

Title	On the Possibility of Economic Development and Self-Reliance of the Republic of Palau
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Citation	南太平洋海域調査研究報告=Occasional papers, 30: 133-136
Issue Date	1996-11-15
URL	http://hdl.handle.net/10232/16896

ON THE POSSIBILITY OF ECONOMIC DEVELOPMENT AND SELF-RELIANCE OF THE REPUBLIC OF PALAU

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Introduction

The countries in the Pacific Ocean, except Australia and New Zealand, have been treated collectively as Pacific island nations. This is understandable if we compare their populations and economic scale with those of the Asian and African nations that declared their independence after World War II. Closer observation, however, will show us notable differences among these island nations.

The Melanesian nations have grown away from their traditional roles in tropical agriculture toward more commercial activity. Melanesian nationalism is characterized by a sense of cultural identity among people living on larger, more densely populated islands in the South Pacific. The level of industrialization is rather low in this area, but each nation has many notable qualities, including national and cultural awareness and a political orientation toward a more modern industrial society. On the other hand, the small islands scattered across the vastness of Micronesia are mostly coral atolls with little land and low productivity. There is little sense of common identity to bind the islands together and little orientation toward national unity. Some are even facing a crisis due to breakdown in social cohesion. Backwardness in productivity and consumption levels may have weakened awakening nationalism, and this weakness is the biggest of the many problems these island nations are facing. The Republic of Palau is the last Micronesian county to be independent from the United Nations Trust Territory administered by the United States of America. Many serious problems remain to be solved to achieve economic independence and industrialization.

Facts of Economic Activities

Many discussions argue against excessive economic stimulation in Micronesia including Palau. This view cautions against excessive economic investment to preserve the society, culture and traditions of Micronesia.

However, in the case of Palau, I believe that a different idea is possible with economic stimuli, including industrial investment, leading to economic self-reliance. There are two reasons to propose a new approach.

One is the substantial financial assistance for Palau which is being poured in by the United States based on the Free Association Treaty. Palau has been receiving financial assistance and development funds in the range of \$20 to \$25 million a year. It will be provided for the 15 year period of the Treaty with the actual amount gradually declining from \$25 million in the first year to \$15 million in the final year. For reference, I would like to introduce the anticipated Palau Government Local Revenues and Compact Revenues for financing the Recurrent Budget from FY1995 to FY1999 as below.

	(\$000)				
Revenue Source	1995	1996	1997	1998	1999
Local Revenues					
Taxes	15,252	17,202	18,062	18,965	19,913
Licenses, Fee	1,389	1,480	1,554	1,632	1,713
Court Fine, Fee	109	111	117	122	128
Postal Sales, Services	412	454	477	500	525
Services, Sales	223	226	229	232	236
Hospital Services	320	336	370	407	448
Water Utilities	87	95	100	105	110
Subtotal	17,792	19,904	20,909	21,963	23,703
Compact Revenues					
Current Account	20,967	18,443	18,747	19,050	11,649
Special Grants	2,000	6,300	4,900	3,500	2,000
Subtotal	22,967	24,743	23,647	22,550	13,649
Trust Fund Distribution	0	0	0	0	5,000
TOTAL	40,759	44,647	44,556	44,513	42,352

Source: Economic Development Plan 1995-1999 (Republic of Palau), p.41

A total of slightly more than \$350 million will be given to Palau in 15 years. In addition, the focus of Japan's economic assistance for Oceania has been shifting towards Micronesian countries. It is estimated that some 70 to 100 million dollars worth of economic assistance will be provided by the Japanese government in the next 15 years. The population of Palau is 15,122 (1992). Economic assistance from United States and Japan to the tune of some \$450 million appears enormous even if spread over a 15 year period. I believe that economic self-reliance will be achievable in this country through the investment of this substantial assistance for industrial development.

The second reason to propose a new approach is the strong economic development of East Asia where rapid industrialization is currently taking place. As all countries producing primary products in East Asia are following the path of industrialization, the East Asian demand for food and raw materials will be expected to increase considerably in the near future. Countries in Micronesia and surrounding areas may well be able to exploit these circumstances to establish themselves as exporters of food and raw materials to East Asia. Micronesia could use the aid money from the US Compact Grant and Japan's aid money to put an end to monoculture, a characteristic of the Pacific region, to nurture the distinctive diversification of industries into fishery and tropical farm products, tourism etc. to make the maximum use of local resources. The technical assistance essential for the promotion of industries can be provided by, among others, United States, Australia and Japan by means of human resources development, technical guidance and, especially, joint ventures to produce exportable products. Japan's ODA and private capital can and should be provided to assist this type of development. I dare say that the economic performance of Palau, though it is still now sluggish, is substantially in accordance with the economic trend of East Asia. Next, I think I have to examine the GDP of Palau by kind of economic activity.

	(\$000)		
Economic Activity	1990	1991	1992
Agriculture & Fishery			
Agriculture	2,296	2,496	2,647
Fishery	17,647	21,093	23,202
Total Agri & Fishery	19,943	23,589	25,849
Industry			
Manufacturing	528	633	818
Construction	8,522	7,015	6,688
Electricity	N/A	N/A	N/A
Utilities	2,849	3,709	4,472
Total Industry	11,899	11,357	11,973
Services			
Trade	12,014	13,798	14,062
Hotel & Restaurant	6,258	6,802	8,717
Transport & Communic.	3,371	3,397	4,087
Finance & Insurance	3,112	3,175	3,271
Real Est. & Bus Service	3,313	3,735	3,702
Government Service	14,212	15,024	14,356
Other Services	2,767	2,978	3,723
Total Services	45,046	48,909	51,918
GDP	76,888	83,855	89,740

Source: Economic Development Plan 1995-1999 (Republic of Palau), p.15

At market price, Palau's GDP was estimated to be \$14.5 million in 1975. According to this data, Palau's GDP (1990) became 6 times that of 1975 for 15 years, and grew 8 percent each year in 1990-92. Perhaps the most dramatic change in 1990s was the rise in Palau's second largest sector, agriculture and fisheries. Fisheries alone made up the gain of \$23.2 million, 26 percent of GDP in 1992. Despite some notable changes in its makeup, the service sector, above all trade, hotel & restaurant, remains Palau's major economic activity. Thus, we can see that the fisheries and tourism (trade, hotel & restaurant, transport and communications) were and are the most contributive activities to the development of Palau economy.

Perspective of Palau Economy in Future

Economic self-reliance generally requires the fulfillment of three requirements, i.e. capital, technology (including labor) and market. In the case of Palau, the capital requirement will be met by foreign assistance while the technology and labor requirement will also be met by relevant assistance by neighboring industrialized countries.

Finally, there is a common problem of market access which is felt by every country and area in the Pacific. This is a question of how to export local products to overseas markets. While Australia and New Zealand have adopted the SPARTECA (South Pacific Regional Trade and Economic Cooperation Agreement) for the South Pacific Island Countries, EC members use the Lomé Convention (including STABEX and SISMIN) to provide ACP (Asia, Caribbean and Pacific) countries with market access. If Japan and other major East Asian coun-

tries can come up with carefully prepared and detailed measures to promote exports from the Pacific Islands, there is no reason to doubt that Palau should be able to export her products to Asia. Besides, the tourism industry in Palau is extremely hopeful. The number of tourists and visitors traveling to Palau has increased every year. In 1993, total passenger arrivals hit a record 40,497 which was almost equivalent to three times the total inhabitants in Palau.

The remaining market requirement can now be met by the system I suggested earlier. As a result, there is a good prospect for Palau to achieve industrial development and economic self-reliance in the future.