Regional Integration of the Wood-Based industry: Quo Vadis?[♣]

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Introduction

The wood-based products sector (WBPS) is the 11th or the last in the list of the Priority Integration Projects (PIPs) identified and approved by the ASEAN Leaders during their 10th Summit held in Vientiane, Lao PDR, 2004. It is also the least discussed and, therefore, the least understood among the PIPs. In fact, it is either omitted or mentioned in passing in the growing volume of ASEAN papers on economic integration. Thus, compared to the ten other PIPs (automotives, electronics, textiles, apparels, e-ASEAN/ICT, aviation, tourism, health care, agri-based, rubber-based and fisheries), the wood-based sector does not figure significantly in the ASEAN web site.

There are at least two reasons why ASEAN is not investing much attention on the sector.

One, intra-ASEAN trade on wood-based products pales in comparison to the trillionaire electronics sector, aviation sector, tourism sector and others. The ASEAN headquarters estimates ASEAN trade on wood and wood articles (excluding logs and timber) to be around $12 billion a year only and the export markets happen to be mainly non-ASEAN: United States, European Union and Japan (http://www.aseansec.org/16741.htm). The major ASEAN wood industry players are Indonesia, Malaysia, Thailand and the CLMV countries (Cambodia, Laos, Myanmar and Vietnam). The other ASEAN countries (Brunei and Singapore) are natural importers of wood products. The Philippines is partly a producer and an importer, although it was once a major exporter, in the l960s-l970s.

Second, the wood-based industry is based on timber materials, which are deemed exhaustible and degrading to the environment. Within official and non-official circles in the region, there is growing concern on how ASEAN is losing its forest cover and how the wood-using industries are contributing to forest denudation. In fact, the ASEAN, since the l980s, has been holding regional workshops on sustainable forestry plantations and the sharing of technologies supportive of renewable forestry plantations. However, the reality is such that illegal logging and bad forestry practices, including the

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controversial intermittent forest fires in Indonesia and the haze they create across the region, are still happening. They are the ones landing in the news.

A third probable reason may be added -- the limited prospects for regional complementation or integration in the wood-based industry. The industry in most of the ASEAN countries is home-grown, oriented mainly to either their individual home market or to the export market outside the region as mentioned earlier. The wood-based PIP does not cover the forestry sector and most of the sawn timber and wood-based furniture sectors (except for a few items); it covers mainly the pulp and paper sector and the wood-based panel sector (plywood, veneers, particleboard, etc.). Timber-rich countries such as Indonesia and Malaysia would rather promote the further processing of these raw materials instead of exporting them to the pulp and paper and wood-based panel sectors of other countries. The inclusion of the wood-based industry in the 11 PIPs launched in Vientiane in 2004 was probably due to the special interest of host country Laos given the potentials of this land-locked country as a wood-based producer. Laos has rich timber resources and an underdeveloped wood-processing industry.

This short paper seeks to outline the state of integration in the WBPS and some critical policy issues and concerns which the ASEAN Leaders and the ASEAN business community should address in relation to the integration of the wood-based sector. The paper covers the following: salient features of the ASEAN Road Map on Wood-Based Sector Integration, an overview of integration in the wood-based sector, an overview of the forestry and wood-based industries in select ASEAN countries, assessment of the integration roadmap and a general outline of critical policy issues and concerns towards integration.

Salient features of the ASEAN Road Map on WBPS Integration

The 2004 'Roadmaps' for the each of the 11 PIPs are almost similarly worded. The objectives listed in the wood-based PIP roadmap can be found in the other roadmaps. They are broad and sweeping, namely:

- *"Strengthen regional integration through liberalisation and facilitation measures in the area of trade in goods, services and investments; and*

- *"Promote private sector participation."*

Likewise, the underlying justifications for integration are similarly worded and are also broad and sweeping. They read as follows:

- *"Combining the economic strengths of ASEAN member countries for regional advantage;*

- *"Facilitate and <u>promote intra-ASEAN investments</u>;*

- *"Improve the condition to <u>attract and retain manufacturing</u> and other economic activities within the region;*

- *"<u>Promote outsourcing</u> program within ASEAN; and*

- *"Promote the <u>development of 'Made in ASEAN' products</u> and services".*

Scope of the ASEAN wood-based PIP

The coverage of the wood-based PIP is limited to the following HS tariff lines:

HS 4401	Fuel wood, in logs, in billets, in twigs, or in similar forms Coniferous and non-coniferous wood Sawdust and other wood waste and scrap
HS 4402	Wood charcoal (including shell and nut charcoal)
HS 4405	Wood wool, flour
HS 4407	Planed, sanded or end-jointed wood
HS 4408	Wood slats for pencil manufacture Pinewood for blockboard manufacturing Veneer sheets
HS 4409	Strips, friezes for parquet flooring
HS 4410	Rough wood Paper products Surface-covered/laminated wood
HS 4411	Wooden beading and mouldings
HS 4412	Plywood Particle board
HS 4413	Densified wood
HS 4414	Wooden frames for paintings, photographs, etc.
HS 4415	Cases, boxes, crates, drums and similar packings Pallets, box pallets and other load boards

HS 4416	Staves
HS 4417	Boot or shoe lasts
HS 4418	Windows and frames Doors, frames and thresholds Parquet panels Shuttering for concrete constructional work Shingles and shakes Cellular wood panels
HS 4419	Wooden tableware and kitchenware
HS 4420	Wooden statuettes and ornaments
HS 4421	Clothes hangers Spools, cops and bobbins Match splints Wooden pegs or pins for footwear Candy-sticks, ice-cream sticks and ice-cream spoons Wood paving blocks Blind and blind fittings Fans and hand screens, frames and handles Horse and bullock gear Prayer and other beads Toothpicks
HS 9401	Rattan, assembled and not assembled

In sum, the WBPS PIP covers mainly the intermediate wood products – the semi-processed wood, chipped wood, plywood and veneer, wood panels, pulp wood and paperboard wastes, and paper and paper products. Furniture is partly covered through items such as windows and frames, doors and frames, table and kitchen wares, statuettes and ornaments and some assembled rattan. Also covered is a host of small wooden items such as toothpicks and candy sticks. Logs and timber are generally excluded or not mentioned. In short, the WBPS does not cover the upstream forestry and timber sub-sectors and the downstream wood-based furniture sub-sector, except for a few items

Integration measures

Like in the other PIPs, the wood-based PIP road map has the following integration measures:

- elimination of the CEPT-AFTA tariffs for the identified products

- identification of non-tariff measures and the adoption of a program to eliminate them
- improvement of the CEPT rules of origin (ROO)
- improvement of the customs procedures
- development of the mutual recognition arrangements (MRAs), harmonized standards and ensure compliance
- improvement of logistics services
- promotion of outsourcing
- expansion of the ASEAN integration system of preferences (AISP) scheme through the inclusion of the PIP sector
- removal of the PIP products from the sensitive and exclusion lists under the Framework Agreement on the ASEAN Investment Area and the promotion of investments and manufacturing based on ‘comparative strengths’
- intensification of intra- and extra-ASEAN trade and investment promotion
- establishment of an effective monitoring and statistical system on intra-ASEAN trade and investment
- expansion of the scope of the ASEAN intellectual property rights
- development of an ASEAN agreement to facilitate movement of business persons, experts, professionals, skilled labor and talents, including the completion of the MRA
- facilitation of travel in ASEAN
- joint capacity building and upgrading of skills

In addition to the above ‘wish measures’, the road map for the wood-based PIP calls for

- enhancement of cooperation in

    - certification of wood-based products to ensure sustainability and legality of origin of such products,
    - combating illegal trade in forest products and ensuring sustainability of forest resources, and
    - increasing awareness of all stakeholders on legal and environmental consequences of forest destruction;

- building up image to counter negative publicity on tropical hardwood product trade;

- joint marketing efforts in showcasing ASEAN wood products;

- promotion of investments on forest plantation and wood-based industry; and

- cooperation in human resources development.

From the foregoing proposed integration measures, it now appears that the ASEAN is also covering the forestry and timber sub-sectors in the integration process even if these sub-sectors are **not explicitly included in the HS coverage listing**. In fact, ***since 2004***, senior ASEAN officials dealing with the environment, forestry and the wood-based industry have been discussing additional measures related to these sub-sectors. There are proposals for:

- establishment of a Pan ASEAN timber certification initiative;
- exchange of information on import-export data of timber and wood-based products;
- promotion of network among law enforcement agencies in curbing illegal trade in wild fauna and flora;
- harmonization of the standards for ASEAN forest products and specifications;
- encouragement of joint ventures in terms of capital investment, technology transfer and access to market opportunities; and
- encouragement of greater use of raw materials from timber plantations by the wood-processing industry.

State of integration in the wood-based sector

In 2004, the ASEAN released the comprehensive study of Dr. Myrna Austria on *The Pattern of Intra-ASEAN Trade in the Priority Goods Sectors*. The following features of trade (l997-2001) in the covered wood-based items can be culled from the Austria study:

1. Intra-ASEAN exports of wood-based items constitute around 12 per cent or one-eight of the total wood-based exports by the ASEAN producers.

2. The bulk of the intra-ASEAN wood-based exports are accounted for by Indonesia and Malaysia, with these two countries garnering over 60 per cent of the total (see Table 1).

Table 1. Percentage Distribution of Intra-ASEAN Wood-Based Exports By Country, 1997-2001 (%)

Country	1997	1998	1999	2000	2001	Average
Brunei						
Indonesia	**21.67**	**37.14**	**31.98**	**31.05**	**33.33**	**31.04**
Laos	2.87	1.57	2.59	3.55	4.76	3.07
Malaysia	**39.67**	**26.98**	**30.12**	**28.95**	**22.73**	**29.69**
Myanmar	6.01	4.42	6.66	6.61	7.15	6.17
Philippines	1.57	2.21	1.39	1.36	1.46	1.60
Singapore	20.36	18.33	17.58	17.11	17.75	18.23
Thailand	7.73	9.22	9.50	11.24	12.50	10.04
Vietnam	0.12	0.13	0.18	0.14	0.32	0.18

3. However, while the shares of Laos and Myanmar in the total ASEAN wood-based exports are only 3 and 6 per cent respectively, these exports account for 71 and 24 per cent of total ASEAN exports of Laos and Myanmar (see Table 2). In contrast, these wood exports constitute 5 and 2 per cent of the total ASEAN exports of Indonesia and Malaysia, respectively. In the case of the Philippines, Singapore and Vietnam, these exports constitute less than 1 per cent of their total ASEAN exports.

Table 2. Share of Wood-Based Exports in Member Country's Total Intra-ASEAN Exports, 1997-2001 (per cent)

Country	1997	1998	1999	2000	2001	Average
Brunei						
Indonesia	3.87	5.21	5.86	4.80	4.94	4.94
Laos	**80.38**	**63.65**	**59.99**	**77.36**	**74.24**	**71.12**
Malaysia	2.91	1.97	2.05	1.86	1.44	2.05
Myanmar	**29.39**	**22.62**	**34.30**	**23.87**	**9.80**	**23.99**
Philippines	0.74	0.75	0.42	0.38	0.41	0.54
Singapore	0.96	0.92	0.90	0.77	0.77	0.86
Thailand	1.02	1.25	1.36	1.44	1.44	1.30
Vietnam	0.15	0.10	0.15	0.11	0.23	0.15

3. The biggest importers of wood-based products are Singapore (27.9 % of total intra-ASEAN imports), Thailand (25.7 %), Malaysia (25.4 %), Philippines (9.4 %), Vietnam (5.5%) and Indonesia (3.8 %) in this order (see Table 3)

Table 3. Percentage Distribution of Intra-ASEAN Wood-Based Imports By Country, 1997-2001 (%)

Country	1997	1998	1999	2000	2001	Average
Brunei	2.00	2.00				1.00
Indonesia	3.49	3.52	2.74	5.24	4.35	3.87
Laos						
Malaysia	16.87	22.89	26.86	29.67	30.52	25.36
Myanmar	0.65	1.01	1.47	1.36	1.77	1.25
Philippines	9.70	10.24	11.23	7.46	8.39	9.40
Singapore	**31.23**	**31.43**	**28.04**	**25.63**	**23.21**	**27.91**
Thailand	32.25	22.06	23.89	24.80	25.66	25.73
Vietnam	3.38	6.42	5.78	5.84	6.10	5.50

4. Singapore came third after Indonesia and Malaysia and accounted for 18.23 per cent of the total intra-ASEAN wood-based exports. Singapore is a major importer (Table 3) and yet it is also a major exporter (Table 1). This is

because Singapore has been churning out higher value-added paper and paper products out of its semi-processed wood imports and/or other paper materials. To a certain extent, this production pattern obtains in the Philippines and Thailand and even in the timber-rich Malaysia.

5. Exporters of lower value-added products (rough wood, sawn or chipped wood, plywood and varied articles of wood) are Laos, Myanmar and Malaysia; while exporters of higher value-added products (wood pulp, paperboard, paper and paper products) are Indonesia, Malaysia, Philippines, Singapore and Thailand.

6. The trade balance has been positive for the big exporter-producers of wood materials -- Indonesia, Laos, Malaysia and Myanmar.

7. The direction of exports is driven by geographical proximity. Laos exports go almost 100 per cent to Thailand; Myanmar, 62 per cent to Thailand and 23 per cent to Singapore; and Malaysia, 55 per cent to Singapore and 27 per cent to Thailand (see Table 4).

8. Total intra-ASEAN foreign direct investments (FDI) in the wood-based sector averaged over $700 million a year, or roughly 20 per cent of the total FDI in the sector. Indonesia and Malaysia accounted for 31 and 40 per cent of total intra-ASEAN FDI for the sector; the Philippines got 16 per cent.

Forest exhaustion concern,
Log shortages

In the ASEAN deliberations on the WBPS PIP road map, there has been increasing attention on the unprocessed log and timber sub-sectors. This is obviously in response to the campaign by the environmental movement, various civil society organizations and other stakeholders on the need to preserve the forest cover of Southeast Asia, made more urgent by the controversies on the forest fires and haze coming from Indonesia. Table 5 shows the rapid decline of the forest cover of the big ASEAN countries.

All countries in the region have been experiencing rapid forest denudation, especially the big WBPS exporters-producers such as Indonesia, Laos, Malaysia and Myanmar. The only exception is Vietnam, which has managed to increase its forest cover through a hard-nosed reforestation program. However, it should be noted that Vietnam, which is famous for its lacquer and other furniture, is forced to import, at an increasing rate, timber and other wood materials from countries as far as Canada.

Table 4. Leading Markets for Intra-ASEAN Export and Import of Wood-Based Products (Based on Average Share, 1997-2001)

Countries	*Export*				*Imports*			
	Product		Market		Product		Market	
	HS Code	% Share	Countries	% Share	HS CODE	% Share	Countries	% Share
Brunei					4418 4407 4819	31.22 18.16 17.74	 Malaysia Singapore	 44.67 36.17
Indonesia	4802 4810 4412	20.87 18.92 10.10	Malaysia Singapore	47.60 31.17	4707 4703 4802 4818	39.66 14.31 10.16 10.03	Singapore Thailand Malaysia	52.19 23.75 17.48
Laos	**4407** **4403**	**66.96** **26.54**	**Thailand**	**100.00**				
Malaysia	4407 4412 4819	40.33 14.97 4.91	Singapore Thailand	55.09 27.09	4802 4407 4801 4403 4810	18.90 10.20 9.15 9.05 8.99	Indonesia Singapore Thailand	56.36 20.32 17.20
Myanmar	4403 4407	73.52 21.27	Thailand Singapore	61.97 22.78	4819 4801 4810	57.55 17.19 9.68	Singapore Indonesia	66.00 31.06
Philippines	4801 4407 4823	67.77 12.03 9.53	Singapore Malaysia Thailand	49.98 24.09 23.22	4407 4408 4802	23.04 14.08 13.15	Myanmar Indonesia Thailand	83.81 8.39 5.09
Singapore	4811 4819 4823	34.75 15.49 10.95	Malaysia Thailand Vietnam	54.47 24.41 9.05	4407 4412 4818	21.21 16.04 10.64	Malaysia Thailand Myanmar	45.49 16.86 14.73
Thailand	4818 4805 4804 4802	24.07 15.04 12.05 11.01	Malaysia Singapore Philippines	42.38 23.22 16.50	4407 4403 4811	47.52 21.62 14.75	Malaysia Singapore Myanmar	45.49 16.86 14.73
Vietnam	4421 4412 4819	56.88 25.07 18.05	Malaysia Singapore	56.88 43.12	4810 4819 4410 4703	18.70 14.49 9.29 9.15	Indonesia Singapore Malaysia	35.87 30.48 17.81

Sources: PC/TAS

Table 5. Forest cover estimates for ASEAN countries* (1990-2000)

Country	***1990***	***2000***
Cambodia	56.1	52.9
Indonesia	65.2	58
Laos	56.7	54.4
Malaysia	65.9	58.7
Myanmar	60.2	52.3
Philippines	22.4	19.4
Thailand	31.1	28.9
Vietnam	28.6	30.2

**excluding the small island states of Brunei, Singapore*

Source: UNDP, 2006. Southeast Asia Regional Economic Integration and Cooperation, Colombo: UNDP Regional Office.

The Philippines, a major exporter of timber and wood-based products in the l960s-l970s, has the lowest forest cover in the region. In fact, the shortage of forest materials has led to the collapse of its once vibrant saw mill industry, plywood industry, pulp and paper industry and other wood-based industries. A number of Philippine pulp and paper plants have closed down, and those which are still standing are dependent on imported materials, including imported recyclable paper materials from other countries.

In the meantime, towns once known for their wood-based industries such as Butuan City, Zamboanga City and Davao City in Mindanao get easily flooded during rainy seasons – a stark reminder to all that there is a price to be paid for any reckless harvesting of exhaustible forests. In l900, about 75 per cent of the Philippines (with a total area of 30 million hectares) was covered by virgin forest; by l969, the forest area was down to 10 million hectares; and by l988, to 6.5 million hectares (Howard, l993).

This is why the ASEAN's Roadmap for the WBPS PIP will be incomplete if forestry policies and programs – conservation, illegal logging campaigns, calibrated harvesting and utilization of forestry materials, forestry renewal and plantations, etc. -- are not properly and sufficiently addressed. The vital role of forests in making the region liveable cannot be overemphasized. Apart from illegal logging and deforestation in general, the Road Map should address other related issues such as control over forestry resources, access of the poor to these resources, forestry conversion to promote food security and bio-fuels production, expansion of commercial ranching and agriculture, nexus/linkages between sustainable forestry and sustainable agriculture, technological and institutional packages in support of the foregoing, etc.

In this regard, cross-sectoral linkages to tackle common problems, including the enhancement of the comparative advantages of each sector, requires coordination. Also crucial is the compliance of member countries with international treaties and conventions dealing with forestry and related environmental concerns. Table 6 below is a listing of the treaties and conventions ratified by the different ASEAN countries.

Table 6. Status of Ratification of International Conventions and Agreements (as of Dec.1, 2002)

Country	CBD	UNFCCC	Kyoto Protocol	CCD	CITES	Ramsar Convention	World Heritage Convention
• Brunei					✓		
• Indonesia	✓	✓		✓	✓	✓	✓
• Laos	✓	✓		✓			✓
• Malaysia	✓	✓	✓	✓	✓	✓	✓
• Myanmar	✓	✓		✓	✓	✓	✓
• Philippines	✓	✓		✓	✓	✓	✓
• Singapore	✓	✓		✓	✓		✓
• Thailand		✓	✓	✓	✓	✓	✓
• Vietnam	✓	✓	✓	✓	✓	✓	✓

Notes: The regional breakdown reflects geographic rather than economic or political groupings
CBD – Convention on Biological Diversity
UNFCC – United Nations Framework Convention on Climate Change
CITES – Convention on International Trade in Endangered Species of Wild Fauna and Flora

Only Malaysia, Thailand and Vietnam have ratified all the seven (7) international treaties promoting environmental protection. Outside of these three countries, none has ratified the all-important Kyoto Protocol. Laos, a major wood and wood-based producer, has the least number of ratified conventions.

The forestry conservation issues are bound to intensify. As correctly pointed out by an ADB Forest Sector paper (2002), total demand exceeds the total supply of logs in the whole Asia-Pacific region. The situation is aggravated by widespread illegal logging and timber smuggling, which, the ADB notes, leads not only to environmental degradation but also to government revenue losses. For the ADB, there is urgency for the Asia-Pacific countries to address issues such as forest and tenure security, legal and regulatory framework, integrated forest resource development and planning, monitoring and evaluation of forest policy, and strategizing the role of the private sector in forest development. And yet, despite declining forest resources, both the public and private sectors in Southeast Asia and the rest of the Asia-Pacific region are ***under-investing*** in reforestation, conservation and renewable forestry projects. The situation is further complicated by the growing competition for raw logs or semi-processed timber as a result of the log bans in place in most countries in the region as well as in the tremendous growth of China's wood and furniture industry, which is dependent on imported wood materials (Woodmarkets, September 2004).

Clearly, one integration challenge for the ASEAN in the sector is indeed cooperation in various forestry programs such as combating illegal logging and forest fires, monitoring of timber trade, sharing of technology and experiences in forest conservation, upgrading of skills of forestry officials, regional forestry approaches and so on. Additionally, there is a need to tackle strategies on how to make public and private sector investments in forestry projects a viable proposition, which by itself requires another roadmap. The roadmap may also include the twin (oftentimes seen as contradictory) issues of poverty reduction and forestry conservation. How can program for the latter promote jobs and incomes for the poor? On this, there are case studies on how people at the grassroots level incorporate trees and forests into their livelihoods and farming systems.

Uneven development of the wood-based industry

As pointed out, the biggest Southeast Asian exporters of wood products (and logs and timber) are Indonesia and Malaysia, which have integrated forestry and wood-based industry. The wood and timber exports are in the top three exports of these resource-rich countries. In the l980s, Indonesia and Malaysia adopted a conscious policy of 'timber industrialization', which is the reason why these countries have now become major exporters of pulp, paper and other wood-based products. Indonesia's annual wood product exports accounted for 13-17 per cent (roughly US $7 billion a year) of the country's total exports in the l990s and sustained the jobs of half a million workers employed by hundreds of sawmills and the big plywood, pulp and paper, blockboard, chipmill and other wood-processing mills (Massijaya and Kartodihardjo, c2000).

Malaysia , on the other hand, earned US $5 billion in 2004 from its wood product exports -- plywood, particleboard, medium density fibreboard, veneered panels, mouldings, etc. (www.mida,gov.my). Because of its huge investments on the wood-processing industry and its own efforts to conserve its forests through a log ban, Malaysia has also been importing part of its raw material requirements and has been experimenting on the use of alternative wood materials such as kenaf and rubber. Malaysia has 'Timber Processing Zones' in Sarawak and Sabah and the industry employs a quarter of a million, including skilled workers from the Philippines and other countries.

The wood-based industry in resource-rich Laos and Myanmar is fairly underdeveloped as reflected in the nature of their exports, which are mainly low value-added semi-processed wood products.

After Indonesia and Malaysia, the biggest wood-based exporters are Thailand, Vietnam, the Philippines and Singapore. Thailand, given its geographical location, has easy access to raw materials coming from Laos, Myanmar and Malaysia. Singapore gets its materials from nearby Indonesia, Malaysia and the world market.

Vietnam and the Philippines source their materials all over the region and from as far as North and South America. Both countries, with expertise in wood working and furniture making, are reported to be losing skilled workers to Indonesia, Malaysia and the Middle East. Because of raw material constraints, these countries have been concentrating on niche markets such as specialized furniture.

As to intra-ASEAN investments in the wood-based industry, information is scarce and limited. Japan, given its requirements, is reported to be the biggest non-ASEAN investor in Indonesia, Malaysia, Philippines and Thailand. However, some home-grown lumber and wood ASEAN exporters, particularly from Malaysia and Thailand, have become big and have invested in other ASEAN countries and in non-ASEAN areas such as Papua New Guinea (Sizer and Plouvier, 2000). Thailand, for example, has now become a major player in the Philippine pulp and paper industry. With the liberalized and globalized economic environment, the patterns of ownership are likely to change over time.

Other regional cooperation programs

Ironically, one of the early regional economic cooperation programs in the ASEAN relates to log and timber exports. In the late l970s, the Southeast Asian Lumber Producers Association (SEALPA) was formed to establish log standards and a system of certification. In l978, SEALPA adopted its 'log grading rules'. However, with the decline of Philippine log exports as a result of the exhaustion of its forest resources, SEALPA has become an affair involving only Indonesia and Malaysia and a non-ASEAN country, Papua New Guinea.

A more recent cooperation program deals mainly with forestry – the enforcement of forestry laws against illegal logging and corrupt practices (e.g., money laundering) through the Forest Law Enforcement and Governance (FLEG) project, which is supported by the World Bank, the United States and the European Union. An East Asia Ministerial Conference held in Bali got the commitment of ASEAN countries for regional cooperation on forest law enforcement, tracking and policing of illegal logging and illegal trade, and adoption of a system of certification and 'genetic fingerprinting' of timber exports, among others. However, despite this FLEG initiative, the illegal trade of logs continues in some ASEAN countries, especially in Indonesia and the Philippines.

Regional integration:
What's in it for ASEAN countries?

From the foregoing outline of the structure of the industry in the individual ASEAN countries, it is clear that the WBPS integration program is somewhat confused. The PIP Road mapping emphasizes trade liberalization as a key towards economic integration. However, most of the covered HS lines have already been liberalized through the tariff liberalization schedule under the ASEAN Free Trade Agreement-Common Effective Preferential Tariffs (AFTA-CEPT), which lowered tariffs for the ASEAN goods to 0-5 per cent by 2003 for the original ASEAN 6 and by 2007-08 for the CLMV countries. In 2010, tariffs for the PIP-covered sectors will be down to zero; however, the impact of zero tariff rate is not likely to be much different from that of the present AFTA-CEPT rate.

Despite AFTA-CEPT and the PIP Road Map, there are no signs that the WBPS is integrating regionally, that made-in-the-ASEAN wood products are now being developed and marketed regionally and globally, and that countries in the region are cooperating and helping one another (based on comparative advantages) in the development of a regional

WBPS sector. It is obvious that trade liberalization alone does not necessarily lead to sector integration. This is so because ASEAN countries have different levels of WBPS development and are in fact competing with one another for raw materials and in the marketing wood-based products within and outside the ASEAN. This is best illustrated in the case of the Philippines.

Laments of Filipino furniture and paper producers

In the ASEAN Business Summit held in Cebu in December 2006, Filipino furniture participants in the WBPS Workshop were disappointed on the WPBS Road Map. This is because the PIP Road Map, as outlined earlier, is focused on the middle or intermediate sub-sectors. Michael Basubas, president of the Cebu Furniture Industries Foundation, Inc., commented (Natividad, 12-13 January 2007) as follows:

> *"The proposed integration road map did not address the entire value chain. Furniture, which is a wood-based product, was not even included. Only certain sectors were. There's got to be a deeper, more comprehensive consultation that will address the entire value chain."*

The interest of the Cebu and other Filipino furniture makers is to have easier access to cheap wood materials, which are in short supply in the Philippines because of the log and timber shortage in the country. A liberalization in trade in logs and timber will naturally work to the advantage of the Filipino furniture makers, who import these materials from Malaysia and non-ASEAN countries, some as far as Brazil. In addition, Filipino furniture makers are facing keen competition from Indonesia, Thailand and Vietnam and from a non-ASEAN neighbour, China.

On the other hand, the Filipino pulp and paper producers has also a similar complaint – severe shortage of raw materials. However, as explained by Armando Rios, managing director of the Pulp and Paper Manufacturers Association, Inc. or PULPAPEL, the materials that the pulp and paper producers have been securing are not wood materials but waste paper or recyclable paper materials, dumped by consumers at home or imported from countries such as the United States, Israel and so on. The original pulp and paper makers utilizing wood pulp have either closed down or shifted to paper recycling business due to the shortage of wood materials, high cost of energy and the general downscaling of the industry in the last two decades as reflected in table 7. According to Rios, even the giant PICOP in Agusan, Mindanao, which once operated an integrated plywood-newsprint-paper milling operation, has shifted in recent years to paper recycling business. Further, Rios explained that operating a paper mill processing wood pulp requires huge capital outlay (a minimum of $15 million) and a steady supply of cheap energy and wood materials, both of which are not available in the Philippines. As a result, the Philippines, once a paper exporter, is now a major importer of paper and paper products. The Philippines is also a major importer of other wood products (see table 8).

Table 7.
Philippine production of wood products
1976-2002

Year	***Lumber*** ('000 cu m)	***Plywood*** ('000 cm)	***Veneer*** ('000 cm)	***Paper/paper products*** ('000 metric tons)
1980	1529	553	660	324
1985	1062	350	77	155
1990	841	397	49	175
1995	286	290	19	n.a.
2000	150	286	178	na.
2002	163	350	205	n.a.

Source: 2005 Philippine Yearbook, NSO.

Table 8.
Philippine imports and exports of wood-based products
2000

	Imports	***Exports***
Sawn wood ('000 c m)	359	120
Wood-based panels ('000 c m)	219	16
Pulp for paper production ('000 m tons)	60	0
Paper and paper products ('000 m tons)	388	111

Source: table 4 of FAO's *State of the World's Forests*, 2003

The Philippine paper mills have been producing newsprint, printing and writing paper, kraft/sack paper, corrugating medium and linerboards, tissue and specialty paper, etc. out of recycled waste papers. Since 2003, PULPAPEL has been resisting the government's efforts to lower the tariff rates for imported paper and paper products while demanding for only one (1) per cent tariff rate for imported waste paper and pulp and other materials. It cites that the neighboring ASEAN countries such as Malaysia, Indonesia and Thailand have rates twice or more those of the Philippines. In l978, tariffs for the industry products ranged between 30 to 100 per cent; in 2000, the rates were down to 3-10 per cent and in 2002, to a uniform three (3) per cent (Brucal and Narvaez, June 2006). In contrast, Indonesia, Malaysia and Thailand have kept their tariff rates at 5-10 per cent.

PULPAPEL also wails against the unchecked flow of smuggled paper and paper products and the liberal policy of the government allowing the export of waste paper and other scrap materials. The association has been very critical of the ASEAN-CEPT program and is unable to identify with the ASEAN PIP program, which it said will not be beneficial to the association's members. Additionally, it is also wary of the proposed bilateral trade liberalization programs involving China, Japan, United States and other countries which are being negotiated in the context of the ASEAN Framework Agreement with the individual developed countries.

Overall, there is no enthusiastic response from the Philippine wood-based sector to the proposed PIP. As it is, the sector is even being seen as a 'sunset industry', which saw its glory days in the l960s-l970s. A more recent study (Brucal and Narvaez, June 2006) shows that the 'wood manufacturing sector accounted for only 0.5 per cent of the total GVA of the entire manufacturing industry in 2005, making it one of the smallest sub-sectors'. The study blames the weakness of the sector not only on the wood/raw material shortage but also on 'obsolete and inappropriate' production and processing equipment and infrastructure. Likewise, in the case of the pulp and paper industry, it argues that the industry, dependent as it is on waste paper, is being pulled down by the 'low recovery rate' of waste paper in the country.

However, while the picture is dismal for the pulp and paper industry, that of the plywood and veneer wood industries appears different. In Table 7, there appears to be some modest growth recovery in the production of the latter in recent years. This partial recovery is based on imported wood materials sourced not only from Indonesia and Malaysia but also from non-ASEAN countries such as Russia and Brazil.

Case of Indonesia and Malaysia

Indonesia and Malaysia are two countries that are both producers and exporters of unprocessed or semi-processed raw materials and wood-based products as defined in the ASEAN PIP. In 2000, Indonesia's Sarawak earned from various wood-based products a total of over 3.3 billion Malaysian ringgit or over 11 per cent of Sarawak's aggregate export earnings of 31 B MR for the year. Malaysia also earns a lot from exports of timber and varied wood-based products as summarized earlier.

However, both Indonesia and Malaysia have been very conscious of the importance of adding more values to their wood harvests and wood products. Hence, their similar national efforts to restrict export of unprocessed timber and to encourage increased processing of such. In recent years, Malaysia has even encouraged its pulp and paper industry to utilize more and more non-wood materials such as kenaf and ageing rubber trees.

In this context, it is difficult for the two countries to completely open up their existing industries – unless the idea is to open up their WBPS for increased investments from neighboring ASEAN countries. In fact, Malaysia did not hesitate to impose anti-dumping measures against two Philippine companies – TIPCO on its exportation of newsprint and UPPC on corrugating medium.

WBPS Roadmap:
Time for a strategic re-examination

The WBPS is declared important to ASEAN economies because it seen as a source of exports, revenues and employment.

Weaknesses and obstacles to integration

However, the ASEAN Secretariat itself has pointed out that ASEAN trade in timber products amounted to only US$24 billion, with trade in wood and wood articles accounting for over half of this. It is also abundantly clear that trade liberalization per se, as envisioned by the PIP Road Map, will not necessarily lead to deeper regional integration. Some countries are competing against each other. Those with rich wood materials are interested in adding more values to these materials instead exporting said materials to ASEAN countries with severe material shortages. The competition for wood materials has even spilled to competition for waster paper materials.

On the other hand, new ASEAN member countries Laos and Myanmar are also keen in the development of their WBPS given their rich forestry resources. Thus, their natural interest to have a fuller ASEAN implementation of the WBPS PIP. However, this will not easily happen given the interest of the other ASEAN countries to keep their own WBPS industries going and expanding.

On the 'made-in-ASEAN products', we still have to see concrete measures, either undertaken by the governments or private sector of the region, in support of such promotion program. Nor are there any concrete indications that there have been progress in other key WBPS measures dealing with Non-Tariff Measures (NTMs); Rules of Origin (ROO); Customs procedures; Standard & Conformance; Logistic Services; Outsourcing and Industrial Complementation; ASEAN Integration System of Preferences; Investments; Trade and Investment Promotion; Intra-ASEAN Trade and Investment Statistics; Intellectual Property Rights; Movement of Business Persons, Skilled Labour, Talents and Professionals; Facilitation of Travel in ASEAN; and Human Resource Development. Some measures are not exactly applicable to the WBPS PIP.

As it is, progress (see Matrix I) has been mainly in the forestry and timber sub-sectors, with the ASEAN issuing the following measures:

- Measure 40: Developing cooperation programme among authorities dealing with certification of timber/wood-based products to ensure the sustainability and legality of the origin of such products;

- Measure 41: Developing cooperation programme among relevant authorities to combat illegal trade in forest products, including endangered species of flora and fauna, and exchange of relevant information on wood import as allowed by law, on the basis of mutual respect, equality and mutual benefit, and in all levels, to ensure the sustainability of forest resources.

- Measure 44: Inviting more advanced countries to provide assistance to AMCs, e.g. on the proposed EU Action Plan on Forest Law Enforcement, Governance and Trade (FLEG-T);

The ASEAN has appointed Indonesia as the lead country for the WBPS PIP. However, it has not come up with an up-to-date report on the PIP.

Matrix 1. Highlights of Progress on Some Specific Issues

NO	MEASURES	PROGRESS
XVI	**Enhancing Cooperation in Timber Products**	
40	Develop cooperation programme among authorities dealing with certification of timber/ wood-based products to ensure the sustainability and legality of the origin of such products;	▪ Developing ASEAN Guideline to phased-approach timber certification ▪ Defining legality of timber sources
41	Develop cooperation programme among relevant authorities to combat illegal trade in forest products, including endangered species of flora and fauna, and exchange of relevant information on wood import as allowed by law, on the basis of mutual respect, equality and mutual benefit, and in all levels, to ensure the sustainability of forest resources.	▪ Developed and implement the ASEAN Strategic Alliance in SFM: *The case of illegal logging and associated trade* ▪ Developed and implement the Regional Action Plan on Trade in Wild Fauna and Flora (2005-2010) ▪ Established ASEAN Wildlife Law Enforcement Network ▪ Joint cooperation between forestry and customs agencies
XVII	**Joint Marketing and Image-Building**	
44	Invite more advanced countries to provide assistance to ASEAN Member Countries, e.g. on the proposed EU action plan on Forest Law Enforcement, Governance and Trade (FLEGT);	▪ Some AMCs are in preparation for negotiation to engage in VPA under EU Action Plan for FLEGT

Integration: Prospects and Recommendations

From the foregoing outline of the regional pattern of wood-based industry and the uneven level of development of the industry across the region, it is clear that integration requires some strategic re-visioning and consequent to this, the corresponding road-mapping for the industry. It can consider the following:

First, there is a need to formally bring in the other sub-sectors in the context of the whole value chain, as voiced out by the Filipino furniture makers.

Second, there is indeed urgency in coming up with unified regional approach to illegal trade in timber and logs. In this connection, ASEAN's efforts to ***broaden the integration project by addressing forestry concerns*** is on the right track. In particular, the above FLEG initiative and the following proposed measures are indeed worth supporting:

- ⇒ establishment of a Pan ASEAN timber certification initiative;
- ⇒ exchange of information on import-export data of timber and wood-based products;
- ⇒ promotion of network among law enforcement agencies in curbing illegal trade in wild fauna and flora;
- ⇒ harmonizing standards of ASEAN forest products and specifications;
- ⇒ encouraging joint ventures in terms of capital investment, technology transfer and access to market opportunities; and
- ⇒ Encouraging greater use of raw materials from timber plantations by the wood-processing industry.

Third, there is a need to be more concrete in the programming under the road map. As it is, the current Roadmap has sweeping wish measures which sound very much like motherhood statements. There is a need to link clearly such measures with concrete definable activities in the WBPS.

Fourth, there should be greater focus on productive and mutually-beneficial cooperation programs. These include HRD, investment promotion, standard setting, data base development, all of which are already included in the road map. What is needed to be more concrete as to how these broad mission goals can be achieved.

Fifth, there is a need to have an overall vision of where the ASEAN WBPS shall be by 2015, five years after the integration measures are supposedly to be fully in place. For example, what kind of sector complementation and cooperation will be in place?

Sixth, there is a need to de-romanticize liberalization and integration; instead, it will do well to fully identify all obstacles to integration.

Seventh, there is a need to strategize ASEAN responses to the emerging trends in the East Asian and global producers, e.g., what is happening in China, Japan and Korea and their evolving production programs.

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