



# Paving the Path for Guam's Boom

by David B. Cohen



**T**HE TINY ISLAND of Guam is at the epicenter of the United States' plans to realign its military forces in East Asia and the Pacific. This U.S. territory—strategically located in the Western Pacific, a few hours flight time of Japan, Korea, China, Taiwan, the Philippines, Indonesia and Malaysia—is about to undergo a transformation unlike any in the region's recent memory. A military investment that has been projected at around \$14 billion will be pumped into the island over a few short years, turbocharging its economy and swelling its population by almost a third, to 225,000, in only five years.

That population increase will result from the relocation of 8,000 U.S. Marines and 9,000 of their dependents from Okinawa in Japan, the arrival of other military personnel and thousands of workers, and the magnetic attraction of increased commerce. The relocation of the Marines alone will cost \$10.3 billion and will entail the construction of a new military base, military housing and utilities. This project is ambitiously scheduled for completion by 2014. Billions of additional dollars will be

spent to expand facilities for the other three branches of the military. For example, "Big Navy" (as Naval Base Guam is known locally) is planning to add a new pier to accommodate aircraft carriers; Andersen Air Force Base is building facilities to base Global Hawk unmanned aerial surveillance aircraft; and the Army is planning to bring a missile defense task force to help protect the increased concentration of military assets to be based on the island. The total number of military personnel and dependents on Guam is expected to increase from approximately 14,000 to almost 40,000.

The current plan calls for Japan to fund about 60% of the relocation cost. Japanese money would come in two tranches: The government of Japan would pay \$2.8 billion to the U.S. to fund barracks and other facilities; and the Japan Bank for International Cooperation would provide \$3.29 billion in loans and financial support for

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housing and utilities. Given JBIC's involvement, it is expected that Japanese companies will play a large role in relocation.

Another country that is expected to play a significant role in relocation is the Philippines, primarily as a source for the up to 20,000 workers needed to build the facilities. The Defense Department is counting on legislation that would exempt Guam from caps under U.S. immigration law on the number of temporary workers that can be brought into the U.S. each year. Without such an exemption, it would be extremely difficult to find the workers needed to implement a project of this magnitude. The number of qualified workers in Guam's small population is limited, and it would be costly to induce large numbers of U.S. workers to seek jobs in a place more than 6,000 miles away from the U.S. mainland. The Philippines, which is approximately three hours from Guam by plane, has a large supply of well-trained, English-speaking construction workers. Even with the exemption, however, U.S. Congress may still have to loosen the legal eligibility requirements for "temporary workers" to accommodate a project expected to last at least four years.

The infusion of military cash into the small island's economy is likely to attract private capital into Guam's civilian economy. The real-estate market is already heating up in anticipation of the population surge. Coping with that surge will require investment in Guam's civilian infrastructure, which is subpar by U.S. standards. This should create opportunities for companies involved in the development, construction and operation of critical infrastructure such as ports, power, water, wastewater and solid waste. The 55,000 additional people expected to arrive on Guam's shores in a few years will all need places to live, shop and dine, products to buy, services to consume.

Of the needed improvements to Guam's civilian infrastructure, none is more impor-

tant than the expansion of the island's lone commercial port. Virtually all of the equipment and materials needed for the military construction will have to be shipped in, and the port does not have the capacity to handle the volume of shipments that will be required. The military plans to increase the amount of cargo that it moves through the port by six times its current level. In order to accommodate that increase, the port will need an estimated \$193 million worth of improvements.

Privatization or public-private partnerships could help Guam address its need to expand its port and to upgrade and expand its other critical infrastructure. However, privatization and public-private partnerships present political challenges in Guam, where a disproportionate percentage of the electorate is employed by the local government. When the former Guam Telephone Authority was finally privatized in 2005, it was the last local exchange carrier to be operated as a government agency in the U.S. Guam has made other forays into public-private partnerships, including in power generation and waste management. A recent attempt to privatize the Guam Waterworks Authority, however, ran aground in the local political process, and it is not clear whether Guam's legislature will approve a public-private partnership for the port.

If the expansion of Guam's commercial port does not proceed quickly enough, the military also has the option of expanding and perhaps privatizing the Navy's port. But that would deprive the government of Guam of the significant revenue that would have otherwise been generated for the commercial port.

If the U.S. Defense Department and the government of Guam are ultimately unable to find a win-win solution to addressing the military's needs for the port, it will be a setback for both sides. Although Guamanians are among the most patriotic Americans and there is a good deal of excitement about

the economic benefits that the military influx is expected to bring, there is also concern that the Defense Department will not do enough to mitigate the massive impacts that will be imposed on the small island community. Some of the island's political leaders have expressed the fear that economic benefits of the military investment will not be sufficiently spread throughout the community, and that Guam will be left to cope with increased strains on its over-taxed public infrastructure and rising home costs that are already pricing local working families out of the market. A small but increasingly active indigenous rights movement on Guam is giving voice to anxieties that some in the community harbor about the military's plans for the island.

Secretary of the Interior Dirk Kempthorne, who is generally responsible for administering the U.S. relationship with Guam, proclaimed on a visit to the island in June 2007 that the military's plans for Guam would not succeed unless they were "good for Guam and good for the neighborhood." The Defense Department and the Interior Department have assembled a task force of more than 20 U.S. government agencies to address challenges and impacts associated with the buildup. The task force, which has met three times with delegations from Guam's local government, has subgroups to address needs in such areas as civilian infrastructure, labor training, and health care.

Guam Governor Felix Camacho and other local political leaders are watching to see how much the task force can actually produce in terms of additional U.S. government financial support for Guam's civilian needs. The Defense Department, on the other hand, is seeking to dispel any expectation that the U.S. will simply "write a check," as some on Guam are requesting, to completely fund the necessary upgrade and expansion of Guam's infrastructure and public services.

Most observers agree that the currently cash-strapped government of Guam will eventually receive a great deal of revenue from the population and commerce that is being attracted to the island. Under U.S. law the residents of Guam, including military personnel stationed there, essentially pay the amount of tax that they otherwise would have paid to the U.S. government to Guam's government instead. Similarly, corporate income taxes that would otherwise have been payable to the U.S. government for Guam business operations are paid instead to the government of Guam, which also imposes a tax on the gross revenues of businesses operating there. Guam officials acknowledge that the buildup is likely to ultimately result in strong revenues flowing into local coffers, but contend that the local government and the local community will have to shoulder significant burdens long before these revenues start to materialize.

In the Micronesian region of the Pacific that surrounds Guam, there is a great deal of hope that the Guam buildup will be, to paraphrase Interior Secretary Dirk Kempthorne, "good for the neighborhood." Guam's closest neighbor is the U.S. Commonwealth of the Northern Mariana Islands, which includes the island of Saipan, whose economy has recently been suffering through the prolonged exit of its once mighty garment industry and a sharp decline in its other major industry, tourism. Leaders in the Northern Marianas are hoping that the U.S. military will significantly increase its activities in their islands as well, boosting the commonwealth's economy.

In the long run, there is little doubt that the buildup will be good for Guam and its neighbors. But those benefits will not be immediate nor will they come easily. Instead, it will take some hard work for both the U.S. and Guam governments before the full potential of Guam's boom-in-waiting is realized. ■