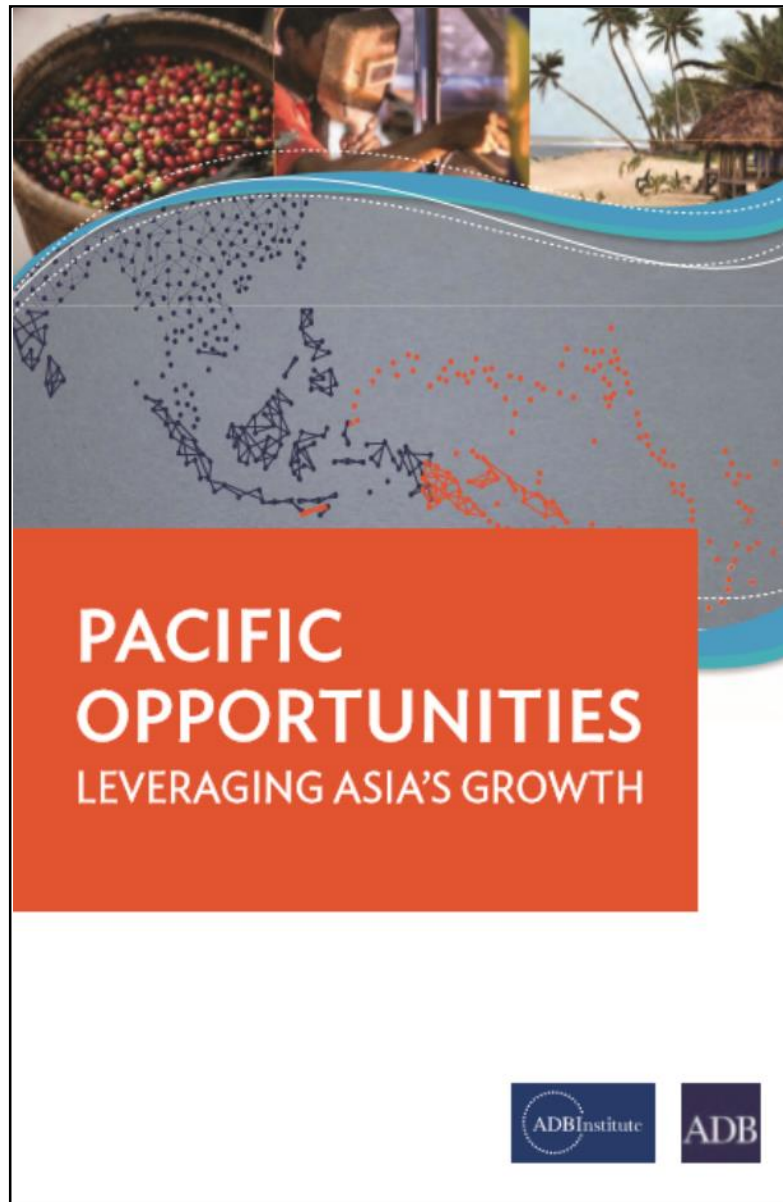




Evolving Trade Linkages between the Pacific and Asia

Benjamin Radoc
consultant

On behalf of the Economic Linkages Team



- Expanding economic and financial integration with Asia
- Suggestions to mitigate critical constraints

Evolving Pacific opportunities



Evolving linkages in the Pacific

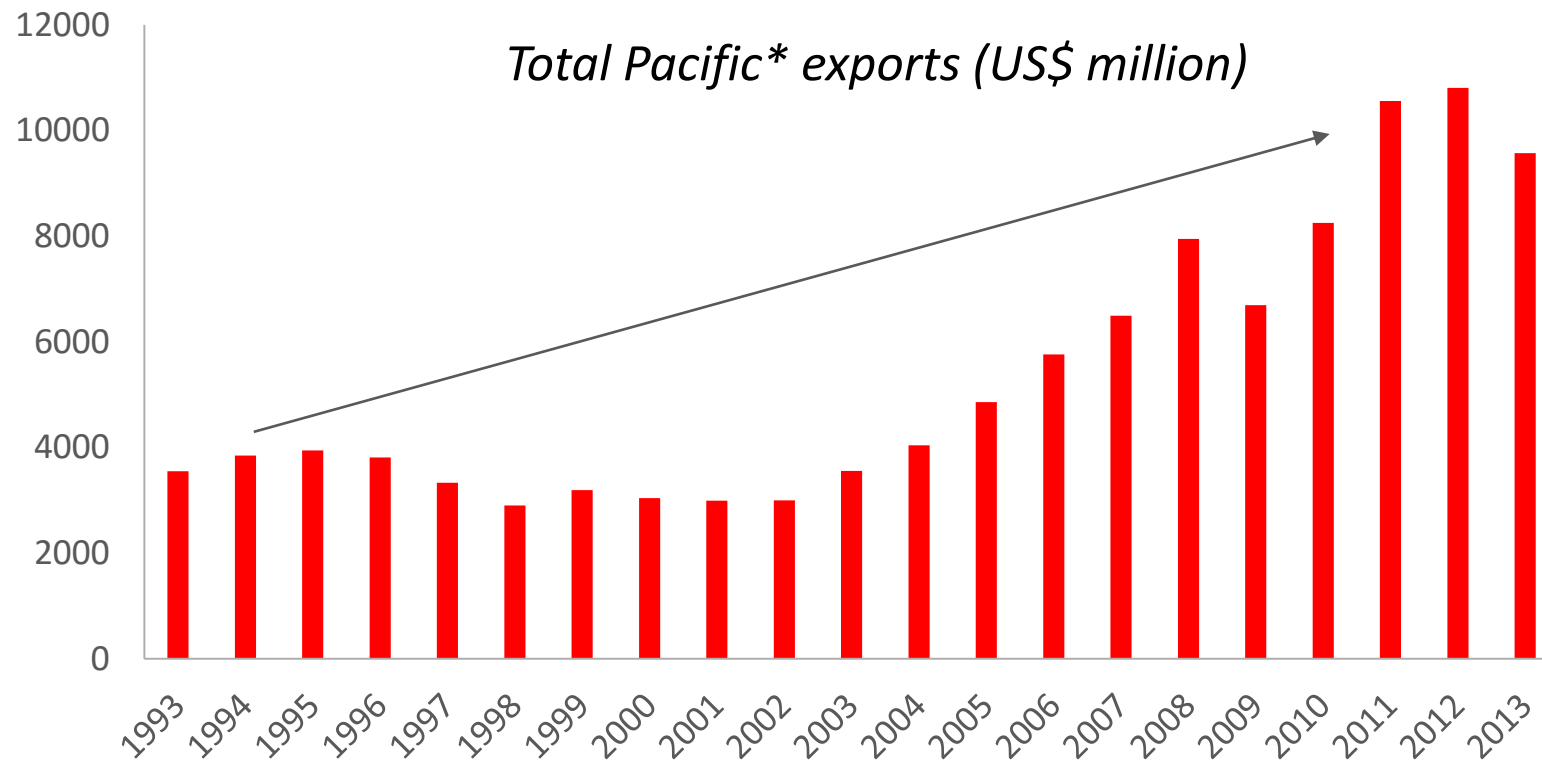
- Broad trends in each area of study
- Case studies (market, institutional and policy developments)

Team Leader: Christopher Edmonds, ADB

Consultant	Areas of study
Patricia Sourdin <i>Johns Hopkins University, Bologna</i>	Exports (niche markets: pearls, cocoa, vanilla)
Kati Suominen <i>UCLA Anderson School of Management</i>	Imports (food, fuel manufactured products and machinery)
Gerard Finin <i>East West Center</i>	Tourism flows (Chuuk, Palau, Saipan)
John Gibson <i>University of Waikato</i>	Labor exchanges (seasonal/permanent migration, remittances)
Matthew Dornan <i>The Australian National University</i>	Official development assistance (budget support)
Ilan Noy <i>Victoria University of Wellington</i>	Finance (currency choice, international trilemma)

Pacific exports grew 169% between 2003 and 2013

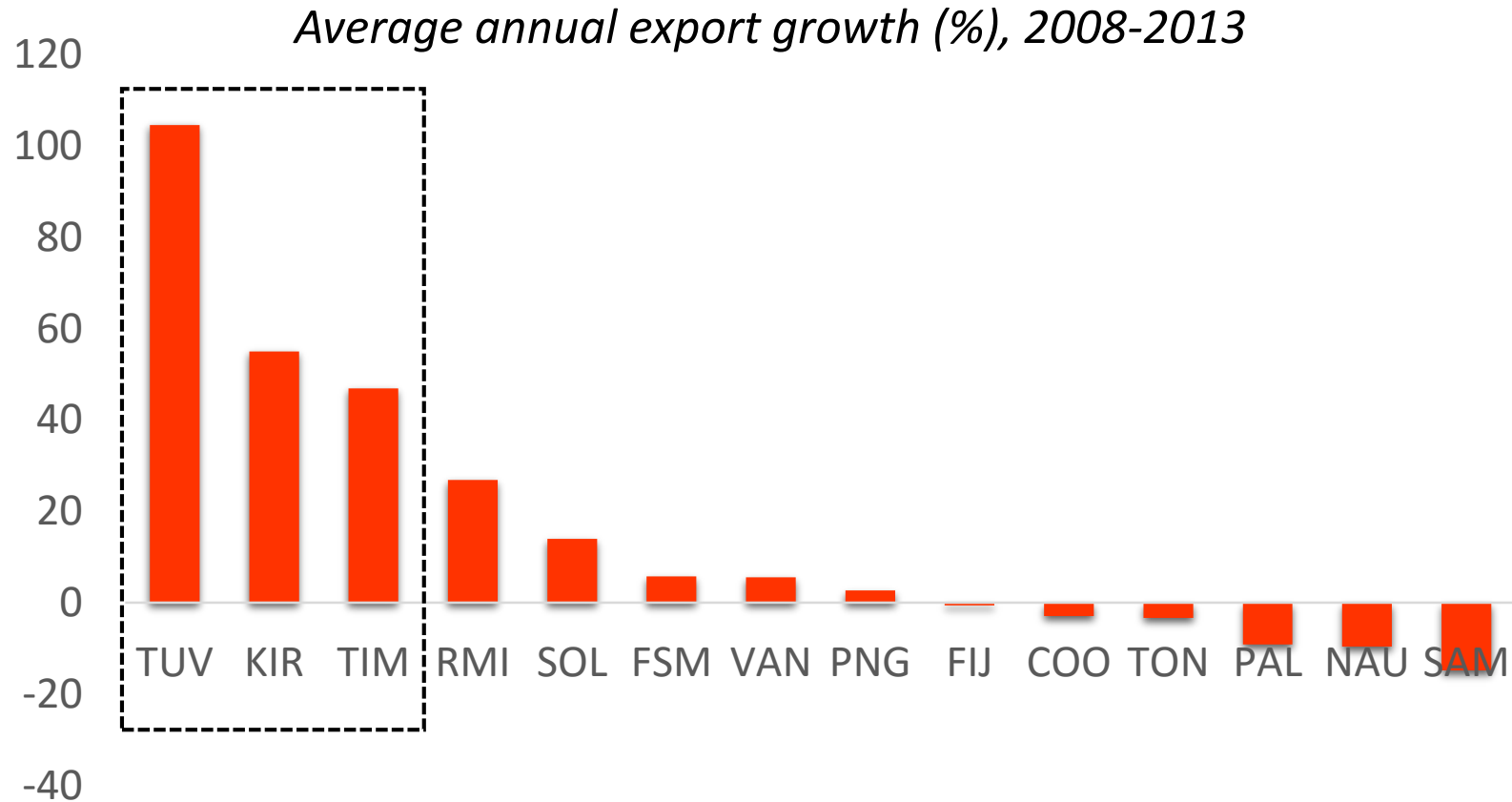
- Total exports value reached US\$9.6 billion in 2013; accounted for only 0.5% of world exports
- Exports growth constrained by geographic factors and transport costs



Data source: UN Comtrade

*Note: Data for ADB Pacific developing member countries, namely: Cook Islands, Fiji, Kiribati, Marshall Islands, FSM, Nauru, Palau, PNG, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu

But there was a significant variation across the 14 Pacific developing member countries

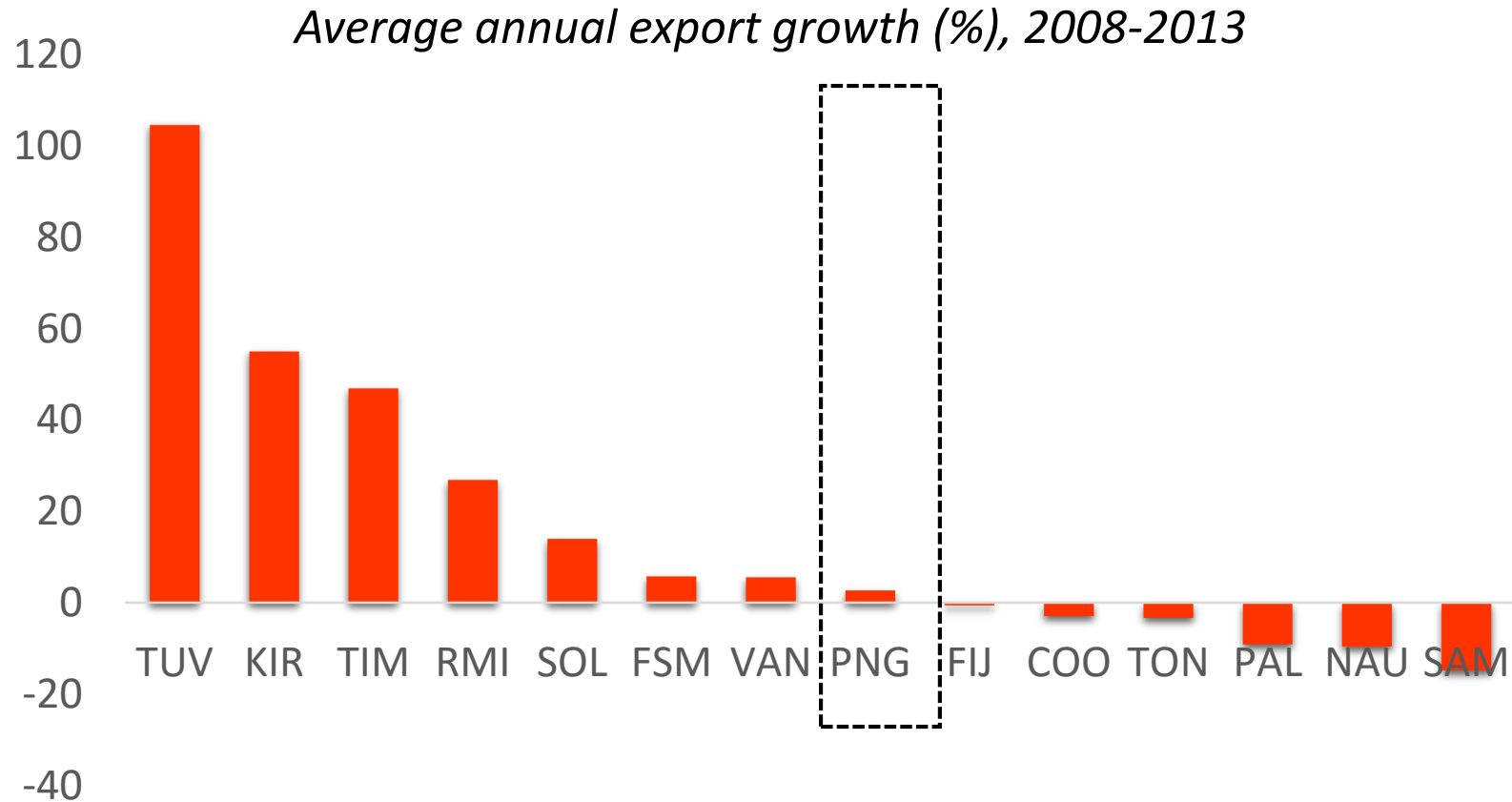


- **Tuvalu** (0.3%): fish exports
- **Kiribati** (1.0%): fish exports
- **Timor-Leste** (5.9%): exports of oil and gas, coffee

Data source: UN Comtrade

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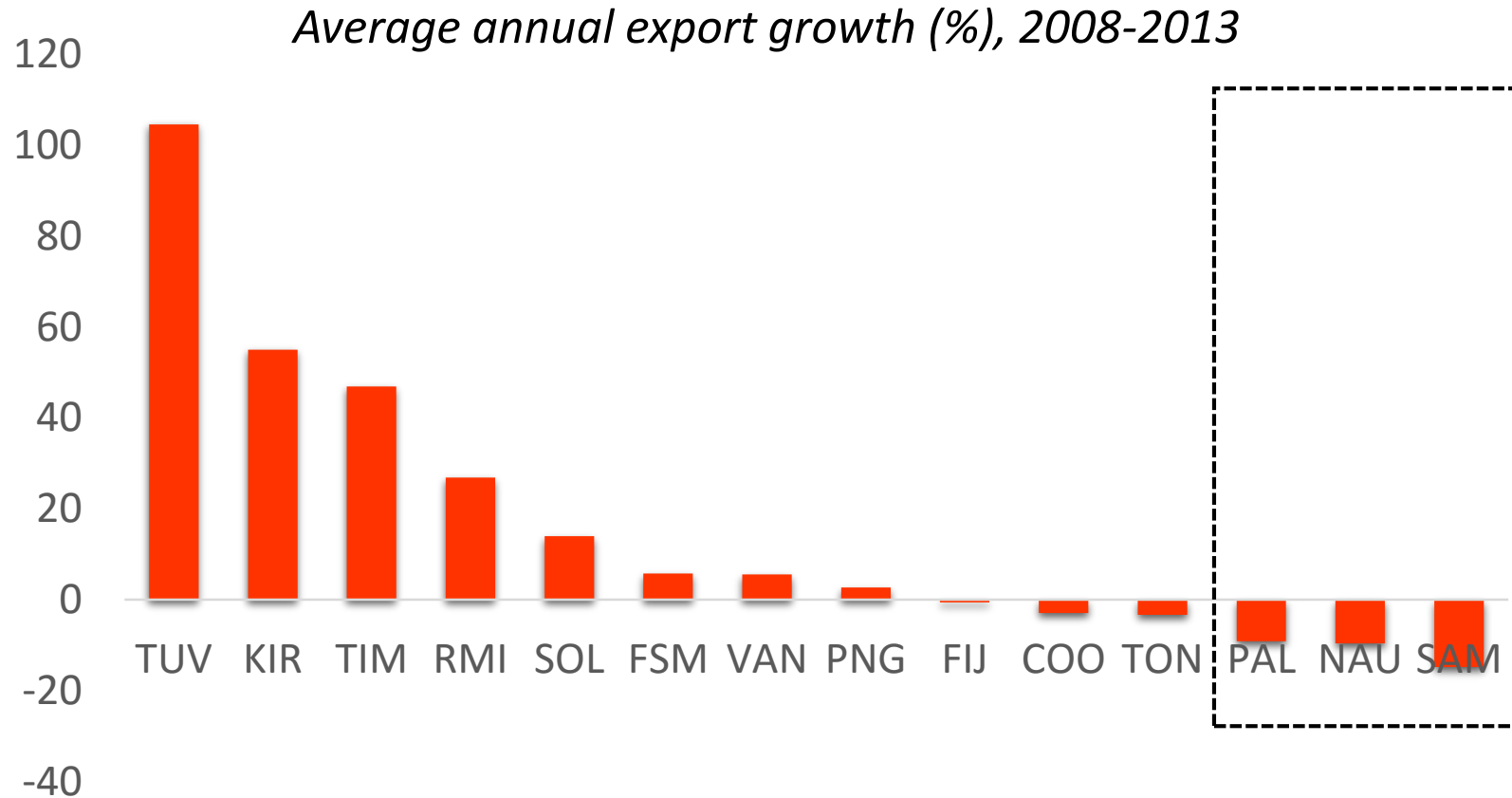


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- **PNG** contributed 70% to total exports in 2013
- Exports growth tempered by declines in commodity prices
- Shipments of liquefied natural gas expected to support exports growth

But there was a significant variation across the 14 Pacific developing member countries



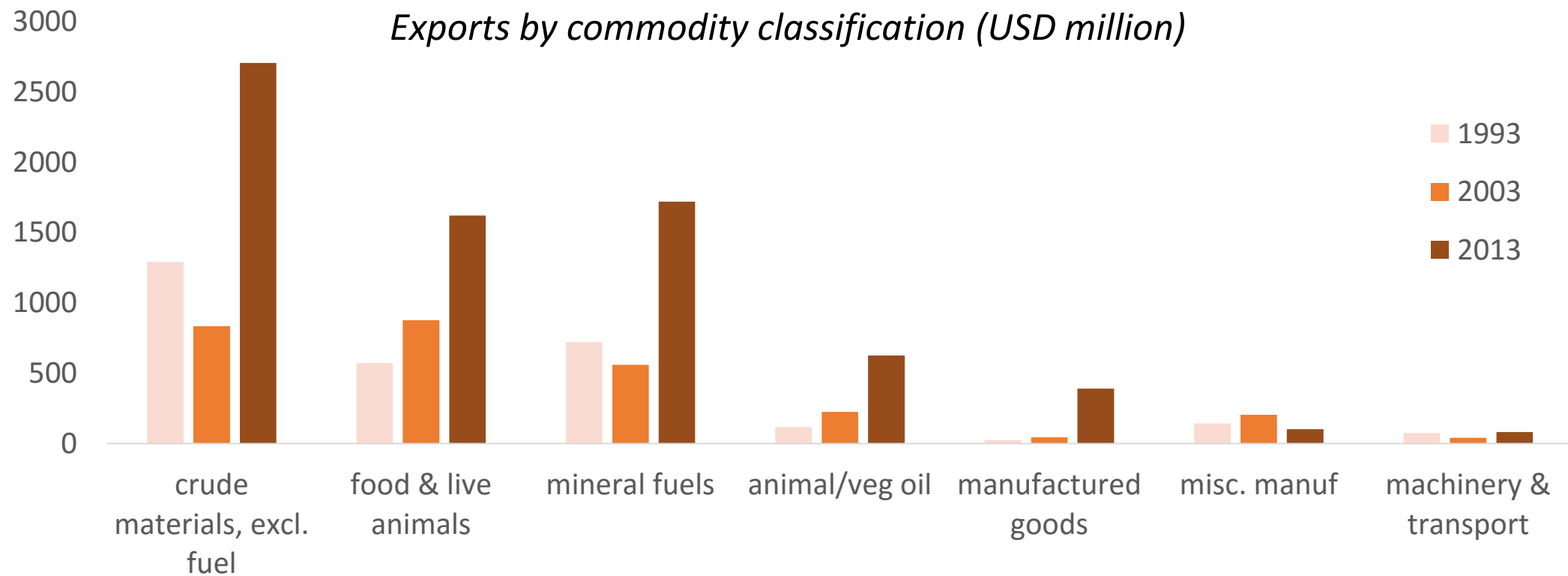
- **Nauru** (0.7%): smaller shipments of phosphates and fertilizers
- **Palau** (0.2%): fish products are main exports; textile and garments (until 2005)
- **Samoa** (0.2%): weaker exports of wire harnesses and cable, fish products

Data source: UN Comtrade

Note: Data for ADB Pacific developing member countries, namely: Cook Islands, Fiji, Kiribati, Marshall Islands, FSM, Nauru, Palau, PNG, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu

Exports are dominated by food and live animals, crude materials and mineral fuels

- Food & live animals (including tuna) accounted for 17% of exports in 2013
- Excluding PNG, the share of food & live animals stood at 38%



Data source: UN Comtrade

Note: Data for ADB Pacific developing member countries, namely: Cook Islands, Fiji, Kiribati, Marshall Islands, FSM, Nauru, Palau, PNG, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu

Pacific exports' major destinations

Exporter	Major export destinations
Cook Islands	Japan, PRC, New Zealand, Australia
Fiji	US, UK, Australia
Kiribati	Australia, PRC
Marshall Islands	US, Australia, Japan
FSM	US, Japan
Nauru	Republic of Korea, Australia, India, New Zealand
Palau	Japan, Pakistan, Republic of Korea, Germany
PNG	Australia, Japan, PRC, Germany
Samoa	Australia, US
Solomon Islands	PRC, Thailand, Australia
Timor-Leste	US, Germany, Indonesia
Tonga	US; Hong Kong, China; Japan
Tuvalu	Japan
Vanuatu	Thailand, Japan, Philippines

- Australia, New Zealand, and US remain important export destinations
- But demand from Asia is growing

Changes in revealed comparative advantage (RCA)

2013 vs 2003

Exporter	Stronger RCA (2013 v 2002)	Weaker RCA (2013 v 2002)
Cook Islands	fish&crustaceans	pearls
Fiji	fish&crustaceans, veg/roots/tubers, sugar, beverages, wood, pearls	apparel/knitted
Palau	fish&crustaceans	apparel/knitted
PNG	fish&crustaceans, coffee/tea/spices, cocoa, ores/slag/ash, mineral fuels, pearls	sugar, copper
Samoa	veg/fruit/nuts, beverages, machinery/equip	fish&crustaceans, apparel/knitted
Solomon Islands	fish&crustaceans, animal/veg fats/oils, prep of meat/fish, cocoa, wood, pearls	
Tonga	tanning/dyeing, iron and steel	fish&crustaceans, veg/roots/tubers, coffee/tea/spices
Tuvalu	fish&crustaceans	veg,/fruit/nuts, rubber, apparel
Vanuatu	fish&crustaceans, cocoa	animal/veg fats/oils

Gravity model

Accounts for the drivers of Pacific exports

- geography, historical ties, policy variables

Dependent variable

- log of bilateral exports (divided by the product of the countries' nominal GDPs)

Independent variables

- log of the distance between two countries
- colonial ties between two countries
- regional trade agreement

Gravity model

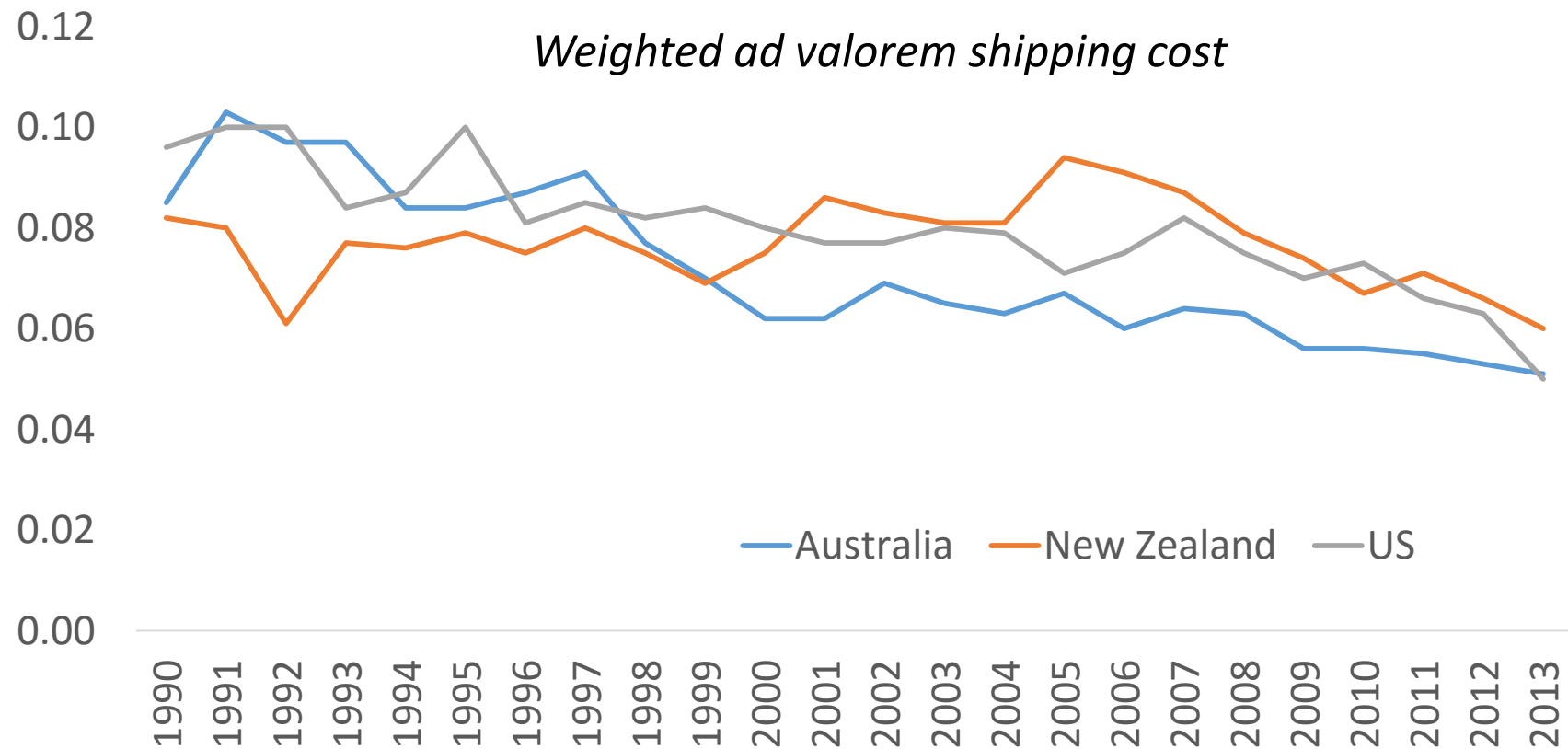
Cross-section regression estimation results

	1998	2003	2008	2013
log distance	-0.980	-2.666***	-2.497***	-2.796***
	(0.938)	(0.564)	(0.532)	(0.668)
RTA	4.991***	4.989***	2.588	2.116***
	(1.397)	(1.146)	(1.716)	(0.558)
Colony	1.952***	0.972	1.276**	1.068**
	(0.612)	(0.741)	(0.605)	(0.476)
R-squared	0.464	0.422	0.445	0.497
N	359	492	606	513

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. Exporting countries include 14 Pacific DMCs. Importer and Exporter fixed effects included. Robust standard errors in parentheses.

Trade costs

- Lower air/sea freight costs from Pacific DMCs to Australia, New Zealand, US
- Air transport is more common due to weak shipping connectivity



Data sources: Australia, New Zealand, US customs

Gravity model

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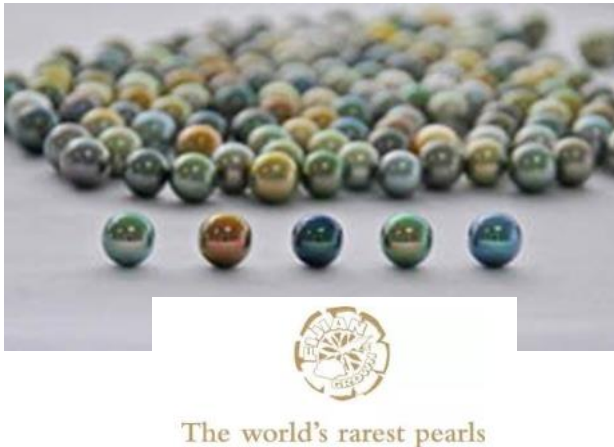
Regional trade agreements

- SPARTECA: South Pacific Regional Trade and Economic Co-operation Agreement
- MSG: Melanesian Spearhead Group Trade Agreement
- PATCRA: Papua New Guinea-Australia Trade and Commercial Relations Agreement
- PICTA: Pacific Island Countries Trade Agreement
- PACER Plus negotiations

Niche markets

- Focus on high value, low volume commodities
- Brand recognition: production at the highest quality to penetrate foreign markets
- Exports sector linkage with agriculture, aquaculture, and tourism

pearls



vanilla



cocoa



Concluding remarks

- Regional trading agreements help promote intraregional trade
- Pacific exports are dominated by mineral fuels and fisheries products
- But Pacific economies encouraged to develop niche markets
 - Low volume, high value, premium niche agriculture products
 - High value aquaculture products
 - Strengthen exports linkage with domestic production and tourism, and tap government and institutional support