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Foreword:

This study was undertaken in 2006 by the Jilin Province People's Government Research and Development Centre of China, as part of the INA's series on Growth Policies for PNG.

After many years of low or even negative growth during the 1990s and early 2000s PNG's GDP started to pick up in the mid-2000s, but initially only marginally above the population growth rate. PNG's economic statistics are notoriously unreliable or unavailable, so the real population and GDP growth rates remains at this stage uncertain. Dr Satish Chand's and Dr Ebrima Faal's paper (released by the IMF) both issued during 2007 both emphasise the need for higher and more sustainable growth rate if PNG is to start extending opportunities (and employment) to the wider community, rather than merely the elite in urban areas and enclave growth industries.

With China's burgeoning growth rate and as the regional boom economy, driving the recent commodity price hike and absorbing much of PNG's raw material exports, it seemed appropriate for the INA to invite a Chinese research institute to apply their own experience and undertake a study on PNG's economic conditions and provide their initial impressions and policy suggestions. It had been intended to undertake a more detailed study, but circumstances prevented that. This paper is the outcome of an initial brief study, and it is hoped that this will merely be the start of more extensive interaction between the INA and policy institutes in China and elsewhere in East, S.E. and South Asia, complementing work undertaken with the INA's longer established partnerships with international policy research bodies.

The Institute would like to thank the Jilin Province People's Government Research and Development Centre, and notably Liu Tianjiao, the Embassy of People's Republic of China (who's former Ambassador introduced the INA to the Jilin Research Centre), and to Salmah Eva-Lina Lawrence for assisting with editing the text in dialogue with Liu Tianjiao.

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Research of Economic Growth in Papua New Guinea

On the request of the Papua New Guinea Institute of National Affairs, the Jilin Province People's Government Research and Development Centre of China undertook research about the state of economic growth of Papua New Guinea as a project of aid to foreign countries. Our findings are as follows:

Papua New Guinea became independent in 1975, after finishing nearly a hundred years of colonial rule. But the economic development is quite slow all the while; the development pattern of resources output has not obtained the speed of economic increase in similar nations. The index of the human development is behind the level of some developing nations in Africa and Asia. Nearly 40% population is living below the international poverty line, a significant portion of the population is still keeping a basic subsistence tribal life style, with the 2.5% economic growth rate of recent years just counterbalancing the population growth rate. It is commendable that Papua New Guinea has realized the deficiencies of the original development pattern, unduly dependent upon international aid, with the current government providing positive stable conditions for economy growth, resulting in the state of the economy have been improving.

First, we provide an analysis of the economic development strengths and weaknesses

I Strengths

I.1 The natural resources are rich.

Countries which possess natural resources have an automatic advantage for economic development. Papua New Guinea has 1,831 tons of gold reserves, which places it in the front row in the world; its export income accounts for 49.4% of the gross export income; land-based and seabed natural gas and prospective oil respectively is

12.2 thousand billion cubic feet and 400 million barrels; it possesses 1/3 of the tuna resources of the central and western Pacific Ocean, which has been an important source of income since the 1980's; Moreover it has the third biggest remaining area of tropical rainforest in the world, about 78% land of Papua New Guinea being covered by forest.

I.II The agricultural history is impressive.

87% of the Papua New Guinean people live in the countryside, which has some of the best growing conditions for horticulture and some of the oldest traditions of cultivation in the world. In the highlands area, they can plant vegetables, such as broccoli, lettuce, potato, and fruit, including fruit trees and strawberry, which normally could never be grown in the tropics and providing tourists a pleasant surprise. There are also the traditional tropical fruit, like banana, pineapple and mango and vegetables in the lowlands areas, providing tourists a feel for the exotic; there is archaeological evidence of some of the world's earliest agriculture in the highlands, which was established 9,000 years ago. The ancient breeds the modern and the traditional skills are providing a basis for innovation in Papua New Guinea now, with its traditional agriculture supplying food for own use gradually adjusting towards sale of produce to the urban market, including the tourist market. Tourists not only appreciate the natural beauty of this tropical paradise, but also the exotic taste of its diverse foods.

I.III Tourism potential is huge.

Most of rural Papua New Guinea remains untouched by modern industry; the pristine natural beauty is an attraction for travellers. As a result of geographical structural change 25 million years ago, Papua New Guinea not only possesses rich mineral, petroleum and natural gas resources, but also has archaeological and geological landscapes – grand sierras and majestic canyons. Moreover, evidence of some of the earliest agricultural people on earth is found in Papua New Guinea.

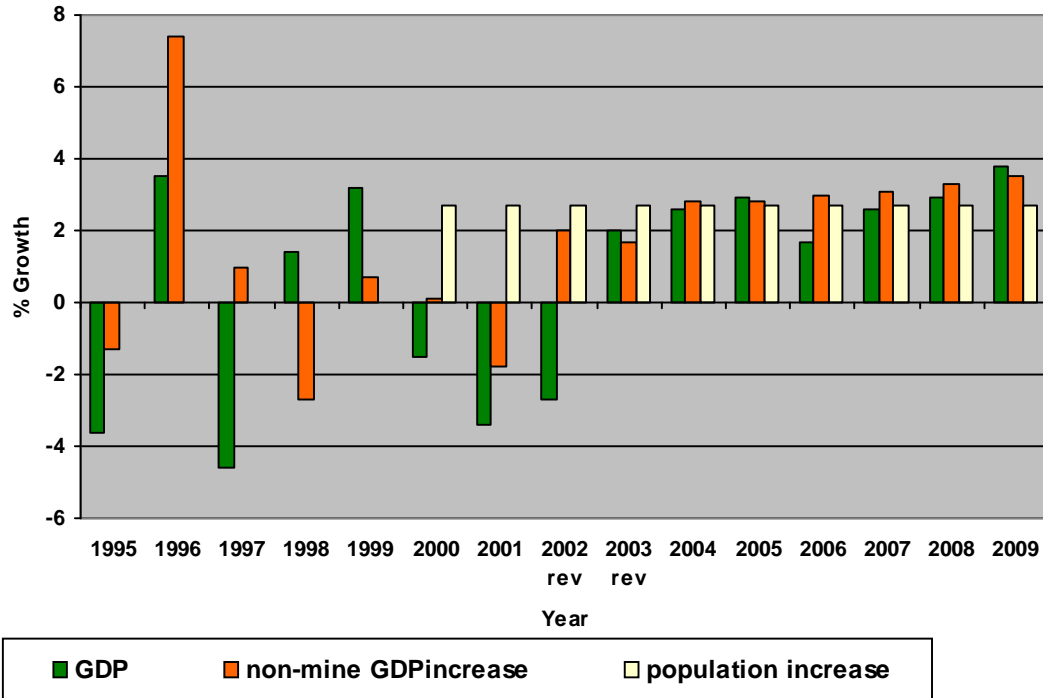
Human settlement dates back more than 45,000 years. Cultivation of taro, Chinese yam, banana, sugar cane, cowpea and other plants dates back 9,000 years. At the same time, there is a multi-cultural diversity from the myriad of tribes and ethnic groups. At present, annual tourism income is about 20 million US dollars, with the majority of tourists coming from Australia and Canada. With government support and encouragement Papua New Guinea's unique tourism potential can be leveraged.

II Weaknesses

II.1 Economic output is low and its increase is slow.

In 2005, the GDP of Papua New Guinea was 3,924 million US dollars, accounting for 0.019% of global GDP, 0.9% of Asia and 2.3% of the Pacific Ocean area. It was 133rd in 179 countries surveyed by the World Bank; Average GDP per person was 660 US dollars, ranked 132nd; GDP growth achieved 2.5%, which surpassed population growth for the first time.

Real GDP Increase From 1995-2009



II.II Industrial structure is simple; products attachment value is low.

At present, the Papua New Guinea agriculture and the minerals industry output value generate 62% of GDP (see next table for details). Papua New Guinea receives very few profits and most nationals receive only a small income because the main resources and enterprises are concentrated in foreign ownership, primarily from Australia and the US. The Papua New Guinea economy will be greatly affected when the market or capital investment changes even slightly.

2004 GDP Composing

Units : million k, %

Compositions	value	percentage
Agriculture	5 , 291	40
Mineral and oil	2 , 916	22
Public service	1 , 399	10
construction	1 , 158	9

Wholesale and retail	864	6
Manufacture	811	6
Finance revenue	455	3
Transport and foreign trade	229	2
Electric power	206	2
Total	13 , 329	100

II.III The social development is slow, investment environment is unsatisfactory

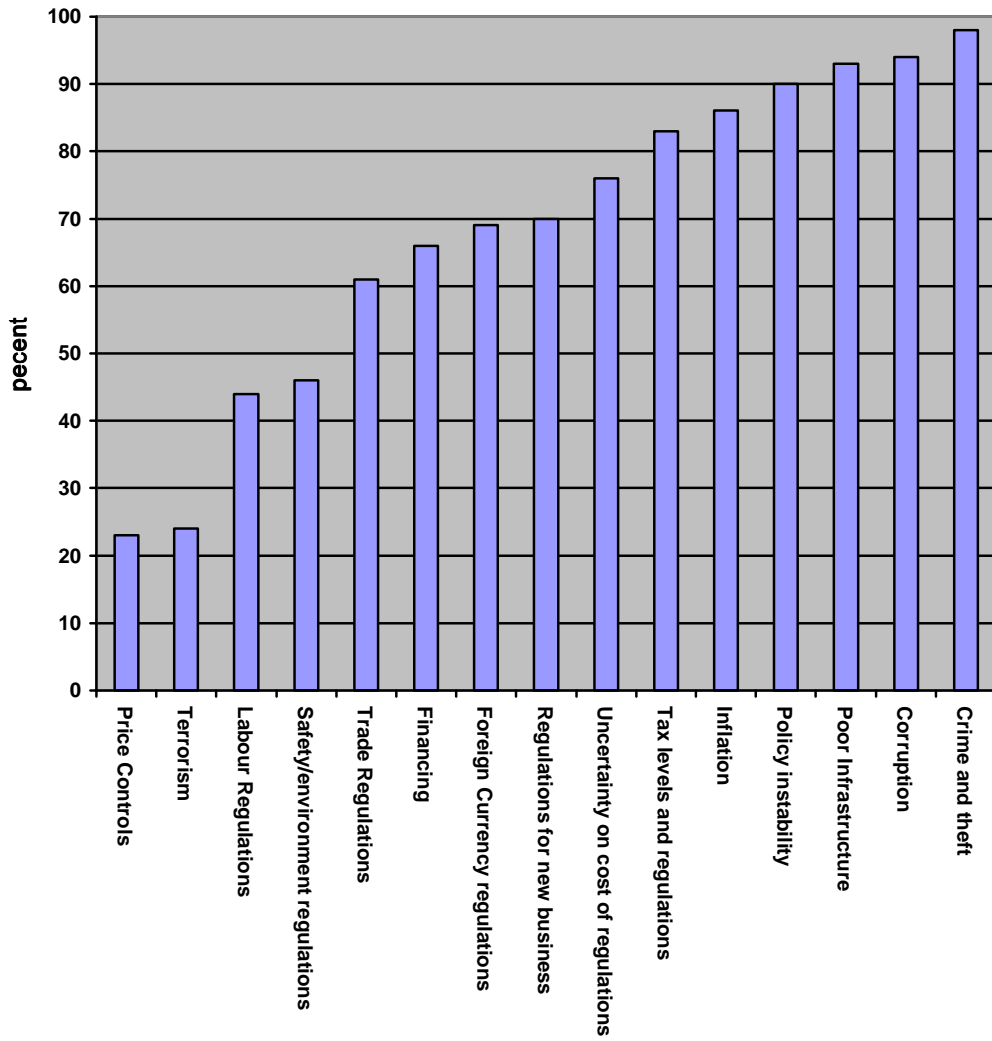
An Institute of National Affairs made an investigation about the main factors of hindrance for investment. In 1999, Papua New Guinea's main barrier factors were crime, corruption, bad infrastructure and unstable political environment until 2002, when the results showed that the main barrier factors were also legislation and regulations, exchange rate fluctuation, high cost on infrastructure. Corruption and crime are the main problems which affect Papua New Guinea's development (see next table).

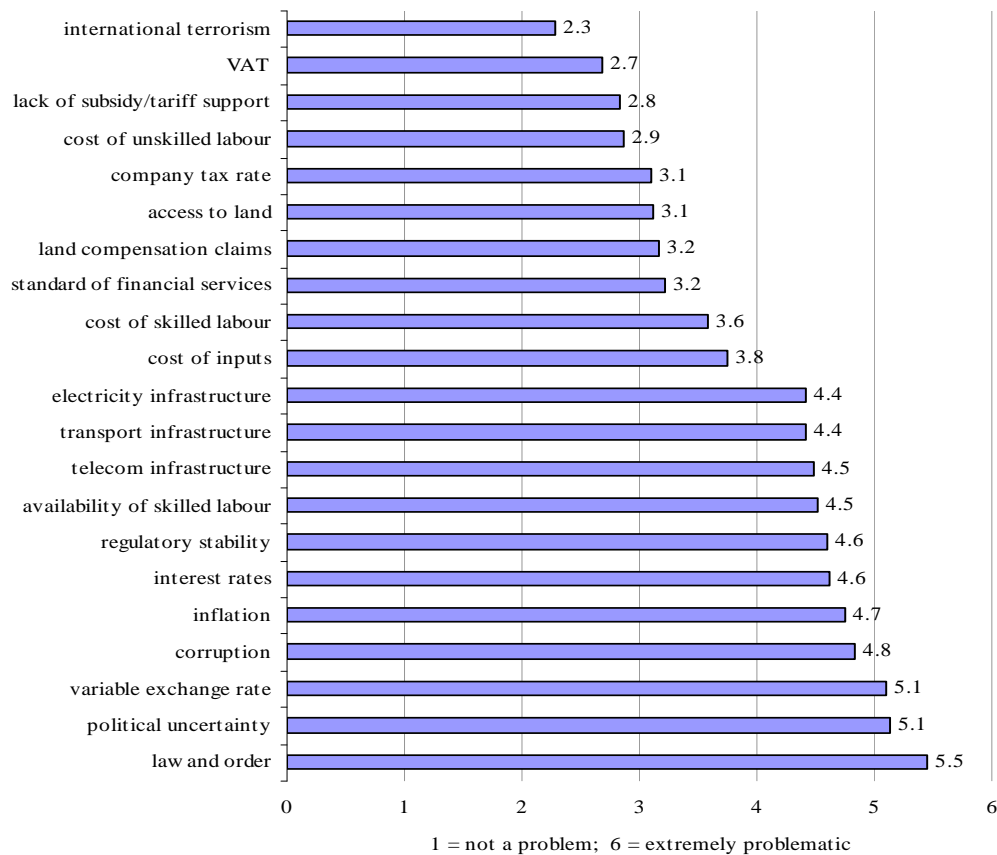
Firstly disputes are common, and a government policy which lacks dispute anticipation and management is the biggest risk in investment policy. According to the investment risk investigation of the KPMG accounting firm and the Australian resources reserve (Resource Stocks) magazine organization, Papua New Guinea's position is 24th in the 25 surveyed countries, only better than Zimbabwe.

Second is the breakdown of law and order. The problem of law and order has always existed in Papua New Guinea, and it is difficult to distinguish whether it has become worse because the statistical data is unreliable. People have lost confidence in the law, so that they do not report serious criminal offences to the police.

Third is the shortage of skills training for nationals. There is a high degree of unemployment in Papua New Guinea.

Obstacles to economic development





Only 50% of the population in Papua New Guinea receives primary education. In recent years, rural migration from all parts of the country especially the Highlands, into the capital "to pan for gold", has increased. Unable to find steady work, many people start to depend on stealing and join "raskol" gangs engaged in criminal activities. This becomes the root of social chaos and the high crime rate.

Fourth, the unreasonable distribution system is increasing the income disparity of inhabitants. *One is the vocation disparity. Papua New Guinea's minerals and oil resources concentrate benefits to minorities, the personal income of these handful of participants and other beneficiaries is relatively high; But for the majority without benefit of these resources income is much lower.* Two is the regional disparity. As a result of regional differences in environment, history, culture, foundation condition, population, productivity level, as well as the policy factors and so on, Papua New Guinea's regional economic development is extremely unbalanced. There is quite a difference in the

average income per person, living standard and consumption mode between countryside and city. With a population of 5.3 million people (in the mid-2000s), 15% of which are urban dwellers, (at least) 270,000 of which reside in the capital Port Moresby, while many of the remaining inhabitants live in rural isolation. There situation imposes major disparity. Illegal income has the opportunity to increase because of the malpractice of management and the imperfect policies, laws and regulations.

Second, development objectives

Development objectives should be set according to the internal and external environment and situation. The general idea is: innovation in the government, opening-up by degrees, optimizing production methods and creating new economy growth points to realize significant progress.

---- updating the development idea. The economic development level of Papua New Guinea so far *cannot meet the intrinsic demand of economic development in current society*. The economic development has been subject to the international price of some goods, such as crude oil, gold and copper for a long time, *which for many years has not enabled adequate funding for public sector needs, when combined with inadequate structural adjustment by government*, which has to limit the expenditure on medical care, sanitation, education and infrastructure. Because about 25% of the fiscal budget is used to repay debt, there are not enough funds to invest in economic development. The economic growth rate is 3% in the 2010's metaphase economic development plan, maintaining the level of the population growth rate. It means that there will be no great changes economically or socially. The government has to enhance the economic growth rate to carry out significant development.

----Focusing on the action of the government. First, the government is the most important factor to bring in external aid, but unable to carry out significant development on its own, it must rely on external aid. Regardless of international aid, or commercial investment, all are *dependent upon the good service of the government*. Second, the

government should keep actively opening up the economy and strengthening the direct introduction of external funds (notably Foreign Direct Investment -FDI). Papua New Guinea has limited global relationships; the economic actions have been limited to import and export goods and international aid. There is not enough cooperation in capital, technology, management and R&D. It is imperative to resolve the corruption, instability of political situation, fluctuation of exchange rate, law and justice problem to achieve sustainable growth. Third, the government should optimize the methods of production, determine other affiliated factors of economic growth and economic growth points to create a new platform for developing the economy.

----A new development goal. Papua New Guinea's economic growth goal for 2010 is GDP increases of 5%-6% per year, a target of 5000-5250 million dollars, in excess of Benin, Nicaragua and Congo. The government could learn from the experience of China in constructing special economic zones. Besides the industries of crude oil and mining, make tourism, agriculture products processing and ocean resource development new economic growth points. Develop the regional economy regularly; divide the rural area into development zones, limited development zones and conservation districts. Attempt to maintain commodity price fluctuations within a 4% range of fluctuation, increase income by means of full employment and job training. Improve the public service, eliminate corruption effectively and guarantee social order.

Third, development countermeasures

I Innovate the system of government

I.1 Redesign the system of government to improve operational efficiency; enhance the function of public service. First, adjust the relation between the central and the local government. Pay attention to the various ethnic groups, their value orientation and political demands, moderately increase the local authority political authority; strengthen economic management, concentrate bigger financial resources with the central authorities, enhance the public service capacity to encourage

economic development. Secondly, change the system of central government. Divide it into executive, research and auditing, three essential sectors. Implement as far as possible localization, formulate a strict performance indexation system, structure an effective government running mechanism; establish some research institutions, invite domestic and foreign experts to especially research policies and proposals relevant to Papua New Guinea; hire an international agent to audit the income and expense of the government and the expenditure on priority programmes and projects, especially the use of international aid. Set down methods to control and eliminate corruption.

The government should have a clear and definite system to fight corruption. Perfect the law under the premise of stable government, formulate a scientific and strict government service personnel rewards and punishments system, including establishing an international audit and supervision agency, simplify the government institutions, enhance treatment of public servants, especially personnel such as police, teachers and so on working for the State, and strengthen the training of staff in active service.

I.II Adjust the district boundary lines. Delimit the administrative districts according to the factors of ethnicity, culture, language and ecology and so on. Make the delimiting of provincial districts match the natural economic regions for developing the economy further. Encourage economic alliances among ethnic groups, strengthen cultural and economic exchange, enhance domestic market growth, reduce the social transaction costs, centralize resources to create the new economic growth points.

I.III Innovate the ownership and the usufruct of the land. It is urgent to define the ownership of the land, including among traditional groups and among individuals; make ownership of the land and property clear; establish and consummate the legal safeguards for the use of the land. Use Chinese Cooperation Union model for reference on scattered land, centralize the land to the tribe for obtaining economies of scale; Use the experiences of the initial period of Chinese reform and opening up to solve the problems of commercial project development around cities, such as the new projects development in Baoan and Nansan

commercial districts of Shenzhen for solving the problems of land.

In order to increase the value of the land, Papua New Guinea could use the experiences of Taiwan development zone of China for reference, requisitioning 40% of the private land and make “put through seven things and make one plain”. So the government, farmers and investors all can get more profit from this kind of land than earlier. There have appeared some embryonic forms in Papua New Guinea, such as Charka groups in Lae engaged in raising and marketing cattle and the oil palm industry in New Britain engaged in producing crude and refined palm oil, they all take the pattern of joint ventures with the traditional owner of the land and cooperate with them to deal with the land problems.

I.IV Construct Papua New Guinea’s national identity to unite the tribes, and form a uniform will. There are 800 tribes and languages in Papua New Guinea, the population average education level is low, the ideological values are mostly influenced by the tribes, and the multiplication of value orientation gives rise to many conflicts. To see the peaceful settlement of the Bougainville question, Papua New Guinea’s culture has a profound foundation for synchronizing enabling it to seek common ground while maintaining differences and achieving multinational culture in the national foundation (unity in diversity).

II improve the environment for further economic development.

Attracting business and investment is an effective way to realize significant development. Cooperation can transform the resource superiority to market superiority, improving competitive capability in an international market. Optimizing the development environment is a prerequisite for this.

□.□ Enact an economic plan within ecological economy endurance. Fully utilize PNG’s diverse natural ecological environment, select an economic development method to set up development zones, limited development zones and prohibited development ecological protection zones. Create a tourism development plan, for orderly development within the framework of laws and regulations.

II. II Construct the most economical infrastructure. Using the experiences of the Chinese economic development zones for reference, *to establish centres based upon local economical development demand*

and gradually launch adjoining projects. At present, the government should make efforts on infrastructure construction and reconstruction of water, electricity, road, communication. The construction may adopt the multi-way, such as adopting the pattern of special permission enabling rights for monopoly management of projects to seek the partners by inviting public bidding in the global market. *The infrastructure management need access to ongoing international professional management, whilst building up the capability of their own, local management;* The government must effectively safeguard the social and economic order through a mechanism through which local people and the government, on their own initiative maintain and construct their own local infrastructure.

II. III Set up a stable soft environment. Pay special attention to the social order and government policy *and purge the police and defence force of disruptive forces and help ensure government policy stability and reliable foreseeable tax revenue, infrastructure construction, the public service operations and so on.* Industry favourable policies must legislate for avoiding instability when the government changes.

III. Actively cultivate new economic growth points.

Mining and crude oil are leading economic growth, but history demonstrates that even if these two industries develop at peak, the actual benefits to the general populace are minimal. The enthusiasm that people strive for development has still not been awakened. Therefore, Papua New Guinea must seek new production methods and economic growth spots to realize its potential, and must generate national enthusiasm for participation in the economic development process.

III.I Develop tourism. Papua New Guinea should encourage the emerging tourism industry. The unique natural landscape provides the unique resources for the development of eco-tourism. Adventure travelling is a product in which Papua New Guinea has a competitive advantage and the government has established the Papua New Guinea tourism office in Sydney to assist to develop this promising market. In addition, travelling and tourism may not only maintain various traditional cultures, but may also promote cross cultural fertilisation. Regarding this, Papua New Guinea must formulate a tourism

development plan.

III. II Increase profits from minerals and energy. Minerals and energy products are PNG's main products, but the price is very unstable. PNG must shake off the international prices effects. The basic outlet is to adjust the industrial structure and develop a multi-tiered economy. But it is very difficult to do large adjustments in industrial structure given PNG's current economy. Therefore, the simple and direct way is to develop processing industry within PNG's ability and scope, enhancing the surplus profits from products. The first one is to develop a craft industry, the tourism souvenirs industry. These can be made by hand, small workshops; the technology requirement is low, investment is small, and all of these are suitable for the PNG's economic development at present. The second one is to positively enhance distribution proportion of copper, nickel and natural gas products value. PNG should research these resource's exploitation and utility, analyze international market price trends, treat the resources as "life lines", and realize the largest economic benefit. This means exploring distribution methods that increase product value and accumulate capital for domestic development.

III. III Develop lumber deep processing and forest products. Firstly, create a plan for forestry products and the protection of forests; the second one is to leverage forest resources selectively, constitute favourable policies for an industry on electrical power, transportation, tax revenue, develop downstream products such as furniture, woodchip, plywood and clamping plank, lengthen the industrial chain, encourage wood processing enterprises development, forbid log exporting, vigorously develop forest products to pave a way which makes the Papua New Guinea people become rich. The third one is to use Russian experiences for reference, which forbid log exports directly from Siberian companies, unless they pass through certain processing requirements.

III. IV Leverage marine resources synthetically; mainly tuna fishing and processing. On the one hand, enhance fishing capacity, strive to double the fishing amount in 2-3 year to 600,000 tons; On the other hand, require fishing organizations of foreign countries to process locally. Limit fishing licenses, realize incremental maximization and

simultaneously reinforce other ocean resources.

III.V Develop the processing industry for agriculture products, using leading enterprises plus farmers to enhance and transform production methods of PNG agriculture. Leading enterprises can organize farmers to plant agriculture products and take charge of processing and selling; (the agro-nucleus enterprise model). These methods are very successful in China.

IV Enhance the citizen's technical capacity. Government should increase investment in capacity building of the local people in different categories to meet the country's social and economic needs. The first one is to enhance the skill of the labour force. According to a forecast of demand for social labour, the government should invest in technical skills. The second one is to invest in management by providing some subsidy to trainees.

Joint ventures must establish a system for training intermediate and senior managers. Select and send some people on scheme to study abroad every year. Popularize primary education. Government should invest effort to popularize elementary school obligatory education in rural areas, and junior school obligatory education in urban areas, strengthen national identity education, and realise full employment, mature polity and compatible culture.