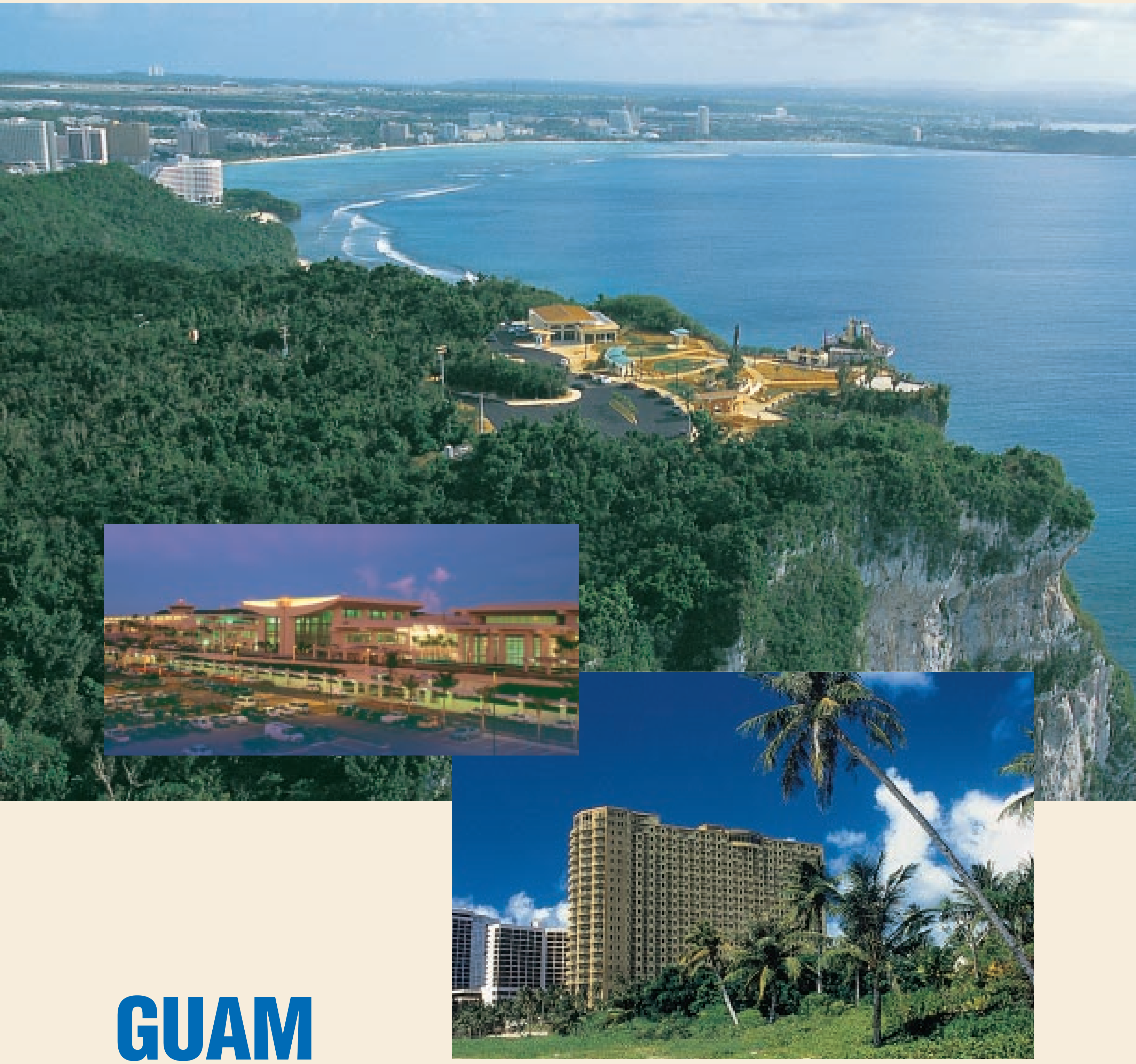
Bank of Hawaii
THE BANK OF THE PACIFIC®

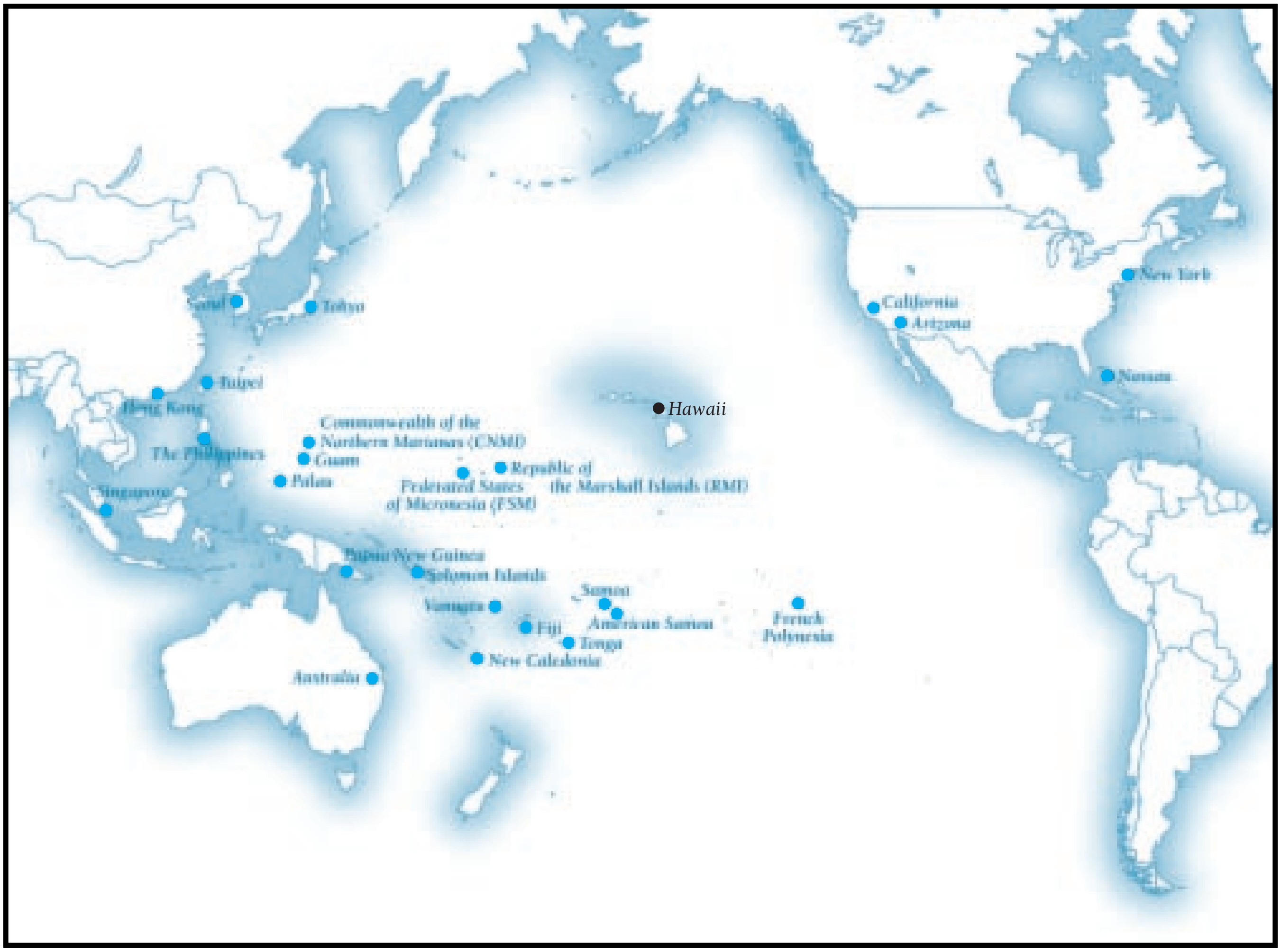


GUAM

ECONOMIC REPORT OCTOBER 1999

Bank of Hawaii

10/99



Hawaii
- Bank of Hawaii (72 branches)

Arizona
- Pacific Century Bank, N.A. (9 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 (3 offices, 3 in-store branches)

Republic of the Marshall Islands (RMI)
- Bank of Hawaii (1 branch)

Republic of Palau
- Bank of Hawaii (1 branch)

South Pacific

American Samoa
- Bank of Hawaii (2 branches)

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 Banks

Samoa
- Pacific Commercial Bank, Ltd. (4 branches)

Tonga
- Bank of Tonga (5 branches)

Solomon Islands
- National Bank of Solomon Islands (11 branches)

Alliances

Australia
- Bank of Queensland Limited (95 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

Seoul
- Bank of Hawaii (1 branch)

Singapore
- Bank of Hawaii (1 branch)

Taipei
- Bank of Hawaii (1 branch)

Tokyo
- 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 holding company with $14.6 billion in assets and more than 180 business locations. Through our trans-Pacific network of offices, subsidiaries and correspondents, Bank of Hawaii provides a full range of financial services to businesses, governments and consumers in four principal markets: Hawaii, the West and South Pacific, Asia and selected markets on the US Mainland.

Whether you are interested in trade finance, working capital loans, correspondent banking, foreign exchange, real estate investment or establishing operations in another country, Bank of Hawaii can open up a *world* of new business opportunities for you. Please visit our Internet website at www.boh.com for more information.

TO OUR CLIENTS AND FRIENDS:

We are pleased to present the Guam Economic Report October 1999, a review of economic conditions on Guam and an analysis of factors that are likely to influence Guam's future growth and prosperity.

Bank of Hawaii's presence in Guam dates back 38 years. Over that time, we have participated in its development as a dynamic market in the West Pacific. In recent years, Guam's economy has faced challenges due to the Asian crisis. We are confident, however, that Guam will continue to thrive amid the changes that lie ahead.

Bank of Hawaii's report on the economy of Guam is part of an ongoing series of analyses of the Pacific island markets we serve. We offer this analysis as a resource for political and business leaders, investors, analysts and other decision-makers who share our confidence in Guam's future.

We encourage you to visit the economics section of Bank of Hawaii's Internet website at www.boh.com for other reports and updates on Pacific island economies. We look forward to participating in the economic future of the region and to working with you as you set financial goals and achieve your objectives.

Aloha,

Lawrence M. Johnson
Chairman of the Board and
Chief Executive Officer

Richard J. Dahl
President and
Chief Operating Officer

Lawrence M. Johnson

Richard J. Dahl

Contents

Acknowledgments
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Cover photos: *Tumon Bay and Two Lovers Point*, courtesy Calvo Enterprise, Inc.; *Guam International Airport*, courtesy GIAA; *Outrigger Guam Resort*, courtesy Outrigger Guam Resort.

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GUAM

Population
1999 estimate: 163,373
1990: 133,152
1990-99 Population Growth Rate: 2.3 percent

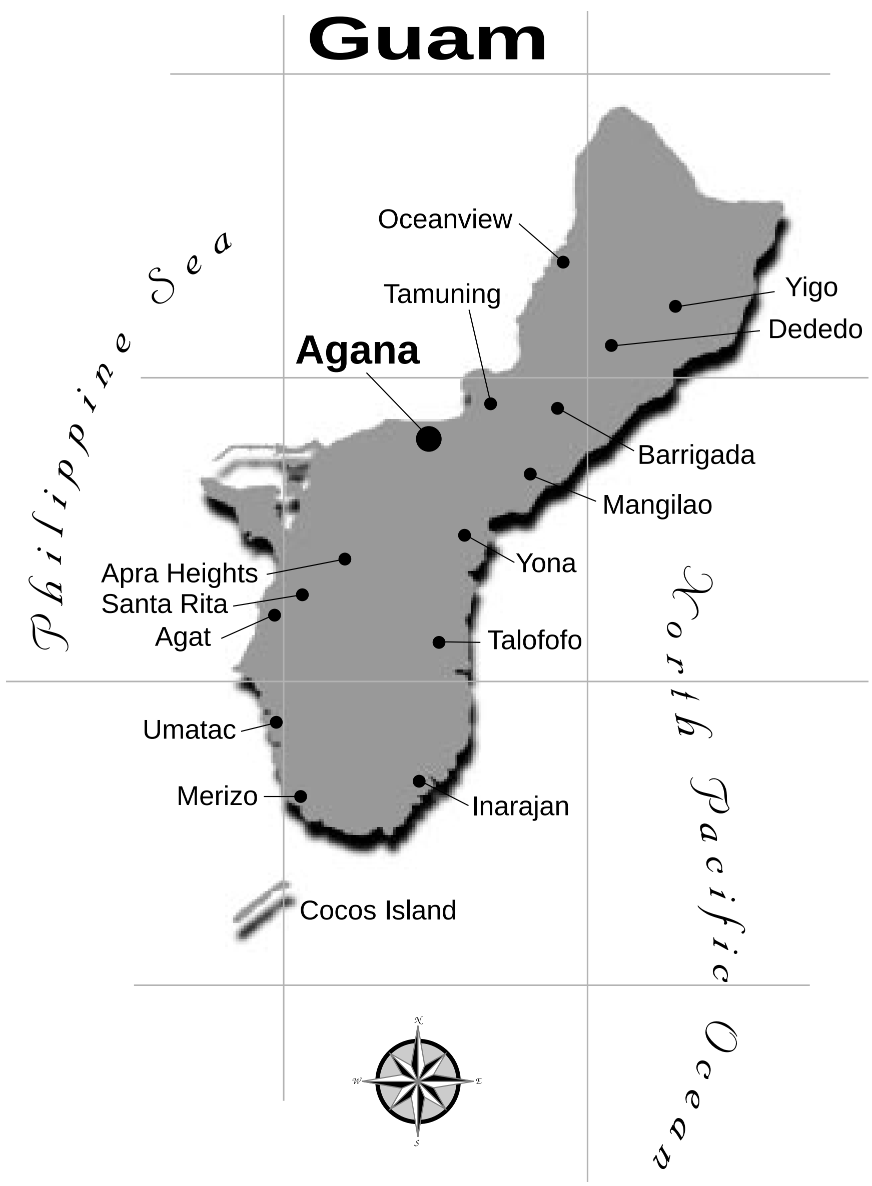
Economy
Currency: US dollar
Income sources: tourism, national defense, trade and services
Estimated Gross Island Product (GIP) in 1999: $3,065.8 million
Per capita GIP in 1999: $18,766
1999 Population of 16 years age and older: 105,270
1999 labor force: 72,700
1999 employment: 61,460
1999 unemployment: 11,060
1999 unemployment rate: 15.2 percent (June)
Minimum wage: $5.15

Political Status
US territory since 1898
Head of Executive Branch: Elected Governor
Uni-cameral Legislature (15 Members)
US-style judiciary

Land Area
One Island, 212 square miles
30 miles long, 4-8 miles wide
Highest Point: 1,332 feet
Capital: Hagatna (Agana)

Languages
English
Chamorro

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



MACROECONOMIC REVIEW AND FORECAST

Review of 1997

Guam's economy is so dependent on tourists from East Asia, particularly Japan, that any significant economic, financial and foreign exchange development in the region has an immediate impact on the American territory. "Guam USA," as the island's vehicle license plates proclaim, is in reality far more closely linked economically to Asia than would be expected given its political, social and economic affiliations with the United States. While U.S. military presence on the island has diminished to the lowest level in decades and is still declining, Guam's ties to the U.S. remain strong. Still, the U.S. can provide the territory little immunity against Asian economic and financial crises.

As measured by most conventional signals, Guam suffered significantly from the combined impact of the Asian financial crisis that began in late 1997 and Japan's longest post-War economic malaise that began in 1991-92.

In August 1997, just prior to the onset of the economic problems related to the Asian financial crisis, a traumatic event occurred that also had significant economic ramifications: a Korean Airlines (KAL) plane crashed moments before landing on Guam, killing 229 people. The crash made instant headlines around the world and generated adverse publicity for both KAL and Guam. Immediately after, in September 1997, KAL suspended flights to its Pacific Island markets. As KAL was the only major direct carrier between Korea and Guam, the cancellation of its Guam service nearly closed Guam to Korean tourists, who made up 8.6 percent of total arrivals to Guam in all of 1997, down markedly from a record high 14.3 percent in 1996.

Furthermore, in November 1997, a severe typhoon, Paka, hit Guam and the rest of the Mariana Islands, adding to the economic difficulties caused by falling financial markets and the airline accident.

Despite Asian financial ills, the plane crash and the storm, Guam finished 1997 with a small, 1.4 percent, gain in tourist arrivals, mainly on the strength of an 8.2 percent rise in its dominant market, Japan. Coupled with gains in tourist arrivals from the United States and other markets, according to the Guam Finance Commission, Guam finished 1997 with a 2.9 percent gain in gross island product (GIP).

However, despite a notable rise in the territory's gross income, Guam experienced price deflation in 1997. The Guam consumer price index dropped from 101.82 in the first quarter to 101.01 in the fourth quarter.[1] Given price deflation and the adverse economic conditions in the last quarter of 1997, a 2.9 percent rise in GIP appears remarkable. After accounting for a slight deflation (a 0.8 percent drop) in the general price level from the first to the fourth quarter, the rise in Guam's GIP was indeed higher than the 2.9 percent.

Payroll employment figures for 1997 tell a somewhat different story, with a decline of 2.4 percent during the year, according to the Guam Department of Labor.

GIP and employment movement in opposite directions is neither new nor unusual, especially around turning points during a business cycle. As a lagging indicator, following the actual and anticipated levels of production and distribution, changes in employment follow changes in GIP. When GIP is near its peak and about to begin dropping, employment may still be rising as businesses and governments rush to fill past orders. When GIP begins to drop, employment normally follows within 3 to 6 months. It is less common for employment to drop while GIP is still rising, as the Guam statistics indicate was the case in 1997.

An important piece of evidence in support of the GIP rise is a 2.7 percent gain in the private sector's average weekly earnings in 1997. A rise in total income in the face of declining payroll employment normally indicates gains in productivity. Although there is no independent evidence to show that this occurred, rising productivity appears the most likely explanation, especially with widespread adoption of digital technology in both the private and public sectors over the last few years. An alternative explanation is that non-payroll employment, such as self-employment, may have risen so rapidly as to cause total income to rise. However, that appears much less plausible since the economy began to weaken in the last quarter of 1997.

Because the Guam Finance Commission's GIP data and the Department of Labor's data are derived independently, they do not necessarily correspond. The Guam departments of Labor and Commerce generate most of the usual labor and income and production data, but do not generate the macroeconomic data the Guam Finance Commission does. As mentioned in Bank of Hawaii's 1997 *Economic Report,* Guam would be best served by centralizing and consolidating the collection, processing and distribution of macroeconomic data.

More current information is critically important if Guam is to successfully compete for capital and skills in regional and global markets.

Apart from possible data biases and other causes for the opposite directions of gross income and payroll employment in 1997, a far clearer picture of economic decline can be gleaned from 1998 and the first half of 1999 data.

[1]Third quarter of 1996 is the base period (100) for Guam's new consumer price index (CPI).

Guam's Major Indicators

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	% Change 1996/97	% Change 1997/98
Population	133,152	136,226	139,371	142,589	145,881	149,249	152,695	156,100	159,700	163,373	2.2	2.3
Total Employment	56,080	61,750	69,569	68,420	66,570	65,220	68,440	66,800	64,230	62,530	(2.4)	(3.8)
Gross Island Product ($ Millions)	2,312.5	2,667.4	2,902.1	2,916.8	3,013.7	2,998.6	2,992.5	3,079.0	3,020.5	3,065.8	2.9	(1.9)
Personal Income ($ Millions)	1,672.3	1,986.6	2,203.2	2,239.9	2,289.7	2,228.4	2,264.0	2,354.5	2,338.1	2,373.2	4.0	(0.7)
Per Capita GIP ($)	17,367	19,581	20,823	20,456	20,659	20,091	19,598	19,725	18,914	18,766	0.6	(4.1)
Per Capita Personal Income ($)	12,559	14,583	15,808	15,709	15,696	14,931	14,827	15,083	14,641	14,526	1.7	(2.9)
Total Deposits ($ Millions)	1,276.7	1,330.2	1,444.8	1,391.8	1,355.2	1,305.7	1,522.7	1,627.1	1,472.7	1,431.5	6.9	(9.5)
Total Loans ($ Millions)	1,271.2	1,554.0	1,902.5	2,240.0	2,505.7	2,196.9	2,542.8	2,890.3	3,086.5	3,103.9	13.7	6.8
Bank Deposits ($ Millions)	1,189.0	1,338.2	1,260.2	1,201.3	1,226.0	1,441.3	1,348.4	1,458.1	1,352.7	1,312.53	8.1	(7.2)
Bank Loans ($ Millions)	1,123.1	1,496.1	1,295.7	2,065.5	1,941.0	2,357.3	2,239.1	2,575.4	2,932.1	2,949.80	15.0	13.8
GovGuam Revenues ($ Millions)	450.2	524.8	555.5	561.5	501.5	523.7	530.0	516.5	503.7	469.5	(2.5)	(2.5)
GovGuam Spending ($ Millions)	418.7	590.6	588.5	653.5	543.5	437.5	517.0	509.4	524.2	505.6	(1.5)	2.9
Operating Balance ($ Millions)	31.5	(65.8)	(33.0)	(92.0)	(42.0)	86.2	13.0	7.1	(20.5)	(36.1)	(45.4)	(388.7)
Fund Balance ($ Millions)	52.6	(13.2)	(46.2)	(138.2)	(180.2)	(94.0)	(81.0)	(73.9)	(94.4)	(130.5)	(8.8)	27.7
Indebtedness ($ Millions)	136.0	128.0	160.3	326.3	361.7	464.0	437.0	409.3	380.2	349.1	(6.3)	(7.1)
Gross Business Receipts ($ Millions)	3,089.5	3,498.3	3,876.8	3,673.2	3,918.7	4,386.8	4,548.3	4,577.2	4,212.3	4,317.6	0.6	(8.0)
Wholesale	73.5	139.5	97.8	68.5	69.9	55.0	79.5	80.0	73.6	74.7	0.6	(8.0)
Retail	1,125.0	1,180.6	1,301.7	1,331.3	1,392.3	1,699.9	1,831.5	1,825.0	1,687.9	1,713.2	(0.4)	(7.5)
Services	554.5	674.3	781.5	812.7	877.6	986.1	1,029.3	1,081.1	974.1	988.7	5.0	(9.9)
Contracting (Construction Put in Place)	759.6	849.6	934.3	635.4	696.4	681.3	649.4	527.4	543.4	551.5	(18.8)	3.0
Rental Activity	139.9	159.0	184.2	214.1	271.2	402.1	429.1	444.1	403.0	409.1	3.5	(9.2)
Others	437.0	495.3	577.3	611.2	611.3	562.4	529.5	619.6	530.3	580.4	17.0	(14.4)
Military Spending ($ Millions FY)												
Personnel	231.1	401.9	450.3	474.9	439.1	370.5	—	—	—	—		
Construction	57.9	68.8	78.3	117.1	188.7	124.7	—	—	—	—		
Others	38.2	100.5	156.0	156.0	106.5	314.5	—	—	—	—		
Total	327.2	571.2	684.6	748.0	734.3	809.7	—	—	—	—		
Visitor Arrivals (000)	769.9	728.7	876.7	784.0	1,086.7	1,361.8	1,362.6	1,381.5	1,137.0	1,165.5	1.4	(17.7)
Hotel Rooms	4,955	6,122	6,362	6,038	6,919	7,140	7,928	8,119	8,705	9,309	2.4	7.2
Power Use (Million kwh)	763.1	862.4	987.9	1,433.7	1,578.4	1,537.5	1,625.4	1,639.8	—	—	0.9	—
Water Use (Million gallons)	5,804	6,301	6,988	6,924	7,106	7,525	13,954	8,923	—	—	(36.1)	—
Telephone Subscribers	37,787	41,782	49,507	54,259	69,464	75,595	83,799	82,669	88,974	—	(1.3)	7.6
Total Cargo Movement (000 tons)	1,532.9	2,033.3	1,062.6	1,114.0	1,938.6	1,963.2	1,805.8	1,717.1	—	—	(4.9)	—

Note: Most 1999 data are based on first and second quarter preliminary figures or Bank of Hawaii estimates and projections.
SOURCES: Guam Departments of Commerce, Labor and Revenue & Taxation, Guam Finance Commission, Guam Economic Development Authority and Guam Visitors Bureau.

Review of 1998

Visitor arrivals to Guam dropped 17.7 percent in 1998, with arrivals from Korea down 83.0 percent. Those from Japan declined 12.4 percent, and even arrivals from the United States, the world's largest and strongest economy, were down 3.0 percent. The average hotel occupancy rate dropped from 82.0 percent in 1997 to 67.0 percent in 1998, its lowest rate since the mid-1980s. While visitor expenditure data are unavailable, hotel occupancy taxes dropped 16.2 percent in 1998 from 1997 levels.

Signs of a large drop in economic activity can be found in almost every area of the American territory's economic landscape. Gross business receipts subject to

Visitor Arrivals by Market

	1990	1991	1992	1993	1994	1995	1996	1997	1998	% Change 1996/97	% Change 1997/98
Numbers (Thousands)											
Japan	637.6	582.3	676.7	549.3	773.3	996.2	1,028.7	1,113.0	975.4	8.2	(12.4)
Korea	7.6	19.0	39.1	68.6	118.5	186.3	194.6	119.1	20.3	(38.8)	(83.0)
United States	51.5	50.3	59.6	61.2	66.8	56.6	31.1	34.2	33.2	10.0	(3.0)
CNMI	30.5	8.6	24.3	26.5	29.6	32.8	31.0	29.1	25.8	(6.3)	(11.3)
Taiwan	2.2	5.5	12.4	23.6	38.8	31.8	20.9	22.5	20.5	7.4	(8.5)
Philippines	4.4	3.0	8.2	7.9	6.8	4.5	4.0	6.8	6.5	72.9	(4.6)
Other	36.0	60.1	56.5	47.0	52.7	53.2	52.3	56.8	55.3	8.5	(2.6)
Total	769.9	728.7	876.7	784.0	1,086.7	1,361.4	1,362.6	1,381.5	1,137.0	1.4	(17.7)
Shares (Percent)											
Japan	82.8	79.9	77.2	70.1	71.2	73.2	75.5	80.6	85.8	—	—
Korea	1.0	2.6	4.5	8.8	10.9	13.7	14.3	8.6	1.8	—	—
United States	6.7	6.9	6.8	7.8	6.2	4.2	2.3	2.5	2.9	—	—
CNMI	4.0	1.2	2.8	3.4	2.7	2.4	2.3	2.1	2.3	—	—
Taiwan	0.3	0.8	1.4	3.0	3.6	2.3	1.5	1.6	1.8	—	—
Philippines	0.6	0.4	0.9	1.0	0.6	0.3	0.3	0.5	0.6	—	—
Other	4.7	8.2	6.4	6.0	4.9	3.9	3.8	4.01	4.9	—	—
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	—	—

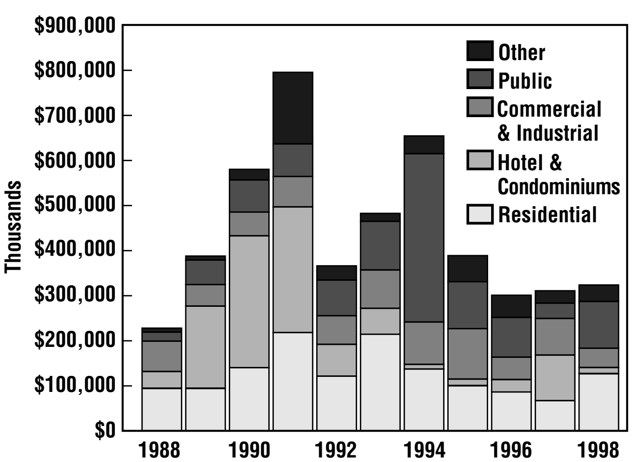
SOURCE: Guam Visitors Bureau

tax, among the most reliable indicators of business and economic activity, dropped 8.0 percent in 1998, as compared to a decline of only 0.6 percent in 1997. (Contributing somewhat to the 8.0 percent decline was the small business gross receipts tax exemption which went into effect January 1, 1998. Businesses with gross revenues of $500,000 or less gained an exemption from the 4.0 percent gross receipt tax for their first $50,000 in gross revenues.) Every major category of business receipts, with the exception of contracting (construction put in place), dropped. Construction activity increased in 1998, mainly as a result of repair work necessitated by the late 1997 storm and other ongoing projects, such as improvements to Tumon, Guam's Waikiki.

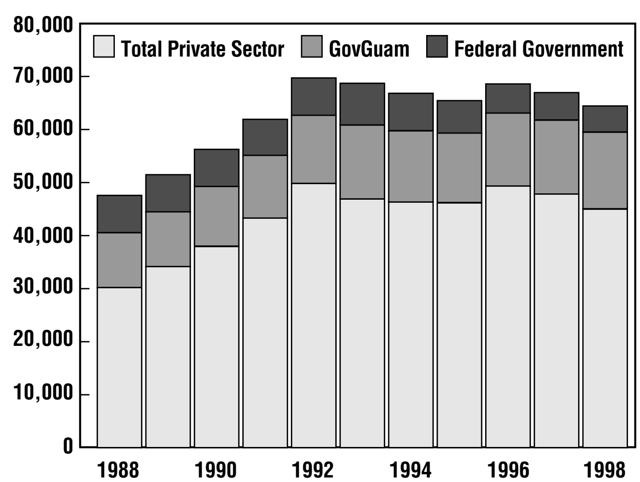
Total deposits declined 9.5 percent in 1998, as compared to a 6.9 percent gain in 1997. Government of Guam (GovGuam) revenues dropped 2.5 percent, based on preliminary data, the same as in 1997. Government spending, on the other hand, rose 2.9 percent in 1998, in part as a result of storm damage repairs.

Total payroll employment dropped 3.8 percent and average private sector weekly earnings dropped 1.8 percent in 1998. In September 1998, the unemployment

Building Permits



Total Payroll Employment



rate moved from 9.2 percent toward double digits, with 16- to 17-year-olds experiencing the highest jobless rate at 39.5 percent, and unemployment among 18- to 19-year-olds at 23.1 percent. (These youth unemployment rates are similar to some other U.S. markets.)

Among the few bright spots in 1998 was a 4.6 percent gain in building permits, following a 3.2 percent rise in 1997. Most of the gain, especially in 1998, was in public permits, largely related to repair work following the typhoon in late 1997.

Based on preliminary data, GIP dropped 1.9 percent in 1998, making this the territory's worst recession of the decade. Guam's per capita GIP dropped from $19,725 in 1997, a small improvement over the previous year, to $18,902 in 1998, its lowest level since 1990. Since peaking in 1992 at $20,823, Guam's per capita GIP has either stagnated or declined, partly because of a weak economy and partly because of still-rapid population growth, which averaged 2.3 percent between 1990 and 1998, more than twice the national average.

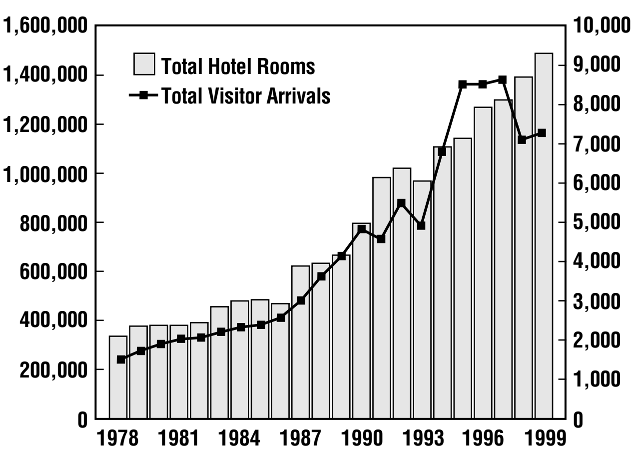
Guam International Airport. *Photo courtesy of GIAA*

Since the 1997 GIP gain was small, however encouraging in the midst of modern industrial East Asia's worst financial and economic crises, any decline in 1998 would have eroded the territory's standard of living.

Review of the First Half of 1999 and Forecast

As a lagging indicator, employment figures for June 1999 revealed what most analysts had expected: a continuing loss of jobs. According to the Guam Department of Labor, the unemployment rate rose from 14.0 percent in March to 15.2 percent in June. Although some of this rise was seasonal (students finishing school and entering the labor force) and some unrelated to the business cycle (immigration from Micronesia and Asia), Guam's economy remained weak in the first half of 1999.

Visitor Arrivals & Hotel Rooms



Guam's GIP is derived from an econometric model developed independently for the Guam Finance Commission some years ago, based on the work of other agencies. As a result, the territory's GIP data are not as current or complete as, for example, data are for either the United States as a whole or for Hawaii. In the absence of a formal, official forecast, business people rely mostly on either internal projections or consultant services. Another method is to calculate a potential change in GIP based on other indicators, such as tourist arrivals, gross business receipts or total tax receipts. However, except for tourist arrivals, no current data on receipts or taxes are available, partly because formal data normally take time to prepare and partly because of the focus on computer upgrades required for Y2K compliance.

Given these limitations, an eclectic approach is needed to forecast what lies ahead for Guam's economy.

With the small but encouraging turnaround in tourist traffic in June (a 5.0 percent increase over the previous year) and in bookings for August and September, total visitor arrivals for the year should rise 2.5 percent. If last quarter bookings follow the third quarter's, total arrivals may rise even more.

The turnaround in overall June arrivals occurred mainly as a result of gains in arrivals from Korea (up 92 percent from June 1998) and Taiwan (up 114 percent from June 1998). A new carrier started regular flights

Warehouse district, Harmon. *Photo: Ed Chrisostomo*

between Korea and Guam in April, with the number of flights scheduled to go up in October from three a week to daily. This new schedule alone will substantially increase arrivals from Korea, following a decrease in Korea's market share to 1.8 percent in 1998 from 8.6 percent in 1997 and 14.3 percent in 1996. The increase in arrivals from Taiwan is the result of direct flights between Taiwan and Guam.

Seat capacity to and from Japan, Guam's main market, will also rise, although slowly. Northwest Airlines announced in late July that it would add weekly seats to and from Tokyo beginning October 1 by switching from DC-10 to Boeing 747 aircraft.[2] Although the increased number of seats is relatively small, the change signals the expectation that the tourist market is returning to normal.

POPULATION, LABOR FORCE, EMPLOYMENT AND WAGES

Life expectancy on Guam averages 72 years, only five years less than that of the U.S. and seven years less than Japan, which has the world's longest life expectancy. Guam's overall literacy rate is an estimated 96 percent, with the same rates reported for men and women. As in Hawaii and the rest of the U.S., women have become an increasingly large part of the work force since the end of World War II. In March 1999, women made up 45.4 percent of total civilian payroll employment, up from 42.4 percent in 1994.

Guam's total population is estimated to have reached 163,373 in 1999, up 2.3 percent from 1998. In fact, the population growth rate averaged 2.3 percent for the entire 1990-98 period, almost the same as in the previous decade, rising from 105,979 in 1980 to 133,152 in 1990. A continuing 2.3 percent annual growth rate will increase Guam's total population to 167,130 next year, nearly doubling the 1970 total of 84,996.

At more than twice the U.S. average annual growth rate, Guam's population growth resembles that of developing economies, where standards of living are lower and modern health and medical services are not as readily available as they are on Guam. If the population continues to grow rapidly while the economy does not generate the mix and number of jobs the increasingly educated labor force expects, per capita income is unlikely to improve.

Labor Force, Employment and Unemployment

In June 1999, the Guam Department of Labor reported a total civilian population age 16 and over of 105,270 and a civilian labor force (those employed or actively seeking work) of 72,700.

As existing data suggest, Guam's per capita income may not rise even when the economy improves if the number of labor force entrants exceeds the number of jobs. Matching the demand for work with the supply of jobs becomes increasingly difficult with a high population growth rate.

If Guam succeeds in attracting international insurance or trust business as a result of its efforts to find other sources of income, the need for skilled labor will become more pronounced. A possible remedy for attracting more skilled labor is to entice former Guam residents now living elsewhere to return. There are no clear statistics for Guam (or for Hawaii) on what portion of former residents return to work at home.

Of the total reported labor force of 72,700 in June 1999, 61,460 were employed and 11,060 were unemployed, for an official jobless rate of 15.2 percent.[3] In September 1997, the beginning of the current economic and employment downturn, the unemployment rate on Guam was reported to be 9.2 percent.

[2] "More Seats From Japan: Northwest Airlines to Add 630 Seats per Week Starting Oct. 1," *Pacific Daily News,* July 28, 1999, p. 1

[3] Guam Department of Labor, "The Unemployment Situation on Guam: June 1999," Release No. 99-07, August 6, 1999.

The rise in official unemployment is not entirely unexpected, given the sharp decline in economic activity since late 1997 and early 1998. And anecdotal evidence suggests that the actual rate of unemployment may be even higher because the severity and length of the downturn may have caused some workers to give up seeking employment altogether.

The true picture of the labor market is also obscured by a lack of current, more detailed data on those who are self-employed or who work at home, and on other segments of the active labor force. Still, one point is clear: Guam's payroll employment changes have not kept up with the changes in population and labor force, not only during this downturn but since the beginning of the decade.

Lack of detailed, inflation-adjusted GIP data to measure the real value of total output makes employment changes the only effective information on the economy's total productive capacity. However, there is potential for error and misinterpretation when using this information as a means to estimate changes in the total productive capacity. As such, interpretations of total productive capacity based on employment changes should be made cautiously.

An important trend with unknown consequences for Guam has been a divergent pattern between total population and total payroll employment growth rates during the 1990s. In 1990-98, population growth rate averaged 2.3 percent annually, while employment growth averaged 1.7 percent. Total payroll employment as a share of total population declined steadily in the 1990-98 period.

When employment reached the decade's peak in 1992, all payroll employees represented 49.9 percent of the total population, close to the national norm. Declining steadily and rather rapidly over the next six years, total payroll employment dropped to 38.3 percent in 1998. That is, in 1992 half the entire population worked and earned wages from payroll employment, while in 1998, less than 40 percent was on payroll employment.

Again, the lack of more comprehensive data on self-employment, part-time employment and others makes it difficult to understand the full meaning of this particular change. However, an increasingly smaller share of the population on payroll employment is a sign that needs to be understood and remedied. If this trend continues, it would be difficult to improve Guam's standard of living with more lower paying jobs, which are the types of jobs the predominantly services economy is expected to generate in the coming years.

Guam's payroll employment changes over the last decade reflect the fundamental changes its economy has experienced as it has become more closely linked to industrial East Asia, particularly Japan.

Like Hawaii, Guam benefited immensely from Japan's bubble economy of the late 1980s and early 1990s, then suffered from the consequences of the prolonged stagnation in Japan after the bubble burst. The territory's economic and employment recovery is now directly linked to economic recovery in Japan.

In 1988-92, the height of Japan's bubble economy, Guam's total payroll employment increased 45.5 percent, from 47,503 to 69,569, yielding an unusually high annual growth rate of 10.0 percent. During the same period, private sector employment rose even more, 65.4 percent, or 13.4 percent annually. GovGuam, the second largest employer following the entire private sector, saw its payroll increase 22.5 percent, or 5.2 percent a year. Federal employment increased only 1.4 percent during the entire period.

As measured by employment, the 1993-95 downturn following the bubble's burst was mild, and the decline in total payroll employment was relatively small. Total payroll employment declined only 4.7 percent (1.2 percent annually), and the turnaround in payroll employment occurred in 1996 when it rose 4.9 percent to 68,440, only 1.6 percent below the record high of 69,569 in 1992.

The most important reason for the slower decline in employment after the bubble burst was the continuing predominant role of Japanese tourists in Guam's economy. As long as the Japanese economy didn't decline and foreign exchange ups and downs remained within reasonable ranges and there was no loss of jobs in Japan, increasing numbers of Japanese tourists visited Guam. With the exception of two small drops in 1991 and 1993, tourist arrivals from Japan increased 74.6 percent in 1990-97, from 637,600 to 1,113,000, yielding an annual growth rate of 8.3 percent. This increase not only kept hotels busy but also contributed to the growth of the whole range of tourist services, from air and ground transport to retail and entertainment outlets. With per capita income in Japan higher than in any other Asian economy (more than double Taiwan's and about four times that of Korea), larger numbers of Japanese tourists caused most of the industry's gains, from hotel construction to gains in payroll employment and government taxes.

In 1997, total employment dropped only 2.4 percent, to 66,800 from 68,440, since most of the adverse economic, natural and accidental events occurred in the last quarter of 1997. Had there been no recession in Japan in 1998, it is likely that Japanese tourists would have continued to travel to Guam close to the 1997 level, thus preventing a large drop in employment in 1998. Instead, as the Japanese economy got into deeper problems in 1998, both as a result of the impact of the financial crisis in the rest of industrial East Asia and Japan's own worsening economic problems, fewer Japanese tourists traveled to Guam.

As dependent as Guam has been on Japanese tourists, especially in 1998 when the Korean market practically disappeared, the large drop in Japanese tourists caused the economy to lose jobs in all segments. Total payroll employment in December 1998 was down to 64,230, the lowest since 1991. As the June 1999 labor statistics showed, Guam's unemployment was still rising. With a modest recovery in tourist arrivals in the second half of the year, the rate of unemployment should stabilize and gradually drop as tourist traffic picks up in the first half of 2000.

Employment By Sector

In 1997-98, a period that will clearly be marked as Guam's worst economic downturn of the century's last decade, payroll employment dropped notably. From December 1997 to December 1998, employment decreased 6.2 percent (4,210 positions). That loss was more than three times the drop of the 1993-95 slide following the bubble's burst.

Total private sector payroll for all of 1997 dropped 2.4 percent. The biggest loss, 15.5 percent, occurred in construction and was due to the near completion of hotels and other major projects. Notable loses also occurred in retailing, transport and utilities. The federal government also lost employees in 1997, with a payroll drop of 6.1 percent.

Gaining employees in 1997 were GovGuam, whose payroll rose only 0.4 percent above the previous year's, manufacturing (a small sector), wholesale trade and finance, insurance and real estate. The latter attracted some new workers during the year because of the perception that real estate prices had reached bottom and would attract both new and current real estate owners to take advantage of low prices. That perception did not match reality in 1998, and the sector's total employment dropped back to its 1995 level.

In 1998, job losses were more severe and widespread. Total private sector payroll shrank 6.2 percent, and the biggest single source of work, services, dropped 9.2 percent. Another large employer, retail trade, had 3.8 fewer employees. The only two exceptions in 1998 were GovGuam and manufacturing. At 14,590 in December 1998, GovGuam's payroll was its highest of the decade, partly due to typhoon Paka recovery efforts.

In June 1999, GovGuam employed 13,410 people, back to the 1995-96 level. With no structural changes in the economy since 1997, the composition of employment has not shown large shifts or changes. GovGuam, once the single largest employer on the island, lost that distinction to private services in June. Given present fiscal conditions, GovGuam may not regain that position soon.

Guam's total payroll employment in June 1999 was 61,850, back down to the 1991 level. This figure was 11.1 percent (7,719) below the 1992 record high and 3.7 percent (2,380) below last December's. These numbers show that economic activity as measured by payroll employment continued to decline through the first half of this year.

Wages

Wage data for 1997-98 and the first half of 1999 offer interesting information. In 1997, average private sector weekly wages rose 2.7 percent, which, as indicated earlier, may have been the result of gains in productivity as employment dropped. In 1998, widespread economic weakness revealed itself not only in payroll employment but in wages as well. Average private sector weekly wages dropped 1.8 percent, from $361.00 in December 1997 to $354.47 in December 1998.

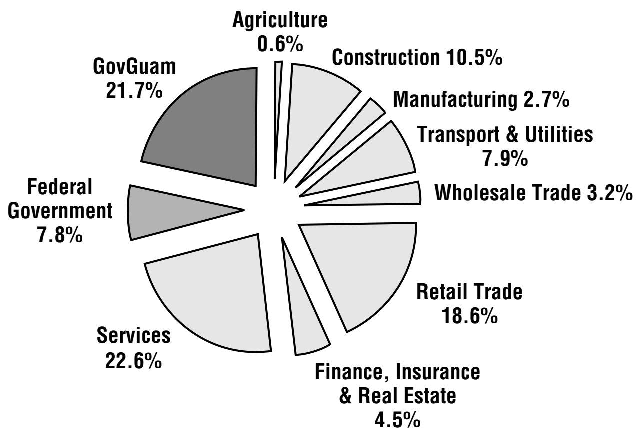
Contributing to the loss was a 10.2 percent drop in

Payroll Employment by Sector

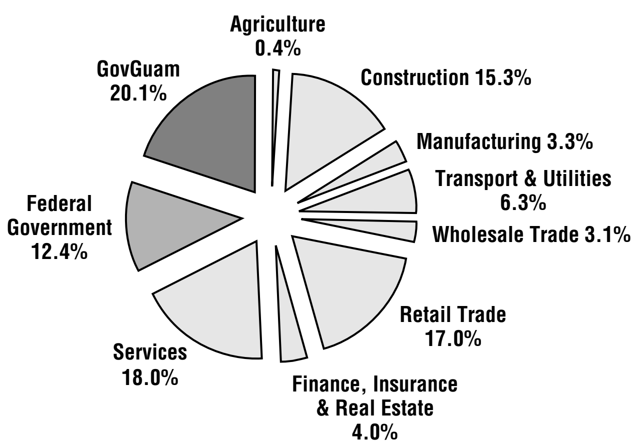
(persons employed, as of December)	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	June 1999	% Change 1996/97	% Change 1997/98
Agriculture	209	227	237	290	420	382	260	290	340	340	290	350	—	(14.7)
Construction	4,616	5,832	8,604	10,471	12,467	9,980	8,760	7,680	7,590	6,410	6,110	6,480	(15.5)	(4.7)
Manufacturing	1,904	1,851	1,871	1,948	2,065	1,771	1,900	1,750	1,690	1,780	1,920	1,700	5.3	7.9
Transport & Utilities	2,635	3,166	3,520	3,700	4,346	4,231	5,200	5,090	6,000	5,750	5,380	4,870	(4.2)	(6.4)
Wholesale Trade	1,544	1,691	1,711	1,851	2,045	2,209	2,080	2,160	2,270	2,370	2,040	1,960	4.4	(13.9)
Retail Trade	7,773	9,177	9,558	10,554	12,060	12,232	12,250	12,550	12,990	12,700	12,220	11,510	(2.2)	(3.8)
Finance, Insurance & Real Estate	2,151	2,134	2,242	2,450	2,722	2,696	2,740	2,720	2,690	2,850	2,730	2,770	5.9	(4.2)
Services	9,196	9,765	10,109	11,867	13,534	13,290	12,990	13,890	15,500	15,520	14,090	13,980	0.1	(9.2)
Total Private Sector	30,028	33,843	37,852	43,131	49,659	46,791	46,180	46,130	49,070	47,720	44,780	43,620	(2.8)	(6.2)
Federal Government	7,100	7,025	6,955	6,726	7,202	7,692	6,960	6,120	5,560	5,220	4,860	4,820	(6.1)	(6.9)
GovGuam	10,375	10,552	11,278	11,893	12,708	13,937	13,430	12,970	13,810	13,860	14,590	13,410	0.4	5.3
Total Public Sector	17,475	17,577	18,233	18,619	19,910	21,629	20,390	19,090	19,370	19,080	19,450	18,230	(1.5)	1.9
Grand Total	47,503	51,420	56,085	61,750	69,569	68,420	66,570	65,220	68,440	66,800	64,230	61,850	(2.4)	(3.8)

SOURCE: Guam Department of Labor

Employment by Sector
June 1999



Employment by Sector
1990

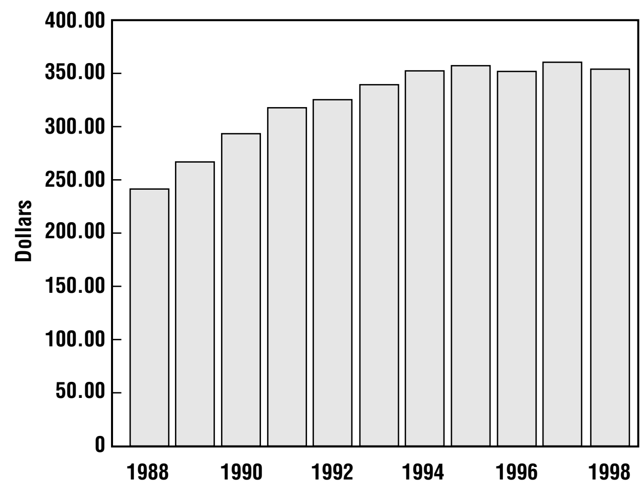


wages in one of Guam's largest employers: services. The drop in the services average weekly wage is understandable because most service workers are employed in areas linked to tourism, which was down notably in 1998.

Another area that experienced a wage drop in 1998 but that gained workers in both 1997 and 1998 was manufacturing. The reason for this drop is less clear given rising employment. One plausible explanation is that some services workers moved to manufacturing and took lower pay rather than remaining unemployed; however, there is no evidence to support this. In June, manufacturing employment was back down to the 1997 level, while manufacturing wages were nearly the same as in December 1998.

The average GovGuam weekly wages remained high, as they have been for some time. At $580.14 in June 1999, GovGuam's average weekly wages were 64.5 percent above that of the private sector. As recently as

Private Sector Average Weekly Earnings



Private Sector Average Weekly Earnings by Sector

(as of December)	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	June 1999	% Change 1996/97	% Change 1997/98
Agriculture	193.16	208.10	183.69	279.40	351.00	305.45	308.46	302.37	308.31	306.49	334.08	313.78	(0.6)	9.0
Construction	318.41	364.08	435.84	422.52	444.45	464.56	463.63	476.82	464.71	514.32	525.70	453.71	10.7	2.2
Manufacturing	267.31	307.37	348.93	343.09	360.59	435.49	451.60	438.83	485.69	473.36	412.70	412.76	(2.5)	(12.8)
Transport & Utilities	335.24	307.11	345.91	379.95	409.50	411.90	427.10	483.02	473.89	464.33	481.09	487.03	(2.0)	3.6
Wholesale Trade	311.94	330.60	333.32	370.19	366.77	430.93	471.68	442.17	462.09	462.11	495.93	479.13	0.0	7.3
Retail Trade	198.92	220.92	229.50	252.44	263.72	283.48	294.06	292.61	278.39	274.65	281.61	264.40	(1.3)	2.5
Finance, Insurance & Real Estate	246.46	284.75	305.34	321.52	335.36	338.99	372.90	370.86	407.04	414.64	427.26	464.39	1.9	3.0
Services	204.01	216.58	221.00	253.35	263.98	278.81	289.98	293.36	289.14	309.14	277.52	297.92	6.9	(10.2)
Total Private Sector	241.63	267.74	294.39	317.87	325.52	339.99	352.34	356.86	351.38	361.00	354.47	352.59	2.7	(1.8)

SOURCE: Guam Department of Labor

1996, that ratio was 1.72. Whether the drop in difference between GovGuam and private sector average weekly wages is permanent cannot be discerned from so short a period. However, if the trend continues, it may be a signal that GovGuam is no longer the employer of choice.

Market reality and the financial outlook are such that GovGuam may not have the resources to maintain its current payroll and wage levels. One of the biggest challenges faced by GovGuam is to restructure the territory's government in a manner more consistent with current market realities.

ECONOMY BY SECTOR AND MAJOR AREA

Government

Government, federal and GovGuam combined, has been a major employer on Guam for decades, and recently has supplied about one-third of all civilian payroll jobs in the territory. It accounted for 29.5 percent of all Guam civilian employment in June 1999, down only slightly from 30.3 percent in December 1998. As usual, GovGuam led the way with 21.7 percent of all civilian payroll employment in the territory. In fact, GovGuam has compensated for most of the losses in federal jobs since the beginning of the decade.

As recently as 1988, federal payrolls on Guam accounted for 14.9 percent and GovGuam was at 21.8 percent of total payroll employment. In June 1999, the federal payroll was down to 7.8 percent, while GovGuam kept its share almost exactly the same (21.7 percent versus 21.8 percent in 1998.)

In numbers, GovGuam's payroll in June 1999 was 13,410, up from 10,375 in 1988. This sizable payroll is due in part to its role in providing basic utilities, such as power and telephone services. Discussions of privatization and commitment to efficiency continue, but little has occurred in the last few years. Expected and unexpected economic, financial and natural disasters have always been among the causes for maintaining a large labor force. Domestic political considerations and partisan politics have also contributed to delaying some of the fundamental changes GovGuam has proposed to undertake for years. Current financial difficulties caused by the economic downturn make any GovGuam reorganization more difficult.

In June 1999, the federal payroll was 4,820, down from 7,100 in 1998, a result of reducing the number of both military and civilian personnel. As important as the military is to Guam's economy, especially in providing a domestic economic cushion in times of regional crises, it is now only a small part of the economy, and is likely to remain that way unless unexpected tensions arise in the region that cause redeployment of forces.

Currently, the Navy and the Air Force maintain bases with about 7,000 people in uniform, the majority being naval personnel. Including dependents, the number may rise to 13,000-14,000, and there are now fewer than 5,000 civilian employees and about 2,000 retirees. Average civilian pay by the military is more than double that in the civilian economy.

Long after military downsizing is completed, Guam will remain a strategic post in the Western Pacific. As much as the end of the Cold War has changed strategic calculations in the region, the national interest will continue to require access to ports in the region, and the American military presence on Guam is anticipated to continue. In spite of its reduced economic role from only a few years ago, the military remains a vital stabilizing economic factor for Guam.

GovGuam

Guam's general fund, the sum of operating and other spending and revenues, has been in deficit most of the decade. The 1997-98 economic downturn has exacerbated Guam's financial difficulty. According to preliminary data, the general fund balance dropped to $73.9 million in 1997, the lowest level since the decade's record high of $180.2 million in 1994. In 1998, the fund balance rose to an estimated $94.4 million and is projected at $130.5 million in 1999. In July 1999, the Executive Branch asked the Legislature to authorize more spending in 2000.

Deficits have resulted from a steady rise in government spending at the same time that employment and the tax bases have not kept up with spending demands. Also, unlike state governments elsewhere in the country, GovGuam has kept a high payroll count and has occasionally borrowed money to meet operational expenses, especially in the midst of economic downturns.

Among the most important challenges facing GovGuam in the twenty-first century is the need for reform of the government's role. One of the most important and ambitious recommendations has been a proposed privatization (divestiture) program that has been under discussion for the past several years. There has been resistance to changing to basic arrangements in Guam's economy, which is understandable given Guam's history as a small island on which very different cultures and influences have come together. At the same time, GovGuam feels the pressure to change.

Also, Guam is now a regional destination whose economic and financial fortunes are intricately linked to those of industrial East Asia. Economic and financial gains in this increasingly interconnected region require Guam to adopt programs and policies that will bring it closer to the rest of the region. This may mean some level of compromise in many areas, including the relinquishing of power and control over certain services and basic public utilities.

Complicating the reform process are political challenges that mirror those on the national scene. For the first time, the Guam Legislature's veto-proof majority is from one party while the governor, whose election has been contested all the way to the U.S. Supreme Court, is from another party. Political debate has become more tense and less compromising. Where all this will lead is uncertain, but certain is the fact that political divisions, which enliven democracy, are more likely to continue than to disappear.

Gross Business and Trade Receipts

Gross business receipts subject to tax is both a broad measure of business activity and one of the most reliable signals of business and economic change. Like other business and economic indicators, gross business receipts were sluggish in 1997, with a scant 0.6 percent increase, and dropped notably in 1998, by 8.0 percent. For technical and logistical reasons, gross business receipt data for 1999 were not available for this report, but many other indicators suggest that gross business receipts in the first half of 1999 were most likely as weak as they were in 1998.

Changes in wholesale sales in 1997 and 1998 were identical to total gross business receipts, while retail sales differed only slightly, dropping 0.4 percent in 1997 and 7.5 percent in 1998. Rental activity, which had risen 3.5 percent in 1997, dropped 9.2 percent in 1998. All other gross business receipts together rose 17.0 percent in 1997, but dropped 14.4 percent in 1998.

Services sales, which had increased a healthy 5.0 percent in 1997, also dropped in 1998, by 9.5 percent. Construction put in place dropped 18.8 percent in 1997, but gained 3.0 percent in 1998, mainly as a result of repair work required in the aftermath of typhoon Paka.

Following the general pattern of decline in 1998, both receipts and payroll employment dropped in all areas of the trade and services sectors.

The 1998 losses in retailing and services, in both sales and jobs, were direct results of the drop in Guam's tourist traffic from Japan. New operators, who entered Guam at a time when tourist traffic appeared to be rising, have suffered most from the 1997-98 downturn. Now, as retailers and other service businesses sort out their respective markets and reestablish their niches, retail sales will likely be weak for some time, especially until Japanese tourist traffic returns to its 1997 and higher level and Korean traffic returns to its 1996 level.

Construction

As measured by building permits, the most reliable predictor of future building activity and investment in fixed assets, Guam's building industry has stabilized at about the $300-million level. Building permits were the only major indicator on Guam that rose in both 1997 and 1998, although the gains were small. At $321.9 million in 1998, building permits were up 4.6 percent from 1997 which, in turn, were up 3.2 percent from 1996. Some of the gains in both 1997 and 1998 can be attributed to typhoon Paka. Current permits figures were unavailable for this report, but it is likely that the first half of 1999 would be similar to the 1998 level.

Now that Guam is a mature destination, its building industry reflects that change. With most major projects, such as the airport terminal and new hotels, completed, the building industry is now limited to maintenance of the existing infrastructure. As such, it may not see the type of growth in the next few years that it experienced in the late 1980s and early 1990s.

Shifts and changes in types of permits, although notable, are less critical to the industry's overall health and future contribution to Guam's economy. Residential permits, for example, were up strongly in 1998 from 1997, but fell short of the level of a few years earlier. Hotel and condominium permits were down significantly in 1998 from 1997, for understandable reasons. Public permits were up markedly in 1998, mostly because of the need to repair damages caused by Paka and the resurfacing of Guam's main roads and other highway enhancement work.

Bank of Hawaii Agana Branch *Photo: Tami Carlson Busch*

Building Permits on Guam

(thousand $)	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	% Change 1996/97	% Change 1997/98
Residential	95,411	95,519	140,813	217,457	121,585	211,856	135,492	100,004	86,171	66,365	125,207	(23.0)	88.7
Hotels & Condominiums	36,971	180,936	292,866	279,090	69,572	56,568	8,956	13,189	25,678	99,527	12,695	287.6	(87.2)
Commercial & Industrial	66,607	46,988	51,070	67,243	62,810	87,684	93,232	110,659	50,079	81,291	41,951	62.3	(48.4)
Public	20,182	54,450	70,589	71,294	78,950	107,910	376,191	105,196	86,675	33,196	104,866	(61.7)	215.9
Other	8,362	10,468	25,247	159,132	32,420	16,888	37,704	58,121	49,548	27,454	37,169	(44.6)	35.4
Total	227,533	388,361	580,585	794,216	365,337	480,906	651,575	387,169	298,151	307,833	321,888	3.2	4.6

SOURCE: Department of Commerce

As Guam emerges from the 1997-98 downturn, its building industry will most likely remain at current levels of permits and payroll employment, averaging a little over 6,000 in 1997-99. In 1992, the peak of Guam's business cycle of the decade, construction employed 12,467. When the next phase of expansion of Guam's tourist plant begins in a few years, the building industry, as others, will certainly benefit.

Tourism

Current Situation

Guam's tourism industry, its most important source of income, is in the midst of a difficult shift, first from rapid growth, then to stability and more recently to rapid decline.

Guam's main market, Japan, is itself in the midst of its own most difficult post-World War II transition. It is moving from an era of mechanical technology, with a virtually closed (but highly efficient and innovative) economy and homogenous culture, to the digital age, with an open and competitive market and perhaps permanently altered society. That this transition is occurring during industrial East Asia's worst financial crisis has added to financial and economic complications both at home and abroad.

Japanese consumers have tightened their belts over the last couple of years. The main reason for this level of individual austerity is that, for the first time in Post-War Japan, the average Japanese consumer is doubtful that the Japanese economy can make the transition fast enough.

The impact of Japanese economic stagnation and cautious consumer spending has been felt just as much in Guam as in Japan. Heavily dependent on Japanese tourists since the inception of the industry in the 1970s, Guam experienced a sharp drop in Japanese tourism in 1998 that caused the American territory's worst economic decline of the decade.

Despite recent efforts to expand the tourist market, Guam remains dependent on Japanese tourists. In 1990, when a record 769,900 tourists visited Guam, 82.8 percent were from Japan. When the total count reached another record, 1,381,500, in 1997, 80.6 percent were from Japan. In the intervening period, Japanese arrivals dropped as a share of the total, but never to less than 70.1 percent (in 1993), when tourism from Korea was on the rise, both as a share of the total and in numbers. As Korean tourists reached their own record of 194,600 visitors (14.3 percent of the total market) in 1996, Japanese travelers once again accounted for 75.5 percent of the total market.

The decrease of Korean tourists beginning in late 1997 naturally resulted in Japanese arrivals representing a larger share of the total count. In 1998, the Guam tourist industry was counting on Japanese tourists to make up for the loss of the Korean market. In early 1998, when Japanese tourism began to drop noticeably from year-earlier levels, the industry's anticipated mild downturn turned into a major decline. From its peak in 1997, tourist traffic dropped 17.7 percent in 1998. More importantly, Japanese tourism declined 12.4 percent in 1998. Hotel room rates, occupancy rates and occupancy taxes dropped considerably in 1998, and the general decline continued through the first half of 1999.

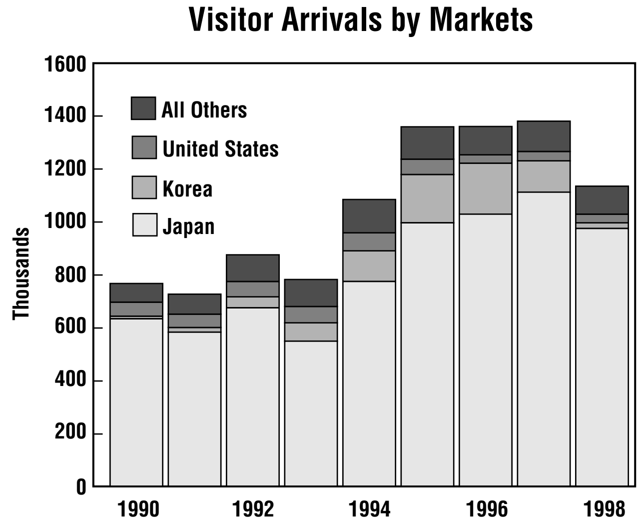
In June 1999, the total arrival count was up 5.0 percent from a year earlier for the first time since October 1997, but the pivotal Japanese tourist count was still down 1.0 percent from June 1998. The June 1999 gain was mainly the result of increases from Taiwan and Korea, which are small segments of the total market. The January-June 1999 total was 7.0 percent lower than for the same period in 1998, and 22.2 percent below the 1997 level.

In June 1999, the weighted average occupancy rate for Guam hotels, according to the Guam Hotel & Restaurant Associations (GHRA), was 65.0 percent, up from 63.0 percent in June 1998, but considerably lower than the 81.0 percent in June 1997. The average hotel room rate in June 1999 was $93, down from $114 in June 1998, and down even more from $122 in June 1997. In fact, GHRA monthly figures show that the $93 room rate in June 1999 was only the second two-digit rate since February 1995, when the average rate was reported to be $98.

Data for one month or two rarely signal a turning point, but other indications, such as advance bookings, suggest that a turnaround began some time this summer. If regular flights to and from Korea become daily flights beginning October 1, 1999, as media reports suggest, the Korean market may soon be back to its better days. Charter flights to and from Taiwan becoming regular flights will help even more. However, without a noticeable turnaround in tourists from Japan, Guam's tourism industry cannot get back to the healthy revenue levels it experienced in 1997.

An encouraging mid-year 1999 signal from Japan was advance bookings for the second half of 1999, according to informal information. Not only did bookings for August and September look more favorable, especially compared to the same period last year, a small share (just under 4.0 percent) of a major operator's bookings were for visitors who would stay on Guam for 9-10 days. From what we know, this longer-than-average stay will be a first and, if sustained, will be one of the most significant changes in the Japanese market.

The typical Japanese tourist has stayed about 3-4 days. With stays as long as 9-10 days, the market may be opening to a new type of visitor. Informal information suggests that long-staying Japanese visitors are those who want to enjoy longer vacations and relax in the tropical paradise so near home. With shifts in this sort of preference, the task of identifying those segments of outbound Japanese travelers inclined to visit Guam becomes easier. Although Japanese tourists may travel to markets in Asia and elsewhere purely for lower prices, Guam's attraction remains the same: a tropical paradise under the U.S. flag that is near home.



Hotel room inventory has reached a record high: 9,300 rooms in June 1999, including units being readied for occupancy. Rooms by property that were ready for occupancy numbered 8,600. Room count reported by GHRA, presumably of member properties, was 7,622. No matter which figure is used as a benchmark, hotel inventory is much larger than two years ago. The new Outrigger Guam Resort, managed by Hawaii-based Outrigger Hotels and Resorts, alone added 600 rooms when it opened in June 1999.

Achieving occupancy rates in the high 70 and 80 percents, which will be necessary to revitalize the industry and move the economy forward, will require going back to the 1.3-1.5 million tourist count. When that will happen is obviously open to question. However, it will help to identify and reach those segments of tourists, especially from Japan, who are fond of tropical climate, do not want to travel long distances and want to pay reasonable prices for a high-quality infrastructure.

View from Two Lovers Point. *Photo: Tami Carlson Busch*

Tourism: Visitor Spending and Retail Potential

The Guam Visitors Bureau (GVB) has surveyed tourists exiting Guam since December 1991, with initial surveys collecting information only from Japanese tourists. Surveying became a regular, quarterly undertaking in 1993, and was extended to tourists from other markets, such as the United States, Korea, Taiwan and Hong Kong. These surveys provide timely information on visitor satisfaction, spending and "wish lists" of attractions and attributes visitors would like to see.

Information the surveys generate can help provide a better understanding of tourism's economic impact on areas other than hotels and transportation services. No area of economic activity is indirectly impacted more than retail sales, which in tourist-dominated markets are closely connected to visitor volume and the money that visitors report they spend.

A large majority of Japanese tourists travel to Guam with a fixed budget in yen, divided between prepaid (transportation and lodging) and discretionary (local) expenses. It follows, then, that the more they spend on transportation and lodging, the less they have for discretionary spending. Exchange rates play a critical role in determining the spending decisions of nearly all tourists to Guam, the small number of Americans excepted.

Based on a March 1999 survey, the budget of a typical Japanese tourist to Guam was $623 for prepaid expenses (mainly air fares and hotel) and $531 for local spending.[4] The total budget of $1,154 was down slightly from December last year, according to GVB, and practically unchanged from December 1996, when the average budget was $1,142, of which $662 went to prepaid expenses and $480 to discretionary expenses. However, the March 1999 total budget was down 30.8 percent from the average of $1,667 in February 1996. Of that budget, $827 went to prepaid expenses and $840 to local spending on Guam.

These figures suggest that the relatively higher spending by Japanese tourists on Guam ended in February 1996, and spending in early 1999 was no different from late 1996. Assuming exit surveys are accurate and the March 1999 Japanese tourist spending was the same as in December 1996, the current economic stagnation in Japan has clearly had no impact on the spending pattern of Guam's Japanese tourists. Rather, the entire impact of the Japanese tourist segment on Guam's tourist market resulted from the drop in the number of Japanese tourists.

This may indeed be an important finding, especially in regard to retail sales potential on Guam. The average Japanese tourist's total budget for an average 3.2-day Guam stay includes $531 for local spending (46% of the total $1,150 budget). At this spending level, the total retail potential of all Japanese tourists, roughly one million in 1999, would be $531 million, less than one-third of total retail sales.

Exit surveys showed local spending by tourists from Taiwan, Korea and Hong Kong to be near that of the average Japanese tourist. Since non-Japanese tourists still make up a relatively small portion of the total market, their impact on secondary sectors, such as retail sales, will remain proportionately smaller in the near future.

Also, most tourists from Japan and other East Asian markets participate in the package tours that major wholesalers sell for large groups. Evidence clearly 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 (FITs) may have. Guam's tourist industry may want to look into identifying and pursuing these longer-staying and higher-spending tourists. Another rapidly growing market segment is families traveling with children. Providers prepared to accommodate tourists with children will be better able to reach that market.

The task of marketing Guam in Japan as a U.S. destination is made easier by the island's attractions and known attributes. What may be less easy is convincing travelers from Japan that Guam offers both price and quality advantages in a market so conveniently near home.

Guam Tourism

	Total Visitor Arrivals	Hotel Rooms	Hotel Occupancy Taxes Collected	Hotel Occupancy Rate
			($ Thousands)	(Percent)
1978	238,818	2,080	990.0	—
1979	272,681	2,336	1,354.0	—
1980	300,767	2,345	1,508.0	—
1981	321,766	2,345	1,898.0	—
1982	326,389	2,416	2,357.0	—
1983	350,540	2,819	3,028.0	—
1984	368,665	2,964	3,501.5	—
1985	378,146	2,991	4,051.5	—
1986	407,070	2,905	4,533.9	87.0
1987	477,491	3,864	5,760.2	86.0
1988	576,170	3,939	8,825.9	84.0
1989	658,883	4,133	11,577.9	90.0
1990	769,876	4,955	14,600.5	89.0
1991	728,722	6,122	15,782.9	79.0
1992	876,742	6,362	18,252.6	71.0
1993	784,018	6,038	14,570.6	58.0
1994	1,086,720	6,919	13,695.7	71.0
1995	1,361,830	7,140	20,981.6	87.0
1996	1,362,600	7,928	26,175.3	85.0
1997	1,381,513	8,119	28,182.4	82.0
1998	1,137,026	8,705	23,608.1	67.0
1999	1,165,500	9,309	23,962.2	69.0

NOTE: Visitor arrivals, occupancy tax collections and occupancy rate for 1999 are Bank of Hawaii projections. The hotel room inventory figure for 1999 is from industry sources. It may include properties not yet ready for occupancy.

SOURCE: Guam Visitors Bureau

[4] Guam Visitors Bureau, "Quarterly Exit Survey, March 1999: Japanese Visitors to Guam," June 1, 1999, p. 5-7.

A REGIONAL PERSPECTIVE

The Asian Crisis in Retrospect

The Asian crisis, the rapid fall of financial and asset markets in 1997-98, revealed two points:

- When markets get ahead of the underlying social institutions, they can get both in trouble.
- The world has become a global village with decisions made in New York and Tokyo having immediate impacts as far away as Guam.

The crisis started in Thailand in the fall of 1997, moved to Hong Kong and Indonesia, then landed in Korea, causing severe damage along the way. Others affected were Malaysia and the Philippines. Japan and the People's Republic of China showed signs of economic distress later, but had a greater impact on the region and the world. Only Taiwan remained relatively unaffected, mainly because of its openness and efficiency.

Casualties of the crisis included banks, other businesses, workers, governments, traders and a range of both domestic and foreign concerns doing business in these markets. The damage in Thailand, Indonesia and Korea was so extensive that the International Monetary Fund (IMF) had to inject $120 billion of emergency funds. Ironically, Korea, which became a member of the industrial club the Organization for Economic Development and Cooperation (OECD) only shortly before the crisis, was now asking for a rescue customarily reserved for ailing Third World economies.

While the East Asian economic crisis worsened, U.S. stock markets kept surging, although there were significant drops in late 1998, with the Dow Jones Industrial average falling 20 percent between July and October—the threshold for the bear market that signifies uncertainty about the future of business and corporate earnings. However, with the IMF containment of the Brazilian crisis by the end of the year and injection of more funds into Russia after its financial system collapsed, uncertainty about the U.S.'s ability to neutralize the economic impact of Asia's crisis diminished, and the stock market took off once again.

Once Asia gets back on the track to growth, it will contribute to prosperity in America and the Pacific. Economic recovery in Asia may be stronger and of longer duration if institutions are rebuilt to support open and competitive markets.

Excess Capacity

Asia's excess capacity now stands at unequaled levels. In the second half of 1998, it was reported optimistically at record rates: 63 percent in Indonesia, 61 percent in Korea, 41 percent in Thailand and 37 percent in Malaysia.[5] Eliminating this excess capacity, which would require time and markets, is also reflected in notable price drops in Asia last year. From January to August 1998, steel prices dropped 18 percent, petrochemicals 22 percent, hotels 35 percent, cars 25 percent, electronics 35 percent, retail 40-70 percent, airlines 40-50 percent, cement 20 percent, shipping 20 percent and property 30-40 percent.[6] Consequently, most of industrial East Asia now suffers from deflation.

The crisis has been prolonged because there was no ready market for excess Asian goods in Asia itself or elsewhere other than in the United States. Cross-border linkages of the Asian crisis are poorly understood, as they are both complicated and too recent. Intra-Asian trade grew rapidly in the 1990s and became critical to Japan, Korea, Indonesia, Malaysia, Philippines, Thailand, China, Taiwan, Hong Kong, Australia and New Zealand. About 40-50 percent of trade in East Asia is within the region.[7] Now that China has decelerated and Japan is stagnant, the combined impact of the dramatic fall in intra-Asian trade and the Japanese stagnation has made the regional slump deeper and the recovery much more difficult.

The Reason Behind the Excess

On the surface, the Asian crisis was a simple decline in market values of both real and financial assets, followed by sharp currency devaluation. However, a more complete picture begins with the fact that these markets focused on building productive capacity without due regard to demand. (In the late 1980s, Hawaii and other Western Pacific markets saw a surge in speculative demand for building that created excess capacity yet to be absorbed fully.)

There has also been what Federal Reserve Chairman Alan Greenspan labeled "irrational exuberance," referring to a "bidding war" among stock buyers based on speculation of better future performance, which contributed to a market rise. Because price stability makes investing in financial assets relatively more predictable, stock markets generally do better in stable price environments. Although irrational exuberance usually has a tangential impact, and no one knows how to measure it accurately, speculation on what the future holds is a legitimate part of any market and most human endeavors.

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[5] *Far Eastern Economic Review,* "Asian Indigestion," October 1, 1998, p. 12.
[6] Ibid.
[7] *Far Eastern Economic Review,* June 18, 1998, p. 12.

Open Institutions and Prosperity

Prior to the crisis, Asian markets followed Western economic theory with more faith than some Western markets did. Still, viewing Asian markets in the same way as U.S. markets would miss one critical difference: U.S. markets reflect institutions historically more open, and that have become even more so since the Great Depression, the Western equivalent of the current Asian economic crisis. Looking deeper into the roots of both crises would lead to a better understanding of why markets behave the way they do.

Markets reflect social, political and economic institutions as much as they reflect market signals (price and cost) and mechanisms. Investing in Taiwan, for example, means also investing in the institutions that make up the social, political and economic structure of Taiwan as an economy, a market and a people. Generally, these institutions are of two types: those arising from customs, traditions and habits, and those arising from secular principles by which people voluntarily agree to live and conduct their business. A distinguishing characteristic of the latter is the recognition of individual liberty and freedom of choice and expression, the building blocks of an individualistic culture and an open market economy.

In Asia, the American notion of constitutional liberalism (respect for individual liberty within the rule of law) is a rather new phenomenon. Most Asian economies operate under customary institutions rather than constitutional ones. Doing business within customary institutions carries the risk that personalities, rather than principles, may shape outcomes. Thus business deals (legally binding contracts) would involve more than meeting technical and financial criteria as determined by market rules. This is the fundamental difference between Asian and Western business practices.

The Place of Social Values

American economic theory holds certain values (beliefs) constant. It postulates that, no matter what one's private beliefs, more of an economic good is better than less, and that market agents engage in transactions based on both self-interest and mutual gain. Recognizing that these postulates may encourage greed as a natural human tendency that leads to excess, economic theory requires rules and laws with universal applications in order for the value system to be held constant. The practical benefit of this system is that people of different beliefs can trade with each other as long as there are mutually beneficial gains and agreed-upon rules of conduct.

However, since economic rules essentially have a social basis, they can be manipulated. One way to minimize the potential risk of manipulation is to have written and enforceable laws governing economic and financial transactions. In most Asian markets, the underlying institutions that support open and fair markets are being developed. The People's Republic of China, for instance, plans to rebuild its banking system based on law and to privatize hundreds of thousands of state-owned enterprises.

The best example of market behavior causing financial and economic ills in much the same way as it did in Asia was the 1930s U.S. Depression, preceded by the 1929 stock market crash. The most notable achievement of President Franklin D. Roosevelt's New Deal was the restoration of American capitalism within the rule of law. The institutional structure that eventually emerged still guides the economy today.

Once people's faith in the market was restored, economic recovery began and lasted for decades. Asia can rebuild its institutional foundations so people everywhere have faith in the market, but the rules must be clear and enforceable. Further, conditions the IMF has imposed on aid recipients include reforms that constitute the foundations for the institutional rebuilding Asia needs to rejoin global markets.

The Pivotal Role of Japan in East Asia

The first time the term "the Asian Miracle" appeared in popular literature was in connection to the unequaled economic success Japan achieved after World War II. The most distinguishing aspect of Japan's economic success was taking existing technology and adapting it to different markets worldwide.

The Japanese management style, now known as total quality management (TQM), set world standards for labor market stability, product predictability and employee productivity. Japan also invented what later became precision manufacturing, that is, testing individual pieces of complicated machines for defects before mass production. Japanese car-makers integrated ergonomic design into car-making in the 1970s and set the standards for producing cars recognized worldwide for comfort and reliability.

These pace-setting industrial successes, coupled with the Asian traditions of saving and investment, produced one of the most prosperous, productive and innovative economies in recent history.

By the 1980s, Japan's household and trade surpluses were so large that Japan offered funds to deficit-driven economies such as the United States. At the height of the Cold War in the mid-1980s, the U.S. borrowed as much as $250-300 billion a year to fund President Reagan's defense build-up. Japanese savings alone practically funded this build-up and, in the process, caused large trade deficits with Japan. This led to a 50 percent drop in the value of the dollar against the yen from early 1985 to late 1987, and to the prices of American goods being discounted by half.

This cycle of events resulted in what is now known as Japan's "bubble" economy of the late 1980s: investment in U.S. real and financial assets beyond what normal market and financial rules allow.

With the collapse of the Cold War, American industry quickly turned its attention to the civilian market. Thus began the 1990s boom that has taken the United States to the digital age and U.S. stock markets to new heights in each of the last four years. As the United States entered the digital age full speed, Japan remained on the same track it had been on for 50 years: perfection in mechanical technology.

When digital technology began to penetrate every aspect of both work and home life, the Japanese economy was unprepared. This slow transition to digital technology has become one of Japan's biggest obstacles to joining the global economy of the twenty-first century.

Two factors make the transition to digital technology in Japan difficult. The first is a generation gap. Most Japanese government and business leaders are from the older generation that seeks consensus for moving forward. Younger Japanese managers are more in tune with the rest of the world, which is rapidly moving toward economic integration, especially through open markets. It was the breakdown of the traditional Japanese consensus that stalled efforts to manage the financial crisis resulting from the bubble's burst.

The second factor is a Japanese demographic change: nearly a quarter of the Japanese population is over the age of 60. This group not only includes the majority of decision-making leaders, it also controls most of the wealth in Japan. Their consent is required for any major change that may have national implications.

The transition to the digital age has been made immensely more difficult by the Asian financial crisis, which has set industrial East Asia back quite a few years.

With most of the financial crisis in Asia contained, Japan is set to move onto the next track of mastering digital technology. Once that happens, Japan will be back on the world stage as the globe's legitimate third economic pillar, following North America and the European Union. The contributions China and the rest of East Asia will make to the consolidation of the Asia-Pacific market in the twenty-first century will benefit every market in the area, including the isolated and geographically scattered Pacific Island economies.

The Irreversible Global Village Path

The world's move toward becoming an even closer global village is irreversible. The question is whether the various markets (in reality, the various peoples) can move toward some universal rules of market conduct. The answer must be a definitive "yes," because the alternative is chaos and economic decline. As we work to develop a new universal economic theory for the global village, even closer links between Asian-Pacific and American markets must be forged. One way to do that is to help build more institutions led by commonly agreed-upon principles. Once the rules become relatively uniform in all markets, they will reward success and failure similarly. As constitutional liberalism and open markets find acceptance in Asia, they will pave the way to the more harmonious market that the global village needs to function.

Umatac Bay, Southern Guam. *Photo: Guam Visitors Bureau*

PACIFIC ISLANDS FACT SHEET

US DOLLAR-DENOMINATED ECONOMIES

	Population	Land Area (square miles)	Notable Geographic Characteristics	Capital/ Distance from (miles)	Currency	Major Languages
GUAM	163,373	212	One island. Major US naval base and regional trans-shipment center at Apra Harbor. In hurricane path.	Agana/ Honolulu 3,800 Tokyo 1,600	US dollar	English, Chamorro, also Tagalog, Japanese
COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS (CNMI)	79,429	177	Saipan the largest island, Tinian and Rota next, 14 others in the chain. 125 miles north of Guam. US territory closest to Asia.	Garapan, Saipan/ Honolulu 3,700 Tokyo 1,500	US dollar	English, Chamorro, Carolinian
FEDERATED STATES OF MICRONESIA (FSM)	105,506	270	607 islands and atolls, Pohnpei 130 square miles, other major islands Kosrae, Yap and Chuuk. The 4 FSM states span 1,700 miles from east to west.	Kolonia, Pohnpei/ Honolulu 3,100 Hong Kong 3,100	US dollar	English, 8 major local languages
REPUBLIC OF PALAU	18,146	170	343 islands, the main group encircled by a hundred mile reef. Babeldaob 136 square miles. 8 other inhabited islands. Rock Islands.	Koror/ Honolulu 4,600 Tokyo 2,000 Hong Kong 1,700	US dollar	English, Palauan, Sonsorolese-Tobian
REPUBLIC OF THE MARSHALL ISLANDS (RMI)	62,924	70	34 coral islands, 870 reefs, highest elevation 33 feet above sea level, average elevation 7 feet.	Majuro/ Honolulu 2,300 Guam 1,800	US dollar	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	488,278	975				

NON-DOLLAR ECONOMIES

	Population	Land Area (square miles)	Notable Geographic Characteristics	Capital/ Distance from (miles)	Currency	Major Languages
FRENCH POLYNESIA	226,000	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	203,672	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)	4,150,000	179,490	Eastern half of the island of New Guinea. Largest by far Pacific island-state land mass. Other main islands New Ireland, New Britain and Bougainville.	Port Moresby/ Honolulu 4,300 Cape York, Australia 300 Tokyo 3,100 Hong Kong 3,100	Kina	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	170,000	1,158	4 inhabited islands, 5 uninhabited. Highest point 6,100 feet, Mt. Silisili on Savai‘i. In hurricane path.	Apia/ Honolulu 2,600 Suva 700 Brisbane 2,500	Tala	English, Samoan

GDP (US$ million current)	Per Capita GDP (US$)	Major Income Sources	Political Status	Major Sources of External Investment	Major Sources of Future Income
3,065.8	18,766	Tourism, military, trade and services	US territory since 1898. Guam Organic Act of 1950 conferred U.S. citizenship. Some push for commonwealth status.	US, Japan, Korea	Tourism, services
664.6	8,367	Tourism, garment manufacturing, trade and services	After WWI under Japanese mandate. In 1947 became part of US Trust Territory of the Pacific. Since 1978 a Commonwealth of the US. Islanders are US citizens.	Japan, Korea, Hong Kong, US	Tourism, services
215.8	2,045	US payments, government services, fisheries, tourism	After WWI under Japanese mandate. In 1947 became part of US Trust Territory. Became sovereign in 1979. In compact of free association with US as of 1986.	US, Japan	Compact status uncertain as of 2001. Fisheries development, tourism
159.8	8,806	US Compact payments, tourism	After WWI under Japanese mandate. In 1947 became part of US Trust Territory. Became sovereign in 1994, in compact of free association as of 1994. Compact ends 2044.	Japan, US	Compact money, tourism
102.1	1,623	US payments, Kwajalein Missile Range, government services, copra, fisheries	After WWI under Japanese mandate. In 1947 became part of US Trust Territory. Became sovereign in 1979. In compact of free association since 1986.	US, Japan	US military. Compact status uncertain as of 2001. Fisheries.
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
4,461.1	9,136				
4,106.8	18,172	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
3,373.0	16,561	Payments from Metropolitan France, nickel, agriculture and ranching, tourism, aquaculture	1853 became a French possession. Overseas territory of France since 1946. Relation to France under review.	Metropolitan France	French transfers, nickel, tourism, agriculture, aquaculture
25.0	1,689	French transfer payments, trochus shells	French controlled from the 19th century. Overseas territory of France since 1961.	Metropolitan France	French transfers
4,957.0	1,194	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
50.9	2,596	Government aid, services, tourism	Self-governing since 1965 in association with New Zealand. Cook Islanders are citizens of both Cook Islands and New Zealand.	New Zealand	Tourism
170.0	1,000	Agriculture, remittances from abroad, tourism, manufacturing	Under German control before WWI, New Zealand after. New Zealand trusteeship after WWII. Independent since 1962.	New Zealand, Japan	Agriculture, tourism, light manufacturing

PACIFIC ISLANDS FACT SHEET *(continued)*

	Population	Land Area (square miles)	Notable Geographic Characteristics	Capital/ Distance from (miles)	Currency	Major Languages
FIJI	815,045	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	82,400	266	33 islands scattered 2,400 miles east to west, 1,300 miles north to south. Almost entirely low-lying atolls, Christmas Island the largest.	Tarawa/ Honolulu 1,300 Tokyo 3,900	Australian dollar	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	99,000	386	Main islands volcanic, some 150 coral atolls, 36 permanently inhabited.	Nukualofa/ Honolulu 3,100 Brisbane 2,000	Pa‘anga	Tongan
VANUATU	185,000	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	2,500	101	Coral island rising 65 feet from the ocean and another 130 feet to a central plateau.	Alofi/ Wellington 1,800 Suva 800	New Zealand dollar	English, Niuean
TOKELAU	1,800	4	3 atolls with islets 10 to 16 feet above sea level. In hurricane path.	Nukunonu/ Honolulu 2,300 Wellington 3,800	New Zealand dollar	English, Tokelauan
TUVALU	10,200	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	6,384,217	213,565				
GRAND TOTAL/ AVERAGE	6,872,495	214,540				
HAWAII	1,205,126	6,423	4 main islands. Island of Hawaii 4,028 miles square, highest point of Mauna Kea 13,796 feet. Mauna Loa and Kilauea on Hawaii both active volcanoes. Maui 727 miles square, Oahu 597 (Waikiki), Kauai 552. In hurricane path.	Honolulu/ San Francisco 2,400 Los Angeles 2,600 Washington 4,800 Tokyo 2,500	US dollar	English

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

GDP (US$ million current)	Per Capita GDP (US$)	Major Income Sources	Political Status	Major Sources of External Investment	Major Sources of Future Income
2,148.9	2,637	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
54.6	662	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
124.9	1,262	Agriculture, tourism	British protectorate as of 1900. Independent monarchy within the Commonwealth.	NA	Tourism, agriculture
247.0	1,335	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
80.7	7,205	Phosphates and investments from phosphates	From 1919 administered by Australia. Became an independent republic in 1968.	NA	Investments from phosphate
7.1	2,825	Subsistence activity, government aid	Self-governing since 1974 in free association with New Zealand.	NA	Tourism
1.2	667	Subsistence activity, government aid	Non-self-governing territory administered by New Zealand beginning 1925.	NA	Subsistence activities, government aid
3.8	373	Subsistence activity, government aid	Independent state within British Commonwealth since 1978.	NA	Subsistence activities, government aid
15,694.5	2,458				
20,155.6	2,933				
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

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

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