PNG LABOUR MARKET:

KEY TRENDS AND

POLICY RECOMMENDATIONS

·BCFW·
Business Coalition for Women

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AUGUST 2024

PNGAus Partnership

Key highlights

* Formal sector employment in PNG has declined in the past decade. This decline must be addressed.

* The resource sector contributes a disproportionately small portion of total employment. New resource sector projects are not a sustainable source of employment.

* Key policy recommendations to boost employment:
    o Implement a more flexible exchange rate policy to correct the overvaluation of the Kina.
    o Enhance the Pacific Australia Labour Mobility (PALM) and Recognised Seasonal Employee (RSE) labour mobility schemes, by ensuring recruitment hubs are adequately resourced and have transparent application processes.
    o Increase focus on improving education, including TVET and tertiary institutions, to better prepare the workforce.

Introduction

Papua New Guinea's (PNG's) labour market has not been performing well – looking at job security, wages, and other metrics. It is important to assess how employment has performed, as many Papua New Guineans earn an income through being employed – which in turn affects consumer spending, welfare, business investment, and economic growth. Labour market analyses are a good indicator of a country's economic performance and are used to inform government policy and business investment.

This article discusses how PNG's labour market has performed historically and draws on recent trends to develop a better understanding of sectors that have generated jobs. It provides an analysis of formal and informal employment and looks at how PNG's resource cycles have affected employment. The article then concludes with a brief discussion of policy recommendations for the government to increase employment.

Defining and measuring employment in PNG

The last national labour market survey was completed in 2014. Jones and McGavin's 2015 report (published by the Institute of National Affairs) provide a good snapshot of employment at the end of PNGs resource boom. Of PNG's then population of 7.96 million people, just over half were of working age, between 15 to 64 (see Table 1). PNG's labour force – the share of the working-age population who are able and actively seeking employment – was found to comprise around two-thirds of those of working age. Although unemployment was a low three percent, only 16 percent of those employed were formally employed – with the rest employed informally, including through subsistence work.

Little has changed since 2014, as Table 1 illustrates. PNG's population has grown to 11.8 million in 2021 (from 8 million in 2014), and its working-age population grew to 61.6 percent (from 58 percent in 2014) of the population. While data on labour force participation, unemployment, and informal employment is not available in 2021, PNG's formal employment fell to 385,693 (from 465,000). This is a significant drop – in absolute numbers – and as a percentage of the working age population. This fall in formal jobs needs to be addressed.

Table 1: Estimate of the labour force in PNG, 2014 and 2021.

| Indicator	2014		2021	
	Total	Share	Total	Share
Population	7,958,925		11,781,559	
WAP (15-64 years)	4,584,341	58% (of total population)	7,257,441	61.6% (of total population)
Labour force (LF)	3,071,509	67% (of WAP)	_	_
Number employed	2,979,363	97% (of LF)	_	_
Formal employment	465,000	16% (of employed)	385,693	5.3% (of WAP)
Informal employment including subsistence	2,514,363	84% (of employed)	_	_
Number unemployed	92,145	3% (of LF)	_	_

Source: Adapted from Jones and McGavin 2015; 2021 figures taken from the National Statistics Office and the PNG Economic Database.

Formal employment trends

Formal employment (which typically encompass jobs with legal contracts, fixed salaries, and social welfare benefits) in PNG has grown since independence in 1975. Total employment (both public and private sector) in 1975 was 175,429 people, which grew to 385,963 in 2021 (see Figure 1 below). Of the 175,429 (at independence), public service employees accounted for 46,465, while the private sector accounted for more than double – 128,964. The largest source of formal sector jobs remains the private sector, which provided 72 percent of jobs in 2022. Within the public service, teachers and health workers comprise the bulk of employment.

Formal employment grew rapidly beginning in 2005 in line with rising commodity prices, a period commonly known as PNG's resource boom period. The Bank of PNG (BPNG) also tracks private sector employment quarterly, which Figure 1 shows (with March 2013 as the index baseline). Employment peaked in June 2013 with the end of the PNG Liquid Natural Gas (LNG) project construction phase and declined till mid-2022 before increasing again. The increase in formal sector jobs since 2022 reflects the economy rebounding from the pandemic and associated shutdown, however, at the end of 2023 formal sector employment was still six percent lower than its resource boom level. This is telling, given PNG's working-age population has grown by 58 percent since the end of the resource boom.

Figure 1: Left: Public and private sector employment numbers, 1975 to 2022. Right: Private sector employment index, March 2013 to December 2023.
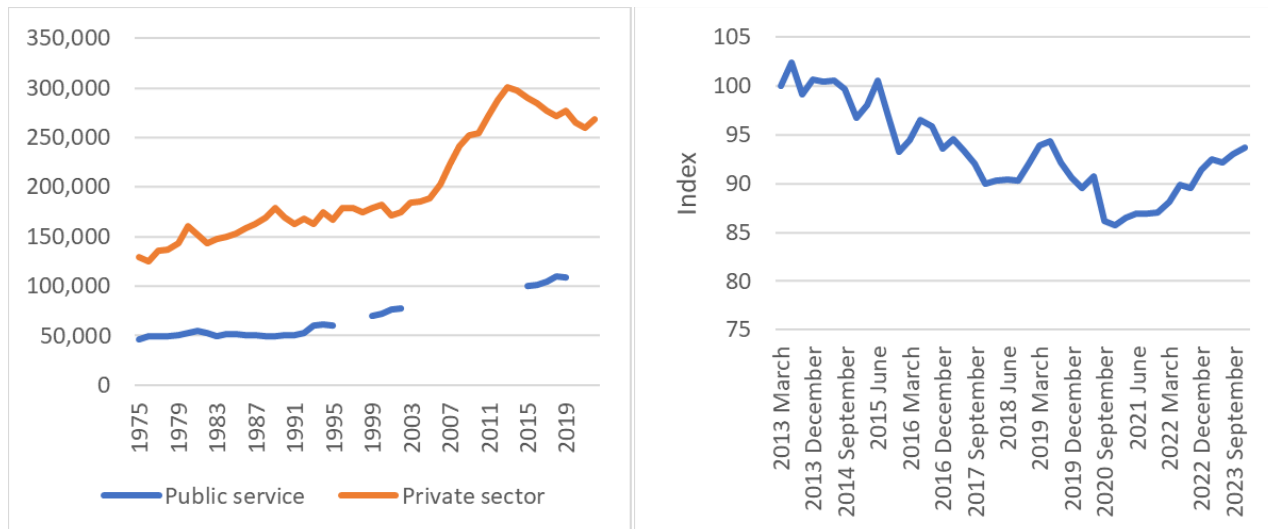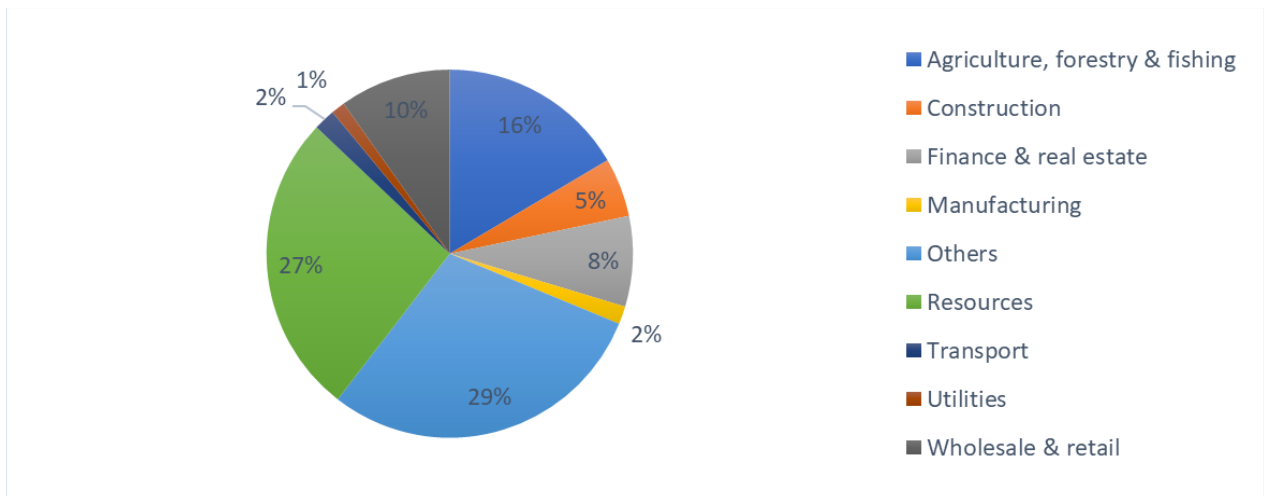

Source: PNG Economic Database; Bank of PNG statistical tables.

GDP composition and employment by sector

PNG has grown to be a resource-dependent country. In 2022, the resource sector – comprising the mining and petroleum sectors – accounted for over a quarter of gross domestic product (GDP) (see Figure 2 below). Despite its size, the resource sector workforce accounts for only six percent of total employment (including the public service). For the most part the resource sector is foreign-owned and capital-intensive. The main connection of the resource sector to development and by extension jobs remains through government revenue.

Figure 2: Real GDP by sector, 2022.

Source: PNG Economic Database.

The next two largest sectors are agriculture, and finance, and real estate – contributing 16 percent and 10 percent of GDP respectively. The other sectors contribute less than a tenth of GDP.

However, this GDP composition does not translate to employment figures. The agriculture sector provides the greatest number of jobs at just under a quarter of total employment, while the second largest individual sector is manufacturing, contributing 13 percent of all jobs (see Figure 3 below). All sectors showed strong employment growth in the 2000s, until the end of the resource boom. Although employment in these sectors has increased since 2020, only agriculture and resource employment levels are higher than they were at the end of the resource boom, by eight percent and 67 percent respectively. More work needs to be done for important non-resource sectors such as agriculture, manufacturing, transport, and construction so that they recover to their resource boom employment levels.

Figure 3: Employment numbers by sector, 1975 to 2022.
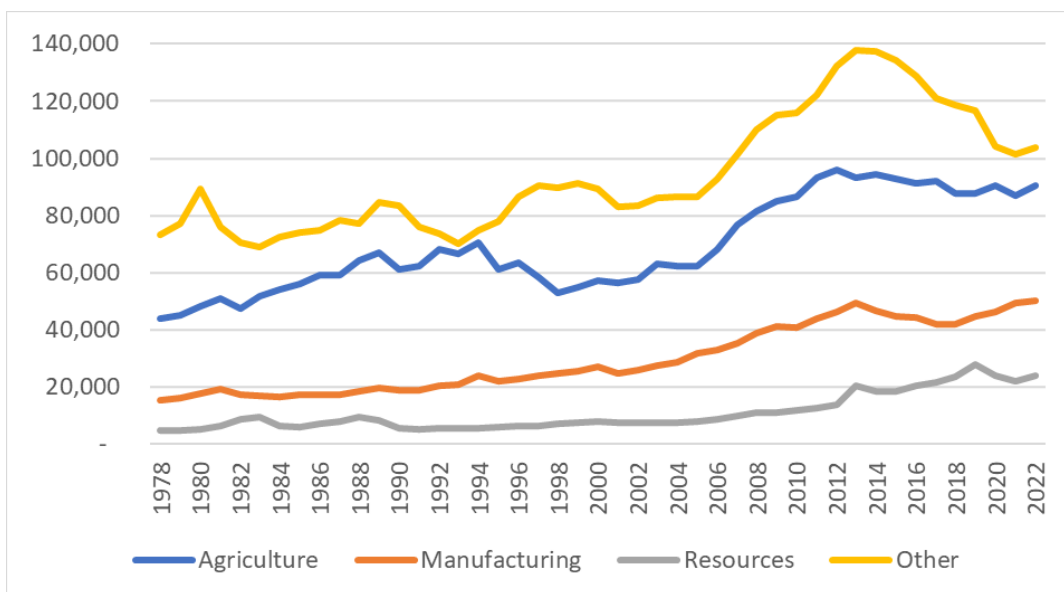
Source: PNG Economic Database.

Looking forward

PNG is on the cusp of another resource boom with the reopening of the Porgera Mine in Enga, a Papua LNG project – with a signing of the final investment decision (FID) expected in 2025 – and progress toward the opening of the gold mines Wafi-Golpu and Freida. The Papua LNG construction phase expects to employ 6,000 people directly, and many more indirectly. However, as experience has shown, this boost to employment is not sustainable and a focus on replacing the jobs lost when the Papua LNG construction phase ends is crucial.

Given the private sector provides most of the jobs, it is important to assess the impediments to business. The top five impediments to business listed by the 2024 PNG 100 CEO Survey (published by Business Advantage and Westpac) were foreign exchange shortage, security/law and order, unreliable utilities, lack of government capacity, and shortage of expertise and skills in the labour market. Despite these constraints, the survey reported stronger than average business confidence which would lead to higher recruitment in 2024. It is important to note that the CEO survey was conducted before the civil unrest of January 2024. Since then, the Bank of PNG through its Business Sentiments Survey reports that business confidence has declined and expects non-resource employment to fall in the first half of 2024.

Another risk is that PNG lacks a skilled labour pool which serves as a deterrent to foreign investment and renders gains from the next resource boom unsustainable. The recent Papua New Guinea Economic Update (published in May 2024 by the World Bank) found that more than half of the youth aged between 20 and 24 lacked basic literacy and comprehension. Many of these young people left school with little primary or no education at all, which constrains the knowledge spillovers hoped from large investments. A predominantly unskilled labour force would constitute headwinds to PNG's growth aspirations and must be addressed if PNG wants to translate economic growth into job growth.

On a positive note, employment is a priority of the national government. PNG's medium-term development plan 2023-2027 (MTDP4) aspires to create a million new jobs. These new jobs are planned to be created in the agriculture, forestry, fisheries, transport, and energy sectors – through a combination of significant investment in new projects, as well as providing downstream incentives including tax concessions and subsidies. The MTDP4, however, fails to explain how these policy reforms will be implemented. There is more reason to believe this jobs target is unrealistic, given historically employment has depended more on economic growth instead of government investment. It is unlikely that the government will meet its million jobs target at the end of the MTDP4 period.

Conclusion

In summary, PNG has a low unemployment rate with the largest share of employment in the informal sector and subsistence. PNG's formal employment has been tied to economic growth and it last experienced a large increase during the resource boom that ended in 2013. Paradoxically, non-resource sectors such as agriculture and manufacturing grew the fastest during the resource boom.

This job growth turned out to be unsustainable following the resource boom, and employment fell until the rebound from the pandemic arrested this trend. Upcoming resource projects are likely to provide a boost to employment. But the civil unrest of January has reduced business confidence which will likely result in a fall in employment in the short term. One risk to job sustainability is if there is a lack of alternative jobs to capture workers laid off after the Papua LNG project construction phase, as was experienced when the PNG LNG construction phase ended. Another issue that must be addressed is PNG's predominantly unskilled and uneducated labour force which would lead to gains from the resource sector lost on the broader populace.

Recommendations

There are several policy areas which the PNG government may focus on to increase employment. One is its exchange rate. A crawling pegged exchange rate was adopted in 2014 citing concerns that imported inflation has led to an overvaluation of the Kina. This policy, along with allowing companies in the resource sector to keep foreign exchange (forex) offshore, has led to a fall in foreign reserves. In turn, forex has had to be rationed by the BPNG. Introducing more flexibility in the nominal exchange rate would allow the real exchange rate to adjust to its true level and correct the mismatch in the supply and demand for forex. In addition, the Government should also consider requiring keeping more of the resource sector's export revenues in the country and increase the amount of forex supplied to the market by BPNG. These reforms improve business prospects by making exports more competitive and encourage import-substituting industries to expand, thereby providing a stimulus for formal sector employment.

Another recommendation would be to make labour mobility systems more efficient, transparent, and rules based. The Government intends to increase the annual number of workers sent to Australia (under its Pacific Australia Labour Mobility or PALM scheme) and New Zealand's Recognized Seasonal Employee (RSE) schemes. While PNG was only able to secure a mere 1,459 of the 48,000 visas offered by Australia and New Zealand between 2022 and 2023, the Government intends to increase the annual number of workers PNG sends to 8,000 by 2025. At present, prospective workers must apply and be short-listed by local recruitment hubs which then are vetted by a central vetting agency – the Labour Mobility Unit (LMU) established by Treasury which links these workers with employers in Australia and New Zealand. Only 12 of the 55 recruitment hubs have successfully deployed workers. As labour mobility expert Natasha Turia pointed out in a 2024 Devpolicy Blog, recruitment hubs need to be resourced adequately and recruitment needs to be transparent so that appropriate applicants meet visa and employer requirements and that nepotism in selection is reduced.

There are other areas that the PNG government can focus on, ranging from education, skills development, and health, to addressing gender disadvantages in hiring and wages, and addressing the constraints on business and investment. PNG's education is not underfunded when compared regionally, however, there is a need for education funding to be better targeted toward providing quality education, providing more technical and vocational education and training (TVET), and improving existing tertiary institutions (including enhanced teacher training). These investments would enable a larger share of the unskilled labour force to be trained and assist the growing number of graduates to properly meet the growing demands of PNG's workforce.

About the PNG Business Coalition for Women (BCFW)

BCFW is a non-profit organisation that aims to help the private sector overcome challenges to women's participation in the Papua New Guinean workforce through advocacy and prevention strategies to addressing violence, promoting women's leadership and implementing human resources policies and processes to help companies recruit, retain, and develop their female staff. More than 80 major PNG companies are members of BCFW.

For more information, visit www.pngbcfw.org.