

## KEY POINTS

- Trade costs are falling, but remain high, which constrains SME growth
- Niche product exports have socioeconomic spillovers by capturing both value and community
- E-commerce leapfrogs the cost of distance
- Women-led firms thrive online
- Trade with Asia is on the rise among Pacific exporters

Download the report *Aid for Trade in Asia and the Pacific: Thinking Forward about Trade Costs and the Digital Economy*  
[www.adb.org/publications/aid-trade-asia-and-pacific-thinking-forward-about-trade-costs-and-digital-economy](http://www.adb.org/publications/aid-trade-asia-and-pacific-thinking-forward-about-trade-costs-and-digital-economy)

## PACIFIC TRADE: DYNAMICS IN A HIGH-COST REGION

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## INTRODUCTION

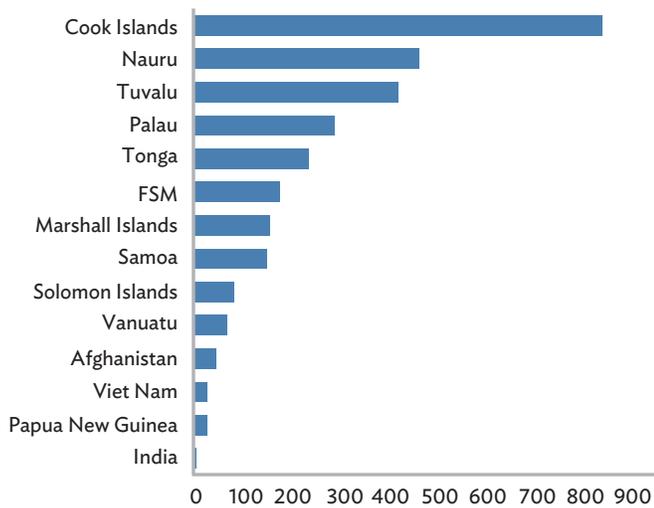
The geography of the Pacific results in trade costs that are substantially above the global average. Yet, there is a vibrant set of exporters that succeed in boosting production, increasing employment, empowering women and which, simply by doing business in such small economies, impact the direction their countries are taking.

Aid for Trade (AfT) to the Pacific is an important enabler of the private sector. Disbursements have increased over time; and on a per-capita basis, Pacific economies are the largest AfT recipients in the world (Figure 1). Similar to Asia, AfT in the Pacific largely goes to infrastructure and, increasingly, trade facilitation.

One way in which the Pacific stands apart in AfT is the focus on information and communication technology (ICT). Projects promoting both ICT infrastructure and ICT-related services are critical for connectivity in a region which has a weighted average distance from major markets of 11,500 kilometers.

This brief summarizes the Pacific highlights from the 2015 report—*Aid for Trade in Asia and the Pacific: Thinking Forward about Trade Costs and the Digital Economy*. The following sections cover both trends in the region over the past year as well as potential sources of growth that are just beginning to emerge.

**Figure 1: Aid for Trade Per Capita Disbursements in Selected Economies, 2011–2013 (\$)**



FSM = the Federated States of Micronesia.  
Source: OECD Aid for Trade Statistics. <http://www.oecd.org/>

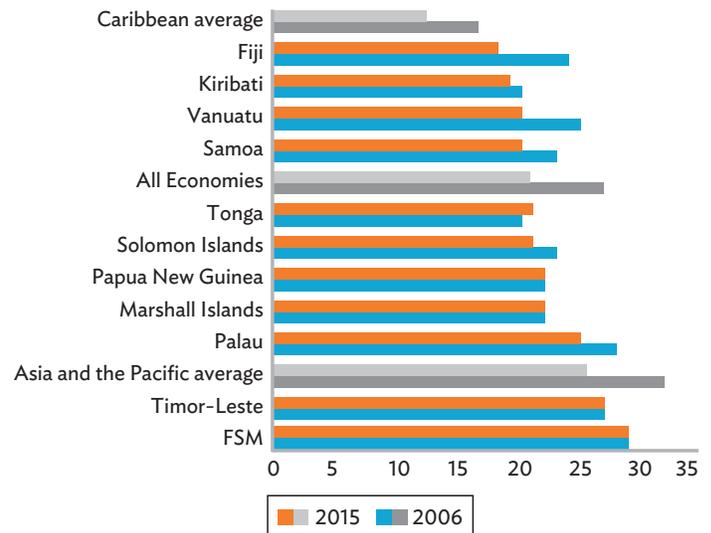
## TRADE COSTS ARE FALLING, BUT REMAIN HIGH

The three major indicators of trade costs—time to export and import, logistics performance and shipping services—have all improved over time in the Pacific. The region is also doing well compared to the average for Asia and the Pacific (Figure 2).

However, in comparison to countries at similar levels of development, costs remain high. While the Pacific does better than South Asia and Central Asia in average time to export, the Caribbean has much lower average times.

Trade costs have a particularly negative impact on small and medium-sized enterprises (SMEs). The reason is that many trade costs are fixed which makes them proportionately larger for small shipments than for large-volume bulk shipments. In a 2015 survey, 62% of exporting firms reported that high freight costs—particularly the difficulty in achieving critical mass—was their main export challenge. Transport and customs procedures were also cited as “major constraints.”

**Figure 2: Number of Days to Export in the Pacific—Selected Economies, 2006 vs. 2015**



FSM = the Federated States of Micronesia.  
Source: World Bank. Doing Business Database. <http://www.doingbusiness.org/>; and World Bank. World Development Indicators Data. <http://www.data.worldbank.org>

## NICHE EXPORTS CAPTURE VALUE AND COMMUNITY

*“Instead of supplying a product we try to sell a package. So, we sell not just a bottle of cardamom oil, but we try to add value. One reason we went into essential oils is the value added and also, so we can send this by air freight as these are in kilos instead of tons.”*

*– Ian Sexton, Amruqa, Papua New Guinea*

Niche products are goods which are produced in limited quantities, marketed to small market segments, and are often customized to buyers’ preferences. Because of customization, products sell for premium prices. Niche producers are able to absorb high trade costs to successfully link into the international economy.

In the Pacific, there is increasing activity around niche markets. The three primary niche strategies employed by Pacific producers are product differentiation via certification or quality, responsive relationships with the buyers, and by employing a community-based business model.

Niche marketing has great socioeconomic potential in the Pacific. The community-based business model aims to create value not only from an investment perspective, but from a community perspective as well. This production method has global appeal for consumers that seek environmentally or community-friendly products.

## E-COMMERCE LEAPFROGS THE COST OF DISTANCE

*“My brother built the company website, and he does a lot of the analytics. The cost of internet is high, but if you use AdWords and create a seamless shopping experience, having an online presence is a 24/7 marketing tool.”*

– Lisha Sablan, Janet’s, Samoa

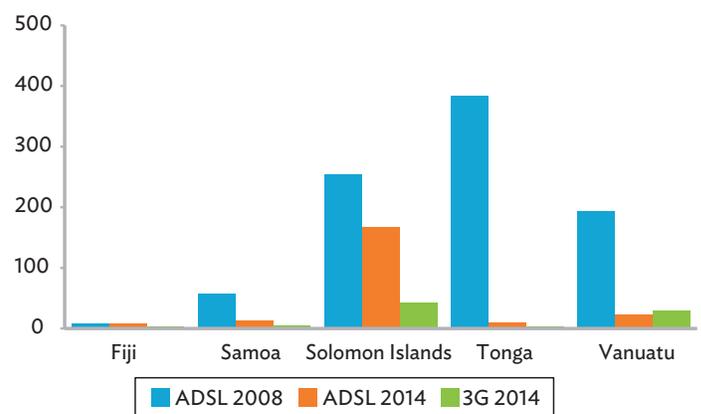
Increased ICT capacity in the Pacific has opened new possibilities for e-commerce and other e-applications. This is particularly well-timed given that global e-commerce flows are increasingly driven by Asia and the Pacific. As Pacific exporters go online and as trade with Asia increases, this can change the way that trade is done in the Pacific.

In the Pacific, internet connectivity is recent and costs remain high. Yet prices are falling as new submarine cable systems come online. This is resulting in increasing numbers of firms, in particular younger SMEs, beginning to generate sales via the internet. A 2014 survey by Pacific Trade and Invest found that 44% of exporters in the Pacific have enhanced their website in the last year in order to increase export orders.

Online, firms behave differently. For example, a higher percentage of firms export. Online firms are more diversified and export to 31 countries on average as opposed to traditional firms which export to only one or two. A key reason for this difference is that e-commerce is less impacted by physical distance between buyers and sellers. The importance of geographic distance is 65% less for online trade.

E-commerce usage varies across the Pacific. In Fiji, about 30% of firms report having their own website, while in Tonga the number is less than 10%. There are three steps that countries must take to enable e-commerce: building the infrastructure, creating an enabling environment, and translating lower costs into the export process. AfT is engaged at all three steps.

**Figure 3: Entry-Level Fixed and Mobile Broadband Price to Per Capita Income Ratio, 2008 vs. 2014 (%)**



\*1GB minimum data for entry-level fixed and mobile broadband.  
Source: Pacific Region Infrastructure Facility (2015).

## WOMEN-LED FIRMS THRIVE ONLINE

*“I mostly work with women in rural areas. Most weavers involve family members, so employing one person creates work for many others. I find many of my buyers through Facebook which is a good resource to keep my business going.”*

– Lucia Guavis, Elefa Handicrafts, Marshall Islands

E-commerce can have particularly large impacts on women-led businesses. In many economies they remain a latent source of job creation and economic growth. Women-led firms have limited participation in export markets. This is largely the result of unequal access to and control of productive resources, trade finance and marketing outlets. The role of caregiver also limits the time women can spend on business development.

Moving online enables women-led firms to gain in two ways. First, it enables an increase in entrepreneurship. It is easier to explore market opportunities and set up a shop online. Second, it allows women to more efficiently use existing resources. Advertising online replaces the need to travel to trade shows to find buyers. Accessing business development tools online enables women to gain information on a schedule that they choose.

Yet, there remains a digital gender divide as well. Even as internet access has improved, women often have less access, use, and ownership of ICT. AfT has focused on expanding ICT infrastructure and is increasingly supporting services, such as trade finance for women-led firms, that are needed to promote inclusive business development.

## TRADE WITH ASIA IS ON THE RISE AMONG PACIFIC EXPORTERS

*“We export to Japan because it’s a new market opportunity with high value returns for a cash crop. Japan was also our biggest export destination last year [2014], in terms of sales.”*

*– Minoru Nishi, Nishi Trading, Tonga*

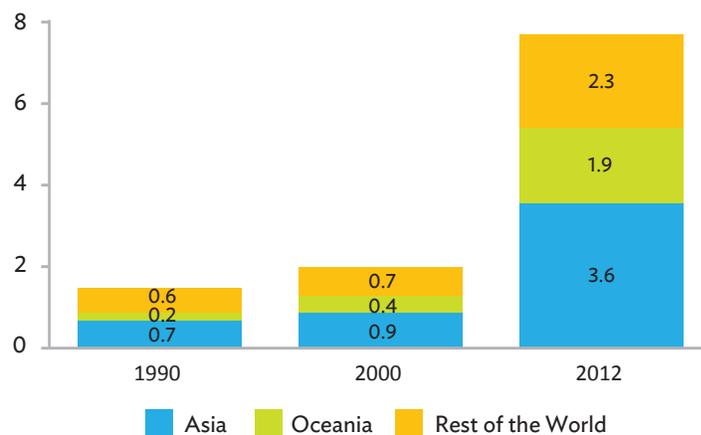
The direction of trade in the Pacific has oriented toward Asia over the past decade. Trade between the Pacific and Asia has increased more than eightfold from 2000 to 2012. The People’s Republic of China, the Republic of Korea, and Singapore have emerged as major sources of imports in the region. The share of exports going to the People’s Republic of China has increased from 3% in 2003 to 20% in 2013.<sup>1</sup>

In a 2015 survey of Pacific exporters, 15% cited Asian markets as their initial export destination—particularly Japan, Malaysia, and the Philippines. Exporters who are trading more with Asia are relatively new to the business of exporting, having set up their firms only in the last 10 years.

The private sector in the Pacific continues to seek out new products, new markets and to create new opportunities. Trade costs are high, but declining. Search costs are high but falling as exporters get online. New technologies and a stronger ICT backbone open additional development space for these efforts.

<sup>1</sup> This excludes exports from Papua New Guinea.

**Figure 4: Destination of Pacific Exports (\$ billion)**



Oceania = Australia and New Zealand.

Source: ADB. 2015. Pacific Opportunities: Leveraging Asia’s Growth. Manila.

Despite its geographic remoteness, the Pacific has benefited significantly from AfT. Looking towards the future, leveraging new technologies from the existing ICT infrastructure is set to be a game changer. By virtually reducing distance, digital trade lowers business costs. It is also proving more accessible to women and has the potential to promote women-led firms in the export market.

Critical areas for further AfT investment include supporting the private sector in utilizing the internet for business; opening up trade finance; and facilitating the identification, development, and marketing of niche products.

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Publication Stock No. ABF157681-2

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