Department of Pacific Affairs

China's Guide to Investment Cooperation in Papua New Guinea

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This In Brief examines a key Chinese government document written in the lead up to the November 2018 APEC meeting in Port Moresby and published in January 2019. The 2018 Guide for Foreign Investment and Cooperation (Papua New Guinea) (hereafter 'the guide') is jointly issued by CAITEC (a Ministry of Commerce think tank), the Chinese embassy in PNG, and the Department of Outward Investment and Economic Cooperation (State Council 2018).[1]

The document represents a step forward from previous investor guides to PNG in its level of detail and sophistication of analysis. This In Brief provides an analysis of the guide, including the foreword by Liu Linlin, Economic Counselor to PNG for the People's Republic of China (PRC).

The guide's foreword

Liu Linlin is the representative of China's Ministry of Commerce (MOFCOM) in PNG, responsible for PRC trade, investment and aid. Unlike in smaller Pacific nations, his office is separate from the PRC embassy, which is run by the Ministry of Foreign Affairs (MFA). While MFA's ambassador is China's senior political representative, and in theory Liu answers to him, in practice Liu has oversight of China's investment, trade and aid in country. As argued elsewhere (Zhang and Smith 2017), the politically driven Belt and Road Initiative has slightly enhanced the status of MFA relative to MOFCOM.

Liu's foreword contains the standard array of facts about PNG, initially praising its dynamism and the future economic prospects of PNG, its 'relatively sound' legal system and its 'fairly stable' system of government. Liu then lists shortcomings, including the low efficiency of government, high unemployment, social instability, poor infrastructure, and the system of traditional landownership.

Politically, the document is significant because it reaffirms PNG's status as the first Pacific country to advocate for the Belt and Road Initiative. The final paragraph contains an exhortation: 'The Chinese government calls on more powerful Chinese companies, inspired by the Belt and Road Initiative, to carry out reciprocal trade and invest in PNG'.

This might be dismissed as rhetoric, but forthcoming research by Australian National University doctoral student Colonel Pete Connolly points to an uptick in the number of PRC enterprises registering in PNG in the wake of APEC. Notably, Counselor Liu points to scope for PRC companies to invest in tourism, fisheries and agriculture, but flags a 'serious' degree of competition among 'homogeneous' Chinese infrastructure contractors. This suggests that PRC infrastructure providers are not only crowding out Australian, New Zealand and local companies, but are also leading a race to the bottom on price and quality among themselves.

Liu's top four tips for PRC investors in PNG reveal insight into the business environment challenges of PNG and the shortcomings of some PRC investors:

1. Do your preliminary market research. The PNG market has a low barrier to entry but it is hard to gain a foothold. Law is sound but getting things done requires personal relationships. In addition to technical and market concerns, enterprises should also understand the society, law and economy of PNG.
2. Pay attention to landownership issues. Land tenure is a big problem that plagues foreign investors. Before investing, determine the status of project land and negotiate with landowners to avoid future costs.
3. Give importance to security. PNG has poor public order and a high crime rate. Investors should have adequate security funds, use professional security companies, and make plans to ensure the safety of staff and property.
4. Properly handle relationships. Chinese companies in PNG should handle relations with the government, partners, employees, trade unions and local residents; respect local customs and the environment; take on essential social responsibilities; and contribute to the social and economic development of PNG.

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What sort of country is Papua New Guinea for prospective People's Republic of China investors?

The guide reveals what MOFCOM representatives see as major barriers for PRC investors, and how they view the engagement of other international actors with PNG.

Aspects of PNG's landscape that have caused problems for large investors — such as the backers of the Ramu Nickel Cobalt project — feature prominently. The strength of civil society and the high level of unionisation in the workforce are mentioned in cautionary terms, surprising given the widespread perception of PNG civil society as feeble, but relative to the parlous state of non-government organisations in Xi Jinping's China, PNG's civil society has caused discomfort for PRC companies. The guide finds 'no evidence of anti-China bias' in the PNG media as a whole, and that 'most reporting is positive' despite anecdotal and academic evidence to the contrary (Sullivan and Renz 2012) and the guide's own conclusion that, 'the wholesale and retail industry is basically monopolised by the Chinese' (p. 16).

Port Moresby's status as one of the least habitable cities on the planet is mentioned, but the high-risk status of other investment destinations covered by the MOFCOM guides is apparent when the guide notes 'there is no armed government opposition, nor has there ever been a terrorist attack'.

Other states' engagements with PNG are briefly mentioned, acknowledging Australia's 'extremely close' economic and strategic relations. In keeping with the economic, rather than political nature of the guide, much of the analysis is neutral or positive, noting New Zealand's 'special influence' in Bougainville, the European Union's role in drafting PNG's trade policies, medical aid provided by the United States military (as well as access to its ports and airstrips), and even Prince Andrew opening the 2015 Pacific Games. Discussion of Japan's relationship focuses on its multilateral engagement with the Pacific and the opening of air routes. PNG's connection with Indonesia is not raised.

The guide focuses on resources: tuna stock representing 10 per cent of the global catch, and a country with '78.5 per cent forest cover; 74 per cent of that is virgin forest'. While upbeat about the future prospects of Chinese companies in PNG, under the section 'Latest Policy Trends' the guide lays out new legislative developments that are of concern to PRC companies, particularly the proposed expansion of the reserved activities list, targeting businesses with an annual turnover of less than 10 million kina. While other members of the business community share their concerns, the guide highlights PNG's relative openness to PRC investment, noting 'there is no security review on foreign and state-owned enterprise mergers and acquisitions, anti-monopoly provisions, or restrictions on the concentration of operators' (p. 31).

The guide dedicates several sections to explaining the complexities of landownership, with a focus on the Land (Tenure Conversion) Act 1963. It reflects the difference between land tenure in China, where all categories of land are leased from the state, and PNG: 'According to the experience of foreign capital projects, the relationship with landowners is difficult to manage' (p. 37) … 'landowners have absolute rights over their land, the government lacks voice, land boundaries are often unclear, there are many disputes' (p. 49).

However, the guide pragmatically recommends investors use PNG's legal system, hire local law and security firms, and use arbitration to settle commercial disputes, stating 'the "Arbitration Law" promulgated by the PNG government in 1951 is still in use today. The law is short, simple and easy to operate'. It also backs localisation of labour and management, arguing, 'young people in PNG are a high proportion of the population, labour supply is high and labour costs are relatively low. Chinese labour has no obvious advantage compared with local labour. Chinese workers also demand higher wages and international travel costs are expensive' (p. 51).

The guide is more comprehensive than investor guides provided by Australia or New Zealand. However, its pdf format does not have embedded hyperlinks, unlike the Australian and New Zealand guides, which are provided in html and allow users to access other online resources. The level of detail in the guide perhaps reflects the lack of in-country support available to PRC investors. Its relative candour reflects confidence in the language barrier — it is not a document produced for PNG consumption.

Author notes

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Endnote

1. The guide, published in Mandarin on 29 January 2019, was translated into English by the author.

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