COMMENTS ON
"MANAGING NATURAL RESOURCE BOOMS IN ASIA"

TOSHIRO NISHIZAWA
JBIC INSTITUTE

POLICY OPTIONS AND CHALLENGES FOR DEVELOPING ASIA
—PERSPECTIVES FROM THE IMF AND ASIA

Comments on
"*Managing Natural Resource Booms in Asia*"
Session 4: Managing Natural Resources, ODA,
and Workers' Remittances

Tokyo, Japan
April 20, 2007

Toshiro Nishizawa

JBIC Institute
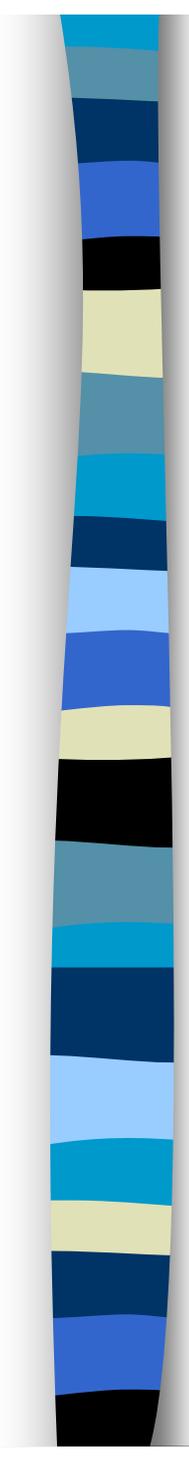
A well written piece of work !

- to show *how to use macroeconomic policies*, in particular fiscal measures, to respond to substantial windfall gains
- for their recognition of country-specific circumstances and institutional constraints
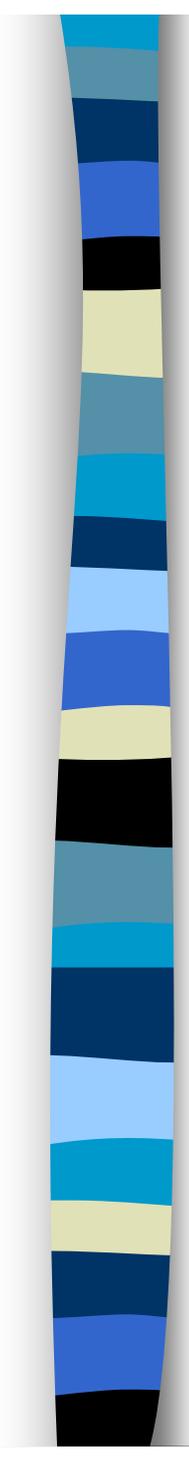
However, to leave open to discussion

- how governments should formulate *a forward-looking strategy to use windfall gains* in a way that ensures long-term development and intergenerational equity

Three specific questions

about the suggested policy measures

- First, in what circumstances does monetary tightening work effectively despite the enclave nature of the resource sector?

- Monetary tightening may have negative side effects for the whole economy while not removing the root cause of inflation risks.
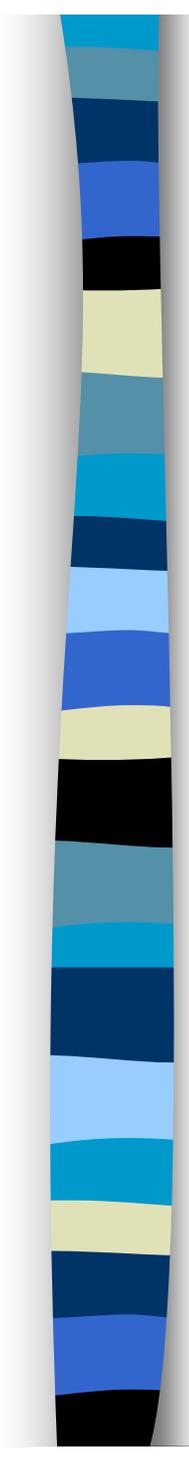
Three specific questions (continued)

- Second, what is an effective monetary and exchange rate policy for increasing the supply response?

- With the monetary and exchange rate policy more open and flexible, what are the potential mechanisms to lead to increased supply response?
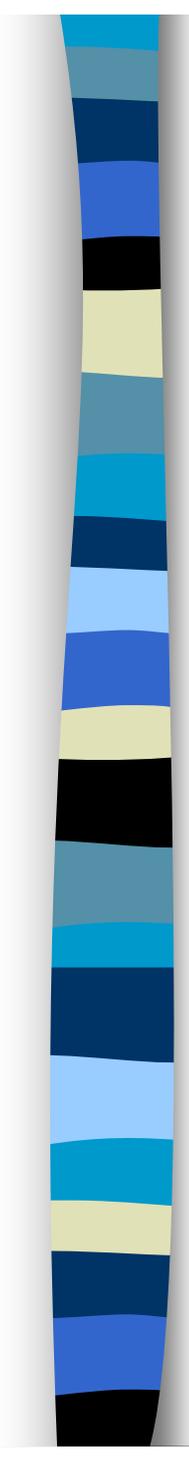
Three specific questions (continued)

- Third, what about the practicability of quantifying fiscal vulnerabilities, or of targeting a level of prudential reserves?
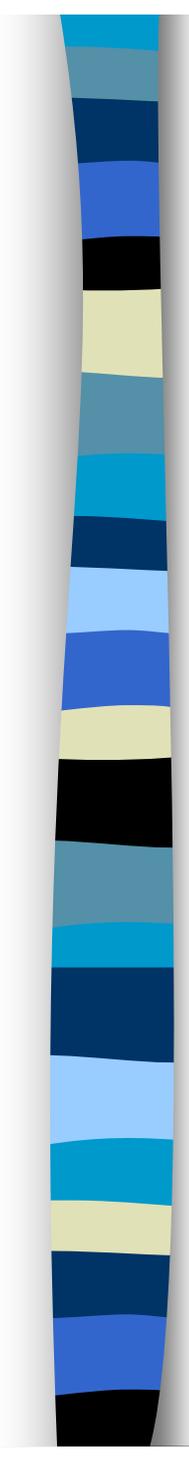
- No easy task to make resource abundance a blessing
- "the natural resource curse," reflecting both the "Dutch disease" and rent-seeking behavior, is a trap difficult to escape from
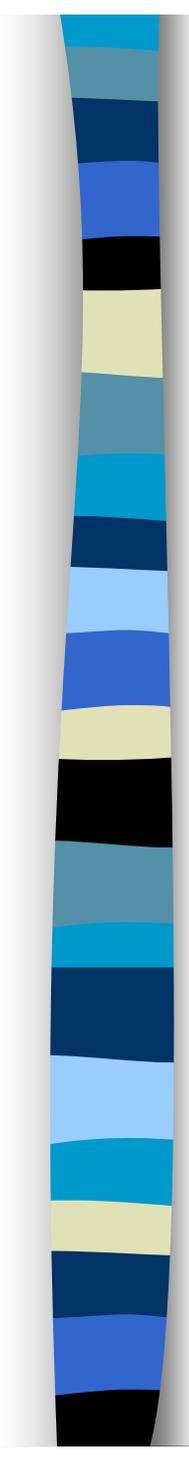
Rather fundamental questions, first

- Malaysia and Indonesia with remarkable transformation of their industrial structure
- notwithstanding "somewhat weak governance"

- How should we allocate limited administrative resources between actual fiscal management and efforts to meet "governance" requirements in line with international norms?
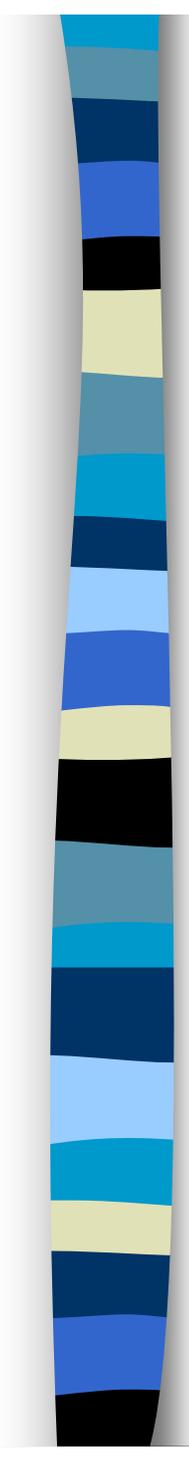
Rather fundamental questions, second

- the global and regional environment differs now compared with the period when Malaysia and Indonesia achieved dramatic economic diversification
- How should we take into account the more competitive global and regional environment that developing countries are now faced with?
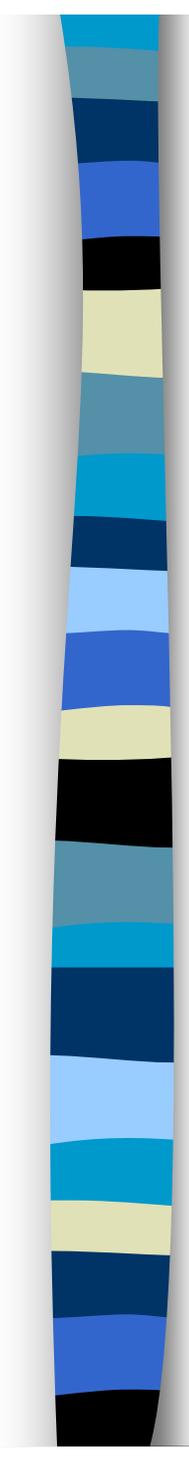
Rather fundamental questions, third

- when resource-rich developing countries are pursuing outward-oriented and market-based policies
- How and where should these countries spend resource windfalls?
- What are the "productive purposes" in such circumstances?
- **What are the feasible policy options to develop competitive non-resource industries?**
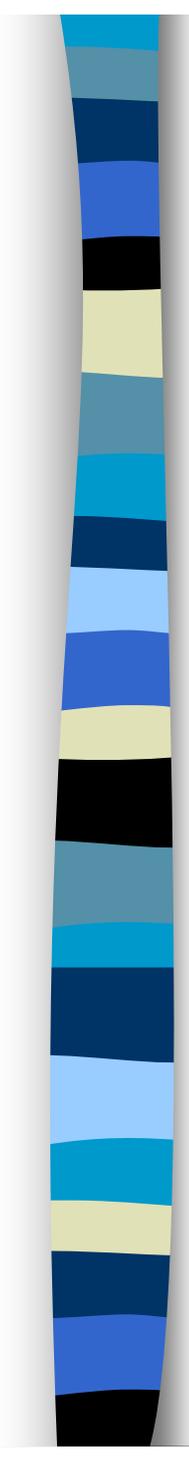
Three specific questions

- How does monetary tightening work effectively despite the enclave nature of the resource sector?
- What is an effective monetary and exchange rate policy for increasing the supply response?
- What about the practicability of quantifying fiscal vulnerabilities, or of targeting a level of prudential reserves?
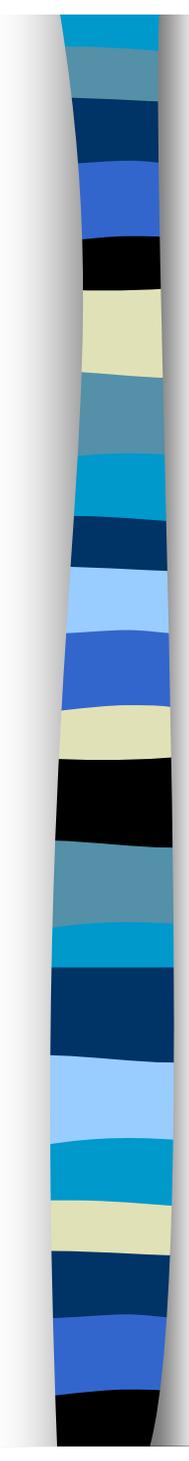
Three rather fundamental questions

- How should we allocate limited administrative resources between actual fiscal management?
- How should we take into account the more competitive global and regional environment?
- What are the feasible policy options to develop competitive non-resource industries?
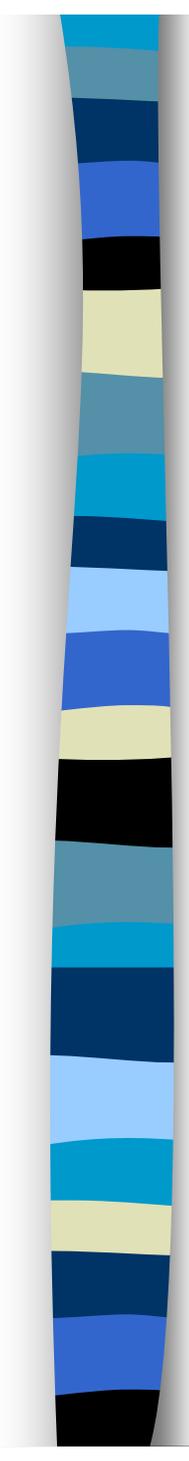
Thanks!

Toshiro Nishizawa
Deputy Director General
JBIC Institute
t-nishizawa@jbic.go.jp