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

DEC ARIZONA DISTRICT EXPORT COUNCIL
Working for America's Exporters

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

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.

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In such a trade war scenario[1], PIIE projected job losses in Arizona of between 3.5% to 3.9% of total employment—and these figures are conservative.[2] 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

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

[2] The economic model in the PIIE 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.

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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.

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Very truly yours,

Carol Colombo

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

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

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

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Todd Sanders, President & CEO
Greater Phoenix Chamber of Commerce

Joe Snell, President and CEO
Sun Corridor Inc.

GREATER PHOENIX CHAMBER OF COMMERCE
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SUN CORRIDOR INC

Dawn M. Nagle, Executive Director
Metropolitan Phoenix Export Alliance

Felipe Garcia, Executive Vice President
Visit Tucson

MPEXA METRO PHOENIX EXPORT ALLIANCE

Visit tucson

Alika Kumar, Executive Director
Phoenix Minority Business Development Agency

Doug Bruhnke, CEO and Founder
Global Chamber

MINORITY BUSINESS DEVELOPMENT AGENCY
BUSINESSCENTER
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GLOBAL CHAMBER

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

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

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

Lea Marquez-Peterson, President& CEO
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cc: Pablo Carillo
Elizabeth O'Bagy
David Cole