ITC Executive Forum

Ministry of Trade and Industry
Republic of Trinidad and Tobago

Commonwealth Secretariat

SMALL STATES IN TRANSITION – FROM VULNERABILITY TO COMPETITIVENESS

PAPUA NEW GUINEA

THE NEED FOR A UNIQUE STRATEGIC FRAMEWORK – THE NATIONAL RESPONSE

DELIVERED BY THE PAPUA NEW GUINEA DELEGATION

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At the outset, may I take this opportunity to thank the Commonwealth Secretariat for designing this important forum on ***National Export Strategies; Small States in Transition: From Vulnerability to Competitiveness*****:** in collaboration with the International Trade Center.

We are also grateful for the generous and warm generosity of the Government and people of Trinidad and Tobago for hosting the Forum.

Papua New Guinea is delighted to be part of this Forum for two primary reasons. Firstly, to participate in developing sustainable long–term national export strategies and share experiences in this area with other Small States with similar development setbacks. Next, to gain invaluable exposure and knowledge that will assist it to re-evaluate its current approach, strategies and structure of National Export.

Mr. Chairman/President, under your leadership, we look forward to achieving the primary objectives and milestones of this forum in the next couple of days.

2. Background

Let me begin by providing some back ground to Papua New Guinea's socio-economic outlook and the efforts being undertaken currently to promote economic recovery through an export led recovery program.

Papua New Guinea is facing enormous developmental challenges in the trade and industry sectors at the turn of the new century both on the domestic as well as the international front. So much so that the development of a competitive, cohesive and vibrant broad-based trade and industry sector has remained illusive development objective due to varying reasons. These reasons range from lack of clear political directive and commitment to institutional and financial constraints.

In general terms Papua New Guinea does not lack appropriate industrial development policies. Its biggest challenges in taking a strategic approach to export promotion and development is articulating a clear, concise and pragmatic strategies translate existing policies into real and meaningful action plans; giving it the priority that it deserves and matching that with provision of adequate resources (i.e. both institutional and financial).

In fact, there are inherent structural and institutional weaknesses and incompatibilities, which need to be corrected in order to put PNG back on the road to development of a pragmatic and efficient National Export promotion and trade strategy.

In the past, policies have been formulated in an ad hoc manner and, more so, in isolation of those Government agencies responsible for implementation and, as a consequence, has impeded and constrained private sector effort to promote and expand export markets.

In addition to other global and regional events and trends that occurred over the years - net result of all the above was that Papua New Guinea had negative growth that was consecutively regressive until 2003 where it experienced

In fact, non mining GDP in late 1990's declined by 2.7 percent from 3.2 percent in 1997, reflecting underlying weaknesses in the manufacturing and commercial sectors.

This has more to do with the 1997/98 adverse global trends coupled with the Asian currency crises that resulted in substantial declines in the prices of many export commodities for which PNG had no control over.

3. Trade Outlook

The importance of international trade to the PNG economy is reflected in the relatively high ratio of the value of traded goods to GDP.

The ratio of exports to GDP grew from around 40 percent in 1980s to more than 50 percent in recent years. At the same time the import ratio decreased from around 50 percent to less than 40 percent.

In 2002, PNG exported goods valued at K6,032 million, a decrease of 1.2 percent against an increase of 5 percent in 2001.

PNG's value of imports in 2002 rose by 18.1 percent compared with a growth of 13.9 percent in 2001. The total value of imports for 2002 was K3,738 million.

In 2002, PNG's trade surplus was K2,294 million, a 22 percent decrease compared with 2001 of K2,940 million. The lower surplus was due to an increase in imports combined with a decrease in exports.

Merchandise exports in 2002 comprised 75.2 percent mineral, 10.2 percent manufactures, 8.7 percent agricultural excluding processed products, 4.5 percent logs and 1.1 percent marine products.

Mineral share of total exports fell from 80.2 percent in 2001 to 75.2 percent in 2002. This was due to decreases in mineral export revenue reflecting lower production as a result of natural decline in reserve levels.

The value of mineral exports decreased by 7.4 percent to K4534.9 million in 2002.

The decline was mainly due to significant decrease in export values of crude oil and copper as a result of lower export volume.

Crude oil exports recorded the highest in 1994 with 43.5 million barrels and the lowest in 2002 with 15.4 million barrels. In 2002, crude oil export volume dramatically dropped by 28 percent compared to 2001 which reflected a sharp decline in production.

The decline reflected lower extraction rate from wells at the Kutubu, Gobe oil fields attributed to the natural decline in reserve levels. The average export price of crude oil increased by 5.7 percent to K93 per barrel in 2002, compared to the level of K88 in 2001.

The volume of copper exported declined by 18.5 percent to 138,600 tonnes in 2002, compared to 170,100 tonnes in 2001. The decline was due to a slowdown in shipment of copper ore from the Ok Tedi mine as a result of lower water levels in the Fly river despite an increase in production.

Gold export value rose by 6.5 percent to K2,252.4 million in 2002, compared to K2,115.1 million in 2001. The increase was due to higher international prices combined with the depreciation of the kina which is more than offset the decline in export volume. Higher demand from Asia and North America, as investors considered investment in gold to be a safe haven after continued lower performance in the equity markets and the depreciation of US Dollar against other major currencies resulting to the higher international prices.

The value of agricultural exports excluding processed goods were valued at K523 million in 2002, significantly grew by 40.9 percent compared to 2001.
This was mainly due to increase in export prices combined with the depreciation of the kina. The increase in international prices resulting from lower world supply reflecting a decline in production from world major producers.

Coffee prices increased by 16.5 percent, cocoa by 115.1 percent, copra by 72.5 percent and rubber by 39.8 percent.

All agricultural export volumes declined in 2002 except coffee. The volume of coffee exported rose by 16.5 percent, but cocoa declined by 2.7 percent, copra 65.9 percent and rubber by 30.6 percent. The decline was due to lower production caused by bad climatic conditions, deteriorating road infrastructure and high transportation costs combined with cash flow problems experienced by Copra Marketing Board.

Logs exports grew by 16.5 percent to K272.9 million in 2004 compared to K234.3 million in 2001. This was due to increase in export prices and export volume. The volume of exported logs increase by 7.1.percent to 1.3 million in cubic meters in 2002 due to higher production. The average logs price rose from 193 in 2001 to 210 per cubic meter in 2002, reflecting depreciation in Kina. The international price declined as a result of over supply of tropical hard woods in the world market.

Logs exports plunged by 17.4 percent in 2001 to K234.2 million compared to K283.5 million in 2000. The combine decrease in the export price and export volume fell the volume of log export. Scaling down of logging exports due to the high log export tax combined by unfavorable weather conditions and increased supply of tropical hardwoods in the world market attributed lower export market and lower international price.

4. Global Perspective

At the international level, PNG's membership to APEC and WTO requires PNG to address issues of globalization and liberalization. This presented unprecedented opportunities as well as challenges to the country.

Globalization and liberalization processes brings to the forefront issues of fair competition in trade and investment regimes and begs the question as to whether the PNG industrial and economic (particularly the manufacturing) sectors are in the position to compete in open international market conditions.

Globalization and a complete liberalized trading and investment environment also introduces risks associated with issues of unfair trade practices, such as global merges and acquisitions, growth of monopolies and dumping of excess products from developing countries.

The implications of these for PNG industries can prove detrimental, if proper and adequate safeguards are not put in place prior to full globalization and liberalization of international trade and investment environment.

5. Export led-Recovery Policy

In mid 2002 the Government of Sir Michael Somare introduced a three-pillar economic recovery policy; **Good Governance; Empowerment of the People; and Export Driven Economic Recovery and Growth Strategy**.

The Ministry of Trade and Industry was mandated to coordinate, proactively drive and implement the Export Driven Economic Recovery and Growth Strategy (EDERS) in close colorations with economic sector agencies & other stakeholders.

Each Economic Sector was required to develop its own strategies on how to increase and sustain production in the primary sector while the Ministry develops strategies to address downstream processing & export market.

However, inadequate budgetary support in 2003 delayed the formulation and mapping of detailed action plans.

The underlying policy rationale for this policy was that a sustainable increase in production and expansion of external trade leads to creation of national wealth.

For this reason, the Government has placed emphasis on Export-Led Growth as the main conduit to generate: foreign exchange earnings, employment & boost other economic activities. It is anticipated that this policy imperative will ultimately result in improved standards of living and, hence, reduction of poverty.

5.1 Objectives of the Strategy

Under a national export strategy, the core objectives of the policy in PNG would encompass the following:

- Achieve optimum growth through increase and expansion of export in regional and international markets.
- Narrow the gap between PNG's export earning and import payment by achieving the export targets.
- Take the highest advantage of entering the post Uruguay liberalized and globalize international markets.
- And develop and expand domestic infrastructure.

5.2 Broad Strategy to increase PNG's Export Market Share from the Production/Supply side.

The biggest challenge for Papua New Guinea is how to address constraints affecting production at all levels in order to increase and sustain production at all levels of export commodities.

The reason being that our production statistics on the major export crops have not shown any substantial or significant improvements in the output except for palm oil under the nucleus estate mode of production.

So the broad strategy in support of the export policy framework would be:

- Simplifying export procedures and helping the private sector achieve efficiency. The Government desires more and more involvement of the private sector while the

Government continues to play a facilitating role, and in addition take proactive steps to drive specific intervention programs where market failure exists.

- Enhancing technological strength and productivity and attain internationally accepted standards and quality of exportable products and thereby consolidate and enhance their competitiveness.
- Maximize use of local raw materials in the production of export goods and encourage the establishment of backward linkage industries.
- Participation in international trade fairs, specialized fairs, and exhibitions abroad to consolidate PNG position in existing markets and create new markets.
- Establish Trade Missions in strategic locations around the world to promote and market PNG export products.
- Practical training for the development of skilled manpower in the export sector.
- Take necessary steps to assist the procurement of raw materials by export-oriented industries at world prices.

The priority sector of upstream production and extraction of both renewable and non-renewable resources for the export markets has remained, but for long term economic diversification as well as sustainability, it is equally important to encourage investment into value added downstream processing of these resources.

To this end, any barrier inhibiting downstream processing and export of value added products within the confines of PNG laws will be removed.

It is also equally important to provide tax holidays to those who have taken the risk in undertaking large investments associated with technology transfer and also accord tariff protection where appropriate**.**

To effectively promote and drive the export policy framework, it is incumbent upon the PNG Government to offer a comprehensive package of incentives.

This will require the introduction of new incentives as well as those that have been phased out under the Tariff Reform Program, but will be modified or improved to make them workable.

As for financial related incentives, the Department of Trade and Industry is undertaking consultations with other agencies to introduce the Export Credit Guarantee Scheme to assist national exporters who are exploring new and uncharted markets for the first time.

Furthermore, laws and regulations governing remittance of foreign exchange control earnings need to be reviewed to address concerns whereby exporters are allowed to retain some or much of their earnings in their respective foreign currency abroad in US Dollars, Pound Sterling or Australian Dollars.

There should be a deliberate policy stance supported by appropriate statutes or law for all exporters whether it be agriculture or mining to remit over 80% of the export earnings onshore within a specific time frame and stiff penalty options for defaulters.

In terms of export financing, the existing credit arrangements offered by our commercial banks should be reviewed for the purposes of inviting potential private investors to consider setting up Export Import Bank in direct competition with existing commercial banks in PNG.

Papua New Guinea needs to expand its production horizon and let many new players into the private sector.

Only then, will PNG begin to see the fruits of the recovery process.

6. Conclusion

The stagnant industrial and economic development in PNG is not so much attributed to wrong policies, rather to wrong, selective and limited implementation of what are otherwise quite rationale policies.

The main problem therefore is, the effective implementation of these policies and making an impact in solving the problems and constraints of the economy and achieve the perceived economic progress.

When analyzing implementation of economic policies, it is also useful to distinguish between policies that would have a long-term impact, and policies that are under the control of the Trade and Industry Ministry and those that are controlled and implemented by other departments and agencies.

The most obvious observation is that the Ministry has no policies under its mandate that have an immediate impact on industrial development and downstream processing.

Worse still, the success of the long-term policies that are under the control of the Ministry are very much dependent on the right specification and implementation of both immediate and long term policies outside the control of the Ministry.

The challenges for the Government is, therefore, to adopt a policy process that takes into account the opportunities and constraints of existing productive structures/institution, analysis of sub-sectors and their linkages and involvement of private sector and all other institutions relevant to the sub-sector.

On the basis of the current Government's policy, a set of congruent action statements must be made to move the industry and investment sectors forward.

The Government has embarked on a well-defined and coherent strategy for economic stabilization and recovery.

It entails ensuring that the Kina stabilizes and that all bottlenecks to socio-economic development are contained and eventually eliminated.

It also entails retiring national debt through the sales of government assets and equity in semi private organizations.

The recovery program seeks to promote economic growth and this must be matched with the ability to provide better services and income earning opportunities for the people.

Given the policy and administrative backdrop over the last twenty-five years, it is now vitally important that all backward, forward and side linkages are identified and tied together into an intrinsic and mutually inclusive set of policy statements which should form the blue print for the future development of the various sectors of the economy.

It is imperative to see the exercise go further and identify Action Plans needed, the resources requirements and the implementation schedule and administrative/institutional mechanisms sooner than later.