

Papua New Guinea: The informal economy and the resource boom

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Towards the end of 2010, the PNG government approved a National Informal Economy Policy. The rationale for this policy was [presented in a recent *Pacific Economic Bulletin*](#) ^[1].



It was adopted amid concern that the benefits of increasing economic activity in the resource-extraction sector — the ‘commanding heights’ of the PNG economy — will not flow efficiently or equitably to the grassroots population. A better functioning, informal economy is seen as necessary to increase the efficiency of linkages between mineral enclaves and the broader population.

Among PNG’s neighbour states in Southeast Asia the informal economy is taken for granted. It is even regarded (rightly or wrongly) as an embarrassing indicator of backwardness, whose progressive elimination should be a policy objective. So it might seem odd that in PNG the ‘informal sector’ should now be subject to official encouragement.

Monetised informal economic activity is thought to need facilitation and support for several reasons. These include the relatively limited extent of such activity in PNG to date, together with the opportunities it presents to the poor. This situation reflects the continuing importance in PNG of a large non-monetised subsistence agricultural sector. An informal economy inadequate in scale, scope and value represents a gap (a kind of ‘missing middle’) between the subsistence economy and the formal small and medium-sized enterprise (SME) and corporate sectors.

A genuinely entrepreneurial class of PNG citizens in the middle and upper reaches of the economy has been slow to emerge (leaving aside the politically well-connected and other rent-seekers). This tardiness is at least partly due to the limited historical experience of 'micro'-scale market economic activity in PNG, upon which budding indigenous entrepreneurs might build. Desultory government efforts to stimulate locally-owned and operated SMEs, conducted while ignoring or even repressing urban informal economic activity and largely neglecting the rural informal economy, have proved disappointing. Such a situation has political implications; for example, it underlies popular resentment of the activities of 'new' Asian retail enterprise, seen in widespread civil disturbances in recent years.

PNG is no stranger to the enclave model of resource extraction; successive mineral projects since the 1970s have confronted the immediate problem of satisfying local landowners, while governments have grappled with the larger issue of how to [secure positive 'spread' effects through the whole economy](#) ^[2]. [The huge new ExxonMobil LNG project, coming on-stream from 2014](#) ^[3], promises to have major macroeconomic impact. Real GDP could rise by 25 per cent at its peak, while the share of government revenues attributable directly to mining activities could rise very quickly, from 21 per cent of domestic revenue in 2010 to as high as 50 per cent by 2018. Grassroots populations might be expected to benefit from government spending, including transfer payments, resulting from a prudently-managed revenue surge. In addition, were government to succeed in stimulating broadly-based domestic productive activity beyond the mineral enclave this would multiply the benefits of resource extraction. Such a flow-on cannot be taken for granted in PNG under present conditions.

[A poor supply-side response to high commodity prices has been noted](#) ^[4] in previous episodes, with the potential for growth constrained by factors including crime, expensive and unreliable utilities, deficiencies in transportation infrastructure and public services, regulatory barriers, skill shortages, and land tenure issues. [The need to avoid economic activity becoming 'siloe'd' in just a few sectors is widely understood](#) ^[5]. What may have been forgotten is that the supply response of the informal economy also needs to be improved, and that these constraints apply as much to it as to the formal sector. Microeconomic reform directed to reducing the costs of business and investment for the informal economy is necessary, so that it may contribute to the 'localisation' of production and consumption by supplying a growing proportion of the consumption baskets of low-income people and urban-salaried workers.

The relative 'underdevelopment' of the informal economy in PNG (especially when compared with neighbouring countries in monsoon Asia) is a complex phenomenon. The elements of an explanation may be found in aspects of traditional culture and technology, including the absence of monetised trade and exchange in PNG's many isolated traditional societies. The historically recent introduction of external colonial and economic influence to the island of New Guinea may have been another factor. To varying degrees, *mutatis mutandis*, the experience of a number of small states in the Pacific, especially in island Melanesia, has been similar. To that extent, any successful efforts at reform in PNG may prove to have some wider usefulness.

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<http://www.eastasiaforum.org/2011/02/05/papua-new-guinea-the-informal-economy-and-the-resource-boom/>

[1] presented in a recent *Pacific Economic Bulletin*:

<http://www.microfinance-pasifika.org/a-national-policy-for-the-informal-economy-in-png.html>

[2] secure positive 'spread' effects through the whole

economy: <http://www.eastasiaforum.org/2011/01/05/pngs-bumpy-road-to-high-growth/>

[3] The huge new ExxonMobil LNG project, coming on-stream from 2014:

<http://www.eastasiaforum.org/2011/01/05/pngs-bumpy-road-to-high-growth/>

[4] A poor supply-side response to high commodity prices has been noted:

<http://www.eastasiaforum.org/2008/07/31/on-the-brink-of-success-per-centE2per-cent80per-cent93-papua-new-guineaper-centE2per-cent80per-cent99s-economic-revival/>

[5] The need to avoid economic activity becoming 'siloes' in just a few sectors is widely understood:

<http://www.eastasiaforum.org/2010/01/08/papua-new-guineas-development-success-depends-on-learning-from-its-past/>