

Planning Hawaii's Visitor Industry: Perspectives on its Development

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Abstract

This paper reviews and explains the evolution of Hawaii's visitor industry and associated policies. It begins with a review of the overall Hawaiian economy and a description of the visitor industry's recent growth. Concepts surrounding the Hawaii State Plan and the State Tourism Functional Plan are also reviewed. The paper also discusses the evolution of the concept of resort regions or visitor destination areas which form the basis of Hawaii's regional growth policies for tourism development.

Introduction

Good morning! It is a pleasure to be here with you for this important conference. Yesterday we heard about Chejudo and its search for an appropriate economic development strategy. We also heard about the development of tourism resources in Chejudo and a general discussion of tourism in Hawaii. I would like to follow-up by addressing the historical development of Hawaii's visitor industry, concentrating on the economic aspects of it. I hope that along the way I will be able to make clear to you what some of the obstacles to developing our visitor industry have been and how we have striven to overcome them. I will examine some of the alternatives we considered in determining our economic development strategy, review our efforts

to develop regional policies for the visitor industry and finally look towards the year 2000 and some of the issues which we will be addressing in future years. I hope my summary of our situation will provide some insights for the continued development of tourism on Chejudo.

Economic overview

It is often said that the present structure of Hawaii's economy developed in the economic boom period that followed Statehood in 1959. Certainly in the 1960's and particularly the later 1960's, the State experienced significant growth and change. However, this rapid economic development had actually begun a full decade before Statehood when the Territory of Hawaii began a sustained recovery from a painful depression primarily caused by a sharp reduction in defense expenditures following the end of World War II.

Statehood and events following it sustained and then accelerated the State's economic growth through the 1960's. In the 1965 to 1970 period, Hawaii appears to have experienced its sharpest post-World War II growth, with the 1970 to 1975 period a close second. In addition to the rapid growth in the 1950's, 1960's and early 1970's, significant changes in the structure of the economy were also taking place.

First, as expected the impact on the economy of sugar and pineapple diminished steadily from the 1950's to the 1980's while the role of tourism increased markedly. In many areas of Hawaii tourism has been the first and only form of post-plantation redevelopment. In addition, defense activities became a smaller proportion of overall economic activity but continued to grow modestly in real terms, providing a major source of stability to Oahu's economy.

Second, a fact that may be somewhat surprising is that, despite the rapid growth of tourism into the State's largest source of income, the economy as a whole showed more diversity in the early 1980's than in the 1950's. In 1955, the four primary export activities generated about 70 percent of personal income, but in 1985 they accounted for about only 50 percent. All of the many other basic economic activities that contribute to personal income, such as diversified agriculture and manufacturing (other than sugar and pineapple), increased from about 30 percent of the total to 50 in 1985.

The Boom Years

Tourism in Hawaii during the post World War II period got a significant boost from Statehood. Tourism, in turn, encouraged a tremendous investment boom in the State that did not subside until the late 1970's.

Many factors favored the continued growth of tourism after Statehood. Statehood itself focused considerable attention on Hawaii throughout the nation, attracting both visitors and investors. The Sixties were a time of unprecedented and uninterrupted prosperity for the United States and the world. Real incomes were rising, and Hawaiian vacations, previously a privilege of the wealthy were coming within the financial reach of middle-class Americans. Later in the decade, the U.S. Military's Rest and Recuperation (R & R) program encouraged thousands of Vietnam servicemen to meet their families in Honolulu. The second half of the 1960's also saw the development of Japan interest in Hawaii vacations, a factor that would play an increasingly important role in the State's visitor industry growth.

But perhaps the single most important factor responsible for sustaining Hawaii's postwar visitor growth into the 1960's and 1970's was the beginning of commercial jet airline service in 1959 — first with Boeing 707's and Douglas DC-8's and later with the Boeing 747 and DC-10 wide-bodied jets. The jets cut the transpacific flight time from the U. S. West Coast to 5 1/2 hours from the 8 1/4 hour trip of the propeller planes. The larger capacity and efficiency of the jets allowed air fares to decline 47 percent in real terms between 1958 and 1970.

Adding to the economic effect of the growth in visitors to Hawaii after Statehood was the accompanying investment boom. The negative net export of goods and services from Hawaii which represented the capital inflow of outsiders "buying into" Hawaii almost doubled from \$1.6 billion for the period 1960-64 to \$3.1 billion for the period 1965-69. These figures remained high through the first half of the 1970's. The most significantly affected industry during this boom was construction. Real construction in the State reached a peak in 1975 that has not been surpassed in any year since.

The powerful economic effects of the visitor and investment surge in the latter 1960's occurred in all regions of the State. Speculative investment in land and housing was rampant. Hawaii's total employment grew at an average of 5.4 percent per year between 1965 and 1970, faster than at any time since the end of World War II. The State's unemployment rate averaged only 3.2 percent between 1965 and

1970. The combination of the high demand for labor and spiraling housing costs sent wage rates up sharply.

However, the prosperity that characterized the U. S. in the 1960's began to falter in 1971. Between 1971 and 1984, the nation experienced four official recessions. Inflation, which averaged 2.7 percent per year through the 1960's, increased to an average 6.7 percent annual rate of increase in the first half of the 1970's and 8.9 percent between 1975 and 1980. Interest rates increased steadily in the 1970's and increases in the real incomes of Americans slowed considerably. But perhaps the most significant external factor slowing Hawaii's growth in the mid 1970's was the energy crisis. The periodic shortages of fuel and significant increases in fuel prices beginning in 1973 altered the fundamental economics of many industries, and especially the airline industry.

Decision to Develop an Overall Plan

States have the responsibility to protect the overall quality of the life of their citizens. As we have just seen, since the end of World War II, Hawaii has had periods of both inadequate and excessive economic activity. In the early 1950's the State aggressively encouraged economic growth, and with the aid of private sector groups, laid the basic foundations for the Territory's later visitor industry boom. During the decade of dramatic but uncontrolled growth in the 1960's and early 1970's the State and regional governments began to devote considerable time and energy to protecting the natural and social environment from the side effects of the massive investment and business boom that was occurring in the Islands.

In the mid 1970's, the State government made a decision to formulate a plan for overall development. This plan came to be known as the Hawaii State Plan and was written into law in 1984. The Hawaii State Plan is comprehensive. It establishes for Hawaii an overall theme, goals, objectives, policies, priority guidelines, and a system for plan formulation and program coordination to provide for the integration of all major State and County activities. Let me give you some statistics. The plan contains three goals for our State, thirty-five objectives, one hundred and sixty-seven policies to implement those objectives and eighty-two priority actions to address areas of Statewide concern.

In relation to the visitor industry it states that objective is to develop a "visitor industry that constitutes a major component of steady growth for Hawaii's economy.

The plan also lists nine policy statements for the visitor industry. Concerning priority guidelines of Statewide concern the plan notes that the overall direction shall be :

to ensure the availability of desired employment opportunities for Hawaii's present and future population in an environmentally and socially sound manner through the fostering of a balanced population and economic growth rate.

Under this overall direction the plan lists eleven priority actions.

Strategy for Economic Development

Consistent with the goals and objectives of the Hawaii State Plan the State follows a basic strategy of economic development. This strategy, however basic, has been determined by our geographic position and limited physical resources. Allow me to explain. If Hawaii had all of the resources necessary to produce and maintain a modern standard of living, its basic strategy to achieve its economic goal would be to simply develop those resources. Even then the Islands would have to seek outside help to provide the rate of investment necessary for that development. Hawaii must import much of what it consumes in order to maintain its standard of living. In order to afford imports, it must export something of value. Historically, the process has actually been the reverse. The Islands have developed export products such as sandalwood, whaling, sugar and pineapple. These exports have provided the income to broaden and increase imports. But once an import level has been attained, it is painful to cut back because of a decline in export sales.

Given this high import-export level, there are two fundamental strategies for increasing economic growth and stability: (1) promotion of export-oriented industries and (2) import substitution. Hawaii has tended to concentrate on the promotion of export-oriented industries. Let's examine our largest export oriented industry, which this conference has chosen as its focus: the visitor industry.

Hawaii's Visitor Industry: An Introduction

Tourism is currently the State's largest industry, a major source of jobs and

revenue for the State, and will continue to be so in the foreseeable future. At about \$5.6 billion in 1985 visitor related expenditures provide twice as much direct income to the State as the combined total expenditures or sales by the other three major economic activities — defense expenditures, the sugar industry and the pineapple industry.

It has been estimated that directly and indirectly the visitor industry supported 40 percent of all civilian jobs in Hawaii in 1985, up from 22 percent in 1970. The share of all household income in the State generated by the visitor industry was an estimated 33 percent in 1985, compared to 16 percent in 1970. In 1985, an estimated \$595 million in State and regional government tax revenues were generated by the visitor industry.

The "visitor industry" is not an industry in the strictest definition of the term, but is comprised of portions of many industries with businesses including hotels, scenic attractions, travel agents, gift shops, restaurants, etc. Currently, it is estimated that in terms of total sales, 96 percent of the hotel service industry, 75 percent of the air transportation industry, and 70 percent of eating and drinking establishments in Hawaii are directly supported by visitor expenditures. The visitor industry also includes smaller shares of retail (other than eating and drinking) and wholesale trade, textile and apparel, transportation (other than air transportation) and other service industries.

Towards a Regional Policy for Visitor Industry Development

The location of resort sites is important from the broader public point of view, as well as from the standpoint of the private investor. The public interest is concerned that overall benefits are balanced against socioeconomic costs of development, while the private investor's concerns focus on whether a site can be developed profitably. Existing State and County policies and plans on tourism address these areas of concern. In Hawaii we have evolved a regional policy for tourism development.

It appears that the first study to address a regional concept for resort development in Hawaii was done in 1960 when the State Planning Office published the

report: *Visitor Destination Areas in Hawaii: An Action Program for Development*. Ironically, this study was a result of concern over a growing shortage of visitor accommodations. Little did the authors know that it would start a boom which would end in the development of an additional 60,000 visitor accommodations units in the next 20 years.

Before, I go into more detail about the regions, let's take a look at the concept of destination areas. In developing this concept, the State Planning Office surveyed the characteristics of thirteen successful and three unsuccessful tourist destination areas throughout the world on a case study basis. (I might add that if we did this study again today I'm sure that we would survey Chejudo as part of the list of "successful" destination areas!) The 1960 report stated:

"In travel parlance, the term "destination area" is used rather loosely — sometimes with regard to a region or continent, other times related to cities or specific resorts — and implied are the elements of length of stay and importance to the traveler."

In order to bring the destination area concept into a manageable and measurable form the report suggested a definition which read:

"A destination area is a place having characteristics known to a sufficient number of potential visitors to justify it as an entity, independently attracting and motivating travel to itself."

The report further delineated the concept by listing specifications for destination areas. They included the following:

- 1) Best possible climate, sunshine, temperature and gentle winds;
- 2) Attractive natural setting, view and flora;
- 3) Planned minimum of 1500 rooms;
- 4) Good sandy beach and calm waters for water sports;
- 5) Conference and auditorium space for conventions;
- 6) Variety of sports facilities and especially championship golf course(s);
- 7) Historic attractions;
- 8) Close to existing shopping center or commercial complex to be developed;
- 9) Staging of at least one traditional activity annually;
- 10) Continued promotion — \$ 200,000 to \$ 300,000 required annually for each resort region.

Figure 1. Designated Visitor Destination Areas

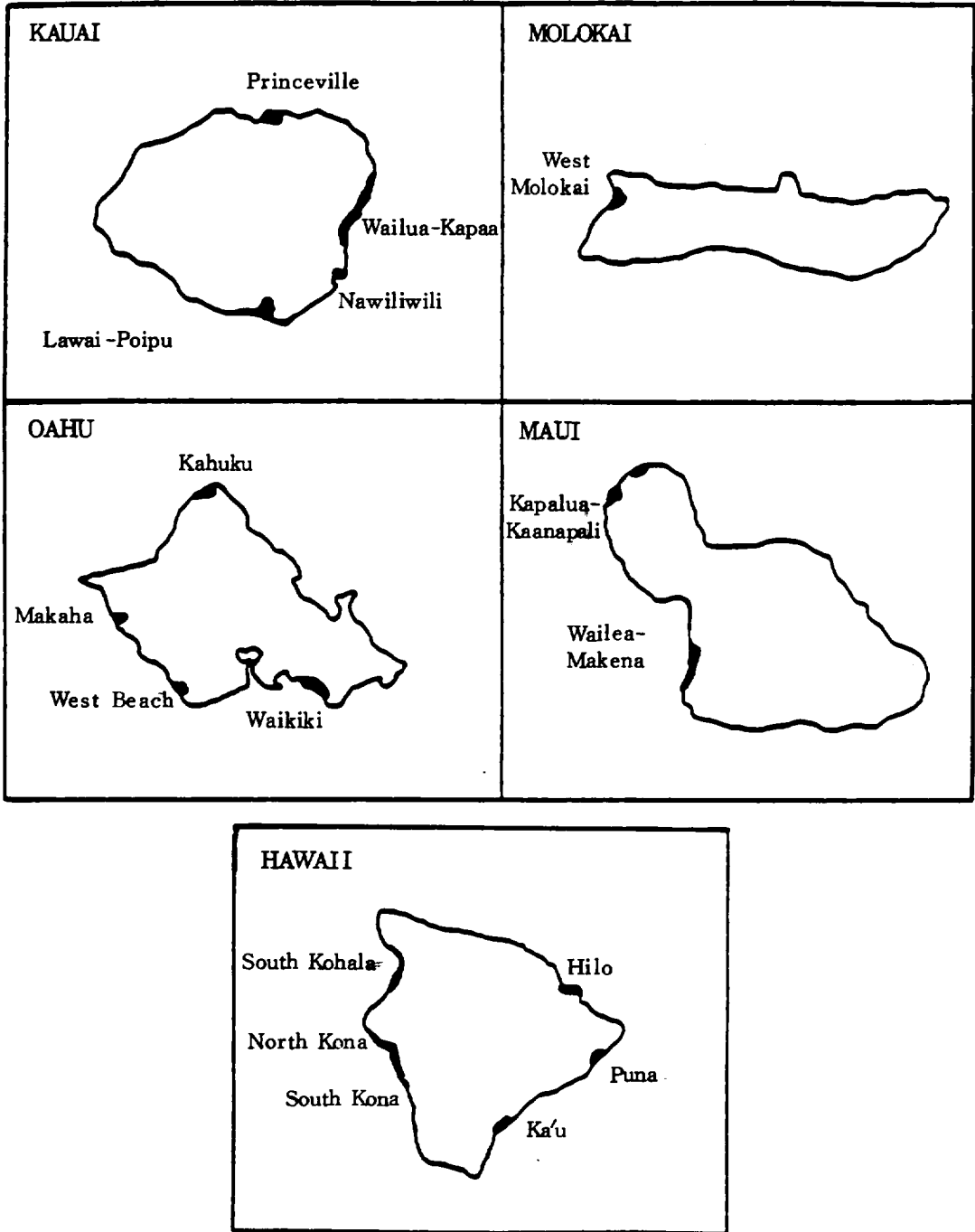


Table 1. Growth in Visitor Destination Areas Statewide
(1977~1987)

Area	Island	1977			1987		
		Hotel	Condo	Total	Hotel	Condo	Total
1. Waikiki	Oahu	21944	1683	23627	25722	8292	34014
2. Kapalua-Kaanapali	Maui	2773	2165	4938	3626	4303	7929
3. Wailea-Makena	Maui	1022	1403	2425	1453	3357	4810
4. North and South Kona	Hawaii	3087	273	3360	2734	1752	4486
5. Wailua-Kapaa	Kauai	1593	118	1711	1898	823	2721
6. Lawai-Poipu	Kauai	458	221	679	956	916	1872
7. South Kohala	Hawaii	360	49	409	1253	169	1422
8. Hilo	Hawaii	2110	0	2110	1182	147	1329
9. Princeville	Kauai	28	203	231	311	826	1137
10. Makaha	Oahu	196	247	443	189	645	834
11. Kahuku	Oahu	487	0	487	534	88	622
12. West Molokai	Molokai	0	0	0	282	98	380
13. Nawiliwili	Kauai	789	0	789	126	56	182
14. Ka'u	Hawaii	13	8	21	13	34	47
15. West Beach	Oahu	0	0	0	0	0	0
16. Puna	Hawaii	0	0	0	0	0	0
Total	All	34860	6370	41230	40279	21506	61785
Statewide Total	All	38316	6661	44977	43422	21896	65318

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These specifications would still provide an adequate description of the official sixteen destination areas in our State today.

Let's now turn to the actual regions recommend by the report for development. The 1960 report recommended thirteen distinct visitor destination areas (called resort regions in the study) for the State. Interestingly, these areas with a few exceptions, form the basis of our visitor industry as we know it today. On the screen behind me the thirteen original destination areas are shown in orange. Overlaying our existing destination areas, now shown in black, indicates that in general the 1960 study identified the major destination areas. It appears that they generally identified regions which were much more extensive than exist today. The major errors

were the Haleiwa-Waimea region on the Island of Oahu and the resort region on the east end of the Island of Molokai. It is safe to say that the major reasons for these areas not being developed was public opposition. It is important to note, however, that for these two cases alternative regions were designated. These were Kahuku on the Island of Oahu and West Molokai on the Island of Molokai.

It appears that the 1960 study was adopted by State and County planning officials. However, it was adopted in an ad hoc manner. No official or formal State-wide policy on regional development of our visitor industry existed until 1982 when the Governor adopted the State Tourism Functional Plan as administrative policy.

State Tourism Functional Plan

The State Tourism Functional Plan is one the twelve State Functional Plans. These plans are now an integral part of our State Planning process. They are intended to further define the Hawaii State Plan which I spoke of earlier. While they are not a part of our state statutes such as the Hawaii State Plan they are adopted by our legislature through resolution. They are viewed as guidelines only.

The process of developing a State Tourism Functional Plan began in 1977 when the Legislature directed my Department to develop a 10 year plan for tourism development. The 10 year plan was replaced by the State Tourism Functional Plan for two main reasons. One, it was determined that a 10 year plan was too static, that we needed something which was more flexible and dynamic. Second, at the same time the Hawaii State Plan process was being formulated and functional plans were to become a part of the statewide planning process.

The State Tourism Functional Plan contains four major objectives which are : Tourism Promotion, Physical Development, Employment and Career Development, and Community Relations. Within each of these objectives are policies (from the Hawaii State Plan) and implementing actions which indicate guidelines for priority actions for the State and County governments as well as the private sector.

Of the four objectives, physical development outlines a regional development policy for the placement of visitor destination areas. The plan makes clear that the State and Counties are committed to the concept of destination areas. The plan clearly spells out its intentions when it states the following implementing actions :

- * Encourage private development of designated visitor destination areas where capital improvements have been made or are planned before encouraging development of other possible visitor destinations.
- * Resort development should take place within designated visitor destination areas.

This is probably the most important concept established by the State Tourism Functional Plan. Through the planning process the Counties and State land use agencies were able to come to a consensus and delineate these visitor destination areas in the Technical Reference Document which accompanies the Plan. We estimate that these sixteen "official" visitor destination areas which were shown earlier contain appropriate land to develop an additional 100,000 visitor accommodation units.

The table on the screen behind me shows the number of hotel and condominium units for 1977 and 1987 in the sixteen "official" destination areas. As shown in the table, the sixteen destination areas contain a majority of the visitor accommodation units in the State. Of the total 65,318 units statewide, 61,785 or 95 percent are in the sixteen destination areas. Breaking these down further it can be seen that over 50 percent are in Waikiki alone about 90 percent in the top five areas. Of the two as yet, undeveloped destination areas, only West Beach on Oahu has construction underway. It appears at this time that development of the Puna destination area on Hawaii will not be for several years.

Comparing 1977 and 1987 figures, we can see that approximately 20,000 new units were added to the Statewide inventory in the last ten years. Of these, the majority -- 15,000 or 75 percent -- were condominium units. Almost 50 percent of these new condominium units were in Waikiki. It should be noted that these new units in Waikiki do not reflect the construction of new buildings in Waikiki, but are mainly a result of conversion from apartment to condominium units. Another interesting point which can be seen in the table is that all destinations experienced some growth except for Hilo on Hawaii and Nawiliwili on Kauai. The Hilo destination area actually lost over a third of its accommodation units. While the actual reasons are not known, one could assume that the lack of activities, beaches and good weather in Hilo accounted for the decline. The decline in visitor accommodation units in Nawiliwili is only short term. The major hotel had closed for renovation when this survey was taken. The hotel is expected to open 849 rooms later this year.

Growth Potential

The annual number of visitors to Hawaii has continued to rise since 1960, although the average annual growth rate has, over the past decade, been slowly declining. Despite this slowdown, the long-term potential for continued growth in Hawaii's visitor industry is still considerable. Based on the projected growth rates, we anticipate that the number of visitor arrivals will grow from approximately 5.5 million in 1986 to over 8 million by the year 2005. Average visitor census or the number of visitors present in Hawaii on any given day is expected to grow from the present 130,000 to almost 210,000 by the year 2005. We project that an additional 40,000 hotel and condominium units will be required.

Distribution of Growth

Now lets take a look at where I think this growth will occur. It is estimated that the total number of visitor accommodation units Statewide will increase at an annual average rate of 2150 per year over the next 20 years. The neighbor island destination areas will be the primary beneficiaries of this growth, continuing the trend displayed over the last decade. In 1970, the Neighbor island destination areas accounted for approximately 30 percent of all visitor accommodation units in the State; by 1986, this share had increased to 42 percent. By the year 2005, it is projected that the Neighbor Islands will account for more than 55 percent of the State's inventory. Factors contributing to a more significant rate of tourism growth on the Neighbor Islands include:

- 1) Sustained governmental efforts to stimulate - through infrastructure investments and other means - increased economic growth and employment opportunities on the Neighbor Islands.
- 2) A growing tendency by visitors to make one of the Neighbor Islands their primary destination. New direct overseas flights to all Neighbor Islands, coupled with increased promotional efforts, should serve to reinforce this pattern.
- 3) Increasing emphasis by visitors to frequent "complete" destination areas such as Kaanapali and Wailea on Maui and Poipu on Kauai. Recently announced plans for development of two large resort projects in Hawaii's South Kohala destination area are, in part, recognitions of this trend.

- 4) Greater availability of developable sites on the Neighbor Islands suitable for visitor facilities.

Conclusion

To conclude, I have tried to explain the evolution of Hawaii's visitor industry and associated policies. I have given you an overview of our economy and a description of its recent growth. This dramatic growth led to the development of an overall State plan and a set of functional plans to guide our future. Because our visitor industry was relatively young when these plans were being developed in the mid to late 1970's it concentrated very heavily on land use planning and cost-benefit analysis. A major result of our State Tourism Functional Plan was the concept of visitor destination areas which is a regional policy to guide the growth of our visitor industry. As I stated earlier, we are in the process of revising our State Tourism Functional Plan. Because our visitor industry is at a different stage of development the emphasis of our plan has changed. While the revised plan will still encompass the concepts in the original plan, we are now concentrating on marketing and impact management. Because Hawaii is a mature destination, we need a greater emphasis in this area to continue to expand our visitor industry. Impact management has replaced cost-benefit analysis as a method of ensuring that our visitor industry is in keeping with the needs and aspirations of our residents.

Thank you.