BIMP-EAGA's Economic Corridors

Business Perceptions about the Investment Climate

Brunei Darussalam-Indonesia-Malaysia-Philippines
East ASEAN Growth Area
(BIMP-EAGA)

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BUSINESS PERCEPTIONS ABOUT THE INVESTMENT CLIMATE

April 2017

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Source: Adapted from Google Maps.

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Abbreviations

ACIA	ASEAN Comprehensive Investment Agreement
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AIA	ASEAN Investment Agreement
ARMM	Autonomous Region in Muslim Mindanao
BEDB	Brunei Economic Development Board
BIMP	Brunei Darussalam, Indonesia, Malaysia, Philippines
BIMP-EAGA	Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area
BKPM	Indonesia Investment Coordinating Board
BOI	Board of Investments (Philippines)
BRISc	Brunei Research Incentive Scheme
CVCs	corridor value chains
FDI	foreign direct investment
FTZs	free trade zones
GRP	gross regional product
GSSEC	Greater Sulu-Sulawesi Economic Corridor
ICT	information and communication technology
IPP	Investment Priorities Plan
ISIC	International Standard Industrial Classification
MFN	most-favored nation
MIDA	Malaysia Investment Development Authority
MinDA	Mindanao Development Authority
MRO	maintenance, repair, and overhaul
OECD	Organisation for Economic Co-operation and Development
OSS	one-stop service
PEZA	Philippine Economic Zone Authority
PMB	Pulau Muara Besar
PPP	public–private partnership
PRC	People's Republic of China
R&D	research and development
SEDIA	Sabah Economic Development and Investment Authority
SEZs	special economic zones
SIP	Salambigar Industrial Park
SMEs	small and medium-sized enterprises
UNIDO	United Nations Industrial Development Organization
US	United States
VAT	value-added tax
WBEC	West Borneo Economic Corridor
WIPO	World Intellectual Property Organization

Summary

Study Objective: This study examines the investment climate impacting on decisions to invest in the economic corridors of the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA). The key factors identified by businesses as impacting on their investment decisions in BIMP-EAGA's corridors are complementarities in cross-border production activities and services, investment incentives, hard and soft infrastructure, the regulatory environment, governance, and other issues affecting cross-border investments.

Geographic Context: BIMP-EAGA is a cooperation initiative by its four member governments to close the development gap within a well-defined subregion. Its two economic corridors cover the following areas:

- The *West Borneo Economic Corridor* extends approximately 1,500 kilometers along the western part of the island of Borneo. It covers Brunei Darussalam, West Kalimantan in Indonesia, and Sabah and Sarawak in Malaysia.
- The *Greater Sulu-Sulawesi Economic Corridor* is a maritime corridor that is mainly delimited by the geography of the Sulu-Sulawesi Sea. It covers North Sulawesi in Indonesia, Sabah in Malaysia, and the Mindanao island group and Palawan in the Philippines.

Survey Methodology: The findings of this study are based on extensive interviews with company representatives and public sector officials. Qualitative and quantitative-based surveys were conducted over a six-week period by the study team that interviewed 70 companies distributed over 20 industry classifications or divisions in six BIMP-EAGA corridor states and provinces. The surveys were carried out through one-on-one interviews with company representatives in order to identify strengths, opportunities and challenges to attracting cross-border investments along the two corridors.

Organization of the Study: The study is divided into three parts:

- *Part I* reports on business perceptions in the two economic corridors and assesses BIMP-EAGA's investment climate in the context of international best practices.
- *Part II* covers key determinants of investment related to regulations, connectivity, macroeconomics, price competitiveness, and trade costs.
- *Part III* summarizes the study's findings and offers recommendations for implementing and operationalizing cross-border investments.

Major Findings: Businesses have the following concerns about the investment climate in the economic corridors. First, benchmarking of the corridors' current investment climate against successful international practices shows deficiencies in the cost of trading across borders as well as in the process being followed to promote cross-border investments between different BIMP-EAGA member countries. Second, lack of connectivity across corridor provinces and states ranks among the top constraints to implementing corridor value chains. Third, deviations

from international best practices in the process of implementing exchange rate policies has led to significant realignments in the bilateral price competitiveness of the BIMP-EAGA countries and created concerns by some businesses along the economic corridors about their ability to compete in neighboring countries and engage in cross-border value chains.

Specific findings in each of the key areas of the investment climate are as follows:

- ***Regulatory Environment.*** The two economic corridors benefit from favorable rating of the investment laws, rules and regulations applied by such countries as Malaysia, and by rating improvements in Brunei Darussalam, Indonesia, and the Philippines. They also benefit from regional regulatory agreements that have facilitated and promoted cross-border investments, including the ASEAN Comprehensive Investment Agreement (ACIA), ASEAN Trade in Goods Agreement (ATIGA), ASEAN Framework Agreement on Services (AFAS), and ASEAN Agreement on Movement of Natural Persons (AAMNP). However, bureaucratic and administrative obstacles to doing business remain a burden to businesses, as regulatory ratings associated with doing business in Brunei Darussalam and Indonesia are low, and the Philippines' rating has recently been downgraded further.
- ***Connectivity.*** Large improvements have occurred in transport infrastructure supporting the ASEAN Economic Community's connectivity. Nonetheless, transport and logistics costs rank among the top factors affecting the competitiveness of companies in the two economic corridors, according to company surveys. In particular, companies perceive logistics costs followed by sea freight costs as the major impediments to improved connectivity across borders, although proximity to neighboring countries along BIMP-EAGA's economic corridors can help to mitigate those costs. Also, Sabah's recent ban on trade with Mindanao has created uncertainty in the business environment of the Greater Sulu-Sulawesi Economic Corridor. While the ban refers to barter trade, the continued existence of terrorist and insurgent groups based in the Sulu Archipelago has broad repercussions on trade and investment.
- ***Trade Costs.*** Trade costs remain high in all BIMP-EAGA member countries because of indirect costs at-the-border and behind-the-border. These costs largely involve domestic, regional or international regulations and standards, which include the costs of complying with a myriad of licenses, and permits and certificates associated with moving goods across borders. They affect not only the competitiveness of businesses along the EAGA corridors, but also the ability of small enterprises to understand the complexity of those measures and participate in value chains.
- ***Price Competitiveness.*** Local businesses are concerned that their expansion of operations to cross-border activities would face stiff competition from companies that are at similar production stages. However, small and medium-sized enterprises (SMEs) generally recognize that their lack of economies of scale prevents them from effectively competing in the markets for their products, and that participation in corridor value chains would help them to achieve much-needed scale economies. Of much greater concern to businesses are the large and, in some cases, unfavorable relative price changes brought about bilateral or cross exchange rate movements.
- ***Information.*** Companies along the two economic corridors expressed concern about their lack of knowledge about laws and regulations governing business practices in neighboring provinces or states and the types of product designs and preferences by consumers. Also, companies noted their lack of knowledge about the types of downstream and upstream activities that exist in other corridor provinces and states.

The Way Forward: The findings of this study suggest five implementation imperatives to move the process forward:

- *Commit to Implementation.* An enabling environment for cross-border investments depends on corridor-wide operations that are grounded on an institutional framework with day-to-day operational management authority to implement cross-border programs and projects. Yet BIMP-EAGA's subregional institutional mechanism is built on consultation meetings between government representatives in which project and program operations depend on national implementers to deliver results. Several institutional models in other subregions have proven to be successful, including the Greater Mekong Subregion's (GMS) Corridor Forum, and some of their features could be used in BIMP-EAGA's corridors to create an enabling environment for cross-border value chains.
- *Mobilize Champions.* Individual or institutional champions are essential drivers in promoting cross-border collaboration, networking, training, and research and development (R&D) collaboration by companies. These champions can help to operationalize corridor value chains, giving local companies opportunities to (a) link their activities to upstream operations in neighboring states having an abundance of raw materials and a relatively large production base; (b) brand their products to better differentiate them in premium markets; and (c) expand marketing visibility in regional and global market.
- *Demonstrate Success.* High-profile pilot projects offer demonstrable evidence to potential investors about corridor value chains. Pilot projects can be gleaned from provincial and state plans to promote certain sectors or industries, but they must eventually be private sector driven. Among the key drivers should be successful companies that are on the takeoff stage of business growth. While many of these companies are low-tech, focused on traditional subsectors like agro-foods, there are nonetheless ample opportunities to turn these enterprises into high-tech companies, incorporating value additions and producing goods for premium markets.
- *Promote Clustering.* Clustering methods for industry development offer well-established mechanisms to build cross-border value chains, and these proven methods can be readily adopted to a BIMP-EAGA corridor investment action plan. Key elements consist of well-defined action programs and projects, identification of champions, and monitoring progress (i) in specific industries, (ii) support areas such as the regulatory environment or business development centers, and (iii) focal geographic areas along the corridors.
- *Build Connectivity.* The BIMP-EAGA member countries are creating a long-term positive investment environment based on international best practices, subregion integration of the investment regulatory framework, investment policy coherence, and investment policy transparency. Near to medium-term cross-border investment strategies should build on transport infrastructure projects that are underway in both the West Borneo Economic Corridor and Greater Sulu-Sulawesi Corridor, as well as trade and transport facilitation changes likely to emerge from the ASEAN framework agreements and the new WTO Trade Facilitation Agreement.

1

BIMP-EAGA's Economic Corridors

A. Background

In the last two decades, the Southeast Asia region has experienced a profound transformation toward much greater intra-regional trade and investment than in their global integration, based largely on their cross-border division of production activities and the booming market for goods and services in the area. These changes have brought about large and widespread improvements in the region's infrastructure, specifically in transport systems, along with a breakdown of barrier to trade and investment.

The Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) area in particular has enjoyed a healthy growth and increased stability in its members' economic and political systems, and this process has created enormous business opportunities along the subregion's two economic corridors. BIMP-EAGA has a combined population of 57.5 million and covers a land area of 1.6 million square kilometers that includes the Sultanate of Brunei Darussalam, the Indonesian provinces of Kalimantan, Sulawesi, Maluku, and West Papua in Indonesia; the Malaysian states of Sabah and Sarawak and the federal territory of Labuan in Malaysia; and the Philippine provinces in the Mindanao region and Palawan.

BIMP-EAGA's two main corridors, the *West Borneo Economic Corridor* and the *Greater Sulu-Sulawesi Corridor*, lie in the center of the historically important commercial routes in Southeast Asia and they are once again emerging as important investment and business destinations. Economic corridor development is a key driver of BIMP-EAGA's strategy. The 4th BIMP-EAGA Summit in Singapore in November 2007 endorsed the development of these economic corridors to better direct infrastructure investments to well-defined geographic spaces in the subregion. They are intended to enhance the subregion's competitiveness by linking local production with cross-border supply and value chains, as well as strengthen opportunities for small and medium-sized enterprises (SMEs) to participate in those production and distribution systems.

Infrastructure development is a prerequisite for the achievement of these goals, but it is also part of a process that involves the transformation of transport corridors into economic corridors. To move this process forward, investments across the economic corridors must be driven by a favorable investment climate, based on an efficient, predictable and transparent regulatory environment, along with ample and reasonably priced connectivity, equitable trade costs, and competitive prices.

B. Coverage

This report examines the investment environment in the *West Borneo Economic Corridor* and *Greater Sulu-Sulawesi Corridor*, based on extensive interviews conducted with local businesses. The surveys used a structured and semi-unstructured questionnaire about potential complementarities in cross-border production activities and services, investment incentives, hard and soft infrastructure, the regulatory environment, governance, and other issues surrounding investments along the corridors. In so doing, they addressed leading issues on the regulatory environment, connectivity, macroeconomic issues, trade costs and bilateral exchange rates, as they effect price competitiveness. In each case, the respondents were also given an opportunity to express their views about the opportunities and challenges to cross-border investments in value chains along the two corridors.

The report is divided into three parts, as follows:

- *Part I* describes the findings of the surveys and synthesizes those findings in a SWOT analysis highlighting the Strengths, Weaknesses, Opportunities, and Threats of investing in the BIMP-EAGA economic corridors.
- *Part II* examines the specific components of the investment climate affecting investment sentiments, based on international best practices on important elements in regulations, connectivity, macroeconomics, trade costs, and price competitiveness.
- *Part III* synthesizes the findings on the investment climate in the West Borneo Economic Corridor and the Greater Sulu-Sulawesi Corridor, and puts forward five imperatives for moving forward the process of developing cross-border supply and value chains.

PART I

SWOT Analysis and Best Practices

Business Sentiment About the Investment Climate

2

A. Survey Coverage

This chapter reports on business perceptions about the investment climate in BIMP-EAGA's economic corridors. They are based on a survey questionnaire and structured interviews conducted with company representatives located in all the provinces and states making up the two economic corridors. Each survey was completed through one-on-one interviews with company leaders during the diagnostic phase of this study during the fact-finding mission to the economic corridors in the second half of 2015.

The survey, described in Box 2.1, was carried out in a sample of 70 companies distributed over 20 industry classifications or divisions in six states or provinces along the two economic corridors (see the industry coverage in Table 2.1). The survey questionnaire consisted of 44 questions, of which 36 of them offered a choice of five responses to express how much respondents agreed or disagreed with a particular statement. The Likert scale ranged from a low of 1 (strongly disagree) to 5 (strongly agree), with a neutral response of 3. There were also two open-ended questions about benefits and challenges for the companies' participation in corridor value chains.

Highlights

- Business sentiments about the investment climate are generally favorable. Moreover, the survey conducted across the two BIMP-EAGA corridors found overwhelming agreement on the potential success of corridor value chains.
- Those benefits are associated with (a) competitive strengthening; (b) complementarities associated with cross-border value chain activities; (c) cost of production reductions due to greater efficiencies, either though economies of scale or technology transfers; (d) greater access to inputs; and (e) greater access to markets.
- Concerns remain about cross-border transport infrastructure and logistic services, non-tariff barriers to trade, access to raw material from neighboring states, financial support, regulations governing some industries like that of bananas, institutions supporting BIMP-EAGA investments, high trade taxes, the general regulatory environment some specific industry-based regulations like those in the fishing industry.

B. Strengths and Challenges

Business sentiments about the investment climate are generally favorable. For the most part, businesses the regulatory environment to be stable and predictable, and the fiscal regime to conforms to international best practices. Moreover, the survey conducted across the two BIMP-EAGA corridors found overwhelming agreement on the potential success of corridor value chains. Those benefits are associated with (a) competitive strengthening; (b) complementarities associated with cross-border value chain activities; (c) cost of production reductions due to greater efficiencies, either though economies of scale or technology transfers; (d) greater access to inputs; and (e) greater access to markets. Practically all respondents included at least one of these benefits in the survey's open-ended question about implementing corridor value chains.

Box 2.1: Structured Questionnaire

A structured questionnaire was used to reveal cross-border value chain opportunities along BIMP-EAGA's two economic corridors. It focused on industry-specific opportunities and constraints in the corridor provinces and states. The sample size consisted of 70 companies that are considered representative of 20 industries operating within 9 sectors classifications (see schematic summary in Table 6.2). All the questionnaires were completed on a one-on-one meeting with company executives during field visits in October and November 2015.

The questionnaire focuses on the following areas:

- *Company profile and description of operations*—Location, legal status, type of operation, International Standard Industrial Classification (ISIC) revision 4 industrial classification.
- *Opportunities for complementary value chain operations along corridor*—Possible distribution of different levels of value chain operations across borders, impact on competitiveness, upstream linkages, and access to regional and global markets.
- *Constraints to cross-border value chain development*—Perceived competition in same stages of value chains, taxes and other costs of doing business, unofficial payments, transportation and logistics, and regulatory environment.
- *Competitive position relative to other corridor suppliers*—Product quality, production size, and unit costs of production.
- *Internal supply constraints*—Management capacity, labor skills, technological sophistication, market information, capital availability, and labor costs.
- *Trade policies*—Policies impacting cross-border value chains, information availability on corridor value chains, and border and behind-the-border trade costs.
- *Core value chain processes*—Stage(s) of value chain activities, and geographic origin of input supplies.
- *Open questions*—Major challenges and opportunities for participating in BIMP-EAGA corridor value chains.

A Likert Scale was used to measure the degree of agreement about a set of statements. Under this type of scaling method, respondents were given a choice of 5 responses to express how much they agree or disagree with a particular statement. The choices ranged from a low of 1 (strongly disagree) to 5 (strongly agree), with a 3 to express a neutral position (neither agree nor disagree).

Table 2.1: Distribution of Surveyed Companies across Industries

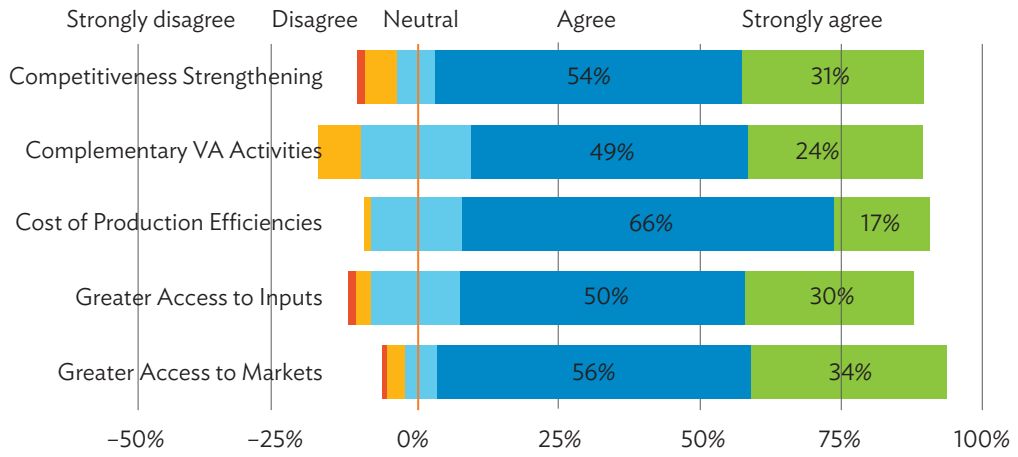
ISIC Rev.4 Section	WBEC	GSSEC	Total
Agriculture, forestry and fishing	10	17	27
Manufacturing	18	8	26
Support service activities	3	3	6
Transportation and storage	4	1	5
Electricity and gas supplies	1	1	2
Mining and quarrying	1	0	1
Water supply	0	1	1
Information and communication	0	1	1
Education	1	0	1
Total	**38**	**32**	**70**

GSSEC = Greater Sulu-Sulawesi Economic Corridor, ISIC = International Standard Industrial Classification, WBEC = West Borneo Economic Corridor.

Source: Survey conducted by Study Team.

Figure 2.1 summarizes the responses from all interviews across industries and across corridors. The largest proportion of businessmen agreed or strongly agreed that corridor value chains would expand their access to markets for their products. The next most widely agreed upon effect was strengthened competitiveness due to either technology transfers or scale economies. Both cost of production efficiencies and greater access to inputs followed closely behind competitiveness strengthening. A somewhat lower proportion of respondents agreed that complementary value chain activities would provide beneficial effects.

Figure 2.1: Respondent Perceptions about Drivers of Corridor Value Chains



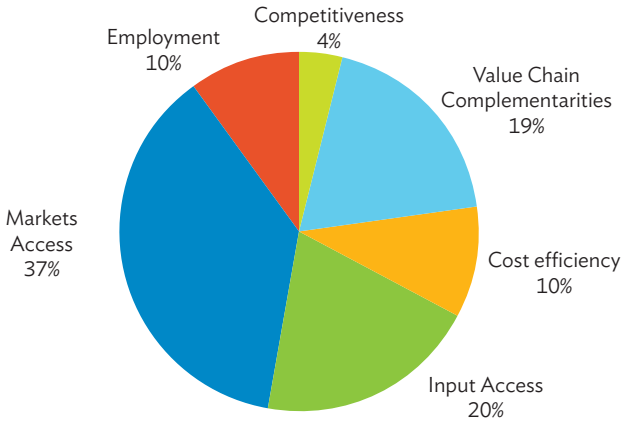
VA = value-added.
Source: Survey conducted by Study Team.

In open-ended questions the respondents listed nearly 120 possible benefits from corridor value chains, which are summarized in Figure 2.2. In addition to the five channels mentioned in the structured portion of the questionnaire, employment creation associated with expanded operations was often highlighted. Increased access to inputs was also widely believed to be one of the important benefits of cross-border value chains, as were increased competitiveness and complementarities in value chain analysis. The particular sources of complementarities mentioned included the separation of production stages along different locations in the corridors, as well as possible organizational and technological complementarities.

C. Opportunities and Risks

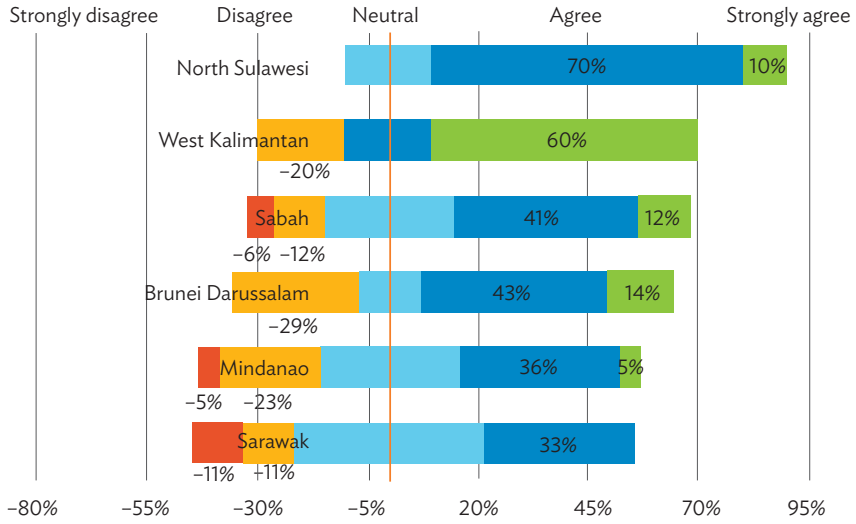
Business investment sentiments are often affected by the amount of support given by local and national government authorities, especially in the regulatory environment; access to information about investment opportunities; connectivity; price competitiveness, trade costs; and the state of the economies in the subregion. In Brunei Darussalam and the Malaysian states of Sabah and Sarawak, company representatives perceived the governments' trade policy support to be high (Figure 2.3). In Mindanao and Indonesia's provinces of West Kalimantan and North Sulawesi, however, the proportion of company representatives that were satisfied with existing trade-related was somewhat lower. Of special concern was the need for further improvements in cross-border transport infrastructure and logistic services, non-tariff barriers to trade, access to raw

Figure 2.2: Respondent Open-Ended Views about Benefits of Corridor Value Chains



Source: Survey conducted by Study Team.

Figure 2.3: Survey responses to "Do you agree that government trade policies support cross-border value chains?"



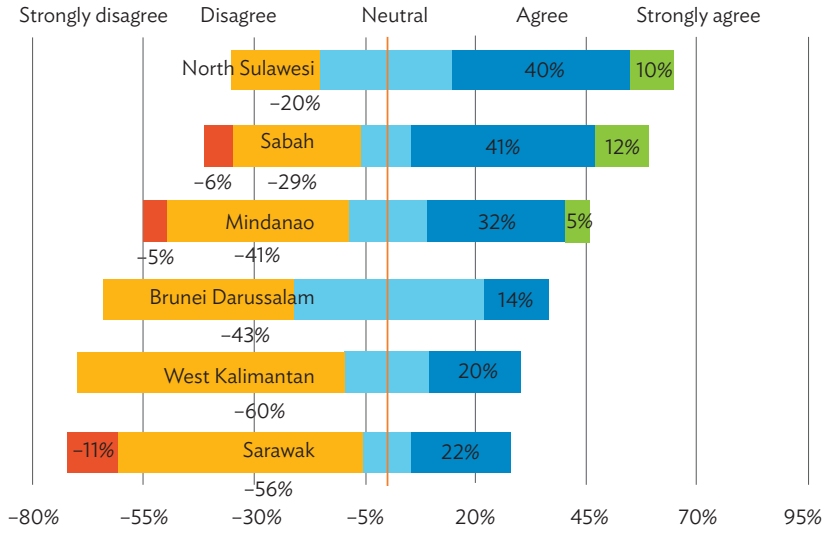
Source: Survey conducted by Study Team.

material from neighboring states (Brunei Darussalam), financial support, stringent regulations governing some industries like that of bananas (Mindanao), institutions supporting BIMP-EAGA investments, high trade taxes (Sabah), the general regulatory environment, and regulations governing fishing practices (North Sulawesi). In Sarawak there was also concern about the control of movements of goods through the Tebedu Inland Port at the West Kalimantan-Sarawak border.

Information availability for cross-border investments is one of the major concerns of company managers, and was often raised as a challenge for expanded investments across borders

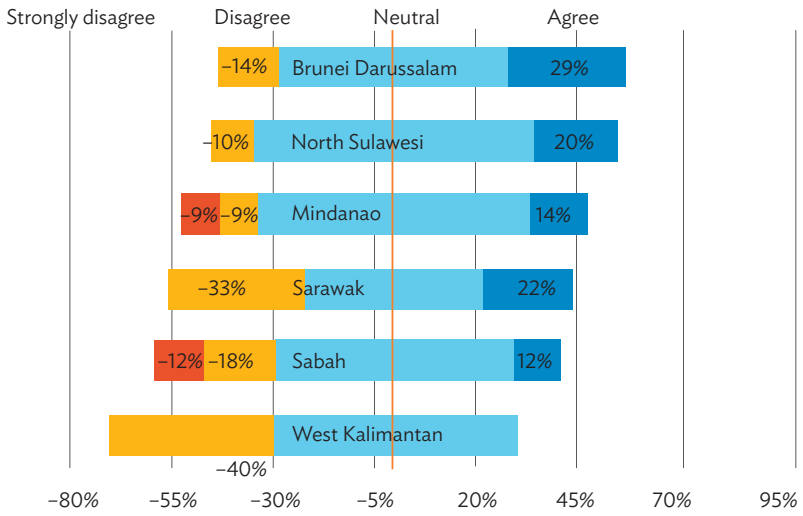
(Figure 2.4). The types of information needs most often mentioned were laws and regulations governing business practices in neighboring provinces or states, the types of product designs, and consumer preferences for different types of products. At a more basic level, company managers lacked knowledge about the types of upstream and downstream activities in neighboring states. In the costs of doing business across borders (Figure 2.5), there were concerns about border taxes and duties as well as logistics costs (Mindanao), value-added taxes and customs

Figure 2.4: Survey responses to "Do you agree that sufficient information is available on BIMP-EAGA economic corridor value chains in your industry?"



Source: Survey conducted by Study Team.

Figure 2.5: Survey responses to "Do you agree that border and behind-the-border trade costs are relatively low?"



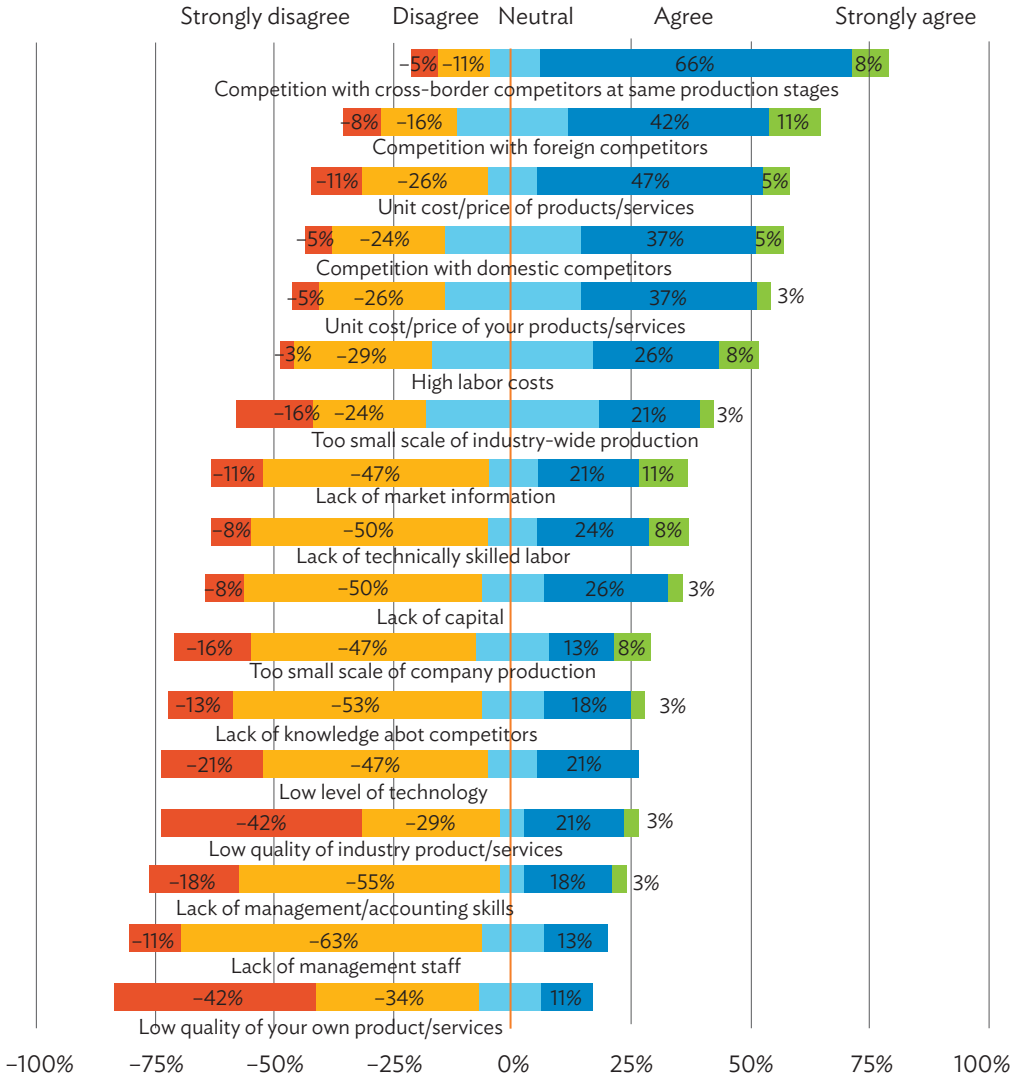
Source: Survey conducted by Study Team.

procedures (North Sulawesi), border taxes and customs procedures (Sabah and Sarawak), and inconsistent application of harmonized system (HS) codes on product that impact on trade tax levies (Brunei Darussalam).

Among the challenges faced by companies in the West Borneo Economic Corridor, the most important ones were their competitiveness and their cost of production (Figure 2.6). Among the main causes of high production costs are the absence of adequate market information, high taxes and trade costs, and bureaucratic and administrative issues affecting cross-border trade.

In Sabah, apart from difficulties in obtaining adequate market information, there were particular concerns about the complexity of trade regulations. The complex regulatory environment

Figure 2.6: WBEC Survey Respondent Agreement with Challenges for Corridor Value Chains

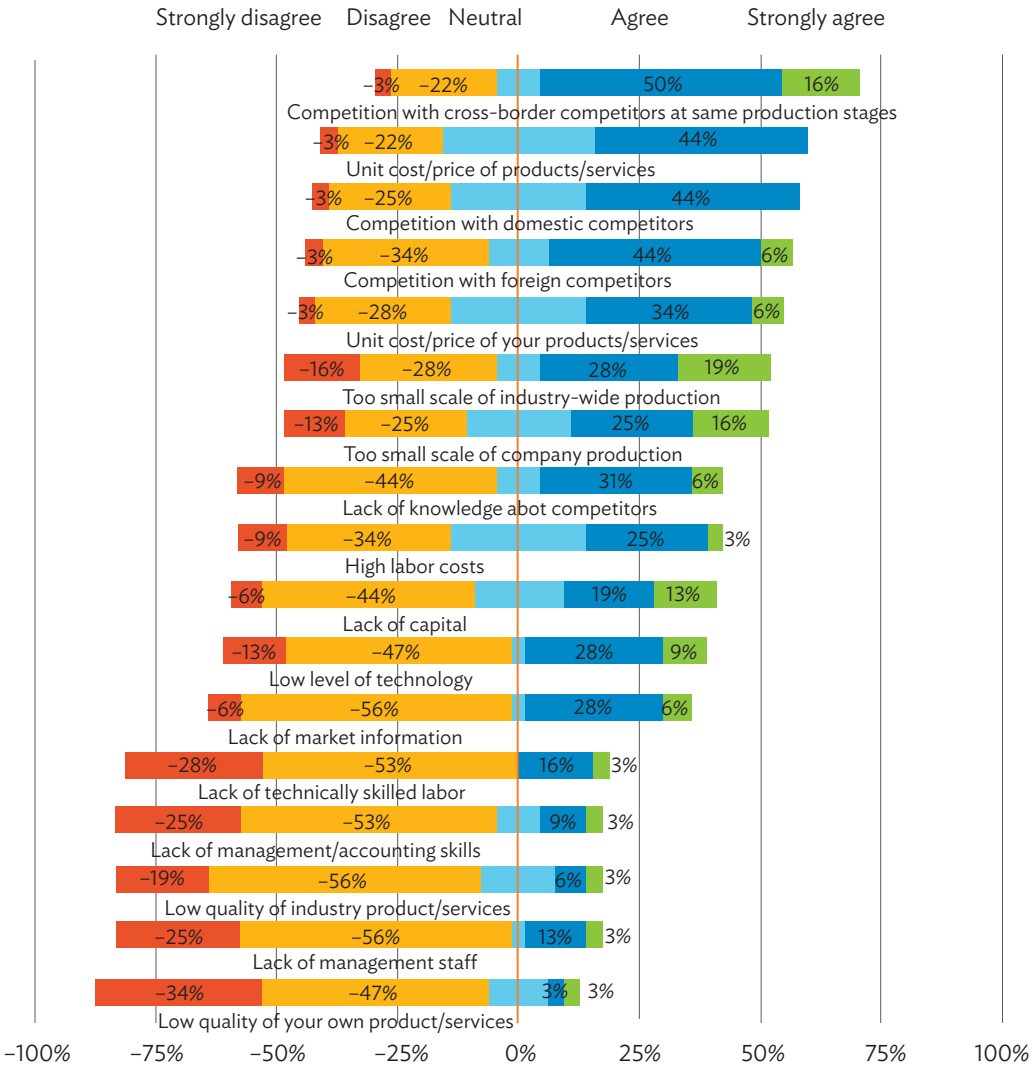


Source: Survey conducted by Study Team.

was reported as impacting the ability of companies to participate in cross-border value chains because they made it difficult for investors to source material inputs from neighboring states. In Sarawak, transport costs were reported to be high because of limited connectivity across land, sea and air. Company managers also mentioned high trade taxes and complex customs regulations.

In the Greater Sulu-Sulawesi Economic Corridor, business managers were mainly concerned with competition with other companies at the same stage of the value chain (Figure 2.7). Lack of sufficient economies of scale in their production and that of the industry as a whole in their province or state was among the major challenges to their company operations. Participation in corridor value chains was seen as providing an opportunity to overcome the existing absence of scale economies.

Figure 2.7: GSSEC Survey Respondent Agreement with Challenges for Corridor Value Chainss

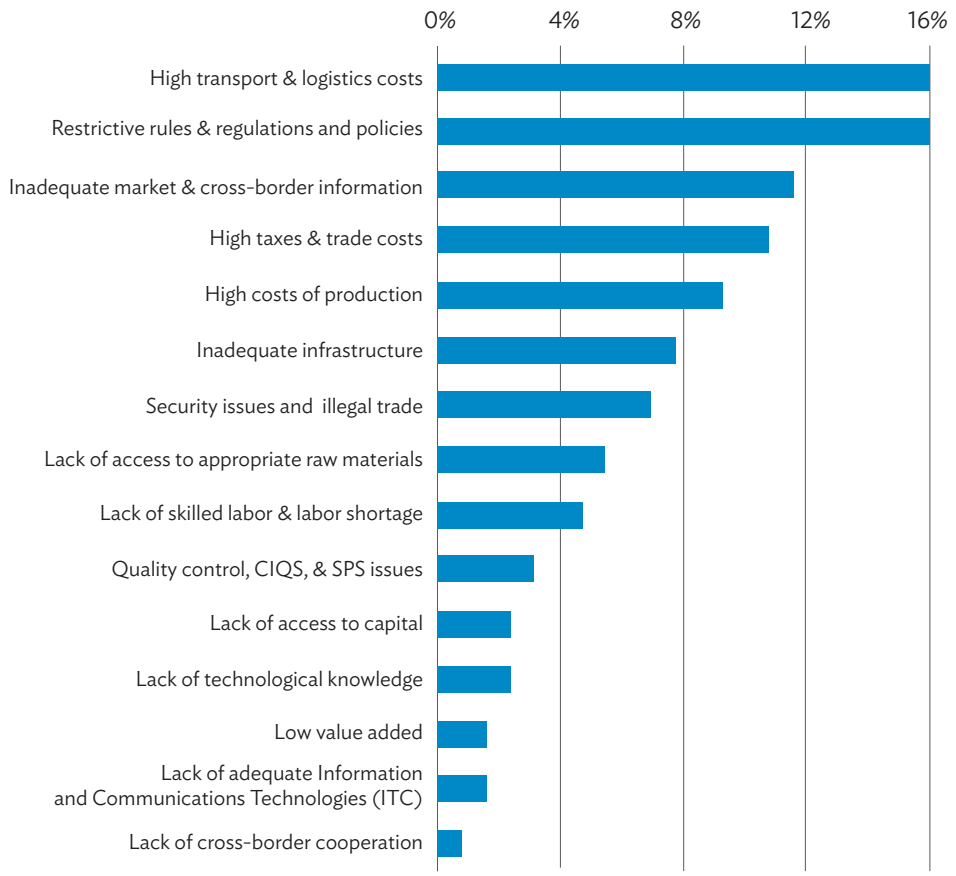


Source: Survey conducted by Study Team.

In North Sulawesi, all company managers mentioned the need to bolster connectivity with Mindanao. In Mindanao, there was also concern about productivity, as well as the high cost of material inputs, and extensive bureaucratic obstacles to doing business, which places a particularly high burden on small-scale producers. It is worth noting that company managers reported few problems with the quality of their own products and services. Most businessmen were satisfied with the level of technology in their operations processes. They were also generally satisfied with the skills level of their employees, including mid-level management and their accounting and financial officers.

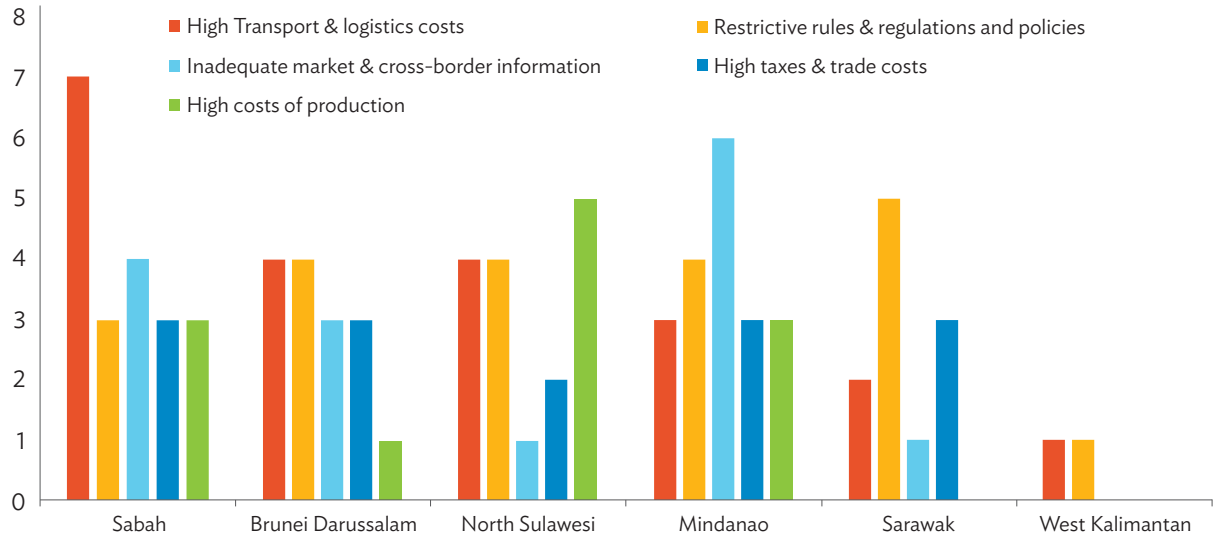
Figure 2.8 ranks the issues raised by company managers, while Figure 2.9 ranks the five top issues within each corridor province and state. The five major difficulties most often raised by company managers were (a) high transport and logistics costs; (b) restrictive rules and regulations; (c) inadequate market information, especially related to cross-border trade and investment; (d) high taxes and trade costs; and (e) high costs of production. There was also concerned expressed about security issues.

Figure 2.8: Major Obstacles to Corridor Value Chains in Open Question of Corridor Surveys, by Challenge



Source: Survey conducted by Study Team.

Figure 2.9: Five Major Obstacles to Corridor Value Chains in Open Question of Corridor Surveys, by Province or State



Source: Survey conducted by Study Team.

Logistics services are generally important to all industries, but none so much as the food industry. It relies on those services not only to get products to market in a timely manner, but in many cases it requires cold storage facilities to maintain the shelf life of products. Lack of adequate and cost-effective cold storage facilities were mentioned most often by companies located in Sabah, Brunei Darussalam and North Sulawesi, and in many cases there were also concerns about port facilities and costs, inland transportation warehousing costs, shipping agents, and cargo vessels for transporting goods between Mindanao and Sabah or North Sulawesi.

The regulatory environment and the cost of *bureaucratic* and administrative obstacles to trade and investment were especially burdensome on Sarawak companies, followed by Brunei Darussalam, Mindanao, and North Sulawesi. Trade regulations affecting imports of material inputs was of particularly concern to Sarawak and Mindanao-based companies, while companies generally found it difficult to address regulatory differences among corridor provinces and states.

Information on cross-border trade and investment regulations, availability of raw materials, and markets are especially important to the establishment of corridor value chains. Company managers in Sabah expressed interest in expanding access to that type of information from Brunei Darussalam, Mindanao, and West Kalimantan. And there was widespread interest in developing ongoing access to information about the types of products traded, port facilities and costs, inland transportation and warehousing costs, and the reliability of supplies.

3 Aligning Existing Conditions with Best Practices

A. International Best Practices

International best practices for promoting investment are associated with trade policies and the regulatory environment, connectivity, macroeconomic factors, trade costs, and factors determining the price competitiveness of companies. In this chapter, we provide an overview of business perceptions about these factors affecting the investment environment in the BIMP-EAGA economic corridors. Part II of this report examines each of these investment determinants in greater detail.

Table 3.1 shows the BIMP-EAGA corridor benchmarks on a scale of 0 (low) to 100 (high), where international best practices have a score of 100. In general, trade policies and the regulatory environment have the highest rating, while trade costs have the lowest rating. The results, based on the survey of local corridor businesses, are not surprising.

(1) *Regulatory Environment*—In the regulatory environment, Malaysia has the most favorable rating of all East Asia economies, and Brunei Darussalam and Indonesia have significantly improved their rankings in recent years. Moreover, under the ASEAN framework,

Table 3.1: Benchmark Ratings of BIMP-EAGA Corridors

	Corridors		Corridor Provinces					
	GSSEC	WBEC	Brunei Darussalam	Mindanao	North Sulawesi	Sabah	Sarawak	West Kalimantan
Trade Policies and Investment Regulations	68	68	66	61	68	74	70	63
Connectivity	67	69	76	73	55	73	66	59
Macroeconomic Environment	58	74	78	63	57	81	73	60
Trade Costs	57	58	60	51	61	58	54	58
Price Competitiveness	63	63	64	57	66	67	59	63
Information Availability	64	55	54	58	68	65	49	52

GSSEC = Greater Sulu-Sulawesi Economic Corridor, WBEC = West Borneo Economic Corridor.
Source: Survey conducted by Study Team.

regional investment-related agreements have facilitated and promoted cross-border investments, both within the region and from foreign investment inflows from outside the region. The ASEAN Comprehensive Investment Agreement (ACIA) has adopted international best practices to liberalize, facilitate and protect all forms of investment. Investors are also benefiting from other agreements concluded by ASEAN, such as the ASEAN Trade in Goods Agreement (ATIGA), ASEAN Framework Agreement on Services (AFAS), and ASEAN Agreement on Movement of Natural Persons (AAMNP).

(2) *Connectivity*—Connectivity is improving through efforts among the BIMP-EAGA member countries to strengthen transportation with priority projects that support connectivity in the broader ASEAN Economic Community (AEC). These efforts include expanded investments in hard infrastructure to improve connectivity along the economic corridors, as well as reforms and improvements in soft infrastructure covering deregulation issues related to national cabotage policies, airline and ground-services deregulation, and port rationalization along the two corridors. Air connectivity has improved through the liberalization of international travel restrictions under ASEAN's open-skies policy. It has facilitated movements of goods and people across borders, while full liberalization of freight services has helped increase the price competitiveness of the BIMP-EAGA corridor provinces and states by eliminating restrictions on where and when airlines can fly and land.

Despite these improvements, however, the cost of transport and logistics rank among the top factors affecting the competitiveness of companies in the two economic corridors. Companies perceive logistics costs followed by sea freight costs as the major impediments to improved connectivity across borders. Nevertheless, proximity to neighboring countries along BIMP-EAGA's economic corridors helps to mitigate generally high transportation costs with more distant markets and suppliers. Respondents to the company survey indicated that nearness to labor and raw material supplies as well as markets is a potentially important benefit of corridor value chains. As a result, value chains among firms in contiguous areas can produce a significant competitive advantage for firms operating at different stages of cross-border production processes over those that operate across larger distances.

Not all transportation costs are considered to be high. Company representatives generally agreed that air freight costs are reasonable and do not undermine their companies' competitiveness. This view is especially supported by respondents in North Sulawesi, Sarawak, and Brunei Darussalam. In contrast, all respondents expressed much higher concern about the cost of sea freight, especially those in Brunei Darussalam, Sarawak, and Mindanao. Logistics service costs were also considered to be high and to undermine competitiveness, particularly by business leaders interviewed in the West Borneo Economic Corridor member states of Brunei Darussalam, Sabah, and Sarawak.

Finally, Sabah's temporary ban on trade with Mindanao has given rise to uncertainty about trade and investment in the Greater Sulu-Sulawesi Economic Corridor. While the ban refers to barter trade, the continued existence of terrorist and insurgent groups based in the Sulu Archipelago has repercussions on all trade.

(3) *Macroeconomic Environment*—The two important dimensions of the macroeconomic environment for the investment climate are the size of the market and its economic growth rate. In terms of size, there is considerable variation among corridor states and provinces. Mindanao has the largest economy, followed closely by Sarawak. However, in terms of level of development, Mindanao ranks near the bottom of the corridor members, whereas Brunei Darussalam, which have much smaller size economies, rank at the top of the development scale for the corridor provinces and states. In general, the BIMP-EAGA states and provinces represent some of the lesser developed areas of the national economies to which they belong. With the exception of North Sulawesi, this differential has not narrowed in recent years since economic growth as measured by gross regional product (GRP) has continued to lag in these areas relative to their corresponding national growth.

(4) *Trade Costs*—Trade costs remain high despite ATIGA because of indirect costs at-the-border and behind-the-border. These costs largely involve domestic, regional or international regulations and standards. Those costs include compliance with a myriad of licenses, permits and certificates associated with moving goods across border, and they affect not only the competitiveness of businesses along the BIMP-EAGA corridors, but also the ability of small enterprises to understand the complexity of those measures and participate in value chains.

(5) *Price Competitiveness*—Business perceptions about their price competitiveness are associated with four determinants: (a) competition with cross-border competitors that are at the same production stages; (b) unit costs of the companies relative to their major competitors; (c) labor and raw material costs; and (d) unit prices of their products relative to competitors. Companies that have achieved scale economies report strong competitiveness, while SMEs generally recognize that their lack of economies of scale prevents them from effectively competing in the markets for their products.

(6) *Information*—The information needs most often mentioned in the corridor surveys are laws and regulations governing business practices in neighboring provinces or states and the types of product designs and preferences by consumers. Also, companies lack of knowledge about the types of downstream and upstream activities that exist in neighboring provinces and states.

B. SWOT Analysis

Table 3.2 shows the strengths and challenges, as well as the opportunities and threats to attracting investment in the BIMP-EAGA economic corridors. Benefits and opportunities are mainly associated with (a) favorable ratings for the regulatory environment, along with significant improvement in those ratings; (b) low connectivity costs due to proximity of companies to upstream and downstream nodes in corridor value chain operations; (c) proximity to large and rapidly growing markets of companies located in the corridors, as well as greater access to those markets as a result of cross-border investment operations; and (d) lower trade costs due to geographic proximity of companies to upstream and downstream nodes and corridor-wide markets.

In contrast, the challenges and threats are associated with (a) continued bureaucratic and administrative obstacles to doing business in a number of corridor provinces and states; (b) connectivity problems due to lack of adequate air, land and sea transport facilities, blockades on trade because of insurgent activities, and high transport and logistics costs in some

Table 3.2: SWOT Analysis of Investment Climate in WBEC and GSSEC

Strengths	Weaknesses
• Highly rated regulatory environment (Malaysia) as well as large improvement in ratings (Brunei Darussalam, Indonesia, Philippines). • Connectivity costs low for cross-corridor investments due to close proximity of upstream and downstream nodes in corridor value chains, especially along WBEC. • Strengthened transportation linkages across corridors due to existence of priority projects supporting AEC connectivity. • Large markets within economic corridors (Mindanao, Sarawak, Sabah) with rapid economic growth (North Sulawesi, West Kalimantan) and high incomes (Brunei Darussalam, Sarawak). • Large companies along the corridors are price competitive due to their scale economies.	• Regulatory ratings of most BIMP-EAGA members (Brunei Darussalam, Indonesia, Philippines) remain low by international standards. • While regulatory ratings of most BIMP-EAGA members have improved, that of the Philippines recently slipped. • Lack of access to information about complex regulatory environment by SMEs. • Predominance of SMEs makes it uneconomical for companies to gain product certification in order to meet high standards of regional and global markets. • High trade costs at-the-border and behind-the-border in all BIMP-EAGA members. • Recent exchange rate realignments have undermined price competitiveness of some companies.
Opportunities	**Threats**
• Regional regulatory unification under ASEAN framework are facilitating investments, especially through ACIA, ATIGA, AFAS, and AAMNP agreements. • Recent improvements in regulatory environment (Brunei Darussalam, Indonesia, Philippines) shows growing tendency for investment openness and transparency. • Corridor value chains afford opportunities for SMEs to achieve economies of scale. • Moving to high-value activities in WBEC and GSSEC food-processing industries.	• Blockade on barter trade between Sabah and Mindanao creates uncertainty about broader trade relations in GSSEC. • Lack of permanent institutional support for BIMP-EAGA corridor investment promotion, like GMS Economic Corridors Forum (ECF). • Slow progress in implementing corridor value chains by BIMP-EAGA working groups and senior officials. • Lack of proactive 'champions' to mobilize cross-border investments and operationalize corridor value chains.

AAMNP = ASEAN Agreement on Movement of Natural Persons; ACIA = ASEAN Comprehensive Investment Agreement; AFAS = ASEAN Framework Agreement on Services; ATIGA = ASEAN Trade in Goods Agreement; GMS = Greater Mekong Subregion; GSSEC = Greater Sulu-Sulawesi Economic Corridor; SMEs = small and medium-sized enterprises; SWOT = strengths, weaknesses, opportunities, and threats; WBEC = West Borneo Economic Corridor.

Source: Compiled by Authors.

routes; (c) comparatively high at-the-border and behind-the-border trade costs associated with regulation and non-tariff measures, access to information, compliance and conformity requirements, informal payments, and business and financial service charges, among others; (d) lack of price competitiveness due to the small scale of operations by many SMEs along the corridors; (e) large and, in some cases, unfavorable relative price changes brought about bilateral or cross exchange rate movements; and (f) lack of adequate information by businesses about regulatory and procedural requirements needed to conduct business, especially for the vast majority of businesses that operate as SMEs.

PART II

Investment Climate Components

Regulatory Environment

4

A. Regulatory and Business Environment

Investment policy and regulatory reforms in the BIMP-EAGA member countries are increasingly promoting and facilitating investment by creating a stable, predictable and transparent investment environment. The main instruments in the investment regimes consist of investment policies and incentives, tax reforms, investment facilitation, infrastructure development, and institutional support for investors.

The 2016 Ease of Doing Business rankings of the BIMP-EAGA member countries are all favorable.[1] Brunei Darussalam has moved up by 21 ranking points, from 105 in 2015 to 84 in 2016, largely as a result of the improvements in the starting a business indicator as well as the indicators for paying taxes and getting financing. Indonesia's ranking also improved, from 120 in 2015 to 109 in 2016, because of its higher indicators for paying taxes, dealing with construction permits, getting electricity and obtaining financing. Malaysia's ranking in 2016 remained nearly unchanged at a very favorable overall rating of 18 out of 189 countries. The Philippines' ranking slipped somewhat in 2016 to 103 from 97 in the previous year, but there was an improvements in the indicator for getting electricity. Moreover, the Philippines ranks at the top regionally and globally in terms of ease of investing in tourism, construction, retail, insurance, and healthcare.[2]

Highlights

- EAGA member countries have recently increased efforts to promote and facilitate domestic and foreign-sourced investment and to create a stable, predictable and transparent regulatory environment.
- *Brunei Darussalam's* efforts to attract foreign direct investment (FDI) into high-tech industries include investment incentives, a low tax regime with no capital gains or personal income taxes; exemptions from corporate taxes; exemption from import duties and taxes on raw materials, machineries, equipment component parts, accessories or building structures; and adjustment of capital allowances and losses.
- *Indonesia's* investment incentives provide a choice between tax holidays and a tax incentive program in high-priority sectors, special economic zone incentives, import duty exemptions, pioneer industry status, and investment guarantees.
- *Malaysia's* investment promotion program in technologically sophisticated manufacturing and service industries includes a variety of tax incentives to attract investment in various sectors and regions of the country. The country's current global competitiveness index is already among the highest in developing Asia.
- *The Philippines'* investment reforms of the past four years have bolstered the country's economic fundamentals, and its incentive programs target six broad priority sectors that are part of the country's industrialization plan.

Throughout the BIMP-EAGA economic corridors there are a variety of special economic zones (SEZs) encompassing a range of commercial activities and offering special incentives to attracted targeted industries. These commercial areas are usually self-contained administrative unit in a geographically delimited area, often with physically secured (fenced-in) single management and administration facilities, providing special benefits to companies located within the zone, and often having a separate customs or one-stop-shop areas that provide duty-free benefits and streamlined procedures. Incentives are often based on duty-free trade and the absence

[1] World Bank, Doing Business database. Washington, DC. Available: http://www.doingbusiness.org/
[2] World Bank, Investing across Borders database. Washington, DC. Available: http://iab.worldbank.org/

of exchange controls, the facilitation of licenses and other regulatory requirements, reduced corporate and value-added tax obligations, and the elimination of local fees.

Their objective is to lower production costs for goods processed and manufactured within the area and thereby offer companies the opportunity to sell those goods at more competitively prices than if they were produced elsewhere in the country. In nearly all cases, the commercial areas are structured as public–private partnerships (PPPs) in which the public sector provides some level of support such as infrastructure, equity investment, and soft loans or bond issues, while the private sector contributes toward capital investments, employment, and local and provincial economic growth.

B. General Investment Promotion

1. Brunei Darussalam

Brunei Darussalam has an open economy favorable to both domestic and foreign direct investment (FDI) in support of its economic diversification efforts. Since Brunei Darussalam has targeted high-technology industries in its development plan, FDI serves as an important source of technology transfer and building human resource capacity. Investment incentives mainly originate from the Brunei Economic Development Board (BEDB) and Ministry of Industry and Primary Resources (MIPR), and they are promoted by the Ministry of Foreign Affairs and Trade (MOFAT). Incentives include a low tariff regime with no capital gains or personal income tax; exemptions from corporate taxes; exemption from import duties and taxes on raw materials, machineries, equipment component parts, accessories or building structures; and adjustment of capital allowances and losses.

The World Trade Organization's recent review of trade and investment in Brunei Darussalam underscored the progress made in attracting investment in both the traditional oil and gas industry and in manufacturing.[3] But it also noted the stiff competition for foreign investment-related knowledge transfers from neighboring countries in Malaysia and Indonesia, suggesting that cross-border value chains with neighboring provinces and states from these two countries could greatly strengthen its move up the value chain in manufacturing and service industries.

Recently, Brunei Darussalam further streamlined its investment process by amending its Miscellaneous License Act to allow business licenses to be issued immediately by a single authority under the Ministry of Home Affairs, once the business incorporation or registration certificates have been issued by the Ministry of Finance. Details of Brunei Darussalam's general investment incentives are presented in Table 4.1.

Brunei Darussalam has a range of industrial sites being developed that aim to diversify the economy. They are being established and promoted under BEDC supervision and consist of the following main clusters:

- *Life Sciences Cluster*: This cluster aims to transform Brunei Darussalam into a regional hub for export-oriented manufacturing of high value-added life sciences products, covering

[3] World Trade Organization (2015), "Trade Policy Review: Brunei Darussalam." Geneva. WT/TPR/S/309. Available: https://www.wto.org/english/tratop_e/tpr_e/tp409_e.htm

Table 4.1: General Investment Incentives in BIMP-EAGA Economic Corridors, 2016

	Brunei Darussalam	Indonesia North Sulawesi & West Kalimantan	Malaysia Sabah & Sarawak	Philippines Mindanao
Priority Industries	Priority industries are ICT and high-tech industries (Rimba); technology (Anggerek Desa); ecotourism (Tasek Merimbun and Ulu-Ulu Temburong); financial cernter (Bandar Seri Begawan); light industries (Salambigar); mixed industries (Telisai); oil and gas (Seria and Pulau Muara Besar); petrochemicals (Sg. Liang).	Fisheries and agro-processing in North Sulawesi; palm oil, timber, steel, coal, and oil and gas in West Kalimantan.	In both Sabah and Sarawak, marine industry, palm oil, livestock, oil and gas, manufacturing and tourism; in Sabah, creative industry, ICT and education; in Sarawak, aluminum, glass industries, steel, and timber-based industry.	In Mindanao, agro-foods, ITC, tourism. Infrastructure.
Investment tax incentives	Companies producing goods and services for export can apply for a renewable 10-year tax exemption.	Companies can apply for either income tax holiday or tax incentive program, but not both.	Income tax holiday.	Income tax holiday.
	Corporate tax relief of up to 5 years is available.	Local tax deductions.	R&D expense deductions	Tax credits.
	An 11-year tax break is offered if the venture is located in a high-tech industrial park.	Accelerated depreciation and loss carryover	Goods and services tax (GST) implemented in April 2015.	Deductions from taxable income.
	Sole proprietorships and partnerships are not subject to tax.	Tax allowance and training expense deductions	Reinvestment allowance	Additional training expense deduction and exemption for national and local taxes for eco-zone developers and operators.
	Double-taxation agreements with England, Indonesia, the People's Republic of China, Singapore, Viet Nam, Bahrain, Oman, Japan, and Pakistan.	Tax holiday for certain business fields		

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Table 4.1 *continued*

	Brunei Darussalam	Indonesia North Sulawesi & West Kalimantan	Malaysia Sabah & Sarawak	Philippines Mindanao
Investment guarantees	Signatory to ASEAN Investment Agreement	Under bilateral and ASEAN agreements, protection against expropriation, nationalization, losses due to currency inconvertibility, losses due to war, losses due to excessive retribution (under regional regulation.	Available on expropriation (under bilateral agreements), nationalization and losses due to currency inconvertibility.	Available on expropriation (under bilateral agreements)
	Signatory to ASEAN investment agreements with India, the PRC, the Republic of Korea, Australia-New Zealand, Japan, US, and European Union (EU).	Transfer of profits or dividends to country of origin.		For Region 12, available on repatriation of investments, remittance of earnings, foreign loans and contracts, and requisition of investment.
	Bilateral investment treaties with the PRC, India, the Republic of Korea and 5 other countries.	International arbitration and law guarantee.		
	Investment-related instruments with 22 multilateral protocols and agreements, such as TRIMS.	Indonesia belongs to Multilateral Investment Guarantee Agency (MIGA) of World Bank Group.		
	All companies competing for tenders in oil & gas industry are required to have at least half be Bruneians. Expatriate labor is controlled by a Labor Quota system from Labor Department and issuance of employment passes by Immigration Department.			
Pioneer Status	Companies can apply to be exempted from Corporate Income Tax, Import Duties on Raw Materials and Machinery for up to 8 years			

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Table 4.1 *continued*

	Brunei Darussalam	Indonesia North Sulawesi & West Kalimantan	Malaysia Sabah & Sarawak	Philippines Mindanao
Pioneer Industries	Available to agribusiness; machinery and equipment; chemicals; petrochemicals; plastics and composites; consumer goods environmental technologies; food processing and packaging health technologies (pharmaceuticals); ITC; industrial equipment; marine technology; metal manufacturing; aircraft and catering services; textiles and apparel.	Available to basic metal industries; oil refinery industries and basic organic chemicals originating from oil and natural gas; machinery industries; industries in the field of renewable resources; and communication devices industries.		
Intellectual Property Rights	In 2013, Brunei Darussalam acceded to Hague Agreement Concerning the International Registration of Industrial Designs ("Hague System") to protect IP from industrial designs, making it the second ASEAN Member country (after Singapore) to accede.	Adequate intellectual property laws, but enforcement remains limited.	Member of WIPO Copyright Treaty and the WIPO Performance and Phonogram Treaty;	The Intellectual Property (IP) Code provides the legal framework for IPR protection, particularly in the key areas of patents, trademarks, and copyright.
	Brunei Darussalam has publicly committed to acceding to other World Intellectual Property Organization's (WIPO) treaties including the Madrid Protocol for the International Registration of Marks, the WIPO Performances and Phonograms Treaty.	Amendments to Indonesia's Trademark and Patent laws are underway	Enforcement of IPR regime, including ongoing training of prosecutors for specialized IPR courts, and establishment of a Special Anti-Piracy Taskforce.	Philippines is considered a leader in ASEAN for its IP enforcement efforts, and has made sustained efforts to improve IPR protection and civil and administrative enforcement.

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Table 4.1 *continued*

	Brunei Darussalam	Indonesia North Sulawesi & West Kalimantan	Malaysia Sabah & Sarawak	Philippines Mindanao
Tariff exemption on imported capital and raw materials	Exemptions for materials and capital goods not produced locally.	Import Duties: 100% exemption of import duty for machinery and equipment; 100% exemption of import duty for raw material needs for 2 years; 100% exemption on imported raw materials for 4 years if using, at least, 30% local machineries.	Import duty exemption on machinery and equipment.	Tax exemptions on 100% export producers.
		Value-Added Tax: 100% exemption on VAT.	Import duty exemption on raw material and components.	
One-stop agency for investment approvals	Brunei Economic Development Board (BEDB).	Investment Coordinating Board (BKPM).	Malaysia Investment Development Authority (MIDA); Sabah Economic Development and Investment Authority (SEDIA); and the Sarawak Economic Development Corporation.	Board of Investments (BOI).
Special incentives	For R&D Cluster, Brunei Research Incentive Scheme (BRISc) cost-sharing research grant supports business operations of eligible companies.	Tax incentives for investment in SEZs. Goods manufactured in these special economic zones are exempt from VAT when sold domestically, but remain subject to customs and excise fees.	Transactions for acquisitions of interests, mergers, and takeovers of local companies by domestic or foreign parties are allowed without prior approval. The services sector has also been liberalized to attract more foreign investment.	Non-fiscal incentives include employment of foreign nationals, simplified customs procedures, importation of consigned equipment, and operation of a bonded manufacturing warehouse.
Treatment of goods imported in connection with a manufacturing operation	Temporary importation of goods imported in connection with a manufacturing operation are allowed, but exclude raw materials and machinery components.	Import raw materials are free of VAT, and goods manufactured in SEZs are exempted from VAT when sold domestically.	Raw materials, products and equipment can be imported duty-free with minimum customs formalities.	Spare parts, manufactured components, and raw materials for foreign markets enjoy incentives on imports that are re-exported.

Sources: For Brunei Darussalam, Brunei Economic Development Board; for Indonesia, Investment Coordinating Board (BKPM); for Malaysia, Malaysia Industrial Development Authority; for the Philippines, Board of Investments.

a wide range of manufacturing and service activities such as pharmaceuticals (biologics, biosimilar, and generics), nutraceuticals (functional food, health supplements), alternative medicine (herbal medicine), cosmetics as well as food (agriculture and aquaculture) and beverages. An area with high-value opportunities is halal brand and certification for foods and pharmaceuticals as well as cosmetics.

- *Research and Development (R&D) Cluster*: Through the 'Heart of Borneo' conservation initiative, an R&D hub is to produce innovative and competitive compounds for drugs development and commercialization. The Brunei Research Incentive Scheme (BRISc) provides a cost-sharing research grant for companies to support their operations in the hub.
- *Advanced Agriculture and Agri-Food Processing Clusters:* Development of advanced agriculture and agro-food processing is supported in Telisai Industrial Park ("TIP"), Salambigar Industrial Park ("SIP"), and the Bio Innovation Corridor ("BIC"). Agricultural cultivation using advanced technologies is also being promoted in order to produce high quality and larger yields, along with manufacturing and processing of premium agro-food products for the global market.
- *Information and Communications Technology Industry*: Data centers and disaster recovery centers are being established in the Rimba Digital Junction, which has nearby access to the Tungku Submarine Landing Station, which itself supports the major submarine cables of Asia-America Gateway (AAG) and Southeast Asia-Middle East-Western Europe Cable (SEA-ME-WE3). The country's other major submarine cable is South-East Asia-Japan Cable (SJC).
- *Aviation and Marine Services Center:* Brunei Darussalam is supporting maintenance, repair and overhaul (MRO) activities for both the aviation and marine industries. The Pulau Muara Besar ("PMB") industrial park is building a marine MRO facility to support the sizeable fleet of offshore supply vessels (OSVs) for the country's offshore oil and gas industry. Aviation support services for aircraft MRO as well as flight crew simulation and training centers are located in the vicinity of the Brunei International Airport in a large three-bay hangar facility. Brunei Darussalam already has a pool of skilled, multilingual aircraft technicians and licensed engineers to support the center.
- *Marine Fish Farming, Aquaculture and Processing Centre*: Pelong Rocks is an offshore sea area close to Brunei Bay that has been identified as target location for marine fish farming. Inland aquaculture activities are being promoted in the Telisai Industrial Park ("TIS"). The Salambigar Industrial Park ("SIP") supports downstream processing and packaging of high-value fish products.
- *Manufacturing Industry Clusters:* There are several industrial sites for manufacturing activities, including energy-intensive manufacturing at the Bukit Panggal Industrial Park and the Salambigar Industrial Park.
- *Oil and Gas Downstream Industries*: The Sungai Liang Industrial Park ("SPARK") supports activities like methanol manufacturing under a Japan-Brunei Darussalam consortium, while the Pulau Muara Besar ("PMB") industrial park is developing an integrated refinery and aromatic cracker plant that is expected to start operations in 2018. The facility will produce refined petroleum products such as gasoline, diesel, Jet A1 fuel as well as downstream petrochemicals like benzene and paraxylene.
- *Free Trade Zones (FTZs)*: The Muara Export Zone (MEZ) is an FTZ located at Muara Port, Brunei Darussalam's main seaport. Once completed, it will support Brunei Darussalam's establishment as a trade hub for the Southeast Asia region. Its development will be followed by other FTZs throughout the country.

2. Indonesia

Companies can apply for either of two tax incentives, but not both. The first is a tax holiday that exempts businesses from paying corporate income taxes for up to ten years (Ministry of Finance Decree No. 130/PMK.011/2011). To receive the tax holiday, the company must have first operated as a legal entity in Indonesia for at least a year. The alternative is a tax incentive program for projects conducted in national high-priority sectors covering 129 different fields that reduces income taxes from 30% to 5% for six years (Government Regulation No. 144 of 2012). The program also provides for accelerated depreciation and amortization. The high-priority sectors and the number of fields (in parenthesis) are agriculture (5); forestry (9); maritime and fishery (4); energy and mineral resources (15); industry (84); public works (2); culture and tourism (1); transportation (4); communication and information (1); and health (4). In addition, exemption from any import duty is available for machines, goods and materials for production for two years, and an import duty facility is granted for four years to a company using locally-produced machines at least 30% of the total value of machines for its production. Under the facility, which is regulated by the Ministry of Finance, a company operating in industrial sectors and service areas like tourism, health, and telecommunications will have their import duties paid by the government.

In 2015, the Government of Indonesia issued a new regulation that not only provides an income tax facility for investment made in certain business fields or regions, but also improves the procedure of applying for income tax exemptions. Investors can submit applications through a one-stop-service (OSS) center to complete all procedures within 30 working days, thereby making the process faster, simpler, more transparent and convenient. The OSS Centre consolidates authority from 22 ministries and agencies to issue licensing and non-licensing documents for particular sectors. Indonesia's Investment Coordinating Board (BKPM) is also assisting provincial governments like those in North Sulawesi and West Kalimantan to improve their OSS centers.

Tax incentives for investment are offered in Indonesia's special economic zones, one of which is located in Bitung, North Sulawesi. Investors receive income tax discounts ranging from 20% to 100% over 25 years. These generous tax holidays are designed to attract investment in the manufacturing industries. Foreign investors are allowed to own property in the SEZs. They are also able to import raw materials free of any value-added tax (VAT), and goods manufactured in these special economic zones are exempt from VAT when sold domestically, but remain subject to customs and excise fees. Tourism, restaurant and entertainment businesses operating in these zones receive a 50% to 100% discount on entertainment taxes.

The Special Economic Zone in Bitung focuses on fisheries and agro-processing industries. It intends to accommodate the distribution of commodities from North Sulawesi to other regions in Sulawesi as well as areas outside the country like the Moluccas and Papua. Also, the 250-hectare industrial estate in Bitung is divided into an export zone, wet and dry factories, housing, and recreation, among other areas, with important links to the Bitung international container terminal.

3. Malaysia

The Government of Malaysia's goal is for the country to become knowledge-driven and for the economy to move further up the value chain. It seeks to achieve this goal by promoting investment in technologically sophisticated manufacturing and service industries. In 2015 it launched the 11th Malaysia Plan in an effort to become a high-income nation by 2020. The plan includes strategies to position Malaysia as a high-tech hub for manufacturing and services activities, and to attract quality investments in high value added industries as well as new growth areas. The latest WTO Trade Policy Review of Malaysia noted the Government's efforts to institute incentives to encourage investment as well as the strengthening of a number of agencies to guide prospective investors.[4]

The country's current global competitiveness index is the highest among developing Asian economies.[5] In competitiveness indicators, it ranks 4th in terms of both burden of government regulations and financial market development; it ranks 7th in terms of efficiency of goods and services markets; it has an impressive scoring of 29th in terms of business-friendly institutional framework; and its private sector is highly sophisticated (15th) and innovative (21st). All of these characteristics support an attractive business environment for both domestic and foreign investors.

Malaysian employs a variety of tax incentives to attract investment in various sectors and regions of the country. Tax holidays are available in targeted sectors like ICT, biotechnology, halal products in the food, cosmetics and pharmaceutical industries. Moreover, tax exemptions are available for exported goods with a significant portion of value added within Malaysia. Full tax exemption incentive for fifteen years are available for firms having 'Pioneer Status', that is, companies promoting products or activities in industries or parts of Malaysia to which the government places a high priority; additionally, tax exemption for ten years are available for companies with 'Investment Tax Allowance' status, that is, companies promoting products or activities in industries or parts of Malaysia in which the government places a priority, but not as high as those with Pioneer Status.

4. Philippines

The Philippine law treats foreign investors the same as their domestic counterparts, except in sectors reserved for nationals by the Philippine Constitution and Foreign Investment Act. The country's investment climate has improved greatly during the present decade and the reform momentum is likely to continue to improve the country's prospects for attracting investment in the coming years.[6]

[4] World Trade Organization (2014), "Trade Policy Review: Malaysia." Geneva. WT/TPR/S/292. Available: https://www.wto.org/english/tratop_e/tpr_e/tp392_e.htm

[5] World Economic Forum (2016), "Competitiveness Ranking." Available: http://reports.weforum.org/global-competitiveness-report-2014-2015/rankings/

[6] United States Department of State (2015), "Philippines: Investment Climate Statement." Washington, DC. Available: http://www.state.gov/e/eb/rls/othr/ics/

Philippines reforms of the past four years have bolstered the country's economic fundamentals.[7] The trends across most of the 12 pillars are positive and often impressive in terms of improvements in recent years. In the institutions pillar (67th), for example, the Philippines has advanced about 50 places since the beginning of the decade. Efforts made to stem corruption have successfully moved the country from 135th in 2010 to 81st in 2015.[8] Similar improvements have occurred in government efficiency and protection of property rights. Especially important to the implementation of value chains along the BIMP-EAGA economic corridors are the improvements made in technological adoption (69th). Also, the Philippines is one of the best digitally connected ASEAN countries, close behind Malaysia. The remaining challenges are (a) infrastructure, especially airports (108th) and seaports (101st); rigidities and inefficiencies in the labor market (91st); and security (89th), particularly in terms of costs that the threat of terrorism imposes on businesses (110th).

The Philippines' 2011–2016 Development Plan identifies six broad sectors as priorities in the country's industrialization plan. In aligning its investment strategy, the Investment Priorities Plan for 2014–2016 provides investors with predictable policies for investing in new areas identified by the Government.[9] Preferred activities include the four broad sectors of manufacturing, agribusiness and fishery, services, and infrastructure and logistics, while preferred export activities cover the production and manufacture of export products, services exports and activities in support of high value exporters.

In 2015 the Philippines issued the 10th Foreign Investment Negative List, which revises List A on sectors where foreign ownership is limited by mandate of the constitution and specific laws. The revised listing provides clarity on the specific professional areas that are open to foreigners, subject to reciprocity.

C. Foreign Direct Investment Laws and Regulations

1. Brunei Darussalam

Brunei Darussalam's long-term development plan, known as 'Wawasan Brunei 2035' or 'Brunei Vision 2035', emphasizes the attraction of FDI a key driver of the country's economic growth. In an effort to diversify the economy, the Brunei Economic Development Board and the Ministry of Industry and Primary Resources offer favorable incentives to foreign investors. The country's laws and regulations governing FDI compare favorably to other BIMP-EAGA member states (Table 4.2).

2. Indonesia

To provide clearer and more transparent investment regulations, Indonesia enacted the 2014 Presidential Regulation Number 39 on 'Lists of Business Fields that are Closed for Investment',

[7] World Economic Forum (2016), "Competitiveness Ranking." Available: http://reports.weforum.org/global-competitiveness-report-2014-2015/rankings/

[8] Transparency International (2016), Corruption by country database. Available: https://www.transparency.org/country/

[9] Government of the Philippines (2015), "Investment Priorities Plan (IPP) 2014–2016." Manila. Available: http://industry.gov.ph/investment-priorities-plan-ipp-2014-2016/

Table 4.2: Laws and Regulations Governing Foreign Direct Investment in BIMP-EAGA Economic Corridors, 2016

	Brunei Darussalam	Indonesia North Sulawesi & West Kalimantan	Malaysia Sabah & Sarawak	Philippines Mindanao
Barriers to Entry	No negative clause.	Negative investment list decree is separated into (a) closed investments; (b) open with condition; and (c) open to foreign investment without conditions.	No negative clause.	Activities that are not restricted (List A) and critical or hazardous (List B) are allowed 100% foreign-ownership.
Limitations on Foreign Ownership	No restriction on total foreign ownership of companies incorporated in Brunei.	Foreign ownership is limited on certain business fields.	100% foreign equity ownership allowed for manufacturing and selected services subsectors	Private ownership of land is reserved for Philippine citizens and corporations owned at least 60% by Filipinos. Foreigners can own buildings on leased land.
	Companies Act requires locally incorporated companies to have at least some directors as ordinarily residents in Brunei Darussalam.			
Local Content/ Performance Requirements	ICT and high-tech industries (Rimba); technology (Anggerek Desa); ecotourism (Tasek Merimbun and Ulu-Ulu Temburong); financial cernter (Bandar Seri Begawan); light industries (Salambigar); mixed industries (Telisai); oil and gas (Seria and Pulau Muara Besar); petrochemicals (Sg. Liang).	Applied only to oil and gas and industry with at least 30% local content	No restriction	With the exception of foreign-controlled firms that export 100% of their production, foreign firms that seek incentives from BOI must commit to divest 40% ownership within 30 years or as the period specified by BOI.
		Obligation to open an account in a local bank.		
	In some sectors, foreign investors may not utilize sites under government control unless they comply with specific requirements.	Certain import of raw materials and intermediate goods are restricted.		
		Export requirement is a condition for investing in certain sectors and for obtaining incentives and exemption to import restrictions.		

continued on next page

Table 4.2 *continued*

	Brunei Darussalam	Indonesia North Sulawesi & West Kalimantan	Malaysia Sabah & Sarawak	Philippines Mindanao
Foreign Exchange Controls	No restrictions	No restrictions	No restrictions	No remittance restrictions if a person already holds foreign currency; some restrictions on the purchase of foreign exchange through the banking system
Other Differential Treatment from Domestic Investment	No differentiation	No differentiation	No differentiation	Philippine laws and regulations guarantee the basic rights of all investors and enterprises, including freedom from expropriation without just compensation; right to remit profits, capital gains, and dividends within the guidelines of the Bangko Sentral ng Pilipinos; right to repatriate the proceeds of the liquidation of investments; and right to obtain foreign exchange to meet principal and interest payments on foreign obligations.

Sources: For Brunei Darussalam, Brunei Economic Development Board; for Indonesia, Investment Coordinating Board (BKPM); for Malaysia, Malaysia Industrial Development Authority; for the Philippines, Board of Investments.

along with 'Business Fields that are Conditionally Open for Investment.' The negative investment list decree covers three types of investment: (a) Those that are prohibited investment activities for goods and services prohibited by Indonesian law because they are dangerous, polluting, or strategic for national security or heritage; (b) those that are reserved for SMEs and cooperatives, (c) those needing domestic partnerships; (d) those business areas that require conditions like capital ownership, specific location and licensing; and (c) those that are open to foreign investment without conditions.

Foreign investors are expected to provide training and development to Indonesian nationals to ensure the transfer of skills and technology needed for locals to effectively participate in management activities. A company can generally hire foreigners only for positions that the government has deemed open to non-Indonesians. Employers must have manpower-training

programs aimed at replacing foreign workers with nationals. Foreign worker must meet education, work experience, and Indonesian language requirements and commit to transfer knowledge to local counterparts.

There are no controls over foreign exchange transactions. The Indonesian rupiah is freely convertible. Under the 2007 Investment Law, the Government offers assurance to investors relating to the transfer and repatriation of funds. Also, there are no restrictions or time limitations on investment remittances.

3. Malaysia

In an effort to attract foreign investment, the Government has liberalized, in certain cases, removed investment restrictions. Transactions for acquisitions of interests, mergers, and takeovers of local companies by domestic or foreign parties are allowed without prior approval.[10] The Government has also liberalized the services sector to attract more foreign investment, especially in tourism and freight transportation. Complete foreign ownership is now allowed in healthcare, retail, education, along with professional, environmental, and courier services. Nonetheless, limits on foreign ownership remain in place in telecommunications, financial services, and transportation. Moreover, foreign investments in services, whether in fully liberalized or controlled subsectors, remain subject to review and approval by ministries and agencies with jurisdiction over the relevant sectors. The objective of the review and approval processes is to determine whether proposed investments meet the government's qualifications for the various incentives in place to promote economic development goals.

Investors in industries targeted by the Malaysian government can often negotiate favorable terms with ministries, or other agencies, regulating the conditions applicable to specific industries. The terms can include assistance in dealing with regulations and policies, some of which can be waived on a case-by-case basis. The Malaysia Investment Development Authority (MIDA) is the major agency that serves as a focal point for legal and regulatory questions about foreign investment, especially in guiding foreign investors interested in the manufacturing and service sectors. In Sabah and Sarawak, the major state-level regulatory agencies supporting to investors are the Sabah Economic Development and Investment Authority (SEDIA), and the Sarawak Economic Development Corporation.

The WTO's latest trade policy review for Malaysia underscores the favorable effects that have resulted from Malaysia's participation in the ASEAN Comprehensive Investment Agreement (ACIA).[11] The ACIA replaces the ASEAN Investment Agreement (AIA) and ASEAN Investment Guarantee Agreement (IGA). It brings together liberalization, protection, promotion, and facilitation measures under a single comprehensive agreement. Among its features are national treatment and most-favored nation (MFN) obligations, a single negative list with reservations to investment a broad definition of investors and investments, and the inclusion of portfolio investment and intellectual property; and adoption of investor-state dispute settlement mechanisms.

[10] United States Department of State (2015), "Malaysia: Investment Climate Statement." Washington, DC. Available: http://www.state.gov/e/eb/rls/othr/ics/

[11] World Trade Organization (2014), "Trade Policy Review: Malaysia." Geneva. WT/TPR/S/292. Available: https://www.wto.org/english/tratop_e/tpr_e/tp392_e.htm

4. Philippines

There are about 180 fiscal incentive laws in the Philippines and, as mentioned in the previous section, the Investment Priorities Plan (IPP) promotes investment areas entitled to incentives facilitated by the Board of Investment. Among the fiscal incentives are an income tax holiday, tax credits, and deductions from taxable income, while non-fiscal incentives include employment of foreign nationals, simplified customs procedures, importation of consigned equipment, and operation of bonded manufacturing warehouses.

The Special Economic Zone Act allows the Philippine Economic Zone Authority (PEZA) to regulate and promote investments in export-oriented manufacturing and service facilities inside special economic zones, including grants of fiscal and non-fiscal incentives. There is a more predictable business environment within the special economic zones, particularly those operated by PEZA, which is known for its regulatory transparency and its OSS services for investors. For the country as a whole, there are currently 327 special economic zones that are operating, with another 317 in progress of development, and another 126 approved but not implemented.[12] For Mindanao, Table 4.3 shows that there are 32 special economic zones that are currently operating in four types of zones (agro-processing, IT, manufacturing and tourism) in Regions IX through XIII.

Table 4.3: Special Economic Zones in Mindanao

	Region IX	Region X	Region XI	Region XII	Region XIII	
	Zamboanga	Northern Mindanao	Davao	Soccskargen	Caraga	Total Mindanao
Agro-industrial cluster	1	3	3	6		13
Information Technology		1	7	1		9
Manufacturing		4	2	1	1	8
Tourism		1				1
Grand Total	**1**	**9**	**12**	**8**	**1**	**31**

Source: Philippine Economic Zone Authority (PEZA).

[12] Philippine Economic Zone Authority (PEZA), "List of PEZA Economic Zone (as of June 2015)." Manila. Available: http://www.peza.gov.ph/index.php/downloads

Connectivity

5

A. Corridor Connectivity

There has been considerable progress made under BIMP-EAGA's *Implementation Blueprint* on Priority Infrastructure Projects (PIPs) to improve land, sea and air connectivity. Advances have focused on the two economic corridors and efforts are now underway to prepare the post-2016 agenda to accelerated connectivity through the priority projects and to support connectivity in the broader ASEAN Economic Community (AEC). These efforts include expanded investments in hard infrastructure to improve connectivity along the BIMP-EAGA economic corridors, as well as reforms and improvements in soft infrastructure covering deregulation issues related to national cabotage policies, airline and ground-services deregulation, and port rationalization along the two corridors.

Air connectivity has improved through the liberalization of international travel restrictions under ASEAN's open-skies policy. It has facilitated movements of goods and people across borders, while full liberalization of freight services has helped increase the price competitiveness of the BIMP-EAGA corridor provinces and states by eliminating restrictions on where and when airlines can fly and land.

Highlights

Land, air and sea connectivity has improved under BIMP-EAGA's *Implementation Blueprint* on Priority Infrastructure Projects (PIPs), and the post-2016 is likely to see further advances as the subregion moves forward under the ASEAN Economic Community.

The West Borneo Economic Corridor has a fairly well-established transport infrastructure, and cross-border trade and investment is already well established.

As a maritime corridor, the Greater Sulu-Sulawesi Economic Corridor depends primarily on its connectivity via port-to-port shipping services. Mindanao's ports are generally large and efficient, while that of North Sulawesi is being expanded in order to accommodate the province's industrial development and growth of SEZ activities.

Business perspective about connectivity are generally positive, though concern remains about the cost of transport and logistics. Proximity to neighboring countries along BIMP-EAGA's economic corridors helps to mitigate generally high transportation costs with more distant markets and suppliers. Also, not all transportation costs are considered to be high, especially those of air freight costs, which are considered to be reasonable and not undermine competitiveness.

More flights at lower costs are bolstering physical trade linkages and increasing multi-destination holiday travel. Nonetheless, although the final barriers were eliminated at the end of 2015, implementation of some freedoms are pending. The right for an airline to fly over foreign airspace without landing and the right to stop in another country for refueling or maintenance are already common practice. But full implementation of the remaining freedoms guaranteeing airlines the right to travel to multiple countries without the need for prior intergovernmental approval is affecting efforts to implement multi-country travel packages.

1. West Borneo Economic Corridor

The *West Borneo Economic Corridor* has a fairly well-established transport infrastructure, with linkages from Indonesia's West Kalimantan province to Malaysia's Sarawak state, then through Brunei Darussalam and onward to Sabah state in Malaysia. Cross-border trade and investment

within this corridor is already well established. Table 5.1 highlights some of the important investment infrastructure initiatives in 2012–2016.

(a) Sabah

- *West Coast Seaports*. All sea ports in Sabah are managed and operated by Sabah Ports Sdn Bhd. In Kota Kinabalu there are two ports, namely, Kota Kinabalu Port and Sepangar Bay Container Port (SBCP). The Sapangar Bay Container Port has taken over the container operations from Kota Kinabalu Port and is positioning itself as a major transshipment hub for the BIMP-EAGA subregion and the AEC region. Sapangar Bay Oil Terminal is a dedicated terminal for the handling of refined petroleum products and liquid chemical. It serves the West Coast of Sabah. Kota Kinabalu Port remains a general cargo port. In the federal territory of Labuan islands off the coast of Sabah there is also Labuan Liberty Port, which has deep-water facilities for large vessels and a 244-meter jetty with draft of 8.5 meters and a capacity to handle vessels of up to 16,000 deadweight tonnage (DWT).

Table 5.1: West Borneo Economic Corridor Priority Investment Infrastructure Projects to Enhance Connectivity

Projects	Objective	Specific Activities and Impacts
Pontianak Port (West Kalimantan, Indonesia) to Kuching Port (Sarawak, Malaysia)	The objective of developing this sub-corridor is to improve connectivity between Indonesia and Malaysia along the West Borneo Economic Corridor. It is expected to generate increased economic activity between West Kalimantan and Sarawak.	*Pontianak to Entikong Transport Link*. The two subprojects of the Link are: (i) *Tayan–Serawak Road Rehabilitation*, and (ii) *Entikong Border Crossing Facility*. In the case of the Tayan–Serawak Road, the improvement of the road from Pontianak to the Sarawak border shortens the route by 100 kilometer (km), in addition to substantial savings in vehicle operating costs and time.
Bandar Seri Begawan–Kota Kinabalu (Sabah, Malaysia) sub-corridor.	The project coverage is the road through Limbang (Sarawak), Temburong (Brunei Darussalam) and Lawas (Sarawak) before reaching the state of Sabah near Sitipang. The improvements along this route aims to facilitate travel. It is currently complex and involves travel by road with two ferry crossings, four border crossings, and then eight controls at checkpoints (total travel time takes 4.5 hours or up to 10 hours on weekend, school holidays, and festivities). The improvements involve constructing a new border crossing facility at Kuala Lurah that is compatible with the new border post-facility at Tedungan, Malaysia; and the construction of the Pandaruan Bridge to replace the two ferry crossings.	*Kuala Lurah Border Crossing Facility:* The construction of the Kuala Lurah Border Crossing Facility will replace old facilities to make it compatible with the border facility at Tedungan. The new facility will provide significant time savings for road users, and improve connectivity in the subregion. *Pandaruan Bridge:* The Pandaruan Bridge will improve connectivity between Brunei Darussalam and Malaysia via the Trans Borneo Highway. The project involves the construction of a 60-meter bridge to replace the ferry over Pandaruan River.

Sources: ASEAN Secretariat (2015), "ASEAN Investment Report: Infrastructure Investment and Connectivity," Jakarta; and Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA, 2012), "Implementation Blueprint 2012–2016." See chapter text for details.

- *East Coast Seaports.* Sabah's east coast ports of Sandakan, Tawau, and Lahad Datu handle palm oil and related products such as fertilizer and palm kernel, as well as containers and general cargo. Sandakan Port is considered to be one of the three main ports in Sabah, while Kudat is a secondary port. Sandakan Port mainly ships oil, timber and other agricultural products such as palm oil, tobacco, cocoa, coffee, manila hemp, and sago; and Kunak Port handles palm oil as well as palm kernel exports.
- *Airport Facilities:* Air passenger traffic in Kota Kinabalu is the second largest in Malaysia after Kuala Lumpur. The airport has two cargo terminals with a complete range of facilities servicing the city of Kota Kinabalu and the entire west coast of Sabah. In Sandakan, air transport includes an international route from Sandakan to Zamboanga International Airport, in an effort to boost its twin town relationship with Zamboanga City.
- *Road Transportation*: The Pan Borneo Highway, or Trans Borneo Highway, connects Sabah and Sarawak through Brunei Darussalam. It serves as a major truck road system, most of it as a two-lane single carriageway and about 15% of it as a four-lane dual carriageway. The 2015 Malaysian budget contains large funding for development and upgrading of the Pan Borneo Highway by 2023. The funding aims to support development of the West Borneo Economic Corridor, expand cross-border trade of goods and services, and generally improve the well-being of the population bordering the corridor.

(b) Brunei Darussalam

- *Seaport Facilities*: The deep-water sea port in Brunei Darussalam is at Muara. Its facilities include a multi-purpose berth which, at present, are capable of servicing conventional cargo carriers, self-sustained container carriers, and ro-ro car-carriers. Access to the commercial berth is through a dredged canal 2.6 kilometers long that accommodates vessels with a draught of up to 9.5 meters. There are warehousing facilities in the 10 hectare terminal area, with a container stacking area of 50,000 square meters. Additional capacity is planned. The Government's strategic objective is to develop Muara Port and its services to realize the national vision of making Brunei Darussalam a regional service hub for trade and tourism.
- *Airport Facilities:* The Brunei International Airport is serviced by the Brunei International Air Cargo Center (BIACC), a subsidiary of Royal Brunei Airlines. It provides services to international freight operators like FedEx. An important part of the Government's aim in developing air and seaport facilities is for the country to become a regional transport and logistics center in the region. The master plan covers land transport linkages between cities and across borders, including a second bridge across the Limbang River to help spur development of the northern region of Sarawak.

(c) Sarawak

- *Seaport Facilities*: Sarawak has major ports at Kuching, Sibu, Bintulu and Miri. The Bintulu seaport is under the jurisdiction of Malaysian federal government and is the largest port in the state. It handles both LNG products and standard cargo shipping. Other ports are managed by the state port authorities. The combined throughput of the four primary ports is over 60 million freight weight tons (FWT).
- *Airport Facilities:* Kuching International Airport is the main gateway to Sarawak, while Miri Airport serves a limited number of international flights. There are also smaller airports

facilities Sibu, Bintulu, Mukah, Marudi, Mulu, and Limbang. The major airlines serving Sarawak are Malaysia Airlines, Air Asia, and MASwings.

- *Road Facilities:* Sarawak more than doubled its roadways in the first half of this decade as part of the state's overall development plans and the Sarawak Corridor of Renewable Energy (SCORE) project. Sarawak's major roadway is the Pan Borneo Highway, connecting the state's southwest area of Sematan with Tawau in Sabah and extending through Brunei Darussalam. The expanded 2015 federal budget allocation will substantially upgrade the road system by 2023.

(d) West Kalimantan

- *Seaport Facilities*: West Kalimantan has eight seaports. Construction of a new deep-sea port is starting in 2016 at Kijing, which is an area noted for its bauxites, rubber, palm oil and timber. The project is part of the Indonesian Government's Port Development Master Plan, and it aims to expand the shipping capacity of the resource-rich area. Over 60% of its capacity will be dedicated to container traffic, followed by bauxite-related cargoes and crude palm oil-related products.
- *Airport Facilities*: Supadio Airport is the international airport located in Pontianak. Recent smoke haze caused by forest fires has affected flights between Pontianak in West Kalimantan and Kuching, as well as flight in general from both of these cities.
- *Road Facilities*: Road infrastructure lags behind the Java region because of the sheer size and distance between provinces. Plans are underway to improve road infrastructure to the Sarawak border by 2019 for the 21 kilometer access road to Entikong, which has been proposed as a cargo gateway for West Kalimantan shipments along the West Borneo Economic Corridor.

2. Greater Sulu-Sulawesi Economic Corridor

The Greater Sulu-Sulawesi Economic Corridor is a maritime corridor that is mainly delimited by the geography of the Sulu-Sulawesi Sea. Connectivity is primarily through port-to-port trade flows and shipping services.

(a) Mindanao

- *Seaport Facilities*: The Port of Davao, also known as Sasa Wharf, serves as the gateway to the southern Philippines. It is the second largest seaport in the Philippines, after the Port of Manila, and is considered to be the best-performing port in Mindanao. It is largely dominated by container cargo, raw materials exportation, bulk cargo, general cargo and passenger traffic facilities.

  The Port of Zamboanga is managed by the Zamboanga City Special Economic Zone Authority, also known as the Zamboanga Freeport Authority (ZFA). It has 25 shipping lines that are serviced by four shipyards. The facility has been ranked as one of the most efficient ports in Asia. Its large operations are due to the extensive volume of sardine exports to the United States, Europe and the Middle East. Passenger transport is also large, reaching an annual passenger throughput of 5.5 million persons.[13]

[13] "Zamboanga International Seaport." Available at http://www.zamboanga.com/html/tourist_Seaport.htm

Table 5.2: Greater Sulu-Sulawesi Economic Corridor Priority Investment Infrastructure Projects to Enhance Connectivity

Projects	Objective	Specific activities and impacts
Zamboanga Peninsula (Mindanao, Philippines)-Sabah (Malaysia) Sub-corridor	Both Zamboanga and Davao provide connectivity in the Greater Sulu-Sulawesi Sea, while Tawi-Tawi facilitates connectivity along the Zamboanga– Sabah sub-corridor. Ports improvements in Zamboanga and Davao will be needed to address deficiencies in infrastructure.	*Zamboanga Port Expansion:* As a component of Mindanao Ports Program I, the improvement of the port involves repaving the container marshalling area, and fixing the drainage system. Second, a new ramp in the ferry basin consists of a standard fixed concrete ramp, and the ISPS container barrier to be replace with a fence to eliminate congestion. Last, the removal of shoal allows deeper drafted vessels to berth directly alongside the quay. Davao Port Expansion (Phase 1) Phase 1 involve 113 meters of the 270-meter container berth. Construct of a new RoRo ramp and passenger terminal and associated works so that the next component of the new quay extension can be constructed and that passenger and freight activities can be segregated.
Zamboanga Peninsula–Sabah Sub-corridor through the island provinces in the Autonomous Region in Muslim Mindanao (ARMM)	Economic development in ARMM relies on improved connectivity between Zamboanga and Sabah. The project covers infrastructure improvements/rehabilitations at Jolo, Bongao, and Sitangkai as major local hubs.	*Zamboanga Port Expansion:* The project includes expansion of the backup area and new berthing facilities after land reclamation for Bongao Port. For Sitangkai Port, the project improves the berth space to accommodate larger cargo vessels; and it provide a segregated stair handling for small wooden hulled vessels, a new passenger terminal, and a reconstructed causeway.
	The objective of further developing this sub-corridor is to establish proper synergy between Davao and General Santos, on the one hand, and Manado and Bitung, on the other hand, for both shipping and air services. Developing connectivity among these four points will improve the movement of goods and people along the corridor.	*Davao Port Expansion (Phase 2):* The project involves the (i) widening of RC wharf and installation of Quay Crane Rail; (ii) concrete paving of new back-up area; (iii) rehabilitating the passenger terminal building, allied facilities, and RoRo ramp; and (iv) expanding the north end of the port.
		General Santos Port (Makar Wharf): The project involves (i) port expansion and reclamation with open storage (3.4 hectares), (ii) construction of a warehouse, (iii) installation of Quay Crane Rail, and (iv) construction of passenger terminal building. The project involves construction of a RoRo facility.
		Manado-Bitung Link Enhancement: The project is located in North Sulawesi and is composed of two sub-projects: (i) Manado Port Expansion, and (ii) Manado–Bitung Toll Road. The Manado Port Expansion involves the development of southern berth, central piers, and northern pier.

continued on next page

Table 5.2 *continued*

Projects	Objective	Specific activities and impacts
		Davao–General Santos Toll Road Rehabilitation: This project involves improvements and expansion of the ring road in General Santos to support the ports and bring the road up to international standard.
		Rehabilitation of the Davao–Digos road segment includes conversion of roads to four-lanes, while the Digos–General Santos City road segment includes construction of climbing lanes at the three locations between Davao and GenSan.
Palawan (Philippines)–Sabah (Malaysia) Sub-corridor	The objective of this sub-corridor is to develop the capacity of Palawan ports to accommodate greater trade and passenger flow, which are currently limited, and to develop a connection with Kudat in Sabah in the case of Brooke's Point port. Kudat has the potential to become the tourism-driven gateway of southwestern Philippines.	Palawan Ports Development Program The objective of the project is to improve the ports in order to increase capacity to handle subregional traffic, and to develop a connection with Kudat in Sabah, Malaysia. The project involves rehabilitation and improvement of two ports, namely, Brooke's Point and Puerto Princesa. Brooke's Point is the second largest port in Palawan, while Puerto Princesa serves as the main port. Both ports are links to Sabah, Malaysia.
		Brooke's Point Port. The rehabilitation of the port will involve repair of (i) RC Pier and Roll-on Roll-of (RoRo) Ramp; (ii) the Philippine Ports Authority (PPA) building; and (iii) RC Pier Approach. It includes four additional subprojects, namely: (i) relocation of existing breakwater, (ii) repair of passenger terminal building, (iii) expansion of TMO building; and (iv) widening of causeway and pier approach.
		Expansion of Puerto Princesa Port. This project involves the construction of a new 228-meter berth, warehouses, and passenger terminal. Puerto Princesa Port will serve as an alternative to Brooke's Point Port.

Sources: ASEAN Secretariat (2015), "ASEAN Investment Report: Infrastructure Investment and Connectivity," Jakarta; and Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA, 2012), "Implementation Blueprint 2012–2016." See chapter text in this study for details.

The Fishport Complex in Barangay Tambler of Santos City has seven tuna processing plants and consists of a 750-meter quay and 300-meter wharf that can service 2,000 gross ton reefer carriers. The Fishport Complex is equipped with modern facilities that comply with international standards on fish catch handling.

In 2015 the Mindanao Development Authority (MinDA) proposed development and expansion within Mindanao of additional seaports to help traders obtain better access to the Sabah and North Sulawesi areas within the BIMP-EAGA corridor, as well as improving flows of goods and people within Mindanao and between the country's islands.

- *Airport Facilities*: The major international airports in Mindanao are Francisco Bangoy International Airport in Davao City, General Santos International Airport, and Zamboanga International Airport. In 2005 the Francisco Bangoy International Airport was substantially upgraded with the Asian Development Bank (ADB) and European Investment Bank funding. It now has a new 17,500 square meter passenger terminal; a 5,580 square meter cargo terminal; a 74,250 square meter aircraft apron along with several ancillary buildings; and a 3,000-meter-long runway. It is serviced by Philippines Airlines (PAL), Silk Air (SLK), Cebu Pacific (CEB) and Air Philippines (GAP). The MinDA has recently proposed development and modernization of five airports in Mindanao, including upgrading the airport in General Santos City to a fully modernized international facility.

(b) North Sulawesi

- *Seaport Facilities*: The Port of Bitung is a relatively small port with a draft of over 10.5 meters that is managed by the Bitung Port Administration. Bitung's status as a special economic zone (SEZ) is driving efforts to develop its seaport facilities in order to support industrial development. Moreover, the existence of nearby mineral resources and raw materials has spurred the Government of Indonesia to earmark Bitung as an international hub, making it a gateway for cargo traffic within BIMP-EAGA and outside the subregion. The first phase development began in 2015 with the expansion of the container loading and unloading facilities. That phase of the port's development is expected to be completed in 2017. Once completed, the facility will have an addition of 6.5 hectares of container yard and a 500 meter dock extension.

  The second phase of expansion will take place between 2018 and 2022. It consists of the addition of 250 meters to the physical length of the dock, which will form a right angle to the existing dock and connect to the mainland. At the same time, the container yard will be increased by an additional 47 hectares. The third and final stage of development is expected to be completed in 2032. It will consist of a substantial enlargement of the container yard area and the construction of a bulk terminal next to the container yard.[14]

- *Airport Facilities*: Sam Ratulangi Airport in Manado is also known as Manado International Airport. It is designated as one of the 11 main entry ports to Indonesia by the Ministry of Tourism and Culture of Indonesia and serves as the main gateway to the Bunaken National Marine Park, one of the first of Indonesia's growing system of marine parks. The airport is currently the hub of Wings Air, a subsidiary of Lion Air, and it is serviced by Garuda Indonesia and Citilink. It has a 3,500 square meter cargo terminal with an annual capacity of 7,840 ton, along with a 2,300 square meter warehouse, a bonded warehouse, a transit zone, a free port, aircraft maintenance, and other service facilities.

  In 2014 a direct flight between Davao and Manado was inaugurated, as part of a BIMP-EAGA-driven effort to connect trade and tourism between Mindanao and North Sulawesi. Indonesian airline Sriwijaya Air was to provide a charter flight that would revive an old air route linking the cities of Davao and Manado. Tour operators Dream World Travel in Davao City and Philman Travel and Tour in Manado City were to arrange flight bookings on the chartered Sriwijaya flight. In 2014 there was a maiden

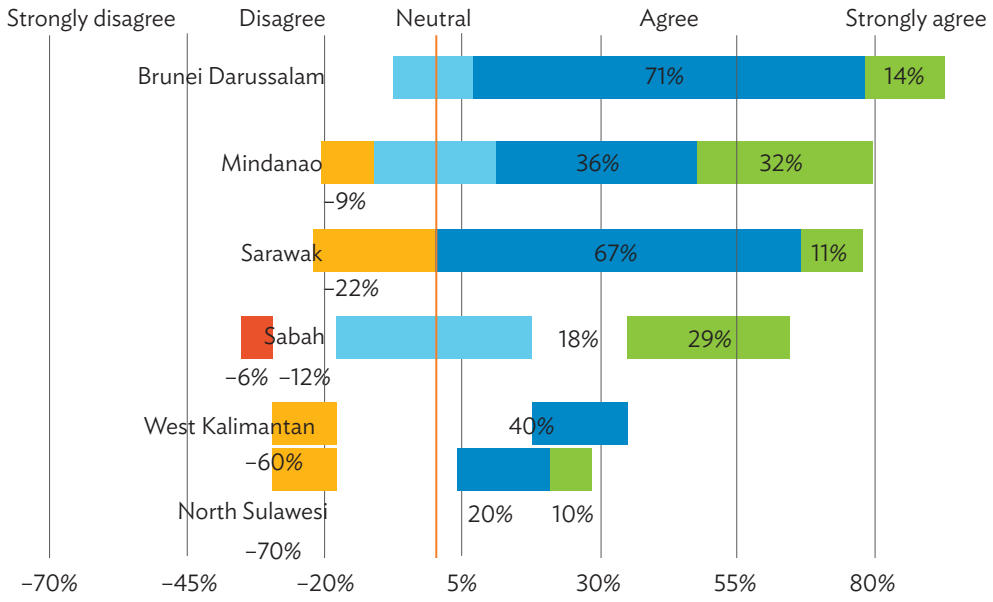
[14] Marintec Indonesia, "Marine Highway Infrastructure: Bitung Development Starts This Year." Bisnis Indonesia, Section: Transportasi Dan Logistik. May 6, 2015. Available: http://marintecindonesia.com/marine-highway-infrastructure-bitung-development-starts-this-year/

Davao-Manado flight carried 90 government and business delegates from North Sulawesi who visited Davao and General Santos cities. However, since then there have not been any regularly scheduled charter flights. Without the route, passengers need to take either a long Davao-Manila-Jakarta-Manado route or an equally long Davao-Cebu-Singapore-Manado route to connect between North Sulawesi and Mindanao.

B. Business Perceptions about Corridor Connectivity

Despite improvements in connectivity, the cost of transport and logistics rank among the top factors affecting the competitiveness of companies in the two economic corridors. According to this study's survey results, companies perceive logistics costs, followed by sea freight costs, as the major impediments to improved connectivity across borders (Figures 5.1, 5.2 and 5.3). These results, however, need to be interpreted with caution.

Figure 5.1: Survey responses to "Do you agree that sea freight costs are too high?"

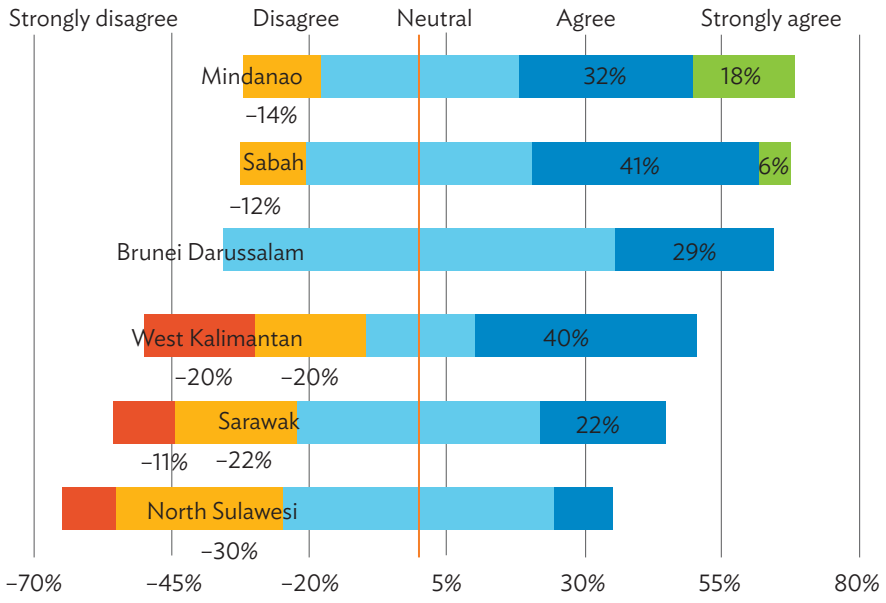


Source: Survey conducted by Study Team.

First, proximity to neighboring countries along BIMP-EAGA's economic corridors helps to mitigate generally high transportation costs with more distant markets and suppliers. Respondents to the company survey indicated that nearness to labor and raw material supplies as well as markets was an important benefit of corridor value chains. In general, distance between countries is a significant factor in determining global and regional value chains.[15] As a result, value chains among

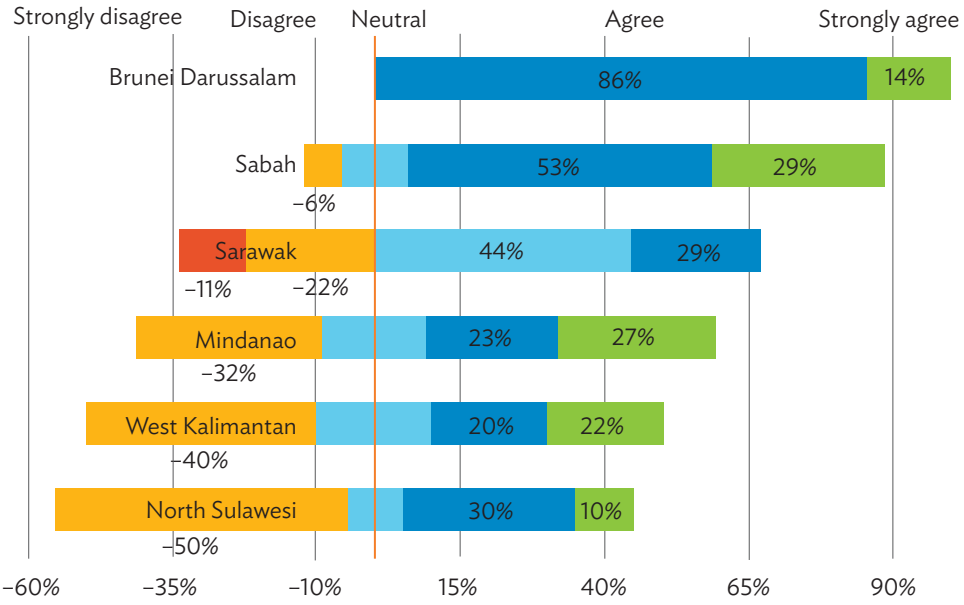
[15] Organisation for Economic Co-operation and Development (OECD, 2015), "Participation of Developing Countries in Global Value Chains." Paris, OECD Publishing. Available: www.oecd.org/countries/mali/Participation-Developing-Countries-GVCs-Summary-Paper-April-2015.pdf

Figure 5.2: Survey responses to "Do you agree that air freight costs are too high?"



Source: Survey conducted by Study Team.

Figure 5.3: Survey responses to "Do you agree that logistic services are too high?"



Source: Survey conducted by Study Team.

firms in contiguous areas can produce a significant competitive advantage for firms operating at different stages of cross-border production processes over those that operate across larger distances.[16]

Second, not all transportation costs are considered to be high. Company representatives generally agreed that air freight costs are reasonable and do not undermine their companies' competitiveness (Figure 5.2). This view was especially supported by respondents in North Sulawesi, Sarawak, and Brunei Darussalam. In contrast, all respondents expressed much higher concern about the cost of sea freight, especially those in Brunei Darussalam, Sarawak, and Mindanao (Figure 5.1). Logistics service costs were also considered to be high and to undermine competitiveness, particularly by business leaders interviewed in the West Borneo Economic Corridor member states of Brunei Darussalam, Sabah, and Sarawak (Figure 5.3).

[16] M. Lord (2015), "Regional Economic Integration in Central Asia and South Asia," MPRA Paper 66436, University Library of Munich, Germany. Available: https://ideas.repec.org/e/plo59.html#works

Macroeconomic Environment

6

A. General Profile

The BIMP-EAGA corridors contain a rich mix of states and provinces with distinct cultural and linguistic characteristics, though they share strong historical and cultural ties. Table 6.1 shows general information about the corridor states of Brunei Darussalam and Malaysia's Sabah and Sarawak; Indonesia's provinces of North Sulawesi and West Kalimantan; and the Philippines' island group of Mindanao.

The history of commerce along the two economic corridors reflects the history of their civilizations. Cross-border activities have always played a major role in the livelihoods of people and communities in the islands of Borneo and Mindanao and the Indonesian province of North Sulawesi. Long and porous political boundaries have facilitated movements of goods and people, especially when there have been economic disparities and price differentials.

Highlights

- For the most part, the BIMP-EAGA corridor states and provinces represent some of the lesser developed areas of the national economies to which they belong.
- Except for North Sulawesi, the per capita income differential in these states has widened with the corresponding country averages in recent years because of their lagging economic growth.
- The two major macroeconomic factors determining investment in geographic regions are the size of the economic areas and their overall price competitiveness.
- There are large differences in size among the corridor provinces and states. Mindanao is the largest geographic area, but it ranks near the bottom in terms of development. In contrast, Brunei Darussalam, which is the smallest state has the highest per capita income.

While informal trade is significant, it does not greatly impact cross-border investments at the level of corridor value chains. Exceptions nevertheless occur in agricultural and forestry trade between the Indonesian and Malaysian provinces in Borneo.[17] There is also considerable barter trade along the Sulu Archipelago, but that trade is limited to commerce in local communities, where the major products traded include sugar, washing detergent, chocolate, epoxy glue and sawn timber. Other bartered products are rattan, fresh fish, used clothing, cotton, and bed sheets. Despite the well-established network of informal trade, there have been recent proposals to ban that type trade in the Sabah east coast area in an effort to ameliorate security concerns. Already there are extensive efforts to conduct surveillance and promote information sharing between the Philippine and Malaysian authorities without impinging on territorial sensitivities.

Factor endowments and labor skills vary considerably along the corridor provinces and states. For that reason, the application of the growth area model is relevance in terms of differences in labor endowments and production technologies, and to some extent in natural resource endowments. However, rather than relying solely on differences in the comparative advantages member states or provinces, value chains can take advantage of complementarities associated with factor price differentials and technological disparities within the corridors.

[17] For details, see G. Baldacchino, ed. (2013), The Political Economy of Divided Islands: Unified Geographies, Multiple Polities. London: Palgrave Macmillan.

Table 6.1: Profile of BIMP-EAGA Corridor Members

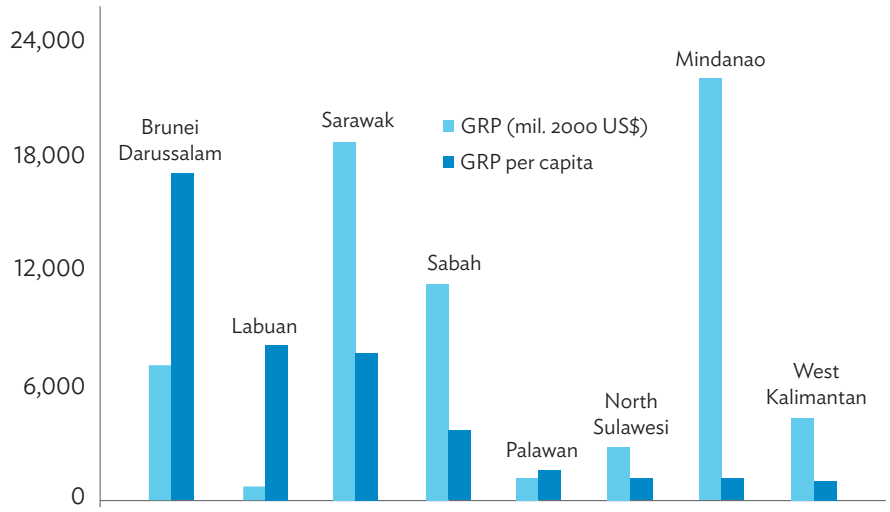
	Brunei Darussalam	Indonesia		Malaysia			Philippines	
		North Sulawesi	West Kalimantan	Labuan	Sabah	Sarawak	Mindanao	Palawan
Political Status	Fully sovereign state since 1984	Province of Indonesia (since 1956)	Province of Indonesia (since 1956)	Federal territory of Malaysia since 1990	State within Malaysia since 1963	State within Malaysia since 1963	Island group of 6 admistrative regions having 27 provinces	Province of Philippines
Capital City	Bandar Seri Begawan	Manado	Pontianak	Victoria	Kota Kinabalu	Kuching	[Largest city: Davao]	Puerto Princesa
Population (thousand)	417.8 (2013)	2,383 (2014)	4,546 (2014)	86.9 (2010)	3,117 (2010)	2,420 (2010)	21,968 (2010)	771 (2010)
Land Surface (sq km)	5,765	13,852	147,307	91.6	73,631	124,450	104,530	14,649.73
Population Density (persons/sq km)	67 (2013)	170 (2014)	31 (2014)	950 (2010)	42 (2010)	19 (2010)	243 (2010)	53 (2010)
% Population in Urban Areas	76.7 (2013)	37 (2010)	25.1 (2010)	76.8 (2000)	49.3 (2009)	49.9 (2009)	21.2 (2003)	25.5 (2000)
Life Expectancy (years)	78 (2012)	71 (2000)	71 (2010)	75 (2010)	77 (2013)	76 (2010)	70 (2010)	70 (2013)
% Annual Population Growth	1.4 (2010–2014)	1.3 (2000–2010)	0.9 (2000–2010)	0.9 (2010–2013)	2.3 (2010–2013)	2.0 (2010–2013)	2.14 (2010)	1.94 (2013)
Gross Regional Product (GRP, million US$)	16,126 (2013)	5,105 (2013)	8,121 (2013)	1,084 (2012)	20,608 (2013)	34,042 (2013)	39,947 (2013)	2,504 (2013)
Per Capita GRP (US$)	38,599 (2013)	2,189 (2013)	1,197 (2013)	12,474 (2013)	6,612 (2013)	14,067 (2013)	1,818 (2013)	3,248 (2013)
Total Employment (thousand)	200,000 (2010)	NA	NA	39,800 (2013)	1,583 (2013)	1,141 (2013)	NA	NA
Human Development Index	0.85 (30th)	0.765 (2nd)	0.697 (28th)	0.74 (57th)	0.64 (14th)	0.69 (11th)	0.347 (average of provinces)	0.642 (44th)
Percent Below Povertly Line	NA	7.6 (2012)	8.6 (2011)	19.2 (2010)		5.3 (2010)	37.6 (2006)	40.8 (2006)
Adult (15+) Literacy Rate (%)	95	98.85 (2011)	90.03 (2011)	92.1 (2010)	82 (2006)	79 (2006)	72 (2008)	87.5 (2010–2014)
Ethnic Groups	Malays (66%), Chinese (11%), Indigenous (3%), Other (20%)	Minahasan, Mongondow, Sangirese, Talaud, Gorontaloan, Bugis, Javanese	Dayak (36%), Malay (30%), Chinese (25%), Javanese (5%), Madurese (4%)	Brunei Malay and Kedayan, Kadazan-Dusun, Bajau, Murut, Chinese, Indian, Other ethnic	Kadazan-Dusun (18%), Murut (3%), Bajau (14%), Brunei Malay (6%), Other (21%)	Iban (29%), Chinese (24%), Malay (23%), Biduyuh (8%), Melanau (6%), Others (10%)	Bajao, Visayan, Subanon, Hiligaynon, Cebuano, Waray, Karay-a, Butuanon, Other	Batak, Palawenos, Palawano, Tau't Bato, Taybanwa
Languages Spoken	Malays, English, Tutong, Kedayan, Belait, Murut, Dusun, Bisaya	Tonsea, Tondano, Tombulu, Tontemboan, Bantik, Ratahan, Ponosakan	Indonesian, Chinese dialects, Dayak dialects, Malay	Malay, Chinese, English, Kadazan	Malay, Chinese, English, Kadazan	Malay, Chinese, English, Iban	Tagalog, Cebuano, Hiligaynon, Chavac ano, Maguindanao, Maranao, English	Tagalog, Cuyonon, Hiligaynon, Tausug, Batak, Tagbanwa, Palawano, English, Other
Currency (exchange rate, 1 Jan 2016)	1US$ = 1.39 Dollar Brunei	1US$ = 13.745 Rupiah		1US$ = 4.30 Ringgit			1US$ = 46.84 Peso	

Source: Various sources.

B. Output and Growth

The two major macroeconomic factors determining investment in geographic regions are the size of the economic areas and their overall price competitiveness. In terms of size, the territories in the corridors varies considerably (Figure 6.1). The Mindanao region has the largest economy, followed closely by Sarawak. However, in terms of level of development, Mindanao ranks near the bottom of the corridor member, whereas Brunei Darussalam and Labuan, which have much smaller size economies, rank at the top of the development scale for the corridor provinces and states.

Figure 6.1: Real Gross Regional Product of Corridor Members, 2014 (US$ million 2000 US dollars)



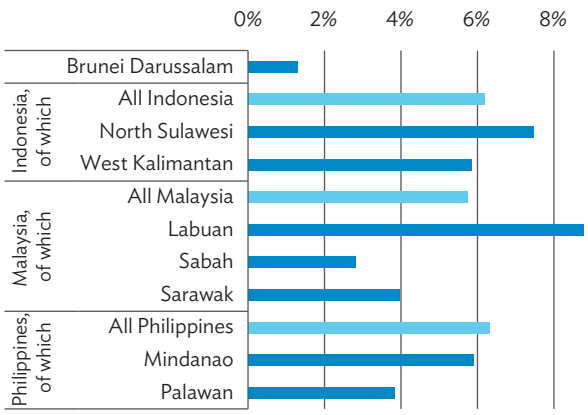
Note: Data presented in Statistical Appendix, Table A.1.
Source: Derives from data in "BIMP-EAGA at a Glance: A Statistical Information Brief."

In the West Borneo Corridor, Sabah's overall output is just over 60% of that of Sarawak, but nearly three times larger than that of West Kalimantan in the other end of the West Borneo Economic Corridor. However, Sarawak's per capita GRP is twice as high as that of Sabah and eight times larger than that of West Kalimantan.

In the Sulu-Sulawesi Economic Corridor, the Mindanao economy is almost twice as large as that of Sabah and eight times larger than North Sulawesi. The size of Palawan's economy is a small fraction of Mindanao's economy. However, its per capita GRP is 40% higher than that of Mindanao, and nearly one-fourth larger than that of North Sulawesi.

In general, the BIMP-EAGA states and provinces represent some of the lesser developed areas of the national economies to which they belong. With the exception of North Sulawesi, this differential has not narrowed in recent years since economic growth as measured by GRP has continued to lag in these areas relative to their corresponding national growth (Figure 6.2).

Figure 6.2: Average Annual Percent Growth of Real Gross Regional Product of Corridor Members, 2010–2014



Source: Derived from data in "BIMP-EAGA at a Glance: A Statistical Information Brief."

Exchange Rates and Price Competitiveness

7

A. Recent Exchange Rate Realignments

Recent large changes in major exchange rates have fundamentally altered the international competitiveness of many countries because of plummeting oil prices and quantitative easing (QE) in the United States (Figure 7.1). Economists are mixed about the underlying consequences of these movements. Some have argued that the major currencies became misaligned at the end of 2015, with the US dollar becoming moderately overvalued and the euro and yen somewhat undervalued. Others contend that the US dollar appreciation reflects fundamentals and, in particular, the strengthening of the US economy as well as the anticipation of higher interest rates.

Highlights

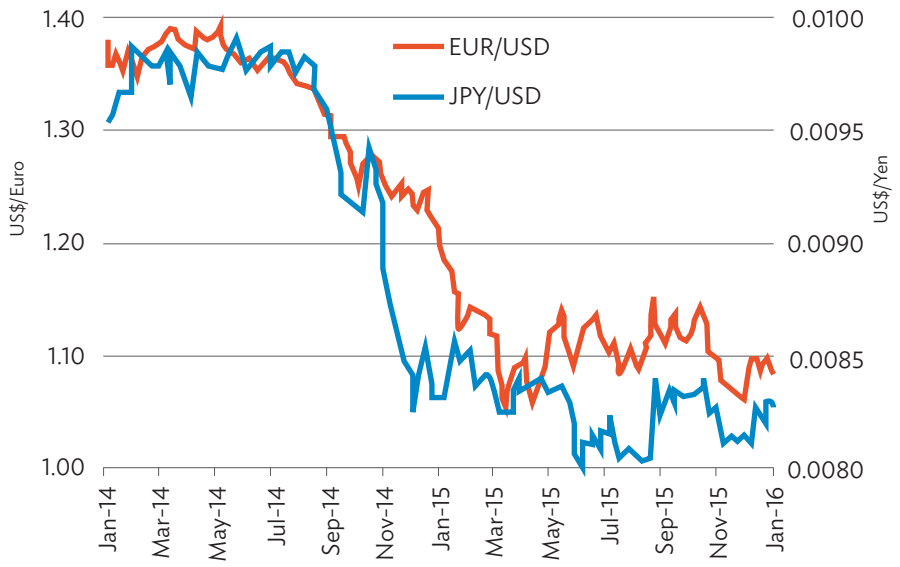
- Recent currency realignments have impacted not only the international competitiveness of BIMP-EAGA member countries, but also that of their bilateral trade with one another.
- In the survey conducted as part of this study, exchange rate movements are one of the often-cited concerns of company managers, especially in terms of their ability or wiliness to operate in corridor value chains.
- For those companies involved in cross-border trade and investment along the economic corridors, the viability of their operations depends on real bilateral exchange rates, which in turn depend on movements in general price levels in the country relative to those of their trading partners, and the cross or bilateral exchange rate between trading partners.

Whatever the interpretation of these currency movements, the consequences for BIMP-EAGA member countries are profound. According to the Bank for International Settlements (BIS), the appreciation of the US dollar could severely impact on the global economy and, in particular, developing and emerging countries by exposing the financial vulnerabilities of many firms having large US dollar-denominated liabilities. A continued depreciation of domestic currencies in those countries against the dollar could reduce the creditworthiness of domestic firms, potentially inducing a tightening of financial conditions in the host countries.

Figure 7.2 shows the extent of exchange rate movement in the BIMP-EAGA member countries in 2015. All currencies depreciated during that year. The Brunei dollar fell by 7% against the US dollar; the Indonesian rupiah fell by 11%, the Malaysian ringgit fell by 23%; and the Philippine peso fell by 5% against the US dollar.

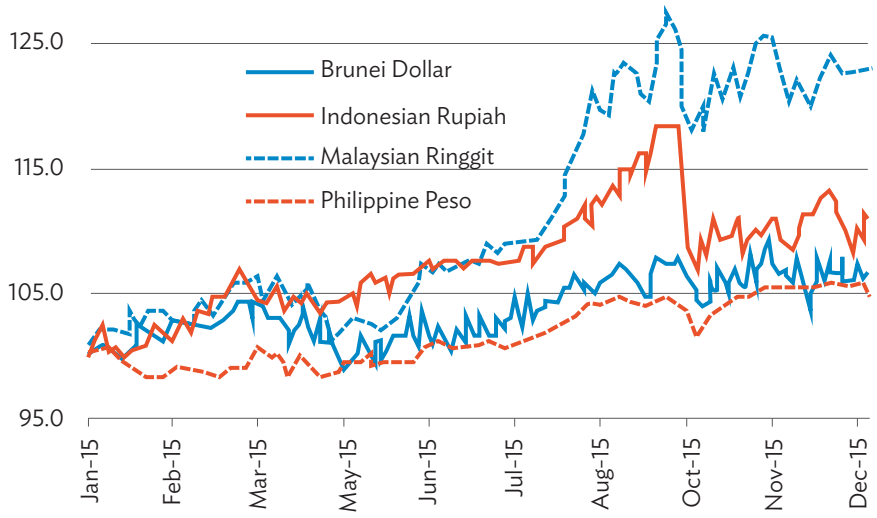
These differential movements in exchange rates means that the bilateral exchange rate, also known as cross-rates, changed considerably in 2015 (Figure 7.3). The value of the Malaysian ringgit fell (depreciated) against all other BIMP-EAGA currencies, especially against the Philippine peso and Brunei dollar; the value of the Philippine peso rose (appreciated) against all other subregional currencies; the value of the Indonesian rupiah fell (depreciated) against the Philippine peso and the Brunei dollar, but it rose against the Malaysian ringgit; and the value

Figure 7.1: Euro and Yen-US$ Exchange Rates, 2014-2015



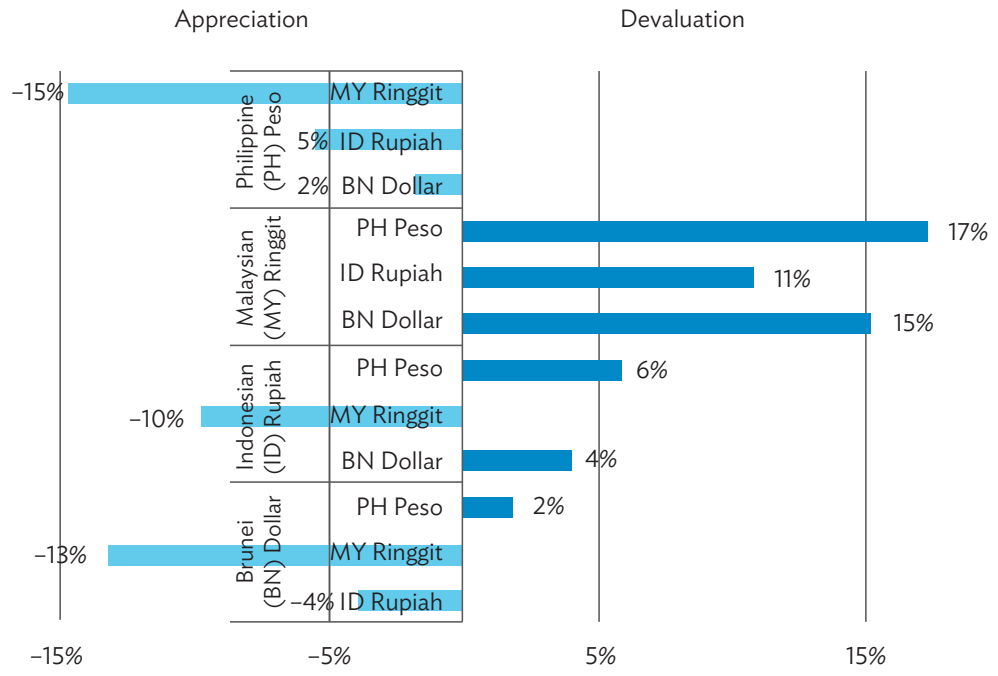
Source: International Monetary Fund, *International Financial Statistics database.*

Figure 7.2: BIMP-EAGA Exchange Rates, 2015
(Index 1 January 2015 = 100 of local currency per US dollar)



Source: International Monetary Fund, *International Financial Statistics database.*

Figure 7.3:. BIMP-EAGA Nominal Cross Exchange Rate Changes in 2015
(local currency/currency of trading partner)



Source: Derived from data in International Monetary Fund, *International Financial Statistics database.*

of the Brunei dollar fell (depreciated) against the Philippine peso, but it rose (appreciated) against the Indonesian rupiah and the Malaysian ringgit.

While these nominal exchange rate movements were important, they also reflected internal price changes, which together had major effects on the price competitiveness of companies along the BIMP-EAGA economic corridors. The next section examines those effects in detail.

B. Price Competitiveness

One of the major macroeconomic determinants of investment is international price competitiveness. In the survey conducted for this study, business leaders often referred to their price competitiveness as a critical factor affecting their ability to compete along the BIMP-EAGA economic corridors, as well as regionally and globally.

Price competitiveness is measured by the *real exchange rate*, which takes into account both general price movements in each country relative to that of each trading partners, and the *cross or bilateral exchange rate* between a country and each of its trading partners. When all trading partners are considered, then real bilateral exchange rates are weighted averages of the trading partners in each corresponding year and they measure the *real effective exchange*

rate. The *index of competitiveness* is constructed as the inverse of the real bilateral or effective exchange rate.[18]

The ability of exchange rates to reflect underlying competitiveness, however, depends on the degree of exchange rate management by monetary authorities. Among BIMP-EAGA member countries, Indonesia has maintained the most flexible exchange rate regime, followed by Brunei Darussalam. Both Malaysia and the Philippines manage their exchange rate regimes (Table 7.1).

Table 7.1: De Facto Classification of Exchange Rate Regimes, 2015

	Exchange Rate Arrangement			Exchange Rate Anchor and Monetary Policy Framework	
	Managed Other	Floating	Currency Board	Inflation Targeting Framework	Other Anchor
Brunei Darussalam			◆		◆ (currency board)
Indonesia		◆		◆	
Malaysia	◆				◆ (monitor various indicators)
Philippines	◆			◆	

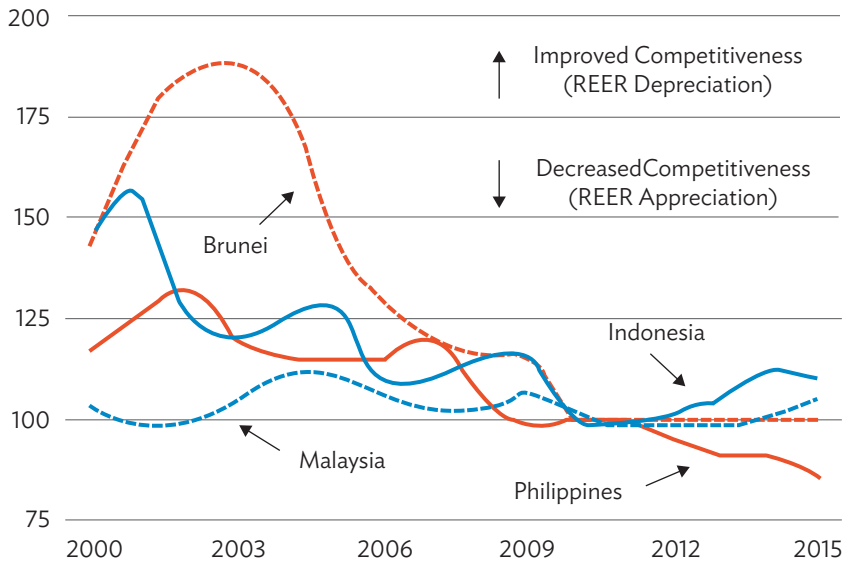
Source: Updated information from IMF (2015), Annual Report on Exchange Rate Arrangements and Exchange Restrictions. Washington, DC.

Since the early 2000s the BIMP-EAGA member countries have experienced an overall deterioration in their competitiveness because of the real effective exchange rate *appreciation* of their currencies (Figure 7.4). That means that exports to major trading partners like the European Union and the United States have increasingly been at a competitive disadvantage, while imports from those countries have grown less expensive in real terms. Since 2010 the Philippines has experienced the largest deterioration, averaging nearly –3% a year, followed by Indonesia (–2% a year). Malaysia's competitive decline has been somewhat more modest at –1.3% a

[18] The real exchange rate (RER) is the bilateral rate, which takes into account changes in relative price levels between a BIMP-EAGA member country and its trading partner. It measures changes in the purchasing power between the domestic and the foreign economy, and it provides an indicator of changes in the international competitiveness of the domestic economy in its ability to purchase more (or less) goods and services per unit of foreign currency. As an extension, the real effective exchange rate (REER) measures the average relative strength of the local currency, and it is calculated as the weighted average of RERs, where the weights are the value of imports from and exports to a given partner country *i* divided by total imports and total exports of the home country.

Formally the real effective exchange rate is defined as $e^r_t = \Sigma_i w_i [e^n_t (P^f_t / P_t)]$ where en is the nominal exchange rate, P^f is the foreign currency price of goods purchased abroad, and P is the domestic price level. A rise in *er* represents a real *devaluation* in a fixed exchange rate system, and a *depreciation* in a flexible exchange rate system, which can be brought about by either a rise in the nominal exchange rate e^n, or a rise in the relative price of foreign goods (equivalent to a relative fall in the price of domestic goods). Conversely, a fall in e^r represents a real *revaluation* under a fixed exchange rate system, and an *appreciation* under a flexible exchange rate system. The fall is associated with either a drop in the nominal exchange rate e^n or a fall in relative prices of foreign goods (equivalent to a rise in relative prices of domestic goods).

Figure 7.4: International Competitiveness BIMP-EAGA Member Countries, 2000-2015 (Indices, 2010=100)



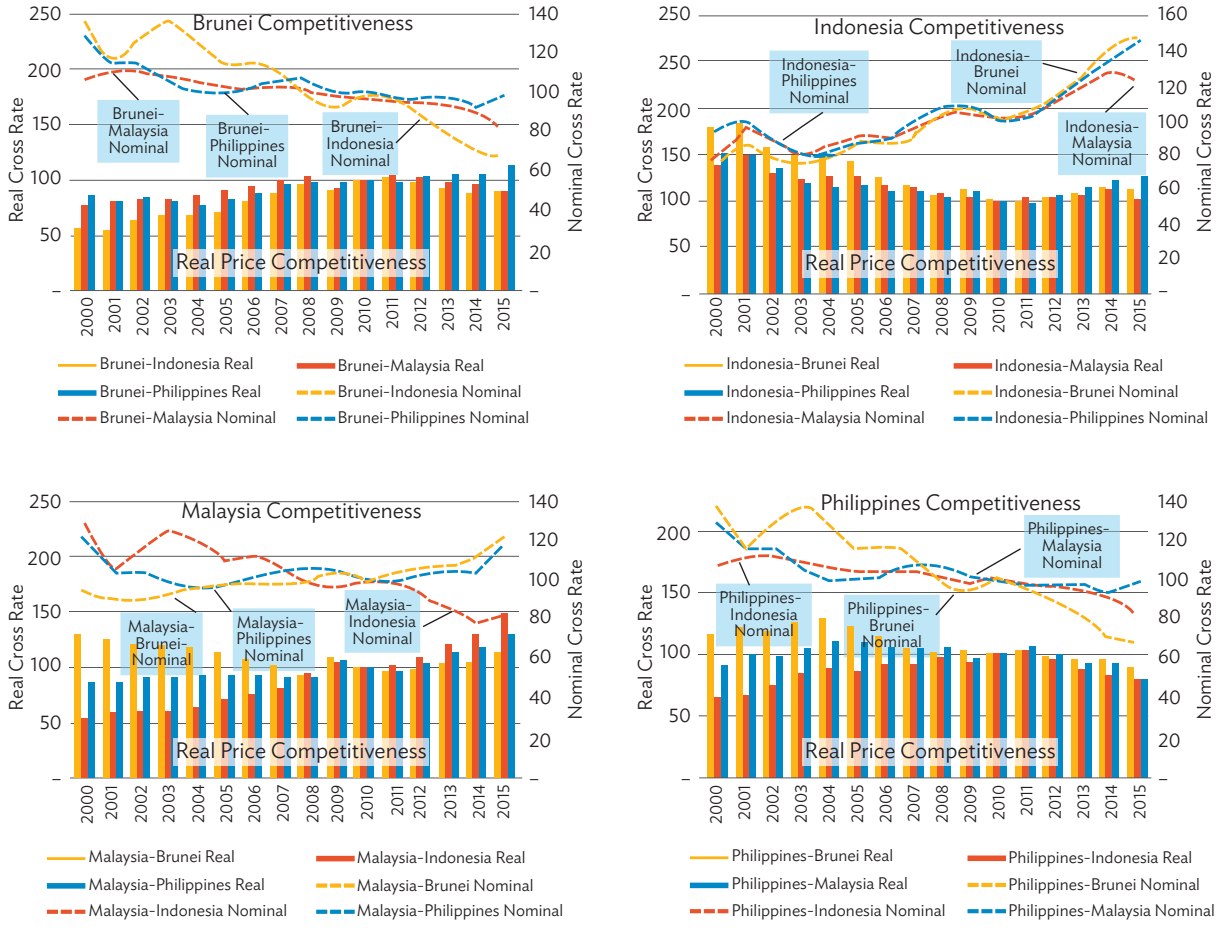
Source: Brugel, "Real effective exchange rates for 178 countries: A new database." Available: http://www.bruegel.org/datasets/real-effective-exchange-rates-for-178-countries-a-new-database/. Data for 2014-2015 for Malaysia and Philippines from IMF, International Financial Statistics database (2015 based on data from 1st three quarters of the year); for Brunei Darussalam and Indonesia, 2014-1015 data from Federal Reserve of St Louis, FRED economic database.

year, while Brunei Darussalam's competitiveness has remained nearly unchanged after a major deterioration in the previous decade.

From a subregional perspective, however, the BIMP-EAGA countries have altered their price competitive positions relative to neighboring countries. Figure 7.5 compares the nominal and real bilateral competitive positions of each BIMP-EAGA member country with subregional partner countries, measured as the inverse of real bilateral exchange rates. Both Brunei Darussalam and Malaysia have substantially improve their price competitiveness with their other subregional trading partners in the last decade, especially with respect to Indonesia. However, since 2011 Brunei Darussalam's price competitiveness with Indonesia has declined by over 10%. In contrast, Malaysia's price competitiveness with Indonesia has risen by nearly 50% since 2010. Indonesia, for its part, experienced a decline in its subregional competitiveness in the last decade, but has recovered some of those losses in 2012–2015.

In the Philippines, the overall price competitiveness, measured in real terms, has remained fairly unchanged over the long run, but there has been a substantial deterioration in the country's competitive position since 2012. These results demonstrate the importance of measuring

Figure 7.5: Bilateral Nominal versus Real Exchange Rates between BIMP-EAGA Member Countries

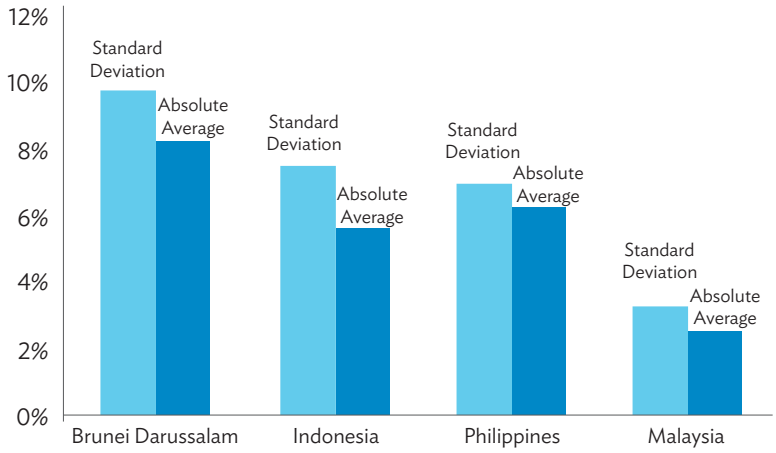


Source: Based on data in Statistical Appendix derived from International Monetary Fund, *International Financial Statistics database.*

real bilateral exchange rate and relative price movements within the subregion since those movements vary greatly from the overall international price competitiveness trends of the BIMP-EAGA member countries.

Moreover, the volatility of the subregional competitive positions of BIMP-EAGA member countries has been high, both in terms of overall movements with all trading partners and with trading partners within the BIMP-EAGA subregion (Figure 7.6). Year-to-year real exchange rate price changes have varied ±5.7% among the BIMP-EAGA member countries' trade with all trading partners, and it has varied ±5.4% among the BIMP-EAGA member countries' trade with one another.

Figure 7.6: Real Effective Exchange Rates Instability of BIMP-EAGA Member Countries



Source: Based on data in Statistical Appendix derived from International Monetary Fund, *International Financial Statistics database.*

8 Trading Environment

Highlights

- The three major concerns of company managers in the BIMP-EAGA economic corridors are tariffs, unofficial payments, and border-crossing regulations, represented by the time and cost of border compliance. These survey findings reflect those of the World Bank in their ratings of 'trading across borders' in their Doing Business reports.
- Trade costs constitute a wedge between the cost of production at the origin and the price paid by consumers in destination markets. Non-tariff trade costs now account for as much as 90% of all trade costs in East Asia. Tariffs, on average, account for no more than 10% of direct and indirect costs associated with factors other than transportation.
- A new UNESCAP-World Bank database on trade costs show that there are wide-ranging differences in bilateral trade costs between BIMP-EAGA member countries. Bilateral trade costs between Malaysia and Indonesia are on the low end of the spectrum, as are those between the Philippines and Malaysia. In contrast, there are high bilateral trade costs between Brunei Darussalam and the Philippines and between Brunei Darussalam and Indonesia.

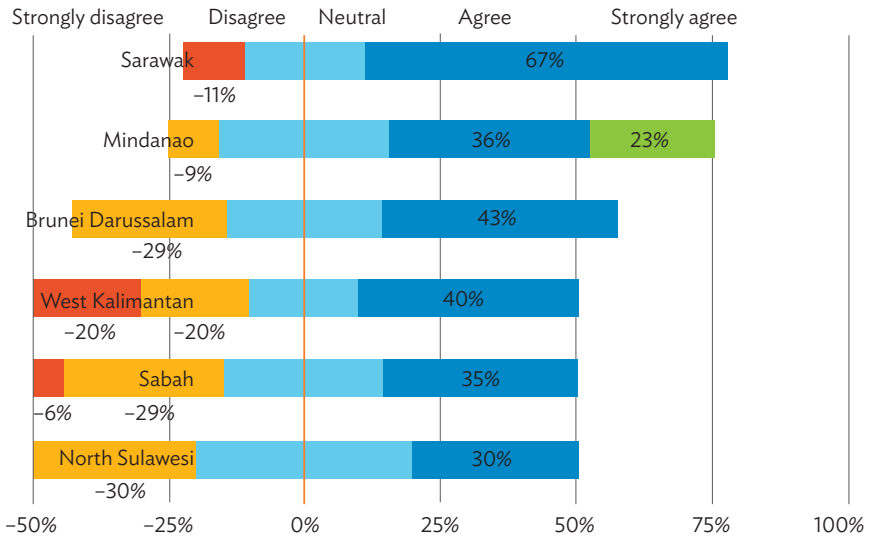
A. Business Perceptions about Trade Costs

Border costs consist of tariffs, regulations and unofficial payments. Beginning in 2010, trade in goods between BIMP-EAGA member countries has been governed by the ASEAN Trade in Goods Agreement (ATIGA). It represents an enhancement of, and more comprehensive legal instrument to, the Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA). In services, BIMP-EAGA member countries are governed by the ASEAN Framework Agreement on Services (AFAS), which aims to eliminate restrictions to trade in services and enhance cooperation in services within ASEAN. Finally, and equally importantly, the BIMP-EAGA member countries are signatories to the Framework Agreement on the ASEAN Investment Area (AIA), which encourages investors to adopt a regional investment strategy and network of operations by providing greater scope for division of labor and industrial activities across the region, thereby creating opportunities for greater industrial efficiency and cost competitiveness. These countries have also concluded free trade agreements with ASEAN's six dialogue partners, namely, Australia, the People's Republic of China, India, Japan, the Republic of Korea, and New Zealand.

With the reduction and elimination of the import duties, producers and manufacturers along the BIMP-EAGA economic corridors can afford to purchase raw materials at a cheaper price and better quality from ASEAN countries that the same materials originating from outside the region. As a result, their production costs is reduced by the difference between tariffs on products originating from non-ASEAN countries and those sourced from ASEAN countries.

The advantage of trading along the two economic corridors is important since, according to the survey conducted for this study, most company managers are concerned with the burden imposed by tariffs (Figure 8.1). In Mindanao, nearly one-fourth of managers strongly agreed that tariffs represent a burden on their companies, and another one-third agreed that they are a burden. Interestingly, the survey found that company managers in the Sarawak state of Malaysia had the highest concern among corridor member states and provinces about tariff costs, whereas those from the Sabah state of Malaysia ranked it second-to-last in their concerns about trade

Figure 8.1: Survey responses to "Do you agree that trade taxes and duties are too high?"



Source: Survey conducted by Study Team.

costs. One possible explanation is that the companies interviewed in Sarawak tend to trade more with non-ASEAN countries than those in Sabah, while another possible explanation is that the industries covered in Sarawak generally have a higher MFN tariff applied to their traded goods than those in Sabah. In other corridor provinces and states, about 40% of managers in Brunei Darussalam and West Kalimantan agreed that tariffs represented a burden on their companies, while only 30% of those in North Sulawesi agreed with the statement.

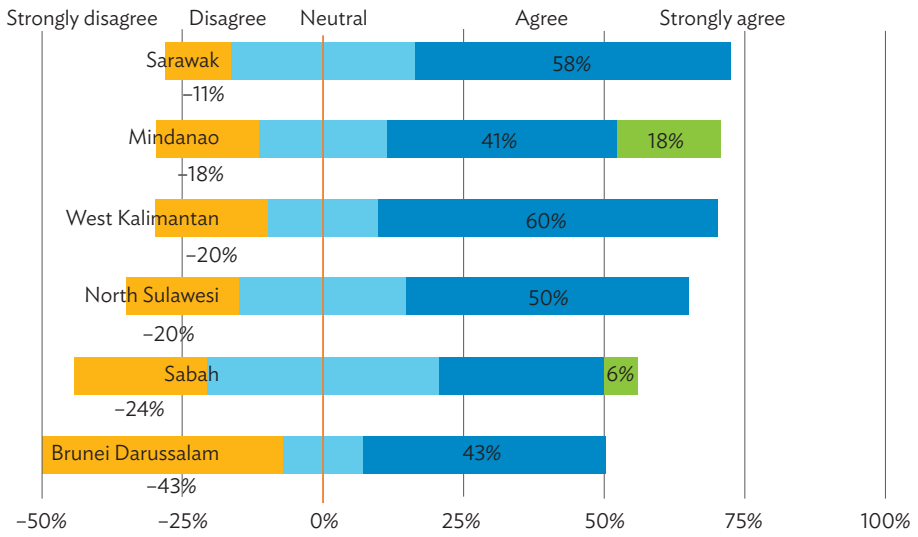
Unofficial payments at the border were reported to be a burden by 50%–60% of company managers in four of the six corridor provinces and states (Figure 8.2). In Mindanao especially, nearly one-fourth of the respondents strongly agreed with the burden imposed on their companies by those types of payments. In North Sulawesi and Sabah, 30%–35% of the managers reported that unofficial payments were a burden on their companies. The remaining managers either did not find them to be a burden (also 30%–35%) or were neutral in their views (30%–40%).

The third factor affecting border trade costs is the burden of border-crossing regulations, represented by the time and cost of border compliance. Those burdens refer to the time and cost for obtaining, preparing and submitting documents during port or border handling, customs clearance and inspection procedures. According to the World Bank's Doing Business database, out of 189 countries, the ranking for border-compliance cost of imports and exports in Malaysia is 49 (out of 189 countries); in Philippines, it is 95; in Indonesia, it is 105; and in Brunei Darussalam, it is 121.[19]

In Brunei Darussalam, the survey for WBEC conducted for this study confirms the World Bank's findings, since that state ranks the second highest in terms of the burden of border regulations

[19] World Bank (2016), "Doing Business." Washington, DC. Available: http://www.doingbusiness.org/

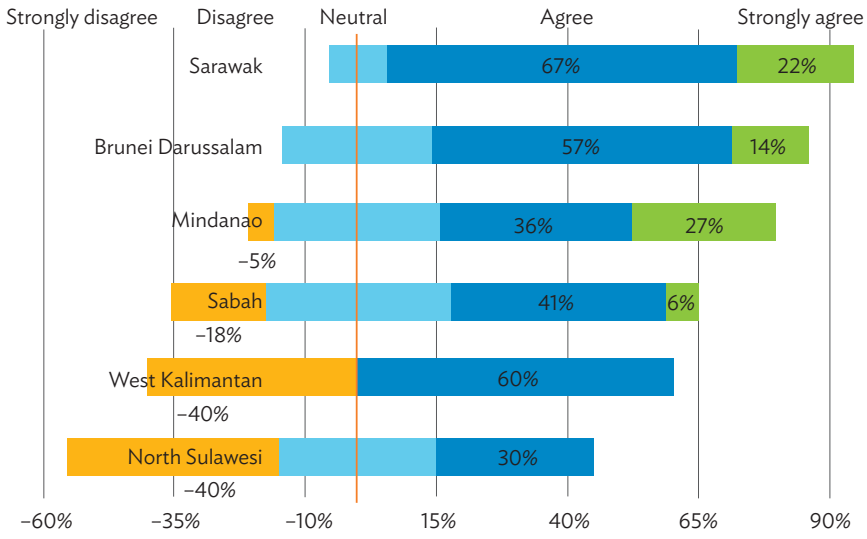
Figure 8.2: Responses to "Do you agree that fees and unofficial payments are too high?"



Source: Survey conducted by Study Team.

reported by company managers (Figure 8.3). In other corridor states and provinces, the experiences are mixed. Sabah's company managers generally reported a relatively low burden from customs regulations, which is in line with the World Bank's findings for Malaysia as a whole. But in Sarawak, company managers reported a high burden from border regulations.

Figure 8.3: Responses to "Do you agree that customs and trade regulations are too high?"



Source: Survey conducted by Study Team.

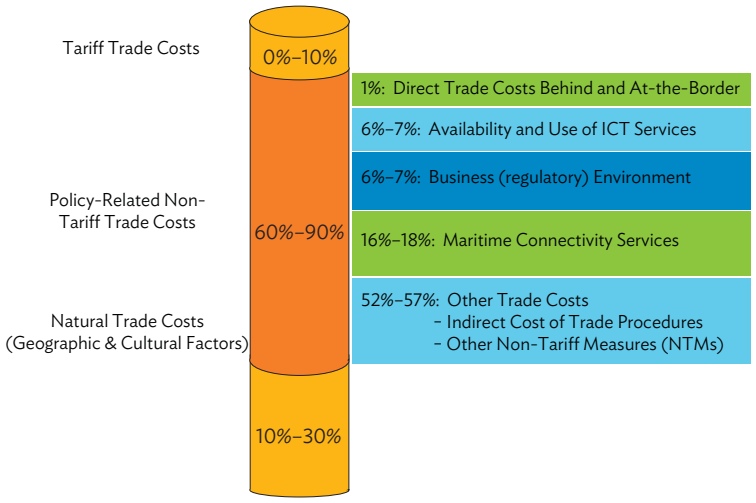
In Mindanao, the proportion of managers who agreed or strongly agreed that border regulations pose a burden on their company was relatively high, which is also in line with the World Bank ranking for the Philippines as a whole. In Indonesia, only the WBEC findings for West Kalimantan are in line with the relatively high burden of customs regulations for Indonesia as a whole. In contrast, a much smaller proportion of company managers in North Sulawesi reported that customs regulations were a burden to their company.

B. Measuring Trade Costs in BIMP-EAGA

While economic corridors offer competitive advantages in their international transport and logistics cost savings over trade and investment across non-contiguous geographical areas, the long-term decline in international shipping costs has helped to level the playing field and shifted attention to border and behind-the border trade costs.[20] Trade costs constitute a wedge between the cost of production at the origin and the price paid by consumers in destination markets. Trade costs can result from 'natural' sources (geographic distance, transport costs, and common features between trading partners such as language, common history, sharing a common border, and so on) or endogenous, policy-related characteristics (such as logistical performance, international connectivity, tariffs, and nontariff barriers).

Overall, non-tariff trade costs account for as much as 90% of trade costs in East Asia.[21] With rapidly falling shipping costs, what remains now are the large trade costs associated with indirect costs at-the-border and behind-the-border. These costs largely involve domestic, regional or international regulations and standards (Figure 8.4).[22] Tariffs, on average, account for no more

Figure 8.4: Trading Costs in East Asia



Source: World Bank (2014), "East Asia and Pacific Economic Update (April 2014)." Washington, DC. Available: http://www.worldbank.org/en/region/eap

[20] Global trade-weighted average transport costs have declined from 6% to 4% in the past 30 years.
[21] World Bank (2014), "East Asia and Pacific Economic Update (April 2014)." Washington, DC. Available: http://www.worldbank.org/en/region/eap
[22] Available at http://data.worldbank.org/data-catalog/trade-costs-dataset

than 10% of direct and indirect costs associated with factors other than transportation, whereas non-tariff measures (NTMs) can account for as much as 90% of those costs.

Those NTM costs, which include the costs of complying with a myriad of licenses, permits and certificates associated with moving goods across border, affect not only the competitiveness of businesses along the BIMP-EAGA corridors, but also the ability of small enterprises to understand the complexity of those measures and participate in value chains. Moreover, empirical evidence points to the fact that trade in intermediate goods for production networks is more sensitive to trade costs than in that of final goods.[23] Non-tariff measures can therefore have a greater negative effect on the development of value chains along the BIMP-EAGA corridors than on traditional trade in final products. And, since inter-industry trade has been growing at a much faster rate than trade in final goods, high trade costs could drive cross-border investment to lower growth domestic industries than those based on high growth corridor-based production networks.

1. Measuring Trade Costs

Measurement of trade costs of the BIMP-EAGA member countries is based on the joint UNESCAP-World Bank 'Bilateral Comprehensive Trade Costs' database.[24] It captures all costs involved in trading goods bilaterally relative to those involved in trading goods domestically. Those costs cover (a) international shipping and logistics costs; (b) tariff and non-tariff costs involving direct and indirect costs associated with trade procedures and regulations; and (c) costs from differences in language, culture and currencies. There is detailed information about bilateral trade costs between BIMP-EAGA member countries, both for the total of all trade costs and those that specifically make up non-tariff costs. Estimates for more recent years are based on available information of trade costs from various sources and extrapolations from recent years in which stable trends could be identified.[25]

Trade costs are the price equivalent of the reduction of international trade compared with the potential implied by domestic production and consumption in the origin and destination markets. Total costs are broken down into tariff and non-tariff related costs.

- *Bilateral comprehensive trade costs* are associated with both importing and exporting goods between a country *i* and its trading partner *j*. The total trade cost indicator is measured in its ad valorem equivalent form.
- *Bilateral tariff costs* are bi-directional and represent a geometric average of the tariffs imposed by the trading countries on imports from one another.
- *Bilateral non-tariff costs* are defined as the comprehensive trade costs that exclude tariff costs.

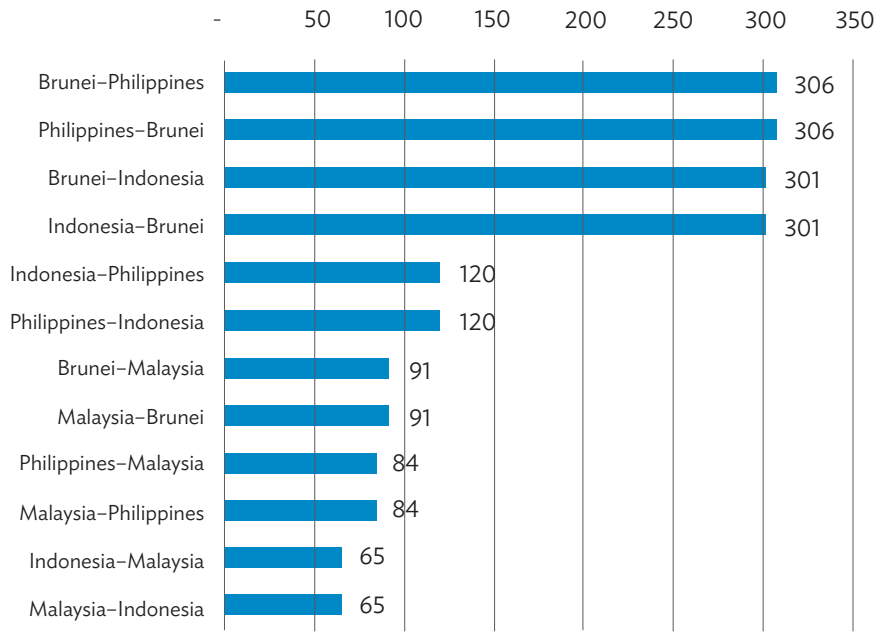
The ad valorem equivalents in Figure 8.5 show all additional costs other than tariff costs involved in trading goods bilaterally rather than domestically, based on data for 2010–2013. The average of the comprehensive trade costs excluding tariffs equals 161 ad valorem equivalent for

[23] D. Saslavsky and B. Shepherd (2012), "Facilitating International Production Networks: The Role of Trade Logistics." Washington, DC: World Bank, Policy Research Working Papers. No. 6224. Available: http://elibrary.worldbank.org/doi/book/10.1596/1813-9450-6224

[24] UNESCAP (2014), "ESCAP-World Bank Trade Cost Database." Online: http://artnet.unescap.org/trade-costs.asp

[25] Ibid. For more details, see J.-F. Arvis et al. (2013), "Trade Costs in the Developing World: 1995–2010," ARTNeT Working Papers, No. 121. Available: http://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-6309

Figure 8.5: Non-Tariff Trade Costs in BIMP-EAGA, 2010-2013 (% average)



Source: Derived from data in J.-F. Arvis et al. (2013), "Trade Costs in the Developing World: 1995-2010," ARTNeT Working Papers, No. 121. Available: http://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-6309

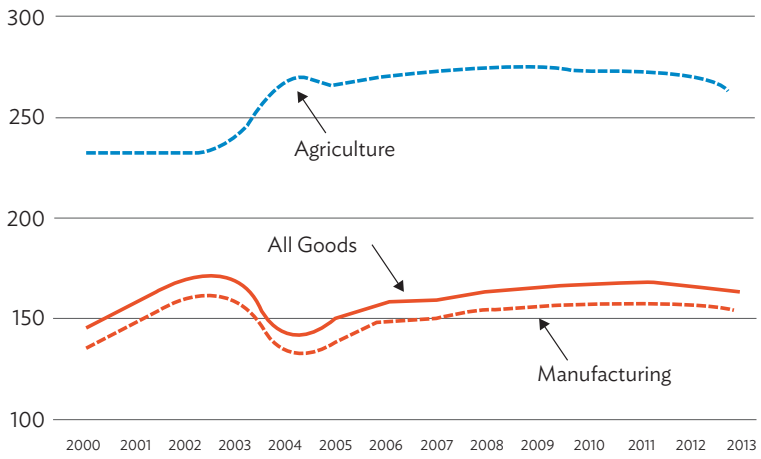
all bilateral trade flows, and the range is from a low of 65% ad valorem equivalent for Indonesia-Malaysia trade to over 300% ad valorem equivalent for trade between Brunei Darussalam and Indonesia and trade between Brunei Darussalam and the Philippines. Bilateral trade costs are repeated in the figure, for example, Brunei Darussalam trade costs with Malaysia and Malaysia trade costs with Brunei Darussalam, to emphasize that the coverage of costs applies to both countries. Thus, costs incurred by Brunei Darussalam in trading with Malaysia are symmetrical to those of Malaysia trade's with Brunei Darussalam.

2. Agricultural and Manufacturing Trade Costs

Trade costs of agricultural products are considerably higher than those of manufacturing products. Figure 8.6 shows the cost differences since 2000. On average, agricultural trade costs are 72% higher than those of manufacturing products. Yet trade costs of manufactured products have increased twice as fast as those of agricultural goods.

At the country level, all additional costs other than tariff costs involved in trading agricultural goods bilaterally rather than domestically range from 162% ad valorem equivalent in Malaysia to nearly 341% ad valorem equivalent in Brunei Darussalam. Those of the Philippines (251%) and Indonesia (260%) are near the mean for the subregion. In manufacturing trade, trade costs range from a low of 70% ad valorem equivalent in Malaysia to 223% in Brunei Darussalam. Those of Indonesia (153%) and the Philippines (161%) are near the median for the subregion.

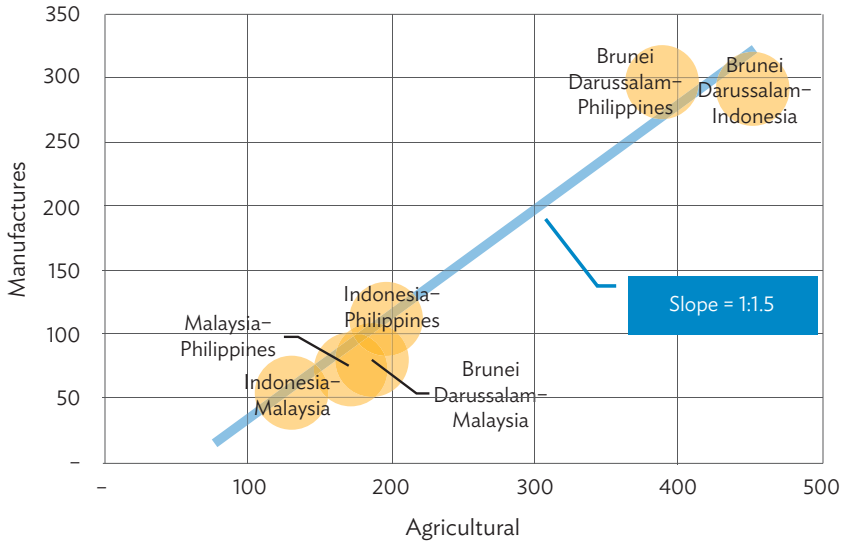
Figure 8.6: Non-Tariff Costs of Agricultural and Manufacturing Trade of BIMP-EAGA Member Countries



Source: Derived from data in Statistical Appendix.

Bilateral trade cost differentials between agricultural and manufacturing products are fairly consistent. Figure 8.7 shows the relationship between bilateral trade costs of the two types of products. A 1:1.5 slope suggests that agricultural products are likely to be 50% more costly to trade than manufactures between trading partners.

Figure 8.7: Bilateral Non-Tariff Costs of Agricultural and Manufacturing Trade, 2010-2013 (averages)



Source: Derived from data in Statistical Appendix.

PART III

Attracting Corridor Investment

Imperatives for Attracting Corridor Investments

9

A. Synthesis of Key Opportunities

Opportunities abound for cross-border investments in the BIMP-EAGA economic corridors, and corridor value chains provide the largest and most widespread benefits from those types of investments. For investors to be attracted to these opportunities, however, there needs to exist a favorable investment climate. In a separate report, we identified specific sectors and industries were BIMP-EAGA provinces and states have a comparative advantage in the establishment of corridor value chains.[26] In this report we have examined the major investment climate areas that determine investors' ability to implement those corridor value chains. Those areas have been rated in terms of their importance, based on a survey of 70 local businesses along the two economic corridors. The following is a synthesis of the findings:

- In the *regulatory environment*, the two economic corridors benefit from favorable rating of the investment laws, rules and regulations applied by such countries like Malaysia, and ratings improvements in Brunei Darussalam, Indonesia, and the Philippines. They also benefit from regional regulatory agreements that have facilitated and promoted cross-border investments, including the ASEAN Comprehensive Investment Agreement (ACIA), the ASEAN Trade in Goods Agreement (ATIGA), ASEAN Framework Agreement on Services (AFAS), and ASEAN Agreement on Movement of Natural Persons (AAMNP). However, bureaucratic and administrative obstacles to doing business remain a burden to investment in a number of corridor provinces and states. Regulatory ratings associated with doing business in Brunei Darussalam and Indonesia are low, and the Philippines' low rating has recently been downgraded further. In many cases, improvements in the regulatory environment simply require tackling the time and cost that businesses need to spend in dealing with those regulations.
- In *connectivity*, there have been large improvements in transport infrastructure in support of the broader ASEAN Economic Community connectivity. Transport and logistics costs rank among the top factors affecting the competitiveness of companies in the two economic corridors, according to our survey. In particular, companies perceive logistics costs followed by sea freight costs as the major impediments to improved connectivity across borders, although proximity to neighboring countries along BIMP-EAGA's economic corridors helps to mitigate those costs. Also, Sabah's recent ban on trade with Mindanao has given rise to uncertainty about trade and investment in the Greater Sulu-Sulawesi Economic Corridor. While the ban refers to barter trade, the continued existence of terrorist and insurgent groups based in the Sulu Archipelago has

[26] Asian Development Bank (2016), "BIMP-EAGA Investment Opportunities in Corridor Value Chains." Manila.

repercussions on all trade. Without a resolution to this problem, investments are unlikely to grow and cross-border business activity will languish.

- In the *cost of doing business across borders*, trade costs remain high in all BIMP-EAGA member countries because of indirect costs at-the-border and behind-the-border, notwithstanding ATIGA's and the WTO's effectiveness in lowering tariffs. These costs largely involve domestic, regional or international regulations and standards. They include the costs of complying with a myriad of licenses, permits and certificates associated with moving goods across border, and affect not only the competitiveness of businesses along the BIMP-EAGA corridors, but also the ability of small enterprises to understand the complexity of those measures and participate in value chains.
- In *price competitiveness*, local businesses are concerned that their expansion of operations to cross-border activities would face stiff competition from companies that are at similar production stages. However, SMEs generally recognize that their lack of economies of scale prevents them from effectively competing in the markets for their products, and that participation in corridor value chains would help them to achieve much-needed scale economies. Of much greater concern to businesses are the large and, in some cases, unfavorable relative price changes brought about by bilateral or cross exchange rate movements.
- In terms of i*nformation,* companies along the two economic corridors expressed concern about their lack of knowledge about laws and regulations governing business practices in neighboring provinces or states and the types of product designs and preferences by consumers. Also, companies noted their lack of knowledge about the types of downstream and upstream activities that exist in other corridor provinces and states. Implementation of a few well-designed high profile corridor value chains could serve to demonstrate the way forward for businesses to participate in those production systems.

B. Implementation Imperatives

With a favorable corridor-wide investment climate, BIMP-EAGA is capable of attracting cross-border value chains as a means of bringing high-value industries to its economic corridors. These types of cross-border investments are part of the worldwide proliferation of production fragmentation across borders, driven by falling connectivity costs and the dismantling of trade barriers. As such, corridor value chains are a means by which new forms of production, technologies, logistics, labor processes, infrastructure, and organizational relations and networks can help transform WBEC and GSSEC into full-fledged economic corridors. In the context of economic corridors, cross-border production sharing has advantages over global value chains because they offer proximity to factor inputs and markets and, for the BIMP-EAGA corridor provinces and states, they build on established relations from social, cultural and historical ties in the area.

One of the major challenges to attracting investment in the two corridors is finding ways to bring new investors into the area. Most multinationals prefer to operate in geographic areas in which they are familiar and have facilities. Multinationals already operating in key industries within the BIMP-EAGA member countries should be the first line of investors in the two economic corridors. Creating a second line of investors from new sources will take considerable efforts on the part of the public and private sectors.

How then can BIMP-EAGA attract investment into its economic corridors and, in particular, help promote investment in high-value activities of cross-border production chains?

There are five implementation and operational imperatives to moving the process forward:

1. *Commit to Implementation.* Implementation of an enabling environment for cross-border investments in BIMP-EAGA's economic corridors has languished, in large part because the subregional institutional mechanism is built on consultation meetings between government representatives in which project and program operations depend on national implementers to deliver results. Yet the creation of an enabling environment for cross-border investments depends on corridor-wide operations that are grounded on an institutional framework with day-to-day operational management authority to implement cross-border programs and projects. BIMP-EAGA's Trade and Investment Facilitation (TIF) Cluster has proven its ability to mobilize resources that could link investments across borders, and that capacity could be used to establish the necessary institutional mechanism to create an enabling environment for cross-border value chains along the two economic corridors.
2. *Mobilize Champions.* Individual or institutional champions should be the drivers behind efforts to promote cross-border collaboration, networking, training, and R&D collaboration by companies. These individuals or institutions can help to operationalize corridor value chains that give local companies opportunities to (a) link their activities to upstream operations in neighboring states having an abundance of raw materials and a relatively large production base in processing of agricultural, fish, wood, and mineral products; (b) brand their products to better differentiate them in premium markets; and (c) expand marketing visibility in regional and global market.
3. *Demonstrate Success.* High-profile pilot projects offer demonstrable evidence to potential investors about corridor value chains. Pilot projects can be gleaned from provincial and state plans to promote certain sectors or industries, but they must eventually be private sector driven. Champions can motivate companies to form part of specific industry-based value chains, based on successful companies that are in the takeoff stage of business growth.[27] These companies are likely to be in traditional subsectors like agro-foods, which are often concentrated in low-tech industries. Nonetheless, there are ample opportunities to turn these enterprises into high-tech companies, incorporating value additions and producing goods for premium markets. High-tech hubs are already emerging in some of the corridor provinces and states, and cross-border networking can help spread their coverage across the corridors.
4. *Promote Clustering.* Clustering methods for industry development offer well-established mechanisms to ensure sustainability through individual and institutional program champions, and these proven methods can be readily adopted to a BIMP-EAGA corridor investment action plan. Their key elements consist of well-defined action projects and programs, the identification of individual and institutional champions, and monitoring progress (i) in specific industries, (ii) support areas such as the regulatory environment

[27] N.C. Churchill and V.L. Lewis (1983), "The Five Stages of Small Business Growth." Harvard Business Review. Available: https://hbr.org/1983/05/the-five-stages-of-small-business-growth

or business development centers, and (iii) focal geographic areas along the corridors. Together these elements can help to ensure the achievement of full-fledged economic corridors in BIMP-EAGA.

5. *Build Connectivity.* The BIMP-EAGA member countries are creating a long-term positive investment environment based on international best practices, subregion and international integration of the investment regulatory framework, investment policy coherence, and investment policy transparency. In transport infrastructure, projects are underway to upgrade roads in Kalimantan to Sarawak, reinforcing connectivity in the West Borneo Economic Corridor, while road projects in Mindanao are supporting connectivity in the Greater Sulu-Sulawesi Corridor. In North Sulawesi, connectivity with Mindanao is expected to greatly improve with completion of the Manado-Bitung road link and Bitung's port expansion. In cross-border trade, favorable regimes exist for cross-border commercial activity under the ASEAN CEPT-AFTA, especially for the cost of trading across borders of Brunei Darussalam and the Malaysian states of Sabah and Sarawak. In the area of logistics, Malaysia has already signed the new WTO Trade Facilitation Agreement (TFA) and Brunei Darussalam has issued instruments of acceptance. Near to medium-term cross-border investment strategies should build on transport infrastructure projects that are underway in both the West Borneo Economic Corridor and Greater Sulu-Sulawesi Corridor, as well as trade and transport facilitation changes likely to emerge from the ASEAN framework agreements and the new WTO Trade Facilitation Agreement.

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