

# Democratic Change and Forest Governance in the Asia Pacific: Implications for Myanmar

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# Asia Pacific

## I S S U E S

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**S U M M A R Y** While signs of democratization in a country may raise hopes of better natural resource governance, especially of forests, evidence from the Asia Pacific region in countries such as Indonesia and Cambodia demonstrates no significant relationship between a country's transition toward democracy and better forestry governance. Myanmar's transition to democracy is unlikely to counter this trend. Deeply vested interests operate within democratizing countries that outweigh the support inside governments or civil society for improving forestry conservation. Incumbents also stand to benefit directly from initiatives that promote free trade and further investment in the forestry sector at the expense of the environment and the most vulnerable in society. International organizations returning to Myanmar must fine-tune their policies to accommodate the local political economy of deforestation and should engage with elements on the periphery, dissenting voices inside the government, and a broad range of local civil society organizations. Failure to do so may exacerbate current trends and lead to future conflicts in the already volatile cease-fire areas.

Deforestation has taken place in Myanmar (Burma) at a rapid pace since 1962 when a military government came to power, centralized the running of the forestry sector, and imposed socialist policies and unsustainable logging targets. Western sanctions were imposed on Burma following the military government's crackdown on the mass protests in 1988, and financial assistance from international organizations such as the World Bank and the International Monetary Fund (IMF) was subsequently withdrawn. The government's attempts to attract foreign investment and foreign exchange in the 1990s–2000s, primarily through the exploitation of its natural resources, continued the trend in the unsustainable logging of forests by Thai and Chinese investors on its eastern and northern borders. Since the mid-2000s, the government has encouraged foreign investors and their domestic partners toward the agribusiness trade, leading to the further clearing of large sections of forested land. In 2010, Myanmar embarked upon a series of democratic reforms aimed at establishing a “disciplined democracy”—these included holding elections and reopening the parliament. These reforms have encouraged the removal of most trade and financial sanctions, and opened the possibility of Western investment in the extraction of Myanmar's natural resources.

It is sometimes assumed that democratic reforms (democratization) have a positive impact upon natural resource management and that more open and democratic societies should have better environmental quality because of the public-good character of natural resources.<sup>1</sup> If this were true, the more democratic a regime the less large-scale deforestation would take place. Since relatively few studies, however, have attempted to investigate the relationship between types of political regimes and rates of deforestation, it would be imprudent to generalize that positive changes in political regimes also leads to falling rates of deforestation. One thing is certain, efforts to address forestry governance in Southeast Asia have encountered powerful local resistance—both from inside governments and from well-connected business elites—and civil society criticisms of these interests

have often been suppressed. Reforms promoted by international financial institutions (IFIs) may also be opposed by civil society groups, causing further confusion and division. In part this is caused by the incoherent or conflicting goals laid down by the IFIs themselves, and the subsequent selective adoption by elites of some norms over others at the expense of the most vulnerable groups in society, and the environment.

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### **Democracy and Deforestation in Southeast Asia**

Myanmar's democratization involves its re-engagement with the Bretton Woods IFIs, their funding, and their goals and objectives for improving “governance” across the board. The promotion of democracy in postauthoritarian regimes cannot guarantee forest conservation, nor encourage the democratic maturity to deny political elites the short-term attractions of deforestation. The record on forestry governance reform in Southeast Asia is particularly poor and political elites continue to regard primary forests as an endless source of potential wealth. In 2005, for example, democratic Indonesia remained the second highest deforesting country in the world—due in large part to the expansion of highly profitable palm oil plantations—accounting for 14.5 percent of total global deforestation during the same period. Cambodia also displayed high rates of deforestation, and Myanmar at the time was ranked fourth in the world in terms of area deforested while the country remained under direct military rule.<sup>2</sup>

In all three countries per capita income was substantially low—between US\$1,000 and US\$4,000.<sup>3</sup> At lower levels of income, local or national elites in both democracies and non-democracies are attracted by the profits of deforestation, and local communities are dependent on converting forests for their livelihood. By 2010, Indonesia, Cambodia, and Myanmar remained the top three deforesting countries in Southeast Asia.<sup>4</sup> The global demand (intermediary and final product) for timber impacts deforestation in Southeast Asia through numerous countries. China's logging ban of 1998, for example, created timber shortages, rising prices, and a need to seek further import markets to meet its growing demand

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for timber and pulp. China has imported timber from Myanmar, Cambodia, and most importantly Indonesia—this trade has sustained local power elites in these countries. Deforestation is also affected by the land acquisitions that have taken place at a rapid pace in Southeast Asia. In Cambodia, a World Bank study found that national elites accounted for 70 percent of the land acquired.<sup>5</sup> Intra-regional foreign investment for land acquisitions came mostly from China and Vietnam, while foreign direct investment for land-based agriculture (particularly rubber and rice) came mostly from China. In addition to the rising world demand for alternative (bio-) fuels (palm oil plantations in Indonesia for example), there is a growing demand for agricultural commodities for industrial use. Rubber accounts for a significant share of the land areas acquired by Chinese investments in Lao PDR for example.<sup>6</sup> However, while local farmers in the “Golden Triangle” border region of Southeast Asia have become adept at leading commercial agricultural production, they have also made themselves vulnerable to market and environmental forces.<sup>7</sup> Increasingly it has become evident that across the entire region decisions over land use and the future of forests are being influenced by global economic forces and the local incentives created by these forces.

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#### **Conflicting Goals and Poor Outcomes: Indonesia and Cambodia**

When Indonesia democratized in 1998 it was forced to accept the market-based forestry governance reforms suggested by the IMF and World Bank as part of its conditional structural adjustment loan. These conditions included the transfer of forest concession rights, the competitive auctioning of concessions, and the removal or abolishment of export taxes on forest products. Yet they also included a reduction in the export tax on palm oil and the removal of restrictions on foreign investments in palm oil plantations.<sup>8</sup> An alliance of 55 local and international NGOs campaigned against the IMF and World Bank—sending a letter demanding an end to their promoting the expansion and privatization of

the palm oil sector, and rejecting the expansion of market-based mechanisms and capital support for further commodification of forested areas without social and environmental accountability.<sup>9</sup> The decentralization of forestry management pushed ahead in 1998 as part of the broader *Reformasi* program that included the devolution of authority to regions—giving power to regionally elected governors, mayors, and local authorities, as well as some 25 percent of government revenue to provincial and district administration. As the quality of administration varied greatly across the region, new revenue provided new opportunities for corruption by more powerful figures at the local level while the oligopoly of timber industrialists that had formed during the Suharto era simply recalibrated their positions and their power. Subsequent cuts in the military’s budget have maintained their interest in self-financing enterprises linked to the forestry industry.

In the postdemocratization period, neither the local or international NGOs, nor the IFIs, were capable of sufficiently challenging the recalcitrant coalition of forces supporting the Indonesian industrial oligarchy. On the one hand, the NGOs defined “good governance” not so much by market reforms, but in terms of the respect for the traditional rights of people living near the forests and a reduction of the power of crony capitalists linked to the previous regime. On the other hand, IFIs continued to define the problems as being caused by weak institutions and “bad governance” while failing to understand the powerful local resistance to their reforms. Undeterred, they pushed ahead with forest governance reforms that stressed property rights and rule of law in an increasingly decentralized environment. The irony was that these reforms were consistent with creating and fueling neoliberal markets and not necessarily democratization or accountability.

Both the established forestry powers (including the military) and local farmers could now take advantage of greater access to the global economic incentives for deforestation. Forest cutting licenses were allocated haphazardly by regional governments, despite efforts by the Department of Forestry to recentralize

its control.<sup>10</sup> Illegal logging soared in line with the underreporting of logging volumes and the high rates of conversion of natural forests to plantations. Meanwhile the World Bank's strategy for sustaining Indonesia's forests continued to promote the benefits of decentralization and encouraged the expansion of local plantations—without considering the political networks that would benefit from this expansion.<sup>11</sup> While the IMF and World Bank agendas were selectively championed inside the government, fractured civil society groups altered their positions to outright opposition. The forestry industrialists, together with their networks of supporters inside the government and the military, have maintained their dominance over Indonesia's forestry sector and caused the failure of reform efforts by IFIs.

In many ways the forestry sector in Cambodia conveys similar patterns of elite dominance as found in Indonesia. In Cambodia, natural resource management has become a rich source of wealth for well-connected politicians and their business networks. While democratization occurred in Cambodia in 1993, the government allowed the military to secure the forest sector in 1994 in return for its allegiance. The army—in collaboration with business, politicians, forestry bureaucrats, and provincial authorities—used this privileged position to sell timber for personal gain and to fund its activities during the civil war.<sup>12</sup>

Following the end of civil war, the government placed the forestry sector under the control of the Ministry of Agriculture, Forestry, and Fishery. The Ministry introduced forest management plans, socioeconomic impact assessments of forest and land concessions, and a total moratorium on logging. The effect of these rules and mechanisms was to produce more centralized practices where elites have colluded to fell tropical forests in and around concessionary boundaries, often in the name of agribusiness, depriving local communities access to community forests and their livelihoods. Meanwhile illegal logging continued to take place, forestry stocks diminished, and a land boom supported by the government through the granting of lucrative land concessions to their clients saw property prices increase and the wholesale seizure

of land and displacement of peoples.<sup>13</sup> During the 2002–2008 economic boom, the ruling Cambodian People's Party (CPP) awarded tracts of land and forests to Cambodian tycoons and foreign investors in return for their support of the party platform.<sup>14</sup> Likewise, forest resources in Cambodia were extracted and used to sustain the power of the ruling elites via the granting of licenses for extraction to these elites in return for their support of the CPP. Revenues from forest resource extraction are channeled into vote-buying rural development strategies for the CPP, including the construction of schools, temples, and roads.

Following a highly critical 2005 internal World Bank Inspection Panel report on the Bank's promotion of Cambodia's logging concession system and its operators while ignoring local communities, in 2008 the World Bank launched a US\$20 million program to improve the accountability of state actors in Cambodia. Aptly named the Demand for Good Governance (DFGG) project, the Bank found that while the government (Ministry of Interior) was interested in the plan, it wanted “good governance” constrained and kept distinct from natural resource management and land conflict issues.<sup>15</sup> Like Indonesia, civil society NGOs in Cambodia champion local land rights but those who are more vocal for change have been systematically quashed by the CPP government. Service-delivery NGOs work with the government while advocacy NGOs working on land or natural resources remain on the periphery. In April 2012, the well-known environmentalist and founder of the Natural Resource Protection Group, Chut Vuthy, was shot and killed by soldiers in the western province of Koh Kong while filming illegal logging near a Chinese hydropower dam construction site.

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#### **Patterns of Deforestation in 'Democratic' Myanmar**

Similar patterns of deforestation are found in Myanmar—including patrimonial elite behavior and military involvement, if not control, of the sector. One major difference, however, is that most of Myanmar's natural resource extraction takes place

within the northern ethnic minority areas designated as either conflict zones or cease-fire zones. Ethnic civil war dominated Burma's postindependence history and it was only in the late 1980s and early 1990s that many ethnic groups signed cease-fires with the military government. Cease-fires (e.g., with the Kachin Independence Organization and their army in 1994) enabled Myanmar's government access to the natural resources in these areas, often in partnership with the groups signing, and later in partnership with foreign investors. The continuance of conflict, however, while limiting the government's access to these areas, allowed the resisting groups to fund their activities through their own extraction of natural resources.

Deforestation in Myanmar in the cease-fire zones has taken place through major military involvement and a pattern of alliances between regional military commanders, paramilitary groups, state agencies, ethnic business and political leaders, and foreign—mostly Chinese—investment capital. While most timber trade flowed across the northern border to Yunnan in the late 1990s, most legal timber (i.e., through the state-owned Myanmar Timber Enterprises [MTE]) is today shipped down the Irrawaddy or travels by road or rail, and is exported unprocessed through Yangon. Indeed, it is not uncommon to sight barges laden with unprocessed timber at various portages along the Irrawaddy. A 2006 ban on illegal cross-border timber trade with China redirected much trade through the government's monopoly MTE, bypassing Kachin control or influence. There is currently no ban on log exports, although the new government (through the Ministry of Forestry, now Ministry of Environment Conservation and Forestry) has announced plans to ban the export of raw teak and hardwood from 2014 in an effort to encourage wood processing and the export of more valuable finished products.<sup>16</sup> This of course would also encourage vertical integration as well—a policy that subsidized the forestry oligopoly in Indonesia.

The majority of Myanmar's population lives in rural areas and 50–60 percent of the population depend on forests for their basic needs, including household energy use.<sup>17</sup> The energy economy

remains wood-centric and thus fuelwood collection, and charcoal manufacturing, is a strong driver of deforestation throughout the country.<sup>18</sup> Yet since all land is officially owned by the state, land rights and land concessions are tenuous arrangements that can be withdrawn by authorities in favor of more profitable concessions or agribusiness deals.

The granting of logging concessions is also used by the government as a means of leveraging its power in cease-fire areas—sometimes between competing ethnic minority groups. Increasingly, those groups that have signed cease-fires have lost ground to the government in their access to forest resources due to the government's access to capital through partnerships with foreign investors. Chinese investors have shifted from dealing with Kachin leaders in the 1990s to regional military commanders and politicians in Naypyidaw. Chinese investment has also been involved in the expansion of rubber plantations in the upland ethnic minority areas. These large-scale rubber plantations began taking root in the Shan and Kachin areas in the mid-2000s, using imported Burman majority labor. The government developed a 30-year rubber development plan to plant 1.5 million acres by 2030. Regional military authorities were designated as the agents for granting large-scale private concessions to rubber plantation projects, usually operated as joint projects with Chinese companies.<sup>19</sup> Chinese investment also financed the Myitsone dam project, which threatened large-scale deforestation and destruction of the Irrawaddy ecosystem as well as the displacement of thousands of Kachin and the flooding of their land. The suspension of the project in 2011 followed criticism from domestic environmentalists and ethnic groups, and from environmental activists abroad.

In August 2012, the World Bank, together with its private sector arm the International Finance Corporation (IFC), announced that it was opening a new World Bank Group (WBG) office in Yangon and committing US\$85 million to community development programs in the country. A joint World Bank–IFC assessment conducted earlier in the year identified three areas of initial engagement: increasing

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access to finance by supporting the development of a functioning banking sector, improving the regulatory framework and business environment, and supporting investment in infrastructure. The World Bank and the IFC shared the same strategies to attract responsible foreign investment, expand trade, and help the government manage its resources better. However, it failed to consider the risks that its own strategies may produce unfavorable, inequitable, and possibly even hostile outcomes in the current political economy of the forestry sector. Concerned civil society groups from Shan, Karen, and Kachin states reacted swiftly to the WBG's funding announcement, claiming there had been a lack of consultation with local stakeholders and a failure to conduct and release a proper conflict assessment study of the volatile border regions.

The Bank's injection of large sums of money in these areas without disclosing their consultation plans or transparency provisions concerned NGOs who believed the money could easily exacerbate problems and create new conflicts within the communities. Unregistered NGOs would also be disadvantaged if the Bank were to consult primarily with the government over these projects while imposing its own strategy over local communities.<sup>20</sup> The general consensus among NGOs is that the Bank should place civil society groups at the forefront of the country's development politics; that the Bank should take special care to avoid bolstering the economic elite who cultivate close ties to the military authorities and gained privileged access to state resources; and that the Bank should urge the government to dismantle the military's vast network of businesses that it owns or controls, and reevaluate the military's outsized share of the national budget.<sup>21</sup>

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**Improved Forest Governance Requires Policy Change**

Evidence from new democracies in the Asia Pacific region demonstrates no significant relationship between a country's transition toward democracy and better forestry governance—Myanmar's

transition to democracy is unlikely to counter this trend. Deep patrimonial interests operate within the region and local politics cannot be ignored by IFIs designing policy reforms. Under Myanmar's new "disciplined democracy," it is difficult to see that the World Bank or any IFI will have a direct impact upon the distribution of power and on the underlying patterns of elite dominance and crony capitalism found in the forestry sector. Like Indonesia and Cambodia, these patterns are difficult to change, especially if militaries retain their vested business interests in the sector. That all three countries are variations of new democracies and yet deforestation rates remain high indicates that economic incentives remain powerful—both at the national and local levels.

Under "disciplined democracy" in Myanmar, therefore, the institutionalization of the current business relationships involving military elites and privileged cohorts as beneficiaries partnered to foreign investment capital may occur. Large-scale and more efficient extraction of timber and the conversion of land use driven by global economic incentives may continue. It may also be possible that further vertical integration of the industry will occur through the banning of log exports and the encouragement of value-added wood refinement export policies. As in Indonesia, wood processing would further subsidize the state's monopoly or encourage the development of a timber oligopoly. It is also likely that former high-level military officers being put into government positions will further facilitate resource extraction deals on a larger and longer-term scale.<sup>22</sup> Finally, economic growth may rise, but unless there is a more equitable redistribution of power, that growth will likely benefit the same elites who benefited from resource extraction under military rule and stand to benefit further from the promotion of some IFI's goals at the expense of others (poverty reduction and protection of the environment). And although much faith has been placed in the new government's implementation of the Extractive Industries Transparency Initiative (EITI) standards, the EITI disclosure criteria do not presently extend to forestry.

**Expanding civil society in Myanmar will be essential for improving the nation's forestry governance**

The current forestry extraction policies of the government in Myanmar encourage the displacement of ethnic communities that stand in the way of the military's partnerships with major foreign investors and their large-scale agribusiness projects. Cease-fires with ethnic minority groups have certainly created opportunities for this trend to continue. Because the existing power structures in Myanmar's forestry sector are unlikely to change in the foreseeable future, more immediate efforts should be directed toward working within the existing political-economic conditions to encourage engagement with actors and civil society groups that improves outcomes on the periphery. For example, since wood

is a renewable resource, regrowth is always possible but only in areas that have not been targeted for alternative land uses like hydroelectricity projects or rubber plantations in nontraditional upland areas—the halting of which should become an imperative. Civil society input is needed to address and highlight these issues in addition to the many problems caused by ethnic displacement and the loss of traditional lands. IFIs should effectively engage wherever possible with the local communities and a broad range of civil society groups before developing their proposals. Expanding the space for an independent civil society in Myanmar will be essential for improving the nation's forestry governance.

## Notes

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<sup>22</sup> Woods, 768.

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