

Dollarization: Human Capital Development, and Circulation of Domestic Savings into Domestic Investments

Naoyuki Yoshino (Keio University) yoshino.a7@keio.jp

Abstract:

This paper explores an innovative fiscal strategy for sustainable development in Palau by keeping debt levels low, given the limited macroeconomic tools available due to the absence of a central bank. Palau is a typical dollarized country, with no home currency but using US dollars.

The paper identifies key structural challenges in the Pacific islands. Capital outflows, skilled labor migration, and limited financial literacy will be major problems associated with dollarization. It proposes a comprehensive framework combining financial education, digital innovation, and targeted lending to housing, small businesses, and infrastructure. Theoretical modeling using an extended Solow-Mankiw framework illustrates the potential for increased domestic capital accumulation and economic resilience. The study concludes that, with practical implementation and strong spillover effects, infrastructure investments such as airports, when coupled with souvenir shops, restaurants, resting hotels, can help Palau achieve economic growth. Fisheries processing industry. The development of small-business financing and green investments using ocean waves through domestic savings will drive continuous green growth in Palau.