

**COMMONWEALTH
OF THE
NORTHERN MARIANA ISLANDS**
ECONOMIC REPORT • AUGUST 2001





Hawaii

- Bank of Hawaii (76 branches)

American Samoa

- Bank of Hawaii (3 branches)

California

- Pacific Century Bank, N.A. (20 branches)

West Pacific

Commonwealth of the Northern Marianas (CNMI)

- Bank of Hawaii (2 branches)

Federated States of Micronesia (FSM)

- Bank of Hawaii (3 branches)

Guam

- Bank of Hawaii (3 branches)
- First Savings and Loan Association of America (2 offices, 4 in-store branches)

Republic of the Marshall Islands (RMI)

- Bank of Hawaii (1 branch)

Republic of Palau

- Bank of Hawaii (1 branch)

South Pacific

Fiji

- Bank of Hawaii (3 branches)

Subsidiary Banks

French Polynesia

- Banque de Tahiti (17 branches)

New Caledonia

- Bank of Hawaii - Nouvelle Calédonie (8 branches)

Vanuatu

- Banque d'Hawaii (Vanuatu), Ltd. (2 branches)

Papua New Guinea

- Bank of Hawaii (PNG), Ltd. (2 branches)

Affiliate Bank

Solomon Islands

- National Bank of Solomon Islands (10 branches)

International Offices/Branches

Hong Kong

- Bank of Hawaii (1 branch)

The Philippines

- Bank of Hawaii (1 representative office, 2 extension offices)

Nassau

- Bank of Hawaii (1 branch)

New York

- Bank of Hawaii International Corporation, New York

Korea

- Bank of Hawaii (1 branch)

Singapore

- Bank of Hawaii (1 branch)

Taiwan

- Bank of Hawaii (1 branch)

Japan

- Bank of Hawaii (1 branch)

About Bank of Hawaii

Bank of Hawaii is the principal subsidiary of Pacific Century Financial Corporation, a regional financial services company with assets of \$14 billion as of year-end 2000. Pacific Century and its subsidiaries provide varied financial services to businesses, governments and consumers in Hawaii, the West Pacific, South Pacific, Asia and the U.S. Mainland.

Note: The company is in the process of divesting or winding down its non-core holdings in California; the South Pacific, exclusive of American Samoa; and Asia, exclusive of Japan.

Please visit our Bank of Hawaii Internet web site, boh.com, for information about the company

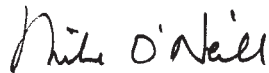
TO OUR CUSTOMERS AND FRIENDS:

We are pleased to present our *2001 Commonwealth of the Northern Mariana Islands Economic Report*. It provides a review of current economic conditions and a perspective on what may lie ahead for the CNMI economy.

This year marks the 30th anniversary of our commitment to CNMI. Over the last three decades, we have been a part of CNMI's remarkable transformation from an economy largely supported by subsistence and government to a regional destination and garment-manufacturing haven. CNMI and the entire Western Pacific have been affected by the financial and economic turmoil of the last few years in East Asia, especially Japan. Since CNMI relies much more heavily on Japan, and the rest of East Asia, economically than on the United States, Japan's economic stagnation still presents challenges for the Commonwealth. At the same time, Japan's vast tourist market makes it possible to diversify CNMI's tourist mix and benefit from attracting more affluent travelers.

This report on CNMI is a part of Bank of Hawaii's series of analyses on the Pacific markets we serve. We offer this report as yet another part of our commitment to the markets we are in. We encourage you to visit Bank of Hawaii's Internet web site, boh.com/econ, for other Pacific reports. We look forward to being a part of CNMI's economic future for years to come.

Aloha,



Michael E. O'Neill
Chairman of the Board and
Chief Executive Officer



Richard J. Dahl
President



Michael E. O'Neill



Richard J. Dahl

Contents

I. General Characteristics	4
I.1 The Federalization of CNMI	
I.2 A Changing World Trade Regime	
I.3 CNMI's Garment Industry	
I.4 Population, Labor Force and Employment	
I.4.1 Population and Labor Force	
I.4.2 Average Wages, Household Income and Standard of Living	
II. Macroeconomic Review and Forecast	11
II.1 A General Review of 1999–2000	
II.2 Review of the First Half of 2001 and Forecast	
III. Economy by Sector	13
III.1 Government	
III.2 Garment Manufacturing	
III.3 Tourism	
III.3.1 Current Situation	
III.3.2 Tourist and Retail Sales Potential	
III.4 The Continuing Experiment with Commercial Gambling	
IV. What Lies Ahead	19
Pacific Islands Fact Sheet	20

Acknowledgments

This report was written by Dr. Wali M. Osman, Bank of Hawaii International Economist, with grateful acknowledgement to the Office of the Governor of CNMI, CNMI Departments of Commerce, Immigration & Labor and Finance, the Mariana Visitors Authority, Hotel Association of the Northern Mariana Islands, Commonwealth Development Authority, Commonwealth Port Authority, Saipan Garment Manufacturers Association, numerous individuals in business and government who shared their perspectives, and especially Bank of Hawaii, CNMI.

Cover photos: *Clockwise top Laolao Bay, Saipan; Bird Island, Saipan, Teteto Beach, Rota; Blowhole, Tinian. All photos were provided as a courtesy by the Mariana Visitors Authority.*

In-text photos: All photos were provided as a courtesy by the Mariana Visitors Authority.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS (CNMI)*Population*

1999 (first quarter estimate): 81,126

1995: 58,846

1990: 43,345

1980: 16,780

CNMI population growth rate (1980–99):

8.5 percent per year

Saipan population growth rate (1980–99):

8.9 percent per year

Economy

Currency: US dollar

Income sources: garment manufacturing, tourism
(including commercial gambling), trade and services

Estimated gross island product (GIP) in 1999:

\$696.3 million

Per capita GIP in 1999: \$8,582

1999 Population of 16 years age and older: 54,541

1999 labor force: 46,183

1999 employment: 43,651

1999 unemployment rate: 5.5

Minimum wage: \$3.05

Political Status

US commonwealth since 1978

Head of Executive Branch: Elected Governor

Bi-cameral Legislature (Senate & House)

US-style judiciary

Land Area

Total 176.5 square miles

Largest island: Saipan (46.5 square miles)

Home to 90 percent of population: Saipan

Second largest island: Tinian (39.2 square miles)

Third largest island: Rota (32.8 square miles)

Inhabited island: 5

Total number uninhabited islands: 14

Distance from:

Honolulu: 3,700 miles

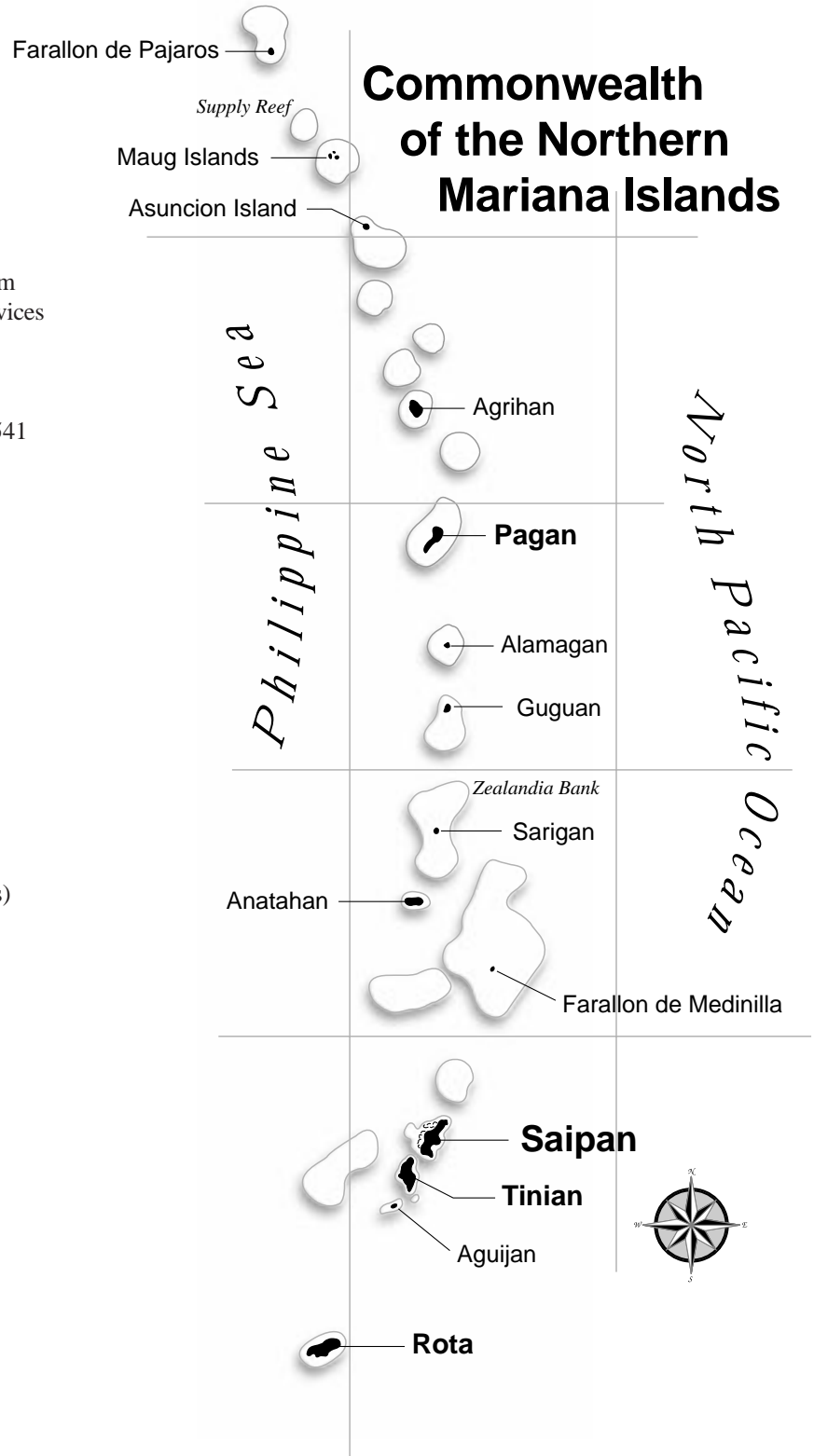
San Francisco: 5,800 miles

Tokyo: 1,500 miles

Taiwan: 1,400 miles

Seoul: 2,000 miles

Manila: 1,500 miles



I. GENERAL CHARACTERISTICS

I.1 The Federalization of CNMI

The Commonwealth of the Northern Mariana Islands (CNMI), located in the Northwestern Pacific Ocean, is the US territory closest to Asia. It is 125 miles north of Guam, 1,500 miles from Japan, 1,400 miles from Taiwan and 2,000 miles from South Korea. CNMI consists of 14 islands, with a total land area of 176.5 square miles spread over 264,000 square miles of ocean. Only five of the islands are inhabited.

The Covenant that created CNMI and attached it to the United States became law in 1978. Before it became a US Commonwealth, CNMI was a part of the United Nations Trust Territory of the Pacific Islands (TTPI), which the United States administered after the end of World War II until the termination of the Trust in 1994 when its last member, Palau, became independent.

CNMI came into being “in political union with and under the sovereignty of the United States of America.” However, by allowing separate immigration, labor and wage laws, the Covenant led to what has practically become “a country within a country,” especially with respect to labor market and work place rules. Exemption from US immigration and labor laws has given CNMI the autonomy typical of nations.

CNMI citizens are US citizens, although they do not vote in federal elections and do not pay federal taxes. CNMI receives general federal aid as states and other territories do, but it receives no special subsidy as it did in the first 15 years after it became a US commonwealth. CNMI residents enjoy the full protection of US institutions, as well as a relatively high standard of living. CNMI has the aspects of a territory, a state and an independent nation all in one.

The Commonwealth has evolved since its establishment, but its institutional makeup has retained



Latte Stone Park, Tinian

most of its unique features. Because of its success in attracting capital, tourists and large numbers of temporary workers from Asia under the US flag, CNMI is economically the most self-sufficient US-affiliated territory in the dollar-denominated Western Pacific. As measured by reliance on federal aid as a source of income to the public sector, CNMI is the least dependent on Washington among all US-affiliated economies in the Western Pacific. However, the same factors that have led to such a remarkable degree of economic self-sufficiency for such a small, isolated economy recently became a matter of national political concern, especially during the second term of the Clinton Administration.

On May 30, 1997, President Bill Clinton wrote a letter to then CNMI Governor Froilan C. Tenorio in which the president indicated that he would ask Congress to extend US immigration and labor laws to CNMI. The President’s letter indicated that the Covenant creating the Commonwealth provided that US immigration, naturalization and minimum wage laws would be extended to CNMI at some time in the future and that this was the time to start the process. The immediate cause for Clinton’s letter and his intent to ask Congress for extending US immigration and labor laws to CNMI was persistent adverse publicity having to do with CNMI garment industry work conditions and labeling practices.

The US Senate embraced Clinton’s CNMI proposal, but the House of Representatives did not consider it for debate. That both houses of Congress were under Republican leadership during the Clinton years was often a political disadvantage to the Administration, especially on matters that did not command urgent national attention. The House of Representatives was especially skeptical of the Clinton CNMI proposal and apparently did not view the CNMI labor and immigration situation as a matter of concern that warranted a national debate. Anecdotal evidence suggests that the House leaders viewed the CNMI case in a more positive light than either the Administration or the Senate did.

The Congress asked its own economic and financial inquiry arm, the General Accounting Office (GAO), to conduct an on-site independent study, as it generally would on matters of national legislative importance. Based on its 1999 findings, GAO suggested that CNMI’s economic self-sufficiency and the government’s ability to generate most of its revenues from within the territory were important, perhaps overriding, considerations.

GAO neither endorsed nor condemned CNMI’s unique labor market situation directly, but it left the clear impression that it did not see the CNMI labor and immigration situation with the degree of concern the Clinton Administration did.¹ It is reasonable to say that GAO’s findings strengthened House resistance to

¹General Accounting Office (GAO), *Northern Mariana Islands: Garment and Tourist Industries Play a Dominant Role in the Commonwealth’s Economy*, February 2000.

considering the matter. CNMI political leaders, opposed to extension of US immigration and labor laws to the Commonwealth, have openly sought support from the House members and hired Washington lobbyists to help forestall what they think of as a “federal takeover.” In the meantime, in recognition of the force of the federal government’s complaints, the CNMI government has taken action of its own to limit the importing of low-cost foreign labor into the territory.

Meanwhile, issues of greater national and international importance preoccupied the Clinton Administration in its last two years. As President Clinton transferred the reigns of power to President Bush in January 2001, the CNMI proposal was not a priority item on the new administration’s agenda. However, the US Senate, which has consistently shown more interest in the Clinton proposal than the House, has never actually shelved it. As recently as May 2001, the US Senate Committee on Energy and Natural Resources proposed legislation that would extend US immigration laws to CNMI, but the proposal did not pass the Senate. The recent change in the US Senate leadership from Republican to Democratic control would have no material effect on the CNMI proposal.

Since the controversy underlying the unique situation of CNMI has some implications of national and international scope, it is unlikely to disappear, although the momentum it once had, even in the Senate, has been slowed by the change of power and priorities in Washington. It is also reasonable to expect that any legislation affecting CNMI will, in the end, have to have bipartisan support because the issues involved are part of the national debate.

1.2 A Changing World Trade Regime

As indicated in Bank of Hawaii’s 1997 and 1999 economic reports on the Commonwealth, the legal basis for extending US law to CNMI is straightforward, as provided for by the Covenant. Less well understood are the economic and financial ramifications of a “federal takeover,” especially if the garment industry, at the core of the federalization effort, leaves CNMI because of pending changes in global trade rules.

Some important changes in import quotas for textiles as dictated by the Multi-Fiber Agreement and other trade liberalization rules take effect in January 2005. The main thrust of these changes is to make it possible for the developed and developing worlds to sell more to each other and take advantage of each other’s comparative economic advantages. The main underlying rationale for global trade liberalization is to increase trade flows that would more fully employ the resources of trading partners, thus reducing the need for financial and economic aid flows that have produced, at best, dubious results globally. To the degree that trade is seen as a much more effective tool than aid in enhancing the income prospects of developing nations, it is receiving

greater acceptance among both developing and developed nations. Global bodies such as the World Trade Organization (WTO) and regional agreements such as the Asia Pacific Economic Cooperation (APEC) are major efforts to institutionalize this commitment to freer trade and open markets.

The developed world’s need to sell more finished goods with high technological content and high value dictates that the buying countries must have more foreign exchange to pay for these goods. The way the developing world can buy more from the developed world is to sell more of what it produces to the developed world and so earn the foreign exchange it needs to pay for more high-value imports.

In January 2005, some of the new global trade rules stipulated by the WTO and the Multi-Fiber Agreement take effect. Under the new trade regime, quotas will disappear for textiles, although import duties will remain. Lifting quotas will make it possible for major producers of labor-intensive products, for example China and Mexico, to sell more textiles and garments than before in markets such as the United States, the European Union and Japan, even with import duties. Since China’s own pending entry into WTO will make it a major partner in the new global trade regime, it will obtain better and longer-term access to WTO’s high-income members.

Because the cost of labor especially in China is much lower than in CNMI, China’s ability to sell more may encourage Chinese manufacturers to increase their sales volumes in the United States and drive their production costs down further by taking advantage of economies of scale. In a world of such low unit cost and large volume advantage, small producers such as CNMI whose production costs are much higher than those in China may not be able to compete. The result will be that the lower-cost Chinese (and Mexican) producers will outbid CNMI’s garment producers whose costs are lower than in the United States but still higher than in China and Mexico. This process will continue until the new market forces establish a new global equilibrium price, presumably much lower than before, at which only large-volume producers may be able to compete.

As January 2005 approaches, some CNMI garment-makers may exit, especially the smaller producers who do not have the sales volumes to compensate for lower sales margins resulting from global competition and the subsequent lower prices. There are no explicit or implicit exit timetables for CNMI garment-makers. Some may indeed continue producing even after the new price regime is in place, so long as they can produce at globally competitive prices for the US market. Meanwhile, as this transition to the new regime nears, CNMI-based manufacturers will continue to produce unless they are affected by external forces such as federalization. With federalization under some doubt, especially in the short run, CNMI garment-makers can be somewhat certain that they can produce under existing conditions at least until January 2005.

1.3 CNMI's Garment Industry

The garment industry on Saipan should be credited with preventing an economic depression in CNMI following the decline of its tourist industry during the Asian financial crisis. Nevertheless, its future in CNMI is unclear. Some of the producers in CNMI may be able to compete in terms of production costs (wholesale prices) only as long as they are allowed to pay less than US minimum wages.

The two advantages for making garments in CNMI, low-cost Asian labor and duty-free sale in the United States, have led to a large temporary alien work force that now works in most of the private sector and outnumbers US citizens in the Commonwealth. But as we have seen, negative coverage in both the national and international media with regard to work conditions has been such as to attract Washington's attention. Further, the alien temporary labor produces goods that are sold in the United States as domestically-produced at the same time that it is paid below minimum wages, and this contradiction has been cause for criticism in the context of domestic politics and global trade.

Supporters of the status quo in CNMI have argued that the Commonwealth is a special case within the United States and its legal system and that as long as the CNMI industry can produce garments at globally competitive prices it should be allowed to do so and sell them in the United States. They contend that as long as CNMI adheres to accepted market principles and its own laws and does not violate any US laws, it has the prerogative to determine its own economic destiny within the United States as an integral part of the nation.

This camp cites American Samoa, a US territory in the Pacific, where immigration and labor controls reside with the local authority. American Samoa enforces its own immigration and labor laws with federal approval and financial aid. The two cases are not, however, strictly comparable, since the number of alien workers in American Samoa has been small and the territory's labor practices have not generated international media publicity, and therefore American Samoa has not attracted the attention in Washington that CNMI has.

Support for maintaining the status quo among CNMI political leaders is seen as a matter of internal autonomy, which they believe is important. They argue that even though the Covenant stipulated that certain changes in labor and immigration laws could be made in later years, the fact that this important matter was left to an unspecified future was, in reality, a de facto commitment to autonomy being given the territory by the national government. To the degree that the United States has allowed autonomy to other indigenous peoples (and may do so again in the future), the CNMI leaders see a precedent to be used as a means of forestalling the extension of the federal laws to the territory.

Keeping the status quo also enjoys strong support

among the Saipan business community, not only because garment-makers and other business employers are its members but also because business owners can pay less than US minimum wages for domestic as well as industrial work. Although no accurate numbers are available, we know that several thousand domestic workers work in CNMI, especially on Saipan, for less than US minimum wages but not less than the CNMI minimum wage rate of \$3.05.

The CNMI minimum wage rate is three-fifths the US rate. For these workers, however, the discrepancy is not a disincentive, because domestic workers earn much more in CNMI, even with less than US minimum wages, than in their home markets. The same is true for all alien workers, a large majority of whom are from China and the Philippines, where the average standard of living of the average worker is far lower than that in CNMI. Furthermore, since the US dollar is worth much more in either China or the Philippines, even small savings in dollars can amount to large fortunes in these developing economies.

Arguing for federalization have been advocates of the "fair rules" doctrine, especially US labor unions with manufacturing activities similar to those in CNMI. The main argument of this camp is that paying foreign workers less than US minimum wages in the United States and allowing duty-free sale of their products in the domestic market with "Made In USA" labels amount to a special subsidy to which no other part of the country is entitled. In fact, critics of certain US trade practices (for example, subsidies to US-based producers) have repeatedly cited CNMI as an instance of the United States engaging in double standards. Washington's efforts to federalize CNMI are rooted both in concerns over double standards in the national market and international criticism of American economic and trade policy.

It is not at all clear at this stage that status quo would mean the uninterrupted production of garments in CNMI, the sale of which now pays about one-third of the Commonwealth's taxes. If this source of funds diminished substantially or disappeared abruptly, it would have immediate and severe consequences for the CNMI economy, which has remained weak ever since the beginning of the Asian financial crisis.

A significant drop in the tax base would have an especially detrimental impact on government finances. Garment industry taxes would be difficult to replace with revenues from any other source in the private sector. To show an understanding of the economic impact of an abrupt change, the US Senate proposal has always been for a gradual phase-in of federal immigration and labor laws, and no bill has yet reached the Senate floor.

Meanwhile, continuing doubt over what garment-makers may do with or without action by Washington has led to a wait-and-see attitude in the business community as a whole. The uncertainty has been exacerbated by the current state of the Japanese economy, Japan having at

one point or another provided significant investment to CNMI. Although the rest of East Asia has begun to recover from the 1997–98 financial crisis, output and foreign investment levels are not nearly what they were in the late 1980s and early 1990s. Together, these factors have hampered efforts to attract new capital to CNMI in order to create a more vibrant business climate. Measures such as bank loans to consumers and businesses suggest that the overall business climate remained subdued in 1999–2000 while East Asia continued to recover from the Asian financial crisis.

In an attempt to bolster the local business climate and to address concerns over investment activity, CNMI recently passed laws to offer stronger incentives to investors including a tax abatement extended for as long as 25 years to new capital formation (investment). It is too early to say what impact these incentives will have in the near term. As experience has shown elsewhere, tax advantages by themselves are not sufficient conditions for investing. Also, as long as foreign investors believe that the United States will extend its immigration and labor laws to CNMI, which is the most likely scenario in the medium to longer terms, they are likely to avoid investing in ventures that are sensitive to changes in production costs. This category includes all basic manufacturing and production activities that rely heavily on low-cost manual labor.

Inadvertently, the federalization controversy has distracted attention from tourism, CNMI's primary long-term comparative economic advantage and income source. Adverse publicity in Asia, from which both garment workers and tourists come to CNMI, may have created the perception that CNMI's biggest industry and income source is garment manufacturing since it employs thousands of low-skill Asian workers. It is not clear how strong that perception is, but negative publicity and the arguments over garment workers, work conditions and US efforts to extend American laws to CNMI may have strengthened it.

If this is indeed the case, CNMI will have to do something to alter that perception and convince its principal market, Japan, which supplies 70 percent of CNMI's tourists, that tourism is its most important industry. Tourist arrivals for 1999–2000 show clearly that recovery to the pre-Asian financial crisis levels may be years away.

The principal benefit of the federalization controversy has been recent improvements in worker conditions and worker treatment within the garment industry. The Saipan Garment Manufacturers Association (SGMA) has shown itself willing to independently implement needed changes. At the same time it has chosen to involve itself more intimately in the business community's debate about Saipan's economic future. For example, the industry has launched a web site that provides useful information to the larger community, one more sign of SGMA's acceptance of the need to respond to media-generated government concern.

As a result of SGMA's participation in both the business and larger communities, Saipan's business climate has improved since 1999, when concern over federalization was the major focus of attention among both proponents and opponents of extending American immigration and labor laws. Now that even the once strong and growing garment industry has suffered from softness in the US apparel market and begun to show signs of decline, the main concern is how to revitalize CNMI's economy.

Experience of the last decade shows clearly that foreign temporary labor has become an indispensable part of the structure of the economy, and any disruption in its flow would mean disruptions in the fragile and otherwise unpredictable tourism sector on which the economy is based. Going back to the days when there were no alien workers, or substantially smaller numbers, does not appear practical. Nor is it reasonable to expect that the indigenous labor pool will ever have enough workers to sustain a genuinely self-supporting economy. Any decisions about alien worker status will have to include some accommodation of alien workers now and in the future to keep the CNMI economy afloat. With over 80 percent of the indigenous citizens working for the CNMI government, CNMI's private sector is almost entirely staffed by temporary foreign workers and mainland US expatriates.

Apart from the long-term social consequences of this extraordinary labor market, the immediate task is to prevent further erosion of CNMI's domestic tax base. With garment production having peaked in 2000 and the tourist count again soft in the first four months of this year following two soft years in 1999 and 2000, the prospect for a quick turnaround is not bright. However, by putting the federalization effort aside and leaving it to Washington, public and private sector energies can now be focused on how to make CNMI once again an attractive and desirable destination. If that takes improvements in infrastructure, including resurfacing main roads and beautifying points of tourist interest, tax incentives for investors or whatever, the leadership should make these efforts its priority. The effort to prevent the imposition of US law has become a distraction that CNMI can no longer afford.

I.4 Population, Labor Force and Employment

The 2000 census data, which will provide the most detailed and current picture of CNMI's population, labor force, employment and a host of other factors relating to income and housing, are not yet available. The most recent complete data from the CNMI Departments of Commerce and Labor & Immigration and other agencies are for 1999. Bank of Hawaii's 1999 CNMI Economic Report contained a detailed discussion of population, labor force, employment and wages. A summary of that data, along with 2001 updates, is presented here.

I.4.1 Population and Labor Force

In 1980–99, CNMI's demographic, economic and social structure changed dramatically. CNMI's long-term comparative economic advantage has always been its political and economic links to the United States and its location near East Asia. Low cost labor imported from Asia, in combination with foreign capital and tourists, has transformed the territory from an economy supported largely by subsistence and government to a tourist destination and a garment manufacturing haven.

During 1980–99, CNMI's population grew at extraordinary rates. It increased 373.4 percent, resulting in an annual growth rate of 8.5 percent, the world's highest known population growth rate, and that in comparison to the 2.5–4.0 percent growth rates typical of the Pacific's developing economies, which were already high. (Population growth rates for the developed world, of which CNMI is technically a part, range from 0.5 to 1.0 percent.) In 1980, CNMI's total population was 16,780. It increased to 43,345 in 1990 and 81,126 in 1999. In 1990, Saipan's share was 89.7 percent of the total. In 1999, it was 90.3 percent. This is because the majority of CNMI's foreign labor work on Saipan, the Commonwealth's commercial, government and civic center as well as its garment manufacturing capital. Since Saipan is the center of CNMI's business and government, it has also absorbed most of US and local infrastructure funds.

In 1980–99, Saipan's population increased 403.6 percent or 8.9 percent annually, followed by Tinian, whose population grew 294.2 percent (7.5 percent annually). Most of the increase on Tinian has occurred recently, especially since the opening of the first major hotel (400-plus rooms) and commercial casino in 1999. In 1980–99, Rota had the lowest growth rate of 6.8 percent, with a total population increase of 252.1 percent.

CNMI Population

	Saipan	Rota	Tinian	Other Islands	Total
1920	2,449	651	112	186	3,398
1925	2,639	487	180	187	3,493
1930	2,915	644	43	227	3,829
1935	3,194	788	24	291	4,297
1958	6,654	969	405	262	8,290
1967	9,035	1,078	610	263	10,986
1973	12,382	1,104	714	133	14,333
1980	14,549	1,261	866	104	16,780
1990	38,896	2,295	2,118	36	43,345
1992	47,786	2,561	2,553	—	52,900
1995	52,698	3,509	2,631	8	58,846
1996	57,181	3,721	2,711	—	63,613
1997	62,956	4,023	2,822	—	69,801
1998	69,421	4,350	2,937	—	76,708
1999	73,272	4,440	3,414	—	81,126

Source: CNMI Department of Commerce, *Recent Trends In Population, Labor Force, Employment and Unemployment, 1973 to 1999*, Second Edition, September 2000, p. 11.

In 1999, there were 73,272 people living on Saipan, of whom 42.0 percent were US citizens and 58.0 percent were non-citizens, mainly temporary foreign workers.

In 1999, Saipan's active population (persons 16 years and older) was 54,541, only 28.0 percent of whom were US citizens. Those in the labor force (both employed and those actively seeking work) totaled 46,183, of whom only 22.6 percent were US citizens. And only 20.7 percent of the 43,651 total payroll workers were US citizens, while all the rest were temporary foreign workers.

A large majority of foreign labor worked in the private sector, while US citizens made up only 12.3 percent of total private sector employment in 1999.

CNMI Population by Age and Citizenship

	US Citizens					Non-Citizens				
	1973	1980	1990	1995	1999	1973	1980	1990	1995	1999
Age Group										
All Persons	12,186	13,071	20,082	27,489	39,096	2,310	3,709	23,263	31,357	42,031
5-19	7,552	7,641	11,037	15,199	21,591	623	867	2,051	2,439	3,625
20-39	2,714	3,366	5,554	7,325	9,567	1,100	1,776	16,418	22,180	27,174
40-54	1,057	1,140	2,145	3,235	5,084	440	840	4,135	5,828	9,487
55-plus	863	924	1,346	1,730	2,854	147	226	659	910	1,745
Percent Shares										
All Persons	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
5-19	62.0	58.5	55.0	55.3	55.2	27.0	23.4	8.8	7.8	8.6
20-39	22.3	25.8	27.7	26.6	24.5	47.6	47.9	70.6	70.7	64.7
40-54	8.7	8.7	10.7	11.8	13.0	19.0	22.6	17.8	18.6	22.6
55-plus	7.1	7.1	6.7	6.3	7.3	6.4	6.1	2.8	2.9	4.2

Source: CNMI Department of Commerce, *Recent Trends In Population, Labor Force, Employment and Unemployment, 1973 to 1999*, Second Edition, September 2000, p. 34.

Saipan Population by Citizenship

	1973	1980	1990	1995	2nd Qtr 1998	4th Qtr 1998	1st Qtr 1999
All Persons	12,486	14,549	38,896	52,698	69,421	68,958	71,790
US Citizens	10,325	11,195	17,171	23,585	31,010	30,640	30,154
Born in CNMI	9,544	10,239	14,378	19,096	26,523	25,644	24,710
Born in US or Other Territory	781	956	1,968	3,411	3,329	3,283	3,543
Born Abroad of US Parents	—	—	212	175	93	220	199
Naturalized Citizens	—	—	613	903	1,065	1,493	1,702
Non-US Citizens	2,161	3,354	21,725	29,113	38,411	38,318	41,636
Permanent Residents	—	—	2,056	3,248	3,883	5,700	5,478
Temporary Residents	—	—	19,669	25,865	34,528	32,618	36,158

Source: CNMI Department of Commerce, *Recent Trends In Population, Labor Force, Employment, Unemployment and Wages, 1973 to 1999*, December 1999, p. 101.

Among the largest employers in the private sector were garment-makers, hotels, restaurants, retail outlets, other tourist-related services and construction firms. A sizeable number of foreign workers were employed as personal and domestic helpers.

Government was the employer of choice in the local market because of higher wages and benefits. US citizens on Saipan made up 81.2 percent of government workers but only 3.5 percent of those in manufacturing and 3.3 percent in construction. They also made up 55.0 percent of the jobless. The unemployment rate among Saipan's US citizen labor force in 1999 was 13.4 percent, as compared to 3.2 percent among foreign workers.

Saipan Labor Force Participation & Characteristics

	US Citizens				Non-US Citizens				Total				US Citizens As % of Total	US Citizens As % of Total
	2nd Qtr	4th Qtr	1st Qtr		2nd Qtr	4th Qtr	1st Qtr		2nd Qtr	4th Qtr	1st Qtr		1st Qtr	
	1998	1998	1999	1995	1998	1998	1999	1995	1998	1998	1999	1995	1999	
Persons 16-Plus														
Years	14,072	15,429	15,324	15,251	29,774	36,686	36,337	39,290	43,846	52,115	51,661	54,541	32.1	28.0
In Labor Force	10,020	9,591	10,383	10,428	27,520	33,239	32,946	35,755	37,540	42,830	43,329	46,183	26.7	22.6
Employed	8,745	8,024	8,894	9,039	26,067	32,447	31,733	34,612	34,812	40,471	40,627	43,651	25.1	20.7
Percent	87.3	83.7	85.7	86.7	94.7	97.6	96.3	96.8	92.7	94.5	93.8	94.5	—	—
Unemployed	1,275	1,567	1,489	1,399	1,453	792	1,212	1,143	2,728	2,359	2,701	2,542	46.7	55.0
Percent	12.7	16.3	14.3	13.4	5.3	2.4	3.7	3.2	7.3	5.5	6.2	5.5	—	—
Workers by Type	8,745	8,024	8,894	9,039	26,067	32,447	31,733	34,612	34,812	40,471	40,627	43,651	25.1	20.7
Private Sector	4,044	4,099	4,705	4,618	24,797	30,996	30,291	32,913	28,841	35,095	34,996	37,531	14.0	12.3
Government	4,300	3,480	3,775	3,970	718	825	890	917	5,018	4,305	4,665	4,887	85.7	81.2
Self-Employed	378	412	414	451	488	478	537	752	866	890	951	1,203	43.6	37.5
Unpaid Family Workers	23	33	—	—	64	148	15	30	87	181	15	30	26.4	—
Workers by Industry	7,973	7,825	8,817	9,039	26,067	31,732	31,257	34,612	34,040	39,557	40,074	43,651	23.4	20.7
Agriculture	23	1	31	90	348	166	428	511	371	167	459	601	6.2	15.0
Forestry & Fishing	14	—	77	15	34	36	169	—	48	36	246	15	29.2	100.0
Mining & Construction	158	159	141	108	3,469	3,000	2,758	3,212	3,627	3,159	2,899	3,320	4.4	3.3
Manufacturing	338	489	621	512	7,432	13,717	13,412	14,253	7,770	14,206	14,033	14,765	4.4	3.5
Transport & Communication	1,168	1,072	1,182	1,399	1,372	1,430	1,720	1,482	2,540	2,502	2,902	2,881	46.0	48.6
Wholesale Trade	169	149	108	243	349	601	329	689	518	750	437	932	32.6	26.1
Retail Trade	1,100	1,094	1,168	1,355	4,362	4,311	5,038	4,595	5,462	5,405	6,206	5,950	20.1	22.8
Finance, Ins. & Real Estate	325	397	399	362	398	510	432	473	723	907	831	835	45.0	43.4
Services	2,339	2,304	3,034	2,715	8,090	7,620	6,695	9,175	10,429	9,924	9,729	11,890	22.4	22.8
Public Administration	2,339	2,160	2,056	2,240	213	341	276	222	2,552	2,501	2,332	2,462	91.7	91.0

Source: CNMI Department of Commerce

I.4.2 Average Wages, Household Income and Standard of Living

Once again, the most complete data on CNMI wages, household size, household income and living standards are those to be derived from the 2000 census. In the absence of those data, only a summary of the 1999 data, which were limited to Saipan, is presented here.

In 1999, the average (mean) wage rate on Saipan was \$4.31 in non-durable manufacturing (mainly garments), \$5.41 in construction, \$5.50 in hotel and motel services, \$5.99 in retail sales, \$10.33 in finance, insurance and real estate and \$12.94 in public administration.

The average for all workers of age 16 or older in 1999 was \$7.27 an hour, down from \$7.36 in the last quarter of 1998, but slightly higher than the 1995 average of \$7.20. The drop from the last quarter of 1998 was mainly the result of the economy's stagnation.

In comparing wages, salaries and other income flows, the customary measure is the median rather than the mean average. The median reflects the middle of the range, where half the wage earners are above and half below this level. Mean, on the other hand, reflects the statistical average derived by dividing total wages by total workers.

Since a large majority of Saipan's workers earned wages near the lower end of the wage scale, the \$7.27 average (mean), presented a distorted view of the wage range and the gap between the two ends of the scale. As such, it provided little toward an understanding for assessing differences among the various components of the labor force and their wages and the implications for business and economic activity.

Another more useful measure is median household

income. For Saipan, it was \$19,698 in 1999, \$18,376 in the fourth quarter of 1998, \$18,689 in 1995 and \$21,457 in 1990. In comparison, the mean household income was \$34,864 in 1999, \$29,979 in the fourth quarter of 1998, \$29,634 in 1995 and \$35,452 in 1990. The difference between the median and mean household incomes is a measure of income inequality. As a general rule, the closer the mean and the median, the narrower the income gap. Conversely, if the difference between the mean and the median is large, the gap between the two ends of the income scale will also be large.

For Saipan, 1999 median household income was only 56.5 percent of the mean, suggesting a wide gap in average wages and household income and, therefore, in the average standard of living. In contrast, Guam's mean household income in 1997, for example, was \$42,835 and its median household income was \$36,429, or 85.0 percent of the mean.

The number of CNMI households in the income brackets below the median increased from 36.6 percent of total households in 1990 to 40.9 percent in 1999. The number of households representing the median decreased from 34.8 percent in 1990 to 30.8 percent in 1995, while the number of households at the upper end remained practically the same.

Assuming the household income numbers to be accurate, they show that the average standard of living on Saipan, as measured by either median or mean income, was lower in 1999 than in 1990. The probable cause of such erosion appeared to be an increasingly larger portion of the labor force engaged in work at the lower end of the pay scale. Per capita income on Saipan in 1995 was \$7,645, down from \$7,721 in 1990 (figures for more recent periods are not available).

Another indicator of changes in living standards is

Saipan Household Income

Income Level	Households With Income					Percent Distribution				
	1980	1990	1995	4th Qtr 1998	1st Qtr 1999	1980	1990	1995	4th Qtr 1998	1st Qtr 1999
Number of Households	2,632	6,085	10,844	14,961	15,446	100.0	100.0	100.0	100.0	100.0
Less than \$2,000	276	307	1,365	1,611	1,068	10.5	5.0	12.6	10.8	6.9
\$2,500-\$4,999	429	319	524	614	647	16.3	5.2	4.8	4.1	4.2
\$5,000-\$9,999	735	834	1,494	2,225	2,557	27.9	13.7	13.8	14.9	16.6
\$10,000-\$14,999	457	765	1,331	2,010	2,045	17.4	12.6	12.3	13.4	13.2
\$15,000-\$24,999	430	1,266	1,919	3,023	2,993	16.3	20.8	17.7	20.2	19.4
\$25,000-\$34,999	164	852	1,267	1,627	1,760	6.2	14.0	11.7	10.9	11.4
\$35,000-\$49,000	90	732	1,229	1,565	1,970	3.4	12.0	11.3	10.5	12.8
\$50,000-\$74,999	31	538	928	1,166	1,278	1.2	8.8	8.6	7.8	8.3
\$75,000-plus	20	472	787	1,120	1,128	0.8	7.8	7.3	7.5	7.3
Median Income (\$)	9,156	21,457	18,689	18,376	19,698					
Mean Income (\$)	13,515	35,452	29,634	29,979	34,864					

Source: CNMI Department of Commerce, *Recent Trends In Population, Labor Force, Employment, Unemployment and Wages, 1973 to 1999*, Draft #1, July 1999, p. 157.

household size. Aggregate population and household data for Saipan show that household size (number of persons in a household) in 1999 was 4.6, the same as in 1998, and slightly down from 4.9 in 1995. In 1990, on the other hand, average household size was a reported 6.4, a large increase from 5.5 in 1980.

It is not clear what would have caused such a large increase in average household size in 1980–90, nor why it declined rapidly from 1990 to 1995. The effect of a large alien work force on CNMI household size is but one of the many social, economic and sociological issues that require a better understanding. Perhaps a detailed study of the whole spectrum of issues arising from the demographic mix of CNMI would be worth a US government effort. CNMI presents an interesting instance of a small population, however willingly, turned into a minority in its own land. Understanding the long-term political, financial, economic, demographic and sociological implications of this case would be useful to other small economies in the Pacific.

II. MACROECONOMIC REVIEW AND FORECAST

II.1 A General Review of 1999–2000

As sophisticated a market as CNMI is, it does not yet have official gross island product (GIP) data. Occasionally, these have been generated by consultants or US government agencies, but no such data have been developed in the last few years. In the absence of the 2000 census and GIP data that would provide more complete pictures of CNMI population, demographic structure and the economy, the only reliable statistics for a CNMI-wide assessment are those on business transactions, which shed some light on overall business activity.

The government of CNMI recognizes that the information vacuum, especially the lack of an aggregate measure of the economy's performance, is a problem.

CNMI's Major Economic and Financial Indicators

	1990	1994	1995	1996	1997	1998	1999	2000	% Change 1999-2000
Population	43,345	56,044	58,846	63,613	69,801	76,708	81,126	—	—
Employment (CNMI)	25,965	—	34,812	—	—	40,627	46,590	—	—
Employment (Saipan)	23,807	—	31,560	—	—	2,701	2,103	—	—
Banking Activity (\$M)									
Total Deposits	—	411.2	425.2	463.0	481.1	522.8	570.4	595.7	4.4
Total Loans	—	200.3	216.3	280.2	239.4	304.7	288.4	325.1	12.7
Public Finance (\$M, Fiscal Years)									
Revenues	116,749	152,962	203,650	226,701	248,036	242,282	240,994	230,165	(4.5)
Spending	108,632	181,501	191,446	221,715	268,122	255,648	236,347	225,476	(4.6)
Balance	8,117	(28,539)	12,204	4,986	(20,086)	(13,366)	4,647	4,689	0.9
Cumulative Unreserved Balance	(6,863)	(44,696)	(39,986)	(34,873)	(57,384)	(80,608)	(68,287)	(63,598)	(6.9)
Gross Business Revenues (\$M)	1,180.5	1,452.8	1,830.9	2,224.4	2,610.3	2,238.1	2,155.8	2,255.6	4.6
Retail Trade	162.3	266.4	393.3	458.5	635.4	430.8	427.7	416.9	(2.5)
Services	80.5	232.6	299.2	349.9	485.5	404.9	351.8	438.8	24.7
Garment Manufacturing	162.5	250.3	209.3	484.3	537.1	656.4	798.3	783.3	(1.9)
Other Manufacturing	9.5	31.1	201.7	69.4	150.7	136.4	—	—	—
Hotels & Restaurants	117.7	155.3	187.6	231.0	233.0	141.4	150.2	133.7	(11.0)
Tourism									
Visitor Arrivals	—	596,033	676,161	736,117	694,888	490,165	501,788	528,597	5.3
Estimated Spending (\$M)	—	470.0	527.0	581.0	585.0	393.9	406.5	430.0	5.8
Hotel Occupancy (Percent)	—	77.0	82.6	85.6	81.4	58.1	60.4	61.2	1.3
Average Room Rate (\$)	—	109.5	116.8	127.7	136.1	117.2	99.0	88.1	(11.0)
Building Permits									
Commercial Permits (No.)	—	122	402	239	328	250	101	134	32.7
Residential Permits (No.)	—	31	223	155	195	347	257	186	(27.6)
Total Permits (No.)	—	153	625	394	523	597	358	320	(10.6)
Value of Commercial Permits (\$M)	—	—	—	78.0	53.8	28.1	6.7	14.2	111.9
Value of Residential Permits (\$M)	—	—	—	12.4	11.4	20.2	13.3	7.3	(45.1)
Total Value of Permits (\$M)	—	—	—	90.4	65.2	48.3	20.0	21.5	7.5

Sources: CNMI Departments of Commerce and Finance, Mariana Visitors Authority and Hotel Association of Northern Mariana Islands.

CNMI Banking Activity

(\$ millions)	1994	1995	1996	1997	1998	1999	2000
Deposits	411.2	425.2	463.0	481.0	522.8	570.4	595.7
Demand	121.7	134.3	136.7	140.8	133.6	153.0	144.0
Savings	165.5	150.7	163.2	163.2	192.5	184.5	176.2
TCDs	124.0	140.2	163.1	177.0	196.7	232.9	275.5
Loans	200.2	216.4	280.2	279.9	304.7	288.4	325.1
Consumer	64.9	64.7	71.3	80.0	83.6	74.7	70.8
Commercial	120.0	133.3	173.5	166.2	165.3	159.9	209.6
Real Estate and Home Improvement	13.0	16.5	34.0	32.9	54.7	53.4	41.9
Government	2.3	1.9	1.4	0.8	1.1	0.4	2.8
Interest Paid	24.0	33.0	35.0	39.7	37.7	—	—
All Deposit Accounts	8.1	12.1	12.7	14.9	14.3	—	—
By Borrowers	15.9	20.9	22.3	24.8	23.4	—	—

Source: CNMI Department of Commerce

However, it has neither the resources nor the expertise to make the commitment it takes to secure macroeconomic accounting techniques to produce credible data and keep them current. To the degree that federal agencies, especially the Office of Insular Affairs of the US Department of the Interior whose oversight areas include CNMI, would benefit from such data and their upkeep, they may consider funding such an effort. Once developed and tested, the upkeep of CNMI's aggregate data would most appropriately belong to the CNMI Department of Commerce's Central Statistics Division, which already compiles CNMI data.

Timely, accurate and detailed data on the economy would enable both government and businesses to gauge the economy's performance which, in turn, would enhance the decision-making process. Good information

on the economy would especially be useful to overseas investors, bond-holding and rating agencies and other users, including learning institutions and citizens.

Like many other markets in the United States, CNMI imposes an excise tax, fixed at four percent, on business transactions. The amount of tax is included in the purchase price, and tax collections and formal reporting are required as normal parts of doing business in the Commonwealth. The gross business revenue (GBR) tax applies to purchases of goods and services. The total of taxable transactions throughout the economy (the tax base) provides a rough but useful measure of business activity, especially in the absence of more complete data such as GIP.

Recent changes in classifications of items subject to tax and exemptions from GBR taxes have led to changes that have caused delays in the compiling and reporting the GBR data. There are no data for 2001, for instance, and all data for 2000 are subject to revision at some later date. In any case, annual GBR data provide just about the only measure of CNMI's gross business receipts and level of business activity.

Following two years of significant declines, the total of \$2,255.6 million in GBR in 2000 was up 4.6 percent from \$2,155.8 in 1999 but fell short of the record \$2,610.3 million in 1997. The 2000 GBR were roughly at the levels they were in 1996 and 1998. The year 1997 was a boom year. The 2000 GBR level was 13.6 percent below the 1997 peak.

As measured by GBR data, 1997 was CNMI's best year of the decade, despite the Korean Air Lines decision to stop flying to CNMI and Guam late in that year and the rapidly worsening Asian financial crisis. In 1997,

Gross Business Revenues

(\$ Millions)	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Retail Trade	162.3	264.2	283.1	347.6	266.4	393.3	458.5	635.4	430.8	427.1	416.9
Wholesale Trade	72.4	81.8	103.3	43.4	125.8	133.3	153.8	154.6	129.6	125.4	155.6
Construction	80.0	125.7	106.0	87.4	82.6	103.3	84.6	76.9	71.9	45.5	53.0
Professional Services	29.4	36.1	34.7	34.3	71.8	103.2	153.9	136.5	63.0	111.3	131.7
Other Services	51.1	82.6	67.6	75.3	160.8	196.0	196.0	349.0	341.9	240.5	307.1
Garment Manufacturing	162.5	263.4	272.8	293.1	250.3	209.3	484.3	537.1	656.4	798.3	783.3
Other Manufacturing	9.5	8.4	5.7	6.8	31.1	201.7	69.4	150.7	136.4	—	—
Transportation	32.9	15.5	13.5	19.6	23.3	26.1	22.2	37.1	35.8	23.4	26.3
Restaurants & Bars	29.9	36.2	38.6	44.4	48.1	51.4	60.2	65.4	47.6	47.9	48.7
Hotels & Motels	87.8	93.9	118.1	111.7	107.2	136.2	170.8	167.6	93.8	102.3	85.0
Gasoline Stations	6.4	8.9	10.6	8.8	8.7	6.9	5.5	4.8	2.2	—	—
Land Lease	152.3	74.0	20.4	15.2	9.1	13.0	10.3	12.2	7.7	6.6	8.3
Financial Institutions	20.5	14.6	10.1	5.9	0.1	27.7	49.6	51.7	49.9	50.0	51.6
Shipping	8.5	13.5	13.0	3.0	7.8	7.9	4.2	5.1	5.0	6.9	8.4
Agriculture & Fisheries	0.9	6.6	1.5	1.0	3.0	2.3	4.4	4.4	2.1	2.2	1.2
Other Trades	274.2	369.6	341.2	301.0	256.6	219.4	296.8	221.9	164.0	168.4	178.6
Total	1,180.5	1,495.0	1,440.0	1,398.5	1,452.8	1,830.9	2,224.4	2,610.3	2,238.1	2,155.8	2,255.6

Source: CNMI Department of Finance

GBR were up a remarkable 17.3 percent from 1996. Again as measured by GBR, 1999 was the worst since the 1997 peak.

Analytically, three pieces of total GBR (garment, hotel and motel, and retail sales) are among the most important because each represents a major part of CNMI's production and distribution functions. Garment sales, whether measured by GBR or total sales volume as reported by the Saipan Garment Manufacturers Association (SGMA), speak to CNMI's single largest employer, payer of taxes and fees and purchaser of local goods and services. Of the roughly 40,000–45,000 alien workers in CNMI, about 15,000 workers or one-third worked in making garments in 1999–2000.

In terms of employees, hotels and motels as a whole are CNMI's second largest private sector employer, payers of taxes and consumer of local goods and services. In 1999, about 5,400 persons worked in hotels and motels. These two industries, garment-making and hotels and motels, are the pillars of CNMI's primary production economy. Primary activities generate the income, taxes and other residual effects that sustain the secondary areas of the economy such as retail sales.

Looking at CNMI's two main primary income sources in 1999–2000, it is clear that garment-making prevented a potentially much larger decline in the CNMI economy. Following relatively flat sales averaging about \$242 million in 1990–95 (as measured by GBR), garment sales rose rapidly from \$484.3 million in 1996 to a record \$798.3 million in 1999. They dropped only 1.9 percent to \$783.3 million in 2000.

In a press statement in late May 2001, SGMA anticipated a much larger decline in total sales, about 9 percent, for the year. The main reason was "the effects of competition in the soft US market," where orders were weak while the industry faced rising costs.² Practically all of Saipan's garments are sold in the United States, and the soft US economy apparently showed up in orders to Saipan manufacturers. It is far from clear when the US economy will regain its late 1990s-style strength. It is even less clear what further effects the course of the US economy may have on CNMI garments.

Hotel and motel sales, in contrast, rose steadily, from less than \$90 million in 1990 to \$136.2 million in 1995. They jumped to a record \$170.8 million in 1996, declined to \$167.6 million in 1997 and then dropped to \$93.8 million in 1998 to equal the average for the early 1990s. Hotel and motel sales picked up a little momentum in 1999 as they rose to \$102.3 million and then dropped to the decade's lowest level, \$85 million, in 2000. Had the sales of garments followed the trend of hotel and motel sales in 1990–2000, the last few years of the last decade would have undoubtedly produced the equivalent of an economic depression.

²SGMA, "Garment Industry Reels From Slump," May 30, 2001, Saipan.

Retail sales to both tourists and residents tell something about spending, mainly on consumption goods, and about consumer confidence in the economy's capacity to create jobs, income and ultimately purchasing power. It is more for the latter reason that retail sales have recently risen to the ranks of closely watched market indicators throughout the United States and the rest of the developed world. Financial media now regularly report stock market activity, major policy announcements and retail sales.

CNMI's retail sales, a gauge of the economy's secondary activity, reflect the overall business environment of the last few years. Total retail sales averaged \$286 million in 1990–95, then rose rapidly to a record \$635.4 million in 1997 when total GBR sales also peaked. Retail sales were down to \$430.8 million in 1998, \$427.1 million in 1999 and \$416.9 million in 2000. The 2000 retail sales level was the closest to that in 1995. It is clear from the indicators of both direct and indirect impact that garment-making has single-handedly kept the CNMI economy afloat since the height of the Asian financial crisis in 1998.

II.2 Review of the First Half of 2001 and Forecast

The only current data on any major aspect of the CNMI economy for the first half of 2001 are those for tourist arrivals which, if taken as a leading economic indicator, point clearly to a stagnant economy at the 2000 level, possibly even lower. Tourist arrivals for the first four months of 2001 were down 1.4 percent. Current data on tourist spending are not available, nor are there current numbers on hotel occupancy rates. Still, knowing the profile of CNMI tourists, 71.7 percent of whom were from Japan in 2000, it is safe to say that a drop in arrivals means a drop in total tourist receipts and a similar drop in total output of the economy. Without further gains in the year which seem unlikely, especially in Japanese tourists, the 2001 tourist count at best will match that in 2000, which was some improvement over 1999.

The anticipated decline in garment sales as reported by SGMA, along with declining to flat tourist numbers for 2001, may mean a decline in the total GBR level. Given these conditions, the CNMI economy will at best maintain in 2001 the 2000 level of activity as measured by GBR. In the worse and more likely case, with Japanese tourist traffic declining in 2001 from the 2000 level, the economy will revert to stagnation and decline.

III. ECONOMY BY SECTOR

III.1 Government

Ordinarily, government is not a sector of the economy in the same sense that production and distribution activities are. However, government is a

large part of the modern economy because of the many expectations, especially in democracies, the various constituents have of their elected leaders. To the degree that voters can form large and influential lobbies that can change election outcomes, they entice governments into activities that would normally be performed by the private sector. In the United States, which by most accounts is the most heavily market-driven major economy in the world, government generates (consumes), directly and indirectly, one-third of total gross income.

As in US states, the CNMI government is a major segment of the economy, with perhaps only one distinguishing difference: government leaders are also often traditional leaders, and indigenous persons and other US citizens dominate government employment. Few temporary alien workers work in the public sector.

Unlike Guam, CNMI has no US military bases, not even large-scale transient forces. Military vessels may visit CNMI on tours to other points but the very few military ships that are assigned to the area to collect intelligence and help defense communication systems in the region have minimal economic impact on the Commonwealth. With these facts in mind, the public sector in CNMI is the government of CNMI which, like the government of Guam, also manages some public utilities and funds public education.

There are no detailed employment figures on government other than those reported in the *CNMI 1999 Statistical Yearbook*, the most recent available. In 1999, 4,572 persons worked in public administration.³ As a share of total employment of 46,500, public administration amounted to 9.8 percent, a relatively low share and less than half of Guam's in 1999. Of the total, US citizens accounted for 3,928 positions or 85.9 percent.

Since public sector work is not limited to public administration, the actual number of people employed in the CNMI government is perhaps much larger than the 9.8 percent share, but it is highly unlikely to be as high as Guam's, which was 22.4 percent of total employment in 1999. Anecdotal evidence suggests government employment of 6,000 or more.

Government is not as large a piece of total employment as in Guam, but it is the single largest piece of public sector expense. In fiscal year 2000, wages, salaries and benefits consumed \$109.0 million out of total expenditures and transfers of \$225.5 million, or 48.4 percent.

CNMI has had a fiscal deficit every year in fiscal years 1990–2000. They ranged from small, \$6.8 million in 1990, to large, \$80.6 million in 1998. Even with the deteriorating economy in 1999 and 2000, the cumulative deficit dropped to \$68.3 million and \$63.6 million. No data were available for fiscal 2001, but the cumulative

deficit would likely have been near the 2000 level. With the economy forecast to remain at the 2000 level or decline from it in 2001, there is the possibility that the fiscal deficit will also remain close to the 1999–2000 level.

III.2 Garment Manufacturing

Garment manufacturing has grown to become CNMI's single largest income and tax revenue source. Funded mainly by foreign capital and produced by labor from Asia, garment manufacturing commenced on Saipan in the 1980s and has grown to become the Commonwealth's single largest industry. In terms of direct employment, garments surpassed tourism quite some time ago.

The appeal of CNMI as a base of operations for foreign investors and foreign labor has been the combination of below-minimum US wage rates and duty-free sale in the United States. However, new global trade rules may alter CNMI's comparative advantage vis-à-vis US markets. When that happens, the disruption of so pronounced a two-tier economy is likely to be costly. To avoid a disruptive conversion, it is time to focus on CNMI's comparative economic advantage based on its resources and potential for economic growth. Low-cost foreign labor, however willing, is an artificial comparative advantage. Over the longer term, it may not be available.

Garment sales increased substantially in the late 1990s. Total sales, according to SGMA data, were \$760 million in 1997, rose to \$1.02 billion in 1998, increased to \$1.06 billion in 1999 and were at \$1.04 billion in 2000. In late May 2001, SGMA's projection called for total sales to drop to \$919 million for the year as a whole. These numbers differ from the gross business revenues (GBR) data compiled by the Department of Finance. The reason is that garments produced in CNMI are subject to different taxes and fees not all of which show up in GBR tax collections or in total GBR calculations.

Wages paid by the industry, according to SGMA data, show an even more dramatic rise over a longer period of time. In 1990, the industry paid \$39.6 million in wages and salaries. In 1999, that sum was up to \$212 million and down only slightly to \$208 million in 2000.

In 2000, according to SGMA data, garment-makers employed 16,575 people, with 540 US citizens and 15,035 temporary alien workers of whom 1,015 were Micronesians. Worsening economic conditions in Micronesia have recently forced residents of the area to emigrate and CNMI (in addition to Guam, Hawaii and other US markets) is among the markets to receive these migrants. Economic conditions in Micronesia are expected to continue to deteriorate until after the second round of the Compact of Free Association talks with the United States is concluded some time before the end of 2002, and more Micronesians will likely move to CNMI in the interval.

By themselves, taxes and user fees from garment-making make up around one-third of the CNMI government's direct revenues. Taxes and user fees in

³Central Statistic Division, CNMI Department of Commerce, *1999 Statistical Yearbook*, p. 44 (table 4.3).

1998 were \$65.0 million, down slightly to \$63.8 million in 1999, back up to \$64.6 million in 2000 and projected to be \$65.0 million in 2001.

The total economic impact of garment-making in CNMI has not yet been calculated, but it is reasonable to say that it is substantial. In addition to direct payments to the CNMI treasury, the indirect impact of wages and salaries (most of which get expatriated to the workers' home markets) is also substantial. Garment workers occupy local dormitories, consume local foods and shop at local stores. Putting together direct and indirect economic impact, garment-making is easily more than one-third as measured by revenues to local government.

At the height of the debate over federalization in 1999, CNMI passed a law, currently in effect, to impose caps on both the numbers of licensed manufacturers and their workers. The law allocated the maximum of 15,727 alien workers license by license among then 34 licensees, ranging from fewer than 200 workers to over 1,500. In 1999, only three firms employed over 1,000 persons each. The average among all firms was 463 workers. Excluding the three largest firms yielded an average of 386 workers per firm. Since a license cannot be granted without operations in place, the 34 licensees represented nearly the full quota allowed by law.

The law stated specifically that a license can neither be automatically renewed nor transferred. If an operator stops production, regardless of the reason, the license expires and is revoked permanently. Thus a ceiling for garment workers was established, primarily as a result of federal government pressure, which perhaps also aimed at generating a voluntary phase-out process.



Tinian Seaport

Given current circumstances, garment-makers must maximize their production within the legal framework while they still can. Coincidentally, as suggested by the industry's expectations for 2001, garments may already have peaked and may well be on a declining path of production. If the industry's 2001 decline becomes a trend, it would mean even greater pressure on the CNMI government and businesses to revitalize the stagnant tourist economy. This is what CNMI needs to put the economy back on the long road to recovery.

The main concern in the context of CNMI's overall economic well-being is an abrupt exit of garment-makers, who are not required by law to give lengthy exit notices. If they leave suddenly, the economic and financial consequences for CNMI will be incalculable, because the existing infrastructure is of no immediate use to other industries of the tropics.

III.3 Tourism

III.3.1 Current Situation

CNMI's tourism is in a critical transition, from rapid growth to rapid decline and now stagnation. Fueled by the East Asian economic boom of the late 1980s and early 1990s, tourist traffic to CNMI tripled in less than a decade (1988–96) from 245,545 to 736,117. With the onset of the Asian financial crisis in 1997, tourist arrivals began to drop.

The decision by Korean Air Lines to suspend all flights to Guam and Saipan in late 1997 after the crash of the KAL jumbo jet near the Guam airport had an immediate and large impact. In part because of the near shutdown of the Korean market that followed, more generally because of the continuation of the Asian financial crisis, total CNMI tourist traffic was down to 490,165 during the year. By the end of 1998, total tourist traffic was back to where it had been in 1992. Although tourist traffic recovered some lost ground in 1999 and 2000 when the total was over 500,000 once again, a recovery to the 1996 peak remains a distant possibility. In the first four months of 2001, tourist traffic was down 1.4 percent from the same period of 2000.

In 1988–96, tourism became CNMI's largest income source and most dynamic industry, as well as its main comparative economic advantage. However, its sharp decline in 1997–98 and only modest recovery since then has shown how fragile and vulnerable that advantage has been. Several factors, KAL's decision to suspend flight, the Asian financial crisis and the ongoing

Visitor Arrivals by Market

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Numbers											
Japan	329,581	310,274	354,941	378,719	387,210	426,679	438,462	447,882	376,539	380,473	378,758
USA ¹	70,054	74,530	79,641	78,720	80,959	98,593	83,989	75,153	60,566	48,891	51,217
Korea	17,391	21,114	37,389	60,824	102,275	124,794	187,881	141,510	27,813	51,150	71,614
Taiwan	808	4,475	13,295	9,459	7,404	7,086	6,077	7,035	4,161	2,890	9,964
Hong Kong	1,313	2,711	4,771	3,506	3,258	4,717	5,193	4,369	4,897	5,379	5,252
Australia	4,838	3,113	2,189	1,698	999	828	572	638	826	997	328
Others	11,470	13,528	13,069	12,877	13,928	13,464	13,943	18,301	15,363	12,008	11,464
Total	435,455	429,745	505,295	545,803	596,033	676,161	736,117	694,888	490,165	501,788	528,597
Percent Shares											
Japan	75.7	72.2	70.2	69.4	65.0	63.1	59.6	64.5	76.8	75.8	71.7
USA	16.1	17.3	15.8	14.4	13.6	14.6	11.4	10.8	12.4	9.7	9.7
Korea	4.0	4.9	7.4	11.1	17.2	18.5	25.5	20.4	5.7	10.2	13.5
Taiwan	0.2	1.0	2.6	1.7	1.2	1.0	0.8	1.0	0.8	0.6	1.9
Hong Kong	0.3	0.6	0.9	0.6	0.5	0.7	0.7	0.6	1.0	1.1	1.0
Australia	1.1	0.7	0.4	0.3	0.2	0.1	0.1	0.1	0.2	0.2	0.1
Others	2.6	3.1	2.6	2.4	2.3	2.0	1.9	2.6	3.1	2.4	2.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

¹USA includes Guam.

Source: Mariana Visitors Authority

stagnation in Japan, CNMI's principal market, have combined to stall the Commonwealth's once thriving tourist and retail industry.

In keeping with earlier growth trends, hotel rooms rose from fewer than 2,000 in 1988 to almost 3,000 rooms in 1992 and peaked at 3,942 in 1998. Eighty-five percent of all hotel rooms in CNMI are on Saipan. The Tinian Dynasty Hotel and Casino is thus far the only major hotel built outside Saipan. There have been no new hotel permits since 2000.

Occupancy rates for CNMI, which the Hotel Association of the Northern Mariana Islands (HANMI) started reporting in 1992, dropped from 78.1 percent in 1992 to 73.5 percent in 1993. Occupancy rates fluctuated greatly during this time, both as a result of rapidly increasing hotel rooms and growing tourist numbers.

In 1996, when tourist traffic peaked, the occupancy rate was at a record 85.6 percent, higher than in most destinations in the Pacific with the exception of Guam. In 1998, the occupancy rate was down to 58.1 percent. The small gains in tourist traffic in 1999–2000 also showed up in occupancy rates when they rose to 60.4 and 61.2 percent. The industry-wide optimal occupancy rate that generates sufficient revenues to cover expenses and allow for regular maintenance of facilities is about 75–80 percent. With CNMI's tourist traffic not having risen to a level to restore that rate, the industry does not generate the revenues to keep facilities in ideal condition.

Total tourist spending in CNMI was estimated to be a record \$587 million in 1996, reportedly dropping to \$585 million in 1997. In 1998, it fell further to an estimated \$393.4 million, 33.0 percent below the 1996 level. In 1999 and 2000, estimated tourist spending rose

back up to \$400–430 million, but remained considerably below the level the industry needs to keep up with the destination's financial requirements. In addition, hotel, motel and restaurant employment suffered a decline of an estimated 25–40 percent. Some hotels have reduced staff and service to minimal levels because of poor cash flow. Without robust cash flows, revitalization of the tourist industry will be difficult to accomplish.

Separating the industrial economy of garment manufacturing from leisurely tropical tourist pursuits on the small island of Saipan presents CNMI with yet another obstacle to revitalizing tourism. The proliferation of garment factories and dormitories built to house 40,000-plus foreign workers has created the type of congestion most tourists wish to avoid. This mix of an industrial city peopled by foreign workers and a vacation paradise trying to attract more visitors is a new experiment in itself. It will be some time before we know how this is going to work.

Meanwhile, the search continues for new carriers and more airline seats not only in CNMI but also throughout the Pacific, as tourism is the region's only promising source of income. There is no shortage of seats. In fact, there are now more air carriers and more seats in the US and Asia-Pacific corridors than at any time in the past. However, the deregulated and highly competitive air service market now dictates the regional airline market's financial and logistical dynamics.

One factor that makes future seat availability in the entire Pacific a challenge is the cost and financial returns required by air carriers with newer fleets. Most US and foreign carriers engaged in the Pacific are rapidly upgrading their fleets to a new, more efficient and

Tourism Statistics

	Visitor Arrivals	Saipan Hotel Rooms	Tinian Hotel Rooms	Rota Hotel Rooms	CNMI Hotel Rooms	Average Hotel Occupancy Rate (Percent)	Average Hotel Room Rate (\$)	Estimated Total Tourist Spending (\$M)	Average Spending (\$)
1978	—	653	24	88	765	—	—	—	—
1979	—	640	27	88	755	—	—	—	—
1980	17,149	640	27	73	740	—	—	58.8	501.92
1981	114,572	722	19	73	814	—	—	59.0	514.96
1982	111,173	675	19	73	767	—	—	56.7	510.02
1983	124,024	724	19	73	816	—	—	67.0	540.22
1984	131,823	657	15	93	765	—	—	71.2	540.12
1985	142,149	869	15	92	976	—	—	121.6	855.44
1986	163,451	1,041	15	96	1,152	—	—	134.0	819.82
1987	194,242	1,315	23	83	1,421	—	—	154.0	792.83
1988	245,545	1,715	26	83	1,824	—	—	244.0	993.71
1989	333,836	2,159	26	83	2,268	—	—	318.5	954.06
1990	435,455	2,517	45	89	2,651	—	—	419.7	963.82
1991	429,745	2,481	30	81	2,592	—	—	428.3	996.64
1992	505,295	2,741	30	81	2,852	78.1	112.8	494.0	977.65
1993	545,803	3,048	42	109	3,199	73.5	114.8	506.9	928.72
1994	596,033	3,177	42	127	3,346	77.0	109.5	463.5	777.64
1995	676,161	3,240	31	187	3,458	82.6	116.8	538.4	796.26
1996	736,117	3,335	31	217	3,583	85.6	127.7	587.8	798.51
1997	694,888	3,627	31	223	3,881	81.4	136.1	585.0	841.86
1998	490,165	3,942	457	243	4,642	58.1	117.2	393.9	803.57
1999	501,788	3,856	457	243	4,556	60.4	99.0	406.5	810.05
2000	528,597	3,856	452	243	4,551	61.2	88.1	430.0	813.50
2001	—	3,826	452	243	4,521	—	—	—	—

Notes: (1) The total spending figures for 1998-2000 are Bank of Hawaii estimates.

(2) HANMI started compiling hotel occupancy and average rate figures in 1992

Sources: Hotel Association of the Northern Mariana Islands (HANMI) for hotel occupancy and hotel rates. Mariana Visitors Authority (MVA) for arrivals, tourist spending and hotel inventory.

technologically advanced generation of aircraft, such as the Boeing 757, 767 and 777. In the next few years, the super jumbo developed by the European Airbus Industries will be flying 500-plus passengers at a time. In less than a decade, Boeing will bring to the market the “Sonic Cruiser,” the aircraft that will fly at almost the speed of sound and cut flight time by as much as one-third.

The existing new aircraft as well as those coming on line in the years ahead cost far more than their predecessors because they are much more technologically advanced than anything on the market. To maximize their returns, these aircraft must be used only on routes that offer the highest return per passenger mile and per dollar invested. CNMI and Guam are in competition for airline seats with much larger markets whose routes better enable air carriers to earn the return they demand. In a competitive and global air transport market, routes other than the most profitable will be a challenge for air carriers to serve.

One way in which some local, regional and national authorities can keep their routes in service is to lower air transport costs to carriers. Guam, for example, has reduced airport landing fees and other costs while

upgrading and maintaining its airport facilities. More destinations in the region will have to do this in the future to attract and retain their vital air transport links to the outside world.

The somewhat unique advantage Guam and CNMI have is access to federal funds for airport and other aviation facilities, especially if they can be shown to be critical to economic stability. Completion of the new runway on Tinian will certainly add to the island’s attractiveness as an emerging destination. However, whether a new runway alone will be a sufficient condition to bring more capital to the island is far from certain.

III.3.2 Tourist and Retail Sales Potential

According to HANMI, the hotel room rate in 1999 was \$99.0, the first time the rate was below \$100 since the association began to collect these data in 1992. In 2000, the rate dropped to \$88.1. There were no official numbers from HANMI for the first half of 2001, but indications were that the rates was somewhere around \$90–100.

There is no information on hotel revenues that

would directly link tourist spending to the financial situation of the hotel industry, but it appears from hotel statistics and anecdotal evidence from some hotels that the years 1999–2000 were perhaps the most difficult for the CNMI hotel industry in the last decade. Gross business receipts (GRB) for hotels, according to the CNMI Department of Finance, were \$170 million in 1996, dropped to \$167.6 million in 1997 and declined to \$85.0 million in 2000.

These numbers confirm what is already known: 1990–2000 was a challenging period for CNMI hotels. At the local spending level of about \$500 per person for Japanese tourists (assuming that Guam and CNMI draw from the same sub-market in Japan), the total retail potential of all Japanese tourists, roughly 380,000 in 2000, would be \$190 million, about 45 percent of total retail sales for 2000.

Most tourists from Japan and other East Asian markets come to CNMI (and Guam) through package tours that wholesalers sell for large groups. Evidence shows that people who travel on package tours are usually on limited budgets and do not have the local spending money that “free and independent” travelers or older and more affluent tourists may have. MVA and others in the industry should look into identifying and pursuing these longer-staying and higher-spending tourists.

Other growing and potentially lucrative market segments are families traveling with children and those made up of parents, children and grandparents, “three generations of travelers” together. CNMI providers may want to consider making special arrangements to accommodate these family groups as well.



Hafa Adai Beach Hotel in Garapan

III.4 The Continuing Experiment with Commercial Gambling

More than half of the island of Tinian is leased to the US military. Elsewhere land has been opened up to development, and a large hotel and casino built by a Hong Kong firm opened in early 1999. Tinian is currently the only gambling island and everyone has been waiting to see if the large casino will make it. The Tinian Dynasty Hotel and Casino, a 412-room hotel offering Las Vegas-style gambling in both public and private rooms, is by every account a world-class facility. Its location on one of the most pristine beaches in the Mariana Islands sets it apart from other commercial casinos. But the timing of its opening at the very end of the Asian financial crisis was less than ideal.

According to anecdotal evidence, the Tinian Dynasty has operated at about 30–40 percent capacity since opening. Considering the fact that it is the only commercial casino in the region and not yet well known, it has performed better than expected. However, direct flights to Tinian from either Hong Kong or Taiwan are needed to attract gamblers who would normally go to Macao and other destinations in Asia.

Rota, which escaped WW II damage and remains pristine, has been set aside as an environmental preserve and is a potential future eco-tourism destination. It is not yet clear that the residents of Rota want a piece of commercial tourism. Although Rota residents rejected the idea of commercial gambling for the island in 1996, they may



DFS Galleria

change their minds if the Tinian casino does well financially.

CNMI appears to have many advantages for serving the commercial gambling market with its proximity to Asia, numerous islands and a fierce determination to seek alternative income sources under the US flag. Gambling should take hold more rapidly on Tinian with completion of the new runway which will accommodate large aircraft.

Rota has a runway that is presently served only by small commuter aircraft and is not ready for large aircraft landings. Commercial and public infrastructure on the two neighbor islands has been kept at minimal levels so far to preserve the natural landscape. Financial success of the Tinian casino may change all that.

IV. WHAT LIES AHEAD

What lies ahead for CNMI is a period of economic uncertainty following rapid growth, rapid decline and now stagnation. CNMI will have to look for income sources beyond garment manufacturing, and its most realistic prospects lie in refurbishing its reputation as a tourist destination.

Commercial gambling offers one way to develop the tourist sector to the extent that issues of air transport,

marketing, awareness, and acceptance within the communities themselves are addressed. Whether or not it will work is as much a function of what CNMI can do as it is a function of market forces over which the Commonwealth has no control.

CNMI recognizes the potential in Japan, but has yet to come up with a more concrete plan for how to get more affluent tourists from that market. Segmentation of the Japanese tourist market and targeting selected segments with specific programs will work, but it will take time. In any case, the current economic stagnation in Japan and the new government's measures to return to growth will slow Japanese tourist traffic before it grows again, thus limiting CNMI's immediate capacity to create jobs and income.

CNMI needs to enhance its tourist infrastructure and maintain its tropical ecosystem relatively undisturbed in order to remain popular as a tropical paradise with a unique American-Pacific mix of cultures and facilities. CNMI needs to undertake a program of beautification, especially on Saipan, where garment manufacturing has obscured something of the island's essential character. Now is the time to put the necessary changes in place on the ground and to modify prevailing perceptions so that the Commonwealth enhances its appeal as a destination, ready to increase its share of tourists as Asia-Pacific returns to economic growth.



Taga Beach, Tinian

PACIFIC ISLANDS FACT SHEET

US DOLLAR-DENOMINATED ECONOMIES

	Population	Land Area (square miles)	Notable Geographic Characteristics	Capital/ Distance from (miles)	Currency	Major Languages
GUAM	167,292	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)	81,126	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	494,757	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

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
2,772.8	16,575	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
696.3	8,582	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
102.1	2,009	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
4,177.3	8,443				
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	7,549,323	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				
18,249.5	2,417				
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. 8/01)

For further information, contact Bank of Hawaii International Economist Dr. Wali M. Osman at 808-537-8349 (phone), 808-538-4001 (fax) or wmosman@boh.com (e-mail).

HEADQUARTERS

130 Merchant Street
Honolulu, Hawaii 96813
☎ (888) 643-3888

American Samoa

P. O. Box 69
Pago Pago, American Samoa 96799

Pago Pago

Pav'ia'a

Tafuna

Asia Division

☎ (808) 537-8508
Fax: (808) 537-8595

Pacific Century Trust

☎ (808) 538-4444
Fax: (808) 533-1573

International Private Banking

☎ (808) 537-8939/(808) 538-4827
Fax: (808) 538-4055

WEST PACIFIC DIVISION

134 W. Soledad Avenue
Hagatña, Guam 96932
☎ (671) 479-3625
Fax: (671) 479-3676

WEST PACIFIC BRANCHES & AFFILIATES

GUAM

Branches

Agana Branch

134 W. Soledad Avenue
Hagatña, Guam 96932
☎ (671) 479-3500
Fax: (671) 479-3777

Dededo Branch

1340-C.N. Marine Drive
Upper Tumon, Guam 96911
☎ (671) 646-8719
Fax: (671) 646-8732

Tamuning Branch

683 S. Marine Drive
Tamuning, Guam 96911
☎ (671) 646-1881
Fax: (671) 649-0049

Affiliates

First Savings & Loan Association

Dededo Branch
136 Kayen Chando St.
Dededo, Guam 96912
☎ (671) 632-0331
Fax: (671) 632-0407

First Savings & Loan

Agana Branch
140 Aspinall Avenue
Agana, Guam 96910
☎ (671) 472-6878
Fax: (671) 477-4556

First Savings & Loan

ISB Payless - OKA
291 Farenholt Avenue
Tamuning, Guam 96911
☎ (671) 649-7558
Fax: (671) 649-8552

First Savings & Loan

ISB Payless - Agana
118 Agana Shopping Center
Agana, Guam 96910
☎ (671) 472-2565
Fax: (671) 472-2564

First Savings & Loan

ISB Payless - Micronesia Mall
Ste. 200, 1088 Micronesia Mall
Dededo, Guam 96912
☎ (671) 637-2740
Fax: (671) 637-2760

First Savings & Loan

ISB Payless - Yigo
525 Chalan Ramon Haya
Yigo, Guam 96929
☎ (671) 653-3113/5
Fax: (671) 653-3111

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Saipan Branch (Garapan)

P. O. Box 566
Saipan, MP 96950
☎ (670) 322-4200
Fax: (670) 322-4210

Saipan Branch (Susupe)

P. O. Box 566
Saipan, MP 96950
☎ (670) 235-5400
Fax: (670) 235-3913

FEDERATED STATES OF MICRONESIA

Kosrae Branch

P. O. Box 1071
Lelu, Kosrae
Federated States of Micronesia 96944
☎ (691) 370-3230
Fax: (691) 370-2027

Pohnpei Branch

P. O. Box 280
Kolonia, Pohnpei
Federated States of Micronesia 96941
☎ (691) 320-2545
Fax: (691) 320-2547

Yap Branch

P. O. Box 309
Colonia, Yap
Federated States of Micronesia 96943
☎ (691) 350-2373
Fax: (691) 350-4108

REPUBLIC OF THE MARSHALL ISLANDS

Majuro Branch

P. O. Box 469
Majuro, Marshall Islands 96960
☎ (692) 625-3741
Fax: (692) 625-3744

REPUBLIC OF PALAU

Koror Branch

P. O. Box 340
Koror, Republic of Palau 96940
☎ (680) 488-2602
Fax: (680) 488-2427

SOUTH PACIFIC DIVISION

P. O. Box 2900
Honolulu, Hawaii 96846
☎ (808) 537-4307
Fax: (808) 537-8079

SOUTH PACIFIC BRANCHES

FIJI

Lautoka

Nadi

Suva

SUBSIDIARY BANKS

FRENCH POLYNESIA

Banque de Tahiti

NEW CALEDONIA

Bank of Hawaii - Nouvelle Calédonie

VANUATU

Banque d' Hawaii (Vanuatu), Ltd.

PAPUA NEW GUINEA

Bank of Hawaii (PNG), Ltd.

AFFILIATE BANK

SOLOMON ISLANDS

National Bank of Solomon Islands, Ltd.

INTERNATIONAL OFFICES/BRANCHES

HONG KONG

PHILIPPINES

Manila, Cebu, Davao

NASSAU

SINGAPORE

NEW YORK

TAIWAN

KOREA

JAPAN

NOTE: The company is in the process of divesting or winding down its non-core holdings in California; the South Pacific, exclusive of American Samoa; and Asia, exclusive of Japan.

This report and other Bank of Hawaii economic reports are featured in the Economics Section of Bank of Hawaii's Internet website (boh.com/econ).
Hard copies of this report can be obtained from Bank of Hawaii.

P. O. Box 2900, Honolulu, Hawaii 96846 • Phone: (808) 537-8192 • Fax: (808) 538-4001.

Bank of Hawaii's

Asset Management Group

*ahead of
the Pack.*



Bank of Hawaii

You're watching the race, but do you know who all the competitors are? Bank of Hawaii's Asset Management Group has produced nationally recognized results. The Group currently manages over \$8 billion in assets. If you are part of a corporation, government organization, or non-profit entity and have investable assets in excess of \$1 million, you should be doing business with Bank of Hawaii's Asset Management Group. For more information regarding Bank of Hawaii's Asset Management Group, please contact Mr. Robert Ritchie, Vice President, Institutional New Business at 671-479-3802.

Investments are: Not FDIC Insured • May Lose Value • No Bank Guarantee

Why Bank of Hawaii
is the



perfect size

for all *Business.*



As the oldest and strongest commercial bank in the West Pacific, thousands of businesses have chosen Bank of Hawaii as their financial partner. We have been an integral part of the economic fabric of Guam and the Northern Marianas. A strong sense of community is fundamental to our banking philosophy. Whether you are a large, medium or small business – Bank of Hawaii has all the resources to meet your deposit and credit needs including cash management, employee benefits and a friendly face when you need it most.

We want to visit with you today. On Guam, please contact us at 671-479-3634. In the Northern Marianas please call us at 670-322-4200.



MEMBER FDIC