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# **The Politics and Economics of Indonesia's Natural Resources**

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# **The Politics and Economics of Indonesia's Natural Resources**

Edited by  
Budy P. Resosudarmo

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Budy P. Resosudarmo  
*April 2005*

*I dedicate this book to  
my wife, Daju Omang, and  
my children, Dhika, Yana and Sesa*

## GLOSSARY

<i>adat</i>	norm/tradition/custom
ADB	Asian Development Bank
Amdal	Analisis Mengenai Dampak Lingkungan (Environmental Impact Analysis)
ANU	Australian National University
APBD	Anggaran Pendapatan dan Belanja Daerah (local government budget)
APBN	Anggaran Pendapatan dan Belanja Negara (central government budget)
APHI	Asosiasi Pengusaha Hutan Indonesia (Indonesian Association of Forest Concessionaires)
Apkasi	Asosiasi Pemerintah Kabupaten Seluruh Indonesia (Association of Indonesian Districts/District Heads)
Apkindo	Asosiasi Panel Kayu Indonesia (Indonesian Plywood Producers' Association)
ASEAN	Association of South East Asian Nations (Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei Darussalam, Cambodia, Laos, Myanmar and Vietnam)
Asmindo	Asosiasi Industri Permebelan dan Kerajinan Indonesia (Indonesian Association of Furniture and Handcraft Industry)
ATC	Agreement on Textiles and Clothing
AusAID	Australian Agency for International Development
Badan Legislatif	Legislation Board
<i>banjir kap</i>	intensive traditional/manual logging
Bapedal	Badan Pengendalian Dampak Lingkungan (Environmental Impact Management Agency)

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Bappeda	Badan Perencanaan Pembangunan Daerah (Regional Development Planning Board)
Bappenas	Badan Perencanaan Pembangunan Nasional (National Development Planning Agency)
BI	Bank Indonesia
BIN	Badan Intelijen Negara (National Intelligence Agency)
BPN	Badan Pertanahan Nasional (National Land Agency)
BPS	Badan Pusat Statistik (Statistics Indonesia, the Central Statistics Agency, formerly Central Bureau of Statistics)
BRIK	Badan Revitalisasi Industri Kehutanan (Wood Industry Revitalisation Agency)
Bulog	Badan Urusan Logistik (the national food logistics agency)
<i>bupati</i>	head of a <i>kabupaten</i> (district)
CDM	Clean Development Mechanism (of the Kyoto Protocol)
CGI	Consultative Group on Indonesia
Coremap	Coral Reef Rehabilitation and Management Program
CoW	contract of work
CPUE	catch per unit effort
<i>cukong</i>	financial backer
DAK	Dana Alokasi Khusus (Specific Purpose Fund or Specific Allocation Grant to regions)
DAK–DR	Dana Alokasi Khusus–Dana Reboisasi (specific purpose fund for reforestation)
Dana Pembangunan Daerah	Regional Development Fund
<i>dana perimbangan</i>	equalisation funds (to regions)
Dana Reboisasi	Reforestation Fund
Dati I	Daerah Tingkat I (first-level region, that is, province)
Dati II	Daerah Tingkat II (second-level region/district, that is, <i>kabupaten/kota</i> )
<i>datuk</i>	the <i>adat</i> (traditional) leader in a Minang family clan
DAU	Dana Alokasi Umum (General Allocation Fund, General Purpose Fund, or fiscal equalisation transfer to regions)
DIK	Daftar Isian Kegiatan (routine expenditures)
DIP	Daftar Isian Proyek (list of budgeted technical projects; regional development spending)
DPD	Dewan Perwakilan Daerah (Council of Regional Representatives)
DPR	Dewan Perwakilan Rakyat (People’s Representative Council, Indonesia’s national parliament)
DPRD	Dewan Perwakilan Rakyat Daerah (Regional People’s Representative Council)

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DR	Dana Reboisasi (Reforestation Fund)
ESE triangle	economic–social–environmental triangle
EU	European Union
FDI	foreign direct investment
GAM	Gerakan Aceh Merdeka (Free Aceh Movement)
GDP	gross domestic product
Golkar	Golongan Karya (the state political party under the New Order, and one of the major post-New Order parties)
GRDP	gross regional domestic product
GT	gross tonnes
GTAP	Global Trade Analysis Project
HPH	Hak Pengusahaan Hutan (large-scale forest harvesting concession rights)
HPHH	Hak Pemungutan Hasil Hutan (small-scale forest harvesting concession rights)
IBRA	Indonesian Bank Restructuring Agency
IHPH	Iuran Hak Pengusahaan Hutan (forest concession licence fee)
IHPHH	Ijin Hak Pemungutan Hasil Hutan (forest product harvest concession royalty)
<i>ijin pinjam pakai</i>	borrowing permit (literally, ‘borrowed use’ permit)
IMF	International Monetary Fund
Inpres	Instruksi Presiden (Presidential Instruction)
IPHHK	Ijin Pemungutan Hasil Hutan Kayu (timber extraction permit)
IPK	Ijin Pemanfaatan Kayu (timber utilisation permit)
IPPK	Ijin Pemungutan dan Pemanfaatan Kayu (timber extraction and utilisation permit)
IRRI	International Rice Research Institute
ITTO	International Tropical Timber Organization
IUPHHK	Ijin Usaha Pemanfaatan Hasil Hutan Kayu (timber utilisation permit)
<i>ijin lokasi</i>	location permit
<i>ijin pemanfaatan tanah</i>	land use permit
JSX	Jakarta Stock Exchange
<i>kabupaten</i>	district, regency
<i>kandep</i>	<i>kantor departemen</i> ( <i>kabupaten</i> -level office of a central government ministry)
<i>kanwil</i>	<i>kantor wilayah</i> (provincial-level office of a central government ministry)
<i>kappersil</i>	a small logging concession permit based on PP 1/1957

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<i>kecamatan</i>	subdistrict
Kepmen	Keputusan Menteri (Ministerial Decision)
Keppres	Keputusan Presiden (Presidential Decision/Decree)
KFDC	Kalimantan Forestry Development Corporation
KKN	<i>korupsi, kolusi, nepotisme</i> (corruption, collusion, nepotism)
Koalisi Kebangsaan	Nationhood Coalition
<i>kota</i>	city, municipality
<i>krismon</i>	<i>krisis moneter</i> (monetary crisis)
KUD	Koperasi Unit Desa (village unit cooperatives)
LIPI	Lembaga Ilmu Pengetahuan Indonesia (Indonesian Institute of Sciences)
LNG	liquefied natural gas
LPEM	Lembaga Penyelidikan Ekonomi dan Masyarakat (Institute for Economic and Social Research, University of Indonesia)
MFA	Multi-fibre Arrangement
MPA	marine protected area
MPI	Masyarakat Perhutanan Indonesia (Indonesian Forestry Society)
MPR	Majelis Permusyawaratan Rakyat (People's Consultative Assembly)
MREP Project	Marine Resources Evaluation and Planning Project
New Order	the Soeharto era, 1965–98
NGO	non-government organisation
NIC	newly industrialised country
NRKK	Nanyo Ringyo Kabushiki Kaisha (a Japanese logging company)
NTT	Nusa Tenggara Timur (East Nusa Tenggara)
NU	Nahdlatul Ulama (traditionalist Islamic organisation)
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
<i>opkoop</i>	buying up of timber
PAD	Pendapatan Asli Daerah (locally derived revenue)
PAN	Partai Amanat Nasional (National Mandate Party, a modernist Muslim party associated with Amien Rais)
PBB	Pajak Bumi dan Bangunan (land and building tax)
PBB	Partai Bulan Bintang (Crescent Moon and Star Party, a <i>shariah</i> -oriented modernist Islamic party)
PBR	Partai Bintang Reformasi (Star Reform Party, a PPP splinter group)

PD	Partai Demokrat (Democrat Party, the vehicle for Susilo Bambang Yudhoyono)
PDI	Partai Demokrasi Indonesia (Indonesian Democracy Party)
PDI-P	Partai Demokrasi Indonesia – Perjuangan (Indonesian Democratic Party of Struggle, the vehicle for Megawati Sukarnoputri)
PDS	Partai Damai Sejahtera (Prosperous Peace Party, a Christian party)
<i>peraturan</i>	regulation, implementing decree
Peraturan Pemerintah	government regulation
Peraturan Presiden	Presidential Decree
Perda	Peraturan Daerah (regional government by-law)
Perhutani	state-owned forestry company
Perpu	Peraturan Pemerintah Pengganti Undang-Undang (Government Regulation in Lieu of Legislation)
Pertamina	Perusahaan Pertambangan Minyak dan Gas Bumi Negara (Indonesia's state-owned oil company)
<i>pesantren</i>	Islamic school
PJP	Pola Umum Pembangunan Jangka Panjang (long-term development plan)
PKB	Partai Kebangkitan Bangsa (National Awakening Party, aligned to Nahdlatul Ulama)
PKPB	Partai Karya Peduli Bangsa (Care for the Nation Functional Party, a Soeharto nostalgia party)
PKS	Partai Keadilan Sejahtera (Prosperous Justice Party, an urban, puritanical Islamist party, preceded by its forerunner, Partai Keadilan in 1999)
POLRI	Polisi Republik Indonesia (Indonesian National Police)
PP	Peraturan Pemerintah (Government Decree or Regulation)
PPP	Partai Persatuan Pembangunan (United Development Party, an Islamic party led by Hamzah Haz)
PPP	purchasing power parity
<i>preman</i>	extortionist, standover criminal
Prolegnas	Program Legislatif Nasional (Priority List for the National Legislative Program)
PSC	production-sharing contract
PSDH	Provisi Sumber Daya Hutan (Forestry Royalty)
PTPN	Perseroan Terbatas (PT) Perkebunan Nusantara (government plantation company)
Puskesmas	Pusat Kesehatan Masyarakat (community health centre)
<i>putra daerah</i>	local inhabitant

RCA	revealed comparative advantage
<i>reformasi</i>	reform
Repelita	Rencana Pembangunan Lima Tahun (Five-year Development Plan)
<i>retribusi</i>	local government levy or charge
RKT	Rencana Kerja Tahunan (annual working plan)
RSPAS	Research School of Pacific and Asian Studies (ANU)
RTRW	Rencana Tata Ruang Wilayah (regional spatial plan)
SBY	(President) Susilo Bambang Yudhoyono
SDO	Subsidi Daerah Otonom (Autonomous Region Subsidy)
SITC	Standard International Trade Classification
SK	Surat Keputusan (government decision/decreed)
SK	Surat Keterangan (letter of instruction)
SKSHH	Surat Keterangan Sahnya Hasil Hutan (certificate of validity of forest products)
SP-Bun	Serikat Pekerja Perkebunan (Plantation Workers Union)
SPM	Standar Pelayanan Minimal (minimum performance standards)
<i>sumber daya alam</i>	natural resources
<i>surat keputusan</i>	government decree
TAP MPR	decrees of the MPR
TNI	Tentara Nasional Indonesia (Indonesian National Army)
TPTI	Tebang Pilih Tanam Indonesia (Indonesian Selective Cutting and Replanting System)
<i>undang-undang</i>	law
UNDP	United Nations Development Programme
US	United States
USAID	United States Agency for International Development
<i>wilayah</i>	region
<i>wilayah laut</i>	maritime area
WTO	World Trade Organization
<i>yayasan</i>	private charitable foundation

### **Currencies**

\$	US dollar
Rp	rupiah

## **PREFACE: LOOKING BACK TO MOVE FORWARD**

*Emil Salim*

What is the important fact about Indonesian development in the last 30 years? The fact is that it has not followed a path that leads to sustainable development. Indonesia's development has been heavily dependent on natural resource extractions. Renewable resources such as water, forests, fisheries and other biological resources have been exploited beyond their ability to regenerate and will continue to diminish in the years ahead. Reliance on non-renewable resources and such activities as mining, minerals and fossil fuels cannot be sustained for ever. Clearly, the whole process of national development has not been sustainable. The question is: why and how has this situation occurred?

Let me go back to the situation 30 years ago. When we Indonesians started to formulate our development policies in 1966–67, there was little mention of environmental issues anywhere in the world; in particular, there was little mention of the links between development and the environment. Accordingly, when we began to draw up a national development plan in 1968, our focus was solely on economic development.

Up till the early 1970s, international development conferences tended to focus on single-track economic development involving infrastructure, agriculture and other primary sectors – so-called 'normal' economic development. In 1972, the United Nations held a Conference on the Human Environment in Stockholm. At the Stockholm conference, something new emerged: the environment. Most developing country delegations to the conference were economists who knew a lot about economics but nothing about the environment. What was this environmental issue about? Those of us from the developing countries knew the tune but we did not know the words of the song!

It is also important to note that, at around the time of the Stockholm conference, developing countries were campaigning for countries of the North to provide as much as 0.7 per cent of their GDP in aid to the South. Hence developing

countries, including Indonesia, thought that the Stockholm conference was only a scheme by the North to impose a new condition, related to aid, on the South. So we did nothing.

Subsequently, Indonesia entered a new stage of development after experiencing an oil bonanza. Instinctively we felt that the proceeds should be used for poverty alleviation. Revenue from the oil bonanza funded the Inpres program of presidential grants for village development, rural development, village schools and so on. But we were still not sure what we should do with this animal called the environment. In 1978 the Indonesian government established a Ministry of the Environment, and I was appointed minister. The first agency that I visited in this capacity was the World Bank, which had a vice-president for Asia. I asked him, 'What is this environmental issue? How do we translate that into development policy?' The reply was, 'We are the World Bank; we are a financial institution; we don't have enough staff members to deal with issues like the environment'. Clearly, at that time mainstream development did not take account of the environment.

However, I was referred to Mr James Lee, one of the few experts in the World Bank dealing with the environment at that time. He taught me what the environment was all about and how there is an environmental argument in debates about development. I began to understand how the environment fits into the picture, but I was still not absolutely clear about the linkage between development and the environment. Mr Lee suggested that I talk to NGOs such as Friends of the Earth and the Environmental Defense Fund. I asked them a simple question: 'What the hell is "environment"? How do we reconcile the environment and development?' After several discussions with Friends of the Earth and the Environmental Defense Fund, I noticed that civil society's thinking on the issue of the need to integrate environment and development was already much more advanced than that of formal institutions, including international institutions like the World Bank.

Let me now move on to the 1980s and 1990s. What was the 'religion' at that time? It was the 'Washington Consensus': governments of developing countries were too deeply involved in development and should pull out; the private sector should do the job. The philosophy was that governments must undertake privatisation and that countries must rely upon the market.

For Indonesia, the message was clear: we must adopt a market paradigm, and the private sector should dominate the market. Indonesia embraced the Washington Consensus and its corollary that we should deregulate state enterprises. We did everything possible in that direction. Mind you, we were very high-spirited and enthusiastic in doing so. We even deregulated the financial market! Meanwhile, environmental issues were becoming more and more significant.

Do readers remember *Our Common Future* (WCED 1987) and the 1992 Rio conference?<sup>1</sup> Suddenly there were two conflicting trends. On one side, there

was economic development *a là* the Washington Consensus: let the market prevail and encourage privatisation. On the other side, there was the message from the Rio conference: the need for sustainable development and a focus on environmental development. Wait a minute! There is a conflict here. The Rio conference told us that there is a problem with the market, namely market failure. The depletion of natural resources was not accounted for. Environmental externalities as a consequence of development processes were not internalised. There was something wrong with the rigid economic approach.

Can people imagine what was in the minds of developing countries? On the one hand, we had listened to the World Bank talking about the role of the market economy. On the other hand, suddenly there was another perspective: sustainable development that took the environment and market failure into account. Developing countries were in complete confusion, though we understood the need to maintain the environment.

For me in Indonesia, the main problem in translating this need into development policy was as follows. Around the world at that time, the only indicators of development were economic ones; there were no indicators to measure the condition or quality of the environment and whether the environment was getting better or worse. Environmental indicators were considered irrelevant.

Let me give an example of this type of approach. When we went to the aid consortium Inter-Governmental Group on Indonesia<sup>2</sup> we were asked, 'What is your rate of growth? What is your budget deficit? What is your tax collection rate? What is your investment rate?' We were not asked any questions about the environment. As the country's Minister of the Environment, I felt a bit out of place. Further problems arose during cabinet sessions. When the Environment Minister raised his hand, the Industry Minister would always say, 'Up goes the price'. The main perception in cabinet at the time was that taking the environment into account would always lead to higher prices. Hence there was little action on environmental sustainability.

I became a kind of public relations spokesman. I was invited to various conferences throughout the world to speak about development and the environment in Indonesia, and always emphasised that the environment was important in our country. All these speeches were given in a spirit of goodness and glory – with the idea that improving the environment was important and beneficial for Indonesia and that Indonesian laws on the environment were very good too. Nobody attacked my remarks, since I always said, 'According to Indonesia's laws on the environment, this is what Indonesia wants to do' or 'According to the presidential decree, this is what we are willing to do'. Nobody asked 'Is Indonesia actually doing it?' Hence, I was conveniently free from critique.

The turning point occurred when the financial crisis hit in 1997–98 and it became clear that our development policies must have been flawed. Other developing countries also shared this perception. Do readers remember the

Summit of the Americas in Santiago, Chile, in April 1998? All of a sudden the Washington Consensus was reviewed and attacked by the developing countries. The outcome was the ‘Santiago Consensus’ that market failures need to be recognised, that the government needs to correct the market, that the financial market needs to be reviewed and studied, and that environmental factors should be taken into account – including the depletion of resources and the need to internalise externalities. Hence, the environment became an important factor in economics.

For Indonesia, it was too late. We had already suffered. We had a disastrous financial crisis, soaring unemployment, a steep drop in the human development index, a high index of perceived corruption, accelerated deterioration of the environment, shrinking natural resources, increased illegal resource extraction and a serious weakening of governance. From 1998 to 2004, Indonesia’s development was accompanied by great soul searching as we asked what had gone wrong and what we must do in the future.

We now understand the need to reform the total development strategy of Indonesia and to achieve triple-track development – not only economic development but also social and environmental development. But how do we do this? What model can we use? Indonesia has now installed a new government under the leadership of Susilo Bambang Yudhoyono. Our strategy for future development should focus on four issues.

First, we need good governance, because market failure requires government intervention and government intervention requires good governance. Good governance itself requires three important changes: public sector reform, better service delivery, and better laws and better enforcement of laws.

Second, we need to repair and improve infrastructure. This should include not only economic infrastructure such as roads but also social infrastructure such as schools. And let us concentrate on infrastructure for the poor, not infrastructure such as shopping malls, though these are now very popular in Indonesia.

Third, we need a pro-poor policy. Why not recognise the informal sector? Why not get the informal sector into the mainstream of development? Why not improve services to the poor? Why not create productive employment?

Fourth, development should not be only government-led: there is a need for other stake-holders to be partners in development. Development should involve government, civil society and business in a balanced triangular partnership in which all play an equal role. Civil society must become a countervailing power to business and government.

This ideal situation seems impossible to achieve. However, the recent election has shown that the people are against the ruling elite – that is, the established political elite. They are also against established big businesses that, in cooperation with the political elite, through money politics, want to dictate who should be elected and who should not. In brief, in this election we have seen a

revolt of the person on the street, of civil society. That is why it is important that the new government should work with civil society and improve and stimulate its development.

In summary, I foresee that the concept of sustainable development will now comprise economic, social and environmental considerations supported by government, business and civil society. This book is a major step in understanding the challenges of sustainable development embracing two frameworks: the economic–social–environment framework and the government–business–civil society framework. The focus this time is forestry, fisheries and mining. Equipped with a better understanding of likely challenges and opportunities, I believe that, by adopting these two frameworks, we will succeed in the implementation of our development processes.

## NOTES

- 1 United Nations Conference on Environment and Development, Rio de Janeiro, 3–14 June 1992.
- 2 This was an international group of lenders established in 1967 by the Netherlands to coordinate multilateral aid to Indonesia. In 1992, it was replaced by the Consultative Group on Indonesia.

