



# **FEDERATED STATES OF MICRONESIA BUSINESS OPPORTUNITIES REPORT**

**PREPARED FOR THE  
UNITED STATES DEPARTMENT OF THE INTERIOR  
OFFICE OF INSULAR AFFAIRS**



**BY SHANA LEE**

**WITH ABHIJOY GANDHI**

**SEPTEMBER 2004**



Disclaimer: This document has been prepared by MBA students, or recent graduates, to disseminate information on the Federated States of Micronesia for the purposes of the 2004 Business Opportunities Conference sponsored by the U.S. Department of the Interior, Office of Insular Affairs. The views and recommendations contained in this document, however, are solely those of its author and not the U.S. Government or any agency or officer thereof. Those intending to initiate ventures in this location are advised to conduct independent due diligence.

## TABLE OF CONTENTS

---

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>BACKGROUND.....</b>	<b>3</b>
KOSRAE.....	3
POHNPEI.....	4
CHUUK.....	4
YAP.....	4
<b>ECONOMY.....</b>	<b>5</b>
ECONOMIC DEVELOPMENT PLANS .....	6
<b>GOVERNMENT .....</b>	<b>7</b>
<b>INFRASTRUCTURE.....</b>	<b>8</b>
AIR.....	8
OCEAN FREIGHT .....	8
TELECOMMUNICATIONS .....	8
ENERGY.....	8
FINANCIAL & LEGAL SERVICES .....	8
<b>TAX SYSTEM AND OTHER INVESTMENT INCENTIVES.....</b>	<b>10</b>
<b>COMPETITIVE ADVANTAGES .....</b>	<b>12</b>
<b>OPPORTUNITIES FOR GROWTH.....</b>	<b>14</b>
FISHERIES.....	14
AQUACULTURE.....	15
AGRICULTURE .....	16
TOURISM .....	17
MANUFACTURING .....	20
HANDICRAFTS .....	20
<b>FURTHER OPPORTUNITIES FOR PARTNERSHIP AND INVESTMENT.....</b>	<b>23</b>
<b>SOURCES .....</b>	<b>25</b>

## EXECUTIVE SUMMARY

---

Few people, if any, have heard of the Federated States of Micronesia as anything more than some pretty islands in the western Pacific Ocean, famous for their beautiful lagoons and world-class scuba-diving sites. Yet the country known as the FSM, one of the three Freely Associated States (FAS), is a full world of its own waiting to be discovered and explored. The FSM's four states of Kosrae, Pohnpei, Chuuk, and Yap are spread over an area of one million square miles. Their propitious location, under-utilized natural resources, and close relationship with the U.S. present numerous opportunities for investors and business partners.

Historically a subsistence economy, the FSM has only recently been transitioning to a modern market economy. With a GDP of \$222 million in FY2003, the FSM had exports valued at \$20.1 million and merchandise imports of \$108.9 million. The majority of exports go to Japan. Two major contributors to the country's income are tourism and receipts from fishing licenses, at \$16.8 million and \$12.4 million, respectively. 70% of the FSM's income comes from external grants and Compact funds.

At its recent Third Economic Summit in April 2004, the FSM embraced a high-growth strategy for achieving economic self-reliance. Based on this strategy, the government is focused on boosting investment levels and creating an attractive and competitive investment climate in three sectors: tourism, fisheries, and agriculture. In addition, the strategy calls for increased investment in infrastructure, higher revenues to offset declining Compact funds, revised regulations to promote investment, and better education.

The FSM government is styled after the U.S. system, with an executive branch, a single-chamber legislative branch, and a judicial branch. The islands have the necessary infrastructure for business:

- All four states are equipped with international airports and have deep water port facilities capable of handling vessels up to 10,000 tons with containerized cargo handling, warehousing, transshipment, and cold storage facilities.
- The FSM Telecom Corporation operates phone, fax, internet, cellular telephone, and cable services. Broadband technology is less than three years away.
- There are diesel generators in all the major centers that provide 110-220 volt, 60 cycle electricity.
- Commercial banking exists through the Bank of the FSM and the Bank of Guam, with additional services offered by the government-run FSM Development Bank.
- Accounting services are available through Deloitte Touche Tomatsu and legal services are available through law firms located throughout the country.

Additionally, the FSM has very low income tax rates with a cap of 10% of gross receipts. There are also case-by-case tax holidays and tax reinvestment schemes for businesses investing in the FSM. The government has effected policy changes which allow foreign companies to be 100% owners of their businesses and receive partial government funding for training and education of employees in specific sectors.

## EXECUTIVE SUMMARY

---

The FSM has unique competitive advantages:

- The FSM's world-renowned dive destinations include the WWII Ghostship of Chuuk, Yap's giant manta ray sites, and the pristine coral reefs of Kosrae and Pohnpei.
- English is the official language of business and the U.S. dollar is the national currency.
- The FSM's exclusive economic zone covers 1.3 million square miles of ocean and contains some of the world's most productive tuna fishing grounds, capable of a sustained yield of well over 100,000 tons each year.
- A heterogeneous mix of peoples with different customs and traditions is bound together by recent history and common aspirations, and steeped in eight major indigenous languages, strong traditions, folklore, and legends.
- Extensive reefs and lagoons offer several promising opportunities for aquaculture ventures such as giant clams, black pearls, and sponges.

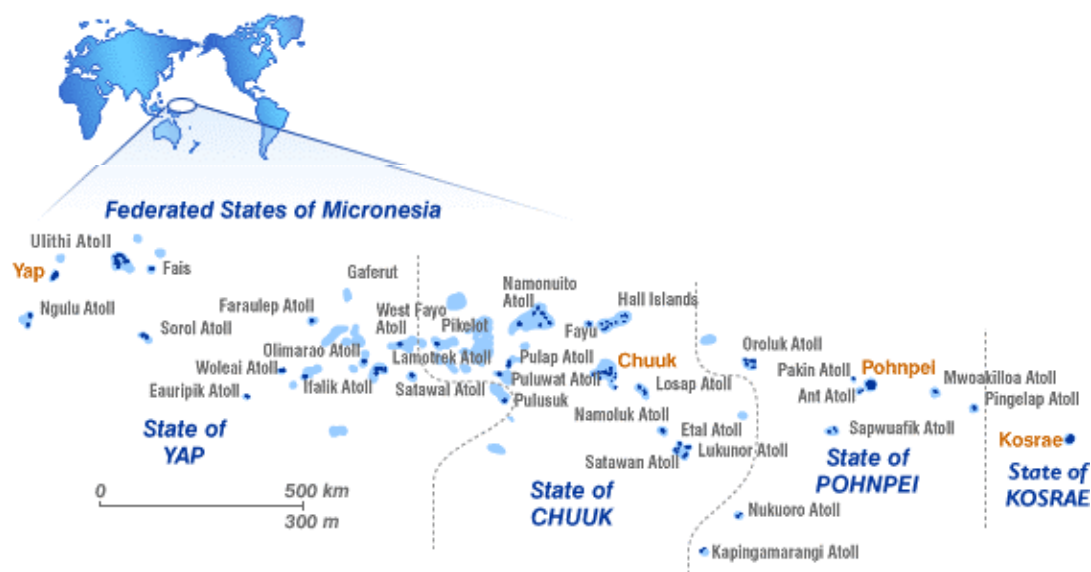
In conclusion, the FSM's 607 islands, steeped in a traditional island culture and surrounded by the beauty of the Pacific Ocean, are waiting to be discovered. An oasis of natural and marine resources and a young workforce make the FSM a world of business opportunity, waiting to be tapped.

## BACKGROUND

Scattered across the western Pacific Ocean, just north of the equator and approximately three-quarters of the way from Hawaii to Indonesia, 607 tropical islands make up the Federated States of Micronesia (FSM). Though the islands span an area of more than one million square miles, the total land area of the FSM is a mere 271 square miles – roughly a quarter of the size of Rhode Island. A sovereign nation since 1986, the FSM is aligned with the United States in a Compact of Free Association (Compact).

With Compact funding to the FSM scheduled to end in 2023, the country finds itself at a critical stage in its development as it strives to establish itself as a self-reliant market economy. The FSM’s underdeveloped yet valuable natural resources and close relationship with the U.S. present numerous opportunities for investors and business partners.

From east to west, the country’s four states are Kosrae, Pohnpei, Chuuk, and Yap. Though they share a common past under Spain, Germany, Japan, and most recently the U.S., each state retains its own distinct culture, language, traditions, and identity.



### ***Kosrae***

The only state with no outer islands, Kosrae is a high, lush island covering an area of 42 square miles, making it the second-largest island in the FSM. With only 8,000 people, however, Kosrae has the smallest population of any state.

Kosrae’s reef and pristine waters offer stunning diving and snorkeling for tourists, while the island’s interior offers dense mangrove forest canals and mountaintop treks for exploration. The state’s few exports are high-quality agricultural products such as bananas, citrus, and taro, with additional opportunities for noni, hot pepper sauces, and bottled water being explored. Other private sector activities include retail outlets, resorts and restaurants, and service businesses.<sup>1</sup>

<sup>1</sup> Kosrae Investment Guide. <http://www.fsminvest.fm/kosrae/>

## BACKGROUND

---

### *Pohnpei*

Home to the country's capital of Palikir, the state of Pohnpei includes the 129-square mile volcanic island of Pohnpei, 25 smaller islands, and 137 coral reefs for a total of 345 square miles. It is the second largest state in population size, with approximately 34,500 people.

Pohnpei boasts one of the world's rainiest climates, often receiving over 300 inches of rain per year, which together with its fertile soil make it well-suited for agricultural production of such products as the world renown Pohnpei pepper, sakau (kava), and root crops. The ancient ruins of Nan Madol, as well as stellar diving, snorkeling, hiking, and stunning waterfalls, help make Pohnpei the most visited state in the FSM.<sup>2</sup> A hub of regional fishing operations, the state is home to several major fisheries and the recently-established Tuna Commission.

### *Chuuk*

Fifteen main islands, 192 outer islands, and more than 80 islets make up the state of Chuuk, with many of the islands situated around the 772-square mile Chuuk Lagoon. Chuuk has the largest population of the FSM states, at close to 53,500 people.

Chuuk (previously known as Truk) Lagoon is another of Micronesia's incredible undersea phenomena. The giant lagoon is almost 40 miles in diameter and reaches depths of 300 feet. Aside from the sheer beauty of the coral beneath the clear water, the bottom of Chuuk lagoon is the final tomb of more than 100 WWII ships, planes, and submarines, creating one of the greatest underwater museums in the world.

Warm tropical waters and prolific marine life have made Chuuk lagoon a mecca for the world's scuba divers, underwater photographers, and marine scientists.

### *Yap*

The FSM state with the strongest traditional culture, Yap consists of four large and seven small islands, as well as 134 atolls. With a total land area of approximately 45.5 square miles, Yap is home to over 11,000 people.

This unique outpost offers such attractions as a manmade seaside men's house, cultural village tours, huge stone money discs and banks, traditional dances, handicrafts, marine life, and mangrove forests. Dance is an important art form in Yap.

Yap is also famous for its clear waters where schools of tuna, dolphins, and reef fish are found in abundance. More importantly, Yap is the world's foremost destination for seeing manta rays up close and personal on a year-round basis. This fact has catapulted Yap to among the top of all rankings of the finest diving attractions in the world.

---

<sup>2</sup> FSM Statistics Department 2003

## ECONOMY

<i>Key Economic Statistics</i>			
Population	107,513	Gross Domestic Product (GDP)	\$222.07 million
Labor Force Participation Rate	58% (2000)	% Government	28%
Total Employment	29,175 (2000)	% Private Sector	28%
Private Sector	6,700	% Households	25%
National Government	810	% Other	23%
State Government	5,047	GDP per capita	\$2,066
Unemployment Rate	22% (2000)	Exports	\$20.1 million
Labor Force in Subsistence	28.4% (2000)	Imports	\$108.9 million
		Currency	U.S. Dollar

Source: FSM Department of Statistics; ADB Asian Development Outlook 2004

Historically a subsistence economy, the FSM in recent years has been transitioning to a market economy. The FSM's GDP growth rate was 0.1% in FY2003, down from 0.9% in FY2002, largely due to contractions in the public and financial sectors. However, individual states varied widely in performance, with the Pohnpei and Kosrae economies contracting by 2.8% and 4.5%, respectively, and the Chuuk and Yap economies growing by 2.2% and 7.5%, respectively. FY2003 saw an overall budget surplus of 1.9% of GDP, with a \$54.3 million official external debt, about 24.5% of GDP. External grants and Compact funds contributed approximately 70% of the FSM's consolidated \$163.7 million in revenue. Two major contributors to the country's income are tourism and receipts from fishing licenses, at \$16.8 million and \$12.4 million, respectively.

The value of the FSM's exports rose by 2.4% in FY2003 to \$20.1 million, while merchandise imports rose 8.3% to \$108.9 million. The majority of exports go to Japan. The country's largest exports, in terms of value, are tuna, garments, and betel nut. Most of the tuna is destined for either the Japanese sashimi market or canneries in Thailand, Taiwan, and Puerto Rico. Other exports include reef fish, citrus products, sakau (kava), bananas, prepared foods, and copra.<sup>3</sup>

Aggregate employment fell by almost 1% in FY2003, with employment increases in trade, hotels and restaurants, and education being outweighed by drops in public administration, manufacturing, and finance. Chuuk experienced the largest fall in employment due to a significant drop in public sector employment. Two thirds of FSM's labor force are government employees, not surprising given that public sector wages average twice those of the private sector.<sup>4</sup> This disparity, along with the ease of migration to higher-paying Guam and the U.S., contributes to a distorting effect on the labor market.

<sup>3</sup> Estimates by the FSM Department of Economic Affairs Statistics Office. June 2004.

<sup>4</sup> ADB, Country Economic Review: Federated States of Micronesia. November 2000.

### ***Economic Development Plans***

At its recent Third Economic Summit in April 2004, the FSM embraced a high-growth strategy for achieving economic self-reliance. This strategy recognizes the need for a bold reform program aimed at boosting investment levels and creating an attractive and competitive investment climate in order to achieve significant improvements in the FSM economy over the next 20 years. Working groups from nine sectors contributed recommendations and strategies towards a strategic planning matrix covering agriculture, education, environment, fisheries, gender, health, private sector development, public sector management, and tourism.

The overall high growth strategy focuses on the tourism, fisheries, and agriculture sectors. The main points of the strategy include:<sup>5</sup>

1. Increasing investment in infrastructure, especially in airports, electricity, roads, and health facilities;
2. Raising revenue sufficiently to provide the funds that the FSM will need to invest in infrastructure, and to compensate for declining Compact funds;
3. Revising rules and laws to make the FSM an attractive place for investors; and
4. Carrying out other measures needed to achieve high growth such as adopting regulations to facilitate the employment of foreign technicians and managers, ensuring that primarily Micronesians benefit from growth, and strengthening education and skills training.

---

<sup>5</sup> Third FSM Economic Summit: Proceedings. March 28<sup>th</sup> to April 2<sup>nd</sup>, 2004.



## GOVERNMENT

The FSM government is styled after the U.S. system, with an executive branch, a single-chamber legislative branch, and a judicial branch. On the national level, the President and Vice President are elected to four-year terms by the Congress, which has 14 members. Each state has one member who is elected for a four-year term, while the remaining ten members represent the congressional districts from each state and are elected for two-year terms. Each state also has an elected governor, lieutenant governor, state congress, and its own court system. With the exception of foreign affairs, most government functions, including economic development, are carried out at the state level.

At the local level, the government is village-based and usually headed by traditional chiefs or other prominent community figures. These local governments play a significant role in maintaining and protecting the region's traditional culture and ensuring political and social stability.

The Compact of Free Association is the agreement that the FSM, along with the Republic of Palau and the Republic of the Marshall Islands (RMI), came to with the U.S. following the end of the United Nations Trust Territory of the Pacific Islands which administered the region after World War II. Under the Compact, the islands maintain their sovereignty and control over all domestic and foreign policy issues, aside from security and defense, which are managed by the United States. The Compact also provides significant funding to the FSM, amounting to over \$1.3 billion from 1986 to 2003 under the first phase of the Compact, with smaller grants in each succeeding five-year increment.

The second phase of the Compact, passed in late 2003, continues annual grant assistance to key sectors and establishes a Trust Fund that will replace U.S. grants with investment earnings beginning in 2023. The sector grants, which start at \$76.2 million in the first year, will decline over the 20-year term of the new Compact, matched by corresponding increases in contributions to the Trust Fund. The amended Compact also increases the accountability and economic management of funds through the establishment of a Joint Economic Management Committee (JEMCO).

<b>Compact Summary</b>	
1 <sup>st</sup> Compact	<ul style="list-style-type: none"> <li>▪ 1986 – 2003 (15 years plus 2 years negotiating 2<sup>nd</sup> Compact)</li> <li>▪ \$1.35 billion total (approximate)</li> </ul>
2 <sup>nd</sup> Compact	<ul style="list-style-type: none"> <li>▪ 2003 – 2023</li> <li>▪ Main objective: to enable FSM to achieve economic self-reliance by 2023</li> <li>▪ \$92.7 million per year in sector grants and trust fund contributions               <ul style="list-style-type: none"> <li>○ <i>Sector grants</i>: begin at \$76.2 million per year, decreasing to \$62.6 million by 2023, plus a \$0.5 million grant for annual audits.</li> <li>○ <i>Trust fund contributions</i>: begin at \$16 million per year, increasing to \$29.6 million by 2023.</li> </ul> </li> <li>▪ Management &amp; monitoring: Joint Economic Management Committee (JEMCO)</li> </ul>
Priority Sectors	<ul style="list-style-type: none"> <li>▪ Education, health, environment, private sector development, public sector capacity building, and public sector infrastructure development and maintenance.</li> </ul>

On its main islands, the FSM is equipped with good roads, airports, harbors, telecommunications, and utilities. Infrastructure on the outer islands remains at a more basic level but generally includes docks, small-capacity generators, water catchment systems, and, in some cases, short runways. Compact funding provides for continued public sector infrastructure development and capital improvements. The FSM government offers subsidized water and electrical services in all four states.

**Air.** Each of the four states is equipped with an international airport. Continental Micronesia's Island Hopper provides 737 jet service from Honolulu through the Marshall Islands to Kosrae, Pohnpei, Chuuk, and on to Guam and Yap three times per week and in the opposite direction four times per week.<sup>6</sup> Palau's recently launched Palau Micronesian Air (PMA) will initially provide 737 service between Palau, Yap, Chuuk, and Pohnpei, and eventually between Palau and Manila, and Palau and Darwin. Air Nauru has recently begun service between Nauru, the Marshall Islands, and Kiribati, thereby providing a much needed north-south Pacific air link in the region. These new routes are a positive development for the FSM, as limited air transportation options have proven a formidable obstacle to the FSM's economic development, particularly for exports and tourism.

The National Fisheries Corporation (NFC) operates two planes that provide air freight services for tuna exports as well as other industries. Inter-island air service between Pohnpei, Chuuk, Kosrae, and Yap is available on 12-seater aircraft through the government-run Caroline Islands Air and Pacific Missionary Airlines.

**Ocean freight.** All of the states have deep-water port facilities capable of handling vessels up to 10,000 tons. Containerized cargo handling, warehousing, transshipment, and cold storage facilities are available at each port. Monthly international shipping is offered by Philippines, Micronesia, and Orient (PM&O) Line between the U.S. west coast and Asia. Other international shipping services include Kyowa (Bali Hai) out of Japan, Chief Container Services out of Australia, and Matson Line from the U.S. Domestic shipping is provided by the state governments twice-monthly.

**Telecommunications.** The FSM Telecom Corporation operates phone, fax, internet, and cable services in all four states. Cellular telephone services are also available, and wireless internet access is currently being installed throughout the islands. Broadband technology is expected in the FSM within the next three years.

**Energy.** Diesel-powered generators, fueled by imported oil, provide 110-220 volt, 60 cycle electricity to all of the FSM's main centers.

**Financial & Legal Services.** Commercial banking services are offered throughout the FSM by the Bank of the Federated States of Micronesia and the Bank of Guam. The government-run FSM Development Bank offers concessionary low-interest, long-term loans for development projects. Accounting services are available through Deloitte

---

<sup>6</sup> Service to Kosrae is offered three times per week in either direction and is not offered on Sundays.

## INFRASTRUCTURE

Touche Tomatsu which maintains an office in Pohnpei. Legal services are available through a number of law firms located throughout the country.

<b>Infrastructure Summary</b>	
Air Transportation	<ul style="list-style-type: none"> <li>▪ Continental Micronesia between Honolulu, Marshall Islands, Kosrae, Pohnpei, Chuuk, Guam, and Yap</li> <li>▪ Palau Micronesia Air between Palau, Yap, Chuuk, and Pohnpei</li> <li>▪ Domestic travel: Caroline Islands Air and Pacific Missionary Airlines</li> <li>▪ Air freight service provided by National Fisheries Corporation</li> </ul>
Ocean Freight	<ul style="list-style-type: none"> <li>▪ International shipping: PM&amp;O, Kyowa, Chief Container Services, and Matson Line</li> <li>▪ Inter-island services provided by state governments</li> </ul>
Telecommunications	<ul style="list-style-type: none"> <li>▪ Service through FSM Telecom Corporation</li> <li>▪ Telephone, fax, internet, cable, and cellular services available</li> <li>▪ Wireless internet currently being installed</li> <li>▪ Broadband technology coming to FSM within 3 years</li> </ul>
Energy	<ul style="list-style-type: none"> <li>▪ Diesel-powered generators in main centers</li> <li>▪ 110-220 volt 60 cycle</li> </ul>
Financial & Legal Services	<ul style="list-style-type: none"> <li>▪ Commercial Banks: Bank of FSM and Bank of Guam</li> <li>▪ Development Loans: FSM Development Bank</li> <li>▪ Accounting Services: Deloitte Touche Tomatsu</li> <li>▪ Law offices located throughout the country</li> </ul>

## TAX SYSTEM AND OTHER INVESTMENT INCENTIVES

The Customs and Tax Administration (CTA) imposes four different taxes:

1. **Import Tax (Duties & Customs) on all products brought into the FSM:** All products imported for resale are subject to taxes, varying by product. Typically the highest taxes are for personal products. Import taxes are assessed on the FOB (free on board) value of the products. All goods must be cleared within 15 days of arrival or a penalty of 10% plus an additional 10% for each subsequent month must be paid.
2. **'Gross Revenues' tax for businesses operating within the FSM:** This tax is assessed on gross revenues (all receipts of a business, from whatever source, without deductions). The rate is \$80 for the first \$10,000 of gross revenues and 3% for any excess in the calendar year. Businesses with less than \$2,000 in gross revenues are eligible for a total refund on taxes paid. Taxes are paid quarterly and are due on or before the last day of the month following the close of each quarter (1/31, 4/30, 7/31, 10/31).
3. **Wages and Salaries Tax:** Assessed on employee's income, every FSM employer is obligated to withhold tax from wages and salaries paid to employees working within the FSM. Non-cash wages and salaries are also taxable. The rate is 6% for the first \$11,000 and 10% of any additional income. Employees earning less than \$5,000 are entitled to a \$1,000 income deduction before computing tax.
4. **Social Security Tax:** The FSM has a social security system to which employees and employers each contribute 3% of wages and salaries through the Social Security Tax. The upper limit is \$3,000 per quarter.

FSM Tax Summary	
Import Tax (Duties & Customs)	<ul style="list-style-type: none"> <li>▪ 3% - 100%, based on product category</li> <li>▪ Assessed on the FOB (free on board) value of the products</li> </ul>
'Gross Revenues' tax	<ul style="list-style-type: none"> <li>▪ \$80 for the first \$10,000 of gross revenues and 3% for any excess in the calendar year, paid quarterly.</li> <li>▪ Businesses with less than \$2,000 gross revenues eligible for total refund on taxes paid</li> </ul>
Wages and Salaries Tax	<ul style="list-style-type: none"> <li>▪ 6% for the first \$11,000 and 10% of additional income</li> <li>▪ Income less than \$5,000 entitled to \$1,000 income rebate</li> </ul>
Social Security Tax	<ul style="list-style-type: none"> <li>▪ Both the employee and employer each contribute 3% of wages and salaries</li> <li>▪ Maximum tax of \$3,000 per quarter</li> </ul>

Source: Taxation Overview, FSM 2004

Under the Compact of Free Association, the FSM receives duty-free treatment in the U.S. markets on some domestic and value-added products. The Compact also guarantees security protection by the U.S.

Even though land is in limited supply and ownership is restricted to citizens of the FSM, the government has set inexpensive rates for long-term leases (normally 50 years) for business development sites. The government will also assist investors in identifying local partners interested in leasing out their land. Leased property can serve as security for mortgages.

## TAX SYSTEM AND OTHER INVESTMENT INCENTIVES

---

There are tax holidays and tax reinvestment schemes available on a case-by-case basis for businesses investing in the FSM, whereby the government will allow for the company to reinvest the tax payable, provided the company meets pre-defined investment and employment criteria. Schemes exist for the training and education of employees through Compact Funding within specific business sectors. The government is also effecting policy changes which will allow foreign companies to be 100% owners of their businesses.

A Foreign Investment Permit is required before business commences for all foreign-owned sole proprietorships or partnerships where foreign investors own more than 20% of a local business.<sup>7</sup> Applications for Foreign Investment Permits are free and take 5 to 45 days to process. Permits for businesses related to banking, telecommunications, insurance, fishing within the FSM's EEZ, international and interstate transport, and international shipping are processed on the national level, while all others are processed by the states.

---

<sup>7</sup> Other business categories requiring Foreign Investment Permits include those where export sales will be more than 50% of total sales; where more than 50% of materials processed are imports; and when the main business activity is related to communications, air or sea transportation, or fuel transportation.

## COMPETITIVE ADVANTAGES

---

### **Ocean resources, lagoons, atolls and other natural resources**

The ocean is undoubtedly the country's most important resource. The FSM's Exclusive Economic Zone (EEZ) covers 1.3 million square miles of ocean, containing some of the world's most productive tuna fishing grounds. The tuna resources include both surface and deep water species. The approximate market value per year of tuna harvested within the nation is about \$200 million<sup>8</sup>. At present, the nation has full ownership of tuna stocks capable of a sustained yield of well over 100,000 tons each year.

The sheltered lagoons of the coral atolls are a wealth of natural beauty and home to exotic indigenous marine animals and fish. The patch reefs and fringe reefs found nearer the islands serve as the ideal ground to develop aquaculture and also provide unlimited opportunities for tourists to appreciate the FSM's prolific marine life up close.

Although commercial agriculture is limited, small-scale farming is the most important primary activity in the nation because of its contribution to employment, wage income, export earnings and subsistence production. The Pacific soil is ideally suited for niche crops such as betel nut and noni. Agricultural activities provide over 60% of the food consumed, and employ almost 50%<sup>9</sup> of the labor force on a full-time or seasonal basis. The FSM's wealth of renewable natural resources and the untapped market potential of harvesting them in a sustainable way give the country a competitive advantage in agricultural production.

### **Unique Pacific Culture**

The people of the FSM are culturally and linguistically Micronesian, with a small number of Polynesians living primarily on Nukuoro and Kapingamarangi atolls of Pohnpei State. The influence of U.S., European, and Japanese contact is also seen.

Each of the four states exhibits its own distinct culture and traditions, but common cultural and economic bonds have tied the islands together for centuries. To name one example, the traditional importance of the extended family and clan systems remains on each island. The FSM's diversity, however, is typified by the existence of eight major indigenous languages, and its peoples continue to maintain strong traditions, folklore, and legends. The FSM has a rich oral history with a unique musical heritage. The traditional music is carried forward orally from generation to generation. FSM's pop music, primarily influenced by this traditional music, also draws from influences as diverse as American country and western, reggae, and modern europop.

The FSM's exquisite cultural melting pot offers the tourist a heady assault of myriad traditions and peoples and is the source of yet another competitive advantage as the country develops its tourism industry.

---

<sup>8</sup> [www.fsmgov.org/info/natres](http://www.fsmgov.org/info/natres)

<sup>9</sup> [www.fsmgov.org/info/natres](http://www.fsmgov.org/info/natres)

## COMPETITIVE ADVANTAGES

---

### **Best wreck and marine life dive sites in the world**

The islands of the FSM contain some of the world's most renowned dive destinations. Divers worldwide are drawn to the underwater wreck museums of Chuuk, and to Yap, home of giant manta rays with 18-foot wingspans. Perhaps lesser known, but no less spectacular, are the coral gardens, shipwrecks, and steep dropoffs of Pohnpei and Kosrae. The warm, crystal clear waters of these islands offer a visibility of up to 200 feet, and the fringing reefs and tropical lagoons are teeming with hundreds of species of marine life, dazzling corals, colorful schools of reef fish, turtles, manta rays, barracuda, sharks, and pelagics. This unique ecological and historical wealth is a powerful selling proposition for the FSM and can help establish the country as a sought-after tourist destination.

### **Parallels with and proximity to the U.S. business environment**

The FSM is one of the three States in Free Association with the United States and the FSM government is styled after the U.S. system. The country is served by the U.S. Postal Service and mail is routed through the mainland. Additionally, Compact II Funding until 2023 will ensure a steady revenue stream while the economy develops. The similarities of business environment create a familiar setting for U.S.-based companies.

### **Young, low-cost, English-speaking workforce and U.S. Dollar as the local currency**

Further advantages for U.S. companies interested in working in the FSM are the lack of both exchange rate risk and language barriers. The FSM uses the U.S. Dollar and English is the official language of business.

The four state governments have established minimum wage rates for government workers. Pohnpei has a minimum hourly wage rate of \$2.00 for government and \$1.35 for private workers. The other three states have established minimum hourly rates only for government workers: \$1.25 for Chuuk; \$1.49 for Kosrae; and \$0.80 for Yap. The minimum hourly wage for employment with the national government is \$1.68.

The working population has a median age of 18.9 years and a literacy rate of over 95%.<sup>10</sup> The national College of Micronesia (COM-FSM), has campuses in Palikir and each of the four states, and offers associate degrees and certificate programs in such subjects as business, accounting, agriculture, hotel and restaurant management, and education.

---

<sup>10</sup> FSM 2000 census.

***Fisheries***

The FSM is home to some of the world’s richest tuna fishing grounds. The country maintains a 1.3 million square mile Exclusive Economic Zone from which it generates revenues of approximately \$10 million per year for fishing licenses granted to vessels predominantly from Japan, Taiwan, Korean, China, the U.S., and most recently, the European Union (EU). It is said that the western Pacific is the only tuna area in the world not being over-fished, and conservation efforts are underway to ensure that this remains the case.

The FSM tuna industry harvests both longline-caught sashimi grade tuna as well as purse seine-caught fish for processing and canning. Skipjack is the most common tuna variety found in the FSM, and yellowfin and bigeye are also prominent.

FSM fisheries participate in all aspects of the value chain: fishing, shore services, trading, and processing. The tuna industry is overseen by the National Oceanic Resource Management Authority (NORMA). The National Fisheries Corporation (NFC) provides coordination and supply services to the fishing companies operating in the FSM, including dedicated air freight service from all of the FSM states.

The Western Central Pacific Ocean Tuna Commission was launched in June 2004 and will be headquartered in Pohnpei, contributing to further growth of the FSM fisheries industry. The FSM has several regional and international agreements with respect to tuna fisheries management. Chief among them is the Arrangement for the Management of the Western Pacific Purse Seine Fishery, also known as the “Palau Arrangement,” which limits the numbers and nationalities of purse seine vessels permitted to operate within the region.

According to a report by the Asian Development Bank, the tuna processing and servicing sector offers the greatest opportunity for the FSM, particularly for loining.<sup>11</sup> Such services, including provision of supplies, fuel, and vessel maintenance services, could offer attractive returns for investors and would facilitate regional development by generating revenues for FSM port authorities and other associated activities.

<b>Fisheries Projects</b>		<b>Opportunity</b>
<i>Carolina Fisheries Corporation (CFC)</i>	Private company wholly-owned by Pohnpei state currently operates two small purse seiners, whose catch is transshipped through Pohnpei to canneries in Thailand. Larger boats could increase efficiency and cost-effectiveness, potentially providing a handsome return.	<ul style="list-style-type: none"> <li>▪ Investment</li> </ul>
<i>Chuuk Fresh Tuna Inc.</i>	State-owned transshipment facility provides complete support for long-liners transshipping their catch to Japan. State government has invested \$7million since early 1990s. Opportunity for private fishing company to take over the entire operation.	<ul style="list-style-type: none"> <li>▪ Investment</li> <li>▪ Leasing options</li> </ul>

<sup>11</sup> Mike A. McCoy and Robert Gillett, “Aspects of the Tuna Industry Relevant to Privatization of Enterprises in the Federated States of Micronesia”. Asian Development Bank, August 2000.



## OPPORTUNITIES FOR GROWTH

Fisheries Projects		Opportunity
<i>Pacific Tuna Industries, Inc. (PTI)</i>	State-owned transshipment and cold storage facility in Kosrae, currently idle. Suitable for use as processing plant with investment.	<ul style="list-style-type: none"> <li>▪ Investment</li> <li>▪ Development</li> </ul>
<i>Pohnpei Fisheries Corporation (PFC)</i>	State-owned processing plant processes and transships tuna loins and steaks for export, primarily to the U.S. Potential exists to expand operations to include processing of purse seine-caught fish for transshipment to canneries. Facilities are well-maintained, meet U.S. FDA standards, and anticipate certification by the EU.	<ul style="list-style-type: none"> <li>▪ Investment / Privatization</li> <li>▪ Management Contract</li> </ul>
<i>Yap "Diving Seagull"</i>	State-owned purse seining corporation began operations in 1998.	<ul style="list-style-type: none"> <li>▪ Investment</li> <li>▪ Development</li> </ul>

### Aquaculture

The FSM's extensive reefs and lagoons offer several promising opportunities for aquaculture ventures both for export as well as domestic consumption. Activities are currently underway to develop such products as giant clams, black pearls, and sponges.

**Giant Clams:** The National Aquaculture Center (NAC) located in Kosrae has been successfully breeding giant clams since 1991 to repopulate and reseed the FSM's reefs. Four species of the clams are produced: *tridacna gigas*, *tridacna maxima*, *tridacna squamosa*, and *hippopus hippopus*. With the assistance of the Kosrae Small Business Development Center (SBDC), the NAC works with local farmers to raise the clams, which are also sold locally for meat.

The FSM's protected lagoon environment and pristine waters make it an ideal location to raise giant clams. Moreover, the many uses of giant clams enable them to span several different export markets. The tasty meat is a prized delicacy in Asian sashimi markets, and can also be frozen, dried, or canned. As live specimens, their dramatic colors and unusual appearance make them popular in the multi-billion dollar aquarium trade. Their attractive shells can be used as decorative serving platters for sashimi and other dishes, as well as ornaments or jewelry.

The high demand for giant clams, particularly in the Asian sashimi market, could exceed the FSM's current production capacity, suggesting that coordination with other regional producers such as Palau and the Marshall Islands could be beneficial in meeting market needs. Access to reliable and affordable transportation is of paramount importance for giant clam exports.

Giant Clam Projects		Opportunity
<i>National Aquaculture Center (NAC)</i>	Currently seeking international markets and export opportunities for shells, meat, and the aquarium trade. Expressions of interest in joint venture partnerships or wholesale privatization are encouraged.	<ul style="list-style-type: none"> <li>▪ Buyers / Distributors</li> <li>▪ Investment / Privatization</li> </ul>

## OPPORTUNITIES FOR GROWTH

**Black Pearls:** Pohnpei State’s Nukouro Atoll has the only naturally-producing black pearl oysters in the region. A soon-to-be incorporated public non-profit corporation aims to develop this valuable resource into an income generator for the community. Nukouran pearls are of superior quality, with good luster, vibrant colors, and thick nacles. The pearls’ high value, high demand, and low shipping costs make them an attractive export product for the FSM. Now is an ideal time for a gem buyer or distributor to establish early access to this extraordinary product.

Black pearls present development opportunities where the oysters are not naturally occurring as well. For example, the Ponape Agriculture and Trade School (PATS) is currently experimenting with spawning spat that can be used to cultivate black pearls in hatcheries and farms where natural oyster resources may be lacking.

Black Pearl Projects	Opportunity
<i>Nukouro Black Pearls</i>	8,000 black pearls are expected to be harvested in Nukouro in October 2004, with subsequent harvests yielding higher numbers. <ul style="list-style-type: none"> <li>▪ Buyers / Distributors</li> </ul>

**Sponges:** The FSM’s protected lagoons are uniquely suited for growing high-quality organic wool sponges, valued in spas and beauty boutiques around the world. Sponges are a promising export item as both production costs and transportation costs are relatively low. Buyers and distributors will be well-served once production levels grow to meet projected export demand. PATS is working with the Conservation Society of Pohnpei to encourage local farmers to raise these organic sponges.

### *Agriculture*

The FSM’s recent Third Economic Summit established agriculture development as one of the pillars of the country’s high growth strategy. Agricultural production in the FSM has traditionally been small-scale and on a subsistence level, with surplus harvests going to local markets and retailers. There are, however, several export opportunities for lucrative niche agriculture products indigenous to the FSM, such as noni, bananas, pepper, virgin coconut oil, sakau (kava), and betel nut. In addition, by developing its agriculture sector to cultivate fruits and vegetables for domestic consumption, the FSM can reduce its reliance on imports and increase the quality of available produce.

The FSM boasts a lush tropical environment with an average of 170 inches of rain per annum.<sup>12</sup> Soil quality varies across the different types of islands in the FSM, ranging from basaltic lava material in the high islands to shallow coralline soils in the atolls. The FSM’s traditional farming method intersperses different crops of plants together, rather than western-style single crop fields. This, together with restrictions on land ownership, suggests that smaller-scale ventures or production cooperatives are likely to have greater sustainability than large-scale agriculture projects.

<sup>12</sup> FSM Statistics Department 2001

## OPPORTUNITIES FOR GROWTH

Agriculture Projects		Opportunity
<i>Bananas</i>	<ul style="list-style-type: none"> <li>Over 22 varieties of bananas are grown in the FSM, 13 of which provide 50-100% of daily Vitamin A requirements. Kosrae and Pohnpei's <i>karat</i> and <i>uht en yap</i> varieties respectively provide 25 and 250 times the beta-carotene of the common Cavendish banana.</li> </ul>	<ul style="list-style-type: none"> <li>Investment</li> <li>Buyers / Distributors</li> </ul>
<i>Betel nut</i>	<ul style="list-style-type: none"> <li>Previously the predominant exporter of betel nut in the region, Yap saw a significant proportion of its crop destroyed in the 2004 typhoon. This presents an opportunity for growers to replant the entire crop in a more organized and efficient manner, and once again become the prominent supplier in the region.</li> </ul>	<ul style="list-style-type: none"> <li>Development</li> <li>Investment</li> <li>Buyers / Distributors</li> </ul>
<i>Coconuts</i>	<ul style="list-style-type: none"> <li>Virgin coconut oil processed from fresh coconuts is being marketed by health food companies as having several nutritional benefits, including boosting immune systems. Fresh coconuts require significantly less labor to produce than copra, thus earning a higher return for farmers. Virgin coconut oil sells for \$10-18 per pint online. Other fresh coconut products include canned coconut milk and coconut jam.</li> <li>Copra: Although the world market for copra has fallen, copra is used to produce local specialties like coconut soap. Copra is also proving itself to be a promising biomass energy resource.</li> </ul>	<ul style="list-style-type: none"> <li>Development</li> <li>Investment</li> <li>Buyers / Distributors</li> </ul>
<i>Noni</i>	<ul style="list-style-type: none"> <li>Noni is naturally abundant throughout the FSM and presents a lucrative opportunity for coordinated harvesting and export. Acclaimed for its health benefits, noni is distributed in over 50 countries by more than 200 companies. The noni industry is expected to pass the \$1 billion mark in 2005. Noni juice retails for \$42 per liter.</li> </ul>	<ul style="list-style-type: none"> <li>Investment</li> <li>Buyers / Distributors</li> </ul>
<i>Pepper</i>	<ul style="list-style-type: none"> <li>Pohnpei pepper is regarded as one of world's finest peppercorn varieties. Once a high end gourmet product distributed worldwide with prices reaching \$5 per ounce and netting farmers \$6000 per acre, several local farmers are once again producing Pohnpei pepper for export.</li> </ul>	<ul style="list-style-type: none"> <li>Investment</li> <li>Buyers / Distributors</li> </ul>
<i>Sakau (Kava)</i>	<ul style="list-style-type: none"> <li>In addition to serving a thriving domestic market, sakau (also known as kava) is being exported and marketed in international health food stores as a dietary supplement for such ailments as anxiety, insomnia, and pain and muscle tension.</li> </ul>	<ul style="list-style-type: none"> <li>Buyers / Distributors</li> </ul>

Source: International Noni Communication Council; Banana R & D in the Pacific Status Report (INIBAP/BAPNET)

### **Tourism**

The tourism industry is perhaps the FSM's largest growth opportunity of all. A traditional island lifestyle, as well as the beauty of the surrounding islands and sea, makes the FSM one of the last truly unspoiled paradises on earth. Each state has its own set of languages and dialects, its own unique customs and practices, and its own traditional cultural heritage, thus creating four distinct worlds in one.

The FSM attracts the more adventurous niche tourist. The lagoons and atolls are a haven for experienced sports divers, underwater photographers, surfers, and sport fishermen, while the varied topography from the hills all the way down to the sea make the islands the perfect landscape for hikers and backpackers. For those interested in ancient cultures,

## OPPORTUNITIES FOR GROWTH

Pohnpei’s spectacular ruins of Nan Madol and the Lelu ruins in Kosrae offer a fascinating glimpse into the region’s early life and architecture.

The government’s strategy is to promote the expansion of eco-tourism activities and services and thus promote low-impact and culturally-sensitive tourism. Eco-tourism resorts have already proven themselves to be extremely successful in several FSM states, including the award-winning Village in Pohnpei and Kosrae Village Resort. In addition to opportunities to further develop eco-tourism activities, the growing consciousness in Australia and Europe about Micronesia as a potential holiday destination presents significant investment opportunities for larger scale resort and hotel development projects in each of the four states.

Yet another tourism opportunity exists to leverage the FSM’s central location within the Pacific as a regional conference destination. This possibility is further enhanced by the recent launch of the Western Central Pacific Ocean Tuna Commission. Based in Pohnpei, the Commission is expected to generate a significant amount of additional business travel to the state, including the upcoming first meeting of the Commission in December which will bring over 300 delegates and staff to the island.

The expected rise in visitor traffic present opportunities to develop and invest in capacity building, particularly in the areas of infrastructure – roads, utilities, waste management, ground, air and sea transportation, improved health care facilities, and expansion projects for local facilities.

Tourism Projects		Opportunity
<i>Eco-tourism</i>	<ul style="list-style-type: none"> <li>▪ The government is focused on developing eco-tourism resorts in the FSM. Given the country’s out-of-the-way location, it is ideally suited to be marketed and developed as a yet undiscovered and untouched destination with numerous outdoor activities including scuba diving, snorkeling, sports fishing, hiking, bird watching, surfing, and the like. An opportunity for recreational eco-tourism resorts and eco-tourism landscaping exists for investment and development.</li> <li>▪ Kosrae Village Resort: Featuring traditional thatched beachfront cottages, a world class restaurant, and a full PADI 5 star diving operation, the KVR is currently seeking partners.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investment</li> <li>▪ Architects, builders</li> </ul>
<i>Hotels</i>	<ul style="list-style-type: none"> <li>▪ Yap: A new 30-room hotel project targeted at Japanese tourists is available for investment. Visitor volumes to Yap have upside potentials given the proximity to Japan. The government land for this has been identified just off the YCA building opposite Trader’s Ridge Hotel where the current Land Commission Building (due for demolition stands). The land can be leased for virtually nothing based on the government’s new lease credit scheme.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investment</li> <li>▪ Hotel Management</li> </ul>

## OPPORTUNITIES FOR GROWTH

<b>Tourism Projects</b>		<b>Opportunity</b>
<i>Add-on Flights</i>	<ul style="list-style-type: none"> <li>▪ More Drop-in Flights via Yap en route to Palau.</li> <li>▪ All flights to Palau from either Guam or Japan fly over Yap. If the airlines could be made to see benefit in landing on Yap through a special 3 days-2 nights bundle for tourists traveling to Palau, the traveler volumes would increase significantly.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Airlines</li> <li>▪ Investors</li> </ul>
<i>Cultural Villages</i>	<ul style="list-style-type: none"> <li>▪ Yap Culture Village: Opportunity exists for a culture village where tourists can spend an evening watching the famous Yap dances/cultural performances, as well as sample the local cuisine via a buffet system.</li> <li>▪ A Pohnpei Culture Center project has been proposed to help promote and enhance cultural tourism in the FSM as well as help to preserve the traditional culture. The Center will provide a stage to teach and present such cultural arts as canoe-making, weaving, carving, dance, and feast preparation. A centrally-located traditional structure built in 2002 has been identified to host the Center.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investment</li> <li>▪ Entrepreneurs</li> <li>▪ Hoteliers</li> </ul>
<i>Dive Operators</i>	<ul style="list-style-type: none"> <li>▪ With effective tourism promotion programs, the FSM can build awareness as a world class diving destination.</li> <li>▪ Chuuk is the biggest lagoon in the world with some of the most exquisite wreck-dive sites. Yap, Kosrae, and Pohnpei are home to stunning and prolific marine life. With focused marketing, diver tourism will pick up dramatically.. Numerous opportunities exist for investment and development of dive shop operations.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investment</li> <li>▪ Distributors</li> <li>▪ Tour agents</li> </ul>
<i>Cruises</i>	<ul style="list-style-type: none"> <li>▪ Given that the FSM has developed port facilities in all four states and has some of the most beautiful lagoons in the world, an opportunity exists for multi-island cruises. Environmentally-friendly cruises in particular would complement the country's current promotion of eco-tourism activities.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investment</li> <li>▪ Tour Operators</li> <li>▪ Tour agents</li> </ul>
<i>Conference Tourism</i>	<ul style="list-style-type: none"> <li>▪ Pohnpei is currently exploring opportunities to develop the state as a regional conference destination, a possibility enhanced by the recent establishment of the Tuna Commission Secretariat in Pohnpei. Opportunities exist to develop and promote conference facilities on the island.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investment</li> <li>▪ Development</li> <li>▪ Management</li> </ul>

## OPPORTUNITIES FOR GROWTH

### *Manufacturing*

Opportunities in the manufacturing sector in the FSM focus primarily on small-scale production. Most manufacturing draws from the natural resources that are abundantly available on the islands, such as coconut palms, clean water, and ocean resources. As per the recent Third Economic Summit, the goal of the manufacturing sector is to improve the competitiveness of these locally available factors of production to promote manufacturing sector development.

<b>Manufacturing Projects</b>		<b>Opportunity</b>
<i>Assembly-line manufacturing</i>	<ul style="list-style-type: none"> <li>▪ Assembly-line for pre-fabricated consumer goods such as clothing, luggage, home décor, etc.</li> <li>▪ Opportunities exist in shoes and other home products, owing to the cheap labor and proximity to Asia.</li> <li>▪ As an FAS, the FSM is entitled to special duty waivers for goods exported to the U.S.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investment</li> <li>▪ Distributors</li> </ul>
<i>Beer Breweries</i>	<ul style="list-style-type: none"> <li>▪ With high per capita beer consumption levels, the opportunity exists for the FSM to develop its own brewery. This could be done in a two steps, first with canisters of draft beer retailed at pubs and bars across the islands and then the same beer being bottled and canned nationwide.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investment</li> <li>▪ Breweries</li> <li>▪ Distributors</li> </ul>
<i>Coconut Products</i>	<ul style="list-style-type: none"> <li>▪ Ponape Coconut Products (PCP) Consumer Products has been operating since 1974 and produces body soap, laundry soap, oils, suntan oil, shampoo, and other products. The company's machinery is less than 10 years old. Product quality is regarded as high by buyers in Guam &amp; Japan, and PCP is seeking financial investments to further develop the operation.</li> <li>▪ Coconut Development Authority (CDA) is a government agency experimenting with alternative uses of copra and fresh coconuts, including virgin coconut oil, coconut milk, and other products. Opportunities exist for private investment in the processing of these products, as well as export.</li> <li>▪ The coconut processing plant in Chuuk is currently under-used because of lack of adequate managerial resources. The plant is equipped to manufacture soap and process coconut oil. The government is looking to privatize this plant to increase the production of coconut-based products and process the residual matter for animal feed.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Buyers / Distributors</li> <li>▪ Investor</li> <li>▪ Management, Marketing &amp; Product Development</li> </ul>
<i>Water</i>	<ul style="list-style-type: none"> <li>▪ Tropical Waters Kosrae, Inc. ("MELO") proposes to bottle Kosrae's abundant spring water primarily for export as a high-end product, similar to the "Fiji water" model. Transportation and bottling arrangements have been identified, and initial efforts to market the water as exclusive product via product placement are being explored. Opportunities are available to invest in and distribute this unique product.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investment</li> <li>▪ Buyers / Distributors</li> </ul>

### *Handicrafts*

**OPPORTUNITIES FOR GROWTH**

Most Pacific island handicrafts comprise either soft wood or ivory nut carvings, baskets, or other woven items. These products are exquisitely handcrafted by local artisans and, with regularized production and output, could be effectively marketed to international buyers.

The coconut tree, soft mangrove wood, and pandanus leaves are the most commonly used raw material for handicraft production. There are three main materials that come from the coconut tree – the trunk, the fronds and the nuts, each of which is used as raw material for creating handicrafts.

A specialty of Yap is a banana fiber weave that creates a garment called a lava lava. It can take four artisans up to six months to complete one lava lava, and these prized handicrafts are used either as wall hangings or as wraps for women. Additionally, storyboards (pictorial carvings on flat wood bases, believed to originate in Palau) are now gaining prominence in the states of Yap and Chuuk.

The village shops found in each of the four states specialize in handicrafts including popular items such as sharks, fish, dolphins and canoes carvings. Jewelry carved from ivory nuts, including necklaces, bracelets, and earrings, is also popular. Other widely available handicrafts include such items as trays, baskets, hats, headbands, purses, traditional love sticks, and stick charts (which have been used for centuries by the fishermen for navigation).

The defining feature of the handicrafts segment in the FSM remains individual skill based on traditional art forms. There have been attempts by various co-operative organizations, especially women’s groups, to bring this talent under one roof and create a critical mass of output that can then be exported in sizeable numbers. However, these attempts are often stymied by the lack of funding and access to management. A great opportunity exists to organize artisan labor and access viable markets through which to distribute these exquisite products.

<b>Handicraft Projects</b>		<b>Opportunity</b>
<i>High-end Handicrafts for museums and private collectors</i>	<ul style="list-style-type: none"> <li>▪ Storyboards: The wooden carved storyboards from Yap (along with those for Palau) are regarded as among the world’s finest depictions of storytelling on flat wood-carvings. Some of the higher-end exquisitely carved master-worked storyboards are marketed for thousands of dollars.</li> <li>▪ Lava lava garments: The banana fiber lava lavas are a cultural masterpiece. These works of art typically depict local myths and stories created through tiny knots of different colored banana fiber. The more exquisite pieces are valued based on the number of knots per inch as well as the color and texture of the fiber. It can take up to 6 artisans many months to create each piece.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Development</li> <li>▪ Investment</li> <li>▪ Buyers / Distributors</li> </ul>

## OPPORTUNITIES FOR GROWTH

<b>Handicraft Project</b>	<b>Opportunity</b>	
<p><i>Mass Market Handicrafts</i></p>	<ul style="list-style-type: none"> <li>▪ Carvings: Wood-carved sharks, fish, dolphins, canoes, traditional love sticks, stick charts, trays, baskets, hats, headbands and purses can be exported provided a sustainable way of organizing output and foreign partners are identified.</li> <li>▪ Ivory Nut Jewelry: Necklaces, bracelets, earrings and other items carved from ivory nuts are popular items for mainstream consumer markets, as well as decorative embellishments for island product packaging.</li> <li>▪ Storyboards: There are mid-priced storyboards for \$40-60 available throughout the islands. This sector presents a large export opportunity if a concerted effort is made to either standardize product or organize labor for volume.</li> <li>▪ Lava lava garments: The mid-priced lava-lavas cost between \$15-30 and are typically cotton-weaved with bright colors. Scale and organization can make these Lava Lava's even more affordable. More systemized production and better marketing can create a sustainable cotton sub-industry for this handicraft.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Buyers / Distributors</li> </ul>
<p><i>Private collections/ Exhibitions</i></p>	<ul style="list-style-type: none"> <li>▪ Paintings: The locals from FSM are naturally gifted painters. A small training school developed in Yap created a 2-year program to train artists, but due to lack of vertical integration, the output remained on the islands and subsequently dwindled in quantity due to dependence on tourist trade. Export opportunities for these paintings can be developed both for private collectors and also for exhibitors.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Development</li> <li>▪ Buyers / Distributors</li> </ul>



**FURTHER OPPORTUNITIES FOR PARTNERSHIP AND INVESTMENT**

<b>Project</b>	<b>Opportunity</b>
<b>EDUCATION:</b>	
Education & Vocational Training	Potential for distance learning, as well as partnerships with U.S. companies and schools for internships, apprenticeships, and mentoring. Faculty exchanges would also be welcome.
Vocational Training Schools for machine tools, basic engineering etc.	There is an acute need for skilled labor in the FSM. This has to do with the educational system which offers few vocational training programs. An opportunity exists for a vocational school to cater to individuals seeking to develop work-related skills.
<b>ENTERTAINMENT:</b>	
Bowling alleys	With few existing entertainment options, there is an opportunity to open bowling alleys in the different FSM states. The competitive spirit of local population could be channeled into leagues, community events, and inter-municipal tournaments for all ages and genders. A 12-lane, pre-fabricated facility with synthetic lanes would require an investment of approximately \$500,000.
<b>FINANCIAL SERVICES:</b>	
Bonding company	Demand exists for a bonding company in the FSM, as local companies currently are often required to get cash bonds in order to bid for projects because they do not have access to paper bonds.
Micro-financing for Female Entrepreneurship in Chuuk	The Chuuk SBDC has many ideas for micro-financing in Chuuk, but the plans have been stalled by the lack of funds. Most projects involve teaming 5-10 local women to develop a business idea through to fruition.
<b>INFRASTRUCTURE / UTILITIES:</b>	
Outer Island Transport	With few reliable transportation and freight options to and from the outer islands, an opportunity exists for a private company to profitably operate efficient inter-island transport. Demand is high, as such a service would support eco-tourism opportunities to the outer islands that are currently difficult for tourists to access, as well as increase the ability of outer islands to get their goods to the FSM's economic centers.
Port Authority Management	Kosrae State Port Authority seeks to privatize the management component of its airport and seaport. Management partner will be selected through competitive bidding process.
Utilities Modernization/ Privatization	Most of the FSM's utilities are state-owned. The government's vision is to have them sustain themselves without governmental subsidy through privatization.
Waste Management and development of waste disposal systems in Yap and Chuuk	Each of the islands in Yap and Chuuk has a sub-optimal waste disposal system, primarily dominated by land-fills. A large opportunity exists for a waste management company to come in, develop a waste collection and processing methodology and build a robust business around it.
<b>HEALTHCARE:</b>	
Development of Healthcare Pathology and Testing labs in Yap	Currently, very little clinical testing is done locally, and most tests are performed in Manila. An opportunity exists for a home-grown testing and pathology lab

**FURTHER OPPORTUNITIES FOR PARTNERSHIP AND INVESTMENT**

<b>Project</b>	<b>Opportunity</b>
Development of a private sector healthcare practice in Yap and Chuuk	Apart from the government hospitals in Chuuk and Yap, there are few professionally run clinics for personal care. An opportunity exists for a business firm to have dispensaries across the many islands
Private health insurance (Pohnpei)	An opportunity exists for a private company to provide alternatives to the government health insurance. There is high demand among the local population for alternatives and an investor could potentially partner with one of the local private clinics. Investment in a CT scan would help to drastically decrease the referral and insurance costs on the island.
<b>TRADE:</b>	
Suppliers for island importers/wholesalers	Island importers seek suppliers for such wholesale and retail products as animal feed, liquid petroleum gas, construction materials and supplies, rice, cement, used/refurbished cars and appliances, etc.
<b>OTHER:</b>	
Meat processing plant / slaughter facility	Interest exists to open a slaughter facility in the FSM to process both local and imported meat, for both local demand and export. A feasibility study would need to be conducted first.

## REFERENCES

---

108<sup>th</sup> United States Congress. *Compact of Free Association Amendments Act of 2003*, Public Law 108-188.

ADB and Pacific Islands Trade & Investment Commission, *Business Information Guide to the Pacific Islands*. 2001.

ADB, *Asian Development Outlook 2004*.

ADB, *Country Economic Review: Federated States of Micronesia*. November 2000.

Ellis, Simon. *Nursery and Grow-out Techniques for Giant Clams*. Center for Tropical and Subtropical Aquaculture Publication No. 143. June 2000.

Ellis, Simon. *Coral and Clam Farming in the U.S. Affiliated Pacific Islands*. March 23, 2000.

Ellis, Simon. *Aquafarmer Information Sheet: Farming Soft Coral for the Marine Aquarium Trade*. March 31, 2000.

FSM Investment Guide. [www.fsminvest.fm](http://www.fsminvest.fm)

Hezel, Francis X., Edwin Q. Petteys, and Debbie Chang. *Sustainable Human Development in the FSM*. United Nations Development Programme, March 1997.

*Key Economic Statistics*, FSM Department of Statistics. 2004.

Malepeai, Alice. *Pohnpei State Compatible Economic Development Assessment*. The Nature Conservancy, May 2001.

Mike A. McCoy and Robert Gillett, *Aspects of the Tuna Industry Relevant to Privatization of Enterprises in the Federated States of Micronesia*. Asian Development Bank, August 2000.

Osborn, Tom. *Banana Research and Development in the Pacific: Status Report 2002*. INIBAP/BAPNET.

Pacific Business Center, *Annual Report 2002 – 2003*.

Third FSM Economic Summit: Proceedings. March 28<sup>th</sup> to April 2<sup>nd</sup>, 2004.

*Photos and Map courtesy of the FSM Visitors' Board ([www.visit-fsm.org](http://www.visit-fsm.org)) and Shana Lee*