



PACIFIC ECONOMIC REPORT

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REPUBLIC OF THE MARSHALL ISLANDS (RMI) ECONOMIC AND POLICY UPDATE



Near the southern tip of Majuro



Mainland Chinese and Taiwanese boats now fish in RMI's Exclusive Economic Zone



Power plant, Majuro

GENERAL CHARACTERISTICS

Republic of the Marshall Islands (RMI) is made up of two nearly parallel chains of islands, the Ratak (Sunrise) group and Ralik (Sunset) group. Together, the two chains comprise 29 coral atolls, each made of many islets, and five islands located in the central Pacific 2,270 miles southwest of Hawaii.

RMI's nearest neighbors are Kiribati to the south and the Federated States of Micronesia (FSM) to the west. RMI's total land area of 70 square miles, scattered over a vast 750,000 square miles of the Pacific, makes it the smallest of the five American-affiliated Pacific territories in Micronesia.

Its estimated 1998 population of 62,924, however, is the third largest

(following Guam and FSM), with Micronesia's highest population density of 899 persons per square mile. Both English and Marshallese are official languages, and the traditional society of matrilineal clans has gradually been blended into an American-style democracy.

RMI has approximately 1,225 atolls, islands and islets, with a mean height of seven feet above sea level. These low elevations make the atolls vulnerable to storms and high waves, but typhoons, which are often very destructive in the Western Pacific, are not common to the area. Rainfall decreases from south to north and January-March are the driest months. Seasonal variations in rainfall and temperature are small. Because of sandy soil and high salt content, most of RMI's soils are unsuitable for most agricultural production except for a few tropical species.

RMI's urban areas are Majuro, the capital, on Majuro Atoll and Ebeye on Kwajalein Atoll. About half of RMI's total population of 62,924 lives in Majuro and about 20 percent on Kwajalein. The remaining 30 percent is scattered throughout RMI.

Majuro, with 3.75 square miles, and Ebeye, located in the southeast corner of the 6.3 square miles of Kwajalein Atoll, have some of the world's highest population densities. Kwajalein is a reserved US military area, site of the US Army's Kwajalein Missile Range. Access to it is limited, but it is connected to Majuro and other population centers by civilian aviation.

According to the 1988 census, 24 atolls and islands were inhabited, and their populations ranged from 10 on Bikini Atoll to 19,664 on Majuro. The same census also showed that RMI's population growth, 4.1 percent annually in 1980-88, was one of the world's highest, resulting from one of the world's highest birth rates of 7.2 children per family. Unabated, this growth rate means that RMI's population will double in 17 years. Family planning as practiced in industrial economies such as

the United States is neither practiced nor advocated by government.

The social and economic implications of rapid population growth have not gone unnoticed. The RMI government is keenly aware that one of its most formidable tasks in the next 10-20 years is to bring population growth in line with economic growth.

FROM TRUST TERRITORY OF THE PACIFIC ISLANDS (TTPI) TO THE MISSILE RANGE

Some observers see the Compact of Free Association with the United States as a US aid program for RMI. However, while some of the \$1 billion the United States will have paid by the end of 2001 is in grants and therefore aid in the usual sense, most of this money is in the form of rent paid for unlimited access to RMI's waterways, access formalized with the Compact as a binding treaty. Making this distinction between aid and rent is important because the Compact, an economic and political treaty, is primarily a business transaction and not a typical aid package requiring no reciprocity between nations.

Clearly by paying \$1 billion to a population of 62,924 over a 15-year period, the United States has gone beyond the usual scope of economic aid. The US military's involvement in RMI is, in fact, part of a much larger continuing strategic interest in the Pacific Ocean, where the United States has invested large sums since the end of World War II. As much as the euphoria over the end of the Cold War and associated ill effects of global armament is justified, the Western Pacific remains of vital long-term strategic and economic interest to the United States.

RMI is an integral part of the US permanent strategic zone in the Pacific, and investing in RMI's economy and the region is justified by both US security and economic interests in the long run. No changes in global and regional geopolitical configurations should be expected to change this and therefore, US commitment to the region should

continue.

The United States retains the right to extend its lease agreement on Kwajalein for another 15 years when the present Compact ends in 2001. All terms of the Compact are subject to negotiations which either side may initiate next year. It is unlikely that the United States will leave RMI because of the importance of the Kwajalein missile range as well as its strategic interest in the Central Pacific as a whole.

The US Army leases most of Kwajalein Atoll from RMI for the missile range that has been in operation since 1961. The Kwajalein range employs about 1,000-1,200 islanders, a large number for a country with a total population of 62,924. 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. The possibilities for better, more productive uses of Kwajalein Atoll other than the missile range are severely limited.

ECONOMIC CHARACTERISTICS

Geographic isolation shapes RMI's economy as it does other small island societies. The most compelling limitation imposed by geography is RMI's small, fragmented and fragile land area. Aside from a few tropical species, it is mostly unsuitable for agricultural production. Its small population is dispersed among a chain of islands that lack adequate infrastructure and are isolated from regional global transport routes as well as markets for both raw materials and finished goods.

These physical and economic limitations inhibit production possibilities and the economy's capacity to provide smoothly the kind of higher living standard that people all over the world expect from the global market economy now being shaped rapidly by technology. In addition, there are institutional barriers such as a communal land tenure system, whose somewhat peculiar extensions include the multiple rights system under which the same

REPUBLIC OF THE MARSHALL ISLANDS (RMI) MAJOR INDICATORS

	Population (000)	Nominal GDP (\$000)	Nominal Per Capita GDP	Real GDP (\$000)	Per Capita Real GDP	Majuro CPI 1982=100	Majuro Inflation	Paid Workers	Total Sector Workers	Private Public Workers	Production (Short Tons)	Copra Catch (Met Tons)	Total Fish Imports Exports (\$Mill)	
1980	30,873	—	—	—	—	—	—	—	—	—	—	6,257	—	2.6
1981	32,942	27,152	824	—	—	—	—	—	—	—	—	5,760	—	3.0
1982	34,299	30,564	891	37,487	1,093	100.0	—	4,980	2,677	2,303	5,773	—	18.8	2.2
1983	35,711	36,543	1,023	43,612	1,221	102.8	2.8	—	—	—	6,491	—	17.5	3.2
1984	37,180	39,513	1,063	44,768	1,204	108.2	5.3	—	—	—	4,483	—	22.6	5.5
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
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
1987	41,930	55,130	1,315	60,453	1,442	111.9	(0.6)	7,139	4,715	2,424	5,405	—	33.5	1.9
1988	43,380	61,874	1,426	66,157	1,525	114.7	2.6	6,761	3,369	3,392	5,475	—	33.8	2.2
1989	44,989	63,721	1,416	66,713	1,483	117.2	2.1	6,224	3,670	2,554	5,805	12,992.9	44.4	2.5
1990	46,714	68,691	1,470	71,410	1,529	118.0	0.7	6,839	4,168	2,671	5,159	16,820.9	56.0	1.7
1991	48,546	72,219	1,488	72,219	1,488	122.7	4.0	7,277	4,483	2,794	4,213	8,247.5	56.4	2.9
1992	50,496	79,709	1,579	72,246	1,431	135.3	10.3	7,896	5,019	2,877	5,861	25,561.9	61.8	9.2
1993	52,557	87,059	1,656	75,180	1,430	142.0	5.0	7,625	4,395	3,230	4,627	111,197.8	61.1	7.7
1994	54,620	94,596	1,732	77,296	1,415	150.1	5.7	8,727	4,605	4,122	4,836	10,494	70.4	22.2
1995	56,678	105,239	1,857	79,411	1,401	162.5	8.3	8,810	4,724	4,086	7,728	2,562	75.1	23.1
1996	58,746	102,121	1,738	70,220	1,195	178.4	9.7	9,181	5,579	3,602	6,444	—	72.6	18.9
1997	60,832													
1998	62,924													

Source: Marshall Islands *Statistical Abstract 1996* and other years.

parcel of land can be claimed and held in dispute by several parties. Provision for long-term leases of up to 50 years has been a welcome change, but the land tenure system as a whole remains an impediment to establishing a market system without which the economy's productive capacity cannot be expanded.

At the same time, some of these same limitations that inhibit economic growth in RMI have also made it 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 1950s to the missile range presently in place on Kwajalein, American interest in RMI has shaped the RMI economy. As in some other parts of the former TTPI, US rent and aid have been the main sources of income, and government has been the largest beneficiary and therefore the main employer in the country.

Alternative uses of RMI's resources, with the exception of fish and other marine habitats which can produce food for both domestic and overseas markets, are extremely limited. 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. 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.

Also, since government represents the people through an elaborately hierarchical but fairly 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. The certainty arising from political and social stability should enhance RMI's efforts to attract foreign capital and expertise on its way to becoming a more productive and self-sufficient economy.

GROSS DOMESTIC PRODUCT (GDP)

Despite a well-developed money economy since the 1940s, RMI is still a developing economy with a relatively high standard of living on a global scale as reflected in a per capita gross domestic product (GDP) of about \$1,600. As is typical in most developing economies, accurate and current economic information is limited, making

a definitive assessment of the economy and its future prospect for change difficult. However, the RMI government and world aid and finance organizations, especially those of which RMI is a member (i.e. the World Bank, the International Monetary Fund and the Asian Development Bank), have recently begun to generate some information systematically.

According to the RMI Office of Planning and Statistics (OPS), the originator of GDP and other economic data, nominal (actual) GDP dropped from \$105.2 million in 1995 to \$102.1 million in 1996, the latest year for which such data are available. The somewhat mild recession in 1996 (a 3.0 percent drop in nominal GDP) becomes more severe once the impact of unusually high price inflation is taken into account.

Consumer (retail) price inflation, according to OPS, was 9.7 percent in 1996, and averaged 7.8 percent in 1992-96. This has been the highest price inflation in the Western Pacific during that time. Adjusting the 1996 drop in GDP with the proper GDP deflator (not the consumer price inflation) resulted in an 11.6 percent drop in real GDP in 1996, according to OPS. If validated by later revisions, this would be the worst

recession in RMI based on available GDP data which go back to the early 1980s. The only other time RMI experienced a recession was in 1985 when real GDP dropped 2.5 percent.

Concrete evidence does not exist to explain the unusually high price inflation in RMI.

However, anecdotal evidence suggest that some of it is the result of high shipping and other transport costs. This shipping and transport cost disadvantage is largely due to its isolation, and its small market mass that does not generate the economies of scale necessary to reduce production costs. Since there is little chance that RMI's shipping cost structure will change soon, the consumer price inflation is likely to continue.

Per capita nominal GDP fell 6.4 percent in 1996, matching its drop in 1985. However, real (adjusted for inflation) per capita GDP, according to OPS, fell 14.7 percent in 1996. The larger drop in per capita GDP is the result of rapid population growth. Real per capita GDP of \$1,195 in 1996 was the lowest since 1985 when it was \$1,127. In macroeconomic terms, all the gains in real per capita GDP between 1985 (when the last recession occurred) and 1995 was wiped out by the 1996 recession which resulted from a widespread weakness in both production and distribution activities.

Registering declines in activities in 1996 were: agriculture, forestry and fishing (a 13.3 percent share of GDP in 1996 and dropping 14.4 percent during the year), wholesale and retail trade (12.7 percent of GDP, dropping 4.8 percent), finance, insurance and real

estate (14.6 percent of GDP, dropping 12.5 percent), manufacturing (2.2 percent of GDP, dropping 17.7 percent) and construction (6.5 percent of GDP, dropping 38.0 percent). Showing gains in 1996 were services, mainly public administration (a 34.4 percent share of GDP in 1996 and rising 9.6 percent during the year), power and water (2.5 percent of GDP, rising 19.7 percent), transport and communication (6.8 percent of GDP, gaining 5.5 percent), and hotels and restaurants (4.7 percent of GDP, gaining 11.0 percent). With many of the production and distribution activities declining in 1996 in large quantities, the few areas of growth did not generate enough momentum to avoid a major recession. Based on anecdotal evidence, mainly reports of cutbacks in government spending mandated by a restructuring of funds by donors, including the United States, it is likely the recession grew more severe in 1997 and will continue this year.

RMI GROSS DOMESTIC PRODUCT (GDP) BY ECONOMIC SECTORS (\$000)

	1991	1992	1993	1994	1995	1996
Agriculture, forestry & fishing	10,015	10,739	11,476	15,068	15,874	13,589
Mining & quarrying	193	215	240	248	285	311
Manufacturing	853	790	595	1,067	2,690	2,215
Electricity, gas & water	(603)	(528)	864	1,694	2,143	2,566
Construction	8,851	9,980	8,450	9,295	10,695	6,626
Wholesale and retail trade	14,694	15,995	12,176	12,906	13,618	12,969
Hotels and restaurants	3,182	3,849	4,041	4,284	4,301	4,774
Transport & communication	(3,654)	(2,821)	2,771	1,904	6,538	6,896
Finance, insurance & real estate	11,379	12,755	14,175	15,866	17,089	14,959
Services	25,022	26,987	29,456	31,657	32,072	35,141
Sectoral Total	69,931	77,961	84,245	93,990	105,305	100,045
GDP (after adjustments)	72,219	79,709	87,059	94,596	105,239	102,121

RMI GDP BY SECTORS (PERCENT)

Agriculture, forestry & fishing	13.9	13.5	13.2	15.9	15.1	13.3
Mining & quarrying	0.3	0.3	0.3	0.3	0.3	0.3
Manufacturing	1.2	1.0	0.7	1.1	2.6	2.2
Electricity, gas & water	(0.8)	(0.7)	1.0	1.8	2.0	2.5
Construction	12.3	12.5	9.7	9.8	10.2	6.5
Wholesale and retail trade	20.3	20.1	14.0	13.6	12.9	12.7
Hotels and restaurants	4.4	4.8	4.6	4.5	4.1	4.7
Transport & communication	(5.1)	(3.5)	3.2	2.0	6.2	6.8
Finance, insurance & real estate	15.8	16.0	16.3	16.8	16.2	14.6
Services	34.6	33.9	33.8	33.5	30.5	34.4
Sectoral Total	96.8	97.8	96.8	99.4	100.1	98.0
GDP (after adjustments)	100.0	100.0	100.0	100.0	100.0	100.0

Source: Marshall Islands *Statistical Abstract 1996*.

IMPORTS, EXPORTS

US rent and aid and aid from other sources are used to buy most of RMI's needs from overseas while its primary income source, domestic production of goods from domestic resources, has remained limited. The relatively large flows of funds from overseas, especially the United States, make consumption far larger than domestic production and contribute to high levels of trade deficits in the usual sense. In 1996, exports amounted to \$23.4 million, nearly three

times the amount of the year before. Yet, they fell far short of imports which totaled \$71.4 million in 1996. The large import-export gap shows what a challenge it would be for RMI to meet its import demand without external funds.

GOODS AND SERVICES PRODUCING INDUSTRIES

The problem of reliable historical data notwithstanding, a detailed GDP accounting by type of economic activity for 1991-96 provides a useful start toward a formal macroeconomic understanding of RMI. Agriculture, forestry and fishing dropped slightly from 13.9 percent of GDP in 1991 to 13.3 percent in 1996. Manufacturing and mining rose from 1.5 percent in 1991 to 2.5 percent in 1996 while construction dropped from 12.3 percent of GDP in 1991 to 6.5 percent in 1996. Altogether, goods production (through agriculture, forestry and fishing, mining, manufacturing and construction) dropped slightly from 26.7 percent of GDP in

1991 to 24.8 percent in 1996.

Services, mainly public administration and other services, dominated the RMI economy from 1991 (34.6 percent of GDP) through 1996 (34.4 percent of GDP). Finance, insurance and real estate dropped from 15.8 percent of GDP in 1991 to 14.6 percent in 1996. Hotel and restaurant services rose slightly from 4.4 percent in 1991 to 4.7 percent in 1996 while trade (wholesale and retail sales) dropped from 20.3 percent in 1991 to 12.7 percent in 1996. Transportation and communication services, whose change reflects signs of more widespread economic change, rose from 5.1 percent of GDP in 1991 to 6.8 percent. Altogether, services made up 75.2 percent of GDP in 1996, up from 73.3 percent in 1991.

The drop in the share of goods-producing activities in 1995-96 is of some concern, especially if it persists. Without increases in the production of goods and higher-value services, especially from indigenous resources, RMI cannot achieve a higher living standard. Not surprisingly, existing GDP data show a major deterioration in the standard of living as revealed by both real (adjusted for inflation) total GDP as well as per capita GDP.

INFLATION & REALPER CAPITA GDP

Inflation in RMI has been unusually high, averaging 7.8 percent in 1992-96, according to official sources. The Majuro consumer price index (CPI), which is the basis for price inflation calculation in RMI has risen much more rapidly since the early 1990s. Anecdotal evidence suggests that the cost differential arising from the added cost of shipping to and from RMI to the various connecting points in the United States and Asia-Pacific adds a 5-plus percent premium. Given the cost differential, regardless of how the RMI economy does, it takes about a 10 percent gain in value-added economic activity to maintain current purchasing

power.

The country's largest employer, the RMI government has observed its minimum wage law. There are, however, small employers who cannot pay as much because they do not generate the value added activities to support higher wages. Anecdotal evidence tells us that these employers pay less than the minimum wage.

Even after restructuring and cutbacks, since salaries in the public sector are higher than in the private sector, the private sector has an additional disadvantage in competing for employees. It is uncertain how much further the RMI government will have to cut payroll and other spending to cope with declining Compact funds.

A losing trend in real per capita GDP is one that every economy hopes to avoid. The case for more robust economic growth in RMI is no different from that of other economies in the region: there is the need to compensate for rapid population growth in the face of limited natural and capital resources. Emigration to the United States can reduce some of the urgency to generate more rapid economic growth, but exporting an economy's most valuable resource, its people, has proven not to be an effective solution in the long run.

SECTOR ANALYSIS: PRESENT & FUTURE INDUSTRIES

AGRICULTURE, FORESTRY AND FISHING

Agriculture, including copra production, is a small but important part of the national economy. In addition to copra production, which has been the main production activity and source of cash income in the outer islands where one-third of RMI's population resides, other production commodities are bananas, breadfruit, green and mature coconuts, taro, vegetables and fruits.

Nearly all of these are produced for home consumption. In 1996, agriculture (including copra production) and fishing produced \$13.6 million, down 14.4 percent from 1995. In 1996 a total of 13,216 head of pigs, along with 57,814 chickens, were being kept in the country. The contribution of fishing alone in 1996 was \$7.5 million, again, down from 1995 by 10.7 percent.

Copra production has remained in the 4,000-6,000 ton range since the 1970s. It rose to a high of 7,201 tons in 1995 then dropped to 6,464 tons in 1996. With full utilization of all resources, the country's total production potential is believed to be about 14,000-15,000 tons. The drop in output to below 5,000 tons in 1991-94, although not out of line with earlier periods, is believed to be the onset of a trend typical of Pacific copra-producing countries, which have suffered in recent years from low world prices.

According to the World Bank, real (adjusted for inflation) world coconut prices dropped 64 percent in 1980-90. At the same time, Marshallese migrated to urban areas in search of higher income, and the labor supply on the copra plantations has been affected.

TOURISM

Recovery of copra prices may encourage some production gain in the short term, but again there may be better, highly productive uses for copra producing lands, especially tourism if it can be developed to establish a specialty market. Facilities for sports fishing, for example, may attract small groups of high-spending tourists to the area.

A number of reasons hamper RMI's efforts to become a mass market such as Guam, notably isolation, small land mass and inadequate infrastructure. These conditions do not mean that tourism on a small scale cannot be developed, but they do suggest that the best prospect for RMI's tourism is in specialty markets, consisting of small groups that the present infrastructure can accommodate. With the opening of its newest and largest hotel, the 150-room

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

Source: Marshall Islands *Statistical Abstract* 1996. Visitor and other arrivals for 1990 are

Outrigger Marshall Islands Resort in 1996, the visitor plant has been expanded considerably to about 300 rooms.

Arrival statistics through 1996 show a large (10.6 percent) increase in 1996 to 7,563 from the previous three years when total arrivals averaged 6,654, ranging from 6,363 to 6,838. It is not clear that the 1996 increase in arrivals can be attributed to the opening of the new hotel as back in 1972, arrivals spiked to 7,212, then a record high. To the extent that the new hotel puts RMI in the league of emerging destinations, it is undoubtedly an important development.

Since arrival statistics include non-tourist travelers, it is important to distinguish between the two types of arrivals RMI reports. Total arrivals are composed of visitors (tourists) whose purpose is for leisure or business, staying at commercial facilities, and those who visit friends and family. Apart from visitors, total arrivals also consist of another category of "other" travelers, presumably mostly returning residents. The ratio of visitors (tourists) to total arrivals has remained stable, averaging 82 percent, in the 1983-96 period for which both data series are available.

In 1996, when the visitor to arrivals ratio was 82 percent, both total arrivals and visitors reached new records. Total arrivals of 7,563 were up 10.6 percent from 1995, but only slightly higher than the previous record of 7,212

in 1992. The number of visitors, on the other hand, was up 13.2 percent in 1996 to 6,229 which exceeded the 1992 total by 5.6 percent.

Alook at both total arrival and visitor statistics for the last 10 years (1986-96) makes it clear that RMI has the potential to develop its infant tourist industry. In 1986-96, total arrivals increased 130 percent from 3,290 to 7,563 and visitors increased 119 percent from 2,845 to 6,229. These numbers suggest that RMI's potential as an emerging destination is much larger. The question is: how to develop it in the years ahead.

Again, visitor arrival and length of stays data for 1996 which are sufficiently detailed, may provide some answers. Of the 6,229 visitors, 1,468 (23.6 percent) were in transit, 2,536 (40.7 percent) were business travelers, 1,132 (18.2 percent) were on vacation, 663 (10.6 percent) were visiting family and friends and 293 (4.7 percent) were other visitors.

According to existing statistical records, of the 6,229 tourists in 1996, 1,642 (26.4 percent and the single largest group) were from the United States, followed by 700 from Kiribati, 617 from other Pacific locations, 550 from Japan, 444 from RMI, 388 from China, 232 other Asia (excluding the Philippines whose own count was 156), 216 from Australia, 183 from Fiji, 120 from Korea, 115 from New Zealand, 61 from Canada and 305 from unidentified locations.

Of American visitors, 746 were on business trips, 293 on vacation, 249 visiting family and friends and 250 in transit. Visitors from Japan included 197 on business trips, 232 on vacation, 23 visiting friends and family and 70 in transit. The most popular visit time for both business and leisure tourists in 1996 was summer (July, August and September).

The average length of stay was 5.6 days for the total of 6,229 visitors. Those in transit stayed only 1.4 days, vacationers stayed 4.5 days, business travelers 7.3, and 11.7 days for those visiting family and friends. All others

stayed an average of 5.8 days.

Visitor statistics show that RMI does not yet sufficiently attract vacation tourists who are the mainstay of commercial destinations. With the Outrigger Marshall Islands Resort and other properties in Majuro, there is the minimum mass of accommodations, restaurants and other facilities that can be marketed more effectively to increase arrivals. However, marketing alone does not necessarily influence demand for travel, which is subject to a complicated set of factors including transport cost, time difference and infrastructure on the ground. Still, RMI, particularly the outer islands, offer a somewhat unique ecosystem that may be of interest to a larger tourist pool, especially in North America and Japan.

FISHING & FISHERIES

Fishing and fisheries within the 200 miles of its exclusive economic zone (EEZ) offer RMI its main basis for economic growth in the future. Fishing as practiced presently in the RMI is primarily a subsistence activity that households undertake to meet their food needs. Fish has made a substantial contribution to the local diet for centuries, especially in the outer islands where alternative food sources are limited. Per capita fish consumption in the outer islands has been reported to be as high as 218 pounds a year.

The national average for fish consumption, on the other hand, has been estimated at only 37 pounds because of the relative shortage of fresh fish near urban centers and the difficulty in transporting fresh catch to these areas. Also contributing to the low national consumption of fresh fish is cheaper imported canned fish and other meats, especially in Majuro and Ebeye.

Large-scale commercial fishing in the RMI has been conducted for some time by American and Japanese fishermen, and more recently by both Mainland Chinese and Taiwanese fishing fleets. With a large number of Chinese fishing boats catching fish in RMI's EEZ

since 1992, the total catch reportedly increased substantially from 8,248 tons in 1991 to 25,562 tons in 1992 and to a record 111,198 tons in 1993. However, according to RMI Office of Planning and Statistics (OPS), the 1994 catch was down to only 10,494 tons and in 1995 dropped to a mere 2,562 tons.

Most of the catch is skipjack tuna, followed by yellowfin, bigeye and albacore tuna. Billfish, marlin, some species of shark and wahoo have limited commercial potential in global markets. Japanese vessels return their catches to Japan for processing and fresh consumption, and American vessels carry their catch to canneries in American Samoa. Albacore tuna mostly ends up in canneries while large, high-quality bigeye and yellowfin tuna are transported to sashimi markets in Japan and more recently in Hawaii.

Inadequate infrastructure, isolation from markets and transport and labor costs have constrained the development of fishing and fisheries. Also, a contributing factor in the short run is low tuna prices worldwide. The same principle that applies to copra, fluctuating commodity prices in world markets, works in other commodities including fish. Over the years these constraints have worked against the construction of a fish canning facility in RMI.

Still, a commercial fish processing (cleaning and freezing) plant is to be completed and ready for operation in Majuro later this year. It will initially employ about 300 persons. It will be the first commercial fish processing plant in Micronesia. It may set an example, especially if it succeeds, of how commercial fish processing can be adopted as a way to diversify the economy and increase job and income sources.

THE CHALLENGE AHEAD

Apart from government spending cuts instituted over the last 18 months with more to follow in the months and years ahead, RMI's economy has deteriorated markedly since Bank of Hawaii's 1995-96 report. Factors such as El Nino (causing drought and movements in big fish schools) and the financial crisis in Asia, have contributed to a drop in production from indigenous resources. Public spending cuts and lower production have caused a perceptible drop in economic output and, therefore, income and tax bases. This situation is likely to continue for some time.

RMI faces both short-term and long-term challenges. The immediate challenge arises from economic reforms imposed by donors (including the United States) that include cuts in government, so far the single largest employer and income source. The main reason for the imposed austerity is that the financial package of RMI's Compact of Free Association with the United States is due to end in 2001. Since becoming an independent nation in 1986 in free association with the United States, RMI has received a steady flow of income which, under present terms, ends in three years.

The long-term challenge is to create a self-sustaining production economy within RMI's limited natural and human resources. The Compact requires negotiations beginning in late 1999 over the future course of political and strategic relationship between the United States and RMI. Given the change in the area's geo-political value to the United States in the post-Cold War era, it is highly unlikely that Washington would be as generous with its aid and rent payment (for exclusive access to RMI's waters) as it was at the peak of the Cold War in the 1980s.

However, it is also unlikely that the United States will end its special relationship with RMI beyond 2001 and create a power vacuum in the area. In the meantime, the uncertainty arising

from what the two sides will or will not agree to in 1999 is among the reasons that emigration will rise in the near term. Businesses operating in RMI have also adopted a wait-and-see attitude.

Addressing both the short- and long-term challenges effectively calls for a business plan that includes a clearly stated outline of both the human and natural resources as well as the institutional structure of RMI, and the production possibilities achievable within them. The business plan would state both the job and income needs, and provide realistic details on production and distribution possibilities. The plan should specify as accurately as possible how a market economy can come into being, through existing institutions as well as creation of new ones. For instance, to attract capital for the construction and operation of world class hotels and other pertinent facilities that will help develop tourism, RMI needs to show a plan to offer certain financial incentives, modify land lease systems and put in place a market-driven bidding and contracting process.

This business plan would cover all areas of economic activity that offer the greatest opportunity for generating income and jobs for RMI residents so they will choose to stay there and participate fully in the transition to a self-sustaining market economy. After review and discussion, the plan should be adopted as a national strategic plan and presented to the United States for consideration during the negotiations that start in October 1999. The plan would specify how the United States and other development partners can help the process of creating a self-sustaining market economy. The result of the plan's implementation would be an historic achievement in creating a self-sustaining market economy that can generate sufficient economic activity to meet the demands of a relatively small labor force for an adequate standard of living. 

PACIFIC ISLAND FACT SHEET

US DOLLAR-DENOMINATED ECONOMIES

	Population	Land Area (square miles)	Notable Geographic Characteristics	Capital/ Distance from (miles)	Currency
GUAM	153,700	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
COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS (CNMI)	63,000	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
FEDERATED STATES OF MICRONESIA (FSM)	105,506	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
REPUBLIC OF PALAU	18,146	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
REPUBLIC OF THE MARSHALL ISLANDS (RMI)	62,924	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
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
TOTAL/AVERAGE	462,176	975			

NON-DOLLAR ECONOMIES

FRENCH POLYNESIA	229,200	1,609	130 islands, mostly atolls in 5 archipelagoes. Tahiti the largest island, 400 miles square, maximum elevation 7,464 feet.	Papeete, Tahiti/ Honolulu 2,700 Los Angeles 4,100 Paris 10,400 Tokyo 5,900	French Pacific franc (F CFP)
NEW CALEDONIA	196,800	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
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
PAPUA NEW GUINEA (PNG)	4,141,800	179,490	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

Major Languages	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
English, Chamorro, also Tagalog, Japanese	3,109.0	20,228	Tourism, military, trade and services	US territory since 1898. Guam Organic Act of 1950 conferred US citizenship. Some push for commonwealth status.	US, Japan, Korea	Tourism, services
English, Chamorro, Carolinian	650.6	10,327	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
English, 8 major local languages	215.8	2,045	US payments, government services, fisheries, tourism	After WWI under Japanese mandate. In 1947 became part of US Trust Territory. Became sovereign in 1979. In compact of free association with US as of 1986.	US, Japan	Compact status uncertain as of 2001. Fisheries development, tourism
English, Palauan, Sonsorolese-Tobian	159.8	8,806	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
English, Marshallese dialects	102.1	1,623	US payments, Kwajalein Missile Range, government services, copra, fisheries	After WWI under Japanese mandate. In 1947 became part of US Trust Territory. Became sovereign in 1979. In compact of free association since 1986.	US, Japan	US military. Compact status uncertain as of 2001. Fisheries.
English, Samoan	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
	4,490.3	9,716				
French, Tahitian	3,418.3	14,914	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
French, 30 Kanak dialects	3,017.0	15,330	Payments from Metropolitan France, nickel, agriculture and ranching, tourism, aquaculture	1853 became a French possession. Overseas territory of France since 1946. Relation to France under review.	Metropolitan France	French transfers, nickel, tourism, agriculture, aquaculture
French, East Uvean, East Futunan	25.0	1,689	French transfer payments, trochus shells	French controlled from the 19th century. Overseas territory of France since 1961.	Metropolitan France	French transfers
English, Tok Pigin, Hiri Motu, hundreds of vernaculars	4,600.0	1,111	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. Strong separatist movement in Bougainville.	Australia, UK	Minerals, oil, timber, fisheries, tourism

PACIFIC ISLAND FACT SHEET (continued)

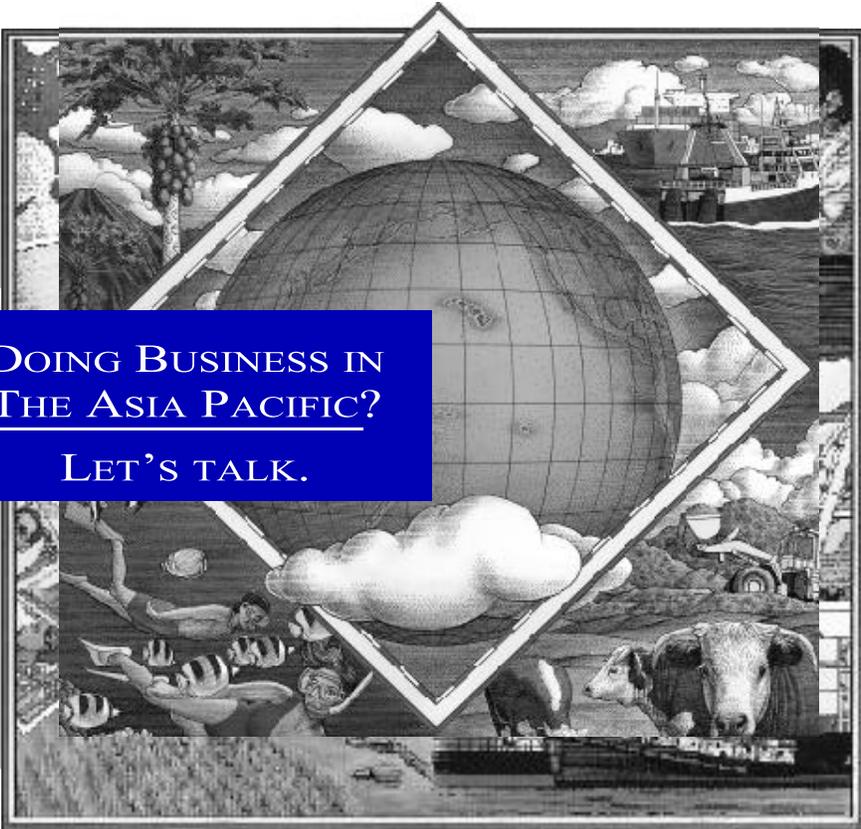
	Population	Land Area (square miles)	Notable Geographic Characteristics	Capital/ Distance from (miles)	Currency
COOK ISLANDS	19,600	92	15 widely dispersed islands including volcanic peaks and atolls. Rarotonga the largest island 26 miles square. In hurricane path.	Rarotonga/ Honolulu 3,000 Wellington 2,000	New Zealand dollar
SAMOA	170,000	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
FIJI	800,500	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
KIRIBATI	82,400	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
SOLOMON ISLANDS	395,200	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
TONGA	99,000	386	Main islands volcanic, some 150 coral atolls, 36 permanently inhabited.	Nukualofa/ Honolulu 3,100 Brisbane 2,000	Pa'anga
VANUATU	173,900	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
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
NIUE	2,500	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
TOKELAU	1,800	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
TUVALU	10,200	10	5 atolls, 4 coral islands, maximum elevation 16 feet above sea level.	Funafuti/ Suva 700 Sydney 2,500	Australian dollar
TOTAL/AVERAGE	6,348,900	213,565			
GRAND TOTAL/AVERAGE	6,811,076	214,540			
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

SOURCES: Central Intelligence Agency, *The World Factbook*, 1994; Norman and Ngaire Douglas, editors, *Pacific Islands Yearbook*, 17th edition, Suva, 1994; Europa, *The Far East and Australasia*, 1994; Gary L. Fitzpatrick and Marilyn J. Medlin, *Direct-line Distances, International Edition*, New Jersey, 1986; International Monetary Fund, *International Financial Statistics*, June 1996; David Stanley, *Micronesia Handbook*, Chico, California, 1989; David Stanley, *South Pacific Handbook*, 5th Edition, Chico, California, 1993; State of Hawaii Department of Business and

Major Languages	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
English, Cook Islands Maori	50.9	2,596	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
English, Samoan	170.0	1,000	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
English, Fijian, Hindi	1,801.1	2,250	Sugar and other agriculture, tourism, forestry, fishing, mining, garment industry	Annexed by Great Britain in 1874. Became independent within the Commonwealth in 1970, left the Commonwealth as an independent republic in 1987.	Australia, New Zealand, EU, Japan	Agriculture, tourism, mining, light manufacturing
English, Micronesian	54.6	662	Agriculture (copra), remittances, aid	Annexed by Britain in 1919. A republic within the British Commonwealth since 1979.	NA	Fisheries development
English, Solomon Islands Pijin, more than 80 vernaculars	208.9	529	Agriculture, timber sales, fishing and fish canneries, aid	British protectorate as of 1874. Politically independent within the Commonwealth since 1978.	Australia, Japan	Agriculture, fisheries, tourism
Tongan	124.9	1,262	Agriculture, tourism	British protectorate as of 1900. Independent monarchy within the Commonwealth since 1970.	NA	Tourism, agriculture
French, English, Bislama	187.4	1,078	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
English, Nauruan	80.7	7,205	Phosphates and investments from phosphates	From 1919 administered by Australia. Became an independent republic in 1968.	NA	Investments from phosphate
English, Niuean	7.1	2,825	Subsistence activity, government aid	Self-governing since 1974 in free association with New Zealand.	NA	Tourism
English, Tokelauan	1.2	667	Subsistence activity, government aid	Non-self-governing territory administered by New Zealand beginning 1925.	NA	Subsistence activities, government aid
English, Tuvaluan	3.8	373	Subsistence activity, government aid	Independent state within British Commonwealth since 1978.	NA	Subsistence activities, government aid
	13,750.9	2,166				
	18,241.2	2,678				
English	35,146.4	29,164	Tourism, services, trade, government	Taken as a US territory in 1898, became a US state in 1959.	US, Japan, Australia	Tourism, defense, services, trade, government

Economic Development, *Data Book 1995*, Honolulu, 1996; Peter W. Thomson, *Trade and Investment in the South Pacific Islands*, Honolulu, 1989; World Bank, *World Development Report*, 1996; various Bank of Hawaii economic reports, 1992–97, and other sources. (Rev. 4/22/98)

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