

EXPLAINER: International Trade in Arizona

Arizona's exceptional economic growth is a result of, and engine for international trade and foreign direct investment (FDI)

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Known for its innovation, economic growth, and plentiful natural resources, Arizona is a magnet for foreign direct investment (FDI) and international trade. [Over the past 50 years](#) Arizona's job market, manufacturing growth, production of raw materials, and community development have contributed to continuous state GDP growth. When looking at chained GDP -- growth measured over multiple years and adjusted for inflation -- Arizona has the second highest in the nation growth rate over the past 50 years with no indication of a plateau in the near future. This growth makes Arizona a top destination for international trade and a proven destination for FDI.

[Entrepreneur magazine](#) has named Arizona the number one state in the United States for starting and growing business ventures, and [Chief Executive Magazine](#) ranked Arizona as the fourth most desirable state for businesses. Drawing most international investment and trade to the state are its economic institutions and regulatory environment. The state's legislature has consistently passed growth-oriented legislation including [tax reductions](#), a [streamlined regulatory process](#), and [workforce quality programs](#).

As a result of the state's job creator-friendly labor laws – which are discussed in the “Policies that have promoted FDI” section below – Arizona is a haven for innovators.

Other draws to the state include the access to major world markets like California, Texas, and Mexico. The regional positioning of Arizona puts it in prime position to capitalize on international trade along the Mexican border and within the western United States. Arizona's largest airport, Phoenix Sky Harbor International Airport, has grown to support over 100 foreign-owned companies that have operations in the state. Sky Harbor streamlines the process of international trade, transporting more than 800 tons of cargo daily and more than 300 thousand tons annually.

While many factors have contributed to Arizona's stand-out economic growth, international trade is one of the most vital drivers thereof.

Sectors and economic clusters

Arizona's international trade and FDI is primarily oriented towards aerospace and defense, manufacturing and technology, and metal products. Arizona's international trade exported about \$24.7 billion worth of goods in 2019.

Aerospace and defense

Aircraft and aircraft parts make up the largest export sector for the state of Arizona. In 2020 the state exported [\\$2.5 billion](#) in aircraft and aircraft parts. Boeing, Honeywell Aerospace, and Raytheon Technologies are among the largest companies in the state in this field.

Manufacturing and technology

In 2020, Arizona exported [\\$16.8 billion](#) worth of goods. The most exported goods included electronic parts; food, beverage, tobacco products; and machinery. Arizona is ranked 4th in the nation for exportation of semiconductors and other electronic components. In 2019, Arizona exported [\\$3.5 billion](#) worth of semiconductors, which are an integral component of almost all high-functioning electronic devices. Arizona currently has 12 [factories](#) in the state dedicated to semiconductor production. Intel is responsible for the majority of microchip production in the state, accompanied by NXP, Microchip Technology, and the new addition of Taiwan Semiconductor Manufacturing Company (TSMC).

Metal products

[\\$2 billion](#) worth of metal ores were exported in 2019, making Arizona number one among all states in metal ore exports. The most common ores in Arizona are copper, silver, lead, molybdenum, tin, manganese, vanadium, uranium, zinc, and gold. Arizona exported [\\$1.5 billion](#) in other fabricated metal products and approximately [\\$1.2 billion](#) in electrical equipment and components.

Aerospace and defense, high tech manufacturing, and technology and innovation are among the Arizona Commerce Authority's [six key sector opportunities](#). These industries are ripe for growth, and [highly beneficial](#) for the state's economy: "The major employment sectors in Arizona include aerospace, electronics and semiconductor manufacturing." Maximizing productivity and increasing investment in these sectors, which are proving to be core competencies for Arizona's economy, could accelerate growth.

Top nations/trade partners:

Arizona plays a major role in international trade as its impact is global. Over 1,200 international companies from 53 different countries have chosen Arizona to be either a trade partner or location for them to conduct trade and business, according to the [Maricopa Association of Governments](#).

Because Arizona shares a border with Mexico, efficient international trade is an essential part of maintaining a positive diplomatic relationship. Arizona Governor Doug Ducey [said](#), "I think it's important that we maintain that relationship, but also build on it—focusing on the things we can do together, like making sure that commerce can flow more freely across the border, what we've done with Unified Cargo Processing, tourism, joint law enforcement efforts and more."

Mexico is Arizona's [number one](#) trading partner in both exports and imports. In 2018 the [Mexico-Arizona](#) trade relationship generated approximately \$9 billion in import value and about \$7 billion in exports.

Mexico is not the only [major country](#) Arizona does trade with. China is number two, followed by Canada. The number 1 import from Mexico is [agricultural products](#), reaching about \$2.1 billion. The state's number one import from China is [electric machinery](#), coming at about \$1 billion in import value.

Regarding [exports](#), Mexico is in first, Canada comes in second, and China is in third. Arizona's biggest export to Mexico is [electric machinery](#), coming in at \$2 billion in value. Arizona exports [electric machinery](#) to Canada at approximately \$492 million. Finally, Arizona exports about \$525 million of [semiconductors & components](#) to China.

Arizona's international trade with the countries listed shows no sign of slowing down, and a great example of that is the state's budding trade relationship with Taiwan. According to the [Global Business Alliance](#), "Taiwan Semiconductor Manufacturing Company (TSMC) recently announced plans to build a \$12 billion semiconductor plant in Arizona with a production start date of 2024."

Arizona's international trade market is booming. Arizona's imports and exports between Mexico, China and Canada bring billions of dollars in capital and essential goods into the state, building a foundation for job growth and economic development.

Policies that have promoted FDI

When international companies are determining where to invest in the U.S., a number of factors are considered at the state level, including the tax and regulatory environment, infrastructure, workforce talent, and economic opportunity. Through a variety of advantageous policies in these areas and a significant commitment to policies that promote economic development and growth, Arizona has established itself as an attractive destination for FDI.

First, Arizona promotes a pro-business climate by way of low individual and corporate tax rates and minimal regulation. The state recently [passed](#) its budget for the fiscal year 2022, which sets a flat tax rate of 2.5%, the lowest of any state in America. [Arizona](#) also has the 6th lowest corporate tax rate in the U.S. and has considerable tax advantages that makes it a top 10 tax-friendly state. Alongside low taxes, Arizona has sought to create a business [regulatory](#) environment that cuts out burdensome requirements. These simplified policies make it easier for businesses to grow and innovate.

Additionally, Arizona's labor laws are an important part of the equation. As an at-will employment state, Arizona businesses and corporations enjoy more discretion over their business practices including right-to-work (RTW) laws. In turn, employees are not burdened by union membership and dues as a contingency of their employment.

Foreign investment also relies on adequate infrastructure, as both digital and physical infrastructure are necessary for facilitating manufacturing. Arizona currently maintains expansive [infrastructure](#) that connects significant markets in the region, and policymakers have shown a commitment to improving and expanding upon current infrastructure. Recently, Arizona [announced](#) that over \$230 million would be invested in advancements to the highway system across the state. Additionally, Governor Ducey [announced](#) the Arizona Broadband Development Grant Program, which is a \$100 million commitment that will allow local communities to expand upon broadband infrastructure in underdeveloped areas.

Another key consideration for international companies is the education and talent of the workforce. [Arizona](#) ranks #2 in the nation for workforce quality and is #1 in higher education

opportunities. The Phoenix metropolitan area is seeing extraordinary [growth](#), which means the available workforce for companies in the Phoenix valley is increasing in quantity and quality.

Institutions accelerating FDI in Arizona

Arizona Chamber of Commerce and Industry

“The [Arizona Chamber of Commerce and Industry](#) is committed to advancing Arizona’s competitive position in the global economy by advocating free-market policies that stimulate economic growth and prosperity for all Arizonans.”

The Arizona Chamber of Commerce and Industry is “committed to ensuring economic growth and prosperity for all Arizonans” within the State. Its objective is to serve as a voice to the State legislature to represent the businesses of Arizona. It encourages free-market policies and economic growth and seeks to diminish regulatory burdens that unduly hinder that growth. Part of this encouragement involves the promotion of FDI which they have included in their business agenda for 2021. The Arizona Chamber of Commerce supports the Arizona Commerce Authority in their goal to encourage a pro-business environment.

Arizona Commerce Authority

“The ACA uses a three-pronged approach to advance the overall economy: recruit, grow, create – recruit out-of-state companies to expand their operations in Arizona; work with existing companies to grow their business in Arizona and beyond; and partner with entrepreneurs and companies large and small to create new jobs and businesses in targeted industries.”

The Arizona Commerce Authority seeks to spread awareness of the business conditions in Arizona. They provide research and analytics as well as a [five-year](#) plan to promote economic growth. They have opened a trade office in Tel Aviv to promote Arizona’s trade with Israel. One of their goals is to target the markets in Asia, Mexico, Europe, and Canada as these are the largest contributors to FDI within the state of Arizona.

Arizona-Mexico Commission

[The Arizona-Mexico Commission](#) (AMC) is a cross-border nonprofit organization solely committed to the economic affairs between Arizona and Mexico. Mexico is one of Arizona’s most impactful trade partners as they do share a border making trade convenient for both. “For six decades, the AMC has worked to strengthen Arizona’s ties to Mexico and build a cross-border community of professionals from nearly every industry from agriculture to medicine.” The Arizona-Mexico Commission works closely with the Governor of Arizona to ensure an efficient communication of the Governor’s vision with policymakers in Arizona as well as Mexico.

Global Chamber

“[Accelerate](#) cross-border trade and investment in every region of the world by engaging top executives and leaders with warm connections and timely information to grow business, create success and change the world.”

“Global Chamber is a thriving community of professionals, mentors and innovative companies taking on the world of global business.” The Global Chamber is an organization that is committed to the promotion of International Trade and Foreign Direct Investment. They serve as a medium designed for growth for those wishing to engage with the market on the global scale. They are a global organization with a location in Phoenix. “We’re the only organization in [Arizona](#) with hundreds of locations outside of the state that supports attraction, landing, exporting, importing and investment.”

Greater Phoenix Economic Council (GPEC)

GPEC assesses situations in which FDI in the Phoenix area can be endorsed. They “develop strategies for establishing the region as a leader in the Internet of Things (IoT) and sensor technology applications” to fulfill their goals. GPEC believes that the partnership between businesses and communities can lead to economic opportunity and prosperity. The council also serves as a voice advocating for businesses within the State of Arizona.

GPEC has produced the Metro Phoenix Global Investment in which they offer research regarding FDI and propositions on how to advance it within the state. They claim “[h]istorically, the attractiveness of selling to the large population of the region induced foreign direct investment, resulting in nearly double the amount of service-related FDI in Greater Phoenix than the national average.”

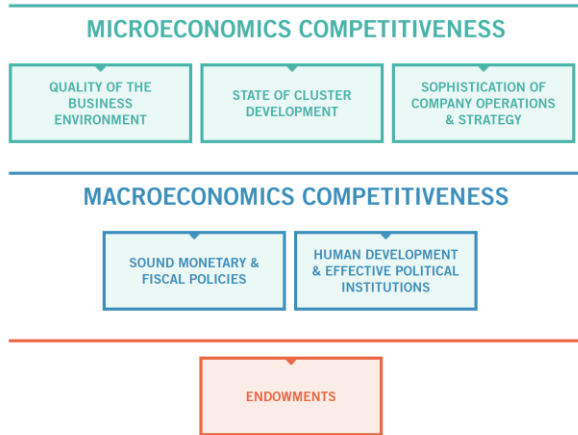
“These trends will increase the competition in attracting foreign direct investment to the region.”

Accelerating economic competitiveness through international investment

Arizona’s rapid growth over the past decade is in no small part due to the influx of international investment. Taiwan Semiconductor’s construction in North Phoenix, Arizona’s establishment of a trade office in Tel Aviv, and the state’s extensive trade with Mexico are testaments to this triumph in economic expansion. As the Grand Canyon State looks towards the future, policymakers, business leaders, and workers have a vested interest in promoting policies and best practices that advance international investment.

Michael Porter, a Harvard professor who studies economics, theorized a new framework for economic growth founded upon the concept of economic competitiveness. “Determined by the productivity with which a location uses its human, capital, and natural endowments to create value,” [economic competitiveness](#) is a practical chassis that can be used to measure and craft macro- and micro-economic policies. States across the union are now racing to maximize economic competitiveness, and some like Arizona have much to gain from expanded economic interaction with trade partners new and old.

Economic competitiveness rests on the assumption that productivity drives economic growth. Increasing the productivity of certain sectors already present in an economy can increase growth,



thereby increasing wages in aggregate and contributing to human flourishing. Endowments – which include natural resources, geography, population, and state size – are [foundational](#) to sustained growth, but “true prosperity is created by productivity in the use of endowments.” In economic success like in sports, one must master the fundamentals first.

FDI is facilitated and channeled through the state’s “effective political institutions,” which have been detailed in this brief, and ultimately put to work on the microeconomic level, key

economic clusters that have taken root in Arizona put new capital to work. International economic engagement is not a silver bullet to making Arizona the most competitive economic environment in the United States, but it is a source from which businesses, workers, entrepreneurs, and Arizonans of all stripes can derive new capital that can in turn fuel productivity gains.