Investment Policy Framework in Papua New Guinea

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SUMMARY

INVESTMENT POLICY FRAMEWORK IN PAPUA NEW GUINEA

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Papua New Guinea (PNG) has great potential for economic development. However, despite sharp increases in average income and public spending over the past decade, PNG continues to have some of the worst social indicators in the world, and they are deteriorating.

In response to an internally generated financial crisis which brought Government operations to a halt in late 1994, the Government has taken important, initial steps towards promoting a transparent and predictable trade and investment regime.

These policies have to be maintained and deepened. In addition, the institutions responsible for the enforcement of policies and the promotion of investment must be nurtured consistently over a long period of time if PNG is to reap the benefits of the reforms and emerge as a competitive investment destination and an economic force in the Pacific region.

DISCUSSION PAPERS PRESENT RESULTS OF COUNTRY ANALYSES UNDERTAKEN BY THE DEPARTMENT AS PART OF ITS NORMAL WORK PROGRAM. TO PRESENT THESE RESULTS WITH THE LEAST POSSIBLE DELAY, THE TYPESCRIPT OF THIS PAPER HAS NOT BEEN PREPARED IN ACCORDANCE WITH THE PROCEDURES APPROPRIATE FOR FORMAL PRINTED TEXTS, AND THE WORLD BANK ACCEPTS NO RESPONSIBILITY FOR ERRORS. SOME SOURCES CITED IN THIS PAPER MAY BE INFORMAL DOCUMENTS THAT ARE NOT READILY AVAILABLE. THE WORLD BANK DOES NOT GUARANTEE THE ACCURACY OF THE DATA INCLUDED IN THIS PUBLICATION AND ACCEPTS NO RESPONSIBILITY FOR ANY CONSEQUENCE OF THEIR USE.
Papua New Guinea (PNG) has great potential for economic development. Few countries are endowed with similar abundant natural resources. Its present level of income of US$1,160 per capita (in 1995) offers possibilities which are not readily available to many developing countries. Geographically, it is located in what is considered to be the most dynamic region in the world, in terms of economic development. Despite the sharply rising level of average income and the high level of public spending in the past decade, PNG has some of the worst social indicators in the world, and they are deteriorating (Figure 1). Eighty percent of the population earn less than US$350 per annum.

I. INTRODUCTION

PNG is emerging from an internally generated financial crisis which brought Government operations in late 1994 to a halt, substantially eroded public confidence in the Government and the economy, and encouraged massive capital flight. The crisis was a result of deep-rooted structural problems, a lax fiscal stance in the late 1980s and early 1990s, and an inconsistent and unstable policy environment.

Past policies to promote investment in PNG have been restrictive and inward looking, aimed at localization, import substitution and reservation of economic activities in the non-mining sector for PNG nationals. The results have not been encouraging. Despite rising levels of public expenditures in the early 1990s (both in absolute terms and as a share of GDP) public investment and maintenance outlays as well as non-mining private investment have continued to fall, resulting in a steady depletion of the stock of capital. This has contributed to the falling employment and income in the non-mining sector.

However, in the past couple of years, with the increasing integration of PNG in the global economy in the context of its membership in the Asia-Pacific Economic Cooperation forum and its pending membership in the World Trade Organization, as well as its efforts to address structural bottlenecks in the economy, the Government has taken a good number of initial steps towards promoting a transparent and
predictable trade and investment regime not only for the mining sector but also for the nonresource-based economy.

These policies have to be maintained and deepened, and the institutions responsible for enforcement of policies and promotion of investment nurtured consistently over a long period of time if PNG is to reap the benefits of the reforms and emerge as a competitive investment destination and an economic force in the Pacific region.

This paper addresses three key questions:

- What are the key ingredients of an appropriate investment policy framework?
- What have been the key characteristics of investment policy in PNG? and
- What can and should the Government do to make PNG attractive for foreign and domestic investment?

II. WHAT ARE THE KEY INGREDIENTS OF AN APPROPRIATE INVESTMENT POLICY FRAMEWORK?

The objective of investment policy can be described as achievement of sustained economic growth with relative price stability. Stagnation or growth of the economy is a function of a range of factors. Recent empirical work on economic growth in various countries points to the primacy of government choices. Countries that have pursued policies conducive to a broadly free-market economy (particularly trade liberalization and the maintenance of secure property rights), characterized by smaller government, lower government spending, and the promotion of the development of human capital, have enjoyed higher rates of growth than countries which have pursued inward-oriented, nonmarket-based arrangements.
Investment promotion depends first and foremost on the existence of an effective political leadership and credible government dedicated to economic growth and national welfare. Government's contribution to a successful investment policy requires intervention in three inter-related areas: macroeconomic stabilization, development of infrastructure and human resources, and, lastly, creation of an efficient administration.

Macroeconomic stability, a precondition of economic dynamism, can only be achieved through government determination and continuation of appropriate policies. This has already been initiated by the Government of PNG. The improvement of infrastructure and development of human capital depend on the availability of funds and their judicious use. Administrative reform should result in a leaner and more liberal-minded bureaucracy capable of creating the right chemistry between the public and private sectors.

The choice of development strategy does not always work out to be an optimization of returns on investment. The objective of sustainable growth is often tempered by such other notions as “balanced growth” or “social welfare,” however defined. For example, popular pressure demands that the largest possible percentage of the present population share in the benefits of mineral receipts. However, excessive attention to welfare via transfer payments may often result in the too familiar stifling of work incentives and in the reduction of industrial competitiveness. Similarly, the concentration of mineral export income in the government’s hands may result in crowding out the private sector in areas which, by their nature, are better managed by the latter.

A sudden increase in the prices of minerals and subsequent “revenue boom” may result in hasty allocation of revenues to politically popular activities, “prestige” projects, or projects with inadequate feasibility studies. Such investments often fail the tests of competitive productivity. The democratic regime and particular geographic configuration of PNG has led to a large degree of decentralization of economic management and revenue sharing.

Democratization and decentralized management are usually accompanied by significant social pressures in favor of income redistribution and rising consumption. The requirements of capital formation, by contrast, call for certain constraints on consumption and some initial tolerance of growing income gaps among major social groups. The reconciliation of these opposing forces is not easy. Though local governments should have a high degree of autonomy vis-à-vis the central government, they should have a shared sense of purpose. Although local governments need to maintain a degree of autonomy, they must not be subject to capture by special interest groups. Otherwise the state will be unable to act coherently, and the unique character of the contribution of decentralization would be lost. The success of decentralization requires a strong central administration capable of ensuring compliance with central government objectives of investment promotion and economic growth.

Within this context, an appropriate investment policy framework should focus on creating productive employment and diversification of
the production base. It should specifically be recognized that mineral reserves are depletable and the prices of a limited number of renewable resources are subject to sharp fluctuations in the international market.

Transparency and nondiscriminatory rules and regulations are key for promoting a healthy environment for investment. Rules and regulations should be applicable to all enterprises without exception. This calls for: (a) privatization, divestiture, and liquidation — at national as well as provincial level of public sector activities that compete unfairly with the private sector — and; (b) repeal of special privileges granted to some enterprises. The discrimination in favor of these enterprises can be terminated on the basis of some arrangements to be mutually agreed upon by the government and the private investor. For instance, the government, while remaining firm on its principle, might extend these privileges for a given period (in the form of a 1-2 year time-bound “grandfather clause”).

In countries overwhelmingly reliant on resource-extraction activities, the objective of investment policy should be to expand the export base through product diversification in order to make up for dwindling earnings from minerals and unexpected changes of the prices of agricultural commodities. Mineral revenue cannot be considered a continuous stream of future income flow, but rather a “cashed” value of a given stock of capital that is transformed from one form (mineral deposit) to another (financial assets). Unless these assets are further transformed through appropriate investment into a sustainable revenue base, economic development cannot be ensured. This situation calls for an appropriate model of development and adoption of an investment policy based on product diversification.

The availability of foreign exchange is only one requisite for viable domestic capital formation. Other complementary factors, such as raw materials, skilled labor, entrepreneurship, project implementation capacity, and adequate infrastructure are as important and often in short supply. As the economy grows, these shortages will be eliminated, or reduced. But this process is gradual and effective only in proper sequence.

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**Figure 2: Dualistic Growth**

A Mining and Oil Boom, But Non-Extractive Sectors Stagnant (% per year growth)

Source: World Development Indicators, 1996 and other editions, World Bank
For instance, importation of machines and equipment should be undertaken when port and road facilities are in place; similarly, effective university training requires adequate elementary and secondary education.

If investment is too rapid, the benefits may be considerably diminished as a result of inflation, a deteriorating trade balance, incorrect relative price signals for tradable goods production, and shortages leading to waste. A further problem arises when the investment that is undertaken is of poor quality — something more likely in an environment of inadequate planning, inflation, and shortage of factors of production. Even where investment is in the traded goods sectors, the future output from present investments may prove hard to market — a particular danger if the size of the domestic market is not large enough to absorb this output.

III. WHAT HAVE BEEN THE KEY CHARACTERISTICS OF INVESTMENT POLICY IN PNG?

PNG's economy has suffered over the years from many weaknesses. The weaknesses in the policy path, followed by successive governments of PNG, have had serious consequences. To a large extent, the prevailing image that investors have of PNG as a difficult investment climate arose from its weak investment policy environment, high risks, infrastructure bottlenecks, lack of skilled manpower, and lack of internally consistent incentive systems.

Total investment in PNG has fluctuated over time and is relatively low by the standards of low to middle-income countries. While gross domestic investment in PNG was comparable to that in sub-Saharan Africa, it has been falling relative to GDP — from a high of 27 percent of GDP in 1991 to an estimated 24.5 percent in 1995 (Figure 3). Net investment has also declined sharply from a peak of 15 percent to beyond replacement value (if one takes into account the depletion of the country's natural resource base and the poor productivity of investment).

With a high capital-output ratio, over seven, compared to an average of about three in most developing countries, and a low and declining output-labor ratio, particularly in agriculture where the labor force is growing at 3 percent per year, it would be difficult to identify attractive proposals in the non-minerals sector.

Furthermore, public investment relative to GDP...
has been declining steadily since the mid-1980s to inadequate levels with a large unmet need for physical and social infrastructure. This is in spite of increased government spending on public construction projects.

In PNG, as in most developing countries, the relationship between private and public investment is functional. For private investment to occur, public investment in infrastructure development and education must lead. With respect to private investment in mining, however, the functional relationship between the public and private sector is not binding. The sector relies mostly on foreign experts and builds the additional infrastructure it needs for the purpose of exploiting and exporting minerals and oil products. Unfortunately, especially in the nonresource sector, the importance of this functional relation between public and private sector investment has not been fully appreciated. As a result, adequate and appropriate public investment has not been undertaken ahead of time to attract private sector investment, such as in infrastructure and human resource development. Furthermore, lack of proper maintenance of existing investment has adversely affected the private sector's ability to expand.

The resource-based sector (primarily mineral) has dominated the sectoral composition of investment. However, investment in this sector is relatively lumpy, and accounts for much of the variability in the size of total investment. The sector has no significant linkages to the rest of the economy. Despite its significant fiscal contribution (about 27 percent of total government revenue) and foreign exchange earnings (about 70 percent of export earning), it is highly capital intensive and unable to generate more than 0.3 percent of total formal sector employment, and even this has been declining since the closure of the Panguna Copper Mine in 1989.

Moreover, mining activity is highly capital intensive and skill intensive with input requirements vastly different from the country's domestic factor availabilities. The local economy is not in a position to take advantage of mining activity, except for the provision of unskilled labor and only for a limited time. This has led to a dual economy with isolated centers of capital-intensive, advanced technology without any relation to the surrounding environment.

Nowhere is the failure of past policies as transparent as in the nonresource-based sector of the economy. Investment in the main labor-absorbing sector of the economy, primarily agriculture, has shown no significant growth relative to GDP over the years. Agriculture, where 85 percent of the population earn their livelihood, and with the potential for absorbing most of the labor force, has long suffered from low productivity and high domestic costs. These problems arise from policy rigidities in the labor market, exchange rate, and infrastructure bottlenecks. The manufacturing sector (mainly food processing, beverages, tobacco, and timber processing for small local markets) has stagnated over the past two decades, and its contribution to GDP remains just under 10 percent, while it has become heavily dependent on Government support through tariffs and other protective measures.
Land is one of the major factors of production. In PNG, nearly 97 percent of the land is held under customary ownership arrangements. Entitlements are often undocumented and frequently disputed. Past policy reforms have not devoted the attention needed to address this issue. As a result, administrative problems are experienced to mobilize and transfer land rights. Three percent of the land belongs to the Government and can be used for development purposes. This land is partially utilized under short-term leaseholds (averaging 5 years) with relatively high rent. The Government is trying to ease the problem through the promotion of industrial estates. The weakness of this approach is to concentrate activities in few centers, while the fragmented market of PNG requires these activities to be decentralized and spread all over the country.

Gross private investment, both foreign and domestic, in the non-mineral economy has not shown any increase over the years relative to GDP, averaging under 10 percent of GDP in recent years. A large segment of the economy is considered reserved, open only to domestic investors, although there has been little or no activity in these reserved sectors, since these regulations were implemented almost a decade ago.

Lack of savings has not been generally the cause for the weak performance of the nonresource-based investment. The national savings rate has been averaging 18 percent of GDP over the decade ending 1993. Public savings have been modest in the 1980s but have declined sharply in the 1990s due to expenditure overruns.

Timeliness in policy adjustment, sustainability and consistency are crucial elements for winning investor confidence. The long delay in the adjustment of PNG’s three main economic policies — exchange rate, wage, and fiscal policies — has undermined both growth and employment. The “hard kina” policy pursued from 1975 to the early 1990s discouraged local food production, import substitution, and growth of existing and potential exports. The fiscal policy that had been pursued in support of the hard kina policy and resultant high real wages, left little margin for government expenditure on goods and services or on public investment.

The wage structure inherited from the pre-independence administration was recognized to be far out of line with the country’s labor productivity and real wages in competing countries. The almost complete linkage of wages to the cost of living index that was in place until recently, prevented the Government from using exchange rate adjustment as a means of increasing PNG’s international competitiveness. The minimum wage legislation of PNG runs counter to the requirements for labor market flexibility and competitiveness that characterize an open-market economy. Various surveys indicate that the level of official minimum wage makes PNG workers the most expensive in East Asia while their productivity is far below the regional average. Minimum wage legislation is not an efficient tool for pursuing employment growth.

While PNG’s trade policy involved a relatively simple tariff structure, and only modest trade restrictions, it nevertheless suffered from three key defects: (a) high and variable effective rates of protection for manufacturing, construction, and distribution services, and negative effective rates of protection for most agricultural
commodities; (b) lack of responsiveness of some trade tax revenues to growth; and (c) increasing recourse to negotiated trade arrangements, involving import restrictions and domestic market guarantees for large, new projects. The willingness to strike special deals for individual projects imposes costs on the community and allows the use of resources in uncompetitive activities, thereby effectively transferring resources from consumers and users to privileged entrepreneurs. Perhaps most damaging are the signals sent to lobbyists and investors that it is profitable to devote financial and other resources to pursue similar deals.

Although difficult to quantify, fear of crime has come to represent a major barrier to the country’s economic growth. It disheartens local entrepreneurs, deters serious foreign investors, frightens off tourists, drives up significantly the cost of doing legitimate business, and diminishes the quality of life, especially in the urban areas. For existing businesses, by damaging productive capital and increasing the private security cost, it has reduced the competitiveness and profitability of domestic investment.

Infrastructure bottlenecks, especially in road infrastructure, continue to represent a major constraint to the development of the nonresource sector. In PNG, the road networks have been developed mostly as local hub-and-spoke systems, with hubs connected either by air or, more often, via sea ports. Road maintenance has been insufficient and road conditions have deteriorated since the early 1980s. The condition of most roads is poor and new construction has added little to the road network in recent years. More than 85 percent of main roads and most feeder roads are earth-surfaced. Much-needed bridges are often missing, further localizing the small national market. The supply of reliable and affordable water and electric power has also become a serious bottleneck in recent years and has added substantially to the cost of production. The electric utility’s monopoly on the generation and sale of power poses legal impediments to private sector efforts to generate for their own consumption, which has also exacerbated the situation.

The supply of an educated and skilled labor force is one of the main elements necessary to improving the investment climate. However, the national literacy rate in PNG is only around 45 percent. Primary enrollment is less than 75 percent, and, for the 13-to 16-year-old population, only one in six persons is enrolled at the secondary level. Enrollment in upper secondary school and higher education has remained virtually stagnant in recent years. The composition of the modern sector labor force reflects these shortfalls in education development. Half of all workers have not completed primary education, and only 5 percent have completed secondary or higher education. The shortage of educated nationals has led to broad reliance on expatriates to fill managerial and technical positions. At the same time, the number of school leavers without skills and quality education is increasing the ranks of the unemployed.
IV. WHAT CAN AND SHOULD THE GOVERNMENT DO TO MAKE PNG ATTRACTIVE FOR FOREIGN AND DOMESTIC INVESTMENT?

Investment policy should adopt a pragmatic approach and consider with objectivity the socio-political reality as well as the actual capability and resources of the country. Most developing countries are tempted to imitate more advanced countries in the selection of their investment projects. This has led some countries to equate economic growth with large and visible projects which are usually inappropriate to the needs of the country. The temptation is greater for those countries which are fortunate to possess substantial income derived from extraction of mineral resources. This has resulted in some countries, such as Algeria, to invest in large infrastructure and industrial projects (particularly steel mills and petrochemicals) with disappointing outcomes. If the same financial and human resources had been applied to investments with more modest projects but greater marginal productivity, the concerned countries could have achieved by now the same economic outcomes as the high-performing East Asian countries which have also relied on innovation and increased access to world markets.

Although PNG has made similar investment choices in the past, the structural reforms which the Government has been implementing since late 1994 have contributed to the creation of an enabling environment for private sector led growth through:

- price stability by adopting a responsible medium-term fiscal strategy; and
- improved factor costs by adjusting the real exchange rate and wage rate.

The Government has also initiated supporting policies to promote productive investment. It has moved towards a more liberalized trade policy, including lower and more uniform protection, removing quantitative restrictions and bans as well as duty exemptions; a progressive tax regime (including forestry); promoting competition through expediting the privatization program; increasing efforts to promote private investment through the Investment Promotion Authority (IPA); and increasing expenditures on infrastructure maintenance. The Government has also initiated civil service reforms, public financial management reform (allocation of budgetary expenditure), and legal and regulatory reforms.

In the medium term, PNG's policy makers need to focus on the following key elements of investment policy if the progress made to date, under the structural adjustment reforms, is to contribute to the resolution of the fundamental problems:

- strengthen the return to macroeconomic stability;
- deepen the ongoing tax and trade reforms and address other outstanding issues;
- ensure that the market determines factor prices and access to adequate credit;
- avoid inconsistency and reversal of policies which will undermine investor confidence;
refrain from entering into special deals, taking equity interest or guaranteeing investments, loans, or any financing arrangements for privately funded commercially based investments;

- expedite the divestiture program and support the role of IPA as promoting, and not regulating, investments;

- limit the role of the public sector to what it can best do; and

- continue the development of the capital market.

On the structural policy front, further reform of the wage policy and the labor market is imperative to lower the cost of labor. Government wage setting and intervention in labor market conditions have caused an imbalance between supply and demand, represented by unemployment. Moreover piece rates, the most common form of incentive payment relating wages to productivity, are prohibited. The urban economy is therefore characterized by widening wage differentials between formal and residual sectors with a declining proportion of the urban labor force employed in the former. To reduce unemployment and the cost of labor, the minimum wage legislation should be repealed, while ensuring that the status of the present industrial work force is not altered.

Such restrictive legislation might, in the most optimistic case, give some protection to those who have a secured job. But it hampers economic growth and is against the best

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**Box 1: Effects of Minimum Wages on Employment, Investment and Welfare**

There is considerable evidence from both developed and developing countries that shows the adverse effects of minimum wage legislation on employment. Recent work in Indonesia is illustrative of the issues involved.

Following the introduction of minimum wage legislation in 1989, minimum wages on average tripled in nominal terms and doubled in real terms between 1989-95. Productivity growth, however, was rapid enough to keep pace with the large increases in the minimum wage, at least until 1993. Between 1993-94 minimum wages grew about 10 percent faster than productivity. The recent sharp increases during the 1990s are estimated to have increased labor costs in Indonesia and reduced wage employment and investment. The 100 percent increase in minimum wages are estimated to have pushed up average wages by about 10 percent.

The doubling of minimum wages was estimated to have led to a 2-3 percent reduction in wage employment. Since minimum wages are more binding for young workers and women, the employment reduction effect is greater for these two group — estimated at 7 percent for the former. Moreover, the loss in employment is likely to become greater, the closer the minimum wage approaches the average. This work also indicated that a doubling of the minimum wage has a strong negative impact on investment, which was estimated to have declined by about 5-7 percent of GDP. This decline in investment would in turn lead to further decreases in employment.

Finally, the minimum wage is not an appropriate instrument for poverty alleviation. It only covers wage employees, and of those, only formal sector employees. The poor in Indonesia, as in Papua New Guinea are, by and large, not wage earners but the self employed and rural people. Since most of the poor are self employed, the direct role of labor markets in the welfare of the poor is small. Labor market policies, such as the minimum wage policy, that slow down the rate of wage employment, especially wage employment in the highly productive formal sector, are therefore likely to have an adverse impact on poverty alleviation in Indonesia.

interests of the vast majority of the unemployed (Box 1). The labor leaders (and politicians) should be persuaded that they have a stake in promotion of investment and subsequent economic growth. The achievement of this goal, in a market economy, requires recognition of the role of private entrepreneurs and their contribution to job creation and, ultimately, the welfare of the working class. On the other hand, entrepreneurs should realize that workers are assets. The need for great flexibility in labor legislation does not mean disregard for the well-being of workers, but rather the fact that such legislation should contribute to economic growth and expansion of employment opportunities.

On the institutional front, the apparent lack of long-term financing has led existing enterprises to use short-term credit for medium and long-term investments. This is, however, not the proximate source of credit failure; as in most countries with well-functioning credit markets, such financing arrangements are the norm with short-term credit being rolled over regularly on the basis of low risk. Rather, the underlying problem is an insufficiency of credit relative to the large unmet demand combined with a high-risk environment. Thus, the Government needs to address these underlying problems as part of its broader financial sector strategy and planning. Once the fundamentals are in place, the term structure of credit should adjust to the needs of the market.

PNG should invest more in developing its human capital and skilled labor. The advantage of this investment is that it provides relatively high adaptability and flexibility in development strategy. It is an investment with a rate of return that is typically only slightly affected by external decisions and policies. Over the long run, investment in human capital offers the prospect that the state’s initially indispensable role in investment could be replaced by skilled private entrepreneurs who would assess the economy’s comparative advantage. The backbone of the present economic success of some East Asian countries is attributed to the quality of their manpower. For instance in Korea, about 10 percent of the population aged 25 and above has had some post-secondary school education. The disadvantage of human capital investment is that the return on this investment usually occurs over a long period of time, the education infrastructure may take time to construct, and the particular disciplines, typically offered, may not correspond to the country’s immediate and long-term technical and professional needs.

Equal and non-discriminatory treatment of all investors is the most important element of an investment policy. Otherwise, the field would be dominated by monopoly-seekers, and there would be no room for growth of a healthy and dynamic private sector. In countries blessed with substantial income from natural resources, the temptation is great for the government to get involved in various industrial, agricultural, or service projects. This tendency, if not resisted, diverts financial resources from their optimal use and distorts the rules of the game of a market economy. In such cases, private investors are always interested to have the government as their partner. It allows them to ask for, and eventually obtain, advantages that are not accessible to their competitors. There are presently a number of enterprises in PNG where national or provincial governments have equity.
participation. The Government should elaborate a program for divestiture of these assets. The Government should (at both national and provincial levels) divest its interests in commercially-oriented enterprises and encourage and promote the private sector. The government cannot be at the same time a neutral arbiter and an interested party. The policy framework should focus on setting up a level playing field and reducing the cost of factors.

The gradual development of modern agriculture shall require less and less manpower. Lack of economic opportunity is partly responsible for migration of an increasing number of people from rural to urban areas. Investment policy should also encourage enterprises which, by their nature, are labor intensive. In many activities, particularly manufacturing, there is a range of possibilities of substituting labor for capital. The choice of appropriate technology is determined by technical knowledge and labor legislation. The greater the flexibility allowed in the use of labor, the more entrepreneurs tend to substitute it for capital.

V. SUMMARY AND CONCLUSION

There is no short-cut in economic development. The condition for achieving sustained economic growth is objectivity in the assessment of options, consistency in policy, and perseverance in its implementation. It requires an open debate by all organized political and social forces on principal issues and objectives. Securing consensus on investment policy can and should transform it into a nonpartisan issue. This will enable it to follow a steady course in spite of the normal vicissitude of political life.

A successful policy reform needs to be simple, realistic and within Government's administrative ability to implement. Investment policy in PNG has suffered from untimely adjustment, inconsistency, and lack of sustainability. As a result, the policy environment in PNG has failed to win investor confidence, especially in the nonresource-based sector. Therefore, the investment path taken aggravated the economic difficulties instead of contributing to their solution.

The structural reforms undertaken to date have helped to bring about a shift in policy paradigm and in getting the fundamentals right. Good progress has been made in the past couple of years, yet, much more remains to be done. The country should take advantage of its present favorable position and set the foundations for sustained and more stable economic development.
Figure 4: Comparative Social Indicators: Papua New Guinea and Selected Countries

- **Primary Enrollment Rate (%)**
  - PNG
  - Indonesia
  - Thailand
  - Philippines

- **Adult Illiteracy (%)**
  - PNG
  - Indonesia
  - Thailand
  - Philippines

- **Life Expectancy (years)**
  - PNG
  - Indonesia
  - Thailand
  - Philippines

- **Infant Mortality (per '000)**
  - PNG
  - Indonesia
  - Thailand
  - Philippines

- **Central Govt. Expenditures on Social Sectors (Education, Health, other)**
  - PNG
  - Indonesia
  - Thailand
  - Philippines

*Source: World Development Indicators, 1996 and other editions, World Bank*