Papua New Guinea: The year in prospect **Bill Farmer AO**

During the last year, Papua New Guinea's tribulations have included political turbulence, COVID-induced health concerns, serious budgetary difficulties and unhelpful mixed signals and uncertainty about approaches to foreign investment. During the coming year, the Land of the Unexpected will continue to bear close watching by those with business or other interests there.

The national political scene will continue to be dominated by manoeuvring in the lead-up to the July 2022 elections. Prime Minister Marape has sought to protect himself from a vote of no-confidence by adjourning Parliament until 10 August, ostensibly because of COVID-related concerns if parliament were to convene, and very definitely in order to take advantage of constitutional provisions which would rule out a challenge in the period between August and the election.

Marape's move could be liable to a Court challenge from the Opposition on the grounds that Parliament has not sat the required number of days in 2021. As things stand that would be the only likely barrier in his path through to July 2022 since he will retain until then the advantage of incumbency [distribution of offices and spoils] which his predecessors have shown can be used to ensure adherence. As to the election itself, next year will be no different from past experience in that there will be a large turnover of members of parliament, while personal, party and other allegiances will be extremely fluid in the period leading up to the formation of a new government. Making predictions of possible outcomes will remain fraught with uncertainty.

The future of Bougainville will also remain a feature of the national political scene. The great majority of Bougainvilleans have voted for a future independent of Papua New Guinea, and talks between the provincial and national governments under UN auspices have begun, the first with an interim UN moderator in May. Following what is hoped to be the appointment of a substantive moderator, a second round of discussions is expected in late June. A promising aspect of the first round was the evident goodwill between Prime Minister Marape and Ishmael Toroama, the recently-elected President of the Bougainville autonomous region – a marked contrast to the relations between their respective predecessors.

Yet major differences exist behind the smiles, including questions of timing of possible independence [which Toroama has foreseen as an eventuality by 2025, while Marape has vaguely spoken of a considerably longer period]. More fundamentally, there must be serious doubts about whether the national government, and more particularly the national parliament, will so far put aside concerns about possible separatist sentiment in other provinces [such as New Ireland or other provinces, in the islands or elsewhere] as to give their necessary approval of any new status for the province.

In the meantime, there is active interest by a number of companies [including Australian] in becoming part of the future development of the province's natural resources, particularly the long-inoperative Panguna mine. The prospect of new political arrangements for the province certainly encourages such interest but the troubled history of the Panguna operation; the potential for serious disagreements between landowners, governments and the private sector; and the shallowness of expertise available to Toroama for dealing with the myriad issues involved add daunting complexity to the issue. Australian government and business interest in stability in the region will continue to ensure that the future of Bougainville remains of intense interest.

The business climate in the country at large remains mixed, but sentiment is overall subdued. The saving grace is the country's high prospectivity, ongoing resource operations and the prospect of very substantial new operations in LNG and mining. There are also pockets of growth in the micro-economy, including some areas of agricultural production for domestic consumption. But the big picture, as pointed out in World Bank analysis, is that risks to the outlook are firmly weighted to the downside.

A notable factor this past year has been COVID. In the past few months in particular, the virus appears to have gone onto a sharp upwards trajectory, not only in Port Moresby but more broadly throughout the provinces. The severely degraded national health system showed itself quite unable to cope, while reluctance to accept vaccines by many, including some health workers, added to the problem even as outside help, from Australia and elsewhere, began to arrive. Some nimble reponses in the business area stood out in contrast, including more flexible arrangements for FIFO workers in resource areas, and expatriation of some processing to Australia and elsewhere, while health and education facilities provided by some resource companies have been of a much higher quality than those offered by struggling government facilities.

A decline of more than three percent in the size of the economy in 2020 was attributed by the World bank to three 'crises', namely the pandemic, political turmoil and contraction in major areas [particularly the closure of the Porgera mine], attributable among other things to COVID concerns and lower resource prices. As to growth prospects, the World Bank forecasts growth of more than three percent in 2022, while pointing out that this would be a technical rebound and estimating a PNG economy in 2023 some nine percent smaller compared to its previous growth estimates.

The government's budgetary position, quite critical for some years, took further hits as a result of slower economic activity resulting from COVID, the closure of operations at the Porgera mine and other factors. This year saw another deficit budget. A positive has been the Marape government's improvement in the transparency of the country's finances, which has involved among other things a new relationship with the IMF and formed an important element in the Australian government's extension of a USD 400 million loan to meet the financing shortfall.

An unhelpful element affecting the resources sector is the advocacy of resource nationalism by some players within government and the public service. There is continuing industry concern about the long-promised, or perhaps long-threatened, revision of legislation affecting the industry. Prime Minister Marape appears for the time being to have tempered the government's approach, and the recent agreement about renewed operations at Porgera, together with conciliatory statements about the future of the Wafi Golpu and Frieda projects, indicates some pulling back from earlier positions. This seems to have had some stabilising effect, notwithstanding agreement on new equity sharing in the case of Porgera. Industry will continue to keep a close eye on signs of further movement, and overall, the country's economic recovery will continue to depend on the continuance of high commodity prices and on new projects coming onstream.

Over the coming year, factors with potential implications for business will include the trajectory of COVID; the extent of government pump-priming in the periods before and after the elections; and progress towards bringing further resource projects on-line. A particular issue will be whether, in the electoral lead-up, the Marape government reverts to unhelpful rhetoric or actions relating to foreign investment. Experience suggests that this is more likely than not. From a business perspective, there will be continuing constraints in other areas. These will include the persistent over-valuation of the Kina, with shortages of foreign exchange having a serious impact on capacity to import inputs and repatriate dividends.

More broadly, investor confidence has not been enhanced by nationalistic government rhetoric, nor by the familiar problems of corruption, security, skills shortages, public service degradation and other factors which add significant costs and management headaches throughout the country.

China's footprint in Papua New Guinea has continued to grow in the period since Port Moresby hosted the APEC summit, and there are mixed implications for governments and business, especially in Australia. While Australia, China and PNG agreed to a tripartite anti-malarial program, the predominant mood is of competition. This has been evident in areas as diverse as provision of COVID assistance and vaccines, infrastructure development and the resources sector. The PNG government for its part has worked for advantage in this situation and has announced that the Foreign Minister's first post-COVID overseas visit will be in June, to China. While some Chinese-provided infrastructure has been sub-standard, poorly maintained and in unproductive areas like showy roads, and in other areas like communications infrastructure and the still incomplete Lae port, a recurring theme has been enlisting the cooperation of national and provincial politicians, allegedly in some cases for inducements of one sort or another. Cases in point include the scarcely-credible announcements by Chinese companies of major fishing and urban development projects in Daru, close to the border with Australia. There is understandable Australian government interest in these potential developments, which do not stack up in any business sense but may reflect the desire of the Chinese private sector to be seen supporting broader Chinese government efforts to expand the country's footprint in the Pacific.

More generally, there are signs of scepticism in some PNG government quarters about the value of some Chinese projects which have brought with them hefty debt obligations and in some cases disappointing results. Australian assistance, by contrast, does not involve a heavy debt burden and, while generally slower in coming on-line, has a much better reputation for quality.

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.