

PAPUA NEW GUINEA IN THE POST-COVID WORLD ECONOMY

PRESENTATION TO THE 2021 PAPUA NEW GUINEA
INVESTMENT CONFERENCE

7TH SEPTEMBER 2021

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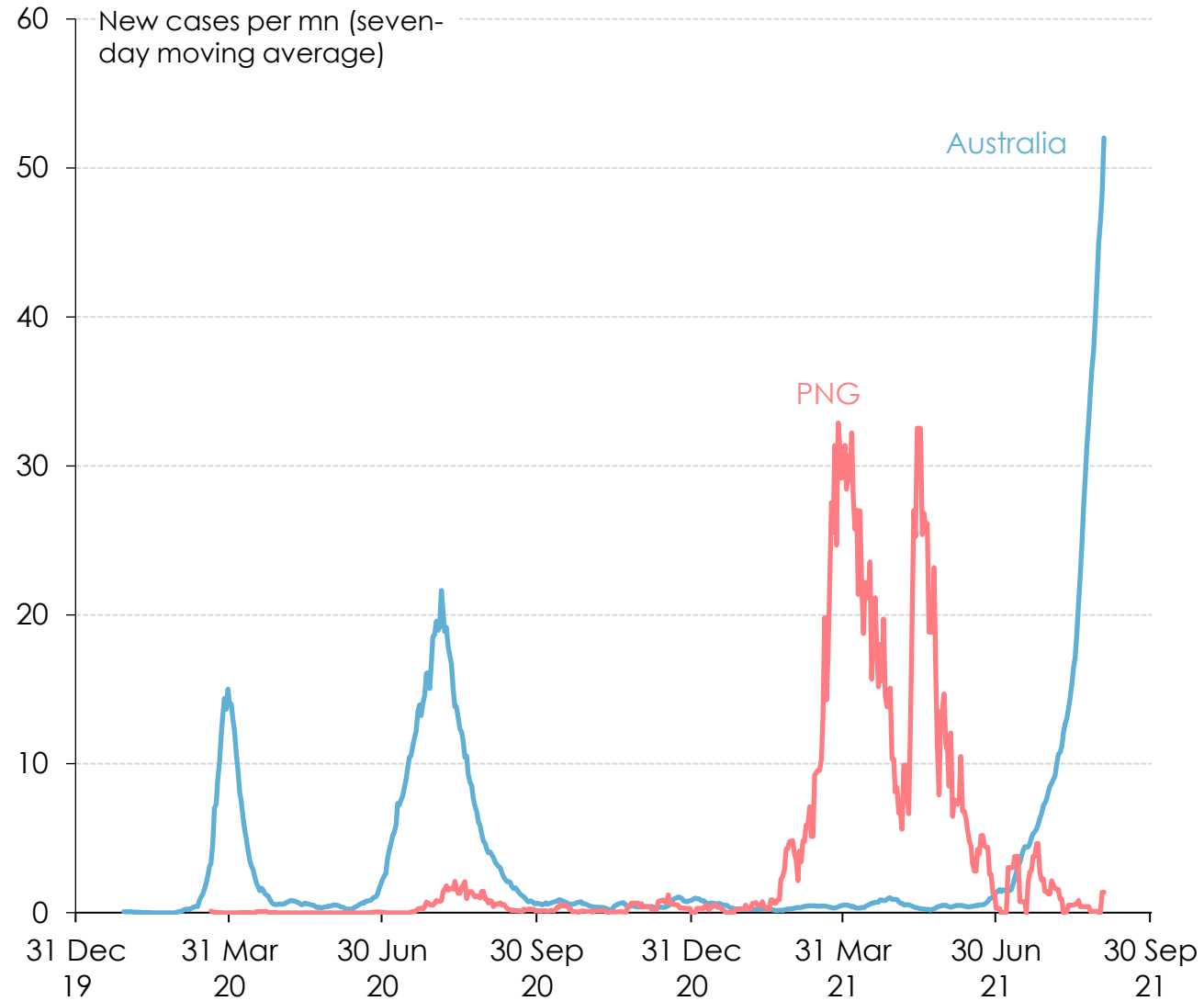
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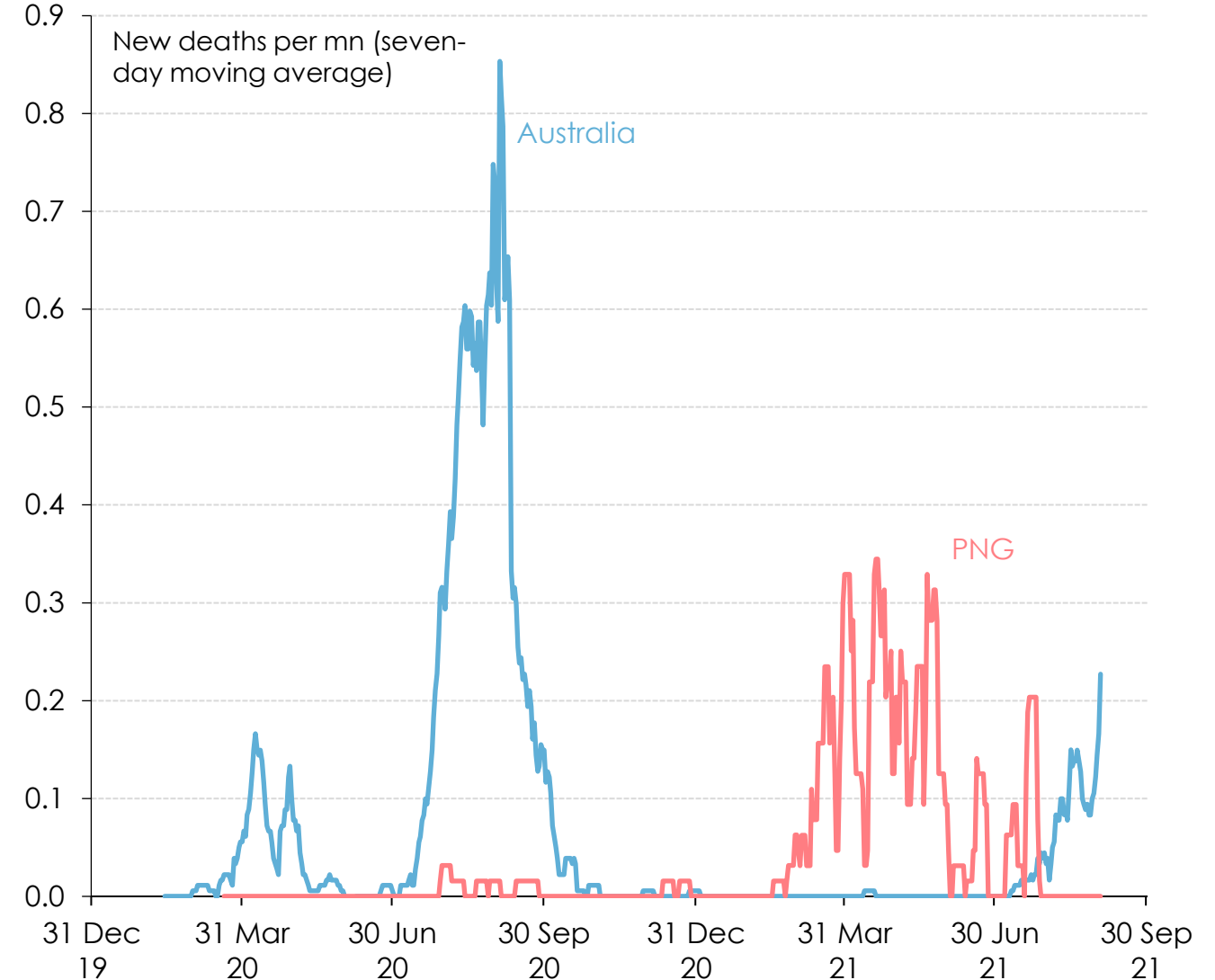
The PNG economy

PNG has managed to contain the spread of the virus after a worrying outbreak earlier this year

New covid-19 infections per million population



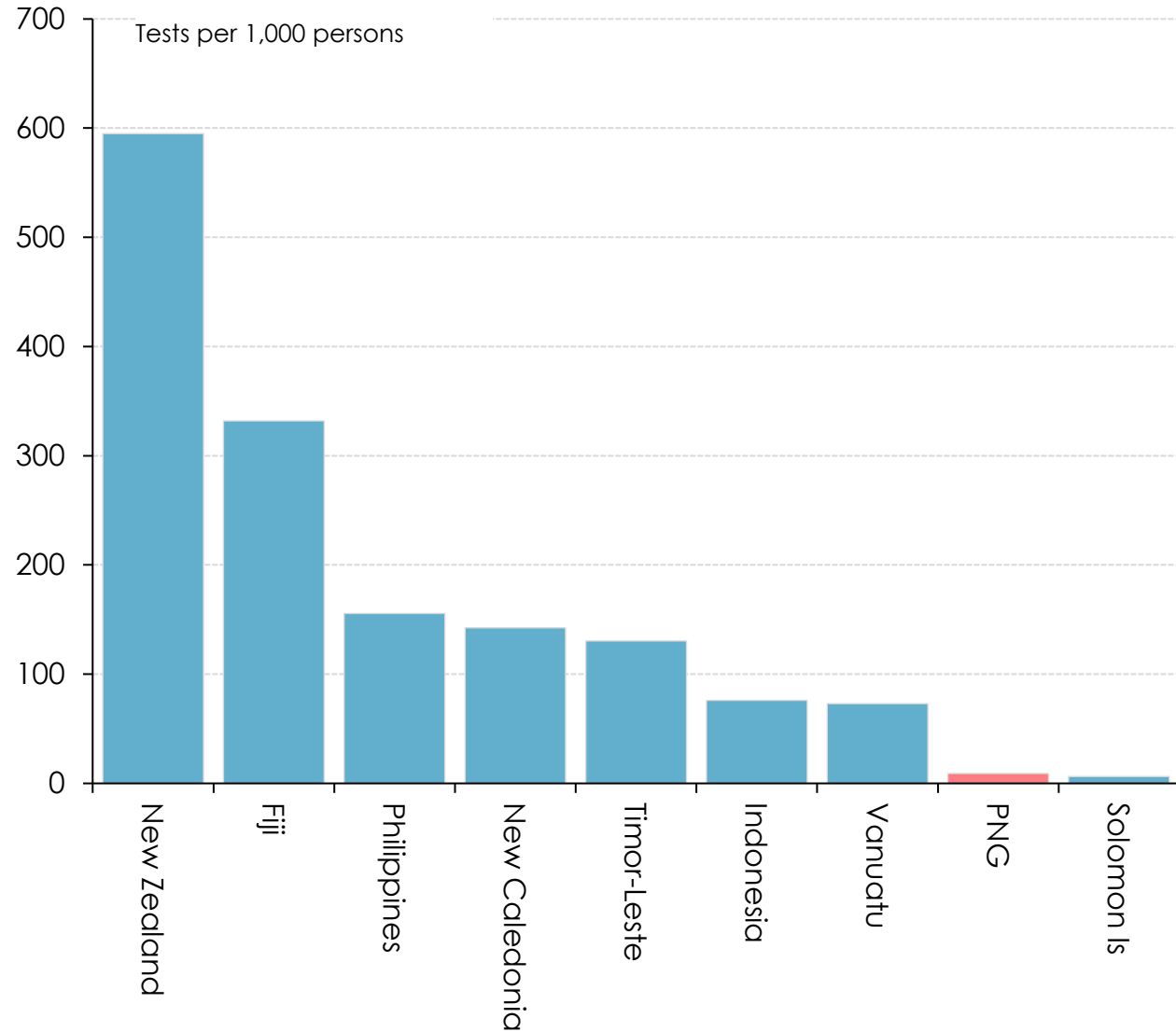
New Covid-19 deaths per million population



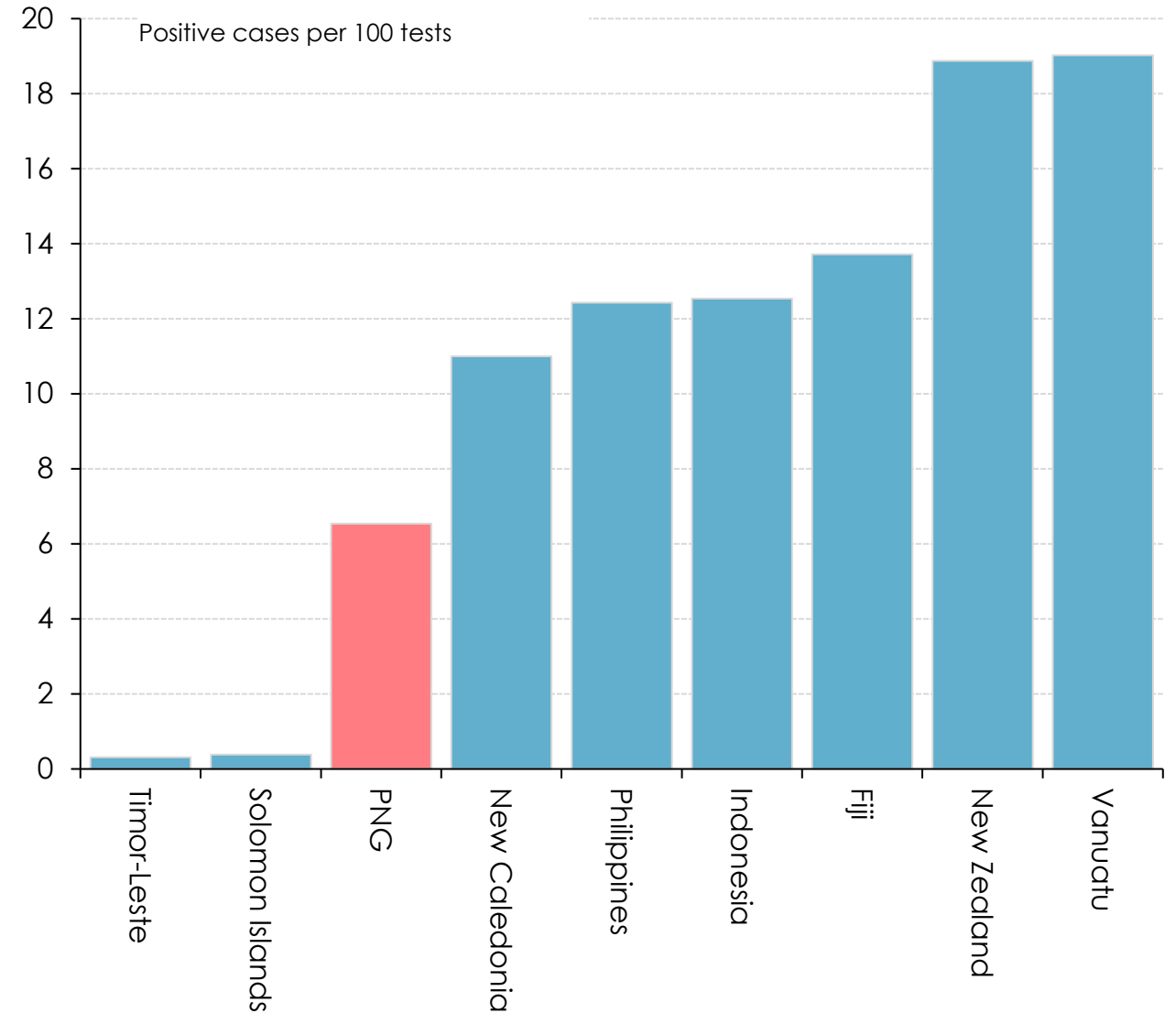
Sources: University of Oxford, [Our World in Data](#) (data up to 2nd September).

However, like most developing nations, PNG's low testing rates mean that infection and death rates are almost certainly understated

Covid-19 tests per 1,000 population



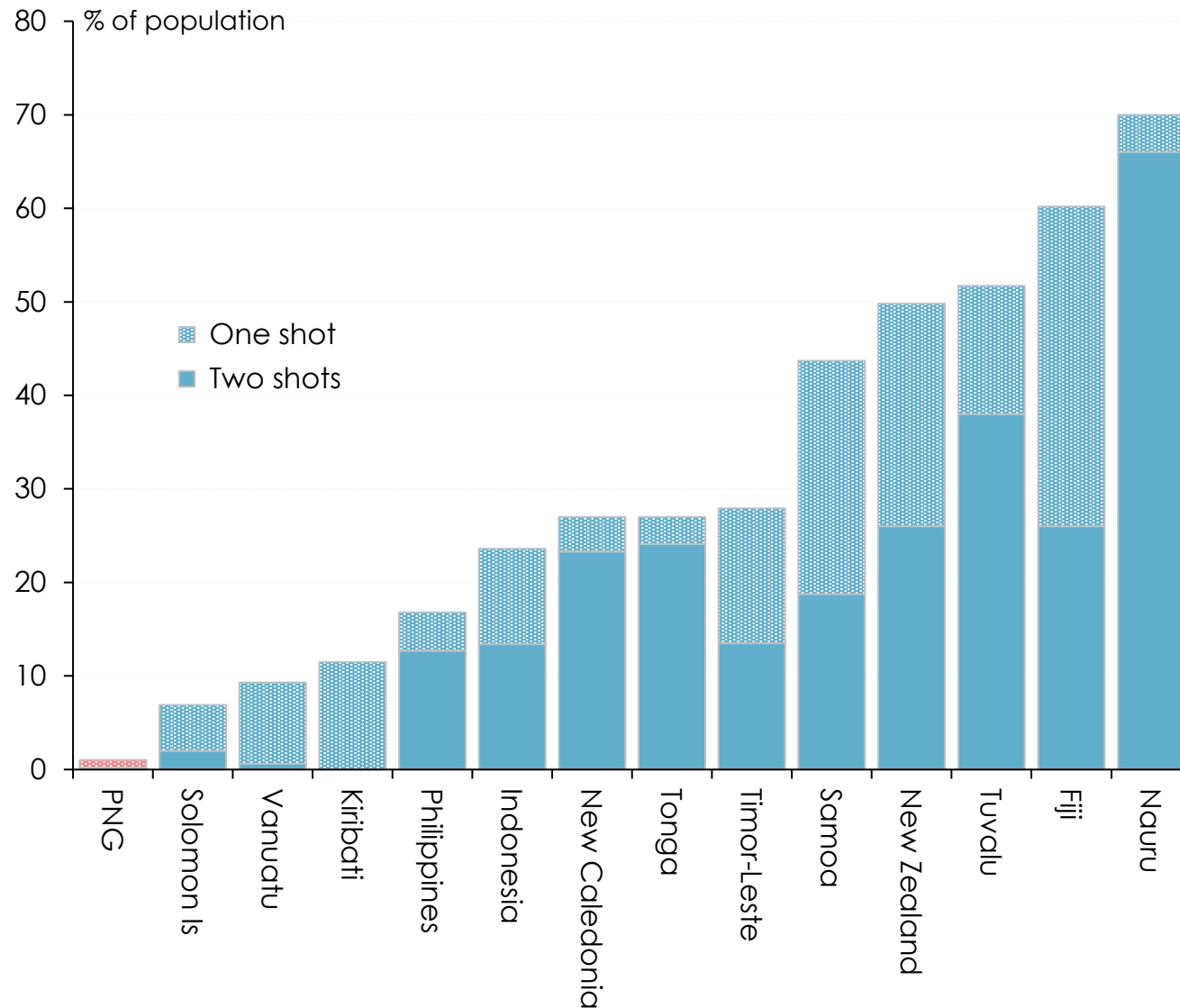
Covid-19 cases per 100 tests



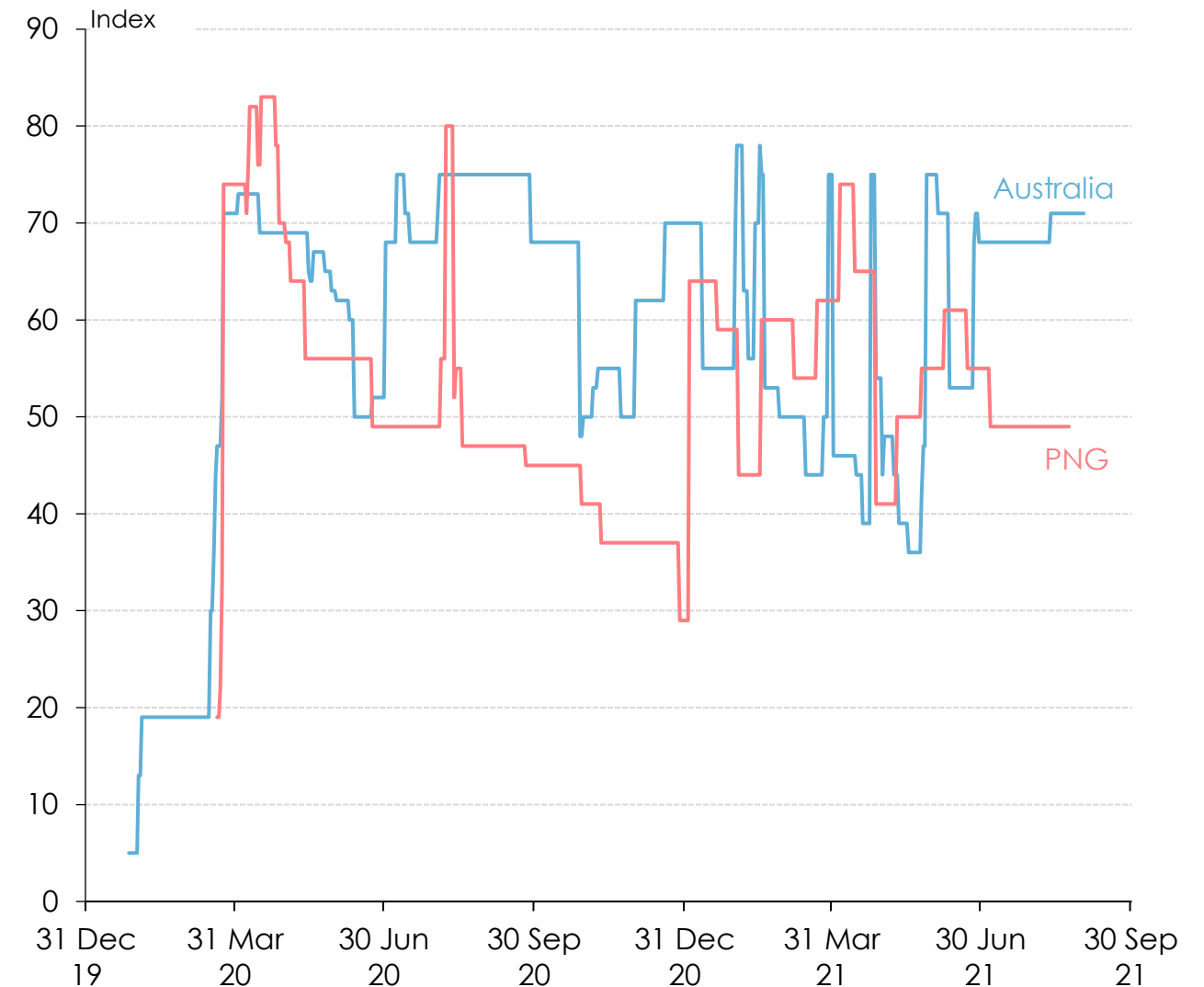
Sources: University of Oxford, [Our World in Data](#) (data up to 2nd September)

The vaccination roll-out has been very slow in PNG, even by comparison with other Pacific nations, so some restrictions are likely to remain

Percentage of population vaccinated

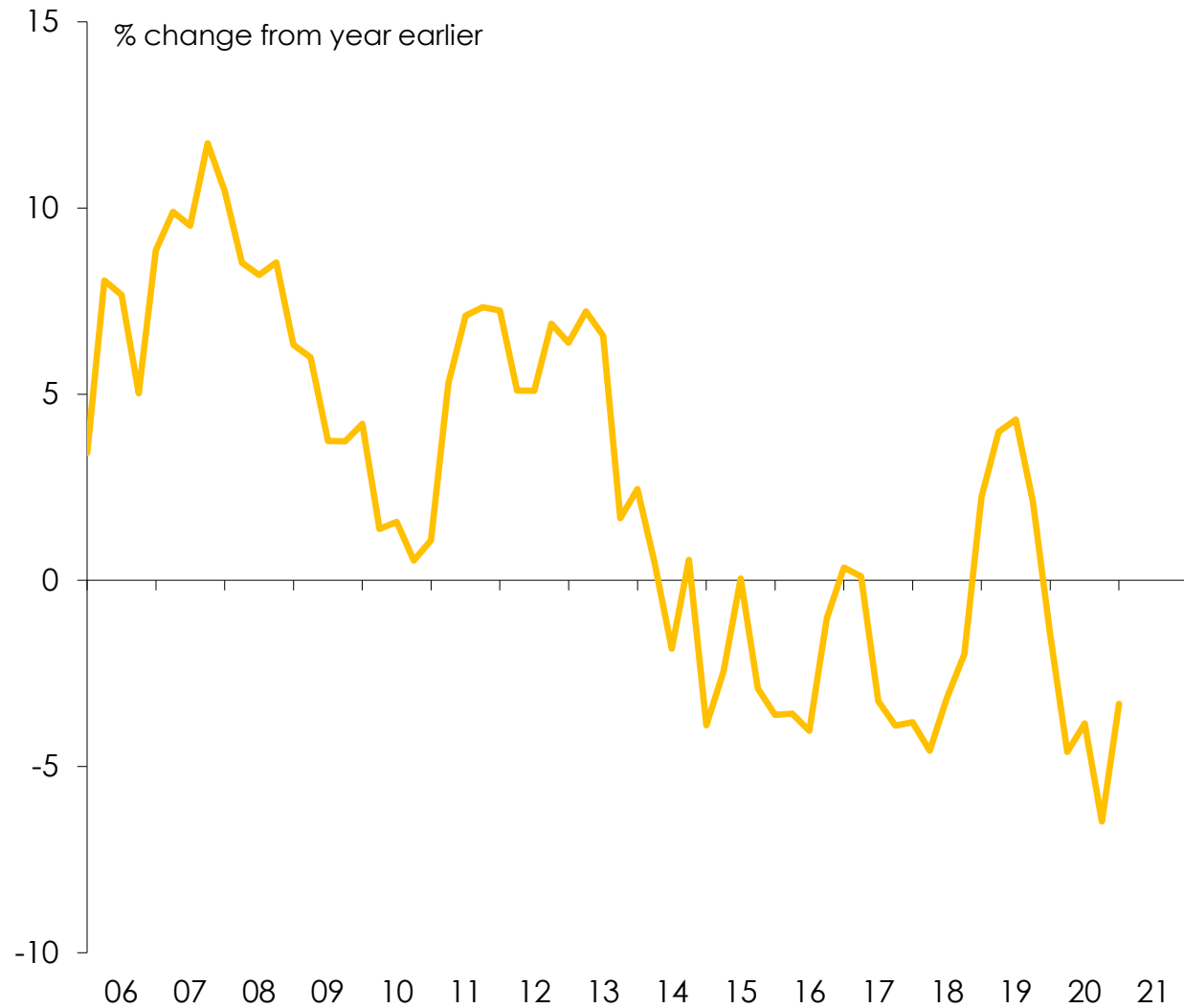


Stringency of government health restrictions

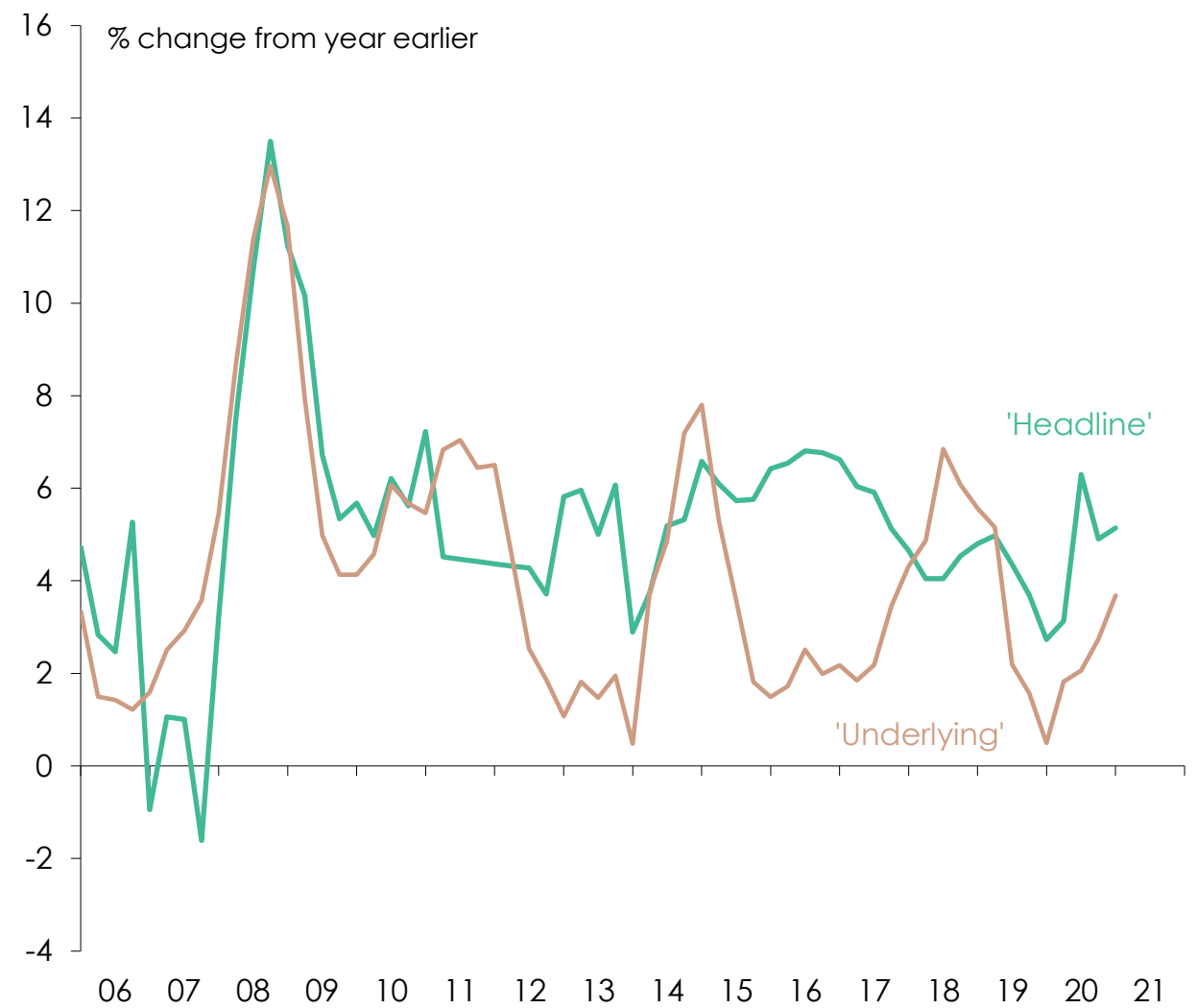


PNG's economy has been hard hit by Covid-19, with employment at the end of 2020 down 7% from its previous peak and inflation at 5%

Employment



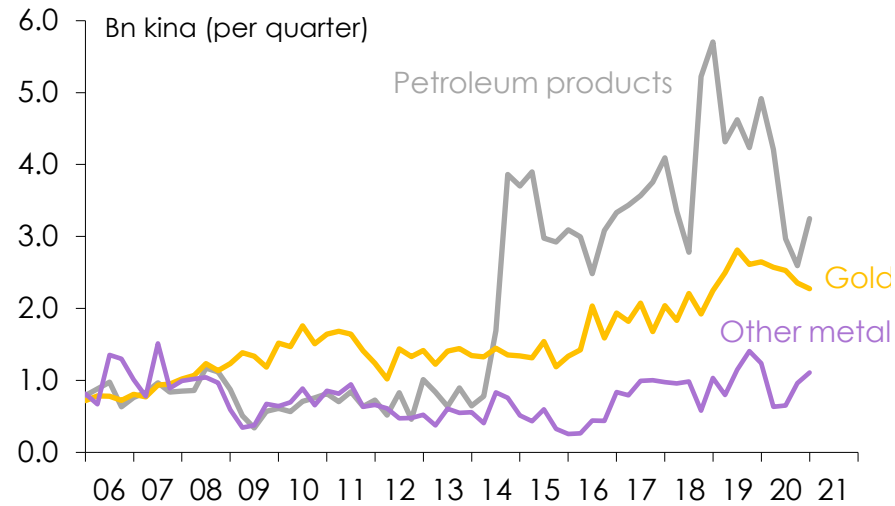
Inflation



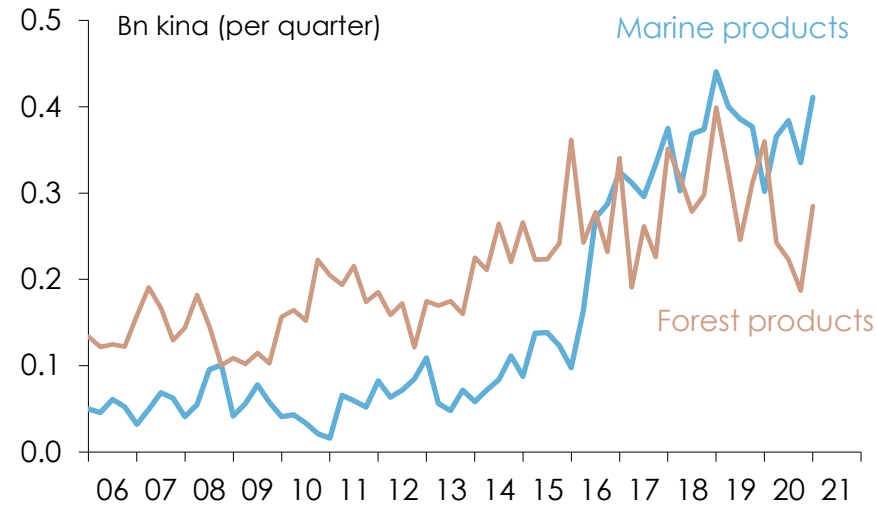
Source: Bank of Papua New Guinea, [Quarterly Economic Bulletin Statistical Tables](#), Sections S65 and S62.

Falling prices resulted in a large drop in the value of PNG's energy exports, but other exports (apart from services) held up quite well

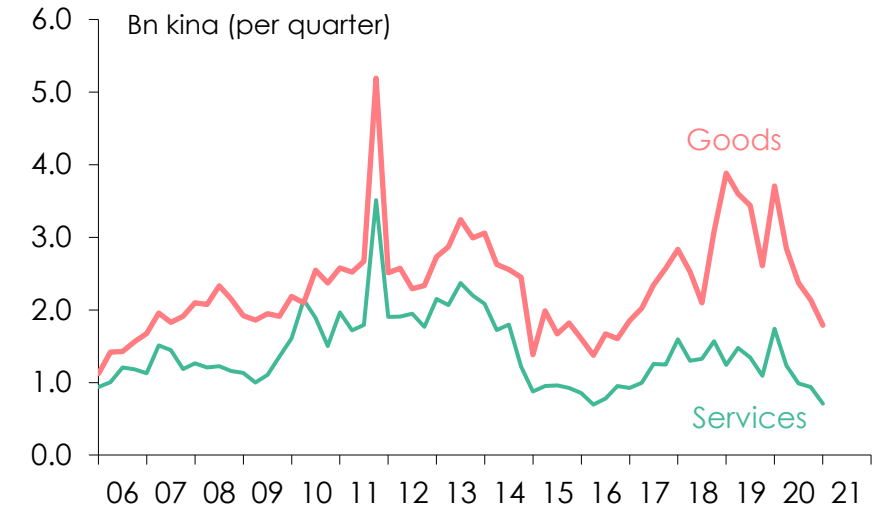
Energy and minerals exports



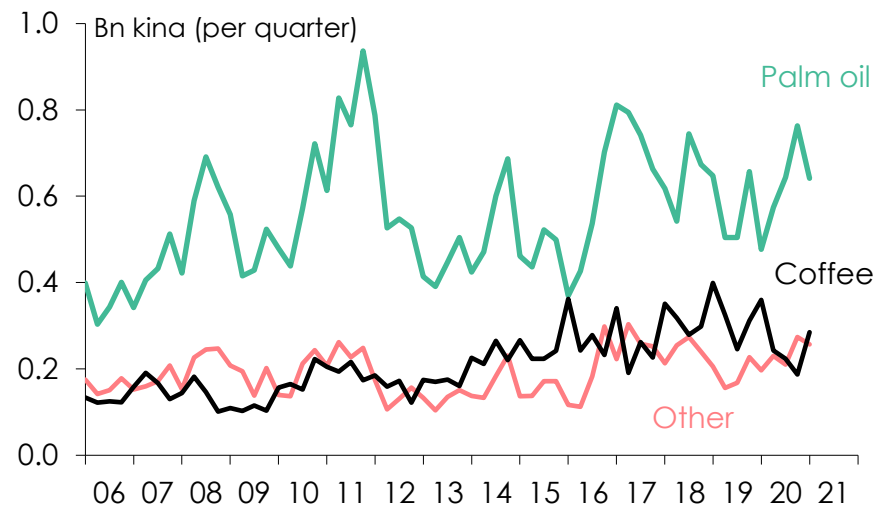
Other goods exports



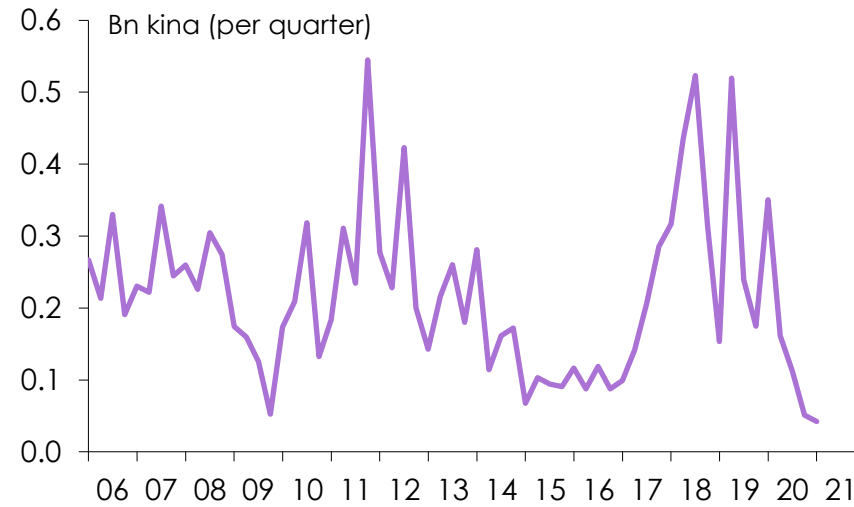
Imports



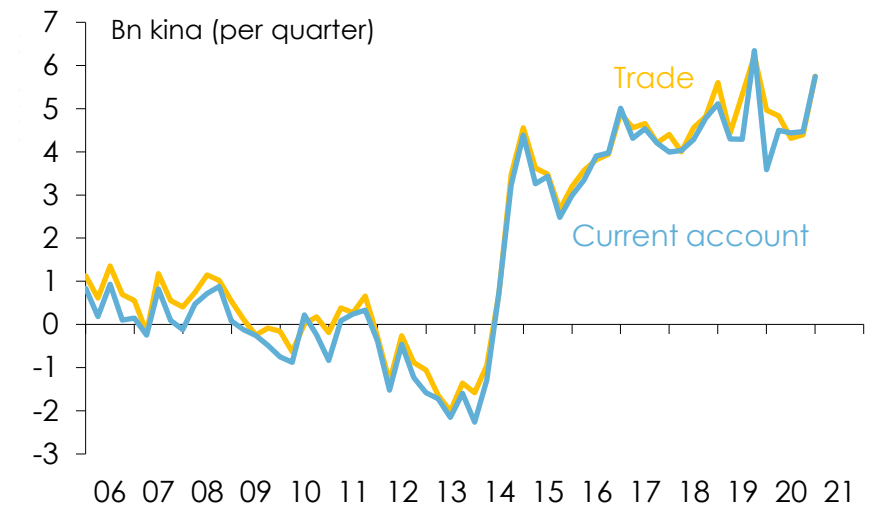
Agricultural exports



Services exports



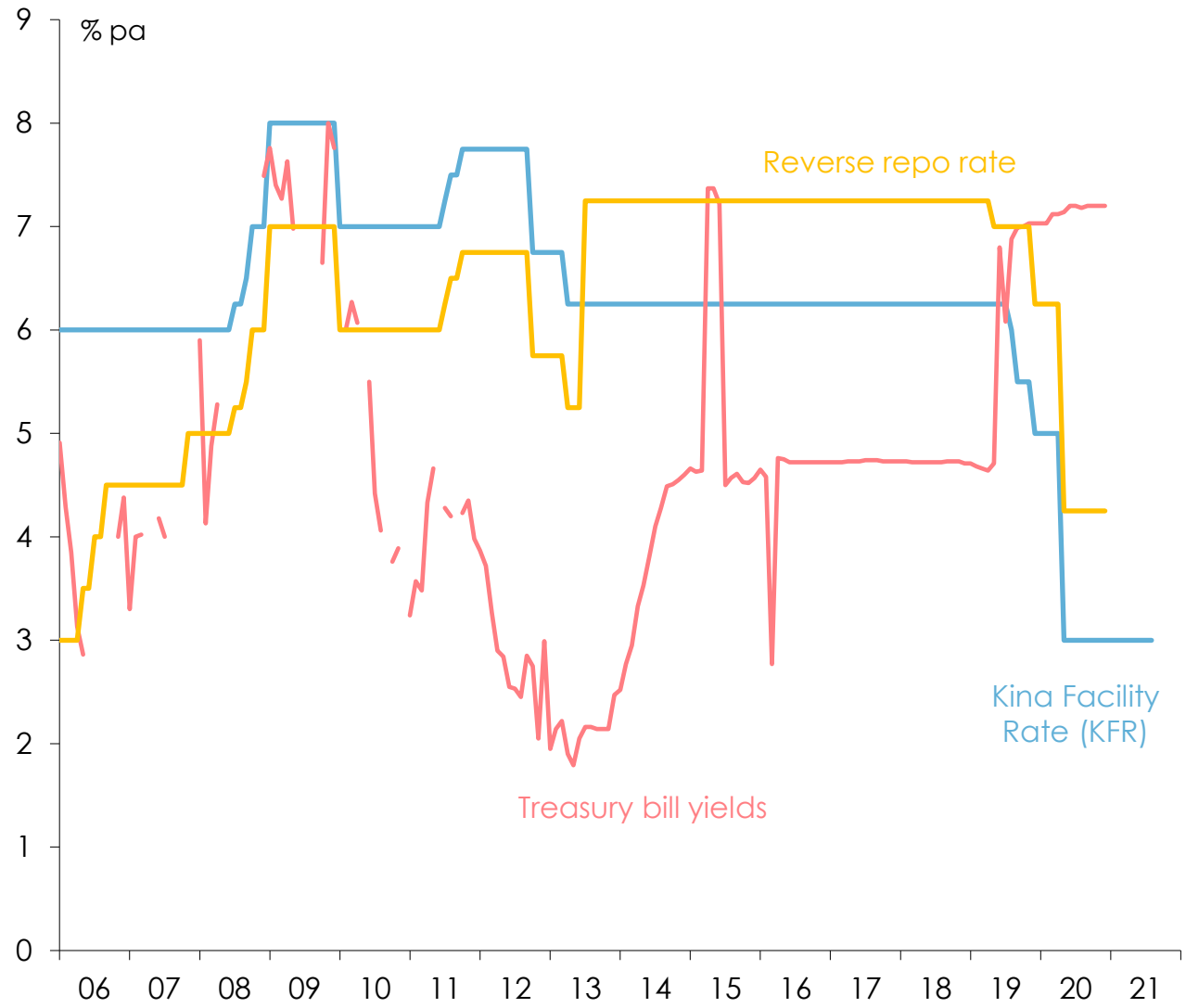
Balance of payments



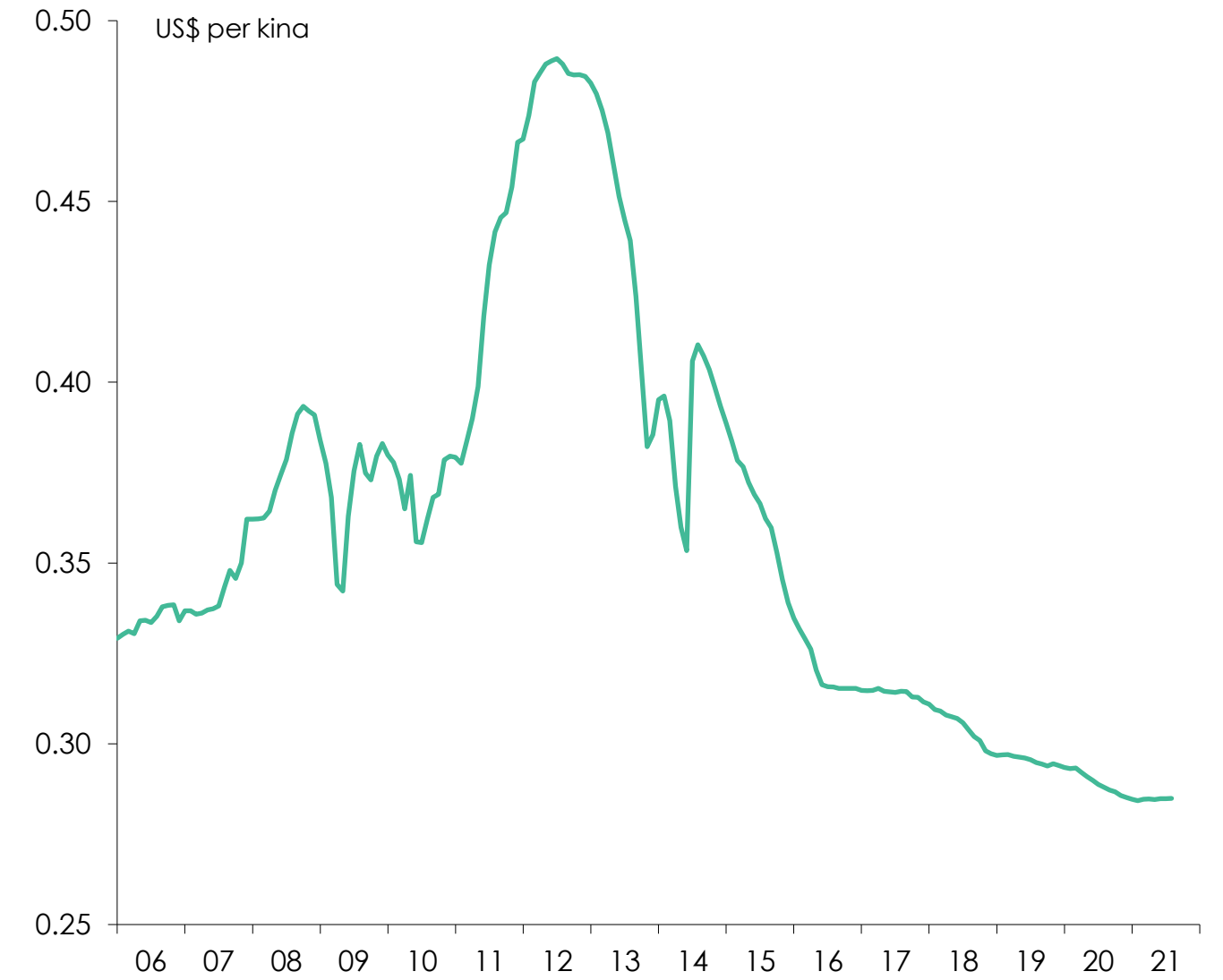
Source: Bank of Papua New Guinea, [Quarterly Economic Bulletin Statistical Tables](#), Section S49-50.

The kina has been stable since the onset of Covid-19 despite last year's significant reductions in interest rates

PNG interest rates



PNG kina vs US dollar

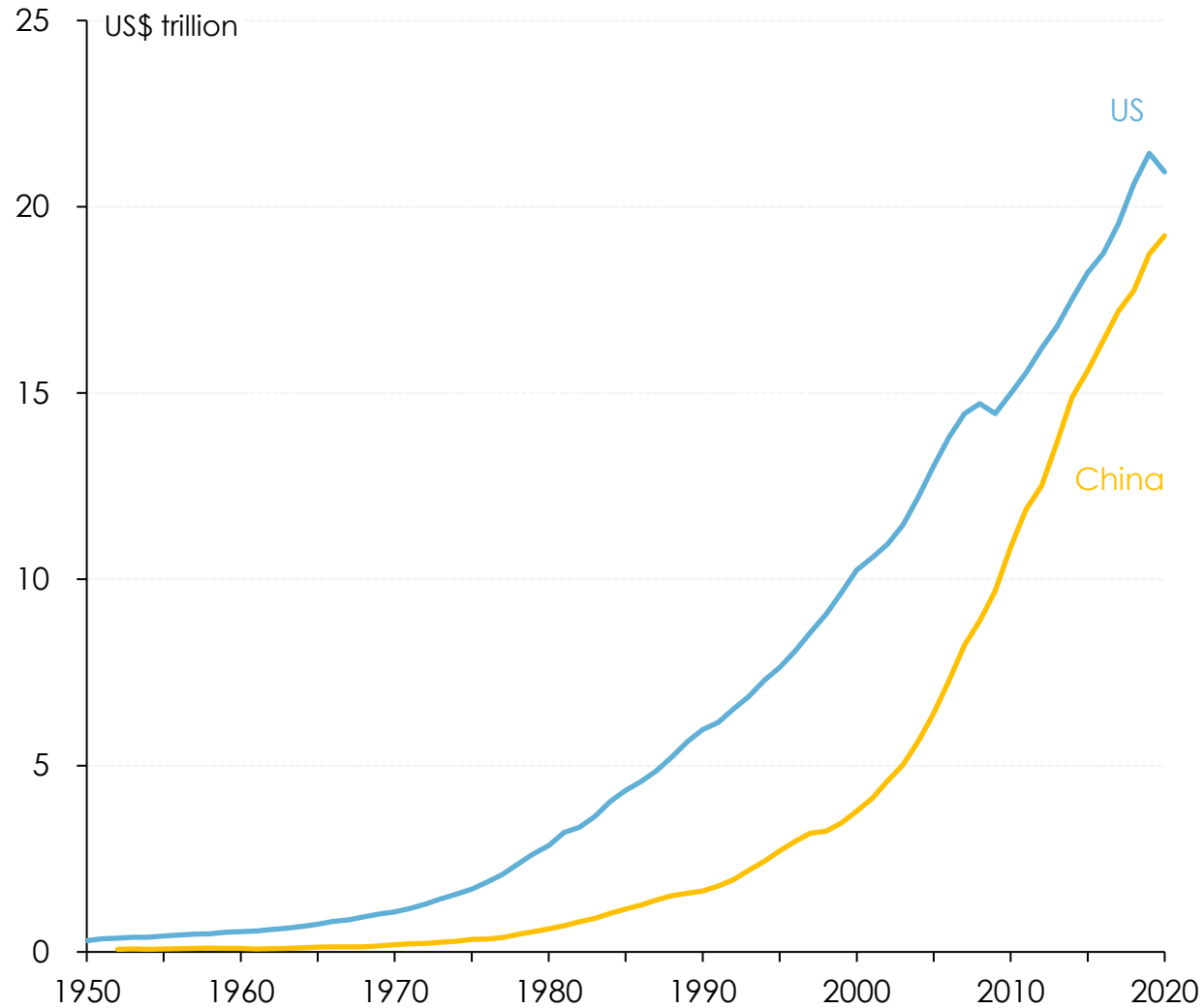


Source: Bank of Papua New Guinea; Refinitiv Datastream.

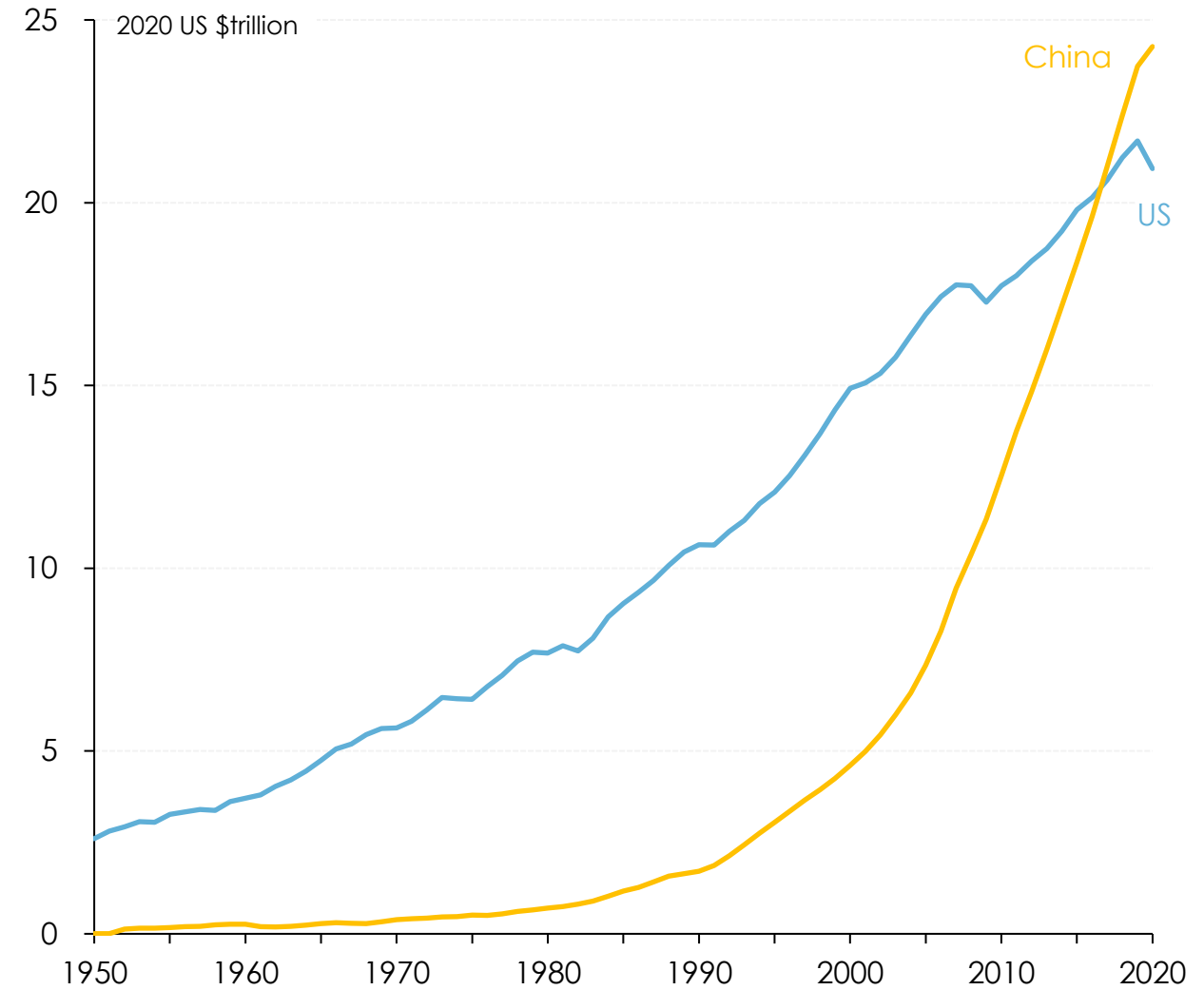
The changing international 'pecking order' and its implications for PNG

The international economic pecking order is going through its most profound change in a century ...

GDP at current market prices and exchange rates

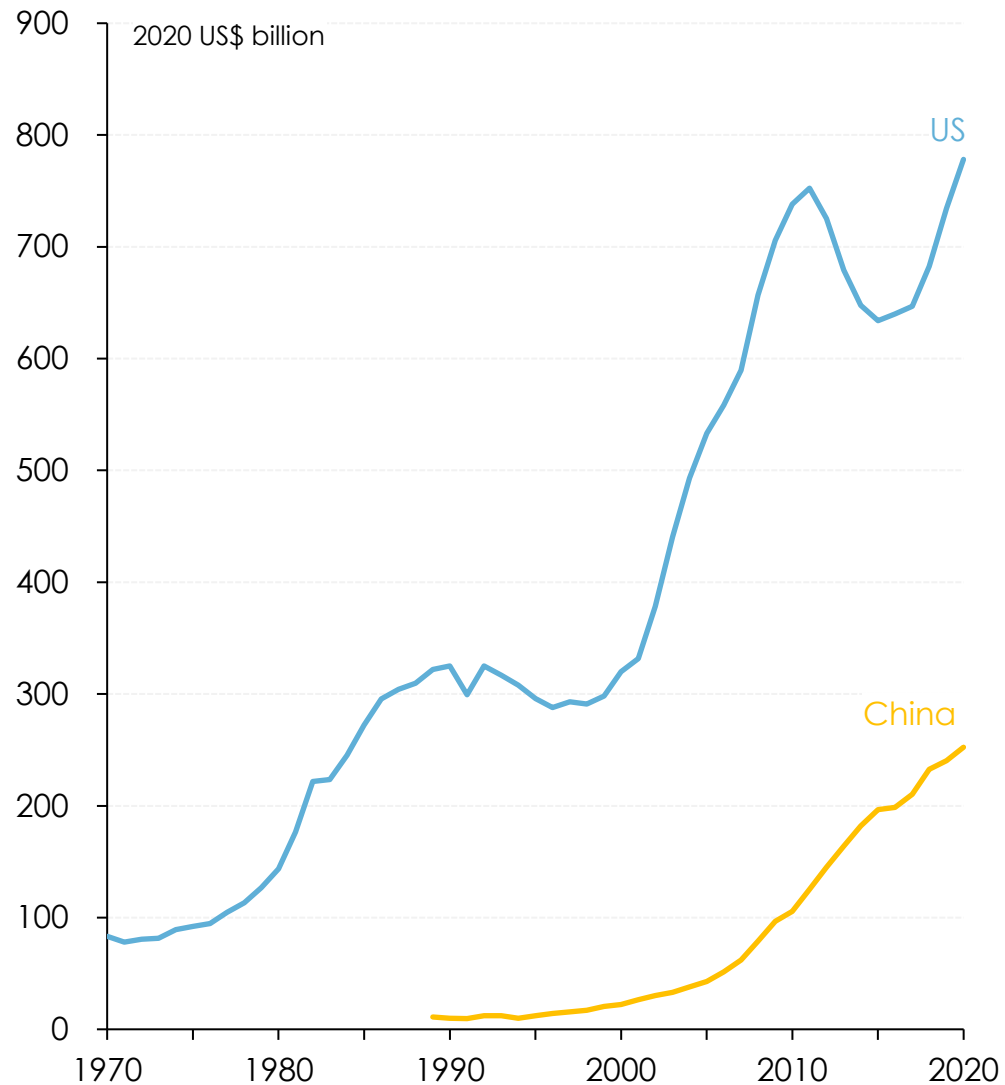


GDP at constant (2010) prices and 'purchasing power parity' exchange rates

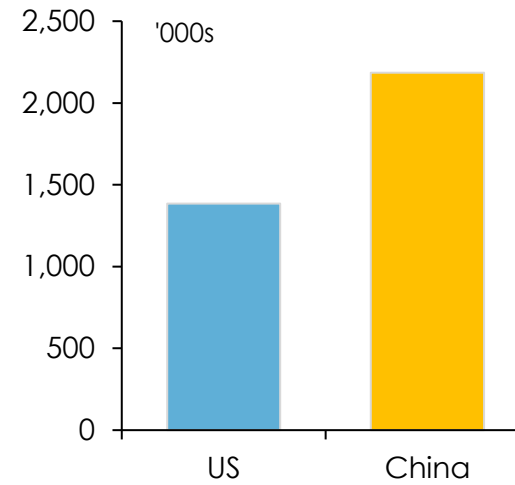


Inevitably, this rivalry between the world's two largest economies with very different ideologies has a strategic or military dimension ...

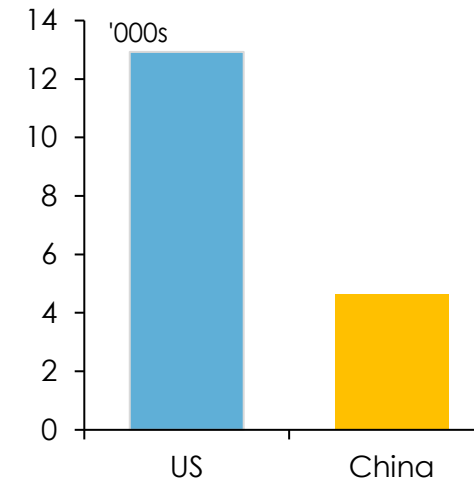
Military spending



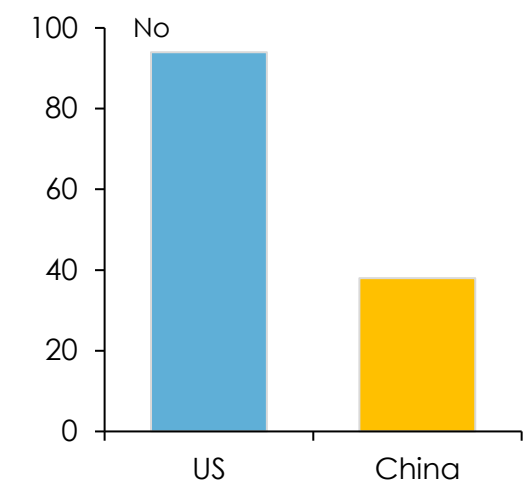
Active personnel



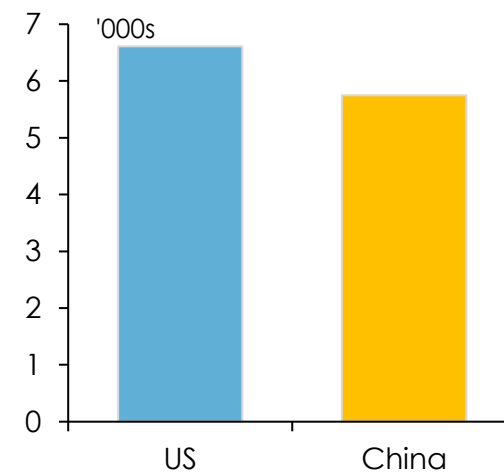
Aircraft



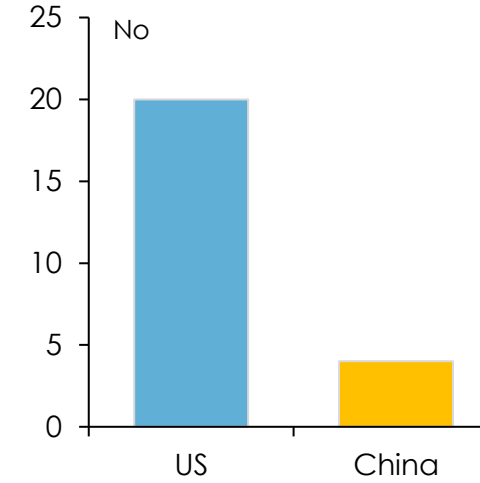
Destroyers



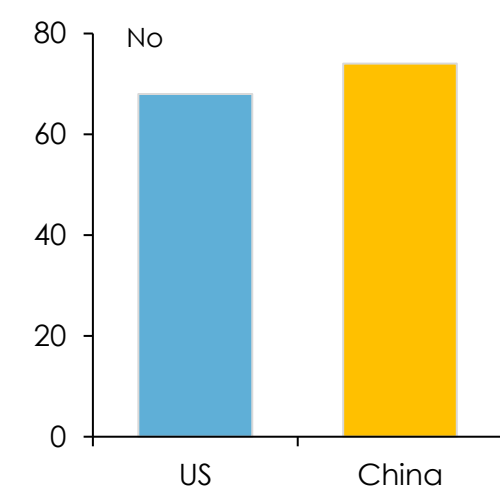
Tanks



Aircraft carriers

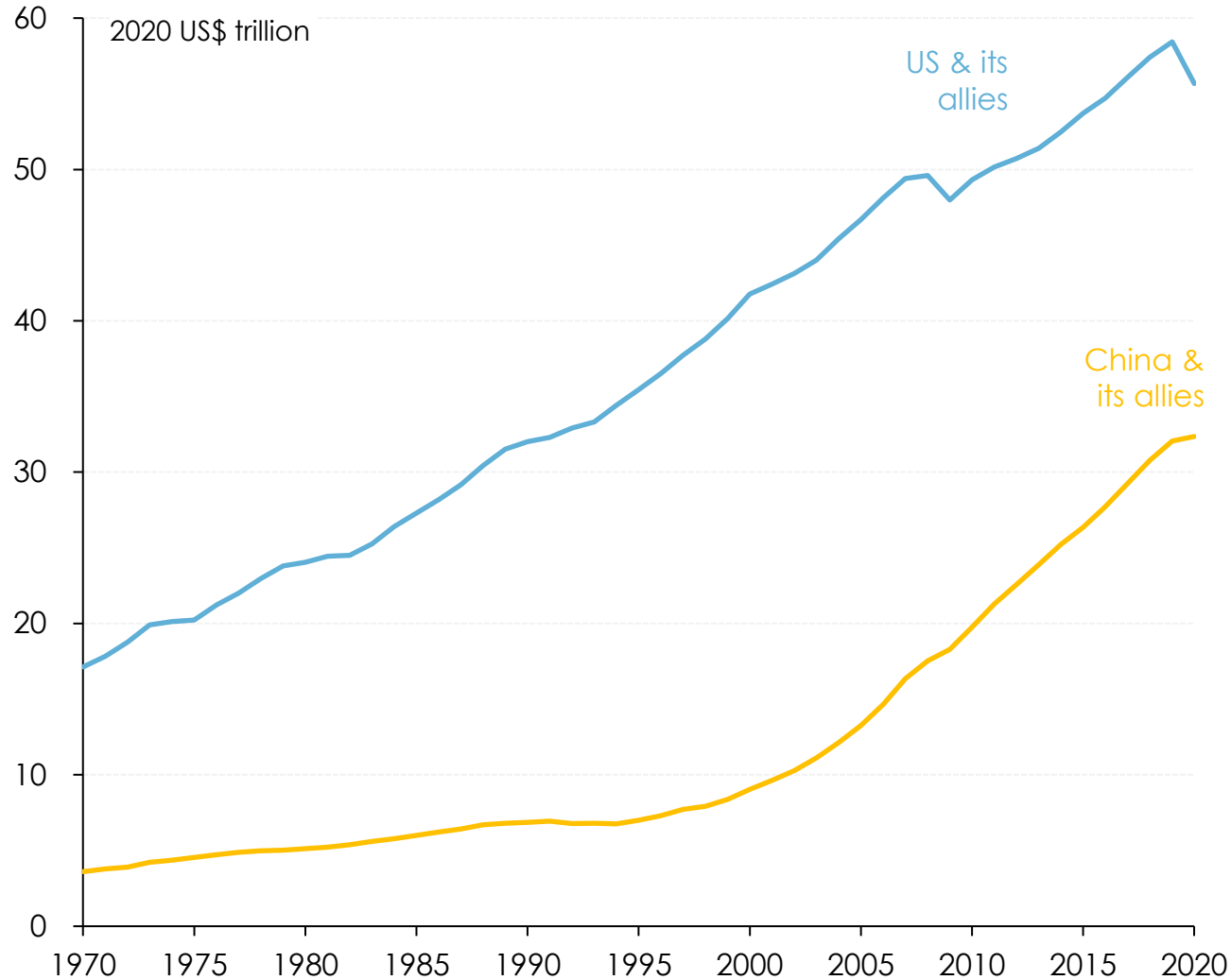


Submarines

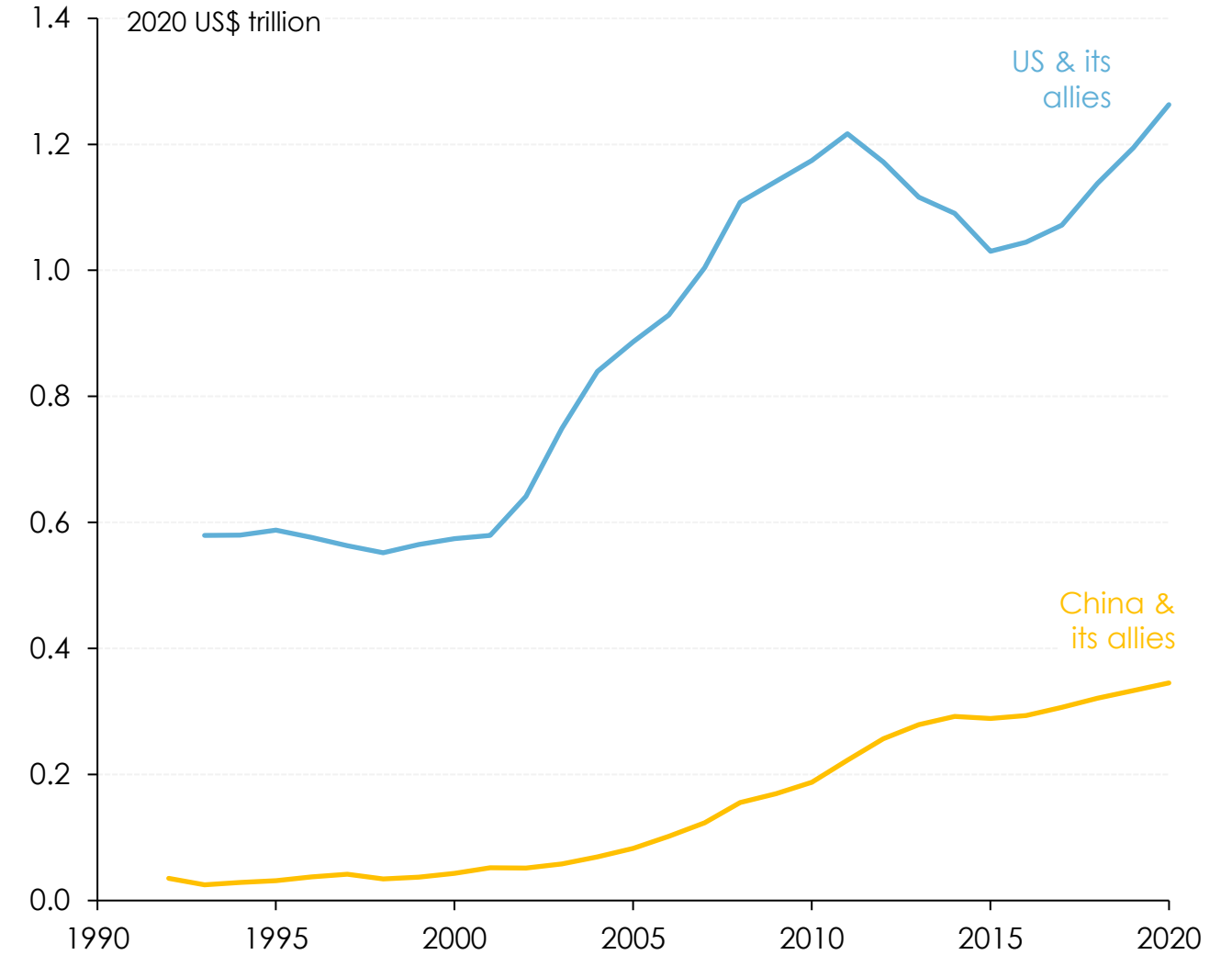


... although China doesn't have many 'friends', and when allies are factored in the US still appears to have a decisive strategic advantage

GDP of the US and its allies vs GDP of China and its (possible) allies



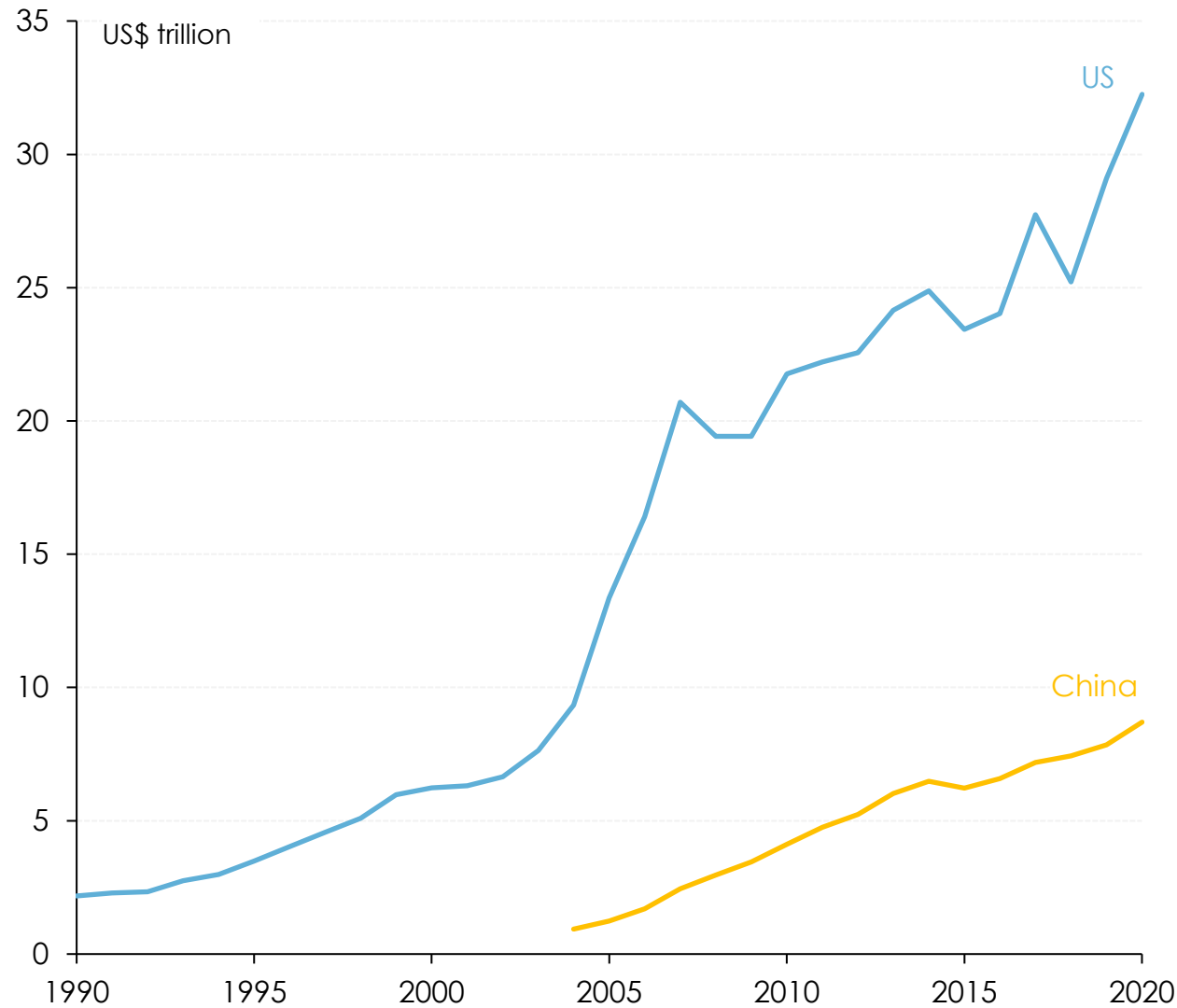
Military spending by the US and its allies vs that by China and its (possible) allies



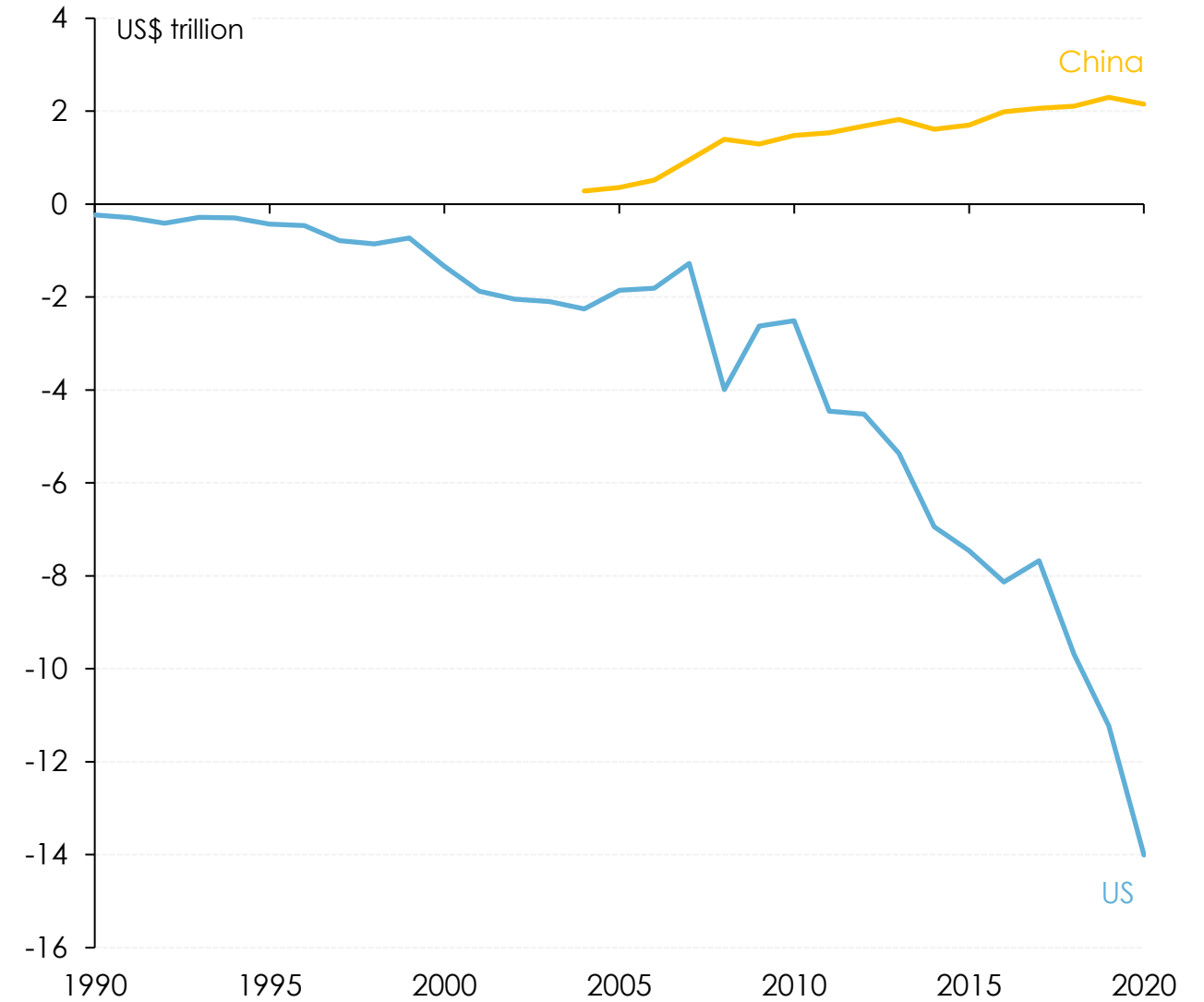
Note: 'US allies' include NATO member countries (excluding Turkey), Japan, Korea, Taiwan, Singapore, Australia and New Zealand; 'possible allies' of China include Hong Kong, Russia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan, Pakistan, Iran and Venezuela. Sources: The Conference Board, [Total Economy Database](#), 2021; Stockholm International Peace Research Institute, [SIPRI Military Expenditure Database](#)

'Military might' isn't the only way in which 'great powers' exert power and influence – it can be done through investment flows

Foreign investment assets



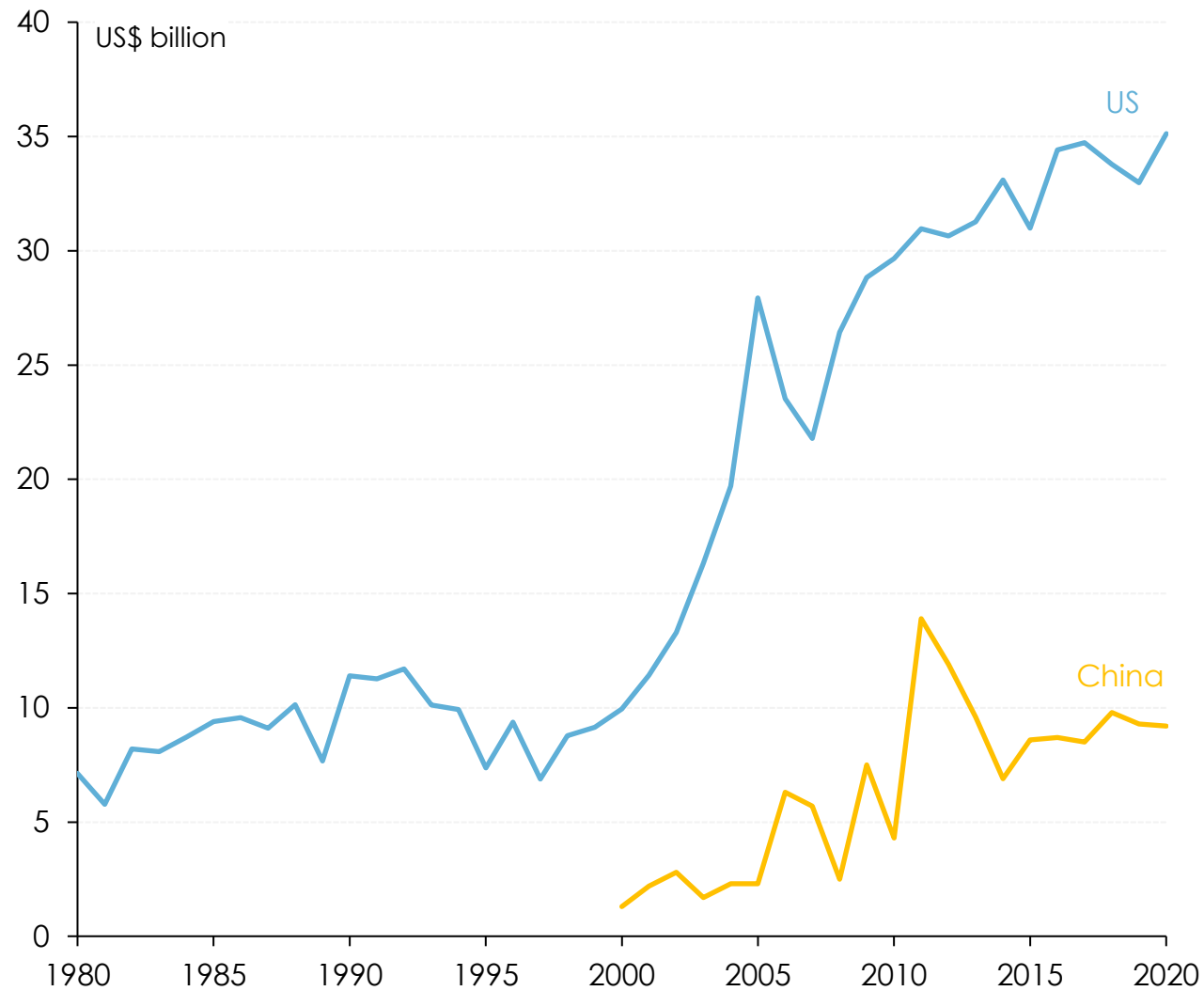
Net international investment position



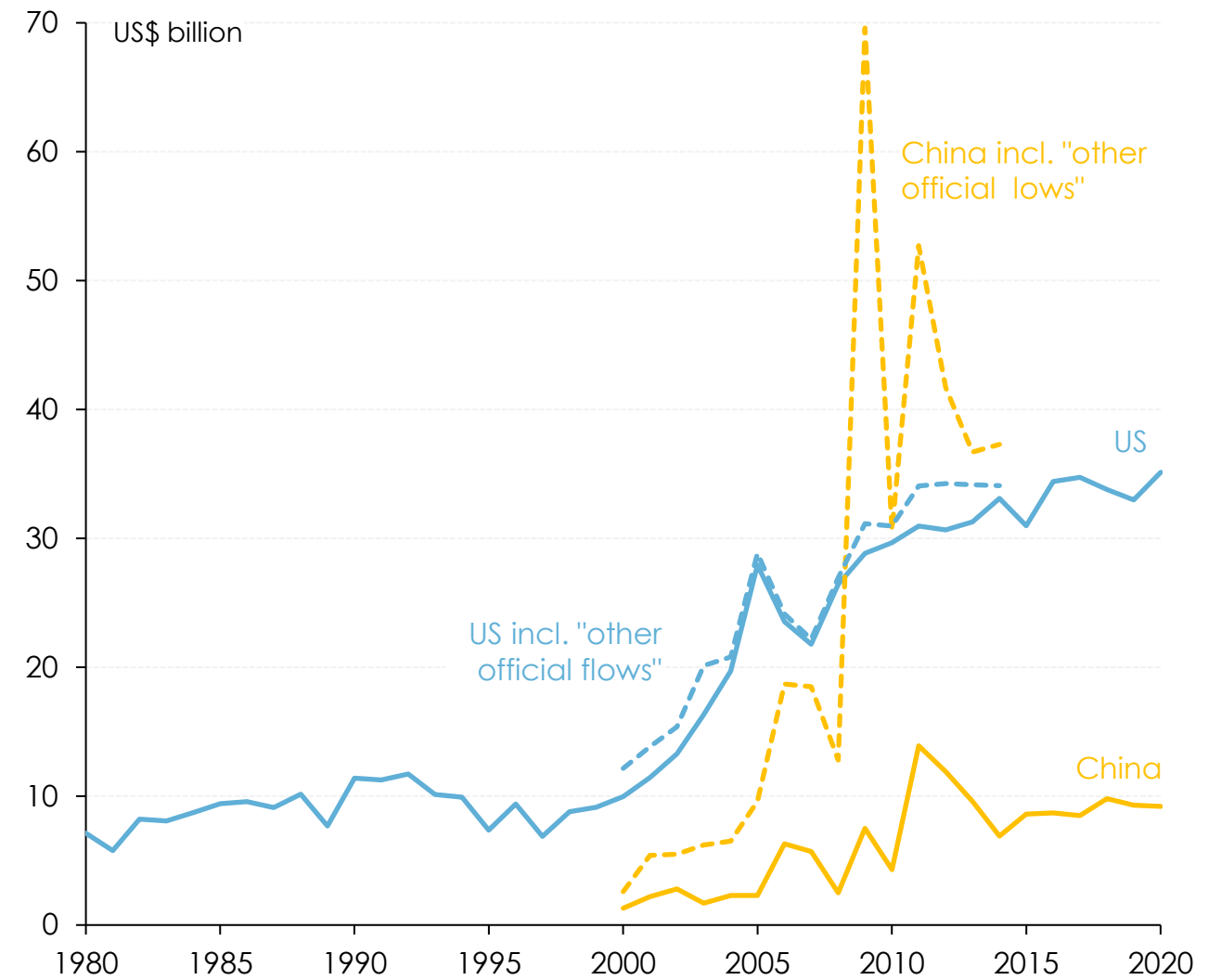
Note: There is a 'series break' between 2004 and 2005 as a result of changes in definitions of some components of balance of payments statistics.
Source: International Monetary Fund, [Balance of Payments and International Investment Position Statistics](#).

... and through 'aid'

'Official development assistance'



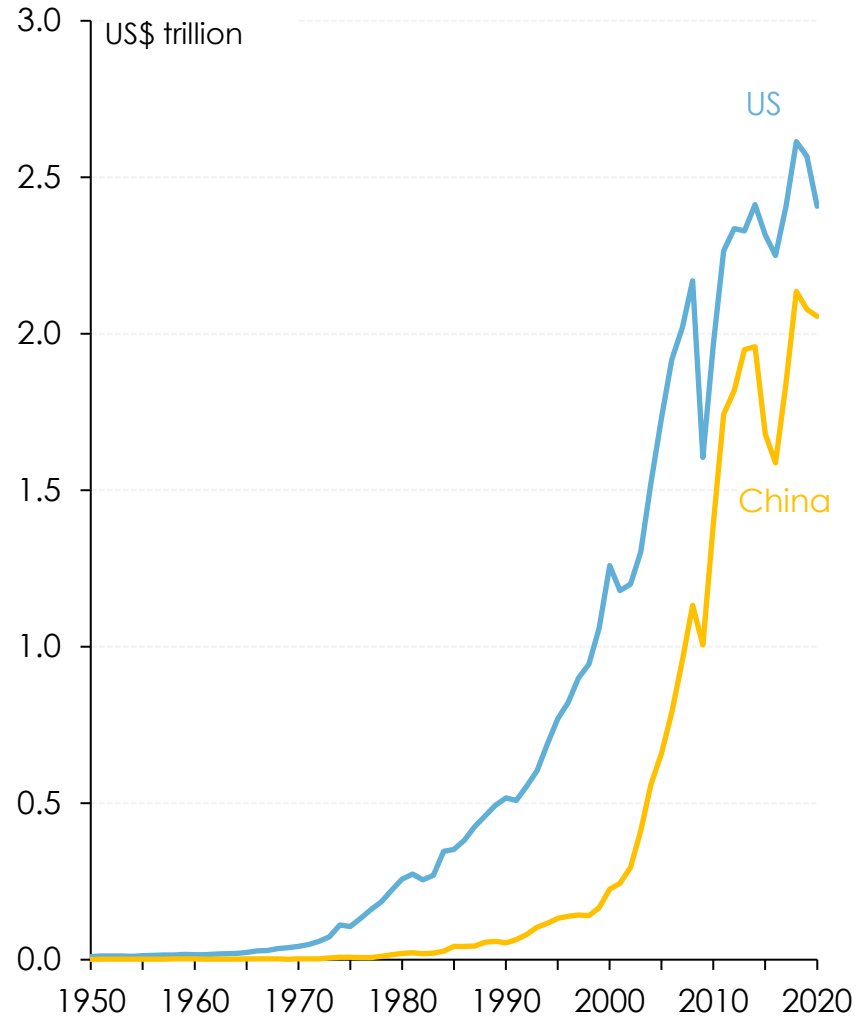
ODA plus 'other official flows'



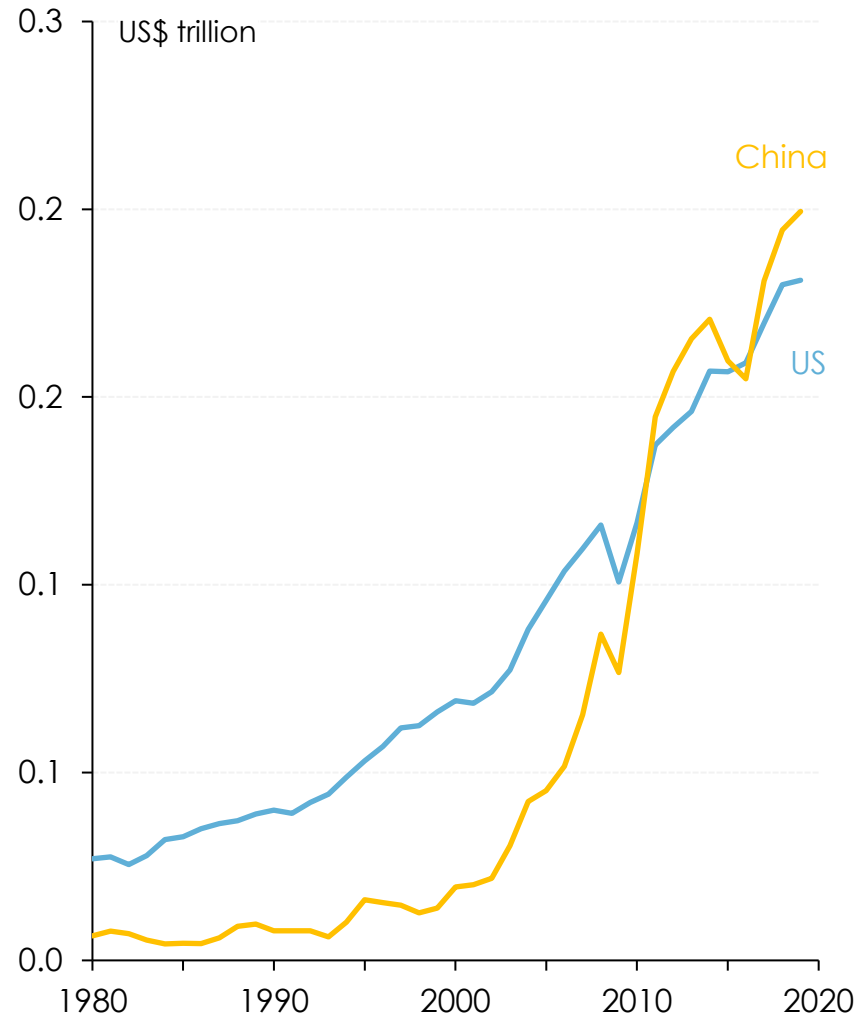
Note: Other official flows include payments which have a less than 25% grant element and/or which are primarily for commercial or representational purposes.
 Sources: OECD, [Development finance data](#); AidData, [China's Global Development Footprint](#), William & Mary University; Naohiro Kitano and Yumiki Miyabayashi, [Estimating China's Foreign Aid: 2019-2020 Preliminary Figures](#), JICA Ogata Sadako Research Institute for Peace and Development.

China has become a much more important market for commodity exporters

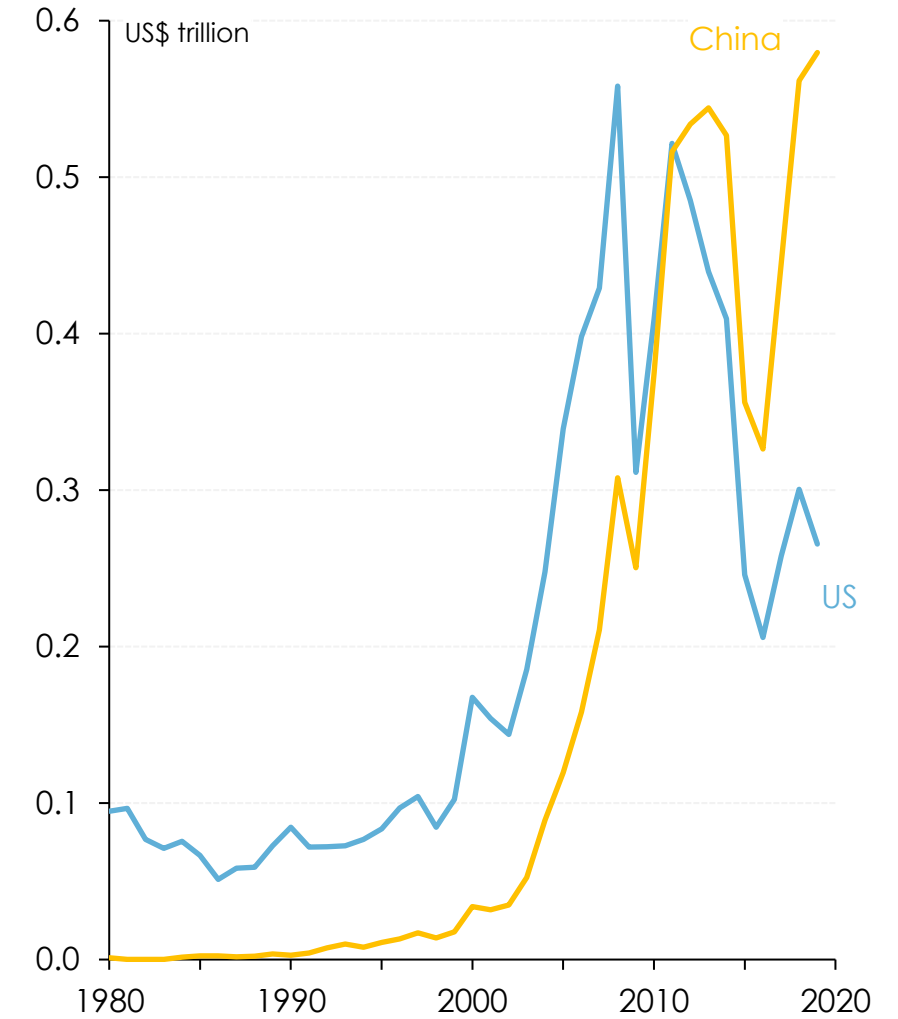
Total merchandise imports



Agricultural commodity imports

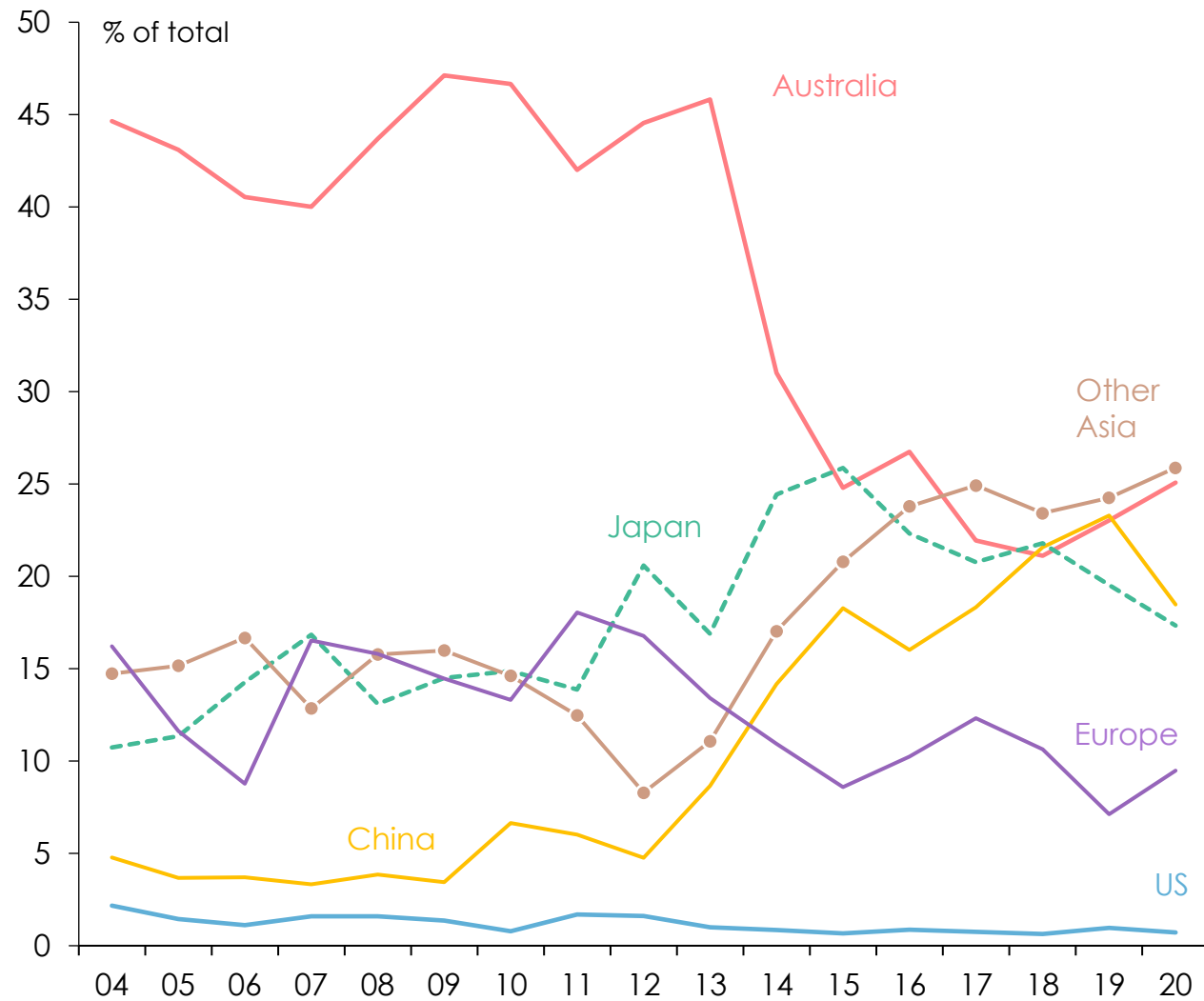


Mineral and energy commodity imports

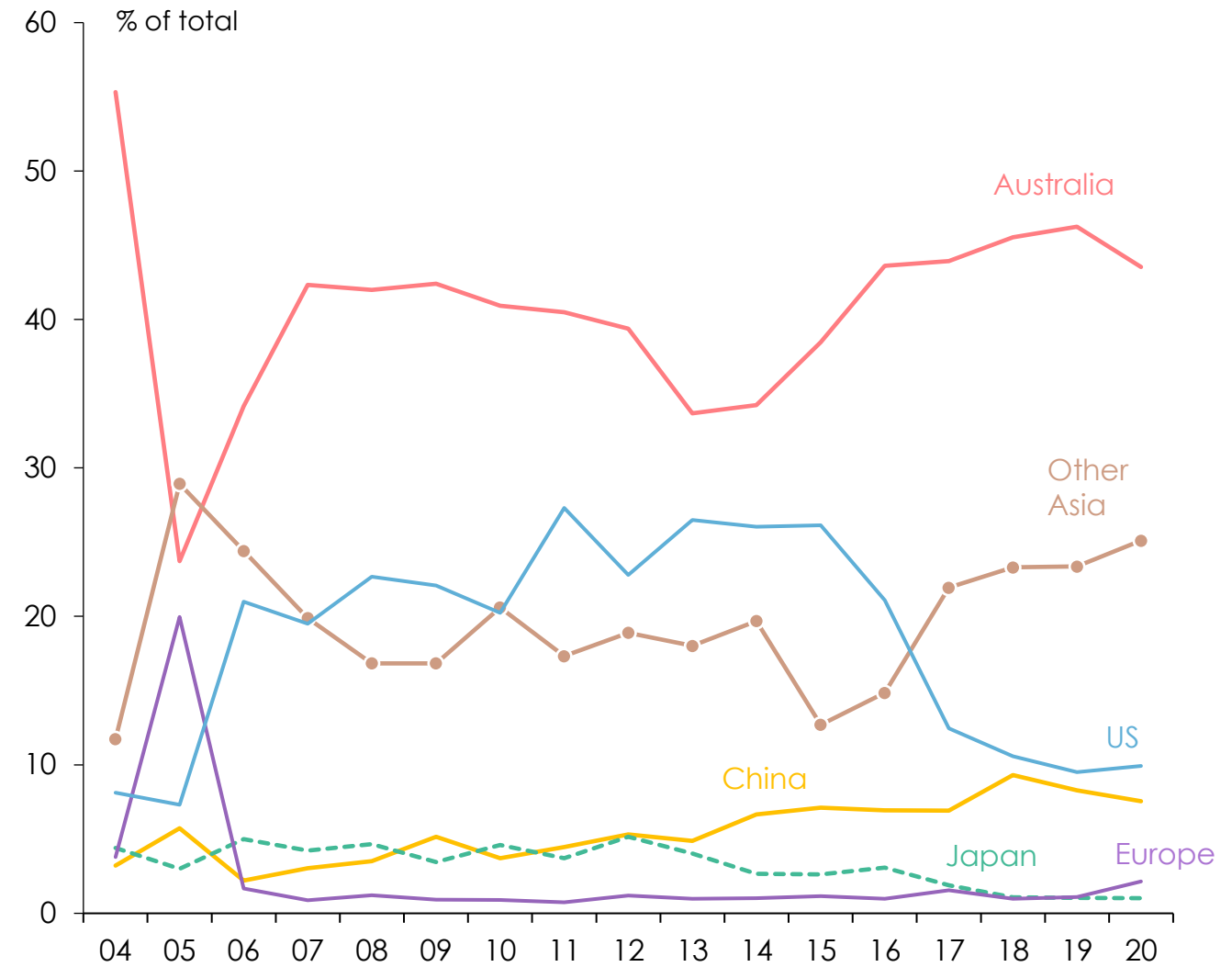


China is becoming a more important trading partner for PNG – but so are other Asian economies, and Australia also remains an important partner

Destination of PNG exports



Origin of PNG imports



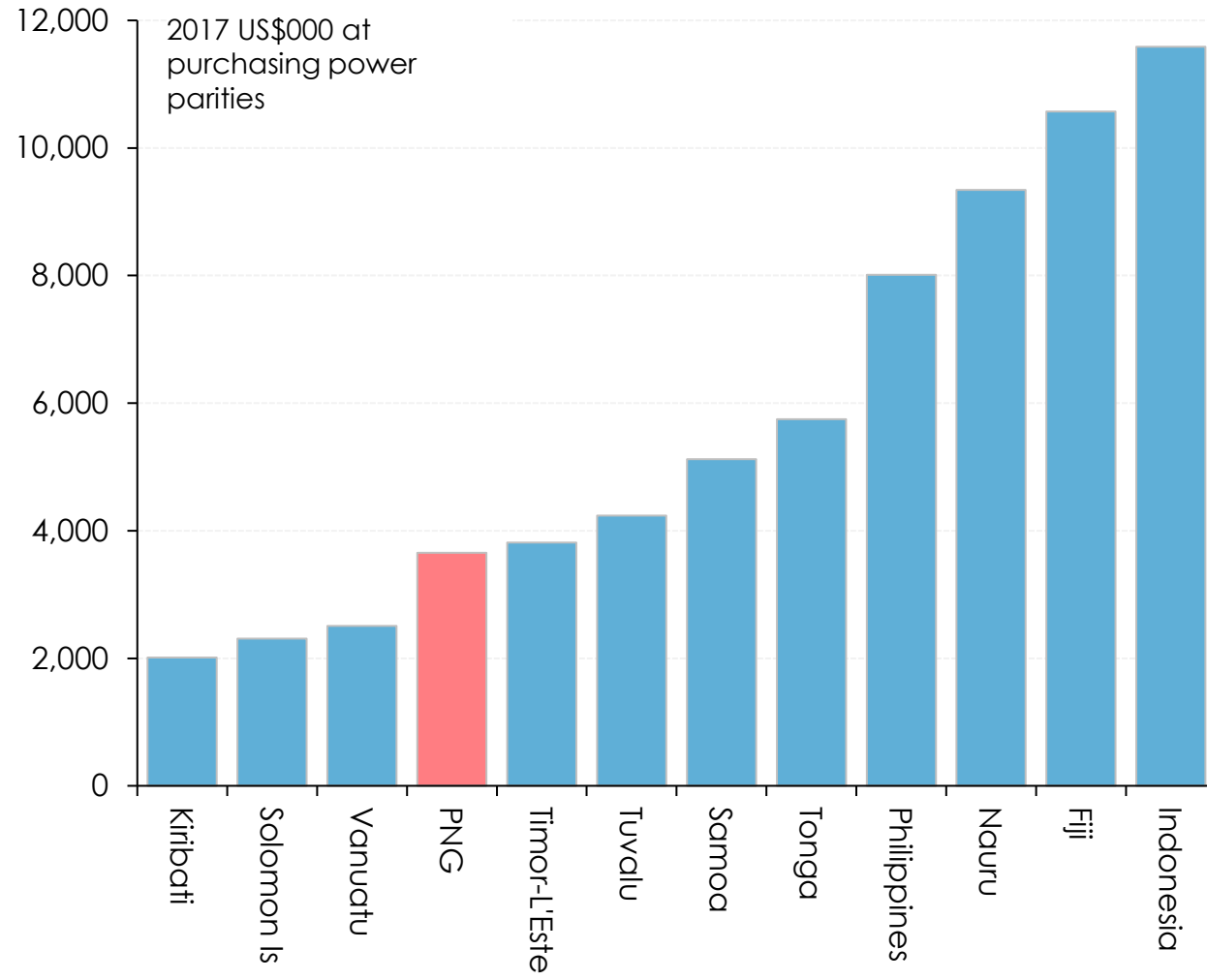
Source: Bank of Papua New Guinea, [Quarterly Economic Bulletin Statistical Tables](#), Section S61.

What does all this mean for Papua New Guinea?

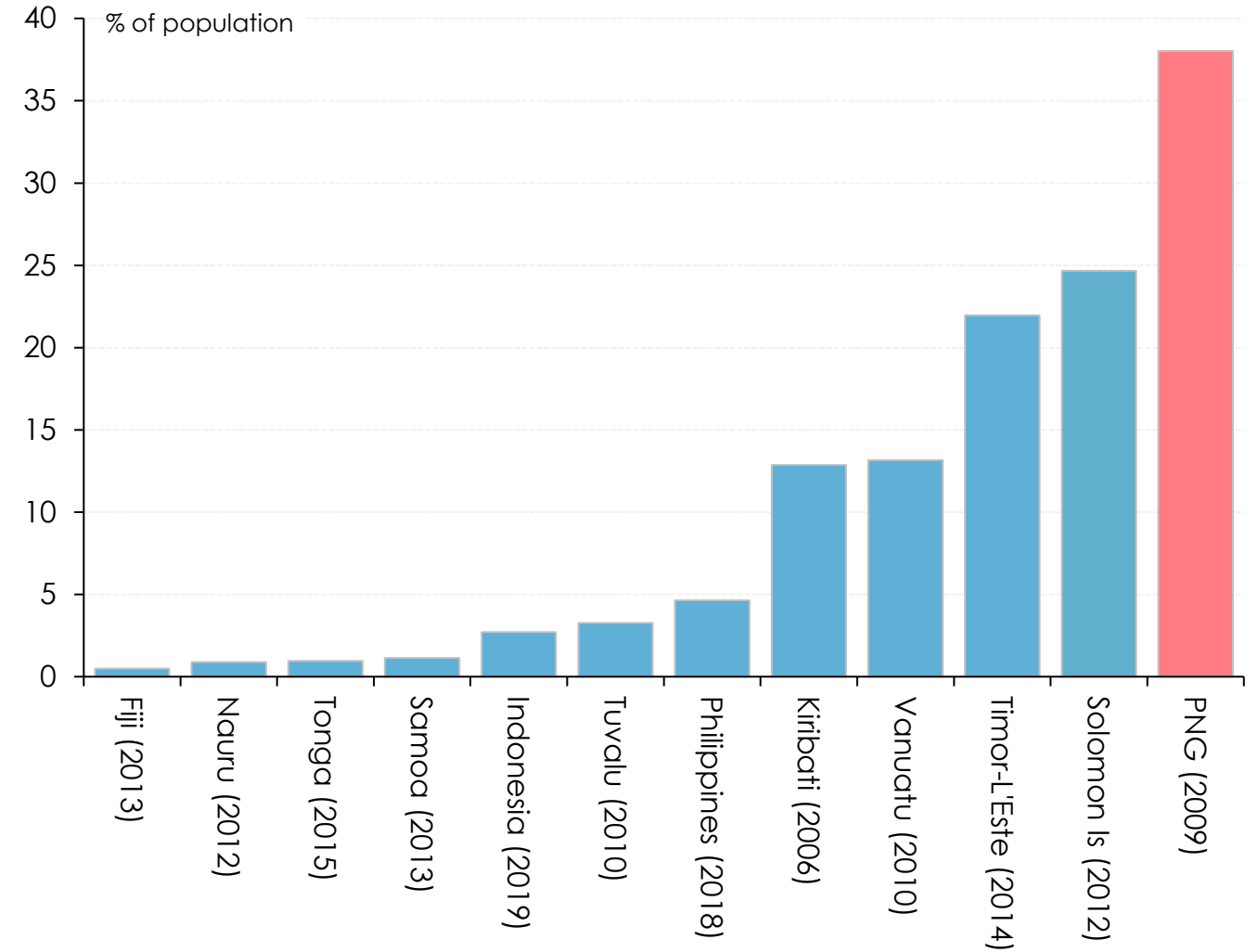
- ❑ **PNG occupies a very strategically important location in the increasingly contested 'Indo-Pacific' region**
 - China is likely to continue to seek to pull PNG more 'into its orbit' (as it is with other developing economies, particularly in the Pacific)
 - while 'the West' will conversely want to keep PNG in its 'camp'
- ❑ **Foreign interests are likely to be keenly interested in PNG's strategic resources**
- ❑ **PNG needs to develop a clear sense of where its own strategic interests lie**
 - preferably one which is widely shared – so that it will survive changes of government – and that other countries will respect PNG's intention and ability to look after its own interests
 - ideally, PNG will seek (and be able) to remain on 'good terms' with all its neighbours, and with 'major powers' in the region
- ❑ **In such a contested region it will be important for PNG to strengthen its 'state capability'**
 - that is, the capacity of 'the state' (broadly defined) to 'look after' its people (keeping people safe, providing them with opportunities to improve their lives and that of their children, and providing the goods and services that individuals can't provide for themselves)
 - the resilience of its political and legal framework
 - and the respect and loyalty which the people have for their country and its institutions
- ❑ **There may be opportunities for PNG to benefit from the 'contest for influence' between the competing 'great powers'**
 - but in so doing PNG needs to avoid giving the impression that the country can be 'bought'

With such rich resources, Papua New Guinea shouldn't be one of the poorest countries in the Asia-Pacific region

Per capita GDP, 2020



Pc of population living below World Bank 'extreme poverty line' of US\$1.90 per day



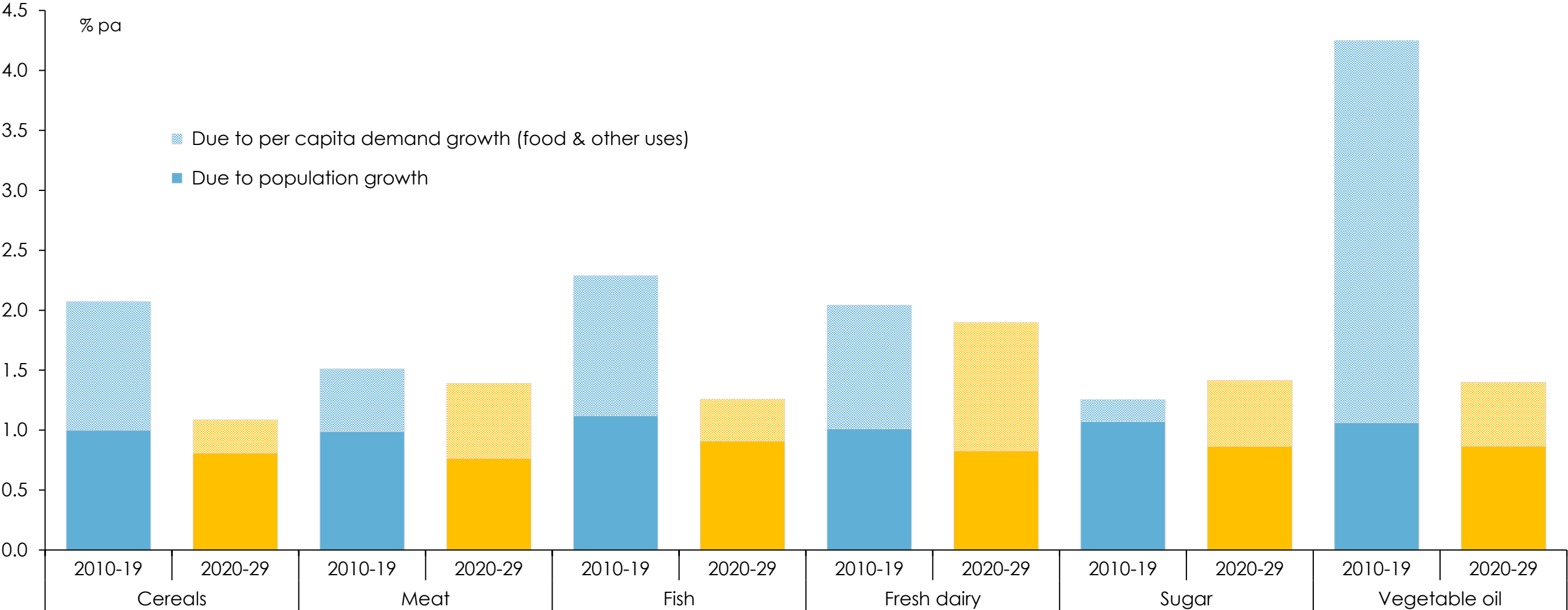
Note: The World Bank extreme poverty line is expressed in 2011 US dollars. Years to which figures relate are shown in parentheses.

Sources: International Monetary Fund, [World Economic Outlook database](#), April 2021; The World Bank, [PovcalNet](#).

Opportunities in agriculture and fishing

Global demand for agricultural commodities will grow more slowly over the next decade than it has over the past decade ...

Annual growth in demand for key agricultural commodity groups



Source: OECD and FAO, [Agricultural Outlook 2020-2029](#).

... so it will be important for PNG to increase its 'market share' in existing product markets and to develop new ones

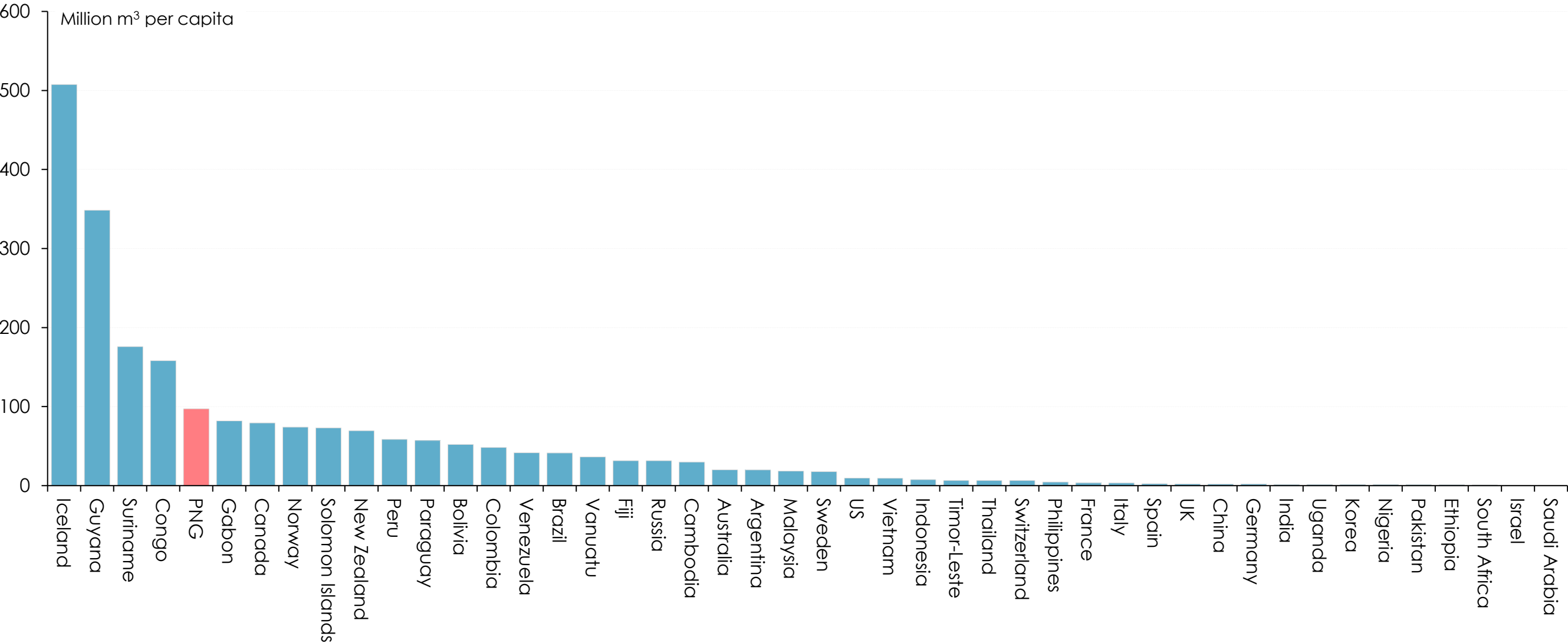
Annual growth in trade volumes for key agricultural commodity groups



Source: OECD and FAO, [Agricultural Outlook 2020-2029](#).

One very significant potential advantage for Papua New Guinea is its renewable water resources – the fifth highest per capita in the world

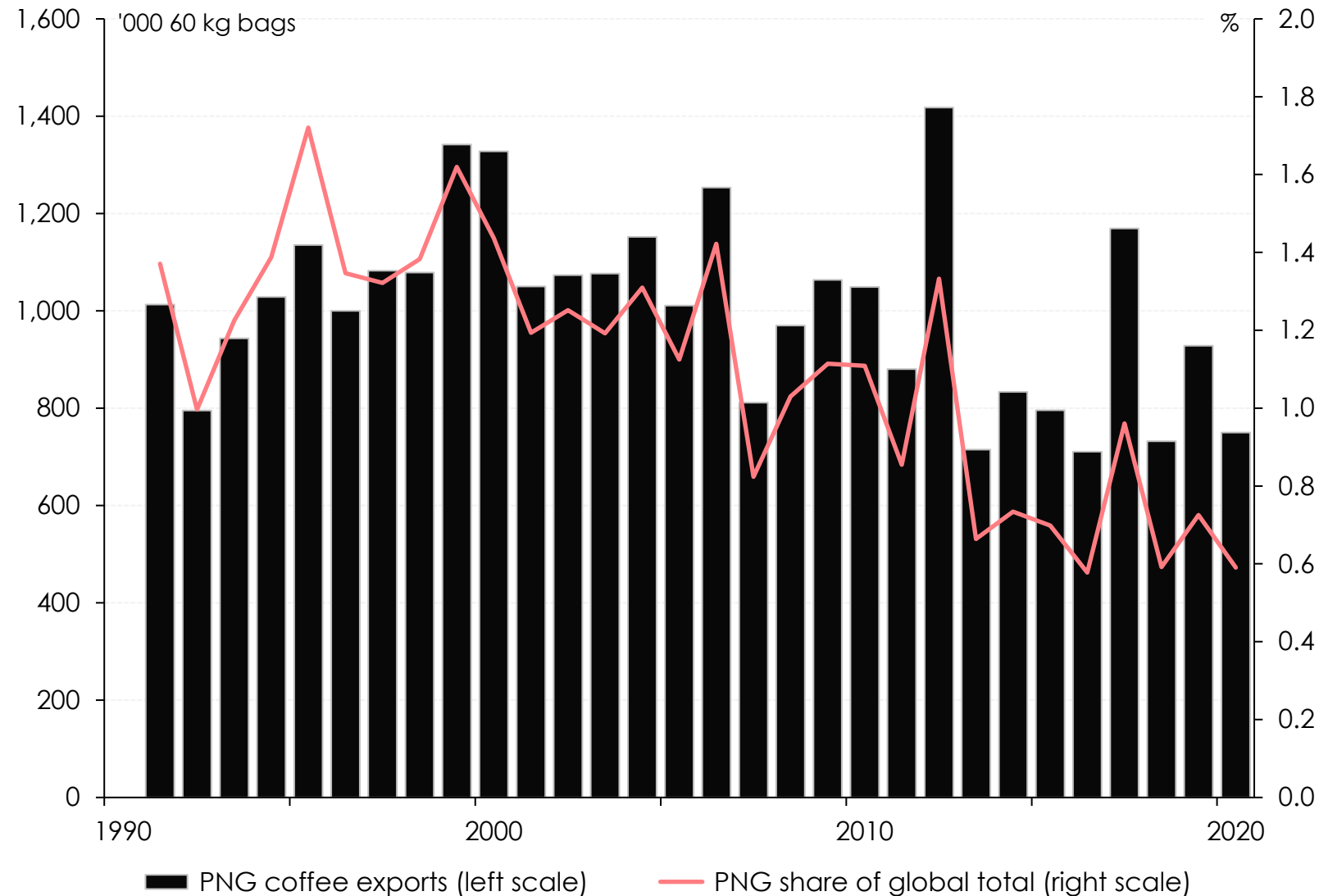
Renewable water resources per head of population, 2020



Source: Food and Agricultural Organization (FAO), [World Food and Agriculture Statistical Yearbook 2020](#).

Coffee is one area of agriculture of considerable potential opportunity for Papua New Guinea

PNG's coffee exports

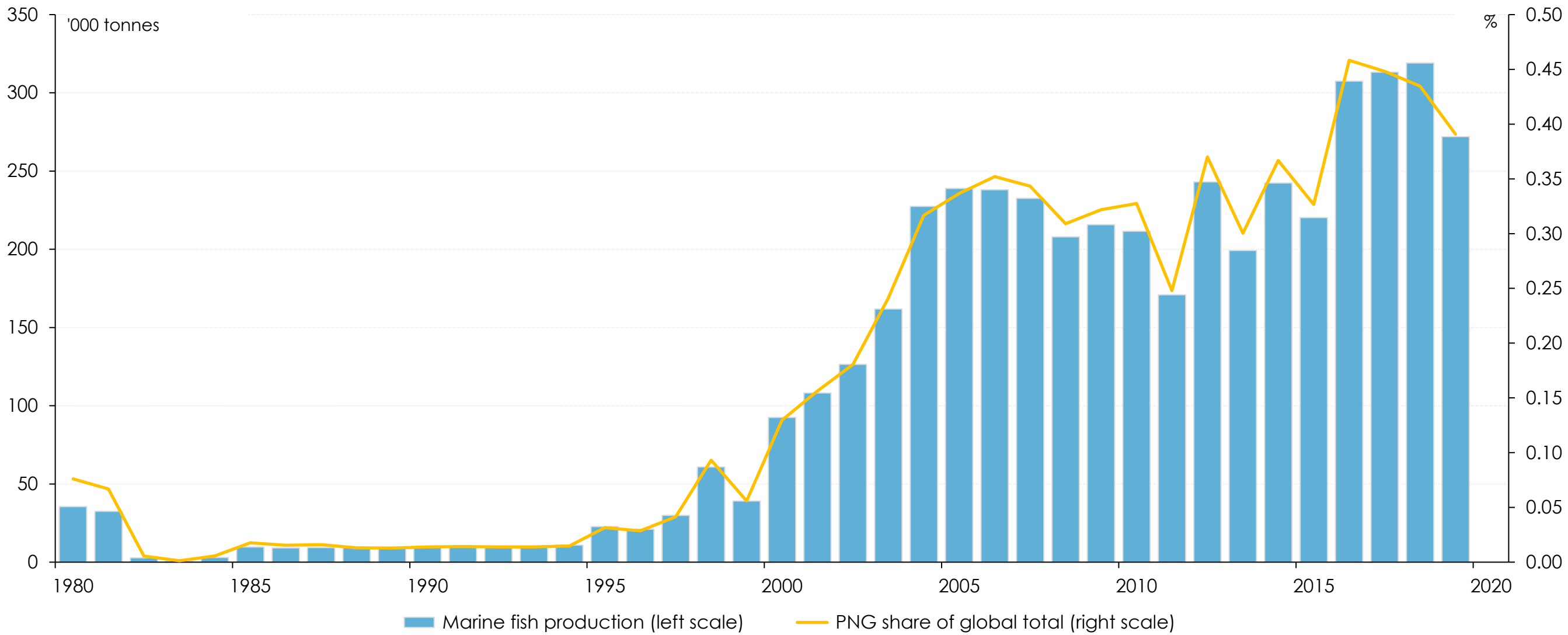


When I talk about agriculture, I look at greater Asia. There's three billion people that need to drink a cup of coffee a day. There's three billion people that need to eat a plate of rice a day ... Someone needs to grow the rice and someone needs to plant the food to supply the Asian people ... In 2025 and beyond, I don't want PNG to be known as an oil and gas country. I want PNG to be known as a country that is the food basket of Asia ... That is where the greatest strength of PNG is: our fish and agriculture.

- Hon. James Marape MP,
Prime Minister of PNG, 25th July 2019

Marine fisheries is another area where PNG has enormous potential for growth

PNG's marine fish production



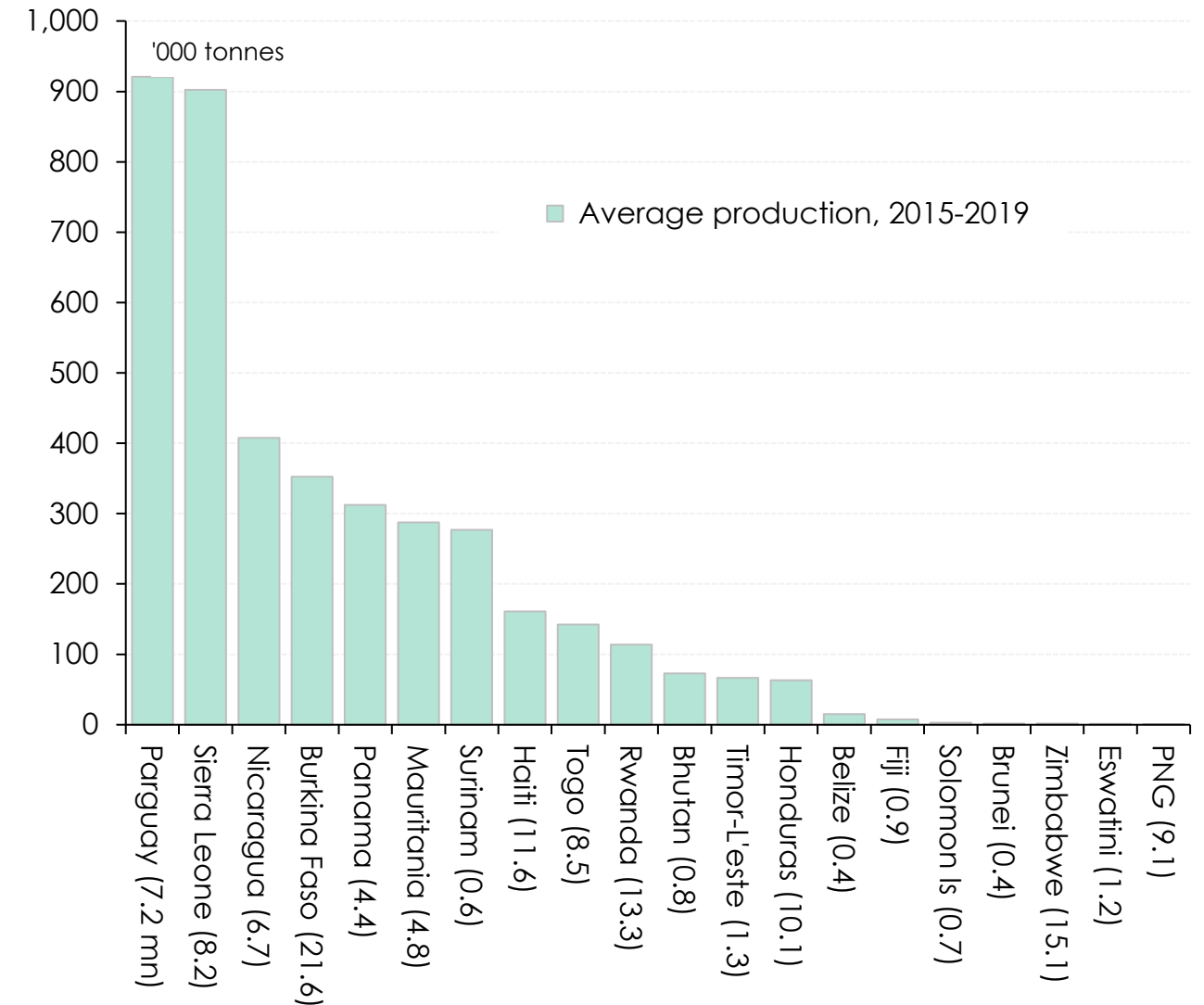
Source: Food and Agricultural Organization (FAO), [Fishery Statistical Collections - Global Production](#).

Papua New Guinea once was, and ought to be, a much bigger rice producer than it is now

PNG's rice production



Rice production – selected 'developing' countries

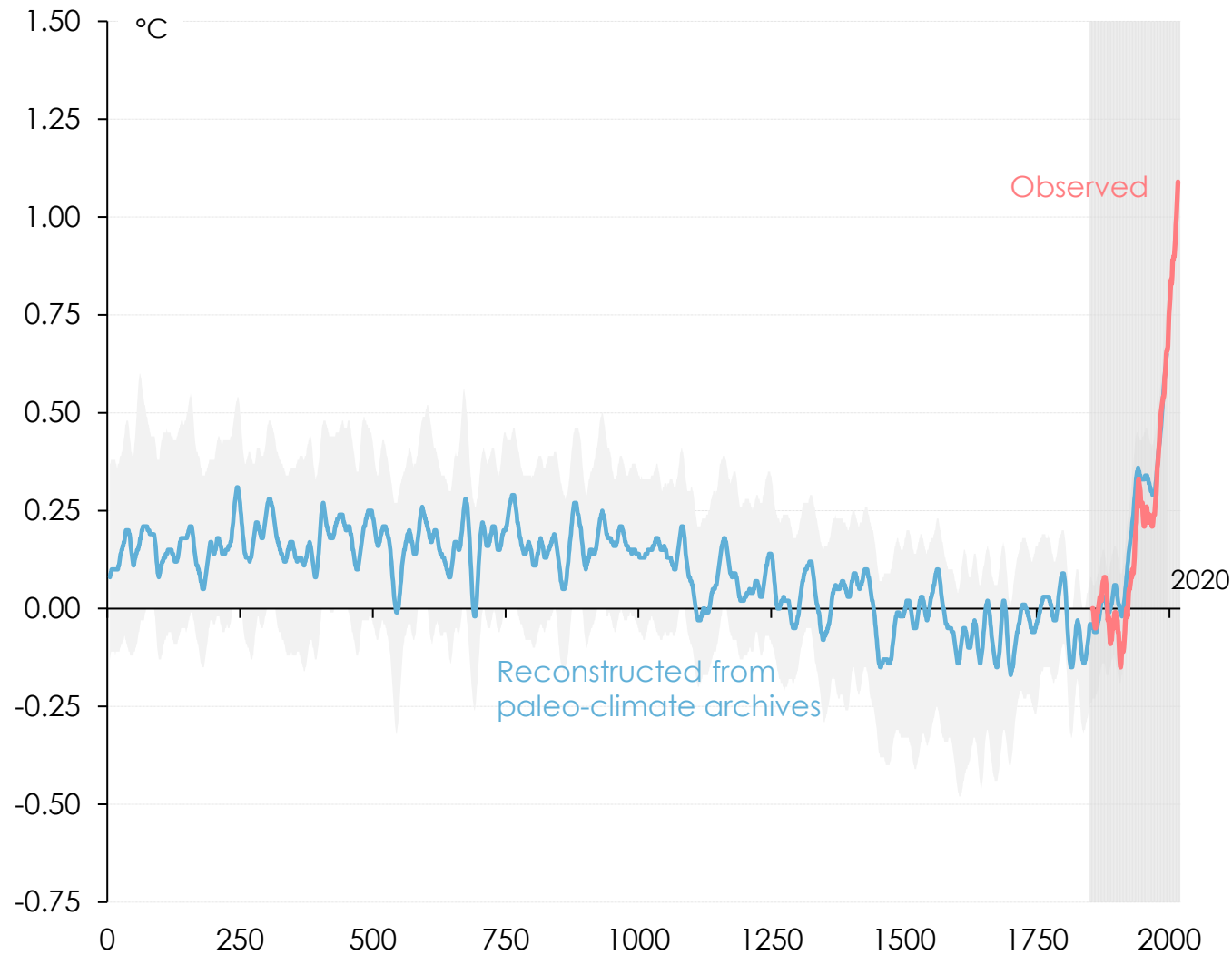


Note: rice production is measured as paddy rice. Source: Food and Agricultural Organization (FAO), [Crops and livestock products](#).

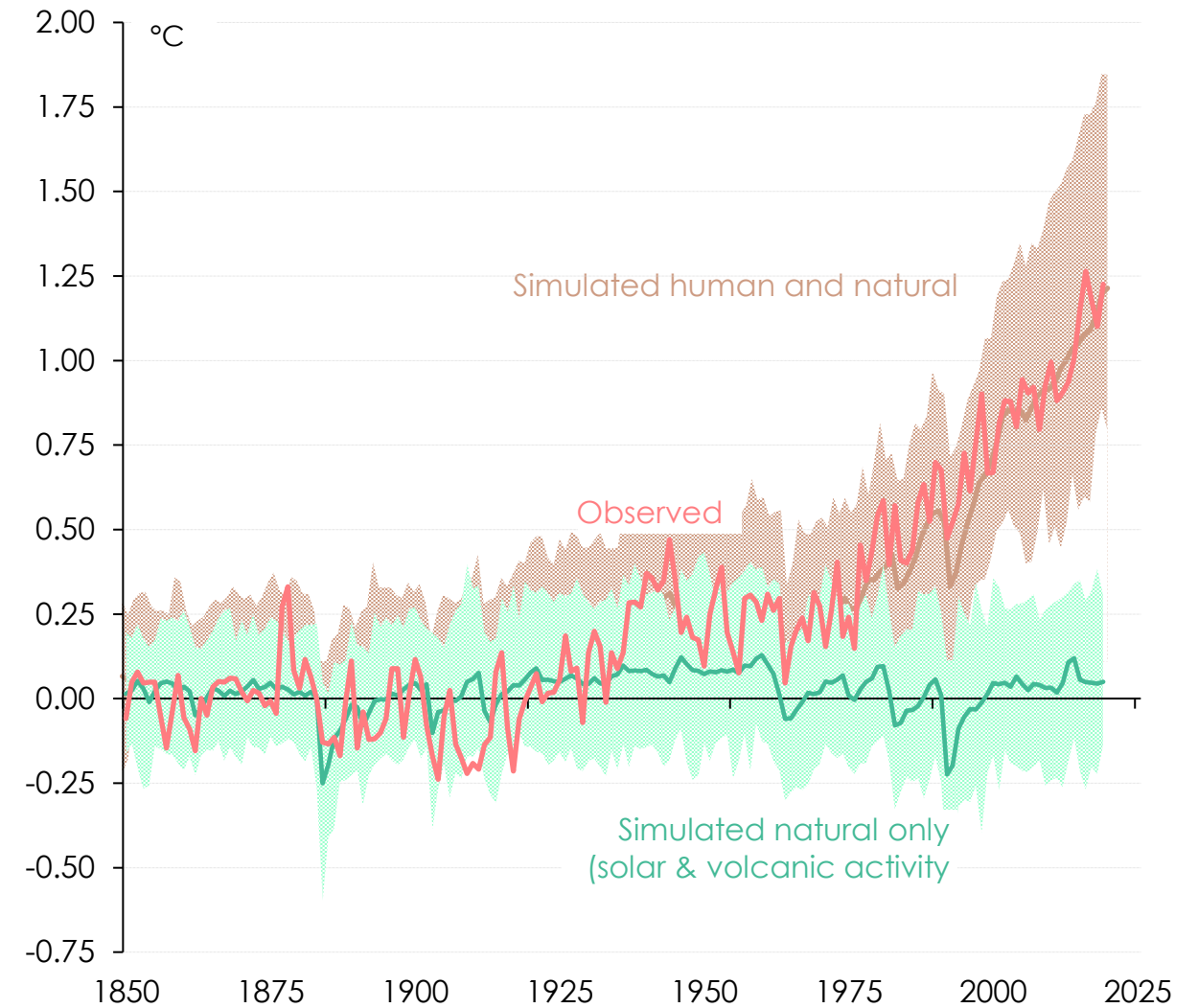
Climate change and PNG

The IPCC's Sixth Assessment Report released last month documents the extent of global warming over the past five decades or so

Change in decadal average global surface temperatures relative to 1850-1900 average

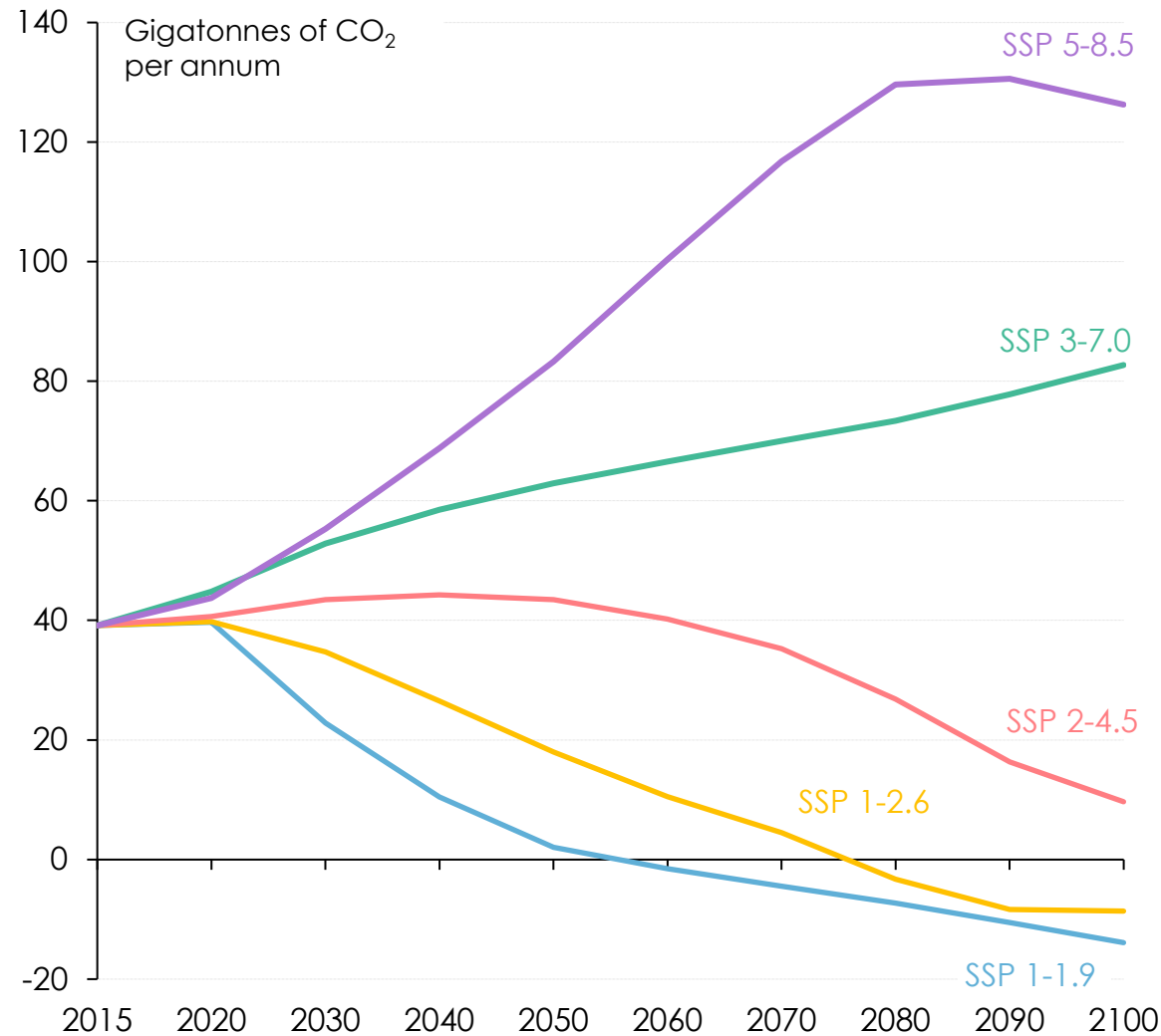


Impact of human and natural factors on changes in global surface temperatures between 1850 and 2020

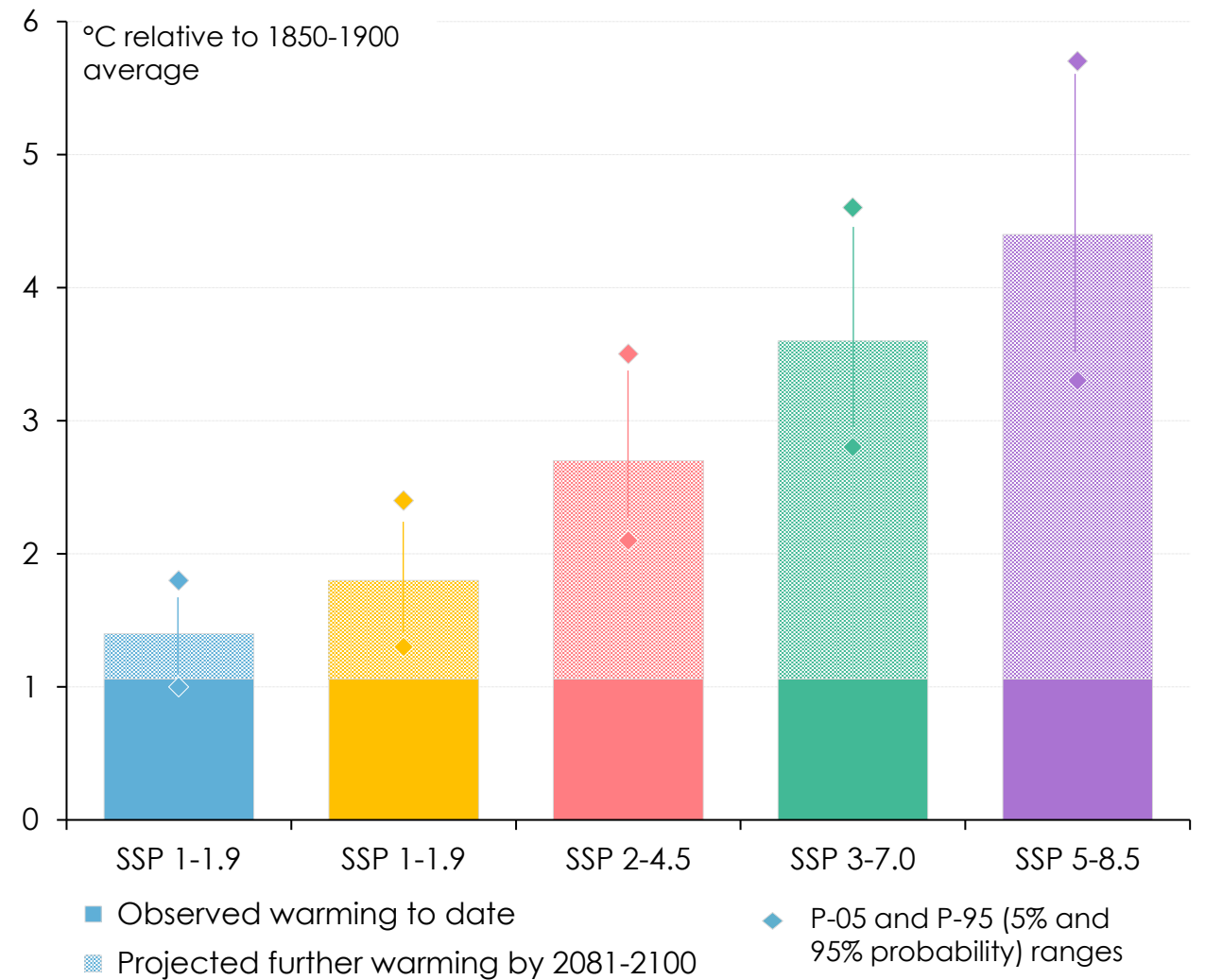


The IPCC's Sixth Assessment Report incorporates projections of further global warming depending on the trajectory of CO₂ emissions

Alternative scenarios for global CO₂ emissions



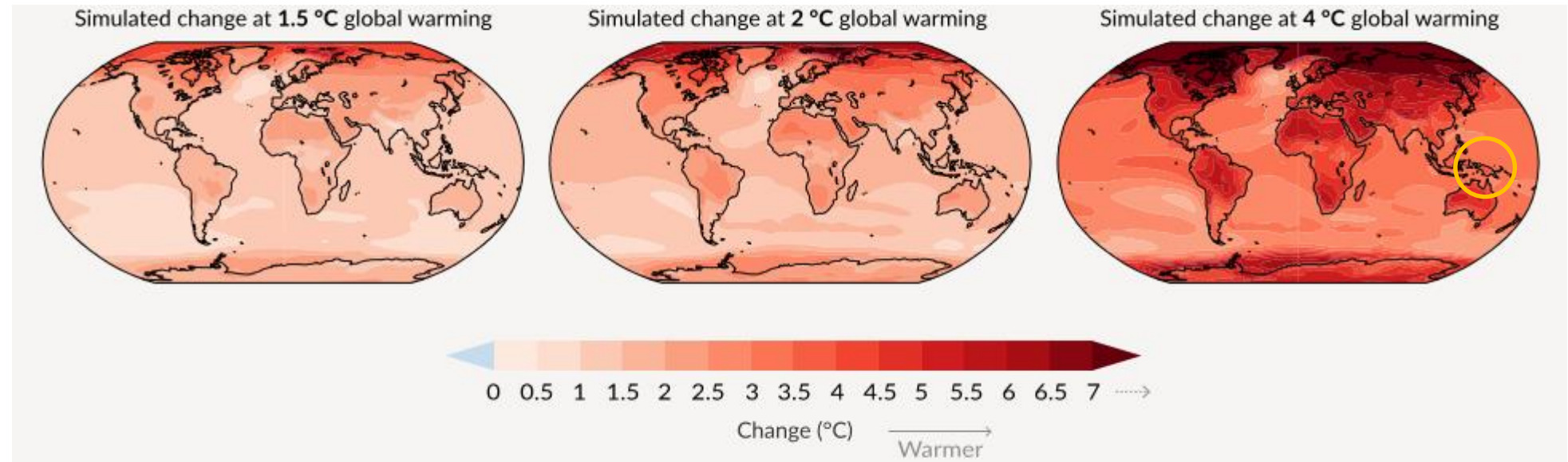
Projected increase in global surface temperatures from 1850-1900 averages under different emissions scenarios



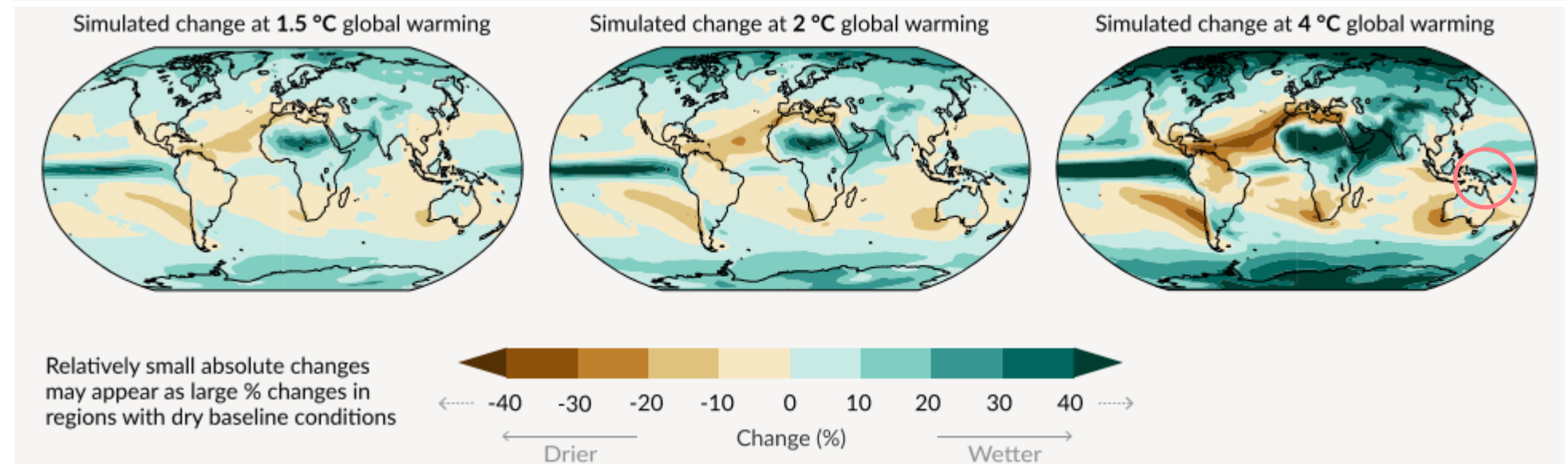
Note: 'SSPx-y' refers to 'Shared Socio-economic Pathway' with x representing a particular scenario and y is the approximate level of [radiative forcing](#) (in watts per m²).
 Source: Intergovernmental Panel on Climate Change, Sixth Assessment Report, [Climate Change 2021: The Physical Science Basis](#), August 2021.

PNG isn't likely to get a great deal hotter than it already is – but it may get a lot wetter (or have more cyclones and floods)

Change in annual mean temperature in °C relative to 1850-1900 average

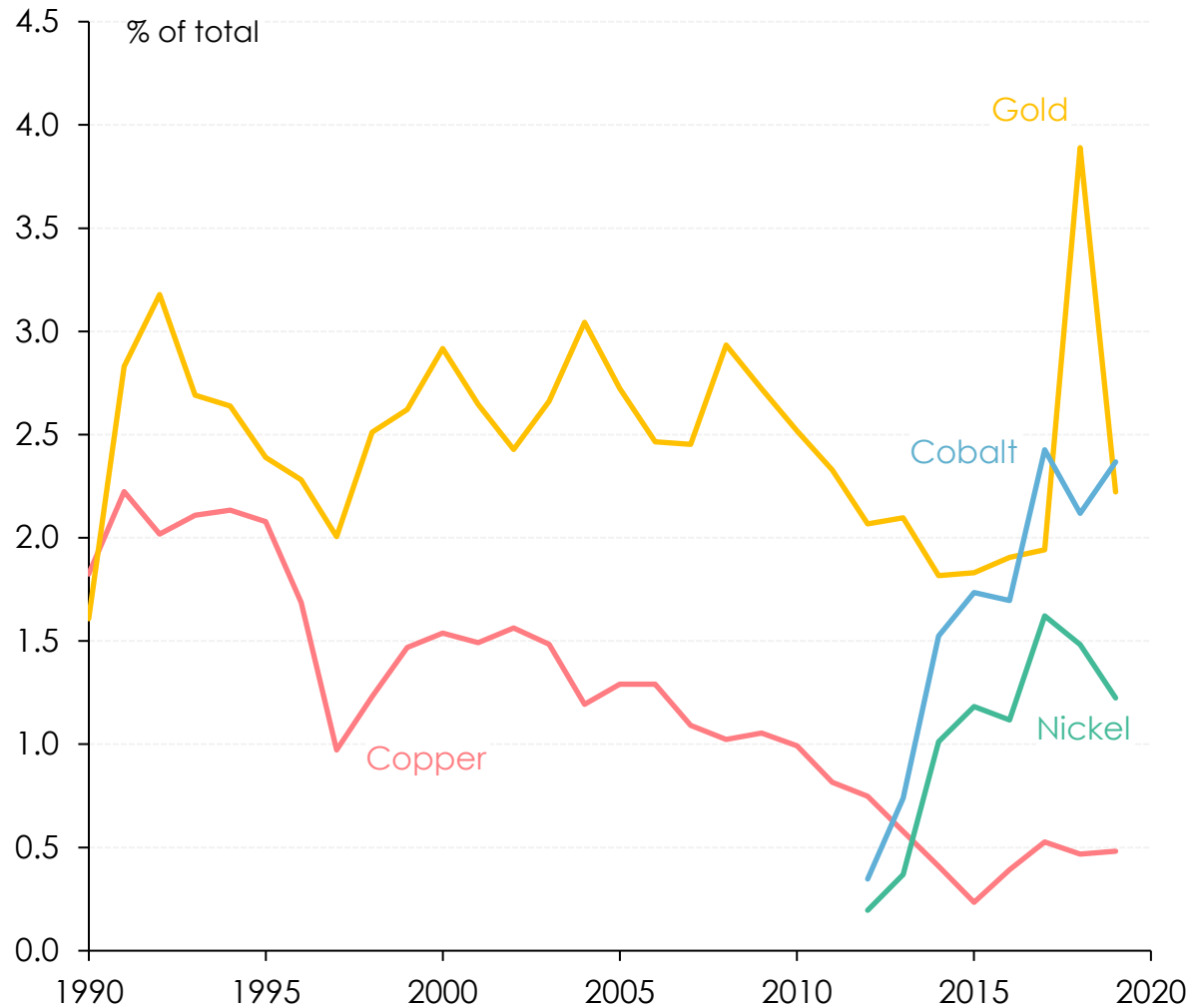


Change in annual mean precipitation (%) relative to 1850-1900 average

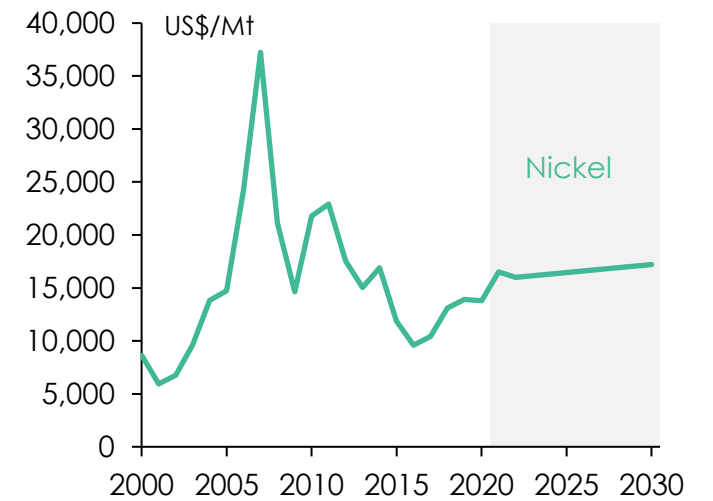
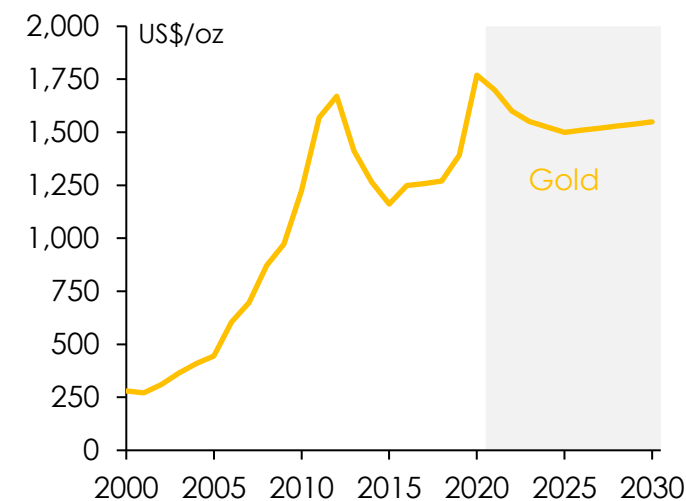
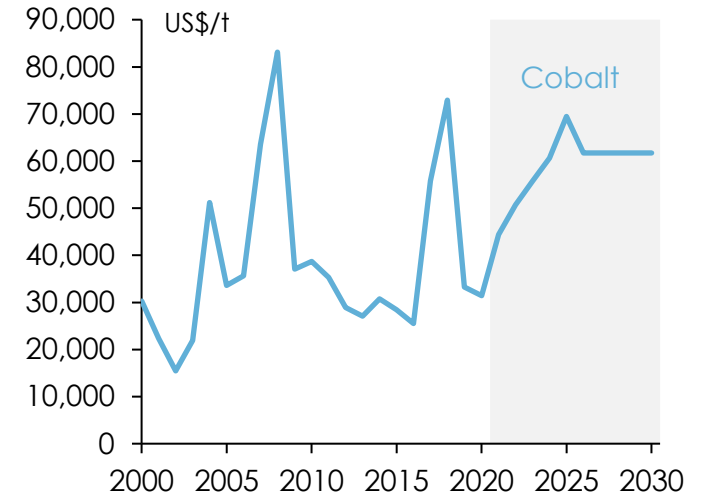
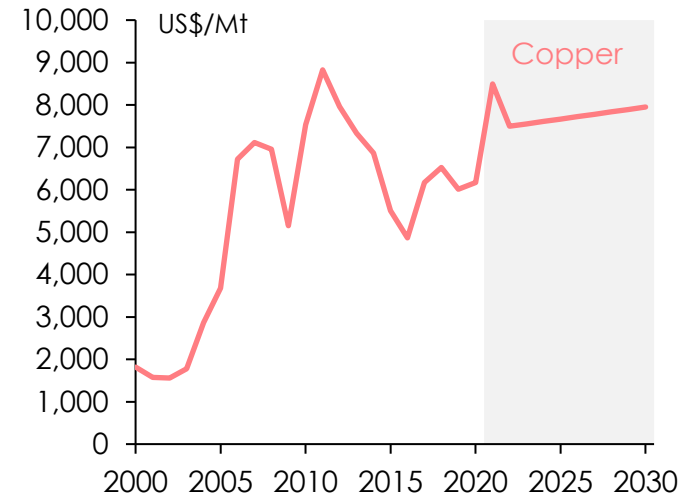


Three of PNG's four principal mineral exports are likely to be major beneficiaries of global efforts to reduce CO₂ emissions

PNG's production of its four major minerals as a pc of world total



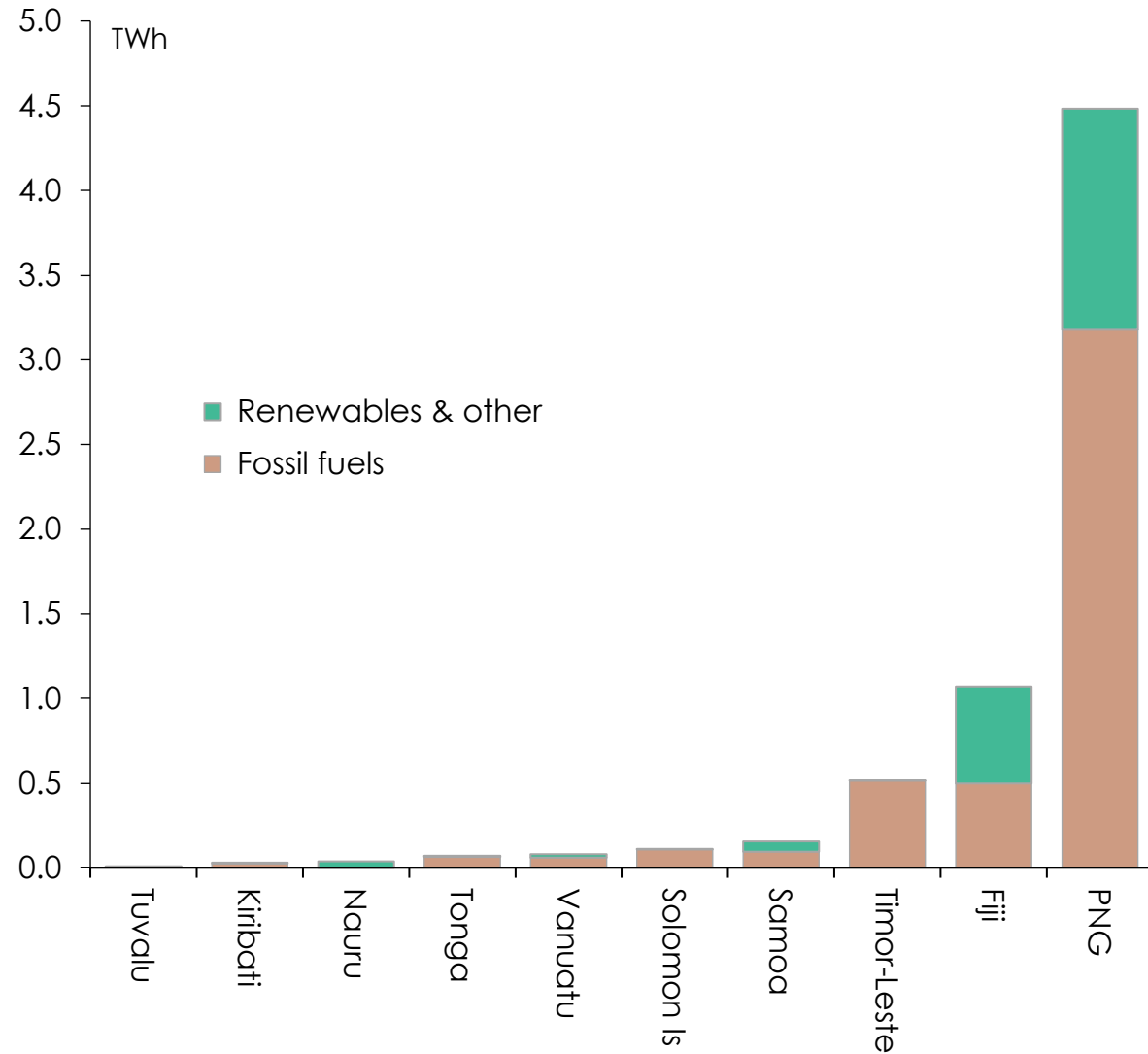
Price outlook for PNG's four major mineral export commodities



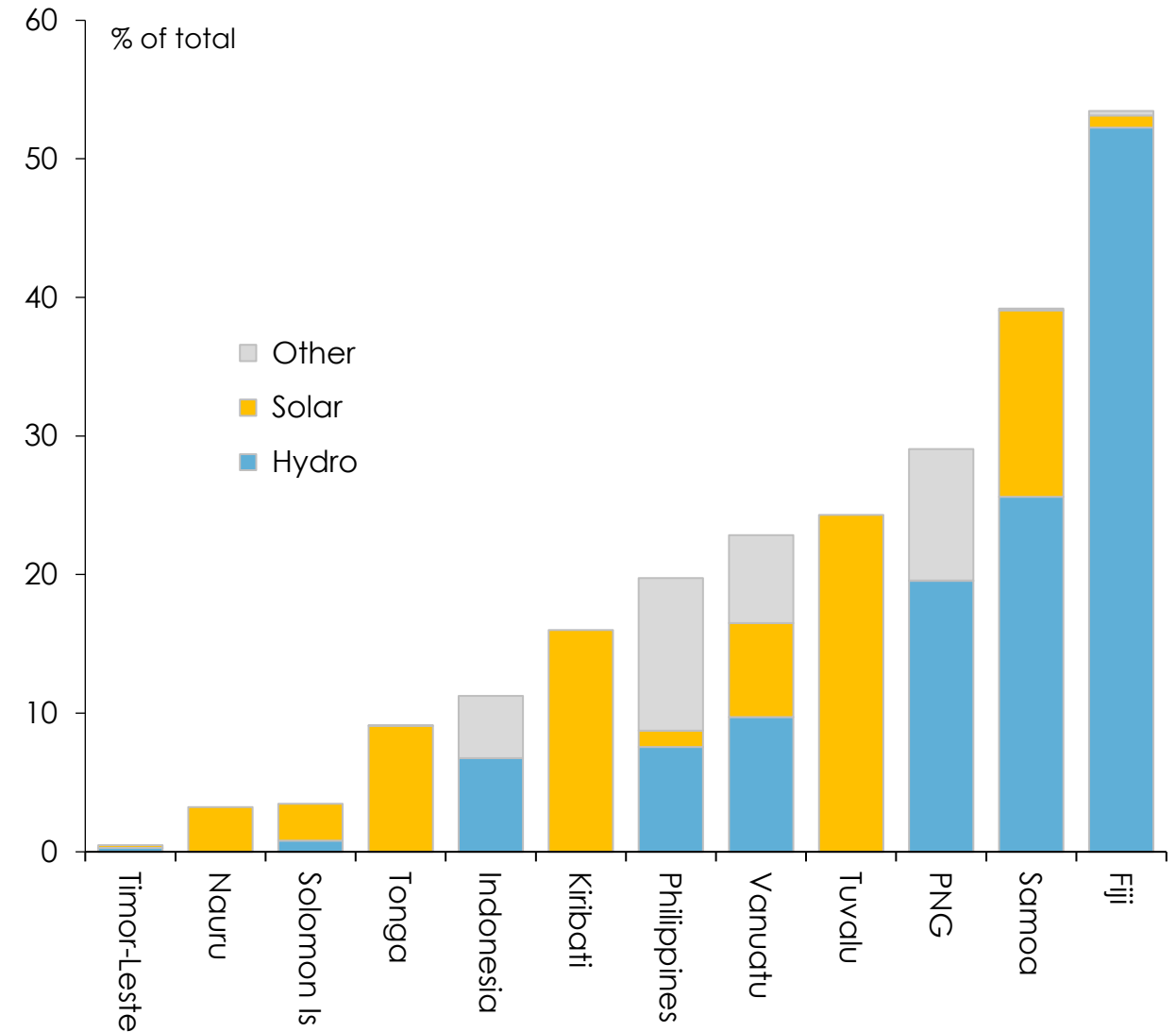
Note: for context, Papua New Guinea accounts for about 0.025% of world GDP. Sources: British Geological Survey, [World Mineral Statistics data](#); The World Bank, [Commodity Markets Outlook](#), April 2021; and Morgan Leighton, [The Ultimate Guide to the Cobalt Market: 2021-2030](#), Crux Investor, January 2021.

PNG could be a much more significant producer of renewable energy – and either use it, or export it

Total electricity production, by source, 2018



Renewable energy production, by type, 2018



Source: Asian Development Bank, [Key Indicators Database: Regional Tables - Energy and Electricity](#).

Q & A

This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

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