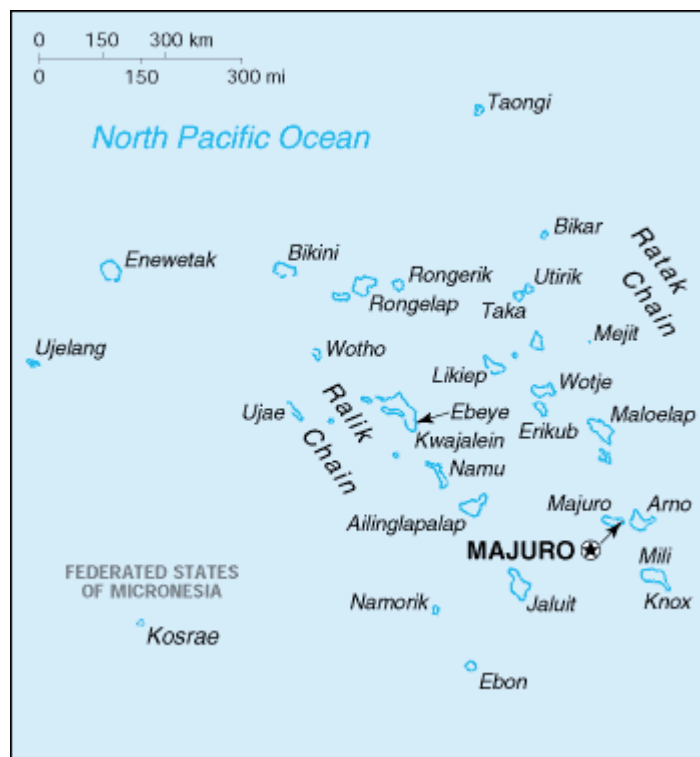


TOURISM SECTOR STUDY

MARSHALL ISLANDS



1. ECONOMIC INDICATORS OF TOURISM

1.1 Key Economic Indicators

	1997	1998	1999	2000	2001	2002
Population ('000) ^a	48.8	49.5	50.8	52.7	54.6	56.6
Population Growth (%) ^a	1.5	1.5	2.6	3.6	3.6	3.8
GDP (US\$m) ^a	60.5	62.1	62.6	60.7	61.7	64.2
Real GDP Growth (%) ^a	(9.4)	2.5	0.8	(3.1)	1.6	3.8
GDP/capita (US\$) ^a		1,922	1,903	1,852	1,863	1,867
Tourism Contribution to GDP (%) ^b	4.9	4.6	4.7	4.5	4.5	
Balance of Visible Trade (US\$m) ^a	(45.2)	(61.6)	(61.3)	(60.9)		
Inflation Rate (%) ^a	4.9	2.2	1.7	1.6	0.8	0.8
Exchange Rate	RMI uses US\$					
a – Asian Development Bank Key Indicators; total GDP figures at constant 1991 prices; GDP/capita figures at current prices						
b – Marshall Islands Visitor Authority						

1.2 Economy

The economy of the Republic of the Marshall Islands (RMI) has registered many years of low and negative growth and per capita income is now 20 per cent below what it was at independence in 1989. This trend reflects the basic characteristics and challenges of the economy which include heavy reliance on grants received from the United States of America (US) government; high concentration of economy on the service sector; predominance of government in the economy; and steady increase in population.

1.3 Balance of Payments

The US currency is used in the economy. As such the economy is not in danger of running out of foreign currency since it uses the reserves of the US economy. This provides exchange rate stability that is often absent in other Pacific island countries that have their own currencies.

Export revenue compared to imports is very small (16% in 2000) and has been falling because of a very narrow export base and poor performance of export products. Imports and service payments are met in the main with grants, lease, and compensation inflows received under the Compact Agreement.

For many years debt service on public sector debt has run at US\$25-US\$26m annually absorbing a major part of Compact receipts. The biggest of these bond issues was repaid in 2001, relieving the balance of payments and the budget of a crippling burden.

1.4 Employment

In the 1999 Census the labour force was estimated at 14,700 of which just over 10,000 or 69% was employed. Employment in the 'public sector' accounted for 3,100 persons or about 31% of the total. The Government was the single largest employer employing 1500. Three out of every ten persons employed are female. Another 20% were classified as self employed as agricultural workers or fisheries.

Given that the structure of the economy has hardly changed since, it is likely that the employment picture in 1999 remains the same today. It is characterized by high unemployment, and self-employment, with the public sector as the largest employer. Some relief for unemployment comes from the ready access provided under the Compact for Marshallese to live and work in the US.

1.5 Construction costs

Most building materials are imported mainly from the US resulting in the high construction cost of hotels and resorts. Duty on import of building materials is 8%. Construction cost for a 3-star property is about US\$60,000 per room and US\$100,000 for a 5-star.

1.6 Operating costs

Most goods consumed are imported and attract a duty of 5% for foodstuffs and 8% for others except for items such as cigarettes, alcohol, motor vehicle and fuel, which attract varying duty rates. Minimum wage is US\$2/hr.

1.7 Local skills base

The local skills base is limited particularly in tourism. The law provides for the recruitment of foreign workers when there are no locals to fill the vacancies.

The College of the Marshall Islands is the main local provider of post secondary and vocational training. It provides courses in liberal arts and sciences, teacher education, nursing and allied health, business and computer science, and vocational and occupational education and training. Migration to the US and nearby countries like Guam has resulted in a loss of skills.

1.8 Infrastructure services

Air and Sea Access

Amata Kabua International Airport has a runway of 2,408 metres capable of handling medium jet passenger aircraft such as Boeing 737. Continental Airlines, which has been operating in the region for 38 years, provides 3 services a week to Majuro from Honolulu. Coupled with Aloha's two services, these airlines links RMI with Hawaii and North America. Continental also provides 3 services a week from Guam linking RMI with SE Asia.

Air Marshall provides 2 services a week to Kiribati to connect with Air Nauru flights from Australia. This link will be improved once Air Nauru flies into Majuro from Kiribati from July 2004. The flights land at the international airport in Majuro, which is of a good standard.

Compared to international air links, domestic links are not well developed and act a constraint on the development of tourism in the other atolls. Air links to other atolls are provided by Air Marshall operating a 36-seater Dash-8, two 18-seater Dornier 228 aircrafts and an 8-seat Islander. Only one service a week is provided to most of the islands with airports.

RMI has two main ports capable of handling deep draft vessels and can service both container and bulk storage vessels. The country is linked to the US, Asia, and Australia via shipping services provided by international shipping companies like PM&O, Matson Shipping Lines and Kyowa Line.

Telecommunication and Postal Service

Telecommunication is provided by the National Telecommunication Authority, which was recently upgraded and provides services including satellite, telephone, facsimile, cable, and internet. The postal system is linked to the US Postal Service, which is relatively reliable.

Utilities

The electricity supply in the main atolls is standard US voltage in compliance with US code 120 volts and fuelled by diesel generators. On Majuro Atoll, the Marshall Energy Company has 26 MW installed capacity, which was recently expanded with a new 12.6 MW power plant.

The Majuro Water & Sewer Company provides water from a 36 million gallon storage facility meeting the current consumption of 1 million gallons a day.

2 TOURISM STATUS & TRENDS

2.1 The Tourism Offer

As a coral atoll nation – one of only four in the world – the Marshall Islands offers a unique environment and landscape, consisting of saltwater lagoons encircled by white beaches and small lush islands. In all, the Marshall Islands are made up of 1,225 islands, 250 species of corals, 870 reef systems, 800 species of fish, and 1,650 species of molluscs.

The main elements of the product offer include:

- Scuba diving
- Sports fishing
- World War II (WWII) Historic Tourism
- Private and Small Commercial Cruising
- Small Island Resort Development
- Surfing & Windsurfing

Accommodation

There are a total of 15 accommodation facilities in the country with a total room count of just over 310. The three main hotels are all located in Majuro. The largest is the 150 room four-star Marshall Islands Resort which until recently was operated by the Outrigger Group under a management contract.

2.2 Market Trends

The latest published statistics on tourism arrivals show figures to 2001. Table 1 below shows visitor arrival between 1997 and 2001. International arrivals are very low and variable. There are more business visitors than there are holiday visitors.

<i>Year</i>	<i>Business</i>	<i>Holiday/ Vacation</i>	<i>Transit/ Stopover</i>	<i>VFR</i>	<i>Other</i>	<i>Total</i>
2001	1,883	1,475	672	652	717	5,399
2000	2,256	1,323	548	621	498	5,246
1999	2,047	1,093	556	462	464	4,622
1998	1,905	874	1,276	568	1,751	6,374
1997	2,499	862	1,806	630	457	6,254

Source: Marshall Islands Visitor Authority

The Marshall Islands Visitors Authority (MIVA) estimates current annual visitor arrivals at 6,000-7,000. A visitor survey conducted by MIVA in 2003 suggests that holidaymakers as a percentage of total visitor arrivals has dropped, while the proportion of business visitors has increased.

Other trends suggested by the survey include:

- Visitor arrivals from the mainland US and US states territories like Hawaii and Guam make up nearly half of total visitor arrivals while Asian residents collectively account for another one-quarter (26%), with the highest number coming from Japan. The fewest visitors came from Europe.
- 54% of total arrivals were business travellers, 16% were on vacation, and 12% were visiting friends or relatives (VFR) and 20% visited for other purposes.
- The largest share of vacationers came from Japan (35%), followed by US (27%), then Hawaii (10%). Business travellers come mainly from US, Hawaii, and Guam representing nearly half of all business travellers
- The average length of stay was 8.9 nights, with VFR visitors staying the longest, 10.2 nights, and vacationers staying the shortest, 7.5 nights.
- A relatively high proportion of travellers make their own travel arrangements to travel to travel to the RMI, due likely to low awareness levels among travel agents of the Marshall Islands as a travel destination, except for Japanese most of whom made travel arrangement through travel agents.
- Average daily expenditures of all visitors are US\$65.88 with vacationers spending the most at US\$90.05 a day followed by business visitors at US\$81.14.

<i>Source Country</i>	<i>Total</i>	<i>Transit</i>	<i>Business</i>	<i>Holiday Vacation</i>	<i>VFR</i>	<i>Other</i>
<i>US</i>	1,922	185	867	413	222	235
<i>Canada & Other America</i>	48	7	13	20	2	6
<i>Australia & NZ</i>	222	10	157	17	17	21
<i>Pacific Islands</i>	1,063	249	422	99	187	106
<i>China</i>	78	6	22	6	26	18
<i>Taiwan</i>	353	15	71	132	79	56
<i>Japan</i>	933	60	121	659	36	57
<i>Korea</i>	75	19	22	18	5	11
<i>Philippines</i>	180	24	71	9	29	47
<i>Other Asia</i>	153	57	50	11	8	27
<i>Europe</i>	113	15	21	57	8	12
<i>Other</i>	259	25	46	34	33	121
<i>Total</i>	5,399	672	1,883	1,475	652	717

Source: Marshall Islands Visitor Authority

Occupancy and Seasonality

As a result of subdued visitors arrivals and an apparent decline in holiday visitors, hotels are presently experiencing rather low occupancy rates, with two of the main hotels (Marshall Island Resorts & Long Island Hotel) achieving occupancy well below 50%. The peak months for visitor arrival are June- October when more than 50% arrive. This is largely influenced by the travel trend of holidaymakers who arrive mainly in the months of July-September.

Estimates of Expenditure

The 2003 visitor survey shows that the average daily expenditure of visitors is US\$65.88. Based on this number and an average length of stay of 8.9 nights, the survey estimated that the total visitor expenditure in 2002 was US\$3.7mn.

3. INVESTMENT OPPORTUNITIES IN TOURISM

The visitor arrivals to RMI are very small and can support only small tourism developments. Even if visitor numbers were to double in the immediate future they will still be very small by international standard.

To encourage foreign investment, the Government allows foreigners to invest in nearly all areas of tourism operation except for a few sub-sectors (e.g. car rental), which are reserved for locals.

Foreigners are welcome to invest in the following businesses, which are considered to have a lot of potential for development:

Scuba diving

The Marshall Islands holds excellent potential for the development of land and sea based scuba diving operation. With some of the healthiest coral in the world and dozens of WWII ship & plane wrecks, the RMI offers unparalleled wreck diving & coral viewing.

Currently there are 5 scuba diving operations, three of which are based in Majuro and two in the outlying islands. Opportunities exist for joint venture with existing operations or the establishment of new ventures.

Small Island Resort Development

With 1,225 individual islands, approximately 90% of which are uninhabited and unutilised, opportunities in the area of small island resort development abound. The Government has established a Land Registration Authority, which will help streamline investors' access to some of these islands and improve and strengthen the overall security of land leases.

Landowners are looking for joint venture partners to develop their properties. The Councils are working with them to find joint venture partners and give them advice.

Joint venture with existing hotels and resort is another opportunity for investment to promote renovation and expansion. An example is the Marshall Island Resort. It was owned by Government from the start but was recently partly privatised when 51% of the shares were sold to a local company. The move was taken to raise additional capital to refurbish the hotel the initial phase of which is expected to cost US\$2-US\$3mn.

The Long Island Hotel, owned by a naturalized Taiwanese and caters to tourists from Taiwan and China, has immediate plans to add a business centre and later a gym. In the long term they plan to expand the hotel by building some over-water accommodation. The hotel presents opportunity for joint venture

Private and Small Commercial Cruising

With its coral atoll geography and protected lagoons, the Marshall Islands offer an abundance of private and small commercial cruising opportunities. Most of the 29 atolls & islands are lightly populated and therefore offer seclusion and pristine cruising grounds. Moreover the major ports (Majuro, Kwajalein and Jaluit) offer ample food and supply provisions.

Cruise boats can also be used for accommodation given the lack of accommodation and amenities on outlying islands. This type of accommodation is suitable for divers who prefer to move from one diving spot to another.

Rongelap Atoll has been running a cruise operation for the last 2 years which appears to be running successfully. It began by marketing its services to the 3,000 expatriate communities on the US military base on Kwajalein.

Sports fishing

RMI is famous for having some of the best sports fishing ground in the world. Over the years an increasing number of deep sea and fly fishing enthusiasts have found their way to some of the more remote and less-fished atolls, such as Bikini, Likiep, Jaluit, Mili and Rongelap.

WWII Historic Tourism

An abundance of land-based WWII relics can be found on the four main atolls used as Japanese military bases (Jaluit, Mili, Wotje and Maloelap). Coastal defence guns, Japanese zeros, tanks, buildings and other remarkably intact relics – all set in isolated. Jungle-like conditions offer very unique touring opportunities for WWII enthusiasts.

Surfing & Windsurfing

The Marshall Islands receives north-easterly trade winds averaging 12 mph from December through mid-May, which create wind swells originating from the Alaskan coast. Hurricanes & cyclones to the southwest of the Marshall Islands also generate ground swells, primarily during the same period. Although most of the islands have not been explored for surf, the atolls of Majuro, Jaluit and Arno are known to have strong marketable potential, particularly for surf and windsurfing camps.

4. OPERATING ENVIRONMENT FOR INVESTMENT

4.1 Investment Framework

RMI is working to transform its economy to reduce heavily reliance on grant from the US. It is changing legislations and institutions to encourage private sector investment both local and foreign.

The National Investment Policy Statement affirms the Government's commitment to creating and maintaining an enabling environment for private sector investment. Foreign investment legislation aims to streamline the approval process.

A Trade and Investment Division was established by Government during the 1990s in order to promote and stimulate investments. MIVA was established to specifically promote and facilitate investment in tourism in addition to promoting tourism arrivals.

Tourism is regarded as having special potential for development and Government has taken important measures to promote it largely through the private sector. It has, for example:

- established MIVA to promote RMI as a destination and for investment in tourism,
- created new legislations and institutions to make it easy to acquire land for tourism development and to bring about a secure leasehold title,
- introduced fiscal incentives for tourism development, and
- improved the process of approving and licensing foreign direct investment etc.

4.2 Incentive Regime

The RMI provides one of the lowest tax regimes in the Pacific, and as a result does not provide tax incentive except in a very few instances. The main elements of the tax regime are:

- No tax on profits.
- Gross revenue tax of 3%. A 5-year exemption is available for investment in hotel and resort facilities and any capital investment exceeding \$1m.
- Local government tax is also applicable e.g. sales tax of 4% levied by Majuro Atoll Local Government.
- Import duty for most products is 8%; duty on foodstuff is 5%.
- No export tax

4.3 Access to Finance

There are only two commercial banks in RMI; the US-based Bank of Guam; and the domestically incorporated and government majority-owned Bank of the Marshall Islands. They tend to concentrate on consumer loans as opposed to investment loans. There is also the Government-owned Marshall Islands Development Bank though this is not functioning properly due to financial difficulties.

Investment loans are expected to be encouraged as secure leasehold title become available.

Since RMI uses the US\$ as legal tender, there are no regulations restricting foreign exchange transactions. There are also no borrowing restrictions on foreign investors from either local or international sources. Furthermore, there are no restrictions on capital repatriation.

International Financial Institutions

The Marshall Islands as a signatory to the Cotonou Agreement has access to the facilities of the European Investment Bank (EIB). As a member of the World Bank, the facilities of the International Finance Corporation (IFC) would be available for projects in this country.

APPENDIX ONE: INVENTORY OF ACCOMMODATION TOURISM ENTERPRISES IN THE MARSHALL ISLANDS

Majuro

- The Marshall Islands Resort (150 rooms, 7 suites).
- Robert Reimers Hotel (39 rooms).
- Hotel Marshall Islands (10 rooms).
- Long Island Hotel (32 rooms).
- Flame Tree Backpackers Hostel (13 rooms).

Bikini

- Bikini Dive Resort (11 rooms).

Likiep

- Likiep Plantation Haus Resort (14 rooms).

Jaluit

- Jawoj Hotel (4 rooms).
- Ajjur Guesthouses (5 bungalows).

Arno

- Arno Bed & Breakfast
- Enidrik Island Camping Grounds
- Arno Pearl Farm & Bungalows (2 bungalows).

Mili

- Wau Beach Cottages (9 cottages).

APPENDIX TWO: INTERNET RESOURCES ON THE MARSHALL ISLANDS

Marshall Islands Visitor Authority

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Tel: (692) 625 6482

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Email: tourism@ntamar.net

Web: www.visitmarshallislands.com

Investment considerations

<http://www.opic.gov/links/countryInfo.asp?country=Marshall+Islands®ion=asia>

http://www.adb.org/Documents/Books/Business_Reference_Guides/BIG/rmi.pdf

Economic policy & performance, Financial infrastructure & regulatory framework

http://www.dfat.gov.au/geo/marshall_islands/marshall_islands_brief.html

<http://www.usaid.gov/country/country.cfm?CountryId=20>

<http://www.forumsec.org.fj/docs/IG/P7.htm>

http://www.adb.org/Documents/Reports/Annual_Report/2002/rmi.asp

http://www.adb.org/Documents/Books/Key_Indicators/2003/pdf/RMI.pdf

Law

<http://www.law.cornell.edu/world/australasia.html>

Tourism statistics

<http://www.yokwe.net/modules.php?op=modload&name=News&file=article&sid=698>

<http://www.yokwe.net/modules.php?op=modload&name=News&file=article&sid=233>

Key indicators of developing Asian and Pacific countries

http://www.adb.org/Documents/Books/Key_Indicators/2004/pdf/RMI.pdf

National Institutions, General Information, Political Information, Information from Encyclopaedias, Tourist Information, Information on Human Rights, Other Information (2001)

<http://www.gksoft.com/govt/en/mh.html>

Project profiles

<http://www.adb.org/Documents/Profiles/ctry.asp?ctry=48>

General information, tourism profile, (March 2003)

http://www.adb.org/Documents/Books/Business_Reference_Guides/BIG/rmi.pdf

<http://www.forumsec.org.fj/docs/IG/Tourism%20Guide%20Sydney.pdf>

Geography, people, government, economy (December 2004)

<http://www.cia.gov/cia/publications/factbook/print/rm.html>

Communications Policy Statement & Facilities

<http://www2.itu.or.th/pacific/marshall/background.html>

<http://www.pacificnavigator.com/marshalls/information/communications.html>

Tourism attractions, tourism accommodation

<http://www.visitmarshalls.com>

General information

<http://www.adminet.com/world/mh/>

<http://www.abyznewslinks.com/marsh.htm>