FORUM FRONTERIZO

The Global Engagement of San Diego/Baja California

THE LINKAGES BETWEEN SAN DIEGO/TIJUANA

AND ITS NEIGHBORS TO THE NORTH

A Briefing Paper

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This briefing paper explores the current and potential business, political and social linkages between San Diego/Tijuana and the greater Los Angeles area, including the counties of Los Angeles, Orange, Riverside, San Bernardino and Ventura. These linkages are examined in the context of globalization — the macro-economic forces and processes affecting all regions seeking to position themselves for successful participation in the global economy. This paper is designed to inform the deliberations of civic leadership seeking to improve and strengthen these linkages. It examines current linkages, common needs creating further potential linkages, and the ways to frame a constructive civic discussion and partnership.

I. WHAT ARE THE CURRENT LINKAGES?

There are already a number of well-developed economic and business linkages between San Diego/Tijuana and the greater Los Angeles area. Among the most significant of these linkages are the following:

A. Airline traffic: Lindbergh Field has limited nonstop international service to Canada, Mexico and the United Kingdom. Obviously, Asia would be a major destination for San Diego/Tijuana businesses, but it is the larger planes, such as the MD-11, the Boeing 747 and the Boeing 777, that provide direct service on these routes. Air cargo capacity is often as important as passenger capacity in these equipment assignments. Currently Lindbergh Field cannot handle this size of plane fully loaded.

For business leaders in the San Diego/Tijuana region, the primary alternative is to utilize Los Angeles International Airport (LAX) for almost all of their international passenger service needs. As of May 2000 there were 50 flights a day between LAX and the airports in San Diego County. Of these, eight are jets operated by major carriers and 42 are by “regional” carriers. Many passengers on these flights are making international connections or seeking more convenient service to major national destinations.

While this currently is a mutually beneficial relationship, there are growing political and environmental constraints upon the expansion of LAX and other Los Angeles-area airports. The long-delayed LAX Master Plan, designed to guide airport development to 2015, recently featured the elimination of a proposed fifth commuter runway. The plan now focuses upon air cargo capability and ground access. These changes affect the cross-border region. For example, **there will be pressure to reduce the number of commuter flights from Lindbergh Field and Carlsbad’s Palomar Airport to LAX**, replacing turbo-props with less frequent jet service.

B. Banking: Given the cluster of Asian multi-national corporations with investments in Tijuana, there is a pronounced need for access to international banking services. However, San Diego/Tijuana lacks indigenous capacity in this area. A preliminary survey of all banks in California reveals the limited number of international banks in San Diego. Four foreign banks were identified: Deutsche Bank, General Bank (a California-based commercial bank, but with significant Asian business), Sakura Bank (a branch) and Tokai

Bank (a branch). The only San Diego-based bank that is providing financing to companies operating in Baja California is First National Bank of San Diego. The largest provider of capital for plant and equipment for Baja California appears to be GE Capital, which is not based in San Diego. The absence of international banks with a significant presence in San Diego points to the usage of the large foreign banking presence in the Los Angeles area, mainly in Los Angeles County.

C. Manufacturing: Southern California as a macro-region has a very large manufacturing base, a fact that is not generally recognized. According to the California Employment Development Department, 1999 employment totals in manufacturing were:

Los Angeles County	643,400
Orange County	228,900
Riverside-San Bernardino	118,300
Ventura County	38,900
San Diego County	128,300
Total	1,157,800

Adding in the manufacturing activity in Tijuana, this binational macro-region could well be one of the largest concentrations of manufacturing in the world. The focus in California's manufacturing is on technology and consumer goods, both soft and hard.

When viewed from a macro-regional perspective, **an unrecognized comparative advantage is the quick access by manufacturing companies anywhere in the six counties or Tijuana to an array of inputs.** Close relationships between these companies and their suppliers would enhance productivity. There is the potential for substantial vertical integration in electronics and consumer electronics that would add to the value of a Southern California/Tijuana location.

D. Rail Service: The major rail routes to the Southeast, the Midwest and the Pacific Northwest originate in the Los Angeles Basin. Today, rail freight traffic out of San Diego must move north to Orange and Los Angeles counties over trackage owned by a transportation agency. This line, which is mainly single track south of Fullerton, carries both Amtrak and rail commuter service. Amtrak service is in the process of being upgraded and expanded.

There has been discussion of reviving, for freight traffic, the San Diego & Arizona Eastern line that runs east from San Diego to a connection with the Union Pacific route (to Texas and the Midwest) at El Centro in Imperial County. However, it is important to recognize from the outset that this would be very expensive, that it would involve a "back-haul" and that the line would be difficult to operate due to the topography traversed. The challenging topography would also severely limit train speeds. **Civic leaders in San Diego and Tijuana should engage in a serious conversation with rail planners from greater Los Angeles before embarking on this complicated and resource-intensive undertaking.**

E. Shipping: There are currently two main linkages for shipping between San Diego/Tijuana and its neighbors to the north. First, containers moving between Asia and the maquiladora manufacturing plants in Tijuana are transported through the ports of Long Beach and Los Angeles.

The second linkage involves specialization. As the focus of the San Pedro Bay ports moves increasingly to containers, some other types of traffic are being displaced. The best example of this phenomenon is the shift of auto traffic to the Port of San Diego. In 1999, San Diego's port handled 2.22 million tons of cars and trucks (as reported by the Pacific Maritime Association), an increase of 17.6 percent over 1998. Auto and truck traffic is land-use-intensive, and the Port of San Diego currently has a limited amount of space to accommodate this activity.

From the perspective of the ports of San Pedro Bay, this may well be a rational division of labor. The container business features growing consolidation on both the sea and land sides. Fewer and larger container vessels are going to fewer and larger load center ports. However, from San Diego's perspective, given land and terminal constraints, automobiles generate port revenues but are highly land-intensive relative to many other commodities shipped. Both the ports of San Diego and Ensenada have good niche market opportunities, such as container shipments from the maquilas to South American markets out of Ensenada.

F. Tourism: The tourism sector also sees major linkages between San Diego/Tijuana and its northern neighbors. According to the Los Angeles Convention and Visitors Bureau, San Diego is their largest source of domestic business, with 410,000 overnight visitors in 1999. The Los Angeles Bureau does not track "day-trippers," which would obviously be significant.

San Diego collects data in a slightly different fashion. In 1999, there were a total of 26 million visitors from "Southern California," primarily from Los Angeles and Orange counties. Of the latter, 14.7 million were "overnight" visitors. Of the "day-trippers," 73 percent originated in Southern California, with Japanese visitors being singled out as a significant segment.

Data from the Baja California Ministry of Tourism reveals similar linkages, with a significant number of foreign tourists to Tijuana originating in Southern California. These include large numbers of Southern California residents as well as visitors from Asia who are "day-trippers" visiting Tijuana as part of a Southern California itinerary.

II. COMMON NEEDS

The Southern California economy is currently enjoying a period of rapid growth, some of which has put pressure on the infrastructure. In addition, population growth is accelerating, with a forecast of an additional 2.7 million residents between 2000 and

2010. This will increase the total population of the Southern California macro-region (which excludes Imperial County) to 22.3 million.

In order to accommodate this growth, major infrastructure needs across the macro-region need to be addressed. These include:

A. Airports: LAX is reintroducing its expansion plan, which has as its main focus the improvement of ground access for passengers and air cargo. There is still vigorous opposition from both surrounding communities and groups in the Riverside-San Bernardino area who want new airport development to occur in the Inland Empire. The latter hope to generate air cargo business for onetime military fields in their area. A proposed airport at the former El Toro military base in Orange County has run into fierce opposition from surrounding communities. Moreover, even if a commercial airport is developed at El Toro, it may not have the capacity required to make a significant impact on Southern California's combined air passenger services needs.

San Diego continues to explore its options for airport development; however, much of this planning is isolated from other airport planning efforts under way across Southern California. **As of yet there is no <u>combined</u> process for planning the future of air service that spans from Ventura to San Diego counties, let alone a process that would encompass Baja California.** The two agencies charged with regional transportation planning in Southern California — the Southern California Association of Governments (SCAG) and the San Diego Association of Governments (SANDAG) —need to further their collaborative airport planning efforts, demand modeling and site-selection processes.

B. Freeways: Freeway capacity will have to be expanded to handle both population and business growth. A problem is that some rights of way cannot handle the addition of lanes without the involuntary acquisition of residential and commercial properties. Moreover, some freeways have heavy volumes of trucks moving containers from the ports to both distribution centers and factories. To date, the transfer of containers by truck has had only a limited impact on traffic congestion in San Diego County as a whole, although specific routes are strongly impacted.

C. Port expansions: The ports of Long Beach and Los Angeles both have aggressive expansion programs, and the shipping companies are acquiring larger container ships to take advantage of this expanded capacity. International trade in our macro-region has become two distinct businesses. First is the physical production of goods and services for export, which occurs throughout Southern California as well as through a substantial manufacturing base in Baja California. The second, equally important component of international trade is the rapidly changing art of international logistics management. However, the implications of this trade growth on the rest of the region's infrastructure, mainly road and rail, are immense and not well understood.

Moving goods through Southern California is a distinct element of our macro-region's competitive advantage in the global economy. Maximizing our capacity to

manage the movement of goods between counties, as well as across the international border, deserves concerted attention from civic leaders and policy-makers throughout Southern California. As freeway congestion in Southern California grows, this could become a serious impediment to the cross-border region's global engagement.

D. Railroads: Railroad rights of way will need grade separation work to accommodate both increased commuter and container train traffic. Currently, most grade separation work is done on a piecemeal basis, but a more integrated approach will be necessary in the future. Again, strengthening our capacity in this area can best be derived from combined planning activities that encompass both the SCAG and SANDAG territories.

III. FRAMING THE DISCUSSION

A constructive civic discussion for partnership between San Diego/Tijuana and its northern neighbors should begin by considering the following questions:

1) Is there any unified vision for the greater Southern California area?

The current answer would have to be an emphatic no. Right now, all thinking seems to be ultra-local. This characterization can be applied equally to both San Diego and the other counties. Business organizations in Southern California tend to be very focused on needs up to the county level. **Cross-county dialogues that are driven by business leadership remain a rare phenomenon.** Moreover, leading business organizations, such as chambers of commerce, are under some stress due to the evolving economy, which has caused declines in membership.

On the government side, there are the regional associations of government. **One problem here is that the Los Angeles region's agency, SCAG, ropes in Imperial County as well as the five Los Angeles-area counties. Imperial County has very little in common with the Los Angeles area and shares more in common with San Diego.** There are some internal fractures in SCAG, and in Los Angeles County "councils of governments" (or of cities in a region) have been formed, which somewhat diffuses potential leadership.

An unusual aspect to Southern California is that several counties or areas have distinct sub-regions with their own attitudes and cultures. For example, Los Angeles County has at least nine such sub-regions, not including the City of Los Angeles. The city is currently further distracted by efforts by the San Fernando Valley, San Pedro/Wilmington and Hollywood to secede. Further, in 2001 a new mayor will be elected in Los Angeles. It also has to be acknowledged that relations between the City of Los Angeles and the 87 other cities in Los Angeles County are at times tense.

Orange County has two distinct sub-regions, and the battle over El Toro is proving to be a wedge that is driving them apart. The Riverside-San Bernardino area has three sub-regions, with the “High Desert” (or the area north of the Cajon Pass) often feeling like a stepchild of the Inland Empire.

Media access, to help inform the community, is also a problem, especially in the greater Los Angeles market. The San Diego papers and the Orange County Register provide good coverage and a point of view in their respective areas, but in the rest of the market, print media coverage is very fractured.

Adding to the problem is the complacency in the population generated by the good economic times, as well as a growing “NIMBYism.” The latter is fueled by concern over the quality of life in the region, which is widely viewed as being in decline.

2) What are the key leverage points?

There are a variety of leverage points to generate balanced, mutually beneficial growth, including:

- ***The size of the greater Southern California region***, in terms of population and business base. As of Jan. 1, 2000 (according to the California Department of Finance), the six counties that comprise the Southern California region — San Diego, Los Angeles, Orange, Riverside, San Bernardino and Ventura — had a population of 19.59 million. Combined with the close to 2 million estimated population of Tijuana, this represents a huge consumer market that can be quickly accessed.

  In terms of the economy, Bureau of the Census data reveal that there are 422,349 businesses in the six Southern California counties and 5.6 million employees, not including government jobs. An additional attraction is the diverse economic base of the region, with 12 “export” industries (which export a good or service from the area, thus bringing in new money for the economy).

- ***The array of colleges and universities*** in the six counties is unique, and they possess the capacity to provide cutting-edge training to our workforce. For example, there are six major medical schools in the six-county area. Another example is the Art Center College of Design in Pasadena. Because of the region’s reputation in auto design, all of the major automakers have design studios located somewhere in the six counties.

- ***The twin San Pedro Bay ports are an important asset*** for the region. Together they represent the largest port complex in the United States. For the Southern California/Baja California macro-region, they represent an unparalleled asset. The ports have no depth problems, have no rail access problems, are expanding, have a large local business base, and attract the newest and largest container ships. This results in a high level of service for companies in the region who rely on ocean shipping.

- ***The rail connections of Southern California are also unique***. The main lines of the Burlington Northern Santa Fe and the Union Pacific have no major operational impediments, such as those encountered out of the San Francisco and Seattle areas.

3) What are the impediments?

Even under the best of circumstances, the impediments to close cooperation between the Los Angeles area and San Diego/Tijuana would be substantial. Some of the chief impediments are:

- While the six Southern California counties have a somewhat integrated economy, this is not generally acknowledged by either business or government leaders. And community opposition to perceived growth has become quite fierce, given the prosperous economic times. Any grass-roots effort to build consensus for any project is likely to be both time-consuming and expensive.

- Term limits for politicians will continue to create problems, because most office-holders are looking for immediate results. As a result, it is difficult for long-term controversial projects to find champions.

- As noted earlier, most thinking in Southern California is ultra-local. This makes it particularly difficult to get smaller cities to buy into overall regional, or macro-regional, strategies.

- When dealing with Mexico, one immediate issue is the possibility that jobs will be exported from the United States. This issue has as much saliency in many parts of Southern California as it does in the "Rust Belt" cities of the Midwest and the Northeast. This has to be placed in the context of current opposition to globalization.

- Land use could possibly become an issue; the urban areas of Los Angeles and Orange counties already are experiencing shortages. This could precipitate fights over the relocation of both attractive and unattractive activities. **One land-use issue that needs close attention throughout the six counties is the availability and affordability of housing.**

4) What are the risks if no action is taken to work more closely together?

Forecasting the impacts of little or no macro-regional collaboration is a risky undertaking. However, based on existing trends, the following outcomes are likely if we do not find a way to build and sustain a conversation between San Diego/Tijuana and its northern neighbors regarding our interwoven futures in an era of globalism:

- There will be an overall degradation of the quality of life for all residents in the six-county area.

- Business growth could be short-circuited as the six-county macro-region's competitiveness is eroded. Recruiters from other states are still very active in the region, focusing particularly on attracting high-technology companies.

- Lack of proactive collaboration will affect the quality of jobs being created, a situation that is already the subject of some debate in both San Diego/Tijuana and greater Los Angeles.

Given these risks, a successful global engagement strategy requires better civic dialogue between business and governmental leaders in San Diego/Tijuana and the Los Angeles area. This is particularly true with respect to shared trade infrastructure — ports, rail, airports and highways — where more coordinated macro-regional planning needs to occur.