

Social and Spiritual Development Strand
Social Science

Unit 5: Economic Development

Module 5.2: Trade and Development



Student 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

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Module 5.2: Trade and Development

Rationale

The backbone of a nation's economic well-being is its trade, both domestic and international. The profits from trade, industry and investment, in the form of taxes, are used for social, environmental and infrastructure development.

PNG is still a developing nation and trade does not provide enough income to support government programs. Like many other developing countries, Papua New Guinea is very dependent on overseas aid to improve its social indicators

Objectives

After completing this module students will:

- Understand traditional and modern trade mechanisms, including international trade
- Understand the meaning of 'development' In Papua new Guinea and other developing nations
- Understand the concept of 'dependency'
- Be able to analyse the impact of aid programs in PNG and other developing nations

Section 1: Trade

Topic 1 -Traditional trade

Traditional communities were seldom entirely self-sufficient. Salt, for example, was a highly prized item that could be obtained only from the sea or from occasional brine springs in the mountains. People who had no salt supply had to obtain it by trade. They exchanged other foods, or such valuables as bird-of-paradise plumes, for the salt.

Most trade between groups was done by individuals who were traditional exchange partners. Some groups had important trading associations. There were important trading circuits on the coasts. In these circuits, after elaborate preparations of large canoes, long voyages were made across open seas to trade food, pottery, ritual valuables, and many other items. The people of Trobriand and other islands in the Massim area of eastern Papua called their exchanges the kula. On the Papuan coast, Motu men took voyages that lasted up to three months. They exchanged clay pots for sago flour in villages of the Gulf district. A major part of their food came from this source. These voyages have mostly ceased, but people still trade in foods, minor locally produced luxury goods, and ornaments on a small scale. Most people today trade their goods for money, rather than bartering one type of item for another.



Kokopo Market, East New Britain.

5.2 Activity 1

Draw a map of a traditional PNG trade route

List and sketch examples of traditional trade items such as Lapita pottery, kina shells

Visit your local market and list what is for sale. Categorise the products under three or more heading eg fruit, vegetables, other.

Find evidence that some of the goods sold at local markets are produced outside the local region, or made from imported materials.

Topic 2 - International trade

International trade is the exchange of goods and services between nations. “Goods” can be defined as finished products, as intermediate goods used in producing other goods, or as raw materials such as minerals and agricultural products. International trade enables a nation to specialize in those goods it can produce most cheaply and efficiently, and sell those that are surplus to its requirements. Trade also enables a country to consume more than it would be able to produce if it depended only on its own resources. Finally, trade encourages economic development by increasing the size of the market to which products can be sold. Trade has always been the major force behind the economic relations among nations.

Although international trade was an important part of ancient economies, it acquired new significance after about 1500. With the establishment of empires and colonies by European countries, trade became an important arm of governmental policy. The wealth of a country was measured in terms of the goods it possessed, particularly gold and precious metals. The objective of an empire was to acquire as much wealth as possible in return for as little expense as possible. This form of international trade, called **mercantilism**, was commonplace in the 16th and 17th centuries. International trade began to assume its present form with the establishment of nation states in the 17th and 18th centuries. Heads of state discovered that by promoting foreign trade they could mutually increase the wealth, and thus the power, of their nations.

International trade leads to more efficient and increased world production, thus allowing countries (and individuals) to consume a larger and more diverse bundle of goods. The increased international demand for goods translates into greater production and more extensive use of raw materials and labour, which in turn leads to growth in domestic employment. Competition from international trade can also force domestic firms to become more efficient through modernization and innovation.

Within each economy, the importance of international trade varies. Some nations export chiefly to expand their domestic market or to aid economically depressed sectors within the home economy. Other nations depend on trade for a large part of their national income and to supply goods for domestic consumption. International trade is also viewed as an important means to promote growth within a nation’s economy; developing countries and international organizations have increasingly emphasized such trade.

5.2 Activity 2

In groups, research what international trade PNG is involved in. What goods are exported? What goods are imported? Who are our main trading partners? Present your findings in the form of wall charts or graphs.

Because international trade is such an integral part of a nation's economy, governmental restrictions are sometimes introduced to protect what are regarded as national interests. All nations seek to achieve and maintain a favourable **balance of trade**—that is, to export more than they import, or at least to keep the surplus of imports over exports to a minimum. In a money economy, goods are not merely bartered for other goods; rather, products are bought and sold in the international market with national currencies. In an effort to improve its **balance of payments** (that is, to increase reserves of its own currency and reduce the amount held by foreigners), a country may attempt to limit imports by controlling the amount of currency that leaves the country.

The most common way of restricting imports today is by imposing **tariffs**, or taxes on imported goods. A tariff, paid by the buyer of the imported product, makes the price higher for that item in the country that imported it. The higher price reduces consumer demand and thus effectively restricts the import. The taxes collected on the imported goods also increase **revenues** for the nation's government.

In the 20th century, international trade has increased tremendously as a proportion of the world's total economic activity. In 1995 world trade (exports and imports) was, in United States dollars, an estimated \$5 trillion. World trade almost doubled between 1976 and 1985.

It is expected that the trend towards increasing interdependency among national economies will continue, but restricted by the tendency towards regional blocs, which will make some groups of countries more interdependent than others. Many economists foresee the development of three major trading blocs in the developed world—the EU, the members of the North American Free Trade Agreement (NAFTA), and a Pacific-Asian bloc.

The most remarkable feature of international trade is its dynamism. Although its growth has created a world economy, the pattern of trade and its content have dramatically changed in certain eras. Since the 1970s a prominent shift has been the growth of exports of manufactured goods from the economies of East and South East Asia: Japan and the new industrialized countries of the Asia-Pacific region. At the same time as people became aware of a new type of world economy after the 1970s, discussion focused on the importance of East and South East Asia within it. Exports from that region accounted for over 13 per cent of world trade in 1992, having almost doubled their share since 1980. The “four tigers” of Taiwan, South Korea, Singapore, and Hong Kong, plus China and the rapidly growing “tiger cubs” like Thailand, Malaysia, and Vietnam are often seen as the future loci of global economic power.



5.2 Activity 3

Examine a number of goods eg clothing, shoes, appliances etc. List where they were made

What percentage of the goods you listed were made in PNG?

A feature of international trade that makes it truly a global phenomenon is that it is now generally multilateral, with countries' firms and residents buying and selling throughout the

world instead of trading between pairs of countries according to special agreements between their governments. The key institution overseeing the construction of a world of multilateral free trade has been the General Agreement on Tariffs and Trade (GATT), under which countries engaged in negotiations to reduce tariff and non-tariff barriers to trade. The round of negotiations which started in 1986, the Uruguay Round, was concluded in 1993 after a number of years and came into effect in 1995. One of its decisions was to establish a new, powerful international body, the World Trade Organization (WTO) to oversee the rules of the world's trade.

Monopolies

A **monopoly** is an economic situation in which only a single seller or producer supplies a **commodity** or a service. For a monopoly to be effective, there must be no practical substitutes for the product or service sold, and no serious threat of the entry of a competitor into the market. This enables the seller to control the price. One or more of the following elements are of great importance in establishing a monopoly in a particular industry:

- Control of a major resource necessary to produce a product
- Technological capabilities that allow a single firm to produce at reasonable prices all the output of a particular commodity or service
- Exclusive control over a patent on a product or on the processes used to produce the product
- A government franchise that awards a company the sole right to produce a commodity or service in a given area

In the late 19th century in Great Britain, the United States, and other industrial nations, giant business firms began to emerge and dominate the economy. In part, this stemmed from the empire-building tactics of the “captains of industry”, such as the American entrepreneur John D. Rockefeller, who drove most competitors from the field. It also came about because of technological advances that enabled a handful of large firms to satisfy the demand in many markets. The result was not complete monopoly but, rather, an economic order known as **oligopoly**, in which production is dominated by a few firms.

In more recent years, most governments have sought, through competition laws, to prevent the outright emergence of private monopolies in major industries by using law, the courts, and regulators to impose competitive conditions on firms in these industries.

From the viewpoint of society, monopoly leads to effects that are less desirable than those resulting from economic competition. In general, monopoly results in a smaller output of goods or services as compared with competition, and also in prices that are often higher than those in competitive industries. Another practice associated with monopoly is price discrimination, which involves charging a different price for the same goods or services to different segments of the same market.

Among the various kinds of economic monopolies are natural monopolies, trust companies, cartels, and industrial mergers.

- **Natural Monopoly** - Pure monopolies are rare in most economies, except among the public utilities. These industries produce goods and provide services vital to the public well-being, including such essentials as water, power, transport, and communications. Although such monopolies often seem to be the most effective way to supply vital

public services, they must be regulated when privately owned or else be owned and operated by a public body.

- **Trusts** - a device by which the real control of a company is transferred to an individual or small group by an exchange of shares of stock for trust certificates, which are issued by the individuals seeking control. A similar device is the holding company, which issues its own stock shares for sale to the public and “holds” or controls other companies by owning their shares.
- **Cartels** - a cartel is an organization formed by producers whose purpose is to allocate market shares, control production, and regulate prices. OPEC does all these things, but its most highly publicized acts have been to set the world price for petroleum.
- **Mergers** – are efforts to organize an industry in order to achieve practical monopoly control take different forms. Any combination of firms that reduces competition may be of a vertical, horizontal, or conglomerate character. A vertical combination involves merging firms at different stages of the production process into a single unit. Some of the oil companies, for example, own oil fields, refineries, transport systems, and retail outlets. A horizontal combination involves bringing together firms in the same industry and at the same level in the production chain. A conglomerate **merger** combines firms from several unrelated industries into a single organization.

5.2 Activity 4

In groups, find out about monopolies and/or oligopolies such as Microsoft Corporation, Sony Corporation, major motor vehicle manufacturers.

What monopolies operate in Papua New Guinea?

Supply and demand

Supply and demand, in economics are the basic factors determining prices. According to the theory, or law, of supply and demand, the market prices of commodities and services are determined by the relationship of supply to demand. Theoretically, when supply exceeds demand, sellers must lower prices to stimulate sales; conversely, when demand exceeds supply, buyers bid prices up as they compete to buy goods. In economic theory, supply is the amount available for sale or the amount that sellers are willing to sell at a specified price, and demand is the amount purchasers are willing to buy at a specified price.

The theory of supply and demand takes into consideration the influence on prices of such factors as an increase or decrease in the cost of production. Other factors indirectly affecting prices include changes in consumption habits (for example, a shift from natural silk to artificial silk fabrics) and the restrictive practices of monopolies, trusts, and cartels.

The price-determining mechanism of supply and demand is operative only in economic systems in which competition is largely unrestricted. It was greatly restricted in many countries by the temporary governmental price regulations and rationing during World War II.

Trade between PNG and Australia

Papua New Guinea is Australia's 21st largest merchandise trading partner and total bilateral merchandise trade was worth around \$2.4 billion in 2000 (1.1 per cent of Australia's total trade in goods). The balance of merchandise trade was \$453 million (trade surplus to Papua New Guinea).

Australian merchandise exports to Papua New Guinea were worth \$983 million in 2000, (a rise of around 0.9% per cent on the previous year.) Papua New Guinea is Australia's 23rd largest export market for goods and accounted for 0.9 per cent of Australia's merchandise exports in 2000. In 2000, Australian merchandise imports from Papua New Guinea totalled \$1.431 billion (an increase of 26.8% from the previous year). Papua New Guinea is Australia's 18th largest import market in goods and accounted for 1.2 per cent of Australia's imports of goods in 2000.

Papua New Guinea is Australia's 11th largest investment destination. Australian investment in Papua New Guinea was estimated at \$2.7 billion at end June 1999 (mining and petroleum dominate, followed by services). Papua New Guinea investment in Australia totalled \$228 million in June 1999).

5.2 Activity 5

Check your results from Activity 3. What Australian-made products were on your list?

What Papua New Guinean goods would you expect to find for sale in Australia?

Read the information in the section above and convert it to graphical form.

Section 2: What is Development?

Topic 3 - Defining development

Development occurs when social and economic changes lead to an improvement in the quality of life experienced by all the citizens of a country. Unfortunately, the benefits of development are not always evenly distributed. In many developing countries, small powerful elites often become richer while the vast majority of people remain very poor. Even in developed countries there are significant differences in the standard of living experienced by people.

A country's level of development can be measured in a number of ways. The most commonly used measure is **Gross National Product (GNP) per capita**. This is the total value of all the goods and services produced in a country divided by the number of people in the population. Other commonly used 'indicators of development' include percentage of rural population below the poverty line, life expectancy at birth and urban population as a percentage of total population.

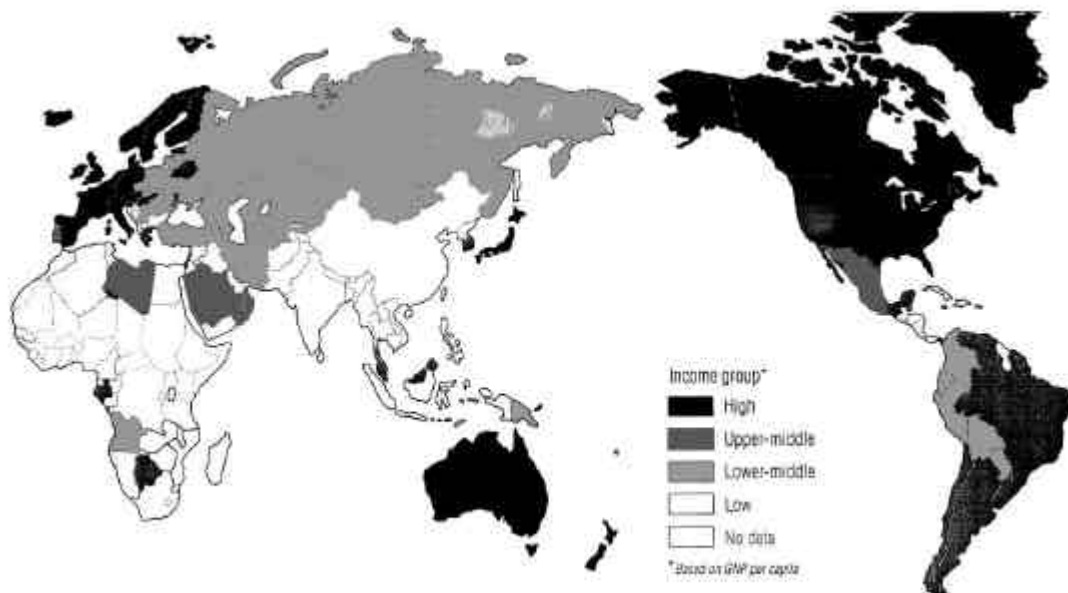


5.2 Activity 6

Explain the difference between the 'developed world' and the 'developing world'.

Use a recent atlas to find the GNP for three developed and three developing countries.

People see development from different contexts and perspectives. At first, definitions of development focused on economic growth and the replication of the economic, social and political orders found in the western nations. When it became evident that the Third World was not modernising, the social scientists redefined development in terms of progressing towards welfare goals - provision of basic needs, the creation of full employment and the reduction of inequality.



Levels of income (GNP per capita), 1995. Source: The World Bank Atlas.

Most writers say true development is seen as being “broadly concerned with the improvement of conditions of existence of the population and in particular of the poorest. It is suggested to be a beneficial process which carries with it not only the idea of economic better, but also greater human dignity, security, justice and equality” (Brandt Commission, 1980).

Development and modernisation go hand-in-hand. In order for development to take place, the society has to modernize and vice versa. The questions to ask about a country’s development are therefore:

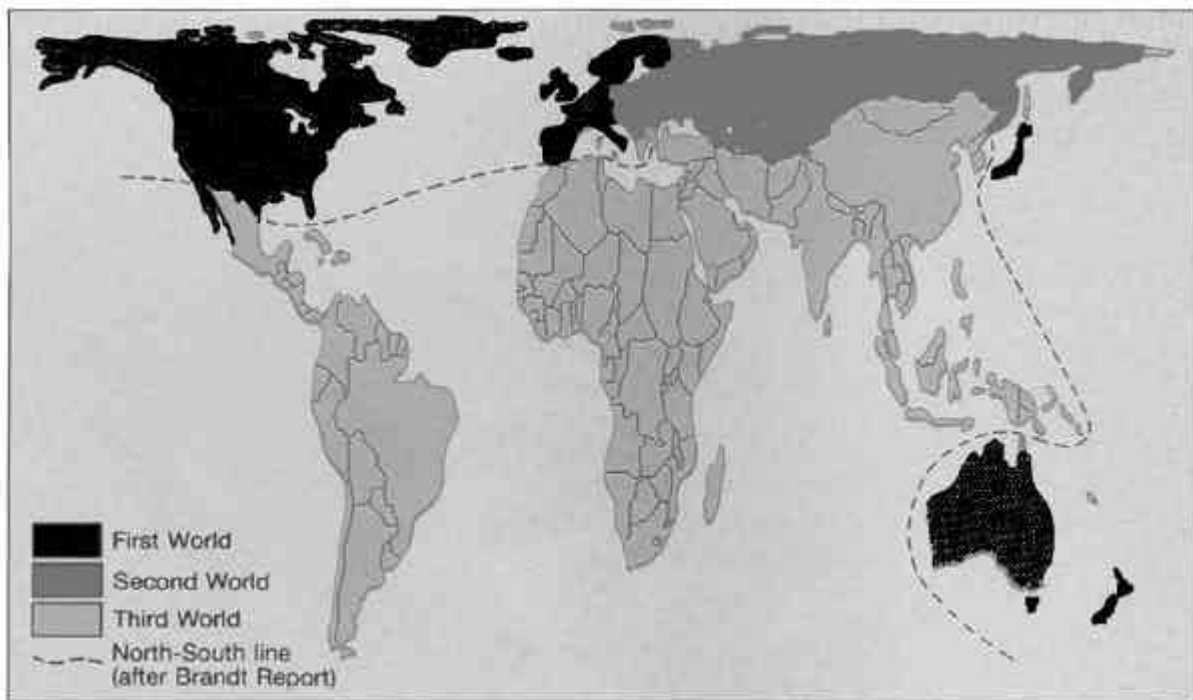
1. What has been happening to poverty?
2. What has been happening to unemployment?
3. What has been happening to inequality?

5.2 Activity 7

Answer the three questions above for Papua New Guinea

Topic 4 - Development in the Third World

The **developed** or ‘minority’ world includes Australia, New Zealand, Japan, Canada, the United States of America and the countries of Western Europe. These countries have high levels of industrial development and most of the population enjoys a high standard of living. The **developing** or ‘majority’ world includes most of the countries in Asia, Africa and South America. These countries are poorer than the developed countries. Most of the people sustain themselves and their families by farming the land. Standards of living are low for the majority of people. In some of these countries, people are denied political and personal freedoms and human rights such as the rule of law, the freedom of speech, movement and religion, and the right to vote.



Source: Beddis, R., *The Third World*, Oxford University Press, 1989.

Topic 5 - Development and dependency

All countries of the world, even the poorest, are part of the world global economy. This involves the buying and selling, importing and exporting, of many products and services. It also means that all are involved in the international flow of money, in borrowing and lending and receiving and repaying.

Third World borrowing

Countries and enterprises borrow money for different purposes. It may be to develop the economy by opening mines, extending farms and plantations and building factories, or by constructing the power station and transport links needed for the economy to flourish. They may borrow in order to build schools, clinics or hospitals and to develop services concerned with the quality of life of the people. Sometimes borrowing is for arms and weapons to support

the government and its administration. Different governments give different priorities to their needs. In an independent country these decisions are made by the people or their government rather than by some other country but loans have to be repaid, and the lending countries, agencies and banks are interested in how the money will be used and how certain they can be in having it repaid.

Governments are more likely to lend to countries with similar political goals or that they think they can influence. The basic aim of banks is to make a profit and extend their business, so they will favour lending to countries that can guarantee repayments with whatever interest is asked. International agencies can afford to be less limited and constrained about whom they lend money to, but need to be assured that it is being put to what they, the lenders, think are good purposes. During the 1970s, there was a general economic prosperity and a growth of trade. Lots of money was available from oil-rich states, through international banks, for loans to whoever wanted them. Income from the sale of commodities was relatively high, and Third World countries could afford to borrow with confident expectations of being able to repay their loans. The poorest of Third World countries borrowed to try to start their economic growth and social development, while others such as Mexico and Brazil in Latin America and South Korea and Taiwan in South-East Asia borrowed to allow further industrialisation.

Third World debt

Less developed countries are involved in two types of debt – official and private.

- **Official debt** is owed by governments and enterprises to non-bank financial agencies, normally in the developed world. These include governments and international agencies such as the IMF and World Bank. Loans from official sources are normally medium or long-term.
- **Private debt** is owed by governments and enterprises to private international banks. Often more than one international bank is involved in the loan. Loans from private sources are more likely to be short or medium-term.

At the end of the 1970s and during the first half of the 1980s, the economic situation changed dramatically. For a variety of complicated reasons, world trade and economic growth slowed down and the more developed nations began to suffer severe economic problems and high unemployment. There was a fall in demand for raw material commodities from Third World countries, and the industrialised nations limited or prevented the importation of manufactured goods to protect their own manufacturers. The price of oil fell dramatically and at the same time, banks in the industrialised nations increased the cost of borrowing very severely by raising interest rates.

These two simultaneous events – the decline in income from exports and the increase in debt repayments – meant that some Third World countries were sliding close to bankruptcy. Large proportions of their foreign earnings were being used to pay the interest on their loans, not to repay the loans themselves!

Dependency

Features of a condition of dependency:

- Depend on transport from abroad
- Large part of economy and technology is foreign
- Income from selling exports with prices controlled by world market
- Wealth created by foreigners eventually leaves country
- Foreign-owned part of economy does not stimulate local economy to develop
- Economy brings wealth for elites and destitution for majority of population
- Need for outside aid to support social development

5.2 Activity 8

Read the list above carefully and provide specific examples for each point to prove or disprove that PNG is in a state of dependency

Globalisation

5.2 Activity 9

Brainstorm ideas from the class to create a definition of globalisation.

List some advantages and disadvantages of globalisation. Try to support your list with examples from specific countries.

The benefits of economic growth which globalisation brings can be shared in a way that could give the largest number of people that humanity has ever seen... or not. It is equally possible that the fruits of globalisation benefit only the elite, and that the poor become more marginalized and more impoverished. The world would then see more conflict, more suffering. Either future is possible.

All governments go to UN meetings and vote that the poor must be given priority and there must be more progress. The systematic reduction of poverty is the point of the development relationship. This message is repeated at the World Bank, in UN agencies, in the Asian Development Bank, the African Development Bank, the EU and the IMF.

However, will the poor in rural areas feel the benefit? They can! In a remote village in India, there is not one adult woman who can read, but every little girl is in school - a clear example of what can be achieved. Those children will grow up able to take part in the global economy, perhaps bringing greater livelihood security to their villages and creating more opportunities for

themselves and their children. In remote village in Africa, a new, properly constructed dirt road has linked the population to a market, a health clinic, a secondary school – and a computer linked to the Internet.

World economy 'critical' – IMF

WASHINGTON; The dramatic economic slowdown in the United States means the global economy has entered a "critical phase" where policy coordination between nations will be especially important, the head of the International Monetary Fund said yesterday.

The IMF has reduced its forecast for this year based on the fact that growth in the United States, the world's biggest economy, has slowed so sharply. This has raised fears that a US recession could end a record 10-year-long economic expansion.

"It must be the objective of this meeting and beyond this meeting to keep the global economy on track," Mr Koehler said. He said without a growth strategy in place, it would be "much more difficult for countries like Indonesia, like Turkey and Argentina, to come out of the mess". The IMF is considering requests for emergency loans to help those three nations stabilise economies that are in turmoil.

"We feel it's appropriate not to paint everything in negative terms," he said. He noted that while overall economic growth had slowed in the United States, consumer spending, including demand for autos and houses, had, held up reasonably well.

Mr Koehler said he believed authorities in Japan, which is going through another change of prime minister, would have to be much more forceful in overhauling its troubled banking sector in order to return the world's second-largest economy to sustained growth.

Last week, US Treasury Secretary Paul O'Neill said the Bush administration recognised the importance of the IMF, but he said there, was a need to devote more efforts to preventing financial crises before they occur.

Mr Koehler said he had established a good working relationship with Mr O'Neill and believed the, Bush team was learning that the IMF began changes in response to criticism of its handling of the 1997-98 Asian crisis.

Post-Courier, 26 April 2001

5.2 Activity 10

Read the newspaper article again. How does it demonstrate 'globalisation'?

Form groups containing at least one member from a remote community. Discuss what items are found in that community that indicate PNG is part of the global economy.

Topic 6 - Development aid

Aid is the giving of resources from one country to another either absolutely free or very cheaply. Development aid is that given to countries to help them develop their economy or services and so raise the quality of life of the people. It includes people and their expertise as well as money, food and other resources. Aid given from one country directly to another is called **bilateral aid**. When it is offered as a contribution from an international organization such as the World Bank, it is redistributed as **multilateral aid**. Some aid is given for special developments such as road building, providing water supplies or developing health and school facilities. This is known as **project aid**. It gives the donor some control over the use of the money and some knowledge of the progress or success of the project. **Programme aid** is for purposes other than special projects, such as helping countries out of balance of payments difficulties. This gives the receiving country more choice in how the aid is used.

Donor countries often prefer aid to be ‘tied’ as it is the type of arrangement which offers them most benefits. Untied aid means that the receiving country can spend the money for development work anywhere it likes on the open market. **Tied aid** means that any goods and services needed while implementing the aid must be obtained from the donor country. This means that the donor countries can themselves benefit from the aid they give in terms of employment for their own workforce and sales of machinery, equipment and services. Other countries benefit by giving aid only to countries who have similar political views as their own, or who can help them in international affairs.

Non-government agencies (NGOs)

Although the amount of aid given by non-governmental agencies is very small when compared with official aid, it often provides vital relief in times of crisis and help where governmental aid is lacking. The agencies such as Oxfam, War on Want, Christian Aid, Save the Children Fund and Voluntary Services Overseas tend to operate through voluntary groups in the receiving countries rather than through governments. They are committed in most cases to working with ‘the poorest of the poor’. They are largely funded through public donations, and much effort goes into fund-raising.

5.2 Activity 11

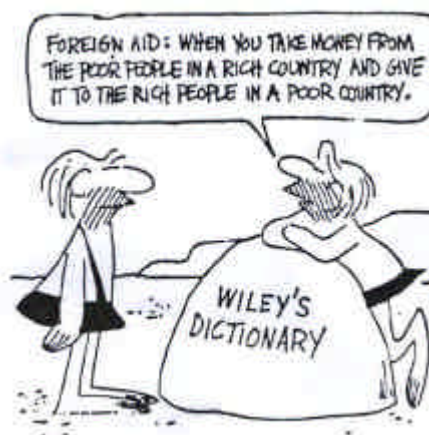
Draw up a table to illustrate the five different types of aid referred to in this topic. Your table could look like this.

Aid type	PNG example	Other world examples

Examine the following statements. Which one do you agree with? Quote evidence to support your choice.

1. "Aid has done little or nothing to help the poorest people in aid-receiving countries. Governments committed to improving the material standards of life of the poor are rare in the Third World."
2. "It is unreasonable to write aid off as irrelevant or harmful. There is a great deal of good that properly managed aid can do."

Collect articles or letters from newspapers which are for or against aid.



Section 3: Development in Papua New Guinea

Topic 7 - Papua New Guinea's challenges

Today Papua New Guinea is a country of four and a half million people and is classified by the United Nations as a middle income country, with an average gross national product of US\$930 per person. Since independence, economic growth has continued upwards, although it has fluctuated from year to year and been dependent primarily on the resources sector. Most of Papua New Guinea's citizens live outside the main urban areas of Port Moresby, Lae, Madang and Goroka. There are over 700 different sociolinguistic groups, and the geography of Papua New Guinea makes transport and communication difficult.

Subsistence agriculture is the basis of the lives of the majority of Papua New Guineans, and Papua New Guinea's traditional village-based economic system provides the basic needs of most citizens. Although the country does not suffer from the widespread abject poverty present in some developing countries, poor health and social indicators show that poverty is nonetheless a real problem. Life expectancy and maternal and child mortality rates indicate that primary health care is still limited in Papua New Guinea. Infectious diseases claim far too many lives, and there are serious public health risks from endemic diseases such as malaria. In education, participation rates for primary schooling are improving, but they remain lower than in many equivalent countries in the region.

In these circumstances, the provision of basic services such as health, education, transport and sanitation are significant development challenges for both the Government of Papua New Guinea and donors such as Australia.

Papua New Guinea: Program Profiles 1999-2000, AusAID

Basic social and economic indicators for Papua New Guinea

Land area	452,900 km ²
Sea area	3.12 million km ²
Capital	Port Moresby
Population (1997)	4.50 million
Population average growth rate (1990-97)	2.3 per cent a year
Urban population	17 per cent
Total fertility rate (1997)	4.3 births per woman
Life expectancy at birth (1997)	58 years
Infant mortality (1997)	61 per 1000 live births
Under five mortality rate (1997)	83 per 1000 live births
Maternal mortality (1996)	370 per 100,000 deliveries
Malaria incidence (1995)	21,000 per 100,000 people
Population with access to safe water (1995)	31 per cent

Immunisation against measles (1997)	40 per cent of one-year-olds
Daily supply of calories per person (1996)	2253
Net enrolments ratio in primary school (1996)	80 per cent of relevant age group
Adult literacy rate (1997)	74 per cent
Female adult literacy rate (1997)	64.7 per cent
Women in government at all levels (1996)	4.3 per cent
GNP per person (1997)	US\$930
GNP average growth rate (1975-95)	3.0 per cent a year
GNP average growth rate per person(1975-95)	0.7 per cent a year
<i>Papua New Guinea: program profiles 1999-2000, AusAID</i>	

5.2 Activity 12

List some specific examples of development challenges facing PNG under the following headings –

Health

Education

Income

Examine a recent atlas (or resource book) which contains social and economic indicators. Draw up a table comparing key indicators in PNG with three other countries, including one developed country.



The eight aims of national development were drawn up by a group of non-public servants working under the Chief Minister and Finance Minister during the period of self-government in the 1970's. They provide the philosophy of development trends in PNG.

1. A rapid increase in the proportion of the economy under the control of Papua New Guinean individuals and groups and in the proportion of personal and property income that goes to Papua New Guineans.
2. More equal distribution of economic benefits, including movement towards equalisation of income among people and toward equalisation of services among different areas of the country.
3. Decentralisation of economic activity, planning and government spending, with emphasis on agricultural development, village industry, better internal trade and more spending channelled to local and area bodies.
4. An emphasis on small-scale artisan, services and business activity, relying where possible on typical Papua New Guinean forms of business activity.
5. A more self-reliant economy, less dependent for its needs on imported goods and services and better able to meet the needs of its people through local production.
6. An increasing capacity for meeting government spending needs from local raised revenue.
7. A rapid increase in the equal and active participation of women in all forms of economic and social activity.
8. Government control and involvement in those sectors of the economy where control is necessary to achieve the desired kind of development.

 **5.2 Activity 13**

Discuss the following statement: "Governments have failed to translate the eight aims into feasible workable objectives and an action plan."

Discuss occasions when aims have been neglected or not followed as required by the Constitution

Read the letter below and list the main points made by Sir Paulias and Sir Mekere. Who is right? Why?

Follow 8-point plan for a better future

... It is easy to understand how an elder statesman like Sir Paulias becomes angered by the nation's dependence upon outside organisations such as the International Monetary Fund (IMF) and the World Bank. But as we said, yesterday, there is a fine line between practical nationalism and wishful thinking.

The fact of the matter is that PNG is, whether we like it or not, being dragged into a global economy. We are far from alone in finding the experience harrowing. Many nations theoretically more advanced and stable than PNG have found themselves knocking on the door of the IMF and the World Bank, and a number of other international institutions.

Both the Prime Minister and Sir Paulias are correct. Sir Mekere referred to PNG as 'poor country', while Sir Paulias is at pains to underline its riches.

The two leaders are viewing the same country from different angles. Sir Paulias is right to point out that we have great material wealth, and right again to underline the potential of our human resources. But the Prime Minister is faced with the reality of making the country work, here and now. He and his Government must balance budgets and allocate monies as far as possible to the myriad of claims upon the public purse ...

Sir Paulias is right again to point out that the major problem has been one of gross mismanagement of those resources. Rather than allow the country to slide down the slippery slope to bankruptcy, the whole community, and especially leaders of the standing of Sir Paulias must make sure that the calibre of management is improved. That is the boon of a democracy.

We reap what we sow. We determine at the ballot box the quality of our own parliamentary representatives. If we vote-in self-seeking members, we have only ourselves to blame. The nation will soon have the opportunity to once again express its will through a national election. That is the appropriate time and place for the citizens of this country to determine their own future.

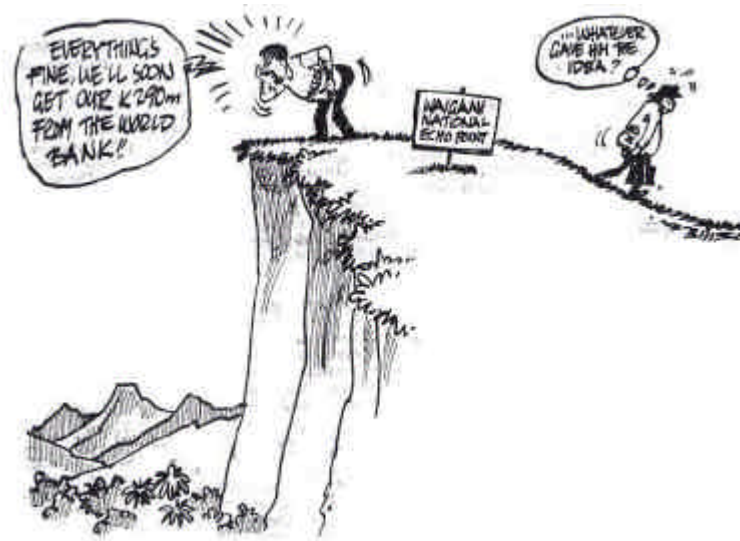
And on another plane, it is wrong to place all the blame for national mismanagement upon those easy targets, the politicians. Parliament can only make laws, and determine how the national income should be spent. It is up to the public service, the implementers, to make sure that the will of Parliament is carried out efficiently and speedily. While we can legitimately criticise much that goes on in the House, we should as a people be honest enough to admit that many of PNG's problems originate with an uninspired and lack-lustre public service.

What this country needs more than anything else is a rebirth of national will and identity to achieve goals that were defined at independence ...

For our leaders can only achieve desirable goals if they have the full support of the nation. And that in turn requires a heightened level of public awareness.

Adapted from: Editorial, *The National*, 27 April 2001

The World Bank



The first World Bank report for Papua New Guinea showed the colonial government's lack of integration of the territory's economy into the market economy. The bank designed a program for immediate economic development for the 5-year period (1964-1969). Development was to be rapid using massive outside and continued financial support. Programmes in such fields as health and education were given high priority. No emphasis was placed on the manufacturing sector but emphasis was put on transforming from subsistence agriculture into a cash economy.

Between 1981 and 1986, the world economy experienced the most severe and prolonged recession since the 1930s. This time the World Bank with another report by ToRobert (1979) suggested PNG should be more concerned with job creation and an economic growth of at least 3% per year. It proposed in 1988 that PNG embark on:

- Increased public and private investment
- Major expenditure on rural infrastructure
- Promotion of the private sector
- Institutional and public skills development

5.2 Activity 14

What is the current role of the World Bank in PNG? Provide examples to illustrate your answer.

Development aid in PNG

Papua New Guinea is the recipient of aid from many sources, including governments of other countries and non-government organisations (NGOs). Because of its historical ties and geographical location, Australia is by far the biggest donor.

The Papua New Guinea - Australia Development Co-operation Program

Reflecting the strong ties between Australia and Papua New Guinea, the development cooperation program between the two countries is by far the largest of any of Australia's bilateral aid programs. Australia currently provides about \$300 million in aid to Papua New Guinea each year. This is equivalent to over a third of Australia's bilateral aid effort and to a Fifth of its total aid program. The new Treaty on Development Cooperation was signed by the prime ministers of both countries in October 1999 and will come into effect in July 2000. Under the terms of the treaty Australia's program aid to Papua New Guinea will be maintained at a maximum level of \$300 million a year for the three Financial years 2000-01 to 2002-03.

During the 1990s Australian aid has been transformed from budget support to a program of discrete activities. This change from budget support to jointly programmed aid, which will be completed in July 2000, has gone a significant way to making Australian aid more effective, transparent and accountable. The move has also resulted in a more cooperative approach to planning and implementing aid activities, which has strengthened personal and institutional links between Australia and Papua New Guinea.

Both Governments have agreed that Australia's aid program can best support the goal of relieving poverty and achieving sustainable development by focusing on the four key objectives of:

- Strengthening governance
- Improving social indicators
- Building prospects for sustainable economic growth
- Consolidating the peace process in Bougainville

These objectives will be pursued through the following strategies:

Strengthening governance - by increasing contestability among service providers for aid resources, improving economic management, supporting the PNG private sector, building the capacity of PNG agencies to deliver services, promoting the rule of law and strengthening civil participation and representation

Improving social indicators - by expanding the quality and reach of primary health care and education facilities, especially to poor rural communities, promoting gender equity and strengthening Papua New Guinea's emergency response capacities

Building prospects for sustainable economic growth - by constructing and maintaining infrastructure vital for development, increasing agricultural productivity and encouraging the sustainable use of natural resources

Consolidating the peace process in Bougainville - by providing an identifiable peace dividend

To complement the specific strategies for achieving the key objectives of the program, Australia will adopt new and flexible operational strategies that will improve how aid activities or projects are undertaken.

These draw on lessons learned from the operation of the program to date and cut across all sectors of assistance. They involve:

- **Focusing** more on managing and delivering the program in partnership with all levels of PNG government as well as local community groups and the PNG private sector
- **Progressively** introducing a dual program delivery approach, which combines project aid with sector investment programs where appropriate
- **Strengthening** performance benchmarks and linking performance more closely to funding decisions
- **Drawing** more on the expertise of Australian government agencies and Australian community and private sector groups
- **Reducing** the complexity of the aid program and the corresponding management burden to both Papua New Guinea and Australia

Source: *PNG Program Profiles 1999-2000*, AusAID 2001

Following are a series of articles demonstrating the range of activities undertaken by NGOs and other organisations in PNG.

5.2 Activity 15

List the key aid areas identified in the articles.

Use the telephone book and other sources to identify 10 other influential NGOs. If possible, provide an example of their work.

WWF to cease mangrove logging

The World Wildlife Fund is to cease the logging of mangrove trees in Papua New Guinea and to process trees felled further upstream along the Kikori River. The project was partly funded by Chevron Niugini and its other partners in the Kutubu oil project after they had entered into an agreement with the US arm of the WWF.

After oil production began in 1992 Chevron finalised an agreement with the WWF to develop a "model integrated conservation and development project (ICDP) for the Kikori River Basin". The oil companies provided more than \$AUD1million a year for an initial period of six years. In November 1996 WWF set up a profit-making company, Kikori Pacific Ltd and "hoped the company would one day become independently viable, but accepted it would initially depend on grant money". According to the Herald, the WWF found that things

did not workout almost from the start because some “communities had signed agreements with industrial logging companies or were not interested in eco-forestry because they were already receiving financial benefits from the oil project.

Post-Courier, 2001

Red Cross work praised

The Red Cross Society has been commended for its initiative to work alongside the Government in the fight against the spread of HIV/AIDS. The East New Britain Red Cross branch organised a weeklong workshop during which volunteers were trained to go out and conduct awareness programs in the community. It was the first provincial workshop organised by the society and a branch. It was funded by the International Federation of Red Cross and Red Crescent. Speaking at the closing ceremony, Chairman for health in the East New Britain Provincial Government John Topeono said the Red Cross initiative must be commended as a local intervention and response by a leading and internationally recognised humanitarian movement to address the human suffering and misery that is inflicted by epidemic. Highlighting the sufferings by people infected with IHV and the effect it can have on socio-economic development in countries, Mr Topeono said this was fast becoming the scenario and experience in PNG. “The challenge for all of us is that we must mobilise a multi-sectoral response to address this problem,” Mr Topeono said.

Post Courier, 22 February 2001

Bank aims to help youth

THE National Government and the Asian Development Bank have initiated the Employment Oriented Skills Development project in an attempt to address unemployment and other related social and economic problems.

The ADB will provide \$US20 million while the PNG Government will provide the other \$US12 million. The five-year project began in January this year. It was designed in 1997 to be implemented in 1999.

The project will be implemented on a trial basis in the National Capital District and Western Highlands and West New Britain provinces. It aims to improve income-earning opportunities for the unemployed and underemployed in rural and urban areas by increasing short-term vocational and entrepreneurial programs.

At least 40,000 people are expected to benefit from the project, with 40 per cent of the beneficiaries expected to be women and youth.

The project will also help develop a legal and policy framework for skills training and will enhance technical, managerial and entrepreneurial capabilities of vocational training centres, churches, NGOs and private trainers. Under the project, institutions will be formed to provide programs for trainers and a Skills Development Trust Fund will be established to control the funds.

In a workshop yesterday to introduce the program to NGOs, women and youth groups and contributors to the program, a youth group, the PNG Youth Care

called for the Government to draw a proper non-formal skills training policy for training, especially at settlements in urban areas.

The executive director for the group Joe Mesa said there was a high number of unemployed because there was no non-formal skills training introduced at community levels.

Mr Mesa said many young people were unemployed because they did not receive formal education but there should be other means of receiving training to earn a living ...

Post-Courier, 29 March 2001

Poor districts get K14 million EU funding

TEN of the least developed districts in PNG will benefit from a K14.1 million development funding through the European Union.

And to avoid politicising selection, the 10 districts chosen out of the 89 districts in the country will be picked by an independent organisation, which will conduct an arms length study" using a criteria based on the 2001 Development Charter.

Basically, the selected organisation under the co-ordination of the National Fiscal Commission will examine indicators on primary health, primary education, the infrastructure and the primary industry of the districts especially in the border areas to determine which are the 10 least developed border areas between districts.

National Planning and Monitoring Minister Moi Avei said that K14.1 million would come from European Union to help develop these least developed areas.

Post-Courier, 29 March 2001



5.2 Activity 16

Identify three aid projects which have truly benefited people or regions in PNG.

Identify three aid projects which have had little impact on people's lives in PNG.

Read the letter that follows. What does the Bush Economist feel about aid? Why?

Don't you have faith in the, people, nation?

IN 1992, the then Prime Minister Sir Rabbie Namaliu asserted that "there is no other road" when accepting the World Bank/IMF recipe of Structural Adjustment Program

(SAP). This was from a prime minister whose party campaign in the 1980s based on "i save long rot".

Then in 1994, Sir Julius Chan said, "beggars are not choosers" when succumbing again to the might of the World Bank/IMF's second dose of SAP.

Today, the prime minister, who, happens, to be another "Sir" has also followed this noble tradition of prime ministers who are knighted by the Queen of some foreign land by declaring that "we are a poor nation". What is wrong with these people?

If they have no faith in our' country and our people, why did they become prime minister of this poor begging land whose people have no choice but to succumb to the World Bank/IMF. Why can't they give hope to our people, inspire our nation rather than calling us worthless beggars who have no choice.

For the information of these and other knights of the British Empire who might want to bid for the top job in the future, the fact is that we are not a poor nation. We are a nation rich in natural resources, in culture, in beauty, in land and in our people.

It is the leaders and the civil servants under them that have made this nation poor by not utilising the wealth of this nation properly. It is the leaders who are poor in ideas, skills and direction that have led the nation down.

In today's economic sense, lets look at the facts. At Independence and up to 1989, only one mine and the cash crop industry kept the country going, even prospering. This was partly because the law required BCL to bring all its money into the country. Thus the country was able to use BCL money in the bank, even though it was not our money.

Since then, Misima Gold Mine, Porgera Gold Mine, Hides Gas, Lihir Gold project, Moran and Gobe all have come to production or near production. Yet the prime minister of the day call us a "poor nation".

The Commerce and Industry Minister - in answer to this problem declared that we should be industrialised. What sort of industry are we to go into that is not already developed elsewhere? What sort of manufacturing will we enter that is not already manufactured elsewhere?

In the meantime, what is happening to our primary (cash crop) industry, a sector that kept the country going and has enormous potential for the future? Sadly, it has been allowed to collapse by past and current governments.

Why can't we stop pretending that we can be a major industrialised country and focus on improving what we now have, to give us a comparative advantage over other countries. What' s wrong with coffee, cocoa, copra, oil palm rubber, tourism and fishing?

Well, Sir Mekere, you claim to know the answers and the Parliament gave you an overwhelming mandate. To date I can't understand your recipe. My simple understanding of your recipe, however, seems to be that to solve our problems we borrow more and now that we have borrowed more our cash crisis is over. So, tomorrow if we face another cash crisis, simply borrow more.

Well, Sir Mekere, you are the expert. I am just a poor lay bush economist trying to understand your logic.

But let me remind you the last two knights who said that we are 'beggars' and do not have another road other than the World Bank/IMF road lost office after uttering those words.

Bush Economist, Gerehu

Post-Courier, 2001

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