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Chapter 1    Introduction

The world’s tropical rain forests are important socially and environmentally as well as by virtue of their contributions to economic growth. As these forests are logged, their social values as generators of rural incomes and their environmental services as biodiversity reserves, carbon sinks, soil reserves, and watersheds tend to diminish. Despite these facts, most governments in the tropics are unable to resist logging these forests in favor of national economic objectives, including: creation of a forest industrial sector, higher employment, positive balance of payments, and increased government revenues. However, given the high economic stakes that can be obtained from their forests, it is seems counterintuitive that tropical governments rarely succeed in optimally harnessing government revenue from this valuable natural resource. This staggering loss of revenue to developing countries obviously has important implications for economic development. Timber revenue could be used, for example, to finance the kind of strategic industrial policies that allow the high performing Asian economies to achieve high levels of economic growth. This dissertation argues that states with rain forests are often unable to collect optimal revenue from the massive profit earned by timber companies that harvest state forests because this profit already has a hidden destination. Heads of state and their political supporters are siphoning off these moneys to become phenomenally wealthy. This dissertation focuses on the institutional conditions that determine whether "economic rent" earned from harvesting tropical rain forests ends up in government treasuries or in the private bank accounts of political elites.
**Economic Rent**

Tropical timber found in rain forests is valuable. Those who cut it down and sell it earn above-normal profit. What is above-normal profit? Economic theory distinguishes between two types of profit. Normal profit signifies the minimum amount of profit necessary to attract a business to an activity and to induce that business to continue in that activity over the long term. Any profit over that amount is defined as above-normal profit or "economic rent."

Like many natural resources, commercially valuable tropical timber embodies economic rent (Gillis 1980: 51-55, Haughton 1993: 1-2, Vincent 1990: 212). Economic rent is the profit from the sale of a tree beyond that exacted by the company that harvested it, brought it to market, and took a margin of normal profit. Repetto says that the economic rent "of an accessible virgin forest of commercial species is often considerable . . . a value attributable not to any cost of production, but to the strength of market demand and favorable natural resource endowments and location" (Repetto 1988: 18). He continues that the economic rent of a single tree is defined as "its implicit market worth, estimated by subtracting from the market value of the wood products that can be derived from it all the costs of harvesting, transporting to mill, and processing" (Repetto 1988: 39). Repetto later reiterates that economic rent is "the value in excess of bringing trees to market as logs or wood products, including the cost of attracting the necessary investment" (Repetto 1988: 18).¹²

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¹ For a more detailed analysis of economic rent, or above-normal profit, embodied in a typical cubic meter of commercially valuable tropical timber, see Chapter 2.

² Economic rent from natural resources is a resource rent and not a monopoly rent. Although I do not find this distinction to be all that crucial, some do. For example, Jomo K.S. writes, "Natural resource rents are a
According to studies by resource economists and others, it is optimal for most or all economic rent embodied in commercially valuable tropical timber to be captured by governments as revenues (Barber 1994: 44-45, Gellert 1991: 53, Gray 1996: 177-180, Ross 1996: 13, Vincent and Gillis 1998: 138). Repetto writes:

Theoretically, all rent can be captured by governments as a revenue source that stems from the country's advantageous natural resource assets. In practice, royalties, land rents, license fees, and various harvest taxes are all means of converting rent into government revenues. To the extent it is not captured, it remains as a source of greater than normal profits for the timber contractor (Repetto 1988: 18-19).

Governments and intergovernmental organizations assume that the full capture of timber rent is desirable. Typical of this is a UK government report that simply defines economic rent as the ability of timber companies to pay taxes:

Economic rent is the financial gain which remains after a firm has deducted all its production costs and a normal level of profit from the value of the product it manufactures. In Indonesia, a proportion of the rent is collected by the government as taxes and levies, while the remainder is retained by the concessionaire as excess profits. When discussing economic rent, it is important to draw the distinction between normal and excess profit. Normal profit is defined as the minimum profit required to attract entrepreneurs to a certain activity and induce them to remain in that activity over the long term, while excess profit is any profit above and beyond that deemed to be a normal level of profit. Since it is indicative of the surplus generated from the exploitation of the forests, and excludes the normal profit expected by concessionaires, economic rent represents an ability to pay taxes and levies. In fact, it is one of the few gains that can be taxed without affecting production decisions, and as such should be the basis of all taxes and levies on roundwood and forest products (DFID 1999: 175).

Mushtaq Khan elaborates, "Economic rent is a generic concept covering all types of rent but usually it is applied to the concept of monopoly rent which exists because entry is controlled into a sector. The natural resource rent is similar only to the extent that it too is the result of entry protection but the difference is that here entry (or use) can take place until the point that price is equal to marginal cost, unlike the case of monopoly rent where price is always higher than marginal cost" (Khan 1999: personal correspondence). To be clear, all references herein to rent from the timber sector refer to resource rent, and not monopoly rent, unless otherwise specified or implied.
The World Bank notes that full rent capture is possible without having a deleterious effect on the competitiveness of the companies paying these revenues or causing these companies to exit the sector. A Bank report states, "What is important to realize is that any rent captured by parties other than the state is a return over and above normal profit margins. Efficient companies do not need this windfall to stay in business" (World Bank 1991h: 74).

Following the findings of scholars, governments, and intergovernmental organizations cited above, capture of potential forest rent at or near 100 percent is the standard by which forest revenue policies are herein evaluated. Not everyone agrees that full rent capture is a good idea. For example, Jomo K.S. speculates that a government might wish to allow timber companies to retain some economic rent, if timber companies can carry out government objectives more efficiently than the government or some other party. There may be some rationale for allowing loggers to retain some excess profit, with the expectation that they would use the margin to pay for activities deemed important by the government. However, adds Jomo, there is no particular reason to believe that loggers can carry out such activities better than non-loggers:

You might allow the investor to retain some of the economic rent as an incentive to undertake some conservation work or reforestation, etc., but there is no reason why someone else might not be paid to do the same from the economic rent revenue captured by the government (Jomo 2000: personal correspondence).

In reality, there is almost certainly no objective, government or otherwise, that timber companies can perform at peak efficiency, with the possible exception of cutting down trees. As already mentioned, normal profits provide timber companies with sufficient incentive to do this.
In cases where natural resources are located on or beneath areas of land or ocean owned by governments, they are effectively the property of the state, and it is both the right and obligation of the state to steward these resources. The state may decide to preserve its resources, or to exploit them for economic gains. These gains may include profit for the resource extracting companies, employment, and macroeconomic benefits such as foreign exchange and revenue for the state treasury. Unlike many heavily forested countries in the developed world, such as Norway and Finland, and to a lesser extent the United States, where considerable timber harvesting takes place on private lands, there is only a minuscule volume of private forestry in, for example, Indonesia and Malaysia, where state ownership of forests has been in place since the era of Dutch and British colonialism.

Not only is government capture of 100 percent of rent from timber on public lands no more harmful to the environment than failure to capture rent, it potentially provides governments with much needed revenue to pursue basic development objectives. This is particularly important at a time when economically distressed Asian governments are borrowing tens of billions of dollars to finance basic expenditures.

There is support for using timber rent to achieve developmental objectives. For example, Vincent and Gillis point out that "one would expect national welfare to be enhanced if rents are retained within the country instead of being repatriated by transnational logging companies" (1998: 138). Although few if any transnational logging companies are active in the two largest tropical timber producing and exporting nations
of Indonesia and Malaysia, and all logging in these places is done by domestic companies, these companies expatriate much of the rent they earn to overseas banks, so the argument of Vincent and Gillis still pertains: There is little net effect difference to a government between a transnational timber company that repatriates rent, and a domestic timber company that expatriates rent.

Vincent and Gillis add that state timber revenues that capture full levels of economic rent are less distorting, and more likely to promote developmental objectives, than other types of revenue. They note the potential efficiency gains that result from the state's ability to capture a higher proportion of timber rents and to reduce existing taxes that are more distortionary. If [readers] doubt the significance of such measures, they should consider how low rates of rent capture in natural resource sectors have undermined economic recovery in Russia by forcing the state to impose crushing taxes on income, commercial transactions, and international trade. Indonesia and Malaysia, at the other extreme, have been able to keep general tax rates low because they generate revenue from petroleum (though not timber) rents (Vincent and Gillis 1998: 138).

There is proof that high levels of resource rent capture are typical in the developing world, even in industries that are far more capital intensive than timber (Shafer 1994). In the oil and gas industries for example, high levels of government rent capture are the norm. The Indonesian government captures 85 percent of oil rent (Walhi 1991: 1; Winters 1991: 39). As for the Malaysian government, it captured an average of 79 percent of petroleum rent, as shown in Table 1.1 below.

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3 A restricted World Bank report found that by early 1992, Indonesia supplied almost 30 percent of the tropical timber on the world market and Malaysia over 40 percent (World Bank 1992o). The two primary log-exporting provinces in Malaysia are the states of Sarawak and Sabah.
Table 1.1 Petroleum rent capture in Malaysia between 1985 and 1990

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<th>Year</th>
<th>Percentage of Rent Capture</th>
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however, is characterized by small investment, low technology and a wide spectrum of technological choices, low risk, and a much shorter pay back period. Economic theory would predict that investment characterized by high capital intensity, sophisticated technology and high risks should earn a high return. Indonesia oil contractors, most of them foreign, earn only approximately 15% of the economic rent resulting from the exploitation of oil resources. The rest, approximately 85%, is the legal right of the Indonesian government and becomes the treasury revenues used for general public purposes. In contrast . . . investment in the forestry sector . . . is characterized by small investment, low technology, and low risk . . . (Walhi 1991: 12-13).

As will be explored later in this chapter, the ability of Indonesia and Malaysia to capture optimal levels of oil rent is something of an illusion. While these governments do appear to be able to achieve nearly full oil rent capture at the wellhead, much of that rent is then diverted to other private hands, both upstream and downstream. Nevertheless, it is significant that the Indonesian and Malaysian governments do manage to achieve optimal rent capture at one point along the oil commodity chain. This raises the question of why these two governments fail, for the most part, to achieve the same thing in the timber industry. Indonesia captures only 25 percent of timber rent. Sarawak captures less than 20 percent. On the other hand, a broad range of observers surmise that Sabah achieves a nearly optimal level of timber rent capture of just under 90 percent. These various levels of timber rent capture are presented in Table 1.2 below.

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4 Sabah appeared to come out on top not only in terms of percentage of timber rents captured, but also in terms of absolute dollar revenue earnings per cubic meter of timber. One resource economist wrote, “It is interesting to note that Indonesian fees [per cubic meter of timber are] estimated to average $11.45, with the average collected . . . only about $9.50. This compares with $10.00 for Sarawak . . . and $50.00 with the export tax in Sabah” (Sedjo 1987: 40).
Table 1.2  Estimates of timber revenues as a percentage of economic rent in Indonesia, Sarawak and Sabah

<table>
<thead>
<tr>
<th>Name of state</th>
<th>Indonesia</th>
<th>Sarawak</th>
<th>Sabah</th>
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<tr>
<td>Revenue as a percentage of total economic rent, and sources.</td>
<td>33 percent (Gillis 1988a: 97)</td>
<td>18 percent (World Bank 1991h: 76)</td>
<td>93 percent (Gillis 1988b: 143)</td>
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<td>30 percent (Reid Collins 1992e: 6)</td>
<td></td>
<td>90 percent (World Bank: 1992n: 2)</td>
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<td></td>
<td>26 percent (World Bank 1993c: 87)</td>
<td></td>
<td>85 percent (ODA 1992b: 14)</td>
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<td></td>
<td>24 percent (ODA 1992b: 15)</td>
<td></td>
<td>83 percent (World Bank 1991h: 76)</td>
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<td>17 percent (Walhi 1991: 13)</td>
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</tr>
<tr>
<td>Average</td>
<td>26 percent</td>
<td>18 percent</td>
<td>88 percent</td>
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The wide discrepancy that experts report between Sabah's purportedly near-optimal level of timber rent capture on the one hand, and Indonesia's and Sarawak's suboptimal levels of timber rent capture on the other, is the anomaly that I explore here. However, as we shall see in Chapter 5, Sabah's success was an illusion. Sabah too failed to collect rent at a high rate.5

While Repetto, Gillis, and other resource economists do an excellent job explaining why full timber rent capture is a good idea, they never explain why it occurs so rarely. The former head of the UK Forestry Commission disparaged the tendency of many resource economists to assume that governments act in a rational manner. In an interview, he said, "Development economics textbooks all assume on page one that governments are honest and want to help the people. We might as well rip up the textbooks" (13 July 1998 interview with David Grundy). In the academic world, Gellert criticizes Gillis's implicit belief that, once states are shown that they are not capturing

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5 The fact that my cases did not vary posed problems that I discuss in Chapter 6.
optimal levels of timber rent, they will respond by enacting the proper policy changes:

There seems to be a consensus that the state in Indonesia (and elsewhere) is not capturing as much rent as it could. We should be wary of the implications sometimes drawn from analyses of economic rent, however. Gillis seems to be arguing that since state actors are "rational" and "intend" to capture full rent, if they can be shown that they are losing revenue, they will change their policy (Gellert 1991: 53).

Larger significance of the dissertation

This study addresses an anomaly from the point of view of resource economics, the failure of tropical timber states to capture optimum levels of rent, and attempts to explain it. The problem should be of interest not only to resource economists and foresters, as the ability to collect revenues is a critical determinant of the ability of nations to grow economically. The basic question asked in this dissertation falls within a much larger and older one about the fundamental determinants of prosperity and poverty. One approach in the social sciences to studying the structural determinants of economic growth is the comparative political economy of development, whose concern is to specify the institutional conditions that allow some developing states to achieve high and sustained economic growth while others do not. My dissertation intersects with this school in four ways: the first empirical, the second methodological, and the third and fourth theoretical.

First, proponents of the comparative political economy of development point to the importance of states' accumulation of investment capital. Johnson (1987) for example notes that the Korean government controls up to 80 percent of the country's investment capital, which the government makes available to strategic industries in the Korean economy. The steps by which governments achieve such capital accumulation vary from
case to case. In Korea, the state encouraged high personal savings rates. State-controlled banks loaned money saved by Korean citizens to businesses that occupied strategic sectors of the economy (Johnson 1987: 148-149).

In the case of Taiwan, revenue collection was the path taken by the state in order to accumulate capital. After World War II, the state extracted taxes from newly prosperous farmers and redirected those moneys toward increasingly higher valued-added types of production (Amsden 1985: 84-87). In short, in the northern tier Asian industrial economies, government financial institutions raised financial capital, through revenue collection and other means, to subsidize a succession of sectors that were increasingly higher-technology, export-oriented, and value-added. These sectors then accelerated, transforming Korea and Taiwan into high growth economies.

The relevance here to timber rent capture is that timber revenues could comprise a substantial portion of the state budgets in Indonesia, Sarawak and Sabah. Timber revenues could be targeted by these states in an economically strategic fashion as happened in Korea and Taiwan. Thus, an evaluation of the success or failure of the major tropical timber producing and exporting states to capture optimal levels of timber revenue should be a matter of practical interest to the comparative political economy of development school, which emphasizes the accumulation and dispersal of strategic investment capital.

Less developed nations, according to comparative political economy scholars, have no long-term prospects for economic growth unless they manage to export high technology, high value-added goods. Industry of this type requires significant capital investment. Unless foreign banks, bilateral donors, or multilateral banks step in with
capital, or unless there is a large domestic financial capitalist class, there is no possibility
for domestic capital formation unless the state does this itself, by whatever means;
including revenue collection. In timber-rich Asian states, forest rent can and does make
up a large component of such revenues.

To be certain, the focus of the comparative political economy of development
school is more typically, to quote Woo, on developing state's "refracting capital in a
prismatic fashion to fund rising industries" (1991: 6-7), and less typically on how that
capital was acquired in the first place. This study moves one step further up the chain in
an attempt to shed light on the challenges faced by states in capturing revenues. It is as
difficult to capture rent initially as it is to "refract" it later in a developmentally sound
manner. Timber rent is difficult to capture because interests more powerful than the
agencies that are responsible for setting timber revenue rates and collecting timber
revenues are able to appropriate the rent by both simple and complex means.

Under simple timber rent appropriation, timber concessions are awarded to
companies run or owned by rulers, their proxies, families, friends, business partners, or
political supporters. These licensees then harvest the timber and appropriate the
difference between, on the one hand, the cost of extracting the timber, a margin of normal
profit, plus whatever revenues they are required to pay to the state and, on the other hand,
the price at which the timber sells on the world market. The difference between the two
is typically quite large and represents, again, the share of economic rent not captured by
the state but rather, appropriated by timber concessionaires and the powerful interests
with whom, in many cases, they are aligned.

In some places, timber rent appropriation is more complex. The additional factor of
price manipulation magnifies the ability of concessionaires to appropriate timber rent. Like Bates (1981, 1993), I show that government manipulation of commodity prices, in this case timber prices, goes hand in hand with rent seeking. The example of Indonesia is instructive. There the government phased in a log export ban between 1980 and 1985. The nominal objective of this ban was to achieve increased value-added in the Indonesian timber industry by forcing log exporters downstream into plywood production. The actual objective of the ban was, as I will argue in Chapter 3, to concentrate the appropriation of timber rent into a narrower set of hands. Since logs can no longer be exported on the world market, a domestic log glut has existed for many years, resulting in Indonesian domestic log prices staying permanently below world prices. Plywood producers benefit from this state of affairs, as the largest plywood conglomerates are also the largest timber concession holders (see Tables 3.1 and 3.9). Thus, plywood companies are able to buy cheap logs from themselves. With an artificially cheap supply of logs, plywood producers are then able to amplify their profit. Finally, since these vertically integrated plywood-timber concession firms are in most cases partly owned by Indonesia's former head of state, his proxies, family, friends, business partners, and to some extent political associates, this provides an opportunity for these interests to appropriate timber rent. In short, the appropriation of timber rent, aided by government price manipulation and downstream industrialization requirements is one form of complex timber rent appropriation.

Another form of complex timber rent appropriation takes place when heads of state, their families, and proxies control timber shipping and related insurance monopolies
which provide a cash flow of $40 for each cubic meter of timber shipped. Yet another example of complex timber rent appropriation is when the head of state exacts payments from timber conglomerates, sometimes on the order of hundreds of millions of dollars in a single instance, over and above timber rent already appropriated as a result of direct or indirect managerial and equity positions held by the head of state in these conglomerates.

The essence of the comparative political economy of development is to understand why governments use economic rent in a manner that is “efficient and socially useful” or one that is “inefficient and socially harmful” (Khan 1996). This dissertation goes one chapter further back in that story, to the point where rent is not expended, but rather accumulated by governments in the first place. I attempt to show that while it is important for governments to allocate rent to strategic sectors of the economy, it is also important that they accumulate this rent in the first instance. It stands to reason that the same conditions that lead states to squander rent also prevent them from accumulating it. I hope to shed light on the institutional conditions that allow this to happen.

A second concern in this dissertation is the selection of cases. Criticisms have been leveled against proponents of the comparative political economy of development for their tendency to focus on developmentally successful states (Granoveter 1994: 455-456, King et al 1994: 137-138, Shafer 1994: 244-245). The criticism is accurate, for the cases selected by scholars who work in the comparative political economy of development tend to be, if not numerically dominated, then theoretically driven by developmental success

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6 The rule of thumb in the Southeast Asian timber business is that it costs $40 to ship and insure the shipment of a cubic meter of logs or plywood from the country of the seller to the country of the buyer.
stories such as Chile (Silva 1997), Japan (Johnson 1982), Korea (Cumings 1984, Woo 1991), and Taiwan (Amsden 1985, Gold 1986).

In defense of the exponents of the comparative political economy of development, their focus on successful cases is understandable in light of the opposite bias of many of the schools that came before them. Neoclassical economics, for example, tended to focus on development failures, which, it claimed, were caused by government-induced market distortions. Although neoclassical economics recognized the role that governments may play in protecting property rights and providing collective goods, in general it tended to argue that efforts by governments to improve the function of markets or to raise the prosperity of their subjects would produce the opposite results (Balassa 1981, Lal 1983). Another approach which tended to emphasize development failures was the dependency school, which blamed the poverty of the developing world on the immiserating character of global capitalism (Amin 1974, Bagchi 1982, Broad and Cavanagh 1988, Smith 1991, Sunkel 1972).

To these two schools, the comparative political economy of development provided, if not a corrective, then an alternate vision. In response to neoclassical economics, the comparative political economy of development camp maintains that not all government-introduced attempts to 'distort' the market run contrary to long term economic growth. In response to dependency theory, the comparative political economy of development school maintains that while global capitalism presents great challenges to developing nations, these nations can go a great distance toward surviving and thriving in the world capitalist economy if they can create and maintain the right mix of institutions and incentives. In making such arguments, scholars of the comparative political economy of
development understandably chose, at the outset, to put most of their effort into proving that state intervention and institutionalization, properly conceived, can aid the process of capitalist development (Evans 1979 and 1987, Haggard 1990, Katzenstein 1978, Rueschemeyer, Evans and Skocpol 1985, Wade 1991). In short, they focused on success stories.

There are, however, notable exceptions. For example, Evans's two-page discussion on Zaire, which appears in various of his books and articles (1989, 1995, 1997), highlights the difficulty of achieving development in this archetypal "predatory state." However, it must be said, Evans's analysis of Zaire has occupied far less time, effort, and ink than his voluminous writings on the Asian northern tier developmental states, as well as the intermediate cases of India and Brazil.

In my view, by studying the failures of a state such as Zaire, scholars can learn as much about the relationship between institutions and economic growth as by studying the successes of a state such as South Korea. This study examines two cases, Indonesia and Sarawak, which failed to reach the key developmental milestone of optimal rent capture, as well as Sabah, which was thought to have succeeded. In attempting to explain the failure of Indonesia and Sarawak, I will introduce new variations on established ideas. I hope that these new variations will help the adherents of the comparative political economy of development, if not sharpen, then perhaps broaden their ideas about why developing states are able to achieve high levels of economic growth in some cases but not others.

This brings me to a third more theoretical issue, the question of autonomy. The most compelling, but also the most elusive, theoretical proposition put forth by exponents
of the comparative political economy of development, is that developing states that achieve high levels of economic growth are able to do so because key government agencies that oversee the most vital sectors of the economy possess autonomy, that is to say, the ability to resist pressures from private interests.

These exponents believe that only government agencies that can resist undue influence by the industries they regulate can create and enforce the politically painful policy choices that are precursors to development. These policy choices are politically painful because the stream of state resources must be shut off to those sectors of the economy which, although they may be quite powerful politically, are no longer internationally competitive. To shut off state resources to politically powerful sectors, bureaucrats must be autonomous from those sectors. Once that step has been achieved, then bureaucrats can award those same state resources to businesses that occupy potentially high-growth sectors of the economy but would never have been politically strong enough to lobby the state for them. This is the concept of state autonomy in a nutshell.

Many students of the comparative political economy of development now prefer to speak of embedded autonomy (Evans 1995, Katzenstein 1978: 315-316). This phrase refers to how state actors are sufficiently autonomous to resist attempts by capital to capture them, but are at the same time embedded in capital. To be embedded in capital means that state actors can work sufficiently closely with capitalists in order to help them overcome their collective action problems, alter their incentive structures, and become more internationally competitive. While embeddedness is an important modification to
the idea of autonomy, it is useless for the state to try to embed itself in capital unless it is first autonomous from capital. Embeddedness without autonomy a formula for control of government by industry: autonomy is a precondition to embeddedness. Evans is clear on this point:

Successful collaboration is not a question of choice between either having cohesive, insulated bureaucracies or having close connections with the private sector. The former is the foundation that makes the latter work. Internal bureaucratic coherence is an essential precondition for the state's effective participation in external networks (Evans 1997: 74).

Autonomy is even more important with regard to a sector like timber, a simple and ultra-profitable extractive industry, as opposed to a complex and risky sector like semiconductor manufacturing, which requires that business actors be actively cultivated to induce them to participate (Folk 2001). In timber, unless government actors avoid being captured by the industries they are regulating, related forms of economic development will not occur. Long term economic growth is not possible unless key state agencies can withstand the influence of private capital. As Evans states, "The heart of the problem is finding a way to counterbalance the weight of a more powerful business community so that embeddedness is less likely to degenerate into capture" (Evans 1997: 83).

Two notable patterns emerge from the above discussion. First, capital will typically take the path of least resistance, choosing to earn profits in a monopolistic or oligopolistic fashion, rather than a competitive one, if it can convince government agencies to arrange it so. Second, government agencies must be able to withstand these types of socially unproductive, privatistic, parasitic, rent seeking demands by capital, if
they wish to achieve and maintain sustained levels of economic growth.

Again, that the state apparatus withstands pressure from capital is critical. However, capital is not the only structural force from which bureaucracies must insulate themselves. In the developing world, it is a huge problem that industry tries to manipulate government agencies, with the public suffering as a result. However, just as often, the problem is that heads of state manipulate government agencies, with disastrous results. Thus, one may view the state as comprised of two analytically distinct categories: bureaucrats and rulers. Evans recognizes this trend in Zaire, where he points out that government agencies lack the autonomy to resist predatory demands made by heads of state:

Is Zaire's state 'autonomous'? If . . . 'autonomy' implies the ability to formulate collective goals instead of allowing officeholders to pursue their individual interests, then Zaire fails the test. Instead, it embodies the neo-utilitarian nightmare of a state in which all incumbents are out for themselves (Evans 1995: 45).

In the above passage, Evans says that Zaire's state agencies lack the autonomy to prevent rulers from pursuing their "individual interests." Few other scholars in the comparative political economy of development seem aware of the economic ramifications of predatory rulers. In the following passage by Schneider and Maxfield, when such a possibility is raised, the discussion quickly retreats, arguing that capitalists, and not heads of state, are the primary instigators of rent seeking arrangements:

Democracy squeezes elected politicians into all sorts of previously exclusive relations between bureaucrats and capitalists. The issue for bureaucratic insulation shifts from the relationship between business and executive bureaucracy to a triangular relationship where the key is the insulation of the bureaucracy from politicians. Insulation from politicians is more problematic for bureaucrats because politicians, who cannot be easily and institutionally insulated from the particularistic pressures of business, have legitimate influence over the bureaucracy. Career incentives for bureaucrats can be partially shielded from temptations for
corruption; however, incentives for politicians cannot because careers in elected office depend heavily on campaign contributions from business. Thus, in cases where insulated bureaucracies existed under authoritarian regimes, democratization has increased political pressures on bureaucrats. And where Weberian bureaucracies did not exist before democratization, they are not easy to build (Schneider and Maxfield 1997: 19-20).

The problem with the analysis above is its reason for why politicians insert themselves into the bureaucracy-business nexus. Schneider and Maxfield say this takes place because politicians are subject to pressure from the business sector. We return, then, to a familiar paradigm in which rent-seeking capitalists are the problem. The only difference is that this time the capitalist, instead of going straight to the office of the bureaucrat with money, goes rather to the office of the politician. The politician accepts the money, and influences the bureaucrat on behalf of the businessman. For Schneider and Maxfield, the party that is initiating the rent-seeking arrangement is the businessman, not the politician. While undoubtedly this is the way that events unfold in many developing nations, it fails to mention scenarios in which the political leader himself is the initiator of rent seeking. The passage above seemingly ignores the fact that politicians, including heads of state, frequently carve out rent havens for themselves, for their personal gain (Hutchcroft 1994), and not to benefit business.

The concept of autonomy should be broadened to include the idea that agencies must be able to withstand predatory demands by rulers. Developmental policy is impossible not only if, as maintained by the proponents of the comparative political economy of development, policy-making agencies lack autonomy from privatistic demands of capital, but also if these agencies lack the autonomy to withstand privatistic demands by heads of state. It is the latter idea, that developmental policy is impossible if
policy-making agencies lack the autonomy to withstand predatory demands by rulers, that is central to this dissertation.

The test to determine whether effective development policy is being carried out is to track a segment of development policy whose importance is established at the beginning of this chapter; namely, the ability of states to capture timber rent at or near 100 percent. If forest agencies in Indonesia, Sarawak and Sabah fail to capture timber rent at optimal levels, it suggests that these agencies lack autonomy. If, on the other hand, departments of forestry capture timber rent at or near 100 percent, the agencies will be considered autonomous. Similarly, if the head of state personally benefits from policies enacted by the agency, we can assume that the agency is not autonomous from the ruler. If the head of state does not financially benefit, then it will be assumed that the agency is autonomous.

True, there are other possible reasons why a head of state might not be financially benefiting from the policies enacted by the agency. The head of state may be an honest person concerned only with good government, who would not approach an agency with a request to enact or enforce a policy for personal gain. This is possible, but rarely occurs. Another possibility is that the agency in question is so small or unimportant that it performs no function that could allow it to materially benefit the head of state. This is a more realistic possibility, but not in the case of a department of forestry for a timber-producing country, which sits astride a resource of immense value.

In short, in the developing world, it is likely that heads of state will place pressure upon departments of forestry to enact policies or make decisions that will be of material benefit to them. Only autonomous agencies can withstand such predatory demands. If
departments of forestry do not possess autonomy from heads of state, they will put in
place policies that will make the head of state or his clients material beneficiaries.

This brings us to the question of what type of policy should be examined in order to
determine whether the head of state is benefiting? Because agencies are responsible for
many types of policies, it is logical to examine the policy which confers the largest
amount of rent. For the timber industry, the largest amount of potential rent is passed
along through the granting of licenses to harvest timber on public land.

In short, the best way to determine whether forest departments possess autonomy
from rulers is to ascertain whether they have awarded timber concessions to companies in
which heads of state have managerial and equity control. If the head of state, his family,
or his proxies, run or own a substantial number of the timber companies that have been
awarded licenses to exploit forests, then it may be assumed that the department of
forestry in that state lacks autonomy from that ruler. Conversely, if the head of state, his
family, or his proxies do not have control of a substantial number of timber concessions,
then it may be assumed that the department of forestry is autonomous from the ruler.

There does appear to be evidence of the lack of autonomy of the forest departments
in Indonesia and Sarawak. Research already completed shows that heads of state, their
families, and their proxies control a substantial portion of the timber concessions licensed
to the top five timber conglomerates in Indonesia (Brown 1999: 12-24), and the top four
timber conglomerates in Sarawak (Sarawak Tribune 1987).

Although it was eventually shown not to be so, I initially surmised that the Sabah
Forest Department was autonomous, for a number of reasons. The first piece of evidence
of the putative autonomy of the Sabah Forestry Department was the fact that two chief
ministers, whose terms spanned almost two decades, appeared to lack significant ties to
the timber sector. Harris Salleh (whose term ran from 1976 to 1985) told me that, when
he assumed the chief ministership, that he did not have a high level of timber holdings (1
and 2 October 1996 interviews with Harris Salleh). As for Joseph Pairin Kitingan (whose
term ran from 1985 to 1994), a member of the international press observed, "Kitingan's
modest lifestyle has apparently won him the hearts of . . . villagers. Kitingan does not
have 'business interests left and right' . . . and villagers perceive this as a sign of his
'withstanding corruption'" (FEER 1985a).

A second indicator of the supposed autonomy of the Sabah Forest Department is the
dominant role played in the timber sector by the state-owned timber corporation, the
Sabah Foundation. Although the Sabah Foundation is not formally linked to the Sabah
Forest Department, both are government entities engaged, at least nominally, in ensuring
the long term sustainable harvest of the state's production forests. Thus, the foundation
appeared to provide the department with a degree of institutional support, seeming to
reinforce the department's autonomy. Moreover, the foundation itself looked to be more
capable of resisting predatory demands by virtue of two facts: that it was a state-owned
corporation and possessed some degree of bureaucratic coherence and because it had a
non-revocable 100 year license to timberlands under its control. This stood in sharp
contrast to the state's smaller, private timber concessionaires, which by definition had no
bureaucratic coherence, and had only one to five year licenses to the timberlands under

7 The foundation is a large concession holder in its own right. It is allowed to manage its own forests
without interference from the Sabah Forest Department, although it must pay timber revenues to the
department. In sharp contrast to Indonesia and Sarawak, where a majority of timber concessions are in
private hands, the Sabah Foundation was awarded a majority of the state's forests in 1970, a million
hectares in all.
their control (Gillis 1988: 132). The simple arithmetic of having a majority of the state's timberlands in the hands of the Sabah Foundation, and only a minority of Sabah's timberlands in the hands of private timber concessionaires, appeared to leave fewer opportunities for the Sabah Forest Department to be buffeted by predatory demands from the state's chief ministers. But again, the autonomy of the Sabah Forest Department turned out to be illusory.

However, this dissertation attempts to show the relationship between autonomy and development. I seek to explore the causal relationship between the autonomy of forest departments from the demands of heads of state and the ability of those departments to create and enforce optimal levels of timber rent capture. On the one hand, I examine Indonesia and Sarawak, where the autonomy of state timber agencies is not indicated, due to direct managerial and equity control by state leaders over timber concessions. Timber rent capture occurs at suboptimal levels in both places. On the other hand, I examine Sabah, where the autonomy of the Sabah Forest Department was indicated, due both to the fact that two successive rulers appeared to lack managerial and equity control of timber concessions, and because a majority of the state's timber resource was securely in the hands of a state-owned company. Timber rent capture seemed to occur at optimal levels in Sabah. Whether these relationships are as they appeared to be, and held up during five years of research, will be discussed later in this chapter.

A fourth area where I hope to contribute to the literature on the comparative political economy of development has to do with the idea of the dual imperative. The essence of this idea is that no developing state can exclusively devote resources to achieving long term economic growth. Rather, states succeed in meeting goals for
economic development because they devote resources to agencies that focus on or serve economic growth, they also devote resources to agencies necessary to the ruling government's survival. The would-be developmentalist state is thus governed by a dual imperative of strategic industrialization and clientelism. For illustrative purposes, it is useful to consider how the dual imperative works in Japan and Korea.

In Japan, Okimoto (1989) observes that selected agencies, such as the Ministry of International Trade and Industry (MITI), the Ministry of Finance, and the Economic Planning Agency, are predominately developmental in function, while the ministries of construction and agriculture, for example, serve patronage functions. The patronage ministries in Japan receive a disproportionately high share of state resources and distribute them to rural constituencies. These constituencies produce goods in an inefficient manner, with the cost absorbed by the Japanese urban consumer. In return for this government favoritism, rural constituencies faithfully support Liberal Democratic Party at election time which, until recently, ensured that it was able to maintain both a majority in parliament and the post of Prime Minister (Okimoto 1989: 177-190). After government power was purchased with limited state resources, the Liberal Democratic Party used remaining state resources to continue industrial policies that served to encourage economic growth through MITI, Finance, and the Economic Planning Agency. Despite the losses that occurred due to the clientelist orientation of its LDP-dominated ministries, the purely developmental function served by its key economic ministries allowed Japan to become the archetypal late developing state. Japan successfully mastered the dual imperative.

Korea also succeeded with the dual imperative. Former President Park Chung-Hee
created a bifurcated bureaucracy, where domestic service ministries (Constructive, Agriculture, Home Affairs) were staffed with clientelistic appointments, allowed to be relatively inefficient, and served to satisfy the domestic patronage requirements faced by Park. On the other hand, the fiscal ministries (Trade and Industry, Economic Planning Board, Finance) were actively reformed by Park with an eye toward economic effectiveness and international competitiveness. Such a bifurcation allowed Park to pursue both an internal agenda aimed at retaining power and buying off supporters and an external agenda aimed at realizing economic growth with an eye toward creating legitimacy at home and increasing Korea's economic and political independence from other nations (Kang 1995: 575).

What Okimoto and Kang tell us is that Japan and Korea have successfully addressed the dual imperative. While some state resources were diverted toward buying political support, much of the rest were diverted to strategic industrialization. I now take this framework and recast it as a set of generalizable and testable propositions, applicable to the cases studied in this dissertation.

As successfully embodied by Japan and Korea, the dual imperative maintains that resources must be devoted not only to strategic development so that economic growth may occur, but also to patronage, in order to perpetuate the ruling government. If this is correct, then we can assume that not all resource rent should be captured by the state, but rather a fraction of resource rent can be diverted to gain the support of key political figures, or constituencies. In this dissertation, when there is discussion about governments diverting rent to "political supporters," it is intended to signify both genuine political supporters as well as potential enemies whose political support must be brought. In the developing world governments frequently make such expenditures to ensure their political survival.

While money spent on patronage may buy the survival of a government, and the survival of a government may assure the continued implementation of high-growth
policies, it does not necessarily follow that money spent on patronage pays for economic
development as such. However, there are cases where a strict separation between
development and client expenditures is not possible, for example, where a company
owned by a political supporter is awarded a non-competitive contract to carry out a
badly-needed infrastructure project. Another example is the type of "competitive
clientelism" that one finds in Thailand, where a few politically-connected firms are
exclusively allowed to compete with one another in a sector prioritized by state economic
planners (Doner and Ramsay 1997). In such instances, the line between expenditures for
patronage and for economic growth is blurred.

In general, to achieve rapid economic development, leaders must limit the amount
of national resources diverted to buying political support and maximize resources
allocated to developmental purposes. If they are to achieve rapid economic development,
governments cannot give enormous amounts of rent to any self-proclaimed political
supporter or distributional coalition (Olson 1982). If governments give away too much
rent to buy or maintain power, it will strain normal government function and strategic
industrial policy: the dual imperative is a balancing act. If a government pays more than
is required to maintain power, then it follows that development will be diminished
proportionately. Although there is no price data on the market for political supporters to
tell us what is a normal price, a few rules seem self-evident. Prices vary depending on

8 Ross (1996) argues that the price for buying a political supporter in a tropical timber country is,
effectively, equal to the amount of potential timber rent in that country, divided by the number of
supporters. Ross reasons that if a head of state does not pay that price, potential supporters will shift their
loyalty to a political challenger that will. This is a plausible formulation, but problems emerge when we
logically extend it and, to my mind at least, arrive at the idea that no government can afford to take the
political risk of not diverting all timber rent to its political supporters. This in turn would suggest that no
government could afford to take the risk of collecting any timber revenues. The fact is, however, that
whose support is being bought; heads of large and powerful constituencies will command higher prices, and individual voters will command the lowest price. Prices will vary over time; as elections approach, prices will rise. Therefore, the price of political support varies depending on whose support is being bought, and when. Governments must maintain the loyalty of powerful individuals while the long term success of their nations depends on their ability to maximize resources available for developmental purposes. When state funds are diverted for the personal enrichment of a head of state, it is generally to the detriment of economic growth and political stability.

Admittedly, economies are more complex than the model of the dual imperative accounts for. Some exceptions to the model are national defense and social expenditure. Governments spend money to subsidize health care, education, housing, and the environment, not principally to encourage economic growth, or acquire and retain political supporters, although both these are considerations, but because these tend to improve quality of life for their citizens.

One of the few almost purely unproductive uses of government resources, that neither fosters economic development nor the political longevity of the government, the security of the nation, or quality of life, is the diversion of resources to the head of state, his family, and proxies.

governments do collect timber revenues. Therefore, some other determinant of the price of political support must be used.

9 For example, an educated work force increases economic productivity. Hence education spending has a development component. On the other side of the coin, health care spending in the US amounts to a subsidy for the pharmaceutical industry, which in turn contributes to the campaigns of politicians. Hence, health care spending in the US has a patronage component.
We must make a distinction between rent appropriated by clients and rent appropriated by heads of state. This is a distinction supported by few other theorists.\(^\text{10}\) Political supporters need to be paid to insure their loyalty to the government. However, the head of state does not need to be so paid, for his loyalty to himself is inherent.

This leads us to pose the question: at what point does the appropriation of rent by the head of state and his hangers-on endanger the developmental and the patrimonial goals of the state? The problem tends not to be so much with leaders who are allowed to appropriate comparatively small amounts of rent to use luxury items, such as the Rolls Royces and the rhinestone-studded Liberace grand piano for which Sarawak's chief minister has shown a fancy. A problem does tend to occur, however, when leaders are allowed to appropriate large amounts of rent. This was the case with former Indonesian President Suharto, who reportedly wired nine billion dollars to a secret Austrian bank account the day before he was forced to step down (\textit{Time 1999}). When the head of state is allowed to appropriate rent of this magnitude, it endangers both the developmental and the patrimonial goals of the state. Table 1.3 lists rulers who have appropriated large amounts of state resources for themselves.

<table>
<thead>
<tr>
<th>Name of country</th>
<th>Name of deposed leader</th>
<th>Estimate of state resources appropriated</th>
<th>Annual GNP per capita in 1993</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^{10}\) Weber, for example, conflated the two when he wrote, “The patrimonial state offers the whole realm of the ruler's discretion as a hunting ground for accumulating wealth. . . . [P]atrimonialism gives free rein to the enrichment of the ruler himself, the court officials, favorites, governors, mandarins, tax collectors, influence peddlers, and the greater merchants and financiers. . . . The ruler's favor and disfavor, grants and confiscations, continually create new wealth and destroy it again” (Weber 1911: 1099).
<table>
<thead>
<tr>
<th>Country</th>
<th>Dictator</th>
<th>GNP per capita</th>
<th>Income Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Haiti</td>
<td>Jean Claude Duvalier</td>
<td>$600 million</td>
<td>$450, low income</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Suharto</td>
<td>$15 billion</td>
<td>$740, middle income</td>
</tr>
<tr>
<td>Iran</td>
<td>Reza Pahlevi</td>
<td>$25 billion</td>
<td>$2,120, middle income</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>Anastasio Somoza</td>
<td>$1 billion</td>
<td>$340, low income</td>
</tr>
<tr>
<td>Philippines</td>
<td>Ferdinand Marcos</td>
<td>$18 billion</td>
<td>$850, middle income</td>
</tr>
<tr>
<td>Zaire</td>
<td>Mobutu Sese Seko</td>
<td>$5 billion</td>
<td>$240, low income</td>
</tr>
</tbody>
</table>

Note: the World Bank classifies all nations with an annual GNP per capita of lower than $695 as "low income." Nations above that level are classified as "middle income" (World Bank 1995: viii). GNP per capita figure for Haiti is for 1991, for Iran, 1992, and for Zaire, 1989, the most recent years available.

Indonesia, Sarawak and Sabah are at a historical fork in the road,¹¹ in terms of whether to prioritize rent from their respective timber sectors for the purposes of development, or for patronage or less productive uses. By focusing on one of the most valuable natural resources found in these states, it is possible to make an investigation of the phenomenon of rent appropriation. Such an analysis is not possible with respect to all sectors of these economies. However, from the study of the timber sector, it is possible to generalize about how these states use economic rents arising from other sectors in their economies, as well as the overall economic prospects of these states.

If effective development policy is to be carried out in the timber sector, then the state must not divert too much of the capital generated by that sector toward either clientelist ends or uses that satisfy neither developmentalist nor clientelist ends.

To the extent that governments have captured near-optimum levels of timber rent it can be assumed that they have carried out effective development policy in the forest sector. A nearly-optimal level of timber rent capture is indicative of effective development policy because timber revenues can be invested in strategic industries,

¹¹ To some extent, Sabah is really no longer at this fork in the road, as its productive forests have been mostly cut down. It would be correct, however, to say that Sabah stood at this historical fork in the road in 1970, the beginning of the period studied in this dissertation.
which may stimulate the economy and lead to long term economic growth. As long as states are publicly on record, through their revenue regulations, that timber rent will eventually be bound for state treasuries, then for the purposes of this study it will be assumed that this rent can be directed to developmental purposes. Therefore, near-optimal levels of timber rent capture will be considered effective development policy. Whether rent is collected according to regulations and invested productively are not proved here. For the sake of simplicity, where states demonstrate through their revenue regulations an intention of capturing near-optimal levels of timber rent, it is assumed that states are making policy with respect to the timber sector consistent with national economic growth.

Several theorists, among them Dauvergne (1997), Ross (1996), and Samego (1992), argue that Indonesia, Sarawak, or Sabah have diverted timber resources to patronage. In order to find out whether these conclusions are accurate, we focus on the timber concession holdings of all major timber conglomerates to ascertain the degree to which managerial and equity positions are held by political supporters. In all three places timber concessions were awarded to conglomerates in which senior managerial positions and shares were held by political supporters of the government.

It is assumed that rent is being diverted toward ends that satisfy neither developmentalist nor clientelist considerations when it directly enriches the head of state. Here, head of state is meant to encompass both the head of a nation, or the head of a state that is constitutionally guaranteed control of the timber within its boundaries, as in Sarawak and Sabah.
Admittedly, when a head of state runs or owns a timber concession, there may be some instances when rent generated from the timber concession will be used to buy the loyalty of clients. For example, former President Suharto's youngest son Hutomo Mandala Putra (a.k.a. Tommy), held his own timber concession in Sulawesi until very recently.\(^\text{12}\) There is some evidence that he used rent generated from this concession to finance the political activities of his father's Golkar party in Sulawesi. As one World Bank official reported, "Tommy flew Merpati [Airlines] to Sulawesi last month with a suitcase full of money." She went on to say that the money was to be used for campaign contributions to Golkar officials in Sulawesi preparatory to the 1997 elections (4 August 1995 interview with Asmeen Khan). If the money Tommy handed out to Golkar officials in Sulawesi came from his timber concession in Sulawesi (it may not have, but let us suppose that it did), then this is a case of the ruling family appropriating rent from a timber concession and using it to ensure the political longevity of its political supporters. The point is, the line is not always easily drawn between timber rent appropriated to make rulers and their families rich and timber rent paid by rulers and their families to ensure the political longevity of clients. Moreover, this distinction cannot even be drawn solely by looking to see who runs or controls a particular timber concession. In this example, Tommy was using money from his concession not to purchase a 60 percent share in the Italian automaker Lamborghini or his ski lodge in New Zealand\(^\text{13}\) but to support the Sulawesi branch of Golkar

\(^{12}\) The concession, called Rante Mario, now 114,000 hectares in size, has been reassigned by the government to an Islamic university (Brown 1999: 86). The Suharto family still retains at least a dozen timber concessions (see Chapter 3).

\(^{13}\) These are both actual examples. Tommy later sold his share in Lamborghini. He still owns the ski lodge, which he says cost him a dollar.
in an upcoming election.

However, as the above is considered atypical, if the ruler, his family, or his proxies run or control a timber concession, one can assume that rents so derived will primarily serve to enrich the ruler. This is a safe assumption because, with so many timber concessions and concession holding groups run and owned by supporters of the former president, this appears to have been his primary method for buying political support. The country's former minister of agriculture and former minister of foreign affairs both hold positions on the boards of timber concessions licensed to the country's second largest timber concession holder, the Djajanti group (Brown 1999: 21). The former head of the ruling Golkar party controls the Poleko group, a timber conglomerate (Brown 1999: 29). The state security apparatus is also well represented. Again, because there are so many examples of clients being sustained through the distribution of timber concessions, it follows that when a ruler and his personal associates run or control timber businesses, most or all of the rent they appropriate will be used to enrich themselves.

If political clients or rulers run or own a significant percentage of timber concessions, it should be assumed that the government has failed to master the dual imperative in the timber sector, and probably elsewhere. The evidence available at the outset of my research suggests that the governments of Indonesia and Sarawak had not mastered the dual imperative, given the widespread awarding of timber concessions to political clients of the head of state, as well as to leaders themselves and their personal associates. A corresponding result was that timber rent capture was low.

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14 For example, the former head of state intelligence maintained ties with the state's ninth largest timber concessionaire, the Satya Djaya Raya group, until his death. The armed forces are still the nation's
If political clients or heads of state are prevented from running or owning timber concessions, it is assumed that the government has succeeded in addressing the dual imperative, and will capture timber rent at near-optimal levels. Initially, it appeared as if the government of Sabah had mastered the dual imperative and had not awarded timber concessions to its rulers, though, as we shall later see, this turned out to be false. Meanwhile, experts maintained that Sabah's timber rent capture was correspondingly high, which also turned out to be incorrect.

This study seeks to contribute to the discourse of the comparative political economy of development in empirical, methodological, and theoretical terms. Empirically, it seeks to provide a discussion of the exigencies of rent capture, a precursor to the strategic use of rent, which is currently a principal theme in the comparative political economy of development. Methodologically, this study is useful in that it adds to the limited number of studies with a case selection not of the usual development success stories, but rather of cases of mismanagement. My dissertation examines not only Sabah, a state that has been thought to have achieved a key development objective, the optimum capture of timber rent, but also two states that failed in doing so, Indonesia and Sarawak.

This study also contributes to the realm of theory. First, it argues that the concept of autonomy needs to be expanded to include not only the ability of state agencies to withstand demands by rent-seeking capitalists but also the ability of state agencies to withstand demands by predatory leaders. The study will test the proposition that, where state agencies are not autonomous from demands of predatory leaders, it will be more

seventh largest concession holding group. The national police are now the nation's fastest growing concession holding group (Brown 1999: 23, 40, 42).
difficult for them to achieve developmental objectives. A second contribution in the realm of theory is an addition to the idea of the dual imperative: that rents pocketed by rulers for their personal consumption will actively undermine the ability of states to develop and maintain political stability.

**Main hypothesis**

The principal hypothesis underlying this study is that Indonesia and Sarawak have failed to properly regulate their timber sectors because these states lack autonomy from the predatory demands of rulers and favor expenditures aimed at maintaining power, or even less productive ends, instead of developmental ones. I will prove that Indonesia and Sarawak have failed to administer their timber sectors in a developmentally focused fashion, by showing the extent to which they have fallen short of capturing timber rent at optimal levels. I will also demonstrate that Indonesia and Sarawak lack autonomy from the demands of rulers and use timber revenues not only for patronage, but also for objectives even less conducive to economic development, and thus fail to satisfy the dual imperative. This will be proved by showing that heads of state and their political supporters are permitted by forestry bureaucrats to run or own a substantial portion of the concessions licensed to top timber conglomerates.

It had been my intention to contrast the cases of Indonesia and Sarawak with that of Sabah, showing how that state had succeeded in managing its timber sector in a more developmentally optimal fashion. I intended to show this by verifying that Sabah had in fact captured timber rent at near-optimal levels. I had also intended to show that Sabah was autonomous from the demands of rulers and had balanced the dual imperative by showing that state leaders and political followers did not run or own a substantial portion
of concessions.

While empirical evidence confirmed my hypothesis with respect to Indonesia and Sarawak, it refuted the reports of some journalists, as well as the conclusions of the economics literature, about Sabah. The leaders of Sabah turned out to have numerous personal ties to the timber industry, and the state turned out to have suboptimal levels of timber rent capture.

Newspaper and magazine reports and preliminary interviews indicated that two Sabah chief ministers whose successive terms spanned nearly two decades, Harris Salleh and Joseph Pairin Kitingan, lacked personal ties to the timber industry. However, further investigation revealed that both administrations deeply penetrated the timber sector. The Salleh administration rewarded cronies with timber concessions in exchange for payments to its political allies. The Kitingan administration, although ostensibly elected as reformers, and claimed by outside observers to lack significant conflicts of interest prior to election, was probably even more predatory. Not only did Joseph Pairin Kitingan allocate timber concessions to personal and political associates, but in league with his younger brother, who served as the head of the Sabah Foundation, they secretly drained it of rent in almost every way imaginable. As one scholar of Malaysian political economy observed, "The Sabah Forest Department and the Sabah Foundation were in cahoots as a key booty sluice" (Folk 2001: personal correspondence).

For both heads of state, their control of timber concessions allowed them to increase their personal wealth over time. Key regulatory agencies in Sabah lacked the autonomy to resist predatory demands by the state's leaders. The existence of widespread ties between rulers and the timber industry shows that the government of Sabah
has failed to apply timber rent to developmental ends.

Given the influence by Sabah state leaders over the timber industry, one would expect that rent capture would occur at low levels. Yet, according to the academic and gray\textsuperscript{15} literature, and as outlined in Table 1.2, timber rent capture in Sabah was at near-optimum levels. Despite the findings of so many scholars and analysts who believed that Sabah had achieved optimal timber rent capture, my investigation revealed that Sabah had low levels of timber rent capture, just like Indonesia and Sarawak.

An implication of the fact that, contrary to what was believed by myself and others prior to this study, Sabah turned out to have both many timber industry ties by heads of state and suboptimal levels of rent capture, is that the hypothesis is only partly confirmed, because there is no variation in the independent and dependent variables. This study fails to find a case in which low levels of ties by political elites to the timber industry lead to high levels of timber rent capture. Without this degree of variation on the independent and dependent variables, the hypothesis represents, in the words of Donald Campbell, a slightly variegated "one shot case study" (Campbell 1957: 298-299).

On the other hand, the evidence assembled in this dissertation suggests that the hypothesis may be at least partly correct. The independent variable (the degree to which state leaders maintain personal ties to the timber industry) and the dependent variable (the degree to which rent is captured) relate to one another in a manner specified by the hypothesis. Moreover, even though my research disproved conventional assumptions about Sabah, facts assembled in this dissertation with respect Sabah still tend to support

\textsuperscript{15} Gray literature is a term used in this dissertation to refer to unrefereed agency reports.
the hypothesis. In other words, not only in Indonesia and Sarawak, but surprisingly in Sabah as well, ties by politicians to the timber industry were high and government timber rent capture was low. Thus, one of the claims made by the hypothesis has been confirmed. The obverse claim was untestable because case selection did not allow it.

**Why oil rent capture remains high**

Although this dissertation is primarily about the timber industry it raises the question of why the governments of Indonesia and Malaysia collect oil rent at optimal levels, but not timber rent. Rulers do not engage in similar excesses in the petroleum sector because powerful foreign oil companies refuse to succumb to high levels of extortion from heads of state. Therefore, oil agencies in developing nations tend to formally collect revenues from foreign oil companies at optimal levels at the wellhead. Then rulers proceed to appropriate rent from the agencies that just finished collecting it. The bottom line is that, in comparison with timber, oil as a sector possesses a characteristic that results in oil rent capture occurring at an optimal level, but only at a single point along the production chain.

At other points along the chain, the rent is still looted. Thus, overall rent capture in the oil sector is not as high as it initially appears to be.

The key characteristic that sets oil apart from timber is the technological complexity and expense of finding and drilling for oil. To find oil fields requires expensive equipment, and technicians to operate and interpret the findings of that equipment. Once favorable readings are obtained, exploratory drilling must then take place. Only a minority of places where petroleum engineers believe there may be oil
actually yield oil in commercial quantities. Exploratory drilling platforms often operate in hundreds or even thousands of feet of water. In the case of submarine oil fields, companies must sink pilings all the way to the bottom of the ocean and then build drilling platforms on those pilings. Then comes the task of actually drilling through both sedimentary and hard rock. If exploratory drilling results in the location of a commercial field, then the oil company must build a permanent drilling platform. When an oil field runs low, oil companies have to inject carbon dioxide gas to cause remaining oil to bubble up to the surface. Oil companies have to build long pipelines running tens or even hundreds of miles from drilling platforms to oil terminals where the crude oil is refined and separated from the natural gas which is stored in pressurized facilities.

The oil extraction process is enormously capital intensive, and that is why most of the exploration for and extraction of oil and gas that takes place in the developing world is carried out by oil companies from developed nations. In oil states around the developing world, one constantly encounters Exxon, Texaco, Mobil, Union, and Conoco (from the US), British Petroleum, Shell Oil, and ELF (from France). However, one rarely finds Venezuelan, Nigerian, Indonesian, or Malaysian oil companies working outside their borders.\(^{16}\)

For reasons of national pride, many oil states will not allow foreign oil companies to operate under their true names. Rather, the outside company may be required to

\(^{16}\) Oil companies from developing states do sometimes maintain 'international' operations in other countries, like the activities of Malaysia's Petronas in Vietnam, but these tend to be for show and are rarely
pursue partnerships with local entities and operate under a new name. The Arabian-American Oil Corporation (Aramco) is an example of this. Yet behind every Aramco can be found the same cast of multinational oil giants, providing the bulk of the technological expertise and capital required to find and extract oil.

The fact that developing nations are required to bring in outside companies to help them extract their oil resource has implications for the level at which oil rent is captured by the state. The critical problem from the perspective of rulers is that foreign oil companies possess the structural power to resist the types of informal and personalized types of interaction that are required in order to appropriate rent.

There is no body of empirical studies on what happens when multinational oil companies are approached by heads of state for large and extortionary bribes. Because oil companies are publicly traded and, as such, are subject to annual audits by international accounting firms, they would find large irregularities in their earnings difficult to justify to accountants and shareholders.

In contrast, accounting standards are not enforced as rigorously in Indonesia, including for timber companies, both privately and publicly held. For this reason, in 1990 two Indonesian timber companies, the Salim group and the Barito Pacific group, were willing to transfer in excess of $200 million each to Bank Duta, a bank owned by former President Suharto, to help the bank cover losses (Schwarz 1994: 128, 141).

Another possibility that I explore in Chapter 3 is that these nominally independent timber conglomerates are partially owned by Suharto. If this is true, then Suharto was simply taking money from one set of companies partly owned by him (the timber companies) and placing that money into another company fully owned by him (the bank). Even if this is the case, however, the argument I am making still holds, as no major oil multinational oil company would allow itself to be partially owned by a head of state of a
Because most heads of state in the developing world find it advantageous to have as many large local concerns as possible from which they can appropriate money, had it been feasible, most Indonesian presidents would have restricted oil exploration and drilling to domestic companies. The president could then extract funds from these companies whenever possible. This may explain why President Suharto in 1975 mandated that all foreign timber concessions be surrendered to locally-owned companies, effectively putting foreign firms out of business in Indonesia. However, Indonesia cannot treat foreign oil companies in the same way, because of the cost and expertise involved in the oil industry. This gives oil companies leverage in negotiations with the government. No combination of domestic Indonesian oil companies could maintain production at levels currently enjoyed by Indonesia, nor do they have the market share or distribution channels necessary to compete with multinationals for markets abroad. Therefore, Indonesia depends on oil multinationals that are able to resist predation by heads of state.

The Indonesian government has no choice but to negotiate with foreign oil companies and adhere to contractual agreements. This forces the government to extract resource rent from multinational oil companies at near-optimum levels of 85 percent.

However, although oil rent is collected by the state in an optimal fashion at the wellhead, once oil revenues are in the coffers of the Indonesian government, the head of state drains those coffers for his own personal gain in various ways.
One method for heads of state to drain oil profit is by jointly holding oil and gas extraction licenses with foreign oil companies. One example of this is Suharto's business partner Bob Hasan, who entered into a joint venture with Unocal to explore for oil and gas offshore East Kalimantan. After Suharto's fall, the Indonesian national oil company identified 159 separate contracts of this type. Additionally, the head of state, his family, and his associates all assist oil companies in various capacities with oil exploration, transportation, and extraction. Table 1.4 below shows oil services firms partly or fully owned by Bob Hasan. To the extent that companies controlled by heads of state or their associates provide non-competitive services to, or engage in joint ventures with, international oil companies, such that the latter lose money because of the relationship, this constitutes a form of unofficial rent appropriation.

Suharto's holding company Nusamba).
Table 1.4  Oil contracting, drilling, manufacturing, service, and transportation companies owned by Bob Hasan

<table>
<thead>
<tr>
<th>Name of company</th>
<th>Function of company with respect to the oil industry</th>
<th>Sources</th>
<th>Percent owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Babcock &amp; Wilcox Indonesia</td>
<td>Heat exchangers &amp; boilers assembling</td>
<td>PDBI (1996)</td>
<td>51</td>
</tr>
<tr>
<td>Baruna Raya Logistics</td>
<td>Boat crews for offshore oil rigs</td>
<td>PDBI (1996)</td>
<td>80</td>
</tr>
<tr>
<td>Bataves Fabricators</td>
<td>Steel oil vessel manufacturing</td>
<td>BN (1982/720)</td>
<td>20</td>
</tr>
<tr>
<td>Bosara Mulia</td>
<td>Oil and gas drilling contracting</td>
<td>BN (1999/1835)</td>
<td>90</td>
</tr>
<tr>
<td>Karsa Bhakti Nusa</td>
<td>Oil well cement, oil fuel equipment</td>
<td>BN (1984/687)</td>
<td>50</td>
</tr>
<tr>
<td>McDermott Indonesia</td>
<td>Marine and offshore contracting, fabricating</td>
<td>BN (1978/149)</td>
<td>24</td>
</tr>
<tr>
<td>Pacific Geohydro</td>
<td>Geologic survey services</td>
<td>BN (1999/8102)</td>
<td>50</td>
</tr>
<tr>
<td>Parama Geopower</td>
<td>Geologic survey services</td>
<td>BN (1995/3824)</td>
<td>90</td>
</tr>
</tbody>
</table>

Notes:
- Sources of company information: BN stands for Berita Negara, or the State Gazette; PDBI (1996) is Pusat Data Bisnis Indonesia's Conglomeration Indonesia, Volumes 1-3.
- Percentage figures: these represent either the percentage directly owned by Bob Hasan, or the percentage owned by companies of which he is at least a part owner.

A second way in which the head of state appropriates rent from oil is by plundering the coffers of the national oil company, which has the legal right to collect rent from foreign oil companies. This occurred in 1975 when a close friend of Suharto, Ibnu Sutowo, the head of the national oil company (Pertamina), bled that company to such a degree that it ran up ten billion dollars in debt and declared bankruptcy. Part of the missing ten billion dollars was used to finance joint business ventures between the head of Pertamina and Suharto's children. Pertamina also overpaid for large ticket items,

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18 Nearly a quarter century after Ibnu Sutowo was forced to step down from the head of Pertamina, joint ventures in the oil business were still being undertaken between Sutowo's and President Suharto's sons. In late 1997, at the peak of the Indonesian financial crisis, ground was broken for construction of a $3.2 billion oil refinery in which Ponco Sutowo controlled 15 percent and Bambang Trihatmodjo controlled 55 percent (4 December 1997 interview with William Keeling).

19 The former president himself may also have appropriated a substantial portion of oil revenues. Only months before his final fall from power, President Suharto reportedly told the head of Indonesia's largest securities house, Bahana Securities, that he had access to $40 billion in "previously secret" oil revenues (16 February 1998 interview with William Keeling).
such as oil tankers (Robison 1986). Pertamina funds were also requisitioned by the government's secretive "Team 10" to finance bogus government "development" projects (Winters 1991).

Another way rulers appropriate rent from oil is to provide their associates with monopolies over the import and export of oil. In Indonesia, one time presidential associate, Bob Hasan, still maintains control of these oil import and export monopolies. Interestingly, Bob Hasan is also the head of a major Indonesian forest conglomerate. Hasan and the former president's youngest son, Tommy, also controlled a fifty percent share in the crude oil export monopoly, Perta Oil Marketing (ASWJ 1995a, Jakarta Post 1998a). Perta Oil Marketing is still run by Hasan, but is now owned by an unknown figure or figures through a Hong Kong holding company.²⁰ Perta Oil Marketing also controls 100 percent of another company, Perta Oil Services, headquartered in Singapore, which is a crude oil and petrochemical import monopoly. These two companies appropriate rent through charging markups on the petroleum products that they export and import. In the case of markups on exported oil products, these are passed along to consumers, such as the California oil refineries that have a preference for Indonesian low sulfur crude oil. Similarly, when oil distillates are imported into Indonesia, their prices are marked up and costs passed along to buyers, usually the Indonesian national oil company.

Notwithstanding the various avenues at Indonesia's ruler's disposal for oil rent

²⁰ Perta Oil Marketing is 100 percent owned by a Hong Kong company called Wilgrist. The sole shareholders of Wilgrist are Hong Kong-based attorneys who are not required to disclose the identity of their clients. The same Hong Kong attorneys maintain two other companies, Wilvestor and Wilserve, presumably on behalf of the same clients.
appropriation,\textsuperscript{21} when multinational oil companies sell the oil they have pumped from the ground, the government taxes their windfall profit at 85 percent, a level considered optimal by resource economics. If Indonesia's former head of state could have appropriated rent from international oil companies as he did from Indonesian timber companies he would have done so, and would have banked windfall profit without having to set up joint ventures and import and export monopolies, and taking money from the national oil company.

Multinational oil companies are not subject to informal rent extraction on the same order of magnitude as, say, local timber companies. Therefore, heads of state have no choice but to collect revenues from oil companies at close to optimal levels, and siphon off the rent at other points along the production and distribution chains. The percentage of oil rent appropriated by heads of state, and whether it is less than, equal to, or greater than the amount of timber rent appropriated by the same leaders, is a matter for further research.

\textbf{Policy significance}

Whatever the scholarly significance of this study, it also seeks to inform policy. Numerous intergovernmental and nongovernmental organizations have expressed the need for better research on the unofficial appropriation of timber rent by political elites in insular Southeast Asia. These organizations are concerned about this issue but usually

\textsuperscript{21} There are as many ways for oil rent to be appropriated as there are oil producing nations. In the case of Malaysia, one reported strategy is for the national oil company Petronas to underdeclare production from its wells, and then divert the moneys from the sale of all undeclared oil to a special fund known by the initials "BMF." An Exxon engineer who worked in a joint venture with Petronas testified in Malaysian court that production from a platform was declared by Petronas to be only 50,000 barrels a day, when in fact it was 100,000. Shortly after giving this testimony the engineer disappeared, reportedly because of foul play (1 October 1996 interview with a knowledgeable Sabah-based source).
mention it only in internal documents, as in the following passage in which a consultant for the World Bank speculates that timber concessionaires earn so much rent because this provides political elites the opportunity to gather it privately from them:

[I]t is the concession holders and their agents - large timber contractors - rather than government forest departments who really control exploitation of the region's forest resources. This is, to a large extent due to linkages with politicians who depend to a large extent on contributions from concession holders and timber contractors. As a result, concession conditions are regularly contravened with impunity (World Bank 1992t: 2-4).

The same consultant also argues that raising timber taxes threatens concessionaires and the politicians they enrich:

In our opinion efforts should concentrate on . . . Increased Rent Capture through reform of the Royalty system. This involves raising royalties to take out the windfall profits which fuel pressure from loggers (and the politicians who depend on them for funds) for unsustainable large harvests (World Bank 1992t: 2-4).

In another internal document, a World Bank official acknowledges that:

It is no secret that the uncollected revenues generated by the timber industry do not accrue to local people but to the handful of wealthy industry owners, commonly closely associated with the government, with a closely-tied interest in government policy (World Bank 1993e).

Given the World Bank's position that personal ties of rulers to the timber industry undermine the revenue policy changes the Bank would like to see enacted, it is interesting that they never argue this point of view publicly. This is perhaps not only due to the political sensitivity of making such an argument but, probably more importantly, the difficulty of proving it. As one internal World Bank e-mail suggests:

It is true we don't know much of the detail about where the rents actually go; it will take a fairly substantial piece of analysis to find out - a quick job will not take us very far, especially given that the private sector can be expected to react very vigorously to whatever we have to say on this subject (World Bank 1994d).

Nongovernmental organizations also have difficulty proving that political elites are
secretly appropriating timber rent from timber concessionaires. This was emphasized by the
senior scientist from the IUCN (World Conservation Union), who cautioned me in a letter
about the difficulties I would encounter in my research:

I think that it is becoming increasingly difficult to untangle the complicated chain
of who owns what in the timber industry, as fronts, inter-connected boards,
multinationals, off-shore interests, and so forth make the whole business far less
accountable to any single agency. I suspect that it would take a team of 20 or 30
trained auditors to really chase things down at the Ministry of Forestry (McNeely

Another nongovernmental organization, the World Resources Institute, ran into
difficulties in proving that politicians appropriate rent from the timber sector. In the
course of writing a book on the challenges of timber policy reform in Indonesia, Charles
Barber, a researcher, recounted a conversation he had with his Indonesian co-author. The
two had been working hard that summer on their book (Barber et al 1994), an analysis of
the shortcomings of timber policy in Indonesia. One day, the Indonesian co-author's
patience wore thin. She complained that none of the problems outlined in their book
were likely to be solved because Indonesia's first family placed too high a premium on
appropriation of rent from the timber sector to the exclusion of all other considerations,
including good policy. Barber replied that in spite of the obvious merits of this
argument, it could not be prominently featured in the book unless there was proof to back
it up. Barber asked his co-author whether she had detailed proof at hand. She did not (5
March 1996 interview with Charles Barber). This is another example of how allegations
of predation by political elites are often not made publicly, because institutions or groups
are either not willing to take the political risk or lack evidence to support such
allegations. This study seeks to provide the probative evidence needed to support the
creation and enforcement of new laws prohibiting political elites from owning, either directly or indirectly, government-regulated industries. Without such laws, policy reforms like full resource rent capture will never succeed.

Organization

This dissertation is organized as follows: Chapter 2 describes the methods used to measure the independent variable, the degree of personal ties of political elites to the timber industry, and the dependent variable, the amount of timber rent that the state fails to capture. Chapters 3, 4, and 5 are the heart of the dissertation, and present the major findings of the study with respect to Indonesia, Sarawak and Sabah. In all three cases, high levels of political penetration of the timber industry led to low levels of governmental timber rent capture. Chapter 6 provides a background to the evidence (prior to going to the field) that Sabah's leaders lacked ties to the timber industry and that the government of Sabah captured high levels of timber rent. A case selection strategy is also presented, which other scholars may wish to employ, and which may ensure a greater range of variation in the causal and outcome variables of the study. Chapter 7 summarizes the findings of the dissertation, considers their implications, and points to other potentially interesting areas for future research.
Chapter 2  Research Design

This dissertation explores the proposition that to the extent that political elites are financially involved in the timber industry this drives down the levels at which governments set timber revenues. The personal stake of rulers in the timber industry is measured by counting the number of individual timber concessions run or owned by the rulers, their families, proxies, close friends, and political supporters or financiers, factoring in the holding's relative value as a market share. I seek to establish that when ruling politicians have extensive ties to the timber business, it results in government timber revenues being set at low levels.

Thus, the study breaks down into two fairly precise inquiries. First, it seeks to determine the degree to which governments permit patrons and clients to hold managerial and equity positions in timber concessions. Second, the study seeks to determine the level at which timber revenue rates have been set in Indonesia and the two East Malaysian states of Sarawak and Sabah over the last three decades of the 20th century. If these two sets of phenomena turn out to be inversely related to one another, the hypothesis will have been partly confirmed.

In terms of its initial research design, the study set out to use the most similar systems approach (Lieberson 1992, Lijphart 1971). This design entailed choosing cases which were similar in most respects, but which differed in terms of independent and dependent variables. The advantage of the most similar systems approach is that it allows as many variables as possible outside the theory to be held constant. I chose three tropical timber states, Indonesia, Sarawak and Sabah, which are similar in most respects but which I believed to differ in terms of the degree to which political elites maintained
ties to the timber sector, and the degree to which rent was collected by the government. I thought differences in political penetration of the timber sector would explain why the cases differed in terms of the degree to which they were able to capture rent.

The three cases are similar because although Sarawak and Sabah are not nations, but only states, they have total sovereignty in terms of timber policy. As an officer of the World Wildlife Fund for Nature put it, "As far as forestry policy goes, Sarawak and Sabah are managed as separate countries" (4 March 1997 interview with Saneth Kumar). Thus, the two East Malaysian states, as well as Indonesia, retain the characteristics of statehood insofar as timber is concerned.

Logging is carried out in all three states in timber concessions located on public lands, and seldom on private lands. Timber is a mainstay of all three economies. The primary type of timber sought in all three places belongs to the *dipterocarpaceae* family. Tractor logging is the main method of extraction used, selective logging, not clear-cutting, is the method of logging mandated. Also, all three timber industries share an export orientation: Indonesia, Sarawak and Sabah were the three largest tropical timber exporters in the world over the period covered by this study, 1970 to 1999 (World Bank 1992o).

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22 Under tractor logging, bulldozers clear main and branch roads, as well as smaller "skid trails" which lead to the base of each tree being harvested. A tractor drives up a skid trail to where one or more trees have been cut down, and cut into proper lengths (usually 10 meters). The tractor then hauls each log down the skid trail to a "landing" or small clearing along the road. There the tractor loads each log onto a truck, which then hauls logs out of the forest to a "log pond," from where logs are either floated downriver, or loaded directly onto a ship.

23 This is starting to change in Indonesia, with the growth of the pulp and paper sector, which has a great appetite for high volumes of lower quality timber, which necessitates not the selective felling, but the clear cutting, of the rain forest.

24 Sabah has now fallen far behind the other two, however, as it is almost out of trees. During the 1990s, the
There are also geographic and ethno-linguistic similarities between the three states. All three are equatorial and insular and share the same primary language (Malay-Indonesian). None has an ethnic group that constitutes a majority, though all have an ethnic group which constitutes a plurality (the Javanese in Indonesia, the Iban in Sarawak, and the Kadazan in Sabah).

Despite these many similarities, initially the cases appeared to differ in terms of the explanatory and outcome variables. With respect to the explanatory variable, the degree to which politicians hold personal interests in the timber industry, in Sabah two rulers who raised and maintained high levels of timber revenues appeared to be comparatively more reformist and to have relatively fewer ties to the timber industry than their predecessors. In Indonesia and Sarawak, on the other hand, extensive personal ties between the senior politicians and the timber industry have been widely reported. Despite the similarities between the three cases, the perceived lack of personal ties of Sabah's rulers to the timber industry appeared to set it apart from Indonesia and Sarawak.

The three cases also appeared to differ in terms of the outcome being explained, timber rent capture. As shown in Table 1.2, experts maintained that Sabah had one of the highest timber revenue rates in the world, capturing about 90 percent of potential timber rent, while Indonesia captured about 25 percent of potential timber rent, and Sarawak captured only about 20 percent of potential timber rent.

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final decade covered by this study, Sabah was no longer one of the world’s three largest tropical timber exporters. It was supplanted in that position by Papua New Guinea. However, recent estimates suggest that 60 percent of the timber concessions in the PNG are licensed to the Sarawak forest conglomerate Rimbunan Hijau. Therefore, throughout the 30-year period covered by this study, the three cases studied were either the largest timber exporting states, or domiciled the conglomerates that carried out the majority of the extracting and exporting of tropical timber in the three largest timber exporting states of the world.
**Case selection**

I chose two cases, Indonesia and Sarawak, in which the personal ties of politicians to the timber industry are high and the level of rent captured by the government from the timber industry is low, because I attempted to duplicate the study carried out by Michael Ross (1996), who sought to explain the successes and failures of Indonesia, Sarawak, Sabah (and the Philippines) in achieving timber rent capture. My interest in rent capture, as well as in the cases of Sarawak and Sabah, came from my initial conversations with Ross in 1993. I decided not to study the Philippines as Ross had. After the difficulty of obtaining research permission in Indonesia and Malaysia, I chose not to take on the same burden in the Philippines as well. As it turned out, by the time I came to the field, the Philippines had cut down its forests so extensively that there was, almost literally, no timber industry left to study.

**Hypothesis**

With the discovery that Sabah was characterized both by extensive political penetration into timber and low levels of timber rent capture, the hypothesis advanced in this study can no longer be fully proved. This is because, in spite of efforts to ensure that there was variation in the dependent variable, the degree of optimality with which governments collect timber revenues, there turned out not to be variation in the dependent variable. King et al describes the problem inherent in studies which lack such

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25 Although I knew where Ross had carried out his research, I never actually read his dissertation until late in 2000, when the first draft of my dissertation had been completed.

26 In a conversation with a former official from the Philippines' Department for the Environment and Natural Resources, I found out that the country had only three timber concessions left, and that those would be shut down by the end of the calendar year (3 September 1998 conversation with Antonio LaVida).
variation:

[W]e need the entire range of variation in the dependent variable to be a possible outcome of the experiment in order to obtain an unbiased estimate of the impact of the explanatory variables. . . . For instance, if we are interested in conditions under which armed conflict breaks out, we cannot choose as observations only those instances where the result is armed conflict. Such a study might tell us a great deal about variations among observations of armed conflict but will not enable us to explore the sources of armed conflict (King et al 1994: 109).

While the hypothesis can no longer be fully proved, its chief argument has become more streamlined. I argue that Indonesia, Sarawak and Sabah have low timber revenue rates because their governments lack autonomy from predatory demands by heads of state, and also are unable to master the dual imperative. Forestry agencies are unable to stop heads of state who, in order to increase their wealth and maintain power, are dependent on funds diverted to them and their followers unofficially from the timber industry. Neither patrons nor clients want to see their personal income stream diminished by an increase in official timber revenues paid to the government. Therefore, clients to some extent, and definitely patrons, place pressure upon departments of forestry not to increase timber revenues.

**Independent variable**

The degree to which state leaders and their political supporters have personal financial interests in the forest products industries of Indonesia, Sarawak and Sabah, the independent variable, is measured in terms of their stakes in the control of timber concessions, that is to say, licenses to harvest timber from specific areas of public forests.

The first step in measuring this variable was to obtain lists of timber concessions in Indonesia, Sarawak and Sabah. The better part of two years was spent trying to piece together a list of timber concession holders in Indonesia and Malaysia, based on what I
was able to glean from the business press, investment bank reports, intergovernmental 
organization documents, nongovernmental organization reports, but all without much 
success. Finally I found a variety of published sources and individual researchers who 
had compiled this data.

In Indonesia, I obtained copies of two books which listed the names and parent 
companies of many of the timber concessions in the country (CIC 1994, PDBI 1994). I 
cross-checked the contents of these books with those of two other internal working 
documents compiled by the Indonesian Department of Forestry (PPHH 1997, PPH 1998). 
After five years of analyzing this data, I came up with a list of 64 Indonesian timber 
concession holding groups in Indonesia (see Table 3.1).

Obtaining data on concession holders in Sarawak and Sabah was even more 
difficult than in Indonesia. As Chee Yoke Ling, then Secretary of Friends of the Earth 
Malaysia, put it, "[Even] the [federal] government has had a hard time getting state 
governments to provide a list of legal concession holders" (FEER 1993). As to state-
owned forestry entities like the Sabah Foundation, "Unlike Northeast Asia where 
information has been made readily available for . . . rigorous assessment . . . most data on 
state sponsored enterprises are held in secrecy in Malaysia" (Rajah 1996: 6).

Notwithstanding these difficulties, I eventually was able to compile reliable lists of the 
timber concessions of the top timber conglomerates in Sarawak and Sabah.

With respect to Sarawak (see Table 4.3), a graduate student from a leading 
Southeast Asian university provided me with a list of the timber concessions controlled 
by the state’s three largest private concession holders. I cross-checked the contents of 
this list with an internal list of the timber concession holdings of the largest of the three
private groups, and the two lists verified one another. A separate list revealing the timber concession holdings of the current chief minister of Sarawak was made public by his uncle, a major political rival at that time (Sarawak Tribune 1987). I removed duplicates from all of these lists and then compiled a master list of all timber concessions controlled by Sarawak's four largest concession holding companies (see Table 4.3)

With respect to Sabah (see Table 5.2), a foreign graduate student on assignment to a government-sponsored research organization furnished me with an official list of all concessionaires in the state (Sabah Department of Forestry 1996b). The student also shared detailed knowledge of the government-controlled Sabah Foundation's private contractors. These contractors, although not concession holders, are important instruments for the unofficial appropriation of timber rent, as the Sabah Foundation is the largest timber concessionaire in the state.

To better present information on timber concessions in a more reader-friendly format I obtained and digitized relatively accurate maps of the locations of timber concessions in Indonesia, Sarawak and Sabah. Special maps were created for this study to show only the concessions belonging to the largest timber conglomerates in Indonesia, Sarawak and Sabah. These maps are included in Chapters 3 through 5.

Returning now to the discussion of how we know the degree to which rulers run or own timber concessions in Indonesia, Sarawak and Sabah, the second step was to identify the directors and shareholders in these concessions. This was accomplished by obtaining the documents of incorporation of each of these concession-holding companies.

After spending weeks sifting through the badly-organized and badly-preserved corporate registry maintained by the Indonesia Department of Justice, I discovered the
country’s first privately-established corporate registry, Tatanusa. From it, I purchased lists of directors and shareholders of all concessions licensed to Indonesia’s five largest private timber conglomerates: Barito Pacific, Djajanti, Kayu Lapis Indonesia, Alas Kusuma, and the Bob Hasan group.

In Malaysia, I spent weeks in the Kuala Lumpur Registry of Companies, where I purchased microfiche documents of incorporation for the largest timber concession holding groups in Sarawak and Sabah. For Sarawak, I obtained documents of incorporation for concessions said to be controlled by the chief minister of Sarawak as well as by the Samling, Rimbunan Hijau, and KTS conglomerates. For Sabah, I obtained documents of incorporation for all timber concessions larger than 5,000 hectares, and for logging contractors to the Sabah Foundation. In order to obtain data on timber companies that were not on file in Kuala Lumpur, special trips were made to the Kota Kinabalu (Sabah) and Kuching (Sarawak) Registry of Companies.

The most interesting step in determining the degree to which heads of state and their supporters had personal financial interests in the timber industry was to interview informants about the political connections of the directors and shareholders in the timber concessions. These interviews were politically sensitive. For this reason, the names and occupations of informants have been withheld if these persons requested anonymity or seemed excessively nervous during interviews.

Difficulties sometimes arose identifying proxies. For example, the difficulty in identifying Malaysian Chinese proxies was explained to me by the general manager of an

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27 A hectare is the same as 2.54 acres. All forest areas will be measured in hectares in this dissertation.
agro-forestry company owned by a former Sabah chief minister:

The problem with trying to identify Chinese nominees is that in most cases they are not prominent members of the Chinese business community. Politicians will rarely ask prominent Chinese to serve as place holders for them in timber companies. Instead, politicians prefer members of the Chinese community who are weak or stupid, so they can take advantage of them. It is understandable that a politician would be fearful of being cheated or blackmailed by his proxy, given the informal nature of the arrangement of serving as a proxy for a politician in a timber company" (3 July 1997 interview with Lao Siew Chang).

Given the difficulty of identifying proxies, if a relatively clear consensus was lacking among informants as to the identity of a shareholder or board member or their relationship to senior officials, then that individual is not included. Lack of agreement among informants led to the exclusion of many possible proxies from this report.

The final result of the process above was a profile of patrons (heads of state) and clients (political supporters) in Indonesia, Sarawak and Sabah who served on, or were represented on, the boards of individual timber concessions licensed to the largest timber conglomerates in those states.

**Dependent variable**

To determine how much rent escaped capture by governments to be instead appropriated by concessionaires and political elites, this study uses the calculation process shown in Table 2.1 below. The table uses recent data from Indonesia.

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28 Another source suggested, however, that the power of proxies is curtailed using more formal means. Papers are drawn up to grant proxies only a limited power of attorney. While proxies are empowered to do some things (like receive money on behalf of the host), they are forbidden from doing others (like taking over a company or selling the company). These legal documents are never made public as they typically reside either with attorneys or court registrars (12 July 1997 interview with Fung Ket Wing). Persons of Chinese descent living in insular Southeast Asia do not use the word “proxy” to describe timber concession placeholders. Rather, they use the word 'ma-chai' or 'little host.' The politician is known as the 'host.' Their proxy is called a 'little host' (3 July 1997 interview with Lao Siew Chang).
Table 2.1 Rent uncaptured by forest fees in Indonesia in 1999 (in dollars per cubic meter of red meranti)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>80</td>
</tr>
<tr>
<td>- Cost of Extraction</td>
<td>-21</td>
</tr>
<tr>
<td>- Normal Profit (25 percent of cost of extraction)</td>
<td>-5</td>
</tr>
<tr>
<td>= Total Rent</td>
<td>54</td>
</tr>
<tr>
<td>- Reforestation fee (DR)</td>
<td>-9</td>
</tr>
<tr>
<td>- Forest resource provision (PSDH)(^{29})</td>
<td>-8</td>
</tr>
<tr>
<td>- Other forest fees</td>
<td>-4</td>
</tr>
<tr>
<td>= Uncaptured rent after forest levies</td>
<td>33</td>
</tr>
</tbody>
</table>

Potential timber rent depends on the market price for logs: the higher the price, assuming extraction costs and royalties remain constant, the greater the rent earned by timber concessionaires and passed along to political elites. In Indonesia in 1999, the official price of a cubic meter of red meranti,\(^{30}\) the wood of choice for Indonesia’s and Malaysia’s plywood industry, was about 80 dollars a cubic meter (Brown 1999: 72).\(^{31,32}\)

The cost to timber concessionaires of removing a cubic meter of wood from the forest, and normal profit, can then be subtracted to find the rent. Calculations made using

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\(^{29}\) PSDH stands for *Provisi Sumber Daya Hutan*, or forest resource provision. It functions precisely the same as, and is levied in an amount only slightly higher than, the old forest products levy or *Iuran Hasil Hutan* (IHH), which it nominally replaced.

\(^{30}\) Barney Chan, Executive Director of the Sarawak Timber Association volunteered that I was "on target" in choosing red meranti as an "indicator species" in terms of understanding overall trends in timber revenues (13 November 1996 interview). Sarawak Timber Industry Development Corporation 1995 statistics also show that red meranti had been up to that time Sarawak's leading exported wood species.

\(^{31}\) $80 is a reasonable price on which to base calculations of rent in Indonesia in 1999 not only because it constitutes the official price on which the government calculated revenues in that year, but also because it represents an approximate middle ground between the prices at which illegal meranti plywood-quality logs sell in Indonesia (now as little as $20) and the export price of the same wood from neighboring Sarawak ($130). The price of $80/m³ is also in line with internal estimates of the World Bank in the early 1990s that “the price for meranti logs appears to have risen only to about $82/m³” (World Bank 1991i).

\(^{32}\) Rp8,000 to one dollar is the post-monetary crisis Indonesian exchange rate used throughout this report. Rp2,350 is the pre-monetary crisis exchange rate. For Malaysia, the post-crisis rate used is RM4 to a dollar. The pre-crisis rate is RM2.5.
the timber concession model of Scotland and Whiteman (1997a) suggest that it costs a timber company $21 to take a cubic meter of wood from the forest, including costs of road building.\textsuperscript{33}

Normal profit, the level of profit which allows the concessionaire to earn 25 percent on the amount invested to extract wood from the forest, is also subtracted from the market price for a cubic meter of timber.\textsuperscript{34} Rounding to the nearest whole dollar, 25 percent of $21 is roughly five dollars. In the 1999 Indonesian example from Table 2.1, the cost of extraction plus normal profit total $26. Subtracting $26 from $80, we arrive at $54 as the total amount of rent contained in each cubic meter of red meranti harvested and the level at which the government should set timber revenues.

The Indonesian government captures timber rent primarily through one of three forest levies. First is the \textit{dana reboisasi} or “reforestation fee.” In 1999, for each cubic

\textsuperscript{33} The cost of extraction of $21 per cubic meter is roughly in line with the costs identified in an internal study carried out by the World Bank. In that study, estimates were made of the logging cost of the Barito Pacific group, Indonesia’s largest timber conglomerate. It was found that the cost to the company for cutting down trees and transferring them to the log yard were $19 for swamp forests, and $24 for hill forests (World Bank 1992e). This dissertation uses slightly inflation-adjusted costs of extraction ranging from $19 to $21 per cubic meter. In the literature, estimates of costs of extraction do not go above $35 per cubic meter. For a longer discussion on how the costs of extraction for this study were derived, see Chapter 6.

\textsuperscript{34} Deciding how much return on investment should constitute “normal profit” is a somewhat arbitrary exercise. The World Bank has in the past said that a 20 percent return on investment should be considered normal profit. For example, in 12 July 1991 correspondence, then-Director of the World Bank’s resident staff in Indonesia, Nicholas Hope, advised Widjojo Nitisastro of the national planning agency Bappenas, “Forestry fees could be raised from their current level of $15 per cubic meter to about $45 per cubic meter, while still allowing forest concessionaires to earn a reasonable profit (a 20 percent return on investment).” This dissertation assumes normal profit at the slightly higher level of 25 percent of costs of extraction, following the economic analyses of the Indonesian Tropical Forest Management Programme. The first ruler to raise Sabah timber revenues substantially, Chief Minister Harris Salleh, told me that he thought “20 to 25 percent profit was enough” for timber companies (1 and 2 October 1996 interviews with Harris Salleh). The critical point to keep in mind is that even if 100 percent of costs of extraction were considered to constitute normal profit, there would still be economic rent left uncaptured by governments from the timber sector during nearly all years examined in this study.
meter of red meranti, the government charged an average of nine dollars. The second forest fee is called the \textit{Provisi Sumber Daya Hutan} or PSDH, which was eight dollars in 1999.\footnote{The PSDH was formerly called the \textit{Iuran Hasil Hutan} or IHH.} Finally, the government has several fixed forest fees which total about four dollars. Combined these come to about $21 of rent captured per cubic meter.

Subtracting the $21 in revenues from total rent of $54 leaves $33 in uncaptured rent, before corporate taxes. It can be assumed that most of this $33 is pocketed by concessionaires and/or political elites, given the record of vertically integrated Indonesian concession-plywood companies for not paying corporate taxes.\footnote{A senior World Bank tropical forest economist recalled that he “looked at the Government of Indonesia’s success in collecting . . . income based taxes . . . for (processed) output from forest products industries, and found that, over a ten year period or so, they had managed to collect no taxes of this nature at all” (Douglas 1999). However, if one were to operate under the assumption that timber concessionaires do pay the corporate income taxes they owe, $25 per cubic meter in rent would still have been uncaptured by the government in 1999.} Dividing total timber revenue collected ($21) by total timber rent ($54) shows that the government achieved only 39 percent timber rent capture in 1999, which falls short of 100 percent, the standard by which tropical forest revenue policies are evaluated in this dissertation.

The method outlined above allows us to determine the exact amount of rent lost per cubic meter\footnote{Figures for rent lost in any given year will be for the single most heavily exported species of dipterocarp timber from Indonesia, Sarawak and Sabah. That species is red meranti in the cases of Indonesia and Sarawak, and red seraya in the case of Sabah.} in Indonesia, Sarawak and Sabah, during each year between 1970 and 1999. This information is graphed for Indonesia in Figure 3.6, for Sarawak in Figure 4.2, and for Sabah in Figure 5.2. For those who wish to see which state lost the most rent per
cubic meter in any given year, the three figures are combined in a single graph in Figure 6.1.

We can also use the information on how much rent was not captured by the governments of Indonesia, Sarawak and Sabah as a point of reference for measuring how much timber rent was appropriated by any individual shareholder in any concession in any year. We can do this so long as we know the size of the concession and the percentage of the individual's shareholding, and use the table in Appendix 1. What we learn is that the family of Indonesia's former President Suharto earned $5 million from a single timber concession in a single year. It also tells us that the bomoh for Sarawak's Chief Minister Taib, who may be thought of as a proxy, earned $4.8 million from a single concession in a single year. As to Sabah, Kitingan's lawyer appropriated $275,000 a year from his shareholding in a timber concession. These figures, of course, represent only the annual earnings of a single shareholder in a single concession. In order to arrive at the total rent appropriated by a head of state in a given year, many more such calculations must be combined.

Non-quantitative comparisons

Although quantitative comparisons support arguments in this dissertation, so do comparisons of a more qualitative nature. I give "thick descriptions" (Geertz 1983) of the mechanisms by which political elites are allowed to appropriate timber rent. These descriptions provide evidence of a variety of ways by which timber rent is appropriated by patrons and their politically valued clients.

The degree to which states manage to capture timber rent has also been investigated by pursuing information of a qualitative nature. Structured interviews took place over a
period of four years with hundreds of parties knowledgeable about the timber sectors of Indonesia and Malaysia. Interviews were structured around the critical question of the level at which timber revenues were set over the last three decades. Notes were taken, except in instances where it was felt that this would jeopardize the candor of the informant. Detailed reports of all interviews were typed on the day of the interview.

A list of interviewees, their positions, and the dates on which the interviews took place, are listed in Appendix 2. Informants included academics, business figures, trade association officials, investment bankers, domestic and international environmental group representatives, journalists, political opposition figures, intergovernmental agency officials, and former or current government officials.

**Summary**

I set out to examine the relationship between conflicts of interest by elected state leaders in the timber sector and the ability of state agencies to regulate that sector. I hypothesized that if the sector was heavily penetrated by state leaders, it would be poorly regulated. Conversely, if a ruler did not own or run companies in the sector, it would be well-regulated. I focused on the world's three leading tropical hardwood exporting states. The inquiry was designed to have variation both with respect to the independent variable (the extent to which politicians had penetrated the sector) and the dependent variable (the degree to which timber rent was captured by governments).

Once in the field, it was discovered that contrary to the findings of prevailing economic thinkers, politicians in Sabah also maintained close ties to the timber industry, and the state's government had failed to meaningfully capture optimal levels of timber
rent. I was left, therefore, with a situation where all three of the cases being researched, Indonesia, Sarawak and Sabah, were the same.

Nevertheless, in spite of the limited research design, I continued with my work because I had created and tested methods of measuring the extent to which political leaders penetrate economies and the extent to which states accumulate critical sources of development capital. Also, after nearly two years in the field, and well into the second of two research grants, I did not deem pursuing new cases, new funding, and new rounds of research authorization to be practical. Finally, and by far the most important, the story I uncovered is an important one: heads of state had appropriated money crucial to the economic development of the states they governed while destroying an irreplaceable biological treasure. The next three chapters tell this tragic story.
Chapter 3 Unofficial Timber Rent Appropriation in Indonesia

This chapter discusses the institutional conditions under which leaders in Indonesia were able to misappropriate economic rent for personal and political reasons, rather than directing it toward more development-oriented goals. Government institutions were incapable of stopping the country’s former ruler from extracting timber rent, which we will examine below.

Indonesian politics and forest management

Indonesia's former president Suharto assumed power in 1967, and left office in 1998 amid widespread protests and massive economic failure. He served as president during almost the entire period covered by this study. The most significant characteristics of Suharto's rule were his depoliticization of Indonesian society, and his deinstitutionalization of the government. He was the archetypal patrimonial ruler.

The process of depoliticizing Indonesian society was begun by Suharto's predecessor Sukarno, but Suharto took the process much further. After the nation achieved independence from the Dutch in 1949, there was a dramatic period of parliamentary democracy that lasted almost throughout the decade of the 1950s. Political parties vied with one another for parliamentary power, and governments changed, on average, every eighteen months (Feith 1962). Under increasing pressure from the nation's armed forces to limit democratic power, President Sukarno declared in 1959 that the nation would be ruled by "guided democracy," which amounted to authoritarian rule (Lev 1966). During the first half of the 1960s, Sukarno's power rested on the unstable pillars of the communist party and the armed forces, which erupted into a bloody power struggle in 1965. After mid-ranking communist officers massacred five of the nation's top six generals, one of the two top surviving officers was
Suharto. He authorized the army to provide weapons to Muslim paramilitary youth squads who then hunted down the membership of the PKI, at that time the world's largest communist party. What followed was one of the largest mass-killings in the latter half of the 20th century. Sukarno was reportedly forced at gunpoint to sign over power. Suharto assumed the acting presidency in 1967.

Suharto then proceeded to outlaw all meaningful political activity in Indonesia, except during brief periods leading up to elections, and then only under the umbrellas of the three state-approved political parties. The largest of these was Suharto's ruling Golkar party, which regularly garnered two-thirds of the vote. The remaining two parties, representing the interests of the Muslim (PPP) and nationalist (PDI) camps, split the final third of the vote. Elections resulted in the selection of members of the Indonesian parliament, the Dewan Perwakilan Rakyat or DPR, which met once every five years in a body called the Majelis Permusyawaratan Rakyat or MPR to select a president. Suharto was repeatedly selected because of his 2/3 majority in the DPR and because he hand-selected many of the remaining members of the MPR.

The significance of Suharto depoliticizing society to this degree was there was no longer a meaningful forum for the discussion of issues of national importance, such as the initiation of timber reform. The tradition of political discourse in Indonesia died under Suharto. Living in Indonesia during the final years of the New Order, as the Suharto era was called, I found that when I asked most people about issues of national importance, they

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38 The other was General Nasution, whom the would-be assassins had failed to kill. Unlike Suharto, Nasution did not have designs on absolute power.

39 The other five were politically-motivated killings in Russia, China, Cambodia, and Rwanda, and the US war in Vietnam.
found polite ways to avoid discussing what they perceived to be a dangerous subject. With political inactivity persisting under Suharto for two generations, Indonesians were left almost wholly without knowledge of important governmental decisions.

Suharto achieved the deinstitutionalization of the government by undermining a comparatively well functioning bureaucracy. With the exception of selected economic ministries that were allowed to function properly during lean times in order to keep the nation's economy from disintegrating (Winters 1991), the primary function of most state agencies was to serve as conduits for the dispensation of patronage. Suharto was patron-in-chief, and ministers were his clients as well as lesser patrons in their own right. By the middle of Suharto's presidency, the patronialization of the Indonesian bureaucracy was complete, as described by McVey in the following passage:

The bureaucracy . . . ceases to move in a modernizing direction. It has no need to do so, for there is no effective pressure on it: parties are weak or proscribed, or simply replications of itself; economic interests are foreign or dependent on bureaucratic favor; and the main indigenous social element outside itself is a disorganized and powerless peasantry. Moreover, because it is the locus of power and of wealth (through its control of licenses and permissions, secured by a carefully nurtured statism), it becomes the arena for all meaningful political action. Real politics takes places not in parliament or whatever organs may exist outside the bureaucracy, but in the government apparatus itself. Lines of power and patronage in the administration do not follow the formal chain of command but a very different pattern: the powerful patron will have clients in several ministries or armed units; his true strength as an official will depend on his personal connections and the access his position provides to wealth. A businessman wishing to obtain favorable consideration will not necessarily seek the formally appropriate official, but the most powerful bureaucrat he thinks he can retain as his champion. Because the bureaucracy is the arena for politics, it cannot function effectively as an executive arm; it cannot be battlefield, commander, and soldier all at once. Because positions and criteria for advancement are not what they formally seem, an official's real status depends not on his formal title but on securing wealth, clients, and favor; and (quite aside from display requirements in a changing and increasingly materialistic society) this means utilizing the economic possibilities of one's position to the full. Hence the "commercialization of office" that is now a
chronic Indonesian theme of complaint. Because the bureaucracy cannot administer effectively, its social role becomes largely parasitic and its members, if ever they entered with the idea of achieving anything, soon slip into the prevailing inertia (McVey 1982: 88).

Suharto's control of the state's bureaucracies, with the goal of diverting a growing stream of state resources to himself and his family, has become legendary. Prior to his fall from power, Suharto's accumulation of personal wealth had already come to the attention of a broad range of observers. Immediately after Suharto's fall from power, the Indonesian business consultancy Pusat Data Bisnis Indonesia estimated Suharto's wealth to be at about $18.5 billion. A year later, Time magazine estimated Suharto's wealth to be $15 billion, promptly incurring a lawsuit against the magazine, which Time won. If these various estimates are any guide, Suharto had used his position to accumulate a staggering personal fortune by the time he fell from power.

Indonesia's Department of Forestry played a role in assisting the former president, his family, and his proxies, in their accumulation of wealth. This is, however, not always easy to see, even for insiders, because the department is a normally functioning

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40 For example, during the 1980s, the World Bank reportedly told the president that they were aware that his personal overseas holdings exceeded the magnitude of the Indonesian government's total foreign debt (Richard Robison, 28 August 1996 comments). In 1989, Jeffrey Winters interviewed a CIA official who placed the personal wealth of Suharto and his family at $30 billion (Winters 1991: 67). Winters commented on the importance the Suhartos placed on the accumulation of personal wealth, as opposed to simply patronage, "Although it is difficult to argue about beginning motives based exclusively on end results, the enormous wealth Suharto has amassed for himself, his wife, and his children makes it tempting to suggest that personal greed was also an important factor in Suharto's calculations from the very start" (Winters 1991: 67). In the weeks immediately prior to his fall from power, new stories circulated regarding the enormous wealth of Suharto and his family. Suharto's son Bambang Trihatmodjo reportedly wrote a personal check for $30 million, an act witnessed by the head of Merrill Lynch's operations in Indonesia (25 February 1998 interview with William Keeling). A recent newspaper report puts the assets of three of President Suharto's children in excess of Rp5 trillion ($625 million) each (Indonesia Observer 2001).

41 I worked inside the headquarters of the Department of Forestry for one and a half years as a policy analyst for the UK Department for International Development's Indonesia Tropical Forest Management Programme.
bureaucracy on many levels with jurisdiction over all of the nation's forests. Virtually all commercial production of timber takes place in state-owned forests. Private companies may carry out removal of timber from public forests, but they do so only by agreeing to follow a series of complex, well-intentioned department regulations. The thrust of these regulations is that the concessions must be harvested in a way that is consistent with a permanent, steady supply of commercially valuable timber. One element of these regulations particularly worth mentioning is the Indonesian selective logging and replanting system (TPTI is the Indonesian acronym), a requirement that several native seedlings be planted for each tree removed from the forest. It is also the department's responsibility to set the levels of revenues that will be collected from timber concessionaires.

Whatever the legitimate functions of the Department of Forestry, they begin with respect to the awarding of timber concessions to private companies. Although, technically, it is the job of the Minister of Forestry to grant concessions, he does not do so without first consulting the president. Hence, timber concessions in Indonesia are effectively awarded by the president, in many cases to the president's family, using the Department of Forestry to provide a patina of legitimacy. I was given an inside look at this process when it was explained to me how Indonesia's first Minister of Forestry, Soedjarwo, a relative of the former president’s wife (Barr 1998: 5, footnote 13), awarded timber concessions to the president's cousin and half-brother. Lukito, who served as

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42 TPTI stands for *Tebang Pilih Tanaman Indonesia*, or the Indonesian Selective Cutting and Replanting System. Indonesians in the Department of Forestry, however, like to joke that TPTI stands for *Tebang Pasti Tanam Insya'allah* or “Cut, definitely. Replant, perhaps.”
Secretary General under Soedjarwo, recounted how in the early 1970s Soedjarwo received a phone call from the president, asking him to award timber concessions to the president’s cousin Sudwikatmono and half brother Probosutedjo. A short time later, Soedjarwo and Lukito received the two relatives of the president in Soedjarwo’s home and initiated the paperwork for the concessions, which were subsequently awarded (27 August 1998 interview with Lukito Daryadi).

In addition to having timber concessions awarded directly to his family, other mechanisms were used by Suharto to appropriate timber rent. In Indonesia, timber concessions have always been granted to politically-privileged logging companies, which harvest the trees standing in their concessions, pay below-optimal revenue rates to the government, and export the logs at high world prices. The concessionaires earn the difference between the low cost of, and low taxes levied on, timber extraction, and the high price for which tropical timber sells on the world market. Rent is earned by President Suharto, who is usually paid through intermediaries, often family members, who serve as board members or shareholders in dozens of such timber concessions. Rent is also earned in an even more subtle fashion, when the president and his family go into business ventures with concession holders in both the forest (plywood, pulp and paper, and oil palm) as well as non-forest (banking, petrochemical) sectors. The names and sizes of these concessions have until now been kept a mystery to the outside world. The following table ranks these conglomerates according to the size of their natural forest concession holdings.
## Table 3.1  
**Ranking of Indonesian timber groups by concession holdings, 1997/1998**

<table>
<thead>
<tr>
<th>Group name</th>
<th>Number of timber concessions</th>
<th>Total area in timber concessions (hectares)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barito Pacific</td>
<td>52</td>
<td>5,043,067</td>
</tr>
<tr>
<td>Djajanti</td>
<td>29</td>
<td>3,365,357</td>
</tr>
<tr>
<td>KLI</td>
<td>19</td>
<td>2,806,600</td>
</tr>
<tr>
<td>Alas Kusuma</td>
<td>19</td>
<td>2,661,376</td>
</tr>
<tr>
<td>Inhutani I</td>
<td>3</td>
<td>2,609,785</td>
</tr>
<tr>
<td>Bob Hasan group</td>
<td>12</td>
<td>2,131,360</td>
</tr>
<tr>
<td>Armed Forces/Army</td>
<td>7</td>
<td>1,819,600</td>
</tr>
<tr>
<td>Korindo</td>
<td>8</td>
<td>1,589,228</td>
</tr>
<tr>
<td>Kodeco</td>
<td>3</td>
<td>1,081,700</td>
</tr>
<tr>
<td>Sumalindo</td>
<td>9</td>
<td>1,057,678</td>
</tr>
<tr>
<td>Salim</td>
<td>10</td>
<td>979,027</td>
</tr>
<tr>
<td>Daya Sakti</td>
<td>8</td>
<td>919,925</td>
</tr>
<tr>
<td>Surya Dumai</td>
<td>10</td>
<td>852,827</td>
</tr>
<tr>
<td>Hanurata</td>
<td>3</td>
<td>796,754</td>
</tr>
<tr>
<td>Bumi Raya Utama</td>
<td>7</td>
<td>745,900</td>
</tr>
<tr>
<td>Inhutani III</td>
<td>1</td>
<td>715,000</td>
</tr>
<tr>
<td>Uni Seraya</td>
<td>7</td>
<td>708,140</td>
</tr>
<tr>
<td>Mutiara</td>
<td>4</td>
<td>649,600</td>
</tr>
<tr>
<td>Tanjung Raya</td>
<td>8</td>
<td>630,481</td>
</tr>
<tr>
<td>Benua Indah</td>
<td>6</td>
<td>596,100</td>
</tr>
<tr>
<td>Inhutani II</td>
<td>5</td>
<td>594,500</td>
</tr>
<tr>
<td>Antang</td>
<td>6</td>
<td>588,240</td>
</tr>
<tr>
<td>Police</td>
<td>6</td>
<td>572,720</td>
</tr>
<tr>
<td>Mujur</td>
<td>7</td>
<td>560,000</td>
</tr>
<tr>
<td>Hutrindo</td>
<td>5</td>
<td>542,000</td>
</tr>
<tr>
<td>Satya Djähraya Raya</td>
<td>4</td>
<td>453,246</td>
</tr>
<tr>
<td>Batasan</td>
<td>4</td>
<td>444,643</td>
</tr>
<tr>
<td>Roda Mas</td>
<td>5</td>
<td>418,500</td>
</tr>
<tr>
<td>Dwima Manunggal</td>
<td>4</td>
<td>395,900</td>
</tr>
<tr>
<td>Rimba Karya Indah</td>
<td>5</td>
<td>395,043</td>
</tr>
<tr>
<td>Kahayan</td>
<td>6</td>
<td>386,400</td>
</tr>
<tr>
<td>Rimba Ramin</td>
<td>2</td>
<td>334,000</td>
</tr>
<tr>
<td>Iradat Puri</td>
<td>2</td>
<td>332,000</td>
</tr>
<tr>
<td>Inhutani V</td>
<td>2</td>
<td>326,500</td>
</tr>
<tr>
<td>Siak Raya</td>
<td>6</td>
<td>323,513</td>
</tr>
<tr>
<td>Tanjung Johor</td>
<td>5</td>
<td>316,450</td>
</tr>
<tr>
<td>Sinar Mas</td>
<td>4</td>
<td>310,273</td>
</tr>
<tr>
<td>Subago</td>
<td>1</td>
<td>296,000</td>
</tr>
<tr>
<td>Yusmin Trading</td>
<td>4</td>
<td>289,700</td>
</tr>
<tr>
<td>Kayu Mas</td>
<td>3</td>
<td>272,000</td>
</tr>
</tbody>
</table>
### Table 3.1 (continued)  Ranking of Indonesian timber groups by concession holdings, 1997/1998

<table>
<thead>
<tr>
<th>Group name</th>
<th>Number of timber concessions</th>
<th>Total area in timber concessions (hectares)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segara Timber</td>
<td>5</td>
<td>265,000</td>
</tr>
<tr>
<td>Pakarti Yoga</td>
<td>3</td>
<td>257,524</td>
</tr>
<tr>
<td>Raja Garuda Mas</td>
<td>2</td>
<td>255,500</td>
</tr>
<tr>
<td>Sentosa Jaya</td>
<td>3</td>
<td>236,000</td>
</tr>
<tr>
<td>Bina Lestari</td>
<td>4</td>
<td>222,000</td>
</tr>
<tr>
<td>Sulwood</td>
<td>4</td>
<td>216,870</td>
</tr>
<tr>
<td>Sola Gratia</td>
<td>3</td>
<td>214,509</td>
</tr>
<tr>
<td>Sambu</td>
<td>2</td>
<td>149,000</td>
</tr>
<tr>
<td>Sampaga</td>
<td>2</td>
<td>149,000</td>
</tr>
<tr>
<td>Ubhi Mekar</td>
<td>2</td>
<td>148,000</td>
</tr>
<tr>
<td>Kaboli</td>
<td>3</td>
<td>141,307</td>
</tr>
<tr>
<td>Surya Satria Timur</td>
<td>3</td>
<td>136,477</td>
</tr>
<tr>
<td>Air Force</td>
<td>1</td>
<td>130,000</td>
</tr>
<tr>
<td>Hendratna</td>
<td>1</td>
<td>125,000</td>
</tr>
<tr>
<td>Katingan Timber</td>
<td>1</td>
<td>112,000</td>
</tr>
<tr>
<td>Gulat</td>
<td>2</td>
<td>110,000</td>
</tr>
<tr>
<td>Dayak Besar</td>
<td>2</td>
<td>109,000</td>
</tr>
<tr>
<td>Wijaya Kusuma</td>
<td>2</td>
<td>104,500</td>
</tr>
<tr>
<td>Giat</td>
<td>2</td>
<td>96,000</td>
</tr>
<tr>
<td>Loka Rahayu</td>
<td>2</td>
<td>95,060</td>
</tr>
<tr>
<td>Sumber Kayon</td>
<td>1</td>
<td>65,000</td>
</tr>
<tr>
<td>Jatirin</td>
<td>1</td>
<td>55,000</td>
</tr>
<tr>
<td>Poleko</td>
<td>2</td>
<td>50,500</td>
</tr>
<tr>
<td>Hartati</td>
<td>1</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Never part of a group</strong></td>
<td>96</td>
<td><strong>7,732,550</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>464</strong></td>
<td><strong>51,251,052</strong></td>
</tr>
</tbody>
</table>

Source: Brown 1999: 40-41

In terms of who controls the timber industry, very little has changed during the 1990s (Brown 1999: 6-13). While during the last decade the third and fourth ranked timber concessionaires have switched places, the industry is still dominated by the same five private groups: Barito Pacific, Djajanti, Kayu Lapis Indonesia, Alas Kusuma and Bob Hasan. In 1995, these five groups held between them 30 percent of the country’s

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*Companies that never had more than one timber concession at any time own the 96 concessions designated as "never part of a group."*
timber resources. By 1998, their share had grown slightly to 31 percent. This increase in control of timber concessions by the top five groups, though slight, took place within the context of a shrinking number, and area, of timber concessions. From 1995 to 1998 the number of operating timber concessions fell from 585 to 464, while the area of forest licensed as timber concessions fell from 62.5 million to 51.5 million hectares.\footnote{For a longer discussion of the dimensions and implications of the closure, reclassification, and reassignment of timber concessions in Indonesia between 1995 and 1998, see Brown (1999: 33-38).}

However, the biggest companies remained unscathed by the sweeping cuts of 1995-1998, as well as a smaller round of cuts undertaken in the summer of 1999.\footnote{In the summer of 1999, the Department of Forestry revoked eight timber concessions totaling 1.2 million hectares, and did not extend the licenses of 13 other concessions totaling 1.4 million hectares (Jakarta Post 1999n). The 1999 cuts amounted to less than five percent of the country’s timber concessions. Given that the cuts were spread across the five largest private concessions holders (as well as five mid- and small-sized ones), the positions of five large groups remains unshaken, even after Suharto's fall from power.} The holdings across the Indonesian archipelago of the five largest timber groups -- Barito Pacific, Djajanti, Kayu Lapis Indonesia, Alas Kusuma, and the Bob Hasan group -- are mapped in Figures 3.1 through 3.5 on the next five pages.

What accounts for the concentrated holdings of Indonesia’s top five private timber groups? The conglomerates that hold an oligopoly over the nation's timber concessions are able to do so because of their willingness to provide shares and directorships in these concessions to members of the former first family. What follows is an analysis of the extent to which this is the case for the top five timber concessions.\footnote{The information is presented below in Tables 3.2, 3.3, and 3.4 below. This information was first publicly released in a report I wrote for the UK government (Brown 1999). Teten Masduki, the head of the NGO Indonesia Corruption Watch, publicly called on Indonesia's Attorney General to use my report in his investigation into corruption of the former president (Gosip Politik 2000).}
Barito Pacific

Indonesia's largest timber conglomerate is the Barito Pacific group. The owner of the group, Prajogo Pangestu, is quite close to the former president. The two men reportedly breakfast together on a regular basis (4 August 1995 interview with a reporter from *Swa Sembada*). Prajogo's concession holdings stood at 68 in 1995 (Brown 1999: 12) due in part to his willingness to provide former President Suharto's family members with shares and directorships in some of these concessions, as shown in the following table.

Table 3.2 Barito Pacific timber concessions in which former first family members are either board members or shareholders

<table>
<thead>
<tr>
<th>Name, province, and size of Barito Pacific-linked HPHs</th>
<th>Name of board member or shareholder</th>
<th>Position in and/or percentage of shares held in company</th>
<th>Relationship to the former president, and source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Panambangan, Central Kalimantan, 65,000 hectares</td>
<td>Bernard Ibnu Hardjo</td>
<td>Director</td>
<td>Brother of now-deceased wife of former president, <em>Berita Negara</em>, 3 December 1971, volume 21, number 123: 16, 22.</td>
</tr>
<tr>
<td>Sangkulirang Bakti, East Kalimantan, 110,000 hectares</td>
<td>Indra Rukmana</td>
<td>President Director</td>
<td>Husband of eldest daughter of former president, PDBI 1994: B-254 and B-255.</td>
</tr>
</tbody>
</table>

Note: Sangkulirang Bakti’s operating license was withdrawn by the Department of Forestry because the concession had so little timber left in it. It is now in the hands of the state forestry corporation Inhutani I.

There is evidence to suggest that there is penetration by the former president into
the Barito Pacific group not only at the level of timber concessions, but at the firm level as well. Although on paper the group’s publicly traded flagship Barito Pacific Timber is 64 percent owned by the group's head, Prajogo Pangestu, he is presumed by market observers to hold a substantial portion of these shares on behalf of the president. For example, Salomon Brothers reportedly chose to withdraw from its role in underwriting the initial public offering of Barito Pacific Timber after Prajogo Pangestu refused to provide the written verification of his majority ownership. Crosby Securities, which evidently had fewer scruples where this matter was concerned, stepped in to underwrite the IPO (20 November 1997 interview with William Keeling).

Another indication of direct presidential control of the Barito Pacific conglomerate was provided by the senior timber analyst for Indonesian investment bank Sigma Batara, who described Barito Pacific as a "family company." When I asked him to which family he was referring, he said Barito had been “created for, and on behalf of, the first family” (17 January 1998 interview with Widyaka Nusapati). A review of Barito's board of directors reveals a probable proxy for the president, Eddy Tumengkol, who serves as Commissioner of Barito Pacific Timber. As the former head of the Protocol Bureau of the Office of the President from 1985 to 1991, Eddy Tumengkol was a senior gatekeeper to the president over a seven year period, and is thought to represent the interests of the president on the board of the company (14 December 1995 interview with Eugene Galbraith).

However, the function of the Barito Pacific group was far more than to funnel rent from the extraction of timber to the former first family. Barito Pacific is a diversified financial empire whose purpose was, and to some extent still is, to enrich the former
president and his family, not only through timber activities, but also through a much broader range of activities in the plywood, pulp and paper, banking, and petrochemical sectors. While first family-Barito Pacific timber ties are important, it is in the broader context of allowing the Barito Pacific conglomerate to possess the financial wherewithal to provide business services to the former first family that the conglomerate’s access to as many as 68 timber concessions should be understood. Detailing Barito’s ties to the former first family, on this and the next four pages, is an important undertaking because it demonstrates the extent to which rent from Indonesia’s forests was informally appropriated by Barito Pacific to satisfy the financial objectives of the Suharto clan.

The relationship between Barito Pacific and the former president began in the early 1980s, when Barito bought the rights to 35 timber concessions that had been licensed to other companies (PDBI 1994: 158-159). Barito could not have secured the bank financing to purchase so many timber concessions had the former president not exerted influence upon a number of state banks. Barito took out loans from three of Indonesia’s six state-owned banks: Bank Bumi Daya, Bapindo, and Bank Dagang Negara. Accounts differ as to whether Barito initially received state bank financing due to its strong balance sheet or its political connections but there is little doubt that the company’s political ties became more important over time, as in the case of securing a $45 million subsidy from state-owned forestry corporation Inhutani II, and a $550 million uncollateralized loan from Bank Bumi Daya, both in 1991 at the insistence of Suharto (Schwarz 1994: 141).47

47 Barito’s loans from Indonesia’s state banks became so large that, according to a document reportedly leaked in 1994 by a joint Bank Indonesia-Ministry of Finance committee, Barito Pacific was the country’s single largest debtor to state banks, owing them Rp3.8 trillion (Brown 1998: 5-6). A more recent press report suggests that Barito has slipped to the number three position in the queue of debtors to state banks, behind two of the former President’s sons (Brown 1999:15). An analysis of Indonesian Bank
In addition to money borrowed from state-owned banks, Barito’s substantial concession holdings provided a continuous stream of revenues (Brown 1998: 8-9) that enabled it to pursue a broad range of business activities mostly, it would seem, in partnership with the former president and his family. For example, in 1991 Barito helped the former president achieve his desire to be both a player and chief arbiter in the world of Indonesian high finance. Barito provided around $220 million to bail out Bank Duta, a bank owned by Nusamba, a Suharto family holding company. Another major timber conglomerate, the Salim group, Indonesia’s eleventh largest concession holder, matched Barito’s contribution to the Bank Duta bailout (Schwarz 1994: 128; 141).

Barito also helped the former president to reign in the ambitions of the Astra group. During the 1970s, Astra and Indonesia’s biggest corporate giant, the Salim group, were the two most important Suharto family-linked conglomerates in Indonesia (Robison 1986). While the Salim group has always remained close to the first family, Astra began to show increasing independence, a trend culminating in the decision of Astra’s Bank Summa to pursue a retail banking venture with cooperative banks linked to (now President) Gus Dur’s independent Nahdlatul Ulama movement. When Astra and Bank Summa were both threatened with bankruptcy, due to currency trading losses by Bank Summa, President Suharto reportedly asked Barito Pacific to bail out Astra, with a view toward being able to regain his control over it through Barito Pacific’s Delta Mustika

Restructuring Agency (IBRA) suggests that Barito is now the sixth-most indebted conglomerate to Indonesian state banks (Kompas 1999b). Whatever the actual ranking of the bad debts of the Barito conglomerate, the point is that the company was able to borrow a lot of money from state banks due to the intervention of the former president, who along with his family were the business partners of Barito.
affiliate (Brown 1998: 10). The Salim group also contributed to the Astra bailout.

The Barito Pacific timber conglomerate has also helped to finance the political objectives of the president. For example, Prajogo Pangestu paid for both the publication of Suharto’s ghostwritten autobiography (Schwarz 1994: 140) and the construction of a monorail at Beautiful Indonesia, the ‘cultural’ theme park inspired by the visit of Suharto’s now-deceased wife, Ibu Tien, to Disneyland. Pemberton observes how Beautiful Indonesia, and the vision of Indonesian ‘culture’ it represented, served as a foundation for the Suharto family's political power, "[A] highly articulated rhetoric of culture would serve the Soeharto [sic] regime well, as constant appeals to 'traditional values,' 'customary behavior,' and similar expressions of social stability have greatly facilitated the maintenance of state security." Pemberton goes on:

With the foundation of "beautiful Indonesia," Bapak (Father) and Ibu (Mother) Soeharto [sic] assumed the roles of model parents of an extended national family, privileged benefactors of an extensive inheritance. Displacing economic concerns with a patently "cultural" gift, this novel inheritance offered Indonesians a bequest they apparently could not afford to refuse. Built into the logic of such a bequest was a transference of culture which erased the difference between past, present, and future, and thus flattened time -- and with it, histories, including the extraordinary violence of the New Order's own origins as well as a history of social activism from the late 1940s to the mid 1960s -- into a continuously presented present (Pemberton 1994: 6-7).

In addition to using the proceeds from its timber business to support the financial and political objectives of the former president, Barito has also used these funds to go into business with two of the former president’s children. Suharto's eldest daughter, Siti Hardijanti Rukmana (a.k.a. "Tutut"), a former Minister for Social Affairs, was given a 15

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48 Eugene Galbraith believes that the president chose not to rescue Bank Summa, and instead moved to take over the Astra conglomerate, because William Soeryadjaya had declined to contribute to the bailout of Bank Duta (14 December 1995 interview).
percent share in Barito’s $1.1 billion Tanjung Enim Lestari pulp plant (Brown 1998: 5).

Tutut also owns 36 percent of Musi Hutan Persada, the industrial pulpwood plantation that feeds the pulp mill. Finally, Tutut and Prajogo have teamed up on a large sugar plantation in Sulawesi (Schwarz 1994: 141).

Barito owner Prajogo Pangestu additionally has substantial joint business holdings with the former president’s middle son, Bambang Trihatmodjo. Prajogo owned 50 percent of the former Bank Andromeda, while Bambang owned 25 percent. The bank was shut down in part because, in violation of Indonesian banking laws, more than 20 percent of its loans went to its sister company, Chandra Asri, in which Prajogo and Bambang also held shares. Chandra Asri is a facility that transforms naptha, an oil by-product, into ethylene and propylene, the basic building blocks for plastic compounds. Chandra Asri holds the sole right to manufacture propylene in Indonesia, and is also protected by a 40 percent import tariff barrier (Brown 1998: 11-12). Former Finance Minister Mar’ie Muhammad lost his power and influence in the cabinet for a single sin, calling for Chandra Asri’s import tariffs to be lowered, a suggestion that was publicly rebuffed by former President Suharto.49

Chandra Asri has now run up more than a billion dollars in debt that it cannot repay. The new government, under President Gus Dur, is at a loss for how to respond. Initially, the plan was to nationalize the company, with the government owning 80 percent. However, under such a plan the original owners of Chandra Asri, Barito Pacific owner Prajogo Pangestu and his business partner from the Suharto family, Bambang Trihatmodjo, would have been let off the hook for the company's debt. A set of documents in the hands of a journalist reportedly prove that Prajogo and Bambang ran up the company's enormous debt, in part, through overpaying 30 percent for the company’s equipment. The presumption is that they received the amount they overpaid as kickbacks from the companies that sold them the machinery (November 1999 interview with an Indonesia-based journalist). Under nationalization, the government assumed full responsibility for repayment of the company's debt. After facing criticism, the government decided to abandon its plan to nationalize Chandra Asri. However the plan that has replaced it appears to represent the worst of all worlds. On the one hand, it returns a 49 percent stake in the company to Prajogo Pangestu, a risky move in light of the magnitude of the fraud that he is alleged to have perpetrated. On the other hand, the 31 percent stake the government will now take in the plant is quite small relative to the $375
The major buyer of Chandra Asri’s output is another Barito-Suharto family company, Tripolyta. In what amounts to a sweetheart deal for Chandra Asri, Tripolyta is obligated to buy propylene from Chandra Asri at 10 to 20 percent above the market price (Brown 1998: 11-12). Shareholders in Tripolyta include not only Prajogo Pangestu who controls 37 percent, but also Suharto's cousin Sudwikatmono (five percent), and two business associates of Suharto crony Liem Sioe Liong, Henry Pribadi and Ibrahim Risjad, who respectively control seven and five percent.

Barito continues to move in an agile fashion between business and politics in post-Suharto Indonesia. Of Rp350 billion ($44 million) which the Golkar party spent in the June 1999 elections, nearly a quarter of that amount, Rp80 billion ($10 million), was personally contributed by Barito’s owner Prajogo Pangestu (FEER 1999b: 17). Prajogo is also alleged to have made a substantial transfer of funds to the personal bank account of former Attorney General Andi Ghalib, to stall his investigation of Prajogo for banking violations. Finally, in what may constitute the single largest blow to the credibility of Indonesia's new president Gus Dur, legal proceedings against Barito Pacific for repayment of its debts to state banks have been delayed. This has prompted the IMF to raise questions about the government's decision to delay legal proceedings against . . . Prajogo Pangestu. "Anoop Singh [the senior IMF official with responsibility for Indonesia] inquired about the differences in treatment, why some legal proceedings were delayed." [President] Gus Dur said that there was nothing else that could be done as they were major exporters, saying, "we have to make sacrifices for the common good" (Jakarta Post 2001a).

million in debt it has forgiven and relative to the 20 percent stake it has given to the Japanese corporation Marubeni in exchange for its forgiving a mere $100 million in debt (Jakarta Post 2001b).
Bob Hasan

I turn now to a discussion of Bob Hasan, the owner of another of the top-five timber groups with close ties to the Suharto family. Like Barito Pacific, the reason Hasan was granted so many concessions was due, in part, to his willingness to unofficially divert rent to the first family. The extent of the rent Hasan diverted to them is suggested by the fact that he privately complained to World Bank officials about having to pay twice as much to the Suharto family as he did in timber revenues to the government (4 August 1995 interview with Asmeen Khan). One of the avenues through which Hasan enables the former first family to appropriate rent is by giving them shares and directorships in his concessions, as shown in Table 3.3.
<table>
<thead>
<tr>
<th>Name, province, and size of Bob Hasan HPHs</th>
<th>Name of board member or shareholder</th>
<th>Position in and/or percentage of shares held in company</th>
<th>Relationship to the former president. Source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alas Helau, East Kalimantan, 125,000 hectares</td>
<td>Sigit Harjojudanto</td>
<td>Commissioner</td>
<td>Eldest son of the former president. Berita Negara, 18 August 1993, volume 66, number 3735: 1 and Berita Negara, 6 November 1998, volume 80, number 5634: 46.</td>
</tr>
<tr>
<td>Alas Helau, Aceh, 152,000 hectares</td>
<td>Sigit Harjojudanto</td>
<td>25 percent shareholder</td>
<td>Eldest son of the former president. PPH 1998: 1AB-1.</td>
</tr>
<tr>
<td>Redjo Bumi Sari, East Kalimantan, 70,000 hectares</td>
<td>Siti Hardijanti Rukmana (Tutut); Sigit Harjojudanto; Probosutedjo</td>
<td>Commissioner &amp; 48 percent shareholder; General Director &amp; 48 percent shareholder; General Commissioner &amp; two percent shareholder</td>
<td>Eldest daughter; eldest son; half brother of the former president. Berita Negara, 14 March 1972, volume 21, number 97: 1-14.</td>
</tr>
<tr>
<td>Santi Murni, East Kalimantan, 330,000 hectares</td>
<td>Bambang Trihatmodjo; Alas Helau; Hanurata; Redjo Sari Bumi; Sumber Mari</td>
<td>Vice President Commissioner; 20 percent shareholder, eight percent shareholder; four percent shareholder; four percent shareholder; four percent shareholder;</td>
<td>Middle son of former president; four timber companies partly or fully owned by the family of the former president. Berita Negara, 3 January 1986, volume 1, number 16: 5 and Berita Negara, 3 January 1992, volume 1, number 5: 3.</td>
</tr>
</tbody>
</table>

As with the Barito Pacific group, in explaining why Bob Hasan was given access to the fifth-largest private area of timber concessions in the country, it is important not to overlook the fact that a steady stream of income accrued to the Suharto family over the years from directorships and shareholdings in those concessions. The Department of
Forestry acknowledged this when they revoked the Alas Helau concession (see Table 3.3 above) on the grounds that it had been controlled, as reported by a major Indonesian newspaper, “jointly by former president Soeharto’s [sic] children and their business associates and . . . because they were allegedly granted through corruption, nepotism and collusion” (Jakarta Post 1999n).

However, Bob Hasan’s concession holdings have given him the ongoing financial wherewithal to provide business services to the former first family outside the forest products sector. The main vehicle for their shared interests is Nusantara Ampera Bhakti, or "Nusamba," a Suharto family holding company.\footnote{It is commonly believed that Bob Hasan is the chairman, and a ten percent shareholder in, Nusamba, while the remaining shares of the Nusamba group are held by Suharto’s son Sigit Harjojudanto (ten percent), and the three largest and most prominent of the yayasans (“charitable foundations”) started by the former president, Darmais, Supersemar, and Dekab, which between themselves control the remaining 80 percent (Time 1999: 22). Hasan told two journalists (Raphael Pura and Richard Borsuk, both of the Asian Wall Street Journal) that the ownership of Nusamba was divided according to this 10-10-80 formula (8 June 2000 interview with Greg Churchill). However, in a review of the articles of association of Nusamba, I learned that as of 1999, the conglomerate was 100 percent owned by Bob Hasan. In reality, trying to determine exactly who 'owns' how much of Nusamba is something of a postmodern exercise in futility. The fact is that it is Suharto's company, while Bob Hasan holds some or all of the shares on the former president's behalf.}

The Nusamba group’s holdings include Bank Duta, whose shareholding structure mirrors that of Nusamba itself (\textit{Time} 1999: 22). Hasan was one of seven directors of Bank Duta until the month after Suharto's fall from power. Nusamba is an occupant of multiple rent havens, including: control of Indonesia’s tin plate manufacturing monopoly (Schwarz 1994: 141); a near-monopoly of the lucrative oil-sector indemnity insurance business, worth $120 million a year in revenues;\footnote{The oil indemnity insurance monopoly was awarded to the Nusamba affiliate Tugu Pratama Indo (AWSJ 1995a, Jakarta Post 1998g).} ten percent of the shares in Unocal production-sharing contracts in two areas off the coast of East Kalimantan (Jakarta Post 50).
1998e); a five percent interest in Freeport Indonesia, whose copper and gold mine in West Papua is the world’s largest (Time 1999: 22).

Nusamba was also used as a vehicle by the former president in his ongoing efforts to reassert control over the Astra conglomerate. Following a few years after the first Suharto-instigated buy-out of Astra shares with the help of Barito Pacific, Nusamba's second Astra play was designed to prevent cigarette magnate Putra Sampoerna from obtaining too large an interest in Astra, according to officials who represented the Astra and Sampoerna corporations at the time of the deal. Bob Hasan engineered the buyout of Sampoerna's shares by Nusamba and Anthony Salim (son of Liem Sioe Liong of the Salim group). The final result was that Bob Hasan became President Director of Astra.

In addition to his business partnerships with Suharto, the timber rent accruing to Hasan from his concessions has also enabled him to pursue numerous partnerships with the former president’s children. To begin with, Suharto’s eldest son, Sigit Harjojudanto, not only partnered with Hasan in the Nusamba group, but both still hold 25 percent of the Kertas Kraft Aceh paper mill, which has a monopoly on the production of newsprint paper for the nation.

Hasan and Bambang Trihatmodjo, the former president’s second son, also have a number of joint ventures. 35 percent of the ITCI timber concession is held by Bambang’s Bimantara conglomerate, 14 percent by Nusamba, and 51 percent by the Army’s Tri Usaha Bhakti holding company (PDBI 1994: 166-167). Bambang, Nusamba and Pertamina, the state oil company, are also coshareholders in Bank Tugu (Australian Financial Review 1997b).
Hasan and the former president’s third son, Hutomo Mandala Putra (Tommy), jointly controlled a vast network of businesses. Most prominent among them was the monopoly on the export of crude oil and fuel products held by Perta Oil Marketing, in which the two men held a 50 percent share, with Pertamina, the state oil company, holding the remaining shares (AWSJ 1995a, Jakarta Post 1998a). Pertamina recommended to Indonesia's national parliament that the two men’s involvement in the monopoly be stopped, but this request was denied when former President Suharto told Pertamina that decisions on how oil imports and exports were handled was “my responsibility” (Jakarta Post 1998a). Another Hasan-Tommy venture was the soybean meal production monopoly Sarpindo, in which Liem Sioe Liong, head of the Salim group, shared a controlling interest (Schwarz 1994: 133-135). Hasan and Tommy also held 60 percent of the now-bankrupt Sempati airlines, at one time one of only four domestic air carriers in Indonesia (Schwarz 1994: 143).

In Bob Hasan’s ties to the former first family we have a clear demonstration of the extent to which rent from Indonesia’s forests was used to meet the financial objectives of the Suharto clan.

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52 Ongoing cooperation between Hasan and the Suharto family in Perta Oil Marketing cannot be ruled out. Perta Oil Marketing is still run by Hasan, and is 100 percent owned by a Hong Kong holding company called Wilgrist which is not required to identify its clients.

53 "In 1988, Bulog awarded a monopoly to mill soymeal to Sarpindo, a company owned by Hutomo Mandala Putra and Bob Hasan. Sustained by a price differential of 23 percent above imported parity, Sarpindo was to earn $12 per tonne in a milling fee from Bulog as well as $72 per tonne from the soybean oil byproduct which it was able to retain" (Robison 1996: 6).

54 Another Hasan-Liem Sioe Liong joint venture is Indocement. Of the three Suharto Yayasans which are the primary shareholders in Nusamba, "each holds a 6.39% stake in the country's largest cement company, Indocement" (FEER 1990f: 62-63).
With the fall from power of President Suharto, both the Barito Pacific and the Bob Hasan timber groups are now under investigation by Indonesia’s Attorney General. Their collection of timber rent over the last two decades has left them immensely wealthy, and they are reportedly using their wealth to stave off prosecution, according to the recently deposed Minister of Forestry Nur Mahmudi.

Minister of Forestry and Plantations Nur Mahmudi Ismail has warned that several major companies under investigation for alleged involvement in massive fraud in the forestry sector were trying to block the legal process. The minister said the conglomerates were reportedly trying to raise huge war chests to finance lobbying in order to prevent the Attorney General’s Office from investigating their cases. ‘They have raised billions of dollars to support their efforts to stave off their prosecution,’ he said after a Cabinet meeting. . . . He said business groups also tried to influence his subordinates so that the latter would not provide the information and data needed by prosecutors from the Attorney General’s Office in the investigation process (Jakarta Post 2000).

Hasan's gambit to stave off prosecution has worked to some extent. Out of the 190 domestic and 35 foreign companies which Hasan partly or fully owns, it is only against a single one of these companies, Mapindo Pratama, the former Indonesian forest mapping monopoly, that the government has taken legal action.

The remaining three of Indonesia’s top-five private timber concession holders, the Djajanti, Alas Kusuma, and Kayu Lapis Indonesia groups, appear less involved with the first family in timber, and free of influence in non-timber activities. Although it is hard to prove the absence of such ties, the fact that no such evidence has been found must suffice. Table 3.4 lists those timber concessions controlled by the Djajanti and Alas Kusuma groups with former first family board members or shareholders.

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55 These 225 companies were identified in a research project in collaboration with the Forensic and Asset Tracing Division of the Indonesian Bank Restructuring Agency (IBRA). In seven days' research, the size of Hasan companies known to IBRA was doubled.
Table 3.4    Timber concessions licensed to Djajanti and Alas Kusuma groups with former first family board members or shareholder representation

<table>
<thead>
<tr>
<th>Name, province, and size of Djajanti or Alas Kusuma HPH(s).</th>
<th>Name of board member or shareholder</th>
<th>Position in and/or percentage of shares held in company</th>
<th>Relationship to the former president. Source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alas Kusuma group: Maju Jaya Raya, 80,000 hectares, Bengkulu</td>
<td>Dr. Ibnu Hartomo</td>
<td>President Commissioner, and ten percent shareholder</td>
<td>Brother of deceased wife of the former president. <em>Berita Negara</em>, 31 October 1975, volume 87, number 615: 1, 4, 15.</td>
</tr>
</tbody>
</table>

*Djajanti Djaja II was revoked by the Department of Forestry on 8 July 1999 (Jakarta Post 1999n).

As shown in the three tables above, Indonesia's former first family runs or owns concessions licensed to four out of five of the top private timber concession holding groups in the country. While Kayu Lapis Indonesia, the fifth large group, appears to have no such ties, others conclude differently. Information released in 1999 by the Department of Forestry suggested that Kayu Lapis Indonesia has four concessions “characterized by corruption, collusion, and nepotism” (the department's way of saying that these concessions are controlled by the Suharto family). The Department also lists two Barito Pacific, five Djajanti, two Alas Kusuma, and five Bob Hasan concessions characterized by the same, none of which had previously been identified as Suharto family concessions (*Kompas* 1999b, *Suara Pembaruan* 1999).56

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56 The reason the Department has different findings than I do is that, while I rely on original documents of incorporation of timber concessions and amendments to them, the Department relies on the annual working plans given to them by individual timber concession holders. These plans list the most recent directors and shareholders of each concession.
In short, there is ample evidence that the distribution of timber concessions was most often driven by the desire of the president to enrich himself and his family. However, there is also some proof that these timber concessions were used to benefit key political elites outside the president's family. For example, one of the top five timber groups, Djajanti, gave timber concessions to former Foreign Minister Ali Alatas and former Minister of Agriculture Cosmas Batubara (Brown 1999: 21). The degree to which Djajanti services its patrons was recounted by a manager of the group's mill in Ambon who told a researcher that he had to give away nearly all of the mill's profit to local politicians and to "partners in Jakarta" (1 August 1995 interview with Indria Samego). In general, however, the critical function of the timber concessions of the top five groups appears to be to enrich the former first family itself.

The discussion turns now to Indonesia's 'mid-sized' groups, which control vast concession areas of between 0.5 to 1.5 million hectares each. Table 3.5 on the next page lists these remaining top twenty private timber concessionaires, who owns them, and whether they are geared toward diverting timber rent directly to the former first family, or function as patronage vehicles, or are independent with some patronage functions.
### Table 3.5  Indonesia’s private mid-sized timber concession holders: names of owners; salient characteristics

<table>
<thead>
<tr>
<th>Ranking in terms of concessions</th>
<th>Group name</th>
<th>Names of owners</th>
<th>Salient characteristics (if any). Source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Armed Forces/Army</td>
<td>Main shareholders are Army's Tri Usaha Bakti holding company and Armed Forces Yayasan Maju Kerta foundation</td>
<td>Political patronage vehicle.</td>
</tr>
<tr>
<td>7</td>
<td>Korindo</td>
<td>In Yong Sun</td>
<td>Suharto representation. Three concessions are 30 percent owned by Nusamba (PBDI 1994: 164)</td>
</tr>
<tr>
<td>8</td>
<td>Kodeco</td>
<td>Antonius Moedjono Moerdani</td>
<td>Independent (CIC 1991: 1205A-1207A)</td>
</tr>
<tr>
<td>9</td>
<td>Sumalindo Lestari Jaya</td>
<td>Winarto Oetomo</td>
<td>Suharto representation (Suara Pembaraun 1999). Until recently half owned by Barito Pacific. Now one-third owned by Astra, which was run by Bob Hasan for a time.</td>
</tr>
<tr>
<td>10</td>
<td>Kalamur (Salim group)</td>
<td>Sudono Salim (Liem Sioe Liong), Anthony Salim</td>
<td>Suharto representation. 20 to 25 percent owned by Suharto family’s Hanurata group (PBDI 1994)</td>
</tr>
<tr>
<td>11</td>
<td>Daya Sakti</td>
<td>Widya Rachmat</td>
<td>Suharto representation. (Kompas 1999b). Listed on JSE.</td>
</tr>
<tr>
<td>12</td>
<td>Surya Dumai</td>
<td>Martias (Pun Kian Hwa); Irawaty (Un Tie)</td>
<td>Independent. Listed on Jakarta Stock Exchange (JSE).</td>
</tr>
<tr>
<td>13</td>
<td>Hanurata</td>
<td>Main shareholders are Suharto family foundations Harapan Kita and Trikora</td>
<td>Suharto owned.</td>
</tr>
<tr>
<td>14</td>
<td>Bumi Raya Utama</td>
<td>Adjianto Priosoetanto (Tan Lim Hian) and Soenaryo Priosoetanto (Tan Lim Hian)</td>
<td>Independent. Concessions and shares technically split with a second timber company Bumi Indah Raya.</td>
</tr>
<tr>
<td>15</td>
<td>Uni Seraya</td>
<td>Muharno Ngadimin (Ng Tjiok Sun) and Salim Widjaja (Liem Khway Lay)</td>
<td>Independent (CIC 1991: 762-764).</td>
</tr>
<tr>
<td>16</td>
<td>Mutiara (“Wapoga”)</td>
<td>Piet Yap (food commodities executive, Salim group)</td>
<td>Suharto representation.</td>
</tr>
<tr>
<td>20</td>
<td>National</td>
<td></td>
<td>Political patronage vehicle.</td>
</tr>
</tbody>
</table>
As is the case with Indonesia’s five largest private timber companies, among the sixth through twentieth mid-sized companies are a high number whose primary function is to funnel timber rent to the family of the former president: 40 percent of these mid-sized companies serve this function. For example, the nation's seventh largest concession holder, Korindo, shares control in three of its eight timber concessions with the Nusamba group (PDBI 1994: 164), the former president's holding company.

The ninth and eleventh largest concession holders, Sumalindo Lestari Jaya and Daya Sakti, have significant ties to the first family or, as the Department of Forestry puts it, they have “indications of corruption, collusion, and nepotism” (Kompas 1999b). The department claims that five of Sumalindo’s concessions have “shares held by Suharto cronies” (Suara Pembaruan 1999). Sumalindo itself was until very recently half owned by Barito Pacific (31 January 1996 interview with Christianto Wibisono) and one-third owned by Astra, which was in turn run by Bob Hasan.

The eleventh and eighteenth largest concession-holding companies, the Salim and Mutiara groups, sit at the nexus of two of Indonesia’s largest rent constellations, forestry and food products. The Salim group is owned by Liem Sioe Liong, the third most visible timber crony after Prajogo Pangestu and Bob Hasan. There are considerable financial linkages between the timber holdings of Suharto and Liem. For example, Yayasan Harapan Kita, a foundation chaired by Suharto and his former wife, sold four plywood and/or saw mills and the attached concessions to the Salim group in 1986 (PDBI: 169). Two of those timber concessions, Duta Rendra Mulia Sejahtera and Melapi Timber, are still identified by the Department of Forestry as belonging to the Harapan Kita Utama
group (PPH 1998), although for the purposes of this dissertation, they are included under the Salim group. Overall, the Suharto family owns 20-25 percent of the Salim group’s timber operations through its Hanurata timber company (CISI 1991: 372-374) whose primary shareholders are Yayasan Harapan Kita and Yayasan Trikora, two foundations chaired by Suharto and, prior to her death, his wife (CISI 1991: 311-313).

The Mutiara timber company is owned by Piet Yap, a senior vice president in the Salim group (CISI 1991: 484-487) on whose behalf Piet Yap has, at times, served as the world’s single largest wheat buyer (14 December 1995 interview with Eugene Galbraith). The wheat is then turned into flour, on which, until relatively recently, the Salim group held a nationwide milling monopoly (Robison 1986: 232-233).

The primary shareholders in the thirteenth largest concession holding conglomerate, Hanurata, are the two presidential foundations, Harapan Kita Utama and Trikora. While this study has tried to connect Suharto to various timber groups, Hanurata is the one timber group that is unambiguously registered in the Suharto family name. Another two concessions are held directly by Suharto's children: Rante Mario in Sulawesi licensed until recently to Suharto's youngest son Tommy, and Minas Pagai, offshore West Sumatra, still licensed to Suharto's middle daughter Titiek Prabowo.57

Some timber concession groups exist primarily to satisfy the patronage objectives of Suharto, rather than to simply make him richer. The most important example is the granting of timber concessions to Indonesia's Armed Forces, who constitute the sixth largest privately-held concession group in the country. The two largest factions within
this group are the Army, with concessions controlled mostly through the Tri Usaha Bakti holding company, and the Armed Forces, with concessions held mostly held through Yayasan Maju Kerta (Yamaker). The National Police, now the nation's 20th largest private timber concession holding group, grew faster than any other timber concession holding group in the nation during the latter half of the 1990s (Brown 1999: 42).

Fifty-five percent of the nation’s top 20 timber concession holding companies provided unofficial income streams to Indonesia’s former first family in one or more ways. Another ten percent of the top 20 concession holding groups provided income to key clients of the Suharto government within the state security apparatus. In a different category were the remaining 35 percent with no visible ties to the Suharto family or its political clients.

This raises the question of why these companies were allowed to exist and compete with companies that directly benefited the former President. The answer is that even

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57 Minas Pagai covers virtually the entire Pagai island chain, and threatens the habitat of two endemic primates, found only in the forests of the still-partly-unlogged south island, *Presbytis Potenzianai* (called *joja* locally), and *Simias Concolor* (called *simakobu* locally).

58 Two other timber concessions licensed to the armed forces are 305,000 Gema Sanubari on Buru island, licensed to the Indonesian intelligence agency Bakin, and 74,000 hectare Green Delta on Morotai island, licensed to the Air Force. Both concessions contain significant biodiversity values. The western portion of Gema Sanubari is located within the proposed Kelapat Mada Mountain Nature Reserve, and is discussed in a recent report published by BirdLife International’s Indonesia Programme (Poulsen 1998). As to Green Delta, it has two arms which penetrate into the heavily forested heart of Morotai island, and the proposed Waya Bulu game reserve. BirdLife International classifies Morotai island as a “key proposed protected area in the North Moluccas” (Sujatnika and Jepson 1995). The forest on Morotai island was once so extensive that it provided refuge to a Japanese soldier who hid there undetected from 1945 to 1978, unaware that World War II had ended. The soldier’s belated 'surrender' in 1978 was briefly reported in the world press.

59 The southwestern portion of one of the National Police's concessions, the 73,500-hectare Bhara Induk Maluku concession on Seram island, penetrates well into Manusela National Park. This can be proved by overlaying the Department of Forestry's maps of timber concessions with the World Conservation Monitoring Center's maps of Indonesia conservation sites. The concession's harvesting has been going on in the park for the last three years, and will continue for another year.
timber conglomerates in which there is no immediate evidence of ties to the former
president or his clients are still bled of rent in their dealings with a variety of national and
provincial government and party agencies. Because all timber concessions serve these
broader patronage functions, even nominally independent timber concessions serve the
president's political interests.

To begin with, Indonesia’s more independent timber companies still make
unofficial contributions to the ruling party during election years. Two representatives
from Walhi, a leading Indonesian environmental NGO, characterized timber
conglomerates as "sapi perah" (milk cows) that supply funds for ruling party political
expenditures. The representatives complained that whenever Walhi tried to raise money
from timber conglomerates, their response was that they had given so much to Golkar
that they could not afford to contribute to Walhi (22 August 1995 interview with Lili
Hasanuddin and Iwan Mucipto).

The Dean of the University of Indonesia's Faculty of Economics also told me that
timber concessionaires made informal payments to the then-ruling party, Golkar. I asked
exactly how Golkar used such contributions. He said the party kept detailed records of
electoral results, down to the level of individual polling places, which told them where the
party had won, where it had lost, and by how much. A community leader could approach a
Golkar official and offer to increase the vote for the party in a particular polling place by
certain number of votes. Depending on how many new votes the leader could deliver, the
Golkar official would then give him a certain sum of cash, presumably to be spent buying
votes, but also to compensate that leader (31 October 1995 interview with Dorojatun
As the 1998 presidential election approached, one Indonesian Department of Forestry official speculated that it was extremely unlikely that the government would move to raise timber revenue rates. He said, "Now more than ever, Golkar needs money from timber companies for the upcoming election, especially for campaign costs. The last thing the government is going to do is jeopardize this by increasing timber revenues."

The official said expenditures would include vote-buying and food subsidies for Islamic boarding schools (26 February 1996 interview with Silver Hutabarat). Contributions made by timber concessionaires to the ruling party prior to the 1998 presidential election were confirmed in an interview with the general manager of the Bina Samaktha group's Bengkulu timber concession. He told me that immediately before the 1998 election, all timber concession holders in Bengkulu province had been asked to donate $11 to the provincial branch of Golkar for each cubic meter of wood harvested that year (5 August 1998 interview).

Another group to enjoy the president's largesse was a segment of the increasingly demanding pribumi (non-Chinese) community. Hero Kuntjoro-Jakti pointed to a huge network of pribumi business persons (exclusive of the former president's children) that benefited from the former president's largesse, including pribumi businessmen's societies such as HIPMI, KADIN, and AMPI, the Muslim intellectuals' society ICMI, the cooperative movement including the Army's INKOPAD, the Navy's INKOPAL, the Police's INKOPAS, the vast network of KUD village cooperatives, and finally the constellation of companies associated with then-Minister of Research, subsequently Vice President and finally President, Habibie, including Timsco and IPTN.
According to Hero, in the 1990s these groups had become "increasingly aggressive" in lobbying for tangible economic benefits from Suharto in the form of government contracts. In distributing resources to these groups, the government used the free-spending, *pribumi*-focused, quasi-secret Team 10.\(^{60}\) Again, Hero's point was that there was a broad network of *pribumi* groups benefiting from Suharto that, in return, continued to support him politically.

Suharto financed these *pribumi*-focused expenditures in part from the government budget, especially the slushy "development" budget. Additional funding came from "tithes" paid to Suharto about one year ahead of election time by the heads of Indonesian Chinese conglomerates, including timber conglomerates. As already discussed in this chapter, of the top 20 timber conglomerates, all but three are headed by Indonesians of Chinese descent.\(^ {61}\) Pre-election contributions raised from these conglomerates were spent by Suharto on *pribumi* groups. This assured that they would support, or at least not actively undermine, Suharto's run for the presidency (2 August 1995 interview with Hero Kuntjoro-Jakti).

Rent was also appropriated from all plywood producers to buy Suharto political support. From 1985 to 2000, most of Indonesia's timber exports took the form of plywood, and were sold through the Apkindo plywood association. The rents Apkindo appropriated from plywood producers were staggeringly high. A small portion of this rent was used for various development-type expenditures, as indicated in an interview with the Director of Apkindo. The expenditures he mentioned included:

- $11 million over five years to *Impres Desa Tertinggal* which, translated, means "the president's fund for villages left behind."

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\(^{60}\) For the best discussion of Team 10, see Jeffrey Winters's 1991 Ph.D. dissertation from Yale University, "Structural Power and Investor Mobility: Capital Control and State Power in Indonesia, 1965-1990."

\(^{61}\) Two are headed by segments of the armed forces, and one by Suharto.
Funds for importing Australian calves for an animal husbandry project at Wonogiri (near Solo in Central Java). Under this project, the original recipients of Australian calves raise them to reproductive age and then pass their offspring to new recipients who repeat the cycle.

Slum rehabilitation in Jakarta. The Army donated labor, and Apkindo donated funds.

Funds for flood relief in Aceh, Central Kalimantan, Central Sulawesi, and Jakarta.  

The Director said that the Chairman of Apkindo, Bob Hasan, worried about justifying these development-type expenditures to Apkindo's membership. Tjipto said Hasan complained to him that, "Businessmen are not philanthropists" (2 February 1996 interview with Asmaning Tjipto Wignjoprajitno).  

While the lion's share of unofficially appropriated timber rent went directly or indirectly to the bank accounts of the former president, his family, their businesses, to their close business associates in the timber world and, to some extent, to the security apparatus, it sometimes went to other end-users in Indonesia. One thing that unified this final group, including party officials, various pribumi groups and organizations, and even the recipients of charity-type development expenditures, was that they were all part of the former president's complex political calculus.

This study assumes a zero-sum relationship between the level of timber rent

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62 During our interview, I overheard the Director take a phone call from Institut Agama Islam Negara, the state Islamic institute. He agree to donate Rp100 million ($45,000) to them.

63 Asmaning Tjipto Wignjoprajitno, the Director of Apkindo, told me that Bob Hasan had chaired Apkindo since 1973, but did not become active in running it until 1983, the same year he assumed leadership of the MPI, the Indonesia Forest Community umbrella group (2 February 1996 interview). Tall, bald, and imposing, Tjipto told me that he had served as a submarine captain in the 1961 Indonesian invasion of West Papua, and had personally been in charge of bringing down from the Soviet Union the submarines that were used by Indonesia in the war. According to Tjipto, the Soviet submarines were built to run in arctic and temperate waters, so once they reached tropical waters, the temperature inside of them never fell below 40 degrees Centigrade (104 degrees Fahrenheit), causing great discomfort for the sailors. Tjipto is now under detention for alleged misuse of Apkindo funds.
unofficially appropriated by state leaders and the level at which government rent capture officially takes place. If one is high, the other will always be low. Figure 3.6 shows the extent to which timber revenues were not captured by the government, but were instead available to satisfy the financial and political objectives of the head of state, his family, friends, political supporters, and financiers. The figure below shows that for the average cubic meter of red meranti exported in any one year, there was almost always a positive value for the economic rent appropriated by political elites and a corresponding negative value for the level of rent captured by the government in the form of timber revenues.

Figure 3.6: Average annual amount of timber rent unofficially appropriated in Indonesia, 1973 to 1998
The critical thing to note in the above figure is that the Indonesian government lost, and timber concessionaires and their political patrons gained, considerable levels of rent throughout the 30-year period covered by this study. If rent had been captured by the government at the optimal level of 100 percent, the level at which economic theory tells us it should be captured, then the line in the above graph would run along the x-axis. Instead, the line remains mostly in positive territory, illustrating misappropriation of funds.

Between 1974-1976, the Indonesian government appeared to capture slightly larger-than-optimal amounts of timber rent, although this success was an anomaly for the three cases studied. If true, this means that once we subtract the cost of removing logs from the woods, the payment of revenues to the government, and normal profit, the average concessionaire made slight losses during these years. However, this was probably not the case. Research found that during this time period, concessionaires underinvoiced, and the government underreported, the price of Indonesian log exports by 60 percent.\(^6\) If underinvoicing of this magnitude took place, then concessionaires made substantial earnings, so that even when it appeared that optimal levels of rent capture were surpassed, they probably were not. It is not known whether, or to what extent,

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\(^6\) Dorojatun Kuntjoro-Jakti told me of research he conducted on the under-invoicing of exported Indonesian logs in 1975. The results of this research shed light on the extent to which log exporters at that time earned enormous profits, not narrow losses. Dorojatun's study took the recorded prices of logs exported from Indonesia, and compared them to the recorded prices that Japan paid for the same logs (minus the cost of transport and insurance). Dorojatun tracked the prices in the two places for the period of year. He found that logs were declared to cost 60 percent less when they left Indonesia, than when they arrived in Japan. Dorojatun was of the view that the Japanese figures were the accurate ones, because in his experience, Japan was diligent in collecting import duties. Dorojatun's findings were, in short, that Indonesian timber companies were being paid 60 percent more for their logs by Japanese buyers than they declared them to be worth to Indonesian authorities, and therefore they avoided paying full duties on the logs they were exporting (31 October 1995 interview with Dorojatun Kuntjoro-Jakti).
under invoicing took place at other periods, but it is a common practice.

In short, the hypothesis proffered at the beginning of this study is confirmed in the case of Indonesia. The financial ties between the Suharto family and its close business associates in the timber industry are extensive, while official capture of timber rent remains low. Over a thirty-year period there has been a direct relationship between the growth of the personal interests of Indonesia's head of state in the timber industry and the decline in government timber revenue collection.

**Complex timber rent appropriation in Indonesia**

Between 1970 and 1984, the primary avenue through which rent was collected was the export of logs, and the main recipients were timber concession holders. But in 1985 the export of logs from Indonesia was prohibited by the government. Between 1985 and 1999, the primary avenue for timber rent appropriation was the export of commodity grade plywood, and the main beneficiaries were timber concessionaires that were vertically integrated with plywood mills.

The result was the accelerated appropriation of rent by former President Suharto and his family, who even today retain most of their formal financial linkages to top timber conglomerates. Key among these conglomerate heads are Prajogo Pangestu (Indonesia's top timber concession holder and plywood producer), Bob Hasan (the nation's fifth largest private concession holder and head of the plywood cartel), and Liem Sioe Liong (the nation's 11th largest private timber concession holder and 14th largest plywood producer). The end result is that a narrow group of vertically integrated concession-plywood operations, many with linkages to the former first family, capture much of the nation's potential timber rent through plywood exports.
The remainder of this chapter will consider mechanisms employed by Indonesia's ruler to appropriate plywood rent and the policies enacted for this purpose. All of these policies served to channel a growing pool of timber rent into the bank accounts of a select group of plywood mill-forest concession conglomerates. Whatever developmentalist and nationalist considerations may have underlain the log export ban and the plywood industrialization effort, an equally if not more fundamental consideration was to limit membership in the group of timber rent appropriators, and to provide that group with a supply of cheap raw material to leverage its rent earnings.

**Log export ban and vertical integration requirement**

The series of policy changes designed to shrink the number of timber rent-earners began when the government decreed that none of the timber exported from Indonesia could be exported as logs, but had to be exported as either rough sawn timber or commodity grade plywood. This regulation, when coupled with a vertical integration requirement, resulted in a concentration in control of timber concessions, and a consequent magnification of rent earnings for those who remained in the industry. The main laws used to impose the log export ban and to require vertical integration are summarized in Table 3.6 below.
<table>
<thead>
<tr>
<th>Year</th>
<th>Key event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td><em>Surat Keputusan Bersama Tiga Menteri</em> or SKBTM (the Joint Decree of the Three Ministries, issued by the Ministries of Industry, Trade, and Agriculture) <strong>required the reduction of log exports to 32% of total timber output.</strong></td>
</tr>
<tr>
<td>1981</td>
<td><em>Surat Keputusan Bersama Empat Dirjen</em> (SKBED) or the Joint Decree of Four Director Generals - Forestry, Multifarious Industry, Domestic Trade and Foreign Trade <strong>allowed loggers to export logs only if they were able to obtain the following permits</strong> - from the Director General of Foreign Trade the <em>Sertifikat Eksportir Terdaftar Kayu Bulat</em> (SEKT/B) or Certificate of Registration for Export of Logs, and the <em>Surat Persetujuan Realisasi Eksport Kayu Bulat</em> (SPREK/B) or Permit Letter for Realizing Log Exports.</td>
</tr>
<tr>
<td>1981</td>
<td><strong>A vertical integration requirement,</strong> the Joint Decree of the Director General of Forestry and the Director General of Industry, stipulated that for a period of two years businesses that had already invested in the plywood industry were permitted to export logs at a rate of 25% of their total production. New investors in plywood were permitted to export up to 50% of their total production. Those investors who were not able to develop their own processing plants were required to merge with companies that could do so.</td>
</tr>
<tr>
<td>1984</td>
<td><strong>Another set of vertical integration requirements,</strong> the Decree of the Minister of Forestry No. 195/Kpts IV/1984, 13 October 1984, as well as the Decision of the Director General of Forestry Management No. 196/Kpts/IV-Prog/1985, 5 July 1985, required small plywood producers who found difficulties in accomplishing the strategy of <em>pengelompokan</em> (integration between concessionaires and wood-processors) to merge with other concessionaires.</td>
</tr>
<tr>
<td>1985</td>
<td><strong>Log exports are banned completely and unequivocally.</strong></td>
</tr>
</tbody>
</table>

What was the motivation for the enactment of the laws in the above table? Although Ross characterizes these decisions as a "triumph" for Indonesia's more technocratically-inclined ministries (1996: 165), informants suggest that these agencies were acting on orders of the President who had followed the suggestion of Bob Hasan, chairman of the powerful Indonesia plywood association, Apkindo. The assistant for marketing for the association told me, "Apkindo had a louder voice than the three ministries who implemented the log export ban" (14 February 1996 interview with Ketut Kaler Ginaputra). Apkindo head Bob Hasan was in the position to make his suggestion to the president because "he and the president are quite chummy" (2 February 1996 interview with Asmaning Tjipto.
The comments of Apkindo officials dovetailed with those of Dorojatun Kuntjoro-Jakti, who at that time of my interview was providing plywood price forecasting services to Bob Hasan. Dorojatun indicated that Hasan was able to successfully push for the plywood industrial policy because it appealed to the president's self-interest. As Dorojatun put it, "It helped Number One" (31 October 1995 interview with Dorojatun Kuntjoro-Jakti).

Once Hasan devised, Suharto ordered, and the various agencies implemented the log export ban, plus the requirement that timber concessions be vertically integrated with wood processing mills, the result was the concentration of timber concessions, and rent, into fewer hands. According to one observer of the political economy of the Indonesian timber industry:

The log bans of the 1980's... provided the opportunity for budding tycoons to consume existing forestry concession lands fast and cheap, but illegally. The increased cost of downstreaming was too great for the smaller players to deal with, and so they were consumed into the larger holdings, increasing the power and wealth of the few. The strategy for the takeovers of the smaller enterprises involved no formal transfer of holdings, rather the larger corporation operates the smaller concession under its original trading and owners name. . . . My informants in the industry and the Ministry acknowledge that [timber concessions] have been, on the whole, illegally transferred from the original applicant to the new breed of tycoons (namely Hasan, Pangestu and a few others), without the concession first being returned to the Ministry for re-assignment as per regulations. The name of the company registered as holding the concession remains the same, but in reality the concession is operated by another company. According to my informants, the almost 600 concessions are not, therefore, owned and controlled by almost 600 individuals. Rather most of the concessions are held by ten or so primary tycoons in Indonesia (Cullen 1994: 10).

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65 At the time of this interview, I was new to Indonesia and interpreted Dorojatun's "It helped Number One" comment in the American sense of "looking out for number one." In other words, I thought that Dorojatun meant that Hasan had advocated the plywood industrialization policy to help himself. But subsequently, it became clear that by "Number One" Dorojatun meant Suharto. Later I heard countless Indonesians refer to Suharto as "Number One."
Another result of the log export ban was to drive down domestic log prices which, in turn, magnified rent appropriation by processed wood exporters. A resource economist noted that "the artificially low prices which occur as a result of the log export ban generate . . . substantial rents lost in the harvest of old-growth stands" (Sedjo 1992: 4).

The World Bank also noted that unofficial rent appropriation exploded as a result of the fall in the domestic prices of Indonesian logs, as discussed in the following excerpt from an internal memorandum:

The ban on the export of logs had no effect on log production -- since the resulting price decrease . . . didn't come close to eliminating . . . the rent garnered by logging firms. . . . Log processors in Indonesia currently obtain their inputs at about half of world market prices and then sell their products at world prices, meaning that they garner rents as well. Presumably, they will take as many 'cheap' logs as they can get since processing and selling will be so profitable . . . (World Bank 1991e).

Following World Bank estimates, my calculations of rent generated from plywood exports are based on an Indonesian meranti roundwood input price of half the exported price for the same wood from neighboring Sarawak. This assumption is quite conservative when, for example, in 1999, meranti exports from Sarawak were selling for

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66 This is a point that appears to have been missed by some. Ross, for example, argues that, "Economic rents are not . . . created by state-imposed trade barriers" (Ross 1996: 22). While it may be strictly correct that the ability to appropriate rent does not depend upon state-imposed trade barriers, there is plenty of evidence that rent can be greatly increased by such barriers.

67 The Indonesian government further expanded the ability of rents to be unofficially appropriated when it began to calculate timber revenues based on the low domestic prices of logs, rather than the prevailing international price. In 1983, according Indonesia's then-Director General of Forestry Management, Soemarsono Martosudigdo, the government reduced its forest royalty from six percent of the world price of exported logs to six percent of the domestic price. As a result, businessmen involved in export-oriented activities received a reduction of more than half of the previous fee (Samego 1991: 307-308). Today, in the post-Suharto era, the Indonesian Department of Forestry calculates rent based on the purely discretionary artifice of a 'blended average' of international and domestic prices.
over $130 per cubic meter, the same wood was selling for only $50 per cubic meter inside Indonesia, if not less.\textsuperscript{68}

The log export ban and the vertical integration requirement focused the appropriation of timber rent into fewer hands. Another such policy was the transfer of coercive powers to the Apkindo plywood producer's cartel. Although nominally a private trade organization, Apkindo had governmental functions ceded to it by the Department of Trade and was quite powerful.

\textbf{The creation of Apkindo}

Bob Hasan, Apkindo's chairman, one of the President's two closest friends and business partners, was in a position to appropriate an estimated $7.4 billion in rent over a 16 year period from the activities of the plywood cartel alone (see Table 3.9). Although it has not been traced, the money from Apkindo's domestic and overseas bank accounts may be presumed to have been diverted to the joint business ventures of Bob Hasan and the president and his family, especially to the Nusamba group, which Hasan nominally owns.

An internal World Bank document gives this summary of how Apkindo was structured:

The most influential of the associations is Apkindo. Its major influences have been in the area of pricing and export flow controls. . . . The marketing system was first developed by Apkindo, which in 1984 established joint marketing boards with support

\textsuperscript{68} Research by a UK Department for International Development pilot sustainable forestry management unit project in Sumatra reported that a mid-size plywood group was buying red meranti logs from its own timber concessions at Rp400,000 ($50) per cubic meter (Brown 1999: 69). However, at the same time in the illegal market, plywood-quality logs were selling for even less. In March, 1999 a medium-sized plywood company in Central Kalimantan admitted to supplying 100 percent of its roundwood intake from the illegal market. For full length sections (2.5 meters long) of plywood quality red meranti logs, the company was paying the rock bottom price of only Rp170,000 ($21), broken down into Rp135,000 ($17) per cubic meter for transporting the log to the mill, and Rp35,000 ($4) per cubic meter for felling and extracting the log from the forest (Brown 1999: 69).
from the Department of Trade. . . . Apkindo . . . has a Council appointed by its members and approved by the Department of Trade. The Council in turn appoints Executive Presidents to each of the seven Joint Marketing Boards (JMB), five of which are geographic (US, Europe, the Middle East, China, and "new markets"); the other two are concerned with domestic markets and "new products." Membership of a JMB is compulsory for all producing companies, but members may select the board which they wish to join. The JMB exercised control over export contracts, volumes, prices and other terms. Each Joint Marketing Board has 15 to 24 members appointed by the Association Council and the Department of Trade. The biggest 15 mills (in terms of market share) are appointed by the Council as the Price Stabilization Team. The Department of Trade, on the advice of the Council, sets an upper limit to the annual export production level, which is then divided up by the Board among the Association members on the basis of market share. The Marketing Boards set the "rules of the game," including penalties for failure to comply. The Executive Presidents are responsible for the implementation of all aspects of trading to the Council, which derives its mandate from the Association membership. Control is exercised by the JMB which may advise the Department of Trade to withhold the export license required for shipments (World Bank Undated: 8-9).

This summary is a typical 'by the book' description of how Apkindo functions. Membership is compulsory. Any member who does not follow the organization's price guidelines will be driven out of business. Extraordinary means were taken to ensure compliance with these guidelines, said one source. Dorojatun Kuntjoro-Jakti related that he asked Bob Hasan how he ensured his membership complied with Apkindo price and production directives. Hasan replied, "I have all of their phone conversations taped" (31 October 1995 interview). While such compliance measures may have been necessary to turn Indonesia into the undisputed world leader in hardwood plywood production, it seems likely that measures were employed with such vigor in order to assure that Apkindo would be able to function as a rent appropriation vehicle par excellence.

The best-known rent extraction technique was the fees Apkindo required its members to pay. These fees totaled $15 per cubic meter for each cubic meter of plywood exported and were comprised of a promotional fee of ten dollars per cubic meter and a
handling fee of five dollars per cubic meter. Asked what these steep fees were used for, an industry executive said, "'God knows where the money goes. Everybody is afraid to ask'" (Australian Financial Review 1995).

Another rent-extraction mechanism was the requirement that all shipping of plywood to foreign markets had to be arranged through Hasan’s personal shipping agency, Karana Lines. A 1993 Apkindo memorandum ordered that, “Booking of ships will be done directly through Karana Lines and therefore mills may not book ships themselves”(Brown 1998: 19). Karana Lines is 33.2 percent owned by Hasan, and 66.4 percent owned by two Hasan companies.69 It owns no ships, and is merely a booking agency.

Apkindo also required that members insure all plywood shipments through the Tugu Pratama Indo company. Tugu Pratama Indo was 35 percent owned by Nusamba, the Suharto family holding company of which Bob Hasan is nominally the sole owner. During the four years that Tugu Pratama Indo was in operation, Apkindo’s shipping and insurance requirements together netted an estimated $250-350 million a year (AWSJ 1995a).

A measure of the costs associated with the various Apkindo fees and requirements can also be gleaned from the annual report of Barito Pacific, the country's largest timber conglomerate. As one of only four concession-plywood mill companies in Indonesia to sell shares to the public, Barito must adhere to more stringent reporting requirements than

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69 This according to documents on file with Indonesia's corporate registry. Of the two remaining 0.2 percent minority positions, one is held by Nanang Bambang Sardjono Gatot Subroto, a relative of Hasan’s adoptive father. For a discussion of the important role which Hasan's adoptive father played in politically rehabilitating Suharto, see Barr (1998: 2-4).
privately-held companies. Barito’s annual report shows that in 1996 the company paid
$1.4 million for Apkindo association charges, plus another $3.2 million for freight and
insurance. Together, these charges comprised ten percent of the company’s net profits
during that year (Brown 1998: 10). Apkindo was located so precisely at the nexus of
political and economic power that even a politically-connected company like Barito
Pacific could not protect itself from predation by this association.

A final Apkindo rent extraction mechanism was its requirement that members sell
plywood through Hasan-owned-or-linked marketing organizations. These organizations
were located at the gateways to the world’s most important markets for Indonesian
plywood, including Singapore (which handled all sales to Europe), Hong Kong (which
handled all sales to China), South Korea, and Japan. Hasan was a 100 percent owner of
the Singapore agency, and admitted that the other three were owned by nominee concerns
that “represented” Apkindo’s interests. One source argued that Hasan used these
marketing organizations to pay members the lowest possible prices for their plywood,
which he then sold at a significant mark-up to foreign buyers while pocketing the
difference himself (AWSJ 1995d).

A joint Indonesian-US government report deduced that Hasan was paid substantial
commissions by foreign buyers in exchange for selling them Indonesian plywood at
below-market prices. The reasoning used to arrive at this conclusion is quoted here at
length:

Now officially, Apkindo does not receive any sales commissions. However . . .
Apkindo is being given a strong incentive to receive such commissions. How then,
does Apkindo go about actually receiving the commissions on sales it is being given the
incentive to collect?
In fact, the manner in which Apkindo receives its sales commissions is intimately bound up with the way in which it markets Indonesia's plywood abroad. Because it is empowered to unilaterally set the export price for each consignment of plywood, Apkindo can (and does) negotiate sales contracts with foreign buyers at per-unit prices below the international price of plywood. It is thus able to undercut the export prices of producers in other countries, which in turn allows it to maximize sales volume, and thence its total commission on sales.

Apkindo is thus given the incentive to negotiate sales contracts with foreign buyers at per-unit prices that are on average sufficiently below the international price of plywood to allow those buyers to pay Apkindo a commission. Delivery of the plywood at the price negotiated is then easy. It is only necessary for Apkindo to direct the appropriate plywood exporter to set his or her export price at the level Apkindo has negotiated for that particular consignment. The plywood producer has no choice but to sell at the price Apkindo stipulates, since Apkindo would swiftly punish any refusal to do so by revoking that producer's plywood export license. Discrete payments to Apkindo representatives of the commission agreed upon are then easily arranged. Ultimately, the potential for receiving such commissions is the driving force that shapes Apkindo's behavior.

The manner in which Apkindo negotiates sales contracts and arranges for payment of its commissions strongly shapes the set of countries that Apkindo targets as destinations for Indonesia's plywood exports. Clearly, sales contracts such as those described above must perforce be conclude on an individual--or at least a highly disaggregated--basis. The causes Apkindo to face relatively high transaction costs in concluding sales negotiations. This in turn gives Apkindo a strong incentive to target sales to countries in which transaction costs are lowest.

Unsurprisingly, these transaction costs are lowest in the . . . Asian countries that dominate sales of Indonesia's plywood abroad. These countries are Japan, the Republic of Korea . . . and the Peoples' Republic of China. Exactly what is it about these countries that cause Apkindo's transaction costs to be lowest there? The answer to this question lies in the manner in which those countries conduct international trade.

Trading Companies and Transaction Costs. The foundation of Japan's international trade has always been an entity known as a trading company. In setting up international commerce, the Japanese government deemed it best that all international trade with Japan be carried out by a relatively small group of companies. Thus all imports to, or exports from Japan are channeled through these trading companies, the purpose of which is to reduce transactions costs.

To reduce its transactions costs in Japan, Apkindo has formed a joint-venture trading company which by Japanese government mandate acts as Japan's sole agent (Nippindo) in concluding any trade agreement relating to plywood imports from Indonesia. This both greatly lowers transaction costs and facilitates payments to
Apkindo of the sales commissions it negotiates in exchange for offering Nippindo highly attractive per-unit selling prices for Indonesian plywood.\footnote{The Apkindo-Nippindo link is not the only exclusive agreement struck between Japan and politically connected Indonesian plywood entities. A Japanese company built the plywood mills now being used by Liem Sioe Liong's and the Suharto family's Kalamur group, which has in turn agreed that it will sell the plywood produced in its mills exclusively to Japanese buyers (23 February 1996 interview with Herman Haeruman).}

The Republic of Korea has essentially followed the Japanese trading company model, albeit with some modification. However, for purposes of the present discussion, the Korean model is identical to that of Japan. This, again, greatly reduces Apkindo's transaction costs and facilitates payment of the commissions that Apkindo negotiates in exchange for offering a reduced price on Indonesia's plywood exports to the Republic of Korea.

The only difference between the trading companies used by the Peoples' Republic of China and those of Japan and . . . Korea are that that PRC trading companies are state owned rather than privately owned. . . .

Virtually all other Asian countries rely on trading companies either not at all, or to a far less significant degree . . .(Bappenas/Ministry of Forestry/USAID 1995).

The timber rent appropriated by Apkindo during the years when it was at the peak of its power, between 1983 and 1998, included a fee of $15 per cubic meter for "marketing services" provided to all of Indonesia’s 62 plywood producing groups (see Table 3.9 for a list of these groups). Apkindo was also paid by foreign plywood buyers more than it passed along to its membership. The difference earned by Apkindo on this transaction was approximately $50 per cubic meter (AWSJ 1995d, 26 July 1995 interview with Vincent Houghton, 17 January 1996 interview with Sofyan Simbiaton). Over a sixteen year period, not including its earnings from the shipping and insurance cartels, it can be assumed that $7.4 billion in timber rent was appropriated by Apkindo, as shown in Table 3.7 below.
Table 3.7 Estimated Apkindo earnings (in dollars) from marketing fees and transfer pricing between 1983 and 1998

<table>
<thead>
<tr>
<th>Year</th>
<th>Total annual plywood exports (cubic meters)</th>
<th>Assumed annual payments of $15 per cubic meter for marketing fee</th>
<th>Assumed annual Apkindo earnings from the reported practice of transfer pricing at the level of $50 per cubic meter</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>3,493,500</td>
<td>52,402,500</td>
<td>174,675,000</td>
</tr>
<tr>
<td>1984</td>
<td>2,058,500</td>
<td>30,877,500</td>
<td>102,925,000</td>
</tr>
<tr>
<td>1985</td>
<td>4,096,800</td>
<td>61,452,000</td>
<td>204,840,000</td>
</tr>
<tr>
<td>1986</td>
<td>4,811,400</td>
<td>72,171,000</td>
<td>240,570,000</td>
</tr>
<tr>
<td>1987</td>
<td>5,480,400</td>
<td>82,206,000</td>
<td>274,020,000</td>
</tr>
<tr>
<td>1988</td>
<td>6,512,300</td>
<td>97,684,500</td>
<td>325,615,000</td>
</tr>
<tr>
<td>1989</td>
<td>8,186,900</td>
<td>122,803,500</td>
<td>409,345,000</td>
</tr>
<tr>
<td>1990</td>
<td>8,401,900</td>
<td>126,028,500</td>
<td>420,095,000</td>
</tr>
<tr>
<td>1991</td>
<td>8,752,600</td>
<td>131,289,000</td>
<td>437,630,000</td>
</tr>
<tr>
<td>1992</td>
<td>9,957,523</td>
<td>149,362,845</td>
<td>497,876,150</td>
</tr>
<tr>
<td>1993</td>
<td>9,942,937</td>
<td>149,144,055</td>
<td>497,146,850</td>
</tr>
<tr>
<td>1994</td>
<td>8,596,429</td>
<td>128,946,435</td>
<td>429,821,450</td>
</tr>
<tr>
<td>1995</td>
<td>8,698,500</td>
<td>130,477,500</td>
<td>434,925,000</td>
</tr>
<tr>
<td>1996</td>
<td>8,866,200</td>
<td>132,993,000</td>
<td>443,310,000</td>
</tr>
<tr>
<td>1997</td>
<td>8,353,960</td>
<td>125,309,400</td>
<td>417,698,000</td>
</tr>
<tr>
<td>1998</td>
<td>8,043,635</td>
<td>120,654,525</td>
<td>402,181,750</td>
</tr>
<tr>
<td>Total</td>
<td>114,253,484</td>
<td>$1,713,802,260</td>
<td>$5,712,674,200</td>
</tr>
</tbody>
</table>

Banning further plywood investment

Empowered by the president to act as a cartel, and with unofficial timber rent flows of a quarter to a half billion dollars a year, Apkindo moved to consolidate its gains by convincing the government to limit further investment in the plywood industry. Starting in 1983, the same year the association had been empowered to act as a cartel,

Apkindo proposed that the government prohibit new investment in their sub-sector. . . . In order to maintain stability of production at 9 million cubic meters. According to Apkindo, the existing 60 operating factories, [and] others - 45 of them under construction, 32 awaiting permission, and 30 applying for investment, were enough (Samego 1992: 263).
The head of the bureau of the main agency responsible for implementing the investment freeze indicated to me that the gate to further plywood investment slammed shut in 1983. That was when plywood entered the daftar negatif investasi (DNI) or schedule of negative investments. Thereafter, meetings were held every year and attended by representatives of most ministries, to decide which industries would stay in the DNI. The outcome of these annual meetings was then published as a Keputusan Presiden or presidential decision. Plywood's negative investment status was repeatedly renewed without much discussion (26 January 1996 interview with Adeng Zakaria).

**Sawn timber export ban**

With the log export ban, vertical integration requirement, empowerment of the Apkindo plywood marketing cartel, and ban on further investment in the plywood sector all in place, Apkindo had been successfully organized into a horizontal and vertical monopoly to create wealth and power for Suharto. However, the plywood industry still faced competition from the sawmilling sector for mill-quality logs from the same sources.

This competition from sawmilling was handicapped through a ban on the export of sawn timber. A journalist observed that the government went to great lengths to downplay the obvious benefit of this move for plywood producers, at a severe cost to sawn timber exporters (FEER 1990b). A senior Bappenas official confirmed this saying, "The sawn wood industry suffered, and the plywood industry benefited" as a result of the increase in the sawn wood export tax (23 February 1996 interview with Herman Haeruman).
The sawn timber export ban is attributed to Bob Hasan. According to one scholar, "This controversial policy came about because Bob Hasan lobbied successfully in inter-departmental meetings with the Departments of Finance and Industry in December 1989" (Samego 1992: 313-315).

In arguing for the 1989 ban on sawn timber exports, Hasan could claim to be acting on behalf of the Indonesian Sawmiller's Association, as he had just been elected president of that organization. Sofyan Simbiaton, Hasan's opponent for the Association's leadership, explained how Hasan won: he bribed most of the 400 members present at the convention to vote for him. Hasan also paid for all member's expenses of attendance at the convention, plus the costs of their transportation to and from the convention, and flashed Suharto's personal written endorsement (17 January 1996 interview with Sofyan Simbiaton).

Hasan used his position with the Indonesian Sawmiller's Association to bring about the sawn timber export ban. Hasan suggested to Suharto that the sawn wood export tax be astronomically increased, in effect a complete barrier to export. The president approved the idea, though from there the Minister of Trade, Arifin Siregar, reportedly did not like the idea and did not respond for several months. Sensing resistance from the Ministry of Trade, Hasan had the president telephone Arifin and direct him to implement the decision. Arifin,

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71 Sofyan Simbiaton was the Jambi provincial representative for Indonesian Sawmiller's Association from 1980-1985, and the national vice president of the organization from 1985-1988. Sofyan had been slated to assume the presidency of Indonesian Sawmiller's Association in 1988, as he had the endorsement of the organization's outgoing president Sukiman. Sofyan watched events unfold at the 1988 convention where he headed the convention's election committee.

72 A member of the Indonesia Sawmiller's Association told me that that the amount of the inducement paid by Bob Hasan to each member was Rp 3 million ($1,364). The informant, who spoke under conditions of anonymity, said he actually saw the bribe being paid to another member (17 January 1996 interview).

73 Hasan showed Suharto's letter to individual members but did not distribute copies. Sofyan said he never actually saw the letter, but heard about it from other Indonesian Sawmiller's Association members.
fearing the loss of his job, complied in December 1989 (17 January 1996 interview with Sofyan Simbiaton).

Hasan never consulted with the members of the Indonesian Sawmiller's Association about this decision. As Sofyan concluded, even united the membership was too weak to challenge Hasan and Suharto (17 January 1996 interview with Sofyan Simbiaton).

The sawn timber export ban was a disaster for the sawmilling industry, as pointed out in a World Bank working paper.

According to [Indonesia Sawmiller's Association] statistics, output of sawnwood increased from 7.8 million cubic meters in 1984 to 11.1 cubic meters in 1989, a rate of 7.3 percent per annum. Roughly a third of the output was exported during these years. However, the high tariffs imposed on sawnwood in October 1989 changed the course of development for the industry. Actual production dropped by 30 percent between 1989 and 1990, from 11.1 cubic meters to 7.8 cubic meters (and export earnings from $665 million to $100 million), which is logical as the industry lost a third of its market literally overnight" (World Bank 1992w: 17).

To summarize, during the 1980s Hasan and President Suharto reconfigured the entire Indonesian forest products industry to concentrate and leverage the ability of plywood exporters to appropriate rent. First log exports, and then sawn timber exports, were eliminated to make room for plywood exports. Table 3.8 shows that plywood export earnings, and plywood's share in total wood exports, rose more or less at the same rate that exports of logs, and then sawn timber, fell.
Table 3.8   Indonesian export earnings (in millions of dollars) and percentage of total wood exports of logs, sawnwood, and plywood, 1969-1992

<table>
<thead>
<tr>
<th>Year</th>
<th>Export earnings (in millions of dollars)</th>
<th>As a percentage of total wood exports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Logs</td>
<td>Sawn timber</td>
</tr>
<tr>
<td>1969</td>
<td>29</td>
<td>2</td>
</tr>
<tr>
<td>1970</td>
<td>86</td>
<td>2</td>
</tr>
<tr>
<td>1971</td>
<td>164</td>
<td>3</td>
</tr>
<tr>
<td>1972</td>
<td>228</td>
<td>2</td>
</tr>
<tr>
<td>1973</td>
<td>561</td>
<td>16</td>
</tr>
<tr>
<td>1974</td>
<td>703</td>
<td>22</td>
</tr>
<tr>
<td>1975</td>
<td>410</td>
<td>31</td>
</tr>
<tr>
<td>1976</td>
<td>811</td>
<td>49</td>
</tr>
<tr>
<td>1977</td>
<td>899</td>
<td>50</td>
</tr>
<tr>
<td>1978</td>
<td>909</td>
<td>86</td>
</tr>
<tr>
<td>1979</td>
<td>1550</td>
<td>235</td>
</tr>
<tr>
<td>1980</td>
<td>1515</td>
<td>260</td>
</tr>
<tr>
<td>1981</td>
<td>618</td>
<td>191</td>
</tr>
<tr>
<td>1982</td>
<td>333</td>
<td>188</td>
</tr>
<tr>
<td>1983</td>
<td>311</td>
<td>286</td>
</tr>
<tr>
<td>1984</td>
<td>170</td>
<td>339</td>
</tr>
<tr>
<td>1985</td>
<td>7</td>
<td>345</td>
</tr>
<tr>
<td>1986</td>
<td>7</td>
<td>575</td>
</tr>
<tr>
<td>1987</td>
<td>0</td>
<td>400</td>
</tr>
<tr>
<td>1988</td>
<td>0</td>
<td>580</td>
</tr>
<tr>
<td>1989</td>
<td>0</td>
<td>806</td>
</tr>
<tr>
<td>1990</td>
<td>5</td>
<td>144</td>
</tr>
<tr>
<td>1991</td>
<td>0</td>
<td>96</td>
</tr>
<tr>
<td>1992</td>
<td>0</td>
<td>360</td>
</tr>
</tbody>
</table>


The public justification given for the sawn timber export ban was that it would compel sawn timber exporters to move toward the production and export of higher value-added products like furniture and moldings. In theory, as exports of sawn timber fell, exports of furniture and moldings should have risen. However, would-be exporters of these more refined products could not obtain raw material, possibly because timber concessionaires, at one time oriented toward exporters of big shipments of sawn timber, found selling smaller parcels to higher-end manufacturers less lucrative. As a result, moldings and furniture mills had difficulty in obtaining raw materials under the sawn timber export ban.
A World Bank officer observed that one of the firms they visited, Kutai Timber, "went into woodworking because the government urged them to do so under the objective of promoting more local value added (with the prohibitively high export taxes on sawnwood). But they have difficulties in obtaining wood raw materials" (World Bank 1992f). Another World Bank document, noting the raw material scarcity plaguing the moldings and furniture subsectors, pointed to the "contrast in the financial conditions of plywood operations, on one hand, and woodworking and furniture industries, on the other. . . . The most important problem appears to be that the woodworking and furniture firms are experiencing considerable difficulties in procuring adequate log raw materials" (World Bank 1992h).

Disbelieving the public explanation for the ban, the World Bank began to consider other explanations in an internal forest sector review. Excerpts from these unpublished deliberations provide a rare glimpse into World Bank thinking. These ideas are in some ways a clearer and more direct statement of the problems characterizing Indonesia's management of its forests than the Bank's more diplomatically-worded public documents.

In the following passage, one Bank economist argued that plywood is a rent-capturing industry, like the log-exporting industry before it, and that the sawn timber export ban was designed to help plywood exporters avoid having to share raw materials or rent.

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74 In addition to destroying an entire subsector of the economy, the rough sawn timber export ban had other perverse effects as well. One effect was to make it uneconomical for companies to export those species of timber appropriate only for rough sawn timber, and as a result, causing those species to be left in the forest, in many cases to rot or to be stolen by illegal loggers. On a visit with Kayu Lapis Indonesia, the nation's third largest timber conglomerate, with nearly 3 million hectares in timber concessions, a World Bank staff member was told that, "The sawn wood export tax prevented the company from selling Merbau, a wood which constituted 50 percent of the volume of the wood coming from the company's concessions. The Forestry Manager of the company told the Bank official that unlike other non-Meranti species -- such as Ramin and Agathis -- Merbau could not be converted into furniture. As a result of having to leave Merbau standing (and wasted) on the concessions, KLI's costs per [cubic meter for the extraction of timber from their concessions] have risen from $35 to $45-50" (World Bank 1992f).
The major problem of this sector is . . . because a high percentage of the plywood production capacity is owned by logging concessionaires AND the plywood industry is well established physically, plywood production and exports are acting effectively as means of getting out a good volume of logs. It is serving as a mechanism through which logging concessionaires reap the fatty economic rent generated in their logging activities. . . . This situation leads to . . . a strong incentive for loggers to deliver logs to plywood mills in preference to the sawmilling, woodworking, furniture subsector . . . (World Bank 1992k).

A similar sentiment surfaces in another World Bank internal draft:

If the purpose of selling plywood is to reap the economic rent generated in the logging process, then it is a lot easier to do so by putting logs through plywood mills rather than converting these logs to sawnwood and then to woodworking products and furniture. If there had not been a policy intervention to virtually prohibit exports of sawnwood, sawnwood exports would serve the same purpose as plywood exports (World Bank 1992u).

While the primary effect of the sawn timber export ban was to divert more rent to plywood exporters, another consequence was the further concentration in control of the nation's timber concessions. The World Bank noted,

The log export ban in the mid-1980's and the effective ban on raw sawn timber export in the early 1990's have led to a concentration of the forest concessions. Smaller entrepreneurs who did not have licenses or financial resources to set up a plywood mill or an alternative outlet for logs when the export ban on raw sawn timber was imposed chose to sell their concessions (World Bank 1993a).

The observation that the sawn timber export ban further concentrated timber concession holdings was confirmed by findings that five years after the ban went into place, the same companies that dominated in terms of plywood also grew to dominate timber concession holdings. Table 3.9 below ranks Indonesia’s timber conglomerates in terms of their control of the plywood industry.
Table 3.9  Ranking of Indonesian timber conglomerates by plywood mill and sawmill licensed consumption of roundwood, 1997/1998

<table>
<thead>
<tr>
<th>Group name</th>
<th>Number of mills</th>
<th>Licensed roundwood consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barito Pacific</td>
<td>31</td>
<td>4,342,420</td>
</tr>
<tr>
<td>KLI</td>
<td>9</td>
<td>3,644,950</td>
</tr>
<tr>
<td>Djajanti</td>
<td>15</td>
<td>2,398,500</td>
</tr>
<tr>
<td>Alas Kusuma</td>
<td>13</td>
<td>2,136,638</td>
</tr>
<tr>
<td>Korindo</td>
<td>9</td>
<td>1,486,000</td>
</tr>
<tr>
<td>Bumi Raya Utama</td>
<td>13</td>
<td>1,397,500</td>
</tr>
<tr>
<td>Raja Garuda Mas</td>
<td>8</td>
<td>1,326,875</td>
</tr>
<tr>
<td>Hutrido</td>
<td>9</td>
<td>1,205,207</td>
</tr>
<tr>
<td>Bob Hasan Group</td>
<td>10</td>
<td>1,192,800</td>
</tr>
<tr>
<td>Surya Dumai</td>
<td>11</td>
<td>1,191,000</td>
</tr>
<tr>
<td>Armed Forces/Army</td>
<td>7</td>
<td>1,187,803</td>
</tr>
<tr>
<td>Tanjung Raya</td>
<td>10</td>
<td>1,142,766</td>
</tr>
<tr>
<td>Uni Seraya</td>
<td>12</td>
<td>914,150</td>
</tr>
<tr>
<td>Salim</td>
<td>5</td>
<td>836,001</td>
</tr>
<tr>
<td>Satya Djaya Raya</td>
<td>6</td>
<td>824,420</td>
</tr>
<tr>
<td>Mujur</td>
<td>4</td>
<td>790,800</td>
</tr>
<tr>
<td>Kodeco</td>
<td>6</td>
<td>774,000</td>
</tr>
<tr>
<td>Daya Sakti</td>
<td>5</td>
<td>749,225</td>
</tr>
<tr>
<td>Kayu Mas</td>
<td>4</td>
<td>707,550</td>
</tr>
<tr>
<td>Mutiara</td>
<td>3</td>
<td>583,500</td>
</tr>
<tr>
<td>Pakart Yoga</td>
<td>5</td>
<td>530,600</td>
</tr>
<tr>
<td>Inhutani I</td>
<td>3</td>
<td>508,600</td>
</tr>
<tr>
<td>Sola Gratia</td>
<td>7</td>
<td>500,200</td>
</tr>
<tr>
<td>Siak Raya</td>
<td>3</td>
<td>483,200</td>
</tr>
<tr>
<td>Sumalindo</td>
<td>1</td>
<td>440,400</td>
</tr>
<tr>
<td>Antang</td>
<td>7</td>
<td>411,320</td>
</tr>
<tr>
<td>Rimba Karya Indah</td>
<td>4</td>
<td>401,100</td>
</tr>
<tr>
<td>Roda Mas</td>
<td>2</td>
<td>393,230</td>
</tr>
<tr>
<td>Benua Indah</td>
<td>2</td>
<td>360,450</td>
</tr>
<tr>
<td>Hendratna</td>
<td>4</td>
<td>340,920</td>
</tr>
<tr>
<td>Dayak Besar</td>
<td>3</td>
<td>339,200</td>
</tr>
<tr>
<td>Yusmin Trading</td>
<td>6</td>
<td>324,000</td>
</tr>
<tr>
<td>Irdat Puri</td>
<td>3</td>
<td>321,680</td>
</tr>
<tr>
<td>Tanjung Johor</td>
<td>2</td>
<td>316,550</td>
</tr>
<tr>
<td>Kahayan</td>
<td>6</td>
<td>306,000</td>
</tr>
<tr>
<td>Hartati</td>
<td>2</td>
<td>304,000</td>
</tr>
<tr>
<td>Dwima Manunggal</td>
<td>3</td>
<td>242,565</td>
</tr>
<tr>
<td>Batasan</td>
<td>1</td>
<td>231,750</td>
</tr>
<tr>
<td>Loka Rahayu</td>
<td>4</td>
<td>225,000</td>
</tr>
<tr>
<td>Giat</td>
<td>3</td>
<td>216,000</td>
</tr>
</tbody>
</table>
### Table 3.9 (continued)  
**Ranking of Indonesian timber conglomerates by plywood mill and sawmill licensed consumption of roundwood, 1997/1998**

<table>
<thead>
<tr>
<th>Group name</th>
<th>Number of mills</th>
<th>Licensed roundwood consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surya Satria Timur</td>
<td>3</td>
<td>214,000</td>
</tr>
<tr>
<td>Bina Lestari</td>
<td>1</td>
<td>205,800</td>
</tr>
<tr>
<td>Sumber Kayon</td>
<td>1</td>
<td>202,100</td>
</tr>
<tr>
<td>Segara Timber</td>
<td>1</td>
<td>180,320</td>
</tr>
<tr>
<td>Katingan Timber</td>
<td>1</td>
<td>144,000</td>
</tr>
<tr>
<td>Poleko</td>
<td>2</td>
<td>144,000</td>
</tr>
<tr>
<td>Sinar Mas</td>
<td>4</td>
<td>143,000</td>
</tr>
<tr>
<td>Hanurata</td>
<td>2</td>
<td>136,000</td>
</tr>
<tr>
<td>Kaboli</td>
<td>1</td>
<td>96,000</td>
</tr>
<tr>
<td>Police</td>
<td>2</td>
<td>88,000</td>
</tr>
<tr>
<td>Jatirin</td>
<td>1</td>
<td>80,000</td>
</tr>
<tr>
<td>Subago</td>
<td>2</td>
<td>72,000</td>
</tr>
<tr>
<td>Rimba Ramin</td>
<td>1</td>
<td>68,000</td>
</tr>
<tr>
<td>Sari Hutan Permai</td>
<td>2</td>
<td>60,000</td>
</tr>
<tr>
<td>Sulwood</td>
<td>1</td>
<td>60,000</td>
</tr>
<tr>
<td>Gulat</td>
<td>2</td>
<td>54,000</td>
</tr>
<tr>
<td>Ubbi Mekar</td>
<td>1</td>
<td>48,000</td>
</tr>
<tr>
<td>Sentosa Jaya</td>
<td>1</td>
<td>40,000</td>
</tr>
<tr>
<td>Wijaya Kusuma</td>
<td>2</td>
<td>38,400</td>
</tr>
<tr>
<td>Air Force</td>
<td>1</td>
<td>30,000</td>
</tr>
<tr>
<td>Sampa</td>
<td>1</td>
<td>24,000</td>
</tr>
<tr>
<td>Inhutani III</td>
<td>1</td>
<td>18,000</td>
</tr>
<tr>
<td>Not in a group</td>
<td>115</td>
<td>8,508,818</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>410</strong></td>
<td><strong>46,683,308</strong></td>
</tr>
</tbody>
</table>

Source: Brown (1999: 44-45)

### Quantification of plywood rent earnings

With the log export ban, the vertical integration requirement, the empowerment of the Apkindo plywood marketing cartel, the ban on further investment in the plywood sector, and finally the export ban on sawn timber, rent to the plywood sector was maximized. Despite substantial rent extracted from the Indonesian plywood industry, particularly in terms of Apkindo fees, mandatory use of the cartel's shipping and insurance monopolies, and being forced to accept below-market value for the plywood

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75 The top companies in Table 3.9 are also those with the most in terms of concession holdings as seen in Table 3.1.
while the cartel collected fees from foreign buyers, plywood producers were still able to earn substantial rent.

Estimates of rent earned by vertically integrated timber concession-plywood mill operations vary. After the costs of extraction and of turning logs into plywood, government revenue, Apkindo fees, and normal profit were subtracted, a substantial margin of rent remained for vertically integrated concession-plywood mill operations. My estimate is that prior to the dismantling of the Apkindo cartel in 1998, those who possessed timber concessions, and at least one downstream plywood mill through which to channel exports, were in a position to appropriate $25 for each cubic meter of plywood exported, prior to the onset of the monetary crisis. Between 1985 and 1998, in addition to having rent shared with them by Apkindo, President Suharto and his family were also able to garner rent via their holdings in various timber conglomerates in the amount shown in Table 3.10.
Table 3.10 Rent earned by Indonesian plywood exporters prior to the dismantling of Apkindo (in Indonesian rupiah and dollars per cubic meter of red meranti plywood)

<table>
<thead>
<tr>
<th>Category of cost</th>
<th>Indonesian rupiah</th>
<th>US dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factory Costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor</td>
<td>8,060</td>
<td>3.43</td>
</tr>
<tr>
<td>Salary</td>
<td>11,844</td>
<td>5.04</td>
</tr>
<tr>
<td>Glue</td>
<td>54,144</td>
<td>23.04</td>
</tr>
<tr>
<td>Energy</td>
<td>10,551</td>
<td>4.49</td>
</tr>
<tr>
<td>Additional Materials</td>
<td>89,770</td>
<td>38.20</td>
</tr>
<tr>
<td>Buildings</td>
<td>775</td>
<td>.33</td>
</tr>
<tr>
<td>Machines and Tools</td>
<td>21,972</td>
<td>9.35</td>
</tr>
<tr>
<td>Overheads</td>
<td>32,571</td>
<td>13.86</td>
</tr>
<tr>
<td>Association Fees</td>
<td>11,562</td>
<td>4.92</td>
</tr>
<tr>
<td>Total</td>
<td>241,251</td>
<td>102.66</td>
</tr>
<tr>
<td>Office Costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Costs</td>
<td>7,144</td>
<td>3.04</td>
</tr>
<tr>
<td>Marketing Fees</td>
<td>42,981</td>
<td>18.29</td>
</tr>
<tr>
<td>Overheads</td>
<td>282</td>
<td>.12</td>
</tr>
<tr>
<td>Total</td>
<td>50,407</td>
<td>21.45</td>
</tr>
<tr>
<td>Roundwood Costs</td>
<td>540,500</td>
<td>230.00</td>
</tr>
<tr>
<td>Total Costs</td>
<td>832,158</td>
<td>354.11</td>
</tr>
<tr>
<td>FOB Price of 1 m3 Plywood</td>
<td>989,937</td>
<td>421.25</td>
</tr>
<tr>
<td>Depreciation</td>
<td>51,888</td>
<td>22.08</td>
</tr>
<tr>
<td>Interest</td>
<td>46,706</td>
<td>19.87</td>
</tr>
<tr>
<td>Remaining Potential Economic rent</td>
<td>59,185</td>
<td>25.19</td>
</tr>
</tbody>
</table>

(Total Costs minus FOB Price)

Assumptions:
- Factory Costs and Office Costs are derived from Scotland and Whiteman 1997b, Table 6.3, page 24 (excluding figures for “Factory Costs – Operating and Maintenance” and “Office Costs – Other Costs,” which Scotland acknowledges are baseless).
- Roundwood Cost is derived from Scotland and Whiteman 1997b, Table 6.1, page 23, using within-group prices for two cubic meters of red meranti, the primary raw material input for Indonesian plywood. Figures for Central Kalimantan are excluded, as the authors point out that they are anomalous. A log to lumber conversion ratio of 2:1 is assumed.
- Plywood Price is derived from Scotland and Whiteman 1997b, Table 3.2, page 10, using export market prices, but excluding figures for Central Kalimantan.
- Depreciation figure assumes a plywood factory with machines costing $26.5 million, producing 80,000 m3 of plywood/year, and depreciating over fifteen years.
- Interest figure assumes that half of the cost of machines, $13.25 million, is paid for through a US dollar loan that charges 12% interest.
- Exchange rate is assumed to be Rp2,350 to $1.
- Scotland and Whiteman 1997c, Table 4.6, page 24, found that uncaptured economic rent from a cubic meter of plywood was even higher, $22.75. The point is, much timber rent in Indonesia is uncaptured by the state.
The key finding in the above table, that plywood export is simply a new way of collecting timber rent, corroborate the even more robust findings of an older study carried out by forestry consultants Reid Collins. In that study, Reid Collins found that above-normal profits earned from the export of tropical hardwood plywood actually exceed by about a third those earned from the export of tropical hardwood logs. The findings of the study are reproduced in the following table, whose title, contents, and notes are directly quoted from the study.

Table 3.11    "Comparison of Profit and Risk, Stumpage, and Conversion Return Based on Plywood Sales and Corresponding Log Input 1985-1989"

<table>
<thead>
<tr>
<th>Category of Cost</th>
<th>Plywood [$]</th>
<th>Plywood [Rp]</th>
<th>Logs [$]</th>
<th>Logs [Rp]</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Gross Output (Millions)</td>
<td>5548</td>
<td>13,038,808</td>
<td>2296</td>
<td>5,395,501</td>
</tr>
<tr>
<td>2. Total Costs (Millions)</td>
<td>4242</td>
<td>9,969,412</td>
<td>1531</td>
<td>3,597,610</td>
</tr>
<tr>
<td>3. Profit and Risk (Millions)</td>
<td>1306</td>
<td>3,069,369</td>
<td>451</td>
<td>1,060,721</td>
</tr>
<tr>
<td>4. Stumpage (Millions)</td>
<td>314</td>
<td>737,170</td>
<td>314</td>
<td>737,170</td>
</tr>
<tr>
<td>5. Conversion Return (Millions)</td>
<td>1620</td>
<td>3,806,566</td>
<td>765</td>
<td>1,797,891</td>
</tr>
<tr>
<td>6. Stumpage / Conversion Return (%)</td>
<td>80.6</td>
<td>80.6</td>
<td>59.0</td>
<td>59.0</td>
</tr>
<tr>
<td>7. Profit and Risk / Conversion Return (%)</td>
<td>19.4</td>
<td>19.4</td>
<td>41.0</td>
<td>41.0</td>
</tr>
</tbody>
</table>

"Row 1 shows the 'gross output' (equivalent to total domestic and foreign sales) of plywood and logs from Indonesia between 1985 and 1989.
Row 2 shows the 'total costs' of producing these plywood and logs.
Row 3 contains a figure for what is deemed to be an acceptable fixed percentage take by timber companies to compensate them for their activities, or 'profit and risk.'
Row 4 shows the total taxes or 'stumpage' paid by the companies for the logs they cut.
Row 5 adds together Rows 3 and 4 to arrive at a figure called 'conversion return.' This figure constitutes the entire economic rent which government and business must divide. We are now in a position to see whether governments earn more rents from exporting plywood or from exporting logs.
Row 6 shows that the returns to timber companies for profit and risk -- as a percentage of conversion return -- are much higher for plywood at 80.6% than they are for logs at 59%.
In contrast, row 7 shows that the percentage of stumpage accruing to governments -- again as a percentage of conversion return -- are far lower for plywood at 19.4% than they are for logs at 41%.
To recapitulate, Indonesia's push into the primary processing of logs, far from generating more rents for the government, actually produced less" (Reid Collins 1992c).

76 As discussed in the notes on Row 5 at the bottom of the table, what Reid Collins refers to as "conversion return" has the same meaning, and is calculated in the same way, as economic rent.
Reid Collins emphasized that many observers had missed the rent-generating potential of downstream timber industrialization, including plywood manufacturing. They pointed out that:

Studies of economic rent from the forests of Indonesia have traditionally used log prices as a basis for their calculations. As a result, their estimates understate the true economic rent available. Analysis of aggregate economic statistics for the forest sector indicates that the conversion return calculated from end product values was more than double that indicated by using log prices. All the difference in conversion return accrued to industry (Reid Collins 1992e: i).

Again, the Indonesian government failed to optimally capture timber rent for virtually the entire period covered by my study because most of it was absorbed by the Suharto family, partners and, to a lesser extent, members of the state security apparatus. The primary vehicle for rent appropriation between 1970 and 1984 was log export, but after 1985 this was replaced by wood products export, especially plywood. During the latter period a number of policy initiatives were implemented which served to focus timber rent into a small number of hands, in particular those of Hasan and Suharto. These initiatives included the vertical integration requirement, the granting of state-like powers to Apkindo, and bans on log exports, further investment in the plywood sector and the export of sawn timber. These policy initiatives, and their attendant depression of log prices within Indonesia, multiplied the amount of rent appropriated.

The fate of those who tried to raise the official capture of timber rent

Those in government who sought to reform the rent collection process were pitted against Suharto and his powerful rent appropriation establishment. The institutional loci of the pro-rent-hike policy makers tended to be the national planning agency (referred to by its Indonesian acronym of "Bappenas") and the Ministry of Finance. However,
officials interviewed from these two agencies said they met with no success in pushing for increases. The exception was Herman Haeruman from Bappenas who claimed to have been victorious in securing the highly-touted, but ultimately underwhelming, timber revenue hike of 1992.

Haeruman said he had "discussed with Hasan many times" the modest revenue hike from $16 to $24 per cubic meter before Apkindo itself ultimately called for this increase in 1992. Haeruman said the argument that Hasan found convincing, along with others in the "private sector" including Barito Pacific, plus a host of "mid-level companies like Kodeco," was that "the wood market has no downside." It is "a scarce good, and has escalating demand" (23 February 1996 interview).77

In short, timber was so profitable that Bob Hasan, by now in the policy driver's seat, felt that a modest revenue hike would not represent a significant loss. As can be seen in Figure 3.6, there was no fall in the level of rent appropriation that year, as the loss to concessionaires was more than offset by a rise in the price of plywood of $24 per cubic meter (which meant a rise in the value of raw material inputs by $12 per cubic meter). In other words, during the year of Indonesia's much-heralded timber revenue hike of eight dollars per cubic meter, timber conglomerates, Apkindo and the Suhartos experienced a net increase in rent appropriation of four dollars per cubic meter of roundwood. Moreover, as plywood prices continued to skyrocket in the years to come, so did the hidden rent earnings of these parties.

77 Other entities also took credit for this same 50 percent tax hike, as well as exaggerating its size. For example, the World Bank told one analyst that conditions associated with its Forestry II loan "in conjunction with ongoing policy dialogue, were responsible for almost tripling the fee collected from concessionaires per cubic meter of timber extracted" (Seymour 2000: 92).
In an interview some years after the 1992 tax hike took place, Herman Haeruman said that yet another tax hike was needed, mentioning the figure of $37.50 per cubic meter, which he argued should be paid by plywood factories, instead of timber concessionaires. However, this and all subsequent pro-rent-hike aspirations were never fulfilled. It is to these numerous setbacks that we now turn.

Another Bappenas official, Sayuti Hasibuan, called in an October 1992 speech for timber revenues to be raised yet again. In his speech, Sayuti pointed out that the Indonesian government, even after its 1992 revenue hike, was still only capturing 29 percent of available timber rent. Sayuti reported that shortly after his speech, Apkindo as well as the timber concessionaires association requested a private meeting with him. At that meeting, Apkindo and the concessionaires told him that "their members could not afford to pay higher taxes because almost their entire profit margin went to illegal payments to officials." Sayuti said he told Apkindo and the concessionaires that he doubted that all 71 percent of uncaptured timber rent was used for under-the-table payments to government officials. Sayuti estimated that of the remaining 71 percent of uncaptured rent, about 20 percent went to under-the-table payment to officials and the final 50 percent went into the pockets of concessionaires. However, in the end, because "it was my word against their word," it was difficult for Sayuti to push for higher timber revenues from within Bappenas (12 February 1996 interview with Sayuti Hasibuan).

Sayuti Hasibuan held directorships or deputy directorships in the following Bappenas directorates: Manpower & Job Opportunities; Economic Affairs; Regional and Area Affairs; Human and Natural Resources. Sayuti earned an economics doctorate from UC Berkeley in 1965, and can be thought of as a subsidiary figure in the technocratically inclined, free-market oriented, 'Berkeley Mafia' of Indonesian economists.
Another agency regarded as a stronghold for technocrats and free marketeers is the Ministry of Finance. Like Bappenas, it too pushed to raise timber revenues. In the summer of 1992, Indonesia's economic ministers were keen to collect more revenue from concession holders but were reluctant to take on Bob Hasan. Nevertheless, Finance Minister J.B. Sumarlin told one journalist that the government was studying whether to make changes in forestry collections. Senior government economic officials said they felt the government could make better use of timber rent than timber companies (FEER 1992f).

The outcome of the Ministry of Finance's efforts included a series of studies and meetings but no tax hike. According to a World Bank internal e-mail, "The Minister of Finance has commissioned one of his Director-Generals to head a task force reviewing revenue sources in the Indonesian economy: obviously, the forestry sector is a (probably the) prime candidate" (World Bank 1994d). An interview with World Bank officials one year later showed that interest was still brewing within the Ministry of Finance to raise timber revenues. According to my interview with one official, "The Ministry of Finance held meetings with the Bank last month on the subject of raising timber revenues to pay off foreign debt" (11 August 1995 interview with Asmeen Khan). Another Bank official added that the Ministry of Finance was the strongest proponent in the government for increasing timber revenues (15 August 1995 interview with Sean Foley).

However, the political resistance that was encountered by the Ministry of Finance in these efforts was related by members of an organization charged with carrying out a study on
the ministry's behalf, the Center for Policy Implementation Studies (CPIS). Over its fifteen years' history, the government accepted much of CPIS's advice. However, over time, and as a result of the process of what one former CPIS researcher referred to as the "Indonesianization" of the CPIS management, the organization began to shy away from politically sensitive projects. The CPIS researcher, Nawir Messi, related the fate of a forest revenue related study in which he was involved.

The Ministry of Finance had directed Nawir Messi to study whether the pricing of forest products should be based on their "true economic value" or on "biased administrative adjustments" such as the low domestic price of Indonesian logs and sawn timber resulting from the log export ban, and the prohibitively high sawn wood export tax. Only six or seven weeks after Nawir began his research, word came from CPIS administrators that Nawir's study was ill-advised because, if implemented, it would lead to the closing of some wood processing companies. Nawir concluded his story with a quietly spoken name, "Bob Hasan" (1 November 1995 interview with Nawir Messi).

Nawir's account was confirmed by his thesis advisor and senior policy advisor to the Center for International Forestry Research (CIFOR), Neil Byron. Byron recounted that in early 1994, CPIS, CIFOR and Bappenas agreed to jointly sponsor a study on increasing Indonesia's non-oil resource revenues, and using the proceeds to pay off Indonesia's foreign debt. The study was supported from its inception by the Ministry of Finance. Not long after the study began, however, Byron says that Nawir Messi and two others from CPIS were fired from their jobs. Byron attempted to telephone his collaborators in the Ministry of Finance.

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79 CPIS is an Indonesia-based economic consulting group started by Harvard Institute for International Development in the mid-1980s for the purpose of advising the Ministry of Finance on economic issues.
Finance to find out why this had happened, but his phone calls were not returned. At that point, CIFOR pulled out of the study. Byron said those responsible for the firings were "the first family and economic
nationalists in the department of forestry and the army who wanted to maintain the discretionary nature of timber taxes" (13 November 1995 interview with Neil Byron).

Byron's account above was confirmed by the senior economist with the USAID's Natural Resources Management Program. He said that CPIS, after its first interview with Apkindo, was phoned by President Suharto himself,80 who ordered that the study be stopped, or all personnel involved would be deported within 48 hours (13 October 1995 interview with Lindsey Saunders).

Considering the obstacles to reform, one World Bank forestry official predicted that it would take total unanimity in the cabinet to convince President Suharto to enact a substantial hike in timber revenues in Indonesia (16 January 1996 interview with Jim Douglas). The president resisted timber revenue increases because of his deep financial entanglements with the timber industry (28 September 1995 interview with Rizal Ramli).

With difficulties of this magnitude facing Indonesian policy figures who simply tried to explore, to say nothing of enacting, timber revenue hikes, it is understandable that multilateral organizations would run into similar difficulties. The most visible organization to call for timber rent hikes was the World Bank. As long ago as 1991, the World Bank's staff in Indonesia concluded that it could not rely on its more technocratic and market-oriented counterparts in the Ministry of Finance and Bappenas to achieve hikes, but would

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80 I asked Nawir Messi whether intervention by the President to stop CPIS studies was common. He did not answer directly, but told me a story. Nawir's wife had been working in CPIS's health policy division, on a study of Hepatitis B in Indonesia. The study found that nearly 40 percent of all cases of the disease in the country came from the use of dirty hypodermic needles, and that many of these dirty needles resulted from a flourishing nationwide business that scavenged used hypodermic needles, did not sterilize them, repackaged them, and resold them as new. The business was owned by "a high Indonesian political figure." Shortly after the researchers stumbled across this information, they were told to stop all work on the Hepatitis-B study (1 November 1995 interview with Nawir Messi).
have to provide much of this impetus on its own. A 1991 internal fax reads, "I don't know where we are on revenue reform. Tray\textsuperscript{81} thinks neither Finance nor Planning are willing to take on the Ministry of Forestry on this matter, and that we will have to deal with the Minister of Forestry on this" (World Bank 1991g).

Because of the reluctance of Indonesian technocrats to take on the issue of timber reform, the World Bank began to push for it on their own. This objective was increasingly reflected in the contents of its forestry lending programs, numbered Forestry 1, 2 and 3. Although Forestry 1 was seen by Indonesia's timber elite as non-threatening,\textsuperscript{82} Forestry 2 allocated about $10 million to a pilot timber concession monitoring project in three provinces. Timber concessionaires were made uncomfortable by the anticipation of World Bank spot-inspections. As a result,

In 1994, the Ministry of Forestry signaled to the World Bank that a third forestry project in preparation should not go forward, and the following year requested that the second loan be canceled with less than half of the funds disbursed. Implementation of improved concession management systems, including mechanisms for inspection and audit and royalty collection, was among the components canceled (Seymour 2000: 93).

In short, World Bank oversight had been avoided despite a significant cost to the Indonesian economy. Five years later the reason for the cancellation of the loans was revealed:

The official reason for the termination of World Bank lending to the Ministry of Forestry was that because of the large influx of funds from other donors in the early 1990s following a Tropical Forestry Action Program roundtable in 1991, loan funds from the World Bank were no longer needed to complete project activities. The

\textsuperscript{81} "Tray" is probably a reference to a former World Bank official in Indonesia Trayambkeshwar P.N. Sinha.

\textsuperscript{82} Forestry 1 was initiated in 1989. "Undertaken in collaboration with the U.N. Food and Agriculture Organization, the project produced 17 volumes of studies . . . the full studies were never made public" (Seymour 1990: 93). I have read these studies and they are toothless.
real reason, according to numerous individuals interviewed for this study, was that the World Bank and the Ministry had reached an impasse on policy reforms being promoted by the World Bank, particularly those that would harm the interests of politically powerful concession holders. Cancellation of the loan provided a face-saving exit for both parties. In particular, reform of the concession management system was said to have been blocked by Mohammed "Bob" Hasan, Indonesia’s most prominent timber tycoon and a close associate of President Suharto (Seymour 2000: 93).

**The use of timber rent officially collected by the government of Indonesia**

Not only was government timber rent capture ineffectual, but also the timber rent that was captured by the government was wasted, largely through the reforestation fund. Very little of this reforestation fund was used to pay for reforestation activities, and most of it was used to pay for Suharto's objectives, as an extra-budgetary source of discretionary funding.\(^\text{83}\)

Initially, moneys paid by timber concessionaires into the reforestation fund were not considered revenue, but rather a refundable bond collected up front, to be returned to concessionaires if they properly reforested their concessions with native species. However, few concessionaires undertook such reforestation,\(^\text{84}\) nor did most request that their bonds be returned. After a few years, the department changed the bond to a non-refundable fee. Although much of the revenue thus derived was used for non-forest activities, the government

\(^{83}\) There are also suggestions that other Indonesia forestry revenues were used for non-forestry purposes. For instance, proceeds from the now-discontinued log export tax (later replaced by the IHH forest products royalty) were reportedly used to finance the activities of a private organization devoted to Javanese mysticism (16 June 1995 interview with James Bethel). *Paguyuban Ngasti Tunggal* still exists and continues to be chaired by former Minister of Forestry Soedjarwo, a relative of former President Suharto's wife (Barr 1998: 5).

\(^{84}\) Achieving the re-growth of a stand of native tropical hardwoods is a tricky and rarely successful activity. This is the reason that few if any timber concessions in the tropics are considered to be sustainably managed.
retained the name of "reForestation fund" as a portion went to subsidize plantations of exotic hardwood species in areas where natural forests had once stood.85

The primary forest-related activity for which the reForestation fund has been used is the subsidization of *Hutan Tanaman Industri* (HTI), or industrial forest plantations. The HTI program simply amounted to a new way for timber conglomerates, and the political elites with whom they were aligned, to appropriate timber rent. The primary recipients of these subsidies were two of Suharto's closest timber partners, the Barito Pacific and the Bob Hasan groups, along with the Astra conglomerate which they jointly control. Table 3.12 lists the recipients of HTI subsidies from the reForestation fund as of mid-1992.

### Table 3.12 Recipients of grants and loans for HTI from the reForestation fund

<table>
<thead>
<tr>
<th>Major Forest Conglomerate Recipients</th>
<th>Amount Granted (millions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Equity</td>
</tr>
<tr>
<td>Barito Pacific</td>
<td>27.8</td>
</tr>
<tr>
<td>Astra</td>
<td>5.6</td>
</tr>
<tr>
<td>Raja Garuda Mas</td>
<td>- -</td>
</tr>
<tr>
<td>Bob Hasan group</td>
<td>- -</td>
</tr>
<tr>
<td>Ryani Hutani</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>34.0</strong></td>
</tr>
</tbody>
</table>

Source: World Bank 1993a

The World Bank criticized the financing plan for the HTI scheme as being too much of a giveaway to recipients. They note that 65 percent of the subsidies came from interest free loans (32.5 percent from the reForestation fund, and the other 32.5 percent from the state-controlled banks). As for the remaining 35 percent of the subsidies, a direct capital grant

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85 Many are critical of natural forests being wiped out, and replaced with plantations. Sedjo writes, "Particularly questionable from an economic, social, and ecological point of view is the practice of replacing natural tropical hardwood forests with plantation of low-valued, fast-growing species" (Sedjo 1987: 32-33).
from the state forestry corporations accounted for 14 percent, and only the final 21 percent had to come from the HTI holder itself (World Bank 1991a). Large HTI holders were also partially exempted from import tariffs for machines and raw materials (World Bank 1992v: 8). The following World Bank internal memorandum criticizes the squandering of Indonesia's timber rent on the HTI program:

In 1990, the government of Indonesia continued major financial reforms with the elimination of most directed credit programs, nearly all of which were heavily subsidized. The intention was to let the private sector allocate financing at market determined rates. The new timber plantation scheme, given its directed credit at a zero interest rate, runs counter to the government of Indonesia's broader financial sector reforms, and it is likely to elicit behavior similar to that seen under other subsidized, directed-credit schemes spread throughout various isolated areas around the country, and the limited capacity of the state forestry corporations will generally make them passive investors. The active (private sector) partners in many ventures will take advantage of this limited oversight by planting less than the contracted hectarage and directing the "saved" money toward other uses or simply depositing it in a bank at market rates. Even if the active partners plant all of the contracted hectarage, the unit costs approved by the government of Indonesia appear to be quite generous, making it possible for the active partners to commit little or no equity of their own.

The memorandum then goes on to recommend that if the government insisted on subsidizing industrial timber plantations, it should do it through "explicit subsidies" rather than through the "implicit interest rate subsidies" of the HTI program:

Explicit subsidies financed through the budget (rather than implicit interest rate subsidies) would involve fewer distortions and would be more in line with [the government of Indonesia's] financial sector reforms. Explicit subsidies also make transparent the actual costs of inducing the private sector to undertake activities such as timber plantations. For example, the current scheme of charging no interest on [the government of Indonesia's] loan to the joint venture results in an effective subsidy of over 80% of the loan amount provided by GOI (World Bank 1991a).

The criticism of timber conglomerates' using reforestation funds to subsidize their non-forest activities would resurface in another World Bank internal memorandum a year later, which complained that, "Barito [Pacific] is [the] only major firm which has been paid under HTI - yet they have done nothing right: they have used it [the government's HTI subsidy] to support their olefin project" (World Bank 1992q).
Ten months later, memos and reports continued to circulate within the Bank, arguing that the HTI program gave licensees back door access to enormous tracts of natural forests which were being used by licensees not to grow trees, but clear cut to obtain cheap pulpwood. Under the heading of "Personal Observation," a World Bank consultant wrote in his field notes:

It seems to me that this HTI system is designed to let the concession owners get their hands on the residual forest area of their concessions, many of which are about to expire, and harvest any wood that is left from the first round. This goes entirely against the TPTI policy of allowing a 35 year regeneration period prior to the second selective harvest. We have been told by the Ministry that the areas selected for HTI are only those which are degraded or non-productive. However, the areas are so large, that it is hard to imagine first that there is so much severely degraded forest in logged over concessions and second, that it exists in large contiguous blocks. Certainly, in flying over large areas of Kalimantan during the first week in September I did not observe such areas! If the program goes ahead and large areas are clear felled for pulpwood, future productivity of these lands is in doubt (World Bank 1992e).

Another World Bank consultant observed in personal correspondence that the holder of two HTI licenses was cutting down natural forests in its own HTI to feed its own pulp mill: "Indah Kiat . . . presently are obtaining their wood supply from mixed tropical hardwoods from clearing logged over forests - maximum price they pay is $18 per cubic meter delivered to their mill" (World Bank 1992i).

The World Bank recognized that the HTI program was simply the latest chapter in the saga of timber rent appropriation in Indonesia: log exports, the log export ban, the vertical integration requirement, the empowerment of Apkindo, the plywood investment ban, the sawn timber export ban and finally, the subsidized rush to clear-cut natural forests under the guise of reforestation. All of this was summarized in the following passage excised from what later became a published World Bank report on Indonesia's wood processing industry:
The picture I have is that plywood is almost a proxy for logs to the concessionaires: exporting plywood is sufficient for them in circumventing the log export ban, and capturing the rent from logging. The big concessionaires are not overjoyed with the current drive to produce more plywood, but at the same time hesitant to go into secondary wood processing at least in a big way. . . . The latter is because of: (a) still large rents accruing from logging; (b) the large plywood manufacturers' virtual monopoly (oligopoly) on the supply of hardwood resources in the outer islands due to their vertical integration with forest concessions; (c) protection from new entrants by the 1989 law for plywood manufacturing; (d) the possibility to accumulate large profits through large volume of sales of plywood, even if the margin per cum is not large . . . and (e) the existence of a highly subsidized, low-risk HTI option, which is particularly attractive to large operators with (their) own concessions including (the members of) Apkindo itself” (World Bank 1992g).

The remainder of the reforestation fund was divided. The Department of Forestry collected the interest on the fund, about Rp120 billion ($51 million) a year, with which it paid for the construction of regional Kantor Wilayah offices and for the study and travel abroad of department officials. The principal of the reforestation fund was left to the discretion of the national state secretary, which is to say, with Suharto (4 December 1995 interview with M. Kuswanda, 23 February 1996 interview with Herman Haeruman).

Perhaps the most visible destination for principal from the reforestation fund was the national airplane project, then overseen by Minister of Research, later Vice President, and later President Habibie. By 1994, the reforestation fund had grown to $1.1 billion. During that year, the Department of Forestry was given $150 million a year for planting trees. But this same year, the government loaned an even larger amount, $185 million, interest free to the national airplane project.

Although a coalition of environmental groups brought suit against President Suharto to challenge the loan, Judge Benyamin Mangkudilaga ruled that the case was beyond the jurisdiction of the Jakarta state administrative court. The judge also found in favor of Suharto's lawyers, who had argued earlier that the decree to transfer the funds was not final
and the transfer was subject to an agreement between state aircraft maker IPTN and the Department of Forestry. An official of Walhi, one of the six groups which filed the suit, said the court's decision was "strange," as the entire $185 million interest free loan had already been transferred to the aircraft maker (Business Times 1994e) and seemed to constitute a final transfer.

Suharto also used reforestation funds to subsidize the Million Hectare Project, an "integrated agroforestry development project" in Central Kalimantan that was supposed to have resulted in one million hectares of irrigated rice fields. In reality, the project consisted "mostly of digging canals" (23 February 1996 interview with Herman Haeruman) to give logging barges access to formerly virgin swamp forests, which were felled by a company or companies owned by Bob Hasan. Once logged, much of this forest burned in the fires of 1998, according to a Department of Forestry official who almost perished in the fires (29 July 1998 interview with Sutrisno Soewoko).

**What happened to those who tried to prevent the squandering of timber rent**

Just as there were those who tried unsuccessfully to raise timber rent by the government, there were also those who tried and failed to regularize the uses to which those timber rents were put. Former three-term Minister of Finance Ali Wardhana (1968-1983) “felt that forestry revenues were the most important off-budget items that should be brought on-budget" (World Bank 1993d). The national planning agency hinted at the misuse of the reforestation fee, observing, "The exact distribution, or allocation, of the reforestation fee is not public information, in fact it appears to be known only at the highest levels of the government. This obviously hinders analysis regarding public investments" (Bappenas 1992: 12).
Perhaps the most visible effort to regularize the uses of government-captured timber rent was the call by the national parliament in 1992 for the reforestation fund to become part of the government's normal fiscal account. The president refused to go along, arguing that he had the people's mandate to rule, and that he would decide which funds would become a part of the government budget (12 February 1996 interview with Sayuti Hasibuan).

The World Bank was also involved with efforts to see that the fund be put on budget, and be used in a somewhat transparent manner. For example, a senior official in the World Bank suggested that the Bank's third forestry lending program not move forward unless there were further assurances that the government would exercise greater responsibility in its disbursement of reforestation funds. As one Bank official writes,

Marianne Haug [then a senior official in the World Bank's East Asia division] yesterday . . . expressed concern about [the government of Indonesia's] intentions for the Reforestation Fund, and she thinks Forestry 3 would be difficult to defend without some answers on this. We will discuss this matter here next week with some of the . . . people involved in financial sector lending. Marianne's view is that we need to get some assurances from [the government of Indonesia] that this money will be used effectively and in accordance with good macro-economic and financial sector management practices. . . . This might mean that some of it should go to forest management . . . or that at least its disbursement should be slowed down (World Bank 1992b).

Later that year, another Bank official recommended, in an internal document, that the HTI program be frozen and that the reforestation fund be brought on budget.

At present, about two-thirds of the Rp1 trillion [$426 million] in annual forest revenues is being earmarked for the HTI scheme and substantial amounts have already accumulated in special accounts. Since the program is both expensive and risks encouraging too much investment in the wrong activities, it should be curtailed pending a thorough reassessment. Funds already collected could be frozen, while future forest revenues could flow into the national budget, like oil revenues" (World Bank 1992l: 4).

Two years later, with World Bank efforts to bring the fund on budget still failing, a
Bank official in Indonesia wrote in an e-mail message:

My own view is that we are probably not going to dislodge the Reforestation Fund from it's off budget hiding place, but we might prevail in getting an increasingly larger portion of it allocated to sensible ends in a reasonably transparent manner: the fact that [the government] has started to use the Fund to finance regular activities of the Ministry of Forestry (which are at least mainstream, if not always sensible) shows that there is some flexibility and awareness on this matter. If we do not succeed in getting log fees raised substantially in Indonesia, we still need also to lobby very hard for all (or most) of the increase to go on-budget (World Bank 1994d).

With Suharto's fall from power four years later, the World Bank rushed into the ensuing political vacuum and made the transfer of the reforestation fund from its Department of Forestry hiding place to the Ministry of Finance a condition for its conveyance of several billion dollars in policy support loans to the national treasury. But even with the removal from power of the chief plunderer of those funds, the Bank continues to encounter resistance. Even now, no one knows how much remains in the fund or whether the Ministry of Forestry ever transferred it to the Ministry of Finance (7 November 2000 interview with Neil Scotland).

Summary

There is substantial proof of timber rent appropriation in Indonesia by Suharto, security forces and some civilian political figures. Of the top 20 timber concessionaires, 55 percent provided managerial or equity positions to members of the former first family. Ten percent of these timber conglomerates were exclusively controlled by security forces, which served to bolster President Suharto's power. The remaining 35 percent were nominally independent from the former first family and the state security apparatus, but were still required to provide unofficial contributions to the ruling party and to politically-favored segments of the prihumi community. These high levels of unofficial extraction of timber rent caused a
suboptimal level of timber revenue collected by the Indonesian government.

As discussed, Suharto and Hasan developed various forms of regulation that ostensibly served to make the timber trade more developmentally beneficial to Indonesia, while actually concentrating cash flow to businesses that they owned. Suharto and Hasan used these measures to form a virtual monopoly in Indonesian hardwood plywood. Ultimately the primary and probably most visible timber rent appropriator was Bob Hasan, Apkindo head, close friend of, business partner to, and proxy for the former president.

Timber rent that was officially collected by the government was diverted to programs that benefited Suharto and his timber business partners, as in the case of the HTI program and the Million Hectare Project. Those within the Indonesian government and multilateral agencies who tried to either increase the level of official timber rent extraction by the government, or to regularize the disbursement of that timber rent, met with strong resistance from the former president and his senior partners in the timber industry, and failed as a result.

The Department of Forestry, and even some of the more purely developmentally-oriented agencies within the government such as the Ministry of Finance and Bappenas, lacked autonomy from Indonesia's head of state, and were therefore incapable of addressing the dual imperative and failed to create developmentally sound timber revenue policies.
Chapter 4 Unofficial Timber Rent Appropriation in Sarawak

This chapter details the methods whereby the rulers of Sarawak, East Malaysia, informally extract economic rents for personal and political gain, and how this affects the levels at which timber revenues are formally set.

Sarawak politics and forest management

Although Sarawak is only a state within the Federation of Malaysia and not a country, Sarawak will be considered as a nation for the purposes of this dissertation as it maintains complete control over its timber resources and, in that sense, retains the policy characteristics of national sovereignty.

During the period covered by this study, Sarawak had two chief ministers: Tun Rahman Abdul Yakub, who served from 1971 to 1981, and his nephew, Taib Mahmud, who served from 1981 to the present. As with the recently deposed Suharto, Taib Mahmud's power is almost absolute. Asiaweek identified nine "political warlords" in Asia: two each were identified in Thailand, the Philippines, Pakistan, and India, and one in Malaysia, the chief minister of Sarawak. Taib Mahmud is described: "He has no private army, but he runs the closest thing to a Malaysian political fiefdom. Kuala Lumpur leaves the Sarawak chief minister alone in return for keeping the state sweet at election time. Massively wealthy from timber concessions, he drives around in a Rolls Royce" (Asiaweek 1995b).

87 Prior to assuming the chief ministership, Taib held seven different federal cabinet portfolios between 1968 and 1981, including Minister of Defense, Minister of Federal Territories, and Minister of Primary Resources. As Minister of Primary Resources Taib was nearly sacked for taking a large bribe from an oil company (23 May 1997 interview with a reliable and informed academic).
Sarawak's chief minister is elected by a majority vote of the state assembly. However, the state is full of different ethnic groups that share little common ground. This makes for a complicated story of political compromise. For the entire period covered by this study, most state assemblymen have banded together in what is known as the Sarawak Alliance to select Tun Rahman and, later, his nephew Taib Mahmud, to serve in succession as the state's chief ministers. The Sarawak Alliance is made up of four parties. The PBB consists of the Melanau, a small ethnic group to which both of the chief ministers belong, plus nearly all of the state's Malay population, plus a sizable portion of the state's Dayak population. The SUPP is comprised of Malaysians of Chinese ancestry. The SNAP is made up mostly of members of the state's Dayak groups, and some Chinese. In recent years a fourth party, the PBDS, made up almost entirely of Dayak voters, has eclipsed the SNAP. As long as these four parties continue to attract support (even if they have to buy it) and stay together in a coalition to support Taib Mahmud, he will continue to rule.

The Sarawak Alliance staunchly supports not only Taib, but also the national leader, Prime Minister Mahathir Mohamad. It has long been the case that all federal parliamentarians elected from the Sarawak Alliance have thrown their support to Mahathir. Muniandy Thayalan, the head of a leading Malaysian environmental NGO, suggested an agreement in which Mahathir does not interfere with Taib as long as Taib delivers crucial votes to maintain Mahathir in power (22 August 1996 interview with Muniandy Thayalan). Because Mahathir can count on Taib to round up the support of Sarawak's parliamentarians, Mahathir takes a hands-off approach to internal affairs in

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88 Actually, there is no "Dayak" group as such. "Dayak" is in fact a catch-all phrase intended to encompass the non-Chinese and non-Malay indigenous groups of Sarawak, including the Iban, the Bidayuh, and the
Sarawak, including the manner in which the state's forests are managed, a matter to which I now turn.

The Sarawak Forest Department controls the majority of Sarawak's forests and issues regulations designed to achieve the sustainable harvest of those forests. The autonomy of the department, however, is severely limited due to the fact that it is under the control of the Ministry of Resource Planning. Taib himself has held the position of Minister of Resource Planning since 1985. Therefore, Taib has the final say over the level at which timber revenues will be collected from concessionaires and over the distribution of timber concessions. A source makes the following observation about Taib's omnipotence in the awarding of timber concessions:

At the top of the hierarchy is the minister of resource planning, who has sole discretion to give out logging concessions. Taib finds the time to hold this portfolio himself, along with that of chief minister. Under the law, he can grant concessions to anyone he wants: relatives, friends, political associates, or nominee shareholders - people who hold concessions on behalf of secret beneficiaries. The concessions are granted free of charge, and the holder isn't required to know the difference between a live tree and a telephone pole (Sesser 1989: 282).

In Sarawak, as in Indonesia, the head of state has found it to serve his financial and political interests to informally appropriate timber rent. One source estimated that Taib has amassed $4 billion through his connections to the timber industry (Rainforest Action Network 1993). According to an interview with a former Sabah chief minister, Taib personally takes RM30 ($12) from each cubic meter of timber cut in the state (1 and 2 October 1996 interview with Harris Salleh). The chief minister is the state's third largest timber concession holder (see Table 4.3 below). His appropriation of timber rent is in large

-orang ulu - the latter being a name for the myriad of groups that live far upriver in Sarawak's hilly interior, and have been most deleteriously affected by the state's timber industry.
measure intended to augment his and his family's personal wealth.

The use of timber rent to further national and state political objectives is also important. As Chief Minister Taib Mahmud stated succinctly, "Sarawak politics is timber politics" (FEER 1987). Since the early 1970s, Sarawak has unofficially delivered to the national ruling party a share of Sarawak's timber rent. The rent is used by the national ruling party both for political expenditures at election time and for financing the business objectives of ruling party-linked conglomerates (28 March 2001 interview with Daniel Lev).

At the state level, the use of timber rent for political ends was perhaps best demonstrated in the Ming Court affair of 1987, when Taib fought off a challenge from his uncle and former chief minister, Tun Rahman. Although the seeds of the Ming Court affair were sown long before,\(^89\) the crisis was precipitated by Taib's cutting off timber rent to a wide range of politicians, especially state assemblymen loyal to his uncle, and by his move to gain full control over the granting of concessions by assuming the additional portfolio of Minister of Resource Planning. Both actions created considerable resentment among politicians who had been tacit supporters of Taib up to that point. As recounted in one publication:

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\(^89\) Toward the end of his tenure as Prime Minister of Malaysia (1976-1981), Hussein Onn effectively forced Sarawak's chief minister of that time, Tun Rahman, from office. Hussein regarded Tun Rahman as corrupt and as the ally of Hussein's predecessor Tun Abdul Razak. Tun Rahman went on to assume the governorship of Sarawak. His replacement in the chief ministership was his nephew Taib Mahmud. However, many of Tun Rahman's loyal lieutenants remained in office. "As a result, fissures gradually emerged between those owing loyalty to the new Chief Minister, and those owing their allegiance to the Governor" (Leigh 1991: 181). A war of words and actions ensued between the two men starting in late 1984. In 1985, Tun Rahman sent a public letter to Taib criticizing him, and accusations against Taib began to appear in the then-Rahman-controlled Sarawak Tribune. As governor, Tun Rahman had the power to call a state assembly session, in which, if 25 votes could be gotten, Taib would be removed from office. Taib moved quickly to head off the threat posed by his uncle. With the imprimatur of then-Malaysian Deputy Prime Minister Musa Hitam, Taib appointed a new governor, removing his uncle from that post, and began to purge pro-Tun Rahman figures from the government ranks (26 May 1997 interview with a reliable and informed academic). Tun Rahman rallied for a final attack on his nephew two years later in the Ming Court Affair.
In early May [1985], Taib all but named three principal 'co-conspirators,' in a plot to oppose his leadership. . . . But the orchestrator of the machinations, Taib alleged, was his uncle. [The chief minister told this reporter that] the depressed timber market had put concession operators in a tight spot, leading in turn to pressure for relief on some payments to business partners ['business partners’ here denotes Sarawak politicians]. These partners need more funds, it was suggested, but the current leadership [Taib] balked at their incessant demands. The statutory powers to supervise the granting of concessions, which reside in the minister of forests, obviously command close political attention - especially as the minister potentially has wide powers to revoke licenses. . . . The Review understands that Taib intends, personally, to assume the portfolio [of minister] . . . in June (FEER 1985f).

Plots by co-conspirators continued during 1986, driven by Taib's threats to take away their lucrative timber concessions. The Ming Court affair in 1987 was precipitated by the chief minister’s plan to "screen," in reality to single out for punishment, concessions held by politicians whom Taib chose to no longer favor and to revoke those concessions. As described by a Sarawak-based correspondent who followed the story closely at the time,

The Sarawak political crisis is believed to have been triggered by the move to screen timber licenses in the State – a great portion of which belong to certain politicians and their supporters. To date, about 30 timber licenses of companies linked to an ex-politician [Taib’s predecessor Tun Rahman] have been revoked. According to sources, the State Government’s recent drive forced an ‘underground movement of politicians’ linked to timber concessions to act fast to protect their interests . . . Recently the state government stepped up its drive against Datuk Taib’s detractors and revoked the timber licenses of two businessmen for transferring their concessions without informing the authorities. Following that, the State Government announced that it would screen all timber licensees who ‘abused the timber industries.’ This included licensees who sold or transferred their licenses or sold or transferred shares. Last week’s screening of timber licenses made mandatory the obtaining of approval from the Government even for a change in partnership in a timber company or appointment

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90 According to Ritchie, "when Taib was vacationing abroad with his family and seeking medical treatment for a sinus problem," two Sarawak politicians traveled to London to meet with Tun Rahman. "Sources said that one of them spoke informally about the 'squeezing' of one concession which one of them shared with a member of the pro-Rahman faction" (Ritchie 1987: 42).

91 Taib accused these timber concessionaires of violating Sarawak timber management regulations. But virtually all timber concessions in insular Southeast Asia are in violation of at least one of a host of timber-related laws at any given time. Therefore, the head of state can technically find any concessionaire to be guilty of noncompliance at any time.
or change of logging contractors, otherwise the license would be rendered invalid. According to Taib loyalists, the move hurt the pockets of the ‘Old Guards’... The sources said the political group opposed to Datuk Taib’s administration was desperate (Sunday Mail 1987).

The revocation of timber licenses on the magnitude of that precipitating the Ming Court affair is unprecedented in Sarawak's history, as shown in Table 4.1.

Table 4.1 Natural forest timber concessions granted and revoked by Chief Minister Taib during his first twelve years in office, 1981-1993

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of concessions granted</th>
<th>Number of concessions revoked</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>1982</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>1983</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>1984</td>
<td>17</td>
<td>2</td>
</tr>
<tr>
<td>1985</td>
<td>35</td>
<td>1</td>
</tr>
<tr>
<td>1986</td>
<td>19</td>
<td>10</td>
</tr>
<tr>
<td>1987</td>
<td><strong>36</strong></td>
<td><strong>26</strong></td>
</tr>
<tr>
<td>1988</td>
<td>13</td>
<td>7</td>
</tr>
<tr>
<td>1989</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>1990</td>
<td>23</td>
<td>21</td>
</tr>
<tr>
<td>1991</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>1992</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>1993</td>
<td>24</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Annual Reports of the Sarawak Forest Department (1981-1993)

Once the press reported which politicians would lose their timber concessions, events moved quickly. Threatened politicians flew to the Malaysian capital for a secret summit on unseating Taib. Tun Rahman, who had started a new party called Permas, led the rebels. The rebels also included PBDS, a party that had broken away from the ruling coalition. The rebels planned to bring a vote of no confidence in the state assembly and to obtain a parliamentary majority. Chief Minister Taib responded to this threat by dissolving the state assembly and by calling for elections to be held a month later. The rebels responded by
promising cash payments of $500,000 to every state assembly contestant who joined the opposition camp, a sum that would have been paid out of timber rent had the opposition won. However, in the end, Taib maintained his power. These events are summarized in Table 4.2.

**Table 4.2 Dates and key developments during the Ming Court Affair of 1987**

<table>
<thead>
<tr>
<th>Date of event</th>
<th>Key development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Friday, 6 March 1987</td>
<td>People’s Mirror carries story of Chief Minister Taib’s intention to put a “Screen on Timber Licenses” (Ritchie 1987: 18).</td>
</tr>
<tr>
<td>Sunday, 8 March 1987</td>
<td>Anti-Taib rebels fly from Kuching (capital of Sarawak) to Kuala Lumpur (capital of Malaysia) to meet and discuss how to unseat Chief Minister Taib.</td>
</tr>
<tr>
<td>Monday, 9 March 1987</td>
<td>Secret meeting begins at Ming Court hotel in Kuala Lumpur. A journalist monitoring events conjectures that there was “sufficient resentment for rebellion. Those who would be dissatisfied would include those . . . with timber concessions. . .” (Ritchie 1987: 17).</td>
</tr>
<tr>
<td>Tuesday, 10 March 1987</td>
<td>Four ministers, three deputy ministers resign from Taib’s cabinet and join the opposition. Taib announces at press conference that there is a plot forming against him at the Ming Court Hotel. Mood of opposition politicians said to be “euphoric” as they decide amongst themselves, “who gets what . . . who was going to take over the various government statutory bodies and corporations” (Ritchie 1987: 27)</td>
</tr>
<tr>
<td>Friday, 13 March 1987</td>
<td>Taib dissolves the Sarawak state assembly. It is announced that a statewide vote will follow on 15-16 April 1987. “[W]hen it appeared clear that an election was imminent, two reliable . . . sources said that value of each rebel went up to the tune of $500,000 per contestant” (Ritchie 1987: 38).</td>
</tr>
<tr>
<td>15-16 April 1987</td>
<td>Statewide elections are held. Pro-Taib forces prevail, maintaining a majority of seats in Sarawak state assembly. Taib is nominated to a third term as Chief Minister.</td>
</tr>
</tbody>
</table>

The Ming Court affair is perhaps the most visible instance of the use of the state’s timber resource to achieve political objectives. However, timber rent is used in more direct ways to achieve political objectives, such as buying votes at election time. Elections in Sarawak are expensive.

To illustrate the high cost of buying elections, the ruling party spent about $400 per voter, or $4 million to defeat a candidate for the state assembly, Chiew Chin Sing, who
would have represented only about 10,000 voters.\textsuperscript{92} During the weeks approaching the election, ten different teams of senior Sarawak Alliance officials, their officeholders and retinues visited all of the 180 longhouses in the district, holding parties each night in ten different longhouses.\textsuperscript{93} Chiew explained how these 10,000 voters were wooed:

Expenses were as follows: most members of the traveling parties were paid a salary. For each longhouse party that was held, five pigs and fifty cases of Heineken beer were purchased. In addition to the good times at the parties, where many promises were made, each family was given RM1,200 (\$480) to vote for Chiew’s opponent.

The ruling coalition ensured that a family whose head received a \$480 bribe would actually vote for the ruling coalition candidate by paying only \$240 per family upfront, with the remaining half to be paid only if the ruling coalition candidate carried a large majority in that longhouse.

To pay the second installment, the ruling coalition rented out as campaign headquarters the entire Lee Hua hotel in Sibu, the large city downriver from Chiew's largely rural district. Chiew said after the election, the headman from each longhouse would travel to stay at the hotel, and collect the second installment of the bribes for the families in his longhouse. In that particular election the ruling coalition candidate defeated Chiew by a vote of 6,938 to 1,457 (19 July 1997 interview with Chiew Chin Sing).

Charges of vote buying in Sarawak were confirmed in a review of Malaysian politics:

[T]he High Court made political history when it declared an election victory by the ruling Barisan Nasional (BN) coalition null and void due to vote buying. The judge ruled that "vote buying was so extensive [that] it had affected the election result" in the Bukit Begunan constituency in the September 1996 Sarawak state election. Although vote buying by the BN is widespread in Malaysia, hitherto it has been almost impossible to prove it in court. In this case, however, there was clear evidence including photographs showing cash being handed out by BN campaigners to voters just prior to election day. In the subsequent by-election, the same BN candidate from Parti Bansa Dayak Sarawak (PBDS) who had won in the

\textsuperscript{92} Another source who was in Sarawak for the 1996 state elections said that on the final day before polling, he saw RM660,000 (\$264,000) in bribes being given out to voters in a single location. The bribes ranged in size from RM600 (\$240) for each indigenous voter to RM2,200 (\$880) for each Malaysian Chinese voter (1 October 1996 interview with a knowledgeable Sabah-based source).

\textsuperscript{93} Indigenous communities in Borneo are often clustered around one or more longhouses. Built up on stilts, longhouses contain dozens of single family dwellings, built side-by-side, and connected by a long common porch.
voided election easily won the seat again (Asian Survey 1997).

In Sarawak, much of the money to buy votes comes not from timber rent appropriated by the chief minister but from that of his political supporters, who have been given timber concessions for that purpose. Sarawak Alliance party operatives and Sarawak Alliance state assemblymen are awarded timber concessions provided that they make cash available during election time. Similarly, politicians who can secure large majorities for the Sarawak Alliance in their areas can prevail upon the chief minister to award them timber concessions (26 May 1997 interview with Lao Siew Chang).

For timber conglomerates themselves, so long as they are willing to make money available to the ruling party during election time, this will ensure their ongoing ability to gain access to new timber concessions as they exhaust old ones. Some conglomerates control so many concessions because during election time senior politicians come to them for campaign donations. Once the politician has been re-elected the timber conglomerate comes back to the politician and requests his help in obtaining new concessions from the chief minister (26 May 1997 interview with Lao Siew Chang).

When political supporters serve as board members and shareholders in timber concessions, they do not simply serve as a conduit for funds to the ruling party during election time but also gain personal wealth as a payment for their loyalty. At some level, it is a meaningless exercise to try to determine whether a political supporter's position on the board of a timber company signifies that they are there to get rich and in exchange for that privilege remain loyal to the chief minister, or to finance the political expenses of the chief minister’s party. According to James Chin, board members and major shareholders work both for themselves and their parties, depending on the electoral cycle. If it is not election
time, then the board members and major shareholders bank substantial salaries.\textsuperscript{94} However, if it is election time, especially during the final months, the political supporter is expected to contribute funds to the ruling party. If they do not perform this latter function or if they have otherwise demonstrated disloyalty, when their concession is up for renewal the "chief minister asks the forestry department to rigorously enforce" its regulations with respect to that disloyal politician's concession, which provides a pretext to deny the renewal of the concession (30 June 1997 interview with James Chin).

In short, timber wealth is used both to create wealth for the chief minister and his political supporters and to ensure his political longevity. My analysis rests on a review of the managerial and equity profiles of the timber concessions licensed to each of the state's four largest private timber groups and more general types of information on the state's fifth through ninth largest private groups. Sarawak's nine largest private timber groups are ranked by size of concession holdings in Table 4.3 below. The forest areas being logged by the four largest groups are mapped in Figure 4.1.

\textsuperscript{94} Chin estimates that a Sarawak politician serving on the board of a typical timber concession banks between five and eight percent of the total profit of the concession.
### Table 4.3  
**Ranking of Sarawak timber groups by concession holdings, 1996**

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Name of timber conglomerate</th>
<th>Senior figure</th>
<th>Total area (hectares)</th>
<th>Source(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Samling group</td>
<td>Yaw Teck Sing</td>
<td>1,636,320</td>
<td>Samling Corporation internal document obtained 22 October 1996; written estimates of a Sarawak-based researcher obtained 15 November 1996.</td>
</tr>
<tr>
<td>2</td>
<td>Rimbunan Hijau group</td>
<td>Tiong Hiew King</td>
<td>1,500,000</td>
<td>Remarks of William Wong, head of investor relations for Jaya Tiasa, Rimbunan Hijau’s publicly listed flagship, during a 29 October 1996 visit to Rimbunan Hijau headquarters.</td>
</tr>
<tr>
<td>3</td>
<td>Taib family group</td>
<td>Chief Minister Taib Mahmud</td>
<td>998,011</td>
<td>Ritchie 1987: 84-85; Sarawak Tribune, 11 April 1987</td>
</tr>
<tr>
<td>4</td>
<td>KTS group</td>
<td>Lau Hui Kang</td>
<td>500,000</td>
<td>The Edge 1995d</td>
</tr>
<tr>
<td>5</td>
<td>WTK group</td>
<td>Wong Tuong Kwang</td>
<td>400,000</td>
<td>The Edge 1995d</td>
</tr>
<tr>
<td>5</td>
<td>Shin Yang group</td>
<td>Ling Chiong Ho</td>
<td>400,000</td>
<td>Sarawak Securities 1997b: 22</td>
</tr>
<tr>
<td>7</td>
<td>Ting Pek Khiing group</td>
<td>Ting Pek Khiing</td>
<td>311,239</td>
<td>Business Times 1992a&amp;b; Jardine Fleming 1993; Star 1995b</td>
</tr>
<tr>
<td>8</td>
<td>Limbang Trading</td>
<td>James Wong</td>
<td>185,490</td>
<td>Asian Wall Street Journal 1994b</td>
</tr>
<tr>
<td>9</td>
<td>Ling group</td>
<td>Ling Beng Siew</td>
<td>120,000</td>
<td>Sarawak Securities 1996: 4</td>
</tr>
</tbody>
</table>
Samling

Sarawak’s and Malaysia’s largest timber concession holding company is the Samling group. As shown in Table 4.4 below, a number of concessions licensed to the Samling group include Chief Minister Taib’s family, proxies and political allies as board members and shareholders. Among the more interesting Taib-linked figures found in the table below are the chief minister’s cousin who serves as a senior business figure in the family, and the chief minister's bomoh (traditional healer and spiritual medium). Among the more straightforward recipients of political patronage are an assemblyman known by the nickname of "Giant Killer" because he successfully defeated Taib’s uncle and political rival in the 1987 election, and a nominee said to represent Sarawak’s Minister of Finance George Chan in two-thirds of Samling's timber concessions.

95 While many believe Sarawak's and Malaysia's largest timber group is Rimbunan Hijau, an internal spreadsheet compiled by a Samling employee put the total number of Samling concessions at 18, with four in Lawas, seven on the upper Baram region, and seven near Bintulu (Samling 1996). This total just over 1.6 million hectares, which just edges out the 1.5 million hectares of “official” holdings acknowledged by a Rimbunan Hijau official (26 October 1996 interview with William Wong). Samling is also the world’s largest owner of Caterpillar tractors (22 October 1996 interview with Samling official).

96 A well-placed and knowledgeable Sarawak source suspects that Samling is owned by the chief minister's family through nominees (26 May 1997 interview).
Table 4.4  Samling timber concessions in which family members, friends, proxies or political allies of Taib Mahmud are board members or shareholders.

<table>
<thead>
<tr>
<th>Name of Samling-linked timber concession</th>
<th>Name of board member or shareholder</th>
<th>Position in or percentage of shares held in company</th>
<th>Relationship to current chief minister, source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adong; Baram Sawmill, 46,134 hectares; Dayalaba, 16,469 hectares; Kelapang; KTM Timor 71,657 hectares; Majau Timber; Pelutan, 55,912 hectares; Ravenscourt 136,659 hectares; Samling Plywood Miri, 160,954 hectares; Sertama; Syarikat Reloh; Tinjar Logging</td>
<td>Yong Nyan Siong</td>
<td>Holder of a single share; Director; Director and 40 percent shareholder; Director; Director; Director; Director; 30 percent shareholder; Director; Director; Director and 3 percent shareholder; Director</td>
<td>Nominee on behalf of Sarawak’s current Minister of Finance, George Chan (12 August 1997 interview with James Chin).</td>
</tr>
<tr>
<td>Paong Timber, 61,892 hectares</td>
<td>Edmund Ang @ Edmund Lea Ang, Bertram Raymond Regie Adai, Narulhuda Binte Mohd Mortadza, and Mustapha Bin Ismail, Sriemar Sdn Bhd.</td>
<td>1 percent shareholder, 1 percent shareholder, 3 percent shareholder, 1 percent shareholder, 5 percent shareholder.</td>
<td>Bertram Raymond Regie Adai is the former Editor in Chief of the Sarawak Tribune (11 June 1997 interview with former Sarawak Assistant Minister of Finance Patau Ubis). He and three other shareholders, as well as the company Sriemar Sdn Bhd, all give the Chief Ministers palace guest house, Istana Tetemu, as their address (18 August 1997 interview with Raphael Pura).</td>
</tr>
<tr>
<td>Pelutan, 55,912 hectares; Sertama, size unknown</td>
<td>Ahmad bin Suut</td>
<td>20 percent shareholder; Director</td>
<td>Chief Minister Taib Mahmud's bomoh (traditional healer and spiritual medium) who owns between 15 and 17 luxury automobiles (4 June 1997 interview with a Sarawak state assemblyman).</td>
</tr>
<tr>
<td>Ravenscourt, 36,659 hectares</td>
<td>Abdul Hamid bin Sepawi</td>
<td>Director and 24 percent shareholder</td>
<td>First cousin to the chief minister, and an important business figure in the chief minister's family (6 June 1997 interview with State Assemblyman Aidan Wing). Abdul Hamid is “holding part of the money” for the chief minister (11 June 1997 interview with former Sarawak Assistant Minister of Finance Patau Ubis).</td>
</tr>
</tbody>
</table>
Table 4.4 (continued) Samling timber concessions in which family members, friends, proxies or political allies of Chief Minister Taib Mahmud are board members or shareholders.

<table>
<thead>
<tr>
<th>Name of Samling-linked timber concession</th>
<th>Name of board member or shareholder</th>
<th>Position in or % of shares held in company</th>
<th>Relationship to current Chief Minister, source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ravenscourt, 136,659 hectares</td>
<td>Wahab Dollah, Assistant Minister for Infrastructure Development (28 May 1997 interview with a Sarawak journalist).</td>
<td>Director</td>
<td>Known as &quot;Giant Killer&quot; because he defeated former Chief Minister Tun Rahman in the elections in the aftermath of the 1987 Ming Court affair. Dollah acted on the chief minister's behalf in an attempt to obtain editorial control in the Borneo Post, where he is now a shareholder. Together with the chief minister's first cousin, Hamid Sepawi, Dollah owns 25 percent of the parent company of the Utusan Sarawak newspaper. Dollah serves as political lieutenant of Taib by controlling political activities and seeing to material needs of eight PBB state assemblymen. He is a strong public proponent of continued Melanau leadership in Sarawak. Dollah is said to have been awarded eight timber concessions by Taib (Sayottaib 2001: <em>sulit</em>, <em>dokumen</em> 1-4), although my study identified only five. He makes profits from his timber concessions available to the PBB during election time (10 June 1997 interview with Kueh Yong Ann).</td>
</tr>
<tr>
<td>Seriku, 85,559 hectares; Sertama</td>
<td>Abang Abdul Karim Tun Abg. Hj. Openg</td>
<td>Director and 0.5 percent shareholder; Director</td>
<td>Older brother of one of the chief minister’s most important ministers, Abang Johari, Minister of Industry (28 May 1997 interview with a Sarawak journalist).</td>
</tr>
<tr>
<td>Seriku, 85,559 hectares</td>
<td>Abang Hj. Mohamed Bin Abang Sharkawi</td>
<td>Director, 0.5 percent shareholder</td>
<td>Former associate of Wahab Dollah. Former official of Sarawak Economic Development Corporation (7 June 1997 interview with State Assemblyman Aidan Wing). A “Taib nominee” (12 August 1997 interview with James Chin).</td>
</tr>
</tbody>
</table>
Besides using its privately held timber concessions to make the Taib family wealthy and keep it powerful, the Samling group also owns two publicly listed companies whose earnings are used to satisfy similar objectives. Lingui, the larger of the two, is highly penetrated by political elites. One of its subsidiaries, Tamex Timber, is directed by Mirzan Mahathir, a son of Malaysia’s current Prime Minister. According to documents on file with the Malaysia Registry of Companies, Mirzan owns 15 percent of Tamex Timber through his company Falmouth. Also on the board of directors of Tamex Timber is Yong Nyan Siong, a nominee of Sarawak’s current Minister of Finance, George Chan (12 August 1997 interview with James Chin).

Samling has become the timber group most favored by Chief Minister Taib. He has reportedly promised the group that their concessions will be renewed in exchange for their undertaking certain steps to help develop Miri, Sarawak’s second largest city after Kuching. Samling has begun this process by building Miri’s (comparatively) luxurious Holiday Inn. More importantly, Samling has agreed to invest between RM1-2 billion ($400-800 million) and RM6-7 billion ($2.4-2.8 billion) in the Miri Township urban renewal project. Once the Miri project is complete, Samling is committed to undertaking a similar urban renewal project in Bintulu (4 November 1996 interview with James Ritchie; 5 and 7 November 1996 interview with a well-placed and knowledgeable source in Sarawak). One may speculate that the Samling group's rise to the top timber concession holder in Malaysia is due in part to their agreement to absorb a substantial portion of the expenses associated with these two

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97 Both of these companies, Lingui and Glenealy Plantations, were at one time financially distressed and acquired through reverse takeovers. That is to say, the companies agreed to surrender control to Samling, in exchange for receiving a small portion of Samling's assets. By using the method of the reverse takeover, Samling was able to obtain two publicly listed platforms from which it could then raise shareholder equity,
urban renewal projects in Sarawak.

Rimbunan Hijau

Sarawak's second largest timber conglomerate is the Rimbunan Hijau group. The group's relationship with Sarawak's heads of state highlights the extent to which most timber concessionaires in insular Southeast Asia are completely at the mercy of rulers. Rimbunan Hijau's head, Tiong Hiew King, understands the political economic balance of power in Sarawak. In the early 1970s he was jailed by then Chief Minister Tun Rahman on charges of being a communist (Lau 1995: chapter 20, page 2). After being released, Tiong went to great lengths to curry favor with Rahman, even making a special trip to Taiwan to serve as his golf umbrella-holder. In an awkwardly translated but amusing passage,98 S.K. Lau recounts that:

Tiong King went to Taiwan to hold umbrella for [Chief Minister Tun Rahman] Yakub while the latter played golf. This did not matter. [Tiong] even asked Yet Ming Ek, the Bintulu richest man to be the caddie of Yakub. Perhaps Tiong felt so lonely if only he was alone with Yakub. So he had to bring Yet along. Later, it became a laughing stock for the local timber sector and golf players (Lau 1995: chapter 4, page 2).

Rahman continued to abuse his relationship with Tiong. The head of the Sarawak Alliance's largest and most powerful Chinese party, the SUPP, promised Tiong a federal senatorship in exchange for a substantial bribe. After the SUPP took the bribe, Rahman

without having to undergo the process of discovery concerning its broader holdings.

98 The material is quoted directly from an unpublished manuscript written by S.K. Lau, a former Sibu-based journalist. The manuscript reportedly first saw the light of day when Lau sent his computer to a repair shop, and the shop took the liberty of printing it off without Lau's permission. From there, the manuscript was informally xeroxed, and distributed widely throughout Sarawak. As a result of its explosive content, Lau was forced to flee to Australia where he is now said to reside, though others speculate he is dead. Although the manuscript’s title, Immortal - Tiger – Dog, is borrowed from a Chinese comedy of the same name, the title is also believed to carry a double meaning, reflecting the author's own view of himself as having gone from an 'immortal' associating freely with Sarawak's political and timber elite, to a 'tiger' penning uncomplimentary details about them in his secret manuscript, to a 'dog' when he was financially marginalized by the (unwitting) subjects of his manuscript (19 July 1997 interview with Chiew Chin Sing).
SUPP Secretary General Wong Soon Kai promised Tiong King appointed as Senator on the condition that he should donate RM1,200,000 [$480,000] to the party. He could pay a deposit of RM700,000 [$280,000] and pay the balance after he was appointed as Senator. However, the then State Governor, Rahman Yakub dislike him and withheld the Senator post for the time being. Tiong was very angry and he asked for a refund of the money paid. Soon, Rahman Yakub stepped down and Tiong King was successfully appointed Senator (Lau 1995: chapter 2, page 3).

Once Taib assumed power, Tiong moved to curry favor with the new chief minister, appointing Taib's brother, Dato Haji Mohamad Arip bin Mahmud, to the board of Tiong’s publicly listed company Jaya Tiasa. Tiong's Rimbunan Hijau conglomerate has also awarded over a dozen timber concession directorships and shareholdings to the families, proxies, friends, and political supporters of Chief Minister Taib, according to company records on file with the registry of companies. These are listed in Table 4.5.
Table 4.5  Rimbunan Hijau timber concessions in which family members, friends, proxies or political allies of Chief Minister Taib are board members or shareholders.

<table>
<thead>
<tr>
<th>Name of Rimbunan Hijau-linked concession</th>
<th>Name and position of board member/shareholder</th>
<th>Position in or percentage of shares held in company</th>
<th>Relationship to Chief Minister Taib Mahmud, source(s) of information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bornion Timber, 79,898 hectares</td>
<td>Bok Kok Pheng, Wee Ai Choo</td>
<td>Directors</td>
<td>Nominees for SUPP, one of four parties that makes up the state’s ruling coalition (12 August 1997 interview with James Chin).</td>
</tr>
<tr>
<td>Cahaya Upaya, contracting subsidiary; Mantan, 75,538 hectares</td>
<td>Abdul Hamid Haji Sepawi</td>
<td>Director and 50 percent shareholder; Director</td>
<td>First cousin to the chief minister, and important business figure in the chief minister’s family (6 June 1997 interview with State Assemblyman Aidan Wing). Abdul Hamid is “holding part of the money” for the chief minister (11 June 1997 interview with former Sarawak Assistant Minister of Finance Patau Ubis).</td>
</tr>
<tr>
<td>Curiah, 65,487 hectares</td>
<td>Sim Kui Hock, son of Sim Kheng Hong, former Deputy Chief Minister</td>
<td>Initial Director</td>
<td>Sim’s position on the board of this concession is a political payback on behalf of his now deceased father (28 May 1997 interview with a Sarawak journalist). At a pivotal moment in the Ming Court affair, Taib’s press conference of 10 March 1987, when he announced the plot against him, Sim’s father was one of two men who stood shoulder-to-shoulder with the embattled chief minister (Ritchie 1987: 22).</td>
</tr>
<tr>
<td>Dahasil, 9,314 hectares</td>
<td>Abang Carrol Bin Abg. Dris</td>
<td>Director and 24.5 percent shareholder</td>
<td>Relative of Aloysius Dris, a senior civil servant in Ministry of Tourism, and a figure close to the PBB (12 August 1997 interview with James Chin).</td>
</tr>
<tr>
<td>Fonlin, size unknown</td>
<td>Abang Haji Ali Bin Abang Sepawi</td>
<td>Director</td>
<td>Probably the brother of Abdul Hamid bin Sepawi, a first cousin to the Chief Minister, and an important business figure in the chief minister’s family (6 June 1997 interview with State Assemblyman Aidan Wing). Abdul Hamid is “holding part of the money” for the chief minister (11 June 1997 interview with former Sarawak Assistant Minister of Finance Patau Ubis).</td>
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</tbody>
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Table 4.5 (continued)  Rimbunan Hijau timber concessions in which family members, friends, proxies or political allies of Chief Minister Taib are board members or shareholders.

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<th>Relationship to Chief Minister Taib Mahmud, source(s) of information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mantan, 75,538 hectares; <strong>Maxiwealth</strong>, 96,685 hectares</td>
<td>Wahab bin Haji Dollah, Assistant Minister for Infrastructure Development (28 May 1997 interview with a Sarawak journalist).</td>
<td>Director; Board member</td>
<td>Known as &quot;Giant Killer&quot; because he defeated former Chief Minister Tun Rahman in the state assembly elections in the aftermath of the 1987 Ming Court affair. Dollah acted on the CM's behalf in an attempt to obtain editorial control of the Borneo Post, where he is now a shareholder. Together with the chief minister's first cousin, Hamid Sepawi, Dollah owns 25 percent of parent company of the Utusan Sarawak newspaper. He serves as political lieutenant of Taib, controlling the political activities of, and seeing to the material needs of, eight PBB state assemblymen. Dollah is a strong public proponent of continued Melanau leadership in Sarawak. He is said to have been awarded eight timber concessions by Taib (Sayottaib 2001: sulit 6, dokumen 1-4), although my study identifies only five. Dollah makes profits from timber concessions available to PBB during election time (10 June 1997 interview with Kueh Yong Ann).</td>
</tr>
<tr>
<td>Sarawak Plywood, 105,000 hectares</td>
<td>Datuk Haji Bujang Mohd. Nor</td>
<td>Director, holder of five shares.</td>
<td>Former state secretary under Chief Minister Taib, from the early-to-middle 1980s (26 May 1997 interview with a reliable and informed academic). Former state financial secretary. Regarded as a potential candidate for the post of Governor. He is the former chair of Bakun Hydroelectric Electric Corporation (28 May 1997 interview with a Sarawak journalist). Current executive chairman of Harwood. His position on the board of Sarawak Plywood may be a golden handshake reward for having held one or more of the posts discussed above (12 August 1997 interview with James Chin).</td>
</tr>
</tbody>
</table>
Table 4.5 (continued)  Rimbunan Hijau timber concessions in which family members, friends, proxies or political allies of Chief Minister Taib are board members or shareholders.

<table>
<thead>
<tr>
<th>Name of Rimbunan Hijau-linked concession</th>
<th>Name and position of board member or shareholder</th>
<th>Position in or percentage of shares held in company</th>
<th>Relationship to Chief Minister Taib Mahmud, source(s) of information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sarawak Plywood, 105,000 hectares</td>
<td>Mohd Amin bin Hj. Satem</td>
<td>Director</td>
<td>Formerly with Sarawak Economic Development Corporation (26 May 1997 interview with a reliable and informed academic). Older brother of Sarawak's current Minister for Social Development. Chairman of BIG, a company specializing in the manufacturing of industrial cases, redi-mix concrete, and quarrying. Chairman of the Sarawak Chamber of Commerce (28 May 1997 interview with a Sarawak journalist). An original director of CMS corporation, the single largest and most important financial entity in the state, and widely regarded as the personal financial vehicle chief minister of Sarawak (29 May 1997 interview with Dominique Ng). A &quot;former PBB nominee&quot; (12 August 1997 interview with James Chin).</td>
</tr>
<tr>
<td>Tijok-Nakan, 14,699 hectares</td>
<td>Abang Sulaiman bin Datuk Hakim Abang Hj Mohidin</td>
<td>Director</td>
<td>Brother of the chief minister (28 May 1997 interview with a Sarawak journalist).</td>
</tr>
<tr>
<td>Tijok-Nakan, 14,699 hectares</td>
<td>Taibi bin Ali</td>
<td>Director</td>
<td>Relative of the chief minister (7 June 1997 interview with State Assemblyman Aidan Wing).</td>
</tr>
<tr>
<td>Tijok-Nakan, 14,699 hectares</td>
<td>Dayang Mastura Bte Datuk Hakim Abang Hj Mohidin</td>
<td>Director</td>
<td>Sister of the chief minister (28 May 1997 interview with a Sarawak journalist).</td>
</tr>
</tbody>
</table>

In addition to cultivating relationships with Sarawak’s past and present chief ministers, Tiong attempted to do the same with Malaysia’s Prime Minister Mahathir by going into business with two of his sons. In 1991, Tiong activated a dormant shell company, Opcom, in order to go into optical fiber and optical cable manufacturing. In March, 1992, the same month that Mukhriz Mahathir, one of the prime minister's sons, joined the board, the
company was given "pioneer status" by Malaysia's Industrial Development Authority, entitling it to a five-year corporate tax holiday.

In October, 1992, Tiong split off 15 percent of his company Opcom to Creative Synergy, a company in which Mukhriz and a second Mahathir son, Mukhzani, were sole shareholders and directors. Other share allocations in Opcom went to several politicians in Mahathir's United Malays National Organization.

Problems emerged, however, when an effort to produce optic fiber using original technology did not succeed. Strains in the shareholder partnership developed over purchases of more than RM40 million ($12 million) in equipment. In December, 1994, Tiong and his brothers resigned from Opcom's board, ending the family's representation there (AWSJ 1994b).

After Tiong and his brothers withdrew from the partnership, Mukhriz Mahathir brought a lawsuit against Tiong. In order to try to smooth things over, Tiong asked the head of the Sarawak’s SUPP party, the same man who had bought Tiong his senatorship and an old medical school classmate of Dr. Mahathir’s, to intercede on Tiong’s behalf and to try to arrange a meeting for Tiong with Dr. Mahathir. However, Mahathir refused to meet with Tiong and instead, S.K. Lau alleges, sent federal Inland Revenue Service agents to raid Tiong’s corporate headquarters.

In 1990, in order to curry favor with Dr. Mahathir, Tiong King invited [Mahathir's] son to set up a factory by joint venture. One and a half years later, he withdrew from the partnership. He said that the PM's son was in [a] power struggle in the firm and he withdrew [from] the partnership for the sake of not offending Dr. Mahathir. However, Tiong King was defeated in the battle this time as he underestimated Dr. Mahathir's son. [Tiong] thought he could use the same tactic previously applied to other Malay partners. In fact, Dr. Mahathir's son is a smart businessman and he decided to give up the firm too. He wanted to take legal action against Tiong . . . Tiong was frightened and he immediately asked Wong Soon Kai to discuss [the matter] with Dr. Mahathir to
settle the case amicably. . . . Wong Soon Kai had to ask his wife to telephone [the] PM's wife for discussion. [The] PM's wife said that since [her] son had grown up, he knew how to look after his own business and that they as his parents did not want to interfere.

A few days before writing this book, a group of Business Criminal Investigation Team accompanied with thirty plus police came to [the] Rimbunan Hijau Building for searching and investigating of accounts in the office. They surrounded the whole building and nobody was allowed to enter the office premises. As learnt . . . Tiong King . . . had removed all the important documents from the office. Thus, there was not many relevant important accounts kept in the office. . . (Lau 1995: chapter 2, pages 3-4).

S.K. Lau goes on to explain that there "were not many relevant important accounts kept in the office" because these important documents had been removed by Tiong's personal secretary, Margaret Wong. Lau explains, in a humorous passage, how Wong removed Rimbunan Hijau's books from the company's headquarters beneath her skirt.99

To sum up, the family members and political associates of Chief Minister Taib Mahmud continue unofficially to appropriate timber rent through managerial and equity representation in timber concessions licensed to the Rimbunan Hijau group. The family of

99 "One year, one day, a batch of personnel from the Inland Revenue Department suddenly stormed into the Rimbunan Hijau office for investigation on taxation. That day, Tiong was away in a foreign country. Tiong’s most helpful assistant Margaret Wong who played an important role in Rimbunan Hijau office would stay calm and took away the computer diskettes to hide inside her skirt before going past those Inland Revenue personnel guarding at the entrance gate . . . [L]ike the other large [timber] enterprises, Rimbunan Hijau group of companies kept two copies of account book. One was a false one which was meant for the declaration of tax. Another one was the actual account of the company for self keeping. Margaret Wong is a spinster with slim build and ugly appearance. People would mistake her as a cleaning maid in Rimbunan Hijau office. This time she could manage to walk past the entrance gate guarded by the Inland Revenue Department personnel. It was because of her ugly appearance that no one would suspect there would be computer diskettes stored with the company’s account hiding in her skirt. After all, none would believe such a ugly woman was an important figure in the Rimbunan Hijau group. [I]f those computer diskettes were discovered, perhaps Rimbunan Hijau Group would face serious trouble. All evidence in connection with the evasion of tax would be exposed. The personnel concerned would then be charged in court. After this incident, this spinster [was even] more highly regarded by her boss. . . . Don’t belittle this spinster Wong. Apart from holding other posts, she is now a member of the board of directors of the Rimbunan Hijau group" (Lau 1995: chapter 3, pages 2-3).
Malaysia's Prime Minister was also for a time engaged in a similar relationship with Rimbunan Hijau.

**Taib Mahmud concessions**

It is a commonly thought that 1.6 million hectares in timber concessions are held by Chief Minister Taib Mahmud and his relatives and political allies (New Sunday Times 1987). In my own calculations, I found almost one million hectares in Taib family timber holdings, spread across 20 concessions. This degree of direct corporate control by a state leader over a market share of this size is unique among the cases studied in this dissertation.

A search of the articles of incorporation of these 20 concessions show directorships and shareholdings awarded to members of the chief minister's family, his proxies, and political supporters including the two largest parties in the Sarawak Alliance, the Chinese SUPP and the chief minister’s own party, the PBB.

---

100 A tense moment came while I was reviewing the list of managers and equity holders in Taib Mahmud timber concessions with a member of the PBB, State Assemblyman Aidan Wing. Until this interview took place, relations had been quite amicable between Wing and myself. Here we were, three days into a relaxed journey whose highlights included meeting Wing's lovely family, and then flying to the small coastal town of Mukah, the epicenter of the Melanau. The first two days of the journey, Wing had treated me to dinner with the male elders of Mukah - featuring the delicacy of raw sago worms - and a day-long drive along the coast with Baijuri Kipli (about whom, see the discussion of the KTS group's Malkita timber concession in Table 4.11). However, when I got around to asking Wing about holders of managerial and equity positions in the Chief Minister’s timber concessions, Wing’s answers, quite precise at first, became fewer and farther between, and increasingly vague. Finally, he stopped answering altogether, and we were left in silence. Wing looked down for quite a long time, and looked up into my eyes and asked, without smiling, "Where did you get his list? These are all PBB companies" (6 June 1997 interview). After this, although our trip together continued for another five days, Wing kept me at arm's length. Entire days went by without my seeing him once. Relations between us were never the same.
Table 4.6   Timber concessions controlled by Sarawak Chief Minister Taib Mahmud in which his family members, friends, proxies or political allies are board members or shareholders.

<table>
<thead>
<tr>
<th>Name of timber concession</th>
<th>Name of board member or shareholder</th>
<th>Position in or percentage of shares held in company</th>
<th>Relationship to current chief minister, source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gayasar</strong>, 25,006 hectares</td>
<td>Abang Abdul Karim Tun Abg. Hj. Openg</td>
<td>Director</td>
<td>Elder brother of one of the chief minister’s most important ministers, Abang Johari, the Minister Industry (28 May 1997 interview with a Sarawak journalist).</td>
</tr>
<tr>
<td><strong>Kedasa</strong>, 41,000 hectares</td>
<td>Bok Kok Pheng, Wee Ai Choo</td>
<td>Directors</td>
<td>Nominees for SUPP, one of four parties that make up the Sarawak Alliance (12 August 1997 interview with James Chin).</td>
</tr>
<tr>
<td><strong>Pasin</strong>, size unknown; <strong>Rinki</strong>, 33,300 hectares</td>
<td>Wahab bin Haji Dollah, Assistant Minister for Infrastructure Development (28 May 1997 interview with a Sarawak journalist).</td>
<td>Director and 50 percent shareholder</td>
<td>Known as &quot;Giant Killer&quot; because he defeated former Chief Minister Tun Rahman in the state assembly elections in the aftermath of the 1987 Ming Court affair. Acted on the CM's behalf in an attempt to obtain editorial control of the Borneo Post, where he is now a shareholder. Together with the chief minister's first cousin, Hamid Sepawi, Dollah owns 25 percent of parent company of Utusan Sarawak newspaper. He serves as political lieutenant of Taib, by controlling the political activities, and seeing to the material needs, of eight PBB state assemblymen. He is a strong public proponent of continued Melanau leadership in Sarawak. Dollah is said to have been awarded eight timber concessions by Taib (Sayottaib 2001: sULit 6, dokumen 1-4), although this study identified only five. Dollah makes profits from his timber concessions available to PBB during election time (10 June 1997 interview with Kueh Yong Ann).</td>
</tr>
<tr>
<td><strong>Pasin</strong>, size unknown</td>
<td>Dollah Ahmat Usop</td>
<td>Director</td>
<td>A relative of Wahab Dollah (6 June 1997 interview with State Assemblyman Aidan Wing).</td>
</tr>
<tr>
<td><strong>Pasin</strong>, size unknown</td>
<td>Dolek bin Hj Mit</td>
<td>Director</td>
<td>A close friend and associate of Wahab Dollah (28 May 1997 interview with a Sarawak journalist) and/or Wahab Dollah’s cousin (6 June 1997 interview with State Assemblyman Aidan Wing).</td>
</tr>
</tbody>
</table>
Table 4.6 (continued) Timber concessions controlled by Sarawak Chief Minister Taib Mahmud in which his family members, friends, proxies or political allies are board members or shareholders.

<table>
<thead>
<tr>
<th>Name of timber concession</th>
<th>Name of board member or shareholder</th>
<th>Position in or percentage of shares held in company</th>
<th>Relationship to current chief minister, source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raplex, 72,251 hectares</td>
<td>Datuk Haji Bujang Mohd. Nor</td>
<td>Director</td>
<td>Former State Secretary of Sarawak under Chief Minister Taib, from the early-to-middle 1980s (26 May 1997 interview with a reliable and informed academic). Former State Financial Secretary. Former chair of Bakun Hydroelectric Electric Corporation (28 May 1997 interview with a Sarawak journalist). Current Executive Chairman of Harwood. His position on the board of Raplex may be a golden handshake for having held one or more of the posts discussed above (12 August 1997 interview with James Chin).</td>
</tr>
<tr>
<td>Rinki, 33,300 hectares</td>
<td>Abdul Hamid Haji Sepawi</td>
<td>Director and 50 percent shareholder</td>
<td>First cousin to the chief minister, and an important business figure in the CM’s family (6 June 1997 interview with State Assemblyman Aidan Wing). Abdul Hamid is “holding part of the money” for the chief minister (11 June 1997 interview with former Assistant Minister of Finance Patau Ubis).</td>
</tr>
<tr>
<td>Sarako, 36,000 hectares; Sarimas, 32,000 hectares</td>
<td>Bustari Yusof</td>
<td>Director and 55 percent shareholder; Director</td>
<td>Although Bustari denies he is a nominee of the chief minister, one source insists that he is. Those who wish to settle the matter for themselves can go to Bustari’s reported watering hole, the Margarita Lounge at the Kuching Hilton (12 August 1997 interview with James Chin).</td>
</tr>
<tr>
<td>Sarako, 36,000 hectares</td>
<td>Dulang Holdings</td>
<td>3 percent shareholder</td>
<td>A company run by Bustari Yusof (13 June 1997 interview with well-placed and knowledgeable source in Sarawak).</td>
</tr>
<tr>
<td>Seatex Plantations, 30,000 hectares</td>
<td>Hj. Osman Tan Sri Marzuki</td>
<td>Director, 17 percent shareholder</td>
<td>Son of a former acting Governor of Sarawak (28 May 1997 interview with Jack Wong).</td>
</tr>
</tbody>
</table>
Table 4.6 (continued) Timber concessions controlled by Sarawak Chief Minister Taib Mahmud in which his family members, friends, proxies or political allies are board members or shareholders.

<table>
<thead>
<tr>
<th>Name of timber concession</th>
<th>Name of board member or shareholder</th>
<th>Position in or percentage of shares held in company</th>
<th>Relationship to current chief minister, source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seatex Plantations, 30,000 hectares</td>
<td>Hj Khalid Tan Sri Marzuki</td>
<td>Director, 21 percent shareholder</td>
<td>Not only the son of a former acting Governor of Sarawak, but also a former Political Secretary to Chief Minister Taib (28 May 1997 interview with a Sarawak journalist). The current Political Secretary to Minister of Industry Abang Johari, one of the most powerful members of the current cabinet (9 June 1997 interview with Sim Kwang Yang).</td>
</tr>
<tr>
<td>Timplex, 31,500 hectares</td>
<td>Ting Ming Hoi, former Sibu senator, now deceased.</td>
<td>Director</td>
<td>James Chin says that Ting Ming Hoi is a &quot;SUPP nominee&quot; (12 August 1997 interview).</td>
</tr>
<tr>
<td>Timplex, 31,500 hectares</td>
<td>Tai Sing Chii</td>
<td>Director</td>
<td>S.K. Lau writes that “when he was having trouble raising political funds in 1970, Tun Abdul Rahman Yakub turned his target to Tai Sing Chii, owner of Pan Sarawak, and hoped that he could ‘borrow’ three units of outboard engine and a few hundred khatis of rice from the latter. Later . . . staff of the company disclosed that Tai Sing Chii had donated about 3,000 dollars to Yakub. So after the latter came to power, he repaid Tai Sing Chii for his donation for more than 3,000 times of the amount donated. As a whole, Tai Sing Chii had made a wise decision. Yakub could still remember him several years after he stepped down from the post of Chief Minister. One day, when we met at Singapore . . . Airport, he still praised . . . Tai Sing Chii. . . . After Yakub lost his power, all of us thought Tai Sing Chii had lost his strong backing also. It seemed that he was finished. But he turned to support Taib. Since then, he got richer and richer” (Lau 1995: chapter 18, page 1).</td>
</tr>
<tr>
<td>Timplex, 31,500 hectares</td>
<td>Tuan Haji Abdul Rahim Tai</td>
<td>Director</td>
<td>Brother to deceased SUPP nominee Ting Ming Hoi (19 July 1997 interview with Chiew Chin Sing).</td>
</tr>
<tr>
<td>Timplex, 31,500 hectares</td>
<td>Y.M Tunku Zuhri Bin Tunku Zakaria</td>
<td>Director</td>
<td>Member of one of the royal families of Sarawak (28 May 1997 interview with a Sarawak journalist).</td>
</tr>
<tr>
<td>Timplex, 31,500 hectares</td>
<td>Abang Mohd. Bin Abang Sharkawi</td>
<td>Director</td>
<td>Son of a former Resident of Sarawak (6 June 1997 interview with State Assemblyman Aidan Wing).</td>
</tr>
<tr>
<td>Timplex, 31,500 hectares</td>
<td>Awang Jaya bin Pengiran Tajuddin</td>
<td>Director</td>
<td>Former treasurer of PBB's Bintulu branch (19 July 1997 interview with Chiew Chin Sing).</td>
</tr>
</tbody>
</table>
Chief Minister Taib also uses his timber concessions to buy the loyalty of the leaders of the largest ethnic group in Sarawak, the Iban, who comprise about 30 percent of the population. Taib and his predecessor both belong to the Melanau, a small coastal group. The Melanau, to ensure their political ascendancy, bind themselves to the state's Malay population, and play a delicate game of divide and rule with the rest of the state’s large groups (see Table 4.7 below). A newsmagazine interviewed a Sarawak Malay politician who described the political arithmetic that makes the Iban a threat to the Melanau.

‘Let's face it. One day they will rule the state. They have the numbers,’ a Sarawak Malay politician said. To date, Sarawak's 20% Malays and 5% Melanau have only held power by banding together, while the Iban have scattered their support across three parties (FEER 1989b).

A substantial group of the timber concessions widely regarded as belonging to Taib have been awarded by him to selected Iban leaders, who in turn have been pivotal to Taib's strategy of keeping the Iban from putting together an electoral majority to defeat him.

Table 4.7  Sarawak’s population, broken down by ethnic groups, as of 1980

<table>
<thead>
<tr>
<th>Ethnic Group</th>
<th>Population</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non Islamic Natives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iban</td>
<td>367,508</td>
<td>29.82</td>
</tr>
<tr>
<td>Bidayuh</td>
<td>104,914</td>
<td>8.49</td>
</tr>
<tr>
<td>Orang Ulu</td>
<td>67,152</td>
<td>5.43</td>
</tr>
<tr>
<td>Islamic natives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malay</td>
<td>248,757</td>
<td>20.13</td>
</tr>
<tr>
<td>Melanau</td>
<td>69,813</td>
<td>5.65</td>
</tr>
<tr>
<td>Chinese</td>
<td>360,553</td>
<td>29.18</td>
</tr>
<tr>
<td>Other</td>
<td>15,856</td>
<td>1.27</td>
</tr>
<tr>
<td>Total</td>
<td>1,234,553</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: FEER 1985f
Taib must buy the support of the sons of two famous Iban leaders. Their fathers, now dead, led the Iban during most of the twentieth century. The sons are highly visible board members and shareholders in Taib family timber concessions. The most important Iban leader during much of the pre- and post-World War II period was Temonggong Koh who died in the 1940s. His son, Kenneth Kanyan, is a senator in the upper house of the Sarawak State Assembly (27 May 1997 interview with a reliable and informed academic).

After Temonggong Koh’s death, the successor to the position of traditional head of the Iban was Temonggong Jugah. Although he died in the 1970s, Temonggong Jugah’s son Leonard Linggi is now the powerful second-in-command of the Christian wing of the PBB party. The importance of this position is that for all PBB Christians who wish to run as state or federal candidates, including Iban, Bidayuh, and the dozens of groups who make up the Orang Ulu, Leonard Linggi "decides whether you can run or not" (4 June 1997 interview with State Assemblyman Aidan Wing). Linggi is also the General Secretary of the PBB party (26 May 1997 interview with a well-placed and knowledgeable source in Sarawak).

Also of political significance is the fact that during the Ming Court affair, the two still-living Iban mentioned above, Kenneth Kanyan, the son of Temonggong Koh and Leonard Linggi, the son of Temonggong Jugah, stood by Chief Minister Taib Mahmud in his hour of need.

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101 “Temonggong” is an Iban title conferred upon a supreme leader. Wearing a suit, but still sporting the distinctive bowl-shaped haircut favored by many Iban until a few decades ago, photographs of Temonggong Koh can be seen in historical displays in Kuching’s Sarawak Museum and the Singapore National Museum. During his life, Temonggong Koh was a major political force to be reckoned with, as he founded the Iban political party Barjasa, which eventually joined forces with the Melanau-led PBB.
Although Sarawakians do not know the specifics about the timber concession holdings of various Iban leaders, they have a general idea of who has come out on top. For example, State Assemblyman Aidan Wing described Leonard Linggi as "the richest Iban" in Sarawak with "a half million hectares in timber concessions" (4 June 1997 interview).  

In exchange for directorships and equity positions in timber concessions, Iban leaders bring in the vote of their community at election time. Other than election time bribes, timber rent is not redistributed to the larger Iban community (27 May 1997 interview with a reliable and informed academic).

A point worth re-emphasizing is that, with one exception, all timber concessions in which Iban leaders hold managerial or equity positions are those said to be licensed to Chief Minister Taib himself. These concessions are listed in Table 4.8.

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102 I asked Wing when he would be awarded a timber concession. He answered, "Perhaps in my second term. Timber concessions are rarely given out to first term state assemblymen. They are not awarded until state assemblymen have proved their political loyalty and staying power" (4 June 1997 interview).

103 The lack of distribution of timber benefits to the grassroots by senior Iban political figures was confirmed by a well-placed and knowledgeable source in Sarawak, who told me that Linggi rarely, if ever, shares timber rent with other Iban (26 May 1997 interview).

104 That exception is Garu, a timber concession is licensed to the Rimbunan Hijau conglomerate.
Table 4.8 Taib family timber concessions in which Iban political leaders are board members or shareholders

<table>
<thead>
<tr>
<th>Name of Taib family timber concession</th>
<th>Name of Iban board member or shareholder</th>
<th>Position in or percentage of shares held in company</th>
<th>Leadership position within the Iban community, source(s) of information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balleh Sawmill, 24,673 hectares.</td>
<td>Jugah Anak Bareng</td>
<td>11 percent shareholder</td>
<td>This is Temonggong Jugah, the now-deceased but once-supreme leader of the Iban (4 June 1997 interview with a Sarawak state assemblyman).</td>
</tr>
<tr>
<td>Bumi Hijau, 26,000 hectares; Garu, 44,847 hectares; Kerasa, 49,996 hectares; Rajang Wood, 309,575 hectares; Raplex, 72,251 hectares.</td>
<td>Kenneth Kanyan ak Koh</td>
<td>Director; Director &amp; 42 percent shareholder; Director; Director; Director</td>
<td>Son of Temonggong Koh, the most important Iban leader in the pre- and post-World War II period. Kenneth Kanyan is now a Senator in the Sarawak State Assembly. He was a strong loyalist to Taib in the 1987 Ming Court affair.</td>
</tr>
<tr>
<td>Bumi Hijau, 26,000 hectares; Sarako, 36,000 hectares</td>
<td>Richard Mullok, nephew to, and proxy for, Alfred Jabu (6 June 1997 interview with State Assemblyman Aidan Wing)</td>
<td>Director; Director, 42 percent shareholder</td>
<td>Alfred Jabu is the Deputy Chief Minister, and as such is “the highest ranking non-Malay in Sarawak” (27 May 1997 interview with a reliable and informed academic). He was one of two men to stand shoulder-to-shoulder with Chief Minister Taib during the critical 10 March 1987 press conference during the Ming Court affair (Ritchie 1987: 22). He is a PBB nominee (12 August 1997 interview with James Chin).</td>
</tr>
<tr>
<td>Garu, 44,847 hectares</td>
<td>Temonggong Jinggut Ak Attan</td>
<td>Director and 39 percent shareholder</td>
<td>Traditional head of all Iban in the 7th and 3rd divisions of the Rejang River basin. This is a position that would have otherwise have fallen to Leonard Linggi, except that Linggi spends all his time in Kuching now, and is seldom on the ground in the Rejang River basin, as would befit a Temonggong (7 June 1997 interview with Joseph Jinggut).</td>
</tr>
<tr>
<td>Garu, 44,847 hectares</td>
<td>Robert Jarraw Ak Kana</td>
<td>Director, and nine percent shareholder</td>
<td>Son-in-law of Temonggong Jinggut ak Attan, traditional head of all Iban in the 7th and 3rd divisions of the Rejang River basin (6 June 1997 interview with State Assemblyman Aidan Wing).</td>
</tr>
</tbody>
</table>
Table 4.8 (continued) Taib family timber concessions in which Iban political leaders are board members or shareholders

<table>
<thead>
<tr>
<th>Name of Taib family timber concession</th>
<th>Name of Iban board member or shareholder</th>
<th>Position in or percentage of shares held in company</th>
<th>Leadership position within the Iban community, source(s) of information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Garu, 44,847 hectares</td>
<td>Joseph Jinggut</td>
<td>Director</td>
<td>Holds position of <em>Wakil Kota</em> (head of the local council) in the city of Kapit (7 June 1997 interview with Joseph Jinggut). He and his brother Justine Jinggut were two of four persons placed into leadership positions in the SNAP party in 1987 to replace those sacked or suspended as a result of their disloyalty to Chief Minister Taib during the Ming Court affair (Ritchie 1987: 34). Joseph's brother Justine is now Secretary General of SNAP (29 May 1997 interview with Dominique Ng). Joseph says his brother Justine was elevated to the position of Secretary General of SNAP because &quot;in the present political climate, the important thing is for SNAP to reach some political accommodation with the PBB, not to be a thorn in their side. My brother has accomplished this&quot; (7 June 1997 interview).</td>
</tr>
<tr>
<td>Keresa Timber, 49,996 hectares; Rajang Wood, 309,575 hectares; Raplex, 72,251 hectares.</td>
<td>Leonard Linggi ak Jugah, son of Temonggong Jugah, traditional head of the Iban from the 1940s to 1970s.</td>
<td>Director, 50 percent shareholder; Director, 50.2 percent of shares through Limar Management Services, Rajang Resources (13 June 1997 interview with well-placed and knowledgeable source in Sarawak), and Silver Wood Company (12 August 1997 interview with James Chin); Director</td>
<td>Leonard Linggi holds no elected position, but is second in command of the &quot;Christian wing&quot; of the PBB party. The importance of Linggi’s position is that for all Iban, Bidayuh, Orang Ulu, or Christian who wish to run as a state or federal candidates representing the PBB, Leonard Linggi &quot;decides whether you can run or not&quot; (6 June 1997 interview with State Assemblyman Aidan Wing). Linggi is also General Secretary of PBB (26 May 1997 interview with well-placed and knowledgeable source in Sarawak). Linggi is described as a PBB &quot;money man,&quot; meaning the PBB comes to him for funds at campaign time (29 May 1997 interview with Dominique Ng).</td>
</tr>
</tbody>
</table>
Table 4.8 (continued) Taib family timber concessions in which Iban political leaders are board members or shareholders

<table>
<thead>
<tr>
<th>Name of Taib family timber concession</th>
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<th>Position in or percentage of shares held in company</th>
<th>Leadership position within the Iban community, source(s) of information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keresa Timber, 49,996 hectares</td>
<td>Datuk Temonggong Bayang Janting Director</td>
<td></td>
<td>Father-in-law of Leonard Linggi (4 June 1997 interview with a Sarawak state assemblyman).</td>
</tr>
<tr>
<td>Rajang Wood, 309,575 hectares</td>
<td>Douglas Ugah Embas Director, holder of a single share.</td>
<td></td>
<td>Parliamentary Secretary to the Minister of Rural Development (6 June 1997 interview with State Assemblyman Aidan Wing). Member of federal parliament representing Betong district (9 June 1997 interview with former federal parliamentarian Sim Kwang Yang).</td>
</tr>
<tr>
<td>Sarimas, 30,000 hectares</td>
<td>Datin Empian Jabu, proxy for and wife to Alfred Jabu Director</td>
<td></td>
<td>Alfred Jabu is the Deputy Chief Minister, and as such is “the highest ranking non-Malay in Sarawak” (27 May 1997 interview with a reliable and informed academic). He was one of two men to stand shoulder-to-shoulder with Chief Minister Taib during the critical 10 March 1987 press conference during the Ming Court affair (Ritchie 1987: 22). PBB nominee (12 August 1997 interview with James Chin)</td>
</tr>
<tr>
<td>Sarimas, 30,000 hectares</td>
<td>James Jimbun Ak Pungga is a member of the federal parliament from Kapit (9 June 1997 interview with former federal parliamentarian Sim Kwang Yang). Director</td>
<td></td>
<td>A US-educated former teacher and district officer, he was asked by the PBB to stand for election, and is a loyal PBB member. Federal parliamentarian Chiew Chin Sing reflected aloud about his colleague, “He is very quiet in parliament. He never speaks on the problems of his constituency, the Iban people from rural areas that still lack even the most basic amenities. The PBB must have bought his silence with this timber concession” (19 July 1997 interview).</td>
</tr>
</tbody>
</table>

A final, poignant comment, on the group of Iban compradors in Table 4.8 above, came as I reviewed these names with a Sarawak state assemblyman. Surprised to see the names of Iban leaders from three prominent families appearing over and over again – Jinggut, Linggi, and Kanyan - and himself representing a district that is heavily logged, the assemblyman told me that he had approached all three of these prominent Iban families for campaign
contributions when he had run for office. All refused to help and instead supported his opponent. Looking back he said, "No wonder they would not help me. They were already paid off by the government." He added, "These people take money and resources coming from the lands belonging to the people of my district. Then when I run for office to try to help the people of my district, these downriver Iban use that money, which belongs to the people of my district, against them” (4 June 1997 interview).

The Taib family group of timber companies has provided funds for the chief minister to become vastly wealthy and to reward or buy political loyalty, including that of Iban leaders. However, the sum total of the Taib family’s personal wealth seeking and patronage activities goes far beyond the timber sector. The family runs a well-diversified financial empire with interests in building materials, construction and finance. While timber holdings are important, it is in the context of their allowing the Taib family to multiply its wealth and satisfy patronage objectives that the family's control of 20 timber concessions should be understood. Detailing the Taib family’s non-timber economic activities is an important undertaking because it demonstrates the extent to which rent from Sarawak’s forests is recycled to meet the financial and political objectives of the Taib clan, rather than being formally captured by the government.

The flagship of the Taib's financial empire is the largest company in the state, Cahaya Mata Sarawak (CMS). In 1993, the original owners of the company "acquired" on paper a valuable constellation of state-owned companies and a large Taib family holding company, but actually lost control of their company to the Taib family.

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105 The head of Sahabat Alam Malaysia, the country’s oldest and best known environmental NGO, encouraged me to include a short section on CMS in my dissertation (22 August 1996 interview with
The three state-owned companies that CMS purchased were subsidiaries of the Sarawak Economic Development Corporation (SEDC). These companies quarry, manufacture, distribute, market and sell a wide range of steel, metal and aggregate building materials. With the acquisition of these companies, CMS obtained a monopoly over the manufacture and supply of virtually all non-timber building materials used in Sarawak. At the same time CMS purchased the three SEDC subsidiaries, it also purchased a large Taib family holding company, Syarakusa Corporation. CMS's purchase of Syarakusa resulted in the Taib family obtaining majority control in CMS. According to Cheong, the financial writer, "At least three prospective substantial shareholders [of CMS] are presently disclosed, and they are the vendors of Syarakusa Corporation" (Cheong 1993: 56-60).

Muniandy Thayalan).

106 A well-placed and knowledgeable source in Sarawak characterized the companies as "among the few profitable subsidiaries of the SEDC" (5 October 1996 interview). According to the source, after SEDC sold these companies, it assumed "a low profile" due to the fact any companies it was left with "were languishing" (8 October 1996 interview).

107 The fact that Syarakusa is a Taib family company is verified by a financial writer who notes that "the vendors of Syarakusa are Mahmud Abu Bekir Taib, Onn bin Mahmud and Sulaiman Abdul Rahman Taib who are related to the Chief Minister of Sarawak" (Cheong 1993: 56-60). These three are, respectively, the eldest son, the brother, and the youngest son of the chief minister.

108 The CMS deal was put together by the Taib family’s Sarawak Securities, a subsidiary of the family-owned Syrakusa Corporation. Prior to CMS's acquisition of Syrakusa Corporation, Sarawak Securities used the news of CMS's forthcoming acquisition of value-laden SEDC subsidiaries to drive up the price of Syrakusa Corporation beyond its actual value, and hence increase Syrakusa Corporation's level of ownership in CMS in the final instance. A well-placed and knowledgeable source in Sarawak observed that, “The Chief Minister used Sarawak Securities to bid up the value of Syrakusa prior to Syrakusa's being injected into CMS. The value of the three SEDC companies, drove up the value of Syrakusa Corporation, the Taib-family company” (14 November 1996 interview). The source’s argument, that the value of the SEDC shares drove up the value of the Taib family company, appears to be borne out by looking at the relative sums paid by CMS for the two sets of companies. CMS paid nearly twice as much for the Taib family’s holding company (RM 210 or $84 million) as they did for the three well-functioning SEDC companies (RM117 million or $45 million) according to Cheong (1993: 56-60). When asked to summarize the reason for the existence of CMS in its current form, the source said, "the personal desire for wealth of Sarawak's Chief Minister" (14 November 1996 interview).
Although the primary purpose of CMS appears to be the creation of wealth for the chief minister and his family, some leadership positions in the company are also reserved for political loyalists. For example, the Managing Directorship of CMS is Mohd. Effendi Norwawi whom Cheong says is,

one of the loyalists who stood by Taib Mahmud during the famous 'Ming Court Hotel' affair in 1987 when an aborted coup was staged to unseat the Chief Minister. Taib Mahmud survived the crisis and came out victorious in both the 1987 and 1991 state elections. As vacancies in powerful places were available after the political dissidents had made their exit, a few people like Effendi were said to be rewarded for standing by the Chief Minister in his hour of crisis (Cheong 1993: 58).

Taib also appears to be using managerial positions in, and contracts with, CMS to build stronger ties with the federal government. For example, one board member is Haji Ishak Ismail, a close political ally of the now-deposed but once powerful Deputy Prime Minister Anwar Ibrahim, leading to “rumours of a friendly . . . political tie up between nominees of a rising politician in West Malaysia and the Sarawak Chief Minister” (Cheong 1993: 57).

CMS has also awarded enormous contracts to Hock Seng Lee, a company which “will be undertaking a RM3 billion [$1.2 billion] turnkey project for the reclamation, infrastructure, and construction of an industrial park and integrated township at Demak Laut, Kuching” (Sarawak Securities 1997c: 23). Holding ten percent of the shares in Hock Seng Lee is Permodalan Nasional Bhd, a national income security trust fund which, although nominally containing the retirement funds of Malaysian citizens, is also reportedly used by national leaders to finance their own personal financial endeavors. In this way Sarawak's chief minister is able to gain national influence through CMS.

Also in the Taib family financial empire is Sarawak Capital. The owner and director of Sarawak Capital is Mahmud Taib, the eldest son of the chief minister. Mahmud’s wife,
Shana, is in charge of day-to-day operations (11 November 1996 interview with a well-placed and knowledgeable source in Sarawak). Although Malaysia has many investment firms that could provide such services, about half of Sarawak’s timber conglomerates work with Sarawak Capital. The company acted in an advisory capacity to the state’s second largest timber conglomerate, Rimbunan Hijau, until Sarawak Capital severed the relationship on the grounds that Rimbunan Hijau had become a political liability after it ran afoul of the Malaysian prime minister’s son. Sarawak Capital also provided advice to the KTS conglomerate (the state’s fourth largest timber conglomerate) on their planned public listing. Similarly, Sarawak Capital acts in an advisory role to the Ling family group of companies (the state’s ninth largest timber conglomerate). Sarawak Capital also brokered a deal between the state-owned Sarawak Timber Industrial Development Corporation and the Indonesian pulp and paper giant Sinar Mas for the now-defunct Borneo Pulp and Paper plant (11 November 1996 interview with a well-placed and knowledgeable source in Sarawak).

Turning to another important Taib family business, the shipping of all timber exports in Sarawak goes through Archipelago Shipping (Dauvergne 1997: 109), a company almost entirely owned by the Chief Minister’s family.\footnote{Readers will recall that roughly the same is true in Indonesia, where for many years the shipping of all plywood exports had to be done through Karana Lines, a company owned by presidential proxy Bob Hasan. In Sabah as well, two successive leaders personally controlled a log shipping cartel called Archipelago Shipping (the same name as the log shipping cartel in Sarawak, although the two companies are not thought to be related).} Because shipping a cubic meter of timber to foreign markets costs about $40, and because Sarawak exported an average of ten million cubic meters of timber each year during the 1980s, the
company’s cash flow was four billion dollars during the 1980s.\textsuperscript{110} Hence, in addition to timber industry holdings, the chief minister and his family are enriched by this shipping monopoly. As Table 4.9 shows, the entire management and 92 percent of the shares in Archipelago Shipping are held by relatives of the chief minister or companies owned by them.

**Table 4.9**  
*Taib family ownership of Archipelago Shipping*

<table>
<thead>
<tr>
<th>Name of board member or shareholder</th>
<th>Position in or percentage of shares held in company</th>
<th>Relationship to Taib Mahmud, Chief Minister of Sarawak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Onn Bin Mahmud</td>
<td>Director</td>
<td>Chief minister’s brother</td>
</tr>
<tr>
<td>Achi Corporation</td>
<td>52 percent shareholder</td>
<td>Company 100 percent owned and controlled by Onn Bin Mahmud, the chief minister’s brother</td>
</tr>
<tr>
<td>Fredahanam Bte Mahmud</td>
<td>Director</td>
<td>Chief minister’s sister</td>
</tr>
<tr>
<td>Serira</td>
<td>15 percent shareholder</td>
<td>Company 100 percent owned by the three sons of the chief minister’s sister, Fredahanam Bte Mahmud.</td>
</tr>
<tr>
<td>Mohd. Arip Bin Mahmud</td>
<td>Director and 10 percent shareholder</td>
<td>Chief minister’s brother</td>
</tr>
<tr>
<td>Haji Mohd. Tufail Bin Mahmud</td>
<td>Director and 10 percent shareholder</td>
<td>Chief minister’s brother</td>
</tr>
<tr>
<td>Grand Shine Trading</td>
<td>8 percent shareholder</td>
<td>No obvious connection to the chief minister</td>
</tr>
<tr>
<td>Masba Holdings</td>
<td>5 percent shareholder</td>
<td>Company 100 percent owned by Abdul Aziz Haji Hussain, who is married to the sister of the chief minister, Fredahanam Bte Mahmud.</td>
</tr>
</tbody>
</table>

Source: documents obtained during 28 October 1996 interview with Institut Pekerjaan Komuniti Lau Hui Kang, the head of the fourth largest timber group KTS, has paid a growing price to Sarawak’s head of state to maintain access to timber concessions, according to S.K.\textsuperscript{110} This four billion dollar figure assumes that Archipelago Shipping maintained its monopoly throughout the 1980s.
Lau Hui Kang, like all others in the timber sector, had pledged his full loyalty to the former Chief Minister and Governor. When Taib gained power, they all turned round to lean on Taib. But Lau said something to me, which gave me much food for thought, "We in fact [thought] it would be easier to serve and attend to Taib. This is why all of us

In some cases, the price exacted from timber companies by the chief minister includes not just an unofficial stream of timber rent but, in one case, being required to turn against one's own family. In the case of KTS, Taib asked the head of the group, Lau Hui Kang, to wrest control of the Borneo Post, the state’s second largest newspaper, from his own brother, the paper's owner. The state’s largest newspaper, the Sarawak Tribune, was already under the control of the chief minister’s party, the PBB, but the Borneo Post, controlled by Lau Hui Kang's brother, Lau Hui Siong, had a relatively more independent voice. Lau Hui Kang was told that if he did not convince his brother to let PBB interests obtain a controlling stake in the paper, or at least a substantial degree of editorial control, that KTS would lose its timber concessions. Turning against his brother, Lau Hui Kang tried to lead a hostile takeover of his brother’s newspaper on behalf of PBB interests, but failed, resulting in the permanent estrangement of the brothers (5 November 1996 interview with a Sarawak journalist). S.K. Lau’s unpublished manuscript confirms most aspects of this incident:

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111 Timber barons quickly drop their deference to state leaders, however, once those leaders have fallen from power. As recounted by S.K. Lau, "During Rahman Yakub's era, Yakub had absolute great power. He had 'played with' the timber merchants who were under his control. [These timber merchants] treated him as their ancestor for the sake of personal interest. They would follow Yakub wherever he went. When Yakub came to Sibu, they had to rush back from various places in this world to go to the airport to welcome Yakub. They never dared to ignore Yakub. . . . After quite sometime, Yakub really stepped down. He had no power again to issue timber concession license[s]. This meant that he had lost the value for exploitation. The prominent persons were [too] busy flatter[ing] Taib. Not only [did] they [ignore] Yakub but they even stayed away from him, as they regarded him as a 'savage beast.' Later, on one occasion, when I flew back from Singapore, I met Yakub in the air bus. Besides, Lau Hui Kang and Wong Kie Tung were also in the same flight. I still could well remember that Yakub was then sitting at the first row in the first class seat, I sat in the middle, while Lau and Wong sat hiding in the last row. I was all the time watching Lau and Wong. Both of them were sitting motionless, and they opened the newspapers to cover up their faces, while Yakub now and then turned round to see them. After the plane touched down at Kuching airport, Yakub stood up but remained standing at the entrance. Lau and Wong knew that this time they could not avoid [speaking to] Yakub. So they walked over. On seeing Yakub, Lau remained silent, while Wong, a lawyer by profession, smiled reluctantly to
Many Chinese businessmen would become unscrupulous because of selfish aims and Lau Hui Kang was prominent in this field. During the 90's, Wahab Dollah, a State Legislative Member and the right hand man of Chief Minister wanted to buy over the Borneo Post English daily. Wahab Dollah contacted Lau Hui Kang who had the intention to sell the [Borneo Post] to the Malays ["Malays" is a shorthand reference to denote Sarawak's Malay- power structure led by Taib Mahmud]. In order to please the Chief Minister, Lau Hui Kang did not care [that his actions would make him a permanent] enemy of his brother Lau Hui Siong. . . . Luckily Lau Hui Siong was clever enough to unite all the small shareholders into a collective share. Thus, Lau Hui Kang lost his say.

Due to the shares of the English daily, the fraternal ties between the brothers . . . [split] up. The family members of Lau Hui Kang all resigned from the Board of Directors of See Hua which was under the control of Lau Hui Siong's family and Lau Hui Siong's family members resigned from the posts they held at KTS which was under the control of Lau Hui Kang's family (Lau 1995: chapter 12, page 4).

While a substantial portion of the timber rent earned by the Lau family, and the unity of the family itself, were taken away by Sarawak's chief minister, it should not be forgotten that rent appropriated by timber giants such as the KTS group are used to support exorbitant life styles. Having said that, a search of articles of incorporation of the concessions licensed to KTS suggests that the most important recipients of rent from KTS concessions, outside the Lau family, were Taib Mahmud's family, proxies, friends

greet Yakub, saying, 'Oh! Tun! I did not see you just now! How are you?'" (Lau 5, 3-4).

112 For example, it has been reported that the head of the KTS group's assignations with prostitutes cost on the order of $5,000 per visit. S.K. Lau writes, "Lau Hui Kang never admitted that he was old. He learnt Tai Chi for several years and he liked to boast his sexual capability in front of people. He always compared himself to Wong Sing Hieng, master of Tai Chi, who married a 28 years old girl when he was 80 years old. It was only natural for all skirt-chasing fellows to boast themselves of sexual capability. In fact, Lau Hui Kang was near impotency. One day, when I was chatting with Chong Tien Chai, the immigration head, a Taiwanese singer known as Yang Yang approached him for extension of visa. The immigration head jokingly asked the singer to reveal her flesh trade here or otherwise her visa would not be extended. The singer said that she had affairs with several persons including . . . Lau Hui Kang, etc. She said that her clients gave her two or three thousand dollars for each transaction. She said Lau Hui Kang was most generous who would give her five thousand dollars for each transaction. But he was most impotent and could hardly perform [the] sexual act. He told her not to tell the matter to other people. When I heard about it, I really felt envious of the man who was able to make five thousand dollars in just a matter of a few minutes. At times when I approached Lau Hui Kang to sell him photograph for one dollar and fifty cents each, he would complain that they were too expensive. I presumed that he was saving all [his]
and political supporters.

Table 4.10 KTS timber concessions in which family members, friends, proxies or political allies of Taib Mahmud are board members or shareholders

<table>
<thead>
<tr>
<th>Name of KTS timber concession</th>
<th>Name of board member or shareholder</th>
<th>Position in or percentage of shares held in company</th>
<th>Relationship to current chief minister, source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bigwood; Bintulu Lumber Development, 82,448 hectares</td>
<td>Datuk Haji Bujang Mohd. Nor</td>
<td>Director; Director</td>
<td>Former State Secretary of Sarawak under Chief Minister Taib from the early-to-middle 1980s (26 May 1997 interview with a reliable and informed academic). Former state financial secretary. Regarded as a potential candidate for the post of Governor. Former chair of Bakun Hydroelectric Electric Corporation (28 May 1997 interview with a Sarawak journalist). Current executive chairman of Harwood. His position on the boards of these concessions may be a golden handshake for holding one or more of the posts mentioned above (12 August 1997 interview with James Chin).</td>
</tr>
<tr>
<td>Bintulu Lumber Development, 82,448 hectares</td>
<td>Mohd Amin bin Hj. Satem</td>
<td>Chairman of the Board</td>
<td>Formerly with Sarawak Economic Development Corporation (26 May 1997 interview with a reliable and informed academic). Older brother of Sarawak's current Minister for Social Development. Chairman of BIG, a company specializing in the manufacturing of industrial cases, redi-mix concrete, and quarrying. Chairman of the Sarawak Chamber of Commerce (28 May 1997 interview with a Sarawak journalist). Original director of CMS, the largest and most important financial entity in the state, and widely regarded as the personal financial vehicle of the chief minister of Sarawak (29 May 1997 interview with Dominique Ng). A &quot;former PBB nominee&quot; (12 August 1997 interview with James Chin).</td>
</tr>
<tr>
<td>Bintulu Lumber Development, 82,448 hectares</td>
<td>Sim Kui Hock, son of Sim Kheng Hong (28 May 1997 interview with a Sarawak journalist).</td>
<td>Director</td>
<td>Sim’s position on the board of this concession is a political payback to his father, now deceased. At one of the pivotal moments in the Ming Court affair, Chief Minister Taib’s press conference of 10 March 1987, when Taib announced the plot against him, Sim’s father, then the Deputy Chief Minister, was one of two men who stood shoulder-to-shoulder with the embattled Taib (Ritchie 1987: 22).</td>
</tr>
</tbody>
</table>

money for sex pleasure" (Lau 1995: chapter 12, page 2).
<table>
<thead>
<tr>
<th>Name of KTS timber concession</th>
<th>Name of board member or shareholder</th>
<th>Position or percentage of shares held in company</th>
<th>Relationship to current chief minister, source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bintulu Lumber Development</strong>, 82,448 hectares</td>
<td>Ong Guan Tee</td>
<td>Director</td>
<td>Ong Guan Tee is a SUPP nominee (12 August 1997 interview with James Chin). He is also the son of Ong Kee Hui, a leading Malaysian Chinese architect of the handing over of Sarawak to Malaysia. (9 June 1997 interview with Sim Kwang Yang).</td>
</tr>
<tr>
<td><strong>Hua Lim Sawmill</strong>, 14,568 hectares</td>
<td>Wong Nai Huo</td>
<td>Six percent shareholder</td>
<td>SUPP nominee (12 August 1997 interview with James Chin).</td>
</tr>
<tr>
<td><strong>Juta Intelek</strong>, 39,753 hectares</td>
<td>Haji Abdul Aziz Haji Hussain</td>
<td>Director</td>
<td>Current Deputy State Secretary. Third in the chain of command of the State Secretariat. Married to Taib's sister. (4 June 1997 interview with a state assemblyman)</td>
</tr>
<tr>
<td><strong>Malkita</strong>, 31,435 hectares</td>
<td>Ting Ing Mieng</td>
<td>Managing Director and Secretary, Director of Lee Hua Sawmill, 50 percent shareholder in Malkita.</td>
<td>State Assemblyman representing one of the two Sibu city districts on behalf of the SUPP party, and a member of Chief Minister Taib’s ruling coalition. He was for a long time perceived as someone who could deliver Sibu votes for to the Barisan (5 June 1997 interview with Jason H.I. Wong). He is on the board of this company as a reward from Taib (12 August 1997 interview).</td>
</tr>
<tr>
<td><strong>Malkita</strong>, 31,435 hectares</td>
<td>Datuk Ting Ming Hoi, former Sibu Senator, now deceased.</td>
<td>Director</td>
<td>James Chin says that Ting Ming Hoi is a &quot;SUPP nominee&quot; (12 August 1997 interview).</td>
</tr>
<tr>
<td><strong>Malkita</strong>, 31,435 hectares</td>
<td>Abdul Ajis Majid</td>
<td>30 percent shareholder</td>
<td>State assemblyman from Mukah (28 May 1997 interview with a Sarawak journalist).</td>
</tr>
</tbody>
</table>
Table 4.10 (continued)  KTS timber concessions in which family members, friends, proxies or political allies of Chief Minister Taib Mahmud are board members or shareholders

<table>
<thead>
<tr>
<th>Name of KTS timber concession</th>
<th>Name of board member or shareholder</th>
<th>Position in or percentage of shares held in company</th>
<th>Relationship to current chief minister, source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malkita, 31,435 hectares</td>
<td>Mohd Ghazali Kipli</td>
<td>Director and 25 percent shareholder</td>
<td>Ghazali is a proxy for Taib Mahmud (printed research materials obtained from Institut Pekerjaan Komuniti on 28 October 1997). Ghazali is also the brother of Baijuri Kipli, Director of the Sarawak Department of Land and Survey. As such, Baijuri reports directly to the chief minister on all matters of land classification. (Aidan Wing told me that Baijuri is on the phone with the chief minister 3-4 times a week.) On a daylong trip along a seldom visited stretch of Sarawak’s coastline, Baijuri told me that considerable amounts of forest reserve, including a large, already-logged over lowland peat forest that we were driving by, were being re-classified as agricultural land, and would be handed over to plantation companies. At the same time, forest reserves would be re-supplemented by Native Claims Rights (NCR) lands in the interior of the state, thus wiping out the claims on these lands by the state’s indigenous groups. NCR lands provide a sort of perpetual land bank that can be converted to forest reserves as old forest reserves become exhausted (5 June 1997 interview with Baijuri Kipli). Baijuri is also an unofficial political advisor to, and emissary from, Chief Minister Taib. I spent two days in the city of Mukah with State Assemblyman Aidan Wing and Baijuri, during the medical leave of the state assemblyman from that city. Aidan and Baijuri were there to consult with Mukah's political elders on how to go about electing a new state assemblyman whom the community would find to be more suitable. This discussion took place at a dinner on the night of 4 June. Aidan Wing said of Baijuri, who is tall, thin, has a perpetual smile, is super-friendly, but is also quite disheveled, &quot;Baijuri may look like a crazy man, but people respect his political advice. If he tells you that you can win, then you can win. If he tells you that you will lose, then you will lose. The chief minister respects his views.&quot; It is widely believed that Baijuri reports regularly to the chief minister on all the political developments he observes during his travels around the state.</td>
</tr>
</tbody>
</table>
Table 4.10 (continued)  

<table>
<thead>
<tr>
<th>Name of KTS timber concession</th>
<th>Name of board member or shareholder</th>
<th>Position in or percentage of shares held in company</th>
<th>Relationship to current chief minister, source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Polymore, 41,709 hectares</td>
<td>Tai Sing Chii</td>
<td>Director</td>
<td>Tai Sing Chii’s position on the board of this KTS timber concession may be a reward for his support for Taib Mahmud. S.K. Lau writes, “when he was having trouble raising political funds in 1970, Tun Abdul Rahman Yakub turned his target to Tai Sing Chii, owner of Pan Sarawak, and hoped that he could ‘borrow’ three units of outboard engine and a few hundred khatis of rice from the latter. Later . . . staff of the company disclosed that Tai Sing Chii had donated about 3,000 dollars to Yakub. So after the latter came to power, he repaid Tai Sing Chii for his donation for more than 3,000 times of the amount donated. As a whole, Tai Sing Chii had made a wise decision. Yakub could still remember him several years after he stepped down from the post of chief minister. One day, when we met at Singapore . . . Airport, he still praised . . . Tai Sing Chii. . . . After Yakub lost his power, all of us thought Tai Sing Chii had lost his strong backing also. It seemed that he was finished. But he turned to support Taib. Since then, he got richer and richer” (Lau 1995: chapter 18, page 1).</td>
</tr>
</tbody>
</table>

WTK

In the 1970s the largest timber concession holder in Sarawak was the WTK group, named for the initials of its owner, Wong Tuong Kwang. WTK is Sarawak’s fifth largest timber concessionaire with an estimated 400,000 hectares under license (The Edge 1995d). As with all of Sarawak’s large timber groups, making substantial payments to the chief minister was necessary for WTK to stay in business. S.K. Lau, half homespun philosopher, half investigative reporter, describes how growing demands for timber rent from Sarawak's successive chief ministers plagued the WTK group.
Once, I had a chat with Lau Hoi Kang [son-in-law of Wong Tuong Kwang] in his office for quite long. There came his brother-in-law Wong Siew Kwong. Lau then immediately opened the drawer taking out a few thousand dollars [in] new notes to give to Wong Siew Kwong. Lau said to him, "You immediately fly to Kuching to hand this money over to a Malay [the individual is not named in Lau’s account], and then bring back the 'license' quickly."

The great majority of the rich men in Sarawak depend on [the] timber industry/business to amass wealth. The Sarawak state timber concession licenses can only be awarded to the Malays since the national policy is to safeguard the privileges of [the] Bumiputra ["bumiputra" literally translates as "sons of the soil" and is how Malays refer to themselves]. The Chinese can only be the contractors. But the Malays are well known for their laziness. They get the licenses but don't know how to do business. The Chinese would then offer them a lump sum of money. As such, they would have money to spend without using their brains. Therefore, it would not be necessary for them to learn to do business. However, nowadays they have learnt to become smarter and cleverer. A timber concession license [could] be bought for only one million dollars in the 70s. But when coming to the 80s, [Chinese timber businessmen] needed to pay at least ten times more for a timber concession license. This is the "conspicuous feature" of the Chinese. If one only has money, one would be able to do anything. As the saying goes, "With money you can make the devil turn the millstone." This is entirely correct. As learnt in the 90's, Wong Kie Nai paid the price of 10 to 20 million dollars just to secure a contract for a piece of timber forest.

Every time during the Chinese New Year, the Chief Minister would bring along his family to pay new year visits to the rich men in Sibu. This would be a good opportunity for the Chief Minister to make a fortune, since these prominent figures and celebrities would not hesitate to do anything to please the Chief Minister, including giving the giving of big and small "angpau."

Once I waited for the CM's arrival at Wong Tuong Kwang's house. Wong Kie Nai, the 2nd son of Wong Tuong Kwang asked me whether I knew others had given how much "angpau money" to the Chief Minister. I replied, "I learnt Ling Beng Siew had given 300 thousand Singapore dollars [$187,500] to the CM. What about you?" On hearing this, he said, "Only that much!" Though he did not tell me how much he had given, I thought it should be more than that amount" (Lau 1995: chapter 4, pages 1-2).

Aside from helping to enrich the chief minister, the WTK group has begun to strengthen its political standing in other camps. One of Wong’s sons, Wong Kie Yik, is now a federal senator (26 October 1996 interview with John Phua). WTK's corporate strategy is to tie up with other politically strong timber players. For example, WTK injected eleven of
its timber concessions (totaling 254,000 hectares) and five mills into publicly listed Samanda. Completion of the deal was projected to allow the WTK group to emerge as the major shareholder in Samanda with a 32 percent stake (Sarawak Tribune, 1997c). Samanda’s chairman is William Lau, Wong’s son-in-law (Sarawak Securities 1997c: 23). Lau is close to timber baron Ting Pek Khiing and is the director of Ting's Seaga Airlines (5 November 1996 interview with a well-placed and knowledgeable source in Sarawak). Finally, Sabah timber baron Wee Boon Ping, who is actually a Sarawak resident, is a 9.9 percent shareholder in Samanda Holdings (Sarawak Securities 1997c: 23).

**Shin Yang**

Shin Yang is the newest timber operator among Sarawak’s big five, and came to prominence in the 1980s. The group, headed by Ling Chiong Ho, has concessions in Sarawak totaling 400,000 hectares (Sarawak Securities 1997b: 22). Like all other major timber groups in the state, Shin Yang's share of Sarawak's timber concessions is contingent upon the degree to which it allows the chief minister's family to unofficially appropriate timber rent. Sanyang, a concession identified by an informant as belonging to the Shin Yang group, has two of the chief minister’s brothers, Mohammad Tufail Bin Mahmud and Mohammad Arip Bin Mahmud, serving on its the board and holding two-thirds of its shares (28 May 1997 interview with a Sarawak journalist).

In an effort to help promote the patronage objectives of the chief minister, the company in 1995 appointed Hamid Bugo to the position of chairman of the Shin Yang group

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113 See discussion on the next page regarding Ting Pek Khiing’s importance in Sarawak.

114 See Chapter 5 for a discussion of Wee Boon Ping’s importance in Sabah.
Hamid Bugo is Sarawak’s state secretary and, as such, is the most powerful bureaucrat in the state (19 July 1997 interview with Jomo K.S.). Another board member is Mohamad Asfia Bin Awang Nasar, the deputy speaker of the state assembly (28 May 1997 interview with a Sarawak journalist). Asfia was instrumental during Ming Court affair in eroding the support of the Tun Rahman faction. He also serves as an informer to Taib, via his brother Ali, on the activities of the Sarawak Alliance's PBDS and SNAP parties. Asfia is also the executive editor of Borneo Post, People's Mirror, Sarawak Tribune, and Utusan Sarawak, in which capacity he serves as the enforcer of news blackouts on the activities of the state's senior non-Melanau politicians including Abang Johari, a Malay, and Alfred Jabu, an Iban (Sayottaib 2001: sulit 6, dokumen 5).

**Ting Pek Khiing**

The group of companies headed by Ting Pek Khiing controls licenses to harvest over 310,000 hectares of timber, making it the sixth largest private concession holding group in the state. Like Sarawak's other major timber heads, Ting funnels a substantial portion of his timber rent directly to Taib. The critical difference between Ting and Sarawak’s other timber barons (which puts him more or less in the same league as Indonesia's Prajogo Pangestu and Bob Hasan) are his extensive non-timber business ties with the head of state.

Ting Pek Khiing appeared to start out as an ordinary timber businessman with a company called Woodhouse, but his timber holdings began to grow rapidly once he went

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115 "When Woodhouse was formed in 1977, [Ting Pek Khiing] obtained exclusive contracts over a logging area of more than 98,000 ha. He then proceeded to build a factory from which the planks from his sawmill were turned into mouldings, standardised wood components that were specific for his various projects" (Business Times 1992b).
into business with the chief minister, starting with Ting's purchase in 1992 of Pacific Chemical, a 100 percent Taib family-owned company. After Pacific Chemicals was purchased from the Taib family it still retained a 38.9 percent shareholding in the company (Jardine Fleming 1993: 36). Ting and Taib then injected Pacific Chemicals into their jointly-held timber company, Usama Industries, in which Ting holds 55 percent of the shares, and the Taib family company Majahrata holds 40.5 percent.

At the same time, Ting’s original timber company Woodhouse was injected into Ekran, a timber and construction company concern that was, for a time, one of the most closely-watched companies on the Malaysian stock market. Ekran’s major source of raw material came from the Ting-Taib owned Pacific Chemicals.

Through the early 1990s, Ting became a typical Sarawak timber baron, whose rising fortunes were totally dependent upon his diverting a substantial portion of the economic rent generated from his logging operations to the chief minister. However, Ting traded up and went into business with Daim Zainuddin, Malaysia’s former finance minister, current treasurer of the ruling Malay party UMNO and probably the most important political and economic figure in the country next to Prime Minister Mahathir.

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116 When Ting purchased Pacific Chemical in 1992, its sole shareholder was a company called Majahrata, which was owned exclusively by four members of the chief minister’s family, Mahmud Abu-Bekir Taib (managing director and 58 percent shareholder), Sulaiman Abdul Rahman bin Abdul Taib (42 percent shareholder), and their wives Jamilah Hamidah Taib and Hanifah Kajar Taib (printed materials obtained from Institut Pekerjaan Komuniti on 28 October 1997).

117 Usama Industries is a “substantial timber logging company, being assigned the rights under licenses to log timber from three forest timber concessions covering an extensive total area of 143,789 hectares of leasehold forest land” (Jardine Fleming 1993: 36).
Ting is said to have come to the attention of Daim and Mahathir when, in less than 100 days, Ting completed a five star hotel in Langkawi an island offshore from the prime minister’s home state of Kedah. Turning Langkawi into a tourist destination was a keystone of Mahathir’s efforts to remain popular in his geographically and economically marginal state. Mahathir was reportedly so impressed with Ting’s ability to produce results that he put Ting in charge of the construction of the Bakun Dam (Business Times 1992b). The dam was one of Mahathir’s many mega-projects renowned for their size and length such as Kuala Lumpur City Center, the world’s tallest building, Linear City, the world’s longest building and the Malaysian-made Proton automobile, 1,998 of which were lined up to form the world's longest convoy. The Bakun Dam, had it been built, would have followed suit, requiring the pouring of more concrete than any dam before it and using the world’s longest undersea electrical transmission cable to service its customers.

Mahathir briefly changed directions and awarded the construction contract for the dam to a consortium headed by Chief Minister Taib. But Ting and Daim managed to regain control of the dam construction project.  

118 An investment bank reported that, "Ekran obtains part of its income from its subsidiary Woodhouse which specialises in building prefabricated wooden houses and hotels. Woodhouse obtains it timber from an unlisted company called Temali which in turn obtains its logs from Pacific Chemicals" (Jardine Fleming 1993: 18).

119 It had been assumed that Ting Pek Khiing would be awarded control of the project. But then, in a surprise to all, Chief Minister Taib did an end run, obtaining approval for the dam to be built by a joint venture between Multipurpose (the leading company of the Malaysian Chinese Association, the political party representing the loyal-to-Mahathir segment of the Malaysian Chinese community) and the Sarawak Electric Supply Company (or SESCO, a parastatal company from which Taib hoped to profit once it was privatized). The deal was brokered by Sarawak Capital and Sarawak Securities, investment banks owned by the Chief Minister's family (Insan 1996: 7-10). Ting and Daim had been resting on their laurels, assuming they had the Bakun deal in hand, and were caught by surprise by the Multipurpose-SESCO end run. In an effort to regain control of the project, Daim flew to Sarawak to see Taib. Ting flew to Kuala Lumpur to see Mahathir. Daim and Ting together pressured Taib and Mahathir to abandon the Multipurpose-SESCO deal, and instead have it awarded to Ekran (18 August 1997 interview with Raphael Pura). Mahathir relented, and returned to his original plan to
With Ting and Daim in control of the dam project once again, they and their proxies were in a position to profit handsomely, due to the fact that they controlled substantial shares. According to Ekran's 1995 annual report, Ting was the company's major shareholder, with a 21 percent stake, and his wife with an additional five percent. Daim/Mahathir associates also appeared among the shareholders and board of directors of Ekran. For example, "Analysts note that Shuaib Lazim, an associate of former finance minister Daim Zainuddin . . . was an Ekran director. . . . Mr. Shuaib has a 3.1 percent stake in Ekran's increased paid-up capital . . ." (Business Times 1992b). Shuaib Lazim is a former UMNO senator and state assemblyman from Kedah, Mahathir’s home state. Rasip Haron, a one-percent shareholder in Ekran, is reportedly a close associate of both Daim and Ting (Insan 1996: 11-12). On the board of directors, two associates, Dr. Regina Norani binti Nuruddin and Josephine Permala Sivaretnam, represented Daim and were the only board members besides Ting. A well placed and knowledgeable source in Sarawak wrote me, "Dr. Regina and Josephine were shadow directors; mostly deemed . . . nominees for an interested party - you know who.” The informant eventually named the interested party he was referring to: Daim Zainuddin (30 March 1997 interview).

After edging Chief Minister Taib out of control of construction of the Bakun Dam, it appears that Ting sought to make amends by awarding the chief minister and his family shares in Ekran and making them beneficiaries of selected dam construction contracts. For a time Taib's two sons were the 16th and 17th largest shareholders of Ekran. However, when a designate Ekran as the sole builder of the dam.
case was brought against Taib for conflict of interest, he asked his children to give up their shares in Ekran, although some believe that Taib's children still retain their holdings through nominees. Taib personally benefited from the Bakun project when his CMS corporation was awarded a RM1.2 billion ($480 million) contract for construction of the Bakun Dam (22 August 1996 interview with Muniandy Thayalan). Another example of the chief minister appropriating rent from the Bakun project involved the clearing of about 69,450 hectares of forest area which was to be flooded upon completion of the dam. Ting's forestry companies, in which the chief minister owns substantial shares, were awarded the license to log these areas (The Star 1995b).\(^{120}\)

Ting is also in business with the chief minister in the area of steel fabrication. In a deal brokered by Taib-owned Sarawak Capital, a consortium was put together to link the state’s electrical utility, SESCO, a sister company of Sarawak Capital called Central Paragon, and a Ting Pek Khiing company called Universal Cable. The ties between the chief minister and Ting in this particular venture were not only financial, but also spatial. Universal Cable has a suite adjoining that of Sarawak Capital on the top floor of Wisma Ting Pek Khiing, the tallest office building in Kuching. On the opposite end of Wisma Ting Pek Khiing, in the basement parking garage, three large Rolls Royce sedans can be seen gathering dust. A source indicated that Chief Minister Taib had initially purchased these Rolls Royces to chauffeur heads of state visiting Kuching for a meeting. After the meeting ended, Taib no longer needed the cars and sold three to Ting.

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\(^{120}\) The Bakun Dam was to have displaced 8,000 indigenous people in 15 longhouse communities (Financial Times 30 May 1994). The contract for relocating the displaced people was to have gone to a company owned by deputy chief minister and Taib loyalist Alfred Jabu (11 November 1996 interview with James Ng).
Ting also uses earnings from timber to finance the electoral objectives of the chief minister. An official from the prominent national NGO, the Consumer Association of Penang,

told me that Ting had reportedly contributed $27 million to candidates from the chief minister's Sarawak Alliance during the 1994 elections (23 August 1996 interview with Mary Assunta).

Despite the many joint ventures between Ting and Taib, Ting still manages to defy the chief minister. He is unique in this respect. One example of Ting's contradicting the chief minister was when he financed the unseating of Taib ally Wong Soon Kai. Ting had agreed to build, and partly subsidize, six bridges across the Rejang River. While these bridges would have eventually aided in the construction of Ting's Bakun Dam, they also constituted a key infrastructure improvement, and in this sense (rather like the Samling group's subsidization of urban renewal in Miri and Bintulu) would have served the broader political objectives of the chief minister. But former deputy chief minister and former chairman of the SUPP, Wong Soon Kai, withheld the release of the state's share of funds for the project.

Because of Wong Soon Kai’s opposition to the bridges, and to Ting's opening a branch of the MCA-linked Tunku Abdul Rahman College in Sarawak, Ting provided financial backing to Wong Soon Kai's electoral opponent, Wong Ho Leng, of the opposition Democratic Action Party (DAP), thus removing Wong Soon Kai from power. Ting helped Wong by providing financial backing to bookmakers, who in turn placed unrealistically steep odds of 20:1 in favor of Wong Ho Leng's victory. Many were tempted to bet on such
odds, and once they stood to make money from Wong Soon Kai’s loss, they, their friends and families voted for Wong Ho Leng. Betting on elections is common in Sarawak, but subsidizing bookmakers, as Ting did, is not. Some speculate that Ting did not want Wong Ho Leng to win so much as he wanted to "show Wong Soon Kai who was boss." Ting also provided similar gambling-mediated backing to a relative of his who ran as an independent and successfully defeated a highly unpopular SUPP member in Meradong (8 and 16 November 1996 interviews with Michael Goldman).121

Ting, like his fellow timber barons, is compelled to funnel timber rent to Taib, who jointly owns all of Ting's timber operations, and was given a $480 million contract in Ting's Bakun dam project. Ting has demonstrated a degree of independence from Taib, as when he won back control of the Bakun contract from Taib. However, Ting has only maintained control of the project through ties to nationally prominent Prime Minister Mahathir and UMNO treasurer Daim Zainuddin.

**Limbang Trading**

One of the best known and least understood concession holding groups is Limbang Trading. Many erroneously assume, due to the high government position of its

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121 A significantly different version of Ting's involvement in the Sibu election bookmaking incident, but in a way just as believable, was given in a 31 May 1997 interview with DAP member Dominique Ng. He said that by subsidizing bookmakers to take odds against Wong Soon Kai, Ting was acting at the direction of Chief Minister Taib. Ng said that Taib no longer regarded Wong Soon Kai as suitably pliable, and so asked Ting to help finance Wong’s electoral defeat.

122 Wong serves as the state's Minister of Environment. He also is the chair of the NREB, the state board that approved the environmental impact assessment for the mammoth Bakun Dam. Taib had served as chair, but
outspoken\textsuperscript{123} chairman, James Wong, that Limbang’s timber holdings are vast and its political currency strong. Neither is really the case. Wong has been barely tolerated by the state’s leadership for more than half of his public life, resulting in the modest size of his concession holdings.\textsuperscript{124}

When I interviewed Wong, he gave a heroic account of his beginnings in the timber trade. He said he started his timber company in 1946 out of desperation to feed his mother and seven brothers and sisters after Japanese soldiers had executed his father. Wong said he started by selling firewood to Hong Kong, but later decided to get into the extracting and selling of commercially valuable timber. The type of logging prevailing at the time was the logging of ramin from peat swamps in coastal areas, but all such areas near his home had already been given out as concessions. Wong said he decided, therefore, to obtain a license to harvest timber from the mountains instead and approached the British colonial administrators of Sarawak. According to Wong, a 234,000 hectare timber concession in the upper Limbang valley was his "for a song" in 1949. He claims that it took him eleven years of arduous work to develop the concession before it produced its first shipment of timber and that he personally pioneered tropical hill logging in Southeast Asia (12 November 1996 interview with James Wong).

\textsuperscript{123} Wong is reported to have told foreign visitors, "It rains too much in Borneo and stops me from playing golf. The best way to improve your golf is to cut down the rain forest." Wong later denied ever having said this (New Straits Times 1990).

\textsuperscript{124} Limbang Trading has a single 185,490 hectare timber concession, thought to be Sarawak's largest (AWSJ 1994b). However, given that this is the company’s only concession, Limbang Trading is in fact only the 8\textsuperscript{th} largest private concession holder in Sarawak. A few years ago, Limbang injected their timber holdings into the publicly listed company PanGlobal, in which Limbang is now the majority shareholder (The Edge 1995d).
A less heroic version of Wong’s beginnings in the timber trade was given by Hugh Peyman, then Managing Director for Asia for the investment bank of Dresdner Kleinwort Benson. Peyman recounted that in 1949, when Wong was purportedly awarded the timber concession, he was only in his early 20s, if not late teens, and would have lacked the connections to acquire such a huge concession. Rather, his father-in-law acquired the concession as payment for many years of loyalty to the British who "drew some lines on a map, and the deal was done.” The land was then passed down to Wong's brother-in-law, who introduced Wong to the timber business, and cut him in on ownership of the concession. Wong is, in this sense, not entirely the self-made man he claims to be (23 July 1997 interview with Hugh Peyman).

Just as Wong’s history in the timber trade is open to multiple interpretations, so is his role in Sarawak politics. Wong at first appears to have been a pivotal political player in Sarawak. For nearly four decades, he served as head of one of the four parties in the Sarawak Alliance: the Parti Pesaka Bumiputra Bersatu (PBB), led by Chief Minister Taib Mahmud; the Sarawak United People's Party (SUPP), led until recently by Wong Soon Kai; the Sarawak National Party (SNAP), led by Wong; and the Parti Bansa Dayak Sarawak (PBDS).

Despite Wong's position at the head of SNAP, his political career has been difficult. His public life began in 1961, when then-Malaysian Prime Minister Tun Abdul Rahman called for a congress to discuss the entry of Singapore, Sabah and Sarawak into the Federation of Malaysia. Wong attended and was an early supporter of Sarawak's joining the federation.

Sarawak's first chief minister under the new arrangement was Stephen Ningkan.
Wong, a newly-elected independent from Limbang district, decided to join Ningkan's SNAP, a multi-racial party with a substantial Chinese element. Wong’s rise was initially meteoric, and he was appointed deputy chief minister after Ningkan's party won state elections (Wong 1983: 10-11). Said Wong in an interview, "Because I was made deputy chief minister, and I had joined SNAP, I was also made deputy president of SNAP" (12 November 1996 interview). It was Wong's senior position in SNAP that gave him political staying power.

Wong’s political fortunes changed with Ningkan's removal from power in 1966. This relegated SNAP to the opposition until 1974, when, after six years, the party was finally readmitted to the Sarawak Alliance. Wong's political currency should have improved at this point, but instead he was jailed for two years by then-Chief Minister Tun Rahman on the grounds that Wong had been colluding with the nation of Brunei to facilitate the annexation of Wong's home district, Limbang, into Brunei. Wong, however, maintains that Tun Rahman jailed him because he saw Wong and SNAP as a political threat.

In 1981, five years after his release, Wong ascended from deputy president to president of SNAP (12 November 1996 interview), which coincided with the election of Taib to the chief ministership. With Wong's higher position in the party and a new chief minister in office, Wong should have been in a position to start afresh with improved relations with the state’s leadership. But in 1983, his leadership of SNAP was vigorously challenged by Leo Moggie, who with his followers left SNAP and formed the PBDS. Wong was held in low esteem by Chief Minister Taib because of PBDS's breakaway from SNAP. PBDS went on

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125 Asked how it felt to be the ethnic Chinese leader of the party that for many years contained the state's largest number of indigenous voters, Wong seemed taken aback, but quickly replied with an answer extolling the
not only to pose an electoral challenge to Taib but also to embarrass him on the timber issue. As a result of Wong's inability to rein in the PBDS, he had difficulties with Taib from 1981 to 1985. However, Wong's explanation for these difficulties was that Governor Tun Rahman’s advisers to Chief Minister Taib had "poisoned his mind" against him (12 November 1996 interview). But a 1984 news report suggests that, if anything, Tun Rahman saved Wong from Taib's wrath during those difficult years.

The increasingly embarrassing delay in announcing a new Sarawak cabinet after the state's 28-29 December 1983 election results from severe disagreement between Chief Minister Taib Mahmud and his uncle, state Governor Rahman Yakub. The election was supposed to cement Taib's ascendancy in Malaysia's largest and potentially wealthiest state but the result also threw doubt on the future of the Sarawak National Party (SNAP), mauled in the election by a breakaway element. Taib wants to push SNAP right out of the ruling coalition, but ironically Rahman, noted for his acute political sense, insists on keeping a weakened SNAP within the government, where it can be more easily influenced (FEER 1984b).

Finally, however, Wong managed to rehabilitate himself during the Ming Court affair. Wong was one of three new ministers appointed by Taib in March, 1987 to replace defectors to Tun Rahman's camp (Ritchie 1987: 31-32). Nevertheless, Wong’s political importance is marginal because since 1983 SNAP has been electorally insignificant, especially now that the larger PBDS has rejoined the ruling coalition. In Sarawak, SNAP is virtues of multi-racialism and referred to Sarawak as "one happy family" (12 November 1996 interview).

126. The misuse of the state's timber resource by Taib was a pivotal issue for the PBDS. One press account looks back on "the PBDS's campaign issues of Dayak rights and environmental issues. Had the PBDS gained control of the state government, the timber industry would have been adversely affected as the PBDS would have taken action to curtail logging activities that are rapidly depleting the state's rain forests where large numbers of Dayaks live" (Economist Intelligence Unit 1991).

127. With the exception of the years leading up to and including the Ming Court Affair (1985-1987), the year following the 1983 elections marked the second largest handout of timber concessions on record in Sarawak. In an effort to augment his political war chest and/or buy political supporters, Taib awarded 17 new concessions (see Table 4.1 above.) This demonstrates yet again how rent from the harvest of timber is the important form of political currency in Sarawak.
referred to as a "mosquito party."

Wong still retains a state assembly seat in Limbang, but lost his (national) parliamentary seat in Bintulu to Sarawak's only DAP parliamentarian, Chiew Chin Sing. Chiew maintains that as he prepared to challenge Wong for the Bintulu seat, Wong's intermediary offered Chiew RM3 million ($800,000) not to run (19 July 1997 interview with Chiew Chin Sing).

James Chin gives an interesting insight into the purpose of SNAP, which he calls "the vehicle for James Wong's personal aggrandizement." Wong, ethnically Chinese, continues to obtain the votes of the Iban because, as Chin put it, "He buys them at election time" (12 August 1997 interview). Over four decades, Wong has merely maintained power by using rent from his family's modest concession to buy votes. This explains the independent, quirky role he continues to play in the state’s government, where he is tolerated at points but rarely loved.

**Ling group**

As with Ting Pek Khiing and James Wong, there is occasionally negotiation between heads of state and the heads of timber conglomerates in Southeast Asia, but it is rare. This is illustrated by the rising and falling fortunes of the ninth largest timber concession holder in Sarawak, the Ling group.

In the 1960s, the largest concession holder in Sarawak was the Ling group, headed by Ling Beng Siew. When Tun Rahman came to office in 1971, he arrested Ling Beng Siew and confiscated many of his timber holdings. One source argues this was done to cripple the
political and economic power of Ling, who had headed the Pusaka party, an important part
of the Chinese-Dayak opposition to Tun Rahman's rise to power (27 May 1997 interview
with a reliable and informed academic). Another source speculates Ling's arrest was a
consequence of his declining to help Tun Rahman in his bid for office.

Before 1970, nobody could believe that a short man like Rahman Yakub would one
day become Chief Minister of Sarawak. Even Ling Beng Siew, an astute man, had
wrongly assessed [Tun Rahman's potential].

In that year, Yakub was rushing here and there collecting election funds. The first
person he approached was Ling Beng Siew. . . . Yakub was confident that Ling Beng
Siew would give him a helping hand. But to his disappointment, Ling Beng Siew did
not donate even a single cent as he really could not believe that Yakub, such a short
and thin person would become an astute statesman with boundless prospects . . . Later,
Yakub brought him to Singapore under the pretext of playing golf. So once he stepped
down from the plane at Subang Airport, he was arrested and sent back to Sarawak.
Meanwhile, there was a rumor saying that Ling Beng Siew's refusal to donate 3,000
dollars had brought him a few months of detention (Lau 1995: chapter 18, page 1).

After the disaster of being jailed, Ling Beng Siew began re-ingratiating himself with
Tun Rahman, and rebuilding the family fortune. Ling worked to become the important
figure in delivering votes to the chief minister in the Rejang River basin (27 May 1997
interview with a reliable and informed academic). According to S.K. Lau, however, Ling’s
efforts to rehabilitate himself with the Chief Minister went just beyond bringing in votes:

On one occasion, while recuperating in hospital in United Kingdom after an operation,
[Chief Minister Tun Rahman] was then attended to by the cousins Ling Lee Chung,
Ling Beng Siong's eldest son, and Ling Lee Sung, Ling Beng Siew's son. They were
specially sent by their fathers to serve Yakub. Later Ling Lee Chung, my good friend
told me that in London, he and [Ling] Lee Sung had to take turns to scrub Yakub's
body and help change his undershirt (Lau 1995: chapter 5, page 4).

The lengths to which timber businessmen must go to stay in business is further
demonstrated by the actions that the Ling family took once Tun Rahman stepped down from
the chief ministership and the post was filled by his nephew Taib Mahmud.
When Taib [had] just [taken] over as Chief Minister, Yakub was then the State Governor who still held great power. How to serve these two persons? There should be no problem. As a bright and shrewd businessman, Ling Beng Siew immediately arranged for his eldest son Ling Lee Sung to follow Yakub and his [second] son Dr. [Philip] Ling Lee Kang to closely follow Taib. In this way, no matter who lost power in [the] future, the remaining one was still his man. . . . There would be no loss" (Lau 1995: chapter 5, page 4).

The Ling group also injected five timber concessions totaling 115,000 hectares into the publicly listed company Pan Pacific Asia (Sarawak Securities 1996: 4). The board of directors of Pan Pacific Asia reflects the extent to which timber businessmen must align themselves with politicians to survive. The Ling family now seems to be casting their lot with West Malaysian politicians, rather than those from Sarawak.128

This analysis of Sarawak's nine largest timber concession holding groups provides much new data to support the findings of Dauvergne (1997) and Ross (1996) that Taib Mahmud awarded timber concessions to achieve patronage objectives. Timber concessions were awarded to provide political parties in the state's ruling coalition with political war chests for state elections. Fifteen individuals serving as ruling coalition proxies, six for the PBB party and nine for the SUPP party, hold managerial and equity positions in many of the concessions licensed to the state's top four timber conglomerates. Timber concessions were also awarded to the most powerful politicians

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128 According to documents on file with the Kuala Lumpur Stock Exchange, one of the board members of Pan Pacific Asia is Dr. Michael Chen Wing Sum, deputy speaker of the Malaysian senate (9 June 1997 interview with Sim Kwang Yang). Michael Chen has in the past held various federal ministerships, and was regarded as having been a protégé of former Prime Minister Tun Abdul Razak. He was also the last chair of the Klang Port Authority (19 June 1997 interview with Jomo K.S.). James Chin believes that Michael Chen is on the board as a payback for favors he did the Ling family in West Malaysia (12 August 1997 interview). Michael Chen is also an important figure in Gerakan (18 August 1997 interview with Raphael Pura). Another politically-connected West Malaysian on the board of PPA is Ahmad Johari bin Abdul Razak, the son of Malaysia's former Prime Minister Tun Abdul Razak. He is also the younger brother of Najib bin Abdul Razak, the politically ascendant federal Minister of Education (19 July 1997 interview with Jomo K.S.).
now in Taib's inner ruling circle, including nominees and/or relatives of Minister of Finance George Chan, Minister of Industry Abang Johari, as well as direct awards to Secretary of State Hamid Bugo, Deputy Secretary of State Abdul Aziz, and deputy speaker of the state assembly and executive editor of the Borneo Post, People's Mirror, Sarawak Tribune, and Utusan Sarawak, Mohamad Awang Asfia Awang Nasar.

Concessions were also awarded to repay the loyalty of those who stood with Taib in the Ming Court affair, including the son of Sim Kheng Hong, the wife and nephew of Alfred Jabu, and the family, friends and associates of Wahab Dollah. Also there is the function reserved almost exclusively for the Taib family group of timber concessions of providing managerial and equity shares to either current or former heads of the three most powerful Iban families and seven of their relatives, all of whom help bring in the votes of the state's largest group, the Iban community. As this represents an enormous diversion of rent toward clientelist rather than developmentalist ends, it suggests that Sarawak has failed to balance the dual imperative.

There is also strong evidence indicating that a fantastic sum of timber rent has been diverted neither toward building development nor toward creating political support, but instead toward something that is vastly less societally-productive, namely, the personal financial gain of the chief minister, his family and his close personal friends. The Taib group itself is the third largest concession holder in the state, a position of market dominance unmatched by any other head of state in any of the cases discussed in this dissertation. While the chief minister himself occupies no publicly recorded directorships or shareholdings in any of the timber concessions said to belong to him,
informants identified nine of his personal nominees in such positions. Moreover, the chief minister's family members, including three of his brothers, his sister, his brother-in-law and his cousin, occupy managerial and equity positions on the boards of the timber concessions of the top four major Sarawak timber conglomerates. In addition, the Taib family owns the shipping company through which an estimated $4 billion in timber exports must pass each year. Also, there is Taib's financial penetration into various timber conglomerates. This has catapulted him into owning the largest private financial entity in the state, the CMS corporation, which raises his personal earning power to another order of magnitude.

Sarawak is also a textbook example of something that the comparative political economy of development tends to overlook, namely, that the challenge for many would-be developing states is not capitalists using state leaders to seek rent, but rather state leaders using capitalists to seek rent. Between the head of state and capital, heads of state often have the upper hand, as demonstrated by: Taib's extraction of *angpau* from timber magnates during the Chinese New Year; Sibu's timber conglomerate heads returning from all over the world to greet Tun Rahman when he came to visit their city; Lau Hui Kang's being forced to turn on his own brother; Ting Pek Khiing's skyscraper being used to provide penthouse office space to the chief minister's son; Prime Minister Mahathir's sending IRS agents to raid Rimbunan Hijau headquarters after his son had a falling-out with the group's owner; Rimbunan Hijau head Tiong Hiew King's holding a golf umbrella for Chief Minister Tun Rahman and Ling group head Ling Beng Siew's sending his sons to London to wash the body of Tun Rahman after both Tiong and Ling had been jailed by Tun Rahman on trumped-up charges. Such vast inequalities of power demonstrate the
degree to which, in the developing world, it is not rent-seeking capitalists who use the
state as a tool, but rent-seeking leaders who use capitalists as a tool.

**Official timber rent capture in Sarawak**

My hypothesis predicted that state timber revenues would be lower than optimal in Sarawak because the chief minister and other political elites were unofficially appropriating enormous amounts of timber rent, resulting in less timber rent remaining to be captured by the government. This turned out to be the case.

The following graph shows the economic rent earned by timber concessionaires, and/or appropriated by heads of state in Sarawak for the thirty years covered by my study. The graph also shows the potential amount of economic rent that could have been captured by the government per cubic meter of red meranti exported from the state per annum with an optimal timber revenue system. The graph shows that optimal levels of rent capture never took place in Sarawak. As seen in Figure 4.2 below, the plotted line spikes dramatically upward, especially in 1993 when vast amounts of economic rent escaped collection by the government of Sarawak, to be earned instead by timber concessionaires and/or appropriated from them by political elites.
Figure 4.2: Average annual amount of timber rent unofficially appropriated in Sarawak, 1971 to 1999

US$ per cubic meter of red meranti

Year
Despite the failure of timber revenue policy in Sarawak, two tax hikes did take place, in 1989 and again in 1993. In those years, the government respectively increased timber revenues from $11 to $20, and from $20 to $30, for each cubic meter of red meranti harvested and bound for export. At first glance, these seem like substantial revenue hikes. However, in Figure 4.2 above, it can be seen that in the years during which these revenue increases took place, the amount of timber rent unofficially earned by timber concessionaires, and appropriated by the political elites who ran or owned many of these concessions, remained constant or increased. What this tells us is these revenue hikes did not significantly reduce the net profit of those who had to pay them.

While the royalty on red meranti rose from $11 to $20 in 1989, the ten percent tax on the export of red meranti was totally eliminated in that same year. Thus, in spite of the royalty nearly doubling, timber concessionaires came out only slightly worse than the year before. The amount of rent their political masters were able to appropriate from each cubic meter of red meranti fell a minuscule $1.20, from $64 in 1988 to $62.80 in 1989, the year the revenue hike was enacted.

As to the second major timber revenue hike of 1993, when the decision was made to increase the royalty on red meranti by 50 percent, from $20 to $30 per cubic meter, this also turned out to be painless for those who were asked to pay it as it followed on the heels of the skyrocketing prices of Sarawak timber. The 1993 hike in timber revenues took place in the aftermath of a gigantic leap in prices of raw logs on the world market in 1992, a leap to some degree engineered by the government of Sarawak itself.

By the early 1990s, Sarawak was the main world supplier of tropical hardwood logs. (Indonesia had outlawed the export of logs, the supply of logs from Sabah had dwindled and
Papua New Guinea had not yet become a major exporter). Therefore, Sarawak was in a position to effect world price movements. This excerpt from a World Bank internal memorandum written in late 1992 argued that the government of Sarawak itself drove up world tropical hardwood log prices in late 1992:

The targeted [log production] level for 1992 was to have been 18 million m³ but by August [Sarawak concessionaires] had already produced 15 million m³. The government then put on a quota - dividing the remaining 3 million m³ between all of the existing concession operators. As a consequence there has been a shortage of logs during the last quarter of the year (for both domestic processing and export) causing log prices to shoot up as supplies tighten and operators seek to maintain cash flows from reduced production levels. Log prices in August averaged about $125 per m³. In October they have risen to about $165 per m³ (World Bank 1992t: 5).

The executive director of the Sarawak Timber Association confirmed that the government fully anticipated that a freeze in exports in December, 1992 would drive up the prices of logs and help Sarawak producers in the long run. Cheong Ek Choon, Director of Forests, was the one who ordered the freeze. Sarawak loggers were at first angered by the freeze, and telephone calls flooded into the Sarawak Timber Association. The executive director anticipated the deluge of phone calls and made sure that he was out of the country, and unreachable, during December 1992. Due to the freeze in late 1992, log exporters enjoyed a 300 to 400 percent increase in the price of logs in 1993. While those high prices did not last, the Sarawak Timber Association executive director calculated that the average price per cubic meter for raw logs in 1993 was over $40 higher than it had been in 1992 (13 November 1996 interview with Barney Chan). In fact, Sarawak Timber Association records show that the average log export price in 1993 was $65 higher than in 1992.

In short, because of the astronomical leap in the price of Sarawak logs, the 1993 timber royalty hike was not painful. Again, a hike in royalties from $20 to $30 per cubic meter may
seem substantial but, as shown in Figure 4.2 above, in 1993, the year of the increase, the amount of timber rent earned by timber concessionaires, or appropriated by their political patrons, skyrocketed from $108 to $160 per cubic meter of timber, an all-time high for any of the cases covered by this dissertation. Although they paid $10 more in royalties, timber concessionaires and their political patrons also netted $52 more in timber rent for each cubic meter of red meranti harvested and exported.

The painlessness of the 1993 revenue hike was confirmed in several quarters. Sarawak Timber Association executive director Barney Chan characterized the reaction of his membership, stating, "There were no complaints because log prices had shot up concurrently with the royalty increases." Director of Forests Cheong Ek Choon confirmed Chan's account, adding that the "decision was well-timed" (13 November 1996, separate interviews with Barney Chan and Cheong Ek Choon).

The state's fourth largest timber concessionaire also confirmed that the royalty hike of 1993 was not felt by those who paid it. I asked Lau Hui Kang, chairman of the KTS group and President of the Sarawak Timber Association, about the royalty increase of 1993. At first, Lau said that no such increase had taken place. When I reminded him that Sarawak Forest Department publications stated that royalties on red meranti had risen from $20 to $30 per cubic in July, 1993 he replied, "This increase was only due to the rise in the price of raw logs" (30 October 1996 interview with Lau Hui Kang). The fact that Sarawak's fourth largest timber concessionaire could not even recall the largest timber royalty increase in the history of the state and then, when reminded of it, dismissed it's significance, is an indication of the failure of the government of Sarawak to capture timber rent in any meaningful sense.
Concentrating the spoils

While it is true that over the thirty year period covered by this study the lion's share of timber rent appropriation has been from raw log exports, over the last decade other wood products, especially plywood, have assumed increasing importance in Sarawak's timber export profile. In fact, during the last half-decade processed wood exports, especially plywood, have exceeded logs to become the largest portion of Sarawak's wood exports. In Sarawak (as in Indonesia) plywood industrial policy is increasingly used as a tool to concentrate timber rent in the hands of a few politically-connected timber conglomerates.

The policy tool used by the government to concentrate logs and the appropriation of rent in the hands of a small group of large companies is called the Log Export Requirement Quota (LERQ). Although nominally set up to ensure the supply of raw material to smaller, independent mills, the LERQ now does the opposite. The LERQ committee has been subtly adjusted over the years by the Department of Forestry and the Sarawak Timber Association so that today it works to drive smaller, independent mills out of business.\(^{129}\) While ostensibly promoting the efficiency of Sarawak's wood processing mills, the LERQ increasingly ensures the log supply to and continuing market domination of "efficient" (e.g., large, politically-connected, conglomerate-owned) plywood mills.

---

\(^{129}\) This is true, notwithstanding the position of the Sarawak Timber Industrial Development Committee (STIDC) that the purpose of the LERQ is to assure log supply for smaller mills. The STIDC told me that its subsidiary Harwood buys logs from timber concessionaires and sells them to mills that are under-supplied. STIDC said that Harwood cannot force concessionaires to sell logs to Harwood. But if a concessionaire wishes to sell them logs, Harwood will buy them, and sell them to smaller-sized, supply-starved mills at a price that assures only the barest minimum profit for STIDC (14 November 1996 interview Edmund Daging Mangku). Notwithstanding this rose-tinted view, the reality is that the primary function of the LERQ is to starve
The LERQ committee, established in 1988, originally met on a quarterly basis to set timber export quotas with representatives of the Department of Forestry, the Sarawak Timber Association, and later adding representatives from the Sarawak Timber Industry Development Corporation. LERQ was designed to limit the amount of raw logs that any timber concessionaire could sell for export. The following table shows the percentage of logs set aside for domestic processing over time by the LERQ committee.

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of logs processed domestically</th>
<th>Percentage of logs exported</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>10</td>
<td>90</td>
</tr>
<tr>
<td>1989</td>
<td>10</td>
<td>90</td>
</tr>
<tr>
<td>1990</td>
<td>15</td>
<td>85</td>
</tr>
<tr>
<td>1991</td>
<td>20</td>
<td>80</td>
</tr>
<tr>
<td>1992</td>
<td>30</td>
<td>70</td>
</tr>
<tr>
<td>1993</td>
<td>36</td>
<td>64</td>
</tr>
<tr>
<td>1994</td>
<td>36</td>
<td>64</td>
</tr>
<tr>
<td>1995</td>
<td>45</td>
<td>55</td>
</tr>
<tr>
<td>1996</td>
<td>55</td>
<td>45</td>
</tr>
</tbody>
</table>

Source: Edmund Daging Mangku, STIDC, 14 November 1996

While the LERQ committee did, in fact, divide the overall log production of Sarawak into that allowed for log export and that allowed for plywood factories and sawmills, the real work of LERQ became setting raw log quotas for each mill based on capacity. This command-and-control decision-making produced a clear set of winners and losers: the winners are the larger, newer and more efficient mills, attached to the big timber conglomerates, which have come to control an increasingly large share of processed wood smaller mills and concentrate a greater supply of logs into the hands of the conglomerates.
exports over time. The losers are the smaller, older and less efficient independent mills.

The executive director of the Sarawak Timber Association explained that while the smaller mills may have believed for a time that the LERQ would help them obtain increasingly scarce logs, they soon realized that the opposite was the case:

Even before the log set aside policy began, the independent mills were mad that Sarawak's timber concessionaires were not selling more logs to them. However, the position of the independent mills did not improve with time, but in fact got worse. This is due to the fact that it was always the policy of the Forestry Department and the Sarawak Timber Association to set aside fewer logs for Sarawak mills than was represented by their capacity (13 November 1996 interview with Barney Chan).

This policy of deliberately starving the smaller mills was undertaken, according to Chan, to weed out the least efficient mills. Said Chan, "Cheong [Ek Choon, Director of Forests] and I agreed all along that we should starve the mills a little bit." The policy continues to this day, as Chan explained, there are still "small, inefficient mills that I am trying to weed out" (8 and 13 November 1996 interviews with Barney Chan).

Cheong also confirmed that there was a deliberate policy of starving the mills in order to cull the least efficient ones. He said that the intention and result of the LERQ's policies was "concentration in the industry, which must put some sawmills out of business."

Speaking bluntly, Cheong said, "Small mills must die" (13 November 1996 interview).

In truth it is difficult to know whether the LERQ's policy of starving smaller mills was motivated primarily by a desire to create more efficient mills or by a desire to concentrate as much raw material and rent as possible in the hands of a few politically-connected firms. One thing is for sure: more than a decade after the initial implementation of the LERQ's policies, Sarawak's mills are still not known for their efficiency. On the contrary, they maintain a log to lumber conversion ratio of 2:1, the same as in the rest of Southeast Asia.
Summary

In Sarawak, as in Indonesia, timber rent is funneled to the head of state on a large scale. Analysis of the managerial and equity positions of the timber concessions licensed to each of Sarawak's top four private timber concession holding groups, as well as other evidence with respect to the fifth through the ninth top groups, suggests that not only the political supporters, but more significantly, the families and friends of the chief minister, are virtually omnipresent as managers and owners of these concessions. Anticipating this maze of ties, I hypothesized at this study's outset that timber revenues would be low in Sarawak. In fact, the rate of official government rent capture in Sarawak is the lowest of any case in this study. Similarly, the rate of unofficial rent appropriation is the highest, reaching more than $160 per cubic meter during one year, despite the fact that timber royalties were increased by 50 percent in that same year. Sarawak was also found, like Indonesia, to be setting aside timber rent for large, politically-connected plywood conglomerates.
Chapter 5 Unofficial Timber Rent Appropriation in Sabah

In Sabah, East Malaysia, leaders have high levels of personal ties to the timber industry, and the government achieves only suboptimal levels of timber rent capture. This is contrary to what many believed before I went to the field. This chapter resembles prior ones. It details the institutional arrangements that have allowed the rulers of Sabah to divert timber rent for their own personal gain.

Sabah politics and forest management

Sabah has had a volatile political history since its independence from Britain in 1963, when it joined the Federation of Malaysia. During the same thirty-year period of this study, Indonesia was primarily ruled by one government, Sarawak by two, but Sabah has been ruled by eight. Sabah's instability stems largely from the long shadow cast over it by the Malaysian government and the national ruling party which have two expectations of Sabah: first, whoever rules Sabah will unofficially provide a share of the state's timber rent to the national ruling coalition in order to help it promote its political and business objectives (28 March 2001 interview with Daniel Lev); second, national parliamentarians elected from Sabah will support the Barisan Nasional government.

Until fairly recently, the Malaysian government and the national ruling party have preferred that there be a 'Malay' chief minister in Sabah, as this was thought to be more likely to keep the state in the Barisan Nasional column. This has resulted in extensive federal interference in state elections to ensure the victory of 'Malay' leaders, despite the fact that Sabah's ethnic Malays are a small minority, and that the 'Malay' voting block in Sabah
The domination of the state by 'Malays' has been a major source of tension, particularly with the mountain-dwelling Kadazan, who are the largest group in the state and who have enjoyed comparatively little of the economic benefits that flow from political control of the state. During the 30-year period covered by this study, five of the state's chief ministers have been nominally Malay, two have been Kadazan, and one Malaysian Chinese. These leaders are listed in Table 5.1 below.

Table 5.1 Sabah chief ministers whose tenures of office fell within the period of time covered by this study

<table>
<thead>
<tr>
<th>Year served</th>
<th>Name of chief minister</th>
<th>Ethnicity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966-1976</td>
<td>Tun Mustapha</td>
<td>&quot;Malay&quot;</td>
</tr>
<tr>
<td>1976-1985</td>
<td>Harris Salleh</td>
<td>Malay</td>
</tr>
<tr>
<td>1985-1994</td>
<td>Joseph Pairin Kitingan</td>
<td>Kadazan</td>
</tr>
<tr>
<td>1994</td>
<td>Sakaran Dandai</td>
<td>&quot;Malay&quot;</td>
</tr>
<tr>
<td>1995-1996</td>
<td>Mohammad Salleh</td>
<td>&quot;Malay&quot;</td>
</tr>
<tr>
<td>1996-1998</td>
<td>Yong Tek Lee</td>
<td>Chinese</td>
</tr>
<tr>
<td>1998-1999</td>
<td>Bernard Dompok</td>
<td>Kadazan</td>
</tr>
<tr>
<td>1999-2001</td>
<td>Osu Sukam</td>
<td>&quot;Malay&quot;</td>
</tr>
</tbody>
</table>

Note: chief ministers designated in the above table as "Malay" actually belong to non-Malay ethnic groups, such as the Bajau and the Suluk, classified as Malay by the federal government for reasons of political expediency.

This chapter is organized along historical lines, according to the succession of governments that have ruled the state, and not according to the conglomerates that dominate the timber industry, which was the organizing principle used in the previous chapters on Indonesia and Sarawak. This chapter will examine the governments of the four chief ministers highlighted in bold in the above table.

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130 The definition of ethnicity is often more about power than it is about geography, culture, or genetics. The 'Malay' voting block in Sabah is mostly made up of the Malay-like Bajau, and the Filipino-like Suluk, although it includes a fraction of true Malays as well.
Although Sabah is only a state within Malaysia, it will be considered as a nation for the purposes of this dissertation. It maintains complete control over its timber resources and with respect to those resources retains the policy characteristics of national sovereignty. One difference between Sabah, on the one hand, and Indonesia and Sarawak, on the other, is that a majority of Sabah's production forests are held not by private timber concessionaires but by a state-owned corporation called the Sabah Foundation. This foundation controls one million hectares of forests, under a 100-year license, and is permitted to manage those forests without interference from the Sabah Forest Department. Aside from the fact that the majority of the state's production forests are no longer under its control, the Sabah Forest Department nevertheless functions like a normal bureaucracy. It issues regulations designed to achieve the sustainable harvest of the state's forests. However, the autonomy of the department is severely limited due to the fact that, as in Sarawak, the Forest Department is subordinate to the Ministry of Resource Planning. Each of the four Sabah chief ministers examined in detail in this chapter has held the position of minister of resource planning. Hence, all important decisions made by the Forest Department must be passed up the line to the chief minister. This results in a situation where, as an official in charge of a German forestry aid project in Sabah told me, "The Forestry Department tries only to please politicians, mainly the chief minister" (26 September 1996 with Michael Kleine).

**What (appeared to) set Sabah apart**

It is worth taking a moment to remember why I decided to study Sabah in the first place. In contrast to Indonesia and Sarawak, Sabah appeared to have exemplary levels of
timber rent capture. While Indonesia averaged just over 26 percent of available timber rent, and Sarawak under 20 percent, Sabah boasted a nearly 90 percent level of timber rent capture (see Table 1.2). I initially attributed Sabah's optimal levels of timber rent capture to the lack of personal ties of its politicians to the timber industry.

I believed Sabah's leaders lacked personal ties to the timber industry because two chief ministers in particular, Harris Salleh (1976-1985) and Joseph Pairin Kitingan (1985-1994), claimed that they had few such ties and their stories were corroborated by others. Harris, for example, told me he controlled very few timber concessions. He admitted having been granted a timber concession during Chief Minister Donald Stephens's first administration (1963-1964), and to having received a series of additional concessions in 1968-1969 when he resigned from Tun Mustapha's USNO party and "went into business with a Chinese partner" (1 and 2 October 1996 interviews with Harris Salleh). Harris's frankness disarmed me, and the holdings that he admitted to having seemed relatively minor in contrast with those of leaders in Indonesia and Sarawak.

As for Joseph Pairin Kitingan, there was speculation that Kitingan was not personally wealthy and lacked ties to big business. According to one news magazine:

Kitingan's modest lifestyle has apparently won him the hearts of Tambungan villagers. He has an unpretentious brick house in Kota Kinabalu and his parents' home in Tambungan is just a wooden house, if somewhat larger than its neighbours. Kitingan does not have "business interests left and right," noted a Sabah observer, and villagers perceive this as a sign of his "withstanding corruption" (FEER 1985a).

The same magazine implied that, compared to the two chief ministers before him, Kitingan did not depend upon timber wealth to buy political support:

Incumbent chief minister and Berjaya president, Datuk Harris Salleh, can promise government positions and party spoils in the form of business licenses and timber concessions in exchange for support. Usno's leader, former chief minister Tun
Mustapha . . . draws kingmakers to his legendary inexhaustible personal coffers. And PBS's Datuk Joseph Pairin Kitingan . . . is riding high on opposition fervour as the only candidate with a so-far untainted record (FEER 1985c).

I also believed that Sabah's leaders lacked personal ties to the timber industry because of the reformist public faces presented by Harris Salleh and Joseph Pairin Kitingan. Harris's reformist rhetoric started with his criticism of his predecessor, Tun Mustapha, whom Harris accused of having appropriated large sums of timber rent to finance campaigns and to make excessive personal expenditures. According to Sabah's state librarian, Harris seemed like a breath of fresh air after the excesses of Tun Mustapha. The librarian maintained that Sabah had to this day never seen corruption as bad as it had been under Tun Mustapha (30 September 1996 interview with Adeline Leong).

During his 1976 campaign, Harris Salleh publicly denounced the appropriation of timber rent by his predecessor and promised to put an end to it. Harris's biography talked at length about the hidden appropriation of timber rent under the government of Tun Mustapha, including his USNO party's use of large sums of timber money in campaigns:

Sabah's first general elections . . . became the first of Sabah's legendary 'money' elections with campaigners touring the state laden down with large satchels of crisp new ringgit to hand out to potential voters. . . . The expenses for the USNO campaign ran into millions of ringgit and the money had to be found somewhere. The obvious target were the Chinese businessmen, the towkays, many of whom were becoming fabulously rich on timber money. Although the politicians awarded many of the timber licenses to companies or cooperatives controlled by themselves, the Chinese middlemen who got the timber felled, shipped out and sold were also making millions of ringgit. It was bonanza time, and the Chinese towkays were told in blunt terms that if they wanted the good times to keep on rolling after the elections they had better contribute to the election campaigns (Raffaele 1986: 158).

Harris's biography also criticized Tun Mustapha for using timber money for excessive personal expenditures:
The Tun, his pockets bulging with Sabah timber money, was drawn to the lights of London and Beirut and he began to lavish large donations on his favourite casinos. The Tun purchased a gentlemen's estate in England complete with an attached nine-hole golf course, and lived the life of the landed gentry far from the dirt poor longhouses of his state (Raffaele 1986: 172-173).

Continuing in that vein, Harris's biography accused Tun Mustapha of using state timber money to take a new Australian wife, and provide for her family.

Tun Mustapha had married a 21-year-old Australian shop-girl named Helen Moore. The Tun had purchased a million dollar palace on Queensland's racy Gold Coast to house his new bride. Moreover he had brought the venetian blind factory where Miss Moore's father worked as a labourer and made him a director of the company and he had taken over the lawn mower business where her brother worked as a labourer and made him the manager. He had done this with money that had come, albeit legitimately, from the timber forests of Sabah (Raffaele 1986: 210).

As Harris's Berjaya party's 1975 campaign against Tun Mustapha heated up, a critical campaign issue was Tun Mustapha's misuse of Sabah's timber rent.

On August 3rd, the Daily Express ran an evocative cartoon of Mustapha squeezing dollars notes out of a map of Sabah with one hand while stuffing a wad of bank notes into the ample bra of a blonde beauty seated by a swimming pool in a palace with a VIP jet flying overhead.

Over to one side, a starving Sabah kampung dweller dressed in a skimpy sarong looked on with a miserable glare. In the same edition, the paper carried a long list of timber concessions that allegedly revealed how Mustapha had carved up a significant part of the state's most valuable natural resources for himself and his followers.

There was Rahsna, a company under the control of Datuk Mohd. Ali Tan, a friend who was born in Indonesia. It received a mammoth 700 square miles; Chenderamata got 250 square miles; Pan Borneo another 250 square miles and so on. In all 1,550 square miles of timber licenses were listed (Raffaele 1986: 217-218).

Years after he had come to power, a feature article on Harris in the Far Eastern Economic Review confirmed that Mustapha had given massive numbers of timber concessions to his political supporters, while Harris had revoked many of those timber
concessions:

During the . . . regime of Tun Mustapha, about 4.6 million acres [1.8 million hectares] were handed over to political supporters. Once in power, Berjaya repossessed 810,319 acres [319,023 hectares], withdrawing the licenses because they were in breach of the conditions of their licenses (FEER 1980: 26).

I was quite impressed with this fact. When I met Harris I asked him whether it was true that, shortly after he came to office, he had revoked concessions and, if so, to whom those concessions had previously been licensed. Harris told me he canceled a large number of concessions that had belonged to "twenty to thirty friends of Mustapha" (1 and 2 October interviews with Harris Salleh).

More than a decade after Harris had left office, his political appointees still brandished reformist rhetoric. William Shim, appointed to oversee the handing out of all timber concessions in the state, told me, "We reckon that our forests are God's gift to Sabah, not the timber companies" (4 October 1996 interview). In short, although I realized that Harris had some ties to the timber industry, it seemed that he was less interested in appropriating timber rent than his predecessor.

After nine years in office, Harris was defeated by Joseph Pairin Kitingan's Parti Bersatu Sabah (PBS), an indigenous peoples' party with reformist trappings. Upon coming to power, Kitingan promised to take steps to conserve the state's dwindling timber reserves: "The new Sabah government . . . will 'stop wasting Sabah's resources,' said Kitingan with particular reference to the indiscriminate felling of timber" (FEER 1985d). Five years later, the same publication recalled that "the rise to power of the Parti Bersatu Sabah in 1995" was made possible in part by "Pairin's election pledge to clean up the state" (FEER 1990a).
There was at the time evidence of good, or at least better, government under the PBS. In a home-grown Peace Corps, hundreds of idealistic PBS youth moved from urban areas to live, work and promote economic development in remote Sabah villages. In contrast to Harris Salleh's mega-projects, one observer found in the PBS's small grassroots projects evidence of its commitment to the rural poor.

The PBS' strength lies in its small-scale rural development programmes which enhance its grassroots support, opposition politicians concede. Its predecessor in government, Berjaya, has also emphasized development but had preferred large and often ostentatious projects. Under Berjaya, each assemblyman was allotted RM50,000 [$20,000] a year for village development and small rural projects; the PBS has raised this to RM250,000 [$100,000], which when added to funding for state and federal government projects, comes to RM5 million [$2 million] per constituency each year (FEER 1989a: 28).

The Kitingan government had an almost mystical loyalty from the Sabah electorate. Even some of the state's best-informed citizens continued to believe in Kitingan's administration in spite of growing evidence of corruption. To me, the fact that five years after coming to power Kitingan's younger brother, Jeffrey, was arrested and held without trial by the federal government on corruption charges under the Internal Security Act, while Kitingan himself had been subpoenaed on corruption charges, appeared to be less proof of guilt than evidence of their being scapegoated as revenge for taking part in a national movement to unseat Malaysian Prime Minister Mahathir when, in 1990, the PBS withdrew its support from the Barisan Nasional. As one Sabahan put it, "The government is trying to force our chief minister to resign, but to us he is a hero" (FEER 1992d). Even after Kitingan was found guilty of corruption, I assumed that he was being punished for his disloyalty to Mahathir. Because Kitingan continued to be so popular
with the people, I thought it unlikely that he had been stealing their resources. A press account "pointed out that 2,000 supporters, some of whom wept openly after the guilty verdict, surrounded the Kota Kinabalu courthouse for the announcement" (FEER 1994a).

After Kitingan was forced from power, another press account reported:

One night in September, Datuk Joseph Pairin Kitingan slipped quietly into a crowded football stadium. . . . But Kitingan, former chief minister of the East Malaysian state, couldn't stay incognito long. Learning he was in their midst, the 6,000 spectators at the stadium rose to give him a standing ovation. The incident said much about how Sabahans feel about Kitingan, paramount leader of the Kadazan people who form 40% of the local population - the largest strand in Sabah's ethnic fabric (FEER 1994e).

In short, I was taken in by the reformist rhetoric which Harris and Kitingan had deployed so successfully as candidates and office holders. It would seem to involve too much political vulnerability for Harris and Kitingan to denounce timber corruption while practicing it.

A final factor that seemed to vindicate Sabah's leaders of ties to the timber industry was that, in contrast to Indonesia and Sarawak, a majority of Sabah's timber resource was controlled not privately but by the state-owned Sabah Foundation. I believed that forests under government control would be safer from predation than forests managed by private timber concessionaires. The World Bank had given high marks to the Sabah Foundation. In an otherwise hard hitting report, which the Malaysian government suppressed, the Bank praised the Sabah Foundation, observing, "In Sabah, parastatals . . . appear powerful and well managed" (World Bank 1991h: 22). The Far Eastern Economic Review, too, suggested that the appointment of Jeffrey Kitingan, younger brother of Joseph Pairin Kitingan, to head the Sabah Foundation was driven by meritocratic considerations:

"[Jeffrey] Kitingan had been appointed director of the Sabah Foundation in 1985 by its
outgoing director. . . . A promising young civil servant with a Ph.D. in international
affairs, [Jeffrey] Kitingan was an eminently qualified candidate” (FEER 1990a).

A factor that might have helped the Sabah Foundation resist predation by the state's
leaders was that it had a 100-year license to the forest lands under its control. A head of
state could not threaten it with non-renewal as a way of extorting rent. The Sabah
Foundation's century license contrasted with those of the state's private timber
concessionaires, whose licenses mostly ran one to five years. With such short tenures, it
seemed private concessionaires would be more susceptible to predation because they
relied on the favor of rulers to obtain new short term licenses, which usually had to be
bought. With a majority of timberlands in state hands, there seemed to be fewer
opportunities for unscrupulous chief ministers.

The longer I spent in Malaysia and Sabah, the more I realized that my initial
assumptions were wrong. Harris and Kitingan, the former chief ministers, did in fact have
substantial personal financial ties to the timber industry. The Sabah State Librarian told
me that Harris had one or more Swiss bank accounts to which he expatriated timber rent,
while the Kitingan brothers hid timber money in Hong Kong (30 September 1996
interview with Adeline Leong). Kitingan's wife also has reportedly has substantial
holdings in a Channel Islands bank (1 October 1996 interview with a knowledgeable
Sabah-based source). As Raphael Pura put it, "Once each of Sabah's chief ministers
assume office, they simply became new crooks" (26 June 1996 interview).

The Sabah Foundation, far from insulated and autonomous, was controlled by
successive chief ministers who used it to satisfy financial and patronage ends. Sabah, as
it turned out, captured timber rent capture just as poorly as Indonesia and Sarawak.
Sabah's concessions are mapped in Figure 5.1 on the next page, and major timber conglomerates are listed in Table 5.2 following that.
Table 5.2  Sabah’s top timber concession holding groups, 1996

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Name of timber conglomerate</th>
<th>Senior figure(s) or parent organizations</th>
<th>Hectares</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sabah Foundation</td>
<td>Sabah government</td>
<td>985,679</td>
<td>Sabah Forest Department 1996a</td>
</tr>
<tr>
<td>2</td>
<td>Sabah Forest Industries</td>
<td>Sabah government</td>
<td>288,623</td>
<td>Sabah Forest Department 1996a</td>
</tr>
<tr>
<td>3</td>
<td>Sagisan</td>
<td>Idris Hydraulic</td>
<td>167,326</td>
<td>D&amp;C Mitsui Merchant Bankers 1991</td>
</tr>
<tr>
<td>4</td>
<td>Lee Kang Yu family</td>
<td>Lee Kang Yu</td>
<td>80,410</td>
<td>Sabah Forest Department 1996a</td>
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<td>5</td>
<td>KTS</td>
<td>Lau Hui Kang</td>
<td>57,240</td>
<td>Sabah Forest Department 1996a</td>
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<tr>
<td>6</td>
<td>KPSD</td>
<td>Hwong You Chuang</td>
<td>50,000</td>
<td>Cheong 1995: 256</td>
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<td>7</td>
<td>Wee Boon Ping family</td>
<td>Wee Boon Ping</td>
<td>46,619</td>
<td>Sabah Forest Department 1996a</td>
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<td>8</td>
<td>Makmuran</td>
<td>Pang family</td>
<td>45,805</td>
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<tr>
<td>9</td>
<td>Wong Chik Lim family</td>
<td>Wong Chik Lim</td>
<td>37,200</td>
<td>Sabah Forest Department 1996a</td>
</tr>
<tr>
<td>10</td>
<td>Tekala</td>
<td>Quek, Fung, Chan, and Seah families</td>
<td>32,131</td>
<td>Malaysia Registry of Companies</td>
</tr>
<tr>
<td>11</td>
<td>Usahara</td>
<td>Inchape/SKT</td>
<td>22,085</td>
<td>Sabah Forest Department 1996c: 5</td>
</tr>
</tbody>
</table>
Although I initially believed that Harris Salleh was relatively free of ties to the timber industry, I eventually compiled staggering evidence to the contrary. For example, Peter Lo, who had served as one of Sabah’s first chief ministers in the mid-1960s, was explicit about the fact that all three of Harris’s main timber associates, Wee Boon Ping, Wong Chik Lim and Lee Kang Yu, were rewarded with timber concessions in exchange for funneling money to Harris and his political allies after, and in some cases even before, Harris assumed the chief ministership (27 June 1997 interview). Asgari Stephens, the youngest son of Fuad Stephens, the Sabah chief minister whose death caused Harris to replace him, told me that Harris had taken over "about half" of the timber concessions he confiscated from Tun Mustapha (20 September 1996 interview). These allegations were confirmed by examining the equity and managerial positions held by Harris associates in timber concessions awarded during his term in office.

Lee Kang Yu

As Harris tells it, it was while he was a member of the Tun Mustapha cabinet that he established a business relationship with Lee Kang Yu. In fact, after the first of three resignations from Tun Mustapha's cabinet, Harris began his business partnership with Lee, who operated a 5,000 hectare timber concession that had been jointly awarded to Harris and five other cabinet members during the first 1963-64 term of Chief Minister Fuad Stephens (3 July 1997 interview with Harris Salleh).

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131 Harris served as finance minister in the cabinet of Tun Mustapha (1967-1976), a position from which he resigned three times, in the final instance to join the Berjaya party and support Fuad Stephens’s successful run for the chief ministership in 1975. When Stephens and most of his cabinet died in a plane wreck a few weeks after their electoral victory, Harris assumed the chief ministership of the state for the next nine years.
Lee's fortunes rose further after Harris, assuming the chief ministership in 1976, instituted the ABC scheme. This scheme took some of the private timber licenses that had been initially been awarded to Harris’s predecessor, Tun Mustapha, and redistributed them to thousands of Harris supporters. Those in the A category received 3,000 hectare blocks of forest, the B category received 500 hectare blocks of forest and the C category received $20,000. Once Harris's ABC scheme went into place, a large number of the new recipients of timber licenses sold them outright to Lee Kang Yu. Titles to two ABC-turned-Lee Kang Yu concessions, in turn, were eventually transferred to Harris. The first was the Air Pasang concession, 12,000 hectares in size, purchased by Lee from various ABC recipients at the price of RM18 million ($6.8 million). After the most suitable portions of this concession had been harvested, it was then converted into Harris's current 3,200 hectare Boonrich Estates and planted in teak and oil palm. Another of Lee Kang Yu's former concessions was converted into Harris's Sejati teak plantation (3 July 1997 interview with Harris Salleh). I visited both plantations with Harris.

The relationship between Harris and Lee Yang Yu was not limited to the plantations mentioned above. One informant reported that Lee was granted a forest concession area stretching along Sabah’s southeastern border with Indonesia, known during the Berjaya period as the "Salleha" concession (29 June 1997 interview with James Glyn). According to Forest Department maps and documents on file with the Malaysia Registry of Companies, there is no Salleha concession. However, the easternmost of three

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132 Harris said two members of his cabinet, Lim Guan Sing and James Ongkili, also took a five percent cut from these awards "to cover administrative costs" (3 July 1997 interview).
concessions stretching along Sabah’s southeastern border with Indonesia is licensed to the Lee family's Stanchart Corporation.

Rudy Kinajil, former President of the Sabah Sawmiller's Association, confirmed aspects of the story, saying that Harris and the Lee family held a timber concession that straddled Sabah's border with Indonesia, with roads running from Malaysia two kilometers into Indonesia. The Lee family concession removed logs from Indonesia as a matter of course, and was able to do so by maintaining good relations with senior Indonesian military figures (17 June 1997 interview with Rudy Kinajil). In Indonesia, directly across the border from the Lee’s Stanchart concession, is the Yamaker concession. Yamaker is the abbreviated name of the license holder, the Indonesian Department of Defense foundation Yayasan Maju Kerta. M. Kuswanda, the senior International Tropical Timber Organization official in Indonesia, told me that the Yamaker concession regularly smuggles logs into Sabah (17 November 1995 interview with M. Kuswanda).

When asked about this, Harris Salleh admitted that the Lee family had a company called "Salleha," but that this was not a group of timber concessions but rather a timber contracting company. Harris claimed no conflict of interest existed, as he divested from all Lee family enterprises once he became chief minister, because it would have been "too complicated for tax reasons" to remain part of the enterprises (3 July 1997

133 I asked Harris why the company was called Salleha, and he said, "I don't know. Salleha is some type of woman's name." I took a deep breath, and tried to ask lightly, "Doesn't 'Salleha' sound like your name, with the last name in front of the first name, and the first name missing its last four letters, you know, as in 'Salleh, Ha____'?” Harris replied evenly, but with a slight edge to his voice, “Look, I don't know how they named the company." I decided not to follow that line of questioning any further.
interview with
Harris Salleh). The Lee family is still the second largest private timber concession holder in Sabah today, with three concessions spread across almost 80,000 hectares.\(^{134}\)

**Wee Boon Ping**

Former Sabah Chief Minister Peter Lo described timberman Wee Boon Ping’s dependent relationship with Harris Salleh: “Wee Boon Ping would be nothing without Harris” (27 June 1997 interview). Rudy Kinajil described Wee, who handled Sabah Kuwait Timber, as “very much a creature of the chief minister” (19 June 1997 interview). This sentiment was echoed in an interview with another informant who said that Wee and his close associate, Patrick Tan Boon Chang, were placed on the board of Sabah Kuwait Timber to look after Harris's interests (7 July 1997 interview with Ranjan Vanar). Wee's time on the board of Sabah Kuwait Timber from 1979 to 1984 coincided with Harris's term in office.

Although Sabah Kuwait Timber has been reorganized, Wee still operates a 46,919-hectare concession called Bornion Timber that was granted in 1980 during Harris’s term.

Another Harris operative is Hussein Wahid Dally, who is a board member of Bornion Timber. A case is still pending against Hussein for inciting riots to protest Harris's defeat in the 1985 elections (19 June 1997 interview with Rudy Kinajil). In addition to being “a Harris man" (27 June 1997 interview with Peter Lo), Hussein Wahid Dally is also believed to be a proxy for a former member of Harris’s cabinet, Majid Khan.\(^{135}\)

\(^{134}\) The family's three concessions are Bugaya (35,950 hectares), Stanchart Corporation (23,310 hectares) and Feature Enterprise (21,150 hectares).

\(^{135}\) Khan’s loyalty to Harris is such that when Harris lost the 1985 elections (obtaining only six seats), Khan and the heads of the other losing parties (who between them had won another 14 seats) drove to the governor’s
Harris granted Wong one of only two or three licenses for barter trade with the Philippines, through which Wong became personally wealthy. Having proved his acumen in carrying out restricted trading schemes, Harris put Wong in control of a timber shipping monopoly called Dewaniaga Shipping (7 July 1997 interview with Ranjan Vanar). Dewaniaga contracted to Archipelago Shipping, 75 percent owned by Datuk Samad, a longtime Harris business associate. Archipelago Shipping, in turn, designated a Hong Kong firm called Mawa Shipping to receive between $300,000 and $800,000 a month in payments from a Japanese shipping cartel, called the "Nanyozai Freight Agreement," in exchange for its exclusive right to carry Sabah logs to market, mostly in Japan (AWSJ 1989). In short, Harris gave Wong the monopoly on shipping timber, which Wong sold the Japanese in exchange for a large monthly payment that presumably went mostly to Harris (see Table 5.4 below). Funds from Archipelago Shipping were reportedly used by Harris to pay the king of Malaysia's debts from a gambling trip to London with Wong Chik Lim and Majid Khan.136 137

According to the story, in 1983 the former king (Agong) had just completed the haj (the holy pilgrimage to Mecca). Adherents of Islam are required to undertake the haj once in their lives, if they are financially and physically able, and spiritually prepared. Upon completion of the haj, Wong Chik Lim and Majid Khan who had flown in on a Sabah government jet picked up the Agong in Saudi Arabia. The three then flew to London to gamble. The Agong proceeded to run up $1.2 million in losses, which he was unable to pay back. Harris ordered that the Agong’s debt be paid off with the profits from Archipelago Shipping. Prime Minister Mahathir caught wind of this, and was reportedly so angered that he insisted that the Agong agree to a law, passed later that year, which limited the power of Malaysia's royalty. The source for this

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Harris also reportedly parcelled out concessions to Malaysian royalty. According to Ben Stephens, who ran the Sabah Foundation during Harris's administration, a conference was held in Sabah to which all of Malaysia's royalty were invited. Harris gave each sultan approximately 10,000 hectares of timber and assigned a senior Sabah Chinese timber businessmen, one to each sultan (11 October 1996 interview with Ben Stephens).

**Joseph Pairin Kitingan, PBS government, 1985-1994**

When the opposition Parti Bersatu Sabah (PBS) overwhelmingly defeated Harris's Berjaya party in 1985, many breathed a sigh of relief. Kitingan and many of his party stalwarts belonged to the Kadazan, the state's largest ethnic group. Because the PBS campaigned on reform, even hardened political observers believed that the excesses characterizing the previous government would not be repeated.

The PBS government seemed relatively free from ties to the timber industry that had characterized other governments in Indonesia and Sarawak and even Sabah. Though Kitingan had been accused of using his office to enrich himself, his family and his friends with timber rent, these abuses were only alleged on a minor level. For example, as early as 1991 it was reported that:

Kitingan was charged on three counts of corruption involving RM12 million ($4.8 million). According to Anti-Corruption Agency investigations, his relatives were among the beneficiaries of these contracts, awarded in 1985 soon after he came into office, and in 1986 and 1987. [One] charge claimed Kitingan gave a 2,000-hectare timber concession to a 10-member group, some of whom were his relatives (FEER story insisted that it not be attributed to him, as doing so would put him in great danger. The story was confirmed by a Sabah journalist, who described it as "an open secret" (23 February 2001 interview with a Sabah journalist).

138 Each of Malaysia's provinces is nominally run by a figure from Malaysia's royalty. In all but four provinces, the senior figure from the royalty is known as a sultan.
1991a).
Notwithstanding these reports, the federal Anti-Corruption Agency investigation could be explained as punitive, coinciding as it did with the PBS’s defection from the Barisan Nasional ruling party in 1990. Also, Kitingan's excesses seemed to pale in comparison to those of Tun Mustapha and Harris Salleh. That Kitingan had given his relatives a 2,000 hectare timber concession seemed relatively minor in comparison to, for example, Indonesia, where single timber concessions 100 to 200 times that size were regularly given out by the president to his family and close friends.

However, upon my arrival in Sabah, an analysis of private timber concessions larger than 5,000 hectares in size revealed that Kitingan did, in fact, have personal ties to concession holders. These ties are outlined below.
Table 5.3 Associates and relatives of Joseph Pairin Kitingan, and PBS figures, with managerial and equity positions in private Sabah timber concessions

<table>
<thead>
<tr>
<th>Parent company: name and size of timber concessions</th>
<th>Name of board member or shareholder</th>
<th>Position in or percentage of shares held in company</th>
<th>Relationship to former Chief Minister Kitingan, source of information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sagisan concessions: Sabakina, 65,600 hectares; Bintang Tawau, 47,390 hectares; Tenju, 38,026 hectares; Resolute, 16,310 hectares</td>
<td>Sari Tan</td>
<td>Former director in the three largest of the four Sagisan concessions, former 60 percent shareholder in Sabakina, the largest</td>
<td>Sari Tan is a political chameleon. He was previously a supporter of Harris Salleh's Berjaya government (5 July 1997 interview with Ranjan Vanar), and before that was an &quot;USNO character&quot; (3 July 1997 interview with former Chief Minister Harris Salleh), and later defected to the post-PBS Barisan Nasional governments. Nevertheless, Sari Tan managed, for a time, to put himself sufficiently into the PBS's good graces that they awarded him the largest group of private timber concessions in the state.</td>
</tr>
<tr>
<td>Sagisan concessions: Tenju, 38,026 hectares</td>
<td>Henry Kong Kwok Yeng</td>
<td>Former director</td>
<td>Political “fixer” and “Kitingan nominee” (19 and 31 June 1997 interviews with C.C. Pung).</td>
</tr>
<tr>
<td>KTS group: KTS Plantations, 57,240 hectares</td>
<td>Henry Kong Kwok Yeng</td>
<td>Director, 15 percent shareholder</td>
<td>Political “fixer” and “Kitingan nominee” (19 and 31 June 1997 interviews with C.C. Pung).</td>
</tr>
<tr>
<td>Kilang Papan Seribu Daya (KPSD) group: 50,000 hectares</td>
<td>Hwong You Chuang</td>
<td>Chairman, holder of 14% of shares (KPSD 1996: 48)</td>
<td>Hwong had excellent political ties under the PBS. He was close both to Kitingan's wife, and to Henry Chin, Sabah's Police Commissioner. Hwong's political ties allowed him to operate as a &quot;major illegal logger&quot; (16 October 1996 interview with a knowledgeable Sabah based source). The latter point was confirmed later in the day, in an interview with a senior member of the firm Innosahab Securities, who described Hwong as a &quot;a gangster&quot; involved in illegal logging.</td>
</tr>
<tr>
<td>Parent company: name and size of timber concessions</td>
<td>Name of board member or shareholder</td>
<td>Position in or percentage of shares held in company</td>
<td>Relationship to former Chief Minister Kitingan, source of information.</td>
</tr>
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<td>-------------------------------------------------</td>
</tr>
<tr>
<td><strong>No group:</strong> Atlantis Holdings, 12,100 hectares</td>
<td>Hu Chang Lik, former Municipal Councilor in the city of Sandakan representing PBS</td>
<td>Former director</td>
<td>A &quot;rough fellow&quot; who is &quot;famous in stealing logs.&quot; During the PBS years, the Department of Forestry caught Hu Chang Lik stealing 1,700 logs. But he was not prosecuted. The rumor at the time was that he paid RM6 million ($2.4 million) to Kitingan to avoid prosecution (12 July 1997 interview with Fung Ket Wing).</td>
</tr>
<tr>
<td><strong>No group:</strong> Atlantis Holdings, 12,100 hectares</td>
<td>Chua Seik Kwang, Teochew trader</td>
<td>Former director</td>
<td>Linked to PBS and Sabah Foundation (12 July 1997 interview with Fung Ket Wing).</td>
</tr>
<tr>
<td><strong>Inchcape/SKT group:</strong> Suwiri, 5,665 hectares</td>
<td>Joan Maluda</td>
<td>Director starting in 1991</td>
<td>Wife of Maximus Ongkili, the PBS’s “party intellectual” (20 June 1997 interview with Symphrosa Kasun). Sister to John Maluda, the corporate secretary for Innosabah Corporation, which now technically owns the Sabah Foundation (7 July 1997 interview with Ranjan Vanar).</td>
</tr>
<tr>
<td><strong>Inchcape/SKT group:</strong> Suwiri, 5,665 hectares</td>
<td>Yunof B. Meringking</td>
<td>55 percent shareholder until 1990, and director until 1991</td>
<td>Kitingan’s attorney (Borneo Post 1997a).</td>
</tr>
<tr>
<td><strong>Inchcape/SKT group:</strong> Suwiri, 5,665 hectares</td>
<td>Vincent Gadalon and Jenah Anak Maong</td>
<td>Directors (resigned in 1989), but Jenah assumes 22 percent of shares in 1991</td>
<td>The former head of the log marketing unit of the Sabah Foundation, and his wife (20 June 1997 interview with Symphrosa Kasun).</td>
</tr>
</tbody>
</table>
Sabah Kuwait Timber (SKT), the Sabah affiliate of the international timber company Inchcape, is the timber concession holder that seems to best illustrate the ability of timber concessionaires to survive multiple political transitions. SKT has done this by consistently allowing the nominees of a succession of Sabah chief ministers to hold managerial and equity positions in its concessions, or its timber contracting companies, and through these nominees delivering rent to the leaders. Under the government of Harris Salleh, Wee Boon Ping sat on the board of Sabah Kuwait Timber from 1979 to 1984. As Table 5.3 above shows, SKT then used its concession Suwiri to deliver rent to the Kitingans through Joan Maluda, Yunuf Meringking, Vincent Gadalong, Jena Anak Maong, and Daniel Lungkiad. With the fall of the Kitingans from power in 1994, SKT kicked all PBS members off the board of Suwiri, until by 1997, three years after the Kitingan’s fall from power, the sole remaining shareholder of Suwiri was Sabah Kuwait Timber. Once the dust had settled, SKT then proceeded to reappoint a new series of individuals to the board of another of its timber companies, Usahara, which has contracts to log in Sabah Foundation forest areas. Most of the new individuals appointed to the board have ties to UMNO, the dominant party in the Barisan Nasional, which had provided financial subvention to unseat the Kitingans. UMNO-linked individuals appointed by SKT to the board of Usahara can be seen in Table 5.7, further on in this chapter. In short, Sabah Kuwait Timber managed to reinvent itself to satisfy three administrations. With respect to the survival of SKT under successive leaders, C.C. Pung said that this “is the norm” (31 June 1997 interview).
While Kitingan’s personal ties to private timber concessions provide evidence of his unofficial appropriation of timber rent, the real excesses of his administration, surprisingly, were its extraction of rent from state-owned timber companies. It had been assumed that the government’s ownership of the largest block of forest concession area, under the auspices of the Sabah Foundation, would insulate that area of forest from predatory demands. However, the Sabah Foundation, far from being insulated from Chief Minister Kitingan, was thoroughly dominated by him through his younger brother, Jeffrey, CEO of the foundation.

From the late 1980s to the mid-1990s, Jeffrey Kitingan was repeatedly incarcerated, or held under house arrest, by the national government, and was investigated for 19 counts of corruption related to his position at the head of the Sabah Foundation. However, with the jailing of former Deputy Prime Minister Anwar Ibrahim, it was established that Prime Minister Mahathir is not above manufacturing charges against his political opponents.

However, on trips to Sabah, it became increasingly clear that however politically motivated the corruption investigation of the Kitingan brothers may have been, the allegations turned out to be true. A former runner for Jeffrey Kitingan, who took payments of various types from timber companies and deposited them in Jeffrey's bank account, estimated that Jeffrey had appropriated on the order of RM500 million ($200 million) in timber rent during his tenure as head of Sabah Foundation (11 October 1996 interview with John Stephens). Another informant, a friend of Jeffrey’s, estimated that Jeffrey's personal wealth from his nine years at the helm of the Sabah Foundation was on the order of one billion dollars (20 June 1997 interview with Symphrosa Kasun).
The one billion dollar figure conforms with the finding of an unreleased study conducted by Price Waterhouse at the request of the Malaysian Prime Minister, that suggests that $1.6 billion in timber rent had disappeared from Sabah Foundation coffers during the Kitingan administration (Reuters Asia Pacific Business Report 1994).

For an anatomy of how rents are appropriated from state-owned forestry companies, the contents of the Price Waterhouse study are instructive. This study found that the Sabah Foundation drastically undercharged three pairs of log extracting/marketing contractors. Although the study does not say whether the companies who had been undercharged paid kickbacks to the Kitingan brothers, or were owned by the Kitingan brothers, there is a clear suggestion of impropriety. Using the report as a springboard for investigation, it was discovered that several of the contractors named in the report are still owned by friends and associates of the Kitingans.

It was found that under Jeffrey Kitingan, the Sabah Foundation failed to officially collect timber rent from two\(^{140}\) of the three pairs of contracting companies by allowing them to:

- underdeclare the amount of logs they exported, and by delaying its collection of payments from the companies, resulting in the loss of over $200,000 in 18 months;
- fix prices of logs at below market levels, resulting in the loss of $64 million in eight years;
- eventually stop payment to the foundation altogether, resulting in the loss of eight million dollars in four years.

All four of the companies are PBS-affiliated, according to documents on file with the

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\(^{140}\) The four companies had contracts to log 36,000 hectares or about 3.6 percent of the Foundation’s total timber holdings (Price Waterhouse Undated a: 3-6).
Malaysia Registry of Companies. With respect to the first pair, Chung Chao Lung Timber was run by Madam Helena Chung Tshin Loi, a director and 20 percent shareholder, and wife of Sun Tun, an important Sino-Kadazan figure in the PBS (12 July 1997 interview with Fung Ket Wing). The Sri Padas timber company also had PBS ties: a director of the company is Zulkifli Arow, the brother of Mongo Arow, a PBS parliamentarian (8 July 1997 interview with a knowledgeable Sabah-based source). The second pair of companies, Ritai and Harapan Permai, are both affiliates of the Sabah timber conglomerate Tekala (see Table 5.3), a PBS company with Kitingan proxies and a Kitingan family member holding managerial and equity positions in key timber concessions.

The Price Waterhouse report also found that the Sabah Foundation grossly undercharged a third pair of logging contractors/marketers: Abadi Mehwa and Golden Apex. The report notes, "the RM10 ($4) per cubic meter flat rate sale arrangement in the Golden Apex/Abadi Mehwa contracts has not worked in favour of [the Sabah Foundation]. That arrangement has cost [the Sabah Foundation] an estimated minimum RM53.7 million ($21 million) in lost profit" (Price Waterhouse Undated a: 1). The report reiterates that the Foundation obtained “a net flat rate of RM 10 ($4) per cubic meter versus net returns of RM40.36 ($16.14) per cubic meter in 1991 to RM91.36 ($36.54) per cubic meter in 1994 from sales to other parties resulting in an estimated loss [to the Foundation] of RM53.7 million ($21 million) on approximately 807,000 cubic meters of logs sold" (Price Waterhouse Undated d).142

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141 Price Waterhouse refers to the company by its old name, Sri Padas, although in fact the company has been called System Group Properties since 1983.
142 The findings of the Price Waterhouse report were verified in various other documents. For example, in a letter signed by Jeffrey Kitingan, a copy of which I obtained, he wrote to the director of Abadi Mehwa, "The flat rate charged will be RM10 ($4) per cubic meter . . . until further notice" (Innopris Corporation 1990). A copy
Abadi Mehwa and Golden Apex are PBS companies. Abadi Mehwa is controlled by Hong Chun Lip, a founding director, 50 percent shareholder and former PBS politician (28 June 1997 interview with Iskandar Syam). Hong was reportedly driven to join the PBS because, after he gave Harris a substantial bribe for a particular timber concession, Harris failed to turn it over to him. Hong then joined the PBS to get revenge on Harris (12 July 1997 interview with Fung Ket Wing). The other 50 percent shareholder in Abadi Mehwa is Chin Chee Kiong, also described as a former PBS politician (28 June 1997 interview with Iskandar Syam). As to Golden Apex, it is one-third owned by Abadi Mehwa, and to that extent reflects the shareholding structure of that company.

Separately obtained documents show additional evidence of below-market timber sales by the Sabah Foundation to other companies. For example, a plantation enterprise that is majority-owned by the foundation, Sabah Softwoods, entered into below-market timber sales to Tawau Resources and Syarikat Mirad Kito. Sabah Softwoods allowed these two companies to relog the entire 60,000 hectares of its (formerly) natural forests at below-market prices.

As to Tawau Resources, a 1989 relogging agreement issued by Sabah Softwoods gave it access to “all portions which are unplanted and contain some volume of commercial standing timber of native species. The contractor shall pay [Sabah Softwoods] for the logs . . . a flat rate of RM10 ($4) only per cubic metre regardless of grades and species” (Sabah Foundation 1989).
Five years later, on 5 March 1994, only days before the Kitingans were forced from office, they issued a second below-market timber sale agreement with Syarikat Mirad Kito for the same lands. 27,000 hectares remained to be cleared, and the agreement stated that, "The Contractors shall pay to the Company for the logs . . . a flat rate of RM4 ($1.60) only per cubic metre regardless of grades and species" (Sabah Foundation 1994: 4).

Under normal circumstances, if the PBS had subcontracted out the logging of the Sabah Softwood concession at normal prices, instead of the grossly below-market prices enjoyed by Tawau Resources and Syarikat Mirad Kito, it still would have been immensely profitable for the two companies. Recipients of normal relogging contracts typically subcontract out at between RM100-200 ($40-80) per hectare, according to the PBS's ‘party intellectual’ (23 July 1997 interview with Maximus Ongkili). Thus, to take the examples of Tawau Resources and Syarikat Mirad Kito, where about 30,000 hectares were relogged by each company, if the two licensees had done no work at all, they still would have earned between them a profit of 1.2 to 2.4 million dollars. However, in this particular instance, the two companies' profits would have been much higher, as they had the additional benefit of being charged low (close to zero) prices for the wood they were permitted to remove from forests belonging to Sabah Softwoods.

Tawau Resources and Syarikat Mirad Kito are PBS companies. Tawau Resources is 80 percent owned by John Nip Wing Hon, whose connections to Jeffrey Kitingan include his reportedly having paid RM1 million ($400,000) in bail for Jeffrey Kitingan during the anti-corruption investigations (19 June 1997 interview with Rudy Kinajil). As for Syarikat Mirad Kito, its director Martin Idang is related to Kitingan. Martin’s law firm, until

Berjaya 1990: 3).
recently called Martin Idang Rantau Allion Mahap and Company, represents Jeffrey Kitingan. Maijol Mahap, a partner in the same law firm, is also a director of Syarikat Mirad Kito (17 June 1997 interview with Symphrosa Kasun).

Thus, four pairs of companies, all run or owned by proxies of the Kitingan brothers or proxies of senior figures within the PBS party, were able to appropriate enormous amounts of rent by entering into preferential pricing arrangements with the Sabah Foundation during the Kitingan administration. This is one example of how the Kitingans used state-owned timber enterprises to appropriate rent.

Another state-owned company, Sabah Forest Industries (SFI), controlled the state’s second largest timber concession, and a small pulp mill, and was under the leadership of a former Kitingan man, Clarence Bongkos. A former employee of the company told me that Bongkos banked 90 percent of the company’s profits in his personal accounts, all while declaring on paper that the company was running losses of RM100 million ($40 million) annually. Bongkos blamed these losses on pulp mill inefficiency. In reality the company was still profitable because of its substantial export of logs. Moreover, even if the company had exported fewer logs (and actually conformed to the approved cutting plans of the Sabah Forest Department) it still would have been profitable despite the losses from its pulp mill.

Bongkos also underpaid the logging contractors who supplied SFI's mill. He told contractors that they could recoup their losses through illegal logging, which they did. As a result, the quality of SFI’s concession declined precipitously during the PBS years. I asked my informant why Chief Minister Kitingan did not fire Bongkos from SFI, given his bad forest management practices. The informant explained that Kitingan himself was being paid
off with 5 percent of the taking, with another 5 percent going to the PBS. In addition, Bongkos, as deputy president of the PBS, was a popular figure, and Kitingan did not want to have to explain to PBS rank and file why he had gotten rid of him (3 July 1997 interview with Lao Siew Chang).

The World Bank corroborated the fact that SFI was mired in debt, noting that “it has been unable to service its full debt and will need restructuring to become a viable enterprise.” The Bank also noted the company’s bad forestry practices, pointing out that "a block of 40,000 hectares belonging to the SFI concession for the most part has been clear-cut for logs and pulpwood, leaving no basis for natural regeneration" (World Bank 1991h: 28, 70).¹⁴³

Aside from appropriating rent through timber concessions licensed to private and state entities, the Kitingan brothers also appropriated rent through the timber export shipping monopoly. When Joseph Pairin Kitingan assumed power, he pledged to dismantle the Archipelago Shipping monopoly of Harris Salleh. But Jeffrey Kitingan merely replaced it with a new shipping monopoly from which he took substantial payments, just as Harris had done. In addition, Archipelago Shipping, in a bid to stage a comeback, began to provide payments to Jeffrey Kitingan. In the end, the Archipelago Shipping monopoly paid more than the new monopoly and regained its position.

In an odd twist, the bribes paid to Jeffrey Kitingan by the old and new shipping cartels were both orchestrated by Harris Salleh's former representative in Archipelago

¹⁴³ Interestingly, the Sabah Foundation also ran losses, though the World Bank failed to mention those losses in its 1991 report. In 1987, two years after Jeffrey Kitingan had taken over as CEO of the Sabah Foundation, all assets were transferred to Innoprise Corporation, which for the balance of the Kitingan administration ran losses due, according to one informant, to the fact that Jeffrey Kitingan siphoned off so much money (12 July 1997 interview with Fung Ket Wing).
Shipping, Wong Chik Lim. Wong put together what Raphael Pura described as a “double sting” on the Kitingan brothers by secretly arranging that bribes would be paid on behalf of the old Archipelago Shipping monopoly and new shipping monopoly, Newtune Development, and then turning over all evidence of the Kitingans' receipt of both sets of bribes to the federal Anti-Corruption Agency (18 August 1997 interview with Raphael Pura). The dates of operation, subsidiaries, affiliates and levels of bribes associated with the old Archipelago Shipping and its temporary replacement are described below.

### Table 5.4 Birth, Death and Resurrection of Archipelago Shipping

<table>
<thead>
<tr>
<th>Stages</th>
<th>Birth</th>
<th>Death</th>
<th>Resurrection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presiding Chief Minister</td>
<td>Harris Salleh</td>
<td>Joseph Pairin Kitingan</td>
<td>Joseph Pairin Kitingan</td>
</tr>
<tr>
<td>Sabah Foundation Shipping Agent</td>
<td>Mawa Shipping</td>
<td>Ocean Shipping</td>
<td>PSS (reconstituted from old Mawa Shipping)</td>
</tr>
<tr>
<td>Shipping Agent owner</td>
<td>Archipelago Shipping</td>
<td>Newtune Development</td>
<td>Archipelago Shipping</td>
</tr>
<tr>
<td>Number of ships hired to transport logs</td>
<td>Nagoya Freight Agreement - 37 ships</td>
<td>47 ships</td>
<td>Nagoya Freight Agreement - 37 ships</td>
</tr>
<tr>
<td>Conduits through, and estimates of, shipping monopoly rent unofficially accruing to senior politicians</td>
<td>75 percent of shares in Archipelago Shipping held by close associate of, and presumably passed along to, Harris Salleh. Monthly earnings of $300,000 to $800,000.</td>
<td>35 percent of brokerage commissions of Ocean Shipping, 50 percent of Ocean Shipping shares, and one time cash payment of $40,000 to Jeffrey Kitingan.</td>
<td>30 percent of brokerage commissions of Mawa Shipping, 40 percent of Mawa Shipping shares, and one time cash payment of $250,000 accrue to Jeffrey Kitingan.</td>
</tr>
</tbody>
</table>

Source: AWSJ 1989b

Although the Kitingan brothers rode to power under the banner of reform, their nine year administration turned out to be as strongly characterized by the unofficial appropriation of timber rent as their predecessors, if not more so. Not only did they have
personal ties to private timber concessions, but perhaps more than the two governments before them, the Kitingans secretly emptied the Sabah Foundation of rent in myriad ways. Jeffrey Kitingan’s collecting bribes from both the existing and the prospective shipping monopolies is an example of the kleptocratic extremes to which the Kitingans went.

Former Sabah Chief Minister Peter Lo wrapped up an interview by stating, “Do you know which government was the most corrupt of them all? The PBS” (26 June 1997 interview).

**Sakaran Dandai, Barisan Nasional I, 1994-1995**

The government of the Kitingan brothers fell after almost a decade of escalating political warfare between the PBS and the federal government. Prime Minister Mahathir, never comfortable with a Kadazan party in power in Sabah, tolerated the PBS only so long as they stayed beneath the umbrella of the Barisan Nasional. However, in 1990 when Kitingan withdrew the PBS from the Barisan Nasional two weeks before a hotly contested federal election, and forged an alliance with Malaysia’s opposition parties, Mahathir was furious. It is against this background that the federally instigated series of investigations, subpoenas, and detentions of the Kitingan brothers should be understood.

As Raphael Pura put it:

Corruption alone is not enough to kill your political career in Sabah. The Kitingans signed their death warrant in 1990 when they declared independence from the Barisan Nasional. It was tremendously naïve for them to believe that they could dent Mahathir's armor. This caused Mahathir to declare never-ending war on them (26 June 1996 interview with Raphael Pura). Mahathir also had learned of a reported plan by Kitingan's younger brother, Jeffrey, to withdraw Sabah from the Federation of Malaysia. Jeffrey planned to use unofficially
appropriated Sabah Foundation timber rent to manipulate buying and selling on the Kuala Lumpur Stock Exchange to precipitate a market crisis (11 October 1996 interview with John Stephens). If Malaysia did not agree to allow Sabah to withdraw from the federation at that point, the backup plan was to use force. Sabah Foundation funds were reportedly used to provide military training to Moro mercenaries at a secret facility in the southern Philippines. These mercenaries were said to be at the ready to come to the aid of a secessionist Sabah (11 October 1996 interview with a knowledgeable source in Sabah).

In light of these developments, in early 1994 extreme measures were taken by the federal government to unseat the Kitingans and put into power the Barisan Nasional government which now rules Sabah. Of interest is the role that timber rent played in financing the downfall of the PBS, and later in rewarding those who helped finance its downfall. The names of S'ng Chee Hua and Joseph Lee, two Malaysian Chinese timber barons tapped by Prime Minister Mahathir to provide the necessary inducements to erode Joseph Pairin Kitingan’s state assembly majority and precipitate his resignation are listed in Table 5.5 below.
## Key events in removal of the PBS from power in Sabah

<table>
<thead>
<tr>
<th>Date</th>
<th>Key event</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 October</td>
<td>Two weeks before a 1990 national election, Sabah Chief Minister Joseph Pairin Kitingan takes PBS from underneath the Barisan Nasional umbrella and joins a national opposition movement. The movement was led by Tungku Razali Hamzah, who had narrowly lost in a 1987 bid to oust Mahathir from the head of UMNO. In 1990, Razali led his followers away from UMNO and they formed a group called Semangat '46. This group formed an alliance with the Chinese opposition Democratic Action Party, and the Muslim opposition PAS party, to challenge Mahathir. The Kitingan's joining this group caused Mahathir to &quot;declare never-ending war on them.&quot; The PBS's 1990 pullout deprived Mahathir's BN of 10 votes out of a total of 20 in Sabah, and out of 180 in the national parliament, crucial votes on which he had been counting (FEER 1990g: 11).</td>
</tr>
<tr>
<td>10 January</td>
<td>Joseph Pairin Kitingan dissolves the state assembly 16 months before the end of the PBS government's term. &quot;Pairin had called for the snap poll a year before elections were legally due. He did so to pre-empt the on-going constituency delineations, being carried out by the [Federal] Elections Commission, which he alleged would make it very difficult for the PBS to win future elections. Pairin had no control whatever over the new forthcoming delineations, as the Elections Commission proposal only needed to be passed through [the Federal] Parliament as it did not involve the creation of new constituencies&quot; (Malaysian Business 1995a).</td>
</tr>
<tr>
<td>20 Jan 1994</td>
<td>Governor of Sabah, Said Keruak, resigns from the PBS, and from deputy chief ministership.</td>
</tr>
<tr>
<td>18-19 February</td>
<td>A state election is held, and the PBS wins the polls by a wafer thin majority, securing 25 of the 48 seats. The federal ruling Barisan Nasional wins only 23 seats, despite an all-out campaign by then-Deputy Prime Minister Anwar Ibrahim in Sabah. &quot;Immediately after it became clear that his party had won – around 10 p.m. on Saturday, February 19 – Pairin drove to the [governor's] residence fully expecting to be sworn in. He would spend most of the weekend sitting in his Mercedes limousine, outside the gates of the residence . . . Sabah's [governor] Tun Said Keruak was said to be unwell and the next day his staffers issued a statement that the swearing-in would take place the following day, Monday. But the statement made no indication of who would be sworn in. Pairin stayed put outside the gates, apparently fearing a . . . constitutional hijack” (Malaysian Business 1994b).</td>
</tr>
<tr>
<td>Interim</td>
<td>During a one month interim, there is &quot;common speculation that UMNO [the largest party in the Barisan Nasional] lured [the PBS] men away with cash and promises&quot; (Malaysian Business 1995a). UMNO reportedly used two timber businessmen, S'ng Chee Hua and Joseph Lee, to bankroll the defection of selected PBS members. S'ng is widely viewed as a political moneyman in Sabah (23 May 1997 interview with a reliable and informed academic). Two informants said Joseph Pairin Kitingan had shown them photographs of S'ng Chee Hua, escorted by Special Branch officials, walking out of the house of a PBS assemblyman, carrying a paper sack, which Kitingan maintained was full of money, but had been turned down by the PBS assemblyman in the house (16 June 1997 interview with a knowledgeable source in Sabah, 23 July 1997 interview with Maximus Ongkili). As to the second political financier, Joseph Lee, UMNO officials, and possibly Prime Minister Mahathir himself, requested that Lee provide inducements to PBS members to leave the party. In the end, enough PBS members joined the BN to give it the majority of seats in the Sabah parliament as well as the chief ministership. As a result, S'ng Chee Hua's company Crocker Range timber, and Joseph Lee's company Peluamas, were together awarded 80 percent of all logging contracts on Sabah Foundation land (29 June 1997 interview with James Glyn).</td>
</tr>
<tr>
<td>17 March 1994</td>
<td>Joseph Pairin Kitingan resigns as chief minister when his party loses its majority in the state legislative assembly. The Sabah Barisan Nasional, with 31 seats in the 54-seat state assembly forms a new government. Sabah’s Deputy UMNO chief Sakaran Dandai is sworn in as the new chief minister.</td>
</tr>
</tbody>
</table>
With the Kitingans ousted from power in March, 1994 the Barisan Nasional installed as their first chief minister Sakaran Dandai, whose administration lasted a mere nine months, to the end of 1994. The Barisan Nasional knew they could rely on Sakaran to look after their interests, as he had loyally served as a deputy chief of the Sabah branch of the national Malay ruling party (UMNO) during the period leading up to the PBS’s defeat.\footnote{Dandai went on to become governor of Sabah, a post he holds until this day. He replaced Said Keruak, the governor who had pretended to be too sick to swear in Pairin, and who is the father to Sakaran’s successor in the chief ministership, Mohammed Salleh. Mohammed Salleh became chief minister for two years (1995-1996) under an agreement brokered by Mahathir, still in place today, where so long as the Barisan Nasional garners the majority of votes in Sabah, the chief ministership will be held by a Malay for two years, then a Malaysian Chinese, then a Kadazan, and back to the beginning again.}

Sakaran lost no time in providing opportunities to appropriate timber rent to senior UMNO members, including the families and associates of current Prime Minister Mahathir and then Deputy Prime Minister Anwar Ibrahim. Reports surfaced in the Singapore press about Anwar Ibrahim's father being awarded a 20,200 hectare timber concession in Sabah (Ross 1996: 219) but that was only the tip of the iceberg. In all, managerial or equity stakes in timber concessions were obtained by nine senior politicians and/or members of UMNO, including five relatives and/or close associates of Mahathir and Anwar. These individuals are listed in Table 5.6 on the next page.
Table 5.6  UMNO figures and political leaders rewarded with directorships and shareholdings in private Sabah timber concessions.

<table>
<thead>
<tr>
<th>Parent company: name and size of timber concessions</th>
<th>Name of board member or shareholder</th>
<th>Position in or percentage of shares held in company</th>
<th>Relationship to national leadership, source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sagisan concessions 167,326 hectares</td>
<td>Tuan Syed Mokhtar bin Syed Yassin Alhaj</td>
<td>Director of the three largest Sagisan concessions</td>
<td>Tuan Syed Mokhtar bin Syed Yassin Alhaj is close to Wan Ismail (12 July 1997 interview with a Sabah-based source), the father-in-law of Malaysia’s former Deputy Prime Minister Anwar Ibrahim (15 July 1997 interview with Brian Folk). He is also a well-known front man for Muhiddin Yassin, the former chief minister of Johor state, the current national minister for youth and sports, and a staunch Anwar ally (16 July 1997 interview with Leslie Lopez).</td>
</tr>
<tr>
<td>Idris Hydraulic, sole shareholder of two largest Sagisan concessions: Sabakina, 65,600 hectares; Bintang Tawau, 47,390 hectares</td>
<td>Tengku Ahmad Rithauddeen</td>
<td>Director of Idris Hydraulic, the most prominent of UMNO’s publicly listed companies (Gomez 1990: 145-148).</td>
<td>A senior member of UMNO from the time of Prime Minister Tunku Abdul Rahman, Rithauddeen has served in many federal cabinet posts, including that of minister of information, foreign minister (28 June 1997 interview with Iskandar Syam), and minister of defense (16 July 1997 interview with Jomo K.S.) He is also a prominent member of Kelantan UMNO, of special value given the politically volatile nature of that state (18 August 1997 interview with Raphael Pura).</td>
</tr>
<tr>
<td>Idris Hydraulic, sole shareholder of two largest Sagisan concessions</td>
<td>Ishak bin Ismail</td>
<td>Managing Director and CEO and 25 percent shareholder through nominees of Idris Hydraulic.</td>
<td>Ishak Ismail is the former deputy division chairman of Permatang Pauh, the division from which Deputy Prime Minister Anwar Ibrahim also hails, and one of 180 UMNO divisions in Malaysia. Ishak and Anwar jointly controlled that division for many years (21 March 1997 interview with Leslie Lopez). According to Baring Securities, “Ishak Ismail is believed to own more than 25% of the share capital of Idris Hydraulic although this is under nominee companies. He is believed to be politically well-connected” (Baring Securities 1994: 61).</td>
</tr>
<tr>
<td>Idris Hydraulic, sole shareholder of two largest Sagisan concessions</td>
<td>YB Dato’ Mohd Radzi bin Manan</td>
<td>Director of Idris Hydraulic.</td>
<td>YB Dato’ Mohd Radzi bin Manan is a former federal minister (28 June 1997 interview with Iskandar Syam).</td>
</tr>
</tbody>
</table>
Table 5.6 (continued) UMNO figures and political leaders rewarded with directorships and shareholdings in private Sabah timber concessions.

<table>
<thead>
<tr>
<th>Parent company: name and size of timber concessions</th>
<th>Name of board member or shareholder</th>
<th>Position in or percentage of shares held in company</th>
<th>Relationship to national leadership, source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Idris Hydraulic, sole shareholder of two largest Sagisan concessions</td>
<td>Dato Haji Zakaria bin Bakar</td>
<td>Director of Idris Hydraulic.</td>
<td>Zakaria is a former member of the UMNO Supreme Council (28 June 1997 interview with Iskandar Syam).</td>
</tr>
<tr>
<td>Aokam Perdana, recipient of 50 percent of log supply from Sagisan concessions</td>
<td>YAM Tunku Abdullah Ibni Almarhum Tunku Abdul Rahman</td>
<td>Chairman of the board of Aokam Perdana</td>
<td>A member of the Negeri Sembilan royalty, credited with having politically rehabilitated Mahathir in 1969, the period when Mahathir’s political fortunes were at their lowest, and he stood on the verge of being arrested under the Internal Security Act for being an ultranationalist by then Prime Minister Tunku Abdul Rahman (18 August 1997 interview with Raphael Pura).</td>
</tr>
<tr>
<td>Aokam Perdana, 50 percent recipient of log supplies from Sagisan concessions.</td>
<td>Ybhg Dato’ Samsudin bin Abu Hassan</td>
<td>Executive vice president of Aokam Perdana</td>
<td>“Protégé” of Daim Zainuddin, the former finance minister, current treasurer of UMNO, and architect of Malaysian industrial policy during the last twenty years (Malaysian Industry 1996a).</td>
</tr>
<tr>
<td>Aokam Perdana, 50 percent recipient of log supplies from Sagisan concessions.</td>
<td>Haji Paiman</td>
<td>Head of Aokam Perdana's operations in Sabah</td>
<td>Married to Datin Aziza, head of the Sabah UMNO women’s organization, and whose father, Tun Dun Bunir, a relative of Prime Minister Mahathir’s wife (3 October 1997 interview with a knowledgeable Sabah-based source).</td>
</tr>
<tr>
<td>Makmuran, 45,801 hectares</td>
<td>Tan Sri Dato Hj Ibrahim bin Mohamed</td>
<td>83 percent shareholder</td>
<td>Ibrahim Mohamed was one of three UMNO-linked individuals appointed to the board of PBB in 1983, by virtue of a close friendship with Prime Minister Mahathir. PBB is the investment arm of KUB, UMNO’s original holding company. PBB's first major acquisition was Idris Hydraulic (Gomez 1990: 142,145-146).</td>
</tr>
</tbody>
</table>

Source: 26 and 29 May 1997 correspondence with Terry Chala; 23 and 29 June 1997 interviews with James Glyn.
In addition to creating the possibility for senior UMNO members to run and own private timber concessions, Sakaran awarded Sabah Foundation logging contracts to politically connected individuals. While under the Kitingans PBS companies were the beneficiaries of such contracts, under Sakaran Dandai the beneficiaries were firms with directorships and shares held by federal office holders and UMNO members. Another group of beneficiaries were the Malaysian Chinese timber barons who eroded the PBS’s state assembly majority by financing the defection of PBS state assemblymen. The politically connected firms and individuals to receive Sabah Foundation logging subcontracts under Sakaran's government are listed in Table 5.7 on the next page.
### Table 5.7 Sabah Foundation logging contracts awarded to Barisan Nasional-linked logging contractors.

<table>
<thead>
<tr>
<th>Region: name of logging contractor</th>
<th>Name of board member or shareholder</th>
<th>Position in or percentage of shares held</th>
<th>Relationship of individual to Barisan Nasional; source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southern region (Tawau) contractor: <strong>Teneggang Baru</strong></td>
<td>Abdul Halik B. Mohamad Abdullah</td>
<td>Director, appointed on 1 June 1994, 3 months after BN assumed power in Sabah</td>
<td>Close to the current speaker of the state assembly, Hasan Alban Sandukun, and considered to be a part of the &quot;Birds Nest Gang,&quot; a group of East Sabah politicians that rose to power under the new Barisan government (16 June 1997 interview with Iskandar Syam).</td>
</tr>
<tr>
<td>Southern region (Tawau) contractor: <strong>Teneggang Baru</strong></td>
<td>Anun B. Barat (19 June 1997 interview with Rudy Kinajil; 3 July 1997 interview with Harris Salleh)</td>
<td>Director, appointed on 1 June 1994, 3 month after BN assumed power in Sabah</td>
<td>Bunga Burut reportedly took money belonging to the Sabah Civil Servants Cooperative (Kopeks), and funneled it to Repco, whose day to day operations were handled by Joseph Lee. Joseph Lee was later one of two timber figures tapped by the Barisan Nasional to provide financial inducements to PBS assemblymen to defect to the Barisan Nasional. After the Barisan Nasional came to power, Bunga Burut privately told many individuals that the handing out of selected timber concessions would go through him (16 June 1997 interview with a knowledgeable Sabah-based source).</td>
</tr>
<tr>
<td>Southern region (Tawau) contractor: <strong>Usahara</strong></td>
<td>Tsen En Fook</td>
<td>Director</td>
<td>A &quot;former Barisan figure&quot; (12 July 1997 interview with Fung Ket Wing).</td>
</tr>
<tr>
<td>Region: name of logging contractor</td>
<td>Name of board member or shareholder</td>
<td>Position in or percentage of shares held</td>
<td>Relationship of individual to Barisan Nasional; source of information.</td>
</tr>
<tr>
<td>------------------------------------</td>
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<td>---------------------------------------</td>
<td>------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Southern region (Tawau) contractor: <strong>Usahara</strong>, which is 100 percent owned by Sabah Kuwait Timbers.</td>
<td>S’ng Chee Hua</td>
<td>Key figure in Sabah Kuwait Timber (Star 1994b).</td>
<td>The Barisan Nasional used S’ng Chee Hua to bankroll the defection of selected PBS members to the Barisan Nasional. In separate interviews, two informants both said former Chief Minister Joseph Pairin Kitingan had shown them photographs of S'ng Chee Hua, escorted by Special Branch officials, walking out of the house of a PBS assemblyman, carrying a paper sack, which Kitingan maintained was full of money, but which had been turned down by that PBS assemblyman (16 June 1997 interview with a knowledgeable Sabah-based source, and 23 July 1997 interview with Maximus Ongkili).</td>
</tr>
<tr>
<td>Southern region (Tawau) contractor: <strong>Usahara</strong>, 100 percent owned by Sabah Kuwait, which is 100 percent owned by Fabureat.</td>
<td>Mohd Jamil bin Muhd. Rashidi</td>
<td>Director and former 50 percent shareholder of Fabureat.</td>
<td>Mohd Jamil bin Muhd. Rashidi is an &quot;UMNO man&quot; (24 June 1997 interview with Rudy Kinajil).</td>
</tr>
<tr>
<td>Southern region (Tawau) contractor: <strong>Usahara</strong>, 100 percent owned by Sabah Kuwait, which is in turn 100 percent owned by Fabureat, which is 100 percent owned by three additional companies, one of which is Arah Seputih.</td>
<td>Tunku Shahabuddin bin Tunku Besar Burhanuddin.</td>
<td>Director of Fabureat; Director and 33 percent shareholder of Arah Seputih, which owns 30 percent of Fabureat.</td>
<td>Shahabuddin is an important figure in UMNO. He is formerly from the federal Ministry of Treasury (24 June 1997 interview with Rudy Kinajil). Shahabuddin's uncle is Tunku Abdullah, the younger brother of the Agong of Negeri Sembilan, at one time the king of Malaysia. Tunku Abdullah interceded on Mahathir’s behalf with his relatives in the Negeri Sembilan royalty in 1969, when Mahathir’s political fortunes were at their lowest, and Mahathir stood on the verge of being arrested under the Internal Security Act for being an ultra-nationalist. The Negeri Sembilan royalty are credited with having politically rehabilitated Mahathir (18 August 1997 interview with Raphael Pura), and earned his abiding gratitude for doing so. Shahabuddin himself is quite close to Mahathir (17 July 1997 interview with Leslie Lopez).</td>
</tr>
</tbody>
</table>

Source: 26 and 29 May 1997 correspondence with Terry Chala; 23 and 29 June 1997 interviews with James Glyn.
Sakaran, like the Kitingan brothers before him, had overseen the awarding (and/or reorganization) of private timber concessions and the granting of lucrative Sabah Foundation logging contracts to Barisan Nasional companies, instead of PBS companies. Unlike the Kitingans, Sakaran also directed the Sabah Foundation to grant all logging and resale agreements in the timber rich southern region,\(^{145}\) with built-in markups of RM50($20) a cubic meter,\(^{146}\) to two companies, Peluamas and Crocker Range Timber (10 October 1996 interview with C.C. Pung; 29 June 1997 interview with James Glyn).\(^{147}\)

\(^{145}\) The Sabah Foundation oversees nearly a million hectares of forest area, divided into four regions. The southern region has the best remaining areas of forest.

\(^{146}\) Crocker Ranger Timber's purchase and resale agreement with the Sabah Foundation, complete with the opportunity to earn a mark-up of RM50($20) per cubic meter, was substantiated by three sources: the Sabah Foundation's holding company; a Sabah Foundation internal economic analysis, and correspondence with a foreign expert on Sabah forestry. The confidential minutes of board meeting for the holding company for the Sabah Foundation, Innoprise Corporation, stated that it had "entered into a Log Sales And Purchase Agreement with Crocker Range on the 27th September 1994 with terms which include Crocker Range purchasing all the logs extracted from an area of 70,000 hectares over a period of 10 years [with a] fixed price schedule for extracted logs . . . in the following manner:  SQ logs and up - RM 195.00 per m3 . . . MQ logs - RM 193.00 per m3 . . . MQL logs - RM 173.00 per m3 . . . ." After paying the Sabah Foundation these prices for its logs, the minutes stipulated that Crocker Ranger would sell the same logs back to the Sabah Foundation's "wholly-owned subsidiaries of Pacific Hardwoods Sdn Bhd and Sinora Sdn Bhd at an average price of RM 240 per m3" (Innoprise Corporation 1994: 1). In other words, Crocker Range was nothing more than a tollgate company that paid Sabah Foundation and average of about RM 190 for its logs and then sold them back to the Foundation for RM 240, earning a markup of RM 50. This was confirmed in a separate internal economic analysis by the Sabah Foundation, showing that Crocker Range earned a profit of between RM 56.47 and 57.42 per cubic meter between October and December, 1994, the first quarter in which they were allowed to handle timber under the new purchasing agreement (Sabah Foundation 1995). The special deal given to Crocker Range by the Sabah Foundation was confirmed in personal correspondence with Terri Chala, who wrote, "Crocker Range's involvement in Tawau began two years ago since the election and with a 10 year agreement. About 50% of log volume in Tawau goes through Crocker Range. . . . Crocker Range's objective is to sell as much as possible. Crocker Range has a special set deal price with the Sabah Foundation [sic] about RM190/m3" (15 July 1997 correspondence with Terri Chala).

\(^{147}\) Former Chief Minister Tun Mustapha publicly accused S'ng Chee Hua of having helped to finance the Kitingan's downfall. Tun Mustapha accused S'ng of helping to unseat Pairin in what Tun Mustapha described as "a coup d'etat, engineered by a Sarawak State Assemblyman." Tun Mustapha said, "the February 18 and 19 election was the dirtiest ever witnessed" in his long political career. He continued, "The BN used every dirty trick possible from double voting and phantom voters to using illegals with temporary [identity cards], dropping voter's names and transferring voter's names without their knowledge. Even the police . . . and teachers . . . were recruited to work for the BN. . . . I understand the Federal Government has readied about RM two billion [$800 million] for infrastructure projects in Sabah. Companies in Kuala Lumpur linked to UMNO
These two companies were granted logging and resale contracts by Sakaran out of gratitude for the fact that their owners had, in early 1994, financed the defection of enough state assemblymen from PBS to enable a Barisan Nasional majority to form in the state assembly (10 October 1996 interview with C.C. Pung; 23 June 1997 interview with James Glyn). According to one source, when Prime Minister Mahathir discovered that Chief Minister Sakaran had parceled out 80 percent of the Sabah Foundation’s purchase and resale agreements to the two companies, he joked that "nothing was left for UMNO" (23 June 1997 interview with James Glyn). Details regarding the purchase and resale agreements awarded to Peluamas and Crocker Range Timber are listed in Table 5.8 on the next page.

are standing in line for these projects. What is there for our people?" Tun Mustapha alleged, "these projects are designed to compensate the moneybags who financed the overthrow of the PBS government" (Tun Mustapha Undated).
Table 5.8  Use of Sabah Foundation purchase and resale agreements to reward Barisan Nasional-linked companies under government of Sakaran Dandai.

<table>
<thead>
<tr>
<th>Name of awardee company</th>
<th>Name of board member or shareholder</th>
<th>Position in or percentage of shares held</th>
<th>Relationship to national leadership, source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td>First of two sole buyers for the southern (Tawau) region: <strong>Peluamas.</strong> Awarded purchase and resale agreement for 200,000 cubic meters/year of Sabah Foundation timber.</td>
<td>Pius Ubil, brother-in-law of Joseph Lee</td>
<td>Chairman of the Board</td>
<td>When PBS won the 1994 elections by five seats, Prime Minister Mahathir reportedly requested Joseph Ambrose Lee to provide inducements so that enough PBS members would leave the party that the BN would obtain a majority in the Sabah the state assembly. Lee succeeded. Out of gratitude, Sakaran Dandai, saw to it that Lee's company, Peluamas, was awarded a purchase and resale agreement for approximately 200,000 cubic meters/year of Sabah Foundation timber (29 June 1997 interview with James Glyn).</td>
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<td></td>
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</tr>
<tr>
<td>Second of two sole buyers for southern (Tawau) region: <strong>Crocker Range Timber (CRT).</strong> Awarded purchase and resale agreement for 600,000 cubic meters/year of Sabah Foundation timber.</td>
<td>S’ng Chee Hua148</td>
<td>CRT is 100 percent owned by Mandalom Sawmills, which in turn is 100 percent owned by Sabah Kuwait Timber. S’ng is a key figure in Sabah Kuwait Timber (Star 1994b).</td>
<td>UMNO, the largest and most powerful party in the Barisan Nasional, also used S’ng Chee Hua to bankroll the defection of selected PBS members to the Barisan Nasional. In separate interviews, two informants said that former Chief Minister Joseph Pairin Kitingan shown them photographs of S’ng Chee Hua, escorted by officials of the Special Branch (the elite federal law enforcement unit), walking out of the house of a PBS assemblyman carrying a paper sack which Kitingan maintained was full of money that had been turned down by the PBS assemblyman in the house (16 June 1997 interview with a knowledgeable Sabah-based source, and 23 July 1997 interview with Maximus Ongkili).</td>
</tr>
</tbody>
</table>

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148 I asked a reliable and informed academic to ask S’ng Chee Hua whether S’ng had any connection with Crocker Range Timber (CRT). The academic asked S’ng, and S’ng claimed to have never heard of CRT (27 May 1997 interview with a reliable and informed academic). S’ng is also not on the board of CRT. Notwithstanding these two facts, however, informants with widely differing politico-economic allegiances continue to assert that CRT was a S’ng Chee Hua company (17 October 1996 interview with Rudy Kinajil, 16 June 1997 interview with a knowledgeable Sabah-based source, 29 June 1997 interview with James Glyn, 23 July 1997 interview with Maximus Ongkili). One piece of proof of S’ng’s connection to CRT is that a string of shell companies eventually lead to S’ng. Crocker Range Timber is 100 percent owned by Mandalom Sawmills, which in turn is 100 percent owned by Sabah Kuwait Timber. In Sabah Kuwait Timber, S’ng Chee Hua’s influence is sufficiently large that he was reported to have been the key deal maker in the plan to inject Sabah Kuwait Timber into Amalgamated Industrial Steel Bhd (AISB), which would have resulted in him acquiring a large block of the shares in AISB (Star 1994b). One source said that S’ng Chee Hua's position in Crocker Range Timber is as a proxy for Malaysia's Minister of the Interior, Megat Junid (10 October 1996 interview with C.C. Pung). S’ng and Megat are business partners and reportedly run a videotape
If Mahathir joked about UMNO's exclusion from Sabah Foundation purchase and resale agreements, while Joseph Lee and S'ng Chee Hua benefited, not everyone found it a laughing matter. The passions aroused by this narrow division of timber spoils is demonstrated by the contents of a flyer circulated by an organization calling itself “The Natural Justice Group.” Although it stops short of actually mentioning S'ng Chee Hua by name, the flyer is an attack on his growing influence in Sabah.

Unfortunately there are unscrupulous individuals who refuse to see the development of Sabah and who constantly wish to undermine the good intent of the state government. Such an unforgivable act shows its ugly face through one Sarawak tycoon who is also a Datuk. This Datuk and his gang of economic robbers, [is] using the names of our Prime Minister, Deputy Prime Minister, Datuk Megat Junid, [the] Registrar of Companies as well as police personnel to seek projects/contracts for his benefits. This Sarawak Tycoon and his group are using 'gangsterism' techniques to frighten local contractors so as to eliminate competition. The exclusive rights to market Sabah logs is just one such example. If this group of economic robbers is allowed to roam in the towns of Sabah, they will further threaten the stability of economic development in the state. . . . Such action is tantamount to HIGH CLASS LEGALISED DAYLIGHT ROBBERY!! (The Natural Justice Group 1994)

Another part of the Sabah Foundation whose rent potential was readied by Sakaran for distribution was Sabah Softwoods. The state-owned Sabah Softwoods had for some time been considered fair game for the unofficial appropriation of timber rent, as when the Kitingan brothers made substantial amounts of money from granting two below-market re-logging agreements on Sabah Softwood lands to PBS companies. Upon assuming power Sakaran moved quickly to give Sabah Softwoods plus 100,000 hectares of Sabah Foundation land to Joseph Lee, who had earned the national government and ruling party's gratitude by bribing PBS assemblymen to defect from that party. Prior to Sakaran's rule, 60 percent of Sabah Softwoods was owned by the Sabah Foundation and smuggling operation together (1 October 1996 interview with a knowledgeable Sabah-based source).
the other 40 percent by North Borneo Timbers (NBT). Joseph Lee mostly controlled NBT through his close business associate, Robert Pha
ng. Another 30 percent stake in NBT was held by Shafie Apdal who served as the executive director of the Sabah Foundation’s investment arm, Innoprise Corporation, and was the Sabah chairman of the youth wing of UMNO. Shafie was also the nephew of Chief Minister Sakaran (AWSJ 1994d, Business Times 1994e). Lee and Shafie together convinced Sakaran to approve a deal whereby NBT would gain complete control of Sabah Softwoods, plus 100,000 additional hectares of Sabah Foundation land, in exchange for nominally surrendering control of NBT to the Sabah Foundation.149

In his nine months as chief minister, Sakaran completely reconfigured the landscape of timber patronage in Sabah, awarding a new set of directorships and shareholdings in private timber concessions (Table 5.6) and Sabah Foundation logging contracts (Table 5.7) to UMNO national figures and their families. He also ensured the two primary Malaysian Chinese political financiers who provided the cash for the final push of the PBS from power were awarded with 80 percent of the Sabah Foundation's purchase and resale agreements (Table 5.8). While Sakaran's primary goal appeared to be political patronage, his successor leaned more toward using timber resources for personal

\[ \text{\textsuperscript{149}} \text{In addition to Sakaran Dandai’s political paybacks to Joseph Lee, which included purchase and resale agreements for 20 percent of the Foundation’s timber production, and the proposed gift of Sabah Softwoods, Lee’s name came up many other times over the course of the 1990s in connection with the giveaway of other Sabah state-owned timber assets. For example, in 1993 Lee criticized the Kitingan government's efforts to privatize Sabah Forest Industries (Business Times 1993d), in all likelihood because Lee himself was not the beneficiary of the deal. Once Sabah was back in the Barisan Nasional in 1994, Lee was under consideration for the takeover of the Sabah Foundation’s entire timber holdings (Malaysian Business 1994e). A few months after that, Lee was asked by the Sabah Foundation to operate its 700,000-hectare timber concession in Papua New Guinea (Reuter Asia-Pacific Business Report 1994). None of these latter three deals came close to crystallizing, however.} \]
financial gain.
Sakaran Dandai was succeeded by Mohammad Salleh. Under an agreement brokered by Prime Minister Mahathir, and still in place today, so long as the Barisan Nasional garners the majority of votes in Sabah, the chief ministership is held by a "Malay" for two years, then a Malaysian Chinese for another two, then a Kadazan for another two, and then the cycle repeats. Mohammad Salleh served in the first slot as a "Malay" chief minister.

As with other Sabah heads of state, Salleh’s family, proxies, political allies and sometimes even the chief minister himself, used managerial and equity positions in private timber concessions to appropriate timber rent, as shown in Table 5.9.

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150 One informant maintains Prime Minister Mahathir appointed Mohammad Salleh to the chief ministership as a reward for the loyalty of his father, former governor Said Keruak, who had pretended to be too sick to swear in Chief Minister Joseph Pairin Kitingan after his narrow electoral victory in 1994 (17 October 1996 interview with Rudy Kinajil).

151 Mohammad Salleh is, in fact, not Malay, but is Bajau. However, in order to maintain a majority of "Malay" votes in Malaysia, when in fact Malays constitute less than half of the national population, it is politically expedient for Muslim minority populations (such as the Melanau in Sarawak, and the Bajau and Suluk in Sabah), as well as for the ethnic Malays themselves who as a consequence occupy the pinnacle of the power in Malaysia, to classify as "Malay" any ethnic group in Malaysia in which the majority are adherents of Islam.
Table 5.9  Timber concessions in which Sabah Chief Minister Mohammad Salleh, his family members, friends, proxies and/or political allies are board members or shareholders.

<table>
<thead>
<tr>
<th>Parent company: Name and size of timber concessions</th>
<th>Name of board member or shareholder</th>
<th>Position in or percentage of shares held in company</th>
<th>Relationship to Chief Minister Mohammad Salleh, source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sagisan concessions: Tenju, 38,026 hectares</td>
<td>Siti Alam Bte Dato Okk Haji Anuar, Bajau from Kota Belud.</td>
<td>Former director and 100 percent shareholder</td>
<td>Related by marriage to the family of Chief Minister Mohammad Salleh (28 June 1997 interview with Iskandar Syam).</td>
</tr>
<tr>
<td>Sagisan concessions: Tenju, 38,026 hectares</td>
<td>Digong bin Hj Abdul Rashid, Bajau from Kota Belud</td>
<td>Former director</td>
<td>Believed to be a proxy for the family of Mohammad Salleh (31 June 1997 interview with C.C. Pung).</td>
</tr>
<tr>
<td>Atlantis Holdings: 12,100 hectares</td>
<td>Mohd Said Keruak (now deceased)</td>
<td>Director</td>
<td>Adoptive father of Mohammad Salleh, and the former governor of Sabah. As governor, Said Keruak played a pivotal role in helping to remove the PBS government from power. In February 1994, when it became clear that his party had won, Chief Minister Joseph Pairin Kitingan drove to the residence of Said Keruak, expecting to be sworn in. Instead, Kitingan spent the weekend sitting in his limousine outside the gates of the governor's residence. The governor was said to be unwell. The delay afforded an opportunity for the crossover of PBS assemblymen to the ruling party, which led to Kitingan's downfall (Malaysian Business 1994b).</td>
</tr>
<tr>
<td>Atlantis Holdings: 12,100 hectares</td>
<td>Puan Sri Bandong Bte Hasbollah</td>
<td>Director</td>
<td>Adoptive mother of the chief minister (16 June 1997 interview with Iskandar Syam).</td>
</tr>
<tr>
<td>Atlantis Holdings: 12,100 hectares</td>
<td>Mohd Salleh bin Mohd Said</td>
<td>Director</td>
<td>The chief minister himself, although when he assumed the position of chief minister, he stepped down from the position of director to that of alternate.</td>
</tr>
<tr>
<td>Atlantis Holdings: 12,100 hectares</td>
<td>Sandralialah and Saidatul Bte Mohd Said</td>
<td>Directors</td>
<td>Sisters of the chief minister (16 June 1997 interview with Iskandar Syam).</td>
</tr>
<tr>
<td>Diri Usaha: 11,200 hectares</td>
<td>Datu Amirkahar bin Tun Hj Mustapha</td>
<td>Director, 33 percent shareholder</td>
<td>After Amirkahar won both the March 1994 state assembly elections, and then the April 1995 parliamentary elections, he left the PBS (16 June 1997 interview with Iskandar Syam). Both Jeffrey Kitingan (20 June 1997 interview) and Maximus Ongkili (27 July 1997 interview) believe that Amirkahar's position on the board of this concession was an award for having left the PBS.</td>
</tr>
</tbody>
</table>
Table 5.9 (continued)  Timber concessions in which Sabah Chief Minister Mohammad Salleh, his family members, friends, proxies and/or political allies are board members or shareholders.

<table>
<thead>
<tr>
<th>Parent company: name and size of timber concessions</th>
<th>Name of board member or shareholder</th>
<th>Position in or percentage of shares held in company</th>
<th>Relationship to former Chief Minister Mohammad Salleh, source of information.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mutiara Utama</strong>: 8,029 hectares</td>
<td>Mohd Salleh bin Mohd Said</td>
<td>Former director and 20 percent shareholder.</td>
<td>This is the chief minister of Sabah.</td>
</tr>
<tr>
<td><strong>Mutiara Utama</strong>: 8,029 hectares</td>
<td>Sandralialah Bte Mohd Said</td>
<td>Former director and 20 percent shareholder.</td>
<td>Sister of the chief minister (16 June 1997 interview with Iskandar Syam)</td>
</tr>
<tr>
<td><strong>Mutiara Utama</strong>: 8,029 hectares</td>
<td>Jinurahim bin Haji Sotok</td>
<td>Former director</td>
<td>Brother-in-law of the chief minister (23 July 1997 interview with Maximus Ongkili)</td>
</tr>
<tr>
<td><strong>Mutiara Utama</strong>: 8,029 hectares</td>
<td>Puan Sri Bandong Bte Hasbollah</td>
<td>Former director</td>
<td>Adoptive mother of the chief minister (16 June 1997 interview with Iskandar Syam)</td>
</tr>
<tr>
<td><strong>New Target</strong>: 8,000 hectares</td>
<td>Baharom Titingan</td>
<td>Director</td>
<td>Son of Abu Bakar Titingan, who was the President of the Sabah Islamic Council under the USNO government, a position which held a ministerial rank, and who served in that cabinet with Chief Minister Salleh’s father, Said Keruak (28 June 1997 interview with Iskandar Syam). One informant speculated that Mohammad Salleh awarded this contract to Abu Bakar Titingan's family out of respect for the fact that their fathers were colleagues (3 July 1997 interview with Lao Siew Chang).</td>
</tr>
<tr>
<td><strong>New Target</strong>: 8,000 hectares</td>
<td>Ameenudeen Bin Haji Abdul Kareem</td>
<td>Director</td>
<td>Son in law of Abu Bakar Titingan. UMNO member (28 June 1997 interview with Iskandar Syam).</td>
</tr>
<tr>
<td><strong>New Target</strong>: 8,000 hectares</td>
<td>Kamariah Bte Datuk Haji Abu Bakar Titingan</td>
<td>Director</td>
<td>Daughter of Abu Bakar Titingan (18 June 1997 interview with Iskandar Syam).</td>
</tr>
<tr>
<td><strong>New Target</strong>: 8,000 hectares</td>
<td>Nizam Bin Datuk Haji Abu Bakar Titingan</td>
<td>Director</td>
<td>Abu Bakar Titingan’s third son (18 June 1997 interview with Iskandar Syam).</td>
</tr>
</tbody>
</table>

The governments of Sakaran Dandai (1994) and Salleh Said Keruak (1995-96), while short-lived, provide wonderfully complete examples of how distinct constellations of simple timber rent appropriation rise and fall in tandem with the rulers that support
them. Both Sakaran and Salleh appeared to view their reigns as opportunities to either
grab wealth for themselves and their friends, or grant political rewards. What is
particularly interesting is that, although the two chief ministers were members of the
same party and even from the same ethnic group (Bajau), the power shift from Sakaran to
Salleh resulted in a widespread restructuring of the timber industry. The losers appeared
to be the Malaysian Chinese timber businessmen who had financed the final fall of the
PBS. Notwithstanding the crucial political role that these businessmen had played, under
Salleh they lost their lucrative new contracts, in some cases in the same month they had
been granted. The new winners appeared to be Salleh and the man he had appointed to
head the Sabah Foundation, Musa Aman.

This was particularly the case with the Sabah Foundation, whose logging
subcontracts, purchase and resale agreements and affiliate companies are frozen and/or
reassigned more easily, and with greater financial consequences, than is the case with
private timber concession licenses. What was remarkable about Salleh was the
ruthlessness with which he revoked Sabah Foundation facilities assigned by his
predecessor.

When Sakaran came to office, he directed the Sabah Foundation to grant all logging
and resale agreements in the southern region to two companies, Peluamas and Crocker
Range Timber, out of gratitude for their owner's financing the defection of enough PBS
members to deny Kitingan the chief ministership. However, in a demonstration of the
purely personal financial reasons that often govern a leader's allocation of timber rent, the
good fortune of Peluamas and Crocker Range Timber was cut short with the advent of
Chief Minister Salleh.
Under the government of Salleh, Joseph Lee lost the advantages he had enjoyed under the government of Sakaran. Musa Aman, the new head of the Sabah Foundation, began to restrict the supply of logs to Lee’s company Peluamas. Eventually Lee's company could not resell logs at a profit because it could not purchase the right types of logs. James Glyn, who works for Joseph Lee, began to hear complaints from his colleague whose job it was to carry out the purchase and resale agreement. Peluamas was able to gain access only to low quality, overpriced, loss-making species and not the high quality, underpriced, profit-making species. Glyn explained that,

The price structure of the Sabah Foundation's purchase and resale agreements is to charge low prices for higher quality species, and high prices for lower quality species. Thus, money is made is primarily from the purchase and resale of higher quality species (29 June 1997 interview with James Glyn).

Glyn said Joseph Lee was initially impatient with the employee whose job it was to administer the purchase and resale agreements, though it was not the employee's fault that Musa was withholding high quality logs. Glyn explained, "At first Joe was mad, but eventually he understood what was happening and . . . just sold the company" (29 June 1997 interview with James Glyn). C.C. Pung, another Lee employee, explained how it was possible for the Sabah Foundation to disregard the terms of the contract it had just entered into with Peluamas: "Musa has cronies in the Sabah Foundation who listen to him, not to the board of the Sabah Foundation" (10 October 1996 interview).

Lee's creation of Peluamas took place in August, 1994 only a few months after Sakaran came to office. Lee's brother-in-law, Pius Ubil, founded and proceeded to run Peluamas. However, a month after Salleh came to power, on 16 February 1996, Pius Ubil resigned from the company. On the same day, a host of proxies of Musa Aman, the
new head of the Sabah Foundation, joined the company. These proxies include Umsery Abdullah and Askalani bin Abdul Rahim.152

Umsery Abdullah's and Musa Aman's brother, Anifah Aman, are lifelong friends and colleagues who jointly run the Sabah Football Association, of which Anifah is president and Umsery serves as deputy president and legal adviser (24 June 1997 interview with a knowledgeable Sabah-based source, 28 June 1997 interview with Iskandar Syam). Umsery and Anifah were schoolmates together at Sabah College, a select private school for teenagers in Sabah (7 July 1997 interview with Ranjan Vanar).

Another Musa proxy placed on the board of Peluamas is Askalani bin Abdul Rahim. The families of Askalani and Musa are very close and "came up together politically" (28 June 1997 interview with Iskandar Syam). Dr. Maximus Ongkili described both Umsery and Askalani as "Musa Aman men" (23 July 1997 interview).

Musa also gained control of Lee's Peluamas through its parent company, Repco, which owns 90 percent of Peluamas. Low Thiam Hock, whom one source describes as "close to Musa Aman," now heads Repco (23 and 29 June 1999 interviews with James Glyn). Another Musa figure in Repco is Yip Yee Foo (10 October 1996 interview with C.C. Pung). The head of research for Innosabah Securities, the state's only licensed investment bank at that time, told me that, "Reco acts on behalf of Musa and Anifah Aman" (14 April 1997 interview with Razani Radzi).

Once Musa had succeeded in taking over Peluamas and Repco, he used them to generate profit for himself by offering them a new below-market-rate purchase and resale

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152 The change in ownership of Peluamas was discovered by consulting documents on file with the Malaysia Registrar of Companies Kota Kinabalu office.
agreement eight times more profitable than the one enjoyed by Lee. The salient points of the new agreement were revealed in an interview with a financial analyst in the Malaysian business press:

There has been some revival in interest in Repco which has the right to buy about 40,000 cubic meters of logs per month through two companies - Peluamas and Hajat Semarak. . . . “To date Repco has in hand the right to purchase 40,000 cubic meters of premium logs per month at concessional rates of about RM200($80) per cubic meter,” the analyst said. This is not much higher than the cost of extraction of RM160($64), including the log royalty of RM40($16) per cubic meter. . . ." Peluamas holds the agreement to purchase 15,000 cubic meters per month and its injection into Repco was recently approved. . . . Pending approval is the acquisition of Hajat Semarak which holds the right to acquire the balance of 25,000 cubic meters per month. . . . The analyst added that the extra margins to Repco's earnings could be about RM130($50) per cubic meter. “To arrive at RM130($50) per cubic meter, we have estimated that its logs can fetch RM700($280) per cubic meter in the export market. . . . The estimated export price of RM700($280) is fair since Sarawak's 45+cm logs are already fetching RM550($220) per cubic meter and Repco's logs are the bigger 60+cm ones. In addition, Yayasan Sabah logs (which is where Repco's logs are coming from) are of premium quality. . . . The Peluamas agreement gives Repco access to logs until December 1999 and may be extended for another five years; meanwhile, Hajat Semarak's is estimated to last until the year 2000. Repco is believed to be acquiring other Sabah concessions. (The Star 1997f).

Compared to Lee's old purchase and resale agreement, the new agreement granted by Musa to Peluamas was both larger in size and allowed Musa to extract more timber rent per cubic meter. Where Lee’s agreement allowed him to buy only 16,700 cubic meters of timber per month, Peluamas under Musa was able to buy two-and-a-half times as much or 40,000 cubic meters of timber per month. With respect to timber rent, while Lee’s agreement gave him windfall profit of RM50 ($20) per cubic meter, the new agreement more than tripled

153 There were even more special deals set up by the Musa Aman-controlled Sabah Foundation for the benefit of the Musa Aman-controlled Repco. In a circular distributed by Repco to its shareholders, Repco reported that it had been given large timber harvesting, and purchase and resale agreements contracts by Raykat Berjaya, a subsidiary of the Sabah Foundation. Repco subsidiary Teluk Jadi was given the right to harvest 24,300 hectares in the Sapulut Forest Reserve, containing 900,000 m3 of timber, at the rate of 30,000 m3 per month, and temporarily sold the logs to Rakyat Berjaya, before buying them back through Repco subsidiary Hajat.
Peluamas's windfall profit to RM160 ($64) per cubic meter. Between improved size and rent margins, Peluamas under Musa earned about eight times as much timber rent from purchase and resale agreements as it had under Lee.\textsuperscript{154}

As a result of these arrangements, Musa reportedly accumulated an incredible amount of wealth. According to the son of a former head of the Sabah Foundation, Musa personally banked RM30 ($12) for each cubic meter of Sabah Foundation logs sold to one of 27 selected wood processing facilities. Each of these mills had a special account for paying Musa.\textsuperscript{155}
The money is collected and was carried by runners and deposited in the accounts of Musa associates (11 October 1996 interview with John Stephens).\textsuperscript{156}

Like Lee’s Peluamas, S’ng Chee Hua’s Crocker Range Timber also had the rug pulled out from under it. As C.C. Pung put it, S'ng was "sidelined" and left Crocker Range Timber (10 October 1996 interview). In January 1995, the same month that Chief Minister Salleh and Sabah Foundation CEO Musa assumed their positions, reports surfaced in the press that Crocker Range Timber’s purchase and resale agreement was being reconsidered.

Semarak at the below market price of RM147.50/m3 (Repco 1997b).

\textsuperscript{154} Perhaps as a way to keep the nation’s leaders on board, in terms of the new division of Sabah Foundation timber spoils, it was also decided that through the end of 1999, three quarters of the timber harvested by Repco would be sold to plywood producer Aokam Perdana (Repco 1997a, 1997b). Aokam had suffered an enormous fall in share values in 1994 when investors discovered that it was grossly undersupplied in terms of timber (17 July 1997 interview with Leslie Lopez, 25 July 1997 interview with Seow Choong Liang). Aokam's political patrons include Prime Minister Mahathir, and former finance minister, current treasurer of UMNO and key Mahathir advisor, Daim Zainuddin.

\textsuperscript{155} These accounts are referred to locally as "S" accounts.

\textsuperscript{156} The informant himself, who had at one time worked as a runner for Jeffrey Kitingan, said the typical salary of a runner was about RM30,000 ($12,000) per month (11 October 1996 interview with John Stephens).
The timber asset . . . held by Crocker Range Timber was reported to have struck a deal with Sabah Berjaya [the log marketing arm of the Sabah Foundation] for sale of logs for 10 years. The timber . . . is reported to be [in the area of] 70,000 hectares of [Sabah Foundation] virgin concession at Gunung Rara, near Tawau, the sources said. The Sabah Government is reported to be reviewing the deal, in view of the allegedly ‘below the market’ prices fixed between RM173 to RM195 per cubic metre, depending on the species (The Star 1995a).

A few weeks later, Crocker Range Timber’s purchase and resale agreement was reported to have been scrapped altogether:

The Sabah government has suspended the sale of [timber from] 70,000 hectares [of the] . . . Sabah Foundation timber concession to a private company pending a probe into the deal. . . . [Timber from] the massive [area of the] concession - which is nearly the size of the Malaysian state of Perlis - was [to be] sold by the foundation’s investment arm . . . to Crocker Range Timber in September last year (Straits Times 1995).

Salleh not only canceled the purchase and resale agreements that Sakaran had put together with Joseph Lee and S'ng Chee Hua, but scrapped the Sabah Softwoods deal as well. As discussed previously, upon assuming power, Sakaran moved to give Sabah Softwoods to Joseph Lee. Lee and his business partner Shafie Apdal, the head of the Sabah UMNO youth chapter and the nephew of the chief minister, convinced Sakaran to approve a deal where their North Borneo Timber company would gain complete control of Sabah Softwoods, plus 100,000 additional hectares of Sabah Foundation land, in exchange for only nominally surrendering control of North Borneo Timber to the Sabah Foundation. However, the moment Salleh came to office, he canceled the Sabah Softwoods agreement. The circumstances of the revocation of the Sabah Softwoods agreement are summarized in Table 5.10 below.
<table>
<thead>
<tr>
<th>Dates</th>
<th>Key developments (and source)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 April 1995</td>
<td>In a private meeting, Anwar Ibrahim, Deputy Prime Minister, reportedly berates and brings to tears Shafie Apdal, the head of UMNO Sabah youth wing and the nephew of Chief Minister Sakaran Dandai, for having created the public appearance of a conflict of interest (16 June 1996 interview with a knowledgeable Sabah-based source). As a result, Shafie steps down from his position as chairman of North Borneo Timber (3 April 1995 letter from NBT to North Borneo Timber 1995).</td>
</tr>
<tr>
<td>5 April 1995</td>
<td>After three tries the North Borneo Timber (NBT)-Sabah Foundation deal is finally signed. The terms of the deal are that NBT gains complete control of Sabah Softwoods, plus 100,000 additional hectares of Sabah Foundation land in exchange for nominally surrendering control of NBT to the Sabah Foundation. It is agreed that the deal will be declared null and void if all provisions are not put into effect by 30 March 1996.</td>
</tr>
<tr>
<td>7 March 1996</td>
<td>One of the important provisions underpinning the deal, the granting of a timber license, is finally completed. NBT officials say they will not be able to meet the 30 March 1996 deadline because the timber license has only just been issued. Looking back, a company official states, “We had to inform the securities commission and then call an EGM which needed a three week notice. No way we could have gone through the process in 23 days.” (The Star Undated d).</td>
</tr>
<tr>
<td>12 April 1996</td>
<td>North Borneo Timbers submits a proposal the same as that submitted a year earlier. The revised proposal is submitted to outgoing Sabah Chief Minister Mohammad Salleh, who is Sabah Foundation Board of Trustees chairman. The revised proposal then goes to Sabah Foundation Director Musa Aman, who is the chief executive officer of Innoprise Corporation” (The Star Undated d).</td>
</tr>
<tr>
<td>16 May 1996</td>
<td>&quot;Musa informed the [Sabah Foundation] executive committee that the agreement executed in 5 April 1995 between NBT and ICSB had lapsed on 30 March 1996&quot; (The Star Undated c).</td>
</tr>
<tr>
<td>22 May 1996</td>
<td>NBT official Glyn replies, “The first agreement still continues . . . we were still talking to various people in the foundation including Musa.” NBT lodges a police report against Musa claiming that he had contravened the Official Secrets Act. The report, lodged by NBT director Japar Estaban, alleged that Musa had contravened section 8 of the OSA for unauthorized disclosure of official information. Japar also claimed in his police report, distributed at a press conference later, that Musa had also contravened Section 18 of the Sabah Foundation Enactment because of his action and had put undue pressure on the Yayasan trustees and ICSB board. At the same press conference, NBT managing director James Glyn said that Musa's Yayasan executive committee was purely a monitoring body and was not empowered to make such material decisions. These decisions could only be make by the ICSB board of directors and the board of trustees of Yayasan, he said” (The Star Undated a).</td>
</tr>
<tr>
<td>24 May 1996</td>
<td>NBT files a second police report under the ISA against Musa Aman (The Star Undated d).</td>
</tr>
<tr>
<td>26 May 1996</td>
<td>A shareholder of North Borneo Timbers obtains a gag order on Musa Aman from making any statement on the Sabah Softwoods. The injunction from the High Court restrains Musa from deliberating or deciding on or writing statements regarding any issue concerning the deal. Musa refuses to be served with the gag order (The Star Undated e).</td>
</tr>
<tr>
<td>1 July 1996</td>
<td>Deadline passes for consummation of the NBT-Sabah Softwood deal. The deal dies. Lee decides to sell North Borneo Timber.</td>
</tr>
</tbody>
</table>
In May, 1996 Salleh was succeeded by Yong Teck Lee, a member of Sabah’s Chinese community, who was replaced by Bernard Dompok, a member of the Kadazan community, who was replaced by Osu Sukam, a member of Sabah's "Malay" community. Yong’s government, too, engaged in the unofficial appropriation of timber rent. Musa Aman, although no longer the formal head of the Sabah Foundation, is still manipulating the Foundation for material benefit. According to one source:

As far a recent timber scandals are concerned, the biggest by far is the Kalabakan logging deal. The state through the Sabah Foundation is involved with a mainland China company for a pulp and paper mill project at Kalabakan, near Tawau. As part of the deal, nearly 200,000 hectares of jungle is to be clear-felled to make way for an acacia forest plantation to feed the pulp mill. So far, about 30,000 hectares have been cleared and what we were told is that the Sabah Foundation is selling the logs (at way below market prices) to companies affiliated to Musa Aman who by the way was the former Sabah Foundation director and is now the minister in the chief minister's department in charge of the Sabah Foundation (23 February 2001 interview with a Sabah journalist).

Before this study, it was generally believed that Sabah’s leaders lacked personal ties to the timber industry but this turned out not to be the case. Also, although Sabah’s largest concession holder is a state government foundation, this magnifies rather than diminishes the opportunities for the unofficial appropriation of timber rent. The appropriation of timber rent in Sabah took place not only through chief ministers awarding private concessions to themselves, their families, friends, business partners and political allies and financiers but also through state-owned timber companies and, in particular, the Sabah Foundation.

Returning to the theoretical points of this dissertation, in Sabah the government has gone too far in diverting timber rent to patrimonial goals. There may be no better image of this than a reported photograph of S'ng Chee Hua, escorted by officials of the Special Branch, walking out of the home of a PBS assemblyman, carrying a paper sack allegedly
full of money, having just attempted to pay that assemblyman to defect from the PBS.

Timber rent has also been diverted toward ends even more useless to these states than patronage. Consider Tun Mustapha's spending huge amounts of rent on his extremely young wife and her family while living in Australia. Consider Harris Salleh reportedly using rent to pay the London gambling debt of the king of Malaysia. Consider Jeffrey Kitingan reportedly enriching himself to the tune of $1 billion with timber money. As to the post-PBS Barisan Nasional government, there is no more explicit proof in any of the governments studied in this dissertation of a head of state owning timber concessions outright than is the case with Mohammad Salleh.

**Official timber rent capture in Sabah**

Although various sources estimated the average rate of timber rent extraction by the government of Sabah was 88 percent, while Sarawak collected 18 percent, and Indonesia 26 percent, this is not actually the case.

Observers had praised Sabah's high rate of rent collection. The FAO reported, "This . . . is a most effective royalty system, and yields some of the highest forest charges among tropical countries" (Gray 1980: 90). Haughton noted, "Sabah is frequently held up as a model of what could or should be done" (1993: 1). Vincent maintained that Sabah had the highest timber revenues in the world (24 June 1995 interview). A government guide to investment in Sabah proclaimed "the aim is to manage the forest estate with the object of obtaining the highest revenue compatible with sustained yield" (Sabah State Government 1978: 81). Harris's biography boasted of "Harris's slapping on the largest timber tax in Malaysia, more than double the tax charged by the state government of neighbouring Sarawak, even though the tax limited his own income" (Raffaele 1986:
The impression that Sabah had succeeded in optimizing timber revenues was supported by personal discussions with Harris. He volunteered that he had raised Sabah's timber revenues to the highest levels in the world. When asked his motivation, Harris said he thought that the timber companies were making too much money by the late 1970s and that a profit rate of 20 to 25 percent would suffice for their needs. Harris also claimed to be motivated to gather these higher revenues to finance state projects, especially in rural development and reforestation.

Harris said that timber companies had objected to his raising the log export royalty. He went on to say that as he was getting ready to raise royalty rates, a group of representatives from the Sabah Timber Association came to his office to complain that they could not afford the royalty hike. Harris told them that he took their concerns seriously and proposed that they have a follow-up meeting where they would carefully calculate the concessionaire's expenses on a blackboard in order to determine whether they could afford it or not. He also told the concessionaires he would include officials from the (federal) Inland Revenue Service in the meeting. In reality, Harris said that he was threatening the concessionaires. He knew they would be nervous about having to go over their costs in

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157 This conformed to my view that normal profit for timber companies should be about 30 percent.

158 Vincent had an alternative explanation for why Harris raised timber revenues to such high levels. Vincent maintained that Harris did so as a way of getting revenge on his "enemy," Tun Mustapha, whose associates still held timber concessions (24 June 1995 interview). This explanation is plausible, as Harris revoked only 810,319 acres in timber concessions from family members and proxies of Mustapha (FEER 1980: 26), and this still left many timber concessions unrevoked. What remains to be explained, however, is why Harris chose to punish the associates of his predecessor by forcing them to pay higher revenues on the timber they harvested from their concessions, rather than simply revoking their concessions outright, as
detail with IRS officials present, because these timber companies had been underdeclaring their profits on federal income tax returns and underpaying taxes to the federal government for years. Before the meeting could take place, the timber companies relented and agreed to the higher royalties (1 and 2 October 1996 interviews with Harris Salleh). Once industry accepted the increased tax, a group was established which met every three months to arrive at price-adjusted royalty figures. All rate hikes thereafter were made by group consensus.¹⁵⁹

Harris's account created a conundrum: he, as supported by the academic and gray literature (see Table 1.2), suggested that the state had genuinely high rates of timber revenue. On the other hand, years of research had proved that political elites in Sabah had unofficially appropriated massive amounts of timber rent, through awarding private timber concessions to their families, friends, business associates, political moneymen and allies and by making timber resources available to these individuals through the Sabah Foundation and other state-owned timber companies.

However, Sabah's timber rent capture was not as high as experts had claimed. The head of the Planning Division of the Sabah Forest Department told me that the official level of rent capture, even in the late 1970s and early 1980s, was not as high as many believed. He said that the reason that low rent levels persisted was due to the "high unofficial costs" of timber concessionaires (28 September 1996 interview with Eric Juin). Notwithstanding the fact that, in absolute dollar terms, Sabah timber revenues had peaked in late 1979, the rate of hidden timber rent appropriation by political elites had also peaked in 1979 (see Figure 5.2). In terms of rent capture in the late 1970s, Sabah was not the exception to the rule of

¹⁵⁹ The group had five to seven industry figures, plus three government officials: Dato William Shim of the
Southeast Asian rent leakage as had been originally thought.
Note: the gap in the line plotted above between the years of 1994 and 1996 is due to the fact that a log export ban was temporarily in place in Sabah during those years. As a result, no logs were exported. Logs could be sold in Malaysia, but at low domestic prices. Sabah concessionaires earned less rent. Rent appropriation between 1994 and 1996 is not comparable with the remaining years in the graph. Therefore, during the three years of the export ban, the graph is left blank.
In addition to high levels of rent diverted to political elites in Sabah, the payment of timber revenues was characterized by other irregularities as well. For example, companies belonging to Harris crony Wee Boon Ping paid few if any timber royalties during the Berjaya government (7 July 1997 interview with Ranjan Vanar). Terry Chala, an Australian expert on Sabah forest practices, reinforced this view when she wrote:

Where and how taxes are collected varies widely in Sabah . . . Harris allowed timber concessionaires to export timber and pay the royalty later. This led to a debt of several million [dollars]. PBS then asked [the loggers/debtors] to pay and so the idea of 'borrowed coupes' arose, i.e., borrowing into the future. This had never happened with other forestry activities (15 July 1997 personal correspondence with Terri Chala).

A second irregularity in Sabah is that the government deliberately shrinks the amount of timber revenues it collects by using high assumed costs for the extraction of timber. According to an internal document, the Sabah Department of Forestry inflates the estimated costs of logging by $15-20 per cubic meter, thereby undertaxing wood exports by that same amount. According to the document, "Royalty = 95% (FOB price/m3 - logging costs)." This sounds as though the government is capturing as revenues 95 percent of post-logging timber profit. However, before this royalty is levied, inflated logging costs are first subtracted. The document says explicitly, "For November-December 1992 logging costs were defined at RM125($50) per cubic meter" (Sabah Department of Forestry 1995: 13-14). But then, on the next page, the Department effectively admits that these assumed logging costs are too high when it acknowledges the findings of a World Bank study which placed Sabah logging costs at $31.50 per cubic meter.160 In the final instance, then, the government admits that log extraction costs in Sabah are between $30-35 per cubic meter, but that it

160 It is strange, but true, that an official government contradicted itself in the space of two pages on such an
charges revenues based on artificially high assumed extraction costs of $50 per cubic meter. In short, through these artificially inflated costs, the Department allows loggers and their political patrons to pocket an extra $15-20 for each cubic meter of timber.

A third irregularity in the payment of timber revenues was the Sabah Foundation's evasion of state and federal income taxes. In December, 1970 Rakyat Berjaya, a subsidiary of the Sabah Foundation, was given rights to Foundation timberlands for 100 years in exchange for its paying the Foundation $100 million. Its compensation payments to the Sabah Foundation, with interest, were amortized over the period of the concession from the proceeds of Rakyat Berjaya's timber sales. Rakyat Berjaya treated interest paid on its acquisition cost of timber rights from the foundation as a deductible expense for the purposes of federal taxation. It used these compensation payments, plus "charitable donations" to the foundation in 1979 of $80 million, and in 1982 of $61 million, to circumvent federal taxes. Because of the size of these donations to the Sabah Foundation, Rakyat Berjaya was able to report losses of $400,000 in 1982, $600,000 in 1983 and $1.2 million in 1984. Because of these paper losses, Rakyat Berjaya paid no federal income taxes in these and other years. Malaysia's Inland Revenue Service (IRS) took issue, claiming that as a result of these two illegal tax shelters, Rakyat Berjaya owed it $39 million for the 1972-1982 period. Although the IRS lost its case in court, it won a subsequent effort to assess Rakyat Berjaya for another $29 million for the period of 1983-1986 (AWSJ 1989a).

The Foundation also neglected to pay timber revenues it owed to the Sabah state government. The increase in timber prices and earnings since the mid-1980s led to a sharp
jump in the royalties owed to the state by Rakyat Berjaya. Company accounts for calendar year 1987 show that Rakyat Berjaya owed $85 million in royalties to the state, up from about $36 million in 1985 (AWSJ 1989a).

A final irregularity was the manner in which timber revenues, those officially collected by the government and unofficially appropriated by the Sabah Foundation, were used on projects that were ill defined and wasteful. Harris spent most of the timber revenues from the Sabah state treasury on two agencies: the village development corporation, Korporasi Pembangunan Desa or KPD, and the reforestation agency Safoda.\(^{161}\)

Though the KPD received $120-160 million each year (1 and 2 October 1996 interviews with Harris Salleh), there was little return on the money spent. For example, the KPD built a passion fruit juice factory that is alleged to have lost money every year since its inception (2 October 1996 interview with Junaidi Payne). The director of the KPD under Harris, Lim Guan Sing, acknowledged that most of the rural development loans made to Sabahans by the KPD were never repaid. Lim said Harris told him many times, "If even one or two out of a 1,000 of the KPD's rural development loans results in financial success for a Sabahan, then it is worth it" (4 October 1996 interview with Lim Guan Sing). While Harris's remark suggests a generosity of spirit, it also points to a lack of the sound financial investment of timber rent which might otherwise have contributed to a more developed economy.

Harris also spent the state's newly raised timber revenues on the state reforestation agency, Safoda. Harris estimated that between $20-40 million were spent on planting exotic,\(^{161}\) Harris's Sabah Gas Industries and hot bracketed iron plant were other examples of inefficient and expensive projects (30 September 1996 interview with Adeline Leong).
non-indigenous *acacia magnum* trees. A long-time resident of Sabah commented on the level of fraud that accompanied these projects, reporting of instances where village leaders were given contracts to do reforestation work, but who after planting trees intentionally burned them down, blaming forest fires in order to get new contracts (and funds) to plant trees again (2 October 1996 interview with Junaidi Payne).

The Sabah Foundation, too, spent a substantial amount of timber rent. Foundation literature states that three million dollars went to "educational and social programmes," ostensibly the purpose of the foundation. However, a much greater amount, nine million dollars, was spent on "development and joint venture projects." One such "development" project was the gaudy, mirrored, cylindrical $14 million Sabah Foundation Headquarters and sports complex in Kota Kinabalu. The foundation also spent four million dollars on ill defined "administration and other purposes" (Sabah State Government 1978: 94-99). In short, to the extent that timber revenues were collected in Sabah, they were spent in non-optimal ways.

**Summary**

Before going to the field, I believed that a lack of personal ties by two of Sabah's chief ministers and the perceived autonomy of the state-owned Sabah Foundation had enabled the government to succeed in raising and maintaining near-optimal levels of timber revenues. None of this turned out to be true. Sabah's leaders had high levels of personal ties to private timber companies, and the Sabah Foundation, far from being autonomous in its operations, was dominated and preyed upon by the state's chief ministers. When timber revenues peaked in absolute terms, so did the confiscation of timber rent by political elites. Finally, there were irregularities in the way revenues were
collected and spent by the government. In short, none of my initial assumptions about Sabah turned out to be correct. Timber rent was as grossly misdirected and mismanaged in Sabah as it was in Indonesia and Sarawak.

Chapter 6 Research Design, Revisited

This chapter discusses why the information available at the outset of this dissertation led me to hypothesize that Sabah's leaders lacked personal ties to the timber industry (the independent variable), and that Sabah's rates of timber rent capture were close to optimal (the dependent variable). Neither of these was true. In the end, I was left with a series of cases that did not vary in terms of the independent or dependent variables, which is quite limited from a research design point of view. The final part of the chapter suggests a case selection strategy that other scholars might wish to employ in order to ensure a greater likelihood of variation in the independent and dependent variables.

The hypothesis revisited

My perception that Sabah’s forest department was autonomous, and able to master the dual imperative in the timber sector, was due to my mistaken belief that two successive chief ministers, whose terms spanned nearly two decades, did not have substantial personal ties to the timber industry. I judged both leaders to be lacking in such ties for a number of reasons.

To begin with, both men ran on timber reform platforms. Harris seemed a reformer, in part, because in his biography he criticized his predecessor, Tun Mustapha, for appropriating large sums of timber rent to finance campaigns and for making excessive personal expenditures such as purchasing a million dollar mansion in Australia and providing generously for his Australian wife and her family (Raffaele 1986: 158, 172-
The Harris biography also listed the names and sizes of more than 1,500 square miles of timber concessions licensed to Tun Mustapha's family and friends (Raffaele 1986: 217-218). Harris's administration appeared to get off to a promising start in reforming the timber sector when it canceled timber concessions totaling more than 319,000 hectares (FEER 1980: 26), which Harris later told me belonged to "twenty to thirty friends of Mustapha" (1 and 2 October interviews with Harris Salleh).

Kitingan also appeared to be a reformer, in part because the PBS was an indigenous peoples' party which in the beginning did not fit the usual mold of Malaysian ethnic politics-cum-rent seeking, and in part because, upon election, Kitingan promised to take steps to conserve his state's dwindling timber reserves. He also pledged that his "new Sabah government . . . will 'stop wasting Sabah's resources' . . . with particular reference to the indiscriminate felling of timber" (FEER 1985d). Five years later, it was still recalled that "the rise to power of the Parti Bersatu Sabah in 1985" was made possible, in part, by "Pairin's election pledge to clean up the state" (FEER 1990a).

Given the appearance of reformist leanings by both men, it did not seem likely that they would risk developing significant financial ties to the timber industry while in office. Men who made an issue out of the unofficial appropriation of timber rent by their predecessors would not seem likely to take the legal, personal and, above all, political risk of engaging in such activities.

In addition to casting themselves as reformers, the two also appeared to lack substantial personal ties to the timber industry. Harris said he did not have much in the way of timber holdings when he assumed the chief ministership, other than a 5,000 hectare timber concession granted to him long before he was elected (1963-1964), plus a few additional
concessions granted to him in 1968-69 when he resigned from Tun Mustapha's cabinet and "went into business with a Chinese partner" (1 and 2 October interviews with Harris Salleh).

Kitingan was proclaimed by outside observers to be free of personal ties to the major pillars of Sabah's economy. It was reported that "Kitingan's modest lifestyle has apparently won him the hearts of . . . villagers. Kitingan does not have 'business interests left and right,' noted a Sabah observer, and villagers perceive this as a sign of his 'withstanding corruption'" (FEER 1985a). Even Kitingan's later conviction of unlawfully profiting from timber holdings was for a small 2,000-hectare concession. Moreover, this conviction occurred during a decade of escalating political persecution by the Malaysian Prime Minister and seemed politically motivated. Even after Kitingan's fall from power, he enjoyed a faithful mass following, suggesting that his power had been based more on legitimacy than on timber patronage.

I also assumed that the state-owned Sabah Foundation, which dominates the timber sector, was more capable of resisting, and less likely to become a conduit for, predatory demands by the state's chief ministers by virtue of the fact that the Foundation possessed a degree of bureaucratic coherence and because it held a non-revocable 100 year license to timberlands under its control. This contrasted with the state's smaller, private timber concessionaires which, by definition, had no bureaucratic coherence and had only one to five year licenses to the timberlands under their control (Gillis 1988: 132). It seemed that by having a majority of the state's timberlands in the hands of a predator-resistant Sabah Foundation, and only a minority in the hands of more vulnerable private timber
concessionaires, there were fewer opportunities for the state's forest revenues to be diverted to the state's chief ministers.

Contrary to my initial assumptions, I found that all of Sabah's leaders during the period covered by my study had maintained high levels of personal ties to the timber industry. Harris had three timber associates whom he rewarded with timber concessions in exchange for their funneling money to Harris and his political clients. Kitingan's administration was also characterized by the unofficial appropriation of timber rent. Not only did he have ties to private timber concessions but, in league with his younger brother who served as the head of the Sabah Foundation, he also emptied the Sabah Foundation of rent in many ways. Both Harris and Kitingan profited immensely from timber shipping monopolies as well.

In short, I had incorrectly hypothesized that Harris Salleh and Joseph Pairin Kitingan lacked personal ties to the timber industry and incorrectly believed that Sabah's timber rent capture rates were near optimal. Although the scholarly and gray literature found that Sabah had an average rate of 88 percent rent capture, these sources were wrong.

Table 6.1 Estimates of timber revenues as a percentage of total potential timber rent in Sabah

<table>
<thead>
<tr>
<th>Percentage of rent captured, source</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>93 percent (Gillis 1988b: 143)</td>
<td></td>
</tr>
<tr>
<td>90 percent (World Bank 1992n: 2)</td>
<td></td>
</tr>
<tr>
<td>85 percent (ODA 1992b: 14)</td>
<td></td>
</tr>
<tr>
<td>83 percent (World Bank 1991h: 76)</td>
<td></td>
</tr>
</tbody>
</table>

To understand why the sources in Table 6.1 arrived at such inflated estimates of
government rent capture in Sabah, the best source to examine is Gillis. Of the four sources listed above, Gillis made the earliest and boldest claim. The other estimates were made later and may have been based on Gillis's earlier findings. Another reason to examine Gillis's findings is that he provides more data in support of his findings than the others, possibly due to the fact that Gillis's work was published through an academic press, which probably required a higher standard of proof. In short, Gillis's claims are original, bold, the best researched and the easiest to evaluate.

Gillis maintains that Sabah captured an average of 84 percent of timber rent between 1979 and 1983, with a high of 93 percent in 1983, based on taking the total amount of revenues that the government collected each year between 1979 and 1983 and dividing this number by a hypothetical figure, the total potential timber rent, for each year between 1979 and 1983. He refers to potential rent as "the total aggregate rents in forest-based activity," column 2 in Table 6.2 below. He then takes that imaginary figure, and divides it into the total revenues that were collected, column 3, and arrives at the percentage of rent captured, column 4.

### Table 6.2  Gillis's calculations of timber rent capture by the government of Sabah, 1979-1983

<table>
<thead>
<tr>
<th>1 Year</th>
<th>2 Total aggregate rents in forest based activity (millions of dollars)</th>
<th>3 Total revenues and taxes on forest-based activities (millions of dollars)</th>
<th>4 Percentage of rent captured by government (column 3 divided by column 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>635</td>
<td>512</td>
<td>80</td>
</tr>
<tr>
<td>1980</td>
<td>533</td>
<td>488</td>
<td>92</td>
</tr>
<tr>
<td>1981</td>
<td>413</td>
<td>342</td>
<td>83</td>
</tr>
<tr>
<td>1982</td>
<td>512</td>
<td>361</td>
<td>70</td>
</tr>
<tr>
<td>1983</td>
<td>305</td>
<td>284</td>
<td>93</td>
</tr>
</tbody>
</table>

Source: Gillis 1998b: 143
However, Gillis uses figures for potential rent, in column 2, which are too low. As a result, when he divides this number into total timber revenues collected, column 3, he ends up with a percentage for total rent capture that is too high, in column 4. Gillis has calculated too low a number for the state's potential timber rent based on two questionable sets of data: export prices and extraction costs.

**Export prices**

Gillis's timber export price figures are too low, probably because he relied on Sabah government misinformation regarding export prices. Government timber price data is frequently used to hide the amount of rents that governments fail to capture and are instead appropriated by concession holding companies and the political elites that control them. (For a longer discussion on the manipulation of timber price data by governments, see Brown 1999: 68-71). Gillis's calculations span a five-year period, from 1979 to 1983. For the first two years of that period, 1979-1980, the data came from Gillis's "personal communication" with the "Sabah Forest Service" (Gillis 1988b: 140).

For the last three years of that period, 1981-1983, the data came from *Timber Trade Review*, a publication which Gillis cites in the text (1988b: 118, 120) but not in his bibliography. My price data for Sabah comes from a more impartial and uniform source, the UN Food and Agriculture Organization (FAO 1992: 196).

Aside from the data sources he uses, another reason Gillis's Sabah export price figures may be low is that he uses "average prices." Although he never defines this term, I assume he averaged the export prices of various commercially valuable species exported from Sabah to arrive at an annual average price. I do not know whether these are simple averages or weighted averages, but both have disadvantages. Simple averages
are prone to inaccuracy because species are exported in different amounts. On the other hand, weighted averages are difficult to calculate because the mix of species exported changes from year to year. Because of these inherent difficulties, I used the yearly export price of a single indicator species, red seraya, the industry standard which has been and continues to be the state's most frequently exported timber, though not much of it is left. My decision to use a single indicator species when calculating rent capture has been validated by others, including those in the timber industry.²⁶²

In short, there are two reasons why Gillis's export prices for Sabah are too low. First, he uses a disparate and partially unreliable set of data sources. Second he uses an undefined "average" export price. Our figures differ markedly, as shown in Table 6.3 below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Gillis's figures (dollars per cubic meter) for &quot;average FOB value, roundwood equivalent&quot; (Gillis 1988: 140)</th>
<th>Brown's figures (dollars per cubic meter) for annual FOB price of red seraya (FAO 1992: 196)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>94</td>
<td>177</td>
</tr>
<tr>
<td>1980</td>
<td>97</td>
<td>165</td>
</tr>
<tr>
<td>1981</td>
<td>84</td>
<td>136</td>
</tr>
<tr>
<td>1982</td>
<td>92</td>
<td>112</td>
</tr>
<tr>
<td>1983</td>
<td>76</td>
<td>97</td>
</tr>
</tbody>
</table>

My figures are higher than Gillis's because 20 years ago, Sabah's export prices were

²⁶² When reviewing my method for calculating rent capture with the Executive Director of the Sarawak Timber Association, he asked how I derived export prices. I explained that I used an indicator species. He volunteered that this was the most methodologically sound strategy to follow (13 November 1996 interview with Barney Chan). In the case of Indonesia and Sarawak, all potential rent calculations use the indicator species red meranti which has been and continues to be the industry standard in those states, as well as the most frequently exported timber.
higher than in Indonesia and Sarawak. Sabah's timber is more expensive because it is of higher quality. The Director of the Sarawak Forest Department explained, "The profile of Sabah's forests differs from those of Sarawak's." While "Sabah has volcanic soil," Sarawak has "riverine soil." As a result, "at one time, Sabah had higher quality dipterocarps than any other state or country in Southeast Asia," and this "allowed it to charge prices for its trees that were higher than those in any other part of Southeast Asia."

Looking back 15 years, he recalled, "There was a time when Japan preferred to buy round logs from Sabah. This was because Sabah had the biggest, best dipterocarps in the world" (13 November 1996 interview with Cheong Ek Choon). The fact that red seraya from Sabah sold for more than red meranti from Sarawak was also confirmed by the head of the Natural Resources Division in Sabah. He explained that because of their higher quality, Sabah logs have commanded prices 25 to 30 percent higher than similar species from Sarawak (4 October 1996 interview with William Shim).

The former senior vice president of operations for Weyerhaeuser in Asia confirmed that red seraya from Sabah was more sought after, and sold for higher prices, than red meranti from Kalimantan, Indonesia. Weyerhaeuser had operations in both places but found that Sabah timber brought higher prices (26 June 1995 interview with Norman Johnson).

Also, Japan paid for Sabah logs through special cartels, which appear to have been willing to pay higher-than-market prices for Sabah's high quality timber. An international forestry consultant alludes to "the historic major relationship that this state has maintained with Japan on logs" (John V. Ward and Associates 1990: VIII-10). Dauvergne
discusses how Japanese trading companies (sogo shosha) provided financial incentives to Sabah so that they could obtain the state's high quality timber:

Given that the quality of wood in Sabah is higher than in Sarawak, after commercial log stocks eroded in the Philippines and as demand soared, sogo shosha turned first to Sabah. Besides supplying credit and equipment (often in exchange for logs) these companies provided powerful financial incentives that escalated log production in Sabah. In 1965, out of a total of 9.3 million cubic meters of Southeast Asian log imports, Japan imported 2.8 million cubic meters from Sabah and 644 thousand cubic meters from Sarawak. In that year, Japan imported about two-thirds of Sabah's total log production. . . . During the height of Sabah's log exports from 1972 to 1987, Japan imported about 61 percent of total log production and accounted for nearly 70 percent of total log exports (Dauvergne 1997: 127-128).

If Japanese cartels granted subsidies of credit and equipment to Sabah log producers, then perhaps the cartels were willing to pay higher than normal prices for those logs. This in turn would have driven up the 'market' price for Sabah log exports, since Japan purchased 70 percent of Sabah's log exports over a period of a decade and a half. FAO data in Table 6.4 shows that Sabah's logs sold at higher export prices than those from Indonesia and Sarawak.

Table 6.4 Sabah's roundwood export prices in comparison (dollars per cubic meter), 1979-1983

<table>
<thead>
<tr>
<th>Year</th>
<th>Indonesia</th>
<th>Sarawak</th>
<th>Sabah</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>138</td>
<td>74</td>
<td>177</td>
</tr>
<tr>
<td>1980</td>
<td>130</td>
<td>70</td>
<td>165</td>
</tr>
<tr>
<td>1981</td>
<td>109</td>
<td>62</td>
<td>136</td>
</tr>
<tr>
<td>1982</td>
<td>115</td>
<td>68</td>
<td>112</td>
</tr>
<tr>
<td>1983</td>
<td>102</td>
<td>59</td>
<td>97</td>
</tr>
</tbody>
</table>

Source: FAO 1992: 176 (Indonesia), 197 (Sarawak), 196 (Sabah)

Sabah exported a more even flow of logs than Indonesia and Sarawak. As a result of Indonesia's log export ban in the early 1980s, Sabah, in spite of its higher prices,
became a market leader for a time, as shown in Table 6.5 below.
Table 6.5 Sabah's log export volumes in comparison (all figures in cubic meters), 1979-1983

<table>
<thead>
<tr>
<th>Year</th>
<th>Indonesia</th>
<th>Sarawak</th>
<th>Sabah</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>19,517,200</td>
<td>6,048,000</td>
<td>10,337,000</td>
</tr>
<tr>
<td>1980</td>
<td>16,313,700</td>
<td>6,695,000</td>
<td>8,511,000</td>
</tr>
<tr>
<td>1981</td>
<td>6,956,800</td>
<td>6,923,000</td>
<td>9,367,000</td>
</tr>
<tr>
<td>1982</td>
<td>3,523,700</td>
<td>9,201,000</td>
<td>9,916,000</td>
</tr>
<tr>
<td>1983</td>
<td>3,493,500</td>
<td>9,171,000</td>
<td>9,473,000</td>
</tr>
</tbody>
</table>

Source: DFID 1996 (Indonesia); Annual Report of the Forest Department, Sarawak, 1979-1983 (Sarawak); Sabah Forest Department 1996d (Sabah).

Accurate data on timber prices is necessary to calculate the percentage at which governments capture timber rent. However, Gillis arrived at a set of timber prices for Sabah that were too low. Among the most probable reasons are Gillis's use of Sabah government figures and of average prices instead of the price of a single indicator species. In addition, Gillis may have overlooked the fact that Sabah timber sold at high prices compared to the same timber from Indonesia and Sarawak.

If the Sabah timber export prices assumed by Gillis were too low, then, assuming extraction costs and normal profit were constant, he arrived at too low a figure for potential rent. He divided this low figure for potential rent into actual taxes collected, and arrived at an unrealistically high figure for the percentage of rent captured.

**Costs of extraction**

Gillis also used figures for the cost of extraction of timber that were too high, thus making the profit margin seem smaller than it actually was and, so again, causing the figures for the percentage of timber rent capture to be too high. Gillis's figures for extraction costs may have been based on deliberately inflated numbers used by government and industry to disguise the actual division of timber rent.
Gillis relies on the findings of two studies, Hunter (1984: 109-110) and Dataconsult (1983: 9), both of which provide estimates of how much it costs concessionaires to remove timber from the forest in Indonesia. Like Gillis, my estimates of extraction costs are based on what it costs to extract timber in Indonesia. However, instead of relying on others' studies to arrive at my estimate, I use a computer model, the Forest Concession Model (Scotland and Whiteman 1997a) developed by the United Kingdom Department for International Development's Indonesia Tropical Forest Management Programme. The model calculates the full costs associated with extracting timber from a forest concession. The user of the model specifies the size and location of a concession, the price and mix of timber coming from the concession and the cost of capital. Depending on the inputs, the model then generates a total figure for what it costs to remove a cubic meter of timber from the forest including costs of planning and surveying, road building, extraction, forest management (which includes the replanting of indigenous species) and administration. The model also takes into account depreciation and replacement costs. Using this model, I specified a representative Borneo concession, 80,000 hectares in size, producing hardwoods that sell at a price of $100 per cubic meter. I assumed capital costs (interest paid on borrowed money) of 25 percent. With these inputs, the model suggested that it would cost a concessionaire $21 to remove a cubic meter of timber in 1998. My assumed costs of extraction for Indonesia, Sarawak and Sabah are all derived from this figure and range from $18.75 to $21.25 between 1970 and 1999.163 Table 6.6 shows my estimates for the annual cost per cubic meter of removing roundwood from Sabah's forests, and how they differ from those of Gillis.

163 My costs of extraction are roughly in line with the costs identified in an internal study carried out by the World Bank. In that study, estimates were made of the logging cost of the Barito Pacific group,
Table 6.6 Divergent takes on cost of removing a cubic meter of commercially valuable timber from the forest in Sabah, 1979-1983

<table>
<thead>
<tr>
<th>Year</th>
<th>Gillis's figures for &quot;logging costs, roundwood equivalent&quot; (dollars per cubic meter) (1988a: 92)</th>
<th>Brown's figures for the average cost of extraction of a cubic meter of red seraya (dollars per cubic meter)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>30</td>
<td>19</td>
</tr>
<tr>
<td>1980</td>
<td>34</td>
<td>20</td>
</tr>
<tr>
<td>1981</td>
<td>38</td>
<td>20</td>
</tr>
<tr>
<td>1982</td>
<td>41</td>
<td>20</td>
</tr>
<tr>
<td>1983</td>
<td>46</td>
<td>20</td>
</tr>
</tbody>
</table>

Gillis assumes that the cost of removing logs from the forest rose by 50 percent between 1979 and 1983, an average of the rates of inflation in Sabah and the world during those years (1988: 93). He concludes that the cost for extracting a cubic meter rose from $30 in 1979, by an average of four dollars a year, to reach $46 by 1983. Most scholars and analysts estimating extraction costs do not take account of inflation, perhaps because many of the components of timber extraction are, if not inflation-proof, then inflation-resistant, such as nationally subsidized fuel costs, imported machines and vehicles purchased over time, and even labor.

It is telling that before Gillis's inflation multipliers are figured in, his estimates tend to be close to those of other analysts working in Sabah, but after these inflation multipliers are figured in, his estimates significantly exceed those of other researchers. Reid Collins (1993: 14) estimated costs of extraction in Sabah to be $34 per cubic meter. The World Bank (1991h: 164) estimated them to be $31.50. These estimates are the same as Gillis's 'pre-inflationary' estimates of $30-35. If, however, we continue to let Gillis's inflation multiplier

Indonesia's largest timber conglomerate. It was found that the company's cost of extraction were $19 per cubic meter for swamp forests, and $24 per cubic meter for hill forests (World Bank 1992e).
run for another decade, from the early 1980s into the early 1990s (which puts us into the same time frame as when the Reid Collins and World Bank estimates were made), Gillis's costs of extraction reach $86 by 1993. At that point, his cost of extraction is quite close to the price at which red seraya actually sold on the world market. However, it would have been impossible for Sabah timber companies to have stayed in business had their extraction costs actually approached log prices in this manner, taking into account the revenues that the companies still had to pay. Timber companies did stay in business in Sabah, showing that inflation did not effect these companies as Gillis's figures would suggest. In short, Gillis's large inflation multipliers cause his costs of extraction to become unrealistically high.

Gillis used a set of log extraction costs for Sabah that are too high, and then used a larger-than-appropriate inflation multiplier. Based on these faulty inputs, he arrived at a figure for potential rent that is too low and, consequently, his figures for the Sabah government's percentage of timber rent capture are too high.

Although Gillis and I diverge on both timber prices and the costs of extraction, we are in agreement on the amount of timber revenues collected by the government of Sabah. According to my data, the government of Sabah collected an average of four dollars a year more in timber rent than Gillis found, which, all other things being equal, would result in my having higher estimates of timber rent captured by the government than Gillis.

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Table 6.7  Divergent takes on the amount of timber revenues collected by the government of Sabah, 1979-1983

<table>
<thead>
<tr>
<th>Year</th>
<th>Gillis's estimates of timber revenues collected in Sabah (dollars per cubic meter)</th>
<th>Brown's estimates of timber revenues collected in Sabah (dollars per cubic meter)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>53</td>
<td>61</td>
</tr>
<tr>
<td>1980</td>
<td>59</td>
<td>57</td>
</tr>
<tr>
<td>1981</td>
<td>39</td>
<td>38</td>
</tr>
<tr>
<td>1982</td>
<td>37</td>
<td>47</td>
</tr>
<tr>
<td>1983</td>
<td>30</td>
<td>37</td>
</tr>
</tbody>
</table>

Notes:
- Gillis does not actually give a figure for revenues collected by the government of Sabah per cubic meter of timber per year. However, this figure can be derived by taking his figure for total timber revenues collected by the state (Gillis 1988b: 126, 143) and dividing that number by his figure for total volume of logs exported from Sabah (Gillis 1988b: 142).
- My figure for royalties collected by the government come from a series of spreadsheets printed out by Andurus Abi, Chief of the Sabah Forest Department's Marketing Division, during a series of meetings on 23, 26 and 27 October 1996.

As shown in Table 6.7 above, Gillis and I are in rough agreement on the amount of timber revenues collected in Sabah. However, given that Gillis starts with low timber prices and then subtracts high extraction costs, even though he then subtracts a revenue figure which is relatively accurate, he ends up with figures for uncaptured rent that are too low. Our respective estimates on timber rent not captured are listed in Table 6.8 below.
Table 6.8  Divergent takes on the amount of timber rent not captured by the government of Sabah, 1979-1983

<table>
<thead>
<tr>
<th>Year</th>
<th>Gillis's estimates for rent not captured by the Sabah government (dollars per cubic meter)</th>
<th>Brown's estimates for rent not captured by the Sabah government (dollars per cubic meter)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>11</td>
<td>97</td>
</tr>
<tr>
<td>1980</td>
<td>4</td>
<td>88</td>
</tr>
<tr>
<td>1981</td>
<td>7</td>
<td>78</td>
</tr>
<tr>
<td>1982</td>
<td>14</td>
<td>45</td>
</tr>
<tr>
<td>1983</td>
<td>0</td>
<td>40</td>
</tr>
</tbody>
</table>

Notes:
- Gillis never actually gives a per cubic meter estimate for timber rent not captured by the state of Sabah. However, this figure can be calculated in any year by taking Gillis's figure for price (in the second column in Table 6.3), subtracting from that his cost of extraction (in the second column in Table 6.6) and subtracting again the revenue paid (the second column in Table 6.7). The resulting number is timber rent not captured by the state for every cubic meter of timber exported.
- The estimates I use for rent not captured by the state, and graphed in Figure 5.2, are actually about five dollars per cubic meter lower than those shown in the table above. This is because my estimates for potential rent subtract normal profit earned by the concessionaire, which Gillis does not do (Gillis 1998b: 141). However, in the table above I do not deduct normal profit, so as to have figures strictly comparable to those of Gillis.

My figures in the table above show that in Sabah the annual amount of rent that escaped the state, to be appropriated instead by the political elites who ran or owned most timber concessions, was at times quite high. At certain points, rent appropriation was even higher in Sabah than in Indonesia or Sarawak. Interestingly, the five-year period during which Gillis maintained that Sabah had achieved optimal levels of rent capture starts with 1979, the year that political elites appropriated the highest levels of timber rent. This is graphed in Figure 6.1 below.
Figure 6.1  Average amount of rent per cubic meter of dipterocarp timber not officially captured by the governments of Indonesia, Sarawak, and Sabah from 1970 to 1999.
As shown in Figure 6.1 above, Indonesia, Sarawak and Sabah all failed to capture significant levels of timber rent during the thirty-year period covered by this study. In spite of my efforts to select cases with fluctuations on the independent and dependent variables, for this study there are no variations in either. What is left is a series of cases in which politicians always penetrated the tropical timber industry and timber rent capture was always low. This is a limited state of affairs, from a research design point of view, as the following passage suggests:

Selection should allow for the possibility of at least some variation on the dependent variable. This point seems so obvious that we would think it hardly needs to be mentioned. How can we explain variations on a dependent variable if it does not vary? Unfortunately, the literature is full of work that makes just this mistake of failing to let the dependent variable vary; for example, research that tries to explain the outbreak of war with studies only of wars, the onset of revolutions with studies only of revolutions, or patterns of vote turnout with interviews only of nonvoters (King et al 1994: 129).

Although my study sought to allow for the possibility of at least some variation on the dependent variable, facts in the field did not cooperate. Thus, while my study shows that high levels of penetration by political elites into the timber industry are associated with low levels of timber rent capture, the reverse has not been demonstrated. A case has not been shown where there is a lack of ties by politicians to the timber industry and accompanying high timber rent capture.

Thus, even though I set out with a "most similar systems" comparative design (Lieberson 1992, Lijphart 1971), I ended up with only a "single shot case study" (Campbell 1957). A series of cases were initially selected that were controlled with respect to a number of important variables: all were major tropical timber producers and exporters; all harvested commercially valuable trees from the dipterocarp family using
tractor logging methods; all maintained total policy sovereignty with respect to their forest products sectors. They were also controlled in terms of potentially confounding variables, most significantly, the timber supply in all three cases comes from public, not private lands. The only way in which the cases appeared to differ was with respect to the crucial independent variable (the degree to which politicians had penetrated the timber industry) and the dependent variable (the degree to which timber rent was captured by the state).

However, Sabah turned out to be the same as Indonesia and Sarawak. Thus, the hypothesis proffered at the outset of this study is not proved. However, it is not disproved either. Moreover, the independent variable (the degree to which state leaders possess personal ties to the timber industry) and the dependent variable (the degree to which rent is not captured) relate to one another as predicted by the hypothesis. As discussed Chapters 3, 4, and 5, patrons and clients in all three states maintain ties to the timber sector and timber rent capture in all three states is suboptimal (see Figure 3.1).

While I demonstrate a series of cases where the ties of politicians to the timber industry are high and where government timber rent capture is low, the hypothesis can be shown to be true only if there is one or more cases where the ties of politicians to the timber industry are low and rent capture is high. Hence, other scholars will need to look for cases that vary with respect to the set of cases presented in this dissertation. This would be a legitimate research strategy, as outlined in the following passage:

[A] study of why a certain possible outcome never occurred should, if possible, be changed to create variation on the dependent as well as explanatory variables. For instance, if the research question is why antebellum South Carolina plantation owners failed to use fertilizer in optimal amounts to maintain soil fertility, we can learn little . . . from a study limited to South Carolina if all of the plantation owners
behaved that way. There would, in that case, be no variance on the dependent variable, and the lack of variation would . . . convey no new information. If some Virginia plantations did use fertilizer, it could make sense to look at both states in order to account for the variation in fertilizer use - a least one difference between the states which would be our key causal variable might account for the use of fertilizer. On the other hand, if all prior studies had been conducted in states which did not use fertilizer, a substantial contribution to the literature could be made by studying a state in which farmers did use fertilizer. This would at least raise the possibility of estimating a causal effect (King et al 1994: 147-148).

Scholars will need to select cases that vary with respect to mine, in terms of the independent and dependent variables. They will want to find out whether there are tropical timber states where heads of state do not maintain secret financial ties to the timber industry and, if there are such places, whether they also have optimal timber revenue policies.

**Case studies revisited**

Although one of the cases selected in this dissertation, Sabah, was chosen in error, the original research design is sound. In order to be able to fully test the hypothesis advanced at the outset of this study, other scholars will have to ensure that among the cases they choose, there is covariation among the independent variable and dependent variables, or that the cases they choose vary with respect to those presented here.

I have already shown that there is an association between high levels of political penetration into the timber industry and low levels of timber rent capture by the government. However, the proposition which future scholars will want to test is the opposite one, namely, whether there is also an association between a lack of ties by politicians to the timber industry and a high level of timber rent capture by the government. In order to see whether such a relationship exists, scholars have to choose carefully from among the cases of the 20 or so remaining, well-forested tropical nations
that not examined here. These states are listed in Table 6.9 below.

Table 6.9  Selected list of nations in which this study might be completed

<table>
<thead>
<tr>
<th>Asia-Pacific</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Burma</td>
<td>Cambodia</td>
</tr>
<tr>
<td>Laos</td>
<td>Papua New Guinea</td>
</tr>
<tr>
<td>New Caledonia</td>
<td>Solomon Islands</td>
</tr>
<tr>
<td>Vanuatu</td>
<td></td>
</tr>
<tr>
<td>Central America</td>
<td></td>
</tr>
<tr>
<td>Belize</td>
<td>Costa Rica</td>
</tr>
<tr>
<td>South America</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>Bolivia</td>
</tr>
<tr>
<td>Colombia</td>
<td>Suriname</td>
</tr>
<tr>
<td>Suriname</td>
<td>Venezuela</td>
</tr>
<tr>
<td>West and Central Africa</td>
<td></td>
</tr>
<tr>
<td>Benin</td>
<td>Central African Republic</td>
</tr>
<tr>
<td>Congo (Congo Brazzaville)</td>
<td>Equatorial Guinea</td>
</tr>
<tr>
<td>Gabon</td>
<td>Zaire (Congo Kinsasha)</td>
</tr>
</tbody>
</table>

The first step for further study is to determine which of the nations in Table 6.9 have the majority of timber produced from forests on public lands. As has been shown, the dynamic by which timber companies, and the political elites who in many cases own and run them, are able to appropriate enormous amounts of timber rent is by having timber concessions granted to them, usually more or less free of charge, in public forests. If most of a nation's forests are privately owned, it introduces a new dynamic beyond the scope of the research design, as it could constitute a confounding variable. Again, what needs to be found is whether there is any place in the tropics where governments are able
to resist handing out forest concessions in public forests to companies that are connected
to heads of states or their clients, and where governments manage to capture optimal
levels of timber rent from the companies that are awarded concessions.

With that first screening criteria in mind, the next step is to select a large number of
states (I would choose five) where it seems likely that heads of state do not have personal
ties to the timber industry. There are a number of ways to infer whether this might be the
case. One way is to read coverage about that country in the international press. If a
country's timber sector is at all large and if it is already penetrated by the head of state or
his clients, journalists might have uncovered the fact. After conducting a search of this
kind, scholars may find a country with a relatively long-serving head of state who has
had ample time to prey upon the timber sector by having timber concessions awarded to
companies controlled by himself, his family and proxies, but appears not to have done so.

It will be important to obtain independent confirmation of whether this country's
timber sector is free from predation by political elites. An excellent way to obtain such
confirmation is to contact nongovernmental organizations concerned with environmental
issues and/or issues of corruption. It should be possible to check with one or two NGOs
in that country, by telephone or e-mail, although some are close to governments and
unwilling to comment on sensitive matters. As for more independent NGOs, it is not
certain that scholars can overcome barriers of language and trust. With respect to the
trust issue, many NGO figures are embattled in their own societies and reluctant to
discuss dangerous issues with outsiders.

The next step, if one or more countries have been found where NGOs confirm that
politicians lack personal ties to the timber industry, is to travel to the country for further
verification. Data should be collected on the largest timber concession holding groups, including the names and sizes of their concessions. The best place to get this information is from scholars who have already compiled it (sometimes local, sometimes foreign), local business consultancies, or from departments of forestry. The next step is to go to corporate registries and obtain articles of incorporation for each concession. One can review the names of directors and shareholders with local academics, journalists, opposition politicians, NGO figures and other independent observers willing to provide insight into the implications of who runs and holds shares in timber concessions. If a country has campaign finance reporting laws, and campaign expenditure reports that are publicly available, these should be checked as well. This fourth step could take many months, even for a single country.

Once the above process is completed, scholars will hopefully find at least one country in which the ruler lacks personal ties to the timber industry. One potential risk is that only upon closer investigation will the scholar discover these hidden connections. Careful screening early in the process will reduce the chances of this occurring. Assuming scholars find one country in the tropics where a ruler does not have personal ties to the timber industry, then the final step would be to determine the degree to which the government in that country is capturing timber rent. This data should be available from FAO and/or World Bank missions in these nations, or the headquarters of these organizations in Rome and Washington, respectively. In-country bilateral forestry projects with experienced resource economists are also an excellent place to check. The simple way to calculate timber rent capture is to take the price per cubic meter for the leading species of roundwood exported from the country, and then subtract from that
price the cost of removing a cubic meter of timber from the country's forest, a 30 percent
margin for normal profit, and revenues per cubic meter collected by the government for
that species. If the difference is large between the price of wood and the costs associated
with producing it, including extraction, normal profit and government revenues, then
timber rent capture is suboptimal. Conversely, if the difference is small or zero, then
timber rent capture is optimal.

When calculating economic rent captured by a state, note that timber rent can be
captured other than by royalties, such as by auctioning and performance bonds (Brown
1999: 75-76, 79-80). If nations have well-functioning auctioning or performance
bonding systems in place, then 100 percent of timber rent cannot be captured through
royalties since some of it will already have been collected earlier by the government
through these other mechanisms.

However a nation chooses to collect its timber rent, if it turns out that one or more
countries has a high level of timber rent capture and a low level of ties by political elites
to the timber sector then the remaining portion of the hypothesis will be confirmed. If
one or more nations can be found where rulers, their families, proxies, business partners
or political clients and financiers lack extensive personal ties to the timber industry and
where the rate of government timber rent capture approaches 100 percent, then this will
provide confirmation of the remainder of the hypothesis.

With dozens of tropical forest nations in the world, there may be one in which the
head of state lacks personal ties to the timber industry and in which the government
captures optimal levels of timber rent. However, it may be that there is no country like
this anywhere in the tropics (or for that matter even in temperate regions). If this turns
out to be the case, then alternative hypotheses will have to be found to explain the lack of autonomy of departments of forestry from the predatory demands of heads of state and the inability of departments of forestry to address the dual imperative.

Such a hypothesis would address the character of the timber commodity itself. The argument would not be, as maintained in this dissertation, that the institutional weakness of the state leads to suboptimal regulation of the timber sector. Rather, the argument would be that the perverse incentive structures embodied in the extraction of timber leads to the institutional weakness of the state.

In trying to explain how the incentive structure embodied in timber can institutionally weaken states, it is useful to consider the similarities between the timber and the narcotics sectors. Both sectors have technologically simple and low cost methods of production. Both have products that sell for high prices on the world market. Both have extremely high rent earnings resulting from the difference between low production costs and high market prices. Moreover, rent earnings in both sectors are typically magnified because of government trade restrictions: narcotics exports are illegal and so are log exports from many tropical nations, including Indonesia. Finally, entry into both sectors is mediated, if not by the state then by violence. For those who think this a far-fetched parallel, consider the fact that Wong Tuong Kwang, before he became the head of the WTK timber conglomerate in Sarawak, got his start in opium smuggling.

Wong Tuong Kwang . . . used more than two dollars to start his career. He smuggled opium during the colonial time . . . many people had learnt about it. When I was a small boy, I stayed at Chung Cheng Primary School in Sg. Ma'aw. [Wong Tuong Kwang's] youngest son, Qi Zhi was my classmate and I often visited his house at Sg.

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165 In Indonesia in recent years, the government claims to have rescinded the log export ban, but this is a fiction (see Brown 1999: 76-77).
Paradom. His neighbor Ting Ming Hui was not on good terms with him. Whenever 
they quarreled, Ting and his family were always the losers. But they could make their 
opponents speechless when they told them not to be so arrogant since they were opium 
smugglers only (Lau 1995: chapter 19, page 1).

If the timber trade produces rent like the narcotics trade, it is not difficult to 
imagine that the timber trade can have just as corrosive an effect on proper governance as 
the narcotics trade. The essence of the problem is that it is so easy for heads of state to 
obtain enormous levels of rent from narcotics, or timber, that once these sectors are up 
and running and providing enormous unofficial streams of rent to political elites, a set of 
overwhelmingly strong disincentives are created. In this sense, it may not be the 
institutional weakness of states that leads to the suboptimal regulation of the timber 
sector. Rather, it may be the perverse incentive structures embodied in the extraction of 
timber that lead to the institutional weakening of governments.

However, to abandon the main hypothesis of this study, and to shift to the one 
discussed in the last few paragraphs, it would first have to be shown that out of the 
dozens of tropical forest nations in the world there is not a single nation in which the 
head of state lacks personal ties to the timber industry and in which the state captures 
optimal levels of timber rent. This cannot be shown without further research.
Chapter 7 Conclusion

The beginning point for this study is that commercially valuable species of tropical timber yield substantial amounts of economic rent, or above normal profit. Economic rent for a species can be calculated by taking the cost of extracting wood from the forest, adding to that cost the normal profit needed to attract and retain timber companies, and subtracting the sum of these two from the market price of the wood. The difference between the cost of extraction plus normal profit, and price, is economic rent. Rent is typically quite large for the commercially valuable dipterocarp species exported from Indonesia and East Malaysia.

When timber is located on government-owned land, it is legally the property of the state. It is the right and obligation of the state to conserve, or exploit, the resource as it sees fit. The state may decide to do nothing with the resource and, in such a case, many social and environmental benefits will remain intact for generations. However, states usually exploit their forests, in order to generate profit for timber extracting companies, employment, plus wider macroeconomic benefits such as positive foreign exchange balances and, ideally, revenue for the state treasury.

In order to produce timber revenue for state treasuries, it is not really necessary to sacrifice normal profit for timber companies, jobs for timber workers, or foreign exchange flows. This is because the vast amount of economic rent generated from the extraction of timber from public lands can be captured as government revenue.

Given that full timber rent capture is optimal, I sought to explain why, over the last three decades, the three largest tropical timber producing states in the world had such widely varying rates of timber rent capture. On the one hand, Indonesia with 26 percent,
and Sarawak with 18 percent, had low rates of rent capture. On the other hand, Sabah, at 88 percent, appeared to have a high rate of rent capture.

Stated very simply, I argued that if departments of forestry awarded licenses to harvest timber on public lands to companies run or owned by heads of state, or their clients, families or proxies, this would prevent the optimal capture of timber rent. Conversely, if such personal ties were not maintained by patrons and clients, optimal levels of timber rent capture would occur.

Although proving that rulers and their clients are unofficially appropriating timber rent is difficult, I delved into the hidden world of timber concessions, analyzing the articles of incorporation of the timber concessions licensed to all the major timber conglomerates in Indonesia, Sarawak and Sabah. I undertook to find out whether politicians, their families, proxies, business partners, and political financiers and supporters had managerial and equity ties to these timber concessions. I discovered that every head of state and his political supporters had unofficially appropriated rent from the tropical timber resource. Personal ties were ubiquitous and constant.

I also calculated the dollar amount of timber rent unofficially appropriated per cubic meter per state per year in all three cases. As I had hypothesized, substantial amounts of rent were not captured by the governments of Indonesia and Sarawak but instead were appropriated by politically linked concessionaires. The same turned out to be the case in Sabah. As shown in Figure 6.1, unofficial appropriation of timber rent in Sabah, far from being the lowest of the three cases as many had argued, was in fact higher than in either Indonesia or Sarawak in the late 1970s and early 1980s, the period for which the best analysis available suggested that Sabah had achieved optimal levels of rent capture.
The significance of the unofficial appropriation of timber rent having been higher in the late 1970s in Sabah, than in Indonesia or Sarawak, may be that Sabah is less politically stable than Sarawak and Indonesia. During the thirty-year period of this study, Sabah's government changed seven times, while Sarawak's changed only once and Indonesia's not at all until the final year. Given these unstable political conditions, it may have been that in the late 1970s and early 1980s, Sabah's leaders had virtually no other choice than to unofficially appropriate timber rent in order to have resources available to maintain their power through illicit means. However, this explanation has its limits. The logical extension of this argument is that the unofficial appropriation of timber rent in Sabah later declined because things became politically calmer in subsequent years. But if anything, politics has remained at a fever pitch in Sabah.

A second explanation for why the unofficial appropriation of timber rent was higher in the late 1970s in Sabah, an explanation for which I lay the groundwork in the previous chapter, is that timber prices were so high in Sabah in the late 1970s that Harris Salleh, the state's chief minister, could afford both to unofficially appropriate high margins of rent and still leave substantial margins of rent to be captured as revenues. As discussed at length, dipterocarp timber in Sabah in the late 1970s and early 1980s sold for far more than that in Sarawak and Indonesia (see Table 6.4). In 1979, Sabah's dipterocarp timber prices were Southeast Asia’s highest, peaking at $177 per cubic meter, while selling for only $138 per cubic meter in Indonesia, and $74 per cubic meter in Sarawak. Again, the difference between Sabah’s sky-high export prices and substantial but still comparatively

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166 Anyone who has ever been to Sabah knows that this polity has a comparatively anarchic feel to it. When I stayed in Sabah, I found it difficult to find a single person who had anything good to say about the
modest timber revenue rates left room for a great deal of rent to be unofficially appropriated by patrons and clients (more, in fact, than was the case in Indonesia or Sarawak). This made it temporarily possible for Sabah's leaders to shower money on development expenditures, patronage expenditures, as well as the least productive expenditure of all, enriching the head of state. As a result, the appropriation of timber rent by Sabah's rulers and their political followers was higher between 1970 and 1981 than was the case in either Indonesia or Sarawak.

In Indonesia, Sarawak and Sabah, personal ties by political elites to the timber industry were high and the ability of governments to officially capture timber rent was low. The result of these states' inability to capture timber rent is an enormous loss in official revenue. Table 7.1 below shows the revenues lost in Indonesia, Sarawak and Sabah as a result of concessionaires being asked by the government to pay timber revenues at below-optimal levels. The same figures are also a measurement of the amount of timber rent earned by timber concessionaires and/or unofficially appropriated from them by heads of states and their proxies or clients. The total figure for timber revenues that could have been collected, but were not collected, by all three states over the period of 30 years is more than $40 billion.

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167 These development expenditures were, however, fundamentally non-strategic, as discussed at the end of Chapter 5.
<table>
<thead>
<tr>
<th>Year</th>
<th>Indonesia</th>
<th>Sarawak</th>
<th>Sabah</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>Incomplete data</td>
<td>No data</td>
<td>Incomplete data</td>
</tr>
<tr>
<td>1971</td>
<td>Incomplete data</td>
<td>2,401,592</td>
<td>381,335,065</td>
</tr>
<tr>
<td>1972</td>
<td>Incomplete data</td>
<td>1,033,303</td>
<td>366,427,248</td>
</tr>
<tr>
<td>1973</td>
<td>Incomplete data</td>
<td>25,681,232</td>
<td>404,458,457</td>
</tr>
<tr>
<td>1974</td>
<td>-10,480,715</td>
<td>26,330,765</td>
<td>334,632,914</td>
</tr>
<tr>
<td>1975</td>
<td>-97,215,714</td>
<td>10,328,746</td>
<td>253,635,117</td>
</tr>
<tr>
<td>1978</td>
<td>296,459,594</td>
<td>82,727,918</td>
<td>687,980,386</td>
</tr>
<tr>
<td>1979</td>
<td>171,940,408</td>
<td>310,682,736</td>
<td>100,408,2700</td>
</tr>
<tr>
<td>1980</td>
<td>1,062,454,516</td>
<td>289,029,845</td>
<td>749,863,277</td>
</tr>
<tr>
<td>1981</td>
<td>1,067,607,041</td>
<td>246,348,032</td>
<td>731,203,306</td>
</tr>
<tr>
<td>1982</td>
<td>380,903,703</td>
<td>379,826,481</td>
<td>445,179,563</td>
</tr>
<tr>
<td>1983</td>
<td>190,984,540</td>
<td>307,356,894</td>
<td>377,397,627</td>
</tr>
<tr>
<td>1984</td>
<td>173,277,600</td>
<td>368,643,107</td>
<td>447,364,854</td>
</tr>
<tr>
<td>1985</td>
<td>143,683,300</td>
<td>344,832,692</td>
<td>316,233,468</td>
</tr>
<tr>
<td>1986</td>
<td>33,675,696</td>
<td>215,022,320</td>
<td>403,320,707</td>
</tr>
<tr>
<td>1987</td>
<td>107486676</td>
<td>1,031,753,016</td>
<td>533,185,778</td>
</tr>
<tr>
<td>1989</td>
<td>550,354,473</td>
<td>939,383,352</td>
<td>224,719,003</td>
</tr>
<tr>
<td>1990</td>
<td>562,931,244</td>
<td>1,085,288,284</td>
<td>67,939,295</td>
</tr>
<tr>
<td>1991</td>
<td>710,044,569</td>
<td>1,476,200,318</td>
<td>77,587,208</td>
</tr>
<tr>
<td>1992</td>
<td>636,839,176</td>
<td>1,595,902,618</td>
<td>108,913,363</td>
</tr>
<tr>
<td>1993</td>
<td>717,041,231</td>
<td>1,473,218,702</td>
<td>12,328,814</td>
</tr>
<tr>
<td>1994</td>
<td>1,526,340,259</td>
<td>1,202,321,597</td>
<td>0</td>
</tr>
<tr>
<td>1995</td>
<td>1,136,963,700</td>
<td>1,152,647,052</td>
<td>0</td>
</tr>
<tr>
<td>1996</td>
<td>2,063,806,110</td>
<td>1,087,124,457</td>
<td>0</td>
</tr>
<tr>
<td>1997</td>
<td>1,398,731,712</td>
<td>808,219,598</td>
<td>28,052,812</td>
</tr>
<tr>
<td>1998</td>
<td>1,120,832,966</td>
<td>421,304,552</td>
<td>19,524,946</td>
</tr>
<tr>
<td>1999</td>
<td>545,357,528</td>
<td>455,542,561</td>
<td>69,351,583</td>
</tr>
<tr>
<td>Total</td>
<td>14,784,927,444</td>
<td>16,252,072,121</td>
<td>9,512,282,167</td>
</tr>
</tbody>
</table>

Notes:

- With respect to timber revenues collected in Indonesia between 1974 and 1976, the negative values during these years suggest that higher-than-optimal revenues were captured, but only if no transfer pricing took place, which is unlikely.
- With respect to Sabah, timber revenues collected between 1994 and 1996 have values of zero (0) because a log export ban was in place during the entire duration of those years. Actually, the log export ban actually went into effect in the beginning of 1993 and was phased out late in 1997. But because during these latter two years, a modest amount of logs were exported, and a small amount of timber revenue collected, it is still possible to derive estimates of revenue forgone per cubic meter.
Theoretical findings

This dissertation contributes to the study of politics by providing a discussion of the exigencies of rent capture which is, after all, a precursor to the strategic uses of rent, a matter in which the comparative political economy of development has taken an active interest over the years. On a methodological level, the dissertation adds to the growing emphasis within the comparative political economy of development on not overemphasizing the study of high performing economies. In fact, none of the cases I studied were development success stories. None succeeded in achieving the optimum capture of timber rent through which development efforts might have been funded.

Indonesia, Sarawak and Sabah failed to set timber revenues at optimal levels because their departments of forestry lacked autonomy, not so much from the rent-seeking demands of capital but more importantly from the rent-seeking demands of heads of state (the president of Indonesia, and the chief ministers of Sarawak and Sabah). This study has shown how forestry departments did not possess sufficient levels of autonomy from the predatory demands of heads of state, given that the departments awarded timber concessions to companies in which heads of state, their families or proxies serve as managers and shareholders.

A second institutional condition that prevented Indonesia, Sarawak and Sabah from being able to collect timber revenues at optimum levels was that departments of forestry were unable to strike a balance between the investment of state resources in development

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168 While Malaysia itself has achieved fairly impressive economic growth over the last decade, Sarawak and Sabah remain economic backwaters.
and the diversion of state resources toward clientelism or less productive ends. Of course, it is reasonable to expect that in nations whose political economies are still primarily characterized by patrimonialism (Crouch 1979, McVey 1998, Scott 1972, Weber 1911), departments of forestry will be pressured to accept the diversion of some rent toward clientelist ends in order to assure regime survival. However, if too much rent is diverted toward such purposes, let alone toward less productive ends such as enriching heads of state and their associates, then development will suffer accordingly.

The distinction between the diversion of rent toward patrimonial ends and ends that achieve neither developmental nor patrimonial goals is an important one. Before now, many political scientists have not made this distinction within a theoretical framework. Dauvergne (1997), Ross (1996), and Samego (1992) all argue that the failure of one or more Southeast Asian states to achieve rent capture in the timber sector is due to the tendency of these states to over-indulge clientelist ends. This is unquestionably the case. Compared to timber patronage, however, the tendency of states to permit timber rent to augment the wealth of rulers is at least as inimical to the achievement of development.

In many instances states specifically allowed patronage to be displaced by ruler theft. In Indonesia, for example, former President Suharto was allowed to diminish the flow of resources to his clients in the armed forces because of his desire to create a plywood industry-mediated rent concentration and extraction mechanism. In Sarawak, Chief Minister Taib was permitted to cancel 30 concessions that had been awarded to his erstwhile political supporters, even though this precipitated the largest political crisis in the 20-year history of the state. In Sabah, former Chief Minister Mohammad Salleh was permitted to withdraw, after only one month, the scheme that had been put into place to
award concessions to the political financiers who had bankrolled the Barisan Nasional government's resumption of power.

The point is not to argue about whether states more frequently permit the diversion of timber rent toward purely clientelist ends or toward the enrichment of heads of state. Rather, the point is that both are ubiquitous and both, if allowed to be carried to excessive levels, undermine development, although the second is far more corrosive to development objectives than the first.

To review, the theoretical arguments of the dissertation are four. First, the comparative political economy of development camp needs to pay closer attention not just to how rent is distributed by would-be developmentalist states but to how it is accumulated in the first place. Second, scholars of comparative political economy can learn more about the institutional preconditions for poverty versus prosperity by focusing not only on success stories but also on cases of developmental failure. Third, an important prerequisite for development is the ability of bureaucracies to maintain autonomy from the predatory demands of leaders. Fourth, another institutional condition for the achievement of development is that states must not divert too many resources toward clientelist ends, nor toward ends that satisfy neither developmentalist nor clientelist considerations, such as the enrichment of rulers.

More broadly, the comparative political economy of development should look more closely at the immiseration of developing nations by their own leaders. Scholars can learn much by pursuing empirically driven research that focuses on the extent to which governments allow the creation of rent seeking market structures which are designed to augment the personal financial holdings of rulers.
While my hypothesis primarily concerns the tropical timber sector in insular Southeast Asia, it has broader implications. Taken to its logical end, the hypothesis implies that, during the modern period, the degree to which meaningful developmental policy or economic reform is implemented in any sector of the economy in any country is inversely related to the degree to which the wealth and power needs of political leaders are tied to rent generated by that sector.

Areas for further research

All dissertations are limited in what they can accomplish. There are three other areas of theoretical and policy significance that other scholars may wish to explore. First, and most importantly, the remainder of the hypothesis needs to be tested. The fact that in Indonesia, Sarawak and Sabah ties by politicians to the timber industry are high, while government timber rent capture is low, addresses only part of the hypothesis. Evidence has not yet been assembled of a case where low levels of political involvement correlate to high levels of timber rent capture. The hypothesis has not been completely proved. The most direct path for scholars who are intrigued by the hypothesis advanced in this dissertation, and who would like to test the remainder of it, is to select cases that vary with respect to Indonesia, Sarawak and Sabah in terms of the independent and dependent variables. What needs to be determined is whether there are any countries, or even autonomous provinces, in the tropics where governments are able to resist handing out public forest concessions to companies connected to heads of states or their clients, as well as able to capture optimal levels of timber rent from those companies. The latter half of Chapter 6 lays out a case selection strategy for those who might wish to test this proposition.
A second subject that suggests itself for further research is the growing illegal logging trade in Indonesia. This dissertation is restricted to a study of rent extracted by timber concessionaires and rulers from legally harvested timber. However, in Indonesia, for example, various studies now estimate that 50 to 80 percent of the country’s total timber supply is stolen from national forests. This means that for every two dollars unofficially appropriated from one cubic meter of legal timber, three dollars are unofficially appropriated from two to four cubic meters of illegal timber. In other words, in dollar terms, rent appropriated from illegal timber is now three to six times as large as rent appropriated from legal timber. Therefore, Indonesia lost not only a billion dollars in revenue from legal timber harvests in 1998 (as shown in Table 7.1), but also three to six billion dollars in revenue from illegal timber harvests the same year. The main subject of this dissertation, rent lost from the harvest of legal timber, highlights the even greater importance of rent lost to now-pervasive illegal logging in Indonesia.\textsuperscript{169}

Of particular interest is the fact that much of the illegal logging trade in Indonesia appears to be controlled by security forces. In a study covering portions of Riau and Jambi provinces in Sumatra, including one timber concession and one national park, 29 sawmills were found that were supplied entirely by illegal timber. Of these 29 sawmills, 45 percent were backed by Indonesian army officials, and another mill was backed by local police officials (WWFN/DFID 1998).

How did it come to pass that the Indonesian armed forces have, by all appearances, come to dominate the illegal logging trade? One explanation is that when the log export...

\textsuperscript{169} The theft of trees is unlawful in Indonesia. According to article 50, paragraph 3e of the new forestry law, “no one is allowed to cut trees or harvest or collect any forest products from within the forest area
ban and the plywood industrialization drive caused the nation's armed forces to give up their stake in the legal timber trade in the mid-1980s, it may have been suggested that they relocate to the nation's illegal timber trade. This is not an unlikely scenario in principle. John McBeth, head of the Far Eastern Economic Review's Indonesia bureau, was skeptical that Suharto would have simply cut off the timber concession incomes of military leaders without providing them with an alternate source of income. He argued that Suharto would not have financially harmed the generals in this way because "he is a 24-hour-a-day survivor. He would have found some equally lucrative way to compensate the generals so as not to lose their support" (19 July 1995 interview with John McBeth).

It is also important to add that President Suharto was never a stranger to the illegal logging trade. According to Indonesia's current Cabinet Secretary, Suharto was caught smuggling timber twice. The first time, he was smuggling teak out of Java in the 1950s, resulting in his reassignment to a lesser post at a military school in Bandung, West Java. The second time occurred in the 1960s, during the konfrontasi period, when he was active in smuggling logs out of Kalimantan, which actually led to his being summoned to the presidential palace by Sukarno (16 October 1995 interview with Marsilam Simanjuntak). Given these facts, it seems probable that the current dominant position of the armed forces in illegal logging in Indonesia is the result of a quid pro quo agreement with the former president in exchange for their walking away from the rent stream they enjoyed for 15 years as legal log exporters.

While Indonesia's illegal logging trade may have originated in an effort to keep the without holding any rights or license issued by authorized officials."
armed forces satisfied by expanding the available pool of timber rent (while at the same time maintaining the fiction of the nation's adherence to legal levels of sustainable harvest), illegal logging has now taken on a life of its own. President Gus Dur's government is unable to stop the armed forces from carrying out illegal logging. The growth of the illegal logging trade in the post-Suharto years should be understood in the context of Indonesia's becoming an archetypal weak state. It resembles the pattern mapped out by Migdal (1988) of the power and resources of central governments finding their way into the hands of strongmen in outlying areas.

A final matter worth exploring starts from the idea of the dual imperative, that if too little timber rent is set aside for development this will erode economic growth. Taking the argument a step further, it might be argued that there is not only a zero-sum relationship between how much timber rent is appropriated by leaders and their supporters and the resultant erosion of economic growth, but in certain instances there is a multiplicative relationship. That is to say, timber rent appropriated by political elites may exact economic costs many times higher than the value stolen.

While Malaysia is in a recession,\textsuperscript{170} this phenomenon can be seen most clearly in Indonesia which has yet to recover from the Asian economic crisis of the late 1990s. The most visible sign of the economic crisis plaguing Indonesia is its burgeoning $150 billion in foreign debt and $100 billion in domestic debt. As for the domestic debt, much of it is owed to Indonesia's 91 most distressed banks, all of whom have either been shut down or

\textsuperscript{170} Malaysia was officially pronounced to be in recession by Prime Minister Mahathir on 28 August 1998. Markets continue to respond warily to the scale of rent seeking in Malaysia, and numerous US based emerging market investment funds (Templeton Developing Markets Fund and Morgan Stanley Dean Witter Institutional Emerging Markets Fund, to name two of the largest) pulled investments from Malaysia over the course of 2000.
are being 'restructured' at a great cost to the nation. The fundamental problem faced by these 91 banks is that they cannot collect on two-thirds of their loans, loans now classified as non-performing, meaning those who owe them will never be able to pay them back. Research to be published shortly on the 1,600 largest of the non-performing loans shows that 20 percent are owed by forest-linked conglomerates (Barr et al 2001). Represented on the list of non-performing debtors is the entire Indonesian forest-linked industry, including nine out of the top ten logging/plywood conglomerates, all four of the top pulp conglomerates and all four of the top private oil palm conglomerates. These companies are listed in Table 7.2.

Table 7.2 Indonesian forest-linked conglomerates with non-performing loans owed to the nation's most insolvent banks

<table>
<thead>
<tr>
<th>Nine out of top ten natural forest concession holding groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alas Kusuma</td>
</tr>
<tr>
<td>Armed Forces</td>
</tr>
<tr>
<td>Astra</td>
</tr>
<tr>
<td>Barito Pacific</td>
</tr>
<tr>
<td>Bob Hasan</td>
</tr>
<tr>
<td>Djajanti</td>
</tr>
<tr>
<td>KLI</td>
</tr>
<tr>
<td>Korindo</td>
</tr>
<tr>
<td>Salim</td>
</tr>
</tbody>
</table>

All four top pulp companies (measured in terms of pulp production capacity and hectarage of industrial forest licenses)

<table>
<thead>
<tr>
<th>Barito Pacific</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bob Hasan</td>
</tr>
<tr>
<td>Raja Garuda Mas</td>
</tr>
<tr>
<td>Sinar Mas</td>
</tr>
</tbody>
</table>

All four top private oil palm groups (measured in terms of crude palm oil processing capacity and/or palm oil plantation hectarage)

<table>
<thead>
<tr>
<th>Astra</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bakrie</td>
</tr>
<tr>
<td>Salim</td>
</tr>
</tbody>
</table>
Sinar Mas
There appears to be a multiplicative relationship between how much rent is appropriated by politically linked timber conglomerates, on the one hand, and the erosion of economic growth, on the other. All the companies listed above maintained business ties with the Suharto family and, as a result, were able to obtain licenses to timber concessions or, what amounts to the same thing, licenses to clear forests for the purpose of growing plantations. Because these conglomerates were granted state licenses to harvest or clear timber, they earned an average of $80 per cubic meter in rent during one five year period (1973-1997), as shown in Figure 5.6. However, instead of being fantastically profitable, these companies have become so indebted that, quite literally, they have pulled the entire Indonesian economy down with them. The reason for this is that so much timber rent was available to these conglomerates and their politician business partners that they became, at a minimum, lacking in market discipline and prudent business practices. The process reached a nadir when forest-linked conglomerates were able to use timber rent as equity to leverage debt from Indonesian banks. In seven cases, conglomerates started their own banks, and then absconded with

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171 The managerial and equity ties of all these conglomerates with the Suharto family are discussed at varying levels of detail in Chapter 3, with the exception of the Bakrie, Raja Garuda Mas and Sinar Mas conglomerates. These latter three forest-linked conglomerates have ties to the former first family as well, but the ties are not discussed in the dissertation because these three conglomerates are not large or even medium-sized players in the natural forest industry.

172 Plywood conglomerates earned timber rent through purchasing artificially cheap domestic timber and exporting it as plywood at world prices. Pulp and oil palm conglomerates earned timber rent from clear-cutting state forests that had been given to them, in theory, for conversion to plantations. In reality these companies replanted their clear-cut forests in pulpwood only 1/4 of the time, and in oil palm only 1/9 of the time (Brown 1999: 34-35, 51-53).

173 Astra owns Bank Universal. Bakrie owns Bank Nusa Nasional. Barito Pacific owned Bank Andromeda. Bob Hasan owned Bank Umum Nasional and owns Bank Bukopin and Bank Duta. Salim owns Bank Risjad Salim. Sinar Mas owns Bank Internasional Indonesia. All these banks became insolvent and have either been shut down or frozen or are being recapitalized.
their own customers' savings. In the end, whether forest-linked conglomerates borrowed from other banks, or started their own banks and borrowed from their depositors while grossly exceeding related-company lending limits, the outcome is the same: these conglomerates cannot or will not pay back their non-performing loans.

Given that corporate and debt restructuring continues to falter in Indonesia, imperiling economic recovery, it is not far-fetched to argue that one dollar's worth of timber rent appropriated by heads of state and their political supporters can lead to many dollars' worth of economic stagnation.

Conclusion

Cutting down rain forests is a double tragedy. Not only are tremendous ecological and social values destroyed forever, but when governments lack the autonomy to capture timber rent from these forests, this can negatively impact the ability of states to prosper. If there is a lesson to impart it is that as little timber rent as possible should be diverted toward patronage ends or enriching rulers. If the rain forest is to be saved, or at least not disappear without anything to show for it, developing nations must create and faithfully implement incentives for the timber industry that encourage greater efficiency and sustainability, including the optimal capture of timber rent (Brown 1999: 72-80). However, this will not occur unless nations restrain their own political elites. Such restraints will not be erected by rulers, or even bureaucrats, who generally lack the autonomy to make such reforms. Rather strong institutional restraints on elites are unlikely to arise unless civil society demands it.
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Appendix 1

Analysis of the total rent appropriated annually (in dollars) by a ten-percent shareholder in a timber concession

<table>
<thead>
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Notes:
Top row - rent in dollars per cubic meter appropriated in a particular year
Left column - concession area in hectares
The above table assumes:
- a ten percent share in a concession earns a ten percent share of the rent generated by that concession
- 1/20 of the timber concession is harvested each year
- 50 cubic meters of commercially valuable timber is removed from each hectare of the concession.

Following are instructions on how to use the table above. In the chapters on Indonesia, Sarawak and Sabah, the reader will come across the names and descriptions of individual shareholders in timber concessions of various sizes. To find out how much a given shareholder banked in a year, take the size of the timber concession in which she or he holds shares, round the size to the nearest multiple of 20,000 hectares, and match it to one of the sample concession sizes in the left column of Table 2.2. Then, using figures 3.6, 4.2, and 5.2, find out the average amount of timber rent not captured during a particular year (in dollars per cubic meter), round it to the nearest multiple of $20, and match it to one of the figures in the top row of the table. Draw two imaginary lines, one left to right from the figure for concession hectarage, and one down from the figure for uncaptured rent per cubic meter. Where the two lines meet will be the annual timber rent appropriated by that individual, during the year selected, assuming that she or he held a ten percent share. Usually, however, shareholdings are not exactly ten percent. If the individual's shareholding is only 2.5 percent, divide by four. If the individual's shareholding is 40 percent, multiply by four, and so on. Following are examples, one from each of the three cases in this dissertation, on how to use the table.

In Indonesia, Table 3.2 tells us that Dr. Ibnu Hartomo, the brother-in-law of President Suharto, controls a 25 percent share in the 95,000-hectare timber concession Barito Nusantara Indah, according to a 1993 Indonesian government document. Figure 3.6 shows that in 1993, the average timber rent per cubic meter not captured by the Indonesian government was almost $80 a year. We now go to the table above and draw a
line to the right from 100,000 hectares (which is 95,000 hectares rounded up to nearest multiple of 20,000 hectares). We then follow the $80 column down, until it meets the first line we drew. The figure in the cell where the two lines meet is two million dollars per year. This means that, assuming the president's brother-in-law held a 10 percent share in the concession, he banked two million dollars in timber rent in 1993. However, Ibnu Hartomo had a 25 percent share in the concession. So we multiply by 2.5 to arrive at five million dollars in timber rent appropriated by Ibnu Hartomo in that year.

Taking an example from Sarawak, Table 4.4 tells us that Chief Minister Taib's *bomoh* (traditional healer and spiritual medium), a probable proxy, holds a 20 percent share in the 55,912 hectare Pelutan timber concession. Picking a year at random, let's take 1993, the same year we used in the Indonesia example, we turn now to Figure 4.2, which shows that in that year, the average timber rent per cubic meter not captured by the government of Sarawak was $160 a year. We now go to the table above and draw a line straight to the right from 60,000 hectares, which is the size of the Pelutan concession rounded to the nearest multiple of 20,000 hectares. There is no column for uncaptured rent of $160, so we follow the $100 column down until it meets the first line we drew. We will remember later to upwardly revise our final figure by a multiple of 1.6. The figure in the cell where the two lines meet is $1.5 million per year. Remembering to multiply this figure by 1.6, we get $2.4 million. This means that, assuming the Chief Minister's *bomoh* held a 10 percent share in the concession, he banked $2.4 million in timber rent in 1993. However, he held a 20 percent share in the concession. So we multiply by two, and arrive at the figure of $4.8 million in timber rent appropriated by him in that year.

Turning finally to Sabah, Table 5.2 tells us that Chief Minister Kitingan's attorney, a probable proxy for Kitingan, held a 55 percent share in the 5,665 hectare Suwiri timber concession. Figure 5.2 (not to be confused with Table 5.2) shows that in 1989, the last full year during which Pairin's attorney was a shareholder in Suwiri, the average timber rent per cubic meter not captured by the government of Sabah was $40 per cubic meter. We now go to the table at the top of this passage and draw a line left to right from 20,000 hectares, which is the size of Suwiri, rounded to the nearest multiple of 20,000 hectares. Later we will remember to downwardly revise our final figure by a multiple of four. We then follow the 20,000-hectare column down until it meets the first line we drew. The figure in the cell where the two lines meet is $200,000 per year. Remembering to divide this figure by four and we get $50,000. This means that, assuming the Chief Minister's attorney held a 10 percent share in the concession, and was serving as a proxy for the Chief Minister, the Chief Minister banked $50,000 in timber rent in 1989. However, the Chief Minister's lawyer actually had a 55 percent share in the concession. So multiplying $50,000 by 5.5, we see in reality that the Chief Minister banked closer to $275,000 in timber rent that year from this concession alone.
## Appendix 2 Interviews

### Indonesia

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<td>Param Cumaraswamy</td>
<td>15 July 1994</td>
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<tr>
<td>University of California, Berkeley, Department of Sociology</td>
<td>Brian Folk</td>
<td>20 May 1996</td>
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<tr>
<td>Universiti Malaya, Institute of Advanced Studies</td>
<td>Jomo K.S.</td>
<td>19 July 1997</td>
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<tr>
<td>World Wide Fund for Nature Malaysia</td>
<td>Mikhail Kavanagh</td>
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<td>World Wide Fund for Nature Malaysia</td>
<td>Sanar (Saneth) Kumaran</td>
<td>4 March 1997</td>
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<td><strong>Organization's Name</strong></td>
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<td>Borneo Pulp and Paper Advisor</td>
<td>James Ng</td>
<td>11 November 1996</td>
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<td>Caspian Securities</td>
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<td>Consumer Association of Penang</td>
<td>Mary Assunta</td>
<td>23 August 1996</td>
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<td>Democratic Action Party</td>
<td>Dominique Ng</td>
<td>29 and 31 May 1997</td>
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<td>Institut Pekerjaan Komuniti</td>
<td>Khoo Kay Jin</td>
<td>28 October 1997</td>
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<td>Jaya Tiasa Plywood Facility 2, Assistant Manager</td>
<td>Hii Yii Chiok</td>
<td>29 October 1997</td>
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<td>Jaya Tiasa, Head of Investor Relations</td>
<td>William Wong</td>
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<td>Kapit, Wakil Kota</td>
<td>Joseph Jinggut</td>
<td>7 June 1997</td>
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<td>KTS Group, Chairman</td>
<td>Lau Hui Kang</td>
<td>30 October 1996</td>
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<td>Long Anap village</td>
<td>Jimmy Kebing Apoi</td>
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<td>Long Anap village</td>
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<td>Malaysia National Parliament</td>
<td>Chiew Chin Sing</td>
<td>19 July 1997</td>
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<td>Middlesex University, UK</td>
<td>James Chin</td>
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<td>New Straits Times, Sarawak</td>
<td>James Ritchie</td>
<td>4 November 1996</td>
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<td>Researcher</td>
<td>Anonymous</td>
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<td>Rimbunan Hijau, head of Investor relations</td>
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<td>Sahabat Alam Malaysia</td>
<td>Farhan Ferrari</td>
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<td>Thomas Jalong Apoi</td>
<td>18, 27 and 28 July 1994</td>
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<td>Muniandy Thayalan</td>
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<td>Samling Corporation, group headquarters, Miri</td>
<td>Anonymous</td>
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<td>Samling Corporation, Sarawak Plywood timber concession</td>
<td>Dominic</td>
<td>28 July 1994</td>
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<td>Willy</td>
<td>22 July 1994</td>
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<td>Sarawak Forest Department, Director of Forests</td>
<td>Cheong Ek Choon</td>
<td>2 August 1994; 13 November 1996</td>
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<td>Sarawak Forest Department, Consultant</td>
<td>Alfred Leslie</td>
<td>9 November 1996</td>
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<td>Sarawak Forest Department, Operations Division</td>
<td>Wong Siong Kuan</td>
<td>28 May 1997</td>
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<td>Sarawak Ministry of Environment, Minister of the Environment</td>
<td>James Wong</td>
<td>12 November 1996</td>
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<td>Sarawak Ministry of Finance, Former Assistant Minister</td>
<td>Patau Ubis</td>
<td>11 June 1997</td>
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<td>Sarawak Ministry of Industry, Minister of Industry</td>
<td>Abang Johari</td>
<td>12 November 1996</td>
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<td>Sarawak Ministry of Resource Planning, Environment and Development Section, Head</td>
<td>James Mamit</td>
<td>1 August 1994</td>
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<td>Sarawak Shell, Bintulu Operations Coordination Centre</td>
<td>Wilson Y.B. Wee</td>
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<td>Sarawak Shell MDS</td>
<td>Jong Lee Fah</td>
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<td>Francis Victor Klanang</td>
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<td>Barney Chan</td>
<td>2 August 1994, 8 and 13 November 1996</td>
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<td>Sarawak Timber Association</td>
<td>Annie Ting</td>
<td>13 November 1996</td>
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<td>Sarawak Timber Industrial Development Corporation, Harwood, Planning Division</td>
<td>Abdul Hadi</td>
<td>27 May 1997</td>
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<td>Sarawak journalist</td>
<td>Anonymous</td>
<td>28 May 1997</td>
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<td>Sarawak State Assembly</td>
<td>Aidan Wing</td>
<td>4, 5, and 6 June 1997</td>
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<td>Billy Abit Joo</td>
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<td>Anonymous</td>
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<td>Edmund Daging Mangku</td>
<td>14 November 1996</td>
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<td>University of California at Berkeley, Department of Political Science</td>
<td>Michael Goldman</td>
<td>8 and 16 November 1996</td>
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<td>Universiti Malaya, Faculty of Economics</td>
<td>John Phua</td>
<td>26 October 1996</td>
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Sabah

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<tr>
<td>ASG Capital</td>
<td>Asgari Stephens</td>
<td>20 September 1996</td>
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<td>Borneo Post</td>
<td>Iskandar Syam</td>
<td>16 and 28 June 1997</td>
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<td>Democratic Action Party, National Treasurer</td>
<td>Fung Ket Wing</td>
<td>12 July 1997</td>
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<td>Department of Agriculture and Fisheries, former Minister; Department of Public Works, former Minister.</td>
<td>Lim Guan Sing</td>
<td>4 October 1996</td>
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<td>Department of Forestry, Chief Finance Officer</td>
<td>Charles Y.T Chong</td>
<td>25 September 1996</td>
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<td>Department of Forestry, Chief Marketing Officer</td>
<td>Andurus Abi</td>
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<td>Eric Juin</td>
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<td>GTZ, Chief Technical Advisor</td>
<td>Michael Kleine</td>
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<td>Razani Radzi</td>
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<td>Journalist</td>
<td>Anonymous</td>
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<td>Knowledgeable Sabah-based source</td>
<td>Anonymous</td>
<td>1, 3, 7, 11, 14 and 16 October 1996; 24 June 1997; 8 and 12 July 1997</td>
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<td>Kwan Farmasi</td>
<td>Chris Kwan</td>
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<td>William Shim</td>
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<td>North Borneo Timber</td>
<td>C.C. Pung</td>
<td>10 October 1996; 19 and 31 June 1997</td>
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<td>James Glyn</td>
<td>29 June 1997</td>
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<td>Sabah Chief Minister (former)</td>
<td>Harris Salleh</td>
<td>1 and 2 October 1996; 3 July 1996</td>
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<td>Sabah Department of Finance</td>
<td>Symphrosa Kasun</td>
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<td>Sabah Forestry Department Management Division Head</td>
<td>Yahya Awang</td>
<td>27 September 1996</td>
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<td>Sabah Foundation, former CEO</td>
<td>Ben Stephens</td>
<td>11 October 1996</td>
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<td>Sabah Foundation, former CEO</td>
<td>Jeffrey Kitingan</td>
<td>20 June 1997</td>
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<td>Sabah State Library</td>
<td>Adeline Leong</td>
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<td>Sabah Timber Industries Association, President</td>
<td>Rudy Kinajil</td>
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<td>Aster Fong</td>
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<td>Sejati Plantations, General Manager</td>
<td>Lao Siew Chang</td>
<td>26 May 1997</td>
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<td>Stepvests</td>
<td>John Stephens</td>
<td>11 October 1996</td>
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<td>Timber Association of Sabah</td>
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<td>Andrew Tham</td>
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<td>Warisan Harta Sabah</td>
<td>Ranjan Vanar</td>
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<td>Wira Security Services</td>
<td>Shahrazi Sha'ari</td>
<td>4 August 1996</td>
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<td>WWFN Malaysia, Sabah</td>
<td>Junadi Payne</td>
<td>2 October 1996</td>
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</table>
Curriculum Vitae

Surname: BROWN
Name: David Walter

Key Work Areas

- Public and private debt markets
- Financial analysis and forecasting
- Industrial organization
- Revenue enhancement
- Land use/spatial analysis
- Environmental services
- Political economy of developing nations
- Legislative procedure
- Military and foreign policy

Personal Details

Present address: 16 Monticello Drive, Lake Oswego, Oregon, 97035, US
Work/home tel: ++1 503 534 9938
Email: davidwbrown@attglobal.net

Place and US Naval Base, Subic Bay, Luzon, Republic of the Philippines
Date of birth: 13 December 1961
Nationality: US citizen

Academic Qualifications

09:91 - 05:95; 01:00 - present Seattle, Washington, US
Predoctoral Associate
Department of Political Science, University of Washington
- Passed qualifying examinations and advanced to candidacy for Ph.D.
- Awarded Master of Arts degree in Political Science.
- Studied Indonesian-Malay for four years.
- Tutored courses in comparative politics, international relations and American politics.

05:96 – 08:97 Kuala Lumpur, Malaysia
Fulbright Scholar and Visiting Research Fellow
Institute for Strategic & International Studies (ISIS)
- Conducted Ph.D. dissertation research on fiscal and industrial policies in the forest products sectors of the East Malaysian states of Sabah and Sarawak.
- Built profiles on the structure of timber concession ownership in Sabah and Sarawak and the political implications of those structures.
- Interviewed government officials, as well as representatives of the forest products, financial and plantation sectors.

06:95 – 03:96 Jakarta, Indonesia
Social Science Research Council International Predissertation Fellow, Visiting Scholar
Faculty of Economics, University of Indonesia
- Conducted predissertation research on the Indonesian forest products industry.
- Interviewed government and industry officials on fiscal and industrial policies in the forest products sector.
- Explored political implications of the control of Indonesian timber concessions.
Academic Qualifications (continued)

09:83 - 08:85 Ithaca, New York, US
Cornell University
• Awarded Bachelor of Arts degree in Political Economy.
• Studied microeconomics, macroeconomics, monetary and trade policy, development economics and
  international relations.
• Awarded full room and board scholarship by the Telluride Association.

Languages

Mother tongue: English

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<td>Indonesian</td>
<td>Proficient</td>
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Civil status
 Married to Endang Rosdianingsih, a citizen of Indonesia

Work Experience

LONG TERM

07:98 – 12:99 Jakarta, Indonesia
Project: Indonesia Tropical Forestry Management Programme, under auspices of UK Department for
International Development Southeast Asia
Employer: LTS International Ltd, John Cantrill and Chris Inglis, Managing Directors tel ++ 44 (0) 131
440 5500 fax ++ 44 (0) 131 440 5501
Job: Policy Analyst
Responsibilities:
• Quantified amount of windfall profits not captured by Indonesian government in its taxation of plywood
  exporters and timber concessionaires.
• Analyzed Indonesian government compliance with IMF/World Bank conditionalities.
• Updated database containing all known timber concession-plywood mill linkages, listing which
  concessions and mills are owned by which groups, and ranking Indonesia’s timber groups and provinces
  in order of timber concession holdings, mill roundwood consumption, and net roundwood supply.
• Quantified domestic debt of subsidiaries and affiliates of Indonesian timber groups.
• Analyzed whether it would be more attractive for one of Indonesia’s most profitable timber
  concessionaires to pursue an integrated carbon sequestration program or continue pursuing business as
  usual.
• Completed spatial and quantitative analysis of Indonesian timber concessions to select the 12 most fitting
  as sites for carbon reservoirs and another 24 sites which deserved further study. Presented findings to
  World Bank and to Indonesian government policy team.
LONG TERM (continued)

11:97 – 06:98  
**Jakarta, Indonesia**

**Employer:** Dresdner Kleinwort Benson Securities, Hugh Peyman, former Managing Director for Southeast Asia tel ++ 65 439 4951 fax ++ 65 235 5992 or William Keeling, former Head of Research for Indonesia tel ++ 44 (0)171 937 4056

**Job:** Forest Sector and Commodities Analyst

**Responsibilities:**
- Wrote financial analyses of publicly listed companies in the plywood, palm oil and pulp and paper sectors in Indonesia.
- Published reports on plywood giant Barito Pacific Timber and on palm oil producer Astra Agro Lestari; updated investors on developments affecting these companies.
- Advised corporate finance department on mergers and acquisitions opportunities in the pulp and paper and other sectors.

03:89 – 08:91  
**Washington, DC, US**

**Employer:** Office of US Senator Max Baucus (D-Montana)

**Job:** Defense and Foreign Affairs Legislative Assistant, Senior Campaign Researcher

**Responsibilities:**
- Provided advice on foreign policy and defense matters to Chair of Senate Finance Subcommittee on International Trade and of Senate Committee on the Environment.
- Designed successful incumbent protection plan and supervised research on Senator's voting and fund-raising record.

**Washington, DC, US**

**Employer:** Democratic Senatorial Campaign Committee

**Job:** Research Associate

**Responsibilities:**
- Co-authored database containing summaries of Senate and House floor votes since 1981.
- Monitored Senate floor and alerted campaigns with information on votes.

01:87-10:87  
**Washington, DC, US**

**Employer:** Office of US Congressman Wayne Owens (D-Utah)

**Job:** Energy, Environment and Defense Legislative Assistant

**Responsibilities:**
- Provided advice on energy and environmental issues to come before the House Interior Committee.
- Advised Congressman on defense, energy, tax and budget issues to come to the House of Representatives floor.

SHORT TERM

06:00 - 0:600  
**Jakarta, Indonesia**

**Employer:** Indonesian Bank Restructuring Agency, Forensic and Asset Tracing Division

**Job:** Consultant

- Led team to identify the assets of the Bob Hasan group, one of Indonesia's largest forest conglomerates and debtors. Identified 225 companies owned partly or fully by the group, more than double the number that had previously been identified by employer.
SHORT TERM (continued)

01:00 – 04:00  
Jakarta, Indonesia  
Employer: UK Department for International Development, Indonesia Forestry Programme.  
Job: Consultant  
- Provided inputs for program extension document on forest debt, multilateral institutional forest reform initiatives and forest conglomerate debt.  
- Edited Indonesian translation of my report, “Addicted to Rent: Corporate and Spatial Distribution of Forest Resources in Indonesia; Implications for Forest Sustainability and Government Policy.”  
- Provided technical assistance to program partners on forest debt, multilateral institutional forest reform initiatives and forest conglomerate debt.

12:98 – 01:99  
Jakarta, Indonesia  
Employer: The Nature Conservancy and World Wide Fund for Nature  
Job: Consultant  
- Carried out study to identify 36 timber concessions (out of a national total of 464) most appropriate for debt-for-nature-swaps and carbon reservoirs.  
- Digital images of forest concessions, industrial timber plantations, crop plantations, transmigration sites and proposed and existing protected areas were combined into a single map.  
- Maps were analyzed in order to find those timber concessions adjacent to, overlapping, or subsumed by proposed or existing protected areas.  
- Timber concessions were then checked against Department of Forestry statistics to ensure they had high concentrations of virgin forest.  
- Operating plans and maps were consulted in order to winnow out those areas already effectively ruined by concessionaires.

08:98 – 09:98  
Jakarta, Indonesia  
Employer: The World Bank  
Job: Consultant  
- Led Indonesian team of Department of Forestry officials and NGO experts to determine whether a timber concessionaire had been illegally logging in Kerinci Sebelat National Park, Sumatra.  
- Using GPS devices, maps, long forest marches, photographic equipment, analysis of financial documents, and personal interviews, documented and proved that the company had been stealing timber from national park two years before and was doing so again.

04:96  
Jakarta, Indonesia  
Employer: DFID/Indonesia Tropical Forest Management Programme  
Job: Consultant  
- Built database containing all known timber concession-plywood mill linkages, listing which concessions and mills are owned by which groups and ranking Indonesia’s timber groups and provinces in order of timber concession holdings, mill roundwood consumption and net roundwood supply.
PUBLICATIONS


