

Reform, Work Permit Approvals and Economic Activity

Papua New Guinea must generate jobs and income-earning opportunities to meet the needs of its fast growing population. The private sector (comprising formal and informal sectors) generates growth, although government has an important role in setting suitable conditions for the private sector to prosper. PNG's economy has been growing for over four years, thanks largely to high demand for raw materials largely from China and India. Lack of reform and poor performance by various government agencies, however, is undermining the rate and prospects for growth and new jobs, which the private sector should be generating now.

PNG is currently enjoying strong demand for its products, particularly minerals, but also some agricultural commodities, driven by Chinese and other Asian demand, for raw materials for processing, particularly for re-export but also for expanding domestic markets. How long current high commodity prices will last is uncertain, although unlikely to be sustained at current levels. Energy prices are likely to remain firm, however, as exhaustible oil reserves decline.

High prices have provided good returns to exporters and producers. Combined with lower interest rates and generally improved economic conditions, opportunities have improved for other businesses, in transport and telecommunications, construction, processing, power provision, retail, food supply, catering, tourism and other services.

PNG, however, faces difficulties in responding to demand for its products, and taking advantage of current good prices and business opportunities. There are some good reasons for not meeting current demand for some products, but there are also various unsatisfactory constraints to taking up prevailing opportunities.

All resources are in limited supply. Prices rise when demand grows faster than supply, encouraging investment in increased supply. Some resources, such as oil, have finite global stocks, diminishing steadily, although new supplies are obtainable using new technologies (e.g. oil shale), or substitutes, e.g. biofuel. PNG's oil production is declining, and it does not have large reserves. Fortunately, current high oil prices have provided good income despite diminished production. PNG has much larger quantities of natural gas, though how much remains uncertain.

Whilst oil production is limited primarily by scarcity, gas development (now for LNG particularly) requires investors verifying supply and being confident of securing adequate returns on the immense investment needed to develop the resource. This requires confidence in PNG's investment conditions, and that the rules won't be changed. Fearing proven gas reserves might be forfeited to a minor, or unknown, player, for example, would certainly dampen major investors' commitment to providing necessary capital for further exploration and development of an LNG processing plant, hence delaying development of this important industry for PNG's future.

Unlike minerals, renewable resources are, by definition, sustainable, but only if managed carefully. Natural forest and marine resources can only support a certain rate of harvest without being depleted. There'll always be some impact when extracting natural resources, potentially changing balances between fish species for example,

but, looking after the resource, rather than over-harvesting or damaging it for quick return, provides better long term prospects for resource owners and the country, (if not for some logging or fishing companies with shorter term horizons). Higher rates of sustainable overall harvest can even be achieved, e.g. in fisheries, by establishing marine reserves, where natural restocking occurs.

Agriculture, including plantation forestry and aquaculture, requires long term investment, especially tree crops and for intensive production. Such intensification is required with growing population pressure and increasing prevalence of diseases, such as coffee berry disease or cocoa pod borer, necessitating much higher standards of management. PNG's agricultural performance since independence has been disappointing, despite relative success stories, as with oil palm, some fresh produce production and marketing, and recently cocoa's recovery in Bougainville. But recent increased agricultural export income has been largely the result of better prices, rather than improved output, with copra/coconut oil constrained by senile coconut trees and coffee production dropping for the first time in years well below one million bags – partly owing to natural production cycles.

So, whilst there are limits on mineral output, such as oil, and natural forest and fisheries harvests require sustainable limits (Gulf prawning is currently well below its sustainable level), there is little justification for other industries being as stagnant as they have been (whether developed by large or small companies or the informal sector).

The economy has been growing in recent years, though modestly in relation to comparator countries, and how sustainably? It's largely based on higher prices for exports rather than increased production, and readily exhaustible products, like oil.

The economy is under-performing largely for man-made, rather than natural factors. PNG is incredibly well-endowed with valuable natural resources: minerals, productive soils, good rainfall and sunlight, rich marine resources, a generally energetic population and all the requirements for a vibrant tourism industry. It suffers from certain natural impediments, like difficult terrain for transport, and historic constraints, including limited long term investment in infrastructure, education etc... but these can all be overcome.

What has particularly undermined PNG's development has been inadequate law and order, infrastructure and efficient public goods and services; with the State particularly failing to play its part effectively and reliably. Why, when there are talented and dedicated public sector employees? It comes down basically to governance, and the failure to focus resources on the real priorities, including application of the rule of law, making government truly accountable, tackling waste, corruption and cronyism, encouraging competition and withdrawing government from activities better undertaken by the private sector or civil society.

The public sector needed radical overhaul. The former Government made mistakes, but did launch major overdue reforms, progressing some. The current Government restrained expenditure, reduced debt and provided stability, but largely missed the opportunity to progress reform needed to put the economy on a more competitive and

sustainable footing and enable communities to access services and modern communications.

Sadly, now, when the economy is relatively buoyant, businesses are restrained from growing by bureaucratic constraints, including the current bottleneck on work permits. Investment creates jobs. Some businesses, such as agro-nucleus enterprises, create many jobs and opportunities. Contrary to popular opinion, each overseas professional or technical position generally creates many more local jobs. PNG suffers a real shortage of certain needed skills, including those where PNGeans have been recruited overseas, as in mining engineering, flying, medicine, etc. It's true that approving bogus managerial positions or allowing a flood of visas (or passports) to unskilled labour seriously undermines local employment opportunities where many locals after such work. Generally no employer would recruit costly overseas employees when a local is available, (recognising some firms hire staff from parts of Asia more cheaply than PNGeans).

The work permit problem is solvable. Whilst authorities should have been prepared for the upsurge, an interim solution is now necessary to avoid severely haemorrhaging business and the economy. This could entail all current permits being extended automatically for a year, with administrative attention concentrated upon new applicants, or that industries/businesses are categorised upon integrity and reliability, with those with a sound track record gaining approvals instantly, whilst industries with a more tarnished record are scrutinised more carefully. This process would require transparency, but unless action is taken now (not just entailing the Labour Department) PNG may miss out on its greatest opportunity in years to invest and let its economy grow and diversify.