

## Baja California



### Area Development Site and Facility Planning

June 1, 2004 | Bastian, Lisa A

Baja California offers the business-friendly advantages of offshore outsourcing without the challenges of long-range transport

FOREIGN INVESTORS investing south of the border understand exactly why Baja California is such a boon for their businesses and will continue to be so far into the future.

The Mexican state's assembling advantages - combined with an ideal location along the U.S. border - are key to keeping and attracting numerous manufacturing industries in this northwestern part of Mexico. No wonder it's the preferred offshore location for many of the world's prominent electronic companies (specifically those renowned for manufacturing televisions), and that nearly 79 percent of Mexico's Asian electronics investment is concentrated within its borders.

### High Productivity Levels for Multinational Companies

Located at the northernmost end of the peninsula whose name it shares, Baja California borders Arizona as well as California, the "engine" of America's technically advanced economy.

The region is part of a prominent high-tech "NAFTA" corridor which starts in the northwestern United States with Seattle and Portland, Ore., and runs south through Silicon Valley, Los Angeles, and San Diego down into Mexico City. It's also considered one of North America's "gateways" to the global market, due to its direct access to key Asian-Pacific nations. In total, about 500 million consumers are within reach from Baja California. Ranked as the fifteenth-largest state in Mexico, Baja California is home to 2.45 million people (2000 census).

Over the years the busy maquiladora industry here has evolved and modernized, with most factories now capable of going "toe-to-toe" in productivity and quality with

factories found in more industrialized nations. Supporting these operations are a competent, pro-business government and private-sector companies offering savvy advice on how to set up and successfully conduct business in the state.

According to the latest data (2001) on the Baja California maquiladora industry, there are at least 1,270 of these operations in the state employing at least 262,000 workers. The cities with the highest number of such operations were Tijuana (805 factories, 177,327 workers), Mexicali (204 factories, 58,043 workers), Tecate (148 factories, 11,092 workers) and Ensenada (110 factories, 15,043 workers). Some of those numbers may have dropped in recent years due to competition from Asian factory operations.

Baja California's labor pool is as educated and skilled as those found in other Mexican states, and then some. Not only does it have the largest bilingual population, but the state also has plenty of top schools ready to meet the work force demands of high-tech industries.

Educational institutions include 28 universities, 17 research and development centers, and 87 technical schools. Moreover, many schools and businesses have formed thriving partnerships, educating students for specific work in industries such as electronics, metal mechanics, and plastics, to name a few. In addition, the state is proud of its cadre of trained professionals who assist companies in creating and developing new processes and products. This helps explain why multinational companies operating in Baja California commonly report high productivity levels, great numbers of innovations, and healthy profit margins.

#### Key Cities Offer Modern Infrastructure

Rapidly growing Baja California is sectioned into five municipalities: Mexicali, Tijuana, Rosarito, Tecate, and Ensenada.

The major cities of Mexicali, Tijuana, and Ensenada tie into each other and the United States via a modern four-lane toll highway. More importantly, the trio provides all the state-of-the-art transportation services, communication services, and other requisites required for any world-class manufacturing operation.

Situated in a rich cotton-producing region, the state capital Mexicali borders the city of Calexico, Calif., in the Imperial Valley, and is 100 miles south of Palm Springs.

Along with Tijuana, Mexicali is renowned for its maquiladora operations. Significant farming operations are here, too, thanks to fertile soil developed with help from an elaborate irrigation system connected to the Morelos Dam and Colorado River

essential in a region with an annual rainfall averaging just three inches and over eight hours of sunshine every day. Summer temperatures here average 90° F, while winter temperatures average 55° F.

Mexican's location in the northeastern part of the state gives "just-in-time" operations that all-important proximity to the western U.S. market. It has direct access to the seaports of Long Beach, San Diego, and Ensenada, and is in close proximity to Tucson (five hours) and Phoenix (four hours). Two international border crossings support shorter border wails and convenient international trade activity.

The 101-year-old city offers plenty of skilled labor from among a population of nearly one million that is growing at an annual rate of 4.9 percent. Ambitious youths abound who are ready to take on new assembly and manufacturing positions. A continuous supply of educated and trained local workers is ensured by Mexican's three universities (the largest of which has 20,000 students) as well as a dozen trade and vocational schools.

Mexicali is home to 21 industrial parks, nearly half of the state's total. They're located in urban areas with easy access to major roads in the metro area.

An integrated network of air, land, and sea transportation as well as a highly modem communications system is ready to serve all existing and future commerce needs. About 40 miles east of the city, the Colorado River continuously provides an abundant water supply to support any level of operation. There's also dependable electricity provided by both geothermal and natural gas-powered generating facilities.

Tijuana borders the Pacific Ocean and San Diego, California's most densely populated city, and is a vital trade and economic center. These adjacent municipalities support four million people and orchestrate major import-export action for the United States as well as Japan, South Korea, Taiwan, Singapore, Malaysia, and Hong Kong. The weather is worth noting, as the Mediterranean-style climate of the Tijuana region (mild winters, wann summers) has been described by the U.S. National Weather Services as the climate closest to "perfect" in all of North America.

Tijuana also enjoys one of the highest literacy rates in the nation, and educates students prepared for the highly competitive regional job market. Professional career programs in engineering, management, medicine, and the social sciences abound for that reason. Companies coming to Tijuana need look no farther than the city limits to find the professional personnel they need. Moreover, 80 job training centers and technical schools train professionals for the manufacturing, service, and commerce sectors.

With 1.3 million people, Tijuana is an important manufacturing center for a variety of industries, due to NAFTA and the area's labor/cost advantages. Foreign manufacturing has steadily generated jobs, and current statistics indicate that manufacturing represents 45 percent - or roughly 164,800 - of the 314,500-plus permanent jobs in the private sector.

In fact, the region's companies share over four decades of experience in international production-sharing activities. Tijuana boasts more manufacturing facilities than any other city in Mexico, containing more than 558 maquiladoras and over 146,500 workers. While consisting mostly of U.S. companies, the maquiladora plant community in Tijuana also has a strong representation from Southeast Asian and European firms, many of which are internationally renowned businesses. Among them are plants owned by Sony (4,500 employees), Hitachi (3,990 employees), Honeywell, UTC, Tyco, Samsung (3,600 employees), Phillips Lighting (1,900 employees), Panasonic, and Sanyo (2,730 employees).

In January 2002, the global company Toyota announced plans to build a new 700-acre pickup truck plant in eastern Tijuana. Then, last August, it announced more good news about the facility now under construction. Plans now call for increasing the number of jobs from 460 to 700, adding 10,000 units of Tacoma capacity, and beginning production at the end of 2004 (six months earlier than previously announced).

Additionally, the automaker announced plans to set up on-site a supplier park employing 80 people. "Mexico is becoming increasingly vital to both the North American and global economies," said Toshiaki Taguchi, president and CEO of Toyota Motor North America, Inc.

Tijuana is an important manufacturing center for a variety of industries, due to NAFTA and the area's labor/cost advantages. Its ability to produce over eight million TV sets annually in the late 1990s earned the city the title "television manufacturing capital of the world." Manufacturing here represents about 45 percent of the permanent jobs in the private sector. Many Tijuana maquiladora factories belong to Korean, Japanese, and Taiwanese companies.

Big U.S. neighbor San Diego is enjoying growth in the defense, biotechnology, electronics, aerospace, and computer industries. This economic development success story across the border has a positive ripple effect upon Tijuana's economy.

Just 87 miles south (slightly over an hour's drive) from San Diego, you'll find Ensenada, another area with a Mediterranean climate and beautiful nearby beaches.

Known for its manufacturing, fishing, and tourist activity, this popular tourist attraction is the location of Baja California's oldest deep-sea ports, also recognized as one of Mexico's most important ports. The broad-based maquiladora industry here, as well as agricultural processing/shipping activities, keep this port busy year-round.

Educational opportunities and potential crops of workers abound here, as it is home to the University of Baja California, the National University of Mexico's Institutes of Astronomy and Physics, a private School of Medicine, and a number of private research centers. About 200,000 people live here, including some 36,000 Americans and Canadians.

### Parks Cater to Foreign Investors

When considering the acquisition of property in Baja California, foreign investors can choose between leasing existing buildings or shells, or buying land for construction of industrial shells. Investors of any nationality are now allowed to acquire property for industrial use, thanks to changes in the Foreign Investment Law.

Almost 50 industrial parks and centers in Baja California serve the needs of businesses large and small.

Nelson Industrial Parks operates seven parks in Mexicali and a few others throughout Mexico, according to its director, Manuel Rubio. "We provide structures of any size, from 4,000 up to one million square feet." Many of the parks' three dozen businesses are American (e.g., Honeywell Aerospace, Gulfstream of America, Emerson Electric Co.). Rubio reports having seen integration, cooperation, and cross-selling between some tenants due to their proximity and common interests.

Standard leases in Nelson parks are five years, but the company prefers seven- to ten-year leases so they can offer more competitive prices. Rubio says his firm's two construction companies are always ready to build to suit. Known as the largest park system in Mexicali, it boasts four million square feet of industrial buildings under roof.

"Bare bones" shells can be as low as 35 cents per square foot/per month, he explains, while "fully loaded," brand-new buildings with all the amenities (parking/green spaces, loading ramps, A/C, lighting, etc.) range from 35 to 45 cents per square foot/per month. Thus far, the most expensive building (50 cents per square foot) was built for a microelectronics firm needing clean rooms.

Rubio says Nelson Industrial Parks was an early pioneer of the concept of on-site daycare facilities offering free child care for employees of park tenants. Presently

seven of its parks have such centers. While the government underwrites the vast majority of expenses incurred by such facilities, every tenant also pays a very nominal monthly fee (1 percent of the social security tax) to help keep these highly popular centers operational.

Along similar lines, a number of these centers also include clinical facilities with physicians and pharmacies. Here workers receive free medical care, courtesy of the Mexican healthcare system. By locating such facilities within the parks, Rubio says companies experience higher levels of productivity because injured workers needn't take extensive time off to go for doctor appointments and treatments.

In recent years Rubio reports having seen an influx of more skilled jobs in Baja California, "not just assembly of A with B. Our school systems especially the universities - support all this by integrating their programs with the needs of the factories." Engineering and other technical-focused studies are encouraged.

Many of the workers understand English, having grown up with exposure to U.S. TV shows. Rubio is excited about a new government initiative in Mexicali whereby several elementary school systems are promoting classes for Knglish as a second language. He expects this program to spread throughout the state, as it can only benefit the "future generation" of the state's residents.

Baja California has been engaged with international commerce activity - most notably with southern California - for generations, according to Rubio. "We understand the way the import-export system works, we're bilingual, we're accustomed to working with the United States, we have a very pro-business attitude here," he says. Closer to home, Rubio is proud of the fact that his company's founder is called "the father of the maquiladora industry" for bringing the first such factory (Raytheon) to Mexicali "before the word 'maquiladora' was even coined."

Richard Salter is director of EXXXI Business Center in Mexicali, an industrial park with over one million square feet of developed land and another half million square feet in available land (plus additional reserves). Besides offering a daycare/recreation center, Salter says that the facility has its own fire station on-site that serves the park and the city.

EX-XXI offers small to mediumsized buildings from 12,500 to 300,000 square feet on an inventory or built-to-suit basis, with a base lease rate of about 32 cents per square foot/per month. Standard leases are at least five years in duration.

Of the just over two dozen Arms in Salter's park, about 80 percent are American. For the most part tenants are engaged in light industry, representing a mix of activity

from electronics, plastics, and water faucets to door locks and aerospace work. Recently business is picking up for many tenants, says Salter. "It's a reflection of what's been happening in the States in the past year; we see lots of expansions with existing companies."

He cites proximity to the ports of Long Beach, Los Angeles, Ensenada, and San Diego as being big draws to Baja California for foreign investors. And while real estate cost savings are attractive, too, the true saving "is in the labor," he explains. "And often overlooked are the insurance savings. Workmen's comp is a big problem in the States, but companies don't pay that in Mexico. Insurance is cheaper, as well."

Salter cites an excellent pro-business attitude and cooperation between the public and private sectors as a major reason why so many foreign investor companies find success in Baja California. "Many of the politicians at the city, state, and federal levels are currently or were formerly businesspeople themselves. They understand what needs to be done to benefit our communities, and they work together to make it happen."

### **[Sidebar]**

#### El Florido Industrial Park

El Florido Industrial Park is part of a master-planned community in the southeastern part of the city of Tijuana, Baja California - the area of the city experiencing the fastest growth in development of industrial, commercial, and housing sections. Offering first-class infrastructure, experience, and service, the park is an ideal strategic location for a company to establish operations.

### **[Sidebar]**

Baja California has the largest of Mexico's bilingual population, and top schools ready to meet high-tech work force demands.

### **[Sidebar]**

#### Tijuana-San Diego Region

Part of the Pacific Rim, the Tijuana-San Diego region is unique a partnership between two different worlds that facilitates growth and economic prosperity for both and that provides a joint hookup to the worldwide market. Tijuana is home to several large maquiladoras run by companies that include Sony, Honeywell, UTC, Tyco, Samsung, Panasonic, and Sanyo. Recently Toyota Motor Co. has also announced

selection of a 700-acre site in Tijuana to manufacture the Tacoma pickup.

In order to promote solid and sustainable development, the TijuanaEDC nonprofit business organization has teamed with representatives from all levels of government and the private sector, as well as member companies representing expertise in desirable fields. This initiative aims to attract industrial investment projects that will have a positive effect on the city's economy, its employment rate, and the quality of life for its population.

**[Sidebar]**

"Mexico is becoming increasingly vital to both the North American and global economies."

**[Author Affiliation]**

By Lisa A. Bastian, CBC

Copyright S/H Publications Incorporated Dec 1998. Provided by ProQuest LLC. All inquiries regarding rights or concerns about this content should be directed to [Customer Service](#). For permission to reuse this article, contact [Copyright Clearance Center](#).

HighBeam Research is operated by Cengage Learning. © Copyright 2014. All rights reserved.

www.highbeam.com