

## The Best of BAJA Business

### Baja California And San Diego Face Bright Economic, Cultural Future

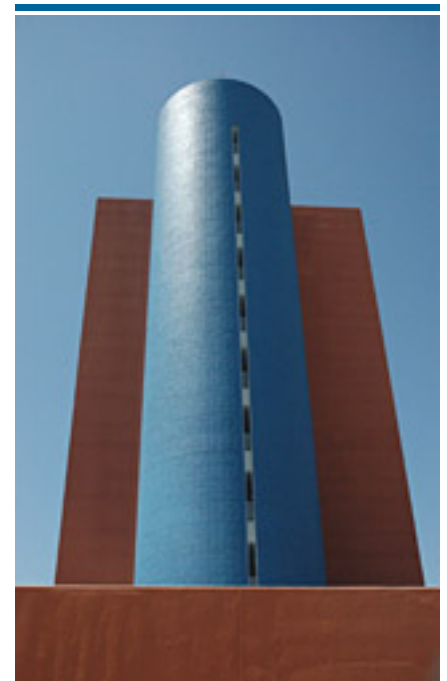
*Expansive retail, investment and now a real estate boom bind the border regions ever tighter*

By Lynne Carrier

Nearly 30 years ago, at the beginning of Tijuana's industrial revolution, the Mexican government bulldozed the cardboard shanties along the Tijuana River, built a concrete flood control channel through the heart of the city and created the outlines of a new urban center on the land reclaimed from the floodplain. A spectacular cultural center was constructed, its spherical architecture becoming the first major landmark in Tijuana's *Zona del Rio*, the River Zone. At the time, few other buildings were in the new Tijuana, mostly just broad, European-style boulevards and traffic circles. Yet, despite a peso crisis that shook Tijuana to its foundations, the city fathers clung to the belief that one day the empty blocks in the River Zone would be developed. Their faith has been rewarded.

Tijuana, with a population estimated at 1.8 million, has undergone a dramatic transformation, especially noticeable in the busy — and now well-developed — River Zone. In today's Tijuana, signs of an emerging middle class abound. Residents can enjoy sophisticated cuisine at a new generation of Mexican and international restaurants, visit a gallery featuring the work of talented Baja artists or attend a concert performed by the Baja California Orchestra. They can buy a luxury car from a dealership on the Tijuana side of the border or go to a movie at a theater where drinks are brought to their comfy seats.

South of the border, higher education is expanding, turning out well-trained engineers and scientists. More students graduate with a software college degree from the Universidad



*The architecture at the Hospital Angeles illustrates the new modern face of Tijuana. (photo /Sergio Zermeño Ochoa)*

Autónoma de Baja California than from either UCSD or SDSU, reports San Diego Dialogue, a self-funded public policy center at UCSD Extension.

And air travel is getting easier. Three more Mexican airlines — Avolar, Volares and Alma — recently announced the start of service at Tijuana's Rodriguez International Airport on Otay Mesa. Soon, flights will be offered from Tijuana to Japan.

“It's gone from being a sleepy town to being a hustle-and-bustle metropolis,” says Jose “Pepe” Larroque, a Baja California attorney with the international firm Baker and McKenzie. His own law office in Tijuana has risen with the tide of Baja business development, going from three attorneys 20 years ago to 25 this year.

Baja California owes much of its economic growth to the maquiladora industries, hundreds of factories that proliferate on the Mexican side of the border, assembling goods from electronics to medical devices to irrigation equipment. The border industrial program, which began slowly 40 years ago, picked up steam in the 1980s and 1990s.

High-profile investors are interested. Earlier this year, Toyota announced a \$37 million expansion of a Tijuana plant it opened two years ago. Once completed, the factory will have 800 employees and produce 50,000 vehicles and 200,000 Toyota Tacoma truck beds annually. Larroque says the Toyota plant gives Tijuans hope that other auto manufacturers will also locate in Baja.

In recent years, the electronics industry in Baja experienced a downturn and some plants relocated to China. But this region's business experts say that, overall, Baja California is expected to remain a maquiladora stronghold. “For logistical and distribution reasons and just-in-time management, Baja is still very attractive,” says Harold Hoekstra, a marketing director for Deloitte, a firm that has 200 employees in its Tijuana office providing auditing, legal, financial and tax consulting services. “There's still a lot of interest in investing in Mexico and Baja.”

Baja California's Ministry of Economic Development reports that 14 new maquiladora businesses opened in Baja California during the first five months of the year. That brought the total to 914 maquiladora plants, of which Tijuana and Mexicali, Baja's two largest municipalities, had 587 and 135 respectively. Manufacturing growth, according to Baja statistics, soared 6.1 percent in the first quarter of 2006 compared with the same quarter the previous year.

The sector provides a bonanza for job seekers. Between January and May of this year, maquiladoras added 13,513 new employees, Baja officials say. During the same period, maquiladora employment totaled 252,922 throughout the Mexican border state, which covers the northern half of the Baja California peninsula.

“They are having a hard time getting enough people because there is so much work and not enough people,” observes James C. Clark, director general of the Mexico Business Center at the San Diego Regional Chamber of Commerce.

Some investors see an even brighter future for Baja’s maquiladora industry. Silicon Border Development, headed by Rancho Santa Fe businessmen Ron Jones and D. J. Hill, broke ground last year in Mexicali on a 10,000-acre high-technology science park, aimed at luring in the semiconductor, flat panel display, telecommunications, optoelectronic and biotechnology industries.

Business experts on both sides of the border say they are eager to see whether the project will be able to attract some of the semiconductor companies that typically have gone to the low-wage Asian countries.

San Diego Dialogue recently released a study, “Borderless Innovation,” that suggests that San Diego and Baja California educational institutions, government officials and other leaders should collaborate on maquiladora research and development and marketing opportunities. Mary Walshok, the UCSD associate vice chancellor who currently leads San Diego Dialogue, says San Diego County stands to benefit economically by keeping local industries from relocating out of the region and by developing new ones. But many in the San Diego community are unaware of the importance of cross-border collaboration.

“We haven’t come to see how complementary both nations have grown,” she says. “There’s an absence of data about the many strengths of Baja and how those strengths fit with San Diego.”

The San Diego Dialogue study cites several excellent prospects in the high tech and biotech businesses, with “clusters of opportunity” in biomedical devices, aerospace and defense, software, pharmaceuticals and marine biotechnology, among others. The report also recommends the creation of a cross-border innovation and competitiveness center.

“The new opportunities would benefit both sides, but they depend on a border infrastructure that works,” she says. “The next step is for some group of business leaders and community leaders to take up the cause of making the border more effective.”



*Televista’s call center in Tijuana is one example of the type of high-value jobs Tijuana is creating with its ‘clusters of opportunity.’*

The cross-border links are not limited to manufacturing. Tourism continues to be another mainstay of the Baja economy, as new luxury hotels open along the coast. Baja tourists may still drop by their traditional haunts — the Tecate brewery, for instance — but many are also heading out for a tour of the popular wineries in the Valle de Guadalupe near Ensenada. Or they may visit Foxploration, the Fox Studios location near in Rosarito where the movie “Titanic” was made.

Lately the big draw is real estate construction. Hundreds of high-rise condos, beach cottages and second homes are filling up along the Pacific coast from Tijuana to Ensenada, at San Felipe on the Sea of Cortez waterfront and along the beaches of Baja California Sur at the southern tip of the Baja peninsula.

The construction boom is fueled by a convergence of factors encouraging Americans by the tens of thousands to buy property in Baja. The Mexican constitution still prohibits foreigners from owning property in fee simple along Mexico’s coastline. But a process has been developed allowing Americans to acquire property through a trust held by a Mexican bank. Title insurance is available, helping alleviate fears sparked in the past when American home buyers lost their Baja property in title disputes. Meanwhile, market conditions seem particularly favorable. Millions of American baby boomers are ready to retire on a fixed income. Baja real estate agents are confident that they can sell them on Mexico, with its lower cost of living and proximity to the United States.

The construction boom is opening up new opportunities for Mexican businesses that primarily work with the maquiladora industry. For example, the In3M company specialized in building clean rooms for industries that need to control the environment as they manufacture or assemble certain products. David Mayagoitia, partner in charge of In3M, says his company now is building nine homes in Baja California Sur.

“We’re building for the middle-class market in the \$350,000 to \$400,000 range,” he says. “We think there’s a market there. We think that’s a trend that is coming.”

Not that Mayagoitia, who moved to Tijuana from Mexico City in 1988, thinks that real estate will replace industry as a revenue generator. Mayagoitia, who sits on the board of the Tijuana Economic Development Corp., says he believes that Tijuana will be able to compete for international industrial investments far into the future, even though wages are higher in Mexico than in Asia.

“We don’t think Tijuana should compete with China,” he says. “We don’t want low-paying jobs. We want jobs that create value and bring value.”

In his view, Tijuana has the trade advantage of proximity to the American market, and any

increase in the U.S. minimum wage is bound to make relatively lower wages in Mexico more attractive to factory owners. He also foresees new entrepreneurial opportunities emerging on the Mexican side of the border, such as incubators to help grow young businesses.

The explosion of growth and international investment and trade in Baja California has linked it inexorably to California, say those studying the border phenomenon. Walshok describes it as a “mega-region.” Larroque, the only Mexican among the founders of UCSD’s San Diego Dialogue, says that, viewed on a satellite map, Baja California is “part of a single metropolis going from Rosarito to Santa Barbara.... The separation is so tiny between San Diego and Tijuana.”



*Restaurateurs like Miguel Angel Guerrero Yagues are catering to customers who have high-value jobs. (photo /Sergio Zermeño Ochoa)*

Even so, regional experts acknowledge that despite the intertwined economies north and south of the border, physical and psychological barriers must yet be overcome. Like Walshok, Andrea Moser, vice president of development and marketing at the San Diego Regional Economic Development Corp., is concerned about an invisible barrier: the lack of awareness in San Diego about Baja California’s human and economic assets and their potential importance to the region’s future.

Moser notes there is “a tremendous amount of innovation in Baja.... The sophistication on the other side of the border is something people are not aware of.”

Even more daunting are the physical barriers. As Tijuana’s population increases, its two border crossings into the United States grow ever more nightmarish. The U.S. border gates designed to control immigration and keep out drugs are also choking off legal commerce and hurting tourism, critics say.

Longtime residents nostalgically recall the days when crossing the border was a piece of cake. Larroque says his mother, who years ago worked at the Security Pacific Bank on the U. S. side, was able to go back to her Tijuana home for lunch and return to work in an hour.

Now, individuals crossing legally complain the wait time can stretch to more than two hours. It is especially hard on commuters who have to cross daily. Mayagoitia estimates that about 10,000 employees live in the United States and work in Tijuana. Others live in Tijuana and commute north each work day.

Under pressure to expedite crossings for those doing regular cross-border business, the U.S. government began issuing fast passes known as SENTRI, or Secure Electronic Network for Travelers Rapid Inspection. SENTRI holders are allowed to use lanes designated for their exclusive use. But pass holders say “faster” is a relative term and that crossing the border is often slow.

Betty Jones, founder of the Hospital Infantil para las Californias, located on the Mexican side of Otay Mesa, says it recently took her an hour to cross back into the United States with her SENTRI pass. Walshok says that even acquiring a SENTRI fast-pass is a tedious process. She applied for hers six months ago and still does not have one.

Evidence is mounting that congested border crossings are damaging the economies of both countries on a massive scale. Delays at the port of entry — especially for freight trucks stuck in line for hours — cost the U.S. and Mexican economies 51,000 jobs in 2005 and an estimated \$6 billion in gross output, according to a recent study by the San Diego Association of Governments (Sandag).

Locally, the study found that “San Diego County loses \$455 million in annual revenue from reduced freight activity. That translates into more than 2,400 jobs or \$131 million in lost labor income a year.”

Elisa Arias, Sandag’s project manager for the study, says that her agency’s economic impact analysis provides tangible evidence of the need for a third border crossing, which is proposed two miles east of the existing Otay Mesa port of entry.

“Despite the growth in the region, we’re having to catch up on the infrastructure,” she says. “There’s not enough capacity.” The proposed new border crossing, which is in the early planning stages, would take up to 10 years to complete, she says. Others hope for other solutions that could help in the near future. “We could improve security and efficiency with a lot more technology,” says Larroque.

Regional advocates say a strong alliance with Baja California’s leaders will help them remove obstacles and improve the binational region’s ability to compete in the global economy.

“The truth is we give San Diego a competitive edge worldwide,” concludes Baja businessman Mayagoitia. “We need to remember that one plus one can be 11.”