**INTRODUCTION**

The Federated States of Micronesia (FSM) offers tourists a diverse range of experiences and attractions, from marine activities to culture and history. The country boasts significant biodiversity—FSM is home to 4% of the world’s coral reefs and 480 species of coral, the best pelagic fisheries in the world, and dense tropical forests—as well as ancient culture, traditions, and legends. Each of the FSM’s four states (Chuuk, Kosrae, Pohnpei, and Yap) has its own ecology, language, and culture to explore.

The FSM tourism industry is small. Tourism receipts totaled an estimated $18 million in 2019, or around 6.5% of gross domestic product (GDP).¹ The tourism sector employed fewer than 800 Micronesians in 2018, just 2.5% of the country’s total workforce.²

Despite the FSM’s natural features and many historical and cultural attractions, its tourism sector has been in decline for several years. The government is seeking to reverse this trend, with a national tourism policy that aims to develop the country into a leading sustainable tourism destination by 2023. The policy takes a low-volume, high-yield approach to tourism development that protects the FSM’s natural and cultural resources. However, little progress has been made to date and the sector continues to face significant challenges. These include the lack of a cohesive tourism approach among the four states, difficult and expensive international air connections, environmental management concerns, and a vulnerability to the impacts of climate change and sea level rise.

¹ Source: Government of the Federated States of Micronesia (FSM), Department of Resources and Development, Tourism Unit (estimate). Note: The Pacific Tourism Organisation (SPTO) (2020) provides estimates of $44.4 million in tourism receipts and 17.7% contribution to GDP. However, these are 2015 estimates.

² Estimate based on data from SPTO (2019 and 2020).
TOURISM SECTOR OVERVIEW

Note: this overview compiles key tourism information based on the most recent available data. Due to the impact of the coronavirus disease (COVID-19) on the tourism sector, some of this information has likely changed.

TRANSPORT AND CONNECTIVITY

The FSM is one of the destinations of United Airlines’ “island hopper” (multi-destination) service. Prior to the COVID-19 pandemic, the service operated four times a week from Hawaii to Guam, stopping at Majuro and Kwajalein in the Marshall Islands, then Kosrae, Pohnpei, and Chuuk in the FSM. Until 2020, a direct United Airlines flight also operated from Guam to Yap twice weekly. A second direct United Airlines service, connecting Yap to Palau, was taken over by Caroline Islands Air in 2019.

Air Niugini and Nauru Airlines previously operated flights into the FSM. Pohnpei was included in Nauru Airlines’ island-hopper service, which also stopped at Tarawa and Majuro. However, the service was suspended in 2019 due to consistently low loadings (Radio New Zealand 2019). Air Niugini’s service operated from Port Moresby to Manila, Chuuk, and Pohnpei, and provided a connection to the FSM for visitors from Australia. The government subsidized both services, but whether this was sustainable was in question even before COVID-19 (Graduate School 2020). It is uncertain whether either will resume when borders reopen.

Most inter-island travel in the FSM is by boat. Two large vessels service inter-island and interstate travel. Prices are far cheaper than airfares—usually around $28 per trip and up to $150 for a private cabin. Local travel is predominantly for government business, education, visiting friends and family, or medical purposes. Tourist travel on the vessels is welcomed but not common.

The FSM has no public transport for visitors. However, each main island has numerous car rental companies, and taxis are cheap and plentiful. Shuttle buses can also be arranged through accommodation providers. Each of the four main islands has a single road. Driving time around each island is short—from just 45 minutes around Yap to up to 3 hours around Pohnpei.

ACCOMMODATION

In 2019, there were 30 hotels in the FSM, with a combined total of more than 500 rooms. Most accommodation is of moderate to basic quality, estimated at two- to three-star standard (Government of the FSM 2015a). All properties are privately owned. Long-term residents born overseas—predominantly Australians and Americans married to Micronesians—are the primary source of foreign investment in the sector (Government of the FSM, Department of Resources and Development, Tourism Unit, consultations with author, 2020). However, Chinese investment is increasing, particularly in Yap. Annual occupancy rates are estimated at 43%—ranging from 62% in Pohnpei to 35% in Yap and 33% in Kosrae (DSI Consulting et al 2015).

Box 1: Federated States of Micronesia Key Visitor Statistics

Arrivals (2019)

18,019 visitors.
Source: Government of the Federated States of Micronesia, Department of Resources and Development, Tourism Unit. Includes 128 cruise arrivals.

Air Arrivals by Source Country (2019)

<table>
<thead>
<tr>
<th>Country/Sector</th>
<th>Arrivals</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States and Canada</td>
<td>6,030</td>
</tr>
<tr>
<td>Other 2,744</td>
<td></td>
</tr>
<tr>
<td>Japan 2,043</td>
<td></td>
</tr>
<tr>
<td>Philippines 1,648</td>
<td></td>
</tr>
<tr>
<td>Australia and New Zealand 1,508</td>
<td></td>
</tr>
<tr>
<td>Europe including United Kingdom 1,228</td>
<td></td>
</tr>
<tr>
<td>Other 323</td>
<td></td>
</tr>
</tbody>
</table>

Purpose of Visit (2018)

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>36%</td>
</tr>
<tr>
<td>Leisure</td>
<td>29%</td>
</tr>
<tr>
<td>Visiting friends and relatives</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>27%</td>
</tr>
</tbody>
</table>

Tourism Receipts (2019)

$18 million.
Source: Government of the Federated States of Micronesia, Department of Resources and Development, Tourism Unit (estimate). Note: The Pacific Tourism Organisation (SPTO) (2020) provides estimates of $44.4 million in tourism receipts and 17.7% contribution to GDP. However, these are 2015 estimates.

Sea Arrivals (2019)

128 visitors.
Cruises tend to be small expedition vessels, as the islands cannot accommodate a large influx of visitors. A handful of yacht visitors arrive each year and, as there are no docking fees in the FSM, sometimes stay up to several months.
Source: Government of the Federated States of Micronesia, Department of Resources and Development, Tourism Unit.

Visitor Destinations (2019)

60% of visitors arrived in Pohnpei,
28% of visitors arrived in Chuuk,
6% of visitors arrived in Kosrae,
6% of visitors arrived in Yap.
Source: Government of the Federated States of Micronesia, Department of Resources and Development, Tourism Unit.
Source: Pacific Private Sector Development Initiative.
Pohnpei has the most accommodation options, with 11 hotels and 218 rooms. This is largely due to the prevalence of business travelers visiting the capital. Yap has six hotels totaling 133 rooms. The island’s largest property, the Manta Ray Hotel, is dedicated to developing and promoting scuba diving. Chuuk has five hotels and two live-aboard boats, all of which cater almost exclusively to the dive market. Kosrae has the least accommodation capacity, with 60 rooms spread across eight hotels (Government of the FSM, Department of Resources and Development, Tourism Unit, unpublished data). There are no tourist hotels on the outer islands.

ORGANIZED TOURS

There are more than 50 tour operators in the FSM. Available tours include marine activities such as diving, snorkeling, and fishing tours, as well as island tours, hiking, and bird watching. Tour operators in Pohnpei offer tourists the chance to swim with sharks in the marine sanctuary, while in Kosrae there are kayaking tours through the mangroves. Tours showcasing traditional practices, such as ceremonies and storytelling, differ across the four states, as each has its own customs and language. Most tours, except for pre-paid diving trips, can be arranged via accommodation providers.

VISITOR DEMAND AND SATISFACTION

Yap is the only state to have conducted an international visitor survey. The 2015–2018 survey found travelers to Yap are primarily from North America, tend to be older (77% are above the age of 40) and well-educated (85% have a tertiary qualification) (New Zealand Tourism Research Institute [NZTRI] 2019). For 57% of international visitors, their visit to Yap is part of a larger itinerary—two in three visitors to Yap also visit Palau, and one in three also visit Guam. Fewer than 10% visit Yap’s outer islands (NZTRI 2019).

Yap is highly rated by visitors. The international visitor survey found that 90% of visitors are either “satisfied” or “very satisfied” with their travel experience (NZTRI 2019). The most appealing aspects are the friendliness of Yap’s local people and the range and quality of activities on offer. Public facilities and flight-related issues tend to be the least favorable attributes.

EMPLOYMENT AND TRAINING

Tourism training is available in the FSM, but jobs are scarce. The College of Micronesia offers a two-year tourism and hospitality course. However, there are limited opportunities for graduates. The public sector dominates the economy of the FSM, and private sector employment is difficult to come by, even in the tourism sector. Employment in hotels and restaurants accounts for less than 2.5% of the FSM’s total employment (Government of the FSM 2015a).3 Government positions in tourism rarely become available as employees tend to stay until retirement (Government of the FSM, Department of Resources and Development, Tourism Unit, consultations with author, 2020). Wages in the FSM, particularly in the private sector, are low (Asian Development Bank [ADB] 2014).

The Government of the FSM supports tourism. The FSM Strategic Development Plan 2004–2023 states that “tourism offers one of the best—arguably the best—opportunity to develop the national economy” (Government of the FSM 2004). The updated FSM 2023 Action Plan (Government of the FSM 2015b) lists tourism alongside agriculture, fisheries, and energy as a key economic sector. However, the plan acknowledges that, despite a detailed list of priorities outlined in the FSM Strategic Development Plan 2004–2023, “the FSM has made no progress in establishing a vibrant tourism industry. In fact, the tourism sector is in decline” (Government of the FSM 2015b).

TOURISM GOVERNANCE, PLANNING, AND POLICY

The FSM National Tourism Policy is the current national sector strategy. It was developed in 2015, with support from

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3 The National Tourism Policy (Government of the FSM 2015a) cites 1% private sector tourism employment in FSM. However, estimates calculated using 2018 (SPTO 2020) and 2014 (SPTO 2019) total employment data suggest around 2.5% tourism employment, including public sector positions.
the Asian Development Bank. The policy outlines a vision to “halt the decline in visitor arrivals over the next 3 years, then to progressively develop the FSM tourism sector to become a leading sustainable tourism destination by 2023” (Government of the FSM 2015a). The vision is to be realized through improvements in investment, human resources, tourism product, sustainable standards and governance, and the development of a national marketing plan.

Each state has its own tourism investment plan. The plans were developed as part of the National Tourism Policy. A total of 27 projects across the four states were proposed as “ready” for development, alongside four national initiatives. However, progress towards development and implementation has been limited. Only one initiative—the attainment of a UNESCO World Heritage listing for the Nan Madol archaeological site—has been completed to date.

A tourism unit in the Department of Resources and Development is responsible for tourism planning at a national level. The unit has only one tourism staff member, who reports to the secretary of the department. Each state has its own visitors bureau (or, in Pohnpei, a tourism office), staffed by between two and five tourism officers. The national tourism unit is responsible for regional and international coordination, as well as providing funding to the four states for tourism-related projects. The state offices are responsible for implementation and state-based marketing.

PRIVATE SECTOR ORGANIZATION

The private sector in the FSM is small, and its share of the economy declined from 1997 to 2017 (ADB 2019). Private sector operators are supported by the Chamber of Commerce, which tends to be dominated by larger businesses such as wholesalers and distribution importers, with the tourism sector poorly represented. Yap is the only state with a tourism association—while it was historically vocal, it is now less active.

TOURISM SECTOR CHALLENGES AND OPPORTUNITIES

TRANSPORT AND CONNECTIVITY

Unreliable, time-consuming, and expensive flights are commonly cited as a major barrier to tourism in the FSM. United Airlines holds a monopoly on major routes into the FSM, and airfares tend to be high. An air ticket from Guam to Chuuk, for example, costs around $700 return. This makes it difficult for Micronesians to travel frequently, even between states, and discourages tourists. Airfares are more affordable on Caroline Islands Air—for example, a ticket from Yap to Palau is $200—but the network is limited, and flights cannot be booked online or through a travel agent, which is a deterrent for many tourists. At the same time, United Airlines’ island hopper flights have historically operated at a loss due to low flight loadings (Hezel 2017). An increase in services or decrease in price is unlikely while visitor numbers remain low.

ENVIRONMENT AND INFRASTRUCTURE

Environmental regulation for tourism is inconsistent and inadequate. While all four states have Environmental Protection Acts, their strength and content vary significantly (DSI Consulting et al 2015). None of the four states has a building code—a concern given both increasing urbanization and tourism infrastructure development (Government of the FSM 2019). The lack of regulation of tourist access to the FSM’s historical sites could also threaten fragile monuments if visitor numbers increase (Government of the FSM 2019).

The FSM is highly vulnerable to disasters triggered by natural hazards and the effects of climate change. Yap and Chuuk, in the west, are prone to typhoons, drought, landslides, tidal erosion, and floods, and climate change has the potential to increase the frequency and intensity of such events (Government of the FSM 2019). To the east, Pohnpei and Kosrae, while less susceptible to major storms, have experienced much greater increases in annual mean air temperatures than the western states. Across the FSM, sea level rises well above the global mean have been experienced since 1993 (Government of the FSM 2019). More than 80% of communities in the FSM are vulnerable to rising sea levels, as most lie along coasts and rivers (Government of the FSM 2019). Unreliable water supply and poor sanitation are limiting factors for tourism. Pohnpei and Kosrae have permanent surface water, but it is prone to bacterial contamination. In Yap, streams are dry for about 20% of the year, and wells in Chuuk do not always meet demand (Government of the FSM 2019). Water quality and capacity already present concerns for the health of the local population. If left unaddressed, these problems would be exacerbated by increased tourism. Poor sanitation is another factor that could reduce the FSM’s tourism capacity and appeal. Only 57% of the population has access to “improved” sanitation (as defined by the World Health Organization [2016]), and open defecation still occurs.4 Solid waste disposal and recycling practices are improving but pollution remains a concern. There are now managed disposal sites for solid waste on each island. Across the FSM, drink containers are recycled, and plastic bags have been banned. However, unregulated dumpsites still exist, and a 2018 study found 30% of the FSM’s coral reefs are under threat from land-based pollution, urbanization, and overfishing (Government of the FSM 2019).

VISITOR DEMAND AND DESTINATION EXPANSION

Poor data collection impedes tourism decision-making. The absence of a systematic data collection procedure makes it difficult to ascertain tourist arrival numbers. While it is widely accepted that arrival numbers have decreased, the full extent of the decline—across states, source markets, and visit purposes—is unknown. The lack of robust data also makes it difficult to map tourist flows across multi-state travel and estimate tourism’s

4 The World Health Organisation classifies an “improved” sanitation facility as “one that likely hygienically separates human excreta from human contact.”
contribution to the FSM economy.

**TOURISM MARKETING**

Destination marketing of the FSM is limited. Countrywide marketing—such as destination branding, advertising, and public relations—is the responsibility of the national tourism unit. In practice, a large proportion of marketing spend is on attendance at meetings and events (various FSM tourism stakeholders, consultations with author, 2020). The national tourism website offers countrywide and state-specific information, but a destination brand and marketing strategy are yet to be developed—despite being listed in the 2015 National Tourism Policy as priorities.

**Marketing efforts are fragmented across the four states.** Each of the state tourism offices has responsibility for marketing its own state, primarily the administration of destination websites. The content and style of the websites differ considerably. For example, Yap and Kosrae’s websites offer comprehensive information on accommodation and activities, whereas promotion for Pohnpei is primarily through an outdated Facebook page.

**ECONOMY, POLITICS, AND GOVERNMENT**

Each state has its own government, legislature, language, and identity, creating a significant challenge for tourism development. It is necessary to work with five governments—the national government and four separate state governments—to implement national tourism initiatives. Coordination between the various governments and the private sector on issues relevant to tourism, such as standards, investment, and destination marketing, has historically been poor (Government of the FSM 2015a).

Sustainable, eco-friendly tourism is a priority for the Government of the FSM. In the State of Environment Report 2018, the government advocates for a balance between tourism growth and environmental protection. The report argues that mass tourism will strain the country’s limited resources and infrastructure and exacerbate pressures on water supply and waste (Government of the FSM 2019). The National Tourism Policy also proposes a low-volume, high-yield tourism strategy that protects the FSM’s natural and cultural resources (Government of the FSM 2015a).

All four states express support for increased foreign investment. The FSM 2023 Action Plan suggests there is capacity for a 200-room hotel investment, which could bring in an estimated $10 million annually in foreign exchange earnings, create 100 full-time jobs, and attract increased airline services. However, the foreign investment process in the FSM is arduous and tends to involve a case-by-case review with limited transparency (Government of the FSM 2015a). Investment policies vary significantly across the four states.

Investors from the People’s Republic of China have proposed a large-scale resort development in Yap. The initial proposal for a 10,000-room casino and golf-resort complex was later refined to 1,500 rooms (Graduate School USA 2020). While there are clear economic benefits to the proposed development, it is far bigger than proposals currently being sought by the government (Government of the FSM 2015b). There are realistic concerns about limited local employment, economic leakage (i.e., how much of the tourism dollar leaves the country), loss of culture,

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5 The Government of the FSM, Department of Resources and Development, Tourism Unit has suggested travel spending may decrease due to positive results using online meeting platforms during the COVID-19 pandemic.

6 www.visit-micronesia.fm

7 www.visit Yap.com; www.visit kosrae.com; www.visit chuk.com; and www.facebook.com/PohnpeiTourism

8 Later plans saw the casino and golf course dropped from the concept.
The Government of the Federated States of Micronesia (FSM) declared a public health emergency on 31 January 2020. The FSM’s four states closed their borders before the end of March. As of 31 July 2021, FSM’s borders remain closed, although some repatriation flights have been undertaken (Office of the President, Government of the FSM 2021). As of the end of July 2021, FSM has remained coronavirus disease (COVID-19) free (World Health Organization n.d.). The FSM is one of the first nations to make COVID-19 vaccinations mandatory and hopes to have more than 70% of the population vaccinated by the end of 2021 (Damardi 2021).

Although the tourism sector is only a small contributor to FSM’s gross domestic product (GDP), the economic impact of COVID-19 has been significant. Hotels across the FSM remain virtually empty, and hotel and restaurant income was expected to fall 46% in the 2020 financial year (FY) and a further 75% in FY2021, with a projected loss of 669 jobs (Graduate School USA 2020). GDP in the FSM contracted 3.9% in FY2020 and is projected to fall a further 1.1% in FY2021, followed by 2% growth in FY2022 (Asian Development Bank [ADB] 2021a).

In April 2020, the Government of the FSM announced a $15 million economic stimulus package. It included wage subsidies, debt relief and tax rebates, with $1 million for tourism sector support (ADB 2020) under a Tourism Mitigation Fund. The Fund enables tourism businesses to access payments to cover salaries and wages, utilities and debt relief and was extended to include tourism-related businesses in December 2020. The US Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, has also provided unemployment assistance for citizens of freely associated states, including the FSM (Graduate School USA 2020).

Land ownership and leasing issues limit foreign investment. Like many of its Pacific neighbors, the FSM prohibits foreign ownership of land. Most land in the FSM is privately owned by family and passed on within the clan structure, which can lead to conflicting title claims. For investors, land leasing requires negotiations with multiple parties and there can be problems when the initial lessor dies (Government of the FSM 2015a).

Complex land ownership affects access to tourist sites. Many beaches, reefs, and forests, as well as historical sites such as the UNESCO World Heritage-listed Nan Madol Ceremonial Center archaeological site, are difficult to reach. Access can involve payment to multiple customary landowners (Government of the FSM 2015a). Plans laid out by the Government of the FSM to develop and manage tourist sites—by improving roads, signage, and visitor information, and establishing a simplified payment structure—have not progressed (Government of the FSM 2015b).

EMPLOYMENT AND TRAINING

Skilled Micronesians are increasingly relocating overseas. Under a bilateral Compact Agreement, citizens of the FSM can study and work in the United States without a visa. While this provides educational and employment opportunities, it also causes outmigration—the FSM experienced a population decline of 0.2% per year from 2000 to 2018 (ADB 2020). Higher wages attract many tourism graduates to neighboring locations such as Guam, where there are more opportunities for employment in private sector tourism, for example, in large hotels. Many do not return to the FSM permanently (Government of the FSM 2015a).
Increased tourism awareness could encourage growth.
The government’s National Tourism Policy cites a lack of tourism awareness as a potential constraint to growth. To raise awareness of the value of tourism and create a more supportive environment for tourism growth, it advocates for introducing a tourism-related curriculum for primary and secondary schools and tourism education for government leaders (Government of the FSM 2015a).

References:
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