

Chapter 4

The Marshall Islands, the Federated States of Micronesia and Palau

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A. Brief overview of the Asia-Pacific Trade Agreement

During the past decade the intraregional share of total Asia-Pacific exports increased from 44% in 2000 to 52% in 2013, with developing Asia-Pacific countries making the highest contribution.¹ In this regard, regional trade agreements such as APTA could be a very good platform for expanding intraregional trade under the agreement.

As APTA provides a good platform for South-South trade and has provisions for special and differential treatment for small Pacific Island countries with special needs, such as Micronesian Trade and Economic Community (MTEC) member countries – the Federated States of Micronesia (hereinafter referred to as Micronesia), the Marshall Islands and Palau, these three countries can reap the benefits from increasing trade in the region by joining APTA.²

This section discusses briefly how the study objective was conceived and provides an overview of trade among the Participating States of APTA. It also sets the objective, and discusses the methodology and data sources related to the study. In section B, the economic background, geographical condition, historical/political aspects and external trade structures as well as different preferential trade agreements of the Marshall Islands, Micronesia and Palau are discussed. Section C evaluates the export potential for the Marshall Islands, Micronesia and Palau by examining their exports under the existing concessions given by the Participating States of APTA (covering more than 10,000 items in the Fourth Round). The export potential at 6-digit Harmonized Commodity Description and Coding System (HS) level has been identified. Section D deals with possible opportunities of trade between the Participating States of APTA and the three island nations in services, investment and trade facilitation following the Framework Agreement of APTA and implementation. Section D also evaluates whether the three island countries can form linkages with APTA member countries on these sectors and whether this will be an opportunity for them to reduce their trade costs. Trade expansion needs better productive capacity, infrastructure and, above all, investment in certain industries. In this regard, foreign direct investment (FDI) from APTA countries to these MTEC countries could be beneficial. Section E provides relevant recommendations.

¹ Asia-Pacific Trade and Investment Report, 2014 (p. 9).

² Prasad and Chen (2014) attempted to find the possible benefits for the PIFC (Pacific Island Forum Countries) members in acceding to APTA. They considered only six countries (out of 14 countries) due to their large economy size and noticeable trade with APTA country members. The left out countries includes the Marshall Islands, Federated States of Micronesia and Palau.

1. Objective

The main objective of this chapter is to examine the potential benefits for the Marshall Islands, Micronesia and Palau in their accession to APTA, not only in terms of goods but also in services, investments and trade facilitation measures following the framework agreements. In addition, this chapter attempts to examine the other areas of possible cooperation between APTA and the Marshall Islands, Micronesia and Palau, e.g., tourism, FDI and productive capacity.

2. Data source and methodology

A detailed analysis of trade potential requires disaggregated data on trade. For that purpose, data were obtained from the WITS COMTRADE database at the 6-digit disaggregation of HS classification. In addition, data on tariff concessions offered by each of the Participating States of APTA, required to identify the products under tariff concession, were obtained from the APTA Secretariat of ESCAP. Data were also collected on various economic indicators from the World Bank, ESCAP, the CIA World Fact Book and government reports by the Marshall Islands, Micronesia and Palau.

In some cases, data were not available on exports by these three island countries. To increase the probability of data availability, the mirror data method was used, i.e. world imports from the Marshall Islands, Micronesia and Palau were considered as the exports by these countries to the world. Similarly, imports from the Participating States of APTA by the Marshall Islands, Micronesia and Palau were considered as the exports of the Participating States of APTA to the three island countries.

The revealed comparative advantage analysis helps to identify the sectors in which the three island nations have a comparative advantage in world market through a comparison of the country of interests' trade profile with the world average. The revealed comparative advantage of these three countries in the world market as well as the trade potential for exports to the Participating States of APTA were analysed. In addition, a trade complementarity analysis between the Marshall Islands, Micronesia and Palau and the Participating States of APTA was made. This analysis helped to show the extent to which the export patterns of the three island countries match the import pattern of the APTA member countries.

The revealed comparative advantage index was constructed following Balassa (1965):

$$RCA = \left(\frac{X_{ij}}{X_{it}} \right) / \left(\frac{X_{nj}}{X_{nt}} \right) \dots\dots\dots (1)$$

where x represents exports, i is a country, j is a commodity, t is a set of commodities and n is a set of countries (in this case it is world).

A Trade Complementarity Index (TCI) was constructed between the Marshall Islands, Micronesia and Palau and the Participating States of APTA. The TCI provides information

on how well the export pattern of a country matches the import pattern of another country, thus indicating the prospect of trade between the two countries. The TCI between countries A and B is defined as:

$$TCI_{iB} = 100(1 - \Sigma \left(\frac{|m_{iA} - x_{iB}|}{2} \right)) \dots\dots\dots (2)$$

where X_{iB} is the share of good i in global exports of country B and m_{iA} is the share of good i in all the imports of country A . The value of the index is zero when there is no trade between the countries and 100 when the import and export share of the two countries match exactly.

To identify the potential for exports from the three MTEC member countries to the Participating States of APTA, the following analysis was undertaken, taking into consideration of the products that are under MoP concession³:

- (a) Individual MTEC member countries exports to individual APTA member countries;
- (b) Global imports of APTA member countries;
- (c) Individual MTEC member countries global exports; and
- (d) MoP currently available for exports to APTA member countries.

The potential exports can be identified in two ways:

- (a) When an individual MTEC country's global exports of product X are greater than the global imports of the same product by an individual APTA Participating State (i.e., $C > B$), then the scope for potential export gain by that MTEC country's export of product X to the individual APTA Participating State can be maximum by the value of ' $B - A$ '. This value is assumed to be the potential market share that can be captured by the individual MTEC member countries through increased exports to the Participating States of APTA; and
- (b) When an individual MTEC country's global exports of product X are less than the global imports of the same product by an individual APTA Participating State (i.e., $C < B$), then the scope for potential export gain by that MTEC country's export of product X to the individual APTA Participating State can be maximum by the value of ' $C - A$ '. This value is assumed to be the potential market share that can be captured by the individual MTEC member countries through increased exports to the Participating States of APTA.

The analysis considered the products that were exported by the Marshall Islands, Micronesia and Palau to the world during 2011, 2012 and 2013 and which come under the MoP list of each APTA Participating State.

As the MTEC member countries are geographically isolated and remote far from the Participating States of APTA, trade impediments such as cost of exporting/importing products

³ Following Ratna, R.S. (2011). *Benefits of Joining APTA: Case of Nepal*, ESCAP, Bangkok.

and the time associated with trade activities become quite important. To address this issue the analysis attempted to find the time and cost of imports/exports by those countries. For this purpose data from the World Bank were utilized. In addition, FDI data from the UNCTAD database were used.

B. Overview of the Marshall Islands, Micronesia and Palau

1. Marshall Islands

The United Nations has classified the Marshall Islands as a Small Island Developing State.⁴ It is one of only four atoll nations in the world (Others being Kiribati, Maldives and Tuvalu). As one of the most isolated, smallest and vulnerable nations in the world⁵, it comprises five Islands and 29 coral atolls with a total land area of only 70 square miles.⁶ The country shares its maritime boundaries with Micronesia, Wake Island, Kiribati and Narau in the Pacific. The country is highly dependent upon foreign aid, primarily from the United States, from which it received around \$1 billion between 1986 and 2001, and will receive a total financial package of around \$1.5 billion for a 20-year period, from 2004 to 2024.⁷ It is also not a WTO member or observer.

The fisheries sector is a major contributor to the overall development of the economy. The country is a resource rich nation in fisheries and has a large exclusive economic zone (EEZ). The economy of the Marshall Islands is a subsistence type but the country has only a few export products, e.g., fish (loins) which is a major export item. The major food crops are coconuts, breadfruit and pandanus. Meat production includes pigs and chickens. Industrial items such as handicrafts, fish (especially tuna) processing and copra are important. Hence, the country is heavily reliant on imports of food and fuel.

The small size and remoteness of this island nation poses many development challenges such as high transport costs for trade and higher costs of different economic activities, which hinder achievement of economies of scale and make the process of providing public service more complex.⁸

The Marshall Islands' economy was severely affected by the 2008 international financial crisis. In 2010, GDP growth was around 6%, which was much better than -2% recorded in 2009. From 2011 the annual growth rate of GDP remained positive and was 3% in 2013. According to the IMF, this positive trend can be attributed to a surge in fishery output, and

⁴ See www.rmiembassyus.org/Economy.htm#Econ (accessed on 24 February 2015).

⁵ The Marshall Islands are vulnerable to climate changes and sea-level rise.

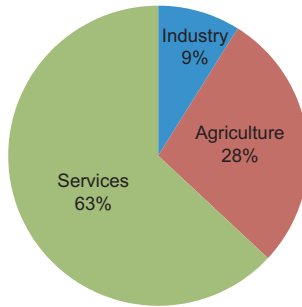
⁶ See www.rmiembassyus.org/Geography.htm (accessed on 24 February 2015).

⁷ CIA World Fact Book, available at <https://www.cia.gov/library/publications/the-world-factbook/geos/rm.html> (accessed on 24 February 2015).

⁸ World Bank Report No. 69510-MH, p. 1; available at <http://documents.worldbank.org/curated/en/2013/02/17389687/marshall-islands-country-partnership-strategy-period-fy13-fy16> (accessed on 25 February 2015).

higher copra and coconut production.⁹ Fishery constitutes around 10% of the national GDP.¹⁰ According to the latest available data in 2011, the agricultural sector constituted 28% of GDP whereas the services sector's share of GDP was 63% (figure 4.1). This implies that the Marshall Islands has a high dependence on the services sector compared with other sectors in the economy. However, in relation to services, almost 60% of Marshall Islands' budget is financed by the United States under the US-Compact grant. The public sector employs a large number of Marshallese citizens in comparison to the private sector. This also contributes to the 63% of services share in GDP.

Figure 4.1. GDP share of major sectors in the Marshall Islands, 2011



Source: Author's calculation based on the World Bank data.

According to the World Bank, the external debt of the Marshall Islands was around 57% of GDP in 2012, which left the economy vulnerable to debt distress and macroeconomic instability. The United States is a major contributor of financial aid, 60% of the Government budget is financed by the United States under the US-RMI compact arrangement.

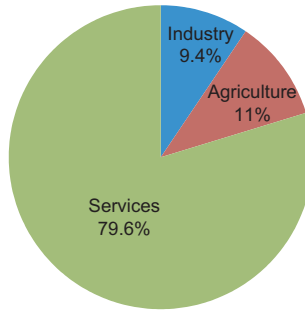
According to the RMI 2011 Census,¹¹ the current population is around 53,000. More than 74% of that population lives in Majuro (capital city) and Ebeye. The Marshall Islands workforce comprises 12,924 people. The national workforce participation rate in 2011 was 41.3% (65% male and 34.9% female). The unemployment rate among the economically active population was just 4.7%. However, the workforce is experiencing a change as it is shifting from subsistence agriculture and fishing to more specialized types of activities. According to ILO data, 79.6% of total workforce was engaged in services sector, 11% in agricultural sector and 9.4% in industrial sector during 2011 (figure 4.2).

⁹ See www.imf.org/external/np/sec/pr/2014/pr1441.htm (accessed on 25 February 2015).

¹⁰ World Bank Report No. 69510-MH, p. I. Available at <http://documents.worldbank.org/curated/en/2013/02/17389687/marshall-islands-country-partnership-strategy-period-fy13-fy16> (accessed on 25 February 2015).

¹¹ RMI 2011 Census, p.17. Available at www.doi.gov/oia/reports/upload/RMI-2011-Census-Summary-Report-on-Population-and-Housing.pdf (accessed on 25 February 2015).

Figure 4.2. Workforce share in the major sectors of the Marshall Islands, 2011

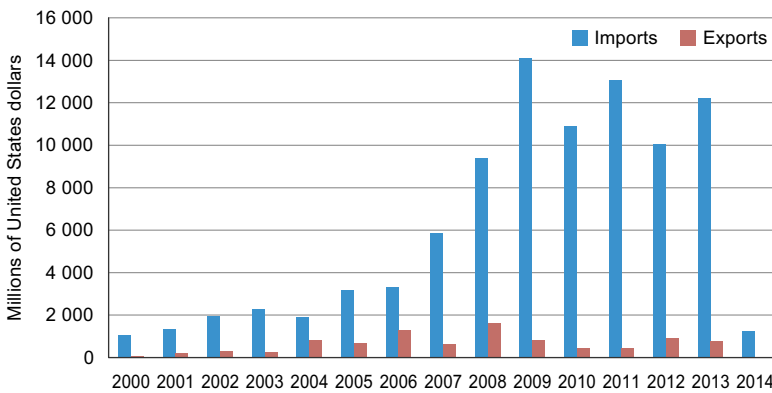


Source: Author's calculation based on ILO data.

External trade of the Marshall Islands

Imports are much higher than exports, which has resulted in a high negative trade balance over the years (figure 4.3). During 2013, exports and imports of merchandise amounted to 30% and 69% of GDP, respectively (ESCAP, 2014b).

Figure 4.3. Total exports and imports by the Marshall Islands, 2000-2014

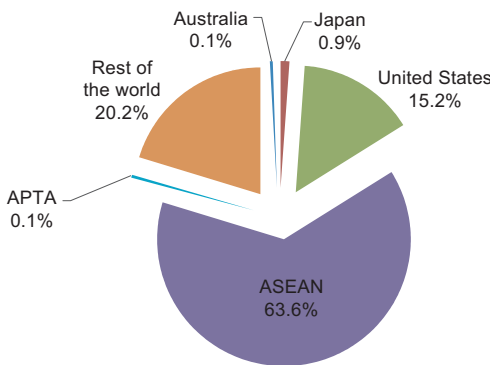


Source: Author's calculation based on WITS COMTRADE data.

Figure 4.3 also shows that the country had a huge trade deficit after 2006 resulting from an increase in imports. The trade deficit was highest during 2009 and exports showed a decline post 2008, indicating a negative effect possibly due to the global economic recession.

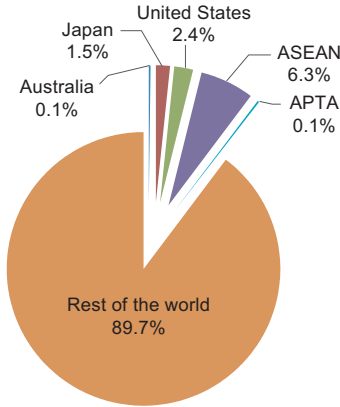
An interesting picture emerges when looking at the destinations of exports from the Marshall Islands (figures 4.4 to 4.7). The United States is a good market, which may be due to the colonial history. In 2000, ASEAN and the United States were the major markets, accounting for 63.6% and 15.2%, respectively, of total exports by the Marshall Islands. The APTA market accounted for a negligible share of 0.1%. After 2010, the Marshall Islands exports to APTA member countries started to increase. During 2013, the APTA market share of the Marshall Islands exports increased to 32%, which was a significant rise from 3.5% in 2010.

Figure 4.4. Destinations of exports from the Marshall Islands, 2000



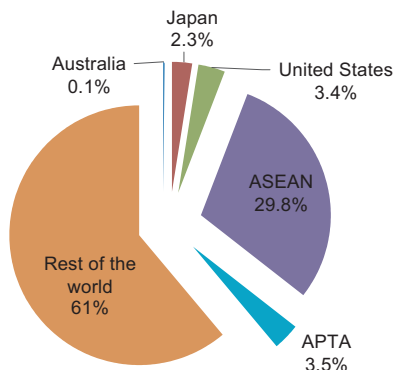
Source: Author's calculation based on WITS COMTRADE data.

Figure 4.5. Destinations of exports from the Marshall Islands, 2007



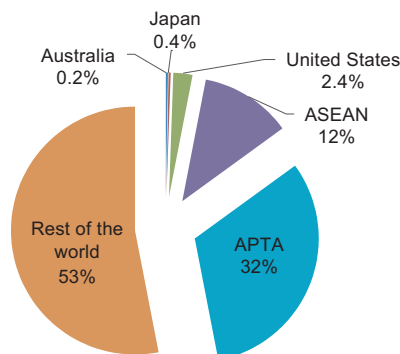
Source: Author's calculation based on WITS COMTRADE data.

Figure 4.6. Destinations of exports from the Marshall Islands, 2010



Source: Author's calculation based on WITS COMTRADE data.

Figure 4.7. Destinations of exports from the Marshall Islands, 2013



Source: Author's calculation based on WITS COMTRADE data.

Table 4.1 shows that fish products are the main export items from the Marshall Islands to China, which have increased during the period of 2010 to 2013. Exports by the Marshall Islands to India comprise mainly in mineral fuels and mineral oils (table 4.2), while in the case of the Republic of Korea exports comprise mainly ships, boats, floating structures, mineral fuels and mineral oils (table 4.3). In 2010, Bangladesh also imported mineral fuels from the Marshall Islands. However, one should also note in relation to exports of ships, boats and floating structures and mineral fuels from the Marshall Islands, this may be a result of exports from the United States military base in Kwajalein.

Overall, fish products, mineral fuels and mineral oils are the main export items by the Marshall Islands to the APTA region. The above discussion also shows that the APTA member countries have become a major export destination for the Marshall Islands. This could also be due to the aftereffects of the recent global recession, which create the need for better engagement by the Marshall Islands with the Participating States of APTA in order to protect from similar shocks in the future.

Table 4.1. Top export items by the Marshall Islands to China

(US\$ thousand)

Chapter code	Product description	Exports (average values in 2010 and 2013)
03	Fish and crustaceans, molluscs	41 453.50
16	Preparations of meat, of fish	15.00
72	Iron and steel	25.65
84	Nuclear reactors, boilers, machinery	1.75
85	Electrical machinery and equipment	0.02

Source: Author's calculation based on WITS COMTRADE data.

Table 4.2. Top export items by the Marshall Islands to India

(US\$ thousand)

Chapter code	Product description	Exports (average values in 2010 and 2013)
27	Mineral fuels, mineral oils	3 465.00
33	Essential oils and resinoids	14.42
39	Plastics and rubber and articles thereof	1.67
49	Printed books, newspapers, pictures	1.17
84	Nuclear reactors, boilers, machinery	4.34

Source: Author's calculation based on WITS COMTRADE data.

Table 4.3. Top export items by the Marshall Islands to the Republic of Korea

(US\$ thousand)

Chapter code	Product description	Exports (average values in 2010 and 2013)
23	Residues and waste from the food industries	39.52
27	Mineral fuels, mineral oils	5 978.46
72	Iron and steel	420.61
74	Copper and articles thereof	70.00
85	Electrical machinery and equipment	53.61
89	Ships, boats and floating structures	87 346.85

Source: Author's calculation based on WITS COMTRADE data.

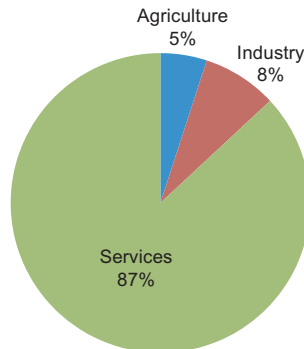
2. Micronesia

Micronesia comprises around 607 islands grouped into four island States of Yap, Chuuk, Pohnpei and Kosrae. The islands are scattered across 1.6 million km² in the Pacific.¹² Each State has its own language, culture and geography. Micronesia has a total land mass of 702 km². The climate is tropical with heavy rainfall, especially in the eastern islands. The country is located in the typhoon belt, which results in severe storm damage.

Micronesia receives substantial grants and other financial assistance from the United States under the agreement of Compact of Free Association between the two countries.¹³ The agreement also allows Micronesian citizens to live, work and study in the United States without a visa. Micronesia is a member of ESCAP, Pacific Islands Forum and the IMF. It is not a WTO member or observer.

Agriculture in Micronesia is of the subsistence type but the country also exports a few agricultural and fish products to the world. The main agricultural products are coconuts, betel nuts, sweet potatoes, bananas sakau (kava) and cassava. Fish constitutes a large share in Micronesia's export basket. These agricultural and fish products could be a good for Micronesia's exports subject to proper investment and production regime. Micronesia earns good revenue from allowing foreign fishing vessels to operate in its territories, although concern is rising with regard to overfishing. Export earnings from fish products and fishing licence fees have helped Micronesia to reduce a huge current account deficit created by the global financial crisis in 2009. There is no significant manufacturing sector. The country has a small tourism sector that has growth potential.

Figure 4.8. GDP share of major sectors in Micronesia, 2013



Source: Author's calculation based on World Bank data.

¹² World Bank Report No. 87818-FM, p. 1; available at <http://documents.worldbank.org/curated/en/2014/04/19624065/micronesia-federated-states-country-partnership-strategy-period-fy2014-2017> (accessed on 26 February 2015).

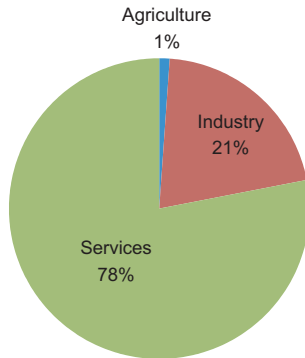
¹³ According to the CIA World Fact Book, the United States provided \$1.3 billion to Micronesia between 1986 and 2001 under the agreement. It is expected to provide \$2.1 billion during 2004-2024.

Figure 4.8 shows that the services sector has a very high share of Micronesia's GDP (87%). It can very well be observed that the economy and the population of Micronesia are very much dependent on its services sector.

Micronesia's economy was seriously affected by the global financial crisis; in 2008, the country's GDP growth rate was -3%, but in 2009 it showed signs of recovery with a growth rate of 1%. However, in 2013 the GDP growth rate¹⁴ again became negative when it dropped to -4%. The balance of trade (considered here as the difference between exports and imports) was also negative due to a high level of imports. In 2013, the balance of trade was minus \$65.66 million. In 2012, the inflow of FDI was very low at 0.2% of GDP (ESCAP, 2014b).

In 2013 the total population of Micronesia was 103,900. The annual population growth rate was -0.4% according to the Micronesia Census 2010. Chuuk State has the highest density of population. In 2010, the workforce in Micronesia totalled 37,919. Most of its workforce is concentrated into services sector with a share of 78% of total workforce during 2011 (figure 4.9).

Figure 4.9. Workforce share in the major sectors of Micronesia, 2011



Source: Author's calculation based on data from The World Fact Book, CIA.

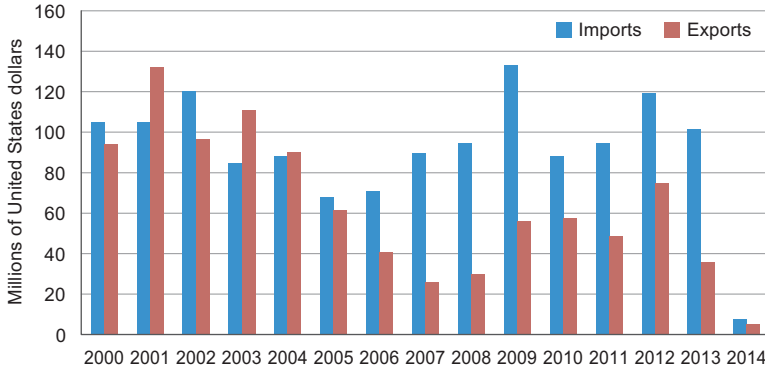
External trade of Micronesia

In 2013, exports and imports of merchandise amounted to 9.1% and 60.8% of GDP, respectively (ESCAP, 2014b).

Figure 4.10 shows the variation in Micronesia's balance of trade during 2000-2014. It was highly negative from 2005 to 2013, especially in 2009 due to imports of capital goods such as electrical machinery, machinery related to nuclear reactors etc. The trade balance was positive only during 2001, 2003 and 2004.

¹⁴ See <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>.

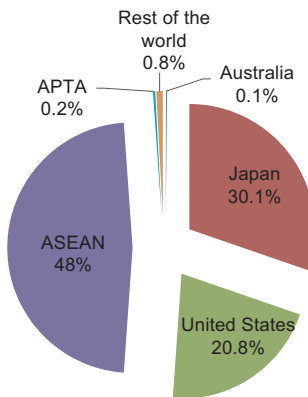
Figure 4.10. Total exports and imports of Micronesia, 2000-2014



Source: Author's calculation based on WITS COMTRADE data.

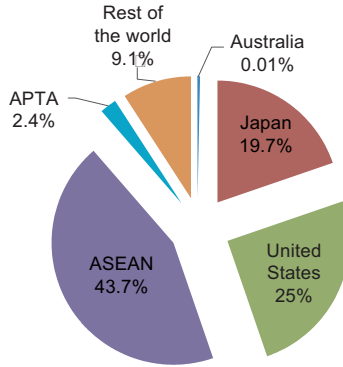
During 2000, the United States, Japan and ASEAN accounted for a considerable market share of Micronesia's total exports (figures 4.11 to 4.14). On the other hand, the Participating States of APTA had a negligible share of 0.16%. The export share with the rest of the world is very low, ranging from 1% to 9% between 2000 and 2013. The Participating States of APTA has become a major trade partner of Micronesia, accounting for a 34.6% share of Micronesia's total exports in 2013.

Figure 4.11. Destinations of exports from Micronesia, 2000



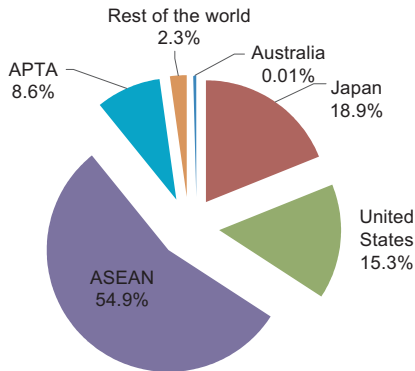
Source: Author's calculation based on WITS COMTRADE data.

Figure 4.12. Destinations of exports from Micronesia, 2007



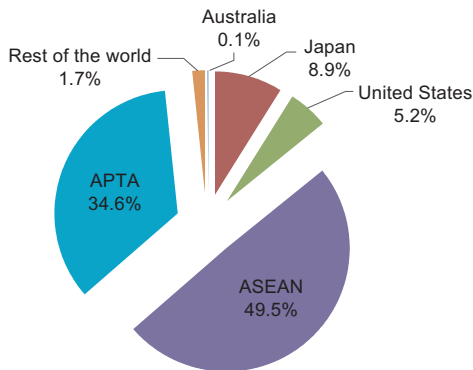
Source: Author's calculation based on WITS COMTRADE data.

Figure 4.13. Destinations of exports from Micronesia, 2010



Source: Author's calculation based on WITS COMTRADE data.

Figure 4.14. Destinations of exports from Micronesia, 2013



Source: Author's calculation based on WITS COMTRADE data.

Exports from Micronesia to China and the Republic of Korea have increased considerably in recent times (tables 4.4 and 4.5). The main export items to China and the Republic of Korea was fish products. The other APTA member countries did not import products from Micronesia during 2000-2013, except for Sri Lanka in 2013 which imported only one item under plastics and articles thereof (HS code 39), with a very small export value of \$990.

Table 4.4. Exports from Micronesia to China

(US\$ thousand)

Chapter code	Product description	Exports (average values in 2010 and 2013)
03	Fish and crustaceans, molluscs	6 346.50
05	Products of animal origin, n.e.s.	61.55
76	Aluminium and articles thereof	12.25
85	Electrical machinery and equipment, and parts thereof	0.15
94	Furniture, lamp and lighting fitting; n.e.s.	0.25
97	Works of art, collectors' pieces and antiques	1.35

Source: Author's calculation based on WITS COMTRADE data.

Table 4.5. Exports from Micronesia to the Republic of Korea

(US\$ thousand)

Chapter code	Product description	Export (average values in 2010 and 2013)
03	Fish and crustaceans, molluscs	869.40
05	Products of animal origin, n.e.s.	0.50
16	Preparations of meat, fish or crustaceans, molluscs	2.05
24	Tobacco and manufactured tobacco substitutes	8.25
56	Wadding, felt and non-wovens; special yarns	257.25
62	Articles of apparel and clothing accessories	2.20
72	Iron and steel	102.65
76	Aluminium and articles thereof	50.95
85	Electrical machinery and equipment, and parts thereof	11.65
89	Ships, boats and floating structures	196.05
90	Optical, photographic, cinematographic, measuring, checking, precision; medical or surgical instruments and apparatus; clocks and watches; musical instrument	0.80

Source: Author's calculation based on WITS COMTRADE data.

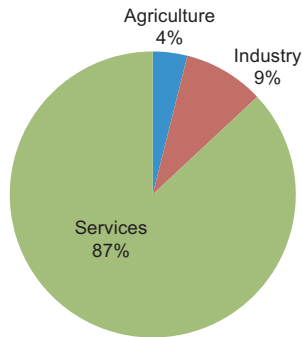
3. Palau

Palau consists of 16 States comprising a total of more than 340 islands. Only eight of the islands are inhabited. Koror, the main economic center of Palau, covers 7.1 square miles. The climate is hot and humid. In 1986, Palau and the United States signed a Compact of Free Association and in 1994 Palau became an independent country and a member of the United Nations. Under the Compact, the United States is responsible for Palau's defence.

Agriculture in Palau is of the subsistence type, but subject to proper production procedures it could export agricultural products to the world. Its main agricultural items are coconuts, copra, cassava and sweet potatoes. Fishing forms an important share in the economy, with tuna taking up a significant share of Palau's export basket. There are no large-scale manufacturing industries. Palau's economy is mostly tourism-driven with the marine environment forming the main attraction. Visitor receipts represented around 45% of Palau's GDP in 2005.¹⁵ Palau's economy is also dependent upon financial assistance provided by the United States. Under the Compact of Free Association, the United States provided around \$700 million to Palau during the first 15 years following the commencement of the Compact.

Palau is extremely dependent upon imports and has a high trade deficit. In 2013, services sector contributed the largest share to GDP in Palau (87%) (figure 4.15). Agricultural and Industrial sectors had very low share showing that services is the most important sector in this island country.

Figure 4.15. GDP share of major sectors in Palau, 2013

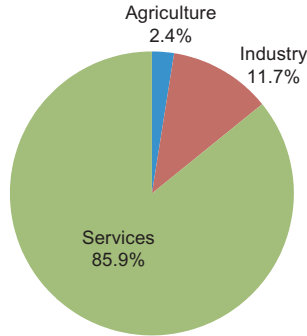


Source: Author's calculation based on World Bank data.

Most of its population is located in urban areas. According to the latest available data, the workforce is skewed towards the services sector, which consists of almost 86% of the total workforce during 2008 (figure 4.16). Agriculture has the lowest share of the workforce.

¹⁵ Mauritius +5 Report: Republic of Palau, p. 99; available at www.sidsnet.org/msi_5/docs/nars/Pacific/Palau-MSI-NAR2010.pdf (accessed on 2 March 2015).

Figure 4.16. Workforce share in the major sectors of Palau, 2008



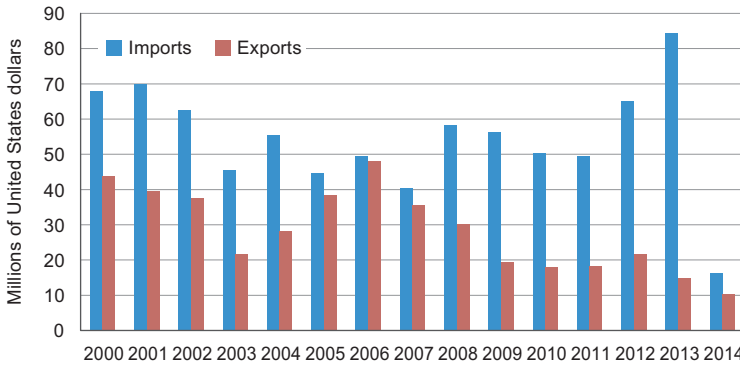
Source: Author's calculation based on ILO data.

Palau is a member of many international organizations, including the World Bank, the IMF and the United Nations. It is neither a member of WTO nor has observer status.

External trade of Palau

In 2013, exports and imports of merchandise amounted to only 3.2% and 68%, respectively, of GDP. The inflow of FDI was also very low at 2.5% of GDP in 2012 (ESCAP, 2014b).

Figure 4.17. Total exports and imports by Palau, 2000-2014

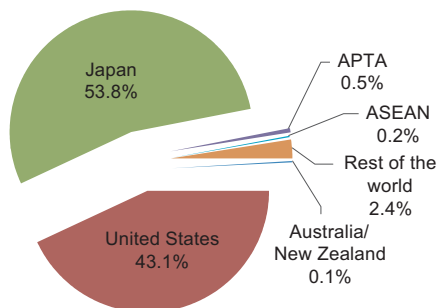


Source: Author's calculation based on WITS COMTRADE data.

Figure 4.17 shows that Palau had a negative balance of trade from 2000 to 2014, with the highest negative balance occurring in 2013. It is also clear from figure 4.17 that Palau's exports were comparatively low after the 2008 global financial crisis.

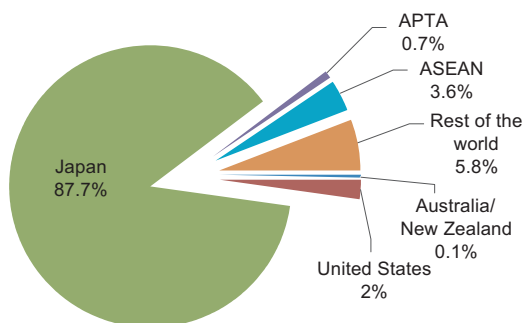
Japan and the United States are Palau's most important export destinations. It could be due to their common colonial history as discussed above. Japan's share in Palau's total exports increased from 53.8% in 2000 to 91% in 2013 (figures 4.18 to 4.21). The share of the Participating States of APTA remained very small during the same period.

Figure 4.18. Destinations of exports from Palau, 2000



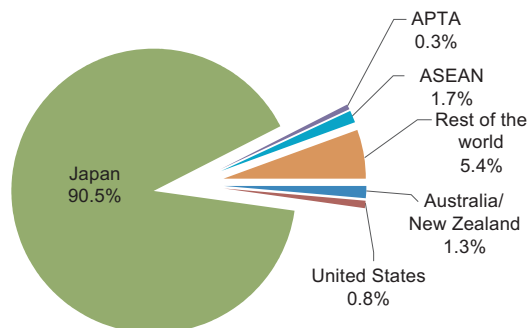
Source: Author's calculation based on WITS COMTRADE data.

Figure 4.19. Destinations of exports from Palau, 2007



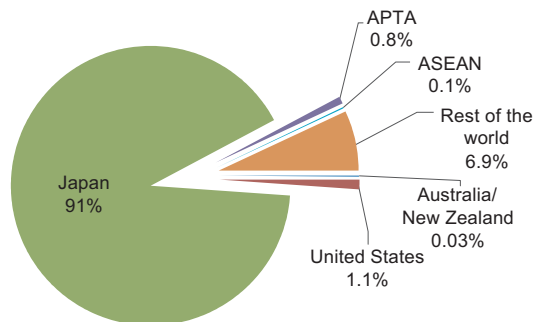
Source: Author's calculation based on WITS COMTRADE data.

Figure 4.20. Destinations of exports from Palau, 2010



Source: Author's calculation based on WITS COMTRADE data.

Figure 4.21. Destinations of exports from Palau, 2013



Source: Author's calculation based on WITS COMTRADE data.

4. Trade agreements of the Marshall Islands, Micronesia and Palau

The Marshall Islands and Micronesia are members of the South Pacific Regional Trade and Economic Co-operation Agreement. It was signed in 1980 and it is a non-reciprocal trade agreement in which Australia and New Zealand offer duty-free and unrestricted access for specified products originating from the developing island member countries of the Pacific Islands Forum.

Micronesia is a signatory to the Pacific Island Countries Trade Agreement (PICTA) that was signed in 2001 and came into force in 2003. However, Micronesia is yet to ratify the Agreement. It is a free trade agreement among the 14 Pacific Island Forum Countries (PIFCs). However, the Marshall Islands and Palau are not signatory members of PICTA. Micronesia and the Marshall Islands are signatory to PICTA Protocol on Trade in Services, which was concluded in 2012.

The Marshall Islands, Micronesia and Palau have jointly formed a group named the "Micronesian Trade and Economic Community", which was signed on September 2014 with the objective of helping each other in social and economic development. The vision and goal of the treaty is (a) to endeavour towards the creation of MTEC, through the promotion of subregional trade and economic cooperation and integration, (b) to support the achievement of sustainable and equitable socio-economic development of its member States, and (c) to improve the standard and quality of life of their people, thus contributing to the progress and development of the Asia and Pacific region.¹⁶ Market diversification offers strong potential for boosting exports by the Marshall Islands, Micronesia and Palau (table 4.6). The Treaty will enter into force 30 days after the deposit of the instruments of ratification by two-thirds of the Member States listed in the Preamble. The Marshall Islands became the first country to ratify the Treaty establishing MTEC in February 2015. At the seventh MTEC Meeting in Majuro in July 2015, Micronesia and Palau announced that the

¹⁶ See www.micronesiaforum.org/index.php?p=/discussion/12517/fsm-marshall-islands-and-palau-sign-historic-micronesia-trade-and-economic-treaty/p1.

Table 4.6. Market diversification as a percentage of total exports

Palau	2000	2007	2010	2013
Australia/New Zealand	0.07	0.09	1.30	0.03
United States	43.06	2.02	0.84	1.13
Japan	53.75	87.72	90.46	91.05
APTA	0.54	0.74	0.31	0.78
ASEAN	0.20	3.58	1.66	0.09
Rest of the world	2.37	5.85	5.42	6.91
Marshall Islands	2000	2007	2010	2013
Australia/New Zealand	0.09	0.06	0.09	0.19
United States	15.15	2.37	3.36	2.37
Japan	0.91	1.47	2.31	0.41
APTA	0.10	0.10	3.49	32.03
ASEAN	63.58	6.28	29.76	12.00
Rest of the world	20.17	89.71	61.00	53.00
Micronesia	2000	2007	2010	2013
Australia/New Zealand	0.09	0.01	0.01	0.10
United States	20.82	25.02	15.35	5.18
Japan	30.08	19.73	18.87	8.91
APTA	0.16	2.45	8.57	34.59
ASEAN	48.03	43.74	54.89	49.51
Rest of the world	0.82	9.05	2.32	1.71

Source: Author's calculation based on WITS COMTRADE data.

package for the ratification of the MTEC Treaty had been submitted to their respective national Congress.

These three island countries are also participating in the negotiations for the "Pacific Agreement on Closer Economic Relations (PACER) Plus" between Pacific Island Countries and Australia and New Zealand. PACER-Plus will replace PACER, which came into force in 2002. The objective of this agreement is "to offer an opportunity to help PIFCs benefit from enhanced regional trade and economic integration."¹⁷ The key interests of the agreements can be summarized as¹⁸:

- (a) Providing support for the long-term opportunity to create jobs, enhance private sector growth, raise standards of living, and boost economic growth in the Forum Island Countries;
- (b) Enhancing trade facilitation and trade capacity-building in order to strengthen the PIFCs' ability to trade.

¹⁷ See <http://dfat.gov.au/trade/agreements/pacer/Pages/pacific-agreement-on-closer-economic-relations-pacer-plus.aspx> (accessed on 23 April 2015).

¹⁸ See <http://dfat.gov.au/trade/agreements/pacer/Pages/pacific-agreement-on-closer-economic-relations-pacer-plus.aspx>.

There is also some concern over this agreement. The Pacific island countries lack resources and are vulnerable to climate change. They also lack funds for infrastructure and development. Taxes on imported goods (often luxury goods) are an important source of revenue for funding various development projects. It is stated that tariffs are so important that if PACER-Plus removes these tariffs, it will have a disastrous impact, both on public services and on employment levels.¹⁹

C. Potential for exports by the Marshall Islands, Micronesia and Palau to APTA members

The Participating States of APTA provide concession at very much disaggregated level of HS classification. For most of the countries this concession list is available at the 8-digit level. For Sri Lanka concessions are available at the 6-digit level while for the Republic of Korea²⁰ the list is available at the 10-digit level. The data collected from the WITS COMTRADE database during this study is at the 6-digit level of disaggregation. To make it compatible with this study the 8- and 10-digit concession list has been converted to the 6-digit level of HS disaggregation.

1. Analysis of Revealed Comparative Advantage of export items from the Marshall Islands, Micronesia and Palau

The Revealed Comparative Advantage (RCA) simply shows whether a country has comparative or relative advantage or disadvantage in any of its export products in world trade. This study calculates the RCA index, following equation (1), for MTEC members. Although the calculation was made for all export items of these three countries, only those items that have an RCA value of more than 1 are reported here.²¹ The RCA index has been constructed for 2010 and 2013, since this study deals with the recent trade structure of these island countries.

In the case of the Marshall Islands, there are only four items at the 2-digit level that have an RCA value of more than 1 (table 4.7). Among these, chapter 89 has the highest RCA value while chapter 3 has the second highest RCA value in the list. There is a huge gap between the RCA values of these two products and the rest of the products in the list. From the table it is clear that the comparative advantage of the Marshall Islands is concentrated only in chapter 89 followed by chapter 3. The four items had a share of 95% of the Marshall Islands' total exports to the world in 2013. It is also evident from the export value of these items that the Marshall Islands is exporting to the world (table 4.10).

Micronesia has seven items in the RCA list (table 4.8) that accounted for around 90% of the country's total exports to the world in 2013. Compared to the Marshall Islands, Micronesia has the highest RCA value for chapter 3 and the second highest RCA value for chapter 46. In comparison, the other products had quite low RCAs.

¹⁹ See <http://aftinet.org.au/cms/pacific-islands-trade-agreement/pacific-agreement-closer-economic-relations-pacer>.

²⁰ There are 15 ex-out items in the Republic of Korea's 10-digit concession list.

²¹ An RCA value of less than 1 means comparative disadvantage.

Table 4.7. RCA values of Marshall Islands export products

Chapter code	Product description	2013
03	Fish and crustaceans, molluscs	37.86
15	Animal or vegetable fats and oils	1.31
16	Preparations of meat, of fish	2.07
89	Ships, boats and floating structures	215.41

Source: Author's calculation based on WITS COMTRADE data.

Table 4.8. RCA values of Micronesia export products

Chapter code	Product description	2013
03	Fish and crustaceans, molluscs	154.52
05	Products of animal origin, n.e.s.	4.92
46	Manufactures of straw, esparto	46.07
56	Wadding; felt and non-wovens, special yarns	5.95
89	Ships, boats and floating structures	5.88
97	Works of art, collectors' pieces and antiques	0.05
99	Commodities not specified	1.84

Source: Author's calculation based on WITS COMTRADE data.

Palau has five products in the RCA list (table 4.9). It has the highest RCA value for chapter 3. The five products constituted a 93% share of Palau's total exports to the world in 2013.

Table 4.9. RCA values of Palau export products

Chapter code	Product description	2013
03	Fish and crustaceans, molluscs	163.16
22	Beverages, spirits and vinegar	0.77
59	Impregnated, coated, covered or laminated textile fabrics	2.95
76	Aluminium and articles thereof	1.07
97	Works of art, collectors' pieces and antiques	1.40

Source: Author's calculation based on WITS COMTRADE data.

From tables 4.7 to 4.9, it is clear that Micronesia and Palau have a comparative advantage in fish, crustaceans and molluscs while the comparative advantage of the Marshall Islands is in ships, boats and floating structures which are low-skilled and low technology-intensive products.²² The export products with high RCA values have higher shares in the export baskets of these countries.

²² See http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&dcd=2&ved=0CCcQFjAB&url=http%3A%2F%2Functad.org%2Fen%2FDocs%2Ffitcdtab49_en.pdf&ei=D2xQVam2AdKB8QXY-ICYCQ&usg=AFQjCNFjhUCKmFhQyu1tQMJDiw1N0vx7Bg&bvm=bv.92885102,d.dGc (accessed on 11 May 2015).

**Table 4.10. Top 20 export items of the Marshall Islands, Micronesia and Palau to the world
(Average of 2011, 2012 and 2013)**

Chapter code	Marshall Islands			Micronesia			Palau		
	Product description	Export value (US\$ thousand)	Chapter code	Product description	Export value (US\$ thousand)	Chapter code	Product description	Export value (US\$ thousand)	
89	Ships, boats and floating structures	590 018	03	Fish and crustaceans, molluscs	52 747	03	Fish and crustaceans, molluscs	18 281	
03	Fish and crustaceans, molluscs	156 435	99	Commodities not specified according	1 081	72	Iron and steel	354	
27	Mineral fuels, mineral oils	16 305	72	Iron and steel	360	76	Aluminium and articles thereof	151	
16	Preparations of meat, of fish	6 599	85	Electrical machinery and equipment	267	99	Commodities not specified	150	
99	Commodities not specified according	2 276	89	Ships, boats and floating structures	251	22	Beverages, spirits and vinegar	144	
84	Nuclear reactors, boilers, machinery	2 179	81	Other base metals; cermet; article	238	71	Natural or cultured pearls	140	
15	Animal or vegetable fats and oils	1 913	46	Manufactures of straw, esparto	213	85	Electrical machinery and equipment	108	
72	Iron and steel	1 241	74	Copper and articles thereof	210	24	Tobacco and manufactured tobacco	88	
71	Natural or cultured pearls	1 087	76	Aluminium and articles thereof	176	84	Nuclear reactors, boilers, machinery	77	
85	Electrical machinery and equipment	955	56	Wadding, felt and non-wovens	159	87	Vehicles other than railway trains or trams	72	
23	Residues and waste from food	555	40	Rubber and articles thereof	144	74	Copper and articles thereof	53	
74	Copper and articles thereof	552	64	Footwear, gaiters and the like	135	44	Wood and articles of wood	44	
70	Glass and glassware	334	05	Products of animal origin, not else	114	39	Plastics and articles thereof	38	
42	Articles of leather; saddlery	324	48	Paper and paperboard	107	19	Preparations of cereals, flour	37	
20	Preparations of vegetables, fruit	291	84	Nuclear reactors, boilers, machinery	73	33	Essential oils and resinoids	31	
30	Pharmaceutical products	234	90	Optical, photographic, cinematograph	67	02	Meat and edible meat offal	26	
90	Optical, photographic, cinematograph	226	27	Mineral fuels, mineral oils	64	59	Impregnated, coated, covered	19	
05	Products of animal origin, not else	194	83	Miscellaneous articles of base metal	60	05	Products of animal origin	17	
95	Toys, games and sports requisites	128	30	Pharmaceutical products	51	97	Works of art, collectors' pieces	16	
12	Oil seeds and oleaginous fruit	119	12	Oil seeds and oleaginous fruit	45	90	Optical, photographic, cinematograph	12	

Source: Author's calculation based on WITS COMTRADE data.

2. Analysis of trade complementarities

Trade complementarity shows the prospect of trade among countries. To measure trade complementarity, this study constructed a trade complementarity index (TCI) between the Participating States of APTA and the three individual island countries, following equation (2). The TCI value was low in 2013 for the Marshall Islands and the Participating States of APTA (table 4.11). The highest TCI value is with Sri Lanka followed by China.

Table 4.11. TCI between the Marshall Islands and the Participating States of APTA

Importers (APTA members)	2013
Bangladesh	–
China	14.96
India	12.19
Republic of Korea	12.30
Sri Lanka	18.03

Source: Author's calculation using WITS COMTRADE data.

The TCI value of Micronesia with the Participating States of APTA is higher compared with the case of the Marshall Islands, implying that there is an increasing match between imports by the Participating States of APTA and exports from Micronesia. The TCI value was highest for India followed by Sri Lanka (table 4.12).

Table 4.12. TCI between Micronesia and the Participating States of APTA

Importers (APTA members)	2013
Bangladesh	–
China	28.78
India	35.39
Republic of Korea	30.86
Sri Lanka	31.65

Source: Author's calculation using WITS COMTRADE data.

During 2013 the highest TCI value of Palau with the Participating States of APTA was for the Republic of Korea, followed by India and Sri Lanka (table 4.13).

Table 4.13. TCI between Palau and the Participating States of APTA

Importers (APTA members)	2013
Bangladesh	–
China	27.56
India	33.72
Republic of Korea	33.96
Sri Lanka	32.35

Source: Author's calculation using WITS COMTRADE data.

The overall TCI values of the Marshall Islands, Micronesia and Palau with the Participating States of APTA are quite low. A value close to 100 is ideal, but for these countries the TCI values are below 40, which essentially indicate low trade complementarity. This low complementarity index value could be due to trade barriers among these countries as well as factor endowments. As discussed in the previous section on RCA, these countries have great concentration of their comparative advantage in only one or two products, which results in the lack of complementarity.²³

3. Export potential of the Marshall Islands

In 2013, the Marshall Islands exports to the Participating States of APTA, with the exception of Bangladesh,²⁴ amounted to \$271.57 million. The Republic of Korea was the top destination for the Marshall Islands export products, followed by China, India and Sri Lanka.

(a) Bangladesh

Data on trade between Bangladesh and the Marshall Islands are available only for 2011. Bangladesh has granted concessions on 598 items to the Participating States of APTA (at the 6-digit level of HS classification). Of those 598 items, the global imports were only 284 items worth \$1,859 million.

Bangladesh imported products worth \$140,000 from the Marshall Islands but none of those products were covered under the APTA concession list. To examine trade potential, global imports by Bangladesh were matched with global exports by the Marshall Islands. Only 12 products exported to the world by the Marshall Islands are on the Bangladesh APTA concession list; therefore these 12 products have the potential to become exports from the Marshall Islands to Bangladesh (table 4.14).

Table 4.14. Potential products for exports by the Marshall Islands to Bangladesh

No.	Chapter code	Product description	Marshall Islands exports to world in 2011 (US\$ thousand)	Bangladesh imports from world in 2011 (US\$ thousand)	Bangladesh imports from Marshall Islands in 2011 (US\$ thousand)	MoP
1	611610	Gloves, mittens and mitts, knitted/crocheted items, impregnated, coated or covered with plastics or rubber	8.085	84.878		20
2	611699	Gloves, mittens and mitts, knitted/crocheted items of other textile materials	0.054	403.962		20
3	620113	Men's/boys' overcoats, raincoats	5.427	152.016		40
4	840710	Spark-ignition reciprocating/rotary	63.798	448.377		10

²³ A similar result was found by Péidy (2005) for the Middle East and North Africa (MENA) countries.

²⁴ Bangladesh-Marshall Islands trade data available only for 2011.

Table 4.14. (continued)

No.	Chapter code	Product description	Marshall Islands exports to world in 2011 (US\$ thousand)	Bangladesh imports from world in 2011 (US\$ thousand)	Bangladesh imports from Marshall Islands in 2011 (US\$ thousand)	MoP
5	840991	Parts suit. for use solely or principally with spark-ignition internal combustion piston engines	17.045	16 412.499		10
6	842489	Other mechanical appliances	0.096	609.784		15
7	847989	Other machines and mechanical appliances	16	71 480.329		10
8	851810	Microphones and stands	0.652	589.904		15
9	890110	Cruise ships, excursion boats	70 304.463	35 053.305		20
10	890120	Tankers	96 108.042	74 189.745		20
11	890400	Tugs and pusher craft	11 751.158	540.825		20
12	900792	Parts and accessories for projector	0.228	22.042		20
Total			178 275	199 987.7		

Sources: Author's calculation using WITS COMTRADE and ESCAP APTA Secretariat data.

Since the total global imports by Bangladesh were more than the total imports by the Marshall Islands, the total trade potential for the latter country was almost \$178.28 million.

There are an additional 19 products²⁵ on Bangladesh's concession list that were (a) not exported by the Marshall Islands to the world,²⁶ but which Bangladesh imported from the world; or (b) which the Marshall Islands exported to the world but Bangladesh did not import from the world. These products could be of future trade interest to the Marshall Islands, subject to both proper investment and production regimes.

(b) China

In 2013, China imported nine types of products from the Marshall Islands with a total trade value of \$77.75 million. Of those nine products, only three are under China's concession list. The total trade value of these three products was \$77.69 million (table 4.15). The Marshall Islands exported 84 types of product to the world that are on China's concession list. The total trade value of these items was \$180.72 million. China's import value of these items from the world was \$132,604.20 million. In this case, trade potential of the Marshall Islands with China was \$180.72 million for those 84 items.

²⁵ Details are available at <http://www.unescap.org/apta>.

²⁶ These items are selected on the basis of exports by the Marshall Islands to the world during 2011 and 2013. It is quite possible that some or all of these items were not exported by the Marshall Islands in the year under consideration but were exported in other years. The same applies for Micronesia and Palau.

Table 4.15. Potential products for exports by the Marshall Islands to China

No.	Chapter code	Product description	Marshall Islands exports to world in 2013 (US\$ thousand)	China imports from world in 2013 (US\$ thousand)	China imports from Marshall Islands in 2013 (US\$ thousand)	MoP
1	030232	Yellowfin tuna (Thunnus albacares)	1 120.87	166.44		25
2	030341	Albacore/long-finned tuna (Thunnus albacares)	735.18	3 825.50		25
3	030342	Yellowfin tuna (Thunnus albacares)	21 601.56	12 828.72	5 831.99	25
4	030343	Skipjack/striped-bellied bonito	135 243.62	140 280.01	71 856.84	25
5	030349	Tunas (excl. of 0303.41-0303.46)	0.61	708.32		25
6	030612	Lobsters (Homarus spp.)	1.35	11 236.66	1.35	28
7	060290	Live plants, n.e.s., incl. their roots, other	0.35	71 231.94		50
8	060313	Fresh orchids	2.01	12 390.80		50
9	060314	Fresh chrysanthemums	13.02	724.73		50
10	071339	Beans (Vigna spp., Phaseolus spp.)	5.07	1 184.86		50
11	081090	Fresh fruit, n.e.s. in Ch. 8	18.83	921 505.80		33
12	151311	Coconut (copra) oil, crude	2 337.42	25 542.10		50
13	200899	Edible parts of plants, prepared	329.77	65 564.05		8
14	200990	Mixtures of juices, unfermented	0.48	22 854.50		13
15	210690	Food preparations	0.08	915 941.19		10
16	230120	Flours, meals and pellets of fish	400.08	1 676 179.26		100
17	230650	Oil-cake and other solid residues	220.86	27 780.91		50
18	271019	Petroleum oils and oils obtained from bituminous minerals; other	13 729.39	28 264 372.33		10
19	300490	Medicaments	415.35	6 955 102.52		35
20	382490	Chemical products and preparations	0.17	6 387 579.92		35
21	392690	Articles of plastics	19.26	2 481 112.89		35
22	420229	Handbags, whether/not with shoulder strap	8.12	1 398.25		35
23	420292	Trunks, suit-cases, vanity-cases	437.30	58 860.05		35
24	610190	Men's/boys' overcoats, car-coats	0.26	2 157.19		35
25	610342	Men's/boys' trousers, bib brace	0.20	19 751.49		35
26	610510	Men's/boys' shirts, knitted/crocheted	0.30	85 280.67		35
27	610910	T-shirts, singlets and other vests	0.01	222 945.77		35
28	611020	Jerseys, pullovers, cardigans, waistcoats	0.69	130 269.26		35
29	611030	Jerseys, pullovers, cardigans, waistcoats	0.21	112 651.7		35
30	611300	Garments made up of knitted/crocheted	1.07	407.07		35

Table 4.15. (continued)

No.	Chapter code	Product description	Marshall Islands exports to world in 2013 (US\$ thousand)	China imports from world in 2013 (US\$ thousand)	China imports from Marshall Islands in 2013 (US\$ thousand)	MoP
31	611693	Gloves, mittens and mitts, knitted/crocheted)	0.11	4 554.55		35
32	611780	Other made-up clothing accessories	0.34	4 656.57		35
33	620193	Men's/boys', anoraks (incl. ski-jacket)	0.18	219 866.65		35
34	620342	Men's/boys' trousers, bib and brace	0.20	281 276.20		35
35	620433	Women's/girls' jackets and blazers	37.16	65 705.73		35
36	620443	Women's/girls' dresses (excl. knitted)	0.45	50 958.05		35
37	620462	Women's/girls', trousers, bib and brace of cotton	0.30	161 938.18		35
38	620463	Women's/girls', trousers, bib and brace of synthetic fibres	2.06	42 994.69		35
39	620520	Men's/boys' shirts (excl. knitted/)	21.22	200 700.85		50
40	620640	Women's/girls' blouses, shirts	0.73	27 557.73		35
41	621143	Track suits (excl. knitted/crocheted)	51.74	31 917.07		35
42	640610	Uppers and parts thereof (excl. stiffeners)	1.06	46 116.29		35
43	680293	Mosaic cubes and the like, of granite	55.17	3 289.09		30
44	710239	Diamonds, non-industrial	2 266.33	5 660 365.59		100
45	731815	Screws and bolts (excl. of 7318.11-73)	0.96	1 356 710.76		50
46	732599	Cast articles of iron	14.65	37 417.59		15
47	732690	Articles of iron/steel, n.e.s.	34.80	1 675 310.63		15
48	740400	Copper waste and scrap	509.51	13 727 387.91		50
49	741220	Copper tube/pipe fittings	4.61	85 607.68		35
50	820559	Hand tools (incl. glaziers' diamond)	1.14	54 850.75		35
51	840790	Spark-ignition reciprocating/rotary engines	0.08	205 536.53		30
52	840991	Parts suitable for use solely or principally with spark-ignition internal combustion piston engines	0.93	2 805 436.90		35
53	840999	Parts suitable for use solely or principally with the engines of heading 84.07 or 84.08, other	211.11	704 669.00		35
54	841330	Fuel/lubricating/cooling medium pumps	1.11	648 868.98		35
55	841391	Parts of the pumps of 8413.11-8413.	6.17	700 125.31		50
56	841480	Air pumps, air/other gas compressors	4.23	1 957 761.42		35

Table 4.15. (continued)

No.	Chapter code	Product description	Marshall Islands exports to world in 2013 (US\$ thousand)	China imports from world in 2013 (US\$ thousand)	China imports from Marshall Islands in 2013 (US\$ thousand)	MoP
57	841490	Parts of air/vacuum pumps, air/other gas compressors and fans	0.89	1 046 420.24		30
58	841590	Parts of the air-conditioning machinery	19.91	456 804.31		35
59	842129	Filtering/purifying machinery and appliances	58.38	856 869.70		35
60	842199	Parts of the filtering machinery and appliances	0.62	1 088 070.22		35
61	843149	Parts suitable for use solely or principally with the machinery of headings 84.25 to 84.30, other	1.82	1 136 408.71		35
62	843351	Combine harvesters-threshers	7.84	141 097.17		35
63	844399	Other parts and accessories for print by means of plates, cylinders and other printing components of heading 84.42, other	0.35	4 752 050.01		20
64	848180	Taps, cocks, valves and similar appliances; other	0.18	4 204 469.30		35
65	848210	Ball bearings	0.07	1 194 285.53		35
66	848310	Transmission shafts (incl. cam shafts)	0.70	977 192.28		35
67	850110	Electric motors of an output not exceeding 37.5 W	0.15	1 376 883.02		35
68	850300	Parts suitable for use solely or principally with the machines of heading 85.01 or 85.02.	117.60	827 734.84		35
69	850440	Static converters	102.65	4 030 861.83		35
70	850490	Parts of the machines of 85.04	7.80	2 509 044.23		35
71	850730	Electric accumulators	0.45	37 497.14		35
72	851770	Parts of telephone sets	0.10	18 012 888.45		35
73	852290	Parts (excl. pick-up cartridges)	314.38	348 959.24		35
74	852872	Other colour reception apparatus	0.28	24 989.11		35
75	852990	Parts suitable for use solely or principally with the apparatus of headings 85.25 to 85.28, other	0.22	4 835 138.46		35
76	853530	Isolating switches and make-and-breaks	0.95	20 301.02		20
77	853929	Other electric filament lamps	0.13	83 102.54		20
78	860900	Containers	6.71	14 447.30		35
79	870829	Parts and accessories of bodies of the motor vehicles of headings 87.01 to 87.05, other	0.20	4 621 204.96		10
80	871200	Bicycles and other cycles	0.18	95 111.58		30
81	900720	Cinematographic projectors	0.41	41 859.22		35

Table 4.15. (continued)

No.	Chapter code	Product description	Marshall Islands exports to world in 2013 (US\$ thousand)	China imports from world in 2013 (US\$ thousand)	China imports from Marshall Islands in 2013 (US\$ thousand)	MoP
82	901819	Electro-diagnostic apparatus	32.80	306 740.99		35
83	902590	Parts and accessories of hydrometers, pyrometers, hygrometers	0.48	101 861.02		35
84	940600	Prefabricated buildings	183.25	68 460.84		35
Total			180 729.30	132 604 169.00	77 690.18	

Source: Author's calculation using WITS COMTRADE and ESCAP APTA Secretariat data.

The study finds that there are 75 additional products on China's concession list where good potential exists,²⁷ amounting to \$28.72 billion of China's imports in 2013. If the Marshall Islands can facilitate the manufacturing of these products through appropriate investment policies then it can benefit from APTA concessions.

(c) India

India imported only four products from the Marshall Islands in 2013 with a total trade value of \$6.93 million. Only one product comes under India's concession list. Sixty-eight products were exported by the Marshall Islands to the world that come under India's concession list. The total export value was \$22.74 million (table 4.16). India also imported these products from the world during the same year with an import value of \$19,972.30 million. The export potential of the Marshall Islands to India for these 68 products was \$22.74 million.

Table 4.16. Potential products for exports by the Marshall Islands to India

No.	Chapter code	Product description	Marshall Islands exports to the world in 2013 (US\$ thousand)	India imports from the world in 2013 (US\$ thousand)	India imports from Marshall Islands in 2013 (US\$ thousand)	MoP
1	030344	Bigeye tuna (<i>Thunnus obesus</i>)	5 557.98	0.65		100
2	030349	Tuna (excl. of 0303.41-0303.46)	0.61	343.77		100
3	030559	Dried fish other than cod	125.00	1 784.77		100
4	030611	Rock lobster and other sea crawfish	34.10	1.47		100
5	030612	Lobsters (<i>Homarus</i> spp.)	1.35	216.11		100
6	030614	Crabs, whether/not in shell, frozen	0.59	45.85		100
7	030729	Scallops, incl. queen scallops	1.78	224.46		40
8	030799	Molluscs and invertebrates	39.49	1.46		30
9	050800	Coral and similar materials unworked	218.87	3 537.25		40
10	230120	Flours, meals and pellets of fish	400.08	16 519.87		40

²⁷ Details are available at <http://www.unescap.org/apta>.

Table 4.16. (continued)

No.	Chapter code	Product description	Marshall Islands exports to the world in 2013 (US\$ thousand)	India imports from the world in 2013 (US\$ thousand)	India imports from Marshall Islands in 2013 (US\$ thousand)	MoP
11	382200	Diagnostic/laboratory reagents	0.07	309 640.17		40
12	382490	Chemical products and preparations	0.17	458 718.23		7
13	401590	Articles of apparel and clothing	1.99	7 994.50		30
14	440929	Wood (including strips)	16.34	7 862.63		10
15	442010	Statuettes and other ornaments	1.31	386.56		40
16	480255	Paper and paperboard	289.10	4 661.43		30
17	481940	Sacks and bags	0.68	6 314.60		12
18	490199	Printed books, brochures, leaflets	2.34	99 279.71	2.34	30
19	490600	Plans and drawings for architectural	1.04	46 447.79		40
20	491110	Trade advertising material	0.25	12 881.49		30
21	491199	Printed matter	0.66	120 603.65		30
22	710239	Diamonds, non-industrial	2 266.33	7 136 329.30		5
23	720410	Waste and scrap of cast iron	12.50	39 776.09		30
24	720429	Waste and scrap of alloy steel	0.67	67 622.87		45
25	720449	Ferrous waste and scrap	357.78	1 948 026.80		30
26	730419	Line pipe of a type used for oil	140.30	108 163.97		40
27	730799	Tube/pipe fittings of iron/steel	0.01	131 978.33		40
28	730830	Doors, windows and their frames	15.39	14 332.41		35
29	731100	Containers for compressed/liquefied	18.71	23 715.73		40
30	732599	Cast articles of iron	14.65	74 691.79		40
31	741220	Copper tube/pipe fittings	4.61	7 853.57		40
32	820559	Hand tools (incl. glaziers' diamond)	1.14	15 403.70		10
33	820590	Sets of two or more tools of the subheading of heading 8205	1.13	7 624.70		10
34	830242	Mountings, fittings	4.37	33 229.90		5
35	841391	Parts of the pumps of 8413.11-8413.	6.17	263 213.52		40
36	841480	Air pumps, air/other gas compressors	4.23	442 792.89		5
37	841490	Parts of air/vacuum pumps, air/other gas compressors and fans	0.89	438 451.06		5
38	841590	Parts of the air-conditioning machines	19.91	334 455.57		5
39	842199	Parts of the filtering/purifying machines	0.62	266 531.99		40
40	842699	Lifting machinery n.e.s. in 84.26	0.20	12 144.91		40
41	843149	Parts suit. for use solely/principal	1.82	436 010.89		20

Table 4.16. (continued)

No.	Chapter code	Product description	Marshall Islands exports to the world in 2013 (US\$ thousand)	India imports from the world in 2013 (US\$ thousand)	India imports from Marshall Islands in 2013 (US\$ thousand)	MoP
42	843351	Combine harvester-threshers	7.84	3 268.48		25
43	848030	Moulding patterns	1.35	2 640.43		30
44	848180	Taps, cocks, valves and similar appliances	0.18	693 055.20		5
45	848190	Parts of the appliances of 84.81	1.25	229 331.96		20
46	850300	Parts suitable for use solely or principally with electric motors and generators, electric generating sets and rotary converters, n.e.s.	117.60	433 973.14		20
47	852290	Parts (excl. pick-up cartridges)	314.38	44 323.46		80
48	852990	Parts suitable for use solely or principally with the apparatus of headings 85.25 to 85.28., other	0.22	1 033 924.60		30
49	853180	Electric sound	0.14	33 854.31		5
50	853223	Fixed electrical capacitors	0.01	3 579.16		5
51	880320	Under-carriages and parts thereof	1.51	418.18		60
52	890110	Cruise ships, excursion boats	13.28	469 828.05		45
53	890399	Yachts and other vessels for pleasure	7.63	3 686.28		45
54	890590	Light-vessels, fire-floats	363.61	1 261 967.40		40
55	890690	Vessels, n.e.s. in 89.01-8906.10	4.28	535 333.95		30
56	890790	Floating structures	12.22	11 978.84		30
57	890800	Vessels and other floating structures	12 030.00	1 290 544.30		45
58	901819	Electro-diagnostic apparatus	32.80	108 823.79		40
59	902000	Breathing appliances	0.90	7 847.33		45
60	902290	X-ray generators (excl. tubes)	33.43	150 950.66		10
61	902590	Parts and accessories of hydrometers and similar floating instruments, thermometers	0.48	12 071.13		20
62	902780	Instruments and apparatus for physical or chemical analysis, other	0.10	264 348.72		15
63	903300	Parts and accessories n.e.s. in Ch.90	16.45	275 680.25		20
64	940330	Wooden furniture	13.22	74 015.73		7
65	940390	Parts of the furniture of 94.03	2.25	58 852.42		5
66	940600	Prefabricated buildings	183.25	39 105.89		7
67	961210	Typewriter/similar ribbons, inked	2.00	29 069.36		10
68	970400	Postage/revenue stamps	9.70	57.84		100
Total			22 735.31	19 972 347.00	2.34	

Sources: Author's calculation using WITS COMTRADE and ESCAP APTA Secretariat data.

It is shown from the study that there are 65 additional items on India's concession list which the Marshall Islands could export to India,²⁸ subject to a proper production regime and availability of resources, amounting to \$4.40 billion of India's imports in 2013. Among these potential items, fish products (chapter 3) could be the most important as India grants a 100% tariff concessions (duty free).

(d) Republic of Korea

In 2013, the Republic of Korea imported 25 products from the Marshall Islands with a total import value of \$186.90 million. Of these 25 products, only six come under the Republic of Korea's concession list. The import value of these six products was \$1.02 million (table 4.17). With regard to the items in the Republic of Korea's concession list, the Marshall Islands exported 94 items to the world and which were also imported by the Republic of Korea from the world. The export value for the Marshall Islands of those 94 products was \$20.76 million. The total value of those products imported by the Republic of Korea from the world was \$68,369.10 million. The trade potential in this case for the Marshall Islands would be \$20.76 million for these 94 items.

Table 4.17. Potential products for exports by the Marshall Islands to the Republic of Korea

No.	Chapter code	Product description	Marshall Islands exports to the world in 2013 (US\$ thousand)	Republic of Korea imports from the world in 2013 (US\$ thousand)	Republic of Korea imports from Marshall Islands in 2013 (US\$ thousand)	MoP
1	030799	Molluscs and invertebrates	39.49	65 481.47		20
2	060313	Fresh orchids	2.01	1 121.52		14.4
3	060314	Fresh chrysanthemums	13.02	6 736.10		14.4
4	271019	Petroleum oils and oils obtained from bituminous minerals; other	13 729.39	6 913 868.14	1 015.91	30
5	271099	Waste oils	21.02	11 112.20		30
6	271111	Natural gas, liquefied	120.09	30 645 106.47		30
7	300490	Medicaments	415.35	2 224 994.43		30
8	321590	Writing/drawing ink and other inks	0.35	62 865.11		30
9	380190	Preparations based on graphite	4.87	13 180.84		30
10	382200	Diagnostic/laboratory reagents	0.07	516 815.27		30
11	382490	Chemical products and preparations	0.17	2 004 344.32		30
12	392690	Articles of plastics	19.26	780 236.84		30
13	401590	Articles of apparel and clothing accessories	1.99	4 905.93		30
14	401693	Gaskets, washers and other seals	0.02	172 430.54		22.5
15	420229	Handbags, whether/not with shoulder	8.12	22 127.15		30

²⁸ Details are available at <http://www.unescap.org/apta>.

Table 4.17. (continued)

No.	Chapter code	Product description	Marshall Islands exports to the world in 2013 (US\$ thousand)	Republic of Korea imports from the world in 2013 (US\$ thousand)	Republic of Korea imports from Marshall Islands in 2013 (US\$ thousand)	MoP
16	420292	Trunks, suit-cases, vanity-cases	437.30	218 960.42		30
17	460219	Basketwork, wickerwork and other articles	1.54	5 724.05		30
18	560900	Articles of yarn/strip/the like of	0.20	5 331.02	0.20	30
19	610190	Men's/boys' overcoats, car-coats	0.26	1 696.92		30
20	611780	Other made-up clothing accessories	0.34	4 531.97		30
21	620412	Women's/girls' suits (excl. knitted)	0.09	1 985.69		37.7
22	620433	Women's/girls' jackets and blazers	37.16	99 433.88		50
23	620443	Women's/girls' dresses (excl. knitted)	0.45	72 958.20		37.7
24	620462	Women's/girls' trousers, bib and brace overalls, breeches and shorts; of cotton	0.30	325 182.37		40
25	620463	Women's/girls', trousers, bib and brace of synthetic fibres	2.06	202 306.56		50
26	620640	Women's/girls' blouses, shirts	0.73	95 308.61		50
27	621143	Track suits (excl. knitted/crocheted)	51.74	106 969.26		30
28	640610	Uppers and parts thereof	1.06	150 868.29		50
29	710239	Diamonds, non-industrial	2 266.33	44 949.87		50
30	720241	Ferro-chromium, containing by weigh	1 675.91	564 663.08		50
31	731815	Screws and bolts (excl. of 7318.11-73)	0.96	250 048.63		50
32	732599	Cast articles of iron	14.65	141 876.01		30
33	732690	Articles of iron/steel, n.e.s.	34.80	2 052 409.43		30
34	820559	Hand tools (incl. glaziers' diamond)	1.14	39 256.27		10
35	820590	Sets of articles of two or more of the foregoing subheadings	1.13	8 522.52		35
36	840690	Parts of the steam turbines	7.16	273 454.48		33
37	840991	Parts suitable for use solely or principally with spark-ignition internal combustion piston engines	0.93	521 222.90		30
38	840999	Parts suitable for use solely or principally with the engines of heading 84.07 or 84.08., other	211.11	935 868.76	7.80	50
39	841290	Parts of the engines and motors of 84	0.05	44 994.18		33
40	841330	Fuel/lubricating/cooling medium pump	1.11	560 050.60		50
41	841350	Other reciprocating positive displacement pumps	0.66	160 530.56		33

Table 4.17. (continued)

No.	Chapter code	Product description	Marshall Islands exports to the world in 2013 (US\$ thousand)	Republic of Korea imports from the world in 2013 (US\$ thousand)	Republic of Korea imports from Marshall Islands in 2013 (US\$ thousand)	MoP
42	841391	Parts of the pumps of 8413.11-8413.	6.17	234 328.20		30
43	841480	Air pumps, air/other gas compressors	4.23	795 879.81		30
44	841490	Parts of air/vacuum pumps, air/other gas compressors and fans	0.89	659 903.20		30
45	841590	Parts of air-conditioning machinery	19.91	174 278.88		50
46	842123	Oil/petrol-filters	0.43	93 785.19		33
47	842129	Filtering/purifying machinery	58.38	257 452.10		33
48	842131	Intake air filters	0.19	24 676.33		33
49	842199	Centrifuges, including centrifugal dryers; filtering or purifying machinery and apparatus, for liquids or gases., other	0.62	339 328.95		33
50	844399	Printing machinery used for printing by means of plates, cylinders and other printing components of heading 84.42, other	0.35	783 359.07		25
51	845811	Horizontal lathes	216.68	72 327.12		33
52	848140	Safety/relief valves for pipes/boilers	70.64	96 448.70		35
53	848180	Taps, cocks, valves and similar appliances	0.18	1 906 338.29		50
54	848190	Parts of the appliances of 84.81	1.25	454 031.99		35
55	848310	Transmission shafts (including cam shafts and crank shafts) and cranks	0.70	163 226.36		30
56	848320	Bearing housings	0.07	6 568.98		33
57	848330	Bearing housings, not incorporating	0.05	122 946.75		33
58	848360	Clutches and shaft couplings	0.20	145 229.36	0.20	33
59	848390	Toothed wheels, chain sprockets	0.09	177 849.27		33
60	850300	Parts suitable for use solely	117.60	343 239.47		30
61	850440	Static converters	102.65	1 477 104.90		50
62	850450	Inductors, n.e.s.	24.53	337 761.85		30
63	850490	Parts of the machines of 85.04	7.80	283 362.73		30
64	851521	Machines and apparatus for resistance	0.53	29 606.17		33
65	851770	Parts of telephone sets	0.10	3 140 266.42	0.10	40
66	851821	Single loudspeakers	0.11	48 430.92		30
67	851830	Headphones and earphones	0.21	221 232.29		10
68	852290	Parts (excl. pick-up cartridges)	314.38	90 432.63		30

Table 4.17. (continued)

No.	Chapter code	Product description	Marshall Islands exports to the world in 2013 (US\$ thousand)	Republic of Korea imports from the world in 2013 (US\$ thousand)	Republic of Korea imports from Marshall Islands in 2013 (US\$ thousand)	MoP
69	852610	Radar apparatus	0.93	118 281.73		33
70	852872	Other colour reception apparatus	0.28	102 272.27		50
71	852990	Parts and accessories suitable for use solely or principally with the apparatus of headings 85.19 to 85.21, other	0.22	674 857.06	0.04	50
72	853180	Electric sound/visual signalling appliances	0.14	45 202.88		35
73	853530	Isolating switches and make-and-break switches	0.95	35 865.01		30
74	853650	Switches other than isolating switches	11.19	344 993.29		30
75	853690	Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits, for a voltage not exceeding 1,000 volts; other apparatus	4.35	299 349.81		50
76	853890	Parts suitable for use solely with the apparatus of heading 85.35, 85.36 or 85.37, other	3.41	1 446 066.65		35
77	853929	Other electric filament lamps	0.13	19 829.50		30
78	854442	Other electric conductors fitted with connectors	1.97	485 519.15		30
79	870829	Parts and accessories of the motor vehicles of heading nos. 87.01 to 87.05; other parts and accessories of bodies (including cabs)	0.20	284 549.13		50
80	870894	Steering wheels, steering columns	0.11	208 433.85		50
81	890590	Light-vessels, fire-floats, floating platforms	363.61	138 866.31		50
82	901490	Parts and accessories of navigation equipment	0.20	34 572.51		25
83	901819	Electro-diagnostic apparatus used	32.80	164 385.23		30
84	902000	Breathing appliances	0.90	22 230.60		30
85	902290	X-ray generators (excl. tubes)	33.43	128 894.55		25
86	902590	Parts and accessories of the instr	0.48	71 488.06		25
87	902710	Gas/smoke analysis apparatus	0.43	151 261.85		25
88	902780	Instruments and apparatus for physical or chemical analysis, other	0.10	444 867.81		33
89	903210	Thermostats	29.89	41 767.20		30

Table 4.17. (continued)

No.	Chapter code	Product description	Marshall Islands exports to the world in 2013 (US\$ thousand)	Republic of Korea imports from the world in 2013 (US\$ thousand)	Republic of Korea imports from Marshall Islands in 2013 (US\$ thousand)	MoP
90	903300	Parts and accessories n.e.s. in Ch.90	16.45	57 616.91		25
91	940600	Prefabricated buildings	183.25	90 030.54		25
92	950669	Balls other than golf/table-tennis	1.76	26 201.78		30
93	950691	Articles and equip. for general physical exercise, gymnastics or athletics	0.03	98 500.81		30
94	961210	Typewriter/similar ribbons, inked	2.00	19 358.27		30
Total			20 762.50	68 369 089.00	1 024.24	

Sources: Author's calculation using WITS COMTRADE and ESCAP APTA Secretariat data.

The study shows that there are 83 additional items that the Marshall Islands could export to the Republic of Korea,²⁹ subject to productive capacity and a proper investment regime, amounting to \$17.04 billion of the Republic of Korea's imports in 2013.

(e) Sri Lanka

In 2013, Sri Lanka imported only one item under its concession list from the Marshall Islands. Of the items on Sri Lanka's concession list, the Marshall Islands exported 29 items to the world in 2013. These items were also imported by Sri Lanka from the world but not from the Marshall Islands in the same year (table 4.18). The export value of the 29 items exported by the Marshall Islands was \$1.81 million while Sri Lanka's total import value of these items was \$395.59 million. In this case, the Marshall Islands trade potential with Sri Lanka could be \$1.81 million for those 29 products.

Table 4.18. Potential products for exports by the Marshall Islands to Sri Lanka

No.	Chapter Code	Product description	Marshall Islands export to the world in 2013 (US\$ thousand)	Sri Lanka imports from the world in 2013 (US\$ thousand)	Sri Lanka imports from Marshall Islands in 2013 (US\$ thousand)	MoP
1	030559	Dried fish other than cod	125.00	86 850.52		50
2	120991	Vegetable seeds	0.27	6 731.65		25
3	392590	Builders' ware of plastics	47.67	1 541.46		10
4	392690	Articles of plastics, n.e.s.	19.26	31 883.46		10
5	420229	Handbags, whether/not with shoulder strap	8.12	1 154.85		5
6	420292	Trunks, suitcases, vanity cases	437.30	90.92		10

²⁹ Details are available at <http://www.unescap.org/apta>.

Table 4.18. (continued)

No.	Chapter Code	Product description	Marshall Islands export to the world in 2013 (US\$ thousand)	Sri Lanka imports from the world in 2013 (US\$ thousand)	Sri Lanka imports from Marshall Islands in 2013 (US\$ thousand)	MoP
7	442010	Statuettes and other ornaments	1.31	70.05		10
8	480255	Paper and paperboard	289.10	26 583.37		10
9	610910	T-shirts, singlets and other vests	0.01	3 256.69		10
10	611780	Other made up clothing accessories	0.34	763.70		10
11	730419	Line pipe of a kind used for oil	140.30	249.16		50
12	730830	Doors, windows and their frames	15.39	3 326.84		50
13	732599	Cast articles of iron	14.65	788.33		10
14	830629	Statuettes and other ornaments	0.13	188.78		10
15	840991	Parts suitable for use solely or principally with spark-ignition internal combustion piston engines	0.93	4 561.25		10
16	840999	Parts suitable for use solely	211.11	18 915.68		10
17	842129	Filtering/purifying machinery	58.38	1 517.99		10
18	842951	Self-propelled front-end shovel	190.23	13 298.10		10
19	848190	Parts of the appliances of 84.81	1.25	2 288.71		10
20	848210	Ball bearings	0.07	9 262.27		5
21	850940	Food grinders and mixers; fruit/vegetables	31.00	8 210.82		25
22	852872	Other colour reception apparatus	0.28	70 126.67	0.27	5
23	852990	Parts and accessories suitable for use solely or principally with the apparatus of headings 85.19 to 85.21, other	0.22	3 684.59		10
24	853650	Switches other than isolating switches	11.19	9 693.85		10
25	853690	Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits, for a voltage not exceeding 1,000 volts; other apparatus	4.35	8 468.15		10
26	870899	Other parts and accessories	3.48	11 238.09		10
27	902590	Parts and accessories of hydrometers, areometers and similar floating instruments, n.e.s.	0.48	198.65		10
28	903300	Parts and accessories n.e.s. in chapter 90	16.45	4 712.00		10
29	940600	Prefabricated buildings	183.25	65 931.87		10
Total			1 811.51	395 588.50	0.27	

Sources: Author's calculation using WITS COMTRADE and ESCAP APTA Secretariat data.

The study finds that there are 22 additional items that the Marshall Islands could export to Sri Lanka,³⁰ subject to productive capacity and a proper investment regime, accounting for \$123.17 million of Sri Lanka's imports in 2013.

4. Export potential of Micronesia

Among the Participating States of APTA, China was largest trading partner of Micronesia during 2013. The other two Participating States of APTA that imported products from Micronesia during the same year were the Republic of Korea and Sri Lanka. The total value of Micronesia's exports to the Participating States of APTA during 2013 was \$12.38 million.

(a) Bangladesh

Bangladesh imported only one item in 2008 from Micronesia with an import value of \$4,995; however, it was not on Bangladesh's concession list. Six other items on Bangladesh's concession list were exported by Micronesia to the world and imported by Bangladesh from the world in that year. The export value of those items for Micronesia was around \$10,000. The value of those items imported from the world by Bangladesh was \$72.30 million (table 4.19). Micronesia's trade potential with Bangladesh for those six items would be \$10,000.

Table 4.19. Potential products for export by Micronesia to Bangladesh

No.	Chapter code	Product description	Micronesia exports to the world in 2008 (US\$ thousand)	Bangladesh imports from World in 2008 (US\$ thousand)	Bangladesh imports from Micronesia in 2008 (US\$ thousand)	MoP
1	090411	Pepper (genus Piper), neither crushed nor ground	7.45	1 459.48		10
2	731100	Containers for compressed or liquefied gas, of iron or steel	0.30	35 225.62		30
3	842121	Filtering/purifying machinery	0.28	16 421.81		15
4	848190	Parts of the appliances of 84.81	0.12	1 985.83		15
5	853890	Parts suitable for use solely or principally with the apparatus of heading 85.35, 85.36 or 85.37, other	1.65	3 955.95		10
6	853931	Electric discharge lamps; fluorescent, hot cathode	0.25	13 222.35		10
Total			10.05	72 271.06		

Sources: Author's calculation using WITS COMTRADE and ESCAP APTA Secretariat data.

³⁰ Details are available at <http://www.unescap.org/apta>.

However, the study finds that there are two additional items that could be exported by Micronesia to Bangladesh in the future such as plaits (HS 460194) and switch blades (HS 730230), amounting to \$0.60 million.

(b) China

In 2013, six items were exported by Micronesia to China with an export value of \$9.98 million. Of those six items, only two come under China's concession list. There are 46 items on China's concession list that Micronesia exported to the world in 2013 and which were imported by China from the world (two of the 46 items were also imported from Micronesia, as mentioned above) in the same year (table 4.20). The total export value of these 46 items to the world for Micronesia was \$30.27 million and the import value from the world for China was \$50.60 billion. In this case, the value of Micronesia's potential exports of these 46 items to China is \$30.27 million.

Table 4.20. Potential products for exports by Micronesia to China

No.	Chapter code	Product description	Micronesia exports to the world in 2013 (US\$ thousand)	China imports from the world in 2013 (US\$ thousand)	China imports from Micronesia in 2013 (US\$ thousand)	MoP
1	030341	Albacore/long-finnea tuna	8.16	3 825.50		25
2	030342	Yellowfin tuna (Thunnus albacares)	5 294.93	12 828.72	998.49	25
3	030343	Skipjack/stripa-bellied bonito	24 579.84	140 280.01	8 952.72	25
4	030612	Lobsters (Homarus spp.),	0.71	11 236.66		28
5	060120	Bulbs, tubers, tuberous roots	6.08	0.89		50
6	210390	Sauces and preparations therefor	0.37	76 286.83		13
7	321519	Printing ink (excl. black)	18.37	284 093.85		30
8	330300	Perfumes and toilet waters	0.04	96 988.58		35
9	340111	Soap and organic surface-active products	9.90	32 580.82		35
10	391732	Tubes, pipes and hoses of plastics	0.39	173 625.25		30
11	391739	Tubes, pipes and hoses of plastics	0.02	113 090.43		35
12	392310	Boxes, cases, crates and similar articles	0.00	442 804.66		35
13	392690	Articles of plastics	9.59	2 481 112.90		35
14	401699	Articles of vulcanized rubber	0.88	705 622.44		5
15	610342	Men's/boys' trousers, bib and brace	0.05	19 751.49		35
16	610910	T-shirts, singlets and other vests	8.67	222 945.77		35
17	610990	T-shirts, singlets and other vests	5.87	107 170.46		35
18	620293	Women's/girls' anoraks	1.44	141 893.47		35
19	620342	Men's/boys' trousers, bib and brace	0.07	281 276.20		35
20	620429	Women's/girls' ensembles (excl. knitted/crocheted)	0.04	387.35		35
21	620439	Women's/girls' jackets and blazers	0.80	30 500.95		35
22	620443	Women's/girls' dresses (excl. knitted/crocheted)	2.74	50 958.0		35

Table 4.20. (continued)

No.	Chapter code	Product description	Micronesia exports to the world in 2013 (US\$ thousand)	China imports from the world in 2013 (US\$ thousand)	China imports from Micronesia in 2013 (US\$ thousand)	MoP
23	620453	Women's/girls' skirts and divided skirt	0.66	15 438.36		35
24	620520	Men's/boys' shirts (excl. knitted/crocheted)	7.16	200 700.85		50
25	620610	Women's/girls' blouses, shirts	6.37	11 614.86		35
26	620630	Women's/girls' blouses, shirts	1.07	47 587.40		35
27	620640	Women's/girls' blouses, shirts	12.25	27 557.73		35
28	701590	Clock/watch glasses and similar glass	4.03	7 074.50		30
29	711311	Articles of jewellery	0.61	38 168.85		35
30	731815	Screws and bolts (excl. of 7318.11-73)	0.10	1 356 710.80		50
31	732020	Helical springs of iron/steel	0.03	335 326.78		15
32	732690	Articles of iron/steel, n.e.s.	5.07	1 675 310.60		15
33	740400	Copper waste and scrap	211.19	13 727 388.00		50
34	820790	Interchangeable tools for hand tools	0.02	76 818.20		35
35	842129	Filtering/purifying machinery	0.32	856 869.70		35
36	842199	Parts of the filtering	0.07	1 088 070.20		35
37	842720	Self-propelled fork-lift trucks	31.62	121 264.07		35
38	844399	Other parts and accessories for print	0.57	4 752 050.00		20
39	848180	Taps, cocks, valves and similar application for pipes, boilers shells, tanks, vats or the like; other appliances	0.05	4 204 469.30		35
40	848310	Transmission shafts (including cam shafts and crank shafts) and cranks	0.96	977 192.28		35
41	848340	Gears and gearing (excl. toothed wheels)	4.86	1 819 744.60		35
42	850440	Static converters	0.28	4 030 861.80		35
43	853710	Boards, panels, consoles, desks	8.96	3 733 316.10		50
44	854449	Other electric conductors	15.02	1 418 150.70		35
45	860900	Containers	7.57	14 447.30		35
46	870829	Parts and accessories of the motor vehicles of heading nos. 87.01 to 87.05; other parts and accessories of bodies (including cabs)	0.82	4 621 205.00		10
Total			30 268.63	50 586 599.00	9 951.21	

Sources: Author's calculation using WITS COMTRADE and ESCAP APTA Secretariat data.

It is shown from the study that there are 72 additional items on China's concession list that were exported by Micronesia to the world in 2013,³¹ 70 of which were imported by China from the world. These 72 items could be exported by Micronesia to China in the future, subject to production and a proper investment regime, amounting to \$100.60 billion.

(c) India

In recent years, India has imported only one item from Micronesia with an import value of only \$426. This item does not come under India's concession list. There are 40 items that are on India's concession list and were exported by Micronesia to the world in 2009. These 40 items were also imported by India from the world during 2009 (table 4.21). The total export value of those items exported by Micronesia to the world was \$4.54 million while the value of India imports from the world was \$2,306.10 million. In this case, the value of the potential exports of these 40 items by Micronesia to India is \$4.54 million.

Table 4.21. Potential products for exports by Micronesia to India

No.	Chapter code	Product description	Micronesia exports to the world in 2009 (US\$ thousand)	India imports from the world in 2009 (US\$ thousand)	India imports from Micronesia in 2009 (US\$ thousand)	MoP
1	030342	Yellowfin tuna (<i>Thunnus albacares</i>)	3 674.07	498.38		100
2	030559	Dried fish other than cod	18.28	486.44		100
3	030729	Scallops, including queen scallops	8.33	23.63		40
4	030799	Molluscs; other including flours, meals and pellets, fit for human consumption; other	395.88	63.83		30
5	050800	Coral and similar materials, shell of molluscs, crustaceans or echinoderms and cuttle-bone	55.41	3 685.12		40
6	051191	Products of fish/crustaceans	105.63	34.36		40
7	160415	Mackerel, prepared/preserved	111.34	14.50		45
8	220190	Ice and snow	40.79	92.74		45
9	340220	Organic surface-active agents preparations; put up for retail sale	2.48	10 100.06		12
10	370790	Chemical preparations for photograph	2.84	26 245.10		40
11	382200	Diagnostic/laboratory reagents	0.07	146 456.27		40
12	401012	Conveyor belts/belting, reinforced	0.03	5 823.12		15
13	401110	New pneumatic tyres, of rubber	0.43	67 421.77		15
14	401699	Articles of vulcanized rubber	2.02	138 829.27		30
15	442010	Statuettes and other ornaments	6.84	98.71		40
16	481840	Sanitary towels and tampons, napkins	0.40	50 289.58		30
17	490199	Printed books, brochures, leaflets	8.67	67 178.00		30

³¹ Details are available at <http://www.unescap.org/apta>.

Table 4.21. (continued)

No.	Chapter code	Product description	Micronesia exports to the world in 2009 (US\$ thousand)	India imports from the world in 2009 (US\$ thousand)	India imports from Micronesia in 2009 (US\$ thousand)	MoP
18	700721	Laminated safety glass	0.28	4 477.85		5
19	711311	Articles of jewellery	7.52	38 400.29		8
20	731100	Containers for compressed or of liquefied gas, iron or steel	2.07	42 307.08		40
21	731512	Articulated link chain	6.10	9 519.30		40
22	820790	Interchangeable tools for hand tool	0.64	109 804.44		5
23	841391	Parts of the pumps for liquids	0.07	190 121.06		40
24	841490	Parts of air/vacuum pumps, air/other gas compressors and fans	0.15	272 415.01		5
25	846721	Drills of all kinds	0.04	3 197.24		5
26	848180	Taps, cocks, valves and similar application for pipes, boilers shells, tanks, vats or the like; other appliances	1.82	481 551.38		5
27	848190	Parts of the appliances of 84.81	0.17	146 664.82		20
28	851020	Hair clippers, with self-contained electric motor	0.02	522.87		5
29	853910	Sealed beam electric filament lamp	1.19	1 630.22		7
30	854370	Electrical machines and apparatus having individual functions; other	2.89	263 335.88		15
31	890690	Vessels, n.e.s. in 89.01-8906.10	6.46	159 555.83		30
32	900510	Binoculars	2.64	11 650.91		5
33	903281	Hydraulic/pneumatic automatic regulating or controlling instruments and apparatus	0.98	3 443.46		15
34	940350	Wooden furniture	0.06	24 154.87		7
35	960330	Artists' brushes, writing brushes	3.11	1 300.07		10
36	960622	Buttons, of base metal, not covered with textile material	0.00	6 875.79		5
37	961519	Combs, hair-slides and the like; other	0.03	1 771.86		10
38	970110	Paintings, drawings and pastels	0.01	15 951.14		40
39	970400	Postage/revenue stamps	10.10	11.48		100
40	970600	Antiques of an age exceeding 100 years	58.39	83.34		100
Total			4 538.26	2 306 087.00		

Sources: Author's calculation using WITS COMTRADE and ESCAP APTA Secretariat data.

In addition, there are five additional items that could be among Micronesia's exports to India in the future,³² amounting to \$44.20 million. These items were exported by Micronesia to the world in 2009 but were not imported by India in that year from the world. Four of these products, such as yellowfin tuna, bigeye tuna (fresh or chilled and frozen) and skipjack, come under 100% MoP (duty free) on India's concession list.

(d) Republic of Korea

Micronesia's second-largest trade partner in 2013 was the Republic of Korea, which imported 13 items with a trade value of \$2.40 million from Micronesia. Of those 13 items, only two are on the Republic of Korea's concession list. There are 48 items on the Republic of Korea's concession list, which were exported by Micronesia to the world and also imported by the Republic of Korea from the world in 2013 (including the two items mentioned above) (table 4.22). The total export value of these 48 items for Micronesia was around \$0.60 million and total import value for the Republic of Korea was \$20.80 billion. In this case, Micronesia's export potential to the Republic of Korea is \$0.60 million for the 48 items.

Table 4.22. Potential products for exports by Micronesia to the Republic of Korea

No.	Chapter code	Product description	Micronesia exports to the world in 2013 (US\$ thousand)	Republic of Korea imports from the world in 2013 (US\$ thousand)	Republic of Korea imports from Micronesia in 2013 (US\$ thousand)	MoP
1	030799	Molluscs; other including flours, meals and pellets, fit for human consumption; other	190.66	65 481.47	3.62	20
2	321519	Printing ink (excl. black)	18.37	53 471.00		30
3	330300	Perfumes and toilet waters	0.04	119 205.70		30
4	340111	Soap and organic surface-active products and preparations for use as soap, in the form of bars, cakes, moulded pieces or shapes, and paper, wadding, felt and non-wovens, impregnated, coated or covered with soap or detergent; for toilet use (including medicated products)	9.90	20 445.86		30
5	370790	Chemical preparations for photographs	0.79	474 225.48		50
6	382200	Diagnostic/laboratory reagents on a backing, prepared diagnostic or laboratory reagents	0.09	516 815.27		30
7	392690	Articles of plastics and articles of other materials of headings 39.01 to 39.14, other	9.59	780 236.84		30

³² Details are available at <http://www.unescap.org/apta>.

Table 4.22. (continued)

No.	Chapter code	Product description	Micronesia exports to the world in 2013 (US\$ thousand)	Republic of Korea imports from the world in 2013 (US\$ thousand)	Republic of Korea imports from Micronesia in 2013 (US\$ thousand)	MoP
8	401693	Gaskets, washers and other seals of vulcanised rubber	0.08	172 430.54		22.5
9	401699	Articles of vulcanized rubber other	0.88	137 110.85		30
10	460219	Basketwork, wickerwork	188.51	5 724.05		30
11	610990	T-shirts, singlets and other vests	5.87	189 008.27		30
12	620292	Women's/girls' anoraks of cotton	2.11	37 646.69		37.7
13	620293	Women's/girls' anoraks of man-made fibers	1.44	425 777.19		50
14	620429	Women's/girls' ensembles (excl. knitted)	0.04	167.78		50
15	620439	Women's/girls' jackets and blazers	0.80	28 369.32		37.7
16	620442	Women's/girls' dresses (excl. knitted)	0.04	34 993.52		37.7
17	620443	Women's/girls' dresses of synthetic fibres	2.74	72 958.20		37.7
18	620453	Women's/girls' skirts and divided skirts	0.66	24 788.19		37.7
19	620610	Women's/girls' blouses, shirts of silk or silk waste	6.37	12 060.71		37.7
20	620630	Women's/girls' blouses, shirts of cotton	1.07	93 175.87		37.7
21	620640	Women's/girls' blouses, shirts	12.25	95 308.61		50
22	731815	Screws and bolts, of iron or steel	0.10	250 048.63		50
23	732020	Helical springs of iron/steel	0.03	37 363.03		33
24	732690	Articles of iron/steel, n.e.s.	5.07	2 052 409.40		30
25	820790	Interchangeable tools for hand tool	0.02	50 020.47		22.5
26	830249	Mountings, fittings and similar articles	0.02	22 505.74		30
27	841350	Reciprocating positive displacement	0.79	160 530.56		33
28	842129	Filtering/purifying machinery	0.32	257 452.10		33
29	842199	Parts of the filtering	0.07	339 328.95		33
30	842720	Self-propelled fork-lift trucks	31.62	34 948.95		30
31	844399	Other parts and accessories for print	0.57	783 359.07		25
32	847990	Parts of machines and mechanical application	4.43	1 057 275.50		50
33	848140	Safety/relief valves for pipes, boilers shells, tanks, vats or the like	0.71	96 448.70		35

Table 4.22. (continued)

No.	Chapter code	Product description	Micronesia exports to the world in 2013 (US\$ thousand)	Republic of Korea imports from the world in 2013 (US\$ thousand)	Republic of Korea imports from Micronesia in 2013 (US\$ thousand)	MoP
34	848180	Taps, cocks, valves and similar application for pipes, boilers shells, tanks, vats or the like; other appliances	0.05	1 906 338.30		50
35	848310	Transmission shafts (including cam shafts and crank shafts) and cranks	0.96	163 226.36		30
36	848340	Gears and gearing (excl. toothed wheels)	4.86	551 925.28		33
37	850440	Static converters	0.28	1 477 104.90		50
38	853620	Automatic circuit breakers	9.10	86 246.13		50
39	853650	Switches other than isolating switches	1.06	344 993.29		30
40	853690	Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits, for a voltage not exceeding 1,000 volts; other apparatus	4.28	299 349.81		50
41	853710	Boards, panels, consoles, desks	8.96	3 974 040.90		30
42	853890	Parts suitable for use solely with the apparatus of heading 85.35, 85.36 or 85.37, other	0.13	1 446 066.60		35
43	854442	Other electric conductors fitted with connectors	0.07	485 519.15		30
44	854449	Other electric conductors of a voltage not exceeding 1,000 V, other	15.02	259 069.82		30
45	870829	Parts and accessories of the motor vehicles of heading nos. 87.01 to 87.05; other parts and accessories of bodies (including cabs)	0.82	284 549.13		50
46	902780	Instruments and apparatus for physical or chemical analysis, other	47.18	444 867.81		33
47	903300	Parts and accessories n.e.s. in chapter 90	1.59	57 616.91	1.59	25
48	950300	Tricycles, scooters, pedal cars	0.00	561 873.44		30
	Total		590.40	20 843 880.00	5.21	

Sources: Author's calculation using WITS COMTRADE and ESCAP APTA Secretariat data.

In addition, the study finds that there are 60 additional items that were not exported by Micronesia in 2013 but were exported in previous years.³³ These items were imported by the Republic of Korea in the same year and come under the Republic of Korea's concession list. These 60 items could potentially be exported by Micronesia to the Republic of Korea in the future, subject to proper production and investment regime, accounting for \$19.60 billion.

(e) Sri Lanka

Micronesia exported 16 items on Sri Lanka's concession list to the world and the same 16 items were imported by Sri Lanka from the world in 2013 (table 4.23). Of the 16 items, only one was imported by Sri Lanka from Micronesia in the same year. For Micronesia the total export value of these products to the world was \$404,550 while the import value from the world for Sri Lanka was \$124.90 million. The potential for exports of the 16 items by Micronesia to Sri Lanka is therefore \$404,550.

Table 4.23. Potential products for exports by Micronesia to Sri Lanka

No.	Chapter code	Product description	Micronesia exports to the world in 2013 (US\$ thousand)	Sri Lanka imports from the world in 2013 (US\$ thousand)	Sri Lanka imports from Micronesia in 2013 (US\$ thousand)	MoP
1	330300	Perfumes and toilet waters	0.04	8 960.18		10
2	330499	Beauty/make-up preparations	17.77	6 456.22		10
3	391739	Tubes, pipes and hoses of plastics	0.02	3 047.66		10
4	392690	Articles of plastics and articles of other materials of headings 39.01 to 39.14, other	9.59	31 883.46	0.992	10
5	480256	Paper and paperboard	307.77	13 639.37		10
6	610910	T-shirts, singlets and other vests, of cotton	8.67	3 256.69		10
7	610990	T-shirts, singlets and other vests, of other textile materials	5.87	4 068.21		5
8	731210	Stranded wire, ropes and cables of iron	30.78	6 495.31		10
9	842129	Filtering/purifying machinery and apparatus for liquids; other	0.32	1 517.99		10
10	843390	Parts of harvesting or threshing machinery including straw or fodder balers; grass or hay mowers; machines for cleaning, sorting or grading eggs, fruit or other agricultural product, other than machinery of heading 84.37	3.25	1 391.54		20

³³ Details are available at <http://www.unescap.org/apta>.

Table 4.23. (continued)

No.	Chapter code	Product description	Micronesia exports to the world in 2013 (US\$ thousand)	Sri Lanka imports from the world in 2013 (US\$ thousand)	Sri Lanka imports from Micronesia in 2013 (US\$ thousand)	MoP
11	847990	Parts of Machines and mechanical appliances having individual functions, n.e.s.	4.43	4 556.59		40
12	853620	Automatic circuit breakers	9.10	9 812.72		10
13	853650	Switches other than isolating switches	1.06	9 693.85		10
14	853690	Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits, for a voltage not exceeding 1,000 volts; other apparatus	4.28	8 468.15		10
15	903300	Parts and accessories, n.e.s., for machines, appliances, instruments or apparatus of chapter 90	1.59	4 712.00		10
16	950300	Tricycles, scooters, pedal cars and similar wheeled toys	0.00	6 970.11		10
Total			404.55	124 930.00		

Sources: Author's calculation using WITS COMTRADE and ESCAP APTA Secretariat data.

5. Export potential of Palau

In 2013, the total value of Palau's exports was \$130,000 to the Participating States of APTA - China, India and the Republic of Korea.

(a) China

China imported three items from Palau in 2013, of which only one item was on China's concession list. Forty-two items on China's concession list were exported by Palau to the world in 2013. China also imported these items from the world in the same year (table 4.24). Palau's total export value for these products was \$4.73 million while China's import value for these products was \$47.40 billion. As China's import value is more than Palau's export value, the potential for Palau's exports of the 42 items to China is \$4.73 million.

The study shows that there are additional 57 items which were exported by Palau to the world in previous years but not in 2013.³⁴ The items are on China's export concession list and were imported by China from the world. Therefore, those items could provide potential export items for Palau in the future, subject to a proper production process and investment regime, amounting to \$146.80 billion.

³⁴ Details are available at <http://www.unescap.org/apta>.

Table 4.24. Potential products for exports by Palau to China

No.	Chapter code	Product description	Palau exports to the world in 2013 (US\$ thousand)	China imports from the world in 2013 (US\$ thousand)	China's import from Palau in 2013 (US\$ thousand)	MoP
1	030232	Yellowfin tuna (<i>Thunnus albacares</i>)	4 488.68	166.44		25
2	030235	Bluefin tuna (<i>Thunnus thynnus</i>)	22.63	2 044.56		33
3	190590	Bread, pastry, cakes, biscuits	35.54	169 053.08		14
4	220890	Un-denatured ethyl alcohol of an alcoholic strength by volume of less than 80% vol.; other	9.35	48 775.58		12
5	250100	Salt (including table salt and denatured salt) and pure sodium chloride	3.28	356 315.76		50
6	253090	Mineral substance, n.e.s.; other	3.95	224 143.44		50
7	320412	Acid dyes, whether or not premetallised, and preparations based thereon; mordant dyes and preparations based thereon	0.32	99 239.06		35
8	330790	Depilatories, sterile contact lens care solution and other	0.04	47 481.37		35
9	350699	Prepared glues and other prepared adhesives, not exceeding a net weight of 1 kg; other	2.09	228 330.34		35
10	392690	Articles of plastics and articles of other materials of headings 39.01 to 39.14, other	5.21	2 481 112.90		35
11	401039	Transmission belts or belting; other	0.02	157 157.98		35
12	401110	New pneumatic tyres, of rubber	1.20	568 243.64		35
13	580632	Narrow woven fabrics (excl. of 5806)	0.51	125 104.37		35
14	590310	Textile fabrics impregnated, coated, covered or laminated with plastics other than those of heading 59.02; with polyvinyl chloride	56.53	144 258.28		35
15	610910	T-shirts, singlets and other vests, of cotton	0.08	222 945.77		35
16	610990	T-shirts, singlets and other vests, of other textile materials	0.21	107 170.46		35
17	620311	Men's/boys' suits; of wool or fine animal hair	0.27	69 194.31		35
18	620462	Women's/girls' trousers, bib and brace overalls, breeches and shorts; of cotton	0.01	161 938.18		35
19	621210	Brassieres, whether or not knitted or crocheted	1.95	34 311.63		35
20	640590	Footwear other than with uppers, other	0.13	3 254.10		35

Table 4.24. (continued)

No.	Chapter code	Product description	Palau exports to the world in 2013 (US\$ thousand)	China imports from the world in 2013 (US\$ thousand)	China's import from Palau in 2013 (US\$ thousand)	MoP
21	690100	Bricks, blocks, tiles and other ceramic goods of siliceous fossil meals (i.e. kieselguhr, tripolite or diatomite) or similar siliceous earth	1.72	5 565.48		35
22	691110	Tableware and kitchenware, of porcelain	0.03	30 625.12		35
23	731815	Threaded articles; other screws and bolts, whether or not with their nuts or washers	0.09	1 356 710.80		50
24	732690	Articles of iron/steel, n.e.s.	3.51	1 675 310.60		15
25	740400	Copper waste and scrap	32.84	13 727 388.00		50
26	761699	Other articles of aluminium	0.52	405 511.12		35
27	820559	Other hand tools (including glaziers' diamonds)	1.59	54 850.75		35
28	820790	Interchangeable tools for hand tool	4.13	76 818.20		35
29	840991	Parts suitable for use solely or principally with spark-ignition internal combustion piston engines	0.06	2 805 436.90		35
30	841391	Parts of the pumps for liquids	0.03	700 125.31		50
31	841590	Parts of the air-conditioning machines	0.57	456 804.31		35
32	843143	Parts for boring or sinking machinery of subheading 8430.41 or 8430.49	19.42	559 587.50		35
33	844399	Other parts and accessories for printing machinery	0.13	4 752 050.00		20
34	846791	Tools for working in the hand, pneumatic hydraulic or with self-contained electric or non-electric motor; parts of chain saws	0.07	14 686.89		35
35	848180	Taps, cocks, valves and similar application for pipes, boilers shells, tanks, vats or the like; other appliances	0.64	4 204 469.30		35
36	848310	Transmission shafts (including cam shafts and crank shafts) and cranks	1.03	977 192.28		35
37	850131	Other DC motors and DC generators; of an output not exceeding 750 W	0.29	467 720.34	0.29	35
38	850490	Parts of electrical transformers, static converters (for example rectifiers) and inductors	22.33	2 509 044.20		35

Table 4.24. (continued)

No.	Chapter code	Product description	Palau exports to the world in 2013 (US\$ thousand)	China imports from the world in 2013 (US\$ thousand)	China's import from Palau in 2013 (US\$ thousand)	MoP
39	870322	Other vehicles, with spark-ignition internal combustion reciprocating piston engine; of a cylinder capacity exceeding 1,000 cc but not exceeding 1,500 cc	3.63	854 375.90		10
40	870829	Parts and accessories of the motor vehicles of heading nos. 87.01 to 87.05; other parts and accessories of bodies (including cabs)	0.09	4 621 205.00		10
41	870830	Brakes and servo-brakes; parts thereof	0.57	1 109 489.10		10
42	870880	Suspension systems and parts thereof (including shock absorbers)	1.00	747 940.63		10
Total			4 726.26	47 363 149.00		

Sources: Author's calculation using WITS COMTRADE and ESCAP APTA Secretariat data.

(b) India

The latest trade data between India and Palau are available for 2012. India imported only one product from Palau in 2012, which is not on India's concession list. Fifty other products on India's concession list were exported by Palau to the world in the same year (table 4.25). India also imported the same products from the world. The total export value of those products for Palau was almost \$0.60 million while India's import value for those products was \$10.50 billion. Therefore, the potential value of Palau's exports of those 50 products to India is \$0.60 million.

Table 4.25. Potential products for exports by Palau to India

No.	Chapter code	Product description	Palau exports to the world in 2012 (US\$ thousand)	India imports from the world in 2012 (US\$ thousand)	India imports from Palau in 2012 (US\$ thousand)	MoP
1	030799	Molluscs and invertebrates; other, including flours, meals and pellets, fit for human consumption: other	17.82	0.24		30
2	220290	Other non-alcoholic beverages (i.e. soya milk drinks, fruit pulp or fruit juice based drinks, beverages containing milk)	6.09	57 622.49		30
3	330410	Lip make-up preparations	1.75	11 181.64		10
4	330491	Beauty or make-up preparations; powders, whether/not compressed	1.73	5 022.87		15
5	330499	Beauty/make-up preparations; other	13.30	78 257.17		15

Table 4.25. (continued)

No.	Chapter code	Product description	Palau exports to the world in 2012 (US\$ thousand)	India imports from the world in 2012 (US\$ thousand)	India imports from Palau in 2012 (US\$ thousand)	MoP
6	330510	Shampoos	1.37	14 025.81		15
7	330610	Dentifrices, in individual retail packages	3.81	13 938.87		10
8	340111	Soap and organic surface-active products and preparations for use as soap, in the form of bars, cakes, moulded pieces or shapes, and paper, wadding, felt and non-wovens, impregnated, coated or covered with soap or detergent; for toilet use (including medicated products)	11.27	8 016.28		15
9	382490	Prepared binders for foundry moulds or cores, chemical products and preparations of the chemical or allied industries; other	0.62	413 022.21		7
10	401110	New pneumatic tyres, of rubber; of a kind used on motor cars (including station wagons and racing cars)	0.48	214 330.20		15
11	401519	Gloves (excluding surgical), mittens	0.42	20 001.31		30
12	401692	Erasers of vulcanized rubber, other	0.06	944.54		30
13	440399	Wood, in the rough (excl. of 4403.1)	28.07	1 203 371.70		45
14	441232	Plywood, consisting solely of sheets of wood (other than bamboo); with at least one outer ply of non-coniferous wood	37.64	6 009.58		40
15	480210	Hand-made paper and paperboard	0.66	5 806.23		30
16	480254	Paper and paperboard; weighting less than 40 g/m ²	0.08	7 597.69		30
17	481930	Sacks and bags, having a base of a width of 40 cm or more	0.17	8 211.01		5
18	481940	Other sacks and bags, including cones	1.36	6 002.38		12
19	482390	Other paper and paperboard	0.25	46 658.92		7
20	490199	Printed books, brochures, leaflets	0.03	113 423.99		30
21	711790	Imitation jewellery of base metal; other	0.12	22 278.40		8
22	720421	Waste and scrap of stainless steel	7.56	1 016 273.50		45
23	720449	Ferrous waste and scrap; other	339.12	3 189 924.20		30
24	730429	Drill pipe of stainless steel; other	0.00	126 674.14		40
25	731029	Tanks, casks, drums, cans, boxes, of iron or steel; other	0.10	37 902.37		40

Table 4.25. (continued)

No.	Chapter code	Product description	Palau exports to the world in 2012 (US\$ thousand)	India imports from the world in 2012 (US\$ thousand)	India imports from Palau in 2012 (US\$ thousand)	MoP
26	732620	Articles of iron/steel wire	0.18	44 304.18		40
27	760720	Aluminium foil, backed with paper	0.48	97 830.18		40
28	780200	Lead waste and scrap	1.01	96 687.24		45
29	820790	Interchangeable tools for hand tools	4.77	189 262.30		5
30	821192	Knives having fixed blades	0.09	1 004.80		10
31	821210	Razors (excl. plastic razors)	0.62	4 346.03		10
32	821300	Scissors, tailors' shears	0.37	4 157.77		7
33	841490	Parts of air/vacuum pumps, air/other gas compressors and fans	83.43	544 194.81		5
34	842489	Other mechanical appliances	0.38	87 102.95		40
35	848180	Taps, cocks, valves and similar application for pipes, boilers shells, tanks, vats or the like; other appliances	1.77	816 935.38		5
36	850431	Other electrical transformers, having a power handling capacity not exceeding 1 kVA	1.59	52 681.76		20
37	852990	Parts and accessories suitable for use solely or principally with the apparatus of headings 85.19 to 85.21, other	0.41	981 781.76		30
38	853921	Electric filament lamps	0.02	25 627.26		7
39	901831	Syringes, with/without needles	1.54	36 143.88		30
40	902910	Revolution counters, production counters taximeters, mileometers, pedometers and the like	0.19	1 847.56		10
41	903180	Measuring/checking instruments, appliances and machines; other	0.03	538 722.09		15
42	940350	Wooden furniture of a kind used in bedroom	0.81	60 492.68		7
43	940490	Mattress supports, articles of bedding and similar furnishing; other	0.09	8 941.51		5
44	940550	Non-electrical lamps and lighting fittings	0.25	10 707.88		5
45	950300	Tricycles, scooters, pedal cars and similar wheel toys	0.38	204 664.45		43
46	960390	Brooms and brushes; other	0.96	9 586.77		5
47	960719	Slide fasteners; other	3.60	15 017.40		7
48	970110	Paintings, drawings and pastels	5.13	11 772.98		40
49	970400	Postage/revenue stamps, first-day covers, stamp post-marks, postal stationary and the like	0.02	6.88		100

Table 4.25. (continued)

No.	Chapter code	Product description	Palau exports	India imports	India imports	MoP
			to the world in 2012 (US\$ thousand)	from the world in 2012 (US\$ thousand)	from Palau in 2012 (US\$ thousand)	
50	970500	Collections and collectors' pieces of zoological, botanical, mineralogical, anatomical, historical, archaeological, palaeontological, ethnographic or numismatic interest	10.91	31.42		100
Total			592.89	10 470 349.64		

Sources: Author's calculation using WITS COMTRADE and ESCAP APTA Secretariat data.

It is shown from the study that there are 33 additional items on India's concession list, which could be Palau's export potential to India,³⁵ subject to proper production and investment regime, amounting to \$3.20 billion. Of these 33 items, 29 items were imported by India from the world and four were exported by Palau to the world but not to India. Three items that have 100% MoP on India's concession list were neither exported by Palau to India and nor imported by India in 2012 and have high potential of exports.

(c) Republic of Korea

The Republic of Korea imported 12 items from Palau in 2013, worth \$110,000. Only four of these 12 items are on the Republic of Korea's concession list. Forty-four items, including the four items that were granted concessions by the Republic of Korea, were exported by Palau to the world in 2013 (table 4.26). The export value of those items for Palau was approximately \$240,000. The import value of those 12 items by the Republic of Korea amounted to \$11.50 billion. Therefore, the potential export value of the 44 items from Palau to the Republic of Korea is \$240,000.

Table 4.26. Potential products for exports by Palau to the Republic of Korea

No.	Chapter code	Product description	Palau exports	Republic of	Republic of	MoP
			to the world in 2013 (US\$ thousand)	Korea imports from the world in 2013 (US\$ thousand)	Korea imports from Palau in 2013 (US\$ thousand)	
1	030799	Molluscs and invertebrates	15.44	65 481.47		20
2	253090	Mineral substance, n.e.s.; other	3.95	55 331.60		50
3	320412	Acid dyes, whether or not premetallised, and preparations based thereon; mordant dyes and preparations based thereon	0.32	38 919.51		30
4	330790	Depilatories, sterile contact lens care solution and other	0.04	39 872.97	0.04	30

³⁵ Details are available at <http://www.unescap.org/apta>.

Table 4.26. (continued)

No.	Chapter code	Product description	Palau exports to the world in 2013 (US\$ thousand)	Republic of Korea imports from the world in 2013 (US\$ thousand)	Republic of Korea imports from Palau in 2013 (US\$ thousand)	MoP
5	350699	Prepared glues and other prepared adhesives, not exceeding a net weight of 1 kg; other	2.09	18 758.33		50
6	392690	Articles of plastics and articles of other materials of headings 39.01 to 39.14, other	5.21	780 236.84	0.03	30
7	401039	Transmission belts or belting; other	0.02	22 116.10		30
8	401693	Gaskets, washers and other seals of vulcanised rubber	5.37	172 430.54		22.5
9	442190	Articles of wood n.e.s. in Chapter 44	1.98	31 278.94		30
10	590310	Textile fabrics impregnated, coated, covered or laminated with plastics other than those of heading 59.02; with polyvinyl chloride	56.53	6 562.56		30
11	610990	T-shirts, singlets and other vests, of other textile materials	0.21	189 008.27		30
12	620462	Women's/girls' trousers, bib and brace overalls, breeches and shorts; of cotton	0.01	325 182.37		40
13	690100	Bricks, blocks, tiles and other ceramic goods of siliceous fossil meals (i.e. kieselguhr, tripolite or diatomite) or similar siliceous earth	1.72	4 955.55		22.5
14	691110	Tableware and kitchenware	0.03	79 964.54		22.5
15	700490	Drawn/blown glass, in sheets	0.14	850 306.33		50
16	731815	Screws and bolts, of iron or steel	0.09	250 048.63		50
17	732690	Articles of iron/steel, n.e.s.	3.51	2 052 409.40		30
18	820310	Files, rasps and similar tools	0.01	1 853.67		20
19	820320	Pliers (including cutting pliers)	0.31	17 969.60		10
20	820559	Other hand tools (including glaziers' diamonds)	1.59	39 256.27		10
21	820790	Interchangeable tools for hand-tools	4.13	50 020.47		22.5
22	840991	Parts suitable for use solely or principally with spark-ignition internal combustion piston engines	0.06	521 222.90		30
23	841360	Rotary positive displacement pumps	0.22	105 852.07		35
24	841391	Parts of the pumps for liquids	0.03	234 328.20		30
25	841590	Parts of air-conditioning machines	0.57	174 278.88		50

Table 4.26. (continued)

No.	Chapter code	Product description	Palau exports to the world in 2013 (US\$ thousand)	Republic of Korea imports from the world in 2013 (US\$ thousand)	Republic of Korea imports from Palau in 2013 (US\$ thousand)	MoP
26	842123	Oil/petrol-filters for internal combustion engines	0.14	93 785.19		33
27	842131	Intake air filters for internal combustion engines	0.71	24 676.33		33
28	842489	Other mechanical appliances	0.10	50 744.65		25
29	844399	Other parts and accessories for print	0.13	783 359.07		25
30	848180	Taps, cocks, valves and similar application for pipes, boilers shells, tanks, vats or the like; other appliances	0.64	1 906 338.30		50
31	848310	Transmission shafts (including cam shafts and crank shafts) and cranks	1.03	163 226.36		30
32	848320	Bearing housings	0.09	6 568.98		33
33	848360	Clutches and shaft couplings	7.60	145 229.36		33
34	850212	Electric generating sets with compression-ignition internal combustion piston engines, of an output exceeding 75 kVA but not exceeding 375 kVA	10.70	5 560.57		33
35	850490	Parts of the machines of 85.04	22.33	283 362.73		30
36	851539	Machines and apparatus for arc welding of metal; other	53.25	8 042.48		33
37	853650	Switches other than isolating switches	0.52	344 993.29		30
38	853690	Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits, for a voltage not exceeding 1,000 volts; other apparatus	14.95	299 349.81		50
39	854442	Other electric conductors fitted with connectors	3.78	485 519.15	0.01	30
40	870829	Parts and accessories of the motor vehicles of heading nos. 87.01 to 87.05; other parts and accessories of bodies (including cabs)	0.09	284 549.13		50
41	870830	Brakes and servo-brakes; parts thereof	0.57	275 233.77		50
42	870880	Suspension systems and parts thereof	1.00	97 645.23		50

Table 4.26. (continued)

No.	Chapter code	Product description	Palau exports to the world in 2013 (US\$ thousand)	Republic of Korea imports from the world in 2013 (US\$ thousand)	Republic of Korea imports from Palau in 2013 (US\$ thousand)	MoP
43	903300	Parts and accessories, n.e.s., for machines, appliances, instruments or apparatus of chapter 90	22.55	57 616.91	22.55	25
44	961800	Tailors' dummies and other lay figures	0.14	16 391.05		33
Total			243.88	11 459 838.00	22.62	

Sources: Author's calculation using WITS COMTRADE and ESCAP APTA Secretariat data.

In 2013, 54 additional items not exported by Palau were imported by the Republic of Korea from the world.³⁶ They are therefore potential items for exports by Palau to the Republic of Korea, subject to a proper production and investment regime, accounting for \$24.30 billion.

With regard to the above export potential analysis, table 4.27 shows that the Marshall Islands' potential value of exports to the APTA region could be \$404.31 million, with the highest potential in Bangladesh and China. In the case of Micronesia, the potential export value could be \$35.82 million while for Palau it could reach \$5.57 million. China could be the biggest export market in the APTA region for Micronesia and Palau.

Therefore, the analysis shows that, together, the Marshall Islands, Micronesia and Palau can gain \$446 million in the APTA region market. In terms of export value, the Marshall Islands could gain the most from possible accession to APTA with a potential export value of \$404.31 million. Table 4.27 also presents the rate of increase in the value of exports by the MTEC countries to the APTA region. Palau can achieve the highest rate of increase in export value at 27,338%.

Table 4.27. Rate of increase in exports to the Participating States of APTA

Country	Value of exported items that come under MoP (US\$ million)	Value of potential export items that come under MoP (US\$ million)	Rate of increase (%)
Marshall Islands	78.71	404.31	414.00
Micronesia	9.96	35.82	260.00
Palau	0.02	5.57	27 338.00
Total	88.69	445.70	403.00

Sources: Author's calculation using WITS COMTRADE and ESCAP APTA Secretariat data.

³⁶ Details are available at <http://www.unescap.org/apta>.

D. Reducing trade costs, enhancing services and investment

Briguglio (1995) described the difficulties that the small island developing countries generally face. The difficulties arise from their small size, insularity and remoteness, proneness to natural disasters, environmental factors and other issues. Often these islands are more prone to exploitation of their limited natural resources. They are also highly dependent upon external finances. Getting into a trade agreement can help these small island countries to overcome such bottlenecks. In this regard, it is essential to discuss the important aspects of the APTA Framework Agreement on Trade Facilitation, Trade in Services and Investment.

1. Trade facilitation

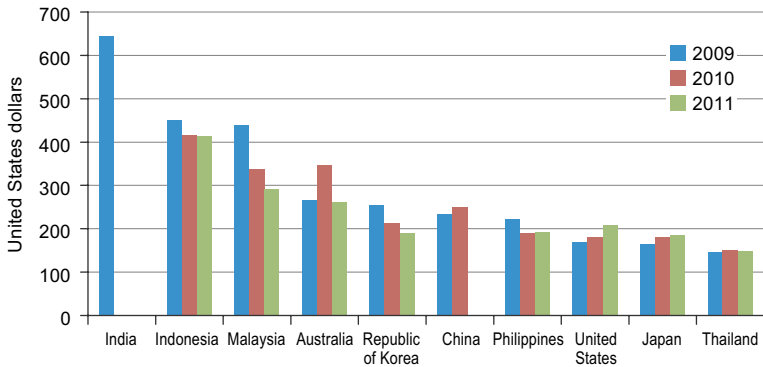
The Framework Agreement on Trade Facilitation, signed in 2009, broadly covers the areas of cooperation and transparency.

Trade facilitation measures are important for achieving a successful trade agreement. Trade liberalization or trade promotion together with better transportation facilitates can enhance trade; however, trade facilitation means more than just that aspect. In today's world, trade facilitation also includes measures for reduction in transaction costs associated with the "enforcement, regulation and administration of trade policies" (Staples, 2002). Its main aim is to reduce any unnecessary administrative costs of all the trade partners during trade. In this regard, the most hampering situation occurs due to customs clearance in the developing countries (in general, developed countries have a well-organized/capable customs administration).

The Marshall Islands, Micronesia and Palau are located remotely in the Pacific and do not have good accessibility. These facts give rise to cost disadvantages. Trade facilitation measures can reduce such costs and can help the islands to make better institutional provisions. In a possible situation of accession of these countries to APTA, the trade facilitation measures of APTA should be discussed in order to take advantage of membership. Before discussing trade facilitation further, the various indicators of trade facilitation need to be considered.

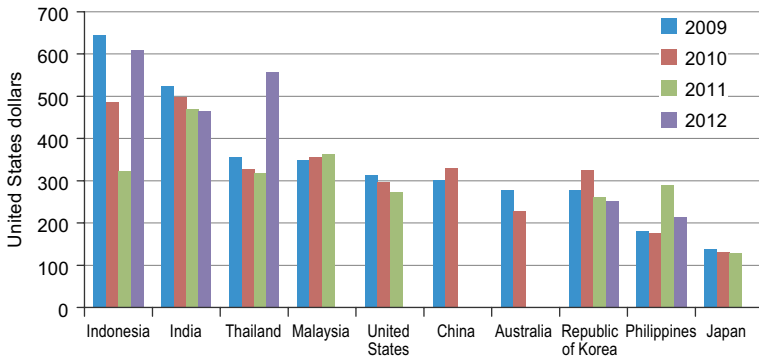
Trade cost is the most important indicator of trade facilitation. In today's world, countries are now better connected and economically integrated because of the advent of better communications and technologies; however, the presence of trade costs hampers trade procedures. Trade facilitation measures are useful for minimizing these transaction costs. Figures 4.21 and 4.22 list the trade costs of Micronesia and Palau with 10 important trade partners including the Participating States of APTA. Data on the trade costs of the Marshall Islands are not available.

Figure 4.22. Total trade cost for Micronesia



Sources: ESCAP and World Bank database.

Figure 4.23. Total trade cost for Palau



Sources: ESCAP and World Bank database.

From figures 4.22 and 4.23, it is apparent that Micronesia's trade costs with Participating States of APTA are not among the lowest in the list. India has the highest trade cost in 2009 whereas China and the Republic of Korea are at the mid-range point on the list. In the case of Palau, trade cost with India is also quite high. The trade cost with China and the Republic of Korea are in the mid-lower range. In recent years, this cost has been declining for India and the Republic of Korea.

Tables 4.28 and 4.29 list the export and import costs of the Marshall Islands, Micronesia and Palau with the world.

Table 4.28. Export costs of MTEC countries

(deflated US dollars per container)

Country	2010	2011	2012	2013
Marshall Islands	731.4	725.2	711.2	685.4
Micronesia	1 254.4	1 192.7	1 153.8	1 116.1
Palau	944.8	779.7	777.6	764.7

Source: World Bank database.

Table 4.29. Import costs of MTEC countries

(deflated US dollars per container)

Country	2010	2011	2012	2013
Marshall Islands	757.7	751.3	736.7	710.0
Micronesia	1 254.4	1 192.7	1 153.8	1 116.1
Palau	879.5	727.7	734.4	722.3

Source: World Bank database.

Micronesia has the highest levels of export and import costs per container. The Marshall Islands and Palau have lower export and import costs than the average export and import costs of the Pacific island countries (ESCAP, 2013). In recent years, the costs of imports and exports have been decreasing for these three countries (tables 4.28 and 4.29).

The average number of days for exports and imports by the Pacific island countries in 2013 were 24 days and 26 days, respectively (ESCAP, 2013). The time to export is important, especially for these three countries, as they have agricultural and fish products in their export basket, which are perishable. Table 4.30 lists the export and import times of these three countries.

Table 4.30. Time for MTEC countries to export and import, 2013

Country	Time to export (days)	Time to import (days)
Marshall Islands	23	25
Micronesia	30	31
Palau	26	31

Source: World Bank database.

According to ESCAP (2013), trade facilitation provides four benefits: (a) improved trade competitiveness; (b) increased FDI; (c) increased participation of SMEs in international trade; and (d) improved economic trade prospects. The APTA Framework Agreement on Trade Facilitation gives importance to sustained economic growth and development in all its Participating States through trade relations. Thus trade facilitating measures can be very helpful. Tariff reductions or being granted margins of preference by other Participating

States of APTA can increase their profits from exports. Transparent and easy formalities can help to reduce the time and cost of export, which is a crucial aspect.³⁷

2. Trade in services

The Marshall Islands, Micronesia and Palau have some of the best unspoiled beaches in this region, which offers great potential for tourism development and source of revenue that can help them to meet budget/trade deficits. In fact, Palau is already a tourist destination and the tourism sector of the country already contributes to the economy.

Co-operation and trade in services could become a very important source of revenue for development as trade only in goods cannot create much income due to higher transport costs. Access to overseas labour markets for the islanders through trade agreements could be beneficial by enabling them to earn income abroad and send money back to their countries to assist their families.

However, there is an urgent need for financial, technical and specialized assistance in order to enable the three countries to promote and develop their service industry. The Framework Agreement on Trade in Services includes such provisions for the Participating States of APTA and a liberalized services regime in APTA, will enhance trade and investment in services between them. It may also make it possible to integrate their economies more effectively through supply chains and backward-forward linkages of industries in the region.

The objectives under the framework agreement are to:

- (a) Enhance cooperation among the Participating States in order to improve efficiency and competitiveness as well as diversify production capacity, and the supply and distribution of services of service suppliers within and outside the participating countries;
- (b) Substantially reduce restrictions with a view to facilitating trade in services among the Participating States; and
- (c) Liberalize trade in services by expanding the depth and scope of liberalization beyond WTO General Agreement on Trade in Services (GATS).

³⁷ In this regard, we can mention about the MTEC trade and investment facilitation initiative. In line with the MTEC 2015-2019 Work Program, a subregional trade and investment facilitation needs assessment Workshop was convened in Majuro, Marshall Islands, on 7-9 July 2015 and was conducted with the technical assistance of the Commonwealth Secretariat, the International Trade Centre (ITC) and the United Nations Conference on Trade and Development (UNCTAD) and the participation of ESCAP. The objectives of the workshop was take stock of the subregion's trade and investment facilitation current conditions and undertake a preliminary gap analysis and needs identification with a view to increase the flow of trade and investment within the subregion and between the subregion and the rest of the world. The Workshop identified the measures and reforms necessary to facilitate trade and investment flows within the subregion and between the subregion and the rest of the world, including establishment and publication of average release time, simplifying formalities and documentation requirements, enhancing customs cooperation, establishment of enquiry points, introducing electronic payment, and setting-up of single windows. National validation workshops are to be conducted to validate the preliminary assessment undertaken during the workshop. In this regard, cooperation with the APTA Participating States could prove to be crucial.

Under the agreement, the main areas of cooperation in services trade could be: (a) the establishment or improvement of infrastructural facilities; (b) joint production, marketing and purchasing arrangements; (c) research and development, and (d) the exchange of information.

The agreement also supports the identification of future areas of services for cooperation as well as starting negotiations on providing preferential market access in the services sectors. These provisions would go beyond the commitments of countries under GATS and associated schedules.

3. Investment

With regard to achieving economic development and competitiveness in the world market, the most important factors are: (a) the availability of advanced knowledge of technology, (b) better infrastructure facilities to enable the implementation of such know-how in the domestic economy, and (c) better financial capacity or capability to sustain economic development. These factors are important to building efficient and modern industrial sectors that can help a country to gain a foothold in export markets. The availability of adequate investment can help a country to more easily meet these demands.

The Marshall Islands, Micronesia and Palau are suffering from the lack of those factors. They do not have modern infrastructure, e.g., health facilities, transport systems, power generation and telecommunications, which is a big drawback for their development goals and it leaves them continually dependent upon foreign financial support. They do not have economies of scale, which is essential to inducing better industrial development. Micronesia even has the problem of a high unemployment rate that is clearly a result of the country's underdeveloped economic structure. In this regard, the Government of the Marshall Islands webpage³⁸ states that an initiative is underway to create a more favourable environment for (foreign) investment and land-lease procedures.

There is also information on the possible sectors in which such investment can make a contribution; they include the light manufacturing sectors such as coconut and coconut oil production, scrap recycling and waste management as well as the production and exporting of handicraft products using pandanus and other local materials. In addition, there are large mineral deposits such as high-quality cobalt, manganese etc. in the Marshall Islands' 200-mile Exclusive Economic Zone (EEZ); however, the excavation of these minerals requires the proper technology and extensive investment. Palau, together with the Marshall Islands and Micronesia lack a suitably developed services sector, modern equipment and other technologies and FDI inflows required for the development of such marine resources.

The APTA Framework Agreement on Investment addresses such issues. Accession to APTA can help in addressing those issues through integration. The Framework Agreement gives prime importance to sustainable economic growth and development in all its Participating States by recognizing that investment is crucial to providing knowledge and

³⁸ See www.rmiembassyus.org/Economy.htm.

finance for sustaining the pace of economic, industrial, infrastructure and technology development. The objectives of this Framework Agreement are to:

- (a) Substantially liberalize and increase the flow of investment to the Participating States and the implementation of intra-APTA investment projects. Therefore, provisions are included for facilitating public-private sector linkages in order to improve intra-APTA investments;
- (b) Jointly promote Participating States as investment destinations;
- (c) Strengthen and increase the competitiveness of Participating States' economic sectors;
- (d) Progressively reduce or eliminate investment regulations and conditions that may impede investment flows and the operation of investment projects in Participating States;
- (e) Progressively strive towards a harmonized investment regime among all the Participating States;
- (f) Promote the free flow of investment and technology transfer among Participating States; and
- (g) Exchange and harmonize investment data, and develop a collective database on APTA supporting industries and technology suppliers.

4. Other areas of cooperation

The Pacific island countries are blessed with huge marine resources. The Western and Central Pacific Ocean areas are considered to have the largest tuna resources in the world that contribute to the economies of the island countries. However, over the years, the island countries have been facing increasing difficulties in dealing with foreign fishing vessels. Vessels from many countries (e.g., China, the Republic of Korea, Japan and the United States) are entering their territorial ocean areas and exploiting the fisheries resources. There is an increasing concern over these practices whether or not they are sustainable. Fish numbers, especially in the case of tuna, are decreasing possibly due to the use of the more capital-intensive "purse seining" method of fishing by fishing vessels from the large nations (Havice and Campling, 2009). However, these island countries do not have sufficient monitoring vessels or other related technology and equipment. Hence, there is considerable illegal fishing by foreign vessels in their territories.

Palau took a commendable step in the conservation of its marine resources by planning to create the world's first marine sanctuary in its EEZ, where fishing will not be allowed in order to protect its 1,300 fishes and 700 coral species.³⁹ In 2009, Palau also created the world's first shark sanctuary, covering 630,000 km², which is an area almost the size of France. The Government has also developed a national framework for community-based conservation, and implemented some of the world's most stringent regulations banning bottom trawling. These initiatives are not only good for the sustainability of the country's marine resources; they also attract more tourists and thus more income from tourism.

³⁹ See <http://epi.yale.edu/the-metric/small-nation-palau-makes-big-waves>.

A recent study by Vianna et al. (2012) of Palau's shark sanctuary and its impact on the country's economy, found that a reef shark can contribute around \$2 million to Palau's economy within its 16-year life span. The study also found that (a) 21% of divers who visit Palau do so to see sharks and that (b) the shark-diving industry contributes almost 8% to Palau's total GDP. The shark-diving industry spends \$1.2 million on salaries and other wages.

The Marshall Islands and Micronesia have created EEZ of about 750,000 square miles and 110,000,000 square miles, respectively, which is expected to be helpful in developing the fishing industry of both countries as well as in the conservation of marine resources, the strengthening of the marine ecosystem, including coral reefs, and in helping to boost the tourism industry.

Palau has been listed by the *National Geographic* among the "Last Great Places on Earth"⁴⁰ and the conservation initiatives taken by the country will definitely make it more attractive to tourists. The Marshall Islands is famous for its excellent sports-fishing conditions. In recent years, some of its more remote and less-fished atolls, such as Bikini and Mili, have become prime destinations among deep-sea and fly-fishing enthusiasts.⁴¹ The Marshall Islands also has many Second World War wrecks and thus offers wreck-exploration scuba diving opportunities.

Fish 2.0, a business completion that connects sustainable fishing and aquaculture business with potential investors, held a workshop in February 2015 for entrepreneurs from Micronesia, the Marshall Islands, Palau, Guam and Saipan. The workshop participants came to the conclusions that:

- (a) These island countries need sustainability-oriented business inventions;
- (b) There is a need for considerable investment in the development of small fishing firms and community-based business initiatives, as there is not a sufficient supply of fish throughout the season. They also need better storage facilities and cold houses; and
- (c) More than 50% of tuna sold in the world market are supplied by the Pacific island countries but without processing or adding any value to such exports.

Due to the lack of fish processing facilities, these island countries are unable to benefit from the potential fish processing business. A UNESCO (2008) report on sustainable development in Pacific island countries points the need for developing higher-price markets, higher-value products, value-adding through industry domestication and the development of new fisheries sources.⁴²

⁴⁰See <http://voices.nationalgeographic.com/2014/07/02/palau-plans-to-ban-commercial-fishing-create-enormous-marine-reserve/>.

⁴¹ See www.rmiembassyus.org/Economy.htm.

⁴² See www.unesco.org/new/fileadmin/MULTIMEDIA/FIELD/Apia/pdf/PACIFIC-SD%20report.pdf.

Some important points emerge from the above discussion:

- (a) The island countries need a better monitoring mechanism, modern technologies, training and political grouping in order to protect their goal of protecting marine resources, local fish industries and the tourism sector;
- (b) In order to sustain and develop the tourism sector, better training and more investment is required in that sector;
- (c) Greater investment is needed in the fishing industry; and
- (d) The unspoiled beaches and marine resources could attract greater numbers of tourists, especially from China, India and the Republic of Korea.

These issues highlight the need for investment in different sectors, the development of better services and tourism sectors, and sustainable production and consumption practices. The possibility of investment and cooperation in services can be dealt with by following the APTA Framework Agreement on Investment and Services as discussed above. Further discussion on sustainability, tourism, FDI and productive capacity – areas in which co-operation can be expanded in the future as follows.

(a) Tourism

The geographical location and remoteness of the Marshall Islands, Micronesia and Palau could prove to be a boon for them. They have unexploited natural resources and their islands, and beaches are still virgin, making them perfect tourist destinations that are “far from the madding crowd”. A large number of tourists from China, India and the Republic of Korea visit the Asia-Pacific region and they could become a good source of tourism revenue for the Pacific island nations. The Asia-Pacific region had the second-highest number of tourist arrivals in 2013 (UNWTO, 2014). In 2013 the total number of tourist arrivals in Micronesia and Palau were 42,000 and 105,000,⁴³ respectively. In comparison, the Marshall Islands received a much small number of tourists. According to the latest available data in 2012, tourist arrivals in the Marshall Islands totalled 4,600. According to several reports, Palau has become a popular destination for Chinese tourists, the number of whom is increasing every year.⁴⁴ However, Palau does not have a good enough infrastructure to sustain this growing tourist influx. Accession to APTA could, therefore, help the Government of Palau to get assistance, especially from China, in this regard.

There is a need for proper care and management of natural resources as they are directly associated with tourism and the national economies of the Marshall Islands, Micronesia and Palau. Thus, the importance of eco-tourism is rapidly growing,⁴⁵ as the eco-systems of these islands are fragile and can be easily affected by outside influences. The islands have good potential for eco-tourism, and future co-operation in this regard could certainly be beneficial.

⁴³ See <http://data.worldbank.org/indicator/ST.INT.ARVL>.

⁴⁴ See www.ibtimes.com/china-outbound-tourism-palau-cuts-flights-china-alleviate-tourism-pressure-1848594.

⁴⁵ According to Wikipedia, “eco-tourism is a form of tourism that involves visiting fragile, pristine and relatively undisturbed natural areas, intended as a low-impact and often small-scale alternative to standard commercial (mass) tourism”.

(b) Productive capacity

From the analysis of export potential in section C of this chapter, it is clear that there is a need to increase market share. To achieve that objective, the most important step is to increase productive capacity.⁴⁶ According to Freire (2011), the Marshall Islands, Micronesia and Palau had the lowest productive capacity in 2009. On the other hand, countries such as China and India have increased their productive capacity to much higher levels during the past 25 years. Funding such development can only become possible through external assistance; the Participating States of APTA could provide loans as well as share their experience through public and private partnerships. However, to attract such assistance, the Marshall Islands, Micronesia and Palau will have to create favourable policies.⁴⁷

China and the Republic of Korea, which are the largest importers of fish products from the Marshall Islands, Micronesia and Palau; could help in formulating effective policies for that objective by following the provisions in Framework Agreements.

(c) Foreign direct investment

FDI is a good option for building productive capacity. According to UNCTAD, the Marshall Islands receives its highest percentage of FDI inflows from Japan. Another major contributor is the Republic of Korea, while the inflow of FDI from China is also considerable. In the case of Palau, it receives a very small amount of FDI compared with the Marshall Islands. Palau receives FDI only from Japan, the United States, China and the Republic of Korea. Information on FDI for Micronesia is not available.

A study by the Commonwealth Secretariat (2015) suggested that FDI from the emerging south can be attracted if these small island countries enjoy preferential market access to other countries. The study also noted that China was increasingly investing in small States such as, Fiji, Papua New Guinea and Samoa, among others. FDI could also be a good platform for further cooperation between the Marshall Islands, Micronesia, Palau and the Participating States of APTA.

E. Conclusion and recommendations

The present study has attempted to show the benefits and challenges for the Marshall Islands, Micronesia and Palau through accession to APTA. These three Pacific island nations are remotely located in the Pacific Ocean and suffer from typical challenges, such as a lack of funds and resources, low economies of scale, climate change, high cost of transportation, etc.

⁴⁶ According to Freire (2011), productive capacity can be defined as the set of capabilities available in a country to produce and market its output of goods and services.

⁴⁷ This would certainly be very important for the three countries to establish a vibrant productive sector in a number of targeted areas.

They primarily export agricultural and fisheries products. Their manufacturing sector is very small. The GDP growth rate is low and the workforce is moving towards the services sector from the primary and secondary sectors. Their economies are becoming more dependent on the services sector.

The export items of these countries comprise primary products and fish products and they have a comparative advantage in the latter. However, they continue to suffer from a high trade deficit due to high imports and very low exports over the years.

The Marshall Islands and Micronesia are diversifying their export markets towards the Participating States of APTA. Previously, their main markets were the United States, Japan and ASEAN. The export market shares of the Marshall Islands and Micronesia in the Participating States of APTA are now 32% and 35%, respectively. The Marshall Islands is exporting mineral fuel and mineral oil products to India and the Republic of Korea plus fish products to China. Micronesia's main export markets in the Participating States of APTA are the Republic of Korea and China, comprising mainly fish products to these markets. The prime export market for Palau is Japan.

The trade complementarity analysis between individual Participating States of APTA and the Marshall Islands, Micronesia and Palau shows that trade complementarity between the Participating States of APTA and Micronesia is increasing while for Palau it is increasing only with the Republic of Korea. Overall, trade complementarity between the Participating States of APTA and the Marshall Islands, Micronesia and Palau is low, possibly due to trade barriers.

Based on available data for 2013, calculation shows that the total market potential of the Marshall Islands is \$404.31 million in four APTA markets (China, India, the Republic of Korea and Sri Lanka). It has market potential for 84 items in China, 68 items in India, 94 items in the Republic of Korea and 29 items in Sri Lanka. In the case of Micronesia, the APTA market potential (China, India, the Republic of Korea and Sri Lanka) is \$35.81 million. According to available data, Palau only exported to China and the Republic of Korea in 2013. Palau's total export potential in these two countries is \$4.97 million. For China the export potential is for 42 items and for the Republic of Korea it is for 44 items. Palau's latest export data with India, which are available only for 2012, show that Palau has an export potential of \$600,000 for 50 items.

A few other products that are not exported by the Marshall Islands, Micronesia and Palau to the Participating States of APTA could be potential export items subject to proper production and investment regimes. Some of these items, such as fish products (Chapter 3 of HS), are listed for 100% concessions on India's MoP.

Although the trade costs of imports and exports by the Marshall Islands, Micronesia and Palau have been decreasing during recent years, they are still comparatively high when trading with Participating States of APTA. The Marshall Islands, Micronesia and Palau also have higher number of days for their exports and imports compared with the world average. The Framework Agreement of APTA on Trade Facilitation can address these issues by

helping to minimize trade costs and related obstacles through measures such as tariff reductions, transparent and easier formalities in trade, the reduction of information asymmetry, etc.

The Marshall Islands, Micronesia and Palau have natural resources and natural beauty that could attract high numbers of tourists from the Participating States of APTA. However, in order to sustain growth in tourism they need financial, technical and specialized assistance. The lack of investment remains a major issue in these three island countries. Although they are receiving FDI, it is not adequate. For domestic purposes as well as for ensuring export competitiveness, development of productive capacity and technology is a major need. In addition, much more investment is needed for increasing productive capacity as well as building supportive industries for economic development and export competitiveness. The APTA Framework Agreement on Trade in Services and Investment can help strengthen cooperation in such issues by improving infrastructural and joint production facilities, promoting the free flow of funds among the Participating States of APTA, research and development and technology transfer.

China, India and the Republic of Korea, which are emerging global economic powers, have extensive economic expertise, technological know-how and experience. A recent study by the Commonwealth Secretariat (2015) showed that China, India and the Republic of Korea are the biggest trade partners for small countries (including Pacific island nations). Thus, accession to APTA can benefit the Marshall Islands, Micronesia and Palau in their progress along the development path by learning from, and partnering with China, India and the Republic of Korea.

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