

Reviews of American Samoa, Hawai'i, Tuvalu, Wallis and Futuna, and Western Samoa are not included in this issue.

THE COOK ISLANDS

"Wealth, health, and happiness without cost or effort" might be the slogan of the year under review. The opportunistic "quick fix" epitomized approaches to problems of personal and government finance, of body and soul. The advertisements that flood television screens with messages of instant gratification have become the basis of public policy and private practice, beginning with the national purse.

The truth was particularly elusive this year. Gossip about huge and shady international deals was officially dismissed until in January 1995 the *Cook Islands Press* revealed that the government had issued Letters of Guarantee for US\$1.1 billion, equivalent to all government income for the next twenty-one years at present levels. The New Zealand Government feared it might be obligated through its associated state relationship with the Cook Islands, and the fact that the Cook Islands dollar was tied to the New Zealand dollar. Eventually the Cook Islands Government agreed to an investigation by Jerse Halliday of the Reserve Bank of New Zealand. The Cook Islands prime minister told an anxious public that Halliday's report

proved no risks had been taken and all was well. He would not release the report, but the New Zealand minister of Foreign Affairs did. It described the Cook Islands Government as a gullible victim of an attempted fraud perpetrated by others. The author did not think Sir Geoffrey Henry or other government officials had acted for personal gain, though they naively hoped the deal would yield US\$26 million in commissions for the nation.

Government assurances that the Letters of Guarantee were risk-free and with reputable financiers were false. A Television New Zealand documentary showed that the key players included a bankrupt Irish fraudster with a prosecution for tax evasion, another man claiming to represent a company that Television New Zealand found had been deregistered since 1978, an American living in luxury in the Bahamas and wanted for questioning in the United States, and a former plumber who financed various things including pornographic video.

James Byrne, an American expert on international bank fraud, told Television New Zealand he did not expect any benefit would reach the Cook Islands from such transactions even if carried through (*TVNZ Assignment*, 25 May 1995). Tony Molloy, QC, noted that the Cook Islands Government had "demonstrated in other spheres recently that it has a vulnerability to advice that appears to be pres-

tigious, and perhaps it is just fairly easily sucked in. They're terribly impressed with all the jet-setting paraphernalia that goes with these things" (*CIP*, 25 May 1995). The head of the New Zealand Serious Fraud Office, who investigated the New Zealand intermediary, stated that at least some of the people the government dealt with were known fraudsters, and that the Letters of Guarantee were intended for illegitimate use in "prime bank instrument fraud" (*CIN*, 3 June 1995). The Cook Islands Government tried to "protect" itself with a secret "blocked funds letter," whereby it would not honor the guarantees. The Serious Fraud Office report spoke of the "Alice in Wonderland quality" of "giving the appearance, but not the reality, of financial substance."

The Letters of Guarantee have been canceled. Nothing was gained, though how much the government lost in travel, fees, and other expenses is not known. It gave "insufficient attention to the risks . . . to the international reputation of the Cook Islands" and did not heed warnings in its own files about the criminal reputation of those involved. Fortunately, despite pressure from "the instigators of the scam, the safety nets held—but only just." Otherwise the nation could have lost its assets and incurred vast debt.

The "Wine Box Affair" was another running media event. It began in October 1992 when the New Zealand Serious Fraud Office received a wine-box full of evidence of massive tax dodges by New Zealand companies and individuals. The commissioner of Inland Revenue castigated the ethics of those who designed the scheme, which he

said showed massive and blatant tax avoidance, while a prominent criminal lawyer, Peter Williams, described it as the "biggest tax evasion scam" in New Zealand's history. Most used European Pacific, the largest "trustee company" (the polite term for tax-haven banks) in the Cook Islands. Although some of New Zealand's leading financiers and financial institutions were implicated, the New Zealand Government was reluctant to act. The leading names were big donors to the governing party's election funds. But pressure inside and outside Parliament led to a judicial enquiry, which gets prime-time television coverage in New Zealand and much of the Pacific. That drama continues.

The Cook Islands Government promised to set up its own enquiry but is not expected to unless it can protect those to whom it is obligated. The architect of the tax haven, Mr David Lloyd, gave \$6 million in 1993 to pay for the national cultural center, which the government rated as its top priority project. Mr Trevor Clarke, former national head of European Pacific Bank, is now Prime Minister Sir Geoffrey Henry's financial adviser.

Winston Peters, the New Zealand politician who led the pressure for the enquiry, might have been discredited as "racist" or "colonialist" for criticizing the Cook Islands, were he not Māori and Minister for Māori Affairs after that department was caught in international loan scams. He has no sympathy for a government that gets most of its foreign aid from New Zealand taxpayers (NZ\$14 million a year for 20,000 people), while creating schemes to defraud them of hundreds of millions.

Mr Peters says the infamous Bank of Credit and Commerce International, which dealt in “political bribes, laundering money, guns, nuclear weapons and with figures such as Noriega and Marcos,” and whose top executive was jailed for eleven years for massive fraud, was involved in the Cook Islands “international finance center.” Cook Islands Government claims that the tax haven is “squeaky clean” are no longer heard. Mr Peters’ advocacy of canceling New Zealand aid to the Cook Islands is gaining support there, as many New Zealand taxpayers feel “ripped off” by the Cook Islands tax haven. Aid will not be canceled, although sympathy for special concessions to the Cook Islands has been eroded. While this year New Zealand maintained previous levels of aid to other South Pacific countries, and increased funds for East Asia, it trimmed aid to the Cooks by 5 percent.

Growth in gross domestic product in the Cook Islands was high throughout the 1980s (6 to 10 percent per year) but only 1.7 percent in 1993 and 1.5 percent in 1994. In 1994–95 it is likely to be negative. The main cause was poor economic policy and poorer economic practice. The engines of the economy have worked well—tourism (the biggest industry) grew during the past decade faster than anywhere else in the Pacific. The second industry, marine resources, is booming on the basis of pearls and tuna. Fresh fish prices are high and demand exceeds supply. Agricultural products sell well to hotels, the local market, and for air-freight to New Zealand and the United States—with producers unable to fulfill orders.

However, in recent years, unpredictable implementation of stated policies, dense regulatory processes, lack of confidence in the currency, and adverse international publicity seem to have deterred investors of integrity and attracted those lacking it. The new ostrich-farming industry and proposed investments in tourism and other fields were put on hold. Reasons for the 1995 decline in tourism, the largest single industry, included “negative publicity with respect to the economy, currency, and the dengue epidemic” according to the director of tourism (*CIP*, 25 May 1995).

Meanwhile, government enterprises have not done well. There was no progress during the year on the most expensive construction project ever undertaken in the country—another government-owned hotel. Five years after construction began with Italian finance and builders, it remains an empty shell. The most recent official estimate of its value is understood to be one quarter of the cost to the government so far. The head of the company that initiated the project has been indicted in Italy for Mafia activities. Several years ago the government bought the long-abandoned St Helen’s Hospital in Wellington, New Zealand. This year it sold it at a heavy loss in real terms. The government pearl-culture farm in Manihiki is a financial disaster, despite heavy subsidies, while private operators pay their own costs and make profits. The government pearl venture in Suwarrow was abandoned after heavy expenditure and no income.

Government revenues should be buoyant, for taxes are very high rela-

tive to services provided. There is a 10 percent value added tax on all transactions, plus income tax of 37 percent at \$35,000 (about US\$21,000), as well as many other government charges. One problem is inefficient collection. Overdue taxes increased from CI\$7.3 million (27 percent) in 1992 to \$9.3 million (36 percent) in 1993, some of it due from government-owned commercial enterprises. No later figures are available.

Government borrowing has been the popular solution to these economic problems, but after certain limits were reached, "regular" financiers were reluctant to help. When overdrafts from commercial banks reached NZ\$4.5 million, and the banks refused to lend more, the government found a temporary solution in credit from suppliers. The firms have not been repaid, and the government is months (even years) behind in paying for goods and services. Some firms have had to shorten work hours, lay off staff, or close.

There were also plans to stimulate the economy through loan-financed projects, and two confidential "wish lists" of projects were drawn up. The projects to be funded were mainly non-productive, the main one on the A List being a new government building (including some premises for rent), and on the B List, a new parliament building. Some CI\$64 million (US\$43 million) in funding for A List projects was to be raised from La Deuce Credit and Finance Limited in Houston, Texas, through a Samoan intermediary. With interest, A List funding would have lifted government debt from almost nil in 1987 to CI\$246 million in 1994, to

\$338 million in mid-1995. B List funding would have boosted government debt to CI\$400 million.

The main cause of government overexpenditure is a public service of excessive size and generally low efficiency (despite some remarkable exceptions). Public announcements about a freeze on hiring for the past two years contrast with the reality of more government employees than ever before. Rather than retrench the many who do very little, and constrain frivolous expenditure, the government in May 1995 raised the tax on diesel by 83 percent, petrol by 55 percent, and cigarettes by 45 percent, with similar raises on some other commodities. While announced reductions in the public service remained largely unimplemented, government-financed workers on wages did have their hours reduced by one per day, and those on salaries offered to accept NZ\$500 less pay over the next six months to avoid larger proposed cuts.

The critical limelight was attracted by such spectacular expenditures as chartering a plane to take a team of dancers, politicians, and officials to welcome the arrival in Tahiti of two traditional voyaging canoes from the Cook Islands that were joining a trip to the Marquesas and Hawai'i. Despite an outcry about that, another team went at public expense to welcome them again in the Marquesas, and yet another to receive them in Hawai'i. It was hoped there would be canoes from all of Polynesia, but the only others were three from Hawai'i (with US federal funds) and one from New Zealand, neither of which brought in dance teams or politicians. This accen-

tuated the CI\$668,282 spent by the government this year on the canoes. Former Prime Minister Sir Tom Davis designed and supervised both vessels and commanded the larger one to Hawai'i. There was public support for the project, but not for the scale of expenditure on "hangers-on" at a time of extreme shortage of funds for medicines in hospitals, books in schools, and to reconnect telephones disconnected from government departments because of nonpayment.

Another indication of spending beyond need was apparent in December 1994 when seven of nine government ministers traveled internationally. Ministers take their wives at government expense on one trip annually—usually the most expensive. Government expenditure on travel for ministers and officials probably absorbs a larger share of national income than for all but a few countries in the world. Budget details in June 1995 showed that while most other items had been cut, travel by members of parliament had increased by 34 percent.

A full high commission (embassy) was set up in Canberra, where a part-time nondiplomatic representative formerly met the need. There was debate about whether the costs were merited relative to the benefits. Although less important than other overseas posts, running costs are much more, about \$420,000 a year plus such capital costs as a \$498,000 house for the high commissioner. Until his appointment he was an influential politician who, severely criticized by the chief justice for misuse of power, was considered unable to win his seat again.

The government released an increasing volume of unbacked currency, which lost its value and integrity. Exporters to the Cook Islands insisted on tradeable currency, and the banks imposed exchange controls on nontrade transactions. As a result, the government abandoned Cook Islands currency in May 1995 and reverted to New Zealand currency. The arrangement is common in the Pacific—Kiribati, Nauru, and Tuvalu all use only Australian currency; the Marshall Islands and the Federated States of Micronesia both use only US currency. Nevertheless, it was a symbolic blow because Cook Islands national currency was an emblem of sovereignty and identity, even though its value was tied at par to the New Zealand dollar.

Meanwhile in the wider society, there has been a parallel move to "quick fix" religions, and away from the now conventional Catholic and Protestant churches. Denominations that promise more, better, faster, and longer-lasting results on earth and in heaven, are fruitful and multiply. They are US-derived, fundamentalist, evangelical, and pentecostal—particularly the Apostolic and the Assemblies of God. For a while, these became the middle of a moving road, as the New Kingdom was born, founded by a woman who claimed to be Jesus Christ. While fundamentalists concentrate on sorting out the soul, the New Kingdom promises to fix body and soul at one fell swoop. Her compound was frequented by the head of state, some members of cabinet, some ministers of other churches, a Catholic nun, and hundreds of others. The Master (as the spirit in her body was known)

occupied government quarters rent-free and received unofficial concessions from the government.

When the woman's body did not take on all the attributes of a man, as the prophecy required, numbers waned, and a new revelation explained that the Devil persisted in deceiving the people. Jesus needed support, so the body became known as the Tokorima (The Five), and was occupied by Jesus, the Virgin Mary, God the Father, God the Holy Ghost, and Joseph. Yet the membership kept falling. A new prophecy was needed. It was that the government would change. The new prime minister would be Norman George, who mentioned the Tokorima in respectful tones in his election addresses. Alas, Mr George's party gained only two seats out of twenty-five. The following dwindled to an incorruptible core. The Tokorima and the faithful few were evicted from government buildings in December 1994 and the New Kingdom headquarters shifted to the island of Aitutaki. A few weeks later the Tokorima departed for Tahiti.

While Christian fundamentalists look back to a selective interpretation of the story of Jesus, cultural fundamentalists see solutions to today's problems in the "Tangaroa Cult" a "return" to a sanitized version of ancient beliefs, values, and life-ways as epitomized by the great god Tangaroa. There is both conflict and congruence between Christian and traditional fundamentalists. Some leading individuals expound both (but don't practice much of either). Both are protective reactions against external global forces, as well as a convenient cover

against allegations of being guided by foreign models of consumption, behavior, and values, or manipulated by foreign fraudsters.

This year's crop of transient "culture based" medicinal remedies included magic mushrooms and a potion made from coconut husks. Equally transient "cultural solutions" to social, psychological, and political problems abound. A plethora of shortcuts to personal financial prosperity follows a similar pattern, with an amazing range of fund-raising techniques, from raffles to lotteries, roadside collections, telethons, soliciting, and many more by "small fry," and massive theft, fraud, and misrepresentation by large operators.

Although it did not become public, the government tried to negotiate with New Zealand for a further "evolution" in the associated state relationship. The reason given was economic, that some aid donors will not give to the Cook Islands under its present status. This has not concerned most donors. It constrained European aid through the Lomé Convention to Africa, the Caribbean, and the Pacific, but only because the African bloc objected.

The goals of this year's negotiations with New Zealand were three, in the following order of priority: First, membership of the Commonwealth; second, formalization of Cook Islands citizenship and passports; and third, separate diplomatic accreditation.

Although all 51 Commonwealth nations are nominally equal, a country like India with 900 million people may not regard a country with 20,000 people as really equal, although Tuvalu and Kiribati are full members. Some

countries object to Cook Islands membership lest the associated state relationship compromise its independence. The Cook Islands wanted to join in time for Sir Geoffrey Henry to attend the 1995 Commonwealth Prime Ministers Conference, a hope not likely to be realized.

Some Commonwealth countries may object to Cook Islands membership without modifications to its constitution (see next two items). The same may still apply to the Lomé Convention, but probably not to the United Nations, membership of which the Cook Islands is now considering. Countries with much less “independence” than the Cook Islands are full members of the United Nations (eg, Monaco, San Marino, Andorra, Liechtenstein) so the key question is likely to be cost rather than constitutional status.

As a formality, Cook Islanders travel on New Zealand passports, although separate citizenship is firmly in place, created through a Cook Islands Immigration and Departure Act rather than a citizenship act in order to obfuscate the reality of dual citizenship. Any Cook Islander can enter New Zealand at any time without restriction and has full rights to vote, work, draw social security benefits, and so forth. However, no New Zealander has comparable rights in the Cook Islands, which has not granted permanent residence to any person since 1989, despite many requests. During that time thousands of Cook Islanders moved freely to New Zealand and Australia.

Separate passports would allow restrictions on the entry and rights of

persons of Cook Islands descent who live elsewhere (and that is most of them). It would also allow the sale of passports to rich stateless foreigners from such places as Hong Kong and Taiwan—as is done by Tonga and the Marshall Islands.

The New Zealand position has long been that if Cook Islanders want to sever the associated state relationship, they will agree immediately. However, the Cook Islands Government did not tell the people of the negotiation because they know that the public opposes severing a tie from which they gain so much. Also, as New Zealanders, they have free access and full privileges in Australia as well. Some 40,000 Cook Islanders live in New Zealand and about 10,000 in Australia. Only 28 percent choose to stay at home. There are limits to how much cake New Zealand will allow the Cook Islands Government to eat and keep at the same time.

New Zealand and Australia deal with the Cook Islands diplomatically as they do with all Commonwealth countries, by accrediting a high commissioner to each other's capital. However, some countries—notably Japan—do not treat the Cook Islands as fully independent. This is a question of status more than material gain, for Japan gives foreign aid to the Cook Islands.

One of New Zealand's concerns in granting further privileges to the Cook Islands while Cook Islanders retain New Zealand citizenship and rights, was the doubtful financial transactions for which the Cook Islands is getting an undesirable reputation and for which New Zealand is at times criticized.

In national politics, complaints about the government were louder this year than ever since 1977–78. Loss of jobs and income, as well as media exposure of what had been suppressed, increased awareness and concern. Usually in a parliamentary democracy such as the Cook Islands that leads to calls for the opposition to take over, but the opposition remains weak and divided, and few regard it as a credible alternative government.

The government blames the media for the negative episodes, but the media here are more restrained than in most countries. Television and radio news comes only through government-owned stations, the main owners of the daily newspaper are expatriates on work permits that the government can cancel, and the weekly *Cook Islands Press* was set up by a European permanent resident. Equivalent government actions in most OECD countries would attract more aggressive media attention.

One defense against attacks from media and political opponents was the prime minister's assertion in Parliament (where he is protected from defamation suits) that the *Cook Islands Press* and TVNZ were financed by the CIA to spread propaganda as part of a US plot to overthrow his government. The prime minister knows that most voters probably sympathized with the image of him and them being under attack from evil foreign sources.

With the year going badly for the government, and with deepening disunity and despair, the divided country needed a common external enemy at whom hostility could be redirected. Salvation came when President Chirac

announced that France would resume nuclear testing. In view of the Cook Islands' continuing debts to France for power, water, and other projects, and hope for more, the prime minister sent a token protest but said there would be no public protest or boycott of the coming South Pacific Games in Tahiti. In this he misjudged the public pulse.

Norman George, leader of the opposition Alliance Party, organized a protest. As minister of foreign affairs he had been wined and dined at Moruroa as an honored guest of the French government and was very subdued about bombs—but now that he is in opposition this was a heaven-sent opportunity. The public reaction was overwhelming, with radio talk-backs, letters to the newspaper, and gossip all galvanized against France. The prime minister astutely shifted tack, making an impassioned plea for public support for a protest march, which he led in triumph, eclipsing Mr George. He urged public servants to join, promising them full pay, and pleaded with church leaders, businesses, chiefs, sports groups, youth groups, women's groups, tourists, and all to join in with their people. It was the biggest and most unified demonstration the nation has ever seen.

The entry of women into local politics was the highlight of the 1995 elections for island councilors. Previously, the mayor was elected by and from the island councilors. Under a new law the mayor is elected by the public from outside the council, and becomes ex officio chair of the council. At the last election, in 1992, the only woman candidate (for the island of Manihiki) was not elected. In 1995, partly due

to the official who organized the elections emphasizing women's right to stand, partly to a local television program encouraging them to stand, and partly to indirect pressures for more equality for women, three women stood for mayoral posts and two as island councilors. None succeeded, although one nearly became mayor of Aitutaki.

Letters of Guarantee, "shonky" loans, the return of Jesus, and embezzlement have not yet solved all the problems of the Cook Islands, but believers in any of these and other remedies feel they are worth a try, and note that things might have been worse without them. While some await the next "quick fix," the solid economic growth was provided by those who devoted skill and effort to the task—the producers of fish, pearls, farm produce, tourist facilities, small but profitable innovations like *maire fern* (which supplies the Hawai'i market), local cosmetics and perfumes, hand-made pottery, and other proven income generators. Many local enterprises do well for themselves and for the community. Following the announced change of government practices, tourism was picking up again, the ostrich industry resumed on Mangaia, and an alpaca industry is being considered. The Cook Islands may also be the world's first nation to evolve commercially viable and environmentally sound exploitation of seabed minerals, if Bechtel Corporation's assessments, planned for 1995, confirm expected prospects.

The leaders in government now acknowledge—verbally so far, and hopefully in practice before long—that

errors have been made, and that quality, integrity, skill, efficiency, and commitment pay better in the long run than the slick pseudo-solutions that characterized all but the end of this year.

* * *

SEVERAL knowledgeable and helpful persons kindly commented on the draft but wish to remain anonymous.

RON CROCOMBE AND
MARJORIE TUAINEKORE
CROCOMBE

References

- CIN, *Cook Islands News*. Rarotonga. Daily.
CIP, *Cooks Islands Press*. Rarotonga. Weekly.
Halliday, Jerse. 1995. "Report to the Minister of Foreign Affairs and Trade, 31 March." Reserve Bank of New Zealand. Wellington.

FRENCH POLYNESIA

The period under review was typical of political life in Tahiti. It was marked by sporadic conflict between state and territorial authorities, splits and defections within and between political parties, two electoral campaigns, and industrial disputes too numerous to mention. Once again, the shadow of the nuclear testing center loomed large following President Chirac's announcement of a resumption of testing.

Tensions between the territory and the state emerged in late 1994. The biggest rift occurred over the state-run