THE BELT AND ROAD INITIATIVE IN PAPUA NEW GUINEA

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SEMINAR STRUCTURE

- Overview of the BRI and China and PNG's relationship
- 'Debt-trap diplomacy'
  - The level of debt PNG owes to China
  - The centralisation or fragmentation of the BRI
- Economic impact of the BRI in PNG
  - Chinese investment patterns in PNG
  - Environmental impacts
  - Labour impacts
- The BRI's impact on governance in PNG
  - Impact on corruption
  - Chinese-Australian competition

WHAT IS THE BELT AND ROAD INITIATIVE?

Common Narrative			
Common Narrative	The BRI is a centralised, CCP-driven strategy with geopolitical aims. It may entrap partner countries in unsustainable debt as a form of 'debt trap diplomacy'.	Chinese investments in the Pacific are often unproductive 'white elephants' or 'roads to nowhere'.	Joining the BRI will leave PNG vulnerable to Chinese influence and offer insufficient development gains.
Alternative Approach	The BRI is more fragmented than initially believed. The aims may be geopolitical or commercial depending on the actors involved.	The success of Chinese investment in PNG often depends on the Chinese and PNG partners involved.	Joining the BRI could generate development gains for PNG if the funds are used appropriately.

WHY IS PNG INTERESTED IN THE BRI?

- The ADB estimates that the Pacific needs $46 billion in infrastructure financing over the 2016-2030 period.
- When compared to other parts of the Asia Pacific, the Pacific has the highest proportion of investment needs as a percentage of GDP at 9.1%.
- The BRI can fulfil a crucial need for investment funding in PNG if the funds are used appropriately to finance productive assets.

THE BRI TODAY IN PNG

- Since mid-2018, reporting on the three flagship BRI projects in PNG has been limited.
- US$3.5 billion high priority economic road project: Several Chinese companies involved in numerous roadwork projects across PNG.
- US$330 million agricultural industrial park: CRIG and PNG government signed 99-year land-use right transfer for 400 hectares in Eastern Highlands in May 2018.
- US$32 million Goroka water supply: Feasibility studies in November 2017. Diplomatic visit to Goroka in April 2018.

HOW MUCH DEBT DOES PNG OWE TO CHINA?

- China invested $1.9 billion in PNG by the end of 2017. Asia Times and South China Morning Post: PNG owes $1.9 billion in concessional loans to China.

- PNG's 2018 National Budget:
    - PNG's external debt amounted to 10.1% of GDP at $2,484.79 million.
    - Bilateral debt comprised 27.6% of PNG's external debt, of which China was the largest creditor and held 85.8% of bilateral debt.
    - This means that PNG's debt to China is approximately $588 million and comprises 23.7% of PNG's total external debt.

SOLVENCY AND LIQUIDITY RISKS POSED BY PNG'S DEBT

Solvency

- PNG's central debt to GDP ratio is relatively low at 33.4%.
- This figure is already higher than the debt-to-GDP ratio of 30% that is mandated by PNG's Fiscal Responsibility Act.
- The IMF projects PNG's public debt to reach 45% of GDP over the medium term.

Liquidity

- Debt servicing was projected to be the government's third-largest expenditure and comprised more than 10% of total government spending.
- This is particularly concerning as PNG is facing a "revenue crisis" that may impede Port Moresby's capacity to service outstanding debts.

HOW CENTRALISED, OR FRAGMENTED, IS THE BRI?

- The conceptualisation, funding and implementation of BRI projects are relatively decentralised.
- The National Development Reform Commission has risen as the central agency guiding the BRI by making several new policy proposals. But the NDRC's power is limited by the Small Leading Group and central government agencies.
- BRI project selection may not always be rational or part of a larger overarching strategy that is driven by the core CCP leadership.

THE CONTENT OF LOAN ARRANGEMENTS MAY POSE A GREATER RISK THAN THEIR VALUE

- PNG has permitted certain concessional loan agreements, such as the agreement for the Pacific Marine Industrial Zone, to be "governed by and construed in accordance with the laws of China" rather than PNG and "irrevocably waived any" sovereign right for PNG in the event of loan disputes.

- This practice may carry greater risks under the more ambiguous dispute resolution mechanisms of the BRI.

WHERE IS CHINESE INVESTMENT LIKELY TO BE CONCENTRATED?

- Out of the 15 Chinese investments of over $100 million in PNG, 60% were concentrated in one of three sectors: transport (4 projects), real estate (3 projects) and metals (2 projects).

- The three sectors that attracted the most Chinese investment were metals ($930 million), energy ($880 million) and real estate ($730 million), cumulatively making up 65% of the total recorded $3,880 million in Chinese investment.

WHAT RISKS DOES THE BRI POSE TO PNG'S ENVIRONMENT?

- The wide variety of PNG government agencies and officials that were complicit in illegal logging or unaware may complicate reforms that aim to eradicate the practice.

- Beijing has published numerous guidelines – some voluntary, and some compulsory – that aim to ensure that the BRI is 'green' or environmentally friendly.

- Despite Chines and international rhetoric surrounding 'greening' the BRI, there may be little difference between BRI and non-BRI investments in the context of environmental risk in PNG.

HOW WILL THE BRI IMPACT PNG'S LABOUR MARKET?

- Senior executives from PNG's Labour Department have gone on record to claim that their concerns regarding the presence of illegal Chinese workers at the $1.4 billion Ramu Nickel mine were ignored due to Ramu's importance.
- Ramu is PNG's largest ongoing development project, but will soon be overtaken by the $3.5 billion BRI road project.
- The legality of the labour used in China's upcoming $4.46 billion worth of BRI investments in PNG should be corroborated.

WHAT RISKS DOES THE BRI POSE TO GOVERNANCE IN PNG?

- Many observers believe that the BRI could prove to be a destabilising force in PNG and the Pacific. On the other hand, some proposed BRI projects are suspected of corruption.

- Ramu Two is reportedly being pushed by Beijing and controversial State Investment Minister William Duma. If constructed, Ramu Two would be one of the most expensive hydro projects globally and generate power at twice the cost of other hydropower plants in PNG.

- As at Feb 2019, the project is "on the cards" of the PNG government.

WILL CHINESE-AUSTRALIAN RIVALRY HELP OR HINDER DEVELOPMENT OUTCOMES IN THE PACIFIC?

- The BRI incorporates technology, information and communication projects that, if pursued in PNG or other Pacific countries, may spark security concerns from nations like Australia.
- PNG may be able to capitalise on this competition to attain more preferable lending arrangements, but whether this would deliver better outcomes for the PNG economy as a whole or solely for certain PNG officials is unclear.

KEY INSIGHTS

- The Pacific could stand to gain significantly from the increased foreign attention and investment from China and potential competitors that is associated with the BRI, but this depends on the ability of Pacific governments to manage these funds appropriately.

- Without stronger anticorruption measures or bureaucratic upskilling, Port Moresby may find it difficult to actively ensure that BRI projects are sustainable, nonfraudulent and benefit the local and national economy.