An effective framework for trade policy in Tonga

Siope Vakataki, 'Ofa

Crawford School of Economics and Government, The Australian National University

2007

Policy dialogue

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Siope V. ‘Ofa

Research Scholar, Crawford School of Economics and Government,
The Australian National University

Tonga’s trade policy framework has gradually evolved over the past two decades. This evolution was important as in the past ten years regional and multilateral economic integration initiatives have intensified in the Pacific region. Pacific island states have responded with various level of effectiveness. The ability of Pacific island governments to participate in international trade negotiations has been the centre of attention of international institutions. Emphasis has been placed on capacity building of government officials to deal with highly legalistic regional and multilateral trade arrangements. However, less attention has been given to the effectiveness of the national trade policy architecture for implementing trade policy. This short paper discusses key challenges that have confronted the Tongan trade policy framework over the past ten years and how the policy framework has evolved in response to the pressures. The paper argues that there is room for improvement and a new, consolidated policy framework is suggested based on the lessons learnt.

Trade policy is understood as the legal rules to regulate the domestic and international trade affairs of a country. Trade policy in Tonga is guided by its national strategic development plan (SDP). Trade-related government agencies implement their respective mandates on the basis of the SDP. Currently, the Tongan Government’s strategic economic and trade directions are set by SDP8 (2006/07 to 2008/09). Trade policies are linked to SDP8 under Goal 3 ‘promote sustained private sector-led growth’. The Ministry of Labour, Commerce and Industries (MLCI), the substantive implementing agency on trade issues, is mandated through Strategies 1 to 14 of Goal 3 on specific areas of international trade, business development, investment and labour.

Under the MLCI 2005–2008 Corporate Plan, the vision is ‘to strengthen and create opportunities in trade, commerce, investment and industrial development, and employment activities that enhances private sector growth’ (MLCI 2007). The five Strategic Result Areas (SRAs) of the MLCI focus on

- encouraging a sound environment for development and increased involvement of the private sector in economic activity
- building a dynamic, highly competitive economy driven by the private sector
- developing a well-educated and skilled labour force

- achieving an efficient and well-structured government sector, good governance and accountability.

These objectives are focused on ensuring the continued development of the private sector as the backbone of the economy and to complement it with a skilled workforce and an efficient and effective government mechanism to ensure close dialogue with all stakeholders on how to provide conducive trade policies for their development (see Annex 1 for further information on SRAs).

The trade policy framework is led and coordinated by the Minister responsible for international trade, the Minister for Labour, Commerce and Industries. The Minister reports to Cabinet based on the advice of a Trade Coordination Committee (TCC) comprised of government agencies involved with trade.[1] The TCC was tasked with collection of information and input based on their respective portfolios to be presented to the committee for further deliberation and eventual provision of policy advice to Cabinet on major trade policy directions.

The early 2000s saw an increase in trade policy consultation activities, both domestically and internationally. The finalisation of the negotiations for the Pacific Island Countries Trade Agreement (PICTA), the Pacific Agreement on Closer Economic Relations between the 14 Pacific island countries and Australia and New Zealand (PACER), the ongoing negotiations on the European Union Economic Partnership Agreement (EU-EPA), and Tonga, Samoa and Vanuatu negotiating their accession to the World Trade Organization (WTO) demanded the full attention of the Committee and in particular MLCI.

The high demands of the various regional and international trade negotiation processes upon MLCI and the TCC placed pressures on the framework; in particular, on the effectiveness of communication channels. The *ad hoc* nature of the TCC meetings soon became an operational challenge as the workload and policy implications of the trade issues discussed became overwhelming. With *ad hoc* meetings it was difficult to ensure the consistent participation of Committee members. Transfers of information between agencies and their effective contribution to the TCC were therefore limited.

The Committee's main objective of 'providing sound policy advice to Cabinet' became inadequate as more and more international trade issues arose. The Committee itself had limited influence on the decisions made as these rested with Cabinet. It was unclear how the input from the Committee influenced trade policy decisions.

Ownership of the process by other government agencies was lacking and this may have contributed to their minimalist approach to the TCC. This lack of ownership was felt outside government by the private sector and relevant non-government organisations (NGOs), as only public agencies were members of the Committee; although the views of the private sector and NGOs were collected through national consultations.

The Committee lacks a legal foundation and thus was often constrained in initiating processes. Although the MLCI has legal foundations based on various areas of trade, and other government agencies involved in the Committee have unique legal portfolios to monitor and implement, a legal coordination mechanism to bring the trade-realated mandates into one legal entity does not yet exist. The result was a policy framework that struggled to address the increasing number of trade policy issues requiring consideration.

It became obvious the TCC was financially constrained in undertaking its operations. This hampered its effectiveness on two fronts: first, the effective participation and representation of MLCI and the Committee in regional and international trade meetings (participation of trade officials was often determined by fund availability, technical assistance from international institutions, and donors). Secondly, the MLCI and the Committee were unable, due to resource contraints, to host public consultations at a national level on a frequent basis.

These trade policy framework challenges can be observed in most small island states. Broadly, the problem can be seen as an issue of the timing of public sector reforms, adjustment of strategic development plans to take on board international trade policy issues, and the need for increased political and civil support of the policy framework and its national objectives. The Tongan Government in collaboration with MLCI and TCC made drastic reforms to mitigate these challenges. In November 2005, Tonga held its first 'National Trade Policy Consultations' with the assistance of the Pacific Islands Forum Secretariat, which had the objective of familiarising stakeholders within Tonga with international trade issues, and most importantly to have a discussion on possible future courses of action with respect to the 'establishment of trade policy frameworks and processes in Tonga as well as the development of a comprehensive trade policy' (Pacific Islands Forum Secretariat 2005:1). This consultation was seen as a positive way forward in improving the policy framework by Government. The private sector and NGOs were invited to share their views on how such a framework could operate within the Tongan context.

The Tonga Trade and Investment Board Act was passed by the national parliament in 2005, which gave legal foundation to a Trade and Investment Board to be chaired by the MLCI Minister. The objective of the Board was to 'promote, stimulate and facilitate the growth and development of trade and investment in Tonga' (Tonga Trade and Investment Board Act, 2005:6). The emphasis was on domestic growth and investment rather than international trade policy as the brief functions of the Act stipulated: 'promote and facilitate in specific sectors of the economy that would enhance economic growth; advise the (MLCI) Minister on policies and strategies relating to growth; enter into joint ventures on terms and conditions approved by the Minister; and carry out market research and investigation' (Tonga Trade and Investment Board Act 2005:7). This was the first positive move by government to legalise private sector involvement in its trade policy processes.

To date, the Board has not operated due to the fact that the regulations for administrative provisions have yet to be drafted by the responsible Minister. It would be a productive step forward to implement the required regulations, in the light of Tonga's business development needs. Further, the funding for the Board requires justification in Parliament before any expenditures can be approved. However, considering the change of MLCI ministers in the past 12 months, the priorities may now have shifted.

In 2006 the MLCI moved to establish a National Trade Facilitation Committee (NTFC). This was an approach by the Ministry to the challenges MLCI and the Committee encountered. A detailed work plan was drawn up with the view to involving the public and key stakeholders as much as possible. The structure, policy guidelines and terms of reference for the NTFC were to be drawn up after consultation at the widest level possible and submitted to Cabinet for approval. Key functional committees or technical working groups were developed to focus on sectoral categories such as agriculture, manufacturing, fisheries, services and tourism. Though the development of this new committee is still in progress, certain challenges that the TCC encountered have

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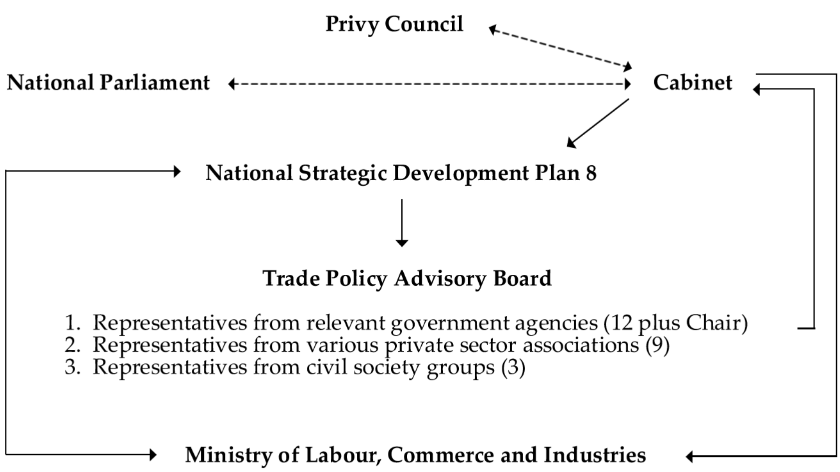
been dealt with. There is wider participation, support and ownership by business and civil society, a tentative financial budget is in place, and there is renewed support from relevant line Ministries. However, since the NFTC's legal foundation and therefore its authority to influence international trade policy decisions is subject to Cabinet's approval, its wider representation of the business community and civil society in the decision-making process may potentially be questioned.

In April 2007, the Tongan Government hosted the first National Economic Summit with the aim of establishing a National Economic Development Council (NEDC) (*Matangi Tonga*, 19 April 2007). It was a move by the government to formulate an executive type council with members from Cabinet (4) and the private sector (8) to 'implement recommendations from the summit and continuing beyond'. Government later announced a $15 million injection to assist the NEDC implement its development strategies as reflected in the 2007/08 Budget (*Matangi Tonga*, 3 July 2007). Such a bold move with financial assistance of this magnitude should be welcomed. Among other economic issues the NEDC has discussed the importance of trade policy mechanisms and various ways of boosting domestic business development.

Figure 1 **National policy framework for trade**



Notes:
1. Based on input from Government, private sector and civil society representatives in the Trade Policy Advisory Board. Major policy directions shall be determined within this legal entity through voting. Decisions shall be communicated to Cabinet for information and further direction to the implementing agency (MLCI) for action on the decisions of the Board.
2. Trade policy directions should be dictated by the National Strategic Development Plan, and thus must be incorporated in the Board's deliberations to ensure alignment with the economic development plan.
3. The Board should be a legal entity with regulations to administer its authority, operation and funding.
4. The Board should be financed under the implementing government agency's budget.
5. The Board should be balanced with representatives from the three sectors. The private sector and civil society should be encouraged through government assistance to form associations and choose representatives. The Chair will be the Minister responsible for International Trade.

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Over the long term, the increasing administrative demands of regional and international trade treaties require a more effective trade policy framework. Collaboration between government agencies, the business community and civil society is the key. The collaboration needs to be coordinated and closely monitored by a legal entity. Based on the current Government's trade policy reforms, a consolidated policy framework is suggested (Figure 1).

Political support is vital to the effectiveness of such a trade policy framework. The role of members of Parliament and Cabinet members in supporting the framework is key. International trade should be among the priority areas for government and this priority should be reflected in MLCI's budget. The 2007/08 Budget vaguely reflects financial assistance to exports or small business development, although its division that deals with trade (Tongatrade) has the critical objective of providing a conducive environment for business development and export diversification. This may be partly explained by the new developments in other areas, such as the new NEDC and other relevant government agencies, each with a contribution to trade.

A clear trade policy mechanism, with consistent political and financial support from Government and effective participation and collaboration by the private sector and civil society, is important. In addition, in a small island developing state context, coordination of a parallel two-track approach between building international competitiveness of its business sector and the push to optimise the opportunities provided under free trade for its exports is similarly vital.

Note

1 The Committee was Chaired by the MLCI Minister at the time and members who actively participated included representatives from Ministry of Finance, Customs Division, Ministry of Agriculture, Forestry and Food, Department of Fisheries, Ministry of Foreign Affairs, Ministry of Health, Central Planning Department, and Crown Law Department.

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Annex 1 Strategic result areas of the Ministry of Labour, Commerce and Industries' 2005–2008 Corporate Plan

Specific to the development of an enabling environment for the private sector are Priority Objectives 1 and 2. These are described in the MLCI Corporate Plan 2005–2008 as follows

SRA 1—Improving comparative advantages and competitive positions

- Encourage foreign direct investment and trade and ensure that they contribute additional resources from overseas to the enhancement of Tonga's capital, human and technological assets.
- Promote trade liberalisation and deregulation to enhance the competitiveness of local industries and promote competition.
- Promote and diversify export of goods and services.
- Enhance the productivity of labour and industries through training and improvement of technology and management.
- Establish and promote a total quality culture.
- Promote import replacement and substitution where Tonga has the capacity and can compete.

SRA 2—Facilitating the development of the private sector

- Build a fair and transparent level playing field to promote private sector investment, competition and economic growth.
- Broaden the base of exports and foreign exchange earnings.
- Provide effective business advisory and support services to small business through small business enterprise centers and encourage individuals to enter business.
- Provide technical support to put in place a sound institutional capacity to facilitate private sector development.
- Develop education and training schemes to accommodate the skills needs of the private sector including annual training needs survey.