

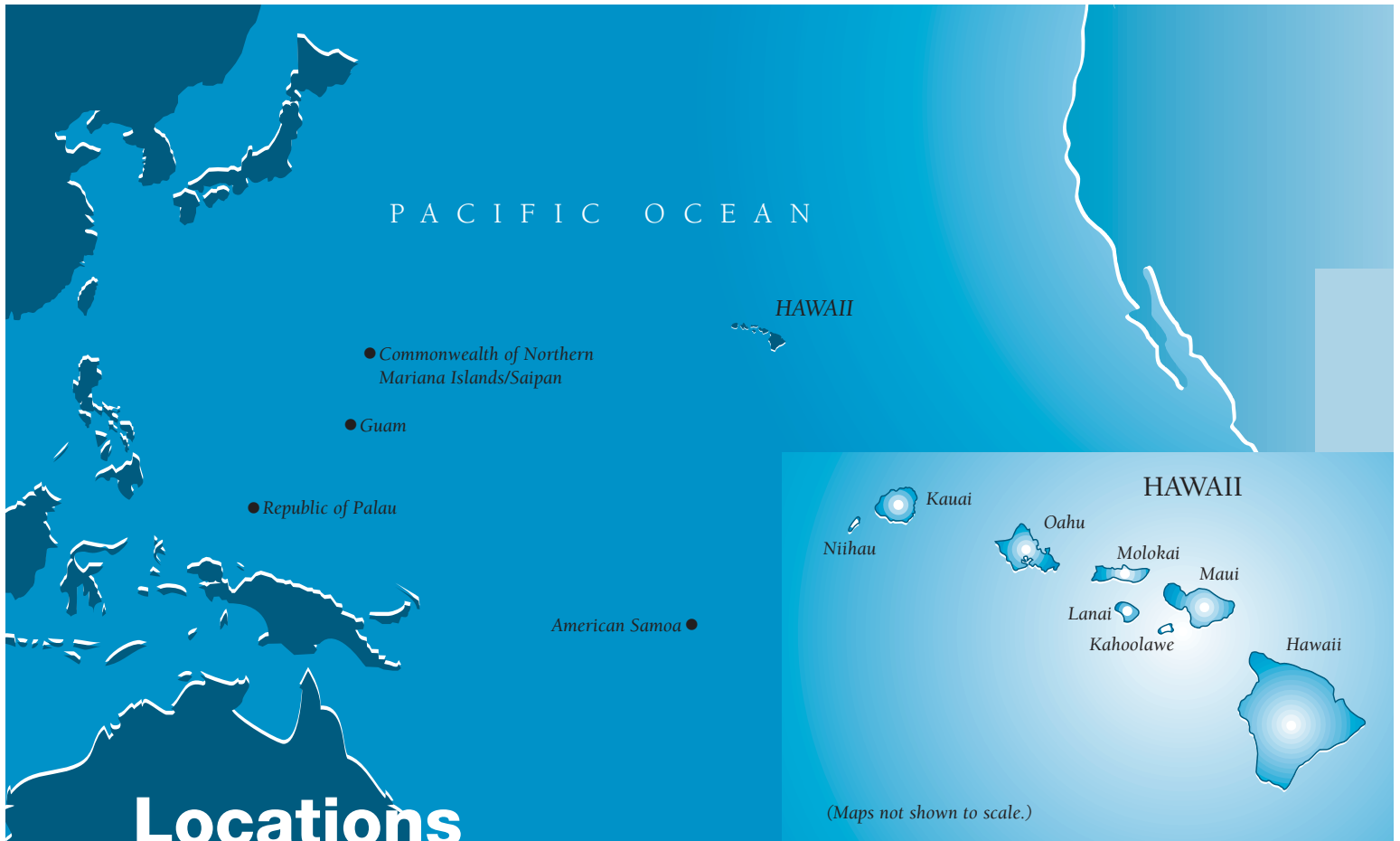
Guam Economic Report

October 2003



EAST - WEST CENTER





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.

Bank of Hawaii Corporation and its subsidiaries offer a wide range of financial products and services, including: deposit and lending services, investments, trust services, private banking, leasing, mortgage, insurance, cash management, employee benefits and retirement plan services.

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.

As a company, we are committed to providing the highest level of quality customer service. For more information about Bank of Hawaii, please visit our website at www.boh.com.

TO OUR READERS:

We are pleased to present this 2003 edition of the Guam Economic Report under a regional research and study partnership between Bank of Hawaii and the East-West Center.

Guam is one of the West Pacific markets which Bank of Hawaii serves, and the Bank's presence here goes back more than four decades. Guam 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 Guam, 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 Guam 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 Guam, should begin to improve over the next 18-24 months.

Additional information on Pacific economies is available at the Bank of Hawaii 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

Contents

I. Economic and Financial Overview	4
I.1 Guam’s Institutional Structure and Information Flow	
I.2 Pre-Pongsona Economy: Declining Tourist and Federal Dollars	
II. Population, Labor Force, Employment and Unemployment	9
II.1 Labor Force, Employment and Unemployment	
II.2 Wages	
III. Economy by Sector and Major Areas	12
III.1 Federal Government	
III.2 GovGuam	
III.3 Construction	
III.4 Tourism	
IV. What Lies Ahead: A New Agenda for a New Era	18
Pacific Islands Fact Sheet	20

Acknowledgments

This report was written by Dr. Wali M. Osman, Bank of Hawaii Senior Fellow for the Pacific Economies at the East-West Center, with grateful acknowledgment to the Offices of the Governor and Lieutenant Governor of Guam, University of Guam, Departments of Revenue and Taxation and Administration, Bureau of Budget and Management Research, Guam Economic Development and Commercial Authority, Guam Department of Labor, especially Economic Research Center, Guam Visitors Bureau, Guam Hotel and Restaurant Association, Guam Chamber of Commerce, individual leaders in business and government who shared their insights and perspective, and especially Bank of Hawaii, Guam.

Cover photo: Night scene of Hagåtña Bay, Guam; photo courtesy of the Guam Visitors Bureau.

Top inset photo: Crew members walk off the USS Carl Vinson, docked at the naval base. The aircraft carrier and its 5,200 sailors and Marines visited recently; photo courtesy of the Pacific Daily News, Guam.

Bottom left inset photo: Tourists walk by one of the Spanish-era cannons displayed at the Plaza de España in Hagåtña; photo courtesy of the Pacific Daily News, Guam.

Bottom right inset photo: Spanish bridge; photo courtesy of the Guam Visitors Bureau.

Photos on cover and text pages that were provided by the Pacific Daily News, Guam were published with the permission of the publisher of the Pacific Daily News, Guam. Any republication of these photos without the explicit permission of the Pacific Daily News is in violation of federal copyright laws.

GUAM

Population

2002 estimate: 159,547

2000: 154,805

1990: 133,152

1990–2000 population growth rate: 1.5 percent

1980–1990: population growth rate: 2.3 percent

Economy

Currency: US dollar

Income sources: tourism, national defense, trade and services, handicrafts

Estimated Gross Domestic Product (GDP) : \$2,463.2 million

Per Capita GDP: \$15,439

2002 civilian labor force: 62,050

2002 payroll employment: 55,750

2002 unemployment: 7,070

2002 unemployment rate: 11.4 percent

Minimum Wage: \$5.15 (same as US rate)

Political Status

US Territory since 1898

Head of Executive Branch: elected governor

Uni-cameral Legislature (15 Members)

US-style independent 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

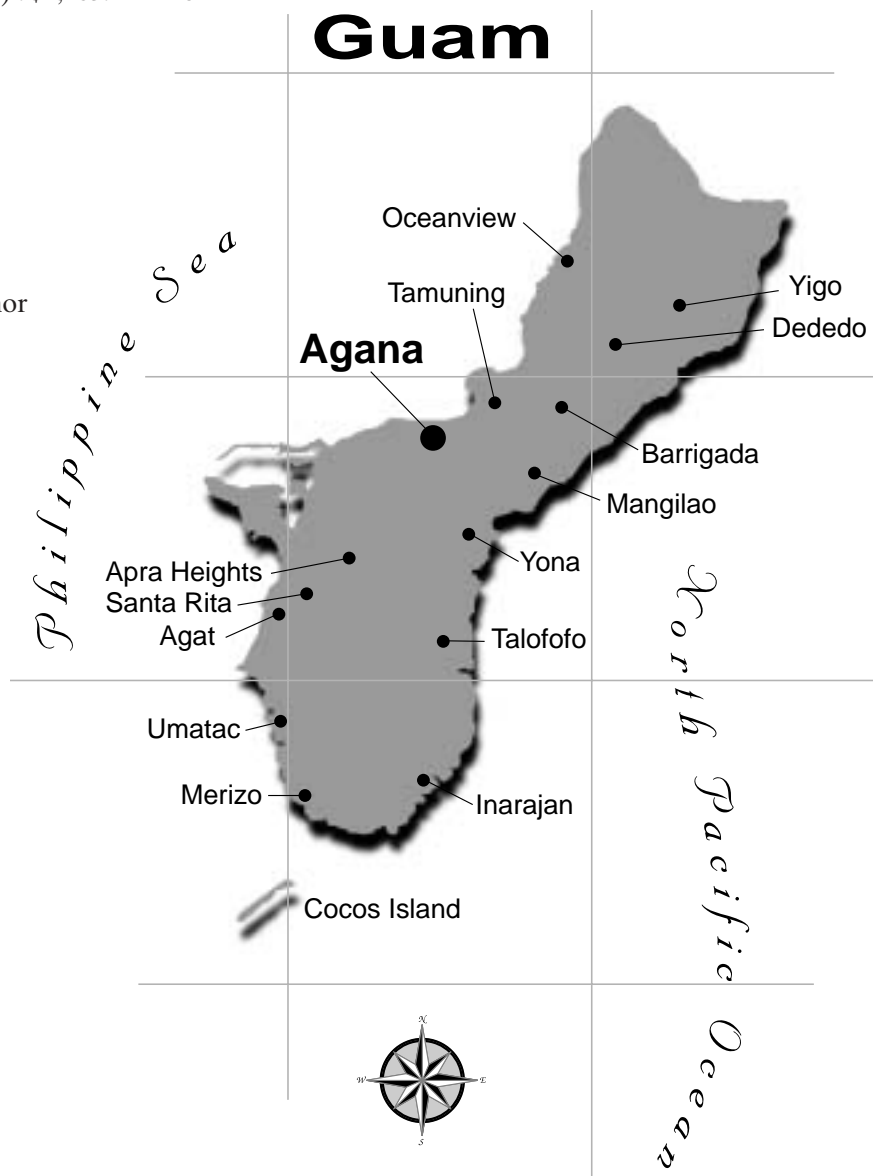
San Francisco: 5,800 miles

Tokyo: 1,500 miles

Taiwan: 1,400 miles

Seoul: 2,000 miles

Manila: 1,500 miles



I. ECONOMIC AND FINANCIAL OVERVIEW

The Government of Guam (GovGuam) has not updated the territory's macroeconomic accounts, namely the levels of and changes in the components of gross domestic product (GDP), since 1998. Nor has GovGuam kept complete and up-to-date data on the so-called tax base, the dollar amount of business transactions in the economy subject to tax because of a variety of legal, accounting and personnel issues. Another area for which complete and current data have been a chronic problem until recently has been GovGuam's financial condition. In the absence of data on the GDP and the tax base, there is no objective method to measure accurately changes in

total income and their implications for tax receipts and public spending and investment policies. Also, the lack of accurate and complete data has made more difficult the task of reaching a consensus on the nature and extent of fiscal problems and their solutions.

The lack of definitive evidence makes it difficult to measure objectively the economy's output and changes in the production and distribution of income, but many signals point to a substantial and continued erosion of the economic base, which has been ongoing since the mid-1990s. Evidence from secondary sources, such as payroll employment, tax revenues and public finances, suggests that Guam's GDP may have contracted as much as 25-35 percent from the level of a decade ago.

Guam's Major Economic and Financial Indicators

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Population	139,371	142,589	145,881	149,249	152,695	156,220	159,827	163,517	154,805	157,158	159,547
Civilian Labor Force	47,500	47,030	47,930	47,890	49,180	49,540	48,060	72,700	70,800	69,560	62,050
Total Employment	69,569	68,420	66,570	65,220	68,440	66,800	64,230	60,340	60,210	56,140	55,750
Unemployment	2,030	2,820	4,500	3,740	4,410	4,660	3,720	10,110	10,060	9,040	7,070
Unemployment Rate (%)	4.2	6.0	7.3	7.8	9.0	9.7	7.7	14.0	15.3	13.0	11.4
Gross Island Product (\$M)	2,902.1	2,916.8	3,013.7	2,998.6	2,992.5	3,079.0	3,020.5	—	—	—	—
Personal Income (\$M)	2,203.2	2,239.9	2,289.7	2,228.4	2,264.0	2,354.5	2,338.1	—	—	—	—
Per Capita GIP (\$)	20,823	20,456	20,659	20,091	19,598	19,709	18,899	—	—	—	—
Per Capita Personal Income (\$)	15,808	15,709	15,696	14,931	14,827	15,072	14,629	—	—	—	—
Gross Business Receipts (\$M)	3,876.8	3,673.2	3,918.7	4,386.8	4,548.3	4,577.2	4,212.3	—	—	—	—
Wholesale	97.8	68.5	69.9	55.0	79.5	80.0	73.6	—	—	—	—
Retail	1,301.7	1,331.3	1,392.3	1,699.9	1,831.5	1,825.0	1,687.9	—	—	—	—
Services	781.5	812.7	877.6	986.1	1,029.3	1,081.1	974.1	—	—	—	—
Contracting (Construction)	934.3	635.4	696.4	681.3	649.4	527.4	543.4	—	—	—	—
Rental Activity	184.2	214.1	271.2	402.1	429.1	444.1	403.0	—	—	—	—
Others	577.3	611.2	611.3	562.4	529.5	619.6	530.3	—	—	—	—
Total Deposits (\$M)	1,444.8	1,391.8	1,355.2	1,305.7	1,522.7	1,627.1	1,472.7	1,519.9	1,654.3	1,537.1	1,584.0
Total Loans (\$M)	1,902.5	2,240.0	2,505.7	2,196.9	2,542.8	2,890.3	3,086.5	3,245.5	3,204.2	2,692.1	2,480.1
Bank Deposits (\$M)	1,260.2	1,201.3	1,226.0	1,441.3	1,348.4	1,458.1	1,352.7	1,320.46	1,381.4	1,372.4	1,462.3
Bank Loans (\$M)	1,295.7	2,065.2	1,941.0	2,357.3	2,239.1	2,575.4	2,932.1	2,997.30	2,782.8	2,538.0	2,352.6
GovGuam Total Revenues (\$000)	675,022.8	551,190.2	504,353.0	524,345.3	530,007.1	515,573.9	503,656.9	469,387.8	480,550.4	446,848.2	342,633.2
GovGuam Total Spending (\$000)	531,375.5	396,463.9	417,414.2	361,431.3	352,764.4	285,139.4	206,130.4	342,249.7	336,589.1	335,639.1	306,937.1
Revenues less Spending	143,647.4	154,726.3	86,938.8	162,914.0	177,242.7	230,434.5	297,526.5	127,138.2	143,961.3	111,209.1	35,696.1
Deficit at beginning of year	41,515.9	(46,127.4)	(125,051.3)	(184,861.8)	(93,599.0)	(73,951.0)	(73,928.7)	(94,360.5)	(108,938.0)	(66,772.9)	(96,580.0)
Deficit at end of year	7,901.5	(125,051.3)	(184,861.8)	(93,599.0)	(73,951.0)	(73,928.7)	(94,360.5)	(108,938.0)	(99,832.4)	(96,580.0)	(117,300.8)
Total Federal Spending (\$000, FY)	—	1,101,862.5	1,091,778.4	833,246.7	855,360.0	907,902.2	1,185,712.3	889,605.6	890,811.9	980,771.0	1,215,759.8
Defense	—	636,562.0	734,916.0	495,285.5	506,886.9	480,086.8	507,086.0	428,820.0	451,019.0	461,318.0	561,656.0
Non-defense	—	368,058.5	326,267.6	314,451.2	322,943.1	366,901.4	460,455.1	404,671.9	390,864.2	446,937.3	552,160.3
Other Federal Assistance	—	97,242.0	30,594.1	23,510.0	25,530.2	60,913.9	218,171.2	56,113.7	48,928.7	72,515.7	101,943.5
Visitor Arrivals (000)	876.7	784.0	1,086.7	1,361.8	1,362.6	1,381.5	1,137.0	1,161.8	1,286.8	1,159.1	1,058.7
Hotel Rooms	6,362	6,038	6,919	7,140	7,928	8,119	8,705	9,395	10,084	10,110	8,915.0
Occupancy Rate (%)	71.0	58.0	71.0	87.0	85.0	82.0	67.0	61.0	63.0	58.0	57.0
Telephones Subscribers	49,507	54,259	69,464	75,595	83,799	82,669	88,974	79,068	70,707	73,557	76,425.0

SOURCES: Guam Department of Labor's Economic Research Center, Guam Visitors Bureau, Department of Administration and other GovGuam agencies.

GovGuam has faced financial challenges throughout most of the past decade because of a variety of reasons. One of these is a long-held local tradition to avoid public employee layoffs. As long as the economy generated revenues to pay for existing obligations, GovGuam balanced its books, even if had to borrow in financial markets to pay employees. By keeping the payroll steady and retaining municipal functions, such as power generation and distribution and business functions including telephone and other telecomm services, GovGuam has continued to operate as it had during periods of economic growth and financial stability.

A severe financial shortfall may force GovGuam to borrow in the financial markets as it has in the past to avoid missing paydays. When the new administration took office in January, it inherited a budgetary and cash basis shortfall of \$283 million, the largest in Guam's history. Now, it seems clear that the contraction in the economy, even if it has been difficult to measure, has had a far more depressing effect on the government's financial resources and its ability to provide for the public good. For instance, GovGuam still has to pay income tax refunds owed for calendar years 2000, 2001 and 2002. In fact, among the items causing GovGuam to resort to taking extraordinary financial obligations, such as borrowing in the bond market to fulfill existing obligations, are the amounts owed taxpayers and vendors. Regardless of its financial condition, GovGuam has thus far managed to meet its payrolls, which now seem to be at risk.

The roots of Guam's economic and financial problems lie much deeper than fragmentary evidence suggests. Pongsona in December 2002 became the strongest typhoon to hit Guam in more than a century, following a series of other natural disasters. In addition, regional and global economic and financial problems dating back to the Asian financial crisis of 1997-98 plagued the island's recovery from the Japanese asset price bubble of the early 1990s. Then, as signs of recovery began to emerge in 2000, continuing well into 2001, the terrorist attacks of September 11, 2001 on New York and Washington set in motion a chain of events that would ultimately cut monthly tourist traffic by as much as 50-60 percent.

In 2002, Guam suffered damages from two powerful typhoons. Typhoon Pongsona, the most damaging, left parts of the island without power and running water for weeks. The island's commercial fuel storage was partially burned, making restoration of power and water services more difficult. According to local media reports, the Federal Emergency Management Agency (FEMA) and other federal agencies had committed well over \$300 million by June of this year, making Pongsona Guam's costliest natural disaster to date. Recovery efforts have thus far emphasized personal safety and



Power poles along Marine Drive in Tamuning were tilted midway as a result of Super typhoon Pongsona in December, one of two storms that blasted Guam in 2002. Photo: Pacific Daily News

rehabilitation of the basic infrastructure and services. Damage to the ecosystem will take much longer to assess and repair.

During this year, the Iraq War and the SARS epidemic contributed to yet another round of declining tourists from Japan. These global events together with the natural disasters and economic problems in the region have continued a contraction in Guam's economy that began in the mid 1990s.

In the late 1980s and 1990s, Guam became increasingly dependent on Japanese tourists and less on national defense and non-defense federal outlays, the territory's second largest income source. In economic and financial terms, Guam seemed more like a part of Japan than a territory of the United States. Reliance on the Japanese economy, caused by market conditions rather than government design, exposed Guam to economic and financial ills that would have been inconceivable a decade earlier. Next to natural disasters, Guam's close economic relationship to Japan turned out to be the single most destabilizing factor as the Japanese economy entered its long phase of decline and stagnation. Since Japan shows no signs of recovery to earlier levels as a global or regional power, Guam's economic future may deteriorate even more before it shows signs of improvement.

The weak Japanese economy has exacerbated Guam's economic and financial problems, mainly because, for over a decade, a large majority of tourists to Guam have been Japanese. Nearly 75 percent of well over a million tourists last year came from Japan. Because of losses in income and purchasing power, caused by internal, regional and global economic and financial changes, Japanese tourists have arrived in fewer numbers and spent less money on the island. Since US defense spending had been declining for a decade until fiscal year 2002,

losses in Japanese tourist spending simply added to the forces that weakened the island's economy.

For example, Guam's hotel occupancy rates have recently averaged in the 50-60 percent range, especially among the five-star hotels. Precise figures are not available, but anecdotal evidence suggests that occupancy rates even in hotels appealing to budget-minded travelers average no more than 55-65 percent. Meanwhile, Japanese tourists who used to visit restaurants in four- and five-star hotels now routinely eat at food courts in local shopping malls and fast-food restaurants. Japanese tourists can be spotted in "big box" retail stores such as K-Mart purchasing heavily discounted merchandise, along with fast food.

Estimates from established tourist destinations indicate that an average of about 70-percent occupancy rate throughout the year is needed to generate the cash flow that enables a hotel to maintain its infrastructure and a service level that keeps it profitable. Low occupancy rates not only mean less money for hotels and restaurants but a host of other suppliers who sell goods and services to tourists. Also, expectations of low occupancy rates may discourage investment in existing plant. Several hotels that sustained severe damage during the December 2002 typhoon have not reopened parts of their properties because owners fear that it will be some time before the occupancy rate will reach the more desirable 70 percent. These conditions have motivated leaders in the leisure industry to search for alternative means to attract different, more affluent tourists from other markets.

One idea under consideration is to advance a ballot initiative next year that would legalize commercial gambling on Guam. What makes the gambling initiative attractive to large hotels on Guam is the perceived potential of China as a source of future tourists. Some even argue that China will soon

replace Japan as East Asia's major origin of tourists. And since Chinese tourists by reputation are more enthusiastic about gambling, Guam could create a new market by allowing the activity. That may be so, but the most important factor in making gambling destinations work is appealing to wealthy people who have relatively large amounts of disposable income. Las Vegas has become a world-class destination, after decades and tens of billions of dollars of investment as well as its proximity to California whose wealth would make it the world's fifth largest economy if it were an independent state.

It is too early, however, to consider economic benefits to Guam from Chinese tourists. Outbound travel from China is still limited to government officials and government-approved business people. Also, the government of China selects destinations and puts them on a so-called approved list of places that Chinese citizens can visit. So far, the United States and its territories are not on this list. Even if the United States is added to the reported 25 destinations, it is unclear how many Chinese would be allowed to travel and how much money they could take outside their country. In preparation for a gambling industry on Guam, however, the experiences of a Las Vegas-style hotel and casino on the Island of Tinian north of Guam offers some valuable lessons on the feasibility of commercial gambling in small and isolated island markets.

Being a small and relatively fragile island, Guam's isolated geography and its ecosystem limit new industries, even under the best economic and financial conditions. Most of Guam's commercial infrastructure is aging and requires large sums to maintain. Granted that global competition pressures Guam to diversify its services to tourists, but these need to be developed within the context of the island's comparative economic advantages. These may include alternative attractions such as theme parks and entertainment outlets rather than gambling.

Given these realities, caution is advised on two fronts. First, without complete and current data on the tax base and the economy as a whole, inferences from any set of numbers and observations are tentative and, therefore, subject to error and revision. Second, there is no single factor that has caused Guam's economy to lose nearly 20 percent of its payroll employment within a decade.

Between 1992 and 2002, Guam's total payroll employment decreased from 69,569 to 56,020 jobs, most of the losses occurring in the private sector and national defense. This unprecedented loss has had important implications for the economy and the island's labor force, which has grown more slowly in recent years because Guamanians have migrated to the United States. But it is clear that Guam's economy needs to be rebuilt, at least to the more



Tourists walk by one of the Spanish-era cannons displayed at the Plaza de España in Hagåtña.

Photo: Pacific Daily News

recent prosperity levels of 1996-97. This is a major challenge the new administration faces.

I.1 Guam's Institutional Structure and Information Flow

Essentially, Guam's institutional structure follows that of a US state, however small and isolated the island and its population may be from the rest of the country. While there has been no change in the basic structure of GovGuam in recent years, political debate on the island has become more divisive. This has often led to a struggle between the executive branch, headed by a popularly elected governor that controls and disseminates information on the economy, and a unicameral legislature. Following national and regional patterns in the United States, party politics has taken on a more partisan tone. Since the governor serves a four-year term and the 15 members of the single-house legislature are elected for two years, political objectives of each branch do not always converge. This lack of cooperation within the government has made institutional reform of GovGuam difficult for nearly a decade.

Accepting the proposition that democracy was meant to be representative of the people rather than an efficient mechanism for allocation of resources, politics on Guam is no different from other US states. What is unusual is that the political debate has had to concentrate on how to pay expenses with smaller budgets. When Guam's economy was healthy, there was enough income to satisfy almost every political constituency. Or, to borrow from a nautical image, so long as a higher tide lifted the ship, those at the controls were able to reach agreement on which direction to steer their vessel.

A growing economy also created a pattern of increases in providing for the public good, which often meant increased public employment and more purchases of goods and services from the local private sector. Economic growth also made it possible for government and business to work together cooperatively and cohesively and sustained economic growth resulted in spreading more wealth among the average citizens. The combination of increased public income and private wealth satisfied most segments of the economy.

When the economy declined in response to the Asian financial crisis, the political debate grew more unpleasant as Guam's leaders struggled to allocate resources evenly to competing constituencies. They decided that one of the easiest areas to cut was public information efforts, especially those focused on the compilation of economic and financial data and reporting on the territory's economy and finances. Some of the activities were abolished altogether in 1999 and others were merged into other areas without their corresponding budgets. These closures

and mergers ended a source of economic data that heretofore had enabled public and private business people and citizens to keep track of the economy and make informed decisions about business policies, an activity so essential to maintaining an open-market economy.

The public debate on Guam during the last several legislative sessions indicates that the executive branch and the legislature still do not agree on how best to meet the economic and financial challenges the territory faces. As long as political bickering did not influence the mechanism by which public institutions delivered public goods, it was considered to be a part of the American political process. It is not entirely clear whether the political conflict derives from ideological differences or personality clashes, but it clearly casts doubt on Guam's commitment to institutional solidity and reform. The way the debate has been recently, it appears that the kind of deadlock in Washington that led to a government shutdown a few years ago may be repeated on Guam. Meanwhile, it has interrupted the flow of information critical to the evolution of a dynamic market and to the territory's capacity to attract private capital and skills.

Among the critical components of GDP, for instance, is total personal income (wages and salaries, rents, interest and dividends and transfer payments). Total personal income represents the average person's economic well-being, which has important implications for government and business planners. The loss of funds and staff has had serious consequences for Guam's data flow. But even before the cutbacks, there were problems of methodology. In the absence of essential economic data, there is no practical way to estimate the depth of Guam's economic problems and suggest feasible solutions.

In the absence of accurate, complete and timely data on the GDP, the best measure of business performance is the tax base, business and other transactions subject to tax. While large companies who sell goods and services pay taxes every month or every quarter, small businesses that earn annual revenues not exceeding \$50,000 were exempted from the 4 percent gross receipt tax (GRT) beginning in 1998. (The exemption was reduced to \$35,000 in April of this year.) In the same month, GovGuam raised the GRT to 6 percent to boost revenues.

While the government regularly collects taxes, information on the underlying transactions is not compiled concurrently by the Department of Revenue and Taxation because it does not have the labor force and computing technology needed to do the work. Instituting exemptions for small businesses in 1998 and revising them in 2003 have complicated tax schedules and payment procedures. The Department of Revenue and Taxation's internal assessments suggest there are problems in filing and

compiling GRT data in the face of exemptions, which have also meant reductions in tax collections. Apart from the procedural challenges that the Department of Revenue and Taxation has faced for several years, the net result has been decreased revenues in the face of a relatively steady GovGuam payroll.

The health of any state's economy can best be measured by current and complete data. What will work best for Guam is maintaining its political, strategic, economic and financial links to the United States. That advantage can obviously be more meaningful to the economy if Guam's public institutions delivered the requisite public good, regardless of political differences.

I.2 Pre-Pongsona Economy: Declining Tourist and Federal Dollars

Guam's economy faced challenges even before typhoon Pongsona. The weakening of Japan's economy, specifically the drop in per capita income and corporate profits, the yen's depreciation from time to time, concerns over flight safety to the United States after September 11, 2001 and the SARS epidemic have all contributed to a significant decrease in Japanese travel overseas. In 2002, the number of Japanese traveling abroad declined for the first time in decades. Increases in domestic travel may have helped Japan's economy, but now those who still travel abroad have less money to spend. These developments have intensified the economic and financial problems of Guam and the Northern Marianas where Japanese tourists account for 70-80 percent of total arrivals. (The impact on Hawaii's tourist industry has been similar, but of a lesser magnitude because Japanese tourists make up only about 25 percent of total arrivals.)

It is important to clarify Japan's current status in the global economy. Contrary to conventional thinking, Japan is not the world's second largest economy. Information based on purchasing power parity (PPP) calculations, a more realistic norm for comparing world economies, indicate that the United States is the world's largest economy, with a total GDP of \$10.8 trillion and a per capita GDP of \$37,150. The European Union (EU) with a total GDP of \$9.3 trillion and a per capita GDP of \$20,670 is now second.

China, including Hong Kong and Taiwan, makes up the world's third largest economy with a GDP of \$7.8 trillion and a per capita GDP of 6,272. Japan is now a distant fourth, with a total GDP of \$3.3 trillion and a per capita GDP of \$25,984. This last figure is closer to Hong Kong's per capita GDP of approximately \$26,000 than to that of the United States.

Japan is still the world's second largest

economy if one uses prevailing exchange rates (ignoring PPP calculations), converts Japanese GDP in yen to dollars and also ignores the EU as a single economic entity. But there is more to Japan's economic and financial decline than GDP data alone. The Nikkei 225 Index (index of 225 Japanese stocks) fell below 8,000 recently, marking its lowest level in more than 20 years. In late 1989, the Japanese asset price bubble peaked when the Nikkei rose to just under 40,000. Although the Nikkei has recovered some lost ground since reaching 8,000, it is a long way from reaching its previous peak, and the Japanese economy still faces major problems.

There is a consensus among economists that while the Japanese economy may not be suffering from a 1930s-style depression, it has been on the decline for more than ten years, with no end in sight to persistent deflation. Although per capita income has fallen, economic policies remain unchanged. Japan's problems can be itemized as:

- mounting non-performing bank loans (similar to the US S&L crisis in the late 1980s)
- a sharp rise in government debt (higher than most industrial nations)
- a record unemployment, a declining labor force and an aging population
- large numbers of corporate bankruptcies
- continuing deflation

This list of problems has persisted during a decade while the average Japanese has watched the nation's standard of living decline. The prospect for a turnaround anytime soon is not very bright. Meanwhile, the continued weakening of Japan's economy has had an immediate impact on Guam.

Some simple arithmetic based on the declining budget of the average Japanese traveler demonstrates more clearly the adverse effect on Guam's economy. In early 1996 with a per capita spending of \$840 on Guam, the 1.0287 million Japanese tourists would have spent a total of \$864.2 million on the island. In 2001 with a reported per capita spending of \$501, the 901,539 visitors from Japan would have spent a total of \$451.7 million, only 52.3 percent of the early 1996 total. There are no figures for 2002, but it is highly unlikely that Japanese tourist spending would have been much different from the previous few years.

A combination of factors, most of them attributable to Japan's economic and financial problems, was behind Guam's steady decline. A drop in income and the frequent depreciation of the yen were the main reasons for less spending by Japanese travelers. Declining corporate profits and bonus payments also contributed to the lower travel budgets. In some cases, bonuses have stopped

because many Japanese firms no longer have the profit margins they enjoyed when Japanese goods dominated global markets. Passenger cars and consumer electronics are examples of goods manufactured in Japan that used to command high prices in regional and world markets.

In 1996-2001, hotel occupancy taxes declined 28 percent as the average hotel occupancy rate dropped from 85 percent to 60 percent. A comparison of statistics with 2002 shows a situation even more severe. In 1996-2002, tourist traffic to Guam fell 22.3 percent and hotel occupancy taxes were down 38.2 percent. The average hotel occupancy rate in 2002 was 57 percent, the lowest since record keeping began in 1986.

In the same period, national defense spending decreased from \$506.9 million to \$461.3 million. The drop in national defense spending may appear small, but the total impact of federal dollars on Guam is larger than the dollars Japanese tourists spend. Generally, federal employees, whether in uniform or civilians, receive more in wages, salaries and benefits than those employed in tourism and other civilian services on the island.

Recent announcements by the US Department of Defense to undertake substantial repair and rehabilitation work on Guam's military bases and housing complexes raise the prospect that military spending will increase, perhaps more rapidly than it did in fiscal 2002. However, Guam would benefit directly and indirectly from an increased commitment of military forces on the island. Whether Guam can play a role in a national defense force and resource allocation is yet another challenge the new administration faces.

II. POPULATION, LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT

Life expectancy on Guam is 78.3 years, slightly higher than that of the United States and only three years less than Japan's 81 years, the world's longest. Guam's literacy rate reportedly at 99 percent is the

same for both men and women. As in Hawaii and the rest of the United States, women have become an increasingly large part of the work force. In March 2003, women represented 44.2 percent of all civilian payroll workers on Guam, up from 42.4 percent in 1994. Like Hawaii, relatively high prices on Guam make it difficult for a family to sustain an adequate standard of living on one income.

Among the important changes revealed in the 2000 census was a much slower population growth rate than in the previous decennial censuses. According to the 2000 census, Guam counted a total population of 154,805, over 15,000 less than the 170,000 estimated before the census. Compounded growth rate in 1990-2000 was 1.5 percent, rather than the earlier projection of 2.3 percent.

The sharp drop in population growth in 1990-2000 is not the result of a large drop in the natural increase. Rather, it seems to derive from Guamanians migrating to Hawaii and other states for employment opportunities, which follows a similar trend found among Hawaii residents in the 1990s. Once again, since there are no precise data in travel from the island to Hawaii and the US mainland, it is difficult to determine trends.

II.1 Labor Force, Employment and Unemployment

In 1999, the Guam Department of Labor revised data on the civilian labor force going back to 1974. As a result, the 1974-1998 segment of the series is not strictly comparable to the period beginning in 1999. Still, the data shed light on changes in the labor force and labor market, especially since 1999. In that year the civilian labor force (both employed and unemployed) totaled 72,700 or 44.5 percent of the total population. This was somewhat lower than the national average of nearly 50 percent which had remained stable over the last four or five decades. The United States is typical of fully employed industrial economies where half of the total population is in the labor force, including employed and unemployed persons.

From 1999 to 2002, Guam's civilian labor force

Civilian Labor Force¹

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Civilian Labor Force	47,500	47,030	47,930	47,890	49,180	49,540	48,060	72,700	70,800	64,800	62,050
Persons Employed	46,710	44,210	44,430	44,150	44,770	44,990	44,340	61,640	59,950	60,520	54,980
Persons Unemployed	2,030	2,820	4,500	3,740	4,410	4,550	3,720	11,060	10,850	9,040	7,070
Unemployment Rate (%)	4.2	6.0	7.3	7.8	9.0	9.2	7.7	15.2	15.3	13.0	11.4
Persons not in Labor Force	21,730	22,780	22,700	23,610	22,110	21,880	23,780	35,670	33,680	34,670	37,450

¹Includes civilians 16 years of age and over, but excludes non-immigrant aliens and members of US Armed Forces and their dependents living on military bases.

declined every year, reaching a low of 62,050. In addition to the relatively large decline of 14.6 percent during that period, the civilian labor force as a share of the population declined from 44.5 percent to 38.9 percent. It is not clear what exactly caused the relatively large decline, but the weak economy appears to be the principal cause. This drop in the civilian labor force is consistent with the drop in the total population growth rate of the 1990s, based on the 2000 census data.

A more worrisome development going back to the early 1990s has been a steady decline in payroll employment, both in number and as a share of the population. Since payroll data have not been revised in the same way as civilian labor force numbers were, they offer a more consistent explanation for what has happened to payroll employment in the last decade. In 2002, the Guam Department of Labor reported a total civilian payroll of 56,020, down 19.5 percent from the 1992's peak of 69,569. As a share of the total population, Guam's total payroll employment was 34.9 percent in 2002, as compared to 49.9 percent in 1992, which was more than three percentage points higher than the national average of 46.6 percent. By these statistics alone, Guam is a rare case in the Western Pacific where payroll employment has declined steadily for a decade in the face of rising, although less rapidly growing, population.

The downturn in the economy that has caused the losses in payroll employment has had severe consequences for Guam's residents. In 1992, the ratio of Guam's population to payroll employment was nearly 2:1, similar to ratios in Hawaii and other states as well as in the entire country. If one were to express this ratio in terms of economic and financial support, it would suggest that every person employed was responsible for two persons. This ratio, once again, would be consistent with those of other states and the United States as a whole which represents fully employed industrial economies among which Japan used to be a leading example. Based on the economic and financial support example, one person on payroll on Guam in 2002 was responsible for three, as compared to only two a decade earlier.

Once again, since there are no detailed GDP data that identify the components of personal income, it is difficult to explain, especially in a quantitatively useful manner, the consequences of these developments in Guam's labor market and economy and to predict future trends. The only feasible explanation is that workers left Guam in search of jobs and income in Hawaii and the rest of the United States.

Some economists argue that payroll employment is not the only form of work, and that market economies usually have large numbers of self-employed and half-time workers who may not be covered by employment insurance and counted

accurately. That may be so in economies like the United States where self-employment and half-time work is preferred by large segments of the population. It may also be true that work for family and community may not be reported as work for pay and, therefore, not represented in labor market surveys.

There is no evidence, however, to show that self-employment, half-time work and other forms of non-payroll work can account for the steady and large decline in the population-payroll employment ratio on Guam. Rather, the ratio reflects the economic and financial problems Guam has faced since the 1990s. To the degree that Guam and Hawaii benefited from and were affected negatively by the Japanese asset price bubble of the late 1980s and early 1990s, one might expect that the Hawaii population-employment ratio would resemble that of Guam. Evidence shows the opposite: Hawaii adjusted to the post-bubble economy and its population-employment ratio actually did not rise as in Guam. Nor has the ratio for the United States as a whole risen in recent decades, except for temporary increases during recessions.

Among the likely explanations for Guam's declining ratio is geographical isolation which imposes extra costs on small economies. Island economies such as Guam (and Hawaii) face different problems when they slow down. There is no easy access to neighboring markets, as there often is on the mainland. Islanders who lack family and other close ties find migration more difficult without immediate prospects for work and income. These circumstances force the unemployed, underemployed and discouraged workers to depend on family and other social support systems, increasing the financial load for those still employed. In the context of the close-knit family and social structure that Guam still maintains, family ties lessen the adverse effects of unemployment and the dislocation it gives rise to. But, in the context of economic and financial calculations, the same structure discourages the development of a more mobile and dynamic labor market where participants move freely and frequently in response to changes in the labor market, locally, nationally and internationally.

What Guam has suffered from in the last decade is not that different from Hawaii's experience, except that Guam has endured destructive natural disasters that have caused physical, economic and financial damage. In the 1990s, when the US economy was booming, Hawaii declined and stagnated through most of the decade because the digital revolution that fueled the national and global economies was centered on the mainland, mainly in the Western states.

Hawaii's advantage over Guam is that tourist traffic from Japan accounts for only a quarter of the

Payroll Employment by Sector

<i>(persons employed)</i>	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Agriculture	420	382	260	290	340	340	290	250	410	250	290	270
Construction	12,467	9,980	8,760	7,680	7,590	6,410	6,110	4,890	3,950	2,810	3,420	4,330
Manufacturing	2,065	1,771	1,900	1,750	1,690	1,780	1,920	1,550	1,580	1,520	1,570	1,640
Transport & Utilities	4,346	4,231	5,200	5,090	6,000	5,750	5,380	4,990	5,020	4,670	4,590	4,570
Wholesale Trade	2,045	2,209	2,080	2,160	2,270	2,370	2,040	1,880	1,950	1,890	1,820	1,930
Retail Trade	12,060	12,232	12,250	12,550	12,990	12,700	12,220	11,780	12,410	11,230	10,870	10,550
Fin, Ins & Real Estate	2,722	2,696	2,740	2,720	2,690	2,850	2,730	2,380	2,520	2,510	2,450	2,360
Services	13,534	13,290	12,990	13,890	15,500	15,520	14,090	14,550	16,640	15,360	14,510	13,830
Total Private Sector	49,659	46,791	46,180	46,130	49,070	47,720	44,780	42,270	44,480	40,240	39,520	39,480
Federal Government	7,202	7,692	6,960	6,120	5,560	5,220	4,860	4,530	3,170	3,200	3,220	3,250
GovGuam	12,708	13,937	13,430	12,970	13,810	13,860	14,590	13,540	12,560	12,700	13,280	12,060
Total Public Sector	19,910	21,629	20,390	19,090	19,370	19,080	19,450	18,070	15,730	15,900	16,500	15,310
Total Payroll Enrollment	69,569	68,420	66,570	65,220	68,440	66,800	64,230	60,340	60,210	56,140	56,020	54,790

Note: 2003 data are as of March.

SOURCE: Guam Department of Labor

total and those from the mainland make up more than half of all arrivals. Another advantage is that per capita income of the average American traveler increased substantially in the 1990s, contrary to the experience of the average Japanese traveler whose income declined. Had it not been for mainland visitors who come to Hawaii in much larger numbers and have increased their spending, Hawaii's tourist industry might have suffered more.

Problems that afflicted Hawaii's economy in the 1990s continue on Guam. One of these is called the "brain drain," referring to those with marketable skills who leave Guam for the mainland to find better paying jobs. As much a disadvantage as the loss of skilled labor was to Hawaii in the 1990s and to Guam now, the highly mobile labor market of the United States is one of its greatest assets. Fueled by innovation and new technology the US economy, more than any other economy in the world, consistently and rapidly, creates new jobs, even in slow growth periods. Small island economies like Guam must find more ways to benefit from the large yet flexible US labor market. It may be an immediate disadvantage for Guam to lose skilled labor to the national market, which draws skilled workers from around the world, but in the end, if some Guam (and Hawaii) residents find employment on the mainland, this is certainly a better option than being unemployed or underemployed in the local market.

Another element of Guam's labor market that reflects the island's somewhat unique economic and financial challenges has been change in the rates of unemployment in the past few years. In 2002, when the economy was at its weakest, the rate of unemployment declined notably from the previous year. This was the result of a shrinking labor force, including the unemployed. The number of unemployed persons dropped from 10,110 in 1999 to

10,060 in 2000 and from 9,040 in 2001 to 7,070 in 2002. Correspondingly, the rate of unemployment, increasing from 14.0 percent in 1999 to 15.3 percent in 2000, dropped to 13.0 percent in 2001 and 11.4 percent in 2002. If discouraged workers had not left Guam's labor market, the rate of unemployment would have likely gone up as there were fewer and fewer payroll jobs. Instead, workers who left the island for employment elsewhere pushed the unemployment rate down as well.

For several years now, some on Guam have contested the validity of labor market data because they argue that the information is incomplete and unrepresentative. To the extent that current labor-market statistics are based on periodic surveys, rather than censuses, there is room for error. However, these errors tend to be small and random. Over long periods, as statisticians refine their techniques and survey methods, their findings become more reliable. Incomplete data allow some to argue that since the mid-1990s Guam has been in an economic depression, not a recession. To settle this question decisively requires more accurate information. However, prevailing labor market conditions, such as rates of employment and unemployment, do not suggest a depression, which is usually defined as a rate of unemployment of about 25 percent or higher. Indeed, this was the case in the United States during the Great Depression of the 1930s.

II.2 Wages

Weaknesses in the economy and the labor market are also seen in the wage-rate data of the past few years. Unlike the last peak in payroll employment in 1996, the average wage rate in the private sector peaked at \$377.43 in 2000, the year the economy was recovering from the Asian financial crisis. The previous peak of \$361.00 had been in

Private Sector Average Weekly Earnings by Sector

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Agriculture	351.00	305.45	308.46	302.37	308.31	306.49	334.08	342.00	384.47	373.00	321.17	394.96
Construction	444.45	464.56	463.63	476.82	464.71	514.32	525.70	455.17	459.25	436.02	541.83	479.82
Manufacturing	360.59	435.49	451.60	438.83	485.69	473.36	412.70	457.00	479.01	416.25	479.66	556.92
Transport & Utilities	409.50	411.90	427.10	483.02	473.89	464.33	481.09	468.47	572.24	505.97	487.62	477.23
Wholesale Trade	366.77	430.93	471.68	442.17	462.09	462.11	495.93	491.83	556.56	461.21	470.79	371.22
Retail Trade	263.72	283.48	294.06	292.61	278.39	274.65	281.61	262.10	273.87	271.31	261.67	316.92
Finance, Insurance & Real Estate	335.36	338.99	372.90	370.86	407.04	414.64	427.26	487.28	392.75	415.86	381.17	396.91
Services	263.98	278.81	289.98	293.36	289.14	309.14	277.52	290.47	329.06	303.24	296.83	324.84
Total Private Sector	325.52	339.99	352.34	356.86	351.38	361.00	354.47	347.02	377.43	349.33	347.32	372.37
Government of Guam	—	—	—	—	—	—	—	627.39	663.04	650.39	662.25	609.31

Note: 2003 data are as of March.

SOURCE: Guam Department of Labor

1997. In 2002, private sector wages averaged \$347.32 a week, down 8 percent from the 2000 level.

In 2002, only construction and manufacturing among the eight main categories of wage rates in the private sector increased. Wages in construction rose 18 percent in 2000-2002, and those in manufacturing increased a miniscule 0.1 percent. Since these two represent a relatively small portion of all payroll employment, their contribution to income gain would be expected to be small as well. Wage-rate increases in construction and manufacturing in 2002, based on the December data, probably resulted from repairing damage to the infrastructure caused by typhoon Pongsona. Average weekly wages for the other six categories, from agriculture to services, declined in 2000-2002.

No data exists on federal wages. GovGuam's average wage rate, while 0.1 percent lower than in 2000, widened its large gap from the average private sector wages. In December 2002, the average wage rate of \$662.25 per week for GovGuam employees was 90.7 percent higher than the average for the private sector as a whole. This ratio was the highest since 2000.

The significant difference between the private sector and GovGuam wage rates continues to be a difficult political and financial issue. And the longer the government ignores the wage disparity in the two labor markets, the more difficult it becomes to resolve it. But cutting the GovGuam payroll has been controversial since the early 1990s. When the US military decided to close down military bases throughout the nation after the Cold War, the cutback in Guam was proportionately one of the largest in the country. The loss of federal military personnel in uniform dropped from 7,000-8,000 to around 4,000, and many civilian jobs were lost as well.

GovGuam wanted to prevent further job losses. But this concern was ignored as the economy picked

up momentum, in large part because of increased Japanese tourists with higher per capita spending. The job-loss concern resurfaced only after the economy entered a prolonged stagnation and decline in 1998. Since the new administration took office in January, government leaders have begun to discuss policies to reduce operating costs. The administration implemented one such policy when it raised the territory's excise tax from four percent to six percent beginning April 1. However, for a variety of reasons, the tax hike and reducing small business exemption from \$50,000 to \$35,000 have thus far failed to eliminate operating deficits. The challenge for the new administration is to define attainable economic and financial objectives for the long term and identify practical ways to achieve them.

The state of Hawaii presents an interesting example. The state elected a new governor last year who promised during the campaign that existing state employees would not be laid off, despite financial problems. Since the Hawaii Constitution requires a balanced budget, there is more pressure on the executive branch to find areas to cut expenses in the face of revenue shortfalls. Laying off state employees, however, has been ruled out as an option.

III. ECONOMY BY SECTOR AND MAJOR AREAS

III.1 Federal Government

Government on Guam consists of two components: federal, mainly military bases and their civilian employees, and GovGuam, the territorial government. There is no municipal or other form of government with taxing powers. Federal and territorial governments have been major employers

Total Federal Expenditures on Guam (\$000)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Direct Expenditures	1,004,620.5	1,061,184.2	809,736.8	829,830.0	846,988.3	967,541.1	833,491.9	841,883.2	908,255.3	1,113,816.3
Defense	636,562.0	734,916.6	495,285.5	506,886.9	480,086.8	507,086.0	428,820.0	451,019.0	461,318.0	561,656.0
Non-Defense	368,058.5	326,267.6	314,451.2	322,943.1	366,901.4	460,455.1	404,671.9	390,864.2	446,937.3	552,160.3
Items										
Retirement Payments	99,920.7	108,041.8	123,438.0	133,867.0	133,606.2	154,597.3	156,294.7	161,243.0	190,545.2	198,143.1
Other Direct Payments	55,506.2	61,538.3	57,896.3	59,478.3	81,962.0	66,373.6	51,651.9	71,876.5	74,664.5	78,120.8
Grant Awards	211,534.6	158,041.4	133,175.8	139,981.6	151,495.6	265,828.6	188,206.3	137,638.3	175,980.4	250,609.3
Procurement Contracts	166,136.0	276,063.5	124,753.4	112,399.0	120,759.4	166,690.6	133,782.1	222,011.8	218,947.7	308,323.9
Wages and Salaries	471,523.1	457,499.2	370,473.3	384,104.1	359,165.0	344,050.9	303,556.9	246,555.9	247,477.3	278,619.2
Other Federal Assistance	97,242.0	30,594.1	23,510.0	25,530.2	60,913.9	218,171.2	56,113.7	48,928.7	72,515.7	101,943.5
Total	1,101,862.5	1,091,778.4	833,246.7	855,360.2	907,902.2	1,185,712.3	889,605.6	890,811.9	980,771.0	1,215,759.8

SOURCE: The US Bureau of the Census

on Guam for decades. Together they have averaged a little over 29 percent of civilian employment over the past decade, ranging between 26.1 percent and 31.6 percent.

Major shifts in the mix of public employment occurred in 1992-2002. In 1992, federal civilian employment made up 36.2 percent of public employment on Guam, and GovGuam employed 63.8 percent. In 2002, federal employment was down to 21.2 percent and GovGuam was up to 78.8 percent. In 1992-2002, federal employment declined 55.3 percent from 7,202 to 3,220, but GovGuam employment increased 4.5 percent from 12,708 to 13,280. During the same time, private sector employment declined 20.4 percent and total civilian employment declined 19.5 percent.

Navy and Air Force cutbacks have had a direct impact on civilian jobs in the military. Outsourcing has also meant cutbacks in payroll and other benefits. Cutbacks in areas of national defense combined to cause federal payroll to drop from 10.4 percent of total civilian jobs in 1992 to 5.7 percent in 2002. It was up only slightly to 5.9 percent in March 2003.

Direct federal outlays on Guam, both military and civilian, declined from \$1.061 billion in fiscal 1994 to less than \$1 billion and stabilized around that level until fiscal 2002 when they rose to \$1.114 billion. The 2002 level was the highest since 1993. In fiscal 2002, both military and civilian direct spending increased by about \$100 million each, with other federal assistance adding another \$29 million. Although more accurate calculations have not been made for Guam, some believe that the income multiplier (the ripple effect) of federal defense spending is much higher than that for tourist spending. This would mean that every defense dollar, in the end, generates more than one Japanese visitor dollar. Also, the total impact of the federal employee cutback on Guam represents more than lost employees and their spending. Federal workers have access to superior health and medical care and other

benefits and access to base exchanges. Taking into account the multiplier effect, the cumulative impact of the \$230 million increase in fiscal 2002 would be greater than that amount itself.

Guam's main economic advantage is its location, which includes a valuable defense installation. Reduced military spending, however, has threatened this advantage in recent years. Since Guam has no other major industry other than tourism, there are no alternative sources of work and the usual employment benefits to replace national defense. The search for offshore insurance and trust business has yet to produce the workers and taxes that would revive its declining economy. Given the competitive nature of financial services regionally, it may not be feasible to attract to a small island economy top-ranking financial firms. In the digital age, location may not be as pivotal as it once was, except for conventional defense purposes.



The USS City of Corpus Christi, the first fast-attack submarine to be homeported in Guam, heads toward the dock with the assistance of a tugboat.

Photo: Pacific Daily News

Guam's Finances (\$000, Fiscal Years)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Revenues											
Taxes	513,725.3	471,991.8	437,740.4	466,498.6	469,158.3	461,517.4	451,139.1	405,827.6	421,543.4	392,189.1	—
License, fees & permits	10,526.5	1,543.8	1,580.4	1,495.1	1,665.3	2,650.9	1,942.1	1,885.4	2,106.1	1,861.8	—
Use of money & property	5,289.9	3,376.0	1,524.5	51,743.6	2,561.7	2,455.2	2,897.3	1,618.0	2,301.5	1,893.7	—
Federal contributions	139,593.8	70,601.4	60,473.5	1,462.3	53,402.5	46,188.7	48,085.1	58,492.7	52,984.1	49,108.5	—
Other	5,887.3	3,677.3	3,034.1	3,145.8	3,219.4	2,761.6	1,593.2	1,564.2	1,615.4	1,795.1	—
Total Revenues	675,022.8	551,190.2	504,353.0	524,345.3	530,007.1	515,573.9	503,656.9	469,387.8	480,550.4	446,848.2	342,633.2
Expenditures											
General government	75,748.0	56,409.8	53,550.8	55,437.5	57,129.3	54,296.3	55,338.5	53,352.4	39,495.1	38,297.0	—
Protection of life and property	71,834.5	81,826.0	75,167.8	74,300.8	69,435.2	68,175.1	71,777.6	74,635.3	57,828.2	59,572.7	—
Community services	30,710.8	19,061.3	18,666.8	6,181.0	4,344.7	4,404.7	5,930.3	5,977.9	5,056.1	5,687.8	—
Recreation	24,880.4	4,670.2	5,769.1	5,563.2	3,749.0	4,007.6	3,275.4	3,253.7	4,569.2	3,783.9	—
Public health	6,688.1	6,087.8	6,038.3	18,400.0	18,788.7	19,143.6	19,751.5	22,636.7	17,649.7	19,011.9	—
Individual & Collective rights	26,287.6	9,017.6	9,141.5	9,042.3	8,831.4	9,025.1	8,673.3	8,912.5	10,656.5	12,412.8	—
Transportation	17,152.0	2,478.7	2,117.3	1,612.7	2,474.5	3,462.6	1,330.4	2,782.3	2,779.3	2,767.6	—
Public education	176,277.3	166,298.8	189,720.8	158,927.1	157,752.5	90,160.9	10,148.1	138,869.8	165,001.0	157,780.1	—
Environment protection	12,769.9	6,059.5	4,821.7	4,134.4	4,332.8	4,362.3	5,151.8	3,480.7	919.9	403.2	—
Economic development	22,351.0	9,615.1	9,723.9	6,452.4	6,058.2	5,977.8	5,793.0	5,651.9	4,289.2	4,916.8	—
Transfers to persons	24,500.9	11,392.3	20,346.5	16,558.2	15,966.9	20,474.5	17,709.9	22,004.1	22,242.6	20,682.4	—
Capital projects	41,206.0	22,540.9	21,207.2	3,943.5	2,825.4	599.8	—	—	4,359.6	366.8	—
Other expenditures	969.0	1,006.0	1,142.4	878.1	1,075.8	1,049.2	1,250.6	692.3	1,742.7	8,006.2	—
Interest & fiscal charges	—	—	—	—	—	—	—	—	—	1,950.1	—
Total expenditures	531,375.5	396,463.9	417,414.2	361,431.3	352,764.4	285,139.4	206,130.4	342,249.7	336,589.1	335,639.1	306,937.1
Revenues less expenditures	143,647.4	154,726.3	86,938.8	162,914.0	177,242.7	230,434.5	297,526.5	127,138.2	143,961.3	111,209.1	35,696.1
Other financing sources (uses)											
Addition to long-term debt	42,839.1	—	51,000.0	115,000.0	—	—	—	—	25,000.0	—	10,000.0
Transfers in	110,332.2	6,447.1	11,705.0	21,743.2	35,044.1	27,126.7	32,656.9	31,445.0	22,319.6	24,110.2	127,959.4
Transfers out	(325,016.7)	(245,113.5)	(220,264.7)	(224,144.6)	(192,566.2)	(267,667.2)	(349,260.1)	(173,117.8)	(167,899.7)	(169,268.3)	(173,977.5)
Other sources	2,567.9	(184.5)	11,694.9	19,512.3	159.6	10,128.3	35.3	—	349.3	4,591.7	—
Other uses	(7,984.2)	5,200.7	(884.4)	(3,762.1)	(232.3)	—	(1,390.3)	(42.9)	(14,624.9)	(449.9)	(20,398.9)
Total	(177,261.7)	(233,650.2)	(146,749.2)	(71,651.2)	(157,594.7)	(230,412.2)	(317,958.3)	(141,715.7)	(134,855.7)	(141,016.2)	(56,416.9)
Excess (deficiency) of revenues & other financing over (under) expenditures and other uses											
	(33,614.38)	(78,932.90)	(59,810.47)	91,262.79	19,648.04	22.3	(20,431.77)	(14,577.51)	9,105.60	(29,807.07)	(20,720.9)
Deficit at beginning of year	41,515.9	(46,127.4)	(125,051.3)	(184,861.8)	(93,599.0)	(73,951.0)	(73,928.7)	(94,360.5)	(108,938.0)	(66,772.9)	(96,580.0)
Deficit at end of year	7,901.5	(125,051.3)	(184,861.8)	(93,599.0)	(73,951.0)	(73,928.7)	(94,360.5)	(108,938.0)	(99,832.4)	(96,580.0)	(117,300.8)

SOURCES: Bureau of Budget Management and Research and Department of Administration.

III.2 GovGuam

There has been pressure on GovGuam for years to become more efficient, especially to privatize utilities and outsource other services that the private sector may offer more efficiently. Resistance to such moves has been strengthened by the absence of other well-paying jobs on the island. With federal payroll down to the lowest level in decades, GovGuam is the only employer who can still pay relatively high wages and benefits. Whatever the

nature and extent of the economic and financial problems, the prospect of yet more financial challenges forces GovGuam to become more efficient. The question is: How can the island government promote efficiency without worsening the economy and adding to unemployment?

As pointed out earlier, GovGuam's financial resources have declined substantially over the last few years. Deficits have resulted mainly from tax collections falling short of current and future spending plans. While GovGuam has taken measures

in the last few years to cut payroll by offering early retirement, these measures have had a limited effect. Meanwhile, the economy has not revived at the pace expected.

Recent revenue shortfalls appear to be in line with the argument that Guam's economy has undergone a major contraction. Gross Receipt Tax (GRT), also known as business privilege tax, is a tax that providers of goods and services must pay for doing business on Guam. Unlike a sales tax, which is collected at the point of sale, GRT is embedded in the price before sale. Because it is a hidden tax, it makes Guam appear as if it has no excise or sales tax. Providers of goods and services pay the tax monthly or quarterly. Until 1998, both GRT collections and their bases (the amounts on which GRT was collected) were reported regularly by main categories such as trade, services, constructions and others. The availability of both the tax collection and tax base data were useful indicators of the performance of GRT payers, especially business.

GRT collections reached a high of \$184.1 million in 1997, the year that most likely was the peak of the last business cycle in Guam's economy. With instituting exemptions for small business and the beginning of financial problems arising from the Asian financial crisis, GRT collections began to decline in 1998. In 2000, they were down to \$146.5 million, about the same level as that in 1991 when the economy was still expanding, mainly because it was still benefiting from the Japanese asset price bubble. GRT collections increased slightly in 2001 to \$147.5, reflecting a modest recovery in the economy and business following the end of the Asian financial crisis. As the economy began to contract once again in 2002, the weakness could easily be seen in GRT collections which dropped to \$119.3 million, the lowest level since 1990.

Between 1997 and 2002, GRT collections decreased 35.2 percent. It is not clear how much of this decline resulted from small business exemptions and how much from the decline in total business volume. Exemptions were not limited to small businesses. Others who pay GRT have been exempted as well, on the grounds of financial difficulties in a slow-growing economy. Also, exemptions are sometimes given on what appear to be ad hoc bases. Still, small business exemptions and procedural shortcomings are most likely the minor causes in the large decline in GRT collections in 1997-2002. The weakening economy, namely the declining tax base and shrinking payroll employment, has been the major cause of declining GRT collections, now equal to those of a decade earlier.

Guam's general fund (the sum of all taxes and

fees and federal funds) offers another view of Guam's shrinking economy and dwindling financial resources over the past decade. The general fund peaked at \$561.5 million in 1993, once again, at the end of the Japanese asset price bubble. The fund fluctuated, within a rather narrow range of \$501.5-530.0 million in 1994-98, suggesting that the components of the tax base, including individual and corporate taxpayers, showed relatively small changes that were consistent with changes in the business cycle. In 1999, the general fund dropped to \$469.4 million, about the same level it had been in 1990. This was also the first time in nearly a decade that the general fund dropped to less than \$500 million. It rose only slightly to \$478.2 million in 2000, but did not recover to the level of \$500 million. It was down again in 2001 to \$446.5 million and dropped further to \$336.5 million in 2002, 40.1 percent below the 1993 peak. Projections and other preliminary figures show that the general fund was up to \$368.3 million in 2003, but that figure, although a sign of recovery, would still be 30.5 percent below the peak.

Components of the general fund reveal the same pattern of erosion in the territory's income and revenue base. Individual income tax collections peaked at \$75.2 million in fiscal year 1991. In 2002, they were down to \$33.1 million. Projections and preliminary numbers show they were down even more to \$32.0 million in 2003. Corporate income tax collections peaked at \$81.5 million in 1991, declining gradually to \$40.6 million in 2002. Projections and other preliminary figures show that corporate tax collections were down to \$29.6 million in 2003. Total income taxes topped off at \$314.8 million in 1992 and then moved steadily downward to \$151.5 million in 2003. Other taxes, which were a small part of the general fund, dropped from a high of \$7.7 million in 1992 to \$0.6 million in 2003. The component of the general fund that remained relatively stable in the 1990-2003 period was federal funds. However, since federal funds constitute less than 10 percent of the general fund, their contribution to GovGuam's financial stability has been small.

Given these realities and those of the regional economies on which Guam depends, GovGuam faces many challenges related to the reform of government functions and ways to fund the needed reforms. But because GovGuam has always been a reliable employer, there has been resistance to large-scale change. Resistance intensified as the economy failed to improve, but as the economy continues its decline and federal jobs become scarce, there is a growing momentum in the new administration for reform. As yet it is too early to identify which policies would enable GovGuam to live within its means.



Workers fix the brick crosswalk in front of DFS Galleria in Tumon. Photo: Pacific Daily News

III.3 Construction

Measured by either employment (a lagging indicator) or building permits (a leading indicator of construction work), Guam's construction industry has contracted considerably in recent years. In 1992, the industry employed 12,467 workers, 25.1 percent of Guam's private sector payroll. In December 2000, construction employment was down to 3,950 or 8.9 percent of the total private sector payroll. In 2001, it was slightly down again to 3,920, but remained at 8.9 percent. In 2002, construction employment was up 21.7 percent from the previous year, but was only 8.7 percent of all private sector jobs. The most likely reason for the large gain in payroll in 2002 was construction work assigned to repair damages after Pongsona.

As measured by building permits, the most reliable predictor of future construction activity and investment in fixed assets, Guam's building industry was at its lowest level in 2002 when building permits dropped below \$100 million for the first time. With a couple of minor exceptions, building permits have declined every year since 1994 when they amounted to \$651.6 million. There is the possibility for increased construction as Guam repairs the

infrastructure damage of Pongsona and other sites. In addition, the US military is expected to repair and strengthen the facilities it still maintains on Guam.

III.4 Tourism

Japanese tourists are still the central element of Guam's economy. They single-handedly steer the US territory's level of employment, tax base, business receipts and, in the end, standards of living. While there is no precise quantitative information on the total direct and indirect economic impact of tourism on the island, there is no question that Guam's economic and financial fortunes are closely tied to those of Japan.

Diversification of tourist markets for Guam has so far been an experiment with inconclusive results. Since the 1970s, Korea has been considered a second key market for Guam because it has followed the Japanese economic model which has focused on exports, especially of high-value goods and services. To the extent that high-value exports enabled Japan to become a leading economy in a relatively short time after World War II, those watching Korea expected it to follow Japan's example with a standard of living of an industrialized economy that would include more time for leisure and travel abroad.

So far, Korea's record in terms of becoming a major supplier of tourists to Guam has been mixed. Following years of promotional activities, Korean tourists increased to a record number of 194,600 (14.3 percent of total arrivals) in 1996, demonstrating that diversification could enhance tourism on the island. The crash of a Korean Air Lines (KAL) Boeing 747 jet on Guam in August 1997 caused KAL to stop flights to Guam, the Northern Marianas and other Pacific Island destinations. Even so, Guam received 119,100 tourists from Korea during that year. In 1998, the Korean tourist count was down to 20,300.

With the start of regular flights by another Korean carrier to Guam in 1999, the Korean market opened for business once again. KAL's resumption of flights to Guam and CNMI followed. In 2000, Korean tourists numbered 87,100 or 6.8 percent of

Building Permits

(thousand \$)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Residential	121,585	211,856	135,492	100,004	86,171	66,365	125,207	69,004	38,127	24,955	29,421
Hotels & Condominiums	69,572	56,568	8,956	13,189	25,678	99,527	12,695	11,567	23,543	8,644	10,653
Commercial & Industrial	62,810	87,684	93,232	110,659	50,079	81,291	41,951	30,213	10,360	33,496	8,842
Public	78,950	107,910	376,191	105,196	86,675	33,196	104,866	24,946	63,536	14,772	9,862
Other	32,420	16,888	37,704	58,121	49,548	27,454	37,169	23,238	36,046	35,176	34,814
Total	365,337	480,906	651,575	387,169	298,151	307,833	321,888	158,968	171,612	117,043	93,592

SOURCE: Economic Research Center, Guam Department of Labor

Visitor Arrivals by Market

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Numbers (Thousands)											
Japan	676.7	549.3	773.3	996.2	1,028.7	1,113.0	975.4	957.7	1,048.8	901.5	786.9
Korea	39.1	68.6	118.5	186.3	194.6	119.1	20.3	47.3	87.1	89.9	128.3
Taiwan	12.4	23.6	38.8	31.8	20.9	22.5	20.5	41.4	39.5	31.5	19.5
United States	59.6	61.2	66.8	56.6	31.1	34.2	41.9	41.2	41.7	41.9	41.5
CNMI	24.3	26.5	29.6	32.8	31.0	29.1	25.8	23.2	22.9	22.5	19.1
Philippines	8.2	7.9	6.8	4.5	4.0	6.8	6.5	6.2	6.0	5.7	6.5
Other	56.5	47.0	52.7	53.2	52.3	56.8	46.6	44.7	42.1	66.0	56.8
Total	876.7	784.0	1,086.7	1,361.4	1,372.6	1,381.5	1,137.0	1,161.8	1,286.8	1,159.1	1,058.7
Shares (Percent)											
Japan	77.2	70.1	71.2	73.2	74.9	80.6	85.8	82.4	81.5	77.8	74.3
Korea	4.5	8.8	10.9	13.7	14.2	8.6	1.8	4.1	6.8	7.8	12.1
Taiwan	1.4	3.0	3.6	2.3	1.5	1.6	1.8	3.6	3.1	2.7	1.8
United States	6.8	7.8	6.2	4.2	2.3	2.5	3.7	3.5	3.2	3.6	3.9
CNMI	2.8	3.4	2.7	2.4	2.3	2.1	2.3	2.0	1.8	1.9	1.8
Philippines	0.9	1.0	0.6	0.3	0.3	0.5	0.6	0.5	0.5	0.5	0.6
Other	6.4	6.0	4.8	3.9	3.8	4.1	4.1	3.8	3.3	5.7	5.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: Guam Visitors Bureau

total arrivals. In 2002, the total was up to 128,300 or 12.1 percent of the total. If Korean tourists increase at the rate of the last few years, they will soon surpass their own previous record. However, the evolution of the Korean market is still a work in progress. Recent changes in flight schedules of the two carriers connecting Korea to Guam and Saipan suggest more changes whose consequences cannot yet be fully understood.

Currently, the Guam Visitors Bureau (GVB) is focusing on the segmentation approach for marketing Guam in Japan and perhaps elsewhere. This strategy emphasizes promotional efforts to target specific segments of the Japanese market either by geographic location, age group, income or some other criteria. However, success will require supplying more than hotel rooms and beach and shopping attractions, an approach that has worked in the past.

Like other markets, tourist markets compete in an increasingly global economy. They also are governed by the forces of supply and demand. Markets for tourism thrive when they develop their own comparative economic advantages and refine them over time. Guam is one of the main destinations for Japanese tourists because of proximity and because it offers American culture in a pleasant and peaceful tropical Pacific setting. The Korean and Chinese markets will take time to develop to optimal levels.

Apart from promotional efforts whose effectiveness is limited even under the best circumstances, the issue of destination attractiveness remains an ongoing concern and needs attention.

Even destinations that specialize in attracting certain types of tourists and levels of income have to upgrade their basic infrastructures and add new attractions. Destinations with limited geographic reach and range of entertainment options such as Guam face the additional challenge of losing some of their traditional clients as tourists seek alternatives and maximize their own gains. As one of the world's largest tourist destinations, Hawaii faces the same challenge. A delegation of Japanese travel executives visiting Hawaii recently observed that the 50th state lacks major attractions such as theme parks and internationally known brands of entertainment outlets. If Hawaii which still attracts nearly seven million tourists a year faces the prospect of becoming less appealing, smaller destinations such as Guam face even greater challenges.

Some destinations diversify within the same tourist market. They do this by adding to their comparative economic advantages facilities and attractions that appeal to larger segments of the traveling community in the same market. These efforts include appealing to business and group travelers and conference and convention participants. Guam's current tourist infrastructure is geared to individual and family travelers. Even with commercial gambling, if it can get on the ballot and receive voter approval, Guam will probably remain focused on the so-called retail traveler because that is where its comparative advantage lies.

Still, there is room for business travelers, from Japan, possibly Korea, Hong Kong, Taiwan and Singapore. Pulling Guam in the direction of becoming a business meeting place would certainly



Divers fit some diving gear with the help of staff members of a local dive supply and service provider.

Photo: Pacific Daily News

require investment in new facilities to accommodate small to medium-scale meetings. Guam does not need a large convention center to attract large meetings. Instead, facilities for small meetings may be more suitable for a small destination such as Guam as it attempts to diversify its products and services. Also, facilities and services intended for business meetings will add to the range of service the tourist industry offer residents.

Adding to Guam's attractiveness as a destination is critical to stopping further erosion in tourist traffic and reviving the island's largest income source. Recent statistics show that Guam has the infrastructure and potential to regain its status as the West Pacific's major destination and commercial hub. As Hawaii did in the 1970s and early 1980s, Guam developed rapidly in the 1990s to become a relatively major destination. Tourist traffic increased rapidly, from fewer than half a million tourists in 1987 to nearly 1.4 million a decade later. During the same time, hotel rooms, according to GVB, increased from 3,864 to 8,119. As recently as the mid-1990s, Guam's tourist industry leaders routinely talked about 2.5 million tourists and 15,000 hotel rooms by the beginning of this decade. These levels were considered Guam's reachable and perhaps ultimate limits, given the infrastructure of the time.

Economic and financial problems and a powerful typhoon intervened, halting and, in fact, reversing, the direction of Guam's tourism. The tourist count in 2002 was where it had been in 1994, just over one million tourists. In the first eight months of 2003, it was down nearly 27 percent from the same time last year, which, in turn, was lower than the year before. Given the numbers for the first eight months of this year, Guam can expect to receive 800,000-900,000 tourists in 2003. The average of these numbers would place the total where it was 1992,

A pessimistic outlook calls for 800,000 or fewer tourists this year because of the large drop in the first eight months of the year, while an optimistic projection suggests 900,000 and higher. The optimistic forecast is based on the assumption that without new crises besetting Japan and the region, Japanese tourists may return to Guam in larger numbers. These may include longer-staying and higher-spending travelers because Guam is a convenient and safe destination. The expectation is that once the Japanese economy gets back on track, and that is a hope that requires some caution, Guam's tourist industry may follow.

IV. WHAT LIES AHEAD: A NEW AGENDA FOR A NEW ERA

Guam faces a period of economic and financial challenges that may bring change and stability. If the effects of powerful typhoons can be minimized with advanced warnings, the American territory's tropical climate will continue to make Guam a popular destination for East Asian tourists. At the same time,

Guam Tourism					
	Total Visitor Arrivals	Hotel Rooms	Hotel Occupancy Taxes	Hotel Occupancy Rate	Average Room 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	109
1996	1,362,600	7,928	26,175.3	85.0	130
1997	1,381,513	8,119	27,598.5	82.0	129
1998	1,137,026	8,705	22,121.5	67.0	121
1999	1,161,849	9,395	18,946.0	61.0	105
2000	1,286,807	10,084	20,576.4	63.0	101
2001	1,159,071	10,110	18,850.2	58.0	102
2002	1,058,704	8,915	16,178.7	57.0	98

SOURCE: Guam Visitors Bureau and Guam Hotel and Restaurant Association

Guam is a valuable defense post in the West Pacific, near areas where large numbers of US troops are already deployed. Unless there are hostilities in the region that would make it necessary to increase forces on Guam to supplement those in East Asia, there is no likelihood of a major defense buildup in the near future.

Other sources of income have been slow to develop and will remain so because of Guam's limited prospects for becoming a financial hub. Indeed, isolation and regional economic uncertainty are constraining the economy. Nor is there any evidence to show that gambling would enhance this small, isolated market. The Tinian hotel and casino, however, can serve as a valuable model in the island's efforts to diversify its tourist industry.

Guam's economic prospects are directly tied to the East Asian economies, especially Japan, increasingly Korea and perhaps China. Since most of the capital going into Guam's hotels has come from Japan whose economy continues to be weak, it is unlikely that another wave of Japanese-owned hotels will develop anytime soon. Add to this that there is little chance of a US defense buildup on the island, and Guam's economy faces greater uncertainty than at any time over the past ten years. There appears to be no quick and easy way to fix the island's economic and financial problems that have accumulated over a number of years.

Nevertheless, there are steps Guam can take to minimize the deterioration of its economy. First, the government needs to formulate a comprehensive financial reform program that would include revising the territorial business privilege tax (GRT) system. This reform would make GovGuam more responsive and efficient in its economic redevelopment strategies.

Another element of this reform program would be a new investment and trade promotion program, perhaps consisting of a set of incentives offered by Guam and supported by the United States that would increase private capital and trade flows in both the short and long terms. As experience has shown over the decades, conventional market forces favor large markets because of economies of scale. These usually do not mitigate the disadvantages built into small island economies that hinder attracting capital and skills. This is not to suggest subsidies and other aid that perpetuate inefficient mechanisms, but to point to the fact that small economies need alternative means to supplement market forces.

Second, major efforts must be made to improve education. Beset by financial problems, the government has been forced to cut back on

educational programs. As other US states have shown, world-class educational institutions are often the essential building blocks for economic growth and development, regardless of the phases of business cycles. With more funds and more efficiency, the University of Guam and Guam Community College can be the leaders for the entire West Pacific region.

Third, there is the need for a more concerted effort to appeal to Washington for increases in military and civilian commitments. Guam is at a severe disadvantage as long as the Japanese economy remains stagnant, and it needs special consideration from the federal government. As the recent Investment Development Conference, under the auspices of the Department of the Interior's Office of Insular Affairs showed, Guam can enlist the assistance of federal agencies to advance its cause of economic growth and development through both market mechanisms and federal aid that would increase trade and investment flows in the West Pacific economies.

Fourth, there is the need for a more cooperative relationship between government and business to identify the island's problems and their solutions, especially in marketing Guam in Asia. Guam can begin now to put both the necessary changes in place and to modify prevailing perceptions so that as a destination it gains a wider appeal. Resumption of the Tumon Bay beautification project is a good example. Just as Honolulu revitalized Waikiki Beach and its surrounding areas with the so-called Waikiki beautification project, Tumon Bay, Guam's Waikiki, needs a similar effort. Now is the time to complete the project and extend it island-wide. This would also mean renewal of the work to resurface the island's most used roads.

Once Guam's new political leadership can unite and focus on the territory's economic advantages, there is potential for growth. For example, a small economy requires less capital and skills to keep it going. A few thousand more high-paying jobs a year would keep Guam's unemployment low and tax receipts steady. By committing its energy and resources to a thoughtful program of financial reforms and by setting reasonable goals, Guam can mitigate its current problems and position itself for future economic growth. Guam is the only economy in the Western Pacific that has the size, infrastructure and institutional setting to lead the region. If the new government can implement policies to enhance the assets of the island economy, a better future for Guam can be assured.

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.

HEADQUARTERS

Bank of Hawaii
130 Merchant Street
Honolulu, Hawaii 96813
☎ 1 (888) 643-3888
www.boh.com

**MAILING ADDRESS FOR GUAM
BRANCHES, PACIFIC ISLANDS
DIVISION, GUAM CORPORATE
BANKING CENTER**

P.O. Box BH
Hagåtña, Guam 96932

PACIFIC ISLANDS DIVISION

BOH Bldg, Suite 400
134 W. Soledad Ave.
Hagåtña, Guam 96910
☎ (671) 479-3625
Fax: (671) 479-3676

GUAM CORPORATE BANKING CENTER

BOH Bldg, 3rd Floor
134 W. Soledad Ave.
Hagåtña, Guam 96910
☎ (671) 479-3645
Fax: (671) 479-3766

WEST PACIFIC BRANCHES**GUAM:****Hagåtña Branch:**

134 W. Soledad Ave.
Hagåtña, Guam 96910
Ph.: (671) 479-3500
Fax: (671) 472-1019

Hagåtña Payless In-Store Branch

118 Agana Shopping Center
Hagåtña, Guam 96910
Ph.: (671) 472-2565
Fax: (671) 472-2564

Dededo Central Branch

136 Kayen Chando St.
Dededo, Guam 96929
Ph.: (671) 632-0331
Fax: (671) 632-0407

Dededo Branch

(TEMPORARILY CLOSED)
1340-C N. Marine Drive
Upper Tumon, Guam 96913

**Micronesia Mall Payless In-Store
Branch**

Ste. 200, 1088 W. Micronesia Mall
Dededo, Guam 96929
Ph.: (671) 637-2740
Fax: (671) 637-2760

Oka Payless In-Store Branch

291 Farenholt Ave.
Tamuning, Guam 96913
Ph.: (671) 646-7558
Fax: (671) 649-8552

Tamuning Branch

683 S. Marine Drive
Tamuning, Guam 96913
Ph.: (671) 646-1881
Fax: (671) 649-0049

Yigo Payless In-Store Branch

525 Chalan Ramon Haya
Yigo, Guam 96929
Ph.: (671) 653-3113
Fax: (671) 653-3111

**MAILING ADDRESS FOR SAIPAN
BRANCHES**

P.O. Box 500566
Saipan, MP 96950

Garapan Branch

BOH Bldg.
Marina Heights Business Park
Middle Road, Puerto Rico
Saipan 96950
Ph.: (670) 322-4200
Fax: (670) 322-4210

Susupe Branch

Nauru Bldg., 1st Floor
Beach Rd. Susupe
Saipan 96950
Ph.: (670) 235-5400
Fax: (670) 235-3913

Republic of Palau:**Koror Branch**

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

AMERICAN SAMOA BRANCHES**Contact information for all three branches:**

P.O. Box 69
Pago Pago, American Samoa 96799
Ph.: (684) 633-4226
Fax: (684) 633-2918

Main office is located in Fagatogo.
Other branches are located in the
villages of Pavaiai and Tafuna.

This report is featured online at the East-West Center's Internet website at <http://pidp.EastWestCenter.org/jcc/reports.htm>.
In addition, the report and other Bank of Hawaii economic reports are featured in the Economics section of Bank of Hawaii's
Internet website at <http://www.boh.com/econ/>.

Additional copies of this report may be requested from the East-West Center's Pacific Islands Development Program at:
Pacific Islands Development Program

East-West Center
1601 East-West Road • Honolulu, HI 96848-1601
Phone: (808) 944-7778 • FAX: (808) 944-7670
E-mail: pidp@EastWestCenter.org

today's
market situation
calls for a new

³perspective.

our investment
professionals
can help.



In today's market, probably the most important thing you can invest is a few minutes of your time with a Bank of Hawaii Investment Services Group professional who can help you think through the challenges and opportunities your government agency, corporation or non-profit organization faces. To schedule a free consultation call Bank of Hawaii Investment Services Group at (671) 479-3624. It might just be the best investment you can make.

Leveraging the p^3 equation

People
Products
Performance

h Bank of Hawaii
Investment Services Group

Securities and other investment products are: Not FDIC Insured • Not Bank Guaranteed • May Lose Value, Including Loss of Principal.

Ahead

of the

Pack.



Linking island businesses with the major financial capitals of the world.

Bank of Hawaii has been an integral part of Guam and Saipan's financial services industry as well as its community. We provide a full range of financial services to businesses, governments and consumers. We offer the financial tools and expertise your business needs to succeed, and bring the required experience to safely handle complex international financial transactions while maintaining our local and friendly service. For more information, call us at 671-479-3624.



Bank of Hawaii

MEMBER FDIC