Logging in East Kalimantan, Indonesia. The Historical Expedience of Illegality

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CHAPTER 1

THE EXPEDIENCE AND UTILITY OF ILLEGAL LOGGING

"If the people and government here were to rely only on official income and budgets, this place would be in chaos within a week."

Director of a supplier firm in the district of Berau, April 2000

Over the last thirty years, timber has become economically the most important forest commodity in Indonesia, with production levels, trade volumes and generated revenues showing tremendous growth (Nectoux and Kuroda 1989). Concurrently with the emergence of tropical timber as a strategic resource in the country, comprehensive forest management policies were implemented in order to ensure its long-term availability and sustainability. However, despite such safeguards, Indonesia’s tropical forests have been consistently overexploited and degraded (Hurst 1990; Dauvergne 1994, 1997; Ross 1996, 2001; Barr 1999, 2002; Brown 1999, 2001).

While in the 1980s and 1990s the government’s logging concession policy bore the brunt of criticism from NGOs, the press and research institutions in and outside of Indonesia (e.g., Muhtadi 1999; Banjarmasin Post 1999b; Kompas 1999a; Suara Kaltim 1999), in recent years the critics have identified a new factor
responsible for the degradation of forests-illegal logging (Petebang 2000a, b; Pour 2000; Contreras-Hermosilla 2001; ITTO 2001; EIA/Telapak 2002; FWI/GFW 2002). By 2002, it was estimated that 70 percent of timber extracted annually in Indonesia was cut illegally, resulting in (US $ 3 billion) of lost government revenues (Musthofid and Wijaksana 2002). The term illegal logging, as applied in the literature, refers to a wide array of activities associated with the extraction of timber that contravene effective national government regulations. Within such a general definition, illegal logging activities can be grouped into two general categories: 1) large-scale activities by logging concessionaries (HPH, or *Hak Pengusahaan Hutan*) forest concessionaries, industrial forest plantations (HTI, or *Hutan Tanaman Industri*), agricultural plantation estates, mining and construction works that involve over-cutting, cutting out of block, under-reporting of production, manipulation of documents etc. and 2) small-scale logging activities that in Kalimantan were known as *bevolkingskap* (logging by natives) in the colonial period, *banjir kap* (flood logging) in the 1960s and early 1970s and as *orang kerja kayu* or *kuda-kuda* since then¹ (EIA and Telapak 1999; EIA and Telapak 2000). In popular opinion in Indonesia as well as government and research publications, small-scale logging is perceived as most widespread and uncontrollable. As a result, the generic term *illegal logging* is almost always used in connection with the second category above, and this is how I will treat it in this thesis.

¹ *Orang kerja kayu* literally means “people working timber”. The term *kuda-kuda* refers to the technique of manual extraction of logs from the forest.
Since the fall of Suharto’s New Order regime in 1998, illegal logging activities in Indonesia have increased tremendously (McCarthyy 2000, 2002; Obidzinski et al. 2001; Obidzinski and Palmer 2002; Palmer and Obidzinski 2002; Casson and Obidzinski 2001; Smith et al. 2002). Such intensification and the continuous spread of illegal logging prompted suggestions from Indonesian government officials, NGOs and international research organizations, that it is a relatively recent form of forest crime perpetrated by organized gangs (oknum), and that it is primarily an outcome of the post-1998 breakdown of government controls, economic crisis and political chaos in the country (EIA and Telapak 1999; EIA and Telapak 2000). In areas of Kalimantan where such illegal logging clearly predated the 1998 events,
government officials and the press estimated that criminal gangs began this kind of activity in the late 1980s in association with HPH concessionaries and timber processing industries (Potter 1988b; Kompas 2000).

However, my field research in East Kalimantan (1999-2001) has led me to a decidedly different perspective on the nature, causes, as well as history of illegal logging. I have developed this perspective in a roundabout way. As my original research plan on development programs for isolated minorities in Berau district turned out to be unworkable, due to the dissolution in early 1999 of both the programs as well as the party that implemented them (i.e. Department of Social Affairs), I found myself visiting nearby villages and frequenting coffee shops (warung kopi) in the town of Tanjung Redeb, the capital of Berau, trying to find the theme for a new project. The several months that had already gone by, while officially “lost”, were actually significant in allowing me to become familiar with the town and its people. Among the latter was one of my earliest acquaintances – Hamid².

Hamid was a civil servant at the district office of fisheries (Dinas Perikanan), an energetic and enterprising individual. Each day, his working time in the office began at 7:30 in the morning, but often only two hours later I would see him riding around the town on a motorcycle, stopping every few minutes to chat with people on the street, in food stalls, shops, the bank, etc. He seemed to know

² For reasons of privacy, this and other names of persons involved in entrepreneurial activities in the area are pseudonyms.
everybody. When I later asked him why he was doing this and how he managed to do it during office hours, he replied as if it was quite obvious that he was “looking for opportunities to make money” (lit. *cari uang*). The office job was far from giving him enough income to live on. What it did provide, however, was “flexibility” of working hours and an official capacity as a civil servant that he could use to generate money elsewhere. Such a process of working an extensive realm of relationships on a daily basis for extra income intrigued me, and I decided to explore it further.

I had an opportunity to do so when Hamid introduced me to *Pak* Baco, who became my landlord for the remainder of my stay in Berau. He was a Buginese living in Berau since the mid-1970s and supporting himself and his family with a tiny all-purpose shop (*toko*) constructed on a few planks on top of a sewer in front of his spacious but rundown house. Behind it, there was a much smaller brick house I would rent. *Pak* Baco’s *toko*, besides being extremely small, had very few stocked goods for sale most of the time. I wondered how he could earn enough income for his daily needs, not to mention the maintenance of two houses that despite a non-descript external appearance were surprisingly well-equipped inside.

I began getting hints about how he might be accomplishing this when he introduced me to two neighbors – one from the other side of the fence and the other from across the street. The former was a retired member of the district Police force (*Polres*), whereas the latter was still the active head of the local criminal investigations
unit. Evening conversations on the bench near the shop allowed me to gain the first glimpses of how they worked officially and how they “enterprised”. However, nothing was more helpful in finding out about his activities than driving Pak Baco every morning to what he called his “office” – a trip that the two neighbors frequently joined as well.

The “office” (kantor) was the word he used jokingly to refer to a coffee shop at the waterfront (pelabuhan) in Tanjung Redeb. It was not just any coffee shop however, but one where customers could play lottery, play cards and where a variety of entrepreneurial undertakings were discussed, planned and begun. A Chinese man by the name of Ayen ran the shop and a vast majority of his clientele was of the uniformed sort, shop i.e. police, army and various regional functionaries of Hamid’s type who dropped by on motorcycles. That is where I began to learn about the nature of “illegality” in Berau in earnest.
Entrepreneurs dropping by on motorcycles

The shop never closed. It stayed open even at noon, despite the scorching heat. And the people would talk about and plan every imaginable kind of enterprise. Some bought and sold lottery numbers, other played cards. Still others made plans to work for Chinese tauke and haji bird’s-nest traders as security, particularly during the harvest season. There were also get-rich-quick plans such as: 1) buy bird’s-nests cheaply from villages in the hinterland (hulu) and sell them in Samarinda or Surabaya with a multifold profit, despite the fact that the villages in question had already been

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3 Tauke is a term widely used in Indonesia, Malaysia and Singapore to refer to entrepreneurs of Chinese descent. Haji, on the other hand, is an honorific term for an adherent of Islam who has undertaken pilgrimage to Islam’s holy sites of Mecca and Medina.
under contract with bird’s-nest license holders (*pachtter*)\(^4\); 2) start a new bird’s-nest business, because stories about discoveries of new caves surfaced almost every day and 3) raid other people’s caves and steal their nests.

Of course, the recurring problem with quick enrichment plans of this kind was that an initial investment was necessary. As a result, the would-be entrepreneurs were prepared to go to considerable lengths in order to persuade a potential investor. They would produce “village informants” instantly swearing that they had just found caves with millions (*jutaan*) of birds inside. Or they would arrange meetings in the evening, bringing along old documentation and maps reportedly pinpointing the location of a rich cave that “has been forgotten since the Dutch times”. In order to find out more, I became involved in one such venture, a buy-up scheme, by providing some start-up money. With amazement I watched as a cluster of participants (policemen, bureaucrats, professional tricksters, as well as Chinese and Malay traders) plunged into the undertaking with vigor, only to be faced immediately with an unbroken string of losses, all conveniently explained as business risk, while in reality both the investment money as well as initial proceeds had long been embezzled.

Despite a strained budget, which was the subject of countless stories circulating the town as to how it happened, I nevertheless

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\(^4\) These bird’s-nests generally fall into two categories: white and black. Made by different swiftlet species, the nests are in demand for Chinese traditional food and medicine and are therefore very valuable.
became something of an associate of the coffee shop “club”. Wanting to hear no more about bird’s-nests, I turned my attention to timber, which at the time (1999), was quickly becoming the business of choice in Berau. The local policemen and army troops (*Kodim*) were constantly on the look-out for loggers floating timber downstream to sawmills in order to exact “toll fees”. Often they would also be “hired” by timber traders to join the crews of departing ships in order to ward off legal danger along the way and to ensure that shipments reached their destinations even though they were not equipped with required permits (see *Kompas* 2002b; *Sinar Harapan* 2002).

Before national holidays, the police superiors would send their subordinates on donation collecting tours to sawmills, to the more accessible logging camps, to Chinese shopkeepers and other traders to generate funds for festivities and the headquarter’s operational needs. Police officers of lower rank visiting the coffee shop explained quite openly their reasons for exacting these and other financial contributions. Most often, they blamed inadequate salaries and non-existent work facilities (see Wahyudi 2001). Most earned a base salary of only Rp. 320,000 (US $ 32) per month, which they claimed was not even sufficient for food, not to mention other needs. There was also a constant necessity to arrange for work-related needs. Thus, if a given task required a car or a motorcycle, it was up to the officers themselves to “organize” transport. Most often, this entailed “borrowing” motorcycles from *tauke* car retailers. The latter, however, would avoid as much as possible keeping too many motorcycles in stock because the “borrowing
business” of this kind meant losses due to frequent damage and the unwillingness of other customers to buy such “used items”. The system of collections and donations also had to be employed in the procurement of basic office equipment, computers, stationary, etc. However, by collecting fees not only from sawmills, loggers and local businesses, but also by pursuing side businesses over longer distances, for example, smuggling various consumer goods from Tawau, Malaysia, the policemen, army troops and their regional civil servant associates managed to make a substantial extra income.

By the late 1990s, timber became by far the most lucrative, sought-after and booming business in Berau. While it was still, to a large extent, associated with manual extraction of logs for processing in sawmills (both without licenses), increasingly the focus shifted to more intensive logging operations in village forest concessions that became available at that time (see Chapter 6). Among the people in the coffee shop who employed groups of loggers to cut timber for sawmills was Ronny. Ronny had several logging teams cutting trees and loading squared blocks of timber on trucks along the road between Berau and the neighboring district of Bulungan. They worked in full view of people driving by in busses, government cars and private vehicles. This did not concern him much, because he regularly provided small payments to security and administration officials posted in, or frequenting, the area where he worked. If they met in the coffee shop, he treated them. Together, they formed a steady network of partners operating on quid pro quo basis with few surprises.
Higher-level officials were the responsibility of the buyer of Ronny’s timber – *Haji* Joni. As one of the largest timber businessmen in Berau, he was renowned to have most the “important government people” in the district on his payroll. When I chatted with him on several occasions, he emphasized that this was not something new or unusual in the timber business. “That’s how people here, both big and small, can make some money. Look at all the houses being built and cars that government officials buy. Do you think they pay for it with their salaries? I pay some people and other businessmen pay others. After that, it’s all taken care of and we can do business. It has always been like this – my father and grandfather did it too”\(^5\).

Regional administration and security officers indicated that before the 1998 upheaval, one could pursue fee-collecting activities and other side businesses at will. However, it was important to toe the political line of the Golkar party (*Golongan Karya*) and be in tune with its local functionaries (*pengurus*)\(^6\). Some older individuals reminisced about the similar situation under PNI (*Partai Nasional Indonesia, Indonesian National Party*) before 1965. Soon after the fall of the New Order government, the political strings attached to off-book businesses were far fewer. In fact, they said, the new parties that sprang up everywhere after 1998 made such activities easier, offering administrative facilities and shortcuts in exchange for electoral support (see *Kompas* 1999b).

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\(^5\) Interviews in 1999 and 2000.

\(^6\) Golkar dominated Indonesian politics between 1971 and 1998. It continues to be one of main political parties in Indonesia.
1.1 Thesis objective

Thus, illegal activities associated with timber in Berau, East Kalimantan, were not the result of post 1998 explosion of criminal gangs. Instead, these activities were occurring as part of, or side-by-side with, official government functions and duties. How was this possible and how could this be explained? I began to realize that there were two overriding economic and political factors at play. Economically, illegal timber (and other) revenues were important to fill in drastic income shortages of local participants such as police, military, civil servants and private entrepreneurs. Politically, illegal timber sector was useful for regional and national power-holders in Jakarta because it generated the loyalty of those participating in illegal timber activities as well as their followers. All of this was accomplished by means of patron-client networks that permeated government and business environment and were steeped in local history.\(^7\).

The fact that such illegalities did not only impair the functioning of the local government in Indonesia, but were in fact necessary for it to operate was observed, several decades ago by J.C. van Leur (1955) and W.F Wertheim (1964). This situation was the result of the historical domination of social, economic and political interactions in the region (by relations of patronage, see below for a detailed discussion of this and other related terms). Within such relations, illegalities in the present sense of the term did not exist

\(^7\) I borrow the term "clientelist coalitions" from McCarthy (2002).
because public and private spheres were not separated in the tributary rule that prevailed in the Indonesian archipelago in the pre-colonial times (Schrieke 1957).

During the colonial period, the traditional rule based on patronage began to change as a result of the introduction of modern bureaucratic government. However, the changes were limited by the exigencies of indirect rule in the Netherlands East Indies. Nonetheless, practices by the native elite, (particularly in Outer Indonesia), that in modern terms would be deemed corrupt or illegal, were nevertheless tolerated as a means to maintain their prestige (Wertheim 1964:121).

After Indonesia became an independent country, the exigencies of nation-building and party-building continued to make use of patronage, turning this traditional form of power relations into a modernized and deeply-engrained element in the governance of the country (Wertheim 1968; 1984). The tremendous expansion of bureaucratic, political and military cadres that accompanied these processes, without a parallel development of proper economic resources, led to the emergence of “shared poverty” in mid and low level government institutions (Wertheim 1964:126). It is these conditions of economic need and political expedience that result in what are viewed as illegalities.

It appears that as long as activities such as illegal logging provide important functions to the society at large and power-holders in particular, they activities will persist, regardless of the official
pressure to suppress them (Wertheim 1964:130; Alatas 1968; Carino and Alfiler 1986; Robertson-Snape 1999). Thus, in this thesis I focus on a functional analysis of the enduring and evolving nature of illegal logging in East Kalimantan that identifies the historical formation of governance based on patronage and clientelism and multidimensional utility of timber-based income within such context as the primary cause. Within this framework, I seek to explain the specific functions that illegal logging has served though time, by identifying the stakeholders that have participated in it and showing what benefits they have derived from it and how. This will help to explain how illegal logging has reached the current state of uncontrollability and what measures could be taken to curtail it.

1.2 Patronage and clientelism in Indonesian government

The patron-client dependency relations are considered instrumental in explaining the [mis]use of power and resources in Indonesian politics and economy (Crouch 1975, 1978, 1979; King 1982, 2000; Robinson 1981, 1986). Dwight King (2000:609), for instance, defines patronage or patrimonialism as a “pattern of politics in which the ruler’s power derives primarily from his capacity to win and retain the loyalty of key sections of the political elite by satisfying their aspirations, especially their material interests, through the distribution of perquisites such as fiefs and benefices”. He also emphasizes the important role that patronage

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8 For more on patronage-based and bureaucratic-authoritarian politics in Indonesia, see Lev (1964), Crouch (1972, 1979), and Liddle (1985).
relations have historically played in Indonesian politics, continuously requiring economic “fuel” in the form of discretionary dispensation of benefits (King 1994, 1996).

While some scholars have tended to see the traditional, particularly Javanese, paternalistic relations as shaping Indonesia’s modern government and society in a rigid fashion (e.g. Geertz 1956; Anderson 1972), others considered them much more changeable and adaptable (e.g. Wertheim 1964, 1968, 1984; Jackson 1974, 1978; Jackson and Pye 1978). The traditional Javanese patron-client relations have been described as “dyadic, vertical, personal, unequal and reciprocal” (Dauvergne 1997:60). Such relations did not constitute simple exchanges of favors, but were characterized by a mutually accepted sense of following a divinely ordained cosmic order. Thus, the client did not expect an immediate return on his services. Rather, the reward would come as a fateful consequence of well-performed duty. The patrons, on the other hand, “were expected to serve as provider[s], protector[s], educator[s] and source of values” to their clients (Jackson 1978).

Whether such a pure model of patronage relations has ever existed is debatable. As Richard Robinson (1978:25) notes, “[p]atrimonial bureaucracy in Indonesia has its origins in the pre-colonial Javanese kingdoms, where the king distributed appanage benefices to supporters, clients and family”. However, far from idealistic reciprocity and fateful conformity, such a “bureaucratic office [...] entitled the office-holder to make use of the office for private political and pecuniary ends” (Robinson 1978:25).
Such an element of pragmatism is also evident in works on transition from traditional to modern patron-client relations in Indonesia and Southeast Asia (Scott 1972a, b; Scott and Kerkvliet 1973; Emmerson 1978; Sutherland 1979; Walker and Tinker 1975; Appold and Phong 1996). Transformation of this kind has occurred as a result of modernization induced by colonialism, post-independence political and economic changes and accelerating human migration from villages to urban centers. These processes have produced qualitatively distinct forms of patron-client relationships that are “more limited, instrumental, opportunistic, specialized, achievement-based and focused on the recent present rather than the distant past” (Jackson 1978). In such relationships, the players are much more pro-active and seek, as much as possible, immediate reciprocity. While some elements of etiquette and remnants of honorific displays may still persist, the operational mechanism of such modern relationships is fundamentally different from traditional formulations. The key distinction is that it is much more unstable than in the past, as it is based on cost-benefit calculations by both clients and patrons (Dauvergne 1997:61).

1.3 The role of patrimonialism in the political explanation of deforestation

The model of clientelism and patronage in connection with illegal exploitation of forests has featured prominently in the political explanation of deforestation in Indonesia and Southeast Asia (Hurst 1990; Dauvergne 1994, 1997). The political explanation of the
degradation of forests for timber sees the crux of the problem in the prevailing pattern of national politics in the region where political processes take place as a result of intra-elite ploys in which decision-making power is exercised in exchange for economic compensation of the followers (Broad 1995). Such compensation often takes the form of unlawful exploitation of timber or other natural resources. As such, political explanation of deforestation in Southeast Asian countries is based on a model that involves “the exchange of economic rents for the political support of the recipients” (Ascher 1998:53).

The proponents of such an explanation for forest misuse in Indonesia, while agreeing on the overall framework, differ in their emphasis of its constitutive elements. Michael Ross (1996, 2001), for instance, considers boom-bust cycles in timber trade that temporarily cause sharp increases in economic value of timber as the primary reason for timber periodically becomes an economic “booty” distributed in exchange for political patronage.

David Brown (1999, 2001) concentrates not so much on fluctuating economic value of timber and its implications for the extraction of wealth, but on the fact that Indonesian government (as well as other neighboring countries) has intentionally put in place a forest management framework that deprives the country of most of the income from timber, diverting it instead in the form of rents to
privileged elites and their clients\textsuperscript{9}. Christopher Barr (1998, 1999) specifies how such a transfer of economic rents to the ruling elites in Indonesia has been fine-tuned within the context of timber industry monopolies under the Suharto regime.

The political explanation of the degradation of forests for timber in Indonesia and Southeast Asia, at the core of which are national political systems driven by inter-elite exchanges of economic rent and political patronage, has been useful in explaining the implications of large-scale, national or industry-wide timber operations. However, in remote, rural and local settings, dependency relations associated with extraction of timber, while certainly also key for shoring up personal positions and political interests, have played an additional very significant role as a crucial means to generate supplementary income for personal and institutional subsistence needs. My interaction with loggers, timber traders and government officials in East Kalimantan confirmed the local economic significance of patron-client bond. It also became clear that dependency bond of this kind is not of "traditional" nature. Rather, it is much more closely resembles cooperative, symbiotic, \textit{quid-pro-quo} exchange relationship where individuals involved act as partners. As a result, local illegal logging and timber trade networks are better viewed as clientelist coalitions of sorts that are constant, continuous and tied to subsistence concerns to much greater extent than large-scale forestry sector\textsuperscript{10}.

\textsuperscript{9} Brown defines rents as above normal profits that occur when returns on an investment are more than 25 percent (1999:1).

\textsuperscript{10} I borrow the term "clientelist coalitions" from McCarthy (2002).
1.4 The historical rooting of clientelist networks’ economic and political reliance on timber

It is clear that illegal logging in Indonesia is of considerable antiquity. The small-scale theft of timber and other forest products in Indonesia had already constituted a serious problem in the colonial period. In this period it was caused mainly by government regulatory frameworks that did not accommodate local livelihood which depended on forests (Potter 1988; Peluso 1992a, 1992b, 1992c, 1992d; Hüsken 1997). The colonial government perceived Java’s teak forests as a valuable natural asset, to be controlled directly by the government, or exploited only with its exclusive permission (Peluso and Vandegeest 2001). Thus, the indirect rule in Java was limited to only 7 percent of its area, enabling easier removal of many rural communities from the forest, to which they traditionally had access (Vandenbosch 1941:133). Any subsequent attempts to continue the customary ways of exploiting forest resources were criminalized by the authorities.

The situation was significantly different in the area of present-day East Kalimantan. There, indirect rule as the centerpiece of the Netherlands East Indies’ ethical policy for political decentralization through native states was much more in effect (Vandenbosch 1941:150, 155). As a whole, more than 50 percent of the area of the Outer Islands was under the administration of native sultanates (Vandenbosch:133).
In the case of Kalimantan, the widespread application of indirect rule was mainly the result of its vast size and the perception of its being a burden rather than a valuable possession (Black, 1985). The forests in Kalimantan and the other Outer Islands were viewed, in general, as commercially much less important, primarily due to difficult access and high costs of exploitation. Consequently, indirect rule afforded local native leaders outside Java a considerable degree of control over utilization of forests for timber and other resources (Furnivall 1944:325). Gradually, however, the authority of native states over forests diminished as a result of dualities in virtually every aspect of their administrative, economic and political life that allowed the colonial central government to intervene (Vandenbosch 1941:147-157).

In the mid 1930s, as industrial logging became viable and tropical timbers such as *Meranti* or *Keruing* (until then disparagingly called *wildehout*, or wild timber) became marketable the sultans’ right to issue forest concessions in Kalimantan were officially withdrawn in favor of direct control by central government authorities. However, the sultans were allowed to continue to exact levies on forest products extracted by their subjects for subsistence needs (Lindblad 1988:139-140). In addition, as “traditional lords of the domain”, they also received preferential treatment in obtaining timber concessions. These were for the most part exploited through a long-established (and by the mid-1930s outlawed) system of sub-contracting intermediaries. Through such means, coalitions of locally significant stakeholders (sultans, their families, court representatives, entrepreneurs, etc.) sought to continue to realize
economic benefits and to prop their waning political prestige. As a crucial source of additional income for the needy and important opportunity for local power-holders to generate financing with which to bolster authority, illegal timber sector over time became an ingrained element in economic and political life in East Kalimantan.

The framework of such coalitions in East Kalimantan has persisted through time with little change. The only element that appears to have changed is the constellation of participating stakeholders. Following Indonesia’s independence, this coalition initially widened to include local government bureaucracies and the security apparatus and then (after 1960) it contracted as a result of the elimination of former ruling classes. It was during this time that the dual role of illegal logging (and other illegal sectors) as a source of economic supplementation and as a tool for political mobilization developed a significance far beyond what it was during the period of Dutch indirect rule.

We find the reasons for this in the progressive deterioration of the economic and political situation in Indonesia in the 1950s and 1960s itself caused by concurrent processes of nationalization of the economy (Indonesianization) and construction of the nationwide system of political parties and government bureaucracies (De Meel 1951; Donnithorne 1954; Feith 1954; Higgins 1956; Sutter 1959; Glassburner 1960; Anderson 1983). The flight of foreign capital, parasitic private enterprise in Indonesia (benteng) and mismanagement of nationalized sectors led to the gradual shrinking
of an economy that was marred by rising deficits, by growing inflation and an increasing inability to provide for the fundamentals of national governance (Paaw 1955a, b; Swianiewicz 1958; Van der Kroef 1959; Pauker 1961; Glassburner 1962; Mackie 1962; Schmitt 1963; Thomas and Panglaykim 1967).

The effects of economic deterioration in Indonesia in the 1950s and early 1960s were widespread. Within the government apparatus, this situation was perhaps felt most acutely by middle- and low-level civil and military officials whose numbers expended dramatically during this period, particularly in rural areas. The provinces and districts in Outer Islands (generally called daerah) chafed under the centralized rule of Jakarta on which they depended for up to 70 percent of budgetary needs, a fact that caused much resentment (Paaw 1955b; Higgins 1956:120). This was particularly the case given the fact that legal provisions for decentralized governance were available since at least 1948, but never came into effect\(^\text{11}\) (Palmier 1960).

The rapidly-growing bureaucratic aparat expanded from 250,000 people before the Second World War to 1.3 million by 1955, nearly a five-fold increase within the time span of 15 years. About half that number where stationed in rural areas, proportionately most of them in Java (Van der Kroef 1959:51). However, this growth of the

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\(^{11}\) The local government law of 1948 was an adapted version of a colonial legislation that was used as the basis for local administrations in Java, Sumatra and Borneo (Palmier 1960:171). For more on the problems of centralization and decentralization in Indonesia at that time, see Legge (1957, 1961) and Maryanov (1959).
bureaucracy was not accompanied by parallel development of the official means of subsistence. On the contrary, the official income of civil and military bureaucracies in the country was becoming increasingly meaningless, for “the average government official could live for only eighteen days on his monthly salary, which opened up excellent prospects for corruption” (Grant 1964:82; Mackie 1962:351).

It is true that sums earmarked in the national budget for civil service were high, increasing from 21.3 percent of the overall budget in 1952 to 34 percent in 1956 and 38 percent in 1958. However, these increases were funded by deficit spending accomplished with little more than printing money that, in turn, led to a running inflation\textsuperscript{12} (Van der Kroef 1959:70). Just as the Indonesian Rupiah lost about 60 percent of its value between 1954 and 1960, the cost of living rose over 400 percent between 1953 and 1961 (Pauker 1961:130). In addition, following the nationalization of Dutch businesses in late 1957, military and civil staff charged with managing those enterprises had their wages cut by nearly 60 percent\textsuperscript{13} (Mackie 1962:354). Nevertheless, these wages were still not considered as poor because the salaries of “estate managerial staff”, despite the sharp reductions, were “far more than [those of] ordinary civil servants” (Mackie 1962:354).

\textsuperscript{12} Indonesia’s problem of inflation at that time is best expressed by the changing amount of money in circulation. “In 1954 the total money volume in circulation was 11.1 billion Rupiah; in 1955 12.2 billion; in 1956, 13.3 billion; in 1957, 18.9 billion; in 1958, 26.9 billion; for 1959 a total of 34 billion is estimated” (Van der Kroef 1959:70).

\textsuperscript{13} The wages declined from 10,000-15,000 Rupiah per month before nationalization to 3,000-5,000 Rupiah per month after (Mackie 1962:354).
Because Jakarta had very little money to distribute, in the late 1950s and early 1960s, the outer regions regularly faced a near total lack of resources for even the most basic government functions and needs. Insiste of the fact the new decentralization regulation of July 1958 entitled the regions to receive from Jakarta 30 percent of all currency earnings and 50 percent of export taxes generated by them, it was never realized (Van der Kroef 1959:72). Instead, up to 80 percent of the national budget was allocated to the military purposes, initially necessitated by campaigns to suppress regional separatist movements and thereafter to launch operations to wrest the control of West New Guinea from the Netherlands and to oppose the formation of Malaysia (*Konfrontasi*) (Anderson 1965:78). Faced with the reality of near non-existent official budgets and almost total isolation from the outside world following the withdrawal of Dutch KPM interinsular shipping lines in 1957 (it took more than two years for Pelni to fill the void created by this departure), the *daerah* were forced (and expected) to resort to whatever means were necessary to “make ends meet” (Van der Kroef 1959:72).

The regions’ preferred means of accomplishing this goal was through so-called “barter trade”. This term was used euphemistically both by the *daerah* as well as Jakarta to refer to “illegal export and import of goods outside the official system of foreign trade controls”¹⁴ (Mackie 1962:354). As this was the only

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¹⁴ This understanding of barter trade in Indonesia continues until today. In a recent study of barter trade between Sabah (Malaysia), Indonesia and the Philippines, Gwendolen Vu (1997) makes the qualification that barter trade
practical way to generate funds for institutions and individuals, the outer regions plunged headlong into illegal trade of this kind. Perhaps the best illustration of how and by whom it was undertaken in the late 1950s comes from copra trade in North Sulawesi:

In the areas outside Java, power now rests with the army commanders. In Celebes, for example, Colonel Sumual, the commander is in complete control [...]. [I]n the old town of Manado, in north Celebes, [he] permits, even encourages, the trade with [the Malaysian port of] Tawau, for by the permits he grants to the sailing vessels he secures enough to pay his army. The levy, which is paid willingly enough, in ports as far apart as Manado, in the furthermost north-east tip of Celebes, Tolitoli, in the north-west, and Butung, down in the southeast, ranges from $2000 to $500. Once the levy is paid the boats can sail across to Tawau, and secure the best possible price for their copra. There are no other regulations (except that they are denied the use of an engine, outboard or otherwise, as Sumual would not be able to catch them), no restriction on port of exit, no insistence that one “national” firm must be used, no control whatever. The result is an ever-increasing trade, of great benefit to both sides (Tregonning 1960:223).

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between these countries is “not the traditional barter trade in the strictest sense (exchange of goods) but rather imports and exports of mainly consumer goods that use the mode and route of barter trade” (Vu 1997:45).
Tawau was a hub in Malaysia for illegal trade of not only copra from Celebes, but also other products from East Kalimantan, for example, rubber and timber. While illegal trade of this kind was seen as a natural substitute for (temporary) malfunctioning of the national economy, its expansion and entrenchment would eventually prove practically impossible to reverse. This was because even though the daerah was generating some income through the “barter sector” in seemingly independent fashion, it was nevertheless doing so at a considerable cost to the budget of the central government. In 1961, for instance, the central government estimated that the 100,000 tons of copra and 100,000 tons of rubber that were being smuggled out of the country each year resulted in annual revenue losses for Jakarta of US$19 million and US$64 million, respectively (Pauker 1961:124; Simkin 1970:27). Such multiple drains created a vicious circle in which drastic revenue shortages suffered by Jakarta were worsened by “barter economies”, thus deteriorating further Jakarta’s ability to allocate funds to regions, which in turn intensified the need for more illegal trade activities.

Just as the nationalization of Indonesian economy was being accomplished in the 1950s, there was a parallel movement toward enabling mass political participation in Indonesia through the development of national parties. Since “[b]uilding nationwide parties in a nation of roughly 100 million people was naturally an expensive proposition, [t]he leaders found that a cheap way to develop their organizations was to enroll supporters inside the state apparatus” (Anderson 1983:483). As a result, bureaucratic cadres
swelled tremendously, reflecting, by the mid-1960s, a six-fold increase compared to the pre-war period.

In the context of such tremendous membership growth and political participation, illegal economic activities became significant not only as a crucial source of income for revenue-starved districts, but also as a reward in the game of political patronage. Clearly, during the initial years of Indonesia’s independence, the country’s unity hinged not only upon sustaining revolutionary zeal but also on skillful cooptation of locally influential aristocratic leaders. Just as increasing the membership base was critical for Indonesian political parties to develop national reach, it was important to net locally influential figures and secure their support (especially for PNI, Masjumi)\(^{15}\). The cooperation and support of such figures was routinely secured with economic incentives. In Java, among such benefits were tax exemption and *de facto* suspension of land reforms for landowners, whereas in outer provinces the traditional ruling class where given top civil service positions as well as a free hand to pursue informal economic activities\(^{16}\). While in the early years of Indonesian independence this quid pro quo system was applied to locally influential traditional elites, in the late 1950s and during the 1960s the elite(s) gave way to the military and police.

\(^{15}\) PNI (Indonesian National Party) and Masjumi (Consultative Council of Indonesian Muslims) were the two largest parties in Indonesia in the early 1950s.

\(^{16}\) For details on how such politics of cooptation functioned in the provinces of East Kalimantan and the district of Berau, see Chapters 2 and 3.
It eventually became clear, however, that Sukarno’s nationalist policy of popular mobilization and participation in Indonesia, financed largely by illegal economic sectors could not be sustained indefinitely. The huge mobilization of competing popular movements required resources that, already scarce at the outset, experienced rapid deterioration. While in the outer islands the progressive disintegration of the functioning and services of the official governance could to some extent, have been remedied by liquidating locally available natural resources, this was not possible in Java. There, “hyperinflation exacerbated domestic antagonisms to the point of explosion” and initiated rural violence that played a major part in, as well as immediately after, the abortive *coup d’ état* of September 1965 (Anderson 1983:486).

General Suharto, who took over after Sukarno’s forced retreat in 1966, recognized that the greatest mistake his predecessor had made was trying to govern the country based on the system of patronage, without sound macro-economic fundamentals in the country. In contrast to Sukarno, Suharto “always took a long-term view, in which sustained growth was essential to the flow of rents and, consequently, to his hold on power” (McLeod 2000:22). Suharto knew that in order to be in control, “[t]he apparatus had to be provided with a stable hierarchy of emoluments, and at a sufficient level to command a unified subordination and loyalty” (Anderson 1983:488). Thus, the New Order government embarked on the path of perfecting the system of governance based on patronage financed with extra-legal revenues.
The changes were slow in coming, however, as Suharto, seeking in the late 1960s to consolidate his political position first, was compelled (in a fashion similar to Sukarno’s) to give the military and civil bureaucracies in the regions an essentially free hand to pursue business enterprises of any kind. This brought “barter trade” back to the forefront, as “[r]egional authorities were [again] active in obtaining the necessary funds often by-passing Djakarta. For some outer islands smuggling of export goods to Singapore, Malaysia or the Philippines provide[d] the answer to financial problems, or to the question of how to be financially better off” (RIMA 1969b:58). The Indonesian government estimated that, in 1969, nearly 70 percent of all smuggling activity between Sumatra and Singapore was carried out in coordination with, or directly by, local military units (RIMA 1969b:37; Simkin 1970; Richter 1970).

Just as the military and bureaucracies controlled by it keenly engaged in local “barter trade” during this early formative period of the New Order, Suharto moved to implement reform-mandated cut-backs in the military budget “to less than 40% of its basic operational needs” (RIMA 1968a:30) and simultaneously to authorize the expansion of the civil service (already numbering 2.5 million people) by nearly one-third (RIMA 1969c:71). These seemingly contradictory moves had two objectives: 1) to emphasize Suharto’s goodwill in aiding bureaucratic (informal) subsistence strategies in times of crisis17 and 2) to prepare the ground for a

17 A study carried out in 1969-1970 on rising corruption in the daerah gives a clear indication as to why it was absolutely necessary for government/military officials to be involved in extra-official income-generating activities. Theodore
political offensive to ensure monoparty loyalty and thus strengthen the president’s position politically. The latter was accomplished when, in the preamble to the 1971 elections, Suharto issued the Presidential Regulation *(Keputusan Presiden)* no. 6/1970 that “denied [civil servants] the right to engage in political activity and [...] required [them] to show ‘monoloyalty’ to the government” (Emmerson 1978:106-107). The newly-expanded bureaucratic cadres, penetrated by the military and enjoying a free hand in economic affairs, performed splendidly in generating the desired “monoloyalty”. Suharto’s Golkar party won a resounding electoral victory in 1971, establishing a trend that would continue well into the 1990s under the guidance of *Korpri* “a union for all civil servants [established after the 1971 elections] to enforce ‘monoloyalty’ organizationally” (Anderson 1983:492).

Following the successful establishment of monoparty loyalty, and with dynamic economic expansion in the country firmly in place, Suharto felt secure enough to begin reining-in the free-wheeling barter economies in outer regions in order to steer a greater share of benefits to himself and to his main support groups. As the forestry sector fueled by foreign investment boomed in the early 1970s, he turned to structure it into one of most important instruments of a sustainable system of economic and political patronage. This was accomplished by 1) eliminating small-scale *banjir kap* logging (anchoring one of the most important “barter trade” activities) in

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Smith (1971:29) shows that the majority of district and sub-district officials at that time needed wage increases in the order of 300 percent or more before they would consider giving up “extra-governmental jobs”
favor of capital-intensive, large logging concessions and 2) structuring forestry regulations in such a way as that concessionaries could capture nearly all profits from timber (Koehler 1972:108; Achmad 1992; Broad 1995:325; Firman 1999:112). The major beneficiaries of such rent “were top military leaders granted concessions and the Indonesian Chinese loggers brought in to provide the expertise and operational capability in partnerships with these officers18 (Ascher 1998:52). In exchange for being undercharged “for the concessions and royalties, [...] those loggers in return have applied part of their profits to the development projects that the president has signaled as his priorities” (Ascher 1998:38).

Such moves toward centralizing the system of timber rents and patronage did not mean, however, that the medium-and low-level players, until then entirely dependent on banjir kap and related illegal timber trade for income, were “out of the game”. On the contrary, as president’s personal rule strengthened, there were clear provisions in place for the participation of all bureaucratic levels in illegal economic sectors. The lower civil service classes were free to pursue entrepreneurial activities of any kind as long as they displayed political loyalty, cumulatively did not undermine macro-economic conditions in the country and shared proceeds from illegal business by providing “payments”19 (McLeod 2000:18).

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18 Brown (1999:1) defines rents as returns on the investment higher than 25 percent.
19 In this context, Ross McLeod (2000:19) very appropriately observes, “the endemic corruption at all levels of bureaucracy should not be interpreted as an unintended shortcoming of Soeharto’s Indonesia. Rather, it reflected a conscious
Thus the scene was set for the continuation of “illegal economies”, at all levels, with which to fuel the governance in Indonesia based on such more sophisticated framework of patronage relationships.

Throughout the 1980s and much of 1990s, the power-holders in Jakarta benefited enormously not only from intensification of the concession logging (HPH) sector but also from vast expansion of timber processing industries such as plywood and pulp and paper (Barr 1998, 1999, 2001; Brown 2001). All the while, lower bureaucratic layers operated on their own, generating unofficial personal and institutional sustenance in return for political discipline and loyalty to Golkar-dominated cabinets. This framework worked well until 1998, when it suddenly became a cause for concern to foreign investors and financiers in Indonesia stung by the catastrophic economic collapse in Thailand a year earlier. Excessive concentration of power over economy by a handful of leading individuals from within the president’s inner circle made foreign investors extremely wary, triggering capital flight and subsequent economic collapse in Indonesia.

In the aftermath of the fall of Suharto in 1998, Indonesia has engaged in a process of significant political changes toward democratization, decentralization and regional autonomy (Smith 1999; Kohar 2001). However, it remains to be seen just how far this transformation will be able to affect the historical system of effort to generate and harvest rents from business (and, to a lesser extent, from individuals) at all levels”.

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governance based on patronage and clientelism deriving from illegal economic activities (*Kompas* 1999c).

Thus, in an attempt to explain the phenomenon of illegal logging in East Kalimantan, this thesis proposes to view it as an outcome of local governance that has been historically based on patronage and clientelism comprised of networks of clientelist coalitions oriented mostly toward fulfilling localized economic subsistence and political needs. Whether during the colonial period of indirect rule, Sukarno’s Old Order, Suharto’s New Order and the post-1998 era of *Reformasi*, decentralization and autonomy, the dual role of illegal logging as a means of supplementing income necessitated by recurring economic crises and as an expedient tool to win loyalty and generate political support, has been remarkably constant

1.5 Thesis structure

To explain how these functions of illegal logging developed in East Kalimantan over time, this thesis is divided into the following chapters:

Chapters 2 and 3 provide an analysis on the provincial level, explaining how illegal logging emerged historically in East Kalimantan as a constellation of multi-stakeholder interests within the context of indirect rule during the colonial period and subsequent independent national governance. At the same time, the chapters elucidate how the illegal logging sector in East

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20 For the nearly identical role of “illegal economies” in Myanmar, see Kyaw Yin Hlaing (2000).
Kalimantan developed its economic and political utility within the context of local governance.

Chapter 4 travels down the administrative ladder to zoom in on the district level. It describes the historical process of the emergence and development of multi-stakeholder economic and political significance of illegal logging in one of the districts in East Kalimantan, namely Berau.

Chapter 5 presents the most detailed examination, a micro-perspective on illegal logging and timber trade in Berau by delving into interpersonal relationships, interactions and transactions making up the illegal timber sector. It seeks to present a tangible image of everyday behavior of the players involved in the informal timber sector and of their political and economic purposes.

Chapter 6 brings the analysis back to the province level in order to determine why, despite democratization and implementation of regional autonomy after the fall of Suharto in 1998, illegal logging intensified and expanded. Despite a post-New-Order setting, it is clear illegal logging in East Kalimantan continues to be the means with which to secure specific political and economic returns. The only new element is that post-1998 constellation of stakeholders seeking to benefit from illegal timber has become the most extensive and complex yet.

Chapter 7 concludes with a cumulative summary of the discussion in the chapters of this thesis and provides a conclusion that
emphasizes the historically crucial link between governance in East Kalimantan based on clientelist networks and illegal logging as an economically and politically important means of their operationalization.