Tonga’s economic freedom score is 57.7, making its economy the 108th freest in the 2019 Index. Its overall score has decreased by 5.4 points, a significant decline precipitated by sharply lower scores for government spending, labor freedom, monetary freedom, and trade freedom. Tonga is ranked 23rd among 43 countries in the Asia–Pacific region, and its overall score is now below the regional and world averages.

Reconstruction will dominate economic activity in 2019 in the wake of Cyclone Gita, the worst storm to hit Tonga in 60 years. The government hopes to attract investment to the small, open island economy to develop a larger private sector, but the public sector’s dominance 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.

**ECONOMIC FREEDOM SCORE**

57.7  (▼ DOWN 5.4 POINTS)

**REGIONAL AVERAGE (ASIA-PACIFIC REGION)**

60.6

**WORLD AVERAGE**

60.8

**RELATIVE STRENGTHS:**

Fiscal Health and Tax Burden

**HISTORICAL INDEX SCORE CHANGE (SINCE 2009):**

+3.6

**CONCERNS:**

Financial Freedom and Judicial Effectiveness

**FREEDOM TREND**

59.3  59.6  63.0  63.1  57.7

**QUICK FACTS**

**POPULATION:**

0.1 million

**UNEMPLOYMENT:**

1.1%

**GDP (PPP):**

$0.6 billion

**INFLATION (CPI):**

8.0%

3.1% growth in 2017

**FDI INFLOW:**

$13.8 million

5-year compound annual growth 2.4%

**PUBLIC DEBT:**

48.0%

$5,608 per capita

2017 data unless otherwise noted. Data compiled as of September 2018

**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 of King Tupou VI, hereditary nobles, and a few other landholders control politics. Tonga held its first elections in 2010 under a newly formed constitutional monarchy. The Democratic Party of the Friendly Islands (DPFI) won a plurality in parliament. In the 2014 elections, the DPFI retained power but elected a new prime minister, ‘Akilisi Pohiva, who was reelected in 2017. The economy depends on agricultural products like squash, vanilla beans, and yams as well as tourism and fish exports. Emigrants’ remittances account for nearly one-third of GDP.
Property rights are ill defined in law, and their enforcement is weak. The judiciary system is generally independent but underresourced and slow. Corruption, even among high-ranking officials, is generally punished effectively. In 2017, for example, a senior corporation executive was removed from office for corruption. Despite the anticorruption measures, bribery of police, customs officials, and members of parliament is widespread.

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 20.7 percent of total domestic income. Over the past three years, government spending has amounted to 44.4 percent of the country’s output (GDP), and budget deficits have averaged 1.1 percent of GDP. Public debt is equivalent to 48.0 percent of GDP.

A dynamic private sector has not emerged, partly because of inefficient implementation of a statutorily business-friendly regulatory environment. The formal labor sector is underdeveloped, and labor regulations are not enforced effectively. The foreign aid-dependent government is under pressure from international donors to scale back subsidies for electricity and loss-making state-owned enterprises.

The combined value of exports and imports is equal to 89.4 percent of GDP. The average applied tariff rate is 5.7 percent, and no reforms are planned to reduce nontariff barriers that continue to impede trade flows. Foreign investment in several sectors of Tonga’s economy is restricted. The underdeveloped financial sector’s limited ability to offer affordable credit undermines the development of a dynamic entrepreneurial sector.