COMMENTS ON

“MANAGING NATURAL RESOURCE BOOMS IN ASIA”

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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

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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!

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