

**COUNTRY PROFILE:****REPUBLIC OF THE FIJI ISLANDS****DATED:****SEPTEMBER 2009****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

***Recent Political Highlights***

- ❑ Fiji's military chief Commodore Frank Bainimara seized power in the December 2006 coup (this was the fourth coup since Fiji gained independence in 1977) and became the first interim prime minister in January 2007, promising to restore democracy through elections and revision of the constitution, which in his view enshrined racial divisions. On January 4<sup>th</sup> 2007, Commodore Bainimarama reinstated Ratu Josefa Iloilo as president. A move by Fiji's appeal court in April this year to declare the military government illegal prompted the president, Ratu Josefa Iloilo, to suspend the constitution and reappoint Commodore Bainimarama as interim prime minister for a further five years, effectively leading to the tightening of the military regime's grip over many aspects of Fiji's political and socio-economic life. According to the president's Road Map a new constitution is only expected in 2013 and elections will be held in 2014 as he needs time to institute his reforms that will end the ethnic based voting system. The president then annulled the Fijian Constitution, dismissed of the Court of Appeal, abolished all constitutional positions in the country and severely restricted media freedoms.
- ❑ The Commonwealth has fully suspended Fiji after it refused to bow down to demands to call elections by next year. In a statement the Commonwealth said it had demanded that Fiji commit by 1<sup>st</sup> September to rejoining negotiations with the opposition and to holding credible elections by October 2010. Fiji has already been banned from Commonwealth ministerial meetings. With its full suspension all Commonwealth aid will be cut off and Fiji will not be allowed to participate in the 2010 Commonwealth games.
- ❑ On May 2<sup>nd</sup> 2009, Fiji was suspended from the Pacific Islands Forum (PIF). The PIF brings together the following member states: Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. The PIF is a political and economic regional organisation based in the Fijian capital of Suva.
- ❑ The EU's relations with Fiji are based on the EU's agreements with the African, Caribbean and Pacific (ACP) countries and the revised Cotonou Agreement, which entered into force on 1<sup>st</sup> July 2008. The EU is also the second largest aid provider to the Pacific Island nations, and the EU's key diplomatic mission in the South Pacific is based in Suva. The EU continues to strongly demand a restoration of democratic processes in Fiji both through diplomatic channels and punitive economic measures. On 18 May the EU decided to cancel the 2009 sugar allocation for Fiji in the absence of indications that a legitimate government will take place in 2009. The allocation for the reform of Fiji's sugar sector and accompanying measures for 2009 totaled €24 million.

***Recent Economic Highlights***

- ❑ Modest growth in 2008 was achieved in the face of rising inflation and continued political uncertainty, which eroded business confidence from aid donors. The economy is expected to contract in 2009 owing to severe flood damage early this year and the impact on tourism and remittances from the global downturn. Improvement prospects will depend on the return to elected government and reforms to encourage investment. Some tourist operators are already forecasting a significant drop in visitor numbers. Remittances from Fijians living abroad, the biggest source of foreign exchange after tourism, fell 3.3% in 2008.
- ❑ Rebounding from a 6.6% contraction in 2007, the economy grew by 1.2% in 2008. Contributing to the turnaround was an 8.7% increase in visitor arrivals, 3% growth in wholesale and retail trade, 6% growth in hotels and restaurants and 3.2% growth in transport and communications. However bad weather reduced sugar output by 8% to the lowest level since 1962. Manufacturing grew just 0.9% weighed down by the contraction in recent years of the clothing and footwear industry which faced an erosion of its concessional access to the Australian, New Zealand and US markets. The economy is forecast to contract 0.5% this year due to the prevailing political and economic climate.
- ❑ A new Reserve Bank governor was appointed by the military in April and in his first official act announced a cut of 20% in the value of the Fijian dollar from US\$0.5697 to US\$0.4558, saying this would benefit the declining economy by benefiting local exporters creating more jobs and attracting foreign investment. The current account deficit is forecast to average 25% in 2009 and 2010 reflecting the deterioration in merchandise trade and reduced transfer payments. Foreign reserves were estimated at \$760m in August 2009. Inflation is forecast at 9.5% this year due to the devaluation of the Fiji dollar, falling gradually to 2% in 2010.
- ❑ Sugar cane production was 2.3 million tons in 2008 from 2.5 million in 2007 and 2009 production is likely to be at the 2008 level or lower. According to analysts, the current level of sugar production is not viable and if allowed to continue the industry is likely to collapse sooner rather than later. About 20,000 cane farmers will return to subsistence farming and about 200,000 people who depend wholly or partly on the sugar industry will also face many extreme difficulties. The flow on effect of the collapse of the sugar industry to other sectors of society will be disastrous and devastating. There are indications that the incidence of poverty is rising as a result of industry closures and over 25% of the population lives below the poverty datum line. The country also announced a decree in April to drop the country's official retirement age from 60 to 55.
- ❑ The only one option available to the government is to stimulate the industry and increase sugar production to a viable level of about 4 million tons per annum which is only possible via a massive injection of grant monies to improve productivity of cane farmers. It is crucial that Fiji must access the \$170 million grant loan from the European Union for the reform of the sugar industry. Fiji's struggling sugar farmers have been slow to add new crops to their repertoire, with just 1% of Fiji's cane farmers growing other crops. An officer at the Sugar Research Institute says the island nation imports hundreds of millions of dollars in foodstuff every year, and he hopes local farmers will be able to supply a greater part of that domestic demand in the future. The Institute is trying to encourage farmers to plant inter-crops, which he says reduces the cost of planting and the issue of food security in Fiji. Food and fuel make up 51% of imports.

***Latest Trade Developments***

- ❑ Fiji's major trading partners, New Zealand, the US, Euro zone and Japan are in recession with a modest recovery only expected in 2010. South African exports to Fiji totaled R11.5m in 2007, R41.6m in 2008 and R29.3m in the first half of 2009.