

Papua New Guinea: Trade Brief*

Trade Policy

Ranking 5th out of 125 countries on the 2007 Trade (MFN) Tariff Restrictiveness Index (TTRI), Papua New Guinea's trade regime is much more open than that of an average East Asia and Pacific (EAP) or low-income country, both with respect to manufactures and to agriculture. This has been the case since a recent wave of tariff reductions and the ending of exclusive agricultural export arrangements. The simple average MFN applied tariff was reduced from an average of 19.7 percent in 1995–99 to 6.7 percent in 2000–04 and to 5.3 percent in 2007, less than half that of its comparators'. The corresponding MFN trade-weighted average of a low 2.4 percent is also below the EAP average (11.1 percent) and the low-income group average (11.3 percent) by a wide margin. The simple average of 17 percent for agricultural products, when trade weighted, drops to 10.3 percent, a rate less than half the EAP average and lower than the low-income group mean. With respect to services, the telecommunications industry is no longer fully state owned, as reflected in the International Telecommunication Union (ITU) competition index. The country scored relatively poorly on the GATS commitment index, indicating it has ample room for future greater multilateral commitments to service trade liberalization.

Market Access

Papua New Guinea's manufactures exports enjoy a favorable access to international markets, ranking 5th out of 125 countries on the latest Market Access TTRI. Its exports face a rest-of-the-world weighted average applied tariff of a low 0.4 percent and 79.8 percent of its exports qualified for MFN zero-duty status, reflecting very low barriers for its products, of which nonagricultural commodities make up the largest share. Due to inflationary pressure caused by the increased world prices for petroleum and gold, its exchange rate depreciated in 2007 on a real trade-weighted basis. Papua New Guinea is a Generalized System of Preferences (GSP) beneficiary with a number of industrialized countries. Despite its relatively high utilization rate of U.S. and EU preferences, however, their value accounts for only 3 percent of bilateral exports. An interim Economic Partnership Agreement (EPA) with the EU replaced the preferences under the trade portion of the Cotonou Agreement that expired at the end of 2007. Negotiations on a more comprehensive EPA covering services and trade facilitation are ongoing. Regionally, the country is a member of the Melanesian Spearhead Group (MSG), and is a party to the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), the Pacific Agreement on Closer Economic Relations (PACER), the Pacific Island Countries Trade Agreement (PICTA), and the Agreement on Trade and Commercial Relations between the Government of Australia and the Government of Papua New Guinea (PATCRA).

Behind the Border Constraints

According to the latest Doing Business survey, Papua New Guinea ranked 95th out of 178 countries, with an especially low (162nd) in the Enforcing Contracts subcategory. In the Trading Across Borders subcategory, it ranked 82nd, reflecting average shipping times and administrative requirements, but low shipping costs. Ranked 95th (out of 151) on the Logistics Performance Index, Papua New Guinea's weakest logistics categories were efficiency of customs and other border procedures and quality of transport and information technology (IT) infrastructures. On

*As of April 2008. See the World Trade Indicators 2008 database at <http://www.worldbank.org/wti2008>.

average, during 2005–06, its per capita rate for telephones and mobile phones (2 percent) is much lower than the EAP and low-income group averages. The HIV/AIDS epidemic poses a continued socioeconomic challenge. Overall, Papua New Guinea has a history of sociopolitical instability, but peaceful parliamentary elections took place in 2007. Nonetheless, the huge potential tourism industry has not been realized due to its reputation for poor security and lack of appropriate infrastructure.

Trade Outcomes

Papua New Guinea experienced real growth in trade and services of just 0.9 percent in 2007, which ranked it 149th out of 160 countries, largely due to a decline in exports of 3.4 percent. Both its trade as a share of GDP and its world trade share growth also fell to 88.7 percent and by 7.4 percent respectively. Much of this decline can be attributed to the aforementioned difficult institutional environment since its open trade policy, the abundance of natural resources, and the favorable external environment would suggest a more positive outcome. Papua New Guinea is richly endowed with natural resources and shows an increased capacity for their exploitation. Mineral deposits, including oil, gold, and copper, accounted for nearly two thirds of all exports in 2005. Papua New Guinea's main destination markets are Australia (about a third of all exports in 2005), Japan, and China. Imports, which are primarily obtained from Australia (over 50 percent) and Singapore, consist of such products as machinery and transport equipment, manufactured goods, food, fuels, and chemicals.

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