The PNG Economy in 2022 – Rescue, Recover and Rebuild

What were the economic constraints at the start of the pandemic in 2020?

It came off an extended period of low growth since 2015, with very limited job creation, although 2018 and 2019 saw modest recovery (despite the major earthquake's impact in 2018), which was expected to pick up in 2020, until the pandemic struck

2020 initially saw a serious fall in oil, gas and vegetable oil prices, with markets then shot out when the pandemic set in, severely undermining travel, trade and global markets

This severe fall in commodity prices extended across most markets, including copper and other minerals, and many agricultural markets, although demand for coffee and cocoa was sustained better than most, even though there was a shift from café to domestic consumption, and associated lower demand for premium grades and therefore prices. Gold was one of the few commodities that appreciated in 2020, as a safe haven, along with the US dollar, and gold remains strong now, even after slipping back from its 2020 peak.

The travel and hospitality industry has been the hardest hit from the start of the Covid-19 outbreak until now, especially by the travel and lockdown restrictions, but also by consumer self-restraint, and while this industry has been picking up around much of the world in 2020, following the roll out of vaccines and lifting of restrictions in many countries, there has been no resumption of international tourism into PNG with continued restrictions and the very low vaccination rate here, and domestic tourism also remains subdued. The tourism operators have had it tough; they're resilient, but really in need of a helping hand at this point. Overseas extensive support was available to businesses and employees impacted by the pandemic and the controls; PNG has had to try and keep the economy moving, to sustain livelihoods, and in the absence of any real social welfare or other capacity; but tourism and hospitality were largely prevented from continuing, even on a modest basis, except those able to provide quarantine services.

The closure of the 2nd largest gold mine in PNG at Porgera in April 2020, and the loss of the best part of its 3,600 workforce and associated contractors, added a significant further hit to the economy and revenue, at a time when gold was PNG's economic, foreign exchange and revenue insurance policy; it's closure also imposed a big negative burden on investor sentiment, particularly in the resources sector, at a time when it really needed a stimulus.

So, the pandemic struck PNG at a time when there was some optimism that the economy might start picking up, with stronger commodity prices and several major resource projects potentially in the pipeline; but that was despite considerable sustained uncertainty since 2017 and especially since mid-2019 over shifting investment conditions for the resources sector, and uncertainty over policies towards foreign and direct investment.

But the underlying economic and business constraints still prevailed, as they do to this day, which includes the apparent ambivalence to Foreign Direct Investment and even private business at large, with the State still apparently unclear of its role, and seemingly wanting to perform extensive business activities itself, despite its clear incapacity to perform this role effectively and its lack of resources and focus to even perform its own core functions effectively, notably law and order services, public infrastructure, core public services and regulatory functions.

Considering PNG's natural resources and its land and maritime productivity, clearly, the country should have immense economic potential, and should be able to readily provide sound livelihoods for all of its still reasonably modest population. It falls within the world's fastest growing economic region, with major markets on its doorstep, and it should be a target for tourists seeking relatively pristine natural habitats, adventure and exotic cultural experience. But this has been the view for some decades, and yet it's not been readily achieved to date, with little progress in value adding.

PNG has failed to capitalize on its potential, because of progressively growing governance deficiencies at the core, which have permeated to a lack of focus and capacity on delivering the reliable public infrastructure and goods, including quality education, and a reliable investment platform needed for large or small businesses to develop and thrive.

This requires that the costs of business, including risks, are kept down and competitive, and investors can see good long term prospects, without the rules and tax rates and other charges being constantly changed, where produce can reach markets securely, power and other utilities provided reliably and affordably and personal safety and business security, entailing both law and order, but also secure land tenure, access to justice and redress etc, reasonably assured and corruption restrained.

PNG is a relatively high cost country for conducting business activities, with the limited number of formal businesses (and their formal sector employees) charged relatively high taxes, but also expected to fund or partially fund the provision of their own goods and utilities, such as power generation (or back up), security services, as well as, in many cases, provide extensive transport infrastructure or cover the heightened costs resulting from poor public infrastructure. The lack of, or limited competition in various fields, from the provision of transport and communications services, to utilities and even financial services, combined with deficient capitalisation and institutional capacity of various SOEs, all tend towards pushing up the costs of goods and services needed by business and households, made worse over recent years by the squeeze on foreign exchange needed for both investment and many business operations, by both large but also small enterprises.

As we all know, it's largely not the physical resources that determines sustainable economic outcomes, but the utilisation of human capital. Natural resource wealth can help if managed prudently and if the State's take from its use is utilized effectively on essential public goods, including investment in human resources, in enhancing the education and skills of its populace, without waste from corruption and inefficiency.

Major new resource projects, and even donor support, have too often in the past generated exaggerated expectations of economic fortune, and been used to avoid the reforms to public sector and economic management and governance required to provide the needed conditions to bring down the costs of conducting business in PNG and improve prospects for investment and economic diversification. The developing countries performing the best at the moment, notably across Africa, are those like Rwanda, that are not resource rich, but have reformed and are providing stable sound and conditions for investment and economic diversification.

By contrast, the resource rich countries across West Africa, whose economies have been distorted over the years by the oil or other resource wealth, are generally performing less well, experience growing economic disparities and social distortions, and in some cases conflict. The exceptions, which manage their natural resource wealth better, like Botswana, have long placed high priority on good governance, strong institutions and consistent rule of law, as the foundation for both economic and social development and harmony.

For advancing PNG's economic, political and social rescue, recovery and rebuild, as we hopefully come out of the grip of the pandemic, requires this same commitment to good governance, public accountability and routine consultation, including in the lead up and application of the 2022 National Elections.

We see 2022 commencing with very high oil, gas, vegetable oil but also coffee prices, along with firm prices for products related to the green energy transition. Some of these prices may be sustained, while the high fossil fuel prices likely to be more short-lived, associated with both the strong 'post-pandemic' economic recovery in many developed countries especially, but also the from the disruption of supply chains, brought about by the two years of downturn…

PNG needs to take full advantage of both the short and longer term market prospects. But it also needs to avoid the temptation to control or even allow major state participation in produce marketing, as with agriculture and its adhoc subsidies to selected participants in coffee and cocoa. It must also avoid these proposed initiatives for further sector regulations, when it should be rationalizing regulations and non-performing institutions. Again, it comes back to the State needing to focus its limited resources and capacity on what it alone must deliver, and do it well, and not be tempted to spread its capacity to a wide range of activities and projects, which are inessential, wasteful or better conducted by the private sector or even civil society and churches.