



## Asia-Pacific Trade Briefs

### The Developing Pacific Islands

(American Samoa; Cook Islands; Fiji; French Polynesia; Guam; Kiribati; Marshall Islands; Micronesia (F.S.); Nauru; New Caledonia; Niue; Northern Mariana Islands; Palau; Papua New Guinea; Samoa; Solomon Islands; Tonga; Tuvalu; Vanuatu)

**Merchandise trade:** Merchandise trade by the Small Island Developing States (SIDS) economies in the Pacific subregion in 2015 was dominated by Papua New Guinea (40.3%), Fiji (18.7%), New Caledonia (18.2%), French Polynesia (7.5%) and the Solomon Islands (3.7%). Merchandise exports fell sharply by 9.2% in 2015, in line with the Asia-Pacific region's average export decline of 9.7%. The export performance was largely affected by the export contractions of Papua New Guinea (which accounted for 61.2% of merchandise exports by the SIDS), Fiji and New Caledonia at levels of 2.6%, 12.6% and 18% respectively. Merchandise imports inched upwards by 0.8% in 2015, performing better than the Asia-Pacific average imports contraction of 15.0%. If re-exports are excluded, the main exports of the group are mainly raw and primary commodities. Imports were relatively diversified across commodities and consumer goods, such as cruise ships, petroleum oil, light-vessels, motor cars and vehicles, and aircrafts.

**Services trade:** Services accounted for 30.5% of total trade in 2015, which was considerably higher than the Asia-Pacific region's average share of 19.1%. Service exports and imports in 2015 decreased substantially by 50.1% and 60.3%, compared with the Asia-Pacific contraction of 4.8% and 5.2% respectively. The slowdown in services trade affected the subsectors of travel, construction, and financial and insurance services the greatest.

**Intra-subregional and intraregional trade:** Trade between the Pacific SIDS remained at about 3.3% for both exports and imports. In 2015, 58.7% of goods exports by SIDS were with Asia-Pacific economies, almost unchanged from the level in 2014 at 58.9%. The share of exports to Australia and New Zealand declined from 21.8% in 2014 to 15.0% in 2015; however they remain the largest trade partners for the Pacific SIDS. On the import side, 25.2% of total imports by the Pacific SIDS in 2015 were sourced from Australia and New Zealand, a slight decrease compared with the 2014 level of 27.7%. China and other East and North-East Asia (ENEA) economies have increased their importance in terms of being export destinations. The shares of exports to China and other ENEA economies increased from 10.7% to 13.1% and from 19.4% to 21.2%, respectively, while exports to the South-East Asia (SEA) subregion also rose from 2.8% to 4.6%. The share of imports from China grew noticeably from 10.4% to 15.4%, while imports from SEA declined from 24.1% to 20.0%. Overall, 78.7% of goods imports were intraregional (that is, with Asian economies as well as Australia and New Zealand).

**Foreign direct investment (FDI):** The Pacific SIDS economies are net recipients of FDI inflows. In 2015, total FDI inflows reached \$2.3 billion, marking a considerable increase of 15.8% compared to the Asia-Pacific region's average inflow growth of 5.6%. Papua New Guinea, New Caledonia and Fiji were the largest recipients among the SIDS in the subregion, with Australia and Malaysia as the major intraregional sources of foreign investment. The overall inflow growth was largely driven by increasing greenfield FDI into Fiji, which observed a robust inflow growth by 53.5% in 2015, especially in the tourism sector. In recent years Fiji has undergone a process of restoration of diplomatic relations with major international partners, especially Australia, New Zealand and the United States. Public debt sustainability, adequate foreign exchange reserves and relatively more advanced financial institutions compared to other SIDS in the subregion are among reasons for the FDI attractiveness of Fiji. For Papua New Guinea, there was a \$2.2 billion acquisition deal between French energy-company Total and locally-based Oil Search. In 2015, total FDI outflows of the subregion increased by 27.1%, reaching \$1.8 billion in 2015, up from \$1.4 billion in 2014.

**Trade costs:** Intraregional and international trade costs of SIDS in the Pacific subregion remained high compared with the most efficient major traders in Asia and the Pacific. The SIDS Pacific trade costs with four major developing economies in Asia and the Pacific (China, India, Indonesia and the Russian Federation) have been increasing since 2009 and are, on average, about four times higher than those for East Asia-3 in reaching these markets. Six economies in the Pacific SIDS - Fiji, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu - are members of WTO, however tariffs still appear to form a major component in the Pacific SIDS trade costs. Based on tariff data from 2014, the levels of MFN bound tariffs of the Pacific SIDS averaged 30.5%, which is higher the Asia-Pacific region's average of 20.0%. Both the applied MFN and effectively applied tariff rates are nearly 10.0% which is also higher than the Asia-Pacific region's averages of 6.9% and 5.9%, respectively. However, the binding coverage of the Pacific SIDS is 84.5% of tariff lines, which is almost the same as the Asia and Pacific average of 84.9%.

Figure 1. Key trade and investment indicators

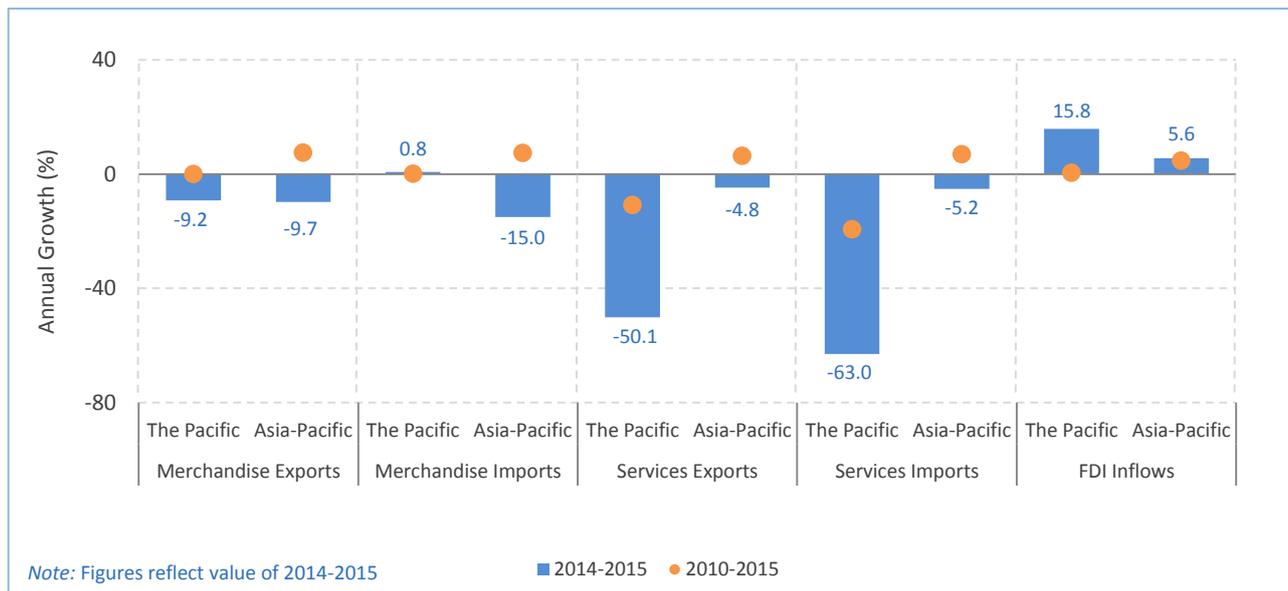


Figure 2. Top merchandise markets

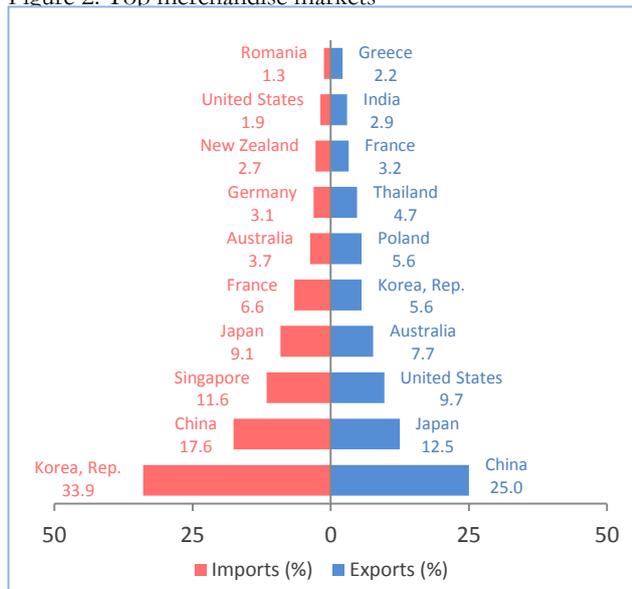


Figure 3. Top merchandise products

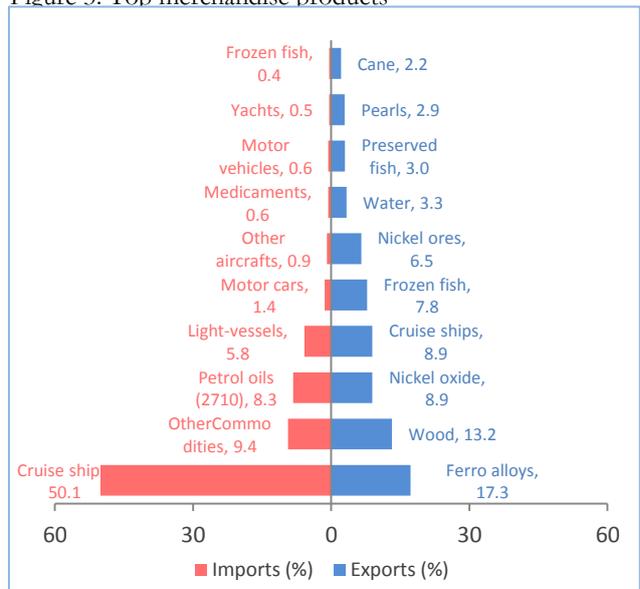


Figure 4. Breakdown of Pacific Small Islands and Developing States intraregional trade

Sources/Destinations (% share)	Pacific Small Islands and Developing States imports from		Pacific Small Islands and Developing States exports to	
	2014	2015	2014	2015
Asia-Pacific	79.9	78.7	58.9	58.7
Australia and New Zealand	27.7	25.2	21.8	15.0
East and North-East Asia	24.0	28.9	34.0	34.3
Pacific Small Islands and Developing States	2.8	3.4	3.1	3.3
South-East Asia	24.1	20.0	2.8	4.6

Figure 5. Foreign direct investment

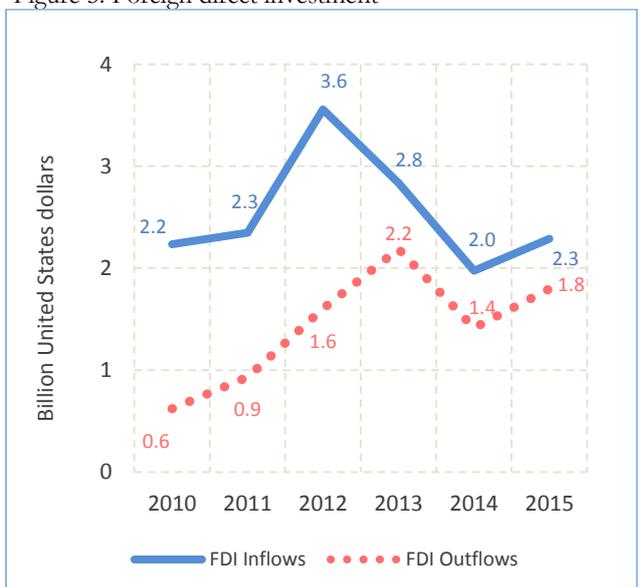


Figure 6. Tariffs (2014)

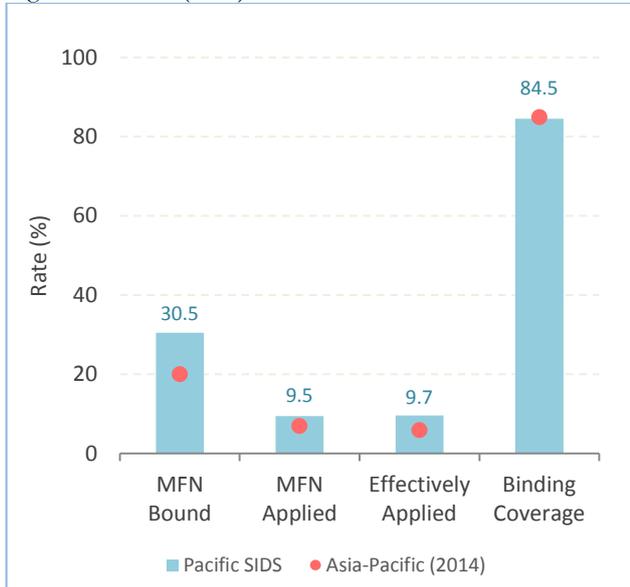


Figure 7. Trade costs



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