
COUNTRY REPORT

Pacific Islands:

Fiji

New Caledonia

Samoa

Solomon Islands

Tonga

Vanuatu

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3rd quarter 1999

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The Economist Intelligence Unit

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"n/a" means not available; "-" means not applicable

Contents

3	Summary
	The region
5	Outlook for 1999-2000
5	Review
	Fiji
9	Political structure
10	Economic structure
11	Outlook for 1999-2000
13	Review
	New Caledonia
18	Political structure
19	Economic structure
20	Outlook for 1999-2000
	Samoa
26	Political structure
27	Economic structure
28	Outlook for 1999-2000
29	Review
	Solomon Islands
32	Political structure
33	Economic structure
34	Outlook for 1999-2000
35	Review
	Tonga
40	Political structure
41	Economic structure
42	Outlook for 1999-2000
43	Review
	Vanuatu
47	Political structure
48	Economic structure
49	Outlook for 1999-2000
50	Review

Other island countries

- 54 Cook Islands
- 55 Marshall Islands
- 55 Nauru

- 57 Quarterly indicators and trade data

List of tables

- 24 New Caledonia: nickel exports
- 24 New Caledonia: tourist arrivals, 1999
- 25 New Caledonia: hotel accommodation
- 29 Samoa: gross domestic product, Jan-Jun
- 30 Samoa: government finances
- 38 Solomon Islands: external debt
- 43 Tonga: government finances
- 44 Tonga: export performance
- 45 Tonga: balance of payments
- 51 Vanuatu: government finances
- 52 Vanuatu: trends in tourism
- 57 Fiji: quarterly indicators of economic activity
- 58 Samoa: quarterly indicators of economic activity
- 58 Solomon Islands: quarterly indicators of economic activity
- 59 Tonga: quarterly indicators of economic activity
- 59 Vanuatu: quarterly indicators of economic activity
- 60 Pacific Islands: direction of trade
- 61 Pacific Islands: main commodities exported

List of figures

- 12 Fiji: gross domestic product
- 12 Fiji: Fiji dollar real exchange rates
- 25 New Caledonia: tourist arrivals
- 28 Samoa: gross domestic product
- 28 Samoa: Tala real exchange rates
- 34 Solomon Islands: gross domestic product
- 34 Solomon Islands: Solomon Islands dollar real exchange rate
- 42 Tonga: gross domestic product
- 42 Tonga: Tonga dollar real exchange rates
- 46 Tonga: tourist arrivals
- 49 Vanuatu: gross domestic product
- 49 Vanuatu: vatu real exchange rates
- 52 Vanuatu: tourist arrivals

July 24th 1999 **Summary**

3rd quarter 1999

- The region** Outlook for 1999-2000: The Pacific Islands will probably begin to benefit from the gradual recovery of major Asian economies. However, the devastating impact of the Asian economic downturn on the region's small island economies (SIEs) has sharpened awareness of the need to pursue structural reforms and to boost regional co-operation and integration where possible.
- Review: Despite broad consensus on the importance of economic reforms, South Pacific Forum economic ministers have warned that measures must be tailored to SIEs' differing requirements. The importance of good governance and enhanced transparency and accountability was also stressed by ministers at a meeting in Fiji. Discussions have been held between Forum trade ministers on the development of a free-trade area, but the inclusion of Australia and New Zealand has proved controversial. Micronesian islands have announced plans to protect marine resources. The Forum has sought to strengthen ties with France.
- Fiji** Outlook for 1999-2000: The FLP government, led by Mahendra Chaudhry, will struggle to find its feet in the wake of the defeat of the SVT in the election in May. Mr Chaudhry will be careful to ensure that parity between ethnic Fijians and Indo-Fijians is preserved at all levels of government. However, ethnic Fijians will remain apprehensive as they come to terms with the election of Fiji's first Indian prime minister. Real GDP is likely to recover in 1999-2000 after two years of contraction, but economic expansion will probably be insufficient to render affordable the Chaudhry administration's populist economic policies.
- Review: Post-election analysis has revealed that the FLP victory was facilitated by the solid support of the Indo-Fijian community and considerable backing from moderate ethnic Fijians. The former prime minister, Major-General Sitiveni Rabuka, has argued that voting occurred along ethnic lines, contravening the spirit of the new constitution. He also claimed that Fijian nationalists were planning a coup after Mr Chaudhry was inaugurated. The Chaudhry government has begun to outline its economic policies. The government has debated opening a trade mission in Geneva. ADB estimates suggest real GDP growth contracted by 3.9% in 1998 and that average inflation rose to 5.7% in 1998. Visitor arrivals reached record levels in March. Air Pacific has announced unprecedented profits.
- New Caledonia** Outlook for 1999-2000: Following the overwhelming "yes" vote in the referendum on the Nouméa Accords, the RPCR and the FLNKS will reassess their positions as the territory enters the 14-year period 2000-2014 before the referendum on independence. It remains to be seen whether the FLNKS can consolidate its position in the wake of the alliance concluded between the RPCR and the FCCI.
- Review: The mayor of Nouméa, Jean Leques, has been elected president of the territorial Congress. Provincial election results have been challenged in the Loyalty Islands. Protestors marched on Nouméa in July in support of improved conditions for workers. France has appointed a new High Commissioner to New Caledonia. Electoral legislation has been drafted. Tourist arrivals have fallen.

-
- Samoa Outlook for 1999-2000: Political tensions will ease as Tuilaepa Sailele Malielegaoi's incumbency becomes more widely accepted, especially among the upper echelons of the ruling HRRP, in the wake of the death of the former prime minister, Tofilau Eti Alesana. The government will proceed with economic reforms, and Samoa remains best placed among Pacific Islands to reap the benefits of the upturn in several Asian economies
- Review: Mr Tuilaepa has released an official estimate for real GDP growth in 1998 of 1.6%, although ADB data are less optimistic. The government has loosened fiscal policy, announcing a series of tax cuts in the 1999/2000 budget. Polynesian Airlines has remained profitable for the fourth consecutive year.
- Solomon Islands Outlook for 1999-2000: It remains to be seen whether the Ulufa'alu administration will manage to implement a peace agreement between Guadalcanal islanders and Malaitans, brokered by the Commonwealth. International donors will remain supportive of the deal, provided economic reforms continue.
- Review: General Rabuka, the former Fijian prime minister and special envoy of the Commonwealth secretary-general, Chief Emeka Anyaoku, has brokered a peace deal between Guadalcanal and Malaita. New policing arrangements are part of the deal. The Central Bank has begun to restructure the securities market.
- Tonga Outlook for 1999-2000: Politics will remain uncertain until King Taufa'ahau Topou IV clarifies his plans for the government. It is still unclear whether Crown Prince Tupouto'a will succeed Baron Vaea of Houma as prime minister.
- Review: A new parliamentary speaker has been appointed. The budget surplus is forecast to shrink to 0.9% of GDP in 1999/2000. The ADB remains pessimistic about the prospects for economic recovery. A tourism marketing plan has been completed with Australian assistance.
- Vanuatu Outlook for 1999-2000: While the prime minister, Donald Kalpokas, clearly remains committed to the Comprehensive Reform Programme (CRP), it remains to be seen whether schisms in the VP-UMP coalition will thwart concrete progress on economic and structural reforms.
- Review: The agriculture minister has moved to the lands portfolio. The ADB has acknowledged progress made on the CRP, but has warned that considerable challenges lie ahead. Air Vanuatu's sole aircraft remains grounded in Sydney, devastating the airline's finances and having serious knock-on effects on tourism.
- Other island countries Sir Geoffrey Henry has been sworn in for another term as prime minister of Cook Islands. The ADB has released a report on the Cook Islands economy, warning that a full recovery is unlikely before 2003. The government of Marshall Islands is expecting revenue from foreign fishing vessels operating in its waters to continue to rise in 1999/2000. Legislation regarding the rehabilitation of Nauru after years of phosphate mining has been implemented.
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The region

Outlook for 1999-2000

Regional integration will remain high on the agenda

The indications are that the small island economies (SIEs) of the Pacific region have begun to benefit from the recuperation of the larger Asian economies, notably South Korea, Japan, Thailand, and Malaysia. However, the impact of the Asian financial and economic crisis, and the continued tenuousness of the recovery in some cases, has heightened awareness in the region of the vulnerability of SIEs, prompting more determined moves towards regional integration and co-operation. Unprecedented co-operation in the area of information technology and telecommunications, aviation, trade liberalisation, structural reform, and environmental policies can be expected in the forecast period. Much attention will be focused on the negotiation of a successor agreement to the Lomé Convention—the trade protocol between the EU and the Africa, Caribbean and Pacific (ACP) group of states—which expires in 2000. The secretary-general of the South Pacific Forum (SPF), Noel Levi, is adamant that a cohesive response is crucial to this and other issues affecting the Pacific region, and hence he will seek to ensure that the SPF spearheads collaboration and interaction at the bilateral and multilateral levels.

Review

SPF economic ministers question the suitability of reforms—

The annual meeting of South Pacific Forum (SPF) economic ministers in the Samoan capital, Apia, in early July focused on the question of economic reform, underlining the need to tailor reform measures to local requirements and warning of the danger of imposing broad-brushed reform packages at a regional level, given the idiosyncrasies of diverse small island economies (SIEs). The inappropriateness of some economic reforms designed and spearheaded by international financial institutions has become a familiar theme—similar reservations were expressed at the SPF annual summit in the Federated States of Micronesia (FSM) in 1998 (4th quarter 1998, page 6)—and the Marshall Islands government was especially vociferous about the perceived inappropriateness of “orthodox” economic reform measures implemented by the Asian Development Bank (ADB), the most active multilateral organisation in the Pacific Islands.

—and familiar rhetoric is espoused

The press briefing following the conference was replete with familiar rhetoric about the need for good governance, transparency and accountability, and the importance of ensuring that the social and political implications of public-sector reforms were taken into account. In addition, ministers stressed that domestic capacity constraints must be considered when reform programmes are designed, and that the functioning of local social safety nets must be taken

into account through consultation with formal and informal service providers. The often sensitive issue of foreign technical assistance was also broached. It was recognised that while successful implementation of reforms often required significant levels of foreign technical assistance, greater efforts were needed to ensure that local capacity and skills were developed.

A regional free-trade area is on the agenda—

In early June Forum trade ministers agreed to develop a regional free-trade area (FTA), beginning with the introduction of tariff and duty reductions from 2001. Despite reservations on the part of some member states about the domestic implications of trade liberalisation, a consensus was reached among ministers that the Pacific Islands region could not afford to jeopardise its position in international trade negotiations, particularly with the World Trade Organisation (WTO). Nor could it ignore the trend towards the globalisation of world trade by failing to enhance regional co-ordination and trade mechanisms. At the meeting in Suva, Fiji it was decided that a draft agreement on a regional FTA would be considered at a trade ministers' meeting in 2000. Provisions for extending the FTA to Australia and New Zealand "in appropriate ways"—a highly sensitive issue in the region—would also be discussed. Among the main areas to be considered in the draft document are:

- extension of the FTA to French and US Pacific island territories, including French Polynesia, New Caledonia, Wallis and Futuna, American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands;
- inclusion of services as well as goods in the FTA;
- integration of the FTA (in the longer term) into the Closer Economic Relations Treaty (CERT) of 1973 concluded between Australia and New Zealand;
- market access issues between Forum member states and the US and Japan;
- the social implications of the FTA; and
- measures geared to trade facilitation.

Forum trade ministers acknowledged the ground-breaking progress made on trade liberalisation by the so called Melanesian Spearhead Group (MSG)—comprising Fiji, the New Caledonian coalition, Front de libération nationale kanak socialiste (FLNKS), Papua New Guinea, Solomon Islands, and Vanuatu—adding that the MSG's efforts where regional commerce was concerned would provide a solid framework for a regional FTA. The MSG clearly remains committed to its own FTA regardless of progress made at the Forum level. A meeting on the issues was held by MSG leaders in Port Vila, Vanuatu, in July. It also emerged that arrangements will be made for the accession of New Caledonia as well as other Pacific islands and territories to the MSG free-trade area.

—and a Forum trade delegation is to be established in Geneva—

The secretary-general of the SPF, Noel Levi, announced that a Forum delegation is to be established in Geneva in order to inform and prepare Forum members for the upcoming round of WTO-sponsored multilateral trade negotiations. The delegation will serve as permanent representation and as a working group to develop common positions among Forum members to enhance their

positions for the forthcoming so-called millennium-round negotiations. According to Mr Levi, the establishment of the delegation will help to reduce ignorance in the region about developments and trends in international trade.

—but the inclusion of Australia and New Zealand proves problematic—

Not surprisingly, as the largest donor and trading partner in the region, Australia argued that a Pacific Islands FTA comprising only SIEs would lack the critical mass to develop effectively. Nominally, such a trade bloc would encompass around 6m islanders, however the Australian representation pointed out that two-thirds of the inhabitants, most of which reside in Papua New Guinea, are subsistence farmers for whom international trade is largely irrelevant. The counter-argument presented by SIEs was that the inclusion of the region's two developed economies, Australia and New Zealand, would have grave revenue implications for most SIEs in the form of lost import tariffs. Moreover, complications could arise from existing arrangements with island governments, such as the "free association" arrangements between the US and the former US trust territories—the Federated States of Micronesia (FSM), Marshall Islands and Palau.

—while fears of revenue losses abound

A research document commissioned by the Forum secretariat and presented at the trade ministers' meeting indicated that despite considerable concern among SIEs about the impact of trade liberalisation on revenue, such losses were overstated and could be offset in most cases with the introduction of a broad-based consumption tax. The document drew conclusions from existing free-trade agreements between Australia and New Zealand and the EU, along with the use of most favoured nation (MFN) status. In order to replace revenue losses from the abolition of import tariffs and duties, the document advocated the introduction of value-added tax (VAT) at a uniform rate (with limited exceptions) by all Forum members, covering goods and services throughout the production chain. By the same token, it was acknowledged that imports comprise a crucial component of the tax base in SIEs, particularly because revenue collection costs on imports are low compared with other forms of taxation.

The EU proposes a successor to the Lomé Convention—

At a subsequent meeting in June, trade ministers from the eight Pacific Islands signatories to the Lomé Convention—Fiji, Kiribati, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu—considered an EU proposal for a regional economic partnership agreement (REPA) to come into effect in 2005. The REPA envisages a 15-year transition period, during which the Lomé Convention would be phased out and replaced by a more far-reaching agreement covering a wider range of trade and trade-related issues. Other Africa, Caribbean, and Pacific (ACP) group states seeking clarification of future commercial relations with the EU include the Cook Islands, FSM, Nauru, Niue, Palau and the Marshall Islands.

Forum trade ministers refused to give immediate endorsement to the REPA proposal, arguing that its implications went far beyond trade relationships, and would have to comply with the relevant provisions under the General Agreement on Tariffs and Trade (GATT) and WTO regulations. Ministers noted that the impact of REPA arrangements on third parties such as Australia, New Zealand and the US would also require scrutiny, adding that the proposal seemed to increase the EU's access to the region's markets without providing reciprocal benefits.

- while telecoms becomes an issue with the US
- During a meeting of Forum communications ministers in Suva in July, concerns were raised about the impact on island telecommunications authorities of the decision by the US's Federal Communications Commission (FCC) to establish benchmark rates for connection charges. The FCC has been pressing for connection charges to be slashed to 19 cents per unit, whereas the real cost of providing the service in some SIEs is more than 50 cents per unit. Concern was also expressed about the arrangements for costing internet access, and ministers pledged to promote equitable pricing and access throughout the region.
- Micronesian islands move to protect marine resources
- Co-operation and policy co-ordination between Micronesian SIEs has gathered momentum in recent months in a bid to protect the subregion's vast marine resources. A series of agreements are due to be signed between Micronesian governments, providing for joint policing of their 200-mile exclusive economic zones (EEZs), which cover what many US and Asian fishermen consider to be the Pacific Ocean's prime fishing waters. The governments of Palau and FSM have approved in principle an agreement on sharing of information on fisheries and conducting joint surveillance and law enforcement patrols. The Marshall Islands administration has also indicated its intention to accede to the agreement. The Marshall Islands already provides surveillance services for protection of fish stocks in Nauru's EEZ, as Nauru has no patrol vessel. Considerable levels of illegal fishing by Asian vessels are believed to occur in Nauruan waters, which border the Marshall Islands. According to the Marshall Islands police commissioner, George Lanwi, the country is hoping to conclude similar agreements with FSM, Palau, and Kiribati.
- Mr Levi seeks to strengthen ties with France
- Opportunities for closer economic co-operation between SPF member states and French possessions in the Pacific—New Caledonia, Wallis and Futuna, and French Polynesia—were discussed at a meeting in Paris in mid-April between Mr Levi and the French secretary of state for overseas territories, Jean-Jacques Queyranne. Mr Levi stressed that the future integration of New Caledonia and French Polynesia into the SPF would deliver mutual benefits. Talks were also held on the development of the relationship between French territories in the Pacific and future adherents to the FTA. Meanwhile, Mr Levi thanked the French government on behalf of the SPF for its support in negotiations with the EU over a successor agreement to the Lomé Convention.

Fiji

Political structure

Official name	Republic of Fiji Islands	
Form of state	Parliamentary	
The executive	The president, chosen by the Great Council of Chiefs, appoints the prime minister, who selects the cabinet	
Head of state	The president, Ratu Sir Kamisese Mara	
National legislature	Bicameral parliament comprising an appointed upper house or Senate (34 members) and an elected House of Representatives (71 members). The 1997 constitution abolished entrenched dominance of parliament by indigenous Fijians and removed the provision requiring that the prime minister be an indigenous Fijian. There is universal suffrage for all citizens aged over 21. Voting is compulsory and preferential.	
Regional government	Local administration is on a divisional basis with separate councils for urban areas. There is a separate local government system for the indigenous Fijian population	
Legal system	Magistrates' courts, High Court and Court of Appeal with the Supreme Court at the apex	
National elections	May 1999; next election due in 2004	
National government	Mahendra Chaudhry, leader of the FLP, became prime minister in May 1999, toppling the coalition government led by the SVT, led by Major-General Sitiveni Rabuka. Mr Chaudhry leads a coalition government comprising the FLP, the FAP, the PNU and the VLVP.	
Main political parties	Fiji Labour Party (FLP); Fijian Political Party (Soqosoqo ni Vakavulewa ni Taukei, SVT); Christian Fellowship Party (Veitokani ni Lewenivanua Vakarisito Party, VLVP); National Federation Party (NFP); General Voters' Party (GVP); Fijian Association Party (FAP); United General Party (UGP); Party of National Unity (Panu)	
Other ministers	Prime minister & minister for finance, public enterprises, sugar, industry & information	Mahendra Chaudhry (FLP)
	Deputy prime minister & minister for foreign affairs & external trade	Tupeni L. Baba (FLP)
	Deputy prime minister & minister for Fijian affairs	Adi Kuini Vuikaba Speed (FAP)
	Agriculture, fisheries & forestry	Pesci Waqalevu Bune (VLV)
	Attorney-general & minister for justice	Anand Kumar Singh (FLP)
	Commerce, business development & investment	Anup Kumar (FLP)
	Communications & civil aviation	Meli Bogileka (Panu)
	Education	Pratap Chand (FLP)
	Health	Isimeli Jale Cokanasiga (FAP)
	Home affairs	Joji Uluinakauvadra (FAP)
	Labour & industrial relations	Ratu Tevita Momoedonu (FLP)
	Lands, ALTA & mineral resources	Ratu Mosese Volavola (FLP)
	National planning, local government, housing & environment	Ganesh Chand (FLP)
	Regional development & multi-ethnic affairs	Manoa Bale (FLP)
	Tourism & transport	Adi Koila Mara Nailatikau (VLV)
	Women, culture & social welfare	Lavenia Wainiqolo Padarath
	Works & energy	Shiu Sharan Sharma (FLP)
	Youth, employment & sports	Ponipate Lesavua (Panu)

Economic structure

Latest available figures

Economic indicators	1994	1995	1996	1997	1998
GDP at current prices ^a (F\$ m; factor cost)	2,269	2,351	2,524	3,102	3,129
Real GDP growth ^a (%)	3.9	2.1	3.1	-1.8	-4.0
Consumer price inflation (av; %)	0.6	2.2	3.1	3.4	5.7
Population (m)	0.78	0.80	0.81	0.82	0.84
Exports fob ^b (US\$ m)	490.2	519.6	655.2	587.6 ^a	n/a
Imports fob ^b (US\$ m)	719.7	761.4	837.7	964.3 ^a	n/a
Current-account balance ^b (US\$ m)	-112.8	-112.7	10.2	n/a	n/a
Reserves excl gold (US\$ m)	273.1	349.0	427.2	360.3	385.4
Total external debt (US\$ m)	283.9	250.4	217.4	213.4	n/a
Debt-service ratio, paid (%)	8.6	6.0	3.6	3.1	n/a
Exchange rate (av; F\$:US\$)	1.464	1.406	1.403	1.444	1.987

July 16th 1999 F\$1.9744:US\$1

Origins of gross domestic product 1996	% of total	Components of gross domestic product 1994	% of total
Agriculture, forestry & fishing	19.4	Private consumption	65.3
Mining	3.3	Government consumption	16.6
Manufacturing	14.8	Gross investment	10.7
Construction	4.5	Change in stocks/statistical discrepancy	6.1
Electricity & water	4.1	Exports of goods & services	58.9
Transport & communications	12.6	Imports of goods & services	-57.5
Wholesale & retail trade, restaurants & hotels	16.5	GDP at market prices	100.0
Other services	32.3		
Total incl imputed service charge	100.0		

Principal exports fob 1996 ^a	US\$ m	Principal imports cif 1996 ^a	US\$ m
Sugar	215.1	Manufactured goods	255.0
Garments	135.4	Machinery	235.6
Gold	58.1	Food	139.0
Fish	37.6	Mineral fuels	132.0
Timber	32.5	Total incl others	986.2
Total domestic exports incl others	585.2		

Main destinations of exports 1997 ^a	% of total	Main origins of imports 1997 ^a	% of total
Australia	33.1	Australia	47.5
UK	14.2	New Zealand	16.1
US	13.6	Singapore	6.4
New Zealand	4.9	Japan	5.4
		US	4.0

^a National figures. ^b IMF balance-of-payments figures.

Outlook for 1999-2000

The Chaudhry government
is finding its feet—

Since the resounding victory of the ruling Fiji Labour Party (FLP) coalition in the national election on May 8th-15th, which resulted in the election of the first Indo-Fijian prime minister, Mahendra Chaudhry, the government has acted quickly to define the parameters of its economic and social policies, and certainly appears more confident than during the tenuous period immediately after the poll. However, after 12 years in opposition, the lack of experience and cohesion of the FLP and the other members of the so called People's Coalition—the Fijian Association Party (FAP), the Party of National Unity (Panu), and the Veitokani ni Lewenivanua Vakarisito party (VLV)—has spawned some hasty policy decisions and public confrontations that will have to dissipate in the coming months. Initially, the Chaudhry administration seemed unable to cope with sharp criticism from the media, which was as vociferous as that against the outgoing Fijian Political Party (Soqosoqo ni Vakavulewa ni Taukei, SVT), led by the former prime minister, Major-General Sitiveni Rabuka. Indeed, the government threatened to introduce ominous though undefined legislation designed to curb perceived "excesses"; however, the media soon moderated its approach. Tensions have now largely abated, although it will be some time before the Chaudhry government finds its feet where public relations are concerned.

—and sensitivity to ethnic
issues will be required

Despite General Rabuka's platitudes about the grave implications of the election result for communal relations—the former prime minister maintains that islanders voted along ethnic lines, against the spirit of the new constitution—the indications are that Mr Chaudhry's explicit overtures to the ethnic Fijian community by including them in senior government positions has largely assuaged fears of Indian domination. Indeed, the majority of cabinet ministers are ethnic Fijians, including several of high chiefly status, and Mr Chaudhry has gone to great lengths to assign two posts to the Christian VLV party, even though it is not part of the People's Coalition. Although residual resentment continues to fester among a core of extremist Fijians, as long as the Chaudhry administration continues to demonstrate sensitivity to the exigencies of ethnic parity at all levels of government, there is little reason to expect an escalation of tensions between ethnic and Indo-Fijians.

Preparation of the 2000
budget is under way—

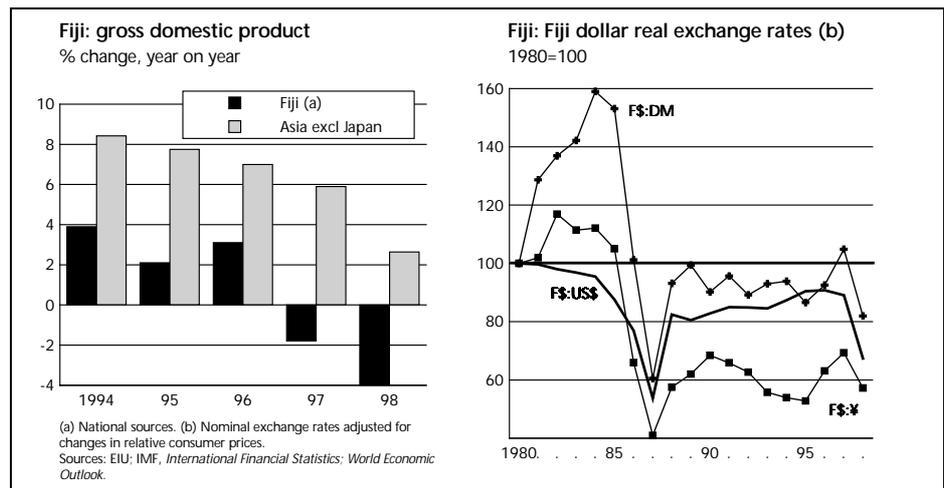
Mr Chaudhry's cabinet began to prepare the 2000 budget soon after the election, and is planning to release a "strategic policy statement" well before a draft budget is presented to parliament on November 5th. High on the agenda will be measures to boost foreign direct investment (FDI) and rekindle domestic investment, which has been thwarted in recent years by high interest rates. Other familiar rhetoric has been espoused by the People's Coalition, including references to the need to reduce living costs, provide cheaper housing finance, improve education and employment prospects, and ensure better treatment of pensioners. Assuming that the economy rebounds in line with official projections (see below), achieving these goals is not impossible. However, the government has reduced its room for manoeuvre by immediately implementing staunch labourite employment policies. The decision following

the election to reverse retrenchments at several top-heavy, over-burdened parastatals in desperate need of restructuring, combined with the FLP's announcement that a mass privatisation programme is not on the cards, has in effect committed Mr Chaudhry to maintaining current expenditure on staff at lossmaking state enterprises, while forgoing the revenue that would have accrued from divestitures, despite accompanying redundancies.

It remains to be seen whether the Chaudhry administration will manage to stick to such policies, especially if the economy does not begin to pick up. However, assuming that the economy recovers, economic policies of populist inspiration can be expected—indeed, the prime minister has already indicated that value-added tax (VAT) should not be applied to basic foodstuffs. It is also too soon to tell how the international donor community and the Bretton Woods institutions will react to such policies. When the revenue implications become apparent, the World Bank and the IMF, along with other multilateral and bilateral organisations, may be less inclined to release fresh funds.

—and the prospects for economic recovery are bright

The prospects for economic expansion in 1999-2000 are bright, although the familiar caveat must be added that this assumes favourable weather conditions. Real GDP growth will be underpinned by healthy expansion in the sugar and tourism sectors. The Asian Development Bank (ADB) projects that growth will rebound to 2.7% in 1999, based on a 5% increase in visitor arrivals, a 5% expansion in the construction sector from hotel investments and public infrastructure projects, a 10% rise in garment production, and a 25% jump in mining output. Similar or higher levels of growth should be achieved in 2000. Beyond 2000, however, it is highly unlikely that the arrangements that replace the Lomé Convention will provide the sugar industry with access to markets and fixed prices anywhere near as favourable as the current ones. Even if the sugar sector is radically restructured and modernised, it is unlikely to remain the cornerstone of the Fijian economy in the next millennium. The government has yet to reveal concrete plans for economic diversification, but it is safe to assume that the tourism sector will be identified as the driving force for the economy in the coming decades.



Review

The political scene

The Labour Party wins a landslide victory in the general election

Following the landslide victory by the Fiji Labour Party (FLP) in the general election on May 8th-15th, the new prime minister, Mahendra Chaudhry, was inaugurated with a strong parliamentary majority—the FLP secured 37 of the 71 seats in the House of Representatives (2nd quarter 1999, page 14)—a contingency few thought possible under the new constitution, which seeks to ensure racial equality. The other parties belonging to the so-called People's Coalition—the Fijian Association Party (FAP) and the Party of National Unity (Panu)—won ten and four seats respectively, and have received two ministerial positions. The Veitokani ni Lewenivanua Vakarisito Party (VLVP) was subsequently invited to join the coalition. As the extent of the victory became clear and the Fijian Political Party (Soqosoqo ni Vakavulewa ni Taukei, SVT), led by the former prime minister, Major-General Sitiveni Rabuka, acknowledged defeat, the political scene grew tense, following the FLP's unilateral decision that Mr Chaudhry, an Indo-Fijian, would become prime minister. Tensions eased as the president, Ratu Sir Kamisese Mara, unequivocally endorsed Mr Chaudhry as prime minister.

Given the scale of the SVT's defeat, in the weeks immediately following the election there was fear of a backlash from extremists in the Fijian community. Indeed, rumours circulated that the president planned to delay the formal presentation of Mr Chaudhry as prime minister for this reason. The situation was aggravated by the FAP's sudden decision to withdraw from the coalition several days after the election (it was dissatisfied with its paltry number of cabinet portfolios and, more specifically, had wanted the crucial home affairs post), however, the party was soon persuaded to return to the alliance.

The outgoing SVT only managed to secure eight seats. It campaigned in a coalition with the National Federation Party (NFP), which failed to win any seats—even the NFP leader, Jai Ram Reddy, lost his constituency—while the third member of the partnership, the United General Party (UGP), gained two seats.

Indo-Fijian support for the FLP is solid—

Mr Chaudhry's FLP-led coalition enjoyed staunch support from the Indo-Fijian community, but interestingly, it also managed to secure considerable support from ethnic Fijian voters. The FLP secured all 19 Indian communal constituencies and 18 of the 25 open constituencies. Panu and the FAP won 13 of the 25 Fijian communal seats, while the SVT managed only five. The NFP, and Mr Reddy in particular, paid a heavy price for having supported the more racially balanced politics that General Rabuka eventually came to espouse in the late-1990s, although the party has vowed to rebuild itself. The crushing defeat of the NFP comes after almost half a century in which it has been the dominant political force of the Indian community. Surprisingly, support for the NFP was weakest in its traditional stronghold, and where it was originally founded, the sugarcane fields.

—but General Rabuka questions the new era of racial harmony—

Although General Rabuka accepted the election results unequivocally, he expressed his disappointment, somewhat ironically, that islanders had failed to abandon racial politics, undermining the spirit of the new constitution. Another interpretation of the election would be that it was the very expression of the new, if tenuous, spirit of ethnic equality, given the extent of ethnic-Fijian support for an Indo-Fijian prime minister. If the election undermined anything, it was the political power of the traditional chieftancies. The Great Council of Chiefs probably realised that its failure to endorse the election result would have plunged the country into chaos. However, ever since its endorsement of Mr Chaudhry, there has been a growing acknowledgement, if only tacit, that traditional power structures have increasingly been subjugated to modern political institutions, and that the role of the Council will only deteriorate in the coming years.

—claiming that Fijian nationalists planned a coup—

According to General Rabuka, ethnic Fijian nationalists had tried to garner support for a military coup to remove the Chaudhry government shortly after the election. However, overtures to certain senior army officers were apparently “not well received”, as circumstances had changed so greatly since 1987, when the former prime minister led two coups. On a contradictory note, General Rabuka heralded the appointment of the first Indo-Fijian prime minister as a historic development, although he warned that it would test the country’s fledgling democracy and associated political institutions to the full.

—despite a strong Fijian presence in the Chaudhry government

In response to General Rabuka’s assertions, Mr Chaudhry emphasised the multiracial character of his government, especially as two prominent ethnic Fijians were appointed as deputy prime ministers. The foreign affairs portfolio was assigned to Tupeni Baba, an FLP member, while Adi Kuini Vuikaba Speed was made minister for Fijian affairs. In that capacity, she has also become chairwoman of the Great Council of Chiefs. Mrs Adi Kuini’s appointment was particularly sensitive because she is the widow (since remarried) of Timoci Bavadra, the prime minister in the FLP-NFP coalition government ousted in the military coup led by General Rabuka in 1987.

The former governor-general of New Zealand is honoured

The former governor-general of New Zealand, Sir Paul Reeves, was made an Honorary Companion of the Order of Fiji for his role in reviewing the 1990 constitution, which was drawn up after the two coups of 1987. Sir Paul was also the chairman of the Constitutional Review Commission, which laid the groundwork for the new constitution.

Economic policy and the economy

The Chaudhry government makes some rapid policy decisions—

On the economic policy front, Mahendra Chaudhry’s government made some immediate decisions after the election. Extensive retrenchments, which were announced at the Civil Aviation Authority of Fiji (CAAF) on the eve of the election—CAAF had been wracked by industrial troubles during the election campaign as unions resisted restructuring plans—were immediately reversed. A proposed reform programme for the Fiji Electricity Authority (FEA) and the Fiji Sugar Corporation (FSA), both large employers, were also frozen. Mr Chaudhry

explained that the divestiture of public enterprises was not necessary, provided that they were profitable; however, he indicated that reorganisation might be required. To the surprise of the private sector, he also declared that there would be no redundancies in unprofitable public entities either, although reorganisation would definitely be required. Independent economic analysts were somewhat perplexed by Mr Chaudhry's assertions, given the clear subjugation of crucial public-sector reforms to the exigencies of domestic political expediency (see Outlook).

The government hastily implemented another election promise by reinstating workers to the Housing Authority who had been made redundant shortly before the poll. According to the housing minister, Ganesh Chand, housing remains an acute social problem in Fiji, and therefore all policies need to be reviewed. Mr Chand cited the squatter settlements that had emerged on the outskirts of all major urban centres in Fiji. Of the estimated 25,000 squatters in Fiji, about half are estimated to live around the capital, Suva. According to Mr Chand, high interest rates are a main factor in the Housing Authority's failure to deliver on its charter to provide housing to low-income families. He argues that affordable housing will be beyond reach for ordinary workers until interest rates are reduced. While the reduction of interest rates will take some time, Mr Chand announced an immediate measure to reduce the cost of housing: the removal of 10% value-added tax (VAT) on first home purchases.

—and emphasises
commercialisation

The minister of agriculture, fisheries and forestry, Pesci Waqalevu Bune, emphasised to his senior officers that Fijian agriculture must move from subsistence to commercial production in order to cease importing millions of dollars worth of food products that could be produced locally. Government policy in the agricultural sector is to focus on stimulating employment in the farming sector and raising farmers' cash flows by improving their access to credit. Mr Bune clarified that the Chaudhry government was not pursuing import substitution policies, but that it sought to boost local production by diversifying the agricultural sector. Marketing of produce was also identified as a main area for development.

A trade mission may be
opened in Geneva

The government is considering opening a diplomatic mission in Geneva to support its international commercial interests. The minister for foreign affairs and external trade, Tupeni Baba, indicated that although the South Pacific Forum (SPF, see The region) had decided to establish representation in Geneva, it intended to use consultants to look after its interests. The Fijian government, in contrast, had decided that its interests would be best served by direct representation in both multilateral and bilateral matters.

Meanwhile, Mr Baba confirmed that the new government was fully aware of its obligations to liberalise trade under World Trade Organisation (WTO) directives, but was also mindful of the potential impact on employment in Fiji. The Chaudhry administration has committed itself to striking a delicate balance between its international commercial commitments and domestic employment policy, particularly given the need to reduce unemployment and poverty.

The ADB estimates that real GDP contracted by 3.9% in 1998—

According to the latest edition of *Asian Development Outlook*, published by the Asian Development Bank (ADB) and released in April, real GDP (at factor cost) contracted by 3.9% in 1998, a more pessimistic figure than the government's estimate of 3.2% (2nd quarter 1999, page 16). The ADB attributes the contraction to industrial disputes and the decline in sugar production that resulted from prolonged drought (2nd quarter 1999, page 16)—sugar output fell by around 23%, to 255,703 tonnes—which followed devastating floods. Uncertainty among farmers over the renewal of land leases also impacted on economic growth, given that many were reluctant to plant in case they were evicted from their plots.

Sugarcane and raw sugar output tumbled to just 42% of the 1994 peak, while the unprecedented decline in world gold prices caused the temporary closure of one of Fiji's two mines and the indefinite postponement of plans to open a third. As a result, mining output was 20% below 1997 levels. Activity in the construction, finance, and wholesale and retail trade sectors also declined. Expansion in the tourism sector, which accounts for about one-sixth of GDP, prevented an even deeper recession. The 20% devaluation of the Fijian dollar in January 1998 helped to preserve the competitiveness of the tourism sector; indeed, visitor arrivals were 4% higher than the record 1997 levels.

—while inflationary pressures gather momentum

The ADB estimates that average inflation in 1998 was 5.7%, compared with 3.4% in 1997. The increase in consumer price inflation has been attributed to wage-related pressures, which gathered momentum following the withdrawal in April of wage settlement guidelines. Public-sector wages are estimated to have risen by 3.4%. Despite the loosening of monetary policy in 1998, which was intended to boost domestic demand as an accompanying measure to the devaluation of the Fijian dollar, the money supply contracted by around 20% in the first eight months of 1998.

According to the ADB, the budget deficit narrowed from 6.5% of GDP in 1997 to 3.4% of GDP in 1998. However, taking into account adjustments for one-off expenditure in 1997 arising from the rehabilitation of the National Bank of Fiji and privatisation receipts in 1998, the underlying budget deficit may have actually deteriorated.

Two main tasks are identified by the ADB

The ADB has identified two crucial areas which need urgent government attention. The first is to ensure that the stimulus to the external commercial sector from the devaluation of the Fijian dollar is not further eroded by wage and price rises. With inflation at around 10% at the end of 1998—the estimate of the Reserve Bank of Fiji (RBF, the central bank) for the end of 1998 was only 8.1% (2nd quarter 1999, page 17)—the ADB has warned that monetary policy may need to be tightened in 1999. The second task is to reverse the deterioration of the fiscal position that occurred in 1996-98. ADB projections suggest that the underlying budget deficit will rise to 5.6% of GDP in 1999, notwithstanding receipts from the government's privatisation programme.

Fiji: government finances
(F\$ m)

	1997			1998		
	Mar	Jun	Sep	Mar	Jun	Sep
Revenue	155.1	202.2	195.5	158.8	230.2	232.6
Expenditure	-213.6	-313.1	-219.0	-197.9	-274.8	-295.2
Net deficit	-58.5	-110.9	-23.5	-39.1	-44.6	-62.6
Interest payments	18.5	28.0	24.1	24.4	30.7	23.6
Total loan repayments	7.0	6.0	22.2	7.8	36.4	32.5
Public debt charges	25.6	34.1	46.2	32.2	67.1	56.1

Source: Reserve Bank of Fiji (RBI), *Quarterly Review*.

Visitor arrivals reach record levels—

According to the Fiji Visitors' Bureau, visitor arrivals in March reached a record 31,589, surpassing the previous record, set in March 1997, and representing an 11.5% rise on the year-earlier period. The rise was attributed to strong growth in several markets following joint marketing efforts with major partners. The biggest increase was in arrivals from the US, which rose to 5,637, a 36.9% rise on the year-earlier period. Visitor numbers also increased from Japan (up 27% to 3,719), Canada (up 18% to 1,597), New Zealand (up 17% to 3,698), the UK (up 8% to 4,074) and Australia (up 5.5% to 7,945). There were decreases in visitor arrivals from Taiwan (77.3%), continental Europe (15%) and South Korea (6%).

—and Air Pacific announces record profits

Air Pacific, the national carrier, in which the state retains a 51% share, announced record profits of F\$28.5m (US\$14.4m) before tax and profit share for the financial year 1998/99 (April-March). According to the airline, a new code-share alliance with American Airlines was already producing more business than expected, and another such arrangement would be initiated later this year. The as yet unspecified partner is thought to be from Taiwan. The chief executive of Air Pacific, Michael McQuay, attributed the strong results to higher returns on revenue, which rose from 2.2% in 1997/98 to 7.2% in 1998/99, a far better rate than most US airlines had achieved. Pre-tax profits represented a 348% rise on the previous year, and marked the 13th consecutive year of profitability for the airline. Net profits totalled F\$13.2m, a 59.6% jump on 1997/98. Total revenue rose by 30.4% to F\$370.8m, but costs also climbed by 23.8%, to \$344.2m.

The main factors underlying the results, according to Mr McQuay, were the 20% devaluation of the Fiji dollar in January 1998, organisational restructuring, improved labour relations (which produced a 34% rise in productivity), the renegotiation of aircraft leases and purchases, and the launch of new services.

New Caledonia

Political structure

Official name	French Overseas Territory of New Caledonia and Dependencies																	
Form of state	Largely autonomous territory within the French state, except in such areas as foreign relations, defence, justice, currency and credit																	
The executive	The government delegate, High Commissioner of the Republic in New Caledonia, Wallis and Futuna, Thierry Lataste																	
Head of state	President of France, Jacques Chirac																	
Territory legislature	A combination of French metropolitan government and local autonomy. The Territorial Congress, comprising the combined elected membership of the three provincial assemblies (15 members from the Northern Province, 32 members from the Southern Province and seven members from the Province of the Loyalty Islands). Members are elected for terms of six years by universal suffrage. The Nouméa Accords, signed in May 1998, provide for the extensive devolution of powers to New Caledonia. The accords were approved in a referendum in November 1998; a further referendum on complete independence will follow 15 years from that date																	
Local government	In addition to the three provincial assemblies, there are 32 basic local government units known as <i>communes</i>																	
Legal system	French-style, augmented by mandatory consultation with the Advisory Council on Custom (Conseil coutumier territorial, comprising 40 members drawn from the eight custom areas) in matters of customary law and land law. Magistrates preside over the decentralised lower courts. The Court of Appeal is based in Nouméa and there is access to the higher appeal court of France in certain matters																	
National elections	July 1995; provincial elections, May 1999																	
Main political organisations	<p>The two main groupings are the Rassemblement pour la Calédonie dans la République (RPCR) and the Front de libération nationale kanak socialiste (FLNKS). The RPCR is affiliated with the Rassemblement pour la Calédonie (RPR) in France, and comprises the Centre des démocrates sociaux (CDS) and the Parti républicain (PR). FLNKS comprises the Union calédonienne (UC), the Parti de libération kanak (Palika), the Parti socialiste kanak (PSK) and the Union progressiste mélanésienne (UPM). Une nouvelle-Calédonie pour tous (UNCT) has significant support in Nouméa, as does the Union nationale pour l'indépendance. The Rassemblement démocratique océanien (RDO) represents a large segment of the population of Wallis and Futuna and the Libération kanak socialiste (LKS) is strong in the Loyalty Islands</p> <table> <tr> <td>President of executive government</td> <td>Jean Leques (RPCR)</td> </tr> <tr> <td>President of the Northern Province</td> <td>Léopold Jorédié (FCCI)</td> </tr> <tr> <td>President of the Southern Province</td> <td>Jacques Lafleur (RPCR)</td> </tr> <tr> <td>President of the Loyalty Islands</td> <td>Nidoïsh Naiseline (LKS)</td> </tr> <tr> <td>President of the Territorial Congress</td> <td>Pierre Frogier (RPCR)</td> </tr> <tr> <td>Vice-president</td> <td>Richard Kaloï (UC)</td> </tr> <tr> <td>Deputies to the French Assemblée Nationale</td> <td>Jacques Lafleur (RPCR) Pierre Frogier (RPCR)</td> </tr> <tr> <td>Representative to the French Senate</td> <td>Simon Loueckhote (RPCR)</td> </tr> </table>		President of executive government	Jean Leques (RPCR)	President of the Northern Province	Léopold Jorédié (FCCI)	President of the Southern Province	Jacques Lafleur (RPCR)	President of the Loyalty Islands	Nidoïsh Naiseline (LKS)	President of the Territorial Congress	Pierre Frogier (RPCR)	Vice-president	Richard Kaloï (UC)	Deputies to the French Assemblée Nationale	Jacques Lafleur (RPCR) Pierre Frogier (RPCR)	Representative to the French Senate	Simon Loueckhote (RPCR)
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Economic structure

Latest available figures

Economic indicators	1994	1995	1996	1997	1998
GDP at current prices (CFPfr bn)	306.7	329.3	355.5	343.9	337.0
Real GDP growth (%)	2.6	5.9	0.5	0.5	-3.5
Consumer price inflation (av; %)	2.0	1.6	1.7	2.0	0.3
Population ^a ('000)	187	192	197	200	204
Exports fob (US\$ m)	326 ^b	483	502	545	388
Imports cif (US\$ m)	763 ^b	869	931	931	940
Exchange rate (av; CFPfr:\$)	100.93	96.25	96.54	105.85	105.89

July 16th 1999 CFPfr115.674:US\$1

Origins of gross domestic product 1996	% of total	Components of gross domestic product 1990	% of total
Agriculture	3.5	Private consumption	77.3
Mining & metallurgy	10.2	Government consumption	9.4
Construction & energy	5.0	Fixed investment	32.9
Miscellaneous industries	4.0	Change in stocks	-1.5
Transport & communications	6.7	Exports of goods & services	29.6
Commerce	43.9	Imports of goods & services	-47.7
Other services	26.7	GDP at market prices	100.0
GDP at market prices	100.0		

Principal exports fob 1996	US\$ m	Principal imports cif 1993	US\$ m
Ferro-nickels	212	Foodstuffs	148
Nickel ore	76	Transport equipment	147
Foodstuffs & animal products	9	Machinery & electrical equipment	145
Metal & metal products	1	Minerals	84
Total incl others	502	Total incl others	854

Main destinations of exports 1997 ^b	% of total	Main origins of imports 1997 ^b	% of total
Japan	35.7	France	53.1
France	29.6	Australia	18.9
US	13.6	Singapore	6.6
Taiwan	8.6	New Zealand	5.2
Australia	7.0	Japan	3.8

^a EIU estimates. ^b Derived from trading partners' records; subject to a wide margin of error.

Outlook for 1999-2000

Political parties will jockey
for position—

In the wake of the provincial elections held on May 9th—the next stage in the implementation of the Nouméa Accords following the resounding “yes” vote in the referendum in November 1998—New Caledonia’s plethora of political parties are adjusting to the new balance of power in the territorial Congress. The fact that neither the anti-independence *Rassemblement pour la Calédonie dans la République* (RPCR) nor the opposition *Front de libération nationale kanak socialiste* (FLNKS) managed to secure an outright majority in the new legislature has left a curious political vacuum in New Caledonian politics. The decision of the RPCR leader, Jacques Lafleur, to form a partnership with the *Fédération des comités de coopération indépendantistes* (FCCI) can be interpreted as an attempt to fill this void. By co-opting the pro-independence FCCI, which has modified its staunch separatist stance to a bid for far-ranging autonomy from France, not only has Mr Lafleur managed to dilute the independentist camp, he has also considerably strengthened his own position in the Congress. The FCCI’s three congressional seats, combined with the RPCR’s 24, have effectively given Mr Lafleur a legislative majority. Indeed, through the RPCR-FCCI partnership, the two parties have secured the presidency, vice-presidency, and nearly two-thirds of executive posts, policy portfolios (roughly equivalent to ministerial posts) and chairmanships of congressional policy committees.

—as the reality of the
Nouméa Accords begins
to dawn—

Not surprisingly, Mr Lafleur’s determination to safeguard the RPCR’s hegemony in New Caledonian politics has infuriated the FLNKS and has caused concern in the *métropole*. The fact that the French government has publicly rebuked the RPCR for contravening the spirit of the Nouméa Accords—Paris condemned the party for failing to act in the spirit of “collegial” government as envisaged in the accords—attests to the tenuousness of the interim period between the Nouméa Accords and the next referendum on independence, scheduled for 2014 at the earliest.

The French prime minister, Lionel Jospin, is probably hoping that economic recovery and rapid development, after several years of lacklustre growth and a contraction in real GDP in 1998, will help to neutralise political tensions as a sense of prosperity returns to the island. On the issue of economic expansion there is certainly consensus across the political spectrum, albeit for radically different reasons. Mr Lafleur is adamant that if the period 2000-14 is marked by rapid economic expansion and further *ré-équilibre* between the northern and southern provinces of Grand Terre—the distribution of resources, particularly nickel, has long been a highly sensitive political issue in New Caledonia—then indigenous islanders (kanaks), settlers of European origin (caldoches), and other communities will recognise the folly of independence. In contrast, the FLNKS leader, Roch Wamytan, is looking to boost economic growth so that the territory is prepared for independence in 2014. These conflicting agendas will permeate New Caledonian politics throughout the forecast period and beyond, but, provided that the promised economic recovery materialises sooner rather than later, ordinary islanders will probably be happy to postpone a final decision on the territory’s political status for 15 years or more.

—and the territory's relationship with the EU will begin to change

In mid-2000, the EU is due to begin discussions on whether New Caledonia, among other overseas possessions of four EU members—France, Denmark, Holland and the UK—should assume responsibility for its own external relations. Pro-independence parties would welcome such a move, having long argued that the formulation of New Caledonia's foreign policy (in so far as it has had one) from the *métropole* has produced ill-suited decisions in the Pacific context. In contrast, although the anti-independence camp would welcome the opportunity to play a more active and autonomous role in regional politics, it is adamant that this should only be encouraged within existing French foreign relations.

Another facet of New Caledonia's nebulous relationship with the EU will need clarification as the euro fully replaces the French franc when European Monetary Union (EMU) is complete in 2002. Once again, the possible adoption of the euro in the territory has been refracted through the prism of political allegiances. Pro-independence politicians argue that the disappearance of the Pacific French franc would render full independence more complex in 2014. Anti-independents retort that, given the fixed parity of the Pacific French franc to the French franc, the adoption of the euro is essentially a question of cosmetics. Moreover, some local economic analysts argue that the introduction of the euro could considerably boost foreign direct investment (FDI) in New Caledonia, as other producers in the region seek to take advantage of a mini-euro-zone in the Pacific, from which they can export directly to the EU. The business community and commercial organisations have already pleaded with politicians to depoliticise the question, however the currency issue provides rich fodder for both sides of the political fence, and is likely to become increasingly heated in the coming months.

The recovery of the nickel sector is crucial

The slump in global demand and nickel prices in the wake of the Asian economic downturn has heightened New Caledonian producers' awareness of the need to restructure the sector. While virtually all small-scale nickel producers were wiped out by the slump in global demand since late 1997, even large producers such as Société le nickel (SLN) and the Société minière du Sud Pacifique (SMSP) have recognised that they are unable to compete with producers in Australia and Russia, where extraction costs are far lower. Hence instead of simply exporting ore, SLN and SMSP, with considerable government assistance, are seeking to diversify into value-added nickel products. The salient question is how New Caledonia will be able to attract foreign investors to participate in the transformation of the nickel sector, which will be costly and slow to produce high returns.

Review

Mr Leques is elected president of the territorial Congress

When New Caledonia's territorial Congress convened for the first time in late May, the Rassemblement pour la Calédonie dans la République-Fédération des comités de coopération indépendantistes (RPCR-FCCI) alliance elected the mayor of Nouméa, Jean Leques, as president and head of the first executive government of New Caledonia. The result was unsurprising, given that

Mr Lafleur had nominated Mr Leques as the RPCR candidate for the position. The election of Léopold Jorédié as vice-president was, however, unexpected, given the implicit concept of power-sharing in the “collegial” nature of the new territorial Congress. The general consensus had been that the position would go to the leader of the Front de libération nationale kanak socialiste (FLNKS), Roch Wamytan. Mr Wamytan was all the more outraged, given that he had supported Mr Leques for the presidency—ample evidence from his perspective of his willingness to respect the collegialism of the Congress. The former French minister for overseas territories, Louis Le Pensec, who was in Nouméa campaigning for the Parti socialiste (PS) in the European Parliament election of June 13th, was also critical of the RPCR’s decision. The distribution of ministerial positions has left all of the major economic and commercial responsibilities in the hands of the RPCR and the FCCI. Mr Jorédié has assumed the education portfolio, while the RPCR is responsible for economic affairs, finance, agriculture, the public service and professional training, and transport and communications. The FLNKS has been relegated to customary affairs, relations with the Customary Senate, and social security and health.

The results of provincial elections are challenged in the Loyalty Islands

The results of provincial elections held on May 9th as the next stage in the implementation of the Nouméa Accords (2nd quarter 1999, page 23) have been officially challenged in the Loyalty Islands by the RPCR and two moderate independence parties, the FCCI and the Libération kanak socialiste (LKS). The LKS leader and former president of the Loyalty Islands, Nidoish Naisseline, has asked the French Council of State to annul the election result on the basis of a damning report submitted by the electoral commissioner for the province, which cited considerable irregularities. The complaints of the LKS were echoed by the FCCI and RPCR, which cited the late closure of some polling stations, among other irregularities. The Council of State is not expected to return a decision for several months, and if a new poll is required, it would be unlikely to occur before January 2000. Meanwhile, a small right-wing party based in the Northern Province, Développement ensemble construit avenir (DECA), whose leader, Robert Frouin, lost his seat in the election, is seeking to have the results annulled on the seemingly spurious grounds that voting was disrupted by adverse weather conditions.

Angry unionists march on Nouméa—

Thousands of demonstrators took to the streets of Nouméa in July to participate in a one-day general strike called by a coalition of unions in support of improved workers’ rights and conditions. Union leaders characterised the demonstration, which according to local police included around 6,000 people, as a historic event and a victory against social repression. The organisers of the strike claimed that 10,000-12,000 people participated. During the march, a petition was delivered to the government and to the French High Commission demanding the protection of workers’ rights and preserving the right to strike. The strike, which was supported by New Caledonia’s four largest unions, attests to the steady deterioration of industrial relations since late 1998. Several protracted industrial conflicts have produced blockades and picketing in recent months, prompting the decision by the employers’ federation in late June to suspend negotiations on collective contracts and wage agreements in the absence of what it described as normal conditions for dialogue with unions. A

statement issued by the federation denounced the “uncontrolled development of industrial strife” in New Caledonia, and called on the authorities to ensure that union activities remained legal.

—and the president promises to negotiate an industrial accord

In response to the industrial action, Mr Leques indicated that the government would seek to negotiate an accord with unions in order to avoid costly and disruptive industrial action. By the same token, Mr Leques was quick to point out that the right to strike had never been denied, although he warned that it must be exercised responsibly. Mr Leques’s concerns were echoed by Mr Lafleur, an industrialist by background, who warned that industrial action would only retard economic development and appealed to workers not to participate. One of the longest-running conflicts, at Cellocal, a packaging company where workers had been picketing for 45 days, was neutralised by police intervention the day after the general strike. There was a stand-off between unionists and picketers and a squadron of military riot police and 30 officers from the national police intervention group, which ended with the union’s agreement to allow police access to the premises on condition that management entered negotiations within 48 hours.

A new high commissioner is appointed—

The French high commissioner to New Caledonia, Dominique Bur, has been replaced by Thierry Lataste, the chief-of-staff for the French minister for overseas territories, Jean-Jacques Queyranne. Mr Bur was credited with guiding New Caledonia through the end of the period covered by the Matignon Accords (1988-98). Mr Lataste is familiar with New Caledonian politics, having served as secretary-general of New Caledonia 1991-94.

—and new electoral legislation is drafted

A bill has been drafted by the French Council of Ministers and the legal committee of the Assemblée Nationale (parliament), which makes provisions for further autonomy for French Polynesia in the form of status as a *pays d’outre-mer*, and also broaches the thorny issue of voter eligibility in New Caledonia. Further *compétences*, or state powers, are to be transferred from Paris to the Polynesian capital, Papeete, and like New Caledonia, the territory will henceforth be considered a *pays d’outre-mer* as opposed to a *territoire d’outre-mer*. In contrast to New Caledonia, however, French Polynesians will be granted their own citizenship in order to protect local employment, and will have the power to restrict land ownership. Greater autonomy in French Polynesia will not lead to a vote on full independence.

The clause in the bill concerning New Caledonia will restrict eligibility for voting in provincial elections and referenda on sovereignty to those who were eligible to vote in the referendum on the Nouméa Accords (4th quarter 1998, page 21), and to dependants of such residents, if of age. Not surprisingly, the bill has been condemned by the right-wing Front national, led by Jean-Marie Le Pen, which fears that the inability to dilute the New Caledonian electorate with potential voters from the *métropole* will increase the likelihood of full independence. Interestingly, New Caledonia’s three RPCR representatives to the French parliament have not supported the bill either.

The nickel industry fails to recover—

According to the latest statistics from the Institut territorial de la statistique et des études économiques (ITSEE), metallurgical production increased in the first five months of 1999, but mining activity remained far below that of the year-earlier period. With 5,102 tonnes of nickel ore produced at the Doniambo smelter in May—an increase of 4.9% on the year-earlier period—total output reached 22,185 tonnes in the five months to May, of which 83% was ferro-nickels and 17% mattes. A provisional quantity of 468 wet tonnes of nickel was extracted in May, although this represented a decline on the previous two months. ITSEE has indicated that the decline was probably attributable to industrial conflicts at several nickel deposits. In the first five months of 1999, 2,436 wet tonnes of nickel were extracted, a 22.1% decline on the corresponding period in 1998.

New Caledonia: nickel exports
(tonnes)

	1998			1999		
	Oct	Nov	Dec	Jan	Feb	Mar
Ferro-nickels	15,080	12,676	14,611	12,942	12,393	13,963
To metropolitan France	1,749	894	552	909	–	1,366
Other	13,331	11,782	14,059	12,032	12,393	12,597
Mattes	874	2,342	1,539	1,177	1,340	1,238
To metropolitan France	874	2,342	1,539	1,177	1,340	1,238
Total	15,954	15,018	16,149	11,419	13,732	15,201

Source: Institut territorial de la statistique et des études économiques (ITSEE), *Informations statistiques rapides*.

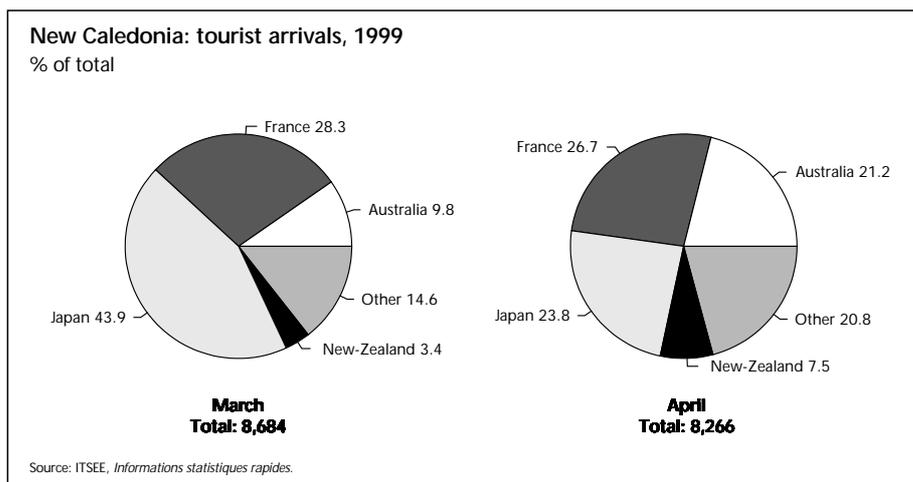
—and the tourism sector continues to suffer—

Latest official data suggest that visitor arrivals continued to fall in the first five months of 1999. Indeed, between April and May visitor arrivals plummeted by 32.6%, from 8,266 to 5,571. A seasonal dip is not normally experienced during the second quarter, and the figure represents the lowest number of visitors since February 1996, when visitors were discouraged by nuclear testing in French Polynesia. The underlying causes for the slowdown in visitor arrivals are not immediately obvious, and are all the more worrying in the context of the recovery of many Asian economies after the financial and economic crisis of 1998. Visitors from Japan, a crucial market, declined by 6.7% in the first five months of 1999. Japanese travel agents had warned the New Caledonian authorities that the rescheduling of the Paris-Tokyo-Nouméa route operated by Air France from November 1998 would cause a sharp drop in traffic, especially as a result of the cancellation of the weekend service. This was partially offset by the establishment of a new Tokyo-Guam-Nouméa service by Continental Micronesia, but in May the airline suspended three Guam-Nouméa flights for technical reasons, and the service is to be suspended in September.

New Caledonia: tourist arrivals, 1999

	Jan	Feb	Mar	Apr
Australia	1,157	411	852	1,752
France	2,119	1,436	2,461	2,207
Japan	3,010	2,730	3,811	1,970
New Zealand	224	145	295	620
Other	1,184	1,231	1,265	1,717
Total	7,694	5,953	8,684	8,266

Source: ITSEE, *Informations statistiques rapides*.



—as the impact of currency fluctuations are felt

Disappointing visitor arrivals from Australia and New Zealand in recent months attest to the delayed impact of the depreciation of both currencies, which lost 6% and 19% of their value, respectively, against the US dollar between 1997 and 1998. Many holiday packages to New Caledonia booked 8-12 months in advance were cancelled as the cost steadily increased in local currency terms. Tour operators are hoping that the projected strengthening of the US dollar against the French franc, and by extension the French Pacific franc, will help to boost visitor arrivals.

Hotel accommodation falls slightly

According to the Bank of Hawaii's latest *Economic Report* on New Caledonia, published in June, the number of hotel rooms fell by 0.8% between 1996 and 1997. Although a relatively minor decline, the trend highlights the shortage of accommodation, especially at the top end of the market. This will have to rise if New Caledonia is serious about boosting the contribution of the tourism sector to GDP.

New Caledonia: hotel accommodation
(no. of rooms)

	1996	1997
Southern Province	1,692	1,687
of which:		
Nouméa	1,414	1,411
Northern Province	294	288
of which:		
Loyalty Islands	89	83
Total	2,075	2,058

Source: Institut d'émission d'outre-mer.

Samoa

Political structure

Official name	Independent State of Samoa	
Form of state	UK-style cabinet government	
The executive	The prime minister, chosen by a majority in the Fono (parliament), selects 12 ministers to form a cabinet; cabinet decisions can be reviewed by the Executive Council, which consists of the cabinet and the head of state	
Head of state	HH Malietoa Tanumafili II until his death, at which time a successor will be elected by the Fono for a five-year period	
National legislature	Unicameral, 49-member Fono; 47 members are elected by all Samoans aged 21 or over to represent 41 constituencies, while the remaining two are elected from the electoral rolls made up of non-Samoans; the Fono sits for five-year terms	
Legal system	System of lower courts leading to Court of Appeal at apex	
National elections	April 26th 1996; next election due by April 2001	
National government	The Human Rights Protection Party (HRPP), led by Tuilaepa Sailele Malielegaoi, holds 37 of the 49 seats in the Fono	
Main political parties	Human Rights Protection Party (HRPP); Samoa National Development Party; Samoa All People's Party	
Key ministers	Prime minister & minister of finance	Tuilaepa Sailele Malielegaoi
	Deputy prime minister	vacant
	Agriculture, forestry, fisheries & meteorological services	Solia Papu Vaai
	Education	Fiame Naomi
	Health	Misa Telefoni
	Justice	Molio'o Teorilo
	Internal affairs, broadcasting & audit	Leniu Tofaeono Avamagalo
	Labour	Polataivao Fosi
	Lands, surveys & environment	Tuala Sale Tagaloa
	Posts & telecommunications	Gafa Ioelu Elisaia
	Transport	Joe Keil
Women's affairs & statistics	Le'afa Vitale	
Works	Luagalau Lavaula Kamu	
Youth, sport & cultural affairs	Leota Lu II	
Central Bank governor	Papalii Scanlan	

Economic structure

Latest available figures

Economic indicators	1993	1994	1995	1996	1997
GDP at current prices (Tala m)	291.8	321.2	369.0 ^a	421.0 ^a	481.0 ^a
Real GDP growth (av; %)	9.5	-7.8	9.6 ^b	6.0 ^b	1.5 ^b
Consumer price inflation (av; %)	1.8	18.4	1.0	7.5	6.8
Population (m)	0.16	0.16	0.17	0.17 ^a	0.17 ^a
Exports fob ^c (US\$ m)	6.43	3.53	8.75	10.10	14.57
Imports fob ^c (US\$ m)	87.37	69.01	80.22	90.88	99.70
Current-account balance ^c (US\$ m)	-38.68	5.78	9.32	12.29	9.09
Reserves excl gold (US\$ m)	50.71	50.80	55.31	60.80	64.21
Total external debt (US\$ m)	193.8	156.9	170.4	166.9	156.3
Debt-service ratio, paid (%)	6.9	7.4	4.3	4.0	3.9
Exchange rate (av; Tala:US\$)	2.568	2.535	2.472	2.462	2.556

July 16th 1999 Tala3.0423:US\$1

Origins of gross domestic product 1996 ^d	% of total	Components of gross domestic product 1988	% of total
Agriculture	39.9	Private consumption	86.3
Manufacturing	17.9	Government consumption	18.6
Electricity	6.4	Fixed investment incl change in stocks	31.5
Construction	1.9	Exports of goods & services	30.4
Services	22.8	Imports of goods & services	-66.8
Government	11.1	GDP at market prices	100.0
GDP at market prices	100.0		

Main destinations of exports 1997 ^e	% of total	Main origins of imports 1997 ^e	% of total
Australia	69.8	Australia	26.9
Germany	4.8	New Zealand	23.9
New Zealand	3.2	Japan	17.2
Slovakia	3.2	US	8.9
American Samoa	1.6		

^a EIU estimate. ^b Official estimate. ^c IMF balance-of-payments figures. ^d IMF staff estimates. ^e Derived from trading partners' statistics; subject to a wide margin of error.

Outlook for 1999-2000

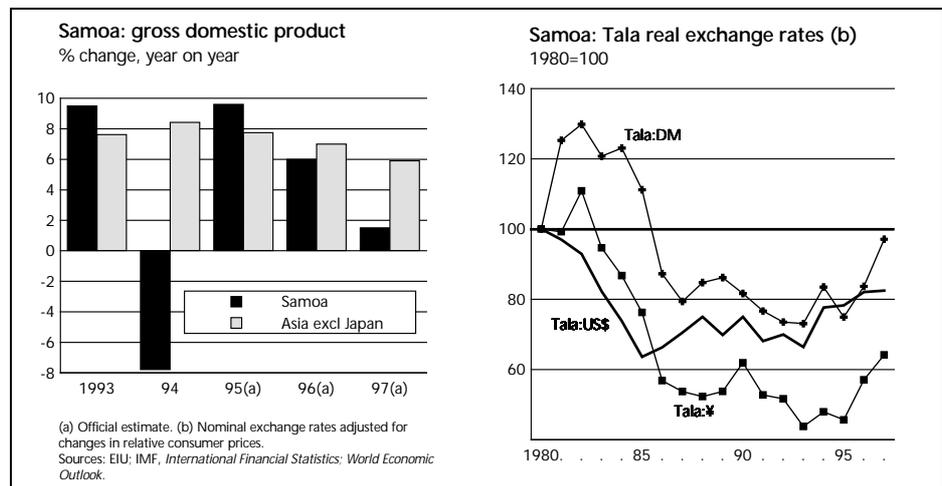
The political scene should remain stable—

The indications are that the political vacuum left by the death in March of the former prime minister, Tofilau Eti Alesana, has begun to dissipate as the accession of his deputy, Tuilaepa Sailele Malielegaoi, is increasingly accepted among senior members of the ruling Human Rights Protection Party (HRPP), some of whom seemed to harbour ambitions for the position. Despite lingering concerns about Mr Tuilaepa's apparent determination to fortify the executive—he has been criticised for retaining too many cabinet portfolios, above all the finance portfolio—the transition from the Tofilau era to Mr Tuilaepa's reign is proceeding increasingly smoothly. Further progress with reforms and the withdrawal of the state from significant spheres of economic activity will help to underpin Samoans' confidence in the prime minister, mitigating initial concerns that he sought to transform the executive into a quasi-dictatorial position.

—as Samoa continues to reap the benefits of reforms

Unlike many of the small island economies (SIEs) in the Pacific region, Samoa will continue to reap the benefits of economic and structural reforms initiated in the early 1990s. As the Asian economic downturn bottoms out, Samoa remains best placed among the Pacific Islands to harness the recovery there and boost real GDP growth. To this end, the 1999/2000 (July-June) budget has included wide-ranging, and arguably audacious, tax cuts in a bid to enhance domestic competitiveness and investment. The government has issued a preliminary forecast for real GDP growth of 2% in 1999, which may well err on the side of conservatism, barring adverse weather conditions. More rapid growth levels are expected in 2000 and beyond.

Economic expansion will be underpinned by the construction of the new headquarters for the South Pacific Regional Environment Program (SPREP) at Vailima, in the capital, Apia. As a consequence, rapid growth can be expected in the construction sector, and the services sector also stands to benefit.



Review

Real GDP growth is estimated at 1.6% in 1998—

According to the prime minister, Tuilaepa Sailele Malielegaoi, who also holds the finance portfolio, real GDP growth rose marginally in 1998, to an estimated 1.6%, up from a revised estimate of 1.5% in 1997. Average annual inflation fell from 6.8% to 2.2% over the same period, while fiscal austerity measures helped to reduce the rate of growth in the money supply from over 17% in 1997 to 5% in 1998. The overall surplus on the balance of payments in 1998 jumped to Tala18.9m (US\$6.2m) after a 60.5% rise in the value of exports, led by kava and fish sales. Foreign-exchange reserves (excluding gold) reached \$61.4m, equivalent to around six months of import cover.

—but ADB data suggest otherwise

According to the 1999 *Asian Development Outlook*, published by the Asian Development Bank (ADB) and released in April, real GDP growth rose from an estimated 6.5% in 1995 to 6.9% in 1996, but plummeted to 0.8% in 1997. Economic expansion in the first half of 1998 was estimated to be 0.4%, considerably lower than in the first half of 1997. ADB analysis suggests that growth was underpinned by the tertiary sector, which expanded by an average of 8.1% in 1994-97. More specifically, growth in the tourism sector has stimulated expansion in hotels and restaurants, transport and communications, and personal services. On a less encouraging note, expansion in the manufacturing sector declined by an average of 0.3% over the same period.

Samoa: gross domestic product, Jan-Jun
(Tala m unless otherwise indicated)

	1997	1998	% change
Primary sector	102.7	49.8	49.7
Agriculture	73.8	36.0	34.0
Fisheries	28.9	13.8	15.8
Secondary sector	159.3	80.6	71.1
Food & beverages	34.5	17.6	15.2
Other manufacturing	78.0	39.3	33.0
Construction	32.0	16.4	15.2
Electricity & water	14.8	7.3	7.6
Tertiary sector	278.5	131.3	148.4
Commerce	87.5	42.2	44.3
Hotels	14.4	6.6	7.4
Transportation & communications	65.8	29.5	40.2
Finance & business	43.3	20.8	20.7
Housing	24.3	11.7	13.4
Other services	43.3	20.6	22.4
Government	54.6	25.6	29.8
Nominal GDP	595.1	287.3	299.0
GDP at market prices (% change)	13.5	14.9	4.1

Source: IMF.

The ADB appears relatively bullish about Samoa's growth prospects compared with other Pacific Islands, and anticipates that real GDP growth could average 3% over the next few years (barring exogenous shocks), assuming that the momentum of the economic reform programme is maintained. If this level of expansion is achieved, average annual incomes would increase by around 2%, and about 500 new jobs would be created per year. However, sustained expansion in the agricultural sector, continued growth in fisheries, and further development of the manufacturing and tourism sectors would be required in order to achieve higher growth rates.

Fiscal policy is loosened further—

The 1999/2000 budget, presented to parliament on May 28th, featured further reductions in taxes and import duties. In his budget speech, Mr Tuilaepa indicated that the 1999/2000 budget was designed to strengthen the competitiveness of Samoan businesses and to stimulate faster economic expansion. The tax cuts will take effect from January 1st 2000. The exemption threshold on personal income tax will rise by Tala2,000 (US\$659) to Tala10,000, which means that around 1,500 low-income workers currently paying up to Tala200 per year in income tax will no longer be liable. The marginal tax rate of 20% will now apply to incomes of Tala15,000 and above, as opposed to Tala14,000, and the threshold for the top rate of tax will rise from Tala18,000 to Tala20,000. The top rate has also been reduced from 35% to 29%.

Corporate taxes have also been reduced from 35% to 29%, while dividends paid by Samoan companies to Samoan citizens will be exempted from income tax. The requirement for withholding tax will also be abolished. The new corporate tax arrangements will also apply to trusts.

However, the budget also included some tax increases: taxes on petrol, diesel and kerosene were raised by around Tala0.05/litre with effect from July 1st, along with fees for government guarantees of loans. Fixed stamp duty charges were also hiked, with immediate effect. In addition, the prime minister announced two major environmental initiatives. From January 1st 2000 there will be a mandatory deposit of Tala0.10 for the purchase of most bottled and canned drinks, refundable on return to designated recycling points. Excise of Tala0.10 will also be applied to plastic bags available in many supermarkets and shops, with the intention of discouraging their use.

Samoa: government finances
(Tala m; fiscal years beginning July 1st)

	1997/98		1998/99
	Budget	Provisional	Budget
Total revenue & grants	237.6	231.9	276.9
Total revenue	177.1	171.4	191.8
Tax	144.8	138.2	155.4
Non-tax	32.3	33.2	36.4
External grants	60.5	60.5	85.1
Expenditure & net lending	-237.8	-221.6	-279.4
Current expenditure	158.8	142.1	172.9
Development expenditure	76.3	71.3	90.4
Net lending	2.7	8.2	16.1
Overall balance	-0.2	10.3	-2.5

Source: IMF.

—but compliance remains a major issue

Mr Tuilaepa indicated that the competitiveness of the new corporate taxation arrangements meant that no new tax holidays would be introduced, although existing holidays would be honoured until their expiry. The prime minister was confident that the modifications to the tax regime would help to enhance the stability and transparency of the business environment and would stimulate domestic and foreign direct investment (FDI). By the same token, Mr Tuilaepa warned that compliance remained high on the government's agenda. An amnesty will run until September 30th for those who have failed to submit income-tax returns, value-added tax (VAT) forms, taxes on services, pay-as-you-earn (PAYE) obligations and business licence registrations. The amnesty will even apply to those who have already been contacted about overdue returns, while in some circumstances the department of inland revenue will not even try to recover the outstanding funds. According to Mr Tuilaepa, the main objective is to ensure future compliance by getting citizens and companies "on the books".

Polynesian Airlines modernises its fleet

The state-owned flag carrier, Polynesian Airlines, once in debt by over \$40m, is to replace its ageing Boeing 737-300 with two new 737-800s, one of which will be able to fly non-stop from Apia to Australia and Hawaii. In May the chairman of Polynesian Airlines, Mr Tuilaepa, announced a "favourable" arrangement for the lease of a Boeing 737-800 from the US's International Lease Finance Corporation (ILFC). The aircraft is to be delivered in November 2000. The new aircraft will carry 154 passengers—the current 737-300 can only manage 126—and will have double the cargo capacity of the 737-300.

According to Mr Tuilaepa, since the corporate restructuring of Polynesian Airlines in 1994, the carrier has enjoyed four years of consolidation and profitable operation. Profits reached Tala3.3m in the 1997/98 fiscal year (July-June), from a revenue base of Tala81m. The company has total assets of nearly Tala60m.

Solomon Islands

Political structure

Official name	Solomon Islands	
Form of state	Constitutional monarchy	
The executive	UK-style cabinet, chosen from within parliament, headed by the prime minister chosen from and by parliament	
Head of state	Queen Elizabeth II, represented by a governor-general who must be a Solomon Islander; Moses Pitakaka currently holds the position	
National legislature	Unicameral, 50-member National Parliament; elected for four-year terms by universal suffrage	
Local government	The islands are divided into eight provinces and one town council (Honiara)	
Legal system	English-style system; a series of lower courts exists, leading to the Court of Appeal at the apex; the Court of Appeal is staffed by justices from Papua New Guinea, Australia and New Zealand	
National elections	August 6th 1997; next election due by September 2001	
National government	Bartholomew Ulufa'alu was elected prime minister by parliamentary vote after the elections of August 1997	
Main political organisations	The ruling coalition is the Alliance for Change (AFC), consisting of six parties including the National Action Party, the Labour Party and the National Party. Other parties include the coalition, Solomon Islands National Unity, Reconciliation and Progressive Party	
Members of cabinet	Prime minister & acting minister of finance	Bartholomew Ulufa'alu
	Deputy prime minister & minister for transport, works, communications & aviation	Sir Baddeley Devesi
Key ministers	Agriculture & fisheries	Sanga Aumanu
	Commerce, employment & tourism	Enele Kwanairara
	Education & human resources development	Ronidy Mani
	Finance	Alpha Kimata
	Foreign affairs & trade	Patteson Oti
	Forestry, environment & conservation	Hilda Kari
	Health & medical services	Dickson Warakohia
	Home affairs	Leslie Boseto
	Indigenous business development	David Holosivi
	Lands & housing	Jackson Piasi
	Police & national security	Edmund Adresen
	Provincial government & rural development	Japhet Waipora
	Women's affairs, youth & sports	Gordon Mara

Economic structure

Latest available figures

Economic indicators	1993	1994	1995	1996	1997
GDP at current prices (SI\$ m)	781	931 ^a	1,093 ^a	1,264 ^a	1,402 ^a
Real GDP growth (%)	2.0	5.2 ^a	7.0 ^a	3.5 ^a	-1.0 ^a
Consumer price inflation (av; %)	9.2	13.3	9.7	11.8	12.0 ^b
Population (m)	0.36	0.37	0.38	0.39	0.40 ^b
Exports fob ^c (US\$ m)	129.0	142.2	168.3	184.0 ^b	n/a
Imports cif ^c (US\$ m)	136.9	142.2	154.5	150.8 ^b	n/a
Current-account balance ^c (US\$ m)	-7.4	-3.6	8.3	18.4 ^b	n/a
Reserves excl gold (US\$ m)	20.07	17.42	15.91	32.58	31.34
Total external debt (US\$ m)	150.5	154.9	157.5	145.1	135.4
Debt-service ratio, paid (%)	5.8	8.2	3.8	3.9	2.4
Exchange rate (av; SI\$:US\$)	3.188	3.291	3.406	3.566	3.717

July 16th 1999 SI\$4.8573:US\$1

Origins of gross domestic product 1992	% of total	Components of gross domestic product 1989	% of total
Agriculture	48.4	Private consumption	78.0
Mining	-0.3	Public consumption	34.7
Manufacturing	3.7	Fixed investment	28.1
Electricity, gas & water	0.9	Exports of goods & services	64.8
Construction	4.3	Imports of goods & services	-105.6
Trade	9.6	GDP at market prices	100.0
Transport & communications	7.2		
Finance	3.3		
Public administration	23.0		
GDP at constant prices	100.0		

Principal exports fob 1995	US\$ m	Principal imports cif 1995	US\$ m
Timber	83.1	Machinery & transport equipment	49.5
Fish	42.8	Manufactured goods	34.7
Palm oil	19.5	Food	23.5
Copra	9.6	Miscellaneous manufactured articles	14.8
Cocoa	3.9	Mineral fuels	14.3
Palm kernel	1.6	Chemicals	7.8
Marine shells	1.6	Total incl others	154.5
Coconut oil	1.2		
Total incl others	168.3		

Main destinations of exports 1997 ^d	% of total	Main origins of imports 1997 ^d	% of total
Japan	59.2	Australia	41.5
Philippines	9.5	Singapore	15.7
UK	7.8	Japan	10.7
Thailand	2.8	New Zealand	5.7

^a EIU estimate. ^b Official provisional figure. ^c National figures. ^d Derived from trading partners' statistics; subject to a wide margin of error.

Outlook for 1999-2000

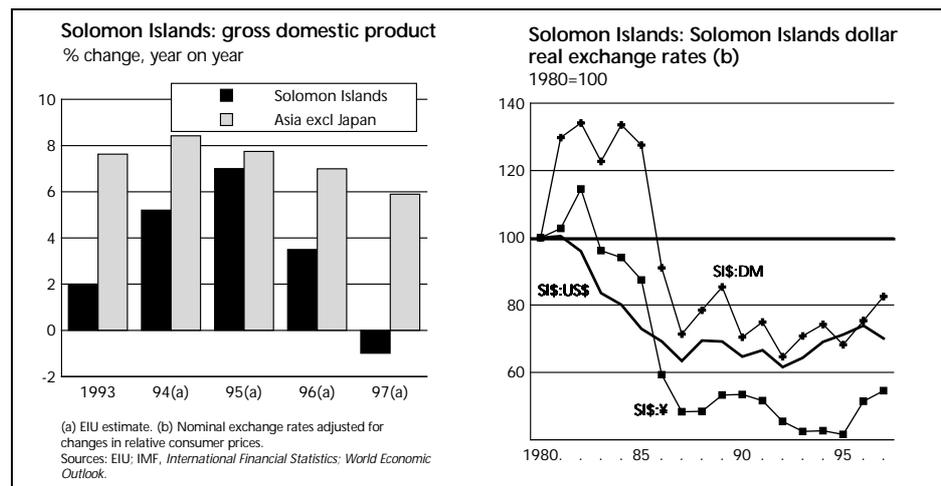
Achieving a lasting peace will put the government to the test—

The diplomatic savvy of the ruling Alliance for Change (AFC) government, led by the prime minister, Bartholomew Ulufa'alu, will be put to the test as a peace deal brokered under the aegis of the Commonwealth between residents of Guadalcanal and Malaitans is implemented. The early indications are that the peace agreement, negotiated by the former Fijian prime minister, Major-General Sitiveni Rabuka, the special envoy of the Commonwealth secretary-general, Chief Emeka Anyaoku, will hold. The main priority now is to ensure that further violence is contained, repatriation of Malaitans proceeds smoothly and economic activity returns to normal. The resumption of basic government services, which ceased in many areas as the security situation deteriorated from late 1998, will also be crucial to securing a lasting peace.

The salient question is whether Mr Ulufa'alu, a Malaitan himself, and the AFC possess the political acumen and logistical and administrative capacity to deal with the evolving refugee crisis on Malaita. Thousands of Malaitans have gone back to the island from Guadalcanal, where they had lived, some for generations. A similar refugee crisis will have to be confronted in the capital, Honiara, where thousands are camping in public buildings, church halls, and other emergency accommodation, having been forced to abandon their homes in rural areas.

—but international donors are sympathetic

Given the long-standing ethnic tensions between Guadalcanal islanders and Malaitans, and the fact that the Ulufa'alu administration is not seen to have directly exacerbated the situation, the support of major donors and international financial institutions has been maintained. The fact that the AFC government has also remained committed to economic reforms and restructuring to encourage private-sector development has also helped to keep the Bretton Woods institutions on board. However, it remains to be seen how the government will marry the exigencies of the peace deal, which requires the establishment of an ethnic "balance" in the public service and geographically equitable economic development initiatives, with the stringent parameters of the current reform programme.

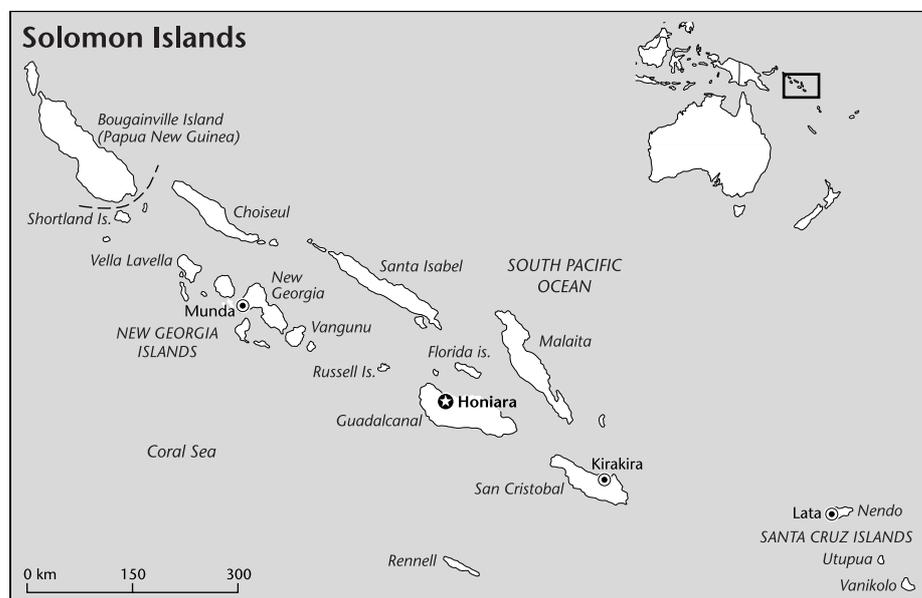


Review

Further violence erupts in Guadalcanal—

The political scene has continued to deteriorate in Guadalcanal province (2nd quarter 1998, page 39) amid a series of shootings, fire bombings, individual assaults and other forms of violence, prompting the prime minister, Bartholomew Ulufa'alu, to declare a state of emergency on June 15th. Citizens' movements were restricted, additional powers were granted to the national police, and the ban on the sale of alcohol was extended. Notwithstanding these measures, the government appeared relatively helpless, leaving the police force, which, ironically, comprises mostly Malaitans (most of the violence on Guadalcanal stems from tensions between Guadalcanal islanders and Malaitans) to try to quell the disturbances. To the government's relief, the Commonwealth secretary-general, Chief Emeka Anyaoku, reacted swiftly to the escalating crisis, and on June 16th, with the approval of the Ulufa'alu administration, appointed the former Fijian prime minister, Major-General Sitiveni Rabuka, as his personal envoy to broker a peace agreement. Chief Anyaoku's strategy seems to have been based on the logic that the competing ethnic groups would be more likely to respect the authority of a fellow, high-profile Melanesian than a foreign interlocutor. By mid-July police contingents from Fiji and Vanuatu were being assembled for service in Solomon Islands to assist in implementing an agreement signed after two weeks of intensive negotiations.

An estimated 10,000 Malaitans, mostly long-term residents on Guadalcanal, have returned to Malaita in recent months owing to systematic violence and threats. Thousands of others have been living in emergency accommodation in Honiara. At least six people, including two police officers, have been killed in armed clashes.



—but policing arrangements seem to have done the trick—

Policing arrangements are central to the peace agreement signed on June 28th by the national government and representatives from the various Malaitan and Guadalcanal communities. Speaking at a seminar in the Australian capital, Canberra, General Rabuka argued that, given Guadalcanal residents' perception that the police force was dominated by Malaitans, the inclusion of around 50 foreign officers in the force would help to dispel distrust about its suspected bias, thereby generating confidence in the peace agreement. Though the immediate task of the reformulated force will be to stop the violence in Honiara and surrounding areas, the police will also try to ensure that retaliations between the communities do not materialise. General Rabuka also insisted that the national police force would need to be retrained to make it more sensitive to local customs and traditions. More Guadalcanal policemen are to be deployed in the areas around Honiara, while the foreign contingent is also responsible for collecting arms from Guadalcanal militants, now calling themselves the Isatambu Freedom Fighters (IFF).

—amid tough negotiations

The peace agreement sets out in detail the demands of Guadalcanal islanders, and special attention has been paid to particular issues that arise from the location of the capital on Guadalcanal, one of the root causes of antagonism with Malaitans. Not surprisingly, the agreement is replete with rhetoric, notably the need for all sides to "compromise and sacrifice" in the search for peace. However, the salient stipulation is that all organisations formed to pursue the demands of Guadalcanal islanders through the use of force are to be dissolved immediately, with members instructed to return to their homes and to surrender their weapons at points established by General Rabuka. It was also agreed that individuals charged with specific offences would have to stand trial, as there is no provision for an amnesty in the Solomon Islands constitution. This was a crucial concession on the part of the militants, who had initially demanded a general amnesty.

It was also agreed that the rapid normalisation of operations at significant industrial sites, such as the national palm oil facility, the Solomon Islands Plantations Ltd (SIPL), and the Gold Ridge mine, was crucial in order to get the economy back on track. The peace deal also makes provisions for victims who had been forced to relocate to receive government assistance. Those who lost property are also to be compensated. It is hoped that a task force established by the government to resettle displaced Malaitans will receive adequate funding from domestic and international sources.

Development of Malaita is identified as a main priority—

The peace agreement outlines plans for an accelerated programme of economic development for Malaita, with the assistance of international development organisations and Commonwealth nations, to curtail urbanisation and consolidate political stability. In the document the government is committed to trying to assuage the Guadalcanal islanders' sense of alienation from central government by ensuring that there is equal representation of all provinces in the national civil service and the police force. The police force in particular has been encouraged to improve its image and record in Guadalcanal.

By the same token, General Rabuka warned the government not to portray the disappearance of the IFF as a victory, adding that a gratuitous witch-hunt for

individuals suspected of involvement in the violence would prove counter-productive. Indeed, on a slightly sensitive note, General Rabuka added that the conflict had various dimensions and that politicians had also played a role.

—and the Melanesian Spearhead Group supports the policing plan

The policing arrangements were endorsed by leaders of the Melanesian Spearhead Group (MSG) at a meeting on July 2nd in Port Vila, Vanuatu. The MSG, which comprises Fiji, Papua New Guinea, the Solomon Islands, Vanuatu and the Front de libération nationale kanak socialiste (FLNKS), the pro-independence coalition of New Caledonian parties, expressed its unequivocal support for the peace initiative and reconciliation process in the Solomon Islands, commending General Rabuka's shuttle diplomacy.

The Central Bank restructures the securities market—

According to the governor of the Central Bank of Solomon Islands (CBSI), Rick Hou, considerable progress was made in 1998 on the management of domestic and external debt. Presenting the 1998 CBSI report to parliament, Mr Hou argued that the improvement of the government's debt portfolio had been facilitated by its commitment to remain current with interest payments on domestic debt and the receipt of a S\$76m (US\$15.6m) structural adjustment credit from the Asian Development Bank (ADB). Around S\$37m of principal arrears owed to the National Provident Fund (NPF) were securitised, while the government's overall arrears were reduced from S\$137m at the end of 1997 to S\$50m at the end of March 1999. Mr Hou added that in the first quarter of 1999, a large proportion of domestic debt, mainly in the form of short-term Treasury bills, had been restructured into longer term bonds on terms acceptable to creditors and the government. In effect, Solomon Islands' domestic and external debt portfolio has been rendered far more manageable, and if the government manages to keep current on interest payments, the securities market may soon return to full operations. The securities market became inoperative in August 1995 when the previous government exhausted its credit facilities with the CBSI.

—and Central Bank bills are to replace Treasury bills

CBSI advances to the government amounting to S\$75m were securitised into Treasury bills in late May, replacing Central Bank bills as the government's main monetary policy instrument. The interest rate on the bills are market-determined through an auction process that began in May. The CBSI is now prepared to repurchase bills when creditors wish to liquidate them. The Central Bank has underlined that adequate liquidity will be required in order to reopen the securities markets. Until 1995 this was provided in the form of CBSI advances to the government; however, with this facility now exhausted, alternative arrangements are under consideration, including the possible use of concessional funds from multilateral institutions.

Meanwhile, the government is seeking a loan from the World Bank to clear its remaining US\$449.4m of external and domestic debt and to support the next stage of its economic reform programme. The minister of finance, Alpha Kimata, the financial secretary, George Kiriau, and the Central Bank governor visited Washington in May to discuss the proposal. A decision is expected from the World Bank later this year.

Solomon Islands: external debt
(US\$ m unless otherwise indicated; year-end)

	1995	1996	1997
Total external debt	157.5	145.1	135.4
Long-term debt ^a	147.8	143.6	133.2
Short-term debt	9.7	1.4	2.2
of which:			
interest arrears on long-term debt	8.4	0.6	2.1
Use of IMF credit	0.0	0.0	0.0
Public & publicly guaranteed long-term debt	99.0	98.0	92.0
Official creditors	93.8	93.8	87.8
Multilateral	78.2	79.4	74.3
Bilateral	15.6	14.4	13.5
Private creditors	5.2	4.2	4.2
Total debt service	8.1	8.4	5.7
Principal	6.5	6.3	4.4
Interest	1.6	2.1	1.3
of which:			
short-term debt	0.1	0.0	0.0
Ratios (%)			
Total external debt/GNP	49.1	40.8	36.9
Debt-service ratio ^b	3.8	3.9	2.4
Short-term debt/total external debt	6.1	1.0	1.6
Concessional debt/total external debt	54.7	60.3	60.4

^a Long-term debt is defined as having original maturity of more than one year. ^b Debt service as a percentage of earnings from goods and services.

Source: World Bank, *Global Development Finance*, 1999.

The electricity authority
boosts capacity

The government-owned Solomon Islands Electricity Authority (SIEA) is to add a new generator to its main power station at Lungga, funded with aid from the Japan International Cooperation Agency (JICA). At a cost of S\$33, the generator will provide an additional 4.2 mw of electricity for Honiara, doubling current output. Roughly 9,000 islanders currently consume electricity in Honiara, and the additional capacity should ensure that the capital has sufficient power until 2005.

Taiwan steps up
development assistance to
Solomon Islands

Relations between the Solomon Islands and Taiwan have grown stronger with the announcement in July of S\$3.3m in development assistance. Mr Ulufa'alu expressed his gratitude to the Taiwan government, particularly in the context of the refugee crisis. Much of the aid will be channelled to emergency relief operations, but the remainder will be used to re-equip the Solomon Islands Broadcasting Corporation and to construct new police barracks.

Fisheries remain the
Solomon Islands' largest
export earner

According to the minister for agriculture and fisheries, Sanga Aumanu, tuna exports will remain the Solomon Islands' biggest export earner in 1999. In the early 1990s fisheries exports lost their prominence to logging activity, but Mr Aumanu confirmed that fisheries had picked up strongly since 1997. Export earnings from fisheries in 1998 exceeded US\$10m and are expected to rise further in 1999.

The Institute of Marine resources is transferred to the USP

The council of the University of the South Pacific (USP) held a week-long meeting in Honiara in May, during which it was formally handed control of the Institute of Marine Resources (IMR) in Aruligo. The government agreed in 1991 to support the university's marine studies programme by providing a site and funding for the first phase of the creation of the IMR. At the handover, the deputy prime minister, Sir Baddeley Devesi, said that the delivery of the facilities reflected the government's commitment to the USP and to the development of marine resources in the Pacific Islands.

The first female magistrate is appointed

Ester Lelapitu was appointed a magistrate by the Judicial and Legal Service Commission in June, becoming the Solomon Islands' first female judicial officer. Ms Lelapitu, from Vella la Vella in Western Province, had been a court clerk since 1982, handling administrative duties for magistrates in Honiara, Gizo and Auki.

Tonga

Political structure

Official name	Kingdom of Tonga	
Form of state	Constitutional monarchy, with the monarch retaining significant power	
The executive	The king appoints a cabinet, headed by a prime minister, comprising the governors of Ha'apai and Vava'u and ministers of the Crown; ministers are appointed permanently until retirement age	
Head of state	King Taufa'ahau Tupou IV	
National legislature	Unicameral Legislative Assembly with limited powers, comprising the speaker, the cabinet, nine nobles chosen by the 33 nobles of Tonga, and nine representatives elected by all Tongans aged 21 or over; three of the representatives are elected from Tongatapu, one each from Toputatu Niua and Niua Fa'ou, two from Ha'apai and two from Vava'u; the nobles chosen cover similar areas	
Legal system	Modelled on the English system, with the Privy Council (consisting of the cabinet headed by the king) sitting as the Court of Appeal	
National elections	March 1999; next election due by 2003	
Main political organisation	People's Party	
Key ministers	Prime minister & minister of agriculture, fisheries & forestry	Baron Vaea of Houma
	Deputy prime minister & minister of education & civil aviation	Langi Kavaliku
	Finance	Tutoatasi Fakafanua
	Foreign affairs & defence	Prince Lavaka Ata Ulukalala
	Health	Viliami Ta'u Tangi
	Justice & attorney-general	Tevita Tupou
	Labour, commerce & industry, tourism	Masaso Paunga
	Lands, survey & natural resources	Honourable Tu'i'afitu
	Police, prisons & immigration	Clive Edwards
Public, fire services & prisons	Cecil Cocker	
Governor of Ha'apai	Fielakepa	
Governor of Vava'u	Honourable Tuita	
Governor of the Reserve Bank	Siosua 'Utoikamanu	

Economic structure

Latest available figures

Economic indicators	1993	1994	1995	1996	1997
GDP at current prices ^a (T\$ m)	201.0	214.8	229.5 ^b	343.5 ^b	n/a
Real GDP growth ^a (%)	5.9	2.9	-3.4	-3.4	0.1
Consumer price inflation (av; %)	0.9	1.1	1.4	3.0	2.1
Population ('000)	100	100	100	100	100 ^b
Exports fob (US\$ m)	16.1	13.9	14.6	13.2	12.7
Imports fob (US\$ m)	56.6	68.9	77.2	60.0	84.5
Current-account balance (US\$ m)	-6.0	20.4	-10.6	-1.5	-19.7
Reserves excl gold (US\$ m)	37.06	35.54	28.71	30.62	27.49
Total external debt (US\$ m)	44.2	64.4	70.1	69.6	61.2
Debt-service ratio, paid (%)	3.1	4.7	5.2	5.0	7.0
Exchange rate (av; T\$:US\$)	1.38	1.32	1.27	1.23	1.26

July 16th 1999 T\$1.5154:US\$1

Origins of gross domestic product 1994 ^b	% of total	Components of gross domestic product 1991 ^b	% of total
Agriculture	30.1	Private consumption	93.8
Mining	0.2	Government consumption	18.9
Manufacturing	4.5	Gross capital formation	15.5
Electricity, gas & water	1.5	Increase in stocks	1.9
Construction	5.0	Exports of goods & services	20.7
Services	44.1	Imports of goods & services	-50.9
GDP at market prices		GDP at market prices	100.0
incl indirect taxes & subsidies	100.0		

Principal exports fob 1995	US\$ m	Principal imports cif 1995	US\$ m
Squash	6.6	Food	17.6
Fish products	3.4	Machinery & transport equipment	16.0
Vanilla	2.2	Basic manufactures	15.0
Total incl others	14.6	Mineral fuels	9.6
		Total incl others	77.2

Main destinations of exports 1997 ^c	% of total	Main origins of imports 1997 ^c	% of total
Japan	52.9	New Zealand	29.7
US	17.6	Australia	18.9
Australia	5.9	US	10.8
New Zealand	5.9	UK	10.8
		Japan	2.7

^a Fiscal years beginning July 1st. ^b EIU estimates. ^c Estimates derived from trading partners' statistics; subject to a wide margin of error.

Outlook for 1999-2000

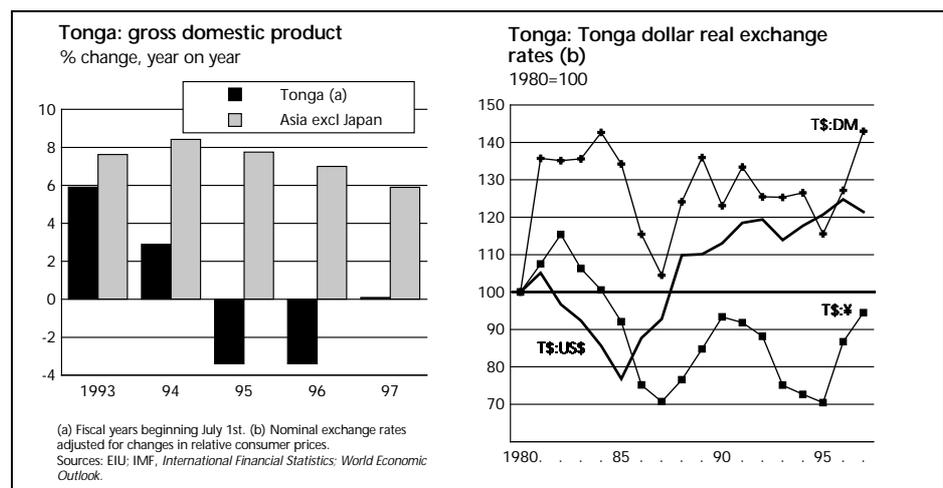
The government will continue to drift—

The political scene will remain uncertain while King Taufa'ahau Tupou IV fails to clarify his plans for the future leadership of his government. While the prime minister, Baron Vaea of Houma, who submitted a request for retirement 18 months ago, has yet to be granted leave, it remains to be seen whether Crown Prince Tupouto'a, now a prominent businessman, will assume the premiership, if indeed it is offered to him. The assumption among ordinary Tongans seems to be that the prince is obliged to take the post, although the prince has indicated to the king that he will refuse it unless he is allowed to appoint his own ministers. However, there is growing dissent among some members of parliament, notably the pro-democracy and activist 'Akilisi Pohiva, who has declared openly that if Crown Prince Tupouto'a becomes prime minister, more prudent policymaking and economic recovery are unlikely to materialise.

Meanwhile, uncertainty surrounding Baron Vaea of Houma's replacement, combined with concerns about the king's health, has augmented a sense of directionlessness in government. Some MPs privately confirm that communications have virtually broken down between the king and his ministers, while the prime minister's lack of energy and enthusiasm is merely exacerbating the situation. Until the new prime minister is installed and the king begins to delegate power to his inner circle—either because of age-related limitations or a conscious decision to withdraw from political life—Tonga is unlikely to regain a sense of direction.

—and the economy will be slow to recover

According to the Asian Development Bank (ADB) the outlook for the economy in the short to medium term remains grim, and recovery, if it occurs, will be slow. Output of Tonga's main export crop, squash, is expected to increase in 1999, assuming improved weather conditions, but competition, which has prompted a sharp fall in prices, will intensify. Fish and root crop exports will hold their own, but vanilla producers, already holding unsold stock, will continue to be hit by low prices. The ADB has echoed most multilateral organisations and development agencies, arguing that the fundamental challenge in Tonga remains job creation through private-sector development. The hasty implementation of economic and structural reform, along with decentralisation and withdrawal of the state from main areas of economic activity, is also crucial.



Review

The King celebrates his 81st birthday—

King Taufa'ahau Tupou IV celebrated his 81st birthday on July 4th with a special morning service in the Free Wesleyan Church of Haveluloto, along with a royal music festival at the church in the evening. During the official holiday to mark the king's birthday the following day, he inspected a military guard of honour in the capital, Nuku'alofa.

—and a new parliamentary speaker is appointed

The Honourable Veikune, a Noble representative for Vava'u, has been appointed speaker of the Legislative Assembly (parliament), succeeding Honourable Fusitu'a, who had held the position since 1990 but lost his seat at the March election. The new speaker represents the most experienced member in parliament, with over 18 years' service in government and previous experience as deputy speaker and chairman of various committees.

The budget surplus is forecast to shrink—

In his budget speech to parliament on June 1st, the finance minister, Tutoatasi Fakafanua, announced that the government plans to change the structure of taxation in Tonga, introducing a broad range of indirect taxes in order to reduce the current reliance on trade taxes such as import duties and tariffs. Mr Fakafanua was confident that the reforms would not only help to boost revenue, but would also improve the investment climate. The fact that the timing for the proposed changes has yet to be announced attests to residual reticence in the upper echelons of government about fiscal reform; all the more because the budget surplus in the fiscal year 1999/2000 (July-June) is projected to fall to T\$900,000 (US\$594,000)—equivalent to around 0.2% of GDP—from T\$2.6m in 1998/99. Total expenditure is forecast to rise from T\$75.1 in 1998/99 to T\$88.3m in 1999/2000, while total revenue is projected to nudge upwards by a paltry 1.7%, from T\$61.3m to T\$62.3m.

Tonga: government finances^a
(T\$ m; fiscal years beginning July 1st)

	1998/99	1999/2000
Total revenue	61.3	62.3
of which:		
current revenue	61.3	62.3
tax receipts	44.0	45.9
non-tax receipts	17.2	16.4
Grants	13.9	24.7
Total revenue & grants	75.2	87.1
Total expenditure	75.1	88.3
Current expenditure	68.4	74.7
Capital expenditure	6.7	13.6
Lending minus repayments	-2.5	-2.1
Total expenditure & net lending	72.6	86.2
Fiscal balance	2.6	0.9

^a Totals may not sum because of rounding; official forecasts.

Source: Government of Tonga, *Budget Statement, 1999/2000*.

—and the finance minister acknowledges the economic downturn—

The finance minister acknowledged that the economy had been hit by a series of exogenous shocks in recent years, notably the sharp decline in international demand in the wake of the Asian crisis for Tonga's three principal exports—squash, vanilla and fish—along with severe drought in 1998 and extensive damage caused by Cyclone Cora in late 1998 (1st quarter 1999, page 41). These events severely constrained real GDP growth, initially in agriculture and fisheries, but then fed through to other sectors, including tourism. According to the latest *Quarterly Bulletin* published by the National Reserve Bank of Tonga (NRBT, the central bank), real GDP growth fell from 2.9% in 1994/95 to -3.4% in 1995/96, before recovering to 0.1% in 1996/97. According to official statistical sources, real economic expansion remained at 0.1% in 1997/98 and is estimated to have risen to 2.2% in 1998/99, led by expansion in the construction, manufacturing, and transport and communications sectors.

—as primary production falls—

According to the 1999/2000 budget statement, the contribution of the primary sector to overall GDP—agriculture, fisheries, forestry, mining and quarrying—decreased from 31.9% in 1996/97 to 31.2% in 1997/98 and was estimated to have fallen to 30.3% in 1998/99. Last year's decline has been largely attributed to the effects of Cyclone Cora; however, fisheries output and exports were seriously affected by adverse weather conditions, shortages of airline capacity for produce sales and high production costs. The share of secondary sectors stood at 20.3% in 1996/97 and was estimated to reach 28.2% in 1998/99.

Tonga: export performance
(T\$ m; fiscal years beginning Jul 1st)

	1996/97	1997/98
Squash	6.5	6.0
Fish	2.1	3.3
Kava	1.2	1.3
Root crops	1.2	0.5
Vanilla	0.8	0.2
Copra	0.2	0.0

Source: National Reserve Bank of Tonga (NRBT), *Quarterly Bulletin*, September 1998.

—but the ADB is even more pessimistic

In contrast to official data released by the government and the NRBT, according to *Asian Development Outlook*, published by the Asian Development Bank (ADB), the Tongan economy remained in recession in 1998. ADB data suggest that real GDP contracted by 1.5% in 1996, by 6.6% in 1997 and by 0.3% in 1998. The Bank agrees that negative growth rates largely reflect the downturn in the agricultural sector, but adds that the hotel and restaurant sector also contracted in 1997, partly because of falling tourist numbers, but also because activity in the construction sector fell dramatically after the completion of some large projects funded by international development agencies. In 1998 the merchandise trade deficit widened considerably, owing to the fall in squash exports to Japan and a resurgence of imports, fuelled by strong credit growth. In the year to March 1998 domestic credit grew by 20%. Private-sector credit rose by 40% and the government shifted from being a net

lender to a net borrower as its fiscal position deteriorated. The balance-of-payments position deteriorated considerably, and the ADB estimates that the current-account deficit widened to 7.3% of GDP, with foreign-exchange reserves falling to the equivalent of two months of imports, compared with five months of cover in 1997.

Tonga: balance of payments^a
(T\$ m; fiscal years beginning Jul 1st)

	1996/97	1997/98
Exports (fob)	16.2	16.0
Imports (fob)	73.8	106.5
Trade balance	-57.6	-90.5
Net services balance	8.6	7.6
Net income balance	1.8	5.2
Net transfers balance	45.2	52.6
Current-account balance	-1.9	-24.9
Capital-account balance	7.3	9.5
Overall balance	5.4	-15.4

^a Provisional.

Source: NRB, *Quarterly Bulletin*, September 1998.

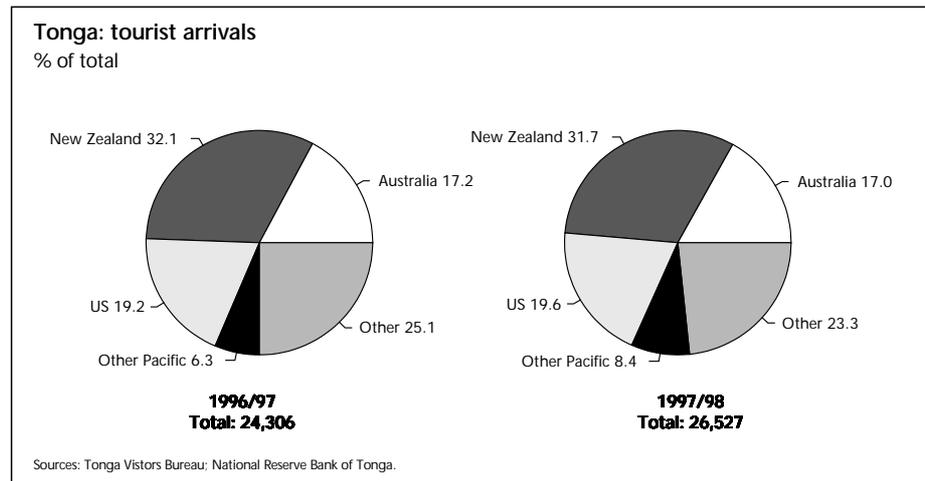
Watermelons may be
Tonga's next niche export

At the opening session of parliament on May 27th, the king announced several agricultural initiatives aimed at boosting export earnings, notwithstanding the acknowledged danger of excessive dependence on produce sales. Arrangements are apparently being made to lease additional land in American Samoa and Hawaii to grow fruit and vegetables for local sale and export. US agricultural experts are also being consulted on the introduction of new agricultural products, notably seedless watermelons. According to local agriculture officials, the price of seedless watermelons soared during the Japanese winter, beginning in October, and remained high for six months, providing an opportunity for Tongan farmers to take advantage of the shortfall. The king is keen for watermelon exports to commence by the end of 1999.

A Japanese company, Nittsu Shoji, donated two sets of testing equipment to the Tongan government in June to help upgrade and expand exports of foodstuffs. One set will handle dried crops such as kava and vanilla and the other will be used for watermelons, squash, papaya and other fruits. The equipment will help exporters meet Japanese quality specifications.

A tourism marketing plan
is completed

In late April the government announced the completion of a three-year marketing plan for the tourism industry, which was compiled with the assistance of the Australian government. The plan envisages heavy use of the Internet, with sections covering diving, sailing, whale-watching, game fishing and kayaking. According to the Ministry of Tourism, these sorts of activities can be encouraged and visitor arrivals increased, thereby generating employment opportunities, without affecting traditional lifestyles.



The Asian economic downturn has created intense competition in the regional tourist industry, and Tongan operators have been forced either to expand holiday packages or reduce prices. According to the Tonga Visitors Bureau, visitor arrivals rose to 28,000 in 1998, a 3% increase on the previous year. However, foreign-exchange earnings fell by 22.8%, from T\$15.8m to T\$12.3m.

The ADB backs plans to upgrade Nuku'alofa port

In July the Ports Authority announced a three-year T\$2.5m development plan for the Nuku'alofa facilities, with funding from the ADB. Queen Salote Wharf (No 2) and its access road are to be sealed and a waste oil storage facility and marina constructed at the wharf. The surrounding harbour foreshore will undergo major rehabilitation and the authority is to buy a new pilot boat. The authority was established as a commercial entity in February (2nd quarter 1999, page 48), leaving the Ministry of Marine Affairs and Ports to look after regulatory and policy matters. The general manager of the authority, Tu'itupou Fotu, is the former secretary of the ministry and is on a three-year secondment to the new body. According to Mr Fotu, Tonga's port facilities need urgent improvement and modernisation, and he lamented parliament's decision in 1998 to exclude Vava'u and Ha'apai from the jurisdiction of the Ports Authority.

A new telecoms company is launched

On July 1st Tonga Telecommunications Corporation (TTC) began operations after two years of preparation involving the government and Telecom Australia. TTC has a corporate structure, and the government, while initially the sole shareholder, intends to sell 49% of the company. TTC has assumed responsibility for domestic services previously handled by Tonga Telecom and will run international services currently provided by Cable and Wireless under a contract due to begin in June 1999.

Vanuatu

Political structure

Official name	Republic of Vanuatu	
Form of state	Parliamentary, based on the UK model	
The executive	Council of Ministers, made up of 12 members of parliament chosen by the prime minister, who is in turn elected by parliament from among its members	
Head of state	The president, Father John Bani, was elected in March 1999 for a four-year term by an electoral college drawn from members of parliament and heads of local government	
National legislature	Unicameral parliament, 50 members elected for four-year terms; universal franchise containing an element of proportional representation	
Regional legislature	The National Council of Chiefs, elected from the district councils of chiefs, exists alongside parliament to discuss and be consulted on matters relating to custom and tradition	
Legal system	System of magistrates' courts leading to Supreme Court at apex	
National elections	March 6th 1998; next election due by March 2002	
National government	Donald Kalpokas Masike-Vanua, the prime minister, heads a coalition comprising the Vanua'aku Pati, the John Frum group, the Vanuatu Republican Party and one independent	
Main political organisations	Union of Moderate Parties (UMP); National United Party (NUP); Vanua'aku Pati (VP); Vanuatu Republican Party; John Frum group	
Members of Council of Ministers	Prime minister, minister for foreign affairs, the comprehensive reform programme, trade & the public service	Donald Kalpokas Masike-Vanua (VP)
	Deputy prime minister & minister for business development	Willie Jimmy (UMP)
Key ministers	Agriculture, forestry & fisheries	vacant
	Education, youth & sports	Joe Natuman (VP)
	Finance	Sela Molisa (VP)
	Health	Jean S Keasipai (John Frum group)
	Infrastructure, utilities & public works	Henry Taga (UMP)
	Internal affairs & justice	Vincent Boulekone (UMP)
	Lands, geology & mines	John Morsen Willie (VP)

Economic structure

Latest available figures

Economic indicators	1993	1994	1995	1996	1997
GDP at current prices (Vt m)	23,779	24,962	26,633	27,679 ^a	29,308 ^a
Real GDP growth (%)	4.5	2.5	3.2	3.0 ^b	3.5 ^b
Consumer price inflation (av; %)	5.4	2.4	2.2	0.9	2.8
Population (m)	0.16	0.16	0.17	0.18	0.18 ^a
Exports fob (US\$ m)	17.4	25.1	28.3	30.2	35.2
Imports fob (US\$ m)	64.7	74.7	79.4	97.0	93.9 ^c
Current-account balance (US\$ m)	-14.9	-19.8	-18.3	-22.0 ^a	-25.6
Reserves excl gold (US\$ m)	45.59	43.58	48.29	43.92	37.30
Total external debt (US\$ m)	42.4	46.5	48.2	47.1	47.9
Debt-service ratio, paid (%)	1.4	1.6	1.5	1.4	1.5
Exchange rate (av; Vt:US\$)	121.6	116.4	112.1	111.7	115.9

July 16th 1999 Vt130.5:US\$1

Origins of gross domestic product 1995	% of total	Components of gross domestic product 1995	% of total
Agriculture	22.8	Private consumption	48.0
Manufacturing	6.4	Government consumption	27.0
Electricity, gas & water	1.5	Fixed investment	30.5
Construction	6.0	Stockbuilding	2.1
Trade	27.9	Exports of goods & services	45.2
Transport & communications	7.7	Imports of goods & services	-54.8
Finance	13.3	Statistical discrepancy	2.0
Other services	14.4	GDP at market prices	100.0
GDP at constant factor cost	100.0		

Principal exports fob 1997	US\$ m	Principal imports cif 1997	US\$ m
Copra	17.2	Machinery & transport equipment	24.2
Beef	3.6	Basic manufactures	14.3
Timber	3.8	Food & live animals	18.5
Cocoa	2.1	Miscellaneous manufactured goods	11.1
Total incl others	35.2	Mineral fuels	10.0
		Total incl others	93.9

Main destinations of exports 1997 ^d	% of total	Main origins of imports 1997 ^d	% of total
Japan	32.1	Japan	52.6
Germany	22.6	Australia	25.0
Spain	7.5	Singapore	6.3
Côte d'Ivoire	3.7	New Zealand	4.0
UK	1.9	France	4.0

^a EIU estimate. ^b Asian Development Bank estimate. ^c Cif. ^d Estimates derived from trading partners' statistics; subject to a wide margin of error.

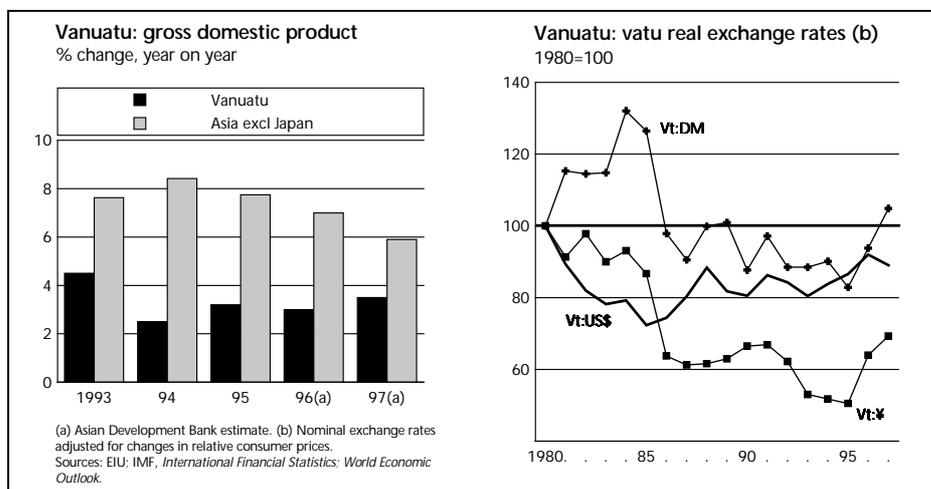
Outlook for 1999-2000

The prime minister remains committed to reform—

The prime minister and leader of the ruling Vanua'aku Pati (VP), Donald Kalpokas, has reiterated his commitment to the comprehensive reform programme (CRP), underwritten by the Asian Development Bank (ADB), and has undertaken a series of tours in outlying regions of the country to extol the virtues of macroeconomic stabilisation measures and structural reforms. The main question, however, is the degree of support that exists for the CRP within a government which appears increasingly dishevelled. Indeed, the viability of the CRP under the direction of the current administration was called into question in June when, for reasons that were not clarified, a parliamentary session was delayed for two days, boycotted by the opposition, then adjourned after a one-day sitting.

—but the political stalemate will hinder implementation of the CRP

Since the expulsion of the National United Party (NUP) from the ruling coalition in late 1998, and its hasty replacement with the Union of Moderate Parties (UMP), a political stalemate has developed in the Kalpokas administration, leaving the prime minister with little room for manoeuvre. Rapid progress with reforms and inspired policymaking should not be expected from the ad hoc partnership that has developed between the VP and the UMP, which emerged from differences in the VP-NUP coalition as opposed to natural synergies with the UMP. However, the ADB, along with the Bretton Woods institutions and major international donors, will be looking for concrete achievements under the CRP before further assistance is considered. Mr Kalpokas will have to walk a narrow tightrope between keeping development agencies and multilateral agencies on board, overcoming schisms in his government and ensuring that the CRP maintains adequate momentum.



Review

An unexplained change is made to the cabinet

On May 31st the prime minister, Donald Kalpokas, announced an unexpected change to his cabinet, shifting the minister for agriculture, forestry and fisheries, John Morsen Willie, to the lands, geology and mines portfolio. Mr Willie was also made responsible for rural water supplies, energy and the environment. The prime minister indicated that Silas Hakwa, the previous minister for lands, had been asked to assume the agriculture portfolio, but had opted to return to private legal practice. Mr Hakwa will be on call to provide advisory services to the government when necessary. The agriculture portfolio remains vacant for the time being.

Police officers are suspended for protest action

In late June, 16 junior police officers were suspended for protesting against non-payment of allowances due to them. The precise form of their protest has not been revealed; however, it confirmed the discontent that has been brewing in the police force for several months. Indeed, some members of a contingent assigned to a guard of honour at the opening of parliament on June 17th refused to participate and observed the event, in full uniform, with public spectators. The police commissioner, Peter Bong, advised his senior officers in May that outstanding allowances would be paid in June, and over 300 payments were made on June 15th, but many officers were still awaiting payment. The commissioner repeated his assurance that the allowances would be disbursed, indicating that cuts in the police budget had forced him to procure additional funds.

The ADB cites progress with the CRP—

According to the latest review of economic developments in Vanuatu published by the Asian Development Bank (ADB), progress with the comprehensive reform programme (CRP), of which it is the main sponsor, has been substantial. Summing up the achievements to date, the ADB cites:

- better governance and the establishment of a legislative framework for further improvements;
- a reduction in the number of ministries from 34 to nine and a 7% reduction in civil service employment;
- greater autonomy and efficiency in the public service;
- initial preparations of a public investment programme that includes aid-financed projects;
- introduction of a value-added tax and simplification and reduction of import duties and business licence fees; and
- restructuring of the National Bank of Vanuatu and the Development Bank of Vanuatu, and the amendment of the Vanuatu National Provident Fund Act to progress with financial reforms.

Notwithstanding the ADB's generally positive précis of the economy, remaining problem areas have been identified. The Bank lamented the fact that the rapid approval of a large volume of legislation in recent months has left

little time for parliamentary scrutiny; indeed, the new Foreign Investment Act (FIA) includes schedules which, in the Bank's opinion, contravene the spirit of the CRP. Moreover, by reserving a wide range of businesses exclusively for ni-Vanuatu (indigenous islanders), it is feared that the act will discourage foreign direct investment (FDI). The ADB has urged that the schedules of the FIA be reviewed as soon as possible. Another area of concern remains the weakness of law enforcement, which continues to impose high transaction costs on business. Similarly, the lack of an adequate skills and human resource base within the country, and the extreme reliance on foreign technical assistance, called into question the durability of reforms.

—but it is sceptical of government budget forecasts

The ADB is fairly sceptical about the government's forecasts for major macroeconomic and fiscal indicators. According to official estimates, around 87% of the 1998 budget deficit was attributable to a one-off distribution of compensation payments to public servants who were dismissed after a strike in 1994, the payout to rescue the Vanuatu National Provident Fund (VNFP) in January 1998 and CRP-related expenditure. These had caused the fiscal deficit to rise to the equivalent of over 10% of GDP. According to the Ministry of Finance, the budget deficit is forecast to narrow in 1999, but the ADB is sceptical about how this will be achieved. In particular, it questions the viability of a 6.3% rise in domestic revenue, given a projected growth rate in nominal GDP of 4.5%. Moreover, pressures for wage increases may jeopardise the forecast 10.5% reduction in domestically financed expenditure.

Vanuatu: government finances
(Vatu m)

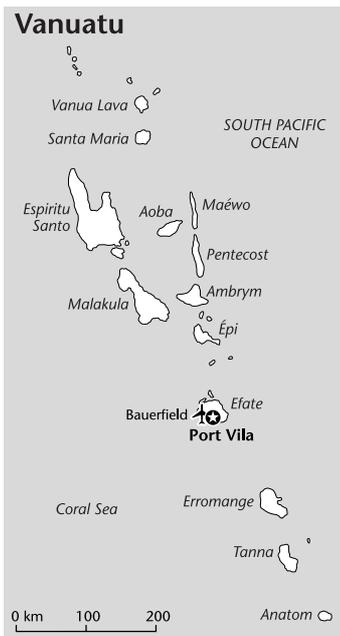
	1997		1998	
	Budget	Outturn ^a	Budget	Outturn ^a
Total recurrent revenue	6,505.0	6,509.9	7,162.0 ^b	6,921.8 ^b
Tax	5,419.1	5,540.0	5,723.0	6,027.1
of which:				
import duties	3,310.0	3,228.3	3,567.0	3,021.0
export duties	95.0	92.2	59.0	77.4
Non-tax	1,185.9	969.9	996.0	766.1
Total recurrent expenditure	6,605.0	7,024.3	8,150.7	7,169.4
of which:				
education	1,414.4	1,396.1	1,669.0	1,625.0
health	793.0	825.1	831.0	844.3
agriculture, forestry & fisheries	236.4	235.5	311.6	313.3
debt amortisation	49.7	40.2	340.0	19.3
interest payments	185.7	175.7	n/a	187.5
Overall balance	-100.0	-514.4	-988.7	-247.6

^a Preliminary. ^b Does not sum in source.

Source: Reserve Bank of Vanuatu, *Quarterly Economic Review*, December 1998.

A freak accident leaves Air Vanuatu with some difficult choices

In late May the prime minister announced that aviation consultants had been commissioned to review strategic options open to the state-owned flag carrier, Air Vanuatu. The airline has suffered heavy losses owing to damage to its Boeing 737 aircraft during a freak hailstorm in Sydney in February. The plane returned to service in June, but repairs and the loss of business have cost the airline nearly Vt300m (\$2.3m). Just over half of this amount will be covered by

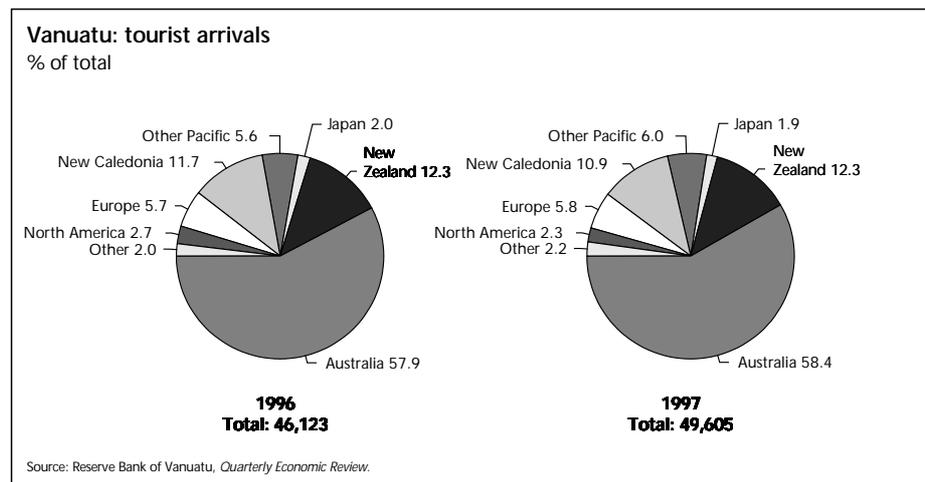


insurance. In response to its tight financial circumstances, Air Vanuatu has developed a restructuring plan in a bid to reduce costs. The prime minister is confident that the airline will return to profitability in the second half of 2000, but remains concerned about the short- to medium-term impact of the disruption of services on the tourism sector and the wider economy. Latest estimates suggest that hotel revenue has been reduced by around 25% since the aircraft went out of service, which will affect not only profitability, but also future investment and employment generation.

Vanuatu: trends in tourism

	1997	1998		
	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Visitor arrivals	12,654	9,086	13,574	16,212
Hotels	11	11	11	11
Rooms	663	589	634	387
Room nights	61,544	52,923	59,487	48,441
Occupancy (%)	50.9	49.7	58.6	56.7
Beds	1,636	1,461	1,442	981
Bed nights	147,494	129,776	142,860	116,385
Occupancy (%)	44.0	39.0	47.1	45.0

Source: Reserve Bank of Vanuatu, *Quarterly Economic Review*, December 1998.



Air and sea accidents claim 33 lives

There was heavy loss of life in two transport accidents on May 8th. An inter-island ferry with 26 people aboard disappeared during a trip in adverse weather conditions from Port Vila to nearby Api island. No survivors were sighted despite intensive air searches by French and Australian aircraft. A French military patrol located the wreckage nine days later. Later that evening, a VanAir twin Otter aircraft on a flight from Espiritu Santo to Port Vila crashed into Mele Bay when it tried to land at Bauerfield airport in driving rain. Five people survived after a six-hour swim ashore, but seven perished. An official inquiry into the accidents is under way.

VanAir introduces a new Dash-8

VanAir, Vanuatu's main domestic carrier, introduced a new Dash-8 airliner into service in July, marking the occasion with a flight to the island of Tanna, on which Whitegrass airport was recently upgraded to international standards.

The prime minister, who was guest of honour on the flight, indicated that the government was trying to encourage direct flights to Whitegrass from New Caledonia.

The ADB approves funding
for disaster relief

The minister of finance, Sela Molisa, signed a loan agreement in June with the ADB to rehabilitate bridges on Efate Island. Several bridges suffered serious damage after record rainfalls associated with Cyclone Dani in mid-January (1st quarter 1999, page 52). Several roads were washed away and river crossings damaged. Communication with villages in the north-west of Efate were disrupted and transportation of produce to the market in Port Vila was seriously affected.

The ADB loan of \$2m is repayable over 32 years, including a grace period of eight years. The interest during the grace period will be 1%, rising to 1.5% thereafter. The minister stressed that permanent engineering works were needed to ensure that bridges and river crossings withstood future heavy rains. Flood protection plans are also to be developed.

Other island countries

Cook Islands

The prime minister now leads a coalition government—

Following the general election on June 16th, Sir Geoffrey Henry was inaugurated for another term as prime minister, with Norman George, leader of the recently formed New Alliance Party (NAP) as deputy prime minister in a coalition government. The NAP won four seats, including Pukapuka-Nassau, where it had a one-vote margin after the ballot was recounted by the Supreme Court. Sir Geoffrey's Cook Islands Party (CIP) won 11 seats and the Democratic Alliance Party (DAP), led by Terepai Maoate, secured 10. Mr George has been named minister for health, justice, parliamentary services, and broadcasting and communications, as well as ombudsman. Another NAP member of parliament, Jim Marurai, was made minister of education, cultural development, the public service commission and human resource development. Sir Geoffrey deferred other ministerial appointments pending the outcome in court of hearings of petitions objecting to the declared results for four seats. The hearings were ongoing in late July.

Meanwhile, a referendum conducted in conjunction with the election on whether parliamentary terms should be shortened from five to four years has been returned to government. The shorter term was favoured by 63% of voters, but not the required two-thirds of the electorate required to pass the motion. The chief justice, Peter Quilliam, also ruled in May that a provision of the new Electoral Act limiting campaigning to the five weeks before an election was unconstitutional. Mr Quilliam dismissed the government's argument that the restriction was for the public benefit, responding that it would have restricted almost any form of political activity except for the briefest period between elections. The DAP and the NAP have both challenged the law.

—but the outlook for the economy is grim—

According to the latest review of the economy by the Asian Development Bank (ADB), the outlook is not encouraging, with real GDP growth projected to fall in the forecast period, before eventually recovering to around 3% by 2003. The ADB's forecast assumes sustained growth in the tourism, agriculture and marine resources sectors following the adverse impact of the Asian economic crisis. The Bank maintains that the impact of the Asian crisis on the Cook Islands has been negligible, given that Asian tourists accounted for only 1% of total visitor arrivals in 1997, but the indirect effect was potentially more serious. Currency devaluations in Asia and lower prices in competing tourist destinations, especially Fiji, had rendered the Cook Islands relatively more expensive, even after allowing for the 9% devaluation of the New Zealand dollar, the local currency, in 1998. Indeed, in the first nine months of 1998, visitor numbers were down nearly 3,000 on the same period in 1997. The ADB is also concerned that the recession in Japan may have an adverse effect on the Cook Island pearl industry, not only because Japan is the country's main

export market, but also because it is the world's largest consumer of cultured pearls. If Japanese demand falls, world prices are certain to decline.

—in the wake of a four-year recession

The ADB has confirmed that the Cook Islands economy was in recession between 1995-98, largely owing to contractions in tourism and the public service. Real GDP growth fell from 0.4% in 1995 to 0.2% in 1996, before recovering slightly to 0.5% and 1% in 1997 and 1998 respectively. Visitor arrivals in 1997 were 13% lower than the peak in 1994, and in the first three quarters of 1998 the number was 8% below the year-earlier period. The decline in the tourism sector was accompanied by a crisis in government finances, leading to the 1996-98 economic reform programme, which saw the number of public servants reduced from about 3,350 to 1,340 and the number of ministries cut from 52 to 22. The resident population dropped from 19,100 to 16,600 as people took advantage of their New Zealand citizenship to work in New Zealand and Australia. According to ADB data, the number of ministries and civil servants remains far too high for such a small population, and the failure to reduce the size and cost of a parliament of 25 members is a source of concern. The devolution to local government of basic service provision, implemented under the economic reform programme, has been identified as an attractive way to increase participation in the reform process, provided it is managed effectively.

Marshall Islands

Increased revenue is expected from Asian fishing vessels

The government expects revenue from foreign fishing vessels to increase substantially in 1999 as a result of closer ties with the Asian fishing industry. A report from the Marshall Islands Marine Resources Authority in May indicated that the country had earned around US\$3m per year since 1990 from foreign fishing companies through licence fees and other forms of expenditure. The figure is expected to approach US\$8m in 1999/2000. According to the report, fishing licence fees rose from US\$1.6m in 1997/1998 to US\$3.8m in 1998/1999. The number of vessels for which licences have been purchased rose from 132 in 1996 to 279 in 1998. In addition, Majuro became a centre for tuna trans-shipment in 1998, earning US\$78,000 from 133 shipments of tuna made by vessels from Asian, Pacific and US fishing companies. The revamped and more commercially orientated fisheries department has slashed fees and removed unnecessary red tape, rendering the Marshall Islands a more attractive port of call for vessels that previously avoided the country.

Nauru

Legislation for rehabilitating the island is now in force

Legislation covering the rehabilitation of Nauru after generations of phosphate mining was implemented on May 31st, when the board of the rehabilitation authority met for the first time. The minister for finance, transport and communications, Kinza Clodumar, indicated that following the implementation of

the legislation, negotiations with the Australian government on elements of the process had begun. Australia agreed in 1993 to finance the 20-year rehabilitation programme after Nauru launched legal proceedings in the International Court of Justice. Under the programme, mined-out areas will be restored to a condition capable of sustaining agriculture or providing new sites for housing. According to Mr Clodumar, the next step for the authority board is to prepare a budget, which, in turn, involved setting priorities and raising issues that will be submitted for community consultation. The salient question is whether to continue mining or to leave remaining phosphate reserves in the ground. Further mining will necessitate the removal of rock pinnacles, which may be useful in later stages of rehabilitation. However, it could well take five or six years and require further capital inputs.

The Bank of Nauru needs to be recapitalised

Mr Clodumar has indicated his disappointment that the Asian Development Bank (ADB) has not addressed problems at the Bank of Nauru (BoN, the central bank) as part of its assistance with economic and structural reform. According to the minister, the BoN requires a capital injection of about A\$80m (US\$52m) to enable it to resume normal daily operations. The liquidity shortage at the bank is so severe that local traders are refusing to make deposits for fear of being unable to make subsequent withdrawals. BoN cheques are frequently being on-sold at a discount for cash, as confidence in the bank has collapsed.

Meanwhile, Mr Clodumar has indicated that the first phase of the ADB-sponsored reform programme has been completed, which involved the retrenchment of 434 people from the public service. Similar action will be taken at the Nauru Phosphate Corporation and the country's hotels. The ADB has provided US\$5m on generous terms to fund the redundancy programme, providing for payments to employees of roughly US\$500 per year of employment, four weeks' severance pay and an additional US\$2,000 per person. The total cost of the retrenchment is estimated at around US\$7,000-8,000 a head. However, the ADB has not funded the pensions of employees opting for early retirement, and the government now faces a large bill for premature Provident Fund and superannuation payouts.

Air Nauru announces its first profit

After three decades of losses reputed to total millions of dollars, the government-owned Air Nauru announced its first profit, of A\$1.6m, in July. The airline's image has been revamped and it has announced plans to expand. Air Nauru's chief executive, Owen Coughlan, is hoping to boost tourist-orientated services centred on the Micronesian region.

Quarterly indicators and trade data

Fiji: quarterly indicators of economic activity

		1997			1998				1999	
		2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Exports	Qtrly totals									
Sugar	'000 tonnes	38.9	132.3	140.2	16.6	26.5	85.9	114.3	47.1	15.6 ^a
Tourism										
Visitor arrivals	'000	84	100	92	78	95	107	93	86	n/a
Prices	Monthly av									
Consumer prices:	1995=100	107.4	106.1	106.1	109.5	112.2	113.6	115.1	115.7	n/a
change year on year	%	4.0	2.7	2.9	2.9	4.5	7.1	8.5	5.7	n/a
Money & banking	End-Qtr									
M1, seasonally adj:	F\$ m	391.8	453.4	444.0	468.7	473.9	455.0	492.9	557.3	536.7 ^b
change year on year	%	-11.8	-4.7	-2.3	10.9	21.0	0.4	11.0	18.9	n/a
Commercial banks:										
total deposits ^c	F\$ m	1,367.1	1,386.4	1,351.0	1,350.1	1,336.5	1,366.9	1,365.4	1,346.3 ^d	n/a
loans & advances	"	1,169.2	993.8	1,020.0	1,030.0	1,034.2	1,065.7	1,071.4	1,071.4 ^d	n/a
Foreign trade & payments	Qtrly totals									
Exports fob ^e	F\$ m	196.4	299.7	228.3	173.0	155.2	295.4	n/a	n/a	n/a
Imports cif	"	342.2	421.2	328.7	335.2	231.7	398.3	n/a	n/a	n/a
Government revenue										
Total	F\$ m	202.2	195.5	250.7	158.8	230.2	232.6	n/a	n/a	n/a
income taxes	"	111.6	113.0	135.1	87.8	111.0	144.9	n/a	n/a	n/a
Exchange holdings	End-Qtr									
Foreign exchange	US\$ m	327.9	334.7	335.5	344.2	317.6	315.1	359.0	382.0	402.4 ^b
Exchange rate										
Official rate	F\$:US\$	1.421	1.472	1.549	1.942	2.047	2.045	1.986	1.998	1.980 ^f

Note. Annual figures of most of the series shown above will be found in the Country Profile.

^a Total for April-May. ^b End-April. ^c Demand, savings and time deposits. ^d End-February. ^e Includes re-exports. ^f End-May

Sources: ISO, *Statistical Bulletin*; Fiji, Bureau of Statistics; IMF, *International Financial Statistics*; Reserve Bank of Fiji, *Quarterly Review*.

Samoa: quarterly indicators of economic activity

		1997			1998				1999	
		2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Prices	Monthly av									
Consumer prices:	1995=100	111.4	115.7	112.5	113.5	116.9	115.7	114.4	n/a	n/a
change year on year	%	6.3	9.3	5.2	2.4	4.9	0.0	1.7	n/a	n/a
Money	End-Qtr									
M1, seasonally adj:	Tala m	59.45	56.02	62.58	54.69	58.16	57.82	56.00	60.67	66.54 ^a
change year on year	%	23.3	6.1	21.7	3.5	-2.2	3.2	-10.5	10.9	n/a
Foreign trade	Qtrly totals									
Exports fob ^b	Tala '000	8,757	11,009	10,343	10,091	10,887	11,801	10,464	10,437	n/a
Imports cif	"	58,238	66,284	60,461	59,957	61,762	76,551	87,382	108,032	n/a
Exchange holdings	End-Qtr									
Foreign exchange	US\$ m	58.56	58.03	60.39	52.99	53.10	56.91	57.37	51.17	55.50 ^a
Exchange rate										
Official rate	Tala:US\$	2.533	2.612	2.766	2.884	3.106	3.074	3.010	2.989	3.029 ^c

Note. Annual figures of most of the series shown above will be found in the Country Profile.

^a End-April. ^b Includes re-exports. ^c End-May.

Source: IMF, *International Financial Statistics*.

Solomon Islands: quarterly indicators of economic activity

		1997			1998				1999	
		2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Prices	Monthly av									
Consumer prices:	1990=100	209.2	209.5	212.1	222.8 ^a	n/a	n/a	n/a	n/a	n/a
change year on year	%	8.6	8.2	8.4	n/a	n/a	n/a	n/a	n/a	n/a
Money	End-Qtr									
M1, seasonally adj:	SI\$ m	205.75	218.34	212.45	195.71	200.04	225.62	212.31	223.75	n/a
change year on year	%	11.9	14.5	7.8	-3.0	-2.8	3.3	-0.1	14.3	n/a
Foreign trade ^b	Qtrly totals									
Exports fob	US\$	39.5	56.1	44.1	47.3	40.2	41.7	39.8	n/a	n/a
Imports fob	"	39.7	43.0	41.9	38.0	31.0	33.5	40.8	n/a	n/a
Exchange holdings	End-Qtr									
Foreign exchange	US\$ m	30.2	32.3	35.6	30.7	32.1	35.6	48.3	50.1	49.6 ^c
Exchange rate										
Official rate	SI\$:US\$	3.681	3.870	4.748	4.785	4.799	4.933	4.859	4.794	4.883 ^c

Note. Annual figures of most of the series shown above will be found in the Country Profile.

^a January only. ^b DOTS estimates. Includes re-exports. ^c End-April.

Sources: IMF, *International Financial Statistics*; *Direction of Trade Statistics*, quarterly.

Tonga: quarterly indicators of economic activity

		1996	1997				1998			
		4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Prices	Monthly av									
Consumer prices	1995=100	102.6	104.1	105.6	105.3	105.7	107.1	109.0	109.0	109.6 ^a
change year on year	%	1.8	1.2	2.0	2.3	3.0	2.9	3.2	3.5	n/a
Money	End-Qtr									
M1, seasonally adj	T\$'000	21,838	24,642	22,306	22,760	22,668	22,973	23,007	25,685	21,565 ^b
change year on year	%	-3.9	3.4	-4.1	4.5	3.8	-6.8	3.1	12.9	n/a
Foreign trade	Qtrly totals									
Exports fob ^c	T\$'000	8,649	1,723	1,618	n/a	n/a	n/a	n/a	n/a	n/a
Imports cif	"	24,249	17,595	23,805	n/a	n/a	n/a	n/a	n/a	n/a
Exchange holdings	End-Qtr									
Foreign exchange	US\$ m	28.77	27.60	29.32	29.50	25.72	18.55	17.34	20.68	26.73
Exchange rate										
Official rate	T\$:US\$	1.213	1.227	1.251	1.290	1.362	1.385	1.502	1.613	1.616

Note. Annual figures of most of the series shown above will be found in the Country Profile.

^a October only. ^b End-November. ^c Includes re-exports.

Source: IMF, *International Financial Statistics*.

Vanuatu: quarterly indicators of economic activity

		1997			1998				1999	
		2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Prices	Monthly av									
Consumer prices:	1995=100	103.6	104.2	105.1	104.9	105.3	109.1	n/a	n/a	n/a
change year on year	%	2.3	2.6	5.1	2.7	1.6	4.7	n/a	n/a	n/a
Money	End-Qtr									
M1, seasonally adj:	Vt m	6,513	6,174	6,525	7,442	7,085	7,330	7,458	7,206	n/a
change year on year	%	3.2	-4.3	1.6	17.4	8.8	18.7	14.3	-3.2	n/a
Foreign trade	Qtrly totals									
Exports fob ^a	Vt m	724	1,339	950	703	802	1,444	n/a	n/a	n/a
Imports cif	"	2,573	2,910	3,035	1,909	3,168	3,010	n/a	n/a	n/a
Exchange holdings	End-Qtr									
Foreign exchange	US\$ m	34.00	38.70	33.34	21.67	21.14	34.78	40.41	40.80	40.60 ^b
Exchange rate										
Official rate	Vt:US\$	115.1	118.1	124.3	124.3	130.5	130.9	129.8	130.7	129.6 ^b

Note. Annual figures of most of the series shown above will be found in the Country Profile.

^a Includes re-exports. ^b End-May.

Source: IMF, *International Financial Statistics*.

Pacific Islands: direction of trade^a

(US\$ m)

	Fiji		Solomon Islands ^b		Vanuatu		Samoa	
	Jan-Dec 1996	Jan-Dec 1997	Jan-Dec 1996	Jan-Dec 1997	Jan-Dec 1996	Jan-Dec 1997	Jan-Dec 1996	Jan-Dec 1997
Imports cif								
Australia	428	427	65	66	37	35	39	36
China	16	22	1	1	1	1	n/a	1
Fiji	-	-	n/a	2	6	n/a	13	16
Germany	6	6	1	1	1	n/a	3	2
Hong Kong	19	23	5	4	3	3	1	n/a
Japan	41	49	15	17	75	92	26	23
New Zealand	141	145	11	9	10	7	48	32
Singapore	58	58	13	25	13	11	2	1
UK	13	19	3	1	n/a	n/a	2	2
US	30	36	7	2	1	1	13	12
Total incl others	876	898	147	159	168	175	157	134
Exports								
Australia	211	210	2	3	1	1	50	44
Germany	2	2	2	7	4	12	2	3
Hong Kong	6	6	1	2	n/a	n/a	1	1
Japan	60	31	104	106	8	17	n/a	1
Malaysia	20	20	2	5	n/a	n/a	n/a	n/a
New Zealand	29	31	1	1	n/a	n/a	4	2
Portugal	16	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	1	1	32	n/a	6	4	n/a	n/a
UK	127	90	9	14	2	1	n/a	n/a
US	76	86	2	1	1	2	1	4
Vanuatu	n/a	n/a	10	n/a	-	-	n/a	n/a
Total incl others	714	618	206	177	30	35	64	63

^a DOTS estimates. ^b Imports fob.Source: IMF, *Direction of Trade Statistics*, yearbook, quarterly.

Pacific Islands: main commodities exported

	Fiji (F\$ m)		Solomon Islands ^a (SI\$ m)		Vanuatu (Vt m)		Samoa (US\$ '000)	
	Jan-Sep	Jan-Sep	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec
	1997	1998	1994	1995	1996	1997	1995	1996
Beef & veal	n/a	n/a	n/a	n/a	430	417	n/a	n/a
Fish	41.58	36.74	99.1	145.7	n/a	n/a	176	629
Sugar	117.90	131.69	n/a	n/a	n/a	n/a	n/a	n/a
Coffee	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cocoa	n/a	n/a	12.5	13.4	165	240	0	0
Logs & lumber	27.63 ^b	37.37 ^b	276.9	283.0	358	501	84	342
Copra & copra oil	n/a	n/a	19.8	32.9	1,240	2,004	1,887	1,761
Palm oil	n/a	n/a	39.9	66.5	n/a	n/a	n/a	n/a
Coconut oil	4.71	6.49	2.0	4.1	n/a	n/a	3,254	3,309
Gold	56.16	51.36	0.3	0.6	n/a	n/a	n/a	n/a
Clothing	162.79	139.65	n/a	n/a	n/a	n/a	n/a	n/a
Total incl others	512.20	536.35	467.9	573.2	2,709	3,567	8,686 ^c	10,047 ^d

^a Including re-exports. ^b Including manufactures. ^c Including coconut cream, 1,959. ^d Including coconut cream, 1,764.

Sources: National sources; IMF, *Samoa—Recent Economic Developments*; IMF *Vanuatu, Statistical Appendix*.