

THE BELT AND ROAD INITIATIVE IN PAPUA NEW GUINEA

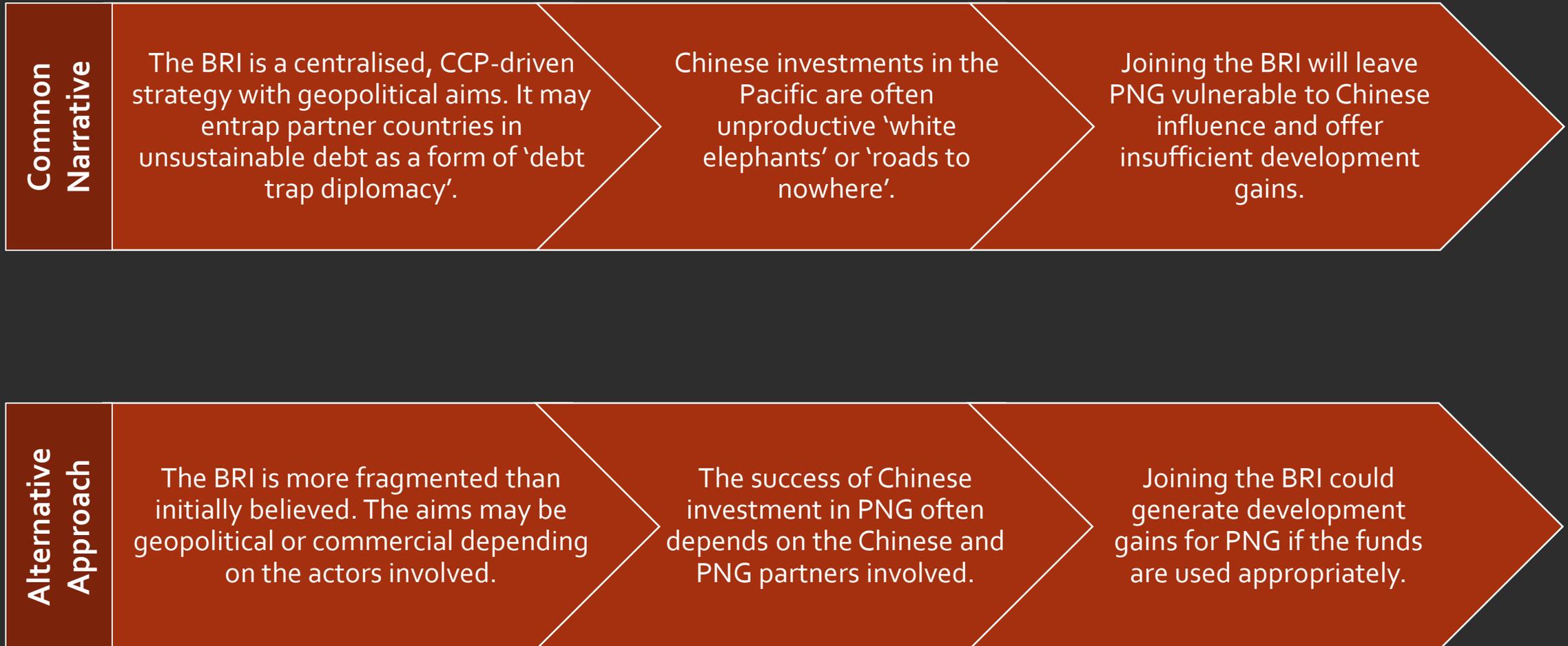
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SEMINAR STRUCTURE



- 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?



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 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.



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?

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



- Chinese companies' tendency to rely upon Chinese workers may limit development benefits that accrue to local communities
- Some Chinese companies have established development initiatives e.g. piggery farms and cocoa budding at Ramu
- These initiatives are currently ad-hoc. Their effectiveness could be enhanced with consolidation and greater community consultation.

HOW WILL THE BRI IMPACT GOVERNANCE IN PNG?

- Many observers believe that the BRI could prove to be a destabilising force in PNG and the Pacific.
- PNG sources have raised concerns about certain projects that may involve corruption or poor business practices.
- E.g. PNG Power has raised concerns regarding the cost-effectiveness of Ramu Two.



KEY INSIGHTS

- BRI presents opportunities as well as risks. Neither are well-understood in the contemporary debate that often prioritises Western or Australian interests.
- With a long-term development strategy in mind, PNG could stand to gain significantly from the increased Chinese and foreign investment associated with the BRI.

