How the Canada–U.S. Trade War Could Reach Into Arizona

By Glenn Williamson

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The Canada–U.S. trade relationship is often viewed as a dispute between Ottawa and Washington. But its effects will not stop at the border. They can reach deep into individual states—including Arizona—and may ultimately change the way Canadian companies, investors and Arizona businesses operate.

The important point is that a trade war does not simply reduce the amount of goods crossing a border. It changes business decisions. When tariffs, uncertainty or new trade rules make it more expensive or difficult for Canadian companies to serve the U.S. market from Canada, companies begin asking a different question: Should we produce in the United States instead?

Arizona could become one of the beneficiaries of that decision.

Arizona has several characteristics that make it attractive to Canadian companies looking to establish a U.S. presence. The state is experiencing major growth in advanced manufacturing, semiconductors, aerospace and defense, mining, technology, logistics and data centers. It also sits at the intersection of the U.S. and Mexican economies. For a Canadian company, establishing an Arizona operation could provide access to the enormous U.S. market while allowing the company to maintain its Canadian headquarters, research, resources and management.

That means the trade war could actually accelerate a shift from Canadian exports to the United States toward additional Canadian investment in the United States.

This distinction is important. A Canadian company that once shipped $50 million of products from Canada into Arizona might eventually decide to invest $100 million—or considerably more—in an Arizona business opportunity,   Arizona gains jobs, facilities and economic activity, while Canada retains the company's ownership, management, capital and potentially its research and development and profits.

The bigger opportunity may be Canadian institutional capital.

Canada has some of the world's largest pension funds, financial institutions, insurers and private-equity investors. Arizona, meanwhile, faces enormous requirements for power generation, transmission, water infrastructure, transportation, industrial facilities and other forms of growth-related infrastructure. If Canadian capital expands looking for opportunities created by Arizona's expansion, the relationship could evolve from one based primarily on trade to one based increasingly on investment.

There is, however, another side to the equation. If Canadian companies respond to U.S. incentives by moving too much production south, Canada could lose investment and productive capacity. That would not be good for either country. The strongest outcome is therefore not Canada versus Arizona, but Canada and Arizona finding ways to participate in the same North American economic system.

This is where Mexico—and particularly Sonora—becomes important. A Canadian company could maintain resources, capital and technology in Canada, manufacture or distribute in Arizona, and develop supply-chain relationships with Sonora and the broader Mexican economy. What begins as a response to tariffs could ultimately create a more integrated North American production model.

There are also less obvious ways the trade dispute could reach Arizona. Canadian uncertainty can affect tourism, real estate investment, cross-border business travel and consumer spending. Arizona has historically benefited from substantial Canadian visitation and Canadian ownership of property. If Canadians become more cautious about the United States, those sectors can feel the impact well before a manufacturing company makes a major investment decision.

But the reverse is also possible. As businesses rethink their North American strategies, Arizona can become more attractive as a place to invest. Canadian companies may need U.S. production. Canadian investors may find Arizona infrastructure attractive. Arizona companies may look north for capital, technology, resources and markets.

That is how I believe this could ultimately play out. The trade war will create winners and losers, but the biggest change may be structural rather than immediate. It could push the Canada–Arizona relationship away from simply moving goods across the border and focus on moving more capital, companies, technology and investment across North America.

For the Canada Arizona Business Council, that is the opportunity. Rather than focusing only on protecting yesterday's trade flows, the CABC can and has helped businesses identify tomorrow's opportunities.

The question is no longer simply, “How will the trade war hurt Arizona?”

It is also:

“How can Arizona and Canada use this disruption to build a stronger economic relationship for the next decade?”