Policy dialogue

Papua New Guinea thirty years on

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On 16 September 2005, Papua New Guinea will celebrate 30 years of independence from Australia. These 30 years have seen mixed and mostly disappointing results from an economic and development perspective. At independence the country was on a solidly upwards development path, life expectancy was improving, education standards were reasonably high, and health delivery was well on the way to reaching the goal of providing basic health care to all within three hours' walk.

Thirty years later, life expectancy is higher than it was at independence but worse than neighbouring Pacific countries, health and education standards have fallen dramatically, the HIV / AIDS pandemic has hit Papua New Guinea with a vengeance, and economic growth has barely kept pace with population growth. Urban drift is rampant and law and order had grown so bad that Papua New Guinea sought assistance from Australia—all this in a country with almost unlimited physical and human resources. Questions have to be asked as to why?

High Stakes (Parsons and Vincent 1991) described the possible scenarios facing Papua New Guinea, including the likelihood of 'Dutch disease', as the country entered a period of unparalleled mineral and petroleum growth. It was suggested that the revenue generated could lead to an appreciation of the exchange rate and thereby inhibit Papua New Guinea's growth in the agricultural, forestry, fisheries, tourism and manufacturing industries.

This prognosis was essentially correct but it failed to identify the root cause, which was bad economic policy and an unstable and erratic political system with little or no interest in economic policy, except what it could deliver to the emerging élite who were little more than rent seekers. The exchange rate certainly did not encourage development but, while the decade of the 1990s saw some very high commodity prices and a more realistic exchange rate, still there was little or no supply response.[1]

On the credit side of the ledger, Papua New Guinea has recently been able to restore growth—albeit only in the range of 2–3 per cent, which is only keeping abreast of the population growth rate of 2.7 per cent. But much more importantly, government has been able to post a fiscal surplus and control excessive government expenditure, which has been the main stimulant of inflation, excessive interest rates and the crowding out of private investment.[2] The government has established a macroeconomic platform from which investment could be expected to launch but has failed to do so.

This paper examines the record of economic performance, and discusses some of the reasons why there has not been economic growth and some of the reasons why there could be light at the end of the tunnel.

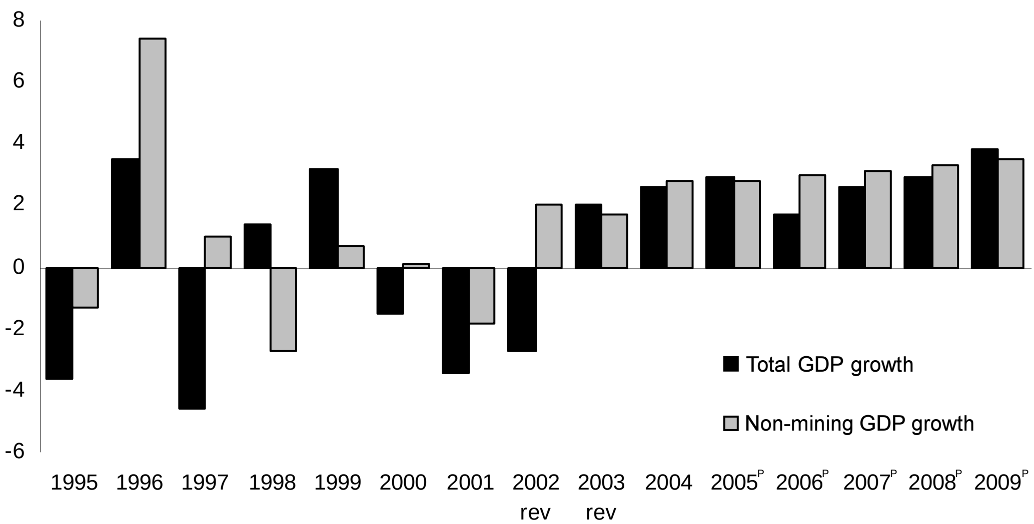
Economic performance

Papua New Guinea has not performed well over the past three decades, and the most recent decade has seen very poor results, which have been well documented by many commentators (Hughes 2004a, 2004b; Windybank and Manning 2003; White and Wainwright 2004). GDP has declined in five of the past 10 years but has grown modestly in the last two years. Predictions for the next five years are for GDP growth sufficient only to maintain per capita incomes. Importantly, growth in this resource-exporting country has lagged far behind other countries in the region, so the causes of this poor performance are not international but domestic.

The structure of Papua New Guinea's GDP is one of its main problems, being heavily tilted towards mining and petroleum, while the important sustainable areas of development remain small and are not growing strongly.

Over the period 1975–90, Papua New Guinea maintained a 'hard currency' policy, which essentially kept the exchange rate higher than it may otherwise have been. The reasons for this were initially to restrain inflation in a period of high inflation in Papua New Guinea's major trading partners, to reduce real wage rates gradually to be more competitive with those in the region, and because of a wage bargaining structure that

Figure 1 **Papua New Guinea: real GDP growth, 1995–2009**^{P} (per cent)



^{P} projected

Sources: Philemon, B., 2004. *Economic and Development Policies*, Department of Treasury, Government of Papua New Guinea, Port Moresby; World Bank, 2004. *East Asia Update*, World Bank Washington, DC.

Table 1 **Composition of Papua New Guinea's GDP, 2004**

Sector	Value (million kina)	Per cent of total
Agriculture	5,291	40
Mining and petroleum	2,916	22
Community services	1,399	10
Construction	1,158	9
Wholesale and retail	864	6
Manufacturing	811	6
Finance	455	3
Transport and communication	229	2
Electricity	206	2
Total	13,329	100

Source: Philemon, B., 2004. *Economic and Development Policies*, Department of Treasury and Finance, Government of Papua New Guinea, Port Moresby.

was closely aligned with the Consumer Price Index until 1992. During this period there was strong investment in the mineral and gas industries, with exploration throughout the country and investment in several large projects (including Bougainville in 1972, Ok Tedi in 1982, Porgera, Lihir, Misima, Tolukama, Kutubu / Moran / Gobe, Mt Kare, Hides gas, among others).

In 1994, as the result of a fiscal crisis and the almost total loss of foreign reserves, the kina was substantially devalued and soon thereafter the currency was floated. Over the next decade the kina fell from a value roughly on par with the US dollar and substantially higher than the Australian dollar to about one-third of that value. Surprisingly, this did not bring forth an increase in the volume of export crops and saw a decline in activity in the mining and petroleum industries. Other factors were at play, offsetting the exchange-rate effects.

In 1997 the Institute of National Affairs carried out a survey of business to ascertain the main impediments to investment (Manning 1998). A second survey was undertaken in 2002 (Levantis and Manning 2002). The main impediments listed in 1999 were crime and theft, corruption, poor infrastructure and political instability; in 2002 the major obstacles given by the survey respondents were law and order, political uncertainty, fluctuating exchange rates, corruption, and the high costs of infrastructure. Thus, the three recurring themes were political instability, law and order, and corruption. It is unlikely that this list has changed.

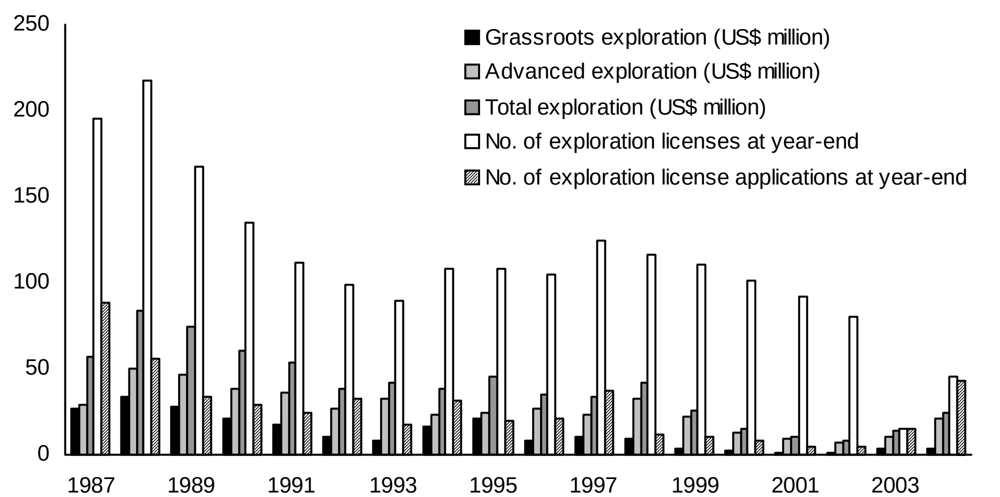
During the 1990s, interest in the mineral and petroleum industries declined due to these same factors, along with a tax regime that was becoming increasingly unattractive compared with countries competing for the exploration dollar. In 2002, these industries negotiated changes to the taxation regime, with an immediate response in investment that has continued. Five new exploration licences were issued in 2002, another 15 were issued in 2003, and in 2004 a total of 30 licences were issued.[3] This response showed that, despite the perceived impediments to investment, the main factor determining the attitude of investors in the industry was the tax regime. However, these industries are of long-term importance only if they provide the springboard for structural change that will lead to sustainable growth (see Figure 2).

Eighty-seven per cent of Papua New Guinea's population still lives outside the main urban centres. Their livelihood is provided by subsistence farming, supplemented by cash cropping, forestry and fisheries. For the most part, they have access to fertile land and can grow most tropical or temperate climate crops, as well as their traditional staple foodstuffs. They have the potential to increase production substantially and increase the level of income in their communities as well as the national GDP. For a number of reasons they have not done so, and as much as 50 per cent of the nation's potential cash crops remain on the trees or are being cut out and / or abandoned (Coffee Industry Corporation Seminar 2002, pers. comm).

Economic management in Papua New Guinea has attempted to achieve internal and external balance over the last decade with little success until 2002, and in 2005 Papua New Guinea's macro indicators are healthy: inflation is around 2 per cent, reserves are around A$750 million (Bank of Papua New Guinea 2005), exchange rates have been stable, interest rates are around 4–5 per cent, and government expenditure has been brought under control. But despite three structural adjustment programs agreed between the government, the Bretton Woods institutions and other donors, there has been little investment and therefore little growth taking place. For that reason, the current fiscal policies and controls are either unsustainable or seriously restrictive.

Successive governments have not attempted to set goals that can be reached and the country's medium-term development strategy continues to be made up of 'motherhood and apple pie' statements. The 2005 Budget papers and the medium-

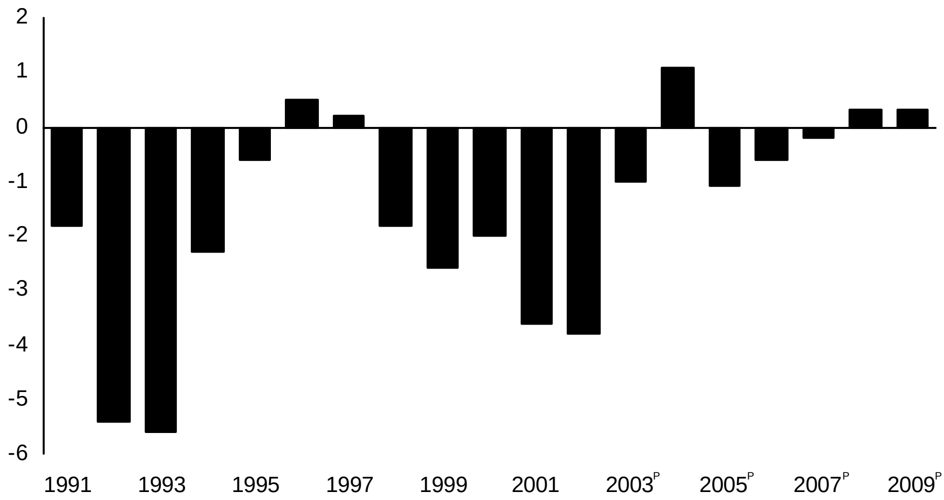
Figure 2 **Mineral exploration expenditure, mineral exploration expendidure and exploration licenses, 1987–2004**[E]



[E] estimate

Source: Papua New Guinea Chamber of Mines and Petroleum 2004.

Figure 3 **Papua New Guinea budget surplus/deficit, 1991–2009**^{P} (per cent of GDP)



P projected
Source: Philemon, B., 2004. *Economic and Development Policies,* Department of Treasury, Government of Papua New Guinea, Port Moresby.

term fiscal framework also fail to set targets for growth that will lift GDP above population growth and provide essential social services for the people. It is arguable that plans and targets are a waste of time and that the private sector will make investment decisions that will spur growth better than any government will ever do. However, if a government does not set itself targets, it will be unlikely to understand the requirements to reach and the impediments preventing the attainment of the goals.

Microeconomic reforms are needed and Papua New Guinea has only embarked on some of these in a cautious and conservative manner. The question is whether they are enough to propel the economy to the sustained 6–7 per cent GDP growth rate necessary to make a significant impact on welfare.

Fiscal control

Despite the seeming lack of political control, the present government has been able to restrain its expenditure since coming to office in 2002 through the introduction of a mini budget and subsequent annual budgets (Figure 3). However, this expenditure restraint has been at a great social cost. Fiscal control has been achieved largely by across-the-board budget cuts to national agencies and failure to allocate resources to provincial and local level governments for the provision of the basic services of health care, education and infrastructure for which they have responsibility. Public expenditure reviews, sponsored by the Asian Development Bank and the World Bank, have been attempted but have been piecemeal and have had little or no effect.[4]

A result of the fiscal restraint has been that many agencies do not have sufficient resources to carry out their functions and therefore salaries are paid to public servants who often do not turn up for work. Various initiatives are underway to reverse this trend, including the Public Expenditure Review and Rationalisation Implementation Committee and the Public Service Rightsizing Working Group. These are aimed at ensuring that sufficient resources are available for high priority areas and identifying areas that will have to be relocated or disbanded in order to free up those resources.

Setting expenditure priorities remains one of the most difficult political decisions facing the government. Ministers and their departments show little understanding of a 'whole of government' approach to management and they jealously guard their 'turf'. Despite the fact that the government closed a number of overseas missions recently, it has since announced some will re-open. There has been no costing or analysis of the potential benefits of this decision measured against a similar amount invested in infrastructure, health or education.[5] If the country is to be put on the path of sustainable growth, these are the sorts of decisions that will have to be taken.

Political stability

Investors have identified political stability as one of the most important factors needed to encourage investment. Since independence, not one government has run its full term of office; all have been replaced by votes of no-confidence. The present Somare Government has a good chance of breaking this trend, but not without a frenzy of speculation and political jockeying over the period since February 2004. Prior to each sitting of parliament, the press is fully occupied with speculation about the manoeuvrings of various politicians and parties as they explore options for gaining increased government power.

The previous and current governments have recognised the harmful effects of this instability and several important reforms have been implemented. The Integrity of Political Parties Act was designed to prevent the continual bargaining that takes place between independent members of parliament and various contenders for government throughout the period during which votes of no-confidence can be moved. The introduction of the Limited Preferential Voting (LPV) system, which will be used universally in the 2007 elections, is another attempt to reduce the level of uncertainty in the political system. The success or failure of these reforms has yet to be seen because there are a number of important matters before the courts for interpretation. Attempts to lengthen the grace period during which a government is immune to votes of no-confidence have been consistently rejected in the life of the present parliament.

The LPV reform is expected to strengthen the political party system and stimulate the creation of policies and platforms to woo voters and weaken the personality cult approach that presently characterises the political system. Political parties have been alliances of convenience rather than avenues for welfare-improving change. Politicians are more concerned with their own terms and conditions than the national interest. Demands for non-budgeted expenditure in a tight fiscal framework occur regularly; careful cost–benefit analysis of resource allocation is seldom if ever carried out or heeded.

Elections (electoral audit)

Legitimate elections are the cornerstone of any democracy. There have been increasing concerns about the honesty and legitimacy of PNG elections since independence, culminating in the declaration that the elections in the Southern Highlands province in 2002 were invalid and had to be held again. As a result of a number of challenges and the death of an incumbent, many by-elections were held in late 2003 and 2004.

Following the by-elections held in mid 2004 in Yangorou-Saussia, Anglimp-South Wahgi and Chimbu electorates, Transparency International (PNG) Inc and the Institute for National Affairs arranged for an electoral audit to be carried out (Institute of Policy Studies 2004). The two bodies had been observers of the by-elections and felt that there were some important lessons to be learnt for future elections, especially the 2007 general election. The audit revealed fraud at the counting in Chimbu; that the cost of the by-elections was K13.9 million, which if extrapolated to the national level would mean that the national elections in 2007 would cost K100 million; that the security operation for the two Highlands electorates would be unsustainable in a nationwide election because nearly 33 per cent of the national police force was deployed; and that the electoral roll is so distorted as to be unfit for use in the 2007 elections.[6]

The solutions to these problems are difficult and require some very basic decisions about the method of electing representatives. Actions such as the reform of the common roll or alternative solutions to that problem, staggered elections, electronic voting and / or counting, and how to maintain law and order are matters that need to be discussed. The government has set up a task force to look at these issues as a matter of urgency, with a view to introducing the recommendations before the 2007 elections.

Fostering the private sector

The present government has made a strong effort to improve relations with the private sector. Shortly after coming to power it established the Impediments to Business Committee chaired by the Chief Secretary to Government and comprising members from the private sector and key government agencies. The committee has made its first set of recommendations, which have been endorsed and are in the process of implementation. The key recommendations deal with work permits and visas, tax matters including resourcing of the Internal Revenue Commission, foreign exchange controls, the cottage industry list to supersede the reserved activity list, fiscal issues and incentives to agriculture.

Adoption of several of these recommendations was announced by the government in 2004 but they still have to be implemented. Whether this delay is due to bureaucratic inertia or obstruction, it has dampened the enthusiasm of the private sector for this process.

Provincial government

One of the major impediments to faster economic growth in Papua New Guinea is the breakdown of basic services in rural areas. Important functions in education, health, agriculture, law and order, and infrastructure have been delegated to provincial and local-level governments. Subsequently, there have been ongoing disputes between national, provincial and local-level governments about the amounts that the national government allocates to them.

The Morobe Provincial Government took its dispute to court and won, but the national government has refused to pay the amounts specified by the Organic Law on Provincial and Local Level Government (OLPLLG). The national government says it does not have the funds to pay provinces according to the law and that one of the reasons for this has been that it is obliged to pay K1–1.5 million to districts in the form of Electoral Development Funds. These funds are re-allocated by local members of parliament; some are distributed on a discretionary basis but the majority is distributed through proper government tendering and allocation procedures.[7]

The National Economic and Fiscal Commission has been trying to come to grips with the fact that the government has consistently not adhered to the requirements of the OLPLLG since its inception and made recommendations about mechanisms that would resolve the issue and restore some measure of equity between provinces according to population and other factors.

Attitudes towards state ownership of business

For more than a decade Papua New Guinea has had a privatisation policy but has failed to implement it to any significant extent (see Manning 2002). In 2002, the PNG Banking Corporation was purchased by Bank South Pacific. In 2002 and again in 2004 Telikom was brought to the point of sale and then withdrawn. Privatisation is an emotional issue in any country and even a country such as Australia, which has undertaken a great deal of privatisation, has struggled to privatise its telecommunications industry fully due to high emotional attachments and service requirements for remote areas. In Papua New Guinea there is still a lingering desire for government ownership of business. There is an unholy alliance between those who have been able to exploit state-owned enterprises for their own gains and those who genuinely believe that these are the people's assets and should never be sold.

At this stage of Papua New Guinea's history there will be a requirement for community service obligations to be tied to the sale of transport, telecommunications, electricity, water and other infrastructure; large segments of these markets will remain too small to provide a commercially attractive business long into the future. Therefore, the state will have to provide some incentive for the continued provision of these services. There will not be full privatisation.

What is certain is that there has to be some change in the method of delivery of these essential services. The question is what is the best form of service delivery? It is not clear that privatisation is the answer. State-owned enterprises in Papua New Guinea require massive capital injections. For example, the telecommunications cable between Australia and Papua New Guinea has passed its obsolescence date and needs to be replaced at a cost of around K80 million; electricity generators in some places are 40 years old.

For Papua New Guinea to be able to achieve satisfactory growth in the globalised village, it will have to provide access to the latest technology so that a village farmer can achieve the best prices, and communications with schools and aid posts are available instantaneously on the internet. Electricity and other utilities will have to be produced more cheaply and provided to more Papua New Guineans. The key to the modernisation and good management of state-owned enterprises may be merit-based appointments of first-class managers and they may have to include expatriates in the short term.

The government needs to make a clear and unequivocal statement about privatisation. Its actions with Telikom have made it very difficult to entice genuine investors to look at any further efforts to sell state-owned enterprises because they will not believe the government is genuine. If the government does not wish to sell off the entities, or at least sell a controlling interest in them, it has to decide how it is going to guarantee that they have both good management and the necessary capital to make them efficient by world standards.

Land

The debate about land policy has raged for a number of years. Professor Helen Hughes has stated often that Melanesian countries cannot expect to advance economically until they abandon customary tenure in favour of individual land ownership (Hughes 2004c; Gosarevski, Hughes and Windybank 2004a, 2004b). Dr Jim Fingleton has disputed this and pointed out that attachment to customary land is fundamental to Melanesians (Fingleton 2004). The 2002 riots in Port Moresby, which culminated in the deaths of university students, and the pre-election riots in 1997 were both related to the perception that attempts by the government to foster the registration of land would lead to loss of customary ownership.[8]

There is no argument that it would be easier for all kinds of development if all the land in Papua New Guinea were alienated from customary tenure and held under a recognised and enforceable title. It is important that advisers and commentators realise that this is not going to happen in the foreseeable future and therefore their attention should be given to finding or endorsing alternative methods of mobilising land that do not remove ownership from the landowners and also allows economic development to take place.

The lease–lease-back system is one such mechanism and has been used by New Britain Palm Oil Ltd for a 15,000 hectare development in West New Britain Province. More importantly, there are all kinds of informal agreements between landowners and tenants in peri-urban and even rural areas that allow the landowners to gain some income from the land and a tenant to use it for economic purposes or just for accommodation.

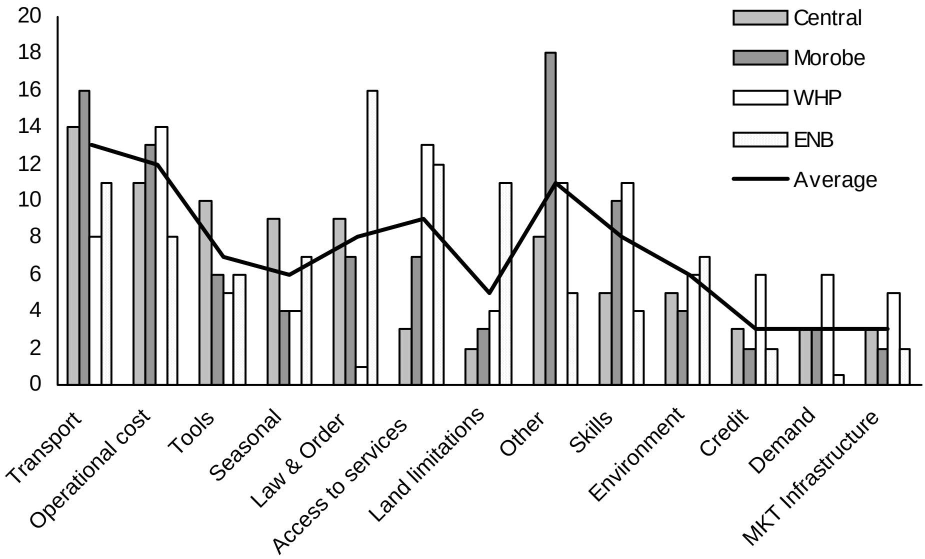
The land issue is often confused with compensation, which has almost become a national sport. Failure by the state to refuse compensation for frivolous claims has led to a proliferation of claims. Mechanisms that were originally designed to allow payment to genuine landowners have been twisted into mechanisms for defrauding rightful landowners. This area of public administration needs urgent attention, and the current Minister for Lands recognises this need and is planning a summit on land matters in mid 2005.

Transport infrastructure

The problems of air, sea and land transport infrastructure have been well documented. All three modes of transport have suffered long periods of neglect. The deteriorating transport infrastructure is one of the primary reasons that agricultural production has not expanded (Figure 4). It is estimated that the Highlands Highway, just one road, will require around K500 million expenditure per year for five years to bring it up to a satisfactory standard. Add to this the deficiencies of the other major national highways that become impassable during the wet season and the problem looks insurmountable. Getting off the highways to the trunk roads and feeder roads means use of a four-wheel drive in the dry season and ‘no go’ in the wet.

Roughly one-half of the small airstrips that were in operation at independence are now closed from lack of funding, lack of government use, and eventually lack of demand large enough to sustain them. Sea transport has virtually come to a halt except between main ports and is very expensive; its difficulties are exacerbated by the high excise on petrol and two stroke fuel, which prices

Figure 4 **Constraints on the rural informal sector**



Source: The National, 2005. *Papua New Guinea Yearbook 2005*, The National, Port Moresby.

banana boats[9] out of the range of most villagers, especially when carrying produce any distance.

Initiatives are being taken that will have some impact on transport problems. The Asian Development Bank, AusAID and resource companies are rehabilitating sections of the Highlands Highway; the National Roads Authority has been set up to ensure that the repaired sections of the highway are maintained; and the Asian Development Bank is funding the repair of trunk roads. However, two World Bank road projects have been suspended because of a dispute with the government over forestry issues. The Asian Development Bank is also providing funding for subsidisation of coastal shipping. The Coffee Industry Corporation subsidised the freight of coffee from small airstrips where there was no other method of transport.

The District Road Improvement Program introduced in the 2005 Budget is also aimed at improving feeder roads. One of the problems is that the government will not be able to provide enough money to maintain feeder roads, wharves and airstrips into the foreseeable future. This leaves two alternatives: either communities take matters into their own hands and contribute to the maintenance of their roads, or they will have to move closer to where transport is available. It has been suggested that isolated villagers should relocate to the sides of highways or other sources of transport (Chand and Yala 2002). Whilst sounding far-fetched due to land availability and ownership problems, this may be the way the country evolves in the future. Whatever the solution, improvement of access to transport infrastructure is one of the keys to any significant increase in agricultural production.

Law and order

The second most important and matching problem for investors is law and order (see Figure 4). This problem affects all sizes of business and ranges from petty theft and corruption and hold ups, to grand corruption, murder and rape, and destruction of villages and gardens. A recent survey of the informal sector identified law and order as the major constraint to business. Law and order problems are closely linked to transport problems because poor roads mean that produce buyers and sellers are vulnerable because of slow speeds and the ease with which hold-ups can be carried out.

Law and order has been an ongoing problem in Papua New Guinea. It is hard to tell if it has become worse and by how much because statistics are either not available or seriously unreliable. People have so lost faith in the police force that they do not even report serious crime because they receive no response. There have been attempts to estimate the cost of crime in Papua New Guinea (Duncan and Lawson 1997; Levantis 1997) but these do not reflect the full cost of crime to ordinary Papua New Guineans who cannot get their produce to market or run trade stores in their villages.

There have been a number of initiatives recently that signal a change in direction in solving the problem. The first is that the government, in conjunction with AusAID, is now approaching the problem on a sector-wide basis, recognising that all parts of the law and justice sector need to function efficiently if there are to be any inroads into the problem. It is no use catching criminals if they will not be convicted; or, if they are convicted, it is even less use if they escape from jail.

The new approach is to strengthen the whole sector by an injection of Australian police, detectives, prosecutors, judges and warders who will work alongside PNG counterparts in both an operational and training role. The deployment of these staff under the Enhanced Cooperation Package has already begun. The program has many detractors whose main complaint is that the program is really a re-colonisation of Papua New Guinea. Few people fully understand that this help was actively sought by senior PNG ministers, first in Washington and later in Canberra, soon after the present government came to power. The other fallacy about the re-colonisation theory is that there will be a relatively small number of Australians (210 police in a force of 5,500) and the intervention will be of equally small proportions in other agencies.[10]

The other major initiative in the law and justice sector was the Administrative Review Committee looking into the Royal Papua New Guinea Constabulary (2004). This was the first PNG-initiated inquiry into the police force since Papua New Guinea's independence. The report was hard-hitting and damning of almost all aspects of policing in Papua New Guinea. It highlighted weaknesses in management, operations, training and staff morale. It also drew attention to corruption, lack of discipline, and very poor morale in the police force.

Its recommendations were roughly calculated to cost K40 million in additional funding, excluding the cost of renovating police accommodation, which it reported to be in a disgraceful condition and is estimated to need K200 million to repair. In the longer term the committee sees the state getting out of the provision of accommodation for police and leaving it to the private sector; but this will be a longer rather than a short-term goal.

The Minister for Internal Security, Mr Kimasopa, is aware of the tendency of governments in Papua New Guinea to have enquiries and then wash their hands of the matters concerned. He has had a task force appointed whose responsibility it will be to oversee and report every six months on the progress of implementation of the Review's recommendations. Some of the recommendations happily overlap with the Enhanced Cooperation Package and new uniforms and other materials and supplies are being provided under it.

Corruption

No discussion of the last 30 years in Papua New Guinea would be complete without mention of corruption. Corruption is a problem that has gradually worsened since independence. Papua New Guinea was ranked 102 out of 145 nations in the latest Transparency International Corruption Perceptions Index (Transparency International 2005). Several Ombudsman reports and public enquiries have documented the extent of corruption and named people involved.

At this stage, no high-profile person accused or named in conjunction with corruption has been convicted. This absence of response means, that even though the general public sees it happening around them every day, there appears to be no jeopardy in, and no punishment of, corruption. Bodies such as Transparency International (PNG) Inc endeavour to educate the public and especially the youth about the costs and damage caused by corruption, but unless the government can provide genuine disincentives, corrupt practices are unlikely to cease. The saving grace in Papua New Guinea is that the many of the worst cases of corruption are reported on and the public is aware of them, but failure to jail anyone and continual corruption leaves the public sceptical about government willingness to act.

As described above, the assistance for the law and justice sector includes prosecutors, forensic accountants and other specialist staff to assist with fraud and corruption cases. It is the stated aim of the government to crack down on corruption and the new resources will mean that it will be able to do so.

Employment in Australia

An issue that has been canvassed in recent years and which is receiving more attention from both Papua New Guinea and Australia is the possibility of Papua New Guineans taking up short-term employment in Australia. Papua New Guinea has been arguing that Australia has seasonal shortages of unskilled workers that are being filled from many other countries whilst PNG workers are excluded. The reason for this exclusion is not often spoken but it seems to be a fear that PNG workers would not return home.

Papua New Guinea argues that exposure of young Papua New Guineans to Australian working conditions would give them some cash and would also expose them to new work ethics that would enrich their employment opportunities when they returned home. There is a general feeling that there should be more work exchange for the benefit of both countries.

Academic engagement in Papua New Guinea

An area that appears to have seen a resurgence in recent years is academic interest in Papua New Guinea. There have been several articles from well-known academics that have stimulated debate both in Australia and Papua New Guinea. They have collectively seen a major shift in Australia's attitude towards Papua New Guinea and its other Pacific neighbours. Australia has demonstrated an inclination to engage with the problems of its immediate region, which it did not seem to want to do in the period before 2003.

The academic interest is both well received and resented in Papua New Guinea. Most leaders and educated people agree with the criticisms made by Australian academics and openly admit to the shortcomings that have been exposed by them. What Papua New Guineans object to is the tone used by Australians and others and their perceived failure to understand that the country is trying to come to grips with some of its problems, at some times more genuinely than at others.

Papua New Guinea is a democracy and some of the policy prescriptions being put forward by Australian academics are simply not politically acceptable or achievable by a government that wishes to remain in power. Some of the more extreme policy recommendations would be a recipe for riot and even bloodshed. Papua New Guinea has to make choices like other countries and these may not be the best solutions; but economists learn that second-best solutions are often forced on governments living in the real world.

Conclusion

Earlier it was stated that there is light at the end of the tunnel. For many people, progress has been slow and uneven. The fact that the mining and petroleum industries have again become engaged in Papua New Guinea is a good sign but only if the country can capitalise on resource revenues better than it has done in the past. Political reforms have been made that will eventually change the political landscape and should reduce the endemic instability.

The re-engagement of Australia through the ECP project has the potential to revitalise fiscal management and law and order; it could act as a circuit breaker to allow those Papua New Guineans who want good governance to regain control of their country and reduce the level of corruption. It could be the start of a rebuilding of the public service, which has been allowed to collapse so badly.

There are alternative ways of using land more productively and, given the overwhelming political constraint, these urgently need to be explored and effectively introduced. It is the productive use of the land, not its ownership, that is the crucial issue.

Papua New Guineans are aware of the shortcomings of the country. They are trying to come to grips with a political system that has not delivered growth or development. The current Treasurer has on many occasions pointed out that GDP growth has to be increased to greater than 5 per cent, and there are attempts to free up resources to ensure that priority areas are adequately funded. The battle has not yet been won but it is well and truly joined.

Notes

1 In the mid 1990s coffee prices reached K7,000 per tonne and cocoa over K5,000 per tonne, yet there was almost no increase in production.

2 Expenditures still exceeded revenues by 3 per cent in 2004, as compared with the deficit of 4 per cent in 2003.

3 It is likely that expenditure on exploration and development could reach K1 billion in 2005.

4 Functional expenditure reviews have been carried out on some agencies but they have mostly concluded that more rather than less resources should be allocated to the agencies concerned.

5 The cost of running an embassy roughly equals the cost of employing 390 police.

6 This problem is much worse in the Highlands than in other regions.

7 The widespread use of tendering is relatively new; previously the allocation was largely at the discretion of local MPs.

8 The students believed that if the government were not able to repay loans to the World Bank, the Bank would claim all registered land.

9 Small outboard motor-powered dinghies.

10 Financial control and management is the other priority area that the ECP is aiming at.

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