

Chapter 1

Understanding the RMI Economy

The Development Task

Building a nation requires vision and perseverance. The process takes time. The social and economic systems of the Marshallese people are in transition from structures that developed in pre-colonial and colonial conditions, to still-evolving post-colonial relationships and balances of power and wealth. The title of this report and strategy statement, *Meto2000*, has overtones of ocean navigation, of finding the way from one island to another using traditional skills of wave-pattern recognition, for which Marshallese navigators were renowned. Each individual wave is unique, but they move in predictable patterns. *Meto* navigation requires that the navigator knows where he is starting from and where he is trying to go; wave patterns show him the course to steer.

The Government and people of the RMI face a more difficult task. First, there are differing opinions about the starting point, the present condition of the country. This report is intended to help reconcile and consolidate those views. Second, the destination of the voyage is not yet known. It has to be defined, and its direction and distance estimated, by a process of consultation and participation, of which the discussion of development strategies in this report forms part. Both stages need leadership that can draw together diverse interests and build a

lasting consensus. When the destination has been generally agreed, the complex task of getting there will require competent, motivated management and sustained, coordinated effort over many years at all levels of Marshallese society.

The task is formidable, but less daunting when seen in a historical perspective. The Marshallese people have come through many challenges in the past, adapting and adjusting to powerful external forces, absorbing new skills and techniques, and forging useful alliances at home and abroad to strengthen their strategic position. The colonial period, and especially the latter part of it, was a traumatic phase in the evolution of the Marshallese nation-state. Gaining greater control over that evolution has been an aim of the Government and people of the RMI for the last 30 years. Valuable experience has been acquired. Provided the issues in the current transition are clearly recognized, and feasible strategies for tackling them are developed that command support at home and internationally, there is a reasonable prospect of success.

The process of defining goals and planning how to reach them is itself an act of nation building. Opposing domestic interests have to be reconciled, objectives traded off to establish common goals, and ways of working together have to be agreed upon and made operational. Responsibility for managing this process lies with the national Government, but its success depends on the active intellectual participation of the wider community.

The structure of the modern Marshallese economy cannot be understood, or its development sensibly discussed, without first considering how it came to be this way. *This report* therefore starts by recalling the historical origins of the current structure. It then identifies a set of factors that are likely to determine the course and direction of the transition on which the RMI is now embarked.

Independent Isolation

The first Marshallese came to the islands over 2,000 years ago, voyaging in ocean-going canoes from origins in Southeast Asia.¹

¹ Sources for the historical account in paragraphs 6-25 are cited in Appendix 2.

Legend and archaeology point to early settlement in the northern part of the island group. Over time, the settlers spread through the double chain of atolls. Their way of life and social structure developed to fit the sparse and isolated environment, revolving around the twin poles of land tenure and traditional authority. The people spread out along the narrow atoll land-form, organized in *bwij* (lineage groups), under several *alap* (clan leaders), each household living on its own *wato* (cross-island strip), that embraced all the types of soil and vegetation the atoll offered.

Ownership rights to the land were held by the *iroij* (hereditary chief of the *bwij*), but all persons born to a woman of the *bwij* inherited the right to cultivate and use land occupied by the *bwij*. The *iroij* (or if the position was held by a woman, *leroi*) wielded considerable authority over members of the *bwij*—extending to powers of life and death if key rules of behavior were broken—but the *iroij* had to retain this power by performance, or risk deposition through battle or sorcery by an ambitious relative. The ordinary people were referred to as *kajur* (the strength), and their relationship with *iroij* was one of mutual dependence. The *kajur* provided their leaders with food, housing, canoes, and other material goods, in return for strategic leadership, a sense of identity, clan governance, and redistribution of harvests and the spoils of war.

The *iroij* adjudicated land and lineage disputes, managed the response to natural disasters, organized and led defensive and offensive operations against other communities and atolls, entered into alliances with the *iroij* of other *bwij*, and gave or received tribute according to their status and military prowess. Despite these powers and privileges, foreign visitors prior to the colonial period noted that the material lifestyle of *iroij* did not differ greatly from that of *alap* or *kajur*.

Population density in the atoll environment was ruthlessly managed, with family size controlled to match the carrying capacity of the available land. Warfare within and between atolls was used to acquire and redistribute food and land in times of need. Over time, *iroijlaplap* (paramount chiefs) emerged, whose authority was recognized by payment of tribute by chiefs of several adjacent islands and even neighboring atolls. By the time European ships began to make frequent visits in the mid-19th century, the Marshallese population was estimated at between

eleven and fourteen thousand persons. Language and customs were observed to be substantially the same throughout the group, with some detailed variations between the Ratak and Ralik chains.

The German Period (c. 1860-1914)

Though Spain had claimed the Marshalls group as the eastern-most part of its Micronesian colony for 300 years, this European conceit had no practical effect in the area. More importantly, during the 1860s German trading companies from Samoa and New Guinea began building a network of island stations for the rapidly growing trade in copra and retail goods. Jaluit became the commercial and administrative center. Alliances were made with traditional chiefs to organize and facilitate production. The planting of coconut trees for copra—until then merely a saleable by-product of subsistence agriculture—was actively promoted, drastically changing land use on the atolls. Payments in the nature of tribute or management fee were made to *iroij* and *alap* for copra produced under their respective authority and organization, the balance going to the *kajur* who actually made the copra. The monetization of the traditional authority structure had begun, and quickly took root.²

Germany formally annexed the Marshall Islands in 1885. For the next two decades the atolls formed part of German Micronesia. The role of the administration—undertaken until 1906 by the Jaluit Company and then by administrators from Pohnpei—was to provide a lightly-borne governance framework within which copra production for export, and the import and

² The formula for sharing copra income varied over time and between atolls. The share of the *iroij* was in the range of 20-50% (most commonly one-third), the *alap* 20-33%, and the balance of around one-third of the value was distributed to the *kajur* or workers, *dri jermal*, who cut, dried and packed the copra. The share taken by the *iroij* was enough to make some of them very wealthy. Towards the end of the German period the colonial administration was considering cutting out the *iroij* share and taking it as a form of tax, but this was not implemented. This tribute or fee concept was preserved under the Japanese and American administrations, and continues today. The practice is reported to have been extended by some *iroij* and *alap* to other forms of income earned by *dri jermal*.

sale of store goods could safely proceed. This economic structure suited both Germans and Marshallese. Education was in the hands of the churches, with Protestant primary schools in most islands and a few higher-level Catholic schools at main centers (which soon became the schools of choice for a new elite, a role that has persisted into modern times). A number of part-European families developed substantial plantation and trading enterprises, providing inter-island shipping and other economic services throughout the island group.

In the early 1900s, several storms and epidemics hit the Marshall Islands, killing many hundreds of people. A census in 1908 found just over 9,000 persons, only about two-thirds of the estimated population 30 years earlier. Cash was now an accepted and useful part of life. Marshallese were skilled negotiators, and though most worked only on a casual basis when they needed money and could not make copra, wages were higher in the Marshalls than the rest of Micronesia. A proposal by the German administration to purchase four northern atolls, including Bikini and Rongelap, for development as coconut plantations was rejected because the price offered was too low. Had it been accepted and the inhabitants moved elsewhere, the RMI's recent history might have looked somewhat different. German rule in the Marshall Islands, never onerous to the Marshallese, and usually profitable to the Germans, came to an end soon after war broke out in Europe in August 1914.

The Japanese Period (1914-1944)

As with the Germans after 1885, the Japanese had both strategic and commercial interests in Micronesia. But unlike the Germans, the Japanese Government had a grand design for the future in which Micronesia would be both Japan's strategic southeastern perimeter, and a source of marine and tropical products for Japanese markets. Japan declared war on Germany and occupied German Micronesia in September 1914. Though Jaluit was the first Micronesian center to be taken over by Japanese forces, the Marshall Islands, lacking the high islands to provide a base for tropical agriculture or minerals extraction,

was less affected by the early, commerce-driven phases of Japanese rule than the more westerly parts of Micronesia.

As the result of secret wartime deals with Britain and other European nations, when Germany was defeated Japan was awarded a mandate by the League of Nations that amounted to approval of its annexation of Micronesia.³ The flow of traders, miners, farmers, teachers and military personnel into Micronesia built up rapidly during the 1920s, but the Marshall Islands was still the least affected part of the territory. There was relatively little immigration of civilian Japanese, and the administrative center of Jaluit remained about the size it had been under the Germans.

Much of the German administrative arrangements were left in place, and the copra and trade-store economy was simply taken over by Tokyo-based trading companies. New deals were forged with traditional chiefs and the prominent business families that now ran the atoll economy. Nevertheless even the far-flung atolls of the Marshall Islands were affected by the energy with which Japanese administrators applied themselves to the task of colonial development. Copra production reached 5,000 tons a year, and inter-island shipping bustled about the twin chains of atolls distributing Japanese manufactured goods where German products had gone before.

This changed as the military agenda took priority in Tokyo, and Japan began to prepare for a Pacific war. As the 1930s advanced, Japan fortified the high islands and larger atolls in western Micronesia. Towards the end of the decade, the fortification of the Marshall Islands began and rapidly accelerated. Thousands of Koreans and Japanese laborers were brought to work on airfields and associated ports and infrastructure at Kwajalein, Wotje and Maloelap, followed by navy and army personnel in equally large numbers. The Pacific War was now inevitable, and came at the end of 1941. Air and seaborne

³ The carve-up of Germany's Pacific possessions among Australia, New Zealand and above all Japan, filled the Americans, and not a few others, with deep misgivings. But in the international shambles of the early 1920s there was no viable alternative on the table.

attacks were launched from Kwajalein against Wake Island, and Nauru and Tarawa were attacked from Jaluit.

The Marshall Islands was now in the frontline of a global conflict, where in a sense it was to remain for the next 50 years. As the tide of war turned in favor of the US, huge numbers of Japanese reinforcements were sent to the atolls to defend them to the death. In January and February 1944, the Americans captured Kwajalein and Enewetak in amphibious landings, preceded by several days of heavy bombardment and the death and injury of thousands of Japanese and Americans. Majuro was captured without a fight. The Marshall Islands had changed hands again, and just as before, with no choice in the matter.

The American Period (1945-1985)

The United States had driven Japan out of the Micronesian islands by a series of fierce air, sea, and land battles. The strategic significance of this chain of outposts across the central Pacific naturally dominated US policy towards its new possessions. After a brief period of administration by the US Navy, these islands became the Trust Territory of the Pacific Islands (TTPI), administered by the US on behalf of the United Nations. The moral overtones of the trusteeship carried little weight against the strategic imperatives of the developing Cold War. Within the TTPI, it was on the Marshall Islands that the military agenda had the most direct and enduring impact.

A military base was quickly constructed at Kwajalein to support the US nuclear testing program. Between 1946 and 1958, 67 nuclear devices were tested on Bikini and Eniwetok atolls, including the biggest ever tested by the US. The explosions vaporized islands and poisoned the atoll environment, in some areas virtually forever. A blend of ignorance, negligence, and intent⁴ in the conduct of the tests exposed thousands of Marshallese civilians and several hundred American servicemen

⁴ It was done in the name of military/scientific research, but with a staggering disregard for the consequences.

to radiation, with tragic consequences that became apparent as months and years went by. Successive relocations of the affected atoll dwellers were badly mismanaged, causing great personal and community suffering. When the US's atmospheric nuclear testing program was ended by international treaty in 1958, its strategic missile-testing program began. The Kwajalein base was enlarged and the major part of the atoll's vast lagoon was incorporated into the testing range. Further relocations followed. As Marshallese workers, job-seekers, displaced persons, and dependents crowded onto the dormitory island of Ebeye, it became the Pacific islands' most notorious slum.

The harm caused by violent destruction of their environment, exposure to radiation, forced relocations, squalid living conditions, hunger, and collective despair was severe for a significant proportion of the Marshallese people. These events were formative influences on their post-war view of the world and themselves. Whole communities were separated, perhaps forever, from their means of livelihood. A sense of being the victims of events far beyond their control, and totally dependent for their welfare on the whims of wealthier nations—this time specifically the US—began to take root. The material abundance and military power of the US were overwhelming. Its dismissive attitude toward the interests of people who were in the way of progress on US terms might have snuffed out any sense of nationhood. In fact, it led to the development of a specialized set of survival skills that mitigated the feeling of extreme dependency. Foremost among these were techniques of negotiation with an infinitely more powerful adversary by a combination of political shrewdness, employment of US legal attorneys at certain stages of negotiations, effective bargaining use of the importance of the Marshall Islands to US defense strategy, and the growing realization that the US could and should be made to pay substantial compensation for nuclear injury.

Even as the nuclear testing program got underway, the US administration of TTPI was passing from military to civilian hands. During the 1950s, the tension in the governance of the Marshall Islands between the military/strategic aims of the US and its responsibilities under the UN trusteeship, was joined by another tension between the protective and developmental

schools of civilian administration. Should the Marshallese be shielded from foreign commercial exploitation and allowed to evolve at their own pace under the protective umbrella of the US, or should the island economy be opened up to foreign investment and set on an unpredictable course of engagement with world markets? Against the backdrop of the Cold War, the US military's desire to keep out potential spies made common cause with the protective school of development policy, and the Marshall Islands remained off-limits to foreign investors.

Meanwhile, the civilian administration struggled with limited resources to provide basic social and economic services through the atolls, and to establish or revive institutions of governance within the TTPI legal framework. Families and clans that had dominated society and the economy during the German and Japanese periods now adapted to American ways and reoriented their businesses to new opportunities. A new generation of Marshallese leaders found (nominally subordinate) places in the administration, building domestic and external alliances, learning how to handle the US Government and progressively extending their influence in the system.

Opportunities of all kinds expanded rapidly in the late 1960s and early 1970s. A series of critical reports and increased attention from the UN led to the realization in Washington that all was not well in paradise, and that the US's strategic interest in remaining in the Marshall Islands could be endangered by neglect of the islanders' welfare. Presidential edicts required rapid, conspicuous action to fix things. A flood of Peace Corps volunteers—over 900 in Micronesia by 1970—and other foreign visitors coincided with greatly increased government spending throughout TTPI, though most of it funded an expanding civil service payroll. Meanwhile, other Pacific island colonies and protectorates were achieving self-government and heading for independence, their economic prospects greatly improved by the establishment of exclusive economic zones under the UN Convention on the Law of the Sea. Expanding regional organizations welcomed new members. Commercial and political possibilities in Micronesia suddenly multiplied, though non-US commercial investment in the RMI was still virtually prohibited on security grounds.

Access to a wide range of imported consumer goods by growing numbers of increasingly well-paid government employees increased and diversified Marshallese appetites and lifestyles, and drew an ever larger proportion of the population to urban Majuro and Ebeye. The goal of equal pay for Marshallese and American workers, a concept which has handicapped the development of the RMI economy ever since, was pursued in wage negotiations with some success. Repeated renegotiation of nuclear injury compensation and Kwajalein rentals was providing a significant number of families with substantial non-wage income. Scholarships and other interaction with the US mainland, and participation in an expanding number of regional organizations, extended people's horizons. Japan and other tuna fishing nations were looking to secure their access to the rich fishing zones of Micronesia.

The political links between the Marshall Islands and the more westerly parts of TTPI, never very strong, came under increasing strain during the long-drawn-out "political status" negotiations with the US. The drafting and redrafting of positions and constitutions occupied most of the 1970s. As the process dragged on, the Marshallese preference for separate political and financial status hardened and became more articulate, leading to the rejection in 1978 of the draft Micronesian Constitution, and adoption in 1979 of a separate constitution for the Marshall Islands. Preparations were made by the Marshall Islands political leadership to go it alone, as the Republic of the Marshall Islands. Their need to secure the financial foundations of the new state coincided with the US's need to secure access to its missile test facilities, and the US's desire to cap its exposure to further claims for nuclear injury compensation.⁵ From this developed the idea of a deal that could support the ending of the Trusteeship.

⁵ This latter wish was only partly achieved. A provision in the Compact allowing for review in 'changed circumstances' has led to a massive additional compensation claim in September 2000.

Compact Independence (1986-2000)

The deal took shape in the Compact of Free Association.⁶ Under this contract, which expressly recognized its sovereignty, the RMI agreed to grant the US exclusive military access to the Marshall Islands, in return for a guarantee of defense against third parties, assured cash payments and other benefits, including the right of Marshallese to live and work in the US. The experience of the first 15-year Compact period, which will end in September 2001, holds many lessons for both sides—some of them painful—though only recently have they been prepared to confront them. The principal aims of the Compact—political sovereignty for the RMI and exclusive military access by the US—have been achieved, but the economic and social outcomes for the Marshall Islands have differed significantly from RMI expectations.

A May 2000 report to Congress by the US General Accounting Office—the first such report in 13 years of Compact disbursements—criticizes the American side for failing to monitor the use of Compact funds, draws attention to deficiencies in accounting for disbursed funds, and observes that there is little to show for the Compact transfers in terms of the RMI's economic growth. On the RMI side, there is a widespread acknowledgment that much of the big spending during the first decade of the Compact was poorly planned and managed, leading to wasteful and corrupt contracting practices, environmental damage, an unsustainable fiscal position, and bad habits in public financial management that are proving hard to eradicate.

Factors Shaping Development

From the interplay of history and the emerging self-awareness of the Marshallese people, a number of factors arose to shape the RMI's development process. They are set out here to provide

⁶ The Compact, as eventually signed in 1982 and made effective in 1986, is an agreement between the US on the one hand and the sovereign states of RMI, FSM, and Palau on the other. Only provisions applying to the US and the RMI are discussed here.

a backdrop to the more detailed analyses and strategy statements that follow:

- Traditional and modern structures of authority uneasily coexist. Overlap and friction between them are inevitable, and lead to lack of coordination, underperformance, and even litigation. The Constitution tries to address the problem by recognizing traditional ranks and interests in land, but in so doing hampers the natural evolution of these concepts under modernizing influences. Many leaders occupy positions of both traditional and modern authority.⁷
- In the absence of any traditional concept of “separation of powers,” there have been numerous reports of political and official interference with the administration of justice, and divergences from the rule of law.
- The accelerating shift from subsistence to a monetary economy is causing problems. Customary relationships are being exploited for monetary gain and reciprocity, and mutual dependence is weakening. Informal safety nets are failing, family structures are breaking down, and there is evidence of hunger, child neglect,⁸ increasing prostitution, and other symptoms of emerging poverty.
- There is a widespread belief in the RMI, stemming from TTPI practice and encouraged until recently by both customary and constitutional leaders, that the state should provide most social and economic services free or well below real cost. With experience of colonial and Compact links to the vast resources of the US Government, it is hard for many people in the RMI to accept that there are limits to what their own government can or should do for them.

⁷ Of the sixteen formally recognized paramount chiefs in the RMI, twelve are members of the Council of Iroij, and a number of elected senators in the *Nitijela* are of chiefly descent.

⁸ Development in the 1990s of a brisk market in overseas (mostly US) adoption of Marshallese children—and the promotional role of law firms acting as go-betweens—was a clear sign of growing malaise, especially among the urban unemployed.

- Most economic activity in the RMI is service-based and highly dependent on the expenditure of money received from the US Government under the existing Compact (as grants, lease payments, and injury compensation). There is no foreseeable domestic economic activity that could replace the government and household incomes provided by these payments.
- The RMI's post-war colonial experience and ready access to Compact funding since independence encouraged the neglect of asset maintenance in favor of asset replacement.⁹ Government-owned buildings, equipment, vehicles, and ships were allowed to decay into an unserviceable condition. Commercial assets have been less directly affected by the public sector's no-maintenance culture, but the malaise has damaged public morale and the wider reputation of the RMI.
- A related mindset has allowed the deterioration of the natural environment, particularly in urban areas. There is no effective public environmental education program, no local or national laws on waste, land use, and environmental protection are ignored, and the Environmental Protection Agency (EPA) lacks the resources to take corrective action—all this despite the RMI's participation in regional and global environmental conventions.
- Public attitudes to personal health care also suggest willful disregard for the future and undue reliance on government services to cure lifestyle diseases. In urban areas, imported junk food is relatively cheap and easy to obtain. The incidence of diabetes, directly related to "over-nutrition" and lack of physical exercise, and the cost to public funds of overseas referrals for curative treatment (separate from nuclear-related treatments), are two unsustainable consequences of a period of high disposable incomes.

⁹ Recently, new bilateral donors have also provided funds to replace assets prematurely written off for lack of maintenance.

- As a result of preliminary discussions with US officials, there is a clear expectation in the RMI that the financial aspects of the Compact will be successfully renegotiated for a second 15-year period, while the Kwajalein leases are continued and substantial further funding is sought for nuclear injury compensation. These developments have both positive and negative effects on the determination of the Government and people to adjust to a medium-term future without Compact funding. The net effect is not clear.
- The RMI has difficulty attracting foreign direct investment. Provisions included in the Compact to stimulate US private investment in the Marshall Islands were deleted by the US Congress after the whole package had been accepted by the RMI. On top of the obvious problems of the economy's remoteness and small size, wages in the RMI are high by regional and developing country standards, making it difficult for enterprises to compete internationally. Doubt about the promptness and impartiality of the legal process adds to the perceived risks of investment in the country. Retention of the US dollar as the RMI's domestic currency greatly simplifies economic management and is generally a source of psychological comfort to public and private sectors, but the strength of the currency handicaps the RMI's international competitiveness.¹⁰
- The poor performance of schools and training institutions in the country is a matter of serious concern. There is friction between authorities, teachers and pupils lack motivation, and output standards are below regional parity. Most students are leaving school ill-equipped for a productive life in the RMI or elsewhere, and low skill levels in the labor force are a deterrent to investment.
- Amid continued criticisms of public service output, there is evidence from the private sector and public utilities that Marshallese can achieve internationally

¹⁰ See discussion in Chapter 2 and Box C of the consequences for the RMI of the US currency's tendency to appreciate against other currencies.

competitive productivity, provided they are exposed to internationally proven systems of training, discipline, motivation, and managerial autonomy.

- Majuro and Ebeye, with two-thirds of the total population, contain significant numbers of unemployed and otherwise disadvantaged people, and there are areas of relative poverty in rural atolls. Inequities of opportunity and access could be reduced by more active use of progressive taxation and incentive subsidies, but such moves tend to be opposed by landowners and business interests.
- Nine trust funds with a current value of \$425 million have been set up—some predating the Compact by many years—to provide for the care, rehabilitation, and support of the atoll communities most directly affected by the nuclear testing program. The generally satisfactory management of these funds has given the RMI valuable experience in handling such trusts.
- Medical research has now traced the effects of nuclear injury into the second and third generation, greatly widening the potential distribution of compensation money, and highlighting the imminent exhaustion of the main (Compact-established) injury compensation fund. The “changed circumstances” claim recently lodged by the RMI under the terms of the Compact is for a total of \$2.7 billion over a 40-year period.
- Current arrangements at Kwajalein bring in nearly \$13 million annually in Compact receipts to owners of land rights and the Kwajalein Atoll Development Authority (KADA) as payment for US access to the atoll. KADA uses \$4.5 million of this to subsidize the provision of utilities on Ebeye. Over \$8 million a year is distributed among eighty-four owners of rights to leased land,¹¹ and is variously spent, saved, and

¹¹ Unlike agricultural or housing leases, the nature of the use to which much of the leased land at Kwajalein is now put means that its future use by the lessors after reversion is highly problematic.

redistributed by them among their kin. A further \$7 million is paid annually in wages to about 1,200 Marshallese employed in the military base, acting as a powerful magnet drawing would-be workers and dependents to already crowded Ebeye.

- The payments for nuclear compensation and Kwajalein leases have thus created two groups of Marshallese—residents in rural and urban areas of the RMI and overseas—in receipt of relatively large amounts of unearned (which is not to say unjustified) income.¹² So far, little of this appears to have been applied to productive investment in the RMI economy. The country now faces the task of promoting a more self-reliant philosophy, while distributing Compact-based payments that inevitably risk reducing personal and family motivation to acquire the education and skills that modern self-reliance requires.
- There is a long tradition in the Marshall Islands of allowing foreigners to run large parts of the economy while collecting tribute from them in money and goods. This has facilitated the entry of overseas entrepreneurs to compete in providing goods and services, but in modern times it has opened the door to improper practices in the granting of permits and licenses. It may also inhibit the start-up and threaten the survival of Marshallese businesses.
- Access to services and infrastructure outside of Majuro, Ebeye, and—to some extent—Jaluit, is poor, despite perennial official promises of improvement. Reliable shipping services, electric power, modern telecommunications, banking, and postal services are all lacking in the rural areas, in a striking mismatch with the RMI's relatively high level of money income per capita.
- The 1999 census found 10,000 fewer people in the RMI than expected. The main cause was a much greater

¹² As much as 20–25% of RMI households may be in receipt of money payments and free medical treatment, under s.177 of the Compact.

exodus to the US than the authorities had realized.¹³ Experience elsewhere suggests that people who are frustrated by economic or political conditions at home and are in a position to leave are likely to do so, and that increasingly the emigrants will include some of the most able Marshallese.¹⁴

- The population age structure (i.e., numbers of young people already born) means that the natural increase in the labor force will far outstrip any conceivable rate of formal job creation, leading to greatly increased unemployment concentrated on Majuro and Ebeye. To relieve this, school leavers need workplace skills they can use overseas, and access to immigration to the US and elsewhere, while every opportunity is taken to promote the informal economy in the RMI. Even then, growing open unemployment will place increasing strains on the country's rural and urban communities.
- The RMI is vulnerable to climate change in the form of increasing incidence of extreme weather conditions and rising sea level, threatening dwellings, infrastructure, and fresh water reserves. The Government and people can reduce the risk of damage by prudent design and location of fixed assets. For this, community-based physical planning and effective land use controls are needed, at least in urban areas. Better-off families can and do prepare alternative homes overseas in case of

¹³ The macroeconomic effect so far is not a net inflow of remittances, but the reverse. The net outflow of (mainly intra-family) payments through the main money-transfer agency is running at about \$1.5 million annually, peaking around quarterly distributions of Kwajalein rents and nuclear compensation payments. Most transfers are to parts of the US where Marshallese communities are established.

¹⁴ The unexpected size of the recent exodus may have been caused in part by uncertainty about renewal of the Compact's emigration provisions. During the 1990s, the RMI's issuing to non-nationals of passports that offered access to the US caused friction with US authorities, and led to the fear that the right of bonafide RMI nationals to enter and reside in the US might be withdrawn. Substantial amounts of money were paid to RMI authorities in connection with the issuing of such passports, and an official inquiry is investigating what happened to this money. See also footnote 35 in Chapter 2.

unmanageable changes in sea level or storm incidence.

- For many years, massive debt service payments on loans for infrastructure and (mostly unprofitable) commercial projects have used up the Government's untied Compact receipts. In FY 2001 and 2002 this will end, providing a priceless opportunity—provided Compact flows are successfully renegotiated—to put public finance onto a sustainable basis.
- The RMI public has a low opinion of the efficiency, honesty, and technical competence of political government, the public service, and the public sector at large. This is reflected in reports of widespread tax evasion with no attempt at enforcement, and frequent references to political and official corruption, nepotism, and misuse of public property and funds.
- In the outside world, the RMI is widely perceived to have received huge amounts of money from the US Government, and to have wasted much of it through mismanagement and corrupt practices, while neglecting or damaging the natural environment. Though important progress has been made in public sector reform, fisheries development, investment, and tourism promotion, that perception handicaps the building of sustainable trade, aid, and investment relationships. It can be changed by sound public financial management and proper maintenance of capital assets, accompanied by well-focused, positive publicity.