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Address by HE Bruce Davis

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“Papua New Guinea in the Asian Century”

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ACKNOWLEDGEMENTS

I appreciate the invitation to speak with you today.

This is a timely opportunity for me to outline the strategic dimensions of Australia’s contemporary engagement with our nearest – and one of our most important – neighbours.

There’s been much discussion in recent years about the shift in the strategic and economic conditions in our region. And much attention also on the increasing unpredictability, and opportunity, in this more multipolar environment.

Globalisation has, among other things, made our neighbours more economically interdependent.

A massively expanding middle class in Asia is hungry for resources, services, goods and influence.

Papua New Guinea – for a range of reasons, some of them unique – has the potential to ride this wave.

A Contemporary Setting

In defining Australia's interests in Papua New Guinea, and developing our policies, we need a better understanding of contemporary Papua New Guinea.

It starts with location. Papua New Guinea's aspirations to be a bridge between the South Pacific and Asia have a compelling geographic basis: situated partly in the southwest Pacific, on the doorstep of Southeast Asia and with direct sea lanes to the north, Papua New Guinea is close to both the ASEAN and North Asian markets.

Papua New Guinea shares borders with two G20 neighbours – Australia and Indonesia – and is naturally looking to capitalise on the huge growth opportunities resulting from the booming economies to its west.

As Asia's middle class continues to grow, Papua New Guinea could be well placed to supply the ever-expanding need for food, raw materials and natural resources.

Geology is also a critical factor: over the next 10 years, some five new resource projects have serious prospects to come online in Papua New Guinea.

The composition of expatriate workers in the country, too, will continue to change as more people arrive to take advantage of work opportunities. The largest expatriate group now is Filipino.

The broader demographics will also change, with a youth bulge likely to push the population past 20 million by 2050.

Papua New Guinea's membership of APEC and observer status at the ASEAN Regional Forum remind us that Papua New Guinea is engaged in the important economic and strategic architecture of the region.

Bilateral Links

Bilaterally, the trade and investment relationship is strong.

Two-way trade between Australia and Papua New Guinea came to around 5.6 billion dollars [PGK14 billion] in 2016, with around two-thirds of those goods exported from Papua New Guinea to Australia.

Australian investment in Papua New Guinea exceeds 18 billion dollars [PGK 45 billion], largely in the financial services and oil and gas sectors. Some 5,000 Australian businesses operate there.

To put it in perspective, this is more investment than we have in South Korea, Malaysia or India.

At any one time, around ten thousand Australians live and work in Papua New Guinea, and not just in Port Moresby, but in Lae, Rabaul, Wewak and all parts of the country.

Recognising this, Australia opened a Consulate-General in Lae earlier this year.

Very clearly, the heart of our partnership is, and will increasingly be, economic cooperation.

In this context, too, geography is key: Papua New Guinea lies exactly between Australia's east coast and the export markets of Asia.

Ninety per cent of ships carrying commodities exported from Australia's eastern seaboard to north Asian markets pass through Papua New Guinea waters.

More than 500 flights from Australia transit through or land in Papua New Guinea airspace each month.

And the distance between Australian territory in the Torres Strait and the Papua New Guinean mainland is less than five kilometres.

Security

Against this backdrop, we have enduring security imperatives and some shared strategic interests which overlay the bilateral relationship.

Papua New Guinea's challenges with border protection capabilities render both it and Australia vulnerable to irregular people movements, the spread of illegal goods, and biosecurity threats.

A long and largely unfortified land border with Indonesia presents ongoing challenges for both Governments.

Significant illegal, unreported and unregulated fishing occurs in Papua New Guinea territorial waters, presenting security and economic risks.

In the east, the island of Bougainville continues to rebuild after a prolonged armed conflict in which many thousands died, while preparations are underway for a referendum on its future political status.

Annual high-level meetings, in particular the Bilateral Security Dialogue and Ministerial Forum, also provide opportunities for senior Australian and Papua New Guinea decision-makers to discuss pressing issues affecting the security and economic opportunities of both countries.

Papua New Guinea is our largest Defence Cooperation Program partner, with many personnel working on capacity building, training and exchange programs.

Sound institutional partnerships have been built up over a long period and reflect the trust, shared regional perspectives and common interests of both nations.

They reflect the critical importance of Papua New Guinea to Australia, and are essential elements of our national security architecture.

In considering security issues, it's useful also to keep in mind the strategic triangle between Papua New Guinea, Indonesia and Australia.

These relationships are critical: we have two countries of strategic significance on our doorstep and it is important for us to continue to engage cooperatively with both.

We are already working together to intercept irregular people movements, smuggling and illegal fishing, and with joint patrols and intelligence sharing. Our cooperation on these security and strategic issues is growing.

Others' View and Implications for Australia

A theme I will touch on today is how Asian economies have come to view Papua New Guinea, and how perspectives in Australia need to keep pace with new realities.

Other economies in the region increasingly see the value of investing in Papua New Guinea, and we must update our assumptions and perspectives if we are not to be left behind.

As Papua New Guinea works to overcome challenges developing its capability, Australia is strongly motivated to remain its partner of choice, adding value where we can to institutions and national assets.

Happily, we do so from a position of experience and trust.

Our connection with Papua New Guinea spans many decades and generations, across different periods of history and geostrategic competition.

The bonds between our people and institutions are strong and enduring, and will continue to stand the test of time.

Milestones like this year's 75th anniversary of the Kokoda campaign remind us that our connections into Papua New Guinea run very deep.

But they also remind us that the Papua New Guinea of the Fuzzy Wuzzy Angels, kiaps and colonial rule was very different from the Papua New Guinea of today.

While always maintaining respect for our shared history we need continually to update our perspectives and focus on what's important for the future.

The Papua New Guinea Perspective

Modern Papua New Guinea, while still a developing nation with significant challenges, has regional leadership aspirations, steady foreign investment and the potential for increasing global reach.

It needs to be taken seriously as an independent state with its own interests and ambitions in the region.

As mentioned earlier, it increasingly projects itself as a bridge between the South Pacific and Asia.

It is, rightly, ambitious to assert its leadership in the South Pacific and flex its economic muscle in the hyperactive markets of Asia.

Papua New Guinea welcomes the growing interest in its development by other regional players, and is increasingly adept at leveraging competition.

There is increasing interest in Papua New Guinea's development from the region and beyond, including the North Asian, European and ASEAN economies, and multilateral banks.

Asian economies see Papua New Guinea as a likely energy security partner, particularly as a supplier of natural resources such as oil and gas.

I'm sure Andrew will go into greater detail on this, but to take one example, I understand that Japan has committed to purchase half of the expected lifetime production of the Papua New Guinea LNG project – around 3.3 million tons of LNG each year for the next 30 years.

This economic relationship has seen an increase in international development assistance, especially through cooperation on large-scale infrastructure projects and concessional loans.

For a developing nation with a large, dispersed population that has been growing steadily for decades and is increasingly impatient for services, assistance from a greater variety of partners is appealing, as is the growing foreign investment in Papua New Guinea's economic growth.

In short, Australia is far from the only option, and competition forces us to work hard to remain Papua New Guinea's partner of choice where this is mutually beneficial.

Institutional Partnerships and APEC

Reflecting both the country's stature in the region, as well as the economic and strategic basis of our relationship, Australia is providing support for Papua New Guinea's hosting of APEC 2018.

Hosting APEC is an enormous undertaking, made even more so by Papua New Guinea's significant capacity constraints, infrastructure challenges and funding gaps.

It will, however, present an important opportunity for Papua New Guinea to demonstrate its credentials as a significant player in the region.

Australia will support Papua New Guinea where we can, and we remain constructively engaged in Papua New Guinea's preparations, most significantly in terms of enhancing its security capabilities.

We are also working alongside Papua New Guinea as it develops its policy priorities for APEC with a focus on the opportunities of the digital economy for economic growth. APEC provides a great opportunity for us both to confirm our strong commitment to an open trading environment.

For Papua New Guinea, hosting a successful APEC could considerably promote its emergence on the world stage as an attractive economy for investment, and a serious regional player, and leader among its Pacific neighbours.

As its economy continues to grow, we expect Papua New Guinea's influence in the region will increase as well, for example, as an advocate on climate change and its impacts for developing countries in the Pacific.

Economic Challenges and Investment

Despite this dynamism, we need to be realistic about the resilience of Papua New Guinea's economy and its short and long-term prospects.

Papua New Guinea will remain a commodity exporting economy for some time yet – vulnerable to the boom-bust cycle and with fledgling institutions of governance, regulation and oversight.

While its potential for future growth is clear, there are significant challenges that need to be addressed if growth is to be sustained.

Governance challenges will persist.

Likewise, serious demographic pressures such as Papua New Guinea's "youth bulge" and high birth rate would present any developing country with challenges, especially around service delivery.

But international experience also shows us that this demographic transition also provides a window of opportunity for economic growth if well managed through sensible policies such as access to basic quality health and education services.

And while growing levels of foreign investment also bring great opportunities, this too adds pressure to getting policy and governance settings right.

Inadequate regulatory oversight, limited access to finance, gaps in infrastructure development and uncertainty about land rights have historically influenced the nature of Papua New Guinea investment.

That said, many businesses as I have noted, are looking at Papua New Guinea as an attractive destination – bearing in mind that Papua New Guinea has always been high-risk, high-reward.

The proliferation of large-scale and multi-year projects in recent years, as well as the increasing market penetration by small and medium-sized enterprises, is testament to this.

Indeed, the opportunities in infrastructure development projects such as power generation, transport and telecommunications, are considerable. They can consolidate economic growth by improving the operating environment, if, of course, the right policy settings are in place.

Development Assistance

So how does Australian assistance play into this agenda?

In other forums I've talked about the importance of reframing our bilateral relationship, which for too long was perceived solely through a prism of foreign aid – as something of a 'problem' for Australia to 'solve', essentially through a donor-recipient relationship.

Of course, development cooperation through institutional capacity building remains a critical part of our work, reflecting Australia's interests and priorities.

But long gone are the days of direct budgetary assistance, which often served only to entrench structural problems rather than solve them.

Our development cooperation today is more targeted, more precise and more reflective of a genuine partnership.

It is delivered in partnership with the Papua New Guinea government, and has at its core the aim of improving the environment for investment and enabling sustainable economic growth and better social outcomes.

Development cooperation is an enabler to our broader relationship, not an end in itself. This is directly in Australia's – as well as Papua New Guinea's – interests.

We seek to add value with our technical expertise and policy experience; to address systemic issues including corruption, duplication and centralisation; and to improve accountability structures.

We want to focus on adding value, not substituting for provision of services which should be delivered by the nation as its own sovereign responsibility to its citizens.

In the coming decades, as Papua New Guinea's population continues to grow and demand more services from government, infrastructure investments will certainly pay dividends.

In particular, the increasing health costs of a growing population and the relative decline in the ability of the informal sector to support communities will impose a huge burden on governments in the long term.

For example, in some parts of Papua New Guinea the rates of drug-resistant tuberculosis are among the highest in the world.

We understand that health security is critical for Papua New Guinea's economic growth, and we are working with authorities to improve data collection, support responses to outbreaks and supply medicines to clinics, with a focus on remote areas and women and children.

It is also important for our own security – as well as the region more broadly - given the proximity of our borders in the Torres Strait and the close links between communities on the Treaty islands of both countries.

Particularly Addressing Key Challenges

As we know, Papua New Guinea is straining under budgetary pressures including revenue shortfalls, low commodity prices, ballooning service delivery costs and public sector wages.

We have already seen the Papua New Guinea government tighten its belt, most recently through the 2017 Supplementary Budget, as it moves to address increasing demands on its limited resources.

Recognising the importance of enabling sustainable economic growth, we are working with the Papua New Guinea government to improve economic governance and the regulatory environment; and promote drivers of growth, especially in the sectors such as agriculture and tourism.

And where appropriate, helping to mobilise international finance to support key economic and social priorities for example in transport infrastructure.

Papua New Guinea requires increasingly sophisticated structures and mechanisms to turn policy into practice, and we are partnering to improve these implementation processes.

A key focus of our work is institutional capacity building, particularly through enhanced transparency and accountability, a focus on public servant leadership – including through the Pacific Leadership and Governance Precinct - and safeguards against mismanagement.

As well as issues of governance and regulation, Papua New Guinea faces well-known social challenges of gender inequality, tribal violence, health insecurity and remoteness.

The economic and social impacts of these issues are enormous.

For example, in areas where tribal fighting takes place, normal economic and social activity can come to a standstill and people can effectively become displaced in their own communities.

The pressure of population growth can lead to fierce competition between rival clans for access to land, resources and livestock, with devastating consequences.

Furthermore, the prevalence of modern weapons in place of traditional ones has raised the stakes and has the potential to lead to larger numbers of casualties.

Papua New Guinea also faces the challenge of a remote population without an inherent sense of national identity.

Many Papua New Guineans consider themselves members of their tribes or clans first, and citizens of their country second.

Wantok bonds are so strong, in fact, that they serve as a social safety net for the majority people, with many Papua New Guineans historically having little interaction with, or even expectations of, the organs of the state or the formal economy.

This has led to a resilient population, but the strain from the growing population is showing and communities are becoming less able to support themselves in traditional ways.

A major challenge in coming years will be to reverse this trend.

Elections

Papua New Guinea has the advantage of relative political stability compared to other countries at similar stage of development.

The recent elections, while clearly beset by a number of significant challenges, including the well-documented concerns around the electoral roll, did lead to the formation of a government with a strong majority.

However, the disappointing fact that the elections returned no women to parliament is telling of the scale of gender inequality that Papua New Guinea faces. In recognition of the need for ongoing improvement, Australia will look to continue its partnership with Papua New Guinea in electoral support.

And Gender Issues

We were encouraged by Prime Minister O'Neill's recent statements committing to develop concrete plans to improve women's participation in politics, including by considering possible quotas in parliament and special temporary measures, to encourage much-needed attitudinal change.

The issue of gender inequality, and especially violence against women and girls, demands ongoing, assiduous attention.

For our part, we focus on improving access to education, health services, employment, and business opportunities for women, not just because it is right, but because it represents an investment in the productive and secure future of the nation.

Just as in Australia, we recognise that denying opportunities to women in Papua New Guinea is a great inhibitor of economic development, innovation and investment.

To Conclude

Papua New Guinea faces many challenges, some of which I have touched on today.

Papua New Guinea is also a place of dynamism, enterprise and culture, whose next generation of entrepreneurs, leaders and scholars will make an indelible mark on our region.

Its proximity and connectedness to Australia, over many generations, ensures it will remain among our most important international relationships.

Its geostrategic location will likely underpin an increasing role for Papua New Guinea in our region.

Others see this. I encourage all organisations with a connection to Papua New Guinea to consider how they plan and make the most of their engagement.

Universities, churches, civil society groups, corporations and even state governments should be thinking strategically and investing with the long term in mind.

After all, we know that at the heart of all strong relationships are shared interests, and we must never stop paying attention to these.

Thank you.