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SPOTLIGHT

IMPACT OF THE COVID-19 PANDEMIC ON PAPUA NEW GUINEA'S INTERNATIONAL TRADE

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Key Points

- A pandemic affects different sectors of the economy in various degrees and forms. Such sectors affected include trade, agriculture, tourism, travel, manufacturing and retail, depending on their exposure to the global economy.
- The COVID-19 pandemic has affected the trade sector in Papua New Guinea (PNG). Estimates indicate that the value of PNG exports will fall by at least 13 percent, equivalent to over PGK5.0 billion.
- Although the import subsector is affected by the COVID-19 pandemic, the true value of the impact of COVID-19 on the import subsector in PNG is not clear at this stage.
- The true value and scale of the impact of COVID-19 on PNG's trade sector is difficult to determine at this stage due to many uncertainties.
- Strategies by the PNG government to mitigate the impact of COVID-19 on the trade sector are commendable but more needs to be done to clearly define support measures for the trade sector and communicate the same to those affected.

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By Logea Nao

A pandemic has broad implications on the world economy and has differing impacts on the economies of countries around the world. Evidence suggests that a pandemic or an epidemic may impact trade and affect international supply chains (Delivorias and Scholz, 2020). The impact of a pandemic on international trade can either be via a direct link in terms of reductions in the volume of goods and services traded, or indirectly through an impact felt in the sectors of an economy which support trade such as transport and logistics.

Although the most crucial impact of a pandemic is, and will always remain, human suffering and the loss of human lives. A pandemic also has profound economic impacts including disruptions to the agriculture sector, trade, tourism and travel (Delivorias and Scholz, 2020). The Trade and Development Report Update by United Nations Conference on Trade and Development (UNCTAD, 2020) notes that supply chain disruptions in China due to COVID-19 can affect the productive capacity and exports of any given country depending on how reliant its industries are on Chinese suppliers.

PNG's trade experience during the COVID-19 pandemic

The Ministerial Statement on an economic stimulus package responding to COVID-19, delivered to the National Parliament by the Minister for Treasury, Hon. Ian Ling-Stuckey, on 02 April 2020, acknowledged that the spread of COVID-19 would have adverse impacts on the Papua New Guinea (PNG) economy. The Minister for Treasury added that despite economic modelling efforts, the true value and scale of the impact would be unknown due to many uncertainties.

The COVID-19 pandemic has affected the movement

of goods, services and people domestically in PNG and across international borders due to the 14-day lockdown period which commenced on 24 March 2020. Restrictions on the movement of non-essential goods, services and people in and out of PNG has been gradual in tandem with the appropriate coping response mechanisms related to the spread of the virus. The restrictions in movement have been advocated and enforced by the team of international and local health experts and other professionals including national security forces leading the response against the virus.

Impact on export of goods and services

The Treasury Minister's Statement highlighted that from economic modelling by a team of local and international experts, the best estimate is that the value of PNG exports will fall by at least 13 percent, equivalent to over PGK5.0 billion. This is a clear representation of the demand-side impacts on PNG's exports of goods and services whereby demand for goods and services originating from PNG dwindle due to health concerns by consumers in destination countries (weaker external demand). Restrictions on transport services, logistics and other sectors that support trade also translate into impacts on the export sector.

The fall in the value of exports in PNG could also be attributed to falling commodity prices (Treasury Minister's Statement, 2020). Suppliers of commodities such as agricultural products and services such as tourism could respond by producing less for the export market. The fall in commodity prices can be considered as an indirect impact of the COVID-19 pandemic channeled through weaker global demand for goods and services. Further, restrictions on the movement of goods and services out of PNG including to China, an increasingly important trade partner, affects the volume of exports and serves as a supply-side impact of the pandemic on the export sector. Restrictions on sectors that support

trade also translate into export sector impacts both on the demand and supply side.

Impact on import of goods and services

Following the release of its first economic update of the PNG economy, the World Bank has suggested that the impact of COVID-19 on PNG's import sector will be felt indirectly via a slowdown in China's manufacturing industry, whereby businesses in the retail space in PNG experience delays in the delivery of their products (Post-Courier, 2020). The Minister for Treasury in his Statement to Parliament also highlighted that global supply chains were being affected including the supply of goods and services out of China. These are an indication of the supply-side impacts of COVID-19 on the import sector in PNG.

Restrictions imposed on the movement of non-essential goods and services into PNG as a measure under the PNG State of Emergency (SOE) to contain the spread of the virus could also be affecting retailers' access to goods. Impact on the import of goods and services could also be caused by weakening domestic demand. These are the demand-side impacts of the COVID-19 pandemic on the import sector in PNG. However, the true value of the overall impact of COVID-19 on the import sector in PNG is not clear at this stage.

Potential strategies to mitigate the impacts

To mitigate the impacts of COVID-19 on the PNG economy, particularly in the trade sector, the Government of PNG will directly support the rural sector as well as micro, small and medium enterprises (MSMEs) through the domestic budget, and joint efforts with commercial banks and other financial institutions in providing support for loan repayment holidays for businesses and households (Ministerial Statement, 2020). However, there are lessons that can be drawn from elsewhere to counter the negative impact of the COVID-19 pandemic on trade.

Informed by measures in other countries and what could be viable given domestic conditions, the Government of PNG could consider:

- Cooperation and coordination between the national government and provincial governments in terms of information sharing and targeted funding for local producers such as farmers;

- where appropriate, import-substitution should be encouraged with value-addition being the focus;
- developing a strategy in consultation with industries concerned to lift restrictions on the movement of goods and services, in phases and in a coordinated manner;
- targeted and precautionary expansionary fiscal policy to support the trade sector; and,
- expansionary monetary policy such as providing MSMEs access to credit with regulatory oversight and not introducing any new restrictive or protectionist trade measures (Triggs and Kharas, 2020).

Conclusion

The impact of a pandemic, and certainly COVID-19, is not distributed equally throughout an economy, including the PNG economy. While sectors such as health, in particular, health supply and procurement subsectors have benefited, other sectors such as trade, tourism and domestic retail have suffered and may continue to do so for a while. Although the value of the impact of COVID-19 on the trade sector in PNG has been estimated through economic modelling, the true value and scale of the impact is difficult to determine due to many uncertainties. It is therefore important that further studies are conducted to determine the full and true impact of COVID-19 on the value of goods and services exported and imported as well as the impact on the overall PNG economy.

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