

# Environmental economics – the bakun dam project in sarawak assignment

[Economics](#)



The Baku Dam has been a highly controversial issue spanning over three decades as its validity and use to the people of Malaysia have been questioned. For the cost that involves producing this dam, at seven billion dollars and rising, is there a need for so much power at all? The main environmental issue here is whether Karakas should sacrifice forests in order to promote the economic growth of its country or cease construction to preserve the traditional environment and standards of living.

It is essential to the people of Malaysia that the construction of the dam continues, as it will benefit them in the future through industrialization. This dam can be seen as a source of employment for the nation, the creation of international interest, and increased economic growth. There are also many negatives to the completion of the dam; which include the displacement of natives, increased foreign debt, and the gradual deterioration of the dam after many years. There are many other factors that contribute to this issue, however, the above three positive components are fundamental to the further growth of Malaysia.

The main stakeholders involved in this area of interest include Malaysian non- governmental organizations opposed to the project, indigenous peoples affected, non-governmental organizations outside Malaysia opposed the reject, Malaysian State and Federal governments, Koran Bernhard (the developer), and international corporations contributing to the project. The Baku Dam has had an uncertain, highly controversial history. The project is of importance to Malaysian political and business leaders as there is a promise of abundant electricity and a lever by which Karakas could be lifted out of its “ backward” state.

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It has been said that for environmentalists and the native people, the project would flood tropical forests and force the resettlement of approximately 10 000 people in order to generate high cost electricity, for which no market might exist (Dams Initiative). These contrasting perspectives on the Baku Dam make it valuable as a case study to identify the best power solution for a nation's economic problem. There have been many complications regarding the Baku Dam since its introduction. Bevia (1995, p. 65) stated that 'after initial surveys in the early 1980s, in 1986, a decision by the national government was made to construct the dam.

In 1990, official postponement of the project was made due to protests and doubts about the dam's economic viability'. In 1993 however, the project was renewed with the catalyst being Malaysia's desperate need for power. It was said that in 1994, the awarding of the project contract to Koran Bernhard cemented the importance the dam was for the Malaysian government to address its financial issues (Bevia, 1995, pp. 101-102). But nevertheless, further problems mounted and in 1997, the project was deferred in the face of the Asian economic crisis.

In recent years, the project has been rehabilitated with last year being the set date for the completion of the project. Clearly however, the completion of the Baku Dam will not take place for a further few years. There are many advantages to the completion of the Baku Dam for Malaysia. Proponents of the project argue that the dam has several benefits, and minimal impacts. For the native residents of the region, it would be a source of employment

during construction, and would indirectly stimulate creation of other employment opportunities.

It has been stated that increased cash income for these residents was advocated as the only means to change the “ backward” status of this region, and to address poverty (Chocolates, 1993, p. 163). These are the initial steps to consolidating Malaysia’s economic and environmental future. Even after the project had been shelved in 1990, lobbying by its proponents continued, particularly by the Karakas government, which urged the federal government to revive the project. Finally, in September 1993, the Malaysian cabinet approved construction of the Baku Dam.

In reviving the project, Malaysia’s need for power was most often invoked as justification. By 1993 the Malaysian economy was growing by more than 8 percent per year, with electricity demand expanding even faster. The Borneo Bulletin affirms that lockouts in 1992 and 1993, and a predicted doubling of demand by 2000, were indications of a power crisis, justifying extraordinary efforts to expand supply. Project proponents also believed the Baku Dam could help reduce dependence on fossil fuels, especially oil.

Most evident however, was that this project was consistent with an energy policy relying almost entirely on supply. In Harden’s argument, he referred to the quote from environmentalist Kermit Sings (1995) to prove his theory: “ The concept of energy conservation and certainly its implementation is virtually absent in Malaysia. ” This is why Malaysia needs to complete the dam, to enhance its economic and environmental status on the worldwide scale. Furthermore, the Baku Dam has attracted the attention of numerous

international engineering and construction companies, with experience building dams elsewhere.

The IRAN Baku Campaign specifies that ‘ this is a means of attracting investment to Karakas, of fostering its industrialization, so that it could develop to the same extent as, or even beyond, mainland Malaysia’.

Originally, Germany, Mexico and Brazil were major participants in a consortium to bid to have privileges to build the dam. The dam was used as a connection to develop close ties between Malaysia and associated countries. Spires (1 995 p. 135) reported that recent contract announcements have included Europe, Latin America and certain parts of Asia to add to the increasing number of foreign firms constructing the dam.

This is beneficiary for the Malaysian economy as there is more money coming into the nation. Beyond the economic viability of the project itself, the Baku Dam has been justified in terms of the overall economic development of Malaysia. In 1991 Malaysia established “ Vision 2020”, a plan that envisages Malaysia becoming fully developed and industrialized nation by 2020. Within this context, the IRAN Baku Campaign informs that the Baku Dam could contribute in several ways to “ Vision 2020” through the supply of electricity, needed by manufacturing.

In recent years, demand for power has increased by up to 13%/year. In addition, the project would be a model of close partnership between the state and federal governments, and the private sector. Furthermore, “ Vision 2020” can be achieved through gaining access to advanced power technology, such as turbines and transmission lines, provided by foreign

engineering firms. The role the dam plays on “ Vision 2020” can progressively contribute to Malaysia becoming industrialized in the future. However, the Baku Dam has been the focus of intense controversy as well.

Human implications included the displacement of approximately 10 000 native people to the Karakas region. The displacement and resettlement of these people in effect involved the loss of their way of life, and the acceptance of a “ modern” lifestyle. Most people are now subsistence farmers, supplementing their income through cash crops or jobs in timber companies. These native people once valued their autonomy, as one indigenous person dated in a ‘ Friends of the Earth’ press release (1995): We are poor only insofar as we have little money. In fact, we are rich, because we have all we need to feed ourselves and house ourselves.

Rice is free, fish and meat are free, vegetables are free, water is free, and lumber is free. After the relocation these natives no longer have their own land, and have to seek work instead on large plantations to survive.

Malaysia: the “ progress” bought by the Baku Dam in Karakas states that the project had long been criticized for the possibilities of a dam collapse, earth remorse, new waterborne diseases, deterioration of the reservoir, disruption of downstream water quality, salt water intrusion, loss of fish habitat, and sediment accumulation behind the dam that would render it useless within fifty years.

Construction of the dam would also result in loss of approximately 23 000 ha fertile agricultural land. These were some of the many environmental effects cited that would one day harm Karakas. There were also questions about the

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economic costs of the project. The Lira Monthly (1995, p. 71) assumed that in the past, much of the necessary UAPITA would be raised through loans from international agencies such as the World Bank and the Asian Development Bank. These loans would substantially increase Malaysia's foreign debt.

It was even unclear whether the nation, then in recession, needed so much electricity. However in today's society, research shows that the need for electricity would aid in the industrialization of the nation. There have been many alternating perceptions on the Baku Dam issue. Many people believe that the Baku Dam is just the start of the transformation of Malaysia. Private investors from all around the world live that their investments will bring them great financial returns.

One investor from Belgium stated: There has been so much controversy over this dam. I chose to invest in it because I believe it has great potential. The Baku Dam will be the means of a new and improved Malaysia, all it needs is some financial assistance. Is there any controversy in financial assistance? As part of an international lobbying effort, Friends of the Earth along sent letters to hundreds institutional investors and fund managers in February 1997 warning them of the financial, environmental and social risks involved in the Baku project.

Sarah Attack of Friends of the Earth said: It is clear that major institutional investors and financial analysts are beginning to realize that an investment in this Baku Hydroelectric project is not only unethical but carries a high financial risk due to overly optimistic performance forecasts. Koran must

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take this lukewarm response from potential foreign investors as a reflection of the lack of confidence in this project... There is a great need for private intervention on the project to assist in its completion. In the project's incarnation in the 1980s, funding for the dam was not discussed in any detail publicly.

It was the assumption that Malaysia would seek loans from international sources. However, in the 1980s, there were strong intentions from the federal government to avoid funding from multilateral sources. In a recent newspaper article published by the Borneo Bulletin (2001) a statement by Prime Minister Mahathir helps explain his government's effort to avoid involvement of the World Bank: We in the poor countries would like to have some cheap hydroelectric power. But all manner of campaigns are mounted against our proposals the World Bank will be used to deprive poor countries of cheap hydroelectric power.

And all this after the rich have developed most of their hydro potentials. Instead, funding is being sought through domestic private and government sources, as well as international private investors. While domestic sources are envisaged as the dominant sources of funding, funding from foreign private sources is also clearly a priority for project proponents, perhaps because of the credibility such funding would provide. However, the effort devoted to obtaining private funding illustrates the obstacles encountered in financing such a project without subsidies.

It has often been argued by dam opponents that such projects could not survive without large subsidies from governments or multilateral



development banks. Difficulties that Koran has encountered in soliciting interest from foreign private investors suggest that this is also the case in this project. Malaysia: the “ progress” bought by the Baku Dam in Karakas reports that in July 1 996, Delphi International, a British consulting firm, warned its clients and potential investors in the project that the Baku Dam promised far greater Isis than is typical of power projects, and lower returns.

This has presented an additional obstacle to Saran’s efforts to attract foreign investment. The extent to which the Baku Dam represents “ prevarication” of power generation is ambiguous; while Koran Bertha currently holds the largest stake in the project and is actively seeking private investment, the Karakas state government and Cosec are also major shareholders. (Spires, 1995, p. 139-140). Evidently, although there are firms that are currently investing in the Baku Dam, more needs to be done to attract further investors.

Koran has also agreed to sell much of the power to the national public utility, at rates that may involve considerable subsidy of the project by Malaysian electricity consumers. This is an important process towards providing for a more “ advanced and Industrialized” Malaysia. There is certainly a way the Baku Dam can be built with minimum impact on the environment and the Malaysian economy. Initially, there are uncertainties concerning the technical details of project. These include variations in rainfall and stream flow at the dam site, and the design and stability of the dam itself.

One of the most significant technical worries relates to the cables that will deliver power to the Malaysian mainland. They are, in effect, an

unprecedented experiment. Dams Initiative studies show that at 650 km, they are far longer than the longest existing undersea power cables, beneath the calmer waters between Denmark and Sweden. No reliable estimates of how much these cables will cost, how long they will last, or how much power will be lost as it travels through the cable, are available yet. The Baku Dam project is definitely manageable, and a positive step to consolidating Malaysia's economic and environmental future.

The design of the Baku Dam has evolved since the initial studies carried out in the early sass, taking into account developments worldwide. The design of the dam has incorporated features that will ensure the highest degree of safety and economics. The project certainly yields more positive outcomes with respect to the use of local resources and employment, promotion of regional development and industrialization, savings of fossil fuel, and river regulation. Negative ecological effects include the deterioration of the water quality (although temporary), displacement of natives, and high foreign debt.