



Policy Forum 97-22: Managing the Commons: The Future Direction of Environmental Sustainability in Southeast Asia



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Recommended Citation

"Policy Forum 97-22: Managing the Commons: The Future Direction of Environmental Sustainability in Southeast Asia", NAPSNet Policy Forum, November 25, 1997,
<https://nautilus.org/napsnet/napsnet-policy-forum/managing--he-commons-the-future-direction-of-environmental-sustainability-in-southeast-asia/>

November 25, 1997

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**"Managing the Commons:
The Future Direction of Environmental Sustainability in Southeast Asia"**

* Portions of this paper will be published in a forthcoming edition of the Far Eastern Economic Review.

1. Clearing the Air on the Haze Problem

Just as the international publicity surrounding the haze problem in Southeast Asia began to shift to the regional currency and economic malaise, Typhoon Linda pushed the smoky, gray-brown haze once again back to Southeast Asia. The haze problem not only forced tens of millions of people in Indonesia, Malaysia, and Singapore to walk down streets in an eerie twilight with masks pressed to their faces a couple of months ago, but to vividly remind people that ecological concerns may not have been given adequate attention in the pursuit of industrial development.

Indonesia Environment Minister Sarwono Kusumaatmadja estimated that 20 million Indonesians suffered from respiratory, eye, and other health problems, while Malaysia declared a state of emergency in eastern portion of Sarawak as the air pollution index reached record levels. Not surprisingly, the haze problem moved to the top of the agenda at the recent ASEAN Environment Minister's meeting, where President Suharto felt compelled to issue a personal apology for the forest fires in Kalimantan and Sumatra that are being blamed for this ecological apocalypse. Issuing tougher environmental legislation, increasing the number of fire-fighting airplanes and even seeding clouds will no doubt reduce the severity of the haze problem. But these are no more than ad hoc responses to one facet of Asia's pollution problem -- the smoke from forest and bush fires that started from open burning to clear land. It remains to be seen what if anything can be done about the smog and airborne emissions caused by industrial pollution, which is becoming a leading contributor to the haze problem.

Industrialization has created much-needed economic resources and employment and is the basis of the widely-heralded doubling of Indonesia's real income since 1980 and a 50 percent reduction in the number of Indonesians living in poverty. However, the recent haze problem has masked the fact that airborne emissions in Jakarta typically exceed recommended standards more than a third of the year [2].

Balancing the need for industrial development and environmental protection will require more than establishing green working groups or tightening anti-pollution standards; it will require a fundamental shift from a policy of pollution command-and-control to a system of environmental management as the basis of a regional sustainable development vision.

2. From Pollution Command-and-Control to Environmental Management

Moving from a model of command-and-control to a system of environmental management does not presuppose a blind faith in the power of market forces to alleviate regional environmental problems. Just as one can not expect market incentives to perform environmental miracles, it would be equally implausible that the Indonesia Government can resolve the haze problem by penalizing local palm oil and forestry companies.

While punishing companies for violating environmental standards is a critical component of an effective environmental enforcement regime, government agencies are by and large do not have the resources and manpower to enforce existing let alone new environmental regulations. Indonesian

Environment Minister highlighted this problem when he observed that, "We don't lack laws and regulations, perhaps we have too many of them. It takes a huge crisis for us to really see that we have a basic problem of governance" [3].

What exactly does one mean by moving from the model of command-and-control regulation to a system of environmental management? One important component of an environmental management system is to recognize that not all regulations are created equal. It is possible to create a regulatory framework that results in environmental improvement through a mix of incentives and information disclosure. The pollution control and evaluation program of Indonesia's Bapedal (Environment Impact Management Agency), which tried to reduce environmental problems by evaluating and releasing information on the ecological performance of companies, provides a good illustration of creating a coherent policy by mixing incentives and information disclosure.

When companies realized that they were going to be "graded" by the government for their corporate environmental performance (ranging from black, which signified no environmental efforts, to green, which noted significant environmental efforts), they began to pay serious attention to their pollution discharges. Initial follow-up surveys showed a sharp reduction in the amount of industrial effluents, as much as 60% in the level of biochemical oxygen demand (BOD) load in 24 river basins [4].

3. A Forum for Environmental Governance

Another component of shifting to a system of environmental management system is to understand the importance of an institutional framework for environmental governance that goes beyond the national-local government context. Due to what Jessica Matthews of the Carnegie Endowment for International Peace calls the "dissolving of the absolutes of the Westphalian system - territorially fixed states where everything of value lies within some state's borders", there has been increased emphasis in the involvement of non-state actors (e.g. environmental NGOs and multi-national enterprises) and inter-governmental institutions (e.g. APEC and ASEAN) in the management of environmental affairs [5].

What is less clear is the precise institutional framework through which the sustainable development vision gets "translated" into an operating modality of environmental governance. Environmental NGOs like Walhi (Indonesia Forum for Environment) found some success in organizing opposition to the business activities of PT Freeport Indonesia (a subsidiary of Freeport McMoRan Copper & Gold) in Irian Jaya, there is a danger that citizens and governments alike will regard environmental NGOs as forum for political opposition, but not necessarily offer an alternative vision of development.

APEC appears to be comfortable with its role as a vehicle for investment and trade liberalization, while ASEAN seems to be busy forming environmental working groups and determined not to take any actions that might be even remotely construed as a criticism of one of its members. However, as the haze problem has vividly shown, organizing meetings (two since the formation of a regional haze commission) is not an effective policy response. Indonesia, Singapore, Malaysia, and possibly Brunei are planning to organize another meeting next month to discuss the haze problem, but it is not clear, what if, any long-term policy remedies will result from this regional gathering.

4. Private Sector and Sustainable Development

A fundamental shift to a system of environmental management will also require a more firmer integration of the private sector in the design and implementation of environmental policy initiatives. Although it is an open question whether sustainable development can be the basis of a legitimate strategy for the private sector, "corporations may ultimately be the only organizations with the financial resources and the technological capability to achieve sustainability on the global level." The

growing "privatization of international development" can be seen in the amount of private capital flows that have flooded into emerging economies in Southeast Asia and elsewhere. According to the International Finance Corp., private capital flows grew six-folds to US\$243 billion (two-thirds of which went to East Asia), while official development assistance declined nearly 20% to US\$41 billion between 1990-1996 [6].

The recent economic downturn in Southeast Asia may not only be a source of future social turmoil, but if it leads to a sharp downturn in the amount of foreign direct investments, it might even slow down environmental improvements. Given the rapid pace of technology change, countries that restrict foreign direct investments run the risk of becoming hostages to obsolete technologies. A 1992 World Bank study concluded that countries that were open to foreign investments in the paper-and-pulp industry, for example, acquired new clean technologies at a much faster rate than those were less open to investments [7].

Any viable long-term solution to environmental problems in Southeast Asia will ultimately depend on the availability of resources to finance environmental improvements and on the willingness of local and multinational companies to commit to environmental progress and resource productivity. While some companies frequently spend their time protesting the cost of adhering to anti-pollution standards (most notably, many American companies in the case of the global climate change issue), a select group of globally minded European, Japanese, and Asian companies have set eco-efficiency targets that far exceed the environmental objectives established by their respective national governments. With Indonesia's major industries using up to 30% more energy per unit of output than comparable industries in Japan and the demand for electricity increasing at 15% a year, even small investments by the private sector in energy efficiency and renewable technologies are likely to have big long-term payoffs in terms of resource productivity [8].

The Nautilus Institute Invites Your Response

You're are invited to participate in this "virtual forum" by emailing your comments to: aprenet@nautilus.org. The Nautilus Institute will review responses and post selections to this web site.

1. Will the recent haze problem usher in a new green consciousness in Southeast Asia ?
2. Is there enough "political space" for environmental NGOs to play a more active role in the management of regional environmental concerns ?
3. How can ASEAN governments respond to the increasing "privatization of international development" ?
4. Can sustainable development be a legitimate business strategy for corporations ?

NOTES

1. Jacob Park (jpark@bss2.umd.edu) is a Washington D.C.-based analyst who specialize in the policy and business dimensions of environmental problems in the Asia-Pacific region. He has worked in Tokyo for the past four years, initially as a policy analyst with the Global Environmental Affairs Office of Japan's Ministry of International Trade and Industry (MITI) and later as an environmental and urban development specialist for the United Nations University's Institute of Advanced Studies.
2. World Resources Institute et al. *The Urban Environment* (Oxford University Press, 1996).
3. Reuters, "Dash for Growth Blamed for Southeast Smog", September 19, 1997.
4. Information on the Proper Prokasih program comes from a October 1995 report issued by Bapedal's Centre for Information Development and Environmental Compliance. Additional analysis of the Proper Prokasih program can be found in the working paper ("Putting Pressure on Polluters: Indonesia's PROPER Program") in the web site of World Bank's New Ideas in Pollution Program (NIPR). [http://www.worldbank.org/nipr/work_paper]
5. . For a good discussion of the rise of global civil society, refer to Jessica Matthew, "Power Shift", *Foreign Affairs*, Vol. 76, No. 1, January/February 1997.
6. The quote comes from Stuart Hart, "Beyond Greening: Strategies for a Sustainable World", *Harvard Business Review*, January-February 1997, while the reference to "privatization of international development" comes from the title of an article on the relationship between environment and private capital flows by Hilary F French in *Worldwatch Magazine*, Vol. 10. No.3, May/June 1997.
7. There is an important difference in the "environmental quality" of foreign direct investment between environmentally-suspect infrastructure projects like the Bakun dam and the purchase of forest concessions by Japanese trading companies on the one hand and foreign direct investment projects that result in technology transfers and a large number of skilled and semi-skilled jobs.
8. Case studies of Japanese and Asian eco-efficient corporate activities can be found in Jacob Park, "Corporate Environmental Management Strategies in the Asia-Pacific Region", A Report Prepared for Sustainable Asset Management, May 1997.

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