

SHADOW ECONOMY: EFFICIENCY AND RESILIENCY OF INFORMAL TRADING INDUSTRY OF NON-CONVENTION SIZE SHIPS (NCSS) IN TAWI-TAWI PROVINCE

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ABSTRACT

This study aims to investigate the efficiency and resiliency of the informal economy of trading industry of non-convention size ships (NCSS) in Tawi-Tawi Province. A Social Benefit-Cost Analysis was undertaken to quantify the benefits and costs associated with the transactions of the market players of the industry which include vessel owners, traders, Bureau of Customs, Maritime, LGUs, Consumers and shadow authorities governing the informal trading of goods in the province in particular; and estimate the shadow economic contribution to ARMM economy in general. Findings revealed that NCSS informal trading are equally beneficial in terms of private and social profitability of industry players and consumers. This explains the shape of resiliency in the industry structure, conduct and performance of the NCSS informal trading. The study further demonstrated that the shadow economic activity of NCSS industry is socially and economically beneficial in maintaining the balance of peace and resiliency of the population in the area; and the shadow industry contributed informally in the aggregate economic performance of the province.

Keywords: Social efficiency, benefit cost analysis, market efficiency

1 INTRODUCTION

1.1 Background of the Study

In 2007, BIMP-EAGA Transport Ministers signed the Memorandum of Understanding (MOU) on Establishing and Promoting Efficient and Integrated Sea Linkages; among its important provisions is the conduct of exchange information on principles, policies and best practices in governing Non-Convention Size Ships (NCSS) with the view to develop and formalize a mechanism that will enable mutual recognition and monitoring of the safety standards, security requirements, environmental protection and ship manning.

By definition, NCSS are ships not covered by international conventions such as those of the International Maritime Organization (IMO). These include all cargo vessels below 500 gross tons, wooden vessels (including but not limited to *kumpits*, *bancas* and *jongkongs*) engaged in short international (intra-EAGA) voyage.

In Philippine setting, majority of these ships are wooden-hulled, with/without outriggers. These types of vessels traditionally operate in barter trading from Southern Philippines (Mindanao and Palawan) going to neighboring areas in Malaysia and Indonesia. There are also steel-hulled vessels that fall under this category.

In view of the proximities of the EAGA, the Philippines is keen towards adopting existing national maritime laws as an alternative to IMO Conventions and Codes. However, there is a need to harmonize these national rules and regulations among the BIMP-EAGA countries. Under such situation, there would be considerable benefit to have mutually

agreed rules/standards for maritime safety and marine pollution prevention for EAGA NCSS operation. Aside from fostering freer movement in terms of trade and enhanced safety, it will also be in response to the IMO advocacy to promote maritime safety of, and marine pollution prevention from ships not governed by its conventions and codes.

In the BIMP-EAGA level, it has been recognized that a significant portion of intra-EAGA trade is informal trade, otherwise popularly known as 'barter trade', carried out by native traders using NCSS, and therefore, the formalization of intra-EAGA NCSS movement is crucial for facilitating trade and promoting sustainable development of NCSS operation in the sub-region. Further, this will promote safe, secure and environmentally sustainable intra-EAGA NCSS operation.

Based on studies, the Philippine government is losing an estimated revenue of Php 89 billion to Php 130 billion a year from illicit commerce (Maceda 2010). This is due to informal economic activities, for example, smuggling of rice comprises a major part of the underground trade in Mindanao, comprising an estimated 15 to 21 percent of the country's total rice imports (Cosico 2011). In effect, fuel prices in the streets are lower by a third of their price in the local market. The scope and complexity of smuggling as a development concern, its political sensitivity, and the unrecorded transactions contributed largely to worsening poverty situation, and political and conflict dynamics in Mindanao. Thus, this study was conducted to further ramify the NCSS social and economic benefits in Tawi-Tawi Province.

1.2 Research Objectives

Generally, this study aimed to evaluate the social benefit and cost of the shadow economy of NCSS industry in Tawi-Tawi Province. Specifically, it sought to achieve the following:

1. Describe the NCSS trading practices;
2. Evaluate efficiency of NCSS industry players, as to:
 - a. Private Efficiency;
 - b. Economic Efficiency; and
 - c. Sensitivity.
3. Assess the distributional benefits of NCSS, as to:
 - a. Government Revenues; and
 - b. Consumer Savings.
4. Determine the benefits of regulating the NCSS industry in ARMM context, as to:
 - a. Economic;
 - b. Social;
 - c. Safety; and
 - d. Environmental Benefits.

1.3 Scope and Limitation

Due to the limited data on NCSS industry in Tawi-Tawi province and ARMM region, the study primarily relied on the result of the field survey conducted in the selected ports of the province. Secondary data were collected from Mindanao Development Authority (MinDA) and websites of the Philippines Ports. Based on the available data, this study employed a five-year financial forecasting and simulation in estimating the benefits and costs of NCSS from different point views, such as Bureau of Customs, Local Government, NCSS owners and traders, and consumers/end users of imported goods. Similar experience encountered by NCSS researchers; "data collected from little data and statistics are available on NCSS trade in the sub-region, except in the case of Malaysia. Indeed, there appears to be almost no data available on the number of NCSS engaged in intra-EAGA trade"¹

¹ JN Mak, "GTZ Project on Drawing up Guidelines for Non-Convention Sized Ships (NCSS) in the BIMP-EAGA Region" pp 26

2 REVIEW OF LITERATURE AND ANALYTICAL FRAMEWORK

2.1 History of NCSS Trade

Trading between Tawi-Tawi and Sabah was described as originating from time immemorial². This stretches back to the 15th century. It boomed suddenly at the end of the 18th century, with the enhanced commodity flows among China, Southeast Asia and the West³. Traditional barter routes from Bongao, Sitangkai, and Cagayan de Tawi-Tawi to Sandakan, Tawau, Lahad Datu and Sempornah are the same routes that present-day migrants use to travel from Tawi-Tawi to Sabah. As in the old days, these trips are on board vessels variously referred to as *kumpit*, *lantsa*, *Fuso* (actually the name of the engine), *timpil* or *temper*. Unlike the old days, however, these vessels are now powered by machines⁴. The bulk of the NCSS fleet in BIMP-EAGA is based in the Philippines. The largest fleet appears to be based in the ARMM. Hundreds of these wooden-hulled *kumpits* are spread out among the islands of the Sulu Archipelago in southwestern Mindanao, from Zamboanga to Tawi-Tawi to Bongao⁵. Along with very old history of NCSS trading are the aged issues confronting the industry. ⁶The flourishing trade encouraged an increase in piratical activities in the Sulu Sea, and the Sulu Zone became notorious for the predations of slave-taking pirates. ⁷The fear of NCSS as a means of transporting terrorists is exacerbated by the ongoing armed conflict in the ARMM. Consequently, Filipino maritime authorities appear to view *kumpit* crews as smugglers at the very least and all their activities are technically illegal. The reason put forward for this state of affairs is that Filipino NCSS simply do not meet the safety standards required by MARINA for cross-border voyages. Hence, MARINA cannot license them to cross maritime borders. ⁸Barter traders, in turn, accuse Filipino maritime enforcement agencies of exacting unofficial taxes, known euphemistically as "local arrangements," to allow the *kumpits* to carry on sailing to their port of destination. Between four and six agencies may exact their unofficial taxes from each boat, with Php 9,000 being the apparent minimum asked by each agency, sharply driving up trade costs. Not only are the Filipino enforcement agencies regarded as "pirates," but Filipino barter traders allege that Malaysian authorities are also involved in "local arrangements" to facilitate the checking and entry of *kumpits* into Malaysian waters.

In spite of the issues, some have highlighted the positive contribution of NCSS. ⁹Informal trade often provides livelihood for people without skills to participate in formal markets, and the development of these structured institutions—for example, through investments in container shipping and increasingly stringent internationally recognized reporting requirements for travel and cargo transport—is shrinking the scope for many people to earn a living. In Tawi-Tawi, ¹⁰the province's master plan recognizes that Sabah is an important source of commodities through "backdoor trading" (*First Tawi-Tawi Comprehensive Development Plan 1999-2008*, p. 41). According to a trader-informant, some 90 per cent of the consumer goods in Tawi-Tawi come from Sabah, without which, goods in the province would be more expensive.

² Scalabrini Migration Center, 2000. Assessing Population Movement and HIV Vulnerability: BIMP-EAGA. United Nations Development Programme, pp 25.

³ Mak Joon Num, *Undated*. User Conflicts and Maritime Nontraditional Security in Malaysian Waters. 24

⁴ Scalabrini Migration Center, 2000. Assessing Population Movement and HIV Vulnerability: BIMP-EAGA. United Nations Development Programme, pp 25

⁵ JN Mak, 2010. GTZ Project on Drawing up Guidelines for Non-Convention Sized Ships (NCSS) in the BIMP-EAGA Region. pp 18

⁶ Mak Joon Num, *Undated*. User Conflicts and Maritime Nontraditional Security in Malaysian Waters. Pp24

⁷ JN Mak, 2010. GTZ Project on Drawing up Guidelines for Non-Convention Sized Ships (NCSS) in the BIMP-EAGA Region. pp 29

⁸ Mak Joon Num, *Undated*. User Conflicts and Maritime Nontraditional Security in Malaysian Waters. Pp26

⁹ Green, DJ., 2010. Mapping Trade Patterns and Encouraging Business Cluster Development in the Brunei Darussalam-Indonesia-Malaysia- Philippines—East ASEAN Growth Area. Asian Institute of Management Consultant Asian Development Bank. pp 11.

¹⁰ Scalabrini Migration Center, 2000. Assessing Population Movement and HIV Vulnerability: BIMP-EAGA. United Nations Development Programme, pp 25

2.2 Theory Base

This study is anchored on the following theories:

- a. The existence of this 'second economy' as described by MacGaffey (1991, p. 12)
- b. Technical smuggling is accomplished either through undervaluation, under declaration or misclassification of goods to evade or minimize full payment of levies (Alano 1984, pp. 159-160).
- c. Valuation and analysis of these unrecorded incomes and revenues MacGaffey (1991, p.12)

3 METHODOLOGY

3.1 Method Used

A Social Benefit-Cost Analysis, such as the one undertaken here, aims to quantify the benefits and costs associated with a certain course of action, present them in a logical way and deliver clear numerical results to represent the benefits and costs of the NCSS owners, traders, BOC, LGUs and Consumers of Tawi-Tawi in particular and to ARMM region in general. To gain a picture of the NCSS as a whole, four different analyses must be undertaken. The first, called the 'Project Analysis' values the NCSS costs and benefits to society as a whole at market prices. After this, the next step is to look at NCSS from the view of the private parties (i.e., do a 'Private Analysis') to understand the gains individual private parties can expect from it and thus allow the investigator to predict the behavior of these parties. While at this stage market prices are used, the 'Efficiency Analysis' expands the benefits and costs by accounting for market failures, attempting to accurately measure opportunity costs to agents and factor them into the analysis and otherwise present a view of the project for society as a whole.

3.2 Method of Analysis

This study employed descriptive statistics such as mean, percentage and variance in summarizing financial and economic data. The study also utilized the Net Present Value Analysis (NPV) defined as the different between the present value of each NCSS player benefits and the present value of project costs. Accordingly, the formula for deriving the Net Present Value of a project is:

- Accept projects with NPV greater than or equal to 0, and reject otherwise.

$$NPV = \sum_{t=0}^n \frac{B_i}{(1+i)^t} - \sum_{t=0}^n \frac{C_i}{(1+i)^t}$$

where: b_i = benefits derived from the project in year i , where i runs from year zero to year n .
 c_i = investment, operating and other associated costs incurred by the project in year i , runs from year zero to year n .
 r = discount rate.

Benefit Cost Ratio (BCR) The benefit-cost ratio (B/C) is the ratio of the present value of gross benefits to the present value of gross costs. The computation used the mathematical equation below:

$$BCR = \frac{\sum_{t=0}^n \frac{B_i}{(1+i)^t}}{\sum_{t=0}^n \frac{C_i}{(1+i)^t}}$$

where:	B_i	=	benefits in period i
	C_i	=	costs in period i
	i	=	discount rate
	n	=	discounting period

4 RESULTS AND DISCUSSION

4.1 NCSS Trading Profile in Tawi-Tawi Province

Commercial trading between Tawi-Tawi and Sabah started long ago when the region openly carried barter-trade practices. NCSS are the main vehicle of trading between islands. It used to ship variety of cargos such as foodstuff, agri-products, manufactured goods, petroleum, oil, electrical parts and machinery. Also, it served as the major mode of transportation for passengers. Filipinos from Tawi-Tawi travel to Sabah to look for a job or visit relatives. In the same way, Malaysians of Filipino descent traveled in Tawi-Tawi to visit their friends and relatives. The existence of these trading has been anchored into three factors. First is the geographical location in which Tawi-Tawi island is more proximate to Sabah rather than the nearest trading centers of mainland Mindanao. Second is religion, wherein Islamic dominated province of Tawi-Tawi is more inclined for halal foods. Lastly, economic factor, wherein prices of goods bought in Sabah are cheaper than its counterpart bought in Zamboanga.

In a nutshell, NCSS trading is not just an economic activity but a tradition that is part of the daily lives of the people in the region. To date, there are approximately 62 estimated number of NCSS engaged in trading between Tawi-Tawi and Sabah.

Timpil were primarily used to ship diesels and gasoline from Semporna, Sabah to Bongao thrice a week. Each timpil carries an average of 20 drums equivalent to 4000 liter of diesel or gasoline each trip. A drum of diesel is pegged at Php 3000 in Sabah and sold at around Php 7000 when it's unloaded in a private port located in Pagasinan, Bongao, Tawi-Tawi. This will be sold for Php 42/liter retail price in the sidewalks of the province.

Kumpit or small lantsa are utilized for both cargo and passengers who are mostly buyers of goods. It travels twice a week leaving Bongao late at night and docks at "Barter Trade" Jetty in Sandakan early in the morning, then leaves the port the next morning loaded with a bulk of purchased cargos during the night. Common goods bought in Sandakan are basic commodities such as rice, sugar, palm oil and grocery items. However, some rice that was brought from Sandakan is subsidized by the Malaysian government and limited to Malaysians only. Thus, rice bought in bulk for export to the Philippines is from Vietnam, Burma, Laos or Cambodia. On the other hand, Filipinos from Tawi-Tawi brought with them goods such as mangoes, live chicken, softdrinks and cosmetics but in small quantity because of the high amount levied by Malaysian authorities for imported goods. Farmers from Sitankay and other islands of Tawi-Tawi also ship bulk of dried seaweed fully loaded in a kumpit to Sabah specifically in Tawau.

Lantsa travels once a month from Bongao to Labuan and twice a month from Sandakan to Bangao going straight to Sulu, Basilan and Zamboanga. From Labuan, lantsa commonly brought rice, sugar and palm oil. Goods such as clothing, sweets, confections, candies, noodles, beverages that are normally seen in the local market of Tawi-Tawi originate from Labuan, Malaysia where these are bought cheaply from the many duty-free shops. Total estimated monthly volume of goods shipped through Lantsa from Labuan to Tawi-Tawi is around 50,000 sacks of rice at 25 kilos per sack; 20,000 sacks of sugar at 50 kilos per sack and; 50,000 packs of palm oil at 1 kilo per pack.

4.2 Benefit Cost Analysis of NCSS in Tawi-Tawi

Benefit Cost Analysis: Private Efficiency of NCSS Owners. Based on the five-year financial forecast of the present value benefit and cost of NCSS owners; the result indicated that vessel owners yield a positive NPV, and greater than one BCR. In particular, vessel owners are projected to earn an NPV of PhP 9,463,898; 22,778,423; 7,497,493.90; 167,811,790.5 for Speedboat, Timpil, Kumpit and Lantsa respectively. Similarly, these vessel owners are projected to yield BCRs of 1.84 for Speedboat; 1.46 for Timpil; 1.39 Kumpit, and 7.89 for Lantsa. This result indicated that vessel owners and traders of Tawi-Tawi are benefiting from NCSS trading industry. It can be deduced from this finding that NCSS trading industry are equally beneficial in terms of financial profitability for vessel owner and trader of goods and passengers. This explains the shape of the industry structure, conduct and performance of the demand side of NCSS trading industry aside from the historical and cultural context.

Benefit Cost Analysis: Social and Economic Efficiency. Social and economic efficiency analysis determines the social profitability of the industry in a macrocosm context. It is computed to account for the real economic value of the benefits and costs of the industry. In the context of this study, it assumed that the industry is inefficient given the fact that it operates illegally, and the opportunity cost and negative externalities as a result of pollution were not internalized in the pricing of all the traded goods in the area. The SBCA analysis anchored on the framework that if the industry is properly regulated where the government revenues are legally collected; and there were no price distortion that erodes the consumer and vessel owner/trader surplus.

The Social and Economic Efficiency of NCSS industry in Tawi-Tawi province. Social and Economic Benefit Cost Analysis exhibited a positive NPV, and greater than one BCR for all types of vessel. In particular, Speedboat (NPV: 2,796,647; BCR: 1.16); Timpil (NPV: 7,862,108; BCR: 1.12); Kumpit (NPV: 7,832,993.90; BCR: 1.42); and Lantsa (NPV: 160,917,818.3; BCR: 6.15). This implies that NCSS industry is socially and economically efficient given the assumption that unofficial taxes and other forms of special arrangement between the government and NCSS operators/traders are minimized, if not completely stopped; and the revenues that are supposed to be collected legally shall become an income to the national government and local government units (LGUs). This would further imply that the price per unit of the traded goods will be reduced as a result of correcting price distortion to the benefit of the end users in particular the people in ARMM. This supports the finding of Mak (2010) that the cost of stopping the industry is higher than the benefit from the different point views.

Sensitivity Analysis¹¹: Private Efficiency. In the result of the sensitivity analysis of NCSS owner/trader, it indicated that at 15% and 20% rate of interest; the financial profitability indicators exhibited a positive NPV; and greater than one BCR which suggest that NCSS owners' stream of cash inflows is higher than the stream of cash outflows. This means that NCSS owner/trader cannot be adversely affected by the pressure of the financial interest rates. The findings suggest that the financial risk of NCSS trading industry is not so

¹¹ **Sensitivity Analysis.** The robustness of the recommendation is tested by analyzing the effects of reasonably expected variations in key inputs to the BCA. The following list identifies potentially sensitive parameters and critiques of the given value.

- Changes in import duties, local sales taxes and NCSS trader taxation are possible on account of changes in government policy, and trade agreements.
- Bank financing interest rates. There is a possibility that interest rates will rise based on current pressure on world interest rates.
- Changes in 'fixed operating costs'. As traffic volumes are expected to grow, it is reasonable to expect maintenance costs to increase in proportion to growth to avoid deterioration in the value of the asset.

much susceptible to financial and economic shock.

Sensitivity Analysis: Economic Efficiency of NCSS. As shown in Figure 4, the Social and Economic Efficiency of NCSS in Tawi-Tawi. The result indicated a positive NPV, and greater than one BCR for all types of vessel based on the projected 15% and 20% rate of interest as hurdle rate of the cost of capital. This finding suggests that given the set of sensitivity assumptions; the NCSS industry remains socially and economically profitable from the point of the government. Following the principle of "optimal efficiency"; the industry can still maximize its operational capacity subject to the appropriate implementational mechanism of enforcing concrete actions of correcting government and market failures.

Distributional Benefits of NCSS Trading Industry. In a general sense, the NCSS industry is beneficial to the entire referent group over the full range of discount rates. By disaggregating the referent group analysis, the result will indicate that some groups benefit more than others. Practically, referent group analysis is a measure of distributional benefits or equity in terms of producer and consumer surplus¹².

Bureau of Customs Net Present Value Analysis. Net Present Value Analysis of the Bureau of Customs was computed based on the projected stream of revenues derived from "unofficial taxes and special arrangement" of NCSS trading industry of the province. Revenues intended for the government such as Speedboat; Timpil; Kumpit; and Lantsa were used in the estimation of efficiency.

Efficiency Analysis of the Bureau of Customs per vessel indicated a positive NPV which suggest that national government will benefit from NCSS trading industry if those revenues of "unofficial taxes and special arrangement" will go to the government's coffer. Based on the field research, revenues collected based on the present set-up cannot be accounted for, the fact that NCSS operations is illegal.

Cost Saving Recovery of the Consumers. Result indicated that the general public is expected to yield a per capita savings for rice by 391.32; 486.97 for sugar; and 157.14 for gas if they buy these items from Sabah. Savings that could be earned for a certain family is important in maximizing their choice by increasing freedom for education and health. Much benefits that the consumers can enjoy if the price is not distorted as a result of internalizing the cost of imposing unofficial taxes and unregulated fees under special arrangement with the government authorities. This finding is relevant in the context of the province considering that it has an HDI of 0.5, one of the lowest in the Philippines (Human Development Report 2006).

4.3 Benefits of NCSS in ARMM Context

Economic Benefits. Studies show that the "heart of the problem is that despite the efforts of the Philippines, hundreds of unlicensed Filipino NCSS are crossing national borders daily to trade. NCSS trade with Sabah is critical for the inhabitants of the Sulu Archipelago." NCSS trade industry in ARMM is regarded as a traditional source of revenue.¹³ This industry is vital not only from the historical context but also its contribution to the local economies of the region.

Gross Value Added of NCSS Industry. Based on the forecasted GRDP of the ARMM region from 2012 – 2016 (Table 8), the NCSS industry will contribute on the average by

¹² Producer surplus refers to benefit measured in monetary unit derive from unit price less the unit cost. While, consumer surplus refers to benefit measured in monetary unit derive from perceived benefit of the product less the unit price.

¹³ Fracisco J. Lara Jr. and Phil Champain, 'Inclusive Peace in Muslim Mindanao: Revisiting the dynamics of conflict and exclusion,' International Alert 2009, p. 16. http://www.international-alert.org/pdf/Inclusive_Peace_in_Muslim_Mindanao_Revisiting_the_dynamics_of_conflict_and_exclusion.pdf.

14.43% to the regional income. The opportunity cost of NCSS industry relative to GRDP contribution is an additional resources needed for peace and development initiatives of the region. This implies that government interference of reducing the economic losses must take into account the conflict dynamics of the ARMM. Such that the policies of regulating the industry should be anchored on the principle of peace-promotive initiatives; and not a factor that exacerbates poverty and illegal activities (e.g., smuggling) of the region.

This findings support the study of Mark (2010) which states that the "value of this NCSS trade is substantial in the context of the overall income level of the ARMM. As such, even if the PCG can succeed in curbing intra-EAGA trade to a great extent, we need to ask what will be the impact on the local economies of the ARMM. This is because Sabah is very close to the islands of the ARMM, and consumer goods sourced from Sabah are generally cheaper than goods obtained from Mindanao. What then will happen to the livelihoods of the thousands of families dependent on the NCSS operators and their crews if the kumpit trade is stopped virtually overnight?"¹⁴

The study further argued that the country is losing daily revenue, but stopping NCSS from carrying out intra-EAGA trade overnight because they do not meet specific safety and construction standards will be very drastic.¹⁵

Social Benefits. In a span of five years, the accumulated regional savings from importing rice will reach to 1,274,185,189.61; sugar will also accumulate 1,585,652,680.40 while Gasoline will yield a total savings of 511,672,797.71. This implies that the ARMM region could generate a huge amount of savings if they will purchase their basic needs and gasoline from the neighboring BIMP-EAGA members. The accumulated savings in the amount of 3,371,510,667.71 is the opportunity cost of procuring the products from local market (ex., Zamboanga City). This further implies that the savings of the consumer/end user of the imported goods is very significant in alleviating poverty condition in this area. It can be deduced from such findings that the region's social and economic welfare is not only dependent to the national government but also its strong trading interrelationship with countries of Malaysia, Indonesia and Brunei.

The foregoing economic findings buttress the result of the study by Mak (2010), "there are three reasons account for the popularity of Labuan, Kudat, Sandakan and Tawau with Filipino kumpits. The first is the geographical proximity of these barter trade jetties to the southern Philippines. Second, the lower prices of goods and commodities in Sabah compared with prices charged for similar goods in Mindanao attract Filipino kumpits. Finally, there is the oft-cited reason that consumer goods from Sabah are halal (food considered permissible under Islamic law) compared with Filipino foodstuffs that might be haram (food forbidden or not allowed under Islamic law)."¹⁶ This is a very important consideration for the largely Muslim population of the ARMM"¹⁷

"It is also important to acknowledge that this 'informal' economic activity is essential for keeping living costs low for the coastal communities of the southern Philippines. In short, there must be a political will to accept EAGA NCSS trade as a fact of life in Sulu, Tawi-Tawi, and Basilan."¹⁸

Security and Safety Benefits. Issue on safety standards and security threats are the long standing culprit to the legalization of NCSS industry. NCSS are believed to fail in meeting minimal safety standards and equipments for cross-border voyage and vulnerable to potential terrorist threats. Smuggling and human trafficking are other issues that posted

¹⁴ ibid

¹⁵ ibid

¹⁶ As cited by Mak (2010), "Halal Food Authority, <http://www.halalfoodauthority.co.uk/define.html>, accessed June 27, 2009".

¹⁷ Ibid

¹⁸ Ibid

threat to local industries and to the general public.

This decade old issue has been growing older with the much older tradition of NCSS trading. If it is about passenger and vessel safety, NCSS way of construction and design have stood the test of time together with their competent crew that can sail in unpleasant sea using their own skills and knowledge. Other issues such as security smuggling and trafficking will possibly be regulated by the Government's presence in the picture.

Recognizing and legalizing NCSS trade will result in a more transparent maritime environment. National government will be able to better track the cross-border movements of NCSS and their crews and passengers. It will also help cut down illegal transport of people across maritime borders, as is happening in many places currently. All these measures will enhance the safety and national security of all EAGA governments, given the existence of trans-national crime, kidnappings, gun-running and terrorism in the Sulu and Sulawesi seas today¹⁹.

Environmental Benefits. Sulu and Celebes Sea are traversed by hundreds or even thousands of NCSS daily, thus exposing these rich and diverse marine resources to potential damage. The absence of effective policy and regulation for NCSS will obviously lead to gradual degradation of the rich water resource who serves as the source of livelihood to the fisher folks and local industries.

Among the worst environmental scenario, in which corresponding indicators are being felt in the area are: reduced fish catch due to over fishing and pollution brought by improper disposal of waste and oil leaks from the vessel; damage of coral reefs and spawning ground for marine lives due to sprouting construction of small private docking ports and transshipments; and rampant catching and selling of protected fish species, corals and other marine resources.

5 RECOMMENDATIONS

Social and economic benefits of NCSS in Tawi-Tawi in particular and in ARMM in general will remain a promise if no government intervention is undertaken. Such that, any government intervention to correct the inefficiency of NCSS from the government's standpoint must take into account the social, political and economic cost. Mak (2010) stated that "as the Philippines might be able to curb NCSS smuggling eventually, the political and economic costs in Muslim Mindanao would probably outweigh the benefits. In any event, the very intricate chains of islands in the Sulu Archipelago which straddles the maritime border will require huge resources in manpower and assets to make anti-smuggling patrols effective. In addition, putting an end to cross-border trade is contrary to the ideals and goals of BIMP-EAGA.

Based on this study's findings, the following optimal mixes of policy recommendation are drawn:

1. **Recognizing the "way of life".** The initial stage of formalizing the economic activity of NCSS industry is recognizing the historical and cultural underpinnings of cross-border NCSS trade in this sub region. Aside from the reason of lower cost of living and consumption savings if the goods are imported from Sabah; the trading practices in this area had been in existence since time immemorial, and the economic, historical and cultural roots of NCSS trading suggest that it is already part of their "survival", such that their "way of life".

¹⁹ As cited by JN Mak, "GTZ Project on Drawing up Guidelines for Non-Convention Sized Ships (NCSS) in the BIMP-EAGA Region" pp 44

2. **Regulate the industry by winning first the hearts and minds of the industry players.** Regulating the industry is the essence of formalizing the informal economic activity of NCSS trade. The benefits of NCSS trade based on the results of private, and social and economic efficiency analysis all pointed out equally beneficial from the standpoints of the private sector, consumer, and government but may not be sufficient justification to regulate the industry. A huge amount of consideration would be the formidable challenge of achieving political viability of correcting government and market failures of NCSS trading industry. It is imperative that any government intervention should facilitate in achieving effectiveness, efficiency, safety and equity among the industry players. This could be done through inclusive and pro-poor growth policy that affects the social and economic activities of ARMM. Essential in regulating the industry are the following initiatives,
- a. **Inventory and Registration of NCSS.** It would be difficult to regulate the NCSS trading operations if there are no baselines on the number of NCSS vessels, port destinations, and traded goods in the area. Registration of NCSS vessels is imperative in determining the scale and scope of trading operations. The initiative to register the vessels should be done in a concerted effort with LGUs, BOC, and Maritime.
 - b. **Massive Information Drive and Education to NCSS owners and operators.** Information campaign and education intervention is imperative in increasing the mass of support in formalizing the NCSS trading activities. Understanding the social and economic benefits as real impetus of government intervention should be the mindset that needs to be developed from players of the vertical and horizontal dimension of the NCSS trading industry.
 - c. **Empower the Local Government Units.** Provincial and municipal local government units are the frontline of the NCSS trading industry. BASULTA and Maguindanao province must be empowered in understanding the social and economic contribution of the industry to the local economy. It is imperative that they should be part in formally mainstreaming the industry within the ambit of the local and national policies and guidelines of regulating NCSS vessels. The presence of the elite capture of the industry will only benefit to the unsolicited "license to corrupt" in collusion with the authorities of the national line government agencies. This structure and practice of NCSS operation compromise social/economic benefits that are supposed to be enjoyed by the general public.
 - d. **Infrastructure Development.** With the given poverty condition and conflict sensitive condition of ARMM, policies leading towards poverty alleviation and conflict resolution should be given priority. Government must provide attention to the basic services needed by the NCSS industry and the public as a whole. In Tawi-Tawi, rehabilitation and expansion of Bongao port is necessary in line with the social and economic reforms of ARMM.
 - e. **NCSS Trading Policies and Guidelines.** The regulating policies and guidelines of the NCSS must be crafted within the framework of inclusiveness and constituency. The success of regulating the industry depends on short and long-term interventions of the local and national government agencies. It is very important to note that doing nothing is tantamount of saying "policy choice by default" which also bears consequences in terms of economic, social, political, and environmental cost.
 - f. **Communicate and coordinate with the Office for Transportation Security (OTS) and Marine Industry Authority (MARINA).** These are the agencies under the Department of Transportation and Communication

(DOTC) which have primary jurisdiction and control over NCVs/NCSS in the Philippines.

These policy recommendations should be communicated with these agencies in order to help draft proper laws to regulate NCVs and NCSSs. The OTS has international commitments on behalf of the country especially in the BIMP-EAGA.

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