

# INDONESIA'S BLESSING AND CURSE

*By Emanuel Shahaf*

The ongoing discussion about the urgent need to increase the education budget and VP Yussuf Kalla's irritation with Indonesian backwardness despite the obvious natural wealth of the country, as reported in this paper on April 5, highlights a problem that is not limited to Indonesia, but harms this country and coincidentally a number of other Muslim countries disproportionately.

I am talking about Indonesia's natural wealth, a blessing and a curse at the same time. Usually when natural resources and the associated extractive industries are discussed, the emphasis, not only in Indonesia, is on sustainable development and environmental impact, both catch phrases often used to attempt and control overly rapid industrialization. But there is a much graver problem with an abundance of natural resources - their disturbing influence on the development of human capital. There are other countries in a similar situation whose ample oil reserves obviate the development of alternative sources of income which in turn would require a serious and systematic fostering of available human capital. The poor standing of many Arab nations in the UN's Human Development Index, the accepted measure for the status of development of human capital, is an indirect outcome of their oil wealth, a valuable natural resource whose abundance historically has prevented or deferred focused investment in human resources.

An additional problem for countries with plenty of natural resources is the fact that extractive industries like mining and oil production are usually not labor intensive and therefore countries which derive a large part of their income from those industries, like Indonesia and Saudi Arabia, happen to have a problem of unemployment.

Economics is all about incentives and alternatives. At this point in time and as long as its natural resources are not running out, Indonesia has very little economic motivation to develop its human capital and all the legislative efforts to force the government to increase the education budget are likely to be futile or result in minor improvements at best - the demand for well educated laborers is too limited and for the time is being supplied by expatriates and Indonesians who studied abroad.

As long as local and international investors and multinational conglomerates will make easy money from mining metals and coal, drilling for oil and gas and cutting trees, they will prefer to do that rather than invest in manufacturing industries whose workers require more of an education, where the return on investment is lower and slower and the efforts and risks are larger and less predictable because of international competition. And the government, as Indonesia's largest employer, gets its taxes quickly from the multinationals and doesn't have to involve itself too deeply in infrastructure building, including education, a prerequisite for the development of a large and profitable manufacturing industry and the advanced service industries which it would spawn.

Actually, Indonesia is in a double-bind: Not only do the investors have little incentive to develop industries that need educated laborers, the population has no good reason to study or work since salaries are low and if they stay unemployed, the worst thing that can happen is that they will have to live of the fruits of the land of which there are many.

The only party who has the duty and the means to deal with this problem is the government. The government knows that not so many years from now, probably sooner than later, Indonesia's natural wealth will start to run out, extractive industries will start to be less profitable and will pack-up and leave. The government also knows, that when this happens, it will be too late to restructure the country at short notice and inevitable economic decline will result. That's the reason why the government must start developing education now because it will start paying only years from today, hopefully before the countries' natural wealth runs out.

There are quite a few nations very successful economically, with hardly any natural resources other than their population. Since they have had little choice, these countries, including Singapore, Japan, South Korea, Taiwan, Israel and many members of the European Union, have made and continue to make large efforts to develop their human capital. China and India also have realized the value of improving the quality of their manpower and are increasing their investment in education accordingly. Some of these countries could serve as examples on how to develop the educational system of Indonesia. Only countries that continually improve their educational systems will be able to maintain or improve their economies and their international status. Human capital is a natural resource that is never going to run out.

Will Indonesia know how to act in time? Governments seldom emphasize long term development – why should a government invest in something if the return on the investment will come long after its own term has ended? Who will be the President who is content to see the fruits of his programs harvested long after he has left office?

As long as the leaders of Indonesia will not address these issues, little is going to happen and Indonesia will remain a tremendously rich nation with a poor population and inferior educational standards, a huge waste of potential in economic and human terms. Remember the saying: If you think that education is expensive, consider ignorance.