

Reviews of Kiribati, the Marshall Islands, and Nauru are not included in this issue.

FEDERATED STATES OF
MICRONESIA

The latter part of 2006 brought an air of political excitement and anticipation. The people were excited about the biannual national election scheduled for March 2007; they had anticipated that the election for the at-large seats in the four states would be hard fought because some of the likely candidates had expressed interest in seeking the presidency.

The inauguration ceremony for the new national administration took place on 16 July 2007. This was a public celebration of the peaceful transition of political power from the administration of Joseph Ursemal to that of Emmanuel “Manny” Mori. The actual transition from the previous administration to the current one took place in May 2007. It occurred on the same day that the 15th Congress of the Federated States of Micronesia (FSM) met to organize itself and elect the new president and vice president. The election of the president and vice president take place after the national election when the district members (with two-year terms) and the at-large members (with four-year terms) are elected, that is, every four years.

Following the national election in March 2007, the FSM Congress met

in its first regular session on 11 May. Although then incumbent President Joseph Ursemal of Yap easily won reelection to the national congress, he failed in his bid to retain the presidency. Instead, the congress elected at-large senator Manny Mori from Chuuk. The new president is an FSM Congress veteran of four years. He was first elected in the 2003 special election to fill Chuuk’s at-large seat, which Redley Killion had vacated when he became vice president. Four years later, during the March 2007 election, Mori easily defeated incumbent Vice President Killion for the same seat.

Ursemal’s failed presidential attempt was the culmination of a deteriorating relationship between his administration and the FSM Congress caused by two lawsuits: the president’s suit against congress to have a public law declared unconstitutional, and the congress’s suit against the president to declare several of his vetoes unconstitutional. In addition, the congress felt that the president had completely ignored its recommendation regarding the passport scandal at the embassy in Washington DC (FSM Government 2006), and the unauthorized borrowing of funds by the FSM ambassador to the United States to help defray the cost of running the embassy (Haglelgam 2007). Investigations of the unauthorized borrowing and the passport scandal resulted in criminal charges being filed against the ambassador and his driver, a citizen of the Philippines.

The results of the March election were not as close as political analysts in the Federated States had predicted. The contest for the at-large seats in Chuuk, between then Vice President Redley Killion and Senator Manny Mori, and in Pohnpei, between Speaker Peter Christian and Senator Resio Moses, were billed as precursors for the FSM presidential election. President Ursemal ran unopposed for his former at-large seat in the congress. Ramon Peyal, who had won that seat during the special election in 2003, voluntarily stepped aside as previously agreed to allow the president to overcome the first hurdle in his reelection bid. This was interpreted as a sign of the Yap leadership's continuing support for the president.

Two proposed amendments to the FSM national constitution—one regarding dual citizenship, and the other extending full faith and credit to public acts, records, and judicial proceedings across state lines—were submitted for ratification by the voters during the election. Both amendments failed to obtain two-third of the votes in at least three states as required by the national constitution. This was the third time in four years that the voters had rejected the dual citizenship amendment.

The results of the March election were as follows: For Chuuk State, Manny Mori won the at-large seat with a total of 12,932 votes, with the five district seats being taken up by Peter Sitan (1,864 votes); Roosevelt D Kansou (2,099 votes); Joe N Suka (1,964 votes); Tiwiter H Aritos (3,870 votes); and Moses A Nelson (1,058 votes). Both the dual citizenship and full faith and credit amend-

ments received affirmative votes of 60 percent.

For Kosrae State, Alik L Alik won the at-large seat with a total of 2,569 votes, while Paliknoa Welley obtained the district seat with 1,588 votes. The dual citizenship and full faith and credit amendments received affirmative votes of 76 percent and 78 percent, respectively.

For Pohnpei State, Resio S Moses won the at-large seat with a total of 6,392 votes, with the three district seats being filled by Dohsis Halbert (3,005 votes); Dion G Neth (3,150 votes); and Fredrico Primo (1,992 votes). The dual citizenship and full faith and credit amendments received affirmative votes of 66 percent and 70 percent, respectively.

For Yap State, Joseph J Urusemal won the at-large seat with a total of 2,844 votes, while Isaac V Figir took the district seat with 2,337 votes. The dual citizenship and full faith and credit amendments received affirmative votes of 69 percent and 74 percent, respectively.

US Department of Interior Secretary Dirk Kempthorne visited the Federated States in June. He met with President Mori and Vice President Alik. While in Pohnpei, Kempthorne gave a talk on new compact funding, focusing on the education and health sectors. According to local press, President Mori and Secretary Kempthorne discussed several compact-related issues, including the environment, education, and health. Kempthorne also discussed the imminent relocation of US Marines to Guam, and the benefits this expansion will bring to Guam's neighbors. The secretary told the president that "the FSM is an important part of the

[Department of Interior] portfolio, and for me to be as effective as possible, I needed to come meet you in your own turf” (FSM Government 2007). President Mori informed the secretary of his administration’s proposal to reorganize the executive branch of the FSM national government to introduce management efficiency and cost saving measures (*Da Rohng* 2007; Kaselehlle Press 2007a).

On this trip, Secretary Kempthorne’s contingent included David Cohen, Deputy Assistant Secretary of Interior for Insular Affairs; Donald Schregardus, Deputy Assistant Secretary of Navy for the Environment; B J Penn, Deputy Assistant Secretary of the Navy for Installations and Environment; and Rear Admiral William French, Commander of US Naval Forces Marianas, as well as other staff members from the departments of Interior and Defense.

Although the secretary’s visit to the Freely Associated States was reminiscent of Trust Territory days, it symbolized the compact’s built-in contradiction regarding the way in which formal relations between the United States and the former Trust Territory entities are conducted. According to the terms of the compact, the United States conducts its formal diplomatic relations with the Freely Associated States through the Department of State, but it designates the Department of the Interior as the custodian of all compact funds.

Another important visitor to the Federated States during this reporting period was Senator J Kalani English of the Hawai‘i State Legislature. Senator English is the chairman of the Senate’s Committee on Transportation and

International Affairs. He came to attend the inauguration of President Mori, but took the opportunity to discuss the findings of a recent study indicating that Micronesians are the largest homeless ethnic group in Hawai‘i.

In addition, Senator English asked President Mori to assist in finding the actual number of FSM citizens residing in Hawai‘i. State officials have estimated that 15,000 Micronesians currently reside in Hawai‘i, but it is difficult to calculate the exact figure because in the US Census, FSM citizens are lumped with people from other islands under the general category of Pacific Islanders. In an interview with a local newspaper, Senator English indicated that Hawai‘i is currently working with the Micronesian community to expand its program to assist Micronesians *before* they end up in homeless shelters (*Kaselehlle Press* 2007c).

In June, the presence of a dengue-like virus in Yap State was confirmed by the Centers for Disease Control in Atlanta, Georgia. The virus, referred to as Zika, was first identified in rhesus monkey serum in Uganda in 1947. The symptoms are similar to those of dengue fever but milder and generally last from two to four days. The symptoms include skin rash that usually starts on the face and spreads to other parts of the body, pink eye, and pain in the smaller joints of the hands and feet. Zika is carried and spread by *Aedes* mosquitoes.

Zika is commonly found in Africa but cases have recently surfaced in Malaysia. The outbreak was first reported in April and peaked in late May. Over seventy people were

affected in Yap and treated as outpatients at the hospital. Since the symptoms for the disease are mild, state health officials believe that more people are likely to have been affected, but have not sought medical attention. However, new cases are being reported from all over the islands. Officials of Yap State, the Federated States, the US Centers for Disease Control, and the World Health Organization are continuing their investigation to determine the best measures to control the outbreak. In the meantime, the residents of Yap Islands Proper were advised to wear long pants and long-sleeved shirts, use mosquito repellents, and reduce outdoor activities (*PDN*, 28 June 2007). To comply with these measures, the Yapese will have to relinquish their favorite traditional attire of loincloths and grass skirts.

On the economic front during the reporting period, Kosrae State joined Chuuk on the bankruptcy list. The administration of Governor Robert Weilbacher had inherited a \$2 million deficit from the previous administration. On assuming office, Weilbacher convened a statewide leadership conference to find a solution to eliminate the state deficit. The conference came up with several proposals, including cutting about ninety-eight jobs from the government payroll, auctioning off some government-owned vehicles, and increasing sales and “sin” taxes to bring in more revenue. As a short-term solution, the FSM national congress provided over \$1 million to the financially troubled state to meet current financial obligations. New agencies were created to implement and monitor the progress of the proposed solutions. Kosrae officials hope that

the deficit will be erased during the next budgetary cycle. The Weilbacher administration and Kosrae leadership are putting in place politically unpopular measures to ease their state out of the financial quagmire. Despite the unpopularity of the measures, it is evident that the Kosrae leadership is at least attempting to honor their obligations to their constituents.

Unfortunately, the same cannot be said of Chuuk State leaders. For Chuuk, the deficit reached \$41 million in 2007, with no solution in sight. Chuuk’s deficit originated a couple of years prior to the Federated States’ attainment of self-government in 1979, when the Truk District government (the name Truk was changed to Chuuk in 1980) granted its employees a cost-of-living allowance, which the Trust Territory government refused to pay. Throughout the fifteen years of Compact I, the deficit was steadily accumulating on a yearly basis. All the FSM administrations (from Nakayama’s to the current one) have, in one way or another, tried to assist Chuuk in eliminating its financial problem. Chuukese leaders seem to think they can find assistance from outside of the country. In the first part of 2007, two resolutions were introduced in the Chuuk State Legislature asking President Fidel Castro of Cuba and the president of the People’s Republic of China to provide financial assistance.

The political reaction in Pohnpei to the Kosrae bankruptcy report was to renew the call for separation from the Federated States. Some Pohnpeian leaders felt that continued affiliation with a country in which 50 percent of the constituent states are bankrupt

would, in the long run, negatively affect their state.

In spite of the reported deaths of two more young Micronesian men enlisted with the US forces in Iraq, Micronesian men and women continue to volunteer for service in the US Armed Forces. At the end of June 2007, twenty-one Micronesian men took the oath of enlistment on board the US Coast Guard Cutter *Sequoia*, which was moored alongside the dock at Kolonia Harbor in Pohnpei. Over the next three months the young men received basic training at Fort Benning in Georgia, Fort Jackson in South Carolina, Fort Knox in Kentucky, and Fort Leonard Wood in Missouri. According to the US Embassy in Kolonia, the recruits were to attend specialized training in aviation, infantry, logistics, maintenance, security, and vehicle operation.

For Micronesian recruits, the US military has provided the adventure of a lifetime to see the world, as well as employment opportunities that they would not otherwise have access to in the Federated States. Micronesian parents are finding out that when their sons or daughters die while serving in the US Armed Forces, they receive a large, lump-sum payment as life insurance. In addition, the US government has required that federal programs such as Farmers Home give priority to loan applications they receive from Micronesian veterans of the US Armed Forces. Such policies may prompt parents to encourage their sons and daughters to volunteer for military service.

Economic development prospects for the Federated States remain limited, according to the US General

Accounting Office report to congressional committees (GAO 2006). The political and social environments continue to present significant challenges for effective implementation of Compact II grants in education and health. For instance, the states and national government have not agreed on the implementation of compact infrastructure grants.

On the social front, the Federated States continues to face almost insurmountable challenges in health service and education. If the low passing rate in the entrance exam for the College of Micronesia-FSM is any indicator, then there has been very little improvement in some of the public high schools. Of the almost four hundred seniors who graduated from Chuuk High School in 2006, only one student passed the college entrance exam. For Weno High School (also in Chuuk), none of the seniors passed the exam. Over the last three years, less than 30 percent of Yap High School graduating seniors passed the entrance exam. For the public high schools in Pohnpei State, the passing rate is between 60 and 80 percent of the graduating seniors. For private FSM high schools, between 80 and 95 percent of the seniors passed the test.

In terms of health care, most of the hospitals in the FSM have been renovated but still lack the necessary equipment and expert personnel to deal with complex medical cases. The more serious medical cases are referred to off-island hospitals by FSM MiCare Health Insurance, or by the state medical referral programs. FSM MiCare refers most of its clients to hospitals in the Philippines.

In general, despite the singling out

of health service delivery as a focus of Compact II funds, there has been no discernable improvement in this area. There seems to be no plan for purchasing new equipment for the hospitals or upgrading the skills of health services personnel.

On the economic development front, future prospects for the Federated States have not improved. External assistance still accounts for 60 percent of gross domestic product (GDP) and the FSM economy is still as dependent on public sector expenditure as ever. State and national government budgets are still dominated by increasing wages and salaries, which will exacerbate the fiscal impact of the decline in compact funding scheduled to start in 2007 (*Kaselehlie Press* 2007b).

In the long term, the sustainable growth of the FSM economy will more likely begin in the private sector. However, the two private-sector industries of fisheries and tourism (identified by the 2004 Economic Summit as having the greatest potential for growth) face the constraints of remote geographical location, lack of infrastructure development, and poor business environment. Even progress on key policy reform has been slow. Although the FSM national government has enacted the necessary bankruptcy and mortgage laws, these measures are not sufficient to attract private investors and increase the revenue base. To stimulate investment in the private sector and increase local revenue, the national government must enact tax reform measures and simplify foreign investment regulations. The states must develop workable land tenure laws to assure foreign investors of a

reasonable chance of recouping their investments. In addition, public-sector reform must be instituted at all levels.

In spite of advice from the Asian Development Bank, the International Monetary Fund, and other economists regarding the importance of carrying out necessary reforms, nothing of substance has been achieved. The price paid by the Federated States for complacency in the face of these issues is the very slow growth of the national economy. The FSM real GDP growth rate for the 2005 fiscal year was 1.5 percent, but in 2006 it dropped to -0.7 percent. Chuuk's real GDP growth rate in the 2005 fiscal year was 1.0 percent; in 2006 it fell to 0.6 percent. For Kosrae, the real GDP growth rate was -4.3 percent in 2005; in 2006 it remained in the negative column at -2.8 percent. For Pohnpei, the real GDP growth rate for the 2005 fiscal year was -0.9 percent, which rose to 1.5 percent in 2006. Yap had the biggest decline in its real GDP growth rate: in the 2005 fiscal year, it was 10.7 percent, but it dropped to -5.2 percent in 2006. The sudden slump in Yap's GDP growth rate was probably caused by the closure of the island's garment factory in 2005 (FSM Department of Economic Affairs 2007).

The obvious conclusion from these statistics is that, economically, the Federated States is living on borrowed time. Economic assistance from the United States and other countries may be able to support higher living standards, but FSM national and state governments must adopt the necessary public sector reforms, enact reasonable land tenure laws, and reform the tax system in order to attract investment in the private sector of the

economy. Unless these reforms are adopted, the Federated States and its constituent states will live perpetually on the brink of bankruptcy. Perhaps the economic conditions in Chuuk and Kosrae provide a glimpse of the nation's economic future.

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GUAM

Discussion of the 2006 elections, the island's economy, and various military issues dominated Guam's media during the year in review. However, perhaps the most telling event affecting the island's state of affairs, political and otherwise, was the granting of limited voting privileges to Guam's delegate to the US House of Representatives.

Democrats secured a US congressional majority in 2006, reinstating the short-lived insular area delegates' ability to vote in the House of Representatives (which had been lost in 1995 when Republicans became House majority). These "partial" voting rights were narrowly passed and are only allowed when territory delegates do not determine House vote outcomes. In fact, if their votes do make the difference, the House revotes without the insular area delegates. Many would disagree with Guam Congresswoman Madeleine Z Bordallo's assessment that this partial vote demonstrates that the people of Guam are "members of the American family" (*PDN*, 26 Jan 2007; *MV*, 12 Feb 2007). Some find it ironic that while the US military (including many Guam

daughters and sons) fights to ensure Iraqi political participation, Guam's US citizens are denied any real voice in the US national government despite having been "family" for nearly eleven decades. Understanding how Guam does or does not fit into the US system sets the stage for understanding the island's contemporary political and other landscapes.

Underscoring Guam's status as an unincorporated territory was the 2007 visit by US Interior Secretary Dirk Kempthorne, whose department oversees US insular areas (*PDN*, 11 May 2007). Meanwhile, Guam continues to send delegations to the United Nations to provide testimony regarding the island's status as one of the world's few remaining non-self-governing territories (*PDN*, 22 June 2007).

Another indicator of Guam's quasi-incorporated status within the United States is the decades-long wait for World War II reparations, meant to acknowledge Guam's suffering of wartime enemy occupation. The Guam World War II Loyalty Recognition Act (HR 1595) had yet another year of limited success. The House passed the act, but the prospect of its clearing the final hurdles of Senate approval and presidential action looks bleak (GovTrack.us, 7 May 2007). The cost of the measure, superseding ethical obligations, seems to be a major factor blocking its passage. Public comments such as, "the US bears no blame here, and no responsibility" and the "war reparations bill will start a slippery slope" are not unusual (*PDN*, 8 Jan, 24 May, 28 May 2007).

This and other unresolved issues, such as unexploded ordinance, dumped hazardous waste, and large

holdings of ancestral lands, explain the mixed local reaction to plans to increase the military presence in Guam and the Northern Marianas, announced in press releases and discussed at forums during the year.

Guam received some minor US recognition, inclusion, and concessions this year. For example, Guam Archbishop Anthony Apuron provided the opening prayer at a US House of Representatives session, and the US Postal Service "honored" Guam with a stamp of a Hagåtña Bay sunset (*PDN*, 23 Sept 2006; 2 June 2007). Also, the US Transportation Department granted Guam certain expanded air cargo service consideration (*PDN*, 6 Aug 2006).

In day-to-day island life, Guam saw many positive developments and demonstrations of community spirit. John "JR" Hattig Jr became the first Chamorro/Guam athlete to bat his way into the major leagues, playing for the Toronto Blue Jays—a feat declared the "top local story" of 2006 (*PDN*, 1 Jan 2007). The University of Guam earned "high marks" from the Western Association of Schools and Colleges accreditation team, opened a \$15 million business school, and recorded increased enrollment (*PDN*, 26 July 2006; 1 Jan, 6 Feb 2007). Guam welcomed its first Chamorro female federal judge, Frances Marie Tydingco-Gatewood, who became federal chief judge for the District Court of Guam (*PDN*, 5 Aug 2006). Public libraries reopened after years of closure (*PDN*, 14 Aug 2006). Several local parish priests, including three Chamorros, received the title monsignor (*PDN*, 5 Sept 2006). The Government of Guam (GovGuam) unveiled a

new official website, www.guam.gov (*PDN*, 5 Jan 2006). Three of five new or redesigned schools have a 2008 completion date (*PDN*, 5 Jan 2007). The completion of a \$10 million sewage treatment plant ended the decade-long practice of dumping 7.5 million gallons of raw sewage a day into surrounding ocean, while many other island wastewater system upgrades were declared “in the works” (*PDN*, 10 March 2007). Hundreds participated in Guam’s fourth annual bone marrow donation drive (*PDN*, 29 Jan 2007). And the community assisted those who suffered devastating high tides in the Philippines and in Lakinioch, Chuuk (*PDN*, 13 Dec 2006; 16 May 2007).

Mirroring national trends, local elections were fought out in the courts as well as the ballot box. Virtually every aspect of the 2006 elections was scrutinized, criticized, protested, and challenged in the courts of public opinion and judicial review.

A couple of candidates stood out from the crowd. Magalâhen of I Nasion Chamoru, Vicente “Fa’et” or “Ben” Garrido, ran for public office. However, he did not make the primary election cut. The island’s police chief, Frank Ishizaki, also ran for the Senate. Although the prospect of mixing politics and law enforcement raised some eyebrows, his popularity secured him a seat.

The primary elections were challenged almost immediately, with some contestations continuing after the general elections. The number of votes cast was said not to “add up” (*PDN*, 16 Nov 2006). There were also issues surrounding the electronic voting system—machines were down, votes

were overlooked, results were downloaded into incorrect cartridges, and the legality of using voting machines was challenged (*PDN*, 23 Nov 2006; 1 Jan 2007). The Guam Election Commission (GEC) was accused of breaking federal and local laws regarding electoral procedure, and criminal charges were filed against GEC Executive Director Gerald Taitano for “allegedly destroying unused ballots too early after the Primary Election” (*PDN*, 1 Jan 2007). Then island Attorney General Douglas Moylan challenged the new election law, which requires attorney general and public auditor candidates to participate in primary elections. Moylan felt that “weak politicians” were working to oust him from office because of his continued challenge of “government efforts to borrow hundreds of millions of dollars on the bond market” (*PDN*, 9 Sept 2006; 1 Jan 2007). After losing in the primaries, Moylan ran as a write-in candidate (*PDN*, 28 Sept 2006).

A low point of the gubernatorial race was a smear campaign against Robert A Underwood depicting him as “anti-Filipino” (*PDN*, 19 Sept 2006). A few days before the election, Governor Felix P Camacho publicly demanded a stop to this, and Underwood commended him for his action (*PDN*, 27 Oct 2006).

Despite public poll results announcing Underwood’s lead in the gubernatorial race, the island reelected Governor Camacho along with a new lieutenant governor, first-term Senator Michael “Mike” W Cruz, MD. Uncontested delegate Bordallo secured a third term, while Alicia Limtiaco became the island’s first elected female attorney general.

Guam reelected many other familiar faces to the twenty-ninth legislature—8 incumbents, 3 former incumbents, and 4 first-time senators, each of whom had achieved prominence prior to taking office. Republicans won the majority by one seat. Democrats became a larger minority than before. Senators voted Mark Forbes into another term as Speaker, with Eddie Baza Calvo as first time Vice-Speaker. Judith “Judy” Won Pat secured the minority leader position.

Both Proposition A (the initiative to raise Guam’s legal drinking age to twenty-one) and Proposition B (the proposal to legalize slot-machine gambling at the Guam Greyhound Park) became defunct when Judge Barcinas found that the initiatives had not been properly prepared. Proposition B proponents attempted to woo Guam voters by allocating a 10 percent annual tax on their gambling gross revenues to education and health, and publicly displaying an up-front payment of \$3 million in “a tall, clear plastic block” (*PDN*, 5 Nov 2006). Wasting no time, backers of Proposition B filed to put their initiative on the 2008 ballots a few weeks after the election (*PDN*, 19 Dec 2006).

The Democratic Underwood-Aguon gubernatorial team challenged the Election Commission in both local and federal Supreme Courts. They objected to the commission’s exclusion of “over votes” in tabulating whether Camacho-Cruz secured a simple majority of votes (*PDN*, 14 Nov 2006; *MV*, 12 Feb 2007). Although they lost these challenges, and the Camacho-Cruz team celebrated victory, Underwood and Aguon did not publicly concede the election (*PDN*, 23 May 2007).

Many consider Guam’s long-term economic prospects bright because of the upcoming military expansion—the planned relocation of some 8,000 marines from Okinawa to Guam is expected to cost \$15 billion over ten years. A First Hawaiian Bank report estimated the size of the island economy at about \$3.4 billion and suggested that, with increased military spending, it could grow by 18 percent in 2008 (*PDN*, 7 Nov 2006). Even so, the news was dominated by GovGuam’s ongoing financial woes. After months of concern about GovGuam’s finances, Governor Camacho reported in the 2007 State of Our Island address that the general fund deficit had more than doubled during his term, to \$511 million (*PDN*, 20 Feb 2007). Senator B J Cruz, who voted against the fiscal year 2007 budget, described this increase as fiscally irresponsible (*KUAM*, 29 Sept 2006).

Fiscal issues were also contested in the courts. Governor Camacho attempted to surmount then Attorney General Moylan’s opposition to administration bond-borrowing plans. At issue was the federal statute limiting GovGuam debt to no more than 10 percent of the value of island real estate. The attorney general’s office argued that the Camacho administration could not proceed with its bond issue because it would exceed the debt limit. The US Supreme Court supported this, given GovGuam’s current valuation of real property. Camacho responded that the debt ceiling could be raised to allow a new bond issue by adjusting the real property tax valuation laws (*KUAM*, 28 March 2007).

Both Governor Camacho and the Guam Legislature spent early 2007

tackling financial issues including administration proposals to raise taxes and fees, furlough government employees, reduce agency budgets, and revise plans to issue a \$300 million bond (*MV*, 13 June 2007; *PDN*, 16 Feb, 20 Feb, 24 Feb, 15 March, 21 March, 20 April, 8 May, 13 June 2007). Most of these issues remained unresolved by June 2007, even with the legislature narrowly voting to raise some fees, adjust business tax exemptions, and reduce the fiscal year 2007 budget (*KUAM*, 4 May 2007). Island leaders continued to be pressed on a range of funding issues such as \$123 million in past-due cost-of-living allowances for government retirees, public school funding, and federal court orders to close Ordot Dump and open a new landfill in 2007—a project estimated to cost \$87 million (*PDN*, 8 Dec 2006; 18 June 2007; *KUAM*, 15 Feb 2007).

The impending military buildup remained on everyone's mind as the media noted preparatory details, including the formation of a Joint Program Office to manage US Marine relocation issues, Japan's commitment to provide \$6 billion of the relocation costs, the arrival of four hundred airmen and families in 2007, and the opening of a trades academy to train Guam's workforce (*PDN*, 29 Nov 2006; 10 Jan, 24 May 2007).

Land issues came to the forefront from time to time. Military officials stated that they would use "only existing land" or keep acquisition to a minimum (*PDN*, 18 Sept, 29 Sept 2006). However, some Chamorros noted that military-held ancestral lands would then be less likely to be returned and more may be garnered. There was also concern about the military's checkered

history of hazardous waste dumping, and the possibility that more live-fire ranges could be created as a result of its increased presence in Guam (*PDN*, 25 Aug, 29 Sept, 12 Oct 2006; 3 Feb, 13 April, 31 May 2007). On the other hand, many see the buildup as an opportunity to negotiate Guam's political status issues, upgrade island infrastructure, and so on (*PDN*, 25 Aug 2006).

Although officials like US Vice President Dick Cheney continue to stress Guam's strategic value—saying that "[Guam] has tremendous importance to the peace and security of the world" and that "by positioning forces on Guam, the US can move quickly and effectively to protect our friends, to defend our interests, and bring relief in times of emergency" (*PDN*, 23 Feb 2007)—others have a different view. Some fear that these developments increase Guam's potential as a target for America's enemies in the region (*PDN*, 29 Nov 2006; 13 April, 29 April, 17 May, 27 May, 28 May 2007).

Voters ranked health care as their second most "pressing issue" for political candidates in 2006 (*PDN*, 11 Oct 2006). Drawing further attention to this issue was the fact that the chair of the legislature's health committee, Dr Mike Cruz (a surgeon), was a candidate for lieutenant governor. The state of Guam Memorial Hospital was the most critical health issue; doctors complained about nursing shortages, and auditors cited several shortcomings in the hospital's finances (*PDN*, 3 Nov, 14 Nov 2006). In the meantime, a private group, the Guam Hospital Development Forum, continued to formulate a business plan and drum

up support for a separate, privately owned hospital. Throughout the year, government officials pointed to improvements at the hospital, including state-of-the-art cardiology equipment, and claimed that the hospital would be able to regain accreditation in 2007 (*PDN*, 1 Aug, 25 Sept 2006). At the beginning of 2007, Lt Governor Cruz unveiled the administration's Healthy Guam Initiative and called for public-private partnerships to tackle the hospital's problems (*PDN*, 21 Feb 2007). Public attention later focused on the appointment of Cruz's wife, Jennifer Rosario Cruz, as Guam Memorial Hospital's nursing director. Hospital officials quickly pointed out that Cruz had eleven years experience as a nurse there and had been recommended for the post by the previous nursing administrator (*PDN*, 9 April 2007).

Guam celebrated its fortieth year of tourism in 2007 (*PDN*, 27 Feb 2007). In the face of fewer tourist arrivals, the Guam Visitors Bureau presented an aggressive five-year strategic plan. Its goals included developing new markets, such as Russia (following in the Northern Mariana Islands' footsteps); a cruise ship industry; a multipurpose conference facility; and establishing "business appearance standards" along Tumon Bay. The plan also called for improving historical and cultural sites, including Guam's historic district of Hagåtña. The bureau will also strive to expand tourist numbers to 1.5 million per year, extend their length of stay, and increase the amount of money they spend (*PDN*, 3 March, 18 May 2007).

Controversy brewed toward the end of the year under review as a South

Korean company unveiled plans to develop a large resort hotel and condominium at Gongna (Gun) Beach, a site containing a Chamorro burial complex dating to the precontact period (*PDN*, 6 June 2007). The destruction of part of the site before permits were issued served to fuel the controversy. Hoping to raise awareness about appropriate treatment of ancestral burial sites and change policy, Guam held public ceremonies to honor ancestors uncovered during the earthmoving activities (*PDN*, 28 June 2007).

March 2007 kicked off of the yearlong Project Unity sponsored by the *Pacific Daily News*. It proposed to tackle "misconceptions and problems that arise when one sees cultural differences in a negative light" (*PDN*, 25 March 2007). Some of its themes were "celebrating the island's diversity," "community building," "humanity is one family," "understand and appreciate," and "making Guam home."

Several high-profile criminal cases continued to run their course. Occasional articles in the news noted "disgraced" lobbyist Jack Abramoff's ties to local politicians (*PDN*, 2 July 2006). Tony Sanchez, former Superior Court administrator and adviser to Governor Camacho, faced local charges of money laundering of Superior Court payments that ended up in the hands of Abramoff. Sanchez was given a superseding indictment in March 2007, with a hearing to set his trial date scheduled for July (*PDN*, 29 March 2007; *KUAM*, 28 June 2007). Former hospital administrator Dr Davina Lujan lost her appeal to the Ninth Circuit Court (*KUAM*, 26 Dec 2006).

New Attorney General Lim-

tiaco moved to dismiss several cases brought by her predecessor involving former Governor Carl T C Gutierrez, former hospital comptroller John Pangelinan, former public school head Rosie Tainatongo, former education comptroller Ray Miranda, and former hospital administrator Bill McMillion. These cases involved nonpayment of retirement contributions, among other charges. Also dismissed was the case against Guam Election Commission executive director Gerald Taitano (KUAM, 13 Feb 2007). In May 2007, former Guam Memorial Hospital associate administrator Therese Hart pled guilty to third-degree felony charges in a case involving improper authorization for a wrongful death settlement (KUAM, 31 May 2007). Gil Shinohara, former chief of staff for Governor Gutierrez, filed a motion to dismiss charges against him related to Gutierrez's pension. Shinohara still faces a thirty-two-month federal prison sentence after local charges are resolved (PDN, 10 May 2007). May 2007 saw another high-profile case: the attorney general's office brought a civil suit against former Senator Mark Charfauros, commissioner of the Guam Baseball Federation, for violating government procurement rules, among other charges (PDN, 15 May 2007).

The community mourned the passing of former Senator Paul Bordallo, the Chamorro Land Trust Act author and Chamorro rights promoter; and Marine Captain Peter C Siguenza Sr, the first Chamorro Marine Corps officer who helped free Guam from World War II enemy occupation (PDN, 19 May, 25 May 2007).

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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Over the course of the year under review, events in the Commonwealth of the Northern Mariana Islands spiraled almost out of control. The problems involved everything from the general economy, public utilities, public health, and education, to social issues and the environment. The garment factories have been closing at a rapid rate, and tourism has not yet recovered from the cessation of the Japan Air Lines service between Japan and Saipan. Many of these issues are of extreme urgency and will have long-term consequences.

Forces affecting developments in the commonwealth include the US government's concerns about federalization of the minimum wage and immigration, the transfer of eight thousand marines

from Okinawa to Guam, global warming, Pacific airline schedules and routes, and the hopes and desires of thousands of migrant contract workers to obtain free access to the United States. For their part, Islanders—who have felt impotent in the face of a range of external forces and who fear losing political control—were dismayed by the perceived insensitivity of the authorities in Washington DC and are desperate to hold on to a way of life that is fast disappearing.

The closure of the Japan Air Lines service between Japan and Saipan in October 2006 eliminated about 40 percent of the tourist traffic on that route. Although both Continental and Northwest restructured their routing (in some cases using smaller aircraft to open routes and schedules to and from Japan), this did not make up for the overall loss of Japanese traffic.

Tourist arrivals over the period under review were running around 400,000, compared to the peak of 750,000 in 1997. Hotel room rates were down, which is good for tourists but shrinks the 10 percent room tax, which constitutes a significant portion of government revenues. Some hotels have closed off wings and put their workers on part-time.

Starting in January 2005, the removal of restrictions on trade by the World Trade Organization made Saipan noncompetitive for the international garment market. Factories began closing and, as of this writing, continue to do so. The pending federally mandated increase in minimum wage will make it impossible for the factories to adapt and remain on the island. User fees, excise taxes, and income taxes generated by the indus-

try have dried up. During the peak years, the commonwealth annual budget was well above \$250 million. A year after Governor Ben Fitial took over, it was \$160 million and falling. It used to be that the garment industry contributed about \$140 million to the commonwealth tax base, with most of the rest coming from tourism-related taxes and fees. As of this writing, only about ten of the original thirty-five factories remain open, with only a few thousand active employees.

The side effects of the garment closures include repatriation of contract workers, closure of many ancillary retail outlets, and a possible increase in the number of prostitutes, many of whom are out-of-work seamstresses who are reluctant to return to China. A small number of former garment workers from China have applied for political asylum. The exact number is not clear because the attorney general's office does not release this type of information. The group is made up primarily of followers of the Falun Gong meditation movement, which is outlawed in China.

At the State of the Commonwealth message in April 2007, the governor outlined the condition of the Commonwealth Utilities Commission, which manages all power, water, and sewage utilities. He reported that none of the generators have been repaired recently and all of them should be replaced. He also noted that the utility rates traditionally paid do not even come close to meeting actual production costs, given current fuel prices. All government agencies now have to meet utilities costs from their own operating budgets. Utility rates have doubled, and in some cases

tripled, since the new administration announced power rates would be linked to the cost of fuel. It is not unusual for individual households to pay between \$1,000 and \$2,000 a month for utilities. Everyone is scrambling to find ways of cutting their costs, and power outages, both announced and unannounced, are the rule rather than the exception.

The Northern Marianas Retirement Fund for government employees has been described as perhaps the most generous within the US system. Former Trust Territory employees with fifteen years or more of service were able to retire after only five years employment by the commonwealth, regardless of their age. Elected officials and judges were able to retire at their highest salary after serving only one term in office. For example, a judge who served for six years at \$120,000 per year could retire at age fifty and receive the same salary for the rest of his or her life. For several years there was a 30 percent bonus awarded to anyone who retired before the end of 2005. Under this scheme, individuals earning \$25,000 a year would be entitled to a retirement salary of \$20,000 plus an additional 30 percent for the rest of their lives. However, the government stopped making employer contributions to the fund several years ago. The same is true for the government health insurance program, which is also run by the Retirement Fund. Both funds are in a critical state and the administration is forced to pay retirement and health benefits in full out of the invested principal, the interest from which was supposed to grow enough to make the fund self-supporting by 2020.

Recent events have led to the movement of a significant number of permanent residents to the US mainland. Although exact numbers are not available, it is well known that many skilled people have opted to relocate to the United States, rather than accept the 10 percent pay cut imposed on government employees in October 2006. The governor also instituted "Austerity Fridays," requiring all government agencies, with the exception of so-called essential agencies, to close down for one day every two weeks. Employees lose that day's pay. Exempt agencies included Public Safety, public schools, and Northern Marianas College; only instructional personnel in the public schools and the college are exempt.

Health services are in crisis. It is expected that by August 2007 there will be a critical shortage of doctors at the hospital. Many teachers have left the public school system or are considering doing so. Following the enforced salary cut, several key people left Northern Marianas College as well. The present governor inherited a budget of \$223 million from his predecessor, Juan Babauta. Within months it was reduced to \$193 million and, as of this writing, it stands at \$163 million.

The Marianas Public Land Authority (MPLA) has contributed significantly to the morass. For several years this agency, which is responsible for the management of public lands and compensation to landowners whose property was confiscated by the government, spent income from rental and lease payments as if it was its own. MPLA employees paid themselves hundreds of dollars for meetings

of the MPLA Board of Directors, and purchased round-trip first-class tickets for one member who lived in California. The Office of the Public Auditor filed a report on the authority, which outlined the egregious dispensation of largesse. To date nothing has been done about this, although the agency has been replaced by the Department of Public Lands, which answers directly to the governor.

Both educational institutions, the Public School System and the Northern Marianas College, took severe hits. Both had to deal with 15 percent across-the-board budget cuts. This was particularly difficult because in the past utilities were not a part of the budgeting process. For the college, utilities represent costs of almost \$1 million a year out of a total reduced budget of little more than \$4 million. The college was also hit by the resignation of key personnel at a time when it was being examined for continued accreditation. Thirty-five key positions were left empty after personnel left, with no money to hire replacements. As a result of this and other faults dating back some sixteen years, the Western Association of Schools and Colleges put the Northern Marianas College on warning status. This is just one step short of removing accreditation completely. This in turn caused a drop in enrollment and further loss of instructors. The new president is attempting to meet the challenges. Enrollment at public schools is up considerably since the parents can no longer afford tuition at private schools. However, there is no money to hire additional instructors.

One of the potentially positive results of the closure of the garment

factories is the large number of empty warehouses, factory buildings, and barracks. These could be of interest to the US military as they plan the transfer of 8,000 marines and about 30,000 dependents and civilian personnel from Okinawa to Guam in 2010. Military officials have already made it clear that they are very interested in using Saipan and Tinian to facilitate the move. The buildings could be used for equipment and supplies during the construction phase on Guam, or they could also be used for a variety of other purposes such as hydroponics, or for warehousing parts and supplies for sale to Asia.

Korean money has been used to purchase the Lau Lau golf course complex for a luxury resort. Through this deal, Kumho Corporation, the parent company of Asiana Airlines, has signaled its interest in bringing tourists to Saipan. Public land in the southern part of the island next to the Pacific Islands Club has been leased to another Korean company for a major resort. Korean-owned World Resort has recently completed a \$1 million water park in the center of Chalan Kanoa. Mini shopping malls, constructed by Korean entrepreneurs, have sprung up like mushrooms in the Garapan area. However, very few of them have any occupants yet.

Russian tourism is on the rise. This is a different kind of tourism and involves whole families staying for weeks and sometimes months. They are also big spenders. Several hotels now have Russian-speaking staff, Russian-language menus and informational brochures, as well as recruiting programs based in Russia. Efforts are being made to maximize Chinese

tourism as well. China now has the right to bring in unlimited flights to Saipan. Up till now, clients of the Tinian Dynasty Hotel & Casino had to arrange charter flights for weekend visits.

In June 2007, the US Congress passed a law raising the national minimum wage to \$7.25 an hour in four stages. The same law carried a rider specifically raising the minimum wage in the commonwealth by \$.50 per hour effective on 19 July, and \$.50 per hour every year thereafter until it reaches \$7.25 per hour. The federal government will fund an impact study to examine the effect on the economy.

Along with the minimum wage, the new Democratic Party-controlled Congress has drafted legislation to federalize immigration operations in the commonwealth. The draft legislation contains several unique provisions aimed at mitigating the adverse impact of imposed US immigration laws and regulations. For example, visas would be "Commonwealth only," available to tourists from countries such as Russia and China, who have difficulty obtaining regular US tourist visas. There would also be special provisions for contract workers who could continue to enter the commonwealth on an as-needed basis until they can be replaced by US citizens.

Very controversial is a provision that would grant nonimmigrant status to contract workers continuously employed and resident in the commonwealth for at least five years, and who have no criminal record and are in good health. The provision is vigorously opposed by members of the local business community, who fear the flight of key employees from

Saipan to the United States. The migrant employees, on the other hand, are eagerly awaiting passage of this bill. This is particularly the case with the Dekada movement, a group of about 3,000, which comprises mainly Filipinos, but also Bangladeshis, Sri Lankans, and Chinese. Significantly, the aim of the movement is to obtain US citizenship, or at least a green card, for long-term migrant residents.

The Jack Abramoff saga continues to make waves in the commonwealth. The plea-bargaining by several of Abramoff's underlings revealed his underhanded activities involving the commonwealth. Implicated in these activities were the former director of Immigration Labor, several officials of the Department of Interior, and members of Congress. Despite the scandal, the administration has employed a new (only much cheaper) lobbyist in Washington, and the governor has employed a public relations specialist to try to polish the image of the commonwealth in the national capital.

The war in Iraq has had its impact on the commonwealth in many ways, with increased military traffic and tightened security. Casualties from Saipan, Tinian, and Rota now number six, several of them buried in the new veterans' cemetery on Saipan. This has not put a dent in enlistments in the reserves or the active services. In fact, the commonwealth, Guam, and American Sāmoa have the highest per capita enlistment rates in the American "family." This has been largely attributed to both the educational benefits provided through the military and the lack of employment opportunities in the islands for local people.

The planned move of 8,000 marines

from Okinawa in 2010 promises a major economic shot in the arm to the whole archipelago. Approximately \$10 billion has been earmarked to develop infrastructure and facilities on Guam; the impact of this spending will be felt in Saipan, Tinian, and even Rota. There may be a massive depletion of construction skills in Saipan as long-resident workers are given free access to the United States. Tinian will almost certainly be utilized as a military training area on a permanent basis, requiring permanent infrastructure on the island. It is also expected that the educational establishment on Saipan, Tinian, and Rota will be expanded to provide vocational services for people seeking employment in the military.

Two new casinos with 300 to 500 guest rooms are slated for construction on Tinian. One casino will include a golf course, while the other will include a collection of luxury villas for its clientele. These enterprises will certainly find the expanded population on Guam attractive in terms of marketing opportunities. Popular initiatives to allow casinos on both Saipan and Rota were slated for the November 2007 ballot. The Tinian airport is now capable of handling international jets, although operations await the installation of an instrument landing system to allow the planes to land at night.

Crime has been on the rise. Attacks on poker arcades, some of which have involved firearms, have risen, with thirteen robberies over a period of three months. Some arrests have been made. Another criminal activity that has become endemic is copper-wire theft. Because of the high price offered

for copper by local scrap dealers supplying Chinese markets, thieves are actually stripping the copper tubing on anything from window air conditioners, live electric dropped lines, and power lines to streetlights along the Beach Road walkway. Even telephone switch boxes have been gutted, cutting telephone services to entire neighborhoods.

SAMUEL F MCPHETRES

REPUBLIC OF PALAU

Activities of Palau's president and National Congress, relocation of the national capitol, the Taiwan-sponsored summit with its Pacific allies, advances in conservation and environmentalism, preparations for compact review, establishment of diplomatic relations with Russia, and the collapse of the homegrown Pacific Savings Bank were some of the major events that took place in the Republic of Palau during the year under review.

As of January 2008, President Tommy E Remengesau, Jr, has one year remaining in his second four-year term and is ineligible to run for office again in November 2008. Nevertheless, he has remained very active. During the year under review he met with the presidents of the other freely associated states (the Federated States of Micronesia [FSM] and the Republic of the Marshall Islands [RMI]) at their sixth summit in Majuro, RMI. Perhaps their most important achievement was the agreement to begin implementation of the Micronesian Challenge, whereby signatories pledge to have 30 percent of their nearshore marine areas and 20 percent of their forest

resources under environmental protection by 2020. The three leaders also made progress in completing treaties for the extradition of criminals and maritime boundary delimitations. At meetings with the chief executives of Yap, Guam, and the Commonwealth of the Northern Mariana Islands (CNMI) held in Yap, FSM, in late July, more agreements were made regarding the financing of the Micronesian Challenge conservation effort. Progress in recycling and the removal of metallic waste was reported. With the assistance of Japan, Palau has implemented a robust program of recycling and segregation of solid waste in Koror, and the once unsanitary town dump has been contained and capped, now forming a grassy hill. The leaders explored the idea of bulk fuel purchases to gain better prices and considered more active efforts in development of renewable energy sources. Perhaps Remengesau's most important overseas visits were to Saipan, CNMI, where he joined in the opening of the 2006 Micronesian Games, and to Paris where he met with President Jacques Chirac. In Israel, Remengesau and his party met with top Israeli officials, who expressed their appreciation for Palau's support in the United Nations. The Israeli officials were amazed to learn that one of Palau's National Congress senators, Alan Seid, is of Jewish descent, and that Palau's ambassador to the United Nations, Stuart Beck, is also Jewish. The president and his party visited several holy sites in Jerusalem, including the Wailing Wall.

At home, landslides along the impressive US-financed Babeldaob compact road and skirmishes with

the National Congress over the 2007 budget kept the president occupied. Because of ongoing disagreement over the budget, the congress had to pass a continuing resolution to keep the government working. Finally, in early January 2007, a budget law was passed and signed, totaling some \$57.6 million. After three months of heated debate between the congress and the executive branch, compromises were reached on nine items that had been holding up the process: closure of Palau's consulate offices at Guam and Saipan, hiring of a bureau director in the Ministry of Education, pension plan contributions, rental payments to Palau's rural states, the scope of presidential reprogramming of budget funds, the status of the public auditor, financing for state capitol improvement projects, and the hiring of an independent special prosecutor to examine the Pacific Savings Bank collapse.

The relocation of the national capitol from Koror to Melekeok State was a defining event that coincided with the near completion of the fifty-three-mile Babeldaob circle road, which has been built using \$150 million in US compact funds. Palau's Constitution of 1979 called for moving the capitol, and in the 1980s leaders from Melekeok persuaded the National Congress to designate Melekeok as the location; they donated a large hill, Ngerulmud, to serve as the site. As one of Palau's four ancient polities, Melekeok had been eclipsed by Koror because of Koror's popularity with foreigners. The new capitol consists of four buildings in classic Greek-Roman architecture: a three-story congress building complete with an impressive

dome, a two-story judiciary building, a two-story president's building (in the style of the Jefferson Memorial), and a three-story government-administration building, as well as two underground water storage tanks of 530,000-gallon capacity. Funding for the huge project was provided by Taiwan (about US\$40 million) and the United States (US\$2 million). Construction was carried out in two main phases (the earthworks, and the buildings and water storage tanks); five more phases (costing about US\$12 million) were needed to complete the entire project.

While the decision on the style and size of the buildings was made by representatives from the president's office, the traditional chiefs, the state governors, and the National Congress, it has attracted much criticism from Palauans who argue that it is too large, too expensive, and untraditional. Defenders of the Greek-Roman classic style maintain that the Palauan people want their capitol to be of great international significance and symbolic of democracy, unity, liberty, and justice. Wisely, all the buildings are decorated with permanent indigenous motifs that make them distinctively Palauan. The grand opening of the capitol complex on Independence Day, 1 October 2006, was filled with feasting and much celebration. It was a nation-building event of considerable importance, rivaling Palau's superb hosting of the Ninth Festival of Pacific Arts in 2004.

President Remengesau made the local headlines by accepting blame for the August/September power outages and rationing of electricity. Electrical power outages are recurrent problems, and renewable sources of power such

as solar and wind are badly needed for Palau's long-term economic and social progress. Several new electrical generators were purchased with a US\$7 million loan from the International Commercial Bank of China, Taiwan (*TBN*, 25 Aug–1 Sept 2006, 1).

Mr Remengesau and his top advisers were involved in two international meetings of major importance. The first was the Taiwan-Pacific Allies Summit held in Palau. Besides Palau, the other Pacific Island nations maintaining diplomatic relations with Taiwan sent their heads of government, including RMI President Kessai Note, President Anote Tong of the Republic of Kiribati, Nauru President Ludwig Scotty, Solomon Islands Prime Minister Mannaseh Sogavare, and Tuvalu Prime Minister Apisai Ielemia. In sessions with the meeting's host, Republic of China President Chen Shui-bian, the Pacific leaders supported enhanced cooperation with Taiwan with regard to law enforcement, information technology, tourism, health care, protection of natural resources, economic partnerships, cooperation in agriculture and fisheries, and the preservation of culture. Since Taiwan and each of the Pacific Island allies commonly use the English language (in addition to vernaculars), and have a continuing need for development assistance, advances in these areas are likely.

The summit was significant for Taiwan in that it received a sovereignty endorsement from the attending Pacific nations. Their declaration stated: "The Leaders of Taiwan's Pacific allies strongly support Taiwan's achievements in political democratization and economic development. Taiwan's Allies acknowledge Taiwan

as a sovereign nation whose right to participate in international organizations such as the United Nations and World Health Organization cannot be deprived. Taiwan's Allies are committed to continuing their firm support of Taiwan's entitlement to undertake full involvement in international and regional organizations and initiatives" (*TBN*, 8–15 Sept 2006, 1). It is also noteworthy that this declaration used "Taiwan" instead of "Republic of China." President Chen experienced some political turbulence during his visit to the Pacific when his official jet aircraft was refused permission to land on Guam, a US territory. The refusal stemmed from the United States' desire not to provoke the People's Republic of China. Thus Chen was forced to use the services of Continental Airlines.

Mr Remengesau led Palau's delegation to the Thirty-Seventh Pacific Island Forum held in Fiji in October. The Forum consists of sixteen independent Pacific countries, including Australia and New Zealand. Remengesau played an important role in the Forum meeting by advancing his commitment to the conservation of marine and terrestrial habitats. He won full support from his colleagues, who tasked the Forum Secretariat to assist in ensuring that the commitment was upheld. An added bonus was the funding support for the Micronesian Challenge and related initiatives from financial donors such as Nature Conservancy, Global Environmental Facility, and Conservation International. Remengesau also gained enthusiastic support for Palau's law prohibiting deep-sea bottom trawling in its waters. Palau's UN Ambassador Stuart Beck

alerted the United Nations to this destructive practice and the General Assembly is expected to take action on it soon.

Furthermore, Remengesau gained Forum members' support for the Republic of China/Taiwan to be accepted as an equal Post Forum Dialogue partner, in recognition of Taiwan's substantial contributions to the Forum and its regional programs (*TBN*, 3–10 Nov 2006, 2).

Early in 2007, Mr Remengesau made a second state visit to Taiwan with an eight-person party consisting of State Minister Temmy Shmull, First Lady Debbie Remengesau, and several state governors and traditional chiefs. This visit was a follow-up to the September Pacific Allies Summit in Palau. Mr Remengesau requested Taiwan's support for additional infrastructure projects, a humanitarian loan to assist small depositors suffering because of the failure of the Pacific Savings Bank, and further cooperation in the areas of health and conservation consistent with the summit agreements.

Establishing ties with Russia was a huge diplomatic step forward for Palau. On 28 November in New York, Palau's UN Ambassador Stuart Beck and Vitaly Churkin, Ambassador of the Russian Federation to the United Nations, signed a joint communiqué officially establishing diplomatic relations. Beck lauded Russia for its rich history, strong economy, and contributions to the international community. The two ambassadors agreed to cooperate in the areas of fisheries and climate change/global warming. Diplomatic relations between Palau and its much larger neighbor, Indonesia, are pending.

Prior to the New Year, Palauans witnessed the rebirth of one local bank and the total collapse of another. Palau's first locally owned bank, Bank of Palau, was established by the late Roman Tmetuchl in 1981 during the closing years of the US-administered Trust Territory of the Pacific Islands. The bank lost its license for some years but reorganized to meet the Financial Institutions Commission's legal conditions of solvency and liquidity. The revived bank, now known as the First Fidelity Bank, is located in the PDC (Pacifica Development Corporation) building in central Koror. Attorney Johnson Toribiong, Tmetuchl's nephew, led the effort to reinstate the bank.

In contrast, Pacific Savings Bank, Ltd (PSB), which was chartered in 1992 and claimed to be the "people's bank," collapsed with a thunderous roar on 7 November 2006. With over 7,000 depositors, 7,900 accounts, 1,800 loans totaling \$11.5 million, and some 1,000 shareholders, the PSB directors and officers must take responsibility for this social and financial catastrophe. They are Tim Taunton, the president and chairman of the bank's board of directors and owner of 32 percent of the shares; the late Johnny Reklai, who held 18 percent of the shares; Silvester Spichtincher with 9 percent; and Jay Cobebe, Tadao Ngotel, and Margo Llecholch, each having 2 percent of the bank's shares. The remaining 34 percent of PSB shares are owned by individuals who each hold less than 2 percent (*TBN*, 10–17 Nov 2006, 1, 15).

The serious irregularities and illegalities in the PSB operations were uncovered in a report by an

independent auditing firm, J Scott Magliari & Company. The report was completed in May 2006 but was kept under wraps by the bank until 3 November, just four days prior to its collapse. Palau's financial watchdog, the Financial Institutions Commission (FIC), closed down the bank and locked its doors because of insolvency: PSB liabilities exceeded its assets, and the bank could not satisfy demands on deposits. The bank also reportedly had only \$45,000 available, whereas it was legally required to have at least \$500,000 cash on hand. During the six months prior to the collapse, and probably in response to inside information about an impending failure, about \$9.2 million was withdrawn by several government agencies, private businesses, and a dozen individuals with large deposits in the range of \$20,000 to \$2.4 million. What sank the bank was a large number of bad loans and the total breakdown of fiduciary duty and responsibility. The FIC revoked the bank's license, suspended the bank's administrators, and named Kaleb Udui, Jr, president of the National Development Bank of Palau, as the receiver. These actions were carried out in accordance with Palau's banking laws. In addition, numerous lawsuits, both civil and criminal, have been filed, and Palau's attorney general is moving to extradite PSB President Taunton from New Zealand, where he fled two days after the collapse. He had over \$4 million in bad loans.

With thousands of small shareholders and depositors, the Pacific Savings Bank collapse hurt many individual Palauans and their families, as well as small businesses. The failure of the so-called people's bank generated both

despair and anger. Especially hard hit were the private schools that had their operating funds in the bank: Bethania High School with \$198,000; Seventh-Day Adventist Elementary School with \$148,449; Palau Mission Academy with \$46,329; Emmaus High School with \$25,000; and Emmaus Kindergarten with \$18,000. Palau's *Tia Belau News* described the collapse as a tale of mismanagement and abuse unprecedented in the development of Palau's local institutions (*TBN*, 26 Jan–1 Feb 2007, 1, 5).

Responding to an emergency request from President Remengesau, Taiwan became Palau's new "Uncle Sam" by making a short-term, interest-free loan of \$3.3 million. Of this amount, \$2.4 million has been used to fully pay some 4,950 depositors who had less than \$2,000 in Pacific Savings Bank. These are mainly accounts belonging to individuals, schools, state governments, and several churches.

The political status of free association has been accepted by the United Nations as an appropriate way to end a non-self-governing or colonial status. Palau's compact agreement with the United States was fully implemented in 1994 and Palau became sovereign and the 185th member of the United Nations in the same year. Palau's compact agreement runs for fifty years, and over \$500,000 million (not including inflation adjustments) in funding was provided for fifteen years, that is, from 1994 to 2009. Palau's Compact Review Commission, chaired by former President Kuniwo Nakamura, along with eight other members and a two-person staff, have been hard at work reviewing Palau's performance under the 1994 compact

agreement. The review commission is mandated by Republic of Palau Public Law 7-15 to identify Palau's positions on compact-related issues and provide names of qualified individuals to serve on a negotiating team "in bilateral re-negotiation of the Compact and the subsidiary agreements" (*TBN*, 11–18 Aug 2006, 4).

The commission visited leaders of the other compact states, the Republic of the Marshalls and the Federated States of Micronesia, to learn about their renegotiations, which were completed in 2003. The key issues were new requirements concerning postal services, immigration, and compact fund management. Fund management requirements involve a "stricter process of review and approval for the expenditure of Compact Funds, eligibility for fewer federal programs, and perhaps less funding in the long run" (Underwood 2003, 2). The Compact Review Commission will revise Palau's master development plan, which was completed with the beginning of the compact in 1994. Furthermore, with funding assistance from the Asian Development Bank, the review commission conducted a national economic symposium that involved external financial and economic specialists as well as local experts. What may make Palau's compact review interesting is the recent US Inspector General's report, released in 2006. Requested by Palau's Public Auditor, the report evaluates Palau's expenditure of funds for the period 1994–2005. One glaring conclusion is that a key compact objective has not been met: the advancement of Palau's economic development and self-sufficiency.

An unusually large number of

important people died during the review period. Viviana Ucherbelau was a teacher, sports coach, and Koror state legislator; Salvator Ongrung worked for the Trust Territory and Palau governments for nearly forty years in community and economic development; Katsutoshi Becheserak was a Palau High School teacher, vice principal, activist, and part-time legislator; Joseph Ngiracheluolu was a sailor, small businessman, heavy equipment operator, and Koror community activist; Omelau Tanaka had a long career as magistrate during the Trust Territory period, served as both governor and traditional chief of Ngchesar State, and was a legislator, gardener, and expert fisherman; Herman Rodas was the long-time announcer for Palau's WSZB radio station, Palau's Labor Division head, member of the Seventh Palau Legislature, and traditional chief; Santos Edward was a musician, traditional chief, and building designer and contractor who built a number of important buildings in both Koror and on Angaur. A most extraordinary man, Ngirchobeketang Sachelboi Wasisang, passed away at age eighty-two. For nearly thirty-five years, he was the leader of the Modekngei, Palau's indigenous religious group. Senate President Johnny Rekali, a cofounder of the Pacific Savings Bank, died by drowning in a freak fishing accident. The first American to marry a native Palauan woman and settle in Palau, Henry "Hank" Worswick, died at age eighty-four. As a US Navy man, Worswick was involved in the

invasion of Angaur in 1944. Another member of the US military, Army Corporal Meresbang T Ngiraked, age twenty-one, was the third soldier of Palauan ancestry to die in Iraq and the twenty-second fighting man from the Micronesian region to make the ultimate sacrifice there. Lastly, former senator and presidential candidate, Peter Lawrence Naoya Sugiyama, passed away on 10 June 2007. Known as "Pete," Sugiyama was an exceptionally dedicated civil servant who had a long and distinguished career, first in government administration and then as a senator in the Palau National Congress. The high points of his political career were his participation in Palau's first Constitutional Convention of 1979, his presidency of the Senate from 1997 to 2000, and his close second-place finish in the presidential race of 2000.

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