



Ministry of Trade and
Economic Development

TONGA TRADE POLICY FRAMEWORK

2017 - 2025



MINISTRY OF TRADE AND
ECONOMIC DEVELOPMENT

Tonga Trade Policy Framework 2017-2025

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Ministry of Trade and Economic Development
Kingdom of Tonga

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Abbreviations

AEO	Authorised Economic Operator	NP	National Planning
AfT	Aid for Trade	NCD	Non-Communicable Disease
BDS	Business Development Services	NRBT	National Reserve Bank of Tonga
CSFT	Civil Society Forum of Tonga	NSB	National Standardisation Body
CSO	Civil Society Organisation	NTB	Non-Tariff Barrier
EPA	Economic Partnership Agreement	PACER	Pacific Agreement on Closer Economic Relations
EU	European Union	PICTA	Pacific Island Countries Trade Agreement
FDI	Foreign Direct Investment	PPD	Public-Private Dialogue
GATT	General Agreement on Tariffs and Trade	PPP	Public-Private Partnership
GDP	Gross Domestic Product	PSR	Product Specific Rules
GSP	Generalised System of Preferences	R&D	Research and Development
ICT	Information and Communication Technologies	RCA	Revealed Comparative Advantage
IMF	International Monetary Fund	RCEP	Regional Comprehensive Economic Partnership
IPR	Intellectual Property Rights	RoO	Rules of Origin
ITC	International Trade Centre	RTA	Regional Trade Agreement
MAFF	Ministry of Agriculture, Forests, Food and Fisheries	SDGs	Sustainable Development Goals
MTED	Ministry of Trade and Economic Development	SPS	Sanitary and Phyto-Sanitary
MFA	Ministry of Foreign Affairs	ST&I	Science, Technology & Innovation
MoF	Ministry of Finance	TASP	Tonga Agriculture Sector Plan
MIA	Ministry of Internal Affairs	TBEC	Tonga Business Entrepreneurship Centre
MEIDECC	Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Climate Change and Communications	TBT	Technical Barriers to Trade
MLNR	Ministry of Lands, Natural Resources	TCCI	Tonga Chamber of Commerce and Industry
MET	Ministry of Education and Training	TDB	Tonga Development Bank
MOH	Ministry of Health	TFA	Trade Facilitation Agreement
MOI	Ministry of Infrastructure	TOP	Tongan Pa'anga
MPE	Ministry of Public Enterprises	TPL	Tonga Power Limited
MoRC	Ministry of Revenues and Customs	TSDF	Tonga Strategic Development Framework
MSME	Micro, Small and Medium-sized Enterprise	TTPF	Tonga Trade Policy Framework
		UNCTAD	United Nations Conference on Trade and Development
		UNDP	United Nations Development Programme
		USD	United States Dollar
		WTO	World Trade Organisation

Foreword



Trade is an integral part of every Tongan household—as service providers and consumers. During the barter trading system, Tongan Men and Women traded their gains in exchange of basic needs not available in their farm lands—salt, soap, and sugar. In the 21st century globalised, high-tech, and cash-economy, Trade has opened a pathway for Tonga’s niche goods and services—including labour mobility, to enter the global market place.

Tonga’s accession, in 2007, to the World Trade Organisation (WTO) and continued leadership in the regional trade agreements affirms its trust in the rules-based trading system. Whereas globalisation has offered Tonga communities significant opportunities, the current trading landscape presents unprecedented uncertainties for Tonga’s economy—post the 2008 Global Financial Crisis. The continued global economy sluggish growth is likely to reduce demand for Tonga products at the international market; and some emerging trade protectionism policies opens a window for tariff escalation which will exacerbate Tonga’s cost of doing business even further. On the other hand, Climate change impact on Trade is now a reality—and anticipated to happen sooner than expected. This first-ever Tonga Trade Policy Framework (TTPF) articulates pragmatic and proactive approaches we will deploy to overcome existing challenges and maximize our potential.

Inspired by the Tonga Strategic Development Framework (TSDF) theme “A more progressive TONGA” the TTPF fulfils our commitment for forward looking trade policy options—which will reposition Tonga’s socio-economic development envisaged in the TSDF whilst contributing to the implementation of Tonga’s commitments on Trade-related SDGs especially: 8,9, 14.6 and 17. The TTPF goes beyond another new policy framework. It is an action-oriented call for whole-of-government collaboration in the mainstreaming of trade into Tonga’s National Development Strategies and ambitions. In a structured manner, the TTPF deliberately brings people and nature at the centre of Tonga’s trade development by proposing trade policy measures to curb NCDs and conserve our environment.

The identified principles in the TTPF serve as a guide to all Ministries, Departments and Agencies (MDAs) in terms of priorities that should be pursued in the next 8 years; and the implementation action plan is a yard stick to measure our progress towards a transformed Tonga Trade Agenda—at national and global level.

The TTPF is a result of extensive stakeholder consultations, including our smaller businesses in the outer Islands; and great collaboration with our development partners, in particular: The Pacific Islands Forum Secretariat (PIFS); International Trade Centre (ITC); and the Commonwealth Secretariat (Hub & Spokes programme). Staff at the Ministry Trade and Economic Development (MTED) led drafting of this framework and will play a major role in the implementation of the entire TTPF.

The establishment of the TTPF is a reward to everyone’s effort and dedication. It is now time to translate the recommended policy actions into development outcomes geared towards a prosperous and progressive Kingdom of Tonga.

Respectfully,

A handwritten signature in black ink, appearing to read "Samiu Kuita Vaipulu". The signature is written over a dotted line.

Hon. Samiu Kuita Vaipulu

Minister for Trade and Economic Development



Executive Summary

Structure of the TTPF

The TTPF is presented in five (5) sections comprising five chapters. The first chapter presents the background and context in which the policy has been developed including providing a brief state of play on the socio- economic and political changes both domestically and internationally. The section further recognises the establishment of the second Tonga Strategic Development Framework (TSDF II) and several developmental policies, both sector- specific and horizontal. Fundamentally, the TTPF provides a pathway to concurrently deliver effective mainstreaming and coordination of TSDFII and SDGs trade-related aspects. The second chapter highlights in detail, Tonga's trade performance, the context and the relevant policy responses. Broadly it covers: Merchandise Trade Performance; Trade in Services; Migration and Remittances; Investment Trends; Macroeconomic and Social Context and; International Economic Objectives.

Chapter three (3) and four (4) focuses on the TTPF's rationale and objectives, including its pillars and measures respectively. Chapter five (5) provides a detailed overview of the implementation arrangements including the institutional arrangement framework.

TTPF intervention levels

Nationally, the TTPF is underpinned within the Kingdom of Tonga's TSDF II provisions. Regionally, Tonga is party to key trade agreements including the Pacific Agreement on Closer Economic Relations (PACER-Plus); and the Pacific Island Countries Trade Agreement (PICTA). Internationally, Tonga is a member of the World Trade Organisation (WTO) agreements and is committed to development aspirations such as the Sustainable Development Goals (SDGs).

TTPF Focus

The TTPF clearly articulates the Kingdom's commitment towards:

- i. Addressing the trade deficit by proposing a combination of measures to increase exports whilst stabilising imports.
- ii. Balancing the promotion of traditional exports through value addition and the development of new export commodities, both primary and domestically processed, to reduce the high export concentration, volatility and lack of structural transformation.
- iii. Creating diversification in terms of target markets.
- iv. Considering the revenue impact of policy measures.
- v. Addressing the problem of volatile remittances as a response to external shocks and potentially sub-optimal use of remittances. Hence the TTPF proposes a dual strategy which includes: measures to ensure the continuity of remittance flows from the diaspora complemented by a longer- term approach to further reduce the dependency on remittances and the associated risks.
- vi. Seeking a new approach to investment promotion including leveraging on the diaspora to invest in priority sectors especially those that will have a strong bearing on the PACER Plus investment component.
- vii. Addressing the high vulnerability from shocks caused by the high concentration of

- services exports and exploring mechanisms of further diversifying services exports.
- viii. Enhancing seasonal employment programmes by: promoting availability of new seasonal employment opportunities for Tongan workers; negotiating extension of Australia and New Zealand schemes to include new sectors; and negotiating bilateral agreements for similar programmes with other countries; and providing business-oriented training to Tongan temporary workers abroad. The government recognises the importance of addressing the growing social impact associated with overseas seasonal employment programmes.

TTPF Pillars and Measures

TTPF policy measures are grouped into four pillars, with each pillar corresponding to one of the four outputs as defined below:

1. Industrial and investment development;
2. Export development and trade facilitation;
3. Development of trade supporting institutions and services; and
4. Inclusivity and citizen economic empowerment.

The TTPF further describes the issues and challenges to be addressed within the identified pillars and measures, and the entities in charge of implementation.

Overall TTPF Outcome

This TTPF intends to enable Tonga to create an inclusive, sustainable and competitive trading environment leading to better trade performance.

Complementarity

TTPF provides the broad and overarching policy framework for other key policies, strategies and official documents affecting trade which include but are not limited to the following:

1. Tonga's Strategic Development Framework (I and II) which constitutes Tonga's overarching developmental framework;
2. Tonga's National Constitution;
3. FDI Law and other Commerce Laws
4. MSME Policy and Strategy and;
5. Other existing policies, strategies and sector plans.

1. Introduction and Background

In recent years, the Kingdom of Tonga has witnessed profound changes in its political and economic context, both domestically and internationally. Domestically, the adoption of a new constitution as well as the preparation of two Tonga Strategic Development Frameworks (TSDF) and several developmental policies, both sector-specific and horizontal,¹ have established a new framework for the Kingdom's further development. Internationally, the global financial crisis and its aftermath, including continued sluggish global growth, have resulted in an adverse economic environment for the Kingdom. At the same time, Tonga's accession to the World Trade Organisation (WTO), as well as the negotiations of PACER Plus, the regional trade agreement with other Pacific Island Nations as well as Australia and New Zealand, have changed the international trade environment for Tonga, as do – or will – regional trade agreements to which Tonga is not a party, such as the Regional Comprehensive Economic Partnership (RCEP).

All these changes have affected Tonga's trade performance in recent years. Like all countries, the Kingdom participates in, and is dependent on, the global economy: it imports goods and services which it cannot produce, or produces at higher costs, and in turn exports goods and services which it can provide competitively, as well as labour, in order to obtain the foreign exchange which is necessary to pay for imports. As a result, both international and domestic changes have an impact on Tonga's competitiveness and, hence, the cost and level of imports and exports. This has had a profound impact on the Kingdom's economy because trade (exports and imports combined) accounts for more than half of its gross domestic product (GDP).

Despite the importance of trade for the Kingdom, a comprehensive and coherent policy approach has so far been lacking. Trade-related issues are currently addressed in various places across the TSDF and various policies, without consideration of potential conflict between policy measures. Likewise, domestically oriented policies do not systematically address implications on Tonga's competitiveness and trade performance. In recognition of the potential negative developmental impact of this, the Government has set out to develop the present comprehensive Tonga Trade Policy Framework (TTPF).

As with any evidence-based policy, the starting point for the TTPF was an analysis of the Kingdom's recent and current trade and investment performance in order to identify key trade policy options, presented in an analytical "Trade Policy Issues Paper",² the findings and recommendations of which were discussed and validated with stakeholders. The present document presents the government's detailed policy response to the identified issues. It sets out, after briefly summarising the key issues for Tonga's trade performance (section 2), the rationale and objectives for the policy (section 3), the specific policy pillars and measures (section 4) and the policy implementation arrangements (section 5). A more detailed implementation matrix is provided in annex 2.

¹ These policies include, among others, the National Intellectual Property Strategy (2014-16), the Private Sector Development Strategy, the MSME Policy and Strategy, the National Infrastructure Investment Plan (2013-23), the National Tuna Fisheries Management and Development Plan (2015-17), and the Agriculture, Fisheries and Tourism Sector Plans/Roadmaps. Some of these documents are still under development.

² "Trade Policy Issues Paper. Tonga's Trade and Investment Performance and its Implications for the Development of a Comprehensive Trade Policy Framework", 28 February 2017.

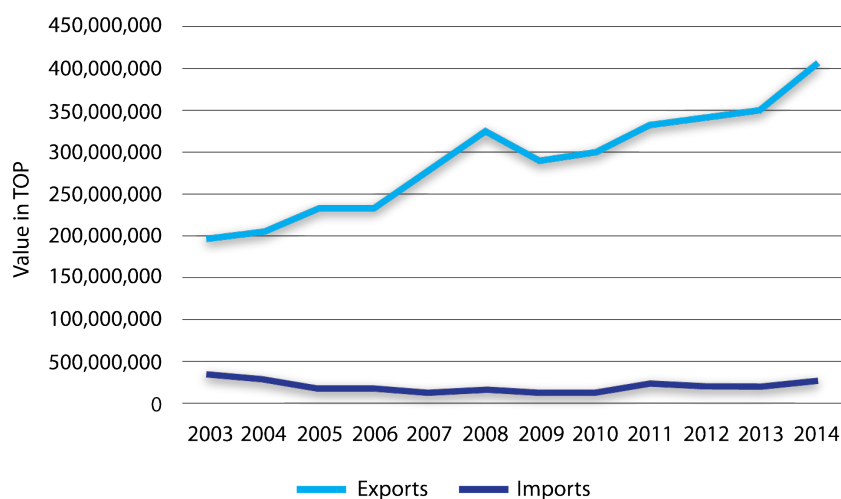
2. Tonga's Trade Performance, Context, and Trade Policy Responses

This section provides, based on the Trade Policy Issues Paper, a brief summary of Tonga's trade performance since 2001 and key contextual issues, as well as the main lessons which have been derived for the TTPF.

2.1 Merchandise Trade Performance

For a small open economy, the Kingdom's trading activity has been limited: the share of trade (exports and imports) in GDP has been in the range of 50% to 60% since 2002. Also, over time, the trend has been flat. In other words, trading activity has developed over time in line with GDP, but not better. The main reason why trade is limited is the low level of exports from Tonga: while imports have doubled from 2003 to 2014, from TOP 199 million to TOP 404 million, exports have stagnated over the same period – exports in 2014 were TOP 35 million, almost the same value as in 2003 (refer to Figure 2.10). Considering inflation, exports in 2014 in real (and volume) terms are considerably lower than a decade earlier. Comparing the value of exports and imports, while exports accounted for 17.5% of imports in 2003, this dropped to 5.2% in 2010 before recovering slightly to between 7% and 9% from 2014 to 2016. In line with the low export performance, the Kingdom has had a consistent, substantial, and growing **trade deficit**, which has more than doubled from 2003 to 2014, from TOP 164 million to TOP 369 million. The wedge between imports and exports even widened in relative terms, as a percentage of GDP, from 37% in 2003 to almost 46% in 2014.

Figure 2.10 Merchandise Trade 2014



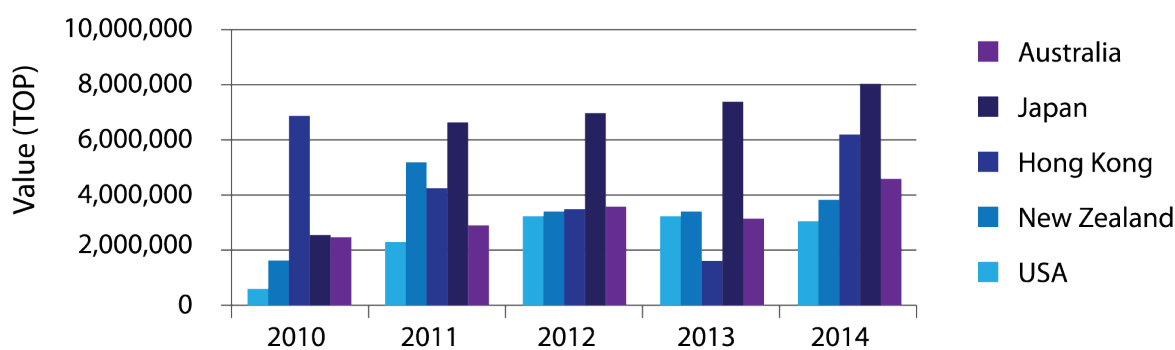
Source: Tonga Department of Statistics (TDoS)

Trade policy response: *The persistent, high and increasing trade deficit entails a significant vulnerability for the economy of Tonga and creates pressure due to the foreign exchange requirements for imports. The TTPF aims at addressing the trade deficit through a combination of measures which aim at both increasing exports and stabilising imports. For example, in Tonga the share of basic food commodities in imports is fairly high, and there appears to be potential for domestic production for at least some product groups currently being imported (see section 4.1.7).*

Tonga's main **trading partners**, both for exports and imports, are all Pacific Rim countries. Figure 2.11 illustrates that in terms of exports, New Zealand, Hong Kong, the United States, Japan, Australia and South Korea are the largest markets. These countries are also among the most important suppliers for the Kingdom, in addition to Singapore, Fiji and China. Geographically, Tonga's exports are highly concentrated: the two largest export markets (as measured by exports excluding re-exports) – New Zealand and Hong Kong (until recently) – account for approximately half of Tonga's exports, and the largest five markets – New Zealand, Hong Kong, United States, Japan, and Australia – for approximately 90%.

Export markets have shifted considerably over time, and with high volatility on a year-on-year basis. Exports to Hong Kong³, New Zealand, Australia, South Korea and the Philippines have increased since 2001, although still affected by extremely high yearly fluctuations. Conversely, Tonga's exports to the United States, Japan, American Samoa, China, Singapore and the European Union (EU) markets have underperformed, with the latter having vanished.

Figure 2.11 Major Export markets



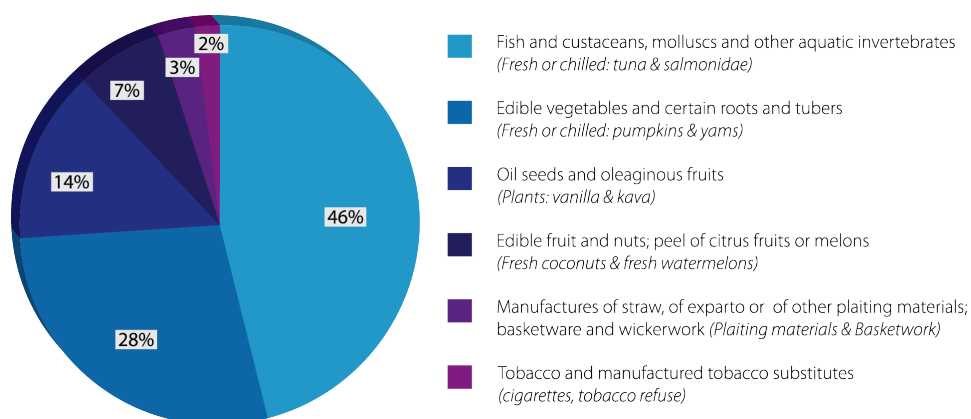
Source: Tonga Department of Statistics (TDoS)

Trade policy response: *The high geographical concentration of Tonga's exports translates into a high vulnerability for Tonga's export performance depending on the economic situation in these markets. In order to limit risks, the TTPF therefore aims at some degree of diversification in terms of target markets. In this context, the policy considers options for regaining some traditional export markets where Tonga has lost traction over time, such as the United States, Japan, or American Samoa, as well as further developing new markets (possible destinations include China, Singapore, the Philippines and Vietnam). At the same time, given Tonga's small economic size there are limits to diversification, and the TTPF therefore proposes a careful balancing between diversification and expansion of exports into the current, and known, markets, also considering the need to enhance the consistency of exports over time (see section 4.2).*

Tonga's trade is also highly concentrated in terms of **export commodities**, which mainly consist of primary agricultural products and fish. Consistently, fish and vegetables have accounted for 60% and more of total domestic exports, and the four largest export commodities, fish, vegetables, oil seeds (including seaweed and kava) and fruits, for more than 80% of total exports. Figure 2.12, half of Tonga's domestic exports are fruits and vegetables, one third fish, and the remaining sixth various other exports, including processed goods (cigarettes, food), scrap metal, paints, and handicrafts. As a result of this export structure, Tonga is highly dependent on agricultural output and yields, which in turn are highly dependent on environmental conditions. Indeed, the high volatility of Tonga's exports can to a large extent be explained by fluctuations in agricultural output. Adding to the high concentration and vulnerability stemming from commodity concentration, specific commodities are typically exported

³ Exports to Hongkong and Philippines suddenly faded after 2014.

Figure 2.12 Major Export Commodities



Source: ITC

to specific markets. For example, butternut pumpkins are primarily exported to South Korea. This exacerbates vulnerability and risk: if either production is affected (e.g. by weather conditions, plague, or man-made factors) or demand decreases (e.g. due to economic conditions in the target market), export performance suffers.

An analysis of the revealed comparative advantage (RCA) of Tonga's main exports shows that, although the RCA is strongly developed for most export commodities, it has eroded for most over the period 2010 to 2015, indicating a relative loss in competitiveness compared to other exporters of the same products. Only fish, vegetables and plant parts (primarily sandalwood) have shown an increase in the RCA over the five-year period. Positively, this shows Tonga's good performance with regard to the top two export commodities. On the other hand, however, it also indicates the increasing dependency on a very narrow and concentrated export base.

Trade policy response: *In response to the triple challenge of high export concentration, volatility and lack of structural transformation, the TTPF aims to balance promotion of current core exports through: value addition and leveraging the yet to be utilised Australia and New Zealand market access for Tonga's niche and high-value products such as: lime, chilli, zucchini, eggplant, and okra. Export of these high value products will reduce the current trade imbalances whilst minimising the risks and vulnerabilities associated with trade concentration in few primary products for export.*

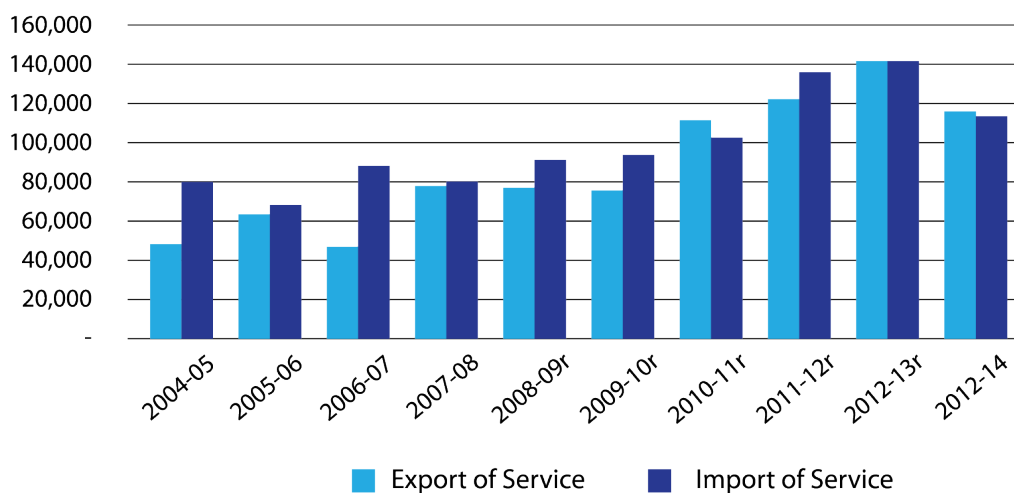
Trade provides an important – and increasing – **contribution to government revenue**. Although import duties only account for 10% of total revenue, excise and consumption tax on imported goods account for another 53% of total revenue. In sum, therefore, total import related taxes accounted for 63% of total government revenues in 2014/15, up from 55% in 2010/11. In absolute terms, revenues collected on imports increased from TOP 84.5 million to TOP 113.4 million over the same period. 60% of customs revenues come from imported mineral products (mostly petroleum products) and foods.

Trade policy response: *Given the importance of trade taxes for government revenues, the TTPF considers the revenue impact of policy measures. This in particular, concerns measures impacting on imports of the main customs revenue sources, i.e. mineral products and foods. In this context, revenue implications due to trade liberalisation under regional trade agreements such as PACER Plus, PICTA, and EPA, will be studied intensely and urgently prior to Tonga committing to trade entry under the concerned agreement. (see section 4.2.4).*

2.2 Trade in Services

Compared to trade in goods, Tonga's services trade performance is better: Services exports are higher – reaching TOP 135 million in 2013 refer figure 2.20, more than five times the level of merchandise exports – and have grown faster than goods exports, at an average annual rate of 15.8% over the period 2007 to 2013, compared to 1.4% for exports. At the same time, services imports are lower than goods imports – TOP 128 million in 2013, less than 40% of goods imports. As a result of this comparatively good performance, the **services trade balance** has been balanced since 2009. It is not clear, however, if this performance has continued also in the most recent past: estimates by the ITC for 2014 and 2015 indicate sizeable deficits of USD 32.2 million and USD 14.2 million, respectively, that is caused in particularly by a sharp reduction in exports.⁴

Figure 2.20 Trade in Services



Source: Tonga Department of Statistics (TDoS)

Like goods exports, Tonga's **exports of services are highly concentrated**: more than half of the services exports revenues are from the tourism and travel industry. In the decade to 2012 (the latest year for which disaggregated data are available), tourism exports increased by 17.4% per year on average, faster than average services export growth. Transport and other business services have shown even higher growth rates than tourism exports; accordingly, the shares of transport and business services in total service exports have increased to 14.2% and 10.9%, respectively. Other services sectors, including construction and financial services have shown a less clear trend over time, with high volatility of exports.

Imports of services are dominated by transportation, business, and travel services. Indeed, a review of service sector trade balances shows that the only service sector which generates net foreign exchange is the tourism industry. Its trade surplus has increased almost steadily (except for the interruption around 2007) from USD 7 million in 2003 to more than USD 26 million in 2012; the tourism sector is thus a very important source of foreign exchange for the Kingdom.

Trade policy response: *To address the high vulnerability from shocks caused by the high concentration of services exports, the TTPF aims at further diversifying services exports. Potential could exist in hospitality and business services. In addition, due to its importance for Tonga's economy the tourism industry is considered as a priority sector, and diversification*

⁴ According to ITC TradeMap data, Tonga's services exports in 2014 were USD 49.9 million, compared to imports of USD 82.3 million. In 2015, exports were USD 60.6 million compared to imports of USD 74.8 million (<http://www.trademap.org>, accessed 03 June 2016). Data by the Department of Statistics are available only until 2012/13.

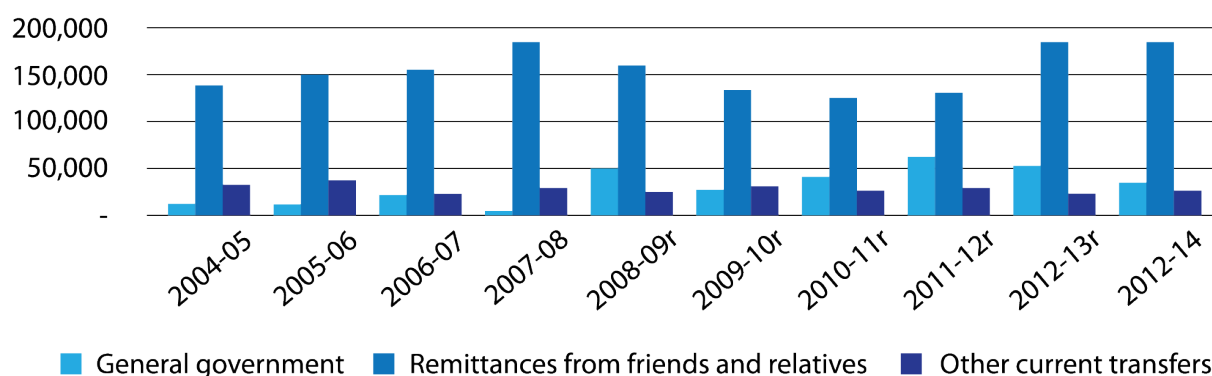
will also be considered within the tourism sector, by developing new products as well as diversifying feeder markets. Finally, potential for expanding provision of services by domestic providers exists in several services sectors, notably in financial and business services, and will also be addressed under the policy's sector specific measures (see section 4.1.7).

2.3 Migration and Remittances

Outmigration and remittances provide an essential contribution to the Kingdom's economy by generating foreign exchange incomes that help balance the external deficit. These incomes are provided through two different channels, i.e. remittances sent by the Tongan diaspora living abroad on a permanent basis, and repatriated wages earned by Tongans temporarily working abroad, in particularly those under seasonal worker programmes.

Remittances from the Tongan diaspora living abroad constitute the largest share of foreign exchange earnings. The value of remittances from the diaspora more than doubled from TOP 113 million in 2000/01 to TOP 251 million in 2007/08 refer to 2.21, then fell again to TOP 148 million in 2012/13, before picking up again and reaching TOP 221 million in 2015/16. There have been strong fluctuations over time, with the decline after 2008 coinciding with the global financial crisis which has presumably reduced the capacity of Tongans living abroad to send money to their families in the Kingdom. Nevertheless, private transfers by the diaspora constitute an essential component for Tonga's economy. However, the relative importance in terms of helping to finance the trade deficit has declined over time, from more than 100% in the first half of the 2000s to about 60% since 2010. Thus, although inflows of remittances have increased (apart from the drop following the financial crises), this increase has not kept up with the increase of the trade deficit.

Figure 2.21 Secondary Income Credit



Source: Tonga Department of Statistics (TDoS)

The strong reliance on the diaspora has a number of disadvantages. First and foremost, the dependency of Tonga's economy on remittances creates vulnerability. Although this is ameliorated by the declining relative importance of remittances over time and by the fact that the diaspora is geographically spread over various countries (mostly Australia, New Zealand and the United States), the decrease of remittances after 2008 shows the vulnerability to external shocks. Secondly, remittances are not always most effectively used. Arguably, a large share is used for consumption rather than investment, and employment effects in Tonga are therefore likely to be limited. In a related matter, land owned by Tongans living abroad tends to be underutilised. Finally, in order to keep the level of remittances high, constant outmigration of Tongans is required because the level of attachment between the diaspora and Tonga will gradually reduce over time. Such a constant outmigration has indeed been a persistent feature of the Kingdom during the past decades, with the number of persons leaving per year being a

relatively stable 1,800. At the same, bonds between Tonga and the diaspora are exceptionally strong by international comparison, and remittances have constituted so far a stable and essential source of foreign exchange for the Tongan economy.

Trade policy response: *To address the two problems of volatile remittances in response to external shocks and potentially sub-optimal use of remittances in Tonga, the TTPF proposes a dual strategy. First, it includes measures to ensure the continuity of remittance flows from the diaspora. Second, the measures are complemented by a longer-term approach to further reduce the dependency on remittances and diversifying risk. In any event, reinforcing the diaspora by facilitating their access to investment opportunities in the Kingdom will be one of the areas of action under the TTPF (see section 4.4.3).*

Wages received by Tongan's working abroad temporarily, especially under the **seasonal employment programmes** in Australia and New Zealand, constitute another important source of foreign exchange for the Kingdom. In recent years, they contributed TOP 14 million (2014-15) and TOP 18 million (2015-16) to the economy through payment transfers captured by the National Reserve Bank of Tonga (NRBT). This is well below the peak of about TOP 30 million in 2011-12. Despite this decline, remittances by seasonal workers have been relatively more stable over time than remittances from the diaspora, and their contribution to financing the trade deficit must therefore be considered essential.

Evaluations of the impact of seasonal employment programmes on the Tongan economy are largely positive and have found that it has contributed to increased income of (especially poorer) households in Tonga, thereby increasing the standard of living, skills improvements of participating workers, as well as increased schooling.⁵ However, there are also certain potential negative effects, such as family and social problems due to absenteeism, reduced agricultural output in Tongan communities with a high share of seasonal workers, an increasing burden on women, or increased vulnerability for households due to the dependency on incomes earned through seasonal work programmes. Finally, a large share of remittances by temporary workers appears to be used for consumption, which is understandable – as temporary workers are primarily poor and hence a larger share of their income is used for consumption – but undesirable from a developmental perspective. From gender perspective, women and girls' participation in the labour mobility schemes is still minimal.

Trade policy response: *Seasonal work of Tongans abroad has had overall positive economic effects. Therefore, the TTPF continues to gradually expand opportunities for temporary work overseas by widening the scope of the seasonal employment programmes in Australia and New Zealand, as well as envisages to expand them to other countries and sectors, thereby reducing vulnerability to economic cycles in Australia and New Zealand. At the same time, the policy includes measures aimed at ensuring that remittances are used wisely, as well as measures to ameliorate the potential negative economic and social consequences of the temporary absence of workers from the Kingdom (see section 4.2.7). In addition, efforts to minimise potential shortage of labour for the domestic economy will be strengthened through periodic labour market assessments and creating labour supply through training and education. The TTPF measures will be aligned with the PACER Plus agreement provisions covering labour mobility. TTPF also proposes steps to improve the working conditions of workers in the Labour Mobility Programme.*

⁵ See Gibson et al. (2008); Evaluate Research/New Zealand Department of Labour (2010); McKenzie/Gibson (2010); Taufatofua (2011).

2.4 Investment Trends

Compared to other countries in the region, foreign investment into Tonga has been relatively limited but steady. Foreign direct investment (FDI) inflows have shown an increasing trend until 2014, when they reached a maximum of USD 56 million, before dropping in 2015. The number of investment projects and foreign company registration in Tonga is low with investment being concentrated in infrastructure, tourism, trade and other services. Explanations for the low FDI inflows include restrictions to foreign investment in some sectors which might be attractive for foreign investors, such as agriculture, a limited attractiveness of Tonga for foreign investors due to high costs, limited investment promotion activities and limited investment incentives.

Trade policy response: *The TTPF will seek a new approach to investment promotion including leveraging on the diaspora and attracting investors in priority sectors especially those that will have strong bearing on the PACER Plus trade agreement. The TTPF will also address restrictions in the Investment Act which limit Tonga's attractiveness (see section 4.1.6).*

2.5 Macroeconomic and Social Context

Tonga's recent performance of **macroeconomic indicators** has been broadly supportive of the Kingdom's trade and investment development: **inflation** steadily declined in recent years, mostly as a result of lower global food and fuel prices and is expected to return to about 3% in the coming years. The **exchange rate** of the Pa'anga has, after a period of appreciation, depreciated from January 2014 to early 2016 both in real and nominal terms, to levels lower than in 2006, which has strengthened the competitiveness of Tongan exports and inviting investment. On the other hand, partly as a result of its small size, Tonga's economy has been subjected to strong economic cycles: the contraction of **GDP** due to the domestic disturbances in 2006 and 2007 was followed by strong recovery, mostly driven by the reconstruction efforts; 2012 and 2013 witnessed another period of negative growth, again followed by a rebound in 2014 and 2015, with real GDP growth rates of 2.9% and 3.4%, respectively. Looking ahead, growth is expected to gradually slow from around 3% to less than 2% in 2021. Also, the high level of **external debt** poses some risk, and the public finance situation limits the Government's capacity to support trade and investment through fiscal measures.

Trade policy response: *The TTPF prioritises low-budget but high-impact measures to the extent possible. The government commits to accompanying policy measures to ensure macroeconomic stability which are required in order to ensure a successful trade policy (see section 4.1.1).*

A number of **social issues** also need to be considered by the TTPF. **Poverty** has increased between 2001 and 2009 to 22.5%, although data from the most recent Household Income and Expenditure Survey (HIES 2015/16) is not yet available, it is expected that no major change in the poverty incidence has taken place. Likewise, although formal **unemployment** is low in Tonga, based on the Statistics Department's Census Reports underemployment is widespread, with the combined share of subsistence workers and unemployed persons in the labour force being above 30%. Both women and youth are economically disadvantaged, with higher than average unemployment and subsistence employment. Furthermore, based on available data, **income disparity and inequality** both across households and regions are significant. For example, the HIES 2009 found that the "consumption pattern of the wealthiest households was nearly seven times that of the poorest households. The main island Tongatapu has the highest GDP per capita, approximately 15 per cent above the national average. The Ha'apai island group, on the other hand, is one of the least developed regions in Tonga, with a GDP about 40 per cent below the national average."⁶

⁶ Government of Tonga 2015: *Tonga Strategic Development Framework 2015-2025*, Nuku'Alofa: Ministry of Finance and

Trade policy response: *Whereas the government's policy so far has mainly addressed poverty and unemployment issues in the context of social policy respectively seasonal employment programmes, the TTPF establishes a direct link between trade policy, employment and poverty alleviation. This is in line with the government's Priority Agenda which aims at reducing the "number of Tongans in poverty with more productive employment opportunities."⁷ The TTPF-supported development of stable exports over time will have a positive impact on employment, not only in terms of the number of employees but also in terms of the quality of the employment (stable jobs with decent pay compared to the current high prevalence of subsistence work). The TTPF furthermore has been carefully designed to steer inclusive development in the entire country and to specifically address constraints that have caused some islands to lag far behind in development. Furthermore, the TTPF will enhance the economic participation of youth and women in the economy (see section 4.4.1).*

A particular concern within Tonga's social framework is public **health**, in particular the high incidence of non-communicable diseases (NCDs) induced by obesity. Based on Ministry of Health data, the life expectancy of Tongans (both men and women) has decreased from 71 years in 2007 to 67 years in 2010.⁸

Trade policy response: *The TTPF will incorporate an NCDs dimension to ensure that trade induced NCD issues are appropriately mainstreamed in the trade policy (see section 4.4.2). In doing so, the TTPF will allow two-way trade mainstreaming. That is concurrently mainstreaming trade into TSDF II and TSDF trade components into the TTPF.*

Finally, Tonga's **education** achievements are notable by international comparison, as evidenced by the high score in the UNDP's Human Development Index. Literacy rates and gross enrolment rates at primary and secondary levels are high. However, tertiary enrolment is low, access to education is imbalanced across islands, and, as noted in the TSDF II, "the share of the population with vocational training has only risen a little, [and there] is increasing concern about declining standards in language skills to meet the demands of a progressive government and a private sector that must be able to drive improvements in the quality of life."⁹

Trade policy response: *Both export-oriented firms and those competing with imports need adequately trained staff in order to become or remain competitive. Therefore, although education measures are generally not covered by a trade policy, the TTPF needs to include certain targeted and specific skills-building measures (see section 4.1.5).*

2.6 International Economic Context

Since the global financial crises of 2008, global economic growth has been sluggish, and growth in trade has also slowed down, not least in response to rising protectionist measures applied by several large economies in the world. Such developments impact on Tonga in various ways: first, the slow-down of trade and increasing barriers to trade may make it harder for Tonga to export; second, weak economic growth in target markets may reduce demand for Tongan exports, both goods and services (tourism in particular). On the positive side, Tonga has benefitted from lower prices for commodities, particularly petroleum products, which has had a positive effect on the import bill. In addition, preferential trade agreements or unilateral preference regimes in principle facilitate Tongan exports.

National Planning, May 2015, page 30f.

⁷ MFNP 2016: Budget Statement 2016/17. Draft to Legislative Assembly, April 2016, page 16.

⁸ *Ibid.*, page 59.

⁹ Government of Tonga 2015: *Tonga Strategic Development Framework 2015-2025*, Nuku'Alofa: Ministry of Finance and National Planning, May 2015, page 33.

Due to the high concentration of Tonga's exports, its trade and investment performance partly depends on the economic performance of its main markets, i.e. New Zealand, China, the United States, Japan, Australia and South Korea in terms of goods and services exports, and New Zealand, Australia and the United States in terms of remittances. Whereas GDP growth provides an indication for the overall demand for goods, including imports, the level of unemployment in those economies influences the potential demand for labour, including for Tongan workers under the seasonal employment programmes: if unemployment e.g. in New Zealand increases, the demand for seasonal workers is likely to reduce.

According to IMF data and estimates, GDP growth in Tonga's main export markets is expected to stabilise at relatively low levels over the period 2015 to 2021, after the past decade has seen higher but much more volatile growth, primarily as a result of the global financial crisis in 2008 and 2009, and the following rebound. Positively, growth in Australia, China and New Zealand, the most important markets, as well as Korea, the most important market for squash, is expected to remain relatively strong. Nevertheless, during the 2016 Article IV consultations the IMF warned that "The balance of risks is tilted toward the downside. A protracted period of slower growth in advanced and emerging market economies, particularly in Australia and New Zealand, could lead to lower aid, remittances, and tourism receipts."¹⁰

Few changes in unemployment are expected in Tonga's main trading partners over the next few years. Unemployment rates in New Zealand and Australia are estimated to remain at comparatively high levels, which indicates that the scope for major expansion of seasonal employment programmes, beyond the already agreed increases in the caps on those programmes, is limited. Conversely, the US labour market has recovered in recent years from the shock caused by the global financial crises, and unemployment is estimated to stabilise at a relatively low 5%; in line with this, remittances from the United States to Tonga have also recovered and should remain stable over the coming years.

Trade policy response: *The outlook for the coming year indicates a stable international economic environment for Tonga's exports of goods, services and labour. Nevertheless, the TTPF aims at a further diversification of the export mix in order to reduce the Kingdom's vulnerability to shocks which are not currently foreseen in the economic forecasts.*

¹⁰ IMF 2016: Tonga: 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Tonga, Country Report No. 16/178, 21 June 2016, page 1.

3. Trade Policy Rationale and Objectives

3.1 Rationale

A strategic approach to Tonga’s trade policy must fulfil two conditions. First, it must address the issues identified in the analysis of the Kingdom’s trade performance. Second, it needs to align with the TSDF II, which constitutes Tonga’s overarching developmental framework, as well as existing policies, strategies and sector plans in order to ensure policy coherence.

Regarding the latter, the TSDF II both establishes the Kingdom’s overall developmental objective – “a more progressive Tonga supporting a higher quality of life for all” – as well as key principles for the conceptualisation of “higher quality of life”. The challenge for trade policy (as well as any other economic policy) formulation is the fact that the quality of life concept transcends the classical economic policy objective of increasing incomes. Applying the conceptualisation of quality of life to trade policy, a triangle of three equally important objectives results (Figure 1): First, the trade policy should aim at enhancing the dynamics of the Kingdom’s external trade performance, with “trade” to be understood in a comprehensive way; this is the classical economic objective of income generation through enhanced international competitiveness and trade. Second, the trade policy should ensure that benefits are not concentrated in few sectors or groups of Tongans but shared inclusively; this is the primary social objective, which is not normally considered explicitly in trade policy. Third, the trade policy should also be viable in the long term, without compromising future generations; this sustainability objective has both environmental, social, cultural and health dimensions. Like inclusiveness, it does not normally constitute an explicit objective of trade policies, but in Tonga’s context and the necessary alignment of Tonga’s trade policy with the TSDF II, all three objectives need to be explicitly considered and trade policy measures be defined to address them.

In sum, the trade policy will contribute to the national impact as defined in the TSDF II. In line with this, the **overall trade policy outcome** is formulated as follows:

Unfortunately, the policy outcome dimensions of inclusiveness, sustainability and competitiveness as derived from the TSDF II are not always mutually supportive. For example, the posting of temporary workers abroad increases short term economic returns for the Kingdom (competitiveness) and benefits mostly poorer Tongan households

“Tonga has an inclusive, sustainable and competitive trading environment leading to better trade performance.”

Figure 1: Tonga’s trade policy objective triangle



(inclusiveness) but may not be an optimal strategy in terms of sustainability due to negative effects on families, agricultural output in Tonga, and the low investment level of remittances from temporary workers.

This potentially conflicting relationship between the key objectives has consequences for trade policy formulation. Obviously, a first-best option is to define trade policy measures that contribute to all outcome dimensions concurrently or that at least would not impact negatively on any of them. However, this might not be possible for quite a few policy areas. For these, the TTPF transparently states the impact of measures on the three objectives, estimates the net effect on the three, and based thereon takes a decision of whether a measure should be part of the trade policy or not, and which accompanying measures need to be taken. This transparent approach also helps monitor trade policy performance and adjust measures during implementation.

3.2 Objectives and Targets

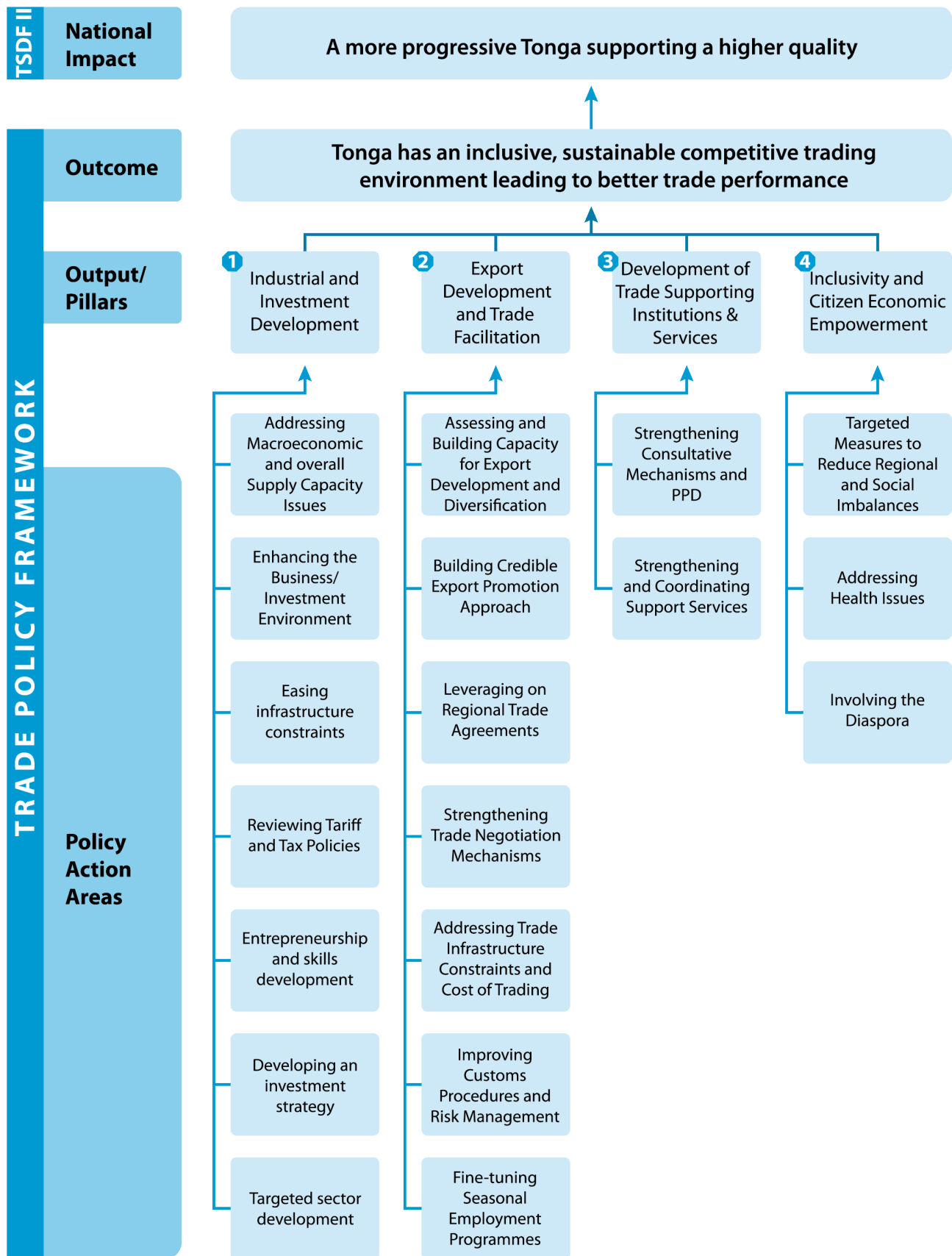
The definition of objectives and targets for the TTPF has started with the trade policy outcome as identified just above which, in turn, contributes to the TSDF II national impact. Based thereon, the **outputs** have been defined which the trade policy must deliver if the outcome is to be achieved. These outputs comprehensively cover all the dimensions of trade analysed in the trade policy issues paper and address:

1. **Industrial and investment development**, i.e. improvements in the productive capacity of Tongan businesses, both to increase export competitiveness and to compete with imports on the domestic market and goods;
2. **Export development and trade facilitation** with a focus on increasing and diversifying Tongan exports;
3. **Development of trade supporting institutions and services**, thereby overcoming the identified institutional and capacity constraints of trade policy setting and implementing bodies, both public and private; and
4. **Inclusivity and citizen economic empowerment** to ensure that TTPF measures are indeed in line with the TSDF II objective of contributing to a higher quality of life for all Tongans.

Distinct strategies will need to be formulated to address each of these areas.

The **strategic TTPF framework** resulting from this approach is depicted in Figure 2, which shows how the policy actions in each pillar contribute to the achievement of outputs; these then help achieve the overall TTPF outcome, and this in turn contributes to the national impact as formulated in the TSDF II. Section 4 describes the four pillars of the trade policy, each corresponding to one output, and their contributing activities in more detail.

Figure 2: Strategic TTPF Framework



For each of the trade policy areas, indicators and targets have been established and summarised in the form of a “logical framework”. Table 1 shows the structure, progress indicators, baselines and targets

Table 1: TTPF “logical framework” and targets

Outcomes/outputs	Indicators	Data source	Baseline	Short-term targets (2018)	Medium-term targets (2021)	End-of-TTPF targets (2025)
Outcome	Trade deficit (% of GDP)	Statistics Department	46% (2014)	40%	35%	25%
	Employment in exporting businesses (persons)	MTED	tbd	10% more than baseline	20% more than baseline	30% more than baseline
	Poverty headcount in poorest region in Tonga (%)	Statistics Department	22.9% (2009)	20%	18%	14%
Output 1 Industrial and Investment Development	Share of imports in GDP (%)	Statistics Department	50% (2014)	50%	45%	40%
	DTF score in Doing Business index	Doing Business	68.58 (2016)	69	70	72
	Value of FDI inflow (USD)	NRBT	12.6M (2015)	15M	20M	30M
	Number of formal businesses	MTED	tbd	5% more than baseline	10% more than baseline	20% more than baseline
	Share of exports in GDP (%)	Statistics Department	4.4% (2014)	5%	7%	15%
Output 2 Export Development and Trade Facilitation	Number of firms consistently exporting	Customs	tbd	10% more than baseline	20% more than baseline	30% more than baseline
	Number of new products exported consistently	Customs	tbd	10% more than baseline	20% more than baseline	30% more than baseline
	DTF score in Trading Across Borders Index	Doing Business	68.2 (2016)	70	72	75
	Number of temporary workers abroad per year	MIA	1,600 (2014/15)	1,700	1,800	1,900
	Existence of functioning Trade Policy Committee	MTED	none present	established	operational, min 4 meetings p.a.	operational, min 4 meetings p.a.
Output 3 Development of Trade Supporting Institutions and Services	Existence of functioning PPD mechanism for trade issues	MTED	none present	established	operational, min 2 meetings p.a.	operational, min 2 meetings p.a.
	Number of businesses that have received trade support services	MTED/TBEC	n.a.	50 p.a.	75 p.a.	100 p.a.
	Number of projects carried out in disadvantaged regions/for disadvantaged population groups	MTED	n.a.	0	5	15
	Value of imports of unhealthy food (meat, softdrinks)	Customs	tbd	5% less than baseline	10% less than baseline	15% less than baseline
	Remittances by diaspora (TOP)	NRBT	221M (2015/16)	230M	250M	280M
Output 4 Inclusivity and Citizen Economic Empowerment	Severity of environmental concerns emanating from TTPF measures	MEIDECC	n.a.	Tbd	tbd	tbd

4. Pillars and Measures

TTPF policy measures have been grouped into four pillars, with each pillar corresponding to one of the four outputs as defined above:

1. Industrial and investment development;
2. Export development and trade facilitation;
3. Development of trade supporting institutions and services; and
4. Inclusivity and citizen economic empowerment.

This section provides detailed information about each of the pillars, policy actions and foreseen measures. For each set of measures, the TTPF describes the issues and challenges to be addressed, the main measures foreseen and the entities in charge of implementation. Further details are provided in the implementation matrix in the Annex 2.

4.1 Industrial and Investment Development

Measures to enhance the business environment as well as supply side constraints are a first important component in the TTPF. Before thinking about exporting, competitiveness must be built at home. The measures under this area of action would therefore address issues negatively affecting Tongan businesses in general. Many of these issues are already addressed by other policies, and therefore coordination of the TTPF with these existing policies will be important.

A key challenge for domestic production in the Kingdom – be it for domestic consumption or export – is the limited size of the economy, which is further exacerbated by the geographical spread of the islands. This puts producers at a cost disadvantage: fixed costs assigned to small output translate into higher unit costs, which makes it difficult for Tongan firms to compete, both on the domestic market and on export markets, with bigger competitors from abroad who benefit from economies of scale. Increasing output to benefit from economies of scale is possible only to a certain extent, because the geographical location of Tonga means that transport costs are high. This has a negative impact both on the cost of necessary inputs for production, such as agrochemicals or packaging materials – which are mostly imported and cannot simply be replaced by domestic production (due to the smallness of the economy, resource endowment, etc.) – and the cost of exporting finished goods from the Kingdom. In addition, Tonga's high dependency on imported mineral fuel makes it vulnerable to world oil price fluctuation and in general results in high energy prices. Because most inputs are imported, import duties and taxes can also play an important role for business operating costs. Likewise, the cost of labour is high in relation to productivity, as is the cost and availability of finance especially for start-ups and investment for expansion.

To address these challenges, the TTPF will comprise both horizontal measures (aiming at improving the operations of exporting businesses across all sectors), and sector-specific ones (see section 4.1.7). Horizontal trade policy measures are spread across several policy areas of the TTPF and include the following ones:

- *A continued effort to ensure that trade-conducive macroeconomic conditions are in place (section 4.1.1);*

- *Improvements and reform measures aimed at enhancing the overall business and investment environment, specifically in those areas that are relevant for expanding trade (section 4.1.2);*
- *Measures to limit the cost of energy and transport are addressed in section 4.1.3;*
- *A review of the tariff and tax structure as addressed in section 4.1.4;*
- *Cost of labour issues will be addressed by measures to increase productivity, i.e. skills development (see section 4.1.5); and*
- *A focused approach toward facilitating and incentivising investment (section 4.1.6).*

4.1.1 Addressing Macroeconomic Issues

Issues to be addressed: The importance of a sound and stable macroeconomic framework for Tonga's trade cannot be overstated. Ensuring the continued review and fine-tuning of macroeconomic conditions is therefore an essential condition for the success of the TTPF.

TTPF measures to address challenges: The government will remain committed to ensuring a macroeconomic environment which facilitates trade—especially exports. This is a continuous effort which comprises especially:

- *The policy of limiting external debt;*
- *Measures aimed at containing inflation and ensuring price stability; and*
- *A balanced approach towards the foreign exchange rates, which considers both the need to contain inflationary pressures domestically and ensuring export competitiveness.*

Responsibilities: Measures addressing the macro-economic environment are considered as non-core actions because they are primarily under the responsibility of other policies and government bodies, notably the Ministry of Finance (MoF) and the NRBT. The Ministry of Trade and Economic Development (MTED) will however contribute to the formulation and implementation of such measures, as well as ensure coordination with TTPF core measures.

4.1.2 Enhancing the Business/Investment Environment

Issues to be addressed: A comparative analysis of Tonga's Doing Business scores shows that Tonga's business environment overall is among the leading ones in the Pacific but still with room for improvement when comparing with Singapore. The largest gaps to international and regional best practice are in the areas of property registration and resolving insolvency, although the former primarily stems from Tonga's particular land ownership regime. In addition, due to the lack of reform in recent years, Tonga has lost some ground in most areas compared to global best practice since 2011 – improvements have only been registered in resolving insolvency, registering property and getting credit. What is particularly worrying from the perspective of the TTPF is the drop in the score for Trading Across Borders. Other specific issues to be addressed are in the areas of competition, public procurement, and intellectual property.

TTPF measures to address challenges: In order to regain lost ground in the business environment, reforms will need to be undertaken to improve regulations across a range of regulatory areas. The TTPF will specifically address those affecting the ease of Trading Across Borders (under pillar 2), whereas

other areas will primarily be addressed by other policies; the focus and priority will be on those areas where Tonga's gap with global best practice is particularly large, and those where performance has decreased over time. Specifically, under the TTPF the government will take the following measures:

- *Define and implement a reform programme to enhance Tonga's Doing Business score;*
- *Simplification of regulatory requirements, including related to registration and tax payments, in order to support scalable, formal businesses with export potential;*
- *The government will take measures to improve access to, and cost of, finance. Such measures will go beyond expanded loan financing, both through the TDB preferential loan schemes and loan guarantee schemes. The creation of an instrument to provide equity finance will be studied and considered (see section 4.3.2). Activities aimed at raising foreign direct investment in export sectors (see section 4.1.6) will also contribute to enhanced access to finance;*
- *A comprehensive review of the legal framework for competition and consumer protection will be undertaken. In particular, the replacement of the price control regime by an effective competition policy regime will be considered, which would enhance the business environment in presently price-controlled sectors;*
- *In public procurement, the use of domestic preferences as well as the participation of domestic businesses in tenders and their share in contract awards will be reviewed annually in order to determine if the established preference margins are appropriate, and adjustments by the Government Procurement Committee could be undertaken;*
- *An institutional review of public procurement will be undertaken, considering the creation of an independent, centralized public procurement body, which might increase transparency and value for money. Similarly, a review of the institutions and processes for the disposal of public assets and privatisation will be undertaken, as these are equally dependent on guaranteeing transparency and due process, and thus promoting investor confidence;*
- *Regarding intellectual property rights, the MTED has already devised measures, whose implementation will be continued under the TTPF. Ongoing work to strengthen awareness for the need for and benefits of IPR, as well as the instruments for protection of IPR offered by Tonga for its businesses is also important, as awareness for IPR among Tonga's businesses has remained limited so far;*
- *Measures to promote consumer preferences for locally produced goods, such as a "buy Tonga" campaign will be implemented.*

Responsibilities: Most of these measures fall under the responsibility of the MTED but are nevertheless not directly trade-related and are therefore not considered as TTPF core actions. The responsible MTED divisions will oversee formulation and implementation of specific actions, in cooperation with other relevant bodies (such as the Tonga Development Bank (TDB), for loan and loan guarantee schemes), the MoF for public procurement issues and the Ministry of Public Enterprises (MPE) for privatisation. Comprehensive coordination and consultation is foreseen in the definition and structuring of the Doing Business reform programme.

4.1.3 Easing Infrastructure Constraints

Issues to be addressed: The international competitiveness of Tongan businesses and, thus, the export potential of goods and services produced in the Kingdom, as well as sales opportunities on the domestic market are affected by existing infrastructure constraints. Electricity costs are not only relatively high but also fluctuate considerably depending on the world oil price because most electricity generation is based on petroleum. Although the government has been working on several renewable energy projects to enhance Tonga's energy supply, reduce cost and improve energy efficiency under the Tonga Energy Road Map, the dependency on fuel imports remains for the time being. In addition, high transport costs affect both exporters and businesses aiming at the domestic market in Tonga, because almost all businesses in Tonga use imported inputs, supplies and capital goods and therefore depend on affordable transport infrastructure and services. Exporters are especially affected by costly transport services because both imported inputs and exported goods rely on them. Although the telecommunication infrastructure is comparatively well developed and has been improved considerably by the arrival of the fibre-optic cable in 2013, constraints, such as the limited coverage of 4G mobile communications, as well as high costs remain important issues; at the same time, e-commerce is not yet developed in Tonga. Finally, a general problem of Tonga's infrastructure is that availability and quality of service varies considerably across islands.

TTPF measures to address challenges: Addressing infrastructure constraints has been a priority area for the government. Therefore, the TTPF's role in this area will be subsidiary; and will contribute in the following ways:

- *Regarding the cost of electricity, the government will further promote the use of renewable energy and small-scale generation in combination with enhanced storage, particularly on the outer islands. A second focus will be measures, such as awareness raising and training, but also potentially providing incentives, to support businesses in increasing energy efficiency;*
- *For transport costs, initiatives for a regional pooling of transport infrastructure will be considered. Furthermore, to the extent that measures for the expansion of exports (taken under pillar 2) are successful, these would also contribute to lower transport costs;*
- *With regard to telecommunications and ICT, the government will continue to encourage, promote, and support telecommunications network throughout the country, as well as take measures to allow the use of the e-Government system for the development of trade (see section 4.2.6).*

Responsibilities: Measures related to the further development of infrastructure and cutting related costs fall under the responsibilities of the dedicated ministries and sector entities, such as the Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Climate Change and Communications (MEIDECC) and Public Enterprises (for energy), the Ministry of Infrastructure (MOI) (for transport), and the MEIDECC and Public Enterprises) (for telecommunications), and are thus not core measures of the TTPF. The MTED will however contribute to the formulation and implementation of such measures, as well as ensure coordination with TTPF core measures.

4.1.4 Reviewing Tariff and Tax Policies

Issues to be addressed: Tonga's current tariff structure and exemption schemes at the same time support and weaken businesses in the Kingdom: although many businesses in the agriculture, fisheries and manufacturing sectors benefit from exemptions on import duties and taxes for inputs granted by the Government, some businesses do not benefit, and domestic production of such inputs is stifled. In spite of this, the cost of the current scheme in terms of revenue foregone is high – approximately

one quarter (1/4) of total trade taxes are not collected. Given the administrative costs as well as the scope for discretionary application and ensuing risk for corruption associated with exemption schemes, zero-rate duties for inputs could be preferable. In this context, the proliferation of tariff lines in Chapter 98 (exemptions from import duties) based on the purpose of an imported goods' use also is an issue, because compliance is difficult if not impossible to assess.

TTPF measures to address challenges: Tariff and tax amendments need to be considered carefully due to their impact on taxpayers, businesses and government revenue. Therefore, the TTPF will encompass the following measures:

- *Undertake a review of the current tax and tariff structure in order to determine the effects on export and domestic competitiveness and cost of the system;*
- *To complement the tax and tariff (revenue) review, undertake a comprehensive cost-benefit review of the current system of exemptions for businesses in the early stages of the TTPF implementation (also see section 4.1.7 below);*
- *Based on the findings of the reviews, develop and implement amendments to tariffs, taxes and exemptions. A general review of the tariff structure which would include the reduction of tariffs on key inputs (not produced locally) for domestic businesses, coupled with more targeted project specific support to exporters;*
- *Develop a WTO compliant excise tax treatment for beer, spirit and tobacco products.*

Responsibilities: The Ministry of Revenue and Custom (MoRC) and MoF are the lead ministries for budget planning and revenue collection. To the extent that the purpose of the tax and tariff policy review is to ensure the contribution of these policies to the enhancement of the Kingdom's trade competitiveness, MTED will also play a key role in this area, which is considered a core part of the TTPF. Policy formulation will therefore be jointly led by MoF and MTED, whereas implementation will be under the responsibility of MoRC.

4.1.5 Entrepreneurship and Skills Development

Issues to be addressed: By international comparison, all businesses in Tonga are small and many suffer from the associated weaknesses, such as weak organisational structures, entrepreneurial, managerial and technological skills deficits, limited innovation capacity, etc. The challenges faced by businesses operating on the domestic market are typically even bigger, as these businesses tend to be smaller and less developed than those which export, and many operate on a subsistence level. Accordingly, internal capacity constraints (such as limited professional and managerial capacity, technological know-how) affect them in addition to the external constraints, further reducing their ability to compete with imports. Given that MSMEs constitute the vast majority businesses in the Kingdom, improving their competitiveness can have a major impact.

TTPF measures to address challenges: Entrepreneurship and skills development measures will need to cover a wide range of activities ranging from basic skills development provided as part of vocational training to specific innovation and R&D support. The TTPF will comprise the following specific measures:

- *Improvements in vocational training and skills development of workers as well as managerial capacity/entrepreneurial development. These will help increase labour productivity both at the level of individual workers (through better skills) and at the organisational level (through more efficient business processes) and thereby reduce the unit cost of labour;*

- *Business development services to support entrepreneurial skills will continue to be provided (through TBEC and other entities) and the portfolio be expanded based on a needs assessment to be undertaken during the early stages of TTPF implementation. Likely trade relevant topics will include training on quality issues, marketing and distribution;*
- *Implement awareness raising programs and incentives to encourage actors in the informal sector to formalise their businesses and encourage more participation in the economy;*
- *Facilitate increased awareness of businesses for the potential of ICT and provide incentives for the workforce to acquire ICT skills, equipment and connectivity;*
- *Promote innovation and R&D activities, including through innovation partnerships between businesses, and between businesses and research institutes/education institutions.*

Responsibilities: The Ministry of Education and Training (MET), the MEIDECC (which is currently developing a policy framework for Science, Technology & Innovation (ST&I) for Tonga, and the MTED will jointly develop the specific actions to be implemented for strengthening entrepreneurship and skills development for trade. Implementation of education and vocational training will then be under the responsibility of MET, whereas support to businesses and managerial skills development will be overseen by MTED.

4.1.6 *Developing an Investment Strategy*

Issues to be addressed: Tonga's export competitiveness requires a critical mass of well-funded and professionally run businesses; a typical way of creating such businesses is through foreign investment. Tonga's investment regime is generally open, with foreign investment allowed in all sectors except those which are prohibited for domestic and foreign investors alike, and a number of activities which are reserved for Tongan nationals only. In addition, in some "restricted" sectors foreign investment is allowed only after permission has been granted. An FDI Bill has been under development and the list of restricted and reserved activities – which currently includes a number of economically important ones such as farming of a number of crops, costal fishing, or wholesale trading – has been under review for some time. Likewise, an investment strategy which comprises incentives and promotion activities has been lacking for years. Since the repeal of the Industrial Development Incentives Act in 2007, Tonga has no investment incentives regime in place and has occasionally provided investment incentives on a discretionary basis; similarly, investment promotion activities are limited. A Trade and Investment Board that was planned to be established under the Tonga Trade and Investment Board Act of 2005 could not be created due to funding constraints; instead, the Business Support Division of the MTED has performed this role, albeit at a limited scale due to resource constraints.

TTPF measures to address challenges: The development and implementation of an overall investment strategy is needed. This will encompass the follow specific measures:

- *Finalise the ongoing review of the investment framework, in particular the list of reserved activities and/or the threshold for foreign ownership in reserved activities, considering trade aspects (e.g., presently export of coconuts and production of key agricultural export commodities such as squash and root crops are included among the reserved activities), notably the need to facilitate investment in sectors with export potential. A clarification of the definition of sectors as well as the removal of sectors with export potential from the reserved list; an increase in the foreign shareholding percentages could be considered;*
- *Formulate and implement an investment strategy. The strategy will also need to address the*

specific promotion activities to be undertaken as well as define the budgetary requirements for these activities;

- *Introduce tools for investment promotion and facilitation;*
- *Develop an institutional structure, possibly separating investment promotion and facilitation from the policy implementation mandate of the MTED and strengthen the required institutional capacity (see section 4.3.2).*

Responsibilities: The formulation and implementation of an investment strategy falls under the responsibility of the MTED but will require ample consultation with other government entities as well as private sector stakeholders.

4.1.7 Targeted Sector Development

Issues to be addressed: In addition to horizontal measures, more targeted support to specific sectors will be required to enhance competitiveness domestically and internationally. Due to Tonga's small size, this requires a certain level of focus on a limited number of products and services and a general concentration on niche markets. Some potential for capturing the domestic market through local production also exists, which could help to reduce the trade deficit. Due to Tonga's small size, low volume/high value products will generally be prioritised. This will require enhancing production technologies both through skills development, innovation and investment (see sections 4.1.4 and 4.1.6 above).

Many sector-specific measures have already been identified in various sector plans, notably for agriculture and fisheries, and a number of incentives are also already in place. At present, tax and duty exemptions constitute the major support instrument for sectors, with wide-ranging duty and tax exemptions being in place for the agriculture, fisheries and manufacturing sectors, as well as various services sectors. However, a more focused approach is called for.

TTPF measures to address challenges: The TTPF will complement sectoral measures already identified in plans by the responsible line ministries. Specific examples of linkages between the TTPF and sector policies, as well as specific sectoral TTPF measures are described in Box 1. The TTPF key measures will include the following ones:

- *The MTED will, in collaboration with the responsible sector ministries, review the existing sector plans with a view to comprehensively covering trade development aspects, and determining sub-sectors and products with the largest export potential. In addition, sectors and products which are not currently covered by any of the existing sector plans – such as manufacturing sub-sectors not related to agriculture and fisheries – will also be assessed in terms of their trade potential. Based thereon, specific support mechanisms will be designed;*
- *The potential for new sub-sectors and products will be studied, and pilot projects for production and export be developed and implemented. For example, as the value chains for current products of Tonga (fish, vegetables and other agricultural products) tend to be short, in the longer term more potential may rest in new and emerging products such as marine biotechnology. Targeted measures to support R&D and innovation in such areas will be provided;*
- *Likewise, during the early stages of TTPF implementation the government will, building on the initial analysis undertaken in the trade policy issues paper, identify those sectors and products which could be replaced by domestically produced like goods or close substitutes, as well as sector-specific weaknesses affecting them, and design targeted support. A selected number of product specific production expansion projects (investment and business plans) will be*

developed each year. As part of these, the potential for replacing imports of mineral fuel will be further studied;

- *A review of current incentive schemes will be undertaken with the aim of identifying costs and benefits both for the government, benefitting businesses and the economy overall (see section 4.1.4). This review will constitute the basis for the development and adaptation of any sector specific incentives and support programmes, including the definition of eligibility criteria. Also, in addition to import duty exemptions other measures to support domestic production both aiming at the domestic and export markets might be called for. Therefore, a possible replacement or complement by a more targeted regime to support domestic businesses in specific sectors will be considered.*

Box 1: The TTPF and Sector Policies – Linkages and Potential Measures

Fisheries: The Tonga Fisheries Sector Plan clearly defines the actions to be taken in the fishery sector to ensure the sustainable development of the sector. The TTPF will add value in two aspects: first, in the definition of trade-related targets (which have not been set in the Sector Plan), and second in the exploitation of synergies with other sectors, such as tourism and transport. Improving the availability of necessary infrastructure for the sector – such as processing, packing, and storage – is another area of potential action under the TTPF.



Agriculture and Forestry: Trade related measures in the agricultural sector are comprehensively addressed in the Tonga Agriculture Sector Plan (TASP). There is thus only a subsidiary role for the TTPF to play in the sector, one which mostly consists of monitoring and ensuring that TASP measures to increase exports or replace imports are not contravening other measures being undertaken under the TTPF. The role of R&D for enhanced supply capacity, better coordination between Government departments, and overcoming market access barriers should be addressed in the TTPF.



Mining: From a trade policy perspective, seabed mining offers considerable potential for increasing exports and government revenues. At the same time, the risks are considerable, and employment, social and environmental effects need to be taken into account. Under the TTPF the government will develop criteria to ensure that the development of the mining sector maximises the net benefits. Issues to be considered will in particular concern the conditions to be placed on foreign mining



companies in terms of employment (such as hiring of Tongan staff), environment (such as close monitoring of mining activities by scientific staff), and ensuring that stakeholders, including local communities close to mining areas and the fishery sector in general, are effectively consulted in the process.

Manufacturing: Tonga does not currently have a comprehensive policy approach for the manufacturing sector. However, to a certain extent the TASP fulfils that role, at least with regards to those manufactured products which are based on Tongan agricultural primary products; similarly, the Fisheries Sector Plan also comprises value added fishery products. The TTPF complements the trade relevant provisions in these sector plans by considering specifically those manufacturing sub-sectors which are not addressed in the existing sector plans; this would mostly comprise beverages, tobacco products and paints. Regarding processed agricultural and fishery products, the TTPF role will be of a subsidiary nature – monitoring, ensuring policy coherence, and ensuring cross-sectoral synergies.



Tourism: The importance of the tourism sector for Tonga's economy - in terms of revenues, employment and linkages with other sectors and businesses, including micro- and small businesses - means that this sector needs to be considered as a priority in the TTPF, and diversification should also be considered within the tourism sector by developing new products as well as diversifying feeder markets and developing better linkages, while also considering potential negative impacts of tourism, including security concerns. As part of the TTPF a corresponding tourism strategy will be adopted and implemented, and linkages with other sectors ensured.



Transport services: As part of the TTPF, the government will complement the existing strategy focussing on transport infrastructure with a strategy for transport services. In this regard, although it is impossible for Tonga to develop its own comprehensive air transport services industry, given the investment requirements, a strategy on optimum use of existing services providers (in particular, air transport services) will be developed. Conversely, maritime and other transport services are among the few sectors for which no market access or national treatment commitments have been scheduled as part of WTO accession, and options for the further development of domestically operated services in these sub-sectors will be studied as part of the TTPF.



Other services: Potential for expanding provision of services by domestic providers exists in several services sectors, notably in financial and business services. The potential for replication of the transport sector performance in other services sectors will be assessed under the TTPF, before any potential support measures are considered.

Responsibilities: MTED and the respective sector ministry will jointly undertake the review and formulation of further targeted support measures. The implementation of these measures will then rest with the sector ministry. The identification of new sectors to be supported as well as the review of the incentive schemes will be led by MTED in collaboration with the relevant line ministries and private sector actors.

4.2 Export Development and Trade Facilitation

As the analysis has shown, Tonga's current exports are very limited, taken together, exports of goods, services and labour (under the seasonal employment programmes) are vastly insufficient to generate the foreign exchange needed to finance the Kingdom's imports. Increasing exports is therefore an important pillar of the TTPF.

Efforts aimed at enhancing the Kingdom's export performance need to aim both at the expansion of exports (increase in export value) and the reduction of volatility of exports. Because each export transaction both has a geographical and product dimension, in principle four ways of enhancing export competitiveness are possible. First, export sales of current export products in existing markets could be expanded. Examples would be increased sales of fish to the United States, of squash pumpkin to South Korea, of handicrafts to tourists visiting Tonga, etc. The advantage of this option is that both products and markets are well understood.

Second, current export products could be exported into new geographical markets, for example pumpkin to other Asian countries. This diversification would reduce risk and contribute more to the stabilisation of exports; however, it only offers a medium-term solution given the considerable time required for market opening, including product registration.

Third, the expansion in the scope of exports to allow for new products (both in existing and new markets) that have similar features entering new geographical markets. New products could include both value-added products, such as processed food or value-added vanilla products, and new varieties of primary products (fish, fruit, vegetables – the recent expansion of melon exports is an example of success). The characteristics of these last two options are similar to the second one. On the positive side, they would help expand export revenues beyond current possibilities, and reduce risk. However, the time horizon for the development of new exports is even longer, as new products would have to be developed for export, marketed to potential clients abroad, and market access be achieved.

The above points to a phased approach, whereby the TTPF will yield short-term results from the expansion of current exports, and the other options are introduced subsequently and sequentially.

Policy actions supporting export development again can be horizontal or sector specific. The latter ones are included in the TTPF under the targeted sector development measures covered under the industrial development pillar (see section 4.1.7 above). Horizontal measures will address the key constraints for exports identified in the trade policy issues paper and aim at both export development and trade facilitation:

- *Building capacity of businesses for export (section 4.2.1). This is an area closely related to the entrepreneurship and skills development measures under the first pillar but differs from it due to its focus on export related skills, such as identifying and accessing export markets, complying with target market technical standards and safety provisions, dealing with export related regulatory requirements, etc.;*
- *Developing a realistic export promotion strategy (section 4.2.2);*
- *Ensuring that Tongan businesses benefit from existing regional and preferential trade agreements (section 4.2.3);*

- *Strengthening trade negotiation mechanisms to ensure that negotiation outcomes maximise the benefit for Tongan businesses and the overall economy (section 4.2.4);*
- *Addressing constraints in the current trade infrastructure, both hard (e.g. port facilities) and soft (the quality infrastructure) (section 4.2.5);*
- *Facilitating exporting by further improving customs procedures (section 4.2.6); and*
- *Ensuring that seasonal employment programmes provide the maximum net benefit to Tongans and the Tongan economy (section 4.2.7).*

4.2.1 Assessing and Building Capacity for Export Development and Diversification

Issues to be addressed: Not only the range of Tonga's export products and the number of its export markets are small, the number of exporting companies is also very limited. Expansion of exports will therefore require an increase in both the size of current exporters and the number of exporting Tongan firms. This in turn requires targeted support to existing exporters and businesses that have export potential.

TTPF measures to address challenges: TTPF firm-level measures to support export development and diversification by Tongan businesses will complement the measures for entrepreneurship and skills development (see section 4.1.5 above). With the aim of diversifying exports in the medium and long term, the TTPF includes specific measures to expand the pool of export-capable firms and developing new export commodities. Such measures will include:

- *Provide assistance for R&D to support development of prioritised sectors;*
- *Undertake value chain analysis of key sectors and identify strategic options for value-addition;*
- *Introduce opportunities for recognising high export achievers;*
- *Provide guarantees to facilitate trade finance for new exporters;*
- *Provide business development services (BDS) covering training, coaching, mentoring and related export competency development interventions;*
- *Provide technical assistance to potential exporters on quality related issues, thereby helping them to comply with health, safety, environmental and technical standards.*

Responsibilities: The MTED is responsible for this policy area, working in conjunction with private sector associations e.g. TCCI and sector ministries such as Ministry of Agriculture, Forests, Food & Fisheries(MAFFF); Ministry of Tourism; Ministry of Internal Affairs; and Ministry of Public Enterprises to ensure that measures taken address the demand of the business community.

4.2.2 Building a Credible Export Promotion Approach

Issues to be addressed: Export promotion activities in Tonga are currently limited, not least as a result of a lacking institutional set-up. In combination with the lack of exporting experience of many Tongan businesses this constitutes an important barrier to exporting. In addition, at a practical level, establishing market access conditions for new products (particularly agricultural ones, which constitute the majority of Tongan exports) or new markets is lengthy and very resource consuming. These challenges require a targeted and strategic export promotion approach.

TTPF measures to address challenges: As part of the TTPF an export promotion strategy will be developed and implemented. This will establish the priority markets on which export promotion activities will focus. As stated above, the initial focus will be on regaining some more traditional export markets where Tonga has lost sales over time, such as the United States, Japan, or American Samoa, as well as further developing new markets such as China, Singapore, the Philippines or Vietnam. The specific measures to be implemented in this regard are:

- *Development of an export promotion strategy with clearly formulated priorities in terms of geographical and product markets, export targets, promotion activities to be undertaken and resources required. An update of the National Export Strategy could be considered. In this context, the methodology of the ITC could be helpful;*
- *Explore suitable options for leading export promotion functions i.e. whether the export promotion function should be situated within MTED or established as an independent institution (see section 4.3.2);*
- *Carry out regular market analysis and customise it for prompt dissemination to the business community;*
- *Negotiate bilaterally for speedy processing of market access requests especially by Australia and New Zealand while developing infrastructure to underpin both quality assurance and quality control (also see section 4.2.5);*
- *Strengthen the provision of market information and commercial diplomacy by Tongan missions abroad. In selected key target markets, the establishment of trade promotion offices should be considered, including those to enhance engagement with the diaspora;*
- *Develop export promotion services to provide market information and assist exporters in market entry issues. This will comprise the organisation of export promotion missions abroad, including participation in relevant foreign trade fairs;*
- *Establish and maintain online export promotion platform targeting both B2B sales and sales to consumers abroad.*

Trade policy measures aimed at developing new exports will be defined based on feasibility studies for new products. In identifying new export products, the focus will be on those that provide broad-based socio-economic benefits without jeopardising environmental sustainability (see pillar 4 in section 4.4 below).

Responsibilities: The MTED is responsible for most measures in this policy area; export promotion activities by diplomatic missions will formally be under the Ministry of Foreign Affairs (MFA) but technically be supported by the MTED; similarly, the facilitation of market access for agricultural goods will be the responsibility of MAFFF with contributions from MTED. The creation of a dedicated export and investment promotion body under the MTED will be considered (see section 4.3.2 below). All measures will be taken in consultation with the private sector.

4.2.3 Leveraging on Regional Trade Agreements and Preference Schemes

Issues to be addressed: Regional trade agreements (RTAs) have so far played a very limited role in Tonga's trade. This is bound to change with the entry into force of the PACER Plus agreement, which will change Tonga's trading environment substantially, as it will provide duty free access for Tongan exports not only to Australia and New Zealand (already mostly duty free) but also to other Pacific island

states. Conversely, Tongan import duties for PACER Plus partner states will also be liberalised. This will require adjustment and information, both for exporters and domestically oriented businesses, and for the trade administration. For example, no regime for the treatment of rules of origin (RoO) is currently in place; this will become indispensable once Tonga applies a preferential trade agreement – in particular under the PACER Plus Product Specific Rules (PSR), but its absence already occasionally causes problems when certificates of origin for Tongan exports are required – although Customs provides written confirmation of origin, these are not official certificates of origin. In general, lack of awareness for RoO is a widespread and serious issue.

Another kind of arrangement from which Tonga's exports could benefit, but haven't done so far, are existing unilateral preference schemes for which Tonga is eligible. The challenges are comparable to those for exporting under RTAs.

TTPF measures to address challenges: Measures are needed to ensure that the market access opportunities provided by Tonga's trade agreements and the preference schemes from which it benefits (such as the generalised systems of preferences, GSPs, of the United States, the EU, China or Japan) can be reaped. In this respect, the TTPF will encompass the following:

- *Develop and operationalise the domestic system of issuing certificates of origin in compliance with RTA/preference scheme requirements and introduce a RoO regime to deal with imports under RTAs. An important consideration in this context will be which organisation should be nominated for the issuance of certificates of origin. This should be decided based on a review of capacities and international practice;*
- *Raise awareness and provide training to businesses with regards to RoO and PSR;*
- *Prepare guidebook for exporters on exporting under RTAs and preference schemes;*
- *Provide hands-on training to exporters for exporting under RTA rules;*
- *Focus market information and export promotion activities (see section 4.2.2) on RTA partner countries;*
- *Promote national image and branding. Liaise with partner country authorities and trade development institutions to enhance Tongan visibility in target markets, facilitate market access and obtain market insights.*

Responsibilities: The MTED is responsible for this policy area, with contributions by MoRC and MAFFF.

4.2.4 Strengthening Trade Negotiation Mechanisms

Issues to be addressed: Looking beyond PACER Plus, a more strategic approach to trade negotiations needs to be established under the TTPF, with a careful balancing of the costs and benefits; this not only applies to the ongoing negotiations of the Economic Partnership Agreement (EPA) with the EU and the existing US Multilateral Treaty, but also potential negotiations of trade agreements with Japan (if no benefit under GSP is possible), South Korea, and China. For EPA in particular, given the limited exports and export potential, and the limited tariff preferences that an EPA would provide for Tongan exports, the benefits of signing an EPA need to be carefully considered.

Tonga is also affected – mostly through preference erosion – by regional trade agreements in which the Kingdom is not a member, such as the ASEAN-Australia-New Zealand Free Trade Agreement

(AANZFTA) or the Regional Comprehensive Economic Partnership (RCEP).¹¹ These impacts are currently not well understood but would need to be incorporated in a comprehensive strategic approach to trade negotiations.

TTPF measures to address challenges: Developing a more strategic approach towards trade negotiations will require TTPF measures at various levels. These will include the following ones:

- *Strengthen the Tonga National Trade Economic Development Working Group (TEDWG) by integrating it into a wider trade policy coordination structure to be established (see pillar 3 below) and providing regular relevant training;*
- *Ensure inclusive approach in planning and undertaking trade negotiations. This will include the involvement of private sector and civil society representatives in negotiations, not only in the development of negotiation positions, but also invite them to the negotiations themselves;*
- *Prepare an impact study of ongoing and planned negotiations, as well as RTAs in which Tonga is not participating, considering impact on trade, government revenue, welfare, employment and output. In particular, negotiations with the EU on the Economic Partnership Agreement will require a careful review of the costs and benefits, given Tonga's extended eligibility to export under the EU GSP. The impact of other trade agreements in which Tonga is not a member will need to be studied and may lead to the need to enter into new trade negotiations on a bilateral or regional basis (e.g., Singapore or South Korea);*
- *Develop a trade negotiations strategy outlining the priorities for negotiations both in regional, product and topical terms (i.e. tariffs vs. different types of non-tariff access barriers);*
- *Formulate clear negotiation mandates for individual negotiations and negotiators;*
- *Make use of available representation to maintain regular interactions with and maximize on benefits offered by the WTO.*

Responsibilities: The lead role for the enhancement of the trade negotiation capacities will rest with the MTED, in cooperation with MFA. However, close collaboration with other government, private sector and civil society representatives will be essential.

4.2.5 Addressing Trade Infrastructure (Quality and Export Facilities) Constraints

Issues to be addressed: The quality infrastructure in Tonga is underdeveloped. The regulatory framework on SPS and TBT mostly predates the Kingdom's accession to the WTO and is in need of modernisation both to ensure compliance with international rules and to facilitate exports of Tongan goods. In addition, an upgrade – or rather, the creation – of a national quality infrastructure will be required both to ensure the safety of imports and domestic production, and to facilitate exports by ensuring compliance with standards, technical and safety requirements in target markets. Apart from certain elements in various laws, no legislation for the adoption of standards or technical regulations exists, nor is there a national standardisation body. No certification body currently exists, which requires exporters to achieve required certification of their products from abroad, which both increases costs and delays exports. In addition, other facilities supporting exporters (such as packing, fumigation, and storage) are insufficient to meet demand.

¹¹ The Trans-Pacific Partnership (TPP) would be another agreement with potentially important implications for Tonga's trade competitiveness and performance; however, the conclusion of the TPP looks uncertain at present.

TTPF measures to address challenges: Addressing issues related to the quality infrastructure are an essential component of the TTPF. This comprises the regulatory quality infrastructure, facilities supporting producers and exporters (such as processing, packing, fumigation and testing facilities) and “soft” infrastructure such as sanitary and phyto-sanitary (SPS) measures or standards development and certification. Specifically, the following measures are foreseen:

- *Review and modernisation of laws and regulations for SPS and technical barriers to trade (TBT) in line with provisions of the relevant WTO agreements and international best practice;*
- *Establish a National Standardisation Body (NSB) for standard setting and enforcement, and providing technical services to the productive sectors for enhanced export potential;*
- *Establish a system to monitor compliance with standards, provide adequate inspection facilities, and ensure speedy and cost-effective assessment of compliance with standards by traders. This will include the strengthening of existing, or establishment of a new, laboratory(ies) to provide internationally accredited measurement and testing services for Tongan exporters, focusing on a limited number of tests which are of particular importance for Tongan exporters;*
- *Undertake an investigation into the cost structure along the supply chain;*
- *Take measures to expand processing, packing, fumigation/treatment and storage facilities, possibly as public-private partnerships (PPP);*
- *Establish clear and comprehensive rules on the labelling of products, including foodstuffs, and provide support to exporters about labelling requirements in target markets;*
- *Raise awareness among Tongan businesses with export potential about the major standards that are required by the main export markets and guide exporters to comply with these standards;*
- *Actively participate in international standard setting bodies and related fora to inform future standard setting in the Kingdom, represent Tongan interests, gain experience for setting future national standards, and ensure that international standards do not become barriers for Tongan exports.*

Responsibilities: The MTED will have the responsibility for this policy area but cooperate closely with other ministries, notably the MAFFF, and the Ministry of Health (MOH), and agencies under them.

4.2.6 *Improving Customs Procedures and Risk Management*

Issues to be addressed: Tonga has lost some ground in recent years in terms of trade facilitation. In the World Bank’s Doing Business “Trading Across Borders” index its rank dropped to 100 in 2017 (out of 190 economies). A particular area of concern is the documentary requirements for exports, and exporters would also benefit from reduced times to comply with shorter border compliance times. Coordination of the institutions involved in export facilitation – including Customs, Agriculture, Fisheries, Quarantine, Ports & Airports, and logistics services providers – could also be improved, e.g. by establishing a central coordination mechanism. Likewise, further trade facilitation measures could be conceived. For example, no pre-inspection of goods for export is foreseen nor is there an authorised economic operator (AEO) scheme in place, and the use of electronic customs declarations is limited. In this context, Tonga has not yet ratified the Trade Facilitation Agreement (TFA). There is however potential to upgrade the trade facilitation regime in Tonga with Aid for Trade (AfT) support in the context of ratifying the TFA.

TTPF measures to address challenges: The trade policy will aim at streamlining export clearance times and processes. This will include the following measures:

- *Seek assistance to implement activities identified under the PACER Plus fast-tracking activities schedule;*
- *Apply for Aid for Trade with regard to the Category C support needs under the TFA;*
- *Establish a National Trade Facilitation Committee and work plan for the same;*
- *Undertake a customs processes audit and wider review of institutions and processes for export facilitation to identify bottlenecks and scope for streamlining procedures;*
- *Develop and implement action plan for process optimisation, including better coordination of border agencies;*
- *Consider introduction of an internationally accredited AEO scheme, the pre-inspection of goods for export, and electronic single window approach as potential approaches to further streamline export processes and risk management;*
- *Collaborate with the World Bank for the Kingdom to be included in the Logistics Performance Index in order to obtain better benchmarking data which will help design appropriate trade facilitation measures.*

Responsibilities: The lead agency for this policy area is Ministry of Customs and Revenues. The MTED will contribute to the formulation of measures to ensure that they are in line with TTPF objectives.

4.2.7 Fine-tuning Seasonal Employment Programmes

Issues to be addressed: Based on the relative success of the seasonal worker schemes in New Zealand and Australia, the TTPF foresees measures aiming at a diversification and gradual expansion of opportunities for temporary work of Tongans abroad; in particular, a notable expansion of workers under the current schemes may not be possible. In addition, measures need to be taken to ensure that remittances are used wisely, and that potential negative economic and social consequences of the temporary absence of workers from Tonga are ameliorated.

TTPF measures to address challenges: Measures under the trade policy will include the following ones:

- *Negotiate with Australia and New Zealand a potential extension of schemes into other employment areas such as carpentry, care taker services and professional areas such as nursing and teaching;*
- *Promote the availability of new opportunities among Tongan workers;*
- *Consider the negotiation of bilateral agreements for similar programmes in other countries (e.g. Canada, United States);*
- *Provide business-oriented training to Tongan temporary workers abroad in order to encourage productive use of money earned abroad;*
- *Develop a business start-up programme for Tongan participants in seasonal employment programmes to incentivise productive investment;*
- *Periodically assess benefits and costs, including social costs, of seasonal employment programmes and identify cost-mitigating measures.*

Responsibilities: The Ministry of Internal Affairs will oversee this policy area. MTED as well as BDS providers (TBEC) will contribute, through the provision of business training and start-up support.

4.3 Development of Trade Supporting Institutions and Services

Dedicated trade supporting institutions providing trade promotion services are currently largely lacking in Tonga, and trade policy formulating institutions are weak. Addressing institutional issues in both the public and private sectors, and in the dialogue between the various stakeholders on trade related matters therefore constitutes the third pillar of the TTPF. The specific areas addressed by the TTPF within this pillar are:

- *Enhancement of the coordination mechanisms for trade policy formulation and implementation both within the public, private, and civil society sectors and national consultations, i.e. public private dialogue (section 4.3.1);*
- *Development of enhanced and coordinated trade support services, which will also require institutional strengthening (and indeed creation) of trade support institutions (section 4.3.2).*

4.3.1 Strengthening Consultative Mechanisms and Public-Private Dialogue

Issues to be addressed: The institutional framework for defining and implementing trade policies in Tonga is relatively complex and has shifted considerably over time. Coordination of trade policy among the various government entities has normally been constrained to specific issue areas and ad hoc. An overarching Trade Policy Committee, which would determine national positions on trade policy and trade related issues in a more comprehensive and holistic approach, is currently lacking.

Compared to its size and population, Tonga has a large number of private sector and civil society organisations. However, most of the organisations are institutionally weak, have limited membership, are underfunded, and have very limited knowledge of trade issues.

Effective PPD is important for the TTPF because it is primarily the private sector that produces and trades, and therefore the trade policy needs to respond to private sector concerns. However, public-private dialogue (PPD) involving only the government and private sector is not enough in Tonga, as the TTPF, in its alignment with the TSDF II, contributes to wider objectives, inclusive and sustainable development. As a result, civil society also needs to be represented in the PPD.

While previous PPD mechanisms were largely structured along sectors, at present no institutionalised PPD mechanism currently exists, neither at an overarching level, nor specifically related to trade matters and policy. In the absence of such a mechanism, uneven access to government and capacity to influence policy formulation and implementation may lead to a biased approach.

TTPF measures to address challenges: The TTPF will pursue a dual approach to strengthen institutions and coordination with the public and private sectors. For the former, the establishment of a standing structure is foreseen, the trade policy committee. Conversely, it is not a government task to organise coordination among private sector and civil society organisations, and therefore the TTPF will take a more limited role, by ensuring that the necessary framework and information for non-state actors are available to allow coordination and development of positions related to trade policy. The planned TTPF measures for enhancing coordination within the public and non-state sectors are:

- *Establishment of a permanent Trade Policy Committee, with sub-committees as needed. The Committee will also oversee the implementation of the TTPF. Further details on the Committee are provided in the implementation arrangements (section 5.2.4);*
- *Based on needs assessments, training on trade policy issues will be provided to relevant Government ministries and agencies as well as private sector and civil society organisations;*
- *Government will provide private sector and civil society organisations with timely and relevant information about trade issues to allow for non-state actors to coordinate among themselves and define their positions on these issues;*
- *Government will make all rules affecting trade publicly available in a timely fashion, including through online publication. Information dissemination will also take into cognizance the low level of trade literacy and the limitation in accessing information in the outer islands.*

Furthermore, the TTPF will create a trade policy PPD mechanism to act as a pilot for a wider PPD mechanism in the future. An important issue to consider is the representativeness of members while making sure the body remains sufficiently small so as to operate effectively. The establishment of sub-committees on specific areas will also be foreseen. The specific planned measures are:

- *Establish a PPD mechanism for trade issues which is inclusive and focused. The mechanism will include leading representatives of government and the apex organisations of private sector and civil society, also representing the interests of outer islands, women, and disadvantaged population groups. Meetings will take place at least semi-annually with additional meetings on an as-needs basis. The MTED will develop terms of reference for the PPD mechanism in the early stages of the TTPF implementation;*
- *Government will consult with stakeholders during the development of trade related laws and regulations, including administrative decrees, through the PPD mechanism, and will allow sufficient time for private sector and civil society to consult internally.*

Responsibilities: The MTED will have the responsibility for this policy area, with involvement by other relevant government entities, private sector representatives and civil society organisations.

4.3.2 Strengthening and Coordinating Trade Support Services

Issues to be addressed: There are limited trade support services in Tonga. The main areas of trade support and the corresponding support institutions are:

- *Access to finance is primarily provided by Tonga's three **commercial banks** and the **TDB**. Virtually all financing is loan based; no venture capital funds or stock market exists, and any equity financing would have to be provided by an investor (domestic or foreign). Especially small enterprises face structural problems to access finance. In the specific area of trade finance and export credit insurance, there is presently no government-supported export finance or export credit guarantee scheme, apart from trade finance provided by commercial banks; this limits the capacity especially for new exporters to trade.*
- *Business development services are provided mainly by the TBEC, some private consultants and limited offerings by line ministries and civil society organisations (CSOs). The MTED's Business & Investment Support Programme aims to provide business development and knowledge-based support for the private sector. Overall, the service portfolio is limited and not focused on trade issues.*

- *The External Trade Support division of the MTED is responsible for the facilitation and marketing of exports and investments both locally and abroad and is the first point of contact for all foreign investors seeking to invest in Tonga. In addition, sector specific investment and export promotion activities are undertaken by line ministries, in particular Tonga Tourism under the Ministry of Tourism, and the Ministry of Fisheries. Nevertheless, as stated under pillar 2 above, the extent of export promotion, including the provision of market research, relevant trade statistics, and other export support services, as insufficient.*
- *Also, no formalised hands-on market entry support is provided to exporters, and in any case Tonga has few diplomatic missions abroad (only in Australia, China, New Zealand, United States, United Kingdom). This constitutes an important gap in the trade support infrastructure.*

Support services tend to be concentrated in Tongatapu and focus on larger firms. Particularly in the outer islands hardly any support services are available. Also, at present no coordination between support institutions takes place, apart from informal, ad hoc information exchanges.

TTPF measures to address challenges: The TTPF will lead to a strengthening and expansion of the trade support services portfolio, including in geographical terms, i.e. to other islands, and for micro and small enterprises. To do so, the following measures are envisaged:

- *Evaluate the effectiveness of the existing trade support services structure, identify gaps and overlaps, and propose corrective steps. A comprehensive strategy will be developed to guide trade support services;*
- *An organisational review of the existing service providers will also be undertaken to determine options for an enhanced and more complete and coherent support services delivery network. This will also address the issue of whether trade and investment support services should be provided by ministries or a separate agency. The lack of certain trade support services has already been established, for these, the need for enhancement and specific institutional attention is already evident, e.g. export and investment promotion; quality and standards; entrepreneurship development;*
- *Provide training to staff of institutions which deliver export support services, including standards institutions, trade finance institutions, private sector associations, research institutions, lawyers, and consultants;*
- *Develop a road map on how to build a credible and effective trade supporting network.*

Responsibilities: MTED will be the coordinator of the trade support network. To this effect, all support institutions will regularly report their activities to the Ministry, and regular meetings will be held on a semi-annual basis.

4.4 Inclusivity and Citizen Economic Empowerment

As has been described above, the TTPF will have to transcend a narrow economic approach in order to be successful: sustainability and social inclusiveness will be equally important objectives. To ensure that these are adequately addressed by the policy and not merely “ticked off” as crosscutting issues, the fourth pillar of the TTPF presents specific areas of action and measures related to inclusivity and economic empowerment. These are:

- *Targeted measures to reduce unbalanced development across the islands, between men and women, and addressing fair chances for disadvantaged groups in general (section 4.4.1);*
- *Considering and addressing health issues through trade policy instruments (section 4.4.2);*
- *Actions to involve the diaspora, unleashing the full potential that members of the diaspora can have for a dynamic and equitable trade development of the Kingdom (section 4.4.3); and*
- *Specific measures to consider and address the potentially negative impact of trade policy measures on the environment (section 4.4.4).*

4.4.1 Targeted Measures to Reduce Regional and Social Imbalances

Issues to be addressed: In line with other policy documents and strategies, including the TSDF II and the MSME Policy and Strategy, the TTPF needs to address issues pertaining to the uneven chances for economic participation in geographical terms – with the outer islands being disadvantaged – and across population groups – with youth and women, among others, being at a disadvantage.

TTPF measures to address challenges: The TTPF will balance the measures foreseen under pillars 1 to 3, which essentially aim at promoting economic objectives, with interventions that contribute to a more balanced growth across the regions and social inclusion. Such intervention will include the following ones:

- *Undertake targeted regional interventions such as the promotion of community-based tourism;*
- *Prioritise sectoral support measures in sectors with high women and youth employment, such as handicraft production, creative industries or organic farming;*
- *Promote exports of products by MSMEs, for example through the introduction of a pooled export marketing approach based on a group purchasing and marketing system;*
- *Launch annual calls for proposals, and fund corresponding projects, aiming at the promotion of disadvantaged regions and population groups in Tonga’s trading activities;*
- *Complement measures to promote seasonal employment programmes with increased investment in institutional care, education and support services for elderly relatives and dependent children of seasonal workers and other vulnerable groups;*
- *Conduct social impact assessments of trade policy initiatives and measures.*

Responsibilities: The identification and formulation of specific measures in this policy area require a joint approach by all government bodies. As many of the measures will be sector- or region specific, implementation will rest with the responsible line ministry; MTED will coordinate.

4.4.2 Addressing Health Issues

Issues to be addressed: Although health issues are not normally an explicit concern of a trade policy, the situation in Tonga, in particular the high incidence of NCDs induced by obesity, has reached a critical stage which requires the contribution of the TTPF to address the problem. Tariff policy instruments have already been used for this purpose, and the TTPF provides a more coherent approach.

TTPF measures to address challenges: TTPF measures can influence health indicators primarily through effects on the consumption of products by Tongans, i.e. by discouraging consumption of unhealthy goods and encouraging healthy goods. For this reason, the following measures will be applied:

- *Tariffs and excise tax rates will continue to be set in a way to incentivise healthier consumption patterns (see section 4.1.4);*
- *The domestic production of healthy substitutes for imports of meat and sweetened soft drinks will be supported through tax measures and support to producers, as part of the sector development measures (see section 4.1.7);*
- *The import of sub-standard goods that constitute a danger for the safety of Tongans will be further discouraged by the strengthening of the quality infrastructure and inspection of imports.*

Responsibilities: The MOH will carry the responsibility of determining the consumption of which products should be encouraged or discouraged. The definition of appropriate measures will then fall under the joint responsibility of MoRC and MTED.

4.4.3 Involving the Diaspora

Issues to be addressed: Maintaining remittances from the diaspora at current levels requires a constant outmigration from Tonga, which has some negative implications on productive capacity – including brain drain and sub-optimal use of land owned by members of the diaspora. The currently high dependence of Tonga on remittances as an essential source of foreign exchange also creates vulnerability to external shocks. There is also a tendency that remittances and investment by individual members of the diaspora decrease over time, as their feeling of connectedness weakens.

TTPF measures to address challenges: The TTPF pursues a two-pronged approach. First, it includes measures to ensure the continuity of remittance flows from the diaspora. This will include the following measures:

- *Improved collaboration with the Tongan diaspora, for example through maintaining a database and regular provision of news about the Kingdom;*
- *Facilitate emigration of Tongans, for example by offering vocational and technical education in areas which are in high demand abroad (e.g., healthcare and nursing professions), and notably in the key diaspora countries Australia, New Zealand and the United States. This will require periodical studies of the labour markets in these countries.*

This first set of measures will be complemented, second, by measures to reduce the dependency on remittances over the longer term. The core idea of these measures is for Tonga to benefit from the diaspora in other ways than “merely” sending back money. Such measures will include:

- *Utilising members of the diaspora as conduit for exports from the Kingdom;*

- *Encouraging of the return to Tonga in particular of experienced business people and professionals in order to foster start-ups in Tonga and benefit from knowledge spill-overs to domestic businesses;*
- *Encouraging highly qualified members of the diaspora to contribute to the development of Tonga. For example, diaspora members could become engaged in Tonga by providing training, coaching and mentoring to business people, act as angel investors, etc.;*
- *Encouraging and facilitating investment and business activities in Tonga by members of the diaspora. In particular, the diaspora should be ideally placed to engage in export-oriented businesses.*

Responsibilities: Involving the diaspora requires a concerted effort by different government bodies, including the MIA, the MEIDECC, the MFA, and the MTED. A lead ministry to handle diaspora affairs will be nominated.

4.4.4 Respecting the Environment

Issues to be addressed: For the TTPF, addressing the linkage between trade and the environment is important for at least two reasons. First, the TSDF II focus on sustainable development makes it clear that the environmental implications of any trade related measure need to be considered. Second, Tonga is already exposed to high environmental risks. At the same time, a coherent treatment of the nexus between trade and the environment has been lacking so far.

TTPF measures to address challenges: By making the nexus between trade and environmental consequences explicit, the TTPF avoids the pitfall of focusing on short-term growth at the cost of a non-sustainable exploitation of renewable resources. The main TTPF instruments will be:

- *Requirement that all trade measures being formulated explicitly address environmental aspects and impacts, in the short and long term. For environmentally sensitive policy initiatives and measures, conduct formal environmental impact assessments;*
- *Monitor environmental impact of trading activities, such as spillages, emissions and waste issues, fish stocks and biodiversity, soil erosion and degradation, deforestation, etc.*
- *Launch annual calls for proposals, and fund corresponding projects, aiming at the promotion of green trade.*

Responsibilities: The MEIDECC/ MLNR will be responsible for this policy area, in collaboration with the MTED.

5. Implementation Arrangements

5.1 Legal Implementation Framework

Although most measures foreseen under the TTPF can be implemented within the existing laws, a few will require legal changes. In particular, the FDI law as well as the review of tax and tariff exemptions will need the adoption or amendment of laws. Furthermore, some of the specific strategies to be developed under the TTPF may also require legal changes. In such cases, the legal drafting will follow the established practices in the Kingdom.

5.2 Institutional Implementation Framework and Coordination Mechanisms

5.2.1 Core and Non-Core Trade Policy Measures

In order to ensure coherence of the TTPF with other existing policies, the framework distinguishes between core and non-core measures. The former ones are principally determined by the TTPF, with the MTED being the lead implementation agency.

Non-core measures are all those with an important effect on the Kingdom's trade performance, but which are primarily addressed by other policies. This includes many of the measures listed under pillar 1 (and pillar 4). For non-core areas, the responsibility for implementation will rest with the lead entity (typically not the MTED). The TTPF defines the objectives and main areas of action, but the main purpose is to ensure that these objectives are reflected in the related policies and their implementation, and accordingly the MTED will contribute to the formulation of measures and follow their implementation, so that they are monitored from the perspective of the trade policy objectives to be achieved. Sector measures will be guided by the respective sector plans and only be adjusted when in conflict with the trade policy.

Through this implementation framework, the TTPF avoids creating duplication of activities and conflicting responsibilities while ensuring coherence of the trade policy and the wider policy framework. The underlying principle is to mainstream trade policy objectives across the Kingdom's sectoral and overall national policies.

5.2.2 MTED Role and Responsibilities

The MTED's role in TTPF implementation depends on whether measures are considered as core or non-core. Specifically, the responsibilities and implementation arrangements will be as follows:

- **TTPF core areas:** *The MTED will be responsible for the strategic management, coordination and implementation, working in partnership with other ministries and agencies, the private sector, civil society and other stakeholders. The MTED will also be directly responsible for the monitoring of core areas.*

- **TTPF non-core areas:** *For non-core areas, the lead implementation agencies will be the ones under which mandate the specific measures fall. The role of the MTED will be restricted to that of a subsidiary monitoring body, while primary monitoring will be affected by the responsible institution.*

The MTED carries the overall responsibility for the TTPF and will be in charge for drafting annual TTPF implementation plans.

5.2.3 Roles and Responsibilities of Other Institutions

As mentioned above, the implementation of the TTPF is a comprehensive and horizontal task that requires the active involvement of all sections of government, and indeed the contribution of the private sector and civil society as well. Other key government institutions involved in trade policy setting and implementation, both horizontally and at sector levels, are the following ones:¹²

- *National Planning (NP) is responsible for the overall development and review of the TSDF in close consultations with line Ministries. Whenever such exercise is done, the TTPF will be reviewed to re-align and mainstream the TTPF into the overall national framework;*
- *The Ministry of Revenue and Customs and particularly the Tonga Customs Service will play an essential role in the formulation and ongoing operation of duties and border taxes;*
- *Infrastructural measures foreseen under the TTPF will be led by the respective line ministries, including the Ministry of Lands, and Natural Resources (MLNR), the Ministry of Infrastructure (MOI, with respect to maritime, aviation, and transport) and the Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Climate Change and Communications); and Ministry of Public Enterprises (for electricity and telecommunications infrastructure);*
- *Trade facilitation measures involve primarily the Tonga Customs Service and the MAFFF (for agricultural products, quarantine, food security and SPS matters);*
- *Sector ministries will lead the definition and implementation of sector measures, based, where available, on the sector plans already developed. They include the Ministry of Agriculture, Forests, Food and Fisheries (MAFFF), the Ministry of Tourism, as well as the MTED itself (for commerce and industry);*
- *The Ministry of Internal Affairs (MIA) has responsibility for the seasonal employment programmes;*
- *Health aspects of the TTPF will fall under the leadership of the Ministry of Health (MOH), and environmental aspects under the MEIDECC/MLNR.*

Finally, high level political support to TTPF is required because some sector policies and their implementation need to be overseen by the trade policy. This may require the possibility of having to issue directions to other ministries and agencies, which would only be possible with the endorsement of the Kingdom's highest leadership.

¹² More details on the responsibilities of institutions for specific TTPF measures are provided in the Implementation Plan in annex.

5.2.4 Coordination Mechanisms

An effective trade policy requires an effective coordinating body. The (re-)establishment of a trade policy committee with the requisite sub-committees is therefore planned, as also addressed under pillar 3 (section 4.3.1 above). It will comprise of representatives of all the institutions listed above (section 5.2.3), be chaired by MTED as the ministry carrying the overall responsibility for the trade policy, and will include private sector representation.

Clear terms of reference for the committee will be developed and regulate the structure, composition/membership, and operating modalities of the committee as well as technical sub-committees or working groups.

In addition, trade policy will be made a standing topic in Cabinet meetings.

5.3 Monitoring and Evaluation

For the monitoring of the TTPF progress and to ensure a results-based management of the TTPF a monitoring system will be established which will be based on a limited number of key performance indicators (based on the indicators included in the TTPF logical framework as presented in Table 1, in section 3.2 above) as well as yearly activity targets to be defined on an annually rolling basis for each of the policy measures identified under the four pillars.

The MTED will prepare and publish annual reports for the TTPF, indicating the progress made towards the achievement of outputs, as well as unintended effects. The annual reports will also describe the activities undertaken and set out the planned activities for the next year, including annual achievement targets.

More frequent (at least semi-annual) progress reporting to Cabinet is also foreseen.

Finally, two independent evaluations of the TTPF are planned. The first one should take place after two years in order to allow for a strategic review of the TTPF direction and measures taken and identify any corrective measures that might be required. The second evaluation should take place in the last year of the TTPF implementation and would allow a preliminary estimate of impact achievement, draw key lessons from the TTPF design and implementation, and provide input for the formulation of a potential successor to the TTPF.

5.4 Resources and Financing

The required resources for the TTPF implementation, both in terms of human and financial resources, will be identified in the annual implementation plan, which will be preceded by a TTPF Implementation Needs Assessment. In terms of resource requirements within MTED, the starting point will be the gap analysis undertaken in MTED's corporate plan 2016-19.

Budgets for the various policy areas and measures will be developed as part of the implementation planning, with an overall budget for the TTPF period initially developed and fleshed out in detail on an annual basis in the context of the preparation of annual implementation plans.

Two primary sources of finance will be used:

- *Government's own resources, as allocated in the annual budget statements, will primarily be used to cover operating costs of TTPF measures;*

- *Donor support, to be streamlined under Aid for Trade assistance, will contribute to the financing of studies and larger scale infrastructural measures.*

In addition, private sector contributions will also contribute to the financing of the TTPF. These will mostly take the form of PPP or cost sharing arrangements in the context of trade infrastructure improvements and direct support to businesses.

Aid for Trade assistance will be mobilised as follows:

- *The TTPF and annual implementation plans will be used to secure Aid for Trade from development partners, indicating both an overall funding envelope and specific projects for which support is needed;*
- *An updated Aid for Trade Questionnaire will be prepared and submitted as part of the implementation planning.*

Annexes

Annex 1: List of Stakeholders Consulted

Government Ministries

1. Ministry of Agriculture Food and Forestry
2. Ministry of Fisheries
3. Ministry of Fisheries (Ha'apai)
4. Ministry of Foreign Affairs
5. Ministry of Internal Affairs
6. Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change
7. Ministry of Public Enterprise
8. Ministry of Revenue and Customs
9. Ministry of Trade and Economic Development
10. Prime Minister's Office

Agencies and Bodies

1. Attorney General's Office
2. Retirement Board Tonga
3. Public Service Association
4. National Reserve Bank of Tonga
5. Statistics Department

Private Organisations

1. Cocker Enterprises
2. Eastern District Working Council (EDWC)
3. Fishermen (Private Sector)
4. Growers Federation
5. Langafonua
6. Oxfam Pacific/ Tonga National Youth Congress TNYC
7. Phama
8. Tavana Consulting Group
9. Tinopai
10. Tonga Chamber
11. Tonga Communication Cooperation (TCC)
12. Tonga National Youth Congress (TNYC)
13. Tonga Trust (Ha'apai)
14. Tonga Youth Employment and Entrepreneurship (TYEE)
15. True Tonga Inc.

Annex 2: Implementation Matrix

The implementation matrix presented on the following pages lists the individual measure foreseen under each of the four TTPF pillars and policy areas, as well as the preparatory, management and M&E actions foreseen. It also determines the entities responsible for each of the measures and provides an overall schedule for the implementation of measures, distinguishing short-term measures (starting from 2017 and 2018—for which activities will be fast-tracked in 2020), medium-term measures (to be implemented in 2019 and 2020), and longer-term measures (implementation from 2021 until the end of the TTPF period). Finally, it provides rough guidance on the sources of financing (not addressing private sector contributions) and whether technical support will be required for the implementation of the foreseen measures.

Further details, including on the budget and resource requirements, will be determined on an annual basis; likewise, progress targets will be set annually for each TTPF measure.

The development of the first TTPF annual plan will constitute one of the first activities to be implemented by the MTED following the adoption of the TTPF.

Pillar/Policy area/Measures	Responsible institution	2017-2018	2019-2020	2021-2025	Funding	Technical support needed
Preparatory Measures, TTPF Management, and M&E						
• Undertake TTPF implementation needs assessment	MTED	X			Government	
• Detailed planning for first year of TTPF, including resource allocation	MTED	X			Government	
• Develop funding proposals for donors under Aft	MTED	X	X		Government	
• Establish TTPF coordination mechanism	MTED	X			Government	
• Establish TTPF monitoring system	MTED	X			Government	X
• Annual progress reporting & planning	MTED	X	X	X	Government	
• Mid-term and final evaluations	MTED		X	X	Donor support	X
Pillar 1: Industrial and Investment Development						
1.1: Addressing Macroeconomic and Overall Supply Capacity Issues						
• Stabilize government debt	MoF	XXX	XXX	XXX	Government	
• Contain inflation	NRBT	XXX	XXX	XXX	Government	
• Maintain balanced exchange rate	NRBT	XXX	XXX	XXX	Government	
1.2: Enhancing the Business/Investment Environment						
• Define reform programme to enhance Tonga's Doing Business score	MTED	XXX			Government	X
• Implement reform programme	Tbd		XXX	XXX	tbd	X
• Simplification of regulatory requirements, including related to registration and tax payments	MTED/MoF	XXX	XXX		Government	
• Expand loan financing, including through preferential loan schemes and loan guarantee schemes	TDB	XXX			Donor support	X
• Study creation of equity finance instruments	NRBT		XXX		Donor support	X
• Review legal framework for price control, competition and consumer protection	MTED		XXX		Donor support	X
• Annually review use and effectiveness of domestic preferences in public procurement and consider potential adjustments by the Government Procurement Committee	MoF/MTED	X	X	X	Government	
• Undertake institutional review of public procurement, disposal of public assets and privatization	MoF/ MPE	XXX			Donor support	X
• Strengthen awareness for the need for and benefits of IPR	MTED	XXX	XXX		Donor support	X
• Implement measures to promote consumer preferences for locally produced goods	MTED		XXX		Government	
1.3: Easing Infrastructure Constraints						
• Promote use of renewable energy and small-scale generation in combination with enhanced storage, in particular on the outer islands	MEIDECC/ MPE (TPL)	XXX	XXX	XXX	Government & donor support	

Pillar/Policy area/Measures	Responsible institution	2017-2018	2019-2020	2021-2025	Funding	Technical support needed
<ul style="list-style-type: none"> Support businesses in increasing energy efficiency (awareness raising and training, possibly incentives) Consider initiatives for a regional pooling of transport infrastructure Continue to encourage, promote, and support telecommunications network 	MEIDECC/ MPE (TPL)	XXX	XXX	XXX	Government & donor support	
	MOI	XXX	XXX		Donor support	
	MPE/MEIDECC	XXX	XXX	XXX	Government & donor support	
1.4: Reviewing Tax and Tariff Policies						
<ul style="list-style-type: none"> Undertake review of the current tax and tariff structure 	MF/ MoRC/ MTED	XXX			Government	X
<ul style="list-style-type: none"> Undertake comprehensive cost-benefit review of the current tariff and tax exemptions system 	MF/ MoRC/ MTED	XXX			Donor support	X
<ul style="list-style-type: none"> Develop amendments to tariffs, taxes and exemptions 	MF/ MoRC/ MTED	XXX			Government	
<ul style="list-style-type: none"> Implement amendments to tariffs, taxes and exemptions 	MoRC		XXX		Government	
<ul style="list-style-type: none"> Develop WTO compliant excise tax treatment for beer, spirit and tobacco products 	MoRC /MTED		XXX		Government	X
1.5: Entrepreneurship and Skills Development						
<ul style="list-style-type: none"> Improve vocational training and skills development of workers 	MET	XXX	XXX	XXX	Government & donor support	
<ul style="list-style-type: none"> Design and implement programmes for managerial capacity/entrepreneurial development 	MTED	XXX	XXX		Government & donor support	
<ul style="list-style-type: none"> Enhance and expand business development services, based on needs assessment 	MTED/ TBEC	XXX			Government & donor support	
<ul style="list-style-type: none"> Awareness raising and incentives to formalise informal businesses 	MTED		XXX		Government	
<ul style="list-style-type: none"> Increase awareness of businesses for the potential of ICT 	MEIDECC/ MTED		XXX		Government & donor support	
<ul style="list-style-type: none"> Promote innovation and R&D activities 	MEIDECC/ MTED		XXX	XXX	Government & donor support	X
1.6: Developing an Investment Strategy						
<ul style="list-style-type: none"> Finalise review of the investment framework 	MTED	XXX			Government	X
<ul style="list-style-type: none"> Formulate and implement coherent investment strategy 	MTED	XXX			Government	
<ul style="list-style-type: none"> Introduce tools for investment promotion and facilitation, and operate them 	MTED		XXX	XXX	Government	X
<ul style="list-style-type: none"> Develop institutional structure and strengthen institutional capacity 	MTED	XXX	XXX		Government	

Pillar/Policy area/Measures	Responsible institution	2017-2018	2019-2020	2021-2025	Funding	Technical support needed
1.7: Targeted Sector Development						
<ul style="list-style-type: none"> Review existing sector plans and determine sub-sectors and products with large export potential; design support mechanisms 	MTED / sector ministries	XXX			Government	X
<ul style="list-style-type: none"> Implement support mechanisms 	Sector ministries		XXX	XXX	Government & donor support	
<ul style="list-style-type: none"> Study potential for new export sub-sectors and products, develop pilot projects 	MTED / sector ministries		XXX		Government & donor support	X
<ul style="list-style-type: none"> Implement pilot projects 	Sector ministries			XXX	Donor support	
<ul style="list-style-type: none"> Identify sectors, and issues, for domestic market production, develop support projects/plans 	MTED / sector ministries	XXX	XXX		Government	X
<ul style="list-style-type: none"> Review and adapt current sector-specific incentive schemes 	MTED	XXX			Government	
Pillar 2: Export Development and Trade Facilitation						
2.1: Assessing and Building Capacity for Export Development and Diversification						
<ul style="list-style-type: none"> Provide assistance for R&D to support development of prioritised sectors 	MTED/ MAFF		XXX	XXX	Government & donor support	X
<ul style="list-style-type: none"> Undertake value chain analysis of key sectors and identify strategic options for value-addition 	MTED/ sector ministries	XXX	XXX	XXX	Government	X
<ul style="list-style-type: none"> Introduce opportunities for recognising high export achievers 	MTED/ sector ministries		X		Government	
<ul style="list-style-type: none"> Provide guarantees to facilitate trade finance for new exporters 	MTED/ TDB	XXX			Government	X
<ul style="list-style-type: none"> Provide business development services and training focussed on skills and information required for exporting 	MTED/ TCCI	XXX	XXX	XXX	Government & donor support	
<ul style="list-style-type: none"> Provide technical assistance to potential exporters on quality related issues, thereby helping them to comply with health, safety, environmental and technical standards 	MTED/ TCCI	XXX	XXX	XXX	Government & donor support	X
2.2: Building a Credible Export Promotion Approach						
<ul style="list-style-type: none"> Development of an export promotion strategy 	MTED	XXX			Government & donor support	X
<ul style="list-style-type: none"> Explore suitable options for leading export promotion functions 	MTED	XXX			Government	
<ul style="list-style-type: none"> Carry out regular market analysis and customise it for prompt dissemination to the business community 	MTED	XXX	XXX	XXX	Government & donor support	X

Pillar/Policy area/Measures	Responsible institution	2017-2018	2019-2020	2021-2025	Funding	Technical support needed
<ul style="list-style-type: none"> Negotiate bilaterally for speedy processing of market access requests especially by Australia and New Zealand Strengthen provision of market information and commercial diplomacy by Tongan missions abroad Organise export promotion missions abroad, including participation in relevant foreign trade fairs Establish and maintain online export promotion platform targeting both B2B sales and sales to consumers abroad 	MAFF/ MTED	XXX	XXX		Government	
	MFA/ MTED	XXX	XXX	XXX	Government	
	MTED	XXX	XXX	XXX	Government & donor support	
	MTED	XXX	XXX	XXX	Government & donor support	X
2.3: Leveraging on Regional Trade Agreements and Preference Schemes						
<ul style="list-style-type: none"> Develop and operationalise the domestic system of issuing certificates of origin and introduce RoO regime to deal with imports under RTAs Raise awareness and provide training to businesses with regard to RoO and PSR Prepare guidebook for exporters on exporting under RTAs and preference schemes Provide hands-on training to exporters for exporting under RTA rules Focus market information and export promotion activities on RTA partner countries Promote national image and branding and liaise with RTA partner country authorities and trade development institutions 	MTED/ Customs	XXX			Government & donor support	X
	MTED/ Customs	XXX	XXX	XXX	Government	
	MTED		XXX		Government & donor support	X
	MTED		XXX		Government & donor support	
	MTED		XXX		Government	
	MTED	XXX	XXX	XXX	Government	
2.4: Strengthening Trade Negotiation Mechanisms						
<ul style="list-style-type: none"> Strengthen Trade and Economic Development Working Group by integrating into wider trade policy coordination structure and provide regular relevant training Ensure inclusive approach in planning and undertaking trade negotiations Prepare impact study of ongoing and planned negotiations, as well as RTAs in which Tonga is not participating Develop a trade negotiations strategy Formulate clear negotiation mandates for individual negotiations and negotiators Make use of available representation to maintain regular interactions with and maximise on benefits offered by the WTO 	MTED	XXX	X	X	Government	
	MTED	XXX	XXX	XXX	Government	
	MTED	XXX			Government & donor support	X
	MTED	XXX			Government	X
	MTED/MFA		XXX	X	Government	
	MTED	XXX	XXX	XXX	Government	

Pillar/Policy area/Measures	Responsible institution	2017-2018	2019-2020	2021-2025	Funding	Technical support needed
2.5: Addressing Trade Infrastructure Constraints (Quality Infrastructure and Export Facilities)						
<ul style="list-style-type: none"> Review and modernisation of laws and regulations for SPS and TBT 	MTED/ MAFFF	XXX	XXX		Government & donor support	X
<ul style="list-style-type: none"> Establish National Standardisation Body for standard setting and enforcement 	MTED		XXX		Government & donor support	X
<ul style="list-style-type: none"> Provide technical services to the productive sectors for enhanced export potential 	MTED/ NSB		XXX	XXX	Government & donor support	X
<ul style="list-style-type: none"> Establish system to monitor compliance with standards, provide adequate inspection facilities. Strengthen existing or establish new laboratory. 	MTED/ MAFFF		XXX	XXX	Donor support	X
<ul style="list-style-type: none"> Take measures to expand processing, packing, fumigation/treatment and storage facilities, possibly as PPP 	MTED/ MAFFF	XXX	XXX		Government & donor support	X
<ul style="list-style-type: none"> Establish labelling rules for products, including foodstuffs, and provide support to exporters about labelling requirements in target markets 	MTED/ MAFFF/ MOH	XXX			Government & donor support	X
<ul style="list-style-type: none"> Raise awareness among Tongan businesses with export potential about the major standards required in main export markets 	MTED	XXX	XXX	XXX	Government	
<ul style="list-style-type: none"> Actively participate in international standard setting bodies and related fora 	MTED/ NSB			XXX	Government	
2.6: Improving Customs Procedures and Risk Management						
<ul style="list-style-type: none"> Seek assistance to implement activities identified under PACER Plus fast tracking activities schedule 	MTED/ Customs	XXX			Donor support	X
<ul style="list-style-type: none"> Apply for Aid for Trade with regard to the Category C support needs under TFA 	MTED/ Customs	XXX	XXX		Donor support	X
<ul style="list-style-type: none"> Establish a National Trade Facilitation Committee and work plan for the same 	MTED/ Customs	XXX	XXX		Government & donor support	X
<ul style="list-style-type: none"> Undertake customs processes audit and wider review of institutions and processes for export facilitation 	Customs/ border agencies	XXX			Donor support	X
<ul style="list-style-type: none"> Develop and implement action plan for process optimisation, including better coordination of border agencies 	Customs/ border agencies	XXX	XXX		Donor support	X
<ul style="list-style-type: none"> Consider introduction of Authorised Economic Operator (AEO) scheme, pre-inspection of goods for export, and electronic single window approach as potential approaches to further streamline export processes and risk management 	Customs/ border agencies		XXX	XXX	Government & donor support	X

Pillar/Policy area/Measures	Responsible institution	2017-2018	2019-2020	2021-2025	Funding	Technical support needed
<ul style="list-style-type: none"> Collaborate with World Bank for the Kingdom to be included in the Logistics Performance Index 	MTED/ Customs	XXX	X	X	Donor support	X
2.7: Fine-tuning Seasonal Employment Programmes						
<ul style="list-style-type: none"> Negotiate potential extension of schemes with Australia and New Zealand into other employment areas 	MIA	XXX			Government	
<ul style="list-style-type: none"> Promote availability of new seasonal employment opportunities among Tongan workers 	MIA		XXX	XXX	Government	
<ul style="list-style-type: none"> Consider negotiation of bilateral agreements for similar programmes in other countries 	MIA		XXX		Government	
<ul style="list-style-type: none"> Provide business-oriented training to Tongan temporary workers abroad 	MTED/ TBEC	XXX	XXX	XXX	Government	
<ul style="list-style-type: none"> Develop business start-up programme for Tongan participants in seasonal employment programmes 	MTED/ TBEC		XXX		Government	
<ul style="list-style-type: none"> Periodically assess benefits and costs, including social costs, of seasonal employment programmes and identify cost-mitigating measures 	MIA	X	X	X	Government	
Pillar 3: Development of Trade Supporting Institutions and Services						
3.1: Strengthening Consultative Mechanisms and Public-Private Dialogue						
<ul style="list-style-type: none"> Establishment of a permanent Trade Policy Committee, with sub-committees as needed 	MTED	XXX	XXX	XXX	Government	
<ul style="list-style-type: none"> Based on needs assessments, provide training on trade policy issues to Government ministries and agencies, private sector and civil society organisations 	MTED	XXX	XXX	XXX	Donor support	X
<ul style="list-style-type: none"> Provide timely and relevant information about trade issues to private sector and civil society organisations 	MTED	XXX	XXX	XXX	Government	
<ul style="list-style-type: none"> Establish a PPD mechanism for trade issues which is inclusive and focused: develop terms of reference, invite representatives, formally establish 	MTED	X			Government	
<ul style="list-style-type: none"> Consult with stakeholders during the development of trade related laws and regulations, including administrative decrees, through the PPD mechanism 	MTED	XXX	XXX	XXX	Government	
3.2: Strengthening and Coordinating Trade Support Services						
<ul style="list-style-type: none"> Evaluate effectiveness of existing trade support services structure, identify gaps and overlaps, and propose corrective steps. Develop comprehensive strategy for trade support services 	MTED	XXX			Donor support	X
<ul style="list-style-type: none"> Undertake organisational review of existing service providers and determine options for enhanced support services delivery network 	MTED	XXX			Donor support	X
<ul style="list-style-type: none"> Implement the services and organisational trade support review recommendations 	MTED		XXX		Donor support	

Pillar/Policy area/Measures	Responsible institution	2017-2018	2019-2020	2021-2025	Funding	Technical support needed
<ul style="list-style-type: none"> Provide training to staff of institutions which deliver export support services, including standards institutions, trade finance institutions, private sector associations, research institutions, lawyers, and consultants. Develop a road map on how to build a credible and effective trade supporting network 	MTED	XXX	XXX	XXX	Donor support	X
<ul style="list-style-type: none"> Develop a road map on how to build a credible and effective trade supporting network 	MTED	XXX			Government	
Pillar 4: Inclusivity and Citizen Economic Empowerment						
4.1: Targeted Measures to Reduce Regional and Social Imbalances						
<ul style="list-style-type: none"> Identify and undertake targeted regional interventions, e.g. promotion of community-based tourism 	Line ministries/MTED	XXX	XXX	XXX	Government	
<ul style="list-style-type: none"> Prioritise sectoral support measures in sectors with high women and youth employment 	Line ministries/MTED	XXX	XXX	XXX	Government	
<ul style="list-style-type: none"> Promote exports of products by MSMEs 	MTED	XXX	XXX	XXX	Government	
<ul style="list-style-type: none"> Launch annual calls for proposals, and fund corresponding projects, aiming at the promotion of disadvantaged regions and population groups in Tonga's trading activities 	MTED	X	X	X	Government & donor support	
<ul style="list-style-type: none"> Complement measures to promote seasonal employment programmes with increased investment in institutional care, education and support services for elderly relatives and dependent children of seasonal workers and other vulnerable groups 	MTED		XXX	XXX	Government & donor support	
<ul style="list-style-type: none"> Conduct social impact assessments of trade policy initiatives and measures. 	MTED	XXX	XXX	XXX	Government & donor support	X
4.2: Addressing Health Issues						
<ul style="list-style-type: none"> Set tariffs and excise tax rates to incentivise healthier consumption patterns 	MOH/ MoRC	X	X	X	Government	
<ul style="list-style-type: none"> Support domestic production of healthy substitutes for imports of meat and sweetened soft drinks 	MOH/ MTED	XXX	XXX	XXX	Government	
<ul style="list-style-type: none"> The import of sub-standard goods that constitute a danger for the safety of Tongans will be further discouraged by the strengthening of the quality infrastructure and inspection of imports. 	MOH/ MTED		XXX	XXX	Government & donor support	X
4.3: Involving the Diaspora						
<ul style="list-style-type: none"> Establish and maintaining database of diaspora 	Tbd	XXX	X	X	Government	
<ul style="list-style-type: none"> Provide regular news about the Kingdom to the diaspora 	Tbd	XXX	XXX	XXX	Government	
<ul style="list-style-type: none"> Facilitate emigration of Tongans by offering vocational and technical education in areas which are in high demand abroad 	MET		XXX	XXX	Government	
<ul style="list-style-type: none"> Undertake periodical studies of labour markets in diaspora countries 	MTED		X	X	Donor support	X

Pillar/Policy area/Measures	Responsible institution	2017-2018	2019-2020	2021-2025	Funding	Technical support needed
4.4: Respecting the Environment						
<ul style="list-style-type: none"> Explicitly address environmental aspects and impacts of all trade policy measures. For environmentally sensitive policy initiative and measures, conduct formal environmental impact assessments 	MEIDECC/ MLNR/ MTED	XXX	XXX	XXX	Government	X
<ul style="list-style-type: none"> Monitor environmental impact of trading activities, such as spillages, emissions and waste issues, fish stocks and biodiversity, soil erosion and degradation, deforestation, etc. 	MEIDECC/ MLNR/ MTED/ MAFFF (Fisheries)	XXX	XXX	XXX	Government	X
<ul style="list-style-type: none"> Launch annual calls for proposals, and fund corresponding projects, aiming at the promotion of green trade 	MEIDECC/ MLNR/ MTED		X	X	Government & donor support	

