

The Federated States of Micronesia: Trade Brief*

Trade Policy

The Federated States of Micronesia's MFN simple and weighted average applied tariffs in 2006 are both 4.5 percent, much lower than its East Asia and the Pacific (EAP) regional or lower-middle-income group comparators. Its score on the latest International Telecommunication Union (ITU) competition in telecom index reflects a partially competitive telecommunications industry.

Market Access

The Federated States of Micronesia's exports face a rest-of-the-world weighted average tariff (including preferences) of 4.5 percent, higher than the EAP or lower-middle-income group means. As well, only 8.5 percent of its exports are granted MFN zero-duty status, due to a high concentration of its exports in the agricultural sector. The country is not a member of the WTO, but is a Generalized System of Preferences (GSP) beneficiary with a number of industrialized countries. Despite the attempt by the EU to replace the trade portion of the Cotonou agreement that expired in 2007 with a comprehensive Economic Partnership Agreement (EPA), negotiations have not progressed. The Federated States of Micronesia retains preferential treatment for its exports with the EU under the GSP. Regionally, the country is a signatory to the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), the Pacific Agreement on Closer Economic Relations (PACER), and the Pacific Island Countries Trade Agreement (PICTA). The official currency is the U.S. dollar.¹

Behind the Border Constraints

The Federated States of Micronesia's 2007 Doing Business rank was 112th (out of 178 countries) and, although its relatively burdensome legal and administrative arrangements hamper foreign investment, 46th on the subcategory Starting a Business. Its rank on the Trading Across Borders subcategory was 85th due to low administrative requirements but higher than average shipping costs. The business climate in Micronesia has retarded expansion of the private sector through cumbersome regulations. The private sector exists primarily to service the large public sector. The 2005–06 per capita rate for telephones and mobile phones (24.0 percent) is lower than in an average EAP or lower-middle-income country, but the rate for Internet users (14.5 percent) is much higher than the comparators'. The country's geographic isolation, coupled with poor tourism infrastructure, limits its tourism opportunities. Overall, infrastructure remains one of the biggest challenges facing the country, and low tax revenues and reductions in foreign aid in response to the global economic slowdown make it uncertain how this obstacle can be overcome.

Trade Outcomes

The Federated States of Micronesia consists of 607 islands with a total population of about 108,000. Subsistence farming and fishing are the primary economic activities and the country

*As of April 2008. See the World Trade Indicators 2008 database at <http://www.worldbank.org/wti2008>.

¹ No trade policy indicators for the country could be calculated for lack of data in the internationally comparable databases.

relies heavily on foreign aid, particularly from the United States. Private sector growth has been slow in recent years and structural difficulties are one of the main causes of the country's relatively poor export performance. Its exports in 2005 were mainly of frozen fish (90 percent of total merchandise exports), fish (2 percent), coffee (2 percent), nonferrous metals (1 percent), and bones (1 percent), with a high export concentration index (91.7 in 2006) by comparators' standards. Most exports in 2004 (a year that saw a higher share of garment exports) were oriented to Japan, the United States, and Guam. The same year, its imports were mainly obtained from the United States, Japan, and Hong Kong (China), and were primarily composed of food, manufactured goods, machinery and equipment, and beverages.

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