



SHARING THE BENEFITS OF GLOBAL TRADE: VISIONS FOR THE SAN DIEGO/TIJUANA REGION

**A DISCUSSION PAPER FOR
THE FORUM *FRONTERIZO* COUNCIL**

September 2000

This discussion paper was prepared by San Diego Dialogue staff for discussion by the Forum *Fronterizo* Council. The Forum *Fronterizo* series “The Global Engagement of San Diego/Baja California” is underwritten by Sempra Energy, The San Diego Union-Tribune, the San Diego Foundation, The James Irvine Foundation and the Public Policy Institute of California

The 21st century will be a global century, in which the most competitive regions will proactively engage in international business and trade, fight to attract transnational capital investments and invest in the communication systems that connect them to the world. However, to improve or even maintain their economic position, metropolitan regions must also provide the labor force, services, and quality of life that permit their domestic and foreign-owned firms to participate successfully in the international marketplace. Rapidly expanding global markets can provide our region with immense opportunities, but only if we are prepared to invest in ourselves and squarely confront the challenges that lie before us.

Competing in the global marketplace is a formidable task for our uniquely diverse region. Nowhere else in the world does a single metropolitan region incorporate a highly developed “post-industrial” economy with a rapidly industrializing economy. Few regions have such marked differences in household income levels. If San Diego/Tijuana is to establish a sustainable strategy for engaging with the global economy, questions of equity and community development must be at the forefront of regional policy debates.

Dr. Manuel Pastor, of the University of California at Santa Cruz, has argued that regions do better at sustaining growth when different social, political and economic sectors are able to create trust and arrive at consensus around economic strategies (Pastor et al, 1997, 2000). Their econometric analysis of 74 metro regions revealed that reductions in central city poverty led to more rapid income increases for all residents in a region, and that low-income communities and individuals do better when they are connected to regional dynamics. From Pastor’s perspective, investments in community development, the expansion of opportunity and closing the equity divide are a matter of enlightened self-interest for regional policy-makers in an era of globalization. His arguments suggest that although our location as a gateway to Latin America and the Pacific positions us ideally for international trade, as long as San Diego and Tijuana face fundamental distributional challenges, we will be unable to fully engage in the global economy.

The underlying rationale for Pastor’s argument is the increased significance of social consensus in a region’s ability to adjust rapidly to opportunities in the global economy. While the coincidence of globalization and inequality does not mean that the two are related, there is a significant public sentiment that internationalization has contributed to poverty and inequality in the U.S. Popular concern for trade “losers” fueled the opposition to President Clinton’s “fast-track” authority and the Seattle WTO protests. Moreover, a lack of “buy-in” by a

region's community undermines interest in optimizing the community's potential trade assets (such as immigrant language skills and networks) and heightens the potential for social unrest.

This discussion paper will briefly outline key indicators of the equity challenge in San Diego and Baja California. It will then assess San Diego's and Tijuana's preparedness for global engagement by gauging our progress toward the following goals:

- Improved education and the development of our work force,
- Effective participation by low-income communities and individuals in the regional economy,
- Improved quality of living conditions (with a particular emphasis on the accessibility of housing)

The paper concludes with suggestions for addressing equity concerns in our quest for global competitiveness.

The Equity Challenge

Several recent reports indicate that income inequality is growing significantly in California. The California Legislative Analyst's Office (August 2000), using California tax return data compiled between 1975 and 1998, concluded the following about changes in California's income distribution:

- The distribution of adjusted gross income (AGI) reported on California tax returns has shifted a great deal in recent decades, with the share attributable to the top 20 percent of returns rising and that for the bottom 80 percent falling.
- Over the *entire* period, this shift reflects a large increase in real average earnings reported at the high end, contrasted with declines in the low and middle portions of the income distribution. While in recent years incomes have risen throughout the distribution, the shift has nevertheless continued and even accelerated. This is because the most rapid income gains have occurred at the top.
- The underlying factors that have contributed to increased inequality will likely remain powerful forces in the future.

Income inequality poses a dilemma for civic leaders grappling with the consequences of globalization. It is possible in a globalizing society to simultaneously see a growth in inequality and a reduction in absolute poverty. Given the potential long-term relationship between income inequality and regional growth, are we comfortable with a growing income gap, provided that “all boats” are rising with the tide to some degree?

Even more disturbing are the growing inter-ethnic inequalities. Mark Baldassare, Senior Fellow at the Public Policy Institute of California (PPIC) recently noted “...the PPIC Statewide Surveys to date indicate that California is not a majority-minority state when it comes to who enjoys economic privilege and political influence. Non-Hispanic whites still comprise three in four of the California adults who have college degrees, own homes, and have annual household incomes of \$60,000 or more....[and] make up three in four Internet users and three in four stock investors in California...[and] cast three fourths of the ballots in the state... Moreover, Latinos have the dubious distinction of outnumbering non-Hispanic whites in two disadvantaged economic and political groups today – those who lack high school degrees, and those who are not registered to vote.” (Baldassare, 2000)

While comparable data is not readily available for Baja California, we do know that Mexico’s income distribution, as measured by the Gini Index,¹ is one of the worst in the world. “Mexico’s poorest 10 percent share .4 percent of Mexico’s wealth; its wealthiest 10 percent share 42.8 percent.” (Goldsborough, 2000) More than 65% of Tijuana’s population earns less than 5 minimum salaries (roughly equivalent to \$15 per day, the minimum required to meet basic needs for a family of 5). (Plan Estratégico de Tijuana, Programa Piloto de Mejoramiento Urbano).

There are several important ways to address growing income inequality: by improving education and workforce training, by increasing business development and higher-wage jobs for low-income individuals and in low-income communities, and by expanding the supply of affordable homes and rental units. The next section outlines the key challenges and examples of relevant programs for addressing these challenges.

¹ The Gini Index measures how well wealth is distributed. High Ginis show poor income distribution.

Strengthen our Human Capital To Increase Work-Force Productivity and Attract Investment

K-12 Education

San Diego

To remain attractive to existing businesses or to attract new firms, we must improve K-12 education in our region. The San Diego community is directing serious attention to K-12 education as a result of recent revelations of the uneven performance of our region's schools. Increasingly, civic leaders, elected officials and members of the public recognize that the sustainable economic development of our metropolitan region is dependent on offering high-quality educational opportunities to all of San Diego's students. A decrease in the "achievement gap" might also encourage more sustainable urban development patterns by attracting housing to the urban core.

In the San Diego Unified School District, the largest in San Diego County, there is a marked performance difference between low-poverty schools and high-poverty schools. At each of the grade levels, students in high-poverty schools lag 30 to 36 percentile points behind their more affluent counterparts (San Diego Dialogue, 1999). Similar research by the County Office of Education has identified that the achievement gap between low-income, high-minority schools and other public schools in San Diego is a County-wide phenomenon. These performance gaps leave low-income youth poorly prepared for the workforce needs generated by our rapidly expanding high technology community.

Education reform must also take into account workforce development, beginning in the earliest stages. According to Larry Fitch, President and CEO of the San Diego Workforce Partnership², the San Diego region's superior community college system and forward thinking civic leaders hold tremendous potential. He has warned, however, that we must institutionalize school to career programs in early education, and emphasize science and math, in addition to literacy, to train youth for the workforce of the future, particularly the research and development jobs burgeoning in our region.

Investment in our educational institutions at all levels and promotion of science and technology careers will be critical to the region's global engagement. Many successful school-to-career programs now incorporate mentoring and internship components to prepare high school students for the high-skill, high wage jobs

² In an interview with Rebecca Reichmann, 8/2000.

emerging in our region. Private sector participation is essential in this effort to engage our youth in the new economy. Many companies in San Diego County sponsor job-shadowing programs for high school students. But in a region when up to one out of ten students drops out of school high school is too late. Career awareness and training for the workforce must begin in the early grades and emphasize opportunities in trade-related sectors.

Tijuana & Baja California

Tijuana's tremendous population growth places inordinate demands on its education system. In a recent interview with Carlos Franco Pedraza, Superintendent of Tijuana city schools,³ it was reported that in the past five years, the district has built 18 to 25 new schools per year! Although sixty-four percent of the Baja California state budget is allocated to education, most of the money (95%) goes to salaries leaving precious little for equipment, operations and supplies. Nonetheless, Baja California does boast higher levels of literacy (relative to the national average), higher rates of primary school coverage and relatively lower school drop-out rates. The state is constrained, nonetheless, by the lack of resources for equipment and technical infrastructure, the inadequate distribution of school sites and extremely limited pre-school access for low-income children. (*Plan Estratégico*, 1994)

The state government of Baja California must make serious new public investments in education and workforce training to improve productivity and attract higher-wage industries. Tijuana may lose its competitive advantage on the basis of low wages over the long-term – especially due to extremely high turnover rates – and would be wise to consider new alternatives for sustained economic growth and employment.

Job Training

San Diego

San Diego's community college system provides excellent workforce preparation, but most of their training requires a long-term investment by the trainees and is often unable to meet the immediate needs of our new technology companies. Most job training and preparation programs focus on getting workers into jobs as soon as

³ Conducted by UCSD Professor Olga Vasquez on July 17, 2000.

possible and therefore train them for entry-level positions. The majority of higher-waged jobs that will be created in our region in the next decade, however, will require high-level skills to meet the needs of a rapidly changing technology base. Workers will need to upgrade their knowledge of emerging technical fields or remain stuck in the low-wage industries. Not only will training need to be short-term to meet the needs, curriculum will also need to be flexible in order to adapt to evolving technologies.

Tijuana

Tijuana, like San Diego, needs to prioritize education and workforce development. Relatively low educational and literacy levels are not a serious drawback for simple assembly manufacturing – thus lower-wage areas in Mexico will increasingly compete for *maquila* investment dollars. Tijuana’s capacity to move into more complex and higher value-added manufacturing processes will depend on a labor force with literacy and problem-solving skills similar to those found in Malaysia or Guadalajara (the region’s key competitors for complex and flexible contract manufacturing). A demand for more highly-skilled labor might also provide opportunities for individual advancement that could stem the high rates of labor turnover that affect the maquiladora industry in Tijuana.

Similar to the challenges present in Baja California’s primary school public education system, vocational training is available but stymied in Baja California by a serious lack of resources for up-to-date equipment, qualified instructors and adequate facilities. While this weakness might be addressed by San Diego-based educational and training institutions, such a solution would not contribute to the needed long-term capacity building in Baja California. It would, moreover, require funding to pay the fees of Baja California trainees. Resources for cross-border collaboration might be best utilized to develop capacity and underwrite costs of needed equipment in established Baja California vocational training centers.

Connecting Low-Income Communities and Individuals with Regional Economic Opportunities

In a seminal paper outlining the new imperatives facing regions in the global economy, urban analysts Dennis Rondinelli, James Hohnson and John Kasarda (1997) emphasized the need for business leaders and policymakers to embrace a new perspective on urban economic development. They argued (1) that inequality is bad for business; and (2) that proactive steps to eliminate geographical and socioeconomic disparities are a form of enlightened self-interest. Any region that

fails to fully develop its human capital potential and to deal effectively with the problems of inner-city economic disparities, they argue, will find itself falling further behind in the highly competitive global marketplace. In a similar vein, Harvard Business School Professor Michael Porter (1997) argued that too few inner-city economic development programs have focused on for-profit business, entrepreneurship and job-development programs – emphasizing instead small retail business development and recruitment of “big-box” retail centers.

More could be done in San Diego to assist small businesses, particularly minority-owned firms and businesses in low-income communities, to compete internationally. Local business assistance and incubation programs must seek financing to increase the numbers they are able to reach and to provide ongoing technical assistance in marketing and business development. Policy-makers should also consider the merits of targeted micro-enterprise and small business development programs that explicitly seek to build connections between low-income community residents and international trading opportunities.

Sandy Ehrlich, Executive Director of the Entrepreneurial Management Center at SDSU’s College of Business Administration suggests⁴ that San Diego has excellent capacity to train midsize and small business owners to access international markets. Owners of these businesses are often unaware of the resources available to help them access those markets and they have little time to investigate new international markets. Ehrlich suggests that we need a better delivery strategy, perhaps by providing online databases, online courses and training, to reach busy entrepreneurs, and that events focused on international markets, especially involving boards of emerging growth companies, would begin to expand their thinking.

The region's urban core communities also need to explore their linkages with the global economy through the dynamism of their immigrant residents. With their extensive international networks and family relationships, many of the region’s Latinos and Asian immigrants are ideally positioned to market products or services, or purchase or manufacture inputs, in their home region. San Diego’s immigrant communities represent an enormous untapped asset for the region’s global engagement.

Consider, for example, the large numbers of households where both English and a second language is spoken. Data from San Diego County’s public school systems provides a window into this phenomenon. As a result of reforms in the

⁴ In an interview with Rebecca Reichmann, 8/2000.

implementation of bilingual education, there are now substantial numbers of students in our County classified as “Foreign English Proficient” (FEP). FEP students have demonstrated strong capacity in English, but also retain lingual capacities in their native language. In San Diego County’s K-12 schools there are:

- Over 30,000 students proficient in both English and Spanish
- Over 2,500 students proficient in both English and Vietnamese
- Over 7,000 students proficient in both English and Tagalog
- Over 1,500 students proficient in English and either Arabic or Farsi
- Over 1,000 students proficient in English and either Cantonese or Mandarin⁵

Community-based organizations in low-income communities also can help strengthen their neighborhoods’ engagement with the global economy by informing residents about training, employment and business opportunities, motivating parents and families to train youth in the necessary math, science and language skills, and encouraging global awareness among all community residents.

Improve Quality of Living Conditions – Especially Affordable Housing

San Diego County

The high cost of housing in San Diego County exacerbates our growing income inequality. Elizabeth Morris, CEO of the San Diego Housing Commission recently noted⁶ that “San Diego’s housing market is not working. The average income and the average cost of housing do not match.” In July 2000, the California Association of Realtors (CAR) reported that San Diego was the least affordable area in Southern California. CAR said only 22 percent of households could afford to buy a median-priced home (as compared with some 65% nation wide).

A recent report by the California Budget Project showed that between 1992 and 1997, high-tech employment jumped 19 percent in central San Diego and 37

⁵ Analysis of 1999 Non-Native Speaker Students in San Diego County schools; data drawn from California Department of Education (www.cde.gov).

⁶ In an interview with Rebecca Reichmann, 8/2000.

percent in the suburbs. With the influx of new jobs, rents jumped more than 15 percent in San Diego -- the seventh-largest increase in the country. Only Denver, San Francisco, Boston, Kansas City, Atlanta and Seattle rose faster. By 1997, over half of San Diego renters paid more than 30 percent of their incomes toward rent.⁷

There are only two sustainable solutions to the region's affordable housing crisis: upward mobility by individuals in the low-paid jobs and construction of apartments, condominiums and single-family homes. Increasing affordable housing supply may require significant legal reforms (to prevent the continued proliferation of developer defect suits), zoning reforms (to facilitate in-fill developments and mixed use) and increased public financing for affordable housing projects (by private developers and/or non-governmental organizations). In the absence of these structural solutions, we may face a future where the high-skilled residents of the region must subsidize the housing costs of service industry workers that provide the services we have come to take for granted in our daily lives.

Tijuana

Despite major economic differences, San Diego and Tijuana share policy goals to promote equity with global competitiveness in our region. Employment opportunities abound in Tijuana (and account for the inordinately high population growth rates), but improved standards of living are hampered by the lack of local government capacity, the absence of an effective mortgage market, inadequate institutional mechanisms for financing urban infrastructure and services and stagnant real wages.

High population growth rates and a lack of local government resources make it virtually impossible for the Tijuana *Municipio* to keep up with urban infrastructure demands. Only 50% of roads in Tijuana are paved (Ganster & Sanchez, 1999) and due to the unplanned nature of urban growth, major transportation bottlenecks have been created. In 1995, only 68.8 percent of Tijuana's population was connected to the city's drinking water system (Ganster & Sanchez, 1999) and close to 30 percent of the water intended for consumers is lost due to broken pipes, leaks or excessive water pressure. While significant progress has been made at the water utility since 1995, rapid population growth continues to challenge the agency's ability to provide services to outlying communities. The inadequacy of urban services is exacerbated by a lack of home financing options and affordable housing

⁷ Given the rapid rise in housing costs over the past two years, we suspect that this number has greatly increased.

supply. The housing deficit in Tijuana is estimated at 77,500 units and some 40% of the housing units are substandard. (Plan Estratégico, 1995).

To put the cross-border differences into perspective, it is useful to consider the following basic data. San Diego County is home to some 2.7 million people (growing at 2.5% whereas Tijuana's fast-growing (5.5%) population is around 1.5 million. San Diego's GRP is estimated at around \$80 billion as compared to Tijuana's \$5 billion. The budget for the *Municipio de Tijuana* is equivalent to 5% of the City of San Diego's budget (even though the *municipio* combines both City and County functions).

Baja California's relatively high per capita income ranks it as one of Mexico's "wealthiest" regions. Federal and/or international agencies consequently tend not to prioritize the region in their lending and grant portfolios for infrastructure and social development. There is, however, an important recent exception. The Japanese Development Bank and NADBank have financed a major water works project for the *municipio*. If this project is successfully completed – enabling the local water authority to provide effective services for fees and demonstrating the utility's credit-worthiness – the foundation for issuance of local infrastructure bonds may be established.

In the absence of local bonding capacity, in 1994 Tijuana's municipal government initiated the *Manos a la Obra* program to finance and develop urban infrastructure. The *municipio* encouraged community residents to participate in prioritizing and co-financing (through collection of beneficiary fees) urban works (road paving, drainage, schools, pedestrian bridges and community centers) through this program. Building on its success, the *municipio* partnered with the Baja California state government to establish a Social Infrastructure Fund to extend this service to a greater number of communities on a "revolving credit" basis.

Conclusion and Recommendations:

Engaged community leadership enables a metropolitan region to pursue its full potential for participation in the global economy. In San Diego, private sector and community leaders have had positive experiences in working together for the better of the regional economy. Outstanding examples include the MIT Enterprise Forum, UCSD CONNECT, and industry associations such as BIOCOM and the Software Industry Council. The EDC and the City of San Diego took the lead in organizing academics, government and private leaders to respond to the economic

downturn after the defense industry downsized and to seize upon new opportunities.

More recently, San Diego Dialogue’s “Global Engagement” project has served both to better educate civic leaders and the broader public on the new realities of globalization and to provide decision-makers with concrete policy proposals to enlarge the benefits of our global engagement. However, as Joint Venture Silicon Valley (JVSV) has learned, a region’s global competitiveness depends on closely integrating measures designed to address poverty with those for regional economic competitiveness.⁸ The region’s civic leaders must speak out and offer solutions to the region’s growing inequality.

Our region’s leaders should focus priority attention on improving basic education, developing a well-trained labor force, fostering entrepreneurship and business skills among our low income residents, educating existing small and medium business owners about global competitiveness and creating incentives for greater investment in affordable housing. The needed measures might include:

San Diego and Tijuana

- Increased private and public investment in K-12 education, particularly for science and math training;
- Greater private sector involvement in providing school-to-work experiences for youth, beginning in primary school, with an emphasis on international skills;
- Improvement of short-term intermediate training allowing workers to *upgrade* their knowledge and skills to respond to changing technologies;
- Increased advocacy for public programs to provide incentives for small, medium and large firms to engage in international trade;
- Expansion of access to credit and technical assistance to small businesses engaged in international markets;

⁸ Indeed, the JVSV recently modified its mission statement from “To bring people together from business, government, education, and the community to act on regional issues affecting economic vitality and quality of life” to “To enable *all* people in Silicon Valley to succeed in the new economy.”

San Diego

- Capitalizing on the networks and language skills among our region's large immigrant communities to explore market opportunities;
- Development of curricula on international business for minority and small business training and technical assistance programs, high technology assistance programs, business incubators, entrepreneurship and business programs at community colleges and universities;

Tijuana

- Continued attention to fiscal decentralization to strengthen municipal revenue collection capacity;
- Increased private and public sector support for small business development, especially as related to development of a maquiladora supplier sector;
- Civic commitment to the improvement of basic education and vocational training to meet Tijuana's needs in a global economy.

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