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TRADE POLICY REVIEW

REPORT BY

TONGA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Tonga is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Tonga.

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1 INTRODUCTION

1.1. The Kingdom of Tonga became a Member of the WTO on 27 July 2007. This is its first Trade Policy Review, covering the period 2007-13. Tonga is a strong supporter of the rules-based multilateral trading system. In the WTO, it particularly identifies itself with the interests of other Members who are "Recently-Acceded Members" (RAMs) and with those of other Small and Vulnerable Economies (SVEs). Tonga believes that success in the Doha Development Agenda (DDA) negotiations will strengthen the WTO as a whole as well as advance the interests of Small Island Developing States.

1.2. Tonga is also fully committed to the achievement of the Millennium Development Goals. These goals underwrite its development vision, of which international trade is an integral part. This vision is outlined in the current four-year Tonga Strategic Development Framework 2011-14 (TSDF), which sets out to "*develop and promote a just, equitable and progressive society in which the people of Tonga enjoy good health, peace, harmony and prosperity, in meeting their aspirations in life.*"

1.3. The TSDF provides a strong anchor for many aspects of Tonga's trade policy, by *inter alia*:

- Guiding the formulation of sector development plans, ministries' corporate and annual management plans and the annual budgets through which resources are allocated;
- Informing the private sector and civil society of the government's policy intentions, laying a basis for further private/public consultations;
- Providing the foundation on which the government can develop its external economic relations and development partners can construct their country strategies and assistance programmes in a spirit of true partnership; and
- Providing indicators by which the government's progress in policy/strategy implementation can be monitored and measured.

1.4. Fulfilment of this development vision is envisaged through progress towards achieving nine "outcome objectives", all of which are relevant in varying degrees to Tonga's trade and economic development. Perhaps the objective most directly relevant in the context of Tonga's Trade Policy Review is that of "*dynamic public and private sector partnership as the engine of growth, by promoting better collaboration between government and business, appropriate incentives and streamlining of rules and regulations.*"

1.5. Two broad strategies – (a) the creation of an enabling environment for the private sector to flourish, and (b) the improvement of output of the productive sectors – have been identified in pursuit of this objective, both of which are accorded high priority by the Government. Tonga's economic and trade policies are a fundamental, integral part of these strategies. WTO membership fits well into this framework and indeed is seen as a powerful tool and a catalyst to advance Tonga's development objectives.

1.6. In addition to the overarching development vision of the TSDF, a number of other documents outline Tonga's trade and development vision at the sector level, including the *Private Sector Development Strategy*, *Investment Promotion Strategy*, and *Tourism Sector Roadmap*. These documents are referenced throughout this report where necessary.

1.7. In tandem with its participation in the WTO, Tonga is closely engaged in complementary efforts to promote regional economic integration with other Pacific Island Countries (PICs) and in bilateral/bi-regional negotiations with the European Union. These are also seen as key areas to transform Tonga's economy.

1.8. At present Tonga's ability to benefit from its WTO membership and participate both in WTO activities, as well as regional and bilateral trade initiatives, is constrained by its non-resident status in Geneva, inadequate resources to cope with simultaneous negotiations on all fronts and capacity to generate and implement economic change. The considerable assistance afforded by bilateral and multilateral development partners is greatly appreciated and acknowledged. There is a need to build on this through a more comprehensive and coordinated strategy for technical assistance.

1.9. Overall, Tonga is undergoing a period of rapid change in its economic environment and, consequently, in the regulatory arrangements necessary to accommodate such change. The Government is committed to achieving positive results, acknowledging that this is a complex and, in some cases, difficult challenge. WTO membership is similarly a positive, challenging element in this process.

2 ECONOMIC DEVELOPMENTS AND WIDER REFORM AGENDA

2.1. Tonga has a small population of some 103,000 people inhabiting an archipelago of islands spread over a large area of the Pacific Ocean, but with a total land area of only approximately 750 square kilometres. It is estimated that as many people of Tongan descent live outside Tonga as the current population.

2.1 Growth Trends

2.2. Since its WTO accession, Tonga has tackled both a highly unfavourable external environment and significant changes in its domestic economy and political structure. The global recession has contributed to negative impacts on export markets for agricultural goods, fisheries, tourism arrivals and remittances. A public service strike in 2005 led to increased budget pressures, and civil unrest in 2006 has resulted in significant long-term liabilities arising from the reconstruction of the Nuku'alofa city centre. These burdens were coupled with the challenges of meeting a profound agenda for domestic constitutional and political change, including a wide-ranging restructuring of the public service.

2.3. Despite these challenges, since 2006, the Tongan economy recorded strong average GDP growth of 2.6% for four consecutive years (2007/08 to 2010/11), due in part to reconstruction of the Central Business District (CBD) in Nuku'alofa through aid and lending projects. As foreseen, the tapering off and end of the construction stimulus resulted in a slowdown in real GDP growth in 2011/12 (0.8%) and 2012/13 (0.2%). However, if the effects of the loans expenditures are removed from the calculations, underlying growth remains stable and strong, estimated at 1.4% for 2011/12 and 2.2% for 2012/13.

2.4. Notwithstanding some areas of medium-term weaknesses, overall growth is forecast to gradually strengthen over the next few years in certain key sectors, including:

- A gradual pick-up in growth in agriculture and fisheries, following recent declines, and a medium-term stabilisation of forestry growth, following the end of sandalwood exports;
- A recovery in construction growth – following the end of major reconstruction efforts – with a stream of new construction projects in the pipeline;
- Potential production and revenue from extractive and energy industries (both renewable and non-renewable);
- Higher remittances from increased access to labour mobility schemes;
- An anticipated improvement in tourism tourist air arrivals and tourism receipts; and
- Strong growth in telecommunications (from a new submarine cable) and transport (from an improved network of roads).

2.5. Headline inflation has fallen significantly, from a peak of 9.7% in May 2011 to 0.8% in March 2013, in part due to the fall in global food and petroleum prices, the decline of cash remittances and the strengthening of the local currency (Tongan Pa'anga).

2.6. Private sector credit growth (i.e. lending to households and businesses) has been stifled by banks' tighter lending criteria and the high cost of finance, following a significant recession-driven increase in non-performing loans. Liquidity in the banking system however has seen robust growth (in part due to a large net increase in foreign reserves), and there are strong indications that bank lending may pick up as their risk aversion decreases over time.

2.2 Fiscal Outlook/Management and Foreign Reserves

2.7. Tonga's public financial management system is based on a solid legal and regulatory framework that sets out the budgeting, spending and accountability structures. The management of Tonga's public finances is underpinned by a well-established set of expenditure control procedures, as well as comprehensive and clear budget documentation and fiscal information. Since its WTO accession, Tonga has made solid progress in improving tax administration, enacting procurement regulations and strengthening both expenditure controls and external audit. Further improvements in Tonga's public financial management framework are expected as the Government continues to develop its Medium-Term Budget Framework.

2.8. Tonga's fiscal position, like many SVEs that are highly open to changes in external economic conditions, was negatively affected by the global recession and hike in fuel prices, resulting in a fall in exports, domestic production and remittances. A combination of prudent measures taken by the Government (including targeted budget cuts) and strong support from Tonga's development partners however avoided further damaging cuts in public expenditure and allowed for the rebuilding of cash balances.

2.9. Gross official reserves have seen recent strong growth, and are currently equivalent to 8.4 months of import cover (well above the 3-4 month benchmark level). The balance-of-payments has generally shown healthy surpluses in recent years.

2.10. Despite successfully navigating recent economic turbulence, Tonga faces a more difficult picture looking forward – including anticipated shortfalls in budget support, declining domestic revenue (in real terms), increases in debt repayments, the challenges of reforming the public service and the need to lighten the taxation burden on individuals and businesses. Tonga is committed to facing these challenges with continued prudence and vigilance.

2.3 Privatization

2.11. Tonga has made important strides, particularly since its accession to the WTO, to reform its portfolio and management of public enterprises. Government has invested significant time and effort in public enterprise reform – including the creation of a Ministry of Public Enterprises – and continues to actively work towards making the performance of these enterprises more effective and efficient.

2.4 Investment, Trade Promotion and Business Facilitation

2.12. A key step towards achieving the TSDP's objective of *"promoting better collaboration between government and business, appropriate incentives and streamlining of rules and regulations"* has been a fundamental restructuring of the legal and policy framework supporting business activities in Tonga. Tonga has recently approved an overhaul of its business license legislation, aimed at improving private sector growth through licensing entities rather than activities. Tonga's business climate reforms include the establishment of an on-line registry, allowing easier and lower-cost filing of applications and notices.

2.13. In order to significantly reduce the administrative burden facing small business in Tonga, the Government is planning to implement a new "small business tax" regime for Small and Medium-sized Enterprises (SMEs). The new regime *inter alia* waives record-keeping requirements and simplifies tax declarations for entities under a threshold level of turnover.

2.14. As a further support to private sector growth, Tonga is developing and plans to implement a wider reform programme squarely focused on lowering business costs, including:

- Targeting key "red tape" including those related to starting a business, obtaining credit, protecting investors and resolving insolvencies/bankruptcies;
- Deepening the modernisation of the relevant electronic systems, further reducing the time and cost of trading in Tonga;
- Promoting and protecting fair competition within Tonga, including stronger protection of intellectual property and better border measures; and

- Continuing support to institutions that provide support services and training to the private sector.

2.15. Since its accession to the WTO, Tonga has effected wide-ranging reforms to its foreign investment regulations, clarifying the rules and procedures governing investment in Tonga. Presently, Tonga is undertaking a wide-ranging review of its entire foreign investment regime in consultation with the private sector. The Government is also currently developing policy proposals to reform the framework for investment incentives.

2.16. The Government has formulated a *Private Sector Development Strategy* (PSDS), which seeks to create a vibrant private sector in partnership with Government for inclusive growth and sustainable development. Its purpose is to foster national development by maximizing impact of private sector activities. The Strategy identifies key elements to accelerate private sector growth. The specific objectives of the PSDS are:

- To ensure the regulatory and policy framework are conducive for enterprise development;
- To identify opportunities for investment and growth of private sector;
- To provide effective support services to the business community for competitiveness development;
- Address capacity constraints that impede productivity of the private enterprise; and
- Develop an effective model for credible implementation of proposed strategic interventions.

2.17. As a further stimulus to economic growth and private sector development, Tonga plans to establish a Trade and Investment Board to coordinate key aspects of national investment policy.

3 TRADE TRENDS AND POLICY

3.1 Trade Trends

3.1. Tonga's merchandise exports are small and comprise mainly marine, agricultural and forestry products. A combination of circumstances, including the global economic crisis and various factors limiting the availability of produce for export, led to a significant decline in Tonga's merchandise exports in the three years following WTO accession (from T\$25.9 million in 2006/07 to T\$17.9 million in 2009/10). However they recovered substantially in the next two years and in 2011/12 (at T\$27.4 million) exceeded pre-crisis levels.

3.2. Given a high level of import dependency – especially for fuel, processed food and construction-related items – merchandise imports fluctuated somewhat over the same period but had grown to T\$344.7 million in 2011/12. Both imports and exports of services have grown significantly since 2006/07, with exports standing at T\$117.1 million and imports at T\$129 million in 2011/12. Tourism continues to play a major role in services trade.

3.3. With a significant expatriate population, remittances from abroad, both in cash and in kind, play an important role in Tonga's economy and external trade. Official statistics indicate a decline in cash remittances since 2007/08. However the National Reserve Bank is currently carrying out a study of the evolving nature and pattern of remittances. It is thought that there may have been a trend towards remittances in kind in recent years, and that some newer methods of remittance may not be being fully captured in official statistics.

3.2 International Trade and Tonga's Development Strategies

3.4. Membership of the WTO is a major pillar underpinning the role of international trade in the Strategic Development Framework. With WTO membership as the foundation, Tonga is also participating actively in a range of bilateral and regional negotiations (see section 5 below).

3.5. A coherent policy framework is needed within which the various strands of multilateral, regional and bilateral rights, obligations and negotiating objectives can be drawn together and aligned with national strategies for private sector development and export promotion. Currently

this framework is lacking, with the result that priorities may not always be clear. For this reason the Government of Tonga sees the development of a *Trade Policy Framework* as an urgent task.

3.6. *Private sector development* is a priority area identified in the 2013/14 Budget Statement. Specific activities to be undertaken include:

- Strengthening government-private sector dialogue to address constraints to growth;
- Reviewing operations under the Agriculture and Fisheries Sector Plans;
- Improving management of marine resources to ensure that they provide sustainable long term development;
- Ensuring increased benefits from the licensing and operations of fishing vessels;
- Completing the establishment of the Tonga Tourism Authority (TTA) and the implementation of a national strategy for the tourism sector;
- Continuing to reduce the costs of regulation and licensing; and
- Pursuing negotiations to improve trade access to Tonga's traditional and new markets.

3.7. The Government has established a *National Growth Committee* with six Sector Growth Committees (Agriculture, Tourism, Fisheries, Construction, Manufacturing and Commerce) to identify constraints, and find joint solutions and implement them within the framework of appropriate sector plans. Extensive work has gone into ensuring a broad representation on these Committees which have identified a number of issues that are being implemented.

3.8. A *National Export Strategy* (NES) was established for the years 2007-10. The short term vision of this strategy was for Tonga to be a leading Pacific nation in export growth, by creating a sustainable economic environment for exporting quality goods and services. The NES identified five main sectors (agriculture, fisheries, manufacturing, services and tourism) that would boost growth, especially through sharing of ideas, and initiating collaborative and concerted efforts between the private and public sectors. The issues that were identified as constraints or impediments to economic growth were:

- Access to finance;
- Infrastructure and facilities;
- Policies and regulations;
- Quality standards;
- High production costs and low productivity;
- Education and training;
- Lack of ability and commitment to satisfy demand;
- Transportation not adequate and costs high;
- Lack of trade information and marketing; and
- Research and development.

3.9. Currently the NES is being reviewed with a focus on goods. Trade in services will be addressed under the Tonga Investment Promotion Strategy and a Labour Export Strategy (presently in draft form).

3.3 Tonga's Trade and Development Policy and the WTO

3.10. *WTO membership* has been, and continues to be, a key catalyst to the legislative, regulatory and administrative reforms which are necessary to revitalise Tonga's economy. Important reforms stimulated in whole or in part by WTO accession have taken place in the investment regime, the business regulatory environment, taxation policy, and a range of areas where Tonga has moved towards international norms: for example in protection of intellectual property rights, SPS standards, customs valuation and tariff protection, among others.

3.11. Tonga's *overall objective* through WTO accession is to integrate its economy more closely into the global trading system. This is gradually being achieved. In combination with a more proactive approach to development of productive capacities, WTO membership is beginning to stimulate trade and investment.

3.12. In the period under review, Tonga's main focus with respect to the WTO has naturally been on *implementation of the commitments* made in its Protocol of Accession and the Report of the Working Party on Accession which were adopted by the WTO at the Sixth Session of the Ministerial Conference in Hong Kong in December 2005. In some contexts legislative changes have resulted from a combination of circumstances, both to ensure better WTO compatibility and to advance on-going domestic reforms to the business environment.

3.13. Among the major developments have been:

- a) A review of the investment regime through the Foreign Investment Regulations 2006;
- b) Simplification and rationalisation of the business licensing environment through the Business Licences (Amendment) Act 2012 and a business licence reform roadmap;
- c) A review of public enterprises to decide which are essential and which are suitable for a more competitive environment or can be privatised;
- d) Anticipated implementation of HS 2012 for the tariff regime;
- e) An on-going review of legislation in relation to shipping and civil aviation;
- f) Changes to Sanitary/Phytosanitary (SPS) processes to bring these into line with the SPS Agreement;
- g) Implementation of the Customs Valuation Agreement; and
- h) Implementation of Tonga's commitments under the TRIPS Agreement.

3.14. As regards Customs Valuation, the Ministry of Revenue and Customs (MRC) has now implemented the WTO Customs Valuation Agreement in practice, with the transaction value being utilised in the vast majority of cases and alternative valuation methods being applied in the hierarchical order set down in the Agreement. Post-clearance audit procedures are also in the process of being implemented.

3.15. With respect to SPS, Tonga's measures are aligned with the provisions of the WTO SPS Agreement. It is a member of various relevant international and regional bodies and observes their rules and recommendations. Import permits are issued based on risk assessment.

3.16. On TRIPS, Tonga notified its legislation to the WTO in 2009, which in turn was reviewed by the TRIPS Council in October 2009. Regulations with respect to Protection of Geographical Indications and Protection of Layout Designs (Topographies) of Integrated Circuits were also enacted in 2009. Work continues with a view to acceding to the Patent Cooperation Treaty. The Ministry of Commerce, Tourism and Labour (MCTL) is currently developing a national strategy for the protection of intellectual property. An area of interest is the protection of traditional knowledge and culture.

3.17. Overall, the trade policy environment in Tonga is continuing to undergo a substantial transformation following WTO accession. This process presents a considerable challenge to the Government of Tonga with the very limited resources at its disposal. The Government is grateful for the assistance it receives from a wide range of bilateral and multilateral development partners, but more assistance will be required to carry this process through to fruition.

3.18. With respect to *participation in WTO activities*, Tonga is currently inhibited by its non-resident status in Geneva. It greatly appreciates the efforts which are made by the WTO Secretariat, the ACP Secretariat, the Commonwealth Secretariat and the Pacific Islands Forum Secretariat, among others, to keep it informed of developments and issues of interest. The Government of Tonga hopes that, as resources permit, it will in future be able to follow WTO activities and operations more closely so as to ensure that its interests are more fully taken into account.

3.19. In general terms, Tonga identifies itself in the WTO with the positions taken by other PICs, RAMs, SVEs, and members of the ACP Group.

3.20. Tonga attaches great importance to the Aid-for-Trade initiative, as a means of making a more concrete link between trade and development policy, and enhancing trade capacity.

3.21. Tonga supports the Doha Development Agenda negotiations. It believes that the conclusion of these negotiations will strengthen the multilateral trading system. Although Tonga has limited productive capacity at present, it foresees some potential tangible benefits from these negotiations. It is however important that the results recognise the special situations of Small Island Developing States.

3.22. In agriculture, Tonga would welcome commitments by developed countries to reduce trade-distorting domestic support and eliminate export subsidies. Measures to increase food security for developing countries are supported. On market access, it would be important that the significant liberalisation undertaken by RAMs, and the fragility of SVEs be adequately taken into account.

3.23. In Non-Agricultural Market Access, it would similarly be important that the positions and concerns of RAMs and SVEs be recognised in the results. The issue of preference erosion is also of significant interest.

3.24. As an economy which has devoted considerable attention and effort to promote exports in recent years, Tonga supports a multilateral agreement on trade facilitation.

3.25. As regards negotiations on trade in services, Tonga's main interest is in the area of labour mobility. This is arguably the only area in which Tonga has "offensive" interests. Tourism is another area of interest.

4 SECTORAL DEVELOPMENTS

4.1 Agriculture

4.1. Agriculture contributes some 16% to total GDP. The agriculture sector is expected to experience relatively weak growth in 2012/13 and 2013/14, compared with a strong performance of 3.5% in 2011/12. Squash remains central to Tonga's agricultural exports. Export growth of some other main agriculture commodities (e.g. watermelons & yam) is anticipated to ease, albeit still growing from a higher base. Total root crop production is expected to slightly decline in 2012/13 from high growth in the previous year; however it still remains above the average level of exports in the past five years. Exports of kava and coconuts are expected to remain steady in 2012/13 from 2011/12. Breadfruit exports are expected to increase with the commissioning of a new treatment facility. The outlook for exports of vanilla is promising due to increased foreign investment and market opportunities overseas. In order to support exports by small agricultural producers, the Government has established a post-harvest clearance facility.

4.2. The main challenges faced by the sector include uncertainties in overseas markets, increasing costs of production, unfavourable weather conditions, unreliable shipping schedules, and quality control issues. Tonga also feels that the sanitary and phytosanitary standards set by some important overseas markets may be unnecessarily high in a number of instances. Due to limited resources in this area, Tonga requires technical assistance to conduct the necessary analysis of market access barriers overseas, with a view to raising pertinent issues with the relevant WTO Members.

4.3. Despite the challenges faced by the agriculture sector, a positive outlook is anticipated for 2013/14 onwards, supported by the new initiative of a (T\$1 million) Agricultural Marketing Fund aimed at assisting exporters in marketing their agricultural produce overseas, particularly squash, yam, cassava, taro and watermelons. The underpinning rationale for the fund is to alleviate growers' risk exposure to external marketing shocks such as exchange rate fluctuations and post-harvest losses due to freight delays.

4.4. Tonga is in the process of considering a National Food Bill that provides for the establishment and operation of a National Food Authority as a single regulatory agency consolidating the responsibility for all food safety and food quality control functions in Tonga. The Food Bill and regulations take into account relevant international standards (e.g. the Codex Alimentarius) and other related international texts applicable to food safety and food quality control, and thus complies with international requirements, particularly those of the SPS and TBT Agreements.

4.5. One of the sector's priorities is to develop Tonga's first National Agriculture Sector Plan (NASP). This is to be funded by the World Bank, and will help guide the sector in terms of refocussing its vision and priorities for maximizing the contribution of agriculture (both crops and livestock) to Tonga's economic growth and food security. The NASP would also articulate specific programmes and activities needed to achieve the sector's priorities; clarify roles and responsibilities of the different actors in the sector; assess investment needs and provide a framework for measuring progress in the short- and medium-term.

4.6. There are determined efforts under the Pacific Horticultural and Agricultural Market Access (PHAMA) programme to assist farmers with retail packaging for exports of frozen produce, building on a dynamic, public-private Tonga Market Access Working Group. Production of vegetables is expected to remain steady but may increase in coming years due to possible increased market access for potential high value crops as identified under a PHAMA funded feasibility study, such as flat beans, chillies, capsicums, rock melons, honeydew melons and okra. Other potential opportunities for the agriculture sector in coming years include export pathways to regional markets such as watermelon and squash to Fiji and Samoa, fresh taro to Australia and pineapple to New Zealand.

4.7. In order to facilitate trade in agricultural products with its Pacific neighbours, Tonga has signed bilateral quarantine agreements with New Zealand, Australia, Fiji, Samoa and American Samoa.

4.2 Fisheries

4.8. Fisheries contributed around 3% to GDP in 2012/13. The performance of the fisheries sector for the last three years has been mainly dominated by the growth in exports of sea cucumbers. However due to over-harvesting, the annual growth for the sector dropped significantly to a negative 9.6% in 2011/12, compared with growth of 19.3% in 2009/10 and 4.2% in 2010/11. This led to a moratorium to ban harvesting of sea cucumbers for commercial purposes, subject to an annual stock assessment.

4.9. The main challenges faced by the fisheries sector include the need to effectively enforce and strengthen the implementation of management plans so as to address the sustainable development of fisheries resources, lack of appropriate infrastructure (e.g. storage and handling), distance to overseas market destinations, inadequate production, limited resources for law enforcement and tight lending criteria which hinder access to funds for development of local fishing vessels. Despite these challenges, strong growth of 4.6% is projected for 2012/13, mainly attributable to anticipated significant increases in exports of tuna and seaweed.

4.10. The performance of the seaweed industry has been particularly notable. Tonga is the only overseas supplier of limu tanga'u (mozuku) outside Japan. Seaweed exports increased to 293 metric tonnes in the first half of 2012/13, more than doubling the total amount in 2011/12.

4.11. Overall, it is anticipated that there will continue to be positive growth in the fisheries sector. The Government has altered its previous policy that fish caught in Tongan waters must be landed in Tonga. This change in policy was taken to increase revenue from the fisheries sector. A contributing factor to growth is the increasing number tuna fishing vessels – 26 have now been licensed, of which 4 are locally based vessels. The Government has also renovated processing facilities to support small fishermen. Increased use of hydraulic reels should also boost the snapper fishing industry. The Government has established a National Fisheries Council to address issues in the sector.

4.3 Forestry

4.12. Sandalwood, a high valued export commodity and major resource for Tonga's forestry sector, was the basis for significant annual growth in the sector in 2010/11. However, due to unauthorised and unregulated cutting, production then dropped by 25.7% in 2011/12. The Forestry Division is developing a regulatory system for the sustainable harvesting and re-planting of sandalwood in Tonga with assistance by the Secretariat of the Pacific Community (SPC), the European Union (EU) funded Facility Agricultural Commodity Trade (FACT) Project and the Tasmania Forest Practices Authority.

4.13. After this sharp fall, growth is anticipated to be flat for the next two years before resuming to a limited extent in future years. Such growth could stem from expansion of operations aimed at increasing timber quality and producing new varieties (e.g. pine, red cedar and mahogany), with a view towards production of joinery products for the local market and possible export. However capital expenditures will be needed to upgrade production facilities.

4.14. Timber production is also showing some potential for export. The use of coconut has also been identified as a potential area for growth, particularly as it can serve demand for affordable housing and can be treated locally to add value. Challenges faced by the sector include competition from imported timber products, lack of human capacity, technical skills and access to finance for capital expenditures for full capacity production. Support has been provided by the UN Food and Agriculture Organisation (FAO) to develop policies for the forestry sector as a whole.

4.4 Manufacturing

4.15. Manufacturing contributes around 7% to GDP. The Government recognizes that manufacturing is unlikely to be one of the major contributors to GDP owing to the constraints imposed by small market size, lack of economies of scale, and limited skills and capital. Nevertheless there is room for significant development.

4.16. Manufacturers mainly cater for the domestic market, including food and beverages, printing, furniture, construction materials, fibreglass, small boat building, rain water tanks and local timber. Other activities, drawing more on traditional skills, include coconut oil and local handicrafts such as mats and tapestry. These are in high demand both domestically and internationally.

4.17. There is some potential to contribute further to employment and growth in viable areas and specialized exports utilizing agriculture and marine products, particular where value added is possible with small scale production.

4.18. Growth has fluctuated over the last few years. 2010/11 was particularly strong with growth of 5.9%, emanating largely from development of new products and diversification. However this growth fell back in 2011/12. A gradual recovery is anticipated in 2012/13 and future years, due in part to a new local beer brewing venture and an increase in the production of virgin coconut oil.

4.19. The introduction of the ISO 9001 Certification process (with respect to which the SPC has agreed to fund the first phase) and HACCP certification will also help to provide more opportunities for local manufacturers through improved product quality management. The strengthening of the Manufacturing Association of Tonga (MAT) provides scope for improved dialogue with Government. Efforts to reduce barriers to industry, such as removing taxation of raw and packaging materials, and regulatory issues, have been identified as a step in helping manufacturing to fulfil its potential. A T\$1 million development fund has been established to support the tourism and manufacturing sectors.

4.20. Tonga Asset Management Ltd operates a Small Industries Centre for the purposes of supporting the growth of manufacturing in Tonga.

4.5 Tourism Services

4.21. Whilst tourism is not as developed as in some neighbouring countries, the sector is a major contributor to the economy. Tourism expenditure in Tonga was estimated to be worth approximately T\$56 million in 2013; this equates to approximately T\$1,200 per visitor. Total expenditure is estimated to be worth approximately 15% of GDP and employment within the sector is estimated at approximately 2,000 full and part time jobs. Tourism is by far the biggest export industry.

4.22. Nevertheless, Tonga has underperformed in terms of visitor growth in the last 15 years. Tonga's market share of South Pacific arrivals has fallen from 3.5% in 1994 to less than 3% in 2011. Tonga's growth rate in terms of visitor arrivals in the last five years has averaged only 1.2% per annum, which is less than half the regional average. The level of visitor arrivals to Tonga has

remained relatively static for the last eight years. Arrivals peaked at just below 50,000 in 2008, but have shown a gradual decline in the last three years.

4.23. Tourism offers immediate potential for generating economic growth and income. A new *Tonga Tourism Sector Roadmap* (TTSR) has been approved and publicly disseminated. It outlines the requirements to facilitate a prioritised and coordinated approach to the development of the tourism in Tonga. The Roadmap is intended to identify and address sector related impediments, in order to facilitate a faster rate of growth for than has been achieved in the past.

4.24. Nine key strategies and actions have been identified in the TTSR, with a view to realising the potential of the tourism sector. These include:

- Better marketing of Tonga as a destination, through increasing awareness of Tonga and demand for its tourism products;
- Human resource development, through a coordinated approach to planning and training to meet the industry's needs;
- Tourism investment facilitation in order to encourage international and domestic investment in quality tourism products;
- Improvements to infrastructure and access; and
- Improvements in land use, planning and environmental management.

4.25. While some specific issues remain under discussion, the Government views tourism development as a priority area for future economic growth. Other recent government initiatives include the building of a cruise ship wharf and the establishment of the Tonga Tourism Authority and a Tourism Development Fund.

4.6 Transport and Communication Services

4.26. Given Tonga's geographical position, transport and communications remain a challenge for trade and economic growth.

4.27. Marine transport is the most important mode for trade, accounting for some 90% of trade in goods and merchandise. A major review of the Shipping Act is under way to improve safety and the regulatory environment. Growth in domestic shipping services is expected to continue with the introduction of new ferry and working boat services. Five carriers serve international routes, of which one is locally registered. Gross total tonnage of exports and imports through the main port in Nuku'alofa has remained fairly stable in recent years. Efforts are being made to conclude bilateral shipping agreements with neighbouring countries, in order to facilitate direct trade.

4.28. International air services are important for trade and tourism. The network of air services agreements is being expanded. A bilateral agreement has recently been reached with Singapore, and an agreement with China is under negotiation. A new independently-operated airline (Real Tonga) has recently commenced domestic operations.

4.29. In the communications sub-sector, growth has stemmed from a more competitive environment which allows Tonga Communications Corporation (TCC) and Digicel to compete in telecommunication and related services. Further growth is anticipated to be mainly from the impact of the recently completed Submarine Cable Project funded by the World Bank, Asian Development Bank and TCC, as well as system-wide infrastructure upgrades. This significant commitment to renew infrastructure and resulting investments are boosting performance through increased capacity, faster connectivity and lower telecom prices. There is high expectation that faster and cheaper internet connection will bring significant economic investment and activities, and social benefits. The Government has also established an expert group to formulate a national ICT investment strategy. This strategy will seek to *inter alia* attract investment in ICT-based services, including call centres and websites.

4.7 Wholesale Trade and Retailing services

4.30. The wholesale and retail sector contributes around 11% to GDP. Around 46% of registered businesses are in the services sector (mainly financial services) and 45% are in the trade sector.

Wholesale and retail trade is likely to experience modest growth in the medium term, building on overall improvements in economic growth and the associated improvement in remittances, with more being directed in the form of goods through the retail sector. In order to address issues in this sector, the Government has established a Sector Growth Committee on retailing and wholesaling.

4.8 Energy

4.31. Reliance on imported fuel for power generation, subject to high transportation costs and price fluctuations, has been a major factor affecting both the competitiveness of local businesses and domestic consumers. The Tonga Energy Road Map (TERM) has set a target of 50% renewable energy by 2020. Projects to increase solar and biomass power generation are being pursued with development assistance from Japan and New Zealand. Wind power is also being considered.

4.9 Construction Services

4.32. Growth in construction has varied over recent years. A large loan from China has funded reconstruction of Nuku'alofa and the National Road Improvement Project (NRIP), and this was a major driver of growth in 2008/09 and 2009/10. The ending of these projects is leading to a fall in construction sector growth, with negative growth of 9% in 2012/13. Road segments throughout Tonga have been reconstructed with the loan, and this has helped economic recovery through safer and quicker access for businesses and customers, and as well as through employment and related activity in the project itself.

4.33. A recovery in growth is expected from new construction projects coming on line such as installing the extension of the fibre optic cable from Tongatapu to Vava'u and Ha'apai main islands, airport upgrading under the World Bank Pacific Aviation Investment Project (PAIP), a solar PV hybrid project for the outer islands, and continuation of the Nuku'alofa Urban Development Sector Project, among others.

4.10 Extractive Industries

4.34. The sector is currently small, contributing only 1% of GDP. Exploitation of seabed minerals and hydrocarbons has been identified as an area for possible future activity, with commercial exploration already underway. Government is currently working on a Seabed Minerals Bill in order to provide an appropriate legal framework. The Bill will incorporate procedures for environmental impact and safeguards.

4.11 Labour Mobility

4.35. Outcome Objective 5 under the Tonga Strategic Development Framework is an "appropriately skilled workforce to meet the available opportunities in Tonga and overseas". The Government views labour mobility overseas as both a valuable source of remittances and a means of bringing wealth and technical expertise back to Tonga. Tonga has a reservoir of skilled and semi-skilled human resources whose potential is not at present fully tapped. With this in mind, the Ministry of Commerce, Tourism and Labour (MCTL) is considering a draft *Labour Export Strategy*.

4.36. The number of seasonal workers employed under schemes with New Zealand and Australia doubled from 829 in 2007/08 to 1,678 in 2011/12. A sustainable Seasonal Employment Scheme is being expanded from horticulture to include industries such as tourism, sugar, cotton, aquaculture and mining. Growth of 30% is expected for 2013/14 seasonal workers. Among the initiatives being planned are provision of a special training programme to enhance the capacity and leadership skills of seasonal workers; planning to extend training to cater for niche industry labour markets; and development of existing vocational training institutions to upgrade skills which are in demand.

4.37. Expansion of labour mobility schemes is also being pursued through the "PACER Plus" negotiations (see Section 5 below).

4.38. An area of comparative advantage for Tonga lies in the area of sports. Tongan athletes playing in overseas sporting clubs (notably in rugby) are a source of both remittances and

considerable national pride. Significant numbers of Tongan athletes compete at high levels in Australia, New Zealand and Europe. Tonga is eager to build on this trend and increase the economic benefits.

5 REGIONAL TRADE AGREEMENTS

5.1. Tonga strongly believes that regional and bilateral trade liberalisation can provide a platform for export growth, private sector development and socio-economic well-being. Tonga's commitment to market opening and export-led development is demonstrated by its ambitious programme of negotiation and implementation of trade commitments, both with its Pacific Island neighbours and with other regional and global trading partners.

5.2. Tonga is a small island economy, whose openness to trade-related shocks has been increased in part by policy reforms undertaken in response to the requirements of WTO accession. Tonga believes that the benefits of trade liberalisation can best be harnessed when liberalisation commitments are accompanied by (a) appropriate capacity-building measures (b) adequate time-frames for implementation and (c) proper sequencing that places regional integration as a vital "first step" to wider multilateral liberalisation.

5.1 Pacific Island Countries Trade Agreement (PICTA)

5.3. The Pacific Island Countries Trade Agreement (PICTA), signed in August 2001, aims to establish a free trade area among the fourteen PICs. PICTA requires developing PICs to reduce *ad valorem* tariffs to zero by 2015 and Least Developed Countries (LDCs) and Smaller Island States (SIS) by 2017. For those products that qualify for the negative list exemption, tariffs will be reduced to zero by 2020 for developing PICs and 2021 for LDCs and SIS. Through its ratification of PICTA, Tonga is among those PICs that have taken concrete steps towards implementing its commitments under the Agreement. Implementation efforts are now focused on incorporating the PICTA timetable of tariff reduction into domestic legislation.

5.4. PIC Trade Ministers, at their meeting in 2001, endorsed in principle the introduction of trade in services into the PICTA based on a gradual, flexible approach, with transition periods where appropriate. After several rounds of negotiation, the Trade in Services Protocol was endorsed by PIC Leaders and opened for signature on 28 August 2012. Under the Protocol, many PICs have made commitments to open their economies to other PIC service suppliers in specific sectors such as tourism, transport, communication, education, financial and business services. Tonga is among the signatories of the Protocol and is currently examining the necessary requirements for ratification and implementation. Of particular interest to Tonga is the proposed intra-PIC Temporary Movement of Natural Persons scheme, which could provide human capital and remittance benefits for the Tonga economy.

5.5. PIC governments and experts are also exploring the feasibility of creating a "Pacific Single Market and Economy", drawing from the ambition of the Pacific Plan to "*create stronger and deeper links between sovereign countries of the region and identify the sectors where the region could gain the most from sharing resources of governance and aligning policies*".¹

5.2 SPARTECA and PACER Plus

5.6. SPARTECA is a non-reciprocal trade agreement between the fourteen PICs and Australia and New Zealand. It came into effect in 1981 and provides duty-free access to virtually all exports from the PICs (including Tonga). While SPARTECA is a non-reciprocal agreement and thus does not require the grant of tariff preferences by Tonga to either Australia or New Zealand, PICs' exports under the Agreement have been frustrated in part by complex and onerous rules of origin.

5.7. In 2009, PICs agreed to the launch of the "PACER Plus" negotiations with Australia and New Zealand, as a successor agreement to the Pacific Agreement on Closer Economic Relations (PACER) signed in 2001. Unlike the original PACER framework – which largely focused on capacity-building measures in key areas of border enforcement – the PACER Plus negotiations envision a reciprocal regional trading arrangement between the PICs and two of their largest trading

¹ *The Auckland Declaration*, Pacific Islands Forum Special Leaders' Retreat, Auckland, 6 April 2004.

partners. Given the huge disparity in size between the PACER Plus partners, Tonga reaffirms the general view of the Forum Secretary General, expressed in Samoa in 2012, that the negotiations "should not result in a conventional free trade agreement and that it should contain provisions that would ensure sustainable growth and development of the Forum Island Countries". Tonga is particularly interested in progress on the six priority areas identified by PIC governments, namely customs procedures, rules of origin, SPS measures, TBT measures, development assistance and labour mobility.

5.3 Economic Partnership Agreement (EPA)

5.8. As a member of the ACP Group, Tonga has actively participated in and is committed to the completion of the ACP-EU Economic Partnership Agreement. The EPA negotiations aim to replace unilateral ACP preferences in the EU market with duty-free, quota-free treatment backed by a WTO-compatible reciprocal free trade agreement. Unlike the previous unilateral preferences that focused exclusively on trade in goods, the so-called "comprehensive EPA" is meant to address a wider set of trade issues, including PIC priorities such as market access in primary agriculture, fisheries access and development cooperation. Tonga has actively participated in the ongoing negotiations under the comprehensive framework, and strongly supports a timely and pro-development outcome to the negotiations. Throughout the EPA process, Tonga's Minister of Commerce, Tourism and Labour has acted as the region's Lead Spokesperson.

5.4 Bilateral Agreements

5.9. Tonga's only bilateral trade agreement was signed with Fiji in 1995, under which Tonga received non-reciprocal duty-free access (including on onions and vanilla) on about 50 items. It is expected that these trade preferences will be replaced by those under PICTA.

5.10. Tonga is one of the eight founding members of the Polynesian Leaders Group, a regional grouping² intended to cooperate on a variety of issues including culture and language, education, responses to climate change, and trade and investment.

6 TECHNICAL ASSISTANCE

6.1. Given its limited capacity and supply-side constraints, Tonga sees trade-related technical assistance and the wider Aid-for-Trade process as a primary benefit of WTO membership. Targeted support can enable Tonga to not only overcome its trade-related handicaps but also to reap the benefits of its new export opportunities.

6.2. While WTO membership is of central importance to Tonga, the WTO is but one of several forums where Tonga either has undertaken, or may eventually undertake, wide-ranging trade commitments. In particular, Tonga is currently committed to an ambitious agenda of regional, bilateral and bi-regional negotiations, aside from its participation in the WTO. Given this multi-front negotiating and implementation challenge, Tonga is eager to ensure proper coordination and coherence of the work of Tonga's many development partners in the trade area.

6.3. In support of this goal, Tonga is including in its Government Report an annex on "*Tonga's Trade-Related Technical Assistance Requirements*". The Annex provides a summary of Tonga's technical assistance priorities, classified into three priority areas:

- Improving institutional capacity for trade policy negotiations and implementation;
- Supporting the reform of trade-related legislation and regulations; and
- Increasing service delivery to firms and individuals engaged in trade.

6.4. Tonga welcomes a discussion of the areas of technical assistance highlighted in the Annex, both in the context of its Trade Policy Review and in follow-up dialogue with current and potential development partners.

² The founding members are Tuvalu, Cook Islands, Samoa, Niue, American Samoa, French Polynesia and Tokelau.

7 CONCLUSION

7.1. The period since Tonga acceded to the WTO in 2007 has seen significant change in the economic and regulatory environment for trade. Whether in terms of investment, business facilitation, customs procedures, tariffs, protection of intellectual property, agriculture or a number of other areas, policies have been or are being reviewed. The Government of Tonga is committed to carrying these reforms forward with a view to creating conditions in which trade, business and investment can thrive in a just, equitable and progressive society. The Government is aware that the process of change is complex and needs to be carefully managed. Progress is being made.

7.2. While much has been accomplished, much also remains to be done. For example, it is a priority to develop a coherent Trade Policy Framework so that all of the actors and stakeholders in international trade can play their part in a coordinated, overarching national strategy. The current exercises to develop, review and/or implement the National Export Strategy, Investment Promotion Strategy, Labour Export Strategy and Tourism Sector Roadmap need to be carried through to fruition. The Government's role is to create an enabling environment in which trade can flourish.

7.3. The challenges run deep. Not only is it necessary to develop the right framework of policies, but it needs to be recognised that Tonga has limited capacity in terms of financial and human resources, including technical skills. Potentially productive sectors of the economy need to be carefully nurtured. These capacity constraints need to be urgently addressed, building on the close cooperation and partnership that Tonga enjoys with its development partners.

7.4. Notwithstanding the challenges, Tonga will continue to build on the progress made to date, and on the positive signs which are beginning to emerge for its economy and trade. WTO membership is a central element in this overall, forward-looking policy orientation. Tonga will continue to maintain its rights and fulfil its obligations in the WTO context. The WTO will continue to be the foundation on which current and future trade policy initiatives are based.

8 ANNEX I: TONGA'S TRADE-RELATED TECHNICAL ASSISTANCE REQUIREMENTS

8.1. Like many of its Pacific Island neighbours, Tonga faces the multifaceted challenge of a small domestic market, high transportation costs and vulnerability to natural disasters. While market access and competitive conditions in Tonga's overseas markets constantly change, firms and individuals engaged in trade face multiple constraints to growth, including gaps in trade-related infrastructure, limited access to finance, and outdated legislation and regulations affecting trade. At present, the Government faces multiple FTA negotiations with limited staff and no physical presence in Geneva, in the midst of a complex and historic political transition that includes a wide-ranging restructuring of the public service.

8.2. Tonga does however enjoy key trade assets, including relative physical proximity and regular direct flights to the two largest markets in the region (Australia and New Zealand). Despite recent declines, Tonga has been able to successfully target selected niche markets overseas for its agricultural exports, and enjoys an Exclusive Economic Zone (EEZ) of nearly 650,000 square kilometres, home to several onshore and offshore fisheries resources. Tonga has secured access to bilateral labour mobility schemes that provide employment, training and remittance benefits to the local economy. Tonga has made good progress towards the Millennium Development Goals, with relatively high levels of life expectancy and universal access to basic education.

8.3. Tonga also benefits from close engagement from development partners. Tonga's key bilateral partners include Australia, New Zealand, the People's Republic of China, Japan, Korea and the European Union (through both the European Commission and individual EU Member States). Tonga also benefits from support from multilateral/inter-governmental development partners – in particular the Asian Development Bank, World Bank, and various United Nations agencies – as well as regional bodies under the Pacific Islands Forum and the Secretariat of the Pacific Community. While priorities and programming vary from year to year, development partners are actively involved in funding project related to *inter alia*:

- Governance and public service reform;
- Key areas of domestic production/export, including tourism, manufacturing (including handicrafts), agriculture and fisheries;
- Construction and urban development;
- Health and education;
- Climate change;
- Information communication technology (ICT);
- Utilities (e.g. water and power)
- Renewable energy; and
- Law & order and the judiciary.

8.4. In the context of these trade and development challenges and opportunities, Tonga considers trade-related technical assistance and the WTO Aid-for-Trade process to be of central importance to greater participation in the multilateral trading system. Fully operationalizing the Aid-for-Trade initiative will enable Tonga to address its many supply-side constraints and adjustment challenges, while allowing it to harness new export opportunities. Increased technical assistance will also allow Tonga to fully explore the opportunities under the WTO framework (both the current suite of Agreements and any new commitments that may arise in the future from the Doha Development Agenda) and its current slate of bilateral and regional integration negotiations.

8.5. While WTO membership is of central importance to Tonga, the WTO is but one of several forums where Tonga either has undertaken, or may eventually undertake, wide-ranging trade commitments. Tonga also draws support from a range of bilateral and multilateral development partners and – like many other developing country members of the WTO – actively seeks to harmonize the programming and priorities of different entities, in the spirit of the Paris Declaration on Aid Effectiveness of 2005 and the follow-up Accra Agenda for Action of 2008. The technical assistance priorities listed below are thus not necessarily limited to the challenges of WTO membership, but seek to tackle Tonga's wider trade liberalisation agenda with multiple trading partners.

8.6. Tonga's trade-related technical assistance requirements should be considered within the context of the wider effort within the Pacific Island Forum developing countries to develop a

regional Aid-for-Trade Strategy – currently being developed under the umbrella of the Pacific Islands Forum Secretariat – and supporting processes such as the regional Aid-for-Trade Roundtable. Tonga is also an active participant in the effort to operationalise the vision and mandate of the Pacific Plan, which serves as a blueprint for regional integration within the Pacific Islands Forum.

8.7. The trade-related technical assistance priorities are classified into three categories:

- (a) Improving institutional capacity for trade policy negotiations and implementation,
- (b) Supporting the reform of trade-related legislation and regulations; and
- (c) Increasing service delivery to firms engaged in trade.

8.1 Priority Area 1: Improving Institutional Capacity for Trade Policy Negotiations and Implementation

8.8. Building on the ongoing programme of institutional reform already underway in Tonga, there is an urgent need to ensure that lead Ministries, agencies and non-governmental bodies are fully equipped to formulate trade policies, and handle both the negotiation and the implementation of past, present and future trade commitments. The capacity-building imperative extends from the hiring and training of key personnel, to the creation of mechanisms for coordination/consultation, to the framework guiding trade and export policies.

8.1.1 Strengthening Lead Trade Stakeholders

8.9. There is an urgent and critical need to increase the level of capacity within the institutions, agencies and non-governmental bodies that provide crucial inputs into trade policy-making in Tonga.

8.10. A first-order priority is to increase the level of human resources available to Tonga's front-line trade bodies, ideally through the placement of additional permanent staff, or as a second-best alternative through long-term in-house experts that are intimately familiar with Tonga's trade needs. The additional staff and expertise should ensure coverage of the key areas of negotiation (e.g. goods, services, legal aspects), and be supported by adequate administrative capacity suited to the specific dynamics of trade negotiations, and necessary physical/ICT infrastructure.

8.11. Tonga's lead stakeholders also require urgent and ongoing upgrades to the quality of their human resources, particularly through *training*, whether through in-country workshops, online education or temporary placements. This training should cover *inter alia*:

- The foundations of international trade theory, international trade law and trade policy instruments;
- Tonga's rights and responsibilities under the trade agreements to which it is a signatory Party, including the core WTO Agreements, in particular:
 - General Agreement on Tariffs and Trade (GATT);
 - Agreement on the Implementation of Article VI of GATT 1994 (Anti-Dumping);
 - Agreement on Safeguards;
 - Agreement on the Implementation of Article VII of the GATT 1994 (Customs Valuation);
 - Agreement on Agriculture;
 - Agreement on Pre-Shipment Inspection;
 - Agreement on Technical Barriers to Trade;
 - Agreement on the Application of Sanitary and Phytosanitary Measures;
 - General Agreement on Trade in Services;
 - Dispute Settlement Understanding; and
 - Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).
- Key issues in ongoing or future negotiations, including PICTA, Doha Round, EPA, and PACER Plus;
- The techniques and simulation exercises of trade negotiations;
- The analysis of trade data and means of accessing relevant online databases; and
- Commercial/trade diplomacy, arbitration and dispute settlement.

8.12. As the lead agency on trade policy, the Ministry of Foreign Affairs and Trade (MFAT) requires a significant increase in its resources to manage Tonga's trade portfolio – a particularly urgent and critical requirement given Tonga's multiple ongoing trade negotiations at the regional, bilateral and multilateral level.

8.13. Similar capacity-building efforts are required across other key trade-related institutions within Government, including:

- Ministry of Commerce, Tourism and Labour;
- Ministry of Agriculture, Food, Forestry and Fisheries;
- Ministry of Revenue and Customs;
- Ministry of Finance and National Planning;
- Ministry of Public Enterprises;
- Ministry of Lands, Environment, Climate Change, and Natural Resources;
- Attorney-General's Office;
- Ministry of Infrastructure; and
- Ministry of Information and Communications.

8.14. Support should also be targeted to statutory agencies, private sector and other non-governmental bodies handling trade matters, including:

- Tonga Tourism Authority;
- Tonga Tourist Association;
- Tonga Water Board;
- Tonga Communications Cooperation;
- Tonga Energy Road Map Agency and Implementation Unit;
- National Reserve Bank of Tonga;
- Tonga Airports Ltd;
- Tonga Power Ltd;
- Ports Authority Tonga;
- Growers Federation of Tonga;
- National Fisheries Council;
- Friendly Islands Shipping Agency;
- Tonga Chamber of Commerce and Industry;
- Manufacturing Association of Tonga;
- Tonga Development Committee Trust; and
- Civil Society Forum of Tonga.

8.15. Many lead institutions – particularly those outside of Government – struggle to balance the burdens of office with responsibilities arising from official or private sector positions. There is a need to provide core funding to non-governmental bodies, ensuring that they are able to hire dedicated professional staff, able to fulfil day-to-day organisational needs, undertake project management and influence policymakers.

8.16. Like many other Pacific Island WTO Members, Tonga does not benefit from a mission in Geneva. This lack of physical presence hampers Tonga's ability to monitor developments at the WTO, while further overstressing officials based either in other Tongan missions or at home. While Tonga benefits from the support of existing Geneva-based institutions such as the ACP Group, the Forum Secretariat Office and the Commonwealth Small States Office, a stand-alone presence would significantly enhance Tonga's engagement within the WTO.

8.1.2 Inter-Institutional Coordination

8.17. In tandem with support efforts within individual ministries and agencies, technical assistance should be focused on creating coordination and communication mechanisms between institutions, thus ensuring that Tonga's trade positions benefit from cross-sector, public-private input and ownership.

8.18. Comprehensive support is required to create a coordinating trade committee, staffed and supported by MFAT and other stakeholders from both the public and private sector. Such a committee – building on similar arrangements extant during Tonga's accession process – should

act as a coordination and advisory body to Tonga's trade policymakers and negotiators, based on an agreed terms of reference and a clearly defined set of outputs. Specific sub-committees could be created, as necessary, to focus on certain trade issues and negotiations.

8.19. Technical assistance should also support the continued work of existing inter-Ministerial bodies that address trade outcomes, including the National/Sector Growth Committees.

8.1.3 Key Policy Frameworks and Sector Strategies

8.20. Technical assistance should be provided to draft (and, where needed, to implement or renew) key policy & strategy frameworks that can guide Tonga's trade stakeholders at the regional, bilateral and multilateral level. These frameworks should allow Tonga to emphasize key sectors of interest, thus ensuring more efficient use of limited staff and technical resources. The key documents include, but are not necessarily limited to:

- A *Trade Policy Framework*, which acts as an umbrella strategy for policy formulation, negotiation and technical assistance, as well as guiding the work of the coordinating trade committee;
- The *Private Sector Development Strategy*, where this interfaces with trade policy issues;
- A *National Export Strategy*, outlining the export sectors where Tonga believes it can harness many trade assets and gain overseas market share;
- A *Trade Negotiations Framework*, prioritizing key sectors, trading partners and negotiating forums where Tonga can reap maximum benefit – while setting clear benchmarks for Tonga's trade negotiators; and
- An *Aid-for-Trade Strategy*, outlining key gaps in Tonga's trade policy and infrastructure that require external funding.

8.21. Aside from the cross-sector frameworks mentioned above, technical assistance should also be focused on ensuring that *sector-specific* strategies are developed (and where they exist, implemented), particularly in areas of comparative advantage such as agriculture, fisheries, investment (i.e. the Tonga Investment Promotion Strategy), tourism (i.e. the Tonga Tourism Sector Roadmap) and labour mobility (i.e. the Labour Export Strategy).

8.2 Priority Area 2: Supporting the Reform of Trade-Related Legislation and Regulations

8.22. Building on the momentum from its WTO accession, Tonga is currently reviewing a range of key laws and regulations that affect import and export trade. This review process is aimed at not only ensuring compatibility with Tonga's WTO obligations, but also to create a more private sector-oriented and investment-friendly climate for firms operating in Tonga. In tandem with the ongoing agenda of trade liberalisation, there is a need to develop stronger regulatory systems.

8.23. Support should be focused on those areas of legislation that are central to the day-to-day activities of trading firms, including reforms to:

- The investment framework, with a view towards increased private sector growth;
- Regulations and systems governing the activities of SMEs;
- Fiscal and other incentives to investment;
- Customs legislation, to face the challenges of implementing trade commitments (e.g. the implementation of preferential rules of origin), implement modern systems and explore the range of relevant WTO agreements;
- Technical and sanitary standards, both in formulation and conformity assessment;
- Food safety requirements; and
- Intellectual property laws, particularly in areas that are of keen interest to Tonga (such as traditional knowledge).

8.24. Technical assistance activities should enable the Government to effectively execute all stages of the reform process. At the initial stages, support will be required to conduct public consultations and undertake a comprehensive review of the relevant technical issues. Once a framework has been agreed to, support will be required to draft successive versions of the relevant laws and regulations. Upon approval of the new regime by Cabinet and Legislative Assembly, and upon grant of Royal Assent, support will be required to ensure that the task of implementation is

clearly understood by the relevant public and private sector stakeholders. Support should also be provided for ongoing evaluation of Tonga's laws and regulations to adjust to new circumstances.

8.25. Aside from reforming existing legal frameworks, Tonga also requires assistance to draft new legislation in areas where gaps continue to exist, particularly with respect to trade remedies (e.g. anti-dumping, safeguards), unfair trade practices and competition policy.

8.3 Priority Area 3: Increasing Service Delivery to Firms and Individuals Engaged in Trade

8.26. In pursuit of the Government's broad strategy to create an enabling environment for the private sector to flourish, technical assistance should be targeted to those institutions and programmes that provide tangible and valuable services to firms and individuals that are vital to Tonga's trade objectives.

8.27. Support should be focused on facilitating trade in Tonga, including:

- *Business advisory services* that allow Tongan entrepreneurs and firms to *inter alia* gain expertise in basic business administration, access training/placement opportunities and partner with business mentors;
 - *Analytical services* – including feasibility/market studies, economic modelling, statistical databases and sector-specific assessments (e.g. fisheries stocks) – to inform trade policymaking and guide Tonga's trade negotiators;
 - *Marketing services* to promote the Tongan brand domestically and in overseas markets, market new/higher value-added exports and to build commercial links between exporting firms and importers in key markets;
 - *Financial and insurance services* – whether through revolving funds or grants – to (a) assist trading firms to cope with sales and price volatility and (b) encourage capital investment, product development and upgrading of facilities;
 - *Testing and conformity assessment services* to ensure compliance with trading partners' sanitary, quarantine, labelling and food safety requirements;
 - Maritime and air *transport services* aimed at accessing new markets (particularly within the Pacific Islands region) and reducing the loss of product due to shipping delays; and
 - *Storage and distribution services*, particularly for perishable exports.
-