

# Trade and Prosperity in the States in the Time of COVID-19: The Case of Arizona

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## KEY TAKEAWAYS

Arizona has attracted businesses and workers from across the country due to its friendly business environment, rollback of burdensome regulations, and low tax rates.

Arizona's lockdown measures, combined with disruptions to trade and tourism, devastated the state's economy in 2020, with a nearly 20 percent decline in exports from 2019.

Arizona's pro-business policies have attracted major industries, and state legislators should continue to cut taxes and eliminate unnecessary regulations.

Although Arizona is known for its rugged terrain from which it takes its nickname, the Grand Canyon State, most of the state's residents live in urban areas. The state has seen strong population growth since the 1940s and the onset of air conditioning and refrigeration, and, as of 2019, it was the country's 14th-largest state by population. In recent years, a large part of Arizona's population increase has been due to a friendly business environment, the absence of overly burdensome regulations, and a low tax environment, particularly compared to neighboring California. Phoenix and Buckeye City are two of the fastest-growing cities in the United States.<sup>1</sup>

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This paper, in its entirety, can be found at <http://report.heritage.org/bg3630>

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## Arizona and COVID-19

COVID-19 has wreaked havoc in the 50 states, as governors and lawmakers have imposed wide-ranging restrictions on businesses and individuals that severely curtailed economic activity. States with strict stay-at-home orders are bearing heavy costs through increases in alcoholism, suicide, physical and mental health problems, and personal and governmental financial shortfalls.<sup>2</sup> In addition, new research demonstrates that states with stricter lockdown orders have generally fared no better at controlling the spread of infections.<sup>3</sup>

Arizona's voluntary lockdown and social-distancing measures, combined with disruptions to trade with Mexico and Canada and disruptions to tourism, such as the cancelation of Major League Baseball's spring training, had a devastating impact on the state's economy in 2020. Hotel-sector sales shrank by 81 percent in April 2020 compared to April 2019, and passenger counts at Sky Harbor Airport in Phoenix went down 92 percent during the same time period. Job losses in the leisure and hospitality sector from February 2020 to August 2020 totaled 61,100 jobs in the Phoenix-Mesa-Chandler metropolitan statistical area.<sup>4</sup>

Mexico and Canada—Arizona's largest trading partners—combined made up 43.6 percent of Arizona's trade with other countries in 2019.<sup>5</sup> In the first half of 2020, Arizonan exports to Canada were down 13 percent over 2019, although agricultural exports to Canada increased. Imports from Canada were higher, reflecting the position of strength from which the state economy began the pandemic. Strong industrial demand, and demand from Arizona's defense and aerospace-manufacturing sectors and thriving construction around the Phoenix area, spurred imports from Canada.<sup>6</sup>

Exports from Arizona through Nogales border port of entry to Mexico decreased by 21 percent from January through July of 2020, and imports from Mexico to Arizona declined by 12 percent, led in part by a fall-off in imports of transportation equipment by \$155.67 million.<sup>7</sup>

Overall total exports, including re-exports, from Arizona were down 15.2 percent in the first half of 2020 over 2019,<sup>8</sup> although general imports of goods were up by about 4 percent.<sup>9</sup>

Imports into Arizona finished 2020 3.4 percent lower than 2019 for the full year. Exports from Arizona were about 20 percent lower than 2019 for the full year.<sup>10</sup>

## Aerospace and Defense Industry in Arizona

More than 1,200 small-scale and large-scale aerospace and defense companies are located in Arizona, and civilian aircraft, and aircraft engines and parts, are Arizona's largest exports. Some of the larger companies include Raytheon, Northrop Grumman, Honeywell Aerospace, Boeing, Airobotics, General Dynamics, Bae systems, and MD Helicopters.

The Arizona Commerce Authority reports:

Arizona ranks fifth in the nation for employment in aerospace and defense manufacturing and has the second highest employment in guided missiles and space vehicle manufacturing. Raytheon Missile Systems, headquartered in Tucson, employs nearly 13,000 people and has a \$2.6 billion impact on the state's economy. Honeywell Aerospace, the world's largest manufacturer of aircraft engines and avionics, is headquartered in Phoenix. Boeing manufactures helicopters in Mesa, making \$1.4 billion worth of supply purchases in 2018 from 316 Arizona suppliers and vendors.<sup>11</sup>

Arizona attracts high-tech talent to its booming aerospace and defense sectors as well as to other high-tech sectors, such as semiconductors and electric vehicles, because of low taxes, limited regulations, sunny weather, and a relatively low cost of living. Phoenix is ranked number one nationally for attracting and retaining workers.<sup>12</sup>

## Arizona's Booming Semi-Conductor-Chip Sector

After aerospace and defense, electronic integrated processors and controllers and other integrated circuits are Arizona's most important exports, valued at more than \$1.4 billion in 2020. Intel recently announced that the company would build a large-scale foundry operation in Arizona to fabricate future generations of semi-conductor chips and become a contract chip manufacturer for other client companies for the first time, investing approximately \$20 billion to build two huge microchip factories on its Ocotillo campus. The project is forecast to create 3,000 high-tech, high-wage jobs in Arizona, 3,000 construction jobs, and 15,000 long-term jobs.

In addition, Taiwan Semiconductor has purchased over 1,000 acres of land in North Phoenix to build a \$12 billion advanced microchip factory of its own, projected to create 1,900 jobs.<sup>13</sup> Hiring began in March 2021. Three Asian companies that are Taiwan Semiconductor's suppliers—a chemical supplier, a manufacturing facility builder, and an engineering

company—have announced plans to open facilities in Arizona also as a result.<sup>14</sup> Recent Taiwanese reports are that Taiwan Semiconductor’s expansion into Arizona might turn out to be even larger than originally expected, with the investment in Arizona to create a manufacturing facility totaling close to \$35 billion.<sup>15</sup>

The expansion of the semi-conductor-chip sector has Arizona’s business community enthusiastic and excited, and Governor Doug Ducey (R) called the announcement by Intel “further evidence that the state of Arizona is a jobs juggernaut.... It means that we’re proving once again that Arizona is the best place in the world to manufacture high-tech semiconductor chips.... [The] announcement is also a huge win for U.S. manufacturing. Let’s bring semiconductor manufacturing back to the United States.”<sup>16</sup>

## Tourism in Arizona

After a pause due to COVID-19 in 2020, the Arizona tourism industry is primed to take off again in the second part of 2021 as more people receive vaccinations and want to travel again. As of 2019, direct annual expenditures on travel in Arizona had increased every year since at least 2010, to \$25.6 billion. There were 46.8 million overnight visits to Arizona from outside the state.<sup>17</sup> Visitors to Arizona supported 194,300 jobs in Arizona in 2019 and brought in \$3.78 billion in total tax revenue to the state.<sup>18</sup> The initial impact of COVID-19 can be seen in the fact that total passengers at Phoenix Sky Harbor International Airport in 2020 fell by more than half, to 21,928,708, from 46,288,377 in 2019, and that the number was also down drastically in January and February 2021 compared to 2020.<sup>19</sup> By March 2021, however, demand for airline bookings for the summer had turned the corner, and passengers in March at Phoenix airports were up 25 percent over March 2020; in April, passengers on flights boomed—1,023 percent more passengers than April 2020.<sup>20</sup> Demand for Arizona campgrounds has also picked up, with reservations at popular campgrounds being booked months, even years, in advance.<sup>21</sup>

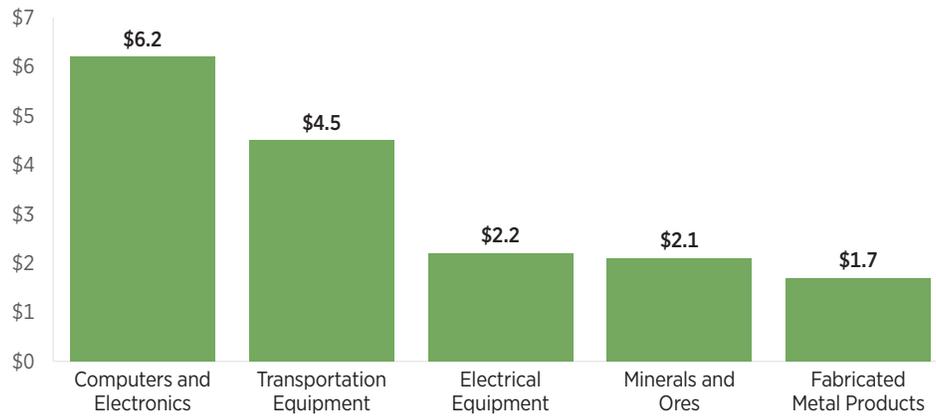
## Supporting Free Trade in Arizona

In Washington, DC, legislators from Arizona have often done a good job of opposing protectionist policies that harm consumers and distort efficient marketplace transactions. For example, both of Arizona’s Senators, Martha McSally (R) and Kyrsten Sinema (D), joined Representatives Tom O’Halloran (D), Greg Stanton (D), Debbie Lesko (R), Andy Biggs (R),

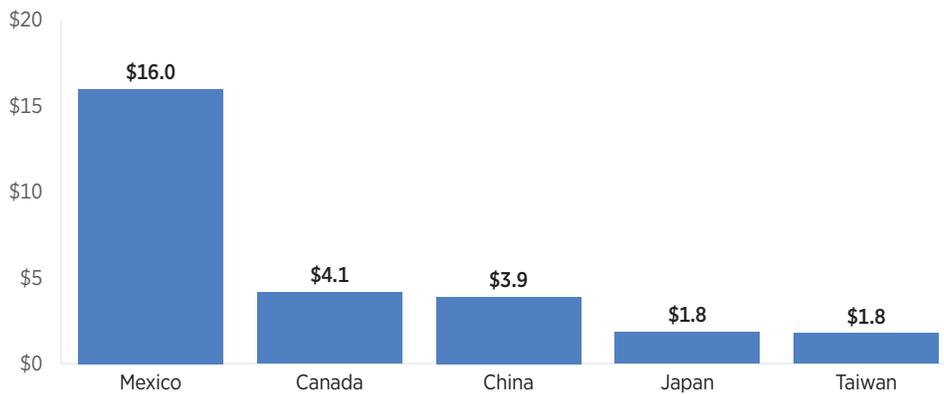
CHART 1

## Arizona Trade: Snapshot

TOP FIVE GOODS EXPORTS FROM ARIZONA IN 2019, IN BILLIONS



TOP FIVE ARIZONA TRADING PARTNER COUNTRIES IN 2020 (IMPORTS + EXPORTS), IN BILLIONS



**SOURCES:** U.S. International Trade Administration, “Arizona Exports and Jobs,” 2019, <https://legacy.trade.gov/mas/ian/statereports/states/az.pdf> (accessed March 28, 2021), and U.S. Census Bureau, “Foreign Trade Statistics: State Data Series,” <https://www.census.gov/foreign-trade/aip/elom.html> (accessed April 19, 2021).

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David Schweikert (R), Ruben Gallego (D), and Raul Grijalva (D) in opposing increasing barriers on U.S. imports of Mexican tomatoes.<sup>22</sup> Similarly, Senators McSally and Sinema sent a letter to then-U.S. Trade Representative (USTR) Robert Lighthizer in January 2021, urging the U.S. International Trade Commission not to hinder cross-border trade in blueberries, strawberries, bell peppers, squash, and cucumbers. The letter read in part:

Imposing trade restrictions on blueberries and other fresh produce could invite retaliation from important trading partners and stall our export industry. As the investigations continue, we ask you to recognize the importance of cross-border trade and consumer preference and urge you to not take any actions that would harm the significant economic benefit of the agricultural industry on the U.S. economy.<sup>23</sup>

The Office of the USTR ended its investigation into the blueberry trade in February 2021, finding that U.S. imports of blueberries are not a “substantial cause of serious injury, or the threat of serious injury, to the domestic industry.”<sup>24</sup>

## Arizona’s Business-Friendly Regulatory Framework

Businesses are attracted to Arizona for its light regulatory framework that allows them to thrive and have more freedom than in most states. As the Arizona Commerce Authority points out:

While the national average of per-capita income going to taxes is 9.9 percent, here the number is only 8.4 percent. In addition, Arizona’s taxes on property, gas and personal income remain low compared to the rest of the country... Property taxes here are the sixth-lowest in the country, and unemployment insurance tax is the fourth-lowest.<sup>25</sup>

According to a study by the Beacon Hill Institute, Arizona has the third-lowest number of state and local employees per 100 residents among the 50 states. The same study also ranked Arizona second among the 50 states for its government and fiscal policy, allowing businesses to conduct their affairs at a lower cost.<sup>26</sup>

Arizona is a right-to-work state, which means that unions cannot require workers to pay dues as a condition of being employed. That eases labor relations and improves business stability.

Arizona eliminated its estate tax on January 1, 2005. Businesses—especially those that are family owned—are strengthened by this development and are less likely to be dissolved upon the death of an owner.

In 2016, Arizona voters approved Proposition 206, resulting in Arizona’s minimum wage rising from \$8.05 to \$12.15 in 2021. Some small businesses with revenues under \$500,000 are exempt from having to pay the minimum wage, and restaurant servers and others may be paid up to \$3.00 less than the minimum wage, if they earn at least the difference in tips.<sup>27</sup> Flagstaff

has a high local minimum wage of \$15 per hour. The minimum-wage increases in Arizona are making Arizona less competitive. They also price many unskilled workers out of getting their first jobs where they would gain on-the-job experience that would give them the skills to advance to higher-paying jobs.<sup>28</sup>

## Conclusion

Whether it is the case of a large multinational corporation like Taiwan Semiconductor, a small mom-and-pop enterprise, a recent retiree attracted to Arizona's relatively low cost of living and nice weather, or a recent graduate moving to Arizona to begin a high-paying, high-tech job, people choose Arizona as a good place to live and work. From 2010 to 2019, 590,176 more people moved to Arizona than moved from Arizona.<sup>29</sup>

Arizona legislators should continue to roll back and simplify regulations, which has already caused Arizona to rank consistently high among the 50 states for business friendliness. Cutting the corporate tax as Arizona did, from 6.5 percent in 2014 to 4.9 percent today, is the kind of policy—along with removing red tape where it exists—that improves business freedom and leads to greater prosperity and opportunity for all Arizonans. Supporting international trade and rejecting protectionist policies, as well as refusing to reward lobbyists trying to carve out special perks, is the path from which Arizona must always be careful not to stray.

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