SUMMARY

1. An archipelago in the South Pacific, the Kingdom of Tonga has approximately 100,000 inhabitants with roughly an equal number of Tongans living abroad, mainly in New Zealand, Australia, and the United States. With a per capita income of US$4,500, Tonga is classified as a middle-income developing country. Remittances from expatriates provide a major boost to the local economy, and explain why merchandise imports outstrip exports by a factor of at least 10:1 in any given year. More than 50% of Tonga's imports consist of fuel (from Singapore) and food (mainly from New Zealand and Fiji). Tonga's principal export markets, essentially for a limited range of primary agricultural (mainly squash, root crops, coconuts) and marine products, are found in the Pacific Rim. The services trade is much more balanced due to tourism receipts.

2. Tonga embarked upon political reforms in the aftermath of civil unrest in 2006. In 2010, for the first time, the people elected the majority of the members of Tonga's Legislative Assembly. Some reshuffling has taken place since the new Cabinet was presented in February 2011. The Ministry of Commerce, Tourism and Labour remained responsible for foreign trade policy matters until mid-2012, when the trade portfolio was transferred to the Ministry of Foreign Affairs without a corresponding transfer of staff. The "old" trade ministry is still in charge of trade-related matters such as business licensing, foreign investment, intellectual property protection, import licensing, export promotion, consumer protection, and price controls.

3. This is Tonga's first Trade Policy Review. Tonga acceded to the WTO in July 2007 with short transition periods to implement the WTO agreements on customs valuation and TRIPS, and some reductions in tariffs. Tonga bound all its tariff lines, and no final bound rate exceeds 20%. On the other hand, as Tonga was aiming at a flat-rate (15%) tariff structure, it did not join any of the sectoral initiatives and does not participate in the Information Technology Agreement or the Agreement on Trade in Civil Aircraft. Tonga undertook specific commitments under the GATS in 90 (of around 160) services subsectors. Since accession, Tonga has submitted 17 notifications relevant to its WTO commitments, covering agricultural support, business licensing procedures, trade remedies, and intellectual property legislation. Tonga's intellectual property legislation was reviewed in the WTO Council for TRIPS in 2009.

4. Although some changes have occurred in Tonga's tariffs and trade measures since 2007, the system has overall been quite stable. Tonga's present customs tariff has six tariff bands. Thus, while the intended single-rate tariff did not materialize as the new customs tariff entered into force on 1 January 2008, 60% of the tariff lines currently face an import duty of 15% and all other imports enter at rates ranging from zero to 20%. The simple average tariff is 11.5% at present, well below the average final bound rate of 17.6%. Tonga's migration from HS2007 to the HS2012 nomenclature is almost completed. In this context, the authorities have acknowledged that the applied tariff will need to be corrected on 22 tariff lines where the current applied rate (20%) exceed the bound rate (15%).

5. Tonga does not regulate market access through tariff rate quotas, and provides no preferential tariffs to any trading partner. The transaction value is utilized in approximately 90% of all customs valuation cases; re-determinations are frequently due to non-documented consignments. Most goods can be traded without any kind of restriction. Although it is difficult to establish an exhaustive inventory of non-tariff measures applied by Tonga, trade restrictions appear to be motivated by the need to protect human, animal or plant life or health; public morals; national security; cultural heritage; the conservation of exhaustible natural resources; and to uphold intellectual property rights. Tonga does not levy export taxes on any goods.

6. Tonga derives an increasing share of government revenue from excise taxes and a broad-based consumption tax. Excise taxes are collected on alcoholic beverages, tobacco, petroleum products and, since August 2013, also on certain animal fats and sweetened soft drinks in an effort to discourage consumption of "unhealthy" food. The consumption tax is levied at a single rate of 15% with exemptions for some public, medical, and financial services, and a zero rate for electricity, certain live animals, and various agricultural inputs. In 2012/13, the Government raised almost T$55 million in revenue from the consumption tax (on imports and domestic production), compared with nearly T$30 million from excise taxes, and T$14.7 million from import duties.

7. Inflows of foreign direct investment vary, and have averaged around T$20 million annually in recent years. Tonga's investment regime is based on the Foreign Investment Act 2002, the Foreign Investment Implementing Regulations 2006, the Business Licences Act 2002, and the Business Licence Regulations. An enterprise incorporated in Tonga is considered Tongan as long as the foreign partner does not control more than 25% of the investment or enterprise voting shares. The foreign investment regulations list certain activities that are prohibited for domestic and foreign investors alike, or reserved for Tongan investors. The foreign investment regulations, including the reserved list, are currently under review. In 2011, Tongan waters were re-opened to foreign tuna-fishing vessels to revive the fishery industry. The business licence regulations were streamlined in 2012, allowing a single licence to suffice for individuals and enterprises engaged in more than one business activity, easier filing, faster processing, and reduced fees, particularly for electronic registrations.

8. Government support to agriculture and industrial sectors in the form of direct payments, grants, and credit facilities is very limited. In 2012, a T$1 million Agricultural Export Marketing Fund was established to provide short-term concessional loans to exporters of agricultural products. In terms of revenue forgone, customs duty and tax exemptions play a significant role. In the past, tariff and tax exemptions were accorded to imports of capital goods, materials, and components under the Industries Development Incentives (IDI) Act 1978. The Act was repealed in 2007. However, Tonga's customs tariff stipulates tariff exemptions for certain uses or users, e.g. for manufacturers of beer and other alcoholic beverages. Some 40 items of materials and equipment for use in the fisheries sector were added to the exemption list in June 2013. Upon application, investors may also be granted exemptions from excise tax or consumption tax on investment goods. Electricity generation, air transport, domestic shipping, and commercial fishing are assisted through fuel concessions. According to the authorities, customs exemptions totalled T$23.9 million in 2010/11, and other tax exemptions amounted to T$6.7 million. Domestic production of beer, certain spirits, and tobacco products also benefits from an excise tax regime that differentiates between imported and locally made goods.

9. The Tongan economy, one of the smallest among WTO Members (with a GDP of about US$500 million), is based on agriculture, fisheries, a small mainly domestically oriented manufacturing sector, and tourism and other services. State-owned enterprises are present in a number of sectors, including telecoms, utilities, transport, and banking. Banks and foreign exchange dealers are supervised by the central bank (National Reserve Bank of Tonga), but the insurance sector and other financial services suppliers are not regulated by any authority. Similarly, Tonga has yet to establish an independent regulator in the telecoms sector. Overall, Tonga is faced with a backlog of reforms to modernize and streamline its legal and regulatory frameworks, including in the area of agriculture and related SPS measures, air and maritime transport, and telecommunications.

10. Tonga is a member of the Pacific Islands Forum, and participates in initiatives to expand trade in the region under the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), the Pacific Island Countries Trade Agreement (PICTA), the Pacific Agreement on Closer Economic Relations (PACER), "PACER Plus", as well as with non-Forum countries. Negotiations to conclude an Economic Partnership Agreement (EPA) between the EU and the Pacific ACP group began in 2004. However, although progress has been made in the various negotiations, and ambitions have been raised, the original deadlines have been missed and no new agreement has been concluded so far. Preferential trading under PICTA has not yet begun for Tonga, and only the non-reciprocal SPARTECA appears to provide tangible tariff preferences to Tongan exports (to New Zealand and Australia) at present. Although exports from Tonga may be eligible under the GSP schemes of the EU, the United States, and Japan, these preferences have not been widely used. The WTO framework for rules and MFN tariffs thus continues to provide the basic parameters for Tonga's trade and economic policies.