PAPUA NEW GUINEA

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The economy of Papua New Guinea has been mostly unfree since Index grading of the country resumed in 2009. GDP growth, powered by oil and gold exports, was interrupted in 2018 by a severe earthquake.

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BACKGROUND: Formerly administered by Australia, Papua New Guinea became an independent parliamentary democracy in 1975. Its more than 8 million people speak over 840 different languages. Elections held in 2017 that were marred by violence resulted in a second term in power for the People’s National Congress (PNC). Prime Minister James Marape of the Pangu party, however, replaced the PNC’s Peter O’Neill in May 2019. Papua New Guinea is richly endowed with natural resources, and its economy’s small formal sector is focused on exports of such commodities as gold, copper, oil, and natural gas. The vast majority of the population lives below the poverty line and works informally in subsistence agriculture. Activities related to recovery from the 2018 earthquake will heavily influence the economy over the next several years.

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The legal system protects and facilitates the acquisition and disposition of all property rights, but there are substantial delays. Over 80 percent of land is held “customarily” without legal title. Although it is often slow, the judicial system is widely viewed as independent from government interference. Corruption is widespread, particularly the misappropriation of public funds, “skimming” of inflated contracts, and nepotism.

Government interference in the private sector and weak and inefficient government institutional capacity make running a business expensive. Resolution of insolvency is especially costly. Labor regulations are relatively flexible, but informal labor is prevalent. Heavily subsidized state-owned enterprises provide substandard services for power, water, banking, telecommunications, air travel, and seaports.

The total value of exports and imports of goods and services equals 106.1 percent of GDP. The average applied tariff rate is 2.6 percent, but lingering nontariff barriers add to the cost of trade. Inefficient investment-related regulations stifle the growth of new investment. The availability of financial services is inconsistent throughout the economy, and much of the population remains unserved by the formal banking sector.