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Time for a change in Tonga: From monarchy to modernity

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The Pacific, rather than being famous for blue waters and sandy beaches, is fast gaining a reputation for hosting corrupt, ineffective governments and dysfunctional economies. Papua New Guinea, the Solomon Islands, Fiji and Vanuatu have all faced serious political and economic instability in recent years and the region boasts few real success stories.

Tonga could be one. But only if, following the death of King Tupou IV, it moves from being one of the last absolute monarchies in the world to a modern state.

With a population of 100,000, Tonga is a small country by international standards but by the standards of the Pacific it is medium sized. Tonga boasts a long tradition of relative political stability and functioning institutions of law and order. Employment opportunities are few but emigration as a result of good health and education outcomes has become a safety valve, supporting the remaining population with remittance income from abroad. Agriculture and tourism have potential for future growth.

Despite these positives, something is rotten in the Kingdom of Tonga. Since 1991, GDP has fallen 1.1% per year, compared to a growth rate of 3.1% in Samoa over the same period. The reason for this difference is straightforward: Samoa has taken some steps to reform its economy and government while Tonga has not. So as living standards in Samoa have steadily risen, they have declined in Tonga.

The potential of the Tongan economy has been wasted by a monarchy and 'nobility' who have become wealthy by retaining a feudal social structure while the majority of the population has emigrated into economic exile in the United States, New Zealand and Australia. At least 80% of Tongans now reside overseas.

The recent death of the long reigning King Tupou IV has not diminished the dominance of the Royal family. The King still appoints the Prime Minister, the Deputy Prime Minister and judges in the Supreme Court and the Appeals Court. In a Cabinet of 14 members, ten are lifetime appointments made by the King, two are noble appointments and only two 'commoners', that is, 'non-nobility', are allowed to serve.

Popular support for democracy and economic reform has steadily gained momentum, culminating in a public service strike in late 2005 and the appointment of a commoner as Prime Minister. In an act of appeasement, public sector wages were raised by up to 80%, threatening macroeconomic stability. As a result, the Finance Minister claims Tonga 'is teetering on the edge of an economic crisis'.[1]

The imminent crisis is an opportunity to carry out long neglected political and economic reforms.

The Royal family continues to dominate economic life, owning strategic monopolies and crowding out the private sector. The distinction between Crown and public ownership in about 40 enterprises is murky. Formal sector employment is consequently half levels in Samoa, where government has retreated from much of the economy. Arbitrary rules and licences, such as export licences for squash, also restrict growth.

Agricultural output has fallen below its 1980 level, a combination of remittances and concentrated land tenure stifling incentives to production. The economy cannot grow without changes to land tenure policy. Squash exports to Japan have been the only agricultural success; a glimpse of what would be possible with private property rights and long term leases.

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Land policy and government regulation keep out foreign investment, which is needed to expand tourism—up to now an industry that has been ignored. The Vava'u group of islands is one of only two places in the world where tourists can swim with whales, yet only a trickle of tourists currently visits. If the government's tourist targets were met with current infrastructure, every room in Tonga would have to be filled with seven people every day of the year. New investment is badly needed.

The monarchy and nobility should no longer resist the demands for political and economic change. Current suggestions presented to Parliament by the National Committee for Political Reform, while encouraging, are inadequate. The King could continue to play a useful role as a constitutional head of state.

This paper argues that growth generating reforms have now become an economic necessity and a political possibility. With reform, Tonga could be somewhat of a rarity: a Pacific island country known for its beaches and coconut trees rather than for its economic and political dysfunction.

1. Introduction

A group of idyllic islands covered in coconut trees and surrounded by pristine waters, Tonga, with a population of 100,000, has become the site of yet another Pacific crisis.

Living standards reflect the Pacific's generous natural endowments so Tonga is spared the grinding poverty that is visible in parts of Asia and Africa. Thanks to high flows of remittances from the 80,000 strong diaspora, most Tongans live comfortable lives.[2]

But beneath a façade of proficiency, the islands are in trouble. Both politically and economically, something is rotten in the Kingdom of Tonga. Despite years of generous aid and high education and health expenditure, the country has failed to grow substantially for the last 30 years. The royal family and 'nobility' must accept responsibility for this.

The recent death of the long reigning monarch, King Tupou IV, has raised the profile of what is one of the last absolute monarchies in the world. But the King's passing is unlikely to immediately pave the way for greater democracy. The King still appoints the Prime Minister, the Deputy Prime Minister and judges in the Supreme Court and the Appeals Court. In a Cabinet of 14 members, ten are lifetime appointments made by the King, two are noble appointments and only two 'commoners', that is, 'non-nobility', are allowed to serve. A 32 seat parliament is ceremoniously elected every three years, but 23 of its 32 seats are reserved for the appointed Cabinet and 'nobility'. Only nine are filled by commoners. The Monarchy retains firm control of political power.

Despite years of generous aid and high education and health expenditure, the country has failed to grow substantially for the last 30 years.

King Tupou IV banned *The Times of Tonga*, a newspaper published in Auckland, for highlighting some of his autocratic habits and mismanagement of funds.[3] King Tupou nevertheless managed to avoid much of the blame for Tonga's troubles. This was placed squarely on his children and the 'nobles' surrounding the Royal family. The new King, Tupou V, previously Crown Prince Tupouto'a, does not appear to have the same command of public relations. A pro-democracy movement has steadily been gaining strength and may demand a move to a constitutional monarchy with a fully elected parliament and cabinet and a purely ceremonial role reserved for the monarchy and 'nobility'.

Tonga's absolute monarchy has recently been targeted for reform by the National Committee for Political Reform, which presented a 'road map' for political and constitutional reform to the Tongan parliament in October 2006.[4] Although it aims to hand over more executive power to an elected parliament, it retains a 'dual system' where the 'nobility' will continue to appoint more than a third of the reformed parliament. Such meek reform only legitimises the concentration of power of the monarchy and 'nobility'. The 'road map' does not go far enough.

The Prime Minister, Fred Sevele, the first elected Member of Parliament and 'commoner' to hold that post, concedes that as a result of long-term stagnation and an increase in public service salaries Tonga is 'in the midst of an economic crisis'.

Macroeconomic stability, particularly fiscal stability, is threatened by recent massive pay increases of up to 80% to civil servants. The Asian Development Bank forecasts inflation and higher interest rates.[5] Wages and salaries absorb the bulk of government revenues so that little is left for services, let alone for development. Because growth has been negligible, unemployment and underemployment are creating critical social pressures.

High emigration masks 30 years of low per capita income growth. The business interests of the Royal family dominate economic life, agricultural production has fallen since 1980[6] and there has been little investment in tourism.

Tonga could be a Pacific island that works. It has a history of political stability and functional institutions of law, order and government. Agriculture, fishing and tourism all have potential for future growth and in contrast to most of the region, the population is well educated and can draw on the capital and skills of its diaspora. But key reforms are needed to enable the economy to develop.

This paper argues that growth generating reforms have now become an economic necessity and a political possibility.

2. Growing pains

Table 2.1 shows GDP and population growth for selected Pacific economies between 1975 and 2005. Tonga's relatively high per capita growth is deceptive, owing more to emigration than to economic growth. Despite high birth rates, the Tongan population has remained relatively stable for the last 30 years, growing from 92,000 in 1975 to just 106,000 in 2005.[7] At least 80,000 Tongans, equivalent to over 70% of the population, live abroad in the United States, New Zealand and Australia.[8]

Table 2.1: Average annual real GDP growth, population growth and per capita GDP growth, 1975-2005

Tonga has produced numerous Strategic Development Plans that target a 5% growth rate that the economy reliably fails to meet.

	Population growth 1975–2005, %	GDP growth, 1975–2005, %	Per capita income growth, 1975–2005, %	Population, 2005
Papua New Guinea	2.4	0.6	-1.8	5,772,000
Fiji	1.2	1.1	-0.1	814,000
Solomon Islands*	3.1	3.3	0.2	466,000
Vanuatu**	2.5	2.8	0.3	207,000
Samoa	0.8	2.2	1.4	184,000
Tonga	0.3	3.3	3.0	102,000

Source: Data from International Monetary Fund, www.imfstatistics.org, and World Bank, *World Bank Atlas*, 1974. In 2005 constant US Dollars.
Notes: * Data to 2002
** Growth rate from 1972–2004

Tonga has produced numerous Strategic Development Plans that target a 5% growth rate that the economy reliably fails to meet.[9] In contrast, when Samoa faced economic difficulty in the early and mid 1990s, following a series of damaging cyclones, its government introduced some economic reforms from which Tonga can learn, including:

- Changes to tax and tariff regimes to improve public finances and hence a stronger macroeconomic position;
- Halving the number of ministries and winding down public international trade organisations;
- Focusing on accelerating export growth, particularly of tourism and fisheries;
- Privitising and corporatising other publicly owned assets to encourage greater private participation in the economy.

Samoa's economy has consequently outperformed Tonga's in recent years. Since 1991, Tonga's GDP has *fallen* by 1.1% per year while Samoa's has grown 3.1%.[10] As a result of this growth, the subsistence sector in Samoa has markedly declined, falling from 25% of GDP in 1982 to less than 15% by 2000,[11] while in Tonga it is substantially higher, accounting for half of all agriculture production.[12] Export performance has been a noticeable area of disparity between the two countries, as Table 2.2 illustrates.

Table 2.2: Average annual real growth in exports, 1975–2005

Papua New Guinea	2.8
Fiji	2.5
Solomon Islands	5.0
Vanuatu	3.0
Samoa	5.0
Tonga	2.7

Source: Data from International Monetary Fund, *Financial Statistics*, www.imfstatistics.org, calculated using 2005 US dollars.

The private sector has a larger share of the Samoan economy than in most Pacific islands. The proportion of formal sector employment in the working age population, in Table 2.3, suggests that reforms have also contributed to job creation.

Table 2.3: Selected employment statistics, latest available year

	Population aged 15-64	Labour in formal sector	Formal sector employment as % of working age population
PNG	3,221,851	220,000	7
Fiji	576,154	111,133	19
Solomon	295,370	57,472	19
Vanuatu	129,813	23,801	18
Samoa	117,703	50,325	43
Tonga	67,079	13,000	23

Source: CIA Factbook, Country Statistics available at http://www.spc.int/prism/.

Tonga's formal sector share of employment is just half of Samoa's. A lack of job creation underpins deteriorating social trends evident in the Kingdom.

Education

The failure of the domestic economy to provide employment and other economic opportunities has undoubtedly driven emigration. The education system has thus been developed with emigration primarily in mind. Tonga and Samoa both use relatively high standards of education as a way of improving access to migration places and hence as a means of raising living standards.

The failure of the domestic economy to provide employment and other economic opportunities has undoubtedly driven emigration.

Primary education is compulsory and almost universal in Tonga, largely through publicly funded primary schools. Churches are prominent in secondary education, accounting for all but one non-government secondary school in the country. Places at the government secondary school are highly competitive. The distribution of government and non-government education is shown in Table 2.4.

Table 2.4: School attendance in Tonga, 2005

Sector	Government, %	Non-government, %
primary	91	9
secondary	27	73
post-secondary	60	40

Source: Asian Development Bank, *Tonga; Social and Economic Update and Pro-Poor Policy Formulation*, Pacific Studies Series, March 2006, p 80.

Importantly, secondary education is in English and it is curriculum based, not outcomes based, consistent with the migration objectives of students and their families.

Although most students complete a secondary education, skilled and professional workers remain in high demand. Teachers are in relatively short supply, with the government long promising to hire a further 100. Similarly, 25% of positions available for doctors and 20% for nurses are unfilled.[13] Nurses trained in Tonga automatically meet qualifications in Australia and New Zealand and teachers are able to put their Tongan qualifications to work in New Zealand. For many skilled professionals, migration is thus a ready alternative to domestic employment.

Remittances

The portion of earnings that are sent back to family members by migrants is a vital and omnipresent feature of the Tongan economy. Remittances contribute to a relatively high standard of living but also create distortions and disincentives to engage in employment and enterprise.

Table 2.5 indicates that official remittances are nearly twice the level of exports in Tonga. The balance of payments suggests that they account for about 50% of GDP and the World Bank argues they could be as high as 100% of GDP once unofficial remittances are accounted for.[14]

Table 2.5: Official remittances as a percentage of exports for selected countries, latest available year

	Current transfers: remittances and investment earnings (million, USD)	Total exports (million, USD)	Current transfers as a percentage of total exports
Papua New Guinea (2001)	75.1	2,098	4
Fiji (1999)	42.7	1,062	4
Solomon (1999)	41.6	220	19
Vanuatu (2003)	4.8	121	4
Samoa (1999)	44.7	79	56
Tonga (2002)	74.5	41	183

Source: International Monetary Fund, www.imfstatistics.org, calculated using US Dollars.

Since such a large proportion of the population receive remittances, they also act as a de facto welfare net that creates disincentives to production.

The Asian Development Bank suggests that disposable income is higher than per capita GDP,[15] an accounting anomaly created by adding estimated unrecorded remittances to incomes but not to GDP estimates. High emigration rates and remittance flows mean that Tongans have a higher living standard than the economy's output can support. The government has been able to ignore the stagnation of output because of the contribution of remittances to household incomes.

Expenditure patterns of remittance income have been well documented. Although the World Bank has neglected to include expenditure data in its latest survey of remittances in the Pacific,[16] numerous other micro studies suggest that remittances are spent mostly on the substitution of fresh for processed foods and other consumer durables.[17] The ADB estimates that up to 70% of Tongan remittances are spent this way.[18] The remainder is spent on durable consumer goods, housing and also on family education, mainly to fund further emigration.

Remittances even affect health outcomes. Diabetes is chronic in both Tonga and Samoa, the two countries in the Pacific with the highest proportion of remittances to GDP. Diabetes treatment in Tonga absorbs 20% of total government expenditure on health and mostly arises because women on average are 20kg heavier and men are 17kg heavier today than 25 years ago because of the replacement of fresh food by packaged foods.[19]

Remittances in Tonga boost purchasing power for the 90% of households they reach without a corresponding increase in productive capacity. This contributes to 'Dutch Disease' effects whereby currency appreciation erodes the competitiveness of other sectors of the economy. Since such a large proportion of the population receive remittances, they also act as a de facto welfare net that creates disincentives to production. The Central Planning Department acknowledges that remittances 'act as a safety net and reduce the necessity to work'.[20] This contributes to the smallness of the private sector in Tonga.

International experience suggests that remittances have made substantive contributions to development, for example in South Korea and Taiwan, where they have been channelled into investment by sound economic policies. In the Pacific, however, remittances play only a limited development role.

3. Fiscal policy

A six week public sector strike in 2005 led by pro-democracy activists resulted in pay rises for all public sector employees. This was interpreted by some as an act of political appeasement. Lower paid employees received an 80% pay increase and mid and high paid employees received 70% and 60% increases respectively.

These payments are expected to lead to budget deficits, followed by inflation upwards of 20% that would lead to higher interest rates.[21] The private sector must match these public sector wage benchmarks. Larger companies in the capital are already settling for 20% rises.[22]

Although past development plans have long claimed that 'rightsizing' the public service was a priority, there has been no effort to do so. The impending fiscal crisis has led the Finance Ministry to offer redundancy packages. Early indications suggest that perhaps 1,000 government employees will take up the offer.[23] This is an important step, but it will not solve the fiscal deficit alone.

In 2006, salaries will devour 70% of the budget, which is high, even by Pacific standards.[24] Some departments fare worse. The police, for example, will spend 97% of their budget on salaries, leaving few funds for equipment or recurrent expenditure such as fuel. The tourism authority has already spent most of its 2006 budget on a single event—the Heilala pageant. Overall high salary expenditures leave little for the delivery of services.

Public sector companies including airlines, truck rentals, retail shopping, banking and communications operate in a shadowy world of Royal/public ownership.

Some corrective measures have already been taken. A value added tax (VAT) was introduced in 2005 to reduce reliance on trade taxes. Following the reforms, trade taxes contributed to 28% of revenue in 2005/06 compared to 55% the year before ensuring trade boosting tariff reforms are less draining on the budget.[25]

Further reforms could contribute to fiscal probity.

The 6% of the budget that is spent on Tonga's defence forces (half of which comes from donors) appears to be high. Tonga would benefit from tying its security to larger countries such as New Zealand and Australia. Several of the small Pacific islands already have such security arrangements and are spared the expense of having a full time defence force.

Traditional healers still absorb 14% of the health budget,[26] an arrangement that sits uncomfortably with the Kingdom's desire to become a modern country.

Public sector companies including airlines, truck rentals, retail shopping, banking and communications operate in a shadowy world of Royal/public ownership. The Royal family and the government hold interests in some 40 enterprises, only four of which operate independently of subsidies.[27] The others operate at a loss, supported by public finances. The Tongan Corporation, duty free shops, Tonga Timber, Tonga Paint and Sea Star Fishing have been targeted for privitisation but no action has been taken.

Tongans are well aware that many profitable enterprises are monopolised by the royal family. The new King, King Tupou V, controls Tonga's electricity generation, its beer company, half its unexplored oil supply, one of its mobile phone companies, a cable TV company and the rights to Tonga's internet domain name, earning millions of dollars of income annually. The new King's enterprise instincts are so insatiable that in 2000 he tried to sell the genetic information of his subjects to an Australian biotech company.[28] His sister, Princess Pilolevu Tuita, owns Tonga's duty free business. She also controls Tongasat, which owns six orbital satellite slots. Estimates of her fortune run as high as $38 million. Estimates of the late King Tapou IV's personal wealth have been as high as US$350 million.[29]

Tonga has gained international renown for the sometimes bizarre antics of its Royals. The new King strikes an eccentric figure with his trademark monocle and black London taxicab in Nuku'alofa. Most famously, King Tupou IV found infamy by being robbed of $40 million by his own 'court jester'.[30] King Tupou IV faced no legal penalties, protected by 'retrospective amendments' to the constitution. Some of his schemes included selling Tongan passports to Chinese migrants and an expensive quest for sunken pirate treasure. He had also considered storing oil inside a hollowed atoll to secure the Kingdom's energy supply, converting sea water into gas by the power of prayer, paving over a coral reef to make a helipad and building a space tourism launching site. A scheme to import millions of litres of toxic waste for cash was abandoned after the country's doctors threatened to leave Tonga in protest.[31]

The concentration of land in a few hands is a serious impediment to growth.

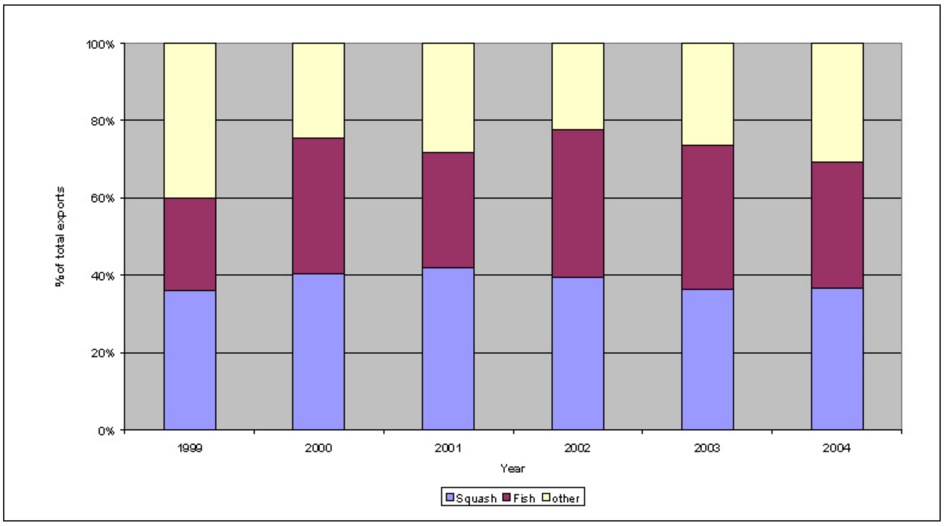
4. Land

The concentration of land in a few hands is a serious impediment to growth. Two-thirds of land is held by 'nobles' who may lease up to 5% subject to Cabinet approval. Little land, however, has become available in recent years. In the past, 'nobles' and the Crown granted land to all Tongan males over the age of 16 but a scarcity of land has meant that this practice has not been followed for many decades. Tongans must now rely on subdividing their existing lands among family members. As wages are relatively high, small plots of land cannot generate sufficient income to make farming worthwhile.

Until recently, women were unable to be considered for land transfers unless they had no male relatives and their celibacy could be verified.[32] While this quirk of tradition has been changed, feudal structures of ownership continue.

Economic theory indicates that unclear private property rights will always lead to the underutilisation of land. Agriculture has thus generated few exports because the concentration of ownership, difficulties in transferring title and absentee ownership distort incentives to produce. As Chart 4.1 shows, squash is the only significant agricultural export and the Finance Ministry reports that only three farmers are involved in growing the bulk of non-squash exports. Squash exports to Japan, and more recently to South Korea have been an exception. Vanilla, coffee and other agricultural products should similarly be expanding.

Chart 4.1: Composition of Tongan exports as percentage of total exports, 1999–2004



Source: Tonga National accounts, available at http://www.spc.int/prism/.

Leasing land to foreigners requires government sanction from the Minister of Lands, which has been very difficult to obtain.

Since the 'nobility' own most of the land and accumulate rents, they see land as a source of power. They are natural opponents to extensive land reform. Many of Tonga's emigrants, however, also retain land as a form of insurance despite remaining absent. A considerable amount of land thus lies idle. Tongans abroad have recently been granted voting rights in an effort to strengthen the democracy movement but as an unintended consequence, they are likely to retard land reform. Efforts to reform land tenure have thus been intensely resisted not only by 'nobles', but also by emigrant families. Whenever land is placed on the reform agenda, it is the first item struck down by those seeking to preserve the status quo.

Land has also become a source of generational conflict with many of the older generation hesitant to release their 'dead capital'.[33] A younger generation, aware of the entrepreneurial opportunities of secure title, is pushing for reform, but at the current pace progress is likely to take many years.[34]

5. Aid

For 30 years the Pacific region has been the recipient of the world's highest per capita aid flows.

China has been an increasingly visible source of aid to the Pacific. Tonga has established an embassy in Beijing.

Table 5.1: Aid flows to the Pacific, constant 2005 US Dollars, 1970–2004

	Total aid, 1970-2005, millions	Average annual aid per capita, 1970-2005
Papua New Guinea	16,822	87
Fiji	1,763	63
Solomon Islands	1,844	133
Samoa	1,243	200
Tonga	800	230
Vanuatu	1,447	205

Source: Helen Hughes, Aid has failed the Pacific, *Issue Analysis* No 33 (Sydney: The Centre for Independent Studies, May 2003) and OCED, *Geographical distribution of financial flows*, 2000–2004.

Australia and New Zealand have traditionally been the primary source of aid to Tonga. While Australia was Tonga's largest single donor in 2004, Australia and New Zealand jointly contribute more than half of official development assistance to Tonga.[35] Most aid has traditionally gone into individual projects and budgetary assistance. Encouragingly, the Tongan government claims it is not seeking budgetary support from Australia or New Zealand during its current fiscal difficulties, but this may owe more to China being a new source of funding rather than a desire for self sufficiency.

China has been an increasingly visible source of aid to the Pacific. Tonga has established an embassy in Beijing (together with embassies in London, Brussels and New York). The amount of aid provided by China is notoriously difficult to access but Chinese funded 'development projects' are visible throughout Tonga. China has funded the refurbishment of the Dateline Hotel, the construction of a new $3 million, 900 square metre conference hall for meetings of the Pacific Forum as well as promising luxury cars and other amenities for conferences.[36] The Chinese government has renovated one high school and pledged to renovate a second.

Aid flows have not contributed to higher growth. As a source of unearned economic rent, aid has similar macroeconomic effects to remittances in that it artificially appreciates the currency to make exports and domestic import substitution less competitive. Unlike remittances, however, aid flows also draw resources away from the private and into the public sector, providing funding for increases in public wages and benefiting the ruling elites—reinforcing the status quo.

It is notable that with a population equivalent to a packed house at the Melbourne Cricket Ground during football finals, Tonga retains a full service central bank to conduct market operations while the Finance Ministry has three staff members to compile the budget. It is a member of 33 international organisations, whose representatives, offices, cars and overseas meetings are funded by aid flows. The servicing of these organisations and of NGOs (non-government organisations) is a principal source of Tonga's tourism income but it has not had any appreciable impact on economic growth or social welfare.

6. Labour markets

The poor performance of the Tongan economy is most acutely reflected in the structure of its labour market. Although the most recent data on labour force reports employment numbers of 35,000 people, 6,500 of these are unpaid houseworkers and only 13,000 are 'regular' employees, that is, in the formal sector.[37] So although official unemployment is low at 5.2%, underemployment is significantly higher. Agriculture accounts for 46% of male employment, with roughly half of female employment being utilised in manufacturing.

A shortage of skilled workers alongside high unemployment and underemployment, with significant numbers of skilled workers lost through migration, is typical of the Pacific. Only 45 people are currently enrolled as apprentices in trades.

Agriculture remains the most important sector of the economy, but production is lower in 2006 than it was in 1980.

Table 6.1: Employee activity, 2003

Employer	382
Own account worker	12,663
Unpaid household worker	6,410
Regular employee	13,212
Temporary/casual employee	1,849
Apprentice	45
Total	34,561

Source: Tonga Statistics Department, *Report on the Tonga Labour Force Survey*, 2003.

Half the population is under 22 and nearly 3,000 young people enter the labour market each year. The economy would have to expand appreciably to create new jobs if emigration were not a safety valve.

7. Sources of growth

Agriculture

Agriculture remains the most important sector of the economy, but production is lower in 2006 than it was in 1980.[38] Its further decline can only be arrested by eliminating the multiple claims on profits that feudal ownership creates.[39]

The Asian Development Bank has spent considerable resources on the study of the Tongan economy without being able to account for the persistently poor performance of agriculture. It found 'the poor performance … hard to understand'.[40] Indeed, given favourable climatic conditions that are milder than most of the islands in the region, growing conditions for cash crops, particularly on the main island of Tongatapu, are excellent as development plans have repeatedly noted. There is no doubt agricultural production should be far higher than it is but the reasons for poor performance are clear.

Since Tongan wages are relatively high, low value crops such as coconut and copra are not competitive when grown on small plots. Squash was originally grown on small plots, but farmers have responded to market forces and it is now grown on relatively larger farms to reduce costs and increase returns.[41] Tonga exports squash to Japan during the December-January break in supply. Other crops could take advantage of this timing niche.

The claim that Keynesian 'animal spirits' are lacking in Tongan farmers has little substance. Coffee showed some signs of early success with producers planning to expand production.[42] Vanilla and kava are also grown sporadically, when world prices are high enough to induce production from farmers. These and other crops such as orchids would require land reform to thrive.

A 1993 survey found that only 6% of farmers cultivated more than two hectares and less than half of all allotments were being farmed.[43] Changing land tenure may formalise trends already current in Tonga. A 2001 Central Planning Department survey found that just 2% of leases were registered; the rest were informal arrangements between families, necessary to circumvent restrictive ownership and regulations.[44] The perception that land tenure faces insurmountable public opposition is changing. Government policy should change to reflect this.

Arbitrary fees, such as a 10,000 Pa'anga cost of obtaining a squash export licence, are not only unnecessary restraints on agricultural growth, they are also sources of corrupt activity that stifles competition.

Tourism

Tourism is significantly underdeveloped. The government has shown apathy, even hostility, towards expansion of the tourist industry in the belief that large tourist volumes would dilute traditional Tongan culture. But tourists pay to experience island cultures and hence would have a preserving influence rather than a destructive one. Tourism is also labour intensive. It is an industry that can make a significant impact on the local economy.

Tourism is significantly underdeveloped. The government has shown apathy, even hostility, towards expansion of the tourist industry.

Most tourism operators complain of poor inter-island transport and poorly developed infrastructure, particularly when compared to regional tourist hubs in Fiji. Increasing the availability of domestic transport services would encourage locals to establish their own tourist hubs, as one family has done on Pangaimotu island. The Vava'u group of islands, among the most picturesque in the Pacific, is one of only two places in the world that accommodates swimming with whales and has substantial potential for tourism. One of Russia's oligarchs was reportedly seen docking his yacht there earlier this year but for more modest travel budgets the lack of accommodation and transport to the outer islands limits the potential for growth.

Flight arrivals numbered 57,000 in 2003.[45] This reflects high levels of family, official and NGO visitors. The most popular coffee shop in Nuku'alofa targets the consultant market by advertising proudly that it imports bagels from New York! The Central Planning Division estimates the true figure for tourist arrivals to be closer to 16,000.[46] On a per capita basis this significantly underperforms against other islands in the region.

The Royal family has contributed to the small size of tourism. For many years, its wholly owned Royal Tongan Airline monopoly stultified domestic and international travel before it collapsed under US$20 million of debt in 2006.[47] Following the collapse, the sole licence to operate a domestic airline was granted to the Crown Prince. Cabinet Ministers who opposed the monopoly licence were sacked.[48] New licences, both domestic and international, have since been issued. Virgin Blue currently flies to Tonga but early indications suggest that this service is in jeopardy because of low tourist numbers. To keep international transport links open, attracting more tourists is an urgent priority.

The Minister for Tourism has argued that Tonga should be able to support 300,000 tourists annually, nearly 20 times the current number. With present facilities, seven people would need to share every room in Tonga for every night of the year to meet these targets. Although these restraints are well known, the reforms needed to correct them have not been undertaken. The Central Planning Division recommends that an additional 2,000 rooms will have to be built as a start.[49]

Land is again at the forefront of impediments to growth. Current laws allow only short term leasing of land, typically for 20 years. Long term leases of 99 years could be a precursor to private property rights that would encourage more transport and accommodation to be built.

The government is actively hostile to foreign investment that is needed to stimulate growth and infrastructure development.

The government is actively hostile to foreign investment that is needed to stimulate growth and infrastructure development. It also maintains unfavourable land and regulatory policies, requiring tourist operators who wish to open shops and restaurants to pursue a different permit for each activity. Since many laws and regulations are at the discretion of government Ministers, rules are not transparent and rent-seeking behaviour is the inevitable result.

Maintenance of exiting assets, including planes and airports, also needs attention. For example, no air connections were possible to the 'Eua island group during early 2006 as the airport runway was not fenced and stray animals on the landing strip created a safety hazard for incoming planes.[50]

Conclusion

While the Pacific is increasingly recognized for economic and political dysfunction, Tonga could be one Pacific island country that works. It has relatively good health and education outcomes and functional institutions of law and order. But slow growth and a lack of jobs has enticed many Tongans to find economic refuge abroad. Since 1991 the economy has fallen by 1.1% annually, while Samoa has grown by 3.1% because Samoa has undertaken some basic reforms to its economy. The potential of the Tongan economy has thus been wasted and the Royal family and 'nobility', having been the beneficiaries of the status quo, must accept responsibility for this.

The recent death of King Tupou IV and an impending fiscal crisis mean that long neglected reforms have now become both necessary and possible. The monarchy and 'nobility' should no longer resist the demands for political and economic change. Current suggestions presented to Parliament by the National Committee for Political Reform, while encouraging, are inadequate. The King could continue to play a useful role in Tongan life as a constitutional head of state rather than an autocrat. It is time now to move from a monarchy to a modern state.

Endnotes

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