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Thoughts on Policy Orientation for an Asia-Pacific Century

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It is hard to imagine a region more likely to lead global economic growth for the remainder of this century than Asia. Hawaii seems naturally poised to benefit disproportionately from this development. Important to the degree to which we benefit will be the decisions of Hawaii's public policy makers. One concern lies in misinterpreting the success of Asian countries transitioning from developing to developed economies, a misinterpretation that could lead to wasting public resources. Hawaii's Asia-Pacific public policy orientation should be highly engaged, conservative of public resources, and facilitative of private business arrangements without trying to pick winners.

It is a cliché, though no less true, that Hawaii's history and culture have evolved with an Asia-Pacific focus that positions us well. Most of our population traces ancestry and culture to migrants from the region, and our leaders have long sought to promote Hawaii as a bridge between Asia and the West. While Hawaii has not dominated the bridging function, that role has certainly shaped the state, making us a relatively comfortable partner with expanding Asian economies.

At the same time Hawaii has some sad history in terms of developing economy-leading public projects. In our eagerness to create job opportunities and to raise standards of living, we have spent resources on spaceports, establishing Honolulu as the “Geneva of the Pacific,” high-technology tax credits, and so on. While well-intentioned, this desire to identify, and partner early with, the next “winner” has wasted effort and resources.

Of course not all public economic development efforts fail, but those that succeed are more likely to involve a modest role for the public sector rather than leading the charge.
Public sector expenditures to protect our natural resources, to manage conflict among alternative uses of resources, and to construct and maintain public infrastructure, are more likely to help Hawaii’s economy than plunking a large sum of money on the next “big idea.”

As (not “if”) business activity picks up in the next few years, perhaps with heavy influence from Asian investment, we will see familiar pressure for government to be a “partner,” or “leader.” The Legislature will hear references to “planting seeds,” moving the state to “critical mass,” being “proactive,” or some other clever-sounding term that amounts to the public sector bearing financial risk for specific investors.

Such signals may come especially from Hawaii’s potential Asian partners. Economic development models from China, Japan, and Korea give a greater role to the state than is typical of the West. As a recent example, China has garnered attention for its public subsidy of solar energy capacity. Japan’s historic post-war, export-led growth model was strongly planned and directed. And Korea’s government-backed promotion of electronic media has garnered global attention.

Yet the viability of state-led economic growth strategies may vary over the development life cycle. Developing economies may grow rapidly via state-directed investments in particular industries or clusters. As they join the ranks of developed economies, the pace of economic growth usually slows and the previous success of state-directed activity wanes. Ultimately, the global frontiers of knowledge, technology, and management innovation bind, and progress come more slowly. At this point, the risk of poor resource decisions from state actors rises because the sources of future growth are much less obvious.

Thus, in Hawaii, calls for an Asian-like, state-led economic strategy should be restricted to the extent they involve using resources primarily for the benefit of one, or a handful, of organizations. Hawaii citizens would be better served by a public policy orientation that looks for ways to facilitate private business without unduly favoring particular interests. Our government arrangements should be as widely accommodating as possible, consistent with equitably sharing the expenses of the public sector (i.e. no special tax breaks) and protecting our natural and built assets.

We should orient ourselves with tax policies and a regulatory framework that are generally neutral toward types of economic activity. We thereby position ourselves to take advantage of economic opportunity from whatever direction it emerges. And we avoid the trap of having spent millions of dollars in one direction, only to find out one or two years later that the future lies elsewhere.

Hawaii leaders should neither pander to new, “promising” business ventures nor be blithely uninterested. A middle ground of engagement and sober assessment is likely to be the best approach. This will call for self-restraint from enthusiasts of either the “public official” or “private entrepreneur” variety: Enthusiasm is wonderful; but it should be viewed with skepticism when it precedes a request for significant public monies.

Public policy should stick to the basics: According to our infrastructure needs, making sure that our system adequately funds important public expenditures without skewing economic incentives, and maintaining our regulatory environment to be appropriate to the challenges of emerging economic directions.

If we somehow manage to achieve this balance in public policy orientation, Hawaii will be well placed to benefit from an impending wave from Asia and the Pacific, or from whatever quarter opportunity comes.

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