

RAISING ARIZONA — GROWING GLOBALLY,
AN INTERNATIONAL REPORT CARD
presented to
Arizona International Growth Group

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Who We Are

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- Management consulting firm focused on solving the most complex problems at the intersection of public, private, and nonprofit sectors.
- 交 (Jiao) is the Mandarin symbol for interaction and connectivity.
- Lines of Service Include:
 - Economic and Workforce Development Strategies;
 - Business Development Solutions;
 - International Deal Brokering;
 - Strategic Planning; and
 - Service Optimization and Process Streamlining.
- The core principles that we apply to every project include:
 - An interdisciplinary and balanced approach;
 - A high-level of client interaction to ensure shared objectives and clarity of goals;
 - Connectivity to the right resources in people, capital, and knowledge;
 - A results-oriented methodology and work ethic; and
 - Integrity in our relationships, our promises, and our methods.

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Why Trade and FDI?

Why does trade make sense?

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- Country A and Country B both have the same amount of capital and labor and both produce rice and wheat. Country A produces 100 units of rice and 75 units of wheat while Country B produces 100 units of wheat and 75 units of rice. They would both have more rice and wheat if Country A specialized in rice and Country B in wheat. (David Ricardo)
- Challenge is that in the real world it's rarely rice and wheat. It may be rice and computers. The stakes for specialization and diversification are much higher. However, trade still makes sense as it:
 - Expands the market for domestically/locally produced goods;
 - Increases productivity through economies of scale; and
 - Allows for concentration of clusters to increase specialization and know how.

Why does FDI make sense?

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- Attracts net new jobs and investment in most competitive industries.
- Diversifies away from solely domestic or local demand.
- Foreign companies in the US support an annual payroll of \$364.2 billion — with average compensation per worker of \$68,317, which is 32 percent higher than compensation at all US companies.
- Foreign companies heavily invest in the American manufacturing sector; with 30 percent of the jobs at US subsidiaries in manufacturing industries.
- Foreign Direct Investment (FDI) in the US totaled a record \$325.3 billion in 2008; up from the previous record of \$321.3 billion in 2000 and a 37 percent increase over 2007 of \$237.5 billion.
- Foreign companies in Arizona play a vital role in supporting jobs. They now employ 71,100 Arizonans — an increase of 24.7 percent over five years.

Foreign-Owned Companies in Arizona

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- The Dial Corporation/A Henkel Company
- Embraer
- SUMCO
- Covance
- Solon/Global Solar
- ASARCO
- InNexus Biotechnology
- Bombardier
- Aurigin Technology

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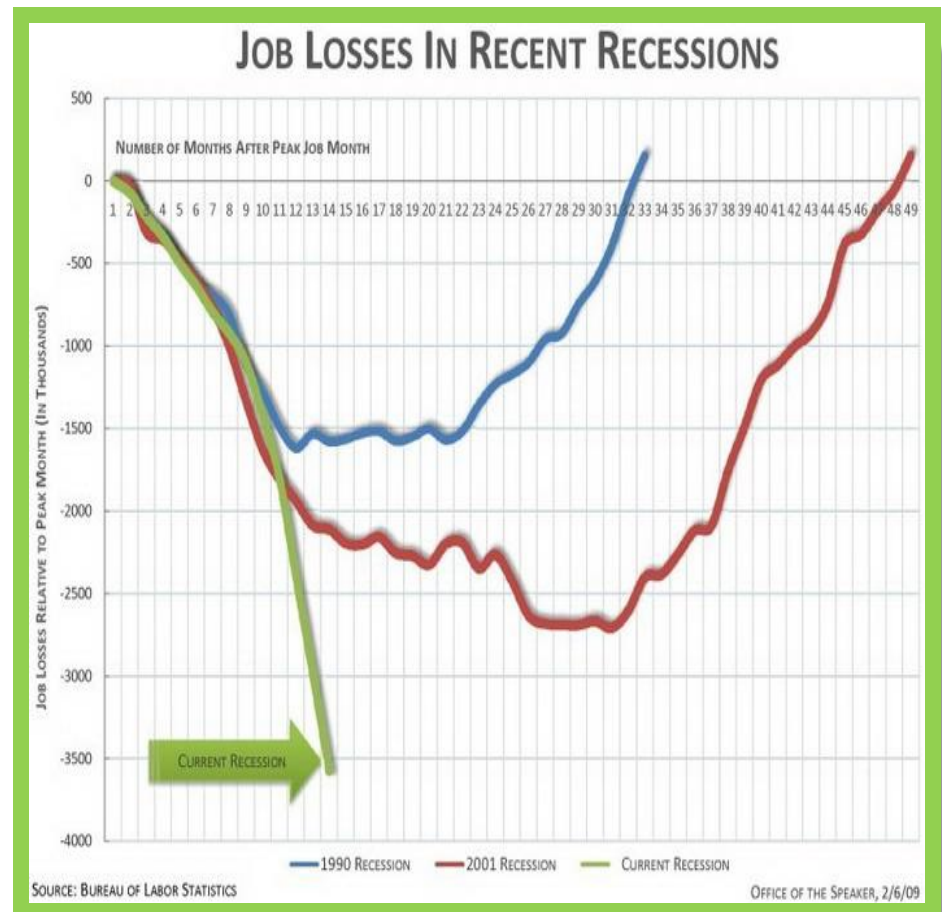
Understanding the Big Picture: Trade and FDI

The Big Picture Global Recession

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In the US Since the start of the recession:

- 5.1 million jobs have been lost;
- More than 2 million homes have entered foreclosure;
- More than \$11 trillion in household wealth has been lost;
- Auto sales are down by over half;
- Financial market remains under stress;
- Some financial institutions are in a precarious state; and
- Business and consumer credit spreads have risen.

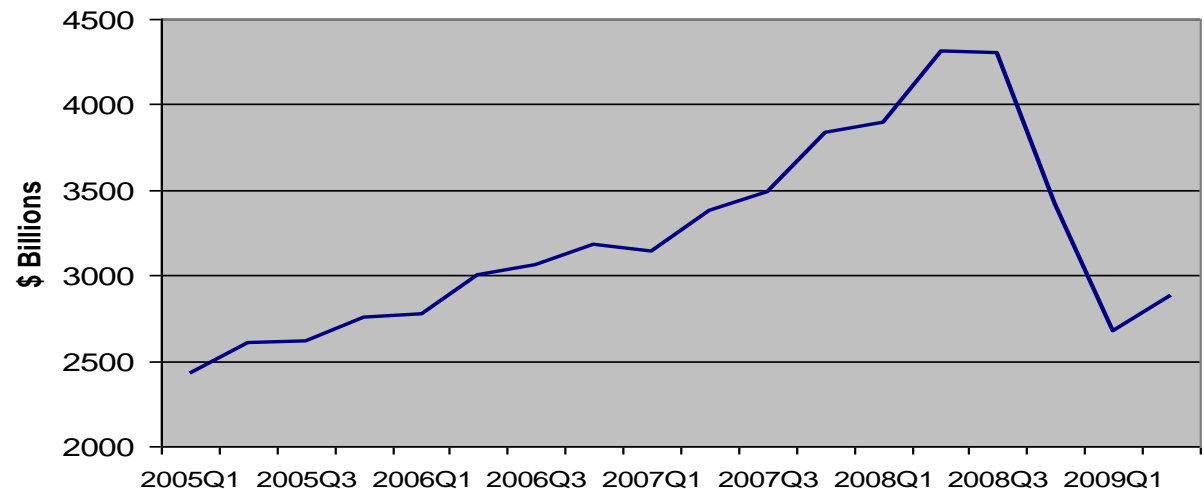


Global Trends in Trade

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- Since financial crisis in late 2008, world trade has fallen dramatically.
- Decrease due to falling demand, increasingly global aspect of supply chains, shortage of trade finance, and protectionist measures.
- Steep increase in trade prior to crisis due in part to commodity prices.

World Merchandise Trade (Exports)

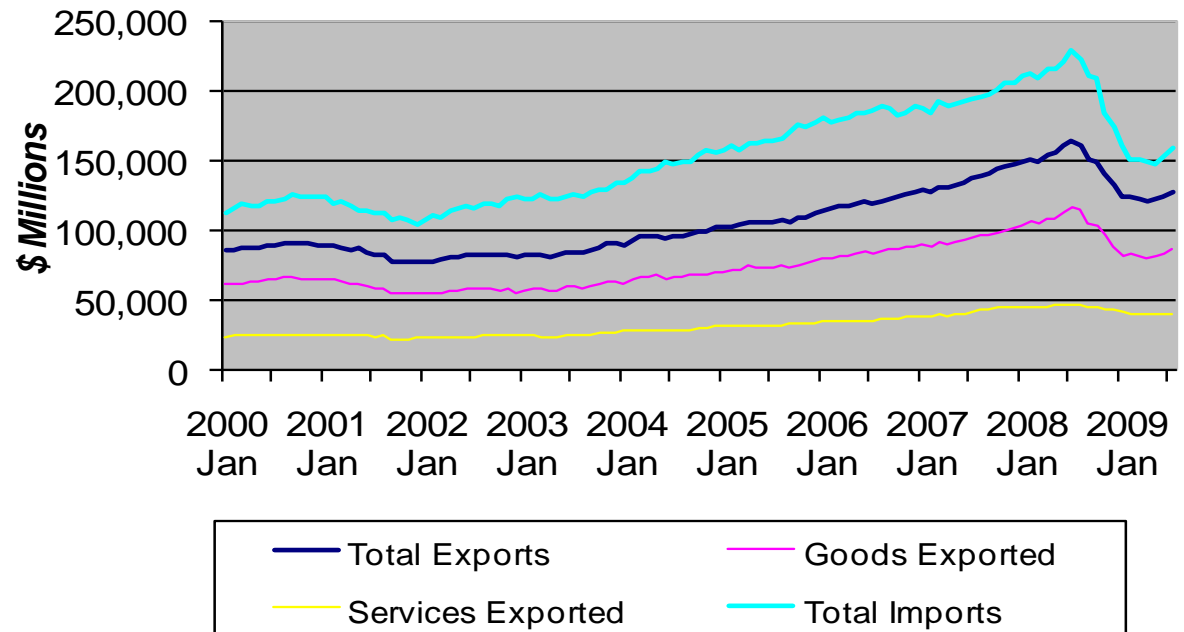


US Trends in Trade

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- In the first two quarters of 2009, US exports of goods totaled just over \$498 billion, down significantly from \$653 billion for the same period in 2008.
- Through June of this year, top export markets include Canada (\$96B), Mexico (\$58B), China (\$30B), Japan (\$24B), and the UK (\$22B).

US Exports of Goods and Services



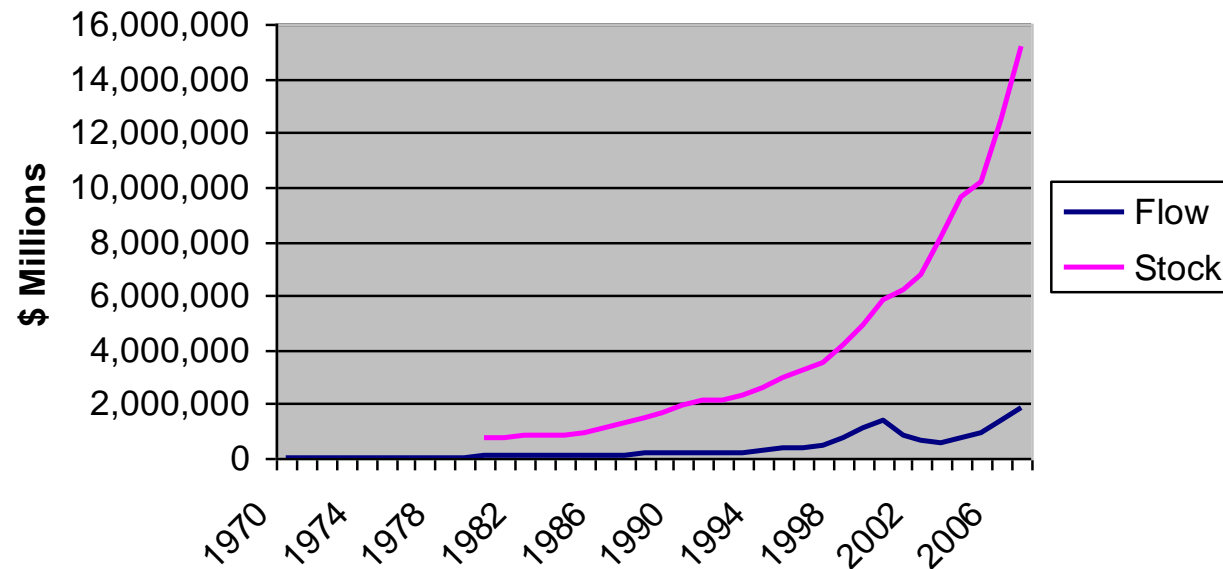
Source: US Bureau of Economic Analysis

Global FDI Trends

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- Global FDI down by more than 20 percent in 2008 due to global financial crisis.
- Developed countries have been more affected than developing countries, the drop was about 33 percent compared with the 2007 level.
- The sharp decline in global FDI in 2008 marks the end of a growth cycle which lasted four years.
- Fall in FDI due to lack of financial resources, weak growth, and increased risk.

Global FDI Stock and Flow



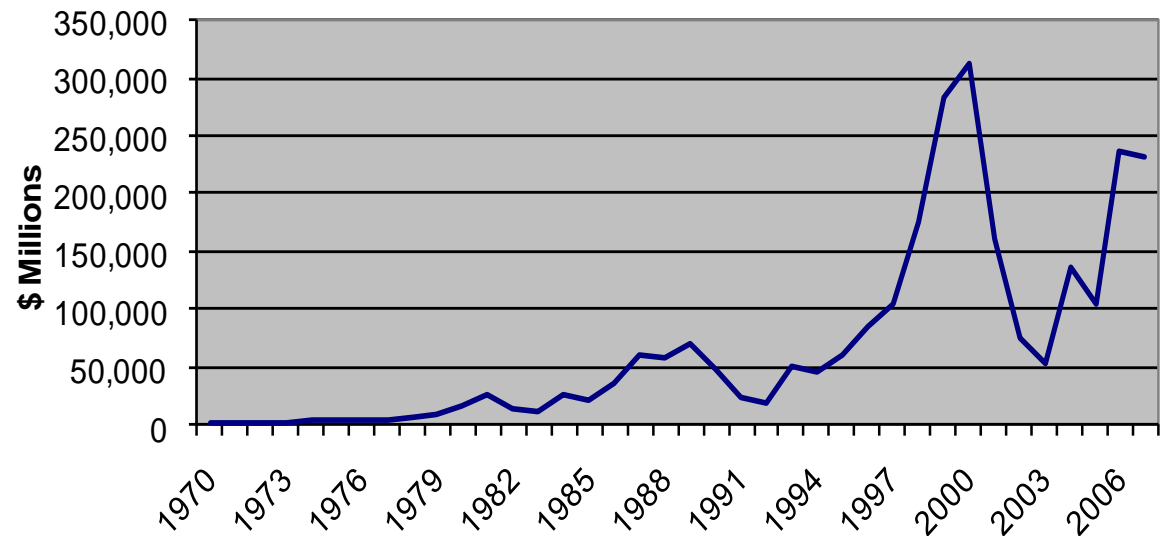
Source: United Nations Conference on Trade and Development

Foreign Direct Investment in the US

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- Inflows of FDI into US tend to follow general economic cycles.
- Due to economic weakness, US will likely see major drop in foreign investment from 2008 to at least 2010.

FDI Inflows to US



Source: United Nations Conference on Trade and Development

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Arizona's Position in the Global Economy

Arizona's Performance in Trade

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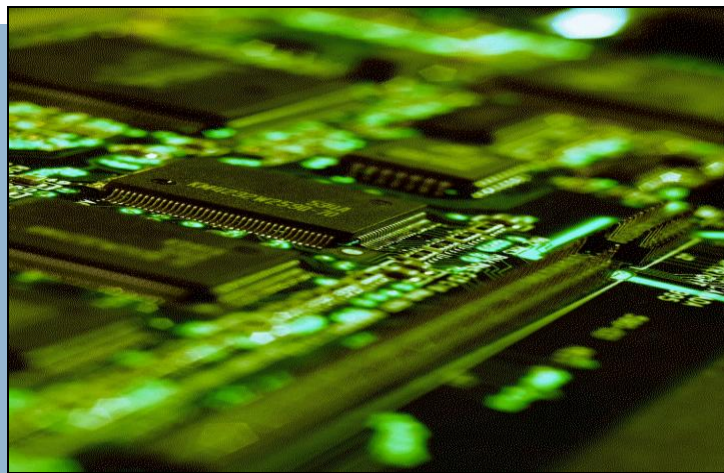
- In the first two quarters of 2009, Arizona's exports of goods totaled nearly \$7 billion, down significantly from \$10 billion for the same period in 2008, a decrease of 30.7 percent. Exports for the country as a whole over the same period decreased by 23.7 percent.
- Why a greater than average decrease?
 - Some of the state's top exports have seen major decreases from 2008 to 2009 (Q1 and Q2);
 - Computers and electronic parts: -39.7%;
 - Electric equipment and appliances: -57.8%; and
 - Mining: -58.9%.

Arizona's Industry Foci and Trade Markets

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□ Arizona's major export clusters:

- Electronics;
- Aerospace;
- Mining/Metal products;
- Machinery; and
- Crops.



□ Arizona's top export markets (2008):

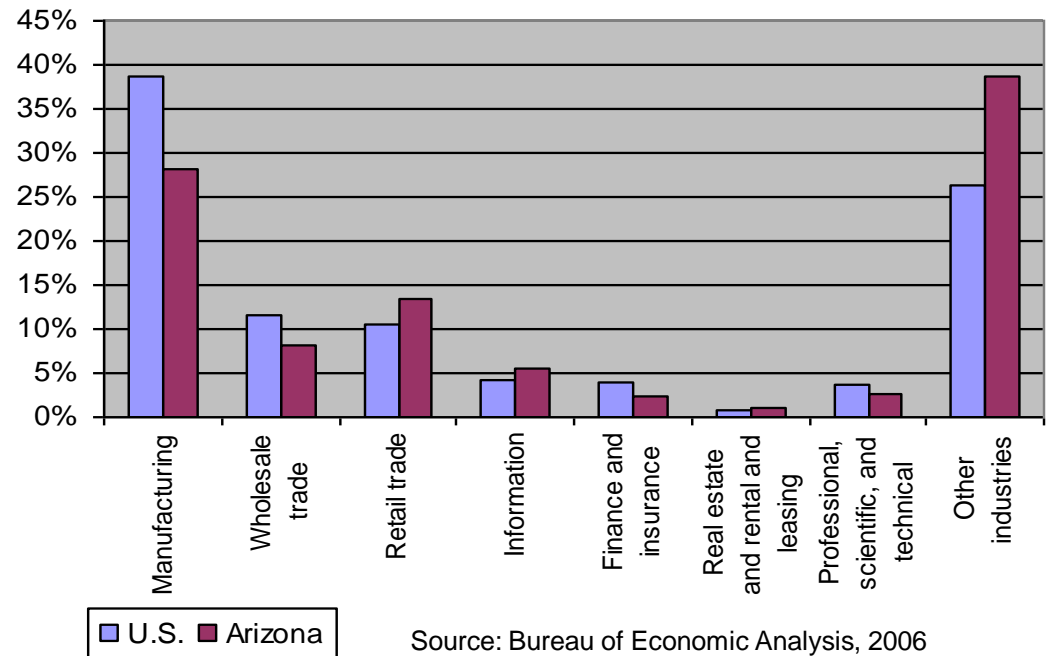
- Mexico (\$5.9B);
- Canada (\$2.3B);
- China (\$1.3B);
- UK (\$1B); and
- Singapore (\$1B).

Foreign Direct Investment in Arizona

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- Arizona's top FDI sources (2006):
 - Japan (\$1.98B);
 - Australia (\$1.97B);
 - Germany (\$1.7B);
 - Canada (\$1.2B);
 - Netherlands (\$1.2B); and
 - UK (\$826M).
- Arizona has below average FDI employment in professional, scientific, and technical services, manufacturing, wholesale, and finance.
- In 2006, foreign-owned companies employed 71,100 in Arizona.

Proportion of FDI Employment by Industry



Arizona's Performance in Trade and FDI

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Arizona is underperforming in FDI considering the size of the state's economy. It is also underperforming when the comparison is made using population and exports. The same holds true for FDI as measured by employment by foreign-owned companies.

State	<i>Trade Rank</i>	<i>FDI Rank</i>
California	1	1
Texas	2	2
New York	3	3
Florida	4	11
Illinois	5	4
...
Arizona	18	26

Source: Bureau of Economic Analysis, 2006

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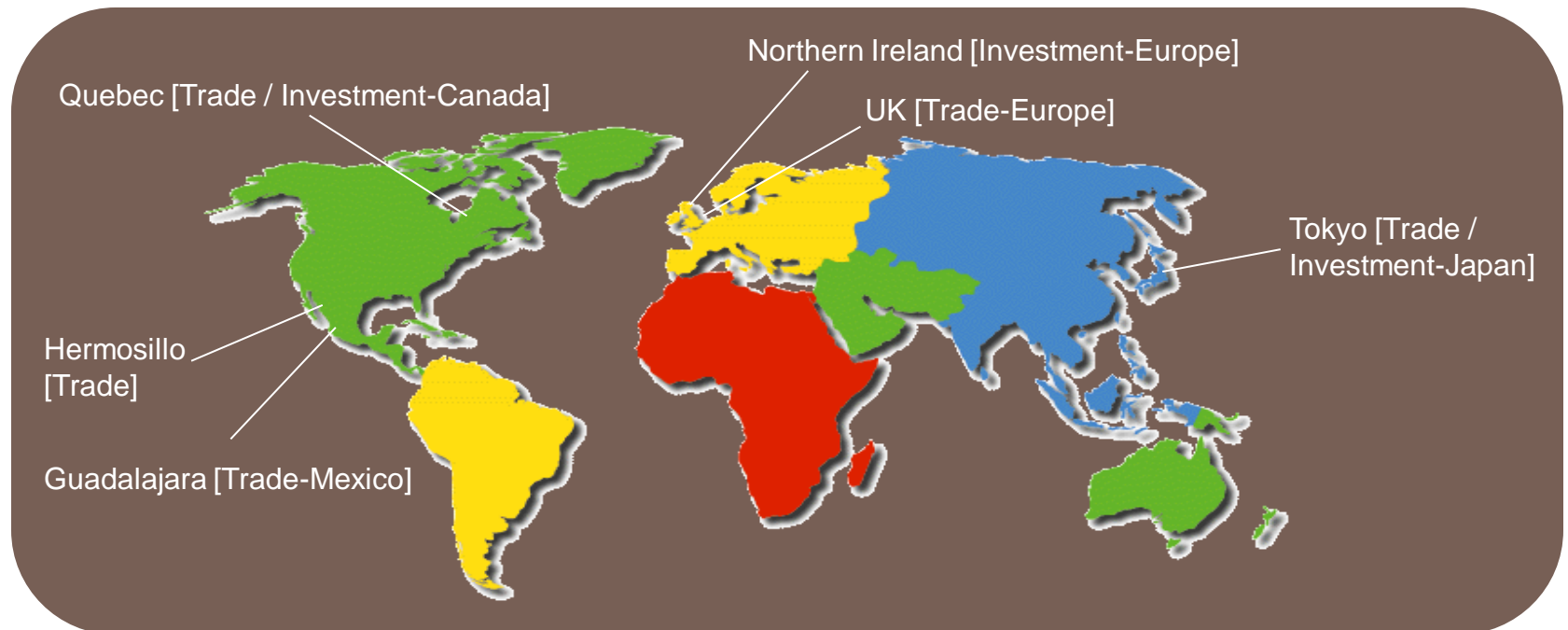
Strategies and Programs to Increase International Performance

State Trade and Investment Efforts

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- International trade and investment has received increased attention at the state level in past years as evidenced by foreign contractors abroad. However, recent budget challenges have significantly reduced this footprint.

State Trade and Investment Contractors



Statewide Programs

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- The Arizona Department of Commerce:
 - ▣ Increased activity with Consulates and Embassy responsible for Arizona;
 - ▣ Leveraging US Department of Commerce's Invest in America program to engage new markets;
 - ▣ Inviting more foreign delegations to come to Arizona; and
 - ▣ Continued resources on the ground in Canada, Japan, Mexico, and Europe.

Regional Programs

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- **Greater Phoenix Economic Council (GPEC):**
 - Network of executives who conduct international business to identify opportunities and leverage travel itineraries.
 - GPEC has mobilized regional leadership to advise business attraction efforts in Canada, Spain, Germany, Netherlands, China, Australia, UK, and India.
 - GPEC recently participated in the German Photovoltaic show in Hamburg and met with 35 renewable energy companies, 3 of which intend on announcing production facilities in Arizona within the next 30 days.
 - In November, GPEC will be hosting a delegation of business professionals from 11 countries from various industries during the Greenbuild Conference in Phoenix.

Regional Programs

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- Tucson Regional Economic Opportunities (TREO) and the University of Arizona.
- Continued efforts in Mexico around logistics partnership opportunities.
- Global Advantage is a network of cities and regions committed to working collaboratively to enhance mutual technology-based economic development.
 - Partners include:
 - Tucson, Arizona;
 - Ottawa, Ontario;
 - Manchester, England; and
 - Berlin, Germany.

Other International Programs

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Other state groups involved in international economic development:

- Arizona State University:
 - Skysong – A world class business center focused on the attraction of innovative firms from around the world to Arizona; and
 - TechBA – A program of the Mexican Ministry of the Economy and US Mexico Foundation for the Sciences currently with 15 companies in high-tech sectors incubating at Skysong.
- City of Phoenix Global Trade Initiative:
 - Focused on deepening partnerships for trade, investment, and intellectual exchange with Dubai and Toronto.

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The International Report Card

The International Report Card

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Category	Grade
<p>Trade Performance Arizona slightly underperforms for a state of its population in trade activity.</p>	B-
<p>FDI Performance Arizona grossly underperforms for a state of its population in FDI activity. To perform on par on a per capita basis would mean an additional \$8-10B in investment in the state and over 80,000 new jobs. However, FDI has jumped from 31st nationally to 26th in the last 3 years.</p>	C-
<p>International Commitment Arizona business groups and government organizations are still talking about FDI, but we have seen commitment in terms of dollars and programs to this arena shrink drastically over the last year, although still more than was discussed just five years ago.</p>	C
<p>International Activity From AZIGG to TIE, the YMCA to the Lost Boys Center international activity is occurring everywhere.</p>	A
<p>Integration of International Activity Although international activity is fashionable, groups still tend to be fairly splintered in purpose, in defining success and lack integration in carrying out a cause. If Arizona is going to improve its international position, greater integration must occur.</p>	D
<p>Arizona's Overall International Grade Arizona's performance in the international arena is average at best. That said, five years ago it was way below average. Unless Arizona is willing to make a significant investment and recommit, time and money, to building an international program for trade and FDI its performance will decline again.</p>	C

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Moving Forward

Challenges

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- **Prevailing Market Conditions** – declining foreign direct investment means fierce competition for projects; reduced access to finance for business expansion; and state's economic health.
- **State and Local Financial Challenges** – limited resources for economic development programs.
- **Statewide Cooperation** – aligning diverse partners and organizations around a common goal and vision to leverage all available resources.
- **State Economic Development Policy** – lack of programs and flexibility to make state internationally competitive in site selection process.
- **Workforce Preparation** – state education system not adequately preparing Arizona's youth to compete globally.

Opportunities

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- **Positioning** – well positioned for international commerce and investment in terms of geography, long-term growth prospects, and industry capabilities.
- **Relationships** – strong existing international relationships, it's a matter of understanding them and leveraging them appropriately.
- **Interest** – enthusiasm for international investment and commerce at community and regional level.
- **New Territory** – relatively unexplored territory for most foreign companies, given that they are primarily aware of the largest US markets (New York, California, Texas, etc.).

Priorities

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- **Moving Beyond Marketing** – focus on developing meaningful programs and relationships that are results-oriented.
- **Promoting Smart Policy** – supporting and instating policy at state and local level that increases Arizona’s competitiveness with focus on best practices at national and international level.
- **Strengthening International Community** – connectivity, awareness, and mobilization are key to fostering a vibrant international community.
- **Assessing and Improving Existing Efforts** – support existing programs by assessing their results and where not performing, making necessary changes, maximizing impact of current resources.
- **Investing** – making the tough investment in time and money needed to sustain launched efforts.

Questions

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