

GOVERNANCE ISSUES IN INTERNATIONAL TRADE IN THE BIMP-EAGA

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SINOPSIS

Since the BIMP-EAGA has gone through some bumpy rides in the recent past, international trade and governance issues within the region have surfaced.

The BIMP-EAGA (or simply EAGA) stands for the Brunei Darussalam Indonesia Malaysia the Philippines – East ASEAN growth Area. It is the Asia's largest regional grouping, spanning territories of four ASEAN countries. EAGA comprises the entire sultanate of Brunei Darussalam; 10 provinces in the Indonesian islands of Kalimantan, Sulawesi, Maluku and Irian Jaya; Sabah, Sarawak and Labuan in Malaysia; and Mindanao and Palawan regions in the Philippines. Its land area of roughly 1.54 million square kilometers is home to almost 45 million people now.

In today's era of economic cooperation and globalisation, and trade liberalization BIMP-EAGA is observed by many if it's consistent with economic policies and specific agreements between members of ASEAN in the implementation of its Free Trade Area (AFTA). Since the functionality of this growth area falls squarely within the frameworks of APEC and the much larger WTO; there are some issues in governance and in trade that surround it.

Since BIMP-EAGA is not a multi-government program per se, but rather a joint public-private sector mechanisms in four countries for bringing investment and opportunities to the business community, through initiatives of four member governments; again the issues in governance are important to look at.

Good governance offers hope of increased trade, tourism, and investments in the region via facilitation of free movement of people, goods, and services; the sharing of common infrastructure and natural resources; and the pursuance of economic complementation; in the BIMP-EAGA.

BIMP-EAGA

BIMP-EAGA is an association of nations in the ASEAN region composed of Brunei Darussalam, Indonesia, Malaysia and the Philippines. It was organized when the Heads of Government of Brunei Darussalam, Indonesia, Malaysia and the Philippines together with the senior Officials met in Davao City, Philippines on March 24 - 26, 1996. Based on the agreements in the Inaugural Meeting, BIMP-EAGA shall be composed of the following areas: the entire sultanate of Brunei Darussalam, the Eastern Provinces of Indonesia which are North Sulawesi, East Kalimantan and West Kalimantan, East Malaysia covering Sabah, Sarawak and Labuan and Southern Philippines, particularly Mindanao. During subsequent meeting, BIMP-EAGA was expanded to include Palawan, Philippines and seven additional Indonesian provinces: Central, South and Southeast Sulawesi, Central and south Kalimantan, Maluku and Irian Jaya.

Among these participating regions, the largest land area is that of Indonesia with 1.25 million square kilometers followed by Malaysia, Philippines and Brunei Darussalam. In terms of population, the largest is that of Indonesia with about 25.8 million followed by the Philippines, Malaysia and Brunei Darussalam. Overall, it has almost 45 million people now and it is an expanding polygon of opportunities.

Although ASEAN has been at the center of the most dynamic economic region of the world, with many of these countries achieving high rates of growth, high savings and investment rates, and dramatic reductions in poverty over recent decades (Hicklin, John ; Robinson, David ; Singh, Anoop, eds. (1997) BIMP-EAGA itself is a lesser fortunate sub-region.

In the Seventh ASEAN Summit held in Bandar Seri Begawan last November 2001, ASEAN leaders however reaffirmed the importance BIMP-EAGA growth to ASEAN development and have called for a high level meeting to discuss ways of improving the sub-regional investment climate. Most importantly, it was during this summit that the Asian Development Bank was named as Regional Cooperation Adviser to BIMP-EAGA.

Restoring the momentum gained in BIMP-EAGA is not an easy task. While for most part, BIMP-EAGA was private sector initiated; its continuing existence and success are very dependent on government leadership and action in view of the weaker capabilities of the private sector as a consequence of the recent Asian financial and political crises.

BIMP-EAGA has to continue to be market-driven and to attract private sector investments. Experience, however, has shown that consistent and more focused government intervention particularly during the early stages of development is required. For example, the EAGA region continues to be faced with the lack of adequate infrastructure and only government is in a position to effectively address this constraint. The four governments need to institutionalize BIMP-EAGA, insists Dominguez of the Philippines, through explicit inclusion of the priorities of the area in the respective long-term development plans of the participating countries.

Building on the existing capacities of the local private sector should be a focus of the new BIMP-EAGA strategy and this generally means strengthening the development of the small and medium enterprises or the SMEs. Although foreign direct investments will continue to be an aspiration, there is greater realization that in today's current investment environment, high levels of FDIs cannot be relied upon to stimulate investments in the subregion. Given the current stages of private sector development in the subregion and the low level of commercial interaction in the subregion, Government programs to develop entrepreneurial capacities within the subregion is essential.

BIMP-EAGA's institutional structure and mechanisms will have to be adjusted to make it more project-oriented and results-driven. EAGA has a decentralized structure where no central secretariat has been created and where most of the cooperation activities are identified and discussed within the sectoral working groups. Increasingly, however, we are seeing the need for a central project facilitation and monitoring unit that would oversee the initiation and implementation of bilateral and multilateral projects and agreements.

BIMP-EAGA's Goals

The over-all goal of BIMP-EAGA is basically to increase trade, investments and tourism in the area. This goal is achieved through these objectives which are facilitating free movement of people, goods and services, sharing common infrastructure and natural resources and promoting economic complementation. All efforts in BIMP-EAGA have been guided by these objectives.

Implementing Mechanism

The BIMP-EAGA is administered by the four member governments through respective Senior Officials and Ministers. The designation of a Ministry or agency in the individual countries shall serve as the focal point for the exchange of information and coordination of programs related to BIMP-EAGA.

The private sector will play the crucial role in accelerating the successful implementation of BIMP-EAGA programs and projects. In this regard, BIMP-East ASEAN Business Council was established. It would serve as a link among business entities and other economic organizations involved in the area make representation to governments on their behalf.

This growth area has a decentralized organizational structure. Unlike ASEAN, BIMP-EAGA does not have a national secretariat but instead, retain each country's national secretariat. Networking among these national secretariats will ensure effective communication channels.

One unique feature of BIMP-EAGA is in the manner it recognize projects. There is no requirement for its venture to involve all four countries. Any two or three participants could always initiate cooperative arrangements which will be recognized as part of the BIMP-EAGA cooperation. And many of its successful projects are on bilateral or trilateral bases.

Areas of Cooperation

Thirteen areas of cooperation have been identified and a lead country is assigned to each area or as commonly known, working group. Designation for leadership is based on the countries' competitive edge in the area or sector. However, the lead country is not given some extra privileges in decision-making. All decisions in the BIMP-EAGA are based on consensus all the time. These working groups will identify in detail projects and programs for cooperation in these areas.

The BIMP-EAGA is market driven and puts emphasis on private sector dynamism. By working through the identified areas of cooperation, this growth area is able to provide a conducive atmosphere for private sector growth.

There are thirteen areas of cooperation as follows with the lead country for each area as shown in Table 1:

Table 1

Areas of Cooperation	Lead Country
Tourism	Malaysia
Energy	Malaysia
Human Resource Development	Malaysia
Capital Formation / Financial Service	Malaysia
Sea Linkages	Indonesia
People Mobility	Indonesia
Forestry	Indonesia
Air Linkages	Brunei Darussalam
Environment	Brunei Darussalam
Telecommunications	Brunei Darussalam
Fisheries	Philippines
Construction / Construction Materials	Philippines
Agro Industry	Philippines

Since 1994, the working groups have conducted several meetings which is normally twice a year and have had several successes in the areas.

BIMP-EAGA's Achievements

Until the crisis hit in mid-1997, air links in EAGA expanded to 11, from only five before the EAGA initiative. The Davao - Kota Kinabalu route in particular registered an incoming and outgoing passenger load increase of 35.95 and 51.71 percent respectively, while the Davao - Manado link grew 19.22 and 24 percent, incoming and outgoing passenger load respectively. Two more routes connecting Brunei and Palawan, and Kota Kinabalu and Manado have been proposed and are currently being studied by relevant airline companies for their feasibility. An MOU between RBA and a new airline, Mindanao Express (Corporate Air), to realise the Palawan-Brunei link is already in effect, agreed upon during the State Visit of HE President Estrada of the Philippines to Brunei. EAGA has also seen the birth of another airline in Sarawak-based SAEAGA Air, but was unfortunately driven to closure by the Asian financial crisis.

Leading to the first quarter of 1997, Royal Brunei Airlines, the national carrier of the sultanate, has likewise registered an average of 23.5 percent growth in outgoing cargo bound for EAGA destinations. EAGA's sea transport industry also has marked developments. The latest addition to EAGA vessels plying the fast-growing Zamboanga - Sandakan sea link is a Malaysian-registered fast ferry. A small economic boom between these two cities has grown notable, where with increased shipping had generated more opportunities. The volume of Mindanao-bound cargo along this route has shown an average quarterly growth rate of more than 160%. Links between Indonesia and the Philippines have led to the increased movement of people between Indonesia and the Philippines. The Mindanao Economic Development Council (MEDCo), Philippine Secretariat for EAGA, reports a 23.68 and 57.80 percent increase in M/V Tilongkabila's incoming and outgoing passengers for the first quarter of 1998. Moreover, another Indonesian vessel, M/V Ellyana has begun to sail this route. Already, it has serviced 1,301 passengers in the first quarter of 1998, and posted an average 56.18 percent Philippine-bound occupancy rate.

There is likewise a link from Cotabato to Labuan, which serves as a transit point for Philippine goods bound for Brunei. Traditional craft also continue to sail the Zamboanga - Labuan and Zamboanga - Manado routes. Uniform port dues of US\$ 0.04/GRT and dockage fees of \$ 0.02/GRT/day for Bruneian, Indonesian, and Philippine EAGA-plying vessels are already being levied in selected ports around these countries. In addition, the BIMP-EAGA Shipping Association was formed during the 7th Sea Links Working Groups Meeting in Davao in July 1999. It was incorporated to identify opportunities for the shipping sector, as well as advocate necessary policy amendments for the development of the industry in EAGA. In construction and infrastructure, the Construction Working Group has endorsed the Pan-EAGA Multi-Modal transport Network System, an ambitious plan to integrate key cities of the growth area. This project calls for the construction and/or upgrade of roads, the erection of border-crossing stations, and the continued improvement of shipping services in the component areas of EAGA.

Malaysia's Ekran Berhad has built and opened in March 1998 a US\$ 300m resort in Samal Island in Davao. It is by far the largest cross-border investment of one EAGA constituent to a neighbouring area, and forms part of the Samal Island Tourism Estates Program of the Philippine Department of Tourism. The Samal Island Casino Resort is accessible by a 45-minute boat ride from Sta. Ana wharf in Davao City. Brunei has also reportedly made substantial investments in the tourism sector in Mindanao, bringing total EAGA investments in the area to over \$ 500m.

The Philippine tourism industry seems to have most benefited from the EAGA initiative in terms of tourist arrivals. Largely because of the increase in investments in this sector, tourist arrivals in Central and Southern Mindanao have continued experiencing a general increase, totalling slightly less than a million arrivals in the period covering 1996 to Q2 1997.

On the other hand, ecotourism has large potentials in the Borneo Island area of EAGA, particularly Brunei and Sarawak, Malaysia. The RM 12m (US\$ 3.16m), 10,736-hectare Loagan Bunut National Park in Sarawak is the first in the State, and is expected to be completed in 2001. Its features will include a 5.8-km access road, 40-person hostel, chalets, function rooms, water pumps, treatment plants, among others. GSM communications has become a standard facility in more than 70 cities and towns around EAGA, bringing businessmen closer than ever before, and making cross-border business transactions the next practical step in commercial expansion.

In financial services, it may be only a matter of time before EAGA can boast of a Growth Fund to jumpstart important projects requiring large amounts of capital. Malaysia's Suria Capital Holdings, Land Bank of the Philippines, and Development Bank of the Philippines have signed an MOU to establish what the EAGA Growth Fund I, a US\$ 150m, closed-end, 20-year equity fund that will participate in viable projects to catalyse development in the region.

In taking these progressive measures, the environment was certainly not left out. Joint efforts of Malaysia and the Philippines have led to the acclamation of the Turtle Islands Preservation Program - an endeavour that has garnered the Paul Getty Award for environmental protection and wildlife preservation.

BIMP-EAGA's Resources

1. INFRASTRUCTURAL RESOURCES:

In EAGA transportation links were built to allow the extraction of primary commodities, often for processing in the "heartland" areas of the EAGA nations. Whilst recent transportation initiatives have improved intra-EAGA linkages, significant deficiencies remain and are largely responsible for the high transaction costs associated with intra-EAGA trade.

LAND TRANSPORTATION:

Brunei

There is an extensive all weather arterial highway network throughout the State. However,

- i. the two parts of Brunei are not linked by road and
- ii. external road links to Malaysia EAGA remain embryonic and problematic to use.

Indonesia EAGA

Outside of the main towns, the road network is inadequate. Both East and West Kalimantan are served by a main arterial road network which links their respective population centers. However, these roads neither

- i. penetrate the vast hinterland of Kalimantan nor

- ii. connect the two provinces.

The only cross border link at present is between West Kalimantan and Sarawak via the road linking Kuching to Pontianak. In capacity shortfall on the stretch between Manado and Bitung. Overland links to Central Sulawesi (Palu) and onto South Sulawesi (Ujung Pandang) are generally inadequate.

Malaysia EAGA

*The East Malaysian states are characterized by a high standard main road spine linking the main population centers along the north-western coastal plain, which forms the basis of the Pan Borneo Highway. Transportation links south-east to the hinterland areas, however, are not well developed. Direct links between Sabah and Sarawak have been proposed as part of the Pan Borneo Highway. However construction of the Highway has been delayed due to discussions concerning cross-border links into Brunei. An alternative but more costly highway alignment circumventing Brunei and directly linking the two East Malaysian states is being considered. Other than the Kuching-Pontianak link with the border crossing at Entikong-Tebedu, at present *defined links from Sabah and Sarawak to the Indonesia-EAGA provinces of Kalimantan do not exist.**

Philippines EAGA

In Mindanao a history of resource exploitation and extraction has resulted in a radial road network. *There are few roads directly linking the main population and production centers located along the coast.* Current development plans (e.g. "Mindanao 2000") aim to rectify this situation by strengthening the main road network linking the principal centers within the defined growth corridors (e.g. Cagayan de Oro/Iligan and Davao/Zamboanga). A number of these proposals have bi/multi lateral funding support and a fully integrated network throughout Mindanao is planned for the year 2000. The road network in Palawan is similarly inadequate, though unlike Mindanao, projects to rectify the problem are neither as well advanced nor associated with committed funding.

AIR TRANSPORTATION:

Brunei

Bandar Seri Begawan has a high standard international airport with considerable spare passenger and freight handling capacity, and a runway capable of accommodating the largest long haul aircraft. Further expansion of the airport and its facilities are proposed as part of the strategy for developing Brunei as the Service Hub for Trade and Tourism (SHUTT) for the region. Five international airlines link Brunei to numerous destinations throughout Asia, as well to Europe, the Middle East and Australia. Royal Brunei Airways (RBA) currently flies to some 30 international destinations and plans to expand the scope of its service, especially throughout the ASEAN and EAGA regions.

Indonesia EAGA

The Indonesian-EAGA provincial capitals of Balikpapan, Pontianak and Manado are designated international airports. International flights are also handled at Tarakan. The runway capacity at both Balikpapan and Manado is currently adequate to accommodate Airbus and DC 10 respectively, however the runway capacity at Pontianak needs to be extended to accommodate long haul international flights. Passenger and freights handing facilities at the main airports are at present generally adequate. The international flight service from the I-EAGA airports is limited in terms of destination (Balikpapan-Brunei, Manado-Davao, Pontianak-Kuching and Tarakan-Tawau) and in terms of frequency (2-3 times a week). the intra-EAGA air service linkage is also infrequent and mostly routed through Jakarta with corresponding time and cost implications.

Malaysia EAGA

In terms of passenger and freight traffic movements the international airports at Kuching and Kota Kinabalu are the busiest and fastest growing in the region at present. The future growth of both airports, however, is currently constrained by their limited runway capacity which restricts the landing of the larger long haul B-747s, an essential requirement for major regional air service hubs. Proposals to expand the runway capacity of both airports, as well as their passenger and freight handling facilities have been incorporated in the Seventh Malaysia Plan. Both Kuching and Kota Kinabalu airports have regular service connections to other major Asian destinations, including EAGA destinations in Brunei and Pontianak. Both airports also have regular connections with Labuan and other smaller domestic airports including Miri, Tawau and Labuan, all of which handle international flights despite their domestic airport status. the GoM plans to expand Labuan Airport in order to support the developmetn of the proposed IOFC.

Philippines EAGA

Davao and Zamboanga are Mindanao's international airports. Both are scheduled for expansion in order to accommodate long haul aircraft. Davao has limited direct international flight connections to Kuala Lumpur, Kota Kinabalu and Manado. Zamboanga also has a direct service connections to Sabah. Both airports have good indirect international service connections to major Asian destinations through either Manila or Cebu.

Internal connections within Mindanao are fairly well developed although not direct in all cases. Ceneral Santos City is proposed within the MDFP as a major international transshipment center for Mindanao, and the City's new airport is currently under construction. Other major airports in Mindanao include Cagayan de Oro and Cotobato which are designated trunkline airports but with limited runway, passenger and freight handling capacity. The airport at Puerto Princesa in Palawan has direct international connections to Kota Kinabalu and Brunei. Runway capacity and passenger facilities are, however, presently inadequate.

SEA TRANSPORTATION:

Brunei

Muara is the principal port in Brunei with direct links with Singapore, Port Kelang and Tanjung Priok as well as many other ASEAN ports. The port is well organized and has extensive cargo handling facilities, including bulk facilities for bitumen and cement. Cargo and especially container throughput has increased considerably in recent years, Muara is also a "stop-over" for passenger vessels.

Indonesia EAGA

All Indonesian ports handle a large and growing passenger movement. *Cargo and container traffic through most ports is also growing rapidly.* A regular cargo/container service is currently in operation between

- i. Balikpapan and Surabaya,
- ii. Manado and Davao/General Santos and

- iii. between all three I-EAGA ports and Tanjung Priok.

In East Kalimantan the main general purpose port in the Province is Balikpapan, although Samarinda, Nunakan, Tarakan and the privately owned Bontong port are also important provincial ports. All ports handle general cargo, containers and passenger traffic.

Malaysia EAGA

The ports of Malaysia EAGA are well organized and equipped in terms of handling facilities. Many are being or have recently been expanded. In Sabah the main ports are at Kota Kinabalu, Sandakan and Tawau. These ports carry the bulk of cargo traffic and are the fastest growing ports in the State. Kota Kinabalu handles the largest volume of container traffic but is reaching full capacity. Hence plans to expand the container handling operations to the adjacent Sepangar Bay port area.

Kota Kinabalu carries the bulk of sea borne passenger movement and is the main sea tourist arrival gateway to Sabah. An intra-EAGA passenger ferry service linking Sandakan to Zamboanga has recently been commissioned. Labuan is linked by passenger ferry to Kota Kinabalu, Menumbok and Brunei. Shipping through Labuan is mostly cargo consolidation and transshipment, especially of cargo for Brunei which can not be shipped directly because of draft limitations in Muara.

Sarawak has four principal ports at Kuching, Miri, Rajang (Sibu) and Bintulu. With the exception of Miri, which is beset with navigational constraints, all these ports and all related freight movements have increased considerably in recent years. Although designed as an oil and gas terminal and transshipment center, the Federal port of Bintulu currently handles about half of all cargo imports and exports. The most significant growth in freight volume however has been in container traffic and Kuching currently handles almost 60 per cent of all State container traffic. There are Government of Malaysia (GoM) plans to further increase the container handling capacity of Kuching, and to develop a new port with significant potential for expansion adjacent to Miri at Kuala Baram.

Philippines EAGA

At present ports and shipping services are adequate to meet both domestic and international cargo, container and passenger movements. However the current rate of economic growth, and the MDPF proposals to link the principal ports of Mindanao into an integrated transportation network, suggests that there will be a need to expand port facilities and shipping services in the near future, especially bulk handling, cold storage and passenger and container terminals in the major "hub" ports of the sub-region, such as Davao, General Santos, Cagayan de Oro, Zamboanga and Puerto Princesa.

TELECOMMUNICATIONS:

Brunei

The telecommunications network of Brunei is well developed. The main telecommunications operator is Jabatan Telekom Brunei (JTB), a government department. From April 1995 the operation of cellular services was taken over by a private sector operator. Currently, there are 28 exchanges and two international gateways. The fixed line telephone density (teledensity) at the end of 1994 was some 22 per 100 head of population. Cellular phone services are readily available and the teledensity for such services was some 5.5 per 100 population. All system are digital and there are two standard 'A' earth stations.

Indonesia EAGA

Telecommunications services in Indonesia EAGA, outside of the few main towns is poor. Provision of telecommunication services is the responsibility of two government owned enterprises, PT Telkom and PT Indosat. Private sector participation in the sector is allowed, in the form of either joint ventures and/or BOT arrangements. Teledensity figures for the EAGA provinces of Indonesia at the end of 1994 were 1.7, 0.6 and 1.1 for East Kalimantan, West Kalimantan and North Sulawesi respectively. Cellular phone services have recently been introduced in Balikpapan and Manado. The rural areas of the Indonesia EAGA provinces are often very poorly served.

Malaysia EAGA

Telecommunications in Malaysia are improving but coverage outside of the main towns remains inadequate. The telecommunications system in both Sarawak and Sabah consists of a microwave backbone trunk network supplemented with

i. fibre-optic and satellite links recently installed and

ii. cellular radio networks. Labuan is being developed as a telecommunicatins hub, with the completion of a 32 metre INTELSAT standard 'A' earth station, equipped with two antennae which will provide telephony data and video services.

In 1994, the teledensity in Sarawak and Sabah (and Labuan) was 10 and 6 DELs per 100 population, somewhat below the national average of 15. Cellular services are also readily available in the major urban areas (teledensity of 4.6). Telecommunications facilities in the rural areas of Sarawak and Sabah are generally poor.

Philippines EAGA

The recent deregulation of the telecommunications industry in the Philippines is expected to result in an increase the number of telephone lines throughout the country, including Mindanao (to 800,000 lines) and Palawan. Currently, there are only some 88,700 telephone lines in Mindanao (teledensity of 0.5) and almost all of these are located in the capital (Puerto Princesa). Most of the rural areas of Mindanao and Palawan are very poorly server, and three of the district capitals of Palawan await PCOs (Public Calling Offices).

POWER GENERATION AND DISTRIBUTION:

Brunei

Demand for electricity in Brunei is about 250 MW. It is served by installed capacity of 400 MW via a 66 KV electricity supply grid which runs from Kuala Belait in the west to Muara in the east. A spur runs southwards from Sungai Liang to Rampayoh. Generators are located at Seria, Lumbut, and Gadong. The isolated district of Temburong is served by separate small diesel units.

Indonesia EAGA

In West Kalimantan PLN has some 175 MW capacity installed in separate towns. A main transmission grid is planned for the northwest of the region, but to-date the towns supply the areas around them via separate local networks. There is in addition some 110 MW of private generation, principally provided by industrial consumers.

All the PLN generation is by some 200 diesel engines the capacity of which varies between 200KW and 10,000 KW. A coal-fired power station of 100 MW is planned near Pontianak; construction will be by an independent power producer (IPP).

In East Kalimantan PLN run some 130 diesel engine driven plants which range in size from 10 KW to 6,000 KW. A 6,000 MW combined cycle gas turbine (CCGT) station is under construction at Samarinda. This is scheduled for commissioning in mid 1997 by which time a new 150 KV transmission line will link it to the main consuming area around Balikpapan.

In North Sulawesi PLN run some 33 small diesel power stations which range in capacity from 50 to 5,000 KW and four hydro stations, the largest of which has capacity of 14,380 KW. A small grid supplies the area round Manado. Peak demand in the region is some 100 MW. An extension of the grid is planned.

Malaysia EAGA

In Sarawak SESCO operates a well developed grid which is being extended to link Miri to the main system, which runs from Kuching up to Bintulu. Most, some 45 per cent, of the 600 MW of generation is from gas, with 27 per cent by hydro, of which the main station is at Batang Ai, and the remainder via diesel engines. The gas-fired station at Bintulu is being extended with an additional 2 x 30 MW gas turbines and a 100 MW coal-fired station is being constructed in Sejingkat near Kuching. Sarawak has enormous hydro potential.

In Sabah the Sabah Electricity Board (SEB) has some 470 MW of capacity installed, of which more than half is diesel. An 800MW CCGT on Labuan burns gas and in addition there are gas turbines and two small hydro stations. A grid system connects the generation on Labuan and the hydro stations to the main load center round Kota Kinabalu. The towns on the east coast have separate diesel power stations. A new submarine pipeline will bring natural gas from offshore fields to Sepanggor Bay, north of Kota-Kinabalu, where a new gas turbine station is to be built as an IPP.

Philippines EAGA

Mindanao has by far the largest electricity system in the EAGA. Ninety five per cent of the towns have electricity as does 45 per cent of all households. The generation supplying this grid totals some 1,517 MW, produced mainly through hydro-electricity. The Agus power station south of Iligan is the main plant. Most of the remainder is in new large mounted form, based on very large diesel engines.

The geothermal power potential of Mindanao is marked. Development wells have proved sufficient steam for a 50 MW plant to be planned at Mount Apo. The future development of power in Mindanao will be strongly influenced by the restructuring and privatization of the national utility. Independent power producers are being encouraged to enter the Philippines market and a "private sector" 200 MW coal-fired power station for the country is currently under negotiation.

In Palawan two electricity co-operatives serve some 45 per cent of households. Ten separate diesel power stations of aggregate installed capacity 16,000 KW supply the island. There is a potential for hydro generation of which 11,000 KW has been identified. The National Power Corporation has plans to build an island wide grid which would interconnect the various small town based systems.

2. EAGA NATURAL RESOURCES:

The EAGA has vast resources available for trade, investments, and tourism. Brunei has a supply of oil and gas estimated to last at least another 20 years. In 1995, Brunei exported B\$ 3.388 B (US\$ 2.118 B) in crude oil and gas, a large percentage of which to the markets of Japan and South Korea.

Indonesia is rich in oil and gas, agricultural and forestry products and construction materials. In the year 1994, Indonesia exported US\$ 5.072 B in crude petroleum, \$ 4.124 B in plywood, and \$ 3.689 B in gas. In addition, mining is also among Indonesia's strengths, marked by the presence of this industry in all Indonesia-EAGA component areas.

In the period January to October 1998, Malaysia's Sabah state sold RM 4.067 B (US\$ 1.070 B) in palm oil products. In the same period, it also exported RM 1.6 B (\$421 m) in crude petroleum and RM 1.069 B (\$281 m) in plywood. On the other hand, Sarawak shipped RM 5.615 B (\$1.478 B) in liquefied natural gas, RM 3.052 B (\$803 m) in crude petroleum, RM 2.135 B (\$562 m) in wood products, and RM 1.383 B (\$364 m) in sawn logs.

In the Philippines, Western Mindanao registered 1997 export values of US\$ 39m in marine and agricultural products, and Northern Mindanao posted a \$ 16.618m in canned pineapple products. Textile manufacturing is also among the island's top exports of late.

Table 2 below summarises what the BIMP-EAGA is endowed with.

Table 2

BIMP-EAGA COUNTRY	RESOURCES
Brunei	Oil and gas
Indonesia	Oil and gas
	Timber
	Plantation crops
	Const. materials
	Marine products
	Minerals
	Livestock
Malaysia	Fertilizer
	Oil and gas
	Oil palm
	Electronics
	Timber / paper
Philippines	Plantation crops
	Fresh fruit
	Fish, marine prod.
	Const. materials
	Textiles

(BIMP_EAGA BUSINESS COUNCIL, 2002)

INTERNATIONAL TRADE ISSUES IN THE BIMP-EAGA

1. There is little recorded intra-EAGA trade. In general, Philippines EAGA exports agricultural products whilst other EAGA members export similar non edible primary resources (e.g. oil and gas, timber and wood products). Furthermore, these exports are destined for markets in the main centers of population of the EAGA nations or for trading in Global market-place. *EAGA does look beyond its borders for its markets, but, at present, only for markets for resource based products.*

2. A Lack of Entrepreneurial Capacity. As conceded by an EAGA official, the economies of EAGA members are commonly characterized by a marked dependency on primary commodity production, a paucity of value-added processing, few backward and forward linkages and high economic leakages. Associated with this economic structure is a range of constraints which hinder regional economic co-operation, namely

- a. an underdeveloped industrial structure,
- b. an embryonic private sector, and
- c. a relatively low skilled low productivity labor-force. In general the "capacity and capability" of the EAGA economies is narrowly focused and limited. At present the entrepreneurial capability to develop many of the identified opportunities does not exist in EAGA.

3. Human Resource Constraints and thus the shortage of managerial, technical and skilled labor necessary for economic expansion and diversification. Relevant skills are required at all levels in priority productive sectors. A primary focus of technical education should be to support the development of key, value added sectors, while anticipating the need for new skills in manufacturing and services, particularly through the involvement of the private sector. Higher skill levels are not only needed in order to promote new "high technology industries".

4. Net Importer of Technology and Low R&D Capabilities: Given today's increasing economic globalisation, the ownership of resources could no longer confer great advantage to the owner but rather the accessibility to the resources and the knowledge or technology to efficiently convert them into value-added products that are in demand. Yong Teck Lee of Sabah lamented, "Sabah is a world-class supplier of tropical timber, but it had no clear advantage in the manufacture of furniture. On the other hand, South Korea and Taiwan have very little resources but have managed to become global manufacturer of wooden products." (Seminar on Foreign Direct Investment for SMIs, Kota Kinabalu, 24 April 1998.)

The evidence provided by Alan Jones and Ashish Lall (*Technovation, Volume 18, Issue 4, April 1998*) suggests that ASEAN and thus the BIMP-EAGA countries are net importers of technology and have yet to develop strong domestic R&D capabilities. These countries have considerable ground to cover before they can rival the technological capabilities of developed countries.

5. Limited Internal Market

There is no single large major market for agricultural and processed products within EAGA to compare with the major urban population centers of the region such as Jakarta, Metro-Manila, Singapore and Kuala Lumpur. This fact is compounded by the extensive distances (often across sea or inhospitable terrain) between the major population centers of EAGA, and the relatively poor standard of transportation infrastructure and services that currently exists in the region.

6. The issues of world trade and environment have been discussed and debated for generations, but the interplay of these fields has begun to receive more intense scrutiny over the past decade with the increase in international trade liberalization. Issues concerning trade and the environment continue to be important and to receive widespread attention. Concerns about environmental issues are now being taken more seriously than previously and BIMP-EAGA and especially Indonesia that's having this forested resource. Joshua Brann, (The Bologna Center Journal of International Affairs, 2002) discusses on how far trade and environmental issues could, or should, be mutually supportive; and how their linkages could be encouraged and how the trade of timber can be supported by a BIMP-EAGA effort to sustain renewable forest.

7. "Policy and Procedural" Constraints on BIMP-EAGA Co-operation as summarized in the following tables 3 – 5 according to the different EAGA's country.

Table 3: BRUNEI

BRUNEI	Trade	tariff and non-tariff barriers restricting trade problematic cumstomers procedures
	Investment	problematic licensing procedures concerning local and joint venture businesses lack of information on investmenet possibilities inadequate fiscal inventives for exporters investment approval not co-ordinated EAGA wide lack of EAGA border free trade zones

_____ differences in cross-border transport regulations and procedures _____

MALAYSIA - EAGA	<i>Trade</i>	<ul style="list-style-type: none"> • protectionist policies vis-a-vis agriculture • non-transparency of trading procedures • problematic customers procedures • tariff and non-tariff barriers restricting trade • problematic customers procedures
	<i>Investment</i>	<ul style="list-style-type: none"> • competition amongst EAGA/regional airlines • differences in the perception of open skies policy • non-transparency of investment procedures • policy restrictions vis-a-vis private sector participation in telecommunications • lack of information on investment possibilities • inadequate fiscal incentives for exporters • investment approval no co-ordinated EAGA wide • lack of EAGA border free trade zones
	<i>Others</i>	<ul style="list-style-type: none"> • electricity price differentials between utilities • security issues vis-a-vis cross-border crossings • difference in cross-border transport regulations and procedures • problematic cabotage policies • no regional mechanisms for telecommunication frequency co-ordination • non-compatible standards for cellular services • underdeveloped financial markets

Table 6: THE PHILLIPPINES-EAGA

Philippines - EAGA	<i>Trade</i>	<ul style="list-style-type: none"> • tariff and non-tariff barriers restricting trade • non-transparency of trading procedures • problematic customers procedures
	<i>Investment</i>	<ul style="list-style-type: none"> • non-transparency of investment procedures • underdeveloped financial markets • lack of information on investment possibilities • inadequate fiscal incentives for exporters • investment approval no co-ordinated EAGA wide • nationalization of retail trade act restricts foreign nationals from retailing, including petroleum and other oil products
	<i>Others</i>	<ul style="list-style-type: none"> • difference in cross-border transport regulations and procedures • problematic cabotage policies • inadequate intellectual property rights • underdeveloped financial markets

8. High Transaction Costs in the BIMP-EAGA.

Infrastructure constraints are a major constraint on the development of EAGA. In particular inadequate transportation infrastructure throughout EAGA and poor intra-EAGA and international service result in high transaction costs which hamper the development of all productive sectors in EAGA. As well as being isolated from effective and efficient transportation, many of EAGA is also isolated from adequate power. Infrequent supplies lead to the construction of captive power plants by many companies or in the absence of such facilities production stops increase production costs if not threaten the viability of an industrial concern. Furthermore, the rates at which the power is supplied is often a cause of concern for many users.

High power rates, especially in Malaysia EAGA, appear to have deterred the establishment of energy-intensive industries and, in general, somewhat retard the industrialization of the sub-region.

9. Also present are issues of child abuse, neglect and exploitation, including child prostitution, child labour, street children and abandoned children and child trafficking, in the BIMP-EAGA as put forth by **S Pushpanathan (1999)**. At the 32nd AMM in Singapore in July 1999, the Foreign Ministers of ASEAN stressed the urgent need to strengthen ASEAN's regional capacity to combat these and other transnational crime, including trafficking in women with the assistance of the international community.

GOOD GOVERNANCE

BIMP-EAGA in its struggles to better the growth area and to compete for world market share may benefit from embracing good governance. Afterall, over the last decade, the International Monetary Fund (IMF) and the World Bank have embraced "good governance" as a set of principles to guide their objectives in member countries increase transparency, accountability and participation (Ngairé Woods , *World Development*, May 2000)

The IMF declares, "good governance is important for countries at all stages of development. . . . Our approach is to concentrate on those aspects of good governance that are most closely related to our surveillance over macroeconomic policies—namely, the transparency of government accounts, the effectiveness of public resource management, and the stability and transparency of the economic and regulatory environment for private sector activity." (Michel Camdessus, 1997).

Some of the principles of good governance according to Harry A. Greaves, Jr. (2001) are:

Principle No. 1 - Replace one-man rule with the rule of law

Principle No. 2 - Allow More Self-Government at the Local Level

Principle No. 3 - Require Increased Financial Accountability of Those Holding Public Office

Principle No. 4 - Vigorously Uphold Freedom of Speech and Freedom of the Press

Principle No. 5 - Promote Free Enterprise as the Primary Engine of Economic Development

The Coolum Declaration Supporting Good Governance

Even the Commonwealth uphold good governance, with it's Coolum Declaration, the official statement of Commonwealth leaders' major decisions; which states that the Commonwealth will be at the forefront of the international community in promoting democracy, the rule of law, good governance, gender equality and sustainable development.

ASEAN Support for Good Governance

The Sixth ASEAN Finance Ministers' Meeting; 5-6 April 2002, in Yangon, Myanmar the significance of good governance, greater transparency and disclosure. It has seen substantial progress made in a number of Member Countries and the Finance Ministers convened there agreed to enhance public sector and corporate governance in the region through closer cooperation and exchange of information in these areas. They also resolved to make further

progress on good corporate governance through the evaluation and possible adoption of relevant OECD principles of corporate governance.

Promoting Good Governance

The IMF, among others has made considerable efforts at promoting good governance, given the increased significance that member countries attach to the promotion of good governance, on January 15, 1997, its Executive Board held a preliminary discussion on the role of the IMF in governance issues, followed by a discussion on May 14, 1997, on guidance to the staff. The discussions revealed a strong consensus among Executive Directors on the importance of good governance for economic efficiency and growth.

It was observed that the IMF's role in these issues had been evolving pragmatically as more was learned about the contribution that greater attention to governance issues could make to macroeconomic stability and sustainable growth in member countries. Directors were strongly supportive of the role the IMF has been playing in this area in recent years through its policy advice and technical assistance.

The International Monetary Fund has long provided advice and technical assistance that has helped to foster good governance, such as promoting public sector transparency and accountability. Traditionally explained, Jack Boorman Director, Policy Development And Review Department, the IMF's main focus has been on encouraging countries to correct macroeconomic imbalances, reduce inflation, and undertake key trade, exchange, and other market reforms needed to improve efficiency and support sustained economic growth. While these remain its first order of business in all its member countries, increasingly the IMF has found that a much broader range of institutional reforms is needed if countries are to establish and maintain private sector confidence and thereby lay the basis for sustained growth.

Who Benefits From Good Governance?

The ADB's conceptualisation of good governance has and certainly will be good for large private interests and national elites who will benefit from easy access to natural resources and cheap labour, and the transference of commercial risks to the public at large. But this conceptualisation does not include addressing deeply rooted economic and social inequities, or support for basic human rights to resources, safe environments and freedom of expression, the rights of labour to organise and negotiate better deals for workers, the rights of indigenous peoples to self determination, the rights of peasant farmers to own and protect the land they farm, and the rights of women to a safe social environment. Good governance, according to Shalmali Guttal, (2000) will do little for the poor, particularly women, as governments are increasingly unable (and often unwilling) to protect and ensure their rights to decent livelihoods, social services and economic security.

BIMP-EAGA National Governments' Responsibility For Good Governance

The responsibility for governance issues lies first and foremost with the national authorities OF THE BIMP-EAGA. It is the national authorities' own willingness and commitment to address governance issues, recognizing that group involvement is more likely to be successful when it strengthens the hands of those in the government seeking to improve governance. However, there may be instances in which the authorities are not actively addressing governance issues of relevance to the the BIMP-EAGA.

Improving Good Governance in BIMP-EAGA

The BIMP-EAGA mechanisms must be supporting the development and maintenance of a transparent and stable economic and regulatory environment conducive to efficient private sector activities (e.g., price systems, exchange and trade regimes, and banking systems and their related regulations).

The governments concerned should be more sensitive to the problems of the growth area and be taking appropriate actions to solve them.

16. Suggestions To Achieve The Objectives And of Achiving a Better Governance Of BIMP-EAGA

- 1.The necessity to accelerate the formulation of a common framework for Customs, Immigration, Quarantine and Security (*CIQS*).
- 2.To make greater use of domestic currencies in intra-Asian trade.
- 3.To harmonize a set of practices , procedures and institutions.
- 4.Introducing new areas of economic cooperation such as Information and Communications Technology (I.C.T).
- 5.Identifying priority two to three doable policies or projects, and promote *BIMP-EAGA* to the rest of Asia, Australia, New Zealand, Papua New Guinea and other neighboring countries.
- 6.More direct loans and co-financing given for specific projects such as dams, roads and telecommunications in the BIMP EAGA.
7. Increasing value-added processing in EAGA and the use of EAGA's natural resource attractions in the tourism industry,
8. Create more use of EAGA labor (e.g. garment manufacture and the assembly of electrical and electronic components).
9. Open-up more commercial opportunities related to the continuing, *increase in demand* in EAGA (e.g. construction, metal products, agricultural products and retail services).

17. The Future Of BIMP-EAGA

When WTO members agreed to a new round of multilateral trade negotiations. Dubbed the "development round," on 14 November 2001 in Doha, Qatar, the new trade round which is aimed at benefiting the poor, focusing on issues of direct interest to developing countries; BIMP-EAGA got some fresh hopes. It was a step forward from the Uruguay Round.

And with a deeper understanding of the Good Governance and international trade issues in the region the governments of the BIMP-EAGA would be able to work within the grouping more effectively to create a brighter future for the BIMP-EAGA.

The writers believe that with good governance principles embraced the issues of international trade in the BIMP-EAGA could swing to benefit the sub-region in particular and the international community in general.

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