



WMRC Country Report: Fiji

19 December 2003

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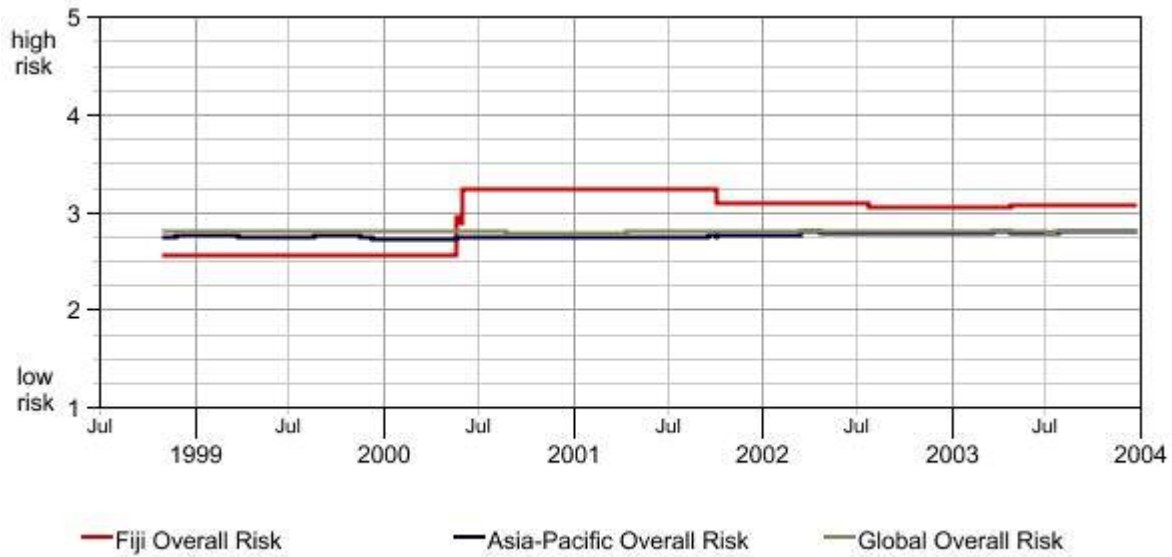
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Overall

Fiji - Country Risk Summary

Nature of risk	Rating	Summary
Political risks	3.50	The political environment has stabilised following a coup on 19 May 2000, but problematic issues remain. Issues such as the rights of ethnic Indian Fijians need to be solved, and may lead to further friction in the future. However, in a significant step forward, the general elections held in late 2001 were deemed free and fair. After initial complaints, the Fijian Labour Party appears to have settled into its role as official opposition, though its leader, former Prime Minister Mahendra Chaudhry, has refused to accept the post of opposition leader and is instead pursuing legal action regarding the interpretation of the constitution. While there will be further worries over legal challenges to the constitutionality of the government, these have, to date, been resolved with only minimal political disruption.
Economic risks	3.50	The economy has steadied after attempts at diversification, but retains a strong relationship with its major trading partners. Its performance has strengthened in recent years, but there are doubts regarding whether this can be sustained in the longer term. The government is working to implement policies that will achieve this, including maintaining macro-economic stability, raising investment, implementing structural reforms to promote competition, and reducing poverty. The once-key sugar industry looks set to decline, mired in problems over land tenure agreements. The country continues to suffer the emigration of skilled professionals, as well as considerable numbers of the economically influential Indian community. The instability that the May 2000 coup prompted has largely been overcome; foreign sanctions were removed following democratic elections in September 2001, and sectors such as tourism are showing a healthy return to form.
Legal risks	3.00	Before the coup of 2000, the legal environment was considered generally satisfactory, but the legitimacy of the government, and therefore any of its actions, has been thrown into doubt by a series of constitutional court cases which have split the judiciary.
Tax risks	2.00	The tax burden is comparatively heavy as the government faces a large budget deficit. Substantial incentives are available under specific circumstances.
Operational risks	2.50	The country is isolated. Inland transport is much less important than sea and air transport. These background obstacles are compounded by a number of environmental and natural hazards, such as droughts and periodic cyclonic storms.
Security risks	2.75	Crime rose following the 2000 coup, and there have been instances of foreigners being attacked. Nevertheless, the risk to tourists and investors is generally low, provided some precautions are taken. Political violence was common after the coup, when rioting and looting proliferated, but it has since diminished, especially since the general election in 2001. There is still the potential for ethnic conflict.
Overall risks	3.08 SIGNIFICANT	In the past few years, Fiji's background drawbacks for investment - isolation, a tiny market, limited resources - have been compounded by political instability and ethnic tension. However, day-to-day operational and regulatory risk levels are low. The removal of the elected government as a result of a coup attempt in May 2000 is likely to lead to severe problems over the short and medium term. Conciliatory resolution

Comparative Historical Risk



Risk Change History

Fiji

	Overall Risk	Date Changed	Risk Change Article	Pol 25%	Eco 25%	Leg 15%	Tax 15%	Ope 10%	Sec 10%
1	2.56 MEDIUM	01-Nov-98	-	3.00	3.00	2.00	2.00	2.50	1.50
2	2.95 MEDIUM	19-May-00	View article	4.00	3.00	3.00	2.00	2.50	2.50
3	2.89 MEDIUM	25-May-00	View article	3.50	3.50	3.00	2.00	2.50	2.00
4	3.25 SIGNIFICANT	30-May-00	View article	4.00	3.50	3.00	2.00	2.50	3.00
5	3.10 SIGNIFICANT	02-Oct-01	View article	3.50	3.50	3.00	2.00	2.50	3.00
6	3.05 SIGNIFICANT	24-Jul-02	View article	3.50	3.50	3.00	2.00	2.50	2.50
7	3.08 SIGNIFICANT	24-Apr-03	View article	3.50	3.50	3.00	2.00	2.50	2.75

Fiji - Key Country Facts

Area (sq km)	18270
Capital	Suva
Languages	English (official), Fijian, Hindustani
Ethnic Diversity	Fijian 49%, Indian 46%, European, other Pacific Islanders, overseas Chinese, and other 5%
Religions	Christian 52% (Methodist 37%, Roman Catholic 9%), Hindu 38%, Muslim 8%, other 2%. Note: Fijians are mainly Christian, Indians are Hindu, and there is a Muslim minority (1986)
Currency	1 Fijian dollar (F\$) = 100 cents

Fiji - Demographic Data (sourced from World Markets Healthcare)

	1990	1997	1998	1999	2000
Demographics					
Total population (m)	0.7	0.8	0.8	0.8	0.8
Population density (per sq km)	40.3	42.8	43.3	43.8	44.4
Total population under 15 years (m)	0.3	0.3	0.3	0.3	0.3
Total population 15-65 years (m)	0.4	0.5	0.5	0.5	0.5
Total population over 65 years (m)	0.0	0.0	0.0	0.0	0.0
Annual population growth (%)	1.4	0.9	1.0	1.3	1.4
Total rural population (m)	0.4	0.4	0.4	0.4	0.4
Total urban population (m)	0.3	0.4	0.4	0.4	0.4
Crude birth rate (per 1,000)	25.0	26.0	21.7	21.7	22.4
Crude death rate (per 1,000)	5.0	6.3	6.7	6.2	6.0
Total life expectancy at birth (years)	71.1	72.6	..	72.9	69.2
Total male life expectancy at birth (years)	69.0	70.5	..	70.7	67.5
Total female life expectancy at birth (years)	73.2	74.8	..	75.1	71.0

Source: World Bank, *World Development Indicators 2003*; IMF, *World Economic Outlook September 2001*; World Health Organisation, *WHO Estimates of Health Personnel*

Fiji - Key Macro-economic Data (sourced from World Markets Country Analysis and Forecast)

	1999	2000	2001	2002e	2003f
Domestic Data					
A - GDP Growth %	9.5	-2.8	2.6	3.7	4.8
J - Inflation %	0.2	3	2.3	2.5	2.8
N - GDP \$bn	2.57	2.39	2.69	2.77	2.93
Q - GDP Per Capita \$	3015	2804	3118	3322	3467
External Data					
AM - Foreign Direct Investment \$m	-33	-12	17	23	58

Country Report - Fiji (Country Analysis)

Political Environment

Current as of Mon 08 Dec 2003

Political risks: 3.50

The political environment has stabilised following a coup on 19 May 2000, but problematic issues remain. Issues such as the rights of ethnic Indian Fijians need to be solved, and may lead to further friction in the future. However, in a significant step forward, the general elections held in late 2001 were deemed free and fair. After initial complaints, the Fijian Labour Party appears to have settled into its role as official opposition, though its leader, former Prime Minister Mahendra Chaudhry, has refused to accept the post of opposition leader and is instead pursuing legal action regarding the interpretation of the constitution. While there will be further worries over legal challenges to the constitutionality of the government, these have, to date, been resolved with only minimal political disruption.

Current Highlights

- **A report from the Fijian Auditor General claimed that government agencies are fraught with widespread abuse and ineptitude.** The report, issued in October 2003, blamed the poor state of affairs in the agencies on the continuing controversy over the court-ordered multi-party cabinet (see below), and stated that corruption was a 'cancer' that has spread from the Prime Minister's office throughout the rest of the government.
- **Former Prime Minister Sitiveni Rabuka was re-elected as President of the Soqosoqo ni Vakavulewa ni Taukei (SVT) in June 2003.** Rabuka was third in command of Fiji's military, and came to international attention when the military seized power in 1987. He founded and led the SVT until its election defeat in 1999. Rabuka further promoted himself recently in September 2003 by calling for Mahendra Chaudhry to be reinstated as Prime Minister. Chaudhry - the country's first ethnic-Indian PM - was deposed during a coup in May 2000, and Rabuka's comments come as he continues to seek representation in the current government (see below). These moves are part of Rabuka's wider campaign strategy, possibly prefacing his return to the political mainstream ahead of possible elections.
- **In June 2003, the Supreme Court upheld a provision of the constitution requiring a multi-party cabinet, but the dispute has yet to be resolved.** The Supreme Court ruled that Prime Minister Laisenia Qarase, leader of the Soqosoqo Duavata Ni Leweanivanua Party, or United Fiji Party (SDL), must form a multi-racial government, in a move that has effectively branded illegal the ethnic Fijian government that he created following elections in September 2001. The ruling brings to a head the long-running battle between Qarase and former Prime Minister Mahendra Chaudhry. During the elections, Chaudhry's Fijian Labour Party (FLP) won more than 10% of the vote and, as a result, was constitutionally entitled to proportional representation in the 20-seat cabinet. Qarase refused, prompting the FLP to launch what has become a protracted legal case. Despite the court's ruling, the political dispute over the number of cabinet seats to be granted to the FLP continues.
- **In May 2003, Jopi Seniloli, Vice-President and one of the country's traditional chiefs, was arrested along with four other men, including Cabinet Minister Isireli Lewniqila, on charges relating to the coup of May 2000.** This followed similar moves against Deputy Speaker Rakuita Vakalalabure in March, as well as the successful prosecution of two other coup plotters the same month. The coup continues to cast a pall over Fiji's political life and will do so for the foreseeable future.
- **In April 2003, tensions between the government and the country's military chief, Commodore Voreqe Bainimarama, prompted speculation of renewed unrest or even another coup.** Bainimarama was a key player in the May 2000 coup, and continues to wield considerable power, leading some observers to question whether he is ready to make a bid for power.
- **In March 2003, the Native Trust Board began legal action at the High Court in an attempt to overturn the contentious Agricultural Landlord Tenant Act (ALTA), which governs the leasing of all farmland.** Leases, many of which allowed the ethnic Indian population to farm sugar plantations, began to run out in 1997. Many have not been renewed, leaving a considerable number of people both landless and unemployed, as well as having a highly damaging effect on the key sugar industry.
- **Prime Minister Laisenia Qarase received solid support ratings during a poll conducted in December 2002.** The poll, the first such survey to be carried out since elections were held in September 2001, gave Qarase an approval rating of 47%. Unsurprisingly, his approval rating was highest among the indigenous Fijian population, falling dramatically among ethnic Indians.
- **In November 2002 a military court found 15 soldiers guilty of mutiny.** The soldiers, members of the elite Counter Revolutionary Warfare unit, were convicted for their part in a revolt at the Queen Elizabeth Barracks in Suva in November 2000. The revolt was crushed during a gun battle in which eight soldiers died. The sentence brought to an end one of three high-profile cases, the outcomes of which are likely to affect the country's tumultuous political scene.
- **In October 2002 President Josefa Iloilo appointed the sole representative of the United General Party, Mick Beddoes, as leader of the opposition.** The move followed Fijian Labour Party (FLP) leader Chaudhry's rejection of the post - for a second time - earlier in the month.

Division of Power

Fiji is a group of 322 islands (about 110 of which are inhabited) in the South Pacific Ocean, about two-thirds of the way from Hawaii to New Zealand. A major influence on the formal division of political power is the ethnic make-up of the population (49% indigenous Fijians, 46% Indian Fijians). The so-called '1997 constitution', which came into force in July 1998, provided for a new electoral system. Under this, 23 seats in the 71-seat parliament are allocated to indigenous Fijians, 19 to ethnic Indians, three to other races and one to Rotumans (inhabitants of a Polynesian island annexed to Fiji), whilst the remaining 25 are contested on a non-racial basis. The president, who has a largely ceremonial role, must be an indigenous Fijian. Other top posts can be held by members of any community.

Following the coup of May 2000 there has been pressure to restructure the 1997 constitution, perhaps guaranteeing the top government posts go to indigenous Fijians.

An influential body on the sidelines of political power is the Great Council of Chiefs, which is a key determinant of indigenous Fijian policy.

Main Political Parties

- **Soqosoqo Duavata Ni Leweanivanua Party, or United Fiji Party (SDL):** The indigenous Fijian vehicle of Prime Minister Laisenia Qarase and his supporters.
- **The Fijian Labour Party (FLP):** A political grouping headed by ousted Prime Minister Mahendra Chaudhry, with its roots in the sugar industry's labour movement. Its ideology and policies are (and were in office) clearly left of centre.
- **The New Labour Unity Party (NLUP):** Formed by ousted Deputy Prime Minister Tupeni Baba, the NLP is a splinter group from the main Labour Party, backed by those, like Baba, who feel that Chaudhry has been forced by events and his own opinions into a position whereby it would be impossible for the country to unite under him if he returned to power.
- **The Conservative Alliance:** A fairly radical pro-indigenous party that did very well in the 2001 elections. It campaigns for Speight's pardon and is also a supporter of the current government.
- **Soqosoqo ni Vakavulewa ni Taukei (SVT):** Created with the support of the Great Council of Chiefs, its reputation has since been damaged by internal problems. The current leadership has sought to move away from this, pursuing moderate politics including defending the Indian community. It champions a return to first-past-the-post voting.

Key Political Players

President	Ratu Josefa Iloilo	Iloilo is regarded as something of an interim figure, as his health is very poor. His ideology leans towards pro-indigenous policies.
Prime Minister	Laisenia Qarase	Qarase is regarded as a strong supporter of indigenous rights.
Former Prime Minister	Mahendra Chaudhry	Chaudhry lost support among Indians for his inability to compromise, and the indigenous community still regards him with suspicion. These factors worked against him in the elections, forcing his FLP into opposition. He is fiercely opposed to the government and challenges it at every turn, though he has become willing to do so from within the parliamentary and legal systems rather than by boycotting.
Leader of the Opposition	Mick Beddoes	Beddoes was appointed opposition leader after Chaudhry rejected the post for a second time in October 2002. Beddoes is not expected to be a particularly effective opposition leader, and stated on his appointment that he would vacate the post willingly should Chaudhry lose his court battle.
Coup Leader and MP	George Speight	Speight has been sentenced to life imprisonment for leading the May 2000 coup but was elected as an MP in the general election. Many suspect he was only a puppet of more powerful figures, but he remains an icon for the anti-Indian, pro-indigenous movement.

Political Stability

Recent Elections

In May 1999 the country elected its first ethnic Indian Prime Minister, Mahendra Chaudhry, leader of the FLP. The FLP gained 37 seats and governed in coalition with the Fiji Association Party (10 seats), although the relationship was sometimes tense. During the Chaudhry government, SVT leader Ratu Inoke Kubuabola declared that his party would attempt to change the constitution to ensure more power was placed in the hands of ethnic Fijians. His announcement was indicative of a wider dissatisfaction among indigenous Fijians with Indian status in the government.

Coup Attempt

On 19 May 2000 failed businessman George Speight and a disaffected faction of the military, led by retired Colonel Ilisoni Ligairi, launched a coup, capturing the parliament and taking hostage most of the country's MPs - including the Prime Minister. Their aim was to abolish the multi-racial constitution of 1997 and return power to the native Fijian community. The series of events that followed caused the resignation of President Ratu Sir Kamisese Mara, and the military assumed executive control under the command of Commodore Frank Bainimarama. Eventually the military negotiated a deal that guaranteed the release of all the hostages and installed Ratu Josefa Iloilo as president. However, the coup leaders demanded more influence, leading to fears of a second *putsch*. However, on this occasion the army moved in rapidly, arresting Speight and hundreds of his supporters. Legal challenges against the interim administration were handled through manoeuvres that dealt with the technicalities being abused rather than the spirit of the laws broken. Nevertheless, observers were reassured to see the government keeping within the word of the law and by its early call for new elections.

Supreme Court Ruling

International observers declared that the election held in late August 2001 was, overall, a reflection of the will of the people, and that a duly democratic parliament and Prime Minister were sworn in. However, in framing his cabinet, Prime Minister Laisenia Qarase failed to include the FLP - who won 27 of the 71 seats. A unique provision in Fiji's 1997 Constitution is that any party that receives over 10% of the seats in parliament must be invited to join the cabinet. This provision was essentially introduced to ensure that both of the ethnic communities - Fijians and Indo-Fijians - have a substantial presence in any cabinet formed to run the government, creating an administration made up of two different ethnic groups who have a long-running deep-seated rivalry. However, according to Qarase, the Prime Minister's obligation under the Constitution was only to invite, 'no less and no more'. He interpreted the obligation as requiring him to invite, but not necessarily to include, an argument which defeats the very purpose of Article 99 of the Constitution. As leader of the opposition, Chaudhry immediately filed a suit with the Fijian courts, and - in February 2002 - the Court of Appeal found that the FLP should have been included in the Cabinet. The case was immediately appealed by Qarase to the Supreme Court, and was finally taken up on 18 June 2003. The Supreme Court, consisting of a Fijian Chief Justice and two Fijian and two Australian associate justices, ruled in favour of the lower court's ruling on 18 July. Therefore, the current cabinet must include 16 members of the FLP, but negotiations as to how the cabinet will be restructured are ongoing.

The Supreme Court ruling ends the latest round in the protracted battle between Chaudhry and Qarase, and should force the two men to work together. Not only are their policy outlooks effectively in opposition, but the two party leaders are also bitter personal rivals. Chaudhry was in office as Prime Minister during the May 2000 coup, marking the first time an ethnic Indian had held the post, and only the second time that the FLP had enjoyed power (the first being a brief stint in 1987). It was Qarase who was appointed to replace him, and who later went on to win the elections that saw the country return to democratically elected, multi-party rule.

August-September 2001 Elections

Laisenia Qarase's SDL, leader of the interim administration, was returned to government at the head of a pro-indigenous rights coalition in late 2001. The FLP, after issuing legal challenges to the government's constitutionality, eventually settled into the role of parliamentary opposition, awaiting the outcome of the verdict in its cases. In February 2002 courts backed Chaudhry's claim that he was constitutionally entitled to seats in the cabinet; the constitution grants any party that wins more than 10% of the vote the right to proportional representation in the cabinet - something that Qarase accurately points out is unworkable in the current political climate. The government appealed the verdict to the Supreme Court in May 2002, but the case will not be heard until mid-2003. That said, the administration is likely eventually to circumvent any contrary ruling. Qarase's government is coalition-based, but it is unlikely that it will fall, given the CA's antipathy towards the FLP-led opposition. A more potent risk comes from the courts, but Qarase has already demonstrated his ability to side-step legal rulings against him, while theoretically following their judgments.

Party	Seats
SDL	32
FLP	27
CA	6
NLUP	2
Other	4

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Speight's Trial

Months of procrastination over George Speight's treason trial were brought to an unexpectedly rapid conclusion in February 2002 when Speight pleaded guilty to the charges against him. He was sentenced to death, though that verdict was swiftly commuted to life imprisonment. Also sentenced with him were 10 others, including Ilisoni Ligairi, Josefa Savua - brother of the police chief at the time of the coup - and Speight's brother, James. However, two other leading figures, politician Timoci Silatolu and journalist Jo Nata, remain on trial for treason. Suspicion remains that many in the government are trying to secure the early release of those involved in the coup once the international community becomes less concerned about the issue.

The Coup's Continuing Ramifications

March 2003 saw the conclusion of the trial of two more defendants charged with involvement in the coup. The two men involved were Timoci Silatolu, who was sworn in as interim prime minister on the first day of the coup, and Jo Nata, a journalist who acted as a spokesman for Speight. Their trial prompted renewed speculation that the significant players responsible for the coup might be revealed, a threat that Speight has also made. In his closing submission during the trial, prosecutor Peter Ridgway revealed that Speight, Silatolu and the current deputy speaker of parliament, Rakuita Vakalalabure, headed the coup, acting in what he described as 'common pursuit'. Also cited for their involvement in coup proceedings, though currently not facing prosecution, were former Foreign Minister Bernardo Vunibobo and former opposition leader Inoke Kubuabola. Later the same month, Vakalalabure was arrested, followed by Seniloli and Cabinet Minister Isireli Lewniqila in May 2003. These arrests effectively increase the pressure on Prime Minister Laisenia Qarase, not least because Vakalalabure and Lewniqila belong to coup leader George Speight's Conservative Alliance, which is currently lending crucial support to the government. The government remains relatively fragile, and there is some speculation that these moves may prompt snap elections.

Ethnic Tensions

Relations between the Indian and native Fijian communities have been shaky ever since an indigenous Fijian coup in 1987 designed to give more power to their community at the expense of ethnic Indians. A new constitution introduced in 1997 for the May 1999 elections helped to restore some balance, reversing 12 years of discrimination against Indian Fijians. This balance was completely overthrown, however, by the May 2000 coup and has yet to be fully restored.

The Great Council of Chiefs (GCC)

The 1999 election appeared to underscore the diminishing importance of the Great Council. However, during the 2000 coup crisis the various factions involved frequently turned to the Council to act as an intermediary between the military, former government and putsch leaders. The Council's inability to resolve the situation may have further undermined its reputation. It was hampered in particular by the fact that various groups of chiefs within its membership were pursuing power with contradictory goals. If Fiji adopts a model of government that discriminates against Indian citizens, the GCC may regain some of its importance - its natural function is as a 'parliament' of the country's indigenous leaders. However, should universal suffrage be continued, its influence will wane once again.

Land Lease

During a period of steady Indian immigration in the late 19th and early 20th centuries, indigenous Fijians were in danger of becoming swamped and alienated from their land. The colonial authority's response was to block all sales of land in 1909, thus securing a pattern of land ownership favourable to the indigenous community. However, the current situation is that 90% of sugar crops are produced by ethnic Indians on land leased from indigenous Fijians. Many of these leases are now reaching, or have already reached, their expiry dates, and indigenous owners have demanded vastly increased rents from tenant sugar farmers, forcing many of them off the land. Problems surrounding the issue were a major factor in indigenous Fijian support for the coup, and are likely to remain a thorn in the side of the new administration. In July 2002 the public enterprises minister warned Indian Fijians that they risked becoming landless in the country of their birth if they abandoned sugar-cane farming. The remarks can be seen both as an effort to persuade Indian Fijians to accede to the increased rents, and as part of a campaign to keep them 'in their place' in the cane fields, rather than in parliament or in other economic sectors. This has largely failed and in March 2003, the Native Trust Board began legal action at the High Court in an attempt to overturn the act governing the leasing of all farmland. It is an issue that the government needs to act on, not least because it risks further undermining the ailing sugar industry, which was once a key pillar of the economy.

Rotuma

The tiny island of Rotuma has threatened to secede from Fiji, but with only 2,200 permanent inhabitants and a subsistence economy, the chances of this happening are minimal.

Outlook


The political sphere has demonstrated a remarkable stability in the face of continuing tribulations. The political environment was relatively settled in 2002, but has been less so in 2003, not least because rumours have abounded regarding another possible coup. Racial tensions will continue to be a significant problem in all spheres. This situation will be complicated by Chaudhry's court case against the government. The government


needs to find a resolution to the land-leasing problem. This and other problems are eroding support for Qarase's government, which remains relatively fragile. In light of this, any significant political moves, such as the arrest of any senior figures on coup charges, may result in snap elections.


The legal challenges relating to the composition of the new government's cabinet are unlikely to result in any international action, though they may well earn Fiji rebukes. However, should the administration try to change the constitution to disenfranchise ethnic Indians or to discriminate too overtly, sanctions could be possible, especially from Australia and New Zealand, who in the past have proven relatively quick to retaliate against what they perceive as human rights abuses.


Should the actions of those who tried to manipulate the coup to their own ends ever come to light, this could be a source of future instability in the future. The coup had widespread grass-roots support among many indigenous Fijians, especially from the poor. Support was less solid among the higher echelons of the indigenous Fijian community, where the sentiment towards the coup's aims was often mixed with abhorrence of its methods. These fracture lines may be exploited, but in the longer term, the various elements of Fiji's society must learn to come together in a spirit of equality - a prospect that looks highly unlikely for at least a decade, now that Indo-Fijians have been returned to a position of inferiority. With the Indian Fijian community amounting to nearly half the population, the simmering potential for further eruptions cannot be discounted, giving Fiji a relatively high Political Risk Rating for a democracy.


Fiji (Country Analysis) : Political - Recent Updates


1. 09/12/2003 -  **COUNTRY** **By-Election Win Bolsters Position of Fijian Opposition Leader** (In Brief)


2. 23/10/2003 -  **COUNTRY** **Audit Proves Highly Critical of Fijian Government**(In Brief)


3. 20/10/2003 -  **COUNTRY** **Court-Ordered Cabinet Reshuffle in Fiji Remains Unresolved**(In Brief)


4. 02/10/2003 -  **COUNTRY** **Talks Break Down in Fiji Between Prime Minister and Opposition Leader**(In Brief)


5. 29/09/2003 -  **COUNTRY** **Political Situation in Fiji Complicated by Former Coup Leader's Comments**(In Brief)


6. 28/08/2003 -  **COUNTRY** **Military Forces in Fiji Lose Court Appeal Against Government Financial Audit**(In Brief)


7. 27/08/2003 -  **COUNTRY** **Minister of Agriculture Found Guilty of Fraud in Fiji**(In Brief)


8. 14/08/2003 -  **COUNTRY** **Opposition Leader Calls for International Intervention to Settle Fijian Political Crisis**(In Brief)


9. 08/08/2003 -  **COUNTRY** **Opposition Leader in Fiji Pledges Return to Supreme Court for Resolution of Political Crisis** (In Brief)


10. 07/08/2003 -  **COUNTRY** **Prime Minister of Fiji Tells Foreign Interests to Stay out of Country's Affairs**(In Brief)

11. 23/07/2003 -  **COUNTRY** **Prime Minister and Opposition Leader Hold Talks Over New Government for Fiji**(In Brief)

12. 21/07/2003 -  **COUNTRY** **Unrest Possible as Supreme Court Orders Multi-Party Cabinet in Fiji**(Main Story)

13. 18/07/2003 -  **COUNTRY** **Key Constitutional Ruling Puts Further Pressure on Fiji's Government**(In Brief)

14. 16/07/2003 -  **COUNTRY** **Fiji Faces Unrest Possible in Wake of New Indictments and Upcoming Court Ruling**(In Brief)

15. 04/07/2003 -  **COUNTRY** **Sect Members Arrested in Fiji, Over Suspected Disruption of South Pacific Games**(In Brief)

Economic Environment

Current as of Thu 18 Dec 2003

Economic risks: 3.50

The economy has steadied after attempts at diversification, but retains a strong relationship with its major trading partners. Its performance has strengthened in recent years, but there are doubts regarding whether this can be sustained in the longer term. The government is working to implement policies that will achieve this, including maintaining macro-economic stability, raising investment, implementing structural reforms to promote competition, and reducing poverty. The once-key sugar industry looks set to decline, mired in problems over land tenure agreements. The country continues to suffer the emigration of skilled professionals, as well as considerable numbers of the economically influential Indian community. The instability that the May 2000 coup prompted has largely been overcome; foreign sanctions were removed following democratic elections in September 2001, and sectors such as tourism are showing a healthy return to form.

Fiji - Economic Data

	1997	1998	1999	2000	2001	2002e	2003f
Domestic Data							
A - GDP Growth %	-0.9	1.4	9.5	-2.8	2.6	3.7	4.8
F - Agriculture % GDP	..	..	17.91	17.78	17.92	18.03	18.29
G - Industry % GDP	..	..	14.11	14.29	13.89	14.03	14.75
H - Services % GDP	..	..	53.12	52.97	49.62	51.68	52.53
J - Inflation %	2.9	8.3	0.2	3	2.3	2.5	2.8
K - Budget Balance % GDP	-2.4	-3.9	-0.6	-3.2	-6.5	-6.9	-6.2
N - GDP \$bn	2.1	2.3	2.57	2.39	2.69	2.77	2.93
O - GDP % of UK	0.2	0.2	0.18	0.17	0.19	0.18	0.18
P - GDP % of US	0	0	0.03	0.02	0.03	0.03	0.03
Q - GDP Per Capita \$	2576	2727.9	3015	2804	3118	3322	3467
R - GDP Per Capita % of UK	11.4	11.3	12.28	11.62	13.13	12.99	12.72
S - GDP Per Capita % of US	8.3	8.4	8.87	8.01	8.82	9.17	9.25
T - Population m	..	..	0.8	0.81	0.82	0.83	0.85
External Data							
X - \$ to Currency	1.6	1.99	1.97	2.18	2.32	2.05	2
AA - Exports \$m	535.6	428.9	538	530	484	517	546
AB - Export Growth %, y-on-y	-20.3	-19.9	25.36	-1.44	-8.68	6.82	5.61
AC - Imports \$m	-818.9	-614.6	-782	-714	-664	-700	-759
AD - Import Growth %, y-on-y	-2.5	-25	27.25	-8.7	-7	5.42	8.43
AE - Trade Balance \$m	-283.2	-185.6	-244.28	-184	-180	-183	-213
AF - Total Export Earnings \$m	..	..	1110	1100	1027	1069	1104
AG - Current Account Balance \$m	34.3	-6.9	-84	-103	-61	-51	-99
AH - Current Account % GDP	1.6	-0.3	-3.27	-4.31	-2.27	-1.84	-3.38
AJ - Capital Account Balance \$m	..	..	-104	89	63	52	38
AK - Reserves (minus gold) \$m	360.3	385.4	428.69	409.68	366.39	351	369
AL - Reserve Import Cover - Months	5.3	7.5	6.58	6.89	6.62	6.02	5.83

AM - Foreign Direct Investment \$m	16	75	-33	-12	17	23	58
AN - Foreign Direct Investment % GDP	0.7	3.2	-1.29	-0.5	0.63	0.83	1.98
AO - Total External Debt \$m	219.1	192.9	163	136	129	127	130
AP - Short Term Debt \$m	48	20.7	17	16	17	18	20
AQ - Total Debt Service \$m	..	..	39	30	26	24	23
AR - Total Debt % GDP	10.8	12.6	6.34	5.69	4.8	4.58	4.44
AS - Debt Service Ratio % Total Exports	2.8	3.5	3.51	2.73	2.53	2.25	2.08
AT - Total Debt % Total Exports	17.3	19.6	14.68	12.36	12.56	11.88	11.78
AU - Short Term Debt % Total Debt	21.9	10.7	10.43	11.76	13.18	14.17	15.38
AV - Short Term Debt % Reserves	13.3	5.4	3.97	3.91	4.64	5.13	5.42
AW - Interest Payment Arrears \$m	..	..	0	0	0	0	0
AX - Grants \$m	..	..	15	9	8	11	13
AY - Debt Forgiveness + Rescheduling \$m	..	..	0	0	0	0	0
AZ - External Assets \$m	..	..	201	124	154	159	172
BA - External Liquidity Gap % Total Exports	..	..	8.63	10.46	7.27	6.18	10.3

Notes: J - (aop) average over period L - overall balance before grants X - US\$ to Fiji \$ exchange rate end of period (eop)

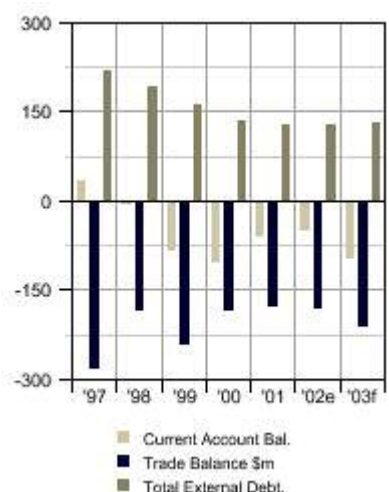
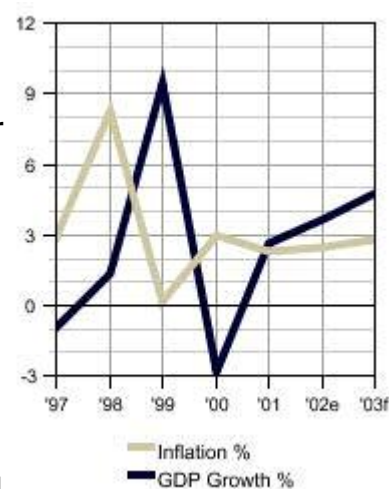
[Table Key](#)

[WMRC Forecasting Methodology](#)

[Download this table in Microsoft Excel format](#)

Current Highlights

- **The economy enjoyed a return to healthy growth levels in 2002, after the May 2000 coup prompted a GDP contraction of 2.8% for that year.** Growth in 2002 was 4.4% of GDP, prompting the government to forecast a figure of 5% growth for 2003.
- **Growth in 2002 was broad-based.** Strong levels of growth were recorded in the sectors of fisheries, manufacturing, tourism and services, and transport and communications. The key sugar industry continued to perform poorly, undermining overall performance.
- **Exports in 2002 increased by 3.6%.** The rise came on the back of a rise in gold exports. Imports also increased by 9.8% prompting a deterioration in the current account deficit, which increased to 5% of GDP from 3.6% in 2001.
- **The capital account surplus has contracted significantly.** This reflects higher statutory debt payments, lower short-term private capital inflows, and a decline in the short-term credit balance. As such, foreign reserves declined, but by year-end there was still sufficient cover for 5.1 months of imports alone.
- **Inflation remained low at 0.9%.** The government has focused on keeping inflation low, but it is expected to rise during 2003-2004.
- **Expansionary fiscal policies produced a sharp rise in the budget deficit.** A combination of lower tax revenues and higher expenditure on public-service salaries prompted a deficit of 7% of GDP.
- **Since coming to power in September 2001, the government of Prime Minister Laisenia Qarase has pursued a more interventionist approach towards the economy.** The government is attempting to use such economic intervention to tackle the long-standing problems of weak employment growth, poverty, low investment levels and the restructuring of the sugar industry.
- **An economic priority is addressing the sugar industry's problems.** The sugar industry is a mainstay of the economy, but is suffering following years of neglect, under-investment, high production



costs and land disputes. Qarase has been praised for his attempts to restructure the industry, but the Agricultural Landlord and Tenant Act (ALTA), under which indigenous land is leased to ethnic Indian sugar growers, needs to be reformed, and transport problems and mill inefficiencies tackled.

Economic Performance and Prospects

Economy Rebounds Following Coup Trauma

The economy posted a healthy 4.4% growth rate for 2002, following a marked weakening in 2000 as a result of a coup in May of that year. Tourism and the related service industries continued to recover, with Fiji becoming regarded as something of a 'safe haven' in a world beset by terrorism fears. Similarly, other sectors showed marked growth, including fisheries, which grew 8% on the back of new regional markets, manufacturing, which grew by almost 4%, and construction, which benefited from public investment activity, also growing 8%. In contrast, the key sugar industry continued to under-perform suffering land leasing and transport problems as well as mill inefficiencies. The industry needs significant restructuring if it is to return to anything like its past performance. However, this will be difficult, not least because the issue reflects much wider social problems regarding the rights and position of the ethnic Fijian landowners against those of the country's ethnic Indians, who have traditionally leased the land.

Historically, Growth Has Been Disappointing, But Reform Led to a Pick-Up in the Late-1990s

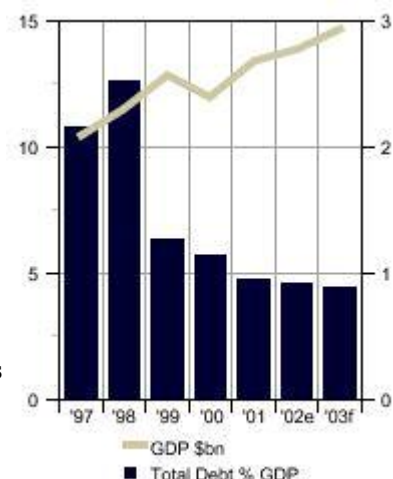
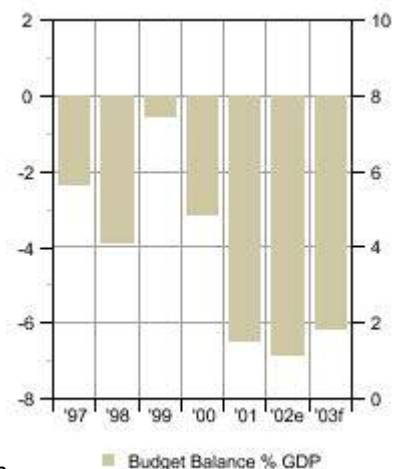
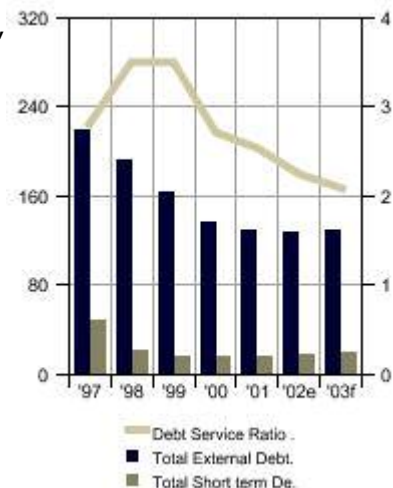
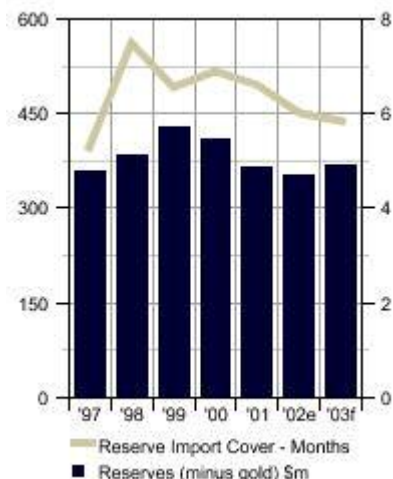
During the 1990s, Fiji's growth was slow. Between 1991 and 1997 GDP expanded by an annual average of less than 2%, largely due to falling investment rates. Government investment was constrained by large current expenditure requirements, while private capital investment met with structural barriers. Weather-related shocks to sugar production led to weak export performance and depressed private consumption. Some progress was made in reforms, however, and between 1997 and 1999 GDP growth picked up to an annual average of just over 4%, driven by foreign investment in the tourism sector, increased exports from the garment industry and rising private consumption.

This came to an abrupt end in May 2000, when ethnic Fijian George Speight led a coup that overthrew the government of Mahendra Chaudhry, the country's first Indian Prime Minister. Considerable economic and social instability followed; boycotts undermined the country's exports, with dock workers in several ports refusing to unload Fijian cargo, and Fiji's most important export markets - Australia, New Zealand and the European Union (EU) - all took an aggressive stance, demanding the reinstatement of the multi-racial 1997 constitution and threatening sanctions. Domestically, the conflict and subsequent intimidation of the economically powerful Indian Fijian community led to a slump in private consumption. Instability deterred both tourist arrivals, which fell by 50%, and investment projects. In addition, revenue collection stalled and the government was forced to slash spending plans, providing further downward pressure on growth.

The year 2001 was not much of an improvement; the terrorist attacks on the US in September of that year undermined what had been a relatively strong recovery in the tourism industry, and problems continued in the sugar sector. However, economic sanctions were lifted and private-sector consumption and investment showed some signs of recovery amid loose monetary conditions. As a result, growth recorded a respectable 4.3% of GDP by year-end.

Political Uncertainty Undermines Medium-Term Investment Prospects

Future growth trends remain uncertain, due to problems in the political sphere. The outlook for race relations remains poor, with indigenous Fijians set to pave the way for further reforms aimed at promoting indigenous Fijian



economic interests, especially in the area of land reform. This will cause private consumption and investment by wealthier Indian Fijians to languish at low levels, especially in the core agricultural industries. Furthermore, the government is being undermined by continuing wrangles regarding the constitution, as well as on-going investigations to unmask the figures behind the May 2000 coup.

Medium-term growth is expected to be broad-based, with tourism as the leading sector. The agriculture, forestry and fisheries sector is projected to grow at reasonable rates, on the basis that sugarcane production shows signs of recovery, but the garment sector may lag behind the rest of the economy, holding back potential export earnings. Fiji has an ample supply of underused capital, and the economy operates well below capacity, both of which would bode well for growth prospects. Strong macro-economic management is another factor which should underpin a fairly robust performance in the medium-term, provided that political troubles do not get in the way. Government spending remains constrained by the need to reverse fairly large budget deficits, and is unlikely to provide much of a boost to growth. Against this background, slow growth of around 3% is expected for some years to come.

Macro-Economic Policies

The Trials and Tribulations of Fiscal and Monetary Policy

Since the May 2000 coup, the government has placed considerable emphasis on fiscal stimulus and has pursued an accommodative monetary stance. The budget given in November 2000 loosened fiscal policy, while weak global conditions in 2001 encouraged officials not to tighten monetary policy. This was continued during 2002, resulting in a larger-than-expected rise in the budget deficit to 8.5% of GDP (as compared with 1.2% in 1999). A budget of F\$1.3bn (US\$650m) was announced for 2003, with an expected deficit of F\$179m (US\$86m). Continuing this type of policy is clearly unsustainable, prompting the government to both seek ways in which it can reduce its spending levels and maintain the momentum of growth by other means, such as structural reform and foreign investment. The 2003 budget allowed for continuing government intervention in such sectors as sugarcane, providing F\$20m (US\$9.6m) for restructuring, but also heralded spending cuts in other areas, including the armed forces, which received F\$57.4m (US\$27.7m) - some F\$6m less than in 2002. Furthermore, a rise in value-added tax (VAT) on essential items - from 10% to 12.5% - was proposed, which, with other excise and tariff increases, constitutes a significant revenue-raising move in indirect taxes of around 30%.

Inflationary pressures have been minimal. The currency depreciated slightly in 2002, but domestic demand is gradually increasing, which will have some impact, albeit from a very low base. Inflation stood at 3% in 2000, rose to 5% in 2001, dropped dramatically to 0.9% in 2002 and is forecast to rise to 3% in 2003. Foreign reserves are relatively stable, and though they declined throughout 2002, by year-end they were still able to cover 5.1 months of imports. Furthermore, there is ample liquidity in the money markets, and interest rates have fallen sharply. The Central Bank has a strong reputation, and is credited with averting currency instability and an even more severe macro-economic collapse in the wake of the coup. The government now faces the challenge of raising the sustainable rate of growth, supported by a durable expansion of private-sector investment, while preserving macro-economic stability in a climate of political stability.

The Power of Creditor Relations

The country's biggest donor and most important source of multilateral funds is the EU. Besides buying large quantities of Fijian sugar at above market prices, the EU provides numerous grants, most aimed at human resource development. The US also has an agreement to buy sugar at above-market prices. Other donors include Australia's AusAID, New Zealand Official

Development Assistance (NZODA) and Japan. Barring Japan, all of these nations are also key export markets for Fiji, giving them added leverage over the government. Thus, when the EU, Australia and New Zealand all expressed outrage at attempts to revoke the 1997 multiracial constitution in 2000, the government was forced to rapidly backtrack. Their influence was also been seen in the return to democratic rule in late 2001, a date that was much sooner than indigenous leaders in the interim administration had initially suggested.

The power of these nations was well illustrated in October 2002 when Fiji called on Australia to drop its challenge to EU sugar subsidies. Foreign Minister Kaliopate Tavola warned that such action could devastate the economy. Australia denied that it was attempting to undermine the economies of sugar-exporting countries like Fiji, but stated that the countries should be prepared for such an outcome, which it views as inevitable under the terms of trade deals that are currently being devised.

The Role of the ADB

The Asian Development Bank (ADB) is also engaged in the Fiji islands and had (from 1970) cumulative lending of US\$161m to the country as of December 2000. The majority of this lending was directed towards the transportation and communications sectors, with energy and agricultural and natural resource projects accounting for most of the remainder. There have been few disputes between the ADB and Fiji, though counterpart funding from the Fijian government has sometimes been late. Donors meet regularly to co-ordinate aid packages.

Small Financial Markets Have Minimal Impact

Fiji is not a major centre for off-shore finance, unlike many of its smaller Pacific island neighbours. There are six commercial banks, five of them foreign owned and one part-foreign owned - though the Bank of Hawaii has declared an intention to wind up its local operations. There were strong debates under Chaudhry's government on the subject of whether banks were 'ripping off' their customers; banks were said to enjoy a rate of return on their capital of around 30%. In February 2000 a mandatory financial services ombudsman and a financial services commission were set up, with powers to monitor interest rates, fees and charges and other terms and conditions of banking products and services. There was also talk of setting up an agricultural bank. Rates of return in Fiji are more likely to have been high because of the instability and risk associated with lending in an uncertain legislative environment. Lending to agriculture has been particularly stagnant, due to the land owner-lessee debate. The problem is certainly not a lack of funds, as most banks hold well over double the minimum liquid assets required by the Reserve Bank.

Fiji has a stock market, the South Pacific Stock Exchange (see the Capital Markets Development Authority and the South Pacific Stock Exchange at www.cmda.com.fj). This was formerly the Suva Stock Exchange, founded in 1979, with a call market established in 1996. Fifteen companies are currently traded on the exchange, as well as government bonds, statutory authority bonds, government Treasury bills, statutory authority promissory notes, Reserve Bank of Fiji notes and tradable term deposits. Foreign firms, especially from Australia, are major investors in many of the companies.

Economic Development

A Rural Economy Desperate to Diversify

Fiji remains primarily a rural economy, dominated by the low-tech sugar farming industry. Other rural sectors such as forestry and non-sugar farming continue to produce a sizeable proportion of output. This dependence on agriculture has left GDP growth vulnerable to unpredictable weather fluctuations. The El Niño effect in the early to mid 1990s had a particularly

damaging impact. Variations in the global price of commodities like sugar have also had a major effect on growth rates. The production of gold, one of Fiji's other core industries, has proven similarly vulnerable to shifts in global prices.

Tourism the Core of Diversification Efforts

The government has attempted to promote diversification, primarily into the tourism industry, with much success. Fiji has developed a string of coastal resorts and a thriving tourist industry. The garment industry has also grown rapidly on the back of exports and tourist demand. Other attempts to diversify involved the massive plantations of mahogany laid down by the British as an experiment in the 1950s and 1960s. The auctioning of rights to organise the harvest and sale of this hardwood caused controversy in 2000. Exports of mineral water to the US and animal feed to the Middle East are also picking up. The government has also established tax-free export zones, in order to promote the manufacturing industry. Although these diversified sectors are the most important drivers of recent growth, the tourist industry dominates.

The Land-Lease Problem and the Sugar Industry

Indigenous Fijians, mostly members of the country's elite, control 85-90% of the land in Fiji, but most farming is carried out by Indian Fijians who lease the land. These working conditions have been in place for nearly a century, and the country has yet to produce a system to manage the situation effectively; lease contracts are routinely abused by landowners, with rent levels and lease durations subject to arbitrary change, especially at times of political turmoil. Courts have proved to have only limited success in policing the system. Efforts by the Chaudhry government to resolve the situation - for example by providing subsidies to farmers (usually Indian) who had been evicted - provoked dissent among indigenous landowners and are thought to have been a major factor in the May 2000 coup.

In the wake of the coup, production of sugar cane has plunged, dropping from 3.7m tonnes in 2000 to 2.8m tonnes in 2001 as farmers simply left the land to avoid legal wrangles to extend their rents. The Qarase government has made some progress on the land-lease problem, granting a 20-year extension to 100 lease-holding farmers from northern Fiji in August 2002, but more than 200 other leases remain uncertain. Key problems for the industry in the years ahead will be the March 2003 cessation of a government soft loan programme, which props up the sector, and the inevitable reviews of agreements with the EU and US over the cost of Fijian sugar. Prospects for the industry's long term future appear to be extremely bleak.

Years of Under-Investment Need to be Redressed

Fiji's levels of investment as a percentage of GDP have been comparatively low since the mid-1980s; public and private investment combined has averaged only 13.5% of GDP since 1985. Private capital formation in particular has collapsed since the mid-1980s, from around the period of the first 'indigenous rights' coup in 1987. The situation had looked to be reversed in early 2000, with large windfalls from the 1998-1999 profits of the booming sugar and tourism sectors set to pave the way for much-needed capital spending. However, the May 2000 coup returned the island to a state of instability unsuited to substantial investment.

Privatisation Efforts Need to be Stepped Up

The bloated and inefficient public sector continues to act as a burden on private industry. Total assets of the public sector were estimated to amount to around 70% of total GDP in 1996. Chaudhry, whose government had many unreconstructed Socialist beliefs about wealth redistribution, ignored the plans of the preceding Rabuka government for a limited privatisation programme. The new government has expressed tentative hopes that the Rabuka proposals can be resurrected, but it is questionable whether these suggestions will be implemented. They may also be designed to win support

from the IMF, whether or not there are serious plans to put them into practice.

Fiji: Economic Profile (all data %)										
	1		2		3		4		5	
Economic Structure (1998)	Public Admin	18	Agriculture	17	Trade	17	Manufacture	16	Transport and Comms	13
Export Profile (2000)	Garments	28	Sugar	20	Fish	7	Gold	6	Textile Yarn, Fabrics etc.	3
Exports to... (2000)	Australia	25	US	21	UK	14	Japan	5	Samoa	4
Imports from... (2000)	Australia	46	NZ	13	Singapore	7	Japan	4	Hong Kong	4

Leading Sectors

- Sugar:** The sugar industry is one of the key sectors of the economy. However, the industry only survives because of agreements with buyers who purchase the country's sugar products at above market prices - principally in the EU. The industry suffers from chronic under-investment, with low levels of technology in growing, harvesting and production pushing up costs to levels uncompetitive on the international market. (For further details see **The Land-Lease Problem and the Sugar Industry**, above).
- Tourism:** Visitor arrivals are expected to reach a record level of 426,000 during 2003, aided by the South Pacific Games in June. Australians represent by far the most important visitor group, with Japan, US, UK, Pacific Island and New Zealand arrivals forming the bulk of the remainder. Confidence was hit badly by the coup, and to a lesser extent by the September 2001 attacks in the US. In the wake of the October 2002 Bali bombing, security fears will continue to plague the region, but Fiji looks set to retain its reputation as something of a safe haven.
- Gold:** The production of gold has been a growth industry for Fiji . Earnings had been suppressed because of the low international price of gold, but saw a marked rise in 2002 as gold became far more valued. In September 2000, the government endorsed a plan to provide assistance to Emperor Gold Mining Co (EMG), the nation's largest private employer, due to the problems of political disruption and other temporary factors. The company rewarded this commitment by investing to expand its operations. Burdekin Pacific is also reported to be looking to re-open its Mt Kase mine in Vanua Levu.
- Garments:** The garment industry mushroomed under the government of Sitiveni Rabuka, who offered 13-year tax breaks to firms locating in Fiji. Problems with delivering exports and boycotts at foreign dockyards affected the industry badly during the 2000 coup crisis, and several factories closed over the year. However, two new factories opened in 2001 and another expanded production in 2002. Australia grants Fiji a special trade system (Spartaca TCF), which benefits Fiji's garment industry; the country is the garment industry's biggest export market, absorbing around 70% of its total exports. Dire warnings were given in 2003 that the industry's workforce of 14,000 was likely to be reduced to 3,000 if the government failed to negotiate preferential deals with major markets. On 1 January 2005, the phasing out of the MultiFibre Agreement, which protects the industry by guaranteeing higher prices for its goods, will be complete, leaving Fiji exposed to competition from the likes of China.

Fiji (Country Analysis) : Economic - Recent Updates

1. 04/12/2003 -  **COUNTRY** **Tourism Businesses in Fiji Fear Backlash from Islamic Extremists**(In Brief)

 2. 25/11/2003 -  **COUNTRY** **European Union Allows Aid Funds to Flow to Fiji**(In Brief)

 3. 12/11/2003 -  **COUNTRY** **Fishing Industry in Fiji Losing Hundreds of Jobs**(In Brief)

 4. 05/11/2003 -  **COUNTRY** **High-Tech US Firm Establishes Operation in Fiji**(In Brief)

 5. 30/10/2003 -  **COUNTRY** **Key Joint Venture Seafood Business in Fiji May Close Down**(In Brief)

 6. 23/09/2003 -  **COUNTRY** **Asian Development Bank to Provide US\$25m for Fiji's Sugar Farmers**(In Brief)

 7. 18/09/2003 -  **COUNTRY** **NGOs in Fiji Call for Boycott of Pacific Fishing Company Products**(In Brief)

 8. 17/09/2003 -  **COUNTRY** **Fijian Expatriates Sent Back Record Level of US Dollars During 2002**(In Brief)

 9. 03/09/2003 -  **COUNTRY** **Asian Development Bank to Provide Capital for Fijian Infrastructure**(In Brief)

 10. 27/08/2003 -  **COUNTRY** **Government Set to Restructure Fiji's Sugar Industry**(In Brief)

 11. 03/07/2003 -  **COUNTRY** **Sugar Industry in Fiji Near to Collapse**(In Brief)

 12. 23/04/2003 -  **COUNTRY** **Government Moves to Offer More Jobs to Indigenous Fijians**(In Brief)

 13. 28/03/2003 -  **COUNTRY** **Warnings Sounded Regarding Decline of Fiji's Garment Industry**(In Brief)

 14. 29/01/2003 -  **COUNTRY** **EU Reiterates Calls for Restructuring of Fijian Sugar Industry**(In Brief)

 15. 02/01/2003 -  **COUNTRY** **Prime Minister Vows to Pursue Policy Favouring Fiji's Indigenous Population**(Main Story)
-

Legal Environment

Current as of Thu 18 Dec 2003

Legal risks: 3.00

Before the coup of 2000, the legal environment was considered generally satisfactory, but the legitimacy of the government, and therefore any of its actions, has been thrown into doubt by a series of constitutional court cases which have split the judiciary.

Court rulings in November 2000 and March 2001 declared the interim government illegal, stating that the 1997 constitution was still in effect. Many expected the military to disregard the courts and declare law under de facto political reality, but this has not been the case. Instead the government resigned and performed a series of largely meaningless procedural actions which allowed it to return to power with an apparently sound constitutional basis within 24 hours.

The legal system is built on the foundations of the old British colonial system. In principle, the law provides for the equal treatment of local and foreign investors. Investments are subject to approval by the Fiji Trade and Investment Board. The latter tends to favour projects that will contribute to the development of export-oriented manufacturing. Foreign investors usually operate through the branch of an overseas corporation or through an incorporated company that is a local subsidiary of an overseas corporation. Fiji is a member of the World Trade Organisation.

There are fairly strict exchange controls, and severe restrictions on the ownership of land. In practice, foreign investors are usually discouraged from acquiring a controlling stake in a local company. In November 1999 the Fiji Reserve Bank drew up new guidelines, under which licensed financial institutions will be required to identify the ownership of all accounts and obtain identification from new members before conducting business. The rules are designed to prevent money laundering.

The reputation of Fiji's judiciary is coming under increasing strain in the face of continuing efforts to have the political events resulting from last year's coup attempt reversed by law. A lobby group, the Citizens Constitutional Forum (CCF), in May 2001 asked the High Court to declare the President's decision to install an interim government illegal, and is further demanding that the court reinstate the ousted government of Prime Minister Mahendra Chaudhry. The efforts to overturn the current administration have split the judiciary, many of whom support the new order and were involved in providing legal advice to the military in declaring martial law and removing Chaudhry's administration.

Fiji (Country Analysis) : Legal - Recent Updates

1. 17/04/2003 -  **COUNTRY** **Negotiations Under Way to Secure Release of Fijian Coup Leader**(In Brief)
 2. 21/03/2003 -  **COUNTRY** **Court Convicts Fiji Coup Defendants as Further Arrest is Made**(In Brief)
 3. 05/03/2003 -  **COUNTRY** **Court to Review Contentious Issue of Land Rights in Fiji**(In Brief)
 4. 03/12/2002 -  **COUNTRY** **Prime Minister Wins Mixed Approval Rating in Fiji Polls**(In Brief)
 5. 06/11/2002 -  **COUNTRY** **Coup Soldiers Face Possible Death Sentence After Being Found Guilty of Mutiny**(In Brief)
 6. 30/10/2002 -  **COUNTRY** **New Opposition Leader Appointed as Political Wrangles Continue**(In Brief)
 7. 24/10/2002 -  **COUNTRY** **Constitutional Problems Continue as Party Head Refuses Opposition Leader Role**(In Brief)
 8. 01/10/2002 -  **COUNTRY** **Outcome of Coup-Related Court Cases Crucial for Political Stability**(In Brief)
-

9. 30/07/2002 -  **COUNTRY** **Minister Rails Against Departing Indian Farmers** (In Brief)

10. 25/04/2002 -  **COUNTRY** **Government Ordered to Accept Opposition in Cabinet**(In Brief)

11. 15/02/2002 -  **COUNTRY** **Court Rules Government Unconstitutional** (In Brief)

12. 25/10/2001 -  **COUNTRY** **New Zealand Maintains Sanctions to Force Constitutional Changes**(In Brief)

13. 14/09/2001 -  **COUNTRY** **Labour May Boycott Parliament as Government Faces Legal Challenge**(In Brief)

14. 11/07/2001 -  **COUNTRY** **Justices Rule in Favour of August Elections**(In Brief)

15. 03/07/2001 -  **COUNTRY** **Red Cross Director Murdered in Gruesome Attack** (In Brief)

Tax Environment

Current as of Thu 18 Dec 2003

Tax risks: 2.00

The tax burden is comparatively heavy as the government faces a large budget deficit. Substantial incentives are available under specific circumstances.

Tax Environment: Tax and Duty Rates

Resident companies and persons pay income tax on assessable income earned worldwide, while non-resident companies and persons only pay tax on Fiji-sourced income. Resident companies include firms incorporated in Fiji and companies not incorporated in Fiji that do business in the country and have central management and control based there. Companies whose voting power is controlled by Fijian resident shareholders are also counted as resident.

Resident persons include those who are domiciled in Fiji and those who are present continuously or intermittently in the country for more than one-half of the income year (unless they have convinced the tax authorities that their usual abode is elsewhere and that they do not intend to move to Fiji). Resident individuals are subject to tax on worldwide income, non-residents only on Fiji-sourced income. Fiji residents who derive income from tax-treaty countries must still pay Fiji income tax, but may receive a credit for taxes paid up to the value of tax that needs to be paid in Fiji. Income from non-treaty territories is exempt up to the extent that it was subject to foreign income tax.

Corporate income is defined as the aggregate of all sources of income, including annual net profit from trade, commerce, financial or other business. Personal income is defined as all wages, salaries, directors' fees and compensation, as well as the estimated value of all other benefits, such as housing, vehicles, travel and discounts, provided by the employer.

Tax	Rate (%)
Corporate income tax	32
Capital gains tax	30 (see text)
Branch tax	32
<i>Withholding taxes</i>	
Dividend tax	15
Interest	10
Royalties from patents etc.	15
Branch remittance tax	0
<i>Net operating losses</i>	(Years)
Carry-back	0
Carry-forward	8
<i>Personal taxes</i>	
Income tax (top rate)	32
<i>Indirect taxes</i>	
VAT	12.5
National provident fund (NPF) payment (employer)	8-22
NPF payment (employee)	8 (max)

Source: Ernst & Young

Fiji (Country Analysis) : Tax - Recent Updates

1. 08/11/2002 -  **COUNTRY** Budget Focuses on Rise in Taxes (In Brief)

Operational Environment

Current as of Thu 18 Dec 2003

Operational risks: 2.50

The country is isolated. Inland transport is much less important than sea and air transport. These background obstacles are compounded by a number of environmental and natural hazards, such as droughts and periodic cyclonic storms.

Attitudes to Foreign Investment

Attitudes towards foreign investment are positive. Government policy is geared towards channelling investment into specific sectors, with a view to diversifying the volatile economy. That said, the takeover of local businesses is not looked upon favourably by the government, which prefers investors to operate through branch offices or newly-established Fijian subsidiaries. The Fiji Islands Trade and Investment Bureau is the body responsible for the promotion, regulation and control of foreign investment in Fiji.

Labour

Almost 80% of the population has completed secondary education and 4% has gone beyond that. The workforce numbers just over 300,000, and around 55% of employees are unionised. The only central labour body in the Fiji Trades Union Congress (FTUC), which is gradually moving away from its past association with the Fijian Labour Party. There have been several examples of legal labour unrest, confined mostly to the sugar sector where political activism and labour unrest merge. The aviation sector has also been hit repeatedly by labour action in recent years (see below). Illegal strikes, which fail to comply with regulations stating that, for example, employers must be informed of a stoppage 28 days before it is due to be implemented, have occurred but are usually banned by the authorities and end without much controversy - 21 of 24 labour disputes in the first three months of 2002 were declared illegal. Unionism is also discouraged in new sectors (such as textiles) and in export processing zones (EPZs) by the absence of a law to protect union organisers' jobs. The FTUC has complained that it is unable to organise collective bargaining in EPZs because of employer intimidation. Foreigners have rarely been affected by union action.

Bureaucracy

The bureaucracy involved with carrying through a foreign investment is quite substantial but not prohibitively cumbersome.

Corruption

Corruption may be encountered in state institutions but is not an endemic phenomenon.

Infrastructure

The main ports are the capital, Suva, Lautoka, Levuka and Savusavu. Both Suva and Lautoka are being upgraded with assistance from the Asian Development Bank (ADB) in order to facilitate international trade and stimulate economic growth. There are two international airports, at Nadi and Nausori, the second one being on the outskirts of Suva. Airports were hit by strike action in 2001 and 2002, with ground crew, engineers, cabin staff and check-in personnel all participating in pursuit of improved wages and conditions. Fiji's geographic isolation, combined with the tiny size of its internal market, is a background brake on business. There are at least radio communications to every island. Viti Levu, the main island, has automatic telecom exchanges and offers direct dialling. There is also a mobile network, operated by Vodafone. International internet connections have suffered difficulties - the island's internet provider is located in the distant US - and outages associated with these problems have led some local businesses to call for Fiji's telecoms sector to be deregulated to allow for more internet providers.

The government is to spend US\$60m to connect over 100 villages and settlements throughout the country. The programme will provide a total of 180km of new roads in 10 mainland and four island provinces, with an emphasis on projects in rural communities, home to 60% of the Fijian population. The plan also includes the upgrade of key roads serving major commercial and industrial areas. These projects will better connect rural

communities, and are likely to encourage ancillary investment from private firms. Specifically, improved roads will result in greater efficiency for sugar producers, who account for one-third of Fiji's industrial activity, and will provide better service for the more than 300,000 tourists who visit the islands annually.

Natural Hazards

The *El Niño* weather system has given rise to severe cyclonic storms, which can be very disruptive. Fiji suffers from deforestation and soil erosion. There are periodic droughts that can seriously disrupt the economically important sugar crop. As in other island states, the greenhouse effect is a major concern due to rising sea levels.

Activism

Fiji has little experience of activism outside of the indigenous rights movement. This did touch foreign investors in the May 2000 coup when some resorts and an airline were briefly held hostage, but overall attitudes to foreigners are not generally hostile, and these incidents were resolved fairly amicably.

Practical Advice

- Most business travel in Fiji is done by boat or air, as there is less to attract the business traveller in the under-developed and more sparsely populated inland regions of most islands.
- During Fiji's 2000 coup, trouble was largely confined to a few regions, with most resorts only indirectly affected, illustrating how political events in the capital can have a delayed and muted impact in outlying islands.
- Fiji regards itself as something of a leader for the Pacific island nations, and national sensibilities should be respected.
- Visitors of Indian ethnicity may wish to keep to business or tourist areas. Danger is minimal, but attitudes outside these areas may be less friendly in some regions.

Useful Links

- Ministry of Labour and Industrial Relations: www.fiji.gov.fj/ministries/labour_indust_relation.shtml
- Immigration information: www.fiji.gov.fj/immigration/index.shtml
- Fiji Islands Trade and Investment Bureau: www.ftib.org.fj/

Fiji (Country Analysis) : Operational - Recent Updates

1. 23/10/2003 -  **COUNTRY** **Audit Proves Highly Critical of Fijian Government**(In Brief)
2. 03/10/2003 -  **COUNTRY** **Striking Airport Workers Could Disrupt Travel in Fiji**(In Brief)
3. 18/09/2003 -  **COUNTRY** **NGOs in Fiji Call for Boycott of Pacific Fishing Company Products**(In Brief)
4. 03/09/2003 -  **COUNTRY** **Asian Development Bank to Provide Capital for Fijian Infrastructure**(In Brief)
5. 27/08/2003 -  **COUNTRY** **Government Set to Restructure Fiji's Sugar Industry**(In Brief)
6. 27/08/2003 -  **COUNTRY** **Minister of Agriculture Found Guilty of Fraud in Fiji**(In Brief)
7. 01/08/2003 -  **COUNTRY** **Special Military Unit in Fiji Spied on Foreign Diplomats and Business People**(In Brief)
8. 15/07/2003 -  **COUNTRY** **Government of Fiji Creates Financial Intelligence Unit to Combat Illegal Activities**(In Brief)
9. 16/06/2003 -  **COUNTRY** **Government to Spend US\$60m on New Road Construction in Fiji**(In Brief)

10. 20/05/2003 -  **COUNTRY** **Government Introduces Draft Legislation to 'Regulate' Fijian Media**(In Brief)

11. 23/04/2003 -  **COUNTRY** **Government Moves to Offer More Jobs to Indigenous Fijians**(In Brief)

12. 07/03/2003 -  **COUNTRY** **Senior Ruling Politicians Implicated in Fiji Coup Trial**(Main Story)

13. 05/03/2003 -  **COUNTRY** **Court to Review Contentious Issue of Land Rights in Fiji**(In Brief)

14. 29/01/2003 -  **COUNTRY** **EU Reiterates Calls for Restructuring of Fijian Sugar Industry**(In Brief)

15. 13/01/2003 -  **COUNTRY** **Deposed Prime Minister Could Face Sedition Charges in Fiji**(In Brief)

Security Environment

Current as of Thu 18 Dec 2003

Security risks: 2.75

Crime rose following the 2000 coup, and there have been instances of foreigners being attacked. Nevertheless, the risk to tourists and investors is generally low, provided some precautions are taken. Political violence was common after the coup, when rioting and looting proliferated, but it has since diminished, especially since the general election in 2001. There is still the potential for ethnic conflict.

Key Security Issues and Areas to Avoid

- There are few real security threats in Fiji, and most Western nations have now removed travel warnings imposed at the time of the 2000 coup.
- However, visitors should be aware that during the coup, trouble was confined mostly to a few isolated regions, including the capital Suva, the town of Labasa in the north of the island of Vanua Levu and the region around the Monasavu hydro-electric dam.
- Foreigners are usually less at risk than locals, but have been the victims of a number of crimes, including rape and murder, since May 2000. Furthermore, since the start of 2003 there have been several cases where armed attackers appear to have deliberately targeted foreigners, possibly signalling a new trend.

Crime

The government is under pressure to crack down on crime, which has risen sharply since the 2000 coup. In January 2002 the *Daily Post* newspaper declared that 'violent crime has become a fact of life in Fiji', following a number of murders, rapes, burglaries and muggings. The ethnic Indian Fijian community is most at risk. For foreign businesses, provided basic precautions are taken, crime is generally not a major day-to-day hazard. That said, violent crimes occasionally take place. The local director general of the Fiji Red Cross Society, John Scott, and his New Zealander partner, Gregory Scrivener, were murdered in July 2001 in an attack which unsettled the foreign community in Nadi and Suva. A man was arrested and the police intimated that the action may have been related to the couple's private life. A US citizen was raped while staying at the Raintree lodge near Suva in July 2002; a local man was swiftly arrested for the crime. Similarly, at least two crimes where armed attackers have targeted foreigners have occurred since early 2003. In February 2003, a gang, armed with machetes, robbed an Air New Zealand flight crew while they were checking out of a hotel near Nadi international airport, while in May 2003, four men armed with knives targeted a Canadian lawyer in one of Fiji's main business hotels, robbing him in his room before escaping. Both attacks appear to have been well-planned, rather than opportunistic.

Extortion

There are no known reported cases of extortion involving foreign investors.

Kidnapping

There are no known reported cases of kidnapping involving foreign investors.

Terrorism

A series of bomb attacks in mid-August 1999 resulted in government claims that 'dissident elements' were trying to 'destabilise the country'. One blast occurred at an electricity sub-station in a suburb of the capital, Suva. The series of attacks was without precedent in Fiji and highlighted concerns of growing inter-ethnic friction ahead of the May 2000 coup.

In July 2002 reports emerged that two of the bombers involved in the 11 September 2001 attacks on the US stayed in Fiji for six months prior to travelling to the US. If true, this should not be taken as an indication of risk from terrorists. Fiji co-operates closely with foreign security agencies in the war on terror and on drugs, and Islamic fundamentalism is almost unheard of among the island's 60,000-strong Muslim community. Fears were raised in October 2002 when a report suggested that the country faced a potential major security threat because of corruption problems in the immigration department. The report stated that immigrants were paying

officials to circumvent checks, resulting in a situation where the department had no record of who was entering the country. It was suggested that such a situation could be exploited by an individual or group planning a terrorist attack.

Political and Ethnic Unrest

A coup attempt was launched in May 2000, which, although defeated eventually, achieved many of its goals. Several deaths were associated with the attempt, though there was less bloodshed than might have been expected, and all the deaths occurred outside parliament, where dozens of senior politicians were held at gunpoint. Rioting and looting, especially of Indo-Fijian businesses, was common in many parts of the islands, including the commercial and political capital Suva, during the days of political instability. Similar ethnic divisions prompted two previous coups, both in 1987 and both led by military strongman Sitiveni Rabuka. On neither occasion was there any significant bloodshed.

A military mutiny/coup attempt was also launched in November 2000. This was put down somewhat brutally, and several of those associated with the coup died in police captivity or in other suspicious circumstances. Army bases in the town of Labasa were seized by troops loyal to coup-leader George Speight in July 2000, but eventually came back under central military control. Speculation about a possible mutiny/coup attempt surfaced once again in December 2002. On this occasion the rumours began after the armed forces were placed on alert. Prime Minister Laisenia Qarase said that troops had been mobilised to prepare for mass celebrations to mark the end of the country's peacekeeping mission in the Middle East. However, rumours that military commander Rear Admiral Voreqe Bainimarama had been the target of a foiled assassination attempt continued to circulate.

Ethnic unrest is the major source of social and political instability in Fiji. Ethnic relations remain tense, following the racially-motivated May 2000 coup and the political policies and agendas that have been pursued since, particularly following the election of Qarase's ethnic-Fijian Soqosoqo Duavata Ni Leweanivanua Party in September 2001. Indian-Fijians remain at high risk of violent crime, some of which has been linked to business and labour disputes.

Foreigners were not generally targeted in the wake of the coup, but two New Zealand pilots were held briefly by coup supporters before being released unharmed. The dangers posed by political instability were highlighted when a bomb was discovered in the capital's main business hotel, the Central Suva, in September 2000. It is thought the device may have been linked to the trial of George Speight, which was under way at the time.

External Threats

Law and order in Fiji could decline if arms or explosives spread from less stable regions in the Pacific - notably the Solomon Islands and Bougainville Island, off Papua New Guinea. Armaments could effectively turn the islands' ethnic tensions into a civil war, but this remains an unlikely possibility. Fiji is not engaged in any territorial disputes.

Useful Links

- US State Department Travel Warnings: http://travel.state.gov/travel_warnings.html
- UK Foreign Office Travel Advice: <http://www.fco.gov.uk/travel/>

Fiji (Country Analysis) : Security - Recent Updates

1. 04/12/2003 -  **COUNTRY** **Tourism Businesses in Fiji Fear Backlash from Islamic Extremists**(In Brief)

2. 05/09/2003 -  **COUNTRY** **Police Commissioner of Fiji Calls for New Zealand-Led Investigation of 2000 Coup**(In Brief)

3. 04/09/2003 -  **COUNTRY** **Australia Appoints National Security Adviser to Fiji** (In Brief)

4. 28/08/2003 -  **COUNTRY** **Military Forces in Fiji Lose Court Appeal Against Government Financial Audit**(In Brief)

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5. 01/08/2003 -  **COUNTRY** **Special Military Unit in Fiji Spied on Foreign Diplomats and Business People**(In Brief)
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6. 21/07/2003 -  **COUNTRY** **Unrest Possible as Supreme Court Orders Multi-Party Cabinet in Fiji**(Main Story)
-
7. 16/07/2003 -  **COUNTRY** **Fiji Faces Unrest Possible in Wake of New Indictments and Upcoming Court Ruling**(In Brief)
-
8. 09/07/2003 -  **COUNTRY** **Police in Fiji Make Largest Ever Drugs Haul**(In Brief)
-
9. 04/07/2003 -  **COUNTRY** **Sect Members Arrested in Fiji, Over Suspected Disruption of South Pacific Games**(In Brief)
-
10. 30/06/2003 -  **COUNTRY** **Life Sentences for Leaders of 2000 Fiji Coup**(In Brief)
-
11. 18/06/2003 -  **COUNTRY** **Security Tightened in Anticipation of Supreme Court Decision**(In Brief)
-
12. 30/05/2003 -  **COUNTRY** **Rising Crime Leads to Debate of Harsher Punishment in Fiji**(In Brief)
-
13. 08/05/2003 -  **COUNTRY** **Vice-President of Fiji to Face Coup Charges**(In Brief)
-
14. 05/05/2003 -  **COUNTRY** **Armed Gang Target Canadian Businessman in Fiji**(In Brief)
-
15. 22/04/2003 -  **COUNTRY** **Tensions Between Government, Military Rise in Fiji, Prompting Renewed Coup Fears**(In Brief)
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