

# The Emergence of Local Entrepreneurs in Palau

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## Introduction

Palau, located in the Western Caroline Islands, is more prosperous than its neighboring countries and bears the highest GDP per capita in Micronesia.<sup>i</sup> Except for foreign aid forming the majority of their income, Palauans are known for their success in adopting a modern economy. Especially compared to their Yapese neighbors, Palauans are more aggressive in their approach in dealing with foreign influences. Most Pacific Islanders failed in commerce when they opened their own businesses in the beginning of encountering a modern economy because of “Trader’s Dilemma,” which is the quandary between the moral obligation to share their newfound wealth with kinfolk and neighbors and the necessity to make a profit and accumulate capital (Evers 1994; Grijip 2003:277-278). Glen Petersen (1986) studied some bankrupt storeowners in Pohnpei and suggests that this bankruptcy is better understood in terms of indigenous redistributive concepts than as failed examples of nascent capitalism (Petersen 1986:83). Whichever, Palau is unique because of its success. Many scholars have tried to explain Palau’s successful experience. Some agree that high receptivity to foreign culture is the most profound characteristic of Palauan culture. Others argue that Palauans’ performance in the modern economy is due to their traditional monetary system<sup>ii</sup>. These explanations tried to single out some characteristics of Palauan culture, but do not illustrate how Palauans confronted the new economic situation. In fact, there are many Palauans who tried to own their own stores, but most of them were bankrupt within two to five years. There are only a few successful cases of businesses that have survived to this day. It might not be a coincidence that most of them are biracial people.

What are Palauans’ strategies in coping with the new economic situation? This article focuses on successful Palauan entrepreneurs’ experiences running their businesses after WWII. I suggest that the rise of entrepreneurship in Palau is related to the Japanese colonial legacy and to those biracial people whose fathers are Japanese, Okinawan, or Chinese who came to Palau during the war. These biracial people’s “differences” made it easier for them to overcome Trader’s Dilemma, and to access foreign resources. After they had accumulated wealth in the modern economy, they used cash to pursue local prestige, such as Palauan money, *udoud*. I argue that the process of modernization in Palau is a process of hybridization, which means Palauans practice two kinds of economic systems simultaneously, in which traditional cultural values are re-affirmed in the market economy.

## *Keruul*<sup>iii</sup> and the Local Economy

Before encountering a market economy, the local economy in Palau was a substance economy, working in tandem with bartering and customary exchange. The substance economy of Palau was based on *ongraol* (starch) and *odoim* (protein), and these basic production activities are divided by gender. Women as providers of *ongraol* are farmers, and men as providers of *odoim* are fishermen (Nero 2000:327). Beyond this basic gender division of labor, economic activities were dominated by kinship relationship. In other words, everyone had obligations to

produce food to support his or her family, and this obligation was determined by one's social status or social identity in the family. Palauans called family obligations *keruul*<sup>iv</sup>.

A Palauan has two social identities. One is as the "mother's child," *ochell*; the other is as the "father's child," *ulechell*. Palau is a matrilineal society, therefore, a person's major social identity is as the mother's child, born to be a member of the mother's clan, with a given right to use the land of the mother's clan (Smith 1983:48). However, Palauans practice patrilocal rule after marriage, which means a woman should leave her family, where she can inherit a title and have the right to use the clan's land, and instead live with her husband and work on her husband's land to feed his family. It is common thought that *keruul* is integrally associated with women's economic support of the household. The wife's children live on the husband's family land unless their son inherited the title from his mother's clan and should move back to the land of his mother's clan. The role of a husband/father is as the family's financial sponsor, providing access to land, *udoud*, the opportunity to work for this lineage, and the possibility for acquiring land or valuables from the family unit (Smith 1983:54). The husband/father also has to pay Palauan money for traditional rituals performed by his wife's family. After the husband/father passes away, there is a *cheldecheduch* (literally, a discussion) after the funeral. The man's siblings allocate the deceased person's personal property to his wife and children, such as his land and any Palauan valuables, including *udoud*. If the wife and children do a lot of work for the father's family, his siblings will give them land and money. If they want to keep the wife in the family, they will give her land to use, "to tie the relation." If they don't want her to stay in the family, they give her money. In the traditional way, the children get the land from the *cheldecheduch*, but after these children pass away, the land returns to the father's family.

Responsibilities of Palauan women and men are basic to the extensive system of exchange of Palauan food and valuables (Nero 2000:238). Palauans describe this exchange as "a means of extending obligations beyond the mother's side." It is also described as a vehicle for creating sentiments and solidarity beyond the mother's side (Smith 1987:96). Palauans assume everyone should get married. This customary exchange is based on *omeluchel* flow,<sup>v</sup> whereby parallel and cross-siblings on the wife's side provide food and labor in expectation of receiving future Palauan valuables or money from the siblings on the husband's side. In other words, a man's wife is responsible for providing food during his family's rituals, such as the *ngasech* (first-born ceremony), the *kemeldiil* (funeral), and the *cheldecheduch* (discussion of property dispensation). Each man should strive to give the most money or the best valuables to his wife's kinsmen for the services that that man's side has received. A husband's gift of a Palauan valuable given through his wife is a dramatic public statement of how highly a man values his relationship with his wife and children and their kinsmen (Smith 1983:102). Therefore, Palauans always say, "A woman is the path of money."

There are two cultural aspects here that help explain Palau's local economy. Firstly, although Palau is a matrilineal society, and the land and title are inherited through the mother's clan, the role of a husband/father in this matrilineal society is crucial in terms of the family's economic function. He is the financial supporter for his wife and children to earn extra money and build up relations beyond their mother's clan. Secondly, Palau's local economic activities, such as production and customary exchange, are determined by these different social roles and the responsibilities that come with each. Production is based on a gender division of labor, but customary exchange is based on sibling ship and affinal relations. Therefore, local customs are the occasions that embody all social relationships and economic activities.

### **The Postwar Situation: the Oscillation of Modernization**

Before the Japanese colonial period, customary exchange was the most important economic activity which stimulated production and exchange; people exchanged Palauan money and food in these life cycle ceremonies: *ngasech*, *kemeldiil*, and *cheldecheduch*, and pursued prestige in these occasions. However, these customs were prohibited during the Japanese period. After the war, some Palauan elites tried to recover some of these customs to strengthen their cultural identity.

Nevertheless, Palau underwent a difficult situation after the war. The whole of Micronesia was sealed off because of the strategic consideration of the US between 1945 and 1963. Thus, Palau was isolated, open only to missionaries and anthropologists (Rechebei 1997:224). Although part of the Naval Administration's efforts was to get the local governments to be self-supporting, they did not devote much effort to economic development in Palau. Some scholars have characterized this period as being one of “benign neglect” and “non-decision” making (Abe 1985:199-200)<sup>vi</sup>. Compared to the sudden prosperity after 1980 due to the compact funding, Palauan society had been suffering from a shortage of cash, especially in the years between 1947 and 1962. As one informant said, “There was no *shiugan*<sup>vii</sup> then because we didn’t have money.” During this period, the United States Navy Administration and the Civil Administration were trying to bring in a market economy. In addition to offering government jobs to Palauans, they also established the Island Trading Company (ITC). The purpose of the ITC was to stimulate local capital development. At first, handicrafts were developed, especially the legendary Palauan storyboards (*ita bori*). They were sold primarily to American military government personnel. Some people also made money by selling fresh fruits, fish and handicrafts to the navy. Later, these commercial stores begun under the US commercial company developed into the WCTC<sup>viii</sup> (Rechebei 1997:214), which is still the biggest wholesaler in contemporary Palau.

During this period, there were two things happening at the same time. One was urbanization. Koror used to be the headquarters of *Nanyo Cho* (the South Seas Bureau) during the Japanese period. The current infrastructure in Koror was mostly built during this time. After the war, the US government also placed the government in Koror, and job opportunities attracted Palauans to migrate to Koror from *Babeldoub*<sup>ix</sup>. According to Force’s description, Koror was like a “city” in 1955:

Here, in Koror, there were bicycles, jeeps, and graded roads. Several piers were busy every day with native boats from outlying areas, and once every several months a supply ship made port. Here there was a weekly plane which served as Palau’s chief link with the outside world. Here was the government radio station, electric power, and even an ice cream machine in one native store and a jukebox in another. This was the “city.” By the current standards of the Western world even Koror is a pretty rustic community, but in Palau it is the apogee of urbanism (Force 1960:177).

It is obvious that the settlement and lifestyle were changing rapidly after the war. Many people moved to Koror for jobs; children moved to Koror to attend school, and they lived in the

dorms or stayed with their relatives. They had to use cash to buy food because they didn't have time to go to the taro patch or go fishing, because they had to work from 9 a.m. to 5 p.m., Monday to Friday. Therefore, Palauans were getting used to using cash to purchase goods imported from the US.

This new lifestyle brought about the second major change: the emergence of some local private businesses. Most of the early small businesses started with selling food to the people who worked in the government, and most of them started as small, one-shelf retailers. However, among these private, local small businesses, only a few survived this hard situation. It might not be a coincidence that most of the survivors are biracial people. They are half Japanese, half Okinawan, or half Chinese. In the following section, I am going to discuss their story as the first generation of businessmen in Palau.

### **The Power from the Bottom: the Rise of Local Entrepreneurs**

From 1947 to 1963, the modern economic entity in Palau was composed of government jobs, a government-supported wholesaler; the Western Caroline Trading Company (WCTC), and some local businesses. Government was the major employer, and the WCTC purchased all of the legendary Palauan storyboards no matter their quality, in order to maintain the market<sup>x</sup>. Despite these government-supported economic activities, there were many small private stores opened during this difficult time. According to Force's description, Palauans seemed eager to have their own businesses:

Many Palauans today aspire to own a store. Outlying municipalities have few stores, but in Koror village so many 'stores' were being opened in private homes that in 1955, in order to control excessive retail marketing, the administration required a storekeeper to maintain a certain minimum inventory. Some incipient stores closed as a result of the fact that entrepreneurs had insufficient capital to maintain a minimum inventory (Force 1960:102).

Many stores opened, but then also closed quickly afterward, because most of them extended credit to their relatives who often couldn't pay them back. Only a few became successful entrepreneurs, and their businesses still exist today (see Table 1).

**Table 1: Successful businesses started from 1952 to the early 1960s in Koror**

Year Opened	Business	Type
1952-53	Western Caroline Trading Company	Co-operation
1952	K Wholesaler and Retailer	Private/owner K
1952	P General Store, developed into P Wholesaler in 1958	Private/owner A
1952	M Tailor Shop	Private/owner T
1958	Y started to sell canned food, and turned into Y Food Market in 1974	Private/owner Y
1960	H started a small retailer store in T-Dock, and started a restaurant in 1964	Private/owner H
1960's	Palau Modengei Incorporation Company	Co-operation

Source: Interviews

There are seven cases of surviving businesses: two wholesalers, one tailor shop, one food market, one small retailer, and two co-operations. These successful cases are special in that they started their businesses during this “financial gap” period, and have lasted until now. In the following section, I will describe the situation that emerged, and the strategy they used to develop and maintain their businesses.

### The Impact of Japanese Colonial Legacy on the Postwar Economy: The *Mujin* System

Although the characteristics of “modernity” in Palau are obviously blended with the influences from successive colonial administrations, what affected Palau society most occurred during the Japanese colonial period. The first generation of entrepreneurs used the same skills they learned during the Japanese occupation to handle the market economy brought to Palau by the US. The most noticeable concepts were *mujin* (a Japanese word, 無尽, for a mutual loan financing association), wage labor, and savings.

During the war, the Japanese occupied Manchuria, Taiwan, parts of Southeast Asia, and the greater part of Micronesia, and tried to build up the Great East Asia Co-Prosperity Sphere (大東亞共榮圈). Palau was the headquarters of the South Sea Bureau (*Nanyo-cho*), which included all of Micronesia and part of South East Asia. Compared to the strict governance in Manchuria and Taiwan, Japanese culture affected Palauans more by the experience of living side by side with them, as a significant number of Japanese immigrated to Palau. In order to exploit the natural resources of these tropical islands, many Japanese, Okinawans, Chinese, and Chamorro immigrated to Palau for mining, farming, and harvesting pearls<sup>xi</sup>. Some Palauans were also hired at lower salaries, although this was not the first experience for Palauans to work as indentured laborers. The Japanese introduced other systems as well, such as market and tax systems to make the circulation of a cash economy complete. Mark Peattie (1988) asserts that although the indigenous Micronesians were exploited for their labor, they were enriched by the new economic opportunities. They were attracted by consumer goods from Japan—knives, pots, pans, and the like. They were able to purchase these goods with their salaries, which drew them into a

“modern” money economy and changed their lives in countless small ways (Peattie 1988:100-101).

In addition to offering these job opportunities, the Japanese immigrant communities played an important role in introducing the concepts of a “modern” economy. In the beginning of Japanese occupation, many Japanese were attracted by economic opportunities and migrated from Saipan and Japan to look for their fortune. Later on, as military and naval units poured into Palau, the number of Japanese increased still further. By 1941, the small city, Koror, had become a boom town and naval base, as well as a thriving port and colonial capital (Peattie 1988:176). In addition to Koror, another Japanese community was established in Angaur because of phosphate mine production. These Japanese communities had a far-reaching influence. Because of the daily social interaction between the Japanese residents and the Palauans, the Palauans unconsciously took on Japanese social norms and folkways (Abe 1987:128). Palauans also adopted *mujin*, a very important informal micro-finance institution, to handle the difficult economic situation right after the war.

*Mujin* was introduced by the Japanese during their occupation. It derives from the Japanese word 無尽, meaning a mutual loan financing association. It was brought to Palau by the Japanese merchants and practiced among them to get money for running their businesses. *Mujin* is so popular in Palau now that it is hard to believe that Palauans learned how to practice *mujin* just by observing, and it was never practiced among Palauans during the Japanese administration (Aoyagi 2002). An informant told me that their elders learned it by watching their Japanese bosses practice it. After the war, *Modengei*<sup>xii</sup> people started to practice *mujin* among believers, and then other Palauans learned and started to practice it in every situation when any material was needed. Before the first bank, a branch of Hawaii Bank, came to Palau in 1961, *mujin* actually played a very important role in facilitating the development of small businesses for Palauan businessmen. This is especially so in K’s case, as she might have been the first Palauan entrepreneur to practice Goods *Mujin*<sup>xiii</sup> in her store. However, the Palauan version of *mujin* is a little bit different from Japanese *mujin*. Palauan *mujin* developed into different types and served many purposes such as collecting cash, saving money, preparing food or goods for customs, or being used as a type of credit in stores. Because it is a very flexible institution and serves different purposes, an informant gave *mujin* the following definition: “Any source from which you collect, you can call it *mujin*.” Nowadays, a department store in Koror even issues a “*Mujin Card*,” the function of which is similar to the concept of a credit card in the modern monetary system. People can spend a certain amount and the money is deducted directly from their salary checks on payday.

### **The Case of the First Local Wholesaler in Palau**

The first local wholesaler in Palau was K Wholesaler. The owner, K, was half Japanese and half Palauan. She was born in Oikull village, Airari, and her mother was from the first clan, *Ngiraide*, in the village. After the war, she got a noodle machine from the things that the Japanese left behind and started her business as a noodle shop in 1946. She made and cooked noodles to sell for lunch to the people who worked in the government. The lifestyle was changing during that time. People who worked in the government didn’t have time to plant taro or go fishing, as before. Therefore, there were some Palauans starting to sell food, such as ice candy, donuts, and some Japanese food for the people who worked in the government. That was the initial business style in Palau.

In 1952, she changed her business to that of a local wholesaler. The way she used to collect money to pay for the inventory was by *mujin*. Her store was the first store in Palau, and most people did not have much cash because the salary was \$80 bi-weekly during the '50s. In order to run her business, she practiced two types of *mujin*. One was Goods *Mujin* and her store was the first to offer it. She allowed people to get goods from her store and pay the money back later. In order to do this, there was a leader, called *oya mujin*, This leader set up an amount of money for each member to shop in her store. For example, each one could shop for up to \$100.00 worth of goods. Then the leader collected a certain amount of money owed from every member on payday, for example, \$20.00, and then went to the store to pay off the debt. After five months, this *mujin* group's credit would be paid off. The other type was Cash *Mujin*. K herself was once a member of this type of *mujin*. Members of this *mujin* were all business people who wanted to collect quick money for their business. Every member in this *mujin* donated \$200.00 every month when they met, and one of them received all of the money each month by drawing lots. Once everyone took a turn and received the money once, this *mujin* was over. Cash *Mujin* is used for collecting quick money for investing in big-purchase purposes, such as paying for inventory and goods, or buying land or electronics.

K was the person who utilized *mujin* in the most diverse and efficient way in the early '60s. Therefore, she developed her businesses very fast and kept increasing her scale of production. In the 1970s, she created a convenience store, a shopping center, a hardware store, a construction company, and a radio station. In the 1980s, she built a business that rented apartments to the increasing number of foreign workers, such as Filipinos (see Table 2).

**Table 2: K's family business**

Year	Business type
1946	Noodle shop
1952	K Wholesaler and Retailer
1970	1. shipping 2. K shopping center 3. S Mart 4. K Hardware Store 5. Construction company 6. FM radio Station
1980	Apartment rental

Source: Interviews

Some other Palauan business people would use *mujin* to get the money to buy land, or to raise the initial capital to build a house or open a store, and then they would depend on saving money from the profits coming in to operate their business.

*Mujin* has been very popular in Palau since the war and up until today, but the functions are transforming and become diverse. Before foreign banks became popular in Palau, *mujin* was the mechanism for people to dispatch cash or materials for emergency needs. After banks took over this function, *mujin* transferred into a social function<sup>xiv</sup>.

### **The Concept of Saving: The *Renshusen* System**

The way to run a *mujin* in Palau is like saving, but without interest. However, not everyone likes to be involved in *mujin*. Some Palauans worry about the risk, so they would rather hold on to their money themselves. When I interviewed bank personnel in Palau in 2008, I was told that very few Palauans have savings, though most of them have loans from the bank for different purposes, especially when it came time to perform their custom and ritual duties. In Palau, the cash circulates in an interesting way. The banks cooperate with the government and private department stores and some state-owned enterprises. When the government gives employees salaries, the responsible bank will deduct money from these salaries to pay different agents directly, such as social security, installment of a loan from a bank, or in credit owed to a department store, utilities, or insurance etc... After these deductions, most Palauans' paychecks have very little money left in them. These bankers said that few Palauans understand the concept of saving. Some retired Palauans even get loans for traveling, and use their social security money to pay off the loan. One informant told me, "US money will always come, but Palauan money is unique; you can't find any other like it in the world." In some Palauan minds, Palauan money is much more valuable than US dollars.

Compared to this contemporary situation, early local entrepreneurs worked hard to accumulate money as their capital when there were no banks to get loans from in Palau in the early 1950s. They may have gotten this concept from the *renshusen*<sup>xv</sup> (trainee) system when they were attending *Honka*<sup>xvi</sup> (the basic three years of compulsory education for Palauans) during the Japanese occupation. In these years, some students were assigned to go to Japanese houses to do domestic chores after school. From this work, they were expected to learn the Japanese way of living and become familiar with Japanese culture. They earned a small wage through this work, and they were told to deposit some of the money they earned in the post office. The balance was spent on purchasing daily needs or treats. This *renshusen* system might have been intended to make the children familiar with a cash economy (Mita 2010: 12), and also the concept of saving.

### **The Tailor Shop: The Case of the First Local Retailer in Palau**

Palauans accepted the concept of saving money to buy imported commodities quickly and successfully. The owner of a tailor shop, T, got her first sewing machine from the things that the Japanese left behind in Anguar, with the help of her father. He was a chief in Peleliu. She brought this machine to Koror in 1951 to start her business, making outfits for fashionable ladies who worked in the government or for the wives of American officials. Her brother told her, "You had better save money if you want to buy land and have your own business." Therefore, she worked hard to make clothes and save money. Then, she used the money she earned to buy a new sewing machine from the WCTC in 1953. Soon she was able to hire some employees to work in her shop. She joined a *mujin* around the same time to buy the land she lives on now. She built a house and worked there. After the main road was established, she opened a tailor shop, which is there to this day.

The first retailer was known for her frugality. Other Palauans commented that "she just kept everything." She was a diligent person, and kept everything in order. She was also good in resource management. For instance, Palau has abundant natural resources, and people usually throw away leftovers. K kept all of her leftovers for feeding her pigs, and nothing was wasted.

Her first shop was a noodle shop. She kept running this business in order to accumulate cash, and then she invested in the retail business.

### **Local Entrepreneurship: The Food Market**

The food market owner has a similar story. Y was running a small “papa and mama” store as her first business, then she switched to selling *bento* (lunch boxes) to people who worked in the government around the 1970s. After she accumulated enough cash, she opened a store. She is good in resource management, too. She cooks fresh food to sell everyday. When her cooked taro or tapioca are about to expire, she makes them into another kind of food. Some Palauans would just throw away such food when it spoils, but Y knows how to make it into different types of food and prolong the preservation period.

These early local entrepreneurs worked hard and saved money to keep their businesses operating. This challenged the bankers’ opinions that Palauans do not understand the concept of saving. Although most Palauans do not have savings in their accounts right now, and they might also have some loans out, this phenomenon may be a result of the sudden wealth within the country and the well-established government welfare and financial systems. In addition, these early local entrepreneurs seem to have a unique mentality, in that they are diligent, hard working, and tend to work alone so as to accumulate capital; a little bit distant from kinship social bounds so that they can avoid giving credit to them. They overcame Trader’s Dilemma and remain successful in their businesses to this day. Although many Palauans attended Japanese elementary schools and vocational schools, there are only a few people who were successful in their businesses. I will analyze their identity and social status in the next section.

### **The Identity and Social Status of Biracial People**

When a significant amount of biracial people filled out the population after the Japanese occupation, their in-between social situation seemed to cause some changes in Palau’s society. Interestingly, these biracial people claim that they do not have identity problems because Palau is a matrilineal society, and a person’s main identity follows the mother’s lineage. It does not matter that they do not have a father, because they are their mother’s children. Shingo Itaka (2009) has noticed the uniqueness of this group and pointed out two phenomena of these multiracial people. First, although they spend their daily life as Palauans, without a clear and rigid ethnic identity as Japanese, they are not the same as ordinary Palauans, as some of them have been buried at the Japanese cemetery in Koror. Second, many of them lead successful lives as businessmen, politicians, and traditional chiefs in postwar Micronesia (Itaka 2009). Itaka’s research has pointed out the in between situation of these biracial people. They are included in the society, but would be excluded in certain social situations.

### **Lacking a Father**

Almost all of the biracial Palauans had native mothers and Japanese fathers, the latter who were immigrant workers, merchants, fishermen, government officials, military men, and so forth, and came to Palau during the war. Most of them were illegitimate children, brought up by their mothers, or sometimes their grandmothers or their mother’s sisters adopted them. In fact, adoption in Palau is a strategy to manipulate authority over land and resources, but it remains the

adopted one's natal position in other context. In certain cases, when this adoption happened in a rich and high-ranking clan, it was a strategy to select successful members to "take their mother's place" or "take their father's place" (Smith 1983: 4). Therefore, every adopted child knew who his/her natal parents were, and they still keep relations with each other in customs. Sometimes, they would restore the relation after these children's step parents passed away, or at their natal parents' funeral. However, most of the adoptions of biracial Palauans were a result of their mothers being too young to raise them. In addition, Palauan women and her children should live on her husband's land, which belongs to the husband's family. The woman and her children should work for the husband's family in order to earn some Palauan money and land at the eventual *cheldecheduch*. These biracial people's fathers returned to Japan, so they did not have "natal" position from their father's side, and lacked financial support from their father's side.

Not only do these biracial people not have financial support from their natal father, they may not be getting support from their stepfather because of the changing life style after the war. Palau was under a new administration and was accepting the new ways of life after 1945. This new life included a cash economy, wage labor, English education, and a democratic government. These biracial people's mothers, or stepparents, might not have as much knowledge and skills as they themselves did to survive in this new situation. The local entrepreneurs I interviewed did not get any help from their families to run the businesses, and they have had to work hard to save money and remain very frugal in order to survive in this difficult time.

There were some biracial people in Palau before the Japanese colonial period, but their situation was totally different. Before Japanese colonization, the foreigners usually came to Palau by accident, such as those that had lost their way in the ocean or were shipwrecked. There were only a few of them, and some of them would stay on the island. Traditionally, the highest clan in a village had the responsibility to adopt them into the family and accommodate them. Usually they would marry the highest clan's members and have children. For example, Charles Gibbons was a West Indies sailor who came to Palau in the 19th century, and he married a woman from the *Idid* clan, the highest clan in Koror. Now the highest clan members are his descendants, and took his last name. They are proud of Charles Gibbons' knowledge and intelligence. However, during the Japanese administration, these mixed marriages did not follow the traditional rule, and happened in every class of society. Therefore, there emerged a significant number of Asian mixed-blood people during the Japanese colonization. For both of these reasons—that they are illegitimate children, and that they have existed in every class of society—these particular biracial people are difficult to categorize in contemporary society.

Actually, these contemporary biracial people have some substantial benefits. For example, A's father was a Japanese businessman who left for Japan on a commercial boat during the war. A went to *Honka* (public school) in Koror, and he was hired as an employee in *Nanyo Bokei Kaishia* (the South Sea Trading Company), where he learned accounting and arranging goods. During that time, most Palauans were treated as primitive islanders, and they couldn't get work inside a store. A, though, is half Japanese and very smart, so he was given the chance to work inside a store. After the war, he was hired as the first accountant in the WCTC, because he had the skills that he had learned by working with Japanese businessmen.

Another benefit is that they have more outside resources as biracial people. In the mid-1960s, these biracial people tried to reconstruct their relationship with Japan. Some biracial people in Palau established the Palau Cherry Blossom Association (*Palau Sakura Kai*). The main aims of this association were to receive Japanese groups visiting Palau for spirit-consoling services (*ireidan*), to assist multiracial children in their search for their fathers or paternal

relatives in Japan, and to help each other, as they were faced with difficulties resulting from the separation of their families (Itaka 2009). Some of these biracial people took the opportunity to build up their connections with Japan and to then import Japanese goods, accommodate Japanese customers when they visited Palau, and look for chances to find some investors.

Their ambiguous social status is like a structure hole.<sup>xvii</sup> They have more freedom within the existing Palau society, in that they can be tolerated to ignore some social norms and obligations in exchange. They also have more outside resources because, biologically, they are connected to Japan. Therefore, they bridge the two societies' information and resources.

### **Ethnic Marginality**

Except for their ambiguous social status, which can benefit them, they suffer from slight racial discrimination. As noted in Mita's work (2009), "Sometimes people say to me, 'Why is your skin white?' or 'You're not Palauan. You should go home!'"(Mita 2009: 34). A Palauan businessman told me that other Palauans criticized him: "Because you're half Chinese, you are tied to money." Some families in Koror are known to be better at doing business, and they are identified as the descendants of two Chinese brothers who migrated to Palau during the German occupation. They inherited the brothers' family name, and their paternal inheritance is emphasized in terms of their economic achievement. Some Palauans would comment that certain successful families do well because they have Asian characteristics.

As I mentioned in the previous section, these multiracial people were all raised by their mothers, or adopted by their grandmothers or aunties. They went to the public schools (*kogakko*) for native islanders (*tomin*), as other Palauans children did. These biracial Palauans and "pure" Palauans have had the same education experience, but what has made them different from one another is their position in the kinship system. Multiracial Palauans' lack of a natal Palauan father, as well as their difference in skin color and appearance encourages them to have a different idea about themselves. Whether they subconsciously absorbed this self-fulfilling prophecy and have, therefore, behaved as Asian merchants is hard to prove. But these ethnic images and stereotypes do affect people's perceptions about multiracial people, and it might affect their self-awareness as well.

### **Seeking Traditional Status: *Udoud*, Title and Land**

In traditional Palauan culture, owning Palauan money (*udoud*), titles, and land represents your wealth and social status. However, biracial people's mothers are usually not from the highest clans. Therefore, they usually do not have any big and precious Palauan money. After they became successful and wealthy within the market economy, they started to accept other Palauans to mortgage their Palauan money for US dollars. In the olden days, Palauans used to practice the custom of using Palauan money to *orsis* (which has a meaning similar to mortgaging) smaller Palauan money (Kubary 1885). After a certain number of days, if you could not pay it off, the person who accepted your *orsis* could take that money as their own. During the late '60s, there were many old people in need of US dollars to fulfill their custom obligations. Therefore, they came to those rich people to *orsis* their Palauan money, and lost it without returning enough US money.

Gradually, these local entrepreneurs accumulated a certain amount of Palauan money, and this increased their traditional status. Following is an example of how these rich people acquired their traditional status by using the Palauan money they got with *orsis*.

K was a successful businesswoman in Airai. During the ‘80s, the villages in Airai wanted to revise their State Constitution into a democratic system and tried to unseat the acting governor. However, there was one village unwilling to participate in their activities, because they were concerned about their relations with the acting governor. K was rich and was very active in local communities. She wanted this state’s bureaucracy to become a democratic political regime, so she gave out Palauan money to make peace and persuaded that village to sign the agreement to overturn the acting governor. The Palauan money worked, and finally all of the villages cooperated to unseat the governor and set up a democratic state congress. In 2009, the Airai State Congress decided to grant a day as K’s Memorial Day, to memorialize her effort in the democratization of Airai.

Another case centers around “fake money,” the antique beads from Bali. F is a successful businesswoman. She has had many businesses in different phases of her life. After she earned US money, she went to Bali and bought some beads money, and used them in *shiugan*. She told me, “Although high clan people prohibit us from using Bali money, we are poor [in terms of Palauan money], and we don’t have money, but we also have to fulfill our *shiugan* obligations, they should let us use Bali money.”

There are other cases in which these new economic elites got Palauan money from other Palauans who mortgage Palauan money in exchange for cash, but they barely know how to wear the Palauan money<sup>xviii</sup> in a correct way because this knowledge belongs to high-ranking families.

These new economic elites would rather spend US dollars in exchange for Palauan money. Even they acquired Palauan money through a “new” method, but they use it in a traditional way, such as for customs, making peace, or compensation for certain crimes. They even buy some Bali money to circulate in their family’s customs. It shows that they still value traditional Palauan values and prestige—even after becoming successful in a capitalist economy.

## Conclusion

There are some sayings about Palauans’ economic performance in the Pacific, such as “Palauans are like the Jew of the Pacific” or “Palauans are born to be businessmen.” Some researchers agree that Palauans are known for their receptivity to change (Abe 1987: 133). Some research claims that traditional Palauan values placed on money and the elaborate exchange system are to a high degree congruent with the emphases on free enterprise current in the Western world (Force 1960:102). These statements could explain why, even under the difficult economic situation between 1947 and 1963, there were still many local businessmen and women trying to run their own businesses. Still, it can’t explain why only a few of them were successful, while the rest went quickly bankrupt. Research does not illustrate Palauans’ efforts to engage in these rapidly changing foreign forces, and the details of this process either.

The findings of this paper reveal the Palauans’ experiences of encountering the modern economy right after the war. Their success relative to other small island cultures might result from recent historical factors, such as the emergence of a significant amount of biracial people, and the accumulation of economic knowledge from interactions with and observations of the Japanese, such as of basic mathematics, saving, and *mujin*. In addition, these biracial people’s ambiguous social status enables them to manage social relations in order to handle their

businesses. Their “differences,” or “marginality,” allow them to more easily refuse giving credit to relatives and neighbors. Furthermore, they lack financial support from their fathers, so that they have to depend on their own hard work to survive. Therefore, they also develop a mentality, which is suitable for developing capitalistic businesses. Obviously, these people have successfully solved the Trader’s Dilemma. At the same time, they have brought differences into Palau.

Compared with Pohnpei’s case, Petersen suggested that Pohnpei store owners do not play a genuine commercial role in the Pohnpei economy; the profit and loss, credit and debt activities of these stores can be better understood as reinforcing social, economic, political, and cultural aspects of the native Pohnpei redistributive economy (Petersen 1986:83). Ponapeans made a strong statement against being a political extension of the US by calling for independence in the middle of 1980s. They explicitly recognized that they were rejecting the economic transformation planned for them (Petersen 1986:83; 1984a, 1985a). On the contrary, Palauans embraced and pursued economic achievement in the market economy. When they acquired wealth in the modern economy, they used this wealth toward traditional values, such as acquiring Palauan money, land, and titles. Some of them even went to Bali to buy antique beads and used them in the traditional ceremonial exchanges to earn prestige. From their experiences, it seems obvious that they have these two economic systems at practice at the same time within their daily life. They learned how to interact within the capitalistic economy and tried hard to be successful in this new economic situation. Then they spent much of this money to buy real Palauan money, fake Palauan money, and in return, giving this wealth out during custom ceremonies. Therefore, the process of “modernization” or “capitalization” in Palau is actually a process of “hybridization.”

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## Notes

<sup>i</sup> Palau's GDP per capita was \$8,100 (2008 est.); the FSM's(Federated States of Micronesia) was \$2,200(2008 est.); the Marshall Islands' was \$2,500 (2008 est.); and the Philippines' was \$3,800(2008 est.) (CIA Factbook 2012).

<sup>ii</sup> Palauans use some foreign ceramic beads as their native money, *udoud*. There are different kinds of beads with different values. Palauans use them in ceremonial exchange, and buying services, such as building a house and canoe. A Japanese economist, Tadao Yanaihara, took Palau's native money system as an obstacle for transferring

the subsistence economy to the market economy (Yanaihara 1939). However, Nero thinks the complicated exchange rate from Palauan money to food, services, and even within Palauan money, might imply that Palauans understood the concept of “commodification” before they were ever in contact with the market economy, and that it facilitates their adaptation to this modern economy (Nero 2000).

<sup>iii</sup> A Palauan word *keruul* (from *meruul*, to do or to make), related to performing one’s family responsibilities.

<sup>iv</sup> See footnote 3.

<sup>v</sup> *Omeluchel*, literally, “to carry on one’s head,” for women carry baskets of food on their heads. It symbolizes the exchange between parallel and cross-siblings. *Omeluchel* flow means the path that Palauans exchange food and Palauan valuables.

<sup>vi</sup> The office of Territorial Affairs of the Department of the Interior replaced the Navy Administration in Micronesia on July 1, 1951. However, things didn’t get better until 1961. The budget more than doubled from 1962 to 1963 (Abe 1985:204). The budget kept increasing in the following years, such as in 1968, 1971, and 1980, especially when Palau signed the Compact of Free Association with the Americans and accepted over 450 million dollars from the US over 15 years to help Palau become a self-sufficient country. Many scholars worried that this new wealth that was suddenly available would have negative influences on Palauan society (Nero 1993; Abe 1985).

<sup>vii</sup> This is the Japanese word, 慣習, for the traditional Palauan customs, such as the first child ceremony (*ngasech*), the buying of a house ceremony (*ochelaochel*), funerals (*kemeldiil*), and the discussion after funeral (*cheldecheduch*).

<sup>viii</sup> Western Caroline Trading Company. In the original source, it was written as PCC(Palau Community College). It is an obvious mistake, and I correct it as WCTC.

<sup>ix</sup> Palauans divide the Palau islands into *Yourdoub* (down ocean) and *Babeldoub* (upper ocean). *Babeldoub* refers to the big island in the north.

<sup>x</sup> Storyboards thus became the major cultural commodity in contemporary Palau.

<sup>xi</sup> Beginning in 1922, 2,000 Japanese immigrants from Taiwan were brought to the Marianas. This number later increased to 7,117, including laborers, clerks, and farmers. By 1934, there were 8,115 farmers plus 17,000 family members. Of them, 9,798 were from Okinawa (Purcell 1967:210, Abe 1987:126).

<sup>xii</sup> It is a native religion founded by a Palauan around 1915, and then spread throughout Palau.

<sup>xiii</sup> The practice of goods *mujin* is a way to allow people to get commodity first and pay it back later. The term is further explained in the section “The Case of the First Local Wholesaler in Palau.”

<sup>xiv</sup> *Mujin* still goes on in Palau today, but it has become a type of gathering for different groups to hang out and have fun during the payday week. These groups are usually made up of interest groups, colleagues, classmates, and so on.

<sup>xv</sup> Japanese word, 練習生.

<sup>xvi</sup> Japanese word, 本科.

<sup>xvii</sup> I use “structure hole” to analyze these first generation entrepreneurs’ social situation. This is a term used in social network theory. Smaller, tighter networks can be less useful to their members than networks with lots of loose connections (weak ties) to individuals outside the main network. More open networks, with many weak ties and social connections, are more likely to introduce new ideas and opportunities to their members than closed networks with their many redundant ties. It is better for individual success to have connections to a variety of networks rather than many connections within a single network. Similarly, individuals can exercise influence or act as brokers within their social networks by bridging two networks that are not directly linked (which is called filling structural holes). These kinds of individuals are called “structural holes.”

<sup>xviii</sup> Usually, Palauan women wear Palauan beads money on their neck.