

COVID-19 Effects on Arizona's Tourism and Trade with North America

CONTENTS

EXECUTIVE SUMMARY.....	3
INTRODUCTION.....	6
1. EFFECT OF COVID-19 ON TOURISM, LEISURE AND HOSPITALITY	7
1.1. Tourism and Travel Revenues Down Significantly	7
1.2. Canadian Visitors to Arizona.....	9
1.3. U.S.-Mexico Tourism	10
1.4. Arizona-Mexico Tourism.....	12
2. ARIZONA – CANADA TRADE.....	17
2.1. Arizona-Canada Exports	17
2.2. Arizona-Canada Imports.....	19
3. ARIZONA-MEXICO TRADE	22
3.1. Arizona-Mexico Exports	23
3.2. Arizona-Mexico Imports	27
4. MEXICO ESSENTIAL BUSINESS	29
4.1. Mexico’s Reopening Guidelines.....	29
4.2. COVID-19 Effects on Mexico’s Manufacturing Exports.....	30
4.3. Most Impacted: Automotive Industry	31
4.4. Sonora’s Automotive Industry.....	32
5. THE EFFECTS OF COVID-19 ON NORTH AMERICAN SUPPLY CHAINS.....	34
5.1. A Shock to the System	36
5.2. Renewed Focus on the Resilience of Supply Networks	37
5.3. Outlook for Fall and Winter.....	37
CONCLUSION.....	38

EXECUTIVE SUMMARY

This white paper examines the effects of the COVID-19 global pandemic on Arizona's tourism and hospitality sector and the state's trade with Mexico and Canada. Specifically, it examines the tourism flows from Mexico and Canada and the implications for Arizona's economy. This paper also discusses the effects of the disruption in Arizona's global supply chains caused by the pandemic.

Tourism and Hospitality Sector

The voluntary lockdown and social-distancing measures instituted to slow the spread of COVID-19 brought leisure and business travel, as well as gatherings in public places, to a sudden stop in mid-March 2020. In Arizona, the abrupt cancellation of the baseball spring training season and other sports events, business meetings and conventions, along with the closing of restaurants, bars and casinos, resulted in hundreds of millions of dollars in lost sales.

The leisure and hospitality sector, requiring in-person interaction, was the hardest hit. Arizona's hotel/motel sector experienced a devastating 81% drop in year-over-year sales in April, partially recovering to a 33% year-over-year decreases for June and July. This loss in revenue caused mass layoffs. Passenger counts at Sky Harbor Airport in April 2020 reflected the drop in air travel and were down 92% compared to April 2019. Despite partially rebounding in June and July, passenger traffic was still down 65% compared to July 2019.

North American Tourism

While the U.S.-Canada and Mexico land borders remain closed to nonessential traffic as of early October 2020, Canadian and Mexican travelers flying into the U.S. do not face any quarantine requirement or movement restrictions. Canadian travel insurance companies now include COVID-19 medical coverage in travel insurance policies for Canadians. This is an important development and allows Canadian visitors to visit the state as the winter travel and snowbird season begins in mid-October/early November.

In 2019, the number of Mexican tourists visiting Arizona reached 4 million, of which 16% stayed overnight, with an estimated \$840 spent per party on each trip. Of those visitors, 84% visited Arizona for leisure, and among these, 75% reported to be visiting to shop, and 16% for business.

Between the months of January through July, only 2.1 million persons crossed the northbound border between Arizona and Sonora, Mexico, a reduction of 62.6% from 2019. It is important to

note that the crossing restriction for Mexican and Canadian tourists remains in effect until October 21, with a high likelihood for it to be extended.

The Mexican economy also has been affected by the border crossing restrictions. American arrivals into Mexico decreased by 58.4% compared to the previous year. However, during the first 6 months of the year, U.S. visitors to Mexico still represented more than half of the total visitors arriving via air, followed by Canada with 17.8%.

The pandemic shows how interconnected North American economies are, and the extent to which the tourism industries in all three countries depend on cross-border visitors. The tourism industry forecast for the Phoenix market in 2021 shows an uptick, with an expected 56% occupancy rate, representing an increase of 16.1% over 2020. This small increase is similar to the national forecasts, but is still far below pre-pandemic levels.

Arizona Trade with North America

Mexico and Canada are Arizona's largest trading partners. Combined, they account for 43.6% of the state's global trade footprint. Exports from Arizona to Canada for the first two quarters of 2020 totaled \$1.04 billion, a 13% decrease from \$1.2 billion in the first half of 2019. Arizona's top exports to Canada during the first half of 2020 were agricultural products, computer and electronic products, transportation equipment, machinery, and electrical equipment.



Imports from Canada were significantly higher from January 2020 through June 2020 compared to the first half of 2019. This increase in Arizona's imports from Canada is a stark contrast to the national drop in imports, with the exception of a decrease in imports for the month of April 2020. This increase in Canadian imports is likely due to strong industrial demand as well as the completion of purchase contracts that predated the COVID-19-driven shutdowns. This increase also likely reflects Arizona's strong pre-pandemic economy and robust manufacturing base in the defense and aerospace sectors, as well as residential and commercial construction, particularly in the Phoenix region.

Arizona trade with Mexico has grown exponentially over the past decade. Trade flow through the Nogales border port of entry in 2019 reached \$26.29 billion. However, due to COVID-19 containment measures taken in the beginning of the year, Arizona's exports into Mexico decreased 21%, and imports also decreased by 12% compared to the same period in 2019.

Notably, manufactured imports from Mexico decreased 43.3%. Electrical equipment, computer, and electronic products showed a drop in imports. The drop was especially marked in transportation equipment, with a reduction of \$155.67 million for the same period compared to 2019.

This white paper features a special segment dedicated to understanding the essential business criteria instituted by the Mexican government, and how the manufacturing industries that export to the U.S. are recovering from the shutdown in operations from April to the beginning of June 2020.

Effect on Supply Chains

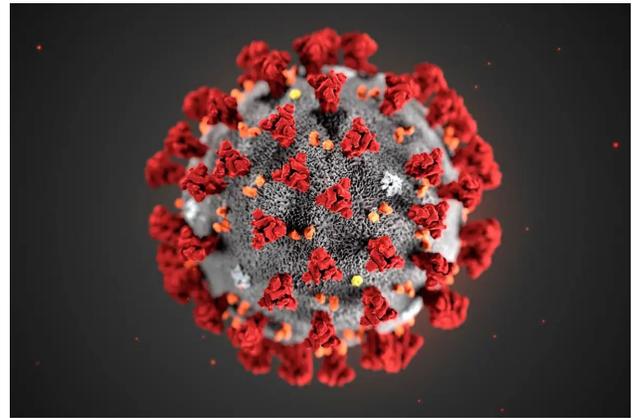
The initial precautionary measures instituted to slow the spread of COVID-19 dealt a seismic shock to global supply chains and logistics operations. The closures of businesses created cascading disruptions in highly integrated supply chains from Canada to Mexico in every non-regional consumer and industrial sector. Delayed shipments of key parts for electronics, transportation, and aerospace manufacturing along with shortages in consumer and medical products caused stoppages in production lines. These disruptions hurt businesses' bottom lines, with a subsequent effect on employment.

Consumer spending began increasing in May and retail spending returned to pre-pandemic levels by July. Retail sales in August 2020 exceeded that of August 2019 by 2.6%. The return of economic activity in key sectors spurred the resumption of freight movement in North America. The logistics and warehousing driven by e-commerce has been a particular bright spot for the economy. The COVID-19 supply and demand shocks have prompted original equipment manufacturers (OEMs), their suppliers and third-party logistics companies to focus on the resilience and security of supply chains.

The disruption in supply chains and buying habits, combined with shifting demand and supply forecasts, have accelerated the following trends: growth of e-commerce, particularity in retail sales; a movement towards securing supply chains; a renewed focus in electric cars, which have fewer moving parts and simpler supply chains; growth in "fintech" and digital banking products; and the transformation of traditional supply chain models into digital supply networks that provide greater visibility into the web of supplier networks.

INTRODUCTION

The COVID-19 pandemic led to an unprecedented disruption to the global economy and world trade when lockdowns and social distancing measures halted production lines and depressed consumption across the globe. To contain the spread of COVID-19, governments introduced temporary travel and mobility restrictions, many of which remain in effect as of October 2, 2020, for travelers in North America. While driven by public health considerations, these measures have created a massive economic shock and have had significant trade implications, as mobility across borders is a key facilitator of trade in goods and services.¹



Coronavirus graphic courtesy CDC Science Photo Library

Starting in March 2020, as the coronavirus pandemic took hold, the fiscal impact of these swift economic changes was felt in cities across the country.² This white paper highlights the cascading effects on Arizona’s economy and the state’s strategic economic ties with its largest trade partners, Mexico and Canada.

Trade and tourism are critical to Arizona’s prosperity, as they fuel economic growth, support good jobs, raise living standards and help Arizonans provide their households with affordable goods and services. These two industries are also a key driver of regional economic growth. In 2019, travel and tourism in North America reached \$2.1 trillion in total Gross Domestic Product (GDP), representing 8.8% of the total GDP³. Tourism is an important component of Arizona’s economy and Canadian and Mexican tourism is a key component in this sector.

Exports bring new money into a regional economy, while indirect and induced effects of exports support a multitude of other businesses. Export industries generally pay higher wages and imports fill demand by manufacturer and consumers. In today’s integrated supply chains, Arizona’s exports and imports to North America are affected by border closings as well as disruptions in supply chains in Asia.

¹ World Trade Organization, Cross-border Mobility, [COVID-19 and Global Trade](#).

² National League of Cities, [Fiscal Conditions Report 2020](#).

³ World Travel and Industry Council, [Economic Impacts Report](#).

1. EFFECT OF COVID-19 ON TOURISM, LEISURE AND HOSPITALITY

1.1. Tourism and Travel Revenues Down Significantly

The voluntary lockdown and social-distancing measures instituted to slow the spread of COVID-19 brought leisure and business travel, as well as gatherings in public places, to a sudden stop in mid-March 2020. This had a profound negative effect on tourism, travel, and hospitality industry sectors in both the nation and Arizona, and triggered a severe economic downturn. Nationally, the arts, entertainment, and recreation revenue for the second quarter of 2020, adjusted for seasonal variation, was \$32.5 billion, 51.2% lower than the first quarter of 2020, and 56.5% less than the second quarter of 2019.⁴



The national weekly hotel occupancy rate hit a low of 21% in April 2020 and was only 48.6% as of September 19, 2020. While that is an improvement over the dismal rate in April, it is still a 30.2% decrease compared to the same period in 2019. In Arizona, the abrupt cancellation of the baseball spring training season and other sports seasons, business meetings and conventions, along with the closing of restaurants, bars and casinos, resulted in hundreds of millions in lost sales.

According to the Arizona Tourism and Lodging Association's (AZTLA) market overview for the month of August 2020, the year-over-year room occupancy rate decreased 26%. The Average Daily Rate (ADR) is the average daily revenue earned for an occupied room in the state. The ADR decreased by 9.7%, which indicates modest price reductions in the face of a huge number of empty rooms.

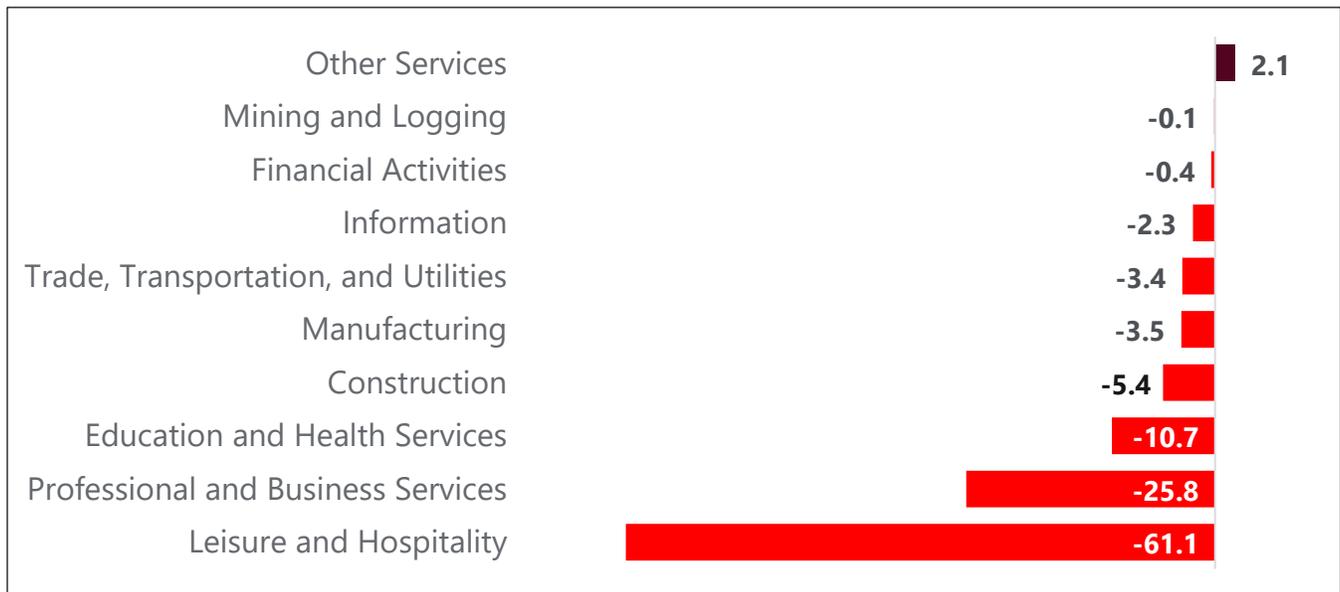
One of the most affected areas in the state was Northern Arizona, which experienced an 18% drop in occupancy and a 12.6% ADR decrease. Nevertheless, Phoenix suffered the largest decrease in occupancy rates with a 31% decrease, followed by Tucson with a 27% decrease. The Phoenix area's ADR for August was 7.7% below the prior year period, with room rates averaging \$82. Additionally, room supply dropped by only 1.7%, while room demand dropped by 32.2%

⁴ U.S. Census Bureau, Quarterly Services Survey, [September 11, 2020](#).

compared to the same period in 2019.⁵ This accumulated loss in revenue led to mass layoffs starting in March and they continued through the summer.

The chart below indicates job losses for key sectors from February 2020 to June 2020. The leisure and hospitality sector, which entails travel and in-person interaction, was by far the hardest hit during this five-month period.

Figure 1 – Changes in Phoenix-Mesa-Chandler MSA Jobs by Industry, February 2020-August 2020 (Thousands)



Source: University of Arizona, Eller School of Business Economics and Business Research Center

The table on the following page shows the year-over-year changes in key economic indicators in the following services sectors:

- The hotel/motel sector experienced a devastating 81% drop in year-over-year sales in April, partially recovering to 33% year-over-year decreases for June and July.
- Monthly sales in the entertainment services sectors, including restaurants and bars, were down by double-digit amounts from last year.
- Airport passenger traffic at Sky Harbor Airport was down 92% year-over-year in April 2020; despite increases in June and July, July passenger traffic was still down by 65% compared to July 2019.
- The food retail sector was the rare sector to show a year-over-year increase in sales, and this increase was likely due to people staying home and cooking more.⁶

⁵ Arizona Tourism and Lodging Association (AZTL), STR Tourism Industry Forecast, September 2020.

⁶ University of Arizona, Eller School of Management, [Monthly Indicators](#).

Table 1 – Phoenix-Mesa-Chandler MSA Monthly Sales, Revenues and Passenger Traffic – March-July 2020 (\$ millions, accrual)

RETAIL SALES	March 2020	April 2020	May 2020	June 2020	July 2020
Aggregate Retail	6,740.64	5,704.40	6,685.47	6,964.02	6,535.70
% Change from Year Ago	-6.28%	-16.20%	-2.25%	5.68%	3.17%
Retail (less food and gasoline)	4,661.20	3,958.90	4,737.40	4,944.40	4,577.40
% Change from Year Ago	-2.90%	-11.50%	5.30%	13.10%	8.40%
Food ⁽¹⁾	877.6	881.4	885.1	888.7	892.2
% Change from Year Ago	5.80%	5.79%	5.76%	5.73%	5.68%
Restaurants and Bars	758.7	581.2	755	776.5	703.2
% Change from Year Ago	-34.20%	-42.40%	-23.60%	-12.40%	-15.40%
Gasoline ⁽²⁾	416.4	254.6	278.4	324	332
% Change from Year Ago	-0.70%	-49.10%	-47.20%	-30.20%	-25.50%
Hotel/Motel	164.2	43.7	61.5	91	74.9
% Change from Year Ago	-53.50%	-80.70%	-63.20%	-33.30%	-33.00%
Amusement Venues	66.2	25.3	32.9	28.9	22.3
% Change from Year Ago	-54.10%	-67.20%	-66.60%	-77.90%	-71.10%
Phoenix Sky Harbor Airport					
Total Passengers	2,398,309	282,243	584,283	1,102,143	1,351,807
% Change from Year Ago	-45.00%	-92.90%	-85.20%	-71.20%	-64.70%
Total Aircraft Operations	36,217	15,467	14,019	17,669	22,886
% Change from Year Ago	-10.70%	-58.80%	-61.60%	-48.90%	-35.30%
(1) Food Sales estimated by EBRC (food is not taxable in Arizona), Restaurant and Bar Sales (ADOR), and Gasoline Sales (EBRC).					
(2) Estimated by EBRC using gallons sold in Arizona (ADOT) and Phoenix price for regular gasoline mid-month (AAA).					

Source: University of Arizona, Eller School of Business Economics and Business Research Center

1.2. Canadian Visitors to Arizona

There have been 155,301 total confirmed cases of COVID-19 across Canada since the outbreak, equivalent to a rate of 413 per 100,000. As of September 28, 2020, there were 13,416 active cases of COVID-19, or 36 per 100,000. The infection rates vary across the country, with the largest number of confirmed cases in the provinces of Quebec and Ontario. The Canadian government has activated the Federal/Provincial/Territorial Public Health Response Plan for Biological Events to manage a coordinated response across Canada. It has developed a free COVID alert app that sends

a notification if a person has been near someone who has tested positive and has notified the app in the last 14 days.

The Canadian government has issued a global travel advisory and is advising Canadians to avoid travel outside of Canada until further notice. International passenger flights are only allowed to land in the following four cities' airports: Calgary, Montreal, Toronto and Vancouver.

Canadians who travel to the U.S. for nonessential reasons are required to self-isolate for 14 days upon their return. While the U.S.-Canada land border is closed to nonessential traffic, Canadian travelers flying into the U.S. do not face any quarantine requirement or movement restrictions.

Until recently, the lack of COVID-19 coverage in travel insurance policies for Canadians was considered to be a deterrent to Canadian visitors. However, as of September 18, four different Canadian insurance companies have announced that they will offer medical insurance policies for Canadian traveling to the U.S.

Three Canadian insurance providers, Medipac, Tour+Med and Blue Cross (in Ontario and Quebec) offer COVID-19 medical coverage as part of their regular travel insurance plans and Manulife will offer coverage as of October 2020, coinciding with the start of the Canadian snowbird season. This is particularly important because Canadian visitors are an important segment of Arizona visitors. The state welcomes about 1 million Canadian visitors per year, and they are estimated to spend upward of \$1 billion in the state. In addition, an estimated 100,000 Canadians own a home in Arizona and spend the winter months here.

If COVID-19 infection and hospitalization rates in Arizona do not rise, snowbirds from the Midwest, Northeast and from Canada should be able to return to the state this winter. Given that a large number of snowbirds are retirees who face a higher mortality rate and a risk of complications from COVID-19, the widespread availability of rapid testing and the development of an effective treatment (barring a vaccine) is likely to increase their comfort with traveling to the state during winter months.

1.3. U.S.-Mexico Tourism

The U.S. historically has been a key market for the Mexico tourism industry. During the period of January-July 2020, there were 6.79 million U.S. visitors arriving via air, representing 55.3% of the total international arrivals (followed by Canada 17.8%).⁷ Due to COVID-19, there was a 58.4% reduction to the number of air arrivals of U.S. visitors in 2020. In the month of July alone, a prime

⁷ Mexican Department of Interior, Migration Policy, Registry and Identity Unit. [Tourist by Country of Origin Report](#).

month for vacationing in Mexico, there were only 268,294 arrivals compared to 1.06 million in 2019.

According to the government of Mexico, there were 863 cruises that landed in Mexico from January-July 2020, which represented a decrease of 50.4% compared to 2019.

The overall expenditures of international visitors in Mexico during the period of January-July 2020 was \$7.21 million, which represented a decrease of 53.9% compared to the same period of 2019.⁸ The average spending of international tourists traveling via air into Mexico was \$1,026.40 dollars, which represented an increase of 0.8% compared to that observed in the same period of 2019. However, the largest drop happened from March (\$1,022) to April (\$747.50) and the recovery came during the month of July.

Table 2 – U.S. Tourists Arrivals at Mexico’s Top Destinations, January-July 2020.

Destinations	U.S. Visitors via Air, July 2020
Cancún, Quintana Roo	109,266
Guadalajara, Jalisco	48,251
Los Cabos, Baja California Sur	41,696
Mexico City	24,416
Puerto Vallarta, Jalisco	15,801

Source: Immigration Policy, Registration, and Identity of Persons Unit of the Mexican Ministry of the Interior. Historical information of Visitors by Airport and by Residence, July 2020.

Airline passenger arrivals from national and international flights into Mexico from January through June 2020 reached 19.28 million, representing a decline of 49.8% compared to the same period in 2019 with 38.42 million passengers.⁹ Total arrivals to Hermosillo, Sonora, were down by 202,776 passengers by June 2020, representing 46% fewer passengers than the same period in 2019. Other major destinations, such as Mexico City, were down by 51%, Los Cabos by 52%, and Cancun by 54.6%.

According to the Tourism Activity Report of the Mexican Tourism Ministry, “same day travelers in border areas” in 2019 reached 24,936 visitors, and in 2020 only 16,105 representing a drop of 35.4%. The average expenditure of these one-day visitors is reported to be \$38.70 dollars, increasing 3.1% in 2020. Mexico’s “same day international travelers” accounted for 36,894 in the period from January-July 2019 and 20,228 for the same period in 2020, a drop of 45.2%.

⁸ INEGI and Bank of Mexico, [International Arrivals Survey](#).

⁹ Mexican Bureau of Airports and Auxiliary Services, [Passengers and Flights Report](#).

Table 3 – Mexico’s Airports Total Passenger Arrivals

	January - June			Variation		YoY	
	2018	2019	2020	2020-2018	2020-2019	2020-2018	2020-2019
Total Passengers	36,125,958	38,427,429	19,282,932	-16,843,026	-19,144,497	-46.6%	-49.8%

Source: Airports and Auxiliary Services. Mexican Ministry of Communications and Transportation, August 2020.

1.4. Arizona-Mexico Tourism

During the first seven months of 2020, the Mexican government calculates that there were 4.81 million Mexican tourists traveling to international locations, this is considered a drop of 55.7% of those of 2019.¹⁰

According to the Bank of Mexico and the National Institute of Statistics and Geography (INEGI) the expenditure amount by Mexicans traveling internationally was \$2.37million during January-July 2020, less than \$3.23 million in the same period in 2019 period, equivalent to an expenditure drop of 57.7%.

The Arizona Office of Tourism Mexico Market Profile indicates that Mexican tourism in the state were motivated to visit cultural and historical attractions. That was followed by gastronomy and urban attractions and nightlife. In 2019, their visitation volume reached 4 million, of which 16% stayed overnight, with each party spending an average of \$839 per trip. Eighty-four percent of those visitors visited Arizona for leisure and 16% for business.

Of those Mexican visitors who stayed overnight 61% reported staying in hotel accommodations and 39% at a private home. The preferred location for those overnight stays was the metro Phoenix area, followed by the Tucson metro area. Additionally, thirty-five percent of those visitors stayed three nights and 26% only two.¹¹

The travel restrictions due to COVID-19 limited land border crossings in North America to “essential travel.” This eliminated trips for individuals traveling for tourism purposes, such as sightseeing, recreation, gambling, or attending cultural events in the U.S. This had consequences on Arizona’s tourism industry, specifically in the local revenue from Mexican visitors.

¹⁰ Mexico Secretariat of Tourism, [Tourism Activity Report, July 2020](#).

¹¹ Arizona Office of Tourism, Tourism Economics, Reporting 2013-2019 VisaVUE Travel, [Mexican Visitor Study](#).

The crossings at the border region between Arizona and Sonora, Mexico, are shown in the table below. It is important to note that the land restriction to tourist will remain in effect at least until October 21, with a high possibility to be extended.¹²

Table 4 – Crossing through Arizona BPOE

Crossing Mode	YTD JUNE 2019	YTD JUNE 2020	% Change
Pedestrian	3,274,945	2,308,460	-29.51%
Buses	5,861	3,535	-39.69%
Personal Vehicle	4,258,037	2,995,824	-29.64%

Source: University of Arizona, Arizona-Mexico Indicators, Bureau of Transportation Statistics, [Border Crossings](#).

There were only 1.1 million vehicles crossing northbound, a decrease of 51.1% from the same period in 2019.

An Uncertain Outlook for Tourism and Leisure in North America

The summer months are generally slower months, both in terms of the number of visitors and the revenues generated from business and leisure spending in the Phoenix region. Starting in mid-October, the improving weather generally ushers in a seasonal increase in visitors and business travel.

However, the outlook for the seasonal return of travel and tourism spending is uncertain for the remainder of 2020 and the beginning of 2021. Continuing concerns about contracting the virus are likely to result in fewer people traveling for business and leisure, and hence fewer meals eaten in restaurants. It also may mean fewer snowbirds (seasonal travelers) and business travelers returning to Arizona, which would affect the restaurant, tourism and leisure industries. These industries rely on the estimated \$7 billion to \$8 billion these visitors spend in the state.¹³

Furthermore, due to reduced domestic air travel and the closure of land borders to nonessential visitors from abroad, the tourism and hospitality sector is expected to continue experiencing lower sales for the foreseeable future.

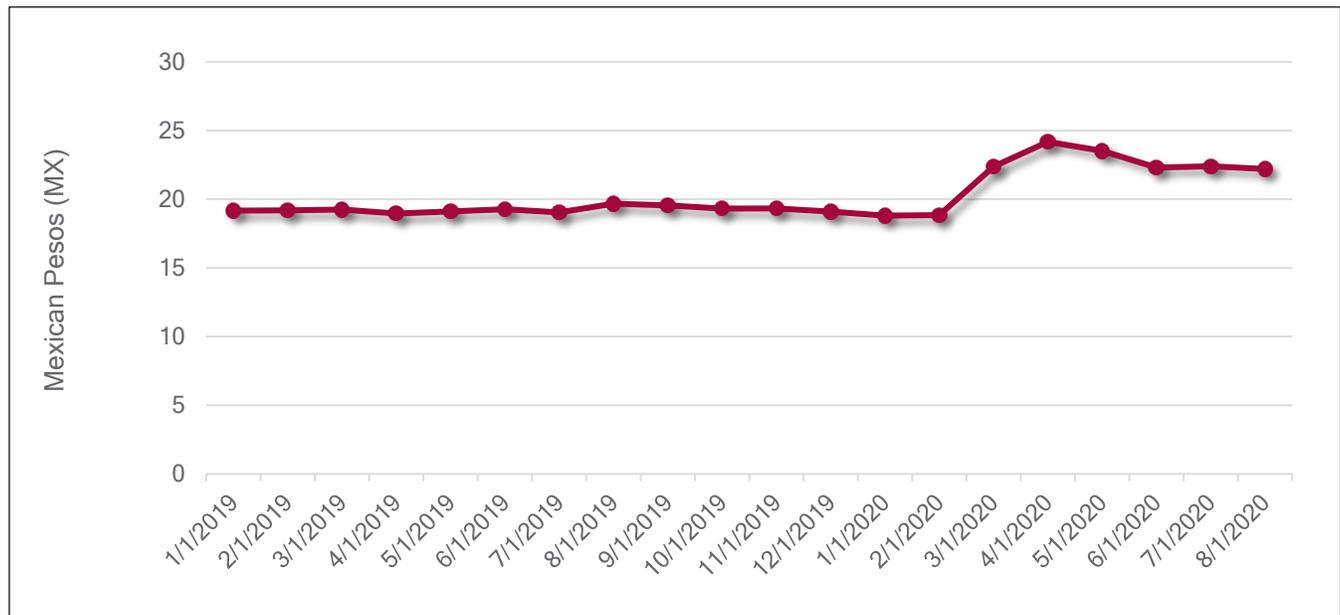
Once the travel restriction is lifted, Mexican visitors to Arizona will need to consider economic factors while visiting the state. Business closures and unemployment have affected the local economies all over the world, and deeply within Mexico, limiting the spending capability of Mexican travelers. The cost to Mexican visitors of traveling in Arizona's major metro areas is represented by the Arizona-Mexico Tourism Cost Index. The index is composed of three major components of tourism expenditures: hotel room rates, gasoline prices, and food away from home.

¹² University of Arizona, Arizona-Mexico Indicators, [September Update](#).

¹³ The Arizona Republic, Chris Coppola, ["Tracking snowbirds' financial impact in Valley Tricky" January 19, 2015](#).

In August 2019, the Phoenix Metro area index was \$262.52, while the same month in 2020 was \$293.64, a cost increase of 11.85%. The price data is seasonally adjusted then converted to Mexican pesos using the monthly U.S. dollar exchange rate.¹⁴ The Tucson metro area also showed a 9.86% increase in cost, from \$245.38 in August 2019 to \$269.57 in August 2020.

Figure 2 – Mexican Peso per \$1 U.S. Dollar Exchange Rate



Source: University of Arizona, Economics and Business Research Center

Additionally, the fluctuation in the foreign exchange rate for pesos per dollar has a great impact on Mexican tourism in Arizona. Due to the impact on the global economy, the exchange rate in January was \$18.84 Mexican pesos per U.S. dollar. This exchange rate remained steady for most of 2019 until reaching a historical high in the month of March of \$24.17 Mexican pesos per U.S. dollar. However, eventually this number came down to \$22.20 pesos in August.

¹⁴ University of Arizona, U.S.-Mexico Economic Indicators, [Mexico Tourism Cost Index](#).

Phoenix Sky Harbor Airport, the largest in Arizona, has 23 international nonstop destinations,¹⁵ nine of them to Mexico. This could be an area of opportunity for effectively marketing Arizona in Mexico. The Arizona Office of Tourism has undertaken significant efforts to communicate across the different sectors and government to promote economic recovery for this industry. One example is the marketing of the virtual [Official State Travel Guide 2020-2021](#) to appeal to international and domestic visitors.



Photo courtesy Phoenix SkyHarbor Airport

Table 5 – Phoenix Sky Harbor Airport Non-Stop Flights to Mexico

City	State
Culiacan	Sinaloa
Cancun	Quintana Roo
Chihuahua (Newly added ¹⁶ in 2019)	Chihuahua
Guadalajara	Jalisco
Hermosillo	Sonora
Mexico City	Mexico City
Mazatlán	Sinaloa
Puerto Vallarta	Jalisco
Los Cabos	Baja California Sur

Due to the large impact on the tourism industries in North America, the best strategy is to continue to work to strengthen North American collaboration and standardization of sanitation guidelines to reduce the spread of the virus and regain the confidence of employers and travelers. As the economic activity in both countries slowly resumes, it is to be expected that cross-border tourism will regain force.

An example of how collaboration and innovation can lead us to a fast recovery is the Arizona Lodging and Tourism Association’s creation of a unified standard for safety and cleanliness, which builds upon “various sanitation best practices and recommendations from national hospitality and public health experts and various hotel brands” called [AZSAFE + CLEAN Hotel guidance](#).

¹⁵ Phoenix Sky Harbor, [International Destinations](#).

¹⁶ Phoenix Sky Harbor, Press Releases, [January 2020](#).

Another example is the Southwest Tourism Expansion Act¹⁷, a federal legislative effort to extend the border crossing card zone statewide for Mexican visitors. The current border crossing card zone is 75 miles. Extending the zone means an additional \$181 million in new spending to the state of Arizona each year going forward.

The Border Crossing Card (BCC) is a visitor visa expedited by the U.S. Department of State. The visitor visas are nonimmigrant visas for persons who want to enter the United States temporarily for business (visa category B-1), for tourism (visa category B-2), or for a combination of both purposes (B-1/B-2). The BCC is both a BCC and a U.S. nonimmigrant visa (B1/B2) designed for Mexican citizens. Holders of the border crossing card are some of the most vetted visitors to the United States and are at low risk for overstays. This is an opportunity to grow the state's tourism. Statewide extension will mean greater opportunities for tourists to enjoy the entirety of our state's scenery, cultures, and amenities.



Specimen of the U.S. Border Crossing Card, issued by the U.S. State Department.

In December 2019, the Southwest Tourism Expansion Act was introduced in the United States Congress. This bill (HR 5405) is the result of the Maricopa Association of Governments' (MAG) efforts to improve the state and regional economy by allowing for statewide travel of Mexican visitors who have a Border Crossing Card once the travel restrictions are lifted.

Ultimately, a return to pre-pandemic spending levels are likely to depend on developing a widely available vaccine combined with an effective treatment for COVID-19. These are two key factors needed to make the general public comfortable with traveling and patronizing restaurants, bars, as well as sports and concert venues. Such developments would finally allow the state's economy to fully recover.

¹⁷ 116th Congress "Southwest Tourism Expansion Act" [H.R. 5405](#)

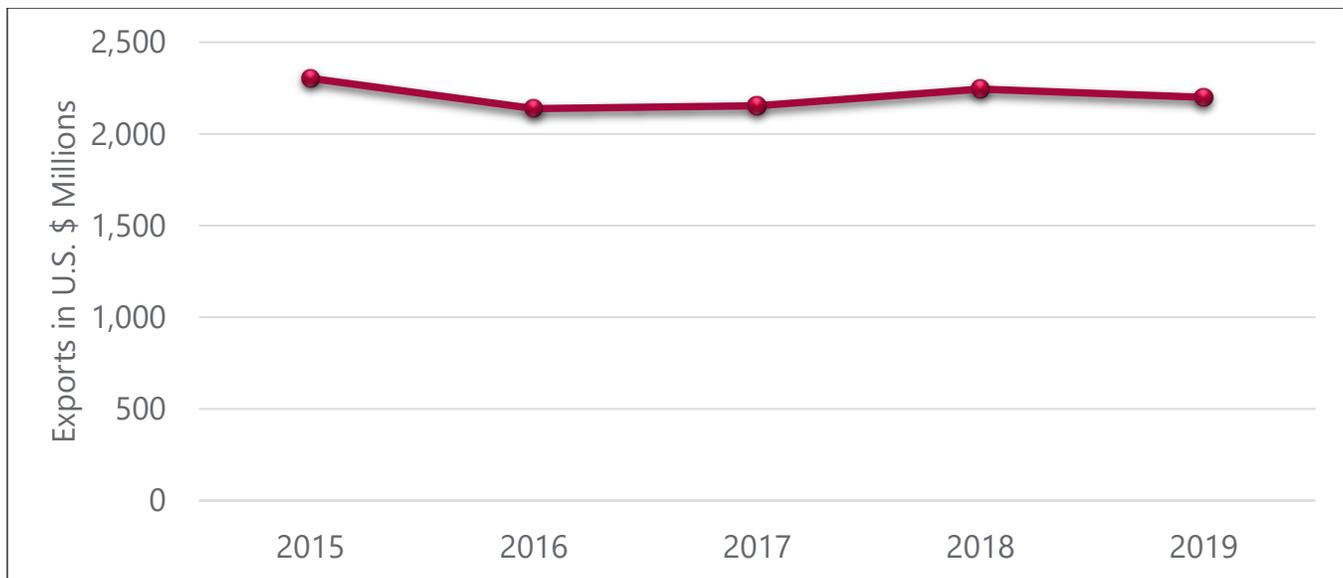
2. ARIZONA – CANADA TRADE

2.1. Arizona-Canada Exports

Mexico and Canada are Arizona's largest trading partners. Combined, they account for 43.6% of the trade footprint, a footprint that has grown steadily over the past decade. Arizona's trade with Canada was \$4.77 billion for 2019, with exports of \$2.15 billion and imports of \$2.62 billion. Exports to Canada have been holding steady since 2015, ranging between \$2.1 and \$2.3 billion annually.



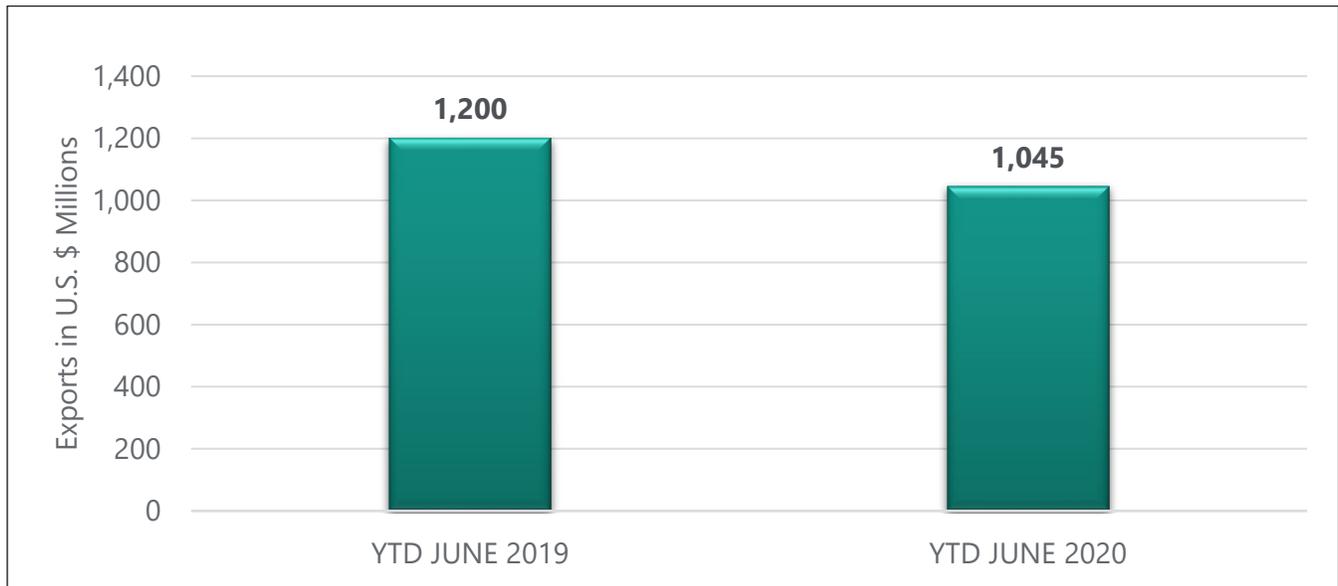
Figure 3 – Arizona Exports to Canada



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

The value of exports from Arizona to Canada for the first two quarters of 2020 was \$1.04 billion, a 13% decrease from \$1.2 billion from the first half of 2019.

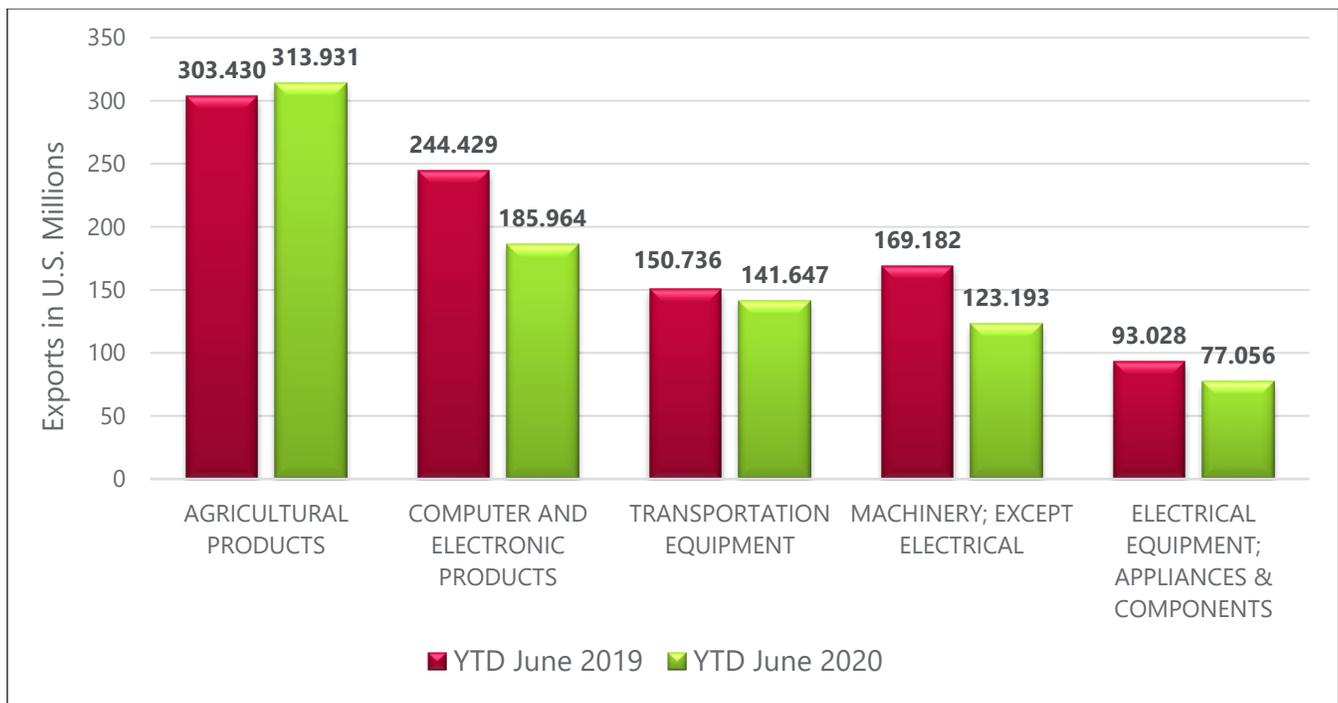
Figure 4 – Total Arizona Exports to Canada



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

Arizona’s top exports to Canada during the first half of 2020 were agricultural products, computer and electronic products, transportation equipment, machinery, and electrical equipment.

Figure 5 – Top 5 Arizona Exports to Canada by Industry



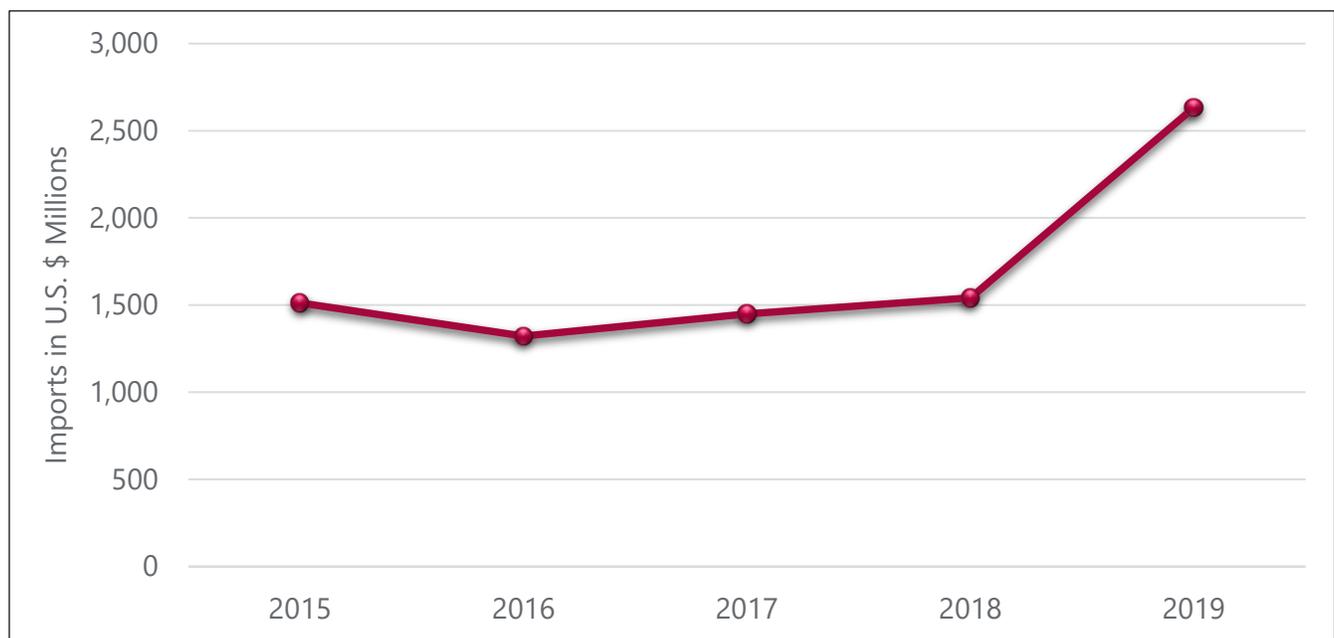
Source: International Trade Administration, U.S. Department of Commerce

With the exception of agricultural products, the other categories experienced year-over-year decreases in exports to Canada. Machinery exports showed the largest decreases of 27%, followed by computer and electronic exports with a 24% decrease. Electrical equipment exports decreased year-over-year by 17% and transportation equipment was a relatively small decrease of 6%.

2.2. Arizona-Canada Imports

Imports from Canada were relatively steady between 2015 and 2018 before growing more than 70% in 2019.

Figure 6 – Total Arizona Imports from Canada



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

Arizona's imports from Canada totaled \$2.624 billion in 2019. For the first two quarters of 2020, imports from Canada totaled \$1.084 billion, a 74% year-over-year increase from the first half of 2019.

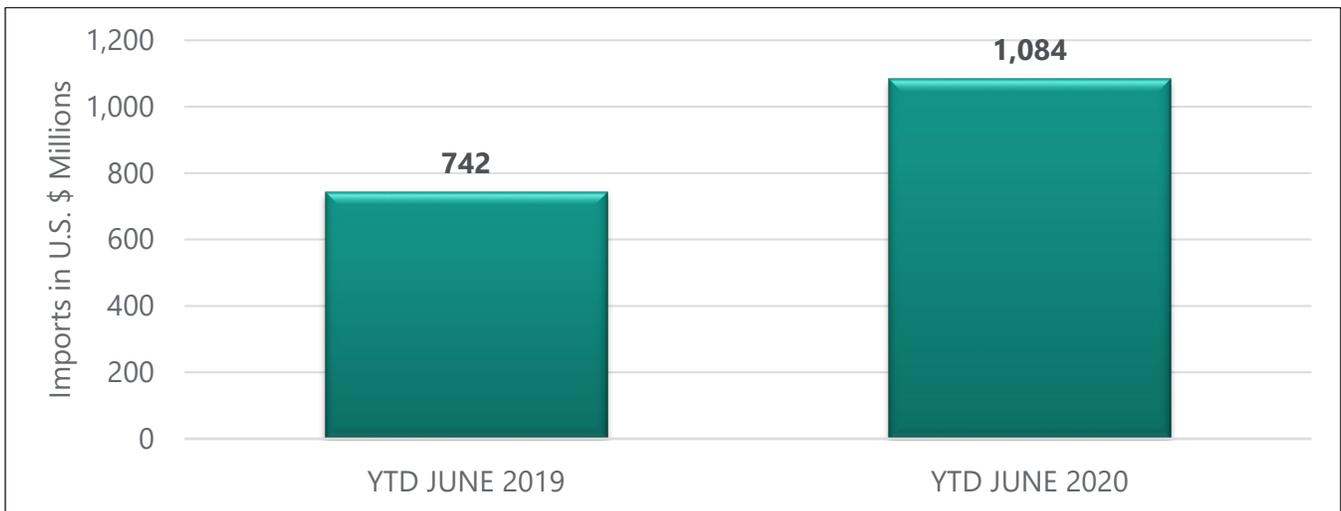
In addition, with the exception of April 2020 when there was a year-over-year decrease in imports of 21.7%, monthly imports were significantly higher from January 2020 through June 2020 compared to the prior-year periods. Arizona's strong growth in imports from Canada was a stark contrast to the national trend of sharp decreases in Canadian imports.

Table 6 – Imports from Canada 2020 (\$ Millions)

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Arizona	\$156.6	\$311.0	\$212.4	\$98.8	\$176.9	\$128.7	\$116.5
<i>% Change from Year Ago</i>	28.16%	198.90%	46.95%	-21.67%	45.89%	3.73%	4.56%
U.S. Total	\$25,381.3	\$24,346.7	\$25,124.3	\$14,975.6	\$15,869.7	\$20,357.5	\$22,340.5
<i>% Change from Year Ago</i>	8.52%	5.45%	-9.45%	-44.04%	-45.71%	-26.48%	-16.63%

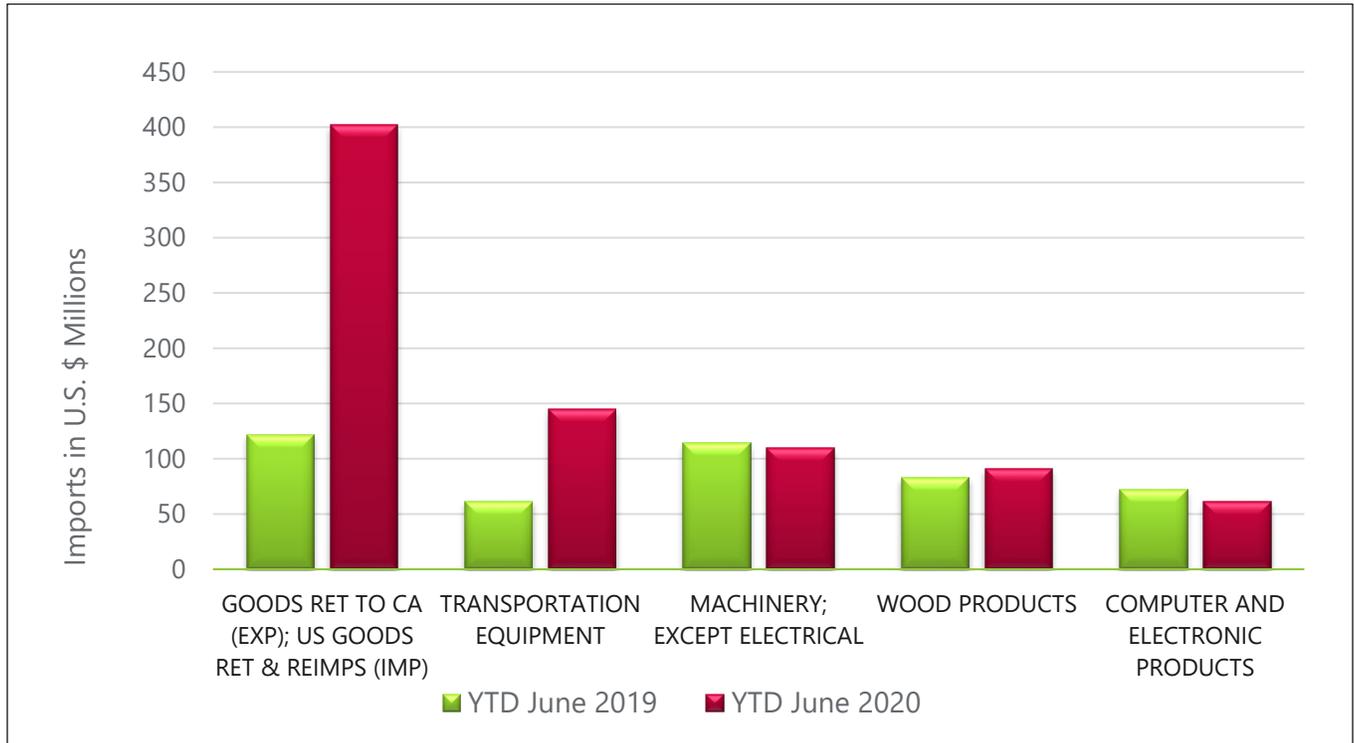
Source: International Trade Administration, U.S. Department of Commerce

Initial analysis indicates aircraft parts, electric machinery, iron materials, minerals, wood products and agricultural products were the product categories driving the sharp increases in imports from Canada. This increase likely is due to strong industrial demand and the completion of purchase contracts that predated the COVID-19-driven shutdowns. This increase likely is a reflection of Arizona's strong economy and robust manufacturing in aerospace and defense, and in residential and commercial construction, particularly in the Phoenix region.

Figure 7 – Total Arizona Imports from Canada

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

Figure 8 – Top Arizona Imports from Canada by Industry



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

The Phoenix region entered the year in a very strong position in key sectors: booming residential and commercial construction, strong home sales (with shortages of inventory), growth in the financial and healthcare services sectors, and very robust increases in population from migration from other parts of the U.S.

While most of the region's sectors suffered significantly from voluntary lockdown measures, particularly the leisure and hospitality sector, the construction sector was deemed an essential service and was not disrupted. Employees in the finance and insurance sectors were mostly able to work from home.

3. ARIZONA-MEXICO TRADE

In 2019, Mexico was the United States' second largest export market for goods and accounted for more than half of total goods exported from Arizona, New Mexico, and Texas. Nationally, Canada and Mexico together bought one third of all U.S. goods exported in 2019.



The U.S. Department of Homeland Security's U.S. Customs and Border Protection agency (CBP) facilitates lawful international travel and trade in the United States. There are 10 Ports of Entry in Arizona.¹⁸ These include Douglas, Lukeville, Naco, Nogales, Phoenix, San Luis, Sasabe, and Tucson, as well as locations at the Phoenix-Mesa Gateway and Scottsdale airports. CBP combines customs, immigration, border security, and agricultural protection into one coordinated and supportive activity.

In 2019, total exports through the main six Arizona Border Ports of Entry (BPOE) reached \$11.70 billion, and imports accounted for \$17.25 billion. The latest data suggest that in the period of January through July 2020, there was a reduction in these trade flows as shown in the table below.

Table 7 – Total Exports and Imports through Arizona BPOE (U.S. \$ Millions)

Commodities	Total YTD July Total BPOE 2019	Total YTD July Total BPOE 2020	Percent Change
Imports	11080.07	9893.91	-10.70%
Exports	7079.08	5654.41	-20.12%

Source: University of Arizona Monthly U.S. Imports and Exports to Mexico by AZ BPOE, U.S. Census Bureau obtained via USA Trade Online.

Notably, the port with the highest trade flow in the state of Arizona is the Mariposa Cargo Facility¹⁹, located at the Nogales BPOE. In 2019, the trade flow through the Nogales BPOE reached \$26.294 billion worth of commodities. In 2020, the exports through Nogales from January through July decreased 21% compared to the same period in the prior year. Imports also decreased by 12%.

¹⁸ U.S. Customs and Border Protection, [Arizona's Ports of Entry](#).

¹⁹ U.S. Customs and Border Protection, [Nogales POE](#).

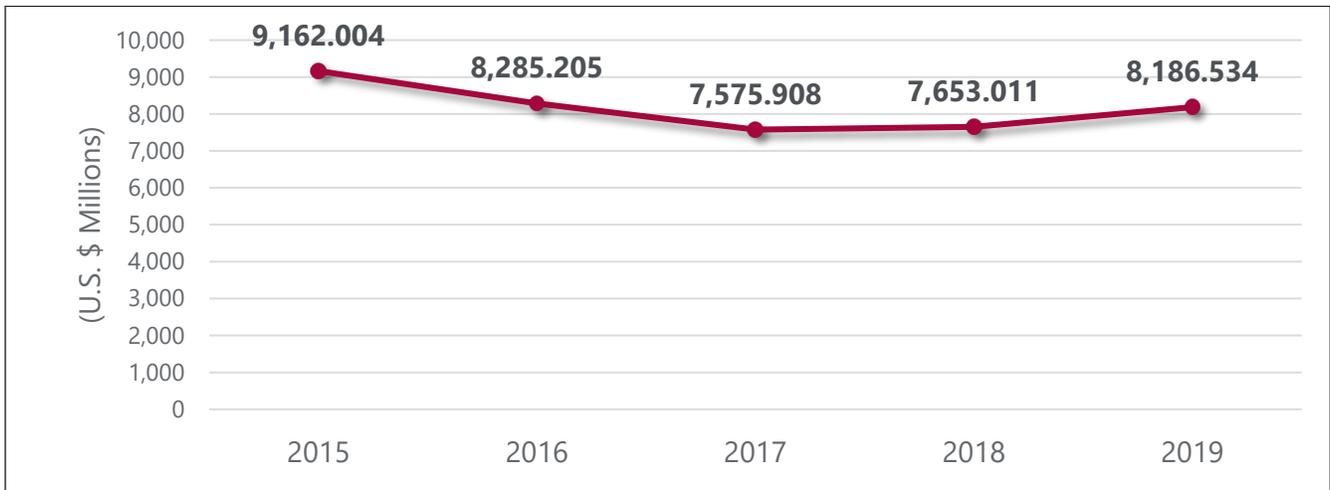
Table 8 – Total Exports and Imports through Nogales BPOE (U.S. \$ Millions)

Commodities	YTD July 2019	TYD July 2020	% Change
Imports	9824.95	8598.05	-12.48%
Exports	6316.25	4978.64	-21.17%

Source: University of Arizona Monthly U.S. Imports and Exports to Mexico by AZ BPOE, U.S. Census Bureau obtained via USA Trade Online.

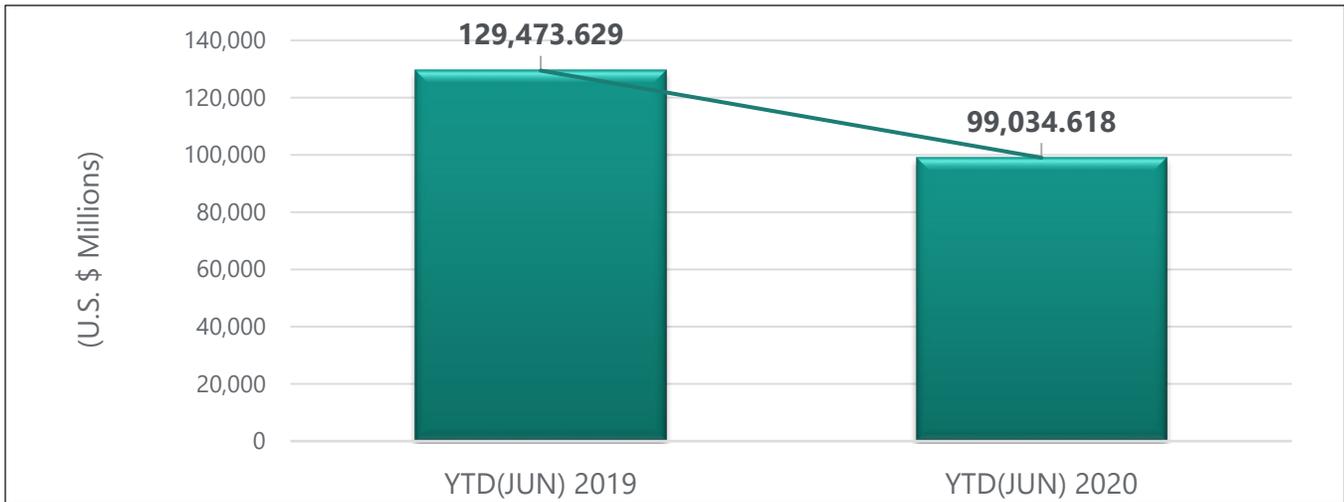
3.1. Arizona-Mexico Exports

Arizona's exports mean sales. The exporting companies in the state of Arizona sell goods and services around the world. Exporting supports the local economies as it diversifies the customer base and grows business' bottom line. However, exporting is a competitive task and changes in the global market affect these sales immediately. Exporting business in Arizona have found that North America is a reliable and profitable market. As this paper illustrates, Mexico is Arizona's first export destination. In 2019, Arizona exported \$8.18 billion worth of products to Mexico, holding a steady trend since 2015.

Figure 9 – Arizona Total Exports 2015–2019

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

Figure 10 – U.S. Exports to Mexico

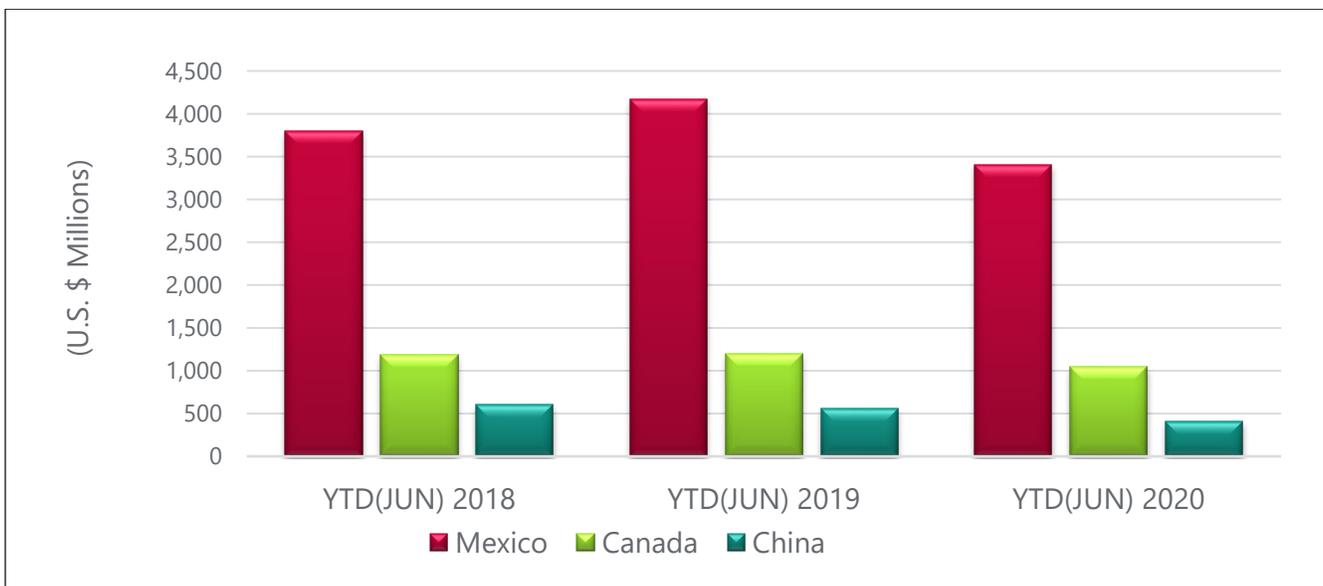


Source: International Trade Administration, U.S. Department of Commerce

The United States exports to Mexico in the period of January through June 2020 totaled \$99.03 billion, a drop of more than \$30 billion from the same period in 2019.

Arizona’s main export market destination is Mexico, followed by Canada and China. As described in the chart below, there is a sharp contrast in the reduction of exports to Mexico compared to the exports to the other two main partners when comparing the period of January through June in 2018 and 2019 to the same period in 2020.

Figure 11 – Arizona’s Top Exporting Destinations

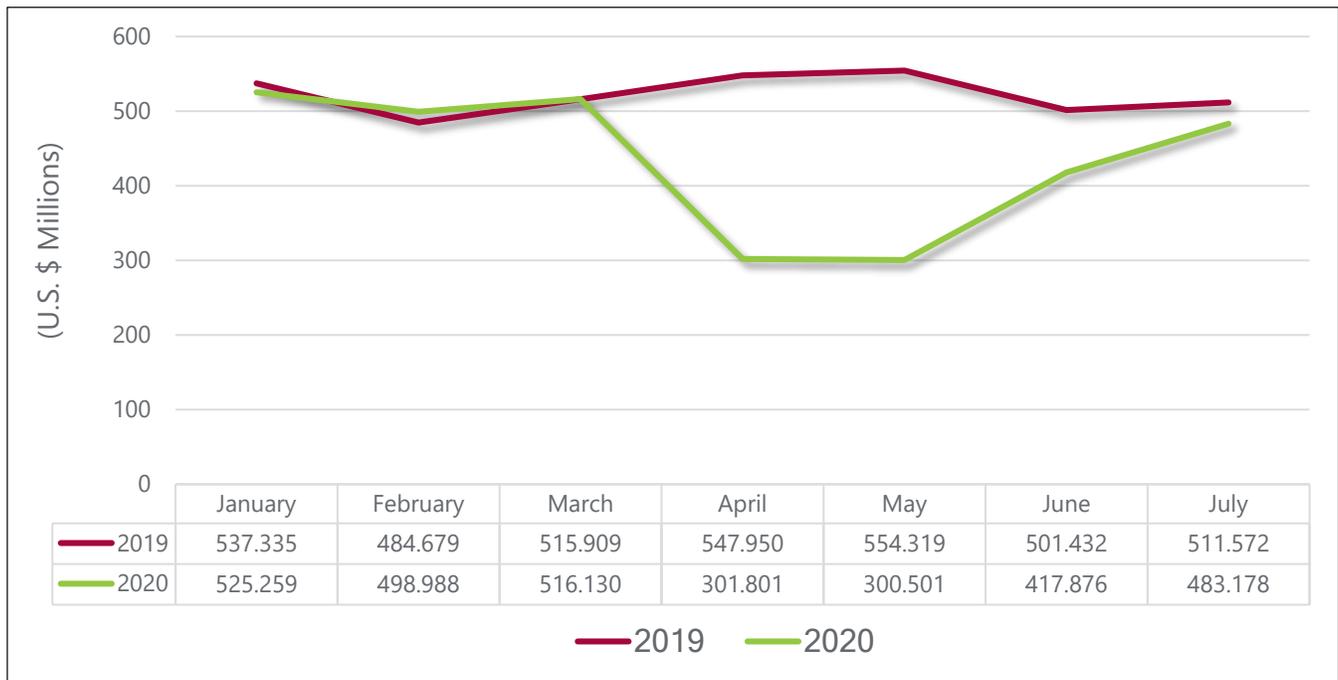


Source: International Trade Administration, U.S. Department of Commerce

The month of April showed a significant drop in the state's total exports to Mexico to \$213.7 million, or a decline of 32.1%.

Similarly, Arizona's manufacturing products exports dropped 41.5% in April, a decline of 44.9% from its value a year ago.²⁰ However, during the months of June and July, there is an increase of manufacturing export commodities, reaching almost the same amounts as the month of February 2020.

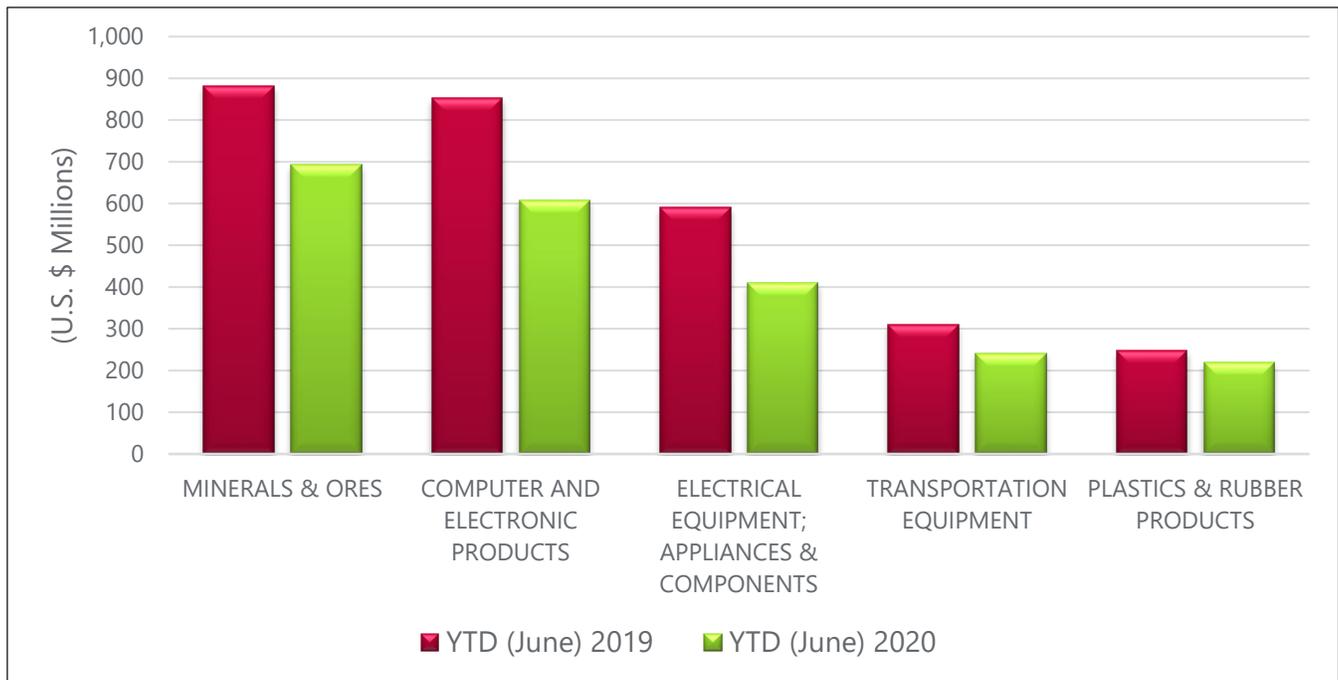
Figure 12 – Arizona Manufacturing Exports to Mexico



Source: University of Arizona, US Census Bureau via USA Trade Online

Data show that the biggest exports during the first half of 2020 were minerals and ores, followed by computer and electronic products, electrical equipment, transportation equipment and plastics and rubber products. There is a notable decrease in the most prominent exports compared to the same period in 2019.

²⁰ University of Arizona, [Arizona Trade During Global Pandemic](#).

Figure 13 – Top Arizona Exports to Mexico by Industry

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

Arizona's total exports from January through June decreased by more than \$700 million in the same period in 2019. Arizona is not alone among border states in experiencing a decrease in exports. Arizona experienced a decline of 21.85%, while Texas and California also presented a drop of 23.40% and 21.85% respectively. However, New Mexico showed an increase in exports to Mexico of 11.18%.

Table 9 – Border States Exports to Mexico

U.S.-Mexico Border State	YTD (June) 2019	YTD (June) 2020	YoY
California	14428.31	11275.58	-21.85%
Arizona	4175.11	3409.09	-18.34%
New Mexico	976.89	1086.13	11.18%
Texas	54035.67	41387.56	-23.40%

Source: International Trade Administration, [U.S. Department of Commerce](#).

The most common freight transportation modes in North America are trucking and rail. As illustrated in the table on the following page, the truck crossing between Arizona and Mexico showed a decrease of less than 5% in July 2020 compared to the prior year. The largest impact was in commodities transported via rail, decreasing almost by 17% from the previous year.

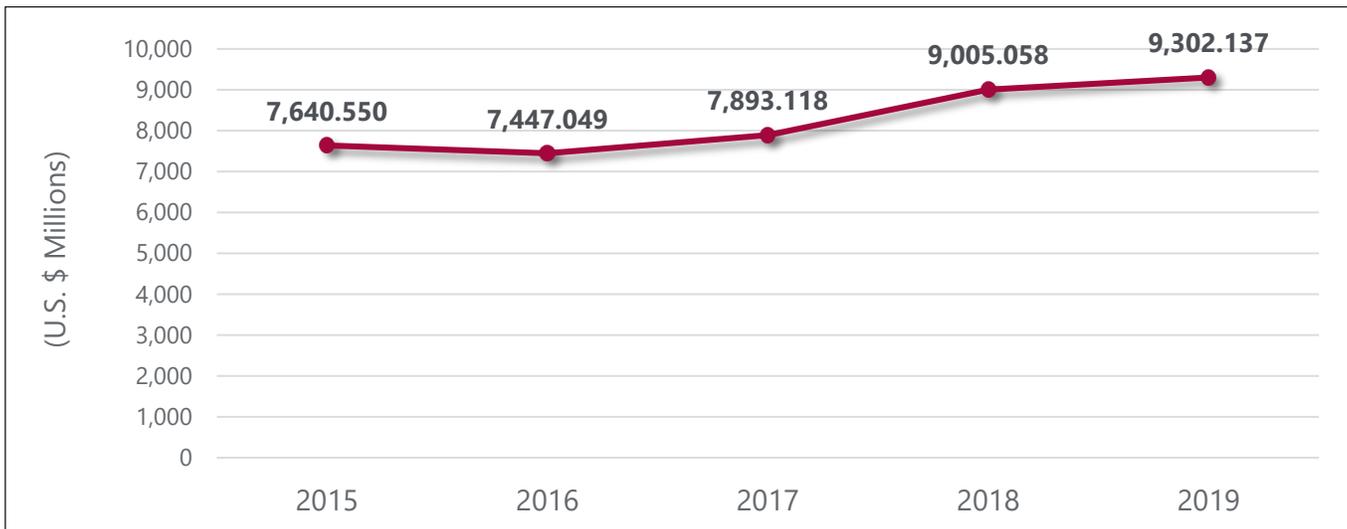
Table 10 – Commercial Crossing through AZ BPOE

Mode	YTD (June) 2019	YTD (June) 2020	YoY
Truck Crossing	250,396	239,977	-4.16%
Train Crossings	377	314	-16.71%

Source: EBRC, Research and Innovative Technology Administration, Bureau of Transportation Statistics, U.S. Dept. of Transportation.

3.2. Arizona-Mexico Imports

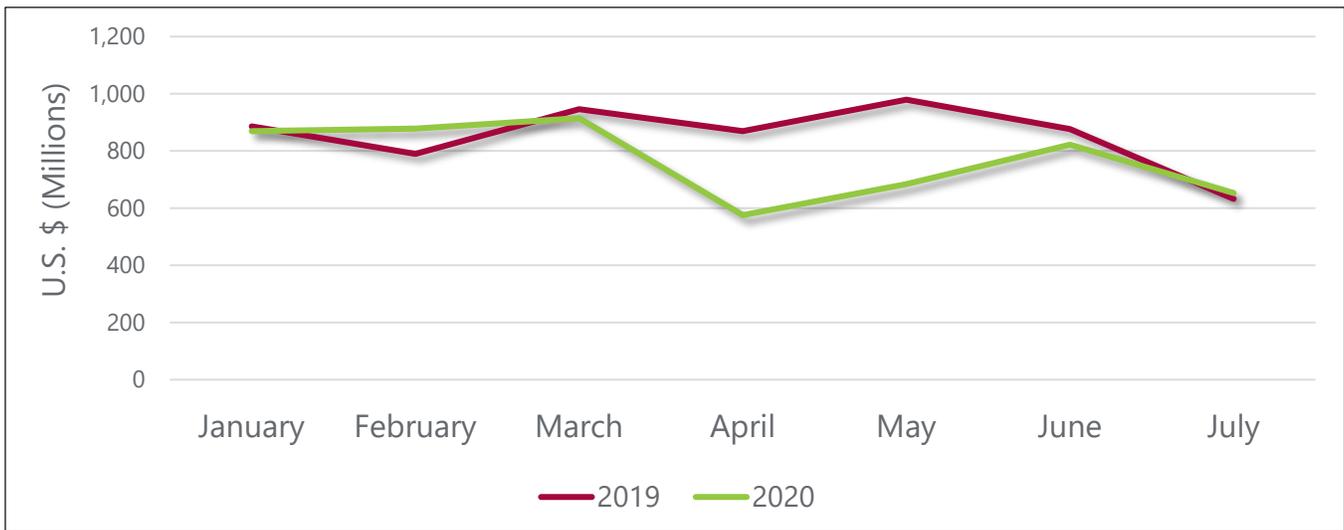
As Arizona exports into Mexico are a key revenue and job source for local economies, it also is important to mention that the state purchases products and services from Mexico. These imports tend to be nonexistent or scarce local products and services purchased a competitive price. For the last 5 years, Arizona has imported more than \$41.28 billion worth of commodities, as shown in the table below.

Figure 14 – Arizona Imports from Mexico 2015-2019

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

However, due to COVID-19 containment measures taken in the beginning of the year, the Arizona-Mexico Economic Indicators state that Arizona’s manufactured imports from Mexico decreased 43.3%.

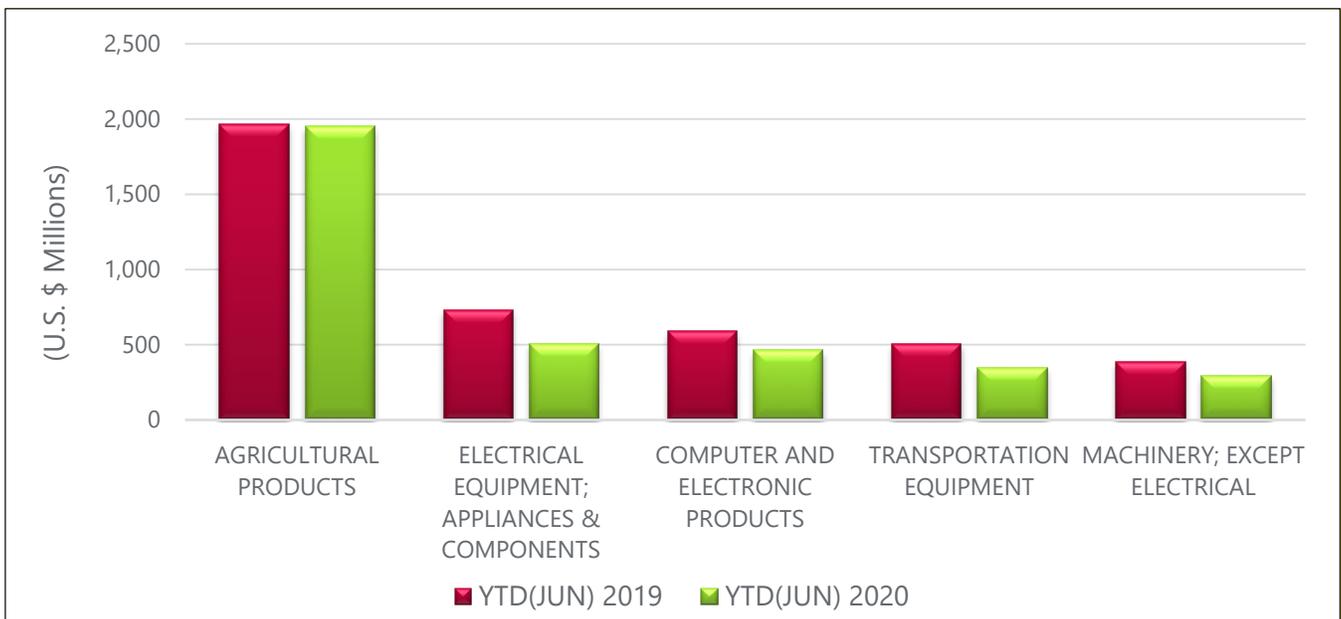
Figure 15 – Arizona Manufacturing Imports from Mexico



Source: University of Arizona, US Census Bureau via USA Trade Online

There were \$1.4 billion worth of fresh produce imports from January through June, a drop of only 4.6% compared to 2019. With the exception of the agricultural products and the fact that the Arizona imports of Primary Metal Manufacturing (MFG) segment doubled in size, electrical equipment, computer, and electronic products, some of the major Arizona imports from Mexico, show a sharp reduction in numbers in the period of January through June 2020. Transportation equipment saw a reduction of \$155.67 million. This may be related to the shutdown of operations of the Mexican manufacturing industry from April to the beginning of June 2020.

Figure 16 – Arizona Imports from Mexico by Industry



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

4. MEXICO ESSENTIAL BUSINESS

4.1. Mexico's Reopening Guidelines

Concerns expressed by business interests on both sides of the U.S.–Mexico border led the Mexican Ministry of Health and the Ministry of Economy to issue “The New Normality. Strategies for the reopening of social, educational, and economic activities.”²¹ This was the government of Mexico’s plan to reopen activities. These activities include construction, mining, and the manufacturing of transportation equipment, which include the automotive and aerospace industries.

The plan involved three stages; the first stage started on May 18, 2020, and included the reopening of the Municipalities of Hope, those businesses without a reported case of COVID-19, and businesses that do not neighbor municipalities affected by the virus. There were 269 municipalities in 15 states where workplaces, schools, public areas were allowed to open.

The second stage ran from May 18 -31, 2020, and the government announced the protocols to be followed to guarantee a safe return to economic activities.²² This involved the training of workers from mid-May to the beginning of June to start operations at a reduced capacity.



Mexican Government “Susana Distancia” and “Semáforo COVID-19” marketing campaign.

The third stage of the essential business plan established that on June 1, 2020, a biweekly traffic-light-style monitoring system will be in place to guide each state in Mexico to proceed to the next phase of the country’s reopening plan.

²¹ Mexican Ministry of Economy, [New Normality Plan](#).

²² Foley Arena, Publications, Mexican Government, [Back to Work Check List](#).

The COVID-19 traffic light monitoring system comprises four colors based on the contagion risks per state:

Table 11 – Mexico’s COVID-19 Traffic Light Monitoring System

Maximum	High	Medium	Low
<p>Only essential economic activities allowed.</p> <p>People allowed to go for a walk outside their residence only.</p>	<p>In addition to essential economic activities, companies of nonessential economic activities will be allowed to work at 30% operation capacity, with maximum care measures to prevent the spread of COVID-19. Open public spaces allowed at a reduced capacity.</p>	<p>All work activities are allowed, with maximum care measures to prevent the spread of COVID-19.</p> <p>Open public space allowed regularly, and closed public spaces can be opened with reduced capacity.</p>	<p>All activities are allowed, including school reopening.</p>

4.2. COVID-19 Effects on Mexico’s Manufacturing Exports

Mexico’s response to COVID-19 emergency included the closure of nonessential businesses, and non-health related manufacturing commodities were classified as such. The closure of automotive plants in Mexico began March 23 until May 31. Due to the sudden disruption, the automotive industry production decrease was not immediately offset by another sector.

The Mexican National INDEX Export Industry Analysis²³ indicates that the largest negative impact caused by COVID-19 in the export manufacturing industry was related to employment. This was seen in states where there is a larger number of Maquiladora, Manufacturing and Export Services Industry (IMMEX) plants, such as Baja California, Coahuila, Chihuahua, Nuevo León and Tamaulipas.

The analysis also states that there is a strong tie between the United States and Mexico production and exports rates. While the lowest peak of the United States industry occurred in April, in Mexico’s IMMEX’ plants it occurred in May.

The structure of IMMEX exports during the first five months of 2020 was:

- Manufactured goods 87.8%,
- Petroleum products 4.5%
- Non-oil extractive products 1.8%

²³ INDEX Industry Analysis, [August 2020](#).

In May, the overall production shutdown of the manufacturing industry due to COVID-19 affected non-oil exports, those targeting the United States at a drop of 57.2% at an annual rate and those channeled to the rest of the world by a decrease of 51.8%. The most important annual reductions were in:

- Automotive products (-90.1%)
- Rubber and plastic products (-50.8%)
- Electrical and electronic equipment and devices (-51.7%)
- Professional and scientific equipment (-45.8%)
- Machinery and special equipment for various industries (-42.4%)

The annual decline in exports of automotive products was the result of reductions of -90.7% in pipelined sales to the United States and -86.7% in those targeted to other markets.

According to the industry analysis in May, Mexico's total domestic exports reached \$18.06 billion, from which IMMEX's exports accounted for 63.9%. IMMEX exports began to stabilize as companies resumed their operations following the government of Mexico's "New Normality" plan that included manufacturing sector as essential business.

4.3. Most Impacted: Automotive Industry

In March 18, General Motors, Ford, Fiat Chrysler, Honda, Toyota, and Audi announced temporary suspensions at their Mexican plants. Two days later, Nissan and Volkswagen joined the list, to be followed by BMW and Mazda. This created a domino effect as Tier 1 suppliers, such as windshield, tire manufacturers Pirelli, Michelin, and Bridgestone also started shutting down their plants.

In Mexico, under strict health protocols to protect workers from COVID-19, some IMMEX plants began operations in mid-May and others started in June. Although the automotive sector was reactivated in June, there was a heavy consequence in the world market.

Due to COVID-19, Mexico was the most affected supplier-exporter of lightweight vehicles in the U.S. market, at least in May, falling 94.5%, which was comparatively higher than its competitors. As example, INDEX states that Korea decreased only 0.8%, Japan had a 19% reduction, and Germany fell 45%.

The Mexican Association of the Automotive Industry (AMIA) stated that in the month of May, only 1.2% of autos in the United States were manufactured in Mexico, whereas a few months before they reached 16%. This meant that only 1 of each 100 vehicles purchased in the United States came from Mexican exports; the remaining countries did not suffer reductions above 50%.

After reopening on June 1, 2020, Ford, along with Mexico's auto industry, is working to catch up to the demand by automakers in the United States for supplier parts and in-demand vehicles after falling behind by weeks due to COVID-19.

In July 2019, Ford Motors manufacturing in Mexico built 16,254 units, whereas in the same month in 2020 produced 27,836 units, according to Mexico's INEGI Monthly Report of the Administrative Registry of the Automotive Industry of Light Vehicles.²⁴ Disregarding this optimistic recovery of production, the report indicates a total automotive industry export of light vehicles to be 1.27 million units, representing a 36.83% drop from the same period in 2019.

Likewise, Audi shows negative numbers in its Mexican export production for the period of January-July 2020 by 54.7%. Volkswagen also dropped 49.2%, followed by Honda at 47.4%, Nissan at 42.2%, and Toyota at 37.6%. On the other hand, BMW Group more than doubled its export production in Mexico, building 20,682 units. Similarly, Mazda doubled its production in July and increased its overall export production by 31.6% in that period.

Auto dealers around the world estimate a reduction in automotive units for sale, an important fact that could affect the North American supply of light vehicles and the sales tax that comes with them.

4.4. Sonora's Automotive Industry

The state of Sonora's automotive industry employs 50,600 people in 98 companies (69 of them Tier 1 and 2, and 29 considered SMEs). The region produces 1,400 vehicles per day for export.

The Ford Hermosillo Stamping and Assembly Plant opened its facilities in the capital of Sonora in 1968. The plant comprises 279 acres and employs 2,870 workers. The Hermosillo plant builds the Ford Fusion, Ford Fusion Hybrid, Ford Fusion PHEV, Ford Fusion Police Responder (HEV & PHEV), Lincoln MKZ and Lincoln MKZ Hybrid²⁵.

Since 2017, the Ford announced that it would stop producing its range of sedans—Taurus,



²⁴ INEGI Monthly Report, Automotive Industry, [Registry of Light Vehicles Exports](#).

²⁵ Ford Motor Company, [Hermosillo Stamping and Assembly Plant](#).

Fusion and Focus—continuing the development of new SUVs, crossovers and pickups.

In early 2020, it began production of the new generation of the Bronco Sport SUV, a utility vehicle that was discontinued in 1996. Sonora Governor Claudia Pavlovich stated that the production of the new Bronco model is another example of confidence in the Sonoran labor force and that, despite the adversities, the region remains an attractive state for investment and new projects.

As to October 1, 2020, Sonora’s COVID-19 risk monitoring system is designated color orange. There have been 31,790 confirmed cases and 2,820 deaths.²⁶ The government of Sonora continues to lead the effort for a healthy economic recovery.

Since the beginning of the year, the U.S. manufacturer invested \$1 billion. The Hermosillo plant completed 106 Bronco Sport units by February,²⁷ soon after they suspended operations along with all the other Ford plants in North America. It resumed operations in June. The Bronco model is expected to be launched into market this year.

²⁶ Sonora Government [COVID-19 Update](#), October 1, 2020.

²⁷ El Financiero Journal [“Ford to Produce Ford Bronco Model in Hermosillo”](#) July 14, 2020.

5. THE EFFECTS OF COVID-19 ON NORTH AMERICAN SUPPLY CHAINS

Supply chains are the backbone of global and domestic trade. Exports and imports from Canada and Mexico depend on smooth-running freight transportation channels spanning the globe. Many finished products are made up of components transported across North America and shipped from other parts of the planet, including Asia and Europe.

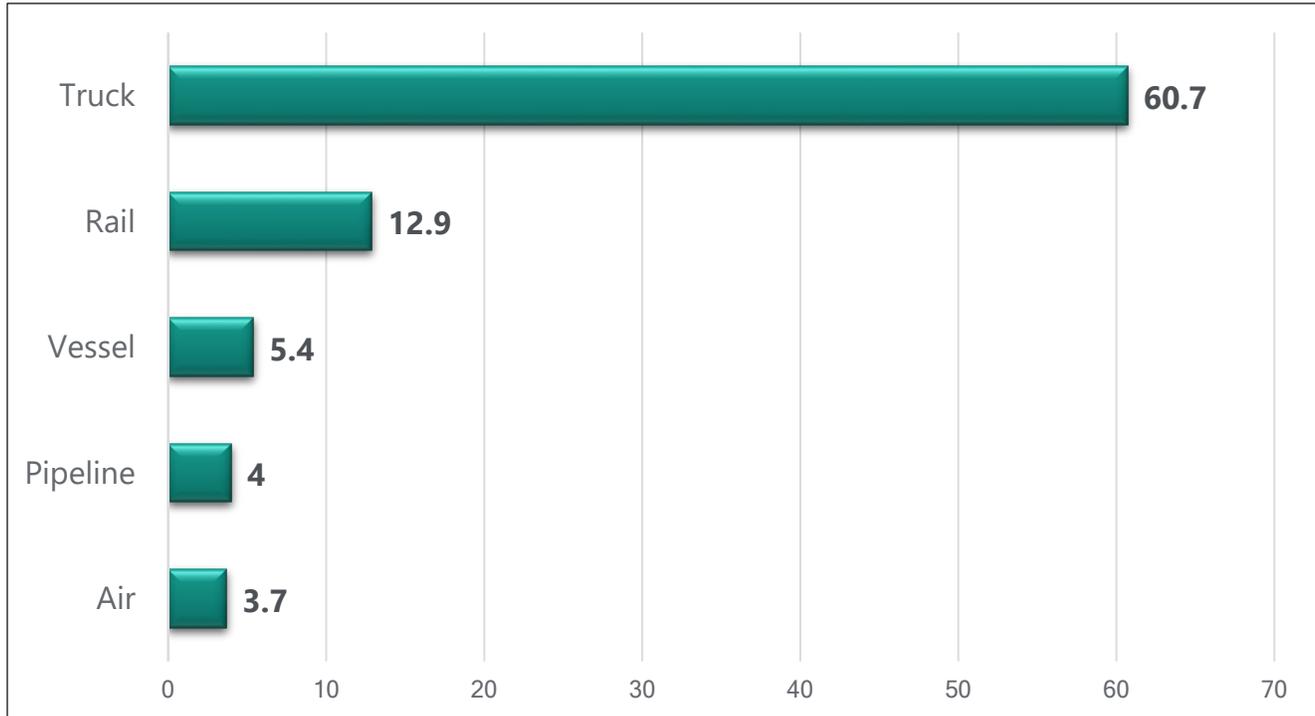
The initial precautionary measures instituted to slow the spread of COVID-19 dealt a seismic shock to global supply chains and logistics operations. The Mexican and Canadian borders were initially closed to truck and rail traffic, creating cascading disruptions in highly integrated supply chains from Canada to Mexico in every nonregional consumer and industrial sector.

National shortages in personal protective equipment for frontline health workers, in toilet paper, flour and medications in the early months of the pandemic are just a few examples of how supply chains ruptured when borders were closed and freight movement came to a standstill. For Arizona, in addition to a much-publicized shortage of toilet paper, delayed shipments of key parts for electronics, and transportation and aerospace manufacturing caused delays and stoppages in multiple production lines. This hurt businesses' bottom line, with a multiplier effect on employment.

After an initial stop in cross-border freight movements, the transportation of cross-border goods resumed by the end of March. As during pre-pandemic periods, the vast majority of freight in North America continues to be moved via trucking.



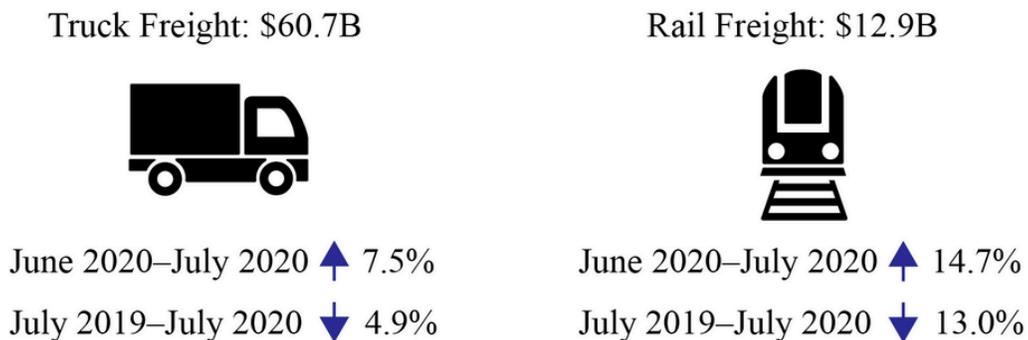
Figure 17 – North American Freight by Mode, July 2020 (in Billions of Dollars Value)



Source: Bureau of Transportation Statistics, [TransBorder Freight Data](#)

Consumer spending increased in May and retail spending returned to pre-pandemic levels by July, with retail sales in August 2020 exceeding that of August 2019 by 2.6%.²⁸ The return of economic activity in key sectors spurred the resumption of freight movement, with the logistics and warehousing driven by e-commerce, which has been a particularly bright spot in the economy.

Figure 18 – North American Truck and Rail Freight, July 2020 (in Billions of Dollars Value)



²⁸ U.S. Census Bureau [“U.S. Retail and Food Services Sales”](#) August 2020.

5.1. A Shock to the System

The impact of the COVID-19 disruptions reverberated throughout the continent, from factory floors to grocery store shelves and into people's homes. Consumers stockpiled groceries while manufacturers scrambled to manage spikes in demand for certain products. At the same time, demand for industrial goods and fuel cratered overnight.

The disruption in supply chains has continued in the case of COVID-19 testing components. The lack of reagents in the U.S. during September has hampered the ability of local public health authorities to widely test for COVID-19 infections.²⁹ These shortages further delay the full reopening of the economy as public authorities, businesses and the public all lack access to accurate data to assess the safety of resuming business travel and leisure activities.

North American borders reopened to freight traffic and essential personnel within days, particularly along the Canadian border. Essential personnel include:

- Truck drivers, crew members on any plane, train or marine vessel,
- Health care sector workers and critical infrastructure workers who have to cross the border to provide or receive essential services, including emergency responders and personnel providing essential services to Canadians.

A key point is that commercial traffic, including freight, is not restricted between the U.S., Mexico and Canada. This fact is important, given that between 70% and 72% of all North American freight is moved via trucks. While COVID-19 initially depressed demand for many consumer goods and consumer-facing industry sectors, retail and food services sales have rebounded, with August numbers higher than in August 2019.³⁰

The U.S. Department of State announced that COVID-19 pandemic underscores the importance of efficient and secure border crossings, which are vital to the people and economy of the U.S. and Mexico. There are plans to open two new BPOE in California, according to the Mexican Ministry of Foreign Affairs press release on October 1, 2020.³¹ Since waiting times at the border crossing between Arizona and Mexico represents higher cost and low productivity for the companies involved in trade, it is necessary to modernize and adapt the cross-border infrastructure to comply with public health protocols and in order to exploit the commercial potential of the United States-Mexico-Canada Agreement (USMCA).

²⁹ Wall Street Journal U.S. Edition, Dan Frosch ["Covid-19 testing is hampered by shortages of critical ingredient,"](#) September 22, 2020

³⁰ Ibid.

³¹ Mexican Ministry of Foreign Affairs, ["Within the framework of the USMCA, Mexico and the United States promote the modernization of the binational border infrastructure",](#) October 1, 2020.

5.2. Renewed Focus on the Resilience of Supply Networks

This systemic shock has prompted a focus on ensuring the health and resilience of supply chains. The cascading effects of the disruption in the tightly integrated manufacturing and production supply chains among original equipment manufacturers (OEMs), retailers, and suppliers has led to a reexamination of the relentless pursuit of cost cutting at the expense of resilience and safety. There is an urgent focus on the resiliency and security of supply chains on the part of OEMs, their suppliers and third-party logistics companies, including the following:

- Building redundancies in the supply chain by investing in regional warehousing to develop secure supply chains at all stages of the production process.
- A renewed push for supplier proximity and reliability.
- Deployment of new software systems and tracking technology to monitor supplier and logistics systems.

5.3. Outlook for Fall and Winter

The disruption in supply chains and buying habits, combined with shifting demand and supply forecasts, have accelerated the following trends:

- **Growth of e-commerce.** Second-quarter (Q2) estimates of U.S. retail e-commerce sales, adjusted for seasonal variation, increased 31.8% to \$211.5 billion from Q1 2020. Total retail sales for the second quarter of 2020 were estimated at \$1,311 billion, down 3.9% from Q1 2020. Estimated e-commerce figures for Q2 2020 increased 44.5% year-over-year, while total retail sales decreased 3.6% year-over-year. E-commerce sales in Q2 2020 were 16.1% of total sales.
- **Acceleration of changes in the auto industry.** The industry is approaching a tipping point on cost for electric cars, which need fewer moving parts and result in simpler supply chains. Arizona-based Nikola and Lucid provide an opportunity to leverage a growing production ecosystem for electric vehicles.
- **Growth in fintech and digital banking products.** The renewed interest and investment in digital products for managing and insuring supply chains, along with joint R&D and investment in next-gen products for both manufacturing and digital product lines have created a new opportunity for insurance companies and logistics software providers.
- **The transformation of traditional supply chain models into “digital supply networks.”** (DSNs). This allows organizations connecting to supply networks to develop end-to-end visibility, collaboration, and optimization with their suppliers. This will be done through the Internet of Things, artificial intelligence and robotics. DSNs will be developed to anticipate and react to unexpected events, not just Black Swan events such as global pandemics.³²

³² Deloitte Canada [“COVID-19: Managing supply chain risk and disruption.”](#)

CONCLUSION

In the mist of global disruptions due to COVID-19, understanding the pandemic's effect on Arizona's economic ties with Mexico and Canada, the state's primary trade and tourism partners, is the first step toward developing policies to mitigate the economic downturn and encourage economic growth. The COVID-19 pandemic has highlighted the need for close collaboration between the U.S., Mexico, and Canada to better position North America in attracting nearshoring opportunities that would mitigate supply chain risks and grow the region's economy.

Manufacturing and assembly lines in the U.S., Mexico, and Canada have resumed operations and freight is flowing across borders. Arizona's trade footprint and economy are expected to return to pre-pandemic levels if infection rates remain under control and if local, state and federal policies are enacted to continue containing the spread until a vaccine and effective treatment are widely available.