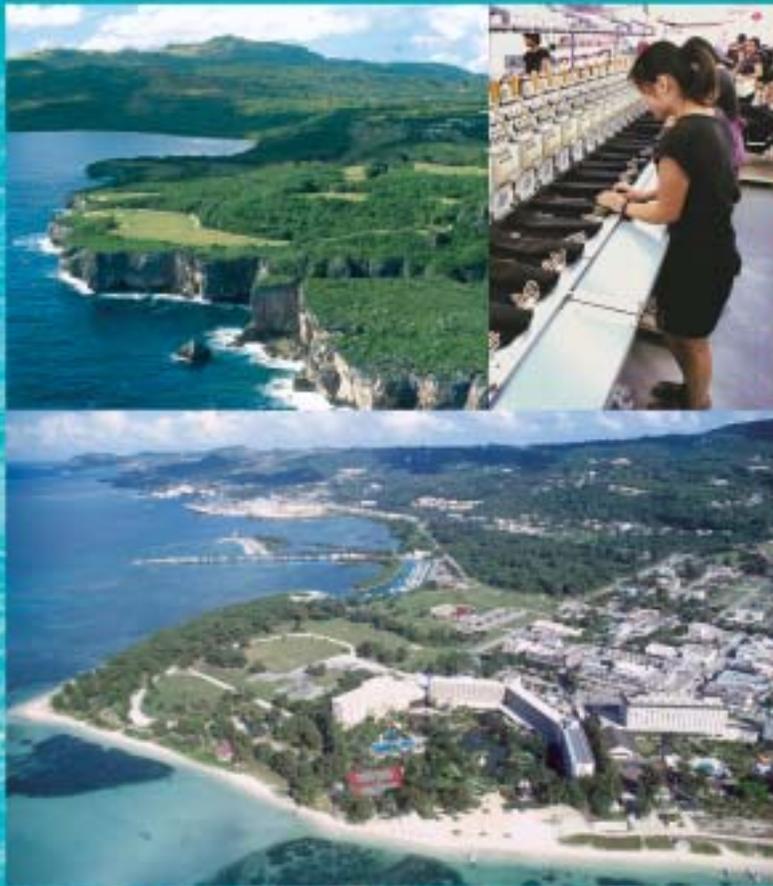
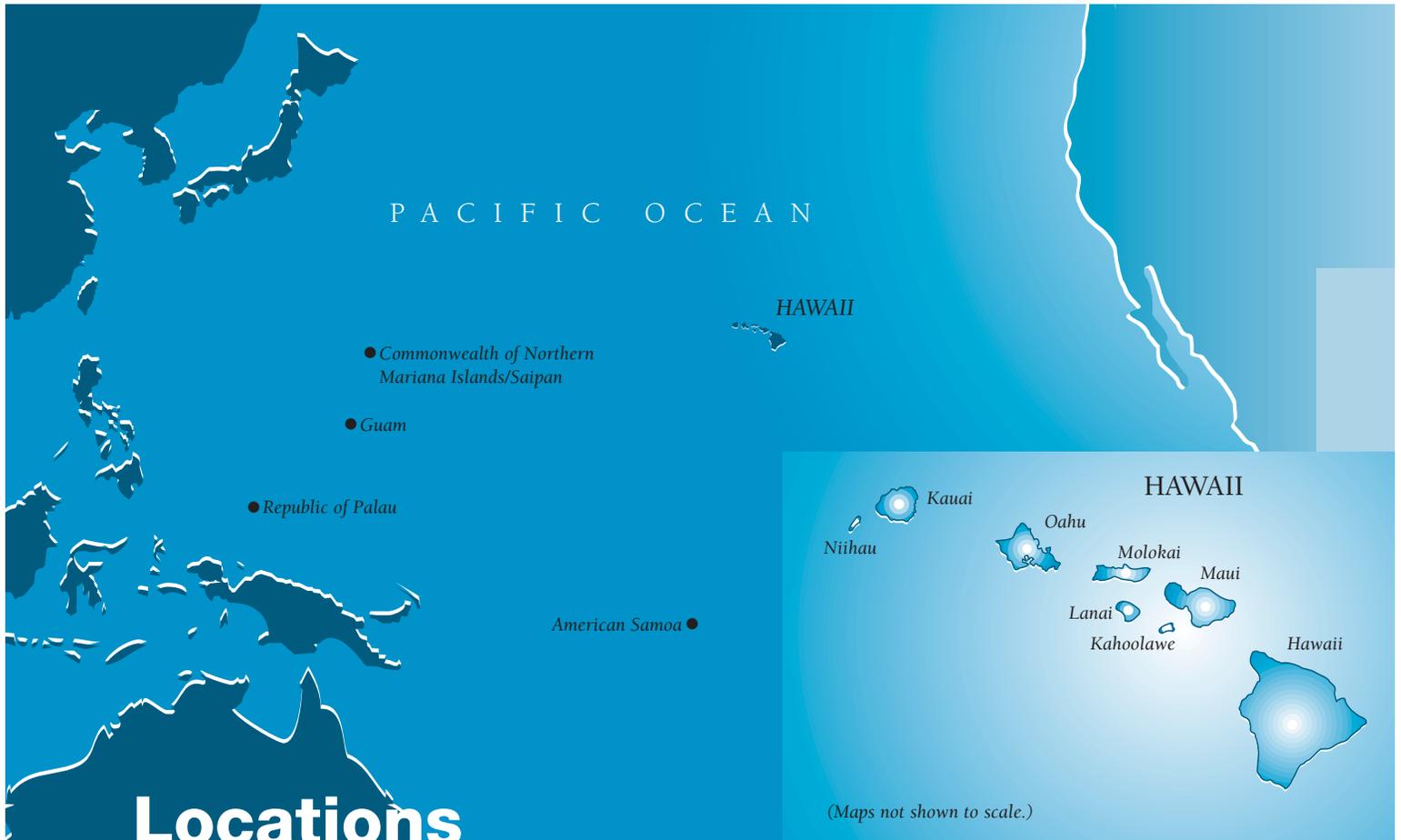


Commonwealth of the Northern Mariana Islands Economic Report

October 2003





BANK OF HAWAII BRANCHES & IN-STORE BRANCHES
(as of December 31, 2002)

Hawaii	76
American Samoa	3
Commonwealth of Northern Mariana Islands/Saipan	2
Guam	9
Republic of Palau	1
Total	91

ABOUT BANK OF HAWAII

Bank of Hawaii Corporation is a regional financial services company serving businesses, consumers and governments in Hawaii, American Samoa and the West Pacific. The company's principal subsidiary, Bank of Hawaii, was founded in 1897 and is the largest independent financial institution in Hawaii.

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The Bank provides convenient access to financial services through its network of branches, in-store branches and ATMs, and its 24-hour telephone and Internet banking services.

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TO OUR READERS:

We are pleased to present this 2003 edition of the Commonwealth of the Northern Mariana Islands (CNMI) Economic Report under a regional research and study partnership between Bank of Hawaii and the East-West Center.

CNMI is one of the West Pacific markets which Bank of Hawaii serves, and the Bank's presence here goes back more than three decades. CNMI is also a part of the domain of the East-West Center's Pacific Islands Development Program (PIDP) and its Research Program, which work with island leaders on economic, financial and social issues and foster a better understanding of the island region in the United States and the rest of Asia-Pacific. The Center was created by the U.S. Congress in 1960, and PIDP was founded in 1981. Given Bank of Hawaii's and the East-West Center's long histories in the region, we have combined our resources to reach a wider audience that may benefit from current economic and financial information on these markets.

This report provides an analysis of the economic and financial forces influencing CNMI, the Western Pacific and the surrounding region. While industrial East Asia has largely recovered from the 1997-98 financial crisis, the prolonged Japanese economic stagnation and the September 2001 terrorist attacks on New York and Washington, D.C., have had continued unfavorable effects on CNMI and the rest of the area. Earlier this year, the SARS epidemic and the Iraq war adversely affected travel which is among the area's major income sources. With travel in the Asian markets returning to normal levels toward the end of this year and early next year, the area's economies, including CNMI, should begin to improve over the next 18-24 months.

Additional information on Pacific economies is available at Bank of Hawaii's Internet website at www.boh.com and the East-West Center's web site, at www.eastwestcenter.org. Inquiries may be directed to PIDP or the Research Program through www.EastWestCenter.org.

Aloha,



Michael E. O'Neill

Michael E. O'Neill
Chairman of the Board,
CEO and President
Bank of Hawaii



Charles E. Morrison

Charles E. Morrison
President
East-West Center

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Acknowledgments

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Cover photo: Snorkeling near island; photo courtesy of Masataka Ishii.

Inset photos: (*clockwise from the top right*) Garment factory; Garapan business district; Golf course along the coast; photos courtesy of Lynn Knight.

Text photo page 8: Garment industry clothing scanners; photo courtesy of Lynn Knight.

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

2003 estimate: 74,151

2000 (census): 69,221

1995: 58,846

1990: 43,345

1980: 16,780

CNMI population growth rate (1980–2000):
7.3 percent per year*Economy*

Currency: US dollar

Income sources: garment manufacturing, tourism
(including commercial gambling), trade and servicesEstimated Gross Domestic Product (GDP):
\$557.0 million

Estimated per capita GDP: \$8,047

2000 employment: 42,753

Minimum wage: \$3.05

Political Status

US Commonwealth since 1978

Head of Executive Branch: elected governor

Bi-cameral Legislature (Senate & House)

US-style independent judiciary

Land Area

Total 176.5 square miles

Largest island: Saipan (46.5 square miles)

Home to over 90 percent of population

Second largest island: Tinian (39.2 square miles)

Third largest island: Rota (32.8 square miles)

Inhabited island: 5

Total number of islands: 14

Distances from:

Honolulu: 3,700 miles

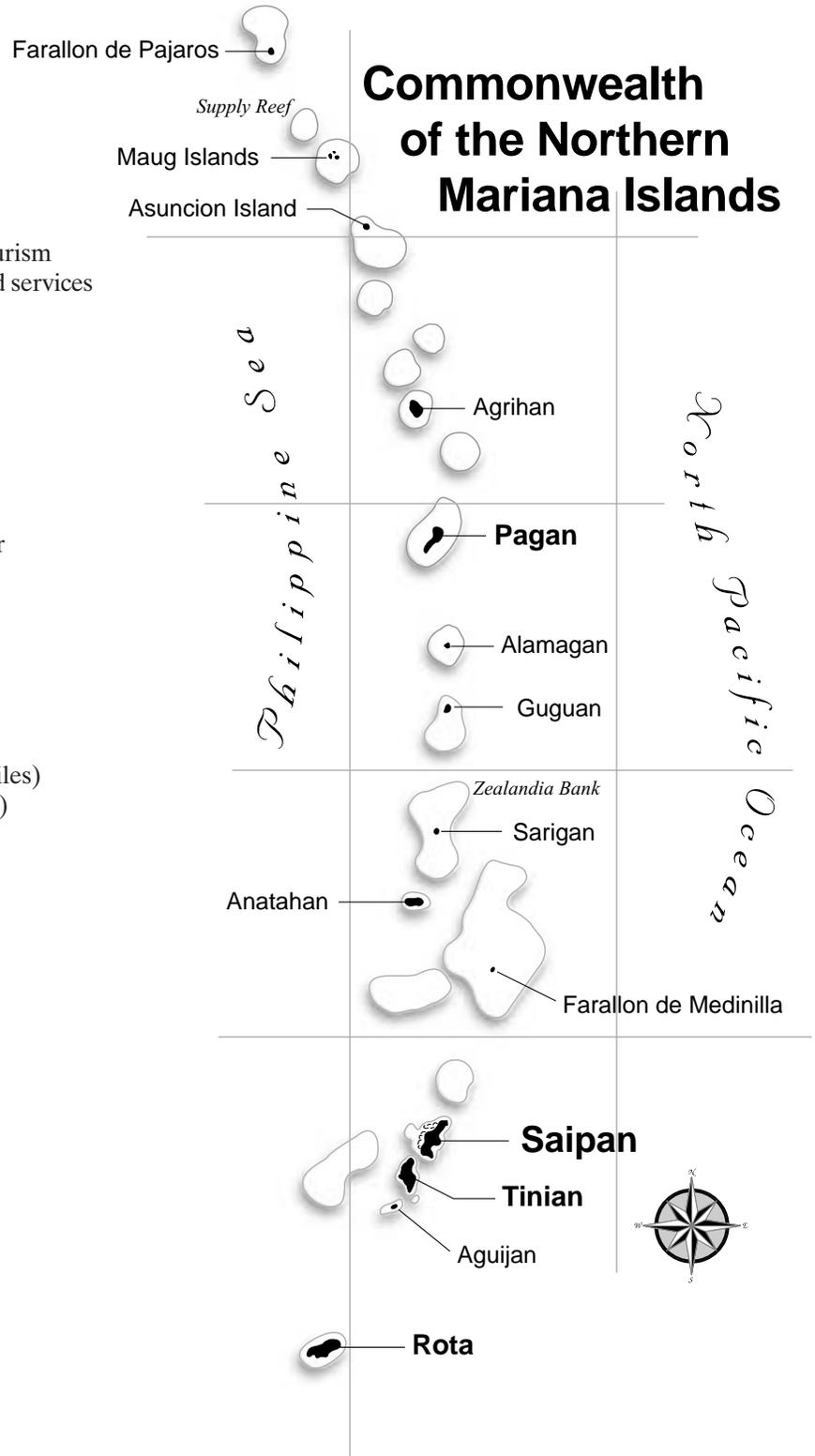
San Francisco: 5,800 miles

Tokyo: 1,500 miles

Taiwan: 1,400 miles

Seoul: 2,000 miles

Manila: 1,500 miles



I. GENERAL CHARACTERISTICS

The Commonwealth of the Northern Mariana Islands (CNMI), located in the northwestern Pacific Ocean, has the advantage of being close to Asia and affiliated with the United States. It is 1,500 miles from Japan, 1,400 miles from Taiwan, and 2,000 miles from South Korea. The commonwealth 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, and the largest, Saipan, accounts for over 90 percent of the population. The next two largest islands are Rota and Tinian, which between them nearly equally split the remaining 10 percent of the population. Some of the smaller islands to the north are inhabited by a handful of residents, six in 2000, according to that year's census. They are not considered habitable by large populations in the near future, but they may be potential sites for recreational activities and water sports.

The covenant that created the Commonwealth of the Northern Mariana Islands "in political union with and under the sovereignty of the United States of America" became law in 1978. By allowing separate immigration, labor, and wage laws, the covenant created what is practically a country within a country, giving the commonwealth the autonomy typical of sovereign nations.

CNMI citizens are US citizens, although they do not vote in federal elections and do not pay federal taxes. The commonwealth receives the same types of general federal aid as do states and other territories, some of it in the form of capital improvement and technical assistance grants. Occasionally, the federal government will assist the commonwealth in dealing with special issues such as human trafficking. CNMI

residents enjoy the full protection of US institutions, as well as a relatively high standard of living. Overall, the commonwealth combines features of a US territory, a state, and an independent nation all in one.

As its post-covenant history shows, the commonwealth has evolved economically, financially, and socially since its establishment. The most remarkable aspect of this evolution has been how a small and isolated market turned certain provisions of its political pact with the United States into tangible comparative economic advantages. The most important of these are the control of its own labor and immigration laws and the ability to sell its manufactured goods, produced by workers paid less than the US minimum wage, as if they were produced in the United States.

In 1980, the newly created commonwealth had a total population of 16,780, of whom 14,549 resided on Saipan, 1,261 on Rota, 866 on Tinian, and the remaining 104 on some of the northern islands. The question at that time was how this small and isolated market with no industry or particular strategic advantage other than being a part of the history of US involvement in World War II would evolve. Its economic and financial viability was a concern, and the history of other small Pacific island economies was not encouraging. Taking advantage of the freedom to set its own labor and immigration laws and the provision of duty-free sale of its manufactured goods in the United States, the commonwealth embarked on a program that a generation later has created one of the most self-sufficient economies in the US-affiliated Pacific.

I.1 A Unique American Labor Market

Low-cost Asian labor, which under CNMI rules can be paid less than the US minimum wage and is exempt from US visa and immigration regulations, has played a pivotal role in the commonwealth's economic development and its financial independence from Washington. Adding to these comparative advantages is proximity to Asia's large labor-surplus developing economies such as China and the Philippines, where large numbers of temporary workers have been recruited. Even though paid less than the US minimum wage, they can earn more money than if they worked in their home countries.

Apart from the experience of working overseas under the US flag, the principal attraction for temporary Asian workers, the majority of whom are young females, is the US dollar, which trades at multiples of the region's currencies. After two or three years in the commonwealth, the average temporary worker can save what may appear to be a

CNMI Population

	Saipan	Rota	Tinian	Northern 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
1995	52,698	3,509	2,631	8	58,846
2000	62,392	3,283	3,540	6	69,221
2001	64,576	—	—	—	71,644
2002	67,011	—	—	—	74,151

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

Census 2000: Population by Place of Birth

	Northern Islands	Rota	Saipan	Tinian	CNMI Total	Percent of Total
Total population	6	3,283	62,392	3,540	69,221	100.0
Born in CNMI	5	1,720	21,512	1,584	24,821	35.9
Born outside CNMI	1	1,563	40,880	1,956	44,400	64.1
United States	—	152	1,957	134	2,243	3.2
US island territories & Puerto Rico	—	331	1,158	137	1,626	2.3
Micronesia & other Pacific islands	—	73	3,571	66	3,710	5.4
Born in Asia	1	996	33,912	1,593	36,502	52.7
Philippines	1	839	14,033	949	15,822	22.9
Other Asia (mainly China)	—	157	19,879	644	20,680	29.9
Other foreign country or born at sea	—	11	282	26	319	0.5

Source: US Bureau of the Census

small sum in US dollars; but when converted to the home currency, that small sum is perceived as a large amount of money. Although most temporary workers return home after one or two work tours in the Northern Marianas, some stay. Since children born in the commonwealth are automatically US citizens, some foreign workers choose to have children, thus avoiding the need to go back.

The influx of large numbers of temporary foreign workers to the commonwealth over the last twenty years has led to one of the world's highest population growth rates. The commonwealth is the only Pacific island entity where foreign-born residents (mostly workers) outnumber indigenous residents by a ratio of nearly 2 to 1.

As both a gateway to dynamic East Asia and home to Asian investors as well as workers, these islands, particularly Saipan, are in many ways a manifestation of the new global economy where political and geographic boundaries become obsolete. Data from the 2000 census on population, labor force, employment, and birthplace of CNMI residents provide evidence for two points. First, a unique set of circumstances has led to an economy that is as remarkably self-supporting as it is small. To the degree that this is a consequence of the commonwealth's association with the United States, it also supports the contention that access to large markets, especially for capital and skills, for the Pacific island economies is critical to economic and financial growth and stability. Second and more important, the Northern Marianas' experience shows that economic and financial

interdependence among economies, regardless of their size and scale, is no longer an academic argument. Rather, it is increasingly the reality of economies, small and large, around the Pacific and around the world. Interdependence also means, inevitably, that rules designed for large economies will also affect small economies. Stipulations by the World Trade Organization (WTO) that will liberalize global trade for

the benefit of more economies go into effect in January 2005. These rules, which appear abstract and applicable only to large economies, will have a direct and profound impact on the commonwealth's garment-manufacturing industry and therefore on its economic and financial stability.

The 2000 census data showed the commonwealth's total population at 69,221, more than four times that of 1980. The average annual growth rate of 7.3 percent between 1980 and 2000 is recognized as one of the highest in the world. In 1980, less than 20 percent of CNMI residents were foreign-born, but by 2000, 64.1 percent were born outside the commonwealth, mainly in Asia. Of the total Asian population of 36,502 (52.7 percent of the total), nearly 16,000 were from the Philippines and over 20,000 from the rest of Asia, mainly China.

Census 2000: Industry for the Employed Civilian Population 16 Years and Over

	Northern Islands	Rota	Saipan	Tinian	CNMI Total	Percent of Total
Total	1	1,591	39,223	1,938	42,753	100.0
Agriculture & forestry	—	114	445	64	623	1.5
Construction	—	205	2,410	170	2,785	6.5
Manufacturing	—	18	17,329	51	17,398	40.7
Wholesale trade	—	6	665	9	680	1.6
Retail trade	—	109	2,858	89	3,056	7.1
Transport and utilities	—	67	1,282	100	1,449	3.4
Information	—	5	560	38	603	1.4
Finance, insurance and real estate	—	34	940	39	1,013	2.4
Professional and managerial services	1	18	2,062	36	2,117	5.0
Education and health services	—	197	1,882	160	2,239	5.2
Arts, entertainment and recreation	—	324	4,714	796	5,834	13.6
Other services, excluding public admin	—	160	2,116	97	2,373	5.6
Public administration	—	334	1,960	289	2,583	6.0

Source: US Bureau of the Census

Garment factories alone employed more than 17,000 foreign workers in 2000, mostly for clothing production. Apart from factory owners and senior managers, few foreign workers hold managerial positions.

According to the 2000 census data, 42,753 persons, or 61.8 percent of the total population, were employed. This figure is much higher than that for typical economies, even large industrial economies where roughly half of the population is in the labor force, employed and unemployed. The commonwealth’s uncharacteristically high ratio underlines the peculiar reality that it has many more workers than do most economies. Of those employed, 40.7 percent (17,398 persons) were in manufacturing, mainly garment making, which is located only on Saipan. Other industries, although distant, were arts, entertainment, and recreation (second), retail trade (third), and construction (fourth). Public administration occupied a relatively small 6.0 percent of the total number employed.

Class of Worker for the Employed Civilian Population 16 years and over in 2000

Class of Worker*	Number	Percent of total
Private for-profit wage and salary workers	36,811	86.1
Employees of private companies	36,386	85.1
Self-employed in incorporated business	425	1.0
Private, not-for-profit wage and salary workers	456	1.1
Local and territorial government workers	4,558	10.7
Federal government workers	438	1.0
Self-employed on not incorporated business	443	1.0
Unpaid family workers	46	0.7
TOTAL	42,753	100.0

Note: * Categories are those used by the US Census Bureau.
Source: US Bureau of the Census, 2000.

Unlike other Pacific island economies, particularly its close neighbors, the commonwealth relies mostly on the private sector, which is largely supported by foreign capital and labor. The economy has been weak in recent years, especially since the September 11, 2001 terrorist attacks, which substantially reduced Japanese tourists, but there is no indication that its essential makeup has changed.

More recent data from the American Community Survey series conducted by the CNMI Department of Commerce and Labor’s Statistics Division in conjunction with the US Bureau of the

Census, show little change in the basic character of the economy or the labor force. The April 2002 data, limited to Saipan, showed that since 2000 the island’s population increased by 7.4 percent to 67,011. That is an annual rate of 3.6 percent, half of the 1980-2000 growth rate. This slowdown in population (temporary worker) growth is a reflection of the slowdown in the economy, rather than of other factors.

I.2 A Country within a Country

The same factors that underlie the remarkable degree of economic self-sufficiency and financial independence from Washington have also caused, from time to time, national and regional political concerns. In the mid-1990s the commonwealth was catapulted to the national and regional stages when workplace conditions and treatment of foreign workers, especially those making garments, made headlines in national and regional media.

In response to the adverse publicity and to address its root causes, President Bill Clinton proposed to the US Congress in spring 1997 that US immigration and labor laws be extended to the commonwealth. The US Senate embraced the proposal, but the House of Representatives did not consider it. Meanwhile, Congress asked the General Accounting Office (GAO) for an on-site study. In 1999, the GAO found that the commonwealth’s economic self-sufficiency and its government’s ability to generate most of its revenue from within were important considerations. The GAO neither endorsed nor criticized the commonwealth’s unique labor market situation, but it left the impression that it did not see it with the same degree of concern as did the Clinton administration.

Clinton’s proposal was stimulated by adverse publicity arising from news coverage of the treatment of temporary foreign workers and criticism of the United States for allowing such a situation to exist. By allowing Saipan’s garment manufacturers to pay less than the US minimum wage to temporary foreign workers and to label and sell their products as if they were made in the United States, critics argued, the United States, perhaps inadvertently, extended a special subsidy to them. The United States was also criticized for having a double standard with regard to international trade and free market principles. In the eyes of critics, including US labor unions, the United States allowed a peculiar labor market to exist within its national boundaries but advocated free trade and efficient market mechanisms (meaning no subsidies) to the rest of the world. At the time, the United States and Europe were holding talks about the trade of agricultural products and how subsidies on both sides were distorting and undermining free trade agreements.

Despite intense and widespread publicity over CNMI workplace conditions, the Congress did not take action. Toward the end of its second term the Clinton administration became preoccupied with other issues of national and international priority. Meanwhile, workers filed a grievance suit against garment makers and retailers.

Following the change in political leadership in Washington in January 2001 and especially the terrorist attacks on New York and Washington on September 11 of that year, issues of greater national and global importance have engaged the Bush administration. The federalization of the commonwealth appears to have been put aside in Washington for now, but it may be premature to suggest that it has been excluded permanently from consideration.

Compliance with the rules of the Occupational Safety and Health Administration (OSHA) of the US Department of Labor, changes in labeling practices, and the recent settlement of a major lawsuit against garment manufactures have removed most of the causes of adverse publicity that worried Washington.

In April 2003, a \$1-billion class-action suit against garment makers and retailers over allegations of sweatshop conditions was settled under terms approved by a federal court. Although the settlement involved a much smaller amount of compensation for workers than they had sought, both sides claimed victory—garment makers because they admitted no wrongdoing, and workers because they were found to be entitled to some compensation. The most important element of the settlement was the mandate to establish a garment-manufacturing monitoring board that would review workplace and worker conditions continually.

The board is able to order inspections, hear worker grievances, and recommend changes in workplace practices, thereby avoiding future employee-employer problems. The settlement explicitly recognized the importance of instituting industrial workplace standards that Saipan's garment manufacturers must adopt and adhere to. The creation of the board and investing it with appropriate authority are important steps to ensure that garment making on Saipan is a legitimate as well as safe industry. The three-member board was formed in June. It is composed of former judges with long histories and experience emphasizing labor issues in the judiciaries of the commonwealth, California, and the state of Washington.

The result of Saipan's adherence to OSHA's workplace rules and the settlement of the lawsuit has been not only a more compliant garment industry but a more legitimate one as well. In anticipation of trade liberalization rules under the auspices of the World

Trade Organization that would open the US market for large quantities of textile and garment imports from major exporters such as China, Mexico, and others starting in January 2005, Saipan garment manufacturers are now attempting to become more efficient and viable for the longer term.

By focusing on viability within the parameters of a competitive marketplace Saipan garment manufacturers are sending the message that they intend to stay, especially now that they have achieved a degree of legitimacy as businesses they never enjoyed before. At the same time, the industry has had to contend with softer demand in US markets, where virtually all of its output is sold. It is too early to suggest what will happen to garment makers on Saipan beyond January 2005, but for now they are a critical part of the CNMI economy, particularly in the provision of direct taxes and fees that make up about a quarter of the commonwealth's general fund income.

In the last few years when the economy has been weak, mainly because of the softness in tourism resulting from the Asian financial crisis and, more recently, severe cutbacks in the aftermath of the September 11, 2001 attacks, the garment industry on Saipan has helped prevent serious economic and financial problems, especially for the CNMI government. Now that the industry is focusing on commercial viability, it may also benefit from community support.

For its part, to demonstrate commitment to the improvement of working conditions, worker treatment, and improved efficiency, the Saipan Garment Manufacturers Association (SGMA) has also made efforts to become more intimately involved in the business community's debate about Saipan's (and the commonwealth's) economic future. With the once strong and growing garment industry suffering financially and beginning to show signs of decline, the main concern is how to revitalize the commonwealth's economy and public finances.

The experience of the last decade shows that foreign temporary labor has now become an indispensable part of the economic structure, and any disruption in its flow could damage the fragile and otherwise unpredictable tourism sector on which the economy is partly 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 have enough workers to sustain a genuinely self-supporting economy. Any decisions about alien worker status will have to accommodate alien workers now and in the future if the economy is to be kept afloat in its present configuration. With over 80 percent of the indigenous labor working for the CNMI government, the private sector is almost

entirely staffed by temporary foreign workers and US mainland expatriates.

Apart from the long-term social consequences of this extraordinary labor market that have yet to be studied and understood, the immediate task is to prevent further erosion of the commonwealth's business vitality and tax base. With garment production having peaked in 2000 and the tourist count remaining soft since 2000-2001, the prospect for a quick turnaround is not bright. However, following the recognition of garment making as a legitimate industry, public and private sector energies are free to focus on how to make the commonwealth once again an attractive and desirable regional destination. If that requires improvements in infrastructure, including resurfacing main roads and beautifying points of tourist interest, or tax incentives for investors, the leadership should make these efforts a priority.



Garment industry clothing scanners.

I.3 The Commonwealth's Garment Industry: A Controversial Legacy

Since its arrival on Saipan in the mid-1980s, controversy has accompanied the garment industry. At the heart of the controversy has been the need to define the commonwealth's comparative economic advantage(s) in the context of its unique relationship with the United States. Soon after its legal identity was established, the question was: what would the commonwealth's economy be like once it became an integral part of a vast but geographically distant economy? The nearest US territory, Guam, was not an appropriate example because there was no US military presence in the commonwealth. Nor was there the immediate potential for the commonwealth to become a regional destination because that would

take time and money. Further, the indigenous labor force necessary to make a large commercial economy work was lacking.

Control of immigration and labor matters were major advantages, but political autonomy in itself was not a sufficient condition to attract large sums of capital to initiate large-scale industry, whether in services or manufacturing. Another important advantage, although not limited to the commonwealth, was that goods manufactured there could be sold in the United States without import duty and without the requirement that workers be paid US minimum wages.

Together these various advantages enabled the commonwealth to take a totally different route from its neighbors. They could allow Asian manufacturers to set up shop in the islands, hire Asian temporary workers, manufacture garments, and sell them in the US domestic market as if they were produced anywhere else in the country. Similar arrangements were in place in American Samoa, but there a small manufacturing (tuna-canning) labor force from its neighbor, Samoa, was involved. As would be the case with CNMI garments, fish canned in American Samoa factories are sold duty-free in the United States. However, since the labor market and working conditions in the canneries have not made news in the regional media, American Samoa has not attracted the same kind of attention as has the commonwealth.

By encouraging Asian garment manufacturers to commence operations on Saipan under the terms and conditions they did, the commonwealth in effect enhanced its comparative economic advantage and its leaders concluded that tourism alone was not the best path to economic prosperity and stability. The belief was that garment making would supplement other economic activities, thus preventing a one-industry economy, especially one based on tourism, which would be subject to unpredictable swings in addition to cyclical changes in the regional and global markets.

Garment making and tourism both developed rapidly in the late 1980s and 1990s, making the commonwealth, again, the most self-sufficient US-affiliated economy in the western Pacific. Political leaders who did not see the comparative economic advantages of garment making were pushed to the sidelines by those who convincingly argued that the commonwealth's public finances would be more stable and predictable if they were supported by more than one dominant industry such as tourism. The absence of a US military presence, which has been a major stabilizing force in both Hawaii and Guam despite downsizing from earlier times, made the economic diversity argument more credible and practical. Recent evidence confirms that those who

argued for a more diverse economy correctly anticipated the important role garments would play in the CNMI economy.

I.4 Joining the Global Economy

The World Trade Organization and its predecessors going back to the 1970s have continually undertaken major international trade liberalization reforms, allowing the developed and developing economies of the world to trade more goods and services with each other. Among the more notable of these changes are terms included in the Multi-Fiber Agreement that will govern the textile and garment trade, beginning in January 2005. The main thrust of these changes is to make it possible for the developed and developing worlds to sell more of their goods to each other. To the degree that trade is seen as a more effective tool than foreign aid in enhancing incomes and standards of living in developing countries, it is receiving greater acceptance. Global bodies such as WTO and regional accords such as the Asia Pacific Economic Cooperation (APEC) are examples of efforts to institutionalize commitment to freer trade and open markets.

Under the rules taking effect in January 2005, quotas will disappear for textiles, although import duties will remain. Lifting quotas will make it possible for producers of labor-intensive goods such as garments to sell more of their products in markets such as the United States, Europe, and Japan, even with import duties. Examples of countries that will benefit from exports of labor-intensive goods are China and Mexico. With its entry to WTO as a partner in the new global trade regime, China will obtain better access to WTO's high-income members and will be asked to reciprocate with imports from these countries.

Since the cost of labor in China is lower than in the Northern Marianas, Chinese manufacturers may take advantage of economies of scale to sell more

abroad. In a global market of low unit cost and large volume advantage, small producers such as the commonwealth, whose production costs are higher than those of China, may be unable to compete. The result may be that lower-cost Chinese (and Mexican) producers will outbid the commonwealth's garment producers, whose costs are lower than in the United States but still higher than in China and Mexico. To the extent that the new rules enable large labor-surplus economies such as China and Mexico to sell greater quantities of their goods to earn the foreign exchange they need to buy high-value products from the developed world, they benefit large economies. Small producers such as the commonwealth will be forced to either compete in the global market or abandon their labor-intensive endeavors.

Saipan garment makers have time to adjust and consider their options and strategies. As January 2005 approaches, some of them may exit or consolidate, especially the smaller producers who do not have the sales volume to compensate for lower sales margins resulting from global competition and the subsequent lower prices. Meanwhile, the soft US consumer market has already had a large impact on CNMI garment makers. Still, there are no explicit or implicit exit timetables for these manufacturers, and some may continue to produce after the new trade regime is in place, as long as they can produce at competitive prices for the US market. With federalization apparently on hold and no efforts to increase minimum wage rates, CNMI garment makers can be reasonably certain that they can produce under existing conditions at least until January 2005.

I.5 Recent Garment Industry Statistics

Saipan's garment industry grew rapidly in the 1990s. According to the Saipan Garment Manufacturers Association, the industry expanded from 21 factories with \$300 million in sales 1992 and peaked at 34 factories with sales of \$1.06 billion in 1999. Sales began to decline in 2000 and continued to

Direct General Fund Garment Revenues, FY94-FY03, (\$000)

Tax/Fee Type	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 (Projected)
User Fees	9,576	13,897	17,981	27,653	36,846	39,311	38,644	35,816	30,929	30,444
Income Taxes	4,937	6,535	7,775	12,578	14,000	15,261	16,279	15,515	14,274	14,000
NRW Fees	797	1,705	1,902	2,406	3,575	3,788	3,940	3,743	3,578	3,400
BGR Taxes (estimated)	49	11	572	360	500	500	500	500	500	375
Total Direct Payment	15,359	22,148	28,230	42,997	54,921	58,860	59,363	55,574	49,281	48,219
General Fund (GF)	152,962	199,202	220,161	241,743	236,624	219,601	225,411	219,638	199,713	213,726
Total Direct as Percent of GF	10.0	11.1	12.8	17.8	23.2	26.8	26.3	25.3	24.7	22.6

Source: CNMI Department of Finance

be weak through 2002 when they totaled \$831 million. The 29 factories still in business in 2003 expect to sell garments valued at about \$765 million. Garment taxes and fees still account for about one-quarter of the government's direct revenues. Garments also provide 40-45 percent of jobs in the commonwealth, according to the SGMA.

Among the more remarkable statistics on Saipan's garment industry is the loss in revenue caused by market conditions on the US mainland. Between 1999 and 2002, garment sales (market value) declined 21.6 percent from \$1.06 billion to \$831 million. The volume in fabric and other materials was down only 4-5 percent, SGMA contended, suggesting that most of the loss in sales value was caused by lower prices and lower profits, rather than lower output.

Employment has remained stable over the past four years. The total was down slightly early in 2003 because of travel restrictions imposed in the wake of the SARS epidemic. The total employment level stands at about 15,000-17,000.

II. TOURISM

II.1 The Current Situation

The commonwealth's tourism is at an uncertain stage of change. It grew rapidly in the early 1990s, declined in the second half of the decade, and was stagnant as it entered the new millennium. The main reason for the weakness in tourist arrivals and receipts has been the weak Japanese economy, which

has been in decline for more than a decade. The conflict in Iraq added to uncertainty, but perhaps only tangentially since there is no direct link to the commonwealth. Adding a great deal to travel uncertainty and causing Japanese tourists to stay home in the first half of 2003 was the SARS epidemic, which has since subsided. Recent media accounts suggest that travel to Hong Kong has returned to about 80 percent of its usual level, and some observers expect it to be back to normal by early 2004. These optimistic expectations suggest that other destinations affected by SARS should also be returning to normal. The reduced threat of SARS leaves the weak Japanese economy as the main cause of the decline of tourism in the Northern Marianas.

Fueled by the East Asian economic boom of the late 1980s and early 1990s, tourist traffic to the commonwealth tripled in less than a decade (1988-96) from 245,545 to 736,117. With the onset of the Asian financial crisis in late 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 one of its jumbo jets near the Guam airport had an immediate impact. In part because of the near shutdown of the Korean market that followed, and more generally because of the continuation of the Asian financial crisis, total CNMI tourist traffic was down to 490,165 in 1998, roughly where it had been in 1992.

Tourist traffic recovered some lost ground in 1999-2000 when the total exceeded 500,000 once again, but recovery to the 1996 peak remains a distant possibility. In 2001, in the aftermath of terrorist attacks on New York and Washington that caused many Japanese visitors to stay at home for some time, the tourist count fell significantly again, to

Visitor Arrivals by Market

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Numbers											
Japan	354,941	378,719	387,210	426,679	438,462	447,882	376,539	380,473	378,756	333,911	326,735
Korea	37,389	60,824	102,275	124,794	187,881	141,510	27,813	51,150	71,623	56,627	90,324
USA ¹	79,641	78,720	80,959	98,593	83,989	75,153	60,566	48,891	51,219	35,142	35,858
Hong Kong & Taiwan	18,066	12,965	10,662	11,803	11,270	11,404	9,058	8,269	15,218	8,834	4,643
China	—	—	—	—	—	2,731	2,815	1,828	1,531	2,108	10,471
Others	15,258	14,575	14,927	14,292	14,515	18,939	16,189	13,005	11,792	9,770	7,516
Total	505,295	545,803	596,033	676,161	736,117	694,888	490,165	501,788	528,608	444,284	475,547
Percent Shares											
Japan	70.2	69.4	65.0	63.1	59.6	64.5	76.8	75.8	71.7	75.2	68.7
Korea	7.4	11.1	17.2	18.5	25.5	20.4	5.7	10.2	13.5	12.7	19.0
USA ¹	15.8	14.4	13.6	14.6	11.4	10.8	12.4	9.7	9.7	7.9	7.5
Hong Kong & Taiwan	3.6	2.4	1.8	1.7	1.5	1.6	1.8	1.6	2.9	2.0	1.0
China	—	—	—	—	—	—	—	0.4	0.3	0.5	2.2
Others	3.0	2.7	2.5	2.1	2.0	2.7	3.3	2.6	2.2	2.2	1.6
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

444,284, or roughly the count of a decade earlier. In 2002, the count was up 7.0 percent to 475,169, mainly as a result of deep discounts, but still 35.4 percent below the 1996 peak.

Shifts and changes in the market shares of the major tourist suppliers, Japan and Korea, occurred in 2002, suggesting that Korea may once again become a strong second supplier of tourists to the Northern Marianas. After following a roller-coaster pattern for a decade, Korean arrivals were back up to a significant 19 percent share of the total in 2002.

In 1992 Korean tourists were only 7.4 percent of the total. Over the next few years they increased rapidly, both in numbers and as a share of total arrivals, reaching 25.5 percent in 1996. When Korean Air Lines abruptly halted flights to the Pacific Islands in late 1997, it practically closed the Korean market for the commonwealth, and the market share of Korean tourists dropped to a mere 5.7 percent in 1998. With the resumption of flights in 1999-2000, the number of Korean tourists once again increased relatively rapidly, to reach 19 percent of the total in 2002.

Although more than one factor may underlie

Japanese and Korean tourist arrivals in the commonwealth, on the surface they appear to be in mutually exclusive gain and loss patterns. As Korean tourists increased their share of the total, first in the early 1990s and then in the first three years of the current decade, Japanese tourists decreased. In 1992, Japanese tourists made up 70.2 percent of total arrivals, dropping gradually to less than 60 percent in 1996. In 1997-2001, they increased gradually, reaching a high of 75.2 percent of the total. Beginning in 2002, when Korean tourists increased a strong 59.5 percent from 2001, there were once again signals that Korea was becoming a stronger second source of tourists to the Northern Marianas.

Meanwhile, the two Korean carriers serving the Pacific have divided Guam and the Northern Marianas between them, each being limited to one of the two markets. With only one Korean carrier flying regularly to Saipan, the question is whether there is immediate potential for growth in the Korean market. Korea's economic recovery from the Asian financial crisis and relatively rapid growth in per capita income would suggest that there is potential,

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	117,149	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	112.82	494.0	977.65
1993	545,803	3,048	42	109	3,199	73.5	114.84	506.9	928.72
1994	596,033	3,177	42	127	3,346	77.0	109.48	463.5	777.64
1995	676,161	3,240	31	187	3,458	82.6	116.77	538.4	796.26
1996	736,117	3,335	31	217	3,583	85.6	127.73	587.8	798.51
1997	694,888	3,627	31	223	3,881	81.4	136.06	585.0	841.86
1998	490,165	3,942	457	243	4,642	58.1	117.23	—	—
1999	501,788	3,856	457	243	4,556	60.4	98.98	—	—
2000	528,608	3,856	452	243	4,551	61.2	88.06	—	—
2001	444,284	3,826	452	243	4,521	54.4	89.27	—	—
2002	475,547	3,692	452	173	4,317	63.4	81.46	—	—

Note: 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.

but more evidence (and time) is needed to identify a long-term trend.

II.2 The Economic Effects of Tourism

From 1988 to 1996, tourism was the commonwealth's largest income source and most dynamic industry, as well as its main comparative economic advantage. However, its sharp decline in 1997-98 and then in 2001 and only modest recovery since then has shown how fragile and vulnerable that advantage was. Several factors, Korean Air Lines' decision to suspend flights, the Asian financial crisis, the ongoing economic decline in its principal market, Japan, and the terrorist attacks have combined to stall the commonwealth's once thriving tourist and retail industry.

The impact of tourism extends well beyond carriers and hotels and restaurants. Tourist dollars partly support the commonwealth's retail trade, especially in the core urban area that caters more to tourists than to residents. By extension, they also contribute to the support of other services, including transport services. When tourist numbers rise, their effect shows up in many segments of the economy. In the same way, contractions in tourist numbers leave a range of goods and service providers in financial stress.

In keeping with other growth trends in the period, the number of hotel rooms rose from fewer than 2,000 in 1988 to almost 3,000 in 1992, peaked at 4,651 in 1998 and declined slightly to 4,313 in 2002. Over 85 percent of all hotel rooms in the commonwealth are on Saipan. The Tinian Dynasty Hotel and Casino, with 440 rooms, is thus far the only major hotel built on another island. No new hotels have been built since 2001. The average hotel occupancy rate for the commonwealth, which the Hotel Association of the Northern Mariana Islands started reporting in 1992, peaked at 85.6 percent in 1996, dropped to 54.4 percent in 2001, and rose to 63.4 percent in 2002.

The industry-wide optimal occupancy rate that generates sufficient revenue to cover expenses and allow for regular maintenance of facilities is 70 percent or higher. As CNMI tourist traffic has not risen enough to restore that rate, the industry is not generating the necessary revenue to keep facilities in ideal condition. Weak tourist numbers and the subsequent weakness in hotel and motel cash flows also affect the larger economy. Total tourist spending in the commonwealth was estimated at \$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 1999-2000, tourist spending was estimated to have reached \$400-430 million, but remained considerably below the

level needed 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 between 1997 and 2002. Currently, no tourist spending estimates are generated in the commonwealth, so no objective method is available to measure the impact of the second largest industry on the CNMI economy. A crude estimate of tourist spending can be obtained by applying the average daily spending (based on tourist exit surveys) to the total tourist counts. This method yields a total spending of around \$225 million for 2002, less than half of what was reported in 1996. Since the onset of the Asian financial crisis, some hotels have reduced staff and service to minimal levels because of poor cash flows. Without robust cash flows, revitalization of the tourist industry remains a challenge.

Separating the industrial economy of garment manufacturing from leisurely tropical tourist pursuits on the island of Saipan presents the commonwealth with yet another obstacle to revitalizing tourism. The proliferation of garment factories and dormitories built to house about 40,000 temporary foreign workers has created the type of congestion most tourists wish to avoid. The mixing of an industrial city peopled by foreign workers and a vacation paradise trying to attract more visitors is a new experiment in itself. So far, evidence to establish whether one has hampered the prospects and operations of the other is inconclusive.

The tourism industry seems unconcerned, especially since the settlement of a major lawsuit that removes adverse publicity. However, some people in the commonwealth see garment factories on a small tropical Pacific island as a nuisance, rather than a major source of income. This group sees Saipan, and the entire commonwealth, first and foremost as a destination. The island of Tinian has had a large, Las Vegas-style casino and hotel since 1999, but it has yet to show the financial success that would convince skeptics that commercial gambling works in western Pacific island economies. Still, commercial gambling has been an important part of the strategy to make the commonwealth a versatile destination, rather than a simple manufacturing economy.

While the Northern Marianas strive to become a destination, economic realities, especially the weak Japanese economy, have hampered economic growth and diversification efforts in the region. Garment making has filled an important part of the financial gap left by declining tourist dollars. Until regional and global economic realities change to allow substantial increases in tourist traffic to the commonwealth once again, the debate on what the respective roles of garments and tourism should be will continue.

II.3 An Eye on the Future

Meanwhile, a tourist market that holds both immediate and long-term potential is China. Tourists from China were such a small number in 1996 that they were lumped together with “other” markets. They increased haphazardly in the next few years, but averaged just over 2,200 per year from 1997 to 2001. In 2002, they increased nearly five-fold to 10,471. Although they made up just over 2 percent of the market share in 2002, Chinese tourists are likely to increase in the years ahead, perhaps at rates greater than either Japanese or Korean tourists in the past decade.

Two factors give credence to this expectation. First, growth in the Chinese economy and the subsequent rapid rise in the country’s swelling middle class creates a potentially steady flow of outbound travelers. Projected patterns of economic and demographic change in East Asia suggest that if China’s economy continues to grow at the rates of the past twenty years, near double-digits for the most part, China will have the region’s largest middle-class population. Estimates vary, and some point to as many as 30-60 million outbound tourists in the next ten to twenty years. In 2000, over 10 million Chinese traveled abroad, making them the second largest group in East Asia after Japanese travelers, who then numbered 18 million. These projections also reflect the thinking that per capita income in China will continue to grow at the rates of the past twenty years, making it possible to raise the average Chinese standard of living in the next two decades to that of today’s Korea, Taiwan, Hong Kong, even Japan.

Second, apart from the larger picture of Chinese traveling abroad in the years ahead, there is an immediate potential for the Northern Marianas in the form of the Tinian Dynasty Hotel and Casino, intended mainly for Chinese travelers and gamblers. Open since 1999, the hotel has 440 rooms and a large commercial casino. It is owned and operated by Chinese investors who perceive that the number of Chinese travelers (gamblers) in the southern province of Guangdong and nearby Hong Kong is sufficient to support a casino or two on Tinian. It is further speculated that once travelers in Guangdong’s neighboring provinces discover Tinian and the Northern Marianas’ other attractions, they will travel to the southern city of Guangzhou and fly from there to Tinian.

In anticipation of travel liberalization in China and the addition of the Commonwealth of the Northern Mariana Islands to the “approved list of destinations” which Chinese citizens may visit without restrictions, the Tinian Dynasty has already drawn up plans for another 400-plus-room hotel and

yet another casino to accommodate future demand. Given that Chinese travelers do not need a US visa or the approval of US authorities to enter the commonwealth, this is a realistic marketing strategy. Further, in anticipation of Tinian soon becoming a destination, the CNMI government rebuilt and expanded the island’s runway to accommodate wide-bodied jets such as the Boeing 767. The airport terminal building is small, reflecting the island’s past remoteness, but that could change with improving financial conditions in the commonwealth.

Chinese citizens authorized to travel abroad by their government can travel to the Northern Marianas as if headed for any other destination. The unique advantage of the commonwealth is that it can attract Chinese travelers to a Chinese-owned establishment that is also part of a tropical paradise under the American flag in the Pacific. Charter flights between Saipan and Guangzhou commenced in August 2003, with the expectation that they would soon become regular flights. While it is too early to present numerical projections on how many Chinese will travel to the commonwealth and how those will affect its tourist mix and its financial condition, China is potentially an important market for it to target.

III. AGGREGATE ECONOMY, BUSINESS ACTIVITY AND FINANCIAL MANAGEMENT

The commonwealth does not use macroeconomic accounting methods or collect data that would generate information on the levels and changes of total output and its components, and provide a measure of productive capacity. Nor has it ever generated data on gross domestic product (GDP). In the past, estimates of GDP have been made from time to time, mainly by consultants or private business for their own purposes, but none of those has been updated for several years now. In the absence of complete and accurate macroeconomic data, there is no objective method to gauge the level of aggregate economic activity, the level of employment it supports, and other important measures such as total personal income that indicate the well-being of the economy and the average citizen. The information vacuum continues to be an obstacle to an objective and comprehensive assessment of the economy.

The next best source for assessing business activity is the so-called gross business revenues (GBR) data derived from tax collections. The commonwealth has no sales tax. Instead, several types of taxes are imposed on various types of

CNMI's Major Economic and Financial Indicators

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Population	56,044	58,846	63,613	69,801	76,708	81,126	69,221	71,644	74,151
Employment (CNMI)	—	34,812	—	—	—	—	42,753	—	—
Employment (Saipan)	—	31,560	—	—	40,627	—	—	—	—
Banking Activity (\$M)									
Total Deposits	411.2	425.2	463.0	481.1	522.8	570.4	595.7	599.8	549.3
Total Loans	200.3	216.3	280.2	239.4	304.7	288.4	325.1	244.7	192.4
Public Finance (\$000, Fiscal Years)									
Revenues	152,962	203,650	226,701	248,036	242,282	240,994	228,827	219,638	199,713
Spending and transfers	181,501	191,446	221,715	268,122	255,648	236,347	222,040	237,282	212,089
Balance	(28,539)	12,204	4,986	(20,086)	(13,366)	4,647	6,787	(17,644)	(12,376)
Cumulative Unreserved Balance	(44,696)	(39,986)	(34,873)	(57,384)	(80,608)	(68,287)	(69,454)	(87,949)	(99,514)
Gross Business Revenues (\$M)	1,452.8	1,831.0	2,224.5	2,610.4	2,238.1	2,231.1	2,255.6	2,232.6	1,950.7
Tourism									
Visitor Arrivals	596,033	676,161	736,117	694,888	490,165	501,788	528,608	444,284	475,547
Estimated Spending (\$M)	470.0	527.0	581.0	585.0	—	—	—	—	—
Hotel Occupancy (Percent)	77.0	82.6	85.6	81.4	58.1	60.4	61.2	54.4	63.4
Average Room Rate (\$)	109.48	116.77	127.73	136.06	117.23	98.98	88.06	89.27	81.46
Building Permits									
Commercial Permits (No.)	122	402	239	328	250	101	134	120	163
Residential Permits (No.)	31	223	155	195	347	257	186	124	166
Total Permits (No.)	153	625	394	523	597	358	320	244	329
Value of Commercial Permits (\$M)	—	—	78.0	53.8	28.1	6.7	14.2	8.8	4.9
Value of Residential Permits (\$M)	—	—	12.4	11.4	20.2	13.3	7.3	5.3	7.0
Total Value of Permits (\$M)	—	—	90.4	65.2	48.3	20.0	21.5	14.1	11.9

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

business activities. For example, an excise tax of 4 percent, embedded in the price before sale, is levied on goods and services, and is a condition of doing business in the commonwealth. Garment sales are subject to user fees and excise taxes, as are other production and distribution activities.

GBR tax collections and the compilation of the

underlying transaction data make it possible to keep track of the so-called tax base, the amounts and transactions on which tax is paid. Although the tax-base data are often incomplete, not current, and much less reliable than they ought to be because of filing and accounting issues, they are the only source of information on aggregate business activity. Also,

Gross Business Revenues (\$Millions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Retail Trade/Gas Stations	293.7	356.4	275.1	400.2	464.0	640.2	433.0	433.7	417.2	407.5	392.4
Transportation	26.5	22.6	31.1	34.0	26.4	42.2	40.8	31.5	34.7	26.6	62.6
Restaurants & Bars	38.6	44.4	48.1	51.4	60.2	65.4	47.6	50.3	48.7	45.0	58.9
Hotels & Motels	118.1	111.7	107.2	136.2	170.8	167.6	93.8	109.4	85.0	67.3	91.2
Garment Manufacturing	278.5	299.9	281.6	411.0	553.7	687.8	792.8	802.9	783.3	747.4	473.1
Other Manufacturing	—	—	—	—	—	—	—	—	—	—	1.3
Wholesale Trade	109.3	43.4	125.8	133.3	153.8	154.6	129.6	128.7	155.6	245.7	380.3
Construction	106.0	87.4	82.6	103.3	84.6	76.9	71.9	53.7	53.0	54.3	61.7
Professional Services	34.7	34.3	71.8	103.2	153.9	136.5	63.0	118.1	131.7	296.5	41.0
Other Services	67.6	75.3	160.8	196.0	196.0	349.0	341.9	242.4	307.0	105.1	170.8
Financial Services	10.0	5.9	0.0	27.7	49.6	51.7	49.9	52.7	51.6	46.6	83.2
Land Lease	20.4	15.2	9.1	13.0	10.3	12.2	7.7	6.7	8.0	8.0	14.2
Agriculture & Fisheries	1.5	1.0	3.0	2.3	4.4	4.4	2.1	2.6	1.2	1.9	1.7
Other Trades	341.2	301.0	256.6	219.4	296.8	221.9	164.0	180.4	178.5	180.7	176.4
Total	1,446.1	1,398.5	1,452.8	1,831.0	2,224.5	2,610.4	2,238.1	2,213.1	2,255.5	2,232.6	2,008.9

Source: CNMI Department of Finance

CNMI Revenues and Expenditures (\$000, Fiscal Years)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Revenues											
Gross Business Revenue Tax	68,064	52,526	57,631	59,104	67,187	74,568	61,443	54,157	57,180	52,122	48,565
Personal & Corporate Income Tax	22,124	23,824	31,019	47,386	56,288	46,564	62,589	60,036	52,220	54,392	56,971
Excise Taxes	17,188	16,634	18,250	26,818	25,007	29,175	24,308	19,883	21,391	21,611	18,726
Custom Certification User Fees	8,250	8,907	9,576	13,897	17,981	27,653	36,846	39,311	38,644	35,816	30,929
Fuel Taxes	3,828	3,051	5,973	6,459	7,524	4,925	2,486	4,183	4,182	4,374	3,833
Beverage & Hotel Taxes	11,863	8,875	9,583	12,117	14,062	14,798	9,312	7,485	7,577	7,362	6,219
Other Taxes	0	8,318	2,890	3,110	2,892	3,196	3,000	2,829	3,802	2,850	1,507
Total Taxes	131,317	122,135	134,922	168,891	190,941	200,879	199,984	187,884	184,996	178,527	166,750
Total Service Fees	17,124	15,979	17,277	30,888	31,414	41,682	36,959	33,251	30,829	35,098	28,696
Total Local Revenues	148,441	138,114	152,199	199,779	222,355	242,561	236,943	221,135	215,825	213,625	195,446
Operating Transfers	708	535	763	3,871	4,346	5,475	5,339	4,879	13,002	6,013	4,267
Bond Proceeds	—	—	—	—	—	—	—	14,980	—	—	—
US Covenant Funds	10,330	—	—	—	—	—	—	—	—	—	—
Total Other Financing	11,038	535	763	3,871	4,346	5,475	5,339	19,859	13,002	6,013	4,267
Total Revenues	159,479	138,649	152,962	203,650	226,701	248,036	242,282	240,994	228,827	219,638	199,713
Expenditures											
Wages, Salaries & Benefits	72,075	76,524	80,218	91,442	102,944	114,180	115,795	107,920	110,662	113,739	108,859
All Other Expenditures	84,864	77,539	101,283	100,004	118,771	153,942	139,853	128,427	111,378	123,543	103,230
Total Expenditures & Transfers	156,939	154,063	181,501	191,446	221,715	268,122	255,648	236,347	222,040	237,282	212,089
Revenues Less Expenditures	2,540	(15,414)	(28,539)	12,204	4,986	(20,086)	(13,366)	4,647	6,787	(17,644)	(12,376)
Cumulative Fund Balance	16,470	1,056	(27,483)	(21,869)	(16,883)	(35,469)	(48,835)	(39,875)	(33,088)	(33,088)	(74,802)
Reserves for Encumbrances, Related Assets, Continuing Appropriations & Inventories	(32,223)	(20,079)	(17,213)	(18,117)	(17,990)	(21,915)	(31,773)	(28,412)	(36,366)	(62,444)	(24,694)
Cumulative Unreserved Balance	(15,753)	(19,023)	(44,696)	(39,986)	(34,873)	(57,384)	(80,608)	(68,287)	(69,454)	(87,949)	(99,514)

Source: CNMI Department of Finance

since GBR taxes are levied on a wide range of business activities, they provide useful information on the various types of business transactions.

GBR data for 2002 show what most businesses in the commonwealth have known from their own experience—a large decrease in total business activity. Total business receipts in 2002 were down 10.0 percent from 2001. This was the second largest decrease in gross business revenues in less than a decade, although smaller than that following the Asian financial crisis in 1998. The GBR level was down roughly to what it was in 1995, two years before the last peak in the commonwealth's business cycle, according to this measure.

Total gross business revenue increased quite rapidly from 1993 to 1997, reaching a record \$2.6 billion in 1997, just before the onset of the Asian financial crisis. That crisis caused a 14.3 percent loss in total gross business revenue in 1998, pushing it back to the level of 1996. In 1998-2001, the total remained remarkably stable, mainly because gains in some business sectors were offset by losses in others.

Among the most notable of these stabilizing categories in 1999-2001 was garment sales¹. As a share of total gross business revenue as reported by the CNMI Department of Finance, garment sales increased from 35.4 percent in 1998 to peak at 36.3

percent in 1999. Although garment sales declined in each of the next two years, they still provided about a quarter of total direct tax and fee revenue, thus having a stabilizing effect. Other stabilizing sectors were retail and wholesale trade, and services, including professional services. However, since trade and services were smaller components of total gross business revenue than garments, their stabilizing effect would be expected to be smaller as well.

Garment sales dropped significantly in 2002, reaching less than half a billion dollars for the first time since 1996; as measured by gross business revenue, garment sales were down 36.7 percent from the year before, the largest decrease in the history of the industry. Had garment sales remained at the 2001 level in 2002, total gross business revenue for that year would also have been about the same.

Among the business sectors that saw gains in taxable sales in 2002 were hotels and motels, whose sales increased 35.6 percent from 2001 to \$91.2

¹ Garment sales reported by the Saipan Garments Manufacturers Association (SGMA) differ from those reported by the CNMI Department of Finance, because not all garment sales are subject to the GBR tax. Sometimes the difference between the two series can be quite significant, depending on what is taxed and what is exempt.

CNMI Banking Activity (\$Millions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Deposits	429.5	386.1	411.2	425.2	463.0	481.0	522.8	570.4	595.7	599.8	549.3	550.5
Demand	103.8	107.3	121.7	134.3	136.7	140.8	133.6	153.0	144.0	146.6	133.2	125.0
Savings	242.0	193.9	165.5	150.7	163.2	163.2	192.5	184.5	176.2	195.5	223.8	244.5
TCDs	83.7	84.9	124.0	140.2	163.1	177.0	196.7	232.9	275.5	257.7	192.4	181.0
Loans	160.6	186.7	200.2	216.4	280.2	279.9	304.7	288.4	325.1	244.7	253.1	240.5
Consumer	71.3	63.9	64.9	64.7	71.3	80.0	83.6	74.7	70.8	75.8	60.9	63.9
Commercial	79.8	110.3	120.0	133.3	173.5	166.2	165.3	159.9	209.6	119.4	126.4	118.5
Real Estate and Home Improvement	6.5	9.8	13.0	16.5	34.0	32.9	54.7	53.4	41.9	46.6	65.8	58.1
Government	3.0	2.7	2.3	1.9	1.4	0.8	1.1	0.4	2.8	2.9	—	—
Interest Paid	32.6	26.1	24.0	33.0	35.0	39.7	37.7	38.1	44.3	35.2	23.4	—
All Deposit Accounts	16.0	10.3	8.1	12.1	12.7	14.9	14.3	14.4	18.6	13.9	16.8	—
By Borrowers	16.6	15.8	15.9	20.9	22.3	24.8	23.4	23.7	25.7	21.3	6.6	—

Note: 2003 data are as of second quarter

Source: CNMI Department of Commerce

million. At that level, hotel and motel sales in 2002 were where they were in 1998, the height of the Asian financial crisis. Hotel and motel sales peaked at \$170.8 million in 1996, dropped slightly in 1997, and then declined gradually, reaching a low of \$67.3 million in 2001. At the time this figure was reported, the steady decline was noted, reflecting the commonwealth's difficulty in attracting and keeping large numbers of tourists, mainly from Japan.

Business sales of the last few years, especially those of hotels and motels, reflect the effect of the weakening Japanese economy and the declining number of Japanese tourists. So long as garments sales were strong, as they were in 1999-2001, they offset the effects of soft tourism receipts. But with garment sales down, the effects of weaknesses in tourism are readily felt in both business and government receipts. With both garments and tourism having slowed in the past few years, the commonwealth faces a greater challenge to revitalize its economy.

The commonwealth's public finances reflect the weaknesses in business sales. In 2002, total tax receipts were down 6.6 percent from 2001 and total service fees were down 18.2 percent. Total local receipts were down 8.5 percent. The CNMI government took measures to bring spending under control and did so with a 10.6 percent cut that caused the current deficit to decline from \$17.6 million in 2001 to \$12.4 million in 2002. Measured by current revenues and spending, the commonwealth managed its financial resources well under difficult circumstances. However, when the current deficit of 2002 is added to those accumulated from previous years the total is nearly \$100 million. Given the size of the CNMI economy, no matter how it is measured, the cumulative deficit appears large, but it is not out

of line with other economies that have been under financial stress in the last few years.

To the extent that some government programs and services such as public education are not necessarily cyclical in nature, it is more difficult to cut them when the economy is under stress. This is particularly true of the small and isolated economies of the western Pacific, which have access to limited resources even under the best conditions. The choices presented by weak economies and stressed financial resources are usually difficult, regardless of an economy's size. Still, sound management of whatever resources are available makes it easier and less costly to borrow in the financial markets to meet current spending needs. So far the commonwealth has managed well in that respect.

IV. WHAT LIES AHEAD

The Commonwealth of the Northern Mariana Islands has a unique economy, with two major industries and two distinctly different labor markets, each with its own characteristics and issues. The temporary alien labor market, dominated by production and service workers, is in constant flux as workers rotate in and out. Apart from increases in bank deposits when these workers get paid, any other impact of their income is difficult to measure because most of it is expatriated to their home countries. The indirect economic effects of these workers include the purchase of local goods and services, but that has yet to be measured precisely.

The majority of temporary workers are paid at a rate close to the CNMI minimum wage of \$3.05 an hour; some of them receive housing and food allowances that would raise their total income levels

Census 2000: Poverty Status in 1999 by Household Type

(Population for whom poverty status is determined.)		Percent of Total
Total	68,775	100.0
Income in 1999 below poverty level	31,664	46.0
In married couple families	7,100	10.3
In other families	5,203	7.6
Male householder, no wife present	2,120	3.1
Female householder, no husband present	3,083	4.5
Unrelated individuals	19,361	28.2
Income in 1999 at or above poverty level	37,111	54.0
In married couple families	21,063	30.6
In other families	5,729	8.3
Male householder, no wife present	2,422	3.5
Female householder, no husband present	3,307	4.8
Unrelated individuals	10,319	15.0

Source: US Bureau of the Census

and local purchasing power. Most do not make financial commitments (such as buying cars and household appliances on credit) or invest in local real and financial assets. Given the nature of this labor market, small changes in its level would make only small differences to the treasury and, therefore, the economy.

Employers of temporary workers pay taxes and fees based on the value added they create. That contribution, aggregated for all temporary workers, supports the public treasury and the provision of

Census 2000: Household Income by Municipality

	Northern Islands	Rota	Saipan	Tinian	CNMI	Percent of CNMI
Total	1	757	12,507	790	14,055	
Less than \$1,000	—	15	426	49	490	3.5
\$1,000 to \$2,449		5	109	7	121	0.9
\$2,500 to \$4,999		22	263	22	307	2.2
\$5,000 to \$9,999		71	1,773	117	1,961	14.0
\$10,000 to \$14,999		84	1,718	90	1,892	13.5
\$15,000 to \$19,999		80	1,386	74	1,540	11.0
\$20,000 to \$24,999		56	1,089	50	1,195	8.5
\$25,000 to \$29,999	1	61	804	45	911	6.5
\$30,000 to \$39,999		99	1,370	91	1,560	11.1
\$40,000 to \$49,999		72	1,006	46	1,124	8.0
\$50,000 to \$59,999		56	662	54	772	5.5
\$60,000 to \$74,999		58	672	54	784	5.6
\$75,000 to \$99,999		28	572	44	644	4.6
\$100,000 or more		50	657	47	754	5.4

Aggregate Household Income: \$520,249,300

Median Household income: \$22,898

Median Family income: \$25,853

Per Capita Income: \$9,151

Source: US Bureau of the Census

public goods and services. In contrast, the indigenous labor market (including mainland expatriates), is a different market and, not surprisingly, a direct function of the size and value-added contribution of temporary alien labor. The majority of indigenous workers are employed by the commonwealth and local governments, other governmental and non-governmental service agencies, and business. As this relationship would suggest, the higher the level of temporary alien workers in the commonwealth, the higher the level of income to the public treasury and the level of employment of indigenous workers. Even so, the effects of the large pool of temporary workers do not readily show up in household income and the standard of living.

In 2000, 46.0 percent of CNMI's population lived in households with income below the poverty level, according to the US Bureau of the Census². Allowing that poverty status comparisons may be inappropriate because the CNMI economy is vastly different from the nation's, they do shed light on some of the underlying issues of this unusual labor market. Of the 46.0 percent in households living below poverty level, 10.3 percent were in households of married couples, 7.6 percent in other families with wife or husband absent, and a significant 28.2 percent in households of unrelated individuals. Regardless of the characteristics of these segments of the low-income population, that nearly half of the CNMI population existed below the poverty level in 2000 is a phenomenon deserving of more careful and detailed study.

That the CNMI median family income of \$25,853 in 2000 was above the poverty level is reassuring in certain ways, but it is so close to that level as to suggest that there is room for improvement. The question is where that improvement can and should occur.

The commonwealth faces two main challenges. The first is to revitalize the economy, which may mean more foreign workers whose employers would pay more taxes. The second is that more foreign workers and subsequent increases in population would raise the demand for improvements to the aging public infrastructure. Meeting both challenges will require policies to create more productive assets (encourage capital formation), generate more income for workers and money for the public treasury, and eventually provide an adequate standard of living in an environment that looks increasingly uncertain. The challenges are more complicated because the surrounding markets, especially Japan, do not appear interested in investing sufficient capital in the

² In Hawaii, the poverty-level income for 2001 for a family of four, roughly equivalent to that of the commonwealth in the 2001, was \$20,300.

commonwealth to lift income levels. With a minimum wage rate about 40 percent less than that of the United States, large increases in employment would be required to generate the level of impact that would benefit the whole system.

Evidence so far in 2003 suggests that the economy will continue to stagnate. The tourist count through August was down 5.8 percent from the same time a year earlier, indicating continued weakness in the Japanese market. Garment sales for 2003 were expected to be weaker than in 2002. These weaknesses were reflected in preliminary figures for gross business receipts for the first half of 2003, which showed no meaningful gains. It may be a good sign that gross business revenues did not decline, given the decline in the tourist count and continued weakness in garment sales.

Even under challenging circumstances, the commonwealth's financial problems have generally been less severe, but the fact that surpluses have been replaced by deficits is indicative of a deteriorating economy. There is no precise rule, but current (consumption) spending shortfalls in the public sector are considered potentially harmful if they exceed 4-5 percent of gross domestic product. By this measure, the commonwealth's public spending shortfalls have been modest, but the problems they cause (apart from the perception of poor management in the financial markets where governments have to raise money) relate to the allocation of resources between current spending and public capital formation (investment).

Political leaders tend to maintain current spending levels to avoid layoffs and the immediate problems that result. This usually happens at the expense of public capital formation which is just as critical to maintaining a functioning public infrastructure. Although its financial resources have declined recently, the CNMI government has made large commitments to physical infrastructure improvement, especially in central Garapan, the equivalent of Hawaii's Waikiki and Guam's Tumon Bay. Earlier examples of this type of investment that drew favorable notice include the beautification of Waikiki in the early 1990s and the refurbishing of parts of Tumon Bay in the mid-1990s which resumed in 2003.

The Garapan District, which 80 percent of Saipan visitors visit, is being transformed into a world-class commercial and recreation area for residents and tourists. The focus on this area underscores public and private commitments to enhance the commonwealth's image in an effort to encourage longer visitor stays, increased expenditures and provide airlines and travel agents with marketing tools to sell the Marianas as an

attractive destination. Initial work on the Garapan District Revitalization project has been completed.

Bids are under review for construction of a pedestrian mall and upgrades to the street fronting the major hotels in Garapan that face the ocean. Funding has been secured and work is scheduled for completion in September 2004. This phase of revitalization includes construction of sidewalks and a new underground drainage system, relocation of power poles, placement of mall utilities underground, and adding landscaping, lighting and other mall facilities. Traffic flows will improve with a new circulation plan and a traffic light. A video security system will be installed to assist in law enforcement and security.

Concurrent with the commercial district improvements, the US National Park Service is constructing a Visitors center in the adjacent American Memorial Park. The center already houses a 120-seat theater and 2,800 square foot of exhibit space to tell the story of the Battle of Saipan and Tinian, as well as a library and gift shop. The park is also developing a Memorial Garden in memory of those killed during the battles. Green room space and other amenities are being added to the public amphitheatre in the park. Funding for this work has also been in place and its completion will coincide with opening of the Garapan Pedestrian Mall in September 2004.

Work to improve environmental quality is another key element of the revitalization project. A treatment system to control run-off in the area is under design. It will restore water quality at Saipan's most prominent recreational beach. Funding for this project is secure and completion is scheduled for December 2004.

As important as the improvements in Garapan which covers a relatively small area of the Island of Saipan are going to be in strengthening the island's tourism infrastructure, what lies ahead for the commonwealth is a period of economic uncertainty following rapid growth, rapid decline, and now stagnation. The Northern Marianas 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 the commonwealth can do as of market forces over which it has no control.

The commonwealth recognizes the potential in Japan, but has yet to develop a plan for attracting more affluent tourists from that market. Any such

plan would also require funds and time to execute. According to figures collected for the Mariana Visitors Authority in December 2001, the mean spending by the average Japanese traveler aged 50 or older was \$804, compared to \$363 for those in the 18-34 age group, and \$498 for those aged 35-49 years. The mean for the total sample was \$473. If these survey numbers are representative of the Japanese tourist market, they add substance to the argument that, despite its macroeconomic and financial problems, Japan is the most important tourist supplier to the Northern Marianas now and in the near future. Analysis of the various elements of the Japanese tourist market and targeting selected segments with specific programs will work, but it will take time.

Meanwhile, the commonwealth must enhance its tourist infrastructure and keep its tropical ecosystem as undisturbed as possible to remain popular as a tropical paradise with a unique American and Asia-Pacific mix of cultures and facilities. A program of beautification is mandatory, especially in urban Saipan, where garment manufacturing has obscured some of the island's attractiveness. Now is the time to begin making the necessary changes that will divert attention from the commonwealth's manufacturing role and focus on the elements that make it an appealing destination.

IV.1 Higher Education: A Potential New Industry

The advantages of having more than one island and control of immigration and labor permit specialization. Tinian, the Marianas' only gambling island so far, has the potential to attract Asian customers to its gambling and other entertainment facilities. Rota, which escaped damage during World War II and remains pretty much intact, could become a site for ecotourism, retreat facilities, and other meetings where world leaders could conduct their business in the idyllic settings of a pristine environment. Saipan, the commonwealth's commercial hub and gateway to East Asia, is already the home of the Northern Marianas College (NMC). It is about to become the platform for a new type of economic growth and development by offering higher education to students from the East Asian region.

Education, especially when aimed at the vast East Asian market, holds considerable potential. "Pacific Gateway USA," a program recently unveiled by the Northern Marianas College, may open the path to an industry that, with careful nurturing, could develop into a major source of income for the

commonwealth.³ As demand for American language and business education in East Asia rises, the college has recognized the advantage of a nearby site where American-style education can be offered in paradise-like settings. With flights of only three to five hours to most East Asian cities, Saipan could become the educational center of the region.

As the conventional economy recovers, contingent on recoveries in other economies, the new education industry offers a complementary path to future economic growth, development, and diversification. As a first step toward making Pacific Gateway USA a reality, the CNMI government allocated funds to acquire land and other infrastructure that will become home for the program. Preliminary discussions suggested that the first real estate transaction may be completed toward the end of 2003. Adding to the advantage for the Northern Marianas College is the soft real estate market. Property prices have declined for several years because of the weak economy and haphazard trends of tourist arrivals, which sometimes fuel speculative demand for real estate. With real property prices at their lowest in years, the timing is good for the college to secure land for the program.

The principal advantages the commonwealth would have in offering educational opportunities are its proximity to East Asia, pleasant climate, and an already multicultural labor market and society. Many in the area's rapidly rising ranks of business and government leaders recognize the benefits of American-style education and familiarity with the American system. The market for higher education and instruction in English, as the Northern Marianas College points out in its presentation, is quite large, fueled by increases in international business, especially in Asia, where 60 percent of the world's total population resides, 20 percent of it China alone. With English already the language of international business, more and more employers prefer employees to be fluent in English. As the college points out, 80 percent of the material transmitted over the Internet is available only in English. While it is possible that other languages will become more important transmitters of Internet material, the likelihood is that English will be the predominant business language in the foreseeable future. Given these realities, the Northern Marianas College may have embarked on a mission that appears imminently feasible, but only time will tell whether higher education will compete with tourism and garment-making or complement them.

³ Northern Mariana College, "Pacific Gateway USA," 2003.

PACIFIC ISLANDS FACT SHEET

US DOLLAR-DENOMINATED ECONOMIES

	Population	Land Area (square miles)	Notable Geographic Characteristics	Capital/ Distance from (miles)	Currency	Major Languages
GUAM	159,547	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)	69,221	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	19,976	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	476,583	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
2,463.2	15,439	Tourism, military, trade and services	US territory since 1898. Guam Organic Act of 1950 conferred U.S. citizenship.	US, Japan, Korea	Tourism, services
557.0	8,047	Tourism, garment manufacturing, trade and services	After WWI under Japanese mandate. In 1947 became part of UN 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 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
109.5	5,482	US Compact payments, tourism	After WWI under Japanese mandate. In 1947 became part of UN Trust Territory. Became sovereign in 1994, in compact of free association as of 1994. Compact ends 2044.	Japan, US	Compact money, tourism
99.2	1,883	US payments, Kwajalein Missile Range, government services, copra, fisheries	After WWI under Japanese mandate. In 1947 became part of 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
3,711.9	7,789				
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	7,531,149	213,754				
HAWAII	1,261,100	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

SOURCE: Pacific Islands Development Program (PIDP), East-West Center, Honolulu, Hawaii

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				
17,784.2	2,361				
47,904.0	37,986	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

For further information, contact Bank of Hawaii Senior Fellow for the Pacific Economies, Dr. Wali M. Osman, at 808-944-7229 (phone), 808-944-7670 (fax) or osmanw@EastWestCenter.org.

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