

Unstable government formed in Papua New Guinea

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Papua New Guinea's longest serving politician, Sir Michael Somare, has emerged as prime minister after the most violent and corrupt elections in the country's 27-year history. Heading an unstable coalition of 13 parties and 20 independent MPs, he immediately confronts demands from business and Australia, the former colonial ruler, for drastic austerity measures that will lead to further social breakdown.

At a one-day parliamentary sitting on August 5, Somare was elected by 88 votes to 0, after 15 members of former Prime Minister Sir Mekere Morauta's Peoples Democratic Movement (PDM) and a section of the Pangu Party boycotted the session. While Somare's National Alliance obtained the required majority of 52 members, the vote was uncertain until the day it was taken.

Prior to the August 5 ballot, the PDM, National Alliance and a coterie of independents were holed up in separate hotels, surrounded by armed security guards, as political leaders sought to prevent the breakup of fragile alliances through bribery or intimidation.

By itself, the National Alliance held only 19 seats, having gained less than 17 percent of the vote in last month's elections. Nevertheless, it was the largest party, following the heavy defeat suffered by Morauta's government. Altogether, two-thirds of the MPs in the previous parliament lost their seats, underscoring the level of popular disaffection and political instability.

Somare has named a 28-member cabinet that includes no less than 19 new MPs. In an attempt to appease business concerns, he gave key portfolios to figures identified as economic "reformers," such as Deputy Prime Minister and Trade and Industry Minister Allan Marat, who holds a doctorate in law from Oxford University. In an appointment described by the media as likely to please big business, former Bougainville Affairs Minister Moi Avei was named as Petroleum and Energy Minister.

Finance Minister Bart Philemon, who served in the Morauta government until the National Alliance-PDM coalition broke up, immediately announced that he would hand down an emergency budget when parliament resumes on August 20, slashing some \$A250 million from government spending, or nearly 20 percent of the entire budget.

Cuts of this scale will devastate basic services and eliminate thousands of jobs, under conditions where unemployment and poverty are already at staggering levels, particularly among young people in the shantytowns ringing the capital, Port Moresby, and other urban centres.

The Australian political establishment and media favoured the re-election of Morauta, a former central bank governor, due to his efforts to implement the economic measures required by the IMF and World Bank. Editorials and comments in the Australian and PNG media have now insisted that PNG will face an economic catastrophe unless the new government reduces spending drastically, continues Morauta's program of privatising key public enterprises and restores the confidence of international investors.

In an interview, PNG Chamber of Commerce and Industry president Michael Mayberry declared: "Do something or the country steps off the edge into the economic abyss." An *Australian* editorial stated: "For PNG to progress, Sir Michael must not yield to populism but continue with the tough macro-economic reforms begun by Sir Mekere. After an election-induced spending spree that saw government expenditure jump by 21.4 percent in the first quarter, PNG urgently needs a good dose of fiscal discipline".

Somare faces an immediate financial crisis, with a \$95 million deficit recorded in the first half of 2002. Interest rates, already above 15 percent, could rise further, and the kina, which hit a record low recently of just over US24

cents, could fall further. The central bank has insufficient funds to keep propping up the currency, having already spent \$170 million this year. The public debt is 7.15 billion kina (\$3.4 billion), almost half the gross domestic product.

The longer-term economic situation is even more serious. PNG will lose about a third of its revenue base due to a massive fall in income from mining and petroleum projects. Over the next decade, most major projects are expected to end altogether.

Australian Prime Minister John Howard stopped over in PNG last week, en route to a Pacific Islands Forum, to press home the demand that Somare continue Morauta's measures. He directly linked the future of Australian aid, worth some \$300 million a year, to ongoing economic restructuring.

Addressing the Australia-PNG Business Council, he urged Somare's government to pursue Morauta's program, including privatisation, saying there was some "anxiety" to see that program continued. "The government must, of course, embrace the policies that make it attractive to overseas as well as domestic investors."

Somare, who first became Prime Minister when Australia declared PNG independent in 1975, has sought to convince business that he will create the political conditions to carry out these demands. Upon winning the leadership ballot, he said: "My main goal is to create political stability to allow economic reforms to take place."

Finance Minister Philemon said business would "find this government very sympathetic to hear their view on how this economy can be resuscitated". As part of his budget cuts, the government is expected to remove a 150 million kina educational subsidy that lowered school fees, introduced by the Morauta government in a last-ditch effort to shore up its electoral chances.

Somare announced a temporary halt to the privatisation program, primarily to allow his coalition to assess the rash of asset sales rushed through at the last minute by the outgoing caretaker government headed by Morauta. Some documents relating to the sales of Air Niugini, PNG Power, Telikom and Eda Ranu were signed and gazetted on August 2, after Somare had already been invited to try to form a new government.

Somare was also mindful of the popular hostility to Morauta's measures. He noted that privatisation "destroyed the PDM" at the polls but left open the possibility of reinstating the privatisation program at a

later date. "There is no reason why privatisation shouldn't go ahead if it is in the interest of all parties concerned, especially the people and the economy of Papua New Guinea," he said.

The new government is already facing a volatile situation. After an election plagued by ballot-rigging and the killing of more than 30 people, the Electoral Commission ordered new elections in six Southern Highlands Province seats. The six winning candidates have demanded that their victories be recognised.

In a letter to Somare, they threatened the government with secession. Referring to the major projects in their province, such as the Kutubu oil fields, the electricity supply lines to the Porgera gold mine and the proposed PNG-Queensland Gas Project, they warned: "We, as responsible leaders respect the assets and projects, but we can't control our supporters who number over 400,000." Somare has asked for time for his government to appraise the situation.

The Southern Highlands, a resource-rich province, accounts for nearly 50 percent of PNG's export earnings, but clan warfare has made it virtually ungovernable. Politicians and businessmen supply their supporters with high-tech weaponry, including automatic AK-47s and M-16s, often outgunning the police. During election clashes, 12 power-pylons supplying electricity to the Porgera mine were felled. The mine's operators claim to have lost \$US23 million in production over the past two months.

The Australian government has opted to work with the Somare government for now, but media commentators have quickly raised doubts about his coalition's survival. According to the *Australian*, "analysts were questioning Sir Michael's ability to mould an unwieldy coalition of 13 separate parties and 20 independent MPs into a government capable of solving Papua New Guinea's staggering economic and social problems".



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