same categories because industries—including the automotive, aerospace, and medical devices industries—have built their supply chains across the binational region in ways that make the most of the advantages and specialization of each country. The construction of these regional value chains has fundamentally altered the way we must understand the U.S.-Mexico economic relationship. They link our business cycles, productivity, and long term competitiveness in such a way that the prosperity of our nations tightly bound together.

To build up the highly competitive and tightly integrated North American production platform that now exists, U.S. and Mexican companies have made huge investments across the border. The total stock of U.S. and Mexican foreign direct investment in each other has risen more than six-fold since 1993 and now totals \$109 billion dollars (Figure 1).<sup>5</sup> In 2015, U.S. direct investment—the direct ownership of businesses like a manufacturing plant or retail store—in Mexico reached \$93 billion dollars (Figure 2). Mexican investment in the United States, at \$17 billion dollars, is smaller but growing quickly. It has quadrupled since 2005, and the United States is the largest destination for Mexican FDI abroad.<sup>6</sup>

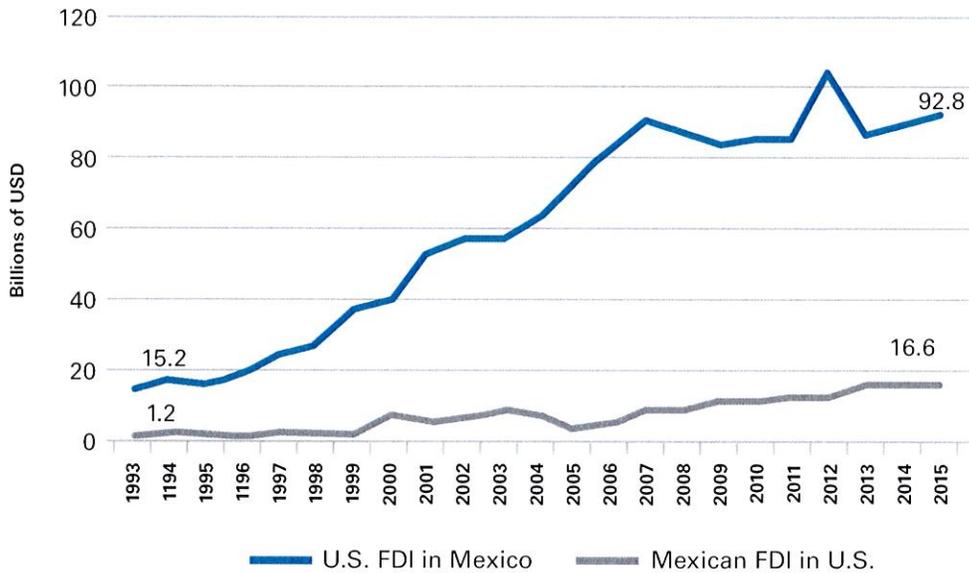
U.S. investments to build factories in Mexico and other countries have faced considerable criticism recently, understood as representing a loss for the U.S. economy. To be sure, there are times when firms close their factories in the United States and move to Mexico. However, there is strong evidence that investment by U.S. firms in Mexico is more often associated with job growth in their U.S. operations than with job losses. Theodore Moran and Lindsay Oldenski have analyzed U.S.-Mexico trade and investment data from 1990 to 2009, and find that on average a 10 percent increase in employment at U.S. companies' operations in Mexico leads to a 1.3 percent increase in the size of their U.S. workforce, a 1.7 percent increase in exports from the United States, and a 4.1 percent increase in U.S. research and development spending.<sup>7</sup> There is also evidence that the jobs created in the United States by this phenomenon require higher skill levels, reinforcing the need for training and re-training to ensure that workers benefit from this transition and qualify for these higher-paying positions.

**Figure 1. U.S.-Mexico Trade in Goods and Services, 1993-2015**



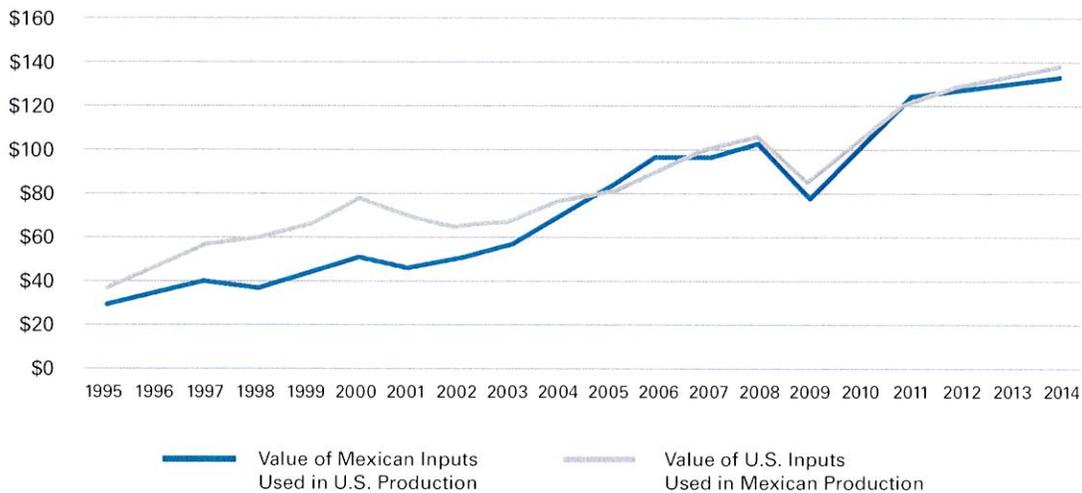
*Source: U.S. Census Bureau for goods trade; U.S. Bureau of Economic Analysis and OECD for services trade. See endnote two for more details.*

**Figure 2. U.S.-Mexico Foreign Direct Investment Positions, 1993-2015**



Source and Note: Historical cost basis data. U.S. Department of Commerce, Bureau of Economic Analysis, 2016.

**Figure 3. Value of Foreign Inputs for Domestic Production, Billions of USD, 1995-2014**



Source: Author's calculations with data from World Input-Output Database, <http://www.wiod.org/>, 2016.

Even as the value of U.S. and Mexican participation in each other's supply chains has continued to grow in absolute terms, some important developments can be appreciated by viewing how the relative share of this participation has changed over time. As shown in Figure 3, the United States sells even more inputs to Mexico than Mexico sells to the United States. Given that Mexico sends approximately 80 percent of its gross exports to the United States, it should be no surprise that the vast majority of the inputs sent from the United States to Mexico make their way back to consumers in the United States. In this sense, a study using data from 2004 found that U.S. imports of final goods from Mexico contained 40 percent U.S. value added, a number significantly larger than was found for U.S. imports from any other country save Canada (25% for Canada vs. 4% for China and 2% from the E.U.).<sup>8</sup>

Nonetheless, the portion of total inputs used in Mexican production that come from the United States, as well as the U.S. value embedded in Mexican exports, has experienced some ups and downs (Figure 4). During the 1990s, after NAFTA was passed, both measures rose, but as value chains became more global and China in particular grew its participation in global systems of production, the U.S. share fell.<sup>9</sup> Rising wages in China and improved productivity in U.S. manufacturing operations may mean that the tide is again turning, but the United States and Mexico should not leave the health of their regional value chains to chance. Therefore, the principal recommendation derived from this research is that the best way to grow U.S. exports and industry is by working closely with Mexico and Canada, our partners in production. The U.S.-Mexico relationship is not zero-sum, and there are significant risks that any effort to support U.S. industry by suppressing imports from Mexico could backfire. Instead, efforts are needed to strengthen regional value chains, make regional industries more competitive, and as a result grow exports from both countries to the rest of the world.

**Figure 4. U.S. Share of Inputs for Mexican Production and U.S. Value in Mexican Gross Exports, 1995-2014**



Source: OECD-WTO, *Trade in Value Added Database, 2016*; and author's calculation based on data from the *World Input-Output Database*, <http://www.wiod.org/>, 2016.

## TRADE AND EMPLOYMENT: TRAINING A 21<sup>ST</sup> CENTURY WORKFORCE

Figure 5. U.S. Jobs that Depend on Trade with Mexico



At the heart of President Donald Trump’s successful campaign was a promise to fight for the well-being of American workers, and indeed attending to the needs of each country’s workforce is vital to the prosperity of the United States and Mexico. Two key points follow from this. First, nearly five million U.S. jobs and a similar number of Mexican jobs depend on bilateral trade. Raising significant tax or tariff barriers to bilateral trade would threaten a significant number of those jobs in both countries. Second, for different reasons (outlined below), both the United States and Mexico are in need of significant human capital investments. The global economy is transforming at a very fast pace. A failure to adequately and effectively invest in educa-

tion and workforce development leaves huge segments of our populations in danger of being excluded from the benefits of the global economy, putting support for the international economic system and the health of our national economies at risk.

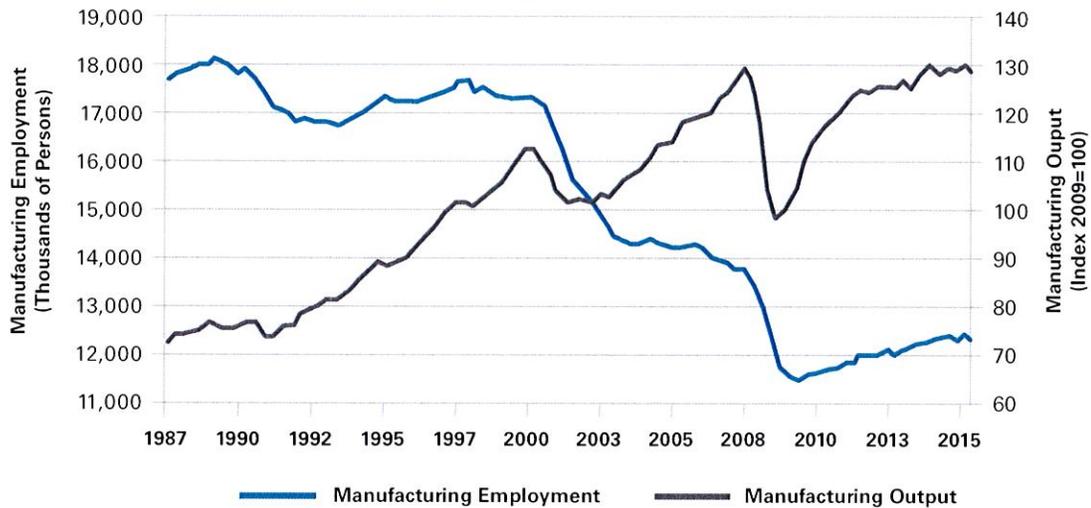
New research commissioned by the Mexico Institute (Figure 5) shows that nearly five million U.S. jobs depend on trade with Mexico.<sup>10</sup> This means that one out of every 29 U.S. workers has a job supported by U.S.-Mexico trade. The model utilized in our study shows that if trade between the United States and Mexico were halted, 4.9 million Americans would be out of work. To be clear, trade expansion between the United States and Mexico, like trade between any two countries, both creates and destroys jobs; the study takes this fact into consideration and finds a *net* gain of 4.9 million U.S. jobs as a result of bilateral trade. These jobs are spread throughout the U.S. economy, both in terms of industries and geography, and policies are needed that not only preserve these jobs but also expand the benefits of the regional economy.

The U.S. labor market is in the process of a major, long-term economic transition. Productivity gains, driven mainly by automation and technology but accelerated by trade, are pushing manufacturing employment down even as output continues to rise. In this era of increasing service sector employment and a growing need for workers with technological know-how to design and run automated production processes, education and training are at a premium. In fact, since the financial crisis, more than 95 percent of the jobs created in the United States have gone to workers with at least some college education.<sup>11</sup>

Mexico is still experiencing employment growth in its manufacturing sector, but that trend will not continue indefinitely. Indeed, industries that depend heavily on low-cost labor, such as large-scale textile or shoemaking, have in large part already left Mexico. In their place, industries that require greater human capital, such as the auto and aerospace industries, have grown significantly as productivity in these sectors has risen. This evolution is healthy for Mexico's development, and the next step on the path is for Mexico to grow

its knowledge economy. As the World Economic Forum’s 2016 competitiveness report puts it, Mexico is in transition from being an efficiency-driven economy to an innovation-driven economy.<sup>12</sup> A top-notch workforce is a prerequisite to successfully complete such a transition.

**Figure 6. U.S. Manufacturing Employment and Output,**



**Seasonally Adjusted, July 1987-April 2016**

*Source: Saint Louis Federal Reserve, with data from U.S. Bureau of Labor Statistics, 2016.*

**DEFICITS, JOBS, AND COMPETITIVENESS: SETTING THE RIGHT GOALS**

During the 2016 U.S. presidential campaigns, two key economic issues—jobs and the trade deficit—were discussed extensively in the context of the U.S.-Mexico relationship. Competitiveness was perhaps not discussed enough. Both jobs and the trade deficit are important economic issues for the United States, but care needs to be taken in the way that they are understood and used to create goals in the context of bilateral relations. Though not without its own conceptual pitfalls,<sup>13</sup> putting regional competitiveness (and productivity) at the center of conversations on economic relations can help ground the discussion in the reciprocal nature of the U.S.-Mexico economic relationship and opportunities for mutual benefit.

Clearly, creating high-quality jobs deserves to be a priority in the U.S.-Mexico economic relationship. Mexico is not the cause of the vast majority of manufacturing job losses in the United States. (In fact, the impact of bilateral trade is net positive for U.S. manufacturing jobs.<sup>14</sup>) As such, there are no potential changes in the U.S.-Mexico relationship that could reverse the decades old decline in U.S. manufacturing employment shown in figure 6. Other goals are needed. The development of the regional production platform has played an important role in maintaining the overall health of U.S. manufacturing, and while improvements in the system of coproduction will not be able to reverse the overall trend in manufacturing employment, they can preserve some manufacturing jobs while growing employment opportunities in design, engineering, research, and business services. Similarly, efforts to strengthen the regional climate for innovation, entrepreneurship, and business growth can help ensure that the jobs and earnings associated with new companies and product lines accrue to the region. Most importantly, and unsurprisingly, the majority of work needed to improve employment opportunities for U.S. and Mexican workers has to do with workforce training and education. This is predominately a domestic task for each nation, but there are some ways that the U.S.-Mexico relationship can be leveraged to facilitate and strengthen workforce development in both countries.

The last time the United States had a trade surplus was in 1975.<sup>15</sup> By 2016, the U.S. trade deficit had reached a half-trillion dollars. The main reason that countries export goods is so that they earn the income needed to purchase imported goods. From this perspective, when running a deficit a country is getting more of the benefits of trade (imports) than what they are paying for with the work and capital needed to create goods for export. Credit fills in the gap, and so a nation's trade deficit can only be maintained for as long as other countries are willing to continue lending that country more and more. Despite the near-term benefits of the U.S. trade deficit, many are concerned that the debt load being taken on by the U.S. government and society will need to be reined in over the coming decades in order to maintain low borrowing costs and to ensure economic

stability. Related to this is a concern that some countries have kept their currencies undervalued in order to boost exports and thereby accumulate capital, which is often invested back in the United States through bond purchases. The issue is more complicated than often portrayed, but there are legitimate reasons to be concerned about the U.S. trade deficit.

Trade with Mexico accounts for approximately 11 percent of the U.S. goods and services trade deficit.<sup>16</sup> Trade with China makes up the majority (66%) of the trade deficit. However, in an era of global supply chains, these figures end up being distorted. Parts from outside the region used as inputs for products assembled in Mexico are incorrectly added to the U.S.-Mexico trade deficit. Using data from the OECD Trade in Value Added database, which takes into account the international movement of parts through the production process, one finds the traditional measure of the U.S. goods and services trade deficit with Mexico is 36 percent higher than the deficit calculated in value-added terms.<sup>17</sup> Mexico also runs its own trade deficit with the world, meaning it is on the same side as the United States of the global imbalance that results in the U.S. trade deficit.<sup>18</sup> In fact, given that Mexico's annual exports to the world contain billions of dollars of U.S. content, growing U.S.-Mexico trade could actually play an important role in boosting U.S. exports and thereby reducing the overall U.S. trade deficit.

The overarching goal of U.S. and Mexican officials as they construct the next chapter of the bilateral economic agenda should be strengthening regional competitiveness. Each country can logically put the greatest focus on improving its own ability to attract and sustain investments and increase productivity, but this should be done with an understanding that the competitiveness of the two nations is complementary and mutually reinforcing. Given the integrated nature of regional value chains and the dependence that industry in each country has on imported inputs from the other country, productivity gains in one country drive increased competitiveness in the other. For example, Mexico's 2013 telecom reform has driven down prices in that sector, and businesses throughout Mexico have lower phone bills as a result. This helps keep down the cost of goods

produced in Mexico, and consequently increases the competitiveness of U.S. industries that import parts and materials from Mexico. In the same way, successful tax reform or productive infrastructure investments in the United States would be a boon for the Mexican economy. Many approaches to cutting the costs of doing business in the region can be enacted jointly, whether by simplifying customs procedures, making regulations in the two countries more compatible, or by other means. These types of mutually beneficial efforts to boost regional competitiveness ought to form the core of the bilateral economic relationship.

## **POLICY RECOMMENDATIONS**

In order to support job creation and business opportunities, the focus of the U.S.-Mexico economic agenda should be on strengthening competitiveness and growing exports. As Wilbur Ross, President Trump's nominee for secretary of commerce, suggested during his confirmation hearing, "I think the pro-growth thing is stimulating exports, much more than just curtailing imports."<sup>19</sup> The best way to achieve this is in cooperation with Mexico. Because the United States and Mexico build products together, the two countries have the opportunity to combine comparative advantages and utilize economies of scale in ways that improve the competitiveness of each nation. Similarly, the fact that half of U.S.-Mexico trade is in parts and materials used as inputs for production suggests that the imposition of greater barriers to bilateral trade would raise the costs of production in North America, making regionally produced products more expensive for domestic consumers and less competitive abroad. In this section, several priority areas for the binational agenda are suggested. They in no way represent the entirety of the bilateral economic agenda, which spans a vast number of important issue areas.

## **UPDATING NAFTA**

An outright withdrawal from the North American Free Trade Agreement would raise costs for industry in the region, thereby putting

jobs at risk and diminishing competitiveness. Nonetheless, as an agreement created a quarter-century ago, there is ample opportunity for the Trump and Peña administrations to negotiate an update to NAFTA that would serve the interests of both countries and address the concerns of many of the constituencies for whom the agreement did not live up to its promises. There is not space in this chapter to fully address the many potential facets of a renegotiation of NAFTA, but these are some of the issues that could be addressed:

- A simple update to include products and modes of trade—especially trade in digital products—that did not exist in the early 1990s.
- E-commerce tools have made it much easier for small businesses to find buyers abroad, but complicated customs procedures are still an intimidating hurdle for companies looking to begin exporting. Simplifying customs paperwork and raising the threshold for the value of shipments before they face customs revisions, known as *de minimis*, would boost U.S. small business exports to our neighbors. Congress passed legislation to raise the U.S. *de minimis* value to \$800 dollars in 2016. Mexico and Canada, each of which begin requiring customs processing for significantly lower value shipments, should reciprocate.
- The NAFTA side agreements on labor and the environment are essentially toothless. Incorporating them into the agreement itself and strengthening enforcement provisions could alleviate concerns that companies might be choosing to leave the United States as a way to avoid higher labor or environmental standards.
  - Though NAFTA and the recent bilateral aviation agreement have eliminated many restrictions, both the United States and Mexico still have many transportation rules that limit the freedom of companies or carriers when they operate on the other side of the border.
  - There might be areas in which NAFTA's rules of origin, which set the threshold for the amount of regional content needed to qualify for NAFTA's tariff benefits, could be adjusted in order to

encourage the use of more North American parts. During the review, care would need to be taken to also identify regional industries that could be pushed out of North America by stricter regional content requirements, preferring to forgo NAFTA benefits rather than pay tariffs on inputs they currently source from outside the continent.

## **THE HIGH-LEVEL ECONOMIC DIALOGUE**

As the U.S. and Mexican economies have become more integrated, the number of issues on the agenda has grown. Topics of economic importance addressed through bilateral coordination and cooperation now include food safety, agricultural pest control, the protection of sensitive industries, customs facilitation, regulatory compatibility, anti-money laundering provisions, transportation infrastructure, energy security, natural resource management, economic development in border regions, financial literacy, educational exchange, research collaboration, innovation, entrepreneurship, trade policy, and many more. To coordinate such a complex agenda and to be sure that the many U.S. and Mexican agencies responsible for such topics work together to advance regional competitiveness, the two governments have created the U.S.-Mexico High-Level Economic Dialogue, or HLED. The HLED brings together U.S. and Mexican cabinet members on an annual basis. To push through bureaucratic roadblocks and ensure progress is made across a wide range of agenda items, pressure from the highest level is essential, and the best way to ensure that kind of ongoing leadership is to institutionalize cabinet level meetings. To manage the complex bilateral economic agenda, the HLED needs to continue, even as important negotiations become the focus of the relationship. A single-issue economic agenda is simply not feasible given the depth of bilateral economic ties, and therefore a coordinating mechanism and leadership commitment is needed.

## **A COMPETITIVE BORDER**

There are significant opportunities to boost regional competitive-

ness through improved border management. Right now, both nations lose out on billions of dollars of economic activity because of congestion at the busy U.S.-Mexico border, which adds costs to regional manufacturers and discourages travel and investment in the region.<sup>20</sup> A framework has been constructed over the past 15 years for U.S.-Mexico cooperation to simultaneously strengthen security and efficiency in border management, but further investments and the implementation of programs in development is needed.<sup>21</sup> Top priorities should include:

- Trusted traveler and trader programs offer companies and individuals expedited border crossings in exchange for undergoing background checks and committing to security standards, thereby allowing officers at the border crossings to focus their efforts on travelers and cargo that are not known to be low-risk. These programs, which cover cross-border private travelers (Global Entry and SENTRI in the United States; Viajero Confiable in Mexico), commercial drivers and shipping companies (FAST), and corporate supply chains (C-TPAT in the United States; Operador Económico Autorizado in Mexico), should be encouraged to enroll a larger portion of cross-border traffic.
- Furthermore, under current procedures, cargo is processed twice as it crosses the border—first as it leaves a country and then as it enters the other. Joint inspection programs, in which U.S. and Mexican border officials work side-by-side at facilities on either side of the border to clear cargo, are the future. By working together, U.S. and Mexican inspectors can better share information, reduce double inspection, increase the percentage of cargo that each inspects, and decrease staffing needs. These measures all facilitate trade while saving money and increasing border security.
- Even with efficiency gains, significant investments in infrastructure will be needed. The federal government must play a central role in funding border crossings, but public private partnerships can act as a multiplier in many cases. Big advances have already been made in developing a framework for such projects, but fur-

ther work is needed to fully take advantage of private (as well as state and local government) participation. In addition to contributing funding, local stakeholders bring fresh energy and ideas to the governments. A prime example of this is the CBX passenger bridge that connects the Tijuana airport directly to the U.S. side of the border. Staffed by border officials from both countries, this privately funded and built project allows passengers from both sides of the border to access the airport directly, saving passengers time, increasing profitable airport traffic, and effectively expanding the number of flights arriving to and departing from San Diego.

Additional efforts will be needed to continuously strengthen the use of technology at border crossings, to expand pre-inspection projects, to fully staff the crossings, to implement and eventually integrate U.S. and Mexican single windows for import and export processing, and to coordinate and prioritize broader transportation network investments.

## **INNOVATION, EDUCATION, AND ENTREPRENEURSHIP: FROM BUILDING TO INVENTING**

Because of the massive volume of merchandise trade between the United States and Mexico—over a half-trillion dollars per year—the bilateral economic relationship has tended to focus on ensuring the free and secure movement of goods between the two countries. Without doubt such an agenda has yielded significant results. Further progress along these lines is still possible and desirable, but as the Mexican economy has developed and economic integration has deepened, new areas of economic cooperation are growing in importance. Mexico has evolved from an economy using low-cost labor as its principal comparative advantage to a middle-income country with a large middle class and an economy oriented toward higher value and higher skill manufacturing, exemplified by its large auto and aerospace industries. The next step in the development of the Mexican economy is the growth of a knowledge-based economy, an economy that not only builds products but also dreams them

up and designs them. Such a transformation is underway and offers major benefits not only for Mexico but also for the United States. In the creative industries, for example, Mexican and American television and film makers have developed numerous partnerships and joint projects to create content in English and Spanish for regional and global audiences. Software developers from the Mexican tech industry in Guadalajara and Monterrey are working with counterparts across the United States to co-develop apps and other business tools. Investment flows, once almost entirely southbound, are quickly becoming more balanced, with well over 100,000 jobs in the United States now directly supported by Mexican direct investment.

To continue this trend, the two countries should strengthen collaboration on issues relating to education, innovation, and entrepreneurship. The Mexico-U.S. Entrepreneurship and Innovation Council (MUSEIC), for example, was created in 2013 to “promote and strengthen the cross-border design and innovation system to complement our cross-border production system.”<sup>22</sup> MUSEIC has several subcommittees focusing on topics ranging from promoting women entrepreneurs to sharing best practices on commercialization and financing entrepreneurs with high impact ideas. Another example of the expanding economic agenda is the U.S.-Mexico Bilateral Forum on Higher Education, Innovation and Research, known by its Spanish acronym FOBESII, which seeks to “expand opportunities for educational exchanges, scientific research partnerships, and cross-border innovation to help both countries develop a 21st century workforce for both our mutual economic prosperity and sustainable social development.”<sup>23</sup> Both FOBESII and MUSEIC have achieved some important results, but at the same time they are in many ways still nascent initiatives that can and should grow over time as successful pilots are replicated and scaled. Partnerships with subnational governments, civil society, and the business community are vital to their future success and should be actively expanded.

## CONCLUSION

The U.S.-Mexico economic relationship, as constructed over the past several decades, offers concrete benefits to millions of Americans and Mexicans. It is composed of a large and deep trade relationship in which the two countries co-produce products across regional manufacturing networks that enhance the competitiveness of each. This current state of interdependence and mutual gain also naturally means that a deterioration of the relationship could put the economic security and prosperity of citizens of both countries at risk. Instead, the two countries should work together to boost productivity and strengthen the competitiveness of the regional economy. They should aim to not only build things together but to also invent them, to design them, and to open markets around the world in which to sell them. The economic challenges of each country are real. They require significant improvements to the domestic economic policies of each. But to the extent that they are international, they are best faced together.

## ENDNOTES

- 1 In the writing of this chapter, I draw on the various essays of the Mexico Institute project, *Growing Together: Economic Ties between the United States and Mexico*.
- 2 Author's calculation with data from the U.S. Census Bureau, Bureau of Economic Analysis, and the OECD. Please note there was a change in definitions used to collect services trade data, so the 1993-1998 OECD data and the 1999-2015 BEA data are not directly comparable. Total trade refers to the sum of imports and exports.
- 3 Author's calculations with data from World Input-Output Database, <http://www.wiod.org/>, 2016, and the U.S. Census Bureau, 2016. Data for the calculation comes from 2011, the most recent year available from the WIOD dataset at the time of publishing. See page four of [A Regional Manufacturing Platform](#) for more information on how the calculation was made.
- 4 Though the order of importance of the four categories differs for Mexico and the United States, at the two digit HS level these are the top four export categories for each. United States Trade Representative, <https://ustr.gov/countries-regions/americas/mexico>, 2016.
- 5 This is the sum of U.S. direct investment position in Mexico and Mexican direct investment in the United States, using 2015 data from the U.S. Department of Commerce, Bureau of Economic Analysis, 2016.
- 6 When possible, this chapter relies on U.S. data in order to maintain consistency. In this case, the data to support the quadrupling of Mexican FDI in the U.S. is based on U.S. BEA data, but the data to support the U.S. being the largest recipient of Mexican investment abroad is the IMF, CDIS, 2016.
- 7 Theodore H. Moran and Lindsay Oldenski, "How U.S. Investments in Mexico have increased investment and jobs at home" in *NAFTA 20 Years Later*, Washington, DC: Peterson Institute for International Economics, November 2014.
- 8 Robert Koopman, William Powers, Zhi Wang, and Shang-Jin Wei, "Give Credit Where Credit Is Due: Tracing Value Added in Global Production Chains," NBER Working Paper No. 16426, Cambridge, MA, September 2010, Revised September 2011.
- 9 Other potential drivers of this decrease include dual recessions in the United States, the thickening of the U.S.-Mexico border following the terrorist attacks of September, 2001, and China joining the WTO.
- 10 See [Growing Together: How Trade with Mexico Impacts Employment in the United States](#) for more information on the model used by the Mexico Institute, run by Joseph Francois and Laura Baughman of The Trade Partnership.
- 11 Anthony Carnevale, Tamara Jayasundera, Artem Gulish, *America's Divided Recovery: College Haves and Have-Nots*, Washington, DC: Georgetown University Center on Education and the Workforce, 2016, <https://cew.georgetown.edu/wp-content/uploads/Americas-Divided-Recovery-web.pdf>.

- 12 World Economic Forum, The Global Competitiveness Report 2016-2017, p. 38 [http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017\\_FINAL.pdf](http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf).
- 13 See, for example, Paul Krugman, "Competitiveness: A Dangerous Obsession," *Foreign Affairs*, March/April 1994, p. 28, <https://www.foreignaffairs.com/articles/1994-03-01/competitiveness-dangerous-obsession>
- 14 See [Growing Together: How Trade with Mexico Impacts Employment in the United States](#) for more information on the model used by the Mexico Institute, run by Joseph Francois and Laura Baughman of The Trade Partnership.
- 15 U.S. Census Bureau, <https://www.census.gov/foreign-trade/statistics/historical/gands.pdf>.
- 16 Author's calculations, combining the most recent available data: 2016 goods trade from the U.S. Census Bureau, and 2015 services trade data from the U.S. Bureau of Economic Analysis.
- 17 Author's calculation using 2011 data from the OECD TiVA database.
- 18 See: Michael Pettit, "Trade Deficit with Mexico Is Good for America," Bloomberg View, February 8, 2017, <https://www.bloomberg.com/view/articles/2017-02-08/trade-deficit-with-mexico-is-good-for-america>.
- 19 Wilbur Ross, as quoted in: Adam Behsudi and Doug Palmer, "Ross: NAFTA is Job One," *Politico*, January 18, 2017, <http://www.politico.com/story/2017/01/wilbur-ross-confirmation-hearing-commerce-department-233756>.
- 20 See the table on page 46 of the Congressional Record of "Improving Security and Facilitating Commerce with Mexico at America's Southern Border," Hearing before the Subcommittee on the Western Hemisphere of the Committee on Foreign Affairs, House of Representatives, One Hundred Thirteenth Congress, First Session, December 9, 2013, <http://docs.house.gov/meetings/FA/FA07/20131209/101563/HHRG-113-FA07-Transcript-20131209.pdf>.
- 21 See the Wilson Center publication, *Anatomy of a Relationship: A Collection of Essays on the Evolution of U.S.-Mexico Cooperation on Border Management*, <https://www.wilsoncenter.org/publication/the-anatomy-relationship-collection-essays-the-evolution-us-mexico-cooperation-border>.
- 22 U.S. State Department Website, 2017, <https://www.state.gov/e/eb/cba/entrepreneurship/museic/>.
- 23 U.S. Embassy in Mexico website, 2017, <https://mx.usembassy.gov/education-culture/education/the-u-s-mexico-bilateral-forum-on-higher-education-innovation-and-research/>.

# ATTACHMENT 4



---

# MEMORANDUM

---

Date: January 3, 2017

To: The Honorable Chair and Members  
Pima County Board of Supervisors

From: C.H. Huckelberry  
County Administrator 

Re: **Letter from the Arizona District Export Council Regarding the Importance of Trade to Arizona**

Following the elections discussion regarding trade issues and the discussions regarding the North American Free Trade Agreement (NAFTA), the attached December 21, 2016 letter was transmitted to Arizona's Congressional Delegation.

As you can see, the letter is co-signed by a number of economic development related organizations throughout Arizona, including Visit Tucson, a number of Chambers of Commerce and Sun Corridor Inc. It is clear from this communication how important trade is for Arizona's economy. Pima County's economy would be dramatically impacted if there were any adverse federal legislative actions related to trade and/or NAFTA.

CHH/anc

Attachment

c: Dr. John Moffatt, Director, Economic Development Office  
Patrick Cavanaugh, Deputy Director, Economic Development Office



## *Arizona's Voice for Global Trade*

2828 North Central Avenue, Suite 800 • Phoenix, AZ 85004  
Tel: (602) 254-2907 • Fax: (602) 745-7210 • [www.exportaz.org](http://www.exportaz.org)

Via Electronic Mail and U.S. Post

December 21, 2016

The Honorable John McCain  
United States Senate  
Russell Senate Office Building 218  
Washington, D.C. 20510

### **Importance of Trade to Arizona**

Dear Senator McCain:

During the U.S. presidential campaign, statements were made regarding a possible repeal or major changes to the North American Free Trade Agreement (NAFTA), the imposition of unilateral tariffs on Mexico and China, and other steps that would curtail trade.

Now that the election is over, we are hopeful that the anti-trade rhetoric will abate and our political leaders will adopt a moderate, balanced approach to international engagement in general and international trade in particular. However, given the current atmosphere of uncertainty and the dependence of Arizona's economy on international trade, we urge the members of Arizona's Congressional Delegation to lead a rational discourse regarding trade and, based on a clear understanding of the facts, advocate for a new agenda that advances America's leadership role in a highly interdependent world.

The facts are indisputable. Arizona's economy is deeply intertwined with its NAFTA partners. According to the Arizona Commerce Authority, in 2014 more than 257,800 jobs in our state relied on trade and investment with our two largest trading partners, Mexico and Canada. In 2015, the U.S. Census reports that Arizona had \$16.8 billion in combined trade with Mexico (representing nearly 40% of the state's total trade) and maintained a \$1.5 billion trade surplus. Also in 2015, Arizona had \$3.8 billion in combined trade with Canada and maintained an over \$800 million trade surplus. In addition, tourism ties with our NAFTA partners are significant drivers of Arizona's economic success. Mexican visitors are responsible for 66% of all Arizona visitor expenditures. An average of 3.5 million Mexicans visit Arizona each year and spend an aggregate \$2.66 billion, or nearly \$7.3 million per day. Likewise, nearly 900,000 Canadians visit Arizona every year, spending an average of \$1,300 per visit. When it comes to business attraction, Canada is Arizona's largest source of foreign direct investment. The impact of Canadian investment on Arizona job creation provides a strong economic stimulus to the region. The facts clearly establish that Arizona's economy benefits from, and is inextricably linked to, its NAFTA partners.

Imposing new tariff restrictions could destabilize Arizona's trade and tourism relationships, create uncertainty, disrupt established and mutually beneficial supply chains and travel patterns, and negatively impact Arizona's economic recovery. According to a recent study by the Peterson Institute for International Economics (PIIE), the threats contained in an anti-trade campaign, even if implemented only in part, could lead to a trade war that would plunge the U.S. economy into recession and cost more than four million jobs in America's private sector.



## Arizona's Voice for Global Trade

2828 North Central Avenue, Suite 800 • Phoenix, AZ 85004  
Tel: (602) 254-2907 • Fax: (602) 745-7210 • [www.exportaz.org](http://www.exportaz.org)

In such a trade war scenario<sup>1</sup>, PIIIE projected job losses in Arizona of between 3.5% to 3.9% of total employment—and these figures are conservative.<sup>2</sup> Under this scenario, Maricopa County would be one of the 25 hardest hit counties in the United States, with the greatest absolute job loss. Greenlee County is identified as one of the 25 U.S. counties that could suffer the highest percentage job loss. We urge members of the Arizona delegation to join forces to protect our state's economy from unnecessary trade disruption that could result from the unilateral imposition of new tariffs on our NAFTA partners.

During the campaign, U.S. manufacturing job losses were blamed on faulty trade agreements. Yet, the relationship between trade and job loss in America has been vastly overstated. It is essential that we collectively understand the causes of U.S. job losses so that we may take positive steps to strengthen our economy. A recent Ball State University study titled "The Myth and the Reality of Manufacturing in America" identified productivity, trade and domestic demand as the three factors that have contributed to changes in manufacturing employment. The study's authors found that "almost 88 percent of job losses in manufacturing are **attributable to productivity growth**, and the long-term changes to manufacturing employment are mostly linked to the productivity of American factories." This finding, which represents the consensus opinion of economists who study this issue, underscores that the true causes of job loss in America are misunderstood. We do not trivialize the real pain associated with job loss in America, but rather wish to highlight that implementing protectionist trade policies will not address or correct the job loss problem—ironically, such policies could actually exacerbate and broaden the losses.

A productive conversation about trade requires all sides to recognize what is and is not working, in order to identify options to improve the way trade agreements are negotiated and enforced. We welcome a robust discussion with our congressional delegation of ideas that have the potential to enhance the competitiveness of Arizona companies within a free and fair trade regime, including:

1. **Rapid Enforcement** - For trade agreements to be effective, our trade partners must understand that violations will be dealt with immediately and with the full force of the U.S. government. Currently, the bureaucracy surrounding enforcement of trade violations is cumbersome and the process is far too time consuming. Enforcement activities need to be fully funded and staffed. For example, where was the U.S. government when Korea implemented its Buy Korea program, pushing U.S. suppliers out of the market, then reselling "Made in Korea" products to the U.S. market under the reduced tariffs provided by the United States-Korea Free Trade Agreement?
2. **Protection from Currency Manipulation** - The US government should have effective tools to combat currency manipulation by a trading partner. China's consistent undervaluation of its currency after its accession to the World Trade Organization contributed to a surge in Chinese imports to the United States, a corresponding reduction in the amount of U.S. exports to China, and significant U.S. manufacturing job losses. Non-market factors that influence currency valuation should be opposed. U.S. industry, including the steel industry, has argued that currency manipulation could be treated as a type of

---

<sup>1</sup> Full trade war scenario assumes U.S. imposes unilateral tariffs on non-oil imports from China and Mexico and they reciprocate in kind.

<sup>2</sup> The economic model in the PIIIE study does not include the profound disruption that would be occur if NAFTA is abrogated or the U.S. withdraws from the World Trade Organization (actions that President-elect Trump has threatened), nor does it include supply chain disruptions or other microeconomic impacts.



## Arizona's Voice for Global Trade

2828 North Central Avenue, Suite 800 • Phoenix, AZ 85004  
Tel: (602) 254-2907 • Fax: (602) 745-7210 • [www.exportaz.org](http://www.exportaz.org)

subsidy that could be addressed through the imposition of countervailing duties (CVDs) under current U.S. trade remedy laws.

3. **Corporate Tax Code Modifications** - U.S. corporate income tax rates are the highest among the Organization for Economic Cooperation and Development nations, and impose a disincentive for transnational corporate location in the United States. The government should consider lowering barriers to headquarters and manufacturing facility locations through a reduction of federal corporate tax rates. Also, the U.S. practice of taxing corporate earnings on a global basis, which has a chilling effect on repatriation of foreign earnings by U.S. companies, should be re-examined. Offshoring of jobs and inversions –the practice of U.S. firms merging with smaller foreign companies to establish headquarters in jurisdictions abroad with lower costs and tax rates –could be significantly reduced by reasonable changes to the tax code.
4. **National and Local Education Initiatives** - Sustainable employment growth and global competitiveness requires a highly skilled U.S. workforce. National and local education reforms that prepare students for high-wage, high-skill employment opportunities are essential. There must be a concentration on science, technology, engineering and math subjects starting in kindergarten and continuing through entry-level employment.
5. **Worker Retraining** - Trade Adjustment Assistance (TAA) has been an ineffectual mechanism for dealing with labor market dislocations. Enhancement of the TAA program (including improvements contained in the America Works Act) or entirely new approaches to the problem should be considered, including a generalized system of wage insurance. This might be accomplished by expanding the earned income tax credit or expanding unemployment compensation, with a focus on rewarding continued participation in the labor market.
6. **Affordability and Portability of Health Insurance** - The cost of health insurance –currently at 18% of U.S. GDP– contributes to the high cost of labor in the United States, and reduces our competitiveness. Health insurance solutions that retain the ability to separate coverage from employment would enhance labor market flexibility.

This is the first time in nearly a century that America has signaled through a national election a protectionist approach to international trade, an issue that has traditionally had strong bipartisan support and which has enhanced U.S. economic and security interests across the globe. On behalf of the twenty-two signatory organizations below, we urge our delegation and congressional leadership to support rational and reasonable trade policies that will promote free and fair trade in our complex, interconnected world.



# Arizona's Voice for Global Trade

2828 North Central Avenue, Suite 800 • Phoenix, AZ 85004  
Tel: (602) 254-2907 • Fax: (602) 745-7210 • [www.exportaz.org](http://www.exportaz.org)

Very truly yours,

Glenn Hamer, President & CEO  
Arizona Chamber of Commerce & Industry



*Carol Colombo*

Carol Colombo, Trade Policy and Legislative  
Affairs Committee Chair  
Arizona District Export Council



*Melissa Sanderson*

Melissa Sanderson, President  
Phoenix Committee on Foreign Relations



Steven G. Zylstra, President & CEO  
Arizona Technology Council



Jack Lunsford, President and CEO  
Arizona Small Business Association



Gonzalo A. de la Melena Jr., President & CEO  
Arizona Hispanic Chamber of Commerce





# Arizona's Voice for Global Trade

2828 North Central Avenue, Suite 800 • Phoenix, AZ 85004  
Tel: (602) 254-2907 • Fax: (602) 745-7210 • [www.exportaz.org](http://www.exportaz.org)

R. Glenn Williamson

R. Glenn Williamson, CEO and Founder  
Canada Arizona Business Council

Marcos Garay, President  
Arizona Mexico Commission



Kevin Rogers, President  
Arizona Farm Bureau Federation

Matthew McInerney, Sr. Ex. Vice President  
Western Growers Association



Lance Jungmeyer, President  
Fresh Produce Association of the Americas

Jim Norton, Executive Director  
Arizona Manufacturers Council





# Arizona's Voice for Global Trade

2828 North Central Avenue, Suite 800 • Phoenix, AZ 85004  
Tel: (602) 254-2907 • Fax: (602) 745-7210 • [www.exportaz.org](http://www.exportaz.org)

Todd Sanders, President & CEO  
Greater Phoenix Chamber of Commerce



Joe Snell, President and CEO  
Sun Corridor Inc.



Dawn M. Nagle, Executive Director  
Metropolitan Phoenix Export Alliance



Felipe Garcia, Executive Vice President  
Visit Tucson



Alika Kumar, Executive Director  
Phoenix Minority Business Development Agency



Doug Bruhnke, CEO and Founder  
Global Chamber





# Arizona's Voice for Global Trade

2828 North Central Avenue, Suite 800 • Phoenix, AZ 85004  
Tel: (602) 254-2907 • Fax: (602) 745-7210 • [www.exportaz.org](http://www.exportaz.org)

*Lea März - Peterson*

Lea Marquez-Peterson, President & CEO  
Tucson Hispanic Chamber of Commerce



*Lea März - Peterson*

Lea Marquez-Peterson, President & CEO  
Sierra Vista Hispanic Chamber of Commerce



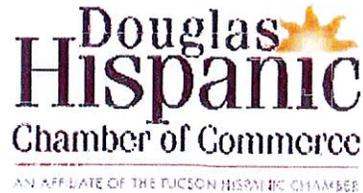
*Lea März - Peterson*

Lea Marquez-Peterson, President & CEO  
Ambos Nogales Hispanic Chamber of Commerce



*Lea März - Peterson*

Lea Marquez-Peterson, President & CEO  
Douglass Hispanic Chamber of Commerce



cc: Pablo Carillo  
Elizabeth O'Bagy  
David Cole

# ATTACHMENT 5

# Senators: Careful how we renegotiate NAFTA

John McCain, Jeff Flake and Glenn Hamer, AZ We See It Published 4:40 p.m. MT Jan. 31, 2017 | Updated 8:37 p.m. MT Jan. 31, 2017

*Arizona's economy relies heavily on trade with Mexico. Putting up barriers could push our state into a recession.*



(Photo: Ivan Pierre Aguirre/AP)

At the Republican Congressional Retreat in Philadelphia last week, President Donald Trump reaffirmed his commitment to [renegotiate the North American Free Trade Agreement](#) ([/story/news/politics/arizona/2017/01/26/sens-john-mccain-and-jeff-flake-defend-us-mexico-trade-deal-president-donald-trump/97111960/](#)). Meanwhile, his staff suggested [imposing a 20 percent tax](#) ([/story/news/politics/border-issues/2017/01/26/border-wall-and-20-import-tax-new-low-us-mexico-relations/97092134/](#)) on imports from Mexico to help pay for construction of a wall on the southern border.

While renegotiations could strengthen and modernize NAFTA, any effort to impose new restrictions or barriers on our ability to trade with Mexico and Canada will have serious consequences for Arizona, including massive job losses for workers and dramatically higher costs for consumers.

## 5.7 billion reasons why we need NAFTA

NAFTA has delivered enormous economic benefits to the United States since its inception in 1994, especially for the citizens of Arizona. In just two decades, Arizona's exports to Canada and Mexico have increased by \$5.7 billion, or 236 percent.

Today, international trade supports more than 1 in 5 jobs in Arizona, which pay roughly 18 percent higher salaries than jobs unrelated to trade. Imports to the state have also lowered the cost of raw materials, allowing Arizona companies to remain competitive and reducing costs for Arizona consumers.

**DIAZ:** [Trump's war with Mexico could bite us big time](#) ([/story/opinion/op-ed/elviadiaz/2017/01/30/trade-mexico/97140580/](#))

Importantly, NAFTA has made it easier for Arizona to freely exchange goods and services with our closest neighbor to the south, Mexico. Today, Mexico is Arizona's No. 1 trading partner. According to the U.S. Department of Commerce's International Trade Administration, trade with Mexico accounted for 40 percent of our state's exports to foreign markets in 2015, totaling \$9.2 billion. Arizona's bilateral relationship with Mexico directly supports more than 100,000 Arizona jobs.

NAFTA has also made it possible for Arizona businesses to freely exchange equipment and supplies with Mexico without having to pay steep tariffs. As a result, manufacturing between Arizona and Mexico is highly integrated, with materials and manufactured parts often crossing the border several times before a product is finished.

## Modernization? Yes. Barriers? No way

Moreover, Arizona's trade relationship with Mexico has strengthened our ties with its people, bringing additional benefits to Arizona's tourism, retail and hospitality sectors. Around 65,000 Mexicans come to Arizona every day to dine in our restaurants, shop in our stores, and stay in our hotels, spending an estimated \$7.8 million each day. Arizona has two trade offices in Sonora and Mexico City that are focused on facilitating additional cross-border business partnerships and furthering our mutually beneficial relationship.

In addition to boosting Arizona's economy, free trade with Mexico has strengthened our bilateral cooperation, particularly as it relates to our mutual security. Today, the United States and Mexico rely on each other to [share intelligence, reduce crime and combat illegal drug and human trafficking](#) ([/story/opinion/op-ed/2017/01/27/brnovich-drugs-human-smugglers-mexico/97004118/](#)).

The president has stated he wants to strengthen and modernize NAFTA, which could benefit the United States and our trading partners. But imposing new barriers and levying punitive tariffs against our closest neighbors could threaten our trade relationship, cost Arizona billions of dollars and thousands of jobs, push our state into a recession and undermine security cooperation with our southern neighbor.

The free flow of trade has been the foundation of U.S. economic policy for decades, and a major factor in our prosperity and greatness. We should not have to relearn the lessons of history. Retreating from NAFTA and imposing new restrictions on free trade will harm our ability to compete in today's global economy, threaten jobs and undermine our relations with our closest neighbors.

Republicans John McCain and Jeff Flake are Arizona's senators. Follow them on Twitter: [@JeffFlake](https://twitter.com/JeffFlake) (<https://twitter.com/JeffFlake>) and [@SenJohnMcCain](https://twitter.com/SenJohnMcCain) (<https://twitter.com/SenJohnMcCain>). Glenn Hamer is the president and CEO of the Arizona Chamber of Commerce and Industry. On Twitter, [@azchamber](http://twitter.com/azchamber) (<http://twitter.com/azchamber>).

Read or Share this story: <http://azc.cc/2JSO17g>