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MARIANAS VISITORS AUTHORITY  
Testimony on the implementation of PL 110-229,  
the Consolidated Natural Resources Act of 2008  
July 14, 2011

**I. Overview**

Beginning in the 1980s, the economy of the Commonwealth of the Northern Mariana Islands (CNMI) was driven by two industries — apparel manufacturing and tourism. At the peak of tourism in 1997, when nearly 730,000 visitors arrived, total government revenue was \$248-million. The economy was vibrant.

However, beginning in 2005 with the enactment of the World Trade Organization (WTO) agreement, the apparel industry began to relocate from the CNMI to locations where the cost of doing business was lower. Due to WTO impact and additional costs added through increases in minimum wage, by 2009, all 34 of the apparel manufacturing factories in the CNMI had closed, leaving the CNMI with only one industry leg left to stand on— tourism (APPENDIX A).

The Consolidated Natural Resources Act (CNRA) of 2008, signed by President G.W. Bush on May 8, 2008, required that the CNMI federalize its immigration system beginning in November 2009. The CNRA provides for a Guam-CNMI Visa Waiver Program (VWP), whereby visitors from listed countries may make non-visa entry into the CNMI and Guam as tourists. In line with the CNRA's expressed mandate to expand tourism and economic development in the CNMI wherever possible, the CNMI strongly recommends that the Final Rules of the VWP be promulgated as soon as possible and that they contain a provision for continued visa waiver entry for citizens of the People's Republic of China (China) and the Russian Federation (Russia) either into the CNMI only or into the CNMI and Guam.

This recommendation is based on the following four points:

- The CNMI economy is now completely dependent on tourism, and the CNRA requires that countries from which the CNMI has derived “significant economic benefit” by visitors be included in the list of VWP participating countries
- Including China and Russia under the VWP listed countries, versus including them under the sole parole authority of the Secretary of Homeland Security, will create stability and allow the CNMI to attract long term investment for these growing markets
- Since the parole process began, and prior to the CNRA under CNMI immigration measures, visitors from China and Russia have returned to their respective countries, an excellent performance record proving invalid DHS concerns of “high nonimmigrant visa refusal rates”

- If allowable, a uniform VWP between the CNMI and Guam would allow development of multiple destination packages between the two island entities for visitors arriving by both air and sea

As described further in this testimony, the economy of the CNMI is now solely reliant on tourism, a delicate industry easily buffeted by international and domestic challenges. These include visa access, the health of the economies in neighboring Asian countries, the convenience and price competitiveness of air service, and the ability to compete with nearby beach destinations. In recent years, the economy has taken a nosedive due to these challenges. The permanent inclusion of Russia and China in the VWP – or lack thereof - will largely determine if the CNMI economy can begin to climb its way to recovery, or whether it will be pushed over the edge.

## **II. Sustaining a Diversified Tourism Economy**

### **A. A Brief History**

According to the U.S. Dept. of Commerce, Bureau of Economic Analysis BEA 10-24, real GDP of the CNMI decreased at an average annual rate of 4.2 percent from 2002 to 2007. The decrease in real GDP was primarily due to a decrease in the exports of garments, reflecting a contraction in the garment manufacturing industry and a decline in tourism. Since 2002, a number of economic shocks have contributed to a decline in tourism, including 9-11, the SARS epidemic and the 2005 pullout of flagship carrier Japan Airlines, a loss of 35% (182,000) of annual air seats to the CNMI at the time and subsequent closure of an affiliate hotel – the second largest in the CNMI - and the CNMI's largest shopping mall. From 2002 to 2007, the population of the CNMI also decreased rapidly as foreign workers left the territory, and as a consequence, real GDP per capita increased at an average annual rate of 0.5 percent.

To help stabilize the industry and reduce reliance on any one source country, the CNMI has worked to diversify its source markets. Historically, visitors from Japan had comprised as high as 83% of all visitor arrivals. However, due to the CNMI's diversification efforts and concurrent increase in outbound travellers from those targeted countries, by FY 2010 only 50% were from Japan; 29% were from South Korea (Korea), 11% were from China, and 1% were from Russia. For FY 2011 to date—through May 2011— the market share has diversified even further, with Japan comprising only 45%, Korea 32%, China 12% and Russia 2%.

In more recent tourism trends, in FY 2010 visitors arrivals to the CNMI totaled only 386,186, only a little more than half of total visitor arrivals during the industry's peak in 1996 (APPENDIX B).

From FY 2006-2010, hotel revenues each year dropped at an average of \$2.9-million and the CNMI lost approximately \$10.5-million annually in direct on-island expenditure. With a multiplier of 1.5, the CNMI business community lost \$33.4 million in economic

activity and \$2-million in taxes annually. Additionally, it is estimated that 171 public and 191 private sector jobs were displaced annually.

Compared to FY 2006, direct impact during FY 2010 was down 16% (\$274.4-million), while indirect impact also fell 16% (\$726.2-million) (APPENDIX C).

In addition to the overall growth of China and Russia arrivals, the economic impact of each visitor from these two destinations is significant. Russian visitors each spend 4.5 times as much as an average Asian visitor, while Chinese expenditures are comparable to Japanese and more than Korean visitors. Based on outbound growth projections of these countries and other factors, China and Russia are projected to increase in total arrivals and economic impact for the CNMI.

## **B. Primary Source Market of Japan**

The CNMI has traditionally relied on Japanese tourists and its hotel industry was built largely with Japanese investment. This relationship sprung from both the proximity of Japan to this beach resort destination and from the historic political ties prior to World War II. Beginning in the late 1980s, the Commonwealth's visitor industry experienced a decade of phenomenal growth. Grand openings of new hotels, fueled by Japanese investment, were a regular occurrence during the decade. However, expectations of continued expansion proved unrealistic. The beginning of CNMI difficulties was the bursting of the Japanese "bubble" economy, followed by the Asian financial crisis beginning around 1997.

Compared to the peak of tourism in FY1997 when Japan comprised 62% (450,190 visitors) of total visitor arrivals, so far in FY 2011 through May 2011, Japanese visitors comprise only 45% (102,578 visitors) of all visitors. The outbound Japanese travel market has suffered decline in the wake of the March 2011 earthquake and tsunami and continuing nuclear crisis, down 34 percent in May 2011 compared to May 2010 (APPENDIX D).

The biggest challenge the CNMI travel industry continues to face for Japan – and all markets – is air seat availability to the islands. Since the 2005 pullout of Japan Airlines and the loss of 35% of total air seats, the CNMI has yet to recover the same level of air seat availability. In December 2010 Delta Air Lines reduced one of its three daily direct flights from Tokyo/Narita to only three times weekly. Tokyo/Narita is the CNMI's largest source city. The loss of this service caused travel capability to slide from 66,430 seats annually from Toyko/Narita to only 37,856 seats. In April 2011, the suspended flight was formally terminated altogether. This further demonstrates the uncertainty of the tourism industry.

In addition, since 2009 air service has been only seasonal from Osaka and Nagoya, the CNMI's largest markets outside Tokyo/Narita. Delta Air Lines suspended daily direct flights from Nagoya and only operates during peak periods during the year. This peak

period traditionally runs from mid-December through March and from mid-July through September. Likewise, Asiana Airlines provides only seasonal daily flights during peak periods from Osaka. This low peak period represents 210 days per year during which the CNMI has lost the opportunity to benefit from 432 seats per day from these two source cities. This translates into lost visitor opportunities from Osaka and Nagoya of an estimated 90,720 visitors annually.

From an income standpoint, with an estimated \$851 in direct and \$2,253 in indirect economic impact per Japanese visitor, the CNMI is losing \$77.2-million and \$204.4-million annually in direct and indirect economic opportunity, respectively, from its primary source market due to these lost air seats. With regards to impact on public and private employment, this results in an annual loss of an estimated 955 public and 1,067 private sector jobs, based on each public sector job being supported by 95 visitors and each private sector job being supported by 85 visitors (APPENDIX E).

The long-term forecast for outbound growth from this market is expected to grow 19.3% over the next five years, from 15.6-million in 2011 to 18.6-million in 2016 (APPENDIX F).

### **C. Primary Source Market of South Korea**

The Korean market to the CNMI had first started to grow in 1988 when the Korean government lifted international travel restrictions on Korean nationals. This market was showing phenomenal growth until the Asian economic crisis hit in the mid-1990s, Korea was the hardest hit of the CNMI's source markets. Recognizing the CNMI's extreme vulnerability to the Japanese economy, the islands saw a unique opportunity and value in diversification of its tourism base. Korea was the first country to become the focus of more marketing and promotions by the Marianas Visitors Authority (MVA) as part of its diversification efforts.

Since that time, the market share of Korea has grown considerably. During the peak of tourism in 1997, Korea comprised 23% of total visitor arrivals. In the 18 months before federalization of CNMI immigration in November 2009, Korea accounted for 26% of visitor arrivals. In the period since December 2010, Korea now comprises 31% of visitor arrivals (APPENDIX G). The outbound Korean travel market was also strongly affected by the March 2011 earthquake and tsunami and continuing nuclear crisis in Japan, with arrivals to the CNMI down 24 percent in May 2011 compared to May 2010.

Flight service from Korea has also fluctuated in recent years. Flights from Busan were cancelled in June 7, 2011. Asiana Airlines also recently decreased the number of daytime flights from Incheon/Seoul to the CNMI from four to two flights weekly, marking a loss of 18% of available air seats on a weekly basis. This decrease is expected to be reversed in mid-July, but it underscores the instability of air service from the CNMI's primary source countries.

According to the Korea Tourism Organization, the long-term forecast for growth from this market is considerable, growing 33.3% from an estimated 13-million outbound travelers in 2011 to nearly 18-million travelers on 2016 (APPENDIX F).

#### **D. Secondary Source Market of China**

The CNMI first began receiving Chinese tourists in 1998. This initially began with private sector investments by several hotels and was later expanded to include investment by the Marianas Visitors Authority, regional tourism businesses and others. At the end of 2004, the CNMI also attained Approved Destination Status (ADS), which allowed it to actively market CNMI tourism in China.

The China market has shown and continues to show significant growth in terms of market share. In the 18 months prior to the implementation of the US immigration provisions in November 2009, China accounted for 7% of total arrivals. In the 18 months since federalization, market share from China increased to 11% of total arrivals and continues to grow.

In terms of air service, today the CNMI has up to 4 direct charter flights weekly from two of the most affluent cities in China-Shanghai, and Guangzhou. In addition, regional air carrier Fly Guam currently flies direct air service from China's Special Administrative Region of Hong Kong to the CNMI and Guam three times a week, with plans to expand flights into China and other Asian ports.

The two full years from the achievement of ADS status until the signing of the CNRA saw increasing growth from China. However, due to the enactment of the CNRA and the delay in the Final Rules, the CNMI has not been able to capitalize on the full potential of this market with regular scheduled flights and long-term investment.

Allowing Chinese nationals into the CNMI as Visa Waivered tourists is doubly vital to our vulnerable economy because of changes in travel demand from other source countries into the CNMI. The Chinese tourists comprise an even greater proportion of the total number of visitor entries and make the CNMI's reliance in them even greater than reported in the MVA's previous Official Comments to the Interim Final Rules submitted to DHS on in February 2009. In our previous report based on 1997 data, visitor arrivals from China totaled 2,478, less than 1% of total arrivals to the CNMI. Based on FY 2010 data, Chinese arrivals comprise 11 percent, and for FY 2011 through May 2011, they comprise 12% (APPENDIX D).

The China market also represents a comparable level of economic impact per visitor as the average visitor from the primary market of Japan and a higher economic impact than the average visitor from Korea (APPENDIX E). In FY 2010, Chinese visitors accounted for 14% of total CNMI tourism revenue, contributing \$39.4-million in direct economic impact and \$104-million in indirect economic impact to our economy (APPENDIX C).

What is most promising about the China market is the potential for future growth, as the country remains Asia's largest source of outbound markets. According to the China National Travel Administration, this year's outbound travel projections stand at 65-million. However, by 2016 the number of outbound tourists is expected to grow 72% to an estimated 112-million. As Chinese outbound travel is projected to greatly outpace outbound travel from Japan, Korea, and Russia, the market share of China in the CNMI tourism industry is expected to grow from 11% in FY 2011, to date, to 17% of total market share by 2016 (APPENDIX H).

Even the federal government has undertaken immigration modifications to capitalize on this opportunity and diversify further into the China market. In 2008, the United States entered into a Memorandum of Understanding with China to streamline visa processing. As noted at the December 2010 U.S.-China Joint Commission on Commerce and Trade, since the initiation of travel under the MOU in 2008, total passenger travel from China to the United States has increased by 23 percent, a total export value of \$5.5 billion (as of July 2010). China is the country's fastest growing market and by 2015 it is projected to become the 6<sup>th</sup> largest arrival market for the United States (up from 16<sup>th</sup> before the MOU in 2008). As further reported in the commission fact sheet, "China and the United States agreed to implement Phase 3 of the Memorandum of Understanding (MOU) opening the market for the sale of packaged leisure travel from China to the United States to three additional provinces in China. (The United States will continue to press China to broaden the scope of access to include additional provinces.) China and the United States successfully established online systems to ensure the timely exchange of lists of Chinese travel agencies and U.S. tour operators authorized to conduct business under the MOU." The continued expansion of this MOU is an acknowledgement of the federal government that modified and streamlined visitor entry requirements for Chinese tourists are both feasible and desirable, an approach the CNMI has long practiced with success and now proposes to continue under the Guam-CNMI Visa Waiver Program.

#### **D. Secondary Source Market of Russia**

The CNMI first began marketing to Russian tourists in 1996. Following the enactment of the CNRA, the Russian market stumbled for several months due to several obstacles. The first was the exclusion of China and Russia in the Guam-CNMI VWP. Subsequently, when the Secretary of Homeland Security was empowered to provide parole to visitors from these countries, there was a short delay in the issuance of a diplomatic note to China and Russia. In addition, the CNMI lacked sufficient marketing funds to inform potential visitors in Russia of the parole option. Nonetheless, the country has finally rebounded and is recovering in raw numbers.

In the 18 months prior to the implementation of the US immigration provisions in November 2009, Russia accounted for 1.8% of total arrivals. In the 18 months since federalization, market share from Russia has equaled 1.3% of total arrivals (APPENDIX G).

Income derived from Russian tourists has become a far larger part of the total tourism income than in previous years. For example, a Russian visitor has an economic impact 4.5 greater than an average Asian visitor (APPENDIX E). From December 2009 through May 2011, visitor arrivals from Russia accounted for 7% of the total tourism revenue. In FY 2010, visitors from Russia contributed \$18.7-million in direct economic impact and \$49.4-million in indirect economic impact to the CNMI economy (APPENDIX C).

Again, the foremost challenge of the market of Russian and other countries in the region is the availability of air service. Currently, there is no scheduled (regular) direct service available, and only a handful of charter flights have been flown since the markets opened. Most travelers through these countries must route through Seoul, Korea. In many cases, potential travelers are also not able track firm seats until immediately before departure when seats held by travel agents are released; this is not feasible for travel planning. However, negotiations are now underway for a connecting flight through Hong Kong via Fly Guam and a Russian airline partner. Considerations are being made to provide a two-destination package, Hong Kong and the CNMI, a move which would open up western Russia to the CNMI with much more convenience. One attractive component of the suggested package is that, at this time, visas are waived in both Hong Kong and the CNMI for Russians.

### **III. A CNMI Economy without China and Russia**

The CNRA expressly states that its implementation shall develop tourism and economic development for the CNMI. In its Interim Final Rules analysis of January 2009, DHS grossly understated the negative travel demand into the CNMI if visitors from China and Russia were required to obtain a U.S. visa prior to entry. DHS had estimated the CNMI would lose only 5,017 and 194 visitors annually from China and Russia, respectively. Contrary to this, as the MVA gathered in discussion with travel partners serving those countries, requiring a U.S. visa for visitors from China and Russia would have a 95% negative impact on travel demand.

With an economy already depressed by the pullout of apparel manufacturing and international obstacles to the recovery of the tourism industry, the CNMI is on the verge of economic collapse. Business buildings stand vacant and are deteriorating along our main thoroughfares. Homes sit abandoned in our villages. The list of friends, associates, and family members who have moved off-island to find jobs and a better life continues to grow. Private sectors employees have felt the sting of shortened hours and layoffs for years. Public sector employees funded locally have suffered a 20% reduction in work hours, and when payday does come, it is usually late.

Without continued access to the China and Russian tourism markets, the economic future of the CNMI is bleak, if not dead. Using actual FY 2011 arrivals-to-date as a basis, let us examine a CNMI economy without visitors from China and Russia.

The total direct and indirect impact of tourism revenue for FY 2011 through May 2011 is \$450.8-million. Without visitors from China and Russia, that revenue would have dropped by 25% or \$110.8-million (APPENDIX I).

The total number of government jobs supported by tourism revenue this year is 2,180. Without visitors from China and Russia, 15.2% or 331 of those jobs would have been lost.

The total number of private sector jobs supported by tourism revenue this year is 2,437. Without visitors from China and Russia, 15.2% or 370 of those jobs would have been lost.

Clearly, to enact a Guam-CNMI Visa Waiver Program without allowing the CNMI access to visitors from China and Russia would have a detrimental and long-standing effect on the economy and livelihood of the people and would be contrary to the intent of the CNRA.

## **V. Conclusion**

The CNMI economy direly needs continued access to visitors from China and Russia. As noted the Government Accountability Office report of June 23, 2011, "American Samoa and Commonwealth of the Northern Mariana Islands: Employment, Earnings, and Status of Key Industries since Minimum Wage Increases Began," CNMI employment fell 13 percent from 2008 to 2009 and 35 percent from 2006 to 2009. The report also noted that in discussion groups, some tourism employers expressed concern that the primary difficulty was the CNMI tourism industry's decline.

It is clear that the visitors from China and Russia are critical for reviving and sustaining the CNMI economy. The uncertainty about the Final Rules of the Guam-CNMI Visa Waiver Program has caused investors and tourism partners both local and international to hold off on current spending and on plans for future growth, as well. The sooner the Final Rules can be published, and the sooner they contain the certainty of continuity for our Russia and Chinese visitors, the sooner the intent of the CNRA to expand tourism and economic development can be accomplished.

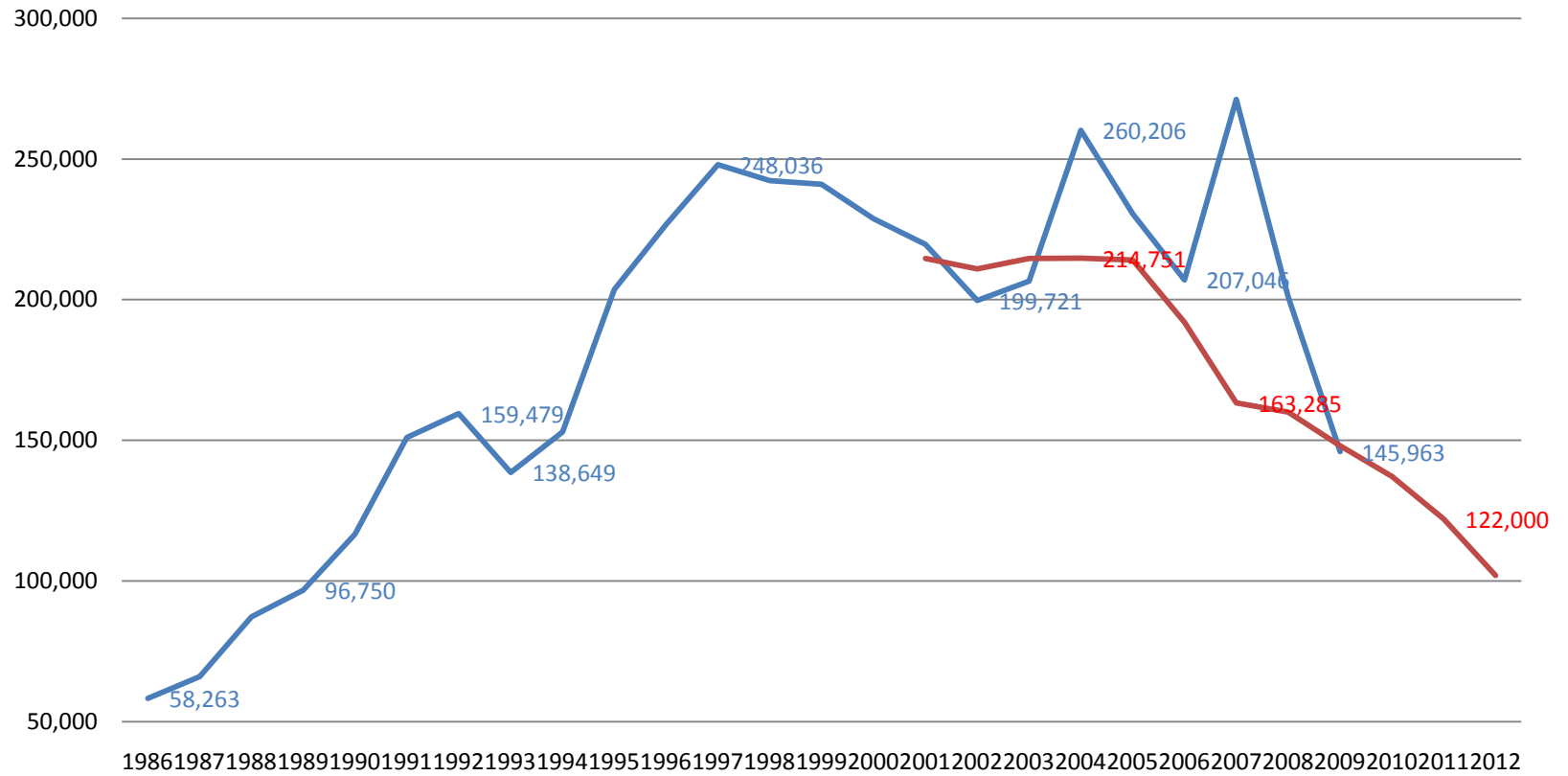
This intent may be accomplished by adding China and Russia to the list of allowable countries included under the VWP, or may it be accomplished by a separate ruling allowing their entry into only the CNMI, based on the CNMI's record to date of having visitors from China and Russia return to their respective countries and due to the limited amount of military assets and activity in the CNMI.

The CNMI strongly recommends that the Final Rules be promulgated as soon as possible and that they contain a provision for continued visa waiver entry for Chinese and Russian citizens either into the CNMI only or into the CNMI and Guam.



# APPENDIX A

CNMI General Fund Statement of Revenue  
Fiscal Year 1986 - 2009  
actuals from single audit reports and budget submission  
(in millions)



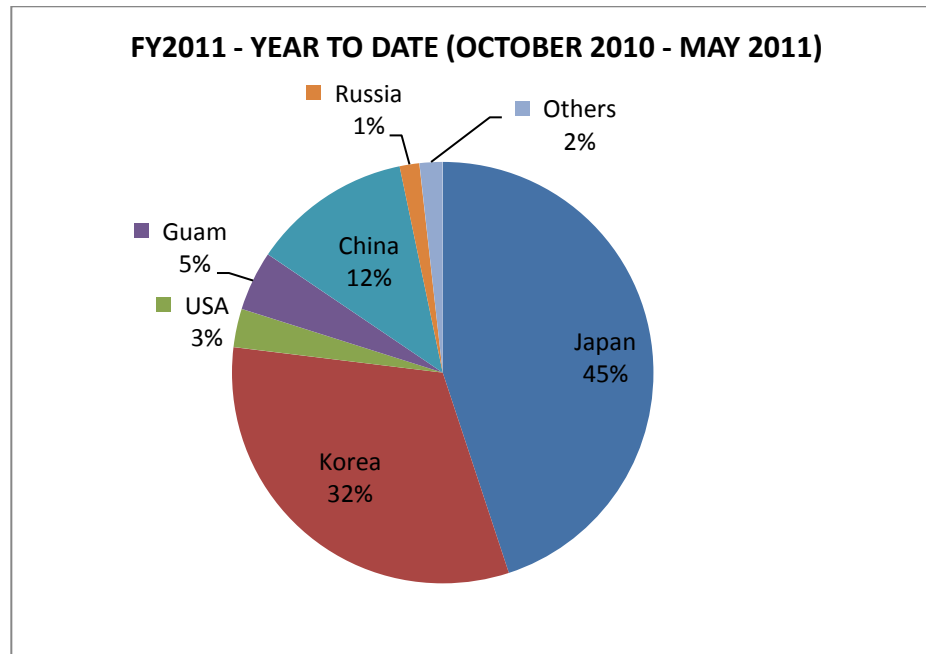
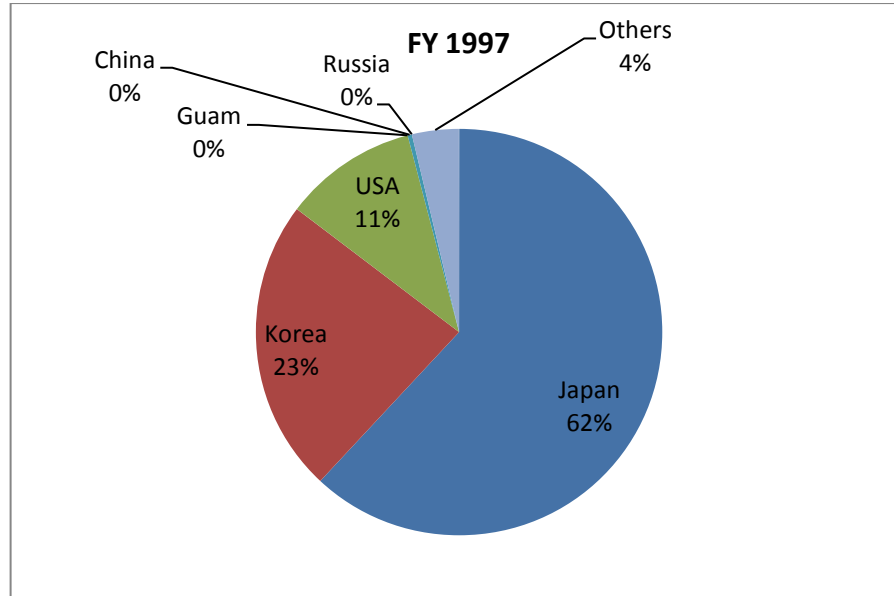
— Audited Revenue — Budget Submission





# APPENDIX D

## MARKET SHARE - FY 1997 VS. FY 2011



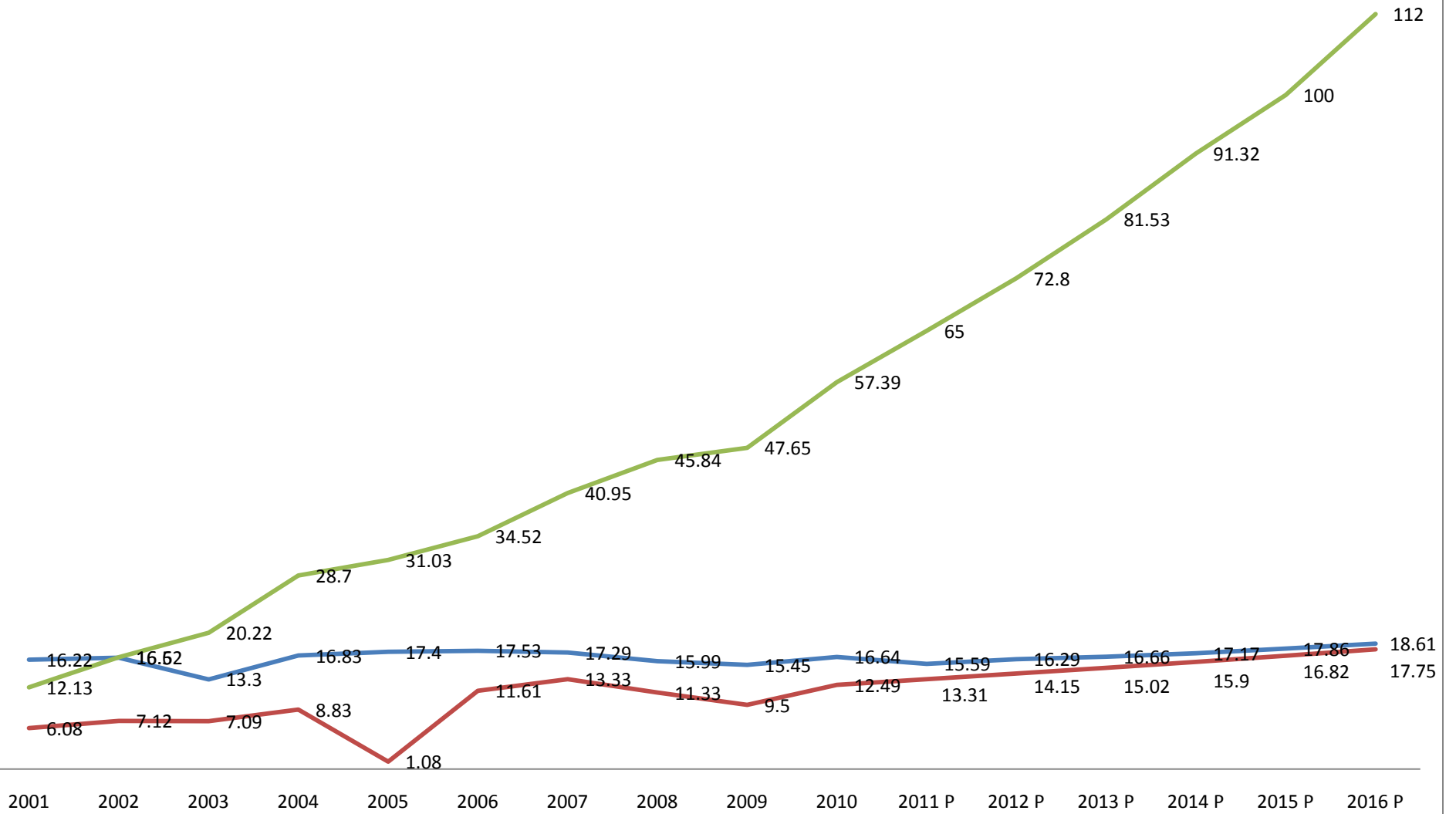
## APPENDIX E

Variables				
FY 2007 VARIABLES	JAPAN	KOREA	CHINA	RUSSIA
Average Room Rate	\$ 107.65	\$ 93.83	\$ 60.73	\$ 123.91
Pax Per Room	2.00	2.00	2.00	2.70
Average Length of Stay	3.44	3.52	4.50	13.50
Average on Island Expenditure	\$ 666.00	\$ 396.00	\$ 830.75	\$ 3,703.70
Average Direct Impact	\$ 851.16	\$ 561.14	\$ 967.39	\$ 4,323.25
Average Indirect Impact	\$ 2,252.81	\$ 1,489.51	\$ 1,213.30	\$ 11,410.49
 Hotel Occupancy Tax	 10%			
Multiplier Effect	1.5			
Business Gross Revenue Tax (BGRT)	5%			
Daily Rooms on Saipan, Tinian and Rota	3,511			
Annual Rooms for Sale	1,281,515			
1 public sector job	95			
1 private sector job	85			

## APPENDIX F

### CNMI Source Country Outbound Actual and Projected (in millions)

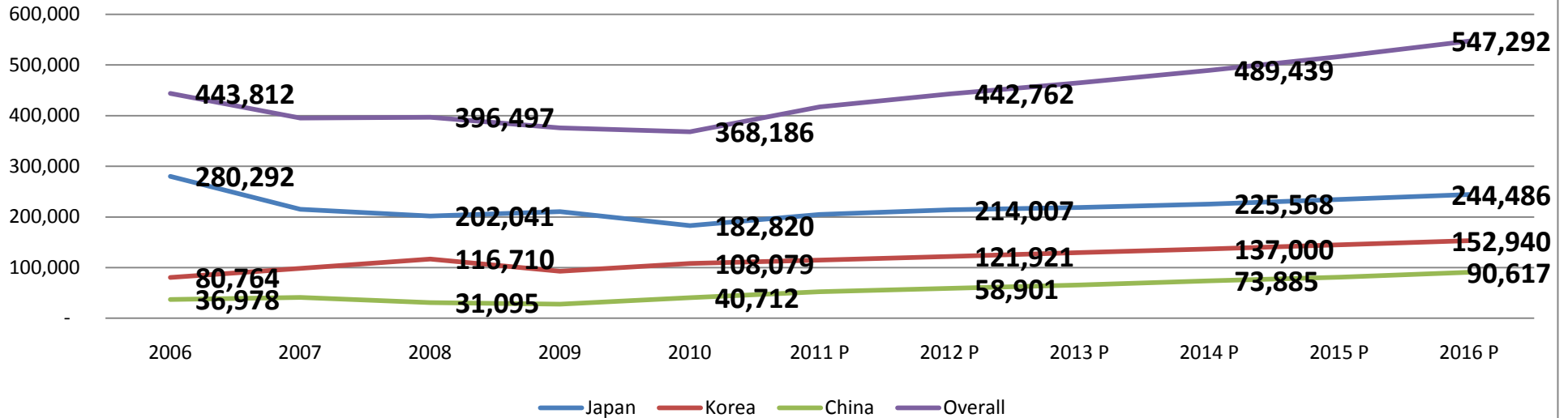
— Japan — Korea — China



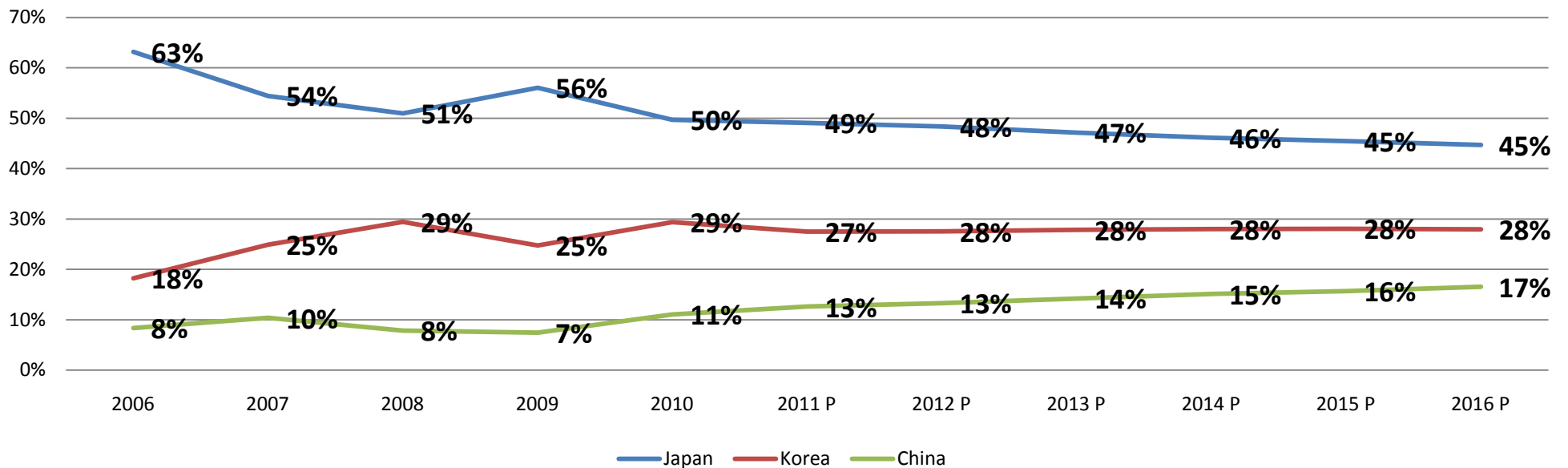


## APPENDIX H

### Projected Growth Based on Current Trends



### Project Market Share





# APPENDIX I

## Fiscal Year 2011 Impact Study - October 2010 to May 2011

	TOTAL ARRIVALS		DIRECT ECONOMIC IMPACT				INDIRECT ECONOMIC IMPACT					HOTEL IMPACT		EMPLOYMENT IMPACT		AVERAGE PAX ON ISLAND PER DAY	NEW PAX PER DAY	
	CNMI ACTUAL ARRIVALS	MARKET SHARE	Hotel Revenue	On Island Expenditure	Total	Taxes	Multiplier	BGRT	Hotel Occupancy Tax	Total	Taxes	Daily Rooms	Annual Rooms	Public	Private			
		228,388																
JAPAN	102,578	44.91%	\$ 18,993,137	\$ 68,316,948	\$ 87,310,085	\$ 6,264,818	\$ 218,275,213	\$ 10,913,761	\$ 1,899,314	\$ 231,088,288	\$ 12,813,074	483	176,434	1,080	1,207	967	281	
KOREA	73,136	32.02%	\$ 12,077,738	\$ 28,961,856	\$ 41,039,594	\$ 3,259,753	\$ 102,598,984	\$ 5,129,949	\$ 1,207,774	\$ 108,936,707	\$ 6,337,723	353	128,719	770	860	705	200	
CHINA	27,983	12.25%	\$ 3,823,667	\$ 23,246,877	\$ 27,070,544	\$ 1,735,894	\$ 67,676,361	\$ 3,383,818	\$ 382,367	\$ 71,442,546	\$ 3,766,185	172	62,962	295	329	345	77	
RUSSIA	3,446	1.51%	\$ 2,134,969	\$ 12,762,950	\$ 14,897,920	\$ 958,393	\$ 37,244,799	\$ 1,862,240	\$ 213,497	\$ 39,320,536	\$ 2,075,737	47	17,230	36	41	127	9	
TOTAL	207,143	90.70%	\$ 37,029,511	\$ 133,288,631	\$ 170,318,143	\$ 12,218,858	\$ 425,795,357	\$ 21,289,768	\$ 3,702,951	\$ 450,788,076	\$ 24,992,719	1,056	385,345	2,180	2,437	2,145	568	