Pacific Islands Development Program

PIDP

ENTRENEPRENEURSHIP AND INDIGENOUS BUSINESSES IN THE REPUBLIC OF THE MARSHALL ISLANDS

by

John Carroll

EAST-WEST CENTER

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John Carroll was a research intern with the Indigenous Business Development Project of the Pacific Islands Development Program from November 1984 to December 1985.

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FOREWORD

This report incorporates the results of a detailed field survey of indigenous entrepreneurs and institutional officials in the Marshall Islands. The report was prepared by John Carroll, research intern, Pacific Islands Development Program, East-West Center.

Similar studies have been conducted by the Pacific Islands Development Program in six other Pacific island nations as part of a regionwide research project mandated by the Standing Committee of the Pacific Islands Conference at its inaugural meeting in Pago Pago in 1981. At that meeting, the Pacific Islands Development Program was directed to conduct a study of indigenous business development among island countries of the South Pacific and to identify those social and economic factors that promote or inhibit indigenous entrepreneurship. In proposing this study, the Standing Committee emphasized the significance of the increased participation of Pacific island people in the socioeconomic development process.

The Marshall Islands remains heavily dependent on largesse from outside, but it is clear that renewed efforts are being made to construct a viable economic base as a means to promote greater self-reliance. The development of the small indigenous business sector is viewed as a key element in this process. However, as this study makes clear, a determined effort will be needed to tackle the many existing obstacles to this development, particularly in the areas of land, infrastructure, capital, and social and cultural practices.

The study makes many specific recommendations for enhancing indigenous entrepreneurial success. Among these are the need for governments to define more clearly the role that the indigenous entrepreneur is to play in the development process, the introduction of appropriate fiscal incentives for investment, and the provision of effective training and advisory services.

It is hoped that the results of Mr. Carroll's study will materially assist the Marshall Islands in the building of a stronger indigenous business sector.

Dr. Te'o I.J. Fairbairn
Acting Director and
Project Leader

Pacific Islands Development Program
East-West Center

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Studies of entrepreneurship and problems related to indigenous business success were mandated by the Standing Committee of the Pacific Islands Conference at its inaugural meeting in Pago Pago in 1981. This study is one of several such efforts and was made possible, in part, by the generous donations of Pacific island countries to the Pacific Islands Development Program's research projects. A special word of appreciation is offered to the Republic of the Marshall Islands government for becoming a regular financial contributor to PIDP.

During the fieldwork stage of this research the Marshall Islands government was also gracious enough to provide office space and clerical services through its Department of Resources and Development. Edwin Lakien, Paul Edwin, and Namilur Lomary of the Marshall Islands deserve special recognition for the long hours that they unselfishly devoted to conducting interviews and gathering information.

The lengthy period required to produce this document was made as congenial and productive as possible through the warmth and kindness of the PIDP staff. Special thanks are due to Mike Hamnett and Te'o Fairbairn for patiently awaiting my arrival to begin work on the study and for their continued support throughout the ordeal. Ms. Jeanne Hamasaki's superb competence as a program officer and thoughtfulness as a friend made the bureaucratic wrangles endurable. The assistance provided by the secretarial staff and the editing work of Ms. Barbara Yount are greatly appreciated.

Final thanks must go to the many Marshallese who took time away from their businesses or offices to contribute to this project. To each of them I wish to express a very heartfelt kom emol tata.

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EXECUTIVE SUMMARY

The Marshall Islands

The purpose of this study of indigenous entrepreneurs is to identify obstacles to their participation and success in private sector commercial activities. Throughout the Pacific there is a shared concern for the need to stimulate business growth and to involve indigenous people in that growth as a means of attaining greater self-reliance. By analyzing indigenous entrepreneurs in historical, sociocultural, and commercial contexts, this study provides information that should be of value to policymakers and planners who are interested in creating a commercial environment that fosters indigenous entrepreneurial success.

The Republic of the Marshall Islands is soon to enter into a new political relationship with the United States that will allow greater autonomy in domestic and foreign affairs. One of the Marshall Islands administration's major goals is economic development aided by private sector initiative. The challenge is to overcome a legacy of severe trade imbalances, excessive reliance on foreign assistance, an overexpanded public sector, and an underdeveloped private sector. Marshallese participation and success as private sector business people would be an important step in meeting this challenge.

During a three-month period indigenous and nonindigenous entrepreneurs, government leaders, bankers, and educators were interviewed on Majuro and several outer islands. This report stresses the relationships between Marshallese traditions, colonial experiences, and government intercession in the development of an indigenous-oriented commercial environment.

Traditional Society

The Marshallese society is still traditional and maintains many of its customary practices. The traditional systems of authority, land tenure, economic organization, and community responsibility continue to be very much in evidence. These structures are based upon feudalistic relationships and communal obligations that require a behavioral pattern that is not always consistent with Western-style business success. In essence, Marshallese traditions do not appear to predispose people to the requirements of success in commercial competition.

Within the authority structure the competition for power and status causes the elites to seek control over land and other resources. This tendency of the traditional leadership to exercise its prerogatives has serious implications as to the distribution of commercial opportunities among indigenous entrepreneurs.

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The land tenure system also represents a structure that is often the source of problems for indigneous entrepreneurs. The system enables many people to claim the right to use, or share in the proceeds of, a single parcel of land. The efficient management of a commercial enterprise typically requires a greater degree of autonomous control over the land than is afforded by traditional practices.

The economic system is based upon production, exchange, and investment activities that reflect cultural interdependencies. Unfortunately, the monetized system does not support such interdependencies. The affluence that islanders enjoyed in the traditional setting due to high relative productivity may have caused some to view wage labor as being demeaning and others to expect too great a return from their business efforts. The traditional exchange sector is primarily a function of family responsibilities and communal sharing. The notion of profit as understood in a Western business environment is not to likely exist in such a context. The notion of investment also appears to vary considerably from the traditional to the monetized system. That is, the relatively easily satisfied investment requirements of the traditional economic system are in sharp contrast to the usually difficult-to-meet investment requirements of commerce.

Colonization

The Marshallese have endured a colonial experience that has included economic and strategic exploitation. Former United States administrations must accept a certain amount of culpability for pursuing a development strategy that emphasized political and military objectives at the expense of important economic gains. As a consequence of these administrations, the Marshall Islands and other Micronesian countries are now experiencing an overwhelming economic dependency based on years of largesse that undermines the urgent need to construct a firmer economic base from which to pursue the espoused goal of self-reliance.

The colonial experience of the Marshallese differs markedly from the rest of Micronesia because of the U.S. military's determination to carry out nuclear testing and ballistic missile programs. Both programs have had enormous impacts on the people directly affected, as well as the nation as a whole. The monetary compensation paid to the nuclear-affected people and the rent paid to the Kwajalein landowners have had both positive and negative influences on indigenous entrepreneurship. On the positive side, the money has been used to start businesses or to reinvest in already-established businesses that needed additional operating capital. On the negative side, the money and other compensatory efforts have been associated with a loss in individual initiative to engage in either traditional or modern occupations. The huge sums of money involved contribute to the maintenance of an already artificially high standard of living and help to perpetuate a tendency to rely heavily on continued foreign assistance.

The Government

The level of indigenous participation and performance in the private sector can be influenced by government efforts to create a favorable commercial environment. The potential for impact in this regard is related to the government's development strategies, incentive programs, and the quality of the infrastructures created.

The overall economic development strategy, as expressed in the First Five Year Development Plan 1985-1989 and confirmed by government officials, relies heavily on foreign investment through joint partnerships between the government and foreign companies and on businesses owned and operated exclusively by the government. Although this strategy recognizes the importance of private sector growth to the development goals of the nation, it is expected that private sector entrepreneurs will capitalize on opportunities that occur as a result of government-sponsored businesses. Effectively, indigenous entrepreneurs are relegated to the secondary commercial activities that arise if these primary efforts are successful.

Evidence shows that the government has enacted some legislation directed at encouraging entrepreneurial efforts. However, little noticeable implementation exists of the programs constituted to provide such assistance. Some tax requirements appear to present appreciable constraints on small-scale indigenous entrepreneurs and no evidence has been shown of any concessionary rates that might promote local production of import substitutes.

Improvements are being made in the quantity and quality of the infrastructure needed to support commercial ventures. Improved electrical power and communications systems have benefited entrepreneurial activities, and better air and sea transportation systems are planned. The unreliability of these services and utilities has hampered indigenous business success in the past.

Commercial Environment

Two major impediments to economic development are the limited land available for commercial use and the extraordinary population growth experienced over the last several decades. The achievement of economic growth under these conditions requires that the productive capacities of available resources be maximized, particularly the vast ocean area that has yet to be adequately exploited.

The commercial environment in general is inhibited by an economy that suffers from several major imbalances: trade, employment, and aid. The tremendous trade imbalance underscores the popularity of imported goods and the insufficiency of exports necessary to minimize the disparity. Unemployment and underemployment are serious problems and are likely to get worse before they get better. The service-oriented public sector has been the preferred source of employment for many years, which accounts for its overexpansion. Finally, the government is unable to rely on domestic reveneus to support itself and must therefore depend, to a great exent, on external aid.

Nonproductive-oriented service and trade businesses dominate a private sector that contributes little to the real economic growth of the nation. Indigenous entrepreneurs find it difficult to participate because of the lack of venture capital and the introduction of strenuous competition. The financial services offered commercially are costly, and the Marshall Islands Development Bank has yet to assume a significant role in the promotion of indigenous businesses. The introduction of foreign ownership in some sectors may deter indigenous entrepreneurs because of the severity of the competition they must face.

Enterprises and Entrepreneurs

Indigenous and nonindigenous entrepreneurs were questioned about their personal backgrounds, business ventures, and problems related to commercial success. The general profile of indigenous enterprises that emerged from the survey data is that they are typically small, less than five years old, individually owned service or trade ventures, engaged in one or two economic activities, and rely primarily on family members as the work force. The nonindigenous controlled enterprises tend to be slightly larger, involved more in partnership forms of organization, and engaged more in industry.

The personal characteristics of the indigenous and nonindigenous entrepreneurs were similar in terms of age and education. The nonindigenous entrepreneurs reported more private sector work experience, while the indigenous entrepreneurs were more frequently involved in private and public sector employment simultaneously. In this way, government service was found to be an important source of investment capital for many entrepreneurs.

For the most part, indigenous entrepreneurs began their businesses with small initial investments and the assistance of family or friends. The average investment of nonindigenous entrepreneurs was found to have been slightly larger. These businesses also made more use of commercial banks, outside advice, and better recordkeeping systems than indigenous entrepreneurs.

The most frequently cited obstacles to business success were directly linked to Marshallese social and cultural practices. The dilemma encountered by entrepreneurs who must strive to control customer credit while at the same time honor traditional relationships is an example that has been associated with poor business growth, and even business failure. Other problem areas frequently mentioned were lack of government support, a customer pool characterized by limited buying power because of excessive unemployment, and a shortage of venture capital or the means to acquire it.

Recommendations

The following general recommendations are offered in view of the relationship between these research findings and the policy objective of removing the obstacles to indigenous entrepreneurial success:

1. The role that indigenous entrepreneurs are to play in the nation's economic development should be more clearly defined than presently found in the First Five Year Development Plan 1985-1989.

2. A foreign investment guide should be published that clarifies the types and amounts of foreign investment considered to be desirable, given the development role established for indigenous entrepreneurs

3. Ways to invest in the productive capabilities of indigenous entrepreneurs, such as concessionary tax rates and other forms of financial or managerial aid, should be explored.

4. High priority should be given to accomplishing the development objectives of creating small - and medium-scale businesses (Development Plan 1985:32), setting up model farms and businesses in the rural areas (Development Plan 1985:178), and providing a small business advisory service (Development Plan 1985:39-40).

5. Both formal and nonformal education programs that teach basic business and management skills should be promoted.

Chapter 1. THE MARSHALL ISLANDS

Introduction

Research Mandate

This study of problems related to indigneous business success in the Republic of the Marshall Islands was conducted under the auspices of the East-West Center's Pacific Islands Development Program (PIDP). A mandate from the Pacific Islands Conference, an association of Pacific island leaders, to conduct problem-oriented research was the genesis of PIDP's Indigenous Businesses Project. Acting as the Secretariat for the Conference's Standing Committee, PIDP undertook this study of indigenous entrepreneurship in the Republic of the Marshall Islands and similar studies in Tonga, Western Samoa, Fiji, Papua New Guinea, the Solomon Islands, and the Cook Islands.

Purpose

The advancement of Pacific island economies depends largely on maximizing the productive capacities of their respective private sectors. Accomplishing this objective has often been cited by development planners and political leaders as critical to building a prosperous nation. Unfortunately, however, the private sectors of most Pacific island nations have yet to become the cornerstones of economic growth that many had envisaged. In an effort to explain their sluggishness, those delegated to carry out the research focused their attention on the people who are believed to be the heart of private sector growth, the entrepreneurs. The notion that their presence is important to economic development has long been asserted, sometimes ignored, but seldom refuted. Arthur Cole, an economic historian, viewed the entrepreneur as the premier individual in modern economic history and the central figure in economics (Cole 1946:12). Psychologist Abraham Maslow characterized early popular opinion by claiming that "the most valuable 100 people to bring into a deteriorating society...would be <u>not</u> 100 chemists, or politicians, or professors, or engineers, rather 100 entrepreneurs" (Maslow 1965:203). Although Pacific island societies can be viewed as deteriorating only in the sense that once strong traditions are giving way to new relationships, Maslow's meaning remains unmistakingly clear. A society in dire need of positive change agents should look to its entrepreneurs.

This study had both pragmatic and academic purposes. Pragmatically, it was meant to provide valuable information and insight to local planners and policymakers who were interested in affecting the supply and performance of entrepreneurs through assistantship programs, technical training, school curricula development, or legislative action. The study's analysis of indigenous entrepreneurs as business people operating within the sociocultural, economic, and political contexts of the Marshall Islands has supplied information from which development strategies for involving them in the economic development process can be created.

Academically, the study was an effort to explain the supply and performance of entrepreneurs in order to contribute to theory and model building. Theories of entrepreneurship are numerous and exist in most social science disciplines, although none are very well developed. What was once the exclusive domain of economic historians has been invaded by anthropologists, sociologists, psychologists, and others. Most studies to date have been exploratory attempts at identifying the variables most relevant to explaining the occurrence and subsequent behavior of entrepreneurs. Theories that emerged, however, often evolved from single - discipline approaches, the psychological approach being the most common.

The entrepreneurship literature is heavily comprised of studies on the psychological and personal attributes of successful entrepreneurs. Increasingly, however, researchers are understanding the need for an interdisciplinary approach that explains entrepreneur formation as a consequence of the interactions of environmental forces rather than dependends strictly on psychological factors. This study has attempted to further understand the entrepreneur as a phenomenon that is best understood when viewed at the crossroads of several disciplines by analyzing subjects within a framework that recognize the potential influences of sociocultural, economic, and political environments.

To further clarify the need for this study to focus on indigneous entrepreneurs, it is necessary to comprehend the nature of business success as it was commonly perceived at the time of this fieldwork. Although success is a relative term, by almost any standards it was apparent that only a handful of private sector enterprises in the Marshall Islands had flourished. Moreover, the majority of these successful entrepreneurs were non-Marshallese. Since island leaders want to promote self-reliance through greater indigneous participation and achievement in private sector endeavors, they explicitly articulated the need for research to concentrate on problems faced by indigenous business people. Therefore, this study examined private sector participation and performance by concentrating on indigenous entrepreneurs to identify those factors that foster or impede the participation and success of Marshallese.

Country Profile

Location

Eastern Micronesia consists of two island groups: the Marshall Islands and Kiribati. The Republic of the Marshall Islands, along with the Republic of Belau and the Federated States of Micronesia, is part of the Trust Territory of the Pacific Islands, while Kiribati is not. The Marshalls are an archipelago of 29 atolls and 5 coral islands forming two roughly parallel chains that stretch northwesterly from just above the equator through 910,000 square kilometers (350,000 square miles) of mid-Pacific waters. Known as the Ratik (sunrise) and Ralik (sunset) chains, it is not uncommon for islands to stretch along 10 or 20 miles of a reef. These islands total only 192 square kilometers (74 square miles) and are the past, present, and future to almost 35,000 Marshallese people.

History

As part of Micronesia, the Marshall Islands have been wards of Spain, Germany, Japan, and the United States. Spain's influence, however, was centralized in the Marianas and never reached the Marshall Islands. Real outside interest in the Marshalls began with missionaries and German trading companies in the mid-1800s. During this era, commercial interest in copra set the stage for the adoption of a monetized economic system that enabled the satisfaction of growing consumer demands. German control lasted until the outbreak of World War I, when Japan occupied much of Micronesia. The often referred to "economic miracle" that the Japanese performed in Micronesia during their occupation involved the Marshall Islands only as a bit player. Copra trade and other commercial activities continued to flourish, although they were somewhat restricted by administrative regulations. World War II brought devastation and confusion that sent Micronesia's burgeoning economy into a tailspin. The new administration, the U.S., initially was unable to articulate any meaningful development strategy and, hence, the economy languished for years. Partially revived by the infusion of huge sums of money and access to U.S. federal programs for the past 20 years, the economy still remains woefully underdeveloped. The U.S. administration did, however, manage to accomplish its military objectives. The U.S. "strategic" Trusteeship Agreement with the United Nations denied other countries access to Micronesia for the past 38 years. Specifically in the Marshall Islands, the U.S. has also managed to carry out a nuclear testing program by expropriating the Enewetak and Bikini Islands. The U.S. continues to lease the Kwajalein Atoll, which it uses to test missile guidance and anti-ballistic missile defense systems and to conduct research related to the Reagan administration's Strategic Defense Initiative, more popularly known as the "Star Wars" defense system.

People and Culture

The Marshallese are in many respects similar to other Pacific Island peoples, with of course, a few major differences. Perhaps to better establish some sense of their identity, it is worthwhile to reflect briefly on selected aspects of Marshallese life.

The culture varies only slightly from atoll to atoll and, together with the language, distinguishes Marshallese from other Micronesian groups (Alexander 1978:18). They are a matrilineal society with the highest traditional authority invested in males, a practice that began long ago and continues to this day. Although less obvious now, class distinctions based on inherited status are still observed.

Thanks to past colonial administrations, common diseases have been eradicated and better health care services instituted. However, an unfortunate sequel, to better medical care and hygiene has been a soaring population growth rate, one of the highest in the world. The population of the Marshall Islands has almost tripled since the mid-1930s and continues to grow at an alarming rate. A 1980 census reported the population to be 30,873, with 11,791 people living on Majuro, the administrative center, and the most healthy populated atoll. Almost 7,000 people live on Ebeye, a 30-hectare (75-acre) island located within sight of the Kwajalein Missile Range. It is the most densely populated island in the Pacific, owing to employment opportunities on the missile range that attract outer islanders and their families. This migration of outer islanders to Ebeye and Majuro in search of employment opportunities and new lifestyles has resulted in the urbanization of almost two-thirds of the total population. The remainder live scattered throughout the country as much smaller communities under more isolated conditions.

Across Micronesia there are wide variations in language and culture in some cases, within a single island group distinctly different languages are spoken. Among the Marshallese only one language, related to the Malayo-Polynesian family, is spoken. However, two dialects are spoken in the Ralik and Ratak island chains. Although Marshallese is the preferred language, English has become the official language of government and commerce. The practical need to communicate with the rest of the world has made English indispensable and popular.

The missionaries were the first to attempt to modernize the Marshallese. They began by producing a Marshallese orthography to better propagate Christianity. Since that time, the islanders have taken to Western religions, as evidenced by the success of early and more recent proselytizers. Protestant missionaries got the earliest start and were soon joined by Catholics. Until recently, these two sectarian groups shared the converts, with a slight edge going to the Protestants. Today, however, residents are able to choose from among many religions: Independent Baptists, Assembly of God, Jehovah Witnesses, Bahai, Seventh-Day Adventists, and Church of Jesus Christ of Latter-Day Saints (Mormons). Unlike some other Pacific Island countries, though, there does not appear to be a recognizable link between church authority and political or economic power.

Outside commercial interests which resulted in the influx of a large number of foreigners, have created a society that is ethnically less homogeneous than that of other Pacific islands. Miscegenation during the colonial periods has significantly broadened the gene pool, creating a majority population that is of mixed blood. For a few highly regarded families, whose members hold prestigious positions today as political and business leaders, their descendency from early foreign settlers is well known.

Rapid growth in the number of nonindigenous residents has contributed to the ethnic variability of the population. Laborers are often imported for the purpose of filling short-term employment needs and end up as long-term residents. Thus, in addition to Marshallese the country's ethnic mix includes North Americans, other Pacific Islanders, Filipinos, and Japanese.

Political Conditions

The Marshall Islands was granted a separate status under the Trusteeship Agreement and on 1 May 1979 became the Republic of the Marshall Islands. The constitutional government has an elected president as head of state, who appoints and overseas a Cabinet of Ministers. The bicameral legislature is made up of the Nitijela and the Council of Iroij (chiefs) and acts primarily as a consultative body. The judiciary includes a Supreme Court, High Court, District Court, and Community Courts. The daily chores of the administration are the responsibility of the Public Service Commission, which is headed by the Chief Secretary.

Two recognized political parties exist: the majority party, Our Islands (Ailong Kein Ad); and the minority party, Voice of the Marshallese (Ainikien Dri Marshall). Basically, these two parties represent the opposing interests of traditional ruling elites. Today's political loyalties typically coincide with this traditional rivalry.

Economic Conditions

In simple terms, the Marshall Islands economic situation can be described as a case of disproportionate sectors within the country and a huge trade imbalance with the rest of the world. The overexpanded public sector relies almost entirely on U.S. and other foreign aid, while the private sector remains underdeveloped. Over the years, government employment has gained a reputation for being carefree and secure, making it the preferred occupational choice. This overwhelming preference for government employment has rendered business careers and traditional occupations less attractive to young people because of the financial uncertainty and lack of prestige associated with either lifestyle.

In recent years, the government has taken steps to rectify the imbalances by directing its resources to the construction of infrastructures that it believes will lead to the expansion of the private sector. A new power plant and dock have been built in the major population center, Majuro. Runways now exist on all major outer islands and regular air service appears to be imminent. The outer island shipping service is expected to be substantially upgraded. The government is encouraging foreign investment through joint ventures as a means of bringing in needed investment capital and expertise. The government itself plans to stimulate growth by starting businesses of its own, with the "spin-offs" expected to go to the private sector.

The government, however, faced serious financial difficulties that required a reduction in public services, thus enabling the diversion of local revenues to debt services and prior year expenditures. The proportion of the budget allocated for this purpose was expected to rise from 31.7 percent in fiscal year 1982 to 57 percent in fiscal year 1984 (Carter 1984: 457). In anticipation of the Compact of Free Association period, when new financial arrangements take effect, the government has borrowed heavily overseas to finance the construction of a power plant, a fuel farm, and the start of an airline (Marshall Islands Journal, 6 August 1984). As the termination date of the Trusteeship Agreement continues to drift into the future, these financial obligations ultimately could seriously debilitate the government's effectiveness.

The private sector's contribution to the nation's wealth has been minimal over the last several decades. A majority of the businesses are merchandising and service types that are temporary stops for government employees' wages that eventually go to foreign suppliers for more consumer goods. Except for the Tobolar copra-processing mill, the country has yet to develop a value-creating, productive capability. The small industrial sector that does exist consists of several construction companies, a few fishermen, bakers, tailors, and those who are willing to produce copra.

The government is attacking the nation's economic impotence in a bold way. In addition to the infrastructure improvements mentioned, it has become a partner to several new ventures: a milk factory (Marshall Islands Journal, 5 July 1985), a tuna canning plant (Marshall Islands Journal, 13 September 1985), and a fuel farm (Marshall Islands Journal, 7 December 1984). The government has also decided to generate more revenues through a program of licensing off-shore banks (Marshall Islands Journal, 16 November 1984). A bevy of other development projects ranging from model business enterprises in rural areas (Development Plan 1985: 178) to a casino resort (Development Plan 1985: 243) are included in the recently approved First Five Year Development Plan 1985-1989.

Problem Statement

The 1947 United Nations Trusteeship Agreement that gave the U.S. authority over, and responsibility for, Micronesia is destined to be terminated. A Compact of Free Association will define the new relationships between the U.S. government and the emergent political entities, the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Belau (Compact of Free Association 1982). The compact guarantees greater autonomy for the Marshallese in domestic and foreign affairs, while the United States will continue to be responsible for defense and financial support. Since the Republic of the Marshall Islands government took control in 1979, authority and responsibility for the nation's welfare has resided firmly in the hands of Marshallese elected and appointed officials. The duty to promote and protect the interests of Marshallese people in whatever course that development may take is now almost totally under their control. However, dangers are present. Perhaps the most serious threat is exemplified by the plight of native Hawaiians and American Indians, now second-class citizens, who have lost most of their lands and have little economic or political power. The nation's development plan relies heavily on outside assistance and foreign investment. A number of non-Marshallese have already become prominent in the business community and more are likely to follow. Although many Marshallese have taken on the challenge of business, real growth continues to elude most. Those who have experienced success grow stronger, a fact that may signal a widening of the gap between Marshallese "haves" and "have nots." Thus, to ensure that benefits of economic growth accrue to the local population in an equitable manner, increased participation and better performance by Marshallese engaged in economic ventures is imperative.

A major aim of the government is to promote economic growth by encouraging the development of a more vibrant private sector. A healthy private sector is viewed as an essential part of an economic base from which greater self-reliance can be attained. Accordingly, the government has proclaimed that steps are being taken to create the infrastructure and incentives needed to stimulate business growth and entrepreneurial activity. The government hopes that these efforts will help turn the tide of attitudes and behaviors away from excessive dependence on the government and toward greater reliance on personal initiative in commercial ventures as a means of achieving more individual autonomy. Unfortunately, the Marshallese are faced with many problems: limited land resources, population growth and migration, high unemployment, a huge trade imbalance, a large public sector, and an underdeveloped private sector. Additional problems include the heavy reliance on foreign aid and the aftermath of decades of colonial administrations. Hopefully, the outcome of this study will be the identification of prominent factors that inhibit or induce the participation and performance of Marshallese in commercial ventures. The findings and recommendations should be of value to those reponsible for directing the Republic's development efforts through legislation, development plan implementation, the creation of managerial assistantship programs, technical training, or school curricula development.

Data Collection

The Fieldwork

The fieldwork began in early November, 1984 and continued until late January 1985. The bulk of the interviewing was done on Majuro Atoll, the site of the nation's capitol and the majority of the businesses. In order to capture some sense of the conditions and problems affecting outer atoll business people, additional survey work was done on Ebeye, Arno, and Kili.

As with most research on entrepreneurship, this study was exploratory. Three primary reasons for this approach were: 1) the notable lack of concurrence among researchers with respect to a theoretical framework that adequately explained the impact of various environmental factors on the supply or performance of entrepreneurs

(Kilby 1971); 2) the general agreement among researchers that a major obstacle to establishing a paradigm is that entrepreneurship is a culture - and location - specific phenomenon; and 3) no similar study has previously been done in the Republic of the Marshall Islands.

The basic strategy was to: 1) select a representative sample of indigenous businesses, 2) interview the owners and/or major decision makers of those businesses, and 3) interview government officials, bankers, and educators who were well suited to comment on private sector growth problems and issues. These data and information gathered from government records, public documents, local publications, informed citizens, and scholarly literature constitute the sources used in the following analyses.

Selecting a sample that would represent the wide variation in Marshallese business characteristics presented a difficult problem. First, privately owned commercial ventures ranged from large department stores, by Marshall Islands standards, to small businesses that gross only a few hundred dollars a year. Second, although the majority of businesses are located in the urban centers of Majuro and Ebeye, the fact that the government's development plan directs so much attention toward the outer atolls demanded their representation. And third, to enable comparative analysis between indigenous and nonindigenous entrepreneurs it was necessary to include businesses run by non-Marshallese. Thus, the problem became one of sampling in such a way as to include a variety of businesses: rural and urban, large and small, indigenous and nonindigenous.

The selection procedures differed for the Majuro and outer atolls sample. The Majuro sample was drawn from a list compiled of all the known businesses on the atoll, the primary source of the list being business license applications in 1985. However, because many Majuro businesses operate without a license, additional sources were required to make the list as inclusive as possible. Names of businesses were taken from articles and advertisements in the Marshall Islands Journal, the nation's only newspaper, for up to six months prior to the survey. A list of Majuro businesses that was compiled for a Micronesian Occupational Center study was contributed by a College of Micronesia staff member. Finally, the research team drove from one end of the atoll to the other to locate businesses that had not been identified by any of the other sources. This information was combined to make a master list that included, for each business on Majuro Atoll identified, the name and ethnicity of the owner and/or manager, the approximate size of the business based on an estimated number of workers, and the approximate age of the business.

With this information, the businesses were plotted by estimated size and years in business for the geographic regions that make up the Majuro Atoll, namely, Rita, Uliga, Delap, Long Island, and Laura. Sample selections were supposed to include cases from the four possible combinations using the dimension size (i.e., small and big) and age (i.e., old and new) for each geographic region. However, early in the interview stage it became apparent that some owners or managers were not as interested in being interviewed as had been hoped. The problem led to a less stringent application of the sample selection procedure than desired. The objective of including variation in the sample based on size, years in business, location, and ethnicity was accomplished, but with less impartiality and a greater degree of self-selection than the original procedure would have allowed.

It was not possible to use the same sampling strategy for the outer atolls. The problem arose because few of the businesses outside of Majuro were licensed, and travel to all of the outer islands to compile such a list would have been impractical. Fortunately, manpower and money allowed sampling and interviewing from three outer islands: Ebeye, Arno, and Kili. Because many differences exist between the outer islands, one atoll cannot be described as typical. The three that were chosen are each unique; as an amalgam, they hopefully have rendered a fair representation of the outer island situation.

Ebeye is the second largest urban center in the Marshalls, with a population concentration comparable to a New York City borough, and is a mere four miles from the major U.S. weapons testing center in the Pacific, the Kwajalein Missile Range. Of the 80-plus businesses located on Ebeye, only six were interviewed. Unfortunately, the research assistant that was sent to conduct the interviews became ill shortly after arriving and was unable to accomplish any more. Arno, on the other hand, is an atoll close to Majuro, a major source of copra for the mill in Majuro, and the site of several small private businesses. Since only a handful of businesses are located on Arno, the research assistant that was sent there was able to interview all but one proprietor. Kili's uniqueness stems from the fact that for centuries it was only occasionally populated because it lacks a lagoon, the equivalent of a food warehouse in island societies. Nevertheless, for almost 40 years it has been home to the Bikinians who were forced to migrate so that the U.S. could continue its nuclear experiments program using their home atoll. The Chief of Police on Kili provided a list of 21 businesses that had paid their license fees; one-half of them were interviewed.

The emphasis during the early stage of interviewing was to concentrate on indigenous businesses. During the last few weeks the emphasis was placed on nonindigenous businesses to ensure their inclusion in the sample for comparative purposes. All of the nonindigenous entrepreneurs interviewed had businesses in Majuro. The main criterion used in nonindigenous selection was involvement in a commercial activity comparable in size and nature to the indigenous businesses that had already been interviewed.

Three Marshallese were hired to do the bulk of the interviewing. All three were at least high school educated, experienced in business, and fluent in English. Each person observed interviews and conducted several supervised interviews before being allowed to work independently. Due to a variety of circumstances, at least two members of the research team were present during most of the interviews.

The interviews were typically held at the business site and lasted for about two hours. Subjects were asked questions about themselves, the business or businesses they ran, and the commercial environment of the Marshall Islands. In addition, each was given a list of 18 statements, to which they indicated their strong agreement, strong disagreement, or an intermediate position. The purpose of these items was to gain some understanding of the repondent's feelings with respect to selected management orientations. Marshallese-speaking subjects were given the option of using English or Marshallese during the interview. Similarly, the 18-item value orientation survey was available in both languages. In the case of nonindigenous businesses, all of the surveys were done in English. After each interview, the interviewer and I used the completed schedules to discuss the interview in detail. This was done to clarify our understanding and to consider nuances that might not have been evident from merely reading the completed interview schedules.

As mentioned above, some of the business people we attempted to interview declined the request. Some were fairly straightforward and direct with their objections, saying that they did not have time, were not interested, felt the study was politically motivated, or objected to the particular researcher assigned to do the interview. Most were less direct in their objections; in several cases, successive appointments were conveniently forgotten. In a few instances this behavior was understandable. In our desire to achieve variation we had hoped to interview a few business people whose ventures were close to ruin. No amount of cajoling was enough to convince these people to put aside personal embarassment in order to make a contribution to the study by talking about their experience. In other cases, the reasons were more difficult to discern. In general, most of these business people wanted to keep their business dealings private for fear that the information divulged might somehow be used against them by other private sector business people or by an agency or person in the government.

Analysis

The overall aim of this study was to identify obstacles that prevent indigenous entrepreneurs from achieving business success. One dimension of the approach chosen was to scrutinize the entrepreneur's environment in search of possible explanatory relationships. Accomplishing that task required describing the manner in which specific aspects of Marshallese sociocultural, economic, and political systems affect entrepreneurs' efforts at business creation and maintenance. Underlying the analyses are theories of economic development, as well as sociological, psychological, and anthropological explanations of the occurrence and performance of entrepreneurs. However, it was determined unnecessary to summarize that literature for the purposes of this report.

Although the term "entrepreneur" tends to evoke the image of a special brand of business person, this study required a less discriminating definition. In fact, all of the Marshallese engaged in business were attributed some modicum of entrepreneurial spirit by virtue of their decisions to tackle the challenges of business. This study found Cole's definition to be sufficient, that is, an entrepreneur is an individual who undertakes "to initiate, maintain, or aggrandize profit oriented service" (Cole 1959).

Since this research project was designed to be an exploratory study, the overall analysis was accomplished by using descriptive and inductive methods to arrive at generalizations. The conceptual strategy was to view the entrepreneur and the entrepreneur's environment as the two major sources of obstacles to business success. The analysis of the entrepreneur as an individual relied on an historical treatment of cultural factors and colonial experiences, and the personal data garnered through interviews. Analysis of the sociocultural, economic, and political environments also relied to some extent on historical events, but depended more on documents and data collected while in the field, as well as scholarly works. The objectives of the various analyses were: 1) to identify historical and cultural antecedents related to business performance, 2) to describe the political environment and assess its impact on entrepreneurship, 3) to describe and evaluate the commercial environment with a view toward indigneous participation, and 4) to characterize entrepreneurs and their enterprises in the context of the environment. The question fundamental to the analysis was "what factors operated to control the supply and performance of indigenous entrepreneurs?"

The chapters that follow deal in detail with each of the areas of analysis mentioned above Chapter 2, "The Marshallese Traditional Society," examines Marshallese traditional structures. The essence of its thesis is that the Marshallese maintain a strong preference for traditional forms of social, economic, and authoritary forms of organization. These structures, however, are based on relationships that are incompatible with those considered to be optimal in a monetized economic system and a democratic political system. Chapter 3, "Colonization of the Marshallese," is a look at how colonial experiences have affected the Marshallese. The U.S. Trusteeship period is emphasized and the impact of the U.S.-sponsored dependency relationship and welfare conditions now present is stressed. Chapter 4, "The Government and the Commercial Environment," discusses the government's efforts and policies directed at creating a viable commercial environment. The focus is on how indigenous entrepreneurs can benefit from the government's development strategy. Chapter 5, "The Commercial Environment," is an overview of the Marshall Islands economy and an analysis of the commercial sector's viability. Areas of major importance to indigenous entrepreneurs, such as competition and capital formation, are discussed. Chapter 6, "Enterprises and Entrepreneurs," presents descriptive data pertaining to the entrepreneurs interviewed and their enterprises. Chapter 7, "Summary, Conclusions, and Recommendations," summarizes the report's findings and offers recommendations to policymakers that may be useful in stimulating indigenous entrepreneurship and removing obstacles that inhibit entrepreneurial success.

Chapter 2. MARSHALLESE TRADITIONAL SOCIETY

Introduction

The Marshallese have been experiencing changes in traditional lifestyles since shortly after the Carolinians sailed eastward to inhabit the islands. This change process has been hastened over the past 100 years by the culture-modifying exploits of German, Japanese, and American colonizers. As a result, the traditions and customs of the pre-contact era are under constant challenge in a changing environment. Marshallese who have commercial aspirations often find that operating a business requires being at the uncomfortable cutting edge of the change process. For example, a business person is expected to respect Marshallese traditions by observing customary practices. At the same time, however, the person recognizes that ties with the past must be severed in order to overcome the difficulties of Western-style business. That is, the demands of business frequently strain interpersonal relationships because of contradictions between the requirements of business and customary practices. The most difficult challenge of the indigenous entrepreneur is to discover ways to establish relationships that result in the least amount of disharmony. It was the Marshallese historical experience that supplied the antecedents for today's widespread ambivalence with respect to the old and new ways of life. That experience is the major theme of Chapters 2 and 3.

The general aim of this chapter is to describe Marshallese traditional sociocultural, authority, and economic structures. This sociological and anthropological background analysis is essential because these traditional structures underlie many of the problems that indigenous entrepreneurs must contend with today.

Traditional Political Organization

In traditional Marshallese society, land and the control over its use were central elements of political organization (Alexander 1978:98). The system was based on "the relations of paramount chiefs to one another; to the lesser chiefs whom they controlled, and to the people of their own kin group and those subordinate to them" (Mason 1947:33).

Since the time of the earliest explorers and traders, when native feudalism was the most highly developed, the Marshallese were divided into chiefdoms. Typically, a single chiefdom consisted of one atoll or several atolls within one of the chains (Alexander 1978:19). Prior to intervention by the German administration, occasional wars were fought between chiefdoms for the purpose of gaining land and subjects. Although the wars have ended, the chiefdoms remain and the struggle for land and subjects is waged in the courtrooms instead (Marshall Islands Journal, 2 November 1982).

This system of political organization worked because land is a scarce resource and is the primary source of subsistence. "Political leaders such as the Paramount Chiefs (Iroij Laplap) and lineage heads (Alab) derive their living and their power from their control over access to the use of land. Whereas a Paramount Chief controls multiple pieces of land, each lineage head controls one or perhaps several parcels, known as weto(s)" (Alexander 1978:99-100). Thus, control over access to land was tantamount to control over life itself, as long as no alternative means of providing for life's necessities was available (Alexander 1978:99).

Within the clan, the person entitled to the chief's position was the oldest of the ranking lineage. Within the country, "chiefs, by persistently aggressive action, achieved the domination of many atolls" (Mason 1947:33). It has been suggested that in pre-contact times population densities may have reached such extreme on some atolls that food shortages prompted conflicts (Connell 1983:1). The "complex resource shortages resulted initially in competition, conflict and warfare and secondarily in inter-island exchanges and the redistribution of both resources and population" (Alkire 1978:136). Eventually, a chief from Ailinglaplap was able to gain control over most of the Ralik chain. In the Ratak chain, however, no such centralization of power has ever occurred. In fact, during pre-colonial times rival chiefs often lived on the same island (Connell 1983:1). According to Kiste, the paramount chiefs still have a great amount of influence; they are feared by some and many believe they have the "ability to exercise supernatural sanctions" (Kiste 1983:27).

Traditional Sociocultural Organization

Land Tenure

The Marshallese system of land tenure has changed somewhat over the years but perhaps remains the single most important aspect of Marshallese tradition, underlying much of what happens in the social, political, and economic arenas of today. Change has been the result of both internal and external forces. Colonial administrators' attempts to solve land-related problems were the impetus for many modifications and are treated in the next chapter.

When one considers that only 192 km2 (74 mi2) of the 975,000 km2 (375,000 mi2) comprising the Marshall Islands are above sea level, it is not surprising to learn that land is of paramount importance. During the earlier days, the limited agricultural economy depended more heavily on the productive use of the land to provide the necessities for daily living: coconuts, pandanus, breadfruit, arrowroot, and taro. Among the Marshallese, land is said to be sacred because of its scarcity and the untold lives lost in wars between "aggressive chiefs striving continually to maintain and increase their holdings" (Mason 1947:146). It is such a valuable asset that land disputes were, and still are, almost always the cause of family feuds, lineage schisms, and even murder within a family (Marshall Islands Journal, 5 April 1985). The respect that people have for the land tenure system stems from their belief that it "provides for all eventualities and takes care of the needs of all of the members of the Marshallese society. It is, in effect, its social security" (Tobin 1958:2). And, as was once observed by a long-time government anthropologist, it is so vital to people that they "are always plotting to obtain more land" (Tobin 1958:2).

The traditional concept of land ownership is different today, partially due to foreign intrusion.

> In the pre-contact period, however, the paramount chief (iroij lablab or iroij elap), that is, the senior ranking member of the senior lineage of the ruling clan (jowi-Relik, jou-Radak), was the acknowledged owner of all of the land and all of the movable and fixed property in his realm. This socioeconomic system is roughly analogous to the feudal system of pre-contact Polynesian cultures, with reciprocal rights and obligations of all of the classes within the framework of the society (Tobin 1958:3).

The usufructuary land rights of individuals were usually honored by the chiefs, and subjects were seldom evicted, except in cases of serious offenses against a chief. It was prudent for a chief to cultivate harmonious relations with his followers because the "more commoners (kajur) a chief had in his realm, the more power he possessed, for in them he possessed a large reservoir of human beings to draw upon for labor and warfare" (Tobin 1958:3).

Although colonization, migration, and urbanization have altered the way in which the Marshallese live, the weto is still the principal landholding. True only to some extent in the urban centers, but still common in the outer islands, the "typical Marshallese land-holding, or weto (wato) consists of a strip of the land stretching from lagoon to ocean and varying in size from about one to five acres in extent" (Tobin 1958:5). The parcel may be divided into smaller lots, with each strip extending transversely across the island. In this manner, residents of each strip have access to the lagoon, and the outer reef, and all environmental variations found in between. Dwellings are most often found on the lagoon side of the parcel while the ocean side is used for crops (Mason 1947:146-47). Each parcel of land is usually occupied by a single extended family. "A typical settlement of 150 to 200 people consists of 25 to 30 separate lots of varying width. In some villages, all land is controlled by one paramount chief; in others, especially larger villages, ownership is divided among two to five royal families" (Mason 1947:147).

The allocation of land is under the control of the paramount chiefs. Each extended family, known as a bwij, that acknowledges feudal allegiance to the iroij is entitled to land. The recognized leader of the bwij, the alab, is the land supervisor and is responsible to the iroij for its use. The alab may be responsible for many lots occupied by members of his extended family. The lineage members (bwij) typically have rights to two or more land parcels and often choose to live on one while exploiting the resources of another by making copra and growing food (Mason 1947:147).

The people who work the land, the ri jerbal, are under the control of the royal family and paramount chief and "are actually little more than tenants in a legal sense...However, their rights of usufruct are hereditary in the female line, following Marshallese custom; as long as the tenants maintain the property in good condition and recognize the chief's authority in terms of respect, obedience, and tribute, they may not be dispossessed, and tend to regard the land as their own" (Mason 1947:147-148). Thus, the Marshallese practice a system of land rights inheritance based on matrilineal descent, where lineage members are those who trace descent from a common ancestress (Tobin 1958:8). The land itself inalienably belongs to the matrilineage, which controls the use and inheritance of land, rather than the individual (Alexander 1978:19).

The lagoon and its wealth of resources were considered the property of the paramount chiefs. They had the right to claim reefs as personal property and often did so if fishing around them was good. Prohibiting others from fishing in these areas prevented the depletion of fish and other resources, thus having the effect of a conservation measure. This practice was ended by the Japanese who declared the reefs open to everyone (Tobin 1958:33). Traditionally, the land rights of commoners extended toward the reef to the area where people were able to stand and fish with poles. The commoners also enjoyed the right to exploit the lagoon area unless a particular tabu was in effect (Tobin 1958:34).

Kinship

The extended family, or bwij, is the most important kin group in Marshallese society. There are no clear parameters that enable absolute clarification of bwij membership, hence, it is most easily understood as a segment of the Marshallese clan (Mason 1947:23). According to Spoehr (1949), the bwij is "composed of all those individuals related through the maternal line to a known ancester to whom an actual genealogical relation can be traced" (Spoehr 1949:155). The head of the family is the alab, usually the oldest or most capable member, who may be either a man or a woman. The alab is responsible for the land and is in charge of the workers (dri jerbal). S/he collects a share of the food produced on the land and a portion of the money made from copra sales. It is also the alab's duty to represent the family in relations with other members of the society (Tobin 1958:6). Families vary in size from five to 30 people. The larger bwij usually occupies several dwellings that may be on adjacent parcels on nonadjacent parcels on the same atoll, or on another atoll. This extended family is the fundamental social unit of the Mashallese society, which serves as the host to all major celebrations. It is "also very often the work group, when the combined efforts of a number of people are required for a short time, as in fishing, house-building, or preparation for a feast" (Mason 1947:24).

Extended families (bwij) are linked together to form clans (jowi/jou) by a tradition of descent from a common female ancestor. The main functions of the clan are to regulate marriage by imposing a taboo on intraclan unions and to determine the rights of property and chieftainship through inheritance of clan membership (Mason 1947:37). A person's place in the clan is determined by his mother's relation to other clan members. Although it is possible to trace clan origins to particular atolls, clan members can now be found living almost anywhere in the country (Mason 1947:31).

Clan leaders were the chiefs that formed the traditional authority figures. In pre-contact times:

> Each clan had a number of chiefs or headmen, who were the leaders. Where people of several clans inhabited a single island or atoll, the chief who had the strongest following exacted respect and tribute from lesser chiefs. Like the headman (alab) of the bwij, these chiefs were usually the senior male, by primogeniture and maternal descent, of the highest ranking family. They held title to any landed property that the group possessed, and exercised considerable authority over the people who lived on that land (Mason 1947:32-33).

Traditional Economic Organization

Comprehending the Marshall Islands economic system requires an understanding of the traditional system and the introduced, or monetized, system. Although the systems are sometimes in agreement (e.g. in determining what should be produced) they are just as likely to be in disagreement (e.g., in determining what price should be paid). Problems stem from the fact that the sytems are not based on the same set of postulates. Consequently, the techniques used to analyze monetized economic systems may not always be sufficient to explain the behavior in emerging economic systems that often operate on both traditional and modern principles. What appears to be rational behavior in one system may be viewed as irrational in the other. Since, however, growth and expansion of the Marshall Islands economy presupposes greater involvement with and continued reliance on modern economic systems, it becomes practical to evaluate the Marshall Islands economy as if it were simply a monetized system. Thus, an understanding of the traditional economic system is necessary to cope with the problem of adequately explaining what may appear to be irrational behavior. This is particularly true in the case of Marshallese because of a continued strong traditional orientation in the people's lifestyles. The following is a presentation of the key elements of the traditional subsistence economy as found in the Marshall Islands. The description of the traditional economy system is based upon Henry Schwalbenberg (1984:2-5) analysis of the work of two scholars of subsistence Pacific Island economies, E.K. Fisk (1982) and Marshall Sahlins (1971).

> Schwalbenberg states that the subsistence economy of Pacific islanders can be categorized as a production sector that is controlled and organized to serve individual family needs, an exchange sector that is governed by kinship and tribal political organization to serve wider community needs, and an investment sector that is governed by nature. In this economic system the production and distribution of goods are determined not by wages, prices, and profits in the normal sense. Instead, they are

determined by such nonquantifiable factors as the satisfaction that comes from fulfilling kinship and other traditional responsibilities, the status and recognition that meeting these responsibilities brings, and the inconvenience that work and the sacrifice of leisure entails (1984:2).

Production Sector

In the traditional Marshallese setting, the subsistence economic system is based on the family, which forms the basic unit of production and consumption. The production sector is often a group of family units, each of which produces all that is needed by family members. The family decides which goods to produce and how labor and other resources will be allocated for the typically singular purpose of satisfying family needs. The family is able to control the economy because it can provide all the necessary requirements. It has control over labor and access to required technology and needed resources.

The Marshallese traditional method of dividing labor is by sex. Men are responsible for building canoes, houses, and a variety of tools. Their duties also include fishing; cultivating gardens; gathering food; and making ropes, fishnets, lines, traps, and lashings for canoes and houses (Spoehr 1949:139-44). Women care for the children, prepare and preserve foods, weave mats and baskets as needed, and provide for the family's clothing. They gather the coconut husks, which are used as fuel for cooking and keep the living compound well manicured (Spoehr 1949: 144-48). Men and women sometimes work together, each performing some task in a particular process. For example, women cut the pandanus and make the thatch needed for a house while men fix the thatch to the house. Likewise, the production of copra requires the completion of a series of tasks. Typically, the men husk and crack open the coconut shell while the women cut the meat and arrange it for drying in the sun (Spoehr 1949: 148). Thus, because an average family consists of both males and females working within clearly defined roles, it can benefit from the traditional divisions of labor in all types of communal work practice.

The technological requirements to fish, cultivate a garden, produce copra, etc., are easily satisfied. The knowledges, skill, and tools required to perform these tasks are part of a cultural heritage shared by all Marshallese. With the exception of navigation, and perhaps a few other very special skills possessed by only a few families, all Marshallese have adequate opportunity and usually sufficient motivation to learn the various production methods.

Each family is guaranteed access to needed resources because of usufructuary rights to the land and sea. As mentioned earlier, landholdings are customarily narrow stretches from the lagoon beach across the island to the ocean beach. This system of land allocation ensures that each landholding unit has available for its use all possible variations in soil and flora commonly found on atoll islands. A weto consists of one or more households. Wetos are uninhabited and used strictly for agriculture purposes. The privilege to work this land is given by the iroij, who is paramount chief and landowner. Each family unit in the clan is, however, entitled to the use of a land parcel and is free to determine how it will utilize these resources (Alexander 1978:19-20).

Although families control the labor, technology, and resource requirements for production, they are not entitled to all that is produced. The proceeds are distributed among the chief, the head of the clan, and the workers. Tobin (1958: 11-12) explains more precisely how the distribution system operates:

> Members and associated members of the lineage (bwij) work the land.... The head of the lineage, the Alab, or his representative, is in charge of the land and the workers (dri jerbal) on the land. He collects a share of the food produced on the land as well as a share of the money received from the copra sales.
>
> The paramount chief who is the head of the ruling lineage also receives a percentage of the money received for each pound of copra produced on land in which his suzerainty is recognized.... 'First fruits' and a share of the food taken from the land and sea are also presented to him, formally and informally.
>
> During the pre-colonial trade period, foreigners quickly realized that the traditional land tenure and authority system was ideal for maximizing production. For several decades before Germany became the official protector of the Marshall Islands in 1887, foreign traders found it advantageous to recognize the paramount chiefs as the undisputed owners of all of the land (Mason 1947:150). "The chiefly landowners (iroij) simply ordered their tenants to make copra on the land to which they had given these tenants use rights. The chiefs permitted the tenants to keep part of the proceeds from the copra, while they retained a third of the profits for themselves and another third for the managers (alab) of the land" (Schwalbenberg 1984:16).

Exchange Sector

Schwalbenberg notes that traditional Pacific economies tend to underproduce rather than overproduce, which is often the case in market economies. "The exchange sector, which is institutionalized by kinship and chieftainship, serves to counteract this tendency to under-produce, for it limits domestic self-interest and creates community-wide responsibilities" (Schwalbenberg 1984:3). The problem of underproduction occurs because of high relative productivity based on man-hours of labor. The existence of underproduction, along with the additional condition that available resources outstrip immediate demand, has been described as "subsistence affluence" by E.K. Fisk (1982). In such an affluent state, only a few hours of labor are required daily to provide for the family's basic needs. Subsistence affluence was evident in pre-contact Marshallese life, but is less evident today due primarily to migration and heavy urbanization.

The tendency of the traditional society to underproduce is offset somewhat by the demands of the traditional exchange sector. In the traditional setting, it is almost impossible for a family to be totally self-reliant. A family's small labor force cannot always provide all of life's necessities. Without help, the family might eventually face severe and perhaps insurmountable hardships. This happens partially because the system is oriented toward meeting immediate family needs and not for sustained production. Since there is no propensity toward producing surpluses, families must rely on other people during times of hardship.

In the traditional Marshallese economic system the exchange sector emanates from kinship and chieftainship responsibilities. For example, in the event that a household is unable to produce all that it needs, it becomes the duty of other family units within the clan to provide the additional support needed. "Surpluses of food are shared, and if one household is short of food, efforts are made to provide for the people. Groups acting in complementary opposition serve to help even out variations in access to resources. For example, if one end of the island has little breadfruit, on ritual occasions the people from the other end will supply that item, while the breadfruit-short people will supply something else...." (Alexander 1978:20-21). The iroij, as the recognized landowner, is given a portion of what has been produced on the land, which is then stored or redistributed as seen fit. Additionally, the chief is responsible for the community welfare and can require that families make food or labor contributions to special events, feasts, and other community-wide activities. These exchanges create a dimension of social and community responsibility that fosters greater productivity and less individual family autonomy.

The Investment Sector

Investment in the traditional economy is accomplished by nature (Schwalbenberg 1984) and through efforts to use resources in capital formation (Fairbairn 1984). As mentioned above, surpluses are meager since consumption and production levels remain fairly constant for long periods, affected only by population changes. Investment is accomplished by certain land and ocean areas to lay fallow so that their future productive potential will not be diminished. Investment also happens when resources are used to make boats, houses, tools, or other valuable devices.

Traditions and Entrepreneurship

Leadership

The traditional authority system, which is based on ascription, is a characteristic of the society that must be recognized as a mechanism that perpetuates feudalistic relationships that are founded on the privileges of landownership and class distinction. The introduction of a democratic-based, secret ballot election procedure has only legitimized the traditional power structure in a form that is internationally acceptable. Marshallese traditional leaders can be found in all branches of their new government: the Cabinet, the legislature (Nitijela), and the court system. It is likely that most Marshallese citizens cast their ballots for a candidate based on a concrete understanding of traditional relationships rather than on the notion of meritocracy. The use of secret ballots has sometimes been used by those in power to argue that elections are not decided because of traditional partisanship votes. The difficulty in equating secret balloting with nonpartisan voting in the Marshall Islands is that in a small and interrelated population secrets do not exist.

In the Republic of the Marshall Islands the traditional feudalistic system and a modern democratic system coexist, it being referred to by one U.S. congressman as "traditional oligarchy operating under the facade of constitutionality" (Marshall Islands Journal, 20 September 1985). The contradiction implied is evident in the dual nature of the authority structure that exists. To the extent that this dualism operates, from a feudalistic point of view the leadership can be expected to regard increased economic power in the hands of the people as a potential threat to its control. On the other hand, from the standpoint of the nation as a democracy, the leadership can be expected to promote the inalienable rights of its citizens, including more equal distribution of wealth and access to economic opportunities. The following discussion deals with some of the pertinent cultural factors regarding this conflict of purpose, while Chapter 4 presents the details of the government's policy efforts toward accomplishing economic growth.

Earlier in this chapter, control over access to land was aptly compared to control over life itself as long as no alternative source of providing life's necessities was available. This is understandable in the traditional setting, where land is necessary for survival. In the monetized system, however, wage labor and business success offer alternatives since the necessities of life can easily be purchased. Therefore, access to either the wages of employment or the profits of business can have a decided impact on the suzerainity of traditional leadership. The extent to which income can undermine traditional authority is illustrated by Kiste's description of Marshallese who had spent time working as laborers on Kwajalein. "As they earned their livelihood outside the traditional economy, they were no longer inclined to accept a status subservient to that of the chiefs, and they questioned the traditional social order which divided islanders into privileged and commoner classes" (Kiste 1974:90).

The overexpanded bureaucracy created by the Trust Territory government has been the preferred employer for most Marshallese since the rapid growth years of the 1960s. Although the Republic of the Marshall Islands government has said it would reduce the number of government employees, it has yet to make any appreciable reductions and will most certainly need to increase the number when projects outlined in the First Five Year Development Plan are implemented (Republic of the Marshall Islands 1985). The government is by far the largest, most sought after source of employment and is likely to remain so for many years to come. Since a traditional leader also heads the government, this leader has the ultimate control over access to wages that can be earned through public sector employment. In fact, informants insisted that obtaining a job with the government depends more on a person's political affiliation, that is, loyalty to traditional authority, than on personal qualifications.

Private sector sources of income include employment with a private business or self-employment. Wages and profits from business similarly represent a source of economic power that promotes individual and family autonomy, which may be perceived as a threat to traditional authority. Thus, there appears to be a significant conflict between the requirements of maintaining a feudalistic traditional authority structure and the consequences of widespread access to the wages and profits of business.

The issue of traditional leadership members seeking to control access to money as a safeguard of their authority has been covered in a study by Alexander (1978) on wage labor, urbanization, and culture change. He found that traditional leaders had taken the initiative to control access to money as well as land.

> In the change from the traditional economic system to a wage labor system, it might be expected that a new power and prestige system would develop related to the source of money. To some extent, the traditional leadership structure has maintained its position. A son of the present Paramount Chief has firm control over Mid-Atoll Corridor negotiations and division of the funds. A nephew of the Paramount Chief holds a key position in the Global Associates Micronesian IRO (personnel) Office, thus potentially controlling who is able to get jobs (Alexander 1978:76).

Although one of the people referred to above works in a new capacity, they are both active in controlling the distribution of millions of dollars received by payments to Kwajalein landowners for the U.S. military's use of their lands and lagoon. Since 1984, the Marshall Islands court system has been trying a family dispute between traditional leaders over the title to Kwajalein lands. At stake in the dispute is the right to distribute the payments and to claim the <u>iroij</u>'s share of the fortune (Marshall Islands Journal, 12 November 1984; Marshall Islands Journal, 3 January 1985).

The desire to control suggested above is not just a characteristic of the traditional leadership, but of the entire population.

> Marshallese attitudes and behavior reveal a generalized concern over the distribution and acquisition of power, influence, privilege, and control, not only of land but of all resources that are deemed to be of substantial worth. The system of landholding and land rights was integrally related to the islanders' lineage and kinship system, and it was the rights to land that defined the most important political and economic relations among individuals and groups. Social statuses entailing authority over land were the

> supreme prizes in the competitive arena of Marshallese life. Authority over land provided power and influence over others and afforded those in possession special privileges. The statuses were few relative to the aspirants to them, and as a consequence they were the objects of a never-ending rivalry (Kiste 1974:5).

In the pre-contact era, control over the land meant control over people and, hence, power. Over the years, the formula for power has changed to include control over access to money because control over land alone was no longer sufficient to guarantee traditional loyalty. As such, as long as traditional rivalries continue there will be persistent attempts to control the most important determinants of power -- land and money. Thus, access to land and money, the two necessary requirements of indigenous business success, will be difficult to achieve.

Land Tenure

There are other features of the traditional system that tend to constrain indigenous participation and success in business. The traditional authority structure and land tenure system affect not only the occurrence of indigenous entrepreneurs, but their performance as well.

In most instances the entrepreneur must have the unencumbered use of land in order to operate a business. One of two situations is possible: the land is owned by the business person's family, or it is not. Since most businesses are in the urban centers, which are heavily populated by emigrants from other atolls, the latter is more common. In either case, customary practices can be troublesome.

The entrepreneur who wants to use family land for a business must still obtain approval. Recall that "land is not individually owned, but rather held in trust for future generations by a lineage. One has the right to live on, and use, the land to which one's lineage has rights. The use of the lineage land is mediated by the alab, or lineage head" (Alexander 1978:82). For an individual member of the family to get the alab's blessing is not always easy, particularly since many family members have worker (dri jerbal) rights to a single parcel of land. At the worst, it requires making promises that are crippling to the business. When the business person is not a family member, more uncertainty shrouds any land-use agreement made. Generally, agreements are oral and not backed up in writing, a requisite that could be perceived as insulting to the person giving land-use authorization.

Consequently, problems arising in matters of rent sometimes lead to eviction. The tribute system described earlier requires that a percentage of copra and other agricultural yields be given to the landowner. This practice is observed in the more traditional rural villages, but to a lesser extent in the urban areas. People who operate businesses situated on land belonging to another family are typically expected to follow this customary practice. Although the family head, alab, may have little control over the way the land is used, s/he is still able to demand some type of "rent" payment for its use. This tribute, or rent payment, becomes a problem in many situations because it varies in kind and frequency. The retail store owner, for example, is sometimes expected to give money, sometimes merchandise. The time at which these payments are made is not set and the amount can vary dramatically. At least one business manager interviewed suggested that the amount expected was directly related to the perceived success of the business. In other words, if the business showed signs of growth, a larger rent payment would be expected. In the extreme case this could include eviction, that is, the landowners decide that they want to take control of the business and do so by reclaiming the land. In any event, it becomes exceedingly difficult for the business person to plan effectively because of the variable nature of this expense; rent is a cost that should be caculated over an extended period.

Traditional Economy

A previous section explained that the traditional economic system leans toward underproduction because it can provide relative abundance in a situation of strict resource limitations, referred to as subsistence affluence. Kinship and chieftainship pressures on production bring families together and ensure community survival through reciprocity. However, for the system to function properly there must be low population pressure and limited consumer demands (Schwalbenberg 1984:5). These two requirements do not exist in the Marshall Islands today. Since the arrival of foreign traders consumer demand has grown constantly and extravagantly. Urbanization and population growth are now major problems. Under such circumstances the subsistence affluence once possible is no longer a present day reality. Most significantly, perhaps, the replacement of the traditional system with a monetized system based on free trade and wage employment has disadvantaged the Marshallese worker and adversely affected indigenous participation and performance in commercial ventures.

In the traditional economic system, islanders showed high levels of productivity relative to the few work force hours required to meet the demand. Increased population pressure diminished the returns from subsistence labor that encouraged participation in the monetized system. In the monetized system, however, islanders have shown low productivity levels while demanding high wages, which makes them unattractive employees (Schwalbenberg 1984:5-6). One explanation is that islanders view wage labor as demeaning, particularly in contrast to their previous affluence. Recognition of this attitude is helpful in explaining two problems that limit Marshallese participation and performance in the private sector: 1) the high wage levels necessary to attract them and 2) a tendency among those in business to expect greater returns for their efforts than the business can withstand. The first condition spawns harmful reactions by making imported labor economically more attractive and encouraging out-migration of Marshallese to higher wage labor markets. Additionally, if alien laborers are not repatriated first, it is conceivable that they might eventually compete for the better paying jobs as they advance to higher levels of competence because of their work experience. This could lead to the eventual exclusion of all but highly specialized Marshallese workers from the labor force. The U.S. minimum wage levels paid on Kwajalein are the exception; to these wage levels the Marshallese have responded. The second situation was reported as one of the common causes of business failure. Interviews are replete with tales of indigneous business people who spent the cash received from business transactions as if it were pocket money until the business was in financial ruin. Chapter 5 deals with this problem in more detail.

Social Relationships

The traditional system also teaches people to be responsive to the needs of their fellow human beings. A system of reciprocity pervades the society that is tantamount to communal ownership among family members. This customary practice makes it extraordinarily difficult for a business person to withhold goods or services for monetary reasons. Unfortunately, responding to this cultural sensitivity has crippled many businesses by creating cash flow problems due to the overextension of credit, particularly to family members. The profit requirement of the market economy is in stiff competition with the traditional reciprocity obligation.

The traditional exchange system relies heavily on the practice of reciprocity, which excludes the notion of profit. According to Western ideals of business, success depends on maximized returns to factor inputs of land, labor, and capital. For an indigenous business person to accomplish such a goal in a Marshallese community would require a greater degree of individual or family autonomy than usually exists in a traditional setting. Autonomous family units are becoming more prevalent due to migration, urbanization, a greater reliance on wage employment, and the gradual extinction of the traditional economic system. Business success is an extremely difficult way to achieve autonomy because of traditional pressures that are constantly being exerted by the authority structure.

Chapter 3. COLONIZATION OF THE MARSHALLESE

Early Administrations

Introduction

Knowing the history of colonial tenures in the Marshall Islands is critical to comprehending the transformation of the Marshallese from a purely traditional society into a blended society characterized by people who revere age-old customs while embracing progressive ambitions. The details of its colonial experiences are worth examining for several reasons: 1) they account for events that instigated and reinforced the transition from a subsistence economy into a monetized system; 2) they explain the cause of people's inflated expectations; 3) they describe the creation of a dependency relationship that abrogated economic development as an outcome of the U.S. Trusteeship period; and 4) they aid in understanding the extent to which the Marshallese have adopted a welfare disposition.

The Republic of the Marshall Islands government has pledged itself to the creation of a more self-reliant nation based on a robust private sector (Republic of the Marshall Islands 1985). Explicit in the leadership's strategy is the participation of indigenous entrepreneurs as a secondary force in the achievement of this goal (Republic of the Marshall Islands 1985). Some of the obstacles that must be overcome can be traced to the colonial experiences alluded to above. The following pages offer an overview and analysis of those experiences for the purpose of clarifying the connection between them and the problems faced by indigenous entrepreneurs. Much of the overview, however, is a presentation of the colonization of Micronesia. Colonial domination has been on a regional basis rather than by island group. Thus, the entire region has had similar experiences, with some exceptions. In the case of the Marshall Islands, the attraction of the Kwajalein Atoll and the Bikini and Enewetok Islands were the elements that made its experience unique.

Spain

In the early 16th century Spanish galleons discovered the Marshalls and other Micronesian islands while trade expeditions sought navigation at routes between colonial outposts in Mexico and the Philippines. The 1494 Treaty of Tordesillas, which divided all newly discovered islands between Spain and Portugal, allowed Spain to claim sovereignty over these islands and become the first in a series of colonizers who have been instrumental in transforming Micronesia. Although Spain maintained control over Micronesia until the late 1880s, its "rule over the islands was a matter of national honor, especially as so much of its former empire lay in tatters. Its goals were to Christianize the people and make them loyal subjects of Spain. Mercantilism and considerations of financial profit and loss had nothing to do with colonial rule, in Spanish eyes" (Hezel 1984:16). Spain centralized its authority and presence in Guam and the Northern Mariana Islands, made no serious attempts at commercial development, and, in general, had few dealings with the other island groups. The Marshallese, like most other Micronesians, were essentially unaffected by the Spanish throughout their long tenure as rulers of the islands. Marshallese contact with outsiders remained occasional until well into the 19th century, when whalers, missionaries, and traders became regular visitors and sometimes permanent residents.

Germany

Spain's lack of interest in creating a presence throughout Micronesia enabled German firms and other companies trading in the area to carry on business as usual (Hezel 1984:16). Since the earliest days of trade, the copra used in making coconut oil was a most sought-after product. The Germans attempted to exploit the economic potential of the Marshall Islands by encouraging the production of copra as a profitable cash crop. This was accomplished "by working through the traditional chiefs who encouraged islanders to extend their plantings of coconut trees (Kiste 1974:14). As the lucrative copra trade gained momentum it became a source of conflict among Germany, Spain, and England (Kiste 1974:13). Partly in response to a plea from German companies to protect their business interests, Germany declared the Marshall Islands to be a protectorate in 1885 (Hezel 1984:17).

The German government established headquarters on Jaluit, but only after German trading companies agreed to handle the task of administering the islands. Two major German trading companies merged to form the government sponsored Jaluit Trading Company, which pursued both economic and administrative goals. Choosing to use the existing traditional authority structure to its greatest advantage, the administrator "depended on a large extent upon the Marshallese chiefs to maintain law and order, and gave them considerable authority. This made it possible to extend government to the islands and their people with a minimum amount of friction" (Bryan 1972:202). The Jaluit Company's administrative control over the islands ended in 1906, when Great Britain protested the enormous taxes that were being charged to British firms operating in the area (Hezel 1984:19). The German government relented and set up a colonial administration of its own, thus ending the Jaluit Company's monopolistic control (Hezel 1984:19).

The German era presence is noteworthy for several reasons. German traders "taught the islanders to manufacture copra from the meat of the coconut and exchanged metal tools and other trade goods for the finished product" (Kiste 1974:13). Thus, their efforts to develop copra and ancillary trade activities marked the introduction of a new economic system, one that was not governed entirely by indigenous principles of production, exchange, and investment. Greater participation in this market economy led to the demand for more and different foreign goods, which signaled the inevitable erosion of Marshallese detachment from the rest of the world. The German administration also was successful in ending the murderous warring that had been part of traditional struggles for land and power. Also, soon after the protectorate was established the administration denied foreign traders the right to purchase land from the natives, a previously popular and growing practice. Interestingly, however, the government-owned Jaluit Company, was given the right to take possession of any unclaimed lands (Mason 1947:151). Eventually, it owned and used for its commercial purposes all nonnative-owned land, except Likiep. (Mason 1947:150).

The Marshalls and other Micronesian islands remained part of Germany's South Seas holdings until October 1914, the beginning of World War I.

Japan

Japan declared war on Germany in August 1914 and in October sent naval squadrons to take military control of Germany's island possessions, despite the fact that the German governor had surrendered to the British in September (Bryan 1972:204-06). Japan's occupation and control of the islands had been secretly endorsed by Great Britian, France, and Russia "in return for furnishing naval escort patrols for Allied shipping in the Pacific and Mediterranean" (Bryan 1972:207). At Versailles, the U.S. objected to complete Japanese control of the islands, but could do little to undermine the promises that had already been made. The League of Nations mandated the region, with the exception of Guam, to Japan in 1920. Mainly through the efforts of the U.S., a special "Class C" mandate, was created that prevented the outright annexation of the islands. Japan had agreed "(1) to promote the material and moral well-being and social progress of the local inhabitants; (2) to rule out slavery, traffic in arms and ammunition, and alcoholic beverages; (3) to refrain from building fortifications and military bases; (4) to permit freedom of worship and missionary activity; and (5) to submit an annual accounting to the League of Nations" (Bryan 1972:207).

Japan's administrative center in the Marshall Islands was built on Jaluit. Similar to the German style of administration, local authority was left largely in the hands of village chiefs and headmen (Bryan 1972:209). According to Alexander (1978), however, "Japan took a more active role than the Germans had, using a larger cadre of Japanese officials, and establishing a magistrate-council form of local government which parallels that found in rural Japan" (Alexander 1978:23).

In retrospect, it was not surprising that Japan moved quickly to take over Micronesia. "For some years Japan had been eyeing these islands...as areas to colonize and from which to obtain raw materials" (Bryan 1972:206). Although most were in contradiction to its mandate, the main objectives of Japan's colonial policy were: "(1) the economic development of the islands; (2) their preparation for colonization by

Japanese nationals; (3) the Japanization of the islanders through education and propaganda; and eventually, (4) preparation for their defense by the establishment of naval and air bases" (Bryan 1972:210). It was obvious that the administration yearned to make Micronesia an integral part of the Japanese empire, which would allow the exploitation of its resources for the benefit of Japan.

Early in its administration the Japanese recognized "all land rights previously acquired in accordance either with traditional native custom or with German regulations, irrespective of whether the owners were native or not" (Mason 1947:151). They viewed traditional chiefs as the exclusive owners of the land and the people as having the right to exploit it as long as customary tribute was paid to the landholding chief (Bryan 1972:209). Later, the Japanese made a serious bid to undermine traditional authority by attempting to alter the traditional land tenure system. They recommended that collective ownership be abolished in favor of private ownership of land. This was to be accomplished "by granting outright titles to the occupants of individual tracts of land, and compensating the chiefs for the loss of their feudal rights through a cash payment" (Bryan 1972:209; Mason 1947:151). Apparently, preparation for war took precedence over implementation of the plan for it was never completed (Mason 1947:152). However, the plan had a marginal impact by introducing policies that helped to confuse land ownership rights to the extent that the chief's power to dispossess people was somewhat diminished (Alexander 1978:20).

Japan's primary economic interests were focused on the resource-rich high islands of the Marianas, Balau, and Pohnpei rather than the low-lying Marshalls, where copra was the only significant economic resource. In the Marshalls, the copra industry was stimulated by offers of subsidies to increase acreage and improve production methods. By 1938 the Marshall Islands had the largest plantations and the greatest amount of copra produced for export of all of the island groups in the region (Bryan 1972:211).

The increase in copra production had a residual effect on the quality of the shipping service to the outer islands. Previously infrequent and unpredictable service was replaced with regular visits, enabling Marshallese producers to sell on a monthly basis to Japanese brokers who manned trade stores located throughout the islands. All of the copra that was sold went to Nanyo Boeki Kaisha or other Japanese companies for shipment to Japan (Bryan 1972:211).

The handicraft industry was also a target for Japanese intervention. Based on what they knew was in demand, the Japanese set production quotas established on specific payment levels and fixed time periods. Atoll magistrates were allowed to use whatever methods seemed appropriate to ensure delivery (Bryan 1972:211). Production was stimulated by offering awards and public recognition to exceptional workers (Bryan 1972:211). Threats of punishment reportedly were equally successful in guaranteeing that quotas were met (Mason 1947:231).

In 1935 Japan withdrew from the League of Nations and soon after began to fortify the Kwajalein, Jaluit, Wotje, Maloelap, and Mili Atolls in preparation for war. Initially, labor was imported from Japan to complete the military projects and relocate Marshallese families that were forced to make room for the installations. Eventually, Marshallese men were drafted to work, as thousands of troops arrived and impending hostilities escalated to open warfare. This period marked the first forced migration of Marshallese people under the direction of a colonial administration, which had the effect of disrupting long-established patterns of population movement and interisland travel (Bryan 1972:210).

The United States Administration

The United States offensive in the Pacific began in 1944 when naval forces proceeded to secure islands in Micronesia. It was in the Marshalls that the first islands were taken from the Japanese, an event that marked the beginning of U.S. military control in the region.

The 1947 United Nations Trusteeship Agreement legitimized the exercise of U.S. authority over Micronesia. The agreement specified the nature of the relationship and the obligations entailed. Somewhat analogous to the Japanese period, however, the U.S. has since been accused of adopting policies and practices that would enable the accomplishment of its own agenda irrespective of the United Nations agreement. According to one analyst, a member of the 1974 Congress of Micronesia charged that the United States had "willfully contravened the letter and the spirit of the United Nations Trusteeship Agreement covering Micronesia; it had denied the most fundamental of rights to 100,000 Pacific islanders by purposefully retarding the development of the area in an effort to establish a permanent dependency relationship designed to achieve the selfish and militaristic ends of the American government" (Grogan 1976:58)

The highest order objective of the U.S. agenda was to ensure itself of the capability, at its discretion, to deny other foreign powers access to the region. The next order objective was the use of Micronesian lands and waters, particularly in the Marshalls, for military purposes. To achieve these aims as immediate and long-term goals required the establishment of a lasting relationship with Micronesia. The remainder of this chapter details how that relationship was accomplished and discusses the implications for private-sector development and indigenous entrepreneurship. The general impact of the U.S. colonial experience has been similarly felt throughout Micronesia. The details of that experience are related first: and the peculiarities of the Marshall Islands experience follow.

Trusteeship System

As World War II drew to a close the issue of how to treat dependent people presented an international dilemma. Annexation as colonial economic assets was no longer a tolerable option, yet some responsibility had to be assumed by metropolitan nations. The solution was a United Nations organized international trusteeship system designed to administer those areas that were freed from domination as a result of the war, or voluntarily placed under the system yet unable to stand alone as independent nations.

The U.S. Secretaries of War, the Navy, and the Army were adamantly opposed to any "internationalization" of Micronesia; they preferred absolute control. However, agreement within the military went no further. Interservice rivalries and interdepartmental differences over the political disposition of Micronesia emerged. The U.S. Navy urged the adoption of a military administration, a recommendation that caused Harold Ickes, then Secretary of the Interior, to accuse the Navy of "wanting an arrangement for Micronesia that would allow it to keep the administration of dependent peoples secret..." (Barry 1976:54). The Army, joined by the Departments of State and the Interior, argued for a civil administration (Goodman 1981:67). Led by the State Department, these proponents of a civilian administration argued that the U.S. was in principle opposed to "territorial aggrandizement" not only because of the anticolonial sentiments being expressed worldwide, but because it could set a precedent for the Soviet Union (Alexander 1978:24; McHenry 1975). Meanwhile, the Joint Chiefs of Staff argued that total control of the islands should be sought through outright annexation because the U.S. had paid a high price in lives lost for the islands. They did not like the United Nations trusteeship system developing and felt that the Micronesians were incapable of eventual self-government (Richard 1957:3-23).

The resolution of this conflict, partly due to pressure on President Truman from the Department of Defense (Goodman 1981:69), was a U.S. proposal for the formation of a "strategic trust." By having Micronesia so classified, the United Nations Security Council, where the U.S. has a veto, would become responsible for the territory rather than the General Assembly, which oversees nonstrategic trusts. Possibly more significant than the solution itself, though, was the way in which the conflict was resolved. Throughout the debate, within the United States government and later in the United Nations itself, "the peoples of Micronesia were not consulted directly at all on their future--either as potential Americans or as United Nations wards under an American administration" (Goodman 1981:69).

Before a final draft of the proposed agreement was approved, several items were debated. In the original version the U.S. planned to administer the area "as an integral part of the United States," wording that was almost identical to the previous League of Nations-approved Japanese mandate. The wording was later deleted. The original draft also obligated the U.S. to assist the people in attaining "self-government." The wording was changed to read "self-government or independence, as may be appropriate to the particular circumstances of the Trust Terrritory and its peoples." Finally, the U.S. prevailed in a dispute over its having given itself a "most favored nation" status. It used the unlikely argument that the status was necessary to ensure that it could meet its responsibility to guarantee the security of the territory (Grogan 1976:61).

In July 1947 the administration was formalized through an agreement with the United Nations, making the islands a trust territory of the United States. The approval of the "strategic trust" classification, the only one of the 11 trust territories created, gave the U.S. powers that no other administering authority could claim. In exchange for defense and other responsibilities spelled out in the Trusteeship Agreement, the U.S. was given the right to build military bases, station troops, and close the area off to international inspection. It was this power to deny foreign nations access to the region, a "strategic denial" privilege, that was most cherished.

The significance of Micronesia to the United States has always been its strategic value, due to its geographic proximity to Asia, and its vastness. At one time it was thought that the islands might be useful as a forward defense screen in the event of a future conflict (Goodman 1981:71). However, by the early 1970s this position had altered somewhat in view of the U.S. situation in Vietnam and its political viability in Asia in general, particularly with the governments who were hosting military bases: the Philippines, Taiwan, Japan, and Korea. Uncertainty about the future led to a fallback strategy that relied heavily on Micronesia.

During its many years as the administering authority of the Trusteeship Agreement, the major difficulty confronting the U.S. has been accomplishing the inherently contradictory feat of honoring the principles of the Trusteeship Agreement while ensuring continued control over the islands. Two provisions of Article 6 of the Agreement have been major obstacles to maintaining continued control: 1) the goal of fostering indigenous political institutions that would promote self-government or independence and 2) the advancement of economic development and the self-sufficiency of the inhabitants (Goodman 1981:70). As expressed by Peoples (1985), the U.S. policymakers were in a dilemma. Indefinite political control was necessary for U.S. national security reasons, but anticolonial sentiments leaned toward ending the Trusteeship as soon as possible. "A way had to be found to reconcile 'indefinite control' with the principle of self-determination for Micronesians. The obvious solution was to satisfy the United Nations' legitimate demands for economic development and political self-determination while at the same time giving Micronesians every reason to desire permanent affiliation with the United States" (Peoples 1985:16).

Dependency Creation

It was in the early 1960s that the U.S. radically revised its policies toward Micronesia to ensure a permanent relationship with the islands. During the 1950s, however, the policy objective was a development strategy designed to achieve self-sufficiency which would eventually lead to levels of economic growth similar to those achieved by the Japanese. Unlike the Japanese growth period, however, this strategy was not to rely on the exploitation of Micronesians and the expropriation of their lands. Development was to be modestly subsidized and at a pace consistent with the level of inputs that could be expected from the local population. U.S. appropriations were intentionally small to limit the size of government and the quantity of imported consumer goods. The hope was that these measures would result in the gradual emergence of a commercial economy (Hezel 1984:35). During this period, U.S. annual assistance was around US$6 million and exports averaged in the neighborhood of US$2 million (Table 1).

Table 1. Dollars Flowing Into the Trust Territory, 1955-1982 (millions US$)

Year	Exports	U.S. Assistance	Exports as % of Total Inflow
1955	4.3	5.0	46.2
1956	1.7	5.0	46.2
1957	1.6	4.8	25.0
1958	1.7	6.2	21.5
1959	1.2	4.9	19.7
1960	1.9	5.2	26.8
1961	2.1	5.9	26.3
1962	2.1	6.1	25.6
1963	2.2	17.0	11.5
1964	2.7	18.0	13.0
1965	3.2	21.5	13.0
1966	3.6	21.9	14.1
1967	2.3	25.2	8.4
1968	3.0	26.3	10.2
1969	2.9	36.2	7.4
1970	4.2	54.6	7.1
1971	3.0	67.3	4.3
1972	2.6	68.1	3.7
1973	1.9	69.4	2.7
1974	8.0	69.5	10.3
1975	6.8	81.7	7.7
1976	4.8	100.9	4.5
1977	10.3	114.2	8.3
1978	-.-	132.6	-.-
1979	16.5	138.7	10.6
1980	15.6	124.5	11.1
1981	-.-	120.0	-.-
1982	8.1	119.9	6.3

SOURCE: Hezel, Francis, S.J., "A Brief Economic History of Micronesia." In Past Achievements and Future Possibilities. Pohnpei, Federated States of Micronesia: The Micronesian Seminar, 1984, p. 36.

A 1961 United Nations visiting mission to the Trust Territory viewed the results of this approach as being disasterous. They reported that the administering authority had woefully neglected such basics to economic development as transportation, education, and health care systems. Shipping was poor and unreliable, no improvements had been made in the physical infrastructure, no markets had been established for Micronesian goods, and few wage labor opportunities had been created (Peoples 1985:15). Agriculture and fisheries resources had not been exploited to any appreciable degree despite the recommendations of earlier visiting missions to promote such efforts (Grogan 1976:69). The administration was charged with maintaining an "anthropological zoo" or "cultural museum," among other things.

The U.S. administration concluded that the economy was not producing the surplus needed for investment and expansion, and that an infusion of foreign capital was needed. The U.S. also determined that the money would best be invested in administrative and social services rather than economic development projects. Future economic development was felt to be predicated on a healthy and well-educated populace (Hezel 1984:35). This was the official rationale for the abrupt change in U.S. strategy, but it is the view of this report that a better explanation can be found in the Solomon Report.

In April 1962 the President approved National Security Action Memorandum (NSAM) 145, which was a policy that established the movement of Micronesia into a permanent relationship within the U.S. political framework. The memorandum recommended that such a relationship would accelerate social, political, and economic development (McHenry 1975:17). NSAM 243 of May 1963 authorized the infamous Solomon Report (McHenry 1975:16) and NSAM 268 of October 1963 approved the implementation of its recommendations (McHenry 1975:20).

The Solomon Report was prepared in 1963 and was kept secret until it was "leaked" to a Micronesian student group in 1971. The report explicitly states that the major purpose of the U.S. administration of the Trust Territory was political and economic manipulation aimed at ensuring a favorable vote in a plebiscite. The report recommended that the plebiscite be held in 1968 and that it offer Micronesians the choice between independence and permanent affiliation with the U.S. The objectives of the plan were:

> Winning the plebiscite and making Micronesia a United States territory under circumstances which will: (1) satisfy somewhat conflicting interests of the Micronesians, the U.N. and the U.S. along lines satisfactory to the Congress; (2) be appropriate to the present political and other capabilities of the Micronesians; and (3) provide sufficient flexibility in government structure to accommodate whatever measure of local self-government the Congress might grant to Micronesia in later years (McHenry 1975:233).

The Solomon Report also suggested a number of ways to ensure a favorable plebiscite: 1) a capital investment program aimed at giving Micronesians a sense of progress, 2) visits to the U.S. for Micronesian leaders, 3) a U.S.-oriented curriculum and patriotic rituals in the school system, 4) more scholarships for Micronesians, 5) the use of Peace Corps volunteers to infect Micronesians with pro-U.S. attitudes, 6) promises of pay scales for Micronesians equivalent to that of U.S. personnel, 7) the extension of the Social Security system to all wage and salary earners in Micronesia, and 8) the use of increased appropriations to gain favor among island elites (McHenry 1975: 234-38).

Although President Kennedy was assassinated shortly after Professor Solomon submitted his report, it appears likely that the report was used as a blueprint for subsequent U.S. action. Congressional appropriations began to grow as never before; there was money for education, health services, capital improvements, infrastructure creation, and many more government services (Table 1). U.S. appropriations had grown slowly to the US$6.1 million level by 1962. The next year the amount rose to $17 million, almost tripling. In addition to a huge increase in the Congressional appropriation, the Trust Territory was made eligible to receive federal program money. Total U.S. assistance climbed rapidly over the next two decades. By 1969 it had grown six-fold to $36 million, by 1976 it was 16 times greater, $100.9 million, and by 1979, it had grown to its highest level, $138.7 million. Total assistance had increased by a factor of 23 in almost the same number of years. Taking into account that the population had almost doubled in this same period diminishes the impact of these numbers to some extent. Nevertheless, one analyst calculated that, excluding federal programs and adjusting for population, the per capita U.S. Congressional appropriation had increased eight-fold between 1960 and 1978 (Peoples 1985:18). He also observed that the magnitude of U.S. assistance in 1978 was over $130 million "or an appropriation per Micronesian of over $1,000 (Peoples 1985:18).

Much of this money came to the Micronesians in the form of schools, health care facilities, public works projects, police services, etc. The Trust Territory administration began to take over many responsibilities that had previously belonged to municipal governments. The public sector work force began to grow quickly as an increasing number of Micronesians looked to it as their source of livelihood. During the 1960s the local government work force tripled (Hezel 1984:37). "In 1962, before the budget expansion began, the government employed only about 2,200 Micronesians; in 1970, there were almost 5,000 government employees; by 1977, there were over 10,000" (Peoples 1985:19). Salaries for Micronesians in the public and private sectors grew from about US$2 million in the early 1960s to over $15 million by 1970 (Table 2). By 1979 over $41 million dollars was being earned in public and private sector employment. Growth among Marshallese workers occurred at a comparable rate, resulting in a total amount of wages earned in 1979 of almost 20 times that earned in the early 1960s (Table 2).

Table 2. Total Wages and Salaries, Public and Private Sectors, 1957-1979 (thousands US $)

Year	Marshall Islands	Trust Territory
1957	501	1,541
1958	610	2,073
1959	583	2,049
1960	622	2,059
1961	695	2,192
1962	728	2,355
1963	1,419	3,357
1964	1,676	4,295
1965	1,723	5,164
1966	1,712	5,929
1967	2,498	6,713
1968	3,669	8,994
1969	3,926	10,598
1970	5,588	15,331
1971	6,145	17,544
1972	6,689	21,949
1973	7,582	25,495
1974	8,363	29,602
1975	9,395	33,813
1976	10,067	36,954
1977	10,943	42,781
1978	10,885	43,842
1979	12,053	41,437

SOURCE: Hezel, Francis, S.J., "A Brief Economic History of Micronesia." In Past Achievements and Future Possibilities, The Micronesian Seminar Pohnpei, Federated States of Micronesia: The Micronesian Seminar, 1984, p. 39.

The result of this investment strategy was to raise the standard of living far beyond what had previously been known. The Micronesians were in the enviable position of reaping the benefits of substantial investment without having to generate the capital themselves. The service sector grew quickly as merchants opened bars, restaurants, movie theaters, and retail stores, all hoping to service the dollars in circulation. "Using total wage income from both governmental and private sources as a rough measure of consumption levels, and taking population increases into account, between 1962 and 1977 consumption increased about 1,000%!" (Peoples 1985:19). The enormous popularity of these businesses in turn put tremendous upward pressure on imports, which increased dramatically from about $4 million in 1960, to $21 million in 1970, to almost US$40 million by 1980 (Hezel 1984:31). Exports, on the other hand, remained fairly constant through the 1950s, 1960s, and part of the 1970s (Table 1). The increase in export values in the latter part of the 1970s was due to a U.S.-owned tuna canning operation in Belau, the newly acquired capability for processing copra oil and copra cake in Majuro and Belau, and the addition of tourism as an invisible export.

The economic situation can also be illustrated through this slightly clearer but enlightening view of private sector production versus government funding Grogan 1976).

> For the fiscal year ended June 30, 1972, the total exports for the Trust Territory amounted to $2,637,000. For the same fiscal year, total government funding stood at $73,570,000. Of the latter amount, over $68 million came directly from the United States government and only about $4 million came from locally or internally produced revenue. Imports for the same year amounted to over $26,300,000, with food imports amounting to nearly $9.5 million and $13,906,000 spent for imported merchandise from the United States alone. In the five-year period between 1968 and 1973, government funding and costs of imported items have nearly doubled while the value of exports has been reduced to only 10 percent of the value of imports.

In order to accomplish its goal of long-term control over Micronesia the U.S. did not limit its manipulations to the creation of economic dependency, but maneuvered to capitalize politically on the money-induced changing perceptions of the Micronesian people. The U.S. claimed from the onset of the Trusteeship period that its position with respect to the future was for a politically unified Micronesia. In light of this stance, the 1961 United Nations visiting mission was obliged to advise against continued administrative separation of Saipan and Tinian, in the Northern Marianas, from the rest of the Trust Territory. The mission determined that because of the preferential treatment these islanders had received, feelings of favored status and a resolve for integration with the U.S. were developing. When the people of the Northern Marianas finally petitioned for separate status, the Defense Department applied pressure to allow the separation because of its interest in Tinian as an assured fallback base. Grogan (1976) reported that in the early 1970s the U.S. was already going ahead with plans for a major "multi-service air base" that would use most of Tinian and could eventually be another Kwajalein Missile Range (Grogan 1976:72). In 1975 a plebiscite was held and the 14,000 people of the Northern Marianas opted to separate from the Trust Territory and join the United States as a commonwealth by a 78 percent vote. The islanders had responded exactly as the U.S. military establishment had hoped.

Most of the critics claimed that the financial windfall associated with choosing Commonwealth status was a major contributor to the outcome. The criticism was harsh but as Goodman (1981) points out:

> This was a decision strongly encouraged in every respect by the United States. Thus, the annexation of a remote non-contiguous territory, a concept theoretically abhorrent to the American 'way,' was viewed as perfectly justifiable since it had been achieved by a 'free and fair' vote wich expressed the 'self-determination' of the people of the Northern Marianas....That the United States government had, in fact, cleverly engineered a situation in which the results of such a 'free and fair' plebiscite were a foregone conclusion could be and was overlooked."

The Marianas incident has since been cited as the cause of other separatist movements in Micronesia. The other districts of Micronesia began to take note of their "have" or "have not" status. Those that identified themselves as having special attributes became advocates of fragmentation. The Marshalls, of course, were in a "have" position by virtue of rent payments for the Kwajalein Missile Range, taxes inherent in its installation, and the employment opportunities it offered. Palau perceived its advantages to be its low people-to-land ratio, its nearness to the major oil shipping lanes and Japan, and the potentials for fisheries development and tourism. The result has been the creation of three political entities, each of which has negotiated a Compact of Free Association with the U.S. that includes a substantial financial package.

For the past 38 years the U.S. administration of Micronesia was to promote the social, political, economic, and educational advancement of the islanders in accordance with the principles of the Trusteeship Agreement. The desired outcome was a people able to freely and intelligently choose a future political status, independence or self-government being the most likely alternatives. Over the years much criticsm has been levied against the U.S. for its failure to move expeditiously toward ending the Trusteeship while honoring the principles of the agreement (McHenry 1975; Nevin 1977; Nufer 1978). In general, the U.S. has seen fit to place emphasis on achieving its political and military objectives rather than promoting island specific, economic, and social objectives. Many people's feelings are adequately captured by the comments of Grogan (1976) on the U.S. administration of Micronesia as of the mid-1970s:

> The twin goals of retarding the process of development and establishing a permanent system of economic and political dependence, which destroys self-respect and renders self-reliance impossible, are logical extensions of the militarism and paternalistic racism characteristics of American foreign adventures from the overthrow of the Hawaiian government to the recent colonial war in Southeast Asia. While the Vietnamese

have, at great cost, been successful in turning away American attempts at winning their hearts and minds, the Micronesians have allowed themselves to fall victim to the ambivalent patterns of gratitude and resentment that dependency generates."

Marshall Islands

The Marshall Islands were administered as one of the six districts of the Trust Territory of the Pacific Islands until they were granted separate status in 1979. As part of the Trust Territory, the U.S. development strategy related in the previous section applied to the Marshall Islands. The Marshallese experience, however, was unique because of the forced migration that took place to allow the use of some of the islands for a nuclear testing program. The social and psychological effects of the migration are important sources of problems associated with indigenous business success.

During the earliest years of its occupation, the U.S. administration made used the Marshall Islands as a testing ground for atomic and hydrogen bombs. Between 1946 and 1962 the United States detonated scores of nuclear devices, the most well known being the 1946 and 1954 atomic tests on Bikini and the 1954 hydrogen test on Enewetak.

In order to vacate the islands the Bikinians were moved to Rongerik, an atoll that had considerably less land, a smaller lagoon, poorer vegetation, and fewer coconuts. It was not long before the people began to suffer both physically and emotionally. The military decided to move them to Ujilang, which had the resources to adequately provide for the population. Just before the move, however, a decision was made to move the Enewetakese to Ujilang instead. The Atomic Energy Commission had decided it needed Enewetak island for additional tests. Thus, the plight of the Bikinians had to take a back seat to the needs of the U.S. nuclear testing program (Alexander 1978:26-27). The Bikinians were later moved to Kwajalein, where they were housed and fed for free and exposed to American-style living, and then moved again to Kili island. Unfortunately, Kili has been a poor substitute for Bikini. It is an island with no lagoon and is surrounded by rough seas for most of the year, which makes fishing practically impossible.

In 1956 the U.S. government made a one-time, US$25,000 lump sum payment to the Kili people and created a $300,000 trust fund for past use of their lands. According to Alexander (1978) the effect was "reducing incentives and raising expectations. Coconuts lay on the ground rotting because the income from the trust fund dwarfed the possible income from copra production. The people began buying novelties and other luxury items" (Alexander 1978:29).

The relocation of Enewetakese to Ujilang was not as traumatic as the Bikinian's move to Kili. They were moved only once, had ancestoral ties to the island, and the environment was similar although the land and lagoon areas were smaller. Consequently, they "have maintained a stable and effective work force which has not been significantly affected by migration to Kwajalein and Majuro, the urban center" (Alexander 1978:33).

During the 1954 test on Bikini Atoll the winds were not accurately predicted and Rongelap, Uterik, and Ailinginae received fallout. U.S. surveillance ships sailed past Rongelap to evacuate military personnel from Rongerik, and only later did they return for the Rongelapese (Barry 1976:49). Because of their prolonged exposure to the radiation, the Rongelapese were moved first to Kwajalein and then to Majuro. During their stay on Majuro they "were provided with food, housing, medical attention and monetary compensation for the copra they would have made at home" (Kiste 1974:194). "During this time they lost their sense of independence and their self-sufficiency. When they returned [to Rongelap], housing had been built for them and food subsidies had to be continued for several years" (Alexander 1978:31). They were awarded $900,000 in compensation, some of which was "spent on cars, washing machines, and other 'conspicuous consumption' articles, which were incongruent with traditional Rongelap life" (Alexander 1978:31).

In addition to the social and psychological consequences of the testing program, by far the most serious tragedy of the entire episode has been the physiological damage that was done to the radiated people, their lands, and their ocean. The true extent of the damage is yet to be fully understood, but it has already been felt. The grim reality of nuclear destructiveness was forced upon the Marshallese when one of the children of Rongelap, Lekoj Anjain, died on 15 November 1972 of myelogenous leukemia, becoming the first U.S. H-bomb victim.

The interest of the U.S. military was not limited to nuclear testing, but included missile testing as well. Thus, the Trust Territory administration was instructed to acquire Kwajalein, the largest lagoon in the world, so that it could be turned over to the U.S. Department of Defense. For years the U.S. military used the land without due process being given to the people; it had not acquired legal rights to the land (Grogan 1976:65). In order to rectify the abuse, the Marshallese asked for US$20 per acre per month for a fixed period, with a lump sum payment for past use. The Trust Territory administration offered a single lump sum payment of $500 for what amounted to indefinite land use (Grogan 1976:64). Finally, a new 99-year lease was negotiated in 1964. The U.S. agreed to pay $500 per acre for past use and the same amount per acre for future use.

The missile testing program that began on Kwajalein caused the relocation of hundreds of people. The Lib people were temporarily moved to Ebeye to allow for missile flights to splash down near their island. They were later returned to Lib when part of Kwajalein lagoon, now known as the Mid-Atoll Corridor, became the new impact area. People from the islands within the corridor were moved to Ebeye (Alexander 1978:37) and deprived of access to the atoll's land and lagoon resources. The promise of jobs on the military base was offered as a type of compensation.

In moving the people to Ebeye, the Army failed to build enough housing for everyone and blamed it on "opportunists...rather than admitting the existence of a valid land-tenure system as an alternative to the American system of individual ownership" (Alexander 1978:38). This marked the beginning of the Pacific's only slum, Ebeye. Conditions were so bad that the island was swept by a polio epidemic in the early 1960s, even though the polio vaccine was in common use throughout the world. It is now terribly overcrowded and has a population density that is one of the highest in the world, 19,700 per km2 (51,240 per mi2) (Barry 1976:51). The island has no sewerage facilities, fresh water must be brought in by barge, and health care services are notoriously poor. The economy, and hence the people, is almost totally dependent on the military use programs for income through wages and land rentals.

Colonization and Entrepreneurship

The Marshallese experience with foreigners began with navigators bartering pieces of metal for provisions and information. This was soon followed by colonial domination for religious and then economic gain, which was finally interrupted by global warfare. World War II rendered colonialism and economic exploitation an immoral act but domination continued nevertheless. The objective became military control rather than economic gain. In fact, the most recent colonial power saw fit to spend lavishly in the islands while allowing the economy to languish in order to ensure that a continued relationship within which its military privileges would be preserved. The pursuit of military objectives resulted in the separation of many people from their most valuable assets, their lands and lagoons. Compensation for these injustices merely aggravated the dependency relationship that had already been established by further undermining traditional subsistence behaviors. Thus, the consequences of the Marshallese colonial experience are significant sources of problems related to the supply and performance of indigenous entrepreneurs.

The colonial periods of Germany Japan, and the U.S. have an important characteristic in common. Each country made an inital effort to accomplish its objectives by working with the traditional system rather than against it. Later, each country also challenged the system because it represented an obstacle to achieving colonial objectives. The Germans introduced laws that stopped the traditional method by which power changed hands. Whether they were motivated to do so because of a moral aversion to war or because war imepeded economic progress is arguable. In any case, the distribution of lands among the iroij has since been "frozen." Japan also determined that the traditional system was inconsistent with respect to its administrative objectives. The introduction of private ownership land when the war intervened. During the early years of the U.S. administration a policy of Micronesian-controlled development was in place. Micronesians were responsible for organizing many of their own social services because traditional authority structures were best able to handle questions regarding the management of the work and the distribution of benefits. This policy changed radically in the 1960s with heavy investment in social services and the appointment of U.S. administrators for each of the six districts that had been created. In effect, each of the colonial administrations attempted to introduce structures similar to its own for the purpose of advancing change and meeting its policy objectives. In order to facilitate those objectives they have consistently attacked traditional structures as being counterproductive to achieving what they prescribed as being better standards of living. That prolonged pressure has fostered an ambivalence that renders decision making more complex among business people, politicians, and other Micronesians. Indigenous entrepreneurs who are unable to resolve the dilemmas posed by conflicts between traditional practices and business requirements are likely to be less successful.

The U.S. period of dependency creation is the most recent of the colonial episodes and, as such, has probably had the most profound impact on indigenous entrepreneurship. It has accomplished its objectives through political and economic machinations designed to draw the Micronesian entities into a continuous political relationship. As a result, the economies throughout Micronesia remain underdeveloped, offering untapped opportunities, on the one hand, but fewer overall opportunities than might be possible on the other. The artificially high standard of living and good prospects for continued high levels of outside financial assistance represent windfall opportunities that may deter indigenous entrepreneurs from more stable opportunities. U.S. involvement through educational programs and other social services has raised people's expectations to unrealistically high levels, which serves as an additional hindrance to realistic and objective assessments of economic worth. The experience of most wage laborers has been in government service, where there is little or no relationship between the quantity and quality of output and wage levels, an additional complication. Indigenous entrepreneurs operating in the private sector have the difficult task of trying to establish a precedent for such a relationship. In general, the effects of U.S. policy can be seen in the political and economic environments. Each of these areas is discussed briefly in order to emphasize the link with colonial periods and the relationship to problems faced by indigenous entrepreneurs today. These areas are also treated in greater detail in the next two chapters.

One of the trusteeship responsibilities of the U.S. was to promote the political advancement of Micronesia. Regardless of its motives, the U.S. directed an inordinate amount of time and money toward meeting this obligation. The U.S. spent much of its energy creating political sophistication but neglected the economic infrastructures needed, a situation not unlike the Philippines experience (Goodman 1981:82). In a less critical way than perhaps deserving, Goodman (1981) described the process as follows. "In the fervent desire of the United States to introduce American-style 'democracy' with its overweaning emphasis on political 'representation,' the outcome has been a severe disorientation of traditional societal hierarchies, extreme overemployment in public service positions...and excessive dependence by the total population on 'government'" (Goodman 1981:79). Government employment over the last two decades has been the major source of wage income. In 1977 about one-half of all cash income came from employment with the government or with other agencies funded directly by the U.S (Peoples 1985:21). Government service continues to attract some of the best educated and traditionally powerful people away from more productive ways of contributing to economic development. Growth in the nonproductive public sector has become a significant obstacle to increasing the quantity and quality of indigenous entrepreneurs in the private sector.

The overexpanded public sector is in large part responsible for the type of growth that has taken place in the private sector. Wages in the hands of government workers stimulated demand, which created opportunities for new businesses to spring up to meet that demand. In fact, "since the 1960s, new private enterprises developed in direct proportion to the amount of wages earned through government employment" (Peoples 1985:21). The business expansion due to government wages resulted in greater private sector employment and income. Thus, wages and profits earned in the private sector are extremely dependent on government employment. "As an estimate, perhaps one-third of all cash income is earned from profits of private businesses or employment in the private sector. Almost all this income exists only because of wages earned through working for the...administration." (Peoples 1985:21).

U.S. largess directed at creating government bureaucracies is also indirectly responsible for the types of businesses that have been created; the service sector rather than the productive sector has been stimulated. Peoples (1985) found that, throughout Micronesia merchandising, construction, transportation, and stevedoring businesses "accounted for $4.3 million of the $6.1 million earned from private sources.... More recently, in 1977 about $7.8 million of the $13.2 million earned from employment in the private sector came from the same four activities. By contrast, in 1977, only $0.6 million were earned from business activities listed as 'Manufacturing and Handicrafts' and 'Agricultural and Fisheries'...; significantly, these are the only two categories of tabulated activities that produce some local resource for monetary profit" (Peoples 1985:22). Thus, the private sector stimulus provided by government wages has not stirred the development of a sounder economy, but one based on externally funded, consumer-oriented, merchandising- and service-dominated economic activities. Conditions in the Marshall Islands are further exaggerated by the huge sums of money received in rent payments for the use of Kwajalein and the compensation paid to nuclear-affected people. The additional money makes wage labor less attractive, contributes to the artificiality of the economy, undermines traditional self-sufficiency, and reinforces people's dependency on external sources of assistance.

The extremely lopsided trade relationships that Micronesia maintains illustrates the extent of its dependency. By 1977 the dollar value of imports had twice doubled the 1963 value (Table 1). Most notable was the tremendous increase in imported foods. Micronesians heavily substituted imported goods for what had been provided through subsistence agriculture and fishing, thereby seriously eroding their self-sufficiency. Export growth, on the other hand, did not keep pace with consumption and the level of imports. "The ratio of imports to exports of goods worsened from 2.33 in 1963 to 7.16 in 1977" (Peoples 1985:22).

Lazarus Salii's description of the U.S. as the liberator and conqueror of Micronesia is an appropriate summary of the colonial experience.

> We quickly found that the options we had believed were open to us actually were foreclosed. They were foreclosed not only by the terms of the Trusteeship, but by the economy that was then developing in Micronesia - an economy already racing away from the self-sufficient, subsistence economy of our fathers to a system in which imported goods (some of them necessary, many of them trivial) were making inroads on Micronesian life. We were witnessing the birth of an economy which would soon be - and today now is - thoroughly dependent on imported goods, contracted skills, and annual outside aid. It was not a pleasant process to contemplate; and most troublesome was the fact that we were its products, we were its educated imports. In Micronesia, the life of our fathers was being lost and the ideals of their sons could not be realized" (Salii 1976:7).

Chapter 4. THE GOVERNMENT AND COMMERCIAL DEVELOPMENT

This chapter focuses on the government of the Marshall Islands and its role in the creation of a commercial environment that is conducive to indigenous entrepreneurial participation and success. The Marshall Islands government's responsibility with respect to private sector development is more participatory than in some other countries. Not only is the government expected to create a favorable business environment through policies, programs, and laws, but it has declared that it will lead private sector development by involving itself in businesses (Republic of the Marshall Islands 1985). The nation's Five Year Development Plan calls for heavy foreign investment through joint partnerships with the government as the necessary ingredient to stimulate private sector growth. Indigenous participation is expected to result from secondary opportunities that emerge. The bulk of this chapter is devoted to the dual purpose of assessing the government's efforts at constructing a pro-indigenous business environment and evaluating the government's competence as a business organization. The implications for indigenous entrepreneurs should be fairly clear. A strong positive correlation can be assumed between government success at accomplishing these objectives and indigenous entrepreneurial success.

The Government

In May 1979 the Marshall Islands declared itself sovereign and self-governing under its constitution, and in March 1982 declared itself a Republic. The reigns of control have since been shifted from the hands of Trust Territory administrators the hands of duly-elected officials of the Republic of the Marshall Islands government. The new government faces many challenges ahead, the two most prominent being the negotiation of a Compact of Free Association with the U.S. and an economic turnaround enabling the Marshallese people to become less dependent and more self-reliant. The succeeding paragraphs deal first with the government's organization structure and then with the programs, policies, legislation, and incentives designed to have an impact on the indigenous commercial environment.

The Republic of the Marshall Islands government is modeled after the British parliamentary system with the exception of a president rather than a prime minister as the head of government. The 12-member Council of Iroij and the 33-member Nitijela are analagous to a bicameral parliament. The duties of the Council are limited to matters of custom and tradition, and membership is confined to traditional chiefs. The members of the Nitijela are legislators and are referred to as senators. These senators are chosen from electoral districts and in them resides all other government power. The executive branch is made up of the president and his cabinet, who are all elected members of the Nitijela. The presiding officer of the Nitijela is the Speaker. There is also an appointed judiciary system headed by a supreme court.

The Public Service, headed by the chief secretary, is responsible for implementing Cabinet policies and completing the day-to-day government work. The Chief Secretary is the leading administrative and advisory officer of the government. The Public Service includes 10 ministries, each of which is headed by a Secretary who is responsible for supervising daily activities. The Public Service Commission supports the Public Service by providing personnel management, civil service structure and organization, training, and the specification of employment conditions.

At the local level there are 21 chartered and four unchartered municipalities. An elected mayor heads each local government and is responsible to an elected council. The central government funds and provides all education, police, public works, health, and other services.

Development Strategy

A major task of the national and local governments is to succeed in carrying out the nation's development objectives. The Nitijela recently approved the most current development blueprint entitled the First Five Year Development Plan 1985-1989. The plan clearly notes that the government feels it has "inherited an economy encumbered by many imbalances which must be corrected" if it is to achieve its development goals. "The Government is committed to a 15-year investment program to correct these imbalances and to achieve self-reliance" (Republic of the Marshall Islands:i). The plan will not be implemented, however, until the Compact of Free Association is in effect. In fact, one of the stipulations of the Compact is U.S. approval of a development plan detailing how Compact funds will be spent.

This document may represent the first development plan written and approved by the current government, but it is not the first plan to be produced. An early effort, the Marshall Islands National Development Program, 1981-1995, was a 15-year outline of procedures and projects aimed at stimulating greater self-sufficiency. The outline was produced by the Marshall Islands Political Status Commission to fulfill a requirement made by the U.S. for continued political status negotiations. Other development documents have appeared since then, most recently the report entitled Economic Development in the Marshall Islands, prepared by Global Associates for the Department of Defense. Other than a flap over the sensibility of trying to control migration to the urban centers, this document is quite similar to the recently adopted development plan.

It is worthwhile to note that development plan writing has often been an exercise required by an external organization. The irony is that although the country is expected to produce development plans to demonstrate its commitment to a plan of action, it has precious little information with which to do effective planning. This lack of an adequate data base has been noted in other reports (for example, Connell 1983:6) and was encountered during the data collection for this study. Thus, over the past years development planning has been little more than an exercise in producing documents to satisfy a need, usually funding. Perhaps the strongest bit of evidence to support this contention is the amount of implementation that has already been done. Previous plans abound with livestock, agriculture, aquaculture, and other projects designed to bring economic relief from the tremendous dependency situation that exists. Throughout the fieldwork period there was no indication given through interviews, conversations, or visual inspection that many, if any at all, of these projects had been implemented.

Although the planning process and documents can be faulted, they have provided one useful service. They are fairly consistent in their elucidation of development objectives. The objectives as stated in the First Five Year Development Plan are:

-to ensure that sustained efforts are made towards the realization of the long term goal of self reliance;

-to lay a firm foundation for the building of a sound economy which will ensure a continuous increase in the living standards of the people;

-to ensure that continuous efforts are undertaken to create productive employment opportunities for the rapidly growing labor force;

-to bring about increasingly equitable development both among different atoll groups of the Republic and among different income groups of the population;

-to preserve the Nation's culture and environmental heritage for the benefit of present and future generations (Republic of the Marshall Islands 1985:26-27).

The plan makes it clear that achieving greater self-reliance will be difficult since it "will require that resources are mobilized in a manner that ensures their optimal use. This means that all potential resources must be exploited both to the maximum possible capacity and at the maximum possible level of efficiency" (Republic of the Marshall Islands 1985:27). The plan further recognizes the implications of their main goal, namely, that "for the nation greater self-reliance implies reduction in the degree of dependence on external grants, for the people individually it means that they must rely less on the government for public sector income earning opportunities. Opportunities must be created by encouraging private sector economic activities including self-employment" (Republic of the Marshall Islands 1985:27).

The government's development objectives with respect to the private sector were espoused by the President in a speech before the rejuvenated Marshall Islands Chamber of Commerce. The President told local businessmen "that he advocates a democracy based on the concept of developing a strong private sector while at the same time reducing the size of government" (Marshall Islands Journal, 14 June 1985). He further explained that although the development emphasis is on rapid private sector expansion, care must be taken to ensure equal distribution of wealth among the people (Marshall Islands Journal, 14 June 1985). In an interview with the Minister of Resources and

Development the strategy that would be used was specified. He explained that the leadership planned to rely heavily on foreign investment and government businesses to stimulate private sector growth. When asked what role indigenous businesses would play, the response was that these larger enterprises would create opportunities for "spin-offs." It is anticipated that indigenous business people and entrepreneurs would take advantage of these opportunities. This basic view was reinforced on several occasions in conversations with other government officials.

The government plan also includes privatization of government-run businesses as part of its strategy to promote indigenous businesses. "Within its policy of privatization the Government will continuously evaluate the possibilities of handing over to the private sector activities that could be more effectively carried out by that sector" (Republic of the Marshall Islands 1985:35).

Promoting Private Sector Growth

The preceding discussion served to give a broad view of the government's development objectives and strategies. This section turns to the issue of specific programs, policies, legislation, and incentives that have the potential for positive impact on the indigenous commercial environment.

Legislation

A review of laws enacted by the Nitijela of the Marshall Islands as of January 1985 uncovered few pieces of legislation that could be considered germane to promoting private sector development. Prior to 1979, under the Trust Territory administration, duties were not charged to imports, which served to increase the demand for foreign consumables. In 1979, Public Law 1979-21 was enacted and served the dual purpose of providing the government with an additional source of revenue and making an attempt to curb the inflow of consumer imports. The desirable side-effect is typically the stimulation of local production by creating a market for substitutes.

A review of subsequent amendments to the import law revealed across-the-board increases, with no apparent attempt at discrimination, to establish concessionary rates that would stimulate local productivity. A comparison of 1981 and 1984 import tax schedules showed an increase in all but three categories. Increases resulted in 1984 levels of up to five times the 1981 levels in a number of categories. The average increase throughout the schedule was approximately 200 percent. The only concessionary effort made by the government appeared to be the Import Duties (Amendment) Act 1984 which set an ad valorem tax at the rate of 5 percent on "all building materials imported for resale, for personal use or otherwise." The rate prior to the 1984 Act was 10 percent. Although this may translate into some savings for the small-scale business person, the real benefits will go to those involved in large-scale construction projects or importers of construction materials for wholesale or retail.

There is, moreover, an aspect to the Import Duties Act of 1984 that handicaps Marshallese merchandising businesses. All trade-related businesses are subject to the import duties act but no longer have to pay a gross revenues tax. Service-type businesses, on the other hand, must still pay a gross revenues tax. This arrangement was decided upon by the legislators when it became too difficult for the government to enforce a previously enacted sales tax law. The import law requires that duty must be paid before any goods can be released from customs. The government's true motivation with regard to this law was made clearer by the Chief Secretary. When reporting to the U.S. Senate committee on steps taken by the Marshall Islands government to improve its financial condition, he mentioned as one of the austerity measures taken the "more than doubling of the import tax rate on all commodities, and that it was requested that Secretarial approval be granted to increase the rate of taxation on KMR wages..." (Marshall Islands Journal, 7 July 84). From this brief look at the import tax history it is much easier to conclude that the government has so far viewed import duties as a mechanism for generating additional revenue rather than as a means to stimulate indigenous economic productivity.

With respect to taxation and revenue creation, the government claims that its plan is to increase revenues by broadening the tax base rather than by increasing the tax rate, which may discourage private sector activity. The broader base is expected to come from the anticipated private sector expansion. The taxation strategy is to "maintain low direct taxation rates for the income and business gross revenue taxes in order to provide a favorable environment for private sector investment...broaden the tax base through modest new taxes related to the development of new economic sectors...increase revenues from the import tax consistent with trade balance policies" (Republic of the Marshall Islands 1985:92).

The only other pieces of legislation uncovered that might impact indigenous businesses were the Non-Resident Workers Act of 1983 and the Banking Act of 1982. The former requires an employer to put up a $1,000 security for an imported worker. Ostensibly, the money is used to defray the government's cost of deporting aliens who are not repatriated as required by law. The modest benefit to indigenous businesses is the effect it has on discouraging the importation of alien workers, which could result in greater reliance on local skills. On the other hand, it could present difficulties for those indigenous businesses that must rely on imported labor.

The latter act requires banks to insure their deposits in a reliable manner. This is a fairly standard practice and is only noteworthy because it is the only written banking law in a country where interest rates are about 22 percent and mortgage laws are needed to enable people to borrow money using their land as collateral. At the time of the fieldwork for this study, the Auditor General found that of the three banks operating in the Marshall Islands - the Bank of Guam, the Bank of the Marshall Islands, and the Marshall Islands First Savings & Loan Association - only the Bank of Guam was in compliance as of 30 June 1984 (Republic of the Marshall Islands, Office of the Auditor General 1984:47).

One final piece of legislation deserves some attention, not because it is directly aimed at business but because of the serious reverberations it could have across the nation. The Marshall Islands Journal reported that in October 1985 the Marshall Islands Nitijela was considering the passage of a controversial bill that would give the President the power to convene a "commision of inquiry" at his discretion. As expressed in a Marshall Islands Journal editorial, the purpose of the bill is clear:

> It would allow the President at anytime to appoint a commission to investigate any activities of any resident of the Marshall Islands. It is not limited to government agencies. The President could order an investigation of 'any matter in respect of which an inquiry will in his opinion be in the interest of public safety, national security or welfare.' Any criticism of the government, or independent private business intitative out of step with current government policies could be seen as a threat to the catch-all national security or public safety provision. No one will be safe - from taxi drivers to private businessmen to candidates running for election.... (Marshall Islands Journal, 4 October 1985).

Once a commission was formed and a citizen summoned, it would have the authority to require that a person "'give evidence or produce any document or other thing in his possession, and to examine him as a witness or require him to produce any document or other thing in his possession.' In addition, regardless of rules of evidence in force, the commission would have the power to admit evidence 'which might be inadmissible in civil or criminal proceedings'" (Marshall Islands Journal, 4 October 1985). The article goes on to explain that a person that did not comply with the commission could be cited for contempt and punished by the court as a criminal act.

The Minister of Justice, who sponsored the bill, appeared before the Majuro Chamber of Commerce and assured its members that the bill had the endorsement of the Cabinet. In fact, he claimed that no one in the Cabinet expressed any concern over the scope of the proposed legislation. Business people asked why the legislation bypassed the Attorney General's power to obtain subpoenas and investigate. The answer given by the Minister of Justice was that even though the government has access to the courts it sometimes is unable to obtain pertinent information. In situations were no crime has been committed, the inquiry system would enable the government to gather the information needed to help make policy (Marshall Islands Journal, 4 October 1985).

Programs

Legislation was passed several years ago enabling the organization of a program designed to fulfill some of the basic necessities for private sector growth. Unfortunately, the program has not gotten off the ground. The Industries Development Act of 1981 was "to establish a Manpower Training Program and to encourage the establishment of Marshall Islands industries" (Nitijela of the Marshall Islands 1981). In reference to the act, the newly adopted Five Year Development Plan assures that "a manpower training program including on-the-job training for youths and other specific categories of the labor force will be introduced" (Republic of the Marshall Islands 1985:36, 68). As part of the program, the government expects to continue to give scholarships for advanced training overseas and will make use of technical assistance through the United States, United Nations, and other international agencies (Republic of the Marshall Islands 1985:36).

This is the only piece of legislation that deals directly with the issue of developing a more viable private sector by improving the capabilities of the Marshallese. The Nitijela Bill declares that self-sufficiency in basic needs is imperative. "Accordingly, the purpose of this Act is to establish a program to help reach that goal through widespread specialized training of youths in selected vocational skills, with the aim both of developing and increasing manpower resources and of assuring as far as practicable increased productivity and success in selected basic industries and trades to be established or expanded, and to be monitored and assisted, by Government, and to finally become viable private commercial concerns" (Nitijela of the Marshall Islands 1981:109). Not only would the program be helpful in providing entrepreneurs with valuable skills, but it could also serve to satisfy the labor needs of those already in business. One of the functions of the Board of Supervisors, which is to consist of two Ministers, two Secretaries, and three Cabinet appointees, is "...to co-operate with the private sector in order to learn, and to provide under the Program for, [sic] their manpower requirement..." (Nitijela of the Marshall Islands 1981:112).

Another very important feature of the program is its potential as a source of capital. The "Cabinet may authorize the Board to grant loans to such trainees in order to allow them to establish themselves in businesses in industries or trades to which the Program applies" (Nitijela of the Marshall Islands 1981:117). This could be an important source of venture capital so often lacking, particularly in the case of indigenous entrepreneurs.

The Minister of Resources and Development, a member of the board of supervisors, was asked during an interview to comment on the program's activities for the past few years. He explained that all financial obligations of the program were to be paid by the Manpower Training Program Fund, which is entitled to receive appropriations from the Nitijela or other sources. Since no money has been received from any source to create the fund, the program has remained inactive.

What has happened to this program seems to be indicative of other government efforts to bolster private sector growth and encourage entrepreneurial activity. That is, the rhetoric never quite matches the reality. Some sections of the legislation seem to betray the sincerity of its proposed intention. It is interesting to note that: 1) a major purpose of the program is to move toward self-sufficiency in basic needs, a goal declared imperative by the Nitijela; 2) no money has gone into the program from any source, including the Nitijela; and 3) one section of the Act concerning care of the trainees states that if "authorized by or on behalf of the Government of the United States, USDA [United States Department of Agriculture] food may, if the need arises, be used to implement a feeding program for the trainees" (Nitijela of the Marshall Islands 1981:116). It seems a bit incongruous to plead for the use of a U.S. federally funded food program to feed people who are supposed to be learning skills that will make them more self-sufficient.

The extent to which the government has taken steps to create a favorable commercial environment for indigenous business people was summarized in an interview by a minister directly involved with commercial growth. He was asked to cite any legislation, such as banking laws or regulations, taxes, or trade legislation enacted for the purpose of fostering indigenous participation in the private sector. He responded that legislation presently does not exist in any of the categories, but such legislation is planned for in the future. The best effort he could recall was a resolution, not a law, made by the Nitijela requesting that commercial banks consider lowering their interest rates. When asked in what ways government has been most effective in helping local businesses succeed, his response was that the government allowed several private businesses the right to have stores on the four government ships that travel to the outer islands to collect copra. It should be noted that these stores are convenient to outer islanders because it enables them to sell their copra to the ship's agents and then use the cash to purchase needed goods from the ship's stores.

Perhaps the incongruity mentioned above is less remarkable when one realizes that the few active programs in the Marshalls are funded through U.S. federal programs or international agencies rather than the Marshall Islands government. The Marshalls Community Action Agency (MCAA) is most active in offering programs that enable indigenous businesses to acquire or upgrade valuable commercial skills. It is a private, nonprofit corporation established in 1968 under the U.S. Economic Opportunity Act of 1964 and receives funds from the U.S. federal government. "Its primary function is to assist low income families and individuals to gain access to economic opportunities so that they become self-supporting" (Republic of the Marshall Islands 1985:173). MCAA has made important contributions to the country through its many programs, some of which are: Food Production, Nutrition Education, Job Training Partnership, Youth Option, and Small Business Assistance (Republic of the Marshall Islands 1985:173-74). The Job Training Partnership and the Small Business Assistance Programs in particular have benefited local business people. The training program is a cost-sharing arrangement whereby the program and the employer make equal contributions to the employee's salary during a period of on-the-job training. The purpose of the Business Assistance Program is to provide technical assistance to local business people. At a workshop held by the agency a few years ago, "the businessmen who attended said they needed help in accounting, bookkeeping and marketing in order to effectively operate their businesses and succeed in the business world," according to the State Department's Annual Report (U.S. Department of State 1983:158). The program, with the aid of a few Peace Corps volunteers, has assisted a few Marshallese business people in management and recordkeeping, but on a very limited scale.

On occasion, training course are offered by international agencies. Typically, they provide instructors and supervisory personnel who teach various skills to a small group of Marshallese. In the course of interviewing, two or three people were somewhat familiar with the National Trade Training and Testing Program sponsored by the International Labor Organization and the United Nations Development Program. Based on the development plan's description, three-month training sessions are used to teach trade skills to young people. Skill certification is possible and 10 trainees per quarter are expected. It is a three-year pilot program and is the first effort of its kind in the Marshalls (Republic of the Marshall Islands 1985:67). It appears that the training has been offered only once, perhaps twice, so far.

Finally, two trade programs have recently been introduced through the U.S. Department of State Liaison Office, the Trade Opportunities Program and the Trade and Development Program. It seems that the U.S. government has decided that it needs to make an effort to do business with Micronesia, perhaps out of fear that the inroads made by Japanese and other foreigners would eventually undermine U.S. hegemony in the region.

Development and Government Businesses

The government's development strategy is a top-down, two-pronged approach at building an energetic private sector. Development is to occur as the result of heavy foreign investment and the benefits derived from the success of government-owned businesses. The area of foreign investment is treated elsewhere; what follows is an analysis of government-owned businesses and their impact on the supply and performance of indigenous entrepreneurs.

The Marshall Islands Development Authority (MIDA) was organized many years ago as the business arm of the government. In light of the government's development strategy, the Authority has recently been reconstituted via Public Law 1984-24 (Nitijela of the Marshall Islands 1984). The law gives MIDA broad powers to involve itself in commercial enterprises.

> The primary function of the Authority under this Act is to investigate, study, develop and implement social and economic development programs and projects, alone or in conjunction with other governmental or private organizations or agencies, for the betterment of the economic and social conditions the [sic] inhabitants of the Marshall Islands.... the Authority shall encourage and develop, and may manage, businesses of economic or social importance to the Marshall Islands, such as tourism, poultry farming and piggeries.... the Authority shall conduct, on behalf of the Government, such business enterprises as the Cabinet directs (Nitijela of the Marshall Islands 1984:9).

The development plan adds that MIDA will be the government body responsible for undertaking joint ventures with foreign private investors as part of the effort to encourage private sector growth (Republic of the Marshall Islands 1985:128). The Finance Minister explained "that the bill is not intended to put the government into competition with existing businesses but rather to provide a mechanism for joint venture activities that could enhance the national economy and create more jobs" (Marshall Islands Journal, 17 August 1985). It is clear at MIDA was instrumental in getting Tobolar, the copra-processing mill, started in 1979. Its involvement in other government-owned businesses is not as clear. It is sufficient to say that MIDA is expected to have a more active role in the future. It will be the umbrella organization that will control all government- owned businesses. The benefit to the private sector generally, and entrepreneurs, specifically, is supposed to come from the spin-off businesses created and the eventual privatization of businesses that can stand alone without further government sponsorship.

Several years ago the Marshall Islands Maritime Company, a government-owned and operated service, was "established for the dual purpose of improving international shipping to the Republic and generating revenue through regional shipping services" (Republic of the Marshall Islands 1985:346). The development plan offers a reason for the company's failure, noting that it was established without working capital and was, until recently, in possession of the MV Fentress, a 150-ton vessel that was about 40 years old. The vessel was extremely costly to operate and the company lacked any long-range operations plans. The Marshalls do not have the skilled manpower for maritime industry development, and local ship repair and drydocking is impossible (Republic of the Marshall Islands:347). The ship has since been sold for its scrap value. The captain of the flagship of the Marshalls indicated that while in service it had to compete with other liners for cargo to carry between Pacific island ports. Service had to be ended after just a few trips.

The fact that this attempt at international shipping was a disaster is not surprising given the conditions described above. What is unclear is why the government would try to form an international shipping concern when it had not yet mastered the complexities of providing an adequate internal shipping service. Although interisland ship service is an extremely important link between Majuro and the outer atolls, the service is absolutely unreliable. On a commercial basis alone, this has been a perennial and significant problem for outer island copra makers and business owners. For example, after copra has been dried it is ready to be sold for processing. The longer it sits waiting for a ship, the swifter its quality, and hence its value diminishes. The field trip ships for decades have been the outer island people's link to better health care and education as well as economic and political participation. The service was poor under the Trust Territory administration and remains poor under the Republic of the Marshall Islands government.

The Five Year Development Plan acknowledges that the field trip service does not operate on a regular basis and that the cost of maintaining the service is a heavy burden. In fact, "operating expenses for the four field trip ships are on the order of $2,600 per day, while economic returns are low" (Republic of the Marshall Islands 1985:346). It goes on to admit that lack of money kept the ships from regular drydocking yet ships continued in service after the expiration of their safety and certification permits, which meant that they were uninsured (Republic of the Marshall Islands 1985:347).

The neglect of this critical element (the internal transportation infrastructure) is exemplified in a letter to the editor of the Marshall Islands Journal, (21 December 1984). A seaman wrote to thank the government for a pay raise and then asked when he could expect to receive it. The $52 he earned every two weeks was not enough to support his family of four. He went on about the long hours and hard work and questioned his inability to collect the vacation pay that he was promised. The government acknowledged that the US$2,600 daily expense to operate the service was a heavy burden, but in the meantime, it spent over $3,000 per day on off-island travel of its officials. The auditor general described the travel practice as "what appears [to be] excessive non-essential travel" and includes numerous cases of abuse in his report (Republic of the Marshall Islands, Office of the Auditor General 1984). In one case, three government officials and two consultants spent over $62,000 in expenses for 16 days of travel "which produced little measurable benefit" (Republic of the Marshall Islands, Office of the Auditor General 1984:58-59).

At about the same time the government was trying its hand at international shipping, it decided the country needed a government-owned airline to provide national and international service. In 1980 the Airline of the Marshalls (AMI) was established as the nation's flag carrier. It is the country's only airline and is a wholly owned government corporation organized and operated as a private company. It provides passenger, mail, and limited cargo service to 23 outer islands that are equipped with airstrips. It has recently begun service to Kosrae, Kiribati, and Fiji and flies occasional charters to other destinations in the South Pacific.

To equip the airline company the government purchased two Nomad aircrafts, one 14- and one 16-seater, from an Australian company. It also procured a much larger aircraft, a BAC 748, which was at first on loan from Canada and was later purchased from England through a British.

At the time of the fieldwork for this report, one of the Nomads was no longer flightworthy and was being canabalized for parts. The other was frequently grounded for repairs (Marshall Islands Journal, 4 January 1985). The local newspaper reported that the Nomads "suffered repeated electrical and mechanical failures" and that the consensus was that the Australian Nomad manufacturer had sold the country an inferior aircraft (Marshall Islands Journal, 26 April 1985). It was later revealed that the aircraft company had gone out of business, making it almost impossible to get parts. In the meantime, the BAC 748 was also frequently grounded due to mechanical problems (Marshall Islands Journal, 26 April 1985).

The Five Year Development Plan (Republic of the Marshall Islands 1985) asserts that the "main problem for domestic air transportation is the weak financial situation of the national airlines company, AMI. It has almost no financial reserves for maintenance operations and for the purchase of spare parts" (Republic of the Marshall Islands 1985:364). The number of passengers using many routes is so low that with "current fare levels the Nomads make losses on all lines, even when all seats are occupied" (Republic of the Marshall Islands 1985:364). The income earned from passenger service does not even cover operating costs. The Nomads are inefficient because they can carry only a small amount of cargo and are expensive to operate (Republic of the Marshall Islands 1985:364). There is a lack of skilled manpower local pilots, engineers, and mechanics are almost nonexistent.

The newspaper reported that an AMI financial statement showed the airline to be operating at a loss for the six-month period between August 1984 and February 1985 (Marshall Islands Journal, 19 April 1985). This is in spite of the fact that the airline is heavily subsidized by the government and is not required to pay taxes. Debt service on the aircraft loans is paid by the government and does not appear as an expense item on the airline's records. That is, the aircrafts are provided to AMI by the government at no cost (Republic of the Marshall Islands 1985:364). On the other hand, the government is also one of the company's major accounts receivable, owing over US$91,000 out of $228,000 total receivables (Marshall Islands Journal, 19 April 1985).

The situation became so critical that the government's commitment to continued air service led to the acquisition of two Dornier airplanes. West Germany reportly financed the US$4.3 million purchase (Marshall Islands Journal, 12 April 1985), adding approximately $5.5 million, including interest, to the government's airplane bill. The government still owes $956,000 on the two Nomads and $13,371,000 on the BAC 748 (Republic of the Marshall Islands 1985:368). The Dorniers, however, are expected to serve the Marshallese much better than their predecessors.

Management and personnel problems have plagued the company since its inception. The AMI has had five managers in as many years. According to a local newspaper report, squabbles over airline safety may have precipitated the departure of the last manager (Marshall Islands Journal, 26 April 85). He was interviewed for this study but refused to answer many of the questions because he felt that the information requested should be kept confidential. He also declined to answer some questions on the 18-item attitude survey, according to the interviewer, because, he felt that some of the items were too politically revealing.

A strongly worded editorial called for the privatization of the airline. It cited the privatization of the stevedoring service, formerly run by the Trust Territory government, as model for the airline company (Marshall Islands Journal, 3 May 1985). Support for the idea that an airline can be operated at a profit in the hands of the private sector was in evidence. The current manager reportedly ran a small but profitable airline in the Marshall Islands some years ago. At the time of his employment, the airline's board of directors recognized that he had "formulated and managed" a profitable service prior to AMI (Marshall Islands Journal, 16 April 1985). Interest in starting an airline began in the private sector long before the government got into the airline business. Several deteriorating aircraft now sit in the grass on the edge of the runway serving as reminders of an earlier private sector effort that succeeded in getting aircraft to Majuro, but was unable to obtain permission to put them in the air. Another interviewee explained in detail how he and a U.S. partner were prevented from going into the air service business. He accused the government of interference that effectively undermined their relationship, thereby ending plans to begin an airline. This was done ostensibly because the government had decided it would be first to start an airline.

For whatever reason the government has gotten into the airline business, whether for national interest or national pride, the fact remains that the service provided thus far has been expensive and has done little to improve the commercial environment. Recurrent management problems, inefficiency, and the limited usefulness of the airline in general are all factors that lead to questions as to its practicality. It appears that the national airline may be more of an economic luxury than the work horse that is needed. Air service provides quick passenger service to and from the outer islands, but is worthless for shipping copra and other merchandise. Like the outer island shipping service, airline schedules are very unreliable. As a piece of economic infrastructure its potential is limited. Given that service is so erratic, to incorporate the use of the airline in a business plan would be foolhardy. This sentiment was also voiced in an editorial that reminded people of the needs of the Marshallese relative to the value of air service. "To island people the mainstay of life is still the boat, whether it be the field trip ship or the international cargo liner. We have a tendency to over discuss and over prioritize air travel.... Let us not forget the importance of shipping, let us not neglect this vital and necessary service to the outer islands, and let us not forget for a moment that air service is of momentous importance to only a very small segment of our society" (Marshall Islands Journal, 28 June 1985).

An interesting addendum to the airline story is the remarkable proposal outlined in the Five Year Development Plan (Republic of the Marshall Islands 1985). The plan calls for the beginning of a flight school that it sees as eventually becoming self-supporting. The cost would be an initial US$100,000 with annual appropriations of $60,000 (Republic of the Marshall Islands 1985:367). At the same time, the manpower requirements set out in the plan indicates that a total of six trained pilots will be needed by 1989 (Republic of the Marshall Islands 1985:369). In effect, the plan is to invest at least $400,000 to train six people, after which there would be a glut of pilots in the country. Of course, the strategy becomes less appalling when one is reminded that the development plan may also serve the function of providing justification for claiming that the money expected under the Compact of Free Association is insufficient to meet the needs of the Marshall Islands.

It is sheer understatement to say that the government has been unable to demonstrate any competence in its commercial efforts at providing national and international shipping and air service. It has also fallen upon hard times with regard to its decision to earn money by licensing off-shore banks. Since March 1983 the government had licensed 102 off-shore banks, but stopped issuing new licenses in late 1984. Evidence of illegal stock schemes and investment programs (Marshall Island Journal, 5 April 85) and worthless checks drawn on off-shore banks of the Marshall Islands began to surface (Marshall Islands Journal, 23 November 1984). From mid-1984 to January 1985, 16 off-shore banks registered in the Marshall Islands had written bad checks amounting to over US$200,000 (Marshall Islands Journal, 4 January 1985). In November 1984 the government took action to protect investors and the reputations of the government and the responsible banks in light of irregularities that had been uncovered. Along with the moratorium on the issuance of new licenses the government instructed the Attorney General to draft new legislation to govern the operation of off-shore banks (Marshall Islands Journal, 16 November 1984).

The initial licensing had been handled by a California-based corporation, which kept most of the US$20,000 it had charged to register a bank and passed the rest on to the Marshall Islands government. Licensing regulations required that a bank: 1) keep $10,000 on deposit and 2) have a local representative (Marshall Islands Journal, 4 January 1985). As part of the government's effort to clean up the situation, all bank licenses expired in February 1985, forcing those that were interested in continuing as off-shore banks to comply with new regulations that were much more stringent. At the time of the June reapplication deadline only three banks had completed all of the necessary paperwork and 22 had partially completed it (Marshall Islands Journal, 14 June 1985). According to a newspaper report, this radical reduction "underlines the more stringent guidelines instituted by RepMar [Republic of the Marshall Islands Government] in response to the many banks that have been using the Marshall Islands as a base to conduct outright illegal or shady deals in the United States" (Marshall Islands Journal, 14 June 1985). In the meantime, investigation of alleged violations continues on the U.S. mainland.

Off-shore banking is done in Nauru, Vanuatu, and the Cook Islands. The appeal among legislators was most certainly to make money as other nations of the Pacific with no profitable industries or trade to rely on were doing. The off-shore banking fiasco appears to be a clear case of poor initial planning on the government's part. At first, requirements made it very easy to register a bank and the only benefit to the country was the cash earned from licensing the banks. The initial feeling may have been "the more the merrier," without consideration for the potential dangers associated with having few bank requirements. Obtaining more details about the off-shore banking business presented problems. The Registrar of Corporations keeps all off-shore bank information confidential. Even a local reporter was moved to remark at the difficulty in getting anyone in authority to talk about the operation (Marshall Islands Journal, 24 May 1985).

The government has experienced some business success through its relationship with Tobolar, the copra-processing mill. Copra has been the major export commodity of the country since the early days of trading and accounts for over 90 percent of the nation's total exports. Prior to 1979 raw copra was exported to foreign plants to be crushed and squeezed for its oil. With the cooperation of MIDA, the construction enabled the production of copra oil and the addition of a valuable byproduct, copra cake. The oil can now be pumped from the plant into an awaiting tanker ships for easy export. For many years the plant has been plagued by two serious problems: 1) the lack of a constant and reliable source of electrical power and a regular supply of quality copra to crush, and 2) the undependable and infrequent government shipping service mentioned earlier. One positive side-effect of this situation has been that several private sector entrepreneurs have started to operate their own copra boats. Although the copra supply problem lingers, the electrical supply problem may have been solved.

Electrical power is supplied to residents and businesses in Majuro Atoll by the Marshalls Energy Commission, "a quasi-government corporation composed of International Power and Service Company (IPSECO) and the Government of the Marshall Islands" (Republic of the Marshall Islands 1985:402). The four generator, 16-MW capacity plant has been on-line since 1983 and is not yet using half of its generator capacity in spite of a tripling in electricity consumption (Marshall Islands Journal, 29 March 1985). Plant management expects that the third generator will not be needed until 1990 and the fourth, not until well beyond 2000 (Marshall Islands Journal, 29 March 1985). Unfortunately, electrical blackouts still occur and are blamed on the faulty distribution system, of which the Marshall's Energy Corporation expects to take control over soon (Marshall Islands Journal, 29 March 1985).

It is interesting to note that one government official has used the Majuro Power Plant, a joint venture between the government and a foreign company, as an example of the government's willingness to "spinoff" businesses to the private sector (Marshall Islands Journal, 27 July 1984). This Company is considered to be a "spin-off" merely because prior to its formation it was the government's sole responsibility for providing electrical service to the community. The old electric power delivery system was begun under the Trust Territory administration and was almost totally subsidized by the government. In this case, "spin-off" has not been used to describe a private sector business that provides a service that was once provided by the government. Instead, it was used to describe a partnership between the government and a foreign-owned private sector business to provide that service. "Spin-offs" of this type are no more than continued government control and the use of foreign technology and management, and are unlikely to have any direct positive impact on indigneous entrepreneurs.

Nevertheless, the addition of a reliable electrical system has made it possible for Tobolar to crush more copra, thus increasing the value of the nation's only major export. And, of course, a reliable electrical system offers many potential benefits to the entire community. One question raised, however, was whether or not the US$25 million price tag for the plant represented a reasonable expense. Critics have attacked the size of the power and adjoining fuel plants as well as the way in which the deal was negotiated. At least one U.S. citizen involved in the negotiations has been implicated in wrongdoings involving the power plant (Marshall Islands Journal, 23 December 1985) and can be linked to a former off-shore bank owner convicted of a felony crime in the U.S.

The fuel farm mentioned earlier is a related business that will replace the current U.S. supplier of fuels for power generation, field trip ships, bunkering of foreign vessels, and local private consumption. The farm has a six million gallon capacity and "it will be some years before a market develops locally that will make a dent in their stockpile" (Marshall Islands Journal, 29 March 1985). The government expects the fuel farm to supply the new fishing base and the bunkering needs of the Japanese and other foreign fishing fleets.

The primary concern about government and its success at business stems from the fact that, according to the development plan and statements made by government leaders, growth in the private sector depends heavily on the viability of those businesses. For the private sector to benefit from government-owned businesses they must be sound investments that are run efficiently. For the most part, the first three businesses cited above have caused more harm than good. The shipping company was a total loss and the airline is costing the country millions that could be spent more productively. Off-shore banking has done harm to the country's integrity and reputation. The new power company might be successful if it can provide uninterrupted electricity. Ultimately, however, success will depend on the company's ability to establish a reliable billing and collection system. Asking people to pay for services that they have been receiving free of charge paid will be a most difficult task. As an example, at the time of the fieldwork telephone bills were being sent to customers for the first time in about 18 months.

Soon the country will be getting into new economic ventures and, if the past is any indication of the future, it is difficult to be optimistic. The details surrounding the new ventures allay no misgivings. In mid-1985 the government signed an agreement with the Danish Dairy Development Corporation for the construction of a milk factory in Majuro (Marshall Islands Journal, 3 May 1985). The plant will be owned entirely by the Marshall Islands government and financed by a US$1.1 million loan from a Danish bank at 12 percent interest for five years. According to a newspaper account the plant will "produce 4,000 quarts of milk in half-pint cartons for the schools, 5,000 quarts of milk in quart containers, and 1,000 quarts of ice cream every day" (Marshall Islands Journal, 3 May 1985). The plant is expected to require a minimum of 9,000 gallons of water a day (Marshall Islands Journal, 3 May 1985) to recombine the butterfat and milk powder, both of which will be purchased from the Danish company (Marshall Islands Journal, 5 July 1985). The milk produced must be refrigerated and has a shelf life of one week, at the most (Marshall Islands Journal, 5 July 1985). Consider that if the plant were to operate for one week at the capacity described it would produce approximately 11,000 gallons of milk and 1,000 gallons of ice cream. Since the milk must be consumed within a few days the likelihood of developing much of an export market is slim, meaning that most of the milk and ice cream market would be limited to Majuro's 12,000 residents who consume dairy products. Keeping in mind that there have been chronic water shortage problems on Majuro for years, it is unlikely that the plant would be able to operate on a regular basis thus drastically reducing the plant's output and escalating cost inefficiency.

Well-founded skepticism about the economic feasability of the milk factory project and the purchase of additional airplanes surfaced when Nitijela members met to consider the approval of related loan agreements (Marshall Islands Journal, 12 April 1985). The Nitijela was presented not with individual loans but with a "package" of overseas loans that included US$4.3 million for new aircraft for the Airline of the Marshalls, $3.1 million for boats and warehouses to bolster the outer island copra industry, and the $1.1 million dollars for the milk factory (Marshall Islands Journal, 12 April 1985). It was a patent government effort to get the milk factory loan approved, along with the popular copra industry loan and a loan to keep the already heavily financed airline from collapsing. Although requested, no written analysis or assessment of either the airplane deal or the milk factory project was presented for the decision makers to consider in their deliberations. At the time, the Secretary of Finance was unable to certify that the government had the money to pay the loans. Supporters of the package argued that to back out of the airline purchase plan would cost the government $100,000. By July, several months after the loan package was approved, the production costs had not yet been determined for the milk factory operation (Marshall Islands Journal, 5 July 1985).

In September 1985 the government announced that the signing of a letter of intent to buy another business financed through the Danish government and a Danish bank. According to the newspaper, the tuna canning factory will be another government owned and operated business. (Marshall Islands Journal, 13 November 1985). The plant will be able to consume 10 tons of raw fish in an eight-hour shift, which should produce about 25,000 cans of tuna. Some of the tuna will likely be sold for local consumption, but most of it is expected to be exported (Marshall Islands Journal, 13 September 1985). Presumably, in order for this operation to be successful there must be a regular supply of raw fish, adequate water and power needed to do the processing, and an export market that can be reached in a timely and consistent manner. Considering only the utilities aspect of the operation, it is likely that the plant will have problems. Although the power situation is getting better, a tuna cannery uses tons of water. Salt water is sufficient for much of the process but fresh water is also required. This will put an additional demand on a resource that is available to commercial and residential users only a few hours a day for most of the year because of its scarcity. The fact that the government has experienced many problems as a business owner should not be too surprising because business is not the work of government. However, since the government expects to lead economic growth through government-owned businesses it should be able to demonstrate some facility for efficiency and competence. The Auditor General's reports give some indication of the government's ability to demonstrate fiscal responsibility and good management practices.

A general appraisal the government's performance is found in the introductory remarks of two semiannual reports of the Auditor General. From the first report the Auditor General states: "The major and most pressing problem identified during the course of of our audits is the government's inability to bill and collect, in a timely manner, amounts due from the community for telephone, electricity, water, medical services and recover unreported travel advances" (Republic of the Marshall Islands, Office of the Auditor General 1984:4).

From the second report the Auditor General states: "The major weakness throughout REPMAR is the lack of control and guidance which in our opinion needs to be addressed, as a matter of the utmost urgency, by the development of comprehensive administrative policies, financial regulations and desk procedures. Coupled with the development of these essential tools for adequate financial management should be complementary on the job training programs" (Republic of the Marshall Islands, Office of the Auditor General 1984:9). It appears that prior to the second report the government "has never prepared comprehensive financial statements, and consequently, has never known to any degree its overall financial position" (Republic of the Marshall Islands, Office of the Auditor General 1984:25).

Both reports cite numerous cases of irregularities that have resulted in waste, unnecessary expenditures, and even cases of embezzlement and fraud that have been referred to the Attorney General's Office. One such case led to the prosecution of the Minister of Social Services, which resulted in a conviction and jail sentence for cheating and forgery (Marshall Islands Journal, 21 September 1985). The third Auditor General's report, covering the January 1 to June 30, 1985 period, again disclosed numerous cases of misuses of government funds and abuses of government policies (Marshall Islands Journal, 23 August 1985). Less than two months after the report was published, a department ministers who was alleged to have acted improperly resigned his post (Marshall Islands Journal, 4 October 1985). No explanation was given in the newspaper account of the resignation, but in an interview the former minister indicated that he preferred the private sector to government service.

As mentioned earlier, the point of this discussion was to evaluate the government's efforts at business development. The evaluation is justifiably within the scope of this report since the development strategy designates government-owned businesses to be the source of opportunities for private sector entrepreneurs. Based on the discussion of government-owned businesses it is doubtful that they will have much, if any, positive impact on indigenous entrepreneurs. As described by one cabinet member, the government's planning is best characterized as reactive. There is reportedly little well-thought out, long-term, detailed analysis of projects. As cited above, legislators are expected to vote without benefit of any written analysis of a project's financial, or any other, impact. The motivation behind beginning these particular businesses is unclear. On one hand the choice of business projects betrays a hint of imitation. Airlines, shipping companies, and off-shore banking are industries engaged in by several Pacific island neighbors. On the other hand, it could have been that they were chosen because of profit potential. However, no official was aware of a cost-benefit analysis or any other research that would support such a conclusion concerning any of the businesses. The serious problems encountered so far in each of the businesses mentioned has made the limited benefits realized very costly to the people of the Marshall Islands. Even within the scope of its responsibilities to provide public services in an efficient manner the government has demonstrated serious shortcomings.

The messages in this chapter with respect to the supply and performance of indigenous entrepreneurs should be clear. First, the government plans to promote private sector growth through heavy foreign investment, joint ventures between the government and foreign partners, and government owned and operated businesses. Indigenous entrepreneurs are implicitly relegated to the secondary opportunities that arise if these primary efforts are successful. Second, the government has done little to contribute to the development of a favorable commercial environment through legislation, programs, policies, or other incentives. Instead it has raised taxes and established requirements that make business more difficult, particularly for the small store owner. Third, several government- controlled businesses have been costly experiments in business and have added considerably to the serious financial debt of the nation (Marshall Islands Journal, 8 June 1984). And fourth, the government has demonstrated that it is hard-pressed to manage government services efficiently. Official reports have cited many instances of mismanagement of funds and abuses of power.

CHAPTER 5. THE COMMERCIAL ENVIRONMENT

The basic aim of this chapter is to describe the commercial environment and to identify characteristics that inhibit the participation and performance of indigenous entrepreneurs. The term commercial environment refers to the trade activities of the private sector and those features of the economy in general that have a strong influence on business development (e.g., the supply of labor and natural resources). The first part of the chapter describes those aspects of the Marshall Islands economy that are useful in understanding indigenous business growth. The latter part of the chapter focuses on the private sector and several major characteristics that impede indigneous business development.

The Commercial Environment and the Economy

Land and People

Perhaps the two most basic conditions that discourage economic growth in the Marshall Islands are the lack of land resources and a burgeoning population. As pointed out in Chapter 1, the 29 atolls and five islands that comprise the Marshall Islands total no more than 192 km2 (74 mi2). Furthermore, these small stretches of land are spread out over 910,000 km2 (350,000 mi2) of ocean, making interisland transportation and communication extremely troublesome. What land exists is not particularly productive, especially the drier islands to the north. The major effort to make the lands more productive revolves around increasing copra yields by the rehabilitation and replanting of copra plantations. Other efforts at improving the agriculture sector are focused on vegetable production. For this purpose, in 1981 some experimental work on agriculture stations in Laura and Wotje was begun by the Taiwanese government. They hope to develop ways of growing a greater variety of foods, which will foster the important development goal of self-sufficiency. Whatever advances the Taiwanese accomplish, though, it is unlikely that local agricultural products will make much of an impact on the internal or external trade markets. By 1983 "there was little marketing of agricultural produce and grave concern not only that the experimental farms were heavily dependent on fertiliser inputs...but that the whole structure would be extremely difficult to maintain after the Chinese agriculturalists departed" (Connell 1983:4).

Population growth is one of the most serious problems facing the Marshall Islands today. The consequences of unabated growth will resound throughout the nation in social, political, and economic aftermaths if plans at control are not successful. It wasn't until the early 1960s that the population attained its pre-contact level of around 13,000 (Table 3). Since then it has more than doubled, due in large part to improved medical care and the abandonment of traditional means of population control (Connell 1983:12). Current population estimates run as high as 35,000 (Republic of the Marshall Islands 1985:10). The lack of reliable demographic data has caused growth rate estimates to vary from just over 3 percent per year to as high as 4.4 percent (Connell 1983:12; Alexander 1978:58). Regardless of the accuracy, the message is clear; the population will double again in less than 20 years. Other characteristics of the population that suggest imminent social and economic problems are its distribution by age (Table 4) and migration patterns. Based on the 1980 census, 52.5 percent of the population are under the age of 16, the highest proportion found among Pacific Island country's (Connell 1983:13). Shifts in population residence over the last several decades has resulted in the overcrowding of both Ebeye and the Rita-Uliga-Dalep section of Majuro. These two areas account for only 10 percent of the total land area but are now home for about two-thirds of the population (Alexander 1978:65). The one-third remaining in the outer islands finds itself not only limited in numbers but in physical strength. Migration has left a disproportionate number of very young and old since it is those of working age and ability that usually seek wage employment in the urban centers. The young and the old can be thought of as a "second wave" of emigrants that follows the first in cases where jobs have been found.

Table 3. Population of the Marshall Islands for Selected Census Years

Census Year	Total Population	Population Change	Growth Rate (percent p.a.)
1920	9,589	----	-.--
1924	9,422	-167	-0.35
1930	9,970	381	1.14
1935	9,958	-12	-0.02
1946*	9,815	-143	-0.13
1950*	11,033	1,218	2.97
1958	13,761	4,205	1.42
1967	18,925	5,164	3.60
1973	25,045	6,120	4.78
1980	30,873	5,828	3.03

* Estimates

SOURCE: Republic of the Marshall Islands, First Five Year Development Plan 1985-1990, Majuro, Marshall Islands: Office of Planning and Statistics 1985, p. 47.

The lack of land and the ability to exploit it more successfully has hampered economic growth. Pressures from population growth and continued migration are undoubtedly going to add serious problems to the development effort.

Table 4. Marshall Islands Population by Sex and Age Groups, 1980 and 1990

	September 1980			July 1990		
Age	Males	Females	Total	Males	Females	Total
0-4	3,377	3,125	6,952	4,690	4,496	9,186
5-0	2,661	2,362	5,023	3,956	368	7,543
10-14	2,117	1,937	4,054	3,252	2,985	6,237
15-19	1,434	1,552	2,956	2,664	2,346	5,010
20-24	1,223	1,378	2,601	1,984	1,847	3,831
25-29	1,142	1,083	2,225	1,444	1,520	2,964
30-34	930	849	1,779	1,197	1,290	2,487
35-44	1,044	911	1,955	1,942	1,844	3,786
45-54	785	723	1,508	968	939	1,907
55-59	332	332	664	353	336	689
60-64	359	283	642	312	291	603
65-over	47	517	964	665	661	1,326
TOTALS	15,851	15,022	30,873	23,327	22,242	45,569

SOURCE: Republic of the Marshall Islands, First Five Year Development Plan 1985-1990. Majuro, Marshall Islands: Office of Planning and Statistics, 1985, p. 49.

Imbalances

The economy of the Marshall Islands is almost totally dependent on revenues received in connection with U.S. military operations on Kwajalein and annual U.S. congressional appropriations. Approval of the Compact of Free Association will not alter this flow significantly; only the formula for payments will be adjusted. Other sources of money flowing into the economy come from copra exports, compensation paid by the U.S. to nuclear-affected people, and lease rights to fish within the Marshall Islands exclusive economic zone. Recent developments in fishing rights negotiations indicate that substantial monetary increases can be expected from Japan and other nations wanting to fish in Marshallese waters (Marshall Islands Journal, 26 April 1985; 13 September 1985). The money received from these sources is the fuel for the country's various commercial activities: the many retail trade and service businesses, some handicrafts production, a small amount of manufacturing, some tourism, and limited small-scale fishing.

According to the Five Year Development Plan the economy is characterized by three major imbalances: 1) government's recurrent expenditures exceed domestic revenues, 2) imports far exceed exports and the gap is widening, and 3) domestic savings fall short of investment (Republic of the Marshall Islands 1985:15). The situation is highlighted by the fact that in 1984 less than one-half of government expenditures was generated from domestic revenues, and came directly from external sources. Furthermore, much of what was generated from internal sources originated as outside assistance (Republic of the Marshall Islands 1985:15).

Imports of consumer goods, raw materials, and capital goods greatly exceed total exports. This large trade gap has been expanding and is expected to grow. Copra oil and cake account for over 90 percent of total exports and are likely to remain the leading export commodities for years to come. Some diversification is called for in the development plan but is far from being realized at this point. On the other hand, the demand for consumer goods continues to expand. Table 5 gives some idea of the magnitude of the nation's dependence on imports; the ratio of imports to exports ranges from approximately 4:1 to 8:1 for the years indicated. The most startling feature of this dependence is the consumption nature of most imports. Some estimates claim over 90 percent of all food requirements, and almost 100 percent of all ready-made clothing items are imported.

Table 5. Balance of Trade, 1979-1983 (in US$'000)

	1979	1989	1981	1982	1983
Imports	14,238	17,155	22,208	16,277	20,694
Exports	3,397	2,577	2,968	2,225	3,143
Trade deficit (-)	-10,841	-14,578	-19,240	-14,052	-17,551

SOURCE: Republic of the Marshall Islands, First Five Year Development Plan 1985-1990, Office of Planning and Statistics, Majuro, Marshall Islands: 1985, p. 16.

The consumption nature of the economy also has had adverse affects on the population's propensities to save and invest. The absence of domestic savings has been offset by investments financed almost exclusively through foreign sources, either through U.S. government assistance or loans. "During the period 1977-1981, overseas borrowing contributed 64 percent to total public investment of $43.6 million. The share of U.S. Government assistance in the form of Capital Improvement Projects was 31 percent or $13.6 million" (Republic of the Marshall Islands 1985:17). Up to this point it has been impossible for the

Republic of the Marshall Islands government to generate a surplus available for investment (Republic of the Marshall Islands 1985:17).

Infrastructure

A large portion of government investment over the years has gone to infrastructure development. The urban center populations of Majuro and Ebeye receive the benefits of existing public utilities and government services, most of which do not exist on the outer atolls. Public water, power, and sewerage systems of variable reliability are available on Ebeye and Majuro, but not on the outer atolls.

The public water systems in both places are inadequate to serve the respective populations. The problem is to collect and store enough rainwater to meet consumption requirements and then to deliver it on a regular basis. Storage capacity is presently inadequate and typically results in water being available only a few hours per day throughout most of the year. The situation, with respect to electrical power, was analogous until recently. The new 16-megawatt power plant appears to be an important step toward solving the power supply problems. Critics hold that the plant was too costly and was capable of generating more electricity than will be needed in the future. Aside from questions of cost and the government's ability to collect from users, the fact remains that the increase in users since the plant went on-line has been more dramatic than anticipated. A strong posibility exists that positive economic reverberations will be felt throughout the private sector if the service remains reliable and is extended to service more users.

Another important infrastructure service that has improved somewhat in recent years is the nation's communications system. The current international telecommunications system consists of telegram and cable services that are provided by high-frequency radio lines through the former Trust Territory headquarters in Saipan (Republic of the Marshall Islands 1985:371). The interislands communication network consists of 53 solar-powered radio stations that link the capital with the outer atolls. And two satellite earth stations are used to link the major population centers, Majuro and Ebeye. In spite of the improvements to the system the development plan recognizes that more needs to be done. "The present telecommunications system in Majuro is not meeting existing business, government or residential needs" (Republic of the Marshall Islands 1985:371).

A final and most essential type of physical infrastructure is the nation's transportation facilities. On the international level the Marshall Islands is serviced regularly by two airlines Continental Air Micronesia and Air Nauru. In addition to air service, several international shipping companies directly link the Marshalls with the U.S. mainland, Japan, Australia, and Hawaii. Shipping service has improved with respect to Ebeye, which now has direct service from the U.S. west coast.

As mentioned in the previous chapter, Airline of the Marshalls services most of the outer atolls and flies several routes to neighboring countries. Unfortunately, the airline has been seriously hampered by recurring aircraft and personnel problems. Additionally, when the planes are operational they are of marginal commercial benefit to the few indigenous business people who can make use of them.

The interisland shipping service also was discussed in Chapter 4. In general, the four field trip ships are essential to outer island copra makers and merchants. The unreliable service, however, has cost them much in lost copra revenues and sales. The 70 ton per day copra mill relies on this service to supply copra for processing. Reliable shipping service has become even more critical now that the mill can operate more frequently because of the improved electrical service. Departing from Majuro the ships carry trade goods, other cargo, and passengers to the outer atolls. Also on board is a ship trader and supercargo. The supercargo monitors copra purchases and the trader operates a small store from which copra sellers can purchase goods. This is the primary method by which outer islanders participate in the monetized economy. The ships return to Majuro filled with passengers and copra for the processing mill.

That the social infrastructures of education and health services are important to economic growth is without question. The cursory treatment they receive in the next few paragraphs serves only to highlight conditions within which these two areas are of importance to productivity in the private sector.

The government-sponsored formal education system is modelled after the U.S. system and has 69 elementary and two high schools. In addition, several private elementary and high schools that are run by religious and nondenominational groups enroll almost one-fourth of the nation's school children. At the elementary age nearly all of the children attend school. The drop-out rate over aan eight-year period however, is quite high 38 percent for the class of 1984 (Republic of the Marshall Islands 1985:257). At the high school level the situation worsens. Since there is not enough room in high schools for all of the elementary school graduates, only those passing an entrance exam may attend, typically 30 to 50 percent. The class of 1984 had 61 percent fewer graduates than it had as freshmen in 1980 (Republic of the Marshall Islands 1985:257). These numbers indicate that out of every 100 elementary students only about 62 can be expected to graduate. Of those, perhaps 30 will go on to high school, and only 12 will graduate. The consequences are summarized in the remarks of a former Marshall Islands high school principal, who said that if present trends continue, the Marshalls will become a society in which a few people will be quite well-educated and most people will be quite poorly-educated.

Tertiary education is possible in Majuro through the College of Micronesia's Center for Continuing Education. Courses are accredited by the major U.S. accrediting agency and therefore are recognized by U.S. colleges and universities. The 1984-85 catalog lists courses in accounting, economics, management, marketing, and entrepreneurship.

These courses all could greatly benefit indigenous business people. Unfortunately, only a few of those people interviewed indicated that they either knew about or had taken a course.

Health services include the hospital, dispensaries, and public health and dental services. A new 81-bed hospital has replaced the old 86-bed Armer Ishoda Hospital and provides primary and secondary health care services. Ebeye patients are cared for in a 25-bed dispensary that was originally meant to be a temporary building in the early 1970s. Most outer islands have dispensaries that are staffed by a health aide who has undergone at least 18 months of training in basic health and medical treatment. In cases of extreme emergency, service is sometimes provided at the U.S. Army Hospital on Kwajalein, or evacuation to Tripler Army hospital in Honolulu is required.

There is hope that the transition from the old to the new hospital will mean better health care in Majuro. Stories abound of the old hospital being out of basic medicines and supplies on a regular basis. The problem has been so serious that on more than one occasion it has been reported that people have died because ordinary medicines were unavailable. Conditions on Ebeye are similar. The tragedies on Ebeye sometimes involve the well-equiped Army hospital and its staff located just a few miles away by boat. The Army's policy of disentanglement with the natives has resulted in Marshallese deaths because services were withheld.

The inadequacy of the social infrastructures of education and health services acts to inhibit the indigenous work force from achieving potential levels of physical and mental preparedness. One of the more adverse consequences of this condition is a fairly constant flow of foreign labor into the country to do jobs that should be offered to the Marshallese.

Labor Force

The labor force of the Republic is a mix of Marshallese, other Pacific islanders, and expatriate government and private sector contract employees. Most of these wage earners are employed in the urban centers of Majuro and Ebeye. In the outer islands wage labor is limited to the few government positions available as school teachers, health aides, or police officers. The source of cash income for other outer islanders is typically copra production or handicrafts, which might earn them about US$200 a year (much less than the more lucrative government employment). Thus, participation by outer islanders in the cash economy is restricted. The exceptions are, of course, the nuclear-affected people and Kwajalein landowners who receive cash compensation and rent, respectively, from the U.S. government.

The available work force has been defined as those people between the ages of 15 and 60 who are willing and able to work (Global n.d.:21). The Marshall Islands work force is very young; approximately 80 percent are younger than 40 and about 40 percent are under 25 (Table 6).

Table 6. Marshall Islands Labor Force by Age & Sex

Age	Male	Female	Total	%
55-59	332	332	664	4.8
50-54	376	323	699	5.1
45-49	409	400	809	5.9
40-44	436	383	819	6.0
35-39	608	528	1,136	8.3
30-34	930	849	1,779	13.0
25-29	1,142	1,085	2,227	16.3
20-24	1,223	1,378	2,601	19.0
15-19	1,434	1,522	2,956	21.6
Total	6,890	6,800	13,690	100.0

SOURCE: Global Associates, "Economic Development in the Marshall Islands." "Unpublished report to the Republic of the Marshall Islands Government", Marshall Islands, 1984, p. 21.

In the years to come the work force can be expected to remain youthful. With 82 percent of the female population under 35, one of the highest crude birth rates in the world, and a structure that today finds 50 percent of the population under 15, no shortage of young people searching for employment is expected (Republic of the Marshall Islands 1985:48). According to the development plan "...700 school leavers will join the labor force every year" (Republic of the Marshall Islands 1985:22). They all will expect to find employment in the modern economy, but very few will be successful.

Unemployment is a serious problem now and is likely to worsen. Reliable unemployment data is impossible to find, but a few responsible estimates should serve to establish the severity of the situation. Connell (1983:8) found that unemployment estimates for the urban areas of Majuro and Ebeye may be as high as 45 percent. However, based on an analysis done by Global Associates of the number of wage earners paying income taxes, the unemployment figure is much higher, perhaps as high as three-fourths of the labor force (Global Associates n.d.:22). In support of the high estimates, a March 1982 report stated that a survey had found 1,000 teenagers to be jobless in Majuro, an extremely high figure considering the population (Connell 1983:9). And in October 1985, the Journal reported that a study done on Ebeye concluded that 88 percent of the residents were unemployed (Marshall Islands Journal, 26 October 1985). The most conservative unemployment figures were found in the development plan, which estimated that 22 percent of the males and 27 percent of the females in the labor force were unemployed (Republic of the Marshall Islands 1985:23). The plan also concluded that the 1980 labor force participation rate for males 15 years and older was 65, "much lower than other Pacific countries as reported in the 1976 census: Fiji, 84.0, Samoa 79.1, Tonga 71.8" (Republic of the Marshall Islands 1985:54).

The inability of Marshallese to find employment in the money economy is further substantiated by an analysis of money versus subsistence economies in the development plan. Table 7 illustrates a faster rise in the number of people employed in the subsistence economy as compared with the money economy.

Table 7. Structure of Employment, 1973-1980 "Subsistence" vs. "Money" Economy

Year	Subsistence Economy Employed	Subsistence Economy Percent	Money Economy Employed	Money Economy Percent	Total Employed	Total Percent
September 1973						
Males	1,240	30.4	2,843	69.6	4,083	100.0
Females	1,041	62.5	625	37.5	1,666	100.0
Both Sexes	2,281	39.7	3,468	60.3	5,749	100.0
September 1980						
Males	1,712	38.3	2,763	61.7	4,475	100.0
Females	1,290	61.8	797	38.2	2,087	100.0
Both Sexes	3,002	45.7	3,560	54.3	6,562	100.0

SOURCE: Republic of the Marshall Islands, First Five Year Development Plan 1985-1990. Majuro, Marshall Islands: Office of Planning and Statistics, 1985, p. 57.

Between 1973 and 1980 the total number of people employed increased by 813. Only 92 of those jobs were found in the money economy; the remaining 721 occurred in the subsistence economy (Republic of the Marshall Islands 1985:56). This lack of employment opportunities in the money sector has long been a characteristic of the labor market. The only noteworthy change in the employment pattern in the money economy has been the reduction in government employment and the increase in private sector employment. The development plan reported a decrease in government employment of 428 between 1976 and 1983 that it claimed was offset by an increase in mostly part-time private sector employment of 920 over the same period (Republic of the Marshall Islands 1985:58).

As noted in the population discussion above, the forecast is for a growing labor force. According to the development plan the labor force can expect an average annual increase of 486 youth from 1985 to 1990 (Republic of the Marshall Islands 1985:630). A few people will find employment, others will be underemployed, some will emigrate, and some will work in the subsistence economy, but most will remain unemployed and discouraged workers.

Correcting the employment imbalance between the public and private sectors has been part of the government's economic growth rhetoric for many years (Connell 1983:7). Although cuts have been made, it becomes difficult for government to continue to reduce its numbers in view of the unemployment crisis. It is not surprising that the development plan indicates that additional labor will be required for all government services that is now available and for the services to be added once the Compact of Free Association is implemented. This is likely to be popular since government service has always meant higher pay and usually greater job security. Some idea of the size and wage difference between public and privates sectors can be gained from Table 8. The number of employees in the private sector, including the Kwajalein Missile Range, is about 200 less than the number of government employees. The average wage between the two groups is considerably different, in favor of government employees. On the average, working for the government translates into a 70 percent salary increase from private sector wages. The highest paid workers are employed by Global and other Department of Defense contractors on the Kwajalein Missile Range, where wages are governed by U.S. minimum wage laws. Wages paid to Kwajalein workers are at least twice the amount paid to government employees and over three and one-half times what private sector employees can expect. These exceptionally high wages are the cause of heavy migration to Ebeye, as mentioned in Chapter 3, and the reason that people are willing to endure extreme overcrowding, poor sanitary conditions, and other slum-like conditions.

Table 8. Average Wages Paid to Marshallese, Public and Private Sectors

Sector	Payroll	Employees	Avg. Wage
Government	$ 6,285,667	1,877	$3,349
Private Sector Less KMR	$ 3,295,709	1,662	$1,983
KMR	$ 4,079,430	567	$7,195
TOTALS: Private	$ 7,375,139	2,229	$3,308
Government and Private	$13,660,806	4,106	$3,327

SOURCE: Global Associates, "Economic Development in the Marshall Islands." Unpublished report to the Republic of the Marshall Islands Government, Marshall Islands, 1984, p. 22.

It is most often the case that Marshallese workers trained on Kwajalein stay there. Although skilled workers are needed in government and private sectors, pay levels are far below those at Kwajalein. Thus, foreign labor is often imported to meet the need for skilled labor outside of Kwajalein. As reported by one source, the foreign work force in the Republic of the Marshall Islands is almost 600 (Global Associates n.d.:22). Figures arrived at by Connell (1983:28) indicate only 217 aliens employed, the difference most likely being the number of U.S. citizens employed at the Kwajalein Missile Range. Technically, foreign laborers is justifiable only if they possess skills that are needed and cannot be provided by local persons. Alien workers can be found, however, in a wide variety of jobs that range in requirements from low-level trade skills to the professional demands of education, medicine, and business management. The greatest numbers come from the Philippines and the United States, and most are employed in the private rather than the public sector.

The impact of alien workers aside, the level of wages paid to Marshallese government employees should be recognized as a serious economic issue. Government wage levels have been high and on the increase since the earliest days of the the Trust Territory administration. These indefensible wage levels have had the detrimental effect of raising income expectations to unrealistic levels, particularly when compared with the meager earnings of copra makers or handicraft artisans. Serious concern has already been voiced about the dangers of high-priced Marshallese labor since it could have a negative impact on the growth of local industries and perhaps discourage foreign investors from locating in the Marshalls (Connell 1983:7).

The artificiality of the wage structure has enabled people to afford a standard of living much higher than the productive capacity of the economy. It will be exceedingly difficult, and politically unpopular, for the government to do anything but support higher wages. The hourly minimum wage for Republic of the Marshall Islands employees is now US$1.00. And although there is no minimum wage law for private sector employment, the rate observed is about the same. Some effort has been made to raise the minimum wage to $1.30, and one politician wanted it to go as high as $1.85 per hour (Marshall Islands Journal, 5 August 1982).

The Commercial Environment and the Private Sector

Production

The focus of this section is on the contribution of private sector commercial activities to the Marshall Islands economy and the role played by indigenous businesses. Two issues of particular concern are of relative importance to the various sectors and the degree to which indigenous businesses are represented in each of those sectors. It is difficult, however, to give a complete rendition of private sector activities because of the tremendous variation that ranges, for example, from small outer island retail stores to off-shore banks that appear only as confidential papers. Therefore, the discussion that follows should be understood to refer to the more visible commercial enterprises of Majuro and Ebeye.

The service and trade sectors are by far the largest, followed by meager industrial and extractive sectors. Extractive refers to businesses that depend on the land or ocean for their products (e.g., agriculture, aquaculture, and fishing). A survey restricted to the Majuro Atoll identified 127 service-type businesses, 122 trade stores, 25 industrial enterprises, and only a handful of extractive-type businesses. The tremendous imbalance between the nonproductive service and trade types and the productive-oriented industrial and extractive types underlines the precariousness of the private sector. The driving forces behind business creation have been the profits to be made from servicing the buying power created through government wages, rents paid to Kwajalein landowners by the U.S. government, wages paid to Kwajalein workers by U.S. contractors, and compensation paid to nuclear-affected people. The result has been a proliferation of small retail stores, restaurants, and other service-related businesses. The danger lies in the fact that if economic development is to result in greater self-reliance, then the private sector's contribution to the nation's economic base cannot be founded on enterprises so vitally dependent on continued external financial support. In fact, evidence already exists that the U.S. military dependence on Kwajalein as a testing range could diminsh in the years ahead (Connell 1983:4). And if the Compact is implemented with Section 177 intact, it will effectively end all future claims by nuclear-affected people against the U.S. government for compensation in addition to what is already specified in the agreement.

Athough the industrial and extractive sectors are production oriented and therefore more valuable in terms of developing a sound economic base, they are very limited. In addition to the government-sponsored copra processing mill, the industrial sector includes a machine shop, a few construction companies, some small boat-building operations, some handicrafts production, a print shop, a few bakeries, and several tailor shops. The extractive sector contributes a few small-scale agriculture, aquaculture, and fishing businesses. Precisely because of this paucity, the government has plans to invigorate these two areas through its policy of government-owned businesses. However, the prognosis for greater industrialization must be tempered by the realization that natural resources are limited, infrastructures remain inadequate, domestic wage levels are high, domestic markets are small, and venture capital is difficult to find.

Further evidence of the sectoral imbalance is illustrated in Table 9. The employement structure indicates that in the private sector more than twice as many people work in the nonproductive-oriented service and trade sectors. If the nonproduction-oriented public sector is included, almost six times as many people work at jobs that do not add commercial value to some product.

Table 9. Employment by Industry, September 1980

Economic Activity	Employed No.	Employed Percentage
Private Sector, Productive Oriented		
Agriculture, Forestry, Fisheries and Mining		
"money economy"	42	0.6
"subsistence economy"	(3,002)	(45.5)
Manufacturing	114	1.7
Construction	372	5.6
Totals	528	7.9
Private Sector, Non-Productive Oriented		
Wholesale and Retail Trades, Restaurants and Hotels	543	8.2
Finance, Insurance, and Real Estate	29	0.4
Business and Repair Services	606	9.2
Personal, Entertainment and Recreation Services	71	1.1
Totals	1,249	18.9
Public and Private Sectors, Non-Productive Oriented		
Transportation	243	3.7
Communication and Other Public Utilities	59	0.9
Public Administration	591	9.0
Health Services	238	3.6
Education Services	554	8.4
Other Professional and Related Services	134	2.0
Totals	1,819	27.6
TOTALS, less subsistence economy	3,596	54.4

SOURCE: Republic of the Marshall Islands, First Five Year Development Plan 1985-1990. Majuro, Marshall Islands: Office of Planning and Statistics, 1985, p. 70.

The private sector's contribution to the economy's strength can be seen as a percentage of the nation's gross domestic product (GDP the monetary value of goods and services produced). In 1977 private enterprise accounted for only 5 percent of the GDP (Connnell 1983:7) and probably has not changed much since then. The total value of all goods and services produced adjusted for price level changes (real GDP) did not increase between 1975 and 1981. Adjusted for inflation, it actually fell at an annual rate of 0.7 (Republic of the Marshall Islands 1985:21). Because the population is growing at over 3 percent per year, the per capita real income (real GDP/population) declined at an even faster rate (Republic of the Marshall Islands 1985:21). The decline in real GDP is a reflection of several realities, one of which is the lack of real growth in the prvate sector.

A reasonable approach to greater self-sufficiency and a higher standard of living is to raise people's real incomes. In order to accomplish this real GDP must grow faster than the population rather than merely keeping up with inflation. The development plan claims that in order to achieve an increase in production and income, the efforts of "the formal business organizations, subsistence and semi-subsistence producers, self-employed and the non-formal small business entrepreneurs" are critical (Republic of the Marshall Islands 1985:32). The plan also acknowledges that the "productive base of the economy is very weak...[which] implies the need to exploit the economy's natural resources more extensively and more efficiently...[and] the need to start to expand the secondary and tertiary activities which can be built around the primary sector" (Republic of the Marshall Islands 1985:28).

The dismal economic reality of the Marshall Islands is that the country not only relies almost totally on external funding, but very little of the money received is invested in productive enterprises that could help to create an economic base that would allow greater self-reliance. Unfortunately, the artificiality is portrayed as sound and valuable development in local newspaper articles and political speeches. This glorifying of economic achievements only serves to convince the population that the country is growing stronger and more self-reliant. The development plan, however, gives a more somber view of the economy, recognizing its frailties. In the context of these economic weaknesses the government report recognizes the contributions that can be made by small-scale business people and entrepreneurs and proposes to take action. It has promised to "assist in the creation of small and medium scale businesses" (Republic of the Marshall Islands 1985:32), it has offered to set up model farms and businesses in the rural areas (Republic of the Marshall Islands 1985:178), and it intends to provide a small business advisory service (Republic of the Marshall Islands 1985:39-40). As of this writing, indigenous business people have not received any direct help from the government (see Chapter 4) in spite of the pro-business rhetoric that goes back at least to the Marshall Islands National Development Program written in 1978. It is perhaps worthwhile to note that while the current development plan strongly advocates private sector growth, it does not refer specifically to the role of indigenous business people, but merely to the private sector. It does, however, include as one of the development objectives more equitable distribution of the nation's wealth, which implies indigenous participation. Whether or not the government's development scheme will result in a more productive economy and a better standard of living for all Marshallese will remain a question for some time. What appears to be clear, however, is that major obstacles to indigenous participation in achieving those goals as members of the private sector exist. Two areas that represent major impediments to indigenous participation and performance are capital acquisition and competition.

Capital

Meeting the capital requirements to begin and maintain even a small business presents a critical problem for indigenous entrepreneurs. An analysis done by Global Associates accurately reflects the importance of capital availability to private sector growth, that is, it dictates the mode of commercial development (Global Associates n.d.:23). Many of the indigenous-owned small retail trade stores found in Majuro and Ebeye are totally dependent on the few large retail-wholesale outlets from which they buy their merchandise, usually on a wholesale credit arrangement. In fact, several small merchants reported that this relationship is so important that without it they could not have started a business or would no longer be in business. These larger, financially stronger businesses are able to import in quantities large enough to take better advantage of the containerized shipping systems that service the islands from Guam, Honolulu, Japan, the U.S. mainland, and Australia. Such financial strength was the envy of many of the smaller business people interviewed who expressed the hope to someday import directly rather than remain part of a larger business' distribution network. It should be understood that the larger businesses offer wholesale credit for two basic reasons: 1) it allows people with little cash on hand to run a small business and 2) a more favorable credit arrangement is usually unavailable. Ultimately, control over the wholesale distribution system is based on the larger businesses' ability to survive with a high level of accounts receivable. Bad debts incurred by the larger merchants as a result of the credit system are passed on in the form of higher prices to its wholesale and retail customers, causing inflation in the cost of living. In the meantime small retailers are also experiencing losses due to uncollectable credit, a topic that is discussed in Chapter 6. As concluded in the Global report, the "retail/wholesale merchant sector can best be described as lacking in buying power, plagued by high transportation costs, inhibited by low capital availability, and burdened by high levels of credit receivables" (Global Associates n.d.:23).

Except, perhaps, for the two largest merchandising businesses on Majuro, merchants who order goods from overseas suppliers must pay for the goods before they released by the stevedoring company. This system has been adopted throughout much of Micronesia at the insistence of suppliers who have acted to end heavy losses due to uncollected receivables. Suppliers now require merchants to purchase sight drafts from a local bank that guarantee payment and are necessary to take possession of the merchandise. Naturally, this requirement puts a strain on the merchants' supply of capital and limits their ability to buy in volume. Added to this substantial burden is the import tax law, which requires that duties on all imported goods be paid in advance, that is, before they are released from customs. As for the indigenous entrepreneur, these exceptional capital impositions are serious impediments to business creation or expansion.

On the other hand the larger merchants, such as the locally owned Robert Reimers Enterprises and the local-foreign joint venture Gibson's, are not as handicapped because of their financial strengths and special relationships. Reimers, for example, now deals directly with some suppliers rather than through brokers or other agents and has a special arrangement with the primary shipping company that services the island. Although Gibson's is in part locally owned, it is foreign-managed and part of a Pacific-wide organization that has outlets in Hawaii and Guam. Since it is part of a foreign conglomerate it has the advantages of sophisticated management, inventory control, supply channels, accounting procedures, and other business practices that can help to minimize the business' tax and other financial liabilities. In either case the advantages far exceed those enjoyed by typical indigenous business persons faced with the challenge of their direct competition.

As might be imagined, merchants who struggle to operate small retail stores in the outer islands must endure additional difficulties and greater expenses. Except for one or two businesses on Ebeye, those that exist on outer islands rely heavily on the wholesale distribution channels of one or more larger stores. They must assume, however, the added shipping costs and the risks associated with unreliable outer island field ship service (see Chapter 4). The lack of private or government financial services in the outer islands further stifles entrepreneurial efforts by making credit inaccessible. Outer island retailers, as well as consumers, often buy directly from the store on the ship that picks up copra. Copra makers exchange the money received from copra sales for merchandise needed for their stores or their families until the next ship arrives, often as many as three months away. The outer island business person must cope with the steadily increasing cost of goods while the value of copra swings with world market prices, which have fallen in recent years. The government has been unable to stabilize copra prices because it has yet to generate the surplus necessary to support outer island copra makers.

The inability of indigenous business people to gain access to the necessary capital required to overcome the above-cited obstacles is exacerbated by two unfortunate realities: 1) the propensity among business owners to spend earnings on personal consumption rather than to reinvest them in the business, and 2) the insufficiency of the financial services available. A business failure scenario offered by several of the representatives from the financial and government sectors interviewed went as follows: A person borrows as much money as possible from relatives, friends, banks, or credit unions and then stocks a small store with merchandise purchased with the borrowed cash or on credit. When cash flows into the business as a result of sales, the person fails to put aside enough cash to restock the store and pay off past debts, and when the stock is depleted the store closes. It is almost unimaginable that such a total lack of attention to the business' needs could happen. Two very strong pressures seem to be at work. One derives from the traditional subsistence system in which there was no need to save for reinvestment since nature would replenish resources in time. The other may be a reaction to the unrealistic expectation levels attained as the result of colonial experiences, that is, workers have a tendency to expect a much higher return for their labor than is justifiable given the quantity and quality of labor inputs.

The major problems leading to the insufficiency of financial services are the cost and questionable practices that typify most of the financial services available to indigenous entrepreneurs. Financial services available in the Marshall Islands are limited to three commercial banks, the development bank, four credit unions, and two insurance companies. Within the past year the government has invited a group of Taiwanese to open an investment bank in the near future. At this point all that is known is that the bankers plan to buy and sell gold and currency. At least two different Taiwanese groups have operated one of the commercial banks in the past; both have been plagued with loan delinquencies and management problems. During an interview, one bank manager cited the government's rather sudden increase in their licensing fee from US$500 to $5,000 per year, and its attempt to collect the increase on a retroactive basis, as indicative of the uncertainty that makes business in the Marshalls less attractive to legitimate foreign investors. He equated the government's action to a decision to "kill the goose to get the egg," which he felt was an appropriate analogy to explain why the government has failed to stimulate real private sector growth. He went on to remark that high loan deliquency rates and low deposit levels made it necessary to charge interest rates in excess of 20a percent on commercial loans. According to this bank manager, loan deliquency is as least as common among high-paid government employees as it is among those at low-income levels. The net effect is that the cost of borrowing to the business person is high because of the growing demand for money, a history of credit irresponsibility, and deposit levels from which the bank can generate little income.

In addition to the problem of capital acquisition, the issue of bank practices that inhibit indigenous business people was raised. The presentation is restricted to the semipublic National Development Bank about which more information was available. Two other reasons for focusing on the National Development Bank are: 1) by its nature it should be of greater functional value to at least some indigenous business people than the commercial banks, and 2) closer scrutiny of a quasi government organization enables some additional understanding of the character of government-sponsored efforts to promote indigenous entrepreneurial success.

In the 1970s the Trust Territory administration, with an appropriation from Congress, authorized the organization of the Economic Development Loan Fund. The fund was to provide venture capital for development projects arising from local initiative. After a few years lending was halted due to widespread abuse of the program. Government officials and their private sector businesses were determined to be the prime beneficiaries of the program rather than the people whom the fund was intended to help. The money remaining in the fund was held in abeyance until an equitable distribution agreement could be reached. The decision that was reached was to let each of the emerging political entities control its own lending program. Thus, the allocation to the Republic of the Marshall Islands became the seed money for the Marshall Islands Economic Development Loan Office (MIEDLO), which was established by the Nitijela on 24 July 1981. Lending, however, was held up until September 1982, at which time applications were approved for several ventures. During the past year the name was changed to the Marshall Islands Development Bank, making it more consistent with other Pacific nations' banks performing similar functions. The total capital of the National Development Bank is estimated to be US$1.5 million and its loanable capital is 75 percent of the total (Republic of the Marshall Islands 1985:235).

The aims of the bank are identical to those of the original Micronesian-wide development fund and include greater investment in the private sector by indigenous entrepreneurs. The availability of capital, as mentioned, has been a major obstacle, particularly in the case of untested ventures. According to the Republic of the Marshall Islands government, the development bank is "an independent Government corporation established for the purpose of stimulating private investment by extending loans to applicants who cannot obtain them from private lenders.... In granting loans, MIEDLO follows a policy of giving priority to applicants from the agriculture, fishing, tourism, and manufacturing sectors in accordance with the development priorities of the Government" (Republic of the Marshall Islands 1985:235).

The range of projects that the development bank is authorized to finance is as broad as one can imagine. The development bank's Statement of Policies and Procedures indicates that the bank will "finance projects aimed at increasing production and development in the fields of fishing, agriculture, livestock, timber extraction and reforestation, quarrying, industry, manufacturing, and processing of all kinds, tourism, commerce, transportation and communication, and service industries including professions" (MIEDLO Statement 1982:1). The most attractive feature of the bank, with respect to supporting indigenous participation in the private sector, are the interest rates charged; they range from 8 percent 12 percent, depending on the project (MIEDLO 1982:11).

In addition to providing loan assistance the bank can help in other ways. It has been organized to provide other forms of assistance in the following ways: in "...making equity participation; (c) guaranteeing the finance provided by other sources; (d) providing technical, managerial and financial consultancy services; and (e) assisting in the identification, formulation and promotion of new projects" (MIEDLO 1982:2).

A board of directors sets bank policies and is comprised of both local and off-island representatives. Loan applications must first be approved by the credit committee, which reviews all applications. The approved applications then go to Saipan, headquarters for the Trust Territory administration, for final executive consideration. The entire process is designed to take only 45 days but can sometimes take two years. One of the major criteria for loan approval is that the applicant must has been turned down for a loan from a commercial bank. It is the banks feeling that as a quasigovernment organization it should not compete with private sector banks.

The guiding principles in the application consideration process are that the proposed project will "(a) contribute effectively to broadening the basis of local entrepreneurship; (b) utilize domestic raw material; (c) have a high export potential or import substitution; (d) make use of labor intensive technologies; (e) introduce new technologies; (f) contribute to a diversification of the economy; and (g) create opportunities for the small emerging entrepreneurs" (MIEDLO 1982:2).

The bank follows a host of other guidelines. It is to manage its portfolio in a manner that ensures diversification in terms of the types of industries and their locations (MIEDLO 1982:3). All loans are to be secured, regardless of amount, by an interest in real property or personal (MIEDLO 1982:5). Applications are unacceptable 1) if the loan is to be used to replenish funds that previously have been used for such purposes, 2) if the applicant is a nonprofit enterprise, including government agencies, or 3) if the loan provides funds to an enterprise that is primarily engaged in lending or investing (MIEDLO 1982:8-9).

The development plan explains the government's position relative to the workings of the bank. It is seen as one of the financial intermediaries through which the government will channel resources into productive investment (Republic of the Marshall Islands 1985:37). Although the development plan refers to MIEDLO and the Economic Development Loan Fund (EDLF) as if they were two independent agencies, they are simply former names of the current development bank. The government claims that the purpose of the bank is clearly to "undertake an effective role in making loans available to the small and medium scale business and to the agricultural and fisheries sectors" (Republic of the Marshall Islands 1985:37). According to the development plan the bank has decided to fund project proposals that include preserved breadfruit chips; salted, dried, and smoked fish; salt; coconut rope; dried pandanus fruit; jelly and jam; pandanus meat; clam and top-shell sausage; shells for decoration and industrial use; fish cake; shark meat for consumption; jaws and teeth for jewelry and collections; canes; turtle meat and shells for combs and jewelry; timber from coconut, breadfruit, and pandanus logs; ironwood charcoal; and furniture making (Republic of the Marshall Islands 1985:240-41).

The description of the Marshall Islands Development Bank given above is taken almost entirely from the bank's Statement of Policies and Procedures and the Five Year Development Plan. From the information contained in these official documents one could conclude that the bank is certainly conceived and organized in a manner that should greatly benefit local entrepreneurs. However, the reality of the bank's operations is significantly different than those lauditory and ambitious objectives that appear on paper. Three serious problem areas affecting the bank's value to indigenous entrepreneurs became evident upon closer inspection: 1) the relationship between the bank and the government, 2) bank lending practices, and 3) bank management.

As mentioned earlier, the government views the National Development Bank as an important source of development financing. Based on the comments of one board member, however, relationships between the government and the bank are strained. He reported that when monies were available for lending the government expected to borrow heavily from the bank. Other board members became convinced of the inappropriateness of lending to the government and rejected the application. The board member further related that since that time their letters to the government concerning bank business have gone unanswered. This is critical since the bank is a quasigovernment organization and its ability to comply with established policies and procedures requires the government to make support services available.

A second serious problem area concerns lending practices. The bank claims to offer a variety of services, as detailed above. However, no evidence was uncovered to suggest that the bank does anything more than make direct loans. Also mentioned were the guidelines that have been established to determine the kinds of ventures that are eligible for financial assistance. In general, they are new businesses that are too risky for commercial banks to be interested in funding. However, a check on the borrowers who have received loans indicated that, in most cases, the money had gone into ventures that were imitations of other highly visible businesses. A list of 34 borrowers was given to a local informant with extensive knowledge of the business community. He was asked to indicate the type of business that each borrower was involved in. In only three cases was he unsure. Of the 31 cases he knew about, 11 were involved in small retail businesses, five in fishing or boat transportation, four in housing development, three in livestock production, one in a sewing shop, one in a beauty parlor, and the remainder in other service-related areas. Although there is some innovativeness evident among the various uses, it hardly matches the type implied in the Statement of Policies and Procedures and claimed in the National Development Plan. There appears to be at least some inconsistency between bank policy and practice with respect to the type of business ventures funded. The alternative explanation is that borrowers indicated that the money was to be used in a way consistent with the bank's policy and then diverted the funds into another business. This view was substantiated by several entrepreneurs who were interviewed and indicated that they had used development bank loans to replenish stocks or expand an already operating business, clearly in violation of bank policy.

A final serious problem area concerns possible management improprieties. One of the people interviewed received a loan in the neighborhood of the bank's upper lending limit and used it to remodel a hotel and start a bank. Using the money to start a bank is clearly in violation of the Statement of Policies and Procedures as adopted. What is of graver concern is that the Registrar of Corporations' records indicate that one of the incorporators of the new bank is a high-level administrator of the development bank. Such acts of collusion in either the private or public sector suggest serious impediments to indigenous participation and performance. They act to undermine the free enterprise systems of democratic countries by introducing unfair competitive practices. It is particularly disturbing coming from an organization that embraces a philosophy that includes a pledge to "constantly seek out the type of entrepreneurial character that has been the backbone of the free enterprise system. Where ethical management ability presents itself, the MIEDLO [development bank] will attempt to support it" (MIEDLO 1982:1-2).

The information gathered during the fieldwork exercise strongly suggests that the development bank offers financial services that are suspect in quantity, quality, and character, hence, of marginal benefit to most indigenous entrepreneurs in search of capital. The commercial banks' high interest rates and relatively short loan repayment periods add to the difficulty of gaining access to venture capital. The few credit unions provide relief for some business people, but only on a small scale. The absolute scarcity of investment capital that is controlled by indigenous business people is perhaps an underlying reason for the government's decision to promote economic growth through heavy foreign investment. The government's inability to generate any surplus revenue through its operations and the lack of private sector savings, combined with a history of almost total reliance on external funding, makes it less surprising that such a method of financing would be adopted. What is of particular concern is the effect of such a strategy on the nation's development objective of promoting greater self-reliance and the degree to which it influences indigenous participation and performance in the private sector. Thus, foreign capital is recognized as an important source of investment for the Marshall Islands economy and is discussed in the next section, which attempts to characterize competition in the private sector.

Competition

One of the dangers of heavy reliance on foreign investment is that it invites foreign investors of all kinds. Unfortunately, it is not always easy to recognize the investors that are legitimate and competent. According to a former Registrar of Corporations, laws do not require part-Marshallese ownership in a business for it to incorporate in the Marshall Islands; however, it is necessary to indicate the percentage of Marshallese ownership on the foreign business permit application.

Based on information supplied by the Minister of Foreign Affairs' office there are 43 foreign business permits registered in the Marshall Islands that range in duration from two years to perpetuity. The scope of business activities that are represented is very broad and includes fishing-and marine-related organizations, construction companies, retail stores, import companies, a restaurant, a travel agency, and several other businesses. The Registrar of Corporations' records indicate that there are also many other wholly or partially foreign owned companies that have been incorporated in the Marshall Islands although they hold neither foreign business permits nor local business licenses. Many of these companies exist only on paper and have no tangible assets in the Marshall Islands. Frequently they, as well as many locally owned corporations, indicated in their respective Articles of Incorporation their intentions to engage in a myriad of activities that ranged, for example, from "gambling casino" to "any lawful business in aid of the United States in the prosecution of war."

It is plausible that this practice of incorporating businesses that have intended only to do business outside of the Marshall Islands may have been a precursor to the decision to license off-shore banks. Unfortunately, similar to the earlier cited case of off-shore banks, the reputation of the Republic's commercial environment has been tarnished because of the practice. A foreigner that was named as an incorporator in two Marshall Islands businesses was arrested in Los Angeles on charges of bank fraud in mid-1983 (Los Angeles Times, 26 July 1883). A second foreigner, identified as his partner (Los Angeles Times, 20 July 1983), is an incorporator in no less than than nine Marshall Islands businesses, all of which include Marshallese partners. The nine businesses were chartered between 1981 and 1984, the last two almost one year after the criminal allegations were publicized. According to the Articles of Incorporation, each of the businesses sought to engage in investment, insurance, or other fiduciary activities. The same business person was named in a Journal article as a voluntary and unpaid economic advisor to the Republic of the Marshall Islands Cabinet. He was involved in introducing IPSECO, the company that built the new power plant, to Marshall Islands officials and has sued the company for a finder's fee (Marshall Islands Journal, 23 November 1984).

The point of this diversion into the business dealings of foreign investors is to emphasize that the controls being exercised to keep the private sector from being inundated with unethical or dishonest business people are inadequate. It is highly unlikely that the Marshallese partners in these businesses were aware that their fellow incorporators had previously been linked to questionable business practices. Nevertheless, the absence of a mechanism to adequately screen interested investors has in the past, and may in the future, allowed dishonest business people to operate with the full consent of the government, and perhaps in competition with indigenous entrepreneurs.

The dangers of foreign investment to indigenous business people due to deceitful practices has had, and likely will have, little direct negative impact on them. A more serious threat is posed by investments that can seriously distort the balance of competition in favor of foreign-owned businesses as opposed to indigenous businesses. These are most often foreign businesses that are in direct competition with local businesses. Two areas of particular concern are the concentration of foreign partnerships among a small group of local elites and the nature of the competition created. To illustrate the latter concern, one particular case will be described in detail, although others could have been used.

In December 1984 the Majuro Shopping Center, which includes a Gibson's department store, opened in Majuro. Prior to the Gibson's opening only one other retail operation that was comparable in size and a few others of about one-fifth the size existed. All of these businesses are owned and operated by Marshallese families while the shopping center is a joint venture between international and Marshallese business people. According to Articles of Incorporation filed with the Registrar of Corporations, the ownership of the shopping center is shared among a Guam-based company, the children of a local political-traditional leader, and family members of a U.S. resident business partner of that leader. A leading politician, supported by the local newspaper (Marshall Islands Journal, 30 November 1985), hailed the opening as a milestone in the development of the country that was accomplished entirely through private initiative and investment, and the kind of development desired in the Marshalls because of its independence from government (Marshall Islands Journal, 7 December 1984).

It is true that with the opening of Gibson's the local business community underwent a noticeable change as retail outlets reacted to ensure themselves a share of the market. Considerably more advertising appeared in the local newspaper, as well as in storefront windows. The general feeling among the people questioned was that the additional competition was favorable in that had caused a downward influence on retail prices. The effect on locally run retail businesses was not yet evident since the interviewing was done within a few months of the opening. A retail operation the size of Gibson's is unlikely, however, to have much of an affect on the customer levels experienced at very small village-type stores. Customers that frequent small stores are typically neighbors with lower incomes who out of the convenience send their children to buy needed supplies. Small stores also are popular among teenagers and adults as a place to spend time socializing with friends and neighbors. And as a wholesale supplier of merchandise, Gibson's is not likely to have much of an impact because of its tough credit policy and because most of those who buy at a wholesale rate are already financially dependent on another supplier.

The negative impact is likely to be felt by those local entrepreneurs that have grown to be something more than simply small roadside convenience stores. Support of this notion has been lent in an editorial in the Journal that questioned the government's apparent open-armed policy toward foreign investment without proper monitoring or coordination (Marshall Islands Journal, 18 October 1985). The articles goes on to name two of the mid-level, locally owned enterprises that it feels have been adversely affected by the Gibson's opening. The editorial correctly suggests that it may be suicidal to pit local business people against the superior strengths of foreign-backed companies.

It appears that when this new era of competition was ushered in most people supported it because of the immediate benefits to be gained as consumers, that is, lower prices. Few people seemed to recognize that advocating competition that included foreign firms also meant putting an inordinate amount of pressure on local business people to be more efficient and competent, or to risk extinction. Although it is difficult to argue against any pressure that fosters the acquisition of these qualities, it hardly seems worthwhile to put local business people at such a tremendous disadvantage.

In addition to the value of competition, the fact that Gibson's would provide jobs to 102 Marshallese was applauded as an important contribution to the local economy and a major positive side-effect of foreign investment. This widespread appeal, based upon job creation, was made clearer by many of those interviewed who equated their business problems with lack of customers rather than poor management, for example. The common feeling among them was that more salaried employment would mean more customers and, hence, more business. This is not a surprising response given that Marshallese throughout the U.S. administration learned to rely on more money as an answer to their problems. It is unfortunate, however, that such an attitude puts them at an even greater disadvantage with respect to their ability to successfully compete with more experienced and better educated foreign managers. The net effect is that foreign investment that guarantees employment to Marshallese is popular, and if the enterprise happens to force consumer prices down there is additional satisfaction among the people. The danger, of course, is that because most Marshallese businesses cannot compete with foreign-run businesses without some protection, they will eventually be eliminated from some sectors of the local economy.

The scenario described above with respect to retail stores is being played out in other areas as well. Construction companies from Taiwan and the Philippines compete head-to-head with local companies. The restaurant business, which has been popular with Marshallese entrepreneurs, is gradually being taken over by foreign interests. It is most unfortunate that Marshallese business people are being forced to face foreign competition in the retail, construction, and service sectors. It is in these areas, where the skills and technology needed are not particularly sophisticated, that the Marshallese would likely have the greatest chance to experience success if afforded the proper training and assistance.

If the present attitude toward foreign investment continues, Marshallese consumers can continue to expect lower prices, but in the meantime many Marshallese business people will suffer while a few Marshallese and foreign business people take control of large shares of the market. The government has on many occasions expressed its commitment to private sector growth. It has yet, however, to focus that commitment by protecting the nation's most valuable economic asset, the indigenous business people.

The other area mentioned that is important to understanding the nature of competition and foreign participation in the private sector was the concentration of partnerships among a small number of local elites. There is no data to support this supposition, for several reasons. First, there was a problem accessing the records that could have helped substantiate the claim. Second, a review of all Articles of Incorporation in the Registrar's office revealed that while the names of several high-level political elites appeared as incorporators of companies several years ago, many of the companies incorporated in recent years have been incorporated by the wives, children, or other relatives of these people. A final factor that makes the identification of business owners difficult is that there is no law requiring Marshallese ownership for incorporation. Therefore, Marshallese ownership can easily be concealed.

An illustration using an extreme case may be sufficient to demonstrate the magnitude of the problem. A member of the local elite, are named, in varying combinations, as partners in at least 12 businesses. Seven of them are joint ventures with foreign businesses: three with Japanese, two with Taiwanese, and two with Americans. Thus, a single family is a partner in at least one-sixth of all registered foreign businesses. A careful examination of the ownership structures of all other businesses involving some foreign ownership revealed that, in most cases, the Marshallese partner was a member of the traditional or political elite, but in few cases was the Marshallese partner a member of neither group.

What can be concluded from the above analysis is that the nonelite indigenous entrepreneurs that must compete against Marshallese-foreign joint ventures are likely to be challenged not only by the business acumen of foreign mangers but also by the powers of the elite partner. The power wielded by the traditional or political leader can be an extremely serious threat to the indigenous business person. The politics of business is so strong that during the field interviews one person spoke of being a strong supporter of the current leadership yet was reluctant to talk openly about his business. He feared tht there might be people in government with similar business interests who would use their power to gain some competitive advantage. Another business person refused to be interviewed because he felt the study was politically motivated by the opposition group and hence did not want to participate. Many others who agreed to be interviewed were either unwilling or claimed to be unable to give much detailed information about their business interests. The tension that exists between private sector business people and the government is counterproductive and is a subject explored further in the next chapter.

A final example is offered to confirm that the caution among indigenous business people concerning the competitive threat that can be expected from the political elite is warranted. The government has pronounced that privatization of services that can be handled by the private sector is a priority. As early as 1982 one company had incorporated for the purpose of providing garbage collection service to

Majuro and Ebeye. The incorporators were upper-level government officials who wanted exclusive rights to lease government equipment at 1 percent of revenues for two years to perform the service. In effect they wanted to start a business without an investment of their own. Thus, the indigenous entrepreneur who is not part of the traditional or political elite and has no foreign business partner must compete against those in privileged positions who have business interest. In addition, they must overcome the obstacles presented by a development strategy that favors foreign investment and a commercial environment in which financial resources are limited and expensive.

Chapter 6 - ENTERPRISES AND ENTREPRENEURS

The previous chapters dealt with cultural, historical, and environmental factors that are useful in explaining the problems that indigenous entrepreneurs must surmount in order to begin businesses and continue in them. This chapter focuses directly on indigenous entrepreneurs and their enterprises for the purpose of trying to establish more concrete relationships between the discussions of previous chapters and the data collected during field interviews.

As mentioned in Chapter 1, the 86 business people interviewed included 15 nonindigenous entrepreneurs whose responses are presented so that a comparative dimension is added to the presentation. An additional comparative dimension was made possible by dividing the indigenous subjects into two performance groups, indigenous group A and indigenous group B. The original intent was to divide the indigenous group into successful and unsuccessful entrepreneurs, which seemed to be a logical choice given the purpose of the study. However, such a division was impossible because of two fundamental problems. First, arriving at an acceptable definition of success that made sense when applied to indigenous Marshallese business people was difficult. After little progress was made coping with the ambiguity of success, it was hoped that a fairly standard business-oriented definition that relied on some measure of financial strength or weakness could be used.

The second problem was discovered in the interviewing stage of the study. Few people had detailed knowledge of their business' financial status, or they were unwilling to respond to questions that could have helped to establish such a measure. To acircumvent these problems the indigenous subjects were divided into two performance groups (A and B) based on responses to interview questions that had been answered. Assignment to groups was based on both subjective and objective criteria and was intended to produce groups that represented different performance types. Entrepreneurs assigned to performance group A scored high on all five measures of their personal satisfaction with their businesses' growth and performance.

These measures were developed from questions concerning 1) plans to expand the business, 2) a business growth rating, 3) expectations for future growth, 4) a personal performance rating, and 5) a subjective assessment of the financial strength of the business. Other entrepreneurs included in performance group A scored high on each of three more objective measures of performance. These measures were arrived at by 1) rating the business' recordkeeping system, 2) the number of businesses owned by the entrepreneur, and 3) the complexity of the enterprise based on variations in type and number of locations.

It is readily acknowledged that inclusion in performance group A, based on the subjective measures mentioned, is essentially self-selection by those business people who claimed high scores. The objective measures were used to ensure the inclusion of at least some of the larger businesses that employ standard, fairly recognizable business practices. Thus, given the procedures used to make the assignment, all that can be claimed is that performance group A differs from performance the indigenous subjects were group B on the measures used to make this discrimination. That is, members of group A exhibited higher personal commitments to business growth, expansion, and personal achievement or were relatively larger business enterprises that had more sophisticated bookkeeping systems than those represented in group B. Perhaps the simplest way to make the distinction would be to say that group A is comprised of larger enterprises or those smaller ones run by more optimistic owners/managers. The way in which the criteria was applied resulted in 27 cases being assigned to group A and 44 cases to group B. In any event, the differentiation is not based on quality of performance, but on types of performance, and allows a comparison between groups of indigenous businesses.

The two sections that follow provide detailed descriptions of indigenous and nonindigenous entrepreneurs and their enterprises, including descriptions of the enterprises surveyed, personal characteristics of the entrepreneurs interviewed, problems declared by the entrepreneurs, and an examination of their preferences with regard to selected management orientations.

The Enterprise

It was pointed out in the first chapter that an objective of the sampling strategy was the inclusion of businesses from the population centers of Majuro and Ebeye as well as the outer islands. During the course of the fieldwork 86 entrepreneurs were interviewed, but because many of them operate more than one venture the number of business represented in their responses totaled 148. Initially, some effort was made to get entrepreneurs to distinguish between various commercial activities in their responses, but most could not. Thus, the term enterprise is used to mean the "basket" of economic ventures controlled by a single entrepreneur, while business refers to a separate activity. Table 10 shows the geographic distribution of the businesses surveyed. Most of the survey work was done on Majuro Atoll in the commercial and population center made up of Rita, Uliga, and Delap villages. Some entrepreneurs from the less-congested Long Island and Laura villages and the outer islands of Arno and Kili were also interviewed to ensure some representation from rural entrepreneurs. Ebeye, the other major population center, was to have been surveyed more extensively, but an unfortunate occurrence limited the number of interviews to 12.

Table 10. Locations of Businesses Surveyed

	Number of Businesses	% of All Surveyed
Majuro Atoll		
Rita	27	18
Uliga	33	22
Delap	24	16
Long Island	11	8
Laura	7	5
	N=102	%=69
Outer Atolls		
Arno	7	5
Ebeye	12	8
Kili	21	14
Other	6	4
	N=46	%=31
Total	N=148	%=100

The private sector of the Marshall Islands is dominated by nonproductive-oriented merchandising-and service-type businesses. As can be seen from Table 11, indigenous group B entrepreneurs were involved in trade-related businesses about three times as often as they were involved in service types. The indigenous group A entrepreneurs were equally divided between the two types. The nonindigenous entrepreneurs favored the service-type businesses over trade, and were the only group involved in the industrial sector. Only a few indigenous entrepreneurs were engaged in value-producing enterprises in the extractive sector, that is, agriculture, aquaculture, or fishing. The data tend to verify an earlier description of the private sector as being almost entirely directed at servicing consumer dollars rather than contributing to the development of a sounder economy based on value-creating activities.

Table 11. Nonindigenous and Indigenous Enterprise by Sector

Indigenous Sector	Non	A	B
Service	58	49	24
Trade	26	48	74
Industrial	16	0	0
Extractive	0	3	2
	100%	100%	100%
Number of responses	N=31	N=65	N=54

A vast majority of the indigenous entrepreneurs described their enterprises as sole proprietorships, although many had no official organizational classification. There was only a slightly greater preference among indigenous group A entrepreneurs for partnerships and corporate forms of organization. The nonindigenous entrepreneurs favored sole proprietorships, but also chose to incorporate in about one-third of the cases.

Table 12. Nonindigenous and Indigenous Enterprises by Organizational Type

		Indigenous	
Organizational Type	Non	A	B
Sole Proprietorship	60	85	93
Partnership	7	4	2
Corporation	33	11	5
	100%	100%	100%
Number of cases	N=15	N=27	N=44

A greater sense of the variation in business types can be gained from Table 13, which indicates the percentage of businesses at several levels of structural complexity. Almost all indigenous group B businesses were engaged in a single activity at a single location, while those in group A were involved in single and multiple activities at one or more locations. The nonindigenous entrepreneurs appeared to be somewhat split between single activities at one location and multiple activities at one or more sites.

Table 13. Nonindigenous and Indigenous Enterprises by Size

	Non	Indigenous A	Indigenous B
Single Type, Single Location	27	8	87
Single Type, Multiple Location	0	11	2
Multiple Type, Single Location	47	48	9
Multiple Type, Multiple Location	26	33	2
	100%	100%	100%
Number of responses	N=15	N=65	N=54

Measures on three additional variables were taken to further describe the relative sizes of indigenous and nonindigenous enterprises. Table 14 shows the percentage of enterprises assigned to various ranges of market values. Classification was based on an estimate of each enterprise's total worth. In many cases the value had to be estimated because most of the entrepreneurs interviewed were not interested in offering their own value estimates. As might be expected from the data presented above, about one-half of indigenous group B entrepreneurs operated enterprises in the lowest market value category. Indigenous group A entrepreneurs were better represented in the middle ranges, while the nonindigenous entrepreneurs seemed to be fairly evenly distributed throughout the categories.

Table 14. Nonindigenous and Indigenous Enterprises by Market Value

Market Value	Non	Indigenous A	Indigenous B
$0-10K	13	8	50
$10K-50K	27	33	32
$50K-100K	20	22	7
$100K-500K	20	26	11
$Over 5,000K	20	11	0
	100%	100%	100%
Number of cases	N=15	N=27	N=44

The enterprises surveyed ranged from one to as many as 12 business activities, but most operated no more than three. As can be seen from Table 15, the average number of businesses comprising an enterprise was 1.2 for indigenous group B and 2.6 for indigenous group A with the nonindigenous group falling in between at 2.0. The pattern of ownership showed a fairly equal division 45 percent to 55 percent, between multiple activity enterprises and single activity enterprises, respectively, when only the indigenous entrepreneurs were considered. This tendency toward multiple activities has been mentioned several times in this study and has been identified in similar studies done in the region. Unfortunately, sufficient data were not gathered to adequately account for this curiously high incidence of multiple activity enterprises, however, several explanations can be offered.

Table 15. Nonindigenous and Indigenous Enterprises by Businesses Owned and Workers Employed

Descriptor	Non	Indigenous A	Indigenous B
Owned	2.0	2.6	1.2
Workers	13.5	11.0	3.5

One notion is that multiple activity enterprises are simply present-day manifestations of the subsistence economy at work. As such, separate business activities are not crucial in themselves; instead, the entire enterprise is evaluated in terms of how well it provides for the family. Hence, the lack of interest among indigenous entrepreneurs in discrete economic activities lends to their inclination toward treating different economic ventures as if they were one business.

Another view is that the more complex enterprises are controlled by entrepreneurs with more talent than is required by a single activity business. Therefore, they tend to seek out other economic opportunities that will challenge their skills. It is also possible that a more pragmatic approach makes for a more plausible explanation. It could be that because markets are small and competitors are numerous, more obstacles are present to gaining a larger share of the market than there are to beginning a new venture that will garner yet another small share of yet another market. No doubt other explanations are possible, but in any case there is a strong likelihood that at least some elements of the above explanations hold true.

The second type of information contained in Table 15 that refers to the different sizes of enterprises is the number of workers. The information is consistent with other data related to size and shows that nonindigneous enterprises required slightly more workers on the average than indigenous group A enterprises. Indigenous group B enterprises, on the other hand, required only about one-fourth as many workers as the nonindigenous enterprises. One exception was the largest indigenous enterprise surveyed, which had over 150 paid employees; it was so much larger than any other business that it was necessarily excluded from the calculations. It should also be noted that the term "worker" was used rather than "employee" because most enterprises were run by family members, many of whom did not receive wages. Out of the 63 indigenous enterprises that reported, 56 percent indicated that family workers were unpaid. Owners claimed that family members were either expected to work as part of their family responsibility, or were occasionally given money or merchandise, as deemed appropriate, in lieu of wages. The degree of reliance on family workers was further substantiated when only 39 percent of the indigenous entrepreneurs reported using nonfamily workers. When asked about wages paid to workers, only 21 percent of the indigenous and fewer nonindigenous entrepreneurs were willing or able to state a dollar amount. The claim among indigneous entrepreneurs was that they paid an average of US$50 per week in wages, which was comparable to weekly government employment.

A final characterization of indigenous and nonindigenous enterprises is presented in Table 16 and is based on the number of years in business. More than three-fourths of the nonindigenous businesses surveyed were less than five years old. This is understandable given the more recent and shorter term of residency enjoyed by most nonindigneous entrepreneurs. The pattern exhibited by indigneous entrepreneurs also indicates that the businesses surveyed were young. At least 80 percent of each group was 10 years old or less. Also included in the indigenous groups were representatives from businesses that have been in operation for more than 15 years. What is noteworthy is that there were so few of these businesses and that most had remained small.

Table 16. Nonindigenous and Indigenous Enterprises by Age

Years in Business	Non	Indigenous A	Indigenous B
0 - 5	77	63	61
6 - 10	13	17	25
11 - 15	7	8	2
16 - 40	3	12	12
	100%	100%	100%
Number of responses	N=30	N=65	N=52

Although the sampling technique used was flawed, the information provided by those interviewed provided a description of indigenous enterprises that reasonably depicts the private sector. Enterprises were typically small, young, single-owner service or trade types engaged in one, or perhaps two, economic activities that relied on family members as workers. The nonindigenous enterprises differed modestly in a few areas. They tended to be slightly larger, involved more in partnership arrangements, and engaged more in industry.

The Entrepreneurs

The next few pages focus on the personal characteristics of the entrepreneurs interviewed. Two additional areas of particular interest are the methods of business development and expansion that most businesses employed. Of the 71 indigenous entrepreneurs interviewed 65 were males and six were females. In the nonindigenous group all but one were males. The lack of female representation is somewhat deceiving and does not truly reflect the extent of their involvement as private sector entrepreneurs. In a few cases husbands chose to answer questions pertaining to businesses that were probably controlled almost entirely by their wives.

Even though almost three-fourths of the interviewing was done on Majuro, few people reported being born there; most were born on outer atolls (Table 17). This is not surprising given the amount of migration and urbanization reported. Additional evidence of population movement is provided by the fact that indigenous entrepreneurs reported living at their current residences for less than 30 years while their average age was close to 43 years (Table 18).

Table 17. Nonindigenous and Indigneous Entrepreneurs by Place of Origin and Years at Current Residence

		Indigenous	
	Non	A	B
Place of Birth			
Majuro	0	19	18
Outer Atoll	0	74	82
Other Pacific	33	7	0
Other Foreign	67	0	0
	100%	100%	100%
Years at Current Residence	12	27	28
Number of cases	N=15	N=27	N=44

Table 18. Personal Characteristics of Nonindigenous and Indigenous Entrepreneurs

	Non	Indigenous A	Indigenous B
Average Age	43	42	43
Years of Education			
Formal	13	12	11
Nonformal	1	1	1
Employment History			
Years Self Employed	8	9	7
Years Public	*10	8	13
Years Private	9	10	7
Total Average Years	27	27	27
Current Employment			
Self Employment	60	57	45
Self and Government	14	37	50
Private, Management Only	26	6	5
	100%	100%	100%
Number of cases	N=15	N=27	N=44

* The 10 years shown is not an average score but a median score that was determined to be more representative.

The nonindigenous entrepreneurs interviewed included a few Filipinos, Americans, Taiwanese, Japanese, and several Pacific islanders. As a group they averaged 12 years in the Marshall Islands, ranging from one to 42 years in residence. About 40 percent had lived in the Marshalls for two years or less.

The average age across all three groups was about the same (Table 18). As might be expected, the range of ages from 27 to 74 within the indigenous group was broader than the nonindigenous group. Their respective levels of formal education also were about the same, with a slight edge going to the nonindigenous entrepreneurs. The amount of nonformal, or out-of-school education experienced by the entrepreneurs was not extensive. About one-half of each group reported participating in short courses or training sessions some time. In the indigenous group education was directly related to learning business skills in only 17 percent of the cases while in the nonindigenous group it was directly related 47 percent of the time. Within the indigenous group the people that took part in nonformal education programs were typically current and past-government workers who participated in programs related to their government duties, which helps to explain the lack of direct relevance to business.

Nonindigenous and indigenous entrepreneurs reported the same total average years for the types of work experience indicated in Table 18. Years of self-employment ranged from one to 35 in the indigenous groups but only two to 17 among the nonindigenous group, which is not surprising given that as a group they have resided in the country for considerably fewer years. Aproximately 40 percent of the entrepreneurs in both the nonindigenous and indigenous groups reported three years or less of self-employment, indicating an overall lack of experience among a significant number of entrepreneurs. About two-thirds of the indigenous entrepreneurs reported some public sector employment experience, which averaged eight years for group A and 13 years for group B (Table 18). In only three cases did nonindigenous entrepreneurs report employment in the public sector. 73 percent of indigneous entrepreneurs in other private sector employment had some work experience, but one-half of them indicated that it was four years or less. Within the nonindigenous group, 80 percent reported private sector employment, with one-half indicating that it was eight years or less. The average years of private sector employment shown in Table 18 do not reflect this difference in experience levels, primarily because the range of years for the nonindigenous group was considerably narrower. Thus, members of the indigenous groups have likely had less overall work experience, with group A members tending to favor private sector work while those in group B have spent more years in government service.

The current employment data illustrate that within the nonindigenous group the fewest entrepreneurs were found in the "self and government" employment category. By comparison, the indigenous groups showed a much greater propensity for self-employment and government service, particularly within group B. The data seem to indicate that while nonindigenous entrepreneurs are typically uninvolved in government service, indigenous entrepreneurs often maintain dual participation. One very plausible explanation is that government service provides indigenous entrepreneurs with income that can be used to finance the business. The difficulties in locating venture capital discussed earlier strengthen this proposition. Also in support of this are the average biweekly wage levels reported by the nonindigenous and indigenous A and B groups US$540, $440, and $270, respectively. Many entrepreneurs, however, did not report a wage level because they were self-employed and follow the common practice among indigenous entrepreneurs to take money from the business based on family needs rather than fixed amounts at regular intervals. The wages reported more accurately reflect the earnings of those who were also government employees rather than the average wages of indigenous entrepreneurs. It is also noteworthy that 26 percent of the nonindigenous entrepreneurs were strictly managers and not owners of the enterprise, while a much smaller percentage of indigenous persons were found working in this capacity. Finally, between the indigenous groups, those in group A showed a preference for self-employment while those in group B relied more on government service, a pattern that is consistent with the employment history data.

Table 19 presents some of the family characteristics of the nonindigenous and indigenous entrepreneurs. The nonindigenous entrepreneurs' fathers tended to look to the traditional and modern private sectors for employment with equal interest. The fact that the fathers of indigenous entrepreneurs relied more heavily on traditional occupations is apparent and underscores the traditional nature of Marshallese society. To an extent, the fathers of indigneous entrepreneurs seem to have favored occupations in the modern private sector as opposed to the modern public sector.

Table 19. Family Characterisitics of Nonindigenous and Indigenous Entrepreneurs

		Indigenous	
	Non	A	B
Father's Occupation			
Traditional	40	52	61
Modern Private	40	19	23
Modern Public	13	15	14
Other	7	14	2
	100%	100%	100%
Mother's Occupation			
Traditional	80	89	98
Modern Private	7	4	2
Modern Public	7	0	0
Other	6	7	0
	100%	100%	100%
Spouse's Occupation			
Traditional	33	48	66
Modern Private	33	22	16
Modern Public	14	22	9
Other	20	8	9
	100%	100%	100%
Spouse's Formal Education			
Average Number of Years	12	11	8
Size of Family			
Number of Children	3	4	5
Number in Household	6	8	11
Number of case	N=15	N=27	N=44

Except for a slight variation within the nonindigenous group, almost all of the mothers of the entrepreneurs interviewed were not employed outside the home. The pattern seen in the occupations of the spouses of the entrepreneurs appears almost identical to that found in the occupations of entrepreneurs' fathers, that is, an almost equal split between traditional and modern sectors for nonindigenous spouses while indigenous spouses were more heavily represented in the traditional sector, followed by the modern private sector, and then the modern public sector.

Education levels for the nonindigenous and indigneous group A spouses indicate that most of them had nearly finished grade 12. Spouses of entrepreneurs in indigenous group B had achieved, on the average, only eighth grade educations. There were many more indigenous rather than nonindigenous spouses without any education.

The size of the entrepreneurs' families was fairly consistent among the groups with respect to numbers of children, but became noticeably different when all members of the household were taken into account. While the number of household members was as high as 14 for the nonindigenous group, it climbed to 29 for the Marshallese. These large and extended families become a serious burden for the entrepreneur and the business. The indigenous entrepreneur's dilemma centers around customary practices that prohibit turning relatives away while being attracted by signs of business success.

This brief look at personal and family characteristics did not reveal extraordinary differences between the nonindignenous and indigenous entrepreneurs interviewed, nor between indigenous performance groups A and B. Only slight differences were detected in education level, nature of work experience, and size of household.

A second general area of interest was understanding how the entrepreneurs managed to get their enterprises started. Table 20 presents the percentages of nonindigenous and indigenous entrepreneurs falling into each response category. About two-thirds of the nonindigenous enterprises were started by those interviewed and a few in each group were started by the government or a foreign investor. The interviewees in later cases were not owners, but typically managers of businesses. Over 80 percent of the indigenous enterprises were begun by the entrepreneur interviewed, with the remainder having been started by a relative. This statistic is important because it provides some assurance that those interviewed have an understanding of the problems involved in running a business, and it also supports other evidence indicating that most private sector businesses are young, that is, not originating in a previous generation.

Table 20. Starting Nonindigenous and Indigenous Enterprises

	Non	Indigenous A	Indigenous B
Started by:			
Interviewee	67	82	86
Relative	0	10	14
Nonrelative	7	4	0
Government	13	4	0
Foreign source	13	0	0
	100%	100%	100%
Amount invested:			
$0-2,000	54	41	70
$2,001-5,000	8	26	14
$Over 5,000	38	33	16
	100%	100%	100%
Source of Investment:			
Savings or Family	67	67	66
Commercial Bank	7	11	11
Development Bank	0	4	2
Combination above	0	11	7
No response	26	7	14
	100%	100%	100%
Purpose:			
Start a business	67	89	84
Take over	20	11	7
Ambiguous	13	0	9
	100%	100%	100%
Assistance from:			
Family	13	26	23
Friends	0	19	23
Government	7	4	7
Other	7	7	0
None	73	44	47
	100%	100%	100%
Number of cases	N=15	N=27	N=44

The initial investment in a business normally was $2,000 dollars or less. Among the indigenous entrepreneurs, almost one-half claimed to have started with US$1,000 or less. Those who were better able to afford large initial investments were the nonindigenous and indigenous group A entrepreneurs. In each of the indigenous groups the maximum initial investment was around $100,000, while one nonindigenous entrepreneur started up with $1.5 million. The evidence supports the contention that indigenous business persons are at a competitive disadvantage when compared with foreign investors because of the vast differences in the amount of money each person is able to invest. Hypothetically, a foreign investor with large cash reserves could withstand heavy losses for many years while driving the indigenous competition to bankruptcy. At the other extreme, a few group B indigenous entrepreneurs claimed to have begun their businesses without any money at all. One person purchased his goods on a future payment agreement from a friend who was one of the larger wholesalers. He sold the goods, paid his debts, and restocked his store on credit from the wholesaler. He stood in rather stark contrast to many of the would-be indigenous entrepreneurs who claimed to require large sums of money to meet the competition. He expressed his start-up philosophy best perhaps, when during the interview he remarked that "a man should not begin with more than he can lift."

In each of the groups, savings or family was most frequently reported to be the source of initial investment. In most cases this meant that money received in the form of wages from government employment, rent money received by landowners on Kwajalein, or compensation paid to nuclear-affected people was contributed by one or more family members for the purpose of beginning a business. Only a few people in all of the groups reported loans from commercial banks as the source of their start-up capital; even fewer cited the development bank. Many business people were critical of the local banks, claiming that interest rates were too high and service to the business community was poor. That few banks and no banking laws exist were reasons for their failure to service Marshallese better.

As alluded to earlier, most entrepreneurial investment was made for the purpose of starting a business rather than taking over an existing one (Table 20). The exceptions were a few cases in which nonindigenous entrepreneurs invested in already-established businesses.

Entrepreneurs were asked if they received any type of assistance in establishing their businesses and, if so, the kinds of assistance received. In close to three-fourths of the nonindigenous and one-half of the indigenous cases, entrepreneurs claimed that additional assistance was not received. Those that admitted to receiving help cited family and friends as the most frequent sources. The kinds of assistance received were typically in the form of donations of building materials, equipment, other tangible assets, or labor. None of the interviewees recalled receiving any consultative or legal assistance from the commercial banks or national government.

The general picture painted is that the entrepreneurs started new businesses themselves with small investments that came from personal or family savings and whatever help family and friends could offer. The nonindigneous entrepreneurs tended to be divided between very large and very small investors who did not always begin their own businesses and were somewhat more self-reliant in establishing them. Indigenous group B differed from group A only in the initial investment amounts.

Table 21 presents some of the information gathered relative to how the entrepreneurs managed to keep their businesses going. Among nonindigenous and indigenous group A entrepreneurs, most claimed that reinvestment of profits was largely the source of subsequent investments in the business. In the case of indigenous group B entrepreneurs, a few reported reinvesting profits while about one-half reported that subsequent investments in the business were not made. Again there is little evidence from any group that commercial banks or the development bank were of much assistance. It appears that subsequent investments used to develop the existing enterprise in slightly more cases than to begin a new one.

Table 21. Perpetuating Non-Indigenous and Indigenous Enterprises

		Indigenous	
	Non	A	B
Source of Subsequent Investment:			
Savings or Family	0	7	7
Commercial Bank	13	7	11
Development Bank	7	0	0
Profits	33	45	11
Combination of above	14	8	14
No investment	20	33	50
No response	13	0	7
	100%	100%	100%
Purpose:			
Develop existing	33	33	36
Develop new	20	30	12
Ambiguous	20	4	2
No investment	27	33	50
	100%	100%	100%
Outside Advice Used:			
No	40	85	82
Yes	60	15	28
	100%	100%	100%
Recordkeeping:			
No system	14	8	46
Basic	33	44	38
Standard	33	33	16
Professional	20	15	0
	100%	100%	100%
Number of cases	N=15	N=27	N=44

In dealing with the day-to-day chores of business management it appears that indigneous entrepreneurs were more reluctant to seek advice from an external source than were nonindigenous entrepreneurs (Table 21). This may be a symptom that is related to the family orientation of most businesses, but more likely reflects the near absence of appropriate advisory services available to indigenous entrepreneurs. Several nonindigenous business people have established business advisory services in the past but have met with no success. In some respects such services are likely to be treated like most banks and shunned whenever possible. Marshallese will continue to avoid these typically foreign-dominated places as long as they feel threatened by the need to speak English fluently or understand the alien mentality for banking or business possessed by those providing the service. Banks have been able to survive because they represent a horde of wealth that interests people to the extent that they are willing to risk embarassment and engage in the struggle to comprehend.

One of the problems mentioned earlier about the quality of the data collected was that it prevented any reliable assessment of respective businesses' financial strengths or weaknesses. That inability has not only hampered this analysis but, more significantly, is indicative of the limited financial analysis capability of most indigenous entrepreneurs. Nonindigneous entrepreneurs tended to keep the most sophisticated records, followed by indigenous performance group A entrepreneurs (Table 21). Almost one-half of the group B entrepreneurs, admitted to having no recordkeeping system at all and about one-third had a basic system, which was defined as a minimal effort to monitor cash flow using deposit slips or other receipts. The lack of record-keeping appeared to be endemic among small-scale business people who often claimed that it was a waste of time for them and was needed only by larger businesses. It may be, however, that indigenous entrepreneurs keep records in some form but are protective of them. There was some evidence to suggest that recordkeeping was more strongly associated with the negative image of the tax person rather than with the positive image of a valuable decision making tool. Regardless of these psychological inferences, a genuine lack of attention to the importance of equipping one's self with the information or advice needed to plan effectively was evident. Management decisions in indigenous enterprises were made almost exclusively by the entrepreneurs themselves (Table 22). The nonindigenous group relied somewhat on business managers in contrast to the indigenous group B that chose to keep all decision making within the family, with one exception.

Table 22. Decision Makers in Nonindigenous and Indigenous Enterprises

Source of Decisions	Non	Indigenous A	Indigenous B
Owner-Manager	60	89	80
Manager only	13	7	0
Family	20	0	16
Family plus other(s)	0	4	0
Nonfamily group	7	0	4
	100%	100%	100%
Number of cases	N=15	N=27	N=44

Since few indigenous entrepreneurs' work experience has been in the private sector and since most do not seek advice or business training, it seems logical to conclude that their management skills were learned through trial and error. Given that the traditional method of learning relied on observation and then imitation, it is perhaps not surprising that many indigenous business people chose to start businesses that were already highly visible. As mentioned in Chapter 4, imitation in business pursuits is apparent even at the national government level. Airlines, shipping companies, off-shore banking, and philatetic sales are areas of economic endeavor that other Pacific island nations have become involved in and are now part of the Marshall Islands business development plan. A frequently heard criticism of government that may indeed apply to Marshallese entrepreneurs is that decision making is more a reaction to events than the culmination of in-depth, objective study and evaluation of factors relevant to the issue in question. An alternative explanation for the amount of imitation evident in the private sector is that entrepreneurs favor those types of businesses in which credit abuses are least likely to occur. In the case of a restaurant, for example, a person seldom asks for a sit-down meal on credit.

Value Orientations

In addition to asking interviewees about their personal backgrounds and enterprises, they were given a list of 18 written statements designed to measure their preferences for various business management orientations. The entrepreneurs were asked to indicate their level of agreement with the statement by indicating strong agreement, agreement, disagreement, or strong disagreement. Table 23 presents the average response scores for each group of entrepreneurs on each of the 18 items. The discussion that follows deals only with those nine statements that elicited differences greater than .5 between any two group averages.

Table 23. Value Orientations of Nonindigenous and Indigenous Entrepreneurs

Low Score-1	High Score-4	Non	Indigenous A	Indigenous B	Difference > .5
1. Maintaining the status quo	...Expansion	2.8	2.9	2.2	
2. Conservativism	...Risk-taking	2.4	2.3	2.4	
3. Fear of borrowing	...Willingness	3.1	2.7	2.9	
4. Preference for single ownership	...Preference for multiple ownership	2.8	2.0	1.9	
5. Businesses should cooperate	...Businesses should compete	1.4	2.4	2.1	
6. More trust in family employees	...More trust in other employees	3.3	2.7	2.4	
7. Use friends to get things done	...Rely on self to get things done	3.0	2.6	2.3	
8. Following local customs helps	...Following local customs hurts	2.9	3.6	3.1	
9. Today is more important	...The future is more important	2.3	2.8	2.5	
10. Dislike knowing what employees are are doing, socially unacceptable	...Like knowing what employees are doing, socially acceptable	3.2	3.1	3.4	
11. Fear of meeting strangers	...Like to meet strangers	3.1	2.8	2.9	
12. Family loyalty comes first	...Business loyalty comes first	2.4	1.9	2.2	
13. Don't like planning	...Like planning	3.1	3.3	3.3	
14. Try not to lose money	...Try to make money	2.9	2.6	2.7	
15. Want to provide needs only	...Want to have much more	2.7	2.3	2.0	
16. Wait for a windfall	...Set a fair price	3.1	2.1	2.2	
17. Save goods for time of scarcity	...Try to keep constant supply	2.9	2.9	3.1	
18. The future is predetermined	Destiny can be controlled	3.0	2.3	2.9	

An examination of the scores revealed that in six of the nine cases of interest, the difference between indigenous group A and group B scores was less than the difference between the nonindigenous score and the closest indigenous score. In other words, the indigenous groups tended to respond more like each other than like the nonindigenous entrepreneurs. The largest differences between indigenous and nonindigenous entrepreneurs were found in their respective orientations toward ownership, competition, employment, individualism, materialism, and consumer behavior. The exceptions occurred with respect to business growth orientations, views of local customs and business, and outlook on nature.

Nonindigenous entrepreneurs showed less concern over problems that could arise out of multiple ownership of a business (Table 23, item 3). The orientation is evident in data presented elsewhere in this report that indicates a stronger propensity for partnerships and corporations among the nonindigenous than among the indigenous entrepreneurs. Nonindigenous entrepreneurs also showed a stronger orientation toward greater self-reliance when it came to accomplishing tasks (Table 23, item 7) and less of a tendency to put trust in family employees alone (Table 23, item 6). Their inclination toward more materialistic objectives was only slightly greater than that of the indigenous entrepreneurs (Table 23, item 15).

Pricing was another area of business were indigenous and nonindigenous entrepreneurs exhibited different orientations. While the indigenous entrepreneurs appeared willing to wait for customers who could pay higher prices, the nonindigenous entrepreneurs seemed to favor a more competitive pricing policy (Table 23, item 16). It is interesting that nonindigenous entrepreneurs claimed to view business ventures similar to their own less competitively than did indigenous entrepreneurs (Table 23, item 5). One possible explanation is that the nonindigenous entrepreneurs perceived a greater threat from the overall weakness of the economy and other environmental factors. Promoting cooperation between businesses rather than competition could have the effect of strengthening the overall private sector. An alternative explanation is that indigenous entrepreneurs tend to identify a business along family or clan lines to which they feel strong loyalties. Local informants have verified that the history of cooperatives in the Marshalls has proved that they simply do not work. The most compelling reason given was that individual loyalties to a particular clan ultimately caused members of the cooperative to compete against each other for larger shares of its resources, which resulted in its ruin. This same thinking has been applied to identify one of the negative side-effects of urbanization, that is, people living close to each other in urban areas often are from different lineages and tend to identify with family members that may be scattered throughout the country rather than with their neighbors. The result is that the cooperation seen among the more traditional outer island people is difficult to find in the urban centers, where a state of veiled competition better characterizes community relationships.

One of the exceptions that was mentioned earlier refers to the difference shown between indigenous group A and group B entrepreneurs toward business expansion (Table 23, item 1). Those in indigenous Group A were joined by the nonindigenous entrepreneurs and tended to be more expansionary-minded in their orientations. Indigenous group A also indicated the strongest conviction that adhering to customary practices could be harmful to the business (Table 23, item 8). That same feeling was prevalent among indigenous group B members, but to a lesser extent, and among the nonindigenous entrepreneurs it was the least displayed. And finally, indigenous group A entrepreneurs indicated that they were more fatalistically minded than either the nonindigneous or indigenous group B entrepreneurs (Table 23, item 18).

The Entrepreneurs on Environment and Problems

During the interview sessions, entrepreneurs were given several opportunities to express their views about the commercial environment and obstacles to business success. An overwhelming majority were impressed with the private sector's recent growth. Some, however, expressed reservations that included concern over who was benefiting the most, the necessity for foreign competition, the unhealthy relationship that exists with government, and the negative influence that business growth was having on Marshallese traditions. All of those who responded insisted, however, that private sector growth was essential to economic development and greater self-sufficiency. Most were convinced that the private sector should take over responsibility for providing employment opportunities, rather than relying on the government, and that local businesses, rather than the government, should become the backbone of the nation's economy.

When asked about changes that had taken place over the past ten years to make business success easier, almost one-half of the indigenous entrepreneurs who responded cited the increase in money from external sources. These sources included Kwajalein rent payments, compensation paid to nuclear-affected people, and Small Business Administration loans that were plentiful after the 1979 wave action that destroyed many businesses and homes. The responses served to once again underscore the extent to which people see money as the immediate solution to the problems. Their reasoning, of course, was that more money meant more customers for businesses and, hence, business growth. A little better than one-fourth of those who answered referred to various infrastructure improvements. Mention was made of the new power plant, the airlines, the new dock, and better international transportation and communications networks. The remaining one-fourth cited such things as more employment, population growth, and government assistance.

Entrepreneurs also were asked to name personal qualities that they felt were possessed by successful local business people. Just over one-half of those who responded took this opportunity to talk about the importance of management know-how and other business skills. The most often repeated Marshallese term used as a response to the question was tiljok. No direct English translation was possible, but informants offered many variations. The terms most commonly used were diligent, careful, and cautious, which are presumed to embrace the word's true meaning. The question of ethnicity was also raised by a few who insisted that half-cast Marshallese stood a better chance of being successful. Ostensibly, it was because they felt that people of mixed ancestory were less tied to the demands of the culture and socialized in such a way that better predisposed them to business-style competitive behavior.

The entrepreneurs also were asked what contributions the educational system, banks, and government had made to help local business people. About 90 percent of them were unable to identify any link between programs offered through the Ministry of Education and business success. A few, however, made references to the Marshalls Community Action Agency program, courses offered through the College of Micronesia, and the occasional internationally sponsored training programs, each of which was discussed in an earlier chapter.

The entrepreneurs' reactions to banking were a little more mixed. Many admitted that the banks were of some help to them, but most insisted that the assistance offered was inadequate. The banks were accused of offering only high-interest loans with short pay-back periods, typically 23 percent with an 18-month limit. The banks' lending policy was described by some as discriminatory based on a claim that only government employees or "well-established" people could borrow money. Additionally, the banks were perceived to be as more profit motivated than service oriented, particularly among entrepreneurs who were critical of the increased cost of a sight draft from $15 to $50. The sight draft, as mentioned earlier, is required proof of advanced payment that must be presented to take possession of any merchandise imported.

Finally, the government was viewed as being of no help by about two-thirds of the entrepreneurs who commented. Those that expressed dissatisfaction with government efforts mentioned high taxes, questionable foreign investment, lack of legislation supporting local businesses, no signs of privatization, and discriminatory practices. The entrepreneurs who viewed government as aiding local businesses favored foreign partnerships and hailed infrastructure improvements as important contributions. They also mentioned the direct benefits realized when government makes purchases from local businesses and establishes federal programs that also buy goods from local merchants, as well as create jobs.

In addition to the questions discussed above, entrepreneurs were given four specific opportunities during the interview to identify obstacles to business success (Table 24). Factors related to social and cultural conditions were identified as the most serious source of problems by each group of entrepreneurs. They frequently reported strained relationships with family members or landowners because of contradictory responsibilities to them and to the business. Most business people claimed it was practically impossible to control the credit levels of family members and friends. As such, credit abuse was cited as the single most likely reason for business failure. Extended family relationships and a cultural aversion to self-aggrandizement forced many entrepreneurs to exist with high levels of accounts receivable. Those who have attempted to control credit by either limiting or eliminating it reported customers' losses and increased family problems. Indefinite and unlimited credit was so taken for granted that one entrepreneur reported a salaried credit customer asking for a suspension on his credit bill because he wanted to use his paycheck at another store, one that only accepted cash.

Table 24. Problems Cited by Nonindigenous and Indigenous Entrepreneurs.

Problem Areas	Non	Indigenous A	Indigenous B
Market	22	15	15
Capital	4	12	14
Management	2	4	3
Competition	9	8	7
Infrastructure	5	7	15
Government	22	18	9
Social/Cultural	27	36	35
Personnel	9	0	2
	100%	100%	100%
Number of responses	N=45	N=77	N=129

An allotment system was introduced by a local entrepreneur a few years ago to help remedy the credit situation. This credit collection scheme is limited, however, to government employees because it depends on a payroll disbursement system that is sophisticated enough to deduct a specific amount from the biweekly paychecks of those requesting the service. The total allotments are then sent in the form of a check to the business designated by the employee. In return for making the business the beneficiary of the allotment, the customer is entitled to special credit privileges. Basically, the technique avoids the credit abuse problem by keeping money out of the hands of the wage earner. The program has been helpful to businesses that have allotment customers. In fact, one government representative reported that much of the government payroll goes directly to some retail stores. In fact, some of the payroll checks are written for small amounts because most of the salary had been subject to an allotment commitment.

The entrepreneurs also complained about problems with landowners. As discussed briefly earlier, many urban residents have primary land rights only in the outer atolls and therefore must get permission from local landowners to build homes or businesses. Entrepreneurs reported that some landowners would not consider long-term leases and insisted on month-to-month arrangements. Such arrangements proved to be fraught with problems of uncertainty concerning permanence and amount of regular rental payments. Other problems mentioned in the sociocultural area included the use of land as collateral for bank loans, the amount of USDA food distributed, and the high level of unemployment. Each of these problems was seen as an obstacle to better business performance by the entrepreneurs.

Another major problem area identified by all of the entrepreneurs was the market. A few cited the fall in world copra prices as a problem, but most of the comments reflected a greater concern about the number of potential customers and their purchasing power. Entrepreneurs felt that wages had remained constant over the years while prices had climbed, thus weakening consumer spending power. There was no evidence that market problems were viewed in terms of demand levels for various goods or services. The major obstacle, as far as most entrepreneurs were concerned, was simply a lack of consumer spending money.

The capital market was named as a problem area by a greater percentage of indigenous entrepreneurs than nonindigenous entrepreneurs (Table 24). The indigenous entrepreneurs felt that they were hampered by the scarcity of venture capital and its high cost, while the nonindigenous group found it to be less of a problem. The difference may suggest that nonindigenous entrepreneurs were more adept at financing their enterprises it merely may be another manifestation of an inclination among indigenous entrepreneurs to solve problems by asking for more money.

Among the nonindigenous and indigenous group A entrepreneurs, the government represented another considerable obstacle. Their criticisms are expressed in more detail elsewhere in this report. In general, they remarked that the relationship between the private sector and government was not good. Many felt that government was too involved in business itself and had hurt local business people through its policies rather than helped them.

Other problem areas identified included infrastructures and competition. Indigenous group B was most critical of infrastructure development. The group was made up of many of the outer island business people interviewed and the percentage citing infrastructure likely reflected their disappointment with the interisland transportation system. The problems with competion mentioned by nonindigenous and indigenous group A entrepreneurs were aimed at, but not limited to, foreign businesses. Some feeling was expressed that there was too much imitation among indigenous entrepreneurs and that it weakened the chances for success. It is interesting to note that management was seen as a problem by only a small percentage of entrepreneurs in each group. It suggests, perhaps, the strength by which entrepreneurs perceive obstacles to be environmental in nature rather than personal.

Finally, entrepreneurs were asked what could be done to overcome these problems. Almost one-half felt that the primary responsibility rested with the individual entrepreneur and about 40 percent felt that government should bear at least some of the responsibility. This is understandable since the biggest problem area was controlling credit, particularly among relatives. Some suggested that businesses hire non-Marshallese to act as buffers between the entrepreneurs and their relatives. Others thought that government should enact laws to help control credit abuses, lower taxes, and raise salaries to provide people with more spending money.

Chapter 7. SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

This final chapter offers a summary of the previous chapters and some conclusions and recommendations that may be of interest to policy-makers. The summary is presented in the context of achieving two purposes. The first is to make a statement with respect to the general inclination among Marshallese toward entrepreneurial behavior. A brief description of traditional society and colonial periods, and the problems related to indigenous entrepreneurship that stem from each, is presented to accomplish this objective. The second purpose is to describe the entrepreneurial environment within which indigenous entrepreneurs must compete. An assessment of the government's efforts to assist in indigenous entrepreneurial growth, a recounting of the significant features of the commercial environment, and a brief account of entrepreneurs and their enterprises is presented to accomplish this aim. The remainder of the chapter is devoted to some basic conclusions and a variety of recommendations for improving the indigenous entrepreneurial environment.

Summary and Conclusions

The Entrepreneurial Inclination of Marshallese

The propensity among indigenous people to engage in entrepreneurial behavior and the influence of environmental factors on indigenous entrepreneurship are important determinants of indigenous entrepreneurial success. The purpose here is not to define what is or is not entrepreneurial behavior, but to suggest that some historical and cultural factors can discourage or inhibit the type of risk-taking, profit-oriented, competitive behavior often associated with entrepreneurs. In general, the areas of particular importance are the pressures felt from traditional structures of Marshallese society and the consequences of their colonial experiences.

The feudalistic nature of traditional Marshallese society has not evaporated with the inauguration of a constitutional democracy. An ascriptive-based authority structure that demarcates kings from commoners is still recognized and prescribes special privileges for members of elite classes. The aristocracy continues to feud over the control of land and also has recognized the need to control access to money to ensure its suzerainty. Class differentiation is thus an important consideration in explaining the distribution of economic opportunities, whether as laborers or as entrepreneurs. Hence, access to those opportunities and the capital requirements of business are problems most encountered by commoner class indigneous entrepreneurs.

The land tenure system was also identified as an element of traditional society that encumbers many indigneous entrepreneurs. The land that is so vital to people's existences is owned by an <u>iroij</u> and controlled by a matrilineage. As such, many individuals may have land use rights to a single parcel, which makes getting unrestricted access to that land difficult but often necessary for business success. For example, multiple interest in the land has resulted in confusion and disagreement over its use or on the amount of rent to be charged. The indigneous entrepreneur might benefit from greater autonomy in decisions regarding land use or rental agreements. Independent action, however, is not a characteristic of traditional life and continues to be regarded as somewhat offensive by cultural standards.

Another aspect of traditional society that appears to impact indigenous business success is the community-based behavior of reciprocity. By means of this traditional practice, interdependencies are fostered through the sharing of resources and production. However, because of heavy migration large numbers of people now live in urban centers rather than in their traditional communities. In this noncommunity urban setting, people appear to expect continued access to goods or services, that is, sharing, but are without the support of the community mechanism through which it was previously allowed. The business community's efforts to maintain some kind of reciprocal arrangement often surfaces in the form of credit transactions, where the idea of payback is seldom truly acknowledged. In effect, situations often arise in which the customer is not hesitant to ask for credit and the store owner finds it almost impossible not to grant the request. The result is a high level of accounts receivable and a shortage of cash.

Remnants of the traditional economic system represent other constraints that limit the supply or detract from the performance of indigenous entrepreneurs. The principles of production, exchange, and investment that emanate from the traditional economy support underproduction, communal distribution of surpluses, and failure to recognize the need to adequately save for future investment. The transition from a traditional to a monetized economy has required those seeking wage employment to cope with a significant adjustment. The subsistence affluence experienced in the traditional setting engendered a work ethic that made islanders unattractive employees in the wage labor market. The consequence has been high levels of unemployment and excessive reliance on foreign labor. The high wages paid at the Kwajalein Missile Range and the modestly strenuous demands of government employment remain the major employment attractions among those seeking wage labor opportunities. This limits the number of indigneous people willing to participate in private sector commercial activites. Additionally, those entrepreneurs who accept the challenges of business frequently find themselves in trouble because of personal expectations regarding financial returns to their labor that are unjustifiable given the business' revenues.

The German, Japanese, and U.S. colonial administrations each tried to support traditional structures during the early years of their respective tenures. However, as the German and Japanese economic exploitation and the U.S. strategic exploitation took precedence, each administration embarked on a course of action that was consistent with its objectives. The dependency relationship created by the U.S. administration has left Micronesia without a real economic base and Micronesians with unrealistic attitudes and perceptions.

The intensity of the relationship and the artificiality of the economy may be greatest among the Marshallese because of the U.S. determination to conduct a nuclear testing program and operate a missile range in their country. The forced migration of many Marshallese has left them without traditional means of support and has made them almost totally dependent on compensation monies, USDA foods, and other forms of welfare. The compensation paid to these people has encouraged greater consumption and made wage labor more unattractive. The psychological effect has been to foster a welfare mentality in which dependence on future support is a more attractive alternative than individual effort at economic self-sufficiency.

Finally, two conclusions are offered with regard to the general inclination among Marshallese to exhibit entrepreneurial behavior. First, given the traditional social, economic, and authority structures, the society does not appear to be organized to accommodate the type of competitive behavior that is often demanded in Western-style business settings. That is, the traditional structures do not predispose the Marshallese to business. This notion is in contrast, for example, to the New Guinea highlands where Finney (1973) was able to correlate traditional structures to commercially aggressive entrepreneurial behavior. Second, the colonial experiences of the U.S. period, in particular, have eliminated a great deal of whatever latent inclination toward entrepreneurial behavior might have been cultivated under a more humanistic colonial administration.

The Entrepreneurial Environment

The entrepreneurial environment of the Marshall Islands can be thought of as a cross-section of the nation's social, political, and economic environments that is composed of those elements that determine the character of the nation's overall disposition toward indigenous entrepreneurial efforts. The social environment received some attention in an earlier chapter, but includes factors such as population characteristics, education and training opportunities, and the quality of health services available. It was noted that the Marshall Islands experiences one of the highest population growth rates in the world. This, combined with heavy migration to the urban centers of Ebeye and Majuro, puts tremendous pressure on the nation's limited natural resources and the social and physical infrastructures in place. Over one-half of the population is under the age of 15 and both unemployment and underemployment are serious problems.

The present educational system is unable to accommodate every school-age child and has experienced high attrition rates at both elementary and high school levels. Curriculum in the past has often emulated that which is found in U.S. classrooms, which raised questions about the appropriateness of the expectations created in school children. Vocational education was emphasized and occasional training programs were offered by international agencies and the Marshalls Community Action Agency. Several courses offered by the College of Micronesia's School of Continuing Education were found to be particularly appropriate to indigenous business people.

In general, the quality of health services available in the urban centers and the outer atolls was described as poor and in need of improvement. The opening of a new hospital, better training for outer island health aides, and the relocation of the regional school of nursing to Majuro are events that were planned to improve the quality of health care throughout the country.

Chapter 4 dealt extensively with the political environment by concentrating on government policies and action that had a bearing on the commercial environment. Although the recently approved First Five Year Development Plan contains many references to confirm the government's commitment to the important role the private sector must play in the country's economic growth, it fails to adequately describe how indigenous people will participate. The development strategy relies heavily on foreign investment that has led to harmful competition among indigenous entrepreneurs. The strategy also calls for government ownership of private sector businesses, typically joint ventures with foreign companies, that are expected to be the backbone of private sector growth. Interested indigenous entrepreneurs are expected to take advantage of the "spin-off" opportunities that result. The government has yet to use old legislation or pass new legislation that either protects Marshallese business people or enhances their position in the marketplace relative to nonindigenous competition.

Aspects of the economic environment that are crucial to understanding the entrepreneurial environment were discussed in Chapter 5. The country is poor in terms of land resources and depends largely on copra for export earnings. The real economic potential of the nation's vast ocean area remains in question, but in the meantime attracts lucrative fishing leases.

The economy suffers from extreme trade imbalances, an overexpanded public sector, and an underdeveloped private sector that is dominated by nonproductive-oriented trade-and service-type businesses. The only dependable physical infrastructures are limited to the externally controlled international air and shipping services and the internally controlled electrical power plant, communications station, and new dock. The locally operated air and shipping services are not as reliable and fresh water is seldom sufficient to meet the demand. The economy is artificially supported by external grants and aid, and has experienced no real growth in recent years. Gaining access to venture capital is difficult, wage levels are high relative to output, and there is little propensity among individuals, or ability on the part of the government, to invest in the economy. With respect to support for indigneous entrepreneurs, financial services are inadequate, government tax and import regulations are obstructive, and the nature of competition demands advanced skills or elite status.

It is difficult to assess objectively the entrepreneurial environment of the Marshall Islands based upon the subjective nature of much of the information used to arrive at the above characterizations of the social, political, and economic environments. It is possible, however, to conclude that the entrepreneurial environment, as it applies to indigenous entrepreneurs and as is discussed in previous chapters, is almost entirely devoid of any practical medium that has been specifically designed to encourage or support entrepreneurial efforts.

Recommendations

The Republic of the Marshall Islands Government has adopted the First Five Year Development Plan 1985-1989 as its blueprint for future economic growth. Contained in that document are innumerable strategies, policies, and projects that have been conceived for the purpose of achieving the nation's development objectives. Much attention is focused on creating a more vibrant private sector through the introduction of new industries and the revitalization of copra production. A major objective is greater self-reliance for all citizens and less dependence on government services and employment.

Although the development plan refers to the importance of increased commercial activity in the private sector to economic development, it does not specify the role that indigneous entrepreneurs are to play. If the strategy is for all Marshallese to participate in, and benefit from, the economic growth potential of the nation, then it would be worthwhile to determine as precisely as possible the way in which their participation is to occur. In other words, it is recommended that the development plan be made more explicit by detailing the strategies, policies, and projects for involving indigenous business people in the economic growth of their nation.

As mentioned in several places in the report, the development strategy relies heavily on foreign investment. It will probably occur in the form of joint partnerships with private sector business people or the government. The dangers of excessive reliance on foreign investment are serious enough to warrant a recommendation to establish a mechanism that will moderate the amount and type of foreign investment.

An important first step might be the publication of an investment guide for foreigners who are interested in doing business in the Republic of the Marshall Islands. The guide could serve several useful functions. First, it could clarify the types of foreign investment that are considered to be desirable by the government. This would allow government the opportunity to prioritize investment objectives in such a way as to protect indigneous entrepreneurs in areas in which they show signs of competence, for example, in the retail merchandising sector.

Second, the formulation of an investment guide could lead to the establishment of limits on the amount of foreign investment dollars in selected commercial activities. This would require foreign investors to be responsive to the local market and restrict their ability to treat it as merely one segment of a larger sales scheme. This would also serve as a means to ensure a more competitive marketplace in which indigenous entrepreneurs might be able to compete more successfully.

Third, the publication of an attractive, detailed, foreign investment guide would appeal to the more serious and reputable potential investor. Such a guide would have to satisfy the informational needs of investors in areas such as tax and banking laws, import and export regulations, and employment and partnership requirements. This would give the government an opportunity to make policies and regulations relevant to these areas that are explicit and in a manner that would protect the interests of indigenous entrepreneurs. It would also act as a guarantee to foreign investors that would allay their fears of sudden or unpredictable changes in laws or policies.

Suggested above, but perhaps in need of being made more explicit, is the issue of supporting indigenous entrepreneurs. Since the private sector is to play an important role in developing a sounder economic base from which self-reliance can be attained, ample indigenous participation should be regarded as a critical objective of any strategy, policy, or project that is formulated for that purpose. The value of indigneous business success should not be calculated solely in terms of additional tax revenues that can be gained today. Instead, a more long-term approach should be adopted that recognizes the substantial benefits that the government and society at large will realize if indigneous businesses are helped to grow. Nurturing indigenous businesses by means of concessionary laws and regulations will help to stimulate their growth through the establishment of a more favorable commercial environment. The result should be greater representation by indigenous people in private sector businesses.

The nature of the government's investment in indigenous entrepreneurs can come in many forms, for example: 1) a restructuring of the import duties schedule to discourage imports and encourage local production, 2) more effective use of MIDA and legislation that is already in place to provide financial and management support, 3) introducing legislation that promotes selected industries through tax advantages and trade regulations, 4) protecting indigenous business people from excessive foreign competition by establishing limits to the types and amounts of foreign investment, and 5) implementing the development plan project to set up model farms and businesses, which may help to stimulate the interests and enhance the abilities of indigneous entrepreneurs (Republic of the Marshall Islands 1985:178).

Government also can have a farreaching impact on transforming the commercial environment through actions directed at other organizations. The Marshall Islands National development bank and the Chamber of Commerce are two such significant cases. As mentioned earlier, the development bank was found to be active in making direct loans, but few of the other services and programs that it is chartered to provide. With the proper support of government, the development bank could begin to provide financial counseling and planning services to qualified indigenous entrepreneurs.

The relationship between the private sector and government could be vastly improved through a cooperative relationship with the Chamber of Commerce. This group of local business people has been active in recent months and could serve as a valuable conduit by which the government could help to create a better commercial environment for indigneous entrepreneurs.

Finally, one of the most fundamental ways in which the government can help indigenous business people to overcome obstacles to success is through education programs. Management skills are lacking and could be improved through training and experience. School curricula and programs should be developed that teach business skills as well as examine the basic concepts of business in the context of Marshallese society. Scholarship programs should encourage the pursuit of management and accounting degrees, and the government should continue to take advantage of training programs offered by various international agencies.

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PIDP serves as the secretariat for the Pacific Islands Conference, a heads of government organization, and for the Standing Committee, composed of eight island leaders. PIDP's projects—requested and reviewed by the Standing Committee—respond to the development themes discussed at the First (1980) and Second (1985) Pacific Islands Conference. This process is unique within the East-West Center and in other research and educational organizations serving the Pacific.

Since 1980 PIDP has conducted research and training in nine areas: appropriate government systems, aquaculture, disaster preparedness and rehabilitation, energy, faculty development, indigenous business development, nuclear waste disposal, regional cooperation, and roles of multinational corporations in the Pacific tuna industry.

At its Tenth Meeting in January 1986, the Standing Committee endorsed a set of new projects for PIDP. These are health and nutrition, roles of multinational corporations—petroleum marketing and supply, Pacific youth, policy analysis, role of the private sector in Pacific development, and urban and rural life.

EAST-WEST CENTER

The East-West Center is a public, nonprofit educational institution with an international board of governors. Some 2,000 research fellows, graduate students, and professionals in business and government each year work with the Center's international staff in cooperative study, training, and research. They examine major issues related to population, resources and development, the environment, culture, and communication in Asia, the Pacific, and the United States. The Center was established in 1960 by the U.S. Congress, which provides principal funding. Support also comes from more than 20 Asian and Pacific governments, as well as private agencies and corporations.