

---

# PAPUA NEW GUINEA IN 2001

## *Election Fever Begins*

---

---

James Chin

Papua New Guinea experienced a difficult time in 2001. The economy contracted and there was more political instability, mostly linked to the general elections that must be held in July 2002. Meanwhile, by year's end the national currency—the Kina—had fallen to its lowest level ever.

### Politics

In the first half of the year, politics was centered on trying to get Prime Minister Sir Mekere Morauta to recall parliament before July in order to move a vote of no-confidence against him. A provision in the Constitution protects the sitting prime minister from such a vote 12 months before an election. The next one is due in July 2002. The government cleverly adjourned parliament to July 2001 just before it recessed in late 1999 and, despite strong pressures, the government held out on reconvening the body until the safe period for the no-confidence vote had begun.

In March 2001, angry soldiers staged a mutiny in response to the government's announcement of plans to reduce the PNG Defence Force from about 4,150 personnel to just under 1,900. The reduction had been recommended by the Commonwealth Eminent Persons' Group, which argued persuasively that the force had lost its direction, its esprit de corps had evaporated, and it lacked the ability to cope with any military crisis or defend the country. The mutineers took several hundred high powered weapons from the armory, claiming that they were defending national sovereignty against reforms imposed by the International Monetary Fund (IMF) and the World Bank. With

---

James Chin is Deputy Dean, School of Humanities and Social Sciences, University of Papua New Guinea, Port Moresby.

*Asian Survey*, 42:1, pp. 150–155. ISSN: 0004–4687

© 2002 by The Regents of the University of California. All rights reserved.

Send Requests for Permission to Reprint to: Rights and Permissions, University of California Press, Journals Division, 2000 Center St., Ste. 303, Berkeley, CA 94704–1223.

the mutiny threatening to turn into a full-scale armed coup, the government quickly backed down and shelved the reforms completely. Mao Zedong's dictum that political power comes from the barrel of a gun was proved right, again.

But troubles continued. In July, students at the University of Papua New Guinea, aided by the opposition and the trade unions, staged a huge anti-privatization rally. They demanded the resignation of Morauta, eviction of the World Bank and the IMF, and scrapping of the reforms, which they claimed were aimed at selling PNG to foreigners. Police intervened and three students were shot dead, causing a huge political uproar and rumors of a military coup. An inquiry later found that some of the key student leaders were manipulated and paid by opponents of the government trying to create civil disorder.<sup>1</sup>

Politics in the second half of the year was centered on the political parties' preparations for the 2002 elections. Under the Integrity of Political Parties and Candidates Bill passed in November 2000, parties had to be properly registered. Furthermore, their parliamentary members were restricted from party hopping, hitherto the key feature of PNG politics. In May 2001, the ruling People's Democratic Party (PDM) kicked the National Alliance (NA) and the Advance PNG Party out of the ruling coalition and saw its numbers rise to nearly 75 through defections. The PDM also started its electoral campaign by convening cabinet meetings in provincial centers while simultaneously holding political rallies. By the end of the year, though, the PDM itself had suffered from defections when more than a dozen members returned to their previous political parties or established new ones. This left the PDM with a parliamentary delegation of about 35 members by year's end. In November, Sir Michael Somare, the leader of the NA, officially took over as leader of the opposition, after Bill Skate, the prime minister whom Morauta replaced, gave up the post. Meanwhile, that same month the government unveiled its election budget. The two big carrots were raising the threshold on minimum income before income tax applies, and abolishing school fees throughout the country starting from 2002.

Revelations of corruption at the highest political levels abounded in 2001. Commissions of Inquiries into the National Provident Fund and the Defence Force Retirement Fund found that board members, almost all political appointees, regularly paid themselves handsome "sitting" allowances, took holiday overseas trips thinly disguised as "board business," and made corrupt investment decisions that benefited key political figures.<sup>2</sup> Investigations into the National Gaming Board revealed that many powerful members of parlia-

---

1. *Post Courier*, September 26, 2001.

2. *Ibid.*, September 12, 2001.

ment (MPs) and ministers received cash benefits. While the public was not surprised by the high levels of corruption, there was concern that not a single prosecution took place despite the revelations. The Ombudsman Commission announced that it was investigating several MPs for corruption, but none was successfully prosecuted in the year, reinforcing the view that the ostensible “big men” in PNG politics were untouchable.

The courts inflicted a series of political defeats on the government. The government had suspended three highland provincial (Southern Highlands, Western Highlands, and Enga) governments (who also happened to be governed by anti-PDM governors) for “maladministration” and “breakdowns in law and order,” but two suspensions were later annulled by the courts. But the biggest setback for the government was the Supreme Court ruling that the Morauta government’s suspension of the National Capital District Commission (NCDC) almost immediately upon Morauta’s coming to office was illegal. The NCDC is important politically as it administers the capital city, but it has greater economic importance because it wields a multimillion Kina budget. Traditionally, politicians who control “City Hall” (as the NCDC is commonly referred to) have a distinct advantage over their opponents as they can use the commission as a source of financial and infrastructure contract patronage. Former prime minister Bill Skate had used the NCDC as his means for becoming premier, for example. The outcome of the Supreme Court’s ruling against the Morauta government was the reinstatement of Philip Taku, a close Skate ally, back to the NCDC. But even before Taku had time to enjoy the perks of NCDC membership, the government rushed through parliament a new bill that displaced Taku and brought back the old administration.

Meanwhile, parliament debates were dominated by insinuations that the Morauta government was in fact that of Paias Wingti, founder of the PDM and a former prime minister. The opposition claimed that Wingti was the true power behind the government and set government policy. Wingti’s open admission that he was a “kingmaker”<sup>3</sup> further consolidated his reputation as the puppet master.

The government sought to ease tensions with Bougainville secessionists by signing a peace deal granting the province greater autonomy, but peace remained elusive as the main antagonist, Francis Ona, refused to take part in the process. The peace deal gave Bougainvillians a large degree of autonomy (including the right to a referendum about remaining in PNG in 10 years’ time), so much so that other provinces openly called for the same conditions to be applied to them. By the end of the year, despite the agreement, little progress had been made, with the issue of decommission of arms remaining a

---

3. See “Happy to Be ‘Kingmaker’,” *National*, November 9, 2001.

major sticking point. A big ceremony for the handing in of weapons saw the collection of only about a dozen homemade guns and weapons of World War II vintage.

The main development affecting foreign policy had its origins in domestic politics. This was the sacking of Foreign Minister John Pundari in October. Pundari was removed after he wrote a letter—without consulting the prime minister—to the Australian High Commissioner stating that PNG would not accept any more refugees from Australia. Pundari's letter and forced resignation came in the context of several hundred economic refugees bound for Australia having been placed at a PNG naval base on Manus Island that had fallen into disuse. The placement was part of the PNG's participation in the Australian government's Pacific Solution program, which had paid out millions to impoverished countries around the Pacific to house Australia-bound economic refugees intercepted at sea while their claims to asylum were assessed. This tough stand by Australia's Prime Minister John Howard contributed to his reelection. It was well known that Howard and Morauta are close friends and it was an open secret in Port Moresby that Morauta was the Australian pick to run PNG. Many inside and outside the PNG government accused Morauta of selling out the country's sovereignty in order to help Howard, and Pundari's axing was a manifestation of this friction.

### Political Economy

The economy contracted by about 3.2% in 2001, despite budget projections that PNG's economy would grow by 3.1%. Many of the assumptions in the budget passed a year earlier were too optimistic on commodity prices and exchange rate of the Kina to the U.S. dollar. Receipts from privatization did not materialize as not a single state-asset was sold. Inflation and interest rates did not come down significantly as had been predicted. The downturn was reflected in August when Standard & Poors (S&P) downgraded PNG's long- and short-term foreign currency sovereign credit ratings from B-plus and B, respectively, to B and C. At the same time, PNG's long-term local currency sovereign credit and senior unsecured debt ratings were revised from BB to BB-minus. However, S&P also affirmed PNG's B ratings in short-term local currency sovereign credit and senior unsecured debt and the agency revised the outlook on the country's long-term sovereign ratings to stable from negative.<sup>4</sup>

The Kina continued to fall; by year's end it was worth about US\$0.25, the lowest ever since independence. Capital flight remained a major problem. Investments in the mineral and petroleum sectors, the mainstays of the econ-

---

4. Standard and Poors, "Sovereign Ratings History," November 30, 2001, at <<http://www.standardandpoors.com/RatingsActions/RatingsLists/Sovereigns/articles/sovhis0123.htm>>.

omy, continued to drop. World commodity prices, especially in coffee and timber, were depressed throughout the year, contributing to PNG's ongoing slump.<sup>5</sup> Finally, the September 11 incident in the U.S. and the world economic slowdown added more uncertainty to PNG's own economic outlook. The only good news was that foreign reserves had reached nearly US\$490 million by year's end, a record, given that they were virtually nil two years before.

A confidential survey of the business community showed that confidence in the economy and government had more or less collapsed and most businesses did not see any quick prospects for recovery. Nevertheless the business community also ranked Morauta as the preferred prime minister compared to other potential leaders and still saw him as the best economic manager for the country in difficult times. Many business were also cautious ahead of the July 2002 elections, with all major businesses adopting a "wait and see" attitude.

In policy terms, the economy was dominated by two issues: the pace of privatization and progress on the PNG-Queensland gas pipeline. The state carrier Air Niugini was supposed to be the first state-owned enterprise (SOE) to be privatized, but there was no willing buyer. A potential buyer would have to not only deal with the carrier's debts but also inject millions to buy new planes and upgrade the old ones. On top of this, Air Niugini's militant unions extracted a guarantee that no firings could take place for at least 18 months after the carrier's sale. All of these factors make purchase of this SOE an unattractive prospect and many other SOEs are in a similar situation. The government did argue persuasively that there was no alternative to privatization, as the SOEs were all technically bankrupt due to years of political interference and theft by senior management, overseen by incompetent but politically well-connected managers. In November, however, the government announced that a local consortium, led by the Bank of South Pacific, had won the bid to buy the PNG Banking Corporation, the nation's largest bank. Many criticized the deal, arguing that the sale price of about 180 million Kina (about US\$45 million) was grossly undervalued. Moreover, skeptics were unconvinced that the sale would actually be completed in 2002 and regarded the announcement as an election campaign ploy.

The PNG-Queensland pipeline project, worth an estimated US\$3.5 billion, was seen by all as PNG's economic savior. Despite this, little progress was made toward its implementation. Continued problems with landowners, political interference, project financing, and equity distribution nearly bought the project to a halt. However, an agreement with a Japanese company to

---

5. Perceptions of the economy's performance in 2001 are perhaps best reflected in a November 1 headline from the *Post Courier* that screamed, "All Doom and Gloom for Us."

buy the gas if it comes on line helped boost confidence in the project. However, it remains to be seen if actual construction will start.

Law and order continued to deteriorate in 2001. Serious crimes such as murder and rape continued unabated. In the highlands, tribal fights continued and there was a surge in community-sanctioned murders of people accused of sorcery. The most serious tribal fight occurred in Mendi and resulted in more than 40 deaths. For most the year, the police commissioner remained under suspension over allegations of financial irregularities. A new commissioner was appointed toward the year's end to ensure that security is in place for the 2002 elections, but most people do not expect law and order to improve significantly as long as the economy remains in the doldrums and the political leaders remain, for the most part, corrupt and unaccountable.

### Conclusion

The year 2001 was a tough one for PNG. The economy contracted and business confidence collapsed. The high hopes for the country with the ascendancy of Mekere Morauta two years ago has abated with the realization that the economic and political problems facing the country are so deep-rooted that Morauta will not be able to deliver his "date with destiny" promises. The upcoming 2002 elections became the major preoccupation among the political elite for most of the year. With a casualty rate of more than 50% in every general election, most MPs are trying to maximize their survival by aligning with the most-favored candidates or accumulating financial resources to survive the post-election period when they are no longer in parliament.