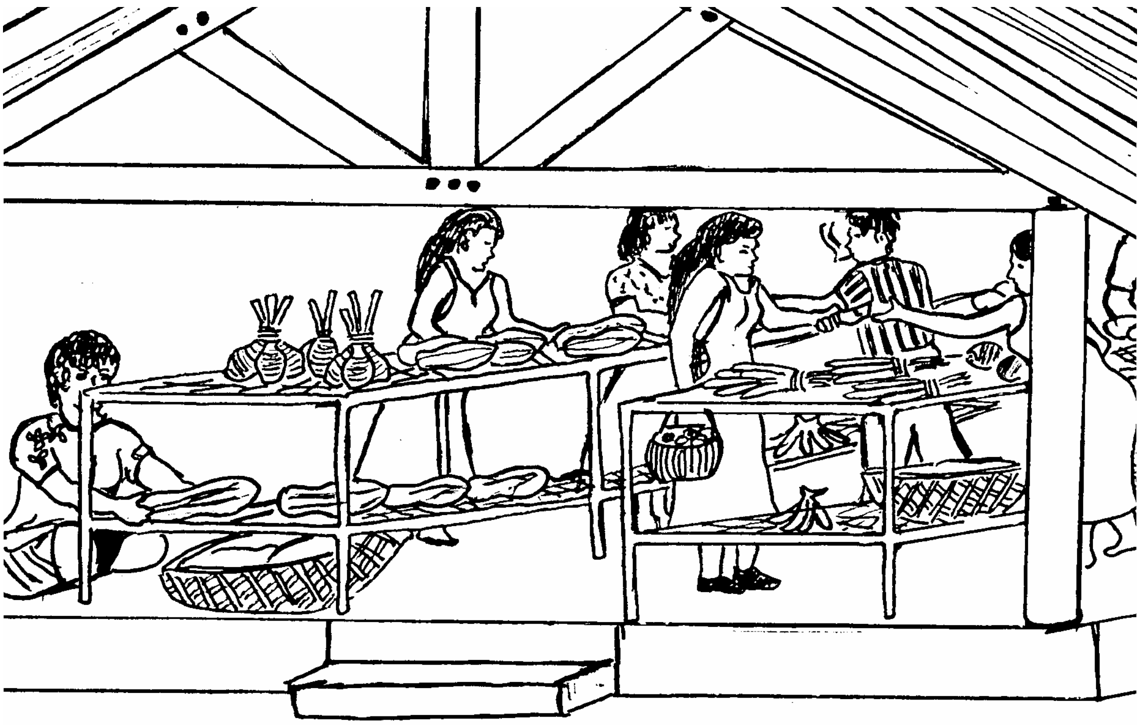
Social and Spiritual Development Strand

Social Science

Unit 5: Economic Development

Module 5.1: Managing the Economy



Lecturer Support Material

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Unit outline

Unit	#	Modules
Unit 5 Economic Development	5.1	Managing the Economy (Core)
	5.2	Trade and Development (Core)
	5.3	Employment and Production (Optional)
	5.4	The Finance Industry (Optional)

Icons

	Read	or	research
	Write	or	summarise
	Activity	or	discussion
	Suggestion for lecturer		

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Module 5.1: Managing the Economy

Rationale

Successful management of the economy has far-reaching benefits for the population of a country. Poor economic management, especially in developing countries, causes a significant decline in the quality of life of residents of those countries. Economic management is a complex task and governments and economists must consider issues such as globalisation, inflation, development, investment and monetary policies.

Objectives

By the end of this module students will:

- Understand the difference between commerce and economics
- Know about economic systems and related management issues such as inflation and recession
- Recognise the need for careful economic planning and policy development at all levels of government and business
- Recognise PNG's role in the global economy
- Understand sources of government funding such as taxation

Teaching Module 5.1

The main emphasis in the teaching of each topic is to include a range of activities and to develop skills which will be useful for beginning teachers in their own classrooms.

ⓘ An important resource for this module is the daily newspapers. (These can be obtained for free at the end of each week from your local Post Courier or The National office.

Other particularly useful resources include the PNG Year Book, PNG Primary and Secondary School Atlases, census data and the national Population Policy 2000-2010. Details of these books are found in the reference section.

- Collect newspaper files on various topics such as government spending and loans, overseas economic influences, privatisation and overseas investment.
- Hold debates or controlled discussions on contentious issues such as privatisation, overseas aid, provision of services.
- Interview local level or provincial government officers about monetary policies and budgets.

In this and the other Unit 5 modules, a number of words and phrases are highlighted in bold print. It is essential that students understand the meaning of these terms. Definitions can be found in dictionaries, encyclopedias, commerce of economics textbooks and within the modules. Most of the terms are listed below. It would be a valuable task to have students compile an economics dictionary, and to translate some of the basic terms into the vernacular for use in primary classes.

Balance of payments	Borrowings	Monetary policy
Balance of trade	Liability	Fiscal policy
Commerce	Revenue	Multinational
Company tax	Tariff	Industrialisation
Economics	Monopoly	Credit
Entrepreneur	Trusts	Currency
Gross national product	Multilateral aid	Company
Limited liability	Sole trader	Profit margin
Macroeconomics	Cartel	Loan
Mercantalism	Merger	Market forces
Microeconomics	Commodity	Foreign exchange
Mixed economy	Bilateral aid	Cash economy
Privatisation	Tied aid	Currency fluctuation
Value added tax (VAT)	Disposable income	

Module 5.1 Content

Topic 1: Introducing commerce and economics

There is considerable confusion about what is involved in the study of commerce and economics.

Students need to be aware that the resources to teach primary school topics such as work, trade, industry, business and money are found in a range of Commerce books.

An understanding of economics is important because economics influences all facets of government, financial, resource and social development, environmental decision-making, policy and planning and international relations.

Commerce

Commerce is trade in goods, usually over a distance. Most people spend the bulk of their resources on food, and what they can't grow or gather themselves they obtain through purchase or trade. In addition to food, clothing, and shelter, those with more income purchase vehicles, services, jewellery, holidays and luxury items.

The development of ocean-going warships and efficient merchant carriers in the 15th and 16th centuries led to a rapid expansion of commerce. As the cost of transporting bulky cargoes over long distances fell, grain was imported on a large scale from the Baltic to the Netherlands and other parts of Europe. New ocean routes between Europe and the East allowed imports from Asia at lower prices and in greater volume than had been possible by overland caravan. The discovery of the Americas created trade in such new commodities as tobacco and logwood.

Spanish exploitation of the rich gold and silver deposits in Mexico and Peru transformed the character of international commerce. In return for Asian imports, Europe exchanged silver coin minted in Mexico, Spain, Italy, and Holland. Using technology and skills developed in transoceanic navigation, the Europeans captured the Asian shipping trade. European vessels transported Japanese copper to China and India, Indian cotton textiles to southern Asia, and Persian carpets to India. Trade in certain staple commodities grew with incredible speed.

As long-distance trade continued to grow, new forms of commercial organizations appeared. After the 16th century, the chartered company became the customary way for merchants to organize their affairs. These great companies, created by the state but privately owned and managed, held national monopolies over trade with certain regions.

Later commerce was transformed again, this time by the Industrial Revolution. Because the first Industrial Revolution occurred in Europe, that continent was at the centre of the global commercial network for much of the 19th century. European economies depended on foreign markets to supply raw materials and to demand manufactured goods.

Industrial growth affected commerce in numerous ways. Initially, the increased production stimulated trade in raw materials, for example, Europe became a steady importer of wheat from North America, Australia, Argentina, and India, paying for its imports with the products of industry.

By the end of the 19th century, regions producing primary goods were no longer the most important outlets for the products of European and North American industry. Increasingly, industrial nations became each other's principal customers, and commerce between the Americas and the European countries took on a multilateral character. The opposite was true for such regions in Africa, Asia, and Latin America: many became part of European colonial empires, and nearly all came to depend heavily on a few foreign markets.

The reduction of trade barriers and the continued expansion of international commerce are two of the notable achievements of the post-war era although many countries still imposed import quotas and negotiated voluntary export restraints. Tariff reductions have been accomplished through the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO), and by the creation of customs unions. For the world as a whole, the value of international commerce (exports plus imports) rose dramatically. Many countries

☞ 5.1 Activity 1

Use material in Unit 3 modules to find out why European settlers came to Papua New Guinea. What trade were they involved in?

What are PNG's made trade exports today and who buys the exports?

Economics

Economics is the social science concerned with the production, distribution, exchange, and consumption of goods and services. Economists focus on the way in which individuals, groups, business enterprises, and governments seek to achieve efficiently any economic objective they select.

Standard economics can be divided into two major fields. The first, **price theory or microeconomics**, explains how the interplay of supply and demand in competitive markets creates a multitude of individual prices, wage rates, profit margins, and rental changes. Consumers try to spend their income in ways that give them as much pleasure as possible. As economists say, they maximize utility. For their part, **entrepreneurs** seek as much profit as they can extract from their operations. The second field, **macroeconomics**, deals with modern explanations of national income and employment.

Economic issues have occupied people's minds throughout the ages. The development of modern nationalism during the 16th century shifted attention to the problem of increasing the wealth and power of the various nation-states. The economic policy of the leaders of that time, known as **mercantilism**, sought to encourage national self-sufficiency. Mercantilists valued gold and silver as an index of national power. It was vital for a nation to keep wages low and the population large and growing. Ordinary men and women were encouraged to work hard and avoid such extravagances as tea, gin, ribbons, ruffles, and silks. It also followed that the earlier that children began to work; the better it was for their country's prosperity.

Later economists believed in

- Private property
- Free markets
- The principle of competition
- Government protection of children and workers
- Worker ownership of factories

Opposition to the classical school of economics came first from early socialist writers but it was Karl Marx who provided the most important social theories. Marx's central conflict was between so-called capitalists who owned the means of production—factories and machines—and workers or proletarians who possessed nothing but their bare hands. Marx believed that capitalism would fail because its tendency to concentrate income and wealth in ever fewer hands created more and more severe crises of excess output and rising unemployment.

Keynesian Economics is the basis of contemporary macroeconomics. Because consumers were limited in the amounts that they could spend by the size of their incomes, they could not be the source of the ups and downs of the business cycle. It followed that the dynamic forces were business investors and governments. In a recession or depression, the proper thing to do was to either enlarge private investment or create public substitutes for the shortfalls in private investment. In mild economic contractions, easy credit and low interest rates (monetary policy) might stimulate business investments and restore demand to a figure consistent with full employment. More severe contractions required the sterner remedy of deliberate budget deficits either in the form of spending on public works or subsidies to afflicted groups.

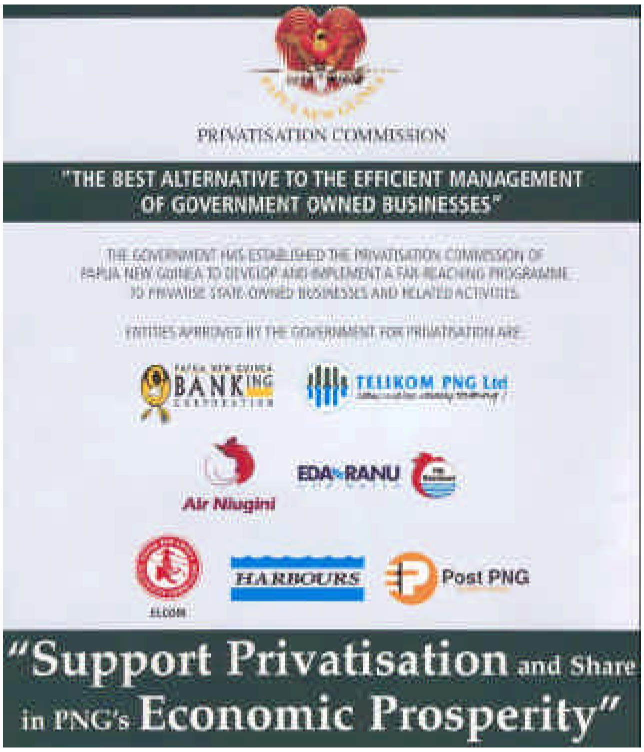
Economic systems

All organized communities mix, in various proportions, market activity and government intervention. Private markets themselves differ widely in the degree of competition under which they operate, all the way from single-firm monopolies to the fierce rivalry among hundreds of retailers. Much the same point applies to government intervention, which ranges from mild manipulation of tax, credit, contract, and subsidy policies through mandatory controls over wages and prices to the detailed central planning of Communist countries.

In most capitalist economies, the government owns and operates railways and airlines. The United States, the most devoted of major capitalist economies in terms of the free enterprise system, has rescued faltering corporations such as Lockheed and Chrysler and has, for all practical purposes, converted a number of major defence contractors into federal subsidiaries. Many American economists have come to accept the concept of a **mixed economy** combining private initiative with some government control.

Capitalist economic systems - Free Enterprise and privatisation

A range of articles and information on privatisation in PNG is provided in the Additional support materials package. These can be copied and/or displayed for classroom use.



The major differences between Communist and capitalist economic organization is concern about the ownership of factories, farms, and other enterprises, as well as contrasting principles of pricing and income distribution. In most capitalist economies, the majority of gross national product (GNP) is directly generated by profit-making business enterprises, farmers, and such voluntary non-governmental entities as private universities, hospitals, cooperatives, and foundations. In recent years, many countries have followed Great Britain in privatising many government-owned enterprises, and introducing competition in many services (such as health and education). This worldwide trend towards **privatisation** has significantly reduced government interference in the operation of industry and reduced government influence over price setting.

Communist economic systems - Central Planning

Precisely the reverse attitude towards economic central planning has been the case in China and certain other Communist countries. Although private enterprises are increasingly being tolerated, and no centrally planned economy has been able to function without some reliance on private ownership of agricultural land, the dominant ideology favours state planning over competitive price setting, and public ownership of factories, farms, and large retail establishments.

The gravest problems of capitalism are unemployment, inflation, and economic injustice. Parallel problems in centrally planned economies include underemployment, rationing, bureaucracy, and scarcity of many consumer items.

☞ 5.1 Activity 2

The government of PNG is engaged in privatising a number of government businesses. List the businesses involved. What will the buyers receive? How will the government guarantee that services will still reach those most in need?

Read the resource material provided on privatisation and record two arguments for privatisation and two against. Support your arguments with specific examples of benefits and disadvantages.

Current economic problems

Between 1945 and 1973, the economies of the industrialized nations of Western Europe, Japan, and the United States grew fast enough to vastly improve living standards for their residents. A similarly favourable growth was registered by some, but far from all, of the developing or industrializing nations, in particular such thriving South East Asian states as Taiwan, Hong Kong, Singapore, and South Korea.

By 1973, increasing international demand made oil a scarce and valuable commodity. At that time the Organization of the Petroleum Exporting Countries (OPEC), which controls the bulk of the world's oil reserves, seized the opportunity to sharply raise prices. OPEC's policies dramatically reduced the possibilities of rapid economic growth both in the industrialized countries and in those developing nations without oil of their own. Oil, which in the autumn of 1973 cost $2 per barrel, sold in mid-1981 at nearly 20 times that figure. Third World importers borrowed enormous sums, mostly from major banks in Western Europe and the United States. Staggering under the interest payments, poor nations have been compelled to slow the pace of their development plans.

Inflation and recession

All advanced economies confronted persistent combinations of high inflation, severe unemployment, and sluggish economic growth during the 1970s and 1980s. OPEC's transformation of the world energy market increased inflation by raising not only petrol and home-heating fuel charges but also the prices of all the important manufactures into which petroleum enters, among them chemical fertilizers, plastics, synthetic fibres, and pharmaceutical products.

Higher prices reduce purchasing power in much the same manner as would a severe new tax. Reduced purchasing power in turn depressed sales of consumer items, resulting in layoffs of factory and sales personnel. The entire procedure had a spiralling effect in all sectors of the economy.

Public policy

The various economic problems of recent decades have stimulated serious debate about the proper role of public policy. Parties on the political left in Europe advocated more controls and more planning. In the 1980s, a different solution was offered by the Conservative party government of Prime Minister Margaret Thatcher in Great Britain and by the Republican administration of President Ronald Reagan in the United States. In both countries, attempts were made to diminish taxation and government regulation on private enterprise and thus, by enlarging the potential profits of corporations, encourage additional investment, higher productivity, and renewed economic growth.

Poor nations desperately need aid from the rich nations in the form of capital and of technological and organizational expertise. They also need easy access to the markets of the industrialized nations for their manufactures and raw materials. However, the political capacity of rich nations to respond to these needs depends greatly on their own success in coping with inflation, unemployment, and lagging growth rates. In democratic communities, it is exceedingly difficult to generate public support for assistance to foreign countries when average wage earners are themselves under serious financial pressure.

Topic 2: Government planning and policies

The transition from a subsistence based to a modern exchange economy is part of the inevitable cultural and social changes which occur within a society over time. The transformation of economic processes, production techniques and trade arrangements are all part of this change. In the twenty-five years since the attainment of self-government, Papua New Guinea has become increasingly urbanised, industrialised and monetised.

Papua New Guinea's topography and many of its cultural and demographic characteristics present significant obstacles to economic development. Some of the difficulties the country has faced in developing its rural infrastructure, increasing and integrating the domestic market and increasing private sector activity and investment in the non-mineral sectors, stem from these geographical and socio-cultural characteristics.

In contrast to the strong governments, regarded as a common factor in the relative economic success of many of the South East and East Asian economies, Papua New Guinea's political system often led to a lack of continuity and coordination in planning and policy formulation. There is a wide perception that many of the political and bureaucratic weaknesses, resulting in ineffectual policy implementation and service delivery, are a consequence of poor governance. The gulf between policy statements and application is a feature stressed in the many economic reviews conducted in relation to such areas as rural development, public utility management and decentralisation.

At present there are two economies existing side by side in Papua New Guinea, the traditional economy and the cash economy. The traditional sector, mainly subsistence farming, supports about 80% of the population. The traditional activity of the country is subsistence gardening. Most villages are self-sufficient and only small surpluses of produce are available for trading. The growth of towns has however, encouraged small-scale cash cropping in nearby villages, and these crops are sold by village people in the town markets. The cash or modern economy is very much as open economy geared for international trade rather than domestic consumption. Exports are mainly minerals and agricultural commodities and the country imports most of the finished goods it requires.

Hides gas field

Mine excavation

Over the past two decades, Papua New Guinea's economic growth has been characterised by a heavy reliance on commodity exports from the mining and petroleum sectors. The mining and petroleum sectors have a major impact on the PNG economy through their contribution to foreign exchange and government revenue (funding around 20 per cent of government revenue). The mining and petroleum sectors account for around 60 per cent of Papua New Guinea's export revenue (compared to 25 per cent from agriculture). Over 85 per cent of Papua New Guinea's population depend upon agriculture, forestry or fishing for their livelihood. The monetised part of the agricultural and forestry sectors is generally geared towards servicing overseas markets, with coffee, palm oil, cocoa, copra and unprocessed logs the most important exports.

Mining to decline over years: Ipatas

PAPUA New Guinea's gold and copper production will decline substantially in nine years, says Mining Minister Peter Ipatas. ….'The Government's main concern now is the country's mineral production profile in the future due to the current lack of exploration activities in the country. "If we look at our gold and copper production over the next 10 to 15 years, we see that from the year 2005, it progressively declines, with a major fall-off in production in 2010, with the end of operations at OK Tedi," Mr Ipatas said. "Without revenues from a healthy mining industry, the Government will not be able to meet its development objectives in almost every other sector. "It has become clear to me that at the present time, there is almost no new grassroots exploration taking place. Without this exploration, there would be no new discoveries and there would be no new projects, said. "This has been my greatest concern since coming into office. I am told that the level of grassroots exploration in the first half of this year is only K300, 000. "This is barely enough to keep only one exploration licence current, this level of exploration is unsustainably low, as it is insufficient to yield new discoveries." He said PNG is currently living off the discoveries of the 70s and 80s but "we cannot hope to live off these old discoveries forever". Mr Ipatas said he has asked the Government to set up a high-powered inter-agency committee to specifically address the issue of mineral exploration.

Economic Outlook

The PNG economy is currently experiencing difficult times. The non-resource economy - particularly coffee and copra which have been seriously affected by low production and low international prices - has performed poorly. Business has been hard-hit by a combination of low government spending, depressed consumer demand, high interest rates and a depreciating kina.

In recent years financial institutions and bilateral donors have made available funds of around US$365 million to finance structural reforms, repay domestic debt and rebuild foreign exchange reserves. In June and December 2000, Australia made two loans of $US80 million and $US30 million to Papua New Guinea. The loans supported economic and governance reform, focusing on the establishment of financial stability, delivery of services to rural areas, institutional and public sector reform, privatisation and forestry sector management.

Other recent economic reforms include the development of a framework for management of rural development funds, and legislative reform, including the Central Bank Act (CBA) and the Banking and Financial Institutions Amendment Bill (BFIA). The CBA aims to strengthen the independence and accountability of the Central Bank and the BFIA to strengthen the supervision of banks and non-bank financial institutions.

Semi-annual monetary policy statement

(Bank of Papua New Guinea- July 31, 2001)

The World Economy

World economic growth as measured by Gross Domestic Product (GDP) is projected to increase by 3.2 percent in 2001, compared to 4.8 percent in 2000. The lower growth in 2001 is mainly attributed to the slowdown in the major industrialised economics, particularly the United States (US) and Euro-zone and continued recession in Japan, following the after-effects of higher oil prices, sharp falls in equity prices and the lagged effects of the tight monetary policy regimes pursued in those economies. The slowdown in the US was attributed to the sluggish growth in activity in the manufacturing sector coupled with the weak foreign and domestic demand. For the remainder of 2001, global economic activity will depend on how deep and prolonged the slowdown in the US will be. However, there are positive indications that the slowdown will be short-lived following significant cuts in short term interest rates in the US, with long term interest rates already on a declining trend and, with inflationary risks, receding, most advanced economics have begun to ease monetary policy.

Domestic Economic Activity

Preliminary estimates of economic activity in Papua New Guinea (PNG) indicate that the total real GDP increased marginally in 2000. Latest estimates are for economic activity to remain subdued in 2001, with real GDP growth revised downwards from the projected 3.1 percent. The revision was mainly due to lower activity expected in the agriculture/fisheries and mineral sectors. The decline in the agriculture/forestry/fisheries sector reflected lower cocoa oil production, while in the mineral sector, the decline is due to lower crude oil, gold and silver production.

Balance of Payments

Preliminary outcome of the balance of payments for the first five months of 2001, show an overall surplus of K180 million. This resulted from a surplus in the current account of K418 million, which more than offset a deficit of K279 million in the capital account. The current surplus was attributed higher values of merchandise exports, mainly crude oil, copper and forestry products, which than offset the decline in most agricultural exports, higher imports and net service payments. The deficit in the capital account was due to loan repayments by the Government, net purchases of short-term money market instruments by the mineral companies combined with an increase in net foreign assets of the non-official monetary sector.

☞ 5.1 Activity 3

Similar reports are published in the newspapers every six months. Find the most recent report and compare it to this one. What changes have occurred in the world and PNG economic outlook?

Economy on track- PM

The Prime Minister Sir Mekere Morauta said yesterday constant monitoring of the economy and the 2001 Budget continued to confirm that both were performing within the parameters expected when the Budget was passed. … Sir Mekere said revised projections done in February for end-of year consolidated tax revenue were in line with those projected for the Budget in November last year. Collections for the first quarter were below expectations but would, as usual, be recovered by the end of the year. But the Prime Minister pointed out that the Internal Revenue Commission's consolidated revenue collections were now in fact four percent above projections to date. Economic indicators showed that conditions had improved dramatically since the Government took office in July 1999 and developed competent and responsible economic policies. "Interest rates have been halved. They were 27 percent in July 1999 and today they are 13 percent," Sir Mekere said. "Inflation has also been more than halved. Under the Skate Government it hit 22 percent. Currently it is 10 percent. "The value of the national currency has been stabilised. When the previous government was elected, the kina was worth 71 US cents. In less than two years that Government's policies caused it to hit an all-time low of 27.25 US on 11 June 1999. "Since our policies took effect, the kina has stabilised and is now trading at 33 US cents, as predicted by the Budget." "Finally, the previous government left us with foreign reserves of just $US 95 million. Today they are $US360 million. They have more than trebled …" Sir Mekere said.

Post-Courier, 14 May 2001

☞ 5.1 Activity 4

Find out the current interest rates, inflation rate and kina value compared to the US$. Try to explain why the figures are higher or lower than in May 2001.

All doom and gloom for us

Papua New Guinea's economic outlook for the remainder of the year and next year looks really gloomy, a regional economist warned yesterday. The ANZ bank's senior regional economist based in Melbourne, Bernard Shuttleworth in his annual review of the PNG economy, said it was not looking good at all for PNG. "It's difficult to see any growth at all in 2002, with continued declines in most commodity prices, the kina is likely to drift downwards and investors becoming increasingly risk averse," …The IMF said in its recent report on PNG that the country was in a recession. Mr Shuttleworth said that as a resource based economy, PNG was at the mercy of international market forces and the outlook for all commodities was grim. He said: "A small resource based economy has few options, that is, invest in infrastructure (human and economic) as part of a long term strategy, work to attract foreign investment, wait for commodity prices to improve and reduce government spending." He said that the perception of corruption in PNG was also a very negative factor in attracting foreign investment to PNG.

> Mr Shuttleworth also painted a very gloomy outlook for PNG's agriculture commodities. He said the impact of this would be felt greatly in the rural areas, as most of the production of coffee, copra, timber and other crops take place in rural areas where the majority of the population lived. He said the "outlook for PNG's commodity income in 2002 is not bright". Mr Shuttleworth said he expects oil production and prices to decline, gold production and prices remain steady, copper production to fall but prices to increase, log prices to remain steady but production to fall, coffee production and prices to fall and palm oil production to rise but for prices to remain steady. …. The government had predicted the annual gross domestic product to rise by 3.1 per cent but that was revised downwards to 0.3 per cent in April and was revised further to minus one per cent recently. However, Mr Shuttleworth said that the PNG is expected to record an economic growth of minus three per cent this year and is likely to remain stagnant next year. He said the stagnant economy, combined with perceptions about the government's cash-flow problems and the earlier finance, were affecting the kina. Mr Shuttleworth said it was ironic that the country is under a better management but things were not looking good.
>
> *Post Courier*, 1 November 2001

☞ 5.1 Activity 5

Re-read the newspaper articles above and decide why the economic picture painted by the different authors is so different.

National income

National income is the total net income earned by the people of a country in producing the national output of goods and services over a period of time, usually a calendar year.

National income figures are taken from the basic figure called **gross national product** and are the result of certain reductions and additions from that figure. Economists generally approach income figures from either of two standpoints. In one approach, income consists of the total annual sum paid as rent for land, wages for labour, interest on capital, and profits for management. In the second approach national income is the total net money value of the national output of goods and services. National income statistics may be taken as an index of the prosperity of a nation if the prices used to evaluate income and output provide a reasonable indication of the country's economic welfare and of changes in the price and quality of goods.

☞ 5.1 Activity 6

Find out the GDP figures for Papua New Guinea and two other developing countries in Asia or the Pacific. Compare them to the figures from three developed countries including the USA.

Topic 3: Inflation

Inflation and deflation are terms used to describe, respectively, a decline or an increase in the value of money, in relation to the goods and services it will buy.

Inflation is the pervasive and sustained rise in the level of prices measured by an index of the cost of various goods and services. Repetitive price increases erode the purchasing power of money and other financial assets with fixed values, creating serious economic distortions and uncertainty. Inflation results when actual economic pressures and anticipation of future developments cause the demand for goods and services to exceed the supply available at existing prices or when available output is restricted by declining productivity and market constraints.

Deflation involves a sustained decline in the aggregate level of prices, such as occurred during the Great Depression of the 1930s. It is usually associated with a prolonged erosion of economic activity and high unemployment. Widespread price declines have become rare, however, and inflation is now the dominant variable in macroeconomics affecting public and private economic planning.

When the upward trend of prices is gradual and irregular, averaging only a few percentage points each year, such creeping inflation is not considered a serious threat to economic and social progress. A greater concern is the growing pattern of chronic inflation characterized by much higher price increases, at annual rates of 10 to 30 per cent in some industrial nations and even 100 per cent or more in a few developing countries.

Inflation initially increases business profits, as wages and other costs lag behind price increases, leading to more capital investment and payments of dividends and interest. Personal spending may increase because of “buy now, it will cost more later” attitudes; potential property price appreciation may attract buyers. Domestic inflation may temporarily improve the balance of trade if the same volume of exports can be sold at higher prices. Government spending rises because many programmes are indexed to inflation rates to preserve the real value of government services and transfers of income. Despite these temporary gains, however, inflation eventually disrupts normal economic activities, particularly if the pace fluctuates.

To accommodate chronic inflation, normal economic activities are disrupted:

- Consumers buy goods and services to avoid even higher prices;
- Property speculation increases
- Businesses concentrate on short-term investments
- Incentives to acquire savings, insurance policies, pensions, and long-term bonds are reduced because inflation erodes their future purchasing power
- Governments rapidly expand spending in anticipation of inflated revenues
- Exporting nations suffer competitive trade disadvantages forcing them to turn to protectionism and arbitrary currency controls

Changes in the national income determine consumption and investment rates; thus, government fiscal spending and taxation policies should be used to maintain full output and employment levels. Government spending and tax policies can be used to offset inflation and deflation by adjusting supply and demand.

Factors affecting inflation rates can include:

- The long-term pace of capital investment and technological development
- Changes in the composition and age of the labour force
- The shift away from manufacturing activities
- The rapid proliferation of government regulations
- The growing scarcity of certain raw materials
- Social and political developments that have reduced work incentives
- Various economic shocks such as international monetary and trade problems, large oil price increases, and sporadic worldwide crop disasters

Inflation erodes the real purchasing power of current incomes and accumulated financial assets, resulting in reduced consumption, particularly if consumers are unable, or unwilling, to draw on their savings and increase personal debts. Business investment suffers as overall economic activity declines. Higher export prices eventually restrict foreign sales, creating deficits in trade and services and international currency-exchange problems.

Effective stabilization efforts require a sustained application of consistent monetary and fiscal policies. The fundamental requirement is stable expansion of money and credit commensurate with real growth and financial market needs. Over extended periods, the central bank can influence the availability and cost of money and credit by controlling the financial reserves that are required and by other regulatory procedures. Government spending and tax policies must be consistent with monetary actions to achieve stability and prevent exaggerated swings in economic policies

Topic 4: Taxation

Taxation is a system of compulsory contributions levied by a government or other qualified public body on people, corporations, and property, in order to fund public expenditure. In deciding whom, what, and how much to tax, all governments have economic and social objectives. Some types of business activity or product, such as cigarettes, may be discouraged by heavy taxes. Other businesses, such as those operating in depressed areas, may be encouraged by tax breaks, or taxation may be used to bring about social reforms through altering the distribution of wealth.

Tax systems are as varied as the nations that devise them, ranging in complexity from the most basic arrangements to computerized revenue systems. Tax systems perform differing functions, depending on the responsibilities expected of the enacting government. Local governments traditionally depend most heavily on property taxes, and central governments on sales taxes and income taxes. Local governments are required to keep their expenditures within the budgetary limits, determined by their own revenues augmented by payments received from central government, though in some circumstances they can borrow money. The central government, however, can borrow or even create money; it does not have to raise enough from its tax system to balance its budget.

Taxation is also the basic instrument of fiscal policy. In depressions, for example, taxes may be lowered and budget deficits incurred so that consumers will have money to buy goods and investors will have capital to put into industry, thus stimulating production. In prosperous times, tax increases may be needed to hold down or prevent the inflation caused by too much money chasing too few goods, or if the government prefers to control inflation through interest rates, taxes may be cut for political or other ends.

Among the tax systems of different nations, wide variations exist in how money is raised and spent. Tax and expenditure policies reveal the fundamental ideology of a government and a political system.

- Of fundamental importance is that any tax must be fair—that is, citizens should be taxed in proportion to their abilities to pay. A tax is considered fair if those who have the means to pay are assessed in proportion to either their capacity to pay or, depending on the situation, in proportion to what they receive from the government. Just as important is horizontal equity—the principle that people who are equally able to pay and who benefit equally should be taxed equally.
- The application of a tax should be clear and certain. Where the application of taxes is uncertain and arbitrary, however, the public can have no confidence in the system. The old British tax on numbers of house windows was disliked and widely resisted partly because its rationale was unclear.
- Taxes should be easy to calculate and collect. Compliance with income tax laws increased dramatically where a system of deducting tax from earnings before they are paid has been introduced.
- A good tax system should be structured so that it can be administered efficiently and economically. Taxes that are costly or difficult to administer divert resources to non-productive uses and diminish confidence in both the levy and the government.

Types of taxes

In designing tax systems, governments customarily consider three basic indicators of taxpayer wealth or ability to pay:

- What people own
- What they spend, and
- What they earn

Among major revenue sources, the property tax on land and its produce is the oldest of modern taxes. As market places developed, taxes on the sale or transfer of goods became productive sources of revenue. International commerce gave rise to customs duties, levied both to yield revenue and to control the amount and kind of imported merchandise. Domestic trade spawned a variety of taxes, ranging from excises on specific commodities (such as the ancient salt tax) to levies aimed at taxing designated transactions. An example of the latter, still widely used in some parts of the world, is the stamp duty on bills of sale and other legal and financial documents. Also widely used today are excise taxes of many kinds, especially on luxury items and on goods such as alcohol and cigarettes, the use of which governments wish to regulate. Many countries levy sales taxes at the retail level. To lighten the burden on the poor, countries exempt necessities such as food and prescription drugs. European Union countries and Papua New Guinea use a **value added tax (VAT),** levied on goods and services, at each stage of production, on the value added at that stage.

No tax is levied with perfect evenness or on a completely comprehensive base; its burden inevitably falls more heavily on some taxpayers than on others. The exemptions, exceptions, and other loopholes in tax laws are partly the result of humanitarian concern for those who might be overburdened; partly, they reflect political pressures; and partly, they come from administrative inefficiency or inability to deal with the extremely complex tax structure, or to foresee all possibilities for tax evasion.

☞ 5.1 Activity 7

Collect articles or stories from other sources about the difficulties of collecting and disbursing the VAT to provinces

By using a variety of taxes, governments can attempt to ensure that the tax burden falls fairly across all taxpayers. Levies are often imposed to achieve fairness in terms of benefits received. These include:

- Petrol taxes that are earmarked principally for road maintenance and construction;
- Business levies collected to provide unemployment insurance; and
- Social security taxes allocated to worker casualty-insurance and retirement funds

Despite the difficulties of precise measurement, governments are appropriately concerned with the vertical pattern of the tax burden:

- Does it fall proportionately more heavily on the rich than on the poor (progressive taxation)?
- Does it burden everyone to the same degree in relation to taxpaying ability (proportional taxation)?
- Does it place a relatively heavier burden on the poor (regressive taxation)?

In most modern nations, a generally progressive tax structure is considered desirable for two reasons. First, a progressive tax is considered more equitable (because the wealthy have more ability to pay). Second, extremes of wealth and poverty are considered injurious to the economic and social well being of a society, and a progressive tax structure tends to moderate such extremes. On the other hand, tax rates that are too progressive—that rise too steeply—may discourage both work and investment by removing much of the reward.

Taxation in PNG

The government of Papua New Guinea raises funds through a variety of taxes including: income tax, withholding tax, consumption tax (VAT), stamp duty and various other levies.

The Taxation System

(article contributed by Deloitte Touch Tohmatsu)

Income Tax - Companies

Companies resident in Papua New Guinea are defined as those companies incorporated in Papua New Guinea or if not incorporated in Papua New Guinea those companies carrying on business in the country whose central management and control, or voting power, is controlled by Papua New Guinea residents. A resident company is taxed at 25% on taxable income derived from all sources. A credit for foreign taxes is permitted, up to the amount of Papua New Guinea tax payable on the foreign income. A non-resident company is taxed at the rate of 48% on income derived from Papua New Guinea sources.

Assessable Income
Assessable income is gross income from all sources, less any income specifically exempted, and includes;

- gross profit from sales of trading stock, gross receipts from services rendered, commissions, rents and royalties; and
- interest received, gains from transactions entered into with a view to making a profit, dividends and realised gains on foreign exchange.

Total income is usually calculated via the accrual method, with the exception of such items as interest, and foreign exchange gains and losses. Where inventories are a factor in determining total income, they must be valued (at the company's discretion) at cost price, market selling price, or at replacement value. An option exists for special circumstances, such as obsolescence, to be taken into account. The last-in, first-out (LIFO) method is not an acceptable method of valuing inventory.

Deductions
To arrive at taxable income, allowable deductions are subtracted from assessable income. Allowable deductions include ordinary business expenses such as salaries, rents, lease costs, interest, bad debts, travelling expenses

and repairs and maintenance; depreciation on fixed assets at rates set by the Commissioner General of Internal Revenue Commission, reflecting the effective lives of those assets. (There is generally no provision for amortisation of intangible assets, copyrights or trademarks. Nor is there provision for the depletion of natural resources); special deductions designed to achieve specific government objectives; and losses carried forward from previous periods.

Rebates
Expenditure, up to a specified ceiling, incurred on prescribed infrastructure development by mining, petroleum or gas operators is treated as a payment of income tax.

Losses
Losses can be carried forward for 20 years (or, indefinitely, in the case of companies engaged in primary production), subject to the company satisfying continuity of ownership and continuity of business tests. Losses may not be carried back to prior years, nor transferred between companies in the same group.

Income tax - Individuals

Resident individual taxpayers are taxed on their gross income from all sources; non-residents are taxed on their Papua New Guinea sourced income. Generally, any individual who ordinarily resides in Papua New Guinea or who has been in Papua New Guinea for more than six months during a year (whether continuously or not) will be a resident.

Tax Rates
The rates for resident individuals are as follows: Taxable Income (K)

Exceeding	Not Exceeding	Rate
0	5,500	0%
5,500	16,000	25%
16,000	75,000	37%
75,000	95,000	40%
over	95,000	47%

Concessions
Concessions which apply to employee benefits or payments are:

- school fees paid by the employer on behalf of employee's children are exempt from salary and wages tax;
- provision of housing and motor vehicles are taxed at values below their actual cost to the employer; and
- home leave travel costs for employees and their immediate families are exempt from tax for one trip each year, or recreational travel and accommodation within Papua New Guinea to the value of one home leave trip per year.

Income tax - Other Entities

Partnerships
For tax purposes, a partnership is defined as an association of persons, which is not a company, carrying on business as partners, or in receipt of income jointly. A partnership is not a separate entity for tax purposes. Partnership tax returns disclose each partner's share of the partnership profit or loss. Each partner is required to lodge a return disclosing income from all sources, as well as the partnership profit or loss.

Trusts
A trust (other than a unit trust) is a separate tax paying entity, and tax is payable on its net income, whether distributed or not. Resident beneficiaries must disclose their share of the trust's net income. Non-resident beneficiaries receiving a distribution from a trust are taxed at the rate of 10%.

Unit Trusts
A unit trust, which is subject to some stringent definition rules pursuant to the Income Tax Act, are taxable at the rate of 30%. However distributions made to beneficiaries are exempt from tax.

Withholding Taxes
Dividends
Company dividend payments are subject to a dividend withholding tax of 17%. Petroleum and gas companies however, are exempt from this tax. For non residents this is a first and final tax. Resident individuals include dividend income in assessable income, but receive a credit for any DWT paid. Resident companies receive a rebate of tax which renders dividend income effectively tax free.

Interest
Withholding Tax at the rate of 15% applies to interest paid or credited by a financial institution or company to a resident. The withholding tax to any interest paid to a non-resident from sources in PNG. Interest withholding tax does not apply to interest paid to a non resident financial institution by mining and petroleum companies.

Royalties
Where the recipient and payer of a royalty are transacting at arm's length, royalty payments to non residents are subject to a withholding tax of 10% of the gross royalty payment. Where the parties are associated the withholding tax is 30% of the gross payment. Pursuant to double tax agreements, royalty withholding tax is generally restricted to 10%. An option exists for the non resident recipient of royalties to adopt an annual basis of assessment.

Foreign Contractors Tax

Where a non-resident of Papua New Guinea enters into a prescribed contract, the proceeds of that contract are deemed to have a source in Papua New Guinea and are taxed under separate provisions. These provisions do not apply to salary and wage income which is widely defined to include almost all personal services. The foreign contractor provisions deem 25% of gross contract proceeds to or be the taxable income of the contractor in PNG

Other Taxes

Stamp Duty

Stamp duty is payable on transfers of property and assets including transfers of interests in land, as well as on a wide variety of written instruments; - ie leases, contracts, share transfer deeds, insurance policies and deeds of gift and assignment. if the documents are not stamped, they cannot be relied upon in court proceedings, and may be subject to heavy monetary penalties.

Value Added Tax (VAT)

Sales tax was replaced by Value Added Tax which was introduced on the 1st July 1999. VAT is charged at the rate of 10% on all taxable supplies. Businesses and entities with taxable supplies in excess of K100,000 per annum are required to register for VAT. VAT returns are prepared monthly and must be filed with the IRC by the 21st of the following month. Supplies to mining, petroleum and gas companies for use in mining, petroleum and gas operations are zero rated.

Training Levy

Any business that has an annual payroll cost in excess of K200,000 will be subject to a training levy, imposed at the rate of 2% of the annual payroll. The levy can be reduced by certain types of expenditure incurred by the employer in respect of citizen employees: including salaries or wages paid to employees receiving training and associated training costs.

Customs and Excise Duties

These are imposed on specified imported goods and on the local production of certain goods (particularly alcoholic beverages and tobacco products). Imported goods are subject to ad valorem rates and are assessed on their cost including insurance and freight. All importers of goods, including the Government itself, are liable to pay import duties except where any specific class of goods, persons or projects are exempted by notice in the National Gazette or by a specific law. Higher import duty rates apply to protect locally manufactured goods or for anti dumping.

Superannuation

In order to encourage individuals to provide for their retirement, the government is expected to finalise details for regulated superannuation scheme within the next year. The provisions of the Superannuation (General Provisions) Act 2000, will provide for the establishment and regulation of Authorised Superannuation Funds (ASF) to administer and invest funds contributed by members.

A major impact of the Act will be the requirement by employers with 20 or more employees to make mandatory contributions to an ASF on behalf of each of their employees. The contributions will be deductible to the employer up to prescribed limits. The provisions of the Act also allow voluntary contributions.

To ensure the safety of member contributions the Act places the supervision of funds directly under the control of the Central Bank. The Act also confers on the Central Bank certain powers and functions in relation to the licensing and setting of prudential standards for the superannuation industry. Each fund will be required to have a licensed trustee who is required to lodge annual returns with the Central Bank and provide statements of financial and management performance to each member of the ASE

Members will be able to withdraw their entitlements under a number of circumstances including ceasing to be employed at eligibility age and death or permanent disablement.

Tax incentives for businesses

There are a number of areas within the Income Tax Act which offer tax incentives to businesses in Papua New Guinea. These incentives can either exempt specified income from tax or allow a business to claim an immediate (or double) tax deduction for certain specified expenditure. The 3 principal incentives are:

1. Rural Development Incentive which provides a 10-year exemption from income tax for businesses carrying out_a prescribed "rural development industry" in prescribed "rural /development area". The definition of "rural development industry" is very broad and essentially covers most types of business including, for example: agriculture, construction, hotels and restaurants and manufacturing. Specifically excluded from this definition, however, are industries engaged in the exploitation, extraction, processing or transportation of non-renewable natural resources. Also excluded are industries which do not carry on business on an ongoing basis in a rural development area.

2. Export Incentive that offers a 7 year period exemption from income tax for the profits made from the export of a, "new manufactured product" The period

of exemption commences from the day export sales of a product are first made and cover 100% of the export profits in the first 4 years ; and the average increase in export profit for the next 3 years. The products which qualify as a ' new manufactured product" are listed in the Income Tax Regulations and include: canned foods, confectionery, dairy products, glass products, paper products, wooden furniture components and doors.

3. Accelerated Depreciation - Various businesses are encouraged to invest in capital assets by being allowed to claim accelerated depreciation on certain items of plant or articles (which includes buildings). This can either be in the form of 100% accelerated depreciation or the cost of an item of plant can be wholly written off in the year of acquisition, subject to certain rules) or in the form of an "additional 201/6 deduction that can be claimed (again subject to certain rules). A 100% deduction is available for the following items:

- "industrial" plant not previously used in PNG
- plant or articles used directly for the purposes of agricultural production
- plant or articles used by residents solely for commercial fishing purposes
- boats or ships (including ancillary equipment) used by accredited scuba diving or snorkelling tour operators

Industrial plant is defined to be plant which is used in a manufacturing process and which has an effective life exceeding 5 years (as determined by the Internal Revenue Commission) and therefore excludes, for example, vehicles and computers. The definition includes buildings and structural improvements for the housing of manufacturing plant, component parts and the finished (manufactured) product.

Double Tax Treaties

In addition, although not strictly speaking a "tax incentive", PNG has entered into a number of double tax treaties with countries which are PNG's major trading partners. These double tax treaties can, in certain circumstances, significantly reduce the level of tax payable in PNG by residents of those countries. In common with most other jurisdictions, PNG imposes withholding taxes on various types of income (such as interest or management fees) which are earned in PNG by non-residents. In addition, PNG taxes general PNG business income of non-residents at the nonresident tax rate of 48% (compared to the rate of 25% paid by PNG residents). PNG has double tax treaties with: Australia, Canada, China, Fiji, Korea, Malaysia, Singapore and the United Kingdom.

☞ 5.1 Activity 8

What type of tax system operates in PNG – progressive, proportional or regressive?

Describe the difference between income tax, sales tax and value-added tax (VAT).

Topic 5: Overseas influences on the economy

Globalisation will be a victim of this week's attack on America.

There are echoes of the end of the last great era of globalisation in the events of this week. The belief that commerce will drive the world indefinitely is giving way to the divisive realities of military power. At the turn of the last century, the forces of trade and finance seemed indomitable. Falling transport costs meant that a quarter of the economies of Australia, Britain and Canada were devoted to international trade by 1910. Trade also transformed the economies of poorer countries such as India, China and what became Indonesia. Capital markets had also become international, with nearly 60 per cent of the shares and bonds traded in London being issued by foreign companies and governments. The economist John Maynard Keynes wrote that in this golden age, a businessman in London could invest his wealth in the natural resources and new enterprises of any quarter of the world and share, without exertion or even trouble, in their prospective fruits. The world was soon riven by a military conflict that gave rise to national inspection, isolationism and protectionism. The benefits of trade shrank before the thunder of war.

Even before this week's catastrophe, the idea that the economic forces alone could dictate the future course of international relations was loosing traction. For most of the past decade, until the election of President Bush, it had seemed as if the inexorable force of globalisation would catch all the world's nations in its thrall. Their engagement in trade and its benefits would diminish the threats to world peace. At last year's Davos gathering, President Bill Clinton said: "Fifty years of experience shows that greater economic integration and political co-operation are positive forces. Leaders from business, government and civil society must come together to build a future that can unite, not divide us. We must recognise first that globalisation has made us all more free and more interdependent." Clinton's view was that just as China and, to a lesser extent, Russia, had come to understand that engaging with trade, foreign investment and capital flows was a path to prosperity, so too would the so-called rogue states such as North Korea and Iran. …

President Bush, by contrast, has made clear his belief that economic influence rests upon military power. Strategic cooperation with security partners has been at the top of nearly all the communiqués with national leaders that he has met, including with Prime Minister John Howard this week. The strategic threats he has identified are the rouge states such as North Korea, the resurgent power of China and Moslem fundamentalism in the Middle-East and Asia. The view that economic power is underwritten by the military is certainly shared by America's Moslem critics. Osama Bin Laden's agenda is not to destroy globalisation as such, but rather the American hegemony that underlies it, particularly in the Middle-East. America is perceived as an occupying power both military and economically. With America removed form Saudi Arabia and the client states in the Gulf such as Kuwait, Bahrain and Qatar, the Moslem world would emerge as a global power supported by oil wealth.

(Links, Sep 15-16)

World Bank

After World War II, many nations needed help in rebuilding what had been destroyed and developing new industries. A world bank was created for this purpose. Founded in 1944, the World Bank Group consists of five closely associated institutions: the International Bank for Reconstruction and Development (IBRD); International Development Association (IDA), International Finance Corporation (IFC); Multilateral Investment Guarantee Agency (MIGDA); and the International Centre for Settlement of Investment Disputes (ICSID). Since that time, loans from the bank have helped promote trade and industry in both developed and underdeveloped nations. Loans are made to member countries or to private business enterprises. The bank, also offers technical assistance to member countries. The World Bank has its headquarters in Washington DC, capital of the United States. The World Bank Group's responsibilities are principally to help countries reduce poverty, particularly by focusing on the institutional, structural and social dimensions of development.

Asian Development Bank (ADB)

Asian Development Bank was started in 1966 to help developing countries of Asia by lending them money. It has its headquarters in Manila, Philippines. Only countries which are members may borrow money. Any country which belongs to the United Nations or one of its special agencies may join. If non-Asian countries join, however, they must be economically developed countries. Each country that joins pledges an amount of money to the bank. Money is loaned to nations for such things as highways, irrigation projects or setting up industries.

The World Bank and the Asian Development Bank have been second in importance, behind Australia, in helping PNG financially. They give technical assistance and loans for education, road, telecommunications, electricity, agricultural and rural development projects.

International Monetary Fund

The IMF was founded in 1944 to promote international monetary cooperation; facilitate the expansion and balanced growth of international trade; promote exchange stability; make its resources temporarily available to its members experiencing balance of payments difficulties under adequate safeguards; and shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members. The IMF's core mandate includes the promotion of international financial stability and the macroeconomic stability and growth of member countries.

IMF loans K310 million, says Prime Minister

The International Monetary Fund has approved a K310 million loan for PNG. A happy Prime Minister, Sir Mekere Morauta, speaking after question time in Parliament, said that PNG has received K32 million of the amount dated 30th March 2000. The funds will go to the Bank of PNG for balance of payments support. The news is expected to boost the kina's recovery against all major currencies.

According to PNG's Executive Director on the IMF board, Greg Taylor, the board approved PNG's request for a 14 month stand-by arrangement. The next payment will be made in August and November this year and February and May next year. He said the market would welcome the news and he expected it would respond positively.

Sir Mekere said, since taking office in July fast year the government through the supplementary budget and further consolidated under the 2000 Budget, had taken a series of actions to restore stability and confidence in our economic management He said the important part of the strategy was the re-establishment of PNG's relations with the IMF and the World Bank, which were important institutions.

Post-Courier, 2001

☞ 5.1 Activity 9

Collect newspaper clippings which refer to World Bank, ADB or IMF activities. Assess the impact these organisations have had on development in PNG.

Interview three people from different backgrounds e.g. politician, business person, villager, to find out their opinions on PNG's dependence on such organisations.

European Economic Community (EEC)

European Economic Community (EEC) is a group of 12 Western European nations which have united in their trade activities. PNG is among 66 former colonies of the EEC nations that deal with them through a group known as African, Caribbean, and Pacific (ACP). They negotiate 5-year aid and trade agreements, which are called Lome Conventions. The EEC also gives the exports of ACP countries preferential treatment. In 1987, the EEC granted PNG K46000000 in interest-free loans (called Stabex Fund loans) to support and strengthen the copra, oil palm, and coffee industries during a period of low prices. In 1984, Rabbie Namaliu, then PNG's Minister for Foreign Affairs and Trade, served as President of the ACP Council of Ministers.

Asia Pacific Economic Co-operation (APEC)

The Asia Pacific Economic Co-operation (APEC) had a long way to go to convince the private sector it was useful, its key business advocate said yesterday. APEC Business Advisory Council (ABAC) chairman Timothy Ong said many business leaders still believed APEC was an irrelevant talkfest.

This year there will be 120 APEC meetings. Mr Ong said, despite scepticism, APEC was the only realistic way trade barriers would be lowered throughout Asia. But he said business leaders were used to decisiveness and fast-paced change rather than the low compromise that was necessary between governments. APEC works on the basis of consensus. Tariffs are enforced by governments, unless we have governments getting together and discussing these things we will not have progress.

Post-Courier, 16 August 2000

APEC office to develop business database

The Port Moresby-based APEC Pacific regional centre will develop a business and economic database with regional and international networks. Cabinet announced an initial funding of K760, 000 with expected additional funds from UNDP for the APEC regional centre which is now situated at the Waigani campus of the NRI The Research activities will take into account APEC and World Trade Organisation initiatives to take advantage of the opportunities emerging from APEC for trade and investment promotion, economic and technical co-operation, and human resources and enterprise development.

PNG, as the only Pacific Islands country member of the APEC needs to assume the role of a 'co-ordinating bridge' between other Pacific countries and the organisation. Through this economic concerns of smaller pacific islands countries can be channelled by PNG to the APEC forum. The NRI and APEC staff will formulate cross-border policies that address trade and investment development, energy co-operation, marine resources exploitation, telecommunication, transportation and tourism.

Post-Courier, 6 May 1997

☞ 5.1 Activity 10

What is PNG’s role in APEC? What does PNG receive from APEC?

Multinational corporations

> ⓘ Multinational corporations can have a major impact on development, either positive or negative. An initial source for finding which corporations operate in PNG would be the telephone directory. For further study, students could focus on corporations operating in the local region, or in a specific sector e.g. mining.

The multinational corporation, because of its great power to plan economic activity, represents an important step forward over previous methods of organizing international exchange. It demonstrates the social nature of production on a global scale. Through its propensity to settle everywhere, and establish connections everywhere, the multinational corporation inhibits the development of national seclusion and self-sufficiency and creates a universal interdependence. It creates hierarchy rather than equality, and it spreads its benefits unequally.

☞ 5.1 Activity 11

In at least four groups, provide a profile of different multinational corporations operating in PNG.

Identify the benefits and problems such groups have brought to PNG.

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