Appendix 2.3: Broader Development Challenges Faced by the BIMP-EAGA Sub-Regional Initiative

BIMP-EAGA continues to be confronted with major challenges, most of which have been there since its inception in 1994. Some of the more pressing challenges are:

i) *Continued dependence on primary resource-based economic activities with the manufacturing sector contributing less than 20% of the regional gross domestic product.* EAGA, hence, has maintained its position as mere supplier of raw materials. A key objective of the economic cooperation is to increase the processing of natural resource products within the sub-region – that is, increase the value added that in turn will increase employment opportunities within the sub-region. Efforts to establish production networks and/or value chains in selected commodities have started since 2006, but progress has been slow mainly because of other factors such as the lack of efficient intra-EAGA transport services that allow for better movement of goods across borders. Moreover, there is little intra-sub-regional investment flow in agro-industry, which is the focus of attention of the sub-region.

ii) *Weak private sector with equally weak capacity to capitalise on opportunities*. Small and medium-sized enterprises (SMEs) dominate the business sector in BIMP-EAGA and impediments to the growth of SMEs in EAGA are plentiful. These include rising costs of production and inputs, inadequate framework of policy and programme support, and competition from foreign imports. Moreover, SMEs often lack access to credit and finance for working capital and investment, appropriate technology, markets, and market information. The private sector has been designated as the sub-region's engine of growth, but this engine is not sufficiently well-oiled to spur investments and growth. There is need for increased emphasis on SME development if growth in the sub-region is to be private sector-led.

iii) *High incidence of poverty in the sub-region*. There does not seem to be a clearly defined overall strategy for poverty reduction to complement and/or supplement the national poverty reduction strategies. Sustained high economic growth will be needed in order for BIMP-EAGA to reduce poverty and narrow the development gaps. But policies for sustained strong growth will have to be complemented by targeted interventions and will require increased investments in basic infrastructure as well as in healthcare and education. To facilitate progress in reducing intra-regional and inter-regional inequalities, consideration would have to be given to extending the national MDG targets to the BIMP-EAGA focal areas. New initiatives such as the community-based ecotourism development programme are a step in the right direction. Similar programmes with a pro-poor slant should be identified and implemented in the sub-region.

iv) *Lack of vital infrastructure*. There is agreement that inadequate infrastructure particularly in the Indonesia and Philippines components of EAGA, is a major bottleneck to private sector investments. When BIMP-EAGA was created, there was some basis for believing that development of the sub-region could be accelerated through close attention to policy coordination across national boundaries, emphasis on further development of infrastructure, and vigorous promotion of substantial private investment in the sub-region. Public sector investment in infrastructure development in BIMP-EAGA is currently being assessed, although it is widely accepted that for most parts of the sub-region, infrastructure investment has seriously lagged behind other parts of the respective member countries, particularly after the 1997 financial crisis. Given the widely dispersed population and centres of production, infrastructure, transport and logistics development are vital to the marketing and distribution of production inputs and outputs. It is recognised that BIMP-EAGA could not expect to receive significantly larger public sector resources for its development. For development to happen, conditions have to be created to encourage increased private sector investments in infrastructure development.