CHAPTER 4

FOREIGN INVESTMENT

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"Is foreign investment good or bad for Hawaii?"

A 1988 statewide survey revealed that 59 percent of our residents opposed more **foreign** investment in Hawaii. Only 33 percent favored encouraging such investment. A year later, 60 percent of a different group were against additional **Japanese** investments here.

Why would the people of Hawaii be opposed to foreign investment in general, and to Japanese investment in particular? After all, mainland states roll out the red carpet at a moment's notice for a prospective investor (foreign or otherwise). It's not as though outside investors are new to Hawaii. They built our sugar industry 150 years ago and our pineapple industry nearly 100 years ago. Perhaps the opposition has something to do with the level of investment.

According to the Department of Business, Economic Development & Tourism's 1991 *Data Book*, the actual amount of foreign investment in Hawaii is staggering. For example, foreign investors now own over half of the office space in downtown Honolulu, almost two-thirds of all hotel rooms in the state and almost 9 percent of our agricultural property (second highest percentage in the nation, way above the national average of 1.1 percent).

Mainly Japanese. In Hawaii, "foreign investment" and "Japanese investment" are virtually synonymous. A 1991 study by Kenneth Leventhal & Company, a national accounting firm, showed that Japanese put $7.3 billion into Hawaiian real estate in 1989 and 1990 alone. Their 1990 purchases constituted 98 percent of all foreign investment in Hawaii that year. By the end of 1990, Japanese investment was nearly six times greater than all other foreign investments combined. Land and tourism industry assets constitute the bulk of local wealth. Interestingly, 95 percent of Japanese investment has been in these two categories.

Outside investment has deeply affected us in ways that cannot be quantified. Perhaps Governor John Waihee summed it up best when he commented, "Hawaii's residents are experiencing a sense of loss ... of their land to others and, more importantly, loss of control."

Before addressing this "sense of loss," it's appropriate to consider the economic effects of foreign investment.

There are two kinds. One is "new investment," where a foreign investor builds, for example, a new hotel. Another is a "takeover," as when a foreign investor buys an existing hotel. New investment creates jobs, pushes wage levels up, increases the price of land and generates additional tax revenue. This is all good if you are an owner of investment land (the value of which has just increased), a worker (whose services are now in greater demand and more valuable) and/or a taxpayer looking for someone to help pay the costs of government. Competitors, such as owners of existing hotels, may be worse off, but the community will enjoy higher total income.

People who do not own investment land or work in the hotel business may think they personally are not benefitted by this sort of foreign investment, but they are wrong. There is a very important "ripple effect" as direct beneficiaries spend those new dollars locally and as increased tax revenues finance more and better services for all residents.

The case for foreign "takeover investment" is much more complicated. The bottom line, however, depends on the seller's disposition of the sale proceeds, the buyer's willingness to invest in improving the purchased asset, and the buyer's ability to manage that asset better than it was managed by the seller. The Japanese, in particular, often improve assets acquired in takeovers. The $50 million renovation of Hawaii's oldest hotel, the Moana Surfrider, is one example. In such instances, foreign purchases result in net benefits to residents.

Net gain. Most people in Hawaii agree that, on balance, and measured in dollars and cents, both "new" and "takeover" foreign investments benefit residents. Opposition to foreign investment is largely based on the perceived negative social impact.

A lot of the unfriendliness (hostility?) directed toward Japanese investors is the result of their purchases of homes during the late 1980s and early 1990s. In 1990 alone, they spent an estimated $400 million on residential property. This is a tremendous amount (given Hawaii's small size) and undoubtedly would have had a significant impact on some neighborhoods, even if the buyers had paid only "market value." The University of Hawaii Real Estate Research and Education Center found that in one particularly popular neighborhood (Kahala), Japanese buyers paid a 21 percent premium over market value.

Between 1987 and 1990, the median price of a single-family home on Oahu rose from $185,000 to $352,000—an increase of 90 percent in just three years. People locked out of the inflated home market blamed Japanese investors. Many existing homeowners were just as upset when assessed values of their homes increased substantially as a result of the high prices. These homeowners assumed (usually correctly) that a substantially higher assessed value meant a higher property tax.

One Japanese businessman, Genshiro Kawamoto, made headlines by offering cash for homes (many of which were not even up for sale) from the back seat of his limousine. He acquired 100 East Honolulu properties very quickly that way and indicated a goal of up to 1,000. His approach hardly endeared him to locals struggling to achieve their American dream.

Many of the 100 houses bought by Kawamoto were rented back to the sellers, so the neighborhoods were not necessarily altered. But others were bought for occasional use, for corporate retreats or simply for short-term speculation. These transactions often changed the character of a neighborhood. Houses would sit empty for months or be used by "transients" who had no interest in assimilating into the community. Some fell into disrepair and became eyesores.

Someone to blame. Because Japanese purchases occurred when housing was especially tight and prices were shooting up, many residents blamed both conditions on them. Housing experts, however, attributed both largely to Hawaii's then-booming economy. Local politicians, meanwhile, simply sat back, thankful that their constituents had someone else to blame.

The truth is that Japanese investors were a significant short-term factor in Hawaii's housing problems, but probably a minor factor in the long run. Their buying binge was the result of a confluence of factors unlikely to be seen again soon. The yen had virtually doubled in value in relationship to the dollar, interest rates in Japan were amazingly low (5 to 6 percent), Tokyo banks were basing loans on the value of the collateral with little concern about the purchased asset's ability to generate cash flow, land and stock prices in Japan were phenomenally high, and investment overseas was being encouraged by the Japanese government. All in all, this was an amazing combination. As Japanese investors retreat during the 1990s, housing prices may fall, but not dramatically (except, of course, for the multimillion-dollar mansions built with only free-spending Japanese in mind).

Other reasons explain some of the anti-Japanese investment sentiment. There is considerable concern about discriminatory hiring policies. An early 1970s study confirmed that Japanese businesses in Hawaii mainly hired Japanese nationals and Japanese-Americans. There also is concern that women find it difficult to ascend the Japanese corporate ladder. Local business owners feel that Japanese preference to do business with each other will lock them out as suppliers. These are legitimate concerns against which we must guard.

Japanese businesses are also often accused of being reluctant to participate in community affairs or to contribute to charities. Perhaps this can be blamed on unfamiliarity with local customs. Here we have a responsibility to educate newcomers to our way of doing business. Yoshiharu Satoh, chief executive officer and chairman of the Central


MOVING IN? BEFORE YOU UNPACK WOULD YOU CONSIDER AN OFFER TO SELL?
JAPANESE INVESTMENTS

Pacific Bank in Honolulu, has led the way in educating other Japanese about community expectations. In short, both sides need to work harder to maximize the economic benefits and to minimize the social costs of foreign investment in Hawaii.

Loss of control? Finally, does Japanese investment in Hawaii translate sooner or later into a loss of control over our own future? It could, if we let it. All else remaining the same, there is no question that it would be better if residents of Hawaii owned these assets, rather than outsiders, whether from Japan, Australia, Taiwan, Canada or California. That's not possible, however, at least not if we want to maintain our current standard of living.

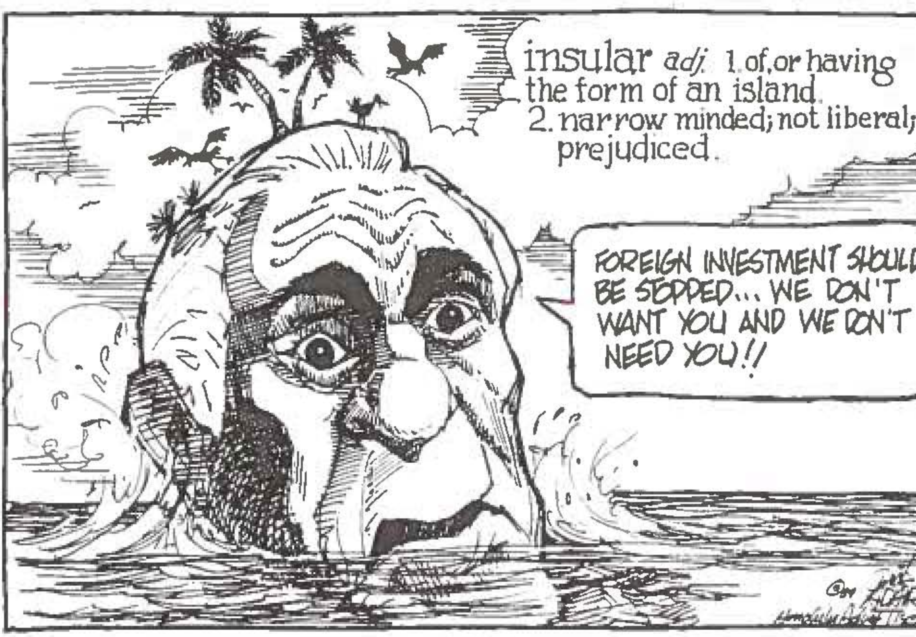
Fortunately, while they may wield considerable economic clout in Hawaii, Japanese investors (so far) haven't shown much interest in wielding political influence. And we should try to keep it that way.

If anything, it is the Japanese who have submitted themselves to *our* control! How would you like to have billions of dollars sunk in a faraway place whose residents make all the rules? You wouldn't, unless you trusted those residents. Indeed, by the sheer volume of their investments in Hawaii, Japanese have shown a lot of confidence in our sense of fair play.

Attitudes toward Japanese investments often change with economic and political conditions. Many residents hold out welcome signs when times are bad, then complain about foreign involvement when times are good. Remember, we cannot turn foreign investment on and off like a faucet. Mixed signals will only discourage beneficial investments. Any damage done during the good times likely will be felt later, with negative economic consequences for us.

Are foreign investments good or bad for Hawaii? There is no simple answer. But if we are protective of our interests while dealing fairly with theirs, everyone can come out ahead. We can then say, "Lucky they invest Hawaii."


LOOK AT THIS SLUR!— THIS JAPANESE SAYS THAT AMERICA IS SLIPPING IN PRODUCTION; IS LACKING IN WORK ETHIC AND IS MORE CONCERNED WITH THE FAST BUCK. THIS IS !@☆#!! INSULTING —
But you've said the same thing for years, dear...
BUT I'M NOT JAPANESE!
CORKY


insular adj. 1. of, or having the form of an island. 2. narrow minded; not liberal; prejudiced.
FOREIGN INVESTMENT SHOULD BE STOPPED... WE DON'T WANT YOU AND WE DON'T NEED YOU!!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