



Office of the Chief Trade Adviser

**ASSESSMENT OF THE POTENTIAL IMPLICATIONS FOR
TONGA'S PRIVATE SECTOR OF A REGIONAL PACER
PLUS AGREEMENT**

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ACRONYMS

FFA	Pacific Island Forum Fisheries Agency
FDI	Foreign Direct Investment
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GNI	Gross National Income
ICT	Information and Communication Technology
IMF	International Monetary Fund
IIT	Institute for International Trade
IT	Information Technology
ITC	International Trade Centre
NIIP	National Infrastructure Investment Plan
PACER	Pacific Agreement on Closer Economic Relations
PACER Plus	Pacific Agreement on Closer Economic Relations Plus
PICs	Pacific Island countries
PICTA	Pacific Island Trade Agreement
PIF	Pacific Island Forum
OCTA	Office for the Chief Trade Adviser
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
RCA	Revealed Comparative Advantage
RoO	Rules of Origin
RSE	Recognised Seasonal Employer
SPARTECA	South Pacific Regional Trade and Economic Cooperation Agreement
SPS	Sanitary and Phytosanitary
SSME	Small, medium and micro enterprises
SWP	Seasonal Worker Programme
TBT	Technical Barriers to Trade
TCCI	Tonga Chamber of Commerce and Industry
TSDF	Tonga Strategic Development Framework
USA	United States of America

WTO

World Trade Organisation

EXECUTIVE SUMMARY

The preparation of this report was at the initiative of the Tonga Chamber of Commerce and Industry (TCCI) and the Tonga Ministry of Foreign Affairs, with the Office of the Chief Trade Adviser (OCTA) for Pacific Island Countries (PICs) providing technical support. The study is a recognition by the TCCI and the Tonga Government of the important role that the private sector can play in tapping potential benefits envisaged under the Pacific Agreement on Closer Economic Relations Plus (PACER Plus) for the economic growth and sustainable development of Tonga.

The Kingdom of Tonga is a small economy classified by the World Bank as an upper middle-income developing country with a *per capita* income of US\$4,311 in 2015. The country is trade dependent and relies on high proportions of imports for food and production inputs. Most of Tonga's exports are from agriculture, fisheries and tourism sectors. External aid and remittances from Tongans abroad also play an important role in sustaining the economy. The significance of trade to the development of the Tongan economy cannot be over emphasised. Apart from being a WTO Member, Tonga is involved in a number of regional trade initiatives aimed at helping boost Tonga's external trade. It is in this regard that Tonga is actively engaged in the PACER Plus negotiations, which is to result in a trade and development agreement. To ensure that Tonga benefits fully from PACER Plus, Tonga has recognised the importance of preparing its private sector so that they can take advantage of the opportunities provided under PACER Plus.

The study critically examines the implications of the PACER Plus agreement for Tonga's private sector and assesses its readiness to trade under PACER Plus. In this regard, the study will also identify some of the constraints and challenges faced by the Tonga private sector in conducting trade as well as identify means through which the Tongan government can assist in ensuring that private sector maximises the benefits under PACER Plus, and translate them into tangible contribution towards Tonga's economic growth and development. By doing so, the study complements OCTA's work on needs assessments of PICs that was conducted as part of the PACER Plus development assistance work programme, which identified some of the critical areas for capacity building aimed at strengthening the private sector ability to trade under PACER Plus.

Whilst the PACER Plus agreement brings opportunities for the private sector of Tonga, the sector, which is dominated by small, medium and micro enterprises (SSME), faces unique challenges and difficulties, endogenous (national) and exogenous (foreign), which constrain their ability to expand trade. In developing this report, consultations with the private sector have shown that it is largely concerned about endogenous supply constraints that affect their ability to supply rather than demand side constraints (market access constraints), some of which, they realise, cannot be altered under PACER Plus. Indeed, the Tonga government, together with the private sector, are in a better position to address the endogenous factors than the exogenous constraints. In this regard, the study assesses the preparedness of the Tongan private sector to determine if it can immediately take advantage of the potential PACER Plus agreement. In doing this, the study provides a sector analysis of Tonga's priority sectors for development (agriculture, manufacturing, fisheries and tourism) as identified in the Tonga Strategic Development Framework (TSDF) 2015-2025. The same priority areas were also identified by the Tonga Chamber of Commerce and Industry (TCCI) as focus areas for OCTA consultations.

In carrying out this study, the OCTA:

- a. Examined the implications of the PACER Plus agreement for Tonga's private sector – providing analysis for each PACER Plus Chapter;
- b. Conducted an assessment of the potential opportunities available to Tonga through its participation in the PACER Plus negotiations;
- c. Identified the constraints that are likely to prevent Tonga's private sector, including at the sectoral level, from fully benefiting from PACER Plus;
- d. Assessed the capacity of the Tongan private sector to take full advantage of potential PACER Plus opportunities, particularly market access opportunities; and
- e. Assessed the readiness of the Tonga private sector, at the sectoral level, to immediately start benefiting from PACER Plus upon the agreement coming into force.

The study comes up with a number of key findings and makes two sets of recommendations – those which would help in immediately improving the situation of the private sector so that it can start benefiting from PACER Plus as soon as the agreement comes into force and those which will improve the ability of the private sector to continue to meaningfully trade under PACER Plus in the medium to long-term.

1. INTRODUCTION

This study was initiated by the TCC and the Government of the Kingdom of Tonga with a view to assessing the potential implications of the PACER Plus Agreement, especially in view of the key role that the private sector plays in translating a trade agreement to tangible benefits for a country and assisting its economic growth and development.

The purpose of this study is to identify the potential benefits, challenges and opportunities for Tonga's private sector, which the PACER Plus Agreement might bring. Focus will be given on agriculture, fisheries and tourism, which are Tonga's priority areas for development as identified in the Tonga Strategic Development Framework (TSDF) 2015-2025.¹ Given this backdrop, the study:

- a. Examines the implications of the PACER Plus agreement for Tonga's private sector – providing analysis for each PACER Plus Chapter;
- b. Conducts an assessment of the potential opportunities available to Tonga through its participation in the PACER Plus negotiations;
- c. Identifies the constraints that are likely to prevent Tonga private sector, including at the sectoral level, from fully benefiting from PACER Plus;
- d. Assesses the capacity of the Tonga private sector to take full advantage of potential PACER Plus opportunities, particularly market access opportunities; and
- e. Assesses the readiness of the Tonga private sector, at the sectoral level, to immediately start benefiting from PACER Plus upon the agreement coming into force.

The findings are expected to inform the Tonga Government and the TCCI on the implications of the PACER Plus agreement for the Tonga's private sector and on its level of preparedness and capacity to derive benefits under PACER plus. The findings will also provide a framework to guide future trade negotiations that Tonga might decide to take part in, to ensure the benefits of future proposed agreements meet both the government and the private sector.

2. APPROACH AND METHODOLOGY

The initial phase of the research involved desk-top review of various literature on trade and development issues in Tonga and the role of the private sector. Data was also gathered on Tonga's private sector and its capacity to take advantage of potential benefits from previous trade agreements to which Tonga is a party to. The second phase of the research involved close collaboration with the Tongan Ministry of Foreign Affairs and Tonga TCCI to carry out consultations with key representatives of the Tongan private sector. Group discussions were carried out with the TCCI, which were followed by a number of discussions with sector specific representatives. The discussions were aimed at gathering experiences by the private sector in tapping the benefits from trade agreements previously negotiated by the Tongan Government as well as gathering insights on their views regarding the potential opportunities under PACER Plus and the constraints they are likely to face in taking advantage of the identified opportunities. The consultations were used to gather information on the potential implications

¹ The same priority areas were identified by the TCCI as focus areas for OCTA consultation with private sector. While it is important for Tonga to identify the sectors and subsectors which Tonga has export interest with the view to ensure that these sectors benefit from PACER Plus, this does not entail, in any way, that the other sectors that are not examined in detail in this study are less important to the Tonga economy and neither are they immune from the effects of PACER Plus.

of the PACER Plus Agreement on the Tongan private sector, identifying the likely challenges it might face and possible solutions to the challenges as well as assess the private sector's capacity to take advantage of the potential benefits. The discussions were also meant to gather insights on the private sector's preparedness to take advantage of PACER Plus opportunities.

3. BACKGROUND

Tonga is classified by the World Bank as an upper middle-income developing country with a *per capita* income of US\$4,311 in 2015.² Tonga is a trade dependent country that relies on high proportions of imports of food and production inputs. Most of Tonga's exports are from the agriculture, fisheries and tourism sectors. The contribution of trade to GNP has been increasing over the past five years (Table 1), albeit moderately. External aid and remittances from Tongans abroad also play an important role in sustaining the economy. Table 1 shows that net ODI received and personal remittances received make a significant contribution to Tonga's GNI and GDP, respectively. Economic growth has been very modest over the past 4 years with Tonga recoding a 4 percent growth rate in 2010, which was followed by low growth rates in the subsequent years. During the last four years, the country also experienced an average growth rate of 2.8% which was the average growth rate of other PICs.³

Table 1: Key economic indicators

Indicator	Year				
	2010	2011	2012	2013	2014
GDP (US\$ m)	370	441	457	433	434
GDP Growth rate (annual %)	4	2	0.5	-2.7	2
Trade (% GDP)	61	66	75	78	71
Exports goods and services (% GDP)	13	17	20	21	18
Imports goods and services (% GDP)	48	49	56	57	54
Personal remittances received (% GDP)	20	18	26	28	-
Population Growth Annual	0.5	0.4	0.3	0.3	0.4
GDP per capita (US\$)	3558	4227	4364	4117	4114
GDP per capita growth (annual %)	4	2	0.1	-3	2
Net ODA received (% GNI)	18	21	17	18	-

Source: World Development Indicators

The Tonga Strategic Development Framework (TSDF) 2015-2025 acknowledges that growth is central to a better quality of life for Tongans and that such growth must be inclusive and sustainable. The TSDF also acknowledges the importance of alleviating poverty as well as providing safer and better public infrastructure. The low economic growth experienced in recent years provides reason for concern for the Tongan Government as low growth levels are unlikely to bring about the required inclusive growth capable of generating employment and incomes for all people while at the same time raising government revenue which is essential for the provision of quality public services.

² IMF World Economic Outlook Database

³ Budget Statement 2014/2015

In that context, the government is trying to ensure that trade drives economic growth and development, particularly in view of the low export contribution to GDP compared to imports (Table 1). The challenge is to raise economic growth through economic diversification and increased productivity, particularly in those sectors that Tonga has much potential for exports and thus increase its trade. The role of the private sector has been identified to be critical in this regard. The TSDP 2015-2025 outlines three outcomes which are critical to the development of the private sector:

- a) the need for a dynamic public and private sector partnership aimed at bringing civil society, the private sector and government to align behind the framework in order to ensure its success through identifying and addressing constraints to inclusive growth and development;
- b) the need to create and strengthen an enabling environment for business, which among other things encourages investment and employment creation;
- c) the need to improve public enterprise performance with the view to, among other things, support the growth of business;
- d) the need to be able to have access to opportunities overseas including trade and foreign investment.

In this regard, the private sector and government will work closely in policy formulation and implementation and the promotion of regional and international trade.

According to the Ministry of Finance, growth in Tonga is dependent on the conditions in its trading partners, particularly Australia and New Zealand.⁴ In its endeavour to ensure that trade propels the country's economic growth and development, Tonga has been very active in the PACER Plus negotiations.

The genesis of PACER Plus can be traced to the Pacific Agreement on Closer Economic Relations (PACER), a framework agreement between the PICs and Australia and New Zealand signed in August 2001 for the purposes of creating deeper liberalisation of trade and investment among the PICs. The PACER framework envisaged the PICs entering into a Pacific Island Trade Agreement (PICTA), which was to encourage trade and investment amongst themselves prior to further liberalisation between them and Australia and New Zealand. In this regard, PACER included a 'trigger clause' that would oblige the PICs to negotiate a WTO-consistent reciprocal free trade agreement with Australia and New Zealand within eight years from entry into force of PICTA or when they commence negotiations with a developed or group of developed countries.⁵

Given this backdrop, the PICs, Australia and New Zealand agreed in August 2009 to start PACER Plus negotiations aimed at a wider free trade and economic development agreement between them. PACER Plus is being crafted and designed to transform PICs for the type of growth and development that leads to poverty reduction, growth that generates incomes across the region and increase the opportunities and options for future economic growth and development. This is done in the context of the realisation of the vulnerability of PICs' economies and that their success in achieving economic development is dependent on, inter

⁴ Budget Statement 2014/2015

⁵ Article 5 of PACER provided a trigger for PICs to engage in FTA negotiations with Australia and New Zealand, either individually or jointly, if any PIC initiated FTA negotiations with any other OECD country.

alia, assisting them to enhance PICs productive capacities, diversify their economies and attract foreign direct investment (FDI). In this regard, the current proposed PACER Plus agreement covers substantial areas of trade, economic and development relationships between the PICs, Australia and New Zealand. The areas covered include trade in goods (which covers issues such as tariffs, rules of origin, customs procedures, sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT)), trade in services, investment, labour mobility, temporary movement of natural persons and development assistance.

Once signed and ratified by all Parties, the PACER Plus agreement will be the most comprehensive trade and investment agreement signed by the PICs. The agreement, if concluded, will present a unique opportunity for Tonga and the PICs to achieve economic growth and sustainable development. The agreement will contain innovative features that would allow Tonga and the PICs to attract FDI into the most important sections of their economies and diversify their trade.

From the foregoing, it is critical to understand the constraints faced by Tonga's private sector together with the implications the PACER Plus Agreement might have on the ability of the private sector to not only trade, but grow under PACER Plus. Such an understanding would help in assessing the readiness of Tonga private sector to do business under PACER Plus and determine the level of preparedness and try and mitigate constraints and challenges they could potentially face before the agreement comes into force.

4. SITUATIONAL ANALYSIS – PRIVATE SECTOR AND TRADE

The Tongan Private Sector

The private sector in Tonga encompasses a number of economic activities performed by individuals, SMEs etc that are not linked to the government, to include those carried out by individuals, partners or companies for the purpose of making a profit. The sector is involved in a number of local commercial activities and export activities. It is predominantly responsible for production for domestic consumption and for exports. It is also the main provider of jobs and steady income, helping in uplifting the standards of living of Tongans. Business activities are predominantly in services such as financial, food and professional services and in trade activities such as wholesale, and distribution. The private sector is also largely dominated by small business, approximately 80% of all enterprises have less than **XX** employees. Nevertheless, it remains Tonga's largest source for government revenue. Existing together with the private sector are State-owned enterprises in a number of sectors, including telecoms, utilities, transport and banking, which provide services that are vital for the functioning of the private sector.

The private sector has potential for greater expansion as demonstrated by the number of business registrations in the country. For instance the first quarter of 2013 saw the registration of 219 business activities in Tonga, 58 percent in the Service sector, 32 percent in Trade sector and 5 percent in Manufacturing and Tourism sectors. There were also 30 company registrations and 10 Foreign Investment Certificates issued in the same quarter.⁶ In the second quarter of the same year, 167 business were registered with 42 percent in Services sector, 39 percent in the Trade sector, 14 percent in the Tourism sector and 5 percent in the Manufacturing sector.

⁶ MCTL Quarterly Business Update, January-March 2013

There were also 20 company registrations and 8 Foreign Investment Certificates issued in the same quarter, 3 of which were for both services and trade investment and 2 were in tourism related activities. There were about 979 companies registered in Tonga by the end of the second quarter of 2013.⁷

The country's TSDf recognises the important role played by the private sector in the development of the Tongan economy and notes the need for government to engage 'more closely with the private sector' with the view to understand the challenges and opportunities faced by the businesses. In this regard, it is important to examine the interplay between the public sector and the private sector, particularly with regards to how the engagement contributes to the readiness of the private sector to trade under PACER Plus.

Current Trade and Economic Relations

Tonga does not have a coherent trade policy framework that guides its trade policy formulation and implementation. Efforts are being made to develop a Trade Policy Framework with the help of the International Trade Centre (ITC). Tonga has only one bilateral agreement with Fiji, signed in 1995, providing non-reciprocal market access for 20 Tonga agricultural products exported to Fiji. It has signed PICTA but has not announced its readiness to trade under it. At the multilateral level, Tonga is a member of the WTO, having acceded in July 2007. The WTO continues to provide the basic context for Tonga's trade and economic policy, particularly in enabling trade to be carried out in a fair, secure transparent and predictable rules-based environment. There is a Trade Policy Committee composed of officials from various government departments, which determine national positions on trade policy and trade related issues.

According to the WTO, most goods can be traded in Tonga without any trade restrictions (other than import duty, taxes, and charges).⁸ However, Tonga prohibits certain products on the grounds of human, animal or plant life; public morals; national security; cultural heritage; natural resource conservation, and intellectual rights concerns. There are also export procedures and requirements which exporters are expected to meet. Exporters are required to hold a valid business licence. In the case of a foreign investor, the investor must obtain an investment certificate before getting a business licence. Nevertheless, domestic and foreign exporters are treated the same. Exporters are expected to declare their exports to Tonga Custom before they leave Tonga. All exports are free of export and excise taxes and consumption tax is not charged on exports. However, exports are subject to an inspection fee of T\$20 and a processing fee of T\$2 per customs declaration form. There are also fees for phytosanitary procedures on some exports as provided in the Plant Quarantine (Fees) regulations 1997. There are a number of prohibited exports as in the case of endangered species or under the Customs and Excise Management Order.

As a member of the Pacific Island Forum (PIF), Tonga has participated in several regional initiatives to expand its trade in the region. In this regard, Tonga is a party to the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), PICTA, and PACER, and is now involved in the negotiations of the PACER Plus Agreement. Tonga has also been involved in the negotiations for a Comprehensive Economic Partnership Agreement between

⁷ MCTL Quarterly Business Update, April-June 2013

⁸ WTO (2014) Trade Policy Review of Tonga, WT/TPR/S/291

the EU and the Pacific ACP countries. However, Tonga has not been able to benefit much from these initiatives, partly because some are not fully operational except, SPARTECA, which offers preferential trade for Tongan products destined for the Australian and New Zealand markets. Available trade data in Table 2 shows that Tonga traded more with Australia and New Zealand than other PICs, partly due to tariff preferences under SPARTECA. Besides exporting more to Australia and New Zealand, Tonga also imports more from these countries compared to other PICs. In addition, Tonga has a limited range of exports – exporting primarily agriculture (mainly root crops, coconut and squash) and marine products, which help explain why Tonga does not export much to the other PICs as their major exports are similar to those of Tonga.

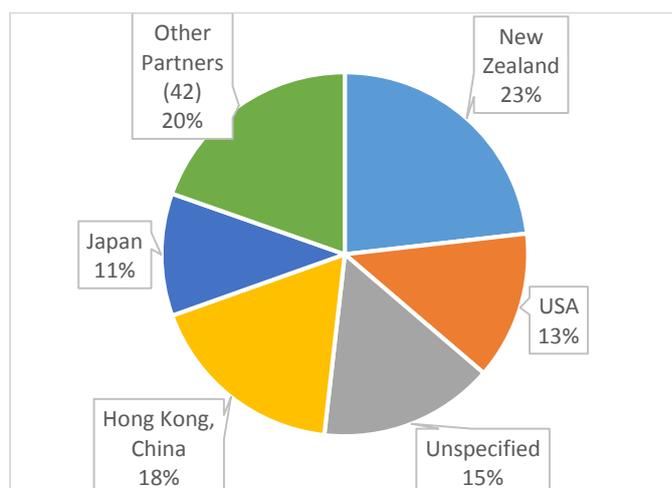
Table 2: Tonga’s exports and imports of goods in the region, 2014 in US\$ `000

Country	Exports	Imports
Australia	1538.682	11761.97
Cooks Islands	4.87	38.228
Fiji	146.811	17063.67
Kiribati	7.528	0.191
Marshall Islands	9.125	-
Niue	0.054	32.654
Nauru	19.208	-
New Zealand	4086.106	62424.97
Papua New Guinea	1.512	161.93
Samoa	428.918	61.811
Vanuatu	2.926	243.718

Source: World Integrated Trade Solution (WITS)

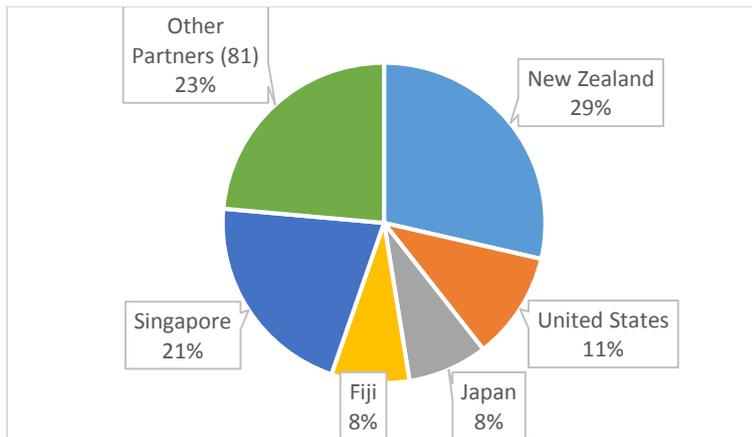
Furthermore, whilst New Zealand is Tonga’s largest trading partner at the global level, Australia is not, when compared to Japan and the USA (Figures 1 and 2). This makes the Australian market a potential area for trade expansion under PACER Plus given its geographical location to Tonga compared to the USA and Japan.

Figure 1: Tonga 2014 Export Partner Share (%)



Source: World Integrated Trade Solution (WITS)

Figure 2: Tonga 2014 Import Partner Share (%)



Source: World Integrated Trade Solution (WITS)

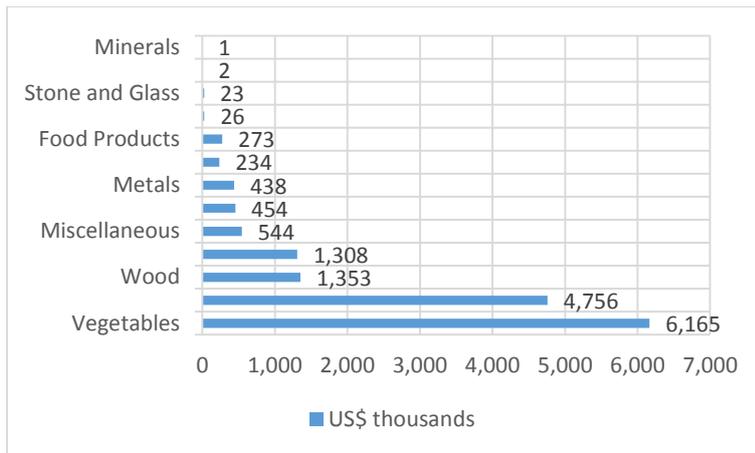
There are a number of factors which can help explain why Australia is not one of Tonga's major trading partners at the global level. Most such factors are related to difficulties faced by Tonga in accessing the Australian market due to strict technical regulations, standards, SPS and bio-security requirements.

The other possible reason is that although Tonga remains competitive compared to other PICs in terms of doing business, it still experiences high trading cost when trading with Australia compared to other PICs. Available World Bank International Trade Costs data shows that in 2012 Tonga's trade cost with Australia was US\$ 207.48 compared to Fiji US\$ 96.58, Samoa US\$129.95 and Vanuatu US\$149.47.

The statistics reveal that Tonga's top export are vegetables (39.56%) (Figure 3) and they appear to have a comparative advantage in their production (15.9) (Figure 4).⁹ This suggests that Tonga is exporting more of what it should. In this instance, Tonga has to give much attention to producing vegetables.

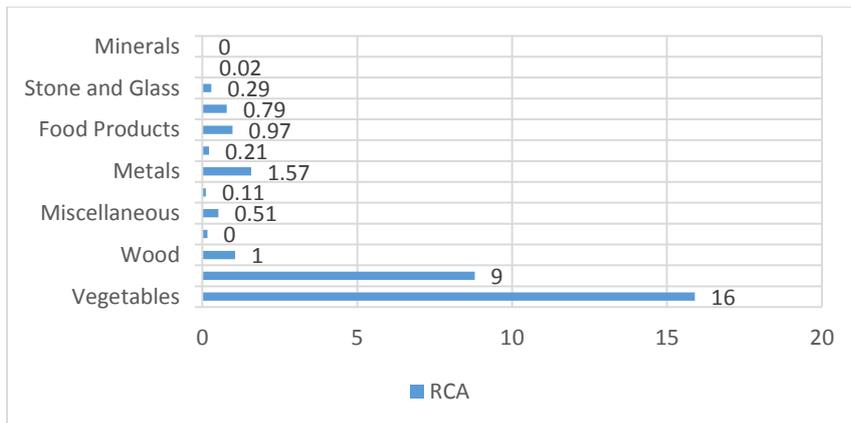
⁹ RCA involves measuring a country's exports in comparison with those of a bigger group, for example region or world. For instance if a country's export of textiles is higher (greater than one), it shows that textiles makes up a bigger share of that country's exports than it does of regional or world exports, suggesting that the country is more efficient in the manufacture of textile.

Figure 3: Tonga Product Export, US\$ thousand



Source: The World Bank

Figure 4: Tonga Revealed Comparative Advantage



Source: The World Bank¹⁰

Services exports, particularly tourism, also contribute substantially to export earnings. In fact, the services sector, and tourism exports in particular, has been increasing significantly in the last decade. For instance, earnings from total services exports increased from US\$75 million in 2005 to US\$120 million in 2014 and those for travel and tourism rose from US\$19 million in 2005 to US\$62 million in 2012. Tonga had made GATS commitments in 90 out of 160 services sub-sectors, 77 of the subsectors being without any sector-specific limitations to market access and national treatment.¹¹ On the other hand, Tonga also made few commitments in some commercially important subsectors such as maritime services and business services. According to the WTO, Tonga signed the PICTA Trade Protocol with the view to potentially benefit from increasing trade in services.¹² In addition, Tonga is offering to make some improvements to its services commitments under PACER Plus. Besides pursuing regional trade liberalization in goods and services, Tonga is also seeking to improve labour market

¹⁰ <http://www.worldbank.org/en/news/video/2014/09/30/revealed-comparative-advantage-data>

¹¹ WTO (2014) Trade Policy Review of Tonga, WT/TPR/S/291

¹² Ibid.

opportunities for Tongans to work abroad, which will, in turn, increase remittances from abroad as well as help reduce domestic unemployment.

5. PACER PLUS AGREEMENT – POTENTIAL IMPLICATIONS

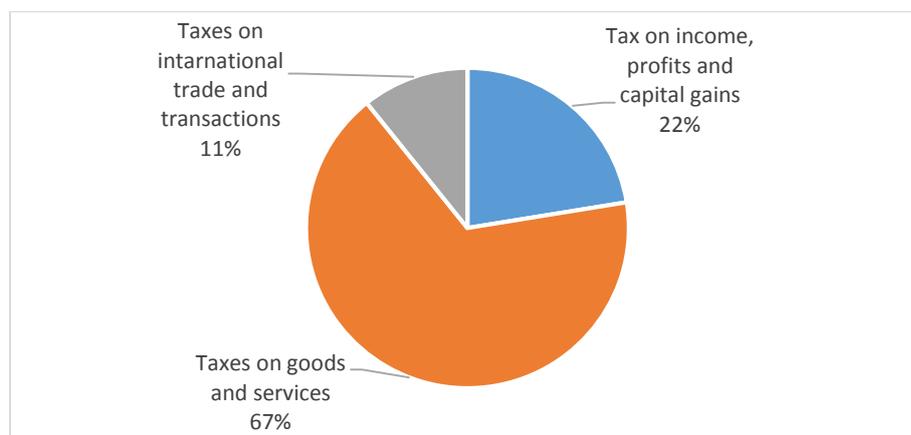
There is a range of potential implications of PACER Plus agreement for both the Tongan Government and the private sector. Previous studies, done before the negotiations for PACER Plus started, attempted to assess its potential impact on PICs, with considerable difficulties given the lack of detailed knowledge of the provisions of the eventual agreement. The lack of detailed information on sectors under liberalisation and the extent of the liberalisation made it impossible to assess the impact of PACER Plus on both the private sector and on government. This study has the advantage that it comes at a time when the PACER Plus negotiations are at an advanced stage and nearing conclusion with most legal texts agreed and schedules in the process of being finalised. It is therefore in a better position to give an assessment based on the progress made in the negotiations. Below is a Chapter by Chapter assessment of the potential implications of the PACER Plus agreement for the Tongan private sector.

Trade in Goods Chapter

Commitments under Trade in Goods Chapter will require Parties to eliminate import duties on substantially all imports from other Parties. At the Government level, this entails some revenue loss. However, as argued by the IIT Report, Tonga is unlikely to experience significant losses as Tonga has already undertaken measures to broaden its revenue base and limit its dependency on tariff revenue.¹³

The WTO estimated that in financial year 2012/2013, the Tongan Government collected T\$55 million in revenue from value added tax compared to T\$30 million from excise duty and T\$14.7 million in tariff revenue.¹⁴ According to the Tongan Government, in the 2014/2015 financial year, tariffs contributed about T\$ 16.6 million or 11 percent to Tonga government revenue compared to T\$34.7 million or 22 percent from income, profit, and capital and T\$ 103.4 million or 67 percent from tax on goods and services (Figure 5).

Figure 5: Taxes Revenue (T\$ million)



Source: Tonga Budget Statement 2014/2015

¹³ IIT (2008) Research Study on the Benefits, Challenges and Ways Forward for PACER Plus.

¹⁴ WTO (2014) Tonga Trade Policy Review

As such, reduction of duties on Tonga's imports from other PACER Plus Parties would not have a negative impact on overall Government revenues, as different tax instruments can be used to compensate for any reduced tariff revenues. In addition, Tonga has the flexibility in PACER Plus to exclude certain items from tariff reductions and to phase out tariff reductions over a period of up to 25 years. Accordingly, adjustments should not be sudden or difficult.

At the private sector level, the Chapter on Trade in Goods could affect Tongan firms in diverse ways. A direct consequence, for instance, would be when Tongan firms export to, or import from, other PACER Plus Parties. Indirect implications may arise, for instance, when there are changes to the relative price of goods and services on the Tongan domestic market as a result of the creation of a more competitive trade and investment regime by PACER Plus.

Direct implications could include the need for Tongan companies to comply with relevant rules and regulations which might be introduced under PACER Plus. The implementation costs, if any, would be very minimal as the PACER Plus Agreement follows closely WTO rules. Any costs are likely to be offset by the reduction in trading costs as well as the simplification of procedures associated with the movement of goods across borders, which will help producers in Tonga to take advantage of enhanced market access to other PACER Plus Parties. In addition, Tongan producers who use imported inputs will benefit from lower prices of imported inputs which would help their products to become more competitive in international markets.

An indirect implication of the PACER Plus Agreement would be the reduction of customs duties leading to increased imports and competition with these products. The longer implementation period for tariff reductions will give Tongan companies considerable time to adjust to increased competition. For products in respect of which Tonga will not be undertaking tariff commitments, producers of such products will not face increased competition. Lower prices of products for consumers and firms would help incentivise companies to be more innovative, efficient and more productive, attracting more investment and creating opportunities for participating in value chains.

Should there be cases of unfair trading from any of PACER Plus Parties, the Tongan Government can protect the private sector by having recourse to trade remedies such as antidumping and safeguards measures under the Agreement.

The private sector is expected to benefit from the commitments on transparency, including the publication of relevant trade laws and regulations, and the right to challenge any arbitrary administrative decisions that would distort trade and reduce security for exporters. In addition, there will be disciplines on import licensing to ensure that PACER Plus Parties do not use them in an unnecessarily restrictive manner.

Trade in Services Chapter

Trade in services in Tonga covers a broad range of sectors, including business/professional services, communication, construction, distribution, education, energy, environmental, financial, health/social, travel/tourism, recreational/cultural/sporting, and transport services.

The Chapter on Trade in Services in PACER Plus is largely based on the WTO's General Agreement on Trade in Services, to which Tonga already subscribes. The Chapter contains basic disciplines on non-discrimination and transparency, and aims to create an enabling environment for service suppliers to operate across borders.

Since Tonga already has significant commitments on services in GATS, a key benefit of PACER Plus is that it would ensure that other PICs provide similar guarantees of access that Tonga already provides. This would expand the regional market, and benefit Tongan services exporters.

Tonga would also get improved guarantees of access for its services and service suppliers to the Australian and New Zealand markets. This increased market access can help contribute to the expansion and diversification of Tongan businesses and exports, and help grow Tonga's services sector. Better quality and lower cost services benefit not only consumers, but all companies in other sectors of the economy that use transport, financial, or telecommunication services as inputs.

By providing clear and predictable rules for trade in services, PACER Plus can help attract foreign investment in this sector of Tonga's economy, thereby providing opportunities for new services and upgraded installations, transfer of technology and skills, and joint ventures. In addition, commitments by other Parties to PACER Plus on natural persons providing services (mode 4) will make it easier for Tongans to temporarily move across borders to go provide a service, explore business opportunities, or negotiate the sale of services with clients. In effect, there will be several benefits for the private sector of Tonga.

One possible challenge is that foreign service suppliers may challenge the dominance of Tongan service suppliers. While this is theoretically possible, it is open to Tonga to exclude certain services sectors from liberalisation. It can also require foreign service suppliers to enter into joint ventures with domestic service suppliers thereby creating opportunities for them. The Chapter does not deal with subsidies, so it is open to the Tongan Government to provide support to domestic service suppliers where necessary.

Rules of Origin Chapter

Rules of Origin under PACER Plus will help establish the origin of Tongan exports to other PACER Plus Parties. The adoption of product specific rules of origin under PACER Plus will imply that Tongan exporters will have to meet such rules if they are to benefit from preferential treatment under the agreement.

Most Tongan exports are primary products – fresh fruits and vegetables and fish – and as such determining their origin is straightforward, as the agricultural products are grown in Tonga and fish and marine products are caught in Tonga waters. However, this is not the case with regards to Tongan processed products, particularly where there is use of imported inputs. Under such circumstances, a certain percentage of the value of the product should come from operations in Tonga or from other PACER Plus Parties. The intention under PACER Plus, however, is to create more flexible rules of origin, which will allow producers to use a very wide range of foreign inputs. Tongan firms can therefore benefit from these rules, as they will be able to use foreign inputs in manufacturing their products and selling them duty-free to other PACER Plus Parties, including Australia and New Zealand. It will also provide Tongan firms the opportunity to participate in regional and global value chains, which offer new routes to markets for export products and expansion of business opportunities across borders. This is especially important given that reaching international markets can be very difficult for firms located in Tonga. It is crucial that Tongan firms seeking to export goods to other PACER Plus countries understand the rules of origin established under PACER Plus so as to be able to take advantage of the duty-free access to Australian and New Zealand markets as well as those of other PICs.

While the rules of origin should promote intra-trade among PACER Plus Parties, they will also prevent circumvention by third parties, which may attempt to enter Tonga through a PACER Plus Party. In that way, the private sector will be protected against unfair competition.

Customs Procedures Chapter

All PACER Plus countries are encouraged to introduce best international practices in customs procedures so as to facilitate the faster clearance of goods across borders. In this regard, the PACER Plus Chapter on Customs Procedures is designed to facilitate trade between the Parties and also with third parties by reducing red tape and simplifying trade rules and regulations. The FICs will get assistance to modernise their customs infrastructure in order to maximise benefits from the Agreement. The Parties have agreed, *inter alia*, to: promote the efficient administration of customs procedures; simplify and harmonise customs procedures; and facilitate trade between Member states. In addition, the Chapter contains specific measures and procedures to help reduce customs delays such as use of automated systems, express shipments and the release of goods, as well as a number of other relevant trade facilitation measures in the areas of valuation, advance rulings, risk management, confidentiality, enquiry points, transparency, and beyond. For instance, the Chapter requires Parties to adopt or maintain procedures that facilitates the release of goods within 48 hours of arrival or as soon as possible.

Such measures have the potential to reduce companies' trade costs and Tongan exporters and importers would benefit when they comply with relevant customs procedures which fall under the jurisdiction of each Party but guided by PACER Plus. This will help improve efficiency and reduce transaction costs for the Tongan private sector. The importance of trade facilitation to Tonga's private sector cannot be overemphasised, as the cost of doing business in Tonga is high and tends to deter expansion on investment. Tonga's private sector experience high transport costs and trade delays, particularly due to distance from major markets. Available data from the World Bank Doing Business databank shows that the time necessary to comply with all procedures required to export, starting from the moment the export is initiated up until it is completed, is 22 days in Tonga, compared to 9 days in Australia and 10 days in New Zealand. On the other hand it takes 25 days to comply with all procedures required to import goods, starting from the moment the import is initiated up until it is completed in Tonga, compared to 8 days in Australia and 9 days in New Zealand.

Further, it is expected that these measures will help Tongan companies to increase their trade as the rules would enhance private sector productivity through reduced trading costs and enhanced competitiveness, enabling the private sector to take advantage of the opportunities created under PACER Plus. In addition, the measures hold the potential to give Tongan firms the opportunity to become international players as they grow and strengthen their productive capacities and operations through increased trade in the region, particularly with Australia and New Zealand.

Sanitary and Phytosanitary Chapter

Like the WTO SPS Agreement, the PACER Plus Agreement will allow Parties to impose SPS measures to promote human, animal, or plant life and health, while at the same time avoiding unnecessary barriers to trade. SPS measures are typically aimed at avoiding food contamination or any diseases that pose a risk for human health as well as preventing the spread of diseases caused by animals such as dogs and pests and diseases which could be harmful for plants.

Unless contained, there is a risk that an outbreak of a disease could have huge financial implications for farmers and countries. The challenge from a trade perspective is to ensure that these SPS measures are not arbitrary and a disguised restriction on trade. The PACER Plus Chapter attempts to strike a balance between the right of countries to adopt SPS measures and at the same time ensure that there are no unreasonable restrictions on trade between the Parties.

In this regard, the Chapter allows Parties to adopt SPS measures if there is adequate scientific justification for the measures. Measures which are based on guidelines or recommendations of *Codex Alimentarius*, the International Plant Protection Convention and the Organisation of Animal Health are presumed to be in conformity with the SPS Chapter. In addition, provisional SPS measures can be adopted in the absence of scientific evidence if such measures are 'based on' pertinent information related to the subject matter and if steps are taken to provide the scientific evidence within a reasonable period of time. The measures should also be applied only to the extent necessary to protect human, animal or plant life or health, and should not unjustifiably discriminate between countries where identical or similar conditions prevail, including between the territory of the country imposing the measure and that of other countries. Moreover, the Chapter aims at harmonising Parties' SPS measures or accepting each other's measures as equivalent where the necessary conditions are fulfilled.

Reasonable administration of SPS measures would encourage the free flow of goods between the Parties. As discussed above, Tonga already has some SPS measures in place, which are intended to minimise risks associated with imported products that pose a risk to the health and safety of its people, animals, and natural environment. In this regard, Tonga can continue to maintain existing SPS measures or enact new measures, provided it has adequate scientific justification. It could ban products which have a high fat content and pose health risks. While PACER Plus is intended to promote trade between the Parties, it would not take precedence over the right of countries to ensure the health and safety of humans, animals and plants. The Tongan private sector, particularly those engaged in the agriculture sector will benefit from protection against the introduction of pests and diseases from abroad.

While compliance with the SPS measures of other PACER Plus Parties will enhance market access for Tongan products, the cost can be prohibitive, especially for small suppliers. Conscious of the challenges faced by the FICs, Australia and New Zealand have agreed to provide assistance to exporters through programmes such as PHAMA so as to enable them to have unhindered access to their markets.

Technical Barriers to Trade Chapter

Like the SPS Chapter, the Technical Barriers to Trade (TBT) Chapter seeks to guarantee the right of PACER Plus Parties to adopt legitimate measures such as those aimed at preventing deceptive practices and ensuring consumer safety, and protecting essential security interests, whilst at the same time avoid unnecessary obstacles to trade. The objective is to promote trade between the parties, but at the same time allow them to pursue legitimate objectives.

Given the broad coverage of TBT measures (technical regulations, standards and conformity assessment procedures), which include regulations on the sizes of products, their shape, weight, design, performance, functionality, and packaging, it could be costly for Tongan

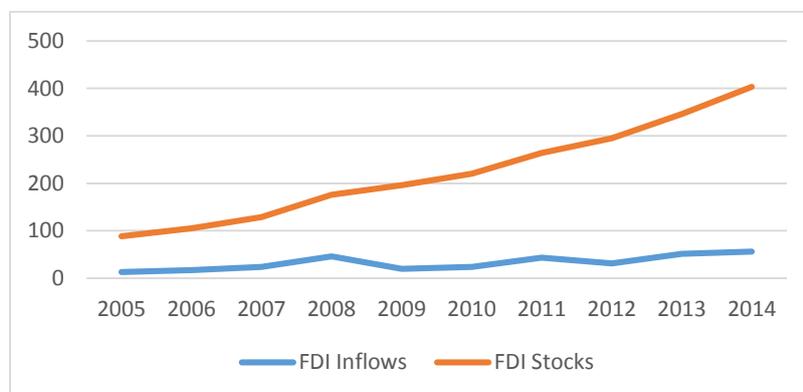
producers and exporters to comply with TBT measures of their trading partners, as they may have to seek the services of experts in the destination market, adjust their production processes to ensure compliance with the relevant measures, and pay for firms to assess compliance with the relevant technical regulations and standards. These costs could discourage Tonga’s small producers and exporters from looking for markets abroad and thereby discourage trade between Tonga and other Parties. However, as in the case of SPS, Tonga exporters could benefit from assistance that would be provided by Australia and New Zealand to assist them to comply with their applicable TBT requirements. Complying with the TBT measures of their trading partners would ensure that unfettered market access for Tonga’s products to other PACER Plus Parties.

On the other hand, Tonga can also take advantage of the disciplines to ensure that imports comply with its technical regulations, standards and conformity assessment procedures. There have been incidents of many products not complying with relevant international standards, yet they are sold freely in Tonga and other PICs. With appropriate capacity building, Tonga can enact TBT measures to protect the safety of its citizens. This will also enhance the competitiveness of the private sector as it would level the playing field.

Investment Chapter

Foreign direct investment inflows to Tonga have varied over the past decade, and have averaged around US\$ 24 million annually (Figure 6). Figure 6 also shows that the FDI stocks have been increasing over the past ten years, averaging approximately US\$220 annually.

Figure 6: Foreign direct investment, inward flow and stock (US\$ at current prices and current exchange rates in millions)



Source: UNTADStats

This is not surprising as Tonga has implemented a number of measures to help create an environment conducive to attracting investment. Ranked at 78 in the 2015 World Bank publication ‘Easy of Doing Business’, Tonga is the highest ranked PIC, which means that it has a better regulatory environment conducive for doing business i.e. starting and operating a business or firm compared to other PICs. The total number of days required to register a firm is 16 days compared to 25.9 for the East Asia and Pacific region. The number of procedures required to register a firm in Tonga is 4, which is comparable to that of the high income OECD of 4.7 and lower than 7 for the East Asia and Pacific region. It takes, 2 days to check the uniqueness of a proposed company name and reserve the name, 3 days to register a company and obtain a certificate of incorporation, 7 days to obtain a business licence and 4 days on

average to register consumption tax and income tax with the Inland Revenue Commission. In addition, in 2012 the Tonga Government streamlined the business licence regulations to allow a single licence in an effort to facilitate the registration of a number of businesses by a single investor.

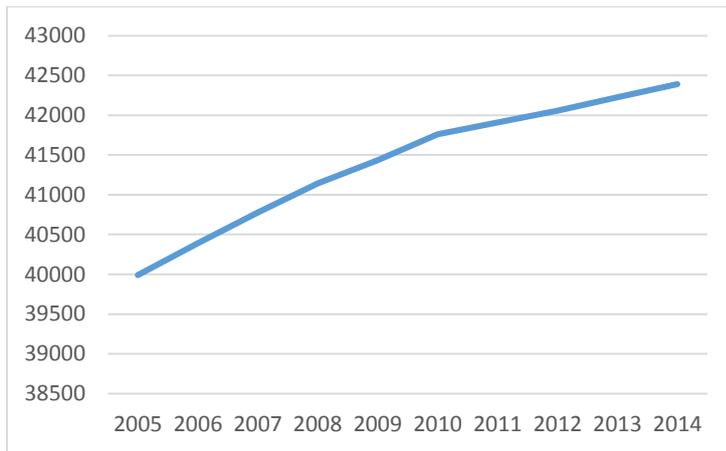
Tonga has the opportunity to further improve its existing investment regime, as each PACER Plus Party is expected to abide by internationally recognised investment protection standards on a range of issues, including fair and equitable treatment of foreign investors, expropriation and the free transfer of funds. Each Party will also submit a Schedule of Commitments, which will indicate clearly the sectors open to foreign investment. Investors from other PACER Plus Parties will benefit from the clarity on Tonga's investment regime enabling them to make the necessary investment decisions which could benefit Tonga. One of the intended economic benefits of the Investment Chapter for Tonga's private sector is the possibility of technology transfer from Australia and New Zealand, and access to a wider range of capital and skills, particularly through joint ventures established between Tongan firms and foreign investors. In addition, firms can also benefit from specialised services that might be provided by new companies investing in Tonga. Tongan investors looking to invest in another PACER Plus Party, including Australia and New Zealand will benefit from this as well.

Foreign investment in Tonga is likely to increase competition between domestic and foreign firms. This could encourage Tongan firms to be efficient and competitive. However, this does not mean that foreign investment will flood Tonga, as the government would still have capacity to regulate the flow of investment as per their Schedules of Commitments, including by having the right to maintain its list of activities reserved to nationals and limiting the entry of natural persons.

Arrangement on Labour Mobility and the Temporary Movement of Natural Persons Chapter

Tonga has a population of approximately 103,252 people with roughly an equal number of Tongans living abroad. Most Tongans who leave for abroad go mainly to Australia, New Zealand and the United States of America. The country has experienced a steady increase in employment over the past decade (Figure 7). The fact that about half of Tongans live abroad, has contributed to the country having a reasonably low unemployment rate of 6.5 percent in 2014/2015. However, it has also contributed to a shortage of skilled personnel in some sectors, leading to low productivity growth. Tonga has also experienced an increase in the number of participants in the New Zealand RSE scheme and the Australian SWP scheme, making Tonga one of the highest suppliers of RSE and SWP workers.

Figure 7: Tonga Labour Force total 2005-2014



Source: World Development Indicators

The objective of the Arrangement on Labour Mobility is to increase access of Pacific workers to the Australian and New Zealand labour markets through, among other means, building on the current seasonal worker programmes of Australia and New Zealand, namely the Seasonal Worker Program (SWP) and the Recognised Seasonal Employment (RSE), respectively. The possibility of increasing the number of semi-skilled and unskilled workers from the Pacific to take up work opportunities in Australia and New Zealand in sectors other than horticulture and viticulture offers an opportunity for Tonga's private sector to have access to a range of skills acquired by workers upon their return to Tonga, which can enhance the productivity of companies. Besides, the injection of money into the economy by the returning workers will lead to increased economic activity which would benefit the private sector. Increased labour mobility under PACER Plus will also entail professionals moving to Tonga, filling in the gap in skills, which will help enhance productive capacities and competitiveness.

The Chapter on Temporary Movement of Natural Persons obligates each Party to develop a Schedule of Commitments for the temporary movement of 'natural persons' (individuals) from one PACER Plus Party to the other for employment purposes. Given the shortage of skilled personnel in most PICs, including Tonga, the private sector may benefit from this through clarity in Tonga's schedule as to which opportunities exist for temporary employment in highly skilled areas. In its PACER Plus TMNP Schedule of Commitments, Tonga has made commitment in 6 categories; business visitors, intra-corporate transferees (managers, specialists); contractual service suppliers; independent services suppliers and installers or servicers; and skilled or semiskilled workers.

On the other hand, the temporary movement of natural persons in the PACER Plus area could also create employment opportunities for Tongans in other Parties, which might entail experienced skilled workers moving abroad. This could negatively impact on the country and deprive the private sector of having access to skills needed to enhance their productivity.

Development Assistance Chapter

Tonga has experienced the problem of inadequate infrastructure for a long time, which has not helped in facilitating the movement of goods and services. In an effort to boost trade, the government seeks to upgrade and develop infrastructure such as roads, airstrip, airports and

mariners, which tend to constrain trade. It is in this context that the Tonga Strategic Development Framework 2015-2025 outlined the provision for safer and better public infrastructure as one of the Government of Tonga's priority objectives. The Government envisages the provision of infrastructure which meets acceptable international standards and capable to withstand extreme natural occurrences. The main priorities towards providing quality infrastructure include; (i) maintenance of road, seaports and airports; (ii) increased investment in ICT infrastructure; (iii) increased investment in energy infrastructure; and (iv) promoting the development of hard and soft infrastructure that is adaptable to climate change.

Currently, there are ongoing projects for upgrading airports and provision of air navigation equipment at the airports in Fua`motu and Vava`u under the World Bank funded Pacific Aviation Investment Project. The Maritime and Ports Division is also working to ensure that outer islands meet standards in maritime infrastructure and ensure the safety of vessels and passengers. For instance there is work being undertaken to upgrade the Fuaa wharf. Such improvements are critical in facilitating the movement of goods and services and support exports. However, the government's efforts are hampered by lack of adequate finance and skilled human resources.

Under PACER Plus, Australia and New Zealand are expected to provide a development assistance package, comprising of technical and financial assistance to help Tonga and other PICs to implement their obligations under the PACER Plus Agreement and also to assist them to address the supply-side constraints which have impeded their efforts to take advantage of market access opportunities. The development assistance package is expected to be additional to current aid being provided to Tonga by Australia and New Zealand.

Discussions with the Tongan private sector revealed that firms faced a number of supply-side constraints, such as inadequate infrastructure and limited productive capacity, which contribute to low productivity and the production of products that are less competitive in international markets. Development assistance under PACER Plus is designed to address such supply-constraints to enable Tonga and other PICs to build capacity to produce goods and services and to trade them regionally and internationally. Whilst the Tonga Government can benefit from the development assistance to improve infrastructure projects, the Tongan private sector is expected to benefit from improved infrastructure as well as from assistance in building their productive capacities through potential business support programmes.

The Commonwealth Secretariat has identified the lack of sufficient trade support network to provide critical trade services to the private sector as one of the constraints to expanding trade.¹⁵ For example, the Tongan Ministry of Foreign Affairs faces several institutional challenges such as lack of adequate budget and staff, which limit the Ministry's capacity to effectively and efficiently carryout its mandate of overseeing trade policy formulation and implementation. In addition, as mentioned above, Tonga does not have a coherent trade policy framework, which makes trade policy formulation and implementation difficult as there are no clear policy guidelines. In this regard, it is important for Tonga to strengthen the Trade Department in the Ministry of Foreign Affairs and develop human capacity, which will enable it to provide the private sector with appropriate trade policy advice.

¹⁵ Commonwealth Secretariat (2013) Kingdom of Tonga Private Sector Development Strategy

There is also need to build and strengthen the capacities of various private sector associations under the TCCI with the view of making them more effective in their support to the private sector. The private sector faces restrictions when sending staff to New Zealand or Australia for training and attachment.¹⁶ This has a bearing on its capacity to have access to key technical skills, underscoring the need for a skills training programme in Tonga which, if successfully implemented, would minimise the disruption experienced when staff go abroad for training. Efforts are being made with assistance from donors to provide training locally as in the case of Tonga Business Entrepreneurship Centre (TBEC), which, with the assistance of New Zealand, gives training in courses demanded by the private sector.

From the foregoing, it is clear that the Tongan Government would benefit from the support that will be provided by Australia and New Zealand within the framework of the Development Assistance Work Programme. The capacities of trade and relevant officials will be enhanced enabling them to provide advice to private sector representatives. More importantly, the private sector will also benefit from the measures that will be instituted to address the supply side constraints which have frustrated efforts by Tongan exporters to take advantage of market access opportunities under trade agreements.

6. PRIVATE SECTOR STATE OF PREPAREDNESS

From the foregoing, it is clear that the PACER Plus Agreement will have a number of implications for Tonga's private sector. There will be opportunities for business expansion and trade under the Agreement. However, for this to materialise, it will depend on the state of preparedness of the Tongan private sector. It is in this respect that this study examines four priority sectors identified by the TCCI for assessment to determine their readiness to meaningfully trade under PACER Plus. The Tongan private sector faces a number of challenges in this regard, as well as in adopting targeted measures to ensure that they meaningfully benefit from PACER Plus. Some of these challenges include inadequate human and financial resources, limited PACER Plus compliance capacity especially in meeting SPS and TBT measures of trading partners, and limited appreciation of how they may benefit or avoid negative implications due to new trade regime.

Consultations with key Tongan private sector representatives revealed that the private sector is largely concerned about endogenous (national) constraints that affect their ability to supply rather than demand side constraints (foreign market access constraints), some of which they realised cannot be altered under PACER Plus. Consultations also showed that the Tongan private sector has the desire to take advantage of PACER Plus despite facing a number of constraints that limit their ability to immediately start benefiting. What also emerged was that most of these constraints had already been brought to the attention of the Tonga Government.¹⁷ Some of the highlighted constraints include:

- Availability and access to finance: The private sector, especially small scale enterprises, face structural problems to access funding from the Tonga Development Bank, particularly due to the perceived commercial risk involved. Stringent lending criteria such as the requirement for 3 years' worth of finance security as collateral as well as

¹⁶ This issue can be taken up in bilateral negotiations on market access under PACER Plus

¹⁷ These issues were brought up in a number of studies such as the TCCI (2015) *Tonga Growth Sector Issues Prioritisation: Private Sector Engagement, Reform and Development Strategy*, the Commonwealth Secretariat (2013) *Kingdom of Tonga Private Sector Development Strategy*, and the TCCI (2012) *The Tongan Private Sector; A stocktaking and Assessment of the Supporting Role of the Government of Tonga to the Private Sector*.

stringent criteria for overdrafts make it difficult for firms to access finance. The private sector is of the view that the relaxation of these criteria would help expand business and exports. This view was endorsed by the WTO when it noted that the limited financial support in the form of credit payments, grants and credit facilities constrained business activities in Tonga.¹⁸ The IMF has also noted that access to affordable finance was a big business concern and that defaults on the repayment of loans have mainly occurred in the tourism and wholesale/resale sectors. The report also recommended Tonga to facilitate the use of land as collateral and improve loans recoveries through bankruptcy law.¹⁹

- Tonga does not have broad based government-operated export finance or export credit guarantee scheme necessary for facilitating trade, as traders need trade finance to be able to carry out transactions with other countries. The expansion of trade depends on the reliability, adequacy and cost-effectiveness of trade finance and the lack of trade finance can be a barrier to trade. As such, trade finance has an important role in facilitating trade between Tonga and its trading partners.
- The private sector also faces the challenge to convince consumers to patronise local products in a market where imported goods are cheaper, but not necessarily of superior quality. Local producers are aware of the need to build consumer trust in terms of improving on quality and price, which will help dispel the view that imports are of better quality and cheaper than locally produced goods.
- It is the view of the private sector that the government prefers overseas services providers to local providers. For instance technology-related enterprises think that local firms are side-lined by the government, which is the main IT consumer, as the government looks overseas for consultants. In this regard, there is the likelihood of the local industry facing increased competition after the entry into force of PACER Plus. However, the private sector is also aware that the government has standards that it wants met, which are higher than what local companies can provide. The PACER Plus Agreement does not have disciplines on government procurement, so it is open to governments to grant preferences to local firms.
- The private sector wants assistance in improving their product development, with a view to making them competitive when trading under PACER Plus.
- The private sector is concerned about the lack of readily available skilled labour. For instance, the sector requires more training in ICT to meet the local business demand. It is the considered view the education system in Tonga is more academic-oriented and fails to meet local business skills demands. Because of the shortage of skills, some enterprises such as sole traders are unable to hire experts and skilled manpower. One suggestion is to devise a mechanism that allows small business to link together to provide skills and services to each other, but such a project is constrained by lack of funding. There is also need for Tonga to build local capacity to identify private sector skills needs.
- The problem of inadequate infrastructure was highlighted by the private sector. There is need to upgrade existing infrastructure and build new infrastructure to service businesses. The introduction of solar energy has contributed to the reduction in energy costs, but there is need to expand on low cost energy sources such as wind solar energy

¹⁸ WTO (2014) Trade Policy Review of Tonga, WT/TPR/S/291

¹⁹ IMF (2015) Tonga: 2015 Article IV Consultation – Staff Report; and Press Release

provision, which will contribute to the further reduction of production costs, allowing them to be competitive.

- The private sector thinks that there is no strong partnership at the macro level, between public and private sector and that the current relationship was not satisfactory, as the government hardly consults before introducing new policies or effecting policy changes. For instance, it was claimed that the Government had not adequately briefed the private sector about PACER Plus and its possible benefits for Tonga. There has also not been an assessment of the impact of PACER Plus on the private sector to determine the sector's readiness to trade under PACER Plus.

The above challenges make it difficult for Tongan businesses to expand and take advantage of market access opportunities under trade agreements. Due to the importance of the agriculture, fisheries, manufacturing and tourism sectors to the Tongan economy, the next section of the report will focus on the readiness of these sectors to trade under PACER Plus.

Agriculture

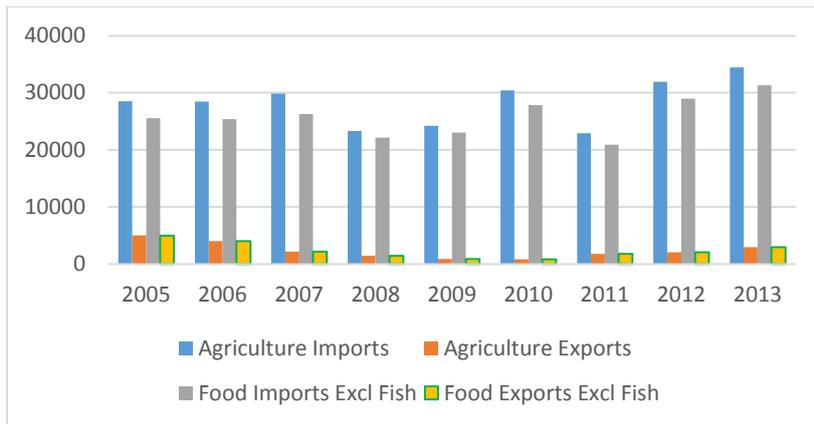
The agriculture sector is one of the most important sectors in the Tongan economy in terms of producing for both the domestic market and for export. The sector is the backbone of the Tongan economy in terms of subsistence, source of income, employment and export earnings. However, the Tongan Budget Statement estimated that the sector contracted by *-3.2 per cent* in 2014-2015, largely owing to the drought associated with the El Nino effect. The decline was expected to have a negative effect on production and exports. Indeed the Budget Statement reported that the first half of 2014 experienced a decline in total agriculture export volume by 15 percent. Squash exports declined by 31 per cent and kava by 20 per cent.²⁰ This is in contrast to 2013/14 when the agriculture sector experienced a strong growth of 4.7 per cent with agricultural exports contributing 1.5 percentage points to this figure.²¹

A closer examination shows that despite agriculture exports steadily increasing since 2010, Tonga remains a net importer of agriculture products and food and that the import of these products has increased considerably over the same period (Figure 8).

²⁰ Budget Statement 2014/2015

²¹ Ibid.

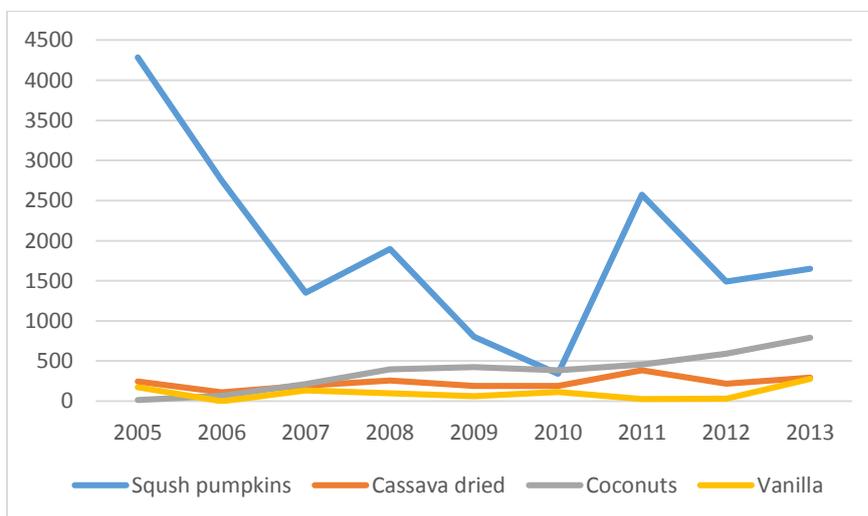
Figure 8: Trade in agricultural Products and food excluding fish (US\$ '000), 2005-2013



Source: FAOSTAT

The country’s main exports comprise squash pumpkins, cassava, kava, coconuts, vanilla and taro. Available data shows squash to be the major export product for Tonga (Figure 9). However, the increase in agriculture exports since 2010 can be attributed to non-squash crops such as root crops, watermelons, coconuts and kava.²² In fact, squash exports experienced a decline in 2012, which according to Tonga was a reflection of major exporters pulling out of the market. This increase in the export of other products demonstrates the versatility of Tonga and its ability to diversify into the production of non-traditional crops and enhance productivity.

Figure 9: Trade in Agricultural Products (US\$ '000), 2005-2013



Source: FAOSTAT

In an effort to expand trade, Tonga has embarked on a number of donor- funded projects aimed at boosting exports of products such as melons and vanilla to New Zealand.²³ In recent years,

²² Budget Statement 2014/2015

²³ Both projects are funded by New Zealand

Tonga has also been able to increase its exports of taro to Australia, largely owing to the absence of pests in Tonga.

PACER Plus Opportunities

Tongan agricultural producers are very conscious of issues regarding SPS and bio-security requirements as well as other standards imposed by Australia and New Zealand for entry into their markets. While they appreciate that these measures are designed to protect human, animal or plant life and health, they are also acutely aware of the exorbitant cost of compliance. Non-compliance would mean the products being denied entry with its attendant costs. The producers and exporters know that compliance with Australian and New Zealand standards will also facilitate their exports to other key markets. In that regard, they are keen to be given technical and financial assistance so that they can comply with these standards.

Given the potential for Tonga to increase and diversify its agricultural exports, it is imperative that Tonga conducts targeted research into the spread of fruit flies and adopt measures to effectively eradicate this disease. In addition, there is need for the quarantine facility at the airport to be certified by New Zealand and Australia, as this would facilitate its exports to these two countries. There is also need to update the Tonga Quarantine Act 1988, which was last amended in 2009. This is important as it could enable Tonga to secure funds to strengthen its SPS infrastructure, which is critical for exports and also for preventing the introduction and spread of pests and diseases. Given that Tonga is a net food importer, it is important to ensure that imported food meets the requirements contained in the Quarantine Act. Cheaper imported food does not mean that Tonga should not insist on its SPS rules and regulations. Given that Tonga wants to diversify into agro-processing both for domestic consumption and export, it is important that the highest standards are met.

Government intervention

The Tongan Government continues to provide concessional loans through its T\$1 million Agricultural Marketing Fund, which is targeted for overseas shipment of agriculture produce. The fund was increased by T\$4 million to T\$5 million in 2014/15. The Tonga 2014/15 Budget Statement reported that by January 2014, 36 percent of the additional funds had been used mainly for working capital to support exports for squash, root crops and kava. In addition, the launching of new packaging facilities in 2014 is expected to improve on the quality of packaging of agriculture exports so as to meet the requirements of overseas markets and become competitive. The continuation of the Australia and New Zealand- funded Pacific Horticultural and Agricultural Market Access Programme (PHAMA) is expected to support improved market access to Australia and New Zealand.

The SWOT analysis of the Agriculture Sector

<p>Strengths</p> <ul style="list-style-type: none"> • Rich volcanic soils • Good rains • Accessibility to sea transport • Crop diversification • Organic farming through traditional means • Willingness to continue engagement with public sector and other stakeholders • A Government willing to support the private sector • Transport upgrade 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Limited innovation and entrepreneurial skills. • Resistance to adopt new farming methods. • Lack of initiative to export. • Lack of initiative on value added processing • Poor quarantining facilities.
<p>Opportunities</p> <ul style="list-style-type: none"> • Geographical proximity to Australia and New Zealand • Export expansion in a number of products e.g. kava, coconut, water melons and root crops • Access to diaspora niche markets in Australia and New Zealand, particularly for Tongan staple food. • Increased market access under PACER Plus, including in other PICs • Values addition through simple processing • Australia New Zealand support programmes • Technical assistance and capacity building to meeting Australia and New Zealand bio-security requirements 	<p>Threats</p> <ul style="list-style-type: none"> • Diseases and pest make it difficult to export to Australia and New Zealand if unable to meet SPS and Standard required by these markets • TBTs • Cyclones and El Nino weather • Climate change – relies on rainfall • Absence of rivers for irrigation • Unwillingness to comply with Australia and New Zealand technical regulations, standards and SPS and bio-security requirements • Inability to innovate and diversify through value added processing

Preparedness:

Producers and exporters could reap benefits from the PACER Plus agreement upon its implementation, if issues of compliance with technical regulations, standards and SPS and bio-security measures in Australia and New Zealand are also immediately addressed. Considering that Tonga has a comparative advantage in the production of vegetables, the Governments needs to accord priority to the agriculture sector so as to build the capacity of the private sector to increase and diversify their exports. Products which could be targeted include kava (for pharmaceutical use)²⁴, coconut, water melons and root crops. Value-added processing should be explored and intensified as it can increase the export earnings of the country. The government/private sector should work together to identify opportunities in other PACER Plus Parties. There seems to be dependence on the Australian and New Zealand markets, but it will be important in the medium to long term to diversify Tonga’s export markets.

Fisheries

Trade in Fisheries

²⁴ Although the export of cover {?} to Australia has been contained by kava restrictions to Australia, Australia has recently shown some indications that it is willing to explore ways of allowing kava in Australia for pharmaceutical purposes. However, the issue requires further negotiations, preferably at the bilateral level.

Official estimates show that in 2013/14, fisheries contributed about 3 percent to Tonga's GDP.²⁵ However, the sector has experienced a decline in recent years due to a number of factors, including over-fishing, high operating costs (particularly due to fuel, air transport and consumption tax), competition from foreign vessels, lack of proper refrigeration facilities, poor and inadequate infrastructure and lack of support services in the maintenance of vessels. The decline in the number of foreign fishing vessels in Tonga from 24 to 8 has been attributed to the deterioration of the infrastructure at the wharf and other factors such as high port fee charges. The condition of the wharf has meant that some foreign vessels which fish in Tongan waters never use Tonga wharf to unload. Instead, they use wharfs in neighbouring countries that have better wharf infrastructure. As a result, their exports are not represented in Tonga's exports statistics.

Fishery products are usually exported unprocessed and transported to countries such as Japan, New Zealand, Fiji and the United States. Much of Tonga's tuna exports are destined for the United States, Japan and New Zealand. It is estimated that in 2014, Tonga earned T\$180 million from the export of marine products.²⁶ However, according to the Tonga 2014/2015 Budget Statement, the sector experienced negative growth of -5.9 percent in 2013/14 due to a decline in fisheries exports. For instance tuna exports declined by 49 percent as foreign fishing vessels operating in Tonga declined.

Tonga is a member of the Pacific Island Forum Fisheries Agency (FFA) through which it has been involved in regional licensing arrangements that enable its fishing vessels to fish in regional waters. Participating in FFA has been important to Tonga as it provides it with the opportunity to increase its catch for export. Tonga's trade with Australia and New Zealand is quite modest. In 2014, Tonga's fish exports to Australia and New Zealand were valued at about USD491,000 and USD236,000, respectively. Imports from Australia and New Zealand in the same year were about USD1000 and USD207,000, respectively.

Opportunities under PACER Plus

The Tongan fisheries sector is confident that there is demand for its products in Australia and New Zealand, particularly for snapper. The sector has confidence that it has the capacity to increase its exports to these markets. One downturn on the supply-side, however, would be overfishing.²⁷ However, the discovery of new species presents opportunities for export. In order to avoid overfishing and the poaching of new species, Tonga and New Zealand have started joint efforts to protect these species. The industry also thinks it would be competitive to export to Australia and New Zealand since the freight costs are relatively cheaper compared to when exporting to Japan. However, the industry is concerned about the time taken by Australia to inspect Tongan exports, which causes delays of two to three days.²⁸

The Tongan fisheries sector lack the capacity and facilities for value-added processing. Companies interested in building such facilities face the problem of accessing finance. There is also the problem of poor refrigeration which, if not adequately addressed, will result in substantial losses. It has been noted that several of Tonga's fishing companies do not have

²⁵ Budget Statement 2014/2015

²⁶ WTO (2014) Trade Policy Review of Tonga, WT/TPR/S/291

²⁷ There are no restriction on a number of fishing boats with approximately 20 foreign fishing boats and 17 local fishing boats present in Tonga waters.

²⁸ These issues can be taken up in PACER Plus bilateral market access negotiations

adequate refrigeration at their plants as well as access to refrigerated transport from plant to the airport.²⁹ The non-availability of funds has also constrained domestic investment in the fisheries sector as well as curtailed its expansion. It is clear from the foregoing that the availability of capital to equip the sector, and for new investment, especially in value-added processing, will increase the sector’s productive capacity for export.

Despite the fact that fresh fish has started to compete with imported canned fish, the industry remains concerned about canned fish imports. Examined from a different angle, imported fish products will bring competition and help create efficiency in the sector as well as make fish products affordable to Tongans.

Government Intervention

Realising the potential of the fisheries sector, the Tongan Government has implemented a number of initiatives aimed at enhancing its productivity and increasing exports. The Fisheries Development and Export Fund Loan, to the tune of T\$300,000, was created to provide loans at an interest rate of one percent so as to increase exports, incomes and employment. A further T\$750,000 to be lent at an interest rate of 4 percent was added to the fund in 2014/15. The sector benefits from exemption from customs duty and consumption tax on fishing-related imports, including packaging material. There are also other projects aimed at improving the sustainability of fish production, which will help in addressing supply capacity problems.³⁰

SWOT Analysis of Fisheries

<p>Strengths</p> <ul style="list-style-type: none"> • Location – vast fishing grounds • Accessibility to sea transport • Local skills • Willingness to continue engagement with public sector and other stakeholders • Transport upgrade • A Government willing to support the private sector 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Limited innovation and entrepreneurial skills • Lack of initiative to export • Lack of access to finance • Lack of value added processing • Lack of adequate storage facilities e.g. refrigeration
<p>Opportunities</p> <ul style="list-style-type: none"> • Geographical proximity to Australia and New Zealand • Discovery of new species for export • Access to New Zealand and Australian markets (if standards are met) • Technical assistance and capacity building on meeting Australia and New Zealand bio-security requirements and standards • Potential market in other PICs • Value addition through simple processing • Joint programmes with New Zealand to prevent overfishing and poaching. 	<p>Threats</p> <ul style="list-style-type: none"> • Difficulties to export to Australia and New Zealand if unable to meet SPS and Standard required by these markets • Changes in the distribution of tuna market access and prices • Climate change • Deep sea mining • Contamination • Overfishing – leading to depletion of stock • Loss of skilled workers to Australia and New Zealand.

²⁹One of the companies visited at the time of consultation had only one ice making machine. The company said that it would require an additional ice making machine, which can produce 5 to 7 tonnes of ice.

³⁰ The projects are being done under the special management areas (SMAs) and coastal community management programmes (CCMP)

Preparedness

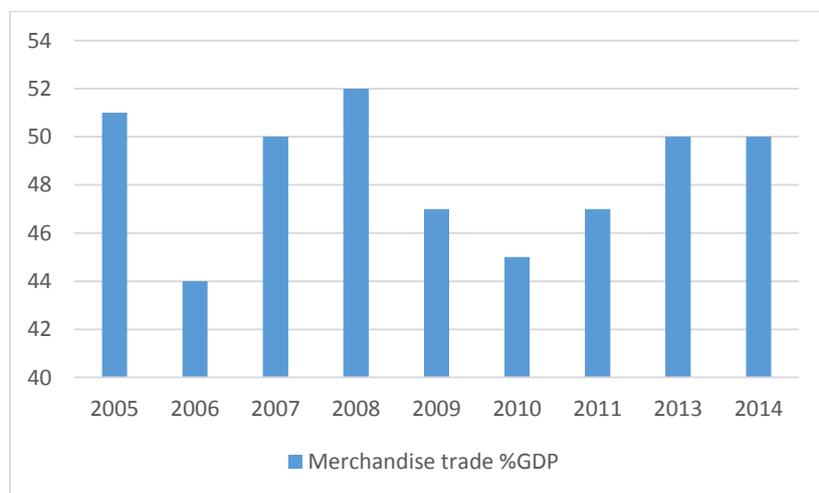
The Tongan National Fishers Council thinks it is ready to exploit the market opportunities that would be offered by PACER Plus to increase its exports, particularly the new species to Australia and New Zealand. The Council would, however, need to address a number of supply constraints so to be able to enhance its supply capacity. Working jointly with New Zealand to protect new species gives Tonga an advantage, not only in expanding exports to New Zealand, but also ensuring sustainability. With the availability of funding, the sector can carry out research on other fish species for export. For example oil fish in Tongan waters remains untapped. The Council is concerned about Australia's stringent standards and the delays associated with inspections of Tongan fish.³¹ There is currently no exports to other PICs. In this regard, it would be to Tonga's advantage to try and identify niche markets in other PICs, particularly for new species.

Manufacturing

Trade in manufacturers

The manufacturing sector is very small and largely domestic-oriented, contributing about 6 percent to total GDP. The sector is categorised into five main areas of specialisation, food manufacturing and beverages, furniture and fittings, bakery and pastries, small industries and construction and construction material. The sector is reported to be in need for more support for it to develop and grow.³² Merchandise trade contribution to GDP remains very important to Tonga economy despite variations over the past decade (Figure 10).

Figure 10: Tonga merchandise trade (% of GDP)



Source: World Development Indicators

Despite its importance to the growth of the economy, merchandise trade remains less diversified with Tonga's number of merchandise export products not having significantly increased in the past decade, remaining well below the world average of 260 products annually (Table 3). This has contributed to Tonga being unable to expand merchandise exports over the same decade. On the other hand, imported merchandise products have increased over the same

³¹ The issues of inspection can be taken up with Australia in bilateral negotiations on market offers.

³² Tonga Chamber of Commerce and Industry (2015)

period, outstripping exports considerably. According to the WTO, goods sent home by Tongans living abroad have also contributed to merchandise imports outstripping exports.³³

Table 3. Merchandise export concentration – Number of products and Export earnings by country, annual, 2005-2014.

Tonga	Flow	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	Exports*	19	19	22	23	25	28	30	30	31	27
	Value**	10	10	8	9	8	8	14	16	17	20
	Imports***	105	110	110	135	138	140	1651	152	144	144
	Value****	120	116	143	168	145	158	193	199	198	200

Source UNTADStat

* Number of export products, annual

** Total merchandise trade, export, current price (US\$ millions) annual

*** Number of import products, annual

**** Total merchandise trade, imports, current price (US\$ millions) annual

As previously noted, Tonga imports and exports more to Australia and New Zealand than any other country, underlying the importance of these two markets to it. Data from World Integrated Solution (WITS) shows that in 2014, Tonga's total exports to Australia were about USD1.54 million compared to imports of about US\$ 11.8 million, while total exports to New Zealand were approximately USD4.1 million compared to imports of approximately USD62.5 million.

Opportunities under PACER Plus

Tongan exporters will have access to a wider market comprising nearly 40 million people. All its exports to Australia and New Zealand will face no duties, and they will also face virtually no duties in other PICs. The PACER Plus rules of origin will promote value addition within the region and facilitate the in-flow of investments. There would, however, be intense competition from other PICs which would also like to take advantage of PACER Plus and increase their exports to Australia, New Zealand and other PICs. It would therefore be advantageous for Tonga to find niche markets in Australia and New Zealand through exporting unique products, such as cassava chips. It would be necessary for the Government to work closely with the private sector to identify products which have the best chance of succeeding in key markets and implement a coherent plan to support their production and export.

Government Intervention

The Tongan Government is aware of the challenges facing the manufacturing sector and is taking some measures to help mitigate some of these challenges. Currently, the government provides concessional loans through a government loan fund of T\$250,000, which is loaned at an interest rate of one percent. Additional funds in the tune of T\$250,000 were recently added to the fund, to be loaned at an interest rate of 4 percent. The fund is intended to support production and marketing capacities of export-ready manufacturers, stimulate innovation and product diversification, promote value added processing and promote cooperation and

³³ WTO (2014) Trade Policy Review of Tonga, WT/TPR/S/291

coordination in the sector. Like in the case of fisheries, some imported raw materials are exempted from duty, excise and consumption tax.

SWOT Analysis of manufacturing

<p>Strengths</p> <ul style="list-style-type: none"> • Ability to compete with imported goods e.g. bottled drinking water, high quality furniture, bakery goods and construction material • Accessibility to sea transport • Diverse entrepreneurship development activities • Willingness to continue engagement with public sector and other stakeholders • Transport upgrade • A Government willing to support the private sector 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Limited innovation and entrepreneurial skills • Resistance to adopt new production methods and processes. • Lack of initiative to export • Lack of access to finance • Small domestic market
<p>Opportunities</p> <ul style="list-style-type: none"> • Geographical proximity to Australia and New Zealand. • Export diversification. • High volume manufacturing. • Access to diaspora niche markets in Australia and New Zealand, particularly for Tongan staple food. • Increased market access owing to Parties lowering of tariffs in other FICs and zero tariffs in Australia and New Zealand. • Value addition through simple processing • Technical assistance and capacity building on meeting Australia and New Zealand standards. • Access to a range of skills and services. 	<p>Threats</p> <ul style="list-style-type: none"> • Small domestic market • Foreign competition • TBT – difficult to export to Australia and New Zealand if unable to meet required standards • Cyclones and El Nino weather • TBT • RoO – compliance to RoO • Competition from imported like products

Readiness

There is mixed indications amongst Tongan exporters regarding the manufacturing sector’s readiness to export under PACER Plus. Some businesses feel that for there to be a viable manufacturing sector, it would be important for the government to adopt protectionist policies to shield them from foreign competition, until such time that they mature and would be able to compete in the domestic market as well as to export. It is the view of some private sector representatives that the government has not done enough to create an enabling environment for domestic businesses to flourish. Some manufacturers are concerned by the competition that would be brought about by PACER Plus and advocate that it would be necessary to initiate for buy local campaigns. It would be fair to state that the manufacturing sector does not seem to have the potential to immediately benefit from the PACER Plus Agreement and that it would need considerable assistance from the government to enhance its capacities to take advantage of the Agreement.

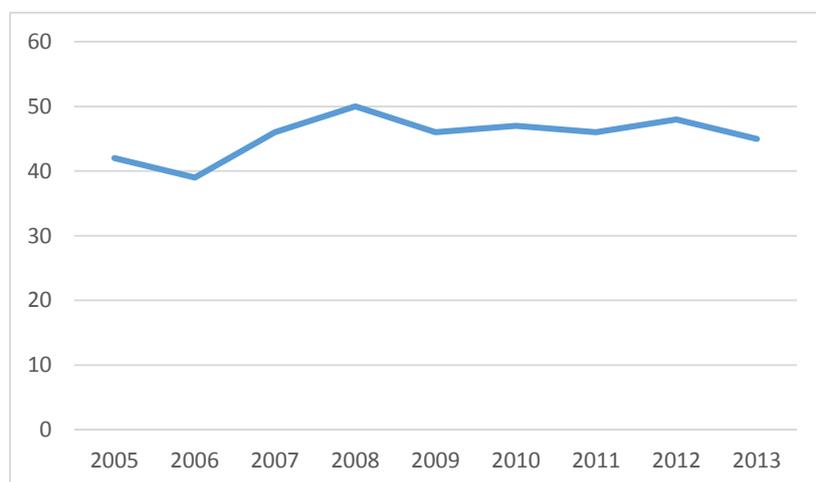
Tourism

Tourism trade

The tourism sector contributes significantly to Tonga's GDP with the hotel and restaurant sector alone accounting for 3 percent in 2014/15.³⁴ The tourism sector also plays an important role in supporting other services sectors such as transport, retail, and handicraft production, and can play a facilitative role in the operation of value chains.

Annex 1 shows that in 2012, travel/tourism (mainly business) was the largest services export sector for Tonga, contributing 42.9% of commercial services exports. Other commercial services was the next largest services export sector, followed by transport (roughly half air transport and half sea transport). Most tourists are from New Zealand, Australia and the United States. The number of international tourist arrivals in Tonga has been increasing moderately since 2006 (Figure 11). In 2013/14, the number of tourist arrivals in Tonga increased by 2.3 percent compared to 2012/13.³⁵

Figure 11: International tourism, number of arrivals ('000)



Source: World Development Indicators

Opportunities under PACER Plus

Consultations revealed that tourist accommodation in Tonga is mostly of mid-range and cannot attract top-range tourists. Moreover, the number of rooms has remained largely the same at 1000 over the last few years. As a result, there has been always a shortage of accommodation during the high season. There are also other notable challenges, including the poor internet connectivity in the outer islands. There are plans to enhance the standards of accommodation in Tonga, including through attracting foreign direct investment in the hotel and accommodation sector, particularly to build five star hotels. Tonga has been successful in attracting the Tanoa Group from Fiji which has acquired the government-owned Dateline Hotel and is currently refurbishing it. The availability of top-range accommodation is likely to attract more tourists from Australia and New Zealand.

³⁴ Budget Statement 2014/2015

³⁵ Budget Statement 2014/2015

There are only three international Airlines that fly directly to Tonga, namely Virgin Airlines, Air New Zealand and Fiji Airways, which operate a fixed number of flights each week. Given the Sunday Observance Act, there are no scheduled flights on Sundays.³⁶ At peak times, the airlines can increase the number of flights to Tonga, as was the case during the coronation of the new king in 2015. Increased flights will mean more flexibility for tourists and this can increase the number of tourist arrivals in Tonga.

Tourists from Australia and New Zealand would like to take back home items such as wood carvings and shells, but are unsure of the quarantine requirements in their countries. The informal sector, particularly the handicraft sub-sector which relies on tourism, tends to be familiar with issues of bio-security requirements by Australia and New Zealand. There has to be a concerted effort to have documentation which would let the tourists know what treatment, if any, the products have to go through if they are to be exported to Australia. It is encouraging that Tonga Handicraft is preparing a Handbook on exporting handicrafts from Tonga. Technical assistance that Australia and New Zealand or the South Pacific Community could provide to Tonga to strengthen its SPS infrastructure include:

- Training of customs and immigration officials who can then explain the customs and immigration requirements in Tonga to visitors.
- Training on quarantine procedures for carvings.
- Training in different tourism skills to offset the number of locally trained personnel who move overseas.

With its natural attractiveness owing to a diversified natural environment, Tonga is yet to achieve its full potential in tourism. PACER Plus offers Tonga the opportunity to attract investment into this sector and get more tourists not only from Australia and New Zealand, but also countries in Asia, particularly China.

Government Intervention

To improve on tourism, the Government has signed a Bilateral Air Services Agreement with Fiji to facilitate flight connections between Nadi and Vavau. Plans are in place to also establish flight connections between Tonga and Samoa with a view to boosting tourism growth. The Government has also taken some policy initiatives such as the Tonga Tourism Authority Business plan and the Government Tourism Roadmap aimed at further promoting the tourism sector, particularly through improving the marketing of Tonga as a tourist destination. The Government has also realised the importance of supporting the growth of the tourism sector through improving access to finance. To this end, it has introduced a concessional loan scheme, under which T\$500,000 can be loaned at an interest rate of one percent. In 2014/15, the Government added T\$1 million to the fund, which can be loaned at an interest rate of 4 percent. The loans are targeted at businesses which seek to develop new tourist products, improve the quality of small and medium accommodation and develop the tourist environment.

³⁶ The Airport is closed on Sunday

SWOT Analysis of Tourism

<p>Strengths</p> <ul style="list-style-type: none"> • Accessibility to sea transport, ideal for cruise ships. • Local skills e.g. tour guides. • Natural attractiveness owing to a diversified natural environment. • Willingness to continue engagement with public sector and other stakeholders. • Transport upgrade. • A Government willing to support the private sector. 	<p>Weaknesses</p> <ul style="list-style-type: none"> • High flight costs, both domestic and international. • No flights on Sunday on religious grounds, closing weekend business by tourists. • Limited innovation and entrepreneurial skills. • Limited product range. • Reliance on foreign airlines. • Lack of access to finance.
<p>Opportunities</p> <ul style="list-style-type: none"> • Geographical proximity to Australia and New Zealand. • Product diversification and export diversification. • Access to diaspora niche markets in Australia and New Zealand, particularly for Tongan who come back on holiday. • Develop new niche markets in Australia and New Zealand e.g. top of the range tourists. • Historic and heritage sites. • Whale season. • Build Informal sector capacity to trade. • Access to a range of foreign skills and services. 	<p>Threats</p> <ul style="list-style-type: none"> • Regional competition for Australian and New Zealand tourist arrival. • Natural dangers such as cyclones. • Compliance with quarantining regulations. • Climate change affects the whale season. • Weak regional and national intellectual property laws and regulations e.g. illegal use of Tonga designs in other PICs. • Transit visa requirement by Australia and New Zealand for tourists destined for Tonga.

Readiness

The tourism sector has the potential to grow and do well under PACER Plus if the major issues identified above can be resolved. The sector is preparing to take advantage of PACER Plus as shown by initiatives enumerated above. There needs to be a coordinated approach between the Government and the private sector to showcase Tonga to the world, focussing more on the Australian and New Zealand markets. Improved infrastructure, particularly roads will help unlock some of the unexploited natural attractions, which can help Tonga realise the full potential of its tourism sector.

7. KEY FINDINGS

Findings from the study include:

- There are several legal and practical implications of PACER Plus for the Tongan private sector, which both the government and private sector need to have a better understanding of so as to be able to benefit from PACER Plus.

- The Tongan private sector has the desire to take advantage of the benefits under PACER Plus and is prepared to take necessary measures that will allow it to take advantage of the potential benefit under PACER Plus.
- Some sections of the private sector do not fully comprehend the issues under PACER Plus and require assistance to make them appreciate how they can benefit from the agreement.
- The Tongan Government has the opportunity to continue to negotiate bilaterally with Australia and New Zealand (in the context of PACER Plus market access negotiations) to find solutions to some of the issues raised by the private sector regarding current market access restrictions such as 2-day period for fish inspection by Australia.
- The private sector faces a number of supply-side constraints and challenges (cross cutting and sector specific), which affect their ability to export and take advantage of market access opportunities under PACER Plus, particularly in the Australian and New Zealand markets. Through the government, the sector can get financial and technical assistance under Development Assistance Work Programme to address some of the supply-side constraints that have prevented their efforts to increase and diversify their exports.
- The Government of Tonga has put considerable effort in implementing some measures to mitigate the constraints faced by the private sector, but the effort has been hampered by a number of factors, particularly lack of finance and absence of human resources.
- Some constraints and challenges can be mitigated in the short to medium-term whilst others can be mitigated in the long-term.
- There are some government initiatives which are currently being implemented that are aimed at addressing some of the constraints faced by the private sector.
- The private sector is characterised by different levels of preparedness, which the Tongan government has to take into consideration when assisting the private sector to expand exports under PACER Plus.
- The private sector can play a critical role in mitigating some of the identified constraints and challenges.

8. RECOMMENDATIONS

Delays in addressing the constraints faced by the private sector may mean that Tonga will also delay the opportunity to immediately start benefitting from PACER plus. In this regard, the study provides two sets of recommendations, those requiring immediate action and those that are long-term in nature.

Recommendations for immediate action

- The Government of Tonga should expedite the development of a trade policy framework that will guide trade mainstreaming. The trade policy framework will not only help Tonga to integrate trade into national development and poverty reduction strategies, but help in the operationalisation of trade under PACER Plus through incorporating trade into sectoral strategies, actions, plans and budgets.

- The Tongan Government should expedite the completion of those projects that are currently being undertaken such as upgrading of infrastructure, which help improve trade.
- The Government together with the private sector should further strengthen the public sector/private sector engagement, for example, through regular meetings, to collectively address some of the constraints and challenges faced by the private sector, with a view to fully tapping the benefits under the PACER Plus agreement. There should also be close collaboration regarding the implementation of the PACER Plus Agreement to ensure the incorporation of trade into sectoral strategies, actions, plans and budgets.
- The Tonga Government and the private sector should jointly organise learning events to better understand the legal and practical implications of PACER Plus.
- Private sector representatives should familiarise themselves with PACER Plus issues that impact on their businesses in order to devise strategies to fully benefit from the Agreement.
- The private sector should adopt measures that help improve their credit worthiness.
- The Tongan Government should continue to negotiate bilaterally with Australia and New Zealand (in the context of PACER Plus market access negotiations) to find solutions to some market access barriers related to technical regulations, standards and SPS and bio-security measures and other market access constraints identified by the private sector.
- Tonga should utilise the assistance that would be provided under the Development Assistance Work Programme to develop and strengthen productive capacities as well as developing export promotion strategies.

Recommendation of a long-term nature

- The private sector should explore various ways of initiating value added processing such as joining regional value chains, for example, through joint ventures with foreign investors.
- Tonga should increase production of vegetables and explore ways for value added processing with a view to increasing its exports.
- The private sector should find ways of reducing their costs to make their products more competitive in international markets.
- It is important for the Tongan Government to continue implementing business-enabling reforms which will improve private sector productive performance and enhance its ability to trade. In that regard, the upgrade of infrastructure should continue to be a priority for the Government.
- The Tongan Government should help the private sector to establish a mechanism that allows small businesses to link together to provide skills and services to each other.

14. CONCLUSION

What emerges from this study is that PACER Plus will impact on the Tongan private sector. There will be opportunities as well as challenges for the sector. With targeted policies, Tonga

should be able to attract investment into the critical sectors of its economy such as tourism and also increase and diversify its merchandise exports to Australia and New Zealand as well as to other PICs. However, the Tongan private sector faces a number of constraints some of which require immediate intervention. The various limitations identified in this study such as lack of adequate finance and inadequate infrastructure impede productivity and trade expansion. Although the government has embarked on a number of initiatives aimed at mitigating some of these constraints, it also faces challenges of its own, such as limited finance and lack of human capacity, which limit its effectiveness in addressing the identified constraints. What also emerges from this study is that Tonga's major export sectors are at different levels of preparedness, with some in a position to exploit the benefits under PACER Plus with minimal intervention and some requiring greater assistance. Part of the intervention can be facilitated under the PACER Plus Development Assistance Work Programme. To ensure increased benefits, the private sector should be assisted in innovations on value-added processing, particularly in traditional products, such as fish and some agricultural products. Tonga also has the potential to expand its services sector, particularly the tourism sector. Targeted policies should be implemented to attract investment into the most important sectors of the economy, so as to assist Tonga to achieve sustainable growth and economic development.

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Annex 1: Tonga Services Exports, 2005-2014

<i>US\$ millions</i>	2005	2006	2007	2008	2009
Services	74	64	75	95	85
Transport	25	19	23	37	31
Sea transport	11	9	10	12	11
Passenger (Sea)					
Freight (Sea)	6	6	7	8	7
Other (Sea)	5	3	3	4	4
Air transport	14	10	13	24	20
Passenger (Air)	12	7	8	17	13
Freight (Air)	0	0	1	1	1
Other (Air)	2	3	4	6	6
Postal and courier services	0	0	0	0	0
Passenger (All modes of transport)	12	7	8	17	13
Freight (All modes of transport)	7	6	8	10	8
Other (All modes of transport)	7	6	7	11	10
Other (All modes of transport- other than Postal and courier services)	6	6	7	10	10
Travel	19	24	24	28	23
Business	8	19	14	20	16
Other (Business)	8	19	14	20	16
Personal	11	4	11	7	7
Health-related	1	1	1	0	0
Education-related	1	2	2	1	1
Other (Personal)	10	2	8	6	6
Construction	2	0	0	0	1
Construction abroad					
Construction in the reporting economy	2	0	0	0	1
Insurance and pension services	2	3	8	2	3
Direct insurance	1	1	1	1	1
Reinsurance	2	2	5	1	2
Pension and standardized guaranteed services		0	2	0	0
Financial services	2	0	0	2	1
Explicitly charged and other financial services	2	0	0	2	1
Charges for the use of intellectual property n.i.e.	0				
Telecommunications, computer, and information services	8	2	3	3	5
Telecommunications services	7	2	3	2	5
Computer services	0	0	0	0	0
Other business services	1	2	2	6	7
Professional and management consulting services			1	3	2
Technical, trade-related, and other business services	1	2	1	3	6
Personal, cultural, and recreational services	1	1	1	2	1
Audio-visual and related services	0	0	0	0	0
Other personal, cultural, and recreational services	1	1	1	1	1
Government goods and services n.i.e.	12	12	13	15	12
Commercial services	61	52	62	80	73
Other services	30	21	28	31	31
Other commercial services	17	9	15	16	18

Source: WTO

Annex 2 : List of consulted stakeholders

Tuesday 10th November @ 3PM			
	Name	Position	Organisation
1	Edgar Cocker	President/Managing Director	Manufacturing Association of Tonga/Cocker Enterprises
2	Paul Taumoepeau	General Manager	Nautilus Minerals
3	Roderick Bing	Managing Director	Vavatau Technology Ltd
4	Kesomi Siale	General Manager/Treasurer	Pacific Management Consultants/TCCI
5	Lilieta Takau	Country Manager	Pacific Leadership Program
6	Viliani Takau	CEO	TCCI

Wednesday 11th November			
	Name	Position	Organisation
1	Teisina Fuko	President	Fisheries Association
2	Tupouseini Taumoepeau	Marketing Officer	Tonga Tourism
3	Monalisa Palu	Project Coordinator	Tonga Handicraft
4	Sinai Tuitahi	CEO	Agriculture Sector Growth Committee
5			

Saturday 14th November			
	Name	Position	Organisation
1	Liz Sullivan	Business Owner	Davinas/Lion Liquor/TCCI (To meet in March 2016)
2	Edgar Cocker	President/Managing Director	Manufacturing Association of Tonga/Cocker Enterprises (To meet in March 2016)