

Group C: Diversifying Hawaii's Economy



Policy Issue Brief:

“Diversifying Hawai‘i’s Economy” by Sun-Ki Chai

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Summary of Work Sessions:

Session I. Preferred Futures and Public Policy Strategies

More than twenty conference participants representing a variety of sectors described some of their preferred futures and basic strategies to help diversify Hawai‘i’s economy in sustainable ways. There were several recurring suggestions. Specific examples suggested to diversify the economy included: developing a knowledge-based economy; redefining tourism niches; becoming a hub for

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international education, technology and research collaboration; creating a HI center for peace, health and wellness and be the healing islands; and supporting renewable energy and information technology as key industries. Many people emphasized the need to start from certain principles such as: preserving our past while connecting to our future; making sure that sustainable development sustains the good will of the host community; creating a unique HI and not becoming another mainland big city; and that all new approaches should assure that a diversified economy has a first objective of sustainable living wages.

Many strategies for reaching preferred futures were discussed. The following were mentioned most often: hosting community conversations; asset mapping; partnering and collaboration; using unconventional educational models; encouraging creative and visionary leadership that transcends “we can not” and “we have always done it that way” approaches; restoring Hawai’i’s environment; focusing on job training for new industries and supporting the local workforce; and encouraging home and community-based economic development. In addition, they discussed using a double bottom lines that account for both business profits and social, cultural and environment responsibility; and see if HI can be to the Asia Pacific region what Ireland is to the EU on information technology.

Session II. Public Policies and Recommendations/ Next Steps

The afternoon session had fewer participants and they reviewed the morning deliberations and developed a variety of priority public policy areas and recommendations for next steps. Several priorities were noted, including: use technology to continue conference conversation about sustainable diversified economy (website plus); develop data bases, inventories and updates on “who is doing what” and “what is happening on sustainable business and economy and efforts to diversify the economy;” widen the circle of participation – assure inclusion of all stakeholders; focus on clear market potential industries such as renewable energy, diversified tourism and international education; convene stakeholders, use collaborative strategies to support industry growth; and set benchmarks, goals and measures for success in diversifying the economy. The group also discussed a) who else should be included in these conversations that was not here today and b) how can the University of Hawai’i’s College of Social Science Public Policy Center help.

C. Diversifying Hawai`i's Economy

Sun-Ki Chai

For much of its unified history, Hawai`i has depended on a single industry to be the backbone of its economy, moving from sandalwood to whaling to sugar and, finally, to tourism. Nonetheless, economic diversification has long been seen as the path to sustained and more robust development. While there have been many achievements along the path to diversification within the past several years, dependence on tourism remains a fact of life. We will seek to analyze the barriers and opportunities for successful economic diversification in Hawai`i, focusing in particular (though not exclusively) on the following issues areas:

Systematically identifying Hawai`i's intrinsic socioeconomic attributes and tailoring policies to them.

Analyzing processes of social change in order to build long-term competitive advantage.

Broadly analyzing forward and backward linkages for emerging sectors and generating holistic policy recommendations.

Background

Recounting past economic diversification policies in Hawai`i is a daunting task, since government policies explicitly aimed at achieving diversification date at least back to the early days of statehood and probably long before then. Ever since the 1980s, much of the diversification effort has been centered around high technology, with subsectors including computer software, biotechnology, astronomy, alternative energy research, and ocean science each receiving their share of attention. During this period, there have been a number of visible and tangible policies aimed at promoting high tech, including funding of the High Tech Development Corporation in the early 1980s, as well as the Act 221 tax credit more recently. A certain amount of emphasis has also been placed on overlapping sectors such as diversified agriculture and entertainment. Nonetheless, the Hawai`i economy remains the 5th least-diversified among those of all U.S. states.

Rather than attempting to go beyond this very brief summary to review the often frustrating history of diversification in more detail, I will instead try to challenge participants in this conference to move beyond well-worn topics by considering three issues that deserve more, or at least more systematic, attention than they currently receive in the diversification debate. Along the way, I will present a number of unconventional and semi-polemical proposals, some perhaps of dubious merit, but all intended to provoke debate.

Issues

Hawai`i's Intrinsic Socioeconomic Attributes

Hawai`i's pluses and minuses as an investment destination, particularly the minuses, have been discussed to the point where they now often taken for granted. What is lacking, however, is much of

an attempt to go beyond physical and financial variables to look at a broader set of societal issues. In the debate over Hawai'i's base for economic diversification, too much attention is paid to "hard" economic attributes such as geographical location and natural resources and insufficient attention to "soft" ones such as human and cultural capital. A broader analysis is essential if we are to find ways to optimally leverage our unique attributes to maximum advantage rather than adopting generic solutions.

Despite earlier rhetoric, it is increasingly accepted that our location in the middle of the Pacific does not provide any major economic advantage (other than perhaps time zone) in the age of routine transcontinental flight and broadband communication. Moreover, beautiful scenery and pleasant climate, while definite pluses, are probably not going to play a crucial role in determining investment choices outside of the tourism industry. On the other hand, while a reduced tax burden on businesses is certainly relevant, low taxes are neither a necessary nor a sufficient condition for technology-fueled economic growth (think Northern California or Massachusetts).

On the other hand, the state does possess a set of unique assets whose economic importance is sometimes given short shrift. One is our cultural diversity, with its complex swirling and blending of Pacific, East Asian, and Western ethnicities. Arguably, no other place in the world contains the same concentrated variety of language, food, fashion, music, and arts within a comparably small space and population. This contrasts with our scenery and climate, for which there are (as much as we would like to think otherwise) plenty of competing destinations around the world. Moreover, our cultural diversity can have an economic impact far beyond that of drawing tourists to the islands. In the era of global corporations, multinational / multicultural workforces are becoming increasingly prevalent, particularly in high technology businesses. One consequence of this is the need for such corporations to locate facilities in areas that cater to the widely varying personal needs of educated employees from very diverse backgrounds. While some of the larger metropolitan areas on the mainland boast considerable cultural diversity, this diversity is typically segregated into relatively inaccessible ethnic enclaves. Hawai'i's offering of geographically concentrated, "one-stop" multiculturalism is an asset that can only increase in value as time goes on, and can be developed into a marketable commodity by selective promotion of businesses that involve sustained cross-national collaboration across the Pacific Rim.

Another asset is our strong cultural affinity towards technical education. Given the current crisis in public education within the state, this is a counterintuitive point to be making in our favor. Indeed, there is a frequent tendency to take a fatalistic or even derisive attitude towards the academic quality of the local population. However, once one takes into account the unusually high rate of private school enrollment and advancement to college (themselves indications of an academically-inclined economic culture), Hawai'i is statistically one of the best-performing of all states in S.A.T. math scores, and one of the fastest increasing with regards to both math and verbal scores. This performance is particularly impressive given the relatively large immigrant population in the state with limited facility in the English language, but is not surprising given the high percentage of our population drawn from cultures that regularly top of the world tables in math and science aptitude.

With improved recognition and cultivation, the technical talent of our local youth could become one of the state's major selling points.

Social Change

Successful diversification is a medium to long-term proposition rather than an objective that can be accomplished overnight. It follows that success depends on policies that anticipate international economic trends rather than simply adjusting to the status quo. Social science theories of social change posit a number of major international trends that relate to the long-term development of our local economy. Among them are the continued spread of global capitalism and the rising inter-availability of consumer goods across different countries. However, this rising efficiency in production and distribution is seen as having two countervailing cultural effects. The first is the emergence in high-income countries of a so-called "post-materialistic" culture based on self-actualization and cultivation of taste rather than on physical comfort and security. A related effect is the emergence of "identity" and more specifically, a self-conscious identification with locality, as a major factor in determining demand for consumer products.

These trends imply that Hawai`i would be well-served by leveraging its international image as a tropical paradise to produce and market products that appeal to the taste aspirations of this newer breed of consumer. In diversified agriculture, the high cost of labor can be compensated for by shifting production away from the commodity market, where declining terms of trade seem to be the norm, into the "designer food" market where the local product can be clearly differentiated from cheaper imports. For instance, for the cane industry, this means moving away from white sugar and towards locale-branded unprocessed raw sugars with unique flavor and aroma characteristics that could eventually be given a state-registered "appellation contrôlée" similar to that recently implemented for Kona coffee.

Another way to take advantage of these trends is to actively position Hawai`i as the premiere destination for overseas tertiary education by East Asian nationals. A rapidly growing number of students from Japan, South Korea, Taiwan, and other developed East Asian countries are choosing to pursue higher education overseas rather than in their home countries, a wave that is expected to explode to tsunami proportions over the next several years. This is due to the anachronistic but politically entrenched objective exam-based system of college admission used in those countries.

This system is at odds with the growing importance East Asian youth place on self-actualization and lifestyle issues, making them unwilling to tolerate the "exam hell" suffered by earlier generations. While Hawai`i's aforementioned cultural advantages have already helped it to attract a steady stream of students from East Asia, much more could be done to market the state as an education destination and to build an infrastructure for nurturing foreign students once they arrive.

Forward and Backward Linkages

The notion that sectoral policies cannot be created in isolation, that all economic sectors must be considered simultaneously as part of an interdependent whole, is a truism that is usually honored only in the breach. However, success in economic diversification depends not only on supporting infant industries directly, but on building linkages between them and mature industries, as well as developing capacities in supporting sectors.

For instance, there is a natural synergy between tourism and international education, something that HPU for instance has capitalized on in its advertising strategies. Youth who arrive from other countries on tourist visas are generally of the upper-middle and high-income categories that are likely to be candidates for overseas study. Hence a tourist audience is one to which we should systematically but subtly introduce the message that Hawai`i is not only culturally hospitable to foreign students, but also goes out of its way to ease their transition into education abroad. In addition, many of these students, if they study in Hawai`i, will eventually graduate to be bilingual and cosmopolitan entrepreneurs likely to found companies with the very kinds of multinational / multicultural workforces that will readily fit into local society.

However, a thriving high-tech sector requires not entrepreneurs with not only top-notch cultural skills, but cutting-edge technical skills as well. And, as the case of the Silicon Valley shows, the most reliable generator of technically innovative entrepreneurs is the presence of first-rate university engineering and applied science departments that attract the best local and international talent at both the graduate and undergraduate level. Given this, any money that can attract top-level faculty and students in these subjects to Hawai`i universities will be well spent, even if the money has to be taken away from other economic development programs.

What this short position paper envisions, then, is a relatively focused strategy in which Hawai`i's economic future is projected to center on its role as a multicultural arena for intellectual exchange and business collaboration among scientists and entrepreneurs from various Pacific Rim nations. Recognizing and maintaining this focus will allow us to more precisely target our development strategies, generating improved long-term results. While this is not the only possible vision for a truly diversified yet prosperous Hawai`i economy, it may be the most plausible one.

C. Diversifying Hawaii's Economy

Work Session I. Preferred Futures and Public Policy Strategies

Wages and Hour Class--lots of bottom to higher middle income.

- Preferred future:
 - Acknowledging the assets of each island and respectfully integrating them into a knowledge-based economy.
 - Young people able to make a good living without leaving the state.
 - Tourism being re-defined by niche areas. (i.e.--cultural, educational, tech, agro-)
 - Agriculture being re-defined from its single-industry history/base to culturally significant areas.
 - Strategies to the preferred future:
 1. Assets mapping/data gathering
 2. Community Conversations
 3. Use of unconventional educational models (i.e. "Kohala Center")
 4. Partnering/collaboration toward decision-making
 - Creating an environment for creativity and opportunity.
 - Growth for future generations.
 - Encourage "out-of-box" idea and incentives a la Act 221
 - Change the attitudes of people in government to become more helpful, creative and problem-solvers rather than the "it can't be done", create and implement "can do" seminars and training sessions (the ideas are there; they need to be free to be expressed).
- Kapu the child
 - How do you define sustainable development? I would define *sustainable development* for Hawai'i as development that will generally preserve our past and yet connect us to the future. It is development that should occur as an extension of our historic institutions, customs, traditions and culture that define us as a people and not at the expense of these important defining cultural landscape characteristics. The most important element of sustainable development is development that can sustain the goodwill of the host population.

- Cultural R+D Lab
 - Promote and create support structure to make Hawaii the world's center for international tertiary education and research collaboration.
- What is your preferred future?
 - Hawaii as a center for ideas from around the Pacific, promoting new technologies that enhances society.
 - Promote R & D through the University system that allows free flow of ideas and attracts intellectual Resources to Hawaii.
 - Within a decade, by 2015, Hawaii has become a World model or leader of sustainability (Beacon of Hope):
 - Economically
 - Culturally/Socially
 - Environmentally
 - Known as the Healing Islands, Hawaii has become/is one of the leading pioneers/centers for peace today.
 - Conflict Resolution
 - Health and wellness blended with traditional medicine.
 - Eco/cultural/historical/Advance tourism
 - Diversified life sciences, information technology, film and digital media, environmental technology, alternate energy, astronomical resources, aquaculture and tropical aqua diversity.
 - U.H. leaders or facilities of statewide sustainable development strategy--with
 1. Vision
 2. Tasks/Actions
 3. Time frames
 4. Measures
 5. Accountability by participants
 - Creating a diversified economy/jobs where families can earn "living wages," enjoy desired quality of life, and celebrates our cultural diversity.
 - Collaborative, strategic partnerships among key community stakeholders.
- Restoring of Hawaii's environment

- Creating a unique Hawaii--"not a mainland big city."
- Creating an economy that will support and encourage the above.
 - Need to educate the public--identify what we need for the future and how we reach our goal.
- A Hawaii economy that is not solely reliant on one economic sector, one that is knowledge-based, with greater sensitivity to cultural values and our environment.
- A diversified economy that provides: Job opportunities and training that enable people to attain wages necessary to meet their family's needs--quality of life--health, education and safety.
 - Changes in land use rules to allow home/community based economic development.
 - Develop state wide collaborative efforts to promote our cultural diversity.
- Preferred Future for Diversity Economy
 - I would like to see renewable energy and information technology as the new industries in addition to tourism.
 - Provide a mentoring program that gives help with the establishment of new industries.
 - See Energy Policy Board.
 - Less reliance on tourism for sustainable development.
 - Developing technology resources such as software development, network security, management of small and medium enterprises.
 - Attract venture capital to expand our training institutes for developing human resources for IT.
 - Public Policy that builds on Tax Incentives to attract business with adequate infrastructure.
 - An economy with a nice mix of industries and jobs that is consistent with and supports our culture, our values and our social goals, and that helps our people become economically self-sufficient (living wages) and resilient (adaptable with skills and knowledge) and insulated from economic risks.

- Invest in and publicize model businesses/ventures that combine business savvy and social, cultural, and environmental responsibility (i.e. double bottom line businesses).
- Economy that generates income for all residents to provide comfortable standard of living, consistent with a healthy, vibrant environment.
 - Develop consensus public policy principle that focuses government action on providing framework allowing private incentives to meet social goals.
- Have the world identify/view Hawaii as the focus of East/West communications. For example, Ireland's role within the EU on IT.
 - Identify and establish a process to educate the global market place on advantages of HI as an IT hub.
- Hawaii Tourism Industry to evolve into bedroom community for housing the professionals, technicians, and support group for the world.
 - Meaningful data base as advocated by "Doc" Berry.
 - Used by a functional plan on major industry such as tourism, energy, education with major stockholders actively involved in each.

Work Session II. Priority Public Policies and Recommendations/Next Steps

Use technology to continue conversation--web site

- PPC--Convenor role across sectors
- Help share info and knowledge

NEXT STEPS

- Keep conversation going
- Virtual conference 24/7
- Resurrect the old "think tank" model
- Provide a 'data base' of the issues--including historical timeline of past practices, bench marks, trends.
- Complete the directory and arrange for 'updates' on who's doing what statewide.
- Ensure continuity via engagement of all countries in the process. Avoid being Honolulu-centric.
- Make sure the "best minds" also include practitioners at the "lowest levels" and not primarily intellectuals.
- Move from abstraction to actual problems.
- Frame the major sustainability themes emerging from this conference into constitutional language proposals for implementation as a new section of the Hawaii State Constitution.
- Pick target "Low Hanging Fruit" industries with clear market potential (e.g. Renewable Energy, Diversified Tourism, International Education) and do the following:
 - Convene key stakeholders including industry leaders, entrepreneurs, regulators, policy makers, and collaboratively define action plan to support industry growth.
 - Create virtual network or other means to publicize successes and keep conversation going among members and link them to others with resources.
 - Set goals and indicators.
 - Specific proposals for short-term diversification fund infrastructure for marketing Hawaii as destination for international tertiary education.
 - Encourage outlets for interaction between tourists and local population--e.g. Home stays, school visits.

- Begin an ongoing process of "conversations" on ideas and issues and make a concerted effort to expand the number of participants each time conversations take place.
- Do some things now:
 - Create a sustainable web site
 - Start listing projects and contacts
 - Keep the site active--with success so interested people can find each other
 - Summarize conference on web site
 - Ask for ideas for what's next

WHO ELSE SHOULD BE INVOLVED

- Cultural practitioners (not confined to Native Hawaiians only).
- Community based organizations
- Public Policy Organizational groups' representatives from elsewhere (other institutes--i.e. Rocky Mountain, etc...)
- Social entrepreneurs at implementation level.
- Governor's office, Senate and House Leaders, County Councils.
- Already involved: Academics, economic development agencies (public and private), and some business leaders.
- Need to be involved: More business leaders, young next-generation entrepreneurs.
- Important stakeholders will identify themselves once sources of information readily available.
- Business partners--large and small.
- Government--Federal, State, Local
- Community groups
- Governor's office (herself and staff administration)
- Schools--preschool to 12th grade--inviting their ideas/comments on preferred future and an web site and media

HOW CAN THE PUBLIC POLICY CENTER HELP

- Continue to convene the players.
- Maintain web-site/List or serve resource where anyone can site
- Post a question and anyone can reply

- PPC should archive and index topics
- Commission monograph on selected topics--e.g. How should diversity be measured; how should sustainability be measured? What is the connection between diversity and sustainability? Can too much diversity inhibit sustainability? Is diversity good for its own sake, apart from reducing volatility/vulnerability? Is there an "optimal" level of diversity? Is diversity qualitative or quantitative?
- Schedule follow-up conference.
- Help organize a call to action for a Constitutional task force on stewardship and sustainability.
- Convene stake
- Set up real/virtual networks
- Summarize existing info on industries' markers, etc.
- Research/develop new info as needed
- Use technology including web site as means to continue conversation going between concerned stakeholders on topics of interest.
- PPC can be the information facilitator and most for site and conversations.
- PPC can be "label" under which position papers and reports issued.
- Act as the facilitator for these conversations
- Web site--post successes and contacts
- Summarize conference
- Keep the focus urgent and the discussion going!