



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: dbedt.hawaii.gov

Telephone: (808) 586-2355
Fax: (808) 586-2377

Statement of
LUIS P. SALAVERIA
Director

Department of Business, Economic Development, and Tourism
before the
COMMITTEE ON TOURISM
Wednesday, February 03, 2016
10:00 A.M.

in consideration of
HB 2259
RELATING TO ECONOMIC LEAKAGE

Chair Brower, Vice Chair Ohno, and Members of the Committee.

The Department of Business, Economic Development & Tourism (DBEDT) offers comments on HB2259, which would require DBEDT to prepare a report that examines the severity of economic leakage in the State's tourism industry. DBEDT supports the overall intent of this bill, but would like to provide the following comments:

- The data does not currently exist and it is expensive to obtain data through business surveys.
- Visitors spend on a wide range of goods and services so that surveys should also cover food services establishments, grocery stores, museums, tour operators, travel agencies, rental car companies, duty free stores, department stores, ABC stores, outlet stores, and hotels. Developers of hotels and timeshares should also be included.
- We estimate that \$200,000 would be needed to hire a research firm to conduct the required surveys.

Thank you for the opportunity to provide the above comments.



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Written Testimony Presented Before the
House Committee on Tourism
Wednesday, February 3, 2016 at 10:00am

By

Robert Bley-Vroman, Chancellor

And

Dr. Carl Bonham, Executive Director
University of Hawai'i Economic Research Organization
University of Hawai'i at Mānoa

HB 2259 – RELATING TO ECONOMIC LEAKAGE

Chair Brower, Vice Chair Ohno and members of the committee:

As Executive Director of the University of Hawai'i Economic Research Organization (UHERO), and a Professor of Economics, on behalf of the University of Hawai'i, we offer comments on HB 2259 which appropriates funds and directs the Department of Business, Economic Development, and Tourism to prepare a report examining the severity of economic leakage in the State's tourism industry.

We support funding additional research on Hawai'i's tourism industry. However, focusing on leakages from the tourism industry is not the most productive area of research. Import substitution as an economic development tool has been discredited and for good reason. Instead, economic development policy today focuses on specialization and trade as the path to economic growth. The bill provides examples of leakages including foreign tour operators offering tours in Hawai'i, foreign debt incurred by Hawai'i resorts, and the sale of souvenirs that are imported rather than produced in Hawai'i. The last two examples are particularly interesting. We are unaware of any Hawai'i resorts whose primary source of funds for initial development or subsequent renovation was a local bank. Rather than look at external finance as a negative for Hawai'i's tourism industry, it is a sign of the strength of the industry and the solid investment opportunities available in Hawai'i. If we were to eliminate the "leakage" of external finance, very little investment would occur in new resorts or in upgrading existing visitor plant. The second example of imported souvenirs may be important if you look at it through the lens of Hawai'i's existing strong clusters. The economic development literature points to the presence of strong clusters as a driver of wage growth, innovation and establishment birth and even the growth of new industries in a region. Research that focuses on the existing strong Hawai'i clusters in Hospitality and Tourism, Jewelry, Apparel, Music and Sound Recording, and Performing Arts to understand the inter cluster relationships may be more useful than focusing on measuring leakages. Porter (2009) suggests several forms of policy, beginning with work to identify existing clusters to better understand their composition, membership, employment and performance. Once clusters have been identified, government may

serve as a convener of cluster participants where the private sector has not already done so. Where clusters are already well organized through associations or other groups, engaging cluster participants to understand how policy can hinder or facilitate growth in the cluster is important. For example, cluster participants may benefit from shared assets and infrastructure such as community college curricula or shared university-cluster research space. Government policy can facilitate the investment in such assets, and because these investments benefit many different firms in different industries, the risk of distorting competition is lower than in the case of industrial policy. By developing a better understanding of the challenges facing the clusters of industries that are already competing internationally and selling to Hawai'i visitors and the hospitality cluster, it may be possible to design policies that in the end result in less leakage. But the leakage is not the target, leveraging Hawaii's existing strong clusters is the target.

Finally, we would like to make a more general point about economic research in Hawai'i, particularly when it comes to economic development policy. To the best of my knowledge, no Hawai'i economist is an expert in the area of regional economic development or the important and rapidly growing area of innovation and entrepreneurship. While UHERO has often volunteered or been drafted into one-off studies that may inform Hawai'i's economic development policies, the current 2.5 FTE faculty at UHERO do not have the expertise to cover this important area of research. The end result of under investing in economists is that research does not occur, the research that does occur is only cursory, or the leakage is state funding for mainland consulting firms.



HAWAI'I LODGING & TOURISM
ASSOCIATION

LATE

Testimony of

Mufi Hannemann
President & CEO
Hawai'i Lodging & Tourism Association

Tourism Committee
February 3, 2016

House Bill 2259: Relating to Economic Leakage

Chair Brower, Vice Chair Ohno, and members of the Tourism Committee:

The Hawai'i Lodging & Tourism Association (HLTA) is a statewide association of hotels, condominiums, timeshare companies, management firms, suppliers, and other related firms that benefit from and strengthen Hawai'i's visitor industry. Today our membership consists of nearly 700 members representing the state's leading industry, 165 of which are lodging properties representing almost 50,000 rooms. The visitor industry was responsible for generating \$14.9 billion in visitor spending in 2014 and supported 170,000 jobs statewide, representing a vital sector of the economy.

Thank you for the opportunity to testify. On behalf of the Hawai'i Lodging & Tourism Association, we support the intent of House Bill 2259 which will require DBEDT to research and report on economic leakage in Hawai'i's tourism industry. Such information could be helpful in our ongoing efforts in keeping our number one economic driver strong and vibrant.

Mahalo.

Chair Brower, Vice Chair Ohno, and the Distinguished Representatives on the Tourism Committee,

Subject: House Bill 2259 Relating to Economic Leakage



February 2, 2016

My name is Cody Chapin and I am testifying in support of **HB2259**. I am not an economist, but I am a graduate of the Tropical Conservation Master's Program at UH-Hilo where I studied public policy. I am writing this testimony mostly as an Oahu resident and a concerned citizen.

The Status Quo

I know that there's no need to outline to this committee how significant tourism is to Hawaii's economy. We are all well aware of the benefits the State enjoys from being a major player in the international tourism industry. It brings direct jobs to the community, tax revenues, and indirect employment in industries such as agriculture and retail. If done correctly, tourism can generate income for the local community, alleviate poverty, develop infrastructure, and allow better flow of goods and services.

On the contrary, most everyone here understands firsthand the negative impacts that tourism has on our islands. These include high cost of living, traffic and congestion, strain on environmental resources, and cultural pressures. While tourism increases the price of goods and services, land values, and building costs, local residents' income does not increase proportionately, which makes it more difficult for residents to meet their basic daily needs and erodes their economic opportunities. Tourism can, and has, declined in popularity among residents who are forced to deal with the problems brought on by development while seeing little to no direct benefit (or at least perceived benefits) to their communities.

Economic Leakage May Be a Significant Problem

The State of Hawaii has yet to assess how much tourism revenue is lost to foreign economies—an effect known as leakage—which is a problem in tourist destinations around the world. In some places, like Thailand, for example, a staggering 70% of overall tourism revenue is lost to foreign-owned businesses. Leakage occurs when:

- foreign investors who finance and operate resorts, tours, shops, hotels, restaurants, and other attractions take their profits back to their country or state of origin.
- equipment, construction materials, and consumer goods like food and drinks are imported to build tourism infrastructure and meet tourist demand.

- foreign debt is incurred in order to develop hotels, resorts, and other attractions, and must be repaid, and the list goes on.

If leakage is significant, little of the overall tourism expenditures actually remains in the local economy after taxes, thereby excluding residents in need of a better standard of living by means of tourism. Some leakage will inevitably occur within the industry and is actually healthy—so long as it is kept to a minimum.

Why This Study is Important

In light of both the benefits and challenges that tourism brings, clearly it would be in the best interests of the State to do all it possibly can to ensure there is maximum economic benefit to its communities. The people of Hawaii deserve a better standard of living by means of tourism, and knowing how much money that is leaving our state is an important first step in understanding how we can make improvements, increase efficiency, expand economic opportunities, and help local entrepreneurs to succeed.

Due to the complexity of Hawaii’s tourism infrastructure, determining leakage in the study (requested in this legislation) will not be an easy task; however, it’s not impossible. It has been done elsewhere and there are previously applied methods in peer-reviewed literature that can be used to gather data.

The assessment, once designed and completed, will provide the State of Hawaii with the preliminary, baseline information necessary to begin:

- strengthening backwards and forwards linkages among local tourism-related enterprises and suppliers, maximizing benefits to the local economy without the need to expand existing footprint of tourism infrastructure.
- removing economic and administrative barriers for local businesses (rather than placing restrictions on foreign entities) to ensure their success.
- diversifying and strengthening the local economy so it is more resilient and able to withstand future fluctuations.
- ensuring Hawaii remains competitive in the global tourism economy by retaining its unique culture and character.

In Conclusion

Our vision of the future should include:

- local entrepreneurs creating internationally-competitive tourism services and products.

- tourists purchasing locally-made, high-quality handcrafts, jewelry, clothing, instruments, and art in stores in lieu of cheap, manufactured imitations normally sold at tourist stands.
- substantial income for local families from tourism, which will keep Hawaii's traditions alive.

Tourism should help create local, high-paying jobs, support local agriculture, and promote neighborhood development in addition to preserving cultural heritage and the environment. If we do things the right way, tourism will help to preserve Hawaii's 'sense of place' for the future and provide abundance for all. **This study can be a significant first step in figuring out how to meet these goals.**

With Aloha,

Cody Chapin