

# PAPUA NEW GUINEA IN THE WORLD ECONOMY

PRESENTATION TO THE 2022 PAPUA NEW GUINEA  
INVESTMENT CONFERENCE

BRISBANE CONVENTION & EXHIBITION CENTRE

15<sup>TH</sup> SEPTEMBER 2022

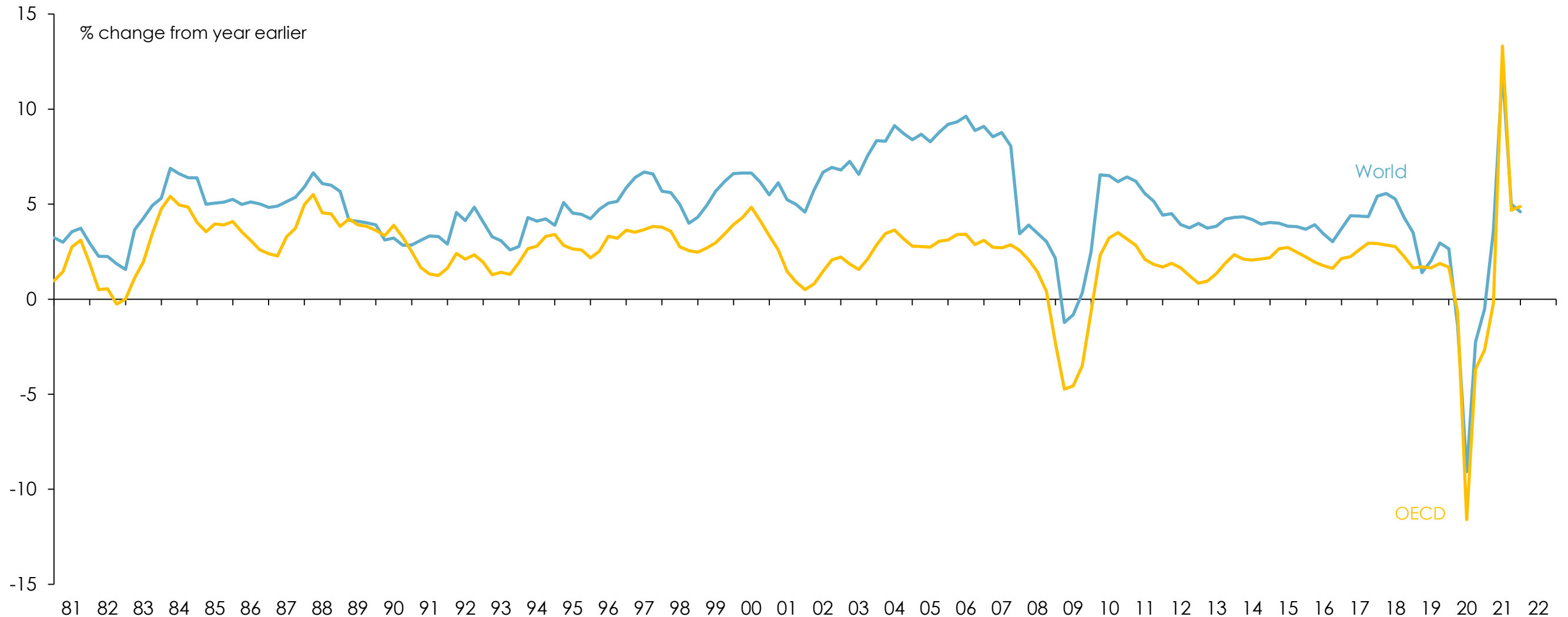
**SAUL ESLAKE**

CORINNA ECONOMIC ADVISORY  
INDEPENDENT ECONOMICS

# The world economy

# Covid-19 threw the world economy into its deepest recession since the 1930s, from which it has recovered quite quickly over the past 18 months

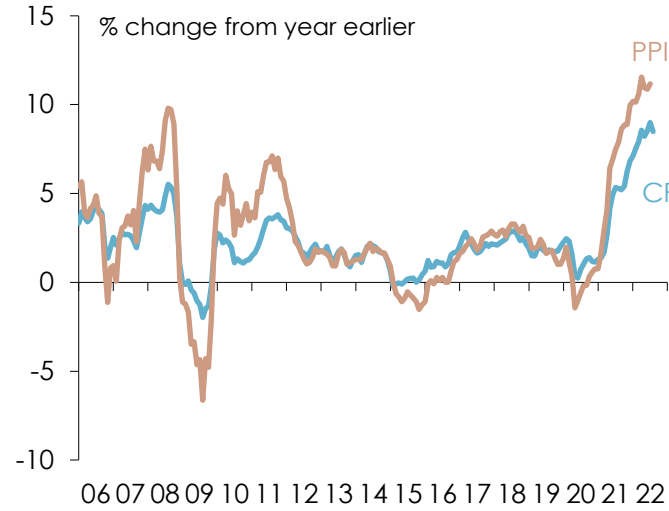
## World and OECD area real GDP growth



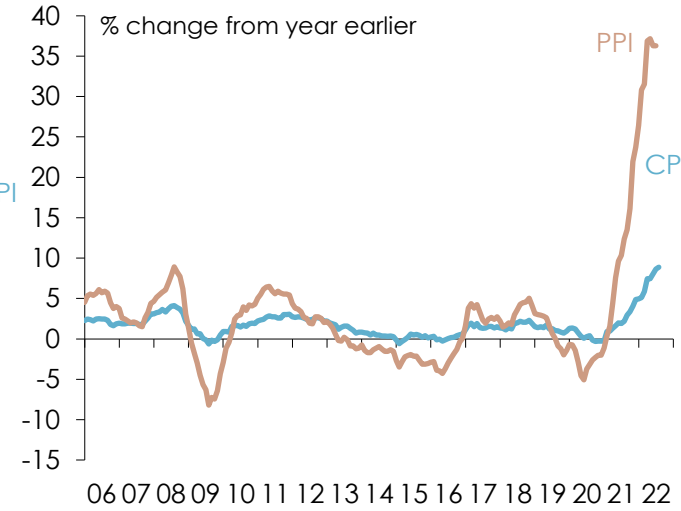
Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019; excludes constituents of the former USSR before 1993, the former Czechoslovakia before 1995, and the former Yugoslavia before 1998. Sources: national statistical agencies and central banks; Eurostat; [OECD](#); IMF; Corinna.

# Almost all developed economies are now confronting the highest inflation they've experienced in decades

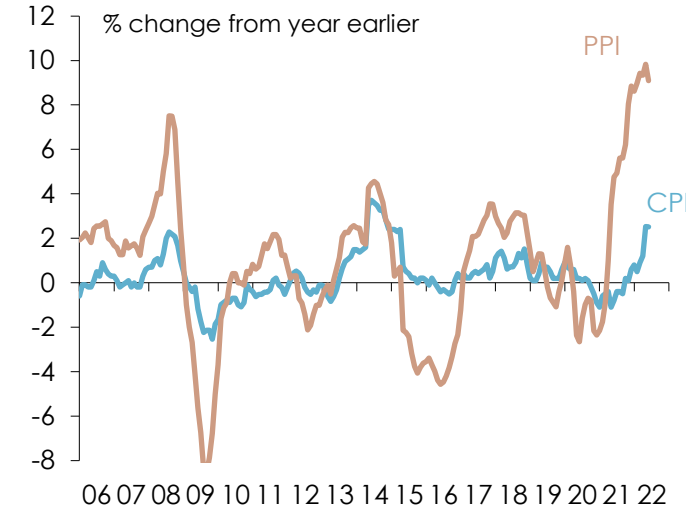
## United States



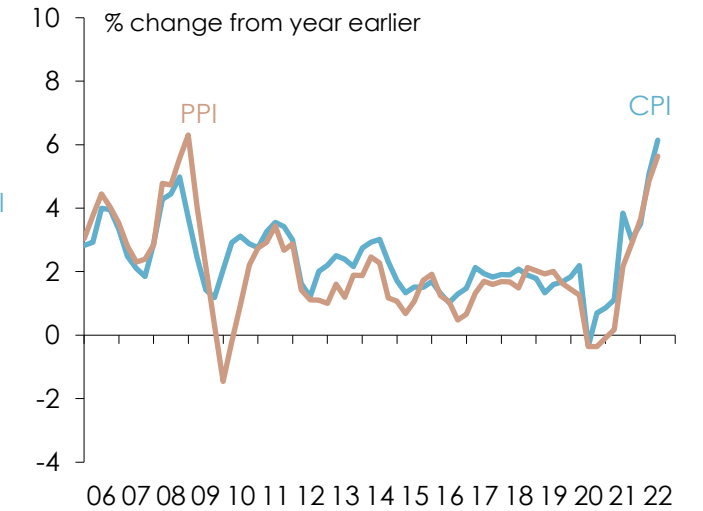
## Euro area



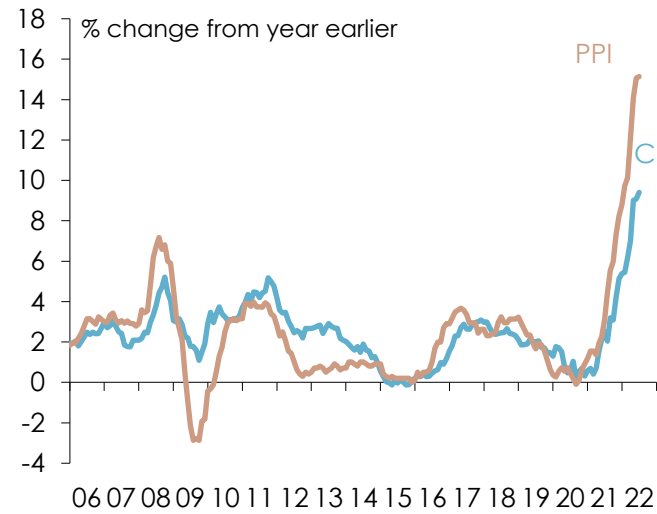
## Japan



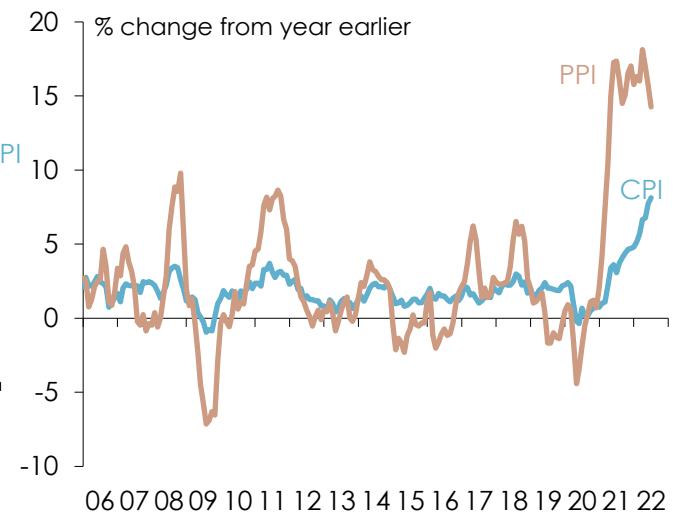
## Australia



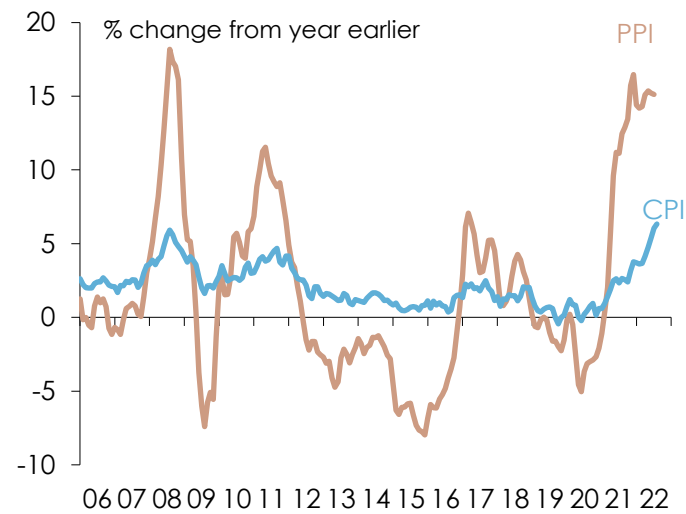
## United Kingdom



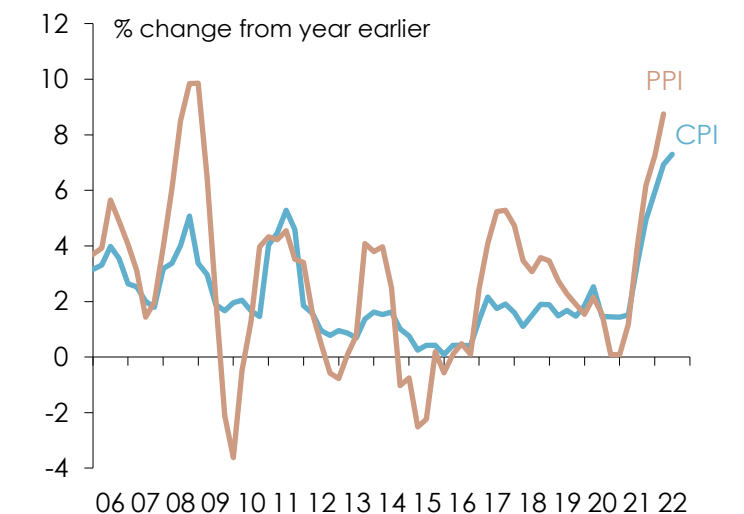
## Canada



## Korea



## New Zealand

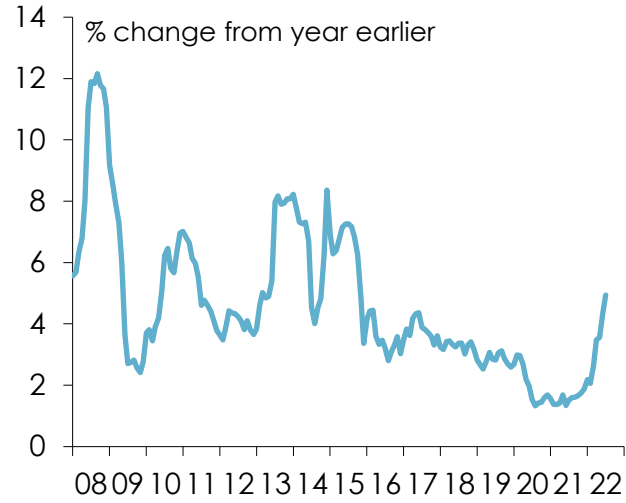


Note: 'PPIs' are producer price indexes, measuring prices of items produced by (in most cases) manufacturing firms. CPI is the consumer price index.

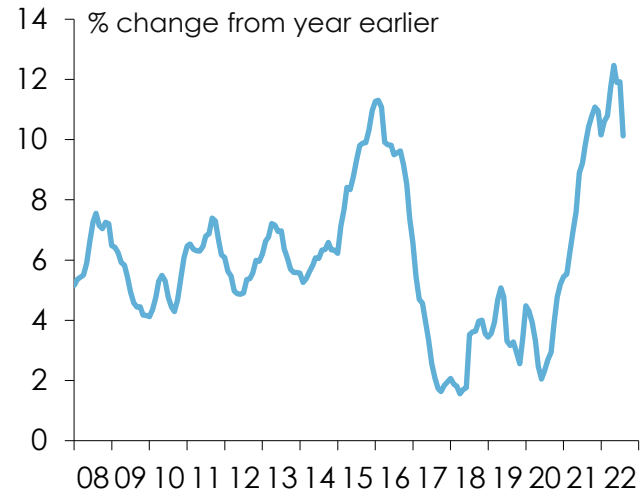
Sources: [US Bureau of Labor Statistics](#); [UK Office for National Statistics](#); [Eurostat](#); [Statistics Canada](#); [Statistics Bureau of Japan](#); [Statistics Korea](#); [Australian Bureau of Statistics](#); [Statistics New Zealand](#).

# Most 'emerging and developing' economies – including PNG – are also experiencing higher inflation

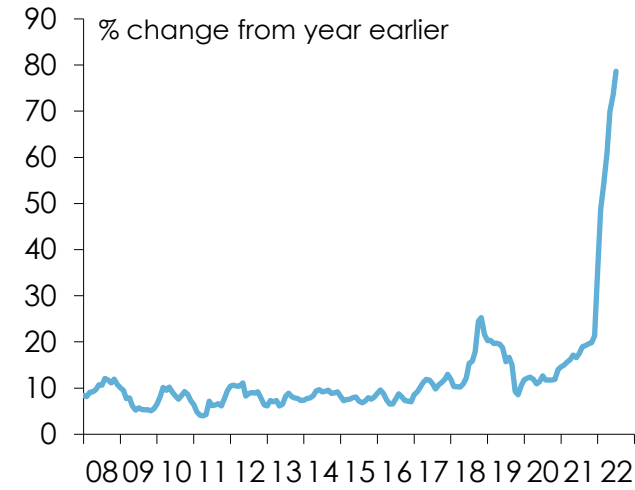
## Indonesia



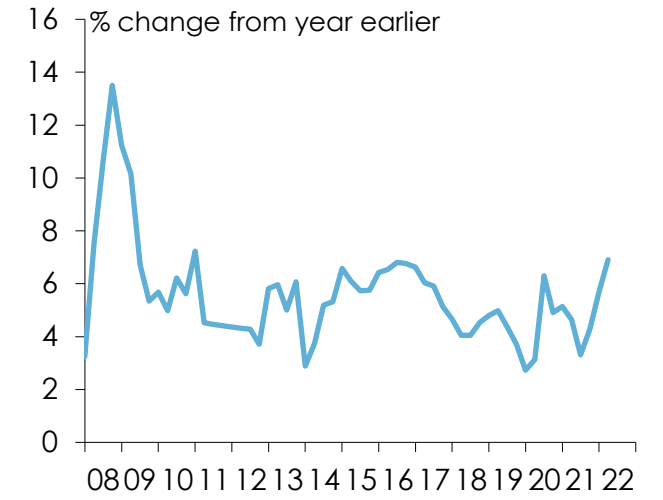
## Brazil



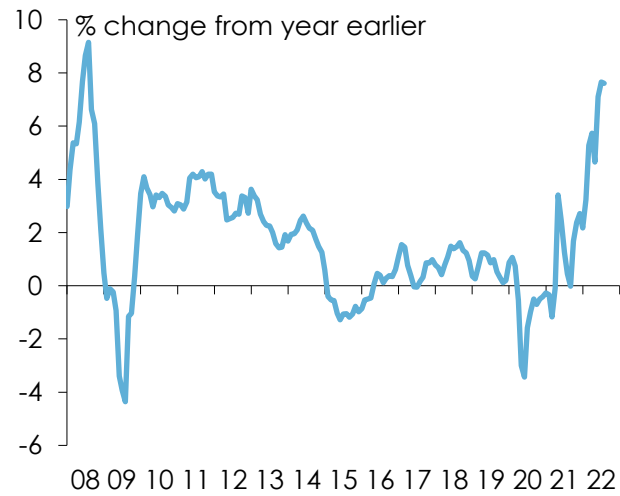
## Turkey



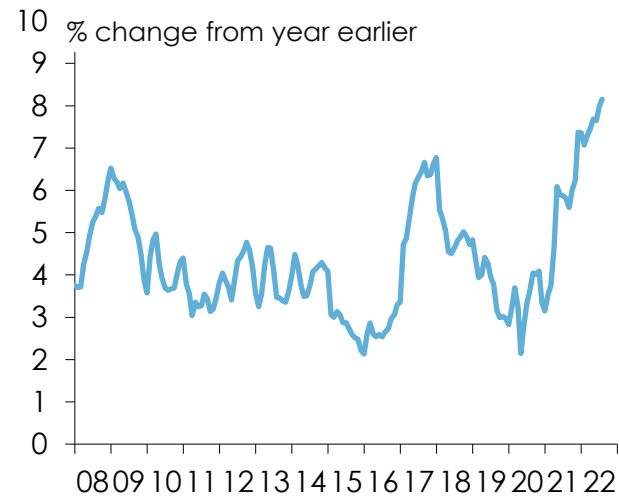
## Papua New Guinea



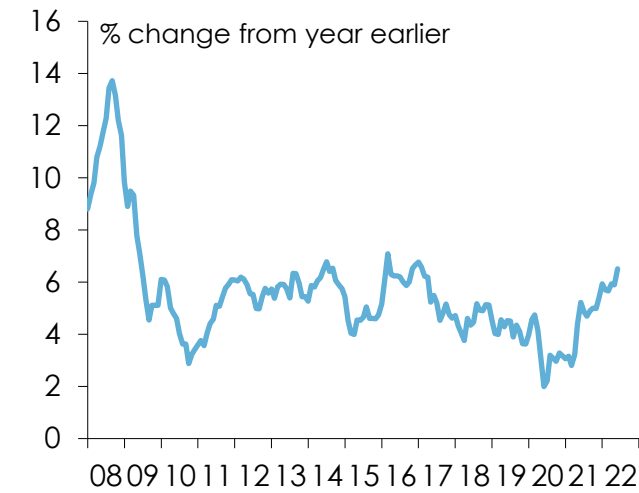
## Thailand



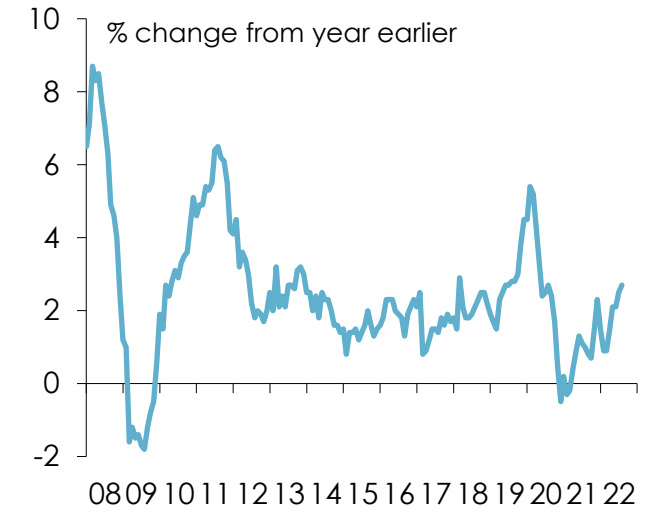
## Mexico



## South Africa



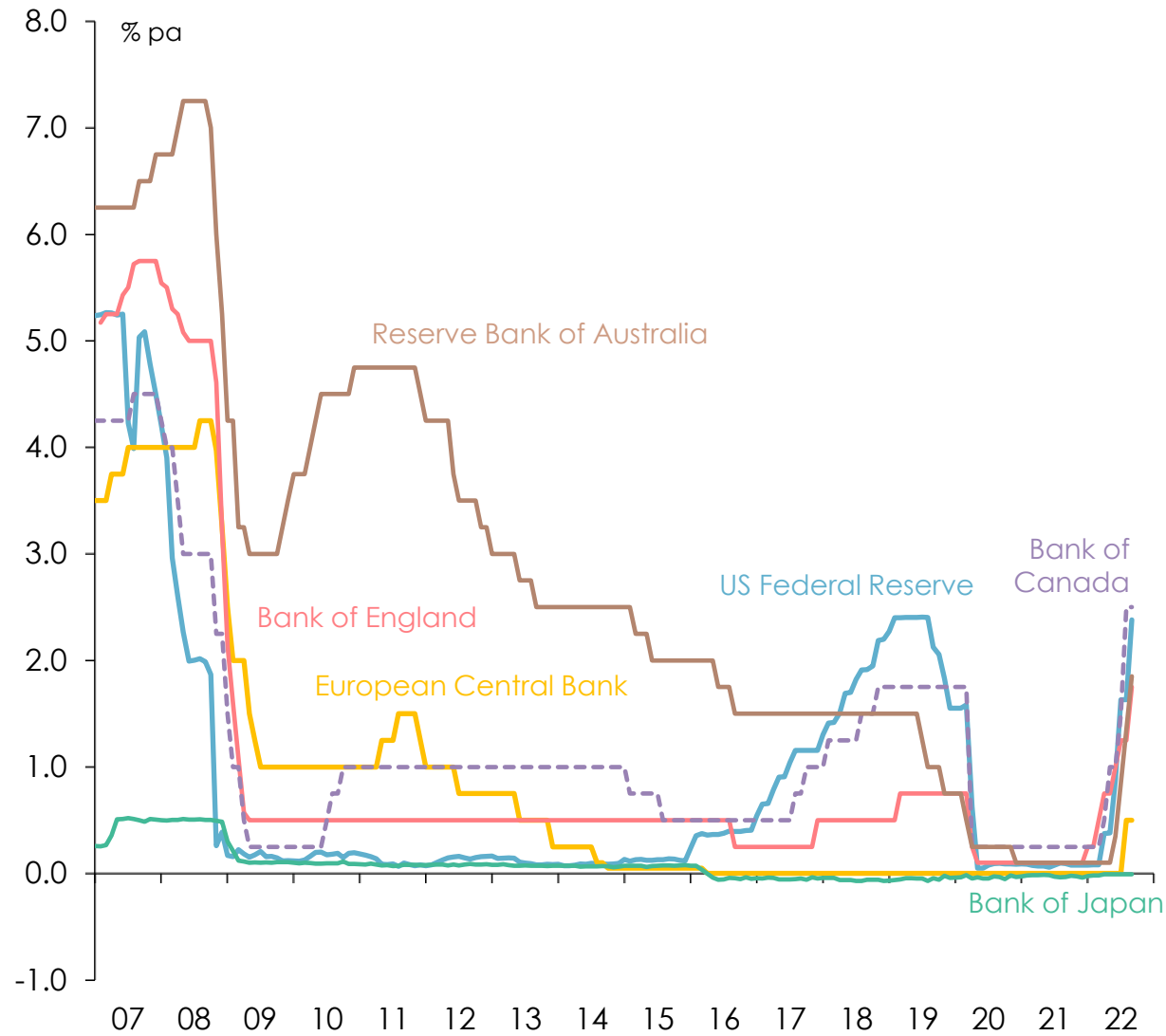
## China



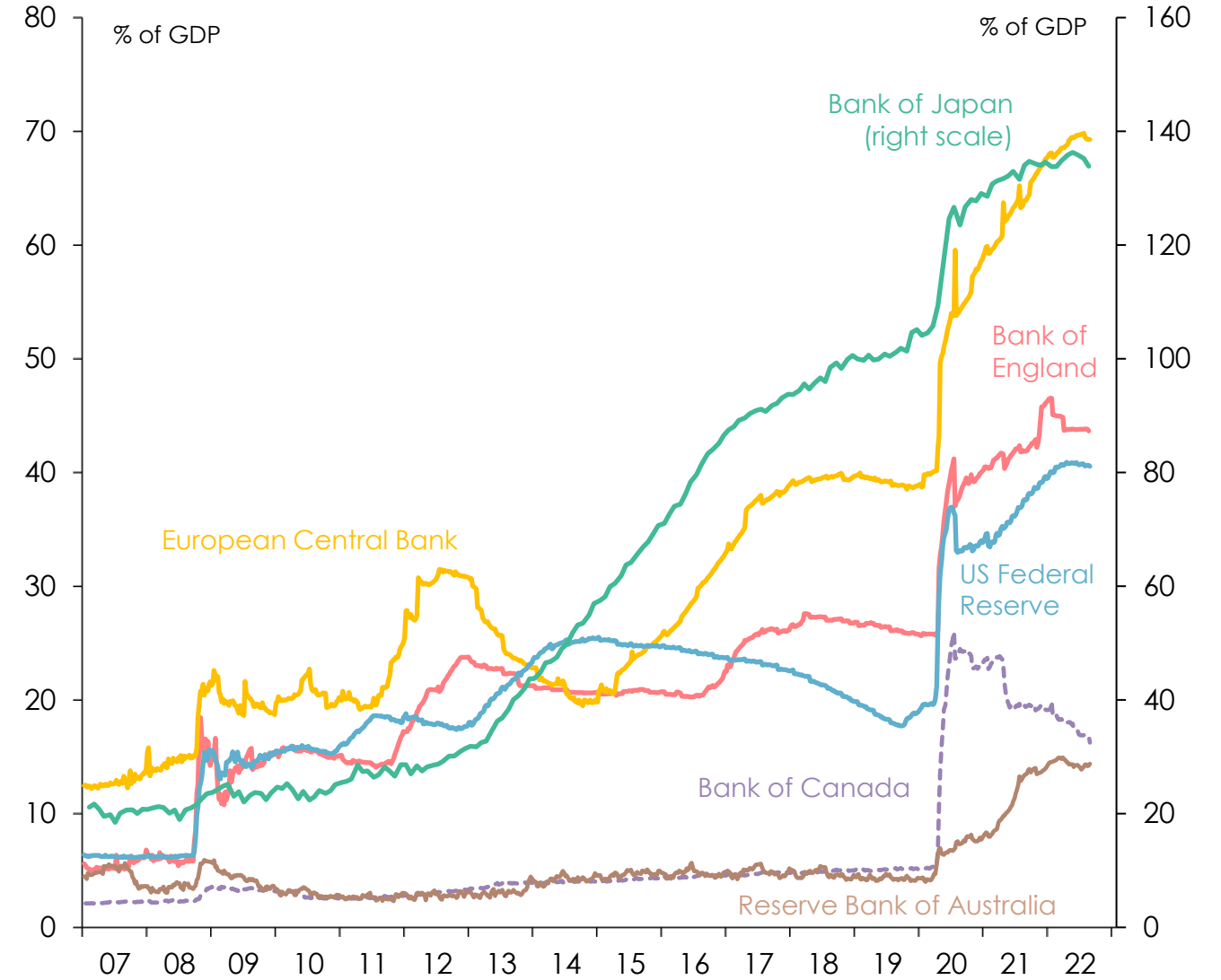
Sources: [Statistics Indonesia](#); [Thailand Bureau of Trade and Economic Indices](#); [Instituto Brasileiro de Geografia e Estatística](#); [Instituto Nacional de Estadística y Geografía](#); [Turkstat](#); [Statistics South Africa](#); [Bank of Papua New Guinea](#); [China National Bureau of Statistics](#)

# Every major 'advanced' economy central bank, apart from Japan's, is now tightening monetary policy

## Major central bank policy interest rates



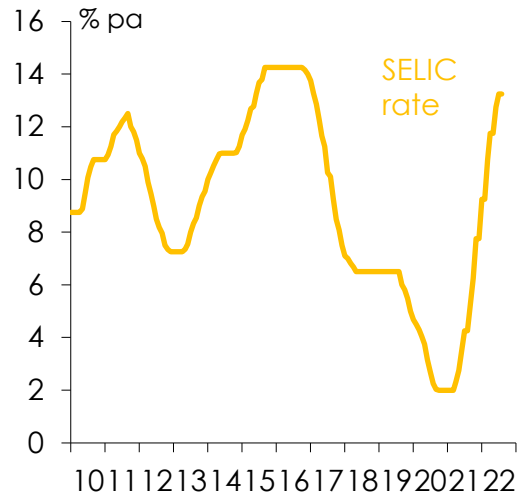
## Major central bank balance sheets



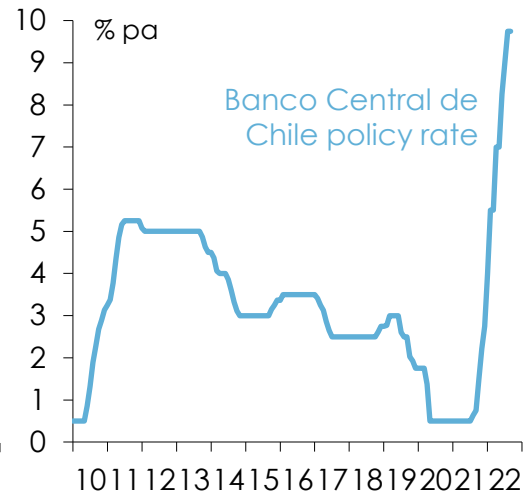
Sources: [US Federal Reserve](#); [European Central Bank](#); [Bank of Japan](#); [Bank of England](#); [Bank of Canada](#); [Reserve Bank of Australia](#); national statistical agencies.

# Many 'emerging market' central banks have also been raising interest rates – in some cases quite aggressively – and BPNG started last month

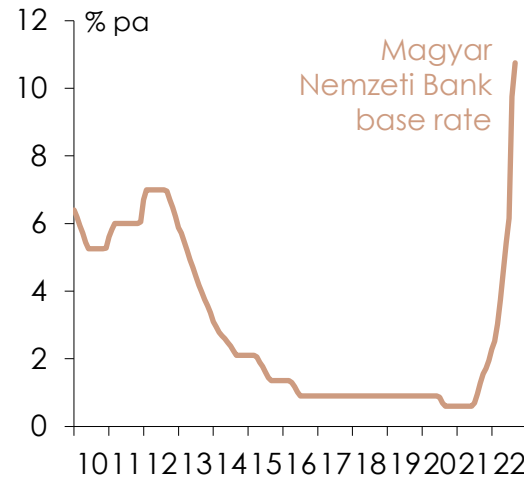
**Brazil**



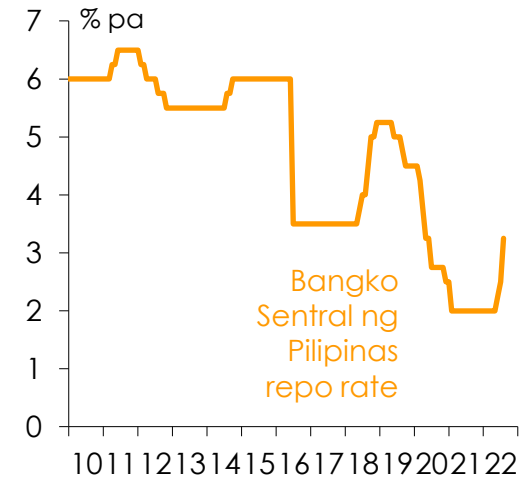
**Chile**



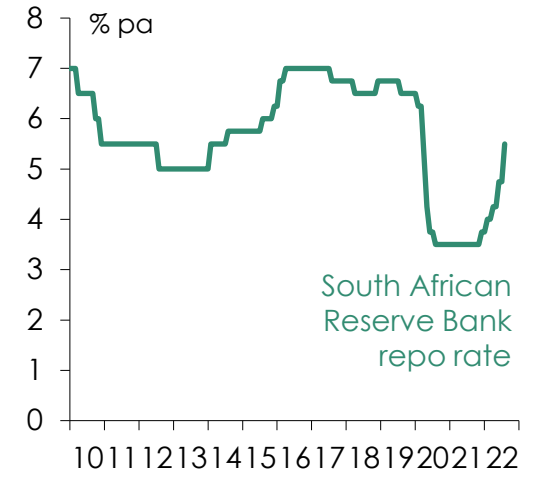
**Hungary**



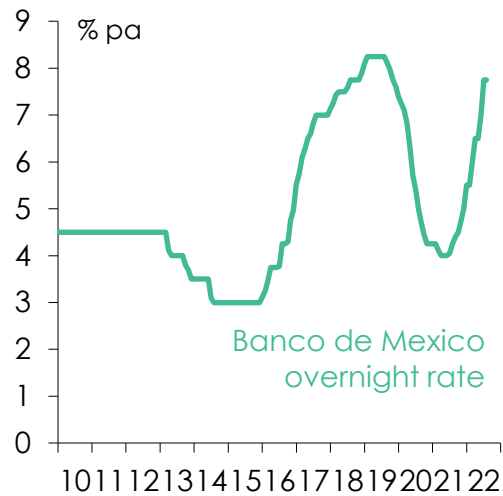
**Philippines**



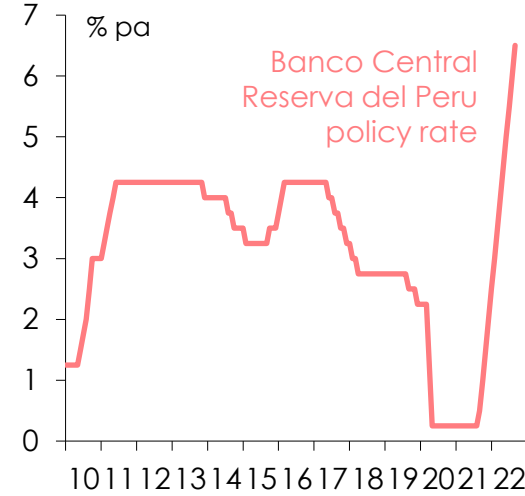
**South Africa**



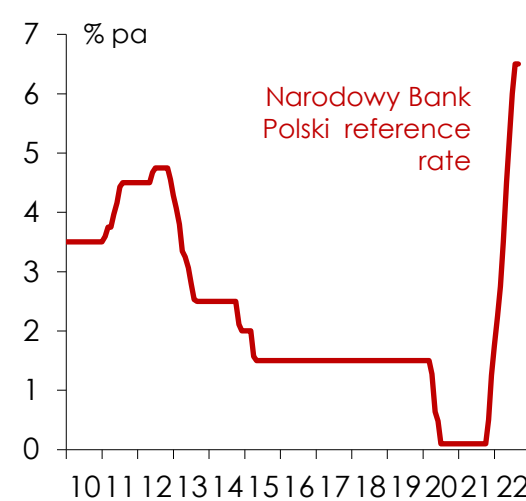
**Mexico**



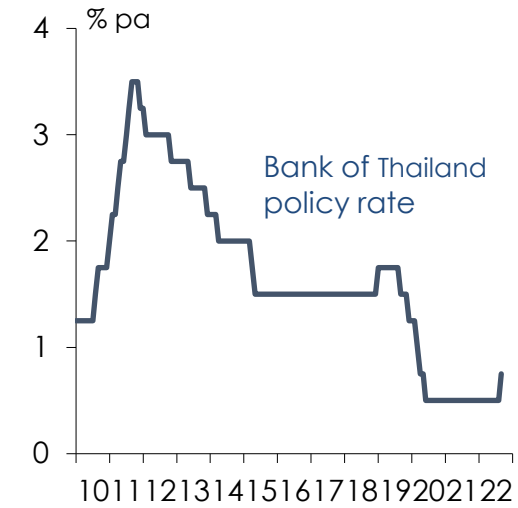
**Peru**



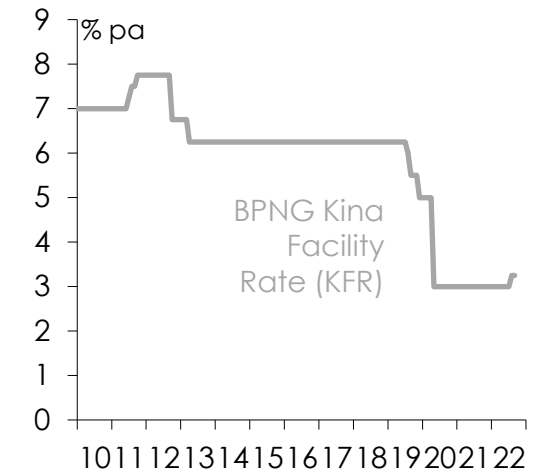
**Poland**



**Thailand**



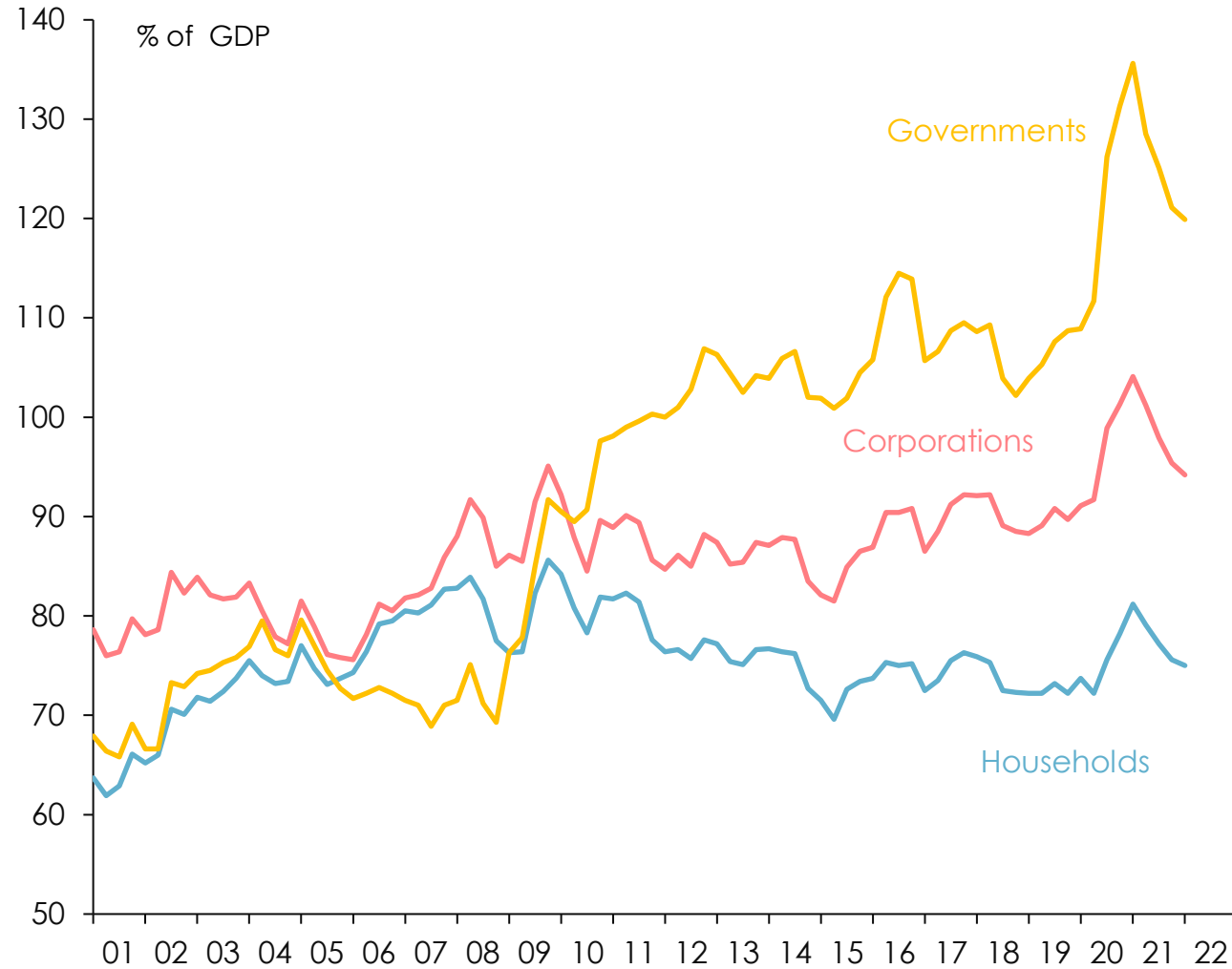
**Papua New Guinea**



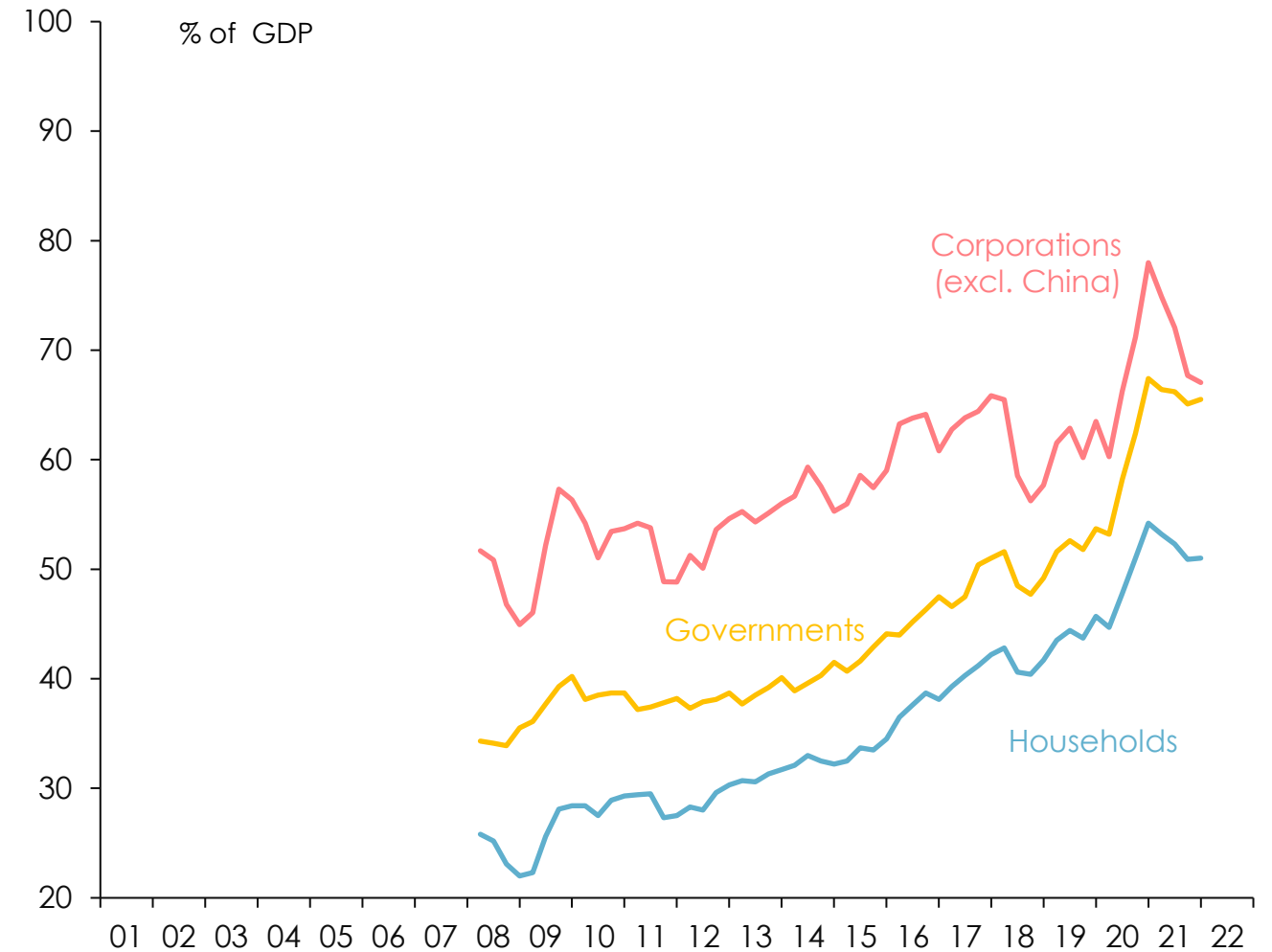
Sources: [Banco Central do Brasil](#); [Banco de México](#); [Banco Central de Chile](#); [Banco Central de Reserva del Perú](#); [Magyar Nemzeti Bank](#); [Narodowy Bank Polski](#); [Bangko Sentral ng Pilipinas](#); [Bank of Thailand](#); [South African Reserve Bank](#); [Bank of Papua New Guinea](#).

# There's a lot more debt outstanding now than during the last time interest rates were going up a lot

## Debt as a percentage of GDP – 'advanced' economies



## Debt as a percentage of GDP – 'emerging & developing' economies

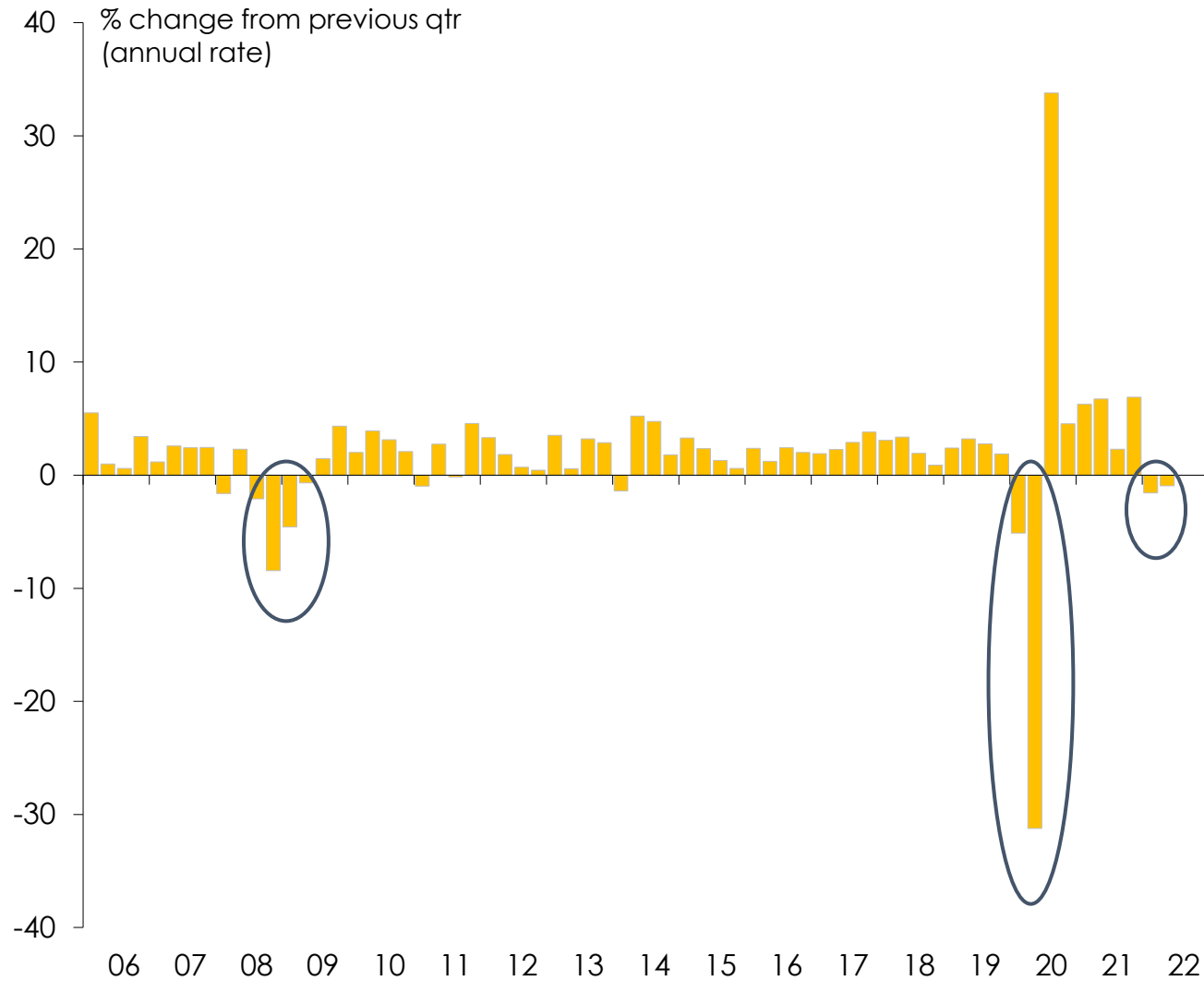


Source: Bank for International Settlements, [Credit Statistics](#).

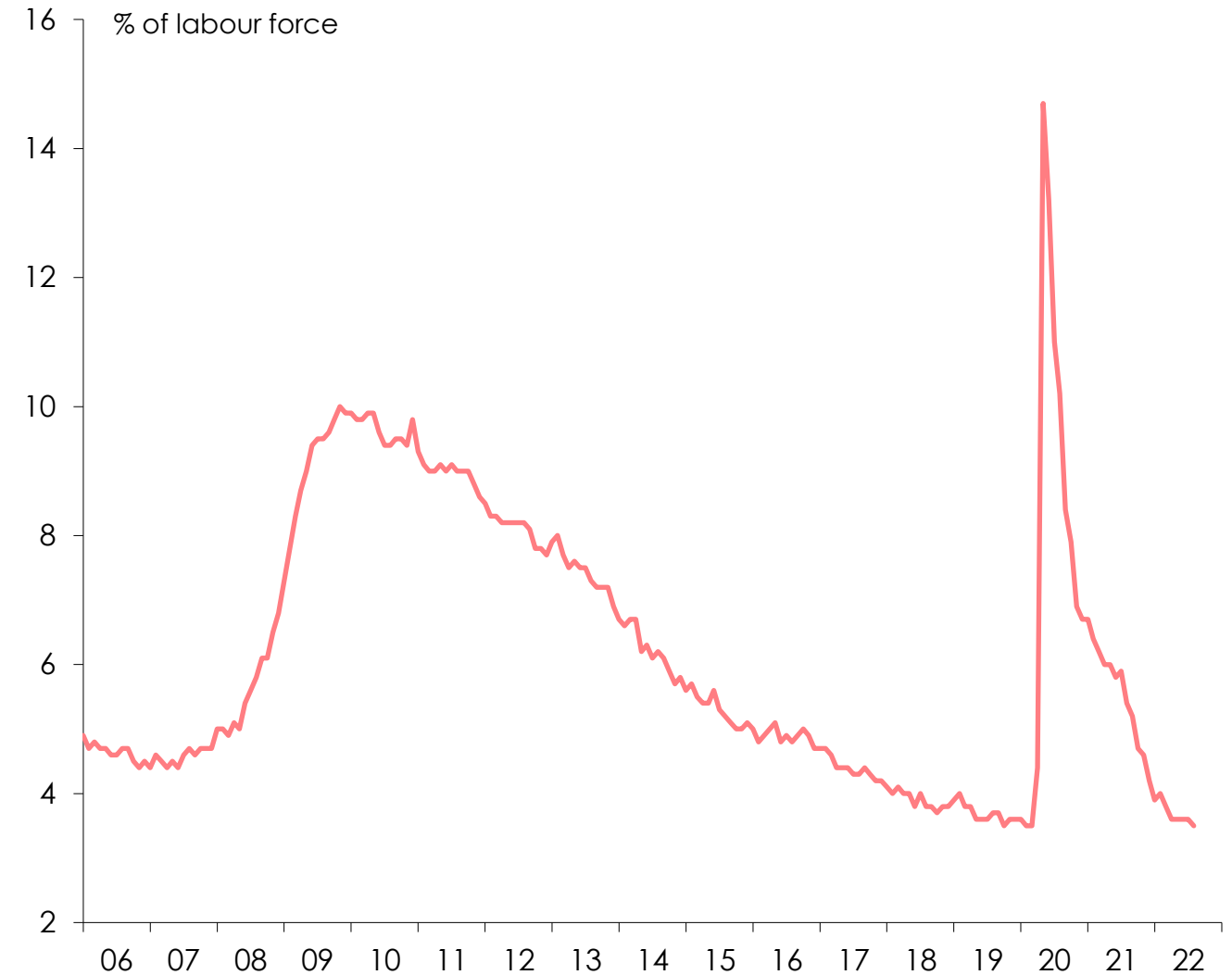


# The US economy isn't in recession now, despite having had two consecutive quarters of 'negative growth'

## Quarterly changes in US real GDP



## US unemployment rate

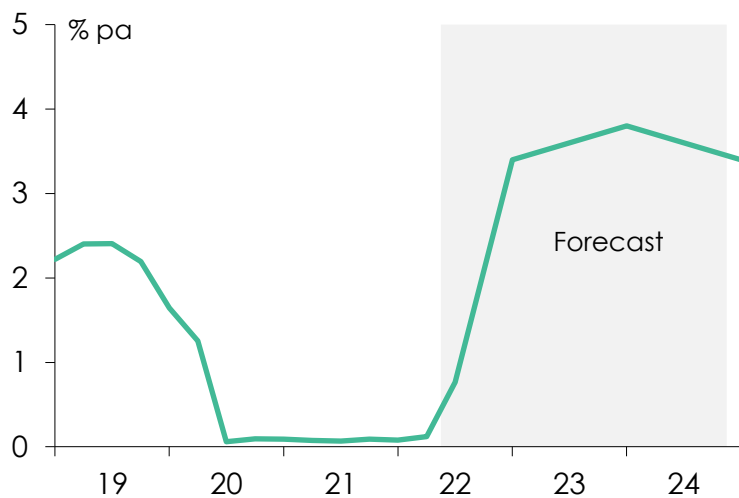


Sources: [US Bureau of Economic Analysis](#); [US Bureau of Labor Statistics](#).

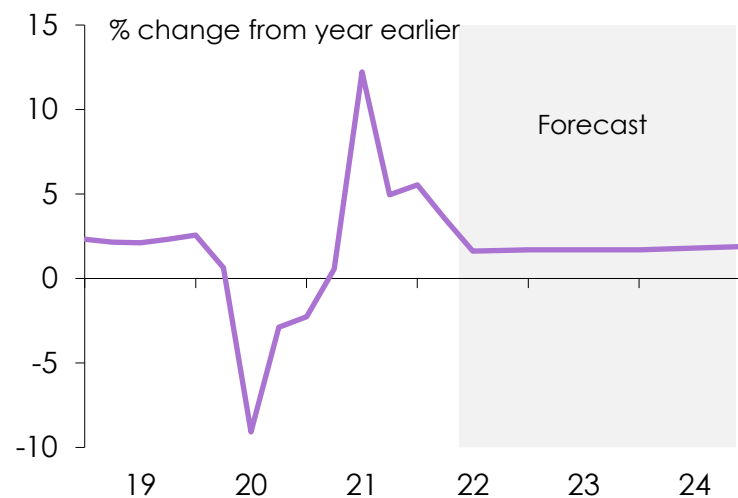
# The Fed is confident it can bring US inflation back down to 2% by 2024 without causing a recession – but financial markets aren't so sure

## US Federal Reserve forecasts for the US economy

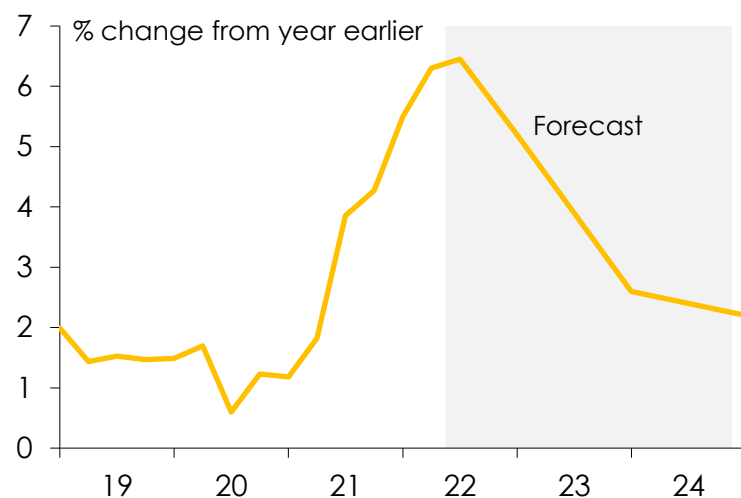
### Fed funds rate



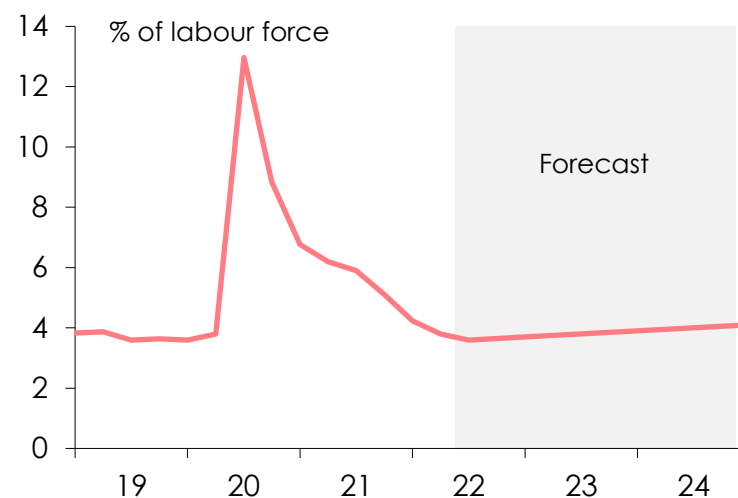
### Real GDP growth



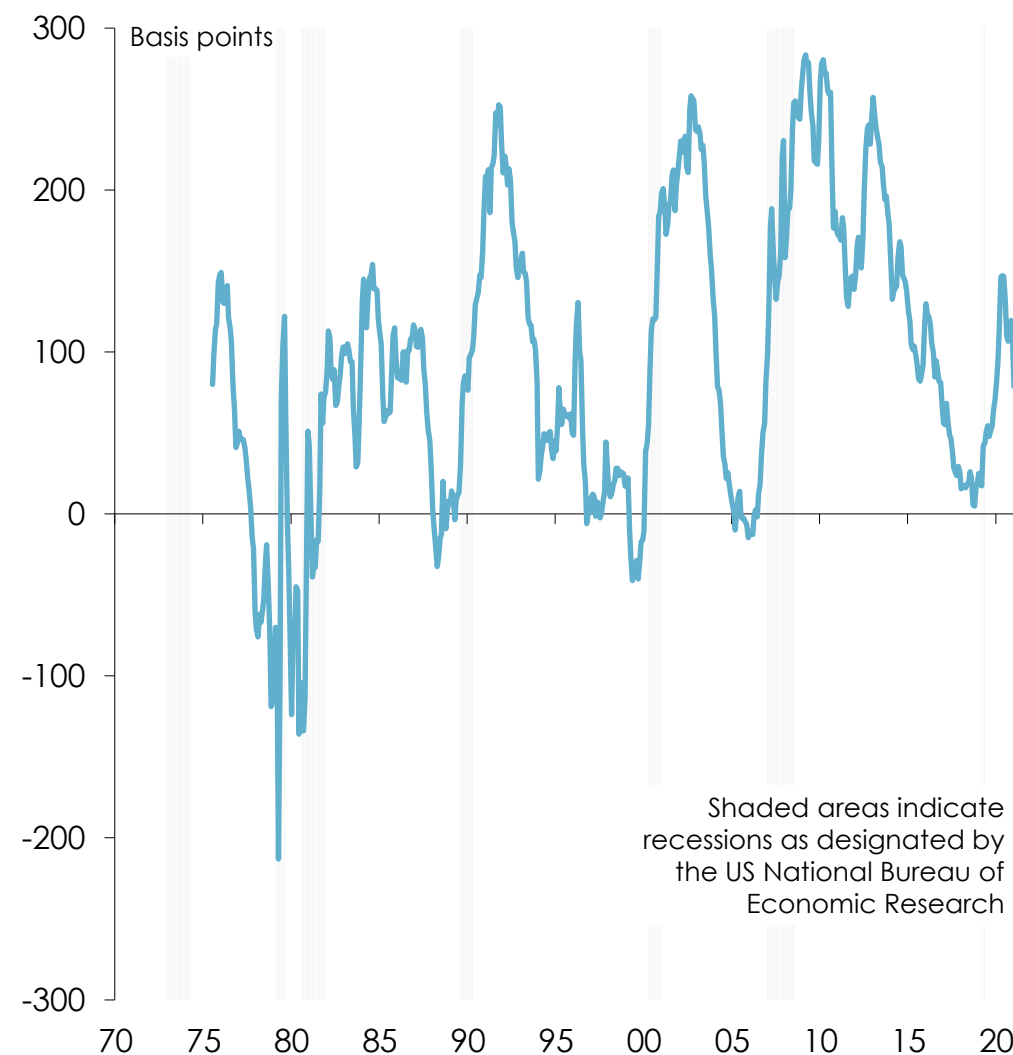
### Inflation rate



### Unemployment rate



## The 'yield curve' ('spread' between 2- and 10-year bond yields) and US recessions

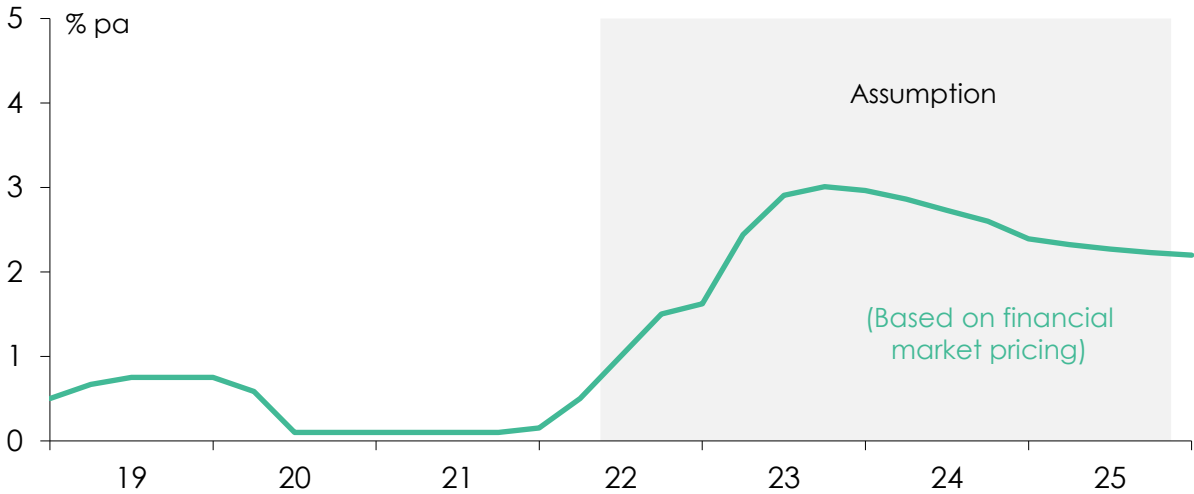


Note: 'Forecasts' are the median projections of Federal Reserve Board members and regional Federal Reserve Bank presidents. 'Inflation' is as measured by the implicit price deflator of personal consumption expenditures. Sources: [US Bureau of Economic Analysis](#); [US Bureau of Labor Statistics](#); [US Federal Reserve Board](#).

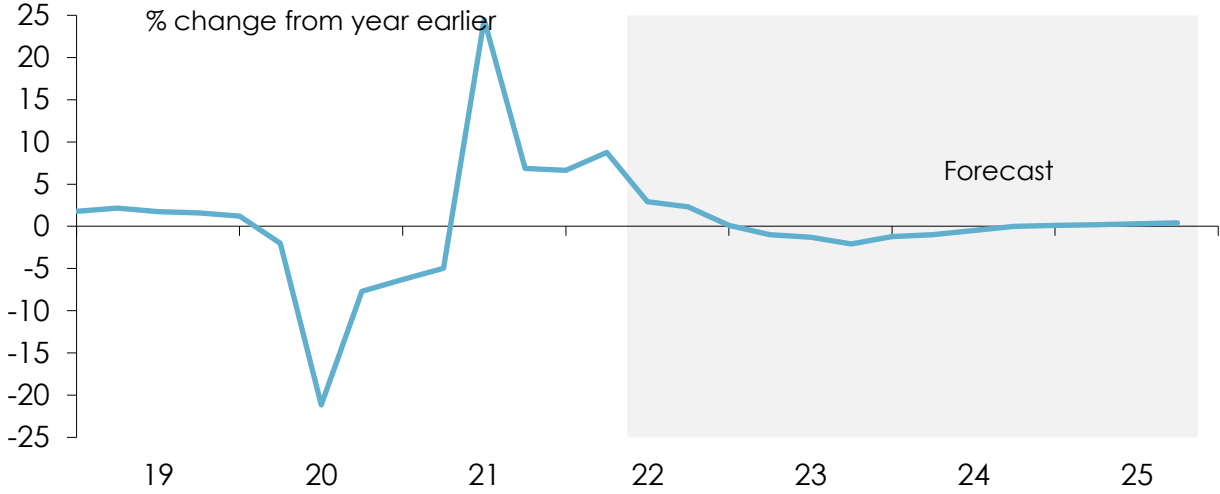
# By contrast the Bank of England acknowledges that if interest rates rise in line with market pricing, the UK economy will fall into a recession

## Bank of England forecasts for the UK economy

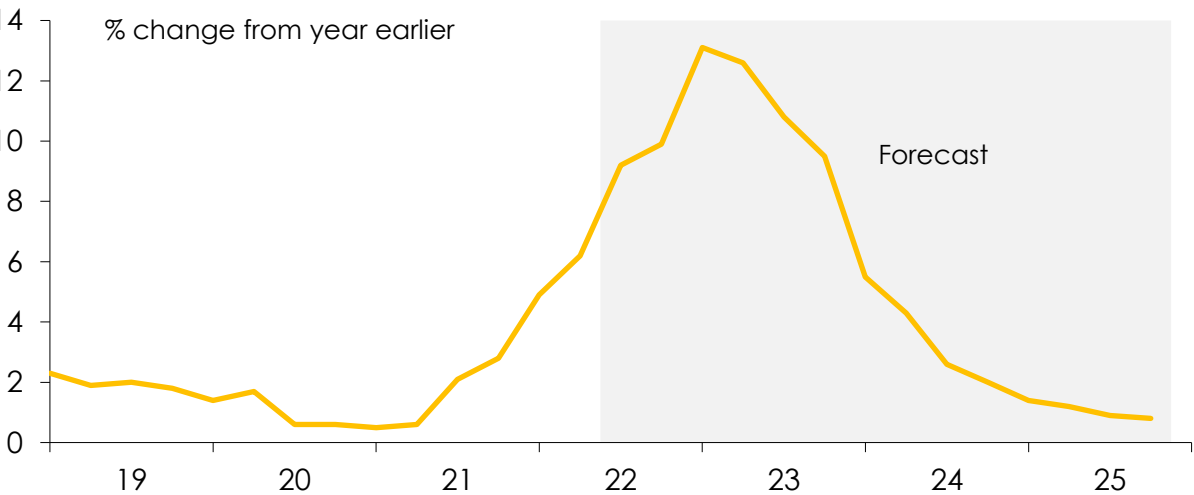
Bank rate



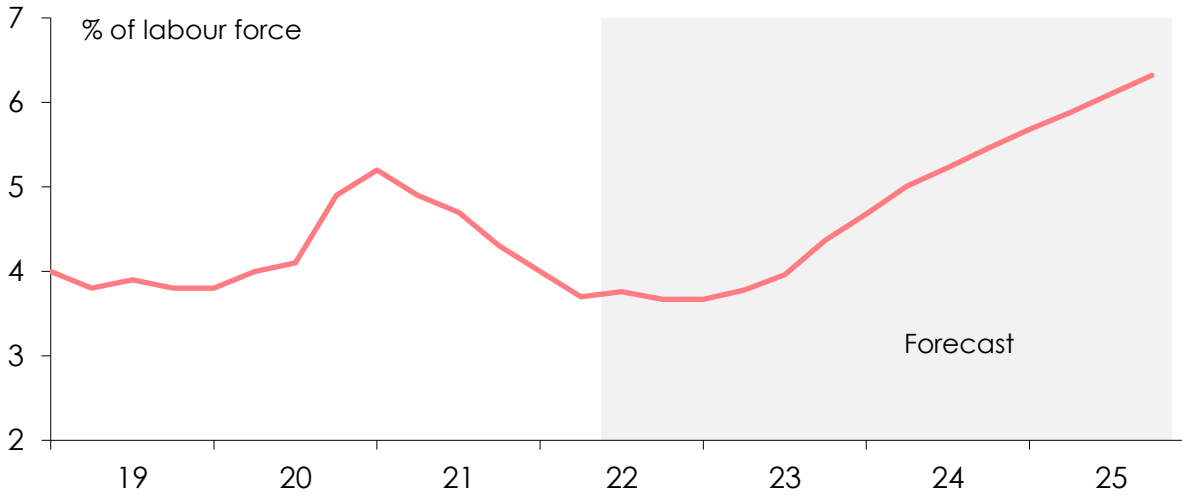
Real GDP growth



Inflation rate



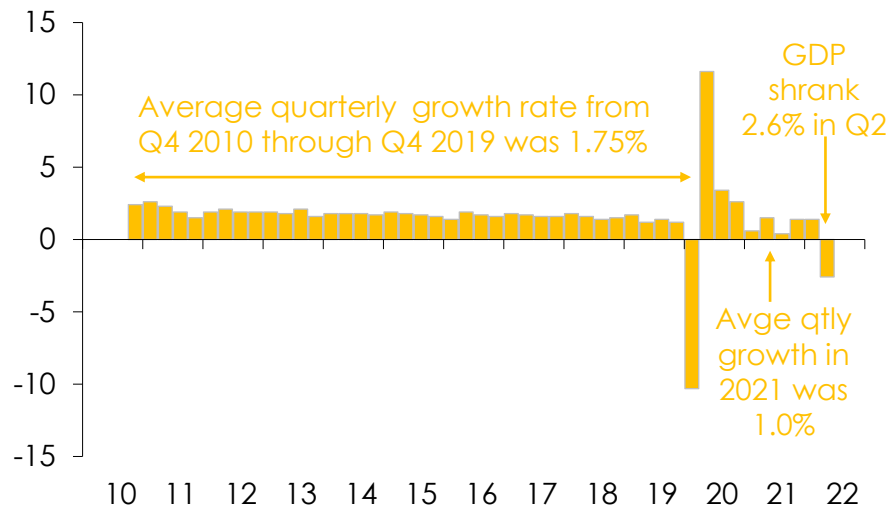
Unemployment rate



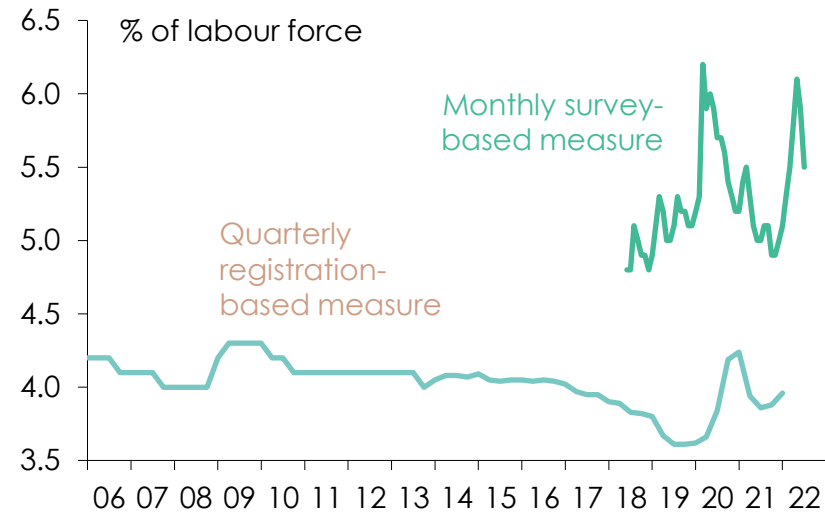
Sources: [UK Office for National Statistics](#); [Bank of England](#).

# China's economy is facing both short-term challenges ...

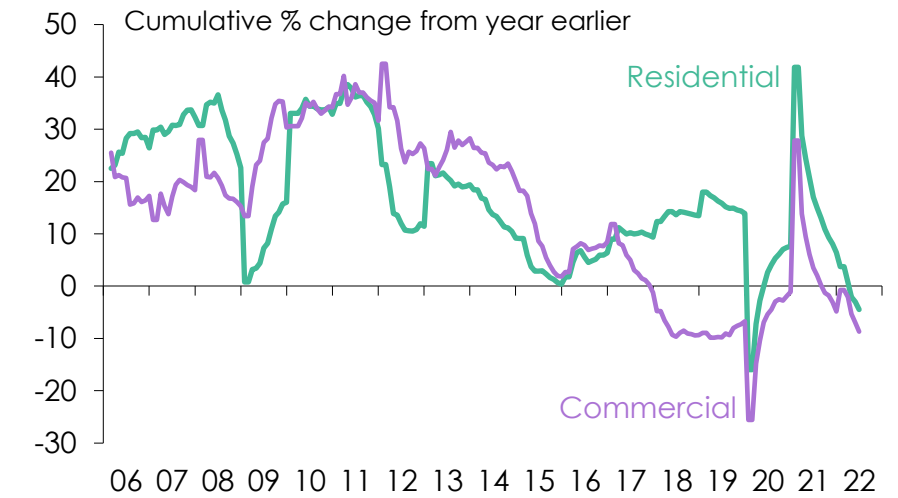
## Quarterly real GDP growth



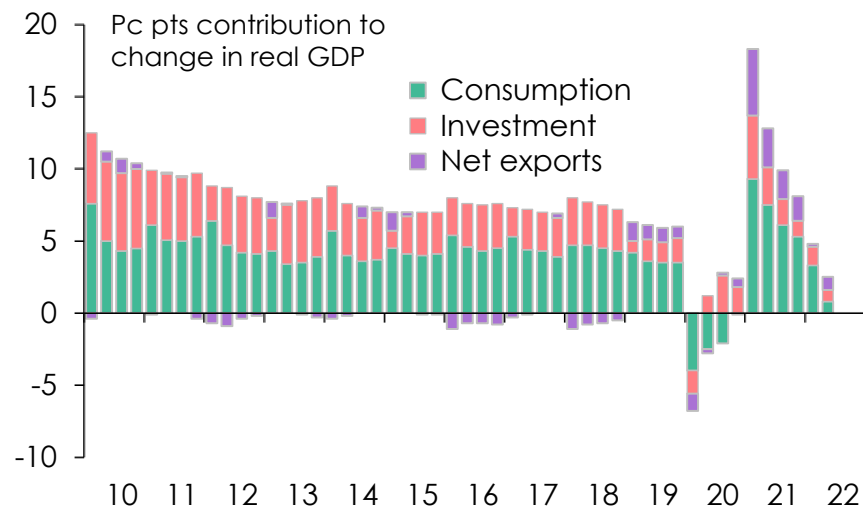
## Urban unemployment rate



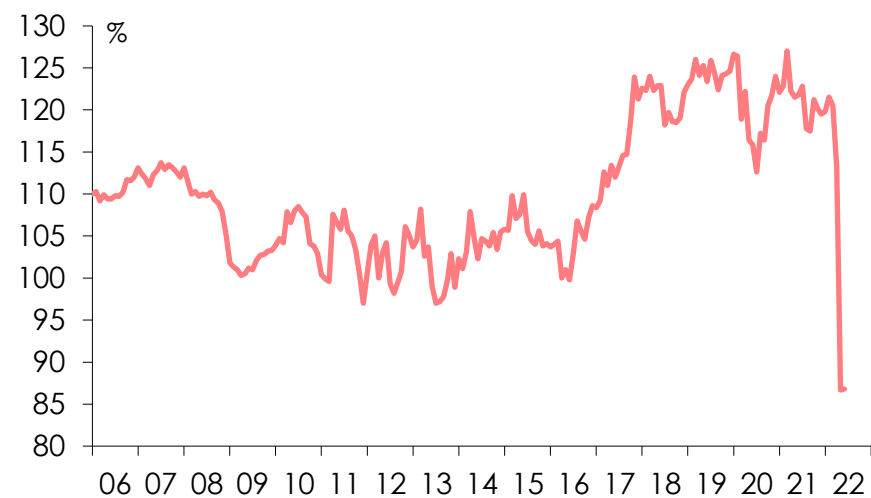
## Real estate investment



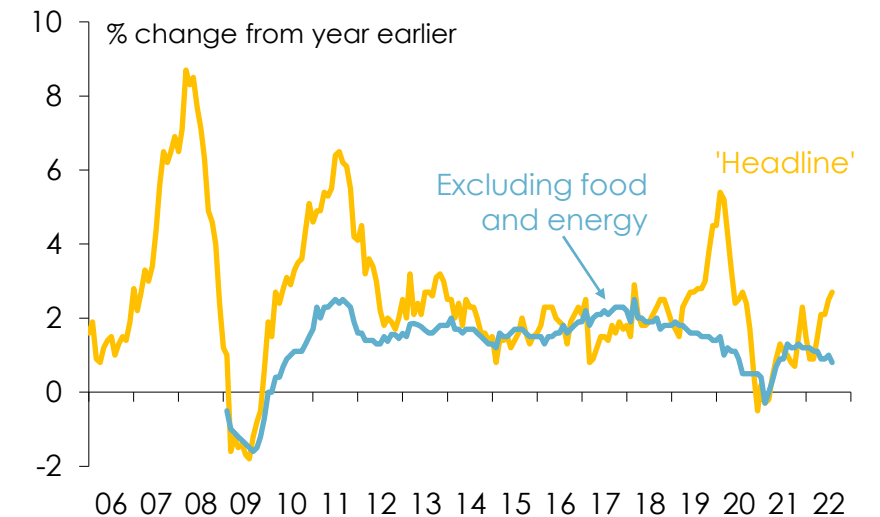
## Sources of real GDP growth



## Consumer sentiment

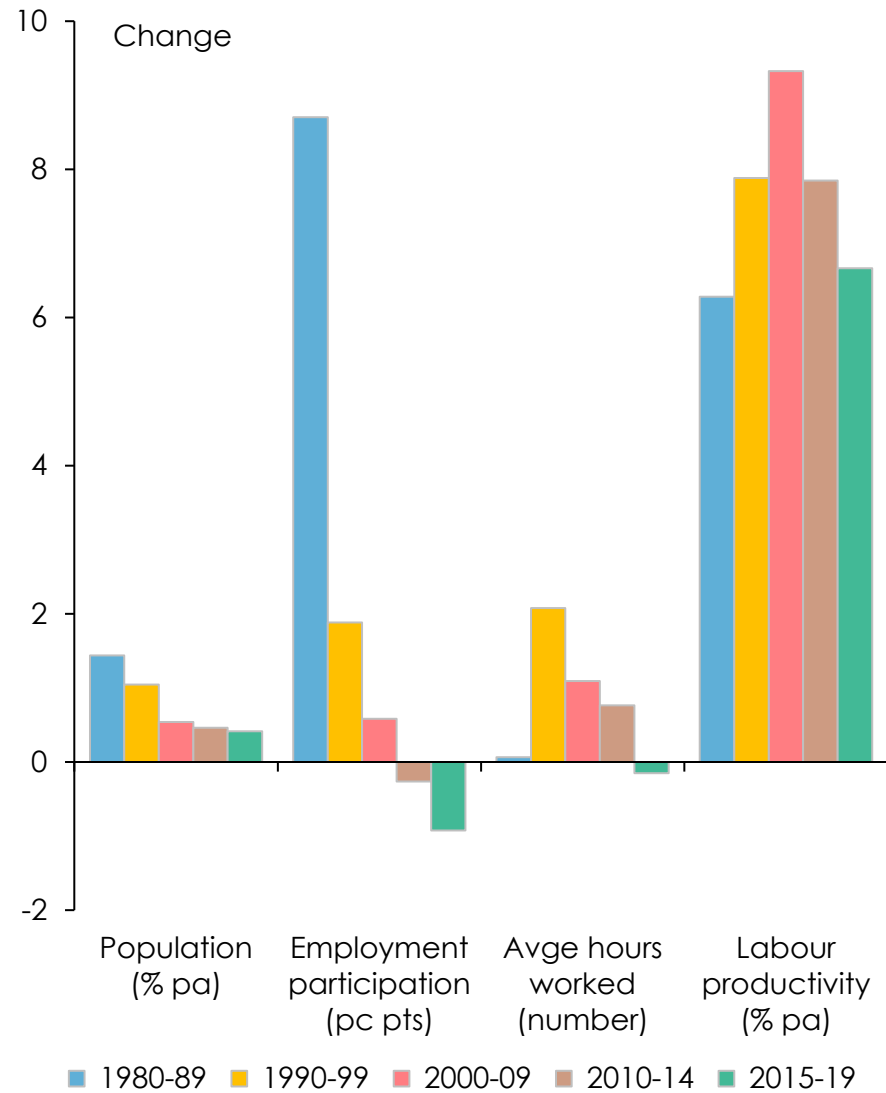


## Inflation

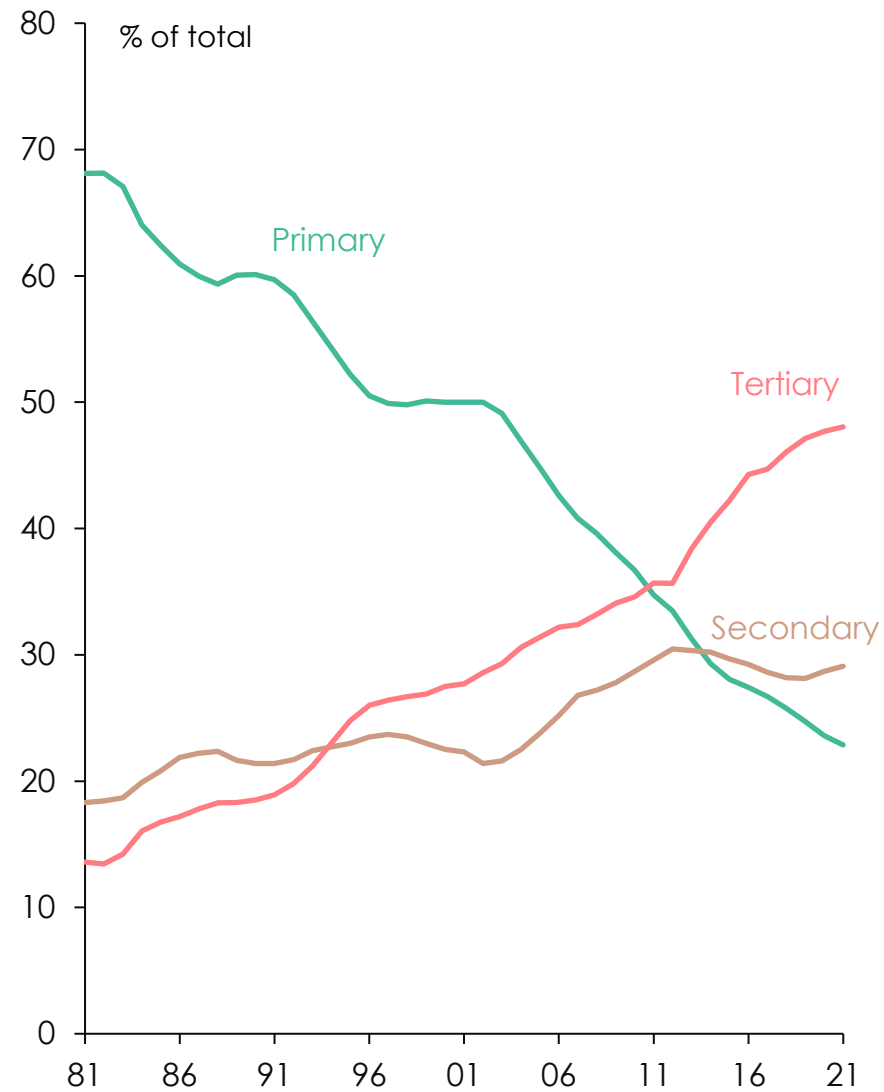


# ... and some longer-term demographic and structural ones

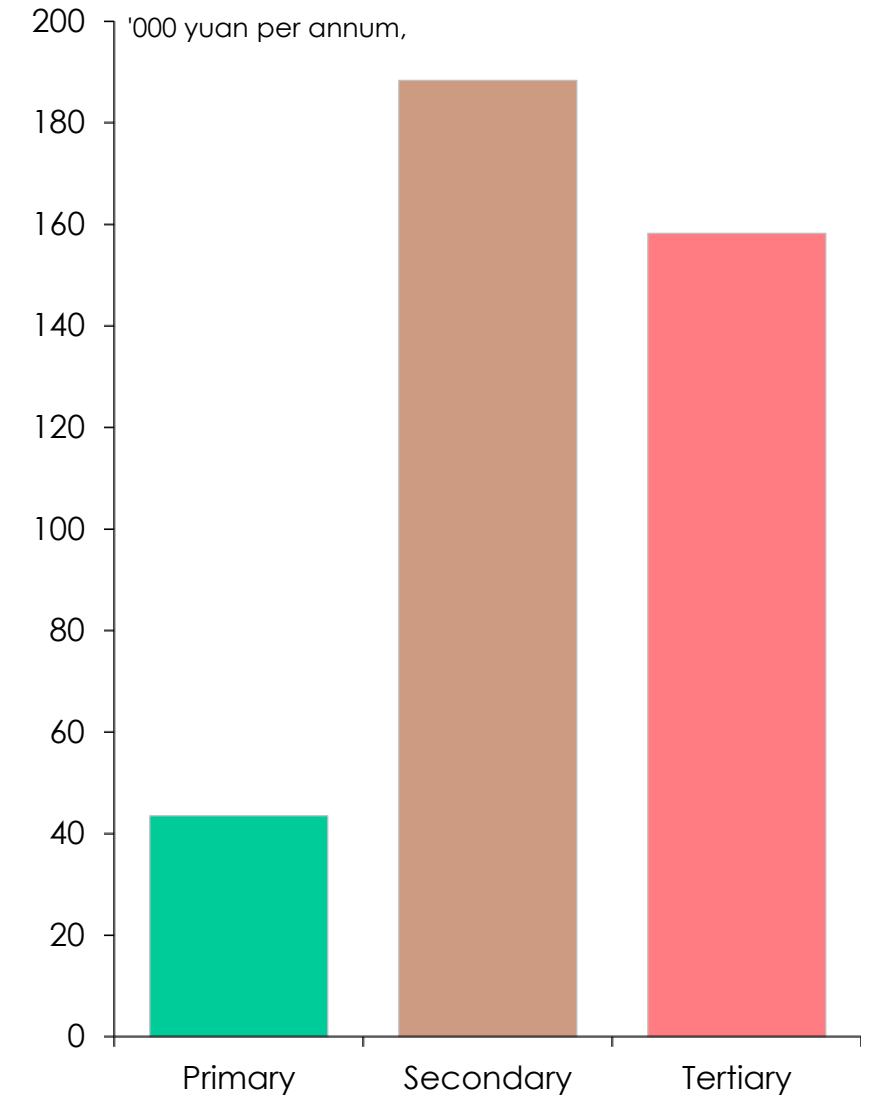
## Sources of GDP growth



## Composition of employment

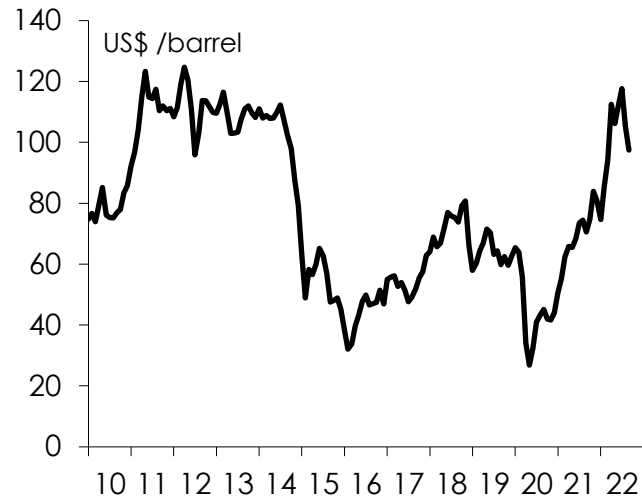


## Labour productivity

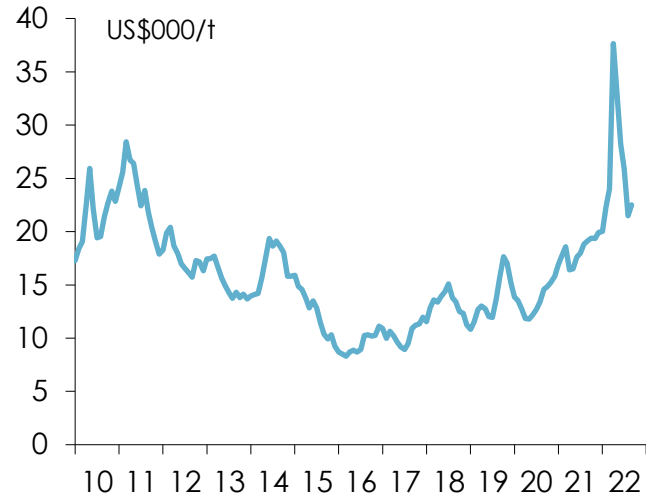


# Unless the conflict in Ukraine deepens or broadens, slower world growth means commodity prices will likely continue falling through most of 2023

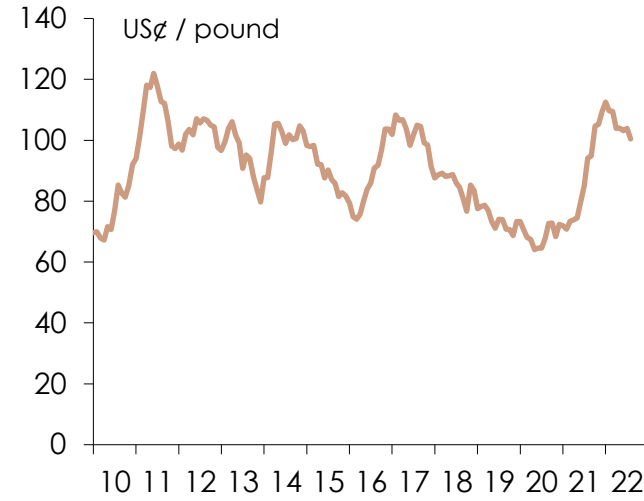
## Oil



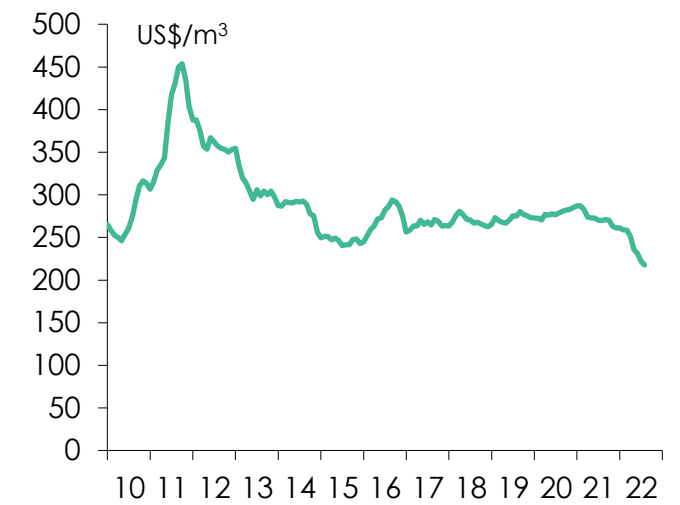
## Nickel



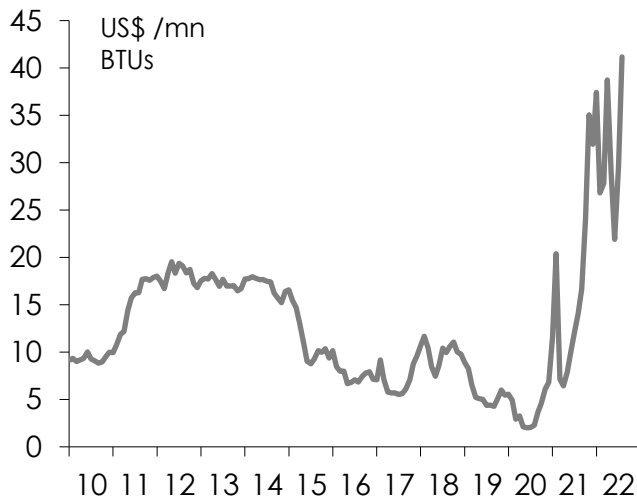
## Coffee



## Logs



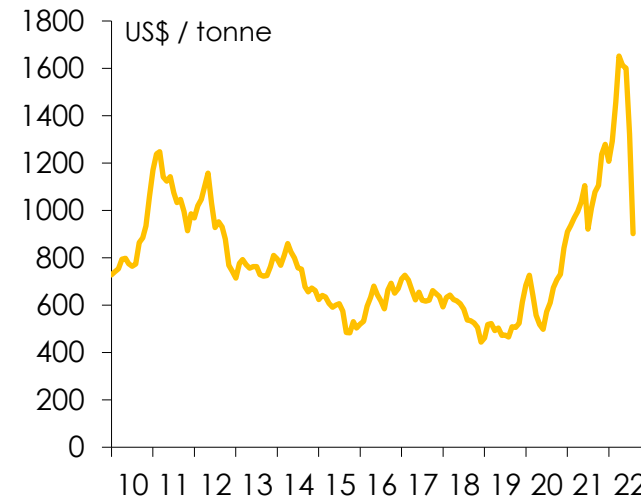
## Natural gas



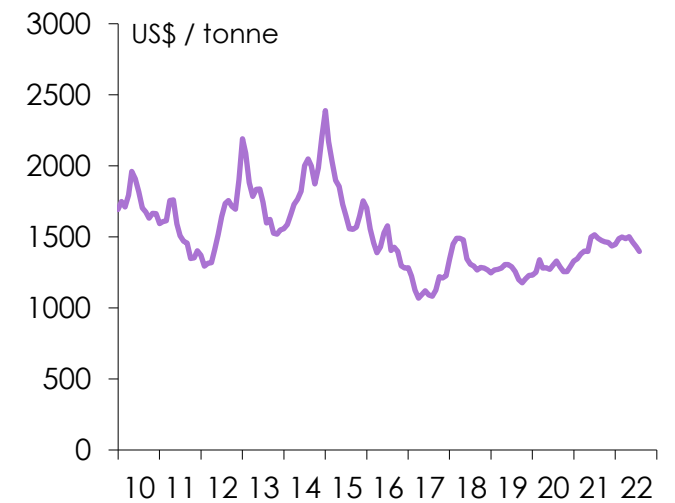
## Copper



## Palm oil



## Fishmeal

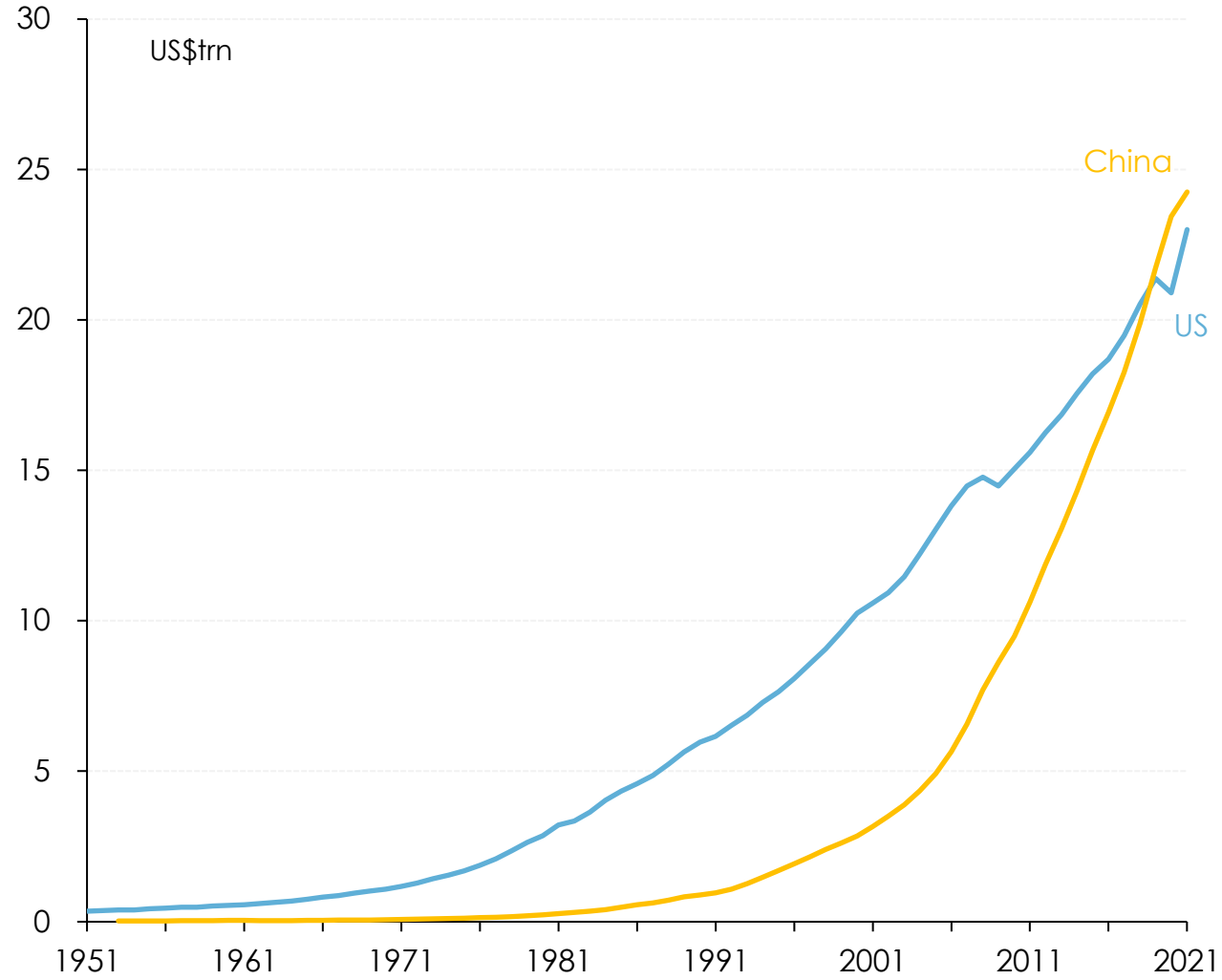


Source: [International Monetary Fund](https://www.imf.org/).

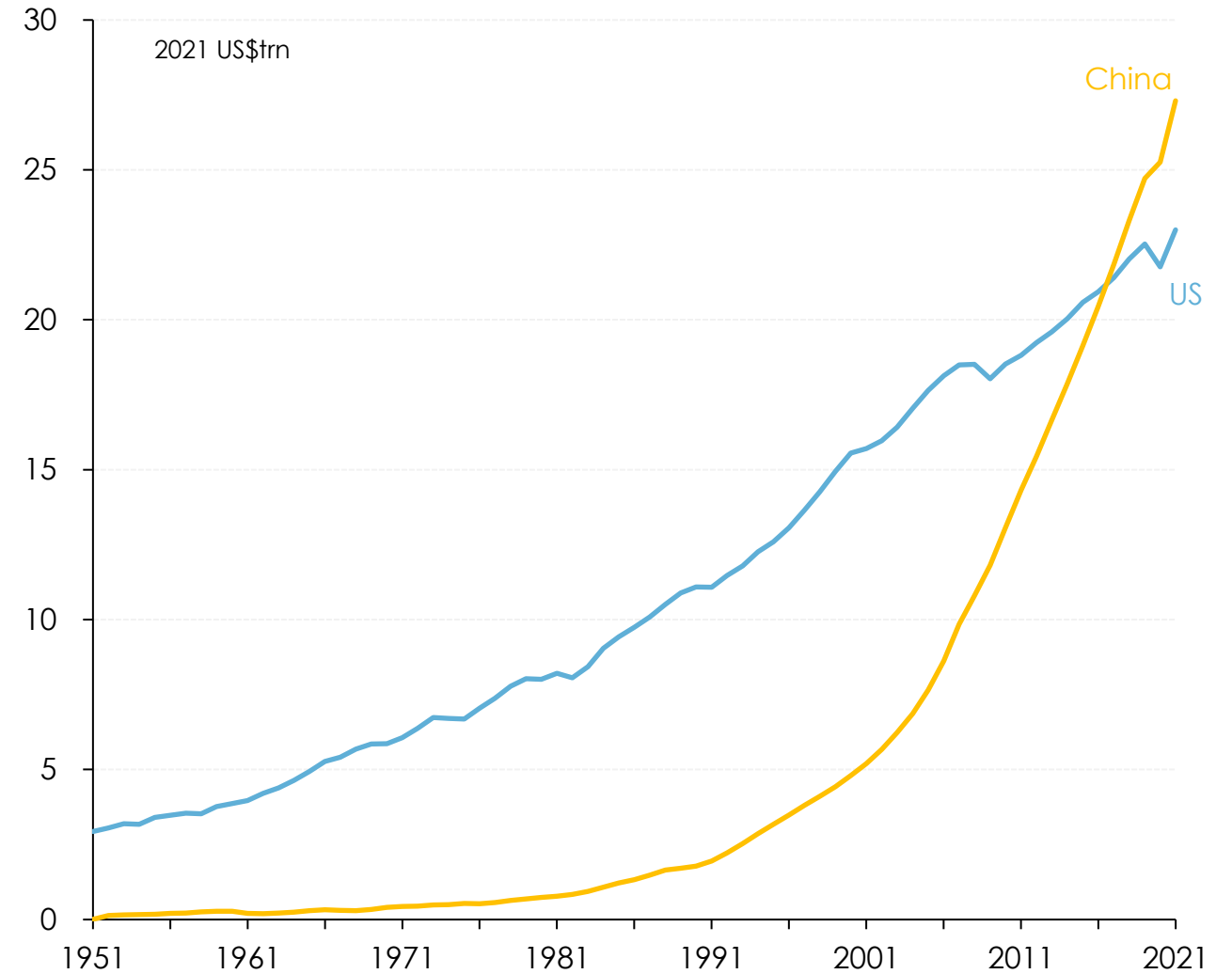
# The changing international 'pecking order' and its implications for PNG

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

## GDP at current market prices and exchange rates



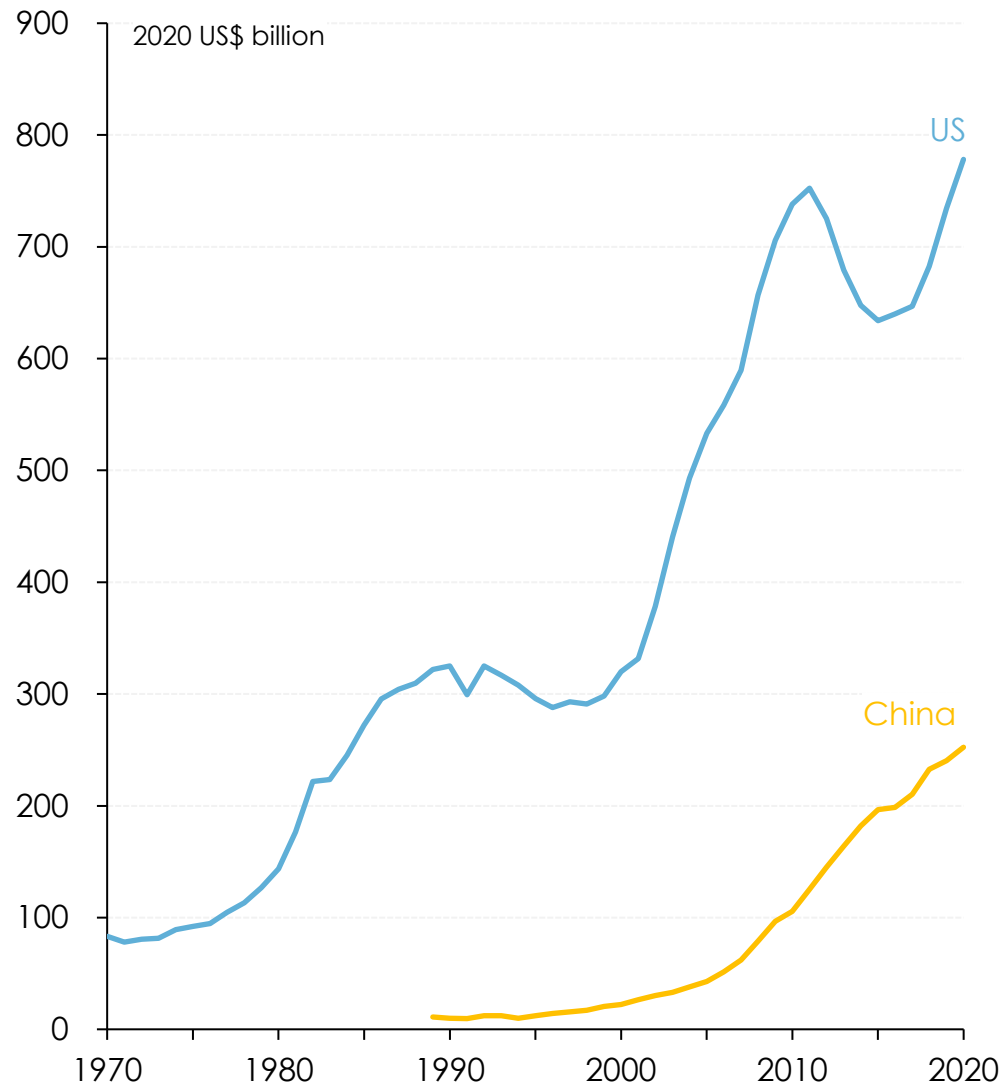
## GDP at constant (2021) prices and 'purchasing power parity' exchange rates



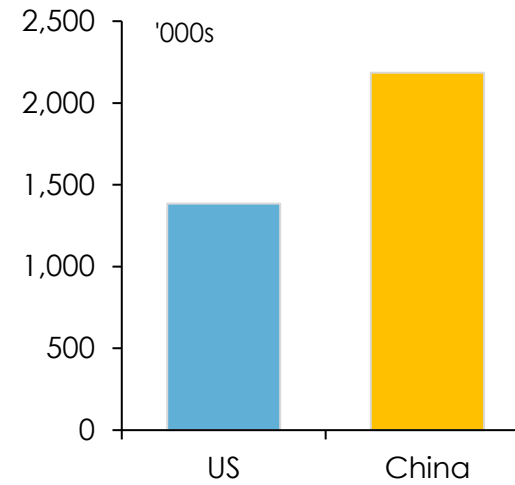


# Inevitably, this rivalry between the world's two largest economies with very different ideologies has a strategic or military dimension ...

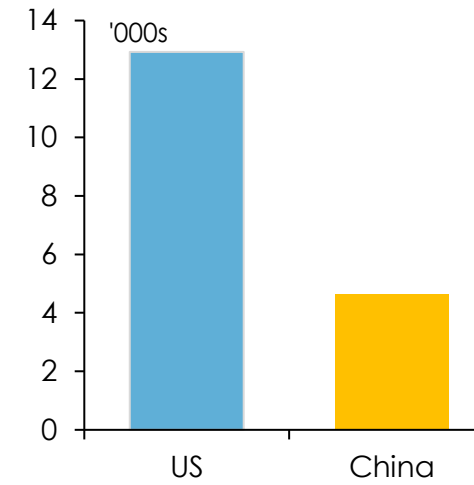
## Military spending



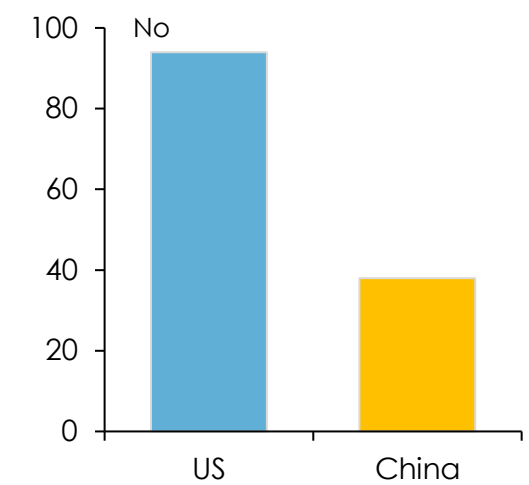
## Active personnel



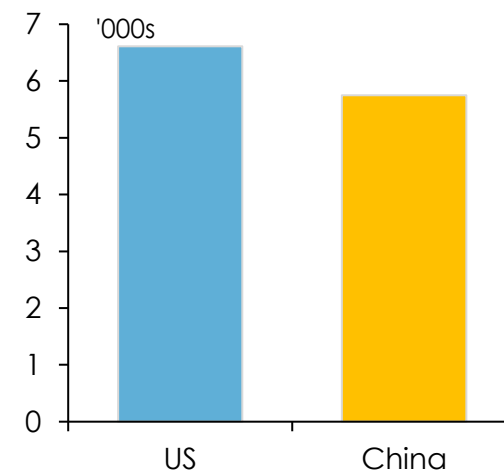
## Aircraft



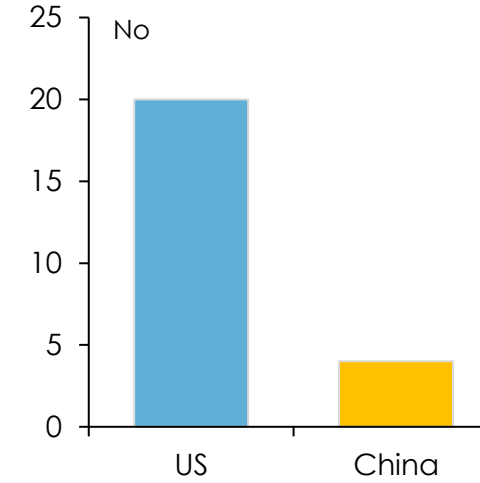
## Destroyers



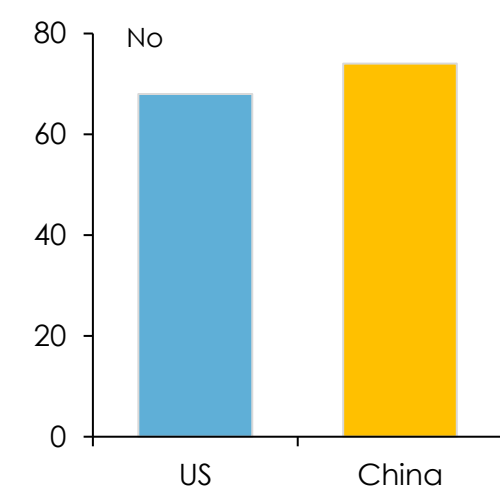
## Tanks



## Aircraft carriers

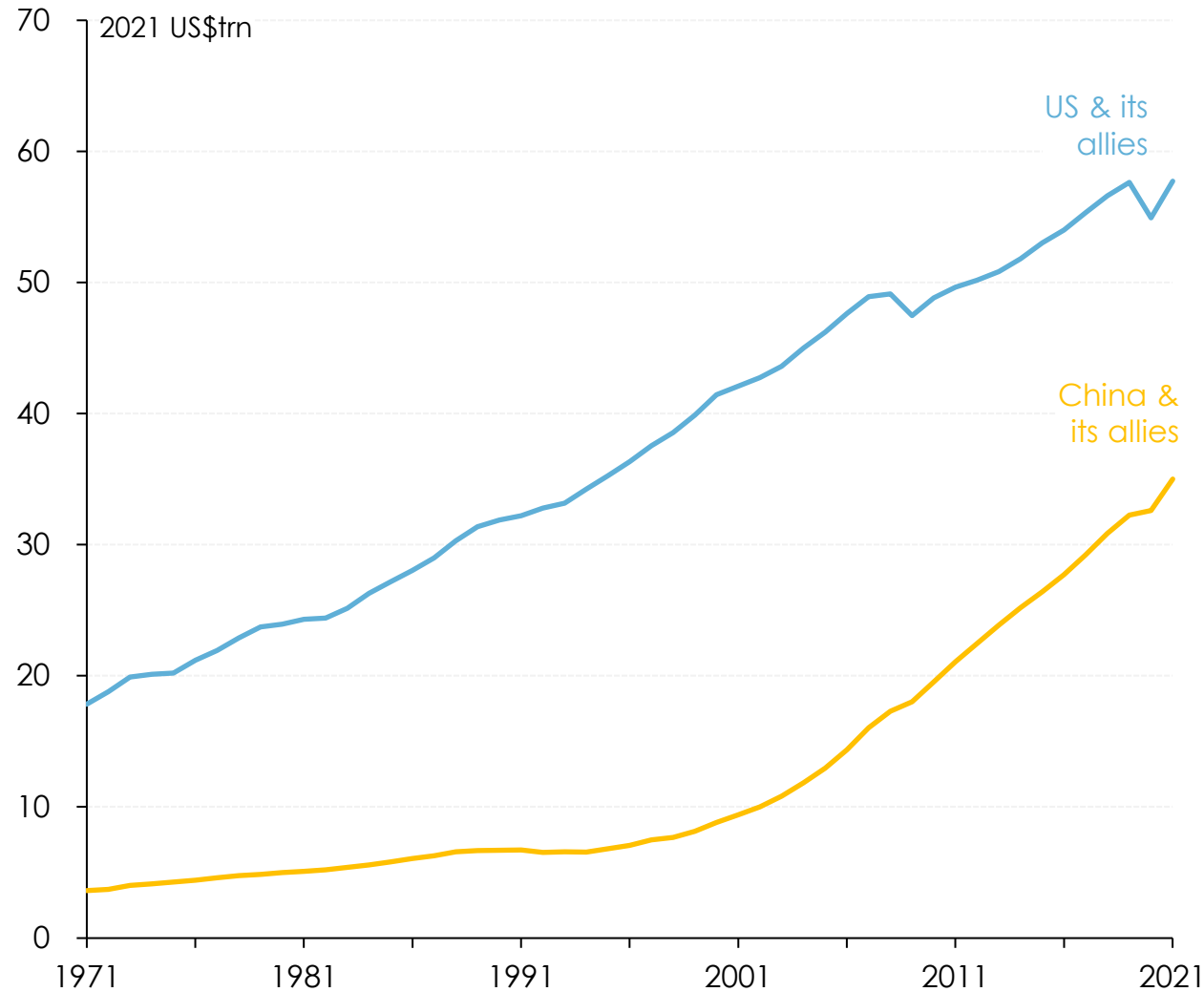


## Submarines

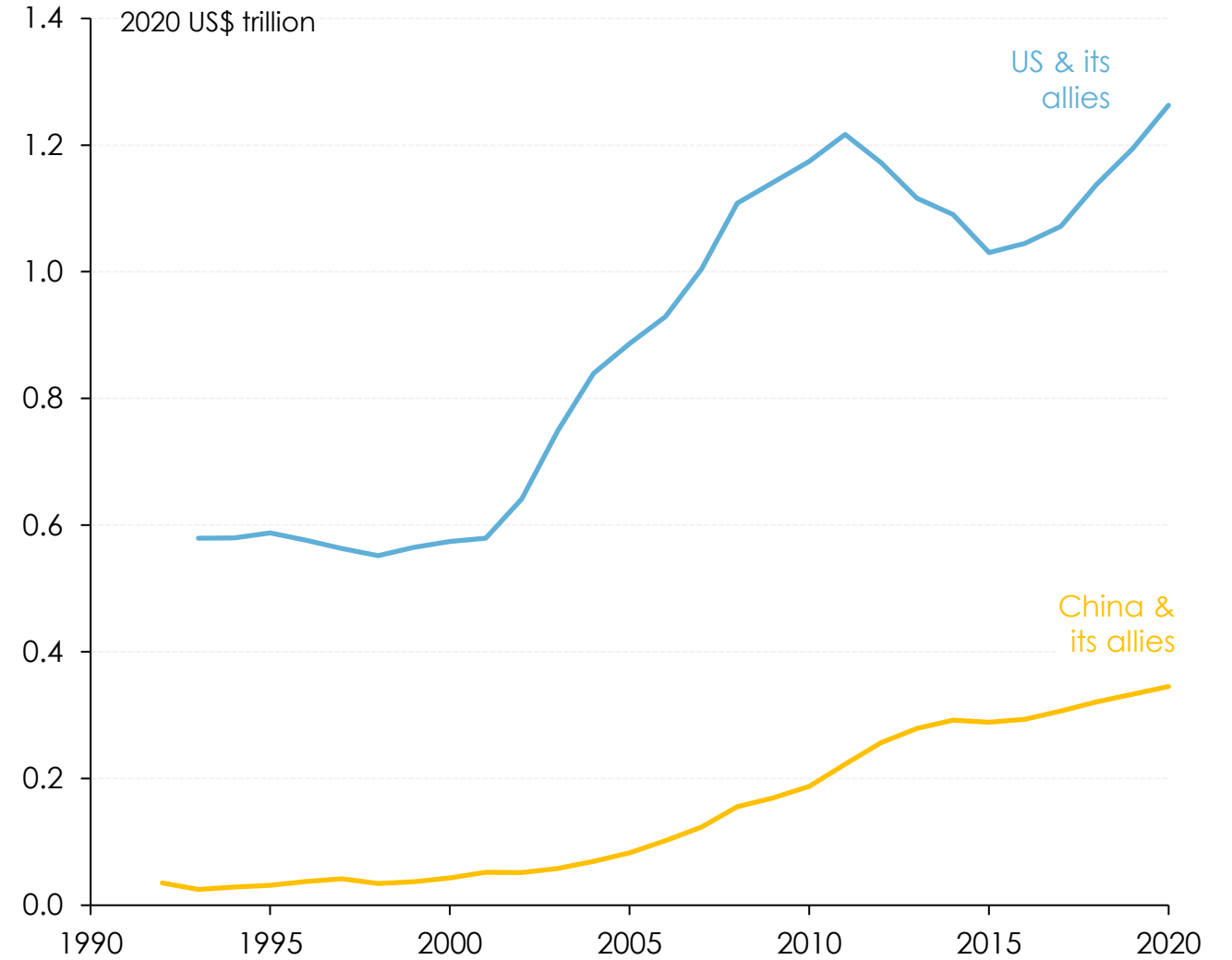


# ... although China doesn't have many 'friends', and when allies are factored in the US still appears to have a decisive strategic advantage

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



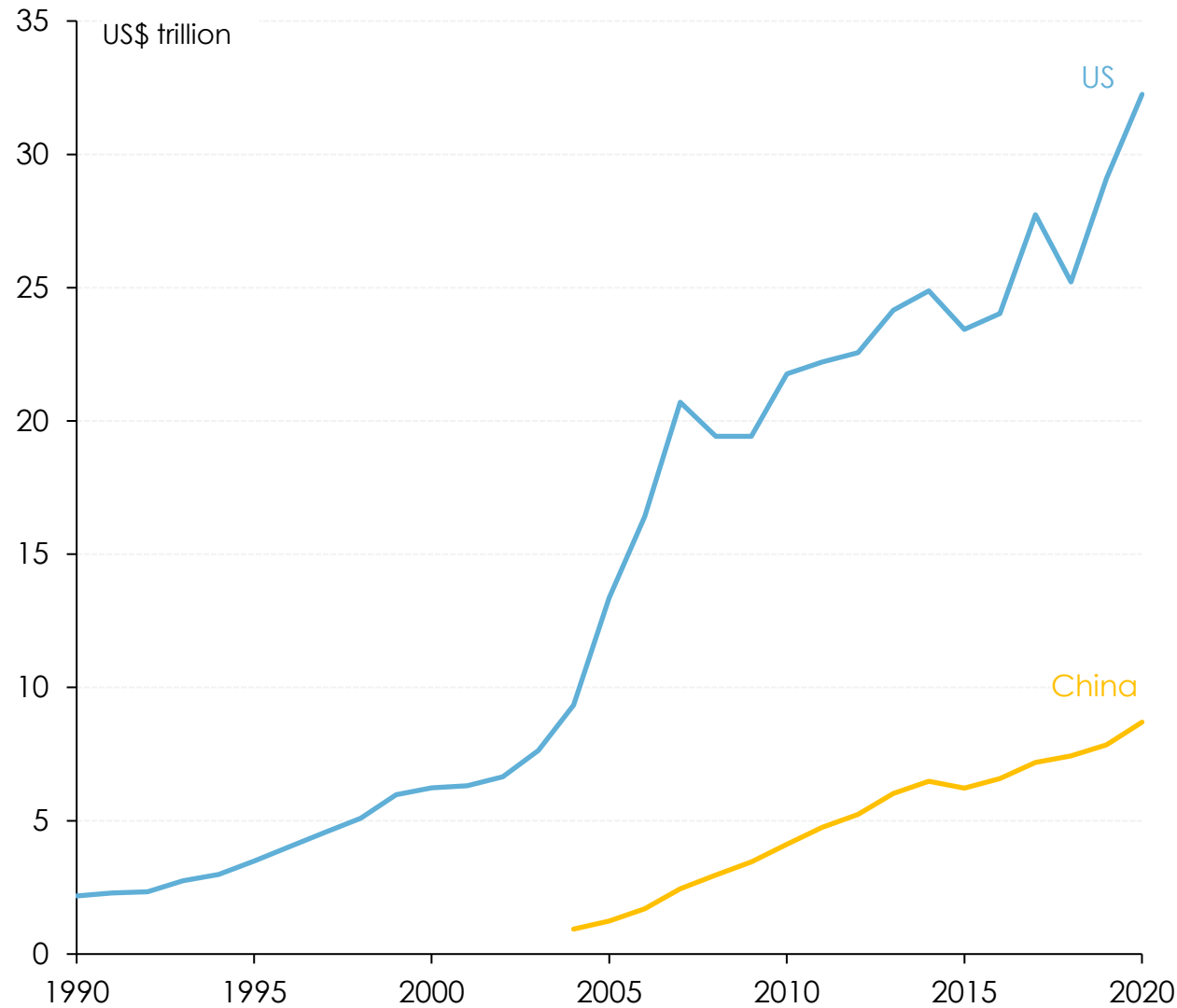
## Military spending by the US and its allies vs that by China and its (possible) allies



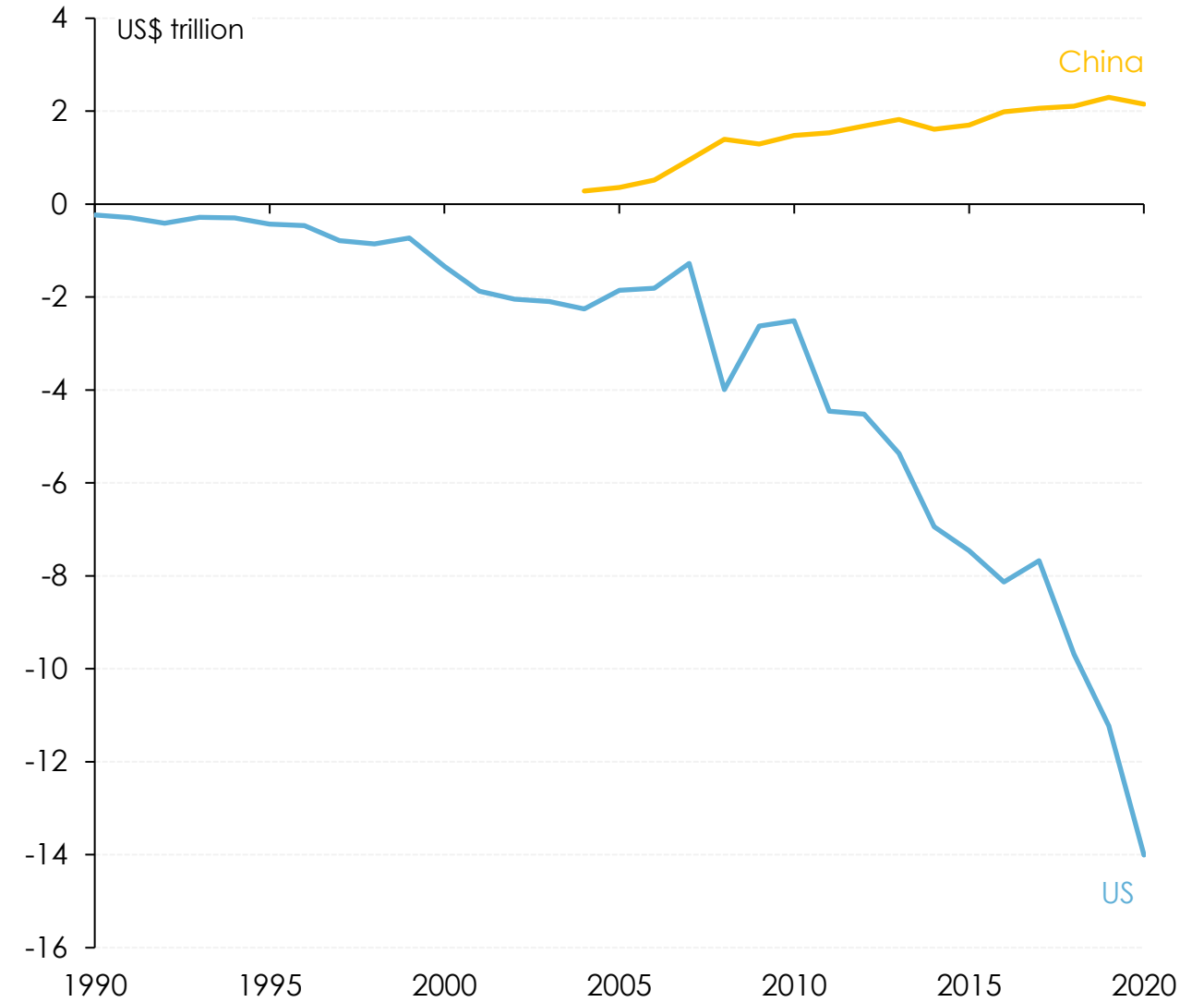
Note: 'US allies' include NATO member countries (excluding Turkey), Japan, Korea, Taiwan, Singapore, Australia and New Zealand; 'possible allies' of China include Hong Kong, Russia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan, Pakistan, Iran and Venezuela. Sources: The Conference 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



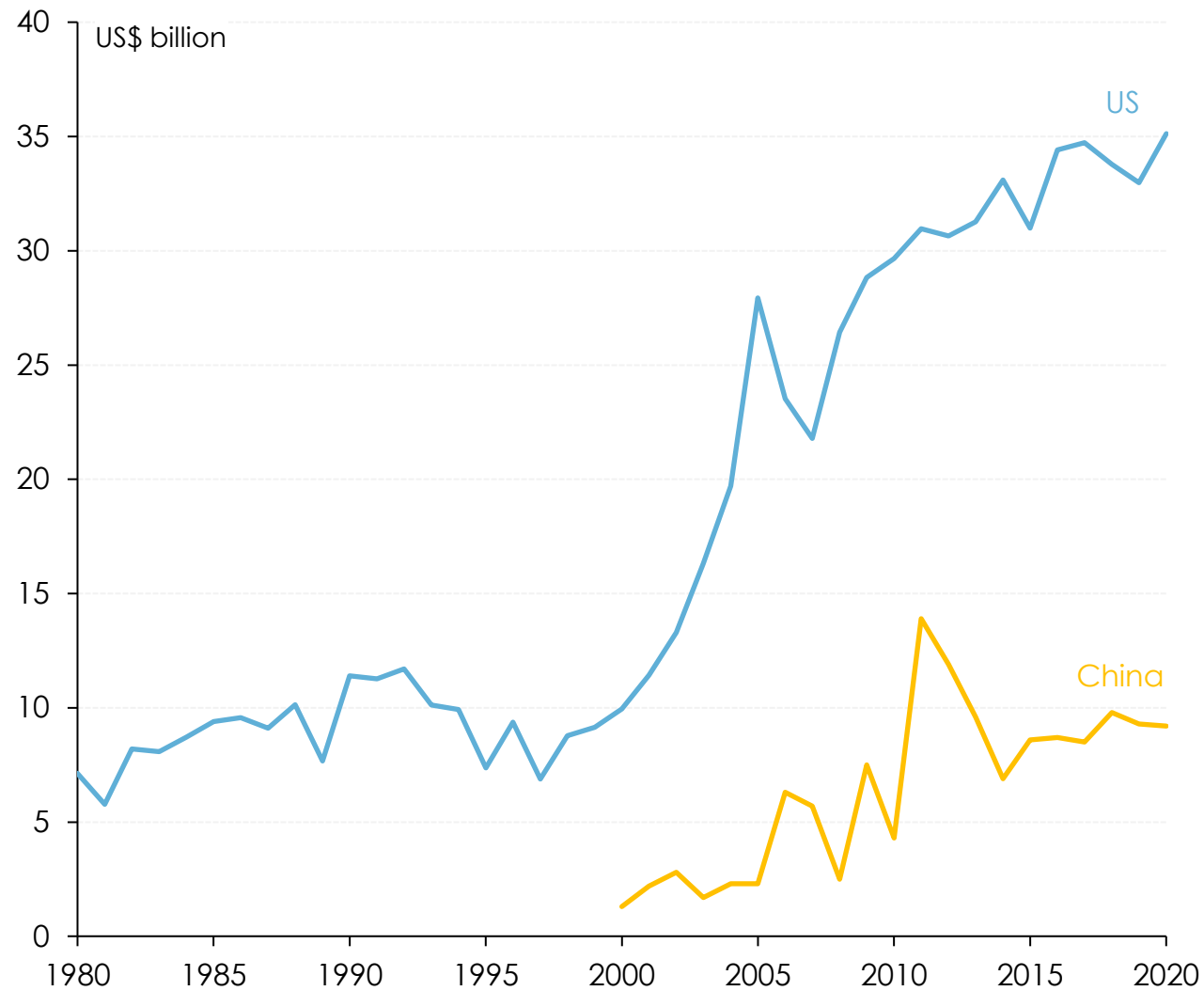
## Net international investment position



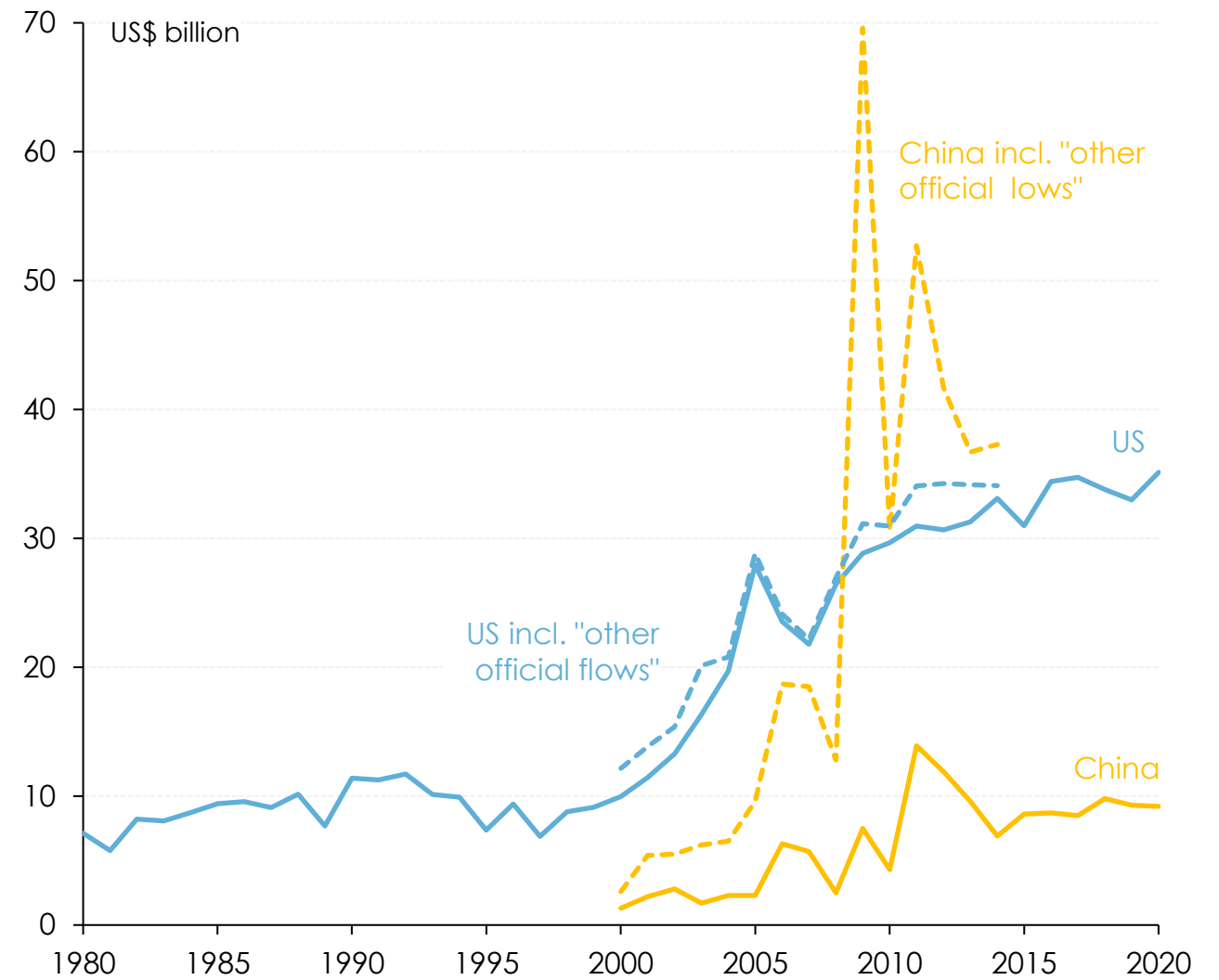
Note: There is a 'series break' between 2004 and 2005 as a result of changes in definitions of some components of balance of payments statistics.  
Source: International Monetary Fund, [Balance of Payments and International Investment Position Statistics](#).

# ... and through 'aid'

## 'Official development assistance'



## ODA plus 'other official flows'

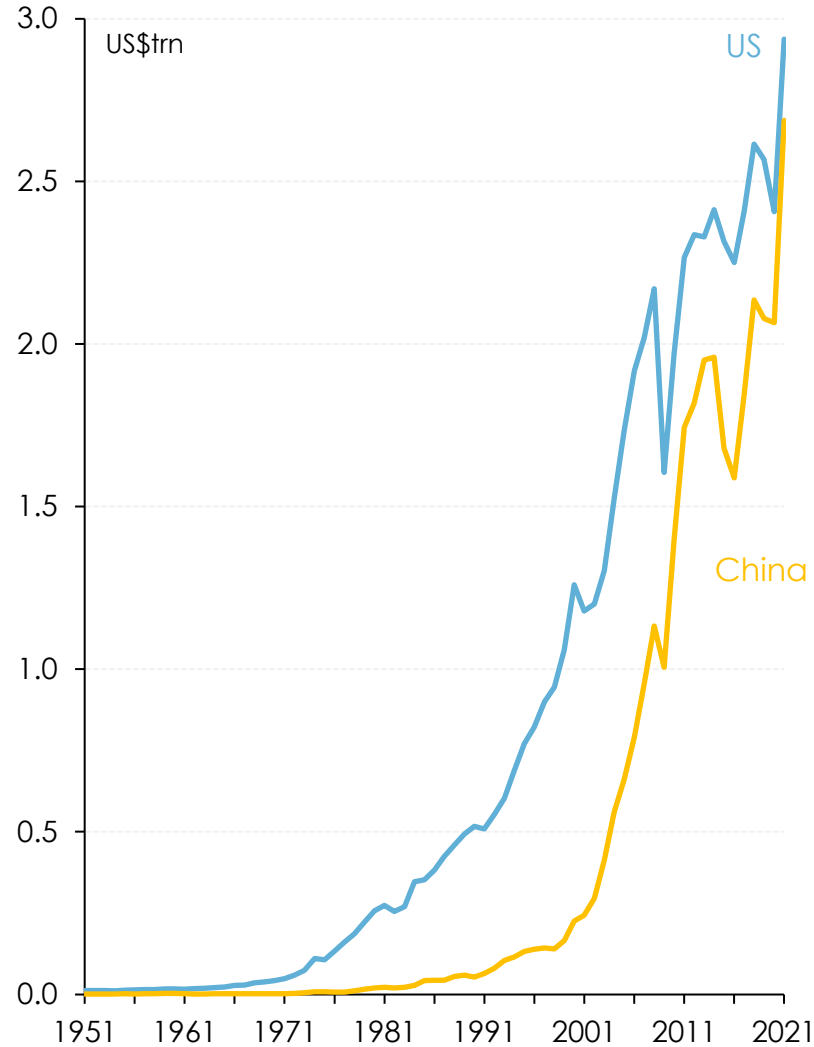


Note: Other official flows include payments which have a less than 25% grant element and/or which are primarily for commercial or representational purposes.

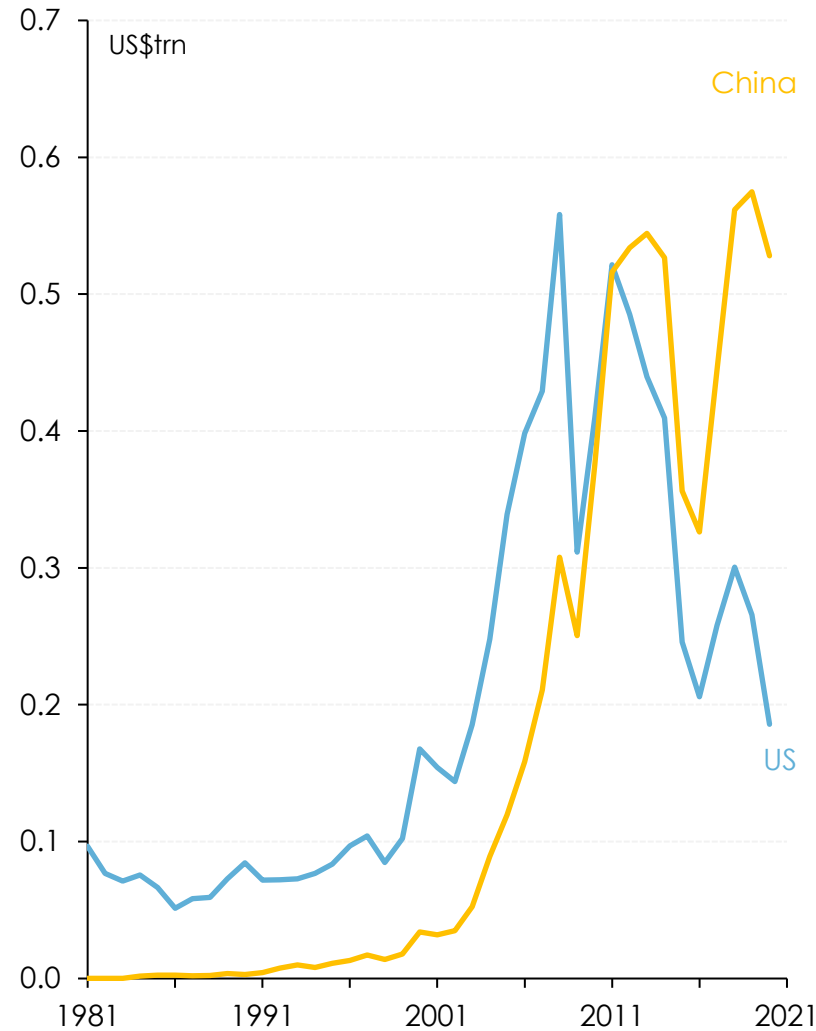
Sources: OECD, [Development finance data](#); AidData, [China's Global Development Footprint](#), William & Mary University; Naohiro Kitano and Yumiki Miyabayashi, [Estimating China's Foreign Aid: 2019-2020 Preliminary Figures](#), JICA Ogata Sadako Research Institute for Peace and Development.

# China has become a much more important market for commodity exporters

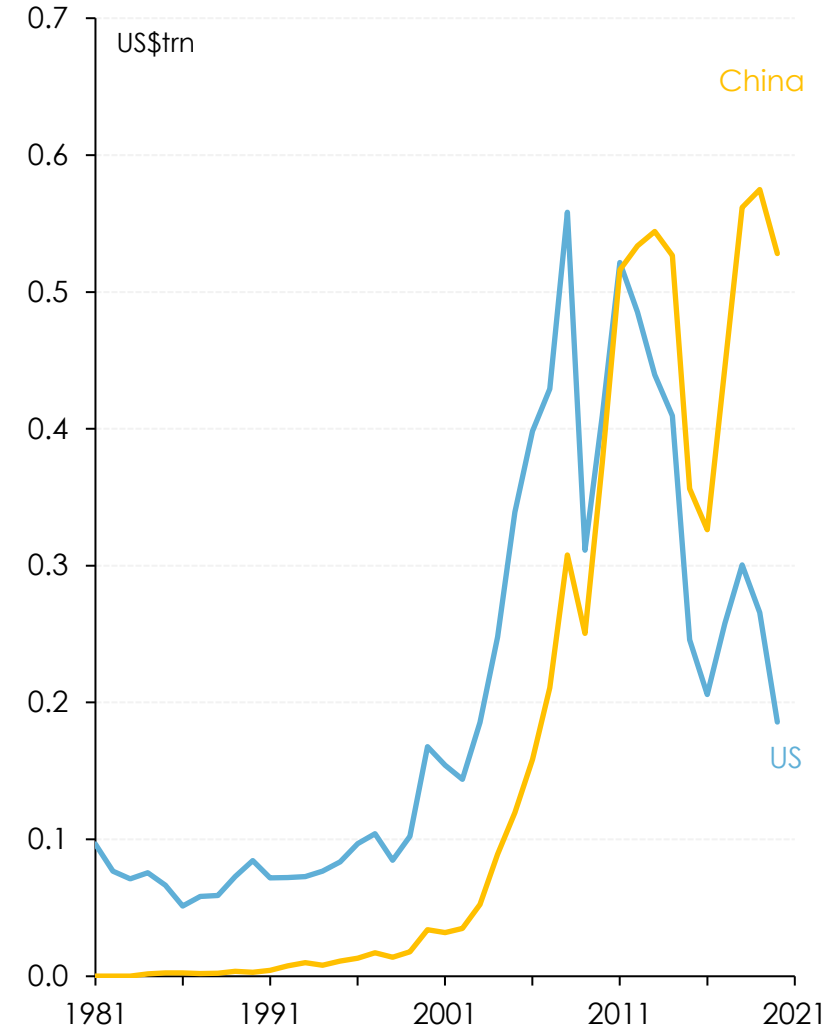
## Total merchandise imports



## Agricultural commodity imports

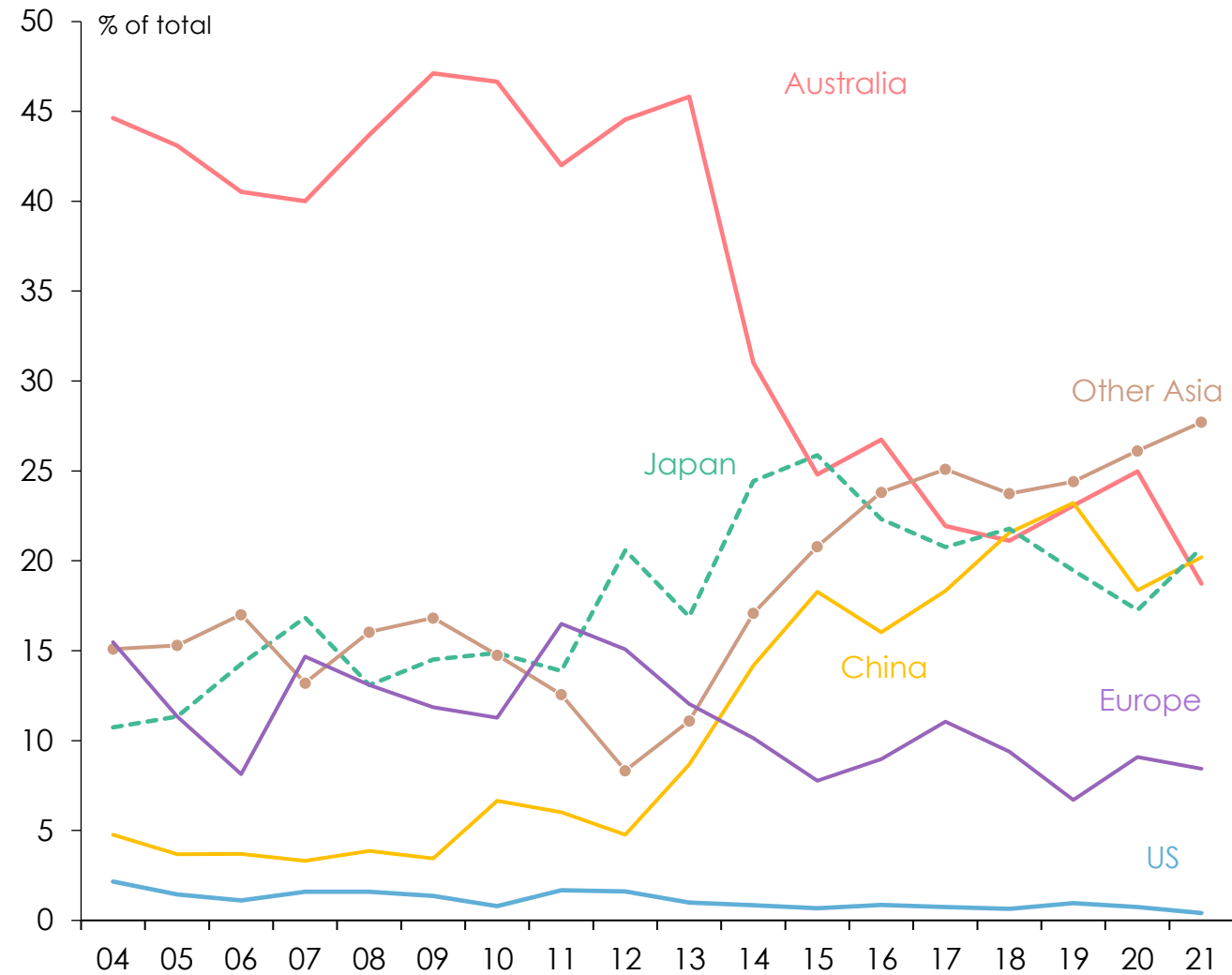


## Mineral and energy commodity imports

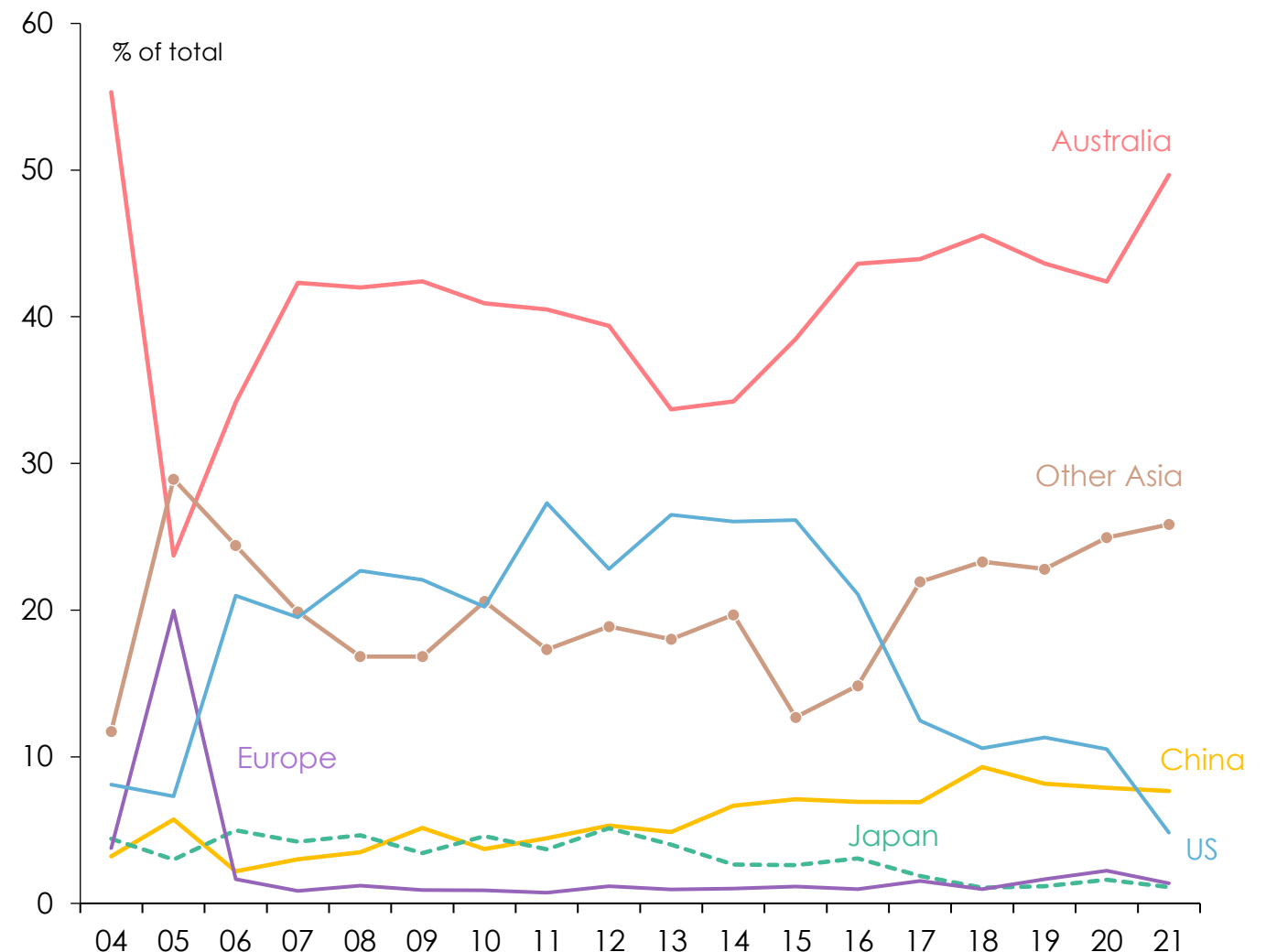


# China is becoming a more important trading partner for PNG – but so are other Asian economies, and Australia also remains an important partner

## Destination of PNG exports



## Origin of PNG imports



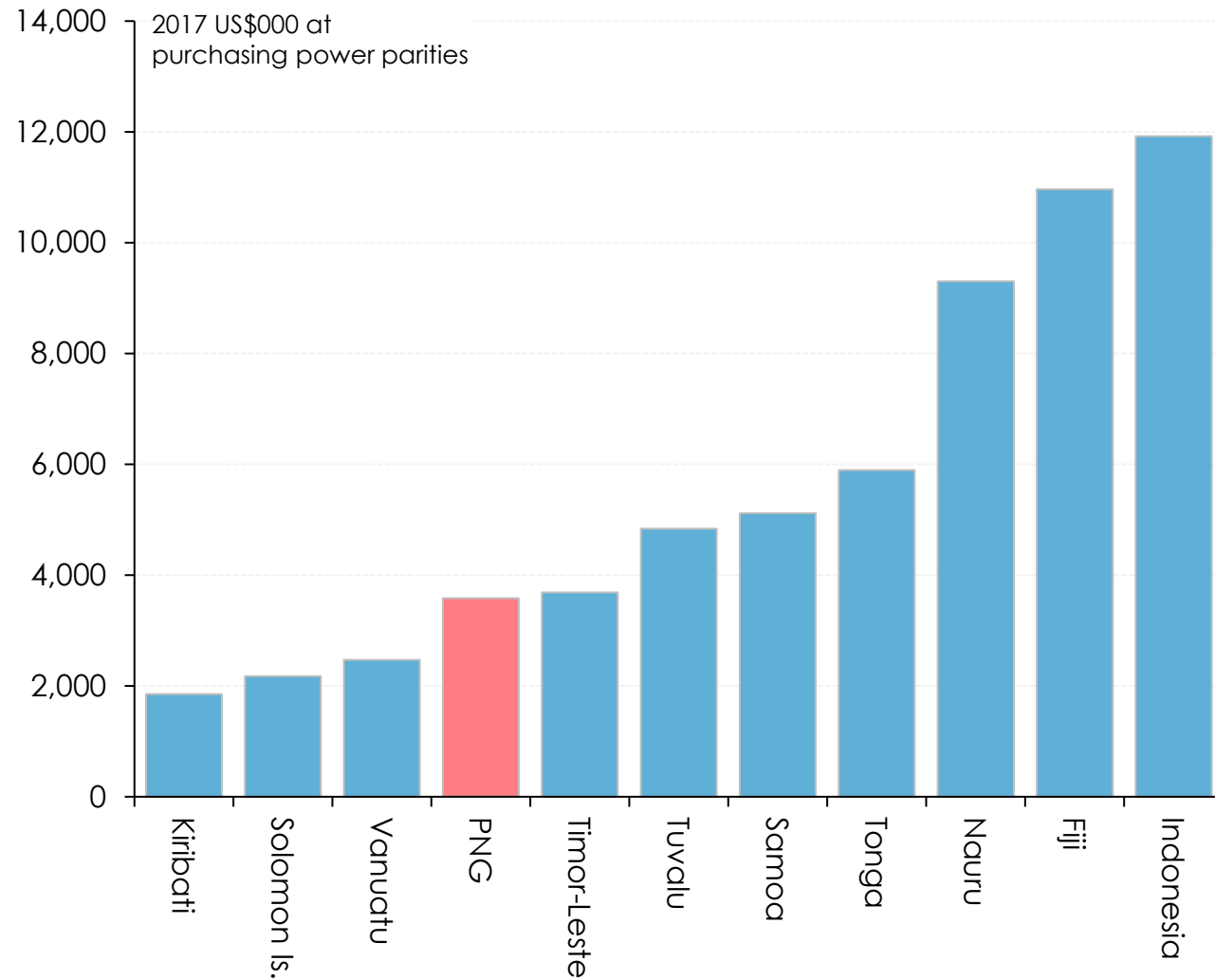
Source: Bank of Papua New Guinea, [Quarterly Economic Bulletin Statistical Tables](#), Section S61.

# What does all this mean for Papua New Guinea?

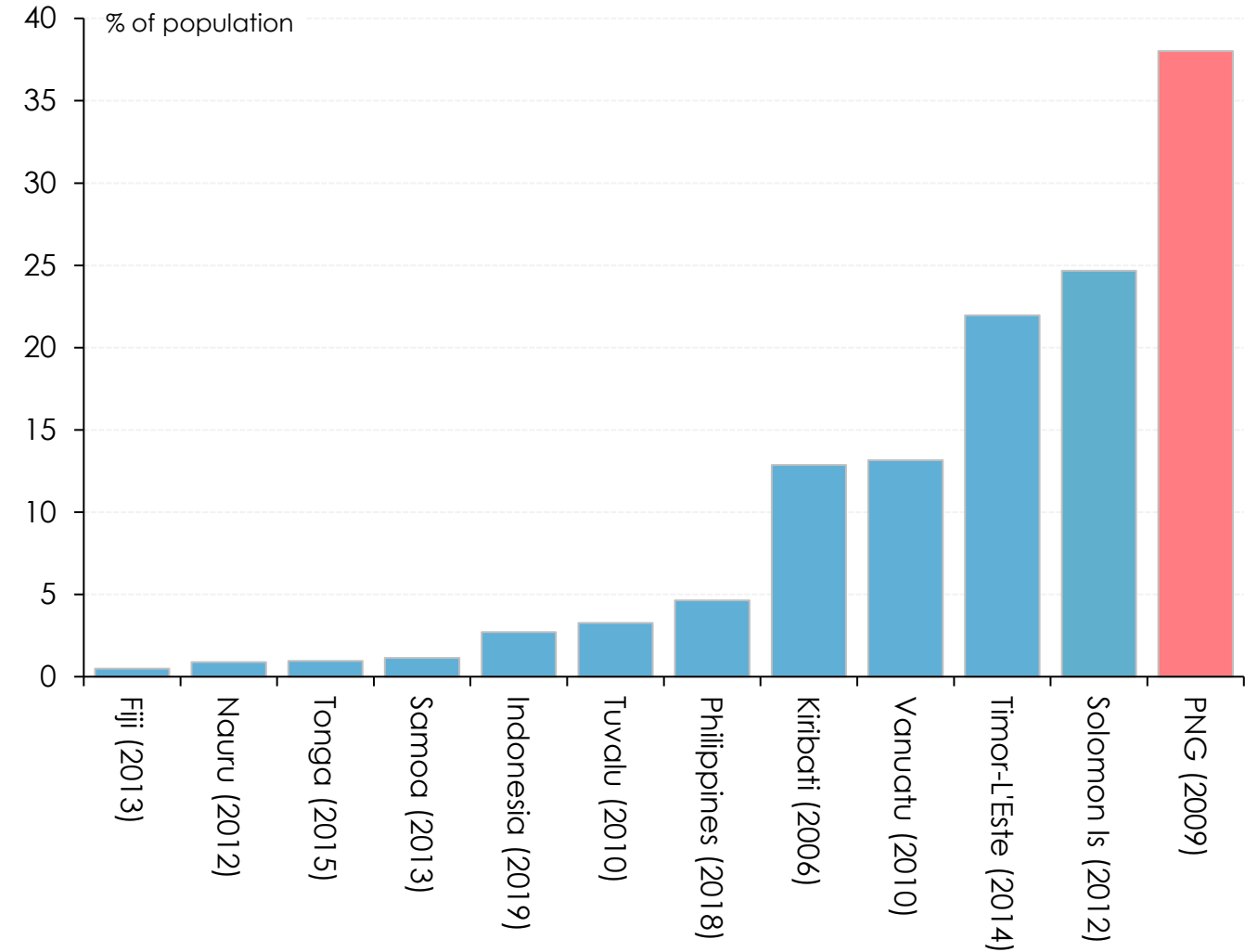
- ❑ **PNG occupies a very strategically important location in the increasingly contested 'Indo-Pacific' region**
  - China is likely to continue to seek to pull PNG more 'into its orbit' (as it is with other developing economies, particularly in the Pacific)
  - while 'the West' will conversely want to keep PNG in its 'camp'
- ❑ **Tensions between China and the US are likely to remain elevated in the wake of US House Speaker Nancy Pelosi's visit to Taiwan, and China's reactions to it**
- ❑ **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, 2021



## 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.

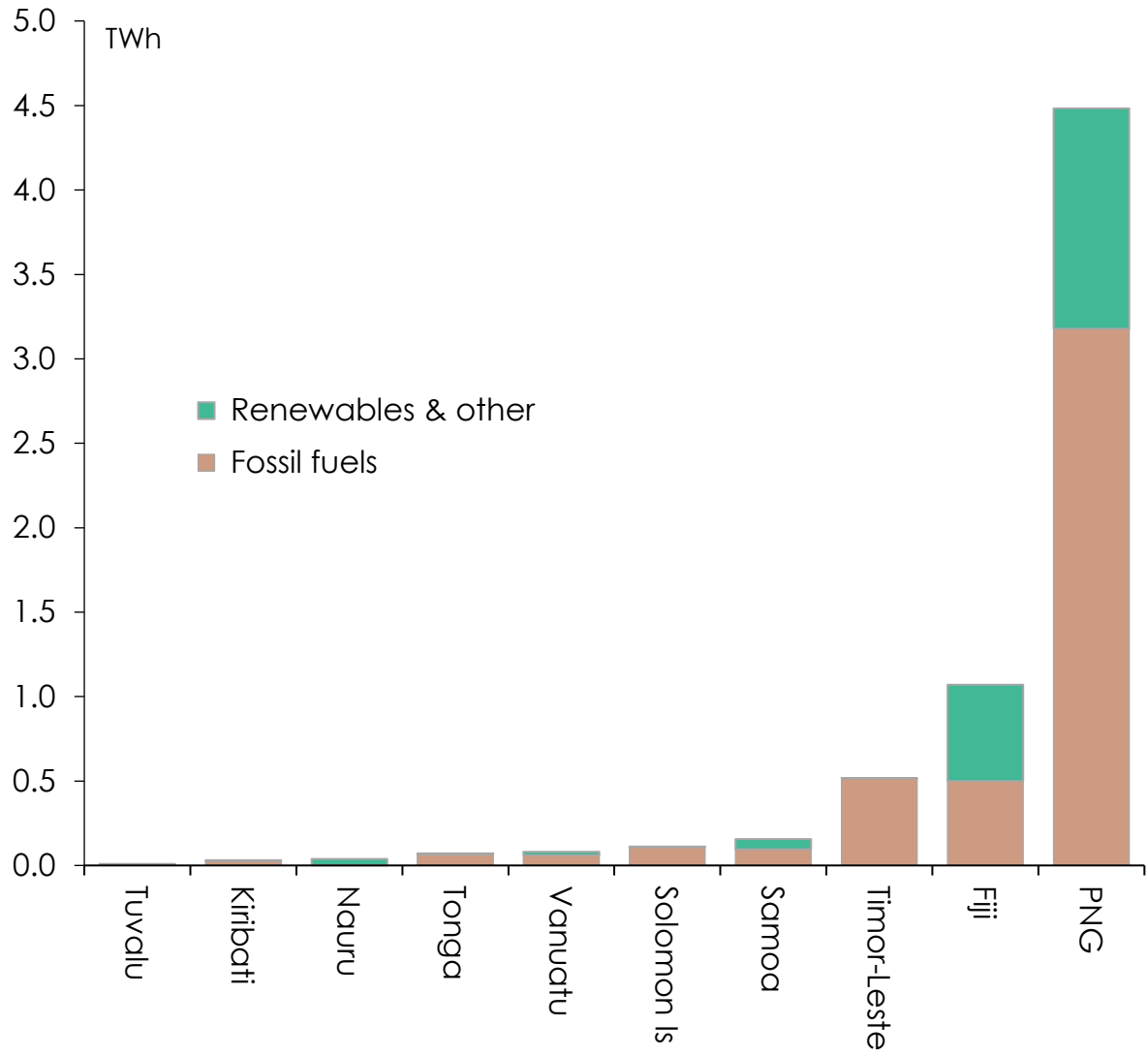
Sources: International Monetary Fund, [World Economic Outlook database](#), April 2022; The World Bank, [PovcalNet](#).



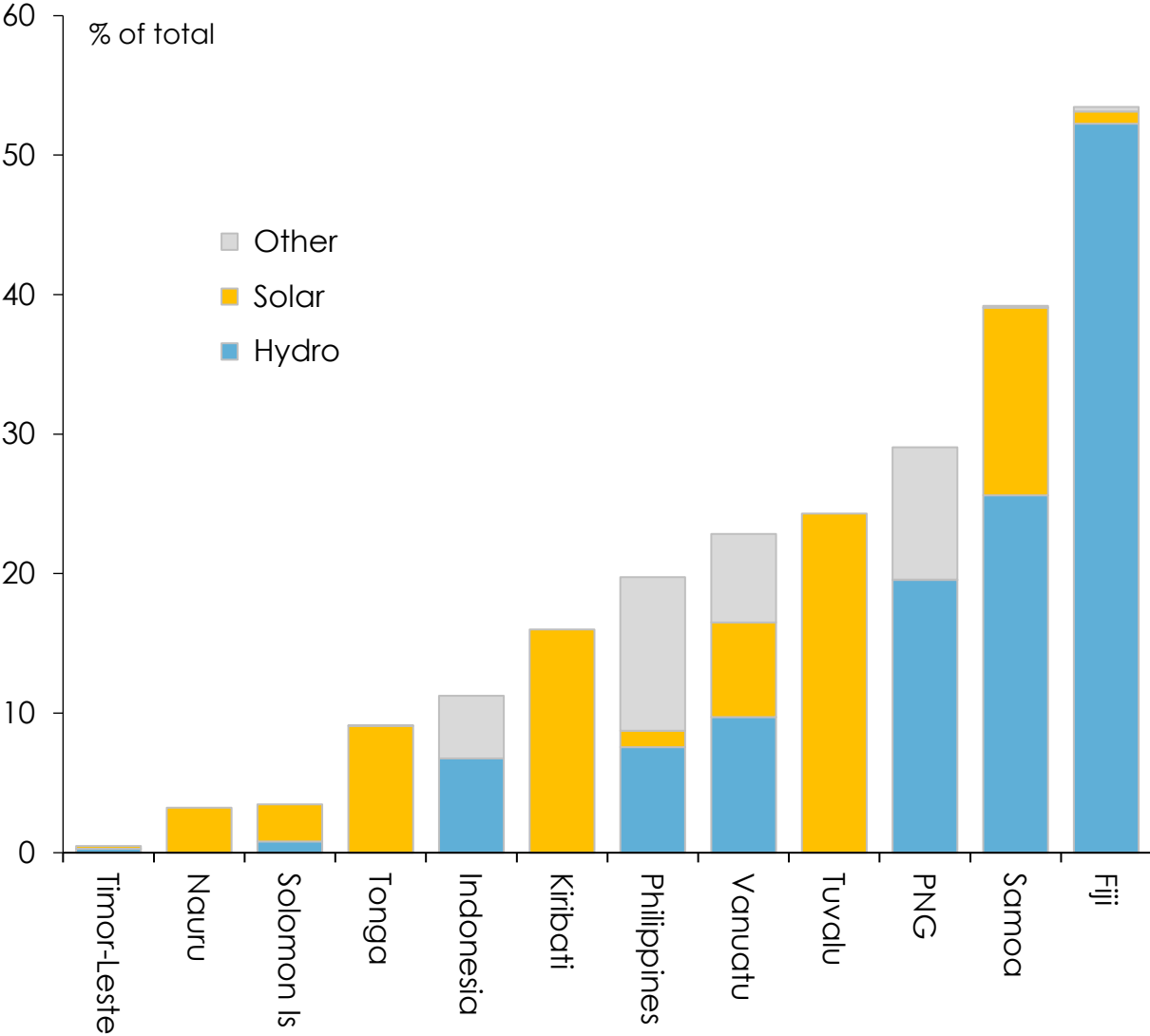
# Climate change and PNG

# PNG could be a much more significant producer of renewable energy – including (potentially) geo-thermal – and either use it, or export it

Total electricity production, by source, 2018



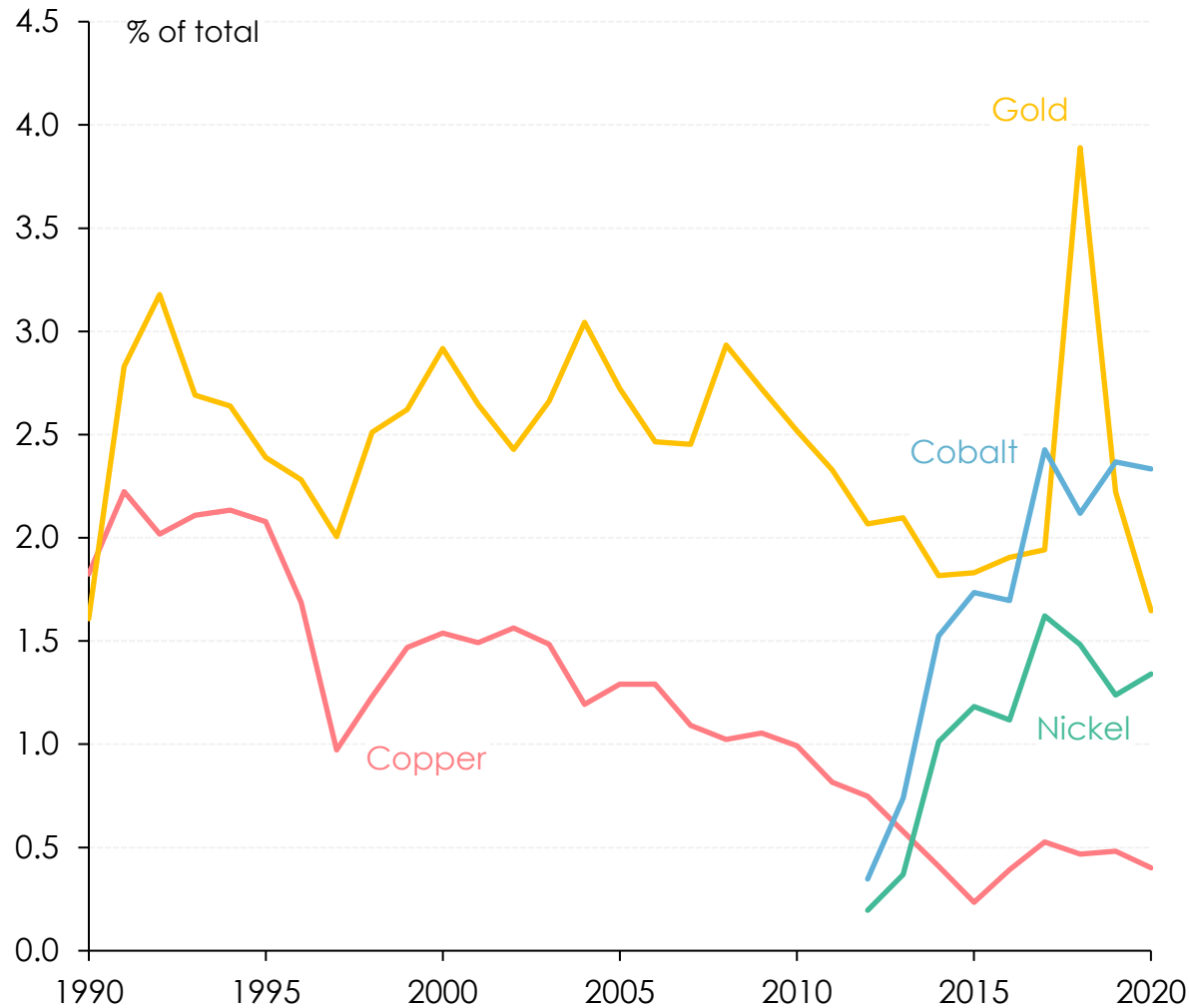
Renewable energy production, by type, 2018



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

# Three of PNG's four principal mineral exports are likely to be major beneficiaries of global efforts to reduce CO<sub>2</sub> 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

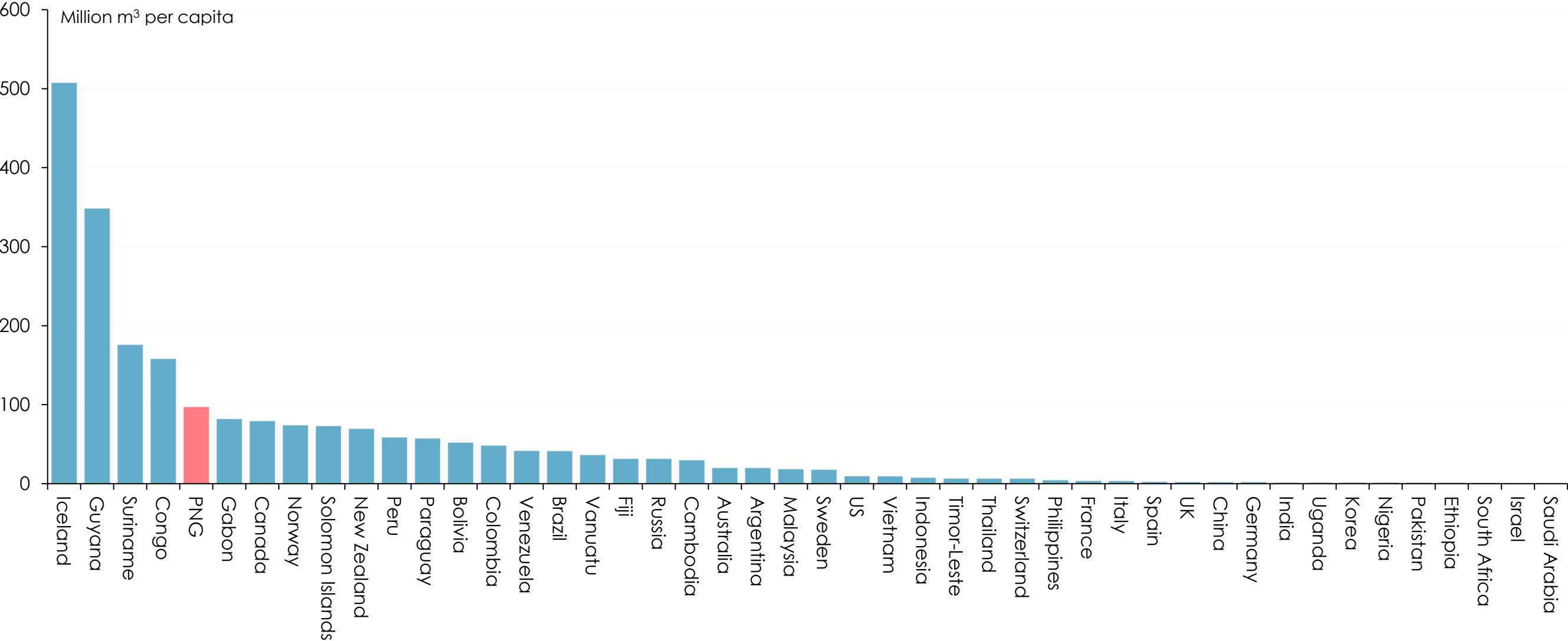


Note: for context, Papua New Guinea accounts for about 0.025% of world GDP. Sources: British Geological Survey, [World Mineral Statistics data](#); The World Bank, [Commodity Markets Outlook](#), 26<sup>th</sup> April 2022; and Morgan Leighton, [The Ultimate Guide to the Cobalt Market: 2022](#), Crux Investor, 14<sup>th</sup> June 2022.

# Opportunities in agriculture and fishing

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

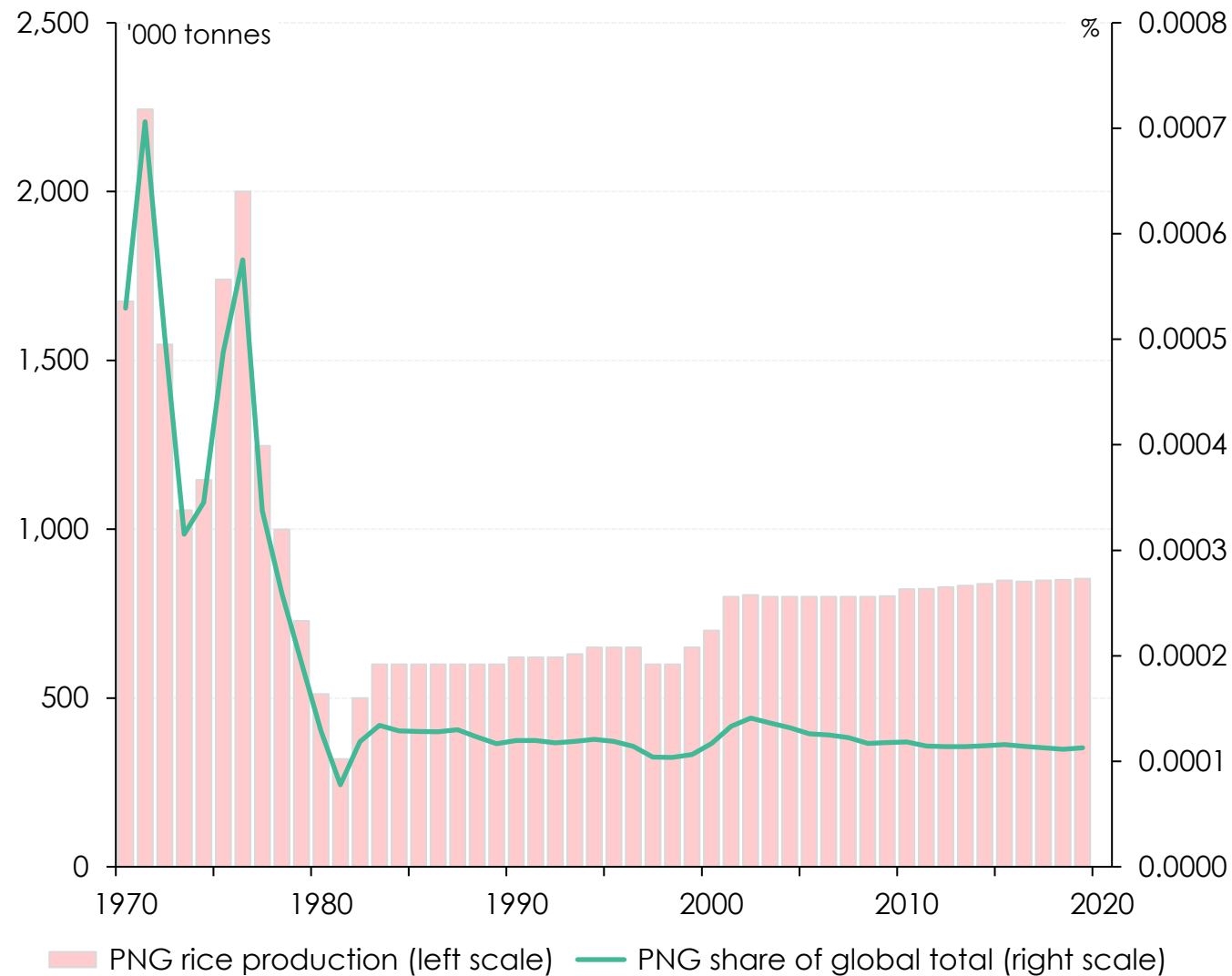
## Renewable water resources per head of population, 2020



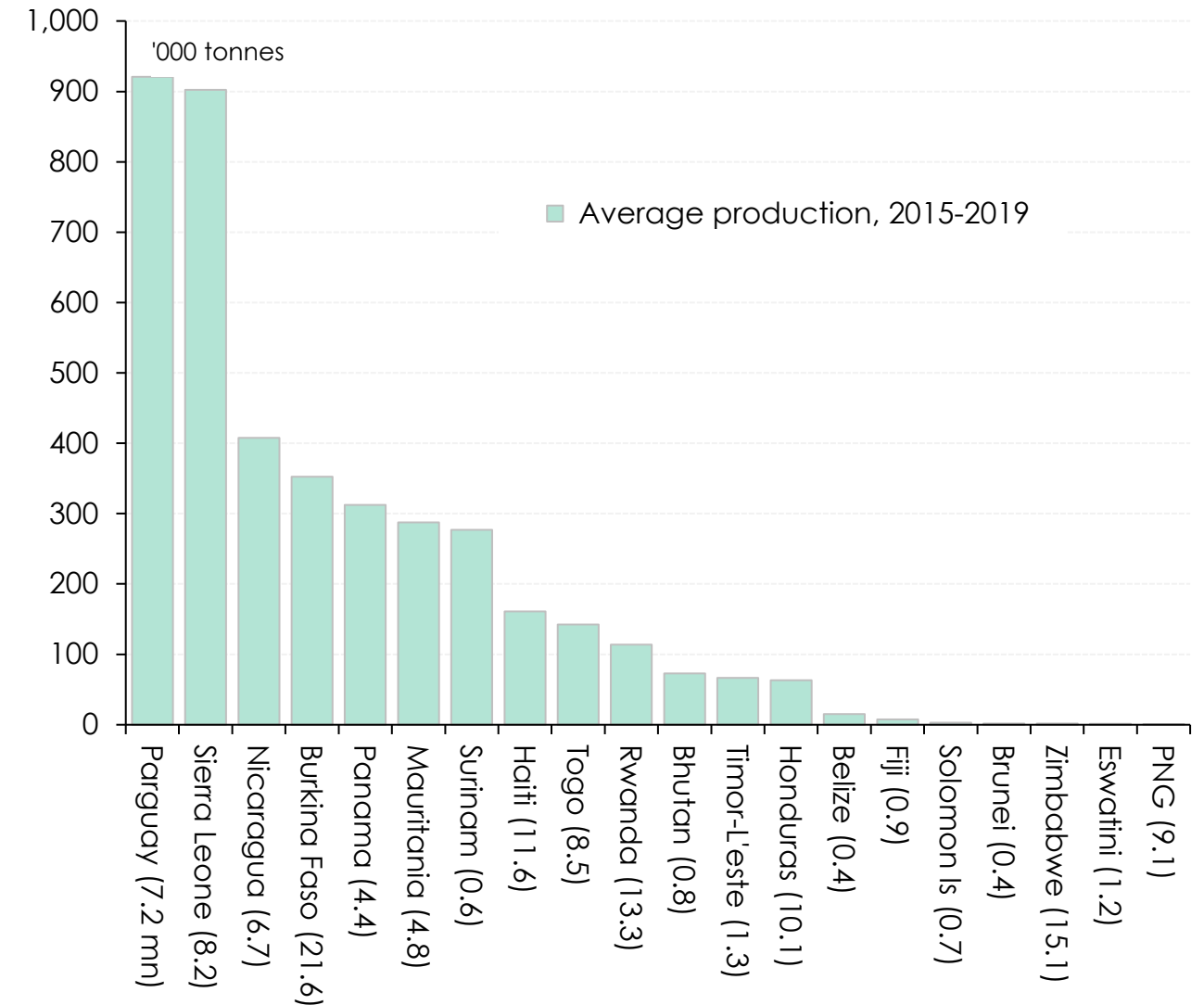
Source: Food and Agricultural Organization (FAO), [World Food and Agriculture Statistical Yearbook 2020](#).

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

## PNG's rice production



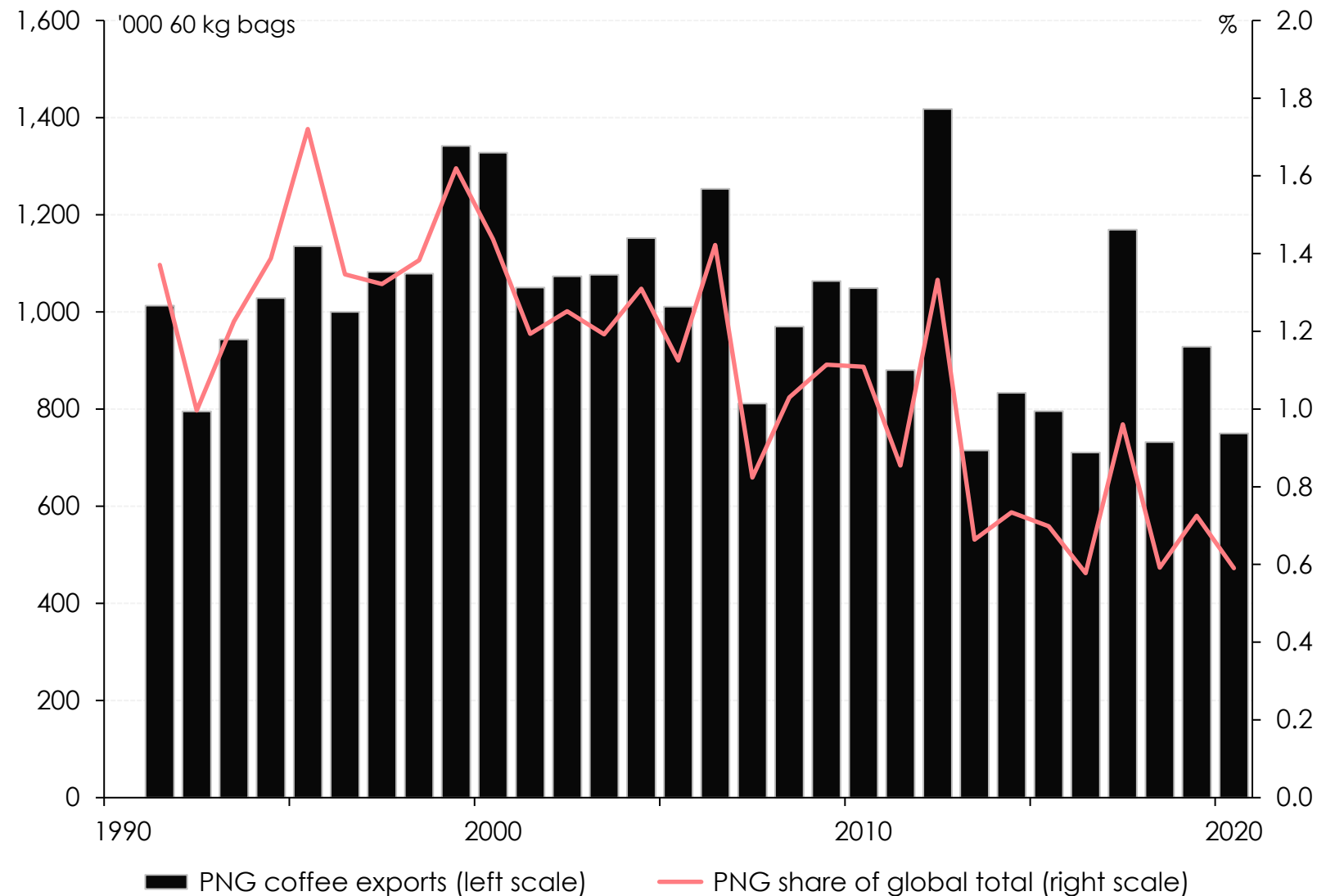
## Rice production – selected 'developing' countries



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

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

## PNG's coffee exports

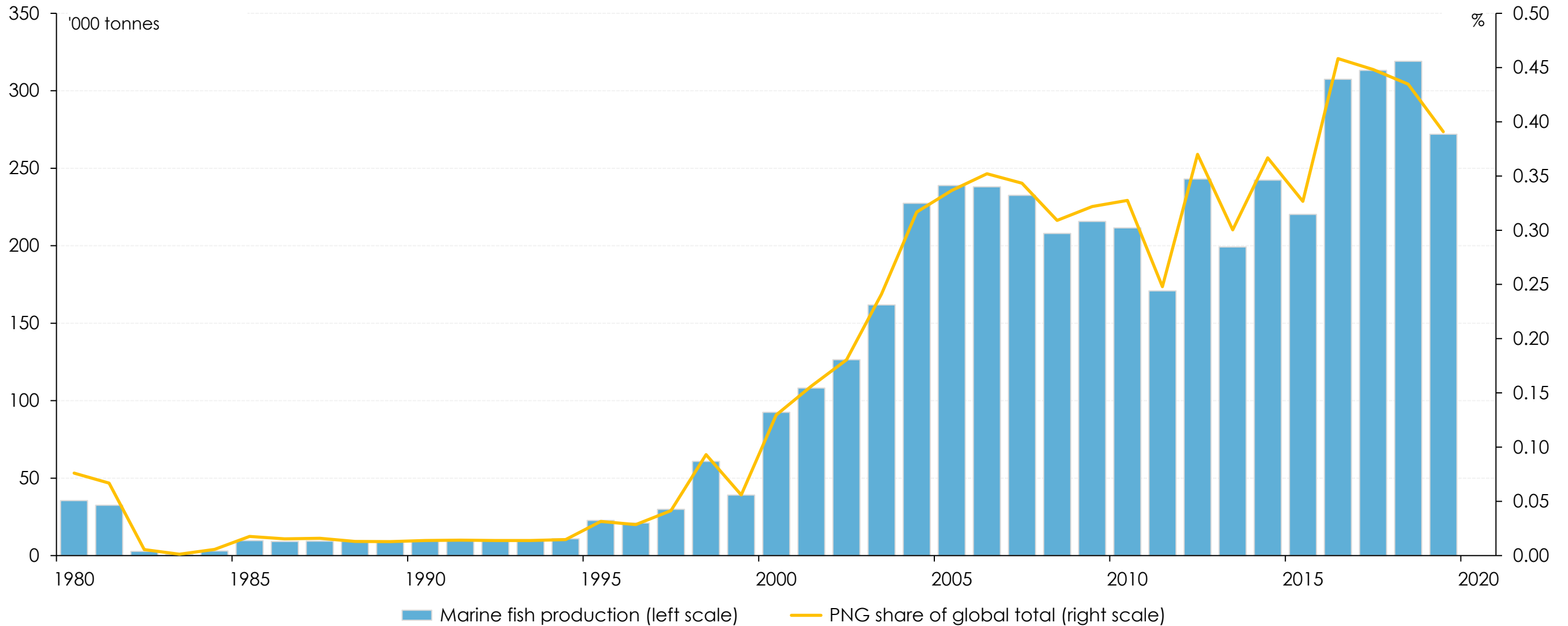


When I talk about agriculture, I look at greater Asia. There's three billion people that need to drink a cup of coffee a day. There's three billion people that need to eat a plate of rice a day ... Someone needs to grow the rice and someone needs to plant the food to supply the Asian people ... In 2025 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, 25<sup>th</sup> 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](#).



# Conclusion

# Conclusions

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- ❑ **The year ahead is likely to be a challenging one for Papua New Guinea**
  - global inflationary pressures are likely to remain intense for at least the rest of this year, and PNG won't be immune from those
  - interest rates will rise further, potentially to levels that risk inducing recessions in some of the world's largest 'advanced' and 'developing' economies – and again PNG can't be immune from that
  - even if central banks in major economies do manage to pull off 'soft landings', global growth will slow
  - and that will result in lower prices for most commodities, including PNG's major export commodities
- ❑ **Geo-political tensions are likely to remain elevated, and could rise further**
  - the Asia-Pacific region – and in particular the south-western Pacific in which PNG is the most populous nation and the largest economy – will see increased rivalry between the US (and its allies) and China
  - if Donald Trump (or someone like him) were to win the 2024 US Presidential election, countries large and small in the region will face some potentially very difficult choices
- ❑ **Papua New Guinea has enormous potential to increase its production and exports of strategic minerals, energy and food products**
  - but achieving that potential will require a stable political environment, coherent foreign investment and taxation policies, and increased investment in education & training, and in infrastructure

Q & A