

## ECONOMIC IMPACTS



# Economic Impacts

## Overview

This section describes many of the prospective economic impacts of each of the three political status options. Other, more specialized, sections of this study address specific aspects of the impacts. It is emphasized here that all aspects of economies are interrelated, with none operating entirely separately from the others. Changes in one area of performance or policy will usually have affects on other segments of Guam's economic system.

Individual and organizational preferences related to the desired level of economic development and the tradeoffs between development and other political objectives exist, but those are not addressed in this section. In guiding future policies, those preferences are to be applied by the reader in determining which political status option they choose.

One of the most important concerns in assessing Guam's political status options is the prospective performance of the economy in terms of the potential prosperity of people living here.

This is not easy to address because of three major factors:

1. The terms and conditions of the final agreement implementing the chosen political status:
  - a. Statehood would appear to be the best-defined option, since there are already many models available; however, each of the States has its own unique relationship with the federal government that can be traced to the conditions of its admission into the Union, so there is some flexibility in reaching a final status formulation. For example, see the Constitution section of this study, particularly on federalism and the variations in state constitutions which affect the internal operations of the 50 states.
  - b. Free Association with the United States would also appear to be relatively well-defined, given the three recent examples of functional agreements (the Federated States of Micronesia, the Republic of the Marshall Islands and the Republic of Palau) of that status in relation to the United States. However, among the three options, the final

agreement defining “free association” is almost purely a negotiated relationship, so has the broadest range of possible terms and conditions

- c. Independence is perhaps the best-defined option on the face of it, but because of existing and likely ongoing US strategic interests in Guam and in the Western Pacific (primarily military and commercial), its implementation may be much more complicated than simply severing political ties. Just as in most independent countries in which the United States has established strategic interests, it is likely that there will be a set of arrangements between an independent Guam and the US.
2. The political structure under the selected status, including the rule of law and those laws themselves, the controls designed to limit the exercise of government power, and most especially how that structure supports and impedes economic growth and development:
  - a. There is already a well-established framework of laws, rules and regulations administered by the central government under the statehood option. Nonetheless, the States are given wide latitude to augment and supplement federal requirements, ensuring a level of autonomy under more local control, and how that autonomy is exercised will have major impacts on Guam’s economic performance in the future.
  - b. Although far greater local autonomy would be available under free association than under statehood, there would still be many constraints, if for no other reason than to maintain the United States’ position within what has been called the “world order.” Under each of the freely associated states’ relationships with the US, those countries defer certain administrative controls to the US because the US has committed to defend the FAS militarily against foreign aggression; the islands do not currently have the resources necessary to effectively defend themselves.
  - c. With the Independence status, Guam would conceivably have complete control over both domestic and international affairs. As a practical matter, though, it is likely that a set of arrangements (under continuing US hegemony) would be made i) to maintain the United States’ strategic interests in Guam and in the region, and ii) to continue military protection under the umbrella already provided by US security. While it is possible that Guam could form military alliances with one or more other countries that may initiate international conflicts that, ultimately, would expand beyond Guam’s control.
3. Finally, Guam’s post-transition economic performance will depend heavily on the legal and other preparations that are made before the implementation of a new political status. It is important that Guam complete, to the maximum extent possible, every prudent task in advance to minimize the inevitable disruptions that would accompany the change in status. These preparations include a foundational regime of laws, rules and regulations, as well as

the accompanying enforcement mechanisms, but they also include the development of the physical infrastructure to support Guam's economic aspirations.

Addressing the economic concerns surrounding a change in Guam's political status is a lot more complicated than saying, "I want this particular status" or "I support that status." There are an enormous number of community decisions that have to be made, a wide range of preparations that will have to be completed in advance of the status change, and a monumental amount of work to be done ahead of the date of Guam's political status transition.

As in other sections of this study, because Guam has unique characteristics, opportunities and constraints, there are no clear comparisons to any other place. Although it would be possible to assert that, because this is how some particular aspect changed in some other place, the same will happen here, an economy is composed of innumerable factors, a change in any one of which would affect how other elements of the economic system change as well. Because there are no other places that are more than nominally similar to Guam, drawing parallels between Guam's prospects under each of the political status options with those of any other place would be a disservice, giving a dubious impression that all of the interrelated changes that would occur here would somehow be predicted by observing the changes in another, essentially different place. For that reason, examples of the experiences of any other places are not included in this section.

# Industry Development

The question of industry development is common when it comes to a change in political status. There are certainly possibilities for industry development in each of the three statuses. In acknowledging possibility, however, it is important to note the constraints and challenges in the expansion and development of new industries. Among the fundamental constraints are: the island's relatively remote geographic location; its limited available land and other natural resources, including clean fresh water; its higher wage rates and standards of living relative to other regional jurisdictions; its small population, which limits the availability of economies of scale that support industrial activity and expansion in larger communities; high transportation costs for imports and exports; its fragile physical environment as a result of factors such as a history of military contamination and fragile coral reefs; and numerous other factors which can make the development of particular industries difficult, if not impossible. For a further description of some of the environmental challenges Guam faces, please refer to the Environmental Sustainability section of this study, particularly the Human Security/Climate Change subsection. These constraints will continue, regardless of Guam's chosen political status, although the gross impact of each will vary moderately depending upon which option is chosen. It is important to note that these are challenges and obstacles, not a resignation to impossibility.

Historically, especially in the late 1960s and the 1970s, Guam tried to develop a variety of domestic-and-export-oriented industries. This led to the development of the Qualifying Certificate (QC) program. Created in 1965 by Guam Public Law 8-80, the QC program establishes several investment incentives designed to stimulate economic development in Guam. At the time, the sole source of exchange to support imports was the federal government; with the QC program meant to attract investment on behalf of the government of Guam.

By 1965, Guam's leaders had found it evident that the federal government had little interest in the development of the island for other than military purposes, but also recognized that military expenditures were unstable, leaving the welfare of the local population subject to the whims of

a Capitol Hill that rarely thought about its western-most territory. Guam’s leaders, though, were faced with a dilemma: they wanted to stimulate private business, but could not attract US investment to an undeveloped island; they could not develop the island’s infrastructure, transportation and communication capacities because of severe funding limitations...<sup>383</sup>

Related to this, several efforts were made to take advantage of General Headnote 3(a) of the US tariff schedules, which accords duty-free entry of *bona fide* products of Guam (defined as thirty percent or more of value added to imported materials processed here for export). One of these efforts was the issuance of the first twelve QCs to manufacturing and materials processing firms. Four of these QCs were for watch assembly operations. However, these efforts repeatedly failed, in large part because the assessment of “value added” in Guam was difficult for the US Customs Service to make. For example, the watch industry in Guam eventually floundered as watches became ineligible for entry into the US under General Headnote 3(a), apparently to protect the jobs of citizens in the fifty states. This also led to the failure of firms in Guam that manufactured watch bands and bracelets.

In another example, four QCs were issued for textiles in 1972. These failed due to obstacles such as the ever-shifting nature of the textile industry. More importantly, as a result of this constant change in the industry, the “manufacturer must seek a new binding determination of enterability from US Customs in Washington or risk having its goods turned back at the port-of-entry because of arbitrary (and usually unfavorable) spot determinations by customs officials.”<sup>384</sup> Furthermore, “there were also reported instances wherein customs officials were not qualified to make the necessary determinations, and left garment shipments in bonded warehouses (at the manufactures’ expense) for indefinite periods.”<sup>385</sup> A year later, three textile firms were issued QCs, as were four textile firms in 1976, with the intent of taking advantage of Headnote 3(a). However, due to the problems outlined above, these firms ceased operations within a few years. This shows how Guam’s ability to export goods and potentially build new industries was stifled. The primary point is that the US did not allow manufacturing for export to develop here.

Since then, Guam’s export of goods has been quite limited, and the economy has resorted to the export of services to pay for the island’s imports. As articulated by former Governor of Guam Joseph Ada during the Guam Commonwealth Act hearings before the US Congress, regarding the garment and watch industries (to be quoted at length);

On two separate occasions, flourishing manufacturing industries on Guam have been strangled by federal constraints—imposed after these industries became successful—imposed because these industries became successful... The projected loss to our community in these two examples is from \$350 million to \$800 million in income annually, and between \$120 million and \$260 million in lost tax revenues.

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383 GEDA’s Response to the Inspector General’s Audit Report on the Qualifying Certificate Program, pg. 4.

384 GEDA’s Response to the Inspector General’s Audit Report on the Qualifying Certificate Program, pg. 9.

385 GEDA’s Response to the Inspector General’s Audit Report on the Qualifying Certificate Program, pg. 9.

Why did this happen? Because American big business lobbies have more clout than American small colonies. And because America sometimes treats us as foreign and sometimes as domestic, always to our disadvantage. Headnote 3(a) benefits are a joke to us. A fake benefit. It looks good on paper but every time we try to implement something, we get nothing for our trouble. We are soon treated as a foreign country with quotas imposed on us.<sup>386</sup>

Powerfully summing this up, Ada said, “We were told year after year that we had to develop our own economy in order to pay our own way. We have tried, and we have succeeded. But federal policies have not helped. They have hindered us. If our economy has only one dimension, tourism, it is not because Guam has not tried to diversify, but because federal regulations and the unlimited power the federal government has to dictate changes in policy that affect us, have made it almost impossible.”<sup>387</sup>

As it currently stands, Guam has two primary industries, both of which provide for the export of services: tourism (the principal private sector industry) and military activities. Both could be directly and indirectly affected by political status decisions and, particularly, by the means and mechanisms of implementation of changes in the existing system, such as the provisions of a potential Compact of Free Association with the United States, the investment environment in Guam post-status change, and any potential conditions on military presence and activities in Guam under free association and independence.

There are also several important secondary industries, including: services, in addition to hotels and lodging places; wholesale and retail trade, which includes some tourism- and military-oriented businesses, along with several businesses that derive significant portions of their sales from those two primary industries; and construction, especially building construction, which as of this writing includes substantial military-related projects. Although not technically an “industry,” the local government is also a major employer, providing essential public services and generating income and jobs for more than one-sixth of Guam’s working population. Transportation and public utilities, finance, insurance and real estate, manufacturing and agriculture, along with federal-civilian employment, round out the secondary industries active in Guam.

Guam’s two primary industries are heavily dependent upon external factors that are almost entirely beyond the control of decisions made here (although a greater measure of influence could be exercised under each of the status options than is available under the current status). For example, under statehood, Guam could apply national incentives for international trade and development. The US could apply more international diplomatic pressure in favor of Guam’s economic development, as Guam would be a full part of the union. Under free association (barring any negotiated agreements with the US) or independence, Guam could set its own trade laws, tax laws, and other incentives for outside investment into Guam. Tourism is generally considered to be a “luxury good,” in that a change in income in a country that is a source of visitors leads to a higher percentage change in the level of tourism services that Guam

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386 Guam Commonwealth Hearing, Honolulu, HI, December 11, 1989, pg. 93 accessed at [https://books.google.com/books?id=doU-lAAAAAAJ&pg=PA92&lpg=PA92&dq=watch+industry+guam&source=bl&ots=nsuatOJdnD&sig=ACfU3U2wDETFOiZs8mosEHoAYNXxEaTX-zA&hl=en&sa=X&ved=2ahUKewj62ueEsKzWAhWXFogKHb\\_rDI0Q6AEwC3oECAgQAw#v=onepage&q=watch%20industry%20guam&f=false](https://books.google.com/books?id=doU-lAAAAAAJ&pg=PA92&lpg=PA92&dq=watch+industry+guam&source=bl&ots=nsuatOJdnD&sig=ACfU3U2wDETFOiZs8mosEHoAYNXxEaTX-zA&hl=en&sa=X&ved=2ahUKewj62ueEsKzWAhWXFogKHb_rDI0Q6AEwC3oECAgQAw#v=onepage&q=watch%20industry%20guam&f=false).

387 Ibid.



exports to that country. Although Guam's export of military services is dependent on several external conditions, the contributions of military spending to Guam's civilian economy are "administered" by the federal government and are not directly driven by ordinary market forces. Activity in Guam's secondary industries is directly and indirectly influenced by spending in its primary industries, as income from those industries circulates throughout the civilian economy, and ultimately "leaks" to the outside to pay for the import of goods and services that the local community requires. In essence, the income and standard of living of Guam's civilian population bear a strong direct correlation to the local receipts generated by the island's exports, which currently derive almost entirely from its two primary industries.

Although Guam is relatively remote for purposes of industry development, it must be emphasized that the island's location is a principal driving factor underlying the success of its two primary industries, tourism and military activities. Guam's strategic location for military purposes could also be strategic for the development of commercial activities other than tourism, although most of the fundamental constraints mentioned previously would still apply. Beyond its current primary industries, Guam has a strong potential to expand its role as a regional and international hub for transportation and telecommunications. Some of the constraints, such as remoteness, are fixed by geography, but frequent and relatively declining air transportation costs, high speed cable, and satellite and internet communications significantly reduce the impact of some of these geographic barriers as the world becomes increasingly interconnected.

In terms of transportation, the island has an excellent deep-water harbor as well as an efficient commercial port, and a modern, well-maintained 12,000-foot runway with a civilian airport facility that it could utilize in any of the three political status choices. The commercial port and the airport could accommodate expanded activities as demand increases, and both are adjacent to relatively large, undeveloped land that could facilitate much higher levels of transportation and storage of goods. Thru-shipping, where cargo vessels from the US offload products in Guam before continuing on to other destinations, does not hold much potential. Break-bulk shipping, where goods destined for several locations are offloaded in Guam for consolidation onto different vessels destined for those locations, and freight consolidation, where goods from several sources are combined into single forward shipments, would be possible. Relief from the cabotage laws, which prohibit the transportation of goods, passengers or baggage between two successive US ports aboard foreign vessels and aircraft, would enable Guam's air and seaports to accommodate East-to-West shipping as well. The development of warehousing facilities and associated infrastructure in the vicinity of either or both ports would be needed to expand break-bulk transfers and freight consolidation but could also significantly increase the availability of higher-wage, skilled jobs for Guam's workforce.

As a telecommunications hub, Guam is already at a nexus of multiple international fiber optic cables, but primarily uses their capacity locally only for telephone and internet services. Most of the on-shore telecommunications activity here is simply devoted to signal enhancement and branching, meaning that international messages may be routed through and amplified in Guam to support delivery to their various final destinations. Although Guam has a handful of small server farms, they are primarily for local use and data archiving. Using Guam as a site for application servers is somewhat impractical because of current technological latency issues that cause a delay in the transmission of information. In addition, although

telecom can be a high-value industry, it creates very few, highly specialized jobs for which Guam does not yet have a substantial resident labor force. Most of those jobs would go to transients, so the benefits to Guam's economy would be nominal at first. However, these skills could be gradually developed among people residing in Guam permanently, potentially increasing the benefits to Guam's economy.

Currently, the development of Guam's secondary industries depends in large part on the success of its primary industries in generating export earnings. There are fluctuations that depend upon other, primarily local, factors such as public policies designed to expand specific activities. Services and trade depend almost entirely upon the direct and indirect income derived from tourism and defense. Presently, transportation is strongly influenced by tourism. Much of the investment underlying Guam's most volatile industry (meaning most subject to large changes in the level of activity and the generation of income within the community), construction, is from external sources, which in turn relies upon the level of tourism and military prospects. Local residential and commercial construction is driven primarily by general levels of income from other economic activities. Finance and real estate activities are relatively cyclical in nature, rising and falling with general levels of income, while the insurance industry is based upon the wealth that accumulates locally from income flows that are not diverted to pay for imported goods and services. Most of Guam's manufacturing is based upon local consumption of food products and other consumer goods, as well as fabrication to support construction activities.

Prior to World War II, Guam had a much smaller population, and much of the economy was based upon agricultural activity and subsistence fishing. After the war, Guam's economy quickly transitioned from agriculture into services, effectively bypassing the usual industrialization phase associated with the production of goods. Much of this was due to the security perimeter that was set up around Guam, in which travel to and from Guam was restricted. In order to arrive in or leave Guam, one needed the permission of the US Navy. Due to strategic reasons, Guam was closed off from the world, and foreign investment was nearly impossible because of President Franklin D. Roosevelt's Executive Order No. 8683, issued Feb. 14, 1941. The production of goods for export immediately following the war was not possible until the Security Clearance Act of 1962, which lifted the security clearance requirement.

Due to periodic policy initiatives and a desire to maintain continuity with the island's past, agriculture deserves special mention in any discussion of industry development. It currently constitutes a tiny fraction of the overall economy, providing less than 0.7% of total payroll employment in any given quarter during the past twenty years. As new technologies are developed in agriculture, including hydroponics and aquaculture, a greater degree of food production would be possible.

With a rising global emphasis on sustainability, a greater focus has been directed to agriculture, especially locally grown food, in order to: enhance the quality and freshness of available produce; minimize the primary costs and secondary effects of food transportation; increase the value of underutilized available land; and generate income locally that would otherwise support outside populations. Several factors inhibit the development of a substantial agricultural sector in Guam. Soil characteristics, combined with land tenure patterns, limit the capacity of the island to entirely produce its own food. The northern half of Guam has the best soil and the most level topography to support crops, but it is also the area with the most

residential and commercial development, and large tracts are owned by the federal government and are thus unavailable for civilian use. It is important to note that portions of that land, primarily in the coastal areas, had previously been devoted to agriculture. With the exception of the valleys and alluvial plains of southern Guam, the soil there is primarily clay and unsuitable for most crops, and the topography is less even and subject to erosion and landslides. Nonetheless, there are small-scale commercial farming operations in the south and some subsistence farming.

Marginal soils in the northern half of Guam require fertilizers to improve their crop productivity, and tropical plant pests often require the use of pesticides to increase yields. The northern half of the island sits over Guam's water lens, the island's principal source of fresh water, which would become less viable with the infiltration of agricultural chemicals. Frequent windstorms and periodic flooding often destroy crops, adding to the usual risks associated with farming, such as price fluctuations and excess or deficient output supporting local markets. That is not to say that agricultural development is infeasible. Despite the development of more modern technologies, such as hydroponics and aquaculture, it will likely never become a substantial export industry for the island. This does not downplay the importance of agricultural development for food security purposes of the island, which is a necessity, no matter what status is chosen.

Overall, the future development of industry in Guam will continue to be constrained by the factors mentioned above, but differences in the structure of government and access to external investment and markets could have a significant impact under each of the three political status options in comparison with the current status of unincorporated territory.

## Statehood

The development of Guam's tourism industry should continue, except there is the potential for greater political influence at the federal level, through our Congressional representative and senators, to improve access to the temporary off-island labor needed to expand and add to existing tourism facilities. As a result of the potential for greater political influence, Guam could advocate for itself more effectively, particularly as it relates to recognizing its unique needs and reconciling this with federal legislation that might not otherwise serve the island well. Changes to the tax structure may offset a portion of that effect, as the prospective rates of return on investment in the industry decrease, modestly inhibiting the rate of growth. For more on this, please see the subsequent subsection on Revenue and Taxation.

Although military activity could no longer be considered strictly an export, activity in that sector would likely increase because of the greater interest of the national government in protecting a state as opposed to an unincorporated territory. The effects of that increase would spread throughout the civilian economy, likely raising income and associated standards of living. The impact of higher taxation, as a result of the loss of Section 30 and 31 funds, would attenuate those effects somewhat, but only as a partial offset.

The potential for increased access to labor resources could enhance Guam's civilian construction industry and help to mitigate recent increases in the prices of developed real estate, but that outcome is far from certain and would depend almost entirely upon the influence of increased political power at the

national level. Nonetheless, additional construction activity would substantially improve the prospects for economic growth in the economy, with new commercial facilities expanding job opportunities and greater availability of housing helping to resolve current affordable housing issues. However, the public would have to examine the desirability of this additional construction activity with potential environmental effects, especially for military projects. This will depend in large part on establishing and enforcing regulatory requirements, although military and federal projects may not be subject to the entirety of the state of Guam's regulations.

With the rest of the economy potentially growing at a faster rate than it has over the past two decades, replacing lost tax revenue (as a result of the loss of Section 30 and 31 funds under statehood, with these funds redirected to the US Treasury) for the local government may help to offset the effect of higher taxes being paid into the federal government rather than Guam's treasury under the Internal Revenue Code. It is likely that local taxes would have to be raised to achieve a revenue-neutral transition, where Guam does not lose more revenue under statehood than it would gain. For example, Guam may have to raise its property and business privilege taxes as well as implement a state income tax in order to make up for the loss of Section 30 and 31 funds. There would also be pressure for prices to increase, with the shift to the tariffs and other trade restrictions under US Customs regulations.

## Free Association

It would take time to reform Guam's relationships with the world beyond its border, which may have a modest negative effect on visitor arrivals, but this may be attenuated as the local government gains immigration authority. Guam would take on the cost of immigration authority, including staffing and the issuance of visas, but could possibly improve the application of this element of border control, not only to support the flow of tourists, but to actively adjust to the cyclical need for temporary foreign workers. However, caution is advised due to the possibility of inadvertently allowing criminals and other bad actors to enter the community without adequate controls. In addition, it is likely that the development of industry would initially slow due to the uncertainty among domestic and foreign investors and entrepreneurs as internal laws and regulations are adapted and adjusted to conform with the new structure of government. How long it would take for these transitions to occur would depend almost entirely on preparations prior to, and efforts subsequent to, the change in status.

Although Guam would most likely become sovereign in free association with the United States, it would still likely rely on the US to provide defense services. The level of those services is uncertain. Nevertheless, among the conditions of the commitment of the US to continue those services, certain elements of Guam's international relations would remain under the influence and guidance of the US Departments of Defense and of State, as in the recent models of free association as they apply to the Freely Associated States of Micronesia (FAS). The US Department of the Interior and other federal government agencies may also exercise influence, but probably not in the area of defense. It is possible, though, that the return of military-occupied land in Guam would expand and accelerate as the Department of Defense more

efficiently utilizes its remaining holdings.

Under free association, local control over immigration could remove the current restrictions on the temporary importation of labor resources for civilian construction projects and for other purposes. That would likely allow a more rapid expansion of Guam's economy than has been possible in recent years, with new commercial buildings and facilities accommodating the growth of businesses and creating new jobs. The expansion of housing development would help to reduce the current, often prohibitively high cost of residential properties, allowing workers and others to devote a larger portion of their income to other consumption, not only raising standards of living, but also supporting new and expanded business activities. However, with Guam's authority over its labor laws, some health and safety standards might be relaxed if the government of Guam deems it best to relax these laws to provide a friendly and attractive business and investment environment. Market competition from foreign workers may constrain wage rates.

As Guam's legal and regulatory environment stabilizes and the economy expands, higher incomes will directly lead to increased demand for services, wholesale and retail trade, finance, insurance and real estate, and some limited types of manufacturing, creating self-reinforcing opportunities for business and employment. The island's government would have to take over the role of providing many public, non-defense services that are currently administered by the US federal government, including the equivalent of Social Security (although current and eligible participants under the US system would likely retain their benefits), Medicare, the Supplemental Nutrition Assistance Program and many others. This would require additional revenues to cover increased operational costs, as well as additional personnel. The former may reduce the rate of economic growth, while the latter would be complicated due to the limited local labor pool and competition from private sector employers. Current federal civil servants could help to fill the gap, with similar roles in the local government.

## Independence

The prospects for industrial development under independence would depend on many decisions made before and during the implementation of independence. It is difficult to assess the potential impacts of independence on industry development, and the economy in general, because so many different factors and their interactions cannot effectively be anticipated. At the top of the list is the form of government that would evolve during the status change, as well as the influence of government in economic affairs. Even with the most rigorous preparations and the best of intentions, initial instability in many sectors within the community and in Guam's relationship with the outside world would likely persist for an extended period. It is important to note that instability in certain sectors would be the case under statehood and free association as well. Independence, as the political status that is most open, would be the most subject to multiple decisions made before, during, and after the transition to the new political status. It will be crucial that a comprehensive set of laws and regulations is ready for implementation immediately upon the date of the transition. As the newly independent Guam continues to establish new relationships with countries, businesses, and international organizations, numerous adjustments, many substantial, could be

made to the benefit of the island.

From an external perspective, Guam would have to develop trust and confidence (including in the rule of law, its enforcement and consistency), which, depending upon initial local actions is very possible but could take an extended period of time. Guam's tourism industry could be affected, especially with the current, cautious principal sources of visitors who may approach the island in the same way that they would any other unknown, unfamiliar country. Historically, the development of Guam's tourism industry has been strengthened by the island's political affiliation with the United States and the expectations that entailed. However, there is also the possibility that relationships built between Guam (through the Guam Visitors Bureau) and tour operators and businesses in Asian countries such as Japan and South Korea could be an ameliorating factor to this, as these relationships will likely continue. Similarly, outside investment in tourism facilities would likely be delayed for a few or several years, particularly if the industry suddenly has extensive excess capacity. Job losses among unskilled and semi-skilled employees in the industry could significantly diminish incomes and reduce standards of living, with all of the attendant social problems that would likely cause. However, in the long-term, there is a possibility that Guam could establish more relationships with other countries to improve the tourism industry, helping to offset the more immediate economic impacts of transitioning to an independent status.

Being independent would not mean that Guam would no longer need military defense; on the contrary, the island would likely have to plan for the contingency of being protected from foreign aggression and criminal intrusion or invasion. That may mean a continuation of protection by US forces or by some other country or coalition of countries, but that protection would come at a cost. If Guam continues to rely upon the US military, which already has substantial, well-developed capacity here, arrangements would have to be made. As an unincorporated territory, Guam does not make arrangements with the United States on a sovereign basis. There is no mutual consent for military activities or projects. If Guam were to become independent, Guam would then enter into negotiations with the United States regarding any defense or military-related issues as a sovereign country, with the full backing of germane international law and the benefits and responsibilities of being a country in the international community. This is a benefit of independence in relation to control of the land and the subsequent effects. This is not possible under unincorporated territory or statehood statuses. While it is possible under free association, independence provides the most opportunity in this regard.

While the island would continue to serve as a buffer against hostile regional forces, retaining its value to the US, military bases would be defended first, with the civilian community probably being something of an afterthought in the absence of a comprehensive defense agreement. In many ways, this is the case now as an unincorporated territory, however, there will be a difference in the US interest in protecting foreign citizens. While Guam would likely be able to extract fees from the military (US or otherwise) for the use of land resources, much of that revenue could be charged back by the military for the protection of civilians and civilian assets. However, this is not to say that there will be no economic benefit from continued US military basing in an independent Guam. For more on this, see the Bases subsection in the External Affairs/Defense section of this study. Although it is probable that the military bases in Guam



provide much greater value to the US (or whatever other country/countries take up the island's defense), the relationship between that value and the value to Guam of the defense of its civilian community is impossible to estimate because there are so many variable factors involved. The net cost of defending the island cannot be determined until the underlying negotiations have been completed.<sup>388</sup> Because of the innumerable uncertainties involved, the prospects for the future development of the military industry in Guam cannot be estimated, either in terms of direction or magnitude.

Should incomes decrease in Guam during the first years of the transition to independence, demand for the products of civilian industries would similarly decrease (although not necessarily in relative proportion), introducing a downward spiral in economic activity that could be more or less severe. Further, as the local government would have to replace several public services, including such social welfare programs as housing, food, medical assistance, infrastructure funding for roadways, utilities, the port and airport, Coast Guard and Federal Aviation Administration support, along with many others that are currently provided by the US government, public sector costs would increase simultaneously with what could be a substantial decrease in local government revenues to cover those costs. Without substantial foreign aid and assistance during the first years of independence, functional standards of living in Guam could fall to the point that there would be an exodus of portions of the population, primarily among today's middle-income households.<sup>389</sup> That, in turn, would strip Guam of the labor resources necessary for the economy to recover, even as the political system stabilizes and outside trust and confidence are restored. Yet, under independence, "it is anticipated that the island will receive substantial economic development funding over a period of fifteen or more years, partly in exchange for US military access rights in Guam. This funding also includes amounts negotiated to remedy infrastructure and environmental issues that were left unresolved prior to the status change."<sup>390</sup>

The paragraphs above focus attention on the first several years after Guam's transition to independence, and do not reflect a long-term prediction. It is important to note that independence would provide Guam with the greatest latitude in shaping its economic destiny over the longer term, redefining internal and external economic interrelationships, as well as structuring a legal system, a tax code and other parameters that are better tailored to the island's political and economic realities than the current systems that are in place.

For example, an independent Guam will be directly involved in relationships on a sovereign-to-sovereign basis. These relationships will allow the formation of new economic and political alliances, which could lead to more economically beneficial ties. As reported, "Guam's new status as a sovereign nation, combined with its evolving relationships with other nations within the Asian-Pacific economic sphere, will lead to opportunities to attract new investment and generate additional sources of economic growth.

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388 Note that there would be imbalances between the leverage of the two (or more) respective sides in those negotiations, just as there are currently.

389 There was a substantial exodus of the middle class in the aftermath of Supertyphoon Pongsona, which occurred in December 2002; it has been estimated that the loss of population in 2003 and 2004 was as high as 25,000 (well over 10% of the population). Guam's economy has not fully recovered since then due to that exodus and other adverse factors.

390 Bradley, 2000, pg. 98.

These opportunities will be tied to Guam’s ability to discover and expose credible areas of mutual benefit through direct discussions and negotiations with other Asia-Pacific governments and commercial interests.”<sup>391</sup> There is room for maneuverability when it comes to Guam independence, to use its status as a sovereign country for the benefit of its economy, including the attractiveness of its investment environment. To create a beneficial investment environment, the country of Guam would have to exhibit a stable legal and judicial system as well as implement a tax code that will be favorable to outside investment.

Although the economic potential of an independent Guam would hinge upon conditions and events that cannot yet even be imagined, let alone anticipated, there is the possibility that future economic conditions and the welfare of Guam’s citizens would be far better than they might otherwise be.

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391 Bradley, 2000, pg. 97.

INDUSTRY DEVELOPMENT	
STATUS	EFFECTS
Statehood	<ul style="list-style-type: none"> <li>• Availability of labor resources increased through greater influence in US federal government policies.</li> <li>• Changes to the tax structure could inhibit the rate of growth, as federal income taxes and various fees would no longer go to the local government.</li> <li>• The defense industry presence would likely increase due to greater federal interest to provide security for a US state.</li> <li>• Increasing construction would mean a larger supply of commercial facilities and larger supply of affordable housing.</li> </ul>



### ***Free Association***

- Tourism arrivals could drop modestly as Guam reestablishes relationships with the rest of the world.
- Initial investment reduction due to uncertainty with the new structure of government, depending on how long transition period is.
- Local control of immigration could provide the labor for expanding construction projects, leading to a more rapid expansion in Guam's economy.
- Higher incomes after Guam's legal and regulatory environment stabilizes will lead to economic expansion through increased demand for services such as trade, finance and some light manufacturing.

### ***Independence***

- Guam would be free to develop its own economy outside of the constraints of US law and regulation.
- The tourism industry could contract temporarily as a newly independent Guam stabilizes its international reputation.
- Job displacement among unskilled and semi-skilled employees in the tourism industry could significantly diminish standards of living, leading to social issues.

	<ul style="list-style-type: none"> <li>• Guam’s military industry as a source of revenue would likely become unpredictable, and the economic impact of this industry would be subject to negotiations between the United States and/or other countries and independent Guam.</li> <li>• Independence could possibly cause an increase in the size of government, a decrease in incomes and a potential downward spiral of economic activity that could cause an exodus of portions of the population.</li> <li>• However, independence provides the greatest economic latitude in the long-term, offering opportunities that may not be available under the current or alternative statuses including restructuring our economy and legal system to more appropriately relate to our geographic location, environment, and resources.</li> </ul>
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# Revenue and Taxation

The government of Guam's tax revenue comes from three main sources: local income tax; Section 30 funds; and business privilege taxes. The first is a personal and corporate income tax, which mirrors the Federal Internal Revenue Code under Section 31 of Guam's Organic Act.<sup>392</sup> In order to reduce the need to make annual appropriations to support the government of Guam, the US Congress provided two funding sources based upon the US Internal Revenue Code: Under Section 31 of the Organic Act (the "mirror code"), income taxes levied upon those residing in Guam who are not federal employees are paid directly to the Treasurer of Guam instead of into the US Treasury. This means that none of Guam's federal income taxes get paid to the US Treasury. This also means that when the US Internal Revenue Code changes, Guam's mirror code changes as well, beyond local control.

The second source is often referred to as Section 30 funds. Under Section 30 of the Organic Act of Guam, income taxes levied on US government employees (including members of the armed services) who are either residents of or domiciled in Guam are transferred to the government of Guam. Together, these two funding sources provide a substantial portion of the government of Guam's revenues. There is a potential third funding source provided for in the Organic Act, the imposition of import tariffs, but that authority has never been exercised by the government of Guam.

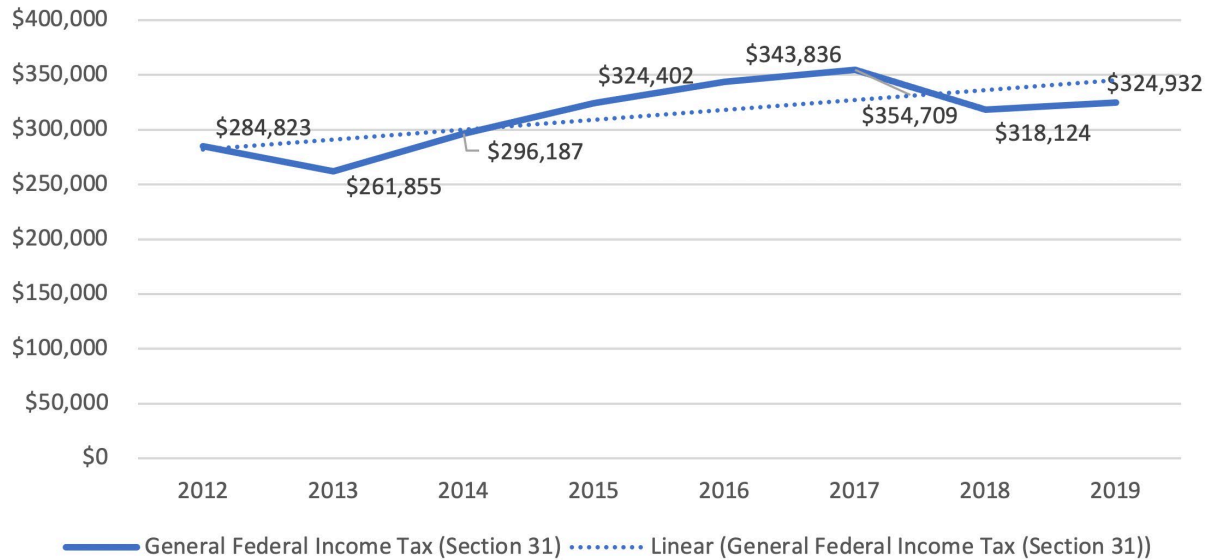
It should be noted that under Guam's Organic Act, the governor of Guam has the authority to assess a ten percent surcharge to income taxes, but this authority has never been exercised. This contrasts Guam's income tax policy to the policy of US states in that Guam only has one income tax whereas in most states people are responsible for paying federal, state and, in some places, even local income taxes. For context, this is an important source of revenue for the government of Guam. For example, in fiscal year 2020, the Government of Guam collected \$407,242,318 in income taxes (including Section 30 federal income tax collections).

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392 Consolidated Revenue/Expenditure Report (CRER), Bureau of Budget & Management Research, September 2012-2019.

## INCOME TAX REVENUE (EXCLUDING SECTION 30 FUNDS)

(Real \$000, with Trend)



The other main source of Guam's revenues is the Business Privilege Tax. Guam's business privilege tax has historically been integral in the revenue collections of the Government of Guam, but there are issues with business privilege taxes, also called gross receipts taxes, in general. One issue is that a gross receipts tax lacks transparency because the tax is incorporated into the shelf life of the product and thus becomes invisible to the consumer.

An alternative Guam has explored is implementing a sales tax, which is easier to track and is a more direct way to collect taxes, as opposed to placing the cost on businesses and making it their responsibility to pass on the cost to the consumer. Despite the benefits of a sales tax, businesses in the tourism industry argue that "...Guam's tourism marketing for decades relied on it being a 'duty-free destination,'" meaning that a sales tax could hurt Guam's appeal as a tourism destination.<sup>393</sup> While this may be true, survey data collected by the Guam Visitors Bureau shows that shopping is a minor motivator compared to factors such as visiting friends or relatives or Guam's natural beauty.<sup>394</sup> It also is not one of the top five motivators for the Japanese, Korean or American visitors, who made up about ninety percent of the visitor pool in 2019.<sup>395</sup> It is important for Guam to be tactful about which tax it chooses to implement, as this tax provides a huge portion of revenue for the government and is the primary revenue source that the local

<sup>393</sup> Jamie Ward. "DFS: With sales tax, Guam may lose duty-free appeal" (March 2018) *The Guam Daily Post*. [https://www.postguam.com/business/dfs-with-sales-tax-guam-may-lose-duty-free-appeal/article\\_383cd2da-2bf0-11e8-83c2-3793015915b7.html](https://www.postguam.com/business/dfs-with-sales-tax-guam-may-lose-duty-free-appeal/article_383cd2da-2bf0-11e8-83c2-3793015915b7.html).

<sup>394</sup> "Hinanao-Ta- Our Journey: Guam Visitors Bureau 2019 Annual Report" *Guam Visitors Bureau*.

<sup>395</sup> Ibid.

government can control under its current territorial status.

There are also several other revenue sources that are separate from Guam's General Fund which support various government services. These revenues come from additional taxes and fees created by local law and are placed into special funds. These special funds are bound by restrictions under law, stating that the revenues can only go toward specific purposes.

Government of Guam  
FY 2021 Special Revenue Fund Tracking  
For the month ending February 28, 2021  
Pursuant to §13109(a)(1) of Title 2 GCA, Chapter 13

## Attachment A

		Description/Fund Code					
		Guam Highway 208	Solid Waste Operations 416	Territorial Educational Facilities Fund 205	Tourist Attraction 206	Healthy Futures 602	CQA Inspections Services Fund 209
Month							
FY 2021 (Oct 20 - Sept 21)							
(A) October	Actual	1,631,553	1,519,934	320,606	1,037,301	2,029,717	49,376
(B) November	Actual	1,724,720	1,431,743	137,590	703,947	4,033,633	47,547
(C) December	Actual	1,384,095	1,559,882	217,749	704,286	2,733,126	62,181
(D) January	Actual	1,267,391	1,477,462	3,483,970	715,026	2,355,831	79,448
(E) February	Actual	1,111,877	1,238,953	18,141,034	997,382	3,556,212	52,720
(F) March	Projected	1,640,501	1,599,184	1,425,043	1,856,255	2,876,000	357,923
(G) April	Projected	1,966,195	1,561,480	8,359,742	1,549,015	3,503,475	240,802
(H) May	Projected	1,749,876	1,611,679	1,067,550	1,261,424	3,877,619	233,242
(I) June	Projected	2,036,524	1,544,007	1,079,370	1,077,886	3,850,197	265,599
(J) July	Projected	1,935,185	1,601,754	580,494	1,163,814	3,842,280	289,255
(K) August	Projected	1,717,676	1,669,004	509,632	1,142,153	3,547,643	429,680
(L) September	Projected	1,816,080	1,619,060	311,531	1,588,687	4,995,076	263,500
(M) Tracking FY 2021		19,981,672	18,434,142	35,634,312	13,797,178	41,200,807	2,371,272
(N) Public Law 35-99		22,894,794 <sup>1/</sup>	19,394,267 <sup>1/</sup>	38,072,814	18,336,091	42,748,091	4,105,776
(O) Overage/(Shortage)	(M-N)	(2,913,122)	(960,125)	(2,438,502)	(4,538,913)	(1,547,284)	(1,734,504)

1/ Reflective of the adopted gross revenue level.

Note 1: Data contained herein are subject to change, as additional reconciliations are performed.

Source: Special Revenue Fund Tracking Report. (February 2021) Bureau of Budget & Management Research, Guam

Regardless of the political status option chosen, there are likely to be substantial changes in taxation by the government of Guam.

There are three factors underlying this: the local government will remain obligated to provide a range of public services similar to those it currently offers; in each of the options, the government of Guam will, at a minimum, lose the income tax revenues extracted from US government employees who are either residents of or domiciled in Guam, commonly known as "Section 30" funds; and although US government funding would likely increase under statehood for several existing programs, funding would decrease gradually or immediately under the free association option and likely end suddenly under independence unless there is a transition period. To provide an example, the Department of Administration reported that the total general revenue collected in FY 2020 was \$830,465,613. Of this, Section 30 federal income

tax collections amounted to \$82,309,451 or around 9.91% of total general revenue. To varying degrees, the government of Guam would likely have to increase local taxes in order to continue offering existing services that are currently subsidized by federal funding and may have to increase taxes in order to sustain programs that could lose federal funding. With the removal of certain mandates under Guam's current unincorporated territory status, several programs could be reduced or eliminated altogether under the free association and independence options, thus relieving the government of Guam from increasing taxes in order to cover those specific costs. The government of Guam also has other, non-tax revenue from fees and other charges, any of which could be retained, modified, discarded or supplemented under each of the three status options.

## Statehood

Under the statehood option, all those taxes, including Section 30 and 31 funds, would be retained by or paid directly into the US Treasury, eliminating them as a source of operational funding for Guam's local government. The government of Guam would lose those funds as a source of revenue to pay for the public services it currently provides to the people of Guam. The government of Guam would have to implement new local taxes in order to continue to pay for these public services.

Although US government funding for public services and programs in Guam would be increased under the statehood option (e.g., funding caps on the federal portion of certain mandated social welfare programs that require local matching funds would be eliminated; the current cost of the Earned Income Tax Credit (EITC) would transfer to the federal government), there would still be an increase in the local government's obligations for certain programs that are currently federally subsidized. In addition, local programs that are currently funded, in whole or in part, by Sections 30 and 31 revenues would require alternative sources of funding if they are to be continued. In some programs, increased federal government funding would replace local government obligations, mitigating the need for additional local taxation, but local taxation would have to be increased to offset net taxes diverted to the US Treasury. The increase in local taxes would have to be sufficient to continue funding necessary services provided by the government of Guam that will not be funded by the federal government under statehood. If the government of the state of Guam fails to implement local, state taxes, many of the services provided today may be significantly reduced.

## Free Association

Although there are recent models of free association between the US and former Trust Territory of the Pacific Islands ("TTPI") entities,<sup>396</sup> free association is a negotiated status which is subject to a relatively

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<sup>396</sup> The Freely Associated States of the Federated States of Micronesia, the Republic of the Marshall Islands and the Republic of Palau; the Commonwealth of the Northern Mariana Islands was also a part of the TTPI, but chose a commonwealth relationship with the United States, which has been interpreted by the Courts to be essentially the same as Guam's current unincorporated territory status.

wide array of responsibilities for both partners in the relationship. Although Guam would be released from the US Internal Revenue Code (the IRC) under this status and would lose Section 30 funding, it would be free to implement its own tax structure, which could be tailored to meet the local government's revenue needs and the economic development objectives of the island's people. It is likely that Guam would initially retain many of the features of the IRC for purposes of stability and because of their familiarity, but over time changes would be made as the tax code is modified to more directly address Guam's local circumstances. For example, the current IRC has many specific provisions that are inapplicable to Guam, such as oil depletion allowances and the degree of progressivity in tax rates. It is important to note that Guam has been authorized to "de-link" from the US Internal Revenue Code since the passage of the US Tax Reform Act of 1986 but has chosen to continue operating under the IRC. Guam still has the authority to de-link.

Under free association, it can generally be anticipated that the US government would provide substantial assistance with the status transition, including technical support and some funding.<sup>397</sup> There is also the potential for several US-administered and -funded programs to continue for extended periods (such as a parallel to the US Postal Service, the Federal Aviation Administration and limited programs of the US Department of Homeland Security, such as the Federal Emergency Management Agency (FEMA)). Several law-enforcement functions would also likely continue.

Many of the public services that are presently provided or subsidized by the US government would no longer be available unless they are taken over by the government of Guam. Most notable among these are several of the current social welfare programs, such as the Supplemental Nutrition Assistance Program ("Food Stamps"), public housing and housing subsidies, Medicaid (which is already supplemented by Guam's Medically Indigent Program), Aid to Families with Dependent Children, the Women and Infant Care (WIC) program, Old Age Assistance, Aid to the Blind and several others. Social Security and Medicare benefits would probably continue for current participants and may be available for those who have established eligibility as of the date of status transition, but Guam would likely have to implement its own programs for those who would no longer be eligible for US program benefits.

Other areas in which US funding and other support would likely be eliminated or scaled back include several categories of justice assistance (such as the District Court, the Drug Enforcement Administration and the prison), education subsidies, highway funding, agricultural programs (including plant and pest controls), and the Small Business Administration. Several regulatory controls may also no longer be available, such as those overseen by the Food and Drug Administration, the Bureau of Alcohol, Tobacco, Firearms and Explosives, the US Environmental Protection Agency and the Occupational Safety and Health Administration. Regarding disaster assistance, it should be noted that the freely associated states of Micronesia retained eligibility for assistance from the Federal Emergency Management Agency until 2008. In 2008, per the Federal Programs and Services Agreement, the United States Agency for International Development (USAID) became responsible for emergency and disaster relief assistance. Per the agreement,

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<sup>397</sup> The Freely Associated States continue to receive funding from the US government under their Compacts of Free Association, the first of which were implemented during the 1980s.

The Federated States of Micronesia may additionally request that the President of the United States make an emergency or major disaster declaration. If the President declares an emergency of major disaster, FEMA and USAID shall jointly (a) assess the damage caused by the emergency or disaster and (b) prepare a reconstruction plan including an estimate of the total amount of Federal resources that are needed for reconstruction.<sup>398</sup>

While the above listing provides a sample of some of the programs and services in Guam that are provided and/or subsidized by the US federal government, there are many others. Some of the programs and services would likely end immediately upon the change in political status, others would be phased out over time and some would continue for indefinite periods. Many would be subject to negotiation.

For example, in the Amended Compacts with the Republic of the Marshall Islands and the Federated States of Micronesia in 2003, the US provided for a total of \$3.6 billion in compact sector grants, trust fund contributions, other grants, and access to US programs and services between FY 2003 and FY 2023. Section 221 of the Compact of Free Association with the Federated States of Micronesia states:

The Government of the United States shall make available to the Federated States of Micronesia, in accordance with and to the extent provided in the Federal Programs and Services Agreement referred to in section 231, the services and related programs of:

- (1) the United States Weather Service
- (2) the United States Postal Service
- (3) the United States Federal Aviation Administration
- (4) the United States Department of Transportation
- (5) the Federal Deposit Insurance Corporation (for the benefit only of the Bank of the Federated States of Micronesia); and
- (6) the Department of Homeland Security, and the United States Agency for International Development, Office of Foreign Disaster Assistance.<sup>399</sup>

Under free association, Guam would have to negotiate for: the federal programs to be made available to the island; and the duration of time which these federal programs will be made available to the freely associated state of Guam. For example, pursuant to the first sentence of Section 221, under the separate Federal Programs and Services Agreement in 2004, many of these programs were made available to the FSM for a period of 20 years, meaning that they are set to expire in 2024. Similar negotiations would have to be made between the freely associated state of Guam and the United States.

There would be additional and replacement sources of funding and revenue for the government of

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398 10-3 of the Federal Programs and Services Agreement between the Government of the Federated States of Micronesia and the Government of the United States, 2004.

399 Section 221 of the Amended Compact of Free Association between the United States and the Federated States of Micronesia, 2003.



Guam under free association status. Section 30 funding would be lost, but there would likely be funding available for the use of Guam land by the US Department of Defense, although the net amount after Guam pays the US DoD for the defense services that it provides to the civilian community may or may not be sufficient to replace the full amount of Section 30 revenues lost. Guam would also most likely be able to participate in numerous international organizations, such as the United Nations and the Association of South East Asian Nations, and avail some of their lending and grant programs (along with those of the International Monetary Fund and the Asian Development Bank), if eligible. Guam would also be able to solicit and receive grants in aid from other countries that have an interest in the improvement of the island's economy and other objectives. Guam's interactions with other countries, primarily in the realm of defense, could be somewhat affected by its obligations to the United States in exchange for military defense under the political status agreement. However, it is important to note that COFA countries such as the FSM, despite recurrent tensions between the US and China, still receive economic assistance from China. Thus, this issue will be dependent on the geopolitical environment as well as the freely associated state of Guam's relationship with countries like China.

While there would certainly be disruptions in revenue for the government of Guam due to the status change, a return to stability should be achievable within the first few years. Once the island's tax structure has settled, with permanent decisions on the use of public funds and its fiscal policy, one of the major obstacles to outside confidence would be resolved and outside investment should resume, albeit gradually.

## Independence

As with so many other aspects of this political status option, there is a great deal of uncertainty regarding taxation and government revenues under independence. The scope of government involvement in the economy will depend almost entirely upon decisions made locally, so for purposes of some semblance of continuity, it will be crucial to carefully prepare in advance for this transition. Those decisions will have to begin with an assessment of exactly what scope of public service is expected and wanted, and then a realistic determination as to how to finance those services. Numerous external factors (i.e., global economic conditions, offshore assessments of investment opportunities in Guam, and Guam's tax and regulatory structure relative to other places) will affect what will be possible, given that initial confidence in the island's new political system will likely be limited until the new government can exhibit stability and continuity in order to gain international confidence in Guam's taxation and fiscal policy parameters. It will be important for Guam to be able to explicitly express its objectives and the path to achieving those ends and to devise a clear fiscal plan designed in support of those objectives.

While on the face of it, Guam would appear to be severing ties with the United States altogether, it is unlikely that the US would suddenly abandon the island and its people. While many elements of the current structure of financial support would end, including the remittance of the current Section 30 funds upon which local government operations have come to depend (as well as other contributions in terms of direct public services and the provision of existing social welfare programs), it can be expected

that technical assistance would be available. However, US federal financial support for Guam’s government and the local economy can be expected to diminish rather quickly. Again, providing funding for the operations of Guam’s government will likely be challenging, and devising an adequate fiscal plan would require balancing those programs and services that the people of Guam desire with the ability of government to capture sufficient revenues to pay for those programs and services, and to prioritize which of those the people of Guam can afford.

As with the free association option, it is likely that Guam would continue to use the US Internal Revenue Code under independence as its income tax system for a period of time so as to smooth the fiscal transition and provide continuity and reliable expectations for households and businesses. Along with the Business Privilege Tax, income taxes have provided the primary source of local government revenue. However, depending upon the level and type of government services that are desired, rather substantial other sources of local government revenue may be necessary, which would require careful consideration in devising a tax structure that would provide sufficient revenues while not inhibiting commercial activity or household standards of living. This could be extremely complicated, especially because Guam would still have to import most of what is consumed here. The prospect of imposing import tariffs could raise prices in the local market, but the foundations of the economy — tourism and defense — may not otherwise provide the level of export earnings to which the island has become accustomed.

This is not to discount the likelihood of significant opportunities for foreign aid and other international assistance, including from the United States, which may help to offset the reductions in current US federal government funding and the corresponding rising burden of costs to be borne by the local government. However, caution is strongly advised to avoid direct and indirect (potentially long-term) influence in the local government and its programs and public services in exchange for what would likely be temporary external financial assistance. For instance, there are cases in which one national government funds large infrastructure projects for a different national government, with the receiving government surrendering ownership of that infrastructure to the lending government should payments not be made on time. The details of local government finances under independence will require intense examination and planning and should largely be settled before the status transition begins.

REVENUE & TAXATION	
STATUS	EFFECTS
Statehood	<ul style="list-style-type: none"><li>Section 30 and Section 31 funding would revert to the federal government, but would be partially offset by federal payment of the Earned Income Tax Credit.</li></ul>

	<ul style="list-style-type: none"> <li>• There would likely be increases in federal government funding, but local taxation would probably have to be increased to offset current tax revenues being diverted to the US Treasury.</li> </ul>
<b><i>Free Association</i></b>	<ul style="list-style-type: none"> <li>• Free to create a tax structure tailored to local government's revenue needs and economic development objectives.</li> <li>• It can be anticipated that the US government would provide substantial assistance with the status transition, including both technical support and some funding. Some current US services may continue.</li> <li>• Guam would have to offset the costs of many of the services that are currently provided by the US, increasing the need for taxation</li> <li>• Would have access to the international community for grants and funding if eligible.</li> </ul>
<b><i>Independence</i></b>	<ul style="list-style-type: none"> <li>• Under independence, Guam could seek financial support and in doing so, create a carefully crafted, realistic fiscal plan to present to potential international organizations and countries.</li> <li>• Opportunities for foreign aid and other international assistance, including from the US, if eligible.</li> </ul>

# Currency

Currency serves as a universal store of value that can be easily used by members of society as a medium of exchange. Typically, in the form of bank notes or government-issued paper money, currency fulfills three primary functions: to account for value; to provide a medium of exchange for goods and services; and to store current economic value for future use. Prior to the abandonment of the gold standard in the 1970s, the US dollar, hereinafter “the dollar,” was used in the United States and throughout the world as representative money, meaning each bank note or coin was legally redeemable on demand for a certain amount of physical metal (gold).<sup>400</sup> With the end of the gold standard, the dollar took on the form of fiat money, or money which “holds value simply because people have faith that other parties will accept it.” Most major forms of currency today are types of fiat money.<sup>401</sup>

The value of currencies is influenced by a variety of economic factors. It is affected by scarcity and supply and demand because, like goods, currencies are bought and sold throughout the world. Simply put, when a currency is highly sought by many people, it is in high demand, and is therefore valuable, and vice-versa. A country’s economic stability and whether investors are attracted to invest in a country also affects a currency’s value. When investors have faith in the stability and outlook of a country’s economy, they are enticed to invest in that country and must invest with the currency of that country, thereby increasing the value of that country’s currency. The value of currency is further affected by inflation, a decline in the purchasing power of a country’s currency.

Because Guam’s economy is so heavily dependent upon imports from other places and the export of its services, it will continue to be crucial that the island’s currency be accepted, at least externally and internationally, as a medium of exchange. The dollar is highly regarded in international financial markets and meets that criterion, and will likely continue to be in use, at least for external trade purposes, for an

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400 Daniel Kurt, “How Currency Works,” *Investopedia*, August 19, 2020, accessed at <https://www.investopedia.com/articles/investing/092413/how-currency-works.asp>.

401 Ibid.

extended period of time.<sup>402</sup> The dollar is the world's most commonly used currency, the world's reserve currency, and one of the most currently traded currencies on the foreign exchange market. Although it is possible that Guam could create its own currency for purposes of internal transactions, the complications in establishing a local market for currency exchange, similar to foreign exchange markets in the conversion of one country's currency for that of another, would likely be prohibitive because of low-volume transactions and the resulting high average cost of conducting those transactions. In the alternative, Guam could adopt another country's currency for its own use. However, it is almost certain that Guam would continue to use the dollar as its currency post-transition regardless of which political status is chosen. Some countries in the world today continue to use the US dollar such as all the Freely Associated States of the Micronesian sub-region, Ecuador, East Timor, Zimbabwe, and El Salvador.

## Statehood

The likelihood that the United States would permit any individual state to issue or maintain a currency other than the dollar is practically nonexistent. Several states established their own banking systems and currencies during the 1800s, but that system of banking was ultimately determined to be inefficient and effectively unworkable, so a national currency and unified monetary policy was developed and has been in use for well over a century. Thus, the state of Guam, as all the other states of the Union, will use the US dollar as its currency.

## Free Association

All of the FAS (Palau, Marshall Islands, Federated States of Micronesia) have retained the dollar as their currency, as have several smaller, long-established foreign countries (such as Ecuador, El Salvador, Timor-Leste and Zimbabwe). As of this writing, the value of the dollar serves as the international standard against which all other currencies are evaluated and is considered to be desirable for its relative stability in currency exchange markets. To put it another way, the US dollar, which is issued by the Federal Reserve, is the counting unit used in most international transactions and it is also the currency in which many of those transactions are negotiated and made. Thus, it is likely that the freely associated state of Guam would use the US dollar as its currency as well.

## Independence

Although it would be possible for an independent Guam to issue its own currency, the prospect would simply be impractical, especially in the early years, when confidence in the island's new political

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<sup>402</sup> Several countries have attempted and generally failed to establish their own cryptocurrencies for internal and sometimes external trade. Other countries have often experienced relatively large variations in the value of their sovereign currencies in international exchange markets.

system would be limited, not only internationally but probably internally as well. It is quite likely that, under independence, Guam would retain the dollar as its currency for the foreseeable future. This would be beneficial for an independent Guam because it is a universally recognized currency which is widely traded and “priced” relative to other sovereign currencies and is used as a unit of account and medium of exchange in the majority of international transactions.

CURRENCY	
STATUS	EFFECTS
<i>Statehood</i>	<ul style="list-style-type: none"> <li>Unlikely to change during statehood.</li> </ul>
<i>Free Association</i>	<ul style="list-style-type: none"> <li>All of the three freely associated states (Palau, FSM, and the RMI) use US currency, and this will likely be the same for Guam.</li> </ul>
<i>Independence</i>	<ul style="list-style-type: none"> <li>Guam would be able to create its own currency, but this would be impractical, especially in the early years when confidence in the political system is limited.</li> </ul>

# Debt

Debt is money that is borrowed on the credit or collateral of an entity that is required to be paid back, usually with interest. Government debt has many differences from debt held by individuals or private businesses, and different types of governments also have access to different forms of debt. Governments often take a combination of loans and bonds when they accumulate debt. Loans are one form of debt owed by the government of Guam, but these are a small portion of the government's overall debt and are not taken out by the government of Guam as an entity. Rather, these loans are usually taken out by individual agencies and are financed by this agency's autonomous revenue streams, such as tuition with the University of Guam or utility rates with the Guam Power Authority. Private lending institutions as well as federal agencies such as the Small Business Administration and the USDA Rural Development program provide loans that function essentially the same as loans in the private sector. However, a large overall portion of a government's debt comes from bonds, which are forms of debt that come with a commitment to pay both periodic interest and repayment of the original amount of the debt on maturity. Bonds are often used to quickly infuse large amounts of cash to immediately fund projects. Bonds can be issued to corporations, investors, or even individuals, and the government promises to pay these back over time.

Guam's current status as a territory limits the types of bonds that it is able to issue. Unlike independent countries, which have access to sovereign bonds (issued by the national government and sometimes in foreign currencies), Guam borrows by issuing bonds, for all intents and purposes, as a US municipality, and is limited from pursuing some types of bonds. As a territory, Guam is also unable to use central banks to buy bonds back in a process called quantitative easing, a process which creates new electronic money and uses that money to purchase bonds from private investors. Additionally, without a central bank, Guam as a municipality has fewer avenues to quickly rid its government of debt compared to independent countries.<sup>403</sup>

The Guam Economic Development Authority (GEDA) distinguishes between three main types of

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403 Bank of England, "Inflation and interest rates FAQs," 2021, accessed at <https://www.bankofengland.co.uk/faq/inflation-and-interest-rates>; James Chen, "Government Bond," *Investopedia*, November 29, 2020, accessed at <https://www.investopedia.com/terms/g/government-bond.asp>.

bonds in our current territorial status. Bonds essentially are loan agreements, where a specific sum is borrowed for a specific purpose and then repaid with interest over time. In addition to bank loans and other minor sources, these bonds constitute the debt owed by the government of Guam and its agencies. Under Guam law, ten percent of every new bond issued is reserved for sale to local residents for a period of ten days and then it is available on the open market. They are primarily sold to insurance companies, large banking organizations, and more recently, to hedge funds. However, the data on who exactly owns these bonds is rarely available to the Government of Guam as bonds are primarily sold through third-party brokers and sometimes actively traded between and among investors in financial markets.

General obligation bonds rely upon the full faith and credit of the government, and a portion of Guam's tax collections are pledged to repay the debt over time. These obligations are paid from the General Fund. The General Fund is the chief operating fund of GovGuam and is required to assume the burden of any shortfalls in most other government funds and activities.<sup>404</sup> It is the primary revenue source from which most government agencies and programs are funded. The General Fund differs from special funds, which are separate and distinct revenue accounts used by GovGuam for the funding of certain agencies and programs.

Repayment of the limited obligation bonds is through specific GovGuam taxes to go towards specific purposes. Limited obligation bonds, also known as revenue bonds, are bonds issued by a state or public agency to build or improve a revenue-producing property like an airport or electric generating plant. They differ from the general obligation bonds described above as limited obligation bonds are payable from specified revenues only. For example, one tax, Guam's Hotel Occupancy Tax (HOT), has a bond pledged in its name. A portion of the funds collected from the HOT goes to repaying this bond in the long term, and the borrowed bond money is dedicated to a variety of purposes, from community sports to providing funding for the Fisherman's Co-op to revitalizing Tumon, Hagåtña and other villages.

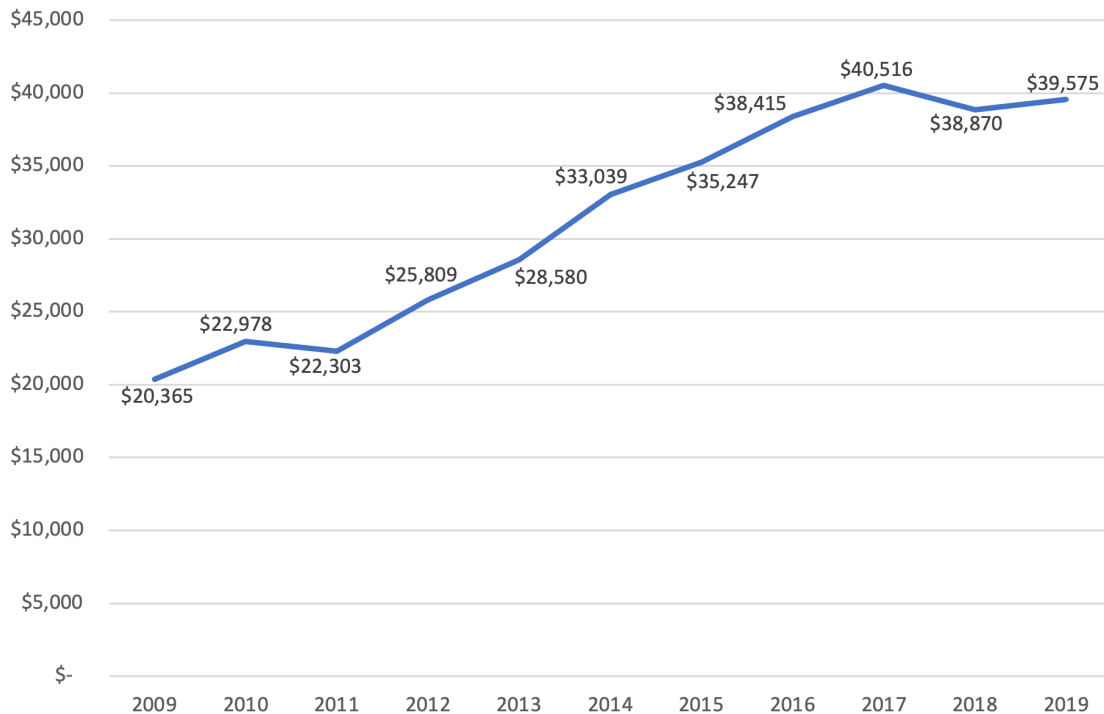
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<sup>404</sup> Guam Office of Public Accountability, "Government of Guam - FY 2019 Financial Highlights," August 28, 2020, accessed at [https://www.opaguam.org/sites/default/files/ggw\\_fy\\_2019\\_hl\\_-\\_final.pdf](https://www.opaguam.org/sites/default/files/ggw_fy_2019_hl_-_final.pdf).



## TOURISM ATTRACTION FUND COLLECTION (REAL DOLLARS)

(\$000)



Instead of pledging tax collections to repay revenue bonds, the utility agencies and ports pledge cash flow that is not a part of the general fund. Much of this borrowing is by GovGuam’s autonomous public agencies. The Guam Power Authority, the Guam Waterworks Authority, the Guam International Airport Authority and the Port Authority of Guam all have issued bonds in the financial markets and pledge a portion of the agency’s revenues to fund specific projects that generate revenues to repay those bonds (debts); the remainder is used to fund operations (labor, supplies and materials, and other obligations).

The distinction of autonomous agency revenue bonds versus other government debt is important because autonomous agencies, despite being regulated as part of the government and subject to the scrutiny of public policy makers, are generally responsible for their own expenses and, by extension, their own debt. Because they are still government agencies, any borrowing done is still considered “public debt,” but repayment of these funds is not accounted for in the annual budget of the government of Guam (as are the other types of bonds). These bonds do, however, affect our community through increased rates or fees from these agencies.

According to the Office of the Public Auditor, Guam has \$2.4 billion in public debt to investors, including the debt of GovGuam autonomous agencies (see table on pg. 190). Excluding the autonomous agency debts, according to the November 2020 Government of Guam Long-Term Debt Abstract, GovGuam has \$1.05 billion in general fund debt and a debt ceiling of \$1.35 billion (as specified by the Organic Act’s limitation of general fund debt to be no more than ten percent of the assessed value of

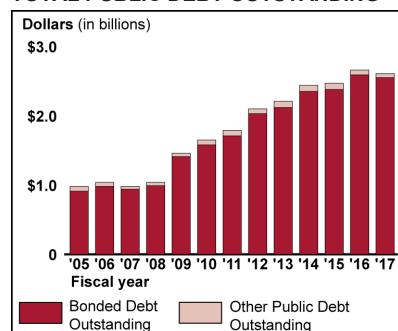
Guam's real property for property tax purposes) Per the Organic Act and codified as 48 USC, § 1423a, bonds and other obligations may be issued by the Government of Guam: Provided, however, that no public indebtedness shall be authorized or allowed in excess of 10 per centum of the aggregate tax valuation of the property in Guam. Bonds of other obligations of the government of Guam payable solely from revenues derived from any public improvement or undertaking shall not be considered public indebtedness of Guam within the meaning of this section.<sup>405</sup>

This means that GovGuam is presently only allowed to issue \$305 million more in in general fund debt until either the current debt is reduced or the valuation of real property for property tax purposes is increased.

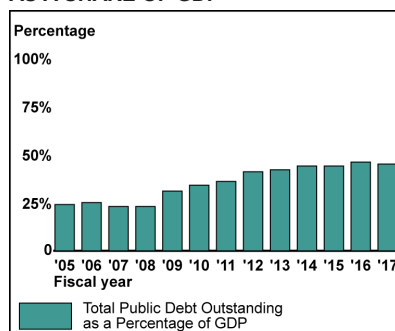
405 48 USC, § 1423a

## GUAM PUBLIC DEBT AND REVENUE, FISCAL YEARS 2005-2017

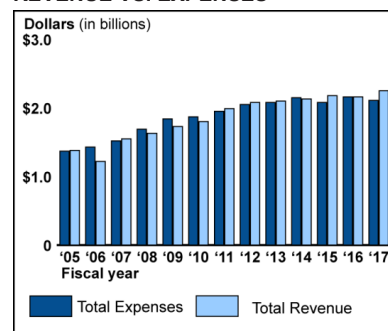
**TOTAL PUBLIC DEBT OUTSTANDING**



**AS A SHARE OF GDP**



**REVENUE VS. EXPENSES**



Source: GAO analysis of Guam single audit reports for fiscal years 2005 – 2017. | GAO-19-525

Note: Total public debt outstanding is the sum of bonded debt outstanding and other debt held by the primary government and component units.

# GOVERNMENT OF GUAM

Summary of Outstanding General & Limited Obligation Debt as of October 31, 2020

	<b>TOTAL (90% of Appraised Value)</b>
<b>Assessed Value (90% of Taxable Appraised Value) as certified on October 31, 2019 <sup>1</sup></b>	
Land	\$6,283,128,975
Improvements	\$7,242,272,211
<b>Total</b>	<b>\$13,525,401,186</b>
<b>Debt Limit (Ceiling) - 10% of Assessed Value<sup>1</sup></b>	<b>\$1,352,540,119</b>

Issue Date	Maturity Date	Description	Total
<b><u>GENERAL OBLIGATION DEBT</u></b>			
4/28/2014	8/20/2025	Government of Guam, Guam Legislature Building (P.L. 32-067 & 32-106)	\$3,666,507
7/25/2019	11/15/2031	Government of Guam General Obligation Bonds, Series 2019 (P.L. 35-21)	\$27,045,000
		<b>TOTAL GENERAL OBLIGATION DEBT</b>	<b>\$30,711,507</b>

<b><u>LIMITED OBLIGATION DEBT</u></b>			
6/12/2003	6/12/2044	University of Guam Rural Development Loan (P.L. 26-48)	10,541,086
4/28/2011	11/1/2040	Hotel Occupancy Tax Revenue Bonds Series 2011A (P.L. 30-228)	\$73,020,000
12/1/2011	1/1/2042	Business Privilege Tax Bonds Series 2011A (P.L. 31-76)	\$215,575,000
6/6/2012	1/1/2042	Business Privilege Tax Bonds Series 2012B-1 & 2012B-2 (P.L. 31-196)	\$99,040,000
9/3/2015	11/15/2039	Business Privilege Tax Bonds Series 2015D (P.L. 33-60)	\$400,825,000
8/17/2016	12/1/2046	Government of Guam Limited Obligation (Section 30) Bonds, Series 2016 A (P.L. 33-183)	\$217,325,000
		<b>TOTAL LIMITED OBLIGATION DEBT</b>	<b>\$1,016,326,086</b>

<b>Total GOG Debt Subject to 10% Assessed Value Limitation (Ceiling)</b>	<b>\$1,047,037,593</b>
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<b>Subtotal Amount Available for Future Debt Obligation</b>	<b>\$305,502,526</b>
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<b><u>LESS: Legislatively Approved Financing w/debt ceiling impact:</u></b>			
1/8/2009		Department of Land Management Building (P.L. 29-135)	\$15,750,000
10/13/2014		Guam Memorial Hospital Authority (Labor and Delivery Ward) P.L. 32-204 & 33-151	\$9,200,000
		<b><u>S. TOTAL</u></b>	<b>\$24,950,000</b>

<b>Amount Available for Future Debt Obligation</b>	<b>\$280,552,526</b>
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<b><u>Legislatively Approved Financing - no debt ceiling impact:</u></b>			
2/13/2014		Simon Sanchez High School (P.L. 32-120, 34-19,34-101, & 34-117)	\$60,000,000
6/6/2011		Department of Education Public Schools Lease (P.L. 31-229, 32-121)	TBD
9/7/2012		Department of Public Works (GARVEE) Bonds (P.L. 31-233)	\$75,000,000
		<b><u>TOTAL</u></b>	<b>\$135,000,000</b>

<b><u>Legislatively Approved Financing (Inactive)</u></b>			
9/30/2008		GFD Financing P.L. 29-113 (Funded with Federal grant funds)	\$7,800,000

**Notes:**

1) Public Law 31-196 Section 1 redefined assessed value from 90% to 100%

\*\* 9/10/16: P.L. 33-185 (Bill 250-33) Legislative action drops the assessed value from 100% to 90% of Taxable Appraised Value

2) \$21.7 Million University of Guam Endowment Foundation USDA (2016) loan withdrawn in June 2019 due to limitations.

GOVERNMENT OF GUAM  
Summary of TOTAL Outstanding Debt as of October 31, 2020

	Aggregate Outstanding Principal Amount	Final Maturity. (Fiscal Year ending <u>September 30</u> )
General Obligation Bonds and Other General Obligations		
Guam Legislature Building, Resolution 174-30, 2 G.C.A.1126 and 21 G.C.A. § 79602, P.L. 32- 106	3,666,507	2025
Guam General Obligation Bonds, Series 2019	<u>27,045,000</u>	2032
Subtotal	\$30,711,507	
Limited Obligation Bonds and Other Limited Obligation Indebtedness		
University of Guam Rural Development Loan (2003) (P.L. 26-48) <sup>(1)</sup>	10,541,086	2044
Hotel Occupancy Tax Revenue Bonds, Series 2011A <sup>(2)</sup>	73,020,000	2040
Business Privilege Tax Bonds, Series 2011A <sup>(3)</sup>	215,575,000	2042
Business Privilege Tax Bonds, Series 2012B-1 & 2012B-2 <sup>(3)</sup>	99,040,000	2042
Business Privilege Tax Bonds, Series 2015D <sup>(3)</sup>	400,825,000	2040
Limited Obligation (Section 30) Bonds, 2016 Series A <sup>(4)</sup>	217,325,000	2046
Subtotal	\$1,016,326,086	
Revenue Bonds and Other Obligations <sup>(5)</sup>		
Guam Power Authority Revenue Bonds, 2012 Series A	324,735,000	2034
Guam Power Authority Revenue Bonds, 2014 Series A	72,340,000	2044
Guam Power Authority Revenue Refunding Bonds, 2017 Series A	148,355,000	2040
Guam International Airport Authority Loan (2012)	4,693,998	2024
A.B. Wonpat International Airport Authority Guam General Revenue Bonds, Series 2013 A, B & C	180,090,000	2043
A.B. Wonpat International Airport Authority Guam General Revenue Bonds, Series 2019 A & B	37,045,000	2025
Guam Waterworks Authority Water and Wastewater System Revenue Bonds, Series 2013	27,340,000	2028
Guam Waterworks Authority Water and Wastewater System Revenue Refunding Bonds, Series 2014 A & B	65,140,000	2035
Guam Waterworks Authority Water and Wastewater System Revenue Bonds, Series 2016	142,890,000	2035
Guam Waterworks Authority Water and Wastewater System Revenue Refunding Bonds, Series 2017	107,365,000	2040
Guam Waterworks Authority Water and Wastewater System Revenue Bonds, Series 2020 A	134,000,000	2050
Guam Waterworks Authority Water and Wastewater System Revenue Refunding Bonds, Series 2020B (Federally Taxable)	166,075,000	2043
Guam Housing Corporation Mortgage-Backed Revenue Bonds, Series 1998	3,267,272	2031
Guam Economic Development Authority Tobacco Settlement Asset-Backed Bonds, Series 2007A and Series 2007B	40,528,618	2057
Guam Department of Education Certificates of Participation, Series 2013A <sup>(7)</sup>	16,268,000	2030
The Industrial Development Authority of the City of Phoenix, Arizona (Guam Facilities Foundation, Inc.), Series 2014 <sup>(7)</sup>	94,890,000	2044
Guam Education Financing Foundation Certificates of Participation, Series 2016 <sup>(6)</sup>	27,420,000	2026
Guam Community College Foundation USDA Loan (2016) <sup>(7)</sup>	4,082,476	2056
Port Authority of Guam Port Revenue Bonds, 2018 Series A, B and C	67,745,000	2048
Judicial Building Fund Revenue Note (2020) (P.L. 33-66)	15,000,000	2051
Guam Department of Education Certificates of Participation (JFK, Refunding and Energy Efficient Project), Series 2020A <sup>(7)</sup>	<u>65,420,000</u>	2040
Subtotal	\$1,744,690,364	
<b>Total Indebtedness</b>	<b>\$1,775,401,871</b>	

<sup>(1)</sup> Payable primarily from mass transit automotive surcharges.

<sup>(2)</sup> Payable primarily from Hotel Occupancy Tax revenues.

<sup>(3)</sup> Payable primarily from Business Privilege Tax revenues.

<sup>(4)</sup> Secured by and payable primarily from Section 30 Revenues.

<sup>(5)</sup> Not treated as “public indebtedness” for purposes of the Organic Act debt limit.

<sup>(6)</sup> Payable primarily from Compact Impact Funds (funds appropriated by the U.S. government to mitigate the impact on Guam of the Covenants of Free Association of the Republic of the Marshall Islands and the Federated States of Micronesia); lease payments due in 2023-25 relating to \$14,015,000 of certificates are payable from the General Fund, subject to annual appropriation by the Government.

<sup>(7)</sup> Lease payments are subject to annual appropriation by the Government.

Source : Guam Economic Development Authority.

Source: Government of Guam Long-Term Debt Abstract, November 2020

It is likely that, regardless of the political status option selected, the outstanding debt of the government of Guam pre-transition would be carried forward through the conversion to its new political structure. It is effectively inconceivable that the government of Guam could unilaterally cancel or transfer its current outstanding debt. To do so under the statehood option would undoubtedly be unacceptable to the United States, and although it may be possible under the free association and independence options, it would likely create long-term distrust and a perception of financial instability and unreliability that would take an extended period to overcome. Under the latter two status options, it is highly recommended that the government of Guam's debt payments be kept current and without any perceived threat of default.

The issuance of new debt instruments (bonds or other debt financing, such as loans from banks, etc.) under the statehood option would likely be fairly straightforward and would have the benefit of its interest payments being tax exempt at the national level, categorized as "municipal bonds" under the US Internal Revenue Code (except if that debt has certain characteristics, such as arbitrage bonds in which the issuer pays a lower interest rate than it earns from investing those funds on its own behalf, on which the debtholder is liable for taxes on their interest earnings). Under the free association and independence options, the marketability of new debt instruments would depend heavily upon the perceived stability and reliability of the new government. Although the interest income from those debts may be tax-exempt within Guam, it is unlikely that it would be in the United States or other countries, making that debt somewhat less attractive and requiring higher promised pre-tax returns (without a tax exemption on the interest earnings on the debt, the interest rate would have to be increased to provide the same after-tax return as tax-exempt interest on debt of similar risk).

Collateralized public debt, wherein some of the physical assets of the issuer of the debt are pledged to the debtholders as collateral if the debt is not repaid as per the debt agreement, is of particular concern, especially when held by foreign governments. Several countries around the world have been overly optimistic about their future revenues and cash flows, and have committed themselves to high debt payments, especially in foreign financing of large-scale infrastructure projects, using the infrastructure (instead of dedicated revenue sources) itself as collateral. There have been many instances where the borrowing country has defaulted on its debt and the lending country has taken ownership of the collateral physical assets.

## Statehood

Although it is possible that the US government would absorb the burden of Guam's current debt in the transition, that is highly unlikely except under the most extreme of circumstances. It is virtually assured that the other states would adamantly protest. As indicated above, it would likely be far easier for the post-transition government of Guam to issue new debt, and at a relatively lower cost, than it would be under the other two status options. Interest paid on debt issued by the government of Guam currently is tax exempt at the territorial and federal levels, but also has tax exemption in the other fifty states. Thus, such debt is characterized as being "triple tax-exempt." If Guam were to become a state, the debt that it issues would still be exempt at the local and federal levels, but the interest paid to debtholders would be

taxed by other states and may require a higher interest rate (“yield”) to be paid.

Free Association

Any issuance of new debt would be considered to be “foreign bonds” in most markets, and marketability would depend upon the perceived stability and prospective anticipated cash flows of the new government. The existing Freely Associated States have generally not been able to issue long-term bonds and have had to rely upon bank debt to meet their temporary financial shortfalls (if they are considered commercially creditworthy, which they generally have been). Debt placed with commercial banks may still be available, but at moderately elevated interest rates because Guam would no longer be perceived as a US “protectorate” backed by the full faith and credit of the United States as a possible source of recourse by the debtholder. While it may be possible for the government of a freely associated Guam to declare bankruptcy under its own laws, it would make it difficult to issue additional debt in the future (without a contractual waiver of the government of Guam’s right to declare bankruptcy), which would be imprudent and only exercised as a last resort.

Independence

Because of the uncertainty associated with this status, it would likely take several years until new debt would be generally acceptable either in international markets or with commercial banks, except at significantly elevated interest rates because of the heightened perception of repayment risk. Other sources (the International Monetary Fund, the Asian Development Bank, etc.) would likely impose conditions, such as modification of its tax and spending policies, on Guam’s government that may affect the availability of local funding for other purposes. Nonetheless, as an independent country, it is likely that Guam would have access to international credit markets, including credits from other governments. This could help stabilize the economy and fund infrastructure projects that are short-term expenditures for long-term benefits in an independent Guam.

DEBT	
STATUS	EFFECTS
Statehood	<ul style="list-style-type: none"><li>• Would likely be somewhat easier for the post-transition government to issue new debt at a relatively low cost.</li></ul>

	<ul style="list-style-type: none"> <li>• The interest paid on Guam's debt would no longer be exempt from taxation by other states, but would remain tax-exempt locally and at the federal government level.</li> </ul>
<b><i>Free Association</i></b>	<ul style="list-style-type: none"> <li>• Debt would likely be considered foreign bonds, and marketability and cost depend on the perceived stability of local government and its revenues</li> <li>• Borrowing from commercial banks may still be possible, but at moderately elevated rates.</li> </ul>
<b><i>Independence</i></b>	<ul style="list-style-type: none"> <li>• Likely would take several years to issue debt in international markets or borrow funds from commercial banks because of the uncertainty of this status, except at significantly higher interest rates.</li> <li>• Guam may have access to credit available from international organizations such as the International Monetary Fund and the Asian Development Bank.</li> </ul>

# Commerce, Trade, and Customs

Commerce is defined as the exchange of goods or services for something of value, usually (but not necessarily) on a relatively large scale. In that regard, it is essentially the same as trade, and the words are often used interchangeably. In common usage, though, commerce usually refers to exchange within the boundaries of a geopolitical area, whereas trade most often refers to exchange across such boundaries. While the rules and conventions of commerce within boundaries are highly variable and may differ substantially from country to country, state to state and region to region, the rules and conventions of cross-border trade, with some exceptions, have become relatively uniform throughout the world under multilateral trade agreements. The exceptions often arise when one area grants more favorable treatment in trade to another than is available to all areas, or imposes restrictions or prohibitions upon trade, whether by geopolitical area, specific or general product type, or the outputs of particular industries. The exceptions are effected through some sort of border control, whether by tariffs, quotas, nontariff barriers such as agricultural and other product safety or uniformity standards, or outright exclusion, and enforcement of these exceptions generally falls within the definition of “customs.”<sup>406</sup>

Within a given area, the rules and conventions of commerce can range from unrestricted capitalism (wherein the government makes no attempt to regulate or control business activity) through mixed capitalism (wherein many of the means of production are privately owned but some are regulated by the government, and the government provides support for some businesses and private individuals) to mixed socialism (wherein many of the means of production are publicly owned but some are privately owned and regulated by the government, and the government provides support for many businesses and private individuals) and more pure forms of socialism (wherein the government owns most of the means of production outside of households and may distribute the products of the economy more or less equally across the entire population).<sup>407</sup> The form that commerce takes typically depends upon one or another

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<sup>406</sup> The word, “customs,” can have any of several meanings, but here it will refer to the enforcement of trade laws, rules and regulations at a geopolitical boundary.

<sup>407</sup> These classifications refer to some of the more common forms of the organization of economic systems, and should not be confused with classifications of the organization of political systems such as democracy, communism or authoritarianism.



political ideology that describes the type of economic system that is expected to be most advantageous, whether to a population at large or to one or more subgroups within that population. Guam's three political status options would provide greater (as in the case of independence) or lesser latitude (as in the case of statehood) in determining which economic system is selected to establish the internal norms of commerce.

Over the past several decades, many of the barriers to cross-border trade such as tariffs (which are generally used to generate revenues for the implementing government) or quotas (generally used in support of domestic development for infant industries or maintenance of the capacity to produce goods and materials that are of strategic importance) have been relaxed or eliminated altogether, whether through bilateral, multilateral (such as the North American Free Trade Agreement, "NAFTA") or global agreements (such as the General Agreement on Tariffs and Trade, "GATT," organized under the auspices of the World Trade Organization, the "WTO"). While unrestricted "free trade" is the ideal, extracting the greatest economic efficiencies from available resources, for various reasons there are exceptions to the terms of these agreements, primarily associated with political objectives. These objectives are sometimes advanced through the granting of "most favored nation" status by one country to another.

Much of Guam's commerce today is reliant on imports from other locations. In 2019, Guam exported \$32.2 million and imported about \$423.1 million, resulting in a negative trade balance of \$390.9 million.<sup>408</sup> This huge trade deficit means that Guam's economy is heavily dependent on imports to sustain the standard of living that is expected by Guam's residents.

## Statehood

Under this status, Guam would have limited control over the norms for internal commerce in the same way that it does currently, since many of the standards will continue to be set by the US federal government. As a state, Guam would be bound by the terms of trade that are established at the national level and would almost certainly become a part of the customs territory of the United States, subject to the same established tariffs, quotas and exclusions as other states. This would likely increase the costs of Guam's imports from foreign countries, such as gasoline, thus increasing the prices of those products to the final consumers.

## Free Association

As a freely associated state, Guam would no longer be subject to all of the commercial standards that are currently required by the United States but may continue to follow those standards for practical purposes or as negotiated in achieving this status. Otherwise, Guam would have the latitude to establish its own internal standards. Under free association, Guam would be eligible to enter into agreements,

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408 Guam Bureau of Statistics and Plans. Various import and export statistics publications for 2019. Export statistics are reported quarterly, for each of the four quarters; import statistics are reports for January and November only, and the total is estimated by adding the total imports by air and sea for those two months and multiplying by six.

including trade agreements, with other sovereign countries and participate in international organizations such as the World Trade Organization, binding itself more or less tightly to the global community. It would likely be to Guam's advantage to do so and to comply with those standards in order to maintain beneficial relationships with other countries. Guam would continue to control its own customs territory but would be unlikely to impose tariffs or quotas on imports so as to avoid price increases and/or scarcity. The island would likely continue its exclusion of dangerous substances such as addictive or deleterious drugs, plant and animal pests and diseases, and some nuclear materials. Guam may also be willing to agree to join in the United States' export control regime so that certain regulated products and technologies would remain available here.

## Independence

Under independence, Guam would have virtually total control over its choice of economic system and could establish its norms for internal commerce in any way that it chooses. Until that choice is made, there is a great deal of uncertainty regarding internal economic relationships between the public and the private sectors, as well as among those in the private sector. As a consequence, development priorities cannot be anticipated, and the direction of change in the most important measures of economic performance cannot be assessed. Even the difference between choosing mixed capitalism or mixed socialism, including the regulatory regime governing business activities and the distribution of the goods and services produced here, could have substantive impacts on the types and levels of economic activity. In order to maintain continuity and to express greater stability to the outside world, it is likely that mixed capitalism will remain the system under which commerce is conducted in Guam. But even within that system there is a wide spectrum of laws and regulatory controls that could be used to guide the economy.

In terms of cross-border trade, independence as a political status would provide Guam with wide latitude in its relationship with other countries and the global economy in general. However, there are good reasons that trade standards exist among countries, and it is likely that Guam would adhere to most of those standards. A failure to do so would risk isolating the island from much of the rest of the world, which could have enormous adverse effects on the standard of living of people living here. Similar to the current status of unincorporated territory and the free association option, Guam would have substantial control over tariffs and quotas, but similar levels of restraint would be advisable in order to control prices and the availability of products. It is likely that under independence, Guam would continue its exclusion of dangerous substances and that it would adopt US government export controls in order to continue the availability of certain products produced in the United States.

COMMERCE, TRADE & CUSTOMS	
STATUS	EFFECTS
<i>Statehood</i>	<ul style="list-style-type: none"> <li>• Become a part of the Customs Territory of the United States.</li> <li>• Trade barriers with the United States would cease, but US tariffs and quotas would be applied to some foreign goods entering Guam, potentially raising prices.</li> <li>• Limited control over the standards for internal commerce in the same way as it is now.</li> </ul>
<i>Free Association</i>	<ul style="list-style-type: none"> <li>• Eligible to change its commercial standards and enter into trade agreements, but would likely keep international commercial standards.</li> <li>• In control of its own customs territory, but would unlikely place tariffs because of the increased costs that would impose on imports into Guam.</li> <li>• May also agree to join the United States export control regime so certain regulated products and technologies would remain available.</li> </ul>
<i>Independence</i>	<ul style="list-style-type: none"> <li>• Total control over internal commerce, but with substantial uncertainty until decisions on commerce are finalized.</li> <li>• Ability to change its commercial standards and enter into trade agreements which could potentially improve import prices on products coming directly from Asia , but would likely keep international commercial standards.</li> </ul>

# Tourism

Because Guam is a relatively small remote island with few natural resources, high transportation costs and a fairly fragile ecosystem, many of the industries that develop and grow easily in other places are simply not feasible here on any substantial scale. It is quite fortunate for the civilian population of the island to have a tropical climate, lush vegetation, tranquil bays and wide, sandy beaches. These characteristics have made the island an attractive and even favored tourist destination, especially for people from some of the more affluent, yet colder, countries in our region. Adding to that good fortune is the fact that tourism is a low-impact, high-value industry. As a result, tourism has been Guam's primary civilian industry for nearly fifty years, generating thousands of jobs and hundreds of millions of dollars in income annually for people living here. Tourism has been very, very good for Guam's economy.

Guam's development of tourism was first acknowledged by local government officials in 1952, with the enactment of Public Law 67. The law implemented a plan to establish a travel industry on Guam. The measure was passed by the First Guam Legislature and signed into law by Governor Carlton Skinner. Unfortunately, the territory was blanketed with a security restriction on travel imposed by the formal naval administration. It was not until 1962, when President John F. Kennedy lifted the security restriction, that Guam's tourism development would move closer to realization. In 1963, the government of Guam established the Guam Tourist Commission within the Department of Commerce via Executive Order 63-10, which was issued by Governor Manuel F.L. Guerrero. With an initial budget of \$15,000, the Guam Tourist Commission immediately began aggressive travel trade promotions in Japan and Southeast Asia. Additionally, the commission worked diligently on the development of Guam's tourism plan and lobbied air carriers to increase flight service to Guam from potential market areas.

The rewards of the Commission's efforts were reaped four years later, when on May 1, 1967, Pan American World Airways landed on Guam with 109 Japanese tourists. In that first year, Guam recorded 6,600 visitor arrivals. In July 1970, the Guam Tourist Commission was renamed Guam Visitors Bureau. Separated from the Department of Commerce, Executive Order 70-24, formally established the bureau as a nonprofit corporation. In 1983, Public Law 17-32 (The Guam Visitors Bureau Act) was enacted,

reorganizing the bureau as a public, nonprofit, membership corporation. Public Law 17-65 was passed in 1984, which established the Tourist Attraction Fund (TAF). Separate from the General Fund, the TAF is the source for the bureau's budget. Funds in this account are derived from hotel occupancy taxes collected from room nights sold. The occupancy tax is currently assessed at 11 percent. In 1990, Public Law 20-205 was passed and established a research department within the bureau. The department is responsible for the collection, analysis and evaluation of data on the visitor industry. Additionally, the department serves as the industry source for dissemination of data. In 1994, Guam welcomed one million visitors to the island in a year for the first time. In 2019, Guam broke a new record by welcoming 1.63 million visitors in a year.<sup>409</sup>

Even with this success, as with any other industry, tourism has its drawbacks. It is heavily relied upon as one of Guam's two primary sources of the outside income that is necessary to support the importation of things that have raised standards of living for much of the population here. The standard of living in Guam is far above that of our island neighbors in the region. In addition to the trash, waste, and congestion that the industry creates, it burdens the island's land and infrastructure resources, along with its demands for potable water and imported fossil fuels. The industry is inherently an unstable, unreliable source of earnings because tourism is a luxury for most visitors. Further, particularly for Guam's primary visitor markets, global and regional conflicts and epidemics directly affect the comfort that many tourists feel in traveling by air. Guam's periodic windstorms and earthquakes add to the perceived hazards of the island from many tourists' perspective. There were sudden and severe decreases in Guam's visitor arrivals during the first Gulf War in 1991, after the terrorist attacks on the United States on September 11, 2001, and during the second Gulf War, in 2011. Similarly, the outbreaks of Severe Acute Respiratory Syndrome ("SARS") in 2002 and the H1N1 swine flu in 2009 caused precipitous drops in our visitor arrivals. The global contagion of a novel coronavirus ("COVID-19") in 2020 brought Guam's tourism industry to a standstill, with visitor arrivals falling to near zero. Typhoons Omar in 1992 and Paka in 1997 caused immediate drops in the number of tourists coming to Guam, in large part because of damage to hotels and other tourism facilities, and Supertyphoon Pongsona in December 2002 brought monthly arrivals to a 15-year low. The "Great Quake" of August 8, 1993, caused a decrease in arrivals that has only been matched three times since then.

Because tourism is a luxury for most visitors, changes in gross domestic product ("GDP"), in their home countries have an exaggerated effect on their willingness to devote disposable income to travel. As a result, if earnings increase by one percent, say, in Japan, tourist spending by Japanese visitors to Guam increases by more than one percent, which is favorable. However, as earnings decrease, tourism spending will decline by a greater percentage, too. As a consequence, tourist spending in Guam is more volatile than is income in our target markets, creating a degree of instability in the island's export earnings and, by extension, the income of much of Guam's civilian population.

In addition to visitor spending, Guam's tourism industry often brings high levels of outside investment

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409 This brief historical overview was directly provided to the authors by the Guam Visitors Bureau and thus is used verbatim.

into the civilian economy as new hotels and other facilities are constructed, and construction spending is the primary driving factor underlying the island's business cycle. As those structures are completed (often relying on temporary foreign labor resources) new businesses are opened and new, permanent jobs are created for the resident workforce. Historically, Guam's economic activity and increases in civilian employment have expanded during and after periods of increased outside investment, followed by new, higher plateaus of payroll employment, incomes and standards of living. This has become characteristic of the island's long-term growth cycle.

Because tourism holds Guam's greatest potential for export earnings in the civilian sector now and in the foreseeable future, it is highly likely that it will remain the island's principal private industry regardless of the political status that is chosen. There may be pronounced differences in the performance of the industry under the different status options, especially during the first years after the implementation of any status change.

## Statehood

A transition to statehood would have only two notable effects that might influence Guam's visitor arrivals. First is the transfer of customs operations from local to US federal control, making it subject to federal laws and regulations. This would essentially be transparent to an arriving visitor. The second impact would be even greater confidence in the rule of law as it exists here. Neither of those effects are expected to significantly alter visitor arrivals or spending and will likely continue to make Guam an attractive tourist destination.

## Free Association

Although there may be a temporary decrease of confidence by visitors in Guam's level of personal security and the rule of law, that decrease can be expected to be brief and overcome quickly enough that any resulting reduction in tourist arrivals and expenditures should hardly be noticeable. Visitors will likely be unaware of the transfer of immigration authority from the US federal government to the government of Guam, and the difference should not be consequential from a visitor's viewpoint. It may be some time before investor confidence returns to its pre-transition level, but if Guam's government exhibits stability throughout the process, that period should be relatively brief.

## Independence

A change in Guam's political status will likely go unnoticed by the typical tourist contemplating a visit to the island as long as local conditions reflect relative stability and personal security during and after the transition. However, any significant disruption in the usual course of events here, especially if it receives negative international attention, may have an adverse impact on arrivals and the local tourism industry

(depending on the type and severity of the disruption). It may, however, require an extended period of time before outside investment in Guam's tourism facilities is restored, which will depend almost entirely on the perceived continuity and stability of the island's legal and business environment and how openly new outside investment is welcomed. Without appropriate caution, changes to the system of taxation could also have a detrimental impact on investment decisions.

Under independence or free association, Guam will have the opportunity and responsibility of being in charge of its tourism industry. As mentioned, under statehood, Guam will continue to be US soil (with corresponding rule of law in the eyes of tourists) and thus, in this regard, tourism will be rather stable. With independence and free association, Guam will no longer be US soil, but will continue to have the appeal of being a beautiful tropical island. Guam will also have the opportunity and responsibility of capitalizing on this appeal (while acknowledging the short-term instability that will affect tourist arrivals upon a shift to either free association or independence). According to studies done by the Guam Visitors Bureau, such as the GVB Travel Motivation by Market FY14-FY19 report, there are clear patterns. Per the report, which covered the travel motivation of visitors from Japan, Korea, Taiwan, China, USA, Philippines, Hong Kong, and Korea, the top motivators were natural beauty, travel time, relaxation, and pleasure.<sup>410</sup> These aspects of Guam's appeal are not destined to change with the attainment of a sovereign political status but will be contingent on a multitude of factors. In addition to factors such as rule of law (which will help the perception of tourists that Guam is a safe place to visit) and the stability of the new political system, other critical factors include environmental laws (which help maintain Guam's beauty), immigration and visa policies (which will help determine tourist satisfaction with the process of entering Guam), and ability to maintain tourism infrastructure. These are decisions that will need to be made by the new government, which will ultimately determine (along with global factors such as the economy) the end state of tourism in the new country.

Under free association or independence, the government of Guam will be able to determine who to open the tourism markets to. Thus, there is the possibility that Guam could open markets again to countries such as China and Russia. This will be contingent on the diplomatic relations Guam has with countries around the world. However, in doing this, Guam, as a new country, will also have to be vigilant in ensuring that Guam does not become a destination for "unruly" visitors or a haven for organized crime. Thus, in controlling its immigration and tourism industry, Guam also needs to develop the infrastructure and capacity for internal order and diligent tracking of who is entering the island.

In creating a country that retains its natural beauty, potential for relaxation/pleasure, and capitalizing on a short travel time for Asian countries, the island would have the opportunity to expand the forms of tourism it offers, such as cultural tourism or eco-tourism. According to the Guam Visitors Bureau, "Culture is ubiquitous with all of GVB's marketing and promotions. Supporting Guam's cultural heritage is paramount to GVB's success in the different source markets."<sup>411</sup> It points to the success of the Guam Chamorro Dance Agency (GDCA) launched in 2009 and piloted in FY 2010 in the Tokyo area

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410 Guam Visitors' Bureau, GVB Travel Motivation by Market FY14-FY19.

411 Guam Visitors Bureau Report for Self-Governance Study.

(with seventy people attending each of five two-day workshops.) Due to growing interest, the program expanded, with a third guma’ being established. The program also expanded to Taiwan, which helped to foster cultural exchange and promote travel between Guam and Taiwan. According to GVB, “the program was successful in enticing people to learn more about Guam’s unique heritage and people.”<sup>412</sup> According to the October-December 2019 Japan Visitor Profile, twenty-one percent of respondents pointed to cultural and local attractions like CHamoru cuisine and Two Lovers’ Point as the most popular activities.<sup>413</sup> In the October-December 2019 Korea Visitor Profile, fifty-two percent of respondents pointed to local attractions (such as Two Lovers Point) and forty-seven percent said sightseeing (scenic views/natural landmark) were activities they participated in.<sup>414</sup> An independent Guam could emphasize these aspects in the development of its new tourism attraction. An independent Guam could do similar market research to create a multi-faceted tourism industry for the new country.

Under any status, the effect of climate change on Guam’s environment and the ramifications for the tourism industry is something that deserves and will continue to deserve significant attention. As GVB notes, “Based on GVB’s exit surveys, a few of the primary reasons why visitors come to Guam is because of its natural beauty, sight-seeing and water sports. Climate change will affect all of these outdoor motivations and activities, ultimately affecting visitor arrivals.”<sup>415</sup> For more on this, please see the Human Security/ Climate Change subsection of this study in Section: “Environmental Sustainability”.

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412        Guam Visitors Bureau Report for Self-Governance Study.

413        Guam Visitors Bureau, October-December 2019 Japan Visitor Profile, accessed at <https://www.guamvisitorsbureau.com/docs/research/studies/exit-surveys/japan-exit-survey/fy2020/1st-quarter-fy2020-jes-report.pdf>.

414        Guam Visitors Bureau, October-December 2019 Korea Visitor Profile, accessed at <https://www.guamvisitorsbureau.com/docs/research/studies/exit-surveys/korea-exit-survey/fy2020/1st-quarter-fy2020-kes-report.pdf>.

415        Guam Visitors Bureau Report for Self-Governance Study.

TOURISM	
STATUS	EFFECTS
<p><i>Statehood</i></p>	<ul style="list-style-type: none"> <li>• Transfer of Customs control to the US government and increased confidence in the rule of law.</li> <li>• No expected effect on visitor arrivals or expenditures.</li> </ul>



<p><b><i>Free Association</i></b></p>	<ul style="list-style-type: none"> <li>• Brief decrease in visitor confidence in security and rule of law, potentially leading to a decrease in the number of arriving visitors.</li> <li>• Brief drop in tourism investor confidence, depending on Guam's stability throughout transition process.</li> </ul>
<p><b><i>Independence</i></b></p>	<ul style="list-style-type: none"> <li>• The change in political status would likely go unnoticed by Guam's typical visitor demographic as long as local conditions of personal security and the rule of law remain stable.</li> <li>• Tourism investor confidence will depend on stability and how open Guam will be to outside investment, as well as how significant the changes in tax law will be.</li> </ul>

# Cannabis Industry

On April 4, 2019, Guam passed Public Law 35-05, allowing for the recreational use of cannabis for people twenty-one and older. This legislation followed a 2014 referendum, which legalized the use of medical marijuana in Guam.<sup>416</sup> Considering the potential for a cannabis industry to develop in Guam, this industry was included in the scope of work for this study.

Guam's passage of Public Law 35-05 followed a growing trend throughout the United States of legislation that decriminalizes marijuana. As data and research about the medical benefits of cannabis continues to develop worldwide, acceptance of cannabis use has grown. Studies have validated and confirmed the medical efficacy of cannabis in alleviating seizures, cancer, sleep disorders, depression, nausea, pain management, anorexia, epilepsy, Parkinson's Disease, Huntington disease, dementia, post-traumatic stress syndrome and glaucoma, among other illnesses.<sup>417</sup> Additionally, the social normalization of cannabis has reduced apprehension toward the drug, as evidenced by the increasing passage of legalization in countries worldwide.

The legalization of the cannabis industry may potentially be beneficial for Guam. The *New Hampshire Business Review* spells out three main ways the cannabis industry can positively impact an economy: tax revenue; the real estate industry; and ancillary business opportunities.<sup>418</sup> The first benefit could provide potential increased tax revenue based upon expansion and diversification of the island's industrial base. This tax revenue could provide for improvement in infrastructure and other public purposes. Another potential impact could be the benefits to the commercial real estate industry. Cannabis businesses occupy space, not only in cultivation facilities but also in manufacturing and retail industries. Real estate could be purchased, rented or leased to accommodate the industry, meaning more land could be drawn into economic production. Third, as with most other industries, cannabis requires the support of ancillary

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416 "Guam Cannabis Industry Act" Chapter 11, Title 8, Guam Code Annotated. Guam Compiler of Laws. <http://www.guamcourts.org/CompilerofLaws/GCA/11gca/11gc008.pdf>.

417 Gemma Antonine Wenner. "Marijuana-Tourism: Disruptive Innovation for Small-Island Developing States" (December 2018) University of Maryland University College Dissertation Committee.

418 Bill Flynn. "Legalized Marijuana: an economic panacea?" *New Hampshire Business Review*.

business activities. The cannabis industry would rely upon other businesses to supply its operations.

However, since the cannabis legislation passed only in 2019 and because the general “liberalization of marijuana laws is a recent phenomenon,” the specific economic benefits that can derive from the marijuana industry are not yet measurable and this subsection of this study does not purport to measure them.<sup>419</sup> This portion of the research will be dedicated to the exploration of the marijuana industry under each political status and the potential challenges to Guam’s economy. It is highly recommended, however, that readers interested in this industry consult other studies that have been conducted by the Cannabis Control Board and the Guam Visitors Bureau for more information.

## Statehood

A cannabis industry in Guam will likely meet the most resistance under statehood. Despite the majority of US states having legalized some form of cannabis usage, it is nonetheless susceptible to reaction from the federal government. This is because the illegality of marijuana at the federal level poses several impediments for the success of this particular industry. One example is the restriction of cannabis on flights to the United States due to the federal law prohibiting importation. Therefore, this industry could have significant hurdles if Guam were to become a state unless cannabis is legalized at the federal level. Intermediaries, potential stakeholders, and other businesses may be “reluctant to provide investment capital, legal advice, or other basic professional services necessary for [the] marijuana business to function.”<sup>420</sup>

The marijuana industry is already at a disadvantage because the availability of essential services and partnerships is limited. These connections and services are important to a business’s success but will be constrained due to the partial illegality of the industry. Of the many obstacles, the greatest impact to the industry will probably be the inability or unwillingness of banks to engage in transactions with marijuana businesses. There is a hesitance from banks and investors surrounding this industry because marijuana is still classified as a Schedule 1 controlled substance, thereby opening the possibility of repercussions to banking firms such as money laundering charges. Although the regulatory environment is gradually changing, “banks are not legally allowed to provide financial services” to cannabis related industries, leaving few alternatives to these businesses and forcing most of them to operate in cash.<sup>421</sup> In addition to this, marijuana businesses that operate on a cash-only basis are much more difficult to regulate and tax. Lastly, if cannabis businesses operate on a cash basis, from production through processing to distribution, they would potentially retain large sums of cash, making them potential targets for crime.

If Guam were to become a state, the island would be subjected to federal rules and regulations similar to the current status. Specifically, Federal Tax Rule 280E “requires any trade or business operating

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419 Gemma Antonine Wenner. “Marijuana-Tourism: Disruptive Innovation for Small-Island Developing States” (December 2018) University of Maryland University College Dissertation Committee.

420 Erwin Chemerinsky et. al. “Cooperative Federalism and Marijuana Regulation” (2015) UCLA Legal Review. [https://scholarship.law.uci.edu/faculty\\_scholarship/369/](https://scholarship.law.uci.edu/faculty_scholarship/369/).

421 Aaron Smith. “IRS collects billions in pot taxes, much of it in cash.” (January 18, 2018) CNN Business. <https://money.cnn.com/2018/01/18/smallbusiness/marijuana-industry-taxes-irs/index.html>.

in violation of federal drug laws - and only federal drug laws - to pay federal income tax and to do so on disadvantageous terms.”<sup>422</sup> This means that certain tax incentives available to some businesses are not available to cannabis businesses, creating an intentional barrier to the industry. In addition, a marijuana seller is also “required to pay taxes on its gross receipts” under this federal provision, which prevents sellers from deducting their expenses before calculating their taxable income. All of this points to difficulties that the marijuana industry may face under statehood.

Despite this, states that have legalized and commodified marijuana have gained economic advantage in three ways. The first is by projected revenue from additional taxes and streams of income by selling marijuana legally. The second economic advantage impacts the government with increased “estimated savings from reduced spending on the criminal justice costs of marijuana law enforcement.”<sup>423</sup> Lastly, this industry can also be beneficial to the economy in terms of creating new jobs that cater to the marijuana sector.

## Independence and Free Association

As an independent country or freely associated state, Guam will have the authority to create all necessary rules for cannabis, hemp and CBD as it sees fit. Therefore, the potential for growing these industries is dependent on relations with foreign countries and the demand for cannabis within the market of Guam residents and visitors. Additionally, Guam’s government will be able to control its tax policy to balance the collection of revenue for government services with the need for businesses to have funds available for expansion.

One potential flaw when it comes to cannabis under independence or free association may be the lack of credibility of the industry under that status. Guam would have to establish a level of trust with its consumer base outside of the island by providing a satisfactory, standardized product. This may cause a lag in the expansion of the industry, but this could be minimized by Guam developing a robust food and drug regulatory environment or regime. Not only could there be a lack of confidence from potential tourists, there could also be a lack of confidence from potential investors.

An independent Guam will need to rely on tourism and international marketing in order to sustain a vibrant cannabis industry for both recreational customers and medicinal patients, subject to local demand which is yet to be seen as Guam’s cannabis industry has not begun legal sales. Guam would need to develop a healthy relationship with different countries and ensure that whatever marketing it does in foreign countries is acceptable in that location. Guam already has channels of communication, such as “...outsourced marketing representative(s), which is how it operates in other... markets.”<sup>424</sup> Understanding the restrictions and how to properly market the industry for tourism would allow Guam to maximize growth for the industry.

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422 Erwin Chemerinsky et. al. “Cooperative Federalism and Marijuana Regulation” (2015) UCLA Legal Review. [https://scholarship.law.uci.edu/faculty\\_scholarship/369/](https://scholarship.law.uci.edu/faculty_scholarship/369/).

423 David G. Evans, “The Economic Impacts of Marijuana Legalization.” (2013) The Journal of Global Drug Policy and Practice. <https://www.dfaf.org/wp-content/uploads/2018/11/Vol-7-Issue-4.pdf>.

424 “Guam Visitors Bureau reorganizing its Japan office.” (September 2018) Pacific Daily News <https://www.guampdn.com/story/money/2018/09/04/guam-visitors-bureau-reorganizing-its-japan-office/1188626002/>.

CANNABIS INDUSTRY	
STATUS	EFFECTS
<i>Statehood</i>	<ul style="list-style-type: none"> <li>• Subject to federal restrictions such as the Controlled Substance Act, banking limitations causing a cash-only industry, and higher tax payments for businesses unable to deduct business expenses.</li> <li>• Limited to local cannabis market and visiting tourists due to federal law, no room for export.</li> <li>• Ability to attract American investors due to familiarity with US policies as well as a potentially untapped market from Guam's tourists.</li> </ul>
<i>Independence &amp; Free Association</i>	<ul style="list-style-type: none"> <li>• Allows for control of the industry because of the ability to regulate it freely.</li> <li>• Allows a flexible and independent tax policy that can be adjusted subject to the demands of the market.</li> <li>• Potential to market and expand both the cannabis (THC) industry and the hemp (CBD) industry for export and tourism.</li> <li>• Possibility of a lag in industry development due to evolving credibility of safety and quality controls for potential cannabis consumers.</li> </ul>

# International Aid

International aid, primarily in the form of financial and technical assistance, is usually offered for either of two reasons: First, for humanitarian purposes, such as food, medicine, building supplies, equipment, and labor in the aftermath of natural or manmade disasters, or to help raise standards of living and to stabilize economic performance in less-developed countries. Second, aid may be offered in order to gain political and/or economic advantage, often as an alternative to similar assistance from some other (usually adversarial) country, such as infrastructure construction or the transfer of technologies (the latter of which have often concentrated on the agricultural capabilities of the recipient country). There is a third reason, military assistance, which would not be provided by any source other than the United States under statehood and would probably only be provided by the United States under a free association arrangement, with the choice left most open under independence. Military assistance could be used as strategic leverage by one or more external governments under the independence option, but that would be more of a political than an economic matter. This section explores Guam's eligibility and possible avenues for international aid in each of the three status options.

International aid usually refers to the transfer of resources between countries which is not predicated on a commercial basis. The type of monetary or material aid that comprise international aid usually falls into three different categories:

humanitarian assistance for life-saving relief from natural and manmade disasters; development assistance that promotes the economic, social, and political development of countries and communities; and security assistance, which helps strengthen the military and security forces.<sup>425</sup>

This aid can take different forms, such as bilateral economic development programs, cash transfers, equipment, food and supplies, medical assistance, humanitarian aid, infrastructure, activities related to

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<sup>425</sup> George Ingram, "What every American should know about US international aid," October 15, 2019, *Brookings Institution*, <https://www.brookings.edu/policy2020/votervital/what-every-american-should-know-about-us-international-aid/>.

peacebuilding, and technical assistance or cooperation (such as training services or education). International aid can be handled on a bilateral basis (from country to country) or through multilateral institutions such as the International Monetary Fund or the World Bank.

International aid can be beneficial for its recipients because it allows countries to implement programs and initiatives that they otherwise would not be able to afford. For example, with humanitarian aid, wealthy countries are known for providing money and resources to poorer countries to improve access to medical care or to allow for the creation of healthcare infrastructure. Globally, these funds contribute to efforts including eradicating diseases and decreasing rates in infant and maternal mortality.

However, aid has the potential to make things more difficult for countries because the expectation of aid can make countries dependent to the point that they cannot develop their own industries and economies. For example, though seen positively, humanitarian aid is sometimes criticized because in some cases the money used to eradicate poverty can fund programs or interventions that negatively affect the local farming industry of that country. In some African countries, local farmers are not able to successfully sell their crops because the aid money coming in renders them obsolete.

## Statehood

International financial and technical assistance will not be directly available to Guam under the statehood option, since international relations (especially if they involve potential obligations) are the purview of and will be reserved to the authority of the US federal government. International aid from the United States will not directly come out of the state of Guam's budget because international aid is the responsibility of the federal government. Historically, the United States is one of the largest distributors of international aid and only in times of crisis did other countries offer aid to the US. For example, the United States received aid in the form of monies, supplies, and other resources after 9/11 and Hurricane Katrina. The federal government then took the aid and distributed it to affected areas. The United States was offered or pledged \$854 million in cash and oil (to be sold for cash) to help the cleanup.<sup>426</sup> Currently, there is no country which gives international aid to the United States on an annual basis. Therefore, there is no international aid that is allocated directly to the individual states, and thus Guam, as a state (of the US), should not expect to receive any official international aid.<sup>427</sup>

However, it is important to note that the state of Guam will continue to get federal money. All states get funding from the federal government to support their social services programs. In Fiscal Year 2017, Michigan (\$22.8M), Montana (\$2.8M), and Mississippi (\$9.1M) received federal funding that covered more

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426 Matt Mayer, James Carafano, et al. "Accepting Disaster Relief from Other Nations: Lessons from Katrina and the Gulf Oil Spill," Heritage Foundation, February 17, 2011; Washington Post, "Only a fraction of international aid after Katrina was used," April 29, 2007, accessed at <https://www.latimes.com/archives/la-xpm-2007-apr-29-na-aid29-story.html>.

427 Amanda Erickson, "Dozens of countries offered help after Hurricane Katrina. After Harvey, not so much," The Washington Post, September 1, 2017, accessed at <https://www.washingtonpost.com/news/worldviews/wp/2017/09/01/dozens-of-countries-offered-help-after-hurricane-katrina-after-harvey-not-so-much/>.

than 40% of their states' total expenditures.<sup>428</sup> In that same year, on the lower end, states like Connecticut (\$6.1M), Hawai'i (\$2.5M), and Ohio (\$12.5M) received federal funds that totaled less than twenty percent of their states' total expenditures.<sup>429</sup> As shown, states do not receive the same amount of federal money each fiscal year. The amount they receive is instead contingent on the number of residents in their state who qualify and receive assistance from federally funded programs. Thus, although Guam, as a state, will not receive international aid, it will continue to receive federal funding.

## Independence

If Guam were to become an independent country, if needed, it may qualify for international aid from individual countries or international organizations. Under independence, Guam, if eligible, would be able to avail of multilateral aid, in which aid comes from different governments and organizations, often arranged by international organizations.

The United Nations and all its related programs, funds, and specialized agencies may be available to the independent country of Guam once Guam joins the respective UN bodies. The United Nations System has six main organs, which includes: the General Assembly; Security Council; Economic and Social Council (ECOSOC); Secretariat; International Court of Justice; and the Trusteeship Council, which is rather defunct since the dissolution of the Trust Territory of the Pacific Islands.

In September 2015, the General Assembly adopted the 2030 Agenda for Sustainable Development. A primary focus of this resolution is the 17 Sustainable Development Goals (SDGs). These goals and the 2030 Agenda are significant because they commit member states to take actions “that would not only address the root causes of poverty but would also increase economic growth and prosperity and meet people’s health, education and social needs, while protecting the environment.”<sup>430</sup> The impact to multilateral international aid is that actions by UN entities may be framed to work towards specific goals. This is exemplified with the work of UN Specialized Agencies, which are “international organizations that coordinate their work with the United Nations through negotiated agreements.”<sup>431</sup> ECOSOC has established partnerships with 15 international organizations.<sup>432, 433</sup> As an independent country, Guam could join the UN and participate in UN Specialized Agencies as a member-state (country). Guam may be classified as a Small Island Developing State (SIDS), depending on the criteria of the agency concerned. If so, several UN Specialized Agencies have created initiatives to provide assistance to address the special issues that face

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428 Center on Budget and Policy Priorities, “Federal Aid to State and Local Governments,” accessed at <https://www.cbpp.org/research/state-budget-and-tax/federal-aid-to-state-and-local-governments>.

429 Ibid.

430 United Nations, “Historic New Sustainable Development Agenda Unanimously Adopted by 193 UN Members,” September 25, 2015, accessed at <https://www.un.org/sustainabledevelopment/blog/2015/09/historic-new-sustainable-development-agenda-unanimously-adopted-by-193-un-members/>.

431 United Nations Library, “What are UN specialized agencies, and how many are there?” accessed at <https://ask.un.org/faq/140935>

432 Article 63 of the U.N. Charter allows for ECOSOC to “enter into agreements with any of the agencies referred to in Article 57...” (<https://legal.un.org/repository/art63.shtml>).

433 Georgetown Law Library, “United Nations Research Guide,” accessed at <https://guides.ll.georgetown.edu/c.php?g=365747&p=7141851>.



SIDS.”<sup>434, 435</sup> As an unincorporated territory, Guam is already classified as a SIDS by some international organizations, given its geographic location and the common challenges it shares with other SIDS, such as “long distances from export markets and import resources” and “high costs for energy, infrastructure, transportation, communication and servicing.”<sup>436</sup>

The Food and Agriculture Organization of the United Nations (FAO) was established in 1945 and aims to achieve universal food security and access to high-quality food for all.<sup>437</sup> A subsidiary entity of the FAO is the Technical Cooperation Programme (TCP), which provides “access to a wide range of technical expertise related to agriculture, food and nutrition, and plays an important role in knowledge-sharing...”<sup>438</sup> The TCP gives two main types of support: development assistance and emergency assistance.

As a member state of the UN and FAO, Guam could request developmental assistance.<sup>439</sup> This type of aid can be both technical and financial. For example, from October 2017 to December 2019, the TCP provided \$499,000 to the countries who are a part of the Micronesian Association for Sustainable Aquaculture (MASA)<sup>440</sup> for a project entitled *Aquaculture Business Investment Planning and Development to Increase Resilience and Improve Food Security*.<sup>441</sup> This project recognized that developing the aquaculture industry in SIDS “requires new streams of technical cooperation and public-private finance” as well as “business planning information and tools” to develop “sustainable aquaculture business development and investment plans.”<sup>442</sup> The FAO and its regional partners provided “policy recommendations and technical guidance on sustainable aquaculture.”<sup>443</sup> Since Guam is geographically located in Micronesia, there is potential for an independent Guam to join an organization such as MASA and engage with the FAO to develop industries such as aquaculture. In a similar manner to the FAO’s project with MASA, the UN Specialized Agency could provide funding and technical assistance in the form of policy recommendations and guidance. This project also indicates that the FAO/TCP has the expertise available within its organization to specifically address the needs of SIDS. In addition to benefiting from services provided by the FAO, Guam would have to contribute to the agency. Funding for FAO projects is derived from assessed and voluntary contributions from UN member-states. If Guam were to be a member of the UN and FAO,

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434 Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, 2, “Small Island Developing States: Small Island Big(ger) Stakes, accessed at [http://unohrrls.org/UserFiles/File/UN\\_SIDS\\_booklet\\_5x6-5\\_062811\\_web.pdf](http://unohrrls.org/UserFiles/File/UN_SIDS_booklet_5x6-5_062811_web.pdf).

435 Ibid p.2.

436 Ibid, p.3.

437 Food and Agriculture Organization of the United Nations, “About FAO,” accessed at <http://www.fao.org/about/en/>.

438 Food and Agriculture Organization of the United Nations, “Technical Cooperation Programme,” <http://www.fao.org/technical-cooperation-programme/background-criteria/en/>.

439 TCP projects can be given up to USD 500,000 and projects should be completed within 24 months. <http://www.fao.org/technical-cooperation-programme/background-criteria/en/>.

440 MASA members include the Republic of the Marshall Islands, Federated States of Micronesia, Republic of Palau, and Republic of Nauru.

441 Food and Agriculture Organization of the United Nations, “Technical Cooperation Programme,” <http://www.fao.org/technical-cooperation-programme/background-criteria/en/>.

442 Food and Agriculture Organization of the United Nations, “Aquaculture Business Investment Planning and Development to Increase Resilience and Improve Food Security,” May 2020, 2.

443 Ibid, p.2.

the government would also have to contribute assessed<sup>444</sup> and potentially voluntary contributions.<sup>445</sup> The FAO is just one UN Specialized Agency with a history of providing international aid. The International Monetary Fund and World Bank Group are two other UN Specialized Agencies.

The International Monetary Fund (IMF) is an institution known for providing significant amounts of aid and other economic assistance. The IMF was established in 1945 and today has 189 member countries.<sup>446</sup> The mission of the organization is to help its member countries when they are, “hit by crises by providing them financial support to create breathing room as they implement adjustment policies to restore economic stability and growth. It also provides precautionary financing to help prevent and insure against crises.”<sup>447</sup> Two key functions of the IMF are to provide “loans to countries experiencing balance-of-payments difficulties, which generally means they are facing problems paying for necessary imports or servicing their debt payments,” and providing “technical assistance and training to help member countries strengthen their capacity to design and implement effective policies.”<sup>448</sup> If Guam joins the IMF, as a member, it may be eligible for both types of assistance. As a newly independent country, Guam could avail of the expertise and experience from the international organization in developing its economic policies. Unexpected events or crises that impact the island economically, such as a global pandemic, may also lead the island’s government to seek temporary financial assistance. Since the start of the COVID-19 global pandemic, “100 countries have sought financial support from the fund.”<sup>449</sup> Different types of emergency funding have been made available or more accessible. For example, the IMF has “temporarily doubled access to its emergency facilities” which “[allows] the fund to provide emergency assistance without the need to have a full-fledged program in place.”<sup>450</sup> Although the pandemic is a rare occurrence, the response by the IMF highlights the organization’s role in stabilizing economies. In the future, if external shocks impact Guam’s economy in a similar manner to COVID-19, Guam would be eligible for emergency assistance.

The World Bank is another source of international aid. The World Bank is often confused with the IMF, but it differs because the World Bank is an “investment bank” owned by “the governments of its 180 member nations with equity shares in the bank.”<sup>451</sup> It is a multilateral development bank (MDB). These institutions primarily “provide financial assistance to developing countries in order to promote economic and social development.”<sup>452</sup> The World Bank:

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444 Assessed contributions from member-states is “determined at the biennial FAO conference” and is a part of the “Member countries’ obligatory contributions to the United Nations and its specialized agencies.” <http://www.fao.org/partnerships/resource-partners/results-partnerships-impact/2019/en/>.

445 Ibid.

446 International Monetary Fund, “About the IMF,” accessed at <https://www.imf.org/en/About>.

447 International Monetary Fund, “IMF Lending,” accessed at <https://www.imf.org/en/About/Factsheets/IMF-Lending>.

448 Congressional Research Service, “The International Monetary Fund,” *og.1*, accessed at <https://fas.org/sgp/crs/misc/IFI0676.pdf>.

449 Ibid, pg.2.

450 Ibid, pg. 2.

451 David D. Driscoll, “The IMF and the World Bank: How Do They Differ?” International Monetary Fund, accessed at <https://www.imf.org/external/pubs/ft/expr/differ/differ.htm>.

452 Multilateral Development Banks: Overview and Issues for Congress by the Congressional Research Service (Feb. 11, 2020).

Borrows money by selling bonds and notes directly to governments, their agencies, and central banks. The proceeds of these bond sales are lent in turn to developing countries at affordable rates of interest to help finance projects and policy reform programs that give promise of success.<sup>453</sup>

It then distributes these funds, mostly through the International Bank for Reconstruction and Development (IBRD), which “lends to governments of middle-income and creditworthy low-income and most vulnerable countries”<sup>454</sup> and the International Development Association (IDA), which provides “interest-free loans – called credits – and grants to governments of the world’s poorest countries.”<sup>455</sup> The International Finance Corporation (IFC) works to “advance economic development by encouraging the growth of private enterprise in developing countries.”<sup>456</sup>

One way the World Bank Group has collaborated with small states is the Small States Forum (SSF), a fifty-member group using the platform “for high-level dialogue on how the Bank Group is helping to address Small States’ special development needs.”<sup>457</sup> The World Bank Group is committed to supporting small state development and in recent years has worked to enhance development finance, develop innovative disaster and climate financing mechanisms, foster private investment and diversification, and strengthen client capacity.<sup>458</sup> An independent Guam may qualify as a small state because it may face similar challenges that make it difficult to “fit the standard development model.”<sup>459</sup> Despite heterogeneity in SSF, some common challenges they face that the island of Guam also faces include: a relatively small population; geographic remoteness; and vulnerability to natural disasters and climate change.<sup>460</sup> In 1985, the World Bank Board approved the Small Island Economies Exception, which allows Small Island Economies (SIEs) with “GNI per capita above the IDA operation cut off” to receive concessional resources.<sup>461</sup> The exception allows small states to access resources from the IDA that they may have been ineligible for under the general rules. IDA-only SSF countries may receive grants based on their “debt distress ratings” as determined by the World Bank/IMF Debt Sustainability framework for low-income countries.<sup>462</sup> Over \$1.7 billion was available in 2019 for IDA financing to SSF members.<sup>463</sup> If Guam can qualify as an SIE, it may partake in the grants/loans available in order to invest in the island’s development. Concessional loans are appealing

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453 David D. Driscoll, “The IMF and the World Bank: How Do They Differ?” International Monetary Fund, accessed at <https://www.imf.org/external/pubs/ft/exrp/differ/differ.htm>.

454 Australian Government Department of International Affairs and Trade, “World Bank Group,” accessed at <https://www.dfat.gov.au/international-relations/international-organisations/multilateral-development-banks/Pages/world-bank>.

455 Ibid.

456 International Finance Corporation, “About IFC,” accessed at [https://www.ifc.org/wps/wcm/connect/corp\\_ext\\_content/ifc\\_external\\_corporate\\_site/about+ifc\\_new](https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new).

457 World Bank Group, “World Bank Group Support to Small States,” 4, <https://pubdocs.worldbank.org/en/340031539197519098/World-Bank-Support-to-Small-States-booklet.pdf>.

458 Ibid, p. 9.

459 The World Bank, “The World Bank in Small States,” accessed at <https://www.worldbank.org/en/country/smallstates/overview>.

460 The World Bank, “The World Bank in Small States,” accessed at <https://www.worldbank.org/en/country/smallstates/overview>.

461 Ibid, p. 12.

462 Ibid, p.13.

463 Ibid, p.13.

because they may have “interest rates below those available on the market” and “long grace periods” for repayment.<sup>464</sup> Longer grace periods and lower interest rates could allow Guam to invest more into developing its industries and having the time to do so, with less pressure to repay the loan quickly.

The World Bank Group also aims to help small states “develop innovative financing mechanisms for climate and disaster response.”<sup>465</sup> This is especially relevant to Guam, given its geographic location and vulnerability to the potential impacts of climate change, such as rising sea levels, ocean acidification, and worsening natural disasters. One method for mobilizing climate finance has been the creation of blue and green bonds. The World Bank Treasury and IFC have given technical assistance to small states in structuring these bonds. In 2017, Fiji was the “first emerging market to issue a sovereign green bond” for \$50 million. The proceeds from this bond were used to promote “low carbon and climate resilient growth.”<sup>466</sup> Guam could potentially tap into the technical assistance from the World Bank’s entities for bonds that would help it invest in climate initiatives to improve the island’s resilience against the potential impacts of climate change. For example, proceeds from the bonds can be used to invest in the Guam Green Growth Initiative, which works to build “tangible solutions to sustainability challenges” in line with the UN’s 17 SDGs.<sup>467</sup>

Overall, financing options are available through the World Bank Group, which makes special exceptions for SSF, SIEs, and SIDS. These are all statuses that the island-state may be classified under, although this is not guaranteed. Loans, grants, and bonds, as well as technical assistance, can be used to improve upon the island’s current resources and to strengthen the island against known vulnerabilities. Aside from UN entities, another MDB is the Asian Development Bank.

The Asian Development Bank (ADB) was established in 1966 to “promote regional cooperation.”<sup>468</sup> The ADB provides non-concessional and concessional loans, equity investments, and loan guarantees.<sup>469</sup> The ADB Strategy 2030 recognized SIDS “as a group requiring special attention on account of their unique development challenges.”<sup>470</sup> For example, revenue generated is “generally insufficient to cover the public spending needs for basic services” which leads to SIDS needing “significant external sources of revenue to finance development” but they “face difficulty in attracting commercial financing from market sources.”<sup>471</sup> Guam may face similar challenges in generating revenue and acquiring external sources of funding for development. The ADB has supported SIDS by increasing the amount of financing available. From 2012 to 2018, investments grew from \$123 million to \$229 million.<sup>472</sup> This indicates that the ADB

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464 Organisation for Economic Co-operation and Development, “Exclusive Economic Zone,” OECD Glossary of Statistical Terms, accessed at <https://stats.oecd.org/glossary/detail.asp?ID=5901#:~:text=Definition%3A,typically%20have%20long%20grace%20periods>.

465 World Bank Group, “World Bank Group Support to Small States, pg. 15.

466 Ibid, p.17.

467 University of Guam, “Guam Green Growth,” accessed at <https://www.uog.edu/center-for-island-sustainability/guam-green-growth.php>.

468 Congressional Research Service, “Multilateral Development Banks: Overview and Issues for Congress,” (Feb. 11, 2020), 3.

469 Ibid.

470 Asian Development Bank, “A Framework for Addressing the Financing Needs of Small Island Developing States, 1, accessed at <https://www.adb.org/sites/default/files/page/561776/framework-financing-needs-sids-discussion-paper.pdf>.

471 Ibid, p. 6, 7.

472 Ibid, p.12.

is committed to assisting SIDS in development and has increased financial resources available in order to support projects and programs. One example of how ADB support has led to improvements for SIDS is in education. ADB projects from 2008-2018 led to 50,000 in the Pacific gaining access to better education and training for almost 1,500 teachers.<sup>473</sup> Similar resources may be available for the independent country of Guam to build capacity in areas such as education. The ADB also provides assistance to the private sector.

The ADB has also established the Pacific Business Investment Trust Fund. This is a “multi-donor trust fund aimed at supporting sustainable private sector growth in selected Pacific Island countries.”<sup>474</sup> This fund was established because small and medium-sized enterprises (SME) in Pacific Island countries face constraints to private sector growth,<sup>475</sup> especially as commercial finance institutions have been hesitant to lend to SMEs. As an independent country, Guam’s financial institutions as well as external sources may have similar hesitations to provide funding to existing or potential SMEs. This may hinder the development of the private sector.<sup>476</sup> In this case, the Trust Fund will be used to finance “business advisory services to SMEs seeking commercial finance” and “concessional loans to a small number of SMEs for investment activities.”<sup>477</sup> Technical assistance through business advisory services assigns member countries a business advisor who will, “advise, guide, and review the client’s financing needs...support the client in developing a bankable proposal for commercial financiers to consider...refer and link clients with business support programs...” and other types of support.<sup>478</sup>

Multilateral aid pools the resources of several countries to reach common development goals. As exemplified with the above discussion, international bodies are working to support programs that assist in developing countries, especially those in the Pacific who face unique challenges. Some scholars argue that “bilateral aid is found to be less effective than multilateral aid” because “most of the time, bilateral donors provide aid in order to promote their own geo-strategic interests” and not necessarily to promote development.<sup>479</sup> It is reasonable to argue that bilateral aid may come with a more defined political agenda from the donor country which may hinder the effectiveness at promoting development. In addition, it may take away from the autonomy of Guam’s government to act in ways contrary to the national interests of the donor country. However, Guam would have the power to either accept or deny international assistance as an independent country, consistent with its own national interests. Under independence, Guam would have full authority to decide international aid partnerships/collaborations with other countries or international organizations that best fit its goals for the island’s development. Bilateral aid may be beneficial as it provides a clearer connection between the donor country and Guam. It is still a prominent form of

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473 Ibid, p.14.

474 Asian Development Bank, “Pacific Business Investment Trust Fund,” accessed at <https://www.adb.org/what-we-do/funds/pacific-business-investment-trust-fund>.

475 <https://www.adb.org/sites/default/files/project-document/82541/47373-001-tar.pdf>.

476 Ibid, p.2.

477 Ibid.

478 Asian Development Bank, “Establishment of the Pacific Business Investment Trust Fund and Technical Assistance for the Pacific Business Investment Facility,” September 2014, accessed at <https://www.adb.org/sites/default/files/project-document/82541/47373-001-tar.pdf>, pg. 7.

479 Katherine Vera Bryant, *The Benefits of Multilateral Aid: How Agency Motivation, Specialization, and Autonomy Promote Development* (December 2015): ii, 16.

international assistance. As discussed above, there are multiple reasons that international aid is offered. Due to Guam's strategic location, it is possible that some of this aid may be connected to geo-strategic purposes. Thus, one possible route is an independent Guam receiving international aid from its former colonizer, the United States.

The United States' process of distributing international aid throughout the world was first outlined in the 1961 International Assistance Act, establishing the United States Agency for International Development (USAID). Outlined in the law, aid was defined as "the unilateral transfers of US resources by the US government to or for the benefit of international entities."<sup>480</sup> Today, the United States allocates international aid to assist other countries in developing and improving various sectors, to include but not limited to: security/defense; health; education; and/or economic development. As described, US reasons for giving aid can be summarized:

Aid objectives include promoting economic growth and reducing poverty, improving governance, addressing population growth, expanding access to basic education and health care, protecting the environment, promoting stability in conflictive regions, protecting human rights, promoting trade, curbing weapons proliferation, strengthening allies, and addressing drug production and trafficking. The expectation has been that, by meeting these and other aid objectives, the United States will achieve its national security goals as well as ensure a positive global economic environment for American products and demonstrate benevolent and respectable global leadership.<sup>481</sup>

Furthermore, per the International Assistance Act of 1961, aid can be defined as:

any tangible or intangible item provided by the United States government [including "by means of gift, loan, sale, credit, or guaranty"] to an international country or international organization under this or any other Act, including but not limited to any training, service, or technical advice, any item of real, personal, or mixed property, any agricultural commodity, United States dollars, and any currencies of any international country which are owned by the United States government....<sup>482</sup>

The US typically offers aid in various forms:

1. Cash transfer: Rare, but some countries receive aid from the US in the form of a cash grant to the government.
2. Commodities (food, weapons systems, equipment): to meet humanitarian needs, military

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480 Council on International Relations, "How Does the US Spend Its International Aid?" accessed at <https://www.cfr.org/backgrounder/how-does-us-spend-its-international-aid>.

481 Marian Lawson and Emily Morgenstern, "International Aid: An Introduction to US Programs and Policy," Congressional Research Service, April 16, 2019, pg. 4.

482 Ibid, pg. 1.



assistance needs, or development assistance needs, to meet particular objectives

3. Economic infrastructure: although rare today, aid can also be provided via the construction of infrastructure such as roads, electric power facilities, or irrigation systems
4. Training: transfer of knowledge and skills
5. Expertise: For example, “The Treasury Department, USAID, and US-funded multilateral banks all place specialists in host government ministries to make recommendations on policy reforms in a wide variety of sectors.”<sup>483</sup>
6. Small grants: such those provided to microcredit organizations

In October 2011, USAID established an office in Papua New Guinea to better coordinate with its twelve partner nations in the Pacific.<sup>484</sup> As an independent country, Guam may partner with the United States and coordinate through USAID. Having a Pacific office may allow for closer collaboration on projects, with both countries having an equal say about how to provide aid and promote development in the island.

Development programs/projects supported by USAID work address issues such as climate change and environmental degradation, assist political parties in developing their capacity to create issue-based platforms, improve campaign finance transparency, and work on disaster mitigation, relief, and reconstruction.<sup>485</sup> Humanitarian assistance is one specific area where Guam may seek international bilateral aid from USAID. Geographically, the island is more vulnerable to natural disasters such as typhoons, earthquakes, and tsunamis. Neighboring Pacific islands face similar challenges. In December 2020, Tropical Cyclone Yasa was one of the strongest storms to hit the Republic of the Fiji Islands.<sup>486</sup> USAID donated approximately \$300,000 to help in recovery efforts. This funding was used to support Fiji’s humanitarian partners, the International Federation of Red Cross and Red Crescent Societies (IFRC).<sup>487</sup> Financial aid is not the only form of assistance. USAID has also worked with IFRC to “train volunteers and support community disaster response committees.”<sup>488</sup> This has allowed the country to increase its capacity of trained personnel to respond and recover after natural disasters. As an independent country, Guam may benefit from similar types of humanitarian and technical assistance which would help the island better respond and recover from natural disasters. Bilateral international aid for Guam can also come from countries other than the United States.

The government of Australia has been a significant contributor of international aid to countries in the Pacific region as “the Pacific remains Australia’s international policy priority.”<sup>489</sup> As indicated in the

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483 Ibid, pg. 16.

484 USAID, “History,” accessed at <https://www.usaid.gov/pacific-islands/history>.

485 Ibid.

486 USAID, “US Ambassador Announces Additional US\$200,000 For TC Yasa Recovery, January 19, 2021, accessed at <https://www.usaid.gov/pacific-islands/press-releases/jan-19-2021-us-ambassador-announces-additional-us200000-tc-yasa-recovery>.

487 Ibid.

488 Ibid.

489 Parliament of Australia, “Budget Review 2020-2021,” October 2020, accessed at [https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/pubs/rp/BudgetReview202021/AustraliasInternationalAidBudget#:~:text=The%20Pacific%20remains%20Australia's%20international,aid%20spend%20in%20the%20region](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview202021/AustraliasInternationalAidBudget#:~:text=The%20Pacific%20remains%20Australia's%20international,aid%20spend%20in%20the%20region).

2017 *International Policy White Paper*, the Australian government committed to “engage with the Pacific with greater intensity and ambition, deliver more integrated and innovative policy and make further, substantial long-term investments in the region’s development.”<sup>490</sup> In 2019, the Australian government committed to investing \$1.44 billion in aid to the Pacific region for 2020-2021.<sup>491</sup> This may imply that bilateral relations with Guam could be established, consistent with Australia’s perceived geo-strategic interests in the northern/western part of the Pacific region.

One example of Australia’s commitment to the region is the Pacific Step-Up initiative. This program provides development assistance to address challenges for Pacific islands, as identified by Pacific leaders and communities, which includes “strengthening climate and disaster resilience; sustained economic growth; and support to promote healthy, educated, inclusive populations.”<sup>492</sup> During the 2019 Pacific Islands Forum (PIF), member countries expressed their desire to address climate change with the *Kuinaki II Declaration for Urgent Climate Action Now*. In response, the Australian government pledged to invest \$500 million from 2020-2025 to “strengthen climate change and disaster resilience in the Pacific.”<sup>493</sup> This example highlights how the Australian government can collaborate with Pacific Island partners using platforms such as PIF, to understand what Pacific communities need and provides financial and other forms of assistance to support development. Guam could establish a similar relationship. As an independent country, Guam could be eligible to become a member of intergovernmental organizations, including the PIF (barring the current status of Micronesia in the forum), in which Guam already maintains observer status. Guam may use its membership in PIF, the Pacific Community and other international organizations to contribute the Guam perspective on the challenges in the Pacific region.

## Free Association

In the case of the freely associated states (FAS), the money that comes from the United States is not “federal aid,” which is given to the states and territories of the US, because the FAS are sovereign and not a part of the United States. These financial packages (economic assistance) were negotiated and enshrined in the instrument of the Compact of Free Association (COFA). The monies and access to programs provided by the US are the result of a negotiated agreement, which includes US military access and defense exclusivity over the islands. Based on the provisions of the agreement, COFA countries use compact funds to assist their respective countries “in the form of direct grants in six sectors: education, health

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490 Australian Government Department of Foreign Affairs and Trade, “Chapter seven: A shared agenda for security and prosperity.” 2017 Foreign Policy White Paper (2017): accessed at <https://www.dfat.gov.au/sites/default/files/minisite/static/4ca0813c-585e-4fe1-86eb-de665e65001a/fpwhitepaper/foreign-policy-white-paper/chapter-seven-shared-agenda-security-and-prosperity.html>.

491 Funding is a part of the Australian Government’s ODA. [https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/pubs/rp/BudgetReview202021/AustraliasInternationalAidBudget#:~:text=Aid%20Tracker%3A%20Destinations%20in%20the%20region](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview202021/AustraliasInternationalAidBudget#:~:text=Aid%20Tracker%3A%20Destinations%20in%20the%20region).

492 Australian Government Department of Foreign Affairs and Trade, “Fiji - Australia’s Commitment to strengthening climate and disaster resilience in the Pacific,” accessed at <https://www.dfat.gov.au/about-us/publications/Pages/fiji-australias-commitment-to-strengthening-climate-and-disaster-resilience-in-the-pacific>.

493 <https://www.dfat.gov.au/about-us/publications/Pages/fiji-australias-commitment-to-strengthening-climate-and-disaster-resilience-in-the-pacific>.



care, infrastructure, public sector capacity building, private sector development, and environment.<sup>494</sup> If Guam were to become freely associated with the United States, the potential compact or other negotiated instrument could include accessibility to grants and programs to assist the newly created FAS.

The FAS are also eligible and receive international aid from other countries in the form of grants and loans. The Asian Development Bank (ADB) grants monies through its Asian Development Fund (ADF) to “lower-income developing member countries” (DMCs). Presently, eighteen of the DMCs are eligible for grants from the ADF. Of those eighteen, the Republic of the Marshall Islands and the Federated States of Micronesia are eligible to receive funding.<sup>495</sup> In 2019, the ADF granted RMI \$6.5 million in grant funding and also gave the FSM \$26 million in grants.<sup>496</sup>

In addition to receiving aid from other countries, freely associated states have access to international organizations and institutions. By joining these organizations, a freely associated state has more opportunities to access international development assistance in the form of grants and favorable interest rate loans. Accordingly, the FSM, RMI, and Palau all became members of the IMF in the 1990s.

494 US Department of Interior, “Compacts of Free Association,” accessed December 18, 2019, <https://www.doi.gov/oia/compacts-of-free-association>.

495 Asian Development Bank, “Asian Development Fund,” accessed at <https://www.adb.org/what-we-do/funds/adf/overview>.

496 Asian Development Bank, “Asian Development Bank Member Fact Sheet,” May 2020, accessed at <https://www.adb.org/sites/default/files/publication/27761/fsm-2019.pdf> and <https://www.adb.org/sites/default/files/publication/27780/rmi-2019.pdf>.

## IMF Membership and Quotas<sup>497</sup>

497 International Monetary Fund, “Federated States of Micronesia,” “Republic of the Marshall Islands,” and “Republic of Palau,” accessed at <https://www.imf.org/en/Countries/FSM>, <https://www.imf.org/en/Countries/MHL#atag glance>, and <https://www.imf.org/en/Countries/PLW>.

COUNTRY	DATE OF IMF MEMBERSHIP	QUOTA AS OF 2020
<b>Republic of the Marshall Islands (RMI)</b>	May 21, 1992	\$3.5 million
<b>Federated States of Micronesia (FSM)</b>	June 24, 1993	\$5.1 million
<b>Republic of Palau</b>	December 16, 1997	\$3.1 million

### ***Status Example: The Federated States of Micronesia (FSM)***

The Federated States of Micronesia receives a large amount of development assistance from four major countries: the United States; Japan; Australia; and China.<sup>498</sup> The FSM's diplomatic relationship was established with each of these countries in the late 1980s. It also receives small amounts of development assistance from New Zealand, Korea, and the United Arab Emirates.<sup>499</sup>

Of all the countries, the United States provides the most to the FSM, via the economic assistance packages as part of the COFA. As per the Federated States of Micronesia's Compact with the United States, as amended in 2003, the FSM was to receive sector grants for twenty years to be used for assistance in education, healthcare, private sector development, the environment, public sector capacity building, and public infrastructure, or for other sectors (as mutually agreed). However, the top two priorities for these sector grants are education and healthcare. Per the COFA, the division of funds dedicated to the various sectors must be certified by both the government of the FSM and the US government. Section 211 of the compact states, "In such case, the government of the United States shall disburse the agreed upon amounts and monitor the use of such sector grants in accordance with the provisions of this article"<sup>500</sup> as well as a fiscal procedures agreement. Furthermore, Section 213 of the compact established a Joint Economic Management Committee comprised of a US chair, two members from the US government, as well as two members from the FSM government. Per the COFA,

The Joint Economic Management Committee shall meet at least once each year to review the audits and reports required under this title, evaluate the progress made by the Federated States of Micronesia in meeting the objectives identified in its plan described in subsection (c) of section 211, with particular focus on those parts of the plan dealing with the sectors identified in subsection (a) of section 211, identify problems encountered, and recommend ways to increase the effectiveness of US assistance made available under this title. The establishment and operations of the Joint Economic Management Committee shall be governed by the Fiscal Procedures Agreement.<sup>501</sup>

This direct financial assistance was made available to the FSM, but with the base amounts decreasing through the years. The legislation also provided for partial inflation adjustment of the base amount. As reported by the State Department, the US provides over \$110 million in assistance annually, along with a variety of federal grants and services, until fiscal year 2023.<sup>502</sup> Overall, the approved amended COFAS provided for a total of \$3.6 billion in compact sector grants, trust fund contributions (discussed in more

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498 Wai Yi Ma, "Bilateral Aid to a Small Island Developing State: The Case of the Federated States of Micronesia" *Pacific Asia Inquiry* 10, no. 1, Fall 2019, pg. 35.

499 Ibid.

500 Section 211 of the Compact of Free Association between the United States and the Federated States of Micronesia.

501 Section 213 of the Compact of Free Association between the United States and the Federated States of Micronesia.

502 United States Department of State, "US Relations With the Federated States of Micronesia: Bilateral Relations Fact Sheet," July 5, 2018, accessed at <https://www.state.gov/u-s-relations-with-the-federated-states-of-micronesia/>.

detail below), and other grants.<sup>503</sup>

In addition to these sector grants, in accordance with Section 221 of the compact, a handful of federal agencies provide their services to the FSM. These include:

1. the United States Weather Service
2. the United States Postal Service
3. the United States Federal Aviation Administration
4. the United States Department of Transportation
5. the Federal Deposit Insurance Corporation (for the benefit only of the Bank of the Federated States of Micronesia)
6. the Department of Homeland Security, and the United States Agency for...International Development, Office of International Disaster Assistance.<sup>504</sup>

Articulating this in more detail is the Federal Programs and Services Agreement, which was described in Section 231 of the compact:

The specific nature, extent and contractual arrangements of the services and programs provided for in section 221 of this compact, as amended, as well as the legal status of agencies of the government of the United States, their civilian employees and contractors, and the dependents of such personnel while present in the Federated States of Micronesia, and other arrangements in connection with the assistance, services, or programs furnished by the government of the United States, are set forth in a Federal Programs and Services Agreement which shall come into effect simultaneously with this compact, as amended.<sup>505</sup>

The Federal Programs and Services Agreement is an important document in understanding the operation of various US programs extended to the FSM, as well as the tax situation of US personnel in the FSM. The main programs covered in the agreement are US postal services, weather services, civil aviation, disaster preparedness and response, and telecommunications. It is important to note that, like the compact sector grants, access to these federal programs and services is also set to expire after a period of twenty years. Access to these programs and services is not permanent. In addition to the Federal Programs and Services Agreement, it is important to note that some US grants, programs, and services are made available to the FSM via the amended compacts' implementing legislation as well as other US legislation.<sup>506</sup> For some of these programs, the FSM remains eligible after 2023. Many of these programs

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503 David Gootnick, "Trust Funds for Micronesia and the Marshall Islands Are Unlikely to Fully Replace Expiring US Annual Grant Assistance." *Government Accountability Office*, July 23, 2019.

504 Ibid.

505 Section 231 of the Compact of Free Association between the United States and the Federated States of Micronesia.

506 David Gootnick, "Trust Funds for Micronesia and the Marshall Islands Are Unlikely to Fully Replace Expiring US Annual Grant Assistance." *Government Accountability Office*, July 23, 2019.

may be subject to further extension, depending on future negotiations.

In describing the eligibility of the FSM for US grants and programs beyond 2023, David Gootnick, in his report, “Trust Funds for Micronesia and the Marshall Islands Are Unlikely to Fully Replace Expiring US Annual Grant Assistance,” states (to be quoted at length):

- Compact sector grants are scheduled to end in 2023, but the RMI MUORA (Military Use and Operating Rights Agreement) extends the time frame of Kwajalein-related compact grants for as long as the MUORA is in effect.
- The SEG and additional grants identified in the amended compacts’ implementing legislation are scheduled to end in 2023. Also, after fiscal year 2023, the FSM and RMI will no longer be eligible for some programs that the SEG replaced, including Head Start (early childhood education, health, and nutrition services for low-income children and their families).
- The compact-related programs and services agreements with each country will end in 2024. However, some US agencies, such as the National Weather Service, Federal Aviation Administration, and US Agency for International Development, may continue to provide programs and services similar to those provided in the agreement under other authorities.
- The FSM and RMI will generally remain eligible for other programs identified in the amended compacts’ implementing legislation. These programs include US Department of Agriculture (USDA) Rural Utilities Service grant and loan programs and US Department of Education Pell grants for higher education and grants under Part B of the Individuals with Disabilities Education Act for children with disabilities.
- The FSM and RMI will remain eligible for additional programs we identified that have been provided under other current US laws. Examples of these programs include USDA housing assistance programs and multiple public health, medical, and disease control and prevention grants provided by the US Department of Health and Human Services.<sup>507</sup>

In negotiating a similar agreement with the United States, Guam would likely negotiate a separate Federal Programs and Services Agreement, as in the case of the FSM.

Included in the COFA was the development of a trust fund. This trust fund was established to create an annual source of revenue the FSM can use as an annual source of revenue in the sectors described in Section 211 of the compact or other sectors as mutually agreed after FY2023, when the compact sector grants are scheduled to end. Per Section 215 of the COFA, “The United States shall contribute annually

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<sup>507</sup> David Gootnick, “Trust Funds for Micronesia and the Marshall Islands Are Unlikely to Fully Replace Expiring US Annual Grant Assistance.” Government Accountability Office, July 23, 2019, pg. 16.

for twenty years from the effective date of this compact, as amended, in the amounts set forth in section 216 into a Trust Fund established in accordance with the Agreement Between the Government of the United States of America and the Government of the Federated States of Micronesia Implementing Section 215 and Section 216 of the Compact, as Amended, Regarding a Trust Fund (“Trust Fund Agreement”).<sup>508</sup> As with federal programs and services, there is a separate, subsidiary agreement, also known as the Trust Fund agreement. Per this agreement, a Joint Trust Fund Committee was established to administer the fund. The agreement gave three voting members to the US government and two voting members appointed by the FSM government.

According to the Government Accountability Office, compact trust funds may not provide the sustainable annual source of revenue after 2023, as was originally intended. It found that “after fiscal year 2023, the funds are unlikely to provide maximum annual disbursements, may provide no disbursements at all in some years, and are unlikely to sustain the funds’ fiscal year 2023 value.”<sup>509</sup> The FSM responded to this, citing certain problems. To read this response in full, one should read pgs. 107-117 of the GAO report, “Section 231 of the Compact of Free Association between the United States and the Federated States of Micronesia.” Overall, if Guam enters into free association with the United States similar to the FSM, a similar trust fund mechanism might be considered to ensure that a FAS of Guam would be able to thrive economically after economic provisions (such as compact sector grants) expire. To not do so may leave a freely associated Guam with an unstable economic foundation.

The Federated States of Micronesia also receives development assistance from other countries. The government of Japan, which is the FSM’s second-largest donor, provided over \$172 million in grants from 1980-2016. With close to 150 different projects, the money helped to stabilize the island’s infrastructure for its roads, ports, and airports. Grant money was allocated to assist with establishing and improving healthcare, education, and green initiatives in the islands.<sup>510</sup> Collectively, the FSM received more than \$3 million in aid in FY2016 and more than \$14 million in FY2017, from four countries.

508 Section 215 (a) of the Compact of Free Association between the United States and the Federated States of Micronesia.

509 Government Accountability Office, “Compacts of Free Association: Actions Needed to Prepare for the Transition of Micronesia and the Marshall Islands to Trust Fund Income,” May 2018, GAO-18-415, pg. 23.

510 Embassy of Japan in the FSM, “Japan’s Official Development Assistance to the Federated States of Micronesia,” December 2018, accessed at <https://www.mofa.go.jp/files/000447552.pdf>.

## International Aid Given to the FSM by Country<sup>511</sup>

511 OECD, “Geographical Distribution of Financial Flows to Developing Countries 2019: Disbursements, Commitments, Country Indicators,” (OECD Publishing: Paris, 2019), accessed at [https://read.oecd-ilibrary.org/development/geographical-distribution-of-financial-flows-to-developing-countries-2019\\_fin\\_flows\\_dev-2019-en-fr#page4](https://read.oecd-ilibrary.org/development/geographical-distribution-of-financial-flows-to-developing-countries-2019_fin_flows_dev-2019-en-fr#page4).

COUNTRY	FY 2016	FY 2017
Australia	\$1,200,000	\$13,600,000
Korea	\$300,000	\$700,000
New Zealand	\$300,000	\$400,000
United Arab Emirates	\$1,800,000	\$0
<b>Total</b>	<b>\$3,600,000</b>	<b>\$14,700,000</b>

Aside from the FSM's two largest donors, a significant country to mention is China. Unlike its freely associated counterparts in the Pacific, the FSM receives aid from China because:

The FSM is the only freely associated state in the Western Pacific that has diplomatic relations with China. The Republic of Palau and the Republic of the Marshall Islands have diplomatic relations with the Republic of China (ROC) aka Taiwan. Therefore, the FSM is an important strategic partner for China in the Western Pacific.<sup>512</sup>

The amount of money given by China to the FSM is difficult to track, despite efforts made by scholars. In her article, "Bilateral Aid to a Small Island Developing State: The Case of the Federated States of Micronesia" scholar Wai Yi Ma explains that,

China is not a member of the Organization for Economic Cooperation and Development (OECD) as an aid provider; therefore, it was difficult to track Chinese aid...A team from the research lab of William and Mary College analyzed Chinese aid using a dataset tracking Chinese aid from 2000-2014. However, data on Chinese aid to the FSM is not included.<sup>513</sup>

The motivation for China to provide aid to the FSM is geopolitical because it allows China to have a presence in the Western Pacific.<sup>514</sup> The economic expansion of China dictates that it develop economic relations with its neighbors in the Asia-Pacific region.

The Federated States of Micronesia also receives international aid from international organizations and institutions. These organizations collectively do not give as much aid to the FSM, when compared to the amounts given to it by other countries. For example, the World Bank gave the FSM \$8.8 million in FY2016 and \$5.2 million in FY2017 through the International Development Association (IDA) in the form of zero-interest loans.<sup>515</sup>

Under free association, the island of Guam can negotiate monetary aid, grants, and access to federal agencies into its compact agreement, if one is established. Additionally, Guam would also be able to enter into diplomatic relationships with other countries for economic and technical cooperation purposes and might also have to make a choice between establishing relations with China or Taiwan. However, as with independence, the same cautions about becoming potentially dependent on international aid apply.

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512 Wai Yi Ma, "Bilateral Aid," pg. 43.

513 Ibid, pg. 42.

514 Ibid, pg. 43.

515 OECD, "Geographical Distributions,"pg. 213.

INTERNATIONAL AID	
STATUS	EFFECTS
<i>Statehood</i>	<ul style="list-style-type: none"> <li>• Individual states cannot receive international aid since they are represented by the United States.</li> <li>• International aid is not too relevant and supplemental state funding can be provided by the US federal government.</li> </ul>
<i>Independence</i>	<ul style="list-style-type: none"> <li>• Guam could receive international aid from other countries.</li> <li>• Guam can receive international aid from international organizations and institutions, or technical assistance.</li> <li>• International aid may have additional provisions, based on the country or organization/institution giving the aid.</li> </ul>
<i>Free Association</i>	<ul style="list-style-type: none"> <li>• Guam can negotiate for access to US federal agencies.</li> <li>• Guam, in the compact, can negotiate an economic assistance package with the United States.</li> <li>• All terms have to be negotiated between both Guam and the United States in their COFA agreement. All terms will not necessarily be accepted.</li> <li>• Guam can receive international aid from other countries.</li> <li>• Guam can receive aid from international organizations and institutions, if eligible, and/or technical assistance.</li> </ul>

