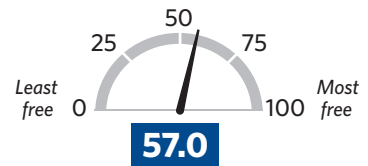


TONGA

Economic Freedom Score



World Rank: **109** Regional Rank: **20**

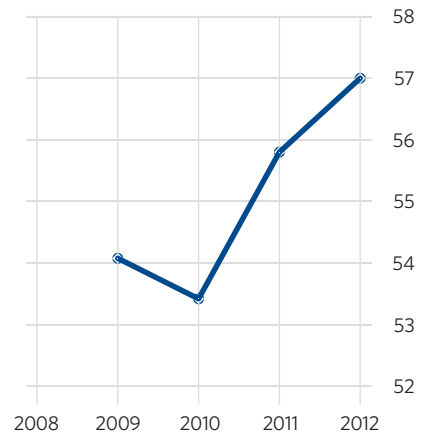
Tonga's economic freedom score is 57.0, making its economy the 109th freest in the 2012 *Index*. Its score has increased by 1.2 points from last year, reflecting a particularly large improvement in trade freedom that was partially undermined by expansive levels of government spending. Tonga is ranked 20th out of 41 countries in the Asia-Pacific region. The country recorded one of the 20 largest score gains in the 2012 *Index*.

Tonga's progress toward greater economic freedom has gained some traction with improvements in scores two years in a row. Nonetheless, the economic foundations for long-term development remain notably weak. Property rights and corruption scores are far below world averages, and the country's judicial system remains inefficient and lacks transparency. Although trade weighted average tariffs dropped significantly, a lack of commitment to opening markets fully holds back growth in investment and thwarts the emergence of a more dynamic private sector.

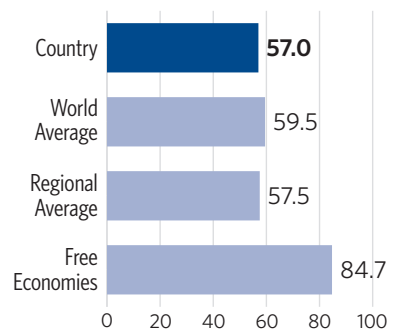
The Tongan economy continues to be heavily dependent on foreign aid and overseas remittances. The dominance of the public sector has contributed to a low level of economic dynamism despite a workforce that is considered the best educated among the Pacific Island nations.

BACKGROUND: The Kingdom of Tonga is the South Pacific's last Polynesian monarchy. Some 100,000 people are spread across about 50 of its 171 islands. Tonga has been independent since 1970, and its political life is dominated by the royal family, hereditary nobles, and a small number of other landholders. Tonga held its first elections on November 25, 2010. The Friendly Islands Democratic Party was not able to win a majority in parliament, but it did win a plurality, and Lord Siale'ataonga Tu'ivakano became Tonga's first elected prime minister. More than half of the population lives abroad, mostly in New Zealand. Agriculture is the principal productive sector of the economy.

Freedom Trend



Country Comparisons



Quick Facts

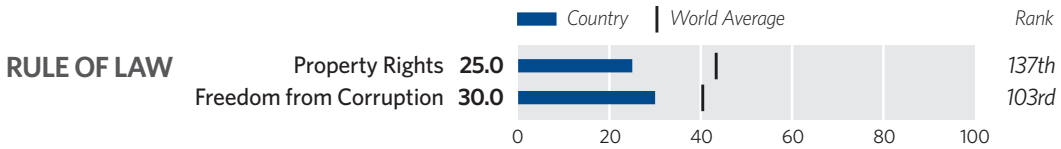
Population: 0.1 million
GDP (PPP): \$0.8 billion
 0.3% growth in 2010
 5-year compound annual growth 0.4%
 \$7,275 per capita
Unemployment: 13.0%
Inflation (CPI): 4.0%
FDI Inflow: \$16.2 million
Public Debt: 42.8% of GDP

How Do We Measure Economic Freedom?

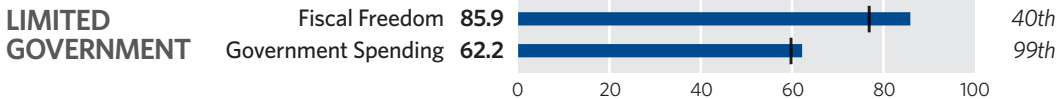
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
 Data compiled as of September 2011.

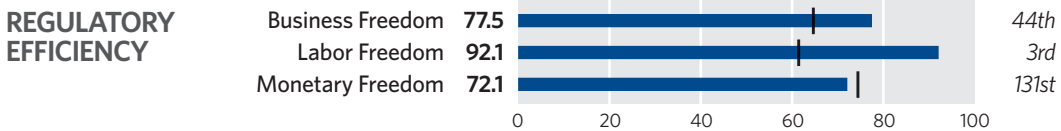
THE TEN ECONOMIC FREEDOMS



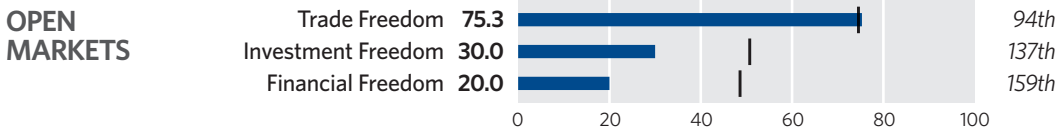
Tonga has a fairly efficient legal system based on British common law. The judiciary is independent and conducts generally fair public trials, although all judges are appointed by the monarch. Property rights are uncertain. Enforcement of legislation protecting intellectual property rights is weak. The office of Anti-corruption Commissioner has been established, but pervasive corruption continues to undermine government integrity.



The top income tax rate is 20 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and an interest tax, with the overall tax burden amounting to 19.5 percent of total domestic income. Government spending has increased to a level equivalent to 35.5 percent of GDP, keeping the budget balance in deficit. Public debt amounts to around 43 percent of total domestic output.



Regulatory codes are relatively sound, but implementation of regulations remains ineffective. There is no minimum capital requirement for establishing a business, but the process can be time-consuming, with 16 days required on average. Labor codes are favorable to labor market flexibility, but informal labor persists at high levels. Monetary stability is weak as inflationary pressure lingers.



The trade weighted average tariff rate has dropped by more than half but is still restrictive at 7.3 percent. Non-tariff barriers further raise the cost of trade. Many investment activities are stringently regulated. The legal system impedes efficient lending, and the lack of reliable information on creditworthiness increases credit costs. There are no capital markets. Much of the population operates financially outside of the formal banking sector.

Score Changes

RULE OF LAW	LIMITED GOVERNMENT	REGULATORY EFFICIENCY	OPEN MARKETS
Property Rights	Fiscal Freedom	Business Freedom	Trade Freedom
Freedom from Corruption	Government Spending	Labor Freedom	Investment Freedom
		Monetary Freedom	Financial Freedom
0	+2.8	+0.1	+19.1
0	-11.0	0	0
		+1.0	0