Logging in East Kalimantan, Indonesia. The Historical Expedience of Illegality
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Citation for published version (APA):

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Download date: 13 Dec 2018
CHAPTER 3

THE CHANGING ECONOMIC AND POLITICAL ROLE OF TIMBER IN EAST KALIMANTAN IN THE POST-WAR PERIOD

This chapter continues the discussion of the development of illegal practices in the forestry sector in the area of present day East Kalimantan after 1945. It begins with the period of re-entry by the Dutch government (NICA, Netherlands Indies Civil Administration) between 1945 and 1949 and explains the destruction wrought by the war on East Kalimantan economy and its ensuing economic crisis some which spawned speculation and the smuggling of various products, including timber.

Thereafter, I turn to the effects of the politics of nation and party building in East Kalimantan in the early years of Indonesian independence. The focus here is on the main strategy pursued by leading political parties to expand and exercise their influence, in other words, cooptation of the former ruling classes. Within the context of a deteriorating national economy, illegal timber exploitation and trade became an important source of off-budget financing for these political objectives.

Perhaps the best example of such economically and politically expedient use of timber comes from the period of banjir kap, or flood logging boom between 1967 and 1971. Banjir kap was an important means of generating income during the economic crisis
of the late 1960s and prepare the stage for Indonesia’s economic take-off in the 1970s. It was also an important reward in the system of patronage politics that General Suharto set out to refurbish and master through the Golkar party.

In the closing section, I describe the changing operational dynamics of the illegal timber economy in East Kalimantan in the midst of the consolidation of the forestry sector, which happened between the 1970s and 1990s. This process of industrial consolidation allowed the New Order power-holders to solidify their political positions and to accumulate enormous wealth. However, small-scale timber operations maintained their importance as a subsidy to expanding timber-processing industries.

3.1 The Dutch re-entry: economic crisis in East Borneo and the proliferation of smuggling

The war years of 1942-1945 had a debilitating effect on the economy of Southeast Borneo, laying foundation for an economic collapse that would grip the region for many years. The economic crisis that resulted from the Japanese occupation stimulated smuggling of all kinds of products, including timber, for subsistence purposes.

Economic problems in East Borneo (that is what the present-day area of East Kalimantan was called between 1945 and 1949) stemmed primarily from extensive damage in the final stages of the war. Nearly all mining and forestry enterprises that operated before
the Japanese occupation were idle cut the time of the Japanese surrender in 1945. The Balikpapan oil refinery and oil pipelines required intensive repairs, making the goal of meeting the pre-war production levels of 1,000,000 m$^3$ of oil annually a possibility only in the remote future (Economisch Weekblad voor Indonesie 1946:220). Similarly, oil installations in Tarakan were seriously damaged, and as only one third of pumping stations were usable, an initial production of only 18,000 m$^3$ of oil per month was possible (as compared to 120,000 m$^3$ under normal circumstances). The situation in the coal mining sector faced great difficulties as well. Berau coal mines were inoperable as a result of flooding and multiple bombing campaigns (see chapter 4). The OBM mines in Kutai fared better, and were able to achieve an output of 30,000 tons a month, beginning in January 1946. However, labor problems and transportation difficulties were major obstacles.

In addition to industrial damage, the transport infrastructure in Eastern Borneo was under severe strain. Transportation difficulties resulted from the fact that most of KPM liners that had plied the routes along the coast of Eastern Borneo before the war were withdrawn during the war years and removed to North Africa and Australia (Le Coultre 1946:61-62). Only a handful fell into the hands of the Japanese, and these were either destroyed or damaged beyond repair. The vessels taken to North Africa were used in combat and most of them were not usable after the war either. Only the ships stationed in Australia were ready for immediate use, but their number was limited. The resultant transportation crunch
affected the entire Indonesian archipelago and took years to sort out.

The first year following the war in East Borneo was marked by very slow recovery in the main industrial sectors, by transportation difficulties, rice shortages and increasing food prices. Even though the oil output in Tarakan increased from 15,000 tons per month in 1946 to well over 20,000 in 1947, nevertheless the combined production of Tarakan and Balikpapan in that year amounted to no more than 11 percent of the pre-war output (Economisch Weekblad voor Indonesië 1947:721). The coal production in Kutai rose to 120,000 tons in 1947, but it was still less than half the amount that was produced before the war.

Just as oil and coal mining in East Borneo were in the process of a painstakingly slow recovery, industrial timber exploitation was experiencing its own problems. The dominant Japanese firms that had produced most of timber for export before and during the war obviously did not resume operations, for obvious reasons. The only significant timber exploitation activities were associated with the reconstruction of the mining industry and the re-opening of the Nunukan Timber Company in Bulungan, which had revived the joint-venture agreement between Dutch companies led by KPM and a local sultan\(^59\). In 1946, the timber industry in East Borneo was not near as productive as before 1942. Nunukan and Tarakan together produced just over 5,000 m\(^3\) of mostly logs; Samarinda

\(^{59}\) From 1942 to 1945, the Nunukan Timber Company operated under Japanese management (Perusahaan Kehutanan Negara Indonesia 1963:3).
contributed 7,000 m$^3$ (all sawn timber), while Balikpapan and Banjarmasin added 2,000 m$^3$ (De Meel 1947:272). This was a small percentage of the nearly 400,000 m$^3$ produced in late 1930s$^{60}$. In 1947, timber output from Nunukan increased to about 20,000 m$^3$, but it was the production of lone undertaking that could not possibly fill in the void created by the absence of other comparable enterprises$^{61}$.

However, such low official timber production reported in various areas of East Borneo has to be understood in the context of the economic crisis. Timber production was indisputably far lower before the war, but at the same time, it was higher than what was officially reported. The unofficially higher production was primarily related to speculation and to smuggling conducted by the local population, who relied on these means to stave off economic hardship (Economisch Weekblad voor Indonesië 1948:86). Most speculation was on consumer goods, because these were in particularly short supply in East Borneo. In 1947, rice shortages and food hoarding and the associated price speculation was reported to be worst in Samarinda, Berau and Bulungan. As a means to alleviate decreasing incomes and the lack of basic consumer goods, people in these areas engaged in clandestine trading of various items. In addition to timber, the products most

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$^{60}$ In 1940, logging concessions in East Borneo (Nunukan, Berau, Sangkulirang and Balikpapan) produced 274,000 m$^3$ of timber.

$^{61}$ The pre-war manager of the Nunukan Timber Company, Eric Lundqvist, returned to Indonesia in 1946 but never came back to East Borneo. Instead, he was assigned the task of developing logging operations in West (Netherlands) New Guinea. See Lundqvist (1956).
often illicitly traded were copra, rubber and dried fish. From Kutai, shipments of such goods were sent by *prahus* (native merchant boats) to Makassar, Pare-pare and Donggala in Sulawesi (De Meel 1947:272). It is interesting to note that, although the total timber output in 1949 was still considerably below the pre-war levels, the volume of inter-island shipments was thought to be equal to or higher than that of late 1930s (Powell 1951). In addition to trade with nearby Celebes (Sulawesi), unreported timber shipments also went to more distant destinations, such as Surabaya in Java.

Seeing that in conditions of economic crisis not much could be done to eliminate such illegalities, the Dutch administration NICA created a venue for the local people to carry on with trade activities in a more organized fashion. They decided to re-legalize small-scale logging by the local population (*bevolkingskap*) and re-instate the *opkoop* schemes by timber traders, as it was thought that reinstating these would aid economic recovery in the region (*Dienst van het Boswezen* 1949:24). The effect was immediate, like in the Barito region of South Borneo, where, for instance, in 1948 small-scale loggers extracted around 90,000 m$^3$ of timber (*Dienst van het Boswezen* 1949:24). A year earlier in East Borneo, around 89,000 m$^3$ of timber was produced in a similar manner$^{62}$ (*Economisch Weekblad voor Indonesië* 1948:86). A considerable portion of this output ended up in Java through clandestine channels.

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$^{62}$ This was in addition to nearly 33,000 m$^3$ of sawn timber and almost 5 million ironwood shingles, or *siraps*. About 10,000 *siraps* is equal to 20 m$^3$ of timber.
During the time of NICA in East Borneo, between 1945 and 1949, the Chinese came to play an increasingly important role in trade in general and in the marketing of timber in particular. While before the war *hajis*, Chinese *peranakans* and a handful of successful recent Chinese migrants acted as the linchpins of timber trade networks, which were composed of scores of lesser intermediaries, in the late 1940s and early 1950s *hajis* (due to their often close ties to *keraton* bureaucracies) were occupied with the changing political circumstances, thus opening more of the business space for *tauokes*. By then, most Chinese traders in East Borneo were either locally-born or long-settled immigrants. However, the local press was less interested than ever in making any distinctions among them. In increasingly stern nationalistic fashion, they were referred to as *pedagang bangsa asing Tionghoa* (foreign Chinese traders), who dominated the economy and the lives of *prihumi* people (Bakeri 1955:21; Djodjopratanas 1955:9). One of the most important timber-trading firms in the region before the war, the Borneo Produce Company, resumed operations after 1945 but with a largely Chinese staff. The Ban Cwan Gwan was another larger forest product trading firm operating in East Borneo after the war, with a particularly strong presence in Bulungan (Bakeri 1955:21). Samarinda boasted a number of resurgent forest product trading companies, such as the Borneo-Sumatra Company (*Borsumij*) and Chinese firms like NV Liong Kheng, NV Kim Bie Hin, Heng Seng Kongsie (Nur *et al.* 1986:35) In addition to these companies, there was a considerable number of smaller forest product enterprises, described by the press as *perusahaan nasional* (national enterprises, owned by an Indonesian national or *bumiputra*)
operating. However, these were largely confined to the role that small Chinese businesses played before the war that of a middleman. Such front nasional companies were politically useful for Chinese traders within the context of increasingly nationalistic sentiment in the early years of Indonesia’s independence.

3.2 The emergence of timber as an economically and politically significant commodity in East Kalimantan between 1949 and 1967

The years of federalism in Indonesia (introduced by the Dutch between 1945 and 1949) and the ensuing process of transition towards a unitary state had important implications for the establishment and functioning of the national Indonesian government in East Kalimantan. The early years of nation building were decisive in tying political and economic governance in the province to off-book financing from illegal economies, of which one of the most important was timber-based. A combination of several factors generated such an outcome. The main ones among them were 1) a quid pro quo strategy by central government figures whereby informal revenues were offered as a reward to former ruling (and still influential) classes in East Kalimantan to enter the ranks of national government and to generate political support for emergent political parties and 2) increasing deterioration of the national economy in Indonesia.
3.2.1 Allying the ruling elites in East Kalimantan with emergent political parties

In 1947, the Netherlands East Indies administration created the East Borneo Federation of self-governing sultanates (hereafter EBF) consisting of Kutai, Bulungan, Gunung Tabur and Sambaliung and Pasir. In East Borneo, these states were known as swapraja regions. Sultans, placed at the top of government hierarchy in such swapraja states, hesitantly chose to side with the Dutch because the republican movement in their respective areas was poorly organized. Pro-republican political organizations were few and their membership was limited. Among the more significant were P3KRI (Panitia Persiapan Penyambutan Kemerdekaan Republik Indonesia, Preparatory Panel for the Announcement of Indonesia’s Independence), PKR (Penjaga Keamanan Rakyat, Guard for the People’s Safety) – both based in Samarinda – and GRK (Gerakan Rakyat Kutai, Movement of the Kutai People) in Tenggarong. There was only one paramilitary organization in East Borneo that actually engaged in armed resistance to NICA, the BPRI (Barisan Pembrontak Rakyat Indonesia, Revolutionary Movement of the Indonesian People). However after the 1947 ambush of a KNIL convoy, the BPRI leadership in the area was hunted down and exiled (Nur et al. 1986:28-29). Subsequently, no effective anti-NICA underground movement existed in East Borneo. The EBF was to have (inasmuch as possible) a democratic structure, embodied in the East Borneo Assembly chaired by the sultan of Kutai, Aji Muhammad Parisikit (Dachlan 1975; Soetoen 1975). Below the East Borneo Assembly, at the district level, each of the
aforementioned *swapraja* regions were to elect their own assemblies.

Following the withdrawal of the Dutch in 1949, East Bornco officially became part of a united Indonesia on April 10, 1950. With the inclusion of East Kalimantan in the state of Indonesia, EBF as well as its subordinate *swapraja* assemblies were abolished (Soetoe 1981). However, the *swapraja* structure itself was retained. Immediately after East Kalimantan became a part of Indonesia, the province was administratively reorganized into three *swapraja* territories: Berau, Bulungan and Kutai. As a result of government regulation (*Peraturan Pemerintah*) no. 39 1950, these three new administrative units were instructed to form temporary assemblies (DPRD-S, or *Dewan Perwakilan Rakyat Daerah Sementara*) as a preparatory step to national governance. However, a gridlock between *swapraja* and strengthening republican forces in the province caused repeated delays in the formation of such assemblies.

It was clear, however, that *swapraja* regions in East Kalimantan led by sultans and associated aristocrats would not be simply abolished, at least not at short notice. The ruling elites, feeling “discredited by Dutch-sponsored federal states [...]”, anxious to

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63 With the exception of Gunung Tabur and Sambaliung. Since these were relatively small sultanates, they jointly formed one representative assembly for Berau (Dachlan 1975:274).

64 In Kutai, for instance, the growing anti-*swapraja* sentiment was expressed by the rallying call “moh DPRD, selama swapraja Kutai masih ada”, or reject DPRD, as long as *swapraja* Kutai exists.
rehabilitate themselves and find political security” (Rocamora 1970:146), were eager to join forces with anti-federal political parties such as PNI and Masjumi as early as 1951-1952. Initially, they were not particularly welcome. However, this changed as the prospect of the 1955 elections neared. The leadership of PNI (Partai Nasional Indonesia, Indonesian National Party) in particular “became increasingly aware that success in the elections would depend on their capacity to amass funds and to expend party membership in short order” (Rocamora 1970:146). Because of the limitations of party infrastructure and the inability of the party to penetrate the village level, “the party felt compelled to take a shortcut by enlisting the support of government officials […] and other local notables who were believed to command votes on the basis of personal ties” (Rocamora 1970:147). This was the crucial factor behind PNI politicians in Jakarta beginning to actively engage aristocratic elites into the ranks of regional bureaucracies. It was also the main reason for PNI becoming “a patronage machine” in the 1950s (Rocamora 1970:180).

Such an engagement became the main political point for the PNI in the region, as its highest public officials in East Kalimantan were instructed to press for cooperation of anti-swapraja forces with the sultans. By 1950, the resident of East Kalimantan, Roeslan Moeljoharjo, who took over in late 1949 from A.R. Afloes, a member of the royal court in Kutai, began pressing all parties not to predicate the existence of DRPD-S upon the dissolution of

65 Other Indonesian parties sough to employ similar recruiting and campaigning strategies, but PNI was by far the most successful.
swapraja regions, because they would not be abolished overnight and pressure to do so would only prevent dialogue from taking place and democratic institutions from taking root ("merugikan perkembangan demokrasi di daerah ini sendiri")

(Dachlan 1975:275). In 1954, Roeslan Moeljoharjo vacated the seat of the resident, which was subsequently taken over by APT Pranoto, a younger brother of the Sultan of Kutai (Tim Kaltim 1999:13). However, bringing influential individuals into the party ranks and winning votes required a considerable amount of financing, which PNI did not possess. The hopes for the necessary financial boost were to a considerable degree pinned on grand development projects planned for Kalimantan in the early 1950s, few of which saw the implementation stage (FEER 1953, 1954). As a result, PNI chose to resort to off-book financing and illegal economies for most of the financial resources it needed. Among the PNI’s most common strategies used to generate “campaign funds [was to impose] informal levies on businessmen to whom its [PNI] ministers awarded licenses, import facilities and government loans”

(Rocamora 1970:146). In East Kalimantan, facilitating unofficial exploitation of forests and minerals for trade was of particular importance.

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66 In contrast to Kutai, swaprajas Bulungan and Berau managed to form their own assemblies because of somewhat weaker republican sentiment.
67 Rocamora (1970) explains that extensive reliance by PNI on informal sources of party financing in the early 1950s is reflected in the budget of party headquarters. “For the whole year of 1953, it was Rp. 540,937.70, while for the first ten months of 1954, it was already Rp. 1,842,079.77”. In 1956, following the successful showing of PNI in the elections of the previous year, the party leadership, faced with protests over such informal financing, admitted that greater accountability measures was necessary.
East Kalimantan's professional forestry services being was nearly non-existent at that time was conducive to such objectives. The Department of Forestry of East Kalimantan (*Dinas Kehutanan Kalimantan Timur*) did not resume functioning until 1957. During that time, forest policy in the province was limited to irregular surveys by foresters from Bogor and the ministry in Jakarta. The exploitation system relied on the continuation of regulations from the Dutch period that allowed for timber extraction either by means of large concessions (*concessies*) or smaller logging plots (*kappercelen*). However, given the political uncertainty in East Kalimantan at that time, there was no interest in large logging concessions. Small logging plots, with maximum area of 10,000 ha each, were considered the only good venue for the exploitation of forests for timber. Reflecting such a reality but at the same time trying to prevent too drastic fragmentation of logging plots in the early 1950s the resident of East Kalimantan set the minimum logging plot size at 1,000 ha. In addition, as a means to stimulate interest in forestry, permits for small concessions were to be issued locally, by *swapraja* officials.

The *swapraja* bureaucracy and political parties courting it were all eager to tap into timber revenues. However, the partners they needed most to make it happen. Chinese entrepreneurs, were in an increasingly problematic political situation. The rising anti-Chinese sentiment in the area, and in Indonesia as a whole. This sentiment was already well established before the war, when most *taukses* had to operate in association with *bumiputra* partners, whether local *haji* notables with connections to sultanate courts or small-scale
subcontractors. However, after the war, and particularly following the withdrawal of the Dutch in 1949, anti-Chinese attitudes intensified due to rising nationalism in a country that saw a strong link between the commercial success of the Chinese and the colonial domination of Indonesia by the Netherlands. As a result, for *taukes*, partnerships with members of local *swapraja* bureaucracy attained higher urgency than ever. Cooperation of this kind entered into the most critical period in the early 1960s when, as a result of *benteng* (or Indonesianization) business policy in Indonesia, ethnic Chinese entrepreneurs in East Kalimantan were barred from direct trade in the interior68 (Mackie 1976; Sellato 2001:93).

As long as such cooperation could be worked out, the Chinese would conduct the *kapersil* logging business by subcontracting the work to “front” *bumiputra* firms. In Bulungan, for instance, among such *bumiputra* enterprises active in the trade of forest products were the Agung firm, Abuhalin, N.V. Perdas, C.V. Abadi, N.V. Kaltim, Peksi, C.V. Satria, Djuara and Sinar (Bakeri 1955). As a rule, a Chinese timber entrepreneur “[did] not manage the operation himself but [dealt] on a contract basis for a fixed price per m$^3$ of the logs delivered at a certain point. Under the contract conditions, also, an amount of food [had] to be supplied in advance of the operation [...] to be [later] deducted from the value of the delivered product” (Anwar 1958:607-608).

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68 The National Regulation (*Peraturan Pemerintah*) No. 10 of 1962 required that all “foreigners” (i.e. Chinese) remain in urban centers under military control.
Thus, local *swapraja* figures in East Kalimantan became of double importance and usefulness to PNI. First, they were crucial in winning to generating the popular vote. Second, they also controlled the means that, if properly utilized, could provide substantial financial contributions to the campaign. They did so by providing protection and licenses for Chinese entrepreneurs, who operated indirectly through partnerships with their *bumiputra* counterparts, in return for a share of the proceeds. This pattern of interdependencies and interactions illustrated in Figure 3, was typical not only of the timber trade but also trade in other products in rural areas.

**Figure 3. Logging and timber trade in East Kalimantan in the 1950s.**

While most of the timber produced through such a system was destined for domestic markets in Java and Sulawesi, it is likely that
some of it was also beginning to be shipped clandestinely to the port of Tawau in North Borneo. *Taukes* in North Borneo East Kalimantan shared the same cultural heritage and place of origin in southern China (FEER 1952). They both had multifaceted business activities were. Chinese firms in North Borneo pursued timber operations in conjunction with investments in fisheries, plantations, shipping, etc. (Lee 1976). Similarly, in East Kalimantan, Chinese merchants were involved in wide-ranging activities that included shopkeeping and trading, in addition to *kuda-kuda* logging. The multi-directional orientation of their business provided a perfect framework for moving various products (likely including timber) across the border within the framework of barter trade. Barter trade at the place where the borders between East Kalimantan, North Borneo and Philippines met was already very lively before the war. After the war, it intensified further as hundreds of native vessels, known in North Borneo as *kumpit* boats, crossed the borders back and forth, bringing raw materials into North Borneo and “smuggling manufactured articles back home” (Lee 1976:5). The British colonial government condoned this informal trade, a policy that was continued by the state government of Sabah (North Borneo was renamed Sabah after the departure of the British in 1963) (Vu 1997). Both governments were involved in this trade because it was profitable, due to tax collection on imported items. Equally important was that fact that North Borneo Chinese businessmen, who were politically increasingly well organized and therefore influential, provided most of the financing for barter trade and therefore they stood to lose most from any barter trade restrictions.
The growth of barter trade in the 1950s coincided with a tremendous expansion of the international markets for tropical timber, such as *Meranti* and *Keruing* particularly in Japan⁶⁹ (Lee 1976:23). It is interesting to note that timber production in Indonesia in that period increased substantially, especially the proportion of the so-called “wild timber” (tropical hardwoods). In 1951, total timber production was approximately 1.25 million m³, which increased to nearly 1.7 million a year later (EKI 1954:373). In 1953, the total timber production in Indonesia rose further to 3.4 million m³ and it remained the same in 1954. In 1955, the production edged up again to 3.5 million m³ (Anwar 1958:602). An important fact in connection with these statistics is that roughly two-thirds of that timber consisted of non-teak species from Kalimantan and Sumatra, because the teak forests of Java had been so severely over-cut during Japanese occupation that their subsequent productivity was very limited⁷⁰ (Roeder 1973b).

⁶⁹ Edwin Lee (1976:23) notes that at that time “[t]he overseas market expended beyond all expectations and prices remained at a high level”. Between 1956 and 1959, both the volume and value of timber exported from North Borneo doubled. Between 1959 and 1961, the volume and value of exported timber nearly doubled again, reaching the respective levels of nearly 1.8 million cubic meters and US $100 million. Japan was by far the largest importer, taking in about 70 percent of the entire export. Japan’s absorption of timber from North Borneo was caused by its gradual withdrawal from the Philippines in the late 1950s as a result of increasingly restrictive log export policies and diminishing forest reserves in that country. For year-by-year figures of timber exports from North Borneo in the 1950s, see Appendix 2.

⁷⁰ The production of the *panglong* areas in Eastern Sumatra was estimated to be about 400,000 m³ annually, most of which was exported to Singapore. Following Indonesia’s independence, a large portion of the former *panglong* business in Sumatra continued unofficially, as Singapore’s demand for timber for reconstruction purposes and export skyrocketed. Similar to the barter trade
Finally, and perhaps most importantly, it was estimated that at least 50 percent of overall production went unreported, as forestry planners of that time regularly made provisions for such “unofficial production” (Anwar 1958:606).

3.2.2 Economic decline in East Kalimantan in the late 1950s and increasing importance of illegal timber trade

Following the elections of 1955, in which PNI and Masjumi fared best in East Kalimantan\textsuperscript{71}, stalled governance in the area began gaining new momentum with the implementation of the Government Regulation No. 14 of 1956, which stipulated anew the formation of consultative assemblies in residencies and special regions (daerah istimewa), which corresponded to the former sultanates. In 1957, East Kalimantan became one of three provinces (Tingkat I) covering the Indonesian part of the island of Borneo. In addition to East Kalimantan, South Kalimantan (Selatan) and West Kalimantan (Barat) were formed. APT Pranoto, from the royal family of Kutai, who until then served as the resident of East Kalimantan, was given the post of governor of the newly formed province (Tim Kaltim 1999:13). In the following year, DPRD Kutai was constituted based on the 1958 local elections with that

\footnote{situation between East Kalimantan and North Borneo/Sabah, in Sumatra key financiers were taukes based in Singapore (Soepardi-Wardi 1956:148).}

\footnote{PNI received 43,067 Parliamentary votes and 50,940 constituent assembly votes, whereas Masjumi obtained 44,347 and 38,610, respectively (Feith 1957:70). The conservative Islamic party NU (Nahdatul Ulama) was in the third place. Overall, Masjumi secured 25.7 percent of total votes in East Kalimantan to 25 percent by PNI (Roeder 1973b:78).}
cemented the dominant position of PNI\textsuperscript{72}. Subsequently, Regulation No. 27 of 1959 transformed the remaining \textit{istimewa} of East Kalimantan into districts (\textit{kabupaten}), or second-tier regions (\textit{Daerah Tingkat II}). In 1960, basic elements of functioning government in East Kalimantan were finally being put into place.

However, there were difficult times ahead. They came primarily as a result of the Indonesian government’s policy to create an independent class of \textit{bumiputra} (Glassburner 1962). This policy, called \textit{benteng}, aimed to facilitate the participation of Indonesians in import-export business through credit facilities made available to them and established by BNI (\textit{Bank Negara Indonesia}) (Donnithorne 1954:36). The establishment of Indonesian trading firms of all sizes was an illusory success, however, as their management was oriented towards short-term consumption rather than long-term business objectives, and it resulted in a class of enterprises that were economically parasitic (Van der Kroef 1959:62). Huge debts accumulated by these enterprises led to defaults and bankruptcies that required government bailouts. Despite clearly being an economic failure, the \textit{benteng} policy lingered throughout the years of Sukarno period and continued to drain shrinking resources not only directly, but also indirectly through its political stronghold, National Business Coordinating Body (BAKUNA), which had great influence on national policies.

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\textsuperscript{72} In 1958, DPRD Kutai consisted of 30 seats with the following composition: PNI 8, Masjumi 6, NU 4, PSI 4, PKI 3, PIR-Hazairin 2, PSII 1, Purba 1 and Persatuan Daya 1 (Dachlan 1975:278).
concerning development planning, foreign investment and taxation (Van der Kroef 1959:64).

The worsening political and economic climate of the late 1950s claimed its first casualties in East Kalimantan in the coal mining sector. Due to rising anti-Dutch sentiment and a push for the nationalization of foreign enterprises, the OBM coal mining firm near Samarinda withdrew, handing over its operations to a national benteng company P.N. Tambang Batu Bara Mahakam\(^{73}\). For similar purposes, the SMP company in Berau closed down as well. In the midst of this gradual, yet steady, decline, timber extraction and trade became increasingly vital, not only politically, but also economically, for civil servants, traders and many other people. It is because demand for tropical timber (particularly in Japan) began to grow quickly, causing a strong increase in prices. While exploitation of tropical hardwoods in Indonesia intensified too at that time, the territory of North Borneo near East Kalimantan experienced a veritable timber boom (Lee 1976:23). An indication of how quickly timber-and forestry-related activities gained in significance is the fact that between 1951 and 1960, the number of officially registered Indonesian nationals (from East Kalimantan

\(^{73}\) P.N. Tambang Batu Bara Mahakam struggled mightily after the takeover of OBM. In 1963, in a bid to stem losses, this government-controlled company handed over exploitation activities to three contractors: CV Fadjar Timur, Usaha Nasional Penggalian Batu Bara Negara di Loah Ulung, and PT Bangan (Monografi 1969:57-58). As in forestry, the Chinese were involved in these “national” coal mining companies unobtrusively. The involvement of the Chinese in coal mining in Kutai, through bumiputras, has a long history see Jongbloed (1939). However, despite these measures, the Mahakam coal mines went bankrupt and suspended operations indefinitely in 1971 (Monografi 1972:97).
and Sulawesi) in North Borneo increased by 300 percent (Kaur 1994:47). Considering the fact that unregistered number of Indonesians working in North Borneo was and, to this day, continues to be far higher than what official records indicate, it is clear that the movement of people and goods across the border was intensive.

The cross-border work and trade continued to intensify following the nationalization of the Dutch BPM oil company in 1957 and the imposition of national emergency measures in 1958. With most government funds being committed to the fight against separatist movements in Sumatra and Sulawesi, and later to the liberation of West Irian (Netherlands New Guinea), informal revenues from oil and timber in East Kalimantan were absolutely necessary. During this time, the military emerged as the main party in, and sponsor of, such trade. They were the main beneficiary of the state of emergency in Indonesia in 1958, primarily as a result of the introduction of the concept of dwifungsi (dual function) into the military doctrine which provided justification for involvement of

74 Official North Borneo statistics of imports from Indonesia are telling in this regard. These data, mainly about the import of oil from East Kalimantan, indicate that from 1958 to 1959 such trade increased nearly 300 percent (from 4.8 percent to 13.3 percent) rendering Indonesia the second most important source of imports after the United Kingdom (North Borneo Annual Review 1959:52). In 1960, Indonesia maintained its impressive second place ahead of USA, Japan, Hong Kong and other industrialized countries, accounting for 13.2 percent of all North Borneo imports (North Borneo Annual Review 1960:50). In 1961 and 1962, the Indonesian share of imports decreased somewhat to 10.6 percent and 9.7 percent, respectively, placing Indonesia in a strong fourth place behind the UK, Hong Kong and the USA (North Borneo Annual Review 1962:58). Throughout, however, the official position of the Indonesian government was that economic relations with the British colony should be minimal.
security forces in all aspects of social, political and economic life. Throughout Indonesia, specially appointed regional military commanders (PEPERDA, *Penguasa Perang Daerah*) had supreme authority over all aspects of life (Soetoen 1975:203; Nur et al. 1986:42). Therefore, under the guidance of the military in the late 1950s and particularly early 1960s, East Kalimantan underwent a swift transition away from *swapraja* leadership towards more radical and nationalist direction. The bureaucratic ranks, which expanded steadily under *swapraja* leadership in years, continued to grow as various semi-military and resistance groups (*pemuda*) from the 1945-49 period staked out their claims and followed their ambitions. In short, major posts at all administrative levels in the province were either directly taken over by the military or given to people associated with it.

As a result of the transition to more nationalistic leadership, the military took over the role of *swapraja* rulers in providing patronage and protection for *taukes* and associated *bumiputra* enterprises, in exchange for a share of profits, leaving the dynamics of the system essentially unchanged (see Figure 4). The licenses for *kapersil* thus became a major asset in the hands of local, predominantly military, officials. This was also because the East Kalimantan Forestry Office (*Dinas Kehutanan Kalimantan Timur*) was dissolved in 1958 and in its place a government company

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75 The transition was a pronounced turn to the political Left. However, in East Kalimantan this Left was represented largely by elements from within the PNI. The latent influence of *swapraja* conservatism prevented the Indonesian Communist Party (PKI) from making any serious inroads in East Kalimantan. For more details on this transitional period, see Magenda (1991).
Perhutani (subordinate to provincial PEPERDA) was given the exclusive control of all production forests in the region (Monografi Kaltim 1969; Monografi Kaltim 1970). Specify, the value of small concessions as an economic and political asset continued to rise (Nadjamuddin 1960; Sarjono 1961; Trihadi 1964). The value of small concessions received a defining boost in the early 1960s from the cooperative agreement between Indonesia and Japan, which led to the formation of the Kalimantan Forestry Development Corporation (KFDC).

**Figure 4. Logging and timber trade in East Kalimantan between the late 1950s and early 1970s.**

As already mentioned, in the mid-1950s, tropical log importers in Japan began moving away from the Philippines because of increasing trade and resource limitations (FEER 1959). As an alternative, they began to import logs aggressively from North
Borneo. In 1959, however, they decided to explore a still more abundant source of timber in Indonesia’s East Kalimantan (Feer 1959). Following surveys and negotiations, in 1963 a group of 28 companies, including pre-war veterans of logging in the region such as Mitsubishi and Mitsui, decided to form a KFDC (*Kalimantan Forestry Development Corporation*) joint venture with the Indonesian government forestry firm Perhutani on a production-sharing basis in order to get large-scale exploitation of timber in East Kalimantan underway (Takita 1963). The focus of operations was to be in the northern part of the province near Nunukan, Tarakan, Berau and Sangkulirang where most of the US $ 2 million initial investment credit was to be utilized (FEER 1965).

From the outset the operation involved the intensive participation of local timber operators who had previously (first with *swapraja* and then military blessing) carried out logging on *kapersil* concessions. Despite the fact that mechanized logging was to be the main means of extracting timber, there were extensive provisions in place for the use of manual *kuda-kuda* logging methods in less accessible (swampy) areas (e.g. FDC/Ataka-Perhutani 1969). However, soon the joint venture showed signs of deficiencies that would persist throughout its lifetime in other words, cost overruns and official production output far below expectations. By 1970, five operational units in East Kalimantan produced 130,000 m$^3$ of timber annually each, for a total of 800,000 m$^3$, merely half of what was planned (De Pater and Visser 1979:24).
While in the eyes of Japanese shareholders and managers KFDC was essentially a failure, for local timber businessmen in East Kalimantan this undertaking proved to be a boon. Small-scale timber operators not only found it profitable to work their kudakuda teams for KFDC, but thanks to the joint venture’s infrastructure and logistics, they found it easy and more profitable to ship timber across the border to Tawau in North Borneo/Sabah.

The Japanese offer to pay their Indonesian partners international market prices for the timber their teams produced, but in reality these prices were substantially lower because of Indonesia’s credit obligations. The result was that a sizable portion of production was steadily diverted and sold in Tawau (Malaysia), Java and elsewhere. This cross-border smuggling was facilitated further by the fact that despite political and military tensions between Indonesia and the forming state of Malaysia (konfrontasi), there were no restrictions placed on cross-border barter trade “by the Sabah Government […] in spite of the breaking-off of diplomatic ties with the Philippines and Indonesia in the latter half of 1963” (North Borneo Annual Report 1963:45-46). Thus KFDC suffered from chronic production deficit throughout. Despite projections that it would generate US$ 52 million in profits for Indonesia between 1960-1968, it made in losses of more than US$ 10 million (Pauker 1961:123; Manning 1971:36).

This situation eventually reached a point at which increasing numbers of small-scale loggers did not even bother to obtain official permits for their logging plots anymore. As a result,
province authorities in East Kalimantan issued Regulation No. 9 of 1963 requiring that all parties external to Perhutani to acquire *kapersils* and to confine their activities to licensed areas (Monografi Kaltim 1968:16). In 1964, the East Kalimantan Forestry Office (*Dinas Kehutanan Kalimantan Timur*) was revived, and one of the most urgent issues on its agenda was elimination of what was described as *penebangan liar*, or illegal logging (Monografi Kaltim 1968:11; Monografi Kaltim 1970:65).

### 3.3 *Banjir kap* boom and the intensification of the illegal timber trade

The regulation of small-scale logging in the mid-1960s in East Kalimantan, however, remained very much confined to the realm of theory, as in practice illegal exploitation and trade of timber became so deeply engrained that it virtually became an economic and political lifeline for an array of institutions and people in the province and districts.

A new chapter on economic and political utility of *kapersil*-based logging began in 1965 with the downfall of Sukarno’s Guided Democracy in Indonesia and the ascendance in 1966 of the New Order government led by General Suharto. The process of intensification of small-scale logging accompanied the elimination of the political Left by the military in all provincial institutions.

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76 This process was initiated as early as April 1965 with the removal of pro-left-wing PNI and PKI Colonel Soeharjo from the post of PEPERDA in the province (Tim Kaltim 1999:16). He was succeeded by the much more conservative right-
Although the influence of the Indonesian Communist Party (PKI) in East Kalimantan was limited and the total number of people arrested and imprisoned as a result of the 1965 coup was relatively small, nevertheless the process was sufficient to clear the way for the military domination of government institutions at all levels. With the army fully in charge, the officers were free to generate off-book revenues from timber and other commodities in order to lighten the burden on the central government budget and to reward its allies. During his very first tour of South Kalimantan in 1967, Suharto was asked about the burgeoning timber exploitation, dubious trade practices and associated corruption in the region (Semam and Rosasi 1968). He acknowledged problems, but defended those involved in the timber business by explaining that transgressions occurred because of crisis conditions in the country (Semam and Rosasi 1968: 47). Once the situation improved, exploitation would be more regulated and stable.

For the time being, however, reviving the moribund economy and furthering the consolidation of political power in the regions were Suharto’s most immediate objectives. The government addressed these goals with the following two-pronged approach: 1) wing military officer Soemitro, who immediately sought to dislodge Soeharjo supporters from the ranks of bureaucracy and the military.

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77 By the end of 1968, 235 people were arrested in Samarinda and charged with association with either PKI, Gerwani (Gerakan Wanita Indonesia, Indonesian Women’s Movement) or both (RIMA 1968a:33). At the same time, in West Kalimantan 13 officers of the Tanjungpura Military Command in Pontianak were arrested, including to an assistant police commissioner and two police brigadiers (RIMA 1969a:105). In other Kalimantan provinces arrests were more numerous. Between 1965 and 1969, nearly 3,000 suspected communist sympathizers were detained in Central Kalimantan(RIMA 1968a:33). In South Kalimantan, strong pro-PKI sentiment was believed to be present in the South Barito District (RIMA 1968a:33, 1968b:31).
formulation of the 1967 Basic Forestry Law (BFL) that gave central government far-reaching authority over the all forests in Indonesia, estimated at 140 million ha and 2) promulgation of liberal investment laws, both domestic (PMDN, or *Penanaman Modal Dalam Negeri*) as well as foreign (PMA, or *Penanaman Modal Asing*). In a repetition of PNI strategy from the early 1950s, this framework enabled Suharto and his commanders in the province to use logging licenses as a tool to generate local political support and gain financial contributions.

The results of the government’s approach were quick in coming. Immediately after the implementation of the 1967 investment laws, the total area of small logging plots (*kapersil*) increased to almost 600,000 ha, out of which 447,000 ha were located in Kutai, 107,000 ha in Balikpapan/Pasir and 30,000 ha in Berau/Bulungan\(^78\) (Monografi Kaltim 1968:16). Concurrently, Sebatik and Nunukan islands on the border between East Kalimantan and Sabah (Malaysia) became notorious for timber smuggling activities (Monografi Kaltim 1968:9-10; Monografi Kaltim 1969:10-11).

In the same year, the first large logging concessions (HPH, or *Hak Pengusahaan Hutan*) were granted to domestic companies. The composition of this very first group of concessionaries in East Kalimantan was as follows:

\(^{78}\) See Appendix 3 for the list of *kapersil* concessions active in East Kalimantan in 1967.
Table 3. HPH concessions in East Kalimantan in 1967

<table>
<thead>
<tr>
<th>Company</th>
<th>Area (000 ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PN Perhutani Unit I-VIII</td>
<td>507</td>
</tr>
<tr>
<td>PT Porodisa Trading &amp; Industrial Coy Ltd.</td>
<td>440</td>
</tr>
<tr>
<td>PT Budidjawangi (Komando Korps Karya Angkatan Darat)</td>
<td>14</td>
</tr>
<tr>
<td>CV Dhatikembang</td>
<td>200</td>
</tr>
<tr>
<td>PT Pilot Projek Berdikari</td>
<td>180</td>
</tr>
<tr>
<td>PT Komando Operasi Karya Angkatan Darat</td>
<td>100</td>
</tr>
<tr>
<td>PT Kayu Indonesia</td>
<td>70</td>
</tr>
<tr>
<td>PT Firma Kaltimex</td>
<td>60</td>
</tr>
<tr>
<td>PT Komando Korps Karya Angkatan Laut</td>
<td>60</td>
</tr>
<tr>
<td>PT Indomark</td>
<td>150</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,781</strong></td>
</tr>
</tbody>
</table>

**Source:** Monografi Daerah Propinsi Kalimantan Timur 1968, pp. 15-16.

The table shows that, from the outset, the military were involved in the large-scale logging business. This trend continued in the early 1968 with the entrance of PT Yamaker, also controlled by the armed forces, as the major operator of logging concessions along the borders with Malaysia (Monografi 1969:43). In 1969, military participation in logging activities in East Kalimantan increased further as a result of 1) formation of the enterprise of the police (Badan Usaha Angkatan Kepolisian), which was given 100,000 ha of forest concessions and 2) the opening of the Regional Command’s enterprise (Puskopad Kodam IX/Mulawarman) which obtained 40,000 ha (Monografi Kaltim 1970:74).
Kapersil-based logging and early concession operations shared an important trait that is, they were being conducted by tauke. In the case of small-scale concessions, the system of bumiputra frontmen, in the place the 1950s and early 1960s, continued unchanged (see Figure 4). Even though after 1965 the restrictions on Chinese enterprises were abolished, an unspoken rule required that in order to conduct business safely and efficiently, they still had to align themselves with patron figures who could provide bureaucratic access and effective protection. Even to those taukes in Samarinda, Berau and Tarakan who had embraced Islam (masuk Islam) had to look for the protection of patrons. Within this setting, the military patrons would obtain licenses and provide security while taukes would use the licenses to work kuda-kuda logging teams, mostly through bumiputra partners, and sell timber to foreign buyers awaiting deliveries in coastal cities. This system was also initially applied to the first large concessions, because early HPH concessionaries had neither capital nor the necessary knowledge for undertaking large-scale logging (Tedjokusumo 1971). While seeking out taukes with connections with appropriate foreign partners, the concessionaries used kuda-kuda system as a temporary manner of production79.

79 In some cases, military commanders used their own troops as lumberjacks in order to produce timber. In a 10,000 ha kapersil controlled by the Regional Military Command (Kodam X/Lam) near Banjarmasin in South Kalimantan, each soldier was required to fell 20 trees of diameter greater than 60 cm. Logs produced in such a manner were floated downstream to sawmills in Banjarmasin (Seman and Rosasi 1968:57).
In these conditions, military-sponsored timber firms thrived. In the northern part of East Kalimantan, a constellation of such enterprises established itself and cooperated very closely with each other. At the extreme northern edge, strategically located on the Sebatik island near Malaysia, was the concession of PT Budidjajawangi. Directed by Captain Agus Soemarlono, this concession became known in timber trade circles as the “Sebatik Project” (Perhutani-PanNusantara 1968:1-2). In 1971, the company changed its name and became PT Sebatik Abadi (Monografi Kaltim 1972:206). To the west, along the border of Sabah, PT Yamaker had its concession covering 200,000 ha. Wedged between the two was a joint venture of 100,000 ha between Perhutani and a Philippine sponsored company, PT PanNusantara. The three companies worked very closely together, exchanging staff, carrying out joint surveys and coordinating logistics. PT Yamaker was given its concession as part of cooperation with Perhutani, and it hoped that this kind of arrangement would help it to find the capital necessary for large-scale exploitation. By that time, Perhutani, in addition to its long-standing association with the Japanese through KFDC, had also developed business contacts with South Korean and Malaysian firms in this part of East Kalimantan, and was thus in the perfect position to serve as an intermediary (Perhutani-Kaeng Nam 1969; Perhutani-Sabah Timber 1969).

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80 It is worth noting that forest cover on the island at that time was already severely degraded by former logging activities and by intensifying agriculture. This suggests that the company’s role was more that of a trade facilitator rather than of an independent timber producer.

81 PT PanNusantara and PT Budidjajawangi were both involved with Perhutani in joint logging projects in the Sekatak River area, northern Bulungan.
In 1968, the number of small-scale logging lots increased to a total of 256, covering nearly 800,000 ha\(^2\) (Monografi Kaltim 1969:41). Unregulated timber trafficking either within the barter system or through direct barge shipments intensified continuously, attracting more public attention in the province and drawing timid admonitions from forestry officials (Monografi Kaltim1969: 68; Soepardi 1972). In 1969, the *kapersil* area increased further to more than 1.2 million ha. At the same, the number of both foreign and domestic companies already possessing, or in the process of applying for, HPH concessions increased to 27 for a total of 5.5 million ha (ibid: 68-75).

However, small logging lots continued to be the preferred operational framework, as they offered much safer and relatively inexpensive means of extracting valuable *Meranti* dan *Keruing* hardwoods for expanding tropical timber markets in Japan, Korea and Taiwan\(^3\). The dispersed nature of *kapersil* concessions further enhanced their attractiveness. This was the period of the *banjir kap* boom, as the 1967-71 rapid expansion of small-scale logging in East Kalimantan came to be known (Manning 1971; Slamet 1971; Peluso 1983a). The growth of timber exploitation and export from East Kalimantan during this time was so intense that the shipping

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(Monografi Kaltim 1971:83). Kaeng Nam and Sabah Timber looked for opportunities to work with Perhutani in the Malinau area. All these areas were close to the aforementioned military concessions.

\(^2\) See Appendix 4.

\(^3\) For the first time *Banjir kap* made an extensive use of chainsaws, although logs were pulled out of the forest manually.
sector (dominated entirely by the Japanese) struggled to keep up (Djajapertjunda 1971). Increasingly, however, the most hindersome factor to working effectively through such small-scale logging operations was the unpredictability of production due to dependence on weather and water conditions and to problems with timber standardization and quality (Ruzicka 1979b).

With stabilization of economic conditions and the political situation in Indonesia, which were evident by 1970, Japanese timber buyers became increasingly inclined to invest more extensively in larger and technically more sophisticated forestry operations. They had grown increasingly frustrated with erratic banjir kap deliveries of often substandard quality timber. This caused the growth of the number of kapersils in East Kalimantan to plateau in late 1969, whereafter their numbers gradually declined. HPH concessions, on the other hand, increasesteadily particularly after the implementation of the Provincial Regulation No. 114 of 1971 that banned banjir kap in favor of mechanized logging. This regulation was nearly identical to the Houtaankap-reglement of 1934 that barred opkoop, as both legislations were to counter inefficiency, wastefulness and the uncontrollability of manual logging, while favoring the benefits of industrial intensification. The main difference between the two legislations was that, while in 1934, the limited market for tropical hardwoods helped keep the informal timber trade under control, by 1971 economic and political status of timber was dramatically different, for it emerged as an important

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84 Export of timber from East Kalimantan increased eighteen-fold from 0.6 million m$^3$ in 1967 to 11 million m$^3$ in 1971 (Barr 1998:92).
means to generate profits for subsistence and enrichment, and as a valuable tool with which to exercise political control.

The political and economic utility of banjir kap is well illustrated by the important role it played in bringing Suharto’s Golkar party to prominence in East Kalimantan in the elections of 1971 (Jakarta Post 2002). Once loyalty and control in the region were established and banjir kap ceased to be useful as an economic reward, the time was ripe to steer the flow of timber wealth in the direction of the president and his entourage. Thus, the consolidation of forest policy began in the early 1970s.

The 1971 ban on banjir kap had definitely pushed small-scale logging out to the fringes. The regulation caused havoc in district economies and necessitated a long period of adjustment, as migrant labor (mostly Buginese) until then employed in banjir kap logging had to be redirected and absorbed in other sectors. It was a painful and chaotic process that lasted well into the second half of the 1970s. However, it would be mistaken to assume that large-scale HPH industry in East Kalimantan put an effective end to small-scale logging operations that had already functioned for decades. One strategy that small-sale sector adopted in the face of the ban was to consolidate and seek mergers. In the late 1971, for instance, in addition to large multinational HPH concessionaries, there were still dozens of small local companies whose holdings ranged from 40,000 ha to a mere 1000 ha, well below the minimum HPH requirement of 50,000 ha (Monografi Kaltim 1972:80-84). It is clear that they were allowed time to adjust, as the ban on banjir kap
was meant to take effect gradually allowing smaller timber operators to find a niche within the new environment\textsuperscript{85}. Just how long this consolidation process would last depended on connections between companies and forestry officials responsible for HPH licenses. In 1976, for instance, small companies of \textit{banjir kap} nature still operated in the district of Berau (Tim Monografi Daerah Berau 1976:12).

The other strategy was to hold out on the forestry sector’s margins. The small-scale logging and timber trade could not be undone overnight because over the years, these activities came to constitute the basis for economic and political life for the scores of government officials and institutions throughout the province. As such, although on limited scale, small-scale logging in East Kalimantan continued to persist (Lauriat and Sacerdoti 1977:65; Sacerdoti 1979a:64). It just would not go away. In the 1980s it began a comeback as a result of rapid expansion of timber processing industries in Indonesia.

3.4 Transformation of small-scale logging into a supplier of downstream timber industries in East Kalimantan in the 1980s

After the era of \textit{banjir kap}, East Kalimantan entered another period of timber rush in the early 1970s but this time it was through large HPH concessions (Raharjo 1972; Miraza 1973; Roeder 1973a, \ldots\)

\textsuperscript{85} Such a transitional period also allowed for the continued collection of official taxes from \textit{kppersil} operators throughout 1971 and even after (Monografi 1972:119).

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In 1973, international prices for tropical hardwood species of *meranti* peaked at unprecedented US $75 per m³ and, as a result, there was much investment in the region’s timber\(^{86}\) (Dixon 1974; Daroesman 1979; Ruzicka 1979a; Peluso 1983a). Approximately 25 percent of Indonesia’s production forests were on East Kalimantan at that time, but during the 1970s the region produced approximately half of all exported timber. The export figures for this period are indeed high. “Some 15 million ha of concessions, virtually the entire area of East Kalimantan’s productive forests, were granted in the period 1967-76, the great majority of them during 1970-73” (Daroesman 1979:47). The volume of timber exports increased dramatically from 300,000 m³ in 1968, when the first mechanized operations began, to nearly 10 million m³ in the peak year of 1979, and it was estimated that 1979 exports generated over US $1 billion in government income. Employment opportunities grew as well. If, in 1972, the large-scale timber industry in East Kalimantan employed 12,000 people, out of which 5,000 were foreigners, by 1977, the total number doubled to 24,000 but the number of foreign workers was reduced by half (Daroesman: 50).

This spectacular growth of HPHs occurred for two reasons. First, profits from logging were extremely high. This is illustrated by the fact that in 1972, “the gross profit of the big concessionaries [was] estimated to be in the range of 30 to 40 percent and in some cases even considerably more” (Koehler 1972:108). This profitability

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\(^{86}\) In 1967, at the beginning of *banjir kap*, a cubic meter of *meranti* timber sold for US $25 (Seman and Rosasi 1968:47).
was made possible by the very liberal regulation of logging industry, whereby companies enjoyed very low taxation, which allowed them to capture most of the value of the resource. Some estimates suggest that during this period, the Indonesian government officially captured no more than 20 percent of the actual value of timber that had been extracted, or even less (Ruzicka 1979b). In short, the timber boom generated a great amount of wealth for those who were in a position to participate in it (Kosakoy 1978; Ramli and Ahmad 1993).

Another factor fueling the aforementioned logging concession boom was the very limited and largely token supervision of the forestry sector by the Indonesian government. Hypothetically, there were numerous regulations that concessionaries were required to follow, including the preparation of one an half and twenty year management plans, and the selective feeling and replanting of trees. In addition, the companies were not allowed to subcontract their work and were expected to process locally up to 40 percent of their log output by the seventh year of operation (Daroesman 1979:48). By 1980, there were hardly any HPH companies trying to comply with these rules. On the one hand, the inability to enforce these regulations was caused by the discrepancy between the small size of the Forestry Service (Kanwil, or Kantor Wilayah) in East Kalimantan and the very large area of forest that this institution was responsible for. For instance, in 1977 the Forestry Service in the province had “800 employees, of whom 300 were administrative and 500 technical although only about half of these were available for fieldwork” (Daroesman 1979:48). On the other
hand, however, even though the Forestry Service had adequate manpower and resources, their decision-making ability was extremely limited. This was because the effective power relating to forest policy rested with important military and bureaucratic leaders in Jakarta and in the regions that were connected to President Suharto (Sacerdoti 1979a, 1979b; Jenkins 1980; Saman et al. 1993).

The powerful position of the military in forestry came as a result of its access to HPH licenses. These were made available as a reward for the 1971 Golkar elections success and as a compensation for the closure of banjir kap, and a means to further solidify security and stability in the country. Their direct association with rich foreign partners (from Japan, Philippines and USA), led to the exclusion of local taukes who, until then, had played the most important role in facilitating and running logging operations. It was the time for military “silent partners” to embark “a ride of the lifetime” because only by virtue of supplying concession permits to multinational corporations were they able to secure considerable shareholding rights, from which they enjoyed extremely high rates of return (Samego 1998).

As timber exports of high quality mechanically extracted logs from East Kalimantan skyrocketed in 1972 and 1973, small-scale operators came under increasing pressure to reorganize and consolidate, or disappear. However, they were never entirely eliminated and continued to survive despite the growth and privileges of large HPH concessionaries. They were aided in this
by the crisis of 1974 and 1975, when the rise of oil prices throughout the world and subsequent economic recession in major timber consuming countries pushed timber prices back to the 1967 level of US $25 per cubic meter, putting nearly half of large concessionaries in East Kalimantan temporarily out of business (Goldstone 1974c, 1974d).

While the collapse of timber prices was a major event in the development of large-scale forestry sector in East Kalimantan, some observers considered its impact to be overstated (e.g. Cogin 1975:42). They indicated that silencing of bulldozers was no so much due to the fact that there was no money to be made from timber, but only because profits were not as extravagant as before 1974. In contrast to HPH concessions, small-scale logging operators were much more willing to accept smaller profit margins.

Following the recovery of the timber market in 1975, prices quickly rebounded and production returned to the previous high level (Awanojara 1976; Jenkins 1976; McDonald 1976). However, in the second half of the 1970s, Suharto’s government (with increasingly visible participation of his key confidant on timber issues, Muhamad “Bob” Hassan) became increasingly impatient with continuing domination of raw log exports and the lack of any

87 As similar situation occurred in 2001, when log prices in East Kalimantan bottomed at US $25-30 per cubic meter. While the HPH sector experienced a significant slowdown, small-scale logging remained vibrant. For more on this, see chapter 6.
meaningful development of timber processing\(^{88}\) (Lauriat and Sacerdoti 1977; Bohlander 1978). Even though such ventures did share profits with important Indonesian policy and decision-makers, political and economic consolidation in Indonesia was sufficiently advanced to allow Suharto and his entourage to take full charge of timber wealth (Sacerdoti 1979c).

They took the first step in 1978 by increasing the tax on log export by 10-20 percent and by simultaneously reducing the export tax on processed and partially processed wood by 5 percent (Zach 1978). Then, they launched a sustained push for the implementation of the Presidential Decree No. 20 of 1975, which stipulated that 51 percent of equity in HPH joint ventures should be transferred to Indonesian partners after 10 years of operation (Sacerdoti 1979b). Despite resistance and foot-dragging among foreign concessionaries, by early the 1980s, “The Indonesianization” of the HPH sector was essentially accomplished.

A surprising characteristic of such new “national” HPH companies was that important managerial positions were put in the hands of ethnic Chinese businessmen. The reason for this was that Indonesian Chinese were supposed to know more about running a business than the military or bureaucrats, and they were much easier to control (Crouch 1975; Mackie 1976b; FEER 1980; Robinson 1986; Suryadinata 1993; Schwartz 1994; Samego 1998;)

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\(^{88}\) The emergence of Bob Hasan as one of the main timber tycoons in Indonesia in the late 1970s and 1980s occurred largely as a result of his close enterprunural cooperation with Suharto since the 1950s (Barr 1998).
McCulloch 2000). In other words, the idea was to make use of Chinese economic expertise and at the same time exercise control over them easily because of their politically weak position in the country. This strategy worked very well indeed, as examples of insubordination occurred very rarely. Such odd cases were dealt with swiftly, which is well illustrated by the Sinar Emas affair in East Kalimantan in the early 1980s. The Sinar Emas group was led Mr. Yos Sutomo, an ethnic Chinese businessman who, by 1980, had established himself as one of most important players in HPH business in the province. However, without warning, in the early 1980s, he was jailed after an inquiry into alleged tax offenses and mismanagement of forest concessions. The real reason for his detention appears to have been insufficient distribution of profits to Jakarta-based officials and local military (Magenda 1991; Barr 1999). Following his release after two years behind bars, Mr. Sutomo quickly corrected his mistakes by transferring a share of 25 percent of his operations to the military.

The next consolidating step was the imposition of a log export ban in 1983, which was used as a means to tie the extractive HPH sector with plans for the timber processing industry (Awanohara 1982). This process of consolidation led to the emergence of timber conglomerates in Indonesia, such as the Kalimanis Group, Barito Pacific Group, Kayu Lapis Indonesia, Djadjanti, and Alas Kusuma. All of them eventually came to possess large plywood plants and hold millions of hectares of forest concessions.
The consolidation plan seemed a spectacular success, as Indonesian HPH-plywood producers’ performance exceeded all expectations. Between early 1980s and beginning of the 1990s, plywood exports from Indonesia experienced a seven-fold increase from 1.25 million cubic meters in 1982 to 8.96 million m³ in 1991 (Barr 1999:193). However, this tremendous growth was not the result of corporate competitiveness or efficiency. Rather, various forms of subsidy were the main responsible elements. With the log export ban in effect, domestic timber royalties and reforestation fees continued to be extremely low. This is clearly illustrated by the fact that “[a]t the beginning of the 1990s, the […] fees imposed by the government on the companies exploiting the forests were only US $ 16 per m³ of wood, while the State of Sabah in Malaysia charged US $ 100 per m³” (Firman 1999:112). This kind of subsidization was a great incentive for the expansion of the plywood sector, but it had effect on the improvement of their performance.

In reality, HPH-plywood synergies were often problematic, as many functioning and aspiring plywood producers could not or would not generate a sufficient volume of timber from their concessions, resorting to third party supplies (Brown 1999; Barr 1999; Dauvergne 1994). “Local suppliers”, many of which were small-scale logging operators, would come to take on this role. Such suppliers became a welcome addition to mainstay HPH timber, primarily because they operated at a much lower cost. In the late 1980s, analyses of such informal extraction of timber estimated that in addition to HPH-based operations, “at a minimum, 2 million m³ of wood [were also] being taken out of
protected forests, conversion forests and reserve areas each year” (Schwartz 1990). The “supplier option” was one of the subsidies that would encourage most the further expansion of the Indonesian plywood industry (Bisnis Indonesia 1999b, 2000a).

However, the suppliers did not merely deliver logs to the mills. In East Kalimantan, clandestine export of timber to Sabah, Malaysia, as part of of long-standing barter trade, continued uninterrupted. In 1987, official reports indicate that about 150 boats plied the Nunukan-Tawau border area between Indonesia and Malaysia daily – all without proper documentation (Kanwil Dirjen Perhubungan Laut 1987). While barter trade had been the mainstay of tauke enterprises for decades, it enabled three taukes in the northern town of Tarakan (Tomi, Dedy and Jerry) to emerge from obscurity and eventually dominate the timber component of such trade. They came from tauke families that had some experience in timber trade in the 1950s and 1960s, but in more recent times focused on shopkeeping and the trade in consumer goods. In the mid-1980s, these taukes made an attempt to expand their business by individually establishing small construction and supplier firms that delivered various goods, including heavy machinery imported from Malaysia, to HPH concessionaries in Bulungan and Samarinda. It was just a matter of time before experience from import trade and connections with the border personnel enabled these taukes to move vigorously into timber trade.

An indication of the magnitude of such timber smuggling came in January of 1997 when a Tawau based company, Syarikat Raspad
Sdn Bhd, was caught ferrying over 3,000 undocumented logs from East Kalimantan (Bangkuai 1997). It soon became known that the impounded logs constituted only one-seventh of the total amount that had been already shipped to Shinko Kaiun Co. Ltd. firm in Japan (Bingkasan 1997; *New Straits Times* 1997a, b).

### 3.5 Summary

After the Japanese surrender in 1945, and subsequent resumption of the Dutch administration through NICA, the economy in East Borneo was in a poor state, causing the formation of a black market and the smuggling of various products, including timber, for subsistence needs. Aware of the plight of the people in Borneo who were experiencing only a slow economic recovery, the Dutch officials re-legalized small-scale logging through *opkoop* which had been officially outlawed since 1934, hoping that it would ease the poverty of East Borneans and stimulate the trade.

After the withdrawal of the Dutch in 1949 and the incorporation thereafter of East Kalimantan into the state of Indonesia, the political objectives of nation-building and party-building came to the forefront. With the economy deteriorating, attaining these political objectives and at the same time surviving economically required an off-budget income, which, to a considerable degree, was generated from timber. The *swapraja* officials and large national parties such as PNI derived most benefit from such unofficial financing. From the late 1950s until the early 1970s, the military replaced *swapraja* functionaries as the main beneficiary of
timber exploitation and trade. Military officers gained access to the forestry sector as a reward for ensuring national loyalty and security in East Kalimantan, but also as a means to ease the burden of paying wages of the essentially bankrupt official state.

Between the early 1970s and the beginning of the 1980s, the emphasis shifted away from the small-scale timber sector as a system for generating economic rewards for political loyalty and turned towards a maximization of profits through HPH joint ventures that paired the military and multinational corporations. However, this transformation never really eliminated banjir kap, operations as they continued to be active on the fringes of large concessions and excelled at surviving in times of economic downturn of mid-1970s.

Beginning in the early 1980s, further consolidation of timber industries under the guidance of conglomerates managed by Chinese had important implications for the small-scale illegal timber sector in East Kalimantan and, in fact, caused their revival. Consolidation created conditions in which the illegal timber sector became an important “industrial subsidy” as an unofficial supplier of logs to the mills. Moreover, consolidating timber industries was also a valuable tool for socio-political stabilization. After all, the size of the civil service in East Kalimantan continued to increase, although at slower pace that in the 1970s and early 1980s.