



CITY OF ONTARIO

The State of International Trade
January 2005



Economic Development Agency

EXECUTIVE SUMMARY

International trade is having profound implications for regions and cities throughout California. The Inland Empire's total two-way trade in 2004 is estimated at \$8.1 billion or 10.6% of the region's personal income. As expected based on national statistics, the Inland Empire reported a substantial trade deficit, with exports representing \$3 billion and imports representing \$5.1 billion of total trade. Despite the regions trade deficit, exports are growing at a much faster rate than imports. The City of Ontario lead the region in international trade activity, recording \$2.8 billion in total trade in 2004 or 38% of all Inland Empire international trade. From 2000 to 2004, Ontario's total trade increased by 98% in real terms, with exports growing at a rate of 145% and imports growing at a rate of 92%.

Based on data from the Port Import Export Reporting Service (PIERS), Inland Empire firms appear to be benefiting directly from the rise of large developing nations such as China, which grew at a rate of 9.8% in 2005. These nations have looked to the Inland Empire to meet their resource needs—raw materials such as scrap metal and fabric are listed among the region's top export goods. As expected, China maintained the number one position with a whopping \$1.78 billion in total trade in 2004 or close 54% of the Inland Empire's total vessel trade. In terms of both exports (\$489 million) and imports (\$1.29 billion), China was the Inland Empire's most important trading partner. Generally speaking, these data indicate that Inland Empire firms are gaining greater access to world markets and increasing export competitiveness.

Inland Empire cities rely heavily on the neighboring ports of Los Angeles and Long Beach to carryout international vessel trade. The reason for this strong bias in port activity is straight forward: the Inland Empire's top trading partners are primarily Asian countries and using ports in close geographical proximity to our region lowers transportation costs and increases profitability. In 2004, 3 billion pounds of total trade made its way through U.S. ports with the Inland Empire as its destination. The Port of Los Angeles was responsible for 64% of the 3 billion pounds, while the Port of Long Beach was responsible for 22%. The City of Ontario was responsible for close to 30% of the Inland Empire total seaport activity or roughly 900 million pounds.

Despite the region's significant port activity, the amount of goods passing through Southern California ports has slowed in recent years. The primary reason for the slow down in Southern California port activity was an unprecedented level of congestion, which peaked in the fourth quarter of 2004 before tapering off in later months. Analysts agree that intense transpacific trade growth was the key contributor to port congestion; at the Port of Long Beach, for example, transpacific containerized cargo increased by 24%, while forecasts had been in the 3% range. Southern California's ports did not have the labor or infrastructure to handle such a drastic increase in trade activity—a phenomenon that had negative implications for the region's rail and trucking systems as well. As a result of congestion problems in Southern California ports, firms have begun to seek alternative U.S. port destinations for their shipping needs. Likewise, the Inland Empire's use of ports outside of the Southern California region has grown over the years, increasing from 112.4 million pounds in 2000 to 421.3 million pounds in 2004.

The LA-Ontario International Airport (ONT) is another factor that contributes significantly to Ontario's—not to mention the Inland Empire's—international trade success. Improving upon the previous record of more than 6.9 million annual passengers using the airport in 2004, ONT

topped 7 million passengers in 2005 for the first time in its history. At its recent growth rate, ONT expects to serve 30 million passengers by 2025. Moreover, UPS delivered two announcements that should spur growth at ONT. First, in May 2005, UPS announced Ontario's selection as one of five new regional heavy freight hubs comprising the backbone of the new UPS Supply Chain Solutions network. Second, UPS received additional operating rights to China during the year, augmenting the UPS China Express service, which was initiated in Ontario in April 2001. As UPS' major regional hub in the U.S. West and with the carrier expanding its operations in China, ONT's role as a transpacific gateway should increase. While ONT recorded 605,132 tons in 2004, the airport is projected to reach 2.3 million tons by 2025.

INTRODUCTION

In recent years, the City of Ontario has become the economic engine driving growth in the Inland Empire—the second fastest growing region in the United States. Ontario leads the two county area in job creation, jobs per capita, commercial square footage, air cargo tonnage, air passenger activity and retail sales. Many factors drive regional economic growth— education levels, infrastructure, proximity to markets, workforce skills, research institutions, business environment, etc. However, because of the effects of globalization and Ontario’s overall infrastructure facilities—proximity to the Ports of Los Angeles and Long Beach, L.A./Ontario International Airport (ONT), interstate highway system and three transcontinental rail lines—one of the catalytic drivers of growth is international trade.

International trade activity, whether import or export, is good for the regional economy. It brings new dollars from outside the region which increases the overall pool of available capital. This creates new jobs, retains existing ones, raises skill levels, supports real estate value and increases tax revenue for public agencies. Most importantly, it increases the competitiveness and thus the longevity of private firms.

In the fall of 2005, the City of Ontario began a process to quantify the on-going effects of international trade and globalization on the local economy—in large part because no other entity has done so to date. The data used in this analysis comes from the Port Import Export Reporting Service (PIERS). PIERS collects data from over 25,000 bills of lading on a daily basis and then makes that data available for purchase. Because neither the federal or state government provides trade data at the regional or sub-metropolitan area level (Ontario and the other cities of the Inland Empire are aggregated into the Los Angeles metropolitan statistical area), PIERS provides the only available option for researchers interested in trade at the city level. The PIERS data is based on seaborne freight and was used to *estimate* freight movement from other modes of transportation (train, truck and air).¹

The purpose of this report (and others to follow) is to provide statistical information on the level of international trade in the Inland Empire and the City of Ontario. These data suggest that international trade has a significant impact on the Inland Empire’s economy. Moreover, Ontario leads the Inland Empire in overall two-way trade activity, with trade growth increasing rapidly. Ontario’s trade numbers suggest that the City’s strategic location and policy of infrastructure investment are supporting international trade and the regional economy. Generally speaking, these data demonstrate the importance of international trade to economic activity in the City of Ontario and in the Inland Empire.

¹ PIERS recently indicated that the trade data they collect will include cross border (truck and rail) statistics in 2006.

BACKGROUND

Globalization

“Globalization is the widening, intensifying, accelerating and expanding impact of worldwide interconnectedness. Globalization has fundamentally changed economic development for regions, communities and nations. Regions are now competing globally in a fierce race for talent, capital and high-value investment across the globe.”²

Globalization reflects the technological advances that have made it easier and more expedient to complete international transactions—both trade and financial. The above statement is a realization of the forces that are driving worldwide competitiveness and ultimately the economic success of communities and cities. On a global scale, changes in transportation, communication and information technologies have profoundly affected the process of urbanization and the overall economic development of cities. To the extent that these changes substitute for geographic proximity, they have vastly reduced the need for face-to-face communications and have greatly increased the mobility of goods, services, labor, technology and capital throughout the world. In short, the world is more competitive in that firms located anywhere and of any size can compete on an increasingly level playing field. Cities that succeed in this century will adapt policies, organizational structures and investment strategies built with an understanding of this new “global economy.” Cities who continue to create strategies and structures for past economic eras will atrophy and the same may be said for local firms.

For many years, the City of Ontario has been strategically implementing policies to position itself as a center for international trade and an engine for regional economic growth. It has invested in infrastructure, supported and encouraged airport and air cargo growth, facilitated grade crossings, encouraged the deployment of advanced telecommunications and is building new communities designed for the future. Furthermore, Ontario placed economic development as one of its top priorities, understanding that the success of the business community and the economic multipliers that it produces is critical to the continual improvement of municipal services and the overall quality of life to its residents.

Global Gateways

As a result of these policies, Ontario stands ready to become one of the world’s “global gateways.” These “gateways” are cities that are part of a network of metropolitan centers linked by major airports/cargo facilities, interstate highways and rail corridors with high speed rail, broadband communications and other infrastructure designed to strengthen economic synergies and increase the competitiveness of firms. According to the Southern California Association of Governments, between now and 2050 as much as 70% of the nation’s investment will occur within these types of regions. This research indicates that the ability to efficiently move goods, services and information is critical to the future growth and economic viability of U.S. cities.

With adequate infrastructure in place, human capital is one of the major factors that will drive economic development in a globally competitive, knowledge based economy. Area Development Magazine’s 2004 Corporate Survey identified “the availability of skilled labor” as the

² U.S. Department of Commerce (2005), “Economic Development America,” U.S. Department of Commerce Economic Development Administration. Summer 2005, pg. 10-15.

third most important factor when making corporate site selection decisions. Research indicates that trade openness promotes the development of human capital (Pissarides 1996).³ According to Pissarides (1996), open economies promote the efficient use of human capital and provide greater incentives for workers to maximize productivity. Conversely, advances in technology and increasing globalization bring ever higher levels of competition into the business environment. In order to remain competitive, it may be argued that firms will place a premium on well-educated workers and increased productivity. In a sense, an educated and skilled workforce may be considered part of the infrastructure needed for successful “global gateways.” Continued emphasis on improving the public education system by integrating the needs of employers with classroom curriculum is critical to the “global gateway” concept.

International Trade and Competitiveness

The creation and retention of jobs is the primary objective of economic development. Working with existing firms to provide the kind of assistance that will enable firms to grow and remain competitive is a way to achieve such an objective. One of the primary goals of the Ontario Economic Development Agency is to promote and facilitate international trade. Survey responses from Ontario’s business retention and expansion program indicated a need for assistance in international trade with a specific interest in Asia. With the tremendous growth of the Chinese market (9.8% in 2005) combined with UPS cargo flights to China originating in Ontario and Ontario’s strategic location for serving the Asia-Pacific marketplace, it was chosen as the first of several international markets for trade development missions. The primary goal of trade missions is to identify export and partnership opportunities for US manufacturers and professional services, thus creating and retaining jobs in Ontario, as well as helping Ontario companies to be more competitive in the global economy. U.S. Economic Development Administration studies have shown that:

- Exporters are able to pay better wages – an average 13-18% more than firms that only sell domestically.
- Exporters spend more on worker training – 13-27% more – and help raise local workforce skill.
- The act of exporting increases the longevity of a firm and the rate at which it creates jobs.
- In addition, trade can stabilize seasonal market fluctuations, diversify market opportunities and enhance overall competitiveness.⁴

³ Pissarides C. (1996) “Economic growth: how much does education count?” CentrePiece, 3, CEP, London School of Economics, London.

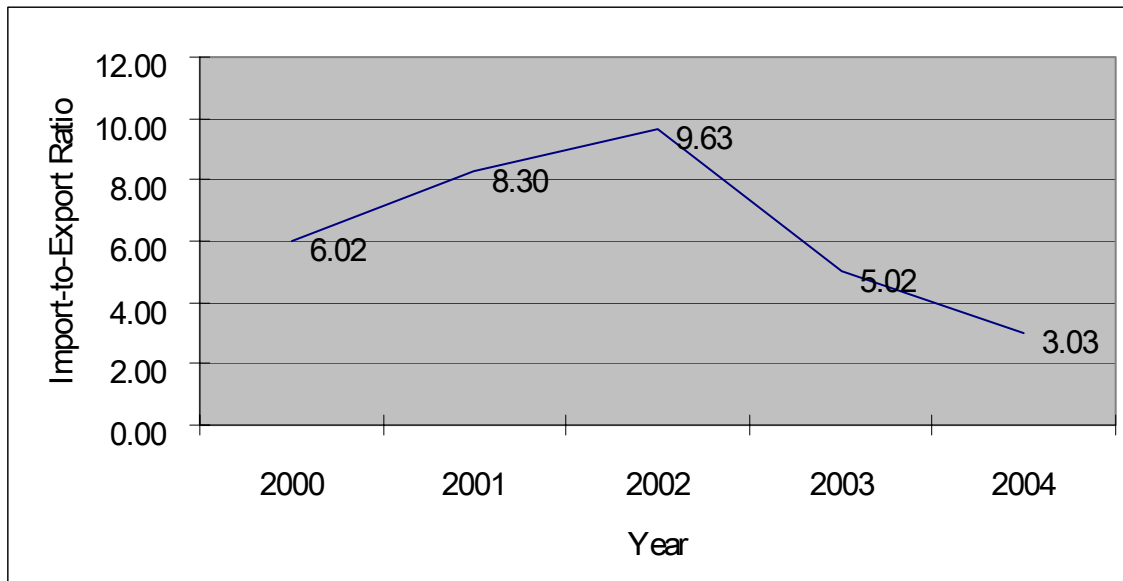
⁴ U.S. Department of Commerce

DATA ANALYSIS

Inland Empire Trade

International trade reported by Inland Empire companies increased rapidly from 2000 to 2004. The Inland Empire's total two-way trade in 2004 is estimated at \$8.1 billion or 10.6% of the region's personal income.⁵ Total two-way trade increased 47% in real terms over the period 2000 to 2004.⁶ As expected based on national statistics, the Inland Empire reported a substantial trade deficit, with exports representing \$3 billion and imports representing \$5.1 billion of total trade. Despite the regions trade deficit, exports are growing at a much faster rate than imports. From 2000-2004, these data indicate that exports increased 142% in real terms, while imports recorded a real growth rate of 20%. Alternatively, the Inland Empire's import-to-export ratio changed from 6.02 in 2000 to 3.03 in 2004 (See Figure 1).

Figure 1: Inland Empire Import-to-Export Ratio, 2000-2004



Several factors contribute to the Inland Empire's significant export growth, including developments at the international and local levels. At the international level, world exports have grown vigorously, as less developed economies—such as China—continue economic expansion.⁷ Moreover, generally speaking, average tariff rates have declined over many years of trade negotiations and are projected to continue decreasing under the Doha Round of trade negotiations.⁸ Inland Empire firms are gaining directly from these international factors, as developing nations look to international markets to meet their resource needs. For instance, raw materials represent a

⁵ Vessel trade is taken directly from Port Import/Export Reporting Service Data. Conservative estimates for all other modes of transportation (i.e., truck, rail, and air cargo) are based on national percentages from the Bureau of Transportation Statistics (see www.bts.gov). Personal income figures are based on data for the Riverside-San Bernardino-Ontario Metropolitan Statistical Area and are published by the Bureau of Economic Analysis.

⁶ Data are in 2000 constant dollars based on the Import Price Indexes (MPI) and the Export Price Indexes (XPI) published by the U.S. Bureau of Labor Statistics. <http://www.bls.gov/mxp>

⁷ World Trade Organization (2004), "International Trade Statistics 2004," (Geneva; World Trade Organization, 2004). http://www.wto.org/english/res_e/statis_e/its2004_e/its04_toc_e.htm

⁸ World Bank (2005), "World Development Indicators, 2005," (Washington D.C.; World Bank, March 2005)

significant portion of the Inland Empire's export growth over the past several years, with commodities such as scrap metal and fabric recorded as the region's top export goods.⁹

Developments at the local level provide another important factor contributing to the region's export growth. These data suggest that, *ceteris paribus*, Inland Empire firms are gaining greater access to world markets and increasing export competitiveness. One major factor helping local firms to gain inroads into international markets are the various government supported trade missions.¹⁰ For instance, a trade mission to China organized by the City of Ontario has resulted in more than 100 meetings leading to more than \$20 million in contracts under negotiation—which, if the contracts materialize, will represent a 5% increase in Ontario's exports. More generally, advancements in communication and transportation technology have been reducing barriers such as time and space between the world's buyers and sellers. Put simply, the economic playing field is being leveled by these—and other—technological advancements, allowing companies and nations of all sizes to compete in a truly global marketplace.

Although improving the national trade balance is of critical importance to the United States, one must not undervalue the importance of imports for the Inland Empire economy. As shown in the section on "Trade Commodities" below, the Inland Empire's imports consist of a mixture of intermediate products and consumer goods. Research indicates that access to cheap, intermediate products allows local firms to minimize input costs and maximize profits.¹¹ As a result, increased imports may lift domestic production and income rather than decrease these indicators.

Inland Empire Cities

In order to examine trade activity at the city level, this section applies the same methodology as above to estimate international trade by all major modes of transportation. According to these estimates, Ontario recorded \$2.8 billion in total trade in 2004 or 38% of all Inland Empire international trade. This total earned the city the top position in the region, which Ontario has occupied since surpassing Fontana in 2001 (for a list of the rankings, see Table 1). From 2000 to 2004, Ontario's total trade increased by 98%, with exports growing at a rate of 145% and imports growing at a rate of 92%. Chino maintained the number two position, with close to \$1.4 billion in total trade. Over the past five years, Chino has displayed substantial export growth to push past Riverside in 2002 and maintain the position as the region's top exporter with \$991.7 million in 2004. As with Ontario, Chino's growth numbers—pushed up by exports—are impressive, with the city recording an increase in total trade of 222% from 2000 to 2004. It is important to note, moreover, that Chino is among the only major cities (those reporting over \$100 million in trade) to record a trade surplus in 2004 and currently has an import-to-export ratio of .75.

Fontana secured the number three position with \$979.2 million in total trade during the 2004 calendar year. Fontana fell from the top position in 2000, actually recording a negative 53% growth rate over the five-year period. Fontana's decline was evenly distributed, with exports decreasing by

⁹ It is important to note that the region's high percentage of raw material exports may in part be due to the nature of the data. All of the commodity rankings (see section on "Trade Commodities" below) are based on data indicating goods/products leaving the region on vessels. Vessel trade data tends to understate the importance of high-tech goods, which are primarily shipped via air cargo.

¹⁰ Morris, R. (2005), "Trade Missions That Do More Than Just Visit the Great Wall," The New York Times. August 4, 2005. www.nytimes.com.

¹¹ Campa, J. and L. S. Goldberg (1997), "The Evolving External Orientation of Manufacturing Industries: Evidence from Four Countries," *Economic Policy Review*, Vol. 3; 53-81.

52% and imports decreasing by 54%. Rancho Cucamonga (securing the number four position with \$656.9 million in total trade) recorded a modest growth rate of 12% over the five-year period. Riverside earned the number five position, recording roughly \$525 million in total trade. Riverside displayed strong growth numbers over the five-year period, with total trade increasing 90%, exports increasing 53%, and imports growing 216%. Despite Riverside's strong import growth, the city recorded a relatively low import-to-export ratio of 1.7 in 2004.

Table 1: Inland Empire Trade Rankings, 2004 (Millions of U.S. Dollars)

CITY	IMPORTS	EXPORTS	TOTAL
ONTARIO	\$2,396	\$394	\$2,790
CHINO	\$427	\$992	\$1,419
FONTANA	\$817	\$162	\$979
RANCHO	\$433	\$224	\$657
RIVERSIDE	\$194	\$331	\$525
CORONA	\$184	\$43	\$227
TEMECULA	\$101	\$157	\$257
UPLAND	\$24	\$275	\$300
REDLANDS	\$127	\$28	\$155
BLYTHE	\$0	\$224	\$224
PERRIS	\$91	\$1	\$92
MONTCLAIR	\$59	\$19	\$78
CHINO HILLS	\$34	\$52	\$86
RIALTO	\$44	\$5	\$49
SAN BERN	\$23	\$13	\$36
OTHER	\$141	\$76	\$217
TOTAL	\$5,095	\$2,996	\$8,091

Trade Commodities by Vessel

Because of the current state of data collection at the city level, this report only analyzes specific trade commodities and trade partners using vessel trade data. It is important to note, however, that vessel trade data likely underreports the contribution of high-technology goods in which the primary mode of transportation is via air. For instance, the Los Angeles Customs District's primary export was high-tech "electrical apparatus," 93.6% of which went by air (Kyser and Huang, 2005).¹² Total trade into and out of the Inland Empire consists of a mixture of raw materials, intermediate products, and consumer products. First, regarding exports, trade consisted of largely raw materials. As a result of China's growing demand for raw materials, it is not surprising that these goods make up our region's top exports—China is currently the region's number one trading partner (See "Trading Partners" section below). "Mixed Metal Scrap" topped the list, representing 28.5% of total exports with \$239.1 million (up from \$157.2 million in 2003). "Raw Fabrics" secured the second position, increasing from roughly \$37 million in 2003 to \$123.6 million in 2004. Raw fabrics represented 14.73% of total exports in 2004. Exports of "Field Seeds and Bulbs" (the number three export) also recorded strong growth from \$18 million in 2003 to \$56.7 million in 2004. For a list of the region's top export commodities, see Table 2 below.

¹² Kyser, J. and G. Huang (2005), "International Trade Trends and Impacts: the Southern California Region," Los Angeles County Economic Development Corporation (LAEDC), May 2005. www.laedc.com

Table 2: Inland Empire Export Commodity Rankings, 2004

COMMODITY DESCRIPTION*	CURRENT	% OF TOTAL
MIXED METAL SCRAP	\$239,196,259	28.51%
FABRICS, RAW COTTON	\$123,600,287	14.73%
FIELD SEEDS&BULBS	\$56,744,918	6.76%
MEDICAL EQUIP&SUPPLIES	\$53,798,924	6.41%
AUTO PARTS	\$46,252,431	5.51%
MACHNRY MISC, CASSETTE PLAYERS	\$40,022,492	4.77%
BOOKS&PERIODICALS	\$37,899,053	4.52%
GROCERY PRODS, MISC.	\$19,830,546	2.36%
PAPER&PAPERBOARD, INCL WASTE	\$16,390,087	1.95%
METALWARE, MISC	\$15,776,603	1.88%
EDP, NUMBER, ADDRESS MACHINERY	\$13,823,042	1.65%
HIDES,SKINS,FURS	\$11,155,248	1.33%
FURNITURE	\$10,146,060	1.21%
CONSTRUCTION & BLDG EQUIP	\$8,904,372	1.06%
MEASURING EQUIP, METERS	\$8,892,244	1.06%
ALL OTHERS	\$136,499,134	16.27%

*Descriptions based on four-digit Journal of Commerce (JOC) descriptions.

The Inland Empire's top import in 2004 was "EDP, Number, Address Machinery," with close to \$139 million, up from \$73 million in 2003. This category primarily includes computer related consumer goods such as computer cables, power supplies, and computer carrying cases. Second on the list is "Steel, Misc.," with \$137.4 million in total value. This category consists largely of intermediate products—that is, scrap metal is shipped to other countries to be processed and shipped back into the U.S.—and includes commodities such as steel forgings and ingots. "Television Equipment" was down from \$322 million in 2003 (the number one position) to \$131.5 million in 2004—enough to earn it the number three position. Interestingly, the top three commodities only represented 17% of total imports, which indicates that, at least in terms of value, import commodities are much more evenly distributed than export commodities. For a list of the Inland Empire's top import commodities in 2004, see Table 3 below.

Table 3: Inland Empire Import Commodity Rankings, 2004

COMMODITY DESCRIPTION	VALUE	% OF TOTAL
EDP, NUMBER, ADDRESS MACHINERY	\$138,823,674	5.68%
STEEL, MISC.INCL.INGOTS	\$137,475,164	5.62%
TV EQUIP	\$131,522,846	5.38%
COOKING, IRONING, HEAT APPLI	\$130,988,002	5.36%
FURNITURE	\$112,277,779	4.59%
POTTERY&CERAMICS	\$80,074,892	3.27%
TOYS	\$75,540,563	3.09%
AUTO PARTS	\$73,565,303	3.01%
LAMPS&PARTS	\$72,649,918	2.97%
MEDICAL EQUIP&SUPPLIES	\$71,417,523	2.92%
ARTS&CRAFTS	\$56,079,470	2.29%
HARD WARE, MISC.	\$55,670,762	2.28%
PLASTIC PRODS, MISC	\$53,221,714	2.18%
KITCHENWARE	\$53,150,007	2.17%
HANDBAGS	\$49,312,478	2.02%
ALL OTHERS	1,153,889,482	47.18%

*Trading Partners*¹³

Firms in the Inland Empire conduct international trade with companies in countries all over the world. Before proceeding to the trade partner rankings for 2004, a word of caution is in order. These data only represent vessel trade and in doing so greatly underestimate regional trade with Canada and Mexico. According to data from the U.S. Bureau of Transportation Statistics, in terms of value, 95.4% of exports to Canada and 98.5% of imports from Canada enter California by truck and rail. Likewise, 95.7% of exports to Mexico and 98.3% of imports enter the state via truck and rail.¹⁴ With this caution in mind, Table 4 presents the trade flows between the Inland Empire and some of its most important trading partners. The countries are ranked based on the value of total trade in 2004.

Table 4: the Inland Empire's Top Trading Partners

COUNTRY	IMPORTS	EXPORTS	TOTAL	BALANCE	IM/EX
CHINA	\$1,297,117,991	\$489,074,589	\$1,786,192,580	(\$808,043,402)	2.65
TAIWAN	\$267,864,705	\$16,342,935	\$284,207,639	(\$251,521,770)	16.39
JAPAN	\$109,405,082	\$159,854,696	\$269,259,778	\$50,449,614	0.68
HONG KONG	\$175,778,355	\$23,141,982	\$198,920,337	(\$152,636,373)	7.6
MEXICO	\$59,879,946	\$1,580,654	\$61,460,599	(\$58,299,292)	37.88
THAILAND	\$45,613,224	\$13,739,002	\$59,352,226	(\$31,874,221)	3.32
KOREA	\$35,357,062	\$23,925,065	\$59,282,126	(\$11,431,997)	1.48
BRAZIL	\$52,697,243	\$1,521	\$52,698,764	(\$52,695,722)	34638.36
PERU	\$41,944,102	\$10,423,893	\$52,367,994	(\$31,520,209)	4.02
AUSTRALIA	\$49,951,072	\$2,169,414	\$52,120,486	(\$47,781,658)	23.03
GERMANY	\$49,186,252	\$874,774	\$50,061,026	(\$48,311,478)	56.23
MALAYSIA	\$44,496,716	\$2,102,717	\$46,599,433	(\$42,393,998)	21.16
INDIA	\$29,108,043	\$3,264,292	\$32,372,335	(\$25,843,751)	8.92
ITALY	\$30,975,085	\$988,925	\$31,964,011	(\$29,986,160)	31.32
INDONESIA	\$29,763,289	\$2,151,217	\$31,914,506	(\$27,612,072)	13.84
NETHERLANDS	\$3,330,295	\$17,543,948	\$20,874,243	\$14,213,652	0.19

The Importance of Asian Trading Partners

After only a quick glance at the Inland Empire's top trading partners, the importance of countries located in the Asian region becomes apparent. Six out of the Inland Empire's top ten trading partners are located in Asia, representing 81% of total trade by vessel. The Inland Empire's dependence on this region is not surprising given our geographical location and Asia's growing international trade activity over the past five years.¹⁵ Furthermore, Asian countries have recorded some of the highest growth rates in the world, fueling both domestic production (that is, imports) and domestic demand (that is, exports).¹⁶

¹³ Again, because of the state of data collection, this section only includes vessel trade data provided by PIERS.

¹⁴ Bureau of Transportation Statistics, Transborder Freight Data. <http://www.bts.gov/programs/international/transborder/>.

¹⁵ Asian Development Bank (2005), "Asian Development Outlook: Economic Trends and Prospects in Developing Asia," (Manila; Asian Development Bank, 2005). <http://www.adb.org/Documents/Books/ADO/2005/part020000.asp>.

¹⁶ Ibid.

China

China maintained the number one position with a whopping \$1.78 billion in total trade in 2004 or close 54% of the Inland Empire's total vessel trade. In terms of both exports (\$489 million) and imports (\$1.29 billion), China was the Inland Empire's most important trading partner. Despite recording a relatively high nominal trade imbalance of over negative \$800 million, China's import-to-export ratio was on the low end of the list at 2.65—which is much lower than China's ratio with the L.A. customs district of 7.7.¹⁷ This ratio was slightly lower than the Inland Empire's ratio for the rest of the world of 3.28. Total trade with China increased at a real rate of 204.8% from 2000 to 2004, with exports increasing by 213.5% and imports increasing by 155.2%.

Given China's overall contribution to Inland Empire trade, it is not surprising that the country's top commodities are extremely similar to those in Tables 2 and 3 above. China's primary imports from our region include raw materials such as "Mixed Metal Scrap" (\$236.5 million) and "Raw Fabrics" (\$118.8 million), which make theoretical sense based on the composition of the Chinese economy (See Table 5). One report encouraged readers to think of China "as a big factory that assembles components from all around the world" and this is precisely what these data indicate.¹⁸ Generally speaking, firms are exporting raw materials to take advantage of lower production costs fueled by cheap labor, only to import low price consumer goods.¹⁹ Data on China's exports only work to reaffirm this assertion, as trade is largely characterized by consumer products such as Cooking and Ironing products (\$124 million) and Television Equipment (\$113 million).

Trade with China will likely strengthen over the next several decades, as income grows and trade barriers continue to be lifted. According to projections from the Asian Development Bank, exports will grow at an average rate of 15.9% and imports will grow at an average rate of 18.6% from 2005 to 2007.²⁰ This upward trend is encouraging and underscores China's strong domestic and international economic development. However, economic risk—and risks to international trade—remain due to a fragile financial sector and regional economic imbalances.²¹ Furthermore, political challenges remain as the Chinese Communist Party seeks to balance trade liberalization with the exigencies of maintaining a centralized government.

Table 5: Inland Empire Exports to China

COMMODITY	EXPORTS	% OF TOTAL
MIXED METAL SCRA	\$236,558,053	48.37%
FABRICS, INCL.RAW	\$123,474,236	25.25%
MACHNRY MISC,CAS	\$38,064,130	7.78%
BOOKS&PERIODICAL	\$37,761,385	7.72%
MEDICAL EQUIP&SU	\$10,333,607	2.11%
PAPER&PAPERBOARD	\$8,255,489	1.69%
APPARELS, MISC.	\$5,694,119	1.16%
TV EQUIP	\$4,700,868	0.96%
FOAM WASTE&SCRAP	\$4,208,942	0.86%
ELEC&ELECTRONIC	\$3,310,254	0.68%
RESIDUES	\$2,211,931	0.45%

¹⁷ Kyser and Huang, 2005.

¹⁸ Ibid.

¹⁹ It is important to note that much of China's international trade activity is carried out by foreign firms operating in China—many of which are U.S. firms. Thus, it is inaccurate to view imports from China as taking away from U.S. firms.

²⁰ Asian Development Bank, 2005.

²¹ Political Risk Service (2004), "China: Risk Overview," The PRS Group, Inc. ISSN: 1054-5336.

ENGINES, MOTORS	\$1,935,298	0.40%
HIDES, SKINS,FURS	\$1,911,264	0.39%
MEASURING EQUIP,	\$1,702,920	0.35%
STOVES&HEATERS	\$1,204,906	0.25%
ALL OTHERS	\$7,747,183	1.58%

Table 6: Inland Empire Imports from China

COMMODITY	IMPORTS	% OF TOTAL
COOKING, IRONING	\$127,231,455	9.81%
TV EQUIP	\$115,978,984	8.94%
POTTERY&CERAMICS	\$67,746,776	5.22%
FURNITURE	\$67,559,613	5.21%
TOYS	\$66,783,987	5.15%
HANDBAGS	\$47,868,485	3.69%
ARTS&CRAFTS	\$47,272,079	3.64%
SHEETS, TOWELS, BL	\$41,415,804	3.19%
PLASTIC PRODS, M	\$38,065,381	2.93%
HARD WARE, MISC	\$37,791,933	2.91%
MEDICAL EQUIP&SU	\$37,040,886	2.86%
EDP, NUMBER,ADDRE	\$33,790,209	2.61%
AUTO PARTS	\$31,201,690	2.41%
LAMPS&PARTS	\$30,341,384	2.34%
KITCHENWARE	\$28,604,410	2.21%
ALL OTHERS	\$478,424,910	36.88%

Taiwan

Taiwan took up the second position with trade to the Inland Empire totaling \$284.2 million in 2004, with \$16.3 million coming from exports (#7) and \$267.8 million from imports (#2). As such, the Inland Empire recorded a large trade deficit with Taiwan, which totaled \$251.5 million in 2004. Taiwan's import-to-export ratio was 16.39 and much higher than to the Inland Empire's ratio of 3.03 versus the world. This ratio was also much higher than the ratio reported for the L.A. Customs District of 2.3 (Kyser and Huang, 2005). Total trade with Taiwan increased 116% from 2000 to 2004, with exports increasing by 10% and imports increasing by 99%.

As with China, exports to Taiwan are made up primarily of raw materials and intermediate products, although some consumer goods have made it to the top of the list (See Figure 8). The Inland Empire's top exports to Taiwan include goods such as "Sheets and Towels" (\$4.6 million) and "Bronze Castings" (\$2.2 million). Imports, however, made up the vast majority of trade with the Inland Empire—equaling approximately 94% of total trade. The top import included computer related consumer goods—that is, "EDP, Number, Address Machinery"—which amounted to \$78.3 million or 29.23% of total imports. Other items such as "Cement and Clinkers" (\$16.2 million) and "Screws and Fasteners" (\$15.4 million) placed well on the list.

Table 7: Inland Empire Exports to Taiwan

COMMODITY	EXPORTS	% OF TOTAL
SHEETS, TOWELS	\$4,431,813	28.18%
BRONZE CASTINGS	\$2,211,480	14.06%
MOLDS	\$2,113,138	13.44%

ALUMIN RODS, FORGING	\$1,616,683	10.28%
PAPER&PAPERBOARD	\$1,563,533	9.94%
MIXED METAL SCRA	\$991,139	6.30%
BEARINGS BALL&RO	\$857,484	5.45%
METAL SCRAP	\$416,592	2.65%
AUTO PARTS	\$308,917	1.96%
BOXES&CARTONS	\$241,082	1.53%
FURNITURE	\$234,750	1.49%
MEDICAL EQUIP&SU	\$166,978	1.06%
CASEIN, CELLULOSE	\$103,098	0.66%
POULTRY, CHIEFLY	\$83,599	0.53%
GLASSWARE	\$82,205	0.52%
ALL OTHERS	\$316,235	1.93%

Table 8: Inland Empire Imports from Taiwan

COMMODITY	IMPORTS	% OF TOTAL
EDP, NUMBER, ADDRESS MACHINE	\$78,323,069	29.24%
CEMENT&CLINKERS	\$16,247,372	6.07%
SCREWS, FASTENERS	\$15,436,831	5.76%
HARD WARE, MISC	\$14,416,374	5.38%
TV EQUIP	\$13,464,926	5.03%
AUTO PARTS	\$11,077,442	4.14%
FURNITURE	\$7,665,173	2.86%
PHONOGRAPHS	\$7,604,928	2.84%
PHONO RECORDS	\$6,879,722	2.57%
KITCHENWARE	\$6,681,652	2.49%
MEDICAL EQUIP&SU	\$5,430,610	2.03%
NUTS&BOLTS, STUDS	\$5,104,744	1.91%
METALWARE, MISC	\$4,747,551	1.77%
GENERAL CARGO	\$4,061,767	1.52%
MACHNRY MISC.	\$3,866,030	1.44%
ALL OTHERS	\$66,856,497	24.96%

Japan

Japan finished closely behind Taiwan in the number three position with trade totaling \$269.2 million, of which \$159.8 million comes from exports and \$109.4 million from imports. Japan was the only Asian country—or any country among the top ten trading partners—with which the Inland Empire recorded a trade surplus in 2004. Japan’s trade surplus with the Inland Empire amounted to \$50.4 million, while recording an import-to-export ratio of .68. Total trade with Japan increased 5% from 2000 to 2004, with exports increasing by 290% and imports decreasing by 49%.

Exports to Japan included value added goods such as “Medical Equipment and Supplies” (\$39.4 million) and raw materials such as “Field Seeds and Bulbs” (\$36.4 million). Not surprisingly, several of our top export commodities to Japan are agricultural in nature: as an island state with limited acreage for the purposes of farming, agricultural products are of vital importance. Topping the list of imports is automobile related products (\$39.6 million) and high tech office equipment (\$12.3 million). As a whole, imports from Japan are much more technologically advanced, which is to be expected based on its level of economic development.

Table 10: Inland Empire Exports to Japan

COMMODITIES	EXPORTS	% OF TOTAL
MEDICAL EQUIP&SUPPLIES	\$39,409,488	24.65%
FIELD SEEDS&BULB	\$36,499,866	22.83%
METALWARE, MISC.	\$14,785,116	9.25%
AUTO PARTS	\$14,118,476	8.83%
GROCERY PRODUCTS	\$13,332,945	8.34%
MEASURING EQUIP.	\$6,696,794	4.19%
FURNITURE	\$6,344,618	3.97%
PET&ANIMAL FEEDS	\$5,735,387	3.59%
AUTOMOBILES	\$4,635,685	2.90%
EMPTY CONTAINERS	\$4,213,327	2.64%
AGRICULTURAL MAC	\$2,160,989	1.35%
PAPER&PAPERBOARD	\$2,054,972	1.29%
DYNAMITE	\$1,922,055	1.20%
BUILDING MATERIA	\$899,125	0.56%
PLASTIC FILM&SHE	\$878,913	0.55%
ALL OTHERS	\$6,166,937	3.86%

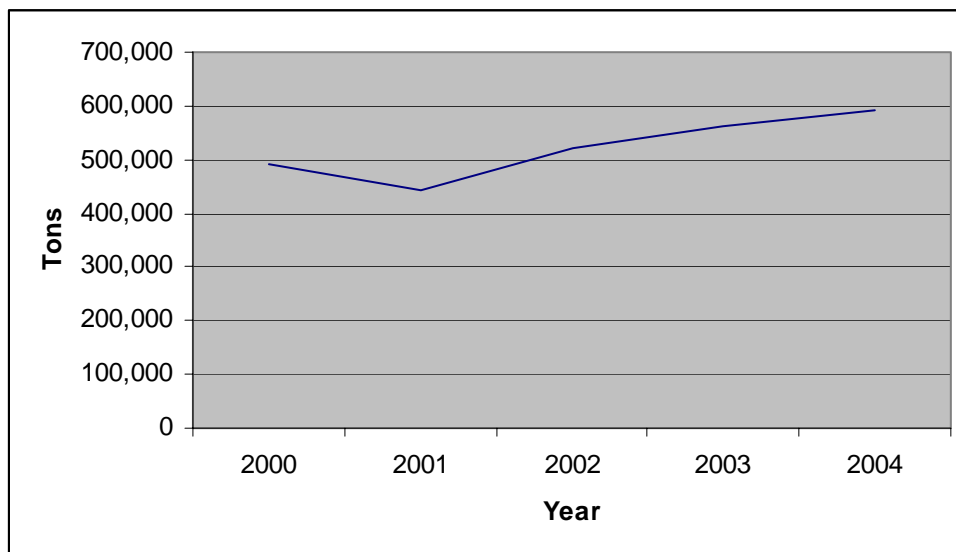
Table 11: Inland Empire Imports from Japan

COMMODITIES	IMPORTS	% OF TOTAL
AUTO&TRUCK TIRE&	\$39,631,637	36.22%
BUSINESS MACHINE	\$12,272,655	11.22%
DUPLICAT&OFFICE	\$10,652,169	9.74%
MACHINERY PARTS,	\$10,065,712	9.20%
ENGINES, MOTORS	\$4,291,359	3.92%
INJECTION&EXTRUD	\$3,942,779	3.60%
MACHNRY MISC,CAS	\$3,543,071	3.24%
BRICKS&REFRACTOR	\$2,775,655	2.54%
GENERAL CARGO	\$2,153,097	1.97%
TURBINES, STEAM	\$2,056,101	1.88%
BATTERIES	\$1,405,864	1.29%
HARD WARE, MISC.	\$1,150,618	1.05%
MEDICAL EQUIP&SU	\$1,149,974	1.05%
FANS, BLOWERS, COM	\$985,481	0.90%
TRUCKS, LIFTS	\$969,602	0.89%
ALL OTHERS	\$12,359,303	11.30%

LA-ONTARIO INTERNATIONAL AIRPORT

The LA-Ontario International Airport (ONT) is another factor that contributes significantly to Ontario's—not to mention the Inland Empire's—international trade success. Improving upon the previous record of more than 6.9 million annual passengers using the airport in 2004, ONT topped 7 million passengers in 2005 for the first time in its history. At its recent growth rate, ONT expects to serve 30 million passengers by 2025. Moreover, UPS delivered two significant pieces of good news during the year that should portend future growth for the hub. First, in May 2005, UPS announced Ontario's selection as one of five new regional heavy freight hubs comprising the backbone of the new UPS Supply Chain Solutions network. Second, UPS received additional operating rights to China during the year, augmenting the UPS China Express service, which was initiated in Ontario in April 2001. As UPS' major regional hub in the U.S. West and with the carrier expanding its operations in China, ONT's role as a transpacific gateway should increase. While ONT recorded 605,132 tons in 2004, the airport is projected to reach 2.3 million tons by 2025. (See Figure for Recent Air Cargo Trend).

Figure 2: Total Air Cargo (Freight) Moving Through ONT



Source: Los Angeles World Airports (LAWA). Traffic Comparison.

U.S. SEAPORTS

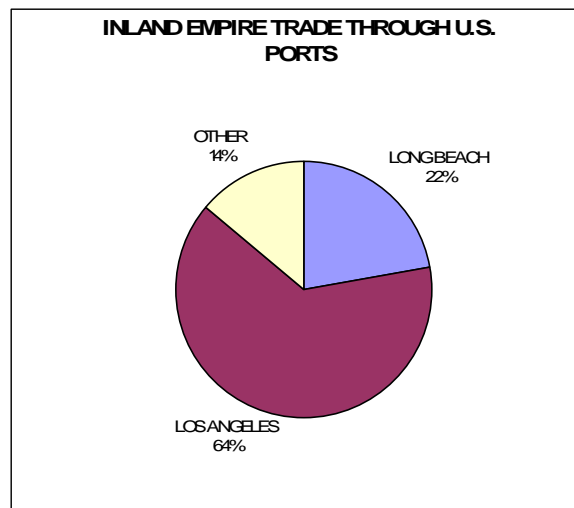
As expected, Inland Empire cities rely heavily on the neighboring ports of Los Angeles and Long Beach to carry out international trade activity. The reason for this strong bias in port activity is straight forward: the Inland Empire's top trading partners are primarily Asian countries (See Trading Partner Section Above) and using ports in close geographical proximity to our region lowers transportation costs and increases profitability. In 2004, the Inland Empire was responsible for 1.94 billion pounds of merchandise passing through the Port of Los Angeles, which is the Inland Empire's most important port in terms of total trade. The Port of Los Angeles was responsible for

64% of the Inland Empire's total trade in 2004. Despite maintaining the top position, total trade from the Inland Empire passing through the Port of Los Angeles actually decreased from 2.3 billion pounds in 2000.

In contrast to the Port of Los Angeles, the Port of Long Beach recorded strong growth in shipments into and out of the Inland Empire over the period from 2000-2004. Total trade activity increased from 409 million pounds in 2000 to 674 million pounds in 2004. However, as indicated in these data, the Port of Long Beach represents only 22% of total trade—total trade from the Southern California ports (that is, both the port of L.A. and Long Beach) actually decreased over the five year period by more than 123 million pounds.

The primary reason for the slow down in Southern California port activity was an unprecedented level of congestion, which peaked in the fourth quarter of 2004 before tapering off in later months. Analysts agree that intense transpacific trade growth was the key contributor to port congestion; at the Port of Long Beach, for example, transpacific containerized cargo increased by 24%, while forecasts had been in the 3% range.²² Southern California's ports did not have the labor or infrastructure to handle such a drastic increase in trade activity—a phenomenon that had negative implications for the region's rail and trucking systems as well. As a result of congestion problems in Southern California ports, firms have begun to seek alternative U.S. port destinations for their shipping needs.²³ Likewise, the Inland Empire's use of ports outside of the Southern California region has grown over the years, increasing from 112.4 million pounds in 2000 to 421.3 million pounds in 2004.

Figure 2



With forecasts indicating 13.7% coast-wide growth, port officials and local authorities are taking steps to mitigate potential congestion problems. For instance, the Pacific Maritime Association (PMA) has hired and trained 4,500 part-time workers ("casuals") bringing the total workforce to 7,800, up from 6,000 in 2004.²⁴ Moreover, the marine terminal operators have introduced "PierPass," which is a system designed to keep port terminals open later and on the

²² Smith, Y. (2005), "West Coast Port Bottlenecks Keep Narrowing," World Trade Magazine. May 1, 2005.

www.worldtrademag.com.

²³ White, R.D. (2005) "Image Woes Shrink Traffic At Port," The Los Angeles Times. August 28, 2005. www.latimes.com.

²⁴ Ibid.

weekends, hopefully speeding up container flows. In the Inland Empire, the Alameda Corridor Transportation Authority (ACTA) in cooperation with the ports of Los Angeles and Long Beach have proposed establishing a short-haul rail system that would shuttle containers between the twin ports and our region.²⁵ If the project is carried out, it will likely reduce highway congestion, noise and pollution.

CONCLUSION

Although the data in this paper generally supports the contention that trade is an important component of regional economic development, one must also acknowledge the potential negative effects of globalization. For instance, there has been much criticism in recent years about the offshoring of American jobs, in particular manufacturing jobs. Setting political rhetoric aside, however, this report suggests that it is in the interest of the Inland Empire and individual firms to seek markets for exports and to realize the savings that can be achieved by importing from countries that produce goods and services more efficiently. Inland Empire firms have already started to respond to the competitive advantages offered from doing business internationally—a claim that is supported by the significant trade growth over the past several years. Moreover, local firms have responded to the pressure of international competition, with exports increasing relative to imports from 2000 to 2004. Put simply, the current pace of globalization and trade liberalization is not going to slow down and will continue whether Inland firms engage actively in global markets or not.

It is also important to note that Ontario and the Inland Empire create sizable national benefits because over 50% of its imports are shipped elsewhere in the country. The primary source of this trade activity involves logistics, distribution, and transportation of cargo moving into and out of the region. This has been the engine of regional job growth. Whereas imports are usually conceived of in terms of domestic job losses (nationally in the automobile, steel, and shoe industries and in Southern California in such import-sensitive sectors as apparels and canning), the distribution and/or transshipment of imported goods, and the jobs created create regional economic benefits.²⁶

Despite the potential economic benefits of growing international trade, several issues may impede trade growth in the future. As stated above, congestion at Southern California ports is making it more difficult to carry out international business activity, as local firms seek out alternative U.S. port destinations. Investment in transportation and infrastructure are essential for global competitiveness and future regional development.

²⁵ Port of Long Beach (2005), “Multiple Solutions Needed to Reduce Regional Congestion from Trade Traffic,” Interchange, May 2005. www.polb.com

²⁶ Enhancing Southern California’s Global Gateways: Challenges and Opportunities for Trade Infrastructure Development Steven Erie, June 2003 Pacific Council on International Policy. Los Angeles.