# Federated States of Micronesia Trade Brief

## Trade Policy

The government is the main employer in the Federated States of Micronesia, although most Micronesians rely on subsistence fishing and farming. The simple average of the MFN applied tariff rate was 4.5 percent in the most recent year, with no difference between the treatment of agricultural and non-agricultural goods. Based on the MFN applied tariff, the country ranked 13th out of 181 countries (where 1st is least restrictive). This was much lower than the average for both the East Asia and Pacific region and lower-middle-income countries, which were 10.5 percent and 11.5 percent in the same year. In the most recent year for which there is data, the FSM had a maximum tariff on all goods (excluding alcohol and tobacco) of 25 percent.

## External Environment

The simple average of the rest of the world tariff faced by the Federated States of Micronesia's exports is 10.7 percent. When taking into account the volume of exports, it is 4.3 percent, with only a slight difference between agricultural and nonagricultural goods. The country's currency is the U.S. dollar, due to the close economic ties between the two countries.

The Federated States of Micronesia is not a member of the WTO. However, along with the Marshall Islands and Palau it belongs to the Compact of Free Association, which provides for some economic assistance and establishes that some trade between those nations and the United States be tariff free. These three countries agreed to take steps towards ratifying the Pacific Island Countries Trade Agreements (PICTA), which 14 members of the Pacific Islands Forum (the Forum Island Countries) signed in 2001.[1] PICTA, an agreement for free trade in goods, and, in future, services, falls under the broader Pacific Agreement on Closer Economic Relations (PACER) that in addition to the Pacific Island Countries also includes Australia and New Zealand.[2] In August 2009, leaders of the Pacific Island Forum agreed to start negotiating PACER plus, a free trade agreement that would include Australia and New Zealand as well as the Forum Island Countries and that would cover goods, services, and investment.[3] The Federated States of Micronesia is also engaged in negotiations with the EU on an Economic Partnership Agreement (EPA) that would greatly expand its market for exported tuna.[4] This is a regional agreement that involves all 14 Pacific countries that signed onto the PICTA.

## Behind the Border Constraints

The country remained in the bottom third of international business environments in 2009, being ranked 127th out of 183 countries in the Ease of Doing Business index. With relatively high costs per container and long times to export and import, the country ranks 98th in the Trading Across Borders subcategory of the index, which looks at the extent of trade facilitation in the country. However, the number of documents required to export and import is lower than the regional average. The Federated States of Micronesia's trade faces obstacles due to the country's geographical remoteness and the fact that its population of around 100,000 is spread across 607 islands. These include limits on available resources and infrastructure and also dependence on imports for many necessities including fuel and food.

## Trade Outcomes

With limited means to cope with the economic slowdown, the country is expected to be negatively affected by declining demand. Its economy has faced contractions in the past several years. It remains largely dependent on the United States, which provides grants that account for approximately one quarter of GDP. The largest markets for the country's exports are the United States, China, and Japan. The export market is

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Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

If using information from this brief, please provide the following source citation: World Bank. 2010. "Federated States of Micronesia Trade Brief." *World Trade Indicators 2009/10: Country Trade Briefs*. Washington, DC: World Bank. Available at http://www.worldbank.org/wti.

not very extensive, comprised of fish and other foodstuffs, including coffee, which have experienced decreases in price along with decreases in demand. The decline in the availability of trade financing has led to an increase in the cost of shipping. Despite these factors, exports, which represent around 9.5 percent of GDP, grew by 18.1 percent in nominal U.S. dollar terms 2008, up from a growth rate of 15.8 percent in 2007.[5] In addition, the global economic slowdown is expected to have a negative effect on the tourism industry, which has been growing steadily in the past several years.

The country maintains a large trade deficit, with exports approximately equal to only one seventh of imports. Due to high commodity prices, imports grew by 12.7 percent in 2008 in nominal U.S. dollar terms, after growing by only 1.3 percent in 2007. Imports of petroleum products (which make up around one quarter of all imports) increased by 50 percent in 2008 due to high fuel prices. Remittances, which are estimated to have tripled since 2004, are expected to decline as there are reports that the country's workers are being forced into lower-skilled jobs in the United States, where workers can work without having to obtain a visa.

## Notes

1. Bilaterals.org, April 2009.
2. Pacific Islands Forum Secretariat and Jane Kelsey, April 2004, p. 18.
3. Pacific Islands Forum Secretariat, August 2009.
4. IMF, March 2009, p. 15.
5. International Monetary Fund, March 2009, p. 7.

## References

International Monetary Fund (IMF). March 2009. "Federated States of Micronesia: 2008 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion." IMF Country Report No. 09/81. International Monetary Fund. June 30, 2009 <http://www.imf.org/external/pubs/ft/scr/2009/cr0981.pdf>.

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Kelsey, Jane. April 2004. "Big Brothers Behaving Badly: The Implications for the Pacific Islands of the Pacific Agreement on Closer Economic Relations (PACER)." Pacific Network on Globalisation (PANG). <http://www.pang.org.fj/doc/040401bigbrothersjanekelsey.pdf>.

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