

Natural Resource Abundance and Economic Development: A Curse or a Blessing? – Lessons from Indonesia's Experience

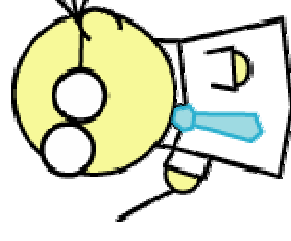
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1. Natural Resource Curse

- Revisiting the issue: Why a curse, and not a blessing?
- Recent African growth acceleration
- Experience of South-East Asian Countries: Indonesia, Malaysia, Thailand, Vietnam; also Cambodia, Laos, Myanmar
- Case Study of Indonesia: The Pertamina Crisis (1975) as a tipping point

2. What Headaches Do Natural Resource Abundance Give Us?

- The “Dutch disease” effect: Crowding out the development of manufacturing industry
- The “Voracity effect”: Rent-seeking, wasteful public spending, corruption, and under-achievement in institutional development
- The “volatility effect”: Long-term planning made difficult, the political economy of public spending, and the impairment of balance-of-payments and fiscal sustainability

3. What Can We Do?

- Give away natural resource revenue to all citizens?
- Maintain competitive exchange rate: The proposal of the *New Bretton Woods System*
- Protect manufacturing industries: “Intellectual justification for protectionism and trade barriers”
- National Savings Funds
- Transparency of financial flows
- Strengthening “governance” and “institutions”

4.Indonesia in the Early 70's

- “Perfect candidate” for the natural resource curse
- Primary commodities: Oil and gas, rubber, coffee, tin and palm oil (c.70% of total exports)
- Government revenue from taxes on oil companies (up to 60% of total revenue)

5. The Rise of *Pertamina*

- Constitutional provision and National Oil and Gas Company, *Pertamina*: Production-Sharing Agreements as a way to work with international oil companies
- General *Ibnu Sutowo*, President-Director of *Pertamina* and his development philosophy – “Venture capitalists” vs. “bean counters” (the “Technocrats”)
- Building up *Pertamina* as parallel national development agency rivaling the Government

6. The Fall of Pertamina

- Spending binges and borrowing binges – Anything goes!
- Struggle for control of Pertamina's revenue and its borrowing. IMF Stand-by program (limits on medium-term borrowings) and loopholes
- The turning of the Euro-market sentiment: Franklin National Bank and Herstatt Bank going under (1974)
- Pertamina in liquidity squeeze and defaulting

7. Overcoming the Crisis

- The Technocrats' strategy for crisis management:
 - Assuming Pertamina's debt
 - Refinancing bank loans
 - Renegotiating suppliers' credits and trade credits
 - The "reprogramming" of Pertamina's projects
 - Establishing a firm framework for external borrowing: Now the Technocrats in control of international borrowings

8. The Technocrats' Achievements

- Effective control of oil/gas revenue and corporate governance of Pertamina (control of the Supervisory Board)
- Looking beyond the oil and gas dependence: Reforms of the tax system, the trade and investment regimes, the financial sector, the exchange rate policy
- Succeeding in averting the natural resource curse and building up the manufacturing sector

9. Lessons of the Indonesian Episode

- The natural resource curse not a destiny, but a pitfall: In Indonesia's case, the Pertamina Crisis a blessing in disguise
- Important conditions for avoiding the curse:
 - Control of financial flows, public financial management: robust, if primitive, budgeting and accounting systems in place

10. Lessons of the Indonesian Episode (Continued)

- Strategic and policy planning functions: A long-term vision of economic development, and reform efforts to reduce natural resource dependence
- Political leadership and legal framework: The minimum requirement of the political leadership is the legitimacy of performance