THE MAKING OF THE PACIFIC TIGER: LESSONS FROM THE CELTIC TIGER

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ABSTRACT

This paper describes how Ireland drastically improved its economic position through its adoption of what came to be referred to as the Celtic Tiger strategy. Because of the surprisingly striking similarities between Ireland and Guam and the finding that the Celtic Tiger strategy represents nothing but "sensible policies" for enhancing economic growth, we believe that Guam can employ those elements of the Celtic Tiger strategy that worked, and modify those elements that did not. By doing so, Guam can transform itself into the Pacific Tiger.

INTRODUCTION

Guam is at the crossroads of major economic changes that are expected to result from the impending military build-up on the island. These changes offer both challenges and opportunities to our island and our people. They also call upon us to respond so that these changes lead to long-lasting improvements in the lives of our people. One such opportunity presented by the military build-up is that for reviving the island economy and positioning it for higher economic growth that can be sustained well after the five year time frame associated with the military build-up (2010-2014).

Guam has had a stagnant economy since 1996, owing partly to the reduction of military presence on the island (aka Base Realignment and Closure (BRAC)) in the early 1990s. Then in 1997, the Asian Crisis negatively impacted the island's main economic sector, tourism. The island also experienced a series of natural disasters. Since then, economic developments mimicked the fate of the tourism sector, which recovered somewhat owing to the U.S. and global economic recovery in 2002. Increased foreign investment flows, mostly toward real estate, around 2003 also contributed to the island's economic activity. There was some optimism in late 2005 in anticipation of the $13 billion and 30-40% population increase associated with the military build-up. Although construction projects will commence in 2010, there were anticipatory construction booms as early as 2006.

For years, Guam has investigated strategies to develop its economy, but has yet to define one. Instead, what appears to be the 'default' strategy has been a heavy reliance on the tourism sector, which has not returned to its peak in 1996. Especially with the current global economic challenges, where incomes in major tourist markets have stagnated or declined and tourist arrivals have dropped significantly (down by 30% in May 2009 on a year-on-year comparison), this default strategy needs to be supplemented by other sources of growth by diversifying the economy, which would likely be a cleverly designed and hopefully effective industrial policy. Such policy will form a crucial part of what could be Guam's clearly defined economic development strategy.

This is an opportune time to seriously evaluate what economic development strategies might work well for Guam, keeping in mind the challenges of the current global economy on the island's economy and the opportunity presented by the impending military build-up. What economic development strategy can Guam adopt in order to sustain the growth of the island economy and improvements in its residents' standard of living beyond the construction boom and activities related to the military build-up? In this regard, we ask the questions: What is the way forward for Guam? What examples should Guam follow?

The paper is organized as follows. The next section will look closely at the characteristics of Guam's economy as a starting point in identifying which tiger economy has characteristics similar to Guam's. Having identified Ireland as this tiger economy, the paper goes on to study Ireland's Celtic Tiger strategy, starting with the question of whether the Celtic Tiger strategy continues to be valid in light of Ireland's current economic crisis, followed by a closer look at select elements that comprise the Celtic Tiger strategy. This is then followed by an evaluation of how well Guam fares and what would be required to meet each element and some concluding comments.

IN SEARCH OF THE 'IDEAL' ECONOMIC DEVELOPMENT STRATEGY FOR GUAM

An economy that undergoes rapid economic growth over a relatively short period of time has been referred to as a 'tiger'. Could Guam be the first to earn the title 'Pacific Tiger'? Which of the other tiger models would provide Guam with an economic development strategy that would work best for Guam, given specific characteristics of its economy?

The most well-known and the first-to-be-called tigers are the 'Asian Tigers', comprised of Hong Kong, Singapore, South Korea and Taiwan. Since then, several economies have earned the nickname 'tigers', including Ireland as the Celtic Tiger, referring to its impressive growth since 1987 until its current economic challenges started in 2007. The city of Dubai has been referred to as the Arab Gulf Tiger; Estonia, Latvia and Lithuania have been called the Baltic Tigers in the 2000s; and Bulgaria and Serbia as the Balkan Tigers. Brazil, Russia, India and China (aka BRICs), along with Vietnam, have also been called 'tigers'.

Among these tigers, which one shares the greatest similarity with Guam's economy? To aid this comparison, the following characteristics of the Guam's economy have been highlighted:

- ♦ *Small domestic market, with an estimated population of 171,000 people and a limited amount of productive resources; a nominal Gross Island Product in 2007 estimated at $6 billion (U.S. Census Bureau, 2007)*
- ♦ *An island located in the Western Pacific ocean; the largest island in the Micronesian region*
- ♦ *Open, with significant trade, mostly imports, given its limited resources and productive sectors*
- ♦ *Non-diversified economy, relying heavily on tourism, and to a lesser extent, on the military presence on the island.*
- ♦ *A U.S. territory and part of the larger U.S. market, implying an English speaking population, the presence of U.S. legal infrastructure, no autonomous central bank and inability to use interest or exchange rate policy, fiscal policy that is heavily resource-constrained and hence highly influenced by U.S. fiscal policy and availability of Federal funds (including the economic stimulus plans, not recognized as a separate entity by international organizations, hence not eligible for international development assistance (must rely on U.S. Federal funds)*
- ♦ *As a separate economy, Guam would be classified as a 'high income economy' by the World Bank, International Monetary Fund and many international organizations (World Bank, April 2009), with this classification, high wages (with minimum wages mimicking U.S. Federal levels), a challenge given the proximity of much lower wage economies in the Asia-Pacific region*
- ♦ *Economically free. Using the Heritage Foundation's methodology for calculating the Index for Economic Freedom, authors calculated Guam's scores in the ten areas and found it similar those for the U.S., except in*

fiscal freedom. The U.S.'s overall score is 80.7 out of in 2009, with a ranking of #6 (Heritage Foundation, 2009).

- *Democratic, following from it being a U.S. territory. Although Freedom House Foundation does not estimate Guam's political rights and civil liberties, a review of the foundation's methodology would lead to scores of '1' and '1' for Guam's political rights and civil liberties, respectively, thus classifying it as a "politically free" economy. (As expected, the U.S. gets scores of '1' and '1'. However, many political analysts will agree that Guam is the most politically free island in the Pacific, even more than its neighboring island, Federated States of Micronesia, for which Freedom House Foundation estimated scores of '1' and '1' for political rights and civil liberties.*
- *Multicultural society, with 37% Chamorro (Guam's native culture), 27% Filipino, 7% other Pacific Islander, 6% non-Filipino Asians, 7% Caucasian, 2.2% all others. In addition, 14% of the population classify themselves as being of mixed culture (U.S. Census Bureau, 2000; Guam Bureau of Statistics and Plans, 2005)*
- *Large growing presence of U.S. military; strategic in the defense and stability of the Asia-Pacific region*

WHY IRELAND AND ITS CELTIC TIGER STRATEGY

Undoubtedly, there are other smaller economies whose tiger-like experiences might serve as a model for Guam. It is always tempting to look for a model economy within the same region (i.e., Asia-Pacific), in which case we would consider the economic experiences of Hong Kong, Singapore, Taiwan, or South Korea. However, the term "Guam is U.S.A. in Asia-Pacific" summarizes our challenge at hand: Guam is located in Asia-Pacific and has cultures and sub-cultures that share many in common with countries in the region. At the same time, its business, legal and political environments are very much influenced by the U.S. system, thus giving it characteristics of "the West". It is this challenge that leads us to a seemingly odd finding that, upon closer scrutiny, Guam's economy in fact shares many similar features with Ireland's economy, more than it does with other Asian economies. This finding thus provides us with a justification for considering the adoption of the Celtic Tiger strategy to guide Guam's future economic development.

Presented in the same way as Guam's economy was presented in the previous section, the characteristics of Ireland's economy are highlighted below:

- *Small domestic market, especially in comparison to neighboring economies of the United Kingdom, France and Germany, with an estimated population of around 4 million people.*
- *An island located in the North Atlanta Ocean, with the Irish Sea to its east*
- *one of the most open economies, with exports and imports in 2005 at 83% and 68% of GDP, respectively*
- *a non-diversified economy during the pre-Celtic Tiger years, with strong focus on agriculture and a large rural population*
- *a member of a large market, the Euro bloc, and an even larger market, European Union (E.U.), the only English-speaking member of the Euro bloc; Being part of the Euro bloc, its monetary policy is determined by the supranational European Central Bank while its former domestic currency is now fixed against the Euro and hence its exchange rate policy depends on how the Euro changes vs. other major currencies; as a requirement for being in the Euro bloc according to the Maastricht treaty, its fiscal policy is autonomous to some extent but must be coordinated with other Euro bloc countries. Pre-Celtic Tiger years, was not eligible for international development assistance. However, since admission to the E.U. in 1973, was a recipient of Structural Funds.*
- *classified as a 'high income economy' by the World Bank, International Monetary Fund and many international organizations (World Bank, April 2009) and, with this classification, high wages (largely due to minimum wage laws), a challenge given the proximity of much lower wage economies in Eastern Europe, many of which are now members of the expanded E.U.*
- *Economically free, with an Index of Economic Freedom score of 82.2 out of 100 in 2009 and ranked #4 (Heritage Foundation, 2009)*
- *Democratic, classified by the Freedom House Foundation as being "politically free", with scores '1' and '1' for political rights and civil liberties*
- *Since the 1980s, Ireland has become less of a homogeneous society and more of a multicultural society through in-migration of people from other cultures. In addition, Ireland's economy has become diverse as returning emigrants who bring back to Ireland their knowledge, skills and experience having lived elsewhere.*
- *In terms of national security and military, Ireland is also strategic, or at least, challenged, with the island divided into two entities: Ireland and in its north, Northern Ireland, which is part of the U.K. Such arrangement occasionally leads to security concerns and instability.*

The similarities between Guam and Ireland are summarized in Table 1.

IS THE CELTIC TIGER DEAD AND THE STRATEGY INVALIDATED?

We have shown that there are many similarities between Guam and Ireland and that Guam's adoption of the Celtic Tiger strategy is not unfounded. On the contrary, it is hoped that the similarities between Guam and Ireland will enhance the success of Guam's adoption of the Celtic Tiger strategy. Of course, the above statements presume that the Celtic Tiger strategy continues to be valid, if not desirable, in light of the severe economic difficulty that Ireland is currently experiencing. Do Ireland's current economic challenges debunk the validity of the Celtic Tiger strategy in its entirety?

With the global economic slowdown taking place in 2007, which continues to negatively impact domestic conditions in a globally integrated economy like Ireland, many writers began to declare the Celtic Tiger dead (Economist, 2008; Hennigan, 2008; Irish Examiner, 2008; McDonald, 2008; Meo, 2008).

As we look at Ireland's economic experience, it bears reminding ourselves of the difference between the short run and the long run time period, as we learned from our introductory macroeconomic course. We also learned that most people are myopic, that is, short-sighted, which explains the temptation of focusing in the short run while others subscribe to Keynes' famous statement, that "in the long run, we are all dead".

The current economic troubles in Ireland are occurring in the short run and that they do not predict the economy's future performance in the long run. For example, Hirsch (2008) notes that "Ireland's economic fall from grace will be temporary… investments it has made in education, attracting investment, and fostering a creative economy will once again prove to be wise" (page 2). As Ruane (2008) so exactly says it, "Economic Cycles Happen… (they) are a fact of life – they happen again and again and we must continuously plan with this in mind. Our experience … of long periods of sustained growth in our major markets … should not cause us to forget this" (page 22).

Table 1: Similarities Between Guam and Ireland

BASIS FOR COMPARISON	GUAM	IRELAND
Small economy	An estimated population of 171,000 people and a limited amount of productive resources; Nominal Gross Island Product in 2007 $6 billion (estimate)	In comparison to neighboring economies of the United Kingdom, France and Germany. Estimated population of around 4 million people
Island	Located in the Western Pacific Ocean; the largest island in the Micronesian region	Located in the North Atlanta Ocean, with the Irish Sea to its east
Open	With significant trade, mostly imports, given its limited resources and productive sectors	One of the most open economies, with exports and imports in 2005 at 83% and 68% of GDP, respectively
Non-diversified	Heavy reliance on tourism, and to a lesser extent, on the military presence on the island	In pre-Celtic Tiger period, a strong focus on agriculture and a large rural population
Part of a larger market	A U.S. territory and part of the larger U.S. market, implying an English speaking population, the presence of U.S. legal infrastructure, no autonomous central bank and inability to use interest or exchange rate policy, fiscal policy that is heavily resource-constrained and hence highly influenced by U.S. fiscal policy and availability of Federal funds (including the economic stimulus plans), not recognized as a separate entity by international organizations and hence not eligible for international development assistance (must rely on U.S. Federal funds)	Member of the Euro bloc and the European Union (E.U.), the only English-speaking member of the Euro bloc; Being part of the Euro bloc, its monetary policy is determined by the supranational European Central Bank while its former domestic currency is now fixed against the Euro and hence its exchange rate policy depends on how the Euro changes vs. other major currencies; as a requirement for being in the Euro bloc according to the Maastricht treaty, its fiscal policy is autonomous to some extent but must be coordinated with other Euro bloc countries. In pre-Celtic Tiger period, Ireland was not eligible for international development assistance. However, since admission to the E.U. in 1973, was a recipient of Structural Funds
High income economy	High wages (minimum wage laws mimicking U.S. Federal levels), a challenge given the proximity of much lower wage economies in the Asia-Pacific region	High wages, partly due to minimum wage laws , a challenge given the proximity of much lower wage economies in Eastern Europe, from which many countries have gained membership to the E.U.
Economic Freedom	Economically free. Using the Heritage Foundation's methodology for calculating the Index for Economic Freedom, authors calculated Guam's scores in the ten areas and found it similar those for the U.S., except in fiscal freedom. The U.S.'s overall score is 80.7 out of in 2009, with a ranking of #6	Economically free, with an Index of Economic Freedom score of 82.2 out of 100 in 2009 and ranked #4
Democracy/Political Freedom	Democratic, following from it being a US territory. Although Freedom House Foundation does not estimate Guam's political rights and civil liberties, a review of the foundation's methodology would lead to scores of '1' and '1' for Guam's political rights and civil liberties, respectively, thus classifying it as a "politically free" economy, especially since the U.S. of which Guam is a part and neighboring islands, Federated States of Micronesia, are both classified by Freedom House Foundation as politically free	Democratic; classified by the Freedom House Foundation as "politically free", with scores '1' and '1' for political rights and civil liberties
Culture and Diversity	Multicultural society, with 37% Chamorro (Guam's native culture), 27% Filipino, 7% other Pacific Islander, 6% non-Filipino Asians, 7% Caucasian, 2.2% all others. In addition, 14% of the population classify themselves as being of mixed culture	Since the 1980s, Ireland has become less of a homogeneous society and more of a multicultural society through in-migration of people from other cultures. In addition, Ireland's economy has become diverse as returning emigrants who bring back to Ireland their knowledge, skills and experience having lived elsewhere.
Geo-political Considerations	Large growing presence of U.S. military; strategic in the defense and stability of the Asia-Pacific region	In terms of national security and military, Ireland is also strategic, or at least, challenged, with the island divided into two entities: Ireland and in its north, Northern Ireland, which is part of the UK. Such arrangement occasionally leads to security concerns and instability

Those who declare the death of the Celtic Tiger, which presumes the end of Ireland's growth success, fail to distinguish between the short run business cycles and the long run growth as focus is given to the current, short term negative situation in Ireland while ignoring or heavily discounting the many years of impressive growth. As in any proposed change, in this case, the adoption of the Celtic Tiger strategy by Guam, the benefits and costs must be evaluated and compared. Such analysis should be used to decide whether to proceed with the proposed change.

Similarly, looking beyond the recent years and taking a longer term perspective on the impact of the Celtic Tiger strategy on Ireland will show that the strategy produced more benefits than harm. Hence, it would be foolish to dismiss the Celtic Tiger strategy without a closer analysis of which elements of it worked and which did not, as well as which elements will continue to contribute positively to the economy and which ones should be modified or eliminated. Indeed, this is the beauty of studying another economy's long run development and deriving lessons from it that Guam could learn and use to guide its road to a better future. Figuratively speaking, Guam could have its cake and eat it, too, as it could enjoy the positive outcomes of the Celtic Tiger strategy (rapid economic growth, job creation, increasing standard of living) while introducing corrective measures along the way in order to avoid, minimize or simply delay the negative temporary outcome that Ireland is currently experiencing. In doing so, Guam would have created its own economic development strategy and become its own tiger, the Pacific Tiger.

ELEMENTS OF THE CELTIC TIGER STRATEGY

The Celtic Tiger strategy was Ireland's response to the economic and fiscal challenges of the 1980s, which restored economic growth to Ireland for many years, until the recent recession which began in 2008. The turnaround occurred in 1987, which was marked by the adoption of the National Economic Plan (Fitz Gerald, 2008). This plan "detailed market-oriented reforms designed to shrink the size of the government budget deficit, stimulate investment, increase employment, and reduce inflation" (Hennessey, 2008, page 1). The growth period that followed was impressive that it earned Ireland the title "Celtic Tiger". Standard of living in Ireland, which in the mid-1980s was comparable to those of Greece, Portugal and Spain and substantially below that of the U.K.'s, increased appreciably and caught up with the U.K. level in 1996 and with the EU-15 average soon thereafter. By 2003-04, Ireland's standard of living was 40% above the EU-15 average. Compared to U.S. standard of living, Ireland narrowed the gap from it being 60% below the U.S. standard of living in 1960 to 10% in 2005 (Borooah, n.d., page 4).

Many (Dorgan, 2006; Hirsch, 2008; Fitz Gerald, various years; Borooah, n.d; Ruane, 2008; Jamieson, 2008; Florida et al., 2008) attribute Ireland's Celtic Tiger performance to several elements of its economic development strategy, most notably the following:

- Openness of its economy to global markets for goods and foreign investments since 1980s
- Investment in human capital since 1960s
- Public sector reforms and fiscal discipline
- Availability of young, productive and creative labor force
- Effective policymaking and social partnership
- Hard work and sacrifice

These six elements will be discussed briefly below with the intent of deriving lessons for how to design Guam's economic development strategy.

Openness

This is one element of the Celtic Tiger strategy that has been highlighted by many analysts and scholars. More recently in the midst of daily news about how poorly Ireland's economy is currently doing, Fitz Gerald (2008) continues to hail economic openness, noting the "globalization is good for you!" (page 30) Ireland has not always been an open economy. It had an isolationist orientation from its independence from the U.K. in 1922 until the early 1970s. It was only until it became a member of the E.U. that it became open, in this case, regionally. It was not globally open until the 1980s, which was most obvious in its pursuit of foreign direct investments (FDI). It was at this time that Ireland, through the IDA Ireland went on full speed to promote Ireland as an FDI site by highlighting its initially low labor costs relative to more advanced EU member countries, not to mention its English-speaking labor force, and low corporate tax rates (Fitz Gerald, various years; Dorgan, 2006; Borooah, n.d; Hirsch, 2008; Ruane, 2008). Also part of Ireland's FDI encouragement were policies that target winning or ascendant sectors (Hirsch, 2008; Fitz Gerald 2009), including high-value manufacturing and technology-intensive sectors (Florida et al., 2001; Fitz Gerald, 2008), or as Ruane (2008) identified as Ireland's engine of growth: "high-tech internationally-traded manufacturing and services" (page 20).

Of course, globalization is a double-edged sword because it offers economies greater opportunities and higher risks, both of which increase in magnitude with the extent to which the domestic economy and its markets are tied with other economies and markets. "This means that we get greater upswings from international growth but we also get correspondingly greater downswings." (Ruane, 2008, page 19) What is impressive about Ireland's experience is its ability to reinvent or restructure its economy, which is not an easy task, but which is necessary in order to reap the benefits of globalization. As Hirsch (2008) puts it, "Ireland didn't grow into the Celtic Tiger by growing bigger potatoes, or by implementing a better agricultural policy to keep more people at home on the farms. It went a totally different direction, getting into the globalization game and proving it could win" (page 1). Similarly, Ruane (2008) says that "openness means a continual restructuring of our economy into higher value-added products and services and constant pressures for innovation" (page 4).

From hindsight, we see areas where Ireland could have been more cautious in its drive to attract FDIs. As several analysts noted, perhaps Ireland became heavily dependent on FDIs as a source of domestic income and employment growth as well as for its exports in that not enough attention was given to ensuring that indigenous businesses benefited from the presence of FDIs. There are some questions to what extent indigenous businesses might have been crowded out by the more technologically advanced FDIs that have greater access to capital (Fitz Gerald, 2000).

Another issue to consider is that this period of increasing globalization, development of the financial sector represents a significant gamble in that it can be potentially destabilizing because it can generate years of rapid growth that often lead to financial and property bubbles, followed by major crisis in the financial sector which spills over to the real sector (in the U.S. context, "from Wall Street to Main Street"). Part of the story is the fact that the financial sector is notoriously prone to asymmetric information problems, especially moral hazard, while at the same time, difficult to supervise and regulate. The current troubles in Ireland can also be attributed to "unsustainable rise in property prices; banks' exposure to property lending soared while their reliance on (global) wholesale funding intensified" (IMF, 2009; page 1).

Investment in human capital

Since the 1960s, Ireland saw education of its population as an integral part of its economic development strategy. As Fitz Gerald (2000) noted, "once policy was changed to a more developmental role, the new policies were pursued with consistency by all subsequent governments, providing considerable continuity in policy formation" (page 12). An educated labor force was one of the key contributors to Ireland's high productivity during its growth years. It also made Ireland internationally competitive, which allowed it to reap the benefits of globalization. Many blame the combination of increasing wages and decreasing productivity in Ireland in recent years for its loss of international competitiveness and, in turn, its current economic troubles. Without its own currency which it could devalue, the remedy would either be to increase productivity (through R&D) or to allow wages to drop, or both (Fitz Gerald; 2008).

In addition, it was found that among those who migrated out of Ireland, the likelihood of returning to Ireland increases with the emigrant's education level. These returning emigrants brought back to Ireland their education, knowledge, skills, talents and global experience, which enhanced Ireland's economic success in a globalized arena (Fitz Gerald, 2000, Fitz Gerald, 2005; Florida, et al., 2001). According to Fitz Gerald (2005), these returning emigrants increased their productivity and earnings by 10% from having worked abroad. They also "kidnapped" foreign spouses or partners, adding to Ireland's human capital (page 5). One negative impact of the current economic woes is that it has had the effect of reversing this trend, as some of Ireland's population began emigrating elsewhere for better economic opportunities, which would be a loss of human capital, at least temporarily.

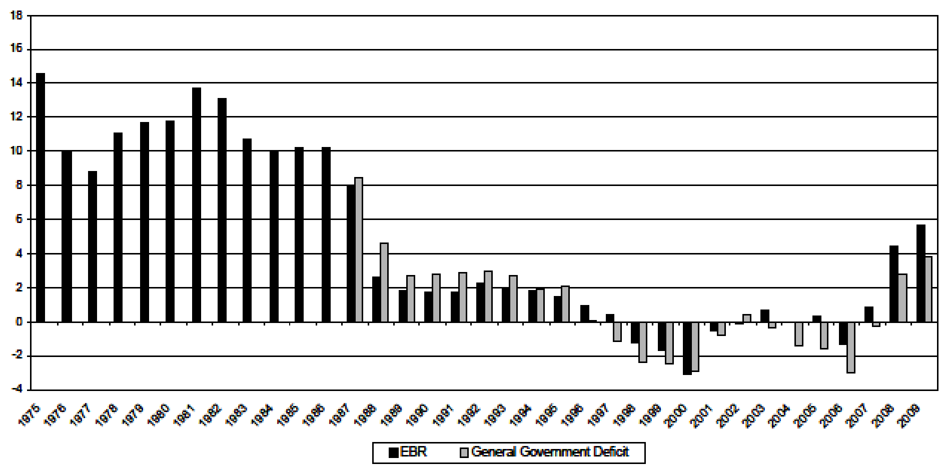
Public Sector Reforms and Fiscal Discipline

One of the key factors believed to have caused the turnaround in Ireland's economy beginning in 1987 and leading to its Celtic Tiger period, was the adoption of the National Economic Plan, which realigned the economy along market principles and reduced government intervention, thereby requiring a reform of its public sector and discipline in its fiscal affairs. "Without the fiscal correction that took place over the course of the 1980s, the convergence in living standards would not have been possible" (Fitz Gerald, 2000; page 20).

Figure 1, taken from Ruane (2008), shows significantly higher government budget deficits in the mid-1970s until 1987, ranging from 8% to 14% of GDP (see graph bars in lighter shade). The period between 1988 until 2007 displayed Ireland's success in public sector reforms and restoring fiscal discipline, as the government deficit decreased substantially during the late 1980s to mid-1990s, turned into surplus in 1997 until 2007. More importantly, this period highlighted the Irish leaders' strong political will toward reforming the public sector.

Of course, timing also affected Ireland's fiscal success since it is easier for any government to get its fiscal affairs in order when the economy is growing as opposed to when it is declining. For this reason, a virtuous cycle exists in that a strong economy brings in more revenues and presents a better time to reduce public sector spending, thus improving the fiscal situation which, in turn, supports further economic growth. It is also interesting to what extent Ireland's membership to the Euro bloc imposed additional restraint on the government to satisfy the fiscal requirements by the Maastricht Treaty (government deficit and debt not to exceed 3% and 60% of GDP, respectively), as well as the need to coordination fiscal efforts among Euro countries.

Figure 1: Ireland's Government Deficit as % of GDP



Source: Ruane (2008), Figure 6, page 12.
Note: EBR=Exchequer Borrowing Requirement.

As Figure 1 shows, Ireland exceeded the fiscal deficit target for 2009 but not the debt target (although its debt-GDP ratio had increased since 2007, it currently is around 45%, which is still below target). This worse fiscal picture in recent years, owing to the current economic woes, is predictable for a country that lost autonomous control over its monetary affairs when it joined the Euro bloc, which took away alternative policies instruments (in this case, monetary-interest rate policy as well as exchange rate policy) with which to assist the economy out of its current recession.

It is important to note that fiscal discipline does not necessary imply running a balanced budget every year. On the contrary, it must allow for Keynesian countercyclical policy to smooth economy cycles. As Ruane (2008) says, the "government needs to … be ready for a downturn – it should not be taken by surprise when the inevitable happens" (page 22). This readiness means that the government should run budget surpluses during years of strong economy. As the IMF (2009) pointed out, Ireland's use of procyclical fiscal policy during its growth years, including reduction of its income taxes, left little room with which to maneuver when the need for the classic Keynesian policy of higher spending and/or lower taxes are needed, such as in the current situation. As Hirsch (2008) noted, "if a government is busy cutting taxes during the good economic times, there won't be room to cut taxes during the bad economic times" (page 2). Fitz Gerald (2008) stated that Ireland should have run surpluses during the growth years. In place of income taxes, Ireland has relied increasing on capital gains which, when the financial and real estate sector turned sour in 2007, brought asset values down and reduced or eliminated capital gains. With significantly lower tax revenues and increased spending to boost the economy, as well as to bail-out troubled financial institutions, it is easy to understand why Ireland's budget surplus in 2007 quickly turned into deficits in 2008 and 2009.

Availability of Young, Productive and Creative Labor Force

Another factor credited for Ireland's Celtic Tiger performance is its demographic structure, its availability of young, productive and creative labor force, in particular (Dorgan, 2006; Jamieson, 2008; Fitz Gerald (2000), who considered this factor an "enabling" factor). While many advanced economies such as the rest of Euro bloc, EU-15 members, as well the U.S. and Japan that all expect a large share of their population to retire within 10-20 years, Ireland's has less retiring population to worry about because many in this age group migrated out of Ireland before 1970s. At the same time, those who remain in Ireland can be comfortably supported by a large share of the young population, owing to the baby boom that continued through the 1980s in Ireland, twenty years later than in other advanced economies. This young population is expected to work for many years, thus keeping the dependency ratio in Ireland much lower than it is in many other economies with aging population. This also helps the government's budget situation as there are fewer retirees to support and more working individuals that are expected to contribute to the retirement fund.

This young workforce also includes two other groups of people. The first group represents returning emigrants or “homing pigeons” (Fitz Gerald, 2005, page 5) who tend to have relatively higher education level and who bring back with them knowledge, skills, experience and a global orientation. The second group comprise of new immigrants from different countries who bring diversity to Ireland’s workforce and society. (Florida, et al. 2001) called this “tolerance”, which is one of “three Ts” that they claim make up the Celtic Tiger strategy, with the other Ts being “technology” and “talent”.

Fitz Gerald (2005) also noted the contribution of increased female labor participation in Ireland during the Celtic Tiger years (post-1987), which “added at least 1% a year to the growth rate in the boom years” (page 4).

Effective Policymaking and Social Partnership

The easy part of the Celtic Tiger strategy, or any economic development strategy for that matter, is to identify the types of policies that will result in economic success. In Ireland’s experience, these were already discussed above. The difficult and hence more impressive part of Ireland’s Celtic Tiger success is that the fact that these policies were actually and effectively implemented. Indeed, this is the part that will be most difficult for other economies that try to replicate the Celtic Tiger strategy. As Dorgan (2006) noted, policy implementation requires pragmatism (see page 1, which attributes Ireland’s success to “a combination of sensible policies and pragmatism”). Hirsch (2008) cited the importance of “a lot of political will” (page 1: “With a few key policy initiatives and a lot of political will, (Ireland) was able to mount a stunning comeback” in the late 1980s. “By the early 2000s, it was an economic powerhouse.”). Fitz Gerald (2000, page 39) highlighted the importance of “following a consistent strategy over a long period of time”, meaning investment for 30-40 years, in that it creates continuity. Commenting on the policy approach to Ireland’s current economic troubles, Ruane (2008, page 25) said that “central to good and sustained leadership is realism – a time to face up to issues squarely, in contrast to recent years when the benefits of exceptionally high growth rates allowed us to take easier routes” (page 25).

We believe that Ireland’s social partnership approach (aka the Tallaght Strategy (Hennessey, 2008)) played an important role in how successfully policymakers were able to implement the correct policies, which required sacrifice and cooperation of the government, business leaders and organized labor. Fitz

Gerald (2000) noted that this approach was borrowed from Netherlands and Germany and applied to policy formation in Ireland in the late 1980s. It was also used in wage negotiations, saying that "while it is difficult to quantify the benefits of a substantial reduction in industrial disputes, this (approach) has played a significant role in enhancing the performance of the economy. The partnership approach has also contributed to a more coherent approach to economic policy making" (page 22). Similarly, journalists Hastings and Sheehan wrote that "(s)ocial partnership helped to trigger a momentum that turned Ireland from an economic basket case into one of Europe's most successful economies" (in Hennessey, 2008, page 1).

However, the social partnership approach requires a balancing act. For one, wage increases must be justified by productivity increases, otherwise, competitiveness is lost. As characteristics of many growing economies, wages in Ireland increased substantially during its growth years. So did minimum wages, which currently stands at 13 Euros per hour. At the same time, productivity has not kept pace with wage increases, thus contributing to Ireland's loss of competitiveness in the global market. One consequence of Ireland's rising wages is the movement of FDIs from Ireland to other lower-wage economies in the expanded E.U., especially Poland. An example is the movement of Dell's facility from Limerick, Ireland to Lodz, Poland, resulting in a layoff of 1,900 Irish workers (Szustek, 2009). The same approach might have led to an overly generous welfare system and pay scale for public sector employees, which reduced fiscal surpluses in the 1990s.

Hard Work and Sacrifice

The last element of the Celtic Tiger strategy that will be highlighted in this paper is the hard work and sacrifice by all parties involved in order to achieve economic growth. In many consumptive societies, saving is indeed a sacrifice and not an easy thing to do. However, investing in the future requires saving current resources, which in turn means sacrificing or restraining current consumption in order to set aside resources that will expand an economy's future productive capacity. For Ireland, this hard work and sacrifice paid handsomely, as Dorgan (2006) puts it, "Ireland's experience shows that hard work and good policy can bring rewards" (page 13). Echoing this point is Fitz Gerald (2000) who notes of the pain of a major restructuring of the economy in the 1980s, the price to pay to grow the economy. He says, "there is no quick fix for problems of underdevelopment" (page 39). Additionally, looking at Ireland's current situation, it is apparent that even a tiger economy has to face economic challenges, where policymakers and citizens are once again called upon to hard work and sacrifice in terms of making the "the tough decisions necessary to deal with our current difficulties" in order to restore long-term growth (Ruane, 2008, page 21).

THE PACIFIC TIGER: A VISION FOR GUAM

Having looked at the elements of the Celtic Tiger strategy in the previous section, we now ask the question: what's in the name "Celtic Tiger"? Upon closer scrutiny, this seemingly intriguing, mysterious, loaded, even "sexy" phrase represents nothing but a strategy for making an economy grow based on what Dorgan (2006) referred to as "sensible policies". As such, the crucial elements of the Celtic Tiger strategy, which were discussed in the previous section, can be replicated with some modification, in many economies similar to Ireland's, including Guam's economy, but this would require strong leadership and political will, supported by participation of the island community. Guam's economic stagnation need not continue, but deliberate policymaking and planning will be required. The impending military build-up that is predicted to grow Guam's economy and expand its local revenue base should not lend the island toward a passive enjoyment of what is being called unprecedented growth. Instead, the island's policymakers and leaders must proactively seize the opportunity to position its local fiscal policies and economic strategies in such a way that effectively manages the resulting surpluses that can balance the anticipated cyclical nature of economies after a buildup occurs. The proceeding examines the six elements of the Celtic Tiger strategy for where Guam fares and what would be required to meet each.

Openness

As noted earlier, Guam is a relatively open economy, both in terms of trade of goods as well as FDIs but Guam should focus more on increasing its exports. In Ireland, exports growth coincided with FDIs, which exported proportionately more than domestic businesses (90% vs. 30%, Fitz Gerald, 2000, page 15). For Guam, this would mean creation of a manufacturing sector of the high-value type, along with services. Already available as an incentive to boost the manufacturing industry is the General Headnote 3(a) program of the Tariff Schedules of the U.S. which allows duty-free entry into the United States on most exports for those items manufactured and assembled in Guam. Certain requirements enable Guam materials or component parts, to which at least 50% of the value of the finished product must be added on Guam. These items must undergo a "substantial transformation" in order to benefit from the duty-free provision of this program.

As a trade incentive, the local economic development agency offers the Generalized System of Preferences, a program that allows a product manufactured on Guam to be imported by participating nations, including Japan, Australia and the E.U. nations, at a reduced tariff rate. As a means to diversify its economic base, Guam's local government offers through its local economic development agency a variety of tax incentives (known as 'Qualifying Certificates' or QCs) to attract prospective businesses to Guam and to help create new employment and expand the economy. Incentives are intended primarily for manufacturers, insurance underwriters, commercial fishing operations, corporate headquarters, agricultural operations and the tourism industry (Guam Economic Development Authority, n.d.).

Further review of the preceding programs and a renewed holistic economic development strategy lend promise toward diversifying Guam's primary tax base from the tourism industry, which has served as the basis for the status quo of either stagnant or persistently deficient revenues.

Guam could even extend the Celtic Tigers lesson analogously to domestic but extra-territorial investment. Delaware has long held the title for most attractive forum of incorporation. Its state corporate law fostered this development by removing transactional impediments, relaxing its corporate governance requirements, and allowing for anti-takeover provisions. As a consequence, "[t]he incorporation industry in Delaware employs about 1,000 people and yields more than $400 million in taxes and fees, which represent about one quarter of the state's budget" (Jarblum & Bollinger, 1999).

Investment in Human Capital

Guam has post-secondary education institutions from which residents avail, including a specialized trades academy that provides national certification and licensing opportunities for those pursuing the construction and automotive trade professions. A four-year and graduate degree granting land-grant public university provides an array of professional and academic degrees, including continuing and professional education for all disciplines. Further, a community college affords citizens with professional certification pathways and associate degrees. Professional organizations across major disciplines (Accounting, Human Resources Management, Nursing, Realtors) make allowances for providing continuing certification requirements, while industry-specific organizations such as contractors and the tourism and hospitality sector provide education committees that highlight training and scholarship opportunities. For degree programs not offered in the local university, for example, medicine, law and engineering, most recent high school graduates go to the continental U.S. Like Ireland that benefits from its returning emigrants, Guam benefits from the one third of those students who graduate from the continental U.S. and return to make up the diversified pool of college degree holders entering the workforce.

The lag in human capital investment on Guam is more apparent in the K-12 grade levels. Current infrastracture solutions have been implemented with the anticipated population boom related to the impending military buildup. However, increased physical infrastructure should not be done in isolation. Increased and improved focus toward addressing the improvement of developmental skills in the primary and secondary school levels are critical to sustain the economy long beyond the buildup.

Availability of Young, Creative, Productive Labor Force

Guam has a young population but the focus must be in increasing the marketability of this population through education and training. Varied levels of educated and trained workforce exist on Guam. Local government jobs as well as those in Guam's primary industry, tourism, were once provided attractive jobs with traditionally lower pay scales. The anticipated build-up of U.S. military base activities have created new job opportunities for the tertiary military industry, with offers of higher wages. Meeting the labor needs for the impending U.S. military build-up on Guam has shifted the priority of various employment sectors toward hiring for construction-related, engineering, and contracting positions. This has created the recent phenomenon of a sparked interest of the current local higher educated labor pool toward federal U.S. jobs for higher wage opportunities. The construction trades and local community college training programs have expanded as a result of the demand for construction trades employees at all levels, with available scholarship funding toward this purpose.

Additionally, the need to hire a significant number of new employees to assist with the $1 billion worth of contracts on the military base on Guam for fiscal year 2010 and beyond has prompted an unprecedented shift of college degree hires from various sectors of Guam's workforce to federal jobs. Of specific interest are holders of business or engineering degrees from on-island as well as off-island who have a long-term interest in working and living on Guam. This is a natural inducement of returning emigrants who left Guam during the economic downturn in the 1990's and particularly during the downsizing of military bases on Guam in the early 1990s. Job opportunities include environmental professionals, IT professionals, transportation specialists and utilities professionals, along with architects, engineers, and planners needed for the U.S. military build-upage. Internship programs are also part of the shift to federal job opportunities, as the U.S. Navy has significantly expanded its internship program intended for "recent college graduates or applicants who are looking for a career change." The local university's business school has been credited as a great feeder into the internship program (Santiago, 2009).

Improved wage adjustments have positive implications for a growing middle class to expand the tax revenue base for Guam. Further, the recent spike in unemployment in the U.S. and the impending boom on Guam has prompted an increase in returning emigrants who are former college educated Guam residents looking for better employment opportunities. This unanticipated in-migration for Guam-bound jobs creates a pool of diversified education, knowledge, skills, talents and global experience from which Guam's improved economic policy can draw from.

With opportunities on Guam come threats to the local community from opportunistic behavior by outsiders whose primary interest is to serve themselves and the interest groups they support. Among these outsiders is Hawaii's Representative Abercrombie whose proposal in the 2010 National Defense Authorization Act, made on June 2009, included the provision that "the minimum wage standard for all construction workers on Guam will be at the prevailing wage level for similar construction projects in Hawaii", which would be approximately twice the existing wage levels on Guam (U.S. House of Representatives Press Release, June 17, 2009). As many on Guam already noted (for example, Robertson, July 17, 2009), Abercrombie's proposal is self-serving because, if it becomes law, it would provide workers in Hawaii, some who are currently or recently unemployed, with the opportunity to work on Guam, at least until Hawaii's economy recovers from the current recession. As Robertson (July 17, 2009) put it, "the construction industry in Hawaii is now in a slump and he wants to provide a place for Hawaiian tradesmen to be employed on Guam at inflated wage rates until their economy rebounds." By doing so, he would be endearing himself to voters and labor unions in Hawaii. Flores (2009) said it best: "Abercrombie is running for governor, and if he can boost his state's struggling economy by giving *(Hawaiian)* construction workers jobs on Guam that pay just as much as if they were working in Hawaii, it would be a large feather in his political cap." Examples like this remind us of the complex realities we face as a community, the enviable economic opportunity that is ahead of us, and the need for us to work together to ensure that, on our way to economic development, we make choices that will benefit our community on Guam.

Public Sector Reforms and Fiscal Discipline

As in many other economies, public sector reforms and fiscal discipline might be economically desirable but they are always politically difficult to achieve. Policymakers as well as the community must be convinced that getting the island's fiscal affairs in order is good in the long run as it will grow Guam's economy by making it more attractive for foreign and domestic businesses to invest in and for the local labor force to stay and work in. The absence of a long-term fiscal policy with broader positive implications, such as that adopted by Ireland in the 1980's, explains the ongoing short-term need-based budget planning process across all local government agencies that persists on Guam. The shortfall in local tax revenues to support key government services has resulted each year in competition across all local government sectors, with disproportionate allocations to support key government services to the public at-large, including health care, education, public safety, utilities, and others. The short-term annual-based planning without real reform has created budget shortfalls and left key government services under-manned. That lawmakers have mandated public school education as the priority funding recipient of dwindling local tax revenues is consistent with the need to invest in human capital, it however leaves all other government entities seriously underfunded, which compromises the quality of the service they provide to the public.

Persistent local government revenue shortfalls have prompted policymakers to pass legislation to create the Office of Finance and Budget (OFB) as a means to "renew fiscal discipline through the practice of open government, cooperation between the legislative and executive branches, and the assignment of fiscal responsibility to appropriate government entities and officials, all to promote public confidence and government efficiency." This reform calls for future fiscal policy to be consistent with government reorganization, performance-based budgeting, measurable program goals and transparency. Restrictions for future fiscal policy however need to be examined, considering the following duties: (a) develop and adopt a model for Guam's existing and projected economy that simulates the effect of revenue raising, the effect of any proposed benefits to said economy, optional revenue generation and the utility thereof; (b) compile and provide to I Liheslaturan Guåhan (the Guam legislature), I Maga'lahi (the governor) and the public forecasts of revenue that do not consider new or increased taxes, fees or other revenue enhancements authorized by an Annual or Supplemental Operating Budget Bill, but that do consider current and prior year expenditures, surpluses and deficits; (Supreme Court of Guam, Compilers of Law Office, date). The emphasis appears to focus on tracking revenues for planning purposes, as opposed to deliberate economic development planning for increased and expanded income base beyond the status quo. What is also required is a plan for retaining the expanded educated workforce by availing of new development opportunities for job sustainability or new job creation through diversified industries.

Effective Policymaking and Social Partnership

Guam historically lacked a collaborative effort across members of its broader civic society to guide the development of an economic development strategy. At best, these efforts drew from selected minority representations across the local government sectors and some representation from business industries. Advocates for economic progress through sound fiscal policy and effective economic development have primarily been in the private sector, with Guam's local chamber of commerce and other private sector based industry-specific associations at the forefront toward countering or endorsing laws that benefit the business community. However, policymaking has often been based on special interests and not broad based toward long-term economic development. The recent assessments of the potential impacts of the military build-up will require engagement of stakeholders across all sectors to address the potential for a more sustainable growth through sound fiscal policies and an economic development plan that makes long-term sense for Guam, in light of growing uncertainty of what economic growth the military build-up purports to bring.

Hard Work and Sacrifice

Like effective policymaking, the need for hard work and sacrifice will require a united effort and a joint vision from all sectors across the Guam community and a clear understanding of the reward for making the sacrifice at present. No one can argue a public's receptiveness toward improving one's quality of life through an improved standard of living that is derived from a stronger economy. However, that receptiveness can only be garnered through the engagement of all stakeholder representation toward planning. The political will by the executive and legislative branches of government toward adopting the pragmatic policies to guide long-term economic development is an essential ingredient.

Although there are no guarantees for what the future will bring through these changes, they are worth the try. A promise of a better future, even if just a promise, is better than the stagnant economy at present.

CONCLUSION

The knowledge that Ireland was able to adopt an economic development strategy and succeed gives hope for a brighter future for Guam. Indeed, Guam can be the Pacific Tiger, and there is no better time to act toward this goal than the present.

Recent sharp declines in revenue from Guam's primary industry have forced local government and business leaders to reassess the island's preparation toward taking advantage of the anticipated growth from the impending military expansion. The reverse in emigration of the educated workforce, along with education reform at the K-12 levels, lends promise toward building the knowledge-intensive workers Guam needs to support the development of a diversified economy. Although economic growth for Guam is anticipated to rise perhaps at double digit in the next five years, sustained long-term economic development cannot be guaranteed without a proactive economic strategy and repositioned fiscal policy.

One thing is certain. A passive approach toward global changes will ultimately hurt one's economy if necessary slight adjustments in policy and strategy are not made to best position a country to benefit from the change. Renewed efforts are inevitable toward this end. The timing is opportune, given growing concern from various sectors of Guam's civic society about cultural, social, and fiscal implications of this unprecedented growth on the island. Through civic engagement, there is hope toward advancing efforts with policymakers to accomplish what the government cannot or will not do.

With that said, Guam can be the Pacific Tiger but we must come together, play our part and make it happen. Hence, we say, "People of Guam, unite!"

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