

## BACKGROUND

25 years since its establishment, the geographic area covering the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) now appears to be a nexus of the subnational, national, and regional economic and security concerns facing the Philippines. On the one hand and from a local perspective, considering the Philippines' efforts to improve development and promote peace in Muslim Mindanao with the establishment of the Bangsamoro Autonomous Region of Muslim Mindanao (the Philippine region that forms part of BIMP-EAGA), the subregional economic cooperation may help provide solutions to the problems of peace and conflict in Mindanao. At another level, such subregional integration, especially involving local stakeholders and the private sector of the countries concerned, can contribute to further ASEAN integration and in building an ASEAN economic community.

Multilateral partner institutions and bilateral partners of the Philippines have been involved at varying degrees in BIMP-EAGA. Recently, China has been eager to increase its participation in BIMP-EAGA in the context of its own initiatives at connecting its economy with those of neighboring countries, including as part of its Belt and Road Infrastructure (BRI) cooperation. China's initiatives coincide with the current administration's "Build Build Build" program, which aims to modernize Philippine infrastructure facilities.

Observers note that past and present Philippine policy towards China has to some extent been swinging from one side of the pendulum to the other (recalling the Arroyo to Aquino to Duterte administrations). There is an ongoing debate on how the country should look at China. Pragmatically, allowing us to try to exploit the economic opportunities from cooperation and valuing what China itself can contribute to Philippine development, or do we need to be very cautious about China, both for fear of economic dependence or subservience, as well as in relation to persistent

## THE ROUNDTABLE DISCUSSION

The RTD was convened on 30 January 2019 at Astoria Plaza, Ortigas Center, Pasig City. Two speakers shared their expertise on the BIMP-EAGA revival. Dr. Fermin Adriano, who was previously Senior Adviser for Mindanao Programs of the World Bank and has served in government in several capacities, discussed the political economy of the BIMP-EAGA and possible areas of cooperation with China.

Dr. Adriano opened his presentation with the history of the establishment of BIMP-EAGA in 1994, its scope and objectives, and the political context (including the history of anti-colonial sentiment)<sup>1</sup>. He noted that the initiative was originally a private sector-led process, rather than a governmental push. He mentioned possible areas of cooperation with Beijing in infrastructure, agriculture/agribusiness development, sea transport/shipping, eco-tourism, information communication technology, and finance and banking. Sabah and Kalimantan could be potential routes going to China.

He further provided a bit of comparison between BIMP-EAGA and the Greater Mekong Subregion (GMS) in terms of geography, economic growth, national government participation, and thriving industries. First, transportation and logistics are easier with contiguous tract of vast lands in GMS compared to the island economies comprising the BIMP-EAGA. Second, GMS has more diversified economic activities with the relatively

issues of sovereignty and security in the maritime arena? Both are important features of our relationship with China. Such kind of difficulty of defining the priority goals in our relations with China today also faces some of our ASEAN neighbors. How should our countries, including immediate neighbors in the BIMP-EAGA, respond to the rise of China and come out winning?

These developments justify taking a closer look at BIMP-EAGA. More detailed studies should be undertaken to evaluate the opportunities and challenges in reviving the subregional economic growth project as part of the cooperation efforts between China and selected ASEAN countries in the framework of the BRI as well as the Master Plan for ASEAN Connectivity.

Along this effort, the Asia Pacific Pathways to Progress Foundation (APPF), through its Regional Integration and Connectivity Program, convened a roundtable discussion to revisit BIMP-EAGA and discuss its policy challenges and implications given the present regional context. The discussion also aimed to find out if there is a need to continue further research or consultations involving counterparts from other countries who are stakeholders in this issue.



Participants of the roundtable discussion during the open forum. Photo: APPFI

developed economies of China and Thailand serving as anchors for the development of countries comprising the GMS. In the case BIMP-EAGA, it was originally thought that capital would be mainly provided by Brunei, the most developed member economy, but Brunei's market and population were relatively small and its technical capacity limited. Third, the GMS has a ministers' meeting where high-level officials can decide on the direction of the sub-regional cooperation. In contrast, BIMP-EAGA senior officials do not have that authority as they have to defer to appropriate national government agencies to pass a particular policy.

For the Philippines, however, Adriano stressed that while there were many reasons for its push for and participation in BIMP-EAGA, its principal concern even at the outset was the political-security dimension. First is the presence of Muslim rebels who previously used Sabah as their military training ground and an escape route from pursuing military authorities. Second, there are more than 500,000 Filipinos (called "halaws" - illegal immigrants/stateless persons) in Sabah, who are deprived of access to basic services such as education and health because they are not Malaysian citizens. Third, Mindanao is lagging behind other economies because of the manner in which the island of Mindanao was developed historically.

Meanwhile, Undersecretary Arturo Boncato of the Tourism Regulatory Coordination and Resource Generation of the

<sup>1</sup>Anti-colonial sentiment rose in reaction to boundaries created by Western colonizers, which had the effect of disrupting traditional trading arrangements. Sulu was a trading post until the 1930s (Sulu pearls were famous globally and were sold in Paris) and it was the most advanced island among the other islands in Mindanao and even the Philippines. Sulu was part of the trading route for Chinese and Arabs going south to Indonesia.

Department of Tourism talked about the policy direction of the current administration in terms of developing EAGA, milestones in subregional cooperation, and the Philippines' relationship with its three neighbors. This was followed by updates from recent senior officials meetings, and the first ministerial level meeting between BIMP-EAGA and China that was held in November 2018.

China, the speaker said, intends to deepen its engagements in connectivity; agriculture, fishery processing, food industry; tourism and socio-cultural exchanges; trade and investment; digital economy; poverty alleviation and inclusive development; human resource development; environment; and power and energy. He seconded Dr. Adriano that among these nine priority areas, China is looking for investments and physical infrastructure opportunities in the subregion. He also said that both the Philippines and China participated in expositions (i.e., ASEAN-China expo), promotional events, and training

programs. However, he stressed that nothing has taken place beyond exchanges during such events, despite strong Chinese interest.

Aside from China, the Asian Development Bank and the northern territory of Australia were likewise seen as potential partners.

Both presentations may be accessed at <https://appfi.ph/resources/presentations>. An open discussion followed the presentations.

The roundtable discussion was attended by 39 representatives from the government, academe, non-governmental and private organizations. Experts from diverse backgrounds were invited, as this issue potentially has some strategic implications whether economically, in terms of the political-security situation in Southern Philippines, or for regional diplomacy and security.



Speakers Dr. Fermin Adriano (6th, front row) and USec. Arturo Boncato (7th, front row) with Pathways Trustee Dr. Wilfrido Villacorta (4th, front row), Pathways President Dr. Aileen Baviera (5th, front row) and the participants of the roundtable discussion. Photo: APPI

## KEY ISSUES

**Economic and Development Concerns.** Given BIMP-EAGA's resources and population, these island-economies no doubt have the potential for economic development. The main activities are in agriculture, fisheries, forestry and food-based manufacturing which are all essential to food security. The sub-regional growth area is also a leading ecotourism destination. However, connectivity facilities which bridge the rural areas to market towns and ports (i.e., farm-to-market, tourism roads) are not well developed. The 2017 document -- BIMP-EAGA Vision 2025 -- emphasized the need to improve connectivity and featured a list of priority infrastructure projects, with a value close to USD 22 billion.

This is where China could possibly play a role. In fact, China has also outlined its nine priorities in relation to its engagement with the sub-region, with infrastructure and investment as lead interests. The country can also be a potential market for single community-based EAGA tourism and agricultural products; this idea is however not new. The problem with BIMP-EAGA's negotiations with China is that each of the member-states wants to be at the forefront, rather than projecting a unified subregional vision of cooperation.

While Beijing has sought to be a dialogue partner of BIMP-EAGA, its engagement in southern Philippines has been ongoing at a bilateral level. According to NEDA's infrastructure report, as of 30 November 2018, the Ambal-Simuay River and Rio Grande de Mindanao River Flood Control Projects are waiting for the Chinese government to provide a shortlist of qualified contractors for the Philippines to choose from. The Philippines has also submitted proposals for feasibility study assistance by the Chinese government for Mindanao Railway Project Phase 2. Chinese enterprises also tried to assist in the rehabilitation of Marawi, but the consortium did not succeed. In terms of tourism and connectivity, both countries increased direct flights between Davao and several cities in mainland China. Davao has become a place of interest such that the Chinese government saw the need to establish a consulate there last year.

The concerns of Chinese investors would be no different from similar concerns raised by other foreign investors in the Philippines. In 2016, ADB conducted a study to look at bottlenecks to investments in the area. Problems encountered by businessmen or potential investors include the following:

- high transport and logistics costs;
- restrictive rules, regulations and policies;
- inadequate market cross-border information;
- high taxes and trade costs;
- illegal trade;
- high costs of production;
- inadequate infrastructure; and
- security issues

The Autonomous Region of Muslim Mindanao (ARMM) is moreover not covered by the Philippine Economic Zone Authority, which allows special rules in certain areas to attract foreign investors. Nonetheless, the presence of economic corridors such as the West Borneo Economic Corridor and the Greater Sulu-Sulawesi Economic Corridor can serve as spatial platforms to implement programs under BIMP-EAGA priorities. Champion products were identified for each country. By complementation of products, the subregion can package its competitive advantage to larger markets such as its northeast Asian neighbors. The idea was borrowed from the GMS Economic Growth which has North-South, Southern, and East-West corridors.

It was argued that if China is interested to invest in the area, then it should partner with small and medium enterprises. Mindanao's big corporations such as Del Monte might not be interested as they can survive on their own. The Philippines also cannot host large scale operations by China because of the structure of land ownership, and the fact that much land in the areas concerned remain untitled. Given these, the Philippines may not need China's large-scale investment in Mindanao as much as imagined, because the kind of investments needed in the area is affordable even for local small and medium-

sized businesses. On the other hand, large scale projects like the proposed Mindanao Railway will involve high levels of investment and low volume usage, while having high protection risk. A possible approach would be to start with investments in the local areas, then gradually integrate these into a larger area instead of the reverse, and this will help avoid some of the political difficulties.

In addition, China is interested in the extraction of minerals. There are mining operations by the Chinese in Languyan, Tawi Tawi, for example. Kalimantan and Sarawak have mineral reserves as well. Aside from minerals, that part of Southeast Asia is in the Coral Triangle, making the sub-region potentially more strategic in its marine biodiversity to external players.



Map of Brunei - Indonesia - Malaysia - Philippines East ASEAN Growth Area

Also on a positive note, BIMP-EAGA has a cluster that is focused on education and training. In 2017, the BIMP-EAGA Vision 2025 made it clear that it will strengthen partnership with countries like China in developing BIMP-EAGA, banking on people-to-people exchanges at least for now. The Philippines participated in China-ASEAN expo, in other expos and promotional events, and in some training programs that are all funded by China. Yet in the same year, the Chinese expressed displeasure because they were only getting requests from BIMP-EAGA countries that are focused on trainings and farm trips, whereas they want to get involved in larger infrastructure and investment projects as mentioned above.

**Political and Security Concerns.** From the perspective of an entrepreneur, there would be ground-level safety concerns in certain areas, particularly Central Mindanao (Maguindanao, the two Lanaos and Cotabatos) and Southwestern Mindanao (Sulu, Basilan and Zamboanga peninsula), as well as parts of CARAGA where the NPA operates. For instance, if a businessperson invests and is owed money by some local people, his safety cannot be guaranteed when he goes there to collect. Second, the situation of payment trade (i.e., money lending or financing) is not very good. Thus, it is either that the businessperson must operate without relying too much on credit, or he has to be a big time player. China would like to come in as a big player but tends to have monolithic thinking that is not sensitive enough to local particularities.

However as much as China's assistance in infrastructure may help boost economic development in BIMP-EAGA, several political-security issues cause concern such as the presence of terrorists and rebel groups, kidnapping for ransom gangs (albeit these had reportedly subsided), and the effects of the Sabah claims of the Sultanate of Sulu on relations with Malaysia. For instance, small-scale but vibrant trade in Tawi-tawi, Kalimantan, and Sandakan is threatened by the Abu Sayyaf. Tawi-tawi and

Sulu are Tausug areas which has a different political economy compared with Maguindanaos and Maranaos. The economies of Tawi-tawi and Sulu are more closely tied to Sabah.

The implications of the Trilateral Cooperative Arrangement (TCA) of Indonesia, Malaysia, and the Philippines were also raised during the open discussion. It was noted that regional security is an emerging concern in the sub-region increasingly appreciated by leaders as a priority.

If indeed China wants to increase its engagement in this part of Southeast Asia, even if it chooses to participate in economic development first, Beijing must be prepared for transnational political and security risks that might arise and that will spillover to economic cooperation.

### Issues Pertaining to Credibility of China.

Economic influence inevitably translates to political influence.

During the RTD, different views on China and its involvement in this part of the region were raised. First, China has so many entrepreneurs who are interested to engage in different projects, including some of an illegal nature. Partner-countries may ultimately benefit from the investment, trade, and technology it brings, but will need to learn to weed out undesirable activities and persons.

Second, it was pointed out that China has not successfully dealt with its own problems with Muslim minorities. As most of the people in BIMP-EAGA are Muslims, this raises questions on how China would deal with Muslim communities, or how our Muslims will respond to China, given China's currently harsh stance and policy in dealing with its Muslim Uighur minority.

Third, if BIMP-EAGA is not cohesive and desperately looking for a big player to boost its infrastructure and economy, then it might be a vulnerable spot for ASEAN that China can exploit—i.e. China might use it as a strategic maneuver to outflank its neighbors, as well as countries further south like Australia.

The Growth Area will evolve as the market improves. The economic cooperation has good potential for progress, but it was suggested that member-states should also pay attention to the political-security aspect, and be aware that bringing China into the BIMP-EAGA could make ASEAN itself more vulnerable to Chinese influence.

A powerful China was not part of the context of building BIMP-EAGA in 1994. At that time, China did not have the grand strategic designs that are very often attributed to the country now. For that reason, the Philippines is rightly cautious and a bit afraid of what the consequences might be of bringing in China into these sensitive areas in a big way. However, the Philippines is not entirely voiceless in the relationship. The priorities and ideas for projects for Philippine participation are still largely shaped by the Philippines.

Mistrust of China leads many Filipinos to fear the lopsidedness or asymmetry of the relationship. However, Filipinos also tend to mistrust their own institutions and their own political leaders, thinking that the officials will give in to unfair demands, or submit to corruption, and so on. It is very important to acknowledge those realities and to see them as part of the problem.

**Reviving the BIMP-EAGA.** In reviving the Growth Area, it is important (1) to revisit the role and participation of the private sector, (2) to strengthen institutional mechanisms and synchronization of functions among member-states, and (3) to look with different lenses on how to understand and position BIMP-EAGA in relation to China.

The presence of the private sector in BIMP-EAGA activities is not greatly felt now, compared to the original design of BIMP-EAGA in 1994. If development has to be private sector-led, then it is mainly the small players who should participate. For instance, how do private enterprises fare in addressing the problems in agriculture that are essential in developing the Philippine halal export industry. Unfortunately, competing private sector organizations in ARMM were not factored in the Bangsamoro Organic Law.

Institutional mechanisms and synchronization of functions among member-states are not fully developed. Internal capacity is constrained, thus hindering full integration and the ability to expand its partnerships. For example, there are efforts to improve the customs, immigration, quarantine, and security (CIQS) facilities but the efforts are focused not so much in the Philippines but in Malaysia and Indonesia.

According to the Mindanao Development Authority, the CIQS technical group has proposed a guideline on specific commodities that will have tariffs within BIMP EAGA, and has come up with certain policies such as the establishment of one-stop CIQS centers in ports in BIMP-EAGA areas. Despite the mechanisms set in place, a CIQS center did not prosper because the shipping services in that area were not sustained.

Technical barriers moreover prevent trade from proceeding as smoothly as possible. Participants in the RTD proposed that the Philippines should start with practical, small -scale activities or a volume of trade between BIMP-EAGA countries that does not require CIQS services, and then adjust the resources to that scale.

Another example is that the BIMP-EAGA secretariat lacks human resources to facilitate partnerships and enter into agreements. There is one person based in Kota Kinabalu who coordinates with member states. In so far as implementing initiatives, these are mostly done by the member states. The reason why the BIMP-EAGA facilitation center establishment agreement has not been concluded until now is the sensitivity regarding the geographical location of the facilitation center in Sabah.

Finally, BIMP-EAGA has not matured according to how it was envisioned. The institutions and decision-making procedures are not well-established. There are no agreed upon norms and principles, such as those found in ASEAN. Unlike ASEAN, there is no such thing as a BIMP-EAGA dialogue partnership status. When the Chinese Embassy approached the Department of Foreign Affairs to comment on the concept note on BIMP-EAGA-China Cooperation, in the absence of principles, the DFA had to integrate or draw principles from ASEAN (the principle of consensus decision making, principle of equality, that it has to be rules-based and most importantly, that it has to be BIMP-EAGA-led as a parallel principle of ASEAN centrality). In the absence of these principles, it is very easy for an external party to influence whatever that institution will do.

China will not admit directly that its economic initiatives are part of a geopolitical strategy. For example, it is believed China is investing a lot in the South Pacific islands for two geopolitical reasons—(1) because it wants to reduce the influence of Australia, and (2) because of South Pacific islands' diplomatic relations with Taiwan.

On the other hand, the Philippines looks at BIMP-EAGA as a subregional mechanism with a regional focus. Integrating the four countries could help advance ASEAN economic integration. The Philippines, incidentally, is the country coordinator of both ASEAN-China dialogue partnership (2019-2021) and of BIMP-EAGA-China. Inasmuch as there are no terms of reference for BIMP-EAGA, the Philippines will remain the coordinator for BIMP-EAGA-China until the parties agree to a change. This places the Philippines in a particular position to influence what kind of cooperation we can have with China at the subregional and regional levels, aside from bilaterally.

The discussions focused mostly about Philippine perspectives and experiences. One recommendation was to look into perspectives of key analysts from Malaysia, Brunei, and Indonesia on the BIMP-EAGA and on where they see their bilateral and subregional relations with China going, in order to see how these may affect the broader ASEAN region. ♦

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