

TIJUANA **EDC** INSIDER REPORT

FOREIGN DIRECT INVESTMENT
IN TIJUANA



Executive summary

Tijuana leads in Foreign Direct Investment (FDI), a strong sign of investor confidence. This year, the city has outpaced 26 states in Mexico, thanks to its strategic location and solid infrastructure. Its closeness to international markets, skilled labor, and competitive tax environment make it a key center for manufacturing and exports. Favorable state and national conditions also support the expectation of continued investment growth.

Key elements

- 1 Tijuana leads FDI attraction in Baja California, accounting for 74% of the state's total investment in 2024. It excels in key sectors like manufacturing, benefiting from a favorable tax climate and its strategic proximity to international markets.
- 2 In 2024, Baja California ranks as the third-largest recipient of FDI in Mexico, with the automotive industry capturing 62.9% of total investment, highlighting sustained investor confidence in the region.
- 3 Mexico ranks as the ninth-largest recipient of FDI globally, driven by its integration into the USMCA, the strength of its export sector, and a stable economic environment that continues to attract international investment.

Understanding how Foreign Direct Investment is recorded in Mexico

It's important to recognize that FDI data provides only an approximate measure of investment flows, not a precise reflection. For instance, the registry doesn't account for the varying economic or municipal impacts of different investments. Understanding this nuance helps to interpret the data appropriately.

FDI is recorded by the Ministry of Economy and classified based on three key principles:

- 1 The investment made by foreign persons in Mexican companies with a lasting interest.
- 2 The Mexican companies with a majority of foreign capital.
- 3 Trusts from which rights are derived in favor of foreign investment.

Furthermore, FDI is broken down into three sections according to its sources of financing: new investments, reinvestment of profits and intercompany accounts. Each of these forms has very different implications.¹

Finally, FDI is recorded differently according to the type of industry, which has different implications for the location of the investment. For example, only 10% of foreign participation is allowed in production cooperatives, up to 49% in newspaper printing or port administration, and foreign participation is not allowed in reserved activities, such as oil extraction². In short, one piece of data hides many nuances that should be considered when analyzing a region's performance.

¹ Síntesis Metodológica IED, Secretaría de Economía del Gobierno de México available at <https://www.gob.mx/se/acciones-y-programas/competitividad-y-normatividad-inversion-extranjera-directa?state=published> as of September 18, 2024.

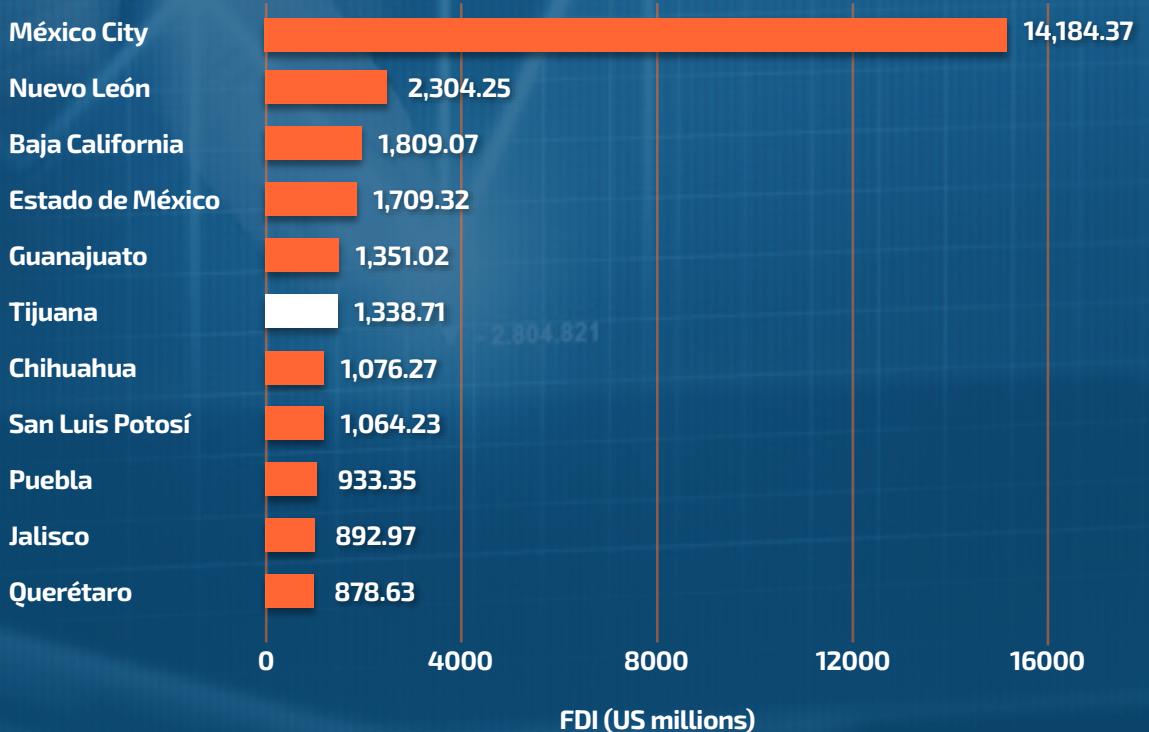
² Legal Glossary, Ministry of Economy of the Government of Mexico, available at <https://www.gob.mx/se/acciones-y-programas/competitividad-y-normatividad-inversion-extranjera-directa?state=published> as of September 18, 2024.

Municipal context

Tijuana is one of the most dynamic municipalities in Mexico due to its strategic location and economic competitiveness. Its solid infrastructure, availability of skilled workers and proximity to major international markets has generated that, since 2014, Baja California has received 15.7 billion dollars in FDI, averaging 1.4 billion dollars annually. Our own estimates allow us to conclude that Tijuana represents close to 74% of such investment, which would place the city above 26 entities so far in 2024 (see Graph 1). In Tijuana, there is foreign investment from more than 40 countries, with the United States accounting for 65.6% of the total. According to INEGI, there are 948 thousand families in Baja California, and at least 23% of them depend on the manufacturing sector.

Graph 1.

Comparison of Foreign Direct Investment, first half of 2024. Foreign Direct Investment: Tijuana vs. the entities with the highest FDI in the first half of 2024. FDI in millions of dollars.



This is a result of the implementation of the North American Free Trade Agreement (1994). Since then, Baja California's GDP has grown by 75.1%, which is reflected in the state's labor force. With an informality rate of 37.4% (the national rate is 55.9%) and more than one million jobs registered with the IMSS, of which 43.4% belong to the manufacturing industry. Human capital is supported by 74.2% educational coverage and a growing educational system. As the region continues to invest in training its population, opportunities for technology and high-skill industries will continue to grow.

To give more context, Tijuana is responsible for about 66.34% of Baja California's total exports. If we apply that percentage to the first quarter of 2024, we calculate that the city's exports are close to \$7,649.9 MDD, equivalent to 5.9% of national exports.

Tijuana also offers a competitive tax environment for businesses. Income tax (ISR) for corporations is 30%, in line with national rates, while value-added tax (VAT) in the border zone is 8%, providing a significant incentive for investment and trade. Payroll taxes remain at a moderate 4.25%, allowing companies to operate with relatively competitive labor costs. In addition, the city has sustainable debt and maintains the healthiest public finances nationally.

Although Tijuana presents advantages for investors, there are some areas that require attention. The cost of electricity in Baja California, for example, is 1,407 pesos per mega watt-hour, ranking the region 63rd out of 66. This factor can be a challenge for energy-intensive industries, such as manufacturing. However, opportunities for investment in renewable energy, the announcement of new investments such as the interconnection with the national electricity system and the national natural gas system, give the region good prospects for growth.

Finally, inflation in Baja California has exceeded the national average with an annual variation of 6.46% in August 2024. This may impact companies' operating costs and employees' purchasing power. However, the stability of the exchange rate (19.15 pesos per dollar) and Mexico's Central Bank's (Banxico) monetary policies have helped mitigate some of the more detrimental effects, maintaining a relatively stable environment for investors.

State context

Since 2017, Baja California has consistently improved its national ranking in FDI uptake (Graph 2). In the first half of 2024, it became the third-largest FDI recipient in Mexico. The majority of investment was concentrated in automobile and truck manufacturing, totaling \$1.13 billion, or 62.9% of the state's total. Other key sectors included motor vehicle parts manufacturing (2.9%, \$52.2 million), electronic components (2.8%, \$50.9 million), and other manufacturing industries contributing \$35 million (1.9%). The remaining sectors made up 33.4% of FDI.

Graph 2.

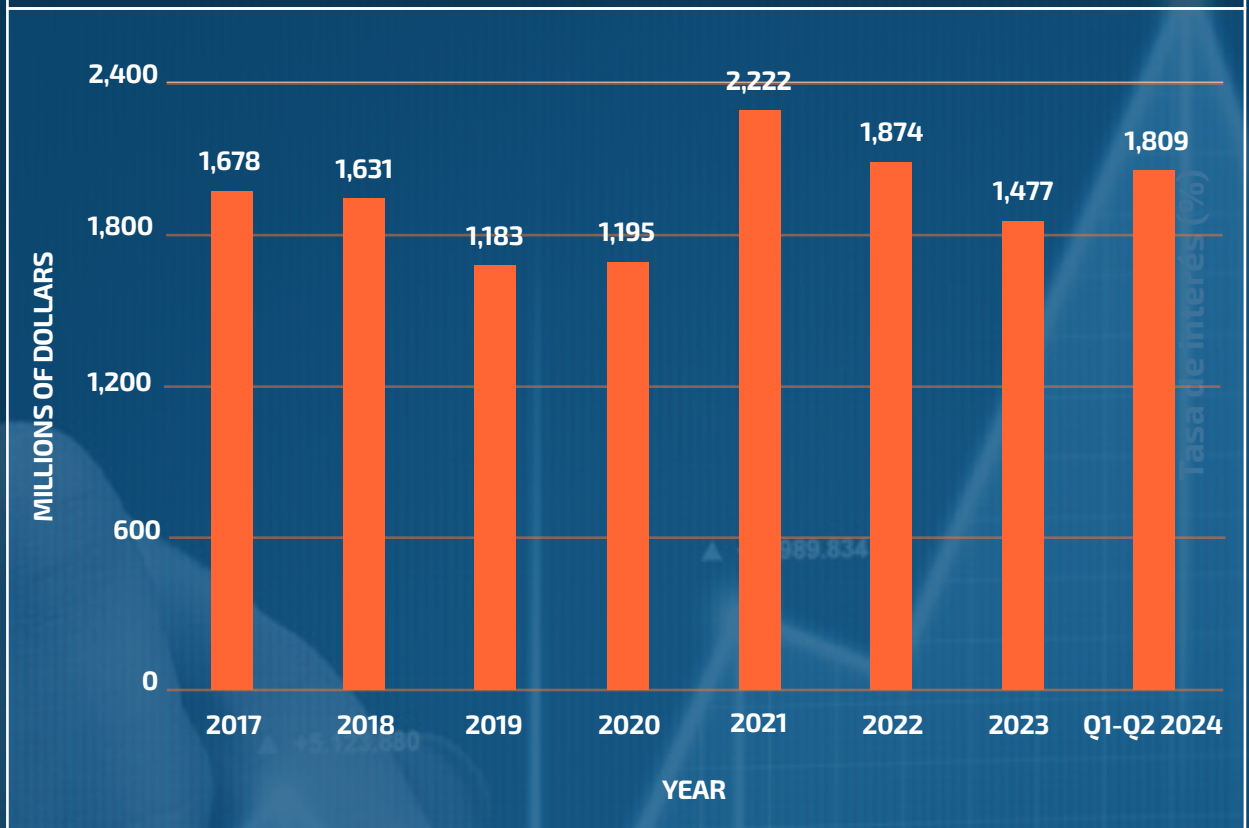
Baja California's national ranking in FDI attraction compared to other entities, annual cumulative data.



The performance of the flows by year can be seen in Graph 3. The consistency in the amounts reflects investor confidence in the state and exceptional performance in 2024.

Graph 3.

Foreign direct investment in Baja California: 2017 - 2Q 2024



National context

Mexico has the **12th largest economy in the world** and has achieved significant economic stability. The average monthly salary in the IMSS reached **17,906 pesos**, up 66% over 2018, and the daily minimum wage increased by 113%. Likewise, unemployment remains low at **2.93%**, surpassing countries such as the United States (4.3%) and Canada (6.4%). Three elements stand out:

- 1** The USMCA has consolidated North America as the most competitive region in the world. With an economic exchange of **3.1 million dollars per minute**. Mexico has positioned itself as the **main trading partner of the U.S.**
- 2** Mexico is the **ninth largest recipient of FDI in the world**, attracting more than **170 billion dollars** between 2023 and 2024.
- 3** Mexican exports reached record figures in 2023, mainly in sectors such as **automotive, medical devices and electrical-electronics.**

Mexico will continue to consolidate its global position by fostering sustainable investments and developing value chains with high domestic content, and the country is expected to continue attracting foreign investment at increasing rates.

Endnote

Tijuana is one of Mexico's top cities for investment, driven by its strategic location, expanding industrial infrastructure, and close proximity to major international markets. The strong influx of foreign direct investment, particularly in manufacturing and services, reflects high investor confidence in the city.

Despite challenges like energy costs, inflation, and security concerns, Tijuana offers a favorable tax environment, a skilled workforce, steady economic growth, and ongoing investments in urban and technological infrastructure, reinforcing its potential as a key hub for multinational business expansion.

About EDC Data Center: The graphs in this report have used data from the Tijuana EDC Data Center, an interactive dashboard that allows visualization, analysis and comparison of official industry data in Mexico. For more information, consult Tijuana EDC.

Los programas de apoyo de la Secretaría de Economía e Innovación y del Fideicomiso Empresarial de Baja California son públicos, ajenos a cualquier partido político. Queda prohibido su uso y difusión para fines distintos a los establecidos en sus programas.



Disclaimer: The information in this report has been prepared by Tijuana EDC and is for informational purposes only. All content in the report is made in good faith, but we make no warranty as to the accuracy, adequacy, validity, reliability, availability or completeness of the information contained herein. In no event shall we be liable to you for any loss or damage incurred by use of this document. Your use of it is solely at your own risk.

Contact: membresia@tijuanaedc.org