# **5** Reasons to Invest in Tonga

Stable, strategic & open for business - invest in the hart of the Pacific

Business Registry, Investment and Intellectual Property Ministry of Trade & Economic Development

May 2025



# **5** Reasons to invest in Tonga

### Dynamic and emerging economy

One of the Pacific's largest and fastest-growing economies, with strong purchasing power, low inflation, and solid employment, outperforming regional averages and offering stable growth potential.

### 40

### Strategic export platform

Preferential market access of over 1.9 billion people across 19 countries, with strong air and maritime connectivity placing Tonga at the heart of South Pacific trade routes.

### Friendly and stable business environment with attractive tax incentives

Boasting a robust legal framework, Tonga is the 3<sup>rd</sup> best place for doing business in the Pacific, excelling in different indices such as political stability & absence of violence, rule of law and voice and accountability.

### Competitive operational costs

3<sup>rd</sup> most competitive salaries, low utility rates and attractive tax regime in the Pacific region, Tonga helps businesses maximizing value and minimizing overhead.

# Young, vibrant and educated workforce

With 61% of the population under 30, Tonga offers a vibrant talent pool supported by one of the highest literacy rates (99.4%) and strong investment in education, surpassing global and East Asia & Pacific average across all 3 indicators.

### Leader in sustainability and environmental protection

With one of the lowest per capita greenhouse gas emissions globally  $(3.27 \text{ t } \text{CO}_2)$  and 13.3% of its land under protection, Tonga sets the regional standard for environmental conservation and sustainable development.



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# Who we are?

# About Us

**The Business Registry, Investment, and Intellectual Property Unit** operates under the Ministry of Trade and Economic Development (MTED). It is responsible for promoting, facilitating, registering, and monitoring domestic and foreign investment in Tonga.



### Tailor-made information & market intelligence

We provide up-to-date and customized data on Tonga's economy, sectors, and regulations to support informed investment decisions.

### Site visits and local linkages

We organize site visits and link investors with government agencies, suppliers, and service providers.

### Investor aftercare & policy advocacy

We help investors to address issues, expand, and stay engaged, while advocating for a better business environment.

### Foreign Investment Registration

We assist with investment registration, application reviews, and coordination to ensure smooth setup and access to incentives.

# Priority sectors with investment opportunities

### **Tourism Infrastructure**

- Property redevelopment
  - New developments
  - Tourism/hospitality ancillary services (spas, tours and activities, sporting activity support)
- Yachting (management and maintenance)

### **Fisheries**

- Fisheries (licensed commercial fishing)
- Processing and packaging

### Agri-Processing

- Commercial farming (high-value crops)
  - Processing and packaging

### **E-Commerce**

### Tonga at a glance



Independent since 1970 from the British protectorate



Constitutional monarchy



Island state in the Pacific with 717Km<sup>2</sup> of territory, 419Km of coastline and 659.000Km<sup>2</sup> of exclusive economic zone water



104K+ inhabitants (61% under 30 years)



Tongan Pa'anga as currency (US\$1 = TOP\$2,3 avg.)



Christian dominant religion (mainly protestant)



Tropical climate (hot & humid) all year. Warm season (December to May) and cool season (May to December) - Susceptible to cyclones







# **2 Emerging and dynamic economy**

# Dynamic emerging economy with outstanding performance

# Pacific Island States GDP Size, 2023 (US\$ Million)





#### Dynamic emerging economy

With a GDP of US\$529 million, Tonga stands out as one of the largest and rapidly growing economies in the Pacific region

#### Outstanding performance

In 2022-2023, Tonga achieved a growth rate of 2.1%, outperforming East Asia & Pacific (0.3%) and Pacific Island States (-0.2%)

#### Rapid projected growth

GDP growth is forecast at 2.4% in 2025 and 2.0% in 2026, indicating continued economic expansion

### Solid and diverse economy

- **Diversified economy:** Agriculture, Wholesale & retail, and Public administration collectively contribute to over 40% of the GDP.
- **6** Service oriented economy: Services account for over 62% of the GDP.



Other: Health 6.1%, Manufacturing 5.5%, Accommodation and food 3.1%, Fishing 2.9%, Utilities 2.3%, ITC 2.3% and Others 5.5%. Source: Tonga Statistics Department (GDP at current prices) (<u>https://tongastats.gov.to/statistics/economics/national-accounts/#74-400-2022-23</u>)



### **Emerging and dynamic economy**



With 61% under 30 years, exceeding the World (48%) and East Asia & Pacific (37%)averages

Note: GDP at current USD prices. Inflation: Average consumer prices. \*GDP per capita between USD 4,466 and USD 13,845. Source: The World Bank Database (<u>https://databank.worldbank.org/source/world-development-indicators#</u>)

Pacific (3.8%) and Pacific Island

States (3.1%) averages



# Foreign Direct Investment (FDI) in Tonga

- 6 Strong recovery in recent years: Despite disinvestments in 2017 and 2019, FDI inflows have rebounded steadily since 2020, reaching US\$4.9 million in 2023, the highest level in 4 years. This upward trend reflects renewed interest and improving economic conditions.
- **6 Top investors:** China, Australia and New Zealand stand out as top 3 source of investment in Tonga, accounting over 70% of the certified projects.
- **6** Leading recipient sectors: Professional services, Tourism, and Retail and wholesale emerged as the top 3 sectors receiving FDI in Tonga, accounting for over 65% of the certified projects.



Foreign Direct Investment in Tonga,

2013-2023 (US\$ Million)

<sup>1</sup> FIC: Number of Foreign Investment Certificates issued by the Ministry of Trade and Economic Development to investors.

Source: World Bank Data base - Ministry of Commerce, Industry and Labour

### FDI by Country (by FIC<sup>1</sup>), 2018-2024





### Some Successful investment Stories

### Heilala Vanilla – 2008

**6** New Zealand **6** Agribusiness - US\$150.000

6 World's only B Corp Certified Vanilla company. It works closely with vanilla farmers communities in Vava'u Island

### Fanifo Lofa - 2013

**ú** United Kingdom - Australia**ú** Tourism - US\$200,000

6 Kitesurfing destination and accommodation in Uoleva in Haapai island

### Mr. Peter Davey /Play Tonga - 2022

**6** Australia

🕻 Entertainment - US\$+15M 🧖

**6** The only indoor playground in Tonga, providing fun and creative activities for kids in an indoor setting

### Rock Island Resort / The TOP Restaurant



Island Resort - 2008
Ú United States
Ú Tourism - US\$180,000

6 Located in Nuku'alofa, it is a high-end restaurant

### Sino Union Economic Trading - 2020



6 Manufacturing - US\$2 million

6 Factory specialized in producing fine cigarettes and cigars



# Tonga's international trade

- **Strong import growth:** During the last 5 years, imports grew steadily on an average annual rate of 13.2%, peaking at US\$ 326.5m in 2023, reflecting rising domestic demand and economic activity.
- Volatile exports with room for growth: With an annual average decline of 13.5%, exports peaked at US\$61.9m in 2022 before falling to US\$11.9m in 2023, highlighting the need to diversify and boost local production to ease the growing trade deficit.
- **Top export destinations:** New Zealand, Fiji and USA stand out as top 3 destinations for Tonga's exports, accounting over 78% of the flows.
- Leading import providers: New Zealand, Singapore and China emerge as the top 3 sources of Tonga's imports, accounting for over 56% of the flows.



Tonga's Trade Balance of Goods, 2018-2023 (US\$ Million)

#### Exports by destination (US\$), 2023



7.3% (\$23.6M)

28.5% (\$92.9M)

7.9% (\$25.6M)



### Tonga's international traded goods

- Concentrated export mix: Over the past 3 years, Plants, seeds and fruits, used in perfumery & pharmacy has been the top exported product, accounting for 55.3% of export flows, followed far behind by Unused postage, revenue or similar stamps (13.5%) and Edible vegetables, roots & tubers (9.7%). Together the top 3 products represent 78.4% of total exports.
- **6 Diverse import portfolio**: Wide range of products, with Mineral fuels, Meat and offal and Mechanical machinery standout as the top 3, accounting for over 34.4% of the import flows.



Exports by products (HS2), 2021-2023



#### Imports by products (HS2), 2021-2023

HS2: Harmonized system at 2-digit code (chapter) Source: TradeMap.com

# 3 Strategic connectivity with preferential market access

# Export platform to 4 continents

Preferential market access to +1.95bn people in 19 countries



Pacer Plus – Picta countries: Australia, Cook Islands, Fiji, Kiribati, New Zealand, Marshall Islands, Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu Source: MacMap.org

- Preferential access to major global markets: Duty-free and quota-free access to key economies like the USA, Japan, India, and Switzerland through the Generalized System of Preferences (GSP), boosting the competitiveness of your exports.
- Regional trade advantage through PACER Plus & PICTA: Benefit from seamless trade within the Pacific region, with established agreements connecting 15 Pacific Island countries—including Australia and New Zealand.
- Globally connected as a WTO member: As a World Trade Organization member since 2007, Tonga is integrated into the global trading system, supporting transparent, rules-based trade and investor confidence.



# Tonga's connectivity by air



**Excellent Connectivity by Air:** Despite its remote location, Tonga offers great connectivity in the South Pacific region with over 15 direct weekly flights to 4 overseas destinations.



**Primary International Gateway**: Located 20 km from capital city Nuku'alofa, Fua'amotu International Airport is the main gateway for international travelers to Tonga



**Domestic Connections:** Five additional domestic airports facilitate travel between the islands of Tonga (Vava'u International Airport, Eua Airport, Lifuka Island Airport, Niuafo'ou Airport and Niuatoputapu Airport)



Note: Information only as reference. Air routes and airlines may change due to latest updates Source: <a href="https://www.flightconnections.com/">www.flightconnections.com/</a>

# Tonga's maritime connectivity



**Strategic location:** Position in the South Pacific, Tonga connects the island states with the rest of the world



**Extensive shipping network:** 2 international shipping companies provide services to 4 direct overseas destinations in the region



**Key port infrastructure:** Port of Nuku'alofa accommodates cruise ships, general cargo vessels, gas carriers, and tankers. storage of up to 700 containers. 2 berths handling vessels up to 110m with 11m drafts



Source: https://www.fluentcargo.com/search/ports?port=Nuku%27alofa+(TOTBU) - https://www.pacificports.org/category/port-members/ https://www.searates.com/port/nuku\_alofa\_to

# Friendly business environment with solid legal framework

# 3<sup>rd</sup> best place for doing business

- **4 Top business destination:** Tonga ranks a the 3<sup>rd</sup> best places for doing business in Pacific Region\* according to the Doing Business index 2020.
- **6** Global business climate ranking: Ranked 103<sup>rd</sup> out of 212 countries\*\*, Tonga offers a competitive and investor-friendly environment on the global stage.
- 4 Access to Credit: Tonga ranks #9 in East Asia & the Pacific and #48 globally for ease of access to credit, making it one of the top performers in the region for financial inclusion and lending accessibility.



\*Excluding developed economies

\*\*Countries and territories

Notes: Higher score implies better position in the ranking. Doing Business 2020 was the last version created by the Word Bank. The new report called Business Ready (B-Ready 2024) only includes Vanuatu and Samoa from the Pacific Islands States.

Source: The World Bank Database Doing Business Report 2020 <u>https://archive.doingbusiness.org/en/rankings?region=east-asia-and-pacific</u>



Business

### Tonga's governance advantage

Stable, secure, democratic, and governed by the rule of law

### Political Stability & Absence of Violence Index in Southeast Asia & Pacific\*, 2023 (Score)



Tonga ranks among the top 5 most stable countries in Southeast Asia and the Pacific, offering investors a secure and low-risk environment for doing business.

Political Stability and Absence of Violence/Terrorism: Perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism. \*Excluding high income economies (Australia, New Zealand & Singapore) Source: The World Bank Database



### Tonga's governance advantage

Stable, secure, democratic, and governed by the rule of law



Rule of Law Index in Southeast Asia & Pacific\*, 2023 (Score)

	-	-
Tuvalu		1.01
Palau		0.94
Samoa		0.90
Marshall Isl.		0.68
Micronesia		0.64
Kiribati		0.59
Malaysia		0.57
Tonga		0.55
Fiji		0.30
Thailand		0.24
Vanuatu		0.14
Nauru	-0.02	
Viet Nam	-0.09	
Indonesia	-0.15	
Solomon Isl.	-0.26	Better
Philippines	-0.42	
Papua New G.	-0.54	
Cambodia	-0.82	Worse
Lao	-0.83	
Myanmar -1.62		

Vibrant democracy & civic freedoms: Tonga ranks among the top 7 countries among the 20 nations in Southeast Asia and the Pacific for Voice and Accountability, highlighting its respect for civil liberties, media freedom, and democratic participation.

Reliable Rule of Law: With a solid score of 0.55, Tonga stands ahead of major regional economies like Fiji, Thailand, Indonesia, and Vietnam, offering a trusted legal framework for investors and businesses.

\*Excluding high income economies (Australia, New Zealand & Singapore)

**Rule of Law:** Perceptions of the extent to which agents have confidence in and abide by the rules of society, the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

Voice and Accountability: Perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Source: The World Bank Database.

### Solid and robust legal framework for investors

### Investment regulation

2021 (not implemented yet)

**6** Tonga National Investment Policy Statement 2009

6 Tonga Foreign Investment Act 2020
6 Foreign Investment Regulations 2007, 2016, 2021

6 Tonga Investment Promotion Strategy



### International investment agreements

6 ACP - EU Samoa Agreement (2023)<sup>1</sup>
 6 PACER Plus (2017)<sup>2</sup>
 6 Cotonou Agreement (2000)
 6 SPARTECA (1980)
 6 Tonga - United Kingdom BIT (1997)



### **Investment Guarantees**

- **6** No discrimination: Foreigners are equal with Tongan citizens before the law (Clause 4 of the Constitution)
- **6 Expropriation:** Government will not acquire property of a business with a valid Foreign Investment Certificate without just compensation
- **6 Funds repatriation:** No restrictions prior approval of Central Bank
- **6** Intellectual Property: Robust legislation implemented by the IPCR according to the WTO obligations
- **6 Dispute settlement:** Provisions of the Arbitration Act 1996 (UK). The Supreme Court settles intellectual property disputes



### Reserved List (Tongan Citizens)

**6** Land transport services: Operation of buses, taxis, mini vans, and public motor vehicles (excluding those run by short-term accommodation providers).

**6 Short-term accommodation:** Guesthouses and youth hostels.

6 Motor vehicle sales: Retail sale of used motor vehicles.

**6** Food production: Manufacture of bread (excluding for in-house guests of short-term accommodation services).

6 Fishing & fish processing: Lagoon, reef, and coastal fishing (within 12 nautical miles and under 1,000m depth); bottom fishing (under 500m depth); and fish processing, except factory vessels solely processing fish.

6 Agricultural exports: Export of green and mature coconuts.

**6 Cultural activities:** Traditional Tongan creative arts and entertainment.

### Restricted List of Activities

6 Commercial & industrial fishing: Industrial-scale tuna fishing (bigeye, albacore, yellowfin, skipjack), bottom fishing (depth > 500m), and other deep-water fishing (depth ≥ 100m).

Conditions: Minimum 30% equity held by Tongan national, and at least USD 500k in capital (cash), fully brought into Tonga within the implementation period.

**6 Retail Trade (Non-specialised Stores):** Predominantly selling food, beverages, or tobacco.

Condition: At least USD 250,000 in capital (cash), fully brought into Tonga within the implementation period.

**6** Specific agricultural & forestry activities: Growing of squash, pandanus, kava, and forestry (paper mulberry, sandalwood).

Conditions: Minimum 30% equity held by Tongan national, and at least USD 250,000 in capital (cash), fully brought into Tonga within the implementation period.



## Steps to set up a foreign investment in Tonga

**Foreign Investment Certification** 

Required for all foreign-owned

Register online via the Business

• Pay registration fee<sup>2</sup> (US\$210 -

Registries Office<sup>1</sup> under the MTED.

businesses.

TOP500).

#### **Business entity registration**

- Register online via the Business Registries Office<sup>1</sup> under the Ministry of Trade and Economic Development (MTED).
- •Create an account on the portal.
- Complete online application (company) name and entity type).
- Pay registration fee<sup>2</sup> (US\$40/315 -TOP100/750).

#### **Business Licensing**

3

• Register online via the Business Registries Office<sup>1</sup> under the MTED. •Pay registration fee<sup>2</sup> (US\$24 – TOP58).

#### Register as an employee

- Register in person at the Ministry of Revenue and Customs<sup>3</sup>.
- Tonga Retirement Fund (TRF) registration (5% employer & 5% employee).
- •PAYE (Pay As You Earn) registration (Employee income tax). •No fees.

# 5

### Tax registration

- Register in person at the Ministry of Revenue and Customs<sup>3</sup>.
- Register for Tax Identification Number (TIN).
- Register for Consumption Tax (Value Added Tax – VAT). •No fees.

### Sector-specific licenses or permits

Sectoral licenses apply for projects on: Tourism, fisheries & aquaculture, agriculture, construction & real estate, retail/wholesale, and healthrelated businesses.



#### <sup>1</sup> https://businessreaistries.gov.to/

<sup>3</sup> https://www.revenue.gov.to/index.php/tax-view

<sup>2</sup> Via credit card, cash, or cheaue accepted

# **5 Competitive operational costs**

# Competitive salaries in the Pacific region

- **3**<sup>rd</sup> most competitive salary among the Pacific States with a monthly average minimum wage<sup>3</sup> of US\$195
- 6 Friendly and business-oriented labour regime, fostering the creation of new employment



Note: Values only for reference. These may change according to exchange rate fluctuations. Salaries do not include mandatory social benefits. <sup>1</sup> Average monthly salary corresponds to 195 hrs./month avg. (9 hours per day x 5 days per week x 4.33 weeks per month – exceptions may apply) <sup>2</sup> Minimum wages are set according to province, industry and skill level. In this case an average is taken.

<sup>3</sup> There is no statutory minimum wage. Lowest average salary is used in stead.

Monthly Minimum Wage in the

<sup>4</sup> Labour regime in Tonga: Working hours: No legal minimum but standard is 8hrs per day - 40hrs per week not exceeding 6 days. **Overtime:** 125% rate (without exceeding 48hrs per week). **Annual leave:** 12 paid days (plus 10 more for sickness). **Health insurance:** No obligation. For more info review Employment Contracts Act 2006 - Employment Relations Act 2002

Source: https://wageindicator.org/salary/minimum-wage/minimum-wages-per-country - https://www.salaryexplorer.com/#browsesalaries - https://www.rivermate.com/guides - https://www.globalexpansion.com/countrypedia



# Competitive electricity prices in the Pacific

**4** Tonga offers **competitive electricity prices** at an average of US\$0.35 per kWh, lower than regional average\* of US\$ 0.38 per kWh

### Average Electricity Price in the Pacific<sup>1</sup>, 2021 (US\$ per kWh)



<sup>1</sup> Pacific (Oceania including Australia and New Zealand) is the most expensive continent in the world, averaging US\$ 0.30 kWh. In this case The Pacific region average (US\$0.35 kWh) is estimated based on the Pacific Island States, excluding developed economies and overseas territories. Source: <u>https://www.cable.co.uk/energy/worldwide-pricing/</u> - IRENA (International Renewable Energy Agency) – World Bank Database



- **4** 3<sup>rd</sup> most competitive mobile data prices among the Pacific States averaging US\$1.19 per 1GB, lower than the regional avg. (US\$ 3.72) and New Zealand (US\$5.89)
- **6** Most competitive broadband prices among the Pacific States averaging US\$17.6, lower than the regional avg. of US\$105, New Zealand (US\$48.6) and Australia (US\$52.2)
- 6 Excellent connectivity: 4<sup>th</sup> best connected country among Pacific Islands, after Fiji, Micronesia and Samoa, with 2 submarine cables providing high-speed and reliable internet



#### Cheapest: US\$0.83 per 1GB Most expensive: US\$8.4 per 1GB

Highly competitive broadband avg. cost (US\$17.6). Lower than Pacific avg. (US\$105) 72% population access to internet, surpassing Pacific region avg. 65%

<sup>1</sup> Pacific (Oceania including Australia and New Zealand) is one of the most expensive continents in the world per 1GB per 30 days. Source: <u>https://www.cable.co.uk/mobiles/worldwide-data-pricing-</u> https://www.submarinecablemap.com/

- **Competitive corporate tax rate of 25%**, ranking among the most competitive Pacific economies, lower than Australia (30%), New Zealand (27%), and many regional peers.
- **4** Standard Sales Tax Rate of 15%, aligns with regional norms, offering consistency for business planning and cross-border transactions.



Note1: Rates only for reference. They may vary according to company's sector, revenue, size, new legislation, etc. Tonga Withholding tax: Dividends 15%, interest 15% and royalties 15%. Source: Tax Foundation (<u>https://taxfoundation.org/data/all/global/corporate-tax-rates-by-country-2023/</u>) - Trading Economy (<u>https://tradingeconomics.com/country-list/social-security-rate-for-companies?continent=Australia</u>) – Rivermate

(https://www.rivermate.com/auides)

# Young, vibrant and educated workforce

### Young and vibrant labour market





Labour force: population between 15-67 years old. Source: The World Bank Database (<u>https://databank.worldbank.org/source/world-development-indicators#</u>)

# Educated and energized population

**High literacy rate:** 99.4% literacy rate, larger than East Asia & Pacific average of 96% and World average of 86.8% (2021)

**~** 

**Significant education investment:** Tonga's government expenditure on education is 5.6% of GDP, exceeding the World average of 4.2% and East Asia & Pacific average of 3,3% (2021)

- 20.4% of the population enrollment in higher education (2020)

-•• 4 institutions lead higher education in Tonga









Source: The World Bank Database (<u>https://databank.worldbank.org/source/world-development-indicators#</u>) - <u>https://univ.cc/search.php?dom=ws&key=&start=1</u> - <u>https://www.scholaro.com/u/Countries/Tonga/Universities</u> https://www.university.im/tonga/



# Environmental protection

# Committed with the environmental protection

Tonga has one of the lowest Greenhouse gas emissions per capita in the region



**13.3% of Tonga's terrestrial territory is protected area**, surpassing the Pacific States average of 4.09%.

\*Includes Australia and New Zealand Source: World Bank Database (<u>https://databank.worldbank.org/source/world-development-indicators#</u>)



# **Discover the** opportunities that Tonga offers

**Business Registry, Investment and Intellectual Property Unit** Part of the Ministry Trade and Economic Development



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