

THE FLOW OF GOODS AND REMITTANCE IN SABAH: AN OVERVIEW

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ABSTRACT

Relations between Sabah, the Philippines (southern Philippines) and Indonesia has existed for a long time. This relationship was initially based through various activities i.e. commerce and trade, culture and migration. However, with the creation of man-made country boundaries, the relationship has become limited through the restriction placed by the respective countries. Currently, immigration is being perceived as a major problem in Malaysia, associated with illegal immigrants originating from the Philippines and Indonesia. However with immigration, there is also the transboundary flow of goods and currency. This paper will focus on remittance and the flow of goods in the form of barter trade and smuggling from the year 1996 until present and its implications on Malaysia (Sabah).

INTRODUCTION

Sabah is a state in Malaysia, located in East Malaysia on the island of Borneo. It is in a strategic location and borders three countries i.e. Indonesia, the Philippines and Brunei. Commercial activities and migrations form the basis of the inter-state relations between Sabah, the Philippines and Indonesia. In the context of Sabah, the presence of immigrants continues to be a topic of interest for many. The Malaysian government has from time to time taken various measures to solve the problems of illegal immigrants. The formation of the Federal Task Force is one of the efforts taken to regulate movement of immigrants. Although, the issue of migrations and the influx of illegal immigrants are pertinent issues to discuss and warrant adequate attention, many forget or rather sideline the fact that immigration is also associated with remittance and transboundary movements of goods. This paper will examine the issue of remittance and the flow of goods in the form of barter trade and smuggling within Malaysia (Sabah), Indonesia and the Philippine.¹

LITERATURE REVIEW

Inter-state relations between Sabah, Indonesia and the Philippines have been widely discussed by scholars, both local and overseas. Wright (1990) and Sather (1997) for example based their discussions from the perspective of the historical presence of inhabitants from southern Philippines in Sabah, and the trade relations in Sabah (Borneo). Muhd. Yaakub Johari and Ramlan Goddos (2001) examined the immigration of foreign labours into Sabah. Azizah Kassim (2002 & 2003) examined the different forms of migration into Malaysia in general, and in Sabah specifically, and the survival patterns of the migrants. Issues on Contract Workers and Expatriates, Refugees or Displaced People, Foreign Students, Illegal Immigrants and Dependents of Foreign Workers are also included in her discussion.² A specific study on transboundary flow of goods and currency in the context of Sabah has not been conducted although the issue has long been existence.³

PROBLEM STATEMENT

Numerous researches have discussed the presence of illegal immigrants and foreign workers in Malaysia. The migrants were described as contributing to various problems in Malaysia. The government in response to the problems, has initiated and carried out various programmes in the 1990s, e.g. the Registration Programme (1991), OPS Nyah I and II (1992), the Regularisation exercise (1996), Amnesty Programme (1997), amendments to the Immigration Act in 1998, that included three main clauses (namely clause 55A, 55B and 55D), and OPS Nyah *Bersepadu* (2001). The main question that arises is that although we often discuss the issue of illegal immigrants, we sideline several other issues relating to the transboundary flow of goods between Sabah and its neighbouring countries. This paper therefore will examine the issue remittance and activities relating to the flow and exchange of goods through Barter Trade and Smuggling.

EXCHANGE OF GOODS

Barter Trade

In the context of Sabah, import/export barter trade activities has existed since two centuries ago involving the inhabitants of Sabah with traders from Indonesia and the Philippines (Customs Department 2001). Inter-state relations were informal before the arrival of British and the Spaniards to this region. Warren (1985) has demonstrated the existence of trade relations between Mindanao,

Sulawesi and several localities in Sabah e.g. Sandakan and Lahad Datu, before and during the colonisation by Western powers in this region. Sabah's strategic location and its previous rule by the Brunei and Sulu Sultanate had once made it an important site for barter trade in the region (Abu Bakar Hamzah & Ongkili, 1988). Traders did not stay long in Sabah but travelled extensively between the main commercial ports to obtain supplies and deliver goods in Sabah. The Maranaos people from Lanao, for example, bought goods from Sabah and returned to Mindanao to sell the goods. Therefore, it is hardly surprising that there is a large number of *kumpit* (speedboats) operating in Zamboanga, Sulu and Tawi-Tawi for the purpose of barter trading in Sabah (Linda 2004).

After the formation of Malaysia, these activities still continue, albeit more formally, regulated by the government of Malaysia. However, in several areas (e.g. Semporna), trade activities were permanently halted since 1976 due to security concerns (Daily Express, 05.02.2002). Trade activities are still smoothly carried out in other localities, especially with the support of the government. This is demonstrated by the proposal of Sabah's state government to improve the infrastructure facilitating barter trade at the Tawau jetty, costing RM29 million (Daily Express, 13.11.2003). Barter trade was also one of the agenda discussed within the BIMP-EAGA.⁴

The Labuan Member of Parliament, Dato' Suhaili Abdul Rahman, have also stated that barter trade is relevant and important in the development of the local economy. He also said that the Free Trade Zones (FTZs) in Sandakan, Tawau and Lahad Datu are like duty free 'mini seaports' and the main rivals to Labuan. Traders from the Philippines and Indonesia prefer to do business in these FTZs as they are geographically closer to Southern Philippines and Nunukan, Indonesia (www.infosabah.com.my/Daily_Express, 1.8.04). This statement was reinforced when Sabah Ports Authority (SPA) chairman Datuk Dr Zaki Gussmiah stated that the potential for barter trade is improving in Sandakan, Tawau, Kota Kinabalu and Kudat (Sabah Times www.newsabahtimes.com.my, 7.8.04).

To further enhance the cooperation in barter trading, the government has also proposed to change the status of Pulau Sebatik, Tawau into a centre or tax-free island. According to the Finance Ministry parliamentary secretary, Datuk Dr Hilmi Yahaya, when this island is developed, it will attract many traders from the neighbouring country. He said that:

“...this will help to boost the revenue of the Government”. At the same time, it will aid the Customs Department in carrying out their duties. If this area does come into fruition, it will reap enormous commercial benefits to the country through the trade activities.”

(The Borneo Post, 1.7.04)

Until recently, the main commodities traded are forest produce (rattan and tree logs), sea produce (fishes, prawns and crabs), sugar, rice and sundry items. In Sabah we can observe that mangoes from Manila, cooking utensils, cigarettes, hand-crafted equipments and clothing from neighbouring countries being sold in the markets.⁵

Barter trading is conducted using small ships or boats ferrying goods to main barter trade jetties in e.g. Sandakan, Tawau, Kudat etc. The volume of boats/ships in these areas is high. Table 1 shows the volume of boats/ships entering the barter trade jetty in Tawau for the year 1998-2000.

Table 1: Number of barter trade ships, in/out, Tawau 1998-2000

Year	1998	1999	2000
Number	5,941	1,990	7,164

Source: Unpublished Barter Trade Report, Department of Customs and Excise, Tawau, March 2001

The barter trade is usually conducted on small ships and boats locally known as *Kumpit* and *Tempel*. Table 2 shows the number of *kumpit* and *tempel* entering the barter trade jetty in Sandakan for the year 2000.

Table 2: Number of ships entering Sandakan Port, January-Dec 2000

	No. entering		No. exiting	
	<i>Kumpit</i>	<i>Tempel</i>	<i>Kumpit</i>	<i>Tempel</i>
January	29	7	25	7
February	33	12	33	12
March	37	9	38	9
April	47	10	44	10
May	44	14	46	12
June	56	12	57	14
July	45	12	45	12
August	53	8	50	7
September	37	17	44	18
October	27	17	28	17
November	28	15	27	15
December	29	16	31	16
Total	465	149	468	149

Source : Department of Development and Industry, 2004

Following the economic crisis in 1997, barter trading has played a major role in the economic recovery in Malaysia. In the second quarter of 1998, the value of barter trading reached RM1 billion (Borneo Times, 20.2.99).⁶ Table 3 demonstrates the volume of barter trade in Sabah in 2001. The value of trade is in millions of RM, and if the trend continues, it will reap great commercial profits for the country.

Table 3: Value of import/export and barter trade, Sabah, 2001 (RM)

Country	Indonesia	Philippines	Total
Import	368,727,988.51	2,499,167.45	371,227,155.96
Export	54,686,024.45	57,538,838.37	12,494,264.92

Source : Department of Development and Industry, 2004

Table 4 shows the value of import/export barter trade in Sabah for January-June 2002. It demonstrates that barter trading in Sabah is showing positive signs, especially in view of the government's support for its continuance.

Table 4: Value of import/export and barter trade, Sabah, Jan-June 2002 (RM)

	Indonesia	Philippines	Total
Import	18,691,172.55	1,897,479.05	7,976,232.64
Export	24,108,255.48	21,299,654.19	45,407,909.67

Source : Department of Development and Industry, 2004

Barter trading activities not only benefits Sabah, it also reduces the exchange of foreign currency. The Minister of Social Services, Tan Shu Kiah, in 1998 stated that the existence of barter trading has aided the state especially during the economic crisis. Through barter trading, the government managed to control our currency outflow (Daily Express, 27.8.98).

In the context of Tawau, the development of barter trading has contributed to the economic development in the district and created an amicable atmosphere between traders. It also indirectly provided job opportunities to the local population, and improved their socioeconomic status (Report on Barter Trade, Department of Customs and Excise, Tawau, May 2001). Table 5 shows the value of import/export barter trade in Tawau, for the year 1998-2000.

Table 5: Value of import/export and barter trade, Customs Station, Tawau, 1998-2000 (RM)

Country	1998		1999		2000	
	Import	Export	Import	Export	Import	Export
Indonesia	96,532,814	10,893,639	54,009,087	18,651,246	78,994,406	20,231,270
Philippines	19,245	29,624,057	309,183	11,669,997	603,903	5,668,682

Source: Unpublished Barter Trade Report, Department of Customs and Excise, Tawau, March 2001

Through barter trading activities, the government had reaped profits by the various taxes and duties imposed on the goods traded. Table 6 shows the value of taxes and duties collected from barter trading activities in Tawau in 1998-2000.

Table 6: Duties and taxes collected from barter trade, Tawau, 1998-2000 (RM)

	1998	1999	2000
Import duty	318,919.35	208,225.80	126,574.86
Export duty	-	-	-
Sales tax	298,756.41	396,744.47	816,478.96
Total	617,675.76	604,970.27	943,053.82

Source: Unpublished Barter Trade Report, Department of Customs and Excise, Tawau, May 2001

Realising the importance of barter trade, the then Deputy Minister of Defence, Datuk Mohd Shafie Apdal, stated that barter trading should be revived and supported between Semporna and southern Philippines. He added that the cultural similarities between these two communities can be the catalyst for the cooperation (Daily Express, 5.2.02). His statement is clearly based on the many potential benefits of barter trading activities.

SMUGGLING

Smuggling is another important channel whereby transboundary movements of goods occur, however through illegal channels.⁷ These activities are a great loss to Malaysia as they involve taxes losses. In Sabah, smuggling occurs throughout the coastline of East Sabah up till Kudat. Although the government, (through its various relevant departments and agencies) has undertaken various steps to address the problem, smuggling still poses a major problem in Sabah.

The widespread smuggling activities are due to many factors. One of the main factor is its geographical location; Sabah has 189 islands (both habited and inhabited), with a coastline of 1,400 km. Semporna alone has 42 islands, the majority of which has shallow shores, whose strategic locations are advantages for smugglers to escape detection and from being pursued by the authorities. The close vicinity to the neighbouring countries also aids smuggling e.g. Sungai Nyamok (Indonesia) is close to the Malaysia's border of Tawau, and Pulau Matakang (Philippines) is close to Semporna (Azizah Kassim, 2003). This geographical advantage, plus the economic opportunities in Sabah, only serves to encourage smuggling activities (Wan Shawaluddin W. Hasan *et al.*, 2003). The lack of control on smuggling is further compounded by the racial relations between inhabitants of the Philippines, Indonesia and the locals in the east coast of Sabah.

Smuggling occurs because goods e.g. cigarettes, are cheaper in the neighbouring countries compared to Sabah. This creates a demand i.e. creates a business opportunity. Currently in Sabah it is believed that several goods produced by Indonesia and the Philippines are smuggled in and sold in the local market. Examples of the contraband items include *kayu malam*, *rokok* (cigarette) *kretek*, *rokok* (cigarette) *putih*, tobacco, liquor (beer, stout, *samsu*, etc.), vehicles, *kain batik sarong* and *pelikat*, clothes, electrical goods, mobile telephones and rice (Department of Customs and Excise, 2003). On the other hand, diesel is one of the contraband items smuggled out to the Philippines and Indonesia.

Various techniques are employed to facilitate the smuggling activities. Firstly, the smugglers make use of the existing barter trade channels, using small boats (i.e. *kumpit*, *jongkong* and *pancung*) as their *modus operandi*. Secondly, the smugglers use powerful speedboat engines of 500 horse power, compared to the 300-400 horse power engines utilised by the authorities. They are also equipped with weapons such as the M16 etc. (Wan Shawaluddin W. Hasan *et al.*, 2003). These factors make enforcement difficult.

Among the main entry points for smugglers from the Philippines are the waterways through several islands in the Philippines e.g. Pulau Tawi-Tawi and Pulau Sibutu. These islands serve as the stopover points before entering the Malaysian waters of the east coast of Sabah. For smugglers from Indonesia, Nunukan is the main stopover point before entering Malaysian territory.

The volume of contraband goods smuggled in Sabah is high and is a cause of concern. The Malaysian government has even categorised Sabah as one of the three main entry points of smuggling activities into the country (Daily Express, 16.2.02). According the Department of Customs, Sabah, arrests due to smuggling activities in 2001 numbered 1,952 cases, with an estimated contraband value of RM5,351,771. For 2002, up till May, 808 individuals were arrested with

an estimated contraband value of RM1,882,175. Compared to the same time period in 2001, 1,276 individuals were arrested and they were mainly illegal immigrants (Department of Customs and Excise, Sabah).

Tax losses due to smuggling activities are also significant. In Sabah for 2001, the estimated tax and duty value of the contraband items seized were RM5,487,848. For January-May 2002, the value was estimated to be RM2,579,286 (Department of Customs and Excise, Sabah).

Contraband cigarettes are the main item seized by the Department of Customs, Sabah, involving 1,108 cases and estimated tax and duty value of RM3.9 million, up till October 2003. During the same period, the department also issued compounds totalling RM1.3 million, involving 739 cases. This is followed by contraband liquor, involving 97 cases with an estimated tax and excise value of RM877,089.96, and total compounds issued of RM99,300 involving 74 cases (Daily Express, 14.11.03).

The Sabah Marine Police recorded a surge in smuggling activities in the east coast of Sabah, 230 cases in 2001 compared to only 74 cases in 2000. In Tawau alone there were 197 cases in 2001 compared to 50 cases in 2000. In Lahad Datu, there were 17 cases in 2001 versus 7 cases in 2000. Other breakdown figures for 2001 are: Kota Kinabalu (7 cases), Sandakan (4 cases), Labuan (3 cases) and Semporna (2 cases) (Daily Express, 9.2.02). Table 7 shows the number of smuggling cases handled by the Royal Malaysian Police Force (PDRM) and Department of Customs in Sabah in 2002.

Table 7: Number of cases handled by PDRM and Department of Customs in Sabah, Jan-Dec 2002

	PDRM	Customs
January	20	5
February	11	1
March	18	3
April	6	1
May	4	1
June	5	0
July	20	2
August	10	0
September	14	1
October	18	0
November	11	3
December	1	0
Total	138	17

Source : Annual Report, Maritime Coordination and Enforcement Centre, 2002

Sources from the Department of Customs and PDRM revealed that the location of the smuggling activities depends on the types of contraband goods. Smuggling of *batik*, cigarettes, diesel fuel and several selected goods mainly occurs in the east coast of Sabah. Contraband liquor is mainly through the west coast of Sabah (Bukit Aman, 2004). Seizure of contraband cigarettes still forms the bulk of cases (Department of Customs and Excise, Kota Kinabalu, 2002). Table 8 shows the number of cases of smuggling of cigarettes in Sabah for the year 2000 until June 2004.

Table 8: Number of cases of cigarette smuggling in Sabah, 2000-Jun 2004

	2000	2001	2002	2003	Jun 2004
K. Kinabalu	-	1	-	-	1
Tuaran	-	2	2	6	-
Kota Marudu	-	-	-	-	2
Tawau	-	-	-	-	1
Semporna	-	1	-	3	1
Kinabatangan	-	1	1	-	-
Lahad Datu	2	2	3	3	4

Source : PDRM, Bukit Aman, 2004

Table 8 also clearly shows that the localities associated with cigarette smuggling are located close to the Philippines and Indonesia. It is not surprising that cigarette brands such as Champion, Gudang Garam, Surya and various others are easily available in this country, often brought in illegally.

Although the majority of smugglers consist of illegal immigrants, members of the local community are also involved. In Tawau, the smugglers arrested are mainly illegal immigrants from the Philippines. This is shown in Table 9.

In addition to avoiding taxes and duties, smuggling of contraband items is also associated with smuggling of dangerous substances, namely illicit drugs. Kota Kinabalu, Sandakan, Tawau,⁸ Semporna,⁹ Kudat, and Wilayah Persekutuan Labuan have been identified as localities where distribution and use of illicit drugs occur. The illicit drugs seized from the immigrants are mainly cannabis and *syabu* (Kota Kinabalu Police Headquarters, Kepyayan). Sources (formal sources including the police from various districts in Sabah for 2002) revealed that the drugs seized mainly originated from the islands in the Philippines e.g. Zamboanga, Luzon, Maibong, Tawi-Tawi, Bongau, and Palawan (Royal Malaysian Police Force, 2002). Table 10 shows the number of arrests according to the different types of illicit drugs in Sabah for the period of 2000-2002.

**Table 9: Arrests of smugglers (illegal immigrants from the Philippines),
Tawau, 1996-2001**

	C	KB	EG	KS	R	VCDP	S	BE	BS	MO	L
1996	15	-	-	-	1	-	3	1	2	1	-
1997	16	2	1	-	-	1	1	-	-	-	-
1998	12	1	-	-	-	-	-	-	-	-	-
1999	14	1	1	-	-	-	-	-	-	-	1
2000	15	-	1	1	-	-	-	-	-	-	-
2001	9	-	1		69	-	-	-	-	-	-
Total	99	4	4	1	70	1	4	1	2	1	1

Note:

C : Cigarettes
 KB : *Kayu bantalan*
 EG : Electrical goods
 KS : *Kain Sarung*
 R : Rice
 VCDP : VCD-pornographic
 S : Sugar
 BE : Boat engine
 BS : Branded shoes
 MO : Mixed oil/fuel
 L : Liquor

Source: Department of Customs, Tawau

Table 11 shows the number of different illicit drugs seized in Sabah for the period 2000-2003, that include ecstasy, psychotropic tablets, cannabis and heroin. However among the local population, *syabu* is the drug of choice mainly being the cheapest in price in comparison to the other drugs. In 2003, Kota Kinabalu had the highest number of arrests (630 individuals). Figures from other districts are as follows: Sandakan (198 cases), Tawau (253 cases), Lahad Datu (303 cases), Semporna (121 cases) and Kunak (170 cases) (Police Headquarters, Kepyayan, 2004).

Table 10: Arrests and types of illicit drugs, 2000-2002

Year	Cannabis, Heroin/Ext			Syabu tablets			Psychotropic mixture			Cough			Section 15(a)		
	00	01	02	00	01	02	00	01	02	00	01	02	00	01	02
No. of cases	83	73	37	727	1,013	934	22	8	3	56	48	18	11	19	19
No. of arrests	124	82	50	1,070	1,550	1,326	15	9	3	63	44	27	33	27	27
<i>Malaysian</i>															
Total	96	66	34	625	631	763	39	8	3	61	39	27	30	25	24
<i>Non-Malaysian</i>															
Indonesian	7	2	2	69	127	111	1	0	0	0	3	0	0	2	0
Filipinos	21	13	14	375	631	451	2	1	0	2	2	0	3	0	0
Others	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	28	16	16	445	760	563	3	1	0	2	5	0	3	2	0
Grand Total	124	82	50	1,070	1,550	1,326	15	9	3	63	44	27	33	27	24

Source: Department of Narcotics, Police Headquarters, Sabah, March 2003

Table 11: Illicit drugs seized in Sabah, 2000-2003

		2000	2001	2002	2003
Raw opium	kg	0.00	60.67	0.00	63.22
Processed opium	kg	0.71	8.60	0.58	2.85
Heroin Base	kg	0.00	66.55	34.09	0.00
Heroin No. 3	kg	106.09	210.49	382.07	128.34
Heroin No. 4	kg	0.80	0.00	4.20	0.00
Cannabis	kg	1,612.58	1,567.53	2,065.34	2,199.05
Cocaine	kg	0.001	1,260	4.23	2.50
Syabu	tablets	208.11	51.29	27.29	19.73
Ecstasy	kg	48,995.00	224,684	166,334	209,279
	litre	5.81	31.85	68.99	68.18
Cough mixture	tablets	17,982.48	5,864.04	4,978.78	33,596.28
Psychotropic		115,629.00	155,767.00	1,218,704.00	107,641.00

Source: Police Headquarters, Kepyayan, 2004

In addition to illicit drug smuggling, another example of smuggling of dangerous goods into the country is weapons and bullets. In April 2003, the Malaysian Army Force (ATM) arrested 22 foreign nationals in the waters of Pulau Langkayan, Sandakan and seized 500 units of bomb detonators and 216 bullets of various makes; 5.56 mm (131), 7.62 mm (30), shotgun bullets (25) and 0.30 pistol bullets (30). These items were believed to be smuggled into the country (Utusan Malaysia 3 & 7.5.03). This creates a dangerous and continuous threat to our country if left unchecked. There are also several other cases relating to the smuggling of firearms and weapons into Sabah. Table 12 shows the statistics with regards the weapons and bullets seized in Sabah for the period 1996-2003.

Table 12: Seizure of firearms and bullets in Sabah, 1996-2003

	1996	1997	1998	1999	2000	2001	2002	2003
Rifles	122	22	34	61	47	32	26	43
Pistols	26	12	30	32	21	14	11	6
Bullets	1,663	11,589	652	2,032	2,040	451	889	1,396
Total	1,812	11,623	716	2,125	2,108	497	926	1,445

Source: Jabatan Ketenteraman Awam, Sabah, 2004

It is believed that in most cases, the firearms smuggled into Malaysia originated from the Philippines (Sapikit, 2004). This demonstrates that smuggling poses a serious security threat to Malaysia especially when it involved dangerous firearms.

However, we have to bear in mind that the smuggling activities are not conducted only by immigrants, but also by the local populace due to their high economic returns. The case involving the smuggling of 3,000 logs owned by a local company in 1997 in Tawau demonstrates this fact. Statistics also show that 50.16% of illicit drug smuggling is done by local individuals. Several cases of smuggling of firearms were also attributed to local individuals (Sapikit, 2004; extracted from the Royal Malaysian Police Force, Sandakan, 2004).

In order to tackle this increasing problem, several measures have been undertaken. This includes increasing the patrolling of localities associated with smuggling activities. In addition, Malaysia and Indonesia have carried out several operations to stop smuggling activities at Tawau and Pulau Nunukan border in Tarakan, East Kalimantan. This was agreed through the Malaysia-Indonesia Socio-Economic Group (Malindo-SOSEK), with the purpose of decreasing smuggling activities in the national waters by the borders (Daily Express, 9.6.01). Despite all the efforts, we have not found an effective method to tackle the problem, and smuggling is expected to be a continuing problem, as long as several main issues especially those relating to the lack of personnel, equipment and infrastructure for the purpose of patrolling and enforcement (especially in the waters of the east coast of Sabah) are not dealt with promptly.

REMITTANCE

Remittance to the donor country is a flow of currency outflow. It is a major issue given special attention by the government because the high outflow volume. In the Malaysian context, the Minister of Human Resources, Datuk Fong Chan Onn, expressed his concern in 2001 by noting the fact that remittance to the donor country reaches RM5 billion a year (Daily Express, 11.12.01; from Mohd. Yaakub Hj. Johari & Ramlan Goddos, 2001). In Sabah, remittance has become a financial burden since early 1990's, with RM500 million per year (Mohd Yaakub Hj. Johari & Ramlan Goddos, 2001; from Pang Teck Wai, 1996). This may exert a large effect on Malaysia if not controlled at an early stage.

From the donor's country point of view, remittance is considered as a major contributor to the national economy. In 1994, remittance to the Philippine by its nationals working overseas via formal channels is estimated to reach US\$3.01 billion. This estimation increased to US\$4.93 billion in 1995 (Hugo, 1998: 257). The Department of Labour, Philippines reported remittance of US\$6.8 billion in

1999 (Dr. Yaakob & Ramlan, 2002). These figures only refer to remittance via formal channels and the actual amount remitted may well be larger (Hugo, 1998 :257). For the host country (i.e. Malaysia, and Sabah in particular), this situation needs to be controlled as it directly effects the economic status of this country. Currency outflow will affect the fiscal balance of a nation (Hugo, 1998: 259). In addition, Azizah Kassim has stated that remittance may pose a major problem to Malaysia as it indirectly forms a large economic burden (Azizah Kassim, 2002:15). In the context of Malaysia (Sabah specifically), this situation creates economic losses to the nation and needs to be controlled. President Arroyo request to Malaysia to postpone the repatriation of Filipinos during OPS *Nyah Bersepadu* in 2001 may be related to this matter (W. Shawaludin & Ramli, 2001).

Table 13: Remittance by Filipinos and Indonesians in Sabah (RM million)¹⁰

	Indonesian	Filipino
2001	1.2	4.8
2002	1.5	6.0
June 2003	1.6	9.2

Table 13 refers to the data made available by a bank branch in Kota Kinabalu that provides formal remittance services. The table shows an increasing trend, involving vast sums of currency outflow. Remittance services is a big business to the banks in Malaysia and therefore it is not surprising that several banks are providing such services. For example, BUMIPUTRA-Commerce Bank Bhd. and Indonesia's PT Bank Niaga created a combined remittance service, aimed at Indonesian workers working in Malaysia, called 'Cash Laju' (New Strait Times Online, 21.8.03).

In addition to the formal channels (i.e. via banks), there are several informal channels for remittance. These include remittance via unregistered agencies, agencies outside of this country, remittance through family members etc. Therefore, we can safely assume that the value of remittance is much higher than we initially expected.

In the context of Sabah, Table 13 shows that the Filipinos remit more money compared to the Indonesians. This is peculiar as the number of Indonesian workers and illegal immigrants are much higher compared to the Filipinos. Does it mean that the Indonesians are remitting less money back home? From several interviews conducted in 2003, it was found that Filipinos were more likely to use formal remittance channels (banks or remittance agencies), whereas the Indonesians were mainly using informal channels via unregistered agencies or

through family members.¹¹ Therefore, the writers believe that the Indonesians remit more money compared to the Filipinos, based on the higher number of Indonesian in this country. However, this fact is difficult to verify as the Indonesians' remittance is mainly done via informal channels.

Upon realising the potential problem created by the currency outflow due to remittance, the Malaysian government has taken several steps to stem the tide. One of these measures are from August 1998, the government made it compulsory that all foreign workers (excluding domestic maids) to contribute to the Employment Provident Fund (EPF), at a similar rate to the local workers. The employers only have to contribute RM5 for each foreign worker. This policy attempts to reduce the currently outflow due to remittance by the foreign workers. However this policy was reversed in August 2001 in line with the government's policy to encourage spending to stimulate the nation's economy (Salmie Jemon, 2004). It is obvious therefore that there is not one single important mechanism that is able to control currency outflow. If this situation continues, it will surely have a major impact on our nation's economy.

ISSUES AND IMPACTS

The main issue that will be discussed is the impact of transboundary flow of goods and currency on our nation. For example, although barter trade activities benefits our country from the economic aspects, providing work opportunities and promoting racial relations, it also has some drawbacks. Barter trading activities have been associated with several problems in Sabah. For example, the ships/boats used for barter trading are also used by illegal immigrants to enter our country. In July 2003, the Malaysian Marine Police arrested 53 illegal immigrants who used barter trade boats to enter Sabah. (www.newsabahtimes.com.my, 7.08.04).¹² Although barter trade benefits the country economically, it also causes long term undesirable effects for our nation. It can be used as a channel of illegal entry into Malaysia, causing long term effects on Sabah especially, if left unchecked.

Barter trade channels are also misused by certain parties to facilitate smuggling. An interesting relating to this issue occurred in Tawau in 1997 when an estimated 3,000 Indonesian logs on transit through the port of Tawau were seized as it was believed to have been smuggled out of Indonesia (Report on Barter Trade, Department of Customs and Excise, Tawau, March 2001). As a result of this case, the Department of Customs prohibits transshipment of logs through the port of Tawau, as transshipment hinders efforts made by the Sabah state government to regulate logs from the Sabah's forest, ensuring that they are not mixed with logs from Indonesia and exported without paying royalties.

This also affected the state government's objective of obtaining extra revenue for log exports through certain ports.¹³

In addition, there are also concerns that barter trading is detrimental in other aspects i.e. it enables a problem encountered in one country to be easily 'transferred' to its neighbouring country. Such an example would be the 'bird flu'. In response to this problem the Philippine's government has set up checkpoints in two locations in Pulau Palawan (in Batarraza and Rio Tuba) to monitor and control the entry of life chickens from Malaysia. These two locations are also the main entry points for barter trade activities between Palawan and Sabah (www.malaya.com.ph/feb12/metro1.htm, 3.08.04).

Other problems associated with barter trade activities are when the boats are used to illegally ship firearms. This will lead to an increase in piracy and terrorism activities in Malaysian waters. It is expected that all these problems, smuggling of goods and illegal immigrants, and piracy will only worsen.

The main question that arises is how does the Malaysian government encourages regional cooperation in barter trade, while at the same time control the undesirable factors associated with barter trading that are detrimental to our nation well being. The writers believe that law enforcement is important; therefore we need to increase the number of personnel and provide better equipments and infrastructures to the relevant authorities (namely the police and customs department). We also need to expose our local population, especially those living in the islands and coastal areas on the dangers of the illegal activities. This is important as the local populations have family ties and racial relations, and are able to play a major role in ensuring the success of control measures. This is the main challenge for the Sabah state government, to increase cooperation in barter trade, while monitoring and controlling the illegal aspects associated with it. If the government is successful, it may increase the level of barter trade while at the same time reduce the problems of smuggling and illegal immigrants, especially into Sabah.

CONCLUSION

It is clear that in addition to migration in the context of Sabah, there is also transboundary flow of goods at a high volume between Sabah and its neighbouring countries. The discussions above also demonstrated that these activities are not totally detrimental to our nation. It has also benefited our country, via barter trading and outside investments. It is hoped that the paper will give a new perspective to the relationship between Sabah, Indonesia and the Philippines, and provide an impetus for a paradigm shift with regards to these issues.

NOTES

¹ There are several other forms of transboundary exchange/flow of goods in this context, e.g. capital flow. However, in this paper capital flow will not be discussed. Information on capital flow can be obtained from *Jabatan Perangkaan Malaysia*.

² She also included a limited discussion on remittance.

³ There was a paper done examining the investment relations of Sabah, Indonesia and the Philippines. See Wong Hock Seng & Sarma Aralas (1997), *Perdagangan Intra-Industri Sabah (BIMP-EAGA)*, Jurnal Kinabalu Bil. 3, Universiti Malaysia Sabah, pp. 150-172.

⁴ This concept was proposed in the 1970's in Davao, Mindanao. Philippines President, Fidel Ramos pursued the idea in Oct 1992; and during the First Senior Officer and Foreign Ministers' Meeting in Davao, Mindanao, Philippines on 24-26 March 1994, the formation of BIMP-EAGA was agreed upon, involving Brunei; East and West Kalimantan, and North Sulawesi in Indonesia; Sabah, Labuan and Sarawak in Malaysia; Mindanao and Palawan in the Philippines. See Diana Mendoza & MA Lourdes Melegroto (1999), *BIMP-EAGA in Context: Perspectives from the Philippines*, Proceedings: A Regional Conference on Academic Co-operation in BIMP-EAGA: Prospects and Challenges, 25-26 March, Kota Kinabalu, Sabah and Wong Hock Seng & Sarma Aralas (1997), *op. cit.*

⁵ The incidence in Pulau Sipadan (April 2001) and Pandanan (Sept 2001) has affected barter trade activities. However, up to that time, cigarettes were Sabah's main export to southern Philippines, valued at RM41 million in 1997, RM45 million in 1999, and RM41 million in 2000 (Daily Express, 8.2.01).

⁶ The figure may be impressive but the percentage of the barter trade value out of the Gross Domestic Product of Malaysia (or Sabah) for the year 1998 is not known. Therefore, as the volume is calculated in term of the present currency value (plus inflation), the interpretation of RM 1 billion figure may overestimate the potential and real contribution of barter trade.

⁷ Contraband items are also smuggled out of Malaysia into the Philippines and Indonesia.

⁸ Reports from the Tawau Police Force show that the main sites of illicit drug distribution and use are Kg. Ice Box, Kg. Tanjung Batu and Kg. Kurnia Jaya/Kg. Hidayat. This problem is also prominent among immigrants living in squatter areas.

⁹ The main distribution sites of illicit drugs in Semporna are Kg. Simunul, Bangau-Bangau and several other areas mainly consisting of squatter colonies.

¹⁰ The data are only estimates.

¹¹ This was based on the interview of several Filipinos and Indonesians in Kota Kinabalu, Tawau and Sandakan in 2003 and early 2004, in a research the writers were involved in, headed by Azizah Kassim.

¹² According to sources, the illegal immigrants were charged 500-1,000 pesos for a single trip.

¹³ Although transshipment is not longer conducted in Tawau, the imports of whole logs and sawed wood was allowed in 1999; however this required an import license from the Malaysian Industrial Board and must also fulfill the provisions of the Forestry Enactment (Report on Barter Trade, Department of Customs, Tawau, May 2001 – unpublished data).