



INCENTIVES FOR PRIVATE INVESTMENT IN TONGA

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The Tongan economy is predominantly agro-based. It is estimated that 70 per cent of the population depend primarily on agriculture for their livelihood. However, the percentage of the labour force in this sector has declined in the past 25 years. The contribution of primary production to GDP declined from 54 per cent in 1970 to 44 per cent in 1980. On the other hand, the contribution of secondary industry grew from 6.2 per cent to 12.7 per cent over the same period.

In the *Industrial Development Incentives Act 1978* and the policy statement outlined in *Tonga's Development Plan 1980-1985* special recognition was given to the major role of the private sector and the need to adopt positive legislative measures to ensure that private sector development continues at a healthy pace. The *Industrial Development Incentives Act 1978* is considered among the most attractive in the Pacific.

Investment promotion

The Ministry of Labour, Commerce and Industries is charged with the responsibility for industry-related activities. Established in 1974, the Ministry works within the overall goals and objectives of the government in

respect of promoting, regulating, and monitoring all matters relating to commerce and trade, labour administration, tourism and industry.

The Industrial Promotion Unit (IPU) was established by the Ministry to be directly concerned with industry-related activities. The IPU's role is to guide entrepreneurs in all aspects of investment activity from project identification to implementation and follow-up. It is involved in assisting entrepreneurs to solicit various incentives available under the *Industrial Development Incentives Act*.

To be considered for investment incentives, an enterprise must lodge an application with the Ministry. The project proposal is then scrutinized on its merits and submitted with specific recommendations to the Standing Advisory Committee on Industrial Licensing for approval. The Minister for Labour, Commerce and Industries gives the final approval.

The IPU is also actively involved in identifying projects and in providing technical support during the implementation phase. This includes: training by way of exposure visits to similar industries in overseas countries, transfers of technology, export market surveys and participation in

specialized training courses. Expertise which is not available within the Ministry can be arranged with bilateral and international agencies where appropriate.

During 1986, six entrepreneurs undertook exposure visits to New Zealand, Australia, Taiwan, Fiji, India, United Kingdom and Sweden. These mainly took the form of attachments to similar industries so as to acquaint participants in the identification of machinery, processes and business techniques specific to these industries.

Fiscal policy

The range of fiscal incentives incorporated in the *Industrial development Incentives Act* includes:

1. A tax holiday of up to five years.
2. Dividends earned during the tax holiday not be taxed if received by the shareholder within two years after the holiday has expired.
3. For non-resident shareholders, an exemption from the 15 per cent withholding tax for the period of the tax holiday.
4. Semi-processed, assembled and other products manufactured in Tonga by approved enterprises exempted from export duties.
5. Capital goods exempted from all custom duties for two years from the date of the issue of a licence to operate.

Other incentives and facilities are:

1. Lending facilities at attractive rates from the Tonga Development Bank;
2. In selected circumstances, equity and working capital from the Tonga Development Bank, joint

venture being favoured without limits on foreign equity.

3. Industrial space, which can be leased at the Small Industries Centre, may be secured subject to availability.
4. Long-term industrial entrepreneurship visas available for the principal entrepreneurs and for as long as the enterprise is in operation.

Progress

A recent survey indicates that approximately one hundred and twenty factories are operating in Tonga today. Seventy-eight are located in Tongatapu, of which eighteen are located at the Small Industries Centre; twenty-two are engaged in the manufacture of food and beverages, including meat products; eleven are engaged in furniture and joinery industries; ten cater to service industries such as automobile workshops and electrical repair industries; eight are engaged in the manufacture of concrete blocks, water tanks, corrugated aluminium roofing, and nails; and six are agro-based industries producing coconut oil and dessicated coconut, fruit juice and snack foods. It is estimated that T\$12 million per year is produced by manufacturing and that 2000 individuals are employed.

In addition to export-oriented industries such as coconut products and knitwear, Tonga now has a number of import substitution industries engaged in the manufacture of paints and varnishes, toilet rolls, building materials, meat products, cabin biscuits, ice-cream and footwear. Industries under development include a brewery and an oxygen plant that will be operational by the end of the year.

Conclusion

The future development in the private sector is encouraging given

the government's commitment, the stable social and political climate, and the low-cost, friendly and literate workforce relative to other countries

in the region, together with a government administration motivated to provide the financial climate for the further development of Tonga.