



Who Will Own

Business in Majuro?



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The Fall of the House of Reimers

Not too many months ago the headlines of the Marshall Islands Journal announced that Robert Reimers supermarket in downtown Majuro had closed. Robert Reimers Enterprises (RRE), which was a presence on the island for half a century and had outlasted such onetime notables as MIECO and KITCO, had built one of the most fashionable supermarkets in the Trust Territory. With its modern cash registers, its well-stocked shelves and shopping baskets, it was a symbol of what was to come when it was remodeled in 1971. The opening of the new store served as a statement that locally owned business had come of age in Micronesia. For the next 35 years the store remained a landmark in Majuro, surviving both growing competition from outlets like Gibson's and government boycotts when its owners fell in political disfavor. The store, however, did not survive the challenge of Asian competition. The largest and at one time most successful store in the Marshall Islands was bought by a Taiwanese owner and reopened under the name of Formosa Store.

When a giant falls, the press takes note. Accordingly, the item was carried by *Pacific Magazine* and news outlets throughout the Pacific. But the fact that a locally owned giant succumbed to Chinese business interests sounded alarms for Micronesian businessmen throughout the whole region and raised some critical issues for business and government alike. Could the fate of Reimers supermarket in Majuro be the harbinger of an Asian business onslaught that would exact a similar toll on other islands? Was this a sign of the end times for locally owned business in the islands? What, then, should be the stance of island governments with respect to the liberalization for foreign investment policies recommended by Asian Development Bank and the world community?

The story of Chinese business ascendancy in Majuro is clearly of interest far beyond the Marshall Islands. This article will attempt to present the background of that story, not as a piece of investigative reporting aimed at making indictments against the RMI Government or private parties in the Marshalls, but as a historical recap of what was responsible for the present Chinese business prominence in Majuro. The article will also suggest a few of the broader issues that the make-over of the Majuro business community by an Asian minority raises.

Chinese Presence on Majuro

No one seems to know for certain just how many ethnic Chinese are now living in Majuro. Nor is there any way of determining this in view of the fact that many Chinese are now holders of an RMI passport. The breakdown of the Majuro population from the 1999 census lists 50 residents from the People's Republic of China (PRC) and another 23 from the Republic of China (ROC, otherwise known as Taiwan), in addition to 166 Filipinos, 28 Japanese and 43 Koreans. Yet, these numbers, which include only foreign

passport holders and are seven years old, are far lower than the actual number today. One informed source estimates that there are at least 150 Taiwanese and over 300 mainland Chinese on Majuro at present.

Totaling perhaps 500 in all, ethnic Chinese represent less than 2 percent of Majuro's total population of 24,000. Yet, this figure belies their impact on business in Majuro, as anyone driving from the airport into downtown Majuro, past one Chinese-run store after another, can see. Names like Jinyo Store, May C's Store, Yang Guang Store and Family Dollars Store appear everywhere. Indeed, over one-third of all retail stores—95 of a total 272 stores—are Chinese owned or run, according to the latest list of business licenses issued by the Majuro Atoll Local Government. Chinese run businesses range from mom and pop stores and take-out places and auto repair shops to much larger establishments: grocery stores, medium-sized hotels, taxi companies, and hardware stores.

Such a storefront survey offers a striking picture of Chinese influence in the Majuro business community, but a survey of the warehouses would show even more impressive results. Chinese have a 45 percent share of the total import business licenses issued, 30 of 67. They may not yet have a proportionate share of total value of goods imported, but they appear to be gaining ground each year.

Is the Chinese business ascendancy in Majuro a commercial catastrophe? Not necessarily, although many residents almost certainly resent the competition to local business. If they were adamantly opposed to this turn of events, Marshallese shoppers could easily boycott Chinese-run establishments in favor of local businesses. The fact that the local community patronizes the latter suggests that Asian businesses offer a competitive edge in price savings. But let's return to this after we review the events of the past twenty years to see how this all came about.

Passports for Sale

The Chinese influx is usually associated with the sale of Marshallese passports, an idea that was first floated about 1987. This scheme had its origins elsewhere in the Pacific; Tonga had marketed passports to Asian buyers a few years earlier. The plan to offer Marshallese passports for sale may have been made with an eye to promoting business in the Marshalls. Presumably anyone with enough money to purchase a passport would bring cash that could be invested in the islands and help pump up the flagging RMI economy. Moreover, an RMI passport, even if had to be renewed every five years, was bound to have a huge appeal to Asians as a point of departure for the US, since all Marshallese citizens were allowed free access to live and work in the US. Either way, the sale of passports couldn't do much harm to the Marshalls, it seemed at that time. Buyers would bring their considerable assets to the islands to invest and stimulate the stagnant economy before they drifted off to the US mainland to be absorbed into the US population. As for the requirement that the RMI passport be renewed after five years, Asian buyers who took advantage of the passport to move on to the US might have either worked out a way to otherwise legalize their status by the end of that five year

period or, failing that, may have simply become faceless Asians lost in the teeming millions in mainland US.

Meanwhile, the RMI Government was taking its first steps towards establishing formal diplomatic relations with the People's Republic of China prior to its application for membership in the United Nations. The Marshalls was well aware that PRC, which was then a member of the UN Security Council, would have almost certainly blocked the Marshalls' attempt to obtain membership if RMI had recognized Taiwan. By 1990, RMI had established diplomatic relations with PRC, and within another year the Marshalls was admitted as a member of the UN.

As all this was happening, RMI tentatively began to market its passports. Agents were appointed to push the passports under a team headed by the President's son, who then held the position of Secretary of Foreign Affairs. Initially, the scheme required that a prospective buyer pay \$1 million into a development fund for the Marshall Islands. By all accounts, though, very few passports, if any at all, were actually sold at this time, so the plan was soon aborted.

By the mid-1990s, with the third stepdown in Compact funds imminent, the Marshalls Government faced a serious financial crisis. The Capital Improvement Funds had all been spent—on Air Marshall Islands, on the new capital building, on fishing boats, and on the Outrigger Marshalls Islands Resort hotel, among other things—and the government had borrowed on its future Compact funds to maintain operations. The RMI government ran a real risk of insolvency, for there was not enough money in the operational funds to make the government payroll once the stepdown went into effect. At that time there were more than 2,000 employees working for the government. That number was soon to be reduced by one-third when the ADB-led austerity measures went into effect in 1995 and job cuts were made.

With the RMI government financially over-extended, passport sales were resumed in about 1993 and continued to August 1996. For the next year or two sales were heavy. Most of the estimated 2,000 Marshallese passports sold overall were marketed during this time. The asking price for an RMI passport was reportedly about \$25,000 to \$40,000, with the agent retaining 25 percent and the government theoretically collecting the rest. The individuals charged with marketing the passports included highly placed officials in the RMI government and some of its diplomatic corps.

When an American auditor for the RMI government, Susan Thompson, issued a report that was highly critical of the practice, she was allegedly fired soon after her report was put out. Even so, the top level of leadership in the Marshalls was beginning to have its doubts about the wisdom of this scheme, as the US State Department, disturbed at the report that Asians were illegally attempting to enter the US, increased pressure on the RMI to shut down the program. A commission was formed to look into the practice and report on the findings. After Amata Kabua, President of RMI at the time, read the report, he immediately imposed a moratorium on the sale of passports, although the

report, issued in 1996, was never released to the public. Even after the moratorium, it is said that some passports were still sold and back-dated.

No one seems to know how much money was brought into the RMI national treasury through the sale of passports, for record keeping was poor. If we assume that at least half of the 2,000 passports were sold at a unit price of \$25,000-\$40,000, with at least 60 percent of the sale price reverting to the government, RMI could have made between \$15 and \$25 million from the scheme. Yet, there is nothing to suggest that this money was ever recorded. Thus, a scheme that was undertaken to help the country in a moment of financial crisis seems to have brought very little revenue into the government till. How it may have benefitted the individuals who were hawking the passports is a matter of conjecture. It is difficult to determine just how many of those who purchased the RMI passports are still living and working in the Marshalls today. What the passport scheme certainly did accomplish, however, was to bring about the inflow of an ethnic Chinese population that has claimed a major share of business in Majuro today.

The Swing to Taiwan

From the mid-1980s, even as it was preparing to establish formal diplomatic ties with the People's Republic of China, the Marshalls established a trade and social agreement with Taiwan and was welcoming Taiwan-sponsored fishing interests into the Marshalls. In 1985 the first prominent Taiwanese businessman appeared on the scene. Almon Chien, a citizen of the Republic of China, arrived in Majuro at that time and opened, in partnership with the Mayor of Majuro, a disco by the name of Uncle Sam's. The disco's location, next to Assumption School and across the street from the Congregational Church, brought howls of protest from its neighbors, forcing the owner to close the bar and convert the building into a hardware store. The new business prospered as "Jane's," soon becoming the premier store of its kind and the root from which several other businesses sprang. Chien, who has remained a prominent businessman on Majuro and has since acquired Marshallese citizenship, is popularly known as "Octopus" because of his multiple business ventures, which include Office Mart, Long island Hotel, and the Mitsubishi car dealership. He also has a lease on open land near the weather station, the last major parcel of undeveloped land in downtown Majuro.

In 1998, under President Imata Kabua, the RMI Government suddenly announced a major shift in foreign policy when it formally recognized the Republic of China (Taiwan). This, of course, meant a severance of the diplomatic relations between RMI and the People's Republic of China. Accordingly, the PRC embassy was closed and the staff hustled back to Beijing, as an ROC ambassador took up residence. The recognition of Taiwan was reportedly negotiated by key cabinet members in the RMI administration in view of the attractive aid package that Taiwan was prepared to offer the Marshall Islands. The package included \$10 million in foreign aid annually as well as a total contribution of \$50 million—\$2 to \$3 million each year over a 20-year period—for the Trust Fund that had been set up to provide ongoing support for the RMI at the close of Compact 2. Additional benefits included many other donations, including scholarships

and study trips, and more recently a \$800,000 revolving loan fund and guaranteed support for a commercial agriculture project in Laura.

Taiwanese had been drifting into Majuro since the early 1990s, some of them in connection with the Chinese fishing interests that established operations on the island. A number of these may have purchased RMI passports. Others seem to have simply applied for foreign investment permits to open businesses and found local partners to furnish them with land and legitimacy.

Perhaps the most notable of these Taiwanese newcomers was Kwang-Ming Koo, reputedly a billionaire, who invested heavily in the Bank of the Marshall Islands. Koo, who visited Majuro several times a year, was underwriting considerable fishing interests in the area. By 2000, he had six of his purse-seiners registered under the RMI flag. His investment initiated something of a new fishing boom in the Marshalls. Even if the RMI received only marginal benefits from the catch and the fishing operations themselves, since the crew members were all Chinese, there was still other money to be made there. Since the new RMI fisheries policy required that transshipment from fishing vessels be conducted in port, the fishing operations brought additional funds into the economy from the fueling and servicing of foreign-owned ships fishing in RMI waters.

The recent controversial proposal by a Taiwanese commercial interest, Ching Fu Shipbuilding, to establish a drydock in downtown Majuro was an outgrowth of this. The drydock was the centerpiece in a plan to draw more ship traffic and to establish Majuro as a major transshipment port. The facility was intended to service primarily fishing vessels, to lengthen their stay in port, and thereby to maximize their contribution to the local economy. The drydock was to be funded by Taiwan business interests, who were offering top dollar for the land they would be leasing—reportedly \$48,000 an acre yearly, or eight to ten times the going lease rate on Majuro. The proposal is still being bitterly contested on environmental impact grounds, for the drydock was to be located in a residential area of the town. Beneath these arguments, however, there may lie a deeper and more ominous concern: the fear that the drydock might be yet another step in the final conquest of Majuro business by Taiwan.

The welcome extended to Taiwanese businessmen and the foreign fishing industry, culminating in the establishment of diplomatic relations with Taiwan, was undertaken, like the sale of passports, to bring in money at a time of fiscal crisis. All this did generate money, but it had other effects as well. The Taiwanese businessmen who came to Majuro have acquired a good share of the business in Majuro—not the mom and pop stores or take-out places that mainland Chinese typically run—but many of the larger and more prominent enterprises on the island as well as a good share of the wholesaling and importing.

The Local Backlash

Naturally, the inflow of Chinese over such a relatively short period of time has provoked a strong reaction from the local population. Chinese business operations, heavily

concentrated as they are in Delap and Small Island, are said to be displacing Marshallese from the land on which they once resided. Stories circulate that Marshallese who had formerly been tenants on some of these land parcels have been thrown off the land to make room for Chinese businesses. Some of the paramount chiefs, who hold primary rights over the land, have strong ties to the newcomers as result of intermarriage or land lease agreements. Such commitments often override the customary tenure of Marshallese who have lived on these land parcels for years. Indeed, paramount chiefs have traditionally exercised the privilege of welcoming newcomers to their island and providing them with land on which to live. Even so, one high-ranking chief who has adamantly refused to allow any Chinese stores on her land warned another, who has a history of offering Chinese businessmen land, that unless she changes her practice, her own people will be driven off the island and forced to “live in the water.”

Another complaint centers on the unfair business practices attributed to Chinese. Visitors to Majuro who spent any time there will be treated to stories of how ships were offloaded in the middle of the night and the cargo secreted into warehouses so that businessmen could dodge import duties. Stories of tax evasion are rife. The price of cigarettes in some Asian-owned stores was said to be so low that Marshallese businessmen found it cheaper to buy from these stores than to import wholesale by the case. Local business owners shake their heads and wonder how Chinese storeowners could afford to sell at a price that would not have covered import taxes. Not long ago, an Asian merchant was discovered to have imported vodka in water bottles to avoid paying the heavy duty on alcohol. The Mayor of Majuro himself reported that at times three or four taxi companies might be operating on a single business license. The Chamber of Commerce has repeatedly voiced its concerns over these abuses and has petitioned the government to enforce more strictly its customs and business procedures.

Marshallese also complain about the organized prostitution that has surfaced since the Asian business takeover. This is not to say that the trade was altogether unknown before the Chinese influx. Twenty years ago, people were complaining about what they called *kogan*, young girls who sometimes lived in shipping containers and preyed off those working the fishing boats for whatever drinks or food they could cadge. One evening during a conference on youth problems held on Majuro in the mid-1980s, the participants paid a visit to a dimly lit disco where we saw young girls, heads wrapped in towels, inviting tourists out onto the dance floor. The towels were to hide heads that had been shaved by angry parents when they found out what their daughters were up to. Still, the prostitution in town these days has come out of hiding and gone professional. People point out spots in back of the Eastern Gateway Hotel and behind Lanai Restaurant and in the new four-story building in Uliga that are publicly known as brothels. Girls on the prowl is one thing, but pimps hawking on the streets is another. The former suggests girls out looking for excitement and a bit of sustenance; the latter suggests big business.

Marshallese backlash to what is regarded as the Chinese invasion is nowhere more evident than in the locally drawn cartoons published in the *Marshall Islands Journal*.

Usually people with cone-shaped hats representing Chinese are depicted as engaged in a struggle for land and resources, usually besting the easy-going Marshallese who simply resign themselves to the inevitable.

The Other Side of the Story

Here on Pohnpei not long ago, a resident businessman was overheard telling someone that if business on the island was ever to become more efficient, the business community needed a strong dose of foreign competition. There's nothing like stiff competition to turn fat and lazy local businesses into lean and mean ones if they are to survive, the man was arguing. Thanks to the Chinese influx, Majuro has just what this businessman prescribed for his own community. With the new Chinese stores that are springing up everywhere, business competition has been stepped up greatly on Majuro and margins of profit have become narrower, we can assume. Some locally owned businesses have closed, but those that remain in operation are forced to trim down and become more efficient.

In theory, the advantage of greater efficiency should be passed along to the consumers, since this provides the competitive edge that will allow stores and other enterprises to elbow out their rivals for a larger share of the business. This appears to be happening in Majuro as prices drop and Chinese stores attract an ever larger volume of the business, despite the ethnic bias of many Marshallese. When it comes time to decide where to find food for the family meal, most shoppers will buy from a store that offers the best bargains, regardless of who owns the store. Perhaps a legitimate case can be made, after all, that Chinese business, however much harm it seems to be doing to local stores right now, will have a beneficial effect on business in Majuro in the long term.

The presence of an Asian minority in a confined cultural environment like Majuro might have other beneficial effects on the community as well. Vietnamese, Chinese, Korean and Filipino immigrants certainly helped to elevate the educational standards in southern California school districts over the past two or three decades. Might we not also expect that Chinese children, who are often high achievers in school, will raise the present rather low educational standards in the Marshalls?

At bottom, Chinese in Majuro are only doing what anyone else would do—seizing any opportunity that comes along to better themselves. If there is a chance to go abroad to find work that might offer a higher salary and upward mobility, it makes sense to take it. This, of course, is precisely what Marshallese are doing when they emigrate to the US to find higher paying jobs and new avenues to prosperity. The desire to succeed becomes all the more urgent when the strong familial ties that bind individuals to the family are taken into account. The responsibility of Chinese to provide support for others in their family is something that must resonate with islanders, who certainly feel the same strong ties with their kin. With one thousand people leaving the Marshalls each year to seek a new life in the US, Marshallese surely must understand the motivation that Chinese have for traveling thousands of miles to seek a new life abroad.

Where To Go From Here

The passport sale scheme, a desperate attempt to find a quick and painless solution to the country's financial problems, was a mistake and is now recognized as such, even by those former public officials who may have personally profited by the payments. The scheme encouraged a climate of corruption among civil servants and did serious harm to the image of the RMI in the world community. The old "*Marshalls Mokta*" ("Marshalls First") motto that had stirred national pride a decade or two earlier had given way to a "me first" attitude—a desire for personal gain that trumped any consideration of the impact on society. Immigration policies were relaxed at a time when they should have been tightened, while customs enforcement lapses allowed foreign competitors to gain an unfair advantage over local businesses.

Whatever our judgment on the sale of passports, however, a number of ethnic Chinese are now RMI citizens and deserve to be accorded the privileges of citizenship. Others have obtained legal foreign business permits that must in justice be honored. The present administration of the RMI cannot undo the past, but it can be expected to learn from it. Needless to say, the government will have to plug holes allowing illegal immigration and correct any unfair business practices such as tax evasion—sooner rather than later—if Marshallese businessmen are to be given a chance to compete equitably with their Chinese counterparts.

Yet, not all the success of Chinese business should be ascribed to unethical business practices. Throughout the Pacific and Southeast Asia, Chinese entrepreneurs are regarded with envy and grudging admiration for their business acumen. Think of Indonesia, where there have been periodic reactions against Chinese commercial dominance. In the Philippines, where a Chinese minority had come to play a leading role in business from their ghetto in Binondo, Chinese were denied citizenship for years despite their prominence in finance and commerce. In the Solomon Islands, Chinese have obtained a measure of influence disproportionate to their numbers, but the government seems satisfied to let them manage business for the benefit of the rest of society.

Whatever the forces that drove them into commerce, Chinese have developed a remarkable proficiency in it, as their dominance in Southeast Asia and the Island Pacific attests. Whenever it comes to an out-and-out contest between Chinese and Pacific Islanders in business, most of us would have to put our money on the Chinese to win. However adroit Islanders may be and whatever admirable qualities they may possess, they are simply not as hungry as Asians. Marshallese, like other islanders, come from a background that has been termed "subsistence affluence." Enjoying the bounty of nature as they do, they can live a reasonably comfortable life off the land with an average of four hours work a day. Asians, who often come from crowded cities with marginal job opportunities or rural farms on which men put into long days behind the plow, have no such fallbacks in the event of business failure. The prospect of abject poverty has a way of motivating people to work and endure inconveniences that they

might not otherwise be willing to put up with.

Liberalization or Protectionism?

The Chinese presence in Majuro affords Marshallese, along with other Pacific Islanders looking in, a unique opportunity to put a face to an issue that might otherwise remain abstract: protectionism vs. liberalization of trade. Should the ADB-sponsored reforms that encourage the removal of barriers to issuing foreign business licenses and the easy access of land for this purpose be embraced? Or should RMI retain its restrictions to ensure control of its own business? Will liberalization generate new and bigger business opportunities that will create more jobs for Marshallese and strengthen the national economy in the future? Or will such liberalization stifle local initiative, marginalize its own population, and lead to unintended but overriding negative social impact on the local community?

This is a vital issue that all island societies must confront in today's global society—in a world that has become flat, as we are told. Whatever else the Chinese business presence in Majuro has done, it has at least positioned the Marshallese to face this issue head on.

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