

SECTION A

ECONOMIC ASSESSMENT TECHNICAL REPORT

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SCHOOL OF TRAVEL INDUSTRY MANAGEMENT
UNIVERSITY OF HAWAII AT MANOA

for

MARIANAS VISITORS BUREAU

JULY 1990

EXECUTIVE SUMMARY

Overview of Economy

Driven mainly by tourism, the CNMI economy has experienced rapid growth since 1980, and particularly since 1984 as indicated by constant dollar Gross Island Product (GIP) which has increased at an average annual rate of 15.3 percent per annum. Garment manufacturing and U.S. financial assistance under the Commonwealth Covenant and other regular Federal grant programs also have been significant contributors to growth of the CNMI economy. Private sector employment increased 112 percent between 1984 and 1987, from 7,560 to 16,040, while that of government increased by less than 400 to 2,790. Nearly all of the private sector employment gain occurred as a result of the importation of nonresident foreign labor. While official employment statistics are unavailable for 1988, there were 15,088 registered alien workers in the CNMI in 1988. Total employment in 1988 has been unofficially estimated at about 23,000. One of the consequences of the large increase in nonresident alien workers has been to depress wage rates. In 1984, the average private sector annual wage was \$5,184, higher than the \$4,648 average earned in 1987.

Since 1985, visitor arrivals in the CNMI have more than doubled, increasing from 142,300 to 301,800 in 1989; this represents an average annual growth rate of almost 21 percent since 1985. During this same period (1985-1989) the number of hotel rooms has risen from about 980 to almost 2,000. The Japanese market accounts for about 75 percent of the visitor arrivals, and a strong yen together with government policy encouraging overseas travel have been major factors contributing to the strong growth in CNMI's tourism sector. Foreign investment, mainly from Japan, has financed a major share of the increase in hotel rooms and other tourism-related facilities. To accommodate the influx of visitors and large increase in alien workers, the construction industry has had to expand tremendously as well. In addition to constructing hotel and other tourism-related facilities, construction related to infrastructure expansion and garment manufacturing plants also has been undertaken.

The overall pace of economic activity has placed a strain on the Commonwealth's power, water, sewerage, road and other infrastructure systems. As a consequence, utility service has not been satisfactory. To bring utilities and other infrastructure up to conventional service standards is expected to cost nearly \$250 million. Approximately \$153 million of this cost is anticipated to be funded by identified Covenant and other U.S. Government capital assistance programs. The remainder will have to be funded from future, as yet undetermined, U.S. Federal assistance, private developer impact fees, and the CNMI Government (through domestic tax and nontax revenues).

In accordance with the Special Representatives Agreement under the Covenant, the U.S. has committed \$126 million in capital funding for infrastructure and economic development during the 1986-1992 period. Receipt of these funds (in annual installments) was made contingent on the CNMI Government meeting prescribed performance standards, including reducing the size of government (operating budget as a percent of GIP), setting utility rates which pay the full cost of services, and demonstrating a decreasing reliance on Covenant financial assistance for government operations. The amount of future Covenant capital funding (in the post-1992 period) is likely to depend both on CNMI needs and progress in meeting the current performance standards.

The CNMI economy is heavily dependent on imports, both to meet the demands of the tourism industry, but also to meet the consumption standards of the resident population. Commodity imports in 1988 amounted to about \$220 million, 129 percent of personal consumption and 49 percent of GIP in 1988.

Impact of Tourism Expenditures

In FY-88 tourism expenditures were estimated at \$237.5 million, some \$192.9 million of this amount (81 percent) from Japanese visitors. Since visitor spending accounts for a large proportion of the Commonwealth's gross business revenue (46 percent in 1988), it obviously generates a large share of the economy's total employment and income. An interindustry model constructed by the University of Hawaii's School of Travel Industry Management in 1986 enables the measurement of the impact of visitor spending in the CNMI, through the computation of income and employment multipliers. The magnitude of the impact multipliers depends upon the interindustry structure of the economy (i.e., strength of linkages among industries), import and factor payment leakages (e.g., loss of income through necessity to pay overseas suppliers for imports, and the repatriation of profits and wages by foreign investors and workers in the CNMI), and the pattern or distribution of visitor expenditures by category of goods and services purchased. Taking into account 1988 data on the pattern of visitor expenditures and inflation, the interindustry model was updated and used to determine the impact of visitor expenditures in 1988.

In 1988, for each dollar of visitor spending, on average, \$.583 in household income was generated through both direct and indirect multiplier effects. Income multipliers differ among the principal market segments: Japan, U.S. and Other Foreign visitors. For the Japanese market, the largest, each \$1.00 of spending generates \$.570, and for U.S. visitors, the income multiplier is \$.640. Similar to other small island economies, the CNMI income multipliers are less than 1.0 because of large import requirements and consequent leakages. Total 1988 visitor expenditures of \$237.5 million generated about \$139 million in income, about 31 percent of Commonwealth GIF. With respect to employment, for each \$1.0 million in visitor spending, on average, an estimated 45.4 jobs are created, either directly (in enterprises directly serving visitors), or indirectly (in enterprises which supply the visitor industry). In 1988, direct and indirect employment created by the \$237.5 million in visitor spending was about 10,800, or about 47 percent of estimated total employment in the CNMI.

Other important measures of tourism impact provided by the model include government revenue, import and total leakages multipliers. The government revenue multiplier for all visitors is .087, which means that for each \$1.00 of visitor spending, on average, 8.7 cents in tax and nontax revenues are received by the CNMI Government. Given 1988 visitor expenditures of \$237.5 million, about \$20.7 million in government revenue was generated. In regard to imports, each dollar of visitor spending, on average, leads to \$.388 worth of import purchases. However, for the Japanese, who spend proportionately more on gifts, each dollar of visitor spending generates \$.412 in imports. Total visitor spending in 1988 generated an estimated \$92.2 million in imported goods and services. The total leakages multiplier takes into account factor payment leakages, such as repatriated profits and wages, in addition to import purchases. For all visitor spending, the total leakages multiplier was .522, which means that for each \$1.00 in visitor spending, 52.2 cents leaks out of the economy, and 47.8 cents of net export earnings remains in the economy. Based on the \$237.5 million in visitor expenditures, net export earnings amounted to about \$113 million in 1988.

To increase economic benefits per dollar of visitor spending, the CNMI needs to reduce leakages, thus boosting net export earnings and income and employment multipliers. This can be done by strengthening intersectoral linkages, i.e. promoting the establishment and expansion of enterprises which supply goods and services to the tourism sector, using local labor and other domestic resources. In strengthening intersectoral linkages, emphasis also should be placed on encouraging greater participation of residents in the management and ownership of enterprises. Increased participation, both in enterprises directly serving tourists (e.g., hotels and restaurants) and in those which supply the tourism sector, would

promote a wider distribution of economic benefits to residents, and would tend to reduce the leakage of profits and other forms of income from tourism.

Continued growth of tourism will depend on sustaining the rate of capital investment, both in tourism facilities and in infrastructure. Although accurate data are currently unavailable, tourism foreign investment has been a major contributor to the present construction boom and overall strong economic growth in the CNMI. Since foreign investment generates income and employment in the same way that visitor spending does, besides enabling the visitor industry to accommodate an increased volume of arrivals, it directly results in the creation of employment, household income and government revenue. For this reason foreign investment should continue to be encouraged, but at the same time it is important for the CNMI to be able to monitor the magnitude and nature of investments, and to promote, to the maximum extent possible, the participation of residents through joint ventures. Some forms of foreign investment, such as smaller scale investment in accommodations, retail and wholesale trade, eating and drinking places, and transportation services, may displace comparable investments by residents, and therefore should be subject to screening and control. With respect to domestic investment, the CNMI Government in conjunction with private lenders, needs to promote a greater flow of investment in tourism-related enterprises. Through the Commonwealth Development Authority (CDA), both economic development loan funding (from Covenant monies) and management/technical assistance can be provided to resident entrepreneurs. Increasing the capacity of resident investors to absorb and more effectively utilize capital to start or expand tourism-related enterprises also needs to be given higher priority, through the allocation of increased resources to entrepreneurial and management development programs.

Economic Strategies and Policies

This section summarizes the strategies and policies judged amenable to CNMI government intervention to enhance and more equitably distribute the benefits of tourism, and to sustain growth at a pace compatible with a desired level of public services and maintenance of the environment.

Development Impact Fees

To help defray the anticipated large cost of infrastructure needed to sustain tourism growth and meet acceptable public service standards, it is recommended that the CNMI implement a system for collecting impact fees from private developers. The impact fee system would have to be integrated with comprehensive land use and infrastructure planning.

Foreign Investment

1. While continuing to encourage foreign investment, it is recommended that the CNMI Government enact a foreign investment law which enables the monitoring and screening of investments. The law should include provisions for hiring and training citizens, promotion of citizens to management positions, and for increased participation in the ownership of tourism enterprises.
2. Foreign investment law should contain specific incentives to encourage joint ventures, such as fiscal benefits, availability of loans to local partners, and access to government sponsored training.

Minimum Wage

The present minimum wage covering the private sector is too low to attract citizens, who rather than accept private jobs, typically seek government employment which pays

much higher wages and salaries. It is recommended the CNMI Government increase the minimum wage incrementally, and eliminate existing gaps in coverage of the law.

Visitor Expenditure Survey

To obtain more accurate data, it is recommended that the CNMI Government implement a regular periodic survey of visitors, utilizing a method whereby sampled visitors maintain an expenditure log or diary during their stay in the CNMI.

Interindustry Linkages

Strengthening interindustry linkages by promoting the establishment and expansion of businesses which supply tourist enterprises reduces the need to rely upon imports, and therefore cuts leakages. Reduced leakages, in turn, result in increased employment and income benefits per dollar of visitor spending. It is recommended that the CNMI Government through its Economic Advisory Task Force review promising business activities identified previously by the Saipan Chamber of Commerce, and to make recommendations with respect to industry and government action.

Domestic Investment

To increase the rate of new business formation and participation of CNMI citizens in the ownership of tourism enterprises, several factors need to be addressed. These include: availability of capital, entrepreneurial and management training, and technical assistance. It is recommended that the CNMI Government:

1. Encourage the Commonwealth Development Authority (CDA) to allocate more Covenant funds for economic development purposes and to accord higher priority to financial assistance for tourism-related projects.
2. In coordination with the intersectoral linkages task force and the Northern Marianas College, implement short-term technical assistance and training for entrepreneurs and managers of tourism-related businesses.
3. Establish specific programs aimed at providing financial and technical assistance to joint ventures.
4. Consider the feasibility of CDA taking equity positions in wholly-owned and joint venture projects as a means of facilitating increased participation of citizens in tourism sector ownership.

Business Establishment Survey

The current interindustry model is largely based on data obtained in 1985. A new survey of business establishments should be undertaken for the purpose of reconstructing the model. With the 1990 Census data expected to be available in 1992, undertaking the business survey and reconstructing the model would be facilitated. It is recommended that the CNMI Government undertake a business establishment survey for the purpose of updating the interindustry model, thereby enabling a more accurate determination of the impact of visitor spending on the CNMI economy.

SECTION B

**SOCIOCULTURAL ASSESSMENT
TECHNICAL REPORT**

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EXECUTIVE SUMMARY

Introduction

The visitor industry in the Commonwealth of the Northern Mariana Islands (CNMI) has grown at an impressive rate since its inception in 1976. From 1976 to 1989, the annual number of visitors climbed from 51,600 to 301,818, with an average annual growth rate exceeding 15 percent. Hotel construction has been equally active as the number of hotel rooms tripled from 740 to 2,178 in the decade from 1980 to 1989. Units currently under construction or approved for construction will increase inventory by 564 rooms by 1991.

Two growth projections for the year 2000 have been developed in the Physical and Environmental Component (Volume 1) of the Tourism Master Plan. The low growth scenario projects the need for 9,026 rooms to accommodate 1,235,430 visitors, while the rapid growth scenario envisions the need for 21,661 rooms for the 2,964,827 visitors, expected by the year 2000.

Tourism growth will significantly impact the CNMI population. This Master Plan projects a figure of 35,893 CNMI residents by the year 2000, but the de facto daily population will be increased substantially by the presence of visitors and nonresident workers. For the low growth scenario A, addition of 12,185 visitors and 37,364 nonresident workers will result in a daily population of 103,300. The rapid growth scenario B, however, predicts a total of 194,926 persons, including 29,242 visitors and 129,791 nonresident workers added to the resident population.

These numbers, especially as the population approaches the rapid growth projection, will have enormous repercussions on all aspects of CNMI society. The magnitude of visitor industry growth, the reliance on foreign visitors—mainly Japanese—to fuel the industry, and the presence of a largely foreign contingent of workers, owners, and investors to drive the industry, will influence significantly the course of economic, sociocultural, political, and environmental change in the CNMI.

This sociocultural assessment focuses on the impacts of continued visitor industry growth on four areas:

- Changing population demographics and the implications for human resource development, including impacts on the resident and nonresident distribution in the total population and in the labor force.
- Resident attitudes toward growth and development.
- Increase in social problems.
- Implications for visitor industry employment.

Changing Demographics and Human Resource Development

During the decade of the 1970s, the CNMI resident population increased by 74 percent, while the 1980s saw a growth rate of 37 percent. The final decade of this century will experience continued moderation as the population is expected to grow by 33 percent. For the CNMI resident work force, the working-age population increased by 35 percent in the 1980s and is expected to maintain the same growth rate through the 1990s. The conclusion is the CNMI faces a serious shortage of resident workers to fill present and future employment needs created by the rapid growth of the visitor industry.

Projections of future increases of the resident population as well as resident work force may be mitigated by out-migration of CNMI citizens. Neither quantitative nor qualitative data on emigration are presently compiled so any conclusions concerning this matter are speculative. Nevertheless, the quantitative loss of residents is expected to impact population growth in general and the work force in particular. As emigration impacts on the work force, it will be crucial to obtain data on qualitative attributes of emigrants, as the selective loss of certain categories of residents~the wealthy, the young, and the most talented and educated~would take from the resident work force those most capable of filling managerial, professional, technical, supervisory and other higher level occupations.

Counteracting the out-migration of residents is the immigration of increasing numbers of foreign contract workers whose presence has become a matter of great interest and concern. This large contingent of foreigners is the most critical social issue facing the CNMI, as it affects the ethnic distribution of the population and threatens the numerical majority status of the indigenous population.

The challenge facing the Commonwealth government and the visitor industry is to develop and implement measures which will alleviate the labor shortage by maximizing participation of CNMI residents in the work force, thereby lessening reliance on foreign workers. Innovative programs and policies are needed to: 1) take full advantage of available human resources within the resident population, including the employment of those presently out of the work force; and 2) ensure a continued supply of workers to sustain economic growth in general and the visitor industry in particular. For the visitor industry, the problem is twofold: first is the numerical shortage of workers, and second is the need for workers with the level of general knowledge and specialized skills to meet the industry's job requirements. In order to develop policies and programs directed toward attracting more residents into the active work force, basic information about is required. Toward this end, it is recommended that the Government of the Commonwealth of the Northern Mariana Islands (GCNMI):

- Conduct a survey to identify unemployed adults to obtain data on unemployed characteristics, reasons for not seeking employment, and the conditions under which they would be willing to work in the visitor industry.

One potential source of additional workers are mothers who remain at home caring for dependent children. They may be convinced to work if child care centers were provided. Therefore, it is recommended that the GCNMI:

- Discuss with major private sector employers the feasibility of their providing nursery and day care services for employees' infants and preschool-aged children as part of the employment benefits package and review certification requirements to increase the number of day care providers.

Increasing the size of the resident work force addresses only the quantitative requirements of visitor industry employment. To understand qualitative employment needs, data should be compiled concerning characteristics of present industry employees, range of occupations by rank and job titles, job requirements, and present and anticipated future vacancies. It is recommended that the GCNMI:

- Conduct a survey of all hotels and other visitor industry employers in the CNMI to obtain detailed data on present and future personnel needs.

The issue of low pay should also be considered as part of the overall effort to enhance industry jobs. While legislation to raise the minimum wage may help, it will have a direct

effect only on the lowest paying jobs. What is needed is improvement of the entire visitor industry wage structure. Therefore, it is recommended that the GCNMI:

- Encourage employers to raise salaries and wages for the full range of visitor industry jobs, but target specifically those supervisory and managerial positions and hotel occupations that are intended to attract CNMI residents.

Visitor industry growth promotes a general increase in all business activities, including greater opportunities for individual entrepreneurs. This is an avenue by which residents, especially young adults, could share in the economic prosperity brought on by tourism. It is recommended that the GCNMI:

- Create instructional programs for CNMI residents in the skills and knowledge necessary to establish and operate their own businesses, as well as provide aid once the businesses are started. This effort will require the cooperation of several organizations in the public and private sectors, including the Public School System, Northern Marianas College, Chamber of Commerce, established private business owners, and business and professional organizations.

The Public School System is entrusted with the important task of providing each individual a broad general education as well as instruction in vocational skills in preparation for specific job duties. There is serious concern about the generally low level of educational attainment of the CNMI population, which has important consequences on the quality of available resident workers. Therefore, it is recommended that the GCNMI:

- Place high priority on reducing the high attrition rate in the public schools and develop policies to increase the retention rate and thereby increase the percentage of high school graduates.

Another area of public education in need of attention is the general education needs of the adult population as evidenced by the low median years of schooling and graduation rate. To increase the level of general education and special skills training among adults, it is recommended the GCNMI:

- Initiate efforts to implement a program of adult education to provide remedial instruction in general education, instruction leading to high school graduation equivalency, and vocational and specialized skills training.

Since the visitor industry and most CNMI economic activity will continue to rely most heavily on the Japanese market, it is important that the demand for Japanese-speaking personnel is met. To respond to the demand, it is recommended the GCNMI:

- Consider the integration of Japanese language instruction into the curriculum of the Public School System and the Northern Marianas College.
- Continue efforts to recruit trained instructors directly from Japan to supplement the present staff.
- Recruit Japanese nationals residing in the CNMI to teach Japanese language and culture courses for both the Public School System and Northern Marianas College.
- Negotiate with the larger private businesses, especially Japanese-owned hotels, to offer Japanese language instructions on a regular basis to all their employees.

Resident Attitudes On Issues Related To Growth and Development

Much of the success of a vacation destination depends on the treatment of visitors by the host population. A warm, cheerful, and welcoming attitude displayed by service providers in the visitor industry and by the general population enhances the vacation experience immeasurably. In the rush of enthusiasm to undertake a project, however, the interests and concerns of the general public are often ignored.

As the course and magnitude of future growth and development in the CNMI will impact directly all segments of the population, it is important that the public's perceptions and attitudes concerning these issues be systematically monitored. The rapid growth of commercial and industrial activities, accompanied by the introduction of foreign people and new ways of doing business, have effected changes in traditional Chamorro and Carolinian customs, value system, life style and other cultural elements.

There is also an expressed concern of possible loss of control of politics and the economy as much of the growth has been the result of foreign investments. Furthermore, the economic future of the CNMI rests on continued infusion of foreign direct investments and increasing numbers of foreign visitors. Therefore, it is feared by some that foreigners would attempt to control the local economy and political decisionmaking to ensure that their interests are protected.

In order to monitor public attitudes and concerns, it is recommended that the GCNMI:

- Implement periodic attitudinal surveys of CNMI residents regarding economic growth and development and other issues that are likely to impact the general population.

In order to generate public interest in and support for continued growth of the visitor industry, to foster awareness of and appreciation for the contributions of tourism to the CNMI, government and industry officials must work together to project a positive image of the industry. To promote public awareness and appreciation, it is recommended the GCNMI:

- Join with visitor industry leaders to implement a tourism awareness program to educate the public on the industry's critical role in the social, economic, and political future of the Commonwealth.

One of the most important concerns is the continuing influx of nonresident workers and resulting social, cultural, economic and political impacts. As there will be a continuing need to import foreign workers, it is important that residents and nonresidents coexist as integral, interdependent segments of CNMI society. In order to smooth relations between the two groups, it is necessary to understand the nature and source of attitudes and perceptions of the groups. In this regard, it is recommended that the GCNMI:

- Form a task force which includes representation from different ethnic associations to study the problems that have evolved between residents and nonresidents and initiate efforts to maintain good relations between residents and nonresidents.

Increase In Social Problems

Economic development effects changes in the social structure, transforming traditional institutions and patterns of social behavior that force individuals and groups to make major adjustments in their lives. When individuals and groups are unable to adjust adequately, social problems arise. Changes in patterns of work impact on the family by disrupting

traditional patterns of interaction and relationships among family members, often causing severe strains and conflicts. Family instability is manifested in a number of ways, including spouse and child abuse and neglect, separation and divorce, and abandonment of spouse and children.

Individuals, unable to adjust to the impersonal, bureaucratic nature of human interaction and relationships, may develop symptoms of alienation and anomie. As they find it difficult to cope with the changing society and advancing technology, as they find their education and skills inadequate to meet the challenges in the work place, or to integrate effectively in the normal course of everyday life, they may develop alternative coping mechanisms.

Rising rates of crime and juvenile delinquency, substance abuse, and other illegal behavior typically accompany industrialization and economic development, especially when development proceeds at a rapid pace. Although data do not indicate high rates or incidence of illegal activities in the CNMI, there is evidence to suggest that crime is a growing problem. The legalization of casino gambling on Tinian will likely invite a host of social problems.

The anticipated population increase will burden the health care system, public assistance programs, and the education system by requiring expanded social services, including child care, spouse and child abuse counseling and treatment, substance abuse counseling and treatment, and increased law enforcement.

The CNMI health care policy of ensuring adequate health care regardless of ability to pay, if extended to increasing number of nonresidents and their dependents, will add considerably to health care costs. In order to forestall severe financial problems in the health care system, it is recommended the GCNMI:

- Undertake a study on the feasibility of establishing universal medical insurance for all individuals, residents and nonresidents. Included in this study is consideration of sources of funding, federal medicare and medicaid eligibility as it applies especially to nonresidents, and the ramifications of requiring that all private sector employers provide health insurance to all employees.

Although the crime rate is relative low in comparison to other U.S. cities, attention should be directed to crime prevention and law enforcement. Toward this effort, it is recommended that the GCNMI:

- Increase staff and funding for the Department of Public Safety, the Division of Youth Services, and other crime prevention and law enforcement agencies to effectively perform their functions.

The prospects of legalized casino gambling on Tinian opens the door to a wide range of social problems. Aside from increasing incidence of substance abuse, mental health problems, family discord, property crimes, and other criminal behavior, legalized gambling invites organized crime elements as well. The potential of organized crime involvement in the gambling industry is so serious that it is recommended that the GCNMI:

- Create immediately, before the implementation of casino gambling on Tinian, an organized crime force composed of representatives from customs, immigration, the police, the judiciary, and other related agencies to establish laws, policies, and procedures for identification, apprehension, trial, and disposition of nonresidents involved in organized crime activities.

SECTION C

TOURISM MARKETING
AND ADMINISTRATION
ASSESSMENT
TECHNICAL REPORT

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EXECUTIVE SUMMARY

General Travel Trends

According to the World Tourism Organization, global travel now accounts for over 1.5 billion travelers and US \$2 trillion in expenditures. The future for world tourism is optimistic, but will continue to be affected by factors which include: transportation accessibility, the quality of the infrastructure and superstructure in receiving destinations, government's attitude towards tourism, and the inherent appeal of the destination.

Visitor arrivals to the East Asia and Pacific region in particular have grown tremendously over the past twelve years with an average annual growth of 13.5 percent, far exceeding the growth rates for Europe and North America. Although arrivals to the East Asia and Pacific region now total over 32 million annually, Asian destinations receive the majority of these travelers. With the exception of Guam and the Commonwealth of the Northern Mariana Islands (CNMI), the tourism industries of the Pacific islands have generally not fared as well.

CNMI Visitors

CNMI received 301,818 visitors in FY-1989, in contrast to the 51,600 arrivals recorded in FY-1976. The tourism growth rate has been particularly healthy during the latter part of the 1980s. The average length of stay for CNMI visitors is 3.6 days with average daily expenditure at \$293. The Japanese account for the majority (75 percent) of visitors to the Commonwealth, followed by travelers from the U.S. (including Guam) and Korea. Other outbound markets with potential include Australia, Taiwan, West Germany, Canada and the UK.

Major Markets - Present and Potential

Japan

Japanese arrivals to CNMI totaled 227,529 in FY-1989. CNMI has several direct flights from Japan daily, is located a short 3 1/2 hour flight distance away, and has historical ties with Japan, all of which have strengthened tourism. CNMI has been particularly successful in attracting the young and active Japanese market (office ladies, honeymooners and more recently, young families). Other market segments with potential include senior citizens, company-sponsored recreational trips and incentive tours.

With Japanese outbound travel booming, this market is likely to remain the cornerstone of CNMI's tourism industry. Factors which will impact on the continued expansion of the Japanese outbound market in general and to the CNMI specifically include the Japanese government's continued encouragement of foreign travel, the strength of the yen, increases in air service and new hotel rooms, and promotional efforts on the part of the private sector and the Marianas Visitors Bureau (MVB).

United States

U.S. visitors to the CNMI reached 54,813 in FY-1989, however, this includes a large percentage of visitors who originate from Guam and/or are traveling on business. Interest in pleasure travel to the Asia/Pacific region has been growing in recent years, but barriers to increased travel include lack of consumer knowledge, overall cost perceptions, lack of travel agency knowledge, and air access. Social factors such as the rise in the number of senior citizens and the maturing of the baby boomers will impact future travel from this market, as well as the overall economy. A positive factor for the Commonwealth is that

while the U.S. is a mature market for many countries, it offers good potential for newly emerging destinations as Americans search for new travel experiences. Special interest groups such as divers may represent the best potential in the U.S. market.

Korea

With the gradual lifting of outbound travel restrictions in Korea and the establishment of charter air service in 1989, Korea is now firmly established as CNMI's third major visitor market with over 10,000 arrivals in 1989. With a growing economy and a large population living in a predominantly cold climate, this market has similarities with the Japanese market and great potential for the CNMI. Air service will need to be expanded, however, and Korean-speaking tourism-related staff increased. Both the travel trade and consumers will also need to be educated on the CNMI tourism product.

Australia

The number of Australian visitors to the CNMI is still small, however, arrivals are increasing rapidly with the establishment of direct air service between Australia and Guam in 1989. While many Pacific islands have already saturated the Australian outbound market there is a degree of pent-up demand for travel to Guam and Saipan because of its previous relative inaccessibility. Price consciousness is the overriding characteristic of the Australian travel market.

Other Markets

Although arrival figures are relatively insignificant at this time, other outbound markets with potential for the CNMI include Taiwan, the UK, West Germany and Canada. Taiwan has potential due to its proximity to CNMI and the relatively high income of the Taiwanese. The UK overseas travel market is considerable, and UK travelers have a marked preference for beach-type holidays which is a positive factor for the Commonwealth. The Canadian outbound travel market is substantial, and Canadians have a preference for beach-type holidays as well. The West German outbound travel market is the largest in the world, with travel to Asia and the Pacific growing. Lack of knowledge on the CNMI tourism product and air access, however, are barriers for each of these four markets.

Competing Destinations

Several tourism destinations were selected for a competitive analysis against CNMI's own tourism industry: Guam, Okinawa, Hawaii, Australia, Tahiti, Fiji and the Philippines. For each destination there are several competitive advantages and disadvantages in comparison to CNMI's tourism product.

Guam

Guam may be considered CNMI's major competitor because both offer a similar vacation experience and attract basically the same market. One of Guam's major advantages is that it serves as the regional air transportation hub for Micronesia and consequently has superior air access. Guam has more rooms than CNMI, and duty-free shopping is better developed. Some of the negative aspects of Guam's tourism product are that its beaches are less attractive than those in the CNMI, its cultural and historic features have not been successfully developed as attractions, and there are negative perceptions regarding safety on the part of the Japanese. Similar to CNMI, Guam is facing problems with its infrastructure and a labor shortage.

Okinawa

Okinawa, the only semi-tropical area of Japan, also attracts a similar market as CNMI. Its tourism industry is larger than CNMI's and arrivals are growing at a fairly high rate. Approximately 98 percent of Okinawa's arrivals are from Japan proper. Okinawa has

better air access than the CNMI with several flights daily from various parts of Japan, as well as flights to other Asian cities, Guam, Honolulu, and the U.S. Mainland. The tourism industry in Okinawa is well-developed with respect to accommodations, restaurants and attractions and it has a colorful history and culture. Disadvantages accruing to Okinawa's tourism product are the high domestic airfares from Japan and the fact that many Japanese travelers prefer to visit a foreign destination.

Hawaii

Hawaii competes with the Commonwealth for the Japanese visitor. It has a more developed and varied tourism product and has more points of interest than the CNMI in terms of natural beauty and attractions. Hawaii also has a stronger image than CNMI in Japan and is the favored honeymoon destination. Hawaii's primary disadvantages are its relative distance from Japan and higher cost.

Australia

A beach resort vacation is only one of Australia's various tourist products, however, it attracts similar Japanese travel segments as CNMI (office ladies and honeymooners). Australia has several unique natural resources and wildlife and the open investment environment has been attractive for the Japanese. Distance from major outbound markets, high air fares and escalating prices throughout the tourism industry are viewed as Australia's major disadvantages.

Other Pacific Islands

French Polynesia and Fiji are the two other Pacific island destinations which may be viewed as significant competitors to the CNMI for visitors from all outbound markets. Both of these destinations surpass the CNMI in terms of natural beauty and have more to offer in terms of interesting cultures. In recent years Japanese investors have shown a strong interest in hotel developments in both French Polynesia and Fiji. The primary problem with French Polynesia's tourism industry has been insufficient air access, distance from most markets, and the perception of high cost. Although Fiji's arrivals have rebounded somewhat, its tourism industry suffers from insufficient air access and perceived political instability stemming from the two coups in 1987.

Philippines

The Philippines' tourism industry is currently focusing on the development of its beach resort product. Many of the Philippine islands are rich in natural beauty and offer a warm tropical environment. In comparison to the CNMI, its primary competitive advantages are low cost, proximity to many of the major Asian outbound markets, air access and high service standards. Problems which continue to face the Philippine tourism industry are frequent civil disturbances and the perceived lack of political stability.

Other Considerations for Future Growth

CNMI's Tourism Attractions

CNMI's primary attractions are its water- and land-oriented recreational and sports activities. The semi-tropical climate, white sand beaches, scenic vistas, and World War II remnants are other popular attractions. Most of the major sites can be seen on a one-day tour around the island, however, which does little to encourage a longer average length of stay or repeat visits. Duty-free shopping is another important attraction and to the extent that gambling is successfully established on Tinian this will be an important component of CNMI's visitor industry. A major problem with CNMI's visitor attractions is the heavy Japanese orientation, making it difficult to attract visitors from other outbound markets and to some extent failing to provide Japanese visitors with a foreign travel experience.

Accommodations

The CNMI currently has a variety of lodging options, and the newer hotels in Saipan tend to be large, high-rise integrated resorts with a wide array of facilities for dining, shopping, and recreational activities. The new and innovative features of these hotels should help to attract visitors from outside of CNMI's traditional visitor market; however, the cost of lodging continues to escalate which may be a constraint for certain outbound markets. Although a number of lodging facilities are currently in some phase of the planning or development process, possible constraints to future accommodations growth include environmental and infrastructure issues, the labor shortage, the problem of maintaining sufficiently high occupancy rates, increased labor or construction costs or taxes which could affect return on investment, and the decline in value of the yen.

Air Transportation

With respect to air transportation, the CNMI has good service from Japan and Guam but access to other markets remains limited, making it difficult to attract potential visitors. Most other outbound markets are served only via a Guam stopover. If visitor growth projections are to be met and the visitor base diversified, additional air service will be required from Japan and elsewhere. The cost of air travel is an additional problem from markets other than Japan, which will require the use of creative fare structuring including the use of add-on fares and group fares.

Tourism Administration

The primary administrative body through which tourism development is implemented in the CNMI is the Marianas Visitors Bureau (MVB). The MVB is viewed as the main agency for the execution of government's responsibility for the control, direction, and promotion of tourism. The functions assigned to the MVB are quite extensive and include traditional functions such as research, statistical compilation, and tourism promotion and information as well as the regulation and supervision of tourism enterprises, the development of tourism facilities, the formulation of a comprehensive tourism development plan, and manpower development.

In view of the estimated visitor expenditures and the extensive variety of activities undertaken by the MVB, its operating budget of \$1,779,780 for FY-1989 is relatively modest. In terms of marketing and promotion, MVB maintains a relatively efficient ratio of advertising dollars per visitor in comparison to other destinations. A large portion of the promotion and advertising budget is spent solely on the Japanese market, but funds have increasingly been directed toward other potential markets to diversify the visitor base. MVB has also enjoyed stability and continuity through the long-term tenure of some of its Board members and its Managing Director who held the position for the period 1976-1989.

Policies and Strategies

Although the MVB has been effective in its marketing efforts, as competition increases and CNMI advances on the destination life cycle, new strategies will need to be undertaken to sustain the rate of growth and number of arrivals.

Marketing

CNMI has reached a stage of maturity where a more formal strategy to guide its marketing activities for the next decade is needed. It is recommended that the Marianas Visitors Bureau (MVB):

- Develop a long-term marketing strategy.

For the long-term health of the tourism industry, overreliance on a single market is risky. New market segments and new outbound markets should be explored for their opportunities. Outbound markets which should receive increased marketing attention are Korea, Australia, and Taiwan. It is recommended that MVB:

- Reflect the shift in diversification in both its marketing plan and budget.
- Consider the feasibility of constructing small- to medium-scale meeting and conference facilities as a possible new market segment.
- Encourage bilateral agreements to increase air service and access to new markets.

Tourism Product Improvement

In order to extend the average length of stay (ALS) for CNMI visitors, the development of additional activities and attractions is needed primarily through private sector efforts. Limited capital improvement expenditures will also be necessary for the expansion of MVB's beautification and maintenance program on Saipan, Rota, and Tinian. It is recommended that MVB:

- Encourage the development of attractions and activities such as the Saipan Cultural Centre which reflect the Chamorro and Carolinian cultures to distinguish CNMI from other destinations. ;
- Encourage the private sector to develop and improve visitor facilities to meet the recreational and leisure needs of both general interest tourists and specific interest groups.

Visitor satisfaction and the number of return visitors will also be determined by the development and quality of new accommodations, activities, and services. It is recommended that MVB:

- Improve visitor information services.
- Develop quality standards for tourism-related enterprises.
- Develop a rating system for hotels and restaurants.
- Develop a cultural interpretation training program for tour guides.

Marketing Research/Visitor Data Collection

In order to prepare the visitor industry to respond to changes in the marketplace, visitor attitudes, and the competition, MVB's marketing research efforts need to be strengthened. The development of staff capability to conduct market research and statistical analysis will require additional training and exposure. Additional data will also need to be collected on a more reliable and ongoing basis, it is recommended that MVB:

- Increase the budget allocation for research and conduct regular visitor surveys.
- Commission a comprehensive analysis of competitive destinations.

Planning and Coordination

The continued success of tourism will greatly depend on the extent to which its growth is planned and coordinated. In planning matters, MVB's role is largely advisory, and tourism planning responsibility is not currently assigned to any particular agency of the CNMI government. Close coordination, however, is required among agencies concerned

with different aspects of tourism including MVB and the private sector to ensure the exchange of information and to coordinate activities for the development, control and regulation of tourism. It is recommended that the Government of the Commonwealth of the Northern Mariana Islands :

- Establish a Tourism Planning Council to be chaired by MVB and include major governmental agencies and private sector representatives to review and update the CNMI Tourism Master Plan periodically.
- Establish a tourism planning position in MVB.
- Require all agencies with tourism-related activities to include the MVB Managing Director in its deliberations and review of plans, policies or actions which have a major impact on tourism.