provinces since they are considered as a non-producing region which receives a minimum or no sharing allocation. An interviewee mentioned this:

> *The policymaker who makes the natural resource revenue sharing regulation should be aware that the impact of exploitation, such as environmental degradation, may reach not only the producing district. Sometimes the externalities are borne by the producing district and its neighboring district which may belong to different provinces. These neighboring provinces, the impacted district, should receive an allocation of the revenue sharing as the region in the circle closest to the exploitation area* (Interview, academic, 2018).

Resources exploitation in Indonesia, as in many developing resource-rich countries in the world, was driven by foreign investments [52]. FDI is projected to deliver a significant role to development through assets transfer, as well as technology and managerial skills that can advance growth in the economy [53]. Research relating to FDI in Indonesia seems to have mixed results; among these is a study that found FDI does not have any impact on GDP [54], another found negative results [53], and another found positive results [55]. The examples of FDI reliance for natural resources exploitation exist in the palm oil sector [56, 57], oil and mining sectors [58], and forest sector [41].

Nevertheless, the interviewees stated that FDI in the natural resources sector generally favors only an exclusive group of people. FDI inflow may create new job opportunities, but the people who can get these jobs majorities come from a highly-educated background or are highly-skilled labor, and therefore are not likely to come from the local community. One study mentioned that a multi-national company—which FDI in Indonesia has likely transformed—reserves lead managerial positions for their preferable managers who may conduct strategies based on MNC's benefits at the cost of local social welfare [59].

According to the Government Regulation 47/2012 about social and environmental responsibilities, all companies must allocate an operational budget as a form of responsibility for any social and environmental impact. This practice is usually called a corporate social responsibility (CSR). Hence, Du and Vieira [60] argued that multi-national companies tend to implement several strategies in undertaking CSR activities just to get legitimacy. The political power structure and bureaucratic practices in Indonesia are arbitrary, which allows MNCs to take steps that allow collusion with opportunist politicians and bureaucrats [61], thus providing incentives for corruption [62]. An interviewee mentioned that CSR tends to be used for activities that hardly impact on local communities.

> *The amount from CSR, even when it works, is very small and incomparable to the loss caused by resource-exploitation. In fact, CSR tends to be used by companies to cooperate with the ruling apparatus. For example, regional election billboards sometimes are filled with the names of the candidate, who are usually elected and who are re-applying for their second election, and a name of the palm oil company* (Interview, NGO, 2018).

The reason why CSR does not really benefit the local communities may come from a lack of control and capability in negotiating favorable terms by the government. Research has stated that poor negotiating capability may lead to a bigger return and benefit for the MNC compare to the government of Indonesia [63]. This is compounded by the fact that in low-development countries, labor usually less organized and has no bargaining position to negotiate, therefore becomes a victim of human exploitation [61].

Most MNCs in Indonesia is operating in the natural resources sector. However, the economic growth created from the industrialization and natural resources exploitation by MNCs is very vulnerable [61]. This is because the whole production processes are controlled, dominated, and dependent on their home company. Moreover, the key components usually must be purchased or supplied from home firms. The research concluded that MNCs in Indonesia create development-reliance, limited technology transfer, labor exploitation, encourage collusive government practices, and natural degradation [61].

The government seemed aware of this situation, so regulation was launched to push oil and gas companies to use more local goods and service providers, and restrict the usage of foreign employees [45]. This regulation seemed to be able to recover the situation and advantage of local people. However, resources activists see this rule as a benefit only on paper. Even though the FDI inflow may bring a multiplier effect to the local economy by increasing demand for local services it basically provides material things as a replacement for the access to natural assets.

> *Land clearing for production forest or mining business pushed the local people away from their work as farmers and made them depend on the work created by the exploitation business* (Interview, NGO activist, 2018).

As a solution, one interviewee stated that the government needs to limit the injection of funds to high technology and capital-intensive exploitation and slowly lessen the reliance on foreign direct investment in the natural resource sector.

> *The government needs to carefully select categories of natural resources that need to have foreign investment for their exploitation. This selection needs to consider the capabilities of state-owned companies or local private companies and prioritize domestic rather than foreign interests* (Interview, researcher, 2018).

Recently, with Presidential Regulation 44/2016, the government has attracted 100 per cent foreign investment in some fields, including the natural resources sector. This includes oil, gas, geothermal energy and forestry. For oil, gas and geothermal energy, the investment was encouraged for a survey, drilling, construction, operation, and maintenance [64]. Hence, there is a possibility that this regulation creates a similar trap for Indonesia, that is, to boost development at the surface level while ignoring the welfare of the local community. Thus, careful consideration should be taken by considering the potential of state-owned enterprises and domestic private companies.

Institutions hold an important role in ensuring that rents from natural resource exploitation can be transformed into economic welfare. Even though scholars tend to categorized Indonesia as a state with medium-strong to strong level in terms of designing policy and supervising private companies, research has argued that this classification should be done cautiously, by considering characteristics of the specific sector [41].

One study argued that Indonesia has insufficient institutional resources, poor policies, and pervasive patron-client joins among state authorities and natural resource exploration companies [41]. Further research mentioned that in the natural resources sector, regulation in Indonesia is not transparent, and the institutions are ambiguous [45]. The special characteristics of Indonesia's natural resources, such as isolated location with minimum access, together with poor institutions, raises many challenges in natural resource management [48].

Improvement in natural resource management, particularly related to institutional quality, needs good accountability or clarity in defining the role of each ministry or agency. The change of the role of ministries responsible for natural resource management likely happened due to the change of the political strategy impacted from the change of President. An example is in forest management, as mentioned by an interviewee. Originally, there were two ministries responsible for forest management, i.e., Ministry of Forestry and Ministry of Environment. These two ministries merged after 2014 when Jokowi became the President. Nevertheless, the merger led to some confusion in the work-sharing and responsibilities and caused some significant tasks at the bottom level to remain untouched.

> *When the Ministry of Environment and Ministry of Forestry were merged, there was a new general directorate named Law Enforcement which is positioned at the national level. Before, the responsibility was owned by the regional level or smaller, which was located closer to the forest. Due to this change, whenever there is an issue, the unit close to the forest cannot settle the problem directly since it has no authority* (Interview, NGO, 2018).

Based on the above discussion, this research rechecked the structure and function of this office. According to the productivity report by the Law Enforcement General Directorate in 2017, there are five vertical offices (*Balai Pencegahan dan Penegakan Hukum Lingkungan Hidup*) to protect the national forest assets all over Indonesia. Each office is responsible for one or a few big islands, which is a vast area to cover. Even though the Minister of Environmental and Forestry Regulation in 2018 mandates that prevention and forest protection can be executed by a forest area manager and forest utilization permit holder, in the field the execution is still far from ideal [65]. The report also mentioned that the number of functional staff that can supervise and resolve problems in the field is very limited. Meanwhile, forest protection needs many human resources, as well as facilities and big budgets. Thus activities to prevent law violation in the forest are still focused in several areas that have high-level insecurity [66].

Another dimension of a quality institution that needs to be improved is the regulatory quality. One study stated that the Indonesian mining sector is characterized by regulatory ambiguity, as policies are frequently retracted, revised, and sometimes revived [67]. Research by the Fraser Institute in 2018 found that oil and gas regulation in Indonesia is easily changed thus reducing the interests of investors [68]. The Corruption Eradication Commission states that poor quality of regulation in the natural resources sector not only perpetuates corruption practice and creates country loss, but also natural resources access injustice and environmental degradation, which mean public rights were violated.[69].

Poor regulatory quality can appear in terms of an overlapped regulation. Regulation in the natural resource sector has many problems due to misrepresentation or overlapping laws. This has happened because these regulations cover different interests [69]. One interviewee gave an example in the forestry sector:

> *Several regulations have parts that overlap with others, for example, between agrarian principal law and forestry law specifically in terms of customary land articles* (Interview, government official, 2018).

Several actions have been taken to improve the quality of regulations in the natural resource sector. One of the recent steps is the harmonization study of national resources legislation. The study analyzed twenty-six regulations in the natural sector to identify regulation problems that cause corruption, and economic and social disparity. The aim was to ensure that regulations and policies in the natural resource sector achieve their constitutional objectives [69].

Control of corruption, which is one of the institutional quality dimensions, needs to be improved, as mentioned in the interviews. A form of corruption can come as a permit handed to private entrepreneurs or companies, without good supervision. Another form of corruption can relate to government effectiveness. For example, various policies launched from both the central and local governments tend to marginalize people who have rights over the area. These policies are taken because the ruling apparatus wants to get benefits for themselves.

> *An apparatus which has power in the local government tends to make decisions that benefit its own interest* (Interview, NGO activist, 2018).

One scholar equates the corruption practice in Indonesia with the democratic type-political situation in Indonesia. The research states that the poor practice in institutions was driven by Indonesia's expensive democracy, where an apparatus, as a representation from a political party, seeks help from wealthy businesspeople to finance election campaigns, party events, and raise funds for building political coalitions [45].

Other than these dimensions of institutional quality, another important dimension appears in discussion with the interviewees. Several key informants mentioned that many actions had been done to improve the quality of institutions in Indonesia. However, they have not brought satisfactory results. Thus, several interviewees argued that leadership is important in improving institutional quality in the natural resource sector. One interviewee made an example of how leadership practice can help build the institutions.

> *Instead of spending all the revenue received from natural resources extraction to cover development costs in his region, a leader made a perpetual fund to save some part of the revenue from the natural resources sector. The fund functioned like a savings account to anticipate whenever natural resources were exhausted and could not be used to provide funds to rebuild the ecosystem* (Interview, academic, 2018).

Value added is important for a country's growth. It creates extra resources for the country, enables higher living standards [55], increases innovation and provides more jobs

[70]. The government, alongside many Indonesian experts, stated that it is vital for Indonesia to become a value-added resource economy. This economy requires companies to invest in downstream facilities and process their raw commodities domestically prior to export. Among the strategies of the Ministry of Industry to build a national industry that has high competitiveness in the global level are developing natural resource-based upstream and midstream industries and controlling raw commodities' export [71].

One of Indonesia's problem is its low position in the global value chain. The common situation is that Indonesia's resources are exported to other nations, being processed into other products, and later imported back to Indonesia [72]. One example of this situation exists in the nickel industry. Although processed ferronickel is heavily needed at local industries such as construction, automotive, electronics, and train rail industry, unprocessed ore nickel exports are at a maximum level[71].

This situation is like the dependency theory by Raul Prebisch. According to Ferraro [73], the theory argued that the increase in the wealth of the richer nations appeared to be at the expense of the poorer ones. The research by Ferraro [73] further stated that foreign companies dominated resource industries in poor countries, so the poor countries are pushed to sell cheap primary commodities to advanced industrialized countries.

In terms of industry value-added, interviewees highlighted the importance of processing the raw materials from natural resource exploitation into intermediate or final products that have more value. The objective is to push the advancement of a downstream processing industry that can improve Indonesia's position in the global value chain. This can be achieved by producing higher-value products instead of cheaper ones.

> *The government needs to take examples from other countries such as South Korea, in terms of how the country bans their natural resources for trading or exporting if the materials have not passed through a processing phase* (Interview, academics, 2018).

Several policies have been developed to increase the value-added industry. Some examples include a ban on mineral ore exports, an onerous tax on unprocessed copper exports, and pressure on companies to build smelters. In 2009, the government-mandated a new Mining Act where more minerals produced in Indonesia have to be processed domestically. This includes copper, nickel, bauxite and iron ore. In 2012, the government required that the mining sector should be majority-owned by Indonesian within the next ten years. The government also forced a 20% export tariff on exports of raw minerals, and licenses are only available to companies which commit to building smelters in Indonesia to process their minerals. Lastly, from 2014, the government started a total ban on the export of unprocessed minerals [74]. The policy had begun to show results with downstream investment being injected into smelting facilities for mining industries [67].

> *The strategy (to push companies to build smelters) is finally being executed. Nevertheless, the government needs to ensure that the implementation will succeed through control and monitoring* (Interview, academics, 2018).

The above statement about ensuring the implementation of the value-added supporting policy should be highlighted. The government is likely to revisit its own policy. For example, in 2017, the government relaxed 2014 [45], [75]. The relaxation applies for five years or until 2022. Yet, recently there is a discourse to bring the export ban forward to 2021 [76]. This delayed implementation of the government's own regulation likely happened because of political and economic trade-offs. On the one hand, the smelter facilities are still not ready for operation, while the demand for mineral export remains high. On the other hand, Indonesia must do the processing and purification domestically as the Law 4/2009 about Minerals and Coal Mining mandated. The trade war between the USA and China has played a role in influencing the government's decision to implement a raw minerals export ban to increase the export of processed minerals [77]. Despite the pros and cons of the government's ambiguous action on the raw minerals export ban, the expert stated that the current government is committed to developing a domestically owned and value-added natural resources sector [45].

C. Discussion

The quantitative analysis results show that it is hard to determine the role of natural resource rents on economic welfare in Indonesia due to the inconsistency of the coefficient signs in each of the equation's results. The coefficients of natural resources endowment are not consistently positive, or consistently negative. This means the results are not robust and cannot be used to conclude that the rent generated from natural resources in Indonesia has contributed to its economic welfare. This finding is supported by the qualitative analysis results where the interviewees argue that the contribution of natural resources was very beneficial in supporting Indonesian development, yet could not create economic welfare, especially for the local community. Further, the exploitation of the natural resources was not sustainable and in the long term could destroy the economic welfare.

From the three factors put into the models, foreign direct investment as a moderator variable does not have significant results in the natural resource endowments-economic welfare relationship. The qualitative analysis results also support this, namely where interviewees argue that FDI in the natural resources sector should be applied only to a capital intensive and high technology exploitation that the State-owned enterprises cannot undertake. Another study mentioned a similar, yet different suggestion. Instead of limiting the application of FDI on a very specific natural resources sector, this study suggests that low- and middle-income countries should attract FDI into the non-resources sector [78].

The reason a country needs to be cautious with a fund injection in terms of FDI is due to the nature of foreign investment where every investment is a business, so the investors want to ensure they will obtain profits and benefits. Hence, the contract that regulates natural resource exploitation tends to provide more benefit to the investors rather than to the Indonesian government. For example, the benefit-sharing clause in the investment contract seems to give fair benefit to each party, but in reality, the local community almost always suffers a negative impact from the exploitation, which is never measured by the government. External assistance in negotiating and renegotiating FDI contracts in the Indonesian case may be needed, provided by some multilateral financial institutions that can help settle disputes and ensure contract stability [79].

One study states that the main motives for a country to practice FDI is to seek a market, resources/assets, and efficiency [80]. This is in part a good opportunity for the host country, because it may open new employment opportunities or provide potential new revenue. Still, on the other hand, it may bring some problems too. A real example from another study also showed that Chinese FDI is motivated by self-interest and can be highly detrimental to the development prospects of host countries [81]. Thus, a balanced, fair proportion share of extractive industry payments to be given to local communities needs to be carefully addressed [79].

This study found that strengthening the quality of institutions and pushing the creation of industry value-added should be the two foci if the government wants to guarantee that rent generated from the natural resource sector contributes to economic welfare. Institutional quality should be related to accountability, the rule of law, control of corruption, and regulatory quality specifically about contract transparency. This last strategy about improving the quality of contract enforcement was the most frequent issue in the interview. Several interviewees mentioned that the government needs to position itself as the party with a higher bargaining position during the negotiation of contract formulation and not be afraid to terminate the contract along the way if the investors failed or displayed poor behavior related to contract compliance.

Regarding the creation of industry value-added, the government's current policy about adding value to industry products needs to be maintained and improved since this has a significant positive impact on the contribution of natural resource rents to economic welfare. Indonesian exports currently still rely on commodities sourced from raw materials or primary ingredients. Thus, the net export-import trade balance is heavily affected by the fluctuation of commodity prices. Enhancing industry value added for export products will create a stronger trade balance.

This study also found that the regulation that relates to natural resources revenue sharing needs to be improved, especially in terms of the allocation of the revenue sharing in the regional budget. Currently, natural resource revenue sharing is pooled in a regional budget. The decision for budget allocation is then discussed among the regional government and the Regional House of People's Representatives (or DPRD) [82]. This discussion creates a potential that the natural resource revenue sharing might be utilized for other purposes which are unrelated to the natural resource management, or not necessarily of benefit to the quality of life of people in the exploitation area. A regulation mandates the use of this sharing is available only for reforestation fund. This fund can be used only for forest and land rehabilitation and other supporting activities like prevention of forest fire and tree planting.

This study suggests that new regulations should be made to mandate the natural resource revenue allocation for natural resource conservation and poverty alleviation activities that focus on societies closest to the resource exploitation area. An improvement in the natural resource revenue sharing formula is also needed so it may consider a bigger proportion for the region at the circle closest to the exploitation area.

IV. Conclusions

Even though Indonesia is a resource-rich country which, in some phases of its development, heavily relied on natural resources, this study found that the natural resource endowment has helped build economic development but has not created economic welfare. This research focused on how to improve the benefit of natural resources endowment for economic welfare in Indonesia. This research found that strengthening the quality of institutions and pushing the creation of industry value-added should be the two foci if the government wants to guarantee that the rent generated from the natural resource sector contributes to economic welfare. Even though the government has been applying these two factors in natural resource management, the implementation still does not meet expectations. Concerning foreign direct investment in the natural resource sector, the government needs to limit the injection of funds to high technology and capital intensive exploitation. It needs to slowly lessen the reliance on foreign direct investment in the natural resource sector.

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