PRESENT CONDITIONS AND SUBJECTS OF ECONOMIC DEVELOPMENT OF PAPUA NEW GUINEA

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Mr. Chairman, Distinguished members of the panel, Ladies and Gentlemen: I have been asked by the Organizers of this symposium to speak to this audience on the "Present Conditions and Subjects of Economic Development of Papua New Guinea."

But first of all, I would like to express my sincere thanks for the Organizers for this opportunity to speak at this forum. This exercise has one very important aspect to me – and that is the promotion of my country among this highly respected audience.

Ladies and Gentlemen, Papua New Guinea is politically about five and a half years old, having gained its political independence from Australia on 16 September, 1975. But man has lived in Papua New Guinea as long as he is known to have lived anywhere on earth. Papua New Guinea thus has developed its traditions of subsistence agriculture and cultures over a very long period of time.

In today's complex modern world, however, those Papua New Guinea traditions and cultures could hardly be regarded as much (if any) benefit to the country's economic development, or make things easy for economic development. Papua New Guinea is essentially a young developing country with a largely underdeveloped economy.

To speak on the subject of economic development of Papua New Guinea, I find it necessary to briefly refresh your memories on the basic data of the country.

Papua New Guinea is comprised of the eastern half of the island of New Guinea, and the Bismarck Archipelago (New Britain, New Ireland, Manus), the Northern Solomon Islands of Bougainville and Buka, all of which lie on the North-East, and a group of islands off the east coast. The land area is around 465,000 square kilometers (178,000 square miles), and with the declaration of 200 mile economic zone, the sea area of the country is enormous.

Papua New Guinea has often been described as a land of jungle, of mountains rising nearly three miles high, of rivers which come boiling down the ridges to find the ocean, and a sago swamp that seems never-ending. It is a place of 10,000 tribes, of more than 700 distinct languages and countless dialects. About 70% of the land area is covered with forests – varying in type but predominantly dense tropical forests.

With a population of just over 3 million people, Papua New Guinea is the largest among the island nations of the Southwest Pacific and undoubtedly one with more natural resources also. About 90% of the people live in rural areas in clan or village communities. The country lies immediately north of Australia, between the equator and 12 degrees south latitude, and 141 degrees and 156 degrees east longitude.

Climate of Papua New Guinea is tropical with two seasons, the wet season from December through March and the dry season from May to October, regulated by the north-west and south-east winds respectively.

Papua New Guinea follows a modified Westminister System of Government with one Parliament House whose members are elected by the people once every five years. Since independence the country has undergone a smooth change-over of Government once – and this happened in March of last year.

My Prime Minister, Sir Julius Chan, in his state of the nation address to the Papua New Guinea National Parliament last June, defined development as "making our lives better and giving our people a reason for being."

Ladies and Gentlemen, this simple definition is expected to guide the Papua New Guinea Government and the leaders in the country at all times in their efforts to develop the country. What the Government and all responsible leaders do in the name of development must be done for the ultimate benefit of our people.

The Papua New Guinea Government, from the outset in December

1972 (during transitional period), announced "The Eight Aims" of Government to direct national planning and all Government activities in Papua New Guinea. The Eight Aims are:

- A rapid increase in the proportion of economy under the control of Papua New Guineans.
- More equal distribution of economic benefits, including movement towards equalization of incomes, services and economic opportunities.
- Decentralization of economic activity, planning and government spending with emphasis on rural-agricultural development.
- An emphasis on small-scale artisan, service and business activity.
- A more self-reliant economy less dependent for its needs on imported goods and services and better able to meet the needs of its people through local production.
- An increasing capacity of meeting government spending needs from locally raised revenue.
- A rapid increase in the active and equal participation of women in all types of economic and social activity.
- A greater government control and involvement in those sectors of economy where control is necessary to assure the desired kind of development.

In October 1976, the Papua New Guinea Government published a White Paper outlining the national development strategy. The national development strategy reviewed the patterns of change in the economy in the years leading up to independence and recognized that not all developments had been in line with the Eight Aims of the Government.

To ensure the attainment of the Eight Aims, the national development strategy maintained that it was necessary to translate all broad guidelines into detailed policies and definite public expenditure commitments. The national public expenditure plan was therefore introduced to implement the national development strategy, and it has now become the government's annual blueprint on expenditure.

The primary role of the national public expenditure plan is to progressively reallocate public expenditure in line with the national development strategy. The national expenditure plan is a rolling four-year plan, the current one is for 1980 – 1983. Each year the previous year's performance is reviewed, new expenditure proposals admitted to the plan, and a revised four-year set of expenditure forecasts prepared.

In line with the Government's policy of fiscal self-reliance, the national expenditure plan is to be financed increasingly from internally generated revenue. Australian aid is to decrease gradually over the years at 2% per annum from the real 1976/77 level. The plan envisages that total internal revenue will grow at 5% per annum, derived mainly from increasing taxable income through a growth in the revenue base.

Any shortfall in the internal revenue will require the Government to resort to domestic and overseas borrowing.

After describing the Government's overall aims on the development of the country, I now would like to turn to more specific policies on the development of PNG resources, and the natural starting point here is with the country's foreign investment guidelines and policies.

A foreign investment policy and the National Investment and Development Act was enacted in 1974 to promote and regulate foreign investment. The underlying purposes of the Act are:

- To facilitate investment in business activities that will make the best use of resources consistent with national development and investment policies.

- To prepare Papua New Guinea for participation in investment and ownership, management and control of foreign enterprise.

- To regulate and monitor foreign investment.

The act established the national investment and development authority (NIDA) as the coordinating body of all Government relations with foreign investors. It is a statutory authority under direction of a minister and is responsible for the promotion of investment projects and the regulation and control of the entry and operation of foreign enterprises.

Investment activities are classified into three categories – priority, open and reserved.

Priority Activities are those the Government considers essential to the nation's development programs over the coming years. Examples are selected forestry and integrated forest industries, mining and petroleum projects, growing of legume and grain crops, integrated shipbuilding and ship repair industry.

Open Activities are projects suitable for development by foreign investment but not top priority of Government. However, foreign investment proposals in these activities are welcomed. Included in this category are, for example, growing food crops, fruit trees, oil palm, rubber, cocoa, pearl farming, prawn farming, and general processing and manufacturing.

Reserved Activities are projects or areas reserved for Papua New Guineans in which foreign investors are not allowed to undertake new ventures. Examples are small-scale alluvial gold mining, coffee growing, poultry farming, sericulture, inland fishing, and certain limited categories of processing such as copra (through to dry copra), coffee (through to green bean) and peanuts.

The Government considers the following aspects when appraising investment proposals:

- The investor's past record both in Papua New Guinea and overseas.
- Creation of additional employment and income earning opportunities.
- Contribution to equalizing income distribution.
- Contribution to decentralization.
- Generation of additional government revenue.

- Generation of net additional foreign exchange earnings.
- Transfer of technologies and skills suitable for Papua New Guinea.
- Contribution to training of Papua New Guineans.
- Contribution to economic growth.
- Encouragement and assistance to Papua New Guineans in establishing related businesses.
- Impact on the physical and social environment.
- Contribution to consumer welfare.

The Government generally prefers full participatory joint ventures involving Papua New Guineans for small-scale businesses. However, in the case of large-scale ventures the Government may agree to foreign investors taking up maximum equity although it generally prefers to have medium or long term options.

For new priority or open activities, a foreign enterprise wishing to engage in a new priority or open activity may be required to agree to conditions of registration relating to all or any of the following:

- Government or Papua New Guinea equity participation.
- Training of Papua New Guineans for all levels of employment under a specific program.
- Encouragement and assistance to Papua New Guineans in establishing related businesses.
- Use of supplies and services available in Papua New Guinea.
- Environmental control including measures to minimize harmful environmental effects, and payment for the cost of restoring the environment where it is damaged through the enterprise's operations.

It is Government policy to encourage the establishment of enterprises that are efficient by world standards, that can produce at or below import parity prices, and that do not depend on special financial or other concessions for their continued survival. The Government will consider short-term protection for newly established industries where such protection is warranted and where a net econommic benefit will accrue to the economy arising from such protection.

For investment guarantees, the following rights and guarantees are granted to foreign enterprises once they are registered with NIDA. No nationalization or expropriation except:

- In accordance with law, or
- For public purpose defined by law; and subject
- To payment of compensation as defined by law.

Subject to any law relating to taxation and exchange control, foreign investors shall be allowed to:

- Remit overseas earnings and repatriate capital.
- Remit amounts necessary to meet payments of principal, interest and service charges and similar liabilities on foreign loans, and the costs of other foreign obligations approved by Government, at the prevailing exchange rate under law of Papua New Guinea at the time of remittance as repatriation.
- Subject only to the exchange rate prevailing under the Papua New Guinea law at the time, the enterprise and its investors shall be allowed the right to remit overseas all or any compensation received in accordance with the guarantee set out in the first paragraph of these guarantees.
- Subject to any agreement between the Government and the enter-

prise, no rate tax, rent charge, due, duty, tariff or other levy, and no related procedures or practice shall discriminate against the enterprise or its investment on grounds of its origin.

Papua New Guinea has consistently recognized the need for foreign investment in developing its economic potential. The Government strongly believes that the most effective way of promoting foreign investment is the pursuit of macroeconomic policies that create confidence in present and future stability. The strong accent on stabilization in both internal and external financial policies is deserving of investor confidence. In particular, Papua New Guinea's policy framework has avoided the need for exchange control restrictions and has established the country as a credit-worthy borrower in commercial international money markets.

Nevertheless, the Government appreciates the need for a program of wide-ranging investment incentives reflecting awareness of certain disadvantages of Papua New Guinea for potential investors, namely, the small size of the domestic market, and the associated high cost of distribution.

In addition to the general investment incentives, specific sectoral policies relating to large-scale investment in the petroleum, mining, fishing and forestry industries reflect the Government's objective of working towards a set of clear and coherent policies. In order to earn a reputation for stability amongst potential investors, Papua New Guinea intends to keep such sectoral policies fixed in the medium-term, so that investors can be confident that the rules of the game will not change.

I will not deal with these sectoral policies here because of the time limit but will try to clarify any points that may be raised on them. In essence these policies laid down more specific guidelines for the exploitation of the country's major natural resources.

In concluding part of my talk on the topic, I would like to say something about Papua New Guinea's state of economy.

Papua New Guinea is a unique developing country that has undergone tremendous technological, economic and social changes in recent years. The economy is dominated by primary industries and a large subsistence agriculture sector, with exports accounting for about 50% of gross domestic product.

AGRICULTURE

Agriculture, despite the decline in its contribution to gross domestic product from 42% in 1968 to 21% in 1979, still provides the basic necessities, income and employment opportunities for over 65% of the population. Less than 30% of the people are engaged in small holder export crops, livestock, plantation or forestry, whereas the remaining are involved in varying degrees of traditional subsistence/commercial agriculture.

Following several years of decline, mining's share of the gross domestic product rose substantially in 1979 to 25%, mainly due to soaring copper and gold prices. The manufacturing sector has experienced steady growth and contributed about 13% to the total national output in 1979.

OUTPUT

Since the world-wide stagnation of 1975/76, Papua New Guinea's economy has steadily recovered in both investment and income. In real terms the gross domestic product in financial year 1967/77 rose by 8.4% over that of 1975/76. In 1978, it grew by 4.3% over the previous year.

For most industries in the non-export market sector, 1978 output increased less than in 1977. However, firms engaged in the production of consumer goods continued to perform well, particularly those producing such products as meat, soft drinks and beer.

There was a moderate increase in the output of firms in the paper products and packing industry. Firms engaged in steel fabrication, manufacture of gases and in supplying cement products reported better than average rise in output. Production was steady for firms manufacturing petroleum products, chemicals, soaps and matches.

Growth performance of the economy slowed down in 1979 despite an export boom. This was due mainly to low investment rates, static consumption and about a 10% increase of imports. Economic growth for 1980 and 1981 is expected to recover strongly at 5% per annum in constant prices.

INVESTMENT SPENDING

The overall level of investment spending in the private sector remained fairly steady in 1979 after a significant increase in 1978.

The table shows the level of private investment between 1977 and 1979.

Private Investment
(K Million)

	1977	1978	1979
Bougainville Copper Limited (BCL)	39.7	30.3	37.0
NON-BCL	73.3	93.1	12.0
Total Private Investment	113.0	123.4	129.9

Private investment rose at 9.2% in 1978 and 4.5% in 1979. Most outstanding was the 27% jump in Non-BCL private investment in 1978, indicative of expanded productive capacity in the economy. The high level was particularly noticeable in the manufacturing and wholesale/retail sectors. With bouyancy in domestic consumption spending and with the introduction of attractive new investment incentives, manufacturing companies increased their productive capacity, particularly in food processing, beverage, paper, engineering, construction and metal fabrication industries. These same industries also invested considerable sums on new plant, machinery and equipment. Likewise, wholesalers and retailers undertook significant expansion in storage and shop space, as well as the renovation of premises.

In 1979, private investment levelled off. This was attributed mainly to the sufficient capacity created in 1978, a slow growth in the building and construction industry, a slight decline in inventory investment, and a substantial fall in investment by transport industry. However expenditure levels on new plant, machinery and equipment remained high throughout 1979, in fact, some companies were in the process of computerizing their information and accounting systems.

Private investment is expected to be high in the 1980s in view of the development of several large projects, namely Ok Tedi Copper, Kapuluk Timber in West New Britain, Starkist Fish Cannery in New Ireland, and Ramu Sugar in the Morobe Province. These projects mean more economic growth and development for the nation, and increasing employment and rising income for the people. In addition, further investment in n-w import replacement activities, and to a lesser extent more export-orientated producing activities (for example, oil palm, rubber, tea) is anticipated.

INTERNATIONAL TRADE

EXPORTS

The major exports of Papua New Guinea are copper concentrates (copper ore, gold and silver), coffee, cocoa, copra, forest products, and fish. The export values of these exports are:

Major Export Commodities
(K Million)

	1977	1978	1979
Copper Concentrates	197.9	229.4	326.0
Coffee	143.4	107.2	125.0
Cocoa	86.3	63.0	61.0
Copra and Copra Oil	35.5	35.4	58.7
Forest Products	23.7	24.5	35.5
Fish	19.1	24.8	20.6

Exports of copper concentrates have dominated the country's total export earnings though its contribution has declined from two-thirds of the total in 1973 to 40% in 1978. With soaring copper and gold prices in late 1979, its contribution to total exports would likely exceed the 40%

figure for that year. Apart from copper, Papua New Guinea still depends very much on the exports of Agriculture commodities – coffee, cocoa, and copra. The export receipts from these commodities fluctuate widely from year to year with variations in international commodity prices. Exports of rubber, palm oil and tea have grown rapidly in recent years though they still constitute only a small proportion of the country's overall exports.

The major export markets of Papua New Guinea are the European Economic Community, Australia and Japan. The present market pattern will probably continue in the near future.

IMPORTS

Domestic consumption and investment rely heavily on imports. Food and other consumption goods generally account for about 50% of gross imports. Main food items imported are rice, sugar, fish and meat. Intermediate goods, apart from fuel, take up only a very small proportion, 4 to 6%, of imports. Imports of capital goods have remained high, about 36% of gross imports of the average.

With the steep rise in import prices of food and other consumer goods in recent years, the government has encouraged import substitution. In the long run, it is expected that imports of consumer goods will fall while imports of capital goods will rise, especially with the development of several large-scale investment projects in the country.

EMPLOYMENT

The level of wage employment in Papua New Guinea increased slowly in 1978 and 1979. According to the latest Bureau of Statistics Index of employment in large enterprises, the 1978 level of employment was 4.7% higher than the 1977 level.

Employment opportunities in the country are generated mainly in the food processing industry, manufacturing, construction, packaging and printing industries, and the service sector.

There are not enough new jobs in the country for all those who seek employment at present. However, many employers continue to face a distinct shortage of skilled national staff to take up key management and technical positions. In many instances, expatriate employees are required to fill technical and professional positions in private and public sectors.

WAGES, PRICES AND INDUSTRIAL COSTS

The national wages policy adopted in March 1977 continued to operate satisfactorily in 1978 and 1979. Over the two years, March 1977 to March 1979, urban minimum wages rose by 9.8% while the consumer price index rose by 10%.

Despite the fact that domestic prices are largely externally determined, the general price level in Papua New Guinea in recent years has risen at a much lower rate than those of its major trading partners. The annual inflation rate, as indicated by the consumer price index, was 5.8% in 1978 and 7.9% in 1979. The success in containing the inflation rate is partly due to various policy measures such as the hard Kina currency policy, and fixing of maximum prices for some commodities and maximum profit margins at wholesale and retail levels on imported goods.

Industrial costs and prices also increased at a moderate rate in both 1978 and 1979. Overall costs of production rose on the average between 8 to 10% over the two years. However, most manufacturers of consumer goods were able to keep prices more or less constant by increasing production.

BALANCE OF PAYMENTS

The balance of payments is vulnerable to the influence of the widely fluctuating export prices of a few commodities like copper, coffee, cocoa and copra. This is evident in the annual variations in the country's balance of payments in the last few years.

In 1978, a slight deterioration of the balance of payments was recorded after two years of rapid build-up in reserves. The surplus of K35 million in 1976 and K100 million in 1977 was the direct consequence of abnormally high prices for Papua New Guinea's major export commodities. When the prices of these commodities declined sharply during 1978, a small deficit of K2 million was recorded in the balance of payments.

Nevertheless, Papua New Guinea's present international reserves remain at a healthy level. The economy earned good prices for most of its export commodities in 1979. The 1979 September quarter balance of payments showed a record increase in foreign exchange reserves of K78 million; the overall reserves were K360 million, sufficient to finance eight months of the country's imports.

The Kina has maintained its strong position against most major currencies. It appreciates against the Australian Dollar, the United States Dollar and the Japanese Yen. On the other hand, the Kina depreciates against the West German Deutschemark and the United Kingdom Pound Sterling.

Finally, let me point out a few major economic development projects in line with Papua New Guinea's policies.

A new K35 million Higaturu Oil Palm Project in the Northern Province was opened in last June and expected its first shipment of some 800 tonnes of oil and 100 tonnes of kernels, valued at about K300,000, to be out last November. This project, when fully developed, will have 1,400 small holders to cultivate 5,600 hectares. The production, when at peak in 1986, is expected to reach 47,000 tonnes of oil and 8,000 tonnes of kernels every year.

Papua New Guinea has two other oil palm schemes – one at Hoskins and another at Bialla, both in West New Britain Province. When fully developed, these projects including Higaturu, would involve 26,000 hectares of oil palm, and produce 120,000 tonnes of oil and 18,000 tonnes of kernel valued at millions of Kina.

The oil palm industry has already become an important part of the Papua New Guinea economy, both from its earnings and from work provided for a large number of farmers and employees. The industry is an example of the Government's policy on expanding the agricultural base of the economy.

Papua New Guinea's first sugar project in the Markham Valley of Morobe Province is being developed as an import replacement project. The project requires only 6,000 hectares for sugar cultivation to provide 80,000 tons per refining season. Papua New Guinea currently imports

20,000 tons of refined sugar a year mostly from Australia, and this multi-million kina project is expected to cut off cost on this import item and at the same time provide many employment opportunities. There is also a possibility of small holder scheme being established around the project.

An agreement to set up a fish cannery was signed last year by the Papua New Guinea Government and Star-kist Company of the United States. If all goes well, this project would prove to be a satisfactory example of the government fishery policy of processing part of Papua New Guinea fish catches in the country.

A biggest national development project about to take place is the Ok Tedi Gold and Copper Project in the Western Province.

The billion kina project, which will be developed by an international consortium with the Papua New Guinea Government having 20% equity, will officially commence work on putting up the infrastructure from this month onwards.

The first stage of the three-phase project is expected to cost K1,200 million. The first gold from a "cap" at the top of Mount Fubilan is expected to be mined in 1984 and a full-scale mining of copper is expected to be underway by 1989. Production is proposed to go ahead in three-stages. In stage one beginning in 1984, the company will mine and process gold-bearing ore at a rate of 5.47 million tonnes per year. At stage two starting in 1986, both gold and copper will be mined at 13.68 million tonnes per year, and in stage three beginning in 1989, copper only will be mined at a rate of 16.4 million tonnes per year.

The ore reserves of the project is estimated to be around 410 million tonnes, comprising of some 34 million tonnes of gold bearing ore, 351 million tonnes of copper ore and the remainder made up of other ores. Economic benefits of the project are enormous and employment opportunities could reach 3,500 at the construction phase. When the mine is in production, employment is likely to be about 2,000 people.

In relation to the Government's aim on establishing integrated timber industry to utilize the country's vast timber resources, the Government is now negotiating to sign an agreement on exploiting Vanimo Timber Resource, which is the largest in the country. This is also multi-million kina project and subsidiary industries are expected to be developed.

Ladies and gentlemen, these few major projects not only reflect Papua New Guinea Government's sincere desire and effort to closely follow comprehensive and coherent economic policies, which are mutually beneficial to both the country and its people and the foreign investors, but also reflect the investors' confidence in Papua New Guinea and its policies.

I would like to conclude by asking all you good people here today to help me promote my country. I believe a few words of commendation always go a long way.

Thank you, Ladies and Gentlemen.