Papua New Guinea Trade Brief

Trade Policy

Papua New Guinea took strides between the late 1990s and mid-2000s to eliminate barriers to trade and as a result is now ranked 4th out of 125 countries on the MFN Tariff Trade Restrictiveness Index (TTRI).[1] Its MFN TTRI is a very low 1.3 percent, compared with the average of 4.8 percent for the East Asia and Pacific region and 8.6 percent for an average lower-middle-income country. Progress has been made in both the agricultural and non-agricultural sectors, although there is a notable difference between the import barrier the two sectors face, with TTRIs of 0.7 and 3.6 percent, respectively. The TTRI may somewhat understate the country's level of protection, since Papua New Guinea applies excise taxes to many imports and luxury goods which effectively act as barriers to imports. The simple average of the MFN applied tariff rate has decreased gradually over the past decade to 5.1 percent in 2008. It is comparatively much lower than the average for both the East Asia and Pacific region and lower-middle-income countries, which are 9.3 and 11.4 percent, respectively. The tariff for agricultural goods is five times the level for non-agricultural goods. In 2008 Papua New Guinea halved its maximum tariff on all goods (excluding alcohol and tobacco), which is applied to frozen chicken imports. It is now equal to 70 percent. The trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), has remained virtually unchanged in the past several years and was equal to 27.3 percent in 2008, close to the averages of 30.3 percent for its regional neighbors and 29.5 percent for lower-middle-income countries. Regarding the extent of its trade liberalization in services, Papua New Guinea ranked 86th out of 148 countries on the GATS Commitment Index.

External Environment

The Market Access TTRI[2] (including preferences) of 0.6 percent for all goods shows that Papua New Guinea stands out as having very favorable access to export markets, due to the fact that the overwhelming majority of the country's exports are commodities which traditionally face lower barriers. The simple average of the rest of the world tariff faced by Papua New Guinea's exports is 10.2 percent. When taking into account the volume of exports it is 0.4 percent, with only a slight difference between agricultural and non-agricultural goods. Over the course of 2008 the real effective exchange rate of the currency of Papua New Guinea, the kina, appreciated by 12.1 percent, making exports less competitive.

Papua New Guinea has ratified the Pacific Island Countries Trade Agreements (PICTA), together with 10 other countries out of 14 members of the Pacific Islands Forum (the Forum Island Countries) that signed it in 2001.[3] PICTA, an agreement for free trade in goods, and, in future, services, falls under the broader Pacific Agreement on Closer Economic Relations (PACER) that in addition to the Pacific Island Countries also includes Australia and New Zealand.[4] In August 2009, leaders of the Pacific Island Forum have agreed to start negotiating PACER plus, a free trade agreement that would include Australia and New Zealand as well as the Forum Island Countries and that would cover goods, services, and investment.[5] In July 2009, an interim Economic Partnership Agreement between Papua New Guinea and the EU that opened up the European market to many goods, most notably fishery products, was signed.[6]

Behind the Border Constraints

In terms of the conduciveness of its institutional environment to business, Papua New Guinea ranked 102nd out of 183 countries in the Ease of Doing Business index for 2009. The Logistics Performance Index, a measure of the extent of trade facilitation, rates the country at 2.38 on a scale from 1 to 5 with 5 being the highest performance. This is compared with

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Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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2.58 for the East Asia and Pacific region and 2.47 for countries in the lower-middle-income group. It ranked 95th in the world and 8th in the East Asia and Pacific region (with Malaysia leading the regional group). The area in which it performed the best was domestic logistics costs and its weakest performance was in increasing the efficiency and effectiveness of customs procedures and the quality of transport and IT infrastructure.

Trade Outcomes

Papua New Guinea's real total trade in goods and services (in constant 2000 U.S. dollars) has been falling at an increasing rate since 2005. In 2008, total trade dropped by 13.7 percent in real terms. Real exports fell by 28.8 percent, twice as fast as in 2007. Real import growth was positive at 2 percent in 2008, which was less than half of its 2007 value. Expectations are that exports will fall by a relatively low 4.5 percent in 2009. Imports are expected to fall by 7.7 percent.

In nominal U.S. dollar terms, total trade maintained steady growth, rising by an estimated 9.5 percent in 2008 over the previous year after growing by 12.9 percent in 2007.[7] Prices for Papua New Guinea's exported commodities were at record highs on the world market in mid-2008 but have since fallen sharply.[8] Total exports increased by an estimated 13.6 percent in 2008. The economic slowdown in Australia and Japan, its two largest export markets, has continued to decrease demand for exports. This was led by increases in the three largest exports, gold, copper, and petroleum (which together accounted for 76 percent of all exports in 2008) of over 20 percent. Imports grew by 3.6 percent in nominal terms in 2008, much lower than the rate of growth in the previous year of 18.7 percent.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
3. Bilaterals.org, April 2009.
4. Pacific Islands Forum Secretariat and Jane Kelsey, April 2004, p. 18.
5. Pacific Islands Forum Secretariat, August 2009.
6. Bilaterals.org, April 2009.
7. All nominal outcome data from IMF.
8. East Asia Update, April 2009.

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