Tonga’s economic freedom score is 57.5, making its economy the 115th freest in the 2021 Index. Its overall score has decreased by 1.3 points, primarily because of a decline in property rights. Tonga is ranked 23rd among 40 countries in the Asia-Pacific region, and its overall score is below the regional and world averages.

The Tonganese economy remains in the ranks of the mostly unfree for the third year in a row. Given the country’s exposure to natural disasters and the loss of workers to emigration, the government is struggling to promote economic development. To help achieve that goal, it should promote economic freedom by strengthening the rule of law and making business-friendly improvements in the investment code and financial services sector.

**IMPACT OF COVID-19:** As of December 1, 2020, no deaths had been attributed to the pandemic in Tonga, but the economy was forecast to contract by 2.5 percent for the year.
12 ECONOMIC FREEDOMS | TONGA

RULE OF LAW

Technically, all land belongs to the king. Property rights are ill-defined in law, and their enforcement is weak. The judiciary is generally independent but poorly resourced and slow. Corruption and abuse of office are serious problems. Although government officials and leaders of state-owned companies are sometimes held to account for bribery and other malfeasance, anticorruption mechanisms are generally weak and lacking in resources.

REGULATORY EFFICIENCY

The construction permitting process has become less transparent. The presence of an English-speaking, well-educated workforce eases companies’ participation in the global economy. The government is dependent on foreign aid and remains under pressure from international donors to scale back subsidies for electricity and loss-making state-owned enterprises.

GOVERNMENT SIZE

The top individual income tax rate is 20 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax. The overall tax burden equals 22.3 percent of total domestic income. Government spending has amounted to 39.3 percent of total output (GDP) over the past three years, and budget surpluses have averaged 2.4 percent of GDP. In 2017, public debt was equivalent to 48.0 percent of GDP.

OPEN MARKETS

Tonga has two preferential trade agreements in force. The trade-weighted average tariff rate is 5.8 percent, but layers of nontariff barriers continue to impede trade flows. The overall investment framework lacks transparency, and foreign investment in several sectors of the economy is restricted. The underdeveloped financial sector’s limited ability to offer affordable credit undermines the development of a dynamic entrepreneurial sector.