

Opportunities and Threats to Employment Creation and Value-Adding

One of PNG's most pressing needs is for the creation of jobs and income earning opportunities across the country, particularly for the burgeoning young population; one might say 'school-leavers', except in PNG nearly half of the school-aged youth have never had the chance to attend school, whilst the recent literacy survey reports that more than half the population is illiterate; this is a poor indictment of the country's development focus and performance, especially when there's enough to dish out on executive jets and mate's airlines, but not apparently to maintain rural airstrips or support third level operators, like MAF, which provide essential and life-saving services to remote communities.

PNG has long had a dual (two speed) economy, with urban and enclave industries on one side, and agriculture and the rest on the other, but now this duality is becoming accentuated, even three speed, with the development of LNG. Once the relative brief (though challenging) construction phase (ending 2014) is complete, direct employment from LNG will drop back to merely some 500 direct staff. By their nature, mineral/hydrocarbon extraction are of limited duration, although LNG and some mines, like Lihir, have relatively long lives (e.g. 30 years).

These extractive industries provide valued, though limited, direct employment, but their main value for PNG (when not given long tax holidays) is generating revenue for the State (including provinces) and other non-government service providers (including PNGSDP, foundations, NGOs and churches) to provide the country's basic infrastructure and services, and investing for the future. These public goods, including transport infrastructure, health, education and law, order and justice services, (although partly provided by non-state actors) include valued welfare services, but also the foundation for a dynamic economy, empowering the population and other private investors to generate broader employment and other income earning opportunities. Although the private sector, including smallholder producers, is the driver of growth and opportunities, the dynamism of the economy and growth of opportunities depends substantially upon the application of sound public policies, and the efficiency with which the State manages the collection, investment and utilisation of the revenue from these extractive industries and other public funds (including donor support).

The signs are not good, with vast sums of public money reportedly already being misused in the Development Budget, including DSIP, and major allocations wasted on uncompleted projects, contracted without proper tenders or awarded to business cronies. Public sector management and processes must be reinforced urgently if the public and wider economy are to benefit from present and particularly expected future revenue. There's no time to linger, especially with current political uncertainty and forthcoming Elections. The prospects of gaining wider public benefits from resource development are tenuous, unless rigorous action is taken now by the Executive Government (and watchdogs) to restore public accountability (including all SOEs and investments), ridding itself of leaders and officials who confuse public with private funds and restore the principle of merit to all management appointments. Plans are afoot for Sovereign Wealth Fund(s), as a mechanism for mitigating negative impacts of so-called 'Dutch Disease' slashing the rest of the economy's prospects (notably from large influxes of foreign currency). Such fund(s) would only be effective given high standards of governance and accountability.

Various public goods are being, and can be, better delivered by NGOs and the private sector, including using mechanisms like the tax credit scheme. Where would rural communities,

especially, be without the quality services provided by churches? Government needs to cooperate more effectively with the private sector in delivering supplies and some services, competing with and investing in utilities, including selling power to the grid. However, these mechanisms do not replace the need to rescue, restore and enhance an effective, publicly accountable and motivated public service. This requires real commitment and leadership by example, strong penalties for abuse and effective public pressure. Removing the leadership code (as proposed lately by political parties) is certainly not the way. However, inadequate the Code may be, it imposes one of the few prevailing deterrents against leadership abuse, and needs retention until more effective mechanisms are in place and proven.

In very few resource rich countries, notably Saudi Arabia, there may be sufficient oil for the citizens to live off the revenue, employing foreigners as their labour force. This is not the case in PNG, where access to formal and informal sector employment is critical, in both fast growing towns and rural areas, where the majority still live and needing market access.

PNG requires a diversified and competitive economy, including vibrant agricultural sector and domestic processing and value-adding, to provide broad based, growing and sustainable opportunities. The trouble is that PNG has high costs compared with most competitors, whether supplying agricultural products, manufacturing or with tourist products. To make PNG more competitive and attractive for investors (including smallholders) requires improving roads and other infrastructure and utilities, affordable telecommunication access, ports and shipping services, seriously addressing crime, corruption and excessive red-tape and public sector inefficiency and boosting literacy, numeracy and technical, vocational and professional training. Opening up to genuine competition and private investment in the field of power, some transport infrastructure and other utilities, would boost opportunities, reliability and cut some costs, as with mobile phones. PNG could impose higher mining taxes if costs of unproductive red-tape and government inefficiencies were reduced.

The formal and informal economies' needs are largely shared, except that small/micro investors have specific needs for access to micro-finance, suitable venues for selling, making or repairing products, market information and training and extension support, for men and women. Smallholders can also benefit from group/cooperative marketing or association with larger businesses through the nucleus enterprise model.

The already high costs of business (and living), which have been rising further since the current LNG/commodity boom commenced, and likely to increase further when LNG production commences, risk throttling other sustainable businesses and jobs. High recent agricultural prices (for export and food crops) have helped safeguard producers, but cannot be assumed into the future.

To overcome high costs and boost local opportunities, requires reducing investment impediments and excessive production and marketing costs, whilst also pursuing value-adding. This does not necessarily mean processing, although usually does. Value-adding means creating market value for goods or services, creating a market brand and meeting (high) standards in niche markets, like organic fair trade coffee or cocoa, or PNG's unique tourism product. For PNG it entails attracting and retaining loyal consumers willing to pay a premium and remain loyal, thereby overcoming some of PNG's high cost disadvantage. Similarly, securing further training generally adds to the demand for individuals' services and price paid, so investment in (quality) education is beneficial both for

individuals and for better positioning the country for new markets, industries and changing opportunities.

PNG is largely an exporter of raw materials with limited value-adding and almost no further processing. Some mineral oil, oil palm and sugar refining and coffee roasting occurs, but most goes out little more than dried. Jobs are effectively shipped overseas, where most value-adding occurs. Most of PNG's fish, timber, agricultural products and minerals are shipped overseas for processing. Indeed, although PNG has the world's largest tuna stocks, most are not even brought on-shore for export, but merely shipped direct after catch, with PNG benefiting merely from license fees, with no jobs or value-adding. One must be careful in pursuing universal domestic processing of PNG's primary produce, as some processing undermines, rather than adds value, for example processing of high value Arabica coffee beans into a lower value instant coffee (largely produced from robusta); some products, like chocolate, entail blending of supplies from different sources, so large scale domestic chocolate manufacture is unrealistic (although niche production possible), whilst in forestry care must be taken to avoid major capital investment in milling in areas with inadequate sustainable local supply, or the mills risk progressively exhausting adjoining forests. However, there are real opportunities for greater local value-adding (including processing) of PNG's products, from tuna, coconut products (continuing any raw copra exports is absurd), spices, fruit and vegetables (for local and overseas markets) and some mineral products, whilst ensuring that supplies (e.g. of tuna) are not over-harvested, by progressively phasing out most distant water fishing with locally-based operations.

Such positive prospects for a more diversified economy and greater value-adding (including processing) are only pipedreams, however, unless these industries are viable. This requires public funds are used markedly more effectively and accountably, not for private sector functions (like running businesses or funding mate's airlines), but to provide core infrastructure and services, including effective police/justice and building a broad skill base, whilst also ensuring competitive markets (e.g. in transport/shipping/airlines/ICT, retail, staple foods, banking, land & real estate) and running prudent fiscal and monetary management, aimed at discouraging current strong inflationary pressures and significant currency appreciation, which would jeopardise broad-based investment and needed employment creation, particularly in sustainable industries.

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