



A viable business sector for the Marshall Islands

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The Marshall Islands' greatest resources are not natural or physical but rather, cultural and human. As in the past, it will be the resilience of the Marshallese people and their ability to adapt to global market forces that will sustain the economy. As the year 2001 approaches, marking the end of the 15-year Compact of Free Association with the United States, political and social stability will enhance the Marshall Islands' efforts to attract foreign capital and technical expertise in developing its domestic private economy.

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Charting the course to sustainable living in an increasingly global market economy looms large before the island nation of the Republic of the Marshall Islands. The challenge for the Marshallese government is to foster indigenous cultural and social forces which facilitate the development of a viable private sector while at the same time manage and regulate external political and economic forces which have historically adversely affected and/or created an imbalance in the traditional society and environment.

Geography, history, politics, cultural tradition and the environment have shaped the modern day business climate of the 29

coral atolls and 5 islands. The Republic of the Marshall Islands (RMI) is largely a trade and services economy buttressed by US payments and other grants and aid from overseas. The relatively large flow of funds from overseas allows consumption to far exceed domestic production of goods and contributes to trade deficits. Domestic resources remain largely undeveloped in the process.

The Marshall Islands business community needs to explore private sector business opportunities that may fuel a more productive and self-sufficient economy, beginning by securing overseas funds to develop a viable private sector infrastructure.



Tibon and Cole (1990) emphasise that fostering private and public sector cooperation is crucial to the economic development of island economies. Currently, US grants and aid payments are the main sources of income for the Marshall Islands (Osman 1996). This brings as much criticism as it does praise. Some observers charge that, on the one hand, the United States has made the Marshall Islands dependent, creating an economy that cannot sustain its current standard of living, while on the other hand, the current standard of living could not have been achieved and maintained without US payments (Osman 1996).

The 15-year Compact of Free Association with the United States beginning in 1986 includes US grants/aid programs that will pay US\$1 billion by 2001 to the Republic of the Marshall Islands, a country with a population of fewer than 57,000 people. This sum is well beyond the scope of economic aid and is generally considered rent paid for unlimited access to the Marshall Islands waterways. The terms of the Compact, an economic and political agreement, are more of a business transaction than the typical aid package requiring no reciprocity between nations. US security and economic interests in the region justify its relatively large investment in the Marshall Islands economy.

The Marshall Islands government has been the primary beneficiary of US rent and aid payments and therefore the largest employer in the country for decades. In complying with minimum wage law, public sector salaries are higher than private sector salaries, making the government a stiff competitor of the private sector for employees. Economists are concerned about the budgetary problems that will accompany declining Compact funds, creating an uncertain economic future. The extent to which the Marshall Islands government will have to cut either payroll or other spending to cope with the

imminent decline of these sources of revenue is uncertain. Establishing some means to control the population growth that is far outpacing economic growth and natural resources is also a priority.

In addition, environmental changes such as global warming and the potential rise in sea level are threatening to the Marshall Islands and other low-lying areas around the globe. These threats to the unique ecosystems of the Marshall Islands and other islands in the region call for contingency plans in future economic development strategies for public and private sector business in the Marshall Islands (Ogden 1997; Moore 1995).

However, the Marshall Islands has the indigenous cultural and social resources to counter these economic and environmental uncertainties. Among its major institutional assets is the successful marriage of its historic communal system with US-style democracy for accomplishing economic and social change (Osman 1996).

Historical origin

Before contact with Europeans, the inhabitants of what is now called the Marshall Islands lived on lands belonging to high chiefs (*Iroij*), supervised by lesser chiefs and worked by commoners until the 19th century when clans of the two major islands began fighting for control (Bryan 1972). Weakened by in-fighting, the islands subsequently were controlled by Spain, Germany and Japan, and administered as a part of a United Nations Trust Territory by the United States until the Compact of Free Association with the United States took effect in 1986 (Osman 1996). Currently, the Republic of the Marshall Islands operates under a 'hybrid' parliamentary-presidential system with the head of state also the head of government and a bicameral Parliament—the upper house or



Council of *Iroij*, and the elected lower house, *Nitijela* (Ogden 1997).

The colonial periods of Germany, Japan and the United States have one characteristic in common. Each country made an initial effort to accomplish its objectives by working with the traditional system rather than against it. Eventually, however, Germany introduced laws that stopped the traditional method by which power changed hands, freezing the distribution of lands among the *Iroij*; Japan found the traditional system inconsistent with its administrative objectives and placed its own administrators in key positions; and the US investment of social services in the 1960s similarly resulted in the importation of US administrators and bureaucracy for the six districts.

In the years of colonisation which disrupted some of the traditional attachment to the land and lagoons as well as the manner of running the society, the indigenous population faced social, cultural and political obstacles to developing its economy. These have been compounded by the environmental limitations of its geography.

Obstacles to economic growth

The economy of the Marshall Islands today is largely a cash economy encompassing the two urban centres, Majuro and Kwajalein atolls, and a predominantly subsistence economy in the other 24 populated atolls (Lucas 1991). Geographic as well as demographic factors challenge the Marshall Islands' economic development.

Perhaps the two most limiting conditions discouraging economic growth in the Marshall Islands are the lack of natural and land resources and a burgeoning population. The 29 atolls and 5 islands that comprise the Marshall Islands total no more than 193 square kilometres and spread over 910,000 square kilometres of

ocean. This fragmented and limited flat land surface area is largely unsuited for agricultural production and hinders inter-island transportation and communication. The lack of adequate infrastructure as well as isolation from regional and global transport markets and routes for raw materials and finished products pose further harsh conditions for economic development. There are no alternative resource bases other than the Pacific Ocean.

The factors limiting economic growth have little adverse effect on population growth. In fact, as medical and health care improved and traditional means of population control were abandoned (Connell and Lea 1992), it is estimated that the population has more than doubled since the 1960s. The 1988 Marshall Islands population census showed one of the world's highest growth rates of 4.1 per cent annually over the period 1980–88. At this rate of increase the population will double in 17 years. An estimated 51 per cent of the Marshall Islands population is 15 years and younger, creating a significant dependency burden (Osman 1996). The combination of a fast growing population and an economy that cannot keep pace signals a substantial decline in living standards in the years ahead. Since two-thirds of this swelling population live in the overcrowded Ebeye and Rita-Uliga-Dalelp sections of Majuro where jobs are more plentiful, business opportunities that create shifts in population are favoured.

According to the RMI Five Year Development Plan, the economy is characterised by three major imbalances

- government's recurrent expenditures exceed domestic revenues
- imports far exceed exports, with the gap widening
- domestic savings fall short of investment (Marshall Islands 1985).

These imbalances are underscored by the sobering fact that in 1984, less than



one-half of government expenditures was generated from domestic revenues and much of what was generated from internal sources originated as outside assistance (Marshall Islands 1985). The extent and nature of the imports are cause for concern among planners. There are some estimates claiming that over 90 per cent of all food requirements and almost 100 per cent of all ready-made clothing items are imported.

More significantly, as of 1998, the Marshall Islands' dependence on US grants and assistance has continued to dominate the Marshall Islands' economy, and now accounts for more than two-thirds of the gross domestic product.

Private sector development

Private sector development is one means of addressing the concern over the Marshall Islands heavy reliance on imports and aid. However, private sector development has been constrained by several factors including the critical shortage of educated and trained personnel, lack of capital, little or no land and natural resources, and the high cost of transportation to overseas markets. A review of laws enacted by the *Nitijela* of the Marshall Islands as of January 1985 uncovered little legislation promoting private sector development (Carroll 1986). Only gradually has legislation been passed to facilitate development of a program designed to fulfill some of the basic necessities for private sector growth. The Industries Development Act of 1981 established a Manpower Training Program to promote Marshall Islands industries (Marshall Islands 1994). A Five Year Development Plan was subsequently adopted in 1986 to assure that a manpower training program included on-the-job training for youths and other specific categories of the labour force (Marshall Islands 1985). As part of the program, the government expects to

continue providing scholarships for advanced training overseas and to make provisions for technical assistance through the United States and United Nations and other international agencies. However, in 1997, the US Congress passed legislation removing the Marshall Islands' eligibility for Pell Grants. A congressional staffer who helped draft the bill claimed that money previously allocated has been largely wasted and, instead of being invested, much of the money was, until recently, spent on white-elephant government projects and imported food, cars, and other US consumer goods (Woodard 1998).

Over the past 5–10 years, the Marshall Islands government has made efforts to develop industry. However, most of these efforts were misguided, misplaced and in vain. According to some economists, hospitals and primary schools deteriorated for lack of maintenance while the government invested millions in state fishing fleets that promptly collapsed from lack of experience and marketing knowledge. Air Marshall Islands lost large quantities of money competing with Continental Airlines for direct Honolulu services.

Now the Marshall Islands government is cutting back on personnel and services and encouraging the growth of the long-neglected private sector—especially tourism and fish processing. However, with few resources and a still rapidly growing population, providing basic service jobs for expanding populations is a staggering task. Acknowledging the problem, Joseph Bigler of the Marshall Islands Foreign Ministry stated 'we made many mistakes, but we've become much more experienced in the process' (Woodard 1998:2).

Public sector dominance

As a relatively new nation at an early stage of developing its institutions, physical infrastructure and economy, the Marshall



Islands public sector plays a major role in determining the growth and development of the economy. The national government is dominant, with relatively few services being administered by local government. Manufacturing is presently limited to copra and coconut oil processing and a milk factory, both owned by the government. Outside of government, most formal employment is in retail and wholesale trade, services, and construction. To a large degree, these activities are supported by government spending on payroll, goods and services, and capital improvements. The Marshall Islands government's development strategy has targeted agriculture, fisheries and tourism as the primary potential growth sectors.

Agriculture

Although copra production has been at the forefront of agriculture in the Marshall Islands, low world prices have made its future less certain (Osman 1996). Bananas, breadfruit, pandanus, green and mature coconuts, taro, vegetables and fruits, grown for home consumption are a small but important component of the economy. There have been several initiatives to promote local commercial farm production—a hydroponics operation on Kwajalein, growing papayas for local and export markets, and an integrated poultry project. Expansion of hydroponically produced vegetables as well as poultry production for local markets is planned. Israeli technical assistance has been sought for both the hydroponics and poultry markets. Since income from copra has declined since the 1970s, the government development strategy has shifted to placing higher priority on fisheries (Lucas 1991).

Fishing and marine enterprises

Proposals have been considered to establish a loining plant to gut and skin tuna, cooking it for shipment to a cannery—as

well as to build and operate a cannery. The US Trade Development Administration is funding a feasibility study for the development of Majuro into a tuna transshipment port with integrated facilities. Fish processing is now one of the most promising ventures for private sector development.

Tourism

The Outrigger Marshall Islands Resort on the island of Majuro, the only first-class resort hotel in the Marshall Islands, opened in July 1996. Although the fragile ecosystem and limited infrastructure of the Marshall Islands cannot support massive tourism efforts, the islands may be especially appealing to specialty tourism such as ocean-centered activities or regional and international conferences.

In August 1997, Majuro hosted more than 1200 educators at the 14th Annual Pacific Regional Educational Conference. Regional participants attended 127 workshops on educational issues affecting the region.

Prospects for a viable business sector

Any Marshall Islands agenda for economic growth should include measures which help the Marshall Islands become more self-reliant. Government leaders must strive to gain both foreign and local investor confidence through ending the aid-dependency syndrome and assuring investors—both foreign and local—that there will be transparent and reliable Marshallese laws relating to commercial interests, including contract dispute resolution, and an independent judiciary to enforce the laws.

Eighty per cent of the world's pelagic fish are harvested in the Pacific which includes Marshall Islands waters. The



United States, Chinese, Taiwanese, Japanese and Korean fleets fish in these waters. However, most of the gain in value-added from fish processing and marketing accrues to foreign countries. To increase the value-added accruing to the Marshall Islands and other Pacific island economies, more fish processing and related industries must be located and operated locally. Port and dock facilities, inter-port shipping and ship repair services require expansion to provide increased opportunities for fishing-related activities. As of 1998, a realistic shore-based fisheries industry policy was implemented, a tuna loining facility began operations in the spring of 1998, and a new drydock facility, already in operation, holds promise for servicing the shipping repairs needs of the Marshall Islands and neighbouring countries.

Integration with Pacific island neighbours

Central to the Marshall Islands' economic potential may be its development of trade and commercial links with its Pacific island neighbours and in particular, Hawaii. Hawaii and some of the Marshall Islands' more prosperous Pacific island neighbours share with Marshall Islands a common history and they face similar challenges. It would be highly beneficial for the Marshall Islands to work toward a future that will integrate its markets with other Pacific markets and in this context Hawaii can play a crucial role. The Marshall Islands have the advantages of proximity to Hawaii, the use of the US dollar, and the right under the Compact for its people to live, work, and study in the United States.

Reducing constraints to economic growth

Historically, impediments to trade and investment in the Marshall Islands have been geographic isolation and the constraints imposed by strong communal institutions. Common to the Marshall

Islands and other Pacific island economies is the lengthy time required to realise a profit because of the costs imposed by isolation and the domestic customs and traditions that differ from those in contemporary market economies, especially in dealing with land acquisition. The Marshall Islands cannot change its geographic location but it can take steps to become less isolated through modernising communication technologies and transportation facilities. Also, mutually beneficial arrangements for economic growth with fewer constraints on businesses may be reached with no compromise to critical cultural values of Marshall Islands communal institutions.

Solar-powered radio stations and satellite earth stations—linking communications between islands and atolls—have opened up new possibilities. These developments have created a business niche that has a standing demand. Technological advances in solar power will give the islands much more of an advantage as non-polluting, renewable energy increases the capacity for communications. Internal and external transportation (air service, shipping) has improved, but will continue to be an area for growth if other businesses and services are to survive and flourish.

Government investment in infrastructure in recent years (public utilities, water, sewerage systems) on Ebeye and Majuro has led to some improvement but much more needs to be accomplished. For example, public water systems—the ability to collect, store and deliver enough rainwater to meet living and economic development requirements—need improvement.

The government's role in public sector reform which began in 1996 with the assistance of the Asian Development Bank (ADB) needs to improve. The development of the Public Sector Reform Program (PSRP) which is designed to shift emphasis from public to private sector growth needs to be



fully implemented. In 1998, the government with ADB assistance launched a Private Sector Investment Program (PSIP) to develop strategies in each of the sectors which make best use of the country's resources. According to Phillip Muller, Marshall Islands Minister of Foreign Affairs and Trade,

...a Private Sector Unit is also tasked to create a competition and regulatory policy framework to ensure that the eventual privatisation of those state-owned enterprises and service departments...having monopolies in their sectors, such as the national airline and the public utilities, do not unfairly infringe on the public good. Our Foreign Investment Advisory Service (FIAS) [will] promote a comprehensive investment program. An Office of the Economic Policy Advisory Services and Statistics provides the budget framework...and the RMI has adopted a set of principles that requires that the recurrent and capital budgets are closely integrated and visibly linked to national and sector development goals and objectives (Pacific Islands Development Program 1998:1).

However, according to Francis Hezel, a Jesuit missionary and scholar, and long-time resident in the area, while progress has been made, the almost total dependence on monetary assistance from the United States and the ADB 'has disrupted the old subsistence economy and the traditional and political structure, but it hasn't built a viable alternative. We're in a real crunch with no easy solution.' (Woodard 1998:6)

Promoting culturally sensitive private sector development

The Marshallese government has provided education and job training as a way to reduce the constant flow of foreign labour and serious unemployment rates. In the face of specialised technological needs and

the necessity of start-up investments, the indigenous entrepreneur with no foreign business partner has often found it difficult to compete.

The 2,000 year old lessons, almost lost, that Marshall Islanders can teach others may be a means of recharging their economy. Dennis Alessio, a carpenter by trade, became fascinated with the *wa*, or Marshall Island canoe, in the late 1980s. In trying to learn more, he found there were still canoe building families living in the Marshall Islands. Realising that the keepers of the knowledge were in their 70s and 80s and that the last traditional canoe had been built in the 1960s, he began to talk to the elderly canoe builders, with the help of the government and the chiefs of various islands. As he documented their building techniques, he was able to create a construction program based on traditional materials and methods (Kennedy 1997).

This renaissance of canoe building has generated more cultural and educational programs for the Marshallese and has led to support from government and community to host the first ever Marshall Islands Cup canoe race in Majuro atoll in May 1997 (Kennedy 1997).

Conclusion

The Republic of the Marshall Islands, in many ways, is a paradigm of the rewards of adaptability and the hope of resurgence and regeneration. The Marshall Islands has survived traders, whalers and missionaries, colonisation by Spain, Germany, Japan and the United States, and the consequences of their strategic location in place and history between two wars, and later, atomic bombs and displaced persons. As in the past, it will be the resilience of the Marshallese people and their ability to adapt to the market forces of a global economy that will sustain the Marshall Islands. The Marshall



Islands' greatest resources are not the natural or physical but rather, the cultural and human. It is on these strengths that the development of a strong private sector can rely.

Even in a global market economy the development of a sustainable society occurs in a specific location and a unique sociocultural context. Its success depends on tapping the particular skills and resources of the people. Thus, the typical manner of doing business in other contemporary market economies may be inappropriate in the case of the Marshall Islands. Sensitivity to and even utilisation of what may be perceived as Marshall Islands' environmental or institutional limitations can prove beneficial. In this context, preservation of the fragile environment and reliance on the strong sense of communal identity for support and cooperation may be instrumental in the development of a strong private sector in a sustainable society.

The concern over protecting and preserving the environment, culture and history of the Pacific peoples is voiced in the former Fijian President H.E. Ratu Sir Mara's address to the Maui Pacific Center's 4th Conference on Cultural Values in the Age of Technology (1994). He emphasised that if it is never forgotten that development is about people, sustained and sustainable development is possible.

The great strength of Pacific peoples was their closeness to the land and the sea upon which they depended for their very lives. They knew better than we the importance of their environment, and they developed a system under which the land was not individually owned, but rather used and held in trust collectively for generations to follow (Mara 1994:16).

As the year 2001 approaches, marking the end of the 15 year Compact of Free Association with the United States, the geographic, environmental and cultural

policies advanced by the Marshall Islands will continue to determine its future. For the business sector to continue developing in the areas of agriculture, fisheries and marine resources, and specialty tourism in a manner that does not destroy the environment or the cultural system, attention must be given to the preservation of the environment and the culture for these are central to future sustainable development.

Although the institutional structure underlying a market economy is not in place, vital pieces of a potentially lucrative private sector are present. Agriculture, including copra production, has remained small but remarkably stable over the years. Tourism on a small scale, especially if it is established around a specialty market such as sports fishing or diving, has great potential for attracting small groups of high-spending tourists. Fishing, fisheries, and marine resources, light industries and support services offer the main basis for economic growth in the future, much of which can be facilitated by the private sector. The key to the future of the Marshall Islands may well lie in the prophetic words of Joan Plaisted, US Ambassador to the Republic of the Marshall Islands

[i]n October 1999, the United States will be prepared to sit down and negotiate with the Marshall Islands as required in the Compact. We will discuss with the Marshallese the economic assistance provisions in Title two of the Compact and elsewhere in Public Law 99-239 and subsidiary agreements to the Compact. It is likely the US federal budget will continue to decrease and the United States will be looking carefully at its own fiscal resources as we examine ways to efficiently promote the long-term economic growth of the Marshall Islands. I can tell you that the emphasis the United States government places on trade and private investment, rather than aid as the engine of economic growth, will



form much of the discussions. Secretary Albright has noted that the question is not one of trade versus aid, but rather the right kind of aid for trade (Hofstra Symposium 1998).

In October 1998 during a joint congressional hearing before the House Resources Committee and the Asia Pacific Subcommittee to review the Compact of Free Association, delegate Robert Underwood emphasised the need for Compact renegotiation in 1999 to generate effective economic development so poor residents of the Freely Associated States are not encouraged to emigrate to Guam to access health care and social services and thus put a burden on Guam's social service network. 'I would endorse any kind of assistance that could be given to the Freely Associated States to advance their economies... This would help advance Guam's economy as well. We are all tied together' (Yaukey 1998:2). However, not all law and policy-makers share Underwood's view.

Bill Bodde Jr, former ambassador to the Marshall Islands, has recommended cutting compact aid by as much as 50 per cent, claiming the money is encouraging dependence on the federal treasury. Minister Phillip Muller acknowledged they were not as effective in developing economic opportunities as they could have been, but he also noted that Marshallese efforts have been hampered by special restrictions placed on them as part of their relationship with the United States and stated that 'we have made a bona fide effort to develop our economy' (Yaukey 1998:2).

At another hearing before the US House Committees on Resources and International Affairs, Minister Muller summed up the dilemma facing the Marshall Islands in the renegotiation of the Compact and future of Marshallese economy.

In recognition of the fiscal management problems we have had, the RMI Government has committed itself to a vigorous reform program. Many of

these reforms have been painful both in political and practical terms as they affect the lives of all Marshallese people... The RMI Government worked closely with the Asian Development Bank (ADB) to develop a Public Sector Reform Program (PSRP) and downsized our public sector which became over inflated during the Trusteeship... In retrospect, we acknowledge that monies were not used as effectively and efficiently as they could have been. For the most part, our infrastructure has been built, but the costs have been higher than they should have been... I think it will be in both our nations' best interest to build accountability mechanisms into the next phase of Compact assistance. Despite our growing pains, the RMI Government is committed to meet the challenges necessary in order to install rigid systems of financial means (Pacific Islands Development Program 1998:3-4).

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