TIMBER BOOMS and INSTITUTIONAL BREAKDOWN in SOUTHEAST ASIA

MICHAEL L. ROSS

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This book explores three puzzles: Why did the Indonesian, Malaysian, and Philippine governments disastrously mismanage their forests? Why have the governments of many developing states done the same? And why do states generally squander their natural resources?

In this study, Michael L. Ross draws on the new institutional economics, the theory of rent-seeking, and examples from Southeast Asia, to show how the volatility of international markets can damage the institutions of developing states – and lead to the plunder of natural resources.

Michael L. Ross is Assistant Professor of Political Science at the University of Michigan, Ann Arbor.

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MICHAEL L. ROSS
University of Michigan, Ann Arbor

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For Sophie

"The economies of frontier countries are storm centers to the modern international economy."

Harold Innis (1956: 382)

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Preface

This book grew out of my dissertation, which in turn reflected my concern about tropical deforestation in Southeast Asia. In 1994 I visited the region's leading timber-exporting states – the Philippines, Indonesia, and Malaysia – to learn more about their forests and forestry policies. Unlike some observers, I believed that these governments were wise to authorize logging on at least a limited scale, and to convert a portion of their forests into agricultural land. The United States had done much the same thing in an earlier era, using its abundant forests to spur development; why should not developing states today make a similar choice?

I was initially impressed by the forest policies of these three states – or, rather, four states, since in Malaysia forest policies are made at the state level, and most of Malaysia's timber came from the autonomous states of Sabah and Sarawak on the island of Borneo. I was also struck by the dedication of many of their foresters. Yet I gradually realized that the policies of their forestry departments were systematically ignored by politicians, particularly when it came to distributing timber concessions. As a result, these governments had at times authorized logging at rates far above the sustained-yield level, even in forests that were ostensibly set aside for "sustainable" forestry. The story began to make sense only after I uncovered documents – including previously confidential reports from the archives of the U.N. Food and Agriculture Organization (FAO) in Rome – that showed evidence of fierce internal struggles in these states between forestry officials, who sought to protect the institutions and policies of sustained-yield logging, and the politicians who sought to dismantle them. Almost invariably, the politicians won.

My dissertation chronicled the policy failures of the four governments, and drew on the new institutional economics and the theory of patron-client relations to help explain them. My advisors and colleagues seemed satisfied with my work, and urged me to publish my dissertation and get on with future projects. Yet I was dissatisfied with my analysis and was reluctant to part with it. My argument was narrowly tailored to my four cases, and said little that was new or enlightening to scholars who worked on more general topics, such as the sources of institutional change, or the problems of natural resource exporters. I also lacked a good explanation for some of the most puzzling aspects of the four cases, including why their policy failures varied over time and from case to case.

I consequently began to study other types of commodity booms in other states, to see if the policy failures that beset Southeast Asia's timber exporters fit into a larger category of phenomena. Most prior studies of commodity booms were produced by economists, who were preoccupied with an intriguing puzzle: While standard economic theories suggested that commodity booms should have a positive (or at least, neutral) effect on a country's economic development, often their impact was harmful. Sometimes this harm was caused by a condition known as the Dutch Disease; yet many studies found that policy failures were at fault. A major study of Dutch Disease states by economists Neary and van Wijnbergen (1986: 10–11), for example, concluded,

> In so far as one general conclusion can be drawn [from our collection of empirical studies] it is that a country's economic performance following a resource boom depends to a considerable extent on the policies followed by its government. . . . [E]ven small countries have considerable influence over their own economic performance.

The policy failures described by these studies were – at least to my political scientist's eye – strikingly similar across regions, commodities, and regime types. Moreover, they suggested a beguiling paradox: Why should the good fortune of a commodity windfall lead to bad policy-making? This book draws on the theory of rent seeking to offer a general explanation for this paradox, and uses the cases of Southeast Asia's timber exporters to illustrate my argument.

In preparing this book I incurred an absurdly large number of debts. Most of them date back to 1993–6, when I first studied the politics of forestry in Southeast Asia and wrote my dissertation. I was immeasurably aided by my three dissertation advisors: Atul Kohli, John Waterbury, and George Downs. Now that I have the privilege of advising graduate students myself, I do my best to replicate the wisdom, patience, candor, and good humor of my own advisors.

Preparation for my initial field work was supported by an International Predissertation Fellowship from the Social Science Research Council, which was made possible by a grant from the Ford Foundation. The field work itself was supported by a fellowship from the Institute for the Study of World Politics, and my final year of dissertation writing was underwritten by a Woodrow Wilson Fellowship. The Center of International Studies at Princeton University provided me with additional support during the 1995–6 academic year, thanks to a grant from the MacArthur Foundation. A 1993 trip to the FAO archives in Rome – which proved to be critical for my research – was made possible by an International Environmental Institutions Fellowship provided by Harvard's Center for International Affairs, which received funding from the Rockefeller Brothers Foundation. Finally, at Princeton I was fortunate to be supported and housed by the Center for Energy and Environmental Studies, which was beneficently directed by Robert Socolow.

As one with no prior experience in Southeast Asia, and no prior knowledge of forestry, I was exceptionally dependent on the assistance of others during my field work. In Rome, Franca Monti dependably guided me through the FAO's archives. At the Universiti Malaya, I was fortunate to be sponsored by Dr. Mohamad Abu Bakar and Dr. Norazit Selat. I am especially indebted to Dr. Jomo Kwame Sundaram for his help and companionship, and to Clive Marsh for his assistance while in Sabah. In Indonesia I was graciously housed and assisted by the Center for International Forestry Research in Bogor; I am grateful to Neil Byron and Jeff Sayers for making this possible. My research was repeatedly aided by Dr. Rizal Ramli, Colin MacAndrews, and Jim Douglas, and my stay was enriched by my friendship with William Sunderlin, by the extraordinary hospitality of the extended Soedjatmoko family, and by the warmth and companionship of Bama Athreya, Robert Lang, and their cat Gregor. In the Philippines I was lucky to receive the help and hospitality of Marites Vitug, whose extensive research on Philippine logging politics made my own efforts possible. Chip Barber of the World Resources Institute also went out of his way to help me in both Washington, D.C., and the Philippines, and I owe him a special debt of gratitude.

I received insightful comments on my dissertation from many friends, advisors and colleagues; they included Tom Banchoff, Katrina Burgess, Lisa Curran, Alastair Fraser, Robert Keohane, Suzi Kerr, David Kummer, Miriam Lowi, Kate McNamara, Richard Robison, James Scott, Jeff Vincent, and John Walker. Pieces of the book manuscript were read by

Pradeep Chhibber, Robert Franzese, Michael Leigh, William Liddle, Ann Lin, Robert Pahre, and Nancy Peluso, all of whom offered helpful advice. My Michigan colleagues John Campbell and Jennifer Widner were both kind enough to read the full manuscript and both gave me thoughtful suggestions. Susan Go cheerfully guided me through the University of Michigan's vast Southeast Asia collection, and tracked down obscure but critical materials from other collections around the world. Uwe Deichmann and Polly Means kindly offered their help with the map and graphs, respectively. Four anonymous reviewers (two for Cambridge, two for another press) gave me extensive feedback, which led to important clarifications in the manuscript. One reviewer in particular – who I wish I could thank by name – drew on his encyclopedic knowledge of the region to save me from more than a few missteps, particularly in the chapter on Indonesia.

Several people deserve special mention. William Ascher has been a marvelous source of advice during all stages of the research and writing process, and made many suggestions that shaped the final manuscript. Chris Barr was kind enough to share early drafts of his Master's thesis with me, and to review my own work on Indonesia; his scholarship has greatly influenced mine. David Fairman helped me understand many subtle aspects of both natural resource use and the new institutional economics; through our lengthy discussions of Philippine forestry politics, we also became close friends. Finally, Alex Holzman skillfully threaded my manuscript through Cambridge University Press's approval process; Alissa Morris patiently fielded my impatient queries; and Laura Lawrie deftly edited the manuscript and prepared it for publication.

Some of the people and institutions I have thanked may disagree with all or parts of this book. I alone am responsible for its contents, including all remaining errors in fact and lapses in judgment.

January 2000, Washington, D.C.

1

Introduction

Three Puzzles

Between 1950 and 1995, the Philippines, Indonesia, and Malaysia each enjoyed periods of booming timber exports. Each had forests that contained trees from the *Dipterocarpaceae* family – trees that grew tall and straight, resisted wood-boring pests, and could be milled into high-quality lumber and plywood. While Indonesia's forestry institutions were weak, the Philippines and Malaysia had relatively strong forestry institutions, at least initially. Both had forestry departments that were led by well-trained professionals, that enjoyed a high degree of political independence, and that restricted logging to sustained-yield levels.

Yet over time the forestry institutions of all three states broke down. After timber exports began to boom, the Philippine, Malaysian, and Indonesian forest departments lost their political independence; the quality of their forest policies dropped sharply; and each government began to authorize logging at ruinously high rates – as high as ten times the sustainable level. Why did the forestry institutions of these three states break down? And why did these governments become so eager to squander their forests?

The breakdown of forestry institutions in the Philippines, Malaysia, and Indonesia is the central puzzle of this book; in answering it, though, I seek to cast light on two larger puzzles. One is the puzzle of poor forest management in the developing world. Since the 1950s, virtually all developing states with commercially valuable forests – in Latin America, the Caribbean, West and Central Africa, and Southeast Asia – have logged them unsustainably. A landmark 1988 study by economists Repetto and Gillis found that across the tropics, the misuse and waste of forest resources was, in part, caused by government policies. Yet the reasons for these self-defeating policies are elusive. According to one survey, attempts to explain poor forest policies have been "extremely frustrating, with suspicious or extremely poor quality data and missing data omnipresent" (Bilsborrow and Geores 1994).

This book suggests that in the Philippines, Malaysia, and Indonesia, a boom in timber exports helped cause a decline in the quality of the state's forestry institutions and policies. This argument may at first seem paradoxical: Why should an export boom hurt a state's institutions and policies? Should not governments manage their resources with *greater* care when their commercial value rises? In fact, in developing states, resource booms are commonly followed by a decline in the quality of the state's resource institutions and policies – which points us to the book's other major puzzle.

Scores of developing states rely heavily on natural resource exports, which can range from agricultural goods to zinc. Since international markets for these goods tend to be volatile, these states periodically undergo export booms and busts, which can flood or deprive their economies of export revenues.

Since the 1950s, economists have been divided about the merits of commodity booms. Classic theories of economic development – including the "big push" theory and the "staple theory" of economic growth – argued that commodity booms would help developing states grow quickly.[1] Others warned that sharp fluctuations in resource exports would turn developing regions into "storm centers to the modern international economy" (Innis 1956: 382).

Most developing states have assembled a wide range of institutions – including marketing boards, price stabilization funds, and "stabilizing" export taxes – to ensure that resource booms turn out to be an asset, not a curse. Yet despite these institutions, governments tend to respond poorly, even perversely, to resource booms. According to Lewis (1989: 1560), "Few governments have been able to manage (commodity booms) in a manner which, ex post, seems consistent with the objectives those governments set for themselves." Collier and Gunning (1999: 51) find that positive trade shocks often lead, paradoxically, to fiscal crises in the postshock period, due to "substantial policy errors." As a result, developing states tend to be harmed by booming natural resource exports. Policy errors help turn the blessing of resource wealth into a curse.

It would not be hard for political scientists to explain why govern-

1 On the big push theory, see Rosenstein-Rodan (1943) and Murphy, Shleifer, and Vishny (1989); on the staple theory, see Watkins (1963).