

Papua New Guinea ministers sacked as Australia applies pressure for economic restructuring

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Papua New Guinea Prime Minister Mekere Morauta on March 9 suddenly sacked three cabinet ministers and demoted a fourth on the eve of an Australian ministerial delegation, heightening the political tensions in PNG.

Mekere sacked Petroleum and Energy Minister Tommy Tomscoll, Labour and Employment Minister Chris Haiveta and Correctional Institutions Services Minister Daniel Kapi. Vincent Auali was demoted from the Corporatisation and Privatisation Ministry to become Minister of State. Mekere accused the ministers of manoeuvring to destabilise his seven-month-old government.

Haiveta and Kapi are both members of the Pangu Pati, one of the governing coalition parties, while Tomscoll and Auali are from the Prime Minister's own Peoples Democratic Movement (PDM), which forms the biggest faction in the PNG parliament.

Tensions have arisen within the government over the implementation of International Monetary Fund (IMF) demands for far reaching restructuring of the PNG economy. So determined is Mekere that the privatisations go ahead unhindered that he has personally taken over the Corporatisation and Privatisation Ministry, as well as Treasury and Finance.

The dismissals coincided with two leaks in the Australian media of an Australian government document giving a damning assessment of the PNG government and a World Bank report outlining the dire straits of the PNG economy. Both leaks were clearly high-level, designed to pressure the PNG government to continue implementing the dictates of the IMF and World Bank, in particular the selling off of all government enterprises.

The Melbourne *Age* published details of an Australian Cabinet report written by Foreign Minister Alexander Downer. Under the headline, "PNG stuck in a rut, Cabinet told", one correspondent commented: "Corrupt interests continue to thwart political reform in Papua New Guinea, political pressures still determine some major appointments,

the country's administration remains weak and its defence force corrupt and badly managed." The article warned against expecting a successful outcome of the "reform" process within the next decade, even though Mekere's leadership represented the best hope.

A second *Age* article, headlined "Why PNG's troubles are bad news for us", specifically referred to PNG's military and police capacity. The cabinet report expressed little confidence that the PNG Defence Force would remain loyal to an elected government. It pointed to the border with Indonesian West Papua as a possible future flashpoint and said the PNG military would not have the capacity to respond. The PNG government was also incapable of resolving the continuing strife on the island of Bougainville, where several hundred Australian and other regional troops are stationed as part of plans to end a secessionist war.

PNG Foreign Affairs Minister John Kaputin summoned Australian High Commissioner Nick Warner to explain the content and leaking of the Australian cabinet paper. Kaputin expressed the hope that the leak was not part of a deliberate destabilisation, referring to the Australian government and media destabilisation of the previous Skate government in July 1999.

The *Australian Financial Review* continued in a similar vein as the *Age* when it detailed the leaked World Bank report in a feature article entitled "PNG at the edge of an abyss". "It's the business environment from hell," the article stated. "Interest rates 23 percent. Inflation 14 percent. Unemployment 36 percent. Corruption endemic. Only a third of children are at primary school and only half the population is literate. Central bank viability is threatened. Top of the world table in violent crime."

The article detailed the endemic cronyism in PNG at all levels of government. It specifically referred to one of the sacked ministers, Haiveta, as having been involved in a property scam without any charges or disciplinary action being taken.

The World Bank report concluded that “cynicism is now widespread, the morale of the civil service has never been lower ... all public institutions are in a state of decline ... and social and economic risks are seen as too overwhelming for investment.” The World Bank PNG director Klaus Rohland said it was becoming increasingly difficult to convince bank shareholders to invest further funds in PNG.

All this emerged in the Australian media as Downer, Defence Minister John Moore and four Australian senators were making their way to PNG for the 12th PNG-Australia Ministerial Forum. At stake for the PNG government was the next payment of promised funds from Australia, Japan and various financial agencies.

The payment included \$US100 million from the IMF, \$100 million from the World Bank, structural adjustment loans of \$30 million and \$50 million from Australia and Japan respectively, as well as a \$10 million grant from China and another \$10 million from Korea for structural adjustment programs. Mekere's office complained earlier this year that no extra offshore funding was received in the last five months of 1999. In the last fortnight the Kina sank to its lowest ever rate of US31c.

Kaputin opened the forum by condemning the Australian cabinet leak and declaring that Australia was “shouting from the rooftops.” He described the proposed Australian aid as having a “boomerang” effect and said the arrangements were “so complex and so closely tied to Australian commercial interests ... that the real benefits to Papua New Guinea are only a fraction of the amounts which appear to be spent.”

The joint forum endorsed the Mekere government's restoration of relations with the IMF and the World Bank, the sweeping privatisation plan and proposed constitutional changes. The two governments accepted that their defence agreement would have to be renegotiated and that the Bougainville crisis could only be resolved in a framework where it remained part of PNG. Steps were taken to secure the border with Indonesian West Papua by building a Highlands Highway and other national roads and airports to make the area accessible. Downer announced a \$US73.2 million currency swap.

The PNG government has just accepted the report of an International Advisory Group headed by Professor Ross Garnaut, an Australian National University academic and chairman of Lihir Gold, the largest gold mine in the world. The report recommended that all major state assets be prepared for privatisation—by first being made profitable.

The government announced that Finance Pacific, the only state business making a profit, be the first to be privatised. A controlling interest would be sold through competitive

auction at the end of this year and the remaining shares would be sold to the public within 12 to 18 months of the auction. Air Niugini, Telikom, Post PNG, Harbors Board and the water assets would be offered for sale by the first half of 2001. In this way, the government hopes to pay off all government debt by 2002.

Mekere cited Air Niugini as a typical example of the general state of public enterprises. Last year the government poured in \$US39 million to keep it afloat, but it is still losing \$US310,000 per month. It is expected that over 1,000 jobs will be shed to make it competitive. Altogether, the privatisation program will drive thousands more Papuan New Guineans into unemployment.

The World Bank report reveals some of the widespread poverty that already exists in PNG. More than a third of the population lives below the poverty line. Health services are more than four hours away for the poorest half of the population and more than 60 percent of the population relies on unsafe drinking water. The report's main concern, however, is the impact on investment. Crime “is now so severe that it is the single biggest deterrent to business and investment”, it comments, and is costing firms \$US122 million a year.

These sentiments were echoed by business representatives who attended the PNG-Australia forum for the second time. They demanded that the government do more to crack down on crime and unrest. Papua New Guinea Australia Business Council president Chris Byrne said, “the lack of opportunity of young people joining the workforce has been a significant factor in the law and order issues. The lack of police, judiciary and correctional institutes to deal with these offenders does not help ... Once people feel secure in this country, they will far more likely reinvest in PNG rather than remit overseas as much as they can the instant it is earned.”



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