

# **REPUBLIC OF THE MARSHALL ISLANDS BUSINESS OPPORTUNITIES REPORT**

**PREPARED FOR THE UNITED STATES DEPARTMENT OF THE INTERIOR  
OFFICE OF INSULAR AFFAIRS**



**SERENA MATSUNAGA – SEPTEMBER 2004**

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## EXECUTIVE SUMMARY

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As a country with almost two decades of sovereignty, the Republic of the Marshall Islands (RMI) offers private sector growth potential in a politically stable environment. The RMI's strong relationship with the United States fortifies its national security and favorable trade position. Natural advantages unique to the country, including pristine beaches, tropical agriculture and rich ocean resources, provide opportunities for the sustainable development of new industries. This combination creates a solid foundation for investment found in few developing economies.

The country has made great strides in the past twenty years. The basic infrastructure for businesses to operate on an international level exists in the urban areas, including direct flight service to and from Honolulu. The climate for commerce will continue to improve as the country realizes the future benefits of current infrastructure initiatives. The Compact of Free Association (Compact) with the U.S. includes over \$629 million in financial assistance over twenty years for advancements in education, health, infrastructure, private sector development, public capacity building, and environment, among other sectors.

The Marshall Islands is committed to the creation of a self-sustaining economy. Over the next twenty years, the Compact will transition from annual financial assistance to a trust fund arrangement. To achieve the level of growth needed, the RMI is exploring opportunities to diversify its economic base and supplement its primary export, copra. This is a critical, and exciting, time for the private sector as many emerging industries remain in the early stages of development.

The investment opportunities in the Marshall Islands are as unique as the country itself. As its full economic potential has yet to be realized, the RMI presents a window of opportunity for established businesses and investors to partner with the islands in order to achieve sustainable growth. The country welcomes a range of private sector partnerships to open new markets for island exports, invest in emerging industries and provide access to capital to local entrepreneurs. Compelling opportunities exist in sectors including, but not limited to, niche tourism, fisheries and related services, aquaculture, value added agriculture products, alternative energy and traditional handicraft export.

### Key Investment Considerations:

- **Freely Associated State (FAS) Status** – As one of three countries in free association with the U.S., the RMI provides businesses the ability to operate in a sovereign country and retain conveniences such a U.S. dollar-based currency system and favorable trade arrangements.
- **Political Stability and Security** – The RMI has enjoyed stable, democratic governance since 1986. The state-of-the-art U.S. military base at Kwajalein Atoll provides a military presence in the islands. The Compact guarantees that the U.S. will provide national security protection against third parties.

## EXECUTIVE SUMMARY

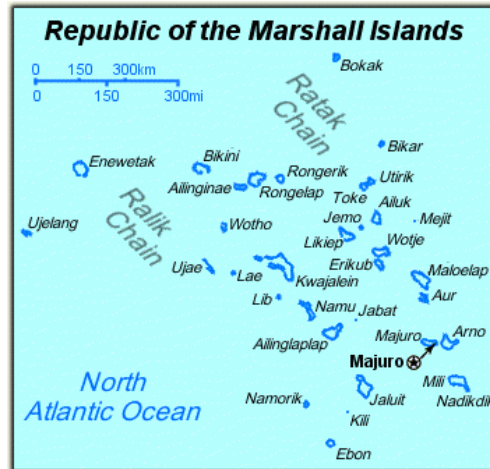
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- **Tax Incentives** – Incentives exist for substantial investment in certain strategic industries, including fisheries, manufacturing, aquaculture/agriculture and hotel/resort development.
- **Ocean Resources** - The country is known for its wide array of ocean resources, from an abundant stock of high-grade tuna to world-renowned dive attractions.
- **Infrastructure** – The RMI’s capital, Majuro, is equipped with reliable energy services, telecommunications, shipping facilities and an international airport with direct flights to and from Honolulu.
- **Entrepreneurial Aptness** – According to the “World Bank Doing Business Indicators 2006”, RMI ranked number 13 out of 175 economies in the category “Starting a Business” and number 5 in “Dealing with Licenses”, both of which demonstrate the feasibility and ease of starting a business in the country.
- **Available Workforce** – A large pool of workers in the urban areas is available for employment.

## BACKGROUND

### Location

The RMI, located in the Central Pacific Ocean halfway between Japan and Hawaii, consists of twenty-nine coral atolls and five single islands. Distributed over 750,000 square miles of ocean, the atolls fall in two parallel chains, the Ratak (sunrise) and Ralik (sunset) groups. Over 1,200 islands and islets, ranging in size from 0.2 to 6 square miles, combine for a total landmass of 70 square miles. The capital of the RMI is Majuro.



### Historical Background

Prior to Western contact, the people of the Marshall Islands relied on fishing and tropical agriculture to provide for subsistence living. In this environment, the Marshallese developed world-renowned seafaring skills, which included the design of structurally effective canoes and the creation of astronomical-based methods of navigation. The culture and skills that evolved allowed the Marshallese to thrive in the widely dispersed islands.

European powers established a presence in the islands at different times, starting with initial contact by Spanish ships in the 16<sup>th</sup> century. In its first significant colonial experience, the Marshall Islands were annexed by Germany in 1885. Germany discovered the commercial benefits of establishing a copra trade, which flourished until World War I. Japan gained possession from Germany following the war. Under Japanese control, copra production expanded to record levels.

The Marshall Islands were the site of key battles of World War II. The islands fell under U.S. administration as a U.N. Trust Territory of the Pacific Islands in 1945. During this period, the U.S. established a strategic military presence in the islands. Some of the islands were initially used as a nuclear weapons test sites. From 1947 to 1962, a series of atomic and hydrogen bombs were detonated in the northern atolls.

## **BACKGROUND**

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The military base at Kwajalein Atoll was established in 1964. As defense weaponry evolved, the military shifted its mission of presence in the islands to include sophisticated space and defense research. The United States Army Kwajalein Atoll (USAKA) provides strategic missile defense program support as the Ronald Regan Ballistic Missile Defense Test Site (RTS).

### **Government**

After a long history of colonial rule and U.S. administration, the RMI gained sovereignty in 1986. The country formed a constitutional government and entered into the Compact with the United States.

The President of the RMI, elected by the legislative body, or Nitijela, is the head of state. The current President of the RMI is the Honorable Kessai Note. The thirty-three members of the Nitijela represent the atolls, with a minimum of one Senator per atoll. Elections are held every four years, and the President appoints Cabinet members from elected Nitijela members.

The Council of Iroij, comprised of high chiefs, advises the President on matters of traditional custom. The legal system includes a Supreme Court, High Court, district and community courts.

## ECONOMY

The RMI is striving for economic self-sufficiency. As the terms of the Compact shift from annual financial assistance to a trust fund arrangement, the country is seeking to establish corresponding economic growth. Copra has historically been the primary export product of the islands. In recent years, the Marshall Islands has initiated new industry development to expand its economy. The introduction of alternative sources of economic growth provides promise for sustainable development and growth.

The population of approximately 61,815 (July 2007 est.) is concentrated in the urban areas of Majuro and Ebeye (Kwajalein Atoll), home to approximately two-thirds of the population. The remaining one-third lives in the more remote atolls, commonly known as the “outer islands.” The population growth rate is estimated to be 2.207%, with an average life expectancy of 70.61 years. Population age distribution is as follows: 38.3% between ages 0 -14; 58.9% between ages 15-64; and 2.8 % over the age of 65. The country also sees a migration rate of -5.78 migrants per 1,000 people (2006 est.).

The real Gross Domestic Product (GDP) was \$129.3 million, or roughly \$2,454 per capita in 2006. The estimated real GDP in 2007 is \$132 million or \$2,474 per capita. On an inflation-adjusted basis, per capita GDP has remained relatively flat since independence. Labor force distribution consists of 57.7% in services, 21.4% in agriculture and 20.9% in industry.

<b>Key Economic Statistics (in US Dollars)<sup>1</sup></b>			
Population	52,709 (2006)	Gross Domestic Product	\$129.3 M (2006)
		<i>Government</i>	34.8%
Total Labor Force	14,680 (2000)	<i>Private Enterprise</i>	33.7%
<i>Public Sector</i>	30.6%	<i>Households</i>	13.2%
<i>Private Sector</i>	40.6%	<i>Public Enterprise</i>	8.2%
<i>Other</i>	29.8%	<i>Finance (Banks)</i>	4.9%
		<i>NGOs</i>	1.5%
		<i>Others</i>	3.7%
Total Employment	9,810 (2006)		
<i>Public Administration</i>	36.21%	Imports (US\$)	\$54.7 M (2000)
<i>Wholesale and Retail Trade</i>	18.09%	Exports (US\$)	\$ 9.1 M f.o.b.
<i>Extra-Territorial Org. and Bodies</i>	12.75%		
Unemployment Rate	30.9%		

Sources: RMI Economic Policy, Planning, and Statistics Office, International Monetary Fund  
<https://www.cia.gov/library/publications/the-world-factbook/geos/rm.html>

Annual financial assistance, primarily from the U.S. under the provisions of the Compact, places the RMI in a strong position to fund public administration and related services, such as health and education. Compact resources also stimulate activity through

<sup>1</sup> Economic Policy, Planning and Statistics Office (EPPSO) statistics referenced from Statistics Programme Pacific Regional Information System and Insular Areas Statistical Enhancement Program Website (DOI).

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infrastructure projects and USAKA land rental payments. The RMI receives additional aid from Taiwan and Japan, among other countries.

The Compact was revised in December 2003 and takes a new strategic approach toward economic relations between the U.S. and the RMI. The annual financial assistance strategy of the past has been replaced by the concept of a Compact Trust Fund (CTF). The CTF, to be established and capitalized over twenty years, is expected to provide for the RMI's future development needs at the conclusion of the funding period.

The U.S. will continue with annual grant funding until the CTF is fully funded. Over the next twenty years, over \$629 million in grant assistance will be made available for advancement in six sectors: education, health care, environmental concerns, public sector capacity building, infrastructure and private sector development. Health and education receive priority. Capital projects from FY2004 to FY2006 will amount to \$44.9 million. Annual grant outlays are managed by the Joint Economic Management and Financial Accountability Committee (JEMFAC), which is comprised of U.S. and RMI officials.

<b>Compact of Free Association – Summary of Title II</b>	
Annual Grant Assistance	<ul style="list-style-type: none"> <li>• Sectors: Education, health care, the environment, infrastructure, public sector capacity building and private sector development</li> <li>• \$44 million in grant assistance in FY2006</li> <li>• Total grants of \$629.7 million over 20 years, ending in FY2023</li> <li>• Approximately 60% of grant funding made available to infrastructure development in FY2006</li> <li>• Allocation based on budgeting and strategic planning by RMI government</li> </ul>
Compact Trust Fund (CTF)	<ul style="list-style-type: none"> <li>• Annual U.S. contributions for 20 years to establish CTF</li> <li>• \$9 million in CTF contributions in FY2007</li> <li>• Contributions increase \$0.5 million per year to \$16.5 million in FY2023</li> <li>• Requires RMI contribution of \$30 million by FY2006</li> </ul>
Audit Grant	<ul style="list-style-type: none"> <li>• Provides \$0.5 million for costs related to annual audit requirements</li> </ul>

*Source: Public Law 108-188, Dec. 17, 2003, Compact of Free Association Amendments Act of 2003 and U.S. Embassy in RMI*

The RMI is a net importer of goods and services to supply the basic needs of the Marshallese citizens. According to available reporting, imports in 2000 totaled \$54.7 million<sup>2</sup>. Fuel is the largest single expenditure, accounting for 37.2% of imported goods. This need is driven by the requirements of electric utilities and vehicle transportation in urban areas. Manufactured goods, food and beverages/tobacco combined for an additional 35% of imports.

Retail accounted for 12.7% of GDP in 2001. A few dominant operations and several smaller storefront shops characterize the retail environment on Majuro and Ebeye. Retail establishments are stocked with a wide variety of consumer goods, predominately imported from the United States. Asian products have recently penetrated the market and challenged the dominance of U.S. goods.

<sup>2</sup> ESSPO



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Exports in 2000 totaled \$9.1 million, primarily from copra-related products and diesel re-export associated with fishing transshipment. Copra has historically been the RMI's sole cash crop. The RMI government operates Tobolar Copra Processing Plant (Tobolar), under private management, to produce coconut oil, copra cake, bath soap and laundry soap. It continues to compete in a difficult market environment, with increased production from Southeast Asian countries negatively impacting price in the past ten years. In the absence of employment alternatives in more remote atolls, the copra trade is important to the subsistence economies of outer island residents.

The RMI plans to reduce its reliance on copra through diversification into new industries. The RMI's Exclusive Economic Zone (EEZ) of over 822,000 square miles has a large supply of high-grade tuna, including the skipjack, yellowfin, bigeye and albacore. The Ministry of Resources and Development (MRD) is pursuing development opportunities in fishing and related industries. Currently, the licensing fees charged to foreign fishing vessels account for the majority of revenue from this resource. The RMI maintains bilateral fishing agreements with several countries, including Japan, Korea and Taiwan. The country operates in accordance with the Forum Fisheries Agency (FFA), the regional fisheries regulatory body. The Marshall Islands Marine Resources Authority (MIMRA) oversees issues related to fishing licensing and monitors the environmental impact of fishing levels.

<b>Fishing License Related Income, \$Million, FY1999 – FY2006</b>		
	<b>Fishing rights fees</b>	<b>Registration fees</b>
1999	2.3	1.0
2000	3.7	1.1
2001	2.9	0.7
2002	3.3	0.6
2003	1.7	1.0
2004	0.9	1.0
2005	1.4	1.0
2006	1.5	1.0

Sources: RMI Economic Policy, Planning, and Statistics Office

A China-based fish processing plant is currently under construction and is estimated to operate starting in early 2008. The new plant will establish a tuna loining operation on Majuro to supply cooked loins for the canned tuna industry. In addition, this operation will help to generate an additional 400 to 600 job opportunities in the RMI. Value-added fish processing services create fishing-related revenue and significant employment opportunities for the RMI.

The infrastructure on Majuro is favorable for tuna transshipment, a natural complement to the increased fishing vessels in RMI waters. The wide variety of retail operations, dry dock and harbor conditions, international air service and access to fuel supplies makes Majuro a competitive location for port calls in the region. MRD plans to invest in the infrastructure for transshipment to attract additional traffic in the Majuro port. In addition to the transshipment fee, approximately 2 million in FY2006, each ship

## ECONOMY

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contributes an estimated \$15,000.00 to \$20,000.00 to the local economy through secondary sources.<sup>3</sup>

Building off the benefits of sovereignty, security and FAS status, the RMI has successfully positioned itself in the world market as a favorable host to ship registries. The Trust Company of the Marshall Islands (TCMI), a ship registry service established in 1990 by the RMI and Virginia-based International Registries, Inc., is an excellent example of a successful joint venture. As of March 2004, the Marshall Islands Registry ranked in the top ten in the world with 668 ships totaling 21.2 million gross tons.<sup>4</sup> This significant achievement is attributed to competitive rates for registration, concentration on accepted international maritime standards and customer service orientation. The company plans to further grow its business with the development of a yacht registry.

The Ronald Reagan Ballistic Missile Defense Test Site (RTS) at USAKA supports the research and development needs of U.S. space and defense programs. The military conducts research, development, testing and evaluation using cutting-edge radar, optical and telemetry sensors. The \$4 billion strategic military base and the large lagoon at Kwajalein Atoll provide an ideal location for testing long-range missiles from the continental U.S. and short to intermediate range missiles from the Pacific region. In addition to military operations, RTS supports NASA and Department of Energy (DOE) initiatives.

The U.S. Army Space and Missile Defense Command awarded Kwajalein Range Services, LLC (KRS), a long-term technical and logistics support contract for the facilities throughout Kwajalein Atoll. Primarily a joint venture between Bechtel Corporation and Lockheed Martin, KRS subcontracts with the Chugach Development Corporation and AirScan for support services. The RTS operations provide Marshallese citizens residing on Ebeye with employment opportunities.

Industries that leverage the RMI's natural advantages offer vehicles for the type of growth needed to sustain the economy after the twenty-year annual grant assistance period provided by the Compact. The tourism, organic products and aquaculture industries, while in their early stages, have the potential for development. Traditional handicrafts create income opportunities for the outer islands. Light manufacturing and fish processing also have potential. These and other business opportunities are highlighted in the *General Business Opportunities* section.

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<sup>3</sup> Asian Development Bank.

<sup>4</sup> International Registries, Inc.

## INFRASTRUCTURE

The urban areas of the RMI provide the required infrastructure for international business. Majuro is equipped with modernized roads, access to telecommunications, reliable energy services, shipping facilities and an international airport with regular flights from Honolulu. Due to the widely dispersed atolls, developing infrastructure in the outer islands remains challenging.

Summary of Infrastructure	
Telecommunications	<ul style="list-style-type: none"> <li>• Telephone, cellular, Internet and long distance services</li> </ul>
Energy	<ul style="list-style-type: none"> <li>• Power service available on Majuro, Ebeye, Jaluit and Kili</li> <li>• Diesel fuel supplied on Majuro</li> </ul>
Air Transportation	<ul style="list-style-type: none"> <li>• Continental Airlines from Honolulu to RMI</li> <li>• Air Marshall Islands for inter-island transport</li> </ul>
Shipping	<ul style="list-style-type: none"> <li>• International shipping - Matson Navigation</li> <li>• Inter-island shipping – Government sponsored service and private companies</li> <li>• Commercial docks in Majuro and Kwajalein atolls</li> <li>• Deep water ports and freight container facilities in Majuro</li> <li>• Over 50 private mooring locations</li> </ul>
Roads	<ul style="list-style-type: none"> <li>• 37 miles of roads on Majuro</li> <li>• 7 miles of roads on Ebeye (including causeway to Gugeegue)</li> </ul>

*Source: Interviews, NTA Annual Report, MEC Annual Report, Marshall Islands Embassy*

- **Telecommunications** – The National Telecommunication Authority (NTA) provides local telephone service, cellular service, Internet access and long distance service to commercial and residential customers in the Marshall Islands. Established in 1987 to privatize telecommunications, the NTA is an independent entity with public shareholders and a Board of Directors. The government is currently the majority shareholder. International long distance rates from the RMI are \$1.25 and \$1.00 per minute during peak and non-peak periods, respectively.
- **Energy** – The Marshalls Energy Company (MEC), a government entity, provides power on Majuro, Wotje and Jaluit Atolls and supplies diesel fuel to fishing vessels and government boats. This combination of revenue streams allows MEC to offer domestic power at affordable rates, without government subsidy. Local governments on Kwajalein and Kili Atolls sponsor power services to Ebeye and Kili islands, and Kili is the only island to offer free power. MEC uses solar panels to provide power to some of the outer islands.
- **Air Transportation** – Two international airlines currently provide international service on regular and irregular bases respectively. Active airstrips on Majuro and Kwajalein are capable of landing commercial jet aircraft, including 737s. Airstrips on Enewetok and Jaluit have the potential for larger aircraft landings as well. Continental Air Micronesia operates flights from Honolulu to Majuro and Kwajalein with continuing service to the Federated States of Micronesia and Guam three times per week. The government-owned Air Marshall Islands (AMI)

## INFRASTRUCTURE

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offers inter-island service with smaller aircraft. JAL has charter flights to and from Majuro for tourism purpose and plans to fly more often in the near future.

- **Shipping** - The RMI has several deep-water docks to accommodate large vessels. The docks at Majuro and Ebeye are equipped to handle international fishing fleets and shipping vessels. Two deep-water ports and a freight container yard were constructed to provide transshipment infrastructure on Majuro. Matson Navigation offers shipping services to and from Majuro and Ebeye on a monthly basis. Asian and Australian shipping lines also serve the RMI market. Inter-atoll shipping is provided by a combination of government-sponsored service and smaller private businesses.

**Land Rights.** Foreign investors must lease land from native-born Marshallese for development or other commercial activities. Land ownership in the RMI is based on a traditional system. Land rights to *wetos* (plot of land) are allocated to three classes the *iroij* or *leroiij* (traditional chief group and principal land owners), *alap* (clan heads) and *dri jermal* (commoners).

The government is working to facilitate the land lease process and provide protections to encourage investment. Recently passed legislation was designed to provide transparency and security to the process. The new Land Registration authority creates a voluntary register of customary land available for development, establishes a legal framework for leasing land and provides standards for land lease arrangements.

**Natural Resources.** The RMI has plentiful ocean resources and tropical agriculture. The ocean, with an abundant stock of tuna and game fish, is its primary resource. Fish from RMI waters are considered among the highest quality available on the market. Diverse coral reefs and a wide variety of marine species contribute to the country's reputation as one of the most appealing dive locations in the world. The tropical climate and landscape are suitable for cultivation of coconuts, pandanus, noni (nin), breadfruit and bananas.

**Human Capital.** With a minimum wage of \$2.00 per hour and an unemployment rate approaching 30%, the RMI offers a large pool of affordable and readily available labor. Education and training initiatives are expected to improve in the coming years with Compact funding to increase the skilled labor base. The College of the Marshall Islands (CMI) provides vocational training services for the local market and introduced a successful services training program to boost the tourism industry. CMI plans to initiate similar programs in marine resources and business administration. The National Training Councils also cooperates with other foreign vocational training institutions to equip Marshallese with specialties for future jobs.

**Financial Sector.** The RMI continues to develop its available financial services. The Bank of Marshall Islands and the Marshall Islands Development Bank provide local access to capital for commercial activities. The Bank of Marshall Islands recently started "Micro Loan" program designed specifically for the outer islands. The \$700,000 program, sponsored by Taiwan, will target individual farmers, fishermen, and handicraft

## **INFRASTRUCTURE**

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makers and help these outer island residents earn a better living. The Bank of Guam, which maintains a small branch on Majuro, also lends to the RMI private sector. The U.S. Small Business Administration currently operates a Small Business Development Center on Majuro.

## **TAX SYSTEM AND INVESTMENT INCENTIVES**

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The RMI government encourages foreign investment to stimulate development in the country. The tax system is not complicated and provides for certain incentives to attract promising industries.

**Tax System.** Businesses are subject to a Gross Revenue Tax (GRT) of \$80 per year on the first \$10,000.00 of gross revenues earned in the RMI, and 3% on revenues generated in excess of \$10,000.00. Contributions to the RMI's social security and health insurance systems on behalf of employees are also required. Local governments reserve the right to levy business license fees and sales taxes. These taxes and fees vary by locality.

RMI places an 8% duty on imported goods, unless otherwise specified. Items with unique import duties include food, gasoline, vehicles, tobacco products, alcohol and other beverages. The government does not levy export taxes on goods or services from the RMI but requires disclosure.

The RMI government instituted tax incentives to stimulate growth in strategic industries. New ventures in specific sectors may be eligible for an exemption from the Gross Revenue Tax for a period of five years. The exemption requires companies to invest a minimum of \$1 million and pay more than \$150,000.00 in annual wages to Marshallese citizens. Companies interested in qualifying for the incentive are advised to contact the RMI government. Selected industries include:

- Offshore or Deep Sea Fishing
- Manufacturing industry for export or for both export and local use
- Agriculture
- Hotel and Resort Facilities

**Foreign Investment Requirements.** The licensing and registration requirements for foreign entities include:

- Foreign Investment Business License (FIBL) through the RMI government
- Registration as a foreign entity with the RMI government or incorporation as a domestic company
- Tax Identification Number with the Social Security Administration

## TAX SYSTEM AND INVESTMENT INCENTIVES

While the RMI encourages foreign investment, the following sectors are reserved for Marshallese citizens:

<i>Business Opportunities Reserved for Marshallese Citizens</i>	
Small scale agriculture for local markets	Motor vehicle rental
Small scale mariculture for local markets	Laundromat and dry cleaning
Bakeries and pastry shops	Tailor and sewing shops
Motor garages and fuel filling stations	Video rental
Handicraft shops	Delicatessen, deli shop, or food take-out
Land taxi operations (hotel shuttles are allowed from airport)	Retail shops with quarterly turnover of less than \$1,000

**Trade and Investment Assistance for New Businesses.** The Trade and Investment Services Division of the MRD offers business development assistance to foreign and local entrepreneurs. It provides general information on business conditions and regulatory requirements for new ventures seeking to establish operations in the RMI. The Division also facilitates meetings with government officials and local business service providers such as accountants, legal advisors and private sector partners.

## COMPETITIVE ADVANTAGES

As a country in free association with the United States, the RMI provides several unique competitive advantages compared to other independent nations in the Pacific. In establishing ventures in the RMI, companies realize the advantage of operating in a developing economy with certain conveniences generally reserved for advanced nations. These strategic advantages, coupled with the natural environment and unique culture, provide strong business incentives in certain industries. Key competitive advantages include:

- **Benefits of Free Association with the United States** – As one of three countries with this status, the RMI provides advantages to businesses. The country uses the U.S. dollar as its currency. Business is generally conducted in English. RMI citizens are able to travel, live, study and work in the United States.

<i>Investment Considerations Associated with FAS Countries</i>	
Currency	U.S. Dollar
Selected Federal Programs Serving the RMI	U.S. Postal Service U.S. National Weather Service U.S. Federal Aviation Administration U.S. Department of Transportation U.S. Department of Homeland Security U.S. Agency for International Development, Office of Foreign Disaster Assistance
Export Taxes	None

Under the Compact, RMI exports do not generally face tariffs in the U.S. market for domestic and value-added products. This benefit applies to most goods, excepting certain sensitive products such as certain textile and apparel articles that are subject to other textile agreements. The RMI does not impose export taxes.

- **Over \$629 Million in Compact of Free Association Funding** – The RMI will receive over \$629 million in total annual grant assistance from the U.S. over a twenty-year period for development in health, education, environmental concerns, infrastructure, public sector capacity building and private sector development. The commitment to the development of the infrastructure and advancement of social issues indicates that the Marshall Islands will continue to make progress in providing a positive business environment.
- **Ocean Resources** – The RMI’s ocean resources are a key advantage. The abundant stock of fish (including sashimi-grade tuna) in the EEZ makes the RMI one of the most desirable fishing locations in the region. The natural coral formations and variety of marine mammals also provide exquisite dive attractions.
- **Political Stability** – The RMI has a stable, democratic form of government. The country has a strong relationship with the U.S. through the Compact. The U.S. maintains a military presence in the islands with the base at USAKA. The



## COMPETITIVE ADVANTAGES

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- Compact guarantees that the U.S. will provide national security protection against third parties.
- **Established Infrastructure** – Majuro ably meets basic infrastructure needs, such as a reliable telecommunications system, several retail establishments, power services, air transportation, shipping lines, marine infrastructure and paved roads. Accommodations for business travelers include well-managed hotels, vehicle rental services and several restaurants.
  - **Unique Environment and Culture** - The RMI is one of the few remaining untouched tropical island nations. The strong Marshallese culture continues to thrive in the islands. The natural beauty, pristine ecology, tropical climate and unique way of life create a unique business environment.
  - **Close Proximity to the United States in the Micronesian Region** – The RMI is closest Micronesian area to the United States. Two air carriers serve the RMI with direct service from Honolulu (2,273 miles away from Majuro) with flights several times per week. This proximity results in comparatively lower travel and transportation costs for U.S. businesses operating in the Micronesian region.

### Positive Developments

- **USAKA Procurement Program** – The RMI government, U.S. Army and Kwajalein contractors have a program to procure goods from Majuro for USAKA retail facilities. Products including black pearls, clothing, coconut soap and bottled water for local consumption were made available for purchase by USAKA residents for the first time in 2003. The program is a step forward in gaining access to a promising market for RMI businesses. The program still exists.
- **Land Registration Authority** – The establishment of the Land Registration Authority provides foreign investors with additional security and clarity in the land lease process. This addition is intended to assist with investment stability and access to capital.

## GROWTH OPPORTUNITIES

The Marshall Islands is in the process of developing new industries and building a strong export base beyond copra. Growth opportunities exist in tourism, aquaculture, organic beauty and health products, traditional handicrafts, fish processing and related services, alternative energy, infrastructure and privatization. The market opportunities related to these industries are explored in this section.

### Tourism

The RMI is positioned to penetrate specialty segments of the tourism market. The country currently hosts approximately 6,000 visitors per year, of which 20% (roughly 1,200) are tourists, primarily from the U.S. and Japan. Tourist numbers began to increase in 2005 and have jumped further with the upcoming charter runs by JAL. The coral reefs, untouched islands and historical significance of the RMI appeals to niche travelers in scuba diving, sports fishing and World War II historical tourism.

<b>RMI Tourism Industry Key Facts</b>	
Majuro Accommodations	5 hotels with approximately 240 rooms
Outer Island Accommodations	Basic accommodations available on Arno, Rongelap, Kwajalein (Ebeye), Bikini, Likiep, Jaluit, Wau, Mili
Targeted Markets	<p>Scuba Diving</p> <ul style="list-style-type: none"> <li>• Over 800 species of fish and 160 species of coral</li> <li>• WW II-era wreck diving on Bikini, Jaluit and Kwajalein</li> <li>• Live-aboard diving on Rongelap</li> <li>• 4 dive operations in Majuro</li> </ul> <p>Sports Fishing</p> <ul style="list-style-type: none"> <li>• Excellent international reputation for Marlin fishing</li> <li>• 19 charter boat operations in Majuro</li> </ul> <p>Cruising</p> <ul style="list-style-type: none"> <li>• RMI stop initiated by Princess Cruise lines “24 Night Islands of the Pacific Theater (Honolulu to Osaka)”</li> </ul>

*Source: Marshall Islands Visitors Authority*

The RMI remains an undiscovered destination. Given the infrastructure capacity available on Majuro and the outer islands, the RMI is able to accommodate increased visitor traffic. The development of the Marshall Islands Resort (MIR) more than doubled the hotel accommodations on Majuro, adding 140 rooms to the island. MIR, perched on lagoon-front property, is the largest hotel on island. The Hotel Robert Reimers on Majuro offers unique lagoon-front bungalows. However, the annual occupancy rate on the island remains low. The recent introduction of JAL charter flight from Japan to Majuro brings about 200 tourists per flight and has greatly stimulated tourism in RMI. The JAL charter flight service started in February 2007 and is estimated to fly to Majuro twice a month in the near future.

The Marshall Islands are home to novel travel experiences. Bikini Atoll Divers, diving on WWII-era wrecks of the *USS Saratoga* and the *HIJMS Nagato* of the Imperial Japanese Navy, has created a successful dive program. Rongelap Atoll has made significant investments in infrastructure and launched a dive program based on a live-

**GROWTH OPPORTUNITIES**

aboard ship. The Likiep Plantation Haus provides comfortable accommodations in the untouched outer islands. Princess Cruise Lines has stops in the RMI as part of a World War II-themed cruise.

The Marshall Islands Visitor Authority (MIVA) working to increase RMI’s visibility, improve the visitor experience and encourage investment. MIVA offers a one-stop information resource for visitors and service providers, such as tour operators, agents and cruise lines. The Visitors Authority actively participates as a member of the Pacific Asia Travel Association (PATA). MIVA is planning to start a five-year “Tourism Development Plan” which focuses on marketing the RMI, raising environment awareness, and improving human resources training.

**Aquaculture**

The RMI’s natural lagoon environment and vast ocean resources create a competitive setting for aquaculture. The aquarium trade presents strong opportunities for exports from the RMI.

<b>Aquaculture Industry Information</b>	
Aquarium Trade Industry	<ul style="list-style-type: none"> <li>• Multi-billion worldwide industry</li> <li>• Plant and animal sales estimated at \$900 million</li> <li>• 10 to 20 million aquarium enthusiasts in the US</li> <li>• Large markets in Japan and European Union</li> <li>• 3,000 tons of coral enter international trade each year</li> </ul>
Black Pearls Industry	<ul style="list-style-type: none"> <li>• \$200 million (est.) industry in Tahiti</li> <li>• Successful in Cook Islands</li> </ul>

*Source: Marine Aquarium Council, Simon Ellis, Tahitian Black Pearls Research*

The growing concern over coral reef sustainability favors aquaculture over harvesting marine mammals and coral in the wild. The Marine Aquarium Council estimates that aquaculture currently serves less than two percent of the total market for marine ornamentals. The prospects for ventures such as ornamental clam and soft coral farms in the RMI appear promising.

Florida-based Ocean Reefs and Aquariums (ORA) acquired the Robert Reimers Enterprises (RRE) Majuro clam operations in November 2003. The company produces farm-raised marine fish, invertebrates and live aquarium foods for the marine aquarium hobbyist market. The Majuro operation raises ornamental clams and corals for export. In addition, MIMRA sponsors clam farm operations in the outer islands for subsistence and environmental re-stocking purposes. The Arno Giant Clams Hatchery raises giant clams for ornamental purposes.

The black pearls industry has flourished in other areas of the Pacific, primarily Tahiti and the Cook Islands. Black pearl ventures in RMI are still in the development stages, and the pearls from the Marshall Islands gained favorable reviews. Mounted jewelry and loose pearls are available for purchase in Majuro.

## Value Added Agriculture - Organic Beauty and Health Products

Tropical plants indigenous to the Marshall Islands have been credited with beauty and health benefits. The RMI has a readily available stock of coconuts and noni, which have captured recent attention in the organic beauty and health products market. A strong demand for natural health products derived from the noni plant exists in Asia, Europe and the United States. Tahitian Noni International, Inc., the largest U.S. distributor of noni-based products, successfully developed a \$400 million international market for noni through a multi-level marketing business model.

Virgin coconut oil is produced using fresh coconut meat rather than the drying process of copra. The virgin oil is believed to retain the pure scent and taste of coconuts. Certain studies have indicated health benefits associated with virgin oil, including boosting the immune system. The virgin oil-based beauty products, including hair oil and soap, are believed to be of the highest quality available. Demand for these products exists in the United States and the Pacific.

<b>Beauty and Health Products Industry Information</b>	
Noni	Retails for \$42.00 per liter (Tahitian Noni International)
Virgin Coconut Oil	Retails for \$10.00 to \$18.00 per pint

*Source: Tahitian Noni International, Cononut-Info*

A local entrepreneur initiated a venture to produce noni juice, noni soap, virgin coconut oil hair products and virgin coconut oil soap. The company, with production operations in the outer islands, currently supplies the local market and exports noni juice to Asia. In addition, this company produces bath and laundry soap for the local market, as well as coconut cake and crude coconut oil for the international market.

## Traditional Handicrafts

Marshallese handicrafts are widely acclaimed for their intricate weaving and innovative designs. The “Kili bag” gained worldwide attention as a favorite of Jackie Onassis. The fans, baskets, mats, ornaments, wall hangings and handbags made from natural products are primarily produced for the local market, with limited exports. These hand-made crafts, created with a high level of precision and design, have high-end marketing potential. Several organizations have successfully created markets for handicrafts from Latin America and Southeast Asia, a model that could be applied to the Pacific.

Handicrafts, which are primarily produced in the outer islands, play an important role in cultural preservation. With limited development and options for employment on the outer islands, the handicraft market provides a means for income in the more remote areas of the Marshall Islands. The hand-weaving skills, passed down from generation to generation, promote the Marshallese culture, and use entirely natural products.

## Fisheries – Related Services and Processing

## GROWTH OPPORTUNITIES

The RMI currently generates the majority of its fisheries income from foreign fleet licensing. However, fish is one of the country's main resources. The total fish catch in the RMI from 1998 to 2006 and the total fish catch by Marshall Islands and domestically based vessels form 2001 to 2006 are as follows:

<b>Total Fish Catch (Metric Tons) in RMI EEZ, 1998 – 2006</b>	
1998	86,090
1999	32,515
2000	30,721
2001	56,743
2002	38,321
2003	6,575
2004	17,836
2005	20,488
2006	12,939 (2006 data are provisional, but coverage is "high")

Source: Marshall Islands Marine Resources Authority

<b>Total Fish Catch (Metric Tons) by Marshall Islands and Domestically Based Vessels, 2001 - 2006</b>		
	<b>Method of catch</b>	
	<b>Domestic based Long Line</b>	<b>Marshall Islands Purse-Seine</b>
2001	n.a.	35,774
2002	n.a.	38,952
2003	n.a.	37,875
2004	2,503	46,672
2005	4,307	56,164
2006	4,392	41,167 (2006 data are provisional, but coverage is "high")

Notes: Total Fish Catch Includes fish caught outside RMI EEZ

Source: Marshall Islands Marine Resources Authority

Although reductions of total fish catch in the RMI EEZ has been seen over the last few years, the level of fishing activity in the EEZ still presents an opportunity for related business opportunities (such as fish processing, transshipment and vessel repair). With expanded processing and services, the value generated by the fishing industry could be retained in the RMI.

### Infrastructure Development

The Compact provides a total of \$629.7 million in grant funding over a twenty-year period. Approximately 60% of the annual grants will be allocated to infrastructure development in FY2007. Construction related to health and education will also provide contracting opportunities. Approved capital projects from FY2004 to FY2006 totalled \$44.9 million.

### Capital Acquisition/Maintenance Schedule FY2004 – FY2006

## GROWTH OPPORTUNITIES

FY 2004	\$15.4 million
FY 2005	\$14.7 million
FY 2006	\$14.8 million

*Source: Department of Interior, Office of Insular Affairs*

The geography of the RMI provides several infrastructure challenges that may offer a market for proven, cost-effective alternative energy and solid waste disposal systems. The MEC continues to explore alternative energy as a means to provide power to the outer islands. Solar energy has been successfully installed on the outer islands. Coconut oil is also used as an alternative energy source on the outer islands. The market for alternative energy in the RMI is estimated at approximately 1,760 households.

## SPECIFIC BUSINESS OPPORTUNITIES

The following list provides an overview of specific business opportunities in the growth industries identified.

Sector	Opportunity	Partnership Need
<i>Tourism</i>	<p><b>Cruise Line Development</b></p> <p>Building on the success with Princess Cruise Lines, MIVA is interested in developing relationships with cruise lines and tour operators regarding opportunities to expand to the Marshall Islands. Opportunities for cruises include Micronesia regional, ecotourism, diving or World War II themes. These would be new offerings in the cruise industry and an excellent growth opportunity with appeal to niche segments.</p>	<ul style="list-style-type: none"> <li>• Cruise Operators</li> <li>• Tour Operators</li> </ul>
	<p><b>Rongelap Expeditions</b></p> <p>The Rongelap Atoll has been uninhabited for 20 years. The resettlement effort by the Rongelap Atoll Local Government seeks to attract tourism to this unique destination. The Oleanda, a live-aboard cruise ship, is a 132-foot vessel available to accommodate a maximum of 34 guests. Live-aboard packages depart from Majuro and offer diving, kayaking and sport fishing. Rongelap also intends to establish a resort on the island.</p>	<ul style="list-style-type: none"> <li>• Tour Wholesalers</li> <li>• Tour Operators</li> <li>• Travel Agents</li> </ul>
	<p><b>Bikini Atoll Divers</b></p> <p>Bikini Atoll Divers provides diving and sport fishing opportunities. The dive package includes attractions such <i>USS Saratoga</i> and <i>HIJMS Nagato</i>. Weekly capacity is eleven divers. Dive season is March through November. Conde Nast Traveler Magazine named Bikini Atoll as one of the “Top 50 Worldwide Island Escapes” in July 2000. Skin Diver Magazine included Bikini Atoll as one of the “24 Dives of a Lifetime” in October 2002.</p>	<ul style="list-style-type: none"> <li>• Tour Wholesalers</li> <li>• Tour Operators</li> <li>• Travel Agents</li> </ul>
	<p><b>Tourism Development</b></p> <p>MIVA is interested and available to assist tour operators in developing tours and ecotourism programs in the Marshall Islands.</p> <ul style="list-style-type: none"> <li>• Majuro offers tourist class accommodations at Hotel Robert Reimers and the Marshall Islands Resort. The Marshall Islands Resort is able to accommodate conference traffic of over 100 attendees.</li> <li>• Novel outer island experiences include the Likiep Plantation Haus on Likiep Atoll, Arno Bed and Breakfast on Arno Atoll, Jawoj Hotel on Jaluit Atoll and Wau Cottages on Mili Atoll.</li> </ul>	<ul style="list-style-type: none"> <li>• Tour Operators</li> <li>• Ecotourism Operators</li> <li>• Travel Agents</li> </ul>

## SPECIFIC BUSINESS OPPORTUNITIES

Sector	Opportunity	Partnership Need
<i>Aquaculture</i>	<p><b>Ornamental Clam and Corals</b></p> <p>ORA's Majuro clam farm produces and distributes ornamental clams and soft corals for distribution. The venture intends to expand on Majuro. The Company may be interested in developing relationships with aquarium-related retail operations or distributors for future market opportunities.</p>	<ul style="list-style-type: none"> <li>• Distributors of Aquarium Plant and Animals</li> </ul>
	<p><b>Black Pearls</b></p> <p>The existing black pearl ventures are still in the development stages. The market for Micronesian black pearls has yet to be determined, but the initial indicators suggest positive feedback on the overall pearl quality.</p>	<ul style="list-style-type: none"> <li>• Pearl Buyers and Distributors</li> <li>• Investment Partners</li> </ul>
<i>Organic Beauty and Health Products</i>	<p><b>Noni and Coconut Products Export</b></p> <p>A producer of noni juice, noni soap, virgin coconut hair oil, virgin coconut cooking oil and virgin coconut soap based in Majuro currently distributes products to local and Asian markets. The owner is interested in expanding into the U.S. market by building relationships with marketing specialists and distributors of organic beauty and health products. The company currently uses Arno Atoll for production, adding to the outer island economy.</p> <p>Tobolar produces consumer goods such as bath/laundry soap and crude coconut oil for both local and international markets with potential export possibilities.</p>	<ul style="list-style-type: none"> <li>• Marketing and Packaging Specialists</li> <li>• Organic Beauty and Health Products Distributors</li> </ul>
	<p><b>Pandanus Products Exports</b></p> <p>Pandanus has been a staple of the Marshallese diet for centuries. A local entrepreneur successfully developed pandanus juice for local consumption and is looking for marketing specialists to help export the product. Distributors of organic health products may be interested in the potential of the new product.</p>	<ul style="list-style-type: none"> <li>• Health Products Distributors</li> </ul>
<i>Traditional Handcrafts</i>	<p><b>Traditional Handicraft Export</b></p> <p>Partnerships with U.S. retail operations and distributors involved in the high-end craft market in the U.S. would open new export markets. Marshallese handcrafts are unique works of art rather than mass-produced products. Several Majuro-based handcraft operations have capacity to export products on a small scale. The Ministry of Resources and Development is also working to establish a co-op system for local crafters. Partners may potentially be able to achieve high-end pricing and positioning in the U.S. market.</p>	<ul style="list-style-type: none"> <li>• Specialty Handicraft Buyers and Distributors</li> <li>• High-end boutiques</li> </ul>



## SPECIFIC BUSINESS OPPORTUNITIES

Sector	Opportunity	Partnership Need
<i>Fisheries – Related Services and Processing</i>	<p><b>Fish Processing</b></p> <p>Strategic investors interested in establishing fish processing or related ventures are advised to consult with MIMRA and partner with the private sector. This sector has strong potential due to the location, fishing activity and available work force. Private sector partnerships are available for investors with experience in the fish meal and tuna-related processing industries.</p>	<ul style="list-style-type: none"> <li>• Investment Partners</li> <li>• Strategic Fishing Operations</li> </ul>
	<p><b>Vessel Repair Services</b></p> <p>The substantial fishing activity in the EEZ presents a market opportunity for vessel repair and other maritime-related services. Private sector partners are interested in developing relationships with potential investors with industry experience. Investors are advised to consult with MIMRA and partner with the private sector.</p>	<ul style="list-style-type: none"> <li>• Investment Partners</li> </ul>
<i>Infrastructure</i>	<p><b>Alternative Energy</b></p> <p>Innovative approaches to alternative energy with successful results in remote locations may have new market opportunities in the Marshall Islands. Energy generation equipment must be reliable, resistant to harsh weather and require low maintenance. Coconut oil is used as an alternative energy source on the outer islands. There is an opportunity to export it.</p>	<ul style="list-style-type: none"> <li>• Suppliers of Alternative Energy Products</li> <li>• Coconut oil distributors</li> </ul>
	<p><b>Specialty Construction Products</b></p> <p>The island environmental conditions require construction materials with resistance to saltwater, wind and tropical pests. Suppliers carrying cost-effective specialty construction products may have a market opportunity in the RMI.</p>	<ul style="list-style-type: none"> <li>• Suppliers of Specialty Construction Products</li> </ul>
	<p><b>Solid Waste Process Systems</b></p> <p>Majuro Atoll Waste Company needs to install a commercial waste collection system, residential bin collection system and recycling equipment as well as to expand current operations. The market needs an injection of skills and funding.</p>	<ul style="list-style-type: none"> <li>• Suppliers of Solid Waste Process Systems</li> </ul>
<i>Privatization</i>	<p><b>Air Marshall Islands</b></p> <p>The government is exploring opportunities for full privatization or majority equity investment for Air Marshall Islands (AMI). The partner should be strategic in nature with a track record of successful commuter airline management. AMI owns and operates two Dornier aircraft and leases a Dash aircraft. In 2003, AMI completed 3,454 flights with 34,628 passengers and generated \$2.4 million in revenue. Another important asset of AMI is the air right of international lines to Australia, Honolulu and Asian countries. Audited financial statements are available to serious investors. Potential investors are advised to conduct independent due diligence.</p>	<ul style="list-style-type: none"> <li>• Investment Partners</li> </ul>

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