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Public-Private Sector Partnership**

by:
Hon. Paul G. Dominguez
Senior Consultant for Mindanao;
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Introduction

BIMP-EAGA is probably the youngest growth area in Southeast Asia at just nearly ten (10) years old. Four of those years were spent dealing a series of economic reverses set off by the Asian financial crisis in 1997. At the 7th ASEAN Leaders Summit held in Brunei Darussalam in November 2001, the leaders of Brunei Darussalam, Indonesia, Malaysia, and the Philippines expressed renewed commitment and support for the economic cooperation initiative in BIMP-EAGA. At the same Summit, the Asian Development Bank (ADB) was appointed and the bank subsequently formally accepted the appointment, as the Regional Cooperation Advisor for BIMP-EAGA. These two events opened new opportunities for revitalizing, even accelerating, economic cooperation in the growth area.

This paper is divided into three parts. The first part will look at the history, rationale, and strategic objectives of BIMP-EAGA as well as the growth area's institutional structures, including those of the private sector. The second part will focus on the early successes of BIMP-EAGA, the factors that contributed to the slowdown in economic cooperation and the recent positive developments in cooperation activities. The last part will discuss in some detail the lessons learned, the measures being taken to further strengthen the subregion and the future directions that the growth area is taking to ensure the sustainability of the cooperation initiative in BIMP-EAGA.

I. BIMP-EAGA: A Paradigm Shift

In 1992, then President Fidel V. Ramos of the Philippines proposed the expansion of economic cooperation in the border areas with Indonesia and Malaysia and with Brunei Darussalam in a major economic and diplomatic initiative in the ASEAN. The leaders of Brunei Darussalam, Indonesia, and Malaysia favorably received this Philippine initiative that eventually led to the creation of a subregional growth area named the *Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area or BIMP-EAGA*. BIMP-EAGA was formally launched on March 24, 1994 in Davao City in Mindanao, Philippines.

The growth area initially comprised the entire sultanate of Brunei Darussalam; the provinces of East and West Kalimantan, and North Sulawesi in Eastern Indonesia; the federal states of Sabah and Sarawak, and the federal territory of Labuan in Eastern

Malaysia; and the islands of Mindanao and Palawan in the Philippines. Indonesia later expanded its participation to include all provinces in Kalimantan and Sulawesi, the Maluku, Irian Jaya, North Maluku and Gorontalo¹. BIMP-EAGA covers a land area of approximately 1.54 million square kilometers and is home to about 57.5 million people.

With the exception of Brunei Darussalam, the component areas of BIMP-EAGA share common characteristics of considerable geographic distance from their capital states and resource-based economies that are less developed than the capital regions. BIMP-EAGA, thus, was a shared strategy of the four (4) participating governments in addressing the imbalance in economic development. It should be understood that the prevailing economic stability, optimistic forecasts for higher sustained economic and political growth and the growing trend towards regional economic integration in ASEAN prompted and encouraged the four governments to undertake this paradigm shift that focuses on the social and economic development of the less developed and more remote territories.

Goals and Strategic Objectives

The vision of BIMP-EAGA is the realization of socially acceptable and sustainable economic development, which leads to the full participation of BIMP-EAGA in the ASEAN development process. Its immediate goal is to increase trade, investments and tourism in the subregion by facilitating the (i) freer movement of people, goods and services; (ii) development of vital infrastructure in the subregion; and (iii) coordination of the management of ecosystems and common resources to ensure sustainable development. The short to medium term goal is to ensure that BIMP-EAGA becomes a major location in ASEAN for high value-added agro-industry and natural resource-based manufacturing and high-grade tourism, and in the longer term to ensure that non-resource based manufacturing is established in the subregion.

BIMP-EAGA's strategic objective is to accelerate economic development, improve export competitiveness and enhance its attractiveness to local and foreign investment based on (i) economic complementarities, (ii) shared natural resources, information and technology, (iii) joint action to cater to an increase in demand, (iv) joint action to overcome constraints, and (v) the specialization and regionalization of production. To achieve its goals, the founders of BIMP-EAGA agreed that growth of the subregion must be market-driven and private sector-led.

In 1996, the ADB carried out an Investigative Study in the BIMP-EAGA to identify the existing and potential opportunities for economic cooperation in the subregion and to indicate how these opportunities can be realized. The Study shared the optimism for the future of the subregion as it identified a wide range of economic complementation. Efficiently harnessed, these economic complementation opportunities could transform BIMP-EAGA into a major investment destination in ASEAN for agro-industry, natural resource-based manufacturing, and tourism. The result of the Study is the formulation of an EAGA Development Strategy that involves more than 150 policy, program, and project initiatives that would enable EAGA to achieve its full potentials.

¹ Earlier composition of Indonesia-EAGA only includes the provinces of East and West Kalimantan, and North Sulawesi

Public Sector and Private Sector: Roles Defined

At the outset, the roles of the private sector and public sector were clearly defined. The private sector was to be the engine of BIMP-EAGA's growth while the public sector is the enabler or facilitator of this growth.

The officials responsible for BIMP-EAGA recognized the vital role of the private sector in achieving the development objectives of the growth area. Thus, the economic development strategy of the subregion was and remains to be directed at enhancing the ability of the private sector to take advantage and realize EAGA-wide investment opportunities.

As enabler and facilitator of growth, the public sector was expected to carry out two major activities:

- 1) To create a general environment that is conducive to economic cooperation and to empower the private sector by providing the following:
 - ⇒ *A facilitative framework* created by coordinating and harmonizing public policy to establish a conducive and unified investment climate.
 - ⇒ *Adequate physical infrastructure* needed to link the businesses of the subregion and to improve their access to regional and global markets.
 - ⇒ *Effective commercial infrastructure* by providing finance, information, and skills to improve entrepreneurial capacity and capability.
- 2) To directly encourage the realization of cross-border trading and investment opportunities through specific policies, programs, and projects that provide for increased investments in the productive sectors (e.g. agriculture, fisheries, forestry, tourism, and industrial development).

Organizational and Institutional Structures

To operationalize the BIMP-EAGA initiative, a subregional institutional framework was established. The organizational and institutional structures were intended to effectively support private sector participation in the subregion's development activities.

The principal mechanism for consultations between and among the participating countries is the Senior Officials Meeting and Ministers Meeting or the SOM/MM. The SOM/MM provides the strategic directions and general policy guidelines in addition to drawing the attention of the central governments to the development requirements of the focal areas. To date, eleven (11) Senior Official Meetings and eight (8) Ministers Meetings have been held.

Working Groups representing the priority sectors of cooperation were established to (i) identify the opportunities and constraints to cooperation development, (ii) formulate the action plans to accelerate growth in the subregion, and (iii) provide the strategic direction in the identified sectors of cooperation. The WG is the core mechanism at the operational level. It is composed of representatives from the appropriate government agencies both at the national and subregional levels and individuals and groups representing the private sector from the focal areas. The WGs provide the flexibility to

address a wide range of issues and demands. It is at the level of the WGs where diverse interests, issues, and priorities of the public and private sectors converge and where project priorities are identified. Thirteen (13) WGs were created initially but have subsequently been reduced to eleven (11) as a result of the merger of some WGs. Each Working Group has a designated lead country.

Consistent with the decision to adopt a decentralized structure, no central secretariat was established in BIMP-EAGA. Instead, each participating country designated a ministry or agency that would act as their respective National Secretariat. The National Secretariat is the focal point for the exchange of information and coordination of programs related to the growth area and is tasked with ensuring that in-country initiatives are maintained. National Secretariats also provide administrative support to the Ministers and Senior Officials.

The East ASEAN Business Council (EABC)

In recognition of the crucial role and participation of the private sector in accelerating the successful implementation of the subregion's programs and projects, the Ministers, during their inaugural meeting, endorsed the creation of the East ASEAN Business Council (EABC). The establishment of EABC in 1994 was the result of several private sector initiatives around the growth area that started as early as the late 1970s. The creation of BIMP-EAGA prompted the creation of a formal and unified organization for the private sector to oversee their interests and concerns. Thus, EABC was meant to act as the voice of the private sector, raising their concerns during WG meetings and the SOM/MM, as well as envoy to the BIMP-EAGA governments. Subsequently, the Ministers responsible for BIMP-EAGA accorded EABC the status of official private sector representative in BIMP-EAGA.

Membership in the EABC is open, without restrictions to nationality, to individuals, and organizations that play a role in the economic development of BIMP-EAGA. EABC is led by a Board composed of representatives from private sector organizations from each of the four member countries. It also has a permanent secretariat that manages the day-to-day operations of the organization.

The primary objectives of the EABC are the following:

- Promote economic development and other business activities in all the participating subregions of BIMP-EAGA in support of the interests of its members and for the greater prosperity and welfare of EAGA citizens;
- Foster closer relationships and economic cooperation among business organizations in the EAGA;
- Deal with issues of common concern and to disseminate information of common interest to its members;
- Make representation on behalf of the EABC's members with the involved governments and to provide liaison between businesses, other economic entities and relevant government authorities within EAGA; and
- Advocate for policies, plans, projects, and regulatory changes that will enhance the economic development of the subregion.

The private sector, through EABC, actively participates in the deliberation and resolution of economic issues at the Working Group level. EABC has also been instrumental in facilitating business arrangements among the different private sectors in the BIMP-EAGA. To further enhance interaction in the subregion, EAGA-wide private sector organizations at the Working Group (WG) levels were established. These include the BIMP-EAGA Tourism Council under the Joint Tourism Development WG, the BIMP-EAGA Shipping Association under the Sea Links WG, and the Southern Philippines Construction Core Group (SPCCG) under the Construction/Construction Materials WG. These sector-based organizations facilitate the exchange of information on subregional trade and investment opportunities within their respective sectors. They also organize trade fairs, investment conferences and business seminars, which strengthen the networking capacity, that in turn help to improve the trade and investment relationships among individuals and groups in the concerned sectors.

In 1997, EABC was given fifth country status, which reinforced the private sector's standing as equal partner in the development of BIMP-EAGA. The fifth country status also earned for EABC the privilege of organizing an independent private sector delegation during SOM and a separate meeting with the Ministers.

II. Restoring Momentum

Early Gains

The commitment of the four (4) participating governments enabled EAGA to demonstrate results within the first three (3) years. Early gains were made possible because of the strong efforts among the government leaders to immediately identify and address the structural impediments to growth in the BIMP-EAGA. Between 1994 and 1997, several national policies were modified and cooperative agreements were facilitated to ensure the success of the cooperation initiative.

Among others, the four (4) governments agreed to liberalize the transport sector to allow for greater mobility of people, goods, and services. The result is the opening of new and direct commercial air and sea links between major urban areas in the subregion. Several airport and seaport infrastructure facilities throughout BIMP-EAGA were upgraded to accommodate the expected increase in passenger and cargo traffic. To support tourism and promote travel within the subregion, policies on travel and exit taxes were likewise modified. Specifically, Indonesia and the Philippines waived travel taxes for travel within EAGA and also streamlined travel procedures and documentary requirements.

Major telecommunication firms operating in the EAGA areas implemented substantial tariff reductions by up to 20 percent on long distance calls within the subregion. The reduced rates enabled greater interaction among businesses within the subregion.

In addition to these tangible results, the different working groups, representing the priority areas of cooperation in BIMP-EAGA, have identified the constraints affecting their sectors and were already examining measures to eliminate these constraints. At the operating level, discussions about harmonization of trade and investment policies have been ongoing.

The private sector was responsive to the early initiatives of the governments, especially in the tourism and transport sectors. Of the productive sectors in EAGA, tourism initially

gained the most as evidenced by the significant increase in both domestic and cross-border investments in hotel and tourism-related facilities and activities. The BIMP-EAGA Tourism Council was established by the private sector to undertake joint tourism promotions of BIMP-EAGA. EAGA-wide cultural events, trade fairs, tour exchanges and sports events were undertaken by the various tourism organizations in the subregion to create awareness not only of the area's world-class destinations but also of the opportunities for investments. The result was a marked increase in investments in the hotel industry during the initial three years period. In Mindanao alone, the number of hotel rooms increased by 63 percent, from 5,730 in 1994 to 9,317 at the end of 1997.

Factors Affecting Slowdown

By the end of 1996, there was optimism that BIMP-EAGA was on the verge of a take-off. BIMP-EAGA cooperation activities had quickly developed and the prevailing economic stability and the optimistic forecasts for continued and sustained economic growth for the participating countries, in particular, and the ASEAN region, in general, had provided an environment conducive for pursuing development. Based on the then prevailing economic situation, it was assumed that adequate public and private sector financial resources would be readily available to undertake and complete priority infrastructure projects. It was further assumed that the infrastructure-related projects would spur greater domestic and foreign private sector investments.

The 1997 Asian financial crisis seriously disrupted the growth momentum in BIMP-EAGA. As the economic environment in Southeast Asia generally weakened, governments refocused their attention to national issues, especially those affecting their financial and industrial centers. In many cases, the decline in government spending on infrastructure effectively slowed down regional development and consequently slowed down implementation of several BIMP-EAGA initiatives as well.

The worst recorded El Niño phenomenon that occurred in 1998 brought severe drought, forest fires, and the haze. All these contributed to sharp declines in the largely agriculture-based economies of many subregional focal areas. Changes in the political leadership in Indonesia and the Philippines also slowed down the process to better coordinate and harmonize investment and trade policies in BIMP-EAGA, particularly the harmonization of customs, immigration, and quarantine rules, regulations and procedures.

The BIMP-EAGA private sector made up mostly of small and medium enterprises (SMEs) also refocused their efforts on minimizing the impact of the crisis on their businesses by downsizing and/or postponing expansion programs. With reduced government support, the private sector's capacity to spur cooperation activities in the subregion weakened.

Towards the end of the decade, security concerns emerged because of kidnapping and ethnic violence in some parts of the BIMP-EAGA. The global threat of terrorism compounded the security problems resulting in declines in tourism, further displacement of trade and loss of investor confidence.

Recent Developments

By the end of 2000, it became evident that the BIMP-EAGA countries had significantly recovered from the effects of the economic crises. As economic conditions improved, opportunities opened anew for focusing attention on the less developed areas.

Given the urgent need to address the poverty and security issues in the subregion, the leaders of the BIMP-EAGA countries expressed their commitment and support to revitalizing economic cooperation activities in the subregion. At the 7th ASEAN Leaders Summit held in Brunei Darussalam in November 2001, other ASEAN leaders also supported the move to revitalize cooperation activities in BIMP-EAGA, in particular, and other subregional growth areas, in general.

Efforts are currently being carried out to accelerate the realization of the objectives of the BIMP-EAGA cooperation initiative. A reassessment of the current approaches and methodologies to cooperation development was carried out, new strategies formulated, and initial measures are being implemented to enable the subregion to more effectively respond to the emerging internal and external challenges to regional cooperation.

One of the first measures to be implemented was the strengthening of BIMP-EAGA's institutional structures and mechanisms. The fully decentralized structure earlier adopted by BIMP-EAGA provided the flexibility that the growth area needed in its formative and organizational stage. However, as BIMP-EAGA grows in breadth and depth and as the subregion identifies and implements more projects, the need for a more central secretariat will be increasingly felt. Recognizing the need for better coordination mechanisms, the four (4) countries agreed to modify the decentralized structure and created the BIMP-EAGA Facilitation Center (BIMP-FC). The BIMP-FC is public sector-led that will complement the efforts of the EABC in coordinating trade and investment activities and in facilitating the implementation of priority projects.

To further enhance the coordination of development activities and to promote the consolidation of sectoral strategies and directions, related working groups were clustered. This is anticipated to speed up the process of identification, prioritization, and implementation of doable projects. The move is also anticipated to improve the focus on sectors that hold the greatest promise for growth.

The private sector for their part is carrying out a restructuring of the EABC. Primarily, the restructuring is expected to result in a wider and broader-based private sector representation as well as in encouraging the more active involvement and participation of the EAGA SMEs in the early realization of intra-EAGA trade, tourism, and investments.

II. Lessons Learned

BIMP-EAGA was once considered as among the most dynamic subregional economic cooperation in the Asia-Pacific region. BIMP-EAGA learned many lessons in the nearly ten years that it has been pursuing economic cooperation development. These include the following:

- Consistent and more focused government intervention is key to the sustainability of BIMP-EAGA. While a market-driven and private sector-led growth remains to be the primary goal, government initiatives in addressing the basic problems of the growth area must precede private sector investments and activities. The subnational areas covered by BIMP-EAGA continue to lack adequate physical infrastructure and only the government is in a position to effectively address this constraint. The harmonization of trade and investment policies such as those related to customs, immigration, quarantine, and security is also a function of government. Although ASEAN Free Trade Agreement (AFTA) has lifted quite a number of the tariff barriers to trade in the region, there are still non-tariff barriers that must be discussed, negotiated and resolved either through bilateral or quadrilateral arrangements.
- The capacity of the private sector to lead growth was probably overestimated. Although a large majority of its private sector belongs to the small and medium-sized enterprises. Early activities were nonetheless focused on creating a physical and policy environment that would encourage large private sector investments. It was not until the financial crisis of 1997 when it became evident that large investments have slowed that strengthening local businesses received the attention it deserved. Today, there is greater emphasis on SME development in BIMP-EAGA and a strategy for SME development has been formulated with the assistance of the ADB.
- A fully decentralized structure provides great flexibility but only in the early stages of the formation and organization of BIMP-EAGA. The officials recognized the need for an EAGA-wide organization tasked with coordinating the development activities at the level of the subregion. The BIMP-EAGA Facilitation Center is expected to provide the mechanism for efficiently and effectively coordinating government actions and programs.
- Institutional links to international organization supportive of regional integration such as the ADB and the ASEAN Secretariat is vital to the sustainability and success of the BIMP-EAGA cooperation initiative. Part of the objective of the establishment of BIMP-EAGA after all is in support of the ASEAN initiative for the integration of economies in the region. BIMP-EAGA could provide the laboratory for testing the strategies for economic integration in a smaller but more manageable scale. The experiences of BIMP-EAGA in implementing agreements and protocols could provide ASEAN with a better perspective of the difficulties and the requirements for ASEAN-wide implementation of these agreements and protocols. In the last few meetings of BIMP-EAGA, representatives from the ASEAN Secretariat have been invited paving the way for better institutional coordination and opening direct linkages with regional activities and programs.
- The participation of stakeholders such as local governments is crucial to pushing forward the economic development of BIMP-EAGA more quickly. In the past, the central governments played a more proactive role in BIMP-EAGA while the local governments were reactive. Local governments, however, work more closely and more directly with the private sector and the local business community. Development priorities are formulated and implemented by local governments and decisions made by local leaders more directly influence local private sector economic activities. BIMP-EAGA is moving towards greater and more structured

participation of the local governments and leaders in defining the future directions of BIMP-EAGA.

Conclusion

BIMP-EAGA offers vast and diverse agriculture and natural resources, which today remain largely untapped. While BIMP-EAGA suffered from the economic reverses between 1997-2001, these same circumstances also served to highlight the competitive advantages of the growth area and the opportunities for economic complementation between the focal areas in the subregion. In short, BIMP-EAGA remains a viable investment area both for local and foreign investors.

BIMP-EAGA continues to believe that the subregion will develop only as the private sector identifies and realizes the growth area's investment opportunities. There is no mistaking that it will be the private sector that will fully exploit the development potential of BIMP-EAGA. However, to empower the private sector, governments will have to lay the foundation that will allow the private sector to identify and subsequently freely make the production and investment choices. Private capital will find its way to the most profitable opportunities. The role of government is to ensure that profits available to BIMP-EAGA are far more significant compared to profits available in other regions.