

Subject: Senate Bill 3013 Relating to Economic Leakage

February 9th, 2016

My name is Cody Chapin and I am testifying in support of **SB3013**. I'm 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 as an Oahu resident and 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