

Pursuing business interests in Papua New Guinea is never dull, but even by the usual standards the next year will be remarkable for the playing out of issues with major ramifications for the political and economic future of the country.

Among these is an existential question for the country, in the form of the end-of-year referendum on the future of Bougainville. This is a culmination of the protracted and at times heated process which has brought peace to the province following the conclusion 20 years ago of a bloody rebellion by Bougainvilleans against rule from Port Moresby. The results of the referendum should be known before Christmas and if, as expected, there is an outcome which clearly favours independence from PNG, the country will head into uncharted waters. The next step in any case would be consideration by the national parliament, and Prime Minister Marape has said that, while he would prefer Bougainville to remain part of PNG (with whatever arrangements might be necessary for that to happen), he would heed the result in consultations over the future.

Among the implications of this process will be the potential encouragement of separatist sentiment in other PNG provinces, especially in the islands, as well as in neighbouring countries like Vanuatu and Solomon Islands. From a business perspective, a major point of interest will be the future of the Panguna copper mine, opposition to which was at the centre of the former rebellion. If things move in the direction of a settlement which allowed and encouraged re-development of the mine, in itself an inevitably lengthy process, the mine would be far and away the most important economic enterprise in the province. Even so, there are legal disputes, currently before the courts, over the rights to develop the mine and these include both Bougainville Copper Limited (whose major shareholders include the PNG and Bougainville governments) and ASX-listed RTG Mining, which has significant Bougainville landowner backing. Differences which could further complicate the future of the mine also exist between the Bougainville provincial government and some landowner groups. There will be other implications, including for Australia's interests in a stable neighbourhood and for potential Chinese interest in the province's resources (both mineral and forestry), and these together add up to a major issue for 2020 and beyond.

Chinese involvement in PNG will continue to be a source of interest during the coming year, including for the Australian government and businesses operating in the country. From a point only a decade or so ago when Chinese interest in the South Pacific was comparatively limited, the region has seen a remarkably sharp increase in Chinese involvement of various sorts, essentially as part of the global Chinese push to assert itself as a major political and economic power. Chinese exports to the region have increased twelvefold since 2000 and China has become heavily involved in infrastructure projects in the region, often with implications for the debt-servicing obligations of fragile island economies. Relations with PNG have deepened in areas including investment and trade. Investment, at some \$2 billion (cf \$16 billion by Australia), involves over 40 Chinese companies in areas like hydro and resources, with mining interests including Porgera, Freida River, Ramu Nickel and mineral sands. Trade levels are over \$2 billion and growing (cf \$5 billion in Australia's case). Chinese aid has involved a significant debt burden for PNG and some big showy appeals to the PNG big-man culture, for example works associated with the APEC Summit, but has also ventured heavily into roads and other infrastructure, telecommunications, energy and the Lae port.

Australia has been galvanised by developments of this sort, as evidenced in Prime Ministerial visits, establishment of new diplomatic missions in the region and a marked increase in aid and readiness to fund infrastructure. In the case of PNG, this has included Australian

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agreement to work with Japan and the United States on large-scale electricity development, and measures designed to head off Chinese involvement in some areas, including internet infrastructure. Recent days have seen announcements of an Australian government loan of \$US 300 million to PNG, widely commented on as prompted by an intention to head off incurring of further debt from Chinese loans.

There are some positives in all this for Australian businesses with an interest in PNG. Heightened Australian government interest and involvement can only be a plus for Australian businesses. The potential impact of newly developing infrastructure, from a variety of sources, could be a real positive in areas like transport, telecommunications and energy. The increased Australian aid and infrastructure push also holds out potential opportunities for business involvement. And the Australian announcement that its new loan to PNG would increase the availability of foreign exchange addresses a long-standing issue for Australian businesses operating in PNG and wishing to repatriate profits or pay for imports.

This is not to underestimate other elements which are enduring, and negative. These include corruption, serious security concerns and costs, a degraded public service, poor delivery of basic health and education services, rapidly increased debt-servicing obligations and an over-valued currency. Although 2018 had its positives for the economy, including non-resource economic growth and strong revenue growth, the current year has seen weak revenue and expenditure growth and a widening foreign exchange balance.

The 2020 Budget foreshadows the country's highest ever deficit, while professing intention to pursue fiscal consolidation so as to reduce the debt to GDP ratio from 42 to 38 percent by 2024. The government has signalled a process of budget repair through more prudent macroeconomic management, reforms to improve revenues, targeting expenditure to grow the economy and removing trade barriers to promote exports. Needless to say, the private sector will be watching closely to gauge the extent to which such intentions are carried into practice.

A continuing preoccupation for Australian companies with resource interests in PNG will be the future of PNG government attitudes and legislation on mining and related issues. The Marape government's early months have seen expression of an intention to ensure that Papua New Guineans receive greater benefits from the exploitation of the country's natural resources, but there have been mixed messages about the government's intentions. Resource companies have been quite open in criticising elements of proposed changes to mining, oil and gas legislation which they assert would have severe negative impacts in the immediate and long term on investor confidence and on existing and proposed projects. This will be a major issue to follow during the coming year.



Bill Farmer AO

Bill Farmer AO was Australia's longest-serving Ambassador to Indonesia from 2005 to 2010. Among other appointments, Bill served as Deputy Secretary of the Department of Foreign Affairs and Trade (1997-1998), Australian High Commissioner to Malaysia (1996-1997) and Papua New Guinea (1993-1995) and, for eight years, Secretary of Departments dealing with immigration, multicultural affairs and indigenous affairs.