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Bachelor Thesis

SMALL ISLAND DEVELOPING STATES IN GLOBALIZED TRADE SYSTEMS: TONGA AND THE WTO

18/08/2011

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1. Introduction

This thesis seeks to explore whether a Small Developing Island State (SIDS) such as the Kingdom of Tonga has some innate disadvantages when exposed to global market forces in a capitalist, globalized trade system. It does so by relating a descriptive analysis of Tonga's country characteristics to a presentation of relevant information about the WTO and its bodies, tools and measures.

The reasoning behind a "country chapter" about Tonga is simple: due to its relative geostrategic unimportance, its visibility and exposure in the realms of academic literature and political news are extremely low. Thus, in order to familiarize the reader with relevant information about Tonga, this chapter has been included.

Likewise, a chapter dedicated to the WTO and its relevant processes and structural elements poses as an introduction into the institutional realm of the WTO. While the given information is by no means complete or exhaustive, it nevertheless presents all particularly significant factors in the context of Tonga's position in the WTO and the globalized trade system in general.

The third chapter, comprising the analysis of Tonga in the WTO and the trade system refers to the aforementioned chapters often and significantly. If the chapters dealing with Tonga and the WTO respectively lay out the seeds, the chapter dedicated to the analysis will bring in the crops.

Furthermore, one more aspect is noteworthy: as social sciences in general suffer from the absence of experimental conditions, no assumptions in this thesis should be regarded as verified. Given the research question, looking at economic development¹ in the Kingdom of Tonga becomes especially confounded due to three events in particular: the 2005 civil strike with resulting 60-80% increases of public servant's wages, the 2006 riots in Tonga's capital, Nuku'alofa, which left the majority of its business district destroyed and represented a major blow to Tonga's economy, as well as the 2008 global financial crisis. I shall have more to say about these incidents later. Since many other island states experience the same problems as Tonga observations and research may indicate common, universal challenges for SIDS.

¹ For instance, annual GDP statistics or policy reforms must be regarded in light of these events.

2. Tonga

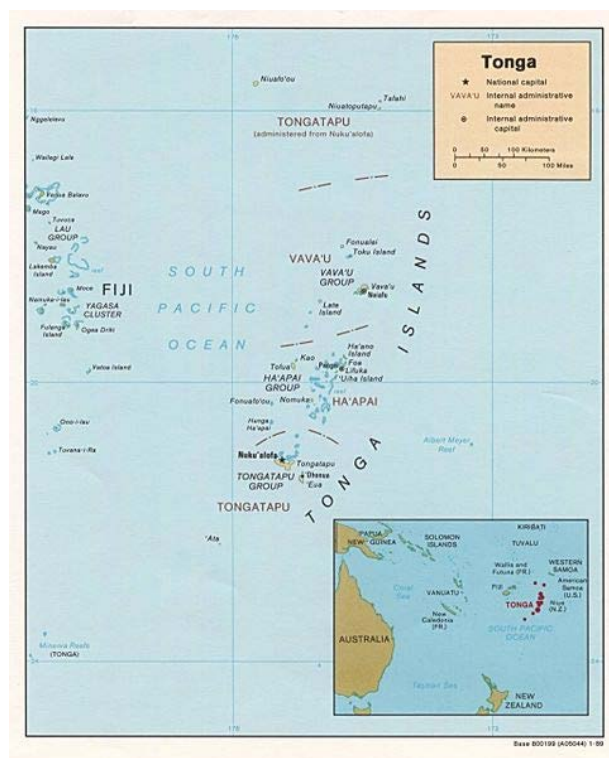
This chapter seeks to identify relevant country characteristics of the Kingdom of Tonga. With regard to their impact on economic development and trade policy, geographical, cultural, economic and political structures defining Tonga's stance in international trade relations will be described in order to create the basis for an analysis in Chapter 4.

2.1 Geography

Tonga, an archipelago in the South Pacific Ocean, is a part of Oceania. Its geographical coordinates are 20 00 S and 175 00 W. Fragmented into approximately 170 islands (about 35 of them populated), it shares no land borders with any other nation. Its size is roughly 750 square kilometers, while land mass accounts for the vast majority (717 square kilometers) of its territory. Tonga's elevation stretches from 0m at the Pacific Ocean to 1033m on an unnamed hill/mountain on Kao Island in the Ha'apai group (Encyclopedia Britannica, 2011).

Tonga is one of the smallest countries in the world, both in territory and population (CIA Factbook, 2011). Having only a small population and one of the highest net emigration rates in the world inevitably implicates a market size highly unattractive for investors due to small growth potential. Foreign direct investments (FDI) are therefore a rare sight in Tonga (Statistics Department Tonga, 2009; ADB, 2007).

Tonga's climate is tropical. Dividing the year are two seasons,



Map of Tonga. Source:
<http://athaia.org/images/cartes/tonga.jpg>

not four: the season from May until December is described as a “cool” season, yet this description is misleading for people living in moderate climate zones since water temperature seldom falls under 27 Celsius. The other is known and experienced as a hot season. Winds and cyclones are a common occurrence in Tonga, thus modifying the temperature significantly (CIA Factbook, 2011). Cyclones or other extreme weather conditions affect the economic situation of Tonga to a sizable degree – cancelled air connections, unavailable ferry operations and occasional rebuilding actions put a strain on Tonga’s development efforts. Earthquakes, volcano eruptions and tsunamis are no exception as well (Mimura, 1999).

Having these facts in mind, the author would like to stress that Tonga belongs to the countries threatened most by climate change and global warming. Repeated efforts by Tongan authorities have been put into raising the awareness of partner nations in the context of the United Nations, though with no immediate results (ADB, 2010).

Tonga has limited and highly dispersed land masses at hand, impeding agricultural farming. Deriving from a long tradition of subsistence farming, agriculture is nevertheless one of the major pillars of Tonga’s economy (AusAID, 2008). About 20% of Tonga’s land is arable, with fish and fertile soil being the two major natural resources of Tonga. With increasing population and demand growth, the focus on agriculture results in a serious environmental issue: deforestation. As more and more woods are cleared to create arable land, forests are destroyed. Ironically, this deforestation is assumed to be a major cause of global warming (ADB, 2008).

Furthermore, overhunting threatens the fisheries sector. With large fishing stocks depleted and a low frequency of highly populated fishing schools arriving at Tonga’s seas, fisheries can no longer be considered an industry with reasonable chances of growth. Realizing the state of Tonga’s fishing grounds, the government is directing more efforts into the conservation of marine life in order to attract more tourists (Rohorua, 2009).

2.2 History

“Truth is what the Chief says, and history is what the highest Chief says”
(Encyclopedia Britannica, 2011).

The difficulty of an accurate assessment of Tonga's history is exemplified by this quote. Numerous gaps in the line of history, vague assumptions and unreliable data make a truthful recounting of Tonga's history difficult. Nevertheless, a raw picture can be painted.

Monarchy and first contact

Tonga, up until 2011 one of the last true monarchies in the world, brought up at least three confirmed lines of rulers – the Tu'i Tonga from the 10th century onwards, the Tu'i Ha'a Takalaua after 1470, and the Tu'i Kanokupolu until today. Accounts of first settlement vary to a great deal, however an approximate 1000 years BC is often stated as the time in which Tonga was settled first. First contact with Europeans date back to 1616 and 1643 respectively, however the first contact on a repeated basis was with James Cook between 1773 and 1777². He was the one who dubbed Tonga the “friendly islands” – a slogan still used³ today by Tonga's national tourism agency (Encyclopedia Britannica, 2011). With European contact came the first missionary attempts, yet all failed until 1826. Since then, Tonga has been a country thoroughly influenced by the religion of the Wesleyan faith. As a sign of his appreciation of Christian faith, the ruling King Tupou, (who practically acted as a uniting force in Tonga), changed his first name into “George”. Tonga became its own legal system, ratified treaties with European nations ascertaining the sovereignty of the Tongan nation, and Christianity continued to spread⁴.

Partial loss and complete acquisition of sovereignty

In 1900, fearing the increasing German influence and colonial aspirations, Tonga became a protectorate of Great Britain. This status lasted until 1970 when Tonga was incorporated into the British Commonwealth of Nations as an independent country (World Bank, 2004). Always having been ruled by absolute monarchs, a pro-democracy movement quickly developed which was greeted with fierce resistance by the governing elite, resulting in occasional human rights violations and media censorship (Vikilani, 2010). While the movement did not achieve their aims, it was never defeated and continued to form under the surface (Singh et al., 2006). The sale of Tongan passports eventually resulted in a 30-million dollar loss for the Tongan

²<http://www.state.gov/r/pa/ei/bgn/16092.htm#history>

³http://www.tongaholiday.com/?page_id=6

⁴ <http://www.state.gov/r/pa/ei/bgn/16092.htm#history>

government due to shady investments by Jesse Bogdanoff. Passports were sold to about 5000 individuals at 20000\$ a piece, with the returns being invested in a company called “Millennium Asset Management in the US. The official court jester, as Bogdanoff was dubbed by the Tongan King, claimed that he simply overestimated the potential investment returns. The money, which was about half the Tongan GDP at that time, was never entirely recovered by the Kingdom of Tonga (BBC: 2003)⁵. Consequently, tension boiled and the pro-democracy momentum gained momentum again. A noticeable change in political structures and participation rights, however, was not implemented (Campbell, 2005).

Road to democracy?

In 2006, the then-reigning king George Tupou IV passed away. His predecessor, George Tupou V, promised democratic reforms. After time passed by without these reforms being implemented, riots took place in Nuku’alofa, leaving 7 killed, hundreds injured, and 60-80% of the business district of the city destroyed. Since Nuku’alofa is the center of economic life, the impact of these riots on Tonga’s finances was devastating. Moreover, Tongan police and armed forces were not equipped for this scale of riots, leading to a military intervention from New Zealand and Australia in order to restore law and order (Wallis, 2010; BBC⁶, 2011). These riots eventually led to the decision of the reigning king to cede much of his absolute powers. In November 2010, elections for the parliament, the Fale Alea, resulted in a victory of commoners associated with the democratic movement, winning 12 out of the 17 contested seats. However, due to the political system of Tonga, this wasn’t enough to form a democratic government – five independent candidates followed the nine set nobles and thus prevented the first democratic government⁷. A true democracy is therefore not yet a reality in Tonga⁸.

⁵ <http://news.bbc.co.uk/2/hi/business/3141297.stm>

⁶ http://news.bbc.co.uk/2/hi/asia-pacific/country_profiles/1300742.stm

⁷ <http://www.scoop.co.nz/stories/HL0611/S00331.htm>

⁸ <http://www.state.gov/r/pa/ei/bgn/16092.htm>

2.3 Politics

The political system of Tonga is characterized by a strong impact from the nobles and a pro-democratic movement capable of changing the constitution. Technically a constitutional monarchy, nobles and the king have steadily lost some of their influence during the last decades. This change, a direct outcome of the pro-democratic forces in the country, continues to shape the political landscape of Tonga (James, 1994; Campbell, 2005).

King – Nobles – Fale Alea

The king has major influential rights. Critique directed at the King is regarded as “un-Tongan” and is therefore very uncommon. A unicameral system, the “Fale Alea” is the parliament of Tonga. With 26 parliament members, only 17 can be elected by the people – the other nine are chosen by the nobles. This in turn sheds light on the influence of the noble class of Tonga: even though 12 of the contested 17 parliament seats were won by pro-democratic candidates in the 2010 elections, the nobles only needed three candidates in order to prevent a “common”, rather than a “noble” prime minister. The legislature period is three years⁹. Tongan parties are almost non-existent, because the Tongan constitution forbids parties to form a government. Instead, parties function as pressure groups, and electoral candidates are required to register for elections as individuals¹⁰.

As can be expected in a country of only 100.000 inhabitants, a high degree of centralization is prevalent. Though some forms of local government exist, true power is only exercised by the national institutions. However, stemming from the remote location of some of the islands, self-governance is increasingly practiced in these areas¹¹.

Separation of powers?

Tonga’s executive branch is made up of the prime minister (who, after constitutional reforms in 2010, is appointed by the parliament rather than the monarch) and his cabinet, presided over by the King (which is then called the “Privy Council”)¹². Currently, Lord Tu’ivakano is the prime minister in the council. This council

⁹ <http://country.eiu.com/article.aspx?articleid=1178249502>

¹⁰ <http://www.state.gov/r/pa/ei/bgn/16092.htm#gov>

¹¹ <http://www.state.gov/r/pa/ei/bgn/16092.htm#gov>

¹² <http://www.pmo.gov.to/government/local-government/2124-local-government-of-tonga>

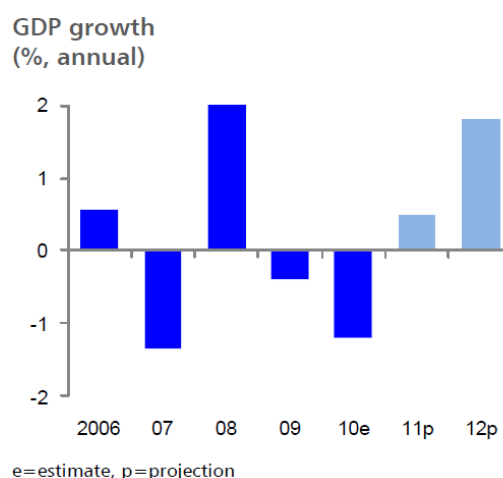
articulates ordinances, which are transformed into law when approved by the legislative branch. The unicameral legislative assembly, the Fale Alea dominated by the nobles, is this legislative branch. The ministers of Tonga, approximately 13 in numbers, are appointed by the ruling monarch – another example for the prevailing power of the nobles. Suffrage is universal for adults. The judiciary branch, completing the three state powers, is made up of the Land Court, the Magistrates' Court, the Supreme Court, and the Court of Appeal (Privy Council) as the highest legal instance. The separation of powers is therefore not clear: the Privy Council is both the highest executive as well as judiciary instance. Additionally, judges are appointed by the King, a person of executive, legislative and judiciary influence (Campbell, 2005; James, 1994).

A significant current political issue is the high degree of inequality in Tonga. The nobles own a high percentage of goods, companies, and hard currency, while the majority of Tongans live in poverty. The impact of this inequality is watered down by land possession (a right given to Tongan men in the constitution), access to education (the degree of PhD's per capita is among the highest in Tonga), and the high quality of health services (ADB, 2010b).

Further political issues include environmental concerns, inflation, recuperating from the recession in 2008/2009, declining remittances and the pro-democratic movement, just to name a few (ADB, 2011).

2.4 Economy

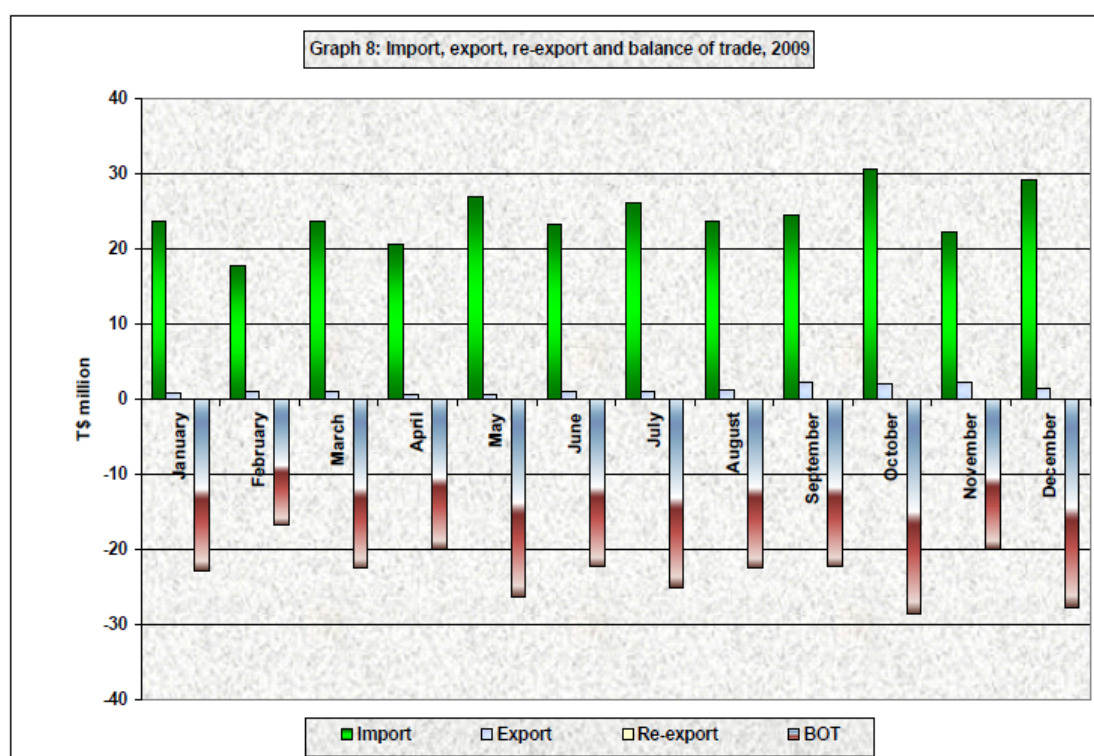
Tonga's economy, facing unique challenges and marked by other unique factors, may be described as a small, open market economy. Severely contracted by the worldwide economic recession in 2008/2009, Tonga expects a gentle growth after two slumps in these years (ADB, 2011).



GDP growth for Tonga, 2006 until 2012. (ADB, 2007)

Tonga's economy is heavily dependent on agricultural exports, external remittances, and tourism revenue. With yams, squash, vanilla beans, and fish making up two thirds of Tonga's entire exports, Tonga is in a situation where almost all essential goods need to be imported. Fiji, the USA, Australia and New Zealand are the main sources of import, while Hong Kong and the US account for almost half of all exports (Tonga Statistics Department, 2011).

Remittances from Diaspora communities form the backbone of the Tongan economy. At some point accounting for over 70% of Tonga's entire GDP, remittances have declined over the past years (Lin, 2010). Tourism, assumed to be one of the few reasonable growth industries, is steadily increasing (In 2006, Tonga had about 39.000 visitors). Since Tonga has repeatedly reported trade deficits, external aid remains a particularly significant economic factor¹³.



Tonga's foreign trade statistics, 2009 (Statistics Department Tonga, 2011)

Transnational migration is another determining factor of the Tongan economy. Having many children and sending them to universities abroad (mainly New

¹³ <https://www.cia.gov/library/publications/the-world-factbook/geos/tn.html>

Zealand, Australia and the US) is still the safest and most reliable form of providing for one's retirement. One of the highest net migration rates in the world, seeking one's goals in a foreign country and thus providing for relatives is an essential part of Tonga's tradition (Lee, 2004; Brown et al., 2007).

With this transnational migration comes brain drain, a phenomenon which may severely hinder economic development in the sending country. However, the Tongan family structures and supranational ties appear to be strong enough for continued remittance-sending (Lin, 2011). With remittances decreasing, however, it remains to be seen whether this state organization of **m**igration, **r**emittances, **a**id, and **b**ureaucracy or MIRAB economy is sustainable in the long run (Bertram, 2006).

The private sector, though underdeveloped, is focused on by the government in reforming Tonga's economy. Since many prerequisites are already extant (i.e. relatively good infrastructure, a well-developed social security system, a high level of education, etc.), Tonga's economic future may appear prosperous. Nevertheless, a high unemployment rate amongst Tonga's youth, declining remittances from overseas, lacking access to finance as well as rising inflation are current threats to economic growth (ADB, 2011).

With respect to the ease of doing business, Tonga ranks 71 in the "Doing business" data from the World Bank – a moderately positive rank, especially when compared to other Pacific island nations (Doing Business Tonga, 2011). The GDP in 2009 was approximately \$310.000.000, the GNI per capita about \$3260. Tonga's Human Development Index' rank is 85 – the last place in the "high development" group. This fact, however, is overshadowed by unequal wealth distribution (World Bank, 2011). Foreign direct investments per capita are extremely low, further impeding economic development (UNCTAD, 2008; ADB, 2011)

Due to the pro-democratic movement, future economic development is difficult to forecast, resulting from possible change in economic priorities.

In relation to Tonga's economy, technological characteristics of the Kingdom are difficult to assess due to the lack of reliable data. Searching efforts, however, have been wide and comprehensive. At first, the internet was browsed in order to gain some broad insight into the topic. Afterwards, numerous scientific search engines such as "JSTOR" and "Scopus" were used to find academic papers on the matter. Library visits followed this up, and eventually a concentrated effort was put into finding data collections by international organizations, namely the World Bank, the

United Nations Organization and its related organizations, the International Monetary Fund, and others. All of these efforts have been unrewarding. Even though the author has spent a sizable amount of time in the country itself to further explore this question, no statements regarding the technological infrastructure of Tonga will be made due to the lack of empirical data.

3. World Trade Organization

This chapter is dedicated to providing relevant information on the World Trade Organization, its bodies, tools, accession procedure and special programs designed for assisting developing countries. Via descriptive analysis, significant aspects of the WTO in the context of Tonga's membership will be highlighted in order to provide the basis for the analysis conducted in the next chapter.

The World Trade Organization (WTO) is an international, multilateral organization located in Geneva, Switzerland, whose goal it is to reduce trade barriers and effectively coordinate and liberalize trade within its members. Founded in 1995 after negotiations commonly called the "Uruguay Round", the WTO is legally based on three major multilateral agreements: the General Agreement on Tariffs and Trade (GATT) out of which the organization evolved, the General Agreement on Trade in Services (GATS) and the agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Along with these main agreements, multilateral negotiations have led to numerous other side agreements shaping trade under and the functioning of the WTO regime¹⁴.

3.1 Bodies

Four main bodies and several smaller departments/divisions are currently responsible for the operation of the WTO, including implementation of new rules, enforcement of existent ones and reforming efforts. Meeting at least every two years, the Ministerial Conference is the highest decision-making body of the WTO. Consisting

¹⁴ http://www.wto.org/english/thewto_e/whatis_e/who_we_are_e.htm

of every member state in a “one country, one vote” voting regime, its legal basis is the combination of all related preceding multilateral agreements. The Ministerial Conference stands at the core of the institutional setting of the WTO, giving all members the formal right and ability to take part in changing the organization’s direction through legislative reforms and amendments (WTO, 2006).

The General Council, responsible for the daily functioning of the organization, likewise consists of representatives of every member state. It is the organ handling internal WTO matters and oversees specific working groups or sub-divisions. Furthermore, it meets as the two other main bodies of the WTO: the Dispute Settlement Body (DSB) and the Trade Policy Review Body. Since these bodies are in fact the General Council meeting under a different name, members states are generally able to participate and sit in every forum or panel with only few exceptions¹⁵ (Jones, 2009).

3.2 Policy Tools and Actions

3.2.1 Dispute Settlement

One of its core tasks, the WTO’s capability of providing an institutional framework in which members states may “thrash out” their trade disagreements is one of the most distinguishing features of the WTO. Other international institutions such as the International Monetary Fund (IMF) or the World Bank do not provide this opportunity to their members¹⁶. Even though the DSB is the executive branch responsible for the process of dispute settlements, no legal contract or agreements allows the DSB to enforce respective results. Acting as the enforcer of the results achieved by the DSB, the General Council is legally enabled to actually follow up on given recommendations. The scope and effectiveness of the Dispute Settlement is widely debated: while some argue that member countries found to violate WTO agreements cannot be ordered to take a specific action, others point towards the high success rate of the process in resolving trade conflicts (Qureshi, 2003).

¹⁵ The Appellate Body, Dispute Settlement Panels and Plurilateral Committees are the only forums in which *not* every member is allowed to participate.

¹⁶ While their goals, structure and scope differ significantly from the WTO, a tool of such effectiveness is not extant in these institutions.

3.2.2 Trade Policy Review¹⁷

Periodically, member countries undergo a Trade Policy Review (TPR) in which the Trade Policy Review Body (TPRB) reveals significant trade data and makes these statistics publicly available. Different rules apply for different traders: the four highest-volume traders are reviewed every two years, the next 16 traders (according to their volume) are reviewed every four years, and the countries remaining are examined every six years. With the purpose of providing a reliable set of policy data and statistics related to trade and the opportunity to weigh this information against performance targets and strategic work plans, the TPR is widely considered to be an important clarification tool increasing transparency¹⁸.

3.3 Accession Procedure¹⁹

According to WTO Article XII of the Marrakesh Agreement, any “state or customs territory” may accede to the WTO if membership terms are agreed upon by both the applicant and the WTO (WTO, 2005, p.29). The accession process itself is defined by several negotiation rounds, leading to different terms for each acceding member. Accession procedures can be divided into the following four general stages; however they formally compromise several sub-stages²⁰:

1. Firstly, the membership-seeking state or customs territory approaches the WTO regarding a possible accession. As a result of the provision of all relevant trade policies and data by the country, a so-called “Working Party” is established which then reviews the information. The Working Party, who may consist of all members of the WTO, has the purpose of examining what the country has to offer with regard to international trade.
2. Secondly, bilateral negotiations between the membership-seeking party and existent WTO members begin. As will be shown in the following chapter, this stage is generally considered to be the most complex and time-

¹⁷ http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm11_e.htm

¹⁸ http://www.wto.org/english/docs_e/legal_e/29-tpm.pdf

¹⁹ http://www.wto.org/english/thewto_e/whatis_e/tif_e/org3_e.htm

²⁰ For an exhaustive list of all formal stages of the accession procedure, see Kent Jones (2009), p.291.

consuming. Since these bilateral negotiations eventually lead to multilateral rules, individual members have a strong influence regarding the terms of accession for new members. While the WTO does generally employ a consensus-based, “one-country one vote” system, it is periodically ridiculed by the power it hands to individual, high-volume traders. Once these bilateral negotiations are completed, the Working Party may conclude its examination in the following stage.

3. Just before the final decision, the Working Party finishes its review by formulating the findings and results of the accession process in a set of documents²¹ and thus finalizes the application, which is then presented to either the Ministerial Conference or the General Council.
4. Lastly, in order to be accepted, a two-third majority of the respective body has to vote in favor of the accession. Upon a positive answer, the accession process is formally concluded and the membership-seeking party may sign the protocol and become a member of the WTO (Jones, 2009).

The accession procedure has changed significantly from the GATT to the WTO regime, especially with regard to its length and increasingly demanded concessions from applicants. A possible explanation is that existing WTO members may have realized their bargaining power: due to the extensive bilateral agreements translating into multilateral rules, it is not the WTO who dictates the rules of accession and trade, but WTO membership. Furthermore, as it is completely up to existing members to “allow” acceding countries into their midst, a balanced power equilibrium is not yet a reality during WTO accessions. The current accession procedure effectively enables a single member to block a country from acceding by demanding unreachable concessions from them (Tang et al., 2009).

²¹ These documents consists of a “report” of the examination process, a draft membership treaty (which is formally known as the “accession protocol”) and “lists” of the membership-seeking party’s commitment and according schedule.

3.4 Developing Countries²² in the WTO

Most of the current members of the WTO are developing states, as is the majority of “observers” (meaning that a Working Party has been established) of the WTO. In order to guarantee that developing states are able to benefit from global trade fairly, numerous measures aimed at providing assistance to these vulnerable states have been adopted by the WTO. Among these, the following prove to be the most noteworthy:

- Commonly regarded as beneficial for the respective developing country by external observers but not the applicant itself, the WTO’s ability to legally impose reform necessities on a country’s government both in the accession process and beyond may prove valuable in states where institutional governance is lacking, corruption thriving and political turmoil increasing. The Trade Policy Review may be viewed as a “*transparency exercise*” (Wallis, 2010, p.263), encouraging a more open and fair distribution of wealth in this regard (Jones, 2009).
- Special and Differential Treatment (S&D) is an instrument specifically designed to increase developing states’ economic growth. It stands representative of the assumption that developing states have different trading needs. Combining many of the potential benefits of the WTO regime with regard to developing states, it provides the structure under which some of the WTO’s most significant general beliefs, assumptions and provisions are summarized. Not only can developing states benefit from special/differential rights or obligations, but also from treatment of the WTO as an organization or the membership (Wallis, 2010).
- The provision of technical assistance, technically a part of S&D, is another factor potentially benefitting developing states. Via workshops, seminars and

²²Developing countries are not defined by WTO law or agreements. While the classification is partly due to self-judgment, the WTO does embrace the UN’s categories of “developed” and “least-developed” countries.

training meetings, attendants are advised on a number of issues ranging from good governance to WTO law. While this assistance is in most cases needed, it is also tailor-made to fit both the addressed countries *and* the host – assistance provided by developed countries often delivers information useful particularly for the delivering country (Pangestu, 2000; Cattaneo, 2005).

- A significant part of the rules-based WTO system, the concept of non-reciprocity is formulated in GATT, part 4. It seeks to legitimize inequalities in trade relations between developed and developing states in favor of the latter – a concession by one does not have to be answered equally²³.

- While it may be difficult for small developing states to gain access to profitable markets, the WTO's legal provisions feature numerous articles regulating a country's access to attractive economic zones. A wide range of preconditions commonly restricting access to profitable markets (such as quality assurance, health provisions, time constraints, etc.), gaining market access for their respective export products and services plays a major role in the decision of developing countries to join the WTO (Wallis, 2010; Jones, 2009; Connell et al., 2007).

- As functioning, legally stable and reliable institutional frameworks are rarely extant in developing states, WTO membership may increase foreign direct investments due an improved overall investment climate providing some predictability (Wallis, 2010).

²³http://www.wto.org/english/thewto_e/whatis_e/tif_e/dev1_e.htm

- A number of other measures, including, but not limited to leniency regarding time commitments, subsidized representation space in Geneva, legal assistance in dispute settlements as well as assistance with the implementation of certain commitments made in the accession procedure are other factors aimed at assisting developing states in a global trade system²⁴.

- As one of the WTO's flagship tools to aid developing countries, the principle of "non-discrimination" or "most-favored nation" applies to every member. Simply put, it requires each member to treat each nation as if it were its "favored" trading partner (Bown, 2004).

- Lastly, since the WTO is a rules-based system, small developing states may potentially increase their bargaining power. This has to be regarded in relevance to the alternative: negotiations outside the framework of the WTO would inevitably reveal the bargaining power imbalance between developed and developing nations. Furthermore, the possibility of a dispute settlement between uneven countries is both unique and mostly effective (even the sheer threat to file a dispute may reward members in exchange for refraining from doing so). This opportunity, of course, does not exist outside the WTO regime (Wallis, 2010).

3.5 Does the WTO increase trade?

One of its core goals, the WTO intends to increase trade between its members. A simple question arises: does the WTO, then, increase trade between its nations? While the answer to this question extends the scope of this bachelor thesis, it is nevertheless necessary to highlight current assumptions. Generally believed to

²⁴http://www.wto.org/english/thewto_e/whatis_e/tif_e/dev1_e.htm

increase trade, the WTO takes a core position in development efforts. Given that the vast majority of economists assume that trade increases development, WTO membership appears almost required if a country wants to successfully modernize its economy. However, as Andrew Rose concludes in his widely noted paper, “*it is surprisingly hard to demonstrate convincingly that the GATT and the WTO have encouraged trade*” (2004, p.112). On the contrary, Goldstein et al. find that both regimes have “*substantially increased trade since 1946*” yet they limit this result to “*countries with institutional standing*” (2007, p.38). Findings seem to be highly dependent on the applied methods and make no definitive statement possible. While it is widely assumed that the WTO certainly does not *decrease* trade, proving that it does may be the issue from the research perspective. Taking into account the complex nature of the issue at hand and the research environment (controlling for confounding variables is almost impossible) may explain the situation.

4. Analysis of Tonga in a Globalized Trade System

This chapter will reveal that Tonga possesses some inherent disadvantages with regard to globalized trade, rendering it even more vulnerable to external shocks than before its WTO accession. Furthermore, it will deal with the question of why Tonga then, in light of all the disadvantages, joined the WTO. Lastly, Tonga’s WTO accession procedure will be identified as one of the main reasons for its economic downfall.

4.1 A MIRAB economy in the WTO?

In order to assess Tonga’s accession procedure, a significant underlying factor needs to be analyzed: Tonga’s motivation for WTO membership. This chapter seeks to identify and explain the reasons for Tonga’s WTO accession.

The Kingdom of Tonga, often described as a MIRAB economy by social scientists of any division is characterized by heavy economic concentration on **m**igration, **r**emittances, **a**id and **b**ureaucracy. With a bulked up administrative corps, one of the highest net emigration rates in the world, remittances often having generated about

half (or even more) of the GDP and a heavy reliance on foreign aid donors, Tonga may well be described as a prototype of the model (Bertram, 2006). As such, one of the most distinguishing features of the model is the country's heavy reliance not only on domestic, but also on external affairs due to the importance of host countries and their respective economic situation.²⁵ In this regard, Tonga has been deeply embedded into a globalized context prior to its WTO accession, yet this embedding increased dramatically after the application was completed.

Due to the severe dependence on the willingness of multilateral organizations and bilateral partners to offer foreign aid, Tonga's policies and governmental actions are influenced by provisions found in respective aid contracts. With new players emerging and existing players gaining or losing influence, the pattern of influencing countries and organizations is subject to constant change. Most of these actors, however, have in common that they pursue an aid strategy which is of liberal nature: export-led development appears to dominate both academic assumptions and practical strategies (Wallis, 2010). In Tonga's case, its most significant strategic bilateral partners (or foreign aid donors, to be more precise) include Australia, New Zealand, Japan and, increasingly, China. Australia and New Zealand have repeatedly tried to induce a trade-liberalization process in the Pacific, yet to no great avail (Connell et al., 2007). Since the foreign aid donors have a strong voice even in domestic activities,²⁶ it is likely to assume that they exerted pressure through conditions attached to their aid packages, thus paving the way for a more open and liberalized economy. Following their own rational interests and having much to gain from Tonga and other SIDS as WTO members, repeated "encouragements" to join the organization might have played a crucial role in Tonga's accession (Wallis, 2010).

Furthermore, Tonga's government (at that time hardly democratic at all) might have seen the opportunity to join the WTO as a mere prestige project, capable of increasing its legitimacy in a surrounding fueled by growing demands for democratic participation rights. Elevating the small Tongan state onto a level playing field with

²⁵ The 2008 global economic crisis, for instance, had wages drop in one of the most frequented host countries for transnational migration, the USA. As a consequence, income levels for the Tongan majority in the country fell and led to a decreased amount of remittances sent back to Tonga, resulting in a sharp drop of GDP.

²⁶ In 2006, the capital-wide riots could only be ended by military intervention from Australia and New Zealand.

powerful trading nations, having equal rights and opportunities in a system based on rules instead of power and gaining much-needed market access instantly for its exports, Tonga 's prediction of chances and challenges in the global trade system might have simply been romanticized. The official government statement “the problem with the world is not too much trade liberalization, but too little” (Tonga Government, 2009) points in this direction. In retrospect, it can be assumed that due to the combination of self-interested encouragements by aid donors and an underestimation of potential challenges, Tonga eventually decided to join the WTO.

4.2 Tonga's accession to the WTO

In June 1995, Tonga officially handed in its application to become a member of the WTO. 145 months later, the Tongan government signed the membership protocol and thus became a member of the WTO. In the meantime, numerous economic and political reforms were initiated and multilateral as well as bilateral negotiations between Tonga and existing WTO members took place. This sub-chapter identifies the various disadvantages Tonga faced - and accepted - during the accession procedure as stemming from either technical and/or power-related reasons.

The great length of Tonga's accession procedure²⁷ indicates the intensity of the bilateral negotiation stage. Even though the WTO describes itself as a “rules-based” organization quite frequently, its accession process hardly deals any rights to the applicant. As a matter of fact, during bilateral negotiations the only right enjoyed by applicants is the right to veto a decision in the Working Party. Needless to say, this right is greatly underused for obvious reasons. The bilateral stage of the accession procedure thus strongly emphasizes power imbalances between member and applicant: any existing member has the practical right to block a membership-seeking entity from joining the WTO (Jones, 2007).

In Tonga's case, this was revealed in particular negotiations with the European Union and the USA. Resulting in significantly lower or abolished tariff quotas, Tonga's government partially lost an important opportunity to generate fiscal revenue. This is particularly astounding as both aforementioned players trade

²⁷ Currently, only four members have had longer accession procedures: China, Saudi Arabia, Ukraine and Nepal.

vanishingly low volumes with Tonga, and may point towards the possible explanation that throughout the years of the GATT and WTO, members seem to have “learned” that applicants do not have equal rights, and can thus be asked to make much more extensive concessions than they would have to in an actual level playing field. Lengthier accession procedures during recent times strengthen his assumption (Wallis, 2010; Jones, 2007).

Additionally, the government committed itself to thorough reforms in specific and numerous service sectors. Most likely stemming from onerous pressure by unidentifiable members of the Tonga Working Group (TWG), these agreements (which go well beyond the scope of most of the TWG’s members) are enormous constraints for Tonga’s past, current and future governments. While they may eventually benefit the island in the long-term, they impose severe costs and economic impediments in the short- and medium-term. Arguing that compliance with agreements on intellectual property law may prove beneficial and important in the future is correct, yet these provisions simply do not apply in Tonga, and therefore put serious constraints on the already struggling economy. Diverting funds into the investigation and prosecution of intellectual copyright-related piracy does not help development where scarce resources could be allocated towards promising projects (Connell et al., 2007; Wallis, 2010).

Another example is health-related: Tonga’s population is one of the most overweight ones in the world, straining its health sector to a great extent. Identified as one of the main catalysts, imported food could potentially be substituted by locally grown food. However, this would require protectionist measures which the WTO’s agreements would not permit. At best, most of these service commitments are questionable in their benefit for Tonga. Considering the severity of Tonga’s economic challenges, it is doubtful that the fruits of these structural changes may be ripe any time soon (Connell et al., 2007).

Power imbalances therefore played a decisive role in determining Tonga’s stance in the WTO, yet technical reasons should not be underestimated. As trivial a reason it may be, not having the capacity and flexibility to employ a permanent representation in Geneva in order to attend all meetings of interest poses a serious disadvantage. Taking into account that these meetings entail vigorous negotiations, trained and

experienced personnel is necessary in order to potentially benefit from them. Tonga being a country suffering significantly from the phenomenon of “brain drain”, senior officials with international expertise in the context of multilateral and bilateral negotiations are a rare sight. This may be a possible reason why Tonga agreed to many of the concessions it made to their fellow members. Not being able to effectively handle legal WTO matters, as well as lacking the resources for the implementation of structural reforms is potentially harmful regarding another component of the WTO accession procedure: the “single undertaking”. In a concerted effort, acceding members have to implement necessitated reforms and transitions in order to comply with existing WTO law in a “single undertaking”, meaning a comprehensive and timely action. Once again, in a country where some of the provisions are clearly outside the scope of its daily life and policies, this complicates and financially hampers the membership-seeking country (Wallis, 2010; Connell et al., 2007; Bertram, 2006).

4.3 Inherent disadvantages of Tonga

Regarding WTO measures designed to assist developing countries, Tonga will not be able to benefit from them for the following reasons. After listing the most crucial disadvantages, I will relate these to the specific WTO measures designed to assist developing countries with adapting to and benefitting from globalized trade.

4.3.1 Geographical reasons

Tonga’s geographical land mass is highly dispersed into 170 fragmented islands. Along with its remoteness, this directly translates into high transportation costs, difficult access to other markets and capacity constraints for the few potential growth industries of Tonga, namely tourism and agriculture (Connell et al., 2007). Tourism has to face tough competition by both Samoa and Fiji, both serviced by more airlines and with stronger domestic competition leading to reduced overall vacation costs for visitors. Agriculture, still a pillar of Tonga’s economic structure due to highly fertile soil and a tradition of subsistence farming, requires technological infrastructure not often found in Tonga while trading routes within Tonga’s islands further increase

prices. Only serviced by one airline, interisland travel in general is a business-hampering factor. Additionally, infrastructure and transport conditions are severely influenced by Tonga's climate: since storms and tropical cyclones are a common occurrence and the majority of Tonga's transport industry is not equipped to withstand harsher weather conditions, economic life is further impeded (CIA Factbook, 2011; Wallis, 2010; Bertram, 2006). Having this in mind, the "smallness" of Tonga is likely the most significant precondition with regard to economic development, particularly for two reasons:

1. Firstly, Tonga's market is highly unattractive for foreign investors due to small growth potential and lacking consumers. While this has to be regarded in the context of other factors related to Foreign Direct Investments (FDI) such as political instability, legal certainty, etc. the smallness of the Tongan market can reasonably be identified as one of the most crucial impediments of FDI.
2. Secondly, the "smallness" of Tonga's population and land mass renders the country's businesses and companies impossible of achieving economies of scale. This becomes particularly noteworthy in light of export-led development proclaimed by both foreign aid donors and international organizations such as the WTO: other countries with larger sectors, a higher population count and more land available do have the possibility of attaining economies of scale, enabling them to produce at much lower costs (Connell et al.).

4.3.2 Cultural reasons

Historical traditions and cultural idiosyncrasies have a strong impact on the current economic situation of the Kingdom of Tonga. With a societal structure divided into the king, nobles and commoners, status is mostly derived from family associations and historical lineages. Quite contrary to "Western" societies, work affiliation or an individual's profession do not represent sources of status. As a consequence, the overall entrepreneurial spirit within Tonga's population is quite low, as a predictable rise in social ranking is of only limited nature (Holtz, 2010).

Taking this notion into account, I argue that group structures such as family affiliations and village heritage effectively pose as a disincentive for individual

success. In a country where remittances have at one point made up almost 70% of Tonga's GDP, individual financial success is expected to be shared with family members in need. Naturally, the more an individual earns, the more he can give away. Thus, cultural incentives for individual financial gains are little and limited and have an impact on Tonga's economic fortunes (Brown et al., 2007)

4.3.3 Economic reasons

Tonga's economy, as already stated, may be described as a MIRAB economy. As such, it is highly dependent on external factors, vulnerable to external shocks and suffering greatly from a lack of diversification of its economy. In the past, price surges and drops for single agricultural goods such as watermelons or squash have brought turbulences to Tonga's GDP (ADB, 2010). Private-sector-led development has been tried to initiate and is currently a focus of the government's public policies, while establishing a well-functioning manufacturing sector in order to transit out of agricultural concentration has mostly failed. The current focus of political reform and structural strengthening efforts is on Tonga's tourism sector, yet the absence of tourism infrastructure, lacking airline connections and high costs within the islands are serious challenges to this effort (ADB, 2010). In contrast, Bertram predicts in his kaleidoscope model that shifting from a MIRAB economy towards an economy focused on tourism (small island tourism economy, or SITE) is possible (2006, p.7). Diseconomies of scale, again, are hindering when trying to compete with larger countries for agricultural exports. Niche markets can thus only marginally be realized (Connell et al., 2007).

4.3.4 Other factors

Outside the realm of the aforementioned innate disadvantages are both political instability and legal uncertainty. While the former already had a devastating effect on Tonga's economy with the 2006 riots, it further substantiates itself in the context of decreasing Tonga's attractiveness as a potential target for foreign direct investments (ADB, 2008). Likewise, legal uncertainty deteriorates the investment climate of Tonga. An independent court and jurisdiction system is yet far from being a reality,

as was revealed during the recent incidents surrounding Police Commissioner Kelly²⁸.

4.4 Relating the disadvantages to potential benefits offered by WTO membership

Some of the potential benefits offered by WTO membership stand correct, while others simply do not apply to Tonga. In the following, each of the measures designed for developing states that have been mentioned in chapter 2 of this thesis will be analyzed according to their applicability to Tonga.

The Trade Policy Review, intended to increase transparency and thus attractiveness for foreign investors, may potentially benefit Tonga since transparency has been an issue in the past. However, as the source of relevant data are national statistic divisions (which determines the Statistics Department Tonga as the responsible institution), resulting data should be approached with caution. Timeliness of data delivery and accuracy of results are not up to international standards. However, increased predictability via institutional strengthening and improved governance may be attained.

Technical assistance can be particularly beneficial in the context of institutional strengthening, yet workshops and seminars suffer from being specifically designed *by* the delivering country and seldom *for* the respective receiving countries. Tonga has and presumable will only partially benefit from this opportunity, due to capacity constraints and a narrow focus on WTO-related matters (Wallis, 2010).

Considering Tonga's lacking bargaining power, the principles of non-reciprocity and non-discrimination could be beneficial. However, its trade volumes and networks are highly limited. In 2009, approximately three quarters of all exports went to just four countries. Additionally, exports have not risen compared to the level of 1997, and are currently in decline (Statistics Department Tonga, 2009). While it may be argued that the aforementioned principles can provide assistance with procuring new export markets, this has evidently not been the case. It remains to be seen how much Tonga

²⁸ For two interesting articles on the subject, see <http://www.taimionline.com/articles/4784> and <http://www.taimionline.com/articles/3655>

can offer future trading partners, with or without the context of non-reciprocity and non-discrimination.

Enhanced market access may well be the single most benefitting outcome of and primary reason for Tonga's WTO membership. Along with access to the Dispute Settlement system, Tonga's government confirmed market access as one of the key benefits of WTO membership²⁹. Additionally, Shadlen concludes that in contrast to bilateral, preferential trading agreements, WTO membership or multilateral trade agreements in general offer market access for developing countries while leaving enough policy space for developing countries (2005). However, as Connell et al. have convincingly emphasized, "*SIDS have no capacity to produce anything that would enable even a 'toehold' in global markets*" (2007, p.58). Furthermore, they analyze that

it is improbable that SIDS will ever be able to compete with larger states on a meaningful level in free market conditions, within an asymmetrical set of global trading rules, nor is it likely that new niche products (or even tourism) could sustain the economic development of an entire island state. (Dicken, 2003. In: Connell et al., 2007)

Additionally, Wallis elaborates on Tonga's low chances on gaining market access due to being disadvantaged "*by the combined economic effects of smallness, isolation and smallness*" (2010, p.274). Thus, SIDS have very little influence on WTO-based market opening and Tonga cannot be expected to benefit from gaining further market access (Wallis, 2010).

Elevated onto a theoretical level playing field, the Kingdom of Tonga may increase its bargaining power in both bi- and multilateral negotiations through WTO membership. Seemingly sheltered and protected from power imbalances inside the WTO regime, Tonga may have sought to strengthen its geostrategic importance through gaining a voice in international relations. Technically, Tonga does have this voice now – under the "one country, one vote" regime of the WTO, it will have his voice heard louder and clearer than before. As a consequence, it will be tougher for

²⁹<http://www.pmo.gov.to/labour-commerce-a-industr/1033-tongas-wto-membership-not-responsible-for-the-economic-situation->

negotiating partners to ‘push’ Tonga around in trade agreements, yet it is doubtful at best that Tonga’s development efforts will gain from this marginal increase in influence. Proven during the bilateral stage of Tonga’s accession procedure, the Kingdom simply has too little to offer and thus had no answer to demands for exceedingly thorough concessions (Wallis, 2010).

Another one of the key benefits identified by the government of Tonga³⁰, the ability to hold trading partners accountable with the Dispute Settlement in the context of the WTO regime could represent a valuable tool in Tonga’s economic policy. However, Tonga engaging in such a process is highly unlikely: if the country were in fact to file a complaint against a nation it trades with, informal repercussion acts would hit Tonga’s economy much more than it stands to gain from winning the settlement. In the same notion, filing a complaint is resource-intensive (both financially and human-resource related) and requires legal expertise not often to be found in Tonga. Filing disputes against trading partners (who often represent Tonga’s aid donors) does therefore not appear to be a reasonable policy option (Qureshi, 2003).

5. Conclusion

Based on neoliberal assumptions, Ricardo’s theory of competitive advantages in international trade, the belief that niche markets and niche products could be identified and benefitted from as well as encouragement by its bilateral and multilateral partners, Tonga went forth with its accession process and consequently joined the World Trade Organization in 1997. It sought a rising influence in international relations, the opportunity to elevate its geostrategic importance, and particularly improved market access. It failed to realize that due to some inherent disadvantages related to smallness, isolation, dispersion, and a number of other factors mentioned in this thesis, its vulnerability to external shocks would not decrease if it joined the WTO. A price taker then and a price taker now, its economic problems stem not from too little embedding in globalized trade systems but from its lacking competitiveness.

³⁰<http://www.pmo.gov.to/labour-commerce-a-industr/1033-tongas-wto-membership-not-responsible-for-the-economic-situation->

While it is impossible to identify WTO membership as an independent variable for Tonga's current economic problems for reasons mentioned below, this thesis has revealed that not only are some of the development tools of the WTO not applicable to Tonga, but some of its characteristics (such as the bilateral negotiation process) have had a severely negative impact on Tonga's economy.

The 2005 civil servants' wage increases, the 2006 Nuku'alofa riots and the 2008 global economic crisis are confounding variables which have to be taken into account when attempting to identify Tonga's relation to the WTO. Establishing a direct relationship from WTO membership to economic downfall is consequently only valid to a certain extent. This issue exemplifies the challenges social scientists encounter when trying to explain and predict social phenomena. Particularly with regard to longitudinal observations of financial and economic data, this research is not exempt from these academic impediments.

Nevertheless, this thesis may prove valuable because it creates the ground for more research into the subject. Especially with regard to inherent disadvantages of SIDS, more research dedicated to the exploration of this matter would be beneficial for future decisions of other SIDS. Questioning common assumptions of trade liberalization being "good", and protectionism being "bad" for developing countries should be regarded as one of the major attempts of this thesis.

Even though this thesis focuses exclusively on the case of Tonga, its results are applicable for other SIDS as well. Many of the challenges are presumably the same, while many of the preconditions are similar (Bertram, 2006).

Predictions for Tonga's future in the WTO trade regime are difficult due to the lack of current research on the subject, yet most indicators – as revealed in this thesis – point towards difficult economic conditions. As Connell puts it, "*small states, particularly those that are geographically disadvantaged, can never compete even on a level playing field*" (2007, p.60).

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Erklärung

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