DEVELOPING TONGA’S ECONOMY

In common with other Commonwealth countries, Tonga is striving to build its economy through diversification as some traditional sectors struggle to maintain revenue flows, reports a senior officer of the Tongan Legislature.

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Tonga’s National Strategic Planning Framework 2009/10 – 2011/12 highlights the Tongan government’s vision of development which is: “To create a society in which all Tongans enjoy higher living standards and a better quality of life through good governance, equitable and environmentally sustainable private sector-led economic growth, improved education and health standards, and cultural development.” It identified private sector-led growth and global trade partnerships as the key to sustainable economic stability.

The National Strategic Planning Framework (NSPF) identified tourism, agriculture, and fisheries as key sources of economic activity. The exports of tuna to the United States and squash to Asian markets have for the last few decades been the mainstay of Tonga’s economy, though later research showed a market decline in these exports.

The particular role of remittances
Remittances support consumption and investment in assets and education, as well as significantly improving average incomes of the poorest households. Of all the Pacific economies, Tonga is the largest recipient of remittances per head of population (transfers sent from Tongans overseas). In 2007, remittances per capita stood at U.S.$992, above Samoa (U.S.$640), and Fiji (U.S.$197). Remittances over the years have acted as Tonga’s safety net mechanisms to its relatively weak economy.

In 2001, remittances represented 37 per cent of Tonga’s GDR and 19.7 per cent of household monetary income (Tonga statistics department, 2002). By 2009, remittances fell to 22 per cent of GDP as the impacts of the global economic crisis were felt.

A significant decline in remittances, in particular from the U.S. was noted in the aftermath of the global economic crisis. While remittance inflows peaked in 2007/08, the fiscal year 2008/09 saw a decline of 15 per cent. Studies showed that the costs of
sending remittances to Tonga were high by international standards, but the World Bank and the IRC have been working with banks to reduce this cost. For instance, Westpac Bank has created a debit card whereby Tongans in New Zealand can deposit money into an account that can be withdrawn by relatives back home. A study of the impact of remittances on poverty points out that in Tonga, more than 90 per cent of households receive remittances (although the 2006 Census puts that figure at 82 per cent). Even households without migrants benefit from remittances since remittance recipients make internal transfers to non-migrant households.

Other studies have also concluded that remittances reduce the incidence and depth of hardship. Low-income households in Tonga derived one-quarter of their cash income from remittances (the national average stood at one-fifth, ADB 2003).

**Exports**

According to estimates based on the overseas exchange transactions (OET) reported by the Reserve Bank and commercial banks, the total value of exports fell by Tonga Pa‘anga (TOP)$0.7 million to TOP$30.4 million in 2005/06, largely reflecting lower receipts from agricultural exports, particularly squash.

During the first eight months of the 2006/07 financial year, export earnings amounted to TOP$18.8 million compared with TOP$19.2 million a year earlier. The fall in export receipts largely reflected lower proceeds from squash exports in 2006.

**Imports**

During imports (OET based) rose by TOP$32.2 million to TOP$236.3 million, underpinned by firm growth in remittances and growth in business and household credit. During the first eight months of 2006/07, import payments were TOP$138.8 million, compared with TOP$158.2 million in the same period last year. The decline in import payments partly reflected the imposition of credit ceilings on bank lending to the private sector.

New Zealand continued to be Tonga’s largest supplier of imports (35.0 per cent), followed by Fiji (27.0 per cent), and other countries (14.6 per cent).

**Activities helping to increase the economy**

Tonga is a member of regional partnership trade agreements with the European Commission (EC) and other trading partners such as Australia & New Zealand. The region’s Pacific ACP – European legal text on trade agreement – has been finalized and submitted to the EC for their consideration. The exports of kava and tuna from Tonga and seven other Pacific islands to the EC are the key exports in these trade negotiations.

New labour markets have opened in New Zealand and Australia under the Recognised Seasonal Employment Scheme (RSE) and Pacific Seasonal Worker Pilot Scheme (PSWPS) respectively, for Tonga’s laborers. These seasonal workers can work in farms in New Zealand and Australia for up to seven months in any 12-month period. They remit money back home benefitting their families and broader communities.

Offshore mineral exploration is another area for economic growth, where work is undertaken by an overseas mining company (Nautilius Minerals Inc) in the exclusive economic zones and the territorial waters of Tonga for sulphide, copper, gold, zinc and silver.

Apart from international trade strategies, Tonga strives to improve its economy by prioritizing private sector-led economic growth, health and education in its 9th National Strategic Planning Framework 2009 – 2012.