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Title: Patronage Politics and Natural Resources: A Historical Case Study of Southeast Asia and Indonesia

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Abstract:

As the modernisation of agribusiness became a more important driver of development for many Southeast Asian states, the region's environment has become severely degraded. This paper argues that throughout the developmental history of Southeast Asia, the role of patronage politics has been a key factor behind environmental degradation. It presents historical evidence of circumstances preceding and surrounding early appearances of patronage networks in the region, particularly within the natural resource sector. Upon decolonization, the attitudes of the decision-making elite of the region shaped development to focus on elite-centred natural resource exploitation. With government structures, processes and policies often favouring the interests of big businesses, environmental exploitation has remained the major drivers of growth in the region. First, this paper provides a general overview of developmental trends in the region to show how political realities encouraged patronage politics, and then focuses on Indonesia as a

select case study. This paper is part one of a two-part series by the same author, the second part of which will focus on Malaysia and Singapore and will be published in a subsequent volume of this journal.

PATRONAGE POLITICS AND NATURAL RESOURCES: A HISTORICAL CASE STUDY OF SOUTHEAST ASIA AND INDONESIA

1. Introduction

Environmental degradation in Southeast Asia is a consequence of the region's changing political economy and modes of production. As the modernisation of agribusiness became a more important source of revenue and driver of development for many Southeast Asian states (McDowell 1989), the region has become depleted, dirtier, less ecologically diverse, and more environmentally vulnerable. Deforestation, land degradation, and the loss of arable land are the most visible evidence of the rate of environmental change in the region (Sumiani, Haslinda, and Lehman 2007). This accelerated environmental degradation through natural resource exploitation throughout the region is a major cause of loss of biodiversity in Southeast Asia, one of the most biologically diverse regions in the world (ASEAN Secretariat 2009).

This paper argues that throughout the developmental history of Southeast Asia, the role of domestic patronage politics appears to be a key factor behind forest degradation in the region. To understand the context within which conditions for patronage politics, especially in the forestry and natural resource sector developed in the region, it is important to explore the origins of the attitudes of the decision-making elite, and the states' structures and processes. Therefore, this paper presents historical evidence concerning the circumstances preceding and surrounding early appearances of patronage networks in Southeast Asian society, particularly within the natural resource sector (Lande 1983). It offers a historical overview of how, upon decolonization, the attitudes of the decision-making elite of the region shaped development in the region to focus on elite-centred natural resource exploitation.

Natural resources are materials or substances like petroleum, minerals, forests, water, and fertile land that occur in nature that can be used for economic gain (Chichilnisky 1996). This paper argues that by taking pointers from their colonial masters, Southeast Asian states have considered natural resources to be an invaluable engine for development, ready to be exploited. This Western understanding of development was inherited from their colonial experience upon independence (Dauvergne 1994) and paved the way for the use of natural resources by Southeast Asian leaders to achieve developmental and political goals. The functional importance of patronage politics were visible especially upon independence, as agribusiness companies headed by well-connected businesspeople became important players in these developmental and political agendas, as will be explained below. With government structures, processes and policies often favouring the interests of big businesses, environmental exploitation has remained the major drivers of growth in the region, remaining constant in the face of manufacturing and industrialization booms (Naguib and Smucker 2009). First, this paper provides a general overview of developmental trends in the region to show how political realities encouraged patronage politics in the pursuit of development, and then focuses on Indonesia as a select case study as a country from this region to further illustrate this argument.

2. The Southeast Asian ‘development model’

The Southeast Asian states today are rich in natural resources and are major world producers of rubber, tin, copra, palm oil, petroleum and timber (Chia 1999). Large-scale exploitation of the environment and natural resources in the region has its roots in colonialism. The attitudes of Southeast Asian decision makers toward 'development' are an important factor behind natural resource exploitation. These attitudes are rooted in colonial experience and based on a Western understanding of development. It is based on a set of attitudes and values that is chiefly concerned with shaping the world of nature through science and technology to make life more prosperous. The West defined environmental values primarily in relation to demands for steady economic growth. Inheriting these attitudes after independence, many Southeast Asian governments viewed forests as a valuable, yet expendable resource, useful for generating foreign exchange to finance other developmental goals like industrialization (Dauvergne 1994).

Pre-colonial Southeast Asia was based largely on subsistence agriculture (Pasong and Lebel 2000). It was a predominantly forest-covered region which supported a great number of hunter-gatherer and shifting cultivating cultures alongside intensive wet-rice agrarian kingdoms and coastal trading states (Hirsch and Warren 1998). Coastal societies developed a maritime trade in goods such as silk, salt, cloves, and spices, while small-scale and generally sustainable agriculture was the mainstay of the economies of agrarian kingdoms (Pasong and Lebel 2000). During the pre-colonial times, the concept of land ownership as a sign of wealth was limited in Southeast Asia. Land was considered a gift from God or from the divine creator. Both individuals and the community as a whole had rights of use but the land itself could not be 'owned' (Hurst 1987).

This social structure changed with the advent of colonial conquests in the region (Pasong and Lebel 2000). The colonial administrations, whether American, British or Dutch, regarded the forests as an 'unproductive' liability; but the land they stood on was seen as having great economic potential. Consequently all forest land was placed under state 'ownership' (Hurst 1987). Southeast Asia became a natural resource and plantation crop 'mine' for the European economies (Hirsch and Warren 1998). Cash crops such as sugar, rubber and bananas became the economic backbone of many of these colonies. These crops were all grown on cleared forest land, and control over large areas of land became a source of considerable wealth (Hurst 1987). Foreign trade and commercial interests like the British East India Company and the Dutch Vereenigo Ost-Indische Company cooperated with the colonial state and were close allies of these administrations. Under colonial rule, the introduction of forestry and agriculture departments, and the adoption of new technologies for harvesting formed the start of the systematic exploitation of forest resources and land, primarily for the benefit of these colonial companies and the local elites that had cultivated patronage type links with them (Pasong and Lebel 2000). In this way, from the early 17^{th} century, Southeast Asian colonial land and labour was incorporated into the world markets (Sutton 2001).

The process of decolonialization after World War II was based on colonial territorial boundaries and initiated the process of nation-building in most Southeast Asian societies (Pasong and Lebel 2000). Newly independent states in the region faced the need to develop fast to cope with the increasing population demanding more food, clothing, shelter, jobs and education (Anonymous 1980). In most Southeast Asian countries, the colonial system of land ownership remained in force after independence (Hurst 1987). Newly independent Southeast Asian states used the plantations and agricultural knowledge also inherited from their colonial masters in their pursuit of nation-building and economic development (Gellert 2005). In effect, throughout the region, the colonial powers were replaced with a new land-owning elite, nearly all of whom were educated in western-orientated schools and who share the same concepts of 'development' as their teachers. One of the core tenets of this development model was industrialization. However, industrialization costs money and the only way for these Southeast Asian countries to obtain capital was (and still is) to sell their natural resources on the world markets (Hurst 1987).

States which have long been exploited and suppressed by centuries of colonial rule, as was the case in most of Southeast Asia, often have a strong motivation to adopt this type of natural resource exploitation model for development (Ngai 1998). In the second half of the 1960s, countries such as Indonesia, Malaysia, Thailand, and the Philippines formally recognized (through policy, which is explained below) the agricultural sector's role as an engine for overall economic growth. More importantly, these countries recognized that policies towards agriculture should move beyond micro level and sector-specific concerns and took steps to ensure that the overall macro policy environment was conducive to the growth of the agricultural sector (Than 1998). Perception of development held by the central governments thus were translated into national programmes made applicable nationwide (Dauvergne 1994).

As a result, in the 1960s and 1970s, the major growth sectors in the region were grains, plantation crops, fisheries and forestry (timber). This trend has continued, and annual agricultural output of the region increased an average of 3.8% yearly since then (Roberti 1989). Governments in the region thus continued to encourage expansion of this sector. As output increased in the 1980s and 1990s, Southeast Asia's resource wealth and relatively cheap labour sustained production enclaves for the export of primary agricultural, timber and mineral products (Jomo 2003), and economic strategies in the region converged around export-oriented resource exploitation (Hirsch and Warren 1998).

During the 1950s and 1960s, a rapid expansion of the timber industry throughout the region was promoted by major development agencies such as the World Bank (Hurst 1987). Timber was a ready resource in the region to be cheaply cut down and exported to parts of Northeast Asia and Europe. Indonesia and Malaysia were particularly important global players in timber up till the 1990s, which will be discussed in detail in the following section and also in the second part of this series of articles.

Alongside the timber boom, agribusiness was hailed as the region's 'next economic miracle' (Roberti 1989). The term 'agribusiness' came into popular use since the mid-1950s and implies the shift from 'farming as a way of life' to 'farming as a business' (Sutton 2001). Most recently it reflected the major increase in corporate investment in agriculture. Increasingly the term has come to describe an integrated farming system which links farm operations with both upstream and downstream manufacturing and distribution. The plantation approach within agribusiness is defined as the large scale production of tropical crops by a uniform system of cultivation under central management (Sutton 2001). This could be through working the land directly or by setting up a contract farming system between the core plantation management and surrounding land-owning locals for added efficiency. Consequently, an increasing amount of logged land was converted into plantation and cropland for agribusiness. Countries in Southeast Asia has since emerged as important producers and suppliers in the international market for agro-food (Sutton 2001).

a. The politicization of natural resources

In most Southeast Asian countries, independence led to (arguably democratic) elections. Two developments transpired from this: politicians in countries like Indonesia and Malaysia faced increased pressure to continue on with the upward trajectory of development as justification for their continued rule, and these politicians needed additional funds to support political campaigns (Hirsch and Warren 1998). This led to the politicization of natural resource sectors, as land and resources of once peripheral zones in the region became hotly contested political and economic territory (Hirsch and Warren 1998) and instrumental tools with which to gain political support. This opened up avenues for collusion between elites in government and dominant conglomerates (Baswir 2003). For example, in the timber industry across the region, politicians sought access to state power and office-based property (Scott 1972) in order to gain 'allocation rights' to rents, which were then distributed to selected businesspeople in exchange for political support and funding, or to friends, families, relatives and themselves, for personal or familial enrichment (Lim and Stern 2003). In return, these 'client' businesses funded political campaigns and other development initiatives (Lim and Stern 2003) to help their patrons gain political support.

These patronage networks helped build close links between politicians and businesses (Singh and Zammit 2006) resulting in a web of reciprocal relationships upon which they were interdependent (Lim and Stern 2003; Pasong and Lebel 2000). This reciprocal relationship spurred the development of policies that favour powerful economic and political interests (Dauvergne 1994) and the development of governance systems that lacked institutional capacity and political willingness to enforce their own environmental regulations (Pasong and Lebel 2000). In this way, growing economic opportunities were exploited by a powerful few (Johnston 2005). However, in the absence of modern legal and market institutions, the highly personalistic nature of this system is said to have been essential to the credible enforcement of (often unwritten) contracts which have led to high economic growth in Southeast Asia (Lim and Stern 2003).

In this way, resource-rich states like Indonesia, Malaysia, and Thailand harnessed the resources and ingenuity of the private sector to drive the development of its agribusiness sectors. Private companies across the region used research and development, modern marketing techniques, and modern distribution systems to make logging and farming more profitable (Roberti 1989). While much of the wealth generated from this sector was captured by restricted groups linked to those with political power, in return, these groups contributed to national growth by reinvesting in areas like import substituting industries, commerce, services, as well as privatized utilities and infrastructure (Jomo 2003). This was expected to attract new investment, boost exports, reduce unemployment, and create new prosperity outside the major urban centers (Roberti 1989). Under this structure, the access to resources and the continuity of exploitation and commodification of the environment was seen as fundamental for development (Gellert 2005).

b. Development at the cost of the environment

Such a development model based around natural resource exploitation often leads to an unbalanced development strategy which sacrifices the environment purely for the sake of economic gains at all costs. As a result, states often relegate the environment low on their lists of priorities (Koh and Wilcove 2007). Specific policies favouring natural resource exploitation by large-scale conglomerates such as low stumpage fees and log export taxes, and agro-conversion policies also encouraged unsustainable exploitation of timber and land (Dauvergne 1994). For example, due to the under-pricing of timber licenses in countries like Indonesia and the Philippines, timber tended to be overexploited (Iwami 2001). Tools used for environmental planning such as the Environmental Impact Assessment (EIA) process also often becomes compromised by political interests as well as by corruption and mismanagement (Tan 2004), and are rarely implemented effectively (Briffett 1999).

Because of the region's focus on exploitation for development, and encouraged by its successes in raising agricultural productivity, Southeast Asia as a whole seemed to be facing a problem of preserving the natural environment (Gellert 2005; Iwami 2001). Against this background of rapid economic development, Southeast Asian states' finite resources (especially its forests) and fragile ecosystems are being threatened (Ngai 1998). Environmental degradation accelerated as production for domestic and foreign markets drove rapid opening of forestland for cash crops, mining, and timber (Gellert 2005; Iwami 2001; Pasong and Lebel 2000; Sumiani, Haslinda, and Lehman 2007). Exports of timber and plantation crops from places like Borneo and Sumatera have severely reduced tropical rainforests in the region. In fact, the speed of deforestation is higher in Southeast Asia than in the Amazonian areas in Latin America (Iwami 2001; Sumiani, Haslinda, and Lehman 2007). The environmental consequences of such a path of exploitation are found in widespread deforestation, pollution of waterways, conversion and degradation of agricultural land, poor air quality, and declining populations of fish and wildlife (Raman 2006). This has led to the frequent occurrence of environmental disasters, like severe flooding and transboundary haze, as this region 'pays the price' for rushing its growth (Ngai 1998).

When environmental aspects were considered at all, they were understood as unavoidable 'externalities' of growth or short term costs of 'development' that could and should only be addressed later (Chang and Rajan 2001; Gellert 2005). This so-called 'developmentalist' school of thought argue that large scale development schemes such as dams, plantations or roads may create immediate short-term damage to the forests but the long-term economic benefits will eventually protect the forests (Dauvergne 1994). This has been called the 'pollute first, clean up later' approach (Karim 2008) along the lines of an environmental Kuznets curve, where it was understood that once sufficient levels of development was achieved, environmental issues should resolve themselves (Chang and Rajan 2001). It was widely accepted that the uses and abuses of the environment by these elite entrepreneurs were vital to the production of the developmental 'miracle' (Chang and Rajan 2001). This encouraged the development of patronage networks that supported the operations of these elite entrepreneurs. Many states in the region saw development as the solution to environmental problems; with economic progress comes the capacity to better manage the environment (McDowell 1989). Therefore, there was a presumption among regional governments that environmental concerns were something that should wait until income levels are much closer to those in developed countries, and that these improvements would come naturally (Chang and Rajan 2001).

Political systems containing patronage networks often also use ideological deception to justify action that is in the interests of political and economic elites (Gunes-Ayata 1994). Indeed environmental exploitation by selected elites was justified at the local and international level by political and economic leaders of Southeast Asia as the 'price of growth' (Gellert 2005; Karim 2008), often linking these issues with national resilience against developed country 'eco-imperialists[1]' (Elliott 2003; Karim 2008). Malaysia was particularly instrumental in defining the anti eco-imperialist discourse (as will be discussed in part two of this series), and Indonesia fully embraced the argument for economic and political benefit (Elliott 2003; Karim 2008). The following sections go into the details of the development trajectory of Indonesia to show how its political system encouraged and supported patronage politics in the pursuit of development.

3. Natural resources and development in Indonesia

Like most states in Southeast Asia, Indonesia also relegates environmental protection to a fairly low point on its list of public priorities (*Business Asia* 1995). Indonesia's forest cover was an estimated 133 million hectares, or around two-thirds of its land area, and Indonesia had some of the most extensive concentrations of tropical hardwoods in the world. However, these forests have now been over-logged by over 30 years of no-holds barred exploitation during Indonesia's long economic boom (Barber 1998), and illegal logging is responsible for more than 50% of this deforestation (Business Monitor International Ltd 1998). A World Resources institute analysis concluded that Indonesia had only some 53 million hectares left of 'frontier forest'; relatively undisturbed areas of forest big enough to maintain all of its biodiversity (Fatah and Udiansyah

2009). Indonesia is losing approximately 2 million hectares of forest every year (Fatah and Udiansyah 2009), and logged-over land is often converted to plantations. Currently Indonesia's is a major producer of estate crops like oil palm, rubber, cocoa, coconut, coffee and tea (Schwarz 1990). Indonesia is now one of the largest emitters of greenhouse gases in the world as a result of this land-use change (Hunt 2010).

The basic Indonesian attitudes towards forest use and assumptions of the Indonesian forest policy stem from Dutch colonial practice in the 19th century. Concerned only with the teak forests of Java, the Dutch developed a system of forestry based on state ownership and control over forestlands. Although cloaked in conservation rhetoric, the colonial state's basic objective was to profit by cultivating teak plantations. Upon independence, the new government inherited this system. The 1945 constitution attempted to bind the country together by stating that all of Indonesia's land, water, and natural resources would be under the direct control of the state (Barber 1998).

During the mid 1960s, Indonesia was among the poorest nations in the world, with a per capita income just USD 50. Development became the focus and justification of President Suharto's regime ever since he came to power in 1967. Systematic exploitation of natural resources provided the basic capital for the development process (Barber 1998). In what was called 'one of the largest land grabs in history' the Suharto government appropriated 90% of all forest land, thereby almost completely centralizing government control over forest resources, negating Native Customary Land claims (Duncan 2007; Palmer and Engel 2007). In the late 1960s, the Suharto government, at the suggestion of the World Bank, encouraged rapid exploitation of land

and forests to finance the increasing foreign debt (especially to Japan, which is a major timber importer) and general development. International Monetary Fund policies further encouraged the import of manufactured goods and northern technology in exchange for natural resources, especially timber (Dauvergne 1994).

Without vast reserves of oil, timber, minerals and other resources, the Indonesian economic story would be very different. Suharto utilized the exploitation of these natural resources to jump start and sustain a process of economic development that the World Bank praised in 1994 as 'one of the best in the developing world' (Barber 1998). The export of natural resources played a central role in economic growth, as oil, tin, timber and plantation crops quickly became the largest source of foreign currency for Indonesia (Nomura 2009). The timber industry alone provided wood products for export worth USD5.5 billion per year, which was 15% of the country's local exports (Jati 1994). Indeed, with this natural resource and agricultural focus, the Indonesian economy experienced an average annual growth of 6.5% from 1967. There was a fall of -13.6% in GDP in 1998 during the AFC, but agricultural growth remained fairly constant during this time, and only finance, construction, and manufacturing experienced serious contractions in 1998 (Brown 2006).

Heightened demand for forest resources in Indonesia arose from four main sources: the timber industry's continuous demand for wood, the growing pulp and paper industry, the surging demand for land on which to establish oil palm and other estate crops, and plans to increase the mining of coal, vast deposits of which lie under the forests of Kalimantan and Sumatra (Barber 1998). By the 1990s, the economic value of Indonesia's production forests and land was estimated at between USD 1,283 and USD 1,416 per hectare per year (Prasetyo, Suwarno, Purwanto, and Hakim 2009). Therefore, Indonesia pinned great hopes on agribusiness to help solve a number of its more important developmental problems (Barber 1998). Agriculture was the largest sector of the Indonesian economy in terms of output until it was overtaken by manufacturing in 1991. It however remained the most important sector in terms of employment, providing jobs for more than 50% of the workforce. Outside Java, where most industry is concentrated, two-thirds of the population still work the land (Business Monitor International Ltd 1998; Than 1998). The Indonesian government foresaw that by developing commercial cash crops in the provinces, there would be a lifting of rural incomes which in turn should reduce the incidence of poverty and labour migration to the cities (Schwarz 1990).

The regime's attitudes towards development at the expense of natural resources could be seen from how the Indonesian government started environmental efforts. Emil Salim, the first Indonesian Minister of the Environment in 1978, was appointed to the post under the Suharto government as he was considered to be capable of implementing environmental policies without hindering economic growth, and for his ability to attach environmental issues to other political issues, such as global eco-imperialist and environmental justice arguments (Nomura 2009). Emil Salim criticized developing countries, arguing that instead of complaining, they should pay the cost of maintenance of the Indonesian environment (eg. its forests) because they were the main consumer of Indonesian natural resources (Nomura 2009). Other ministers echoed this sentiment even in the face of environmental disasters. When asked to comment on the 1983 East Kalimantan fires that choked the region with smoke, the Forestry Minister at the time argued that "much of the area that was burned was conversion forest. So what you have is land clearing for free. The forest fire was the natural way of clearing the land" (Dauvergne 1994).

c. Patronage politics within the 'Suharto circle' (1967-1998)

Since the late 1960s, Indonesian forestlands was very important to Suharto: forests were a substantial source of state revenue, a resource for political patronage, a safety valve for scarcities of land and resources in the densely populated Java, and a vehicle to spread his ideological, political, security, and economic objectives into the hinterland (Barber 1998). Early on, Suharto realized the effectiveness of the private-sector monopoly privileges for generating rents (Lim and Stern 2003). Suharto used concessions and other resource exploitation rights to reward political clients, and co-opt hostile or potentially hostile opponents, and fund (and ensure the loyalty of) both the civilian bureaucracy and the military (Barber 1998).

Most significantly, Suharto entered into public-private partnerships with politically weak but economically important members of the Chinese ethnic minority (*cukong*) (Brown 2006). Suharto was convinced that only the Chinese could deliver modernization (Brown 2006). Suharto's practices were expressed through a poplar refrain, *'korupsi, kolusi, dan nepotisme'* (corruption, collusion, and nepotism, known by the local acronym KKN) (Case 2003). As Cotton (1999) previously argued, the specific use of bureaucratic instruments by Suharto (examples below) compromised and undermined the rational-legal capacity of the state to deal KKN issues. Indonesian politics during the Suharto era was thus described as 'a bureaucratic polity based on patronage ties' (Cheung 2004). Suharto distributed largesse across elite factions in the state bureaucracy, military and conglomerates, thus populating the landscape with bureaucratic families, financial generals, and his own business-minded offspring (Case 2003).

From 1970 onwards, Suharto cheaply granted large-scale permits known as HPH (*Hak Pengusahaan Hutan*, a large scale timber extraction concession license) to these *cukongs* (Barber 1998). With the advent of the timber boom in the 1970s, nearly one-third of the nation's territory passed into the hands of these concession holders (Barber 1998). Suharto also offered these *cukongs* tariff protections, preferential access to monopoly licenses and contracts, subsidized credits and other benefits. Therefore, the elite circle in the USD 6 billion timber industry enjoyed cheap access to forest resources and virtual immunity from forestry regulations for decades (Brown 2006; Dunning 2005; Gellert 2005; Lim and Stern 2003). The undercharging of these concession privileges and royalties encouraged over-exploitation; the obvious result of cheap access (Ascher 1998). Extraction was almost out of control: too many well connected and powerful people had a strong vested interest in pressing forward (Pasong and Lebel 2000).

As a result, this industry grew into an elitist (Barber 1998), highly concentrated, wealthy, and well-connected political and economic sector dependent on cheap raw material, accustomed to high levels of profit, and able to pass the environmental costs of unsustainable logging practices on to local communities, the state, and society at large (Barber 1998). Networks of these Chinese entrepreneurs in turn provided Suharto with an important source of personal financing as well as an increased domestic tax base (Brown 2006; Dunning 2005; Lim and Stern 2003). Indeed, Suharto was known as 'Mr. Ten Percent' (Lee and Oh 2007). Additionally, the loggers applied part of their profits to the development projects that the president has signaled as his priorities, like risky projects and bailouts (Ascher 1998).

Significantly, the Sino-Indonesian elite businesspeople did not seem to pose a credible future threat to Suharto's power, precisely because of their minority status (Brown 2006; Dunning 2005; Lim and Stern 2003). The *Pribumi* (indigenous) elite could have been a threat to Suharto; they could have pursued an alliance with other contenders for political leadership. In cutting them out of most of the rent seeking opportunities in the oil and forestry sectors, Suharto neutralized this group that had the potential for independent political power (Ascher 1998). Therefore, Suharto's government stressed exploitation for development as a necessary ingredient for loyalty, stability and national integration (Dauvergne 1995).

Approximately 500 concessionaires, under the control of 50 conglomerates, held timber licenses to log more than 60 million hectares of production forests. About two-thirds of logging conglomerates were controlled by Sino-Indonesians (Dauvergne 1995). Virtually all the top players in the timber industry in Indonesia were Sino-Indonesians connected personally and financially with members of the president's family (Barber 1998). However certain individuals were able to acquire land at a particularly furious rate (Duncan 2007). Most notable among them were Mohamad 'Bob' Hasan, Prajogo Pangetsu, Eka Tjipta Widjadja, and the prolific Liem Sioe Liong, first chairman of the massive Salim Group (Brown 2006).

The Indonesian timber industry was controlled by Bob Hassan, a close friend of Suharto. He controlled the powerful *Asosiasi Panel Kayu Indonesia* (APKINDO or the Indonesian Wood

Panel Association), the Indonesian organization which monopolized the country’s trade in wood products, and was said to be almost single-handedly responsible for the rapidly vanishing Indonesian forests (Gellert 2005). It has been said that while the Forestry Department of Indonesia cooperated with APKINDO, APKINDO really made policy (Dauvergne 1994). Another timber tycoon, Prajogo Pangestu, who runs P.T. Barito Pacific Timber, came to control more of the world’s tropical rainforests than any other individual (Henley 2007). His conglomerate was also the largest borrower of state funds, with more than USD 1 billion in loans (Dauvergne 1995).

Liem Sioe Liong (partnered with Eka Tjipta Widjadja) headed Indonesia’s largest Chinese owned conglomerate. In Indonesia, the Salim Group accounted for about 5% of GDP, and Liem was the undisputed king of Indonesian agricultural commodities, banking and cement (Schwarz 1991). Liem’s prime skill was the ability to find first-rate partners and accommodate himself to prevailing political realities of the patronage system (Cheung 2004). In the 1950s, building on trade links forged with republican troops during Indonesia’s fight for independence, he became a supplier to the army’s prestigious Diponegoro division, headquartered in Central Java. The division’s commander was Major Suharto. After Suharto’s accession to presidency in 1966, Liem’s stock rose even further. The Salim Group had a significant stake in forestry products, with six plywood mills in Kalimantan and logging rights on about 200,000 hectares. Revenues from wood-based industries reached USD 200 million. Under government encouragement, the Salim Group also invested in agribusiness. It held the rights to 200,000 ha of palm oil estates and 100,000 ha of sugar plantations under cultivation. It also held rubber estates, and plantations of tea, cocoa, fruit and vegetables (Schwarz 1991).

When Suharto and his economic planners needed financial support, these individuals were the first persons they turned to for help. For example, in 1990 to 1991, when Bank Duta, a bank owned by foundations connected to the president announced that it lost USD 430 million, at Suharto's request, Prajogo Pangestu and Liem Sioe Liong's timber companies came to the rescue with ready cash to compensate for the foreign exchange (Ascher 1998; Barber 1998). Pangestu has also been known to make substantial 'donations' to charities and social programs connected to Suharto's family (Dauvergne 1995). Cronies also helped Suharto realize some of his national development goals, for example, by making investments in sectors which private enterprise would otherwise not invest; most notable here was the Salim Group's investment in the Krakatua steel-making facility which subsequently went bankrupt (Lim and Stern 2003). But these *cukongs* expected to receive something in return. In exchange for undertaking huge infrastructure projects at times when the government was unable to do so, they demanded and received a range of trading privileges, exclusive production licenses, and cheap financing. Many competitors believe that this reciprocal relationship essentially meant that these individuals were above the law and immune from any enforcement measures (Schwarz 1991).

Therefore, patronage politics during the Suharto era drove destructive logging and undermined state capacity to manage their forests (Dauvergne 1995), resulting in the depletion of timber stocks by the 1990s. This was visible through the adoption of policies that favour the logging and agribusiness industries that promoted exploitation (Dauvergne 1994). The most significant response was to increase the source of raw materials through permits to clear cut the forest via *Izin Pemanfaatan Kayu* (wood use permits). Furthermore, the state reforestation fund was diverted to providing generous subsidies for fast-growing pulp and paper plantations (Dauvergne 1995). And even though the Environment Ministry urged companies to carry out voluntary EIAs, a ministerial decision in 1994 ensured that audits were essentially the property of companies and can be kept secret (*Business Asia* 1995). In some cases, operating permits for development projects were issued even before EIAs have been prepared (Lucas 1998). Further, the launch of a scheme to rate the environmental performance of large companies have been delayed several times, supposedly because the government needed more time to 'refine the criteria' (*Business Asia* 1995).

The state further blocked the flow of certain types of information, such as news on conflicts and forest degradation, from reaching the center and a wider international audience (Gellert 2005). Again in typical 'tropical government' fashion, the state also tried to shift international focus from logging concessionaires to farmers practicing shifting agriculture, claiming that they were in fact responsible for some 300,000 hectares of deforestation per annum (Barber 1998). In this way, the state was deeply implicated in the unsustainable logging of the remaining rainforests (Henley 2007). Programs sponsored or encouraged by the government was said to have accounted for two-thirds of all deforestation (Barber 1998). Realizing this, the World Bank, which had previously joined Indonesia in blaming shifting cultivators for deforestation, shifted blame to the government in 2001, observing that the smallholder category has been overrated as a cause for deforestation (Gellert 2005).

Despite this, in the forestry sector of Indonesia, successful industrialization and export of plywood and promotion of tree plantations were promoted as developmental even if the benefits accrued to a narrow band of politically well-connected firms (Gellert 2005). The role of the timber sector was supported by the discourse of national development, as seen in the Ministry of Forestry's broad claims:

> The logging industry is a champion of sorts. It opens up inaccessible areas to development; it employs people; it evolves whole communities; it supports related industries … It creates the necessary conditions for social and economic development. Without forest concessions most of the Outer Islands would still be underdeveloped.
>
> (Gellert 2005)

Because power was consolidate with Suharto, the president was able to ensure that investments were efficient, and thus patronage networks and corruption did not stunt growth in the forestry sector (Brown 2006). Indeed, despite the notorious 'crony capitalism', Suharto maintained his power for more than three decades, which some argue can be accounted for simply because of his success in maintaining economic development (Iwami 2001). Because of the highly centralized nature of the Indonesian state under Suharto, the 'modern' patronage networks that were nurtured in the forestry sector during this time were very streamlined, often involving direct links to Suharto himself. This is contrasted by Malaysia's more complex networks across different levels of governance, due to its federal-state separation and the Ali-Baba subcontracting systems in place, which will be discussed in part two of this series.

4. Conclusion

This article has done two important things. It has argued that the focus on the exploitation of natural resources in Southeast Asian countries has an inherently political dimension; that of the attitudes of the decision-making elite, which inherited ideas of development through the exploitation of natural resources from their colonial predecessors. Second, this paper has also argued that this has provided an environment ripe for the establishment of political structures and processes that support and encourage the development of ubiquitous patronage networks. As a whole, these circumstances encouraged and accelerated environmental degradation across the region where well-connected patrons and clients abuse the resource base for personalistic ends. In particular, through a close analysis of Indonesia's developmental trajectory, this paper argues that patronage networks have complimented and encouraged the process of natural resource exploitation in Indonesia. A second article that will appear in a subsequent volume of this journal will continue this analysis in the context of Indonesia's closest neighbours, Malaysia and Singapore, to further elucidate this argument.

5. References

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[1] Eco-imperialism is the argument that, like the European imperialists of old, today's eco-imperialists keep developing countries destitute so that the pristine ecosystems and forests of these developing countries can continue to benefit the developed world (Driessen, 2005).