

It's Crunch Time: -Getting things Right at this time of Global Economic downturn and uncertainty is critical for PNG in 2009 and beyond

Over the past few years PNG's economy has picked up and jobs have increased with limited effort from government. There were certain valuable reforms early this decade (e.g. political, superannuation and banking reforms and some privatisation), relative fiscal prudence from 2002, mobile phone competition introduced from mid-2007, the provision of relative economic and political stability, and modest measures to remove certain investment constraints and improve tax, including tariff, conditions. The economic boost, however, came largely externally, notably from improved commodity prices (driven by increased demand for raw materials especially from East and South Asia), providing increased foreign exchange earnings and revenue, and the stimulus (in some industries) for further investment and output; although other industries saw output remain static, such as some tree crops, with aging planting material. Although increasing household incomes and revenue for the State, enabling overdue infrastructure and service restoration to commence, the 2007-8 hike in commodity and fuel prices also fuelled inflation, with basic living costs in urban areas become increasingly unaffordable for much of the population, whilst fuelling ballooning property and rental prices in Lae and Moresby.

Then from September 2008 the bottom fell out of global financial markets, spreading from the US. With recession sweeping across the developed world, commodity prices collapsed and the economic downturn spread to emerging economies, including "Tiger economies" of East and S E Asia. PNG has been granted a slight reprieve, or window of opportunity, thanks to accumulated and unspent windfall revenue shoring up the financial markets and public finances (despite an expected K1.5 billion decline in tax revenue for 2009). Whilst copper, oil, nickel and oil palm prices have plunged, gold and cocoa remain strong and some crops like coffee have slipped but not collapsed. Considerable ongoing investment will continue, financed both domestically and (temporarily) more immune to global forces and some internationally. Another ironic strength for PNG is that much of the population is partially immunised from markets, remaining largely in subsistence production; gaining little from booms (from lack of access and services) but little affected by times of bust.

Swings and troughs in commodity prices are always with us, and realistically, although this global recession is likely to hit harder and longer than most over the past 70 years, the current prices even of depressed commodities have merely shifted towards their trend, in most cases remaining above levels through the 1990s/early 2000s. Demand (and prices) for many fundamental products, such as mineral oil/gas and vegetable oils are likely to firm over time, whilst some niche opportunities may also materialise (e.g. vanilla/other spices).

The global crisis poses a challenge for this country. It cannot be trivialised, as the Treasurer has done. This shows lack of awareness and encourages unwise policy responses. Nor should it be overly gloomy, triggering exaggerated or irrational panic responses, missing future opportunities. PNG, as a trading nation and relatively

dependent upon commodity exports, will certainly be negatively affected by the global economic and commodity downturn, but how badly and for how long will partly depend on how Government, the private sector and wider community respond now.

Government and some markets (including urban real estate) and some resource-owners are heavily focussed upon LNG development. Some major resource projects are currently in mature phases and, like Ok Tedi, will close over the next few years, with a loss of revenue and earnings. Despite a variety of potentially negative impacts, notably from the “Dutch Disease” if not seriously addressed, LNG project(s) should provide valuable long term revenue to the State as well as other national and local benefits.

PNG has the gas, including in some newly explored fields. It must be recognised, however, that even the PNG LNG project is not a certainty in current market conditions. The developer seems eager to proceed and is spending substantially in the preparatory phase; at a push, even if financial institutions are unwilling or unable to provide needed capital, the major partner, Exxon, may be willing to finance the project largely off its own bat, after recent years of excellent profitability. Project development depends substantially upon whether the risks (market, political, landowner) are considered low enough and the window of market opportunity achievable. There are various other prospective (competing) LNG projects in this region. If there are major potential risks or slippages here, PNG will miss the market opportunity, costs (including of capital) will rise and the project(s) could be deferred or dropped. So, progress requires cooperation, realistic expectations and tempered demands from all quarters, whilst wider benefits require collaboration by the developers with various public, private and community institutions. Government must also focus upon minimising potential negative impacts from such a project, which, whilst large (though not doubling GDP as suggested in the Tasman-ACICL report), creates limited direct employment and could undermine competitiveness for other industries, providing broader-based benefits, notably agriculture.

The Government has responded to public pressure in encouraging some overdue measures, but this downturn requires urgent reform. Increased revenue has enabled MTDS priorities to receive some funding in recent years, without reforms or cuts elsewhere. With falling revenue, once windfall funds are exhausted, will priorities be abandoned again, whilst extravagant over-expenditure continues for administration and overheads, and current corruption continues to drain funds from essential services?

An increased Minimum Wage is long overdue, following severe cost of living increases, especially in recent years. PNG needs major employment growth. For years formal sector employment has remained stagnant, only expanding lately. The country cannot afford to halt or reverse this growth now, especially during current economic uncertainty, by forcing minimum wages above affordable levels for struggling industries, or unduly ratcheting up other wages. The informal sector is already struggling, (made worse by negative attitudes by authorities and lack of needed institutional/facility support) and little able to absorb large numbers of unskilled employees made redundant from the formal sector. The three stages to proposed new minimum wage are stretched over an

absurdly short period for effective adjustment and require unrealistic bureaucratic input for exemptions.

Other ongoing measures, Government must get right, include: -

Proposed reforms for the ICT Policy (Phase 2) are generally sound, reflecting the need for open competition, including between converging technologies, to provide extended, improved and more affordable telecommunications services. Concerns relate to the need to ensure adequate investor returns under prospective shared facilities arrangements, and ensuring independence for a potentially merged regulatory function. ICCC has demonstrated required professionalism and autonomy, whereas PANGTEL's track record has fallen short.

Public Private Partnerships (PPPs) have much to offer in bringing private sector capital and relative efficiency into the provision of public goods and services, but corrupt allocation practices must be prevented. Accountable and impartial procedures are required, with individual Ministerial discretion ruled out, and final approvals by NEC, notably for larger partnerships.

The National Agricultural Development Plan (NADP) has been a mess, and treated more like an uncompetitive grant scheme. Now there's competition for control between two ill-functioning Government Departments, with Planning offering no better solution than DAL had. The process must be made transparent. NADP should provide overdue sector support, not simply be a grant scheme or financial lottery for mates.

Provincial funding has been partially improved in 2009 (following NEFC recommendations), but District grants remain critical to restoring District infrastructure and services. The system is deeply flawed and driven by local MPs. A few Districts (and MPs) are, however, setting better standards and accountability, which need to be publicised and replicated as models. Donor support is valuable but needs better coordination. Large sums administered through 'fast-track' arrangements, as with fast-tracked logging concessions or agricultural conversions, invariably involve severe wastage and abuse. Rigorous and transparent processes must be restored, though not unduly cumbersome.

With crime (including corruption and family and sexual violence) remaining the country's major economic and social constraint, addressing it requires recognition, leadership, education, resources, including suitable support. People need jobs and personal security. The country cannot progress if undermined by fear, crime, social conflict and superstition. PNG must restore common goals and strive for something better. Long standing conflicts have been resolved in other countries, through local leadership from people like Nelson Mandela, able to see beyond their boxes. Suitably designed support programmes, e.g. a better designed ECP Mark 2, and impartial outsiders, can provide needed valuable assistance.

PNG will be adversely affected by climate change and must prepare, but it could also make a significant global contribution to mitigating change, notably through forest protection. Landowners could gain practical benefits for climate services. Nothing will eventuate, however, unless PNG gains credibility amongst carbon trading partners and foreign governments. The Forest Authority and some NGOs are taking practical steps, but Government must establish clear policies and shake off unsavoury parasites, seeking exclusive control or benefits and jeopardising PNG's credibility

Government must seriously reform the public sector, and release State-owned commercial enterprises from control. Let the private sector do what it can best, under suitable regulation, whilst the State focuses upon its core tasks (infrastructure and basic services), where it has long failed. Many Air Niugini staff can be commended, but the airline, and Telikom, should operate as commercial entities. Having two Ministers running around the world pursuing aircraft (about which they know nothing) is absurd! Is this an airline of some State plaything? State equity in new LNG or industrial parks also misdirects funds from priorities, when the State will need all its accumulated funds to be carefully targeted over the tough months ahead.

Restoring confidence in the State is critical, starting at the top. Lower level corruption and waste cannot be addressed until we see firm penalties for the abuse at the top, as identified by Finance, NPF and other Inquiries, including those siphoning K68 million into alleged Singapore (logging) bank accounts, and Taiwanese payments.

If we make the wrong choices in 2009, when PNG's relatively comfortable, the country will be unforgiving in a year or two, when conditions (as a result) may be much tougher, and others maybe less willing or able to help. As this column consistently argues, PNG must take the lead in recognising and seriously addressing its own problems and meeting its opportunities.