Economic Development Planning, Summary 4

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Summary: On the eve of celebrating 100 years of statehood, Arizona has a choice to make about the role it will play in the international economy. In one sense, the choice has already been made with Arizona sharing a 370-mile border with Mexico. To better compete in a knowledge economy that prizes such “export” industries as manufacturing and financial services, Arizona must expand beyond an economy built on construction, real estate and retail trade. Export industries enable a state to generate more outside revenue by selling goods and services beyond its borders.

Arizona needs to expand its export base by attracting more export-related businesses and by assisting aerospace, agricultural and other companies in Arizona in identifying new markets. The state must craft policies that encourage more business innovation and entrepreneurship.
The study, *Global Arizona 100: A New Century, A World Stage*, provided background for a 2010 conference in Phoenix intended to build awareness and support for Arizona to play a greater role in global commerce if the state is to be competitive. The conference was attended by business and government leaders, among others, from across Arizona.

Among the specific recommendations arrived at by conference attendees:

- The Arizona Commerce Authority should make exports a top priority, with such measurable goals as doubling exports in five years.
- Arizona should develop a statewide strategic plan to foster global business and which would be owned by a single entity, perhaps the Arizona Commerce Authority.
- Creation of an Office of Foreign Direct Investment as part of Arizona Commerce Authority to create and develop foreign investment in the state.
- Coordinate the entire educational system to ensure that social capital and focus is aligned with existing and emerging industries.
- Educate all Arizonans, especially government leaders and small and local business, that we are living in a global economy. Educational system should provide type of education needed to be competitive in the global economy.

**Sectors:** International trade, demographics, workforce development, aerospace, defense, semiconductor, agriculture, solar and renewable, oil and gas, metal ores, agricultural and construction machinery, optics and photonics.

**Geographic impact:** Arizona, Mexico, Canada, United Kingdom, China, India, Netherlands, Germany, Japan, France, Singapore, Malaysia, and more.

**Key actors:** Arizona Commerce Authority; Arizona manufacturers and business community; Arizona governor and Legislature; Morrison Institute for Public Policy; Science Foundation Arizona; Greater Phoenix Economic Development Council; Tucson Regional Economic Council.
Opportunities; Economic Collaborative of Northern Arizona; Greater Yuma Economic Development Corporation; Arizona Technology Council; Arizona manufacturers and business community; Arizona Office of Tourism; Arizona Department of Education; Arizona Chamber of Commerce and Technology; Arizona Mexico Commission; Canada Arizona Business Council; Arizona District Export Council; U.S. Department of Commerce; Phoenix Committee on Foreign Relations; Arizona International Growth Group; Arizona State University; University of Arizona; Northern Arizona University; Thunderbird Graduate School of International Management; and private universities.

**Major challenges:** How to boost global exports is becoming a very real concern for Arizona. The state’s foreign exports declined from $19.2 billion in 2007 to $18.4 billion in 2012, attributable in large part to a lagging semiconductor industry. Arizona is the only state to see exports fall since 2007, according to the U.S. Department of Commerce. By comparison, Utah’s foreign exports were $11 billion more than in 2007, and Texas’s increased by $97 billion. Arizona ranked 24th in the U.S. in goods exports.

**Other challenges:** Policy and business leaders will be challenged to sustain their effort after the Global Conference to develop, refine and carry out an agenda for Arizona to become more economically competitive in the U.S. and globally.

**Progress to date:** The share of Arizona jobs tied to trade doubled from 1992 to 2011, reaching 22 percent, according to the Business Roundtable. But Arizona is practically alone among states that have seen their foreign exports decline since 2007.

Participants at the Global Arizona 100 conference arrived at recommendations that, in part, look to the Arizona Commerce Authority to take charge in boosting exports and foreign investment in the state. The ACA is working with businesses to identify trade opportunities and helping to secure U.S. Department of Commerce funding. ACA Executive Director Sandra Watson accompanied Gov. Jan Brewer on her trip to India in August 2013 to promote trade, including solar and aerospace, and tourism.
The Legislature has shown more interest in trade missions, including one led by House Speaker Andy Tobin to Mexico City in September 2013. There is talk of the state or Phoenix opening a trade office in Mexico City.

Phoenix Mayor Greg Stanton and Barry Broome, president of the Greater Phoenix Economic Council, traveled to China in September 2013 to pitch the state to business and government leaders at the World Economic Forum. Larry Penley, president of the Thunderbird School of Global Management in Glendale, has called for a coordinated, collaborative approach among Arizona’s public, private and academic sectors to boost exports. He also has stressed the need to emphasize that Arizona, with its favorable tax and regulatory environment, is open for business to the world.

**Major implications:** Arizona must boost exports if it is to be globally competitive and bring new dollars and economic activity into the state, as well as offer good-paying jobs. Without a concerted effort, the state risks falling further behind neighboring states in the export business. Arizona ranks among the top 10 state exporters in 11 industries, including second in metal ores ($1.3 billion); fourth in semiconductors ($3 billion); fifth in oil and gas ($351 million); and sixth in fibers, yarns and threads ($67 million), according to the Business Roundtable (www.brt.org/trade).

The state’s top goods exports in 2012 also included aerospace products and parts ($2.6 billion), other fabricated metals ($722 million) and navigation and control instruments ($621 million). Arizona ranks 26th in agricultural exports, and is the third largest exporter of vegetables and melons. One of Arizona’s fastest growing exports is agricultural and construction machinery, which have increased by 21 percent per year since 2002. Exports of these products reached $377 million in 2012, according to the Business Roundtable.

**Opportunities for alignment:** Mexico is Arizona’s top export market for goods ($6.1 billion) and Canada is top market for services ($1.1 billion). Other leading markets include China ($1.7 billion in goods and services) and Japan ($1.8 billion), according to the Business Roundtable. Over the past 10 years, the United Arab Emirates, Saudi Arabia and the
Netherlands have grown the fastest among Arizona’s top export markets for goods.

The Arizona Commerce Authority, Greater Phoenix Economic Council and other economic development groups around the state have an opportunity to work with aerospace, agricultural and high-tech companies, among others, to identify new export markets. Commercial aerospace, satellites and the manufacturing of unmanned aerial vehicles for export are among promising areas.

Background Arizona is the nation’s 14th most-populous state. It has the nation’s 17th largest economy and the capacity to compete globally. Among its strengths: an entrepreneurial tradition, a technology-related base of 162,000 jobs and a university research base of $783 million. But to be more competitive globally, Arizona must address a lack of funding for K-12 education, shortcomings in support for higher education and an economy weighted toward construction, real estate and retail trade. The state also must deal with fallout from the Great Recession, including personal and business bankruptcies, home foreclosures and state budget deficits.

To help stimulate a discussion about Arizona’s global future, this report provides policy and business leaders with background and data about Arizona’s economy, workforce and population. The goal is for participants at a Global Arizona 100 conference in Phoenix on Dec. 1, 2010 to begin a discussion that will lead to the development of a strategic plan for Arizona to more effectively compete in the global marketplace.

**Ready to launch:** Arizona’s large, dynamic economy is the 34th largest in the world. Among the seven western and border states, Arizona is the third largest, trailing only (by a considerable margin) California and Texas with a gross domestic product of $210 billion in 2008.

Arizona exports a wide variety of products, led by civilian aircraft, engines and parts (13.6 percent); processors and controllers for integrated circuits (6.4 percent); electronic integrated circuits (3.6 percent); and bombs, torpedoes, missiles and other ammunition (2.9 percent), based on 2009 figures. More than half of the state’s top 25
exports are mechanical or electrical goods, suggesting a need for greater diversity in the export area.

Mexico is Arizona’s largest trading partner (32.4 percent), followed by Canada (12.6 percent); China (5.9 percent); the United Kingdom (4.3 percent); Germany (4.2 percent); Japan (3.7 percent); and France (3.5 percent). In fact, Mexico and Canada accounted for 45 percent of Arizona’s exports in 2009. Arizona has trading relationships with only a handful of the world’s 11 emerging markets, engaging only with Mexico, South Korea and the Philippines. Other countries in a group tagged by Goldman Sachs as the Next Eleven include Egypt, Indonesia, Nigeria and Turkey.

Tourism is one of Arizona’s most important “export” industries, with foreign visitors accounting for 14 percent of all tourists. Mexico is the greatest source of visitors with more than 25 million visits in 2008, followed by Canada with more than 500,000 visitors. Tourism spending generates numerous jobs and tax revenues for the state. As it grows, Mexico is expected to become an even more important source of visitors. That potential could be impacted by possible social and economic dislocations in Arizona.

The people: global citizens: Arizona is the West’s third-most-populous state with 6.5 million residents, ranking 14th nationally in 2009. Other than Nevada, Arizona is expected to grow faster than any other Western state between 2000 and 2030, reaching a population of 10.7 million.

Arizona is also expected to rank near the top in the “dependency ratio,” meaning a greater percentage of its population will be either age 20 or younger, or 65 or older, and thus considered “dependent” on the state’s working population. That lessened ability to compete will be compounded by Arizona’s low per capita income. This underscores why innovation and education are so important if Arizona is to attract and grow high-paying jobs.

Arizona’s foreign-born population is growing faster than the national average, increasing by 42 percent between 2000 and 2008. Mexico is the leading country of origin. Nationally, Arizona ranks ninth among states in the percent of foreign-born residents, at 14.3 percent. Among
foreign-born residents who are of worker age, nearly 60 percent have not completed high school. Twelve percent have a college degree. Arizona has 500,000 undocumented residents, the sixth most among states in the country.

**The path forward:** In the global business arena, human capital is vital for success. Arizona’s homegrown talent is weak in terms of science, engineering and computer-related degrees. The state should give top priority to graduating more students in science, math, computer and engineering to provide a reliable labor supply for its technology economy. Arizona also faces challenges in increasing its share of patents, a key intellectual property metric, and in keeping pace nationally with university research expenditures.

Encouraging news was found in The Milken Institute’s 2008 *State Technology and Science Index*, which ranked Arizona 17th among all states, identifying strengths in the formation and growth of high-tech firms but spotting challenges in attracting research funding and investing in human capital. Arizona’s success in entrepreneurial activity was highlighted in the 2009 *Kauffman Index of Entrepreneurial Activity by State*, which ranked Arizona third in the formation of businesses.

**The questions at hand:** As Arizona’s leaders weigh the data and consider how Arizona can more fully compete on the global stage, here are some of the questions that frame the goals and challenges before the state:

- What are Arizona’s major strengths and weaknesses in global competition?
- Which economic sectors show the most promise for global competitive success?
- How can Arizona improve its level and diversity of international exports?
- How can Arizona best address the deficiencies in its talent base?
- How much of a role should state government play in Arizona’s global efforts?
- What lessons can Arizona learn from the global success of other states and countries?
• How can Arizona better exploit its geographic location, cultural history and changing demographics as competitive advantages?
• What is the most effective way to organize successful global development movement in Arizona?