



# Diversifying Hawaii's Economy

POLS 302 Native Hawaiian Politics

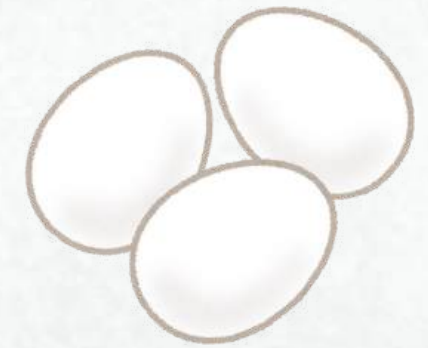
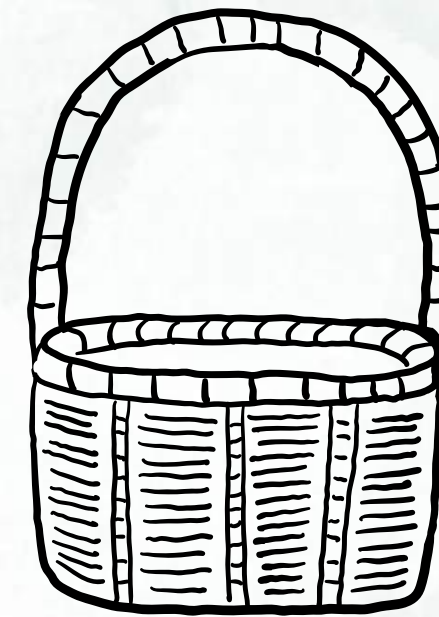
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# Overview

- Hawaii's leading industries over time
- Negative impacts of overspecialization
- Potential opportunities and their challenges
- Policies for the future



An **economy** is a system of production, distribution, and consumption of resources.

What does it mean to diversify an economy?

Diversifying an economy means expanding the range of industries and sources of income so it doesn't rely too heavily on just one sector.



# Timeline of Hawaii's Leading Industries

## Subsistence Agriculture & Fishing

Ahupua'a System.  
Community-based economy



**Pre-1778**

Kauai ceded to  
Kamehameha I who  
united the Hawaiian  
Islands 1810

## Whaling & Missionary Economy

Growth of churches, schools, and early  
capitalist structures.  
Decline as petroleum replaces whale oil.



**1820-60s**



Resident Alien  
Act 1850

Captain James  
Cook first arrived  
in Hawaii 1778

## Early Contact & 'Iliahi (Sandalwood) Trade

Trade with Chinese and European ships.  
Led to over harvesting → environmental and  
economic strain.



**1790s-1840s**

Constitution of  
the Kingdom of  
Hawaii 1840

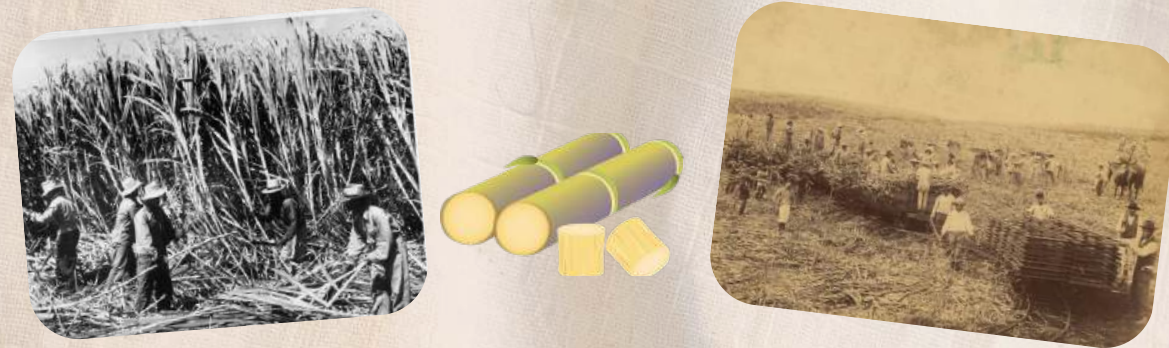
The Great  
Māhele 1848



# Timeline of Hawaii's Leading Industries

## Plantation Agriculture

Sugar & Pineapple production.  
Mass immigration to supply labor.  
Environmental damage, labor exploitation, cultural disruption, etc.  
"Big Five" corporations controlled politics and economy.



**Late 1800-Early 1900's**

Pearl Harbor  
Attack **1941**

## Visitor Industry (Tourism)

Statehood & accessible air travel caused the visitor industry to boom.



**1959-Present**

Kingdom of  
Hawaii was  
illegally  
overthrown **1893**

Annexation of  
the Republic of  
Hawaii, Hawaii  
becomes U.S.  
territory **1898**

## Military Defense

After WWII, Hawai'i becomes a strategic U.S. military base in the Pacific.  
Brought jobs and infrastructure but caused significant land loss and environmental impacts.



**1940's-Present**





# Tourism Economy in Hawai'i



Tourism is Hawaii's largest industry and primary economic driver.



Hawaii News Now. (2024, March 11). DBEDT director on diversifying Hawai'i's economy [Video]. YouTube. <https://www.youtube.com/watch?v=h7rjltU9ajs>

Hawai'i's "paradise" marketing made it a perfect tourism destination.



In 2019, tourism was 16.2% of Hawai'i Gross Domestic Product (GDP)

Jobs in the tourism industry accounted for 20% of total jobs in Hawai'i - Hotel, resort, service, transportation, retail, etc.



# Negative Impacts of Tourism

## Economic vulnerabilities:

- Short Term Shocks: Recessions, Pandemics (Covid-19), Natural Disasters, Maui wildfire incident
- Long Term Stagnation: GDP stalled since the 2000s, lower local spending by tourists

Rising housing costs and Hawaiian diaspora show **social challenges**, with more Native Hawaiians living on the U.S. mainland than in Hawai'i (2020 Census)

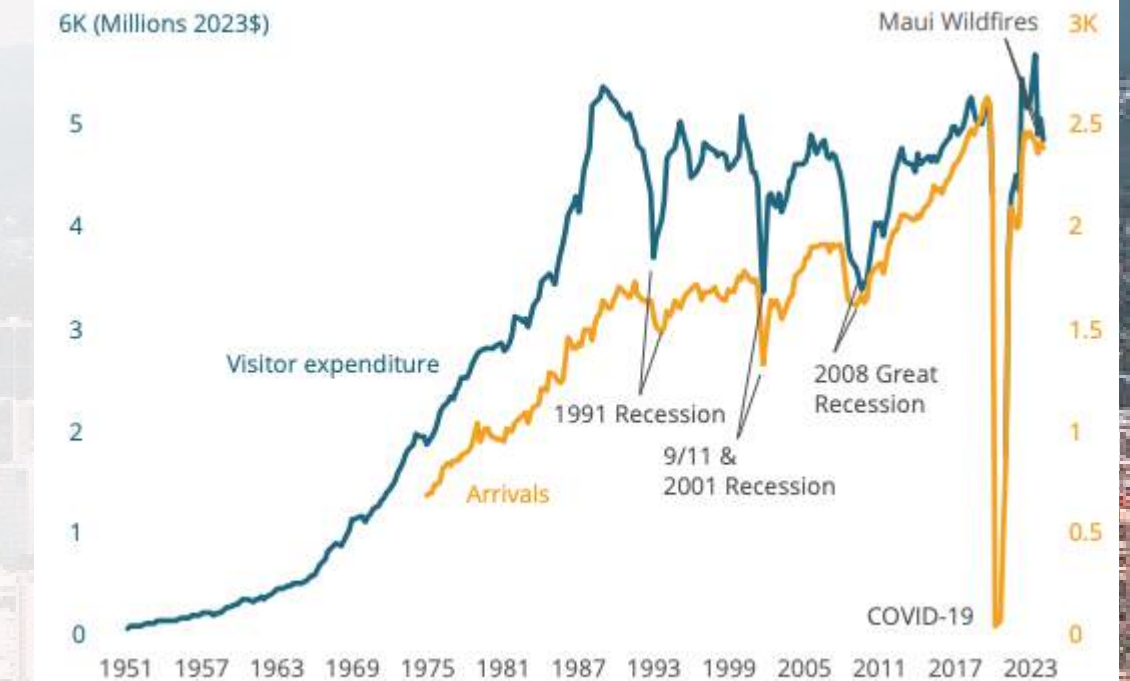
Overuse of limited water and pollution of coastal ecosystems create **environmental issues**

Tourism often commodifies Hawaiian **culture**:

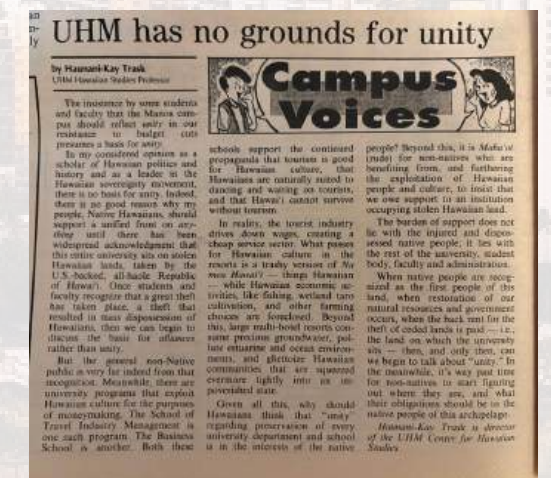
“In reality, the tourist industry drives down wages, creating a cheap service sector. What passes for Hawaiian culture in the resorts is a trashy version of Na mea Hawaii ... Beyond this, large multi-hotel resorts consume precious groundwater, pollute estuarine and ocean environments, and ghettoize Hawaiian communities that are squeezed evermore tightly into an impoverished state.”

- Haunani-Kay Trask

Figure 2: Quarterly real visitor spending (2023 \$) Q1 1951 to Q1 2024 and quarterly tourist arrivals Q1 1975 to Q1 2024



Data source: UHERO. Notes: Visitor spending deflated to 2023 dollars using the Honolulu CPI. Both series are seasonally adjusted by UHERO.





# Diversification Challenges

Hawai'i faces a **regional development trap** — small, isolated economies often rely on one dominant industry, which encourages scaling up. This **overspecialization** makes branching out risky, especially for neighbor islands with fewer starting points and resources.



The approach to identifying opportunities looks at (i) industries that are more feasible, based on their relatedness to existing industries, and (ii) industries that may face development challenges, indicated by a **location quotient (LQ)** below one.

**LQ = 1** → Same as national average

**LQ > 1** → More concentrated locally (strength)

**LQ < 1** → Less concentrated locally (underdeveloped)

**The goal is to reduce reliance on tourism by building resilience and expanding into sectors that play into Hawai'i's strengths.**

[https://uhawaii-manoa.primo.exlibrisgroup.com/permalink/01UHAWAII\\_MANOA/1j16209/alma9910915996605681](https://uhawaii-manoa.primo.exlibrisgroup.com/permalink/01UHAWAII_MANOA/1j16209/alma9910915996605681)

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Fruit and Tree Nut  
Combination Farming  
e.g., Macadamia Nuts



Agriculture (Niche Crops)  
Face water and land limits.

Kalo Farming

Forestry  
(on Hawaii Island)

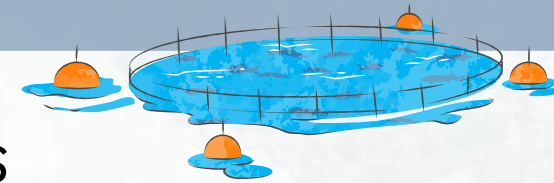
Boat Building



Shellfish Fishing/Farming

Ocean-based industries / Aquaculture  
Needs sustainability, investment, and regulations.

Fish Hatcheries



Finfish Farming

Seafood Product  
Preparation and Packaging

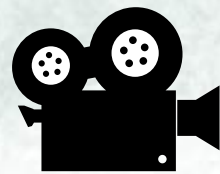
Rice Farming



Kona Coffee

## Potential New Leading Industries

Film and video  
production



Music and  
performing arts

Creative Industries  
Needs skills and studios

Fashion, Visual  
Arts and Design



Publishing and  
literature

Breweries and  
Wineries

Traditional Hawaiian  
Knowledge



Education and Knowledge  
Needs skills, funding, and infrastructures

Hawaiian Language  
Schools

Flight Training

Research and Development in  
the Physical, Engineering, and  
Life Sciences





# Conclusion

## Policies Moving Forward:

- Address developmental bottlenecks: market and government failures, lack of necessary infrastructure, or insufficient specific skills
- Overcoming coordination and hold-up problems
- Avoiding over reliance on one industry
- Strategic policy design and Governance

## Recent Policies and Initiatives:

- **Green Fee** (TAT ↑ to 11%, Jan 2026): Funds environmental stewardship, hazard mitigation, and sustainable tourism.
- **Hawaii Renewable Energy Technologies Income Tax Credit (RETITC)**: Provides tax incentives for homeowners and businesses installing solar and wind energy systems.
- **NSF Growth Engine CliRAIM (Climate Resilient Aquaculture Innovation Megahub)**: aims to develop climate-resilient aquaculture solutions within a regional innovation ecosystem
- **Kama'āina Come Home - Engineering Initiative**: Connects former Kama'āina engineers with local job opportunities.



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