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Tonga Trade Brief

Trade Policy

Tonga's trade regime is undergoing changes as a result of its recent accession to the WTO. The simple average of the MFN applied tariff rate was 16.9 percent in the most recent year (2006), which is significantly higher than the average for both the East Asia and Pacific region and lower-middle-income countries, which were 10.5 and 11.9 percent, respectively. Based on the MFN applied tariff, Tonga ranks 159th out of 181 countries (where 1st is least restrictive). Tonga's exports are concentrated in the agricultural sector and, consequently, the average tariff for agricultural goods is 24.4, which is much higher than the tariff for non-agricultural goods. In the most recent year for which there is data, Tonga had a maximum tariff on all goods (excluding alcohol and tobacco) of 45 percent. The trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), was only 0.5 percent in 2006, which is substantially lower than the averages for its regional neighbors and fellow lower-middle-income countries, which were 25.7 and 26 percent, respectively. Regarding the extent of its commitment to trade liberalization in services, Tonga ranked 42nd out of 148 countries on the GATS Commitment Index.

In March 2008, the government removed excise tariffs on all imports of aircraft and aircraft parts in order to assist its domestic airline industry.[1]

External Environment

The simple average of the rest of the world tariff faced by Tonga's exports is 10.3 percent. When taking into account the volume of exports it is 4.6 percent, with the rate faced by agricultural goods and non-agricultural goods significantly different, at 6.4 and 0.9 percent, respectively. Over the course of 2008, the real effective exchange rate of the Tongan currency, the pa'anga, appreciated by 6.3 percent, making exports less competitive.

Tonga has ratified the Pacific Island Countries Trade Agreements (PICTA), together with 10 other countries out of 14 members of the Pacific Islands Forum (the Forum Island Countries) that signed it in 2001.[2] PICTA, an agreement for free trade in goods, and, in future, services, falls under the broader Pacific Agreement on Closer Economic Relations (PACER) that in addition to the Pacific Island Countries also includes Australia and New Zealand.[3] In August 2009, leaders of the Pacific Island Forum have agreed to start negotiating PACER plus, a free trade agreement that would include Australia and New Zealand as well as the Forum Island Countries and that would cover goods, services, and investment.[4] Tonga is also engaged in negotiations with the EU on an Economic Partnership Agreement (EPA). This is a regional EPA that involves all 14 countries that are signatories to PICTA.

Behind the Border Constraints

Tonga remained in the top 30 percent of international business environments in 2009, being ranked 52nd out of 183 countries in the Ease of Doing Business index. With relatively low cost per container imported and exported, the country ranks 51st in the Trading Across Borders subcategory of the index, which looks at the extent of trade facilitation in the country. The number of required documents and days to export and import into and out of the country are comparable to the regional averages.

Trade Outcomes

Tonga suffered a recession in 2007, but made a comeback in 2008, partially due to increased revenue from tourism. Spending by tourists increased by more than 50 percent in real terms for the fiscal year 2008 (ending in June 2008). During 2008, Tonga's total trade in goods and services grew by 14.9 percent in

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

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nominal U.S. dollar terms.[5] Prices for squash and vanilla, two of Tonga's most important exports, declined in 2008. Fishing conditions in 2008 were also poor, contributing further to the decline in the agriculture, forestry, and fishing sector of 3.2 percent.[6] The fall in demand due to the global recession caused a decrease in total exports in the last quarter of 2008 of 7.1 percent over the fourth quarter of 2007. Despite this, exports managed to increase by 8.9 percent for the year, or 10.2 percent including re-exports. Tonga's main export markets are Australia, New Zealand, Japan, and the United States. With many developed countries experiencing economic recessions, exports are expected to decrease. However, in the first quarter of 2009 they grew by 13.6 percent over the same quarter of 2008 on the back of traditional exports, despite the fact that re-exports plummeted by over 99 percent over the same period.

Tonga suffered as prices for its imports rose sharply in the first half of 2008, increasing the cost of food, fuel, and transportation. Imports grew by 15.4 percent in nominal U.S. dollar terms in 2008, although growth slowed by the end of the year to 0.8 percent in the fourth quarter. In the first quarter of 2009, imports fell by 2.8 percent. Tonga runs a very high trade deficit, as imports have historically been very high (in 2008, imports were over 17 times higher than exports). To sustain this deficit, remittances, equal to 37.7 percent of Tonga's GDP in 2008, are extremely important. Over half of the population lives abroad, mostly in Australia, New Zealand, Japan, and the United States, leading to the expectation that remittances will decrease in 2009 as these economies undergo recession.[7] Foreign direct investment inflows accounted for 10.8 percent of the GDP in 2007.

Notes

1. *Matangi*, March 28, 2008.
2. Bilaterals.org, April 2009.
3. Pacific Islands Forum Secretariat and Jane Kelsey, April 2004, p. 18.
4. Pacific Islands Forum Secretariat, August 2009.
5. All trade data in this section is from Tonga Department of Statistics unless otherwise noted.
6. Asian Development Bank, 2009, p. 287.
7. U.S. Department of State, 2009.

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