

Committee on Resources

Full Committee

Witness Statement

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Committee on Resources

U.S. House of Representatives

Congressman Don Young, Chairman

Testimony of the Saipan Chamber of Commerce

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Mr. Chairman and Members of the Committee, on behalf of the Saipan Chamber

Of Commerce, I am pleased to be here today to discuss the state of business and commerce in the Commonwealth of the Northern Mariana Islands (CNMI). We believe it is important to convey how our businesses are now faring at this particular time and, more importantly, how they will fare under circumstances of a federal takeover -- shorthand for the legislative eradication of the Northern Marianas' unique Covenant authorities of local control over the minimum wage and immigration.

In the Northern Mariana Islands, the words "federal takeover" instill fear in most business owners. This phrase has become synonymous with economic disaster. One executive of a major international firm on Saipan said his business plan for the coming year anticipated further cost cutting and hardship due to the Asian economic crisis. He went further to say that if the pending "takeover" bills in U.S. Congress were to pass, he would have to throw all his business plans out the window. This is but one example of what a "federal takeover" would mean to the business community of the Northern Marianas.

This doesn't mean we are any less proud to be Americans. We share the same basic values as mainland America. We believe that work places should be safe and that employees should not be taken for granted, that we should hire locally when possible and that our staffs should receive a decent living wage.

The Northern Marianas became an American territory by overwhelming local vote, but there are few similarities with most American jurisdictions. Our small insular territory of approximately 70,000 people is spread across the international dateline and 9,000 miles from the nation's capital -- is more a part of Asia than the Western Hemisphere. The investment we have managed to attract since we became an American jurisdiction only two decades ago has been virtually all Asian. Our largest industry, tourism, attracts almost exclusively Asian visitors. When Asian markets dropped two years ago, so did our visitors.

We differ in other ways as well. We still don't have fresh drinking water from every tap and the sewer system is antiquated. Our roads are improving and the power system has just begun to meet our needs.

Recently we connected to worldwide communications systems via our first undersea fiber optic cable. We continue to strive to improve our infrastructure with both private and public funds, but these funds have rapidly diminished with the Asian economic crisis.

In general, the growth in our economy has meant an improved quality of life.

The simple fact, however, is that we are an isolated group of islands that only recently was more like a third world country. We do not have the same economy as the U.S. mainland, and therefore the economic policies that work for the mainland cannot be indiscriminately applied in the Marianas. We are highly affected by regional economic conditions, which are in a serious decline.

The authors of our *Covenant to Establish the Commonwealth of the Northern Mariana Islands* recognized the differences. In its wisdom in 1976, U.S. Congress developed the rules of the game upon which our economy was built. They gave us the ability to control our own minimum wage and immigration due to our unique circumstances. They also gave us the ability to trade freely with the U.S. Based upon these rules that we were given just 20 years ago, we have built a small, but successful multi-national society. Out of necessity, we employ approximately 25,000 guest workers from Asia and other foreign countries. This number is fixed by a local moratorium dictating a cap on foreign hires.

While we would prefer to hire primarily local residents if we could - it would certainly be less expensive and less risky -- we do not have enough citizens to staff our businesses. Even if we had the numbers, our limited educational institutions could not produce enough skilled workers in all the positions we need to fill. Even if our local government shut down and forced all of its 5,000 employees into the private sector, there would simply not be enough people to fill all the jobs.

Our local economy has assimilated foreign workers into our community and they have become a major consumer of and user of local goods and services. Today most successful companies in the Northern Marianas have made marketing efforts to encourage foreign workers to buy their products and services. If these people were forced to leave under the U.S. immigration system, many establishments that cater to Filipinos, Japanese, Chinese and Koreans would close from the loss of business.

A good example is in telecommunications. The top destinations for long distance calling are the Philippines and China due to the large number of guest workers from these countries who call home. The volume of calls helps ensure that we have competition in providers. If this calling ceases, the cost for all other destinations will rise. The telephone companies will lay off local people, their suppliers will suffer, the government will receive less in taxes and so on.

In the continuing debate over immigration, we often ask ourselves: we are a tiny, isolated group of islands with a small indigenous population, but must we also be limited to a tiny economy? If we didn't have the ability to recruit from overseas, would we still live as our Micronesian neighbors, dependent upon federal handouts and subsistence living?

The Saipan Chamber of Commerce member businesses represent 79% of the private sector work force, yet nearly all of our members would fit the definition of small businesses. We believe it is vital that the Northern Marianas continue to control our own immigration and minimum wage, and that we be allowed to continue with the same trade advantages that were granted under the Covenant. To take away these benefits would take away the very foundation of the economic structure of the CNMI and frustrate the mandate of the United States under the Trusteeship Agreement, *Ö*To promote the economic advancement and self

sufficiency of the inhabitants.Ó

The Northern Mariana Islands have received international media attention due to the problems of our rapid economic growth, confusion about applicable labor laws and complaints of worker abuse. As a community we are doing something about the problems we all agree must be addressed. Painstaking reforms are underway. Local leaders from business and government have been meeting frequently to share ideas and work together as never before.

But rather than working with the Northern Marianas government on reforms, rather than helping us to enforce the law, some of our critics prefer a one-size-fits-all federal takeover. We are left feeling like a small child who has done something wrong. Rather than teaching the child, the parent simply takes the matter over and does it his or her way. But is this the way to ensure that the child never makes another mistake?

Would a takeover of our immigration and minimum wage, the removal of our tariff status mean that there would never again be an OSHA violation, a staff member who wants a higher salary, a disagreement between employee and employer regarding overtime? If such problems can and do exist throughout work sites all across America, they will surely continue in the Northern Marianas, even under the full imposition of American laws. The answer clearly lies more in education, training and law enforcement.

On a personal note, I moved to Saipan from California in May 1986, recruited for an assignment by a former employer who desired to do business within the Pacific Rim. At the time, the notion of doing business with China and anywhere in the

Pacific Rim was hot for investors around the world. Attracted by the opportunity to live and work in an international atmosphere with people of other cultures, I stayed on Saipan and opened a small business. At that time the island was booming. Foreign investors were welcomed with open arms to build resorts, garment factories and other businesses on Saipan, a place where East truly met West.

Bridging the various cultures offers significant challenges for training, education and doing business in general. For most Asian workers recruited to Saipan, however, living here has meant a greatly improved quality of life. In fact, the Department of Foreign Affairs of the Philippines praised the CNMI last year, reiterating Óthe good working conditions of Filipino workersÓ that they found in our islands. (See Appendix A Ð April 21, 1998 letter from Philippine Consul Julia Heidemann.)

Virtually all of a foreign employee's needs are provided for by locally mandated benefits, including housing, transportation and unlimited 100% health care. This enables them to send most of their strong American dollars home for the benefit of families. According to the Philippine Consul on Saipan,

Closely tied to the economies of Asia, our business community has grown with tourism and the trade opportunities in the Pacific. But now the tide has changed. The strength of the dollar against the yen, the won, and the peso is good for foreign employees and their families, but it is devastating for tourism. Virtually every other competing tourist location in Asia is now a better value than our dollar-based destination. Meanwhile, the U.S. mainland is enjoying unbelievable prosperity while the U.S. Commonwealth of the Northern Mariana Islands is in the throes of recession.

While Asia is reeling and America is celebrating, we are caught helplessly in the middle. The Asian economic crisis hit us hard and unexpectedly. Built on two major industries - tourism and garment

manufacturing -- we don't have enough diversity to weather a long and severe recession. Together tourism and garment manufacturing account for 4 out of every 5 jobs in the Commonwealth today and more than 7 out of every 10 jobs held by permanent residents. Virtually all small businesses exist in some way to support those two industries. If a garment factory or hotel closes, a myriad of other small businesses will close.

It may seem that if an investor has the money, such a down market may mean an ideal time to come to the Northern Marianas. Land prices have plummeted.

Office and retail space is available everywhere. More than 1,300 business licenses have not been renewed and many companies are for sale. Bankruptcy filings have increased tremendously. A savvy investor could take advantage of bargain opportunities.

As we prepare for the new millenium, we have undertaken a new study to develop an economic strategy for the Commonwealth. The objective of this study, designed and funded by the CNMI leadership and the Office of Insular Affairs, is to provide some insight into the future directions of the CNMI economy so that policy makers in Washington, D.C. and the CNMI can adapt policies to achieve maximum benefits for the people of the CNMI. The Chamber's summary of that draft study is attached. (See Appendix B.)

A group of volunteers from our Chamber have also been working hard with local government officials to examine ways that we can attract new and diversified industries. They call this group the Governor's Economic Revitalization Task Force. But no one will invest in the Northern Marianas now.

We cannot diversify our economy in the face of an unrelentingly negative campaign launched by those who would demonize our culture and take away our local economic controls. Add to the equation the possibility of a 100% hike in the local minimum wage at the worst possible time, and the removal of necessary access to our labor supply. Further add to this a variety of new local laws our government has instituted in order to improve our labor and immigration systems. These circumstances have created an air of instability for any investor, whether foreign or local.

The effect on existing businesses is staggering. For most, it is impossible to plan for the coming months, let alone recoup investments that will take years to recover. Potential investors have simply turned away. Clearly we are in a crisis, one that many will not survive if drastic change occurs in the way we must do business. Consider these facts:

Tourism, a primary driver of our economy is down 30%. Garment manufacturers have lost 25% of their orders. Automotive sales are down nearly 50% as is much of retail in general. One in every 10 businesses has closed. Hundreds more that cater to Filipinos, Japanese, Chinese and Koreans will close overnight if all of our guest workers have to go home.

Is this a community that could afford to replace and re-train its private sector? Is this an economy that could withstand a doubling of its minimum wage? A hike in the wages at this time will carry significant costs: slower job creation, fewer hours, and lost jobs. The evidence is overwhelming that raising the minimum wage will help few working men and women. It will demand that small businesses do more with significantly fewer resources. It will cause higher-level wages to be increased, thus boosting inflationary pressures in an already precarious time.

The federal minimum wage rate is based on the cost of living and prevailing wage levels in a highly developed mainland economy. The imposition of the mainland minimum wage on the Commonwealth's

employers may in fact force many of us out of business.

The Commonwealth has enacted its own minimum wage law and formed its own Minimum Wage Review Board, which we believe is consistent with the intent of the Covenant. We believe this system best accommodates local economic and employment conditions. It is unfortunate that the positions on this board reserved for federal representatives have remained vacant, despite numerous invitations to participate.

It seems clear that because of the special characteristics of its economy and despite the growth that has been realized in recent years, the Commonwealth would be unable to absorb an immediate increase to the U.S. mainland minimum wage without the possibility for serious economic disruption. The Chamber of Commerce respectfully urges this Committee to consider these consequences when it is asked to deliberate proposals designed to eliminate immigration and labor problems, which we believe are aimed at eliminating our garment industry. Simply put, bills that force a federal takeover will cause many businesses, both large and small, to collapse.

Consider some of the likely victims from among our Chamber members: a small inter-island airline will have to cease flying or double its rates; an air conditioning company will lose its skilled technicians; a security company will be unable to serve its customers; restaurants and hardware stores will lose their customers; a 40-year old family bakery will fold.

We respectfully ask whether the loss of these businesses and many others like them constitute "reform" for the Marianas. We believe the answer is no and that Congress should instead consider giving our reforms an opportunity to work. The results of a cap on new alien hiring are just now being realized. A full range local and federal laws give comprehensive protection to employees. Our amnesty program encourages any illegal foreign workers to come forward. We are also deeply involved in efforts to provide more on the job training and to create incentives for local hiring. In short, we are taking stock of the present and have begun planning for the future. Perhaps even more significantly, we have our first *bonafide* recession to challenge us to be better businesses.

And while we do so, we ask that the federal government share in the responsibility for the crisis atmosphere that has been created in CNMI-federal relations. Let us work together on law enforcement to the end that you will feel comfortable that the incidence of labor abuse in the Northern Mariana Islands has declined and will decline further. We are but a tiny concern for such a powerful body as U.S. Congress -- but if you look closer, we believe you'll see that our efforts to educate our businesses on all applicable federal and local laws are working. The reforms that have been put in place by our local government are making a difference.

Given the devastating consequences, the Saipan Chamber of Commerce cannot support legislation that will have a serious negative impact on an economy we believe is headed into even more uncertain times. We urge the Committee to lay such "takeover legislation" aside permanently. We do not, however, suggest that this is all that the Committee should do. Congress can and should direct the Administration to shift from regularly criticizing the CNMI activities to making a real commitment to providing training and assistance in operating more effective programs.

The Chamber believes that a genuine spirit of federal-Commonwealth cooperation would go much farther than any federal takeover in addressing the immigration and labor problems we all agree must be resolved. It would also provide the business community and the Commonwealth government the time, and potential investors the confidence, to bring new and diversified economic opportunities to the Marianas.

Our message to the Committee is simple: please don't cause a collapse of our economy by adopting legislative "solutions" that may seem unremarkable in the context of the economic boom now enjoyed in the 50 states but that are so foreign to the CNMI. We are all Americans, yet we work in vastly different economies that are indeed a world apart.

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