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GOVERNMENT MUST IMPROVE
RULE OF LAW AND POLITICAL
STABILITY TO BOOST INVESTMENT,
EMPLOYMENT OPPORTUNITIES
AND REVENUE

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Key Points

- Political stability and absence of violence, and strong rule of law can boost investment, employment opportunities and government revenue.
- Papua New Guinea (PNG) has had weak performance in political stability and rule of law from 1996 to 2020, which restricts the country from achieving its potential.
- Political stability can be improved by providing conducive environment for investment and strengthening political institutions.
- Rule of law can be improved by strengthening governance institutions and making the judiciary and law enforcement agencies more independent.
- Political office holders should consider implementing projects and policies they inherited from their predecessors.
- The Government that emerges from the current PNG National Elections should consider addressing the weaknesses in political stability and rule of law.

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GOVERNMENT MUST IMPROVE RULE OF LAW AND POLITICAL STABILITY TO BOOST INVESTMENT, EMPLOYMENT OPPORTUNITIES AND REVENUE

By Eugene E. Ezebilo

Introduction

Governance system that promotes rule of law and political stability have the potential to attract investment, which in turn, boost employment opportunities, government revenue and human development. However, addressing issues associated with rule of law and political stability is often problematic. This paper focuses on one of the findings from an article by Ezebilo and Kipongi (2022) concerning the impact of some governance indicators on Gross Domestic Products (GDP) per capita in Fiji, Papua New Guinea (PNG), Solomon Islands and Vanuatu. It is important to note that GDP per capita is the total value of goods and services produced in a country over a period of time (normally one year) divided by the population and adjusted for inflation. The study was based on data from the World Bank database on Worldwide Governance Indicators (WGI) and real GDP per capita. The article stated that of the four countries studied, Vanuatu had the best performance in political stability and rule of law. Fiji had the best performance in the control of corruption, government effectiveness and real GDP per capita.

In this paper, emphasis is placed on how PNG can improve its performance in the rule of law and political stability to boost investment, employment opportunities, government revenue and human development. There are other factors that influence investment such as availability of skilled labour, availability of land and nature of demand for goods and services being produced. However, these were excluded from the analysis provided in this paper. There are several governance indicators such as voice and accountability, government effectiveness, control of corruption, regulatory quality, rule of law and political stability and absence of violence. However, the analysis reported in this paper is based on the last two indicators.

Political stability can boost investment, employment opportunities and government revenue

Political stability and absence of violence entails the tendency that a government will be destabilised or overthrown by unconstitutional or violent means (World Bank, 2021). It promotes the ability of people to accumulate capital, save and invest. Political stability can boost investment, employment opportunities and government revenue in the following ways:

- The presence of political stability and absence of violence in a country provide conducive environment for investment, employment opportunities and government revenue (Uddin et al., 2017).
- Stable political environment encourages the implementation of effective economic policies and correct investment decisions, which have the potential to boost economic activities in a country.
- Political stability motivates potential investors to do business in that country and it reduces the risk of the investors from losing their investment.
- As a country receives investments, more people are employed in the jobs created by the investments and consequently, government at all levels get more revenue from income tax and company tax.
- If more people are employed in jobs created by investments, consumption of goods and services tend to increase and the government gets more revenue from Goods and Services Tax (GST).

Rule of law can boost investment, employment opportunities and government revenue

Rule of law captures the perception of the ability of government to formulate and implement regulations (World Bank, 2021). It is linked to the security of property rights, enforcement of contract, which attracts investment and trade and in turn boost employment opportunities and government revenue (Haggard and

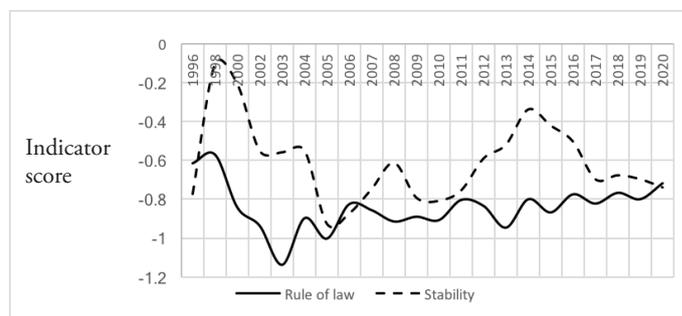
Tieda, 2011). The implementation of strong rule of law can boost investment, employment opportunities and government revenue in the following ways:

- The stronger the rule of law, the higher the income generated by the government from the economy because it restrict people and corporate bodies from evading taxes (Castiglione et al., 2015).
- The implementation of rule law without fear nor favour has the potential to promote law and order in a country, which increases investors' confidence to invest in a country.
- Strong rule of law contributes in reducing transaction costs (cost of doing business) and improves ease of doing business, proper allocation of property rights and restrict marginalisation of vulnerable people.
- According to Kaufmann et al. (1999), improvement in the rule of law results in two to four-fold increase in per capita income. It provides political and economic opportunities to people and provides them with right to access public goods and services.
- Rule of law makes government agencies accountable for the delivery of public goods and services, which contributes to improving government effectiveness in service delivery. This has the potential of reducing the cost of doing business in PNG and attract private investment, which in turn, generate revenue for the government through tax.

PNG's performance in rule of law, and political stability and no violence

The performance of a country in governance can be assessed using WGI (World Bank, 2021). Using WGI data from 1996 to 2020, the performance of PNG on political stability and absence of violence, and rule of law were assessed. It is important to note that the estimate of governance measure ranges from -2.5 (weak performance) to 2.5 (strong performance) for each of the governance indicators. The findings revealed that PNG's score on rule of law ranges from -1.14 in 2003 to -0.57 in 1998 (Figure 1). This means that PNG had the worst performance in rule of law in 2003 and the best performance in 1998.

Figure 1. Performance of PNG in political stability and absence of violence, and rule of law from 1996 to 2020



Data source: World Bank database on Worldwide governance indicators, 2021. Note that no data for 1997, 1999 and 2001.

PNG's score on political stability and absence of violence ranges from -0.93 in 2005 to -0.11 in 1998 (Figure 1). This means that PNG had the worst performance in political stability and absence of violence in 2005 and the best performance in 1998. As PNG's score for both rule of law, and political stability and absence of violence from 1996 to 2020 were all negative, the country's performance on the two indicators have been weak during the study period.

Initiatives to improve PNG's performance in political stability

PNG can improve its performance in political stability and absence of violence using the following initiatives:

- Impediments of political stability that restrict investment should be removed. For instance, government should focus on promoting ease of doing business by addressing insecurity and providing infrastructure such as good road networks, water and electric power to reduce the cost of doing business
- Constraints to human development should be addressed. The government should provide more opportunities for its citizens to access education at all levels, affordable healthcare and employment.
- Violence associated with elections should be addressed by developing a mechanism that discourages violence and by penalising any political party or candidate implicated in the violence.
- Government agencies whose activities are associated with conducting elections at all levels of the

government such as Integrity of Political Parties and Candidates Commission and PNG Electoral Commission should be provided with adequate funding for acquiring modern facilities, attracting high qualified personnel and creating awareness on how to improve the conduct of free and fair elections.

- Provide mechanism for reducing the movement of some members of the parliament from one party to another especially during the period of formation of new government. The frequency of the change of government heads such as the Prime Minister should be reduced because it contributes to political instability.
- Provide an effective incentive mechanism for rewarding the most peaceful political party during elections and to penalise parties that have been linked to violence and the intimidation of political opponents and their supporters.
- Political office holders such as Ministers, Provincial Governors and open electorate members of the Parliament should consider implementing projects and policies they inherited from their predecessors. Some modifications can be done to the projects and policies but a total change should be avoided to discourage instability.

Initiatives to improve PNG's performance in the rule of law

As the measures of rule of law differ in form and appropriateness, precaution should be taken in the development and use of law measures. Strategies that can be used to improve PNG's performance in the rule of law include the following:

- Provide an effective mechanism for strengthening the independency of the judicial branch of government and law enforcement authorities so that they can conduct their duties without fear nor favour.
- Improve capacity of governance and political institutions by providing them adequate funding for attracting high qualified personnel, training and purchase of modern facilities.
- Improve the capacity of law enforcement agencies such as the Royal PNG Constabulary by providing

them adequate funding for attracting more high qualified personnel, training and purchase of modern equipment.

- More effort should be geared towards making customary land secure by developing proper titles to promote property rights to the asset.
- Provide adequate funding for training, purchase of modern facilities and in attracting highly qualified personnel to improve effectiveness and efficiency in the law and justice sector.

Concluding remarks

This paper provides insight into PNG's performance in two governance indicators: rule of law, and political stability and absence of violence. These indicators contribute to providing conducive environment for investment, job creation and increase in government revenue from taxes. However, the country had weak performance in the two indicators, which restrict PNG from achieving its potential in attracting investment, job creation and generating government revenue.

If the intention is to improve the country's performance in the rule of law, and political stability and absence of violence, factors that contribute to insecurity and that restrict the enforcement of strong rule of law that make our communities unsafe should be addressed using holistic approach. These factors restrict investment, job creation, government revenue and human development and contribute to poor economic and political institutions. Thus, government at all levels should provide effective mechanisms for the improvement in political stability and rule of law in the country by strengthening governance, political and economic institutions.

Findings from this paper will assist PNG Government in making informed decision on political, governance and economic institutions to spur investment, employment opportunities, government revenue and human development by considering political stability and the rule of law.

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