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THE ECONOMICS OF DEPENDENCY IN THE MARSHALL ISLANDS

Pamela Thomas

National Centre for Development Studies

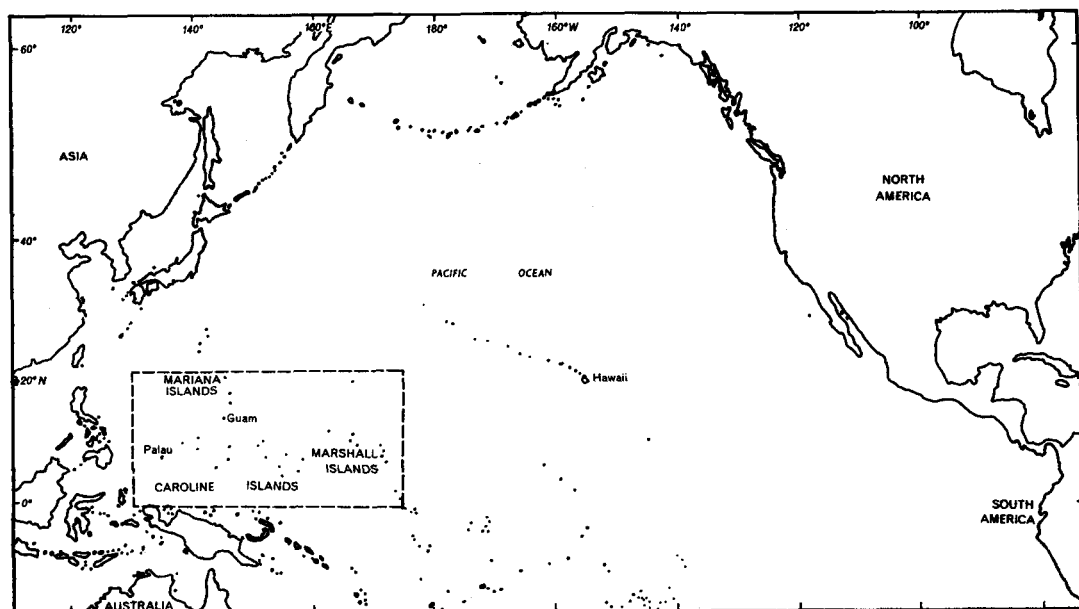
Introduction

In July 1987 the United States formally terminated forty years trusteeship of the Marshall Islands and the Republic (RMI) entered a 15-year Compact of Free Association with its former trustee. As an independent sovereign state the RMI is now a full member of the Pacific Forum and its independent status has been recognized by Australia. The economic policies outlined by the new nation for the next fifteen years are those of self-reliance and self-sufficiency. However, the degree of economic or political independence possible is questionable given the colonial history of the islands, the terms of the Compact, the strategic importance of the islands to the United States, the paucity of natural resources, recent demographic trends and the logistics of administering economic policy in a small, widely dispersed society.

Physical and demographic characteristics

The RMI comprises thirty coral atolls with a total land area of 170 square kilometres scattered over 1 million square kilometres of ocean. There is limited potential for agricultural production as soils are coralline and water resources poor. Marine resources are extensive but little has been done to improve the local fishing industry and sale of fishing rights is restricted by the terms of the Compact and the US stance on tuna fishing rights in the Pacific. Production of copra, the main export crop, is limited by space, distance, poor transport links, senile trees and low prices and annual exports over the last ten years have seldom exceeded \$US3 million.

The population of 36,000 is unevenly distributed with over 60 per cent now located in the urban area of Majuro, the administrative capital, and Ebeye, the island on which Marshallese workers from the United States mili-



Location of the Marshall Islands

tary base on Kwajalein atoll live. The combination of rapid in-migration to the urban areas and an annual population increase of 3.6 per cent¹ has led to very high population densities in the urban areas and a decline in both living standards and social services. Nearly two-thirds of the urban population is under 15 years of age. An estimated 11,000 people live on Ebeye, an island with a total land area of just over one square kilometre, making it the most densely populated area in the Pacific. A further 12,000 people live in the confined Dalap-Uliga-Djarrit area of Majuro. Although many households comprise 20-35 people only one-third of households have sanitation and water supply is both irregular and polluted. The combined impact of poor sanitation, population pressure, dietary change and atomic irradiation is leading to increasing, and increasingly expensive, health problems, while poor educational standards and growing

unemployment among school leavers have resulted in an increase in social problems.

The United States trusteeship

The current economy is inevitably linked to forty years of US military interests. Following World War II the Marshall Islands became part of the United States Trust Territories of the Pacific Islands (USTTPI), which also included Palau, Ponape, Truk, Yap and the Northern Marianas. Although the articles of the 1947 trusteeship called for the US to promote the development of the inhabitants towards self-government, to protect their health and control the traffic in arms and ammunition, the US, unlike all other United Nations trustees, was given permission to use the USTTPI for military purposes. A naval base was established on Kwajalein atoll and between 1946 and 1956 a series of sixty-six atomic tests were undertaken in the northern atolls of Bikini and Eniwetok. The Kwajalein base was later developed as a missile test site and is now part of a US global com-

¹ This is recognized as an under-estimate as many births are not registered.

munications system used for monitoring inter-ballistic missiles fired from Vandenburg Air Base in California and landed in the Kwajalein atoll, and for monitoring a new global navigation system.² For the last twenty-five years the base has provided employment for between 300 and 800 Marshallese who have received wages equivalent to those paid in the US, and income tax from both American and Marshallese employees has provided a major source of government revenue. During these years a small cadre of Marshallese has been educated and employed in the administration in the capital of Majuro, again at wages equivalent to those in the US. The attraction of high wages and a wide selection of consumer goods has led to rapid in migration from the outer islands, a trend which continues.

Welfare and the economy

During the first ten years of the trusteeship little attempt was made to improve social or economic conditions, and although there were annual appropriations of \$US7.5 million set aside for the USTTPI, less than \$US1.5 million a year was spent. Following a United Nations review in 1961 which was highly critical of the US trusteeship, the Kennedy administration initiated massive budgetary increases and a plethora of federal social welfare programs. These included feeding programs, school meals, programs for the aging, programs for youth, housing programs, sports programs, community support and youth employment programs, all of which were designed for disadvantaged Americans and introduced without adaptation to Marshall Island conditions.³ Wide distribution of free United States Department of Agriculture (USDA) food and the in-

troduction of school meals led to a rapid decline in local food production. Although the Marshall Islands have the physical capacity to be self-sufficient in food, most particularly in fish, 92 per cent of food is imported. The local fishing industry produces only 1 per cent of fish consumed and markets for the produce of the Taiwanese vegetable gardening projects at Laura and Wotje have collapsed. The problems facing increased self-sufficiency in food are lack of food production skills, lack of infrastructure, and, more particularly, lack of individual motivation to participate in these activities.

The introduction of 166 different, uncoordinated welfare programs led not only to lack of agricultural incentive and loss of any sense of individual or family responsibility but to a quadrupling of employees required to administer the programs and to massive increases in the cost of administration. Two-thirds of the total USTTPI budget was spent on government salaries, a situation that remains unchanged in the RMI. The private sector is unable to compete with salaries and conditions available within the public sector. In addition to the introduction of welfare programs USTTPI expenditure on capital improvement programs (CIP) jumped from nil in 1968 to \$US20.6 million in 1970 and over the next ten years a total of \$US250 million was allocated as CIP funds. Most was spent on developing infrastructure, including public buildings, airports, roads, docks and school cafeterias, with the expectation that this would assist economic development. It has been recognized that while these projects increased employment they did little to increase economic productivity.

Almost none of the very considerable US economic assistance has been channelled into local investment or into improving local productive capacity. Almost none has been channelled into improving local agricultural, administrative or technical

² During 1988 Pentagon expenditure on facilities on Kwajalein atoll is expected to exceed \$40 million.

³ It seems likely from a report commissioned by Kennedy that the US intended to introduce programs that outwardly appeared to lead towards independence, but were in fact designed to ensure dependency and American military control of the region. Whether these programs were implemented is immaterial as the end result was dependency.

skills. At independence the RMI inherited a top-heavy bureaucracy, almost no primary production, a population with health and social problems and inadequate skills to plan or implement government's developing policies. After forty years of US trusteeship the RMI is in the same situation as those Pacific island nations that are of strategic importance to metropolitan powers. Its economy is almost totally dependent on external subsidies (Table 1).

Table 1 Annual aid per capita in the Pacific, 1985

Country	Annual aid (\$USm.)	Population ('000)	Aid per capita (\$US)
Marshall Islands	70.1 ^a	36	1900
French Polynesia	172.0	159	1082
New Caledonia	145.4	147	989
Cook Islands	9.7	18	539
Kiribati	12.0	61	197
Vanuatu	21.8	131	166
Tonga	13.6	106	128
Western Samoa	19.4	163	119
Papua New Guinea	258.9	3253	80
Solomon Islands	20.8	263	79
Fiji	31.9	677	47

^a 1986/87.

Source: OECD, Geographical Distribution of Financial Flows to Developing Countries, 1982/5, Paris, 1987; Government of the Marshall Islands, 1987, Majuro, 1987; Marshall Islands Statistical Abstract, 1985, Schwalbenberg, 1984.

It is difficult to assess the amount of economic assistance the RMI receives but in 1986/87 US Compact grants and military impact payments, together with other bilateral and multilateral assistance, totalled approximately \$US71 million, making it the most heavily subsidized economy in the Pacific.

Economic resources

In effect the RMI has a triple economy: a very small outer-island economy based on copra production and subsistence agriculture; an economy based on wage employment, largely within the public sector and the Kwajalein military base; and a very large economy based on military impact payments to individuals. Although the two major resources, location and fishing rights, appear to allow some degree of economic independence, capitalizing on them poses a

dilemma. Under the terms of the Compact the US retains control of all strategic and defence issues and must agree to how approximately 40 per cent of economic assistance is spent. It stipulates that 40 per cent of development, as opposed to budgetary assistance, must be spent on capital improvements. It also retains right of audit. While the US recognizes RMI sovereignty over its 200-mile exclusive economic zone (EEZ), it will not pay fishing rights, and under the terms of the Compact retains the right to refuse access to the EEZ of any nations it considers 'unfriendly'. The other major resource, strategic location, has been the pivotal factor in a Compact agreement worth approximately \$US3 billion over the next fifteen years.⁴

This includes budgetary and development assistance, in addition to military impact payments. Over and above the Compact payments there are one-time payments for the use of Kwajalein worth \$US12 million plus annual payments for the next fifteen years of \$US8 million, over half of which will go to individual Kwajalein landholders and the balance to the Kwajalein Atoll Development Authority. In addition there are quarterly cash payments to those affected by atomic testing. These are expected to amount to a total of \$US270 million over the fifteen years of the Compact. There are a number of other grants and concessions which vary with circumstances. Under the terms of the Compact the amount of aid will be systematically reduced over the next fifteen years during which time the RMI expects to have established a productive economic base and to be economically independent.

The current budget

In October 1987 the Nitajela (parliament) passed the 1987/88 budget which totalled just over \$US70 million, 72 per cent of which will

⁴ This figure allows for inflation. The exact amount of assistance which includes grants, loans and concessions is unknown.

come from Compact monies. Nine per cent of the budget is scheduled for current or planned development projects outlined in the *First Five Year Development Plan* (Table 2), a high proportion of which is scheduled for capital works in line with US demands. While there have been minimal allocations scheduled for training or improving agricultural, fishing or business skills, or for improved marketing infrastructure, the recurrent budgets for health and education have almost doubled (Table 3).

Table 2 Development projects to be implemented during the Development Plan, 1985/90 (\$US'000)

Sector	1986/87	1987/88
Agriculture	160	427
Fisheries	500	960
Manufacturing	-	-
Tourism	-	24 ^a
Health	1198	1175 ^a
Social services	2036	1344 ^a
Education	1380	3658
Cultural affairs	50	33
Total	5324	7621

^a The bulk of expenditure for building programs.

Table 3 Selected allocations for the 1987/88 budget, RMI (\$US'000)

Department	Amount
Administration	
Chief secretaries	
Majuro, Ebeye, Jaluit	260
Planning Office	95
Public Service Commission	378
Electoral Commission	187
Health	5593
Education	4602
Transportation and communication	2318
Resources and development	1285
Interior and outer island affairs	875
Public works	1431
Special appropriations	12698
Environmental protection	56

Like many other small aid-dependent Pacific island nations the RMI has a growing balance of payments deficit. In 1982 exports totalled \$US3.1 million while imports (excluding Kwajalein) amounted to \$US16.2 million, of which food, beverages and tobacco accounted for \$US7.1 million (food aid for the same year was worth a further \$US3 million), fuels and lubricants \$US3.6 million, manufactures \$US2.5 million and machinery and

transport equipment \$US2 million. More recent figures are not available, but it is expected that for 1986/87 imports of fuel and vehicles will exceed \$US10 million.

The private sector

The private sector is limited and of a total 149 private business enterprises 101 have gross annual incomes of less than \$50,000. Although Marshallese manufactures have unrestricted entry into the US there is little potential for industrial development as investment is negligible, energy and labour costs are high, the labour force unskilled, and there is limited local initiative to engage in entrepreneurial activity. Currently labour for the tourist and building industries is imported from the Philippines and both industries are largely owned or controlled by Japanese.

Health and education expenditure

The recurrent and development budgets for health and education are generous but in neither sector has the emphasis been on the transfer of skills appropriate to Marshall Island independence. Annual recurrent health expenditure has been particularly high over the last decade averaging around \$US3.8 million a year, or \$105 per capita. For the fiscal year 1987/88 this has risen to \$US5.5 million. However, in the past these large expenditures have not produced commensurate results (Table 4) as health spending has been geographically and socially inequitable and health training for Marshallese inadequate. Until the beginning of 1986 over two-thirds of the recurrent health budget was spent on surgical referrals to Hawaii and short-term expatriate health professionals rather than providing training for Marshallese or establishing effective primary health care. As a result only 27 per cent of children under 5 years of age are fully immunized and access to health services on the outer islands is poor. Basic health indicators (Table 4) do not reflect the very

high levels of morbidity. Diabetes mellitus is thought to affect 42 per cent of the adult population, infant malnutrition and cardiovascular problems are common, while infectious diseases have not been overcome. The leading causes of death reflect social, not economic, conditions. Twenty per cent of deaths are due to respiratory problems, 18 per cent to cardiovascular problems, 16 per cent to diarrhoea, 16 per cent to diabetes and 12 per cent to cancer. Recent reorganization within the Ministry of Health has resulted in a number of new health initiatives including better health training for more Marshallese and special emphasis on preventive medicine, immunization, nutrition and family planning education. Long-term improvements, however, will take time, as currently few Marshallese have the necessary educational prerequisites to undertake full medical training and mechanisms for health data collection need to be put in place.

Table 4 Annual health expenditure and health indicators in the Pacific, 1985

Country	Annual health expenditure (\$US m.)	Per capita expenditure (\$US)	Life expectancy (years)	Infant mortality ('000)
Marshall Islands	3.8	105	58	48
Kiribati	3.4	55	52	97
Western Samoa	5.3	52	65	13
Tonga	2.1	22	58	16
Papua New Guinea	59.1	18	51	105
Solomon Islands	1.1	5	57	52

Overall the standard of education is low and although over the last five years up to \$US3 million a year was available for tertiary scholarships in the US - more than the annual recurrent education budget - few students

had the educational prerequisites to make full use of these scholarships. While all islands have primary schools there are inadequate places and the standard of teaching is poor. Few students from the outer islands reach sufficient standard to enter high school and the drop-out rate of both primary and high school is very high. Education has been more appropriate to an American lifestyle than to producing appropriate work skills for a small Pacific community.

Only 35 per cent of the available workforce is employed and of 4750 Marshallese in wage employment over half are in the public sector. Approximately 800 Marshallese and 4000 Americans are employed at the Kwajalein military base.

Conclusion

While the RMI has limited human and physical resources under the terms of the Compact, both government and some individuals are recipients of very large sums of money. If these funds were invested or used to improve local productive capacity and reduce dependency on food and welfare the extent of economic and psychological dependency could be minimized. This will not be easy as to date economic assistance has led directly and indirectly to high levels of consumerism and demands for a Western lifestyle rather than to investment or to improving the productive capacity of the nation. Initially the Compact will provide even greater economic assistance than in the past and without firm government measures this is likely to exacerbate dependency rather than lead to self-reliance.