curse to blessing

Muhammad Fadli Hanafi and Berly Martawardaya, Jakarta | Opinion | Mon, October 12 2015, 4:41 PM

Indonesia is blessed with abundant natural resources. During the New Order period (1966-1998), primary school children were taught to think of natural resources as a source of development.

Indonesia possesses the 2nd largest oil reserves in South East Asia with 3.6 billion barrels, the world's 14th largest gas reserves with 103.3 trillion cubic tons and holds about 40 percent of the world's geothermal reserves.

Furthermore, it is the 8th largest gold producer in the world, producing about 100 tons/year according to the 2013 US Geological Survey, the 5th largest producer of copper and nickel, and the 2nd largest exporter of liquefied natural gas (LNG), after China.

Questions remain. If Indonesia is so rich in natural resources, why then are there so many poor people in the country? 11.2 percent of the population live in poverty, according to BPS' latest survey. Our level of development is far below resource-poor countries such as South Korea, Taiwan and Singapore. Some academics call this phenomenon the "natural resources curse".

This phenomenon shows a contradictory relationship between natural resource wealth and economic performance.

Intuitively, a country with rich natural resources could provide better prosperity for its people.

However, the opposite seems to be the case. The natural resource curse presents itself in four perspectives.

The first is structuralist. This perspective explains how a primary commodity export boom causes the currency to appreciate, making exports uncompetitive and imports cheap.

The second perspective concerns transaction costs. This perspective shows how the high volatility of primary commodities tends to increase transaction costs over periods of time.

The third perspective explains how a shift from entrepreneurialism to a more complacent natural resource-based economy takes place. And the fourth perspective concerns institutional failure; how weak government becomes unable to manage the output of natural resources, and cannot funnel the benefits of natural resources to boost economic performance and improve other social indicators such as those listed in the human development index (HDI).

The issue is strategic one globally, especially for Indonesia. Natural resources are not renewable, and therefore wisdom in usage is imperative. The academics and scholars Martawardaya, Basuki, and Hanafi investigated the role of a non-tax shared fund from natural resource extraction on economic performance and some social indicators.

They divided 539 municipalities and regencies into five categories based on natural resource richness, indicated by the shared-fund of oil and gas from the central government. The results revealed that a higher share of natural resource fund has no impact on driving higher economic growth in the municipalities and regencies classified into the richest 20 percent in terms of natural resources.

Subsequently, it was also shown that the higher the shared-fund, the lower the probability of the local government to get a qualified (WDP) and unqualified (WTP) audit opinion from the Supreme Audit Agency (BPK). This fact strongly indicates that the natural resources curse is true for Indonesia, a curse that is exacerbated by institutional weakness.

Several countries have been successful in getting out from under the curse or at least minimizing the negative impacts brought about by the curse. Dubai is the poster child for a country that managed to take a long term view before running out of oil. Dubai invested its natural resource wealth into its people and diversified the economy into services and finance.

The government of Norway established the “Government Pension Fund Global” to stabilize the flow of oil revenues into the budget and invest it for future generations, managed by Norges Bank Investment Management. Similar to Norway, The United Arab Emirates also established the “Abu Dhabi Investment Authority” to manage natural resource revenues including surpluses from oil exports for the benefit of future generations.

Moreover, Timor Leste also runs the “Petroleum Fund of Timor-Leste” to support its fiscal stability.

These policies are well-known as “Natural Resource Funds” (NRFs). The funds from an NRF policy can be further used to cover budget deficits, to save for future generations, to earmark for country and regional-level projects, or to invest abroad to mitigate the risk of the so-called Dutch-Disease.

Indonesia is no longer as rich in natural resources as we were taught to think. The oil reserves will last only for another ten to 15 years. But the situation is not irreversible. We still have time if we move quickly.

Local government expenditure has to be allocated mostly to education, health, social protection, as well as capital expenditures.

As of 2013, the largest proportion of budget spending went to personnel expenditures (20.93 percent) followed by capital expenditures (15.97 percent), education and health expenditures at10.26 percent and 1.52 percent respectively.

A local government blessed with high revenues from natural resources, especially in oil and gas, can afford to educate its people, hire the best minds to assist in diversifying its economy and strengthen local government services.

The national government could offer a helping hand by sharing the knowledge and practices learned from local and international governments to prevent the fall into the curse of natural resources.

Muhammad Fadli Hanafi is a researcher at Article 33, a think-thank focusing on Indonesia’s environment and extractive sector. Berly Martawardaya is an economist at University of Indonesia and senior fellow at ANP Insight.

Like 26

Paper Edition | Page: 7

Read also:

- Shelter versus shielded borders
- Breaking illusion of corruption eradication
- Community key to sustainable fish production
- Letter to the editor: Tax office responds
- Avoiding the ugly Okkers is unwise

Post Your Say

Selected comments will be published in the Readers' Forum page of our print newspaper.

0 comments

Sign in

+ Follow Share **Post comment as...**

Newest | Oldest | Top Comments

Powered by Livefyre

The Jakarta Post

The Jakarta Post Digital

News

Travel

Entertainment

Jobs

Community

Forum

News

Editor's Choice
Business
National
Archipelago
Jakarta
World
Sports

Views

Opinion
Reader's Forum
Your Voice

Life

Digital Life
Sci-tech
Environment
Body & Soul
Art & Design
Culture
Lifestyle
Entertainment
People
Features

Services

Contact Us
Media Kit

© 2016
PT. Niskala Media Tenggara

Partners:
kompas.com | tribunnews.com | kontan.co.id | Asia News Network | Catch Asia! Media Network