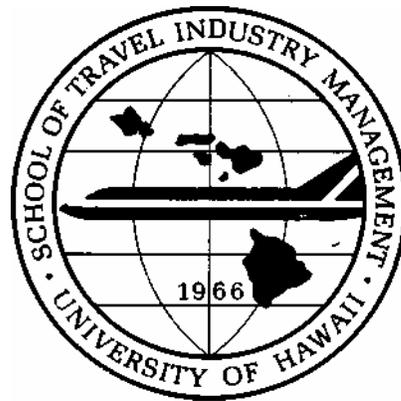


# TOURISM DEVELOPMENT IN THE MARSHALL ISLANDS



*Prepared by  
School of Travel Industry Management  
University of Hawaii at Manoa*

# EXECUTIVE SUMMARY

## Introduction

In the Pacific region and elsewhere in the world, tourism represents a major alternative for small island nations searching for industries to increase their economic base, expand foreign exchange earnings, and enhance the standard of living for their people. While tourism is expected to grow modestly in the next decade for Pacific island destinations as a whole, the impact will vary among the islands according to the stage of development. In order to address outstanding current and future policy issues related to tourism development in the Pacific region, the Pacific Islands Development Program (PIDP) of the East-West Center initiated the "Multinational Corporations in the Pacific Islands Tourism Industry" research project in 1987. To conduct the study, PIDP contracted the School of Travel Industry Management (TIM) of the University of Hawaii-Manoa (UHM) to analyze ten Pacific island destinations grouped by geographical proximity and selected by criteria based on visitor arrivals and levels of development. This report in the series covers the Micronesian nation of the Republic of the Marshall Islands.

## General Overview

The Marshall Islands were probably inhabited originally around 2000 B.C. by settlers from Southeast Asia. The Spanish were the first Westerners to visit the islands, followed later by the British and Russians. The islands were purchased by Germany in the late 19th century and fell to Japan at the outset of World War I. Japan continued its administration of the islands until their capture by the U.S. during World War II. In 1947 the Marshall Islands became part of the U.S. Trust Territory of the Pacific Islands and held that status until their establishment as the Republic of the Marshall Islands on May 1, 1979. On October 21, 1986 a 15-year Compact of Free Association replaced the United Nations Trusteeship Agreement.

The basic government structure of the Marshall Islands consists of a bicameral legislature, President and Cabinet (along with associated ministries), Judiciary, and Public Service Commission. The principal legislative bodies are the 12-member Council of Iroij and the 33-member Nitijela. The President is a member of the Nitijela and is elected by that body. The Ministers of the Cabinet are appointed by the President from the members of the Nitijela. Daily administrative duties are carried out by the Public Service Commission which is headed by the Chief Secretary. Majuro is the capital of the Marshall Islands, while administrative sub-centers are located on Ebeye, Jaluit, and Wotje. Each of the 24 inhabited islands and atolls has a local government.

The Marshall Islands are an archipelago of 29 atolls and 5 coral islands forming two roughly parallel chains known as the Ratak ("sunrise") and Ralik ("sunset") Chains. The Marshall Islands lie in the Central Pacific Ocean west of the International Dateline and between four and fourteen degrees latitude north of the Equator. The atolls and islands comprise a total land area of 70 square miles and span a sea area of over 750,000 square miles. The population of the Marshall Islands was estimated at 37,000 in 1985, spread unevenly among the 24 inhabited islands and atolls.

The Marshall Islands suffers from a negative balance of payments due primarily to limited natural resources and the organization of the economy. Most goods consumed in the nation are imported while the opportunities for export industries are limited at present. As with many developing nations, the Marshall Islands has a dual economy with a cash economy in the urban centers of Majuro and Ebeye and a subsistence economy on most other islands and atolls. U.S. grants have traditionally supplied a substantial portion of government's expenditures. The government has recently taken steps to encourage

private sector development in order to provide employment opportunities for its citizens and to decrease the reliance on external funds. Development funds available through the Compact of Free Association with the U.S. are expected to aid in government's efforts toward private sector development.

Education in the Marshall Islands is compulsory through the eighth grade at 84 public and private elementary schools throughout the nation. Marshallese is the primary language of instruction at the elementary level, while English language instruction is emphasized in the secondary schools. Literacy rates are estimated to be 90 percent for the Marshallese language and 25 percent for English. The College of Micronesia, Marshall's Community Action Agency, and the Trade, Training and Testing Center provide the Marshallese with vocational training and education.

## **Tourism Development Assessment**

Recorded tourism arrivals to the Marshall Islands have recently been between 2,700 and 3,900 with no discernible trend in the data. Visitor arrival data are available only for Majuro and do not include passport holders of the Federated States of Micronesia and Palau. Leisure visitors (those travelling for tourism purposes) are recorded as comprising around 60 percent of total visitors while those travelling for business account for another 25 percent. Leisure visitors are overstated, however, since many business travelers indicate they are travelling for leisure purposes to facilitate entry. Visitors from the U.S. and Japan together account for nearly 70 percent of the recorded visitors to the Marshall Islands. The average length of stay for visitors is estimated to be about 4 - 6 days.

Quantitative estimates of the future growth of tourism arrivals cannot be made due to limitations in the arrival data. It would appear, however, that the primary market segment will be that of business travelers as a result of development supported by the funds available through the Compact of Free Association. Business travelers will consume many of the same tourism products as leisure travelers do and, in addition, will form a base for the expansion of the leisure market. Future expansion of the leisure visitor market will probably have to focus on marine-related recreation, while the primary geographic markets will probably continue to be the U.S. and Japan.

International air transportation plays a critical element in tourism development in the Marshall Islands due to the distance from visitor generating markets. At present the Marshall Islands are served by Airline of the Marshall Islands (AMI) from Fiji and Kiribati and Continental Air Micronesia (Air Mike) from Honolulu, Guam, and intermediate points in Micronesia. The number of international flights per week is 1 - 2 for AMI and 3 - 4 for Air Mike. Round-trip air fares are on the order of U.S.\$900 round trip for service between Majuro and Honolulu, Guam, and Fiji.

## **Tourism Resources Assessment**

The hotel room inventory for the Marshall Islands is concentrated on Majuro with 102 rooms in six hotels. The room count dropped to 72 rooms in February 1989 due to hotel reconstruction. Two small hotels with self-catering facilities are located on Mili and Maloelap Atolls. Most of the hotels on Majuro are located in the urban Darrit-Uliga-Delap area. Daily rates vary from about \$20 to \$65 with the facilities varying among the hotels. Hotel occupancy rates are just beginning to be collected, although it is estimated that they have varied from 55 to 85 percent in the recent past.

Four additions to the visitor plant inventory on Majuro are in various stages of development. These include the new Eastern Gateway with 56 rooms, the new Marshalls

Sun Hotel with 40 rooms, the Royal Marshall Garden Hotel with 16 rooms, and a proposed new RRE Hotel of about 50 rooms. The completion of the first three hotel projects would add an additional 112 rooms to the current inventory of 72 rooms, resulting in more than a doubling of the hotel capacity on Majuro. It appears that the current inventory rooms may not be sufficient at present to accommodate all visitors, especially during peak arrival periods, and some of the capacity under construction will be needed in the short term.

One of the primary scenic attractions of the Marshall Islands is the underwater environment which can be enjoyed through snorkeling, diving, and fishing. A second scenic attraction is the unspoiled, traditional tropical environment found on outer atolls or islands. Recreation and leisure activities for tourists include diving and snorkeling, deepsea sport fishing, and other ocean recreation.

Electricity and fresh water are available on most parts of Majuro, as well as on the islet of Ebeye at Kwajalein, although supplies may not always be available 24 hours a day. A salt-water sewer system is in the process of being completed on Majuro. Satellite communications is available between the Marshall Islands and international points. Majuro and Ebeye are the only locations that have paved roads. Transportation to 24 of the outer atolls and islands is provided by Airline of the Marshall Islands on at least a weekly basis from Majuro, with more frequent service to Arno, Kwajalein, Jaluit, Maloelap, and Alinglaplap. Transportation from Majuro to other parts of the nation is also available by field trip ships. On Majuro, rental cars, taxis, and a bus service are available for local transportation.

Tourism at present impacts only to a small degree on the physical environment due to its small size. Since the marine environment is a primary attraction for tourists, any significant threat to this resource will have a negative impact on tourism. Presently, parts of the Majuro lagoon are polluted, not from tourism, but the development and growth that has occurred in the urban area. Most land in the Marshall Islands is communally owned and cannot be sold to noncitizens, although it can be leased. Physical development in the Marshall Islands is guided by the Planning and Zoning Act of 1987.

## **Economic Assessment**

The tourism industry currently makes only a small contribution to the economy of the Marshall Islands, although the true extent of that contribution cannot be measured at present. The current small scale of tourism may be the result of government's previously passive attitude toward tourism. The current National Development Plan, however, indicates an increase of government interest in tourism development. The direct effect of tourism expenditures are found to a large extent in economic sectors such as hotels, restaurants, and air transportation. Indirect and induced economic effects of tourism also contribute to the economy of the Marshall Islands.

Actual visitor expenditures in the Marshall Islands can be expected to vary, with a possible daily range of from \$50 to \$140, depending upon where the visitor stays and takes meals and what activities are undertaken. These figures apply for Majuro; for the outer atolls and islands, daily expenditures would be less but additional revenue would be received in the form of domestic air or water transportation fares.

The net economic benefits of tourism development will not be completely realized due to leakage effects that exist in the economy of the Marshall Islands. Since many goods and some services must be imported into the nation, the leakage effect will likely be large, with a consequent reduction in the multiplier effect in the economy. As intersectoral linkages in the economy are strengthened and more local firms and suppliers develop, the leakage effect can be reduced and the economic benefit of tourism increased. This will

require the development of, for example, the local agriculture and fishing industries so that they are able to supply the foodstuffs required by the tourism industry.

The current tourism labor force in the Marshall Islands is comprised primarily of unskilled or semiskilled workers. In some cases, labor has been imported into the nation to fill skill positions that Marshallese are not trained for. The minimum wage in the Marshall Islands is \$1.50 per hour, although it appears that some employees in the tourism industry may be earning up to \$3.00 per hour. The size of the actual labor supply for the tourism industry depends not only on the size of the labor pool but also on the availability of such individuals and the extent of their training or education for such positions.

## **Social and Cultural Assessment**

The social and cultural impact of tourism is quite small at present due to the small number of visitors coming to the Marshall Islands, particularly on the outer atolls and islands where subsistence economies predominate. Urban migration is already a problem on Majuro and Ebeye, due to general economic development. An increase in tourism on the outer atolls may reduce the migration pressures on the urban areas. Additionally, outer atoll tourism development may result in the diversification of these areas so that they are not dependent upon one source of income. For any area in the Marshall Islands, tourism development offers the potential for Marshallese to expand their ability to purchase goods and services that would otherwise be unobtainable.

In planning for tourism development, issues that must be addressed include the ability of Marshallese to meet the need for workers at all levels of management and the possible segregation of tourists from residents, such as the similar situation currently found on Kwajalein and Ebeye for the missile base. Tourism employment may result in changes in the traditional family structure as more women become employed by the tourism industry. Other potential negative impacts of tourism development include increased scarcity of land, increases in crime, an erosion of traditional lifestyles, psychological problems of cultural adjustment, and the commercialization of culture. Most of these impacts that are apparently occurring at the present time are a result of general economic development and not tourism development. Additionally, evidence indicates that some cultural traditions (traditional basket making, for example) are being preserved as a result of tourism.

The training and education of Marshallese for employment in the tourism industry, although not critical at present, will become more important as further tourism development occurs. The Marshall Islands Community Action Agency and the United Nations Development Program/World Tourism Organization have already provided some training for personnel in the tourism industry. The College of Micronesia may be in a position to provide additional training; more advanced levels of education and training may have to be provided overseas. At present, tourism awareness programs at either the school or community level are not available. Likewise, visitor awareness programs to educate tourists about the Marshallese culture and society have not generally been developed with the exception of brochures and a guidebook.

## **Government Tourism Policy Assessment**

Currently, the Marshall Islands does not have a comprehensive tourism development plan. Three reports were prepared by the combined efforts of the United Nations Development Program/World Tourism Organization (UNDP/WTO). These reports found a need for greater tourism development efforts by government, including elements such as the encouragement of further tourism facilities development, promotion of the Marshall

Islands as a tourism destination, development of tourism education and training programs, and a greater role for the Tourism Office. Some specific elements of the UNDP/WTO marketing program have been accomplished such as the production of a visitors guide, travel facts folder, and full-color promotional brochure.

Present government policy towards tourism in the Marshall Islands is expressed in the current Five-Year Development Plan. The policy centers around the role of tourism development in increasing national economic development, ensuring that tourism causes no serious sociocultural or environmental problems and serves as a means for conservation of traditional cultural and historical elements. Basic government strategies in the Plan include basing tourism primarily on marine-related activities, providing support for outer atoll tourism development, improving Majuro as a tourist destination, establishing a marketing and promotion program, reducing the cost of Marshallese tourism, and ensuring the social integration of tourism. Four specific projects are envisioned: a tourism office, tourism brochure, tourism promotion video tape, and tourism information center.

Government fiscal/monetary policies affecting tourism do not appear to be a hindrance to the development of tourism. General taxes are relatively low, although there are specific taxes levied on hotel rooms. Financial bodies that may be able to assist tourism projects include the Marshall Islands Development Bank and a Foreign Investments Advisory Board. Under the Compact of Free Association, U.S. government aid programs such as the Small Business Administration, Economic Development Administration, Job Corps, and Department of Commerce services as related to tourism and marine resources development are available to the private sector in the Marshall Islands.

The overall administration of tourism in the Marshall Islands is the responsibility of the Tourism Office of the Division of Trade, Industry, and Labor within the Ministry of Resources and Development. Two officers within the Tourism Office divide their time between tourism and labor matters. Some vocational tourism training and education has been available through the Marshalls Community Action Agency, visiting UNDP/WTO specialists, and participation by tourism-related personnel in overseas study tours/seminars. Tourism data collection is still relatively limited at present.

## **Summary and Government Policy Recommendations**

International Transportation Access - Air transportation provides the primary means of access for visitors to the Marshall Islands. To further develop this link, it is recommended that government:

- Work for the improvement of air service on each access route via increased frequencies, greater capacity, and/or the entrance of a second airline, particularly on the Guam-Honolulu route.
- Upgrade the terminal at Majuro to meet international standards and upgrade other airport facilities as required to support increased air service and potentially increased aircraft size.

Facility Requirements - Upgrading and expansion of tourism facilities on Majuro and elsewhere are required if the Marshall Islands are to be competitive with other Pacific island destinations. It is recommended that government:

- Encourage the renovation of its existing visitor plant to bring a greater portion of it up to first-class and international standards through financial and other incentives.

Play a more active role in getting construction work on the Eastern Gateway completed.

Encourage the use of indigenous materials and local-style architecture/decor through the building code, particularly for all development outside the DUD urban area.

Encourage the development and maintenance of high standards of service levels through assistance on training programs from the Marshalls Community Action Agency and/or the College of Micronesia, with aid sought via external grants.

Infrastructure - The growth of tourism requires that sufficient infrastructure be available and can be appropriately used for such development. It is recommended that government:

- Prepare a study of the carrying capacity of the existing and planned infrastructure to determine the appropriate time frame for development.
- Evaluate and implement changes, as required, to the domestic service of AMI in order to increase the tourism potential of outer atolls targeted for tourism development.
- Carry out Capital Improvement Projects to improve infrastructure as specified in the National Development Plan.

Market Segments - More information is needed on existing and potential tourism markets for the Marshall Islands before tourism planning and promotion can proceed. It is recommended that government:

- Perform market research analysis on existing and potential markets, including both primary and secondary data collection.
- Evaluate the likely impact of future travel trends for both the Pacific Basin and the Pacific islands on potential tourism to the Marshall Islands.
- Perform competitive analyses of other destinations in the Pacific Basin and Pacific islands.
- Work with the Office of Planning and Statistics and the Immigration Office to improve data collection and statistical analysis of visitor arrivals.

Appropriateness of Scale - Because of the small size of the current tourism industry, the Marshall Islands has the opportunity to determine the appropriateness of scale for tourism development, particularly for the outer atolls. It is recommended that government:

- Evaluate current and potential locations for tourism development, both on Majuro and the outer atolls, to determine the appropriate scale and pace of development.

Physical-Environmental Protection - The protection of the physical environment is important to both residents and tourists alike, yet the urban areas of Majuro and Kwajalein

have already been degraded due to population growth and development. It is recommended that government:

- Use the Planning and Zoning Act of 1987, the land use development plan, and the regulations of the Marshall Islands EPA to control the location, pace, scale, and quality of tourism growth.
- Implement the components in the National Development Plan for the control of water and solid waste pollution, including appropriate public education programs.
- Develop and implement a program for the preservation of significant historical and recreational sites throughout the Marshall Islands for the future enjoyment of both residents and tourists alike.

Investment Alternatives - Government will need to invest further in the basic infrastructure to support tourism while the private sector will need to be encouraged to develop tourism enterprises. It is recommended that government:

- Evaluate and modify as necessary fiscal/monetary policies affecting tourism including taxes and monetary controls on the movement of money in/out of the Marshall Islands.
- Activate the Marshall Islands Development Bank and promote the bank's services to current and potential tourism investors and entrepreneurs.
- Evaluate and modify as necessary foreign investment policies and promote these to potential overseas tourism investors.
- Develop and implement a promotional program for the various U.S. federal government programs available to tourism-related businesses.

Reducing Leakages - The current tourism industry apparently sustains a high level of leakages from the domestic economy of the Marshall Islands. It is recommended that government:

- Improve the statistical reporting of tourism's economic contributions, including the extent of leakages from the economy.
- Encourage the use of locally produced agricultural goods and other foodstuffs and provide support for local producers where necessary to enable them to participate in the tourism industry.
- Identify other specific sectors of the economy that could produce products needed by the tourism industry.
- Encourage hotels, restaurants, and other tourism enterprises to purchase local goods and services wherever possible.

Improving Intersectoral Linkages - Intersectoral linkages require further strengthening. It is recommended that government:

- Increase its level of encouragement of the development of local businesses that can participate in the tourism industry.
- Support the further development and implementation of training programs for local business enterprises that can participate indirectly in the tourism industry.

Controlling and Safeguarding Indigenous Culture - The protection of traditional cultural and social aspects of the Marshall Islands is of importance in tourism as well as general economic development. It is recommended that government: , ....

- Provide further support to the Alele Museum to expand their cultural protection programs and develop further means to share aspects of traditional culture with visitors.
- Further develop, through the Ministry for Education, curricula for the presentation of aspects of Marshallese culture at all levels in the schools.

Maximizing Benefits to the Resident Population - Additional education and training will be required to ensure that Marshallese are able to participate in economic and other benefits generated by current and future tourism. It is recommended that government:

- Begin education programs to residents through incorporation of tourism information into the school curriculum at all levels.
- Develop and implement a tourism education program for the general population of the Marshall Islands.
- Continue to prepare Marshallese for employment in tourism through expanded training and education programs.

Tourism Planning and Administrative Options - Tourism policy planning is not highly developed at present while tourism administration is centered on the Tourism Office of the Ministry of Resources Development. It is recommended that government:

- Develop a more explicit tourism policy and overall strategy which has the support of top government officials.
- Within the framework of the tourism policy and strategy, undertake and implement a national tourism plan which incorporates the recommendations contained in this report.
- Upgrade the functions and activities of the Tourism Office in conjunction with the above recommendations to include the maintenance of a tourism database, planning and coordination of training, and analysis of marketing data.
- Establish a government tourism task force to review and coordinate strategies, functions, and actions related to tourism development.
- Establish a tourism advisory committee comprised of representatives from government, the tourism industry, and the general public to provide input to government on the status and direction of tourism development.

Relationship to National Development Objectives - Tourism development should occur in a manner consistent with national development objectives. It is recommended that government:

- Evaluate current and future tourism development studies and plans to ensure consistency with stated current and future national development objectives.
- Establish a formal and ongoing review process led by the Tourism Office and the Office of Planning and Statistics to monitor the progress of tourism development.
- Evaluate and modify as necessary the government commitment of resources to tourism and supporting infrastructure development within the framework of the National Development Plan, tourism policy and strategy, and proposed tourism development plan.

## **Appendix A - Development of a National Tourism Plan for the Marshall Islands**

Tourism development will require government to exercise active leadership, develop a clear-cut tourism policy, and have personnel with sufficient education in tourism development. A national tourism plan can provide the guidelines for tourism development and includes both policy planning and operational planning. The plan serves as a major tool in the management process and serves the following purposes:

- To define policies, short- and long-term objectives, and implementation procedures for tourism development.
- To identify priorities for limited resources by sequencing programs and implementing actions.
- To attract international finance and technical assistance.
- To clarify roles and responsibilities among government organizations and agencies involved in tourism.
- To coordinate tourism with other economic activities and integrate tourism development with the overall national economic and physical development plans.

The national tourism plan process provides a framework for the development of the plan. The major factors to be considered can be broadly categorized as economic, sociocultural, physical/environmental, and political. Information about certain components are necessary for plan development to proceed, some of which need to be developed for the Marshall Islands, and include: markets; product; infrastructure; environment; economic impact; financing; employment, education and training; regulatory controls.

Current government tourism policy is found in the First Five-Year Development Plan, which incorporates the recommendations of a number of earlier studies. These studies, however, were limited by a lack of data and information from which decisions could be made. Additional research is thus needed as the development and implementation of

the national tourism plan occurs, including, in order of priority and date for conduct, tourism product/market research (1990), tourism cost/benefits research (1991), site feasibility research (1992), and tourism employment/training research (1993). Although the initial plan may not address all of tourism's needs, problems, or appropriate strategies, all major activities related to tourism development should be identified.

The timely implementation of the goals, objectives, and strategies of the national tourism plan will depend upon the availability of financial and human resources. Strong management from the government sector will be required for directing the planning and implementation of tourism development in the Marshall Islands due to the current low level of tourism development and the lack of a strong private sector. Development and implementation of the national tourism plan should, however, be coordinated with the private sector. The role of government in tourism development will be especially important in the outer atolls to ensure that tourism follows the desired pace.

Accountability that should accompany implementation requires that government designate, staff, and fund a government agency to handle regulatory and other functions related to tourism development. At present, personnel within the Ministry of Resources Development are responsible for tourism, although they divide their time and functions between tourism and labor matters. Planning functions are lodged in the Office of Planning and Statistics, but staff shortages there preclude any real tourism planning. In the short term, planning for tourism development will probably require the use of outside consultants from organizations such as UNDP and WTO. Although this may provide the necessary confidence in the tourism plan to attract investors, ultimately the development of an in-country planning capability is critical. Close coordination of government activities related to tourism requires the development of an interdepartmental consultation and coordination group on tourism matters.

A proposed format for the national tourism plan is suggested which includes goal statements of the government's tourism policy, objectives, and implementing actions. The implementing actions would be intended to be incorporated in the government's Second Five-Year Development Plan 1991/92-1995. The development of a national tourism plan can proceed despite the limitations of staffing through a combination of technical assistance and the concurrent training of tourism and other governmental personnel. If properly sequenced, a system can be established in which the responsibility for the further development and updating of a national tourism plan can be assumed completely by government personnel within one planning period.

In order to accomplish the development of a tourism planning capability in the Marshall Islands, it is recommended that government:

- Initiate a staff development process for government personnel which will provide training to tourism administration staff as well as other government administrators on tourism planning.
- Consider the establishment of an adequately staffed and funded tourism division within the government.
- Adopt a national tourism plan format which will be compatible with the Second Five-Year Development Plan.
- Initiate research projects on a prioritized basis which will provide information and data needed for the development of a national tourism plan.