



# REPUBLIC OF THE MARSHALL ISLANDS ECONOMIC REPORT



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## I. GENERAL CHARACTERISTICS

### I.1 INTRODUCTION

RMI's total population at the time of the 1999 census in June of that year was enumerated at 50,840, notably lower than the RMI government's previous estimates and projections that had put total population at 62,924 in 1998. At the pre-census growth rate of 3-4 percent a year, RMI's total population would have been as high as 67,500 in 2000-2001.

The census showed that total population increased at an average annual rate of only 1.5 percent in 1988-99, practically half of the growth rate up to the 1988 census. The most plausible explanation for this surprise drop in population growth rate is emigration to Guam, the Commonwealth of the Northern Mariana Islands (CNMI), Hawaii and the

rest of the United States. Still, RMI has Micronesia's second highest population density of 726 persons per square mile, following Guam's 771.

As is the case in other economies in the US-affiliated Western Pacific, RMI's economy is based on services, mainly government and other services which are largely funded, directly and indirectly, by US Compact payments. Evidence to show that efforts to broaden the economic base over the last 15 years have produced tangible results is scant. The main reason is that RMI's production possibilities which normally give rise to a growing and often dynamic private sector economy are extremely limited.

Apart from the small size of the market and extraordinary costs imposed by isolation, RMI possesses few resources, other than the Pacific Ocean, that are convertible to products and services to create jobs, income and the

tax base the economy needs to provide and sustain an adequate standard of living. Furthermore, the educational system that normally produces a mix of semi-skilled and vocational to highly skilled workers has not been developed.

### RESIDENT POPULATION AND GROWTH RATES

Census Year	Males	Females	Total	Annual Growth Rate (%)
1920	5,196	4,604	9,800	—
1925	5,030	4,614	9,644	(0.3)
1930	5,505	4,907	10,412	1.5
1935	5,480	4,966	10,446	0.1
1958	7,175	6,753	13,928	1.3
1967	9,658	9,267	18,925	3.5
1973	12,335	11,800	24,135	4.1
1980	15,851	15,022	30,873	3.6
1988	22,181	21,199	43,380	4.3
1999	26,026	24,814	50,840	1.5

Source: Office of Planning and Statistics, Majuro, Marshall Islands, *Marshall Islands Statistical Abstract 1998 & 1999*, p. 12.

### ECONOMICALLY ACTIVE, EMPLOYED AND UNEMPLOYED POPULATION

	Male	Female	Total
<b>1980</b>			
Total Population	15,851	15,022	30,873
Working Age Population (15 years & over)	7,696	7,598	15,294
Percentage of Total Population	48.6	50.6	49.5
Economically Active Population	5,042	2,267	7,309
Percentage of Economically Active Working Population	65.5	29.8	47.8
Employed Population	4,587	2,011	6,598
Unemployed Population	455	256	711
Unemployment Rate	9.0	11.3	9.7
<b>1988</b>			
Total Population	22,181	21,199	43,380
Working Age Population (15 years & over)	10,819	10,425	21,244
Percentage of Total Population	48.8	49.2	49.0
Economically Active Population	8,353	3,135	11,488
Percentage of Economically Active Working Population	77.2	30.1	54.1
Employed Population	7,335	2,721	10,056
Unemployed Population	1,018	414	1,432
Unemployment Rate	12.2	13.2	12.5
<b>1999</b>			
Total Population	26,026	24,814	50,840
Working Age Population (15 years & over)	14,595	14,103	28,698
Percentage of Total Population	56.1	56.8	56.4
Economically Active Population	9,679	4,998	14,677
Percentage of Economically Active Working Population	66.3	35.4	51.2
Employed Population	7,008	3,133	10,141
Unemployed Population	2,671	1,865	4,536
Unemployment Rate	27.6	37.3	30.9

Source: Office of Planning and Statistics, Majuro, Marshall Islands, *Marshall Islands Statistical Abstract 1998 & 1999*, p. 67 & 68.

### WORKING AGE POPULATION

	1980	1988	1999
<b>Working Age Population (15+ Years)</b>			
Male	7,696	10,819	14,595
Female	7,598	10,425	14,103
Total	15,294	21,244	28,698
<b>Economically Active</b>			
Male	5,042	8,353	9,679
Female	2,267	3,135	4,998
Total	7,309	11,488	14,677
<b>Employed</b>			
Male	4,587	7,335	7,008
Female	2,011	2,721	3,133
Total	6,598	10,056	10,141
<b>Unemployed</b>			
Male	455	1,018	2,671
Female	256	414	1,865
Total	711	1,432	4,536
<b>Economically Not Active</b>			
Male	2,654	2,328	4,913
Female	5,331	7,218	9,102
Total	7,985	9,546	14,015
<b>Not Stated</b>			
Male	—	138	3
Female	—	72	3
Total	—	210	6

Source: Office of Planning and Statistics, Majuro, Marshall Islands, *Marshall Islands Statistical Abstract 1998 & 1999*, p. 66.

**EMPLOYED POPULATION BY CLASS OF WORKERS, 1999**

Class of Worker	Male	Percent	Female	Percent	Total	Percent
Employee (Public Sector)	2,234	31.9	872	27.8	3,106	30.6
Employee (Private Sector)	2,870	41.0	1,245	39.7	4,115	40.6
Self Employed	1,732	24.7	890	28.4	2,622	25.8
Employer in Own Farm or Business	70	1.0	45	1.5	115	1.1
Paid Worker in Family Farm or Business	45	0.6	51	1.6	96	1.0
Unpaid Workers in Family Farm or Business	57	0.8	30	1.0	87	0.9
Total	7,008	100.0	3,133	100.0	10,141	100.0

Source: Office of Planning and Statistics, Majuro, Marshall Islands, *Marshall Islands Statistical Abstract 1998 & 1999*, p. 76.

**EMPLOYED POPULATION BY OCCUPATION AND SEX, 1999**

Occupation	Male	Percent	Female	Percent	Total	Percent
Professional, Technical & Related Workers	991	14.2	555	17.7	1,546	15.2
Administrative, Executive & Managerial Workers	352	5.0	84	2.7	436	4.3
Clerical & Related Workers	534	7.6	831	26.5	1,365	13.5
Sales Workers	212	3.0	132	4.2	344	3.4
Service Workers	1,155	16.5	532	17.0	1,687	16.6
Agricultural & Related Workers/Fishermen	1,838	26.2	241	7.7	2,079	20.5
Production Workers, Transport Equipment Operators & Laborers	1,780	25.4	691	22.1	2,471	24.4
Not Reported	146	2.1	67	2.1	213	2.1
Total	7,008	100.0	3,133	100.0	10,141	100.0

Source: Office of Planning and Statistics, Majuro, Marshall Islands, *Marshall Islands Statistical Abstract 1998 & 1999*, p. 74.

**EMPLOYED POPULATION BY MAJOR INDUSTRY GROUPS AND SEX, 1999**

Industry	Male	Percent	Female	Percent	Total	Percent
Agriculture & Fishery	1,867	26.6	247	7.9	2,114	20.9
Mining & Quarrying	—	—	—	—	—	—
Manufacturing	81	1.2	680	21.7	761	7.5
Electricity, Gas & Water	242	3.5	16	0.5	258	2.5
Construction	834	11.9	14	0.5	848	8.4
Wholesale & Retail Trade	364	5.2	424	13.5	788	7.8
Transportation, Storage & Communication	659	9.4	104	3.3	763	7.5
Finance, Insurance, Real Estate & Business Services	305	4.3	254	8.1	559	5.5
Community, Social & Personal Services	2,493	35.6	1,310	41.8	3,803	37.5
Not Reported	163	2.3	84	2.7	247	2.4
Total	7,008	100.0	3,133	100.0	10,141	100.0

Source: Office of Planning and Statistics, Majuro, Marshall Islands, *Marshall Islands Statistical Abstract 1998 & 1999*, p. 75.

As a result, businesses often recruit workers for occupations ranging from experts to cashiers from abroad.

After five decades of association with the United States, both as a territory and a sovereign nation in a strategic partnership, the Republic of the Marshall Islands is more dependent on overseas income, especially American funds, than ever before. Given today's geographic, economic and technological realities, this is unlikely to change any time soon.

Under the Compact of Free Association, the United States is

responsible for RMI's defense and strategic integrity and, in return, has unlimited and exclusive access to RMI's waterways for military purposes. In the 15-year period ending in 2001, the RMI will have received a total of about \$1 billion (adjusted for inflation) from the United States.

**1.2 THE US-RMI STRATEGIC LINK**

Some observers, including US government agencies, still view the Compact of Free Association between the United States and RMI as a US

foreign assistance program for RMI. Undoubtedly, some of the \$1 billion the United States will have paid by the end of 2001 is grants and aid in the usual sense, although paid to a territory of significant strategic value to the nation for which it had formal responsibility for four decades. However, most of the money the United States pays the RMI is either rent for unlimited and exclusive access to RMI's waterways, access formalized as the main provision of the Compact of Free Association between the two nations, or payments for injuries connected to US nuclear tests in RMI waters in the 1940s and 1950s.

In a recent public statement, the RMI government provided an account of the \$1 billion as follows: (1) about \$400 million over the 15 years (1986-2001) for compensatory payments of which \$180 million went to land rent on Kwajalein Atoll and the remaining \$200 million-plus for payments for injuries arising from nuclear testing; (2) the basic annual "grant" (aid) for government operation and economic development which would total \$300 million over 15 years. Of this amount, 60 percent has been given for government consumption (operations) and 40 percent for public capital formation (infrastructure). The RMI government sees this sum as the rent for the exclusive access to RMI waterways and denial of such an access to others; (3) the remaining \$300 million over 15 years has come from agency- and program-specific sources such as postal service, deposit insurance, federal aviation matters and others.<sup>1</sup>

As a treaty, the Compact obliges the RMI government to deny others access to its waters, especially if such an access can potentially be used for military purposes. In return, the United States makes payments for this access. It is critical to make this distinction between aid and rent because the Compact, primarily a strategic and political treaty and only secondarily an economic assistance program, is much more of a business transaction than the typical aid package requiring no reciprocity between nations.

<sup>1</sup>The Marshall Islands Journal, "President Kessai Note's Key Goal: Confidence in Government," Friday, January 12, 2001, p. 16-17.

## MAJOR ECONOMIC, FINANCIAL AND DEMOGRAPHIC INDICATORS

	Population (000)	Nominal GDP (\$000)	Nominal Per Capita GDP	Real GDP (\$000 in '91 Prices)	Per Capita Real GDP	Majuro CPI 1982=100	Majuro Inflation (%)	Total Paid Workers	Private Sector Workers	Public Workers	Copra Output (Tons)	Fish Catch by Foreign Vessels (Mt tons)	Imports (\$Mill)	Exports (\$Mill)	Trade Balance (\$Mill)
1980	30,873	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1981	32,942	27,152	824	—	—	—	—	—	—	—	5,760	—	22.2	3.0	(19.2)
1982	34,299	30,564	891	37,487	1,093	100.0	—	4,980	2,677	2,303	5,773	—	18.8	2.2	(16.6)
1983	35,711	36,543	1,023	43,612	1,221	102.8	2.8	—	—	—	6,491	—	17.5	3.2	(14.3)
1984	37,180	39,513	1,063	44,768	1,204	108.2	5.3	—	—	—	4,483	—	22.6	5.5	(17.1)
1985	38,706	38,406	992	43,628	1,127	108.0	(0.2)	5,487	3,220	2,267	4,301	—	29.2	2.7	(26.5)
1986	40,288	49,007	1,216	53,419	1,326	112.5	4.2	6,971	4,386	2,585	6,815	—	30.6	1.2	(29.4)
1987	39,449	55,130	1,398	60,453	1,532	111.9	(0.6)	7,139	4,715	2,424	5,405	—	33.5	1.9	(31.6)
1988	42,692	61,874	1,449	66,157	1,550	114.7	2.6	6,761	3,369	3,392	5,475	—	33.8	2.1	(31.7)
1989	43,332	63,721	1,471	66,713	1,540	117.2	2.1	6,224	3,670	2,554	5,805	12,992.9	44.4	2.5	(41.9)
1990	43,982	68,691	1,562	71,410	1,624	118.0	0.7	6,839	4,168	2,671	5,159	16,820.9	56.0	1.7	(54.2)
1991	44,642	72,219	1,618	72,219	1,618	122.7	4.0	7,277	4,483	2,794	4,213	8,247.5	56.4	10.9	(45.6)
1992	45,312	79,709	1,759	72,246	1,594	135.3	10.3	7,896	5,019	2,877	5,861	25,561.9	61.8	9.2	(52.6)
1993	45,991	87,059	1,893	75,180	1,635	142.0	5.0	7,625	4,395	3,230	4,627	111,197.8	61.1	7.7	(53.4)
1994	46,681	94,596	2,026	77,296	1,656	150.1	5.7	8,727	4,605	4,122	4,972	10,494.0	70.4	21.9	(48.5)
1995	47,381	105,239	2,221	79,411	1,676	162.5	8.3	8,810	4,724	4,086	7,201	2,561.6	75.1	23.1	(52.0)
1996	48,092	97,036	2,018	66,817	1,389	178.1	9.6	9,181	5,579	3,602	6,464	—	72.6	18.9	(53.6)
1997	48,814	92,184	1,888	60,542	1,240	186.8	4.8	7,293	5,369	1,924	6,031	—	61.0	12.7	(48.3)
1998	49,546	95,659	1,931	62,067	1,253	190.8	2.2	6,889	5,188	1,701	4,273	2,185.0	67.3	5.8	(61.6)
1999	50,840	97,312	1,914	62,563	1,231	194.0	1.7	6,681	5,168	1,513	3,348	2,457.0	68.9	7.7	(61.3)
2000	52,671	95,900	1,821	62,876	1,194	190.3	(1.9)	—	—	—	—	—	—	—	—

Source: Marshall Islands *Statistical Abstract 1996* and 1998 & 1999.

With paying \$1 billion to a country of fewer than 53,000 people over 15 years, the United States has clearly gone beyond the scope of goodwill and humanitarian economic and financial aid. The US military's active role in RMI is, in fact, part of a much larger continuing strategic interest in the Western Pacific, where the United States has invested large sums since the end of World War II. The fact that the largest unified military command of the US military outside the 48 contiguous states, the Pacific Command, is headquartered in Hawaii speaks to the strategic significance of the Pacific to the national interest.

As much as euphoria over the end of the Cold War and associated ill effects of global armament may be justified, keeping the Pacific secure for both strategic and trade purposes is of vital interest to the United States. In a statement before a hearing of the US House's Sub-Committee on Asia and the Pacific in June 2000, a representative of the US Department of Defense stated, "It would be unwise to assume that the end of the Cold War lessened the strategic importance of Micronesia to the defense

of US national interest, for sources of potential unrest and military conflict continue to dot the Asia-Pacific landscape."<sup>22</sup> Commercially, the Pacific is just as vital to the national interest. Nearly 40 percent of all trade between the United States and the rest of the world passes through the Pacific.

Even so, the amount of investment the United States is making in the Central and Western Pacific, however small in the context of the national budget, is often viewed as an area for review and possible reduction. Such a reduction may appeal to those whose job it is to bring national spending in line with national revenues and make the US government more efficient and taxpayer-friendly. Still, the Marshall Islands is an integral part of the US permanent strategic sphere of influence in the Pacific and, therefore, investing in RMI's economy

<sup>22</sup>"Compact of Free Association," Statement of Frederick C. Smith, Special Assistant for Asian and Pacific Affairs, Office of the Assistant Secretary of Defense for International Security Affairs before a hearing of the House Committee on International Relations, Sub-Committee on Asia and the Pacific, June 28, 2000.

and the region is justified by both US security and economic interests in the long run. No changes in global and regional geopolitical and strategic configurations should be expected to change that reality and, therefore, US commitment to the region.

The United States retains the right to extend its lease agreement on Kwajalein for another 15 years (to 2016) when the financial package of the present Compact expires this year. All terms of the financial package of the Compact are subject to negotiation which are currently underway, but the Kwajalein missile range makes it unlikely that the United States will leave RMI any time soon. Nor would US strategic interest in the Central Pacific allow it to abandon the area. In fact, there have occasionally been discussions that the US military may be interested in leasing more sites for missile testing and other purposes in RMI, especially if building a space anti-missile defense system (the so-called Star Wars scenario) becomes a reality. If that occurs, RMI may be willing to enter into such agreements because doing so will mean more income for RMI.

The US Army leases most of Kwajalein Atoll from RMI for the missile range that has been in operation since 1961. Presently the Kwajalein range employs about 1,000-1,200 islanders, a large number for a country with a total population of under 53,000. To the extent that RMI can use the missile range as a means to negotiate for continued US rent and economic aid, it is a uniquely valuable resource for generating income. Higher and better uses of Kwajalein Atoll other than the missile range are limited.

Another avenue for continued economic and political dialogue between RMI and the United States is the discussion to settle claims by those islanders affected by the 1946-58 American nuclear testing. Bikini atoll was used by the US military for experiments with nuclear weapons in 1946-58 and Eniwetak Atoll in 1948-58. Since the Compact took effect in 1986, the nuclear impact settlement agreement has been reopened several times because of new claims based on new information coming to light. As recently as the late 1990s, information disclosed more nuclear testing sites affecting other groups of Marshall Island residents. As new claims emerge and add to the legal and financial negotiations between the United States and the Marshall Islands, they also add to the need for further dialogue between the two countries.

It is not clear what the United States will be willing to pay in rent and economic aid after 2001, especially in light of the perceived reduced value of the Western Pacific after the end of the Cold War. However, since the United States is highly unlikely to terminate its military link to the Marshall Islands and settle at once all claims related to nuclear testing against it, the ongoing dialogue is an economic link that benefits both sides. Meanwhile, Washington's incredible turnaround from large budget deficits (1969-99) to large surpluses has restored financial credibility to the nation's capital and substantially improved its capacity to meet the nation's strategic as well as financial needs. Indeed, the financial health of the US government should strengthen the power behind its strategic interest in the Pacific.

### I.3 POLITICAL UNCERTAINTY

A new and potentially highly unsettling element causing uncertainty in RMI is political uncertainty arising from power struggles between the traditional and non-traditional leaders over RMI formal leadership, the presidency. Political uncertainty has increased significantly since 1997, when RMI's first president and the only national traditional leader, Amata Kabua, passed away. Transition of power occurred smoothly and the presidency of the US-backed but European-style democracy passed to another family member, Imata Kabua.

In the beginning of Imata Kabua's presidency (1997-98), the economy was in the last stages of its deepest recession RMI has known. Compact payment step-downs and subsequent government reforms forced by the United States, the Asian Development Bank (ADB) and other aid providers were the principal causes of the 1996-97 RMI recession. Although the sharp drop in real gross domestic product (GDP) ended in 1998 when it returned to growth, the recovery was weak and inconsequential.

RMI's first no-confidence vote against a president was initiated against President Imata Kabua. Although the vote failed, it opened a new chapter of political instability in RMI. In the November 1999 elections, a coalition of non-traditional political leaders came to power and removed the traditional leader from the presidency. RMI's first national government headed by a commoner took office in early 2000. The new government has faced numerous challenges, but the most important have been the weak economy and the Compact negotiations.

As is often the case with major changes in the social structure, this change of government from traditional authority to commoners who tend to be more technocrats and reform-minded has not yet settled on a steady track. The change has also given rise to the view among some Marshall Islands citizens that erosion of the traditional power occurred too rapidly. Those who share this point of view support the no-confidence votes and will continue to

challenge the government.

With the next regular elections 3-4 years away, the only way for the Opposition (those who prefer a traditional leader to be the head of RMI government) to return to power is to stage no-confidence votes. RMI's second no-confidence vote was staged on January 15, 2001, which failed again.<sup>3</sup> Because of procedural matters, the government will most likely be in office until August when yet another no-confidence vote may be initiated.

Meanwhile, both the RMI and US governments face an important task in RMI, which is to negotiate another financial package of the Compact for perhaps another 15 years. The talks are behind schedule because of change in government in late 1999, and the first round is now scheduled for May. The RMI and US governments must conclude these negotiations in the next two years while US financial aid continues.

The Compact talks are state to state which exclude individuals. Landowners on Kwajalein feel they should be included in these talks. They also suggest that traditional leadership is entitled to having a role in these talks which may bring hundreds of millions of dollars to the RMI. Yet, there is no mechanism outside the RMI government for the traditional leadership to be engaged in these talks. Friction arising from one segment of the RMI population challenging another for political power and leadership is new to RMI and difficult to predict where it will lead.

## II. MACROECONOMIC REVIEW & FORECAST

### II.1 MACROECONOMIC AND FINANCIAL UNCERTAINTY

With the US dollar as its currency, RMI is immune to most economic and financial risks that plague developing countries. The only risk in RMI is the normal risk arising from doing business

<sup>3</sup>Of the 33 members of the RMI parliament (the Nitijela), 19 voted for the government.

in that market. Although its reputation has been damaged because of poor management of all of its resources, the government of RMI has managed its finances competently and consistently. A part of the reason has been the need for compliance with terms of the Compact which specifies funding purposes.

As an extension of the US monetary and financial systems, RMI enjoys the stability of balance of payments (BOP) with the rest of the world. US Compact funds and other aid provide sufficient reserves to the financial system to cover the cost of imports. As a part of the US monetary and financial systems, RMI faces few cross-border and BOP uncertainties.

Because of lack of sophisticated banking laws, RMI is often included in "black" lists of places reportedly involved in illegal money transfers, but there are no off-shore banks in RMI. Nor are there other off-shore financial services entities that can be involved directly in illegal transactions. At least, there is no public record of such occurrences.

As the developed economies which are aid providers exert pressure on developing ones which are aid recipients, the latter may be willing to adopt more international standard institutions to protect their own financial systems and reputations. However, developing such systems take time. Also, involvement of the US government, whether through the Compact or other bi-lateral means, encourages the RMI government to move toward greater openness and the rule of law.

The only extraordinary aspect of doing business in RMI is the extra cost imposed on business and government by isolation and extra transport cost. This cost is a serious disadvantage, but it is not limited to business or a public entity. Everyone in RMI has to pay the premium imposed by the extraordinary circumstances and recover it through higher prices and higher risk premiums. Businesses unable to pass the high cost of doing business in RMI to final buyers of their products and services would obviously not do business in this market.

## II.2 NATURAL, ECONOMIC AND CULTURAL CONSTRAINTS

Geography shapes RMI's economy more than any other single factor. Because RMI is small, isolated and not richly endowed with many natural resources other than the Pacific Ocean, some of its limitations are unalterable, regardless of the state of technology. The most compelling of these limitations is RMI's small, fragmented and potentially highly fragile eco-system, most of which is unsuitable for agriculture other than the production of a few tropical species. Its small population is dispersed among a chain of islands that at present lack adequate infrastructure and that are isolated from regional and global transport routes and markets for both raw materials and finished goods.

RMI's population is scattered on more than 24 atolls, where lack of transport and communication facilities tightens the constraints within which the economy must produce. The physical and economic limitations inhibit the economy's capacity to operate and to provide the increasingly higher living standards that have come to be expected in a progressively global market economy that technology changes rapidly.

In addition, there are institutional barriers such as communal land holding, whose somewhat peculiar extensions include the multiple rights system under which several parties can claim and hold in dispute the same parcel of land. Provision for long-term leases of up to 50 years has been a welcome change, but the land tenure system as a whole impedes the establishment of a market system without which the productive capacity of the economy cannot expand.

At the same time, some of these same limitations that inhibit economic growth in RMI have also made RMI a valued strategic asset for the United States since the end of World War II. From the testing of nuclear devices in its waters in the 1940s and 1950s to the missile range presently in place on Kwajalein, American strategic and security interests in the RMI and the Western Pacific have shaped the RMI economy as much as it has that of its

nearby neighbor, the Federated States of Micronesia. As in some other parts of the former TTPI, US rent payments and aid have been the main sources of income, and government has so far been the largest beneficiary and, therefore, the main employer in the country for decades.

Critics of US policy in RMI in particular and in Micronesia in general argue that the United States has perpetuated a culture of economic and financial dependency that cannot sustain its current consumptive standard of living without the rent and aid. As true as that claim may be, it is also a fact that the current standard of living could not have been achieved and sustained without US funds. With the exception of fish and other marine habitats which can produce food for both domestic and overseas markets, alternative uses of RMI's resources, especially land, are extremely limited.

In search of a new income source in the 1980s, middlemen working for the RMI government and nuclear powers searched the nuclear world for waste to be stored in those RMI areas that have no productive uses. In return for allowing nuclear waste in its waters, RMI would receive rent in the manner it receives rent from the United States for the missile range and exclusive military access to its waterways. So far such a transaction does not seem to have been consummated. Whether the RMI government will pursue this avenue in the future will depend on how urgently it needs additional income sources.

The nature of RMI's economy, its dependence on US rent and aid and aid from other foreign sources, has made government the single largest employer for two reasons: First is the communal social structure of RMI in which economic benefits (and costs) are shared by the entire population. Second is the need for an equitable distribution of the benefits among the various groups which without the central government's direct involvement cannot be guaranteed. The dual role of government as both the guardian of a traditional social structure that the Marshallese want to maintain, and as the provider of income and

security, makes it a uniquely dominant social and economic force. Although RMI is a modern US-style democracy by most accounts, the traditional structure is still a critical part of the social system in place. This structure requires that government (the leaders and elders of the various clans) provide for its people.

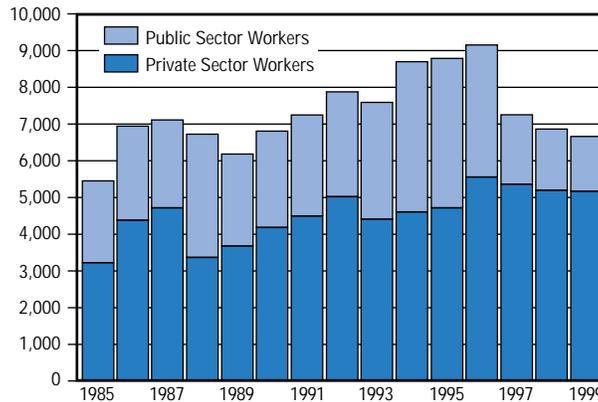
Also, since modern government represents the people through an elaborate and hierarchical but still representative system, it exercises the authority people respect. The social and political stability resulting from the integration of the communal system with a US-style democracy is a major institutional asset for accomplishing economic change. That RMI has adopted the US dollar as its currency for five decades now makes it an integral part of the US monetary system, regardless of its own domestic economic performance. However, the presence of the dollar alone is not sufficient to attract foreign capital to RMI.

### II.3 CHANGING SOCIAL AND ECONOMIC PRIORITIES

The foundations of the underlying social structure have been changing recently, mainly because of the financial and economic needs of the modern age. Recent government reform is a good example. In 1988, two years after the Compact of Free Association took effect, government workers were 50.2 percent of all paid workers (formal payroll). In 1992, government's share of total paid employment was down to 36.4 percent, mainly as a result of the expansion of private business in RMI. But it is important to keep in mind that most private business activity following the beginning of the Compact payments stream was created in services funded, directly and indirectly, by the same public funds.

Even then, government's share of paid workers increased once again from 36.4 percent in 1992 to 47.2 percent in 1994, the second highest since the peak

### PAYROLL EMPLOYMENT



of 50.2 percent in 1988. In 1995-99, the public sector's share of paid workers dropped from 46.4 percent to 22.6 percent, the lowest since the inception of the Compact. In 1995-99, the number of government paid workers decreased 58.0 percent from 3,602 to 1,513, and the number in the private sector decreased 7.4 percent from 5,579 to 5,168.

The large drop in government's share of employment did not occur at a time of a similar increase in the private sector, as might have been expected in a more vibrant economy led by private business. Instead, as government payroll decreased, it led to decreases in the private sector's paid employment. The most plausible explanation for this obviously close correlation between the public and private sector employment is that RMI's private sector is mainly a support (secondary) structure dependent on the public sector which creates primary market value from US payments that drive RMI's money economy. The production economy of RMI, producing from either local or imported inputs, including the subsistence sector, is a relatively small and decreasing part of the total economic output.

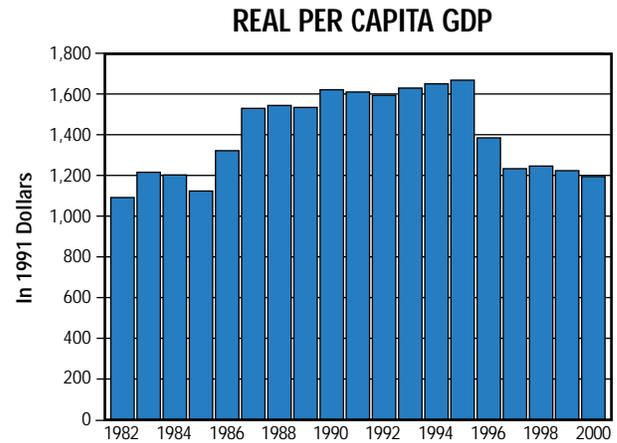
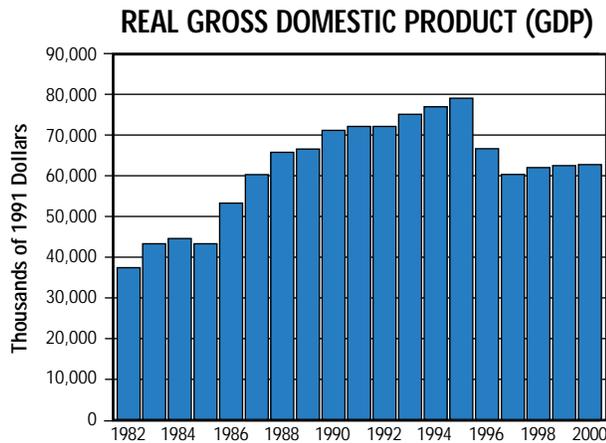
As government-paid employment decreased, economy-wide paid employment also decreased; but the clearest correlation can be found in 1996-99 when some of the more drastic public sector reforms were put in place. In that period, the public sector's share of paid workers dropped from 39.2 percent to 22.6 percent, while the number of total paid workers in the

economy dropped 27.2 percent. Had there been no causal relationship between the public and private sector employment trends, private sector employment might have increased as that in the public sector dropped. To express it another way, efficiency in the public sector, as measured by government employment reduction, may have been achieved at a higher economic cost to the overall economy.

Pressure from abroad, especially the United States and other donors such as ADB, to make the RMI government more efficient and less costly has led to what amounts to drastic changes in the role of government in the social and economic structures. At the same time, the private sector has not generated new jobs, not even enough to make up for those lost to reform. The long term implications of these changes are far from clear, but the most critical in the short run are losses in wages, taxes and purchasing power that, in the end, are net losses to the economy whose production base is indeed small and limited.

In search of efficiency, both the United States and other donors have vigorously applied global market and large economy rules to the small, fragile, isolated, resource-poor and mainly consumptive economies of Micronesia. Public sector efficiency in large economies has best been achieved by enabling the private sector to create new income and wealth. The best examples of this change over the last 20 years have been China and Chile. Efficiency in the small economies of Micronesia, on the other hand, has been pursued for its own sake without the requisite natural resources and financial strength of the private enterprise.

Reduced standards of living in RMI forced labor market participants to search for work and income in the United States, which by the Compact agreement itself must allow RMI citizens to relocate to US markets as they please. In this instance of pursuing efficiency in the public sector, the RMI and US governments and other



donors may have inadvertently encouraged those RMI citizens who are most likely the most skilled to settle and work in the United States. If indeed the case, efficiency in this case will have been achieved at the cost of both jobs and labor and the tax base to RMI. The number of job-seeking migrants to the United States from RMI may be small, especially in relation to the US population which now stands at 281 million. Whatever the number, it is not small in the context of the RMI population and labor force. It may be time to search for alternative strategies to make the RMI economy more productive and efficient.

#### II.4 MACROECONOMIC REVIEW

Despite a well-developed money economy since the 1940s, RMI is a small developing economy with a relatively high standard of living on a global scale as reflected in an estimated per capita GDP of \$1,821 in 2000. Also in 2000, RMI's total GDP was \$95.9 million, down 1.5 percent from 1999 and 8.9 percent from the 1995 peak.

In 1996-2000, the RMI economy struggled with the effects of reduced Compact funds, imposed public sector reforms and a declining domestic production economy. In addition, low commodity prices on world markets, especially for copra, further dampened total demand and output. In 1996-2000, GDP dropped 1.2 percent. The main factor contributing to a modest rebound in output in 1999 was resurfacing the

road in Majuro, along with numerous other but small projects in the capital.

Real (adjusted for price inflation) GDP contracted 20.8 percent from the 1995 peak to 2000. While both total and per capita output dropped notably in 1995-2000, price inflation remained relatively strong. Inflation in the face of an economic downturn is uncommon, but it may suggest that prices in RMI may not be set competitively. Monopolies in shipping, oil distribution and others may explain some of this anomaly. Inflation moderated and eventually turned into deflation in 2000 only after the economy had weakened considerably.

In 1986-95, considered RMI's boom period when the Compact payments made their biggest economic and financial impact on the RMI economy, total nominal GDP increased from \$40.0 million to \$105.2 million. Real GDP increased from \$53.4 million to \$79.4 million during the same time. In 1995, Compact payments peaked just before the third and final step-down which was followed by forced efficiency plans underwritten by the United States and implemented by ADB.

As a measure of the standard of living, per capita GDP over the last few years also reflects the changes in total income. In 1986-95, per capita GDP rose every year, increasing from \$1,216 to \$2,221. As we know now, per capita GDP peaked at \$2,221 in 1995, dropped to \$1,888 in 1997, rose to \$1,931 in 1998 only to fall to \$1,914 in 1999 and \$1,812 in 2000. Real per capita GDP rose from

\$1,326 in 1986 to a high of \$1,676 in 1995. In 1986-2000, it dropped to \$1,194, practically the same level as it was in 1984. That was two years before the Compact took effect.

With the Compact negotiations behind schedule and squabbling between the political parties, RMI may benefit from aid from the Republic of China (Taiwan) which, in fierce competition with the People's Republic of China (PRC) for diplomatic recognition, is giving tens of millions to the small Pacific states. Taiwan has promised \$10 million for infrastructure spending beginning in 2001. A \$20-million hospital in Majuro will likely be built in 2002-2003 with a grant from Japan. More assistance is expected to flow from the European Union which until recently had shown no interest in the Central and Western Pacific.

#### II.5 GDP BY SECTORS

The composition of GDP changed little in 1991-2000. Agriculture, fishing and forestry (AFF) averaged 13.6 percent of GDP in 1991-2000, ranging from a high of 15.9 percent in 1994 to a low of 11.9 percent in 1998. Although it is not clear from existing data, it appears that price changes, especially commodity price changes dictated by world prices, influenced the contribution of AFF to the RMI economy more than any other factor. It is clear, for example, that in the last three years of the 1991-2000 period, both prices and the quantities of AFF

## GROSS DOMESTIC PRODUCT (GDP) BY SECTORS (\$000)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Agriculture, forestry & fishing	10,014.5	10,739.3	11,476.3	15,068.3	15,873.8	13,589.4	12,963.2	11,403.8	11,797.8	12,000.0
Mining & quarrying	192.6	215.2	240.4	248.0	285.2	310.8	322.2	281.3	289.5	300.0
Manufacturing	853.0	789.6	595.4	1,067.2	2,690.0	1,488.0	1,561.0	1,491.4	1,657.3	1,500.0
Electricity, gas & water	(602.6)	(528.2)	863.8	1,694.3	2,143.3	2,566.0	2,808.0	2,015.1	2,245.4	2,500.0
Construction	8,850.6	9,980.0	8,450.0	9,295.0	10,694.8	6,625.8	6,294.5	10,622.4	10,648.5	10,800.0
Wholesale and retail trade	14,694.3	15,995.3	12,175.5	12,906.0	13,618.0	12,969.0	11,672.1	12,668.1	12,766.7	13,000.0
Hotels and restaurants	3,181.6	3,848.9	4,041.3	4,283.8	4,300.5	4,774.0	4,535.3	4,387.0	4,456.1	4,000.0
Transport & communication	(3,654.1)	(2,820.8)	2,771.1	1,904.2	6,537.5	6,895.8	7,183.0	5,058.2	5,515.7	5,000.0
Finance, insurance & real estate	11,379.1	12,755.1	14,175.4	15,866.4	17,089.3	14,958.6	14,265.5	15,271.1	15,490.2	15,000.0
Services	25,022.3	26,987.0	29,456.2	31,657.1	32,072.2	30,782.0	28,832.0	30,985.3	31,236.7	31,400.0
Sector Total	69,931.3	77,961.4	84,245.4	93,990.3	105,304.6	94,959.4	90,436.8	94,183.7	96,103.9	95,500.0
Less imputed bank charges	—	—	—	—	—	4,905.2	4,905.2	5,714.5	5,809.4	3,500.0
Plus import duties	—	—	—	—	—	6,981.5	6,652.3	7,190.1	7,017.3	3,900.0
GDP	72,219.0	79,708.5	87,059.4	94,596.2	105,238.8	97,035.7	92,183.9	95,659.3	97,311.8	95,900.0
Sector Shares (%)										
Agriculture, forestry & fishing	13.9	13.5	13.2	15.9	15.1	14.0	14.1	11.9	12.1	12.5
Mining & quarrying	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Manufacturing	1.2	1.0	0.7	1.1	2.6	1.5	1.7	1.6	1.7	1.6
Electricity, gas & water	(0.8)	(0.7)	1.0	1.8	2.0	2.6	3.0	2.1	2.3	2.6
Construction	12.3	12.5	9.7	9.8	10.2	6.8	6.8	11.1	10.9	11.3
Wholesale and retail trade	20.3	20.1	14.0	13.6	12.9	13.4	12.7	13.2	13.1	13.6
Hotels and restaurants	4.4	4.8	4.6	4.5	4.1	4.9	4.9	4.6	4.6	4.2
Transport & communication	(5.1)	(3.5)	3.2	2.0	6.2	7.1	7.8	5.3	5.7	5.2
Finance, insurance & real estate	15.8	16.0	16.3	16.8	16.2	15.4	15.5	16.0	15.9	15.6
Services	34.6	33.9	33.8	33.5	30.5	31.7	31.3	32.4	32.1	32.7
Sector Total	96.8	97.8	96.8	99.4	100.1	97.9	98.1	98.5	98.8	99.6
Less imputed bank charges	—	—	—	—	—	5.1	5.3	6.0	6.0	3.6
Plus import duties	—	—	—	—	—	7.2	7.2	7.5	7.2	4.1
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Office of Planning & Statistics, Marshall Islands *Statistical Abstract* (1996 and 1998 & 1999) and IMF, *Republic of the Marshall Islands: Recent Economic Developments*, December 12, 2000.

components declined.

A notable example of simultaneous quantity and price declines has been copra. Copra production peaked at 7,201 tons in 1995 when the price was also high, \$433 per ton, not the highest but one of the highest on record. The price dropped to \$420 in 1996 when output also dropped to 6,444 tons. As the price went down to \$180 in 1998, production declined to 4,563 tons. The price rebounded to \$300 in 1999, but production dropped to 3,355 tons, the lowest since 1951. There was no complete information for 2000, but early signals were that price remained at around \$300 per ton and output was also close to the 1999 level.

It is not very common that prices and quantities would drop at the same time, but prices of commodities, especially primary commodities, change in uncertain manners and subject economies dependent

on commodity exports to widely fluctuating export earnings. The quantity of copra which RMI has sold on the world market has been small and low global prices have discouraged producers from even producing what they normally would supply. With world prices for copra still low, the return of normal production levels (5,000-6,000 tons) may take some time. At the same time, copra production is not an attractive occupation for most young people in RMI. As older producers leave the market, either because of low prices or other reasons, copra output may never recover to the peak levels.

Most of the reported market value of fish is represented by fishing fees RMI collects from overseas fishing boats for fishing in RMI waters. Fish caught for domestic consumption is not included in this accounting. Fishing fees received from overseas operators vary little from

period to period and produce no secondary benefits to RMI since the fish caught in RMI waters gets shipped to and processed elsewhere. A way to capture some of the value added from the fish caught in RMI waters has been the building of a local plant to clean (loin) fish in Majuro for canning elsewhere, mainly in the canneries in American Samoa. The facility which employs some 300 workers is too new to generate information on the feasibility of expansion. Given RMI's need to create jobs at practically any skill level, this type of activity is one of the most feasible.

Manufacturing has been a small part of the economy, limited to assembly of pre-finished products. In 1991-2000, it averaged 1.5 percent. Electricity, gas and water also averaged 1.6 percent of GDP in 1991-2000.

With averaging 10.1 percent of GDP, construction remained relatively

## VISITORS BY PURPOSE OF VISIT

	Total Visitors	Business	Holiday/ Vacation	Transit	Visiting Friends and Relatives	Other	Not Stated
1989	3,183	1,158	355	1,232	277	153	8
1990	—	—	—	—	—	—	—
1991	5,872	2,271	947	1,633	606	390	25
1992	5,648	2,118	825	1,306	709	650	40
1993	5,024	1,889	760	1,193	705	435	42
1994	4,876	2,090	563	967	857	399	—
1995	5,426	2,029	679	1,493	778	340	107
1996	6,116	2,513	1,113	1,447	634	281	128
1997	6,254	2,499	862	1,806	630	270	187
1998	6,374	1,905	874	1,276	568	489	1,262
1999	4,622	2,047	1,093	556	462	464	—

Source: Office of Planning and Statistics, Majuro, *Marshall Islands, Marshall Islands Statistical Abstract 1998 & 1999*, p.111.

large despite fluctuations. Since construction accounts for building new fixed assets as well as the upkeep of existing ones, it is not clear from the GDP data which segment of the industry led. It is common, however, that new activities normally raise the industry's output levels, often significantly while repair work usually does not lead to large gains in the industry's output. Without major projects, the industry will most likely remain at current levels in the next few years. With the new Compact agreement in place, it is quite possible that some major new projects may inject new life into the industry.

Trade and hotel and restaurant shares also remained stable. Trade averaged 14.7 percent of GDP in 1991-2000 and restaurants and hotels averaged 4.6 percent, with only small changes during the entire period. With no new hotels on the horizon, the hotel industry's contribution will rise only with rising tourists, especially from Asia. There have been some gains in divers from Japan in the last few years. If this continues to be the case in the next few years, the hotel industry will benefit. However, these gains will be incremental and perhaps of small impact on the whole economy. RMI has a long way to become a regional destination.

Transport and communication, one of the most reliable signals of technological change in the economic makeup of nations these days, averaged

3.4 percent, and changed very little in 1991-2000. That was below the average for most Pacific nations. The average for the region is about 5-10 percent.

Little change in transport and communication indicates little change in the technological aspect of economic change. Although one would not expect a large jump in transport and communication output in an economy such as RMI, the rise of the specific role of the Internet has increased the contribution of communication infrastructure spending globally. The small economies of the Pacific are not participating fully in the Information Age because of small markets. Since modern communication infrastructure is sensitive to economies of scale (the larger the market, the smaller the per unit cost to develop and use), small populations, especially in isolated islands economies, are at a serious disadvantage. One way to overcome this disadvantage may be to pool together the small Pacific markets into a single market. However, given the experience with air transport and political and cultural sensitivities within the various economies and their isolation from each other, it would be a challenge to form a functioning consortium in transport and communication.

Finance, insurance and real estate has also been stable, averaging 15.9 percent of GDP. That share was consistent with the region's. Perhaps it is realistic to say that modern and

## TRAVELERS TO MAJURO

	Total	Visitors	Others
1983	3,630	2,950	680
1984	3,913	3,144	769
1985	2,914	2,494	420
1986	3,290	2,845	445
1987	3,131	2,441	690
1988	3,578	3,165	413
1989	3,701	3,193	508
1990	4,856	4,128	728
1991	6,868	5,897	971
1992	7,212	5,884	1,328
1993	6,762	5,055	1,707
1994	6,363	4,909	1,454
1995	6,838	5,504	1,334
1996	7,563	6,229	1,334
1997	7,418	6,354	1,064
1998	6,374	—	6,374
1999	4,622	—	4,622
2000	—	—	—

Source: Marshall Islands *Statistical Abstract 1996 and 1998 & 1999*.

financial services are no longer luxury goods, even in developing economies. Because of their long-standing links to the United States, RMI and other Micronesian economies have had modern financial services industries for decades. With economic vigor returning to RMI, this segment of the economy should also do well once again. Meanwhile, the industry's remarkable stability as a share of GDP over the 1991-2000 period suggest its vital role in the economy.

The biggest piece of the GDP pie in RMI, as is the case in all of Micronesia, is services, including government services. Services averaged 32.7 percent of GDP in 1991-2000, declining only slightly from the early 1990s toward 2000. This happened despite government payroll count declining 63.3 percent from 4,122 (the peak) in 1994 to 1,513 in 1999.

Government plays a critical role in the RMI economy. It is not just the provider of basic public services such as police, fire protection and education. It is also expected to be the provider of income and work security of last resort. Under the basic tenet of the traditional (communal) system, government leaders are a team of elders and leaders who guide the people toward a better life for the entire nation. The traditional system

has been modified in many ways to turn it into a modern democracy, but the expectations from it have not changed dramatically.

One of the reasons the traditional leaders seek a role in the Compact negotiations, even though they are no longer in charge of the government, is that they want to be sure about the terms of the income stream and how it is going to be allocated among the various constituent groups. At the same time, the RMI government has been under pressure to cut cost, provide services more efficiently and relinquish some of the economic functions to the private sector. To the degree that these reforms conflict with the unwritten provisions of the traditional customs, they also create the type of conflicts that lead to no-confidence votes.

While large-economy style of reform is justified on the basis of the parameters applicable to large and self-sustaining market economies, it runs into problems in an economy such as RMI where the demarcation between traditional and non-traditional systems is still unclear. As the data for RMI show clearly, cutting government spending means cutting the private sector as well because the private sector is a function of the public sector. The private sector based on production alone is extremely limited and hampered by constraints both within the market such as small size and outside the market such as world commodity price changes. RMI needs a more gradual and more long-term-oriented reform of the public sector so it does not happen for its own sake. Rather, reform must happen to make the economy more efficient and more productive at the same time as it creates more jobs for more people.

### III. WHAT LIES AHEAD

RMI is in the midst of a critical transition, with two distinct but equally important facets. The first is a change in government and national leadership from traditional to non-traditional leaders. This is a complicated process and must be looked at from a long-term perspective,

especially with an eye on what this process does for the RMI economy.

One of the most valuable lessons from the Asian financial crisis has been that the more unstable an economy's institutional structure was, the more catastrophic the economic decline that followed. In the global village of the Information Age when capital and information flow freely around the world as if it were a single market, economic stability requires, first and foremost, political and financial stability. An economy cannot possibly be financially stable in the longer term without political stability. To the degree that political stability is now a pre-requisite for capital flows which support economic vitality, RMI needs to restore stability to the political process.

It is possible, indeed expected, that RMI leaders would see the global village in a different light. It is also possible that they may see the rest of the world's view of RMI as uninformed or misguided or both. The reality is that the rest of the world will not stop to look back at RMI and other small economies with severe disadvantages, most of which cannot be altered, no matter what the state of technology. The natural disadvantages of small and isolated markets can only be overcome if these markets join the global village and receive their share of capital which is critical to economic growth, productivity and overall economic vitality.

At the same time, the roots of the traditional system are deep and solidly in place. Nurturing them requires a definitive role for the traditional leadership in the economic and financial management of RMI. Reconciling the realities of the outside world for political and financial stability with the RMI's own need for the traditional system's role in the economic and financial management is, in fact, a major challenge the RMI leadership faces. Given its experience so far with blending the traditional and democratic systems, the outlook appears hopeful.

Also, the task ahead is neither easy nor amenable to quick fixes. To

make the long-term outlook stable and predictable, the near-term issues need to be resolved in a manner consistent with the global village's realities. The most significant of these, once again, is the need for political and financial stability so RMI can attract the foreign capital it needs to develop and sustain a sustainable standard of living within the economy's human and natural resources.

The second challenge the leadership faces is the stalled economy that needs a jump-start. It may occur with the conclusion of the next financial package of the Compact. The new financial package may have some large, up-front projects that may push the economy back to growth and increase the average-income household's purchasing power.

As small as it is, making the RMI economy grow requires capital and skills. If capital comes from the Compact funding, that would be the best case. However, it is doubtful that the Compact will fill all of RMI's capital needs. The economy will continue to need private capital for both new and existing ventures. In today's competitive capital markets dominated by large economies, a small economy such as RMI has to pay a premium. The best way to reduce that premium and attract capital at competitive rates is to make the market as stable and predictable as other open and stable markets which compete for the same capital.

### Acknowledgments

All photos were provided as a courtesy by the Marshall Islands Visitors Authority.

## PACIFIC ISLANDS FACT SHEET

### US DOLLAR-DENOMINATED ECONOMIES

	Population	Land Area (square miles)	Notable Geographic Characteristics	Capital/ Distance from (miles)	Currency	Major Languages
GUAM	163,373	212	One island. Major US naval base and regional trans-shipment center at Apra Harbor. In hurricane path.	Agana/ Honolulu 3,800 Tokyo 1,600	US dollar	English, Chamorro, also Tagalog, Japanese
COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS (CNMI)	79,429	177	Saipan the largest island, Tinian and Rota next, 14 others in the chain. 125 miles north of Guam. US territory closest to Asia.	Garapan, Saipan/ Honolulu 3,700 Tokyo 1,500	US dollar	English, Chamorro, Carolinian
FEDERATED STATES OF MICRONESIA (FSM)	116,268	270	607 islands and atolls, Pohnpei 130 square miles, other major islands Kosrae, Yap and Chuuk. The 4 FSM states span 1,700 miles from east to west.	Kolonia, Pohnpei/ Honolulu 3,100 Hong Kong 3,100	US dollar	English, 8 major local languages
REPUBLIC OF PALAU	18,500	170	343 islands, the main group encircled by a hundred mile reef. Babeldaob 136 square miles. 8 other inhabited islands. Rock Islands.	Koror/ Honolulu 4,600 Tokyo 2,000 Hong Kong 1,700	US dollar	English, Palauan, Sonsorolese- Tobian
REPUBLIC OF THE MARSHALL ISLANDS (RMI)	52,671	70	34 coral islands, 870 reefs, highest elevation 33 feet above sea level, average elevation 7 feet.	Majuro/ Honolulu 2,300 Guam 1,800	US dollar	English, Marshallese dialects
AMERICAN SAMOA	58,900	76	5 islands, 2 atolls. Pago Pago Harbor. Home of newest US national park. In hurricane path.	Pago Pago, Tutuila/ Honolulu 2,600 Los Angeles 4,800	US dollar	English, Samoan
TOTAL/AVERAGE	489,141	975				

### NON-DOLLAR ECONOMIES

FRENCH POLYNESIA	231,500	1,609	130 islands, mostly atolls in 5 archipelagoes. Tahiti the largest island, 400 miles square, maximum elevation 7,464 feet.	Papeete, Tahiti/ Honolulu 2,800 Los Angeles 4,100 Paris 10,400 Tokyo 5,900	French Pacific franc (F CFP)	French, Tahitian
NEW CALEDONIA	209,222	7,376	Main island, Grande Terre 250 miles by 30 miles (larger than the Hawaiian Islands together), mostly mountainous. Several small islands.	Noumea/ Honolulu 3,900 Paris 10,400 Brisbane 900	French Pacific franc	French, 30 Kanak dialects
WALLIS AND FUTUNA	14,800	106	2 main islands, highest elevation 2,493 feet.	Wallis Island/ Honolulu 2,700 Paris 10,000	French Pacific franc	French, East Uvean, East Futunan
PAPUA NEW GUINEA (PNG)	4,800,000	178,704	Eastern half of the island of New Guinea. Largest by far Pacific island-state land mass. Other main islands New Ireland, New Britain and Bougainville.	Port Moresby/ Honolulu 4,300 Cape York, Australia 300 Tokyo 3,100 Hong Kong 3,100	Kina	English, Tok Pigin, Hiri Motu, hundreds of vernaculars
COOK ISLANDS	19,600	92	15 widely dispersed islands including volcanic peaks and atolls. Rarotonga the largest island 26 miles square. In hurricane path.	Rarotonga/ Honolulu 3,000 Wellington 2,000	New Zealand dollar	English, Cook Islands Maori
SAMOA	168,000	1,158	4 inhabited islands, 5 uninhabited. Highest point 6,100 feet, Mt. Silisili on Savai'i. In hurricane path.	Apia/ Honolulu 2,600 Suva 700 Brisbane 2,500	Tala	English, Samoan

<b>GDP/GNP (US\$ million current)</b>	<b>Per Capita GDP/GNP (US\$)</b>	<b>Major Income Sources</b>	<b>Political Status</b>	<b>Major Sources of External Investment</b>	<b>Major Sources of Future Income</b>
3,065.8	18,766	Tourism, military, trade and services	US territory since 1898. Guam Organic Act of 1950 conferred U.S. citizenship. Some push for commonwealth status.	US, Japan, Korea	Tourism, services
664.6	8,367	Tourism, garment manufacturing, trade and services	After WWI under Japanese mandate. In 1947 became part of US Trust Territory of the Pacific. Since 1978 a Commonwealth of the US. Islanders are US citizens.	Japan, Korea, Hong Kong, US	Tourism, services
230.0	1,978	US payments, government services, fisheries, tourism	After WWI under Japanese mandate. In 1947 became part of a UN Trust Territory. Became sovereign in 1979. In compact of free association with US as of 1986.	US, Japan	Compact status being renegotiated. Fisheries development, tourism
129.3	6,989	US Compact payments, tourism	After WWI under Japanese mandate. In 1947 became part of US Trust Territory. Became sovereign in 1994, in compact of free association as of 1994. Compact ends 2044.	Japan, US	Compact money, tourism
95.9	1,821	US payments, Kwajalein Missile Range, government services, copra, fisheries	After WWI under Japanese mandate. In 1947 became part of a UN Trust Territory. Became sovereign in 1979. In compact of free association since 1986.	US, Japan	US military. Compact being renegotiated. Fisheries.
253.0	4,295	Tuna canneries, government services, remittances from Samoans overseas	US territory since 1899. Samoans are US nationals.	US	Canneries, remittances, US entitlements
4,438.6	9,074				
3,929.2	16,973	Payments from Metropolitan France, tourism, Tahitian pearls	French controlled from the 19th century. Overseas territory of France since 1957. Active independence movement.	Metropolitan France	French transfers, tourism, pearls
3,058.0	14,616	Payments from Metropolitan France, nickel, agriculture and ranching, tourism, aquaculture	1853 became a French possession. Overseas territory of France since 1946.	Metropolitan France	French transfers, nickel, tourism, agriculture, aquaculture
28.7	1,939	French transfer payments, trochus shells	French controlled from the 19th century. Overseas territory of France since 1961.	Metropolitan France	French transfers
3,754.4	782	Minerals, oil and gas, forestry, agriculture, tourism	Under Australian & German control before WWI. Administered by Australia after WWII. Independent within the British Commonwealth since 1975. The Bougainville secessionist movement ended by a formal treaty in April 1998.	Australia, UK	Minerals, oil, timber, fisheries, tourism
76.1	3,882	Government aid, services, tourism	Self-governing since 1965 in association with New Zealand. Cook Islanders are citizens of both Cook Islands and New Zealand.	New Zealand	Tourism
199.0	1,185	Agriculture, remittances from abroad, tourism, manufacturing	Under German control before WWI, New Zealand after. New Zealand trusteeship after WWII. Independent since 1962.	New Zealand, Japan	Agriculture, tourism, light manufacturing

## PACIFIC ISLANDS FACT SHEET *(continued)*

	Population	Land Area (square miles)	Notable Geographic Characteristics	Capital/ Distance from (miles)	Currency	Major Languages
FIJI	812,300	7,055	320 islands. Viti Levu 4,000 miles square, Vanua Levu 2,100 miles square. Major islands are mountainous and forested to windward.	Suva/ Honolulu 3,100 Sydney 2,000 Tokyo 4,500	Fiji dollar	English, Fijian, Hindi
KIRIBATI	83,976	266	33 islands scattered 2,400 miles east to west, 1,300 miles north to south. Almost entirely low-lying atolls, Christmas Island the largest.	Tarawa/ Honolulu 1,300 Tokyo 3,900	Australian dollar	English, Micronesian
SOLOMON ISLANDS	393,000	11,197	850 mile long double island chain. 6 mountainous main islands, Guadalcanal 2,080 miles square.	Honiara, Guadalcanal/ Honolulu 3,960 Port Moresby 900	Solomon Island dollar	English, Solomon Islands Pijin, more than 80 vernaculars
TONGA	97,800	386	Main islands volcanic, some 150 coral atolls, 36 permanently inhabited.	Nukualofa/ Honolulu 3,100 Brisbane 2,000	Pa'anga	Tongan
VANUATU	199,016	4,707	80 scattered islands, several active volcanoes. Largest island Espiritu Santo 1,500 miles square, highest point 6,158 feet.	Port Vila, Efate/ Honolulu 3,500 Tokyo 4,100	Vatu	French, English, Bislama
NAURU	11,200	8	A single island with a 100 foot high central plateau of now nearly exhausted phosphate-bearing rock.	Nauru/ Honolulu 2,800 Banaba, Kiribati 200	Australian dollar	English, Nauruan
NIUE	1,745	101	Coral island rising 65 feet from the ocean and another 130 feet to a central plateau.	Alofi/ Wellington 1,800 Suva 800	New Zealand dollar	English, Niuean
TOKELAU	1,507	4	3 atolls with islets 10 to 16 feet above sea level. In hurricane path.	Nukunonu/ Honolulu 2,300 Wellington 3,800	New Zealand dollar	English, Tokelauan
TUVALU	10,900	10	5 atolls, 4 coral islands, maximum elevation 16 feet above sea level.	Funafuti/ Suva 700 Sydney 2,500	Australian dollar	English, Tuvaluan
TOTAL/AVERAGE	7,054,566	212,779				
GRAND TOTAL/ AVERAGE	7,543,707	213,754				
HAWAII	1,205,126	6,423	4 main islands. Island of Hawaii 4,028 miles square, highest point of Mauna Kea 13,796 feet. Mauna Loa and Kilauea on Hawaii both active volcanoes. Maui 727 miles square, Oahu 597 (Waikiki), Kauai 552. In hurricane path.	Honolulu/ San Francisco 2,400 Los Angeles 2,600 Washington 4,800 Tokyo 2,500	US dollar	English

SOURCES: Europa, *The Far East and Australasia*, 2000; Gary L. Fitzpatrick and Marilyn J. Medlin, *Direct-line Distances, International Edition*, New Jersey, 1986; International Monetary Fund, *International Financial Statistics*, November 2000; David Stanley, *Micronesia Handbook*, Chico, California, 1989; David Stanley, *South Pacific Handbook*, 5th Edition, Chico, California, 1993; State of Hawaii Department of Business and Economic Development, *Data Book 1999*, Honolulu, 1999;

GDP/GNP (US\$ million current)	Per Capita GDP/GNP (US\$)	Major Income Sources	Political Status	Major Sources of External Investment	Major Sources of Future Income
1,821.3	2,242	Sugar and other agriculture, tourism, forestry, fishing, mining, garment industry	Annexed by Great Britain in 1874. Became independent within the Commonwealth in 1970, rejoined the Commonwealth in 1997.	Australia, New Zealand, EU, Japan	Agriculture, tourism, mining, light manufacturing
76.0	905	Agriculture (copra), remittances, aid	Annexed by Britain in 1919. A republic within the British Commonwealth since 1979.	NA	Fisheries development
343.7	875	Agriculture, timber sales, fishing and fish canneries, aid	British protectorate as of 1873. Politically independent within the Commonwealth since 1978.	Australia, Japan	Agriculture, fisheries, tourism
177.0	1,810	Agriculture, tourism	British protectorate as of 1900. Independent monarchy within the Commonwealth.	NA	Tourism, agriculture
224.6	1,129	Agriculture and ranching, tourism, Offshore Finance Center, services	Anglo-French New Hebrides Condominium in 1906. Republic of Vanuatu within the British Commonwealth established in 1980.	Australia, Japan	Tourism, agriculture
368.0	32,857	Phosphates and investments from phosphates	From 1919 administered by Australia. Became an independent republic in 1968.	NA	Investments from phosphate
6.1	3,476	Subsistence activity, government aid	Self-governing since 1974 in free association with New Zealand.	NA	Tourism
1.2	796	Subsistence activity, government aid	Non-self-governing territory administered by New Zealand beginning 1925.	NA	Subsistence activities, government aid
9.0	826	Subsistence activity, government aid	Independent state within British Commonwealth since 1978.	NA	Subsistence activities, government aid
14,072.3	1,995				
18,510.8	2,454				
35,146.4	29,164	Tourism, services, trade, government	Annexed in 1898, became a US territory in 1900, became a state in 1959.	US, Japan, Australia	Tourism, defense, services, trade, government

Peter W. Thomson, *Trade and Investment in the South Pacific Islands*, Honolulu, 1989; World Bank, *World Development Report*, 2000-2001; various Bank of Hawaii economic reports, 1992-2000, and other sources. (Rev. 4/01)

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