

## *California's International Trade Traffic: Current Trends and Future Concerns*

As tariffs and other political barriers to trade continue to shrink or disappear, the ability to transport goods efficiently has become an increasingly important consideration in international trade. Firms rely on fast, flexible, and reliable shipping to link far-flung plants, and transportation breakdowns and congestion can idle entire global production networks. As a result, the capacity and efficiency of seaports, airports, and multimodal linkages have become critical factors in global trade.

Such trade is especially important to California, whose seaports and airports are among the busiest in the nation. Trade traffic provides a good deal of employment, business profits, and state and local tax revenue, but it also presents burdens in the form of increased congestion, pollution, and infrastructure wear and tear. As a result, California's status as a global distribution center affects the state's residents and policies significantly.

In *California's Global Gateways: Trends and Issues*, Jon D. Haveman and David Hummels examine several aspects of the state's trade traffic and infrastructure. The report focuses on trends and forecasts in international shipping as well as the effects of specific events, including the 2002 West Coast port closure, on those patterns. Its findings point to a complex policy question: Should California seek to increase shipments through its ports and cities or adopt policies that, in effect, encourage international cargo to go elsewhere? In addition to highlighting and framing this question, the report notes that any answer to it will shape California's physical and economic landscape for decades to come.

### *Tracking and Predicting the State's International Trade Flows*

California is an important hub in the global economy, handling one-fifth of all U.S. international trade. Among U.S. airports in 2002, only New York's JFK handled more

trade by dollar value than did Los Angeles or San Francisco International Airports. Similarly, Los Angeles and Long Beach ranked first and second among all U.S. seaports in 2001 in the dollar value of goods processed. Taken together, four California seaports—Los Angeles, Long Beach, Oakland, and Port Hueneme—handled 42 percent of all containers moving through U.S. seaports.

Much of the trade passing through California's global gateways either originates in or is destined for use in other states. In 2000, for example, California serviced \$297 billion in trade for other states, \$176 billion in excess of California's trade that was shipped through other states. This difference represents an extra 32 billion kilograms worth of goods flowing on California's highways and railways. Most of this extra weight was shipped by truck, a mode of transportation that causes significant wear and tear on the state's highways. This extra truck traffic also contributes significantly to congestion, especially in and around Los Angeles and the San Francisco Bay Area.

The most important influences on California's trade traffic are overall changes in U.S. trade patterns. Between 1970 and 2002, for example, imports from Asia as a share of U.S. trade increased from 8 percent to 40 percent, thereby increasing the flow of imports through California's gateways. Over the same period, U.S. trade shifted toward lighter goods, which are more likely to be shipped by air.

Very little can be done at the state level to affect these larger patterns, but there is some evidence that California's global gateways, airports in particular, are not keeping pace with the growing demand for shipping services. Although the dollar value of trade through California's airports increased in the latter half of the 1990s, the share of U.S. trade handled by these airports dropped from 38 percent to 21 percent between 1995 and 2002. The report indicates that over half of this decline was due to shippers' preferences for other gateways. Congestion in and around California's airports may

have been partly responsible for these shifting preferences, but the authors note that increases in airplane ranges and an expansion of cargo facilities in Alaska were also contributing factors. Similarly, California's overall trade share by weight has continued to grow, but its trade share by value fell in the late 1990s. By shifting to heavier, low-value goods, California's ports increased the burden on local infrastructure and residents without increasing the benefits these ports generate for their regions.

Looking to the future, the authors report that the most sophisticated analyses of global trade indicate that traffic through California is expected to increase significantly in the next 15 to 20 years. In particular, trade flows are expected to triple in weight by 2020, with the overwhelming majority of this increase occurring at the seaports. Over the same period, the dollar value of exports shipped through California is projected to nearly triple, and the value of imports will nearly double. The authors note, however, that these global forecasts are based on projected growth rates in gross domestic product, investment, population, and other economic and demographic factors. They do not consider infrastructure capacity, and the authors therefore conclude that large increases in global trade traffic through California are by no means guaranteed. Indeed, they suggest that such increases are unlikely to occur if the state's infrastructure provision remains at its current levels.

### *The 2002 Port Closure and Port Security*

The report also considers specific events—such as the West Coast port closure of 2002 and the terrorist attacks on the United States in September 2001—and their effects on shipping preferences over time. Because shippers usually have alternatives to West Coast seaports, port closures are likely to shift trade to other seaports or to other modes of transportation. The authors note that it is too soon to tell whether the most recent port closure will have long-term effects, but their analysis shows that the share of trade processed by West Coast ports in the months following the shutdown was lower than it was in any of the previous five years. Between 1998 and 2001, the percentage of U.S. imports from Asia entering California ports was consistently between 77 and 78.

Through the first six months of 2003, that share fell below 74 percent.

U.S. responses to terrorist attacks can also affect California's trade traffic. Expanded security measures, such as the federal Container Security Initiative, may cause shipping delays and make arrival times at U.S. ports less certain, thereby raising the cost of, and reducing the demand for, shipping services. Other initiatives, however, may have the opposite effect. The Customs-Trade Partnership Against Terrorism, for example, encourages shippers and carriers to develop security plans for their cargo while it is in transit. These enhanced security measures will protect cargo from tampering and theft and thereby reduce the cost of international trade.

### *Policy Issues*

The authors predict that sustained growth in California's trade traffic will require a significant policy response. Most responses to date have focused on expanding capacity, but there seems to be more awareness among policymakers and port authorities that existing infrastructure can be managed more efficiently as well. In Los Angeles, for example, there is an active movement to encourage the delivery of cargo from the ports to inland distribution centers at all hours of the day rather than concentrating them in the highly congested daylight hours.

Even if policymakers agree that California should devote more resources to expanding its trade traffic, how to raise and allocate those resources remain open questions. The federal government is currently reauthorizing TEA-21, the Transportation Equity Act for the 21st Century, which regulates the allocation of federal funds to surface transportation infrastructure. In an effort to increase California's share of federal resources for goods movement infrastructure, policymakers at the state, regional, and federal level have called attention to the state's trouble spots. Another option is to impose user fees at or around the state's major gateways, but these fees have been difficult to implement due to resistance from shippers, carriers, and others involved in goods movement. Although these resource questions lack clear answers, the authors conclude that rapidly shifting patterns of global trade make their timely consideration crucial.

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*This research brief summarizes a report by Jon D. Haveman and David Hummels, California's Global Gateways: Trends and Issues (2004, 128 pp., \$12.00, ISBN 1-58213-083-3). The report may be ordered by phone at (800) 232-5343 [U.S. mainland] or (415) 291-4400 [Canada, Hawaii, overseas]. A copy of the full text is also available on the Internet (www.ppic.org). The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, objective, nonpartisan research on economic, social, and political issues affecting California.*

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