

FEDERATED STATES OF MICRONESIA BUSINESS OPPORTUNITIES REPORT

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



SHANA LEE WITH ABHIJOY GANDHI – SEPTEMBER 2004

UPDATED BY FRANKIE M. ELIPTICO – JULY 2007

Disclaimer: This document has been prepared by MBA students, or recent graduates, to disseminate information on Guam for the purposes of the 2007 Business Opportunities Conference sponsored by the U.S. Department of the Interior, Office of Insular Affairs. The views and recommendations contained in this document, however, are solely those of its author and not the U.S. Government or any agency or officer thereof. Those intending to initiate ventures in this location are advised to conduct independent due diligence.

Table of Contents

EXECUTIVE SUMMARY	1
BACKGROUND.....	3
Kosrae	3
Pohnpei	4
Chuuk.....	4
Yap.....	4
ECONOMY	5
Economic Development Plans	5
INFRASTRUCTURE.....	8
Air	8
Ocean freight.....	8
Telecommunications	8
Energy.....	8
Financial & Legal Services.....	8
TAX SYSTEM AND OTHER INVESTMENT INCENTIVES	10
COMPETITIVE ADVANTAGES	12
OPPORTUNITIES FOR GROWTH.....	14
Aquaculture.....	16
Agriculture	19
Tourism.....	21
Infrastructure.....	24
Renewable Energy	26
Manufacturing.....	27
Handicrafts.....	28
ADDITIONAL OPPORTUNITIES FOR GROWTH.....	30
AND INVESTMENT	30
REFERENCES.....	33

Few people, if any, have heard of the Federated States of Micronesia (FSM) as anything more than some pretty islands in the western Pacific Ocean, famous for their beautiful lagoons and world-class scuba-diving sites. Fewer still are aware of the business and investment opportunities that exist on these islands. Yet, like the many underwater treasures and rich coral reefs that embrace them, the states of the FSM are waiting to be discovered and explored. The FSM's four states of Kosrae, Pohnpei, Chuuk, and Yap are spread over an area of one million square miles. Their advantageous location, underutilized natural resources, and close relationship with the U.S. present numerous opportunities for investors and business partners.

The FSM has made much progress in its transition from a historically subsistence economy to a modern market one. With a 2006 GDP of \$211.8 million, the country had exports valued at \$1.3 million and merchandise imports of \$117.5 million¹. Three major contributors to the country's income are tourism, agricultural exports, and receipts from fishing licenses. The FSM is also expected to receive approximately \$2 billion from the United States in direct economic assistance for the next 15 years as part of the country's Compact of Free Association agreement.

At its Third Economic Summit in April 2004, the FSM embraced a high-growth strategy for achieving economic self-reliance. Based on this strategy, the government is focused on boosting investment levels and creating an attractive and competitive investment climate in three sectors: tourism, fisheries, and agriculture. In addition, the strategy calls for increased investment in infrastructure, higher revenues to offset declining Compact funds, revised regulations to promote investment, and better education.

The FSM government is styled after the U.S. system, with an executive branch, a single-chamber legislative branch, and a judicial branch. The islands have the necessary infrastructure for business:

- All four states are equipped with international airports and have deep water port facilities capable of handling vessels up to 10,000 tons with containerized cargo handling, warehousing, transshipment, and storage facilities.
- The FSM Telecom Corporation operates phone, fax, internet, cellular telephone, and cable services.
- There are diesel generators in all the major centers that provide 110-220 volt, 60 cycle electricity.
- Commercial banking exists through the Bank of the FSM and the Bank of Guam, with additional services offered by the government-run FSM Development Bank.
- Accounting services are available through a variety of accounting firms and legal services are available through law firms located throughout the country.

The FSM has very low income tax rates, with a cap of 10% of gross receipts. There are also case-by-case tax holidays and tax reinvestment schemes for businesses investing in

¹ 2005 estimates (Statistical Bulletin, Statistics Unit, Division of Economic Planning and Statistics)

the FSM. The government has effected policy changes which allow foreign companies to be 100% owners of their businesses and receive partial government funding for training and education of employees in specific sectors.

The FSM has many competitive advantages:

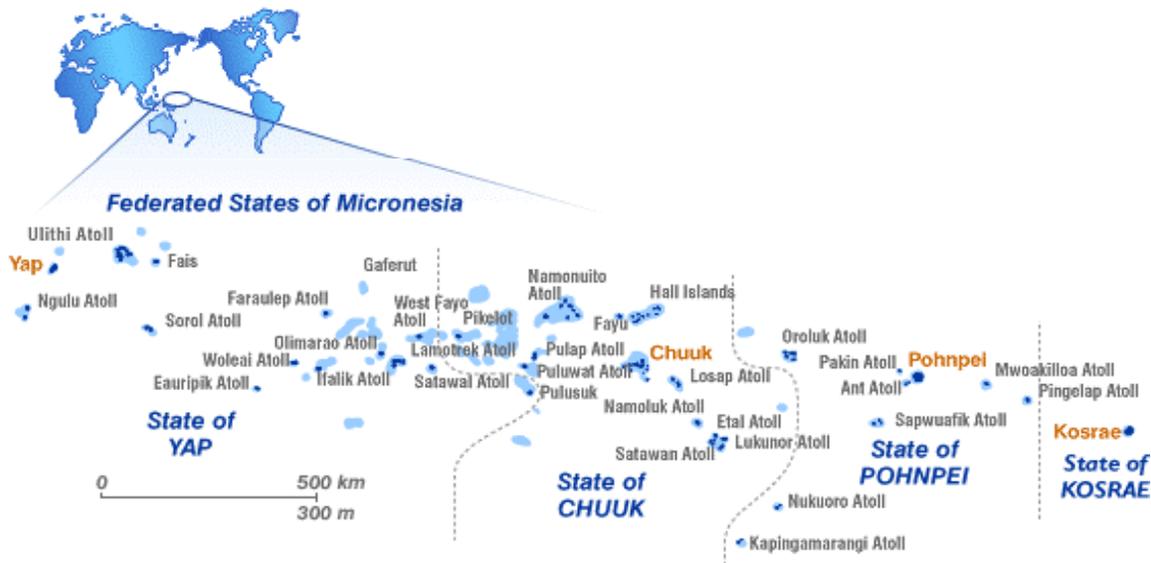
- The FSM's strategic relationship with the United States allows domestic and value added exports from the FSM to receive duty-free treatment in US markets.
- The FSM also benefits from preferential market access to New Zealand and Australia. The South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) allows the FSM duty free access to these countries, subject to certain regulations.
- English is the official language of business, and the U.S. dollar is the national currency.
- The FSM's exclusive economic zone covers 1.3 million square miles of ocean and contains some of the world's most productive tuna fishing grounds, capable of a sustained yield of well over 100,000 tons each year.
- The FSM's world-renowned dive sites are unparalleled. From the underwater WWII ghost ships of Chuuk, to Yap's giant manta ray sites, to the pristine coral reefs of Kosrae and Pohnpei, there's no limit to the diversity of wrecks and sea life to be found beneath the waters of the FSM.
- A heterogeneous mix of peoples with different customs and traditions bound together by recent history and common aspirations, and steeped in eight major indigenous languages, strong traditions, folklore, and legends.
- Extensive reefs and lagoons, offering several promising opportunities for aquaculture ventures such as giant clams, black pearls, cultured live coral, and sea sponges.
- A young and relatively inexpensive labor force.

The FSM's 607 islands, steeped in a traditional island culture and surrounded by the beauty of the Pacific Ocean, are waiting to be discovered. An oasis of natural and marine resources and a young workforce make the FSM a world of business opportunity.

Background

Scattered across the western Pacific Ocean, just north of the equator and approximately three-quarters of the way from Hawaii to Indonesia, 607 tropical islands make up the Federated States of Micronesia (FSM). Though the islands span an area of more than one million square miles, the total land area of the FSM is a mere 271 square miles – roughly a quarter of the size of Rhode Island. A sovereign nation since 1986, the FSM is aligned with the United States through a Compact of Free Association (Compact). With Compact funding to the FSM scheduled to end in 2023, the country finds itself at a critical stage in its development as it strives to establish itself as a self-reliant market economy. The FSM’s underdeveloped yet valuable natural resources and close relationship with the U.S. and other regional countries (Japan, Australia, and New Zealand) present numerous opportunities for investors and business partners.

From east to west, the country’s four states are Kosrae, Pohnpei, Chuuk, and Yap. Though they share a common past under Spain, Germany, Japan, and most recently the U.S., each state retains its own distinct culture, language, traditions, and identity.



Kosrae

The only state with no outer islands, Kosrae is a mountainous, lush island covering an area of 42 square miles, making it the second-largest island in the FSM. With only about 8,100² people, Kosrae has the smallest population of any state.

Kosrae’s reef and pristine waters offer stunning diving and snorkeling for tourists, while the island’s interior offers dense mangrove forest canals and mountaintop treks for exploration. The state’s few exports are high-quality agricultural products such as bananas, citrus, and taro, with additional opportunities for noni, hot pepper sauces, and kava. Bottled water will soon be a welcome addition to the list of exports, as the completion of a state-of-the-art water bottling plant draws near. Other private sector

² 2005 FSM Statistical Bulletin

activities on the island include retail outlets, resorts and restaurants, and service-oriented businesses.³

Pohnpei

Home to the country's capital of Palikir, the state of Pohnpei includes the 129-square mile volcanic island of Pohnpei, 25 smaller islands, and 137 coral reefs for a total of 345 square miles. Approximately 35,700 people called Pohnpei their home in 2005, making it the second most populous state; Pohnpei Island is also the largest island in the FSM.

Pohnpei boasts one of the world's rainiest climates, often receiving over 300 inches of rain per year, which together with its fertile soil make it well-suited for agricultural production of such products as the world-renowned Pohnpei pepper, sakau (kava), banana, and root crops such as taro. The ancient ruins of Nan Madol, as well as stellar diving, snorkeling, hiking, and stunning waterfalls, help make Pohnpei the most visited state in the FSM.⁴ A hub of regional fishing operations, the state is home to several major fisheries and the recently-established Western and Central Pacific Fisheries Commission.

Chuuk

Fifteen main islands, 192 outer islands, and more than 80 islets make up the state of Chuuk, with many of the islands situated around the 772-square mile Chuuk Lagoon. With a population of more than 54,650, Chuuk has the largest population of the FSM states.

Chuuk (previously known as Truk) Lagoon is another of Micronesia's incredible undersea phenomena. The giant lagoon is almost 40 miles in diameter and reaches depths of 300 feet. Aside from the sheer beauty of the coral beneath the clear water, the bottom of Chuuk lagoon is the final tomb of more than 100 WWII ships, planes, and submarines, creating one of the greatest underwater museums in the world. Warm tropical waters and prolific marine life have made Chuuk lagoon a mecca for the world's scuba divers, underwater photographers, and marine scientists.

Yap

The FSM state with the strongest traditional culture, Yap consists of four large and seven small islands, as well as 134 atolls. With a total land area of approximately 45.5 square miles, Yap is home to 11,850 people. This unique outpost offers such attractions as a manmade seaside men's house, cultural village tours, huge stone money discs and banks, traditional dances, handicrafts, marine life, and mangrove forests. Dance is an important art form in Yap.

Yap is also famous for its clear waters where schools of tuna, dolphins, and reef fish are found in abundance. More importantly, Yap is the world's foremost destination for seeing manta rays up close and personal on a year-round basis. This fact has catapulted Yap to among the top of all rankings of the finest diving attractions in the world.

³ Kosrae Investment Guide. <http://www.fsminvest.fm/kosrae/>

⁴ FSM Statistics Department 2003

Economy

Key Economic Statistics			
Population	110,400 (2005)	Gross Domestic Product (GDP)	\$211.8 million (2006)
Labor Force Participation Rate	58.6% (2000)	% Private Sector & Public Enterprises	35% ⁵
No. of persons employed	16,349 (2005[FME1])	% Government	30%
Private Sector	6,901	% Households	22%
National Government	694	% Financial	3%
State Governments	5,282	GDP per capita	\$1,951 (2005)
Unemployment Rate	22% (2000)	Exports	\$1.3 million (2005)
Labor Force in Subsistence	28.4% (2000)	Imports	\$117.5 million (2005)
		Currency	U.S. Dollar

Sources: Statistics Unit, FSM Department of Economic Affairs; ADB Asian Development Outlook 2004

Although the country-wide GDP growth rate was down 0.7% in FY2006 from 1.5% in 2005, individual states varied widely in performance: while Yap and Kosrae's economies contracted by 5.2% and 2.8%, respectively, Chuuk's GDP remained \$61.5 million in 2006. Pohnpei's economy, however, saw a growth rate of 1.5% to \$97.3 million in 2006. External grants and Compact funds contributed approximately 63% of the FSM's consolidated \$134.1 million in revenue. The other major contributors to the country's income have been tourism, income from agricultural exports, and receipts from fishing licenses.

The country's largest exports, in terms of value, are tuna, garments, and agricultural products that include betel nut, coconut products, and kava. The[FME2] majority of tuna exports go to Japan, whose sashimi markets have proven lucrative for many island exporters. Tuna exports have also been shipped to canneries in Thailand, Taiwan, and Puerto Rico. Other exports from the FSM include reef fish, citrus products, sakau (kava), bananas, prepared foods, and copra.

Finally, aggregate employment in the FSM increased by 0.3% in 2005. Although government figures project this figure to increase slightly in 2006, the level of unemployment in the FSM remains relatively high at about 22%.

Economic Development Plans

At its most recent economic summit, the FSM embraced a high-growth strategy for achieving economic self-reliance. This strategy recognizes the need for a bold reform program aimed at boosting investment levels and creating an attractive and competitive investment climate in order to achieve significant improvements in the FSM economy over the next 20 years. Working groups from nine sectors contributed recommendations and strategies towards a strategic planning matrix covering agriculture, education,

⁵ Statistical Bulletin, Statistics Unit, Division of Economic Planning and Statistics

Economy

environment, fisheries, gender, health, private sector development, public sector management, and tourism.

The overall high growth strategy focuses on the tourism, fisheries, and agriculture sectors. The main points of the strategy include:⁶

1. Increasing investment in infrastructure, especially in airports, electricity, roads, and health facilities;
2. Raising revenue sufficiently to provide the funds that the FSM will need to invest in infrastructure, and to compensate for declining Compact funds;
3. Revising rules and laws to make the FSM an attractive place for investors; and
4. Carrying out other measures needed to achieve high growth such as adopting regulations to facilitate the employment of foreign technicians and managers, ensuring that primarily Micronesians benefit from growth, and strengthening education and skills training

⁶ Third FSM Economic Summit: Proceedings. March 28th to April 2nd, 2004.

The FSM government is styled after the U.S. system, with an executive branch, a single-chamber legislative branch, and a judicial branch. On the national level, the President and Vice President are elected to four-year terms by the Congress, which has 14 members. Each state has one member who is elected for a four-year term, while the remaining ten members represent the congressional districts from each state and are elected for two-year terms. Each state also has an elected governor, lieutenant governor, state legislative body, and its own court system. With the exception of foreign affairs, most government functions, including economic development, are carried out at the state level.

At the municipal level, there are elected mayors and councils. Traditionally, each municipality is village-based and usually headed by traditional chiefs or other prominent community figures. These local government chiefs play a significant role in maintaining and protecting the region’s traditional culture and ensuring political and social stability.

The Compact of Free Association is the agreement that the FSM entered into with the U.S. following the end of the United Nations Trust Territory of the Pacific Islands which administered the region after World War II. Under the Compact, the islands maintain their sovereignty and control over all domestic and foreign policy issues, aside from security and defense, which are managed by the United States. The Compact also provides significant funding to the FSM, amounting to over \$1.3 billion from 1986 to 2003 under the first phase of the Compact, with smaller grants in each succeeding five-year increment.

The second phase of the Compact, passed in late 2003, continues annual grant assistance to key sectors and establishes a Trust Fund that will replace U.S. grants with investment earnings beginning in 2023. The sector grants, which start at \$76.2 million in the first year, will decline over the 20-year term of the new Compact, matched by corresponding increases in contributions to the Trust Fund. The amended Compact also increases the accountability and economic management of funds through the establishment of a Joint Economic Management Committee (JEMCO).

Compact Summary	
1 st Compact	<ul style="list-style-type: none"> ▪ 1986 – 2003 (15 years plus 2 years negotiating 2nd Compact) ▪ \$1.35 billion total (approximate)
2 nd Compact	<ul style="list-style-type: none"> ▪ 2003 – 2023 ▪ Main objective: to enable FSM to achieve economic self-reliance by 2023 ▪ \$92.7 million per year in sector grants and trust fund contributions <ul style="list-style-type: none"> ○ <i>Sector grants</i>: begin at \$76.2 million per year, decreasing to \$62.6 million by 2023, plus a \$0.5 million grant for annual audits. ○ <i>Trust fund contributions</i>: begin at \$16 million per year, increasing to \$29.6 million by 2023. ▪ Management & monitoring: JEMCO
Priority Sectors	<ul style="list-style-type: none"> ▪ Education, health, environment, private sector development, public sector capacity building, and public sector infrastructure development and maintenance.

On its main islands, the FSM is equipped with good roads, airports, harbors, telecommunications, and utilities. Infrastructure on the outer islands remains at a more basic level, but generally includes docks, small-capacity generators, water catchment systems, and, in some cases, short runways. Compact funding provides for continued public sector infrastructure development and capital improvements. The FSM government offers subsidized water and electrical services in all four states.

Air. Each of the four states is equipped with an international airport. Continental Micronesia’s “island hopper provides” 737 jet service from Honolulu through the Marshall Islands to Kosrae, Pohnpei, Chuuk, and on to Guam and Yap three times per week and in the opposite direction four times per week.⁷ Inter-island services are provided by Caroline Island Air and Pacific Missionary Air.

Ocean freight. All of the states have deep-water port facilities capable of handling vessels up to 10,000 tons. Containerized cargo handling, warehousing, transshipment, and storage facilities are available at each port. International shipping services include Kyowa (Bali Hai) out of Japan, Matson Line from the U.S., and Horizon Line based on Guam. Domestic shipping is provided periodically by the state.

Telecommunications: The FSM Telecom Corporation operates phone lines and cellular phone, fax, internet, and cable services in all four states. Wireless internet access is already available on Pohnpei, while installation of wireless connectivity to the other states is currently underway. The FSM National Government and Telecom are also working to connect to a fiber optic cable that will be laid from Guam to Kwajalein in the Marshall Islands.

Energy. Diesel-powered generators, fueled by imported oil, provide 110-220 volt, 60 cycle electricity to all of the FSM’s main centers.

Financial & Legal Services. Commercial banking services are offered throughout the FSM by the Bank of the Federated States of Micronesia—the first and only non-US bank that is FDIC insured—and the Bank of Guam, also FDIC insured. Furthermore, the government-run FSM Development Bank offers concessionary low-interest, long-term loans for development projects. Accounting services are available through Deloitte Touche Tomatsu, the Micronesia Accounting and Booking Company, and the Pohnpei Accounting & Bookkeeping Service (PABS). Legal services are available through a number of law firms located throughout the country.

⁷ Service to Kosrae is offered three times per week in either direction and is not offered on Sundays.

Infrastructure

Infrastructure Summary	
Air Transportation	<ul style="list-style-type: none"> ▪ Continental Micronesia between Honolulu, Marshall Islands, Kosrae, Pohnpei, Chuuk, Guam, and Yap ▪ Domestic travel: Caroline Islands Air and Pacific Missionary Air
Ocean Freight	<ul style="list-style-type: none"> ▪ International shipping: Kyowa, Matson Line, Horizon Line ▪ Inter-island services provided by state governments and private vessels
Telecommunications	<ul style="list-style-type: none"> ▪ Service through FSM Telecom Corporation ▪ Telephone, fax, internet, cable, and cellular services available ▪ Wireless internet currently being installed (Already in Pohnpei) ▪ The FSM National Government and Telecom are working to connect to a fiber optic cable that will be laid from Guam to Kwajalein in the Marshall Islands
Energy	<ul style="list-style-type: none"> ▪ Diesel-powered generators in main centers ▪ 110-220 volt 60 cycle
Financial & Legal Services	<ul style="list-style-type: none"> ▪ Commercial Banks: Bank of FSM and Bank of Guam (Both FDIC-insured) ▪ Development Loans: FSM Development Bank ▪ Accounting Services: Deloitte Touche Tomatsu; Micronesia Accounting and Booking Company, and Pohnpei Accounting & Bookkeeping Service (PABS) ▪ Law offices located throughout the country

The Customs and Tax Administration (CTA) imposes four different taxes:

1. **Import Tax (Duties & Customs) on all products brought into the FSM:** All products imported for resale are subject to taxes, varying by product. Typically, the highest taxes are for personal products. Import taxes are assessed on the FOB (free on board) value of the products. All goods must be cleared within 15 days of arrival or a penalty of 10% plus an additional 10% for each subsequent month must be paid.
2. **‘Gross Revenues’ tax for businesses operating within the FSM:** This tax is assessed on gross revenues (all receipts of a business, from whatever source, without deductions). The rate is \$80 for the first \$10,000 of gross revenues and 3% for any excess in the calendar year. Businesses with less than \$2,000 in gross revenues are eligible for a total refund on taxes paid. Taxes are paid quarterly and are due on or before the last day of the month following the close of each quarter (1/31, 4/30, 7/31, 10/31).
3. **Wages and Salaries Tax:** Assessed on employee’s income, every FSM employer is obligated to withhold tax from wages and salaries paid to employees working within the FSM. Non-cash wages and salaries are also taxable. The rate is 6% for the first \$11,000 and 10% of any additional income. Employees earning less than \$5,000 during a calendar year are entitled to a \$1,000 income deduction before computing tax.
4. **Social Security Tax:** The FSM has a social security system to which employees and employers each contribute 6% of wages and salaries through the Social Security Tax. The upper limit is \$5,000 per quarter. Self employed professionals are normally not assessed any social security taxes.

5.

FSM Tax Summary	
Import Tax (Duties & Customs)	<ul style="list-style-type: none"> ▪ 3% - 100%, based on product category ▪ Assessed on the FOB (free on board) value of the products
‘Gross Revenues’ tax	<ul style="list-style-type: none"> ▪ \$80 for the first \$10,000 of gross revenues and 3% for any excess in the calendar year, paid quarterly. ▪ Businesses with less than \$2,000 gross revenues eligible for total refund on taxes paid
Wages and Salaries Tax	<ul style="list-style-type: none"> ▪ 6% for the first \$11,000 and 10% of additional income ▪ Income less than \$5,000 entitled to \$1,000 income rebate
Social Security Tax	<ul style="list-style-type: none"> ▪ Both the employee and employer each contribute 6% of wages and salaries ▪ Maximum tax of \$5,000 per quarter

Source: Taxation Overview, FSM 2004

Under the Compact of Free Association, the FSM receives duty-free treatment in the U.S. markets on some domestic and value-added products. The Compact also guarantees national security protection by the U.S.

Even though land is in limited supply and ownership is restricted to citizens of the FSM, the government has set inexpensive rates for long-term leases (normally 50 years) for business development sites. The foreign investment offices of each state also provide

Tax System and Other Investment Incentives

assistance to investors by helping to identify local partners interested in leasing out their land. Leased property can serve as security for mortgages.

A Foreign Investment Permit is required before business commences for all foreign-owned sole proprietorships or partnerships where foreign investors own more than 30% of a local business.⁸ Applications for Foreign Investment Permits are free and take 5 to 45 days to process. Permits for businesses related to banking, telecommunications, insurance, fishing within the FSM's EEZ, international and interstate transport, and international shipping are processed on the national level, while all others are processed by the states, which may have additional requirements and restrictions on foreign investment.

⁸ Other business categories requiring Foreign Investment Permits include those where export sales will be more than 50% of total sales; where more than 50% of materials processed are imports; and when the main business activity is related to communications, air or sea transportation, or fuel transportation.

Competitive Advantages

Ocean resources, lagoons, atolls and other natural resources

The ocean is undoubtedly the country's most important resource. The FSM's Exclusive Economic Zone (EEZ) covers 1.3 million square miles of ocean, containing some of the world's most productive tuna fishing grounds. The tuna resources include both surface and deep water species. The approximate market value per year of tuna harvested within the nation is about \$200 million⁹. At present, the nation has full ownership of tuna stocks capable of a sustained yield of well over 100,000 tons each year.

The sheltered lagoons of the coral atolls are a wealth of natural beauty and home to exotic indigenous marine animals and fish. The patch reefs and fringe reefs found nearer the islands serve as the ideal ground to develop aquaculture and also provide unlimited opportunities for tourists to appreciate the FSM's prolific marine life up close.

Although commercial agriculture is limited, small-scale farming is the most important primary activity in the nation, because of its contribution to employment, wage income, export earnings and subsistence production. The Pacific soil is ideally suited for niche crops such as betel nut, kava and noni. The FSM's wealth of renewable natural resources and the untapped market potential of harvesting them in a sustainable way give the country a competitive advantage in agricultural production.

Unique Pacific Culture

The people of the FSM are culturally and linguistically Micronesian, with a small number of Polynesians living primarily on Nukuoro and Kapingamarangi atolls of Pohnpei State. The influence of U.S., European, and Japanese contact is also seen.

Each of the four states exhibits its own distinct culture and traditions, but common cultural and economic bonds have tied the islands together for centuries. Cultural similarities are evidenced for example, in the traditional importance of the extended family and clan systems found remains on each island. The FSM's diversity, however, is typified by the existence of eight major indigenous languages, and its peoples continue to maintain strong traditions, folklore, and legends. The FSM has a rich oral history with a unique musical heritage. The traditional music is carried forward orally from generation to generation. FSM's pop music, primarily influenced by this traditional music, also draws from influences as diverse as American country and western, reggae, and modern europop.

The FSM's exquisite cultural melting pot offers the tourist a heady assault of myriad traditions and peoples and is the source of yet another competitive advantage as the country develops its tourism industry.

⁹ www.fsmgov.org/info/natres

Competitive Advantages

Best wreck and marine life dive sites in the world

The islands of the FSM contain some of the world's most renowned dive destinations. Divers worldwide are drawn to the underwater wreck museums of Chuuk, and to Yap, home of giant manta rays with 18-foot wingspans. Perhaps lesser known but no less spectacular are the coral gardens, shipwrecks, and steep dropoffs of Pohnpei and Kosrae. The warm, crystal clear waters of these islands offer a visibility of up to 200 feet, and the fringing reefs and tropical lagoons are teeming with hundreds of species of marine life, dazzling corals, colorful schools of reef fish, turtles, manta rays, barracuda, sharks, and pelagics. This unique ecological and historical wealth is a powerful selling proposition for the FSM and can help establish the country as a sought-after tourist destination.

Parallels with and proximity to the U.S. business environment

The FSM is one of the three states in free association with the United States and the FSM government is styled after the U.S. system. Funding from Compact II will ensure a steady revenue stream until 2023 while the economy develops. The similarities of business environment create a familiar setting for U.S.-based companies.

Young, low-cost, English-speaking workforce and U.S. Dollar as the local currency

Further advantages for U.S. companies interested in working in the FSM are the lack of both exchange rate risk and language barriers. The FSM uses the U.S. Dollar and English is the official language of business.

The four state governments have established minimum wage rates for government workers. Pohnpei has a minimum hourly wage rate of \$2.00 for government and \$1.35 for private workers. The other three states have established minimum hourly rates only for government workers: \$1.25 for Chuuk, \$1.49 for Kosrae, and 1.75 for Yap. The minimum hourly wage for employment with the national government is \$1.68.

The working population has a median age of 18.9 years and a literacy rate of over 92%.¹⁰ The national College of Micronesia (COM-FSM), has campuses in Palikir and each of the four states, and offers associate degrees and certificate programs in such subjects as business, accounting, agriculture, hotel and restaurant management, and education.

¹⁰ FSM 2000 census.

Fisheries

The FSM is home to some of the world’s richest tuna fishing grounds. The country maintains a 1.3 million square mile (3 million square kilometers) Exclusive Economic Zone from which it generates revenues in excess of \$10 million per year from fishing licenses granted to vessels predominantly from Japan, Taiwan, Korean, China, the U.S., and most recently, the European Union (EU). It is said that the western Pacific is the only tuna area in the world not being over-fished, and conservation efforts are underway to ensure that this remains the case.

The FSM tuna industry harvests both longline-caught sashimi grade tuna as well as purse seine-caught fish for processing and canning. Skipjack is the most common tuna variety found in the FSM, and yellowfin and bigeye are also prominent. Other varieties include the black jack, amberjack, red snapper, rock cod, onaga, ehu, opakapaka, lehi, uku, mahi mahi, and the wahoo.

FSM fisheries participate in all aspects of the value chain: fishing, shore services, trading, and processing. The tuna industry is overseen by the National Oceanic Resource Management Authority (NORMA). The National Fisheries Corporation (NFC) provides coordination and supply services to the fishing companies operating in the FSM.

The Western and Central Pacific Fisheries Commission was launched in June 2004 and is now headquartered in Pohnpei, contributing to efforts of stock management and a sustainable FSM fisheries industry. The FSM has several regional and international agreements with respect to tuna fisheries management. Chief among them is the Arrangement for the Management of the Western Pacific Purse Seine Fishery, also known as the “Palau Arrangement,” which limits the numbers and nationalities of purse seine vessels permitted to operate within the region.

According to a report by the Asian Development Bank, the tuna processing and servicing sector offers the greatest opportunity for the FSM, particularly for loining.¹¹ Such services, including provision of supplies, fuel, and vessel maintenance services, could offer attractive returns for investors and would facilitate regional development by generating revenues for FSM port authorities and other associated activities.

Fisheries Projects		Opportunity
<i>Caroline Fisheries Corporation (CFC)</i>	<ul style="list-style-type: none"> ▪ Private company partly-owned by Pohnpei state currently operates two small purse seiners, whose catch is transhipped through Pohnpei to canneries in Asia. Larger boats could increase efficiency and cost-effectiveness, potentially providing a handsome return. 	<ul style="list-style-type: none"> ▪ Investment
<i>Chuuk Fresh Tuna Inc.</i>	<ul style="list-style-type: none"> ▪ State-owned transshipment facility provides complete support for long-liners transshipping their 	<ul style="list-style-type: none"> ▪ Investment ▪ Leasing options

¹¹ Mike A. McCoy and Robert Gillett, “Aspects of the Tuna Industry Relevant to Privatization of Enterprises in the Federated States of Micronesia”. Asian Development Bank, August 2000.

Opportunities for Growth

Fisheries Projects	Opportunity	
	<p>catch to Japan. State government has invested \$7million since early 1990s. Opportunity for private fishing company to take over the entire operation, which includes an ice-making facility.</p>	
<p><i>Pacific Tuna Industries, Inc. (PTI)</i></p>	<ul style="list-style-type: none"> ▪ State-owned transshipment and cold storage facility in Kosrae, currently idle. Suitable for use as processing plant with investment. 	<ul style="list-style-type: none"> ▪ Investment ▪ Development
<p><i>Yap “Diving Seagull”</i></p>	<ul style="list-style-type: none"> ▪ State-owned purse seining corporation began operations in 1998. It is being leased and managed by Diving Seagull Inc. Opportunity exists for expansion of its fishing operations and new ventures into other profitable areas, such as shipping services or fish processing production. 	<ul style="list-style-type: none"> ▪ Investment ▪ Development

Aquaculture

The FSM’s extensive reefs and lagoons offer several promising opportunities for aquaculture ventures, both for export and as domestic consumption. Activities are currently underway to develop the exportation as giant clams, black pearls, mangrove crab, sponges, live cultured coral, ornamental fish, sea cucumber, and trochus shells.

Mangrove Crab: The mangrove crab farming project spearheaded by the Division of Fisheries and Marine Resources in Kosrae has resulted in the successful cultivation of mangrove crabs (*Scylla serrata*) in hatcheries and cultivation ponds. The project calls for a production goal in excess of 30 tons per annum for 2009-2010. Often compared to Dungeness, king, or blue crabs, the meat of a mangrove crab is highly tender, sweet, and succulent, and is popular item among menus in high-end seafood restaurants. Recent exports to regional areas such as Guam have proven successful. Thus there is a commercial opportunity to export to countries in Asia and other Pacific Rim areas.

Mangrove Crab Project		Opportunity
<i>Division of Fisheries and Marine Resources</i>	Currently seeking international markets and export opportunities. Expressions of interest in joint venture partnerships or wholesale privatization are encouraged.	<ul style="list-style-type: none"> ▪ Buyers / Distributors ▪ Investment / Privatization

Live Clams / Giant Clams: The National Aquaculture Center (NAC) located in Kosrae has been successfully breeding giant clams since 1991 to repopulate and reseed the FSM’s reefs. Four species of the clams are produced: *tridacna gigas*, *tridacna maxima*, *tridacna squamosa*, and *hippopus hippopus*. The FSM’s protected lagoon environment and pristine waters make it an ideal location to raise clams. Moreover, the many uses of giant clams enable them to span several different export markets. The tasty meat is a prized delicacy in Asian sashimi markets, and can also be frozen, dried, or canned.

The NAC has also stepped up its efforts to cultivate various clam species within its aquaculture facilities in Kosrae. As live specimens, their dramatic colors and unusual appearance make them popular in the multi-billion dollar aquarium trade. Their attractive shells can be used as decorative serving platters for sashimi and other dishes, as well as ornaments or jewelry.

The high demand for giant clams, particularly in the Asian sashimi market, could exceed the FSM’s current production capacity, suggesting that coordination with other regional producers such as Palau and the Marshall Islands could be beneficial in meeting market needs. Access to reliable and affordable transportation is of paramount importance for giant clam exports.

Opportunities for Growth

Giant Clam Projects		Opportunity
<i>National Aquaculture Center (NAC)</i>	Currently seeking international markets and export opportunities for shells, meat, and the aquarium trade. Expressions of interest in joint venture partnerships or wholesale privatization are encouraged.	<ul style="list-style-type: none"> ▪ Buyers / Distributors ▪ Investment / Privatization
<i>Giant clam farms of Chuuk</i>	There are several small scale clam farms in Chuuk managed by the Department of Marine Resources. The agency plans to enhance these farms by increasing stocks and improving spawning process in existing hatcheries. The state government is interested in seeking a private partner and eventually exporting the clams to various markets.	<ul style="list-style-type: none"> ▪ Buyers / Distributors ▪ Investment / Privatization

Black Pearls: Pohnpei State's Nukuoro Atoll has the only naturally-producing black pearl oysters in the region. Nukuoro pearls are of superior quality, with good luster, vibrant colors, and thick nacles. The pearls' high value, high demand, and low shipping costs make them an attractive export product for the FSM.

Black pearls present development opportunities where the oysters are not naturally occurring as well. The College of Micronesia (COM) is currently experimenting with spawning processes that can be used to cultivate black pearls in hatcheries and mariculture farms where natural oyster resources may be lacking. Funding made available through the land grant program has already allowed the COM to develop and cultivate several black pearl farm sites throughout Pohnpei. The pearls are first cultivated in a modern hatchery plant managed by the COM. The government is looking into the possibility of privatizing several components of the existing facilities in the future for possible commercial development.

The cultivation of black pearls is also underway in Chuuk. A partnership between the local government and a research institute has resulted in a successful pilot project whose pearls will be harvest ready by November of 2007. According to the Director of the Division of Marine Resources in Chuuk, the black pearls of Chuuk possess a yellowish tint, a uniquely distinguished, radiant feature.

Black Pearl Projects		Opportunity
<i>Nukuoro Black Pearls</i>	Known for its superior quality, gleaming luster, vibrant colors, and thick nacles, Nukuoro Pearls are highly sought. A considerable quantity of black pearls is slated to be harvested in early 2008, and there are significant business opportunities for buyers and distributors of pearls and jewelry.	<ul style="list-style-type: none"> ▪ Buyers / Distributors
<i>Black Pearls from Chuuk</i>	Ready for harvest in November of 2007, a pilot project pearl farm in Chuuk extraordinarily features a unique yellowish tint unlike other black pearls from the region.	<ul style="list-style-type: none"> ▪ Buyers / Distributors

Opportunities for Growth

Other aquaculture products: The increasing development and expansion of other aquaculture sites in all states of the FSM has also presented export opportunities that involve sea sponges, ornamental fish, live coral, sea cucumber, and trochus shells.

Other Select Aquaculture Products		Opportunity
Sea Sponges	The FSM's protected lagoons are uniquely suited for growing high-quality organic wool sponges, valued in spas and beauty boutiques around the world. Sponges are a promising export item as both production costs and transportation costs are relatively low. In addition to personal bath uses, sea sponges can also be used for shining vehicles and medicinal purposes. There are two other small pilot projects involving the cultivation of sea sponges in Chuuk.	<ul style="list-style-type: none"> ▪ Buyers / Distributors
Ornamental Fish	The waters around FSM are home to some of the most exotic fish whose varieties of species exhibit a multitude of colors, size, and luster. Found in open water and at aquaculture sites, these fish present several export opportunities for the aquarium trade and collectors and distributors of rare, tropical fish.	<ul style="list-style-type: none"> ▪ Buyers / Distributors
Live Coral	Aquaculture specialists in Chuuk and Kosrae have identified coral species whose growth can be hastened by certain innovative techniques without depleting existing coral populations. Opportunities exist in the export and distribution of live coral for the aquarium trade.	<ul style="list-style-type: none"> ▪ Buyers / Distributors
Sea Cucumber	The Chuuk state government is in the process of enlarging six existing farms for sea cucumber, a pricey delicacy in many Asian restaurants, particularly in China and Taiwan. Strong opportunities exist for exportation, distribution, and possible privatization of existing farms.	<ul style="list-style-type: none"> ▪ Buyers / Distributors

Agriculture

The FSM government has identified agriculture development as one of the pillars of the country’s high growth strategy. Agricultural production in the FSM has traditionally been small-scale and on a subsistence level, with surplus harvests going to local markets and retailers. With a growing abundance of different crops such as bananas, breadfruit, pepper corn, kava, and noni, many export opportunities exist for lucrative niche agricultural products indigenous to the FSM. In addition, by developing its agriculture sector to cultivate fruits and vegetables for domestic consumption, the FSM can reduce its reliance on imports and increase the quality of available produce.

The FSM boasts a lush tropical environment with an average of 170 inches of rain per annum.¹² Soil quality varies across the different types of islands in the FSM, ranging from basaltic lava material in the high islands to shallow coralline soils in the atolls. The FSM’s traditional farming method intersperses different crops of plants together, rather than western-style single crop fields. This, together with restrictions on land ownership, suggests that smaller-scale ventures or production cooperatives are likely to have greater sustainability than large-scale agriculture projects.

Agriculture Projects		Opportunity
<i>Bananas</i>	<ul style="list-style-type: none"> ▪ Over 22 varieties of bananas are grown in the FSM, 13 of which provide 50-100% of daily Vitamin A requirements. Kosrae and Pohnpei’s <i>karat</i> and <i>uht en yap</i> varieties respectively provide 25 and 250 times the beta-carotene of the common Cavendish banana. ▪ The College of Micronesia has had moderate success in using bananas and other indigenous fruits for the production of tropical jams, which can attract niche pastry and condiment distributors. 	<ul style="list-style-type: none"> ▪ Investment ▪ Buyers / Distributors
<i>Pepper</i>	<ul style="list-style-type: none"> ▪ Pohnpei pepper is regarded as one of world’s finest peppercorn varieties. Once a high end gourmet product distributed worldwide with prices reaching \$5 per ounce and netting farmers \$6000 per acre, several local farmers are once again producing Pohnpei pepper for export. 	<ul style="list-style-type: none"> ▪ Investment ▪ Buyers / Distributors
<i>Noni</i>	<ul style="list-style-type: none"> ▪ Noni is naturally abundant throughout the FSM and presents a lucrative opportunity for coordinated harvesting and export. Acclaimed for its health benefits, noni is distributed in over 50 countries by more than 200 companies. Noni juice retails for \$42 per liter. 	<ul style="list-style-type: none"> ▪ Investment ▪ Buyers / Distributors
<i>Sakau (Kava)</i>	<ul style="list-style-type: none"> ▪ In addition to serving a thriving domestic market, sakau (also known as kava) is being exported and marketed in international health food stores as a dietary supplement for such ailments as anxiety, insomnia, and pain and muscle tension. 	<ul style="list-style-type: none"> ▪ Buyers / Distributors ▪ Pharmaceutical Companies
<i>Betel nut</i>	<ul style="list-style-type: none"> ▪ Previously the predominant exporter of betel nut in the region, Yap saw a significant proportion of its crop destroyed in a 2004 typhoon. Opportunities still exist for growers to replant the 	<ul style="list-style-type: none"> ▪ Development ▪ Investment ▪ Buyers /

¹² FSM Statistics Department 2001

Opportunities for Growth

	<p>entire crop in a more organized and efficient manner, and once again become the prominent supplier in the region.</p> <ul style="list-style-type: none"> ▪ Betel nut plants are also grown extensively on Pohnpei and can also contribute to the stable export of betel nut to outside markets. 	Distributors
<i>Coconuts</i>	<ul style="list-style-type: none"> ▪ Virgin coconut oil processed from fresh coconuts is being marketed by health food companies as having several nutritional benefits, including boosting immune systems. Fresh coconuts require significantly less labor to produce than copra, thus earning a higher return for farmers. Virgin coconut oil sells for close to \$20 per pint online. Other fresh coconut products include canned coconut milk and coconut jam. ▪ Copra: Although the world market for copra has fallen, copra is still used to produce local specialties like coconut soap. 	<ul style="list-style-type: none"> ▪ Development ▪ Investment ▪ Buyers / Distributors

Source: International Noni Communication Council; Banana R & D in the Pacific Status Report (INIBAP/BAPNET)

Tourism

The tourism industry is perhaps the FSM's largest growth opportunity of all. A traditional island lifestyle, as well as the beauty of the surrounding islands and sea, makes the FSM one of the last truly unspoiled paradises on earth. Each state has its own set of languages and dialects, its own unique customs and practices, and its own traditional cultural heritage, thus creating four distinct worlds in one.

Traditionally attracting more adventurous tourists, the islands of the FSM are also well positioned to play host to some of the more than 30,000 military personnel and family members who will be transferred from Okinawa to Guam in the next few years. With direct flights from Guam, Chuuk and other islands in the FSM will provide an affordable, nearby respite for these soldiers and their families who may be looking for travel and entertainment options. The lagoons and atolls are a haven for experienced sports divers, underwater photographers, surfers, and sport fishermen, while the varied topography from the hills all the way down to the sea make the islands the perfect landscape for hikers and backpackers. For those interested in ancient cultures, Pohnpei's spectacular ruins of Nan Madol and the Lelu ruins in Kosrae offer a fascinating glimpse into the region's early life and architecture.

The government's strategy is to promote the expansion of eco-tourism activities and services and thus promote low-impact and culturally-sensitive tourism. Eco-tourism resorts have already proven themselves to be extremely successful in several FSM states, including the award-winning Village in Pohnpei and Kosrae Village Resort. In addition to opportunities to further develop eco-tourism activities, the growing consciousness in Australia and Europe about Micronesia as a potential holiday destination presents significant investment opportunities for larger scale resort and hotel development projects in each of the four states.

Yet another tourism opportunity exists to leverage the FSM's central location within the Pacific as a regional conference destination. This possibility is further enhanced by the launch of the Western and Central Pacific Fisheries Commission. Based in Pohnpei, the Commission is expected to generate a significant amount of additional business travel to the state during their regular Commission meetings which is scheduled every other year in December. The next meeting will be held in December of 2007 in Pohnpei.

The expected rise in visitor traffic present opportunities to develop and invest in capacity building, particularly in the areas of infrastructure – roads, utilities, waste management, ground, air and sea transportation, improved health care facilities, and expansion projects for local facilities.

Opportunities for Growth

Tourism Projects		Opportunity
<i>Eco- and Adventure Tourism</i>	<ul style="list-style-type: none"> ▪ The government is focused on developing eco-tourism resorts in the FSM. Given the country’s out-of-the-way location, it is ideally suited to be marketed and developed as a yet undiscovered and untouched destination with numerous outdoor activities including scuba diving, snorkeling, sports fishing, hiking, bird watching, traditional navigation canoeing, surfing, and the like. An opportunity for recreational eco-tourism resorts and eco-tourism landscaping ▪ Kosrae: Veiled by shades of lush mangrove and coconut trees, the Kosrae Village Resort is the premier eco-resort in Kosrae. The resort runs alongside a secluded beach and features traditional style cottages constructed from natural materials as well as a regionally-famous restaurant and a diving operation. Its owners are seeking a business partner to jointly manage or take over the operations. The KVR also offers its customers a host of other activities including surfing, bird watching, hiking, cultural tours, fishing, and kayaking. 	<ul style="list-style-type: none"> ▪ Investment ▪ Architects, builders ▪ Development ▪ Tour Operators
<i>Hotels</i>	<ul style="list-style-type: none"> ▪ The FSM offers some of most exquisite natural sceneries in the world. Encircled by pristine blue waters and visited by some of the most dazzling sunsets, the relative remoteness of the islands can offer a welcome “getaway” from other more developed, crowded, and overly accessible tourist destinations Opportunities exist for the development of higher-end facilities that cater to the needs of tourists who are looking for more off-the-beaten-path vacations. ▪ Chuuk: Falos Island Resort a small, private island in the Truk Lagoon, contains six cottages with private beaches and snorkeling access to wreck diving and water sports. The current owner is seeking investors for upgrade, expansion, and marketing of the resort lifestyle.¹³ ▪ Yap: Traders' Ridge Resort sits on the hilltop location overlooking a spectacular view of Chamorro Bay with the open ocean beyond. It offers an intimate retreat of 20 rooms and 2 Grand Suites is styled in unique 1880's Victorian architecture offering all the amenities of a 5 Star Hotel. The owners are looking for investment or management partners for an eventual takeover of the facilities. ▪ Yap: Located northeast of Yap, Ulithi possesses one of the world's largest lagoons surrounded by 36 tropical isles, four of which are inhabited. Ulithi Adventure Resort, a family-owned beach front resort, is the only hotel in the entire atoll. This small resort hotel, which is currently welcoming investors who may be interested in assuming management responsibility of the facilities, offers 10 air-conditioned rooms with a restaurant and a dive facility catering to its guests. It has 50-year renewable land lease with 3,200 ft concrete runway and terminal accessible by a short daily air service from Yap. 	<ul style="list-style-type: none"> ▪ Development ▪ Investment ▪ Hotel Management ▪ Joint Venture
<i>Add-on Flights</i>	<ul style="list-style-type: none"> ▪ More Drop-in Flights via Yap en route to Palau. Many flights to Palau from either Guam or Japan fly over Yap. If the airlines could be made to see benefit in landing on Yap through a special 3 days-2 nights bundle for tourists traveling to Palau, the traveler 	<ul style="list-style-type: none"> ▪ Airlines ▪ Investors

¹³ FSM Investment Guide, FSM Department of Economic Affairs

Opportunities for Growth

Tourism Projects		Opportunity
	volumes would increase significantly.	
<i>Cultural Villages</i>	<ul style="list-style-type: none"> ▪ Kosrae Cultural Village: Opportunities for the development of distinctly themed cultural sites or mini cultural villages/activities along the banks of the canal that runs majestically through the lush mangrove forests ▪ Yap Culture Village: Another opportunity exists for a culture village where tourists can spend an evening watching the famous Yap dances/cultural performances, as well as sample the local cuisine. ▪ A Pohnpei Culture Center project has been proposed to help promote and enhance cultural tourism in the FSM as well as help to preserve the traditional culture. The Center will provide a stage to teach and present such cultural arts as canoe-making, weaving, carving, dance, and feast preparation. 	<ul style="list-style-type: none"> ▪ Development ▪ Investment ▪ Entrepreneurs ▪ Hoteliers
<i>Dive Operators / Liveaboard Dive Cruises</i>	<ul style="list-style-type: none"> ▪ Two liveaboard diving vessels were recently decommissioned, providing a strong opportunity for dive operators and companies to capture the existing market for liveaboard customers as well as lure new ones ▪ With effective tourism promotion programs, the FSM can build awareness as a world class diving destination. ▪ Chuuk has the biggest lagoon in the world with some of the most exquisite wreck-dive sites. Yap, Kosrae, and Pohnpei are home to stunning and prolific marine life. With focused marketing, diver tourism may pick up dramatically. Numerous opportunities exist for investment and development of dive shop operations. 	<ul style="list-style-type: none"> ▪ Investment ▪ Distributors ▪ Tour agents
<i>Cruises</i>	<ul style="list-style-type: none"> ▪ Given that the FSM has developed port facilities in all four states and has some of the most beautiful lagoons in the world, an opportunity exists for multi-island cruises. Environmentally-friendly cruises in particular would complement the country's current promotion of eco-tourism activities. 	<ul style="list-style-type: none"> ▪ Investment ▪ Tour Operators ▪ Tour agents
<i>Conference Tourism</i>	<ul style="list-style-type: none"> ▪ Pohnpei is currently exploring opportunities to develop the state as a regional conference destination, a possibility enhanced by the recent establishment of the Tuna Commission Secretariat in Pohnpei. Opportunities exist to develop and promote conference facilities on the island. 	<ul style="list-style-type: none"> ▪ Investment ▪ Development ▪ Management

Infrastructure

In its Strategic Development Plan (2004-2023), the FSM government placed heavy emphasis on the improvement, enhancement, and development of infrastructure projects in all the four states as one of the necessities to achieve economic self reliance in the next few years. The plan specifies that the government will spend more than \$700 million—using Compact (which also recognizes infrastructure as one of the priority sectors) and other sources of funding—in the next fifteen years for projects in the following key areas: electrical power, water/wastewater, solid waste management, roads and pedestrian facilities, maritime transportation, air transportation, health, education, and government buildings.

Within the overall infrastructure plan, the government has identified time-sensitive, critical infrastructure projects, which present several opportunities for construction companies, architecture firms, engineering firms, consultants, contractors, and material suppliers:

- Weno Power Supply
- Pohnpei Airport Runway Rehabilitation
- Weno Sewerage
- Kosrae Water Supply Improvements
- Weno Water Supply Improvements
- Rehabilitation of Outer Islands Airstrips in all states
- New Pohnpei High School
- New S. Namoneas High School
- Chuuk High School Improvements
- New Weno COM-FSM Campus
- Weno West Coast Road
- Kosrae Circumferential Road
- Dekektik Port Dredging
- Chuuk Lagoon Ferry Terminals
- Elementary School Rehabilitation in all states
- Renovation of Dispensaries in all state

Opportunities for Growth

INFRASTRUCTURE / UTILITIES PROJECTS:	
<i>Kosrae Landfill Project</i>	<ul style="list-style-type: none"> The Japanese government has already agreed to fund the first phase of the development of a landfill, whose expected completion date is August 2007. The Kosrae State Government is seeking to privatize the facility and is looking for investors or companies with landfill administration experience to assume management responsibilities.
<i>Scrap Metal Recycling</i>	<ul style="list-style-type: none"> Opportunity to develop a company to collect, buy, sell or ship metal scraps to companies in the People's Republic of China, Philippines, other parts of Asia, or the US.
<i>Outer Island Transport</i>	<ul style="list-style-type: none"> With few reliable transportation and freight options to and from the outer islands, an opportunity exists for a private company to profitably operate efficient inter-island transport. Demand is high, as such a service would support eco-tourism opportunities to the outer islands that are currently difficult for tourists to access, as well as increase the ability of outer islands to get their goods to the FSM's economic centers.
<i>Utilities Modernization/ Privatization</i>	<ul style="list-style-type: none"> Most of the FSM's utilities are state-owned. The government's vision is to have them sustain themselves without governmental subsidy through privatization.
<i>Waste Management and development of waste disposal systems in Yap and Chuuk</i>	<ul style="list-style-type: none"> Each of the islands in Yap and Chuuk has a sub-optimal waste disposal system, primarily dominated by land-fills. A large opportunity exists for a waste management company to come in, develop a waste collection and processing methodology and build a robust business around it.

Renewable Energy

There has been a stepped-up push by the FSM national government as well as local state governments to diversify its energy sources in light of the country’s dependence on foreign oil. The FSM has no significant petroleum reserves and all fuel for industrial, commercial, and personal use is imported. The high costs involved in importing and purchasing this fuel and the added expense and difficulty of meeting the energy needs of residents in the outer, more remote islands of the FSM has made the drive to develop alternative energy sources a more financially viable option.

Because of its location and topography, the islands of the FSM are well positioned to draw on natural, renewable sources of energy such as sunlight (solar), water (hydroelectric), and wind to provide sustainable alternates to fossil fuels. Local entrepreneurs have already begun the small scale production of making fuel from processed copra as a substitute for diesel and have attracted customers, including the local utility agency.

Renewable Energy Projects		Opportunity
<i>Solar energy, Hydroelectric energy development, and windmill energy</i>	<ul style="list-style-type: none"> ▪ The rising costs of imported fuel, coupled with the additional expense of meeting energy needs of residents from more remote islands of the FSM has made the development of renewable energy sources more financially attractive. The FSM’s location and topography lends an ideal environment for solar, water, and wind energy sources. Opportunities exist for companies who are involved in the creation and development of alternative energy facilities as well as those who can supply equipment, materials, and training. 	<ul style="list-style-type: none"> ▪ Investment ▪ Development ▪ Suppliers
<i>Coconut biomass energy source</i>	<ul style="list-style-type: none"> ▪ Pohnpei Coconut Products Inc., a company in Pohnpei, has begun the small scale production of making fuel from processed copra. The company currently produces 1,200 gallons of fuel a week, and is quickly bought by his customers, which include commercial owners of diesel-powered vehicles and the local utility agency. The company is looking a partner to expand its operations. 	<ul style="list-style-type: none"> ▪ Investment ▪ Partnership / Joint Venture

Opportunities for Growth

Manufacturing

Opportunities in the manufacturing sector in the FSM focus primarily on small-scale production. Most manufacturing draws from the natural resources that are abundantly available on the islands, such as coconut palms, clean water, and ocean resources. As per the recent Third Economic Summit, the goal of the manufacturing sector is to improve the competitiveness of these locally available factors of production to promote manufacturing sector development.

Manufacturing Projects		Opportunity
<i>Kosrae Recycling Project</i>	<ul style="list-style-type: none"> ▪ The Kosrae State Government has established a recycling processing facility at the Okat Port that has successfully been recycling aluminum cans. The facility has been green lighted to process and recycle other materials, with a crushing press machine arriving in October 2007. The government is seeking a private enterprise to manage the facility. 	<ul style="list-style-type: none"> ▪ Investment ▪ Privatization
<i>Industrial Gas Plant</i>	<ul style="list-style-type: none"> ▪ Yap: Two big local companies are looking into the possibility of supplying industrial gas (such as Oxygen) to local companies and hospital. An opportunity exists for partnerships. 	<ul style="list-style-type: none"> ▪ Development ▪ Energy Suppliers ▪ Investment
<i>Beer Breweries</i>	<ul style="list-style-type: none"> ▪ With high per capita beer consumption levels, the opportunity exists for the FSM to develop its own brewery. This could be done in a two steps, first with canisters of draft beer retailed at pubs and bars across the islands and then the same beer being bottled and canned nationwide. 	<ul style="list-style-type: none"> ▪ Investment ▪ Breweries ▪ Distributors
<i>Coconut Products</i>	<ul style="list-style-type: none"> ▪ Coconut Development Authority (CDA) is a government agency experimenting with alternative uses of copra and fresh coconuts, including virgin coconut oil, coconut milk, and other products. Opportunities exist for private investment in the processing of these products, as well as export. ▪ The coconut processing plant in Chuuk is currently under-used because of lack of adequate managerial resources. The plant is equipped to manufacture soap and process coconut oil. The government is looking to privatize this plant to increase the production of coconut-based products and process the residual matter for animal feed. 	<ul style="list-style-type: none"> ▪ Buyers / Distributors ▪ Investor ▪ Management, Marketing & Product Development ▪ Privatization
<i>Water</i>	<ul style="list-style-type: none"> ▪ Tropical Waters Kosrae, Inc. (“MELO”) is near the completion of a water bottling plant, which aims to take advantage of Kosrae’s abundant spring water primarily for export as a high-end product, similar to the “Fiji water” model. Transportation and bottling arrangements have been identified, and initial efforts to market the water as exclusive product via product placement are being explored. Opportunities are available to invest in and distribute this unique product. 	<ul style="list-style-type: none"> ▪ Investment ▪ Buyers / Distributors
	<ul style="list-style-type: none"> ▪ 	<ul style="list-style-type: none"> ▪

Handicrafts

Most Pacific island handicrafts comprise either soft wood or ivory nut carvings, baskets, or other woven items. These products are exquisitely handcrafted by local artisans and, with regularized production and output, could be effectively marketed to international buyers.

The coconut tree, soft mangrove wood, and pandanus leaves are the most commonly used raw material for handicraft production. There are three main materials that come from the coconut tree – the trunk, the fronds and the nuts, each of which is used as raw material for creating handicrafts.

A specialty of Yap is a banana fiber weave that creates a garment called a lava lava. It can take four artisans up to six months to complete one lava lava, and these prized handicrafts are used either as wall hangings or as wraps for women. Additionally, storyboards (pictorial carvings on flat wood bases, believed to originate in Palau) are now gaining prominence in the states of Yap and Chuuk.

The village shops found in each of the four states specialize in handicrafts including popular items such as sharks, fish, dolphins and canoes carvings. Jewelry carved from ivory nuts, including necklaces, bracelets, and earrings, is also popular. Other widely available handicrafts include such items as trays, baskets, hats, headbands, purses, traditional love sticks, and stick charts (which have been used for centuries by the fishermen for navigation).

The defining feature of the handicrafts segment in the FSM remains individual skill based on traditional art forms. Co-operative organizations like the Chuuk Women’s Council have made significant strides toward bringing this talent under one roof to create a critical mass of output that can then be exported in sizeable numbers. However, these attempts are often stymied by the lack of funding and access to an extensive network of craft and art distributors. A great opportunity exists to organize artisan labor and access viable markets through which to distribute these exquisite products.

Handicraft Projects		Opportunity
<i>High-end Handicrafts for museums and private collectors</i>	<ul style="list-style-type: none"> ▪ Storyboards: The wooden carved storyboards from Yap (along with those for Palau) are regarded as among the world’s finest depictions of storytelling on flat wood-carvings. Some of the higher-end exquisitely carved master-worked storyboards are marketed for thousands of dollars. ▪ Lava lava garments: The banana fiber lava lavas are a cultural masterpiece. These works of art typically depict local myths and stories created through tiny knots of different colored banana fiber. The more exquisite pieces are valued based on the number of knots per inch as well as the color and texture of the fiber. It can take up to 6 artisans many months to create each piece. 	<ul style="list-style-type: none"> ▪ Development ▪ Investment ▪ Buyers / Distributors

Opportunities for Growth

Handicraft Projects	Opportunity	
<i>Mass Market Handicrafts</i>	<ul style="list-style-type: none"> ▪ Carvings: Wood-carved sharks, fish, dolphins, canoes, traditional love sticks, stick charts, trays, baskets, hats, headbands and purses can be exported provided a sustainable way of organizing output and foreign partners are identified. ▪ Ivory Nut Jewelry: Necklaces, bracelets, earrings and other items carved from ivory nuts are popular items for mainstream consumer markets, as well as decorative embellishments for island product packaging. ▪ Storyboards: There are mid-priced storyboards for \$40-60 available throughout the islands. This sector presents a large export opportunity if a concerted effort is made to either standardize product or organize labor for volume. ▪ Lava lava garments: The mid-priced lava-lavas cost between \$15-30 and are typically cotton-weaved with bright colors. Scale and organization can make these Lava Lava's even more affordable. More systemized production and better marketing can create a sustainable cotton sub-industry for this handicraft. 	Buyers / Distributors
<i>Private collections/ Exhibitions</i>	<ul style="list-style-type: none"> ▪ Painting: Yap Art Studio & Gallery produces traditional Yapese watercolor paintings, wood-carving, and hand-woven products. Export opportunities for these products can be developed both for private collectors and for exhibitors. 	<ul style="list-style-type: none"> ▪ Development ▪ Buyers / Distributors

Additional Opportunities for Growth

Project	Opportunity
EDUCATION:	
Education & Vocational Training Schools for machine tools, basic engineering etc	The imminent military buildup on Guam involves the construction and development of many infrastructure projects, tourism facilities, health care facilities, and other projects. It is anticipated that a significant percentage of the labor required for these projects will be recruited from the FSM. An opportunity exists for a vocational school to cater to individuals and groups seeking to develop work-related skills. There is also potential for distance learning, as well as partnerships with U.S. companies and schools for internships, apprenticeships, and mentoring. Faculty exchanges would also be welcome.
ENTERTAINMENT:	
Bowling alleys	With few existing entertainment options, there is an opportunity to open bowling alleys in the different FSM states. The competitive spirit of local population could be channeled into leagues, community events, and inter-municipal tournaments for all ages and genders. A 12-lane, pre-fabricated facility with synthetic lanes would require an investment of approximately \$500,000.
FINANCIAL SERVICES:	
Bonding company	Demand exists for a bonding company in the FSM, as local companies currently are often required to get cash bonds in order to bid for projects because they do not have access to paper bonds.
Micro-financing for Female Entrepreneurship in Chuuk	The Chuuk SBDC has many ideas for micro-financing in Chuuk, but the plans have been stalled by the lack of funds. Most projects involve teaming 5-10 local women to develop a business idea through to fruition.
INFRASTRUCTURE / UTILITIES:	
Outer Island Transport	With few reliable transportation and freight options to and from the outer islands, an opportunity exists for a private company to profitably operate efficient inter-island transport. Demand is high, as such a service would support eco-tourism opportunities to the outer islands that are currently difficult for tourists to access, as well as increase the ability of outer islands to get their goods to the FSM's economic centers.
Port Authority Management	Kosrae State Port Authority seeks to privatize the management component of its airport and seaport. Management partner will be selected through competitive bidding process.
Utilities Modernization/ Privatization	Most of the FSM's utilities are state-owned. The government's vision is to have them sustain themselves without governmental subsidy through privatization.
Waste Management and development of waste disposal systems in Yap and Chuuk	Each of the islands in Yap and Chuuk has a sub-optimal waste disposal system, primarily dominated by land-fills. A large opportunity exists for a waste management company to come in, develop a waste collection and processing methodology and build a robust business around it.
HEALTHCARE:	
Private health insurance	An opportunity exists for a private company to provide alternatives to the

Opportunities for Growth

Project	Opportunity
(Pohnpei)	government health insurance. There is high demand among the local population for alternatives and an investor could potentially partner with one of the local private clinics. Investment in a CT scan would help to drastically decrease the referral and insurance costs on the island.
TRADE:	
Suppliers for island importers/wholesalers	Island importers seek suppliers for such wholesale and retail products as animal feed, liquid petroleum gas, construction materials and supplies, rice, cement, used/refurbished cars and appliances, etc.
OTHER:	
Meat processing plant / slaughter facility	Interest exists to open a slaughter facility in the FSM to process both local and imported meat, for both local demand and export. A feasibility study would need to be conducted first.

Contacts

Useful first points of contact for opportunities listed in this report

National Government:	
<p>Mr. Ernest N. Weirlangt Department of Economic Affairs P.O. Box PS-12 Palikir, Pohnpei FM 96941 Telephone: (691) 320-2646 / 5133 / 2620 Fax: (691) 320-5854 Email: psdp@dea.fm</p>	
State Government	
Chuuk:	Kosrae:
<p>Mr. Manny Sonis Division of Commerce and Industry P.O. Box 280 Weno , Chuuk FM 96942 Telephone: (691) 330-2552 Fax: (691) 330-2233 Email: cni@mail.fm</p>	<p>Mr. Steven George Department of Resources and Economic Affairs P.O. Box 600 Tofol, Kosrae FM 96944 Telephone: (691) 370-2044 Fax: (691) 370-4274 Email: georgeslinus@hotmail.com</p>
Pohnpei:	Yap:
<p>Mr. Kiko Apis Office of Economic Affairs c/o Pohnpei State Governor Kolonia, Pohnpei FM 96941 Telephone: (691) 320-2712</p>	<p>Mr. Michael Gaan Yap State Department P.O. Box 336 Yap, FM 96943 Telephone: (691) 350-2182/ 350-2184 Fax: (691) 350-2571 Email: mgaan@mail.fm http://www.yapdevelopments.org/</p>
Business Development	
Chuuk	Kosrae
<p>Mr. Tiser Lippwe Chuuk SBDC P.O. Box 1143 Weno, Chuuk FSM 96942 Telephone: (691) 330-5846 Fax: (691) 330-5847 Email: tiser@pacificsbdc.com</p>	<p>Mr. Skiller Jackson Kosrae SBDC P.O. Box 577 Kosrae, FM 96944 Telephone: (691) 370-2751 Fax: (691) 370-2066 Email: skiller@pacificsbdc.com</p>
Pohnpei	Yap
<p>Mr. Herman Semes Pohnpei Business Development Center P.O. Box 615 Kolonia, Pohnpei FM 96941 Telephone: (691) 320-3795 Fax: (691) 320-3799 Email: pbdc@com-fsm.fm</p>	<p>Mr. James Limar Yap SBDC P.O. Box 1171 Colonia, Yap, FM 96943 Telephone: (691) 350-4801 Fax: (691) 350-4803 Email: james@pacificsbdc.com</p>

References

- 108th United States Congress. *Compact of Free Association Amendments Act of 2003*, Public Law 108-188.
- ADB and Pacific Islands Trade & Investment Commission, *Business Information Guide to the Pacific Islands*. 2001.
- ADB, *Asian Development Outlook 2004*.
- ADB, *Country Economic Review: Federated States of Micronesia*. November 2000.
- Ellis, Simon. *Nursery and Grow-out Techniques for Giant Clams*. Center for Tropical and Subtropical Aquaculture Publication No. 143. June 2000.
- Ellis, Simon. *Coral and Clam Farming in the U.S. Affiliated Pacific Islands*. March 23, 2000.
- Ellis, Simon. *Aquafarmer Information Sheet: Farming Soft Coral for the Marine Aquarium Trade*. March 31, 2000.
- FSM Investment Guide. www.fsminvest.fm
- Hezel, Francis X., Edwin Q. Petteys, and Debbie Chang. *Sustainable Human Development in the FSM*. United Nations Development Programme, March 1997.
- Key Economic Statistics*, FSM Department of Statistics. 2004.
- Malepeai, Alice. *Pohnpei State Compatible Economic Development Assessment*. The Nature Conservancy, May 2001.
- Mike A. McCoy and Robert Gillett, *Aspects of the Tuna Industry Relevant to Privatization of Enterprises in the Federated States of Micronesia*. Asian Development Bank, August 2000.
- Osborn, Tom. *Banana Research and Development in the Pacific: Status Report 2002*. INIBAP/BAPNET.
- Pacific Business Center, *Annual Report 2002 – 2003*.
- Third FSM Economic Summit: Proceedings. March 28th to April 2nd, 2004.
- Photos and Map courtesy of the FSM Visitors' Board (www.visit-fsm.org) and Shana Lee*