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Image by Ervins Strauhmanis on flickr.

The cost of broken promises

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The Federated States of Micronesia (FSM) lost up to \$1 billion in gross domestic product because of a broken tax and trade promise from the United States, according to a new study.

Formerly part of a United Nations Trust Territory administered by the United States until 1979, FSM is a small nation of islands spread across the Western Pacific Ocean.

In the inaugural edition of the Crawford School flagship journal *Asia and the Pacific Policy Studies*, Dr Samuel Brazys of University College Dublin, examined the impact of the United States withholding promised investment and found it cost the FSM up to \$1 billion in gross domestic product (GDP) from 1986 to 2001.

"The United States and the FSM signed a Compact of Free Association, but in the implementation legislation the US Congress unilaterally stripped tax and trade provisions that would have encouraged investment in the FSM," Dr Brazys said.

"In return for the removal of these provisions, US\$60 million was made available to the FSM, but only \$US20 million was ever released.

"Two-thirds of the funding was withheld, US\$40 million. In large countries that may not seem like all that much, but in FSM it is nearly 20 per cent of their annual GDP.

"Obviously there is significant need for investment in the FSM. The \$40 million could make a real difference if it was utilised in a manner that allowed real private sector development."

Dr Brazys argues that, had the original tax and trade provisions of the compact been implemented, the FSM would have effectively been a legally sanctioned tax haven for US interests.

His study found that even with very conservative estimates the removal of the provisions had a dramatic impact on the FSM's economic performance.

Dr Brazys said if the US released the outstanding US\$40 million, it could relieve other pressures, including US concerns about inward migration from the FSM.

"The compact allows for open migration and many FSM citizens do migrate to Guam and Hawaii. It has been argued they become a burden on the system; are on welfare and contribute to crime. I don't agree with that," he said.

"The main reason people migrate from the FSM, particularly educated, skilled workers, is that they want jobs. There are only a set amount of comparatively well-paid government jobs and there's really no private sector.

"If the remainder of the IDF was used to spur private sector development it could create employment at home, enabling more families to support themselves in the FSM."

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Dr Brazys' research is published this month online through *Asia and the Pacific Policy Studies*, a peer-reviewed, multi-disciplinary journal based at Crawford School. It is published online three times a year by Wiley Blackwell, with all contributions made freely available without restriction.

Read Dr Brazys' research and findings at:
<http://onlinelibrary.wiley.com/journal/10.1002/%28ISSN%292050-2680/early...>

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