



## PROCEEDINGS

# Papua New Guinea in 2015 – At a crossroads and beyond

Jenny Hayward-  
Jones  
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# PAPUA NEW GUINEA IN 2015 – AT A CROSSROADS AND BEYOND

## LOWY INSTITUTE PNG ROUNDTABLE, 28 APRIL 2015, SUMMARY RECORD

### INTRODUCTION

2015 is a significant year for Papua New Guinea. The country will mark 40 years of independence from Australia, host the Pacific Islands Forum leaders' meeting and the Pacific Games. The Papua New Guinea economy will record the highest GDP growth rate in the world in 2015 but will also formally fail to meet any of the United Nations' Millennium Development Goals in their deadline year.

The Papua New Guinea government has introduced tuition free education and free healthcare but faces major challenges in improving the living standards of its population of over seven million people. The resources boom has helped drive investment in infrastructure but catering for the nation's growing youth bulge is proving a particularly difficult policy problem. Changes to the way different levels of government are being administered could improve service delivery in rural areas but have the potential to undermine national development planning. The next generation of leaders will face an even more complex set of challenges.

The Papua New Guinea economy is reliant on foreign investment in the resources sector and therefore highly exposed to the global economy. This was to Papua New Guinea's advantage while demand for its resources and global commodity prices were high during the resources boom. But even with fourteen years of successive GDP growth, it has proved difficult to spread the benefits of the boom. A major challenge for the next generation of leaders in Papua New Guinea will be to better manage the nation's wealth and effectively implement policies and programs that will result in improved living standards for all Papua New Guineans.

These were among the key conclusions reached by thirty participants at a Roundtable meeting, *Papua New Guinea in 2015 – At a crossroads and beyond*, convened by the Lowy Institute for International Policy on 28 April 2015.

Participants included representatives from business, government, civil society, academia and the media – from Australia and from Papua New Guinea. Discussion focused on challenges for the next generation of

leaders in Papua New Guinea and future directions for Australia-Papua New Guinea relations.

## REPORT

### CHALLENGES FOR THE NEXT GENERATION

That Papua New Guinea formally fails to meet any of the United Nations' Millennium Development Goals in the same year as it records the highest GDP growth rate in the world illustrates the complexity of the national development challenge. The popular assumption that consistent GDP growth is a critical driver in national development has proved to be flawed in the experience of Papua New Guinea.

The complex diversity of Papua New Guinea is not well understood, even within the country. Models and systems that work in one part of the country do not work in other parts. There are significant differences in culture and in management style between individual provincial and district administrations. This makes it difficult to govern, to do business, and to learn from and repeat successes.

Papua New Guinea has to compete in a global marketplace for investment. While its resources base is attractive to foreign investors, businesses will compare opportunities in Papua New Guinea to others elsewhere and will ultimately invest in the most economic and less risky opportunities. Given the relatively high business risk of Papua New Guinea, efforts to reduce business risk will be important to attract a diverse mix of investors going forward. Limits in government capacity as well as that of local businesses to support multiple major projects simultaneously will remain key challenges in the future. The PNG LNG project represents what Papua New Guinea can achieve in partnership with international and domestic investors, but its success was enabled through the investment of financial, technical and human resources on a scale never seen in Papua New Guinea's history. Lessons from the PNG LNG project and earlier developments, combined with a focus on economic efficiency and value creation, are essential if the country is to realise its potential.

Papua New Guinea has no shortage of visions, plans and strategies. The most prominent of these may be the Papua New Guinea Vision 2050 document, prepared by the National Strategic Plan Taskforce under the government of Sir Michael Somare in 2009. Medium and long-term development strategies are also published by the government. The National Strategy for Responsible Development, initiated by the Department of National Planning and Monitoring, was launched by Prime Minister Peter O'Neill in 2014. It is not clear how the various strategies complement each other or whether Papua New Guinea has the capacity – either human or financial – to implement the strategies.

While both private investors and development partners are cognisant and indeed critical of capacity weaknesses within the Papua New Guinea government they are at the same time asking the government to implement policies and programs for which it is not equipped. As the expectations of Papua New Guinea citizens and external partners are only likely to increase, capacity development will continue to be a priority for the next generation of leaders in Papua New Guinea. A much tighter focus from the Papua New Guinea government and external partners on what can be achieved with existing capacity constraints may be the most appropriate means of managing future challenges.

The Papua New Guinea government's apparent preference for big government risks crowding out the private sector and creating multiple economic inefficiencies. This preference seems to be guided by the government's admiration of the success of state-owned enterprises in Asia rather than a true appreciation of the Papua New Guinea economy and its relationship to the global economy. The state-led economic models Papua New Guinea looks to are not necessarily applicable to the country's circumstances. Much greater support, both in terms of enabling infrastructure, regulations and incentives needs to be in place to encourage the growth of small to medium enterprises. Lessons from other state-led economies such as Venezuela and Egypt should be closely studied as they have more relevance to Papua New Guinea's circumstances than do large Asian economies.

Papua New Guinea's resources and ability to attract foreign investment in resources have led to a tendency to focus on large resources projects. These projects generate valuable revenue in the short to medium term for the government and the companies investing in them also deliver improved basic services. But these projects seldom deliver long-term or mass employment opportunities, while revenues are not always reinvested in sectors or activities integral to long-term development. Environmental damage from a number of resources projects remains problematic for many communities despite improvements in legislation. Major infrastructure development such as power supply has been neglected even though the expansion of power supply itself is a means of driving other infrastructure development.

There is a long-term trend for national members of parliament in Papua New Guinea to assert control of resources at national, provincial and district levels. The creation of the new MP-headed District Development Authorities with generous funding is potentially at odds with the Papua New Guinea government's national development strategies and could threaten the implementation of current national planning and the ability of the public service to make future plans. It also creates more pressure on the capacity of provincial and district administrations, which is already limited.

While the Papua New Guinea Government is focused on the very significant development challenges of education, health and infrastructure, it pays only limited attention to the growing youth bulge in Papua New Guinea society.

Papua New Guinean parents have increasingly placed a high value on educating their children – a significant development in a country where 85 per cent of the population lives in rural areas and is largely disengaged from the formal economy.

The Papua New Guinea government has introduced tuition free education for all school students but has not adequately prepared for increased demand. There are insufficient teachers, facilities and resources to support universal primary schooling. The quality of high schooling and tertiary education is thought to be declining. Although Papua New Guinea's universities have produced high-quality graduates in the past, this situation is being threatened by the lack of teaching resources in universities. Teacher education is not able to meet expanding demand for school and tertiary level teachers.

The drive to educate more children is directed at guiding students towards formal sector employment but this is at odds with the nature of the Papua New Guinea economy. The government's support of large resources projects at the expense of the small to medium enterprise sector has not helped to create the formal sector jobs young people are demanding.

The vast majority of school leavers will have little choice but to rely on the informal sector for survival. While efforts to encourage entrepreneurship in the younger generation are underway, it is not realistic to expect that this will absorb the high demand for jobs or indeed come close to addressing youth unemployment.

There is a risk that a generation of Papua New Guineans will be effectively lost. The drive to build a modern economy and the education system that supports this may end up failing a generation, with far-reaching consequences for the next generation of leaders.

There are some simple measures a future generation of leaders can take to mitigate this risk. Vocational training can take more advantage of existing infrastructure and utilise the expertise of business in Papua New Guinea to provide mentoring to students. Ensuring that schools are staffed with good administrators as well as good teachers can help address serious funding shortages in the school system. Talented emerging leaders in Papua New Guinea are frequently drawn into politics but should be encouraged to make their careers in business or in public administration, where they can make important contributions to creating better conditions for driving employment.

The Papua New Guinea government's urban planning processes are struggling to keep up with the consequences of high population growth. Urban expansion is a big issue in the large urban centres of Port Moresby and Lae. Informal settlements have expanded rapidly, have inadequate water supply and waste management services, and pose risks to the natural environment.

The scale of the problem of violence against women in Papua New Guinea is now well recognised by government and society. A number of initiatives to address the problem are underway. A new Case Management Centre in Lae to assist victims of family and sexual violence is proving successful so far and attracting interest from elsewhere.

Papua New Guinea is facing a major challenge to its sovereignty in the near future, with the planned referendum on Bougainville's independence due to be held by 2020. It seems likely that the referendum will deliver a majority vote in support of independence. The Papua New Guinea Government maintains the right to decide how to deal with that vote. Even if the vote is favourable there is a significant gap between will and capacity. Building Bougainville's capacity to manage independence could be a 10 to 15 year enterprise. At this stage, the referendum is being regarded as a technical issue, and discussion on the issues of substance or the consequences of the vote is lacking.

The political economy of Bougainville is changing dramatically. There is much at stake for those who control government, particularly given the potential of returns from Bougainville's significant natural resources. Bougainville needs a legitimate government capable of managing Bougainville affairs but it is not yet clear that such a government will be in place after the referendum.

#### AUSTRALIA-PAPUA NEW GUINEA RELATIONS

Government-to-government relations between Australia and Papua New Guinea are strong. Contacts between ministers and officials are frequent. The Australian High Commission in Port Moresby is one of the largest Australian missions in the world and hosts a significant number of federal government agencies. Although political links appear to be transactional in nature, they are numerous and give depth to the relationship.

Trade and investment links are valuable, with bilateral merchandise trade worth A\$5.9 billion in financial year 2013/14 and the stock of Australian private investment in Papua New Guinea totalling A\$20 billion in 2013.

The bilateral aid program is worth approximately \$577 million in the current financial year and is by far the largest single aid program in



Papua New Guinea. But while the program is significant for Australia, it is an increasingly less significant element of Papua New Guinea's budget. Australia is likely to become a more demanding donor. Closer public scrutiny of Australian aid spending in the wake of recent cuts to the wider aid program will put more pressure on delivering tangible outcomes and require more careful assessment of new projects. The Australian government is working to align the aid program more closely with Papua New Guinea's development priorities but ultimately political interests on both sides will continue to guide decisions about the aid program.

Defence and security links will remain critical in the future. Papua New Guinea will likely need support for police resources on a long-term basis. Severe capacity weaknesses in the Royal Papua New Guinea Constabulary are a major problem that has no ready solution – even with Australian will to provide more assistance. The possibility of further clashes between the police and defence force is also of concern.

It is important to be careful about seeking to recreate systems that worked in the past or model bilateral relations on a previous era. Both Papua New Guinea and Australia have experienced very significant change since 1975. The younger generation in both countries are not familiar with the colonial experience and are seeking out new experiences, which could help transform relations.

People-to-people relations in the next generation will be different in nature from those that existed in the colonial and post-colonial era but that doesn't mean that they won't be of the same or even better quality. Support from Australia for cultural, literary and music links may be led by an older generation of Australians but involves young Papua New Guineans. The resources boom has enabled Australian businesses with offices in Papua New Guinea to offer opportunities for their younger staff to work in Papua New Guinea with counterparts. Australian and Papua New Guinean non-government organisations are forming new links. A number of Australian students will go to the University of Goroka soon under the Australian Government's New Colombo Plan.

Australia could consider providing enhanced access for Papua New Guineans to the Australian labour market to strengthen ties in a younger generation. Young Papua New Guineans who study in Australia would benefit from opportunities to engage in longer-term work placements.

Papua New Guinea's foreign relationships of the future will be very different from those of the past. Papua New Guinea will likely need to manage a much more complex set of relationships, including with China, which will require a deeper knowledge and experience of Asia in particular. Australia should be ready both to assist and to adjust to a changing bilateral relationship.



## ABOUT THE AUTHOR



*Jenny Hayward-Jones*

Jenny Hayward-Jones is Director of The Myer Foundation Melanesia Program at the Lowy Institute. Prior to joining the Lowy Institute Jenny was an officer in the Department of Foreign Affairs and Trade for thirteen years, serving in the Australian missions in Vanuatu and Turkey. She worked as Policy Adviser to the Special Coordinator of the Regional Assistance Mission to Solomon Islands from its inception in July 2003 and in 2004. Jenny holds a BA (Hons) in political science from Macquarie University; her Masters thesis for Monash University focused on governance and political change in Vanuatu. Jenny's interests focus on Australian policy in the Pacific Islands region, political and social change in Melanesia, and the strategic and economic challenges facing Pacific Islands in the Asian century. She is the author of two Policy Briefs on Fiji and several reports from major conferences on regional issues, on PNG and on Solomon Islands that she has convened in Australia, New Zealand and Solomon Islands.

Jenny Hayward-Jones

Tel: +61 2 82389037

[jhayward-jones@lowyinstitute.org](mailto:jhayward-jones@lowyinstitute.org)

**LOWY INSTITUTE**  
FOR INTERNATIONAL POLICY

31 Bligh Street  
Sydney NSW 2000 Australia

Tel: +61 2 8238 9000  
Fax: +61 2 8238 9005

[www.lowyinstitute.org](http://www.lowyinstitute.org)  
twitter: @lowyinstitute