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Population	70,822 (2001)
Population Growth	3.35% (average, 1997-2001)
Land Area	181 sq km
Currency	1.000 / 1 US dollars / \$US (2001 - average)
GDP - PPP Method	\$98 (millions of 1995 dollars U.S.)
GDP Growth	-2.17% (average, 1997-2001); 0.66% (2001)
GDP Per Head	\$1,386 (2001 data estimated in 1995 dollars U.S.)
Inflation	0.63% (average, 1997-2001); 0.87% (2001 average)

Background

Overview

The Marshall Islands is soon to see some fiscal relief. For many years payments on public sector debt has shackled the small island nation; payments equaling roughly US\$25 million annually, or about 27 percent of GDP has been flowing out of the economy. In 2001 the biggest of its loans will have been fully repaid. This will free up almost \$18 million of annual inflow for the remainder of its restitution to the United States.

Until that day comes however, there are several factors limiting economic development in the Marshall Islands-aside from its isolated location-which include poor infrastructure, fragmented dispersion of land, and the communal tenure system that causes land disputes. As a result, the Marshall Islands rely mainly on U.S. aid as a source of revenue and resources. Under the terms of the Compact of Free Association, the U.S. provides roughly US\$65 million in annual aid, equal to about 70 percent of GDP. Consequently, the government is the nation's biggest employer. Due to the dearth of arable land, the only major agricultural export is copra. These geographic limitations made RMI a valued strategic asset for the United States for the testing of nuclear devices in the 1950s to the missile range presently in place on Kwajalein. The resulting Compact of Free Association as restitution for U.S. military use of the island has unfortunately created a dependency on U.S. aid that inhibits RMI from progress toward independent economic development. This year that

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burden will be lessened and negotiation on a second agreement for annual payments for the U.S. will begin in earnest.

Aside from appeasing its chief financier, the Marshall Islands continues on its road to fiscal reform by stabilizing government finances in the short term, seeking long-term structural stability and fostering a greater private sector. To date the government payroll has been reduced some 30 percent; shipping services once operated on the public dime are not privatized; foreign investment paperwork has been streamlined and a trust fund has been established for the islanders.

Tax reform, quicker investment procedures, and financing educational reforms are on the islands' 2001 agenda.

Economic Performance:

Real GDP contracted by 2.3 percent in 2000 after growth of around 0.9 percent in 1999. Government expenditure grew marginally, while trading and transport, primary production and manufacturing fell. A price deflation of 1.9 percent was recorded, compared with inflation of two percent in 1999, due to the strengthening of the U.S. dollar and low demand, and despite the rise in world oil prices.

The budget surplus fell by more than half in 2000. The government's total revenue of \$62.1 million was lower than 1999, mainly due to a reduction in import taxes and despite a 50 percent increase in income from fishing license fees.

Total external debt dropped dramatically from 90 percent of GDP in 1999 to 72 percent of GDP in 2000. External assistance rose to 70 percent of GDP, from 44 percent of GDP in 1999. The largest component was the payment from the U.S. under the Compact of Free Association. Taiwan made a large grant of \$19 million. Interest rates on savings and time deposits declined to 2.8 percent as banks acquired more deposits than they could lend and inflation stayed low. Lending rates were 10-16 percent in 1999. These high real rates and the wide spread between deposit and lending rates suggest weak competitive pressure on the banks to increase lending. This year there is an eight percent reduction in expenditures and a 15 percent increase in revenue. It is unlikely that GDP will grow in 2001. In 1998, the inflation rate was four percent.

Balance of Payments:

Exports in 2000 increased by 9.7 percent to \$7.9 million, while imports declined slightly to \$58.8 million. The trade deficit in 2000 represented 53 percent of GDP, a slight deterioration from the 1999 deficit. The current account in 2000 showed a surplus equivalent 7.6 percent of GDP. On the capital account, the main item was loan repayments, which absorbed most of the current account surplus.

Regional Situation

In the context of regional economic developments, the Marshall Islands will not be helped by the current situation in the Asia-Pacific region. Economic activity is

faltering as indicated by falling stock markets and significant devaluations in a number of countries including Indonesia, Malaysia, South Korea, and Thailand as well as the slow economic growth and building problems in Japan.

Energy

The Marshall Islands imports all of its energy requirements. Imports of fuels and lubricants totaled \$13.6 million in 1997.

Environment

The Marshall Islands is an entirely low-lying chain of coral islands and atolls, and as such is vulnerable to an anticipated rise in sea level linked to anthropogenic climate change. The highest elevation in the islands is only 34 feet above sea level, and no island measures more than a mile across at its widest point. Natural resources are inherently limited: the 1,200 small islands and atolls that comprise the nation together add up to an area about the same as that of Washington, D.C., placing a severe constraint on the amount of arable land.

During the last century or so of intensive European, Japanese, and U.S. influence, indigenous land use patterns based largely on cultivation of staple breadfruit and taro gave way to coconut plantings oriented to the export market—further stressing the Marshall Islands' food production capabilities. Fish and other seafood are abundant, but face potential overharvesting. Moreover, the islands have extremely limited supplies of fresh water from sources such as springs, ponds, or underground aquifers. Even where these sources are available, rainwater catchment is necessary to supplement them; on many islands rain provides the only fresh water available.

Population growth accelerated substantially in the 20th century. Indigenous folkways—incorporating the practice of various sexual taboos, and sometimes abortion and infanticide—emphasized the importance of a stable population as a response to local resource constraints. Traditional attitudes fell out of favor as Christian missionaries preached the sanctity of procreation, and above all as a result of exposure to the mass-produced cornucopia of industrialized economies. In recent decades the Marshall Islands posted one of the world's highest birthrates, though the latest figures show an incipient declining trend. Overall population growth slowed more than expected during the late 1990s, primarily because many islanders relocated to the U.S. Islanders have open travel access to the United States as a legacy of the Marshalls' former trust territory status, but using this access to become permanent residents is technically illegal.

Much of the islands' biodiversity is marine-based. The islands harbor hundreds of species of coral, along with some 250 species of reef fish. The diversity of bird and reptile life is also impressive. By contrast, there is only one native mammal, the Polynesian rat.

Cyclones and drought are the principal natural hazards. Violent storms visit the archipelago sporadically, but occasionally have wrought massive destruction, even depopulating entire islands. During the most recent occurrence of the periodic El Nio oceanic weather phenomenon, in 1997 and 1998, the Marshall Islands received

essentially no rain.

The islands derive a singularly adverse environmental heritage from their use, for ten years beginning in 1948, as the site of open-air nuclear weapons tests by the U.S. Sixty-six explosions took place altogether, including detonation of several hydrogen bombs with yields 750 to 1,000 times the intensity of the Hiroshima blast. Islanders underwent both the confiscation of their homes on Bikini and Enewetak atolls, and chronic illnesses traceable to radiation exposure. The group of islanders in the most direct path of test fallout currently has a 70 percent cancer rate. The United States at present acknowledges that inhabitants of only four islands experienced significantly deleterious health effects caused by the nuclear test program. Other researchers assert that at least the northern half of the island chain, and possibly the whole archipelago, were exposed to damaging levels of radiation. Debate over what compensation should be rendered to the islanders, in addition to an existing U.S.-financed trust fund, will likely continue beyond the lifespans of those present during the test era. The atolls used for the blasts, as well as the bodies of persons exposed to fallout, form de facto laboratories for radiation mitigation research.

Regulation of activities having environmental impact is under the jurisdiction of the Ministry of Health and Environment. The Marshall Islands is a signatory to international environmental agreements on Biodiversity, Climate Change, Law of the Sea, Ozone Layer Protection, and Ship Pollution.

Agriculture

The agriculture sector in Marshall Islands contributes 15 percent of the GDP and employs an estimated 18.7 percent of labor, as stated in the GDP/Employment by Sector of Origin table. The key primary food crop produced is copra. The largest (in value terms) agricultural exports in 1997 were copra, crude coconut oil, chilled fish, pet fish, frozen fish and shark fin. The total value of agricultural exports in 1997 was \$28.0 million, while the total value of agricultural imports in 1997 was \$18.0 million.

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