

2023 in Reflection

In 2022 the world looked forward to a strong economic and social recovery from the lockdowns and economic contraction of the pandemic. Instead, the year started with what most would have considered an inconceivable 19th Century style land invasion in Europe driven by vanity, but causing untold and utterly pointless death and destruction. This conflict also severely disrupted global energy and staple food supplies and prices and reinforced the inflation that had already erupted at the conclusion of the pandemic, as global markets reopened and faced supply chain bottlenecks. In PNG the ensuing high commodity prices provided stimulus for some industries (notably oil/gas and vegetable oils) and boosted revenue, while imposing heavy costs on other industries and consumers. Much of the attention in 2022 was diverted to a very flawed national election, and growing geo-political tensions and competition in the Pacific region.

In 2023, the Ukraine war dragged on, as did brutal civil conflicts in Myanmar and Yemen, while the precedent set in Ukraine of ignoring established boundaries threatened copycat behaviour by dominant regional powers towards their smaller neighbours. Ongoing internal political and social division in Israel, focused upon a long entrenched leader, eager at all costs to hang on to power and ward off corruption charges, left him and his ramshackle coalition severely distracted, to the extent that the country's security forces seemed surprisingly ill-prepared for a brutal armed incursion by Hamas fighters from the Palestinian enclave in the Gaza strip. The brutality of the attack, and hostage taking, and subsequent Israeli response and humanitarian crisis, have left both sides scarred and subject to international condemnation and calls for restraint. While it may have been instigated partly by outside powers, determined to forestall stronger Israeli-Arab ties, it risks escalating middle-east conflicts, disrupting major trade routes (through the Red Sea-Suez canal) and disrupting global focus from other conflicts or potential hotspots around the world.

China, long the driver of economic growth, has suffered a significant economic slowdown, partly from its extended tough lockdown, which was only lifted after mass civilian protest, but also from financial and property crises, a crackdown on leading entrepreneurs, and some disinvestment, including by international firms, in the face of seemingly growing authoritarian positions by the Chinese leadership. Nevertheless, there was some global cooperation between major players during 2023, including China, over restraining emissions, and rolling out mechanisms to address climate change, despite the slow progress to date, and perhaps despite, rather than thanks to the COP28 meeting held in the hydrocarbon centre of Qatar. In this regard, China is both in the lead with rolling out clean energy and electric transportation, even while also remaining the largest coal-fired energy consumer and emitter.

The US economy has been perhaps surprisingly buoyant with record stockmarket performance and employment growth during 2023, despite the progressively rising interest rates applied by the Fed and geopolitical and market uncertainty facing much of the world. Late in the year the Fed started rolling back its interest rates and potentially weakening the allure of the US dollar, which has strengthened against most currencies,

including the kina and the Australian dollar over the past two years. The Kina appreciated against the Australian dollar over this period, which softened the expected inflation rate in PNG during 2023, although, with no increase in minimum wages since 2016, and years of medium inflation, those on lower incomes, especially those lacking land and living in PNG's costly urban areas, have been struggling to feed their families and make ends meet.

Despite the conflicts, global energy markets were markedly more subdued in 2023, though volatile at times, but some metals and agricultural prices remained firm, with enhanced production of some crops in PNG after the disruption of the election year, driving modest economic growth, despite the failure to reopen the Porgera mine, as forecast, early-mid year.

The Pacific, and particularly PNG, slipped out of the relative shadows and moved somewhere into the limelight in 2023, with a succession of international leaders making their way to Pacific capitals, and especially Port Moresby, from the US, East, South and South East Asia, Europe and the region itself. This reflects the growing need to secure supplies of energy, both fossil fuels and greener energy sources and other minerals and food supplies, including fish, as well as open markets for goods, contractors and workers, finance and other services, as well as pursuing platforms for security and influence, over regional and some global issues. During the year the US and China reached some rapprochement over their growing protectionism, and trade restrictions though not on ICT products, although with new tit for tats over rare earth. With the 2022 US Presidential Election looming and the possibility of a very protectionist figure regaining office, no-one is expecting the trade war to ease anytime soon. The French President's visit to PNG in July provided some variation of focus, notably on climate change and supporting PNG's biodiversity protection, responding to Pacific and European concerns, but maybe partly to offset the prospective new Papua LNG project to be operated by Total Energies.

In recent years, PNG has faced a range of economic, governance, social and political challenges. The country's economy is heavily reliant on the natural resources sector, particularly mining, hydrocarbons and agriculture. While the extractive industries have been important sources of revenue, they have also been subject to fluctuating global commodity prices, and PNG has struggled to diversify its economy and generate jobs, and there have been no major new resource projects come on-stream since 2014, with Porgera, its second largest gold operation also closed since April 2020, ironically at a time when gold prices peaked. While economic growth was only about half the forecast in 2023, the restoration of Porgera at the end of the year, and the prospective financing and early construction phase for at least one major further resource project (Papua LNG) and possibly a second (Wafi-Golpu copper/gold) commencing in late 2024, and a succession of subsequent projects, provide more optimistic grounds for sustained economic growth going forward for the next few years. This should also encourage associated investment in other sectors, including the real estate and services industries. However, as gas-LNG production and even the highly automated Wafi-Golpu project are hi-tech industries, that provide limited employment or local multiplier effects, the participating companies are strongly aware of the need for associated investment in agriculture, afforestation and

other initiatives that fulfill their corporate social mandate by generating local community benefits and participation. The challenge of the dual economy, or the resource curse remains prominent in PNG, with the need to safeguard the prospects of the other sectors, and the importance for Government not lose fiscal control again, as it did in the 1990s and 2010s, frittering money away on unsustainable projects and with weak oversight, even before the revenue has materialized. Establishing sound but standard investment conditions for industries, rather than entering extended negotiations for which government is ill-prepared would enable better outcomes, while also being prepared to reject unsuitable projects, where the social, economic and environmental costs exceed benefits, or where the risks and uncertainties are currently too great, as with the Freida river copper proposal and deep sea mining, also provides greater clarity and respect.

With an apparent fixation on resource project equity and gimmicks such as Special Economic Zones, the Government risks building up major further debt on activities which should be financed through the markets rather than the stretched public purse. These initiatives undermine sound governance and the level playing field which are needed for a mature investment environment.

PNG is currently deemed a lower middle income country, although deficient population, let alone economic data undermine meaningful social and economic planning. Yet, PNG's social and human development indicators remain those of a poor low income country, which simply should not be the case now, with a more balanced economy, greater public accountability and more appropriate allocation of public funds over many years. The Government launched its Medium Term Development Plan 4 during 2023, with bold and aspirational commitments. The previous MTDP3 was widely bypassed, undermining its potential impact, so securing broad consensus and alignment by all tiers of Government with a coherent plan should enable better outcomes. Much of the plan is sound if ambitious; but the government should be aspirational. Nevertheless, some targets are unrealistic and would be better attuned to addressing practical constraints and opportunities, while expenditure focused on practical priorities, with less grand and costly projects, which may prove obsolete before even starting, such as the proposed and costly PNG satellite.

Working with the private sector as the driver of growth, investment and many services, rather than trying to direct or displace the private sector might be more practical. The fact is that PNG, despite being middle-income, still has amongst the world's worst health and other social indicators. Focusing more on what government must do to address this, starting with better governance, coordination and accountability, investment in basic infrastructure, health, education, law and justice, while encouraging the private sector to invest in commercial projects, some utilities and service provision and job creation, sharing some functions like skills development with Government. Government must focus on improved infrastructure, law and order, more competitive utilities, lowering tax rates to reduce costs of doing business here and encourage investment, but widening tax application to ensure more sustainable revenue. SEZ's are disruptive, distorting the tax base and encouraging cronyism and corruption, with selected firms and projects gaining special deals, undermining revenue, while more responsible businesses must comply

with standard conditions. SEZs are based upon a fallacy of very extensive unemployment with high readiness to work at very low wages, which is not the case in a land still with extensive land access and informal economy as a backdrop. SEZs also risks undermining the environmental, labour and other social standards that the country needs to apply consistently.

2023 saw the continued shortage of foreign exchange, which remained bizarre for a country with one of the world's highest current account surpluses to GDP. It remains a major impediment to business and investment for nearly the past decade. Instead of administrative control of foreign exchange to ensure availability for certain priority expenses, including debt servicing and fuel imports, the need is clearly to shift to an open and more freely convertible currency, so that decision-making is not by officials, which can be open to abuse, but encourages exporters and others to feel comfortable to retain or bring funds onshore, knowing that in due course some may be remitted. The IMF's engagement with the Government during 2023 suggest to some a loss of economic autonomy, but rather it's the unbalanced budgets that create that loss of autonomy. It indicates that we've been messing up for some years, and need a bit more discipline, including over wasteful expenditure, and to be able to secure a further tranche of funding to support the budget but secure foreign exchange at more concessional rates and steer ourselves back to budget balancing and reducing debt, so that it does not impose an excessive risk and that debt servicing doesn't displace funding for health or other critical services.

Despite the deeply flawed 2022 election, the subsequent year has been one of relatively stable politics, enabling some positive policy development and application. But instability is never far around the corner in PNG. The Vote of No Confidence provision, allowed for in the Constitution for justified reason, nevertheless generates conditions for instability and poor public resource allocations, political commitments and compromises, sometimes exposing leaders to lobbyists with strong vested interests (over resources and other deals), to be able to gain or retain office. The second half of 2023 entailed preparation once again for the period of prospective political tug of war, which is open in February 2024, as well as the decision from the Supreme Court reference over the formation of Government in 2022, which in the end was dismissed. Many MPs and various 2022 candidates also sat nervously awaiting the outcome of references to the Court of Disputed Returns. The Court sets a high bar for consideration of these cases, often dismissing them on technicalities, sometimes leaving voters and other candidates frustrated when apparent major abuses were committed during the campaigning and election process. 2023 nevertheless saw a few Ministers and MPs lose their seats, apart from the Member for Madang, and one of the most dynamic recent Ministers, who lost following a Leadership code reference.

PNG has experienced a degree of political instability over many years, which creeps into economic and social instability and sometimes violence. The 2022 elections stretched the credibility of the whole process in the minds of frustrated voters, who saw their rights sidelined once again by money-politics, maladministration, a severely deficient if not distorted roll, with even authorities acknowledging they couldn't even deliver the process

in 2027 if deteriorating further. This deeply flawed system undermines PNG's democracy and credibility, both domestically and internationally, also disrupting economic progress directly and indirectly. In 2022 a crossbench Parliamentary Committee was established to undertake wide public hearings and review all aspects of the 2022 Election. Its interim report and final report were tabled during the final sittings of the year, but recommended extensive reforms (70 in all) required to restore a credible and respected election process for 2027 and beyond. This covers effective and independent election administration, adequate and timely funding, a comprehensive roll, public awareness, institutional coordination, political finance, personal identification and other issues, but at the end of the day it requires political will and wide public ownership and commitment. It is hoped that consensus is achieved, as the country certainly cannot afford the escalating violence associated with the 2022 election, or the clear abuse of process, which results in candidates with integrity widely sidelined, while those able to use and abuse the process gaining a clear advantage to gain or retain office.

Coming to law and order, as with recent elections, which have seen violence and abuses progressively extend into customarily more peaceful provinces and regions, 2023 has seen major bouts of violence in parts of Madang, West and East New Britain, Milne Bay and Oro and taking new levels of severity in several Highlands provinces, with GBV and Sorcery Accusation Related Violence (SARV) continuing to jeopardise lives and families across the nation. Enhancing police numbers over the next years, as planned, as well as capacity of the Courts, and finally the establishment of the GBV Secretariat, are all valuable, but partial responses, together with the requirement for improved police standards and accountability. However, it will take much more community engagement by police and other authorities working in better collaboration. It requires more focus on school retention, and appropriate courses and skills development, and particularly opening up opportunities in the formal and informal economy for meaningful livelihoods, including a focus on bringing more affordable public and financial services to the public. Of course, business development (especially big employers such as tourism) does not occur in the presence of extensive crime, so tackling it together with large, micro, small to medium enterprise development is critical. Some good progress has been made in income provinces, including in East Sepik, with its major emphasis upon cocoa and other agricultural opportunities; Central province is likewise making an effort to stimulate its lethargic but should be a highly prospective agriculture sector. Putting security companies out of business should be an ultimate objective, as young people are increasingly absorbed into more meaningful work in a broad range of dynamic businesses, but that won't happen in a hurry, so adequate resourcing and good coordination of public and private law enforcement agencies, is priority; that includes the finally established ICAC, focused with others, on tackling perhaps the biggest scourge, namely corruption entailing state entities and officials that undermine the prospects for the country and fellow citizens.

PNG's State-owned enterprises largely continue to drag the country back. Some were dynamic and progressive immediately after Independence, including what's now Telikom PNG (then PTC), but years of political and crony appointments, failure by the State itself to pay its bills, and constraints on their capitalization and operations have left them

deficient and, by providing monopoly public goods, holding up the nation, including both business sector development and households. Roughly 10 years with 10+ CEOs in PNG Power indicates a critical enterprise, where good managers are dropped for being tough, and bad managers just fade away. In 2024 PNG actually has surplus power provision in major centres, but years of unsuitable power contracting, fixed prices and a large portion of consumers gaining free power supply has left an organization unable to collect adequate revenue or pay for its own bills. Fortunately, some of the costliest and most unsuitable Power Purchase Agreements, as with Sinopower for Ramu2, have seemingly been shelved. Air Niugini is securing a needed new fleet, but as with DataCo's Kumul undersea cable, the financial burden will likely fall heavily on the public purse, although good planning and use of PNG's international aviation opportunities should enable a well run (and necessarily more commercial) airline to fund its fleet over time. Kumul Petroleum and Kumul Minerals would be better off being flogged off, or converted into a revenue stream for the Sovereign Wealth Fund, rather than functioning as a rather unaccountable parallel budget and disruptive investor.

2023 has been an impressive year for international sport, especially for women's sport, including women's football that really came into its own. Sport in PNG has immense potential, especially if it's well managed, and resources are provided for diverse sports for men and women, boys and girls, and not unduly concentrated into men's rugby league. Sport can play a valuable part in education and community participation and providing an alternative focus through the country to conflict and crime.

PNG possesses significant potential for growth and sustainable development, based upon its natural, but particularly its human resources, with a young and growing population. With its strategic location in the Asia-Pacific region, PNG has the building blocks for long-term economic development. Many of the world's most successful economies have very limited natural resources of their own. You could say, in some cases, they exploit the resources from elsewhere, which they obtain relatively cheaply, such as logs or marine products, in unprocessed form. The government's ambition for further downstream processing is sound, but again should be funded by private investors themselves, rather than dubious monopolies with the State and controversial businessmen, and should focus on value adding, rather than simply processing, as some processing (e.g. coffee into instant coffee) reduces rather than adds value for the local industry and the farmers.

PNG focuses sometimes too much upon natural resources and securing resource rent, when it is the investment in its human population, as in these other successful countries, (including health, nutrition and education and skills development, but also family support, and nurturing innovation and business skills) which will generate the sustainable growth, if applied together with establishing conditions for investment, notably lowering costs and risks and opening greater competition in service provision. It also requires, as Governor Allan Bird highlighted, restraining population growth which has been eating up economic, expenditure on education and other services and employment growth over the years, and imposing added pressure on gardens and natural resources. But family planning cannot be achieved from above, it requires understanding, dialogue, cooperation, and particularly

greater access to suitable and quality education for girls and empowerment of women in family decision-making, and greater awareness and focusing on responsibility and or providing options to children having children, even when they have little capacity to look after them themselves.

P B

22.12.23