



## The U.S.-Mexico Border Economy in Transition

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# Southern California and Northern Baja California: A Model Crossborder Economy Still Reaching For its Full Potential

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## Findings from the California-Baja California Regional Economic Forum

On March 20 and 21, federal, state, and local stakeholders from southern California and Baja California came together in San Diego for the Regional Economic Competitiveness Forum. The forum was jointly hosted by the Border Legislative Conference, Woodrow Wilson International Center for Scholars Mexico Institute, and the North American Research Partnership, along with the financial support of the U.S. Agency for International Development – Mexico. It was the first of four forums to be held this year along the U.S.-Mexico border designed to generate new ideas on how to strengthen the competitiveness of the border region. This brief report highlights some of the key concepts and recommendations developed at the event in San Diego.

## Overview: Regional Integration's Promise and Numerous Challenges

The Southern California/Northern Baja California region is in many ways “a microcosm of what could happen” in the broader U.S.-Mexico border economy (Olivieri, DEITAC). In the San Diego/Tijuana sub region, strong human capital and local innovation underpin two large, powerful and complementary regional economies. Mexicali, the only state capital located on the U.S.-Mexico border, features an advanced manufacturing base and is an agricultural powerhouse with challenges in human capital and economic development. A strong desire in the region to increase cross border economic activity has resulted in the formation of several relatively new organizations, including the CaliBaja Binational Mega region, the San Diego-Tijuana Smart Border Coalition, and the Imperial Valley Binational Alliance, in addition to the more established economic development corporations in San Diego and Tijuana and the San Diego Association of Governments (SANDAG).

While the region already benefits greatly from a culture of innovation, well-developed manufacturing clusters and a unique geography, the competitiveness of the CaliBaja mega region could be further strengthened. The region can build on its already impressive human capital and innovation systems; better connect to the global economy by investing in intermodal transport networks and export promotion; and improve regional ports of entry so that people and goods can move more efficiently across the U.S.-Mexico border, thereby enabling the region to take advantage of its remarkable strengths.

## Promoting Human Capital Development through Transborder Education and Research

As the United States and Mexico attempt to increase binational educational exchange (Soberanes 2014), higher education institutions in southern California and northern Baja California have an opportunity to find creative and productive new ways to educate a binational workforce to enhance regional competitiveness. While high-value added, advanced manufacturing operations in the region benefit from a skilled workforce, there is much more work to do. In particular, the quality of the engineering programs in the region will be key to the region's success. In addition, training programs tailored to specific industries are currently underdeveloped and not taking advantage of the engineering potential, resources, and interest within the region, particularly for new industries (i.e. bioscience, drones, cyber). It will be important for academic institutions to partner with private industry and government to better connect their curricula to the demands of the regional economy.

Broader challenges with innovation faced by Mexico as a nation affect the CaliBaja binational mega region as well. In particular forum participants noted the

challenges posed by the formative status of Mexico's venture capital industry as well as Mexico's low overall level of investment into research and development (less than .5% into research and development, World Bank, 2014), as well as the centralization of power and budget in Mexico City. This last factor restricts regional universities' ability to lead and direct research efforts that can have a positive effect on the CaliBaja binational megaregion. This must change if the region wants to grow and expand.

### **Creating Better Global Connectivity for the Region**

From tourism to audiovisual equipment, medical device manufacturing and shipbuilding, the CaliBaja binational megaregion's top industries rely on its connections to the U.S., Mexican and global economies. As stated by forum participant Joel Valenzuela, Maritime Director of the Port of San Diego, "A region's competitiveness is tied to its ability to move its goods in and out of the region."

Many forum participants commented that the San Diego-Tijuana region is in need of an inland port to sort and re-convey freight moving through truck, rail, sea and air ports. Valenzuela noted there are opportunities in short-sea shipping between the United States and Mexico. In particular, the creation of a "Marine Highway" parallel to the I-5 corridor would offer an alternative mode of transportation to ease truck volumes on highways and congestion at the US-Mexico border. The United States currently has plans to develop this corridor along the Pacific Coast, but the value of the initiative would be greatly increased by bringing Mexico into the discussion.

An additional challenge includes the region's limited rail capacity. San Diego is currently served by Burlington Northern Santa Fe only, while most competitive regions are supported by at least two class 1 rail lines. Revamping defunct regional rail infrastructure would boost the region's competitiveness, particularly with respect to the automotive sector (but by no means limited to it).

Despite the fact that the region is ideally located to export to the entire Pacific Rim, currently San Diego only exports the equivalent of 9.3% of its Gross Regional Product (GRP) making it 55<sup>th</sup> on a list of U.S. cities that benefit from exports (San Diego Metropolitan Export Initiative Fast Facts, 2013). While

there are many challenges for small and medium-sized firms wishing to export, there is also a variety of assistance available for these firms, including District Export Councils, World Trade Centers, the U.S. Small Business Administration, U.S. Commercial Service offices, export-import banks and local economic development corporations (EDCs). As a result, it makes sense to improve, expand, and better publicize existing programs rather than design new ones.

Finally, better goods-movement data is also needed so border congressional districts can demonstrate the border region's national economic significance to the rest of the country.

### **Partnerships to Improve Regional Ports of Entry**

Over the last decade, a broad array of cross-border economic stakeholders have worked to promote a variety of upgrades and greater investment to specific land ports of entry, which are critical economic nodes not just for local economies but also for the broader North American economy. As Congressman Juan Vargas (CA-51) noted at the forum, "Groups as diverse as environmentalists (for air quality), Sea World (for tourism), economic development commissions (for trade), and security specialists all want funding for ports of entry as they recognize the value of investing in our future."

The San Diego/Tijuana region has unique examples of new border infrastructure currently in development. The Gateway to the California's pedestrian access bridge from Otay Mesa in far eastern San Diego across to the General Abelardo L. Rodriguez International Airport in Tijuana is unique in the border region. The project has been awarded to a private developer who will recoup costs via user fees. Otay Mesa East is a commercial port of entry designed to relieve congestion for commercial traffic at Otay Mesa; the port is due to open in 2017. SANDAG's Gary Gallegos emphasized that the project partners will need to work with the Government of Mexico on an investment grade toll strategy in order to arrive at a sensible shared revenue plan. In addition, the new Imperial-Mexicali Binational Alliance aims to address numerous challenges in the region but is particularly concerned with long overdue improvements to the Calexico West port of entry.

## Stakeholder Input Highlights

The U.S.-Mexico Regional Economic Competitiveness Forums feature opportunities for extensive stakeholder input during breakout sessions following the panel discussions. Stakeholder input from the California/Baja California centered on the following themes:

- **Emphasize system-wide thinking when developing ports of entry.** Stakeholders emphasized the importance of thinking through how ports of entry in a particular region might work more effectively as a system. This includes the need for a close analysis of connector roads—usually state roads—and existing and future urban infrastructure when planning new ports of entry or improvements on existing ports of entry.
- **Obtain better data to understand impacts of ports of entry.** The lack of goods movement studies was highlighted as an important gap in our knowledge of ports' impact on local, regional and national economies.
- **Add more crossborder transportation options.** Stakeholders from both the private and public sectors underscored the need for a greater number of transportation options, including rail for non-toxic goods and bus-rapid transit (BRT) for crossborder commuters.
- **Better promote the region, its culture and identity.** Twenty years following NAFTA, the notion of regionalism has not taken hold in San Diego and Tijuana despite the overt intermingling of their respective populations and industries. There is a need for programs that bring together key individuals from Tijuana and San Diego to build better crossborder community events that can educate a broader public about what is happening across the border.
- **Promote greater educational collaboration** by forming collaborative relationships and incentivizing the private sector to design and implement relevant educational programs conducive to the pertinent industry subsectors within the Cali-Baja region.
- **Promote the development of venture capital investment in the region, particularly on the Mexican side.** The lack of this type of investment in Mexico is historical, but an opportunity exists to work with local, state, and

federal officials on both sides of the border on this issue, form consensus and reach out to the U.S.-Mexico High-Level Economic Dialogue on concrete steps to address the lack of venture capital funding in the border region.

- **Identify and promote crossborder manufacturing assets.** New studies have identified the southern California/Baja California region as a highly competitive center for audiovisual equipment manufacturing and an industry in which growth will strongly benefit job creation and economic growth on both sides of the border. Further, cluster mapping studies using input-output data will identify other opportunities for binational economic development, through infrastructure, investment attraction, or trade promotion.
- **Create symbols of the binational spirit that characterizes the region.** To foster binational cooperation and development, the border needs to become the heart of the San Diego-Tijuana area. This concept could be shared with visitors and locals alike through an ambitious plan to develop the area around the San Ysidro port of entry, or with a unique binational event, like a joint Tijuana-San Diego bid for the Olympics.
- **Leverage the entire border to give voice to border affairs in the national capitals.** To respond to a concern that the national capitals “don't get it” when it comes to the sensitive and important ways in which policies in one arena, for example security, have inadvertent effects on others, such as economics and quality of life, participants proposed actions to work with border communities to amplify their voice in federal-level policymaking.

## Conclusion: Bridging Divides in CaliBaja

Forum participants expressed a clear belief that Southern California and Baja California are much stronger together than apart. The message of binational strength needs articulation, and barriers must be overcome to achieve the region's full potential.

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