

An address to the
Greater Anchorage Chamber of Commerce
March 6, 1967

INTERNATIONAL TRADE AND ALASKA'S ECONOMIC DEVELOPMENT

by

Arlon R. Tussing
Assistant Professor of Economics
University of Alaska
College, Alaska

INTERNATIONAL TRADE AND ALASKA'S ECONOMIC DEVELOPMENT

Japanese markets and Japanese capital are already playing an important part in Alaska's economic development. I am sure everybody here is aware of that fact, and that you all know that the economic ties between Alaska and Japan will become more important in the future. Japanese manufacturing output is now third in the world, after the United States and the U.S.S.R., and it has been growing for the last fifteen years at the highest rate of any country at any time in history. Since this manufacturing economy maintains itself by importing most of its energy and raw materials, it is not surprising that it should turn to Alaska as one new source of supply. I don't want to spend my limited time here talking about the prospects for trade between Alaska and Japan, but if you are interested in the overall picture, I suggest that you pick up a copy of the Alaska Review of Business and Economic Conditions, entitled "Japan Trade in Alaska's Economy", which I have left at the table in the rear.

I want to spend these minutes today, not talking about the general prospects of trade with Japan, nor even about what the Federal or State government should do to foster this trade and to help Alaska benefit from it. I want to take up its implications for Alaska businessmen and what I feel they should do. I may step on a few toes, but there would not be much point in my being here if I were to be entirely cheerful and non-controversial.

But let's start at the cheerful side. Alaska stands at the threshold of an enormous economic breakthrough, and exports to Japan may be the biggest single contributor to this breakthrough. What is new about these export industries is that they are capable of generating other industries in Alaska, and that they can help bring costs in the State down to a reasonable level.

I want to give a very few examples of the "spillovers" into other Alaska industries from these export opportunities. Collier Carbon and Chemical Co. and Japan Gas-Chemical Co. are building a gigantic plant to make urea on the Kenai Peninsula. They chose Alaska because, with the scale of plant they envision, urea can be produced here at below the present world market price. That is, Alaska urea, to be converted into ammonium nitrate fertilizer for the Far East, will be about the cheapest in the world. I understand that processing some of this chemical to ammonium nitrate is feasible in Alaska and that doing so would lower the cost of fertilizer for Alaska forage crops from over twenty cents per pound of elemental nitrogen to about five cents.

Of course, this prospect is important only if there is a real potential for development of a livestock industry in Alaska. But one of the biggest meat-packing firms in Japan believes there is, and has sent one of its animal husbandry specialists to the University of Alaska to study the feasibility of livestock production here for the Japanese market. If this company did decide to establish a packing house in Alaska, it would be a huge plant, one of the most modern in the world. And the ranching operation or operations which served it would have to be big business, with the most modern techniques, adapted to Alaska conditions. Again, meat exports from Alaska will take place only if Alaska meats are competitive in quality and price in world markets with meat from Canada, Texas, Mexico, and New Zealand. That is, these ranches, feedlots, and packing houses will have to be operated so Alaska costs are among the lowest in the world, not among the highest. But this means that Alaska meat will also be competitive in Alaska markets, that it will be cheaper than the meat we now import from the Outside.

Another project which promises a substantial spillover for Alaska is the proposed gas liquefaction plant, which would supply over half the energy requirements for industry and homes in the Tokyo metropolitan area. The Tokyo Electric

Power Company and Tokyo Gas Company calculate that Alaska natural gas is one of the cheapest sources of energy available to them. It makes sense that this same liquefied gas, barged to places like Cordova or Juneau, or hauled to Fairbanks in tank cars, could provide cheaper residential heat, industrial energy, or even electric power, than we have now. The export price will give consumers, public utilities, and regulatory agencies in Alaska a better idea of what is a reasonable price for natural gas here and give them additional leverage to lower the price of energy in general. If, for instance, gas were sold at the liquefaction plant for ten cents a thousand cubic feet, and delivered in Tokyo for fifty cents, today's rates of up to a dollar and a half in Anchorage would be untenable.

In each of these three cases, fertilizer, meat, and liquefied natural gas, Alaska demand would be a drop in the bucket compared to that of the Japanese market. Alaska demand alone would never be sufficient to support the size of enterprise which could meet the prices of the same goods imported from the Outside. But all these enterprises taken together can have a real effect on the prospects of other Alaska industries and on the level of costs in Alaska.

There are similar possibilities in other industries. A combined sawmill and chip mill somewhere at tidewater on the Alaska Railroad, and using timber from the Kenai Peninsula and the railbelt, would operate mainly for Japanese markets, but it could have a big impact on lumber prices from Homer to Fairbanks. By 1969 or 1970, Japan's fish consumption will be about two million tons more than her own catch, and by 1974 or 1975 about three million. This is the reason Japanese firms are interested in investing in Alaska's fisheries and fish processing. The full ramifications of this situation are too complex and controversial for me to deal with in detail here, but there are a number of potential spillovers. For instance, the participation of the big Japanese fisheries firms in building cold-storage and processing plants along the Bering coast would not only

provide an export market for fisheries resources which are going unused; they can improve the food situation for the villages themselves, provide a commercial outlet for power and fresh water supplies which the village people alone could not support. In some cases they can offer the modern and sanitary packing facilities necessary to a viable reindeer industry, where a market in Japan is also a very good prospect.

The biggest developments in the Alaska economy will probably be initiated and financed by big business from Outside, by U.S. big business, by Japanese big business, and by joint ventures between the two. It is clear that there is going to be more and more development and export of Alaska's resource products, and this development in many cases will require capital and management bigger than Alaskan enterprise can furnish today. But Alaska's businessmen can have a big impact on just how fast this development takes place, and above all, whether these spillovers I have been talking about amount to anything. Alaska businessmen will have an impact both through the way they do business and through their political influence.

This is the point at which I will have to step on some toes to do justice to my topic, because the mentality and behavior of many Alaska businessmen are a real hindrance to economic growth. Above all, they are an obstacle to Alaska's getting all the development spillover from the big, Outside-financed, investments we can see on the horizon. Too much of Alaska business is set up to depend on high markups on a low volume from a protected position. I have found that the executives of big Japanese companies thinking about investing hundreds of millions of dollars in Alaska are very wary of Alaska's business climate. They fear that the Alaska business establishment--that you here in this room--are anti-business. That is, hostile to big business, to Outside capital, to foreign capital--afraid of growth and afraid of competition--that the State government and Alaskans' influence on the Federal government reflect this provincial attitude.

Now, I think these fears are exaggerated. They are partly the result of ignorance about Alaska conditions, and there are a number of things we ought to be doing to dispel this ignorance. The rumors and exaggerations will diminish as the number of Japanese firms actually doing business in Alaska increases, when a consulate is established here in Anchorage, and when one or more Japanese trading companies open Alaska offices. But there is a way of doing things, a provincial or small-town way of doing things in Alaska, which will have to be given up if Alaska is to get the whole development package--lower costs, economic diversification, and the amenities of modern life.

Let me give some examples. I could probably make everyone here mad if I had the time, but I will pick on only a couple lines of business. We can start with the big guys, big by Alaska standards anyway. Alaska banks are just not able to do a good job in handling international commercial transactions, let alone international capital movements. There is no prospect that they will become capable of doing it, no matter how cordial their correspondent relationships are with banks in the Lower Forty-Eight or in Japan. And from their own business standpoint, it would be foolish of them to devote their resources to this kind of activity. The size of the banks we have located in Alaska can earn more on their limited capital financing real estate development, instalment loans and local business inventories, than they can in financing foreign trade or in the industrial trust business. Still, the absence of banks which can specialize in these lines is a real hurdle to the kind of industrial development I have been talking about.

We need a subsidiary of Seattle First National or of the Bank of America in Alaska, and a branch of a big Japanese bank. I am not a specialist in banking law, and I don't know just what it is about the Alaska Bank Holding Company Act that effectively prevents Outside banks from establishing subsidiaries. But

those whose expertise I respect tell me that for practical purposes Outside banks cannot operate in Alaska. And I understand that the law's provisions were consciously designed to protect Alaska banks from Outside competition. It is clear, also, that the Sumitomo Bank, or the Bank of Tokyo now cannot set up branches here as they can in New York or Oregon.

It would be extremely shortsighted of Alaska bankers to oppose liberalization of our banking laws to permit out-of-State subsidiaries and foreign branches. Experience elsewhere has shown that they will not offer much competition in the local retail banking business. But they would definitely facilitate the investment and foreign trade from which present Alaska banks also benefit.

Who else shall I offend? There is the management of smaller airlines in Alaska who don't have the resources themselves to open new routes with jet equipment, but oppose proposals of the bigger operators to expand service--who oppose mergers that enable other airlines to reach an efficient scale. At least one of them also opposed the State Ferry System, which has turned out to be an enormous boost to the same company because of increased travel throughout a whole section of the State. In the field of air transport, there are also the spokesmen for Anchorage business who react as if Pan American's operating a transpacific route through Fairbanks several years from now would be taking something away from Anchorage.

In business services too, Alaskans will have to develop new methods and new mentalities--they will have to become businesslike and professional. No multi-million dollar Outside corporation will--knowingly--deal with an Alaska attorney, or accounting firm, real estate or insurance agency, which does not make its way on its regular fees and commissions. If the main reason these services is offered is the opportunity for "Insider deals" and speculation, the Outside firm will either contract for these services Outside or reconsider doing business in Alaska.

Of course businessmen are not the only people with restrictive--with small time--attitudes. The present attitudes of most Alaska fishermen do not condition them to take advantage of the opportunities that Japanese financing and Japanese markets offer them. And the restrictive practices of some of the construction unions are bound to increase costs more than they increase the earnings of their members.

The greatest danger of holding onto a safe and comfortable position is that it is at least half rational. I am not referring just to the satisfaction a man gets from being a big fish in a small pond. I mean that so long as Alaska's economy stagnates or grows only slowly and so long as there is no drastic reduction in costs, then it may not make sense to any particular business to give up its protected position or to reduce its own prices.

There is a choice, however. A big chunk of Alaska's resources can be developed even if everyone takes the narrow view. But the pattern of development will be one Alaska has seen before and should not want again. Alaska's exports will mean fresh supplies of raw materials for Outside consumers and industries, big profits for Outside firms, and speculative windfalls for a few Insiders in Alaska. And that might be about all, except a few more ghost towns, rubble piles--pollution. But if we want the whole development package--a big enough market to bring lower costs and all the advantages of modern technology, the preservation of the natural beauty and the outdoor opportunities which brought most of us to Alaska in the first place; if we want to do something about the miserable employment and health conditions in rural Alaska and the scandalous condition of education in Alaska villages, we have to take the longer view. To get all the spillovers, to get the whole development package, Alaska businessmen will have to relax their attachment to Inside deals, to extremely high markups, and to protective legislation.