

Economic Forecast

2008 GUAM-CNMI EDITION

Guam Economic Confidence Remains High Thanks to Plans for U.S. Military Buildup

Overall, consumer and business confidence on Guam remains high. The big item in the island's economic outlook continues to be the expected huge increase in military presence on the island, which will have major repercussions for construction, housing supply (both on and off bases), housing prices, and retail activity.

Much recent investment in real estate has been external in source, encouraged by flat to downward trends in real estate markets elsewhere. Another factor contributing to upward pressure on Guam's real estate prices is low inventory, which also encourages new construction.

The downsides of the Guam boom, and the greater activity to come if the military buildup materializes in planned time frames, include:

- Higher inflation.
- More congestion.
- Greater pressure on outdated infrastructure.
- And potential social problems of various kinds.

As discussed below, announced time frames for the buildup are likely to slip. In fact, they have already slipped since publication of our previous First Hawaiian Bank Economic Forecast on Guam in 2006. Even if the military expansion is pushed further into the future, it will provide great impetus to the economy. In fact, given some of the problems detailed in this report, some slippage might even be desirable.

Guam Military Buildup: Looking at the Big Picture

In 2006, the U.S. Pacific Command announced that Guam had been chosen as the location of a military buildup that could literally transform the island economy. The buildup plans envisioned relocating the U.S. Marines from Okinawa to Guam, improving Guam's Naval Base to serve as a forward operations and logistics hub, and development of Andersen Air Force Base to serve the new forward-based requirements. Planning for those changes continues.

Guam has served as an important U.S. military outpost since World War II and residents are accustomed to a significant military presence. But nothing has prepared the island for what is projected to happen in its near future. The island, largest in the Marianas archipelago and about the size of Molokai, has mainly its strategic location to thank.

Guam's economy has always been influenced by its geographic location, and this has pluses and minuses. Its isolation makes logistics difficult, but it is close to Asian tourism markets. Being much closer to Japan makes it easier for Japanese tourists to visit, and someday it could become an important destination for other Asian countries.

Yet the main way that Guam's location has influenced its economic destiny — especially in the future, it seems — is the Federal government and its strategic military advantage. It is the closest U.S. soil to important world trouble spots — North Korea, the Taiwan Strait, China, and terrorism and piracy threats in various parts of Southeast Asia, among others.

The buildup will provide challenges for the Guam economy. Population will increase. Active-duty military, dependents and contract workers will all contribute to this. Generally, local residents welcome the buildup after the economic slowdown of the 1990s and early 2000s. One potential challenge could be the stark contrast between life on the military bases and outside them.

This has led to a local case for Federal subsidy of infrastructure and community needs outside the bases. Before the buildup was announced, the Guam economy struggled to keep up inadequate roads, schools, sewage, and cope with a budget deficit. The Pentagon is not obligated to compensate Guam for these shortfalls, even though it is sympathetic to the fact that it should play some role and is facilitating contacts with other Federal agencies.

Guam also has another characteristic that makes it hard on infrastructure. It sits squarely in the middle of the Pacific typhoon belt; storms often leave months of devastation in their wake.

Unlike other places where the U.S. military is stationed, Guam does have one advantage with respect to financing the ramp-up for the new forces. Federal

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ON THE INSIDE

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Military Buildup *(continued from page 1)*

law requires that income taxes paid by all island residents, including the military, stay on Guam. These revenues go to Guam's general operating fund, not to the Federal level. (Technically, individuals and businesses on Guam pay a Territorial income tax that mirrors the U.S. Internal Revenue Service Code. They do not pay Federal income taxes.)

Thus, with additions to the population, the Government of Guam can count on more revenues. However, that will not happen until after the new residents arrive, and Guam must begin getting ready for them before that.

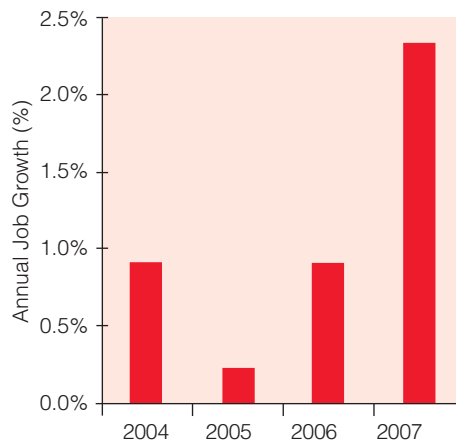
Guam's Economic Performance Picking Up Steam of Late

The Guam economy has been picking up steam in recent years, after lackluster performance in the 1990s and early 2000s. In the 1990s, the biggest economic driver was tourism, but that languished due to causes that we'll discuss below. The military in those days did not take up the slack, having been particularly hard hit by base cutbacks after the end of the Cold War. (One reason Guam fared poorly in this period was its lack of voting representation in Congress.) Construction and real estate trended down as a result of these factors.

More recently, anticipation of the increased military presence has bolstered expectations about Guam's future growth. One good indicator of economic activity is job growth, shown in the chart above. After only modest growth in 2005, that growth picked up some in 2006 and was noticeably higher in 2007. (The low 2005 growth number can be explained partly by higher growth the previous year with typhoon rebuilding.) Strong 2007 growth is driven mainly by construction jobs, although addition of jobs for the military buildup is not slated to start until 2010.

Along with the stronger economy, inflation has increased, as shown in the chart at right. Components of the Guam Consumer Price Index that have contributed to this inflation are shelter

GUAM JOB GROWTH, 2004-07



and fuels. Guam, like all isolated island economies, is very sensitive to energy prices because it must import almost everything consumed there. (In this chart, it should be noted that the measured inflation rates for both 2005 and 2006 are likely to be overstated because of measurement inconsistencies in the health care cost category.)

Generally, the current near-term economic outlook is for a continuation of the growth path of recent years. This growth will be driven mostly by increased construction for the military buildup, but its pace will be governed by the timing of that buildup.

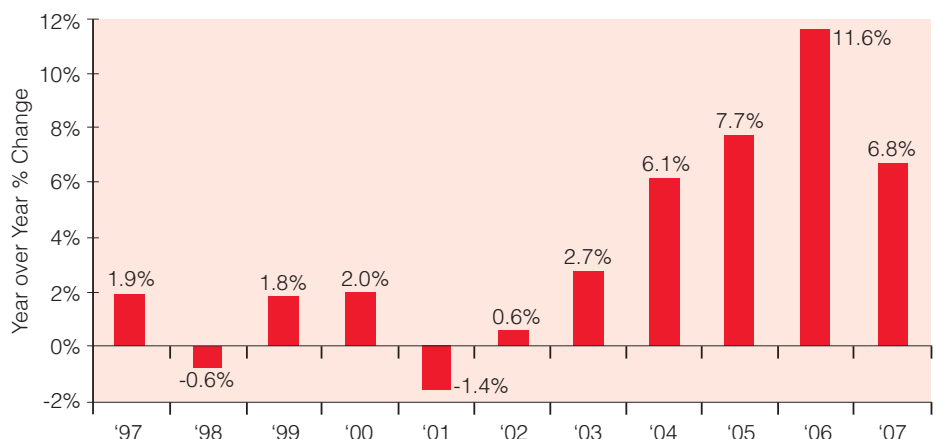
At least one aspect makes the current Guam construction boom different from previous ones. Hotel development in the 1990s created construction jobs, and this was followed by the creation of other local jobs in the

visitor industry. This time, the construction will be characterized more by housing, physical capital assets, and upgrading of infrastructure. When the work is completed, the economy will be in a better state, but there will be fewer remaining jobs as a result of it. Thus, large and permanent employment may not result. This is especially true to the extent that much of the construction work force will come from outside of Guam.

Yet construction is not the only factor in Guam's current economic strength. There is also some evidence that visitors are spending more. Recent hotel renovations allow higher rates, and higher spending on hotel rooms is likely to mirror higher spending elsewhere in the economy. Renovations have also resulted in slightly higher occupancy rates.

(The previous First Hawaiian Bank economic report on Guam lamented the lack of current macroeconomic data on the Territory. Fortunately, that is changing. Efforts by the Guam Economic Development and Commerce Authority (GEDCA) have helped to fill in gaps and make data more current. Partnering with GEDCA is the Pacific Center for Economic Initiatives (PCEI) in the School of Business and Public Administration at the University of Guam, which provides student labor resources to help collect and analyze data. This kind of information is critical not just for economic studies but also for Federal grant applications and other uses.)

GUAM CPI COST OF LIVING CHANGES, 1997-2007



Guam Tourism Lagging Behind Peak Years of Mid-1990s

Guam's tourism experienced strong growth in the late 1980s and the 1990s. Visitor arrivals (chart right) derived strength from Guam's mainstay Japanese market, as outbound tourism from Japan in general surged and the yen gained purchasing power in Guam's U.S. dollar-based economy.

In more recent years, Guam total arrivals have stabilized, but have not quite attained the peaks of the late 1990s. Nonetheless, Guam has managed to maintain its share of total overseas travelers from Japan, its primary market. That share has hovered around 5.4% of outbound Japanese travelers.

Coinciding with the 1990s heyday, Guam's visitor plant benefited from Japanese investment. Hotels along Tumon Bay sprang up, adding to the island's room inventory. That phase lasted all throughout the 1990s, even though hotel occupancy suffered as the supply of rooms increased and visitor arrivals started to decline. Hotel occupancy rates have risen on average in recent years, partly in response to hotel upgrades.

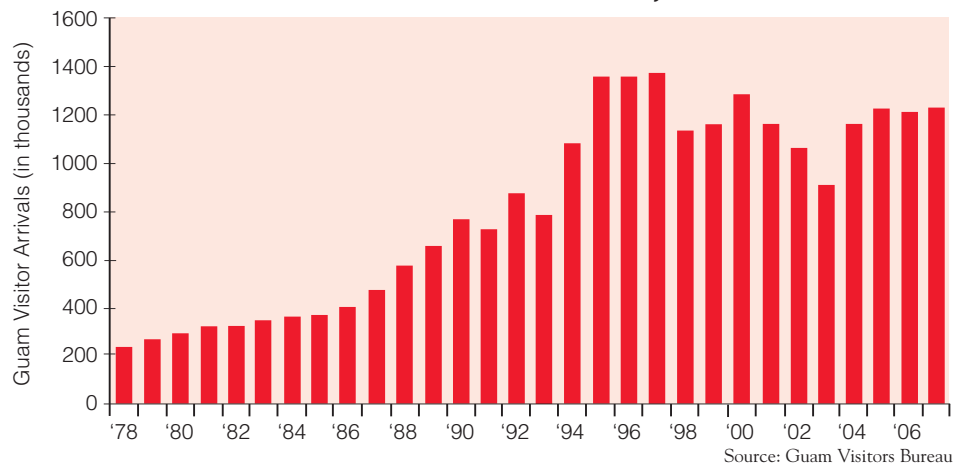
As the previous charts show, both arrivals and hotel rooms peaked at the end of the 1990s. Lower arrivals resulted in a significant number of rooms being taken out of inventory.

On the brighter side, mirroring trends elsewhere, average Guam hotel room rates have risen in the last four years, even though they have not reached the peaks of the 1990s. This might suggest that the fundamentals to trigger new hotel development have not quite been achieved.

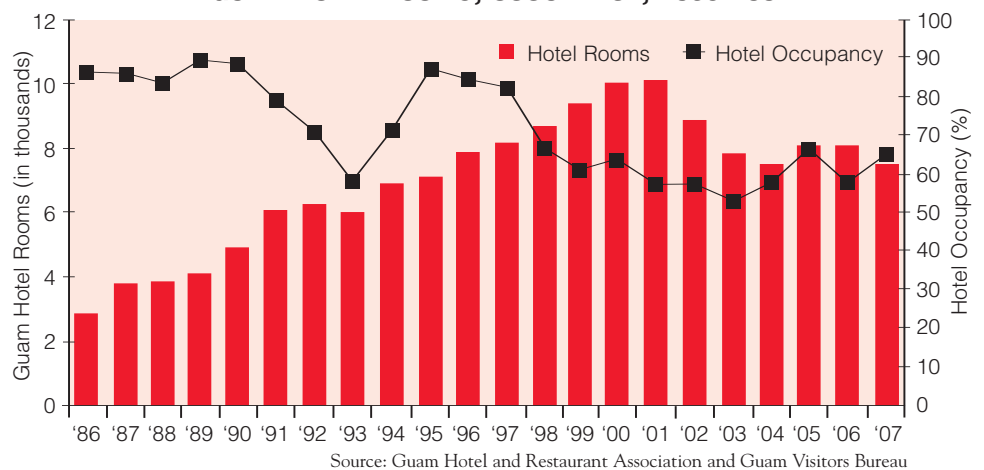
Even so, a number of hotels have undertaken renovations and will in the future. There is also an emerging trend toward condo hotels, though not as much as in some other destinations yet. Another trend has been a recent influx of new restaurants, with more likely in the future. This has been partly in response to the expansion of economic activity in general, but it is also motivated by a desire to beat the rush projected when the military buildup begins.

Those familiar with the Hawaii

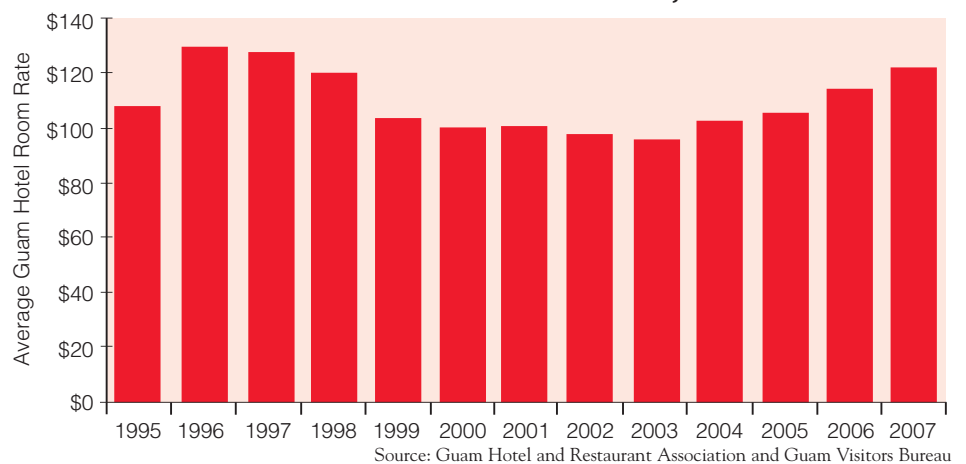
GUAM VISITOR ARRIVAL TRENDS, 1978-2007



GUAM HOTEL ROOMS, OCCUPANCY, 1986-2007



AVERAGE GUAM HOTEL ROOM RATE, 1995-2007



economy cannot fail to notice similarities to these Guam trends. The Hawaii hotel boom started about the same time as Guam's did, though it actually ended a bit sooner. But both were financed

largely by funds coming out of Tokyo.

The chart on page 4 illustrates another similarity: Trends in Hawaii's and Guam's Japanese visitors are almost mirror images.

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Guam Tourism (continued from page 3)

For both, a surge in the early 1990s caused planners in retailing and visitor activities to pursue that market aggressively. Then, in 1997, the Japanese market peaked simultaneously in Guam and Hawaii. It has been headed down ever since, with a brief but short-lived revival after 2003.

This slump in Japanese visitors hurt Guam much more than Hawaii, of course. Guam has a much greater dependence on Japanese tourism as a share of its total. Even in 2007, Japanese visitors accounted for just under 80% of total Guam visitors.

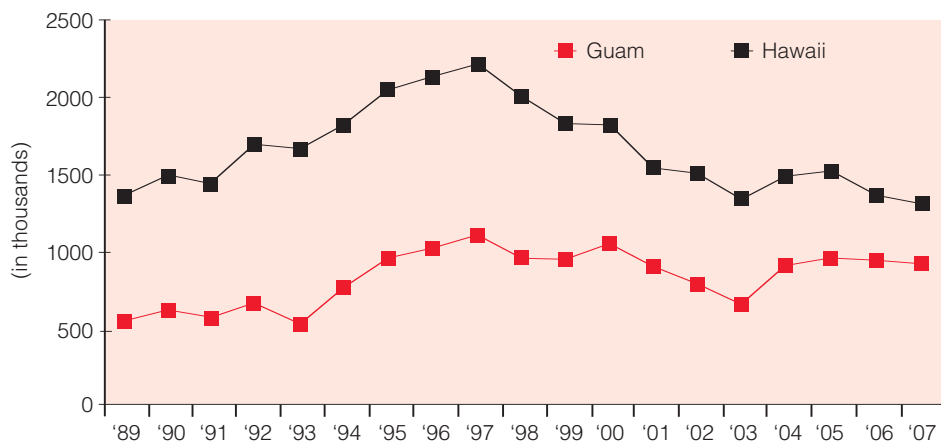
The parallel trends in this chart indicate there are other things going on with respect to Japanese tourism that are affecting both markets. First, Japan is becoming less of a traveling nation as its population ages. Those that do travel are doing so more domestically. Also, even though the yen has recently been gaining strength against the dollar, Japanese travelers are finding they can get better bargains in emerging destinations like China, South Korea, and Thailand.

There are several other reasons Guam is said by observers to be less competitive in Japan compared to destinations in East Asia. Flight time is longer to Guam than to other locations, and some Asian destinations are considered to be newer and more exotic. One advantage Guam can capitalize upon is safety.

Guam has always been perceived as more of a budget destination than Hawaii, in part because Guam's proximity to Japan means shorter and cheaper flights. Recently, marketing has concentrated on portraying Guam as a more upscale destination. Surveys indicate that this brand repositioning strategy is meeting with some success. Annual income levels of Guam's Japanese visitors are rising. Other trends include a growing share of the Japan overseas wedding market and the family market, especially in the summer. One declining segment is single women.

South Korea is Guam's second largest visitor market, at just over 10% of total visitors in 2007. This share has been about stable in recent years,

JAPANESE VISITORS: GUAM VS. HAWAII



Source: Guam Visitors Bureau, Hawaii Visitors and Convention Bureau

although it has been growing, especially in 2007. Nonetheless, Guam has not attained the previous peak share of total overseas Korean tourists, which also occurred in 1997. Challenges to growing the Korea market include single carrier service, Asiana Air's expanded service to the Commonwealth of the Northern Marianas (CNMI) and the inability of travel agents to reconcile room availability and pricing expectations with Guam's Japan-centric hotels.

Another factor that may be a hurdle for Guam in the Korea market is the recent expansion of a visa waiver program to other U.S. destinations. Previously, Guam enjoyed an exclusive, shorter Guam-only visa waiver, but now it does not have that comparative advantage. The expanded program is expected to go into effect sometime in 2008.

It is encouraging to note that the remaining 10% of Guam arrivals (excluding Japan's 80% and Korea's 10%) grew by 8% in 2007. This tends to add diversification away from Japan and Korea fluctuations. Guam Visitors Bureau intends to concentrate more on China in 2008, concentrating on more affluent, seasoned travelers.

Tourism on Guam remains important. A recent consultant study estimated that in 2005 the total impact of this sector accounted for 21% of Guam Gross Domestic Product and 25% of island jobs. Some believe these to be conservative figures.

Military Growth Will Underpin Guam's Economy

Regardless of how tourism fares in the future, the military will be the most important source of economic growth. The military expansion will result in a larger and more multidimensional U.S. military presence in the Pacific, with Guam as the so-called "tip of the spear." The centerpiece will be the transfer of the Third Marine Expeditionary Force from Okinawa to Guam, though a number of other military components will be involved as well.

Of Guam's current population of about 170,000, already about 8,000 are U.S. military personnel. The number of new military personnel relocated to Guam is estimated to amount to at least 20,000 and perhaps many more, including dependents.

Estimates of the dollar amounts involved have not changed since our last economic report on Guam, even though the time frame may slip. The dollar total remains about \$15 billion. Of this, around \$10 billion is earmarked for the Marine transfer (of which Japan has agreed to pay \$6.3 billion) and the remainder is for Navy, Air Force, and Army expansion. The latter is now ongoing, but the Marine portion may be delayed.

This anticipated expansion has already led to extensive planning by the military, other Federal agencies, and local public and private representatives. Guam's economy has already started

to feel the effects in anticipation of the buildup, and a big part of the recent improvement in the Guam economy can be traced to this anticipation. The chart at right shows how Guam military contracts have risen in recent years.

Since publication of the 2006 First Hawaiian Bank report on Guam, challenges and hurdles to impending growth have been more explicitly identified. Attitudes on Guam have largely changed from elation that the military injections would be forthcoming to an emerging anxiety about the cost of accommodating the growing military presence and who will fund it.

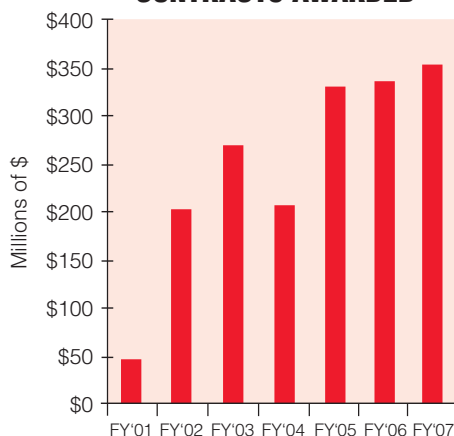
The military's Joint Guam Program Office (JGPO) has made public a "notional Guam construction" timeline, but the key word there may be notional. That timeline ramps up abruptly in Fiscal Year 2009 and by FY 2015 it is over.

At the peak, FY 2011 through FY 2014, JGPO projects total spending to total between \$2.0 and \$2.5 billion annually. To put that in perspective, the historical peak of Department of Defense construction activity on Guam is about \$0.5 billion annually. More to the point, the planned beginning is not that far off, and the window through its projected end is a very short one for such a huge undertaking.

Some on Guam even remain skeptical that the buildup will happen at all in the final analysis; those who do believe it will happen are doubtful it can occur over that time period. There are more of the latter than the former, but a number of individuals surveyed for this report expressed an opinion that a 2010 start is optimistic. Those closest to the buildup, such as the construction industry, seem to be the most skeptical.

This timing issue will inevitably be affected by a number of factors. They include availability of U.S. and Japanese government funding, workforce availability, adequacy of Guam infrastructure, Federal agency support, and even weather. Timely completion of environmental studies is also important, not just on Guam but also on Okinawa before the Marines leave.

GUAM MILITARY CONTRACTS AWARDED



Source: Federal Business Opportunities, Dept. of Defense, arranged by Guam Economic Development and Commerce Authority

The Okinawa environmental angle involves the endangered Okinawan sea cow or dugong. In order for the Marines to vacate, it has been agreed that the Department of Defense will develop facilities on another part of the island to free up existing occupied land for other usage. That will entail building a runway over seagrass beds that are the dugong's habitat, and that will require an environmental study. The Pentagon has stated that this problem must be resolved before Marine realignment can take place.

There is yet another kind of uncertainty in this area. That involves what will remain after the construction is completed. There may be a large out-migration of workers. Many businesses hope to benefit as vendors of goods and services to the military, but it is unclear how much of this business will exist over and above what the military itself brings in from the outside.

Planning directorates and commissions have been formed to deal with these uncertainties. The key challenges include:

- **Port Facilities.** Guam's commercial port will need to greatly expand its capacity to sustain the buildup, and this could require both budgetary sources and a government debt program. The port is seen as a major choke point in the military buildup. Part of the port expansion includes

an expansion to accommodate at least several aircraft carrier visits a year, an evolution that will impact not just the port but also other parts of the island as crew (amounting to a small town) of a carrier and its accompanying task force — plus some dependents — converge upon Guam. It is hoped that a Ship Repair Facility already present will be expanded, because this will create more (and higher income) jobs.

- **Power.** The military is the largest customer of Guam Power Authority (GPA). If the military develops its own power system, GPA's rates will likely rise for local customers because of lower economies of scale.
- **Water and Wastewater.** Even though Guam Water Authority (GWA) has made significant capital improvements, new residents will place a much higher demand on water and wastewater facilities. Funding alternatives must be found for this, also.
- **Solid Waste.** Both military and civilian solid waste facilities on Guam are nearing replacement time even without the military ramp up. This is another challenge that requires a funding source. It may involve recycling and private sector involvement.
- **Labor.** Guam has a labor shortage even now, but it will be aggravated by the military expansion compressed into a brief period. One problem here is assessing how much of the increased labor demand can be met by the local labor force and how much of it must be imported. Challenges involve workforce development and sustained employment after the buildup. Inevitably, wage rates will be bid up.
- **Transportation.** Guam's road system was mostly built just after World War II, and is now undergoing repairs started in the last few years. A major highway between Navy and Air Force bases has been proposed, with a price tag of about \$1 billion. The Government of Guam is negotiating for a similar amount to fund island-wide infrastructure upgrades.

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Military Growth (continued from page 5)

- **Housing.** Property values have been rising in anticipation of the buildup. Current housing construction rates will be insufficient to satisfy higher demand. Expansion of the housing stock will be exacerbated by finite land in a small island environment. Challenges here include revised land use planning, identifying investment opportunities, and funding.
- **Telecommunications.** The buildup will also increase demand for information and communications systems, and Guam needs to concentrate on a sustainable skills base in this area.
- **Economic Development.** Even though the military buildup presents a huge opportunity for long-term development, there will emerge great challenges to master planning in this area.
- **Environmental Challenges.** Also aggravated by a small island environment, Guam has and will have big challenges to maintain the natural environment. Ground water contamination and other negative ecological impacts must be considered.
- **Health and Social Services.** Health care and education sectors of the Guam economy are rigidly divided along military and civilian lines. Civilian health care must be expanded to accommodate the growing civilian workforce. Crowding, lack of funds and infrastructure issues in the civilian education system must be addressed, and Guam schools are in sad shape.

Construction, Already Robust, Stands to Gain from Buildup

Guam construction activity is robust even now, before the actual military buildup begins. A leading indicator like the dollar value of total building permits has been ramping up in recent years, even though those values have not yet nearly approached the levels of the hotel construction boom in the 1990s.

One of the biggest issues as the buildup does begin is how much work-

force housing there will be and who will build it. The cost of this housing will be passed on to the workers, and they are likely to prefer lower cost housing to more luxurious quarters.

Regardless of how much housing is furnished, these temporary workers will no doubt affect the local residential market. Even some higher-end development is occurring in anticipation of demand from housing construction executives.

Observers report that there is an obvious desire on the part of developers elsewhere to come to Guam. One bottleneck is land use approvals. Another constraint is where the construction workers will come from. Local sources are far from adequate, so workers from elsewhere (including non-U.S. sources) will be a necessary supplement.

Efforts are underway in Washington to remove the cap on H program visas for foreign workers. (Construction workers fall in the H-2B category, while professionals like engineers are H-1.) It is expected that the majority of these foreign workers will come from the Philippines. Historically, about 80% of Guam's foreign workers have come from there. But there will be other Asian sources also, and efforts are underway to train workers from other Pacific islands.

There will also be labor force effects within the Guam economy itself. Higher paying construction jobs will likely drain workers from tourism and other sectors. In this regard, training programs will become more important.

To summarize, significant construction activity is expected on Guam in the next several years. Obviously there will be Federal projects as the military expansion grows. In addition, the hotel visitor plant is now aging and refurbishment may be overdue. (A lot of this will depend on visitor industry performance.) Add to that upgrades to infrastructure that the government was forced to neglect during the lean years that preceded the current emerging boom. Construction companies surveyed expect larger projects in the future.

Guam Real Estate Market Shows Increase in Sales, Prices

Anticipation of the military injection has been evident in the local real estate sector. The buildup will put great demands on the housing stock over and above what is required by the military and those directly involved in the buildup.

As word of the Guam buildup has spread, offshore demand has increased and some speculative buying has occurred. This speculation has been affected in part by the recent addition of Guam and the Northern Marianas to the Virgin Islands as U.S. territories in which U.S. residents can acquire property in tax-deferred, like-kind exchanges (Section 1031 exchanges). This provides an opportunity for U.S. residents to diversify their real estate portfolios, and it may be especially attractive because the declining prices in many Mainland areas stand in stark contrast to Guam's rising prices.

In fact, all things considered, regardless of the uncertainties surrounding the military buildup, one thing is clear with respect to Guam real estate. Considering what is happening to real estate prices now in many areas of the U.S. Mainland, and even in Hawaii, Guam has the distinction of being the U.S. jurisdiction that offers the greatest probability of really big population and economic growth in the next several years. That makes speculation understandable and rational.

The chart above shows the recent acceleration in the number of transactions in both single-family units and condos. And the other chart above illustrates similar increases in prices. There was a particularly noticeable jump in median prices of both single-family units and condos in 2007.

The increase in home prices has raised local concerns about declining affordability for local residents. This concern is more worrisome because local Realtors report that there are no signs now that upward pressure on home prices is diminishing. As higher home prices affect rents, more homelessness is feared.

Economic Picture More Challenging for Saipan, CNMI

The economic outlook nowadays for Saipan and the other islands of the Commonwealth of the Northern Marianas (CNMI) is bleaker, and it may not get any better soon. Both of the main traditional sectors have sustained major blows in recent years. Clearly, the CNMI must find some new economic growth engine.

The two main pillars of the Saipan economy have been tourism, mainly from Japan, and the garment industry. But Japanese tourism has nosedived, and the garment industry has moved on to cheaper locations.

Tinian's attempts at establishing casino gambling have had to overcome hurdles, due to the island's isolation and undependable transportation. Still, casinos are bringing in visitors via charter flights and more casinos are being discussed. Yet overall, the CNMI economy is now left with few economic straws to grasp.

CNMI Tourism Arrivals Have Plummeted Since 2004

CNMI visitor arrivals have plummeted since 2004 (chart below) and major airlines have cancelled flights. The chart at right concerning sources of visitors tells why. Clearly the major cause of the drop is the shrinking Japanese market. Causes of this are the

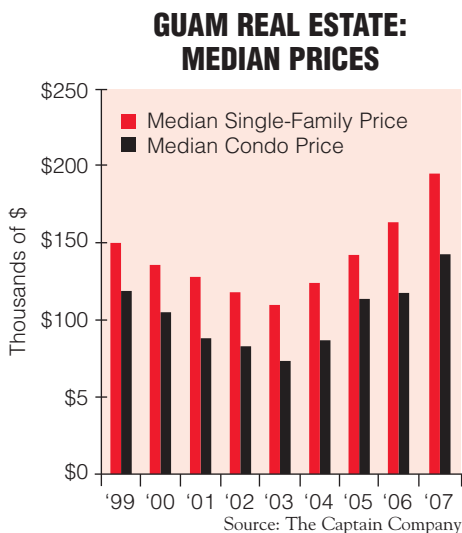
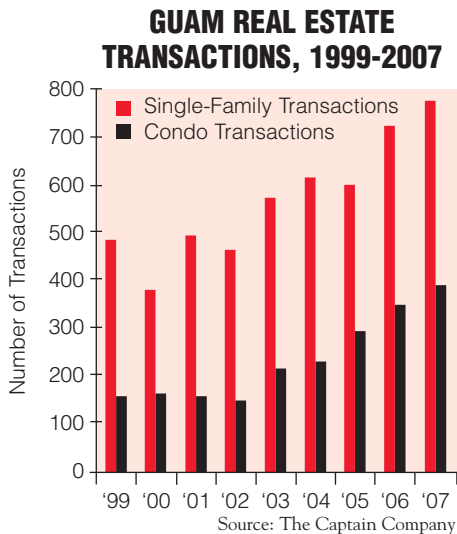
same as for Guam and Hawaii — less Japanese outbound travel generally and competition from other destinations.

Japanese visitor arrivals to the CNMI now threaten to drop below 200,000 annually, after almost breaking 400,000 in 2004. Visitors from South Korea and China have held up better, but the share from those countries is very much smaller. Interestingly, a specialty market seems to be emerging with respect to Russia.

Free Trade Initiatives Crippled Saipan's Garment Industry

Free trade initiatives broke the back of the Saipan garment industry several years ago, as it moved to cheaper

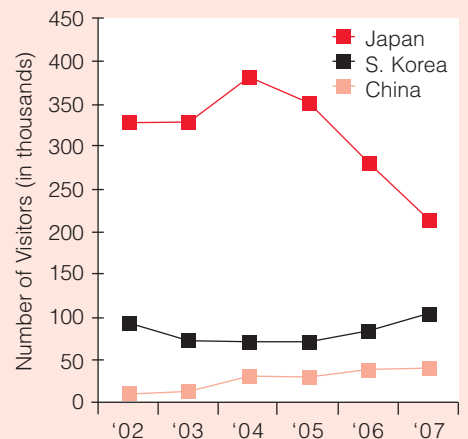
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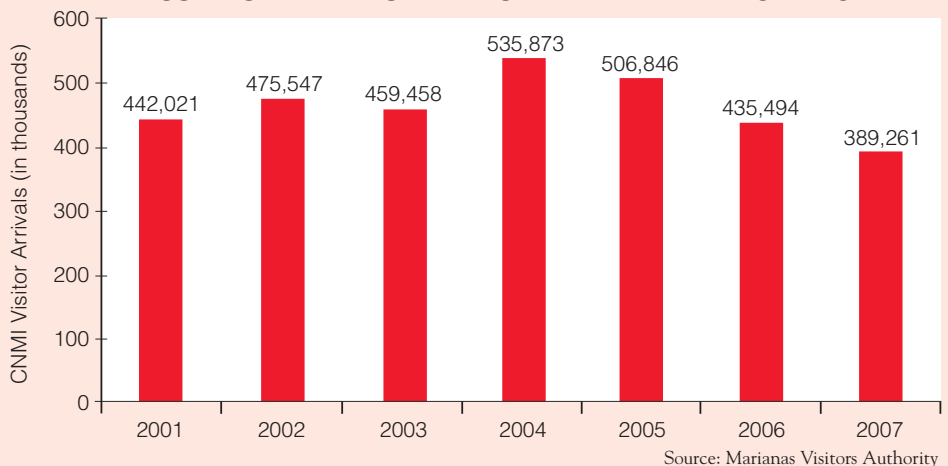
Total dollar volume of single-family transactions rose 21% in 2007, after a 41% surge in 2006. And there was a 71% jump in condo total dollar volume last year.

These effects are not confined just to the residential side. Demand for commercial space has also surged, mushrooming 156% in 2007. Local observers report that more locals are buying commercial property, a sign of increased business confidence. Most vacant land sales, on the other hand, have gone to Korean and Taiwanese buyers.

SOURCES OF CNMI VISITORS



VISITOR ARRIVALS LOWEST IN YEARS IN COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS



Economic Picture *(continued from page 7)*

locations. The decline in the industry has been dramatic (chart right).

Recent actions all but insure that no other low-wage industry will emerge in its place. Part of a Federalization program has already imposed a U.S. minimum wage in 2007, which is slated to increase by 50 cents a year until it reaches \$7.25. Many on Saipan believe that, if the 2008 increase is imposed, it will be enough to wipe out the remaining garment factories — which numbered 34 as recently as 2005 — and their few thousand workers.

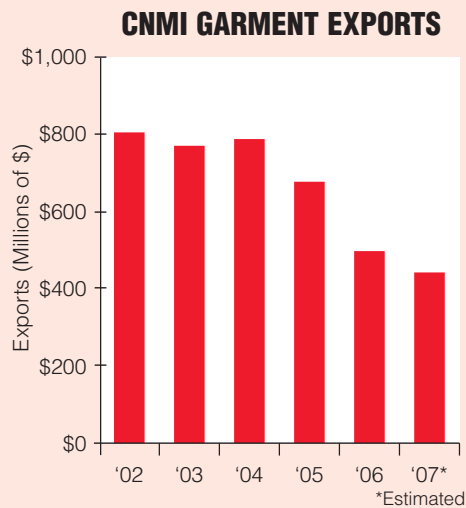
A long list of other businesses not in the garment industry have also been casualties of these wage increases. They have reacted by freezing hiring, reducing the workweek, eliminating benefits, or simply closing. Imposing a minimum wage has a much greater impact in a low-wage economy such as that of the CNMI than it does in other, higher-wage economies.

Federalization Legislation is Controversial in CNMI

Another part of the Federalization program, still in the U.S. Congress at the writing of this report, could strip the CNMI of its own immigration control. Removing local decisions on work and tourist visas can have far-reaching implications. The tourism industry, for example, is worried about losing Chinese and Russian tourists.

Other businesses are concerned that such a step will reduce the labor supply in an economy in which the labor pool is inadequate anyway — and in which local labor force participation rates have been declining. The current bill in Congress caps the number of existing guest workers, and over a transition period reduces their number to zero by 2013. (There is a provision that this transition period could be extended, but only at the end of the period, and not without progress toward the zero goal.)

Meanwhile, Federal immigration laws are to be substituted. Many CNMI businesses find fault with this. For example,



Source: CNMI Commonwealth Development Authority

the proposed removal of the cap on H-program guest workers mentioned in the Guam section of this report would apply to the CNMI also — but opponents argue that H visas are not well suited for the CNMI economy because they are too temporary.

Federalization is very controversial in the CNMI. Those who support it maintain that it will make the CNMI more like the United States, and that alone is a move in the right direction. It could eventually make the CNMI a less risky place to invest, they argue. Supporters also point out that it will counter an unsavory image of the CNMI as a haven for underpayment of wages, worker abuse, and inhumane working conditions. In any case, the outcome may not be far off.

Land Tenure Legal Issue Has CNMI Economic Impact

Regardless of one's stance on Federalization, its advent could hardly have come at a worse time for the CNMI economy. Can anything be done to turn the downward spiral around? Many believe revisions to land tenure could help by stimulating investment.

A little background is necessary here. Article XII of the CNMI constitution limits permanent ownership of real property to persons of Northern Marianas descent (NMD), defined as someone with

at least one-quarter Northern Marianas Chamorro or Carolinian blood, or some combination thereof. That restriction applies for 25 years after termination of the Marianas' status as part of the Trust Territory of the Pacific Islands.

Termination of the Trusteeship occurred when a Covenant was mutually agreed with the U.S. Congress in 1976, but the Covenant was not fully implemented until 1986, when a Presidential Proclamation conferred U.S. citizenship on qualified CNMI residents. Thus, expiration of the land ownership restriction occurs in 2011, or 25 years after 1986.

Those not qualified as NMDs can only lease land for up to 55 years. There are initiatives underway to extend that period to 75 years. (The Constitution can be amended even before 2011.) Many would prefer to extend the lease limit even longer, or even just introduce fee simple ownership. Extending the lease period would encourage investment in the CNMI by allowing investors to amortize their investment cost over a longer time period.

Understandably, the restriction on land tenure introduces many other problems for lenders. No title insurer in the CNMI will insure against defects in title arising from Article XII. And the entire chain of title must be examined because if there is a problem anywhere in that chain, persons down the chain will be affected. Thus, at the very least, title reports are more expensive in the CNMI than on Guam. Other expenses also escalate, and they are unpredictable.

Thus, Article XII introduces unique problems for residential buyers, outside investors, lenders, and other parties in a transaction within the CNMI. Modifications of the land tenure limits, or even outright repeal, would help. At times like the present in the CNMI economy, no possibility for enhancing growth should be ignored.

A sticking point is: Who will vote on the change? Will it be the entire voting population, or just NMDs? The outcome could be determined depending on this factor.