

WORLD RANK: REGIONAL RANK:

76

17

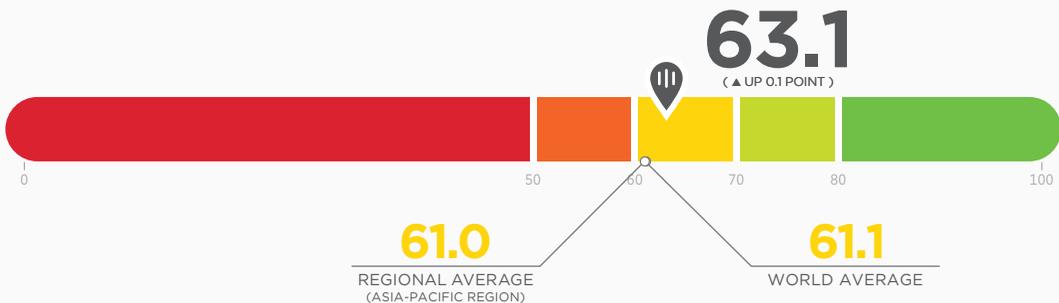
ECONOMIC FREEDOM STATUS:
MODERATELY FREE

TONGA

Tonga's economic freedom score is 63.1, making its economy the 76th freest in the 2018 *Index*. Its overall score has increased by 0.1 point, with significant improvements in **fiscal health** and **judicial effectiveness** offsetting lower scores for the **government integrity**, **government spending**, and **property rights** indicators. Tonga is ranked 17th among 43 countries in the Asia-Pacific region, and its overall score is above the regional and world averages.

Although the government hopes that Tonga's small, open island economy will attract investment and develop a larger private sector, the dominance of the public sector thwarts economic dynamism, and institutional capacity is weak. The judicial system is inefficient and lacks transparency. A lack of commitment to fully open markets impedes investment growth. The state's oversized role in the economy crowds out private-sector development. Despite improved oversight of government expenditures, Tonga's public debt poses a challenge to fiscal sustainability.

ECONOMIC FREEDOM SCORE



NOTABLE SUCCESSES:
Labor Freedom and
Trade Freedom

CONCERNS:
Financial Freedom, Judicial
Effectiveness, and
Government Integrity

**OVERALL SCORE CHANGE
SINCE 2014:**
+4.9

FREEDOM TREND



QUICK FACTS

POPULATION:
0.1 million

GDP (PPP):
\$0.6 billion
3.5% growth in 2016
5-year compound
annual growth 1.7%
\$5,386 per capita

UNEMPLOYMENT:
4.9%

INFLATION (CPI):
1.4%

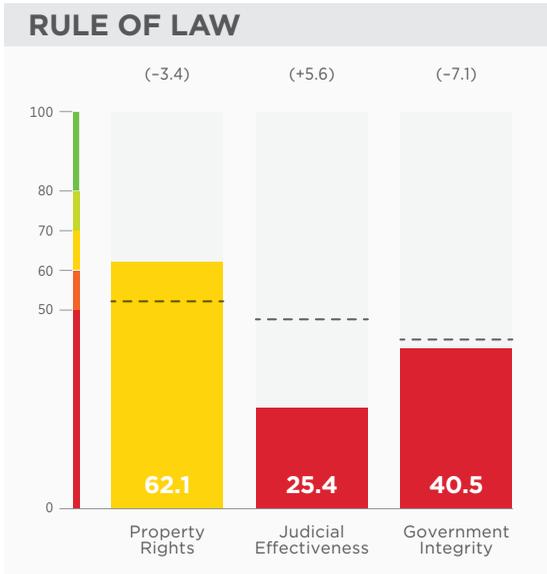
FDI INFLOW:
\$8.9 million

PUBLIC DEBT:
45.1% of GDP

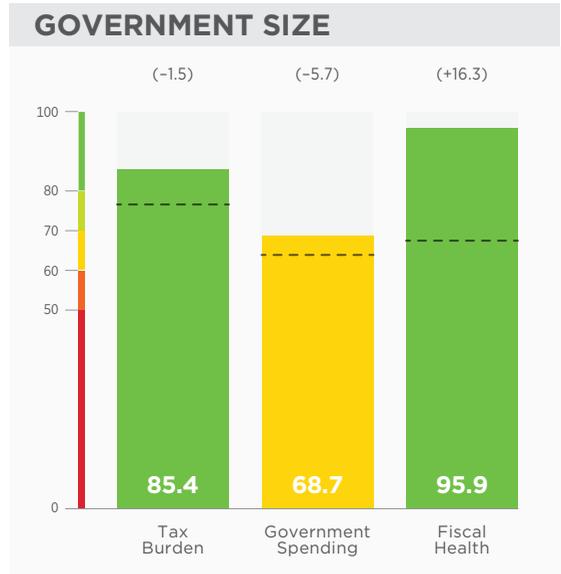
2016 data unless otherwise noted. Data compiled as of September 2017

BACKGROUND: The archipelagos of the Friendly Islands were united in 1845. The Kingdom of Tonga, the South Pacific's last Polynesian monarchy, withdrew from British protection and became fully independent in 1970. The royal family, hereditary nobles, and a few other landholders control politics. Tonga held its first elections in 2010 under its newly formed constitutional monarchy. The Democratic Party of the Friendly Islands won a plurality in parliament, and Lord Siale'ataongo Tu'ivakanō became Tonga's first elected prime minister. In 2014 elections, the DPFI retained power but elected a new prime minister, 'Akilisi Pōhiva. The economy depends on agriculture (e.g., squash, vanilla beans, and yams) as well as tourism and fish exports. Emigrants' remittances account for nearly one-third of GDP.

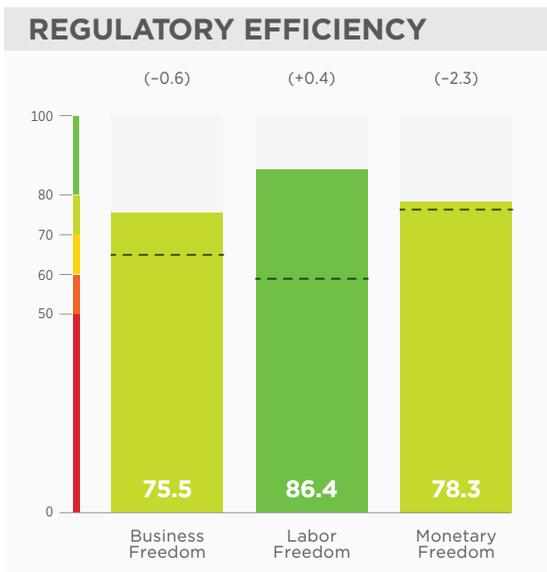
12 ECONOMIC FREEDOMS | TONGA



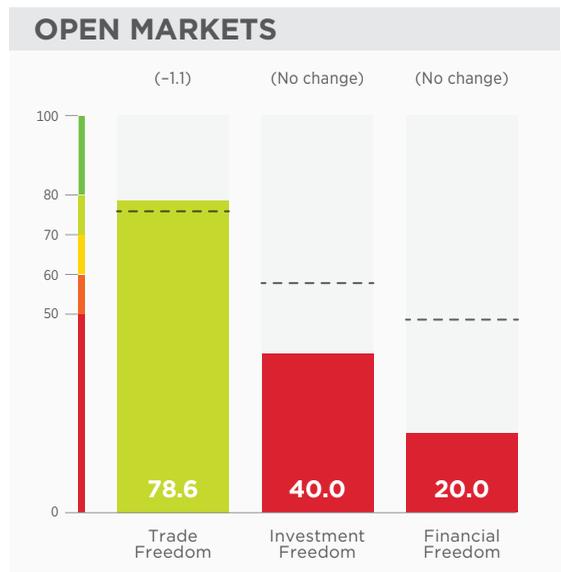
Enforcement of property rights is weak, and registration is inefficient. The judiciary is generally independent but poorly resourced. The law provides criminal penalties for official corruption, and the government seeks to implement the law effectively, but there continue to be reports of government corruption and occasional reports of officials engaging in corrupt practices with impunity.



The top personal income tax rate is 20 percent, and the top corporate tax rate is 25 percent. Other taxes include value-added and interest taxes. The overall tax burden equals 20.8 percent of total domestic income. Over the past three years, government spending has amounted to 32.3 percent of total output (GDP), and budgets have been balanced. Public debt is equivalent to 45.1 percent of GDP.



A dynamic private sector has still not emerged, partly because of the inefficient implementation of a statutorily business-friendly regulatory environment. The formal labor structure is undeveloped, and labor regulations are not enforced effectively. The government influences prices through subsidies for electricity and subsidies to loss-making state-owned enterprises.



Trade is significant for Tonga's economy; the combined value of exports and imports equals 78 percent of GDP. The average applied tariff rate is 5.7 percent. Nontariff barriers impede some trade. Government openness to foreign investment is below average. The poorly developed legal system impedes the emergence of a modern financial sector. There are no capital markets. Only a small proportion of the population uses banking services.