

REPORT ON THE STATE OF THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS ECONOMY, IMMIGRATION, AND MINIMUM WAGE ISSUES

The purpose of this report is to present a current picture of the economy of the Commonwealth of the Northern Mariana Islands ("CNMI" or "Commonwealth") and the progress made in addressing CNMI labor and immigration issues. This report illustrates the Commonwealth's genuine commitment to addressing its labor and immigration problems and that its efforts are beginning to have a positive effect. The report also reflects that the Commonwealth is experiencing the most severe economic contraction in its 20-year history as a result of the ongoing economic crises in its neighboring Asian countries. This is happening at the same time that fundamental questions are being asked about the structure of the CNMI's labor force, its immigration policies and its minimum wage laws.

I. CONTROL OF IMMIGRATION

The Covenant negotiators recognized that with the small local population, significant reliance on foreign workers would be necessary for the CNMI to achieve economic self-sufficiency. This was a significant reason that the CNMI was granted control of immigration and minimum wage under the Covenant. The intention of the framers has been realized in large measure as evidenced by the Commonwealth's decreased reliance on federal assistance, and the improved standard of living in the islands. However, the CNMI has made mistakes in its administration of immigration and related matters and has attracted much criticism, some fair and some unfair. The CNMI is committed to addressing the concerns of its critics. Although problems remain to be solved, reform efforts are beginning to produce results.

A. The Total Number of Guest Workers in the Commonwealth and Measures Taken to Control the Numbers.

1. The Number of Guest Workers Appears to be Slowly Decreasing. For the first time in Commonwealth history, the number of nonresident worker permits issued has decreased. The best estimate of guest workers lawfully in the Commonwealth comes from the Labor and Immigration Identification Documentation System (LIIDS), a computer system at the Department of Labor and Immigration (DOLI), with additional analysis from the Central Statistics Division of the Department of Commerce. The following table shows the number of nonresident worker permits issued for Calendar Years 1997 and 1998 (through October 15, 1998).

Non Resident Worker Permits Issued by Month, 1997 and 1998

Permits Issued	Total	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1998	25,185	2,206	2,656	4,028	2,255	1,603	4,890	2,479	2,157	2,161	750		
1997	33,402	3,734	2,628	3,477	2,597	3,039	2,499	2,115	2,838	2,685	3,621	1,333	2,836

Source: LIIDS Database, DOLI

Note: 1998 data covers January 1 1998 to October 15, 1998 only.

The number of permits issued to guest workers from January 1 through the end of September 1998 compared to the same time period for 1997 shows that the numbers dropped 5%:

January 1 - September 30, 1997 = 25,612
January 1 - September 30, 1998 = 24,435

It must be noted that the Commonwealth is faced with data collection difficulties. One of the fundamental difficulties with data collection is the lack of a computerized entry/exit system at Commonwealth ports of entry. Until the entry/exit module of LIIDS is on-line, the administration will not be able to track with certainty who actually enters and exits the Commonwealth. However, the collection and availability of statistical data continues to improve in the CNMI, and the numbers contained herein will be subject to continued further refinement as newer data becomes available.

Recognizing that the Commonwealth cannot wait for implementation of the entry/exit module to begin tracking those entering and exiting the Commonwealth, a manual tracking system at the Saipan International Airport is currently being implemented and is expected to be functional by January 1999.

The entry/exit module of the LIIDS system is under design, and the Office of Insular Affairs (OIA) recently informed the Commonwealth that Covenant Section 702 Capital Improvement Project funds may be used for LIIDS.

2. Measures Taken To Control The Number Of Nonresident Workers. In March of this year Public Law 11-6 was enacted, imposing a moratorium on the hiring of new nonresident workers. The goal of PL 11-6 was to stabilize the number of nonresident workers presently in the CNMI by prohibiting new nonresident workers from entering the Commonwealth unless they are replacing a worker who has left. Exemptions to the moratorium may be granted by the Governor for the limited purpose of supporting major new tourism developments or to provide critical services.

The law has been successful in stabilizing the number of nonresident workers despite the opening of several large new tourist oriented enterprises since the law's passage (the Tinian Dynasty Casino, the Hard Rock Cafe, and expansion of the Duty Free Shoppers Mall). This is a significant accomplishment for the Commonwealth, given that from Calendar Year 1996 to 1997 the number of nonresident workers increased by 28% from 26,039 to 33,402.

B. Illegal Guest Workers

1. The Number of Illegal Guest Workers in the Commonwealth. The Central Statistics Division's best estimate of the number of illegal guest workers present in the Commonwealth is approximately 3,000. We expect to have a more accurate count after the implementation of the limited immunity law discussed in section 3 below. The current estimate is based on the 1995 census, used as baseline data, the Labor Force Survey (Current Household Survey) which updated the census baseline, and administrative records. The census data provided the actual count of all persons in the CNMI, including all non-US citizens. Administrative records provided the total "valid" permits issued, both new permits and renewals. The Labor Force Survey provided updates to the census baseline.

2. Law Enforcement Efforts to Address the Problem of Illegal Guest Workers. The Division of Immigration conducts regular monitor and compliance inspections at work sites during which they check the immigration status of all workers. In addition, the Division investigates information on suspected overstays provided by the Division of Labor. They also respond to information received from public sources on suspected illegal guest workers. Training efforts have increased to improve the performance of the Division.

The Division's efforts have resulted in approximately 373 deportations of illegal guest workers, from January through October 1998, following a full evidentiary hearing in each case. Deportation hearings require full due process rights, including the right to counsel and the right to appellate review. In addition, there have been at least 49 voluntary departures of guest workers.

3. The Recently Enacted Limited Immunity Legislation. Public Law 11-33, passed by the Commonwealth Legislature and signed into law in September 1998, seeks to identify illegal guest workers and make them part of the legal work force by granting a period of limited immunity from

deportation. The Act, which becomes effective December 2, 1998, provides a six-month period for illegal guest workers to come forward to register with DOLI and to seek permanent employment. It is hoped that most illegal workers in the CNMI will come forward during the limited immunity period.

The law's implementing regulations have been published in local newspapers in several different languages, including Tagalog, Chinese, Bengali, and Korean. DOLI has employed the services of translators in these languages to assist guest workers who come forward. Necessarily, DOLI efforts to search for illegal guest workers in the community will diminish during the limited immunity period when they are encouraged voluntarily to come forward without fear of prosecution and deportation.

C. Health Screening of Guest Workers

The presence of large numbers of guest workers from developing countries, such as the Philippines and the People's Republic of China, among others, has resulted in a large increase in the number of people present in the Commonwealth with communicable diseases. Most notable of these is tuberculosis. Recognizing the threat to the public health from an alarming increase in the number of active cases of TB in 1997, the Department of Public Health (DPH) contacted the US Centers for Disease Control (CDC) to request their assistance in investigating the situation. In February 1998, DPH promulgated emergency regulations mandating the health screening of all guest workers in the Commonwealth within 90 days. From February through August, over 34,000 workers were screened. DPH considers this program astoundingly successful in devising strategies to screen, identify, diagnose and treat those at risk. The result has been to treat affected workers and return them into the active, productive work force, while removing the risk to the population by breaking the chain of infection. According to participating health care professionals, the number of people screened, diagnosed and treated, and the short time period in which this was done, with very limited staff, is unprecedented.

DPH has plans now to institutionalize this effort by creating a permanent annual health screening program. OIA assisted this effort through consultations with DPH and through establishing and facilitating contacts with the CDC and a University of Hawaii testing laboratory. Now, one-time seed money is needed to start the program. Funds will cover facilities, equipment, medications, and some staff. DPH intends to include permanent funding for this screening program in its annual budget beginning next year. OIA has indicated that it might favorably consider some funding from the Federal-CNMI Initiative on Labor, Immigration and Law Enforcement.

D. Pre-screening of Workers in Their Country of Origin

In addition to the public health threat presented by the lack of pre-screening in the country of origin, public safety is threatened when individuals enter the Commonwealth using fraudulent documents. An effective pre-screening program at the worker's place of origin would establish the identity of the worker and the validity of their documents, and ensure that the individual has no criminal record in their country of origin. OIA is coordinating a meeting with DOLI officials, relevant US State Department personnel, and embassy representatives from the Republic of the Philippines, The Peoples Republic of China and the Republic of Bangladesh to explore developing pre-screening programs in these countries. The meetings are scheduled for late November 1998 in Washington DC. Topics to be discussed include developing protocols for obtaining travel documents for citizens of Bangladesh and China and assistance in establishing a pilot pre-screening program in Manila.

The Administration is hopeful that the implementation of pre-screening programs at the country of origin, together with guest worker health screening in the CNMI, will effectively resolve the public health and public safety problems we have experienced in the past.

E. Abuse of Guest Workers

Efforts to eliminate the abuse of workers have been helpful but there still remain problems. The CNMI stands committed to ensuring that the laws protecting all workers in the Commonwealth are upheld and will continue to work to further improve the situation.

1. **Health and Safety Laws.** Occupational Safety and Health Administration (OSHA) officials enforce federal health and safety laws and standards. DOLI health and safety personnel enforce local health and safety laws and standards. Since the new Administration took office in January 1998, unannounced inspections at work places and living quarters have dramatically increased. From January through October 1998, the DOLI Safety and Health Office conducted the following inspections:

INSPECTIONS

Employee Housing and Business Establishments	511
Garment Factories	74
Garment Related Housing	<u>49</u>
TOTAL INSPECTIONS	634

NOTICES OF VIOLATION ISSUED

Housing/Business	110
Garment	<u>19</u>
TOTAL NOTICES OF VIOLATION ISSUED	129

The inspection numbers illustrate that garment factories are being visited on a regular basis. While there are only 33 factories in the CNMI, there were 74 inspections within a nine-month period

2. **Civil Enforcement and Criminal Prosecutions.** In the area of wage-related enforcement, DOLI, in cooperation with the Office of the Attorney General, has increased prosecution and civil enforcement efforts. DOLI's administrative procedures commence with the filing of a complaint by a worker. Complaints are investigated and there is an attempt to arbitrate a solution between the parties. If this fails, an administrative hearing is held. If the employer is determined to have violated the law, an administrative order is issued. If civil enforcement of the administrative order is necessary, either the employee or the CNMI Attorney General's office can file for enforcement in the Commonwealth Superior Court.

From January 1, 1998 through September 30, 1998, the DOLI Hearing Office issued orders in 920 cases, approximately 10% of which were referred to the Attorney General's Office for civil enforcement. In the past, civil enforcement efforts have been limited due to a lack of personnel. In August 1998, the Attorney General's Office, committed to strenuous civil and criminal enforcement, and assigned a full-time Assistant Attorney General to assist in filing both civil and criminal enforcement actions. Through November 15, 1998, there have been 35 civil enforcement actions brought for payment of back wages, failure to pay minimum wage, failure to pay medical costs, and civil penalties. In addition to the civil enforcement actions, 16 criminal cases have been brought against employers, principally for violations of immigration laws, such as hiring and harboring illegal guest workers, and charging illegal fees. Ongoing efforts to computerize the case management aspect of the DOLI hearing office will significantly streamline enforcement efforts.

3. **Federal Ombudsman Office.** In the past, for a variety of reasons, many workers have preferred to approach federal agencies and officials rather than DOLI with complaints. DOLI has made recent efforts at increasing confidence in nonresidents to bring their complaints to the Department. For example, they hired a Bangladeshi translator to facilitate communication and the comfort level of the Bangladeshi worker complainants. Congress recently directed the OIA to fund

an ombudsman office in the Commonwealth. OIA officials have communicated with Commonwealth officials regarding their plans and the Commonwealth will work closely with this office to ensure its success. As of late November 1998, the positions to support the office were being advertised.

4. Saipan Garment Manufacturer Association Code and Enforcement Efforts. On November 1, 1998, a Code Of Conduct, Employee Bill of Rights, and Principles of Monitoring (Code), adopted by the Saipan Garment Manufacturers Association (SGMA), became effective. Together, these documents are intended to ensure that garments produced in the CNMI are not produced by exploited workers. All 33 licensed garment factories in the CNMI are members of SGMA and voted to adopt the Code. Training under the Code will be implemented from January to August 1999. The local agreement was inspired by a Presidential Task Force, the White House Apparel Industry Partnership, that was set up in 1996. This Task Force was established to eliminate sweatshop conditions in foreign garment factories that export to US firms.

SGMA has been informed by its buyers that its standards are higher than those in place in other countries. SGMA signed a contract with Business for Social Responsibility (BSR) in San Francisco to implement the Code. In order to encourage compliance with the Code, SGMA- approved and rated factories will receive a larger share of production quotas.

F. Continuing Measures and Other Measures under Consideration

The Commonwealth shall continue identifying and implementing additional actions to resolve these problems. DOLI continues to institute administrative measures to streamline its service and improve its enforcement efforts. In addition, the Commonwealth Legislature is considering a number of bills that would resolve various labor and immigration issues. Among the bills for consideration are a cap on the number of workers for garment factories and a cap on the total number of years a nonresident is permitted to work in the Commonwealth.

II. EFFORTS TO ADDRESS MINIMUM WAGE CONCERNS

On July 10, 1998, Governor Pedro P. Tenorio signed Public Law 11-22, creating minimum wage review committees for the Commonwealth. Under the law, the Governor is directed to appoint one or more special industry committees to consider minimum wage rates to be paid in the Commonwealth.

The law is modeled after the industry committees established for American Samoa under the Fair Labor Standards Act of June 25, 1938. Similar to the American Samoa system, the committee(s) to be created by the Governor of the CNMI require three employee and three employer representatives from the Commonwealth community. A nonresident worker may be appointed to the committee(s). The Speaker of the US House of Representatives, the Majority Leader of the US Senate, and the Administrator of the Wage and Hour Division of the US Department of Labor are each entitled to name one member to the formed committee(s).

The committee(s) are tasked with recommending the "highest possible minimum wage rate," with due regard for economic and competitive considerations and the committees(s) are instructed to use the American Samoan methodology or criteria in performing the study to arrive at their recommendations. The recommendations of the committee(s) are to be transmitted to the Commonwealth Legislature, which is limited under the law to either passing the minimum wage rate proposed by the committee(s) or to passing a higher wage rate.

The Governor has decided to commence by establishing a single committee and then to request the committee's advice and the advice of the Administrator of the Wage and Hour Division on whether to establish additional separate committees for the different industries.

On August 14, 1998, letters to the Speaker of the United States House of Representatives, the Majority Leader of the United States Senate and the Administrator of the Wage and Hour

Division of the US Department of Labor were sent out extending the invitation for participation and soliciting appointments to the Commonwealth committee.

To solicit names for employer members of the committee, the Governor sent letters to the CNMI Contractors Association, the Saipan Chamber of Commerce, the Saipan Garment Manufacturers, Association, Ltd. and the Hotel Association of the Northern Mariana Islands. Responses have been received from most of the employer associations polled. To solicit names for employee members of the committee, the Governor sent letters to HERE, Local 5 and the International Brotherhood of Electrical Workers Local 1357 -- the two unions in the Commonwealth -- the local chapter of the Society for Human Resource Managers, and Karidat -- the local assistance organization which has been active in providing assistance to nonresident workers. Responses have been received from all of these organizations. Appointments are expected in the near future.

III. THE PRESENT STATE OF THE NORTHERN MARIANAS ECONOMY.

This report responds to federal concerns about the labor and immigration issues confronting the Commonwealth and provides information on the efforts taken by the current Administration to address these issues. However, a review of these issues would not be complete or meaningful without consideration of the current economic situation facing the Commonwealth. This is because the existing labor and immigration system is so central to the CNMI's business structure. Any changes affecting the labor and immigration system would have a great impact on the Commonwealth's economic situation.

A. The Decline in Tourism.

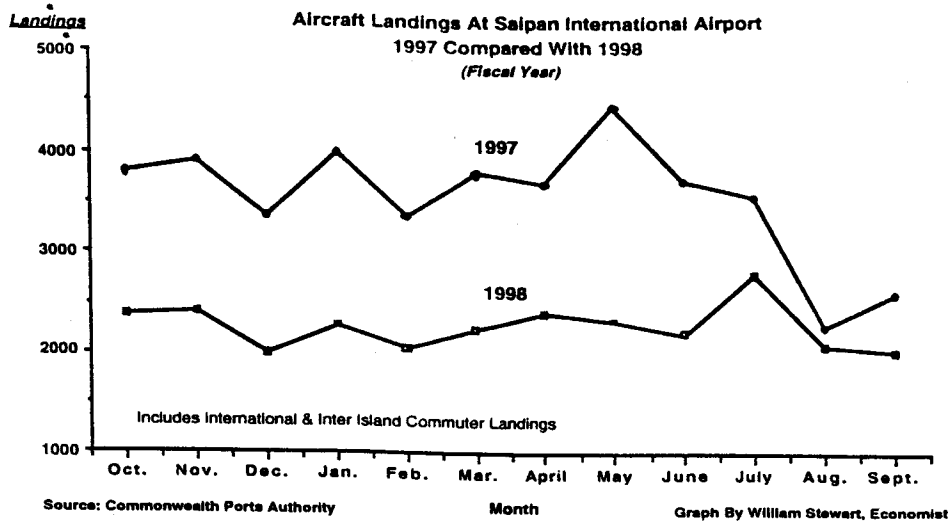
The tourism industry accounts for the majority of the CNMI's economy. The primary tourism markets are Japan and, until last summer, Korea. The Asian economic crisis that began in the summer of 1997 has profoundly affected the CNMI tourism industry and, consequently, the Commonwealth's economy. The decline in tourist arrivals from 1997 to 1998 is 27.5%. The table and chart below illustrate steep decreases in monthly tourist arrivals for FY98 as compared to FY97.

CNMI Visitor Arrival Statistics FY97-98

	1997	1998	% Change
TOTAL :	726,690	526,298	-27.5%
October	59,564	49,202	-17%
November	61,613	51,616	-16%
December	63,318	51,875	-18%
January	66,935	48,314	-28%
February	58,360	42,618	-27%
March	62,626	43,275	-31%
April	56,302	37,065	-34%
May	61,794	41,328	-33%
June	59,940	39,636	-34%
July	62,532	42,808	-32%
August	60,000	43,112	-28%
September	53,706	35,449	-34%
YEAR TOTAL:	726,690	526,298	-27.5%

Visitor entries for FY98 have declined to the level registered in 1993. Those tourists that did come spent less money than in the past. Visitors from Korea effectively vanished. If the trend continues into 1999, entries will equal those of 1990 or earlier, a time when there were 1,665 less hotel rooms than the present 4,316.

Data from the Commonwealth Ports Authority show that airlines serving the CNMI have dramatically reduced flights to Saipan, and have substituted smaller aircraft with fewer seats for some flights. Aircraft landings per month for FY97 and 1998 are shown in the following graph.



Airline landings declined 36%, from 42,457 in FY97, to 27,135 in FY98. This precipitous decline began in May 1997.

The impact of these drastically declining tourism numbers is also reflected in occupancy rates for CNMI hotels. The Hotel Association of the Northern Mariana Islands (HANMI) compiles occupancy rates of its 21 members. These HANMI members account for 68% of the hotel rooms on Saipan. Included in the 68% are all the major resort hotels in the Commonwealth. The table below presents the occupancy rates by month for the years 1995-1998. The average annual occupancy rates ranged from 81.3% to 85.5% from 1995 through 1997. The dramatic fall-off in tourist arrivals in the past year has resulted in a year-to-date average occupancy rate of 59.6% through September 1998. This is nearly a 30% decrease over the prior three years. No significant improvement is anticipated until at least the year 2000.

Hotel Room Occupancy Rates-HANMI Members

	1995	1996	1997	1998
Jan.	74.64%	86.92%	91.96%	69.85%
Feb.	87.77%	92.03%	95.92%	71.90%
March	82.20%	88.22%	81.80%	58.86%
April	71.42%	80.76%	83.67%	56.70%
May	83.30%	85.79%	83.49%	58.97%
June	79.06%	84.59%	82.71%	57.82%
July	83.46%	81.94%	74.24%	51.89%
Aug.	91.87%	90.22%	75.08%	55.92%
Sept.	89.09%	87.29%	77.92%	54.92%
Oct.	77.90%	83.26%	73.67%	
Nov.	87.29%	90.14%	81.53%	
Dec.	83.51%	75.70%	74.26%	
Total	82.62%	85.57%	81.35%	59.64%

Room rates have declined as well. According to HANMI's October 1998 survey, rates at their members' hotels have decreased 15% to 40%. HANMI members also report that approximately 12.2% of staff have been laid off, while 14 member hotels have shortened the work week from 40 to 32 hours per week, in an effort to avoid further layoffs. In addition, there is abundant

anecdotal evidence of smaller hotels slashing rates and converting to apartment rentals, while some larger hotels are considering closing entire wings to trim costs.

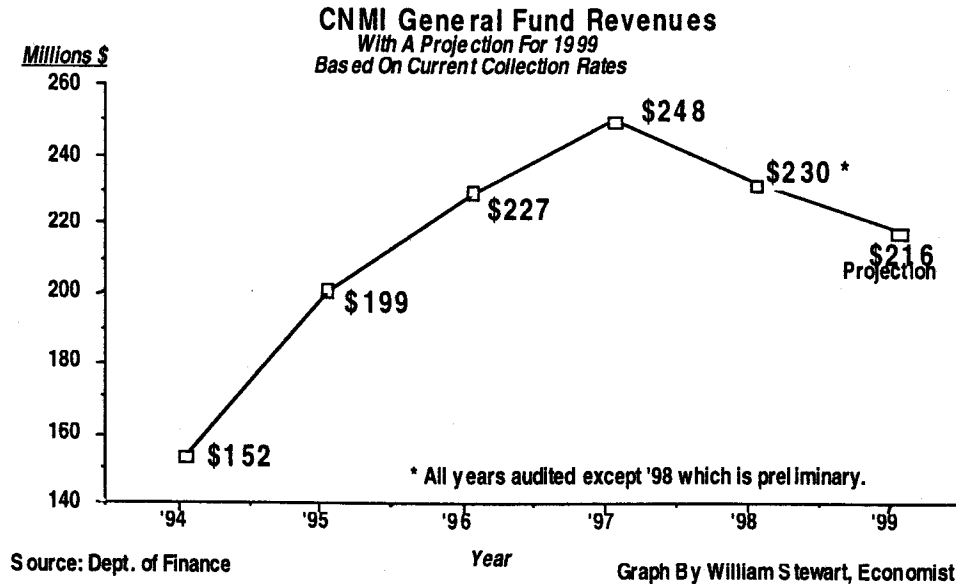
B. Declining Business Licensing Activity in the Commonwealth.

The Department of Commerce reports that 690 out of 3,764 business licenses issued in FY97 were not renewed for FY98. The business owners have either decided to close a business or consolidate multiple businesses. Further, applications for new business licenses declined by 24% from last fiscal year.

The Department of Finance also reports that the number of quarterly Business Gross Revenue Tax returns filed has declined by 14.17% for the second quarter of 1998, the most recent quarter for which data is available, compared with the second quarter of 1997. Further declines are anticipated until the Asian situation improves.

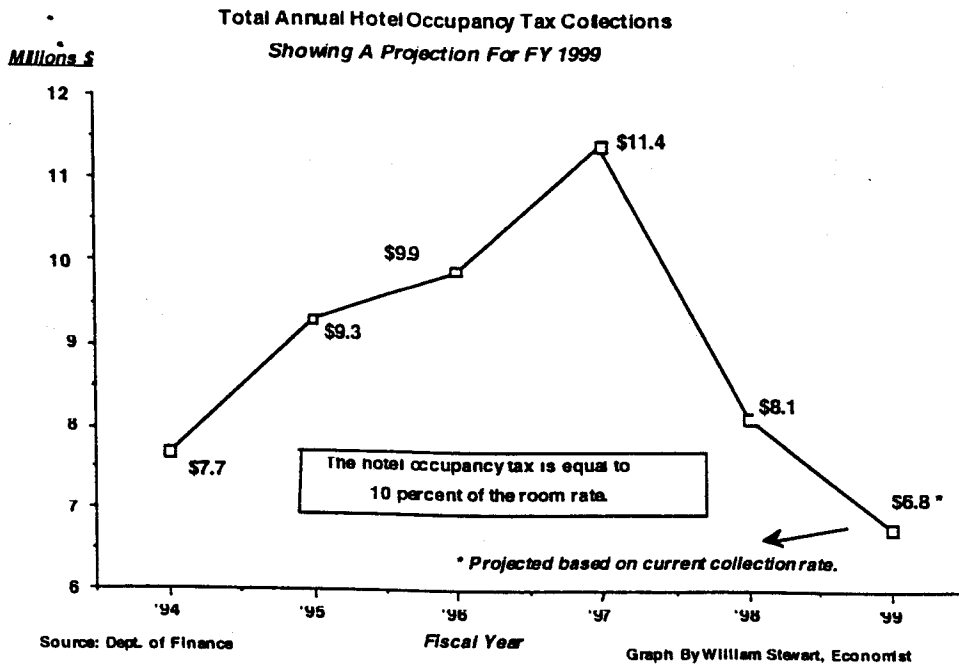
C. Impact On Commonwealth Revenues

The impact of the worsening economic conditions in the Commonwealth is clearly reflected in the steep decline in CNMI Government revenues for FY98 and FY99 after four years of rapid growth from FY94 to FY97. Actual General Fund revenues since FY94 are shown below:

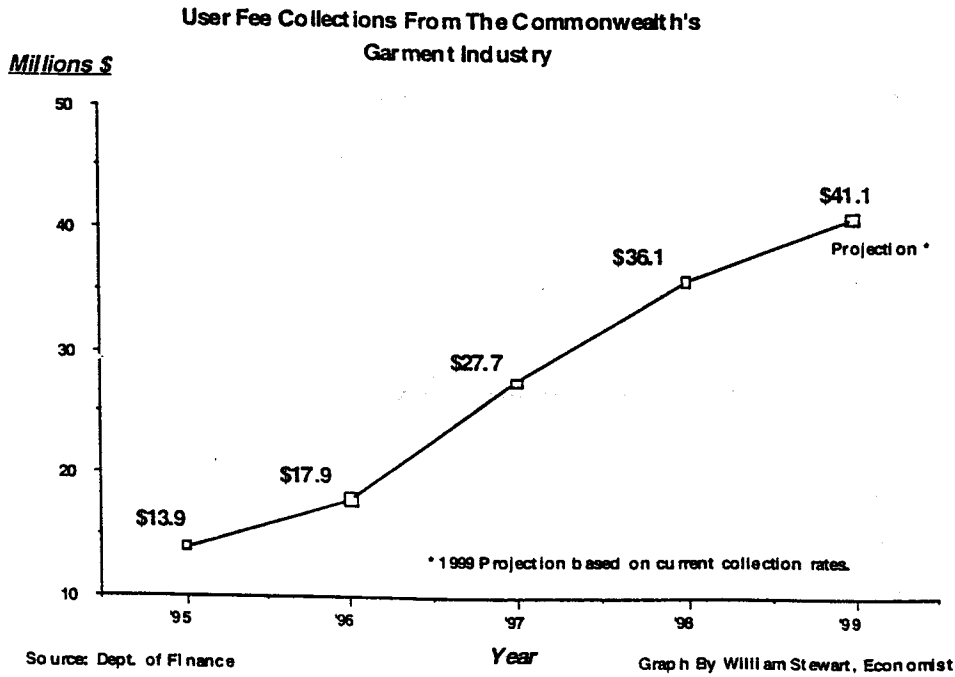


At the time that the FY99 budget was prepared, \$249 million in revenues had been projected. The Governor has recently stated that current collection rates require a reduction of the FY99 revenue estimates to \$216 million. That means a decrease of \$32 millions in revenues for the Commonwealth from FY97 to FY 99. This reverses a significant amount of the nearly \$100 million in revenue gains made during the fiscal 1994-97 period. The Asian economic crisis and resulting plunge in visitor arrivals has crippled the local tourism industry and caused an exodus of many Asian investors, particularly those from Korea.

A sector-by-sector analysis of the tax collections from the CNMI's two major industries, tourism and garment manufacturing, shows a sharp contrast in the state of the two industries. Hotel occupancy tax collections have followed the downward trend in tourist arrivals.



Hotel tax collections for the current fiscal year could fall below the FY94 level if current trends continue. In sharp contrast, the garment industry user fee collections, based on the export value of shipments, have increased dramatically:



This is the only tax revenue area to show an increase in collections from FY97 to FY98, as well as a projected increase from FY98 to FY99. The increase in FY99 partially reflects an increase in the user fee tax rate from 3.5% to 3.7% of export value. The user fee collections, combined with other taxes and fees paid by the garment industry, will produce almost 25% of the CNMI's total FY99 projected revenues.

These figures make very clear the increased importance of garment sector revenues to the CNMI economy at the present time. Although the tourism industry has been the largest revenue generator for the CNMI Government since its inception in 1978, revenue figures make clear that the garment industry, for better or for worse, is currently keeping the government afloat.

D. Policy Implications For The Commonwealth

The situation facing the Commonwealth is unprecedented and dictated to a great extent by global forces beyond its control. Nevertheless, serious local solutions are being sought. In response to the deteriorating economic situation in the CNMI, the Administration has taken several steps to identify and implement both short and long-term solutions for the Commonwealth's economy.

In an effort to decrease an estimated \$50 million cumulative financial deficit in the government, serious austerity measures have been imposed to eliminate non-essential government spending, including freezing hiring in non-essential positions, scrutiny of every government purchase over \$3,000, eliminating all unnecessary administrative overtime, virtually eliminating government paid travel, leaving hundreds of government positions vacant. In addition, several measures that require legislative action are under active consideration, including suspending legally mandated wage increases and early retirement incentives. Since January 1998, these austerity measures have reduced government expenditures \$12 million below last year's level.

The challenges facing the Commonwealth demand more than short-term cost cutting measures. Reinvigorating and diversifying the economy are critical. Several significant efforts are underway. A top priority of the Administration was to eliminate the backlog of the CIP program. The 702/OMIP Task Force (Covenant Section 702/Operations, Maintenance and Improvement Program) has been diligently working, with great support from OIA and the Army Corps of Engineers, to identify and prioritize capital improvement projects in the Commonwealth. It is expected that by the end of December the prioritized list of projects required by the Section 702 grant agreement will be completed. Once sources of local matching funds are identified the backlog of projects can commence construction. The infusion of funding from these projects will provide an important stimulus for the economy.

Beyond such short-term measures as austerity and infusing the local economy with CIP funded construction projects, thoughtful long-term planning is required to address the impact of fundamental global economic changes on the economy of the Commonwealth. Economic diversification is critical to developing a sustainable economy and achieving the Covenant's stated goal of a progressively higher standard of living for the CNMI, and developing the economic resources to meet the financial responsibilities of local self-government.

The Commonwealth's economy is based on tourism and garment manufacturing. The expected implementation of international trade agreements (NAFTA, GATT, WTO) in the year 2005 will eliminate the advantages of Headnote 3(a) for the local garment industry. Since the garment industry now accounts for 25% of the Commonwealth's economy, economic diversification is critical if the CNMI is to avoid the sudden loss of a quarter of its economic base. In addition, while tourism will remain a mainstay of the economy, the unanticipated regional events of the past year have painfully demonstrated that this sector is volatile at best.

Efforts are currently underway to examine how the Commonwealth can meet the serious challenge of strengthening and diversifying its economy for the long term. The Governor's Task Force on Economic Recovery and Revitalization, comprised of members from all segments of the private sector, and CNMI policy makers, is charged with identifying immediate solutions to the CNMI's economic problems. The Task Force is considering tools such as Free Trade Zones, limited liability corporations, foreign sales corporations, and tax and investment incentives for targeted activities.

Complimenting this effort, the Business Development Center of the Northern Marianas College, in cooperation with the CNMI and the Federal Government, is organizing an economic development conference in early spring 1999 to explore longer term economic strategies to overcome the

dependence on tourism and garment manufacturing. The Office of Insular Affairs has been very supportive of this effort and is underwriting partial funding for this conference and for a study of the CNMI's economy.

Notwithstanding these efforts to broaden the economic base, it is clear that tourism will continue to be a major force in the Commonwealth's economy. The current conventional wisdom is that the Japanese economy will not bottom out until the first half of 1999. Although it is impossible to predict, it will likely be the year 2000, and quite possibly longer before the CNMI sees a return to healthy tourist arrival numbers.

Continued local control over immigration and wage policies, and the trade benefits granted by the Covenant are central to the success of the Commonwealth's economic recovery and revitalization, and to fulfilling the promise of the Covenant. We recognize that immigration and related labor issues have caused serious problems between the CNMI and the Federal Government. These problems can be resolved without the imposition of federal laws that could have profound, devastating and unintended consequences on the future of the Commonwealth.

V. CONCLUSION

The Commonwealth is faced with issues of enormous consequence -- immigration, minimum wage and the current state of its economy. These issues are intertwined and require delicate and careful consideration. The Commonwealth voiced its commitment to addressing its immigration, labor and minimum wage problems to Congress last March and intends to continue fulfilling these commitments. The new Administration has implemented reform efforts, with the support of the CNMI Legislature and the business community, and the efforts are now producing results. We have worked with various Federal Government agencies to improve enforcement and these joint efforts have been successful. Continued cooperation and coordination between CNMI and federal enforcement agencies will strengthen and further improve the situation.

The current state of the CNMI economy dictates that special care must be taken when structural changes relating to immigration and labor are considered. Any change in the existing structure which undermines the Commonwealth's ability to control minimum wage and immigration threatens the CNMI's economic well being. These problems are being addressed on the local level, as intended by the original Covenant agreement with the Federal Government and, as long as efforts are taken and improvements being made, the Commonwealth should be allowed to continue to resolve its own problems, with the assistance and support of appropriate federal agencies.

The Administration is committed to working closely with the Federal Government on all issues affecting the Commonwealth. We sincerely hope that we are given sufficient time to continue working with Congress and the Administration to resolve these issues.