

PNG Prime Minister resigns after Australian intervention

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Papua New Guinea Prime Minister Bill Skate resigned on July 7, amid economic and political turmoil. In doing so, Skate accused Australia of political interference. He denounced Canberra for opposing his government's diplomatic recognition of Taiwan, revealed in the media just 48 hours earlier, and for supporting a key opponent to replace him as prime minister.

The resignation came less than a week before Skate faced a vote of no-confidence in parliament. In the run up to the vote, senior government ministers defected to the opposition, including the ministers for Public Enterprise, Defence, Health, Education and Employment. Sir Mekere Morauta, leader of the Peoples Democratic Movement, the major partner in the coalition government, also walked out with the support of 40 MPs, making Skate's government untenable. Earlier, the country's Supreme Court ruled unconstitutional the government's seven-month adjournment of parliament last December to avoid a no-confidence vote.

By quitting, Skate has again avoided the no-confidence vote. Instead, MPs will vote on Tuesday for a new Prime Minister. Mekere is seen as the most likely victor, but Skate may renominate for the position, or seek to instal the current parliamentary Speaker, John Pundari. The political instability worsened on Friday when Mekere's supporters detained one of Skate's advisers, accusing him of carrying a briefcase full of money and of trying to offer bribes of up to \$A5.5 million to lure MPs back into his camp.

Skate's resignation and his recent visit to Taiwan appear to be last-ditch efforts to maintain his hold on government. After declaring his intention to take a holiday, Skate secretly flew to Taipei at the beginning of July to finalise a deal with the Taiwanese government for political recognition in return for loans and grants that, according to the Port Moresby *Post-Courier*, total \$4 billion.

Skate and the PNG Foreign Affairs Minister Roy Yaki signed a joint communiqué with the Taiwanese government in return for a financial package that the two sides had been negotiating since September last year. It includes an initial grant of \$US500 million, followed by a further \$US1 billion over the next five years, with an additional \$US1 billion in loans. A Taiwanese delegation, including representatives of the fishing industry, arrived in PNG last week to discuss future aid and business

interests.

Taiwan's Foreign Affairs Minister Jason Hu said "not a single penny was involved" in payment for political recognition, but the deal provoked a ferocious response from China and Australia. Beijing threatened to cut diplomatic links, declaring that PNG's recognition of Taiwan constituted a serious infringement on China's sovereignty and territorial integrity.

Australian Foreign Affairs Minister Alexander Downer warned that PNG was undermining its own export markets, as well as regional stability. In a more explicit statement of government policy, Australian Defence Minister John Moore said the situation in PNG would improve with a successful no-confidence vote against the Skate government.

Australian intervention was blatant. Its intelligence sources provided the initial press leaks on the Taiwanese deal, and these reports were given great prominence in the Australian media. The same outlets promoted Mekere as a "friend of Australia," while depicting Skate as, among other things, a "petty thief from the Port Moresby slums who grew up to steal his country" (*The Australian* July 6).

Mekere, a wealthy businessman, is the former governor of the PNG Central Bank, the previous Fisheries Minister under Skate and an open exponent of the restructuring program demanded by the International Monetary Fund. This week, Mekere stated that he would review the Skate government's decision to recognise Taiwan because: "It's not just between Papua New Guinea and Taiwan, there are regional and international implications." He indicated his close relations with the Australian political establishment by saying: "Australia is an important government in the region and it is entitled to express its opinion on issues like that."

Last year the *Australian Financial Review* endorsed Mekere as a replacement for Skate, predicting that he would have the support of the business community as well as Australian political interests. It quoted Mekere as advocating more severe cuts in public spending: "No amount of money, printed or taxed, will get us right. The answer lies in reducing the size of the public sector and reallocating the resulting savings from consumption to capital".

Considerable political and economic interests are at stake for Australian big business. Often in partnership with other

transnationals, Australian companies own half the assets in the former Australian colony. They include highly profitable mining and oil ventures, such as the BHP-controlled OK Tedi mine, the huge Lihir gold project and the Panguna copper mine in Bougainville. Ok Tedi alone generates about 20 percent of PNG's exports and about 10 percent of Gross Domestic Product.

Australia has stepped in to halt the PNG deal with Taiwan because it fears the emergence of a new competitor in the region. Already three other Pacific Nations—the Solomon Islands, the Marshall Islands and Nauru—have recognised Taiwan. On Friday the Taiwanese Foreign Ministry threatened the Australian government with trade sanctions, suggesting that Taiwan would switch its iron ore imports from Australia to PNG.

The background to PNG's political turmoil is one of economic and social crisis, exacerbated by direct pressure from the international financial markets and institutions.

Fearful of social unrest, the PNG police force on Friday launched "Operation Vote of No Confidence," setting up roadblocks and mobilising many police onto the streets. Curfews already exist in Port Moresby, as well as the death penalty and the tattooing of the foreheads of convicted criminals.

With a growing lack of land and few jobs in the rural areas many thousands of young people have flooded into the urban centres over the past two decades, looking for work. In the urban areas 85 percent of the population is under the age of 24, with many unemployed or underemployed. In 1995, over 32,000 people in urban centers or 15 percent of the urban workforce, depended on crime as their main source of income. The country's largest village is now Hanuabada, where 10,000 people live in shanties above the mudflats of Port Moresby harbour.

One of the most destabilizing factors over the last year was the IMF's March report criticising the 1999 Budget for not going further in slashing government expenditure. "Continuation on this course would, before long, lead to a full fledged fiscal crisis with very damaging affects for the economy," it concluded.

The Skate government delivered the Budget under conditions of virtual economic breakdown, as a result of declining commodity prices, growing debt and the Asian financial crisis. It provided for the destruction of 7,000 public sector jobs; abolition of 15 statutory authorities, agencies and committees; privatisation of public bodies, including the Department of Works and Supply, Telikom and the PNG Banking Corporation; and the sale of the government's shares in mining operations and plantations. It also introduced a Value Added Tax to try to overcome the collapse of the tax base. The government had only been collecting income tax from 150,000 people out of a population of 4.4 million.

The IMF demanded a revised Budget and the creation of a

"business friendly environment". It outlined a number of measures to further open the economy up to foreign investors. These included more job cuts in the public service in close consultation with the unions, the reduction of inflation (currently running at 22 percent), a higher excise on petroleum, and a higher VAT.

Another IMF concern was the expanded Budget allocation of district support grants and the new rural development fund. MPs' discretionary funds rose from 1.5 million to 2 million Kina per electorate—the only increase in the Budget. These are basically vote-buying slush funds.

The IMF drew attention to recent outflows of capital. Foreign direct investment fell from K470 million or 7 percent of GDP in 1997 to K145 million or 2 percent of GDP in 1998. In addition, private capital outflow grew, reflecting a general lack of confidence by investors in the government's fiscal capacities.

PNG's economy has been in recession since mid-1997. A drop in world commodity prices has drastically affected it. Exports of logs declined by 8.9 percent over 1998. At the same time a severe drought in 1997 further damaged agricultural production. Copra exports dropped 9 percent, cocoa 10.5 percent and coffee 5.6 percent. As rivers dried up, two of the largest mining projects were forced to close temporarily.

Since the IMF report the economic situation has further deteriorated, with a continued collapse of the currency. The Kina, once worth more than the US dollar, has fallen to below US 40 cents, even though the Central Bank has spent K60 million trying to prop it up. The flight of capital has continued, with the PNG Chamber of Commerce estimating that K400 million was sent out of the country over a period of two months.

International financial institutions have begun to cut off credit to PNG. The World Bank cut off loans in a dispute over Skate's appointment of a former bank official as an adviser. A large loan from a European syndicate led by Belgium's Kredietbank fell through because the banks demanded security over PNG's commodity export income.

The Budget was predicated on the government borrowing 220 million Kina from overseas funds, but a proposed Eurobond issue fell so far short that it appears to have been postponed. Taiwan became a last resort.



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