



**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.

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## Contents

<b>1 SUMMARY.....</b>	<b>3</b>
<b>2 ECONOMIC OVERVIEW .....</b>	<b>3</b>
<b>3 DEVELOPMENT FRAMEWORK.....</b>	<b>4</b>
3.1 Environmental and social challenges .....	4
<b>4 TRADE POLICIES AND PRIORITIES .....</b>	<b>5</b>
4.1 Trade policy .....	5
4.1.1 Trade policy and non-communicable diseases.....	6
4.2 Trade facilitation .....	6
4.3 State-owned enterprises .....	7
4.4 SPS, TBT, standards and quality infrastructure.....	8
4.5 Intellectual property rights .....	8
<b>5 SECTORAL TRADE POLICIES.....</b>	<b>8</b>
5.1 Agriculture and forestry.....	8
5.2 Fisheries.....	10
5.3 Seasonal offshore work .....	10
5.4 Manufacturing .....	11
5.5 Services .....	11
5.5.1 Tourism.....	12
5.6 Offshore mining.....	12
<b>6 TRADE NEGOTIATIONS AND RELATIONSHIPS.....</b>	<b>13</b>
6.1 Multilateral .....	13
6.2 Regional.....	13
<b>7 CONCLUSION.....</b>	<b>14</b>

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## 1 SUMMARY

1.1. The Kingdom of Tonga became a member of the WTO on 27 July 2007. This is the country's second Trade Policy Review (TPR), following its first in 2014. Tonga is a firm supporter of the rules-based multilateral trading system, which is of particular importance to very small economies that lack the administrative capacity to negotiate and maintain bilateral relationships with all of their trading partners. The Government of Tonga does not have a permanent representative in Geneva, and is represented in WTO matters by the Permanent Delegation of the Pacific Islands Forum (PIF) in Geneva, and by Tonga's High Commission in London.

1.2. The period since the last TPR has been a challenging time for Tonga, due to a series of tropical cyclones that have had far-reaching social and economic effects. In particular, tropical cyclone Gita caused damage estimated at more than a third of GDP in early 2018 — the highest proportional loss from natural disasters of any country that year. Tonga therefore felt the economic effects of the coronavirus pandemic while still recovering from previous shocks. Consequently, economic performance has been sporadic over the review period, with GDP growth averaging 2.4% in real terms, or 2.9% per capita, with sectors such as construction undergoing considerable fluctuation.

1.3. Notwithstanding these difficulties, the Government has made unprecedented progress in establishing a robust trade policy framework, and in negotiating regional market access arrangements. The Tonga Trade Policy Framework (TTPF), the country's first comprehensive trade strategy, was launched in August 2020, with implementation just beginning. After Tonga's ratification in March 2020, the Pacific Agreement on Closer Economic Relations Plus (PACER Plus) came into force in December, which will be Tonga's most economically significant regional free-trade agreement by far. Technical assistance provided in relation to this agreement, and to the Trade Facilitation Agreement, has enabled the Government to implement a wide range of modernization steps that will further integrate Tonga into the global economy.

## 2 ECONOMIC OVERVIEW

2.1. Tonga has experienced fluctuating real growth since 2014, peaking at 6.6% in 2015/16, but averaging 2.4% between 2013/14 and 2018/19. Due to a slight population decline, these figures understate real per capita growth, which has averaged 2.9% over the same period. Real growth remained positive until the start of the coronavirus pandemic, but is expected to contract significantly during 2019/20 and 2020/21, by -2.9% and -5.8% respectively.

2.2. Growth since 2013/14 has been driven by 1.9% average annual growth in the industrial sector and 2.5% growth in services, while agriculture and fisheries have remained stable. Industrial growth was led by a 6% annual increase in the electricity, water and waste sector, and supported by sporadic construction growth, influenced by post-cyclone reconstruction. Manufacturing grew 1.2% per year. Several services sectors achieved average annual growth above 5%, including hospitality, transport and storage, professional, scientific and technical activities, wholesale and retail trade, administration and support, and health and social work. Although not measured as a distinct sector in national accounts, tourism has experienced particularly strong growth, based on a 12.5% average annual increase in visitor arrivals between 2014 and 2019.

2.3. At the time of writing, Tonga has avoided domestic cases of COVID-19 through strict border restrictions, but has nevertheless experienced a substantial downturn, following the suspension of the tourism industry and its knock-on effects on the economy. The Government also expects a contraction in remittances due to worsening economic conditions in countries with large diaspora communities.

2.4. Inflation has remained modest during the review period, although the small size of the economy means that supply-related price fluctuations are common, especially following natural disasters or economic shocks. Monetary policy remains accommodative, to support economic recovery.

2.5. The Government has achieved consistent budget surpluses from 2015/16 until the onset of the coronavirus pandemic. However, the Government's fiscal position will be precarious in coming years, with the direct effect of supporting COVID-affected industries, a broader national and international weakening of economic conditions, and an expected spike in debt service payments in 2024. Under current conditions, it may be unrealistic to increase budget surpluses, and some drawdown of

Government reserves is likely. The banking sector remains profitable, well capitalized and relatively liquid, with few non-performing loans.

### 3 DEVELOPMENT FRAMEWORK

3.1. Tonga is committed to the achievement of the Sustainable Development Goals (SDGs), and to embedding them as an integral part of the Government's national planning and development framework. This is reflected in the country's 2019 Voluntary National Review (VNR) of SDG planning and progress, which was a fully country-led process.

3.2. In particular, the process helped to align the Tonga Strategic Development Framework (TSDF II) 2015–25 with the SDGs, the SIDS Accelerated Modalities of Action (SAMOA) Pathway 2014 and the Framework for Pacific Regionalism (FPR) 2014. This has had a number of benefits:

- It has improved **coherence** between planning at national, regional and international levels, ensuring that consistent priorities are reflected throughout.
- The process has fostered **inclusiveness**, by providing an open, participatory and transparent process through which civil society could shape the way that international aspirations and goals are reflected in detailed national planning.
- It has examined Tonga's **monitoring and evaluation** needs, to localize SDG targets and indicators, building national capacity to collect data and strengthen statistical analysis, and improve monitoring through a national tracker database, which maps policy, planning and budget documents and their targets and indicators.

3.3. Ultimately, the benefit of this approach is reflected in the quality of planning at the sector and ministry level: it ensures that plans are interlinked in a coherent framework, and that ministries' resource allocation and focus is in line with national priorities.

3.4. The TSDF II governs long-term national planning. It is structured around seven national outcomes: (a) a dynamic, knowledge-based economy, (b) urban and rural development, (c) human development with gender equality, (d) good governance, and strengthening the rule of law, (e) infrastructure and technology, (f) land, the environment and climate, and (g) external interests and sovereignty.

3.5. Shorter term planning, including resource allocation, is governed by a three-year "Government Priority Agenda" (GPA), which is integrated into the annual budget statement process. The GPA is renewed annually, and by each incoming parliament. At the ministry level, this is complemented by three-year corporate plans, which are also renewed annually. Longer term sector-level planning, including inter-agency cooperation and collaboration with non-government stakeholders, is reflected in a range of sector and thematic plans, including the Private Sector Development Strategy and Action Plan (PSDSAP) 2018–22, Tonga Trade Policy Framework (TTPF) 2017–25, Tonga Agricultural Sector Plan (TASP) 2016–20, and the Tonga Fisheries Sector Plan (TFSP) 2016–24.

#### 3.1 Environmental and social challenges

3.6. Tonga faces a number of specific challenges that are significant for all levels of national planning, including in trade and private sector development policy.

3.7. Tonga remains in second place in the World Risk Index in 2020. This is not due to a lack of preparedness — the index lists 69 countries worldwide that have lower resilience. Tonga's position is determined by its extreme exposure to natural disasters and vulnerability to climate change. The links between natural disasters and trade in Tonga were explored during the WTO's third Symposium on Natural Disasters and Trade in May 2019, which included a case study and presentation on Tonga's situation.

3.8. Tonga is particularly affected by tropical cyclones. The country experiences around two each year, of which on average one will be classed as a category 4 or 5 tropical cyclone. Cyclones cause varying degrees of damage and disruption, including to economic activity and international trade. The country is currently recovering from tropical cyclones Gita (February 2018, category 5),

Tino (January 2020, category 3) and Harold (April 2020, category 5). Of these, Gita caused particularly severe damage, estimated by the WTO Secretariat at 38% of GDP. Both reconstruction and improving the resilience of economic and trade-related infrastructure are permanent areas of Government work. Natural disasters are estimated to inflict an annualized loss of 4.3% of GDP.

3.9. In 2020, the IMF's Climate Change Policy Assessment (CCPA) estimated that the climate-resilience projects Tonga needs will cost 140% of GDP. So far, donors have committed to fund approximately half of this figure.

3.10. Non-communicable diseases have reached a critical level in Tonga. The country has one of the highest rates of obesity in the world, and 99.9% of Tongan adults aged 25–64 are at moderate to high risk of developing an NCD. The policy response requires a multi-sectoral approach to address all causal factors, and is led by a taskforce which coordinates the Government's overall response, including coordinating the work of subcommittees that focus on physical activity, alcohol, healthy eating and tobacco control.

## **4 TRADE POLICIES AND PRIORITIES**

### **4.1 Trade policy**

4.1. The review period has been a transformative time for trade policy in Tonga. Since 2014, the Government has developed its first trade policy framework, finalized in August 2020 with the support of the Pacific Islands Forum Secretariat (PIFS), the International Trade Centre (ITC), and the Commonwealth Secretariat, and its second private sector development strategy, finalized in 2018 with the support of the Asian Development Bank (ADB), which together provide an improved long-term planning framework that will advance national development by maximising the impact of the private sector.

4.2. Creation of the Tonga Trade Policy Framework (TTPF) 2017–25 has been a high priority for a number of years, and it has been under active development since 2016. The TTPF is structured around four pillars. The first, industrial and investment development, aims to improve the productive capacity of Tongan businesses, both to increase export competitiveness and compete with imports in the domestic market. The second, export development and trade facilitation, focuses on increasing and diversifying Tongan exports. The third, development of trade-supporting institutions and services, will establish an explicit framework for public–private dialogue (PPD). The final pillar, inclusivity and citizen economic empowerment, will ensure that implementation of the TTPF will be fully supportive of and aligned with the Government's broader policy agenda, including the TSDF II and SDGs.

4.3. E-commerce has been identified as a particular area of trade policy in which more work is needed. The Government developed a National E-commerce Readiness Assessment (NERA) with the support of the PIFS, and launched it alongside the TTPF. This is being followed by a 12-month programme to implement four policy priorities identified by the NERA with support from Australia.

4.4. The Government recognizes the strategic significance of the Tongan diaspora, especially in Australia, New Zealand and the United States, as a source of investment finance, and aims to initiate an annual conference and other events to foster closer business linkages and share experience. There is also a need to diversify away from dependence on traditional export markets, and the Government again envisages that diaspora communities in the United States and Europe will prove an important asset in achieving this. The Government is also supporting manufacturers' participation in trade shows and exhibitions to gain familiarity with key requirements of new markets. Given Tonga's limited diplomatic network overseas, the PIFS' Pacific Trade Invest (PTI) network represents an important platform for the promotion of Tonga's exports, with offices in Auckland, Beijing, Geneva, Sydney, Tokyo and Suva.

4.5. The ratification and implementation of PACER Plus is a landmark step for Tonga, and has laid the foundations for accession to and implementation of other FTAs — namely the interim Economic Partnership Agreement (IEPA) and the Pacific Island Countries Trade Agreement (PICTA). The Government intends to complete the necessary domestic requirements to declare Tonga's readiness to trade under PICTA, once PICTA reforms have been undertaken. Tonga notified the European Union (EU) of its interest to accede to the IEPA in 2018, but work is still underway to complete domestic

requirements that would enable accession. Tonga has been closely involved in the negotiation of a post-Cotonou partnership agreement with the EU, and looks forward to acceding upon completion of the formalities. The Government also plans to thoroughly assess the implications of joining the UK–Pacific Economic Partnership Agreement (EPA) between the UK, Papua New Guinea and Fiji.

4.6. The Private Sector Development Strategy and Action Plan (PSDSAP) 2018–22 is closely aligned with the TTPF, especially in the Government's strategy for larger firms who export, have export potential, or compete with imported products. However, the PSDSAP also addresses the needs of smaller firms, including informal and micro enterprises.

4.7. Both the TTPF and the PSDSAP respond to the private sector's calls for more structured and in-depth PPD. The third pillar of the TTPF will establish a standing trade policy committee to oversee implementation of the TTPF. Drafting terms of reference for the committee is a priority for the Ministry of Trade and Economic Development (MTED). Both the TTPF and PSDSAP include measures to increase openness, including consulting during formulation of trade laws and regulations, and providing time for internal consultation within the private sector's apex organizations.

4.8. MTED's Corporate Plan 2020/21–2022/23 provides greater detail on how the strategic priorities of the TTPF and PSDSAP are translated into operational actions by MTED. It covers a three-year planning horizon, but is updated annually.

#### **4.1.1 Trade policy and non-communicable diseases**

4.9. During the review period, the Government has taken substantial steps to recognize and address the damage caused in Tonga by non-communicable diseases (NCDs). Tonga has one of the highest rates of obesity in the world, and 99.9% of Tongan adults aged 25–64 are at moderate to high risk of developing an NCD. This prevalence represents an urgent risk to human health, and internationally traded products, including unhealthy foods, tobacco and alcohol, are an important causal factor. The Government has therefore incorporated significant trade policy measures into its coordinated response, in implementing its National Strategy for Prevention and Control of NCDs 2015–20.

4.10. While the urgency of the health threat forced the Government to take immediate action, the Government has also recognized that domestic firms supplying products affected by the new policy require time to adjust. As a result, the Government has taken a dual track approach, with restrictions to protect health being introduced more quickly for imported than for domestic products. Unfortunately, despite this approach, some domestic firms have already been forced to close. However, public health remains the paramount priority, and the Government continues to work to bring restrictions on domestic production and sale broadly into line with those for imports.

4.11. In 2019, the World Bank published an evaluation of the Government's efforts to control NCDs, including through trade policy, and the Government intends to incorporate these lessons into future policy-making. The World Bank is also assisting the Government to develop a nutrient profiling (NP) model for Tonga, which will guide future regulatory reform and policy-making in the area.

#### **4.2 Trade facilitation**

4.12. In November 2020, MTED and national stakeholders agreed an Implementation Roadmap for the Trade Facilitation Agreement (TFA). The Government has identified implementation priorities, and established a performance and monitoring mechanism to ensure the Roadmap's full implementation.

4.13. In 2020, the Government of Tonga completed its first ever time release study, with the support of the World Customs Organisation (WCO). This has provided an invaluable evidence base for future reform efforts, including improved risk management, ensuring that the Government is able to target measures that will have the greatest impact.

4.14. The Ministry of Revenue and Customs (MORC) has recently begun the process of shifting from an outdated, bespoke system to ASYCUDA World, with technical support from UNCTAD and financial support through the PACER Plus Readiness Package. The migration is expected to be completed in 2022. Alongside this, Customs is in the process of upgrading its computer hardware and connectivity between its airport and wharf operations, including on the outer islands. Among other benefits, this

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will enable many customs-related tasks to be done online, including lodgement of declarations and manifests, and submission of payments, which in turn will speed up border clearance and eliminate paperwork. This will be an important step in the implementation of the TFA.

4.15. The Government has been working with various donors to introduce x-ray scanning capability at the main port in Nuku'alofa, which should improve clearance times and customs compliance. This has been set back by the coronavirus, but MORC has been working to establish the necessary procedures to make full use of this capability once it is installed.

4.16. MORC is in the process of implementing additional programmes including an "Authorised Economic Operators" (AEO) programme for highly compliant importers, to reduce clearance times and costs to Government, and streamlined inspections in collaboration with line ministries for agriculture and fish. The Government is also implementing the "Tonga Trade Portal", a trade facilitation platform that provides easy online access to import and export requirements. UNCTAD has provided technical support for the development of the platform, with funding provided by Australia and New Zealand under the PACER Plus Readiness Package. In the context of COVID-19, the World Bank has provided support to develop a policy to expedite shipment of medicines and medical supplies.

4.17. The implementation of PACER Plus has required the Government to develop new regulations to administer rules of origin (ROO), and the Oceania Customs Organisation (OCO) has assisted MORC in developing a detailed manual to guide implementation of these rules. Australia and New Zealand have trained a number of MORC officials to provide training to stakeholders in Tonga.

### **4.3 State-owned enterprises**

4.18. Tonga is the smallest of the Pacific WTO Members in terms of both population and GDP. In common with most small island developing states (SIDS), state-owned enterprises (SOEs) play an important role in the economy. There are many reasons for this. At this economic scale, many more markets are characterized by monopolistic or oligopolistic conditions, and yet complex regulation of anti-competitive practices carries high fixed costs and capacity demands. To maintain a rightsized public sector, the Government often needs to take a simpler approach to regulation than would be appropriate in much larger economies. Additional challenges, such as the need for economic operators to provide equally for the needs of remote populations on outer islands, even when this is not profitable, and to rebuild from frequent natural disasters, mean that SOEs are often the simplest means of achieving a complex set of objectives.

4.19. The ADB has repeatedly found that the SOE sector in Tonga is among the most profitable of small island developing states in the Pacific (in terms of return on assets and equity), and even compares favourably to some developed countries in the region. At the time of the latest comparison, SOEs in Tonga had the second-highest contribution to GDP of the islands covered. The effectiveness of Tonga's SOEs has been recognized by other Pacific islands, and the Government has provided advice to regional neighbours considering their own SOE reforms during the review period.

4.20. Nevertheless, the Government takes a pragmatic approach to SOEs, recognizing that there are always opportunities for improvements in efficiency and service delivery, and as economic conditions change there is a constant need to review whether the Government's SOE portfolio is optimal. Within the Ministry of Public Enterprises, these tasks are divided between two divisions. The objective of the Monitoring, Compliance and Reporting Division is to continually assess the performance of SOEs, and identify opportunities for improvements and cases in which structural review is needed. The Rationalisation, PP and Special Projects Division manages the structural change of SOEs where this is identified as necessary, including privatization and the creation of public-private collaborations. The ADB has provided valuable support to the Government in both ongoing assessment of the SOE sector and the implementation of reforms where necessary.

4.21. The Government has a number of priorities for reform. One is to establish a public-private partnership for the stevedoring operation currently managed by Ports Authority Tonga (PAT). A second is to reconstitute the three commissions into state-owned companies, under the Company Act 1995. The main purpose of this reform is to provide greater flexibility to the Government to make ownership adjustments by selling shares or part-privatizing.

4.22. During the review period, the Government has established a "shared board" system, under which boards of directors for different SOEs within each sector (such as utilities or transport) share members. This has substantially improved coordination among related enterprises. Ultimately, the Government aims to shift to a more consolidated legal structure, such as a collection of holding companies, but recognizes that the variety of acts under which SOEs have been incorporated will mean that this process will require lengthy legislative reforms. The Government aims to start this process in the utilities sector.

#### **4.4 SPS, TBT, standards and quality infrastructure**

4.23. The Government's regulatory framework on SPS and TBT largely predates its accession to the WTO and is in need of modernization. The regulatory framework for quality and standards is piecemeal and insufficient, consisting of isolated standards and provisions in several laws, such as the Food Act 2020, Consumer Protection Act 2016 and Building Control and Standards Act 2016. There is no national body with responsibility for standards, standardization or certification, which increases costs for exporters. Standards that have been established in law are generally based on international or regional standards. A review of these areas began in 2020, in particular to identify instances where the real costs to exporters or consumers are significant, to enable prioritisation of reform. In February 2020, Pacific Island Forum Trade Ministers, including Tonga, endorsed a Pacific Quality Infrastructure Initiative to promote regional cooperation on standards, metrology, accreditation, conformity assessment (testing, certification, and inspection), and other quality-related issues.

#### **4.5 Intellectual property rights**

4.24. Tonga's intellectual property (IP) system is managed under the Business Registry and Intellectual Property Division within MTED. The IP Unit's target outcome is to create an innovative and creative IP environment that strengthens business competitiveness and increases demand for IP services. The priorities of the IP Unit are monitoring the utilisation of the IP system that is currently in place to ensure that it is implemented effectively, and conducting awareness programmes on IP rights to ensure that local businesses and the general public are aware of their rights.

4.25. In 2018, an association for music rights holders was established, whose role is to oversee the concerns and manage the rights of its members. It aims to establish a collective management organization (CMO) specifically for music.

4.26. A national intellectual property strategy was developed and implemented in 2015–17, and is now due for review. The objectives of the strategy were: (1) effective implementation of IP laws in Tonga for enhanced protection of domestic and foreign creations and innovations, (2) creation of a comprehensive IP legal framework for the protection of Tongan creations and innovations in Tonga and globally, and (3) increased use of the IP system, with tangible benefits from the exploitation of IP assets in Tonga.

4.27. In 2018, the IP Unit updated the version of WIPO's Industrial Property Automation System (IPAS) it uses, which has enabled it to process applications electronically. The unit is now working towards another upgrade of IPAS, to include industrial design, patents and Madrid applications. Tonga has also joined WIPO Brand, making all applications for trademarks publicly available online through the WIPO Brand database. A dedicated website for IP is also available for public search.

4.28. The IP Unit is currently considering the ratification of the 2005 amendment of the TRIPS Agreement. The unit will assess the implications of accepting the amendments before the ratification process can be completed.

## **5 SECTORAL TRADE POLICIES**

### **5.1 Agriculture and forestry**

5.1. Agriculture and forestry contributed 17.7% to GDP in 2018/19. Agricultural production has declined marginally over the review period. Tonga retains a strong tradition of subsistence farming on small land holdings, using multi-crop systems based on root crops. Most households keep

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livestock, particularly pigs, chickens and, more recently, sheep. Agriculture is the dominant export sector, involving a large proportion of the population, directly accounting for almost a third of merchandise exports in 2018, and contributing significantly more through processed foodstuffs. A significant share of export shipments are agglomerated from the production of a large number of smallholders, often with Government coordination.

5.2. Informal exports carried by air passengers are also commercially significant, since traditional vegetables are prized by Tonga's large diaspora communities, but there is insufficient data to analyse their extent or trend. Kava is a particularly important export crop due to its high value, low weight and stability in storage, which makes it commercially viable even for remote communities that face high internal shipping costs, but it can only legally be imported into Australia on an informal basis. The Government is delighted that, after 16 years of work by a number of Pacific Governments, in 2020 the Codex Alimentarius Commission approved a regional standard for kava (for use as a beverage), and is grateful for the efforts of all involved. In addition, a kava quality standard for Tonga was launched in June 2020, to gain new and maintain existing market access. This was made possible with the support of the Pacific Horticultural and Agricultural Market Access (Pharma Plus) Program. It is hoped that this will pave the way for regulated formal exports to a wider range of markets in the near future.

5.3. The Government's strategy for the agricultural sector is outlined in the Tonga Agriculture Sector Plan (TASP) 2016–20, which was developed with the support of the International Fund for Agriculture Development (IFAD), the World Bank and United Nations Development Program (UNDP). The TASP, coming to the end of its life, is in need of review, as are a number of pieces of outdated agriculture-related legislation, for which donor assistance would be required.

5.4. Tonga is also looking at opportunities for import substitution, by introducing new commercial crops and varieties, and promoting crop diversification. Vegetables, exotic fruit trees and root crops are among those currently being introduced to displace imports. Recent diversification in livestock production serves the same purpose.

5.5. Agriculture in Tonga faces a number of long-term challenges. Climate change has already resulted in increased variability in precipitation, and higher temperatures. Consequently, the country experiences more frequent periods of drought and flooding, which in turn have led to reduced productivity in a wide range of crops. The sector will need to increase its research activity in order to breed and introduce new varieties that are more resilient to the emerging climate if current levels of productivity are to be maintained. Unfortunately, research operations have been heavily damaged by recent cyclones and the Government has not had sufficient resources to restore capacity to its former level.

5.6. Tonga also faces interlinked structural challenges due to the shortage of available land (for agriculture and other uses) and the highly distributed nature of land ownership. This issue is a high priority for the Ministry of Lands and Natural Resources, which placed a moratorium on the further subdivision of agricultural land in 2020. The ministry has also been conducting incremental digitization of land administration, which is expected to expedite transactions. The agricultural sector is also hampered by the large amount of unused land owned by the diaspora.

5.7. Among the more immediate challenges facing the Government is the implementation of PACER Plus, and improvements in SPS and quarantine services that will help to facilitate exports to Australia, New Zealand, and other island parties.

5.8. The Government's strategy for forestry is outlined in the Tonga National Forest Policy (TNFP) 2009, and the Management Plan for the Forests and Tree Resources of Tonga 2017. The latter highlights the urgency of establishing a national inventory of forestry resources to improve analysis of the sustainability of current management arrangements, and to inform future policy priorities. This would require donor support to set up, but would then be maintained and updated through the Government's budget. The Government gazetted new Sandalwood Regulations in 2016, to improve sustainable management of the resource and promote new planting of sandalwood for commercial purposes. The rehabilitation of degraded foreshores in areas vulnerable to rising sea levels, storm surges, coastal erosion and salt spray will also play an important role in the country's adaptation to climate change.

## 5.2 Fisheries

5.9. Fishing contributed 1.9% to GDP in 2018/19, but fresh fish represented more than 20% of all merchandise exports in 2018. The most important commercial species are tuna, deepwater snapper, and bêche de mer. Ornamental, shell and live fish also make a significant contribution to export earnings. Strategic planning is guided by the Tonga Fisheries Sector Plan 2016–24, with implementation further governed by the Tonga National Fisheries Policy 2018. Tonga is a member of the Western Central Pacific Fisheries Commission (WCPFC), and ratified the Port State Measures Agreement (PSMA) in late 2019, which is now being implemented. The Ministry of Fisheries collaborates closely with the Pacific Community (SPC) and the Forum Fisheries Agency (FFA).

5.10. The Government's aim in its critical tuna fishery is to achieve a balance between revenue generated from licences sold to vessels based in Fiji and American Samoa (targeting albacore), and sustainably building local harvesting and value addition, for both domestic consumption and export, which focuses on yellowfin. The existing domestic longline fleet exports fresh tuna to the United States, Japan, Australia and New Zealand. The fishery is governed in accordance with the Tuna Management and Development Plan 2018–22, which establishes catch targets and effort controls (by limiting longline licences and purse seine fishing days). The Plan prioritizes three key infrastructure improvements: a small-scale loin processing facility for albacore, an airport cold storage facility, and wharf development to meet international standards and improve access to fuel, fresh water, ice, slipway facilities and berthing. However, donor support is likely to be needed to implement these improvements.

5.11. The snapper fishery is more locally based, employs around 200 people, and supplies both domestic and export markets (earning roughly USD 1 million annually, primarily from the United States). It has seen a recent increase in smaller vessels supplying the local market. The Ministry of Fisheries published a Snapper and Grouper Management Plan in 2019, to strengthen cooperation between Government and industry, improve fishing control measures, and maximize economic returns.

5.12. There is scope for expansion of harvesting certain species, while increasing economic returns from processing and support services (such as vessel repair and maintenance, and retail of bait and spare parts), and increasing and diversifying exports, including the possibility of exporting frozen products. However, challenges such as air freight capacity and frequency, the export cold chain (including blast freezing capability and cold storage facilities), packaging and processing facilities (such as for loining), supply of appropriately skilled labour, and ensuring timely clearance of fresh fish in export markets remain significant challenges.

5.13. In order to improve the management of smaller scale coastal fisheries, the Ministry of Fisheries is supporting the creation of special management areas (SMAs), which give the coastal community the authority to lead in the protection of the area, prevent illegal fishing and improve sustainability. This programme has grown rapidly since 2014, and SMAs now cover around half of Tonga's coastal communities.

5.14. The Government closely follows the negotiation of a fisheries subsidies agreement at the WTO, and participates actively through the Pacific Group. Not only will the conclusion of a meaningful agreement be critical for the sustainability of the world's fisheries, but an agreement that is effective in reducing the total quantity of subsidies provided to the global fishing industry would level the playing field for small island states with substantial fisheries, improving the prospects for a sustainable fishing industry to be a driver for economic development.

## 5.3 Seasonal offshore work

5.15. Since the launch of the Recognised Seasonal Employer (RSE) scheme, under which Tongans are able to work in the agricultural sector in New Zealand for up to seven months each year, seasonal overseas work has progressively become an important component of the Tongan economy, broadly defined. Australia complemented the RSE scheme with its own Seasonal Worker Programme (SWP), which also includes the hospitality sector, and the combined effects have been substantial: in 2018/19, 2,037 workers travelled to New Zealand and 3,737 to Australia. This is equivalent to 20% of the employed population of Tonga.

5.16. More recently, both Australia and New Zealand have introduced new programmes that provide additional benefits in terms of duration or skill level. Where Australia's SWP allows workers to travel for up to 9 months per year, the Pacific Labour Scheme (PLS), launched in 2018, offers the chance to work for between 12 and 36 months in a sector with identified labour shortages in Australia, offering greater opportunities to improve skills. So far, the meat industry has dominated, accounting for about two thirds of jobs. New Zealand is currently piloting the Pacific Trades Partnership (PTP), which offers work to skilled tradespeople in the construction industry.

5.17. The Tonga Labour Mobility Policy Framework, currently being finalized, governs public support for these schemes. Its purpose is to enhance the development impact not only to the worker, but to their family, community and Tonga as a whole. It also identifies strategies to mitigate negative social impacts and reduce unnecessary costs and business environment constraints for outgoing workers. For instance, the Government is focusing on reducing pre-departure costs by eliminating the need for workers from outer islands to travel to Tongatapu for regulatory reasons before leaving the country. This has involved legislative change in 2020 to enable police reports to be obtained locally, and the Government has worked with the World Bank to install x-ray machines in Princess Fusipala Hospital at Haápai, and Ngu Hospital at Vavaú, so that full medical checks can be completed on the outer islands.

5.18. It is estimated that remittances and savings by workers on temporary schemes are equivalent to around 8% of GDP. Tongan participation in both the RSE and SWP has grown by an average of 14% per year since 2013/14 (6% RSE, 20% SWP).

5.19. Women's participation has remained low, although it increased slightly in 2018/19 to 29%. Since recruitment resumed in October 2020, there has been a marked increase in the demand for female workers. Many of the sectors covered by these schemes tend to be dominated by one gender or the other, so the balance of industries included and number of jobs within each has a strong effect on the overall gender balance of workers. Sectors such as caregiving and hospitality tend to attract a high proportion of women. World Bank analysis suggests that, although on average female workers earn less than men, they remit more than their male counterparts.

5.20. The scale of this activity means that even moderate disruption in the sector can have macroeconomic effects on aggregate demand and the foreign exchange market. This risk could be mitigated by further broadening the number of markets and sectors available to Tongan workers.

#### **5.4 Manufacturing**

5.21. Manufacturing contributed 5.2% to the economy in 2018/19, within a broader industrial sector that accounted for 15.1%. The most recent survey data available (2016/17) indicates that around 650 people are employed in 83 manufacturing firms. Food and beverages account for more than a third of production (37%), with non-metallic mineral products, including concrete blocks and water tanks, the other significant subsector (24%). Tonga's leading manufactured exports are processed foodstuffs, accounting for 13% of merchandise exports, which are dominated by processed fruits and nuts.

5.22. The Ministry of Trade and Economic Development collaborates with the private sector in a "Buy Tonga Made" initiative, to promote domestic consumption of locally made goods, including by tourists.

5.23. Given the extensive linkages between the majority of manufacturing activity and either the agricultural or fisheries sector, much of the Government's strategic planning for manufacturing is accommodated in these sectors' plans (the TASP and TFSP). Complementary actions are included in the PSDSAP and TTPF.

#### **5.5 Services**

5.24. The services sector represented 49.2% of the economy in 2018/19.

5.25. Due to the country's geography, transport costs are a major investment climate impediment, both domestically and internationally. Transport and storage contributed 3.4% to GDP in 2018/19. Maritime transport is the most important mode for merchandise trade. The main port in Nuku'alofa

has an annual throughput of approximately 25,000 TEUs, with storage capacity for around 600. The Government's current priority is to extend the larger of its international berths from 180 to 200 metres by 2023, with the assistance of a USD 55 million grant agreement now signed with the ADB.

5.26. Air transport services are also very important in both the tourism and fish export sectors (since Tonga currently does not have the facilities to export frozen fish). Given the importance of the cold chain for high-value fresh fish exports, the addition of cold storage facilities to the airport at Nuku'alofa is an important trade-related infrastructure priority.

5.27. Information and communications technology and e-commerce are particularly important for small island developing states, due to their ability to reduce high trade costs associated with remoteness. The Government's support for accelerated e-commerce development is outlined in the Tonga National E-commerce Readiness Assessment (TNERA) and the Digital Government Strategic Framework (DGSF, 2019–24). The DGSF sets the target of universal mobile or wireless access by 2024, and includes a range of activities to foster e-commerce growth, including the development of systems for e-signatures, e-payments to Government, e-procurement, and an electronic land registry. The TNERA includes actions relating to e-commerce, ICT infrastructure, trade logistics, digital finance and payments, the regulatory framework, and skills development.

### 5.5.1 Tourism

5.28. Tourism is a critical sector, including catering to diaspora communities. Tourism contributes approximately 20% to GDP, is the second largest source of foreign exchange earnings, and employs more than 2,500 people directly and indirectly. Growth in the sector has been very strong over the review period: visitor arrivals have risen by 12.5% per year since 2014, travel receipts have grown 14.2% per year from 2014 to 2019, and cruise ship arrivals have seen annual growth of 11.6% since 2016. The ongoing development of the sector is governed by the Tourism Sector Roadmap 2018-22, which ultimately aims to expand the sector to 30% of GDP.

5.29. Tonga is able to offer a number of specialist tourism attractions, including marine wildlife such as the humpback whale and manta ray, and a variety of cultural experiences. The country has a number of marine parks and reserves, which are an important means to protect the value of tourism revenues. In October 2020, the Tonga National Museum was reopened, with support from the Government of Japan and Auckland Museum. The Museum has a range of Tongan artefacts, in addition to contemporary and historical works of Tongan art.

5.30. In April 2020, visitor arrivals were reduced to zero due to border closures in response to the coronavirus pandemic. The Government is providing targeted support to the sector during this period, but is encouraging tourism service providers to use this time to focus on skill and service improvements, through training and other measures. The Government has extended a programme to improve the cleanliness and attractiveness of villages from Tongatapu to the outer islands. The Government is also working with service providers to develop more products aimed at domestic consumers, including for activities such as whale-watching and package holidays in the outer islands. These measures are part of the Government's Tourism Crisis Response and Recovery Plan, which aims to ensure that the sector is ready to provide safe and high quality experiences as soon as national borders reopen.

5.31. The Ministry of Tourism has recently established the internal capability to collect and analyse tourism statistics. The ministry's priorities will be to learn more about how much the country earns from different types of tourism, and develop an up-to-date view of firms in the tourism sector, particularly on the outer islands, to better inform future policy development.

### 5.6 Offshore mining

5.32. Tonga has the potential for seafloor mining of various metals, and has provided exploration licences to commercial partners for over ten years. The Government remains committed to this sector through the establishment of an enabling regulatory framework. The Seabed Minerals Act 2014, which was developed in collaboration with the EU and SPC, has set a global precedent for the legal architecture of socially, economically and environmentally sustainable development of this sector. Key provisions include the establishment of a sovereign wealth fund to ensure that the return

to Government provides long-term benefits and minimizes undesirable foreign exchange effects. Global economic conditions are not currently favourable to the seabed mining sector and its relatively untested technology, and the timeframe for the continuation of exploration, and eventually mining operations, is uncertain. There has been a lively debate at both the national and regional levels regarding the social and environmental consequences of seabed mining, and possible mitigating actions that could be taken to reduce any negative effects. The Government is using the current hiatus to engage with civil society on these issues and to monitor and review developments in this sector.

## **6 TRADE NEGOTIATIONS AND RELATIONSHIPS**

### **6.1 Multilateral**

6.1. Tonga is one of four Pacific WTO Members that has no permanent representation in Geneva, and is currently represented in the WTO by the Permanent Delegation of the Pacific Islands Forum in Geneva, and by the Government's High Commission in London. The Government understands the benefits of a permanent office to enable more active participation in the multilateral trading system, but at present sufficient funding is not available.

6.2. The Government's current negotiating priority is on fisheries subsidies. Tonga has extensive artisanal and small-scale fisheries, whose management and stock assessment is led by communities through SMAs. A key interest in the negotiations is to ensure that basic forms of support to these fishers, such as provision of ice, are not undermined by burdensome notification or scientific stock assessment requirements. The Government is also keen to ensure that any limitations on the definition of artisanal fishing do not impede development by threatening the withdrawal of subsidies at the first sign of formalization or commercialization.

6.3. Tonga's second core interest in the fisheries subsidies negotiation is to protect the Government's ability to provide subsidies that would enable the Tongan fleet to capture a greater share of the commercial fish available within the country's EEZ in a sustainable way. A critical right that Tonga wishes to preserve is the ability to provide different licensing conditions to vessels, depending on the contribution they make to the domestic economy, so it is vital that fishing quotas or licences must not be interpreted as subsidies for the purposes of the agreement. Again, for a small administration like Tonga, burdensome requirements that oblige the authorities to submit notifications of fisheries management measures, or to conduct inappropriately complex stock assessments in order to subsidize, could potentially have much the same effect as an outright prohibition on all subsidies.

6.4. Aside from fisheries subsidies, the Government has also been following with interest the Joint Statement Initiatives (JSIs) on e-commerce and micro, small and medium enterprises (MSMEs), amongst others. The Government fully supports the objectives of the joint statement on agriculture export prohibitions or restrictions relating to the World Food Programme. The Government is ready to work constructively with other members to explore all current concerns and possible solutions relating to reform of the WTO.

6.5. In capital, the Government's priorities are implementation and ratification of the TFA, ratification of the 2005 TRIPS amendment, and ensuring that all of its notifications obligations are up to date.

### **6.2 Regional**

6.6. In December 2020, The Pacific Agreement on Closer Economic Relations Plus (PACER Plus) came into force between New Zealand, Australia, Samoa, Kiribati, Tonga, Solomon Islands, Niue and the Cook Islands. Negotiated between 2009 and 2017, it is the most economically significant free-trade agreement that Tonga has joined. As noted previously, the Government is making a number of trade facilitation improvements under initiatives established through the PACER Plus Readiness Package, including adoption of ASYCUDA World and the creation of the Tonga Trade Portal. In addition to the Readiness Package, Australia and New Zealand have committed AUD 25.5 million in aid for trade through a jointly managed Development and Economic Cooperation Work Programme, which will cover the first five years of operation of the agreement.

6.7. The Pacific Island Countries Trade Agreement (PICTA), between the Cook Islands, Fiji, Kiribati, Nauru, Niue, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu, was ratified by Tonga in 2003. PICTA requires gradual reduction of tariffs to zero by 2021. The Government intends to complete the necessary domestic requirements to declare Tonga's readiness to trade under PICTA.

6.8. Tonga intends to accede to the IEPA with the EU once work to complete domestic requirements is complete. The Government intends to assess the implications of joining the UK–Pacific EPA between the UK, Papua New Guinea and Fiji.

## **7 CONCLUSION**

7.1. Tonga remains firmly committed to the multilateral trading system. Small, open economies such as Tonga are particularly reliant on a system of binding international rules that provide a solid framework for economic development based on the free movement of goods, services, investment and labour. The Government is hopeful that the concerns that various members have about the future of the WTO can be resolved through consensus-based negotiation that avoids weakening a system that is of such value to all of its members, not least SIDS and small vulnerable economies (SVEs).

7.2. As the smallest Pacific WTO Member, the Government faces capacity constraints that often require a different pace of reform or approach to regulation than would be adopted by larger members. Considering these constraints, the review period has been an exceptionally productive time for trade policy planning in Tonga, and several further trade facilitation milestones are expected to be achieved in the near future. Nevertheless, the Government has limited resources with which to follow multilateral negotiations and comply with its transparency obligations, and the Government urges members to keep in mind the smallest WTO Members when designing the transparency requirements of new disciplines.

7.3. Few countries are more seriously affected by natural disasters than Tonga, and so recognizing the connection between natural disasters and trade is vital. The onset of climate change, bringing greater unpredictability and frequency of natural disasters, will not only continue to damage the natural environment, but will often set back long-term development efforts in a single day. For a country like Tonga, it is not possible to design trade policy without an integrated appreciation of how economic development will continue to be complicated by natural disasters.

7.4. A further challenge is to identify how the multilateral trading system can do more to build the resilience of international trade to natural disasters, especially for small countries. Whilst many discussions are taking place in international fora on developing resilience to climate change, the WTO also has a vital role to play to ensure that the trade dimension of resilience is not overshadowed.

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