

GROWTH AND VALUES OF OUR ECONOMIC SECTORS: CRITICAL FACTORS FOR THEIR SUCCESS: AND FUTURE PROJECTIONS

32. 1. GROWTH OF THE CNMI ECONOMY; RECENT PAST, PRESENT, AND FUTURE

32. 1. 1. Introduction

Since 1970, many changes have taken place in the CNMI economy. The establishment of our Commonwealth, with local rule under the framework of the U.S. rule of law, occurred in 1978.

This change in government marked an increase in potential growth here in the CNMI. Association with the United States and adoption of the U.S. judicial system greatly improved the stability of the *investment atmosphere* in the Commonwealth.

Investors then could begin to depend on the U.S. system of justice and laws. They could depend on U.S. courts to resolve any disputes that might arise. This improved both American and foreign private investor confidence in the Commonwealth.

At the same time, direct air transport routes between Asia and the CNMI were established. This has made Saipan, Tinian, and Rota just a relatively short flight away from Asia. Asian tourists began to come to the Commonwealth and this created a need for improved tourist facilities.

In 1985, our Commonwealth *opened up* our economy to foreign investors. This was the beginning of major development in the CNMI. This was all happening during an economic boom period in Asia which lasted through the early 1990s. The combination of these factors resulted in a boom in the tourism industry here. A construction industry boom resulted in order to provide tourism facilities.

The development of our tourist industries greatly increased our government's tax revenues. This increase, combined with increased U.S. federal government expenditures, allowed for a more stable economic base. It also improved our facilities and infrastructure. These events combined to create a significant economic growth period throughout the late eighties and into the early nineties.



Political association with the United States and foreign investment have played a significant role in the economic development of the CNMI.

32. 1. 2. Trends in Economic Growth of Our CNMI Economy at the time of this Book's Writing

Our readers will quickly see that the year 1994 is often referenced throughout this chapter. As in any economic analysis which looks at *growth* or *recession trends*, a point of time reference is required. Periods of economic growth and recession fluctuate, depending on several influences.

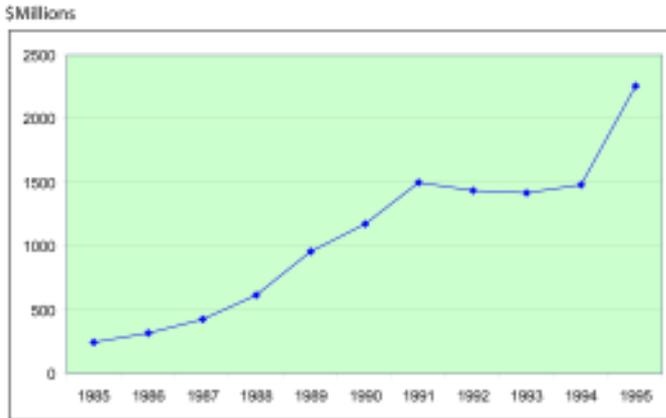


Table 32.1: 1995 BGR revenues saw an increase of 55.6% over the \$1.4 billion figure reported in 1994.

This chapter's author used 1994 as the *principal reference year* for comparison purposes. Other years and facts are referenced as well. Such dates are noted throughout our chapter.

We take this opportunity to explain that a *focus on dates* or an *update of current economic trends* is not our intent here. We seek to explain the processes, influences upon, applied strategies, and other important considerations for the benefit of present-day students who will soon be *managing our economy*.

Interested persons are encouraged to seek and obtain our *latest leading economic indicators*. These are available upon request from those CNMI executive and municipal agencies which have an involvement with promoting, monitoring, and regulating our island's commerce. Making chart updates makes for a great class activity.

At the time of this book's writing, the economy of the CNMI continues to experience a period of economic growth. The total business gross revenues in 1995 were \$2,260,000,000. This was an increase of 55.6% over the \$1.4 billion figure reported in 1994.

To put this in historical perspective, 1995 gross business revenues were 2,322% larger than the \$93.3 million in gross business revenues earned in the CNMI in 1985.

Over the five years from 1990-95, the average annual growth in gross business revenues was 7.86% per year. This all occurred despite a downturn in the Asian economies.

32. 2. THE SECTORS OF OUR CNMI ECONOMY

32. 2. 1. Introduction

As mentioned, the total gross revenue reported for 1995 was \$2 billion, 260 million. Total gross revenue has been increasing, as shown in Table 32-1. This total gross revenue figure can be broken down by economic sector.

We can see how much revenue was earned by each sector of our CNMI economy. Table 32-2 presents a breakdown of the revenues for the years of 1990-94. From this table, we see the changes in revenues for each sector over this time period. Note that total revenues decreased slightly between 1992 and 1993.

Business Activity	Calendar Year				
	1990	1991	1992	1993	1994
Total	1,197.4	1,510.5	1,439.5	1,414.0	1,531.4
Agriculture/fishing	0.9	6.7	1.5	2.2	3.0
Air transportation	3.8	6.1	2.6	4.5	13.1
Banking	20.5	14.6	10.1	22.3	24.7
Construction	80.0	125.6	105.9	87.4	82.6
Garment manufacturing	162.5	263.4	272.8	292.1	250.3
Hotels/motels	87.8	93.9	117.5	117.0	107.2
Manufacturing	9.5	8.4	5.7	5.8	31.1
Restaurants/bars	29.9	36.2	38.1	44.4	48.1
Retail trade	162.1	264.2	283.1	347.6	266.4
Shipping	7.1	10.3	10.8	0.6	7.8
Wholesale trade	72.3	81.8	103.3	43.4	125.8
Professional service	29.4	36.1	34.6	34.3	71.8
Petroleum	14.1	12.8	13.5	3.4	54.1
Land lease	134.2	71.1	16.1	15.0	9.1
Transportation services	29.0	9.4	10.9	15.1	10.1
Gas service stations	6.4	8.9	10.7	8.8	8.7
Freight forwarders	1.3	3.2	2.2	2.4	*
Other	328.9	441.8	396.4	372.8	417.3
Sales of leasehold	17.7	16.0	3.7	0.2	0.0

*Note: Included in Other category

Table 32-2: BGR by sector. Amounts shown in millions of dollars.

The construction industry was responsible for some of this decline, as is evidenced by the fall from \$105.9 to \$87.4 million. Revenues from wholesale trade also dropped during the period, as did revenues from shipping.

Most of the decreases were *offset by increases* in other areas. However, when we judge trends in the economy over a long period of time, it is important to look at two things.

We must examine the *revenues* of each sector, and the *changes* in those revenues. While the overall growth trend may be upward, it could still mean declines in some industries.

Several of the sectors listed in Table 32-2 make up the bulk of the revenues of the CNMI economy. These include manufacturing, tourism, and retail and wholesale trade. These sector revenues are critical to the CNMI economy. It will be helpful to look at each of these sectors a bit more closely.

In addition, the fishing and agricultural sectors, though small by comparison, are very important to our peoples and our culture.

32. 2. 2. Retail and Wholesale Trade

At the heart of any economy is the buying and selling of goods and services. Economists refer to this as the exchange of factors of production. Virtually every good or service produced uses these inputs.

The buying and selling of goods and services creates *profits* for the suppliers in the intermediate and final markets. Intermediate factor market revenues are reported as *wholesale trade*.

This represents a huge component of any thriving economy. In the CNMI, wholesale trade resulted in total gross revenues of over \$125 million in 1994.

Even more impressive than the wholesale component of trade is *retail trade*. The retail markets are the final markets of goods and services. These are where we purchase the things we need and want.

A few examples of retail markets include food, clothing, household goods, transportation, and recreation. At the retail level, the *final price* is paid by the consumer. That price includes all of the costs of production and marketing at every intermediate market level.

Economists refer to these added costs, at each stage of production, as the process of *adding value* to a product. Thus, the retail sale contains all of the value added at each intermediate level of production.

In other words, the price is highest in the retail sector. It can sometimes be double or even triple the price in the wholesale sector. One would expect retail trade to be larger than wholesale trade in an economy where many goods and services are consumed locally. This is certainly the case in the CNMI.

Retail trade was \$266.4 million in 1994. That figure is more than double the \$125.8 million figure for wholesale trade that year. The two figures combined are \$392.2 million for 1994.

It would be easy to conclude that the trade sectors are the largest sectors in the CNMI economy. However, keep in mind that most of



Relative amounts of wholesale and retail trade in the CNMI in 1994.

the other sectors create wholesale trade by buying inputs. Remember also that retail trade is composed of local income expenditures, not only on final goods but also on tourist expenditures.

So, in an economy such as ours, *everything works together*. The sectors depend on one another. Thus, *anything* that could adversely affect the business revenues of one sector can affect the other sectors as well. They can affect the overall economy by affecting the trade sectors.

32. 2. 3. Manufacturing

In the last twenty years, manufacturing has become a major industry in the CNMI. The largest component of the CNMI manufacturing industry is the garment manufacturing sector.

This sector had over \$250 million in gross revenues in 1994. In 1997, there were 46 licenses issued for garment manufacturing. However, at the time of this book's writing, only 24 garment manufacturing operations were active on Saipan.

Our garment manufacturing industry utilizes mostly imported labor. Most of the wages earned by these guest workers returns to their countries through **remittances**. In 1994, the industry paid \$62.4 million in wages.

Most of the *raw materials* for this industry are directly imported by the manufacturers. By doing this, they bypass local wholesale and retail markets. Our government earns a *user fee* on the value of all garments produced. This provided \$13.9 million in tax revenues to the CNMI in 1995.

Thus, the garment industry is a major part of our economy. At the time of this book's writing, this industry provides much needed tax revenue for the provision of our essential government services.

In addition to garment manufacturing, there are some other *small scale manufacturing* enterprises in the Commonwealth. These include such things as water production from reverse osmosis processes, and cement block making for the construction industry.

Other manufacturing enterprises include production of baked goods, souvenirs, and local crafts. These and other small scale manufacturing operations produced a total of \$32.1 million in gross business revenues in 1994.

32. 2. 4. Tourism

Tourism here in the CNMI has shown an increasing trend since the mid-1980s. In 1995, 676,161 visitors arrived in the Commonwealth. At the time of this book's writing, forecasters had projected this number to increase to between 1.1 and 1.4 million by the year 2001. [Ed. note: This projected number has since been adjusted downwards due to the Asian economic crisis, see below.]

Table 32-3 shows the numbers of visitor arrivals by month for the period from 1990 to 1995. The table shows that, except for 1991, visitor arrivals have been steadily increasing in virtually every month of the year.



The largest component of the CNMI manufacturing industry is the garment manufacturing sector.

Month	Year					
	1990	1991	1992	1993	1994	1995
Total	435474	429884	505295	545803	598033	676161
January	38191	41839	42798	50203	52638	56453
February	36333	30120	41741	43985	49044	55318
March	37529	32150	42112	49716	51596	58509
April	31478	28991	35529	36694	41417	46732
May	34556	34903	43059	43147	46582	56524
June	37616	35093	41668	41053	43077	52419
July	38288	38207	45131	48717	53480	58583
August	40133	42239	44684	55230	59124	65803
September	37090	36155	42061	44007	50548	54307
October	32895	35057	40134	44051	44873	51681
November	35569	35018	39358	43559	49949	57972
December	35796	40092	47018	48441	53605	60850

Table 32-3: CNMI visitor arrival by month: 1990 to 1995

The table also demonstrates that there is not really a particular tourist season. However, December, January, and August are typically the most popular months for tourist arrivals.

We can also look at a table of tourist arrivals to get a clear picture of how these have increased. Table 32-4 shows annual visitor arrivals from 1980 to 1996. As you can see in the table, the annual increases have been impressive.

Again at the time of this book's writing, this trend in growth was expected to continue. In fact, the CNMI Department of Commerce had estimated that by the year 2001, visitor arrivals would be between 1.132 million and 1.417 million annually. If the expected growth in tourism continues, it will continue to be our largest and most important industry for many years to come.

To meet the growing needs of our tourist industry, development of hotel facilities has expanded. In 1980, there were only 740 hotel rooms. However, by 1994, 3,346 rooms were available.

If the visitor projections then proved to be true, between 6,950 and 9,100 rooms would have been needed by the year 2001. Even the lower figure of 1.0 million visitors requiring 6,950 rooms by 2001 would have required that the then current hotel capacity be increased. In fact, it would have had to have been more than doubled to meet the projected increased demand for hotel facilities.

Of course, this real and projected expansion in tourism has made it a very important industry in the CNMI. But, just how much of the total revenue of our economy is from tourist expenditures?

Note that Table 32-2 does not have one specific entry for the tourist industry. This is because the expenditures made by tourists appear in several revenue sectors.

Some portion of the revenues in the retail trade sector are from tourism. Also, much of the \$107.1 million in revenue for 1994 under hotels and motels can be attributed to the tourism sector. In addition, some portion of the \$48.1 million in revenues earned in 1994 by restaurants and bars was due to tourism. Likewise was much of the \$10.1 million in transportation services.

Other sectors also earn revenues from tourist expenditures as well. Thus, it is difficult to say exactly how much our tourism industry is worth.

The CNMI Department of Commerce estimated that tourist expenditures in 1994 were approximately \$460 million. This makes tourism *our largest revenue-generating industry*.

32. 2. 5. Agriculture and Fishing

The combined contribution of fishing and agriculture to the CNMI economy is small when compared to some other industries. However, these industries are of great importance to our people.

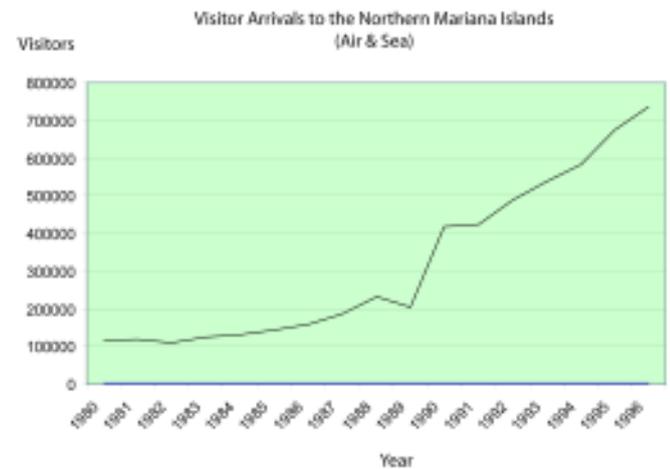


Table 32-4: CNMI visitor arrivals from 1980 to 1996



Expansion in tourism has made it a very important industry in the CNMI.

Common Species	Weight (lb)	Value (\$)	Price per Lb.
Barracuda	153	\$295.29	\$1.93
Bigeye Scad (atulai)	9741	\$25,521.42	\$2.62
Bottom fish	10508	\$29,002.08	\$2.76
Dogtooth tuna	7175	\$15,282.75	\$2.13
Dolphinfish (mahimahi)	26888	\$51,759.40	\$1.93
Emperor (mafute)	4023	\$9,936.81	\$2.47
Gindai (flower snapper)	1198	\$3,857.56	\$3.22
Goatfish	1853	\$4,187.78	\$2.26
Grouper	4013	\$10,514.06	\$2.62
Invertebrates	86	\$508.26	\$5.91
Jacks	528	\$1,420.32	\$2.69
Lobster	2214	\$11,977.74	\$5.41
Marlin	8708	\$14,977.76	\$1.72
Mullet	5	\$12.50	\$2.50
Octopus	110	\$240.90	\$2.19
Onaga (red snapper)	13675	\$57,708.50	\$4.22
Opakapaka (pink snapper)	714	\$2,106.30	\$2.95
Parrotfish	4856	\$13,645.36	\$2.81
Rabbitfish (forktail)	80	\$200.00	\$2.50
Rabbitfish (hitting)	1699	\$4,332.45	\$2.55
Rainbow runner	806	\$1,789.32	\$2.22
Reef fish	171123	\$383,315.52	\$2.24
Rudderfish (guilli)	28	\$74.48	\$2.66
Sailfish	78	\$149.76	\$1.92
Shrimp (saltwater)	1619	\$9,714.00	\$6.00
Silvermouth (lehi)	417	\$1,434.48	\$3.44
Skipjack tuna	116519	\$212,064.58	\$1.82
Snapper	173	\$430.77	\$2.49
Squirmfish	3540	\$7,575.60	\$2.14
Surgeonfish	1301	\$2,802.00	\$2.00
Troll Fish	2918	\$5,806.82	\$1.99
Tuna	398	\$788.04	\$1.98
Unicornfish	266	\$579.88	\$2.18
Wahoo	6880	\$15,067.20	\$2.19
Wrasse	40	\$84.80	\$2.12
Yellowfin tuna	19233	\$39,619.98	\$2.06
Total	423566	\$938,584.47	\$2.69

Table 32-5: CNMI Division of Fish and Wildlife calculations for commercial fish catch and value, circa 1995.

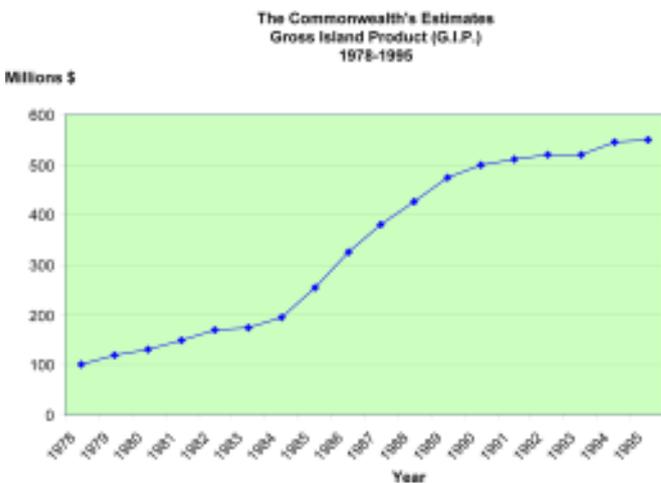


Table 32-6: CNMI Estimated Gross Island Product from 1978 - 1995

In the agriculture sector, livestock farming generated \$367,883 in revenues in 1990. Poultry and egg sales totaled \$12,115 in revenues in the same year. A total of 4,513 cattle and 1,260 pigs and hogs were being raised.

During 1990, 346 farms were in operation and these averaged 48 acres in size. Of these, 281 produced some crops, 36 produced some cattle and 81 produced some poultry and eggs. In fairness, we should note that the large land area of the MDC ranch complex on Tinian, and the several 25 hectare ranches on Rota somewhat skews our CNMI census-quoted per acre size figures.

In the fishing sector, total commercial fishing landings values were estimated to be \$938,584.47 in 1995. Table 32-5 shows the CNMI Division of Fish and Wildlife calculation for commercial fish catch and value.

We can see that reef fish harvest was the largest part of commercial harvest with 171,123 pounds caught and a value of \$383,315.52. The next largest category is skipjack tuna with just over 116,519 pounds harvested for a value of \$212,064.58.

32. 3. THE TOTAL VALUE OF THE CNMI ECONOMY

32. 3. 1. Gross Island Product

What is the total value of our CNMI's economy? Well, we know that the total gross business revenues in 1995 were about 2 billion, 260 million dollars.

However, gross business revenues *over-inflate* total economic value. This is because the *base value* of a good is counted in gross revenues several times, as value is added to it and as it is resold.

For example, if we run a barbecue restaurant, we purchase chicken, beef, pork and other ingredients in order to make our barbecued product.

When we purchase these ingredients, we pay the cost the supplier paid for them. We also pay any markup for added value and profit that the supplier charges. The supplier reports this as wholesale trade gross revenues, a component of total revenues.

Now, we produce our product and sell it with some markup for our capital, labor and supplies, costs of production, and profit. We report that sale in our gross revenues. This ends up in the retail trade revenues sector, also a component of total revenues.

So, the base cost to us, of all our production inputs, has already been reported in total revenues, but we report it again when we sell our final product.

Therefore, *total gross revenues* are not a good representation of the actual value of the CNMI economy. What we really want to know is the amount of value that is added to goods and services.

The value added is the total value of goods and services produced in the economy and that is called the **Gross Island Product**, or **GIP**.

GIP is a somewhat complicated figure to calculate. It is defined as the total value of goods and services produced in the CNMI economy. This includes government-operated power generation and water production. It is not adjusted for annual inflation in prices.

Table 32-6 presents the Commonwealth's Estimated Gross Island Product from 1978-1995. The GIP rose steadily during the eighties, as the economy experienced impressive growth. By 1990, GIP had reached \$500 million and, at the time of this book's writing, is approaching \$600 million.

32. 3. 2. Wages and Salaries

In addition to GIP, economists often look at the total value of wages paid in an economy as an indicator of economic health. Table 32-7 shows the total value of wages paid in the CNMI from 1980 to 1995.

As we can see, the value of wages has risen steadily over that time period. However, the rate of increase was much more impressive from 1988 onward. Total wages now approach \$500 million dollars. This number represents both private and government sector wages.

To get an idea of how much each economic sector contributed to these wage numbers, we can look at the wages paid by selected private economic sectors.

Figure 32-8 shows a breakdown of private sector wages by economic sector. By reviewing these numbers, we can see that of the \$310.4 million in total private sector wages, the garment industry paid out \$72.96 million and was the largest single component of private wages.

The retail trade industries were second with \$46.52 million paid in wages. It may seem odd that the hotel sector, a very important sector in the tourism industry, paid only \$19.83 million in wages. However, this is because the hotel business is not as labor-intensive as garment factories.

We can also look at the value of wages paid by the government sector in 1995. Figure 32-9 shows that the wages paid by the CNMI government in 1995 were \$81.34 million. This value is larger than the wages paid by any single private sector in 1995. This emphasizes that the CNMI government is one of the largest employers in our Commonwealth.

32. 3. 3. Trade Balance in the CNMI Economy

The CNMI economy relies heavily on *imported goods*. Food items, construction materials, fuel, and durable goods like automobiles are all imported. So are many other goods.

We also export goods like garments and some of the income earned in our tourism sector. It is interesting to know just how much we import and export, and what our **trade balance** is.

Trade balance is the amount by which exports exceed imports. A *positive trade balance* means that we export more than we import. A *negative trade balance* means that we import more than we export.



Table 32-7: Wages and Salaries from 1980 - 1995.

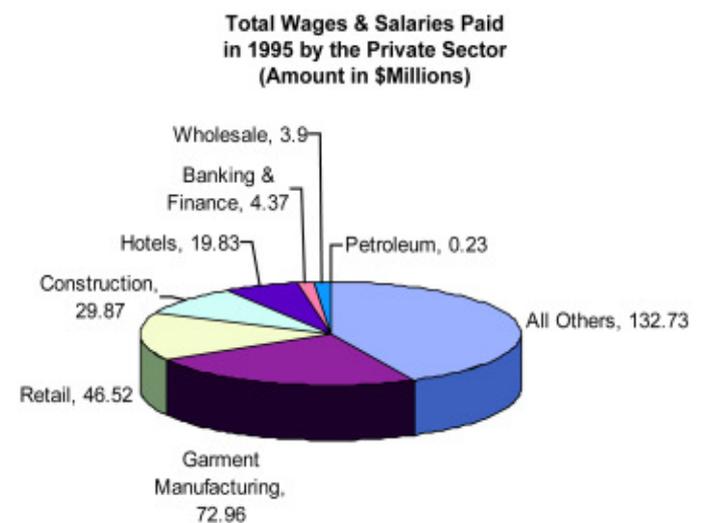


Figure 32-8: Breakdown of private sector wages by economic sector

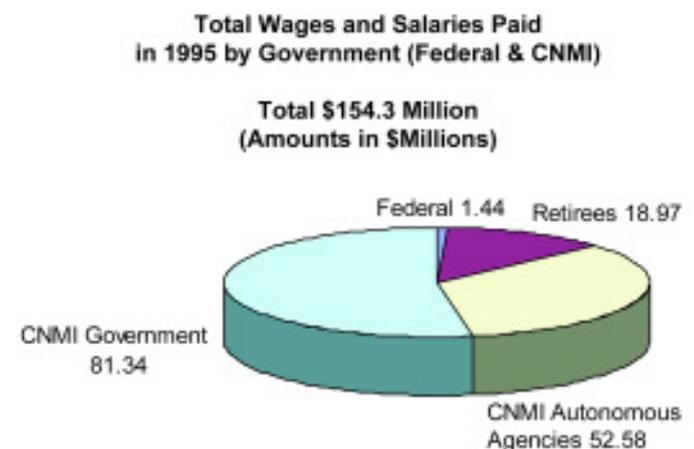


Figure 32-9: Government Wages and Salaries - 1995

A negative trade balance might mean that the economy is too dependent on imports. On the other hand, a positive balance is often seen as an indication of economic health.

In the CNMI, we export large quantities of garment as well as tourism earnings so our trade balance is positive. Table 32-10 shows the levels of exports, imports, and the balance of trade from 1985 through 1995.

As we can see, exports have risen as the economy has grown. Imports have also risen. However, exports have risen enough so that the trade balance has increased slightly over the past several years. This demonstrates the current strength of the CNMI exporting sectors and their importance in our economy.

32. 4. CRITICAL FACTORS IN THE CNMI ECONOMY

32. 4. 1. Exchange Rates and the Strength of Asian Economies

Our economy depends heavily on how much it costs for travelers from Asia to come here for recreation and business. These costs depend on the *value* of the U.S. dollar *relative* to the various Asian currencies.

For example, if the Japanese yen were to fall in value, relative to the U.S. dollar, then Japanese investors and tourist travelers would have to use more yen to buy each dollar. That raises the cost of doing business here, as well as the costs for tourists.

On the other hand, if the yen increases in value, Japanese tourists and businesses need less yen to buy each dollar. The actual relative price of a foreign currency in dollars is called the **exchange rate**.

Exchange rates are set in large and very complicated international **money markets**. These money markets rely on the supply and demand model, and market price determination, to find the equilibrium prices of currency.

The equilibrium prices set the exchange rates. As mentioned, exactly how this happens is complicated. The exchange rates are often affected by the amount of money a country makes available (**monetary policy**), their participation in the money markets (**currency trading**), as well as the foreign policy a country pursues.

For example, if the yen rises in value, Japanese businesses and consumers can purchase U.S.-made goods and services more cheaply. But, this also makes Japanese-made goods and services more expensive for Americans to buy.

Since businesses and consumers on the U.S. mainland buy a lot of Japanese goods, this increase in yen value may have a negative effect on the U.S. economy. It raises the costs of buying Japanese goods. However, a rise in Japanese currency value helps the CNMI by promoting foreign investment and tourism.

If the U.S. decides to combat a rise in the yen, it could purchase U.S. dollars in the foreign currency markets in order to reduce the supply of dollars. This would drive the price of dollars up.

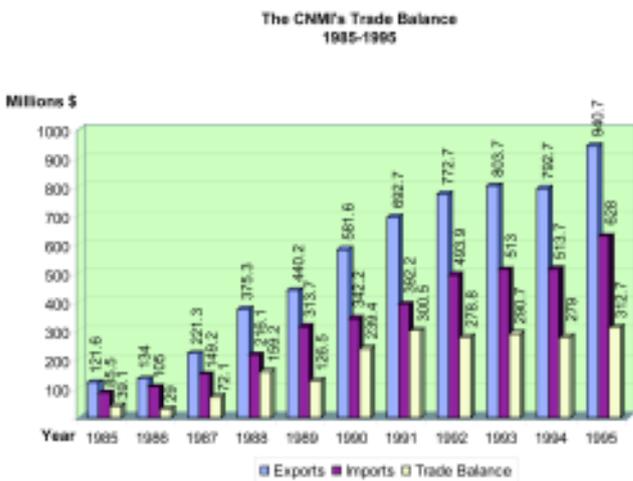


Table 32-10: Exports, imports, and the balance of trade from 1985 through 1995.

If the U.S. did this, it would improve things for mainland USA. However, it would make matters worse for the CNMI by raising the costs to the Japanese investors to do business here. Likewise it raises costs for tourists.

In summary, we are affected greatly by exchange rates but we have no control over them. We may even be harmed by policies that help the U.S. mainland economy.

32. 4. 2. Environmental Health

Tourism is a very important industry in the CNMI. Many tourists come here for our warm climate, clean waters, coral reefs, and golf courses.

What would happen if the beaches became fouled with trash and sewage? Would tourists want to come here to visit dirty beaches? Would they come to swim and SCUBA dive in dirty water?

What if sedimentation from uncontrolled development of home-steads and golf courses killed our coral reefs? What if nutrient pollution from quarrying or farming operations killed them? Would tourists want to come here to dive and see dead reefs, with few if any fish?

Clearly, we must carefully *balance* the health of our environment with our desires for economic development. We must build up our infrastructure to handle the power, sewage, garbage, and water needs of our growing tourism sector. The health of our environment AND our economy depend on it.

Another aspect of environmental health is the effect it has on our people. Many of us depend on fish from the reefs and ocean to help feed our families. We also depend on fish for festivals and ceremonies.

What would happen if the environment were not protected or if the commercial harvesting of fish were not controlled? It is very possible that there would not be enough fish to meet our needs.

Although this is not a huge part of our overall economy, it is very much dependent on the extent and type of economic growth we support. We must be careful and not develop our islands in ways that harm the things that are important to our way of life.

32. 4. 3. Business Laws and Local Controls

As mentioned, one of the primary reasons that the economy of the CNMI has grown so rapidly since 1985 was the applicability of the *U.S. rule of law* in the Commonwealth. Another important factor is that the CNMI has enjoyed *local control* over *minimum wage* and *immigration*.

To date Commonwealth leaders have intentionally held wages down. This has promoted the development of industry. They have also encouraged and allowed immigration of many guest workers to provide the labor needed to develop industry.

Another key factor in our economic development has been the willingness of our government to lease out large amounts of public



Tourism-related industries such as SCUBA diving depend on a healthy environment.

land to private foreign investors. This is done for the purposes of building hotels, resorts, and golf courses to promote tourism.

While the U.S. rule of law is likely to exist permanently, local controls over wages and immigration are currently under attack. At the time of this book's writing, some of the leaders of the U.S. government are asserting that the CNMI policies are not in keeping with the values of the U.S. and its people.

Loss of immigration and wage controls could cause drastic changes in the garment and tourism industries in the CNMI. If a higher minimum wage were mandated, the garment industry might choose to relocate to other countries where wages are cheaper.

Another area of concern is the decreasing quantity of public land available for development, particularly on Saipan. As we develop more and more of our land, there is less and less available for any new developments.

This could mean that growth in the local economy would slow down. It could also mean that the costs of development could rise due to the resulting land shortage. This would probably cause increased development on Rota and Tinian. It may even promote development of some of our northernmost islands.

32. 4. 4. Access to U.S. Markets

The CNMI-US Covenant agreement, along with Headnote 3(a) of the U. S. Customs Tariff Schedule, permits duty-free access (see below) for certain *qualified* goods produced in the CNMI to U.S. markets.

This access has been a great benefit to the Commonwealth because certain of the goods made here, including garments, can be labeled *Made in the USA*.

Other nations, such as Japan or China, do not have easy access to U.S. markets. Therefore, they cannot sell their goods without paying a fee called a **tariff**. Another term for a tariff is a **duty**. Locations without tariffs are known as **duty-free** areas.

The actual amount of the tariff depends on the type of good being imported into the U.S. It can be as much as ten percent of the value of the product.

Since manufacturers here in the Commonwealth do not have to pay those fees, they can be more *competitive* than manufacturers in other countries. This competitiveness is a great benefit to the economy of our Commonwealth. This is especially true when our tariff-free status is combined with our local immigration and wage control.

Access to the U.S. markets is likely to continue for the foreseeable future. Our benefit from that access, however, could be reduced if other countries are given similar access.

Mexico and Canada are currently being given greater access to U.S. markets under the **North American Free Trade Agreement (NAFTA)**. Under this agreement it is very possible that Mexico,



Large amounts of public land are leased to private foreign investors for large projects such as golf courses.

which has a low minimum wage, could become as competitive as our Commonwealth is as a manufacturing location.

This could greatly affect the garment industry in the CNMI. Mexico might attempt to lure some garment makers away from here in order to set up businesses there.

US laws applicability and US court access for redress of business grievances thus become even more important as we compete with Mexico for business investment. At the time of this book's writing, *to move or not to move?* is the question our garment businesses face.

Obviously if Mexico's luring attempt were successful, this would have a negative effect on our economy. So, while access to U.S. markets is important for our competitiveness, the access granted to other countries is just as important. The granting of access to US markets to foreign countries is, once again, largely out of our control.

32. 4. 5. Projections for the Future of Our Economy

We have discussed the changes of our economy which occurred during the 1980-95 period. We have seen how revenue and wages grew during this time. We have also seen how our largest industry, tourism, has grown and is expected to continue to grow.

However, can we expect this growth to continue? This is a difficult question and the only answer that can be given is that it depends on many things.

Our tourism industry, and its expected growth, depends on the economies of Japan, Korea, China, and other Asian nations. If these economies slow down, we would see a drop in tourism that would limit the ability of our tourism sector to grow.

[Ed. update note: Our described economies here indeed suffered just such a slowdown, labeled by many as a *major meltdown* in late 1997, due to the Asian economic crisis. The author's projected tourism slowdown effects are being felt at the time of this book's editing and layout].

If the U.S. were to pursue exchange rate policies that make it more expensive for Japanese and Korean tourists to come here, this too could negatively effect tourism growth.

We know that it is true that tourists like a clean and healthy environment in which to enjoy their visit. If we do not protect our environment, then tourism might decline further. In fact, growth in tourism could actually damage our environment if we are not very careful and protect it.

Growth in the tourism sector is likely to be a requirement for our overall economic growth in the coming years. This is because many businesses involved in retail and wholesale trade depend on tourist expenditures. Whether or not growth will happen depends on many things.



Tourists like a clean and healthy environment in which to enjoy their visit.

We also depend heavily on our garment sector for large portions of government revenues. The garment industry located itself here because of our low wages, our local control of immigration, our duty free access to U.S. markets, and our ability to easily ship products through our seaport.

If any of these beneficial conditions were changed in ways that did not provide for the basic needs of our garment industry, we would likely see this industry relocate itself out of our Commonwealth.

If this were to happen, we would certainly see a significant loss of government revenues. This, in turn, could potentially affect the ability of our government to provide essential public services.

To protect these vital services, the government might then be forced to increase taxes to make up for the lost revenues. This, by raising the costs of doing business, could hurt our economy. So, growth in our economy will also depend on what happens with our garment industry.

Only time will tell.

[Ed. update note: At the time this book is going to print, many garment factories are closing and tax revenues are dropping dramatically. Another Federal/International trade agreement, the **General Agreement on Tariffs and Trade (GATT)**, has indeed made it far cheaper to manufacture garments in other countries, particularly China and India. Our Commonwealth is significantly cutting its government operations and is furloughing government civil service and contract personnel.]