

OCEANIA

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OCEANIA 1981 FINAL REPORT

On September 3, 4, and 5, 1981, "Oceania 1981", an economic development symposium was hosted by the Guam Legislature's Committee on Economic Development. The symposium brought business and government representatives together (list attached) from throughout Oceania to discuss economic development issues of mutual concern. The primary objectives for convening the symposium included: (1) to determine whether the islands could overcome the obstacles of communication and distance across the vast area represented by the islands present at the symposium, to cooperate in establishing a regional economic development strategy, (2) to examine how this could occur, both in terms of analyzing a variety of administrative mechanisms or systems that could link the islands in a cooperative effort. In addition, the symposium was intended to determine at what level and in what way the islands wished to cooperate in stimulating economic growth. The concept of the symposium was born with the realization that the Islands of Oceania, notwithstanding political and cultural differences, face at least two common dilemmas:

A. Shrinking Financial Resources for Economic Development

The President's Plan for National Economic Renewal will force a shifting in current development techniques, and funding sources. The islands' limited individual political representation both in the U. S. Congress and in the United Nations indicate that one viable approach to dealing with shrinking economic development resources might be to utilize economies of scale to the island's development objectives. Regional development strategies which benefit a greater number of people over a greater geographic area will be more attractive to potential governmental and international funding sources. In terms of attracting private capital for business development projects, the resources afforded by a regional development perspective, particularly in regards to tourism and possibly light manufacturing and agriculture, are much more attractive than could be offered by each of the islands individually.

B. Limited Market Size

The economic development of the islands is limited to great extent by population size. Due to poor transportation and communication infrastructure, external markets have appeared more attractive and more easily accessible than inter-island markets in the past. With the resolution of the political status of the Trust Territories and the eventual settlement of war claims on Guam, a large amount of cash will be granted to Micronesia. This market expansion will benefit foreign business interests (external to the islands) more than indigenous entrepreneurs unless several of the problems which restrict increased inter-island business transactions are resolved. The profitability of ventures on any one island is significantly increased if a viable inter-island market can be established and accessed.

The economic development symposium provided a tangible first step toward making a regional approach to economic and business development possible. Individually, the islands face limited technical and financial resources in stimulating development. The symposium firmly established that at this time, collectively the islands can more effectively develop local resources, and through cooperation be better heard in attempting to achieve individual development objectives.

Specifically, the symposium had three purposes:

1. The first was to outline the problems of doing business in Micronesia and Oceania. Each island suffers its own barriers to business and economic development, but among these several key problems persist. These common obstacles; communication, transportation, energy and infrastructure can, in most instances, be dealt with on a regional basis. The symposium accomplished a major first step in resolving these problems by outlining their perimeters and setting the ground rules for resolving them.
2. The second was to examine how business and the participating island governments could best pro-

ceed in resolving these obstacles, both legislatively and administratively. The option that was adopted by the symposium participants was to establish a Common Market for Micronesia based upon easing trade and development restrictions on and between each of the participating islands.

3. Finally, the symposium provided a means of exploring five substantive policy areas where regional cooperation can yield immediate enhancement of the economic development potential of the participating island entities. The underlying tenet was that within the policy areas of tourism, industrial development, small business development, fisheries, and representation in Washington, D. C., a cooperative approach to stimulating growth will prove more effective than continuing the fractionalized efforts which are currently ongoing.

Key to the success of the project was the active participation of a broad representation of the Oceania business and government sectors. Of the 150 attendees, roughly half were private sector representatives and half were from the participating governments. The strong participation of the business community in the symposium lends credence to the hope voiced by the participants that the event was the first stage of a watershed for economic development. The position statements articulated by the symposium participants are reflective of both business and government policies currently in progress in the region. The policy recommendations of the symposium can, in a real sense be considered an action agenda for both local governments and the United States federal government in establishing economic development policy in Micronesia and Oceania.

Three overall policy positions were articulated through both formal and informal discussions among the participants:

A. PRIVATE SECTOR DEVELOPMENT

Business development is the primary objective of the economic growth policies of the participating states. Economic self-reliance, a popular catch phrase in the Western Pacific, can only become a reality if the islands can create jobs and real income on their own. These elements currently

come in large part from the United States either through U. S. domestic development and transfer payment programs or as part of the political status negotiations within the Trust Territory.

The Reagan administration has eliminated any doubt concerning the fragile fiscal nature of Micronesia's economic dependence on the U. S. Each of the participating states were keenly interested in sharing ideas concerning how their resources could be more efficiently utilized to build industry for export products and for import substitution as a means of recapturing revenues which are quickly evaporating. The fact that there was not enough time or opportunity to discuss the potential for specific economic and business development projects was a prime criticism of the symposium format.

B. COMMON MARKET

The second policy position of importance was that cooperatively, the islands stand a much greater chance of successfully establishing economic and business development projects than if they continue to adhere to isolationist policies. Each state recognizes that limited market size is the single greatest obstacle to spurring their development. By breaking down restrictions to inter-island trade, the potential market within Micronesia can dramatically increase. The greatest attraction to the participating Micronesian states to this idea was the possibility of accessing Guam as a market for Micronesian products. Currently, local Micronesian markets for fresh fish and produce are beginning to approach saturation and any significant expansion is dependent in part on accessing greater population centers. In addition, Guam can in many instances supply equipment, materials and other products and services to Micronesia and Oceania at a much cheaper rate than obtaining these products elsewhere. The participants from Guam were attracted to the concept because it signals a true desire to begin mitigating the difficulties involved in doing business in Micronesia. A few of the difficulties involve transportation and communication problems, a lack of information about product and service availability and the market potential of Guam for Micronesian businessmen, along with federal U. S. regulations and local restrictions.

The participating states are seriously interested in taking tangible steps towards the Common Market concept as identified in the resolution adopted by the symposium participants. Micronesia and Oceania share more than a common cultural heritage. It is apparent that they share a common economic future as well.

C. EQUAL STATUS OF REGIONAL PARTNERS

The third policy statement crucial to the success of any future cooperative effort to stimulate business and economic growth is that it is now feasible to consider all of the Micronesian and Oceania states as equal partners in economic cooperation. Although the levels of development between the islands differ greatly, each of the states have carefully established their development priorities and are now ready to move forward with substantive efforts to cooperatively stimulate economic growth.

A NEW DIRECTION

One of the most important accomplishments of the symposium was the development of a resolution calling for the establishment of a Common Market within Oceania and Micronesia. The specific purposes and geographical region to be included in the Common Market designation were not defined, however, a task force, to be appointed by the executive and legislative branches of the participating governments, will convene a conference no later than January 1982 to pursue the creation of the Common Market along with the designation of an International Year of the Pacific by the United Nations. Each of the states will contribute their own unique perspective towards the development of the Common Market. What is offered here are a few staff recommendations concerning the objectives that might be considered in its development.

Since its inauguration, the Reagan administration has embarked upon a massive regional development effort in the Caribbean. The objective of the project is to assist the islands of that region in reaching economic prosperity through the development of free

enterprise. The long-run advantages to the U. S. of such a policy are obvious. The benefits the project provides to the participating islands are enormous in terms of technical assistance and concessions in U. S. tax policy which will make the Caribbean an attractive location for U. S. and foreign companies to locate. The relevance of a similar project for the Pacific is even more clear. The viability of the American approach to economic and political development in the third world must in part be judged by the success of Micronesia and Oceania in charting a course towards meeting the economic aspirations implanted as a result of America's presence in the Pacific.

To date, that progress has been based upon a fragile foundation, that of continued dependence upon public sector funding and assistance. With the development of the Common Market, there can exist the central tenet of a policy for the region which can demonstrate the viability of free enterprise as a vehicle for economic development in the Pacific Basin. Such a policy does not portend a *laissez faire* attitude towards the island economies by either the participating state governments or the United States. It does mean - that the goal of economic self-reliance for the islands must take precedence over past U. S. foreign and domestic policy directed at the region. Economic self-reliance must also become the prime objective of each of the participant states. Of all the states of Micronesia, Guam lags farthest behind in this endeavor. Through a process of establishing a cooperative economic effort based initially on three complementary programmatic areas, these far-flung island communities of Oceania can realize economic development, rather than depending on the federal government for outright funding.

A. ENTERPRISE ZONE

Within the United States, the Enterprise Zone has become the central issue in the national economic development policy debate. Versions of the concept have already been adopted by state and local governments because the concept is deemed such a powerful tool in creating desperately needed jobs in the inner cities and other economically depressed areas throughout the country. President Reagan gave strong support to the Enterprise Zone idea during

his campaign. He explained that the purpose of the Enterprise Zone, in his view, should be to encourage entrepreneurs to start new businesses, and to put local people to work. In June 1981, Secretary Baldrige of the U. S. Department of Commerce stated, "The administration supports the establishment of Enterprise Zones to help create new jobs and enterprise in our nation's poorest communities. It is a top priority of the Reagan Administration that Enterprise Zone legislation be enacted in this Congress."

The creation of employment is seen by all proponents of the Enterprise Zone as the principal goal of the concept. The evidence shows that the small business sector is the most effective generator of the kind of jobs needed, and that the best method of encouraging small enterprise development is less through direct governmental assistance than by creating a climate in which obstacles to business creation are removed and tax incentives are provided that improve the flow of capital into such new firms.

The relevance of the concept to the proposed Common Market is three-fold:

1. U. S. Federal Concessions - Enterprise Zones will be designated for a limited number of qualifying communities in the U. S. in the coming year. Guam and possibly, the CNMI will qualify for the program. As the proposed legislation is currently drafted, if Guam or the CNMI were to be awarded designation, the federal government would most probably enter into a contractual relationship with the islands which would specifically indicate what the local communities commitment to the project would be. Designation will last well into the next century, so long-term commitments to stimulate local business development will be required. This local commitment may involve the participation of private and/or public entities, and may include the use of federal programs. The bill currently under consideration in the U. S. Congress suggests the following:

- * Reduction in tax rates or fees.
- * Improvements in local services.

- * Streamlining of business and employment regulations.
- * Commitments from private entities to provide training and other assistance for zone residents.

Although the relaxation of certain local taxes and regulations may benefit the other members of the Common Market through reduced prices, and ease of entry to local markets, the potential benefits of reducing U. S. federal regulations could also play a key role in improving the feasibility of business and development projects among the participating states. Guam will include in its application for designation as an Enterprise Zone the demand for removal of a number of federal constraints which directly impact the other members of the Common Market. Specifically, four major groupings of federal constraints can be targeted to be included in the agreement which will immediately benefit the other members of the proposed Common Market.

a) VISA WAIVER

The waiving of visa requirements for businessmen and tourists coming to Guam, is another federal action which could be included in the Enterprise Zone program for Guam or the CNMI. If successful, such a move would open up new tourism markets for the members of the Common Market, as well as boosting the tourism industry of the member islands.

b) JONES ACT

The exemption of Guam from the provisions of the Jones Act which restrict foreign hulled vessels from servicing Guam could possibly be eliminated through the successful designation of Guam as an Enterprise Zone, thus helping to increase shipping service to Guam and bring down the cost of service to the islands. This will indirectly benefit members of the Common Market through the eventual lessening of shipping rates to Guam and also allow Guam to become part of some shipping routes now servicing Micronesia. Key to the success of that initiative will be stabilization or lowering of port charges particularly on Guam.

c) CAB

Exemption of Guam from CAB cabotage laws could be included in the Enterprise Zone Program. If successful, such an action would increase the level of inter-continental traffic bringing a large tourist market to Guam and to the region as a whole. In addition, with increased air service, air cargo and mail service will be improved.

d) USDA REGULATIONS

Regulations which currently prohibit importation of citrus and other produce from Micronesia and Oceania could be either eliminated or a firm time-table for their mitigation adopted by the federal government.

Through creating a climate to rapidly increase the rate of business start-ups and by relaxing many of the restrictions which make accessing Guam more difficult for the members of the Common Market, it is intended that the Enterprise Zone will act as an engine for both capital formation and market expansion. The members of the Common Market can utilize Guam or the CNMI's Enterprise Zone in two ways:

- a. To draw upon the capital and technological resources which the Enterprise Zone will bring to the area; and
- b. By examining closely the impact of the program on Guam's development and determine whether the particular structure and content of the Enterprise Zone concept is beneficial and useful to states of the Common Market.

To benefit from the Enterprise Zone designation, the member states will need to ease the access of their own business community to Guam's capital and product markets by adopting changes in local laws and regulations which currently prevent local business projects from accessing capital resources on Guam. In particular, mortgage laws and land ownership laws must be revised to ease capital formation projects within the member communities. In addition, tariff and customs restrictions for goods shipped to the member states must also be examined to ensure they are not hindering business and its job creation potential.

B. REGIONAL INDUSTRIAL DEVELOPMENT

Through a shared development program, the member states can cooperatively work to attract desired foreign investment. In the first phase, the program would address two forms of industrial projects:

- A. Tourism promotion - The attractiveness of Micronesia as a regional tourism destination in the Pacific is paralleled only by Hawaii. Existing infrastructure in Hawaii requires that most tourists stop first on the most developed island before transiting to other island destinations. Unlike Hawaii, the Micronesian tourist industry remains fractionalized making it difficult to easily access several tropical destinations in a single tour. The key to more effective penetration of the Japanese market is increasing hotel room turn-over and thus funneling more "new money" into the islands. One way to facilitate more effective market penetration is to increase the number of attractions the industry has to offer by linking tourism promotion efforts of the individual islands into well orchestrated tour packages linking Guam with several other island destinations.

A regional focus to the promotion of tourism could allow the islands to specialize in complementary tourist attractions. Each island could provide a particular type of attraction and fit into a much larger marketing package than any individual island could facilitate. The program would link the islands into a regional concept much more powerful and attractive than each individual island could support alone. Instead of simply promoting Belau, Guam, Saipan or other individual destinations, a choice of products could be offered thus increasing the market that each of the islands would draw upon. The Micronesian Regional Tourism Council has lacked the formal programmatic follow through necessary to make such a project possible. The Common Market should provide a vehicle where cooperative tourism promotion could be facilitated and where the impact of tourism can be evaluated along with other industrial projects.

- B. Industrial Complexes - The disparity in the level of development found between Guam and its neighboring Micronesian islands is attractive to light manufacturing firms that utilize both capital and labor intensive production processes. Within the garment manufacturing industry, the production of garment parts (sleeves, cuffs, collars) can be facilitated through small cottage industries relevant to the stage of development found in the member states economies. Once produced, these "inputs" can be shipped to Guam where the more capital intensive processes of final assembly and packaging are easily facilitated because of the Island's more developed infrastructure. The distribution and production infrastructure established by industrial complexes can facilitate the production of any number of products, not just garments. It can establish viable export industries for the participating islands. Under existing law, these products can be shipped duty free to distributors in the U. S. under the headnote 3A program and to other developed nations under the Generalized System of Preferences. The Islands, in a similar fashion to the promotion initiated for tourism, would solicit international and Micronesian firms to establish industrial complexes. Cooperatively, a large scale industrial promotion campaign highlighting the economic and business attributes of the islands as a regional light manufacturing center would be conducted.

C. ENTERPRISE ASSISTANCE CENTERS

The Common Market must also be the conduit for establishing the mechanism to provide data and technical assistance to all of the member states. Key to capitalizing upon the enterprise zone and effectuating cooperative industrial promotion is the linking of governmental development objectives with private business development requirements. The avenue for linking business and government technicians is through accurate information and

similar perceptions of the problems to be solved and the solutions which are viable. The most logical place for member states to begin building the information resources and experience necessary to be successful in stimulating private industrial growth is with small enterprises.

There exists three critical elements to small business development - entrepreneurial training, small business consulting, and financing. The Common Market should consider the establishment of Enterprise Assistance Centers in each member state to provide a means and a place for all entrepreneurs to access the assistance necessary to facilitate small business start-ups.

These centers would directly address the problems facing both small businesses and financial institutions involved with financing small ventures:

- a. The need to improve small business planning practices;
- b. The need to increase the number of small business financial packages which are fundable and
- c. The need to reduce the risk of small business failure through improved managerial performance by entrepreneurs and more flexible financing arrangements by local lenders.

1) ENTREPRENEURIAL TRAINING

The following program must consist of an intensive workshop designed to:

- a. Test the feasibility of the entrepreneurial business idea.
- b. Teach the small businessperson how to start-up, or expand, his own business.
- c. Train the entrepreneur how to write a business plan in order to obtain financing.
- d. Determine whether the entrepreneur has what it takes to enter business successfully.

Workshop training should cover such subjects as assessing and developing each individual's entrepreneurial character, motivations and skills, selection of appropriate business ventures, business marketing strategy, advertising and promotion, bookkeeping, legal structure, taxes, government regulations, financial projections, obtaining start-up capital, managerial leadership and other related subjects.

The training must be practical, learn-by-doing, "real world" business instruction taught by experienced businessmen and businesswomen, not by academics who lack substantial practical experience.

The results of the training program would be immediately realized through the construction of fully developed business plans, which would be ready for financiers to consider. Lending institutions complain (correctly) that most small businesspersons do not know how to plan their businesses and package them properly for consideration. This training would provide that background. Equally important, the training program would provide the entrepreneur with a thorough understanding of how to manage and maintain his own business. By providing entrepreneurs with "state of the art" practical business skills, the training program would help to raise the business competency of the island's small business community and lower the risk to private lending institutions in small business ventures.

2) CONSULTING

Although training is an important part of the services provided by a Enterprise Assistance Center (EAC), training directly assists the business during a relatively short period of time or up to the obtainment of financing. To assist on-going business ventures that encounter management difficulties which require special consulting, EAC would also provide business consulting services.

- a. Short-term "brush-fire" consulting-designed to provide one-stop services to businesses who come to the EAC Center looking for solutions to particular, easily identified problems would be provided. A pool of part-time consultants would be available to provide specialized assistance to entrepreneurs

solutions to particular, easily identified problems would be provided. A pool of part-time consultants would be available to provide specialized assistance to entrepreneurs if EAC's trained consultant-coordinator could not handle the problem. The pool of consultants would be comprised of local businessmen and would act as a source of information valuable in quickly identifying problems and realizing solutions.

- b. Long-term "on-going" consulting - essential in monitoring the progress of entrepreneurs who have graduated from the training program and/or who have received financing would also be available. Similar to the farm advisor of the agricultural extension service, EAC consultants would regularly visit participating small businesses to assist them up to the "break-even point" of their venture and beyond if necessary.

3) FINANCING

In addition to training and consulting services, EAC would also help to coordinate public and private financing for small businesses in member states. Through training and consulting, EAC would generate higher quality small business financial packages than have generally been available to either public or private lending institutions in the past. A goal of each of the public lending programs should be to leverage greater participation of private institutions in financing small business ventures. To assist in this regard, each EAC would establish a Loan Advisory Committee (LAC) comprised of local banks and savings & loans. The LAC would serve two important functions:

- a. It would provide maximum exposure for small business packages greatly improving the ability of the public programs to interest private lending participation in these packages. In addition, the committee would assist private institutions in utilizing public lending programs for their own clients. By reviewing small business packages through participation on the Committee, the participating banks would provide the entrepreneur

with valuable advice in improving his or her package to meet the needs of private lenders. The Committee can also quickly generate the required "turn-down" by private institutions which is required by SBA for financing.

- b. Through the establishment of this voluntary clearing house for small business packages, private and public loan officers in the member states can share information and work towards common solutions to the problems which restrict the success of small business financing in the member states.

These assistance centers would provide a place where technical assistance and information could be housed for all of the operations of the Common Market. Centered around the assistance needed to stimulate small business growth, these centers could disseminate information on marketing opportunities, transportation costs and financing interests throughout the Common Market. In the long term view, these centers could become the capital formation and even security exchange focal point of the member states. In the short term, these centers could act as marketing, promotion, and research resources for each of the member states. These centers would form the central programmatic link between each of the member states. The very nature of private sector development does not lend itself to governmental control. Instead, throughout the entire process of both creating and implementing the concepts of the Common Market, it is essential above all else that business and government communities of the member states view this process as one best achieved through a partnership. This is best realized programmatically through the establishment of a private non-profit vehicle to implement the Common Market and Enterprise Assistance Center concepts.

Through private donations and a public contractual relationship, these centers can be a major cooperative effort between business and government. It is important to keep in mind that the views offered here are staff recommendations on how the Common Market may be brought to fruition.

The other major recommendation of the symposium was that the United Nations be approached to designate an International Year of the Pacific. As the need to attract the attention of the United States is

important in efforts to establish a Common Market, equally important is the need to attract greater attention from the United Nations to Pacific Island states as they continue on their course of a chartered new development.

WORKSHOP SUMMARIES

Within each of the workshops there were also specific recommendations concerning actions that should be taken by the participating states. In addition, questionnaires were administered to gauge the sentiments of the participants within each of the areas covered by the workshops. Detailed reports on the findings of the workshops can be found in following sections of this report. Briefly, the findings of the workshops were as follows:

WORKSHOP I, AGREEING WHERE TO BEGIN

The Workshop confirmed that cooperative industrial development projects between participating states, particularly within the areas of industrial promotion, infrastructural financing and business financing may now be possible. To ascertain the viability of that contention, the workshop recommended that the details of the nature of this proposed operation be included within the responsibilities of the task force recommended by the symposium as a whole. One of the first responsibilities of the task force will be to establish a listing of development objectives and priorities that must be addressed by participating states if cooperative industrial development is to become a reality. The workshop indicated that high on the priority listing must be a concerted effort to establish uniform commercial laws and regulations throughout the proposed Common Market.

WORKSHOP II, ENTERPRISE ZONE

The Enterprise Zone concept was identified as one of the realistic options that must be examined when formulating the priorities and objectives of any form of regional development. It was also in this workshop that the desire for the establishment of a Common Market for the Pacific was first introduced. As identified in the first workshop, the formation of a task force to examine how the Enterprise Zone and the Common Market concepts should be brought to fruition was called for.

WORKSHOP III, TOURISM

The workshop confirmed that regional cooperation in promoting and developing the visitor industry is desired and important to the success of the industry in each of the participating states. It was agreed that each of the states should fiscally contribute to the development of a regional tourism promotion program. This will resolve one of the major hindrances to the success of cooperative tourism promotion projects attempted in the past.

WORKSHOP IV, INDUSTRIAL DEVELOPMENT

Within the industrial development workshop, the participants identified promotion, manpower training and technical assistance as the type of activities where regional cooperation could yield success in pursuing industrial development projects. In terms of industrial projects identified as the most feasible, the workshop participants suggested that tourism, fisheries, and agricultural projects provide the greatest chance of success in the coming decade. The largest obstacle to development was identified as entrepreneurial experience. Infrastructural and facilities availability were identified as the second greatest obstacle to industrial development by the workshop participants.

WORKSHOP V, WASHINGTON REPRESENTATION

All of the participating states identified Washington representation as being important to the development aspirations of the participating states. On issues where each of the states had common interests in regards to U. S. involvement, a cooperative lobbying effort appealed to the participants. At the same time, each of the states stressed the importance of maintaining separate access to agencies of the U. S. federal government and Congress.

WORKSHOP VI, ENTREPRENEURIAL DEVELOPMENT

The workshop called for the development of Entrepreneurial Assistance Centers where entrepreneurship training, consulting and financial packaging assistance could be offered. Each of the states

identified the need for leveraging greater bank participation in the development efforts of the participating states. Currently, the inability of local businesspeople to develop credible financial proposals is a major obstacle to obtaining financing among private banks in the participating states. The existence of EACs would do much to relieve that particular problem.

WORKSHOP VII, FISHERIES DEVELOPMENT

The fisheries workshop identified as one of the most important regional fisheries projects the development of a fisheries agreement between the Commonwealth of the Northern Mariana Islands and Guam. The U. S. State Department has indicated that if such an agreement to establish a fisheries resource zone is established, then Guam and CNMI will be allowed to negotiate with foreign countries for access to the resource zone. It is estimated that over \$1 million can be generated to finance the development of the fisheries industry both on Guam and in the CNMI from the project.

CONCLUSION

The symposium was in large part an education process for the participants from Guam. It was clear that Guam was much less familiar with the development problems of Oceania than Oceania was with the peculiar problems facing Guam. Many assumptions concerning the reluctance of the Micronesian and Oceanian states to cooperate in stimulating economic development proved unfounded. As equal partners, the participating states are extremely interested in cooperating to establish a regional development program. The idea for the creation of the Common Market came both from the delegation of the Commonwealth of the Northern Marianas Islands and Guam. The recommendation for the creation of Enterprise Assistance Centers to stimulate entrepreneurial development resulted from conversations with the delegations from Yap, Palau, and Truk.

The results of the questionnaires administered in the workshops are testimony to the desire on the part of the participating islands communities to seriously address building private sectors on their islands with the capability of developing export markets and

real income based on the productivity generated by local entrepreneurs with local resources. The stage has been set to begin the process of establishing a balanced approach to economic development based upon creating viable business projects in which the people of the Pacific Basin can participate. The entrepreneurial attitude of the region is rising and with a little assistance from both outside and inside the area, the term "economic self-reliance" will no longer be a slogan, but a reality for the islands of Oceania.

RECOMMENDED ACTIONS

Within the next four months, a number of critical tasks will have to be accomplished to develop the policy recommendations and projects identified as viable by the participants of Oceania 1981.

1. Appointment of a Regional Task Force - To prepare for the next meeting of the participating states, a great deal of planning and policy development needs to occur to give substance to the Common Market concept. The first action that must be completed is the appointment of the regional task force which will plan and develop the next conference where the Common Market concept will be finalized. Included in the Appendix of this report is a copy of the resolution signed by the Association of Pacific Basin Chief Executives calling for the appointment of executive branch representatives to follow through on the recommendations of the symposium. Also in the Appendix is a copy of the resolution currently before the Guam Legislature calling for the appointment of a legislative representative to also participate in the follow-up activities of the symposium. It is recommended that the executive branches of the participating states also appoint a private sector representative to act as a third partner in the concept's development. On Guam the acting representatives pending official approval are Senator James Underwood representing the Legislature, Jesse Perez representing the executive branch and Mike McClure representing the private sector.
2. Creation of Compact Agreement - Within the next three months, the task force must accomplish three things:

- A. Each of the participating states will have to identify the nature of its participation in the Common Market. This entails at least two actions. First a clear statement of objectives delineating what each of the islands expects from the Common Market must be developed. Secondly, objectives should outline legislative, executive and private actions that each of the islands expect the member states to undertake in making the Common Market concept a reality.
- B. Each of the member states must identify how it will meet the requirements it expects from the other states in entering into the Common Market. These commitments will be combined with those of the other members states to form a Common Market Compact.
- C. The task force will have to plan and prepare the next meeting of the participating states. The event will have a very different nature than Oceania 1981. Instead of a general conference on the subject of economic development, the next gathering must be designed to clearly identify each of the participating states objectives and to work out the differences that may exist between the member states in the development of the Common Market compact. Small, intensively concentrated workshops should be designed to build each of the sections of the Compact.

3. Drafting of a Compact Charter

At the next meeting of the participating states to be held within four months, a draft Common Market Compact should be presented for consideration by the member states. The development of the compact will be the responsibility of the task force. The Association of Pacific Basin Chief Executives must assume, until the Charter is signed, the lead responsibility in organizing the task force's agenda and setting the ground rules for drafting of the Charter. Within one month after the delivery of the final symposium report, the task force will meet for organization of the task force's agenda. It is suggested that this first organizational meeting be held on Saipan. The objectives of these preliminary meetings will be to establish a means for drafting

the compact and allowing for adequate review by the member states so that within the four month time frame identified by the participants, a draft compact can be formally presented to the member states for review.

WORKSHOP REPORTS

WORKSHOP I

"Agreeing Where to Begin"

Workshop I, "Agreeing Where to Begin" was moderated by Mr. Greg Perez and included as guest speakers Mr. Tom Utley, Consultant to the President of the United Micronesia Development Association, and Mr. Carl Peterson, President of Money Resources, Incorporated. Participants included representatives of both the public and private sectors from the Virgin islands, the Republic of Belau, the Federated States of Micronesia, the Commonwealth of the Northern Marianas, Guam, and the Pacific Basin Development Council. The format of the workshop also allowed members of the audience to participate in the discussion.

Participants in the workshop agreed to identify specific areas or issues which the participating state governments and businesses can become involved in to spur economic development.

Tax reform was immediately identified as a priority issue for each of the participating governments to address. It was noted that most of the tax structures in the region were adopted from other jurisdictions, and they may not be applicable to the particular economic conditions found in the Pacific Islands.

Mr. Peterson discussed the importance of tax incentives and tax rates on local production by offering the example of agricultural products which are locally produced rather than purchased from an outside source. In his example, Mr. Peterson described the consequences of not taxing the local production of vegetables as opposed to purchasing the vegetables from a different island or jurisdiction. If all farmers in a jurisdiction were given tax-exempt status for their products, more would be grown, thus eliminating the dependence on outside sources. In response to the statement that the government of that jurisdiction would receive no revenues if the farmers produce were tax-free, Mr. Peterson pointed out that

the government does not receive any revenue if the vegetables are purchased out of that jurisdiction. With local production, not only are the products cheaper, but the government will realize revenues from other sources connected with the production of these vegetables on a local level, such as income taxes from the farmers and their employees.

Mr. Utley suggested that a logical starting point for identifying areas of government and private sector cooperation in economic development efforts would be for government leaders of both the executive and legislative branches from all islands to meet and develop a consensus on what the development priorities should be. Once these priorities are established, specific steps should be taken to address these goals.

The business communities in the various islands play a vital role in such a strategy by augmenting the government's capability to take direct action. Without priorities, however, the islands will continue a fragmented approach to development, with very slow results. Mr. Perez pointed out that most island governments control land, which is a valuable but underutilized resource. It was suggested that the resources available to the islands be identified and efforts to maximize utilization of these resources be immediately undertaken.

A representative of the private sector from the Truk delegation felt that the workshop should identify some of the obstacles to economic growth; such as the problems that hinder communications and air and sea transportation. These problems inhibit development in both the private and public sectors in Truk. For example, the lack of direct telephone communications between Truk and Guam makes it impossible for Truk to notify others if an emergency should arise with Truk's power generation system, effectively cutting the island off from emergency services. The lack of prompt transportation between Truk and the other islands is also an area where problems arise. For example, although Truk sells fresh fish for only \$0.50 per pound, there is no way to export this fish in a timely fashion so that the other islands may benefit from this low price. This lack of transportation also negatively affects Truk's efforts to promote tourism. The Truk representative pointed out that under existing government plans, it will be another 3 years at least until the satellite system (COMSAT) is established for better communications between Truk and the

other islands. It was suggested that a joint venture between some of the islands to establish a communications system should be investigated, as well as joint efforts to provide more frequent transportation linkages between the islands.

Mr. Utley, who is employed by the corporation which owns 60% of Continental Air Micronesia, explained some of the problems inherent in providing transportation to Truk and the other islands. The limited number of passengers travelling to the smaller and less developed islands, means that the Guam and Saipan Air Micronesia flights subsidize the less travelled routes. In addition, Air Micronesia suffered damage to six engines from foreign objects on Truk's old runway. The government of Truk resurfaced the runway, and since that time, flights have not suffered this type of damage. This is an example of the type of cooperation necessary between government and the private sector in making business more profitable. When business is profitable, an incentive is created for increased business activity and, in turn, employment and prosperity.

Mr. Peterson said that the recent de-regulation of the airline industry has spawned the creation of many smaller commuter airlines because the larger air carriers have dropped the less profitable routes. It was pointed out that a regional airline for Micronesia is currently being examined, and this may be an answer to many of the region's transportation problems.

Mr. Perez pointed out that it was recently revealed that approximately 40% of the cost of an airline ticket on the commuter airline between Guam and Saipan is comprised of landing fees charged by the airports. These fees are prohibitive to the formation of small airlines, and must be rigorously re-examined if increased local investment in the airline industry is to be encouraged. A representative from Japan Airlines in Guam offered an explanation of why the less developed islands do not receive as many tourists as Guam and Saipan. Air Micronesia only operates two planes in this region, consequently scheduling is very difficult and many times, planes do not adhere to the schedule. For this reason, Japanese tour packagers are reluctant to book visitors to islands when they may be forced to stay for up to two days after their tour is over. When transportation is unavailable for tourists to leave when their packaged tour is over, the tour operator must bear the expense of additional staying time. This discourages the packaging of Truk and other islands as tourist destinations.

A representative from the delegation of the Republic of Belau cautioned the participants that the governments have other responsibilities besides encouraging increased business developments. It was felt that great care should be taken in changing tax structures because a significant loss of revenue to the governments would jeopardize the ability to provide other essential services to the public.

Mr. Peterson responded that incentives for business development will create more business, more tax revenue in the long run, and thus an improvement in government services if the government should choose to spend the increased revenues in that fashion. Many participants felt that policy makers and the public in general need to be educated on the benefits of promoting business, and that, without this education, they will be reluctant to make changes that may be viewed as unpopular, such as reducing the size of government, or privatizing government utilities.

A representative from the Commonwealth of the Northern Marianas suggested that a working group be formed to examine the issues brought up by the workshop. Among these issues are establishing priorities for development activities, problems with communication and transportation, enacting uniform commercial procedures for inter-island commerce, and problems with the various tax structures in the islands. An examination of the questionnaires administered by the workshop leaders reveals that there is strong support for the formation of a group to study these issues.

Ninety-eight percent of the workshop participants responded that regional cooperation is important to the economic development of Micronesia. Additionally, ninety-four percent of the questionnaire respondents recommended the participation of their island in an effort to resolve the issues brought up by the workshop, even if it meant changing current laws and administrative procedures.

Most participants did not feel that their island could address all of its problems alone, and when asked if a referendum were held on their island to determine if regional cooperation would be accepted, 20% said their island would be strongly in favor, 44% stated their island would be in favor, 24% were unsure, and 2% felt that their island would not support regional cooperation. Subsequent discussion of the suggestion to form a working group revealed that the participants of Workshop II had adopted a resolution calling for the formation of a

"AGREEING WHERE TO BEGIN QUESTIONNAIRE"

- 1) I am from: 7 The Republic of Belau
 12 The Federated States of Micronesia
 6 The Commonwealth of the Northern Mariana Islands
 19 The Territory of Guam
 0 The Republic of Nauru
 0 The Republic of Kiribati
 0 The Marshall Islands
 0 The American Samoa
 0 Hawaii
 1 PBDC
 2 Virgin Islands

2. I work in the 26 Private Sector (business)
 25 Public Sector (government)

- 3) Do you believe regional cooperation in resolving these issues is important to the economic development of Micronesia?
 49 Yes 0 No 1 Don't Know

- 4) Do you believe that economic development is an issue that should be addressed on a regional scale?
 48 Yes 2 No 0 Don't Know

- 5) Would you recommend the participation of your island in a cooperative effort with other Micronesian islands to resolve the issues identified in this workshop?
 47 Yes 0 No 3 Don't Know

- 6) Would you recommend participation in such an effort even if it required changing existing law and administrative procedures on your island?
 38 Yes 2 No 10 Don't Know

- 7) If a referendum were held in your island today concerning the participation of your island in a regional economic development effort, how do you feel the voters of your island would respond?
 Strongly in favor 10
 In favor 22
 Indifferent 12
 Disagree 0
 Strongly disagree 1

- 8) Can your island financially afford to address all of its own problems and needs?
 4 Yes 37 No 8 Don't Know

similar group to study their findings. It was suggested that both groups be combined to examine both the issues of identifying priorities and implementing the recommendations identified in Workshop II.

Based upon the results of the questionnaires and the discussion of the workshop participants, it would appear that this is an area that has the wide support and encouragement of the representatives of the islands. The unanimity of opinion for the formation of a body to address the issues raised by the workshop indicates that this suggestion should be acted upon as quickly as possible to capitalize on the momentum and cooperation which evolved from the workshop.

WORKSHOP II, "ENTERPRISE ZONE"

THE ENTERPRISE ZONE CONCEPT, LEGISLATION AND MICRONESIA

Originating in England, the enterprise zone concept has always been envisioned as a means of creating jobs by stimulating the start-up of small business enterprises. The focus upon small business derives from the fact that in most economies, they are the prime vehicle for job creation. A major problem facing most new, small businesses is the high start-up costs they encounter in the form of assorted taxes and government regulations. The enterprise zone would eliminate these disincentives as a means of encouraging small business development.

Within the United States, the Enterprise Zone has become the central issue in the national economic development policy debate. Versions of the concept have already been adopted by state and local governments because the concept is deemed such a powerful tool in creating desperately needed jobs in the inner cities and in economically depressed areas throughout the country. The creation of jobs is seen by all proponents of the Enterprise Zone as the principal goal of the concept. The evidence shows that the small business sector is the most effective generator of the kind of jobs needed, and that the best method of encouraging enterprise development is not through direct government assistance, but by creating a "climate" in which obstacles to business creation are removed and tax incentives are provided that improve the flow of capital into such new firms.

President Reagan gave strong support to the Enterprise Zone idea during his campaign. He explained that the purpose of the Enterprise Zone, in his view, should be to encourage entrepreneurs to start new businesses, and to put local people to work. In June 1981, Secretary Baldrige stated, "The Administration supports the establishment of Enterprise Zones to help create new jobs and enterprise in our nations poorest communities. It is a top priority of the Reagan Administration that Enterprise Zone legislation be enacted in this Congress."

In 1980 Senators Jack Kemp (R-NY) and Robert Garcia (D-NY) introduced legislation to establish Enterprise Zones throughout the United States. After nearly a year of review and considerable discussion both through the media and a number of conferences, a revised bill was introduced in both the House and the Senate. The bill has impressive support. National Urban League President Vernon Jordan joined the co-sponsors at their June press conference introducing the new legislation. In addition, the NAACP, the National Urban Coalition, the National League of Cities, and many other organizations have endorsed the Enterprise Zone concept.

To be eligible for designation as an Enterprise Zone under the current bill before Congress, an area must be characterized by "pervasive poverty, unemployment and general distress." Sites must meet the eligibility requirements of the Urban Development Action Grant Program. The government seeking the Enterprise Zone designation must agree, in writing, to follow a course of action "designed to reduce the various burdens borne by employers and employees" in the area. This local commitment may involve the participation of private and/or public entities, and may include the use of federal programs. The bill suggests the following:

- * Reduction in tax rates or fees.
- * Improvements in local services.
- * Streamlining of business and employment regulations.
- * Commitments from private entities to provide training and other assistance for zone residents.

The bill states that it is the sense of Congress that local governments should attempt to facilitate "to the greatest extent possible" the employment of poor and unemployed zone residents. In choosing the sites for consideration, the Administration will be greatly concerned that Guam carefully determines how the Enterprise Zone will effect neighboring islands, and how the Enterprise Zone can be used to assist their development as well. The IRS is urged to simplify the administration and enforcement of the tax incentives contained in the bill. The Foreign Trade Zone Board is also urged to expedite applications for foreign trade zones within Enterprise Zones, and to take into account future development likely to result from Enterprise Zone incentives in determining the economic viability of the site under consideration for foreign trade zone status.

Specific incentives that could be part of the enterprise zone include the following:

1. An employer may take a tax credit equal to 5 percent of the wages paid to a "qualified employee." A qualified employee is defined as a CETA eligible person who performs at least 50 percent of his service within an Enterprise Zone. The credit is refundable if the total credit exceeds the employer's tax liability.
2. Any employee of a "qualified business" may also take a credit against his or her personal federal income tax equal to 5 percent of the income received from services performed for the business within the Enterprise Zone. The credit is limited to \$1,500 in any taxable year and only covers the first 36 months of employment. Like the employer's credit, it is refundable.
3. Taxpayers are not required to pay any capital gains tax on tangible property installed after an Enterprise Zone is designated, providing the property has been used for business purposes. Such property would include an interest in a qualified business, and both new and substantially rehabilitated low-income rental housing. The exemption from capital gains tax extends to the first sale or exchange made after the zone designation ends.

4. A 50 percent tax allowance is available to any qualified business for income received within a zone. The same allowance is available for any income received by any taxpayer from loans, mortgages and other financing provided to a qualified business or used for business purposes within the zone. The full 50 percent allowance will operate only until the year 1997, after which date it is to be reduced in increments of 10 percent until it is phased out by 2001.
5. A qualified business may use the cash method of computing taxable income, providing its total receipts do not exceed \$2 million in the tax year.
6. The bill also specifies that new and rehabilitated low-income rental housing in an Enterprise Zone is eligible for investment credits.

In addition to these specific actions which could result from establishing an Enterprise Zone, Guam would have the freedom to initiate other incentives making the island conducive to the transacting of business. It is exceedingly clear that the provisions of the new bill will have the profound and result of creating new jobs on Guam. The Enterprise Zone concept can be molded to relax the numerous federal restrictions that we suffer under. When this is combined with the incredibly powerful tax and incentive tools identified in the bill, the local government will have a tremendous opportunity to stimulate development and the creation of new jobs as never before.

There was a solid consensus at the Symposium that some form of regional economic cooperation is needed to enhance the overall economic development of Micronesia and the Pacific. A major concern of many Micronesian leaders was how the Enterprise Zone concept could possibly be relevant to their development needs since the U. S. federal legislation would only apply to Guam and the CNMI. This valid point will require serious discussion in future meetings to explore just how a positive interaction could occur, but there would appear to be a number of areas in which an Enterprise Zone on Guam could assist in the economic development of the other islands.

Although changes in existing tax laws were often focused upon in the discussion of Enterprise Zones at the Symposium, there are other areas in which changes could be effected. The key is to determine those areas in which both Guam and Micronesia would benefit. The most obvious way is through the removal of certain Federal restrictions and constraints. Some of these place impediments in the paths of potential tourists or prevent airlines in the Asia region from servicing Guam. If these were removed, freer tourist access to Guam would also mean freer access to Micronesia for these same tourists. An area of equal relevance would be if Guam, rather than the U. S. Department of Agriculture established and controlled the regulations regarding the importation of agricultural produce to Guam from Micronesia. Opening Guam's markets to Micronesian produce would represent a mutually beneficial arrangement. Selected agricultural produce from Micronesia should find a ready market on Guam and provide valuable export earnings to the Islands.

These are but a few idea of how Guam, as an Enterprise Zone, could interact with the other Micronesian Islands in an arrangement that would benefit all parties. It is assumed that in future discussions on this topic, additional ideas will come forth from Micronesia that might provide guidelines to Guam for shaping its Enterprise Zone.

WORKSHOP PROCEEDINGS

This workshop, under the leadership of Jesse Perez of the Guam Economic Development Authority, addressed the Enterprise Zone concept which has been endorsed by the Reagan administration as a means of stimulating economic development. Dr. Stewart Butler of the Heritage Foundation, a leading proponent of the concept, was present to answer questions.

Lee Holmes of Guam Cable TV opened the workshop and in his remarks discussed the need for the Micronesian islands to combine labor and capital into an effective development strategy.

The following exchange of questions and answers occurred:

Q) The incentives aspect of the Enterprise Zone deals primarily with regulations, taxation and basic assistance to businesses. The Northern Mariana Islands now face three problems, (1) large cuts in Federal funds, (2) an economy with very few businesses and thus with few tax revenues and (3) regulations which in the case of the CNMI means over-regulation in some areas and none in others. In this situation, what would an attractive simple tax structure be like?

1. Local governments throughout U. S. are suffering from the impact of the Reagan budget cutbacks. The cutbacks are not necessarily all bad because they have forced local governments to look at alternative sources of funding and other ways to provide public services which otherwise would not be considered. Among many, the cuts are viewed with alarm, but realistically, the situation provides an opportunity to break the dependency of local communities on the Federal government's bureaucratic approach to problem solving and hopefully develop greater incentives for the community to assist itself.
2. If there are few businesses now, then the need is to find more businessmen from within the community and unlock their talents. The Enterprise Zone is intended to do this as its focus is to create new small businesses.
3. Regarding taxes and regulations, many problems which inhibit trade could be improved. Changing these laws is a slow, complex undertaking and should be a well thought out, sophisticated process. It is worth the effort for the positive effect it can have on the economy.

Q) Regarding taxation, the CNMI has a growing government that places a heavy burden on the private sector which, because of the small local market, is not large enough to support the government. What can be done?

A small market only limits local trade, it does not limit exports which provide opportunities for small businesses. Correspondingly, raising taxes to increase government revenues will only further

restrict the growth of new businesses. Additional taxes are a disincentive to business growth, the opposite of what is needed. An unattractive business environment will only restrict the communities ability to generate revenues through its existing tax structure.

The implication in the question is that there is a need to restrict the growth of the economy (through higher taxes) in order for the government to supply essential needs and services, but this can severely restrict economic growth which is the only way government revenues can be increased. It is important to look at alternative ways of providing these government services through the private sector and to have the government provide only truly essential services.

Q) Is the workshop to evolve a regional concept for economic development or to just deal with the Enterprise Zone concept?

The enterprise zone is only one option to be considered. It was singled out in the chief executives resolution as a concept to be examined in pursuing the possibility of regional economic cooperation. The enterprise zone has also been targeted by the Reagan Administration as a prime vehicle for economic development. Its attractiveness to the Reagan administration, and Guam's and the CNMI's eligibility for the program makes it an important option to consider.

Q) Discussions concerning the removal of constraints to development are useful, but such actions do not require the enterprise zone format because the islands in the former TT are not under the purview of U. S. federal regulations. There is a need to get at the underlying reasons for the problems, three of which are: (1) there is a low propensity to save in Micronesia, both among the general populace and entrepreneurs, (2) there is an attitude prevailing in which grantmanship (pursuing Federal funds) sets development priorities with the result being that there is no targeted approach toward development, (3) there is an attitude problem in which an anti-growth sentiment is found within the existing business community who fear increased competition and thus seek protection from outsiders. It would appear that a Common Market concept would be more appropriate to

regional needs than would an Enterprise Zone approach. Attention can be focused on the Pacific through the International Year of the Pacific. Through cooperation, we can be our own best customers, but good communication is vital for this cooperation to occur.

The Enterprise Zone is not a final solution but could provide an important component to the development of a Common Market. It is important to consider how the Enterprise Zone concept can supplement regional cooperation as a whole.

Q) How does removing Federal taxes help?

It is emphasized that tax changes are but one of the many options available through the Enterprise Zone concept for stimulating business development. The major impact of tax law changes would be the attracting of investment capital to the enterprise zone. This capital would also be available for utilization elsewhere in the region. Changes in the tax laws could be directed at capital gains on business ventures, corporate taxes, and business tax credits. Another major area of concern that the Enterprise Zone would address are those federal laws and regulations which constrain Guam's economic development. These include visa regulations, air cabotage laws, and the Jones Act regulations pertaining to ships servicing or doing business on Guam.

Q) The Enterprise Zone would be located where, in the Pacific or in the U. S.?

The legislation would apply to any community under U. S. jurisdiction who qualifies for UDAG funding. The concept is to reduce the barriers to economic growth within a region by changing Federal and local government regulations and laws.

Q) How can the barriers be reduced and on what basis?

Federal regulations would be reduced out of Washington, D. C. Local regulations could be dealt with by local governments, and within the region there would be intergovernmental actions to reduce regional barriers and make commercial laws uniform throughout the area.

- Q) At what legislative stage of development is the Enterprise Zone concept?

The target is to have the program operating by next spring. Any entity which wishes to be considered should start laying the groundwork now to be ready by then.

- Q) If the Enterprise Zone incentives are available to Guam and the rest of Micronesia as "U. S. possessions", then what happens after the compact ends?

The Enterprise Zone concept is relevant to all political entities in the region regardless of their relationship to the United States. It is the intent of the federal legislation to allow flexibility so that each Enterprise Zone can be tailored by the designated community to meet its particular needs and the needs of the communities surrounding it. If Guam were an Enterprise Zone, other regional political entities could observe the results of Guam's actions and then determine how they might wish to structure their own laws and regulations so as to maximize the benefits that they can derive from the increased availability of capital and entrepreneurial activity that would be created by the Enterprise Zone.

- Q) It would still appear that the Enterprise Zone concept is irrelevant to the compact.

Federal legislation concerning an Enterprise Zone is irrelevant to the compact, but the concept of an Enterprise Zone is relevant to all islands in the region. The concept is to remove the constraints to business development resulting from various federal and local laws and regulations. The emerging island nations will obviously not be bound by U. S. Federal laws and regulations. The Enterprise Zone will ease their access to Guam and U. S. markets and create an atmosphere which will attract both U. S. and foreign investment capital. The expected net result will be greater availability of capital for the surrounding island states and a greater interest worldwide in the investment opportunities Guam and Micronesia have to offer.

- Q) Is the TTPI specified in the free enterprise zone legislation?

Legislation identifies U. S. flag territories meeting certain other requirements (Urban Development Action Grant eligibility and minimum population requirements among others). Guam and American Samoa are eligible, but there would be a need for further clarification if the other Micronesian islands wish to participate directly. Trying to establish this eligibility is not necessary however. The Enterprise Zone represents a concept and at this time the TTPI islands are free to proceed and implement the concept immediately if they so desire. Only Guam and the CNMI need federal approval before they can explore specific ways in which the Enterprise Zone concept can be translated into reality.

WORKSHOP RESOLUTION

MOVED THAT:

An action-oriented committee be formed immediately through appointments from the Chief Executives and the legislatures of each participating Pacific Basin entity. The organizing committee will contact and encourage the participation of other Pacific Basin entities and the private sector to hold a conference within four months to pursue common strategies of economic cooperation through the establishment of a common market of the Pacific Islands. Such a conference will consider, among other concepts and strategies, an enterprise zone and a United Nations designated International Year of the Pacific.

MOVED, SECONDED, AND PASSED 15-7.

FREE ENTERPRISE ZONE QUESTIONNAIRE

The following results were gathered from the questionnaire submitted at the end of the workshop. The results are given for the entire group and are broken down by the residence of the participants to demonstrate the rather uniform response from the different political entities in the region.

1. I am from:

5 Republic of Palau
5 Federated States of Micronesia
5 Commonwealth of the Northern Marianas
20 Territory of Guam
1 Hawaii
1 TTPI
2 Unidentified

2. I work in the:

22 Private sector
20 Public sector

(2 individuals indicated both)

3. Do you feel the "Enterprise Zone" concept provides a viable framework on which to establish a Common Market in Micronesia?

	<u>Total</u>	<u>Belau</u>	<u>FSM</u>	<u>Guam</u>	<u>NMI</u>
Yes	22	3	3	10	4
No	6	0	0	3	1
Don't Know	10	2	1	6	1

4. Is the standardization of business laws an important objective for more effective regional cooperation in economic development?

	<u>Total</u>	<u>Belau</u>	<u>FSM</u>	<u>Guam</u>	<u>NMI</u>
Yes	30	3	2	18	5
No	4	1	2	1	0
Don't Know	4	1	0	0	1

5. Over the past 35 years, the U. S. federal government has spent millions of dollars in federal aid to Micronesia. In general, do you believe that economic conditions within your state are getting better, or worse or remaining the same?

	<u>Total</u>	<u>Belau</u>	<u>FSM</u>	<u>Guam</u>	<u>NMI</u>
Better	9	1	0	4	2
Worse	18	3	2	11	2
Same	6	1	2	1	1
Don't Know	5	0	0	3	1

6. Do you think that the U. S. should continue to put more money into existing U. S. federal programs or to seek solutions aimed at revitalizing private sector economic development?

Continue to put more money into existing programs

<u>Total</u>	<u>Belau</u>	<u>FSM</u>	<u>Guam</u>	<u>NMI</u>
1	0	0	1	0

Seek solution aimed at revitalizing private sector development

	<u>Total</u>	<u>Belau</u>	<u>FSM</u>	<u>Guam</u>	<u>NMI</u>
	30	5	4	16	3
Don't Know	3	0	0	2	0

7. Do you think that removing regulations and reducing taxes on business is a better way to revive your state's economy than increasing federal loans and grants to the islands?

	<u>Total</u>	<u>Belau</u>	<u>FSM</u>	<u>Guam</u>	<u>NMI</u>
Yes	27	2	3	15	4
No	5	3	1	1	0
Don't Know	5	0	0	3	1
Both	1	0	0	0	1

8. The "enterprise zone" concept would give major reductions in social security, capital gains and other taxes to businesses setting up in Micronesia. Do you think this approach would be more effective than existing programs?

	<u>Total</u>	<u>Belau</u>	<u>FSM</u>	<u>Guam</u>	<u>NMI</u>
Yes	16	2	1	9	3
No	7	0	2	3	1
Don't Know	15	3	1	7	2

9. Do you think the "enterprise zone" idea is worth trying as a means to stimulate private sector growth in your state?

	<u>Total</u>	<u>Belau</u>	<u>FSM</u>	<u>Guam</u>	<u>NMI</u>
Yes	30	3	4	17	4
No	2	0	0	1	0
Don't Know	6	2	0	1	2

The following comments were offered regarding the various questions:

Question No. 3 - The enterprise zone would provide a beginning or one focal point for a Common Market; the enterprise zone would not apply to most of the TTPI islands and would require major modification.

Question No. 7 - Loans are still important; it is not necessarily an either/or situation. Recognize that each government can not provide infrastructure costs; the question is simplistic because as Dr. Butler pointed out, de-regulation is a complex process; what would guarantee that elimination of regulations and tax reductions will benefit the people of the islands instead of business owners who take money saved out of the islands.

Question No. 8 - Depends on who will be investing, but the most important aspect is where will the profits go.

Question No. 9 - The enterprise zone was worth learning more about; it needs a focal point, i. e., the Association of Chief Executives of the Pacific Basin; it is only good for Guam and CNMI; it is a gimmick and of no use to us; the problems are greater than the enterprise zone can deal with; the most important areas are energy, water, communications, transportation, and government infrastructure; the first areas in which to explore the enterprise zone concept should be tourism and fisheries development.

WORKSHOP III

Tourism

The purpose of the workshop on Regional Tourism was to gather input from the participating representatives of the Micronesian states concerning the key issues affecting tourism in this region.

Participants included official representatives from the Republic of Belau, the Federated States of Micronesia, the Commonwealth of the Northern Marianas, the Republic of Nauru and the state of Hawaii. Although participants from Guam's public and private sectors attended the workshop, Guam was not officially represented by the island's tourism policy makers.

The following were the major concerns discussed in the workshop:

- Regional co-operation is necessary for improving communication links among Micronesian entities;
- Effective communication, be it on the technical level (telex, telephones, etc.) or simply a process of continuing dialogue among individuals, is essential to improving regional co-operation in tourism;
- The concept of tourism is well understood by the entities. While basic plant development has been established and will continue, emphasis has now shifted to increasing the export effort, i. e., promotion;
- The consensus is that regional co-operation is a valuable tool in achieving effective tourism development;
- While regional co-operation is viable, problem areas definitely do exist.

On a regional level they include:

A. Communication

- Mechanics and Cost
- Continuing Dialogue
- Consistency of Representation

B. Industry Wide Participation

- Effective intercourse by/with the government and private sector
- Policy People and Program People

C. Mutual trust and understanding of goals to be achieved

D. Fair Share Financing/Fair Share Promotion for tourism development

- Unequal financing with equal representation

On an insular level, problems and issues identified by individual entities included the following:

TRUK

- Develop a more rigorous promotional campaign
- Revise present liquor laws
- Improve infrastructure
- Organic activities geared towards non-diving tourists

NORTHERN MARIANAS

- Develop a back-up support system for transportation when commuter planes experience mechanical problems.

YAP

- Limited tourist facilities
- Inadequate runway facilities
- Will continue to support MRTC and its efforts to bring about regional co-operation in tourism.

Representatives from various carriers including Japan Air Lines, Air Nauru, Continental Air Micronesia and Tradewind Airways were on hand to voice concerns on air transportation in Micronesia. Among the issues discussed were:

Japan has been overwhelmingly recognized as Micronesia's major market area. Providing direct air service from Japan to points in Micronesia without stopovers on Guam should be considered. The time/distance/cost issues relative to the approach were concurrently raised.

The easing of CAB regulations which deter additional air carriers from serving the region was also discussed.

Workshop participants were asked to complete a tourism questionnaire. Respondents were asked to identify the state which they were representing and whether they were from the public or private sector.

Question No. 1 asked to identify the number of participants from the various entities. These included the Republic of Belau (3); the Federated States of Micronesia (3); CNMI (2); Guam (5); the Republic of Nauru (1); Hawaii (1); and 1 other.

Of the 16 forms completed, Question No. 2 identified 9 participants from the private sector, 5 from the public sector and 2 with professional interests in both.

When asked if regional co-operation was important to tourism development in their state (Question No. 3), 15 overwhelmingly replied "yes", 1 responded "don't know".

The following are listed as the most important obstacles to regional tourism development in their state (Question No. 4):

- | | |
|----------------------------|---|
| a. Transportation problems | 7 |
| b. Lack of funds | 3 |
| c. Infrastructure | 2 |
| d. High fares | 1 |
| e. Other | 1 |
| f. Don't know | 2 |

For Question No. 5, the majority of those responding (14) said that they would recommend that their state contribute financially to regional tourism development, while 2 responded with "don't know".

Question No. 6 concerned the ranking of six market areas including North America, Japan, Australia, Asia, Europe and Micronesia in order of importance to tourism development in the respondent's state. 12 identified Japan as the major market area, 3 responded "don't know" and 1 respondent felt that all 5 areas were of equal importance.

On the subject of the need for additional regional air service, (Question No. 7) 12 replied, "yes", 3 "no", and 1 "don't know".

The following routes were identified as needing additional service (Question No. 8):

- a. Guam - Palau
- b. Guam - Truk - Ponape
- c. NMI - Micronesia
- d. Palau - Guam - Tokyo - Micronesia
- e. Guam - Truk
- f. Guam - Yap - Koror - and vice versa
- g. Guam - Yap - Belau - PPN - Australia
- h. North America - Guam - Micronesia

When asked if they felt regional air service could be supported with existing passenger and freight volumes in the region (Question No. 9), 12 replied "yes", 4 "no", and 1 "don't know".

Question 10 read as follows: "Assuming air passenger and freight traffic is too low to support expanded regional air service, should the states financially subsidize expanded regional air service?", 8 responded "No", 4 "yes", and 4 "don't know".

While commendable in its efforts to stimulate ideas on tourism development in Micronesia, the workshop failed to address two very important issues:

1. The need for a regional air carrier for Micronesia, and
2. A discussion of what such a system would consist of, i. e., routes to be served, types of aircraft, etc.

It, therefore, seems appropriate that these issues be brought to light during the next symposium scheduled for this coming December. In preparation for this symposium, it is highly recommended that each island entity concerned should evaluate their present air service programs.

WORKSHOP IV

Industrial Development

Workshop IV on "Industrial Development" proved to be generally successful in meeting its objectives, which were:

1. to identify those key issues of industrial development which are of common concern to all of Micronesia,
2. to determine which issues are pertinent to a regional approach, and
3. to set directions on how the participating islands should proceed in their approach to these issues.

Participants at the workshop included representatives from the following four island groups:

Republic of Belau

Commonwealth of the Northern Marianas

Territory of Guam

Federated States of Micronesia

The following format of discussion ensued during the workshop. First, representatives from each island group were asked to identify their priority areas for industrial development. Second, they were requested to elaborate on the problems and constraints which impede progress in these areas, and finally, they were asked to give specific recommendations for removing these barriers to progress.

Several issues were identified as priorities by two or more island groups. These included the development of: (1) marine resources, (2) agriculture, (3) tourism, and (4) the establishment of a regional marketing strategy.

For instance, representatives from the Commonwealth of the Northern Marianas Islands had prepared a position paper maintaining that:

1. that islands should develop a regional marketing strategy with special emphasis on Japan as a viable market, and

2. that the control of ocean resources is the right of Pacific Islanders and as such, they should be allowed to exercise that right.

Participants from the other islands echoed similar sentiments concerning these four priority areas. Most felt that great potential exists for expansion in these areas, but that they are presently underdeveloped due to a variety of constraints.

During the discussion on constraints, there were again several areas commonly identified by two or more island groups. The most common of these was the lack of capital. This was noted to be especially true in the area of fisheries development, where tremendous outlays of capital would be needed to establish a local industry. As one participant from Belau pointed out, with the cost of seiners running from three to five million, the initial outlay and risk is extremely high, and unless losses can be sustained for a two to three year period (since fishing usually runs on a four-year cycle), such a business would not survive.

Other common constraints included:

1. the existence of U. S. federal government restrictions such as the Jones Act, Headnote 3-1, and C.A.B. regulations (though this problem only affected certain island groups such as Guam and CNMI).
2. the lack of local expertise and the subsequent need for manpower development and education,
3. various deficiencies of the infrastructure,
4. problems with intra- and inter- regional transportation and communication.

Following the identification of constraints, participants then proceeded to make specific recommendations aimed at alleviating these problems.

Recommendations were as follows:

1. The first group of recommendations was related to the agricultural industry and the development of a regional marketing strategy for agricultural products. These included:

- a. The Determination of Proper Scales of Production - It was recommended that the islands, individually and collectively, should first determine what their proper scales of production should be, and in doing so, questions on land usage need to be addressed.

Questions such as - "What is the present status of land ownership?" and "Is agriculture on a commercial scale feasible?" need answering before full-fledged planning and development can begin.

- b. Import Reduction - Although there was much discussion on the possibilities of exportation of agricultural products, it was felt by some that the initial objective of agricultural development should be to reduce imports. Presently, the amount of imports to this region far exceeds the amount of exports. The development of the local agriculture industry would aim to balance this ratio by reducing imports first, and increasing exports later. In other words, it was felt that the region's first goal should be to grow enough product to support the region, before looking to other areas, such as Japan, for alternative markets.
- c. Removal of Intra-Regional Trade Restrictions - It was suggested that island governments should aim to ease or eliminate the quarantine requirements and other restrictions which are presently in existence. For instance, other islands find it extremely difficult to export their goods to Guam because of a number of USDA regulations. The easing of these restrictions would undoubtedly make it easier for the islands to trade among themselves.
- d. Establishment of a Clearinghouse - Another recommendation was that, before the regional marketing issue is addressed, island governments should find some means of standardizing the quality of their products, as well as the regularity and dependability of their supply. One

way of doing this might be to establish a clearinghouse, composed of representatives from throughout the region, and given the authority to set certain standards of production.

As a result, countries importing goods from this region would be assured of a minimum level of quality. They would also be assured of dependability of supply. With each island group consolidating their production of certain items, for instance, the region as a whole could more easily maintain certain levels of production throughout the year.

2. A second group of recommendations was aimed at developing the potential of the fishing industry.
 - a. Cost Analysis - It was suggested that a cost analysis and comparison be made, to determine what the costs of developing a local fishing industry might be, as opposed to the licensing of outside concerns to do the fishing. As mentioned earlier, the initial outlay of capital needed to establish a local industry is great, and it may be more feasible in some instances, to take advantage of the already highly-developed fishing industries of such countries as Japan and the United States.
 - b. Standardized Licensing - Another suggestion was to establish an agency, representing the various island entities, to be responsible for processing licenses for foreign vessels wishing to fish in the region. The standardization of the licensing process would facilitate matters for those companies wishing to do business throughout the region. By facilitating this process, presumably more companies will seek business in this area, and more island groups will profit from such contact.
 - c. Use of Revenue from Licensing Fees - To counter the lack of capital in this area, the revenue from fishing license fees was seen as an important source of funds for development.

- d. Regional Cooperation - And finally, it was noted that the initial costs required to set up a local industry could be more easily met if the island groups were willing to pool their resources.

A regionally-owned fishing vessel might thus be a viable and profitable venture. Such funds might also be used to support the local construction of fishing vessels.

3. A third group of recommendations dealt with manpower development and education.
 - a. One effort in this direction would be to set up more manpower development workshops, such as the Free Business Workshops sponsored by the Commonwealth of the Northern Marianas.
 - b. Two long-range goals would be the establishment of a regional university and/or a regional medical center, to be supported, administered and utilized by all island members.
 - c. More programs of information exchange, student exchange, and technical assistance are needed, so that each island group may profit from the experiences and expertise of their island neighbors.

Other recommendations covered a variety of areas, such as:

Tourism - Groups of islands should work together to present more "package deals" to tourists, which would include visits to several islands per tour, and which would highlight the special attractions of each island, such as scuba diving in Truk, shopping in Guam, etc.

Energy - The region should consider the feasibility of new energy sources, including wind or solar power, which may be especially appropriate to the island environment.

Transportation - Though there were no specific suggestions in this area, it was noted that the establishment of a network of reliable shipping and air routes is crucial to overall development in the region.

Consolidation of Regional Purchases - To help out development costs, the region should consider consolidating their purchases of such necessities as oil, building materials, equipment and services, etc.

Encouragement of Local Firms - Islands should continue to promote the development of small, local businesses. As these local firms are allowed to grow from within and expand regionally, they may eventually reach the stage of expansion outside the region.

Regional coordination - It was continually emphasized throughout the discussion, both as a specific issue, and as an adjunct to other issues, that regional coordination is important to industrial development.

Most of the other recommendations made at this workshop also contributed to this "common market" approach to development. Finally, it was recommended that a regional task force be created, to meet on a regular basis, to foster a continuing dialogue between island representatives, to follow through on specific recommendations, and to set the groundwork for regional cooperation and development.

INDUSTRIAL DEVELOPMENT WORKSHOP QUESTIONNAIRE

1) I am from:

- 4 The Republic of Belau
- 3 The Federated States of Micronesia
- 4 The Commonwealth of the Northern Mariana Islands
- 3 The Territory of Guam
- 0 The Republic of Nauru
- 0 The Republic of Kiribati
- 0 The Marshall Islands
- 0 American Samoa
- 0 Hawaii

2) I work in the:

- A. 5 Private Sector (Business)
- B. 10 Public Sector (government)

3) Is regional cooperation important to industrial development in your state?

- 13 Yes
- 1 No
- 1 Don't Know

4) How can the participating states best cooperate in regional industrial development? (0 = not feasible; 5 = highly feasible)

(Circle appropriate number)

- | | |
|-----------------|--|
| 0 1 2 3 4 5 (8) | Industrial promotion |
| 0 1 2 3 4 5 (4) | Infrastructural development financing |
| 0 1 2 3 4 5 (8) | Manpower training |
| 0 1 2 3 4 5 (8) | Technical assistance (facilities planning) |

Administrative Headquarters

6) Rank the most important obstacles to industrial development in your state.

(1 = largest obstacle)

Transportation

Air 7

Sea 8

Communications

External 4

Internal 4

Roads 3

Sewer 4

Power 5

Water 5

Facilities 2

Business Infrastructure 6

Entrepreneurial Experience 1

WORKSHOP V

WASHINGTON REPRESENTATION

Workshop V, Washington Representation, was moderated by Mr. Mike McClure, and featured the participation of Mr. John Zorack, a Washington-based attorney with the law firm of Cook, Purcell, Hansen & Henderson. Participants included both private and public sector representation from the Republic of Belau, the Federated States of Micronesia, the Commonwealth of the Northern Mariana Islands, the Territory of Guam, the Republic of Nauru, the Republic of Kiribati, the Marshall Islands, American Samoa and the State of Hawaii. Many of the workshop participants were unsure of what the type of mechanism could be developed for regional lobbying efforts in Washington.

Mr. Zorack offered as an example, a group of African countries which have recently joined together to hire a lobbying firm to represent the interests of their particular geographical area. It was generally discussed whether this concept was applicable to Micronesia and the Pacific Region as a whole.

Representatives from the Republic of Belau felt that the political dichotomy of the various islands in the Pacific region is not conducive to establishing an overall lobbying effort, as the different islands have differing viewpoints on many issues. A result of these differing views, however, is that each island must have its own representation in Washington, and aside from the cost of maintaining separate offices, this fragmented approach does not allow for a focal point of Micronesia and the Pacific in Washington.

Since it was the general feeling of the participants that the private sector should spearhead any formation of a lobbying group, the concept of political action committees was considered.

As discussed, the political action committee would be an arm of the private sector, whose role would be to financially support political candidates who illustrate a favorable attitude towards the Pacific region.

Several representatives voiced the opinion that the private sector of most Pacific Islands is not developed to the degree that they could financially support a political action committee at the level that would be necessary for congressional recognition and support.

A more concrete suggestion was the formulation of a mailing list of island residents who currently reside in the U. S. mainland for the purpose of targeting areas where these "transplanted" islanders could have a significant impact.

Mr. Jerry Norris, Executive Director of the Pacific Basin Development Council, stated that there are currently three (3) options available to the Pacific Islands for better representation in Washington:

1. Continue with present efforts,
2. Foster a closer relationship with the Department of Interior,
3. Foster a closer relationship with the White House.

Mr. Norris felt that a better relationship with the Department of Interior should be pursued, and pointed out that there are presently more than 138 organizations which deal with the Pacific region.

Although a formal organization was not recommended, it was generally agreed that some mechanism should be outlined which would allow the islands to work together on items of mutual concern and interest, such as additional air service to the Pacific, while at the same time allowing the individual islands to maintain their individual political interests in Washington.

One long-range suggestion to facilitate inter-island cooperation in Washington was for the various island lobbyists to locate their offices in close physical proximity to one another, such as a suite of offices in one building. This would allow the island's representatives to communicate on regional issues while at the same time maintaining their individual efforts on local issues.

A representative from the Republic of Belau stated that their island currently employs a Washington law firm to follow their interests in Washington, and that they feel fully informed of actions taken in Washington which affect Belau. He further stated that Belau would not be in favor of a total joint lobbying group, but that cooperative efforts on specific issues should be pursued. Additionally, it was felt that better cooperation between business and government entities from all islands should be fostered on the specific issues which affect the Pacific as a region.

An examination and analysis of the questionnaires completed by the workshop participants illustrates the consensus formed during the workshop.

Sixty-seven percent (67%) of the participants felt that regional cooperation was important to better representation in Washington, and that Washington representation is important to the islands' economic development.

Approximately 22% of the participants were undecided and approximately 11% did not feel that cooperation regionally was important to better representation in Washington.

On specific issues, 78% of the participants felt that the islands could best cooperate on air service and airline regulations, and 67% of the participants felt that U. S. shipping laws and regulations and federal funding were areas which could benefit from regional lobbying efforts.

Among the other concerns noted were immigration, Law of the Sea, and the inappropriate application of federal laws and regulations to the Pacific region.

In addition, the repeal of the Davis-Bacon Act and the Adverse Effect Wage Rates and better United Nations representation were noted as areas where regional lobbying efforts may be effective.

Clearly, the majority of the participants felt that on specific regional issues, lobbying efforts in Washington would be more effective if done in a cooperative regional manner rather than on an individual basis.

At the same time, it is apparent that there are many local issues which affect each island differently and must be addressed by each island in its own way.

Many of the issues which could be addressed by the region were identified, such as air service and shipping regulations, and the consensus of the workshop indicated that the island governments and business communities would be willing to take steps to jointly address these issues.

WASHINGTON REPRESENTATION WORKSHOP QUESTIONNAIRE

- 1) I am from: 2 The Republic of Belau
4 The Federated States of Micronesia
3 The Commonwealth of the Northern Mariana Islands
1 The Territory of Guam
0 The Republic of Nauru
0 The Republic of Kiribati
1 The Marshall Islands
0 American Samoa
1 Hawaii
- 2) I work in the: A. 2 Private Sector (business)
B. 7 Public Sector (government)
- 3) Is regional cooperation important to better representation in Washington D. C. for your state?
6 Yes 1 No 2 Don't Know
- 4) In what areas can the states best cooperate in regional lobbying efforts?
- | | |
|--|----------|
| CAB (airline regulations) | <u>7</u> |
| Immigration | <u>4</u> |
| Davis Bacon Act repeal, Adverse wage rates | <u>2</u> |
| U. S. shipping laws | <u>6</u> |
| U. S. representation | <u>4</u> |
| Federal funding | <u>6</u> |
| Other | <u>3</u> |
- 5) Is better Washington Representation important to your states economic development efforts?
6 Yes 0 No 3 Don't Know

WORKSHOP VI

ENTREPRENEURIAL DEVELOPMENT

The Entrepreneurial Development Workshop, attended by some 15 people from six different islands discussed the problems facing entrepreneurs in the Pacific Basin and developed four recommendations which they felt would aid in small business growth.

Of particular concern to the workshop participants was the shortage of financing available to small and often inexperienced businesses. In line with this problem and obviously connected to it is the problem of businessmen and women without a great deal of business acumen.

The lack of training available to these entrepreneurs lends itself to poor loan packaging and lack of good management skills.

The possibility of establishing an entrepreneurial training class similar in nature to the Hawaii Entrepreneurial Training and Development Institute (HETADI) and Guam Entrepreneurial Training and Development Institute (GETADI) - classes recently held on Guam was suggested by Jay Merrill of Merrill Enterprises and Stan Rice of The Business Clinic.

Under these programs, individuals were given lessons in management, how to obtain financing, and were provided with a core of consultants, which could be drawn upon for advice and information.

Dr. Alan Leader of the University of Guam spoke of the necessity for developing small businesses as they are the core of economic development. Small firms generate two thirds of new jobs and are four times more likely to expand than contract. He also said that small firms aggressively seek new opportunities and employ local residents as workers and executives.

Joe Lujan of the Small Business Administration told the group of the problem he faces because his agency was due for cutbacks from the Federal government, but he had no idea what Washington's spending limits would be. As long as his budget levels were unknown he could not promise anything in the way of additional financing to the outer islands. He did promise to provide as much technical assistance as he could.

A member of the group spoke on the need for technical assistance in the field of loan and credit approval. This same individual asked that some kind of training program be set up for members of public or quasi-public lending agencies. Merrill suggested that Guam's current Guam Economic Development Authority (GEDA) and Growth Council lending programs provide this very thing.

Several suggestions arose at this point on ways to achieve information exchange, included was the idea of a trade newsletter and an information network on government regulations. Also suggested was the establishment of a business counseling center that could provide technical assistance in the field of financing.

The Small Business Institute currently in operation at the University of Guam was also discussed as a means of providing much needed technical assistance and counseling to businesses in Micronesia.

It was agreed that the Trade Fair was a positive first step in establishing a communications means relative to new products and services available in the region. It was suggested that a business directory of Micronesian companies be compiled in conjunction with this trade fair.

The four recommendations the group settled on were:

1. A trade newsletter should be established incorporating the start-ups of new companies, new developments in others and other activities of business concern to be distributed to the islands and nations of Micronesia.
2. Some forum should be established whereby information on government regulations, requirements and obstacles to growth can be identified for exchange among the islands of Micronesia. This may be incorporated into the newsletter format as well.
3. A business directory for Micronesia listing companies doing business in the islands and a catalog of business assistance and counseling programs, both public and private,

should be immediately compiled and provided to interested parties. In conjunction with this business directory, a trade fair should be held at least once a year somewhere in the islands for these companies to directly exhibit their products and services.

4. Steps should be taken to establish a One-Stop business assistance and counseling center. This center may take the form of a traveling group or the form of smaller branches in each island area.

ENTREPRENEURIAL DEVELOPMENT

QUESTIONNAIRE RESULTS

Twelve questionnaires were filled out by participants in the workshop. Half of the respondents were from Guam, the other half from Truk, Yap, Palau and the Northern Marianas. Most of the respondents were employed in the private sector, 8 versus 5 in the public sector, (one respondent worked in both) and except for one question, there was a definite consensus on every query.

Every respondent feels there is a need for entrepreneurial training in his state (question No. 5) and that entrepreneurial training should be included in his state's manpower development efforts. (Question No. 7) All 12 also indicated they feel there is a need for low cost business consulting in their state, (Question No. 9) and that there is a similar need for loan packaging services. (Question No. 13).

Eleven of the 12 or 91.7% feel that regional cooperation is important to entrepreneurial development in their state. (Question No. 3) The same number believe there is a demand for loan packaging services in their state. (Question No. 14).

Ten of the 12, or 83.3% feel that there is a demand for entrepreneurial training in their state (Question No. 6), and also a demand for low cost business consulting (Question No. 10). Ten respondents also feel that linking all of the training and consulting services with a loan fund is a viable objective for their state (Question No. 11).

Two-thirds of the respondents (8 people) say that low cost consulting services are not available to small businessmen in their state (Question No. 8). The same number say that loan packaging services are available to small businessmen in their state (Question No. 12).

The group was evenly divided on the final question, "Is entrepreneurial training available in your state?" (Question No. 4). The six respondents from Guam, where the HETADI and GETADI programs trained a number of entrepreneurs, and the services of the University and private groups like Merrill Enterprises and The Business Clinic are available, all answered yes. The six from other islands answered no.

WORKSHOP IV

FISHERIES

Kenneth Larson, an Assistant Professor of Law at the University of Guam, who has specialized in "Law of Sea" matters gave the introductory remarks. The text of his presentation is included in the appendix. His remarks centered upon the various needs of the fledgling fisheries industry in the region and how they might be met on a regional basis.

Paul Callaghan, an economics professor at the University of Guam and one of Micronesia's foremost authorities on fisheries development discussed the need for regional cooperation in the industry:

1. Guam can contribute in at least two ways to regional development. The first is for Guam to assist surveillance and enforcement efforts by issuing weekly or biweekly reports to the other Micronesian entities on the arrival and departure of foreign fishing vessels which put into port on Guam. Secondly, the University of Guam has sophisticated computers and scientists familiar with Micronesia, both of which might be useful in regional cooperative efforts.

2. While it is understandable that the islands look at tuna as a major resource, they should not forget the other small-scale fisheries which are also exploitable. This extends even to subsistence fisheries which provide a valuable import substitution function to island economies. These resources must be preserved, while at the same time some effort, in the form of money, training programs, or infrastructure improvements, should be directed at these smaller fishing industries. Also these industries may be more easily exploitable in the short run than is tuna and the concept that "small is beautiful" may in fact be singularly appropriate for the Micronesian fisheries industry.

3. Regional cooperation makes practical sense as a means for reducing overall costs in the islands. One practical example is the recent tuna fishing project in Belau which could have been done throughout the region, and, by sharing the costs, thus reduce the expense to the individual islands. Other suggestions for regional cooperation are: solving marketing problems, infrastructural problems; manpower

training programs (possibly including a program to train fishermen to be more businesslike); financing, fuel, resource surveys including new resources not normally considered, conserving of the resources, ciguatera/fish poisoning; aquaculture research; and data collection systems and data analysis.

The following comments were then received from the floor:

John Eads (Commercial fisherman and President of the Guam Fishermen's Co-op) The Guam Co-op now has access to the U. S. military commissary market on Guam and it appears that quality fish from the other Micronesian islands can be marketed on Guam through the co-op if the other islands are interested. The amount of Guam caught fish is insufficient for the market. He emphasized that high quality is mandatory. Presently fish from other islands has a reputation for poor quality, fish frozen and then thawed are not acceptable. Co-op can pay \$1.75/pound for high quality fish.

Bena Sakuma (Belau Community Action Agency) indicated that Belau's major problem in meeting the market demand for fish on Guam is unreliable transportation. To access the Guam market from Belau requires reliable air transportation three times a week.

Redley Killion (Director, Truk Resources and Development) stated that Truk is exporting fish to Guam on a small scale, but they also have unreliable transportation which creates marketing problems.

Don Williams (Guam attorney) indicated that these transportation problems stemmed from the airlines charter which indicates that first priority is given to passengers and their luggage and freight cannot take priority over commercial cargo.

Greg Gordon (Guam Growth Council) informed the workshop that private investors were attempting to move in the direction of establishing a regional airline based on Guam that could possibly help address the need for more reliable air freight service. One of the major obstacles to the development of a

new regional airline to augment the service currently provided by Air Micronesia is the lack of reliable data concerning load factors that the airline could reliably expect from both Truk and Belau. The uncertain demand for cargo space can be overcome by preselling space on the aircraft or by signing transportation contracts with the Micronesian states interested in more consistent air service. These options are currently being researched and developed for presentation to each of the states within the Federated States of Micronesia and to the Republic of Belau.

A general feeling of the group was that poor communications accentuates the marketing problem created by inadequate transportation.

Ngirtatkel Etpison (Businessman and President of Belau Chamber of Commerce) stated that fisheries applies to all of Micronesia and is its main resource. The resource is divided into reef and open ocean fishing. Regional cooperation is important because the resource is shared by all of the Micronesian states including Guam and the CNMI. One important project for the efficient development of the resource must be to make it possible for Micronesians to fish freely throughout the entire region. Currently, differing enforcement zones for the Micronesian states hinders free movement of fishing ventures throughout the region thus limiting potential production. In addition there is a marketing problem for Micronesian fish because Guam cannot absorb all of the market for Micronesia's fisheries. Guam could be used as a transshipping point for Micronesia's fish catch, except that stevedoring and port costs are too expensive and it is cheaper to charter a ship to transport fish and thus bypass Guam. At this time transshipment does not appear feasible.

Nem Lau (Guam Aquaculture Research, Inc.) indicated that her corporation is interested in purchasing fresh fish from the other islands and would like to discuss such possibilities with interested islanders.

John Eads felt that Federal grant funding for fisheries projects was too slow to meet the region's needs as they occur. He suggested that a fisheries block grant for the region might be a more practical grant mechanism than what is currently utilized.

Doyle Gates (National Marine Fisheries Service/Western Pacific Program) stated that there will be drastic cutbacks in Federal funds for fisheries in coming years based on the new administration's budget plans. The problem for the region will be to determine what the regional industry's needs are and how to access useful federal support for programs to meet those needs. Mr. Gates then provided a brief report concerning the NMFS budget in the coming year.

The Saltonstall-Kennedy Program for NMFS in FY '82, will make \$20 million available. The Administration proposed utilizing \$10 million, \$8 million for NMFS use and \$2 million for projects. The House voted to utilize \$15 million, \$7.5 million for NMFS and \$7.5 million for the project fund. The Senate appears to favor continuing the program at \$20 million. A Senate-House compromise may place the amount in the middle at \$17.5 million. For FY '83 the Administration is proposing a \$8 million budget for NMFS use only, no funding for projects. For FY '82, Commercial Fisheries Research and Development Grants would receive no money in the Administration's proposal. The House voted \$2.7 million for the program but the Senate has taken no action. The Administration recommended no changes in the Fishery Management Councils for FY '82.

In aquaculture, the Administration proposed a 50% cutback in the FY '82 budget eliminating all non-salmonoid programs. Two new activities will be available to NMFS in FY '82. The first will extend the guaranteed loan program to shoreside facilities (land, buildings and equipment) designed to unload, process, store or distribute fisheries products. This is oriented toward private sector investments, however, public sector involvement is possible. The second program will place a U. S. observer on every fishing vessel fishing in U. S. waters.

Mr. Gates further indicated that the past mechanism for the granting of Federal funds flowed down from the top rather than rising up from the people's needs. This mechanism never appeared very reasonable or practical, but how this process might be realistically improved now appears a moot point.

The question of ciguatera fish poisoning was raised but no one present felt it was a problem. Apparently fish shipments sent to Hawaii from the Marshall Islands had this problem but it is not a problem in the other islands.

Alan Chapman (Belau Maritime Authority) indicated that there is currently a regional program in fisheries, but Guam is not involved. The Forum Fisheries Agency handles regional information in the Pacific, but Guam is not eligible to join it.

Paul Callaghan has observed that Guam tends to downgrade regional fisheries meetings. Guam appears less interested from an official standpoint and consequently technical expertise is not provided to Guam from the other participating states. This is a major internal problem for Guam compounded by the fact that the Government of Guam's marine biologists are federally funded and specifically excluded from assisting in commercial fisheries development. Without an employee designated as a fishery biologist, this situation is likely to continue. Dr. Callaghan asked if there were any regional efforts aimed at small scale processing as a community business/service venture i. e., in fish canning or belch de mer (trepong) processing.

Bena Sakuma said there is a small scale tuna processing plant in Palau that produces dried tuna for kotsobishi. Ken Larson said the Northern Mariana Islands are constructing a small scale facility for local fishermen that will supply ice and storage space for fish. Mr. Larson then asked for responses to the one resolution prepared for the workshop concerning regional collection of fisheries data.

Alan Chapman indicated that the South Pacific Commission (SPC) already is at work on a regional data base.

Redley Killion indicated that although the concept outlined in the resolution was good, it must avoid duplication of the work of the SPC as this would simply waste resources.

The attached resolution was passed but the concern remained that duplication of effort must be avoided.

A second resolution regarding a regional fisheries agreement between Guam and the Northern Mariana Islands was then introduced by the workshop leader, Mr. Mike Reidy. Mike Reidy read a message from Pedro Dela Cruz of the Commonwealth of the Northern Mariana Islands. Earlier in the day they had discussed the resolution and Mr. Dela Cruz indicated that the NMI would be willing to join Guam in establishing a jointly administered regional fisheries zone

and will seek the international fisheries agreements once the agreement between the CNMI and Guam is established. The resolution was endorsed by the workshop participants.

The following texts of both resolutions are presented in their entirety.

RESOLUTION

FISHERY DATA COLLECTION

MANAGEMENT AND DISTRIBUTION

WHEREAS, compilation and distribution of data regarding the Pacific Islands' developing fisheries is critical to effective resource conservation and economic development planning; and

WHEREAS, the expense and complexity of developing and maintaining a management information system prohibits its use by individual island governments, and

WHEREAS, a need exists for timely fishery data processing, updating and distribution throughout the Pacific Basin; and

WHEREAS, such computerized informational services, including production and marketing information can be made available; now therefore be it

RESOLVED, that the Fisheries Workshop of the Oceania '81 Symposium recommends to the Chief Executives of the Pacific Basin:

1. That the members agree to investigate the feasibility of a unified computerized data base for fishery information;
2. That the services of a non-profit organization with data base management and analytical capability be examined, and
3. That quotations and a program of work be solicited for a one-year trial period.

BE IT RESOLVED BY THE GOVERNOR OF GUAM, PAUL M. CALVO AND THE GOVERNOR OF THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS, CARLOS S. CAMACHO:

WHEREAS, the people of the Commonwealth of the Northern Mariana Islands and the people of the Territory of Guam have close social, economic, and cultural ties; and

WHEREAS, the policy and purpose of the Magnuson Fisheries Conservation and Management Act and the American Fisheries Promotion Act endorse and encourage the management and control of tuna resources through regional fisheries agreements; and

WHEREAS, the Commonwealth of the Northern Mariana Islands and the Territory of Guam form a single island chain within which common stocks of tuna migrate; and

WHEREAS, traditionally the people of the Mariana Islands Chain derived their livelihood from the harvesting of fish in waters surrounding the Mariana Islands Chain; and

WHEREAS, the United States of America supports the social, economic, cultural and political development of the people of the Mariana Islands Chain; and

WHEREAS, the waters surrounding the Mariana Islands Chain are continuously exploited by foreign fishing boats; and

WHEREAS, due to United States policies, the Territory of Guam and the Commonwealth of the Northern Mariana Islands gain no benefit from foreign fishing; therefore, be it

RESOLVED, that the Commonwealth of the Northern Mariana Islands and the Territory of Guam shall prepare and endorse a regional fisheries agreement for the management and development of the fisheries resources in the waters surrounding the Mariana Islands Chain; and be it further

RESOLVED, that the Territory of Guam and the Commonwealth of the Northern Mariana Islands agree to cooperatively pursue methods to permit the use of locally owned, foreign built fisheries vessels; and be it further

RESOLVED, that the Territory of Guam and the Commonwealth of the Northern Mariana Islands shall seek the assistance of the United States State Department in negotiating international fisheries treaties between the two island governments and foreign nations desiring to fish in the fisheries zone surrounding the Mariana Islands Chain with the revenues of such treaties accruing to the Territory of Guam and the Commonwealth of the Northern Mariana Islands.

DULY AND REGULARLY ADOPTED ON
THE DAY OF SEPTEMBER, 1981

PAUL M. CALVO
GOVERNOR OF GUAM

CARLOS S. CAMACHO
GOVERNOR OF THE
COMMONWEALTH OF
THE NORTHERN
MARIANA ISLANDS

FISHERIES WORKSHOP QUESTIONNAIRE

- 1) I am from: 7 The Republic of Belau
2 The Federated States of Micronesia
1 The Commonwealth of the Northern Mariana Islands
9 The Territory of Guam
0 The Republic of Nauru
0 The Republic of Kiribati
0 The Marshall Islands
0 American Samoa
1 Hawaii
- 2) I work in the: A. 8 Private Sector (business)
B. 12 Public Sector (government)
3. Is regional cooperation important to fisheries development in your state?
19 Yes
0 No
1 Don't Know
4. How can the participating states best cooperate in regional fisheries development?
(0 = not feasible, 5 = highly feasible)

Average NMI		Average Group	
FSM, Belau		<u>Response</u>	
<u>Response</u>			
a.	Fisheries Negotiations with foreign countries	3.6	3.7
b.	Fisheries transshipment	3.7	3.9

c.	Surveillance & enforcement of fisheries zones	3.3	3.7
d.	Fish processing	3.4	3.2
e.	Capital formation for fisheries development	4.1	3.6
f.	Fisheries information network (computerized)	4.0	3.7
g.	Research Programs	4.0	3.7
h.	Market Identification	4.7	4.5

Other areas identified were:

Free entry of fishing vessels to all districts

Reduction of port landing fees

Manpower development

Address the support & expansion of small scale fishery interest

The following remarks were also made regarding the above

- For 4 a. Under the present situation, the U. S. possessions could not cooperate with the other islands due to U. S. law.
- For 4 c. All the islands except the U. S. possessions could cooperate; cooperation was not possible because the cost was beyond the means of most of the islands involved.
- For 4 f. Cooperation should be through the Forum Fisheries Agency.
- For 4 g. Cooperation should be through the South Pacific Commission; supported cooperation in all the areas but questioned where the funding would come from.

5) Should the development of harvesting processing & marketing capabilities be a state or regional project?

3 State

13 Regional

1 Don't Know

2 Both

Other comments offered were the following:

1. National projects shared in common by the regional entities may profit from regional cooperation, but this requires a clear definition of the problems.
2. It was essential that a written product be forthcoming from this workshop. The product should have been in a form that allowed for implementation of a regional fishery effort. That product did not develop, therefore the conference was not successful.
3. This conference was not organized in a manner conducive to solving fisheries problems.

(Note: Comments 2 and 3 are both correct, but it was not really the intent of the workshop to resolve problems, but rather to lay the groundwork for regional cooperation. Future meetings must successfully address points 2 and 3 to be deemed worthwhile. It is hoped that conference attendees and other appropriate people in the islands will begin taking the internal steps necessary to hold more substantial and fruitful meetings in the future).

APPENDIX

FISHERIES DEVELOPMENT IN THE WESTERN PACIFIC

A COOPERATIVE REGIONAL REPORT

BY: KENNETH O. LARSON

Positive new policies and events are demonstrating the growing strength and importance of Tropical Pacific fisheries. Congratulations are in order to the leaders and fishery officers from the Pacific Islands. Your efforts and successes are commendable and I personally congratulate you all. Because of the geographical and biological differences, we may never see the islands' ports crowded with fishing boats like Alaska or the Pacific Northwest, but there is a great potential for future growth. Through regional efforts and continuing communication such as this symposium, we can hopefully accelerate progress toward that potential.

Much of the growth of fisheries is based on the properly balanced relationship between economics and law. Economics sets the goals toward which expansion moves. Law established the procedures and mechanisms to be allowed to reach those economic goals. Hence, each government, independently and through regional cooperative arrangements, should first define its goals to maximize economic benefits, then establish a legal framework to provide fishing businesses the incentives to expand while protecting the resources for long-term advantages.

The purpose of this presentation is to identify some of the issues in which regional cooperation could assist each island's government and business in long-term fishery development. Hopefully, these issues will form the focus of discussion for the fishery workshop this afternoon. Finally, I sincerely hope that the workshop, which is chaired by Michael Reidy who is doing fine work for Guam's fisheries, can identify and agree upon a course of work to bring regional cooperation for fisheries matters into reality.

Although the theme of Oceania '81 concerns development through regional cooperation, certain problems do exist which can have a constraining effect on regional approaches. For example, the Pacific Islands represented here have varying political status

and varying relationship ties with the United States. This disparity, ranging from statehood to near independence, causes difficulties in finding common legal ground for a regional agreement. Also, worthy of note is a possibility that some governments, especially those recently attaining a new level of independence, may for a variety of reasons decide that regional cooperation on certain issues is not desirable.

In spite of these constraints, I sincerely believe that common fishery issues can be identified by this symposium to aid all Pacific Islands through cooperative arrangements. With the present international economic situation and the uncertainty of efforts such as the United Nations Law of the Sea Conference, finding local and regional solutions to development problems becomes more critical.

The free flow of non-privileged information throughout the Pacific and Asia can reduce duplication of effort and save large sums of capital for governments and businesses alike. Resource assessment is always a critical necessity for management, conservation and economic forecasting. Relatively little is known of the quantities and habits of the fishery resources here. Scientific research is carried on by separate governments at very high costs. Although some diversity obviously exists among areas of the Pacific, certain regional patterns and similarities can be found in fish stocks. The South Pacific Commission's Skipjack Tagging Program benefited many of us and is a good example of a single project which aids the whole region. By establishing a regional information network to expand and encourage the free flow of biological and catch data, inferences can be drawn which will aid in the planning for local development. Examples of such networks exist in Latin American, the European Economic Community, the United Nations Food and Agriculture Organizations' EEZ Programme, and the South Pacific Commission. Additionally, new research projects shared by the region members can cut the costs and improve our knowledge of the potential harvest and market capabilities.

We must accept the realities of relative geographic isolation and inadequate transportation to major marketing centers. The islands have import economies which drain capital from the local area. Fisheries could become an industry for export, but marketing of fish and fish products is a problem for

most. Dr. Paul Callaghan of the University of Guam considered difficulty in marketing fish as a major constraint to development of small island fishing industries. Regional cooperation in identifying and expanding markets within the Pacific Basin, Asia and the United States should be considered a high priority

Investment in the region somewhat coincides with the development of markets. Investors require security to tenure and a business climate large enough to justify spending large sums of capital. Consideration should be given to establishment of compatible, if not uniform, regulations and procedures throughout the region so that investors can carry on business activities in several island areas. Otherwise, a business investor is faced with a myriad of regulations, fees and added administrative costs if he or she wishes to conduct a fishery business in more than one political subdivision of the Pacific. Regional cooperation can overcome this constraint.

Identifying fishery resources and encouraging investment can become illusory without monitoring and enforcement. As many of us are patently aware, surveillance and enforcement over the vast zones are extremely difficult and quite expensive. The expenses will increase. Effective enforcement, however, is important to protect the resources and ensure a continuing harvest. Enforcement is also critical in protecting the interests of legitimate investors who have agreed to play by the established rules and pay their fair share into the government coffers. A cooperative approach to surveillance and enforcement should be studied in the hopes of increasing effective management at a lower cost to each region member.

The Republic of Belau, the Federated States of Micronesia and the Marshall Islands, as well as the SPC members, have clearly demonstrated the critical importance of tuna in generating income from fishing. These governments have challenged the United States and its tuna policy with marked success. One now gets the feeling that the United States is finally starting to realize that tuna is a fish. Indeed, for much of the Pacific, tuna is the single viable commercial resource. Through lobbying efforts the United States, and primarily the Department of State, may be modifying its archaic policy opposing local control over tuna. The importance of tuna as well

as other fishery issues, are of common interest to all members of the Pacific Basin. For these governments with continuing ties with the United States, effective lobbying in Washington can help formulate favorable policy changes and gain benefits. Members of this symposium, therefore, may wish to consider sharing the cost of a single Washington lobbyist who can present a united front on those fishery issues affecting several or all of the Pacific Basin members.

I have been quite impressed in reviewing the new charts showing Pacific fishery zones and witnessing the development of SPC and Micronesian cooperative approaches to fishery management. They are enclosed by the zones and the potential for cooperative management are tremendous. A disappointing factor emerges from this review. Not all of the Pacific Basin is included. Specifically, Guam, the Northern Mariana Islands and American Samoa are excluded. The areas excluded from the emerging zones remain on the periphery for reasons related to their close association with the U.S.A. I believe it is quite understandable and commendable that SPC members excluded the United States from participation in their regional arrangement. I do not, however, believe that those governments associated with the U. S. should continue to lose revenues from the tuna harvest and remain outsiders in their own neighborhood. Avenues presently exist for Guam and the Northern Marianas to enter into a beneficial regional arrangement. This is possible only if both agree to the scheme and cooperate closely. This requires sub-regional cooperation at the outset, but can later work to the benefit of the entire Pacific region.

Rational development planning has begun in most Pacific areas by establishing zones and retrieving fees from foreign vessels fishing therein. With a view toward the future, governments should consider maximizing local revenue and resultant benefits to their economies by having increased local control over the entire industry. The greatest gains from fishing are realized, not from selling fishing rights, but from locally based businesses harvesting, processing and marketing the fishery products. Displacing foreign distant-water fishermen with local effort results in more capital remaining in the local economy. This goal, however, is somewhat difficult to reach, but the rewards of stimulating local fishing and support industries are well worth the consideration.

Regional cooperation can make a positive difference in the Pacific. Before benefits on the regional level can be realized each local government must determine the priority to be given fisheries, earmark funding for administration and then establish continuing, long-range policies to provide consistent, steady progress. The government's role, I believe, is to create a climate conducive to private investment which will then displace direct government activities. This requires the government to expand some funds early for basic long-range policy which will allow private sector growth, the governments' investments will be returned many times over as the industry matures.

Fishing is often given priority "on paper" or in public addresses, but development programs frequently are patch-work efforts or are the first to be sacrificed for other more glamorous projects. A healthy fishing industry, however, can and will make a significant improvement on local island economies by creating new jobs, support industries and off-setting the imports which now dominate. Thus, by positive local action initially and regional cooperation in key matters, the Pacific Basin Governments and businesses rapidly will move toward their bright potential.

PERSISTENT ROADBLOCKS TO ECONOMIC DEVELOPMENT IN MICRONESIA AND THE WESTERN PACIFIC

BY: J. THOMAS UTLEY

Good morning ladies and gentlemen. This morning I am going to take a few moments in opening this first workshop of Oceania '81 by commenting on persistent roadblocks that have been encountered in the economic development of Micronesia, and the Western Pacific. On a daily basis for the past seven years, I've addressed this very topic not as matter of philosophy, but of real concern. I'm very enheartened that during this entire period I have never seen such an august body of political, community and business leaders gathered under one roof to address this critical issue.

Before tackling the specific problems of "roadblocks", I think it is first necessary to do two things: first we must define what economic development is, and then isolate where the successes have fallen to enable us to contrast our current needs.

What is true economic development? I have chosen to define it as the exploitation of resources; both human and natural, to improve the quality of life for the general benefit of all. Economic development will vest itself in several ways including an increase in discretionary income from higher wage levels, by cutting the cost of imports, and lowering taxes in relationship to income. Also, improved housing, diet and health care; and of course, education will all be a direct result of true economic development. If we utilize the old economic-pie theory, true economic development will not simply redistribute the existing wealth by cutting that economic pie into smaller and smaller slices, but instead will concentrate on providing the ingredients to make a "larger pie".

There have been some notable successes in economic development in the Western Pacific, but government has played a minor roll in contrast to the enterprising entrepreneurs who have fostered the majority of industry which is currently existing in the islands. Certainly, tourism has to be noted as one of the most obvious successes both in Guam and Saipan; along with the fledgling industries that

have sprung up in Palau and Truk. Marine resources development in Palau has also been very successful. Agricultural development has seen some activity, most notably in Ponape with the growth of the Ponape Pepper industry. Exploitation of natural resources has occurred with the phosphate mining in Nauru, and the copra industry throughout the islands of the Pacific. On a limited basis, there has been manufacturing activity for export or import replacement in the area. I think perhaps one of the most aggressive developers in this area has been: Ponape Agricultural and Technical School with their copra processing plant which provides import replacements in Ponape.

Now to address the subject of roadblocks to economic development. Certainly, there are a myriad of small impediments to business endeavors in the islands, but in addressing this subject, I've tried to speak only to common issues. You may consider some to be broadly philosophical, and yet until these broad and philosophical problems are addressed, it will be impossible to tackle the small specific ones.

In my estimation, there are three major problems common to all of the islands: the first is a failure by government to establish a comprehensive list of economic development priorities. I would ask island leaders to only quote constituency priorities, and if you can do this, turn to your fellow leaders and see if he would parrot back the same list. In my experience, every leader has a pet project, which he believes to be his island's salvation.

But, until some common ground can be established, and a development plan prioritized, you will continue to see a situation where everyone continues to their own personal path of economic development, which ultimately will service small needs, but fail to provide a sound foundation for a comprehensive growth package. Once the economic priorities have been established, which in my mind constitutes goal orientation; the next step is to formulate a plan for the attainment of that goal. Planning, or the lack thereof, I have determined to be the second most persistent roadblock to economic development. Lack of comprehensive planning in terms of economic development is an untenable situation. Certainly, if a farmer wants milk, he doesn't put his stool in the middle of the field and wait for the cow to back up to him. He must have a plan.

Depending on the economic development priority structure, planning may include such things as foreign investment policy decisions, physical infrastructure considerations such as power, water, roads, etc. Or perhaps, specialized educational requirements to facilitate a specific industry.

Certainly, a legal review should be incorporated to insure that local laws promote economic development, rather than stifle it. Of major consideration to lenders within the islands of Micronesia, is the current lack of comprehensive mortgage laws, which would permit lenders to protect themselves in the event of default. Also, usury laws are of paramount interest to any lender willing to risk his investor's money. If lenders are not allowed to earn a decent return based on a risk/reward consideration, you will find them unwilling to take the risk if the reward is not possible.

In this regard, I would heartily endorse planning which risks being innovative. I would suggest to island leaders that you need not be bound by convention. I urge you to seek new alternatives to common problems. And, when confronted with the apparent comparable solutions to the achievement of the development priorities: follow the bolder path.

The final common roadblock I have isolated is a subject which I know all in this room can relate to. There is a consistent and well-defined lack of cooperation at all levels between government and private enterprise, but certainly it is most noticeable between government leaders, and business.

Cooperation is a key factor in achieving this goal. I would urge government leaders to downplay your internal squabbling for the ultimate benefit of the people which you serve. No family, nation or society of nations can benefit from mutual goodwill unless the spirit of cooperation exceeds an attitude of antagonism. Your constituency cannot possibly be served when leadership spends more energy attacking itself than in cooperating with one another. The price of the power which you wield is the responsibility for the public well-being.

In urging cooperation between government and business, I think it first important that we define a misunderstanding which has long been allowed to fester in the public's mind. Western philosophy, somewhere along the line, adopted the stance that "morality" is the government's domain. But, in terms of economic development it is important to point out that the government does not create wealth. It consumes it.

I would like to pose a question to you all here today: what's wrong with a philosophy that government, in its own interest, cooperate in ways that help business create wealth? Let's overturn this concept of curbing business excesses in "the public interest". After all, there is far greater threat in public monopoly than in private. Can you think of any instance where government has gone into business where its inevitable losses have not been shifted to the taxpayer? Unfortunately government has an innate inability to make ends meet; which is the number one priority of business.

In summarizing my talk with you today, I hope I'm not perceived to be a harbinger of gloom, for trying to follow my own advice of isolating the problems, so that we can begin to solve them. The gentlemen who follow me today speaking on a wide variety of topics will undoubtedly elaborate on my concerns in a common effort to assist in laying the foundation for solutions which serve us all. Your attendance here today is the first action in that quest for true economic development, which stems from planning and cooperation.

For that cooperation, I would like to thank you all for taking the time to listen. You've been a wonderful audience and I hope that in the workshop ahead, we can talk about your specific needs and concerns. Thank you very much.

CRITICAL ISSUES CONFRONTING MICRONESIAN TOURISM

BY: GERALD S. A. PEREZ

Since most of us in this room are in some way or another involved with the visitor industry, I will not go into a discussion on the merits of tourism. Instead, what I would like to do this afternoon is to share my thoughts on what I perceive to be the major issues which confront the growth and development of tourism in our area. Specifically, I would like to touch upon protective legislation, regionalism, and a marketing strategy that would appear to be consistent with the development climate and diverse requirements of Micronesia.

To set things in perspective, I would like to start by noting several statistics this afternoon:

1. Last year, international travel into the United States accounted for some \$12 billion in export earnings on an 8 percent increase in international travel over the previous year.
2. Expenditures by foreign visitors in the United States, including the territories, have grown much faster than other measures of U. S. economic activity. In the last decade (1970-1979), for example, these expenditures grew by a whopping 250%, or about double the GNP growth and personal consumption increase of the United States during the same period.
3. In Japan, our main market, some 4 million tourists will have gone overseas this year alone, with a direct spending impact in the neighborhood of \$2.5 billion worldwide.
4. And while we have witnessed an increase in the total number of visitors to Guam and Micronesia, it is significant to note that our share of the Japanese market has increased progressively over the last several years.
5. Of the total number of outbound Japanese travelers in the five year period ending last year, for example, Guam and Saipan alone

registered a combined growth of 28% in the share of this prime market. Based upon actual recorded arrivals to date, we project another increase of 20% in our market share, bringing to over 7% the total number of outbound Japanese travelers visiting Micronesia. In simple terms, this works out to a market share increase of some 55% from 1976 through the end of the current year.

I cite these figures to remind us that:

1. Guam and Micronesia continue to command increasing interest among international travelers, notably Japan;
2. We cannot afford to relinquish the momentum of growth we have come to witness in recent years;
3. These record visitor arrivals are the combined result of a competitive price structure and a profit incentive to those who transport and service these visitors;
4. Guam and the island states of Micronesia need to be partners in regional tourism not by choice but by necessity.

By way of amplifying this fourth point, what we on Guam lack in the form of diversity and attractions, for example, can be found in limitless quantity throughout Micronesia. On the other hand, the outer islands need Guam and the economic base we now possess to generate economies of scale which give these islands access to basic levels of goods and services they would otherwise not be able to achieve due to their geography, limited population, and undeveloped economies. But while this complimentary role is one which brings heads of state together in the spirit of regional cooperation, it is not difficult to see that such a goal orientation is much easier said than done.

In my view, the ability to attract, absorb, and service the diverse requirements of a broad tourism market has dominated, and will continue to dominate, the development strategy of Micronesia's tourism growth for generations to come. To be sure, this situation did not happen overnight, having been the end product of accumulated outside influence dating back several hundred years.

And while absentee control, geographic isolation, economies of scale, and natural and human resource limitations provide barriers to economic growth, it is the discontinuity (the fragmentation) of the region's socio-economic, cultural, and political evolution which appears to be the most significant impediment to the development of tourism. This problem is accentuated by the limited horizons typical of insular views which many of us seem to possess in Micronesia, and by the historical pattern of government administration which has created the kind of outside dependence to which we are all tied. Bearing this in mind, therefore, it has become clear to me that tourism can flourish in Micronesia only to the extent that we are able and prepared to depart from those limited horizons (those insular perceptions) which tend to tie us down to the past and therefore relegate us to the whims of an outside benefactor.

Departing from the status quo frequently breeds uncertainty and the lack of self-confidence among those who would lead change. We in Micronesia are no different. The point is, however, that we must not allow ourselves to be trapped into the sins of indecisive caution.

But what are these changes of which I speak? What are the critical issues facing Micronesian tourism? Well, for starters, it is important that we abandon unhealthy protectionist thought and all the associated laws, regulations, and bureaucratic procedures which frustrate the formation of development capital and the rightful returns on investment. Mutual trust and confidence in the motives of reputable corporations committed to the welfare of Micronesia must replace the view that business and people's welfare are mutually exclusive. I do not suggest that we let our guard down and allow wanton exploitation. But I do believe that colonial cures of the past have proven unsuccessful over the years, and that more people in Micronesia today possess the latent potential to exploit the benefits of tourism and economic development in general. Moreover, I find many of these protectionist laws unrealistic to the times and utterly distasteful in its inference that we in Micronesia cannot fend for ourselves -- that we are not able to decide what is good for us -- that we in effect have compromised our integrity by inviting outside investors precisely at the same time that we enact laws which discriminate against them.

Unreasonable protectionism also fosters the view that outside corporations exist only to plunder the weak and that barriers need to be erected. It also fosters the view that equality can be legislated and that everyone has to be equal. This philosophy is indeed an interesting one to ponder since countries which have attempted to legislate an egalitarian economy have in every instance fallen far behind in terms of social and economic progress.

What unreasonable protectionist legislation does (in fact) is force reputable companies to do business some place else where restraints are less costly, and it encourages the entry and suspicious dealings of the very companies which these laws were designed to keep out in the first place.

In contrast to protective legislation, there is also the need to avoid destructive legislation. Let me explain this a bit. If we accept the premise that tourism will flourish under the combined influence of a competitive price structure and profitability to those who generate and service the movement of travelers, then it follows that:

Any legislative measure which increases the net cost of out destination package,

Any law that discourages profit potential and the formation of reinvestment capital,

Any regulation that impares or inconveniences the conduct of a proven industry such as tourism can only be classified as destructive.

It is important to note that we live in a big world, and that if we want to compete for scarce investment dollars and compete against other tourist destinations, we must expand our field of thought, liberalize foreign investment laws, and inject a global perspective in Micronesia's free market interaction. This means the enactment of laws which encourage, rather than discourage, outside corporate presence. It requires an examination of foreign land ownership policies and change in corporate, financial and tax laws many of which are of residual protectionist orientation left over from the active administration of the U. S. Navy and Trust Territory Government.

The alternative, of course, is to remain a subsistence region, living precariously beyond our means. The alternative, ladies and gentlemen, is to lose our self respect and forfeit the real freedoms behind the move for political autonomy through Micronesia.

Tourism can become an attractive means of earning export income and therefore bringing our external trade and commerce into some degree of balance. But the initial costs of gearing up for such an industry require enormous sums of capital that our limited insular economies can ill-afford to provide. Hence, the need for outside capital, outside technology, and outside assistance. Hence, the need to make drastic internal changes on matters of public policy and unreasonable protective or destructive legislation. Hence, the need to re-examine and adjust where necessary the cultural, political and social hang-ups commonly found on Guam and in the region. Hence the need for compromise between and among all islands of Micronesia.

For it is the diversity of Micronesia that has attracted and will continue to attract tourists. It is the profitability to those who would transport and service the industry that will determine continued growth. And it is our ability to work cooperatively and regionally that will bear witness to the degree of success we can expect to achieve in Micronesia.

The ability to work together triggers the twin issues of regional promotion and cooperation. Regionalism is premised upon the underlying philosophy that each island's tourism potential lies within a broad geographic context. It assumes that our attractiveness as a destination is enhanced by the unique diversity that is only Micronesia, and that this attractiveness is diminished to the degree that we break away from this vast geographical unit.

But while it is easy for us to agree to the goal of regional tourism promotion, much work still needs to be done in its active pursuit. Since each of our islands differ in the ability to promote, absorb, and profitability service visitors, it follows that promotional efforts will be viewed with different perceptions, different levels of commitment, different levels of understanding, and therefore different expectations unique to each island. This creates a condition that is understandably difficult to deal with, and requires the kind of logistic, communicative and financial support lacking throughout

Micronesia. The roles of Micronesia's tourist promotion agencies need to be examined and a much more lucid definition required if regional objectives are to become sensitive to the needs of all who partake in this effort. Who or which group needs to do what, where, when and how are simple questions indeed. Defining and agreeing to them, however, can often defy time and patience, ultimately weakening the commitment toward regional growth:

It is also important to note that regionalism implies that ability to differ on an equal basis, and to be treated with mutual respect. Cooperative projects need to pay particular attention to the different goals of the various states of Micronesia, their abilities to pay, and the cultural sensitivities inherent in our dealing with one another.

What I obviously view as interesting may in fact be humorous to someone else or downright insulting to yet another person. What you on Guam see as a critical data for a meeting may not in fact be quite as urgent to the person in Yap or in Ponape who would not be able to make it anyway because the next flight out is two days later.

For regionalism to succeed then, equality of posture must be absolute, notwithstanding the obvious features that distinguish the islands from one another. A higher gross island product of economic standards does not provide the right to dictate direction to those whose economic situations require more years to develop. It is difficult enough to cultivate rapport and understanding, given the problems we share in inter-island communications, transportation, etc. What we do not need is a third dimension of condescending leadership and the economic colonialism it tends to engineer. People in Micronesia have long endured a patronizing relationship with outside metropolitan powers. What they least of all want now is patriotism from within their midst.

Another problem, of course, is the problem of "expertise". Everyone is an "expert" in the field. Depending upon the nature of his/her business, each "expert" views what needs to be done differently, perceives the issues differently and would attempt to influence solutions in their own best interests. The common objective of increasing tourism based income potential can be easily shared.

The manner of achieving this goal, and the subsequent apportionment of the prosperity that it brings to them, can and has often become a major impediment to the art of compromise and regional cooperation. When combined with political, social and other realities, regionalism can very quickly lose its appeal. When related to an investment point of view, it encourages continued capital starvation in Micronesia much to the detriment of regional tourism growth.

A fourth and more specific issue with regard to tourism in Micronesia has to do with the structural nature of our market, and the fundamental strategy required to satisfy the broad range of Micronesia's goals and visitor absorption capacity.

At present, it would appear that Micronesia has a two-tiered market potential upon which to develop tourism. The first level is the mass market potential that generates regional economies of scale not otherwise possible for the industry to survive. Guam and Saipan, for example, possess the level of infrastructure which allows hotel inventory and air capacity to cost-justify many of the services that rely upon volume oriented travel. On the other hand, the islands of the Federated States of Micronesia and the Republic of Belau would do well to receive interest specific groups belonging to a smaller, second-tier market.

Unlike mass tourism, these smaller interest groups are, for the most part, not as fastidious with the level of available service, and are usually more preoccupied with the authenticity of specific attractions which have brought them to Micronesia in the first place. I would classify divers, naturalists, anthropologists, historians, and other estoteric groups under this category. This structural dichotomy in degree of independence with respect to how rapidly they want to grow. Furthermore, it would allow cultural, social and other internal adjustments to occur in harmony with their own pace of development.

Finally, perhaps the most critical and distressing issue of all has to do with how the foregoing concerns can be treated or even addressed within the climate of:

1. The rapidly increasing number of competitive destinations throughout the Pacific rim basin;
2. Increasing competition for investment dollars which are wooed by a growing number of developing regions;
3. The shrinking profits to airlines and others responsible for the movement and accommodation of international travelers; and
4. The dynamic nature of global and regional government interactions, most of which are entirely outside the control of Micronesia.

Given the foregoing discussion, therefore, it would appear in our best interest to band together and overcome provincialism and the divisiveness it often creates among well meaning individuals.

The road to development is not impossible. But it obviously requires the fine art of compromise and the ability to jointly (and cooperatively) put pressures to bear upon those who are in a position to enhance the fruition of our goals.

EFFECTIVE MARKETING OF THE PACIFIC ISLANDS TO FOREIGN INVESTORS

BY: PATRICK C. SOMMERS

Thank you, It's an extreme pleasure being here. I've heard a lot about Guam, mainly from my father and my uncles who were here during World War II. It's such a beautiful place; I'm not so sure, if I were you, I'd want it developed. I might be tempted to keep it a secret.

The topic I was asked to address you today was "Effectively Attracting Foreign Capital to the Pacific Islands". I would like to rephrase that to: "Effective Marketing of the Pacific Islands to Foreign Investors".

In business we define "marketing" as everything that takes place between the production and the consumption of a product. This includes: selling, advertising, pricing, market research, etc.

You are, in every sense of the word, Marketing your product (the Pacific Islands) to the customer (the potential investors).

In business, the first prerequisite of effective marketing is effective planning. Without it, a company runs a much greater risk of drifting into an undesirable position.

In business we use the marketing plan to guide the course of our activities. I'm sure that each of you utilize similar planning techniques, although you may call them by different names. This conference is, in itself, indicative of the value that you place in the task of planning.

Today, I would like to apply some marketing planning techniques to our topic. I would also like to share with you some of our experiences in aiding Industrial Developers throughout the world in their tasks of "selling or marketing" their areas of responsibility.

I realize that giving advice is usually a thankless business and I assure you that I shall not venture far in that direction. I have always kept in mind the unconsciously profound summation written by a small schoolgirl in one of my wife's classes:

"Socrates" she wrote, "was a Greek philosopher who went about giving people good advice. They poisoned him".

In my preparation for this presentation, I tried to categorize the Types of Business Activities that Foreign Capital could be attracted to:

SLIDE 1

We first separate businesses into either local or regional (those engaged in selling to regional or international markets). Each of these types of businesses could be developed locally or attracted from the outside.

Unique marketing plans could be developed for each of these types of business activities. The fundamental procedures, however, would remain the same. For the purposes of this discussion, we will limit ourselves to the practical approaches of effectively attracting regional businesses to the Pacific Basin.

SLIDE 2

Briefly the basic steps in Marketing Planning are:

I Establish Mission, Scope and Goals

This provides the direction and scope for the development of the marketing plan.

It also identifies the desired results of the plan.

II Conduct Situation Analysis

Provides the fact needed for planning. It is usually broken into internal and external analysis.

This is one of the most critical parts of the planning exercise. Without sufficient and accurate information all that follows is suspect. It's like a doctor prescribing medicine without giving you a thorough examination.

III Establish Objectives

Provides targets for the direction and guidance of marketing strategies.

IV Select Strategies

A strategy is a complete plan of how to make the best use of resources to accomplish a goal.

V Initiate Programs

Programs are the implementation of the selected strategies.

VI Control Systems

Measure performance in achieving the objective of the marketing plan and provide for effective action to correct deviations from desired standards of performance.

Let's now take a look at how these guidelines might be applied to today's logic.

SLIDE 3

The mission, as defined, is to effectively attract Foreign Capital to the Pacific Basin.

The Scope could be whatever you define it. It could be to attract European Businesses, or Australian Businesses, etc. However it is defined, it should be narrow enough to allow for concise planning. In other words you would not market your area to European Business in the same way you would to an American Business.

The Scope, for the purposes of today's discussion, is to attract U. S. Businesses with Asian Operations into the Pacific Basin to establish:

- Regional Offices (Asian or Eastern Operations)
- Manufacturing Facilities (Light Industry Only - eg., clothing, manufacturing, assembly of goods, etc.)
- Distribution Facilities (for Asian or Eastern Operations)

The Goals of the project would have to be set by yourselves. They should, however, be quantitative and measurable. They could be:

Dollar amount of investments within a specified time frame.

Number of companies attracted to the area - Total number of people employed, etc.

The first step in the situation analysis phase is the resource analysis.

SLIDE 4

This is essentially an "internal" analysis in the sense you are analyzing the resources within your area. This analysis should entail such things as inventories of locational attributes of the area including:

- Residual skills of the work force - what are the people trained for? I was in Zurich last week and met with some industrial planners. Because of the tremendous impact of the "Silicon Chip" on the watch industry they are desperately looking for other types of businesses that require the precision skills of the Swiss work force.
- Proximity to markets - A clothing manufacturer or distributor would want to know the size, number of potential customers, buying power of these customers, distance from potential distribution facilities, etc.
- Proximity to sources of raw materials. This same clothing manufacturer would want to know where his raw materials would come from, their availability, their cost, etc.
- Proximity to manufacturing or production facilities. If you're establishing a distribution facility, how close would the manufacturing plants be?
- Investment incentives - what is offered in terms of inducements to businesses to invest in the area?
- Social, economic - political conditions
Very important when trying to relocate people in the area.
- Climate - has to be a real plus in attracting people.

- Communications/transportation -
This is an important consideration, especially in this area. I would imagine it could be one of the major objections you'll have to overcome.

In essence, what are the features and benefits of your product to the buyer. The product in this case is your area for development; the buyer is the potential investor.

SLIDE 5

The next step is the Market Analysis which consists of an identification and analysis of the kinds of industries that can profitably utilize the resources of the area and an identification of the key factors (criteria) in establishing a new facility.

It does you no good to market or sell a benefit of your area if it isn't important to the potential investor.

It also is a waste of time and money marketing our area to industries that cannot profitably utilize the resources in the area.

I will later outline a very simple, cost effective method of conducting this market analysis.

SLIDE 6

The last part of the Situation Analysis is the Competitive Analysis. This is essentially an identification and analysis of the important competitive advantages and disadvantages of the Pacific Basin when compared to competing areas such as Japan, Hong Kong, Singapore, etc. The process of industrial development is every bit as competitive as any private business and the more you know about your competition the more effective you'll be in "marketing" your area.

What are your competitors offering and how does it compare with what you're offering.

Investment Incentives - what is the competition's published policies and what are they actually giving out. There is sometimes large discrepancies between the two.

SLIDE 7

After the Situation Analysis is completed you can then establish some realistic objectives -

Financial \$ Objectives

Number Objectives

Within specified time tables.

SLIDE 8

You can also select strategies to meet these objectives. Based upon the proper information you can identify high potential markets that you wish to target and can then use a rifle approach in penetrating these markets. I use the term rifle approach which is the opposite of a shotgun approach, that is a broad approach hoping to hit the right prospects. A rifle approach is usually preferable. A rifle approach will allow you to:

- place your advertising in publications that reach your target markets
- design your advertising copy to emphasize the benefits you have to offer these markets and stress the ones that are most important to them
- your sales calls can be directed at the highest potential companies within these targeted markets
- your "pricing" (investment incentives) can be designed to best meet the needs of the targeted markets

These are only a few of the possible strategies that could be implemented with the proper information.

SLIDE 9

After you have selected your strategies you can then institute the programs necessary to carry out these strategies. And,

SLIDE 10

Establish the Control Procedures to insure their success.

I mentioned earlier that there is a very simple - cost effective method of analyzing the market for potential investors.

SLIDE 11

From a Database of World Businesses you select Asian Businesses and major U. S. Businesses.

SLIDE 12

The next step is to identify, within the Asian Businesses, those which are subsidiaries or branches of U. S. firms.

SLIDE 13

You then match this data with the database of major U. S. Businesses to identify the U. S. headquarters of these Asian branches and subsidiaries.

SLIDE 14

This file is then sorted by line of business (SIC) and,

SLIDE 15

The top 50 companies are then screened to obtain the name and title of the person who is most knowledgeable about their operations in the Pacific and also has influence regarding investment decisions.

A letter is then sent alerting the individual of the scheduled interview; describing basic objectives of the project; background details regarding the Pacific Region, maps, etc. Telephone interviews are then conducted to determine level of interest, investment plans, prioritizing criteria in selecting sites for new facilities, etc.

The results of these interviews are then analyzed in the Situation Analysis and the final steps of the Marketing Planning process completed.

In closing I wish to once more emphasize the value of accurate and complete information to provide the proper direction for the marketing plan. Without it you run a much greater risk of drifting into an undesirable position.

SLIDE 1

Types of Business Activities

Local businesses engaged in selling to local markets

Developed locally

Attracted from Outside

Regional businesses engaged in selling to regional or International markets

Developed locally

Attracted from Outside

SLIDE 2

Market Planning Guidelines

I Establish Mission, Scope and Goals

II Conduct Situation Analysis

III Establish Objectives

IV Select Strategies

V Initiate Programs

VI Control Systems

SLIDE 3

ESTABLISH MISSION, SCOPE AND GOALS

Mission: To Effectively Attract Foreign Capital to the Pacific Basin

Scope: To Attract U. S. Businesses with Asian Operations into the Pacific Basin to Establish:

regional offices
manufacturing facilities (light)
distribution facilities

Goals: Quantitative

amount of investments
number of companies attracted
number of people employed
etc.

SLIDE 5

SITUATION ANALYSIS

2. Market Analysis -

Identification and analysis of the kinds of industries that can profitably utilize the resources in the area.

Identification and analysis of the key factors (criteria) in establishing a new facility.

SLIDE 6

SITUATION ANALYSIS

3. Competitive Analysis

Identification and analysis of the important competitive advantages and disadvantages of the Pacific Basin when compared to competing areas.

SLIDE 4

SITUATION ANALYSIS

1. Resource Analysis -

Inventories of locational attributes of the area including residual skills of the work force

Proximity to markets

Proximity to sources of raw materials

Proximity to manufacturing or production facilities

Investment incentives

Social - Economic - Political Conditions

Climate

Communications/Transportation

etc.

SLIDE 7

ESTABLISH OBJECTIVES

Financial

Time Tables

Numbers

etc.

SLIDE 8

SELECT STRATEGIES

Target Markets - rifle approach

Advertising

Pricing

Sales

etc.

SLIDE 9

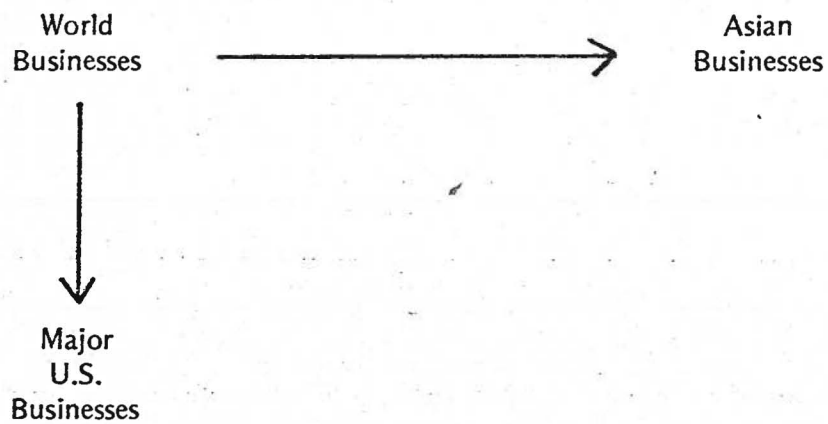
INITIATE PROGRAMS

SLIDE 10

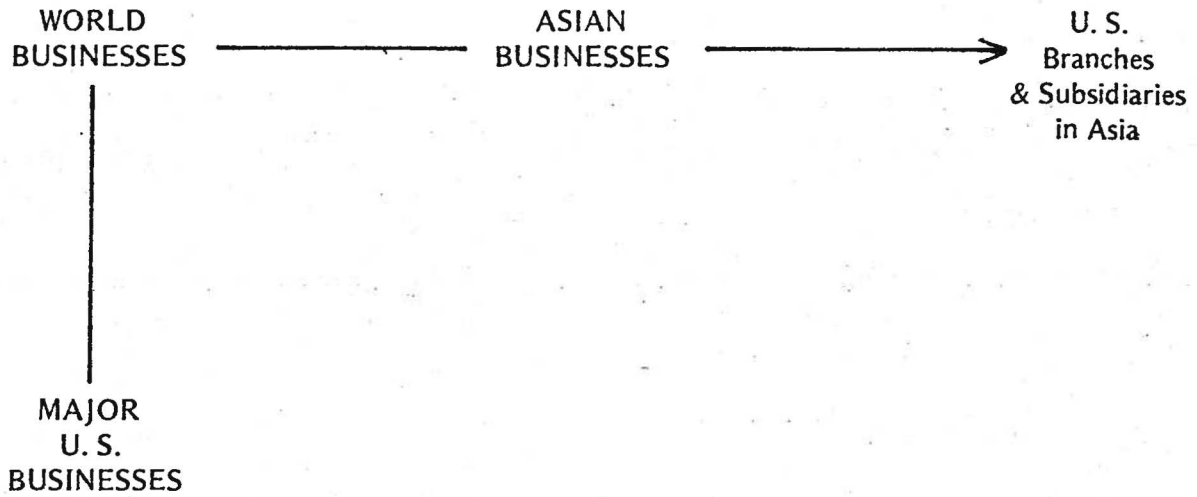
ESTABLISH CONTROL SYSTEMS

SLIDE 11

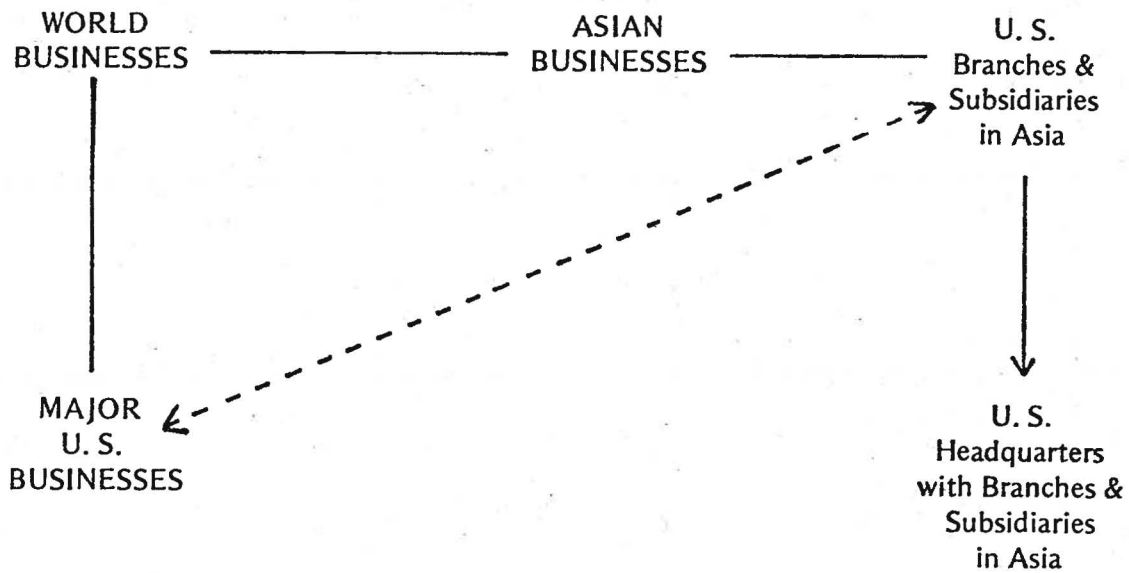
MARKET ANALYSIS PROCESS



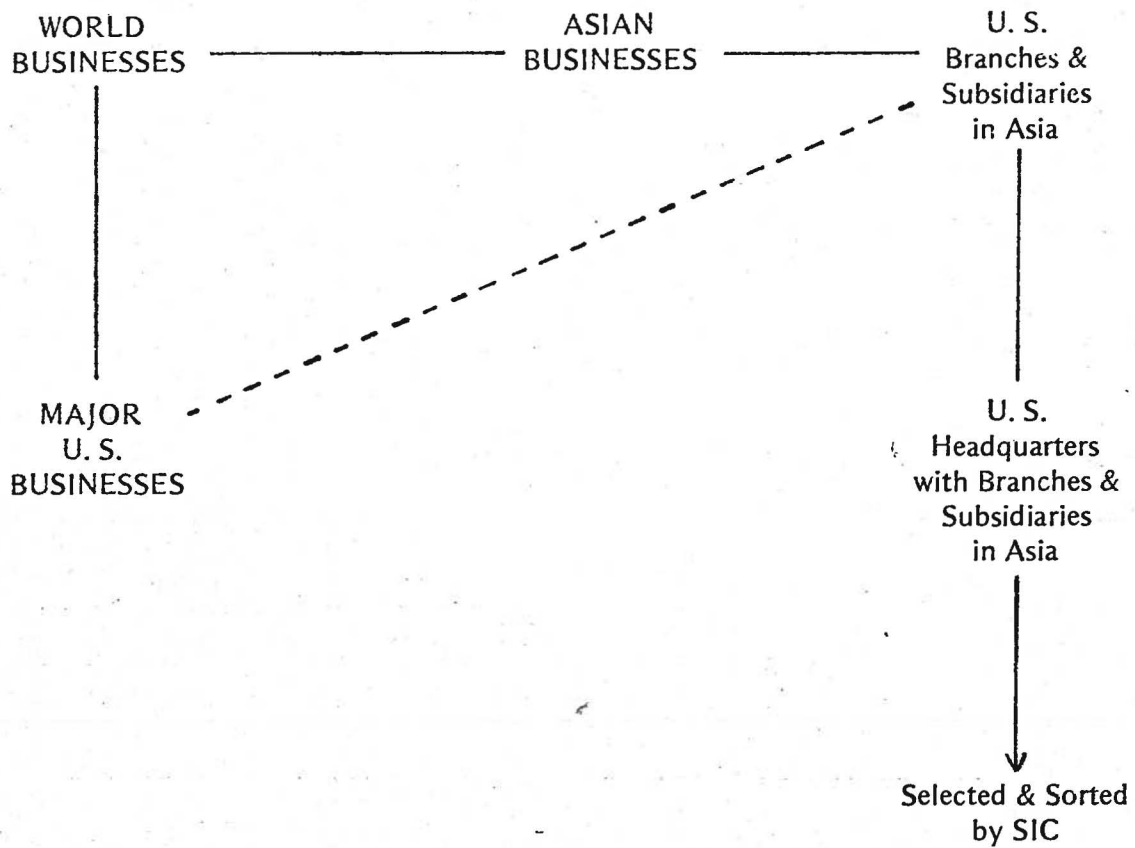
MARKET ANALYSIS PROCESS



MARKET ANALYSIS PROCESS



MARKET ANALYSIS PROCESS



PACIFIC ISLANDS - DILEMMAS OF
DEVELOPMENT (prepared for delivery before the
Oceania '81 Economic Development Conference,
Tumon, Guam)

BY: JOHN BOHN
U. S. Representative
Asian Development Bank

Introduction

Mr. Chairman, Distinguished participants in
Oceania '81,

Guests,

At the outset, I would like to thank Senator Underwood and the Committee on Economic Development of the Guam Legislature for giving me the opportunity to return to Guam again, and to appear before you today, and commend his far-sighted leadership in focusing attention on the problems of development at this critical time. It is particularly enjoyable to see so many friends from my time in Guam and from the days of the First Congress of Micronesia, and to note the substantial progress that has been made toward self-government since those early days. It should be a great source of satisfaction to those of you who participated.

I note, also, as I read some of the recent discussions about development in the Pacific, that although much progress has been made, the problems of development seem very much like those I recall when I was here in the 1960's.

David Lloyd George once said: "The most dangerous thing in the world is to leap a chasm in two jumps." One must indeed approach the development process with care.

It has always been easier to list the problems which the region faces on its way to economic development plan than to solve them:

- small population - living in relative isolation
- small land areas, few land resources
- immense water area
- distance from population centers
- deteriorated infrastructure, ports, telecommunications.

Nor is it too difficult to list those areas of interest to each government represented here:

- Energy
- Fisheries
- Maritime Services/Transportation
- Tourism
- International Trade
- Finance

Indeed these issues would have been on a list compiled 15 years ago, and were on such a list.

What is far more difficult is to develop realistic, workable solutions to these problems. One possible approach is to consider addressing the issues as a regional basis, a rather different approach than before, and the purpose of your meeting this week.

J. K. Galbraith, a noted economist of steadily diminishing relevance in the present Administration, said: "Banking is a career from which no man really recovers." At the risk of proving him right, I've been asked to comment today on economic development in the Pacific over the next decade, and I would like to do that from three perspectives. Let me hasten to note, however, that I'm in a position rather like that of the eager suitor who has asked his girlfriend to marry him, to which she has responded that she will let him know tomorrow - anxious to proceed, enthusiastic, filled with anticipation, possessed of a lot of ideas, but unable to do anything until the response is forthcoming. Inasmuch as my appointment is subject to Senate confirmation, it would be premature for me to attempt to speak in an official capacity. Moreover, since the development policy of the new Administration is even at this moment under discussion among various agencies within the Executive and on the Hill, it would be premature also to say even what the policy of the Executive will be.

Nonetheless, and with these reservations in mind, I would like to comment on the dilemmas of Pacific Development from three perspectives:

- 1) First, the role of the International capital markets - - the financial institutions as well as the private investors.

- 2) Second, the Multilateral banks, particularly the Asian Development Bank and their possible place in the development cycle; and
- 3) Third, and almost by way of summary, what I perceive the Administration's general philosophy to be and a sense of some of the implications thereof for your deliberations here this week.

By looking at the problems facing the Pacific Region from these three perspectives, perhaps some guidelines for development will suggest themselves to you.

By this stage in your discussions, unless you are different from other groups struggling with development issues around the world, there is a feeling of frustration beginning to emerge - you don't feel you're getting as far as you should. That frustration, I suggest is at least partly - of the larger problem which has made the path of development difficult in the past which can be seen in a series of apparent policy contradictions which I have called the four dilemmas of development.

I. The Four Dilemmas of Development.

- A. The East/West Dilemma: The islands of the Western Pacific are linked by their recent history, financial structure, laws, and culture to the United States, yet their economic future is in many immediate ways dependent on Asia. To survive, and become really self-sufficient they must draw from -- and to a large extent compete with -- Asian economies, playing by Asian rules, yet abide by United States policies in areas such as immigration, taxation and labor.
- B. Security/Independence: The United States continues to have large and important security interest in the area, which implies tight control from Washington, yet has, I believe, a genuine interest in seeing these areas prosper and develop, satisfy their thirst for self-government, and improve the material well being of their citizens.

C. Public/Private Interest: In common with many developing area, a major engine of development has been the public sector, either through public corporations or widespread government jobs, to the detriment of the private sector initiative which, in the long run, is essential for sustainable growth. Many of the past policies have focused on transfer on resources from the United States directly to consumption without passing through the investment phase.

D. Local Interest/Foreign Capital: Again, in common with many developing countries, there is a fear that outsiders, if let in, will soon so dominate the economy that the interests of local residents will suffer. Yet, there is not enough capital generated locally to accelerate the growth needed to accommodate the rising expectations of the people.

Add to the above, the changing position of the United States vis a vis the entire Pacific Basin, the growth of Asian power centers like Japan, and to a lesser extent, major population centers like the Philippines, Indonesia and others, which tend to make the United States less dominant in an economic sense, while leaving the United States responsible for the military well-being of the area, and the different constitutional, legal status of Guam and the Northern Marianas, the former Trust Territory, and the other Pacific Islands, and one has a brief overview of the complexity of a regional approach to development issues.

II. Three Perspectives on Pacific Development.

With the dilemmas in mind, let me suggest from the three perspectives that I have noted what you might expect as you proceed with your development plans.

A. The International Private Capital Markets. Bankers and investors expect to make money. The large institutions have an infinite series of options for investment, and the Pacific Islands must realistically expect to compete in the world markets for these funds. In the competition the private sector looks for:

- 1) Reliable information about the society and the economy;
- 2) Skilled, sophisticated personnel in charge of development and administration. Most of the developing countries that are serious about development - - and are successful in attracting funds - put their very best people in charge of this process;
- 3) A public commitment to development, and a demonstrated willingness to take such domestic policy steps, however painful, to impose domestic discipline in the interest of development.
- 4) An understanding - - and acceptance by the local leadership - - of the risks associated with foreign investment; and foreign ownership;
- 5) Consistent application of laws, rules and administrative policies;
- 6) Sound, realistic development plans, showing a clear repayment plan;
- 7) Demonstrated capacity of the government for self-discipline (and the understanding and support of the population) needed to make change;
- 8) and finally, an opportunity to make a profit honestly, consistent with the risk, a return the same as that available from alternative opportunities with equal risk. To the extent that these Pacific Islands will need to rely on the private sector and the international capital markets, it is important to be aware of these facts.

B. The Role of the Development Banks. What about the Development banks, particularly the Asian Development Bank? The major role that ADB is designed to play is to provide interim temporary capital to governments to make up for insufficient locally generated capital to permit them to develop their own economy at a more rapid rate and on a broader base than would otherwise be true. They also provide technical assistance to governments to help develop plans for increasing productivity and investment. Here it is instructive to look at the relationship of the bank with some of the newly independent island countries.

In 1980, for example, in Technical assistance, the island countries fared as follows:

Cook Islands: \$ 70,000 for consulting services

Kiribati: \$98,000 Geotech study for causeway

In loans,

Cook Islands: \$1 mm drainage and flood control project

Solomons: \$3.6 mm 1.6 water supply
2.0 Development Bank of which 1.5 from IDA

W. Samoa: \$4.7 (1.7 forestry, plus 1.28 from New Zealand)

Agri. 3.0, plus 2 mm from Australia

2mm IDA

Instructive as well is a look at where ADB funds have gone by sector:

1967-1980:

Agri. & Agro Ind.	29%
Energy	24.2%
Transportation, commun. & multi project	15.9%
Development Banks	13.7%
Water Supply	8.7%
Urban Development, Education, Health	5.0%
Industry and non-fuel minerals	4.5%

It can be readily seen that much of the activity of the ADB is in areas such as infrastructure and agriculture where the Pacific Islands need the most assistance. But one must remember that these are loan funds and therefore require repayment from future activities undertaken by the recipients. The purpose of these loans, and indeed the technical assistance programs, is to assist the recipient countries in developing their own economies. More goods and services must be produced and hopefully exported than would be possible without the loan so that it can be repaid out of that surplus and leave something left over. The United States supports these international banks and participated in the organization of most of them, but is less inclined to view them as instruments for transfer of resources than as catalysts for self-help. At the present loans are restricted to member countries and terms are governed by per capita income tests. Nevertheless, much expertise is available for the development process, and a good deal of understanding of and sympathy for, countries going through the development process.

III. Washington and the Pacific Basin. Having looked at Pacific development from the perspective of the private markets, and, to some extent, from that of the international development

banks, I'd like to shift the focus somewhat and comment on my perception of the new Administration's philosophy as it relates to the issues at hand. Again let me emphasize that this is only one person's viewpoint of a policy which is at the present time being debated in Washington relative to our overall policy of economic development in the international arena.

Several principles are, I think, worthy of note:

- 1) Our Government in Washington is very much interested in the welfare of the people of the Pacific Islands, particularly those represented here. They do care, and it is important that my subsequent comments be understood in that light.
- 2) The Administration is committed to reduce inflation in the United States, to restrict the role of government intervention in the economy, and reduce the tax burden, at the same time reducing government expenditures. This is asking the American people to make do with less in the short run in their own lives, and it is unlikely that a foreign assistance policy that does not call for some sacrifice will be acceptable.
- 3) Emphasis in development assistance is on self-reliance, local initiative, with governmental aid as a catalyst to increase private sector activity. To quote the Republican platform in 1980: "American foreign economic assistance is not a charitable venture: charity is most effectively carried out by private entities. Only by private economic development by the people of the nations involved has poverty ever been overcome. United States foreign assistance should have a catalytic effect on indigenous economic development..."
- 4) The administration has a free market bias - - not as is often charged, a pro-business bias, and seeks to promote in other countries a sustainable rate of growth on a stable, market-based system.

- 5) Private sector, private investment and know-how is the critical element. Those governments which create an environment hospitable to investment, stimulate private capital inflow through market incentives, and reduce government imposed burdens to investment, growth and production, promote free trade and open access can and will succeed.

III Conclusions and Implications.

Economic development for the Pacific Islands is not unlike making love in a canoe: even though all parties are willing - even anxious to do it - they must pay close attention to the limitations imposed on them by their surroundings in order to achieve their objective and avert disaster.

What does all this mean for economic development in the Pacific?

The importance of clear, consistent objectives, and of regional cooperation, sound planning, and consistent, coordinated action has never been greater. Your conference comes at a critical time. By working with common objectives in mind, it may be possible to achieve regional economies of scale, mobilize resources more efficiently, and speak in the halls of government with a louder voice. Continuing United States financial support as the new self-governing nations of the former Trust Territory begin their development an important opportunity and must be used carefully in the long term interest of the region and not wasted on immediate consumption, however great the temptation. Scarce borrowing capacity must be used in support of long term objectives which will support growth.

Economically sound, professional and realistic financial planning, over a wide scope as possible is vital if you're to compete successfully for private and development bank capital in the development process, with other parts of the developing world. Growth in the 1980's will be difficult in many parts of the developing world and you must compete for scarce investment and aid dollars with, older, larger, wealthier and more developed areas with greater populations and fewer problems. This competition can only increase.

The importance of capable, energetic leadership which understands both the economic and political realities in today's world cannot be over-emphasized. The people of the area must understand the essential changes that are needed, some of which will be painful in the short run. This requires courageous, political leadership. Delegation of power to local entities implies a correspondingly greater duty to use it wisely on behalf of the people thereof.

Vigorous pursuit of regional objectives both in Washington and in Asia will be important, but a wise long term, market oriented plan which builds upon the strengths and minimizes the weaknesses of the area is critical.

Creation of a legal, administrative and governmental climate which welcomes private investment, encourages growth, minimizes hassle can pay big dividends in the competition for funds and development.

Recognize that it will take time, effort, dedication. It is all too common, however, to concentrate on the problems. One of the basic tenets of this administration is a belief that it is the individual, their energy, skills, motivation, that will make the difference.

You have good leadership which recognizes the problems. You have a willingness to risk in order to succeed, and a Federal government that wants you to succeed. It's up to you to create an environment in which the local private sector must be encouraged - you in this room - pushing and supporting help government policies - with ideas, energy and capital, can prosper from your own efforts and by so doing, build a stronger, stable economy which will benefit everyone. The entrepreneur believes in the future and in this adventure you are all entrepreneurs.

So I return to my canoe example: Although difficult, and requiring close cooperation and an awareness of the environment, who's to say that the objective cannot be achieved if the will is there to do it.

RESOLUTIONS AND EXECUTIVE ORDERS

SIXTEENTH GUAM LEGISLATURE
1981 (FIRST) Regular Session

Resolution No. _____

Introduced by: _____

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Relative to expressing the position of the Guam
Legislature with regard to regional economic
development.

BE IT RESOLVED BY LEGISLATURE OF THE TERRITORY OF GUAM:

WHEREAS, although the economies of many nations are suffering,
the Pacific Basin nations possess enormous economic potential;
and

WHEREAS, this potential can be significantly increased for
each of the individual islands by addressing economic issues on a
regional basis; and

WHEREAS, economic issues which could be addressed on a
regional basis would include identifying the problems of doing
business between the islands, and how the individual governments
can work together to resolve these problems; and

WHEREAS, specific policy areas which could be examined for
development efforts on a regional level would include tourism,
fisheries development, small business and industrial development;
and

WHEREAS, although much discussion of regional cooperation in
economic development efforts has taken place, no concerted effort
has been made to fully examine the feasibility of regional develop-
ment; and

WHEREAS, the Committee on Economic Development of the
Sixteenth Guam Legislature conducted a regional economic develop-
ment symposium on September 4th and 5th, 1981, which addressed
many of these important issues; and

WHEREAS, this symposium, which was attended by representatives
of the governments and business communities throughout the Pacific
Basin, could be an important first step in developing a plan for
regional economic growth; and

1 WHEREAS, with the clear reduction in federal assistance,
2 it is important that the leaders of the Pacific Basin examine
3 alternative means for insuring economic health and prosperity
4 for our people; and

5 WHEREAS, the creation of a strong and viable regional mecha-
6 nism for economic development should be a priority consideration
7 by the nations of the Pacific Basin; and

8 WHEREAS, through the adoption of a resolution, the
9 Association of Pacific Basin Chief Executives of the Pacific
10 Basin supported the work of the symposium and pledged to offer
11 their full assistance for the success of the conference by appoint-
12 ing a representative of their government to examine the findings
13 of the symposium and work with other appointed representatives to
14 implement the appropriate recommendations; now, therefore, be it

15 RESOLVED, that the Sixteenth Guam Legislature hereby finds
16 that the economic potential of the Pacific Basin can be greatly
17 enhanced by cooperative efforts between Pacific entities; and be
18 it further

19 RESOLVED, that the Sixteenth Guam Legislature finds that
20 identifying obstacles to economic growth and developing a plan to
21 overcome those obstacles should be undertaken immediately; and
22 be it further

23 RESOLVED, that the creation of a strategy for regional econo-
24 mic development is a matter to be given priority consideration;
25 and be it further

26 RESOLVED, that the Sixteenth Guam Legislature offers its full
27 cooperation and support in working with other Pacific Island
28 nations to address regional cooperation; and be it further

29 RESOLVED, that the Speaker appoint a representative from the
30 Legislature to work with similarly appointed representatives in
31 a cooperation effort of economic development; and be it further

32 RESOLVED, that the Speaker certify to and the Legislative

1 Secretary attest the adoption hereof, and that copies of the same
2 be thereafter transmitted to the Chairman and members of the
3 Association of Pacific Basin Chief Executives;

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RELATIVE TO EXPRESSING THE POSITION OF THE
ASSOCIATION OF CHIEF EXECUTIVES OF THE PACIFIC BASIN
WITH REGARD TO ECONOMIC DEVELOPMENT ON A REGIONAL BASIS

ATTACHMENT #18

BE IT RESOLVED BY THE ASSOCIATION OF CHIEF EXECUTIVES OF THE PACIFIC BASIN:

WHEREAS, although the economies of many nations of the world are suffering, the Pacific Basin nations possess enormous economic potential; and

WHEREAS, this potential can be significantly increased for each of the individual islands by addressing economic issues on a regional basis; and

WHEREAS, economic issues which could be addressed on a regional level would include identifying the problems of doing business between the islands and how the individual governments and business communities can work together to resolve these problems; and

WHEREAS, specific policy areas which could be examined for development efforts on a regional level would include tourism, fisheries development, small business, and industrial development; and

WHEREAS, although much discussion of regional cooperation in economic development efforts has taken place, no concerted effort has been made to fully examine the feasibility of regional development; and

WHEREAS, the Committee on Economic Development of the Sixteenth Guam Legislature will be sponsoring a regional economic development symposium on September 4-5, 1981 which will address many of these important issues; and

WHEREAS, this symposium, which will be attended by representatives of the governments and business communities throughout the Pacific Basin, could be an important first step in developing a plan for regional economic growth; and

WHEREAS, with the clear reduction of federal assistance, it is important that the leaders of the Pacific Basin examine alternative means for insuring economic health and prosperity for our people; and

WHEREAS, the creation of a strong and viable regional mechanism for economic development should be a priority consideration by the nations of the Pacific Basin, now therefore, be it

RESOLVED, that the Association of Chief Executives of the Pacific Basin hereby finds that the economic potential of the Pacific Basin can be greatly enhanced by cooperative efforts between Pacific entities, and be it further

RESOLVED, that the Association of Chief Executives of the Pacific Basin finds that identifying obstacles to regional growth and developing a plan to overcome those obstacles should be undertaken immediately, and be it further

RESOLVED, that the Association of Chief Executives of the Pacific Basin finds that the regional economic development symposium scheduled for September 4-5 could be an important first step in the process of regional cooperation and growth, and be it further

RESOLVED, that the Association of Chief Executives of the Pacific Basin supports the work of the symposium and pledges to offer their full assistance for the success of the conference by appointing, through Executive Order, a representative of their government to examine the findings of the symposium and work with other similarly-appointed representatives to implement the appropriate recommendations, and be it further

RESOLVED, that the Association of Chief Executives of the Pacific Basin finds that the creation of a mechanism for regional economic development is a matter to be given priority consideration, and be it further

RESOLVED, that the Chairman of the Association of Chief Executives of the Pacific Basin certify to and the Secretary attest the adoption hereof, and that copies of the same be thereafter transmitted to the Chairman and members of the Committee on Economic Development of the Sixteenth Guam Legislature to be read during the upcoming "Oceania '81" regional economic development symposium to the members of the Association of Chief Executives of the Pacific Basin.

FEDERATED STATES OF MICRONESIA
Office of the Governor
Kosrae, Eastern Caroline Islands 96944

CABLE ADDRESS
GOV KOSRAE

October 27, 1981

The Honorable James H. Underwood
Chairman, Committee on Economic Development
Sixteenth Legislature
P.O. Box 373
Agana, Guam 96910

Dear Mr. Chairman:

I apologize for this belated respond to your letter of September 25, 1981, regarding the economic development joint effort in Micronesia.

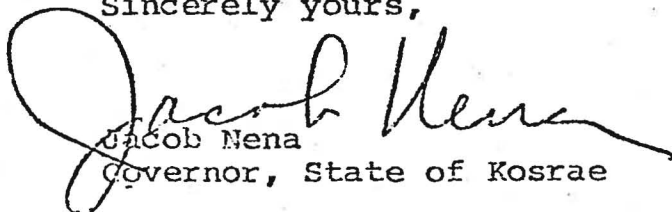
We are most proud to be a member of the unified effort. Although our island is comparatively small in total land area, we are most enthusiastic to do our share for the common cause for the mutual benefit of our respective Constituents.

For that matter, I now nominate from the private sector, businessman Thurston Siba, to be a member of your board.

Mr. Siba will be awaiting communications from you regarding actions to be taken.

Again thank you very much for waiting, we are looking forward to hear from you again.

Sincerely yours,


Jacob Mena
Governor, State of Kosrae

cc: Thurston Siba
Director R&D, Kosrae



TERRITORY OF GUAM
OFFICE OF THE GOVERNOR
AGAÑA, GUAM
U. S. A.

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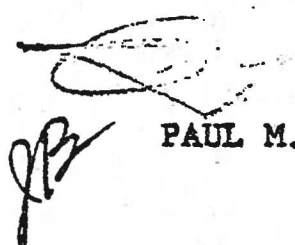
Memorandum

4 NOV 1981

To: Oceania 1981
From: The Governor
Subject: Appointment to represent the Executive Branch
at Oceania 1981

At the recent Oceania 1981 symposium, participating States agreed to appoint representatives of the private sector and the Executive Branch for purposes of drafting a common market compact. The primary objective of such a compact is the elimination of trade restrictions between participating States and the development of uniform trade laws and regulations.

I am appointing, as my representatives, Mike McClure of the Guam Growth Council to represent the private sector, and Jesse Perez of the Guam Economic Development Authority to represent the public sector. Both men are well qualified for this task and have my full support in representing Guam.


PAUL M. CALVO

RW:wss
cc: Legal Counsel
Central Files
Mike McClure
Jesse Perez
10/30/81