

Regional Links to Asia:

What does the relationship mean to San Diego and northern Baja California?

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Prepared for:

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Introduction

The cross-border region of San Diego and northern Baja California has become an increasingly important spoke on the Pacific Rim. The recent economic downturn in Asia has put into sharp relief the increasing interdependence our cross-border region with the other region-states of the Pacific Rim. As the crisis has deepened, news of layoffs in San Diego and concerns regarding the long-term investment plans of transnational corporations with manufacturing facilities in Baja California have helped to demonstrate the degree to which the Californias' border region is linked to the countries and economies of Asia.

In 1998, San Diego Dialogue initiated a research and community education project focused on defining the relationship between Asia and the cross-border region. The goal of the project was to answer the question of what Asia means to the region. The project was directed by a working group of San Diego Dialogue members, including faculty from UCSD, and representatives of regional economic development organizations. A team of graduate students from the Graduate School of International Relations and Pacific Studies (IR/PS) at UCSD conducted research to map the economic, institutional and cultural components of the relationship. This white paper presents the major findings of the research project.¹ The full report of the project's findings will soon be published by the Dialogue and will be available to the public on the organization's website.

As the crisis in Asia deepened, the members of the working group recommended that the Dialogue convene a conference to assess the effects of the economic downturn in Asia on the cross-border region. The first phase of this project concludes with the convening of a regional conference on the Asian economic crisis in June of 1998. A separate conference report summarizing the major findings of the event will be published in late summer, 1998.

Economic Linkages

The economy of the cross-border region is linked to Asia through the flow of goods and capital and the provision and receipt of services. While there are gaps in the available statistical data on international economic ties, particularly in

¹ This paper was prepared by Scott Grimes, Director of Research and Program Development at San Diego Dialogue, and Tamara Richardson, Project Coordinator for the Asia Linkages project. The authors would like to recognize the efforts of Jerick Aguilar, Arbora Johnson and Alexis Scott, research assistants from Strategic Community Consulting at IR/PS who provided research support for the project.

estimates of total direct foreign investment and in the product composition of trade flows, there is clear evidence of the scope and depth of the region's economic relationship to Asia.

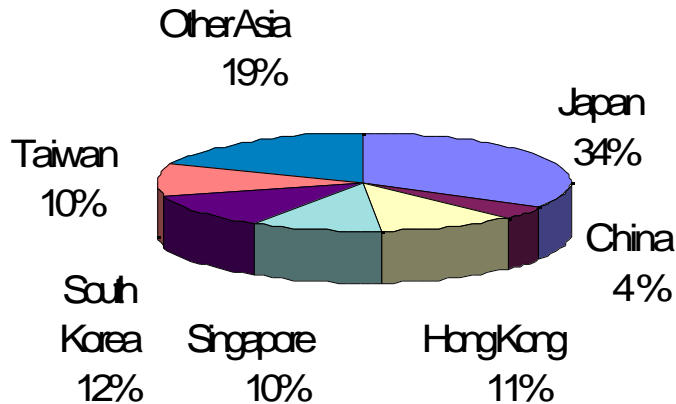
Exports

Asia has represented an important market for regional exports, particularly for San Diego companies, and sales to Asia have helped to fuel the growth of many of San Diego's leading industrial clusters. Over the last four years (and prior to the current economic downturn in Asia), San Diego exports to Asia have grown by nearly 70 percent. San Diego's Asian exports totaled more than \$1.5 billion in 1996, the most recent year for which data is available.²

Within Asia, the country which absorbed most of San Diego's exports was Japan. Japan was California's largest trading partner in 1996. Japan's share of San Diego exports has decreased slightly over the last four years as countries such as Korea, China, and Taiwan have become larger markets for San Diego goods. The chart below shows the breakdown of San Diego exports to Asia in 1996 by country.

² Exporter Location Series, U.S. Census Bureau and International Trade Administration, U.S. Department of Commerce.

San Diego Exports to Asia by Country, 1996



Total: \$1.52 billion

Source: Exporter Location Series, U.S. Census Bureau and International Trade Administration, U.S. Department of Commerce.

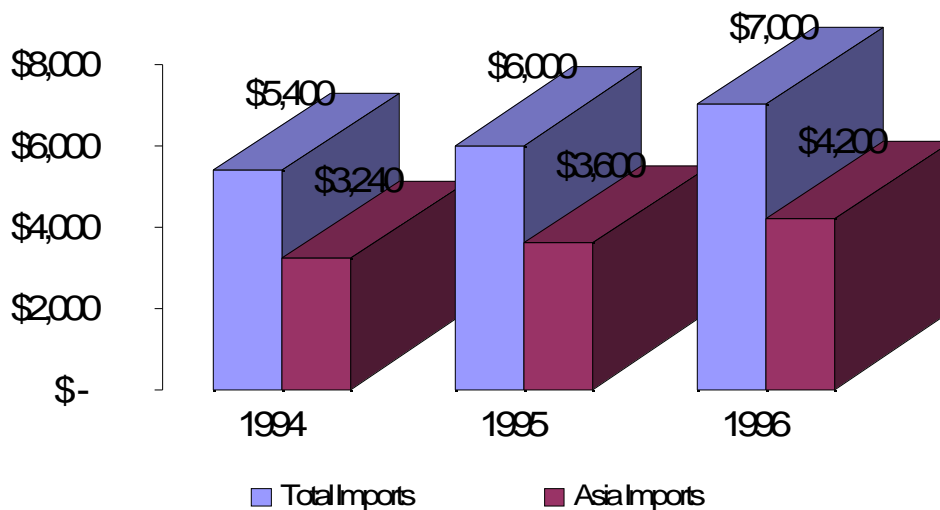
Many of the region's leading employers have significant economic ties to Asia, including Qualcomm, which realizes a quarter of its total sales in Asia, Cubic Corporation, which has signed multi-million dollar deals with customers in China, and Solar Turbines, which markets its products in partnership with Mitsui Engineering & Shipbuilding throughout the region. While only a limited percentage of manufactured goods from Baja California are exported to Asia, improvements to the Port of Ensenada and expansion of direct linkages to the Port of Los Angeles are raising the profile of Asia for Baja exports.

Imports

Asian imports to the region are difficult to quantify, but it is clear that regional residents and firms consume a large volume of items, particularly consumer goods and manufacturing components, that are created in Asia. What "Asia" really means to the average resident of the region, particularly the typical resident of San Diego, is a source of low-cost consumer goods. This fact has been put into sharp relief by the recent economic downturn in Asia, as regional prices have dropped for a

variety of consumer items, including personal computers and other consumer electronics.

A significant portion of regional imports from Asia are components transferred in-bond to maquiladora manufacturing facilities in Baja California. Nationally, it is estimated that maquiladoras source about 60 percent of components from Asia, 38 percent from the United States and two percent from Mexico. Over time, this is expected to change so that NAFTA sourcing will comprise 80 percent and Asian sourcing will decrease to 20 percent.³ Regionally, rough estimates have suggested that the percentage of inputs sourced from Asia is much higher, particularly within the large consumer electronics sector. The chart below shows the total value of imports into the Baja maquiladoras in 1994 through 1996 along with the estimated amount of imports from Asia:



Baja Maquiladora Imports from Asia, 1994-1996 (\$ Millions)

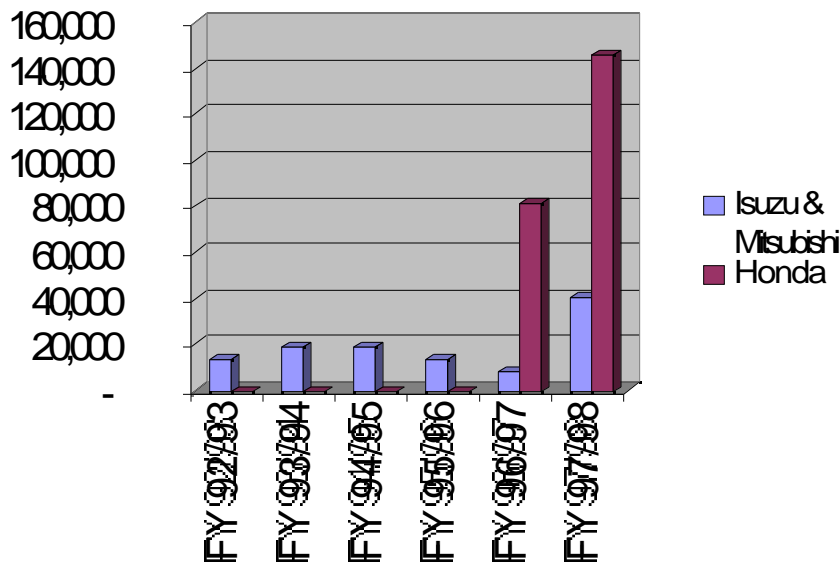
Source: Twin Plant News, March 1998.

Another growing segment of regional imports from Asia is the importation of vehicles through the Port of San Diego. The Port of San Diego, although possessing limited cargo facilities by global standards, has made impressive strides in recent years as a center of automobile imports. Today the Port's major in-bound

³ "Seeking US Suppliers for Maquiladora", *Mexico Business Monthly*, September 1, 1997.

cargo from Asia are vehicles. Recent and projected volumes of in-bound vehicles by make are shown in the graph below:

In-bound Vehicles from Asia by Make, 1992-1998 (Number of Units)



The Port of San Diego has also begun to export vehicles to Asia for the first time. The Port is projected to process more than 200,000 vehicles from and to Asia in fiscal year 1997-1998.

Foreign Direct Investment

Over the last twenty-five years, and particularly in the last decade, the cross-border region has become a locus for foreign direct investment from Asia. The primary attraction of this investment is northern Baja California, which offers a unique combination of competitive advantages for transnational corporations, including a relatively low-cost, skilled workforce, proximity to U.S. markets, and a high quality of life. These advantages have been complemented by San Diego's position as a growing center of research and development in high technology, particularly in the areas of advanced materials, biotechnology and wireless communications. Today nearly every major Japanese *keiretsu* and South Korean *chaebol* has a presence in the region. Moreover, there is increasing investment from Taiwan and interest from other Southeast Asian countries in San Diego and northern Baja California.

In northern Baja many of the largest maquiladoras are owned and operated by Asian headquartered firms. According to the state government, today approximately 35 percent of Japanese, Korean, and Taiwanese maquiladoras are located in Baja California.⁴ The most recent estimates suggest that foreign-owned firms comprise 41 percent of Tijuana's largest businesses (those with \$10 million or more in annual sales), and within the largest foreign owned firms, 22 percent are Japanese and six percent are Korean.⁵ It has been estimated that the top 30 Asian maquiladoras employ over 37,000 people in Tijuana, or over 25 percent of total employment in the city's maquiladora sector.⁶ These figures suggest the degree to which employment in northern Baja California is increasingly dependent on the presence of Asian firms. In this case what Asia means to the region is a source of employment to continue to absorb northern Baja California's young and continually expanding workforce.

In San Diego, foreign-owned firms represent an important component of the employment base and Asian firms represent many of the county's largest companies. Over 10 percent of the region's 350 largest firms are owned by Asian parent companies.⁷ San Diego is home to a variety of firms, particularly in telecommunications, electronics and biotechnology, that are owned or partially owned by major Asian conglomerates. Many of these firms have sister operations on the other side of the border, while other companies are engaged in joint ventures or cooperative research relationships with the region's leading research institutions. San Diego is home to the North American headquarters for Sanyo. Sony has recently invested over \$25 million in a Center for Engineering and Development in Rancho Bernardo that will create next generation products, technologies and manufacturing processes in the consumer electronics field. Samsung has distribution facilities in San Diego and has announced plans to place a research and development center in the city to complement its \$700 million, vertically-integrated manufacturing facility in Tijuana.

Within the last two years there has been an appreciable increase in the amount of Taiwanese investment in the region. Several major Taiwanese firms have made investments in northern Baja California. The most high-profile case study is Acer, which has constructed a major manufacturing facility in Mexicali and attracted

⁴ Interview with Mr. Alberto Franco Monsalvo, Subdirector of Industrial and Commercial Promotion/ Development of the Secretary of Economic Development for the State of Baja California Government.

⁵ Ferdinand von Klocke, "An Examination of Country of Ultimate Beneficial Ownership in the San Diego/Tijuana Region," *San Diego/Tijuana Economic Review*, July 1997.

⁶ "Electronics Say Si to Maquilas," *Plants Sites & Parks*, July 1997.

⁷ *San Diego/Tijuana Economic Review*, July 1997.

several of its suppliers to the region. There has also been increasing interest in the region from investors in Hong Kong and Southeast Asia. A relatively new development is the involvement of Asian development and investment banks, particularly Japanese entities, in the financing of major water and sewer infrastructure projects in Tijuana.

In recent years the region has witnessed the increasing growth of investments by Asian components suppliers in the region. The driving force behind this investment is the local content requirements in the NAFTA, which are forcing companies to decrease imports from Asia and source from within the NAFTA region. The movement of suppliers to the region is paralleled by the creation of more vertically-integrated production systems within the existing transnational firms. The region is witnessing a transition from simple assembly production to more vertically-integrated, high value-added manufacturing facilities.⁸ As Asian companies add design and production of more sophisticated products to their maquiladora operations, the demand for skilled labor has increased. Companies are intensely recruiting graduates at the four Baja California college campuses with engineering programs, and are sending many local managers abroad for training.⁹ At the same time, there has been a shift from purely Asian directors heading the maquiladora operations to more senior local directors.¹⁰

The Asian economic crisis has cast doubts on the capacity of Asian firms to continue to invest in the region on a large scale. Some companies have reported that while declining demand in Asia has heightened the importance of the North American market, parallel reductions in Asian labor costs may cause Asian transnationals to rethink their expansion plans in the region. In addition, the absence of investment capital may delay or preclude significant expansions even if it is deemed to be in the strategic interest of the firm. A greater concern for Asian transnationals, however, is the planned phase out of duty exemptions on non-NAFTA manufacturing components and the elimination of its maquiladora program in 2001. While several of the Asian conglomerates have made efforts to localize content – either by purchasing from NAFTA suppliers, or, as noted above, by encouraging Asian suppliers to relocate to the region – in some cases, companies have not been able to identify or create local supply chains for many classes of components.

⁸ Diane Lindquist, “Border Economics: San Diego and Baja Build on a New Foundation,” *The San Diego Union-Tribune*, August 11, 1996, Pg.10.

⁹ Chris Kraul/Evelyn Iritani, “Asia, Mexico Learn to Work Together,” *Los Angeles Times*, May 29, 1995, p. D-1.

¹⁰ Interview with Antonio Valladolid, Assistant to the Mayor, Office of the Mayor-Tijuana/ CDT, February 10, 1998.

In recent months, Mexican authorities have begun to offer assurances that that planned tariffs on non-NAFTA components may be withheld if the targeted components cannot be sourced in North America.¹¹ However, given the significant scale of Asian investments in Baja California, and the complementary investments that have been committed to San Diego, this policy issue will certainly warrant further attention by regional stakeholders.

Services

While no agency tracks service exports at the city or county level, San Diego service exports are more than likely increasing in line with the national trend. Since 1980, exports of U.S. services have grown more than twice as rapidly as exports of goods. In 1996, service exports totaled \$237 billion, which was 39 percent of the goods exports total of \$612 billion. The available evidence suggests that San Diego's main business service exports are engineering, architecture, consulting, computer services and communication services.

A critical aspect of San Diego services in terms of linkages with Asia are the services provided locally to Asian-headquartered transnational corporations. Such services provide a bridge between the Asian transnationals and the San Diego/northern Baja California community. While there are no statistical measures of service provision to Asian transnationals in the region, media coverage and self-reporting by companies provide significant evidence to suggest regional service providers have benefited across a wide range of business sectors. Among the types of companies providing services to Asian transnationals are construction companies, law firms, accountants, real estate agencies, consulting firms, customs brokerages, and trucking companies.

Tourism

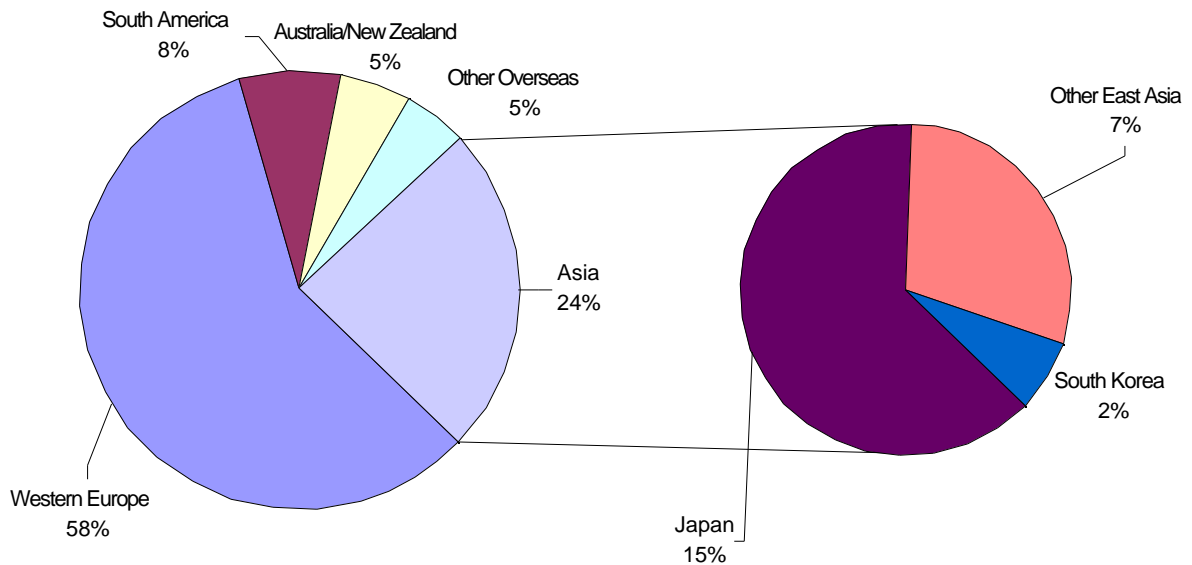
A unique form of service provision to Asian nationals within the region is tourism. Only a small percentage of the total number of Asian visitors to California come to San Diego. Private marketing research estimates suggest that approximately 9.4 percent of Japanese and 5 percent of Korean visitors to California come to San Diego. In turn, overseas visitors in general, and Asians in particular, represent a small percentage of the region's total tourism industry.¹² Of the 14 million visitors

¹¹ Kevin G. Hall, "Maquiladoras Welcome Plans to Ease Operations; Mexico Aims to Ensure Sector Stays Competitive," *Journal of Commerce*, February 17, 1998, Pg. 3A.

¹² A Market Profile of Overseas Visitors To California, 1995, prepared by CIC Research Inc., October 1996.

to San Diego in 1996, the most recent year for which complete statistics are available, only 702,000 were from overseas. Asian travelers to San Diego comprise 24 percent of all overseas travelers to the County. A significant majority of Asian visitors come from Japan, which represents 15 percent of all overseas visitors to San Diego. The following chart describes the composition of San Diego’s overseas visitors by country of origin.

Overseas Travelers to San Diego by Country of Residence, 1996



Total: 702,000 Visitors

Source: San Diego Convention and Visitor’s Bureau

While Asian travelers represent a small percentage of the region’s total travel industry, they have a measurable economic impact on San Diego. Industry analysts have estimated that the average Japanese visitor will spend \$1,689 while visiting the region. While figures do not exist for the total amount of money brought into San Diego by all Asian tourists, a 1995 study estimated that Japanese tourists brought approximately \$64.4 million into San Diego that year.¹³

¹³ *Average Traveler Expenditures in the U.S. by Country of Residence, San Diego Convention and Visitor’s Bureau, 1995*

These figures assume visitors who are staying at least one night in San Diego, so they actually exclude a significant source of regional tourism, which is day trips from Los Angeles by Asian tour groups to Tijuana. Many of these groups will stop in San Diego, often at Seaport Village or Old Town, en route to Tijuana. While an overwhelming percentage of tourists to Baja California are from North America, Asian tourists comprise an important percentage of the balance of the visitors to the region. Specifically, Japanese tourists have consistently been among the top five groups of international visitors to Tijuana.

The Asian economic crisis is projected to have a measurable impact on the number of Asian tourists traveling to California, San Diego and Northern Baja. Analysts have estimated that Japanese tourism to the region will fall by at least 10 percent this year, while Korean tourism has all but disappeared.¹⁴

Institutional and Cultural Linkages

The San Diego/Tijuana cross-border region is linked to Asia through a variety of institutional mechanisms. These institutional vehicles seek to build linkages to Asia in order to achieve specified economic, social, or cultural objectives. The institutional vehicles that tie the region to Asia include government and public/private economic development organizations, civic and non-profit organizations, the media, and regional universities. Underlying these formal linkages is an array of informal ties to Asian countries, many of which are developed and maintained by the region's populations of Asian descent.

Economic Institutions

The region's economic development organizations (EDOs) are engaged in a variety of activities that seek to promote trade with Asia and attract Asian investment to the region. San Diego's EDOs work together on a range of international economic development programs, particularly the San Diego Regional EDC, the World Trade Center San Diego, the Greater San Diego Chamber of Commerce, the Port of San Diego, CONVIS, U.S. and Foreign Commercial Service. In terms of cross-border cooperation, EDC and CONVIS work relatively closely with the Tijuana Economic Development Corporation (DEITAC) and the Baja Secretariat of Tourism respectively on joint promotions. Tijuana's international economic development efforts are led by the Tijuana

¹⁴ San Diego Dialogue Report, June, 1998.

Economic Development Council (CDT). The new World Trade Center Tijuana, whose license is held by a Korean firm, is also becoming increasingly active in the region.

A major initiative that seeks to develop and strengthen the region's commercial ties with Asia is the San Diego Business Development Office in Hong Kong. The Office is a recent joint effort of the Port of San Diego, EDC, the World Trade Center and CONVIS. Its objective is to increase opportunities for San Diego companies in trade and tourism through market research and business promotion.

The Port of San Diego also maintains institutional ties to Asia through a series of sister port relationships. The Port maintains non-exclusive sister port relationships with three ports in Asia, while two new relationships are in the planning stages. These relationships have served to solidify the Port's ties to China, Hong Kong and Japan. The Port of Ensenada is operated by a company from the Philippines that is targeting new markets in Asia through a transshipping relationship with the Port of Los Angeles.

Asian firms with a significant regional presence are supported by various country-specific groups and trade associations, including the Japanese and Korean Maquiladora Associations and the Western Regional Maquiladora Association. Asian exports to the region are promoted locally by Korean Trade Association (KOTRA) and the Japanese External Trade Organization (JETRO). Despite the proliferation of organizations, there was a consensus among interviewed stakeholders that no single organization has a membership representative of all the different Asian corporations and expatriate executives in the region. In addition, it was clear that no organization provides a direct link between Asian companies and regional economic development organizations for the purpose of information sharing and providing feedback on economic development initiatives.

Sister City Relationships

Of San Diego's 14 sister city relationships, five are with Asian cities. The city's sister city relationships are overseen by the San Diego International Sister Cities Corporation, a membership organization that was established by the Mayor's office. San Diego's five Asian sister cities are Cavite, Republic of the Philippines, Chonju, Korea, Taichung, Taiwan, Yantai, People's Republic of China, and Yokohama, Japan. Despite the absence of sister city relationships with cities in such countries as Indonesia, Thailand, Malaysia and Vietnam, there are presently no plans to develop new sister city relationships in Asia. Tijuana has two sister city relationships in Asia, one with Pusan, Korea and another with Pingjiang, China.

Social Service, Religious and Cultural Organizations

The region is home to several nonprofit organizations that are active in Asia. Perhaps the most prominent of these groups is Project Concern International, an international development nonprofit organization based in San Diego. With current projects in Indonesia (in Maluku Province, Riau Province, Jakarta, Surabaya, Bali and Irian Jaya), and past projects in Hong Kong, Vietnam and Papua New Guinea, PCI has addressed an array of public health issues in Asia. For example, PCI's current projects in Indonesia increase the skills of local communities in birthing practices, immunizations, disease prevention – including HIV/AIDS – nutritional education and primary care. PCI's program in Irian Jaya (on the western half of the island of New Guinea) alone affects more than 280,000 women, infants, and children.

The region also possesses a number of social service agencies that provide services to new immigrants from Asian countries. Among these agencies is the Union of Pan Asian Communities (UPAC) which provides services to ethnic Asian and African communities in San Diego. Other nonprofit organizations that provide immigrant and refugee services include San Diego Chinese Center, the San Diego - Taiwanese Community Center, and the Vietnamese Federation of San Diego.

The social service network for Asian communities is complemented by an active set of religious institutions. In San Diego, the churches in the ethnic Asian communities played an important role in terms of assisting immigrants and maintaining cohesion in overseas populations. The region has scores of Korean,

Filipino and Vietnamese churches, as well as at least one Chinese Buddhist temple, two Japanese Buddhist temples, five Japanese and six Chinese Christian churches and one Konko Shinto shrine.

As more Asian expatriate executives bring their families to overseas postings, schooling is becoming an increasingly important consideration. While the region still does not rate extremely high in comparative perspective, San Diego does have about five Chinese language schools and one Japanese Saturday school. The Japanese school is held at East Lake High School in Chula Vista. Every Saturday for six hours over 500 students ranging from grade school to high school levels receive a full curriculum taught entirely in Japanese.

Universities

The region's universities provide one of its the strongest links to Asia. While education is its own industry which brings millions of dollars from Asian students into the region every year, the universities are also important as a driving force behind the technology innovation that makes the region so attractive to Asian corporations. For example, the UCSD School of Engineering's Center for Wireless Communications is conducting work on a telecommunications network which has helped to draw Asian companies such as Uniden and Denso to the region.¹⁵

¹⁵ John Markoff, "Qualcomm, UCSD Lead Wireless Charge ;" *The San Diego Union-Tribune*, Computer Link; Ed. 1,2,7,8, April 8, 1997; Pg. 10.

To underscore the importance of the region's universities, Asian companies have recently become active in partnering with and giving funding to further research and improve programs at UCSD and SDSU. The Japan-U.S. Telecommunications Research Institute at SDSU is a regional collaboration bringing together scholars from the U.S. and Japan to study the U.S. and Japan's regulatory structures, the state of Pacific Rim communications and the potential framework for an Asian information initiative. The institute's 38 members include Sony Corp., Asahi National Broadcasting, Japan Telecom Co., Japan Cable Television, Ltd., Industrial Bank of Japan and Japan Satellite Broadcasting, Inc. ¹⁶ Gen-Probe Inc.'s parent company, Chugai Pharmaceuticals Co. Ltd. of Japan, provided a \$1 million gift to the UCSD Cancer Center in 1997. The contribution was the largest ever to the Cancer Center. ¹⁷

The region is also home to the Graduate School of International Relations and Pacific Studies (IR/PS), a two-year program at UCSD offering a Masters of Pacific International Affairs. Founded in 1986, IR/PS is the only graduate professional degree program in the country that focuses solely on the Pacific Rim. IR/PS is also home to the Southeast Asia - Pacific Project and the Korea-Pacific Program, both of which promote research and exchanges with Asian universities and government agencies. UCSD is also one of the few universities in the country with a separate research center dedicated to the study of APEC.

With 398 full-time students and 530 visiting scholars from Asia in the 1996-1997 academic year (the most recent year for which data is available), UCSD has the highest population of Asian nationals among the region's universities. Overall, UCSD hosted 4,401 international students and scholars on non-immigrant visas in 1996-97, including 2,179 language and certificate students at University Extension. Of the total, roughly 25.6 percent were from Asia. SDSU also has a substantial number of Asian students. Of the 668 international students at SDSU in the 1997-98 academic year, approximately 45 percent come from Asia.

The Asian Community

¹⁶ Andrea Siedsma, "SDSU Program Explores Uniting Pacific Rim," *San Diego Business Journal*, Vol. 18; No 10; March 10, 1997, pg. 6.

¹⁷ Craig D. Rose, "\$1 Million Gift to UCSD Spotlights Gen-Probe," *The San Diego Union-Tribune*, April 29, 1997, Pg. C-2.

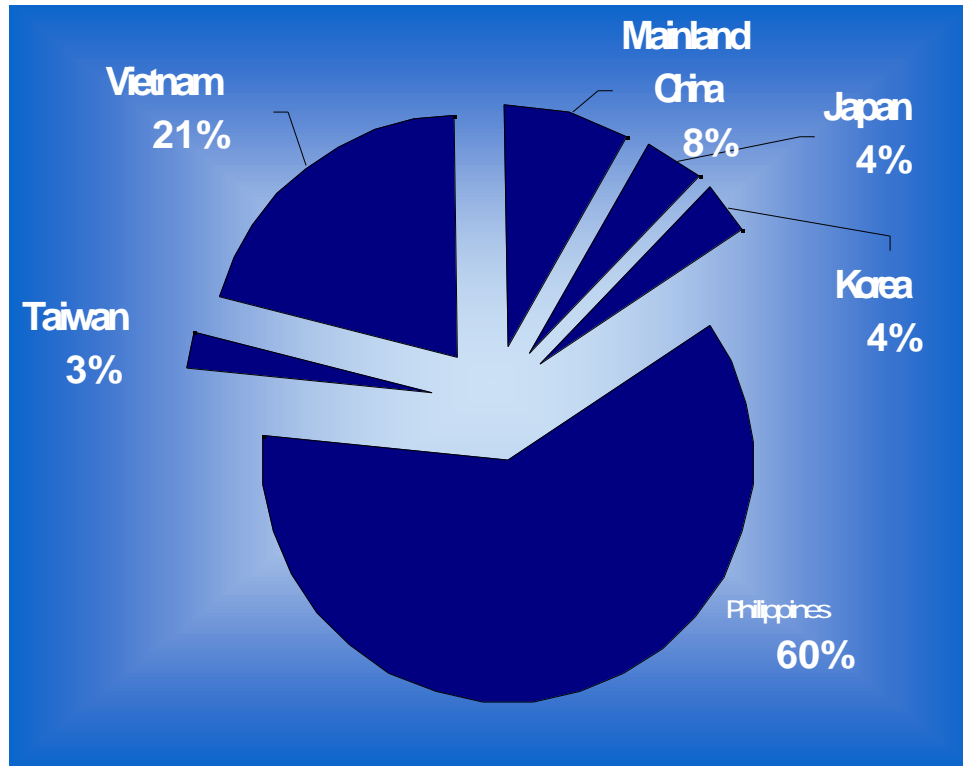
The cross-border region's Asian ethnic community is concentrated in San Diego. Asians enjoy the highest household income of any ethnic group in San Diego.¹⁸ According to the U.S. Census Bureau's 1990 data, of the nearly 2.5 million people in the San Diego region, 7.4 percent were of Asian descent. As of 1996, San Diego's population had grown to 2.69 million and the percentage of ethnic Asians had grown to approximately 9 percent. The largest ethnic group among the Asians in San Diego is Filipino, which represents roughly half of all ethnic Asians in the County. The balance of the population is split roughly equally between persons of Japanese, Chinese and Vietnamese descent, at about 10 percent each, with an 'Other Asian' category comprising 13 percent. Koreans compose about 5 percent of the Asian population.¹⁹

The region has been and remains an immigrant gateway for Asians immigrating to the United States. According to the Immigration and Naturalization Service (INS), 5,514 Asian immigrants were admitted in San Diego in 1996, the most recent year for which data is available. The country breakdown for these immigrants is provided below:

¹⁸ "Asian Market: Untapped Gold Mine", *San Diego Business Journal*, May 19, 1997.

¹⁹ San Diego Association of Governments, 1996.

Asian Immigrants Admitted in San Diego, 1996



Source: Demographic Statistics Branch, Immigration and Naturalization Service

Conclusions and Knowledge Gaps

Through the course of research and conversations with regional leaders, including leading executives from Asian firms in the region, several themes emerged regarding regional development and the relationship between our region's future prosperity and its linkages to Asia. First, the long-term capacity of the region to attract and retain high quality employment opportunities from Asian firms will be at least partially dependent on **national policy decisions made in Washington D.C. and Mexico City**. Our capacity to effect these decisions in critical areas such as infrastructure improvement, enhancing the availability of water and maintaining

a balanced trade regime will be dependent on the ability of the region to reach consensus and speak with one voice to both capitals.

Second, **quality of life and ‘social capital’ considerations matter.** We need to balance growth and the preservation of our quality of life to retain advantages for global investment. Ironically, our quality of life may be our strongest asset vis-à-vis other US/Mexico border communities. We need to continue to make the region welcoming to all ethnic minorities, including Asians, and to invest in social capital such as education, the arts and community organizations that help to make Asian expatriates feel welcome.

Third, **Asian corporate leaders need to be invited to play a more active civic role in the region.** While the leaders of some Asian firms have begun to appear more frequently in the region’s civic spheres, a concerted effort should be made to engage the major Asian transnationals with significant investments in the region. These firms and their leaders should be invited to join organizations and processes that relate to regional decision-making, research and innovation and corporate philanthropy. This effort, which might include forums, networking opportunities and formalized partnerships with the region’s universities, needs to be sensitive to the degree to which many Asian executives rotate through the region as they are advancing their careers in Asia.

Fourth, **investment in the knowledge base, human capital and innovation capacity of the region can only enhance our positive ties to Asia.** The strength of the U.S. market is likely to keep Asian transnational corporations close to the border for the foreseeable future. But what will keep them in San Diego and northern Baja California is our position as a center for high technology, research and innovation. We can add to these advantages by developing a Mexican workforce that adequately housed, works in safe conditions and has access to a ladder for skills acquisition and advancement. The result will be lower rates of turnover and higher productivity in the manufacturing facilities that Asians have built in Baja.

Finally, **we can be a teaching region.** The export of services is extremely difficult to track and measure. However it is clear that services create strong employment opportunities for the residents of the region. We should continue to incubate knowledge-based enterprises that can export specialized skills to Asia, whether in architecture, accounting, engineering, or education. Moreover, we might begin to systematically develop our capacity as a teaching region that employs advanced technology to transmit and sell knowledge, whether via distance learning and telemedicine, specialized product design or consulting services, or teaching English to student guests in our region.

The research also identified two critical knowledge gaps that should be addressed by regional organizations. First, the region needs to better understand the composition of regional imports to the maquiladoras in Baja as a way of building local supplier relationships and assisting Asian transnationals to comply with the provisions of the NAFTA. Second, in the near future the region should develop a hard analysis of the potential consequences of the NAFTA tariff revisions and the phase-out of the maquiladora program in 2001. The proactive steps that can be taken on these policy issues will help to chart the direction of our relationship with Asia into the next century.