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# Corruption and Consequences: Illegal Logging in Southeast Asia

Mike Knape

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Mike Knape  
Dillman  
IPE 201  
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## **Corruption and Consequences: Illegal Logging in Southeast Asia**

Throughout Southeast Asia, the situation today is essentially the same. A deadly combination of poorly regulated commercial logging and a thriving illegal timber trade are decimating forest resources across the region. According to the UN's Food and Agriculture Organization, SE Asia has the highest rate of deforestation in the world (Fahn 2003). Ecological destruction of this scale has profound implications for SE Asia and the world as a whole. Indeed, the close connection between deforestation and illicit logging should be apparent as governments and NGO's increasingly restrict, or even ban, the legitimate timber industry. This paper focuses specifically on the illegal timber trade between SE Asia and the rest of the world, namely Japan, China, the US, and the European Union. I will first examine the nature of this illicit industry and its possible consequences before moving onto the social and political forces that shape the illegal timber economy.

### **Significance**

The sheer scope of the timber trade, both legal and illegal, warrants its continued study. While deforestation and illegal logging are popularly associated with Brazil and the Amazon, the tropical rainforests and other old growth forests found in SE Asia are in at least as precarious a position, if not more so. Take Thailand, for example. Thanks to a boom in timber exports during the second half of the 20<sup>th</sup> century, total land covered by forests fell from 50 per cent in the

1960's to less than 25 per cent of total land by 2000 (Illegal-logging.info). A thriving illicit economy has sprung up since Thailand officially banned logging in 1989, as evidenced by the many scandals uncovered by NGO's in the past two decades (Fahn 2003). Forests in the Philippines, which once covered almost all of the archipelago, now make up less than 20 per cent of the land (Dauvergne 1997). Indonesia faces a similar fate. Worldwide, only Brazil is losing old growth forest at a faster rate, and Indonesia is only getting worse. This is especially worrisome considering that Indonesian rainforests are the third largest in the world and the largest in Asia. Furthermore, NGO's in the region believe that close to 70 per cent of the trees harvested in Indonesia are done so illegally (Illegal-logging.info). All exports of raw timber from Indonesia are now illegal. Deforestation is increasingly tied to illegal timber, as states face domestic pressure to stem the loss of an important natural resource.

Illicit logging in SE Asia has a number of unfortunate consequences, many of which are environmental in nature. According to the Environmental Investigation Agency (EIA), "as the forests disappear; devastating fires, landslides and floods follow, killing thousands. Illegal logging is also driving many endangered species to the brink of extinction" ("The Last Frontier" 2005). Forests help regulate the flow of water through soil, which in turn helps prevent landslides and flooding. One particularly publicized mudslide in southern Thailand during the 1980's that killed 56 villagers was directly attributed to logging. The 1989 ban is directly connected to this not-so-natural disaster (Fahn 2003). Deforestation contributes significantly to global warming as well because forests help filter carbon dioxide out of the air. Worldwide, "deforestation accounts for approximately 20 per cent of world annual greenhouse gas emissions and is the largest source of emissions in the developing world" (Illegal-logging.info). The

environmental externalities of deforestation in SE Asia, increasingly due to illegal logging, are both acutely localized and globally relevant.

Aside from its environmental implications, this shadow economy has profound economic implications for the people of the region. First off, the forests being decimated are important to the local economies. Rural SE Asians use the forests for everything from a fuel source to air-conditioning (Fahn 2003). An estimated 50 million indigenous people live in forests threatened with destruction (Illegal-logging.info). Indeed, the poor, generally uneducated populations that live in forests or depend upon forest resources for their wellbeing are among the hardest hit by illegal logging. The livelihoods of more than one billion poverty-stricken people in the developing world are directly affected by the loss of forest resources, according to the EIA (“The Last Frontier” 2005).

Some perspectives argue that forest dwellers can benefit from the illegal timber trade by participating in it, but this is naively optimistic. What control can any poor rural resident, or even some number of them, hope to exert against the billionaire “businessmen” dominating the illegal logging economy? How can they hope to benefit from an industry that is explained as such by its neighbors to the south: “It is an industry that is synonymous with political corruption, police racketeering and the brutal repression of workers, women and those who question its ways. Its operations routinely destroy the food sources, water supplies and cultural property of those same communities. They provide a breeding ground for arms smuggling, corruption and violence across the country” (Australian Conservation Foundation 2006). Clearly, forest dwellers would be better off without the illegal logging syndicates that exploit and destroy their livelihood.

Similarly, SE Asian governments are essentially robbed by the illicit timber industry in the form of lost tax revenues and depleted resources. A 2006 report by the EIA estimates that

the Indonesia government loses \$4.6 billion a year to the trade of illegal timber (“Behind the Veneer” 2006). A 2007 report states that “during the first half of this decade, while Indonesia was trying to recover from the economic crisis of the 1990s, illegal logging has robbed the government of US\$20 billion and an incalculable cost in terms of destroyed forests and local livelihoods” (“The Thousand Headed Snake” 2007). Combine this with the considerable funding that governments spend, at least on paper, to combat illegal logging and drain on the state grows worse. Governments are among the most negatively affected by the illegal timber trade.

The remarkable persistence of the illicit timber trade cannot be fully understood without examining who is benefitting from it as well. Aside from the consumers across the world who obtain cheaper flooring or desk furniture, the biggest beneficiaries are the so-called “Timber Barons” who run the illegal operations. The economy is dominated by predominantly foreign gangsters that keep their ill-gained fortunes in secure havens like Singapore and Switzerland. Japanese and Chinese crime syndicates and logging corporations alike use their huge financial resources to extract wealth from the region, which is in turn used to finance the web of corruption and cooptation that allows the economy to continue. The EIA states that the majority of the profit is made outside the region. Illegal merbau logs worth \$120 per cubic meter in New Guinea doubled in value upon arriving in China, and would go on to be sold in the US and EU for over \$2,000 once it was processed into flooring (“The Thousand Headed Snake” 2007). As expected, those actors with available capital to process the timber asymmetrically benefit from the huge value-added, leaving SE Asian governments and their law-abiding citizens with nothing.

## Trade

Illicit timber in SE Asia predominantly targets tropical hardwoods like teak, balau and merbau, because they fetch higher prices in world markets. For the purposes of this paper, the focus is merbau, a dark wood that is generally regarded as an attractive and durable multipurpose timber. Merbau consists of nine species found throughout SE Asia, although the majority exists on the Indonesian island of New Guinea. (Tong P.S., Chen, H.K., Hewitt, J., and Affre A. 2009). Trade in merbau has skyrocketed in the past decade. In Papua (the Indonesian province located on New Guinea), exports of merbau increased tenfold from 1998 until the government implemented a ban on timber exports in 2001. As supply and demand would dictate, the price jumped accordingly. Given the new opportunities for profit, the volume of illegal merbau exported from New Guinea quickly passed the 2001 levels and has continued to rise, more or less unabated, according to the EIA (“The Last Frontier 2005). This is a trend throughout the region. Government restrictions on the economy only make it more attractive to those willing to break the law.

Merbau continues to be exploited for export to the rest of the world, in this case primarily China, followed by the US and the EU. The EIA points to a shift in western flooring preferences as an explanation for rising demand. As linoleum went out of fashion in the late 1990’s, hardwood floors became the new fashionable alternative. Even the market for hardwood floors is changing, from the traditional oak to the darker, more “exotic” tropical hardwoods. The EIA goes one step further here and traces the imports of individual US and EU timber corporations back to their source, which the EIA purports is almost exclusively SE Asia. According to the EIA, the vast majority of the corporations they investigated were using merbau from New Guinea, “where the vast majority of logging is illegal and where certified timber is unheard of”

(“Behind the Veneer” 2006). The illicit trade in merbau and other tropical hardwoods is fed by the insatiable demand of China and the West.

While I’m more than somewhat apprehensive about taking all of these reports and statistics from environmental NGO’s as fact, the lack of evidence to the contrary is reassuring. The Indonesia government undertook a massive operation to crack down on illegal logging in New Guinea in response to the 2005 EIA report, which lends them some credibility. Similarly, a report by the TRAFFIC organization on merbau producing regions notes that “forest inventories are lacking or obsolete in producer countries” (Tong P.S., Chen, H.K., Hewitt, J., and Affre A. 2009). This lack of forestry information has clear implications when it comes to recognizing and cracking down upon illegal logging.

### **Political and Economic Constraints**

The illicit timber trade has been able to thrive in SE Asia thanks to the unique political and economic factors of the region, including widespread corruption in government and military institutions. Desperate to gain a slice of the profit, politicians, bureaucrats in forestry departments, military officers, and police struggle to sell out their nation’s natural resources most efficiently. The yearly EIA reports chronicle countless investigations into illegal logging where the culprits are powerful timber barons, “aided and abetted by corrupt police, military and government officials” (“The Thousand Headed Snake” 2007). The complicity of state actors becomes easily apparent when examining the attempted prosecution of those caught harvesting illegal timber as well. Even in cases where foreign vessels were caught with millions of dollars of unmarked timber attempting to leave Papua ports, the judicial process has failed due to bribery and powerful special interests (“The Thousand Headed Snake” 2007).

Even more extreme are the illicit logging operations that are run by the government officials themselves. For example, a 1999 investigation into illegal sawmills in Sumatra found that 13 of 25 sawmills were backed and supervised by the armed forces. Similar situations are common across Indonesia, in part because of the military's unusual funding setup. The Indonesian military must earn 75 per cent of its annual budget from its own enterprises and funding, which are not always legal ("Above the Law" 2003). Evidence of illegal logging by government actors is apparent in 37 of 41 national parks ("The Thousand Headed Snake" 2007).

This is fairly common outside of Indonesia as well, as Fahn demonstrates. During his travels as a reporter in Thailand, Fahn learns the amazing history of Chavalit Yongchaiyudh. The Thai military general-turned-entrepreneur-turned-prime minister known aptly as "Mr. Timber" is implicated in practically every logging scandal from the mid-1980's until the 1997 financial crisis removed his government from power. Fahn further generalizes his conclusion to say that "throughout the region, indeed throughout the developing world, guns and chainsaws seem to go hand in hand." With the possible exception of Malaysia, he advances that the military is intimately involved in logging, usually through illegal means, in the entire region (Fahn 2003). This makes sense considering the nature of the timber economy. Timber is a highly lootable resource, which allows capital strapped military actors or their subcontractors to quickly turn trees into cash. Given the relative autonomy that central governments have historically allowed military actors in the region, especially in border areas where a large portion of forests remain, military exploitation runs rampant.

In his 2001 book examining political corruption in SE Asia, Michael Ross defines this behavior as a type of rent seeking that he coins "rent seizing." Corruption is normally divided into two categories: rent creation and rent extraction. Rent creation refers to firms seeking to



bribe the state, whereas rent extraction conversely refers to the state trying to extort firms using the threat of regulation and fines. Rent seizing occurs when individual state actors try to access and distribute rents held in state institutions (Ross 2001). For example, forestry officials exhibit rent seizing behavior when they attempt to circumvent legal barriers in order to sell logging concessions to foreign corporations. Dauvergne alludes to a web of political patronage that he sees as the economy's defining characteristic. The bureaucrats and politicians that receive these benefits then turn around and subcontract them to logging companies (Dauvergne 1997). Government actors who are supposed to be protecting the forests instead seek to rent it out for personal financial gain. Corruption and collusion have rendered regional governments without the capacity to deal with their domestic industry as well as foreign trade.

The nature of the region's political regimes have also impacted the illegal timber trade, namely the general trend from authoritarianism towards democracy. Fahn revisits a study by US Political Scientist Neal Englehart that shows a direct correlation between democracy and deforestation in SE Asia. Essentially, democracy and the ensuing economic freedom enable market forces to go to work creating the most efficient possible means of exploitation (Fahn 2003). The individual concessions offered by authoritarian leaders as a means of patronage are innately inefficient at destroying the environment in this interesting application of liberal ideology. Fahn's narrative shows another example of this trend when he reports on a border conflict between Myanmar and Thailand. The brutal SLORC junta that rules Myanmar starts a border war with Thailand in order to stop illegal logging by Thai companies across the border. It turns out that the KNPP rebels in Myanmar had been bringing Thai logging companies over the border in order to finance their war of resistance against SLORC (Fahn 2003). Similar issues came up in the 1970's during the Khmer Rouge regime in Cambodia. Politics and the illicit

timber economy are closely linked throughout the region, due mostly to the resources lootable nature.

With so many obstacles working against them, regional governments hope that increased regional and global cooperation can help them reign in illegal logging. Regionally, nations look to continue the spirit embodied in ASEAN by synchronizing trade policy. The lack of consistency across the region has made it easy for timber traffickers, which contributed to the 2004 ASEAN Strategic Plan on Forestry. The report details the creation of a network of protected forest reserves and increased intergovernmental cooperation, but progress has been lacking (Illegal-logging.info). As it is right now, raw timber cannot be exported from Indonesia, but once smuggled into neighboring countries it is essentially fair game for many less stringent buyers in the international market. Malaysia banned the import of Indonesian Merbau in 2002 to help slow the illicit economy (Tong P.S., Chen, H.K., Hewitt, J., and Affre A. 2009). Yet until all of the regional governments agree to strengthen their policies restricting illegal timber, trade will simply flow through whichever nation has the least strict policies (or the most corrupt enforcement mechanisms).

International cooperation between the major importers and exporters of illegal timber is another option that SE Asian states are exploring. Many scholars and policy makers point towards strengthening existing agreements on illicit trafficking, like the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). Timber species listed in the CITES appendix require extensive source documentation and certification in order to be traded. Currently many tropical hardwoods like merbau are not included in CITES, although Indonesia is proposing their addition. TRAFFIC explains how the CITES listing has helped in the case of the Big-Leaf Mahogany trade (Tong P.S., Chen, H.K., Hewitt, J., and Affre A. 2009).

Whether through the CITES approach or elsewhere, increased documentation and tracking of targeted hardwoods like merbau is a crucial step in stemming the flow of illegal timber.

The largest timber importers (China, Japan, the EU, and the US) need to work closely with SE Asian nations for real progress to be made however. Although Japan has traditionally had the closest ties with the SE Asian timber trade, China has rapidly become the main consumer (Dauvergne 1997). China cut all tariffs on imported timber in 1999 after they depleted their own domestic production with unsustainable logging and since then their timber imports have soared. According to the EIA, China is now the largest consumer of illegal timber in the world and has been reluctant to change thus far (“The Last Frontier” 2005). The EU and the US have been more willing to take real steps towards reducing their contribution to the problem. In 2008, the US passed an amendment to the existing Lacey Act that makes it illegal for anyone to import timber that was illegally harvested in another country into the US and places the responsibility for verifying a legal source directly on the importer (Gregg, R , and Amelia Porges. 2008). The EU is in the process of entering a Voluntary Partnership Agreement with Indonesia, which would require EU timber imports to be certified as legally harvested (Illegal-logging.info). This sort of bilateral cooperation between the primary state actors in the illicit timber economy should have a significant effect if the measures are fully enforced.

## **Conclusions**

Its success owed to a combination of widespread corruption at the local level and intense international demand, the illegal timber trade in SE Asia continues a dangerous trend of deforestation and political patronage that will adversely affect the region for decades to come. Possible solutions abound in the form of regional and international cooperation, but without some semblance of just enforcement from SE Asian states no real improvement is in sight as

long as demand stays high. Perhaps NGO's like the EIA and TRAFFIC should be shifting their efforts towards educating consumers on what their new merbau floor really costs instead of pressuring governments that have shown an inability to make real progress. Until then, a region once described as "the closest place to the Garden of Eden as you're going to find on Earth" will continue to be exploited and destroyed.

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