

# **Transnationalism of Sebatik Island Malaysia-Indonesia: A Regional Economic Integration Perspective**

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## **Abstract**

Transnationalism refers to the spread of economic, political, and cultural processes beyond national borders. Sebatik Island is unique because the northern region of the island is owned by Malaysia and the southern region belongs to Indonesia. No fence or wall was built to separate the two communities, and there is an informal cross border movement between Malaysia and Indonesia communities. The existence of cross-border trade between two neighboring countries reflects economic ties between border communities. The objectives of this study are 1) to measure the degree of socioeconomic ties between communities across borders between Sebatik Malaysia-Indonesia; 2) to assess the feasibility of creating Sebatik Border Trade Center for regional economic integration. This study employed an in-depth interview with the stakeholders involved in the governance of development in the study area. The selection of stakeholders was based on purposive sampling. Secondary data relating to economic activities was also used to strengthen the findings of the in-depth interview. Fieldwork to Sebatik Island was also carried out for observation of the current economic scenario. The economic fundamentals of Sebatik Island Malaysia-Indonesia were examined with the feasibility of regional economic integration by establishing a Border Trade Center in the Island. Thus, transborder economic development can be planned systematically by both the government of Malaysia and Indonesia as a strategic approach to strengthen the Sebatik economy. The development rubrics of the Sebatik Border Trade Center will take into account economic considerations, while maintaining security approaches to enhance economic development in the border areas.

## **Keywords**

Border Trade, Economic Integration, Sebatik Island, and Transnationalism.

## **1. Introduction**

Indonesia and Malaysia are two countries that share both maritime border on the west side between the Malay Peninsula and Sumatra Island and land border on the east side between Sarawak-Sabah and the Indonesian provinces of Borneo. This land border stretches for 2,004 km from Tanjung Datu in the west to Sebatik Island in the east. As a land border, Sebatik Island, which located near eastern Sabah and North Kalimantan, covers 452 km<sup>2</sup> of land and is considered unique because it falls under two different governments, with the northern region governed by Malaysia and the south is administered by Indonesia (see Figure 1). There is no fence or wall other than a small rock and a mango tree that serve as markings for the separation of Sebatik's Malaysia and Indonesia. Although formally separated and jointly recognized in terms of border politics, there is still informal cross-border mobility between individuals for economic and social purposes. This is due to the fact that the communities on Sebatik Island have had strong social and economic ties since even before the pre-colonial era, as the two communities are ethnically, culturally, linguistically, and religiously similar; Malays and Muslims.

However, it is the modern world bureaucracy that creates political boundary and requires passport travel documents transboundary movements through immigration and customs inspection at entry/exit gates in Tawau or Nunukan. However, family ties between border communities continue to take place informally between families on Sebatik

Island. This well-connected informal relationship has developed the economy of Sebatik Island through transboundary economic activities, mainly in the fishery and agriculture sectors.

The crossing of individuals across borders on Sebatik Island, whether formal or informal, reflects the phenomenon of transnationalism on Sebatik Island, which includes economic and socio-cultural transnationalism. By definition, transnationalism refers to flows and exchanges that take place across national borders (Evangeline 2020). According to Longley (2021), economic transnationalism is the flow of money, human capital, goods, and technology across borders while socio-cultural transnationalism is the flow of social and cultural ideas across borders. Transnationalism creates a greater degree of connection between individuals, communities, and societies across borders, bringing about changes in the social, cultural, economic, and political landscapes of societies of origin and destination (IOM 2010). On the other hand, the idea of transnationalism also implies a weakening of the host country's control over its borders and people (Longley 2021). In today's increasingly interconnected world, the challenge for leaders and policymakers is to look beyond national borders in analyzing the scope, purpose, and impact of their policies.

## **2. Literature Review**

Studies on formal and informal cross-border activities between Sebatik Malaysia-Indonesia for economic and social purposes have been examined by Anuar (2015), Sarma et al. (2017), Amrullah and Ramli (2018), Amrullah et al. (2018), Anuar and Harun (2019), and Wan Shawaluddin et al. (2020).

The study by Anuar (2015) showed that the people of Sebatik-Indonesia depend on the economy of Tawau as a market outlet for agricultural products produced by them. Reciprocally, there are also Malaysian-made goods from Tawau traded in Sebatik Indonesia, especially grocery (*sembako*) products. Economic transnationalism manifested by the formal cross-border economic activity has helped the Island's economy and strengthened social relations on Sebatik Island.

In the study by Amrullah et al. (2018), Sebatik Island is the transit centre of goods between Tawau and Nunukan. Kampung Sungai Haji Kuning functions as an informal trading route between Tawau and Nunukan. The formal trade route is between Tawau Port and Nunukan Port since both ports have the respective customs, immigration, and quarantine (CIQ) inspection facilities.

Amrullah and Ramli (2018) noted that riverboats are the main mode of transportation between Tawau and Sebatik Island. However, this mode of water transport has been taken advantage of by certain parties to commit cross-border smuggling of goods through Sungai Nyamuk (also known as Sungai Aji Kuning). Apart from smuggling, there is also the issue of illegal migrants from Indonesia seeking employment opportunities in Tawau or Sabah. Transnational crimes, such as drug trafficking, also occurred on Sebatik Island (Wan Shawaluddin et al. 2020).

According to Anuar and Harun (2019), the existence of cross-border activities in Sebatik Island and Sabah-KALTARA is further strengthened by the barter trade system under the Malaysia-Indonesia Border Trade Agreement 1970 and the Border Cross Agreement (2006). In 2016, the Sabah state government suspended the barter trade system due to the increased frequency of kidnapping incidents in Sabah's eastern waters. The suspension of the barter trade system has affected trade relations between Tawau and Nunukan. According to Sarma et al. (2017), local traders in barter trading lost huge incomes reaching millions of Ringgit and workers involved in the barter trade sector had to be laid off.

From Indonesian perspective, research by Setiawan et al. (2011) highlighted the poverty rate on the island of Sebatik which is still high. The problem of overlapping development policies in border areas is one of the obstacles in community empowerment efforts. This is in line with the findings of the study of Raharjo et al. (2017) which shows that the social resilience of the Sebatik-Indonesia community is still vulnerable due to limited access to transportation, the supply of basic needs for domestic products and clean water, as well as health education infrastructure. The above conditions have contributed to the dependence of Sebatik-Indonesia on Malaysia.

In the discourse on alternative solutions to develop Sebatik-Indonesia, Pudjiastuti and Raharjo (2019) showed that the Indonesian government has tried to build an Integrated Marine and Fisheries Center and a marine highway program. Unfortunately, the policy did not run smoothly. In addition, Raharjo et al. (2018) also offer alternative solutions that the Indonesia-Malaysia cross-border cooperation has had a positive impact on human, social, and political-security capital (Raharjo et al. 2018).

The literature review above shows that the majority of studies that have been carried out still use a unilateral development perspective. In fact, based on the transnational nature of border areas, a more integrative approach is needed that involves two countries. The study of Raharjo et al. (2018) has slightly started the integration approach through an analysis of cross-border cooperation, but has not used a regional economic integration approach. Therefore, this study differs from previous studies because it uses a regional economic integration approach as an alternative in developing Sebatik Island. In other words, although Sebatik Island is sovereignly divided, it can be economically integrated.

### **3. Methods**

This study uses a qualitative approach with the analytical exploratory method in order to have a better understanding of transnationalism phenomenon in Sebatik Island of Indonesia and Malaysia in a detailed manner.

### **4. Data Collection**

Data collection is done in four ways. First is observation, carried out through field research in Sebatik Island, both in Indonesia and Malaysia territories. Field trips were done several times in 2014, 2017, 2019, and 2021. It includes exploration of illegal border crossing exit and entry point by land and sea transports. Second, interview with informants from national and subnational levels, including government officials, businessmen, community members, and academicians. Third, participation on events and official meeting of international forum that covers Sebatik Island issue such as BIMP-EAGA as the observer. Fourth, literature review on official documents and various secondary data such as books, journals, research reports, and other publications that are relevant to the research topic.

### **5. Results and Discussion**

#### **5.1 Socioeconomic Ties between Sebatik Malaysia and Sebatik Indonesia**

There are 17 villages in Sebatik-Malaysia. Of that total, eight (8) villages adjacent to the Sebatik-Indonesia border were selected by purposive sampling to achieve the objectives of this study (Figure 1). The selected villages are (i) Kg. Sungai Wallace Bay; (ii) Kg. Sungai Pukul; (iii) Kg. Sungai Tamang; (iv) Kg. Sungai Lahat-Lahat; (v) Kg. Sungai Pisak-Pisak; (vi) Kg. Sungai Limau; (vii) Kg. Sungai Melayu; and (viii) Kg. Sungai Bergosong Kecil.

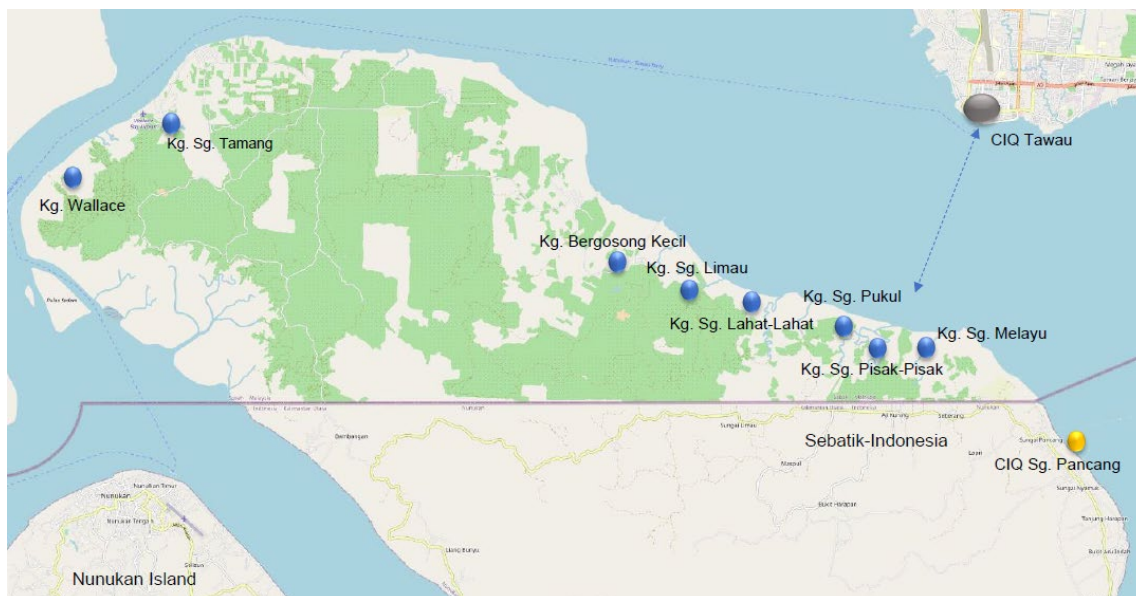


Figure 1. Study area: Selected villages on Sebatik-Malaysia  
Source: Google map modified by authors

The Head of the Village Security and Development Committee in each village were selected as informants. Their views also represent the views of the village community as they are responsible for the socio-economic development in their respective villages. Open-ended questions were posed to eight (8) informants. Questions that reflect cross-border activities on Sebatik Island cover the following aspects: family ties with Sebatik-Indonesia; the purpose of neighboring communities' visit to Sebatik-Malaysia; the requirement of travel documents between Sebatik-Malaysia and Indonesia; local communities' perception of the presence of neighboring communities; local perceptions of building a border fence on the border of Sebatik Malaysia-Indonesia; and the extent to which conflicts at the national level affect local community relations with Sebatik-Indonesia.

Table 1 shows the settlement pattern by ethnicity in the study area. The community profile in the area under study consists of Bajau, Bugis, Tidung, Suluk, and Chinese ethnic groups. In 2016, the total population living in Sebatik-Malaysia was 5,760 people. The population statistics in 2016 is the latest data provided by the Sebatik Community Development Leader Unit. The number of locals living in the study area near the Sebatik-Indonesia border accounts for 56% of the total population of Sebatik-Malaysia.

Table 1. Profile of Sebatik-Malaysia

No of informants / Head of Village	Selected villages (Study area)	Population (2016) *	No. of households*	Ethnic groups	Main Agriculture Crops and Aquaculture	Family ties with Sebatik Indonesia
1	Kg. Sungai Wallace Bay	1,196	235	Bugis and Tidung	-	Yes
2	Kg. Sungai Pukul	694	70	Bajau	Fish farming (small scale)	No
3	Kg. Sungai Tamang (Lama and Baru)	509	38	Bajau, Bugis, and Tidung	Rubber	Yes
4	Kg. Sungai Lahat-Lahat	210	29	Bajau	Fish farming (small scale)	No
5	Kg. Sungai Pisak-Pisak	273	32	Bajau	Cocoa	No
6	Kg. Sungai Limau	149	22	Bajau, Suluk, Bugis and Tidung	Paddy and Cocoa	Yes
7	Kg. Sungai Melayu	94	194	Bajau and Bugis	Fish farming (small scale)	Yes
8	Kg. Sungai Bergosong Kecil	87	40	Chinese	Rubber and cocoa	No
Sum of above		3,312	660			
Total Permanent Inhabitants on Sebatik-Malaysia		5,760	203			
Memo item:						
Kg. Mentadak Baru, Kg. Tongkang, and Kg. Bergosong Besar					Rubber and Palm Oil	

Note: \* Population data in 2016 is provided by the Office of Sebatik Community Development Leader Unit

**Source:** Authors

In comparison, Sebatik-Indonesia consists of 5 districts, namely West Sebatik, Sebatik, East Sebatik, Central Sebatik, and North Sebatik. Table 2 shows that total population of Sebatik-Indonesia in 2016 was 39,145 people, or almost seven times than population in Sebatik-Malaysia. Agriculture and plantation were the main economic sectors in West Sebatik, Central Sebatik, and North Sebatik; while capture fisheries became people's livelihood in Sebatik and East Sebatik. People in Sebatik-Indonesia have similar ethnicities with people in Sebatik-Malaysia, especially for Bugis and Tidung.

Table 2. Profile of Sebatik-Indonesia

No	Districts	Population (2016)	No. of households	Ethnic groups	Main Agriculture Crops and Aquaculture
1	West Sebatik	8,075	1,950	Bugis, Tidung, Javanese, and Timor	Banana, palm oil
2	Sebatik	4,787	1,264		Palm oil, vegetables, capture fisheries
3	East Sebatik	12,904	3,290		Banana, capture fisheries
4	Central Sebatik	7,559	1,689		Palm oil, cocoa, ginger
5	North Sebatik	5,820	1,664		Banana, galangal
All 5 districts in Sebatik-Indonesia		39,145	9,857		

Source: BPS-Statistics Indonesia 2018; Hidayat 2005.

The Bajau people are an indigenous ethnic group that live on the east coast of Sabah, including Sebatik-Malaysia. The origin of the Suluk ethnic group is from the Sulu Islands, Philippines. Meanwhile, the Chinese community, which had become locals following independence in 1957, migrated from mainland Sabah to Sebatik-Malaysia to seek new economic opportunities on the island and settled in Kampong Sg. Bergosong Kecil. By their respective origins, the Bajau, Suluk and Chinese ethnic groups have no family ties with the community in Sebatik-Indonesia.

The Bugis community resides in Kg. Sungai Melayu, Kg. Sungai Limau, Kg. Sungai Tamang, and Kg. Sungai Wallace Bay. They have family ties with the Bugis community in Sebatik-Indonesia, namely Desa Sei Aji Kuning, Desa Sei Panchang, Desa Sei Limau, and Desa Bambang. These villages in Sebatik-Indonesia are close to the villages in Sebatik-Malaysia. Even Kg. Sungai Limau (Sebatik-Malaysia) and Desa Sei Limau (Sebatik-Indonesia) are also known as Bugis village.

Tidung people are local residents of Sebatik Island who have inhabited this area since the 17th century. They also inhabit the Tarakan, Bulungan, and Nunukan regions (Indonesia), as well as Tawau, Sandakan, and Labuk (Malaysia) (Sani and Isbon 2018). Like the Bugis community, the Tidung ethnic group lives in Kg. Sg. Wallace Bay, Kg. Sg. Tamang, and Kg Sg. Limau, and has family ties with the Tidung community in Sebatik-Indonesia, especially in West Sebatik District.

Findings from interviews with the informants suggest that the Bugis and Tidung ethnic groups, who are originally from Sulawesi and Kalimantan respectively, have strong family ties with their communities in Sebatik-Indonesia. Both ethnic groups migrated to Sebatik Island in the pre-British/Dutch colonial era. They had become citizens of Malaya (Malaysia) and Indonesia by *de jure* when Sebatik Island was separated by the British and Dutch colonialists under the London Treaty of 1891 and 1915 (Kadarsih et al. 2020). Despite being separated by a political boundary, cross-border activities on Sebatik Island occur to this day due to the existence of strong family ties with their relatives in Sebatik-Indonesia. Of the eight (8) informants interviewed, five (5) informants from the study area noted that the Indonesian community visited their villages for family matters.

The family ties in Sebatik Island have also opened up opportunities for other cross-border activities, such as for economic purposes, in particular, to seek employment opportunities. Three (3) out of eight (8) informants explained that the Sebatik-Indonesian community sought employment opportunities in their villages, particularly in oil palm, cocoa, and rubber plantations in the study area. Thus, reflecting the existence of informal labor mobility on Sebatik Island. This is partly driven by the neighborhood spirit by sharing economic opportunities between the two communities.

Cross border activities between the two communities become amiable based on neighborhood spirit, trust, and mutual respect. This was noted by three (3) out of the eight (8) informants who described that social visit to the Sebatik-Indonesia region, such as attending wedding ceremonies or participating in cultural programs organized by the Indonesian community, would become less stringent and will be assisted by the Indonesian Armed Forces (“*Tentera*

*Nasional Indonesia*” - TNI) based on neighborhood spirit, trust, mutual respect, and not disturbing public order. While the other five (5) informants stated that there is a need for valid travel documents to go to Sebatik-Indonesia.

The majority of the Sebatik-Indonesia population used the PLB to enter Tawau via Sebatik-Malaysia. All informants in the study area noted that Sebatik-Malaysia is the intermediary route between Tawau and Sebatik-Indonesia. The journey from Sebatik-Malaysia to Tawau takes less than 30 minutes. They would disembark at Batu-Batu Jetty, an unofficial port, and report at CIQ Tawau to comply with the PLB immigration protocols. The PLB facilities have also enhanced cross-border trade activities on Sebatik Island and Tawau. Farmers and traders from Sebatik-Indonesia sell their agricultural products in Tawau and purchase *sembako* goods for their daily necessities. Furthermore, Tawau provides more than 70% of their economic needs.

Presently, with the cessation of Border Crossing Agreement (BCA) 1967 and 2006, traditional cross-border activities between Sei Pancang and Tawau are no longer allowed. The Malaysian government has imposed new cross-border arrangements that require Indonesians visiting Tawau to use an international passport, instead of PLB, and vessels travelling to Tawau must comply with international maritime safety standards.

With the closure of CIQ Sg. Pancang, the Sebatik-Malaysia community who wish to visit their families on the Sebatik-Indonesia need to use the official route, namely Sebatik-Malaysia-CIQ Tawau-CIQ Nunukan-Sebatik-Indonesia. The official route to Sebatik-Indonesia is very time-consuming due to the long journey and incurs higher travelling costs. Since most of the population of Sebatik-Malaysia is from the low-income group, the informal route is more favorable, convenient and cost-savings.

From the aspect of public perception of Indonesian community presence in Sebatik Malaysia, six (6) out of eight (8) informants in the study area stated that the local community welcomes the presence of the Indonesian community in their villages based on mutual respect and family ties. On the other hand, two (2) of the informants in the study area were upset with the presence of youths from across the border who were disrupting public order in their villages. However, these are isolated cases. By and large, cross-border activity between the two bordering communities on Sebatik Island continues to this day and is mostly based on family and neighborhood ties.

Informants expressed varying opinions on the idea of building a border fence or wall to separate Malaysia and Indonesia territory. According to some informants, the proposal is impractical because it would impede the interactions between bordering families who have maintained good relationships based on trust and mutual respect. Other informants agreed with the proposal for the interest of security and ensuring the safety of residents. Some informants proposed to set up a CIQ or PGA at the border rather than constructing a border wall to allow for more organized and controlled movement of people and goods. This will boost the economy of Tawau and Sebatik Island by strengthening the supply chain between Tawau-Sebatik-Malaysia-Sebatik-Indonesia. However, to date, there has been no proposal to build a border on Sebatik Island since both the Malaysian and Indonesian governments have yet to resolve outstanding border issues. However, there is a proposal by the Malaysian government to establish a PGA at Kg. Sungai Haji Kuning and CIQ at Wallace Bay.

Concerning the national-level conflicts between the Malaysian and Indonesian governments and their effects on social interactions between border communities, all informants in the study area asserted that it does not influence the good relations that have evolved since the pre-colonial era. They regard the relationship as ‘Big Brother and Little Brother’ due to race and religious affiliations, namely Malays and Islam.

In summary, transnationalism on Sebatik Island is attributed to formal and informal cross-border activities and practices, as well as the intensity of cross-border exchanges. Ethnic and religious bonds also strengthen cross-border activities. Trade ties also indirectly promote bonds of togetherness between communities on Sebatik Island. Despite the presence of border politics between the two countries, Sebatik Island can be described as a borderless economy.

## **5.2 Feasibility of creating Sebatik Border Trade Center for Regional Economic Integration**

The idea of Sebatik Island as a Border Trade Center (BTC) was mooted by Sebatik-Malaysia’s elected representative in 2006 (The Star 2006). Since then, among the studies that have examined the feasibility of BTC from the Malaysian perspective were Anuar (2015) and Mohammad and Ramli (2018). From the Indonesian point of view, they were Kuntoro (2012), Putro (2016), and Nuri (2016). However, Sebatik BTC has not yet been realized and its location needs to be determined. The following parameters will be evaluated to assess the viability of establishing the BTC and

determines its location: namely: (i) economic structure and activity, (ii) population density, and (iii) supply chain and trade intensity.

The main economic activities in Sebatik-Malaysia are oil palm, rubber, and cocoa plantations, as well as pond fish farming. Oil palm is a major agricultural commodity with a land-use area of almost 11,000 acres, which accounts for 24% of the total land use in Sebatik-Malaysia. The land-use area for cocoa and rubber crops is relatively small, being 299 acres (1%) and 56 acres (0.1%), respectively (Mstar, 2014). The presence of the palm oil refinery in Kg. Sungai Bergosong Besar has enabled small-scale oil palm farmers to process their products in Sebatik-Malaysia and no longer need to travel to Tawau. The majority of Indonesian oil palm farmers sold fresh fruit bunches to oil refineries in Sebatik-Malaysia before the establishment of the palm oil refinery in Sebatik-Indonesia in 2020 (Pro Kaltara 2020; Saidi 2014). There is a transboundary supply chain in the palm oil industry on Sebatik Island. Meanwhile, activities in the fisheries sector are carried out on a small scale by individuals on the coast of Sebatik-Malaysia and fish farming in ponds. Similar to Sebatik-Malaysia, plantations on oil palm, fruits (especially bananas), cocoa, and vegetables are also the main economic sectors in all five districts of Sebatik-Indonesia. In addition, capture fisheries are also an important sector in two districts, namely East Sebatik and Sebatik. Both of these commodities are still in the upstream industry level, most of which are directly sold to Malaysia.

The total population on Sebatik-Malaysia was almost 15,000 individuals in 2016. Of the total, 5,760 (34% of the inhabitants) live permanently on the island, while the remaining 9,924 people lived in Tawau and shuttle to the island for managing their farms and market their agricultural products in Tawau. The population density in Sebatik-Malaysia is low, at 0.4 people/acre with Kg. Wallace Bay has the highest population density of 6 people/acre. Meanwhile, the population density of the area under study, adjacent to the village in Sebatik-Indonesia, is 0.5 people/acre. As in economic activity, the demographic structure is concentrated in the western part of the island since Kg. Wallace Bay is well-connected with Tawau.

On the Sebatik-Indonesia side, the population reached almost 40 thousand inhabitants in 2016. The East Sebatik district has the highest population density of 329 people per sq km or 1.3/acre, followed by Central Sebatik and Sebatik. Meanwhile, West Sebatik District has a low population density of 86 people per sq. km, or 0.4 people/acre (BPS-Statistics Indonesia 2018). In other words, the population of Sebatik-Indonesia is concentrated in the central to the eastern part of the island.

Sebatik-Malaysia functions as a transit hub for the informal exchange of goods, especially agricultural products and consumer goods, between Sebatik-Indonesia and Tawau. The situation is similar for Sebatik-Indonesia, which becomes the intermediary in the exchange of goods between Nunukan and Tawau. Meanwhile, the formal exchange of goods is between Nunukan and Tawau, without traversing Sebatik Island. Another formal trade route from Nunukan to Tawau is to use the Sei Pancang CIQ in Sebatik-Indonesia as an entry point to Tawau (Figure 2).

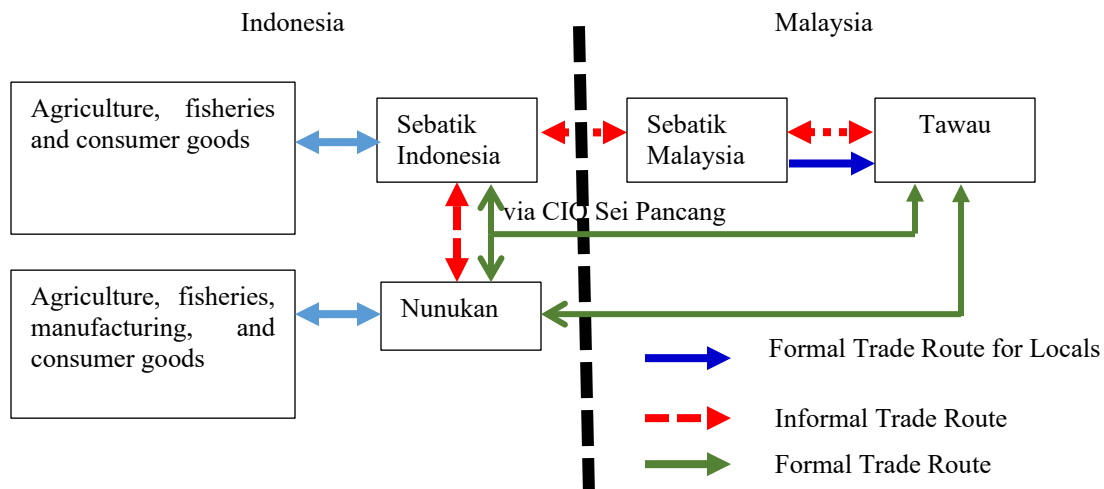


Figure 2. Supply chain and trade route: Nunukan-Sebatik-Tawau

**Source:** Modified and adapted from Kuntoro (2012)

The trade flows between Nunukan and Tawau that conducted through the formal route are shown in Table 3. The value of exports increased over time, with yearly exports averaging US\$56 million from 2014 to 2019. Nunukan imports from Sabah, on the other hand, showed a downward trend, with yearly imports averaging US\$10 million. Nunukan has a positive balance of trade, with a US\$46 million annual surplus over the period 2014-2020. Due to the suspension of the barter trading system by the Sabah state government, the export trend accelerated dramatically in 2016. Exports under the barter trade system are reclassified under normal exports track, resulting in an increase in the value of exports. Imports, on the other hand, have a low volume under the barter trade system.

Table 3. Cross-border trade between Indonesia and Malaysia through Nunukan port, USD million

	2014	2015	2016	2017	2018	2019	2020	Average 2014-2019	Growth rate 2014-2019, %
Export	47.1	44.5	114.0	49.2	39.7	44.9	52.0	55.9	1.7%
Import	12.9	11.0	12.2	14.9	11.1	2.3	3.9	9.8	-18.1%
Trade balance	34.2	33.5	101.8	34.3	28.6	42.6	48.1	46.2	5.8%
Total trade	60.0	55.5	126.2	64.1	50.8	47.2	55.9	65.7	-1.2%

**Source:** BPS-Statistics Indonesia 2021

### 5.2.1 Sebatik Barter Trade Center and Special Border Economic Zone

Two alternatives for the establishment of the Sebatik Border Trade Centre are presented based on the development parameters in Sebatik-Malaysia: first, the Sebatik BTC serves as a Barter Trade Centre in Kg. Wallace Bay; and second, integrating the border region on Sebatik Island with the status of Special Border Economic Zone (Figure 3). The first alternative is a unilateral policy since Sebatik BTC is located on Malaysian territory. Meanwhile, the second alternative is typical of a regional economic integration approach, but it requires cooperation and agreement between Malaysian and Indonesian governments.

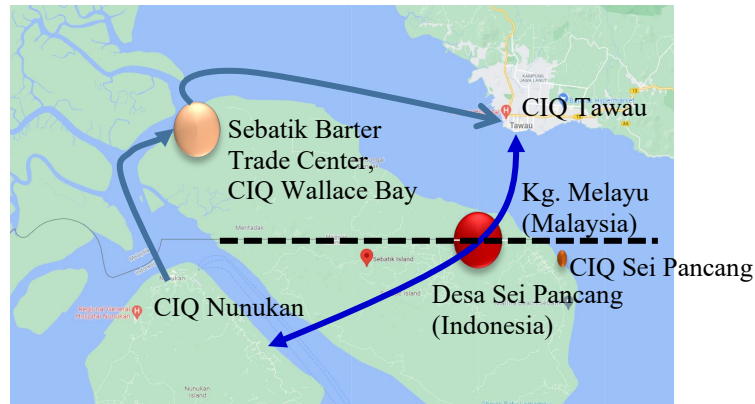


Figure 3. Sebatik border trade center

**Source:** Authors

Alternative 1: Sebatik Barter Trade Center, Wallace Bay. It is proposed that the Sebatik Barter Trade Centre needs to be developed in Wallace Bay to serve as a new barter trade centre to replace the Tawau Barter Trade Centre. Before the suspension of barter trade in 2016, Tawau Barter Trade Centre faced the problem of congestion with delays in loading and unloading of goods for customs clearance which increased logistics costs for barter traders. This choice of location is based on Wallace Bay's strategic position close to the traditional barter trade route between Tawau and Nunukan, and also in concurrence with the Malaysian government's proposal to build a new CIQ in Wallace Bay. An integrated port complex needs to be built in Wallace Bay to facilitate all customs protocols relating to the goods traded under the barter trade system. Therefore, a one-stop inspection system should be designed at CIQ Wallace Bay and Tawau so that there is no re-inspection of goods under the barter trade route at the last exit or entry point. This is for



achieving seamless connectivity in the supply chain between Nunukan and Tawau so that it is more cost-effective and saves time for barter traders. The Sabah State government reinstated cross-border trade with Indonesia, including the Philippines, in March 2021, after it was suspended in 2016 owing to security concerns on Sabah's east coast (Kee 2021).

Sebatik Barter Trade Centre also provides an opportunity for deeper economic integration between Sebatik-Malaysia and two regions in Indonesia, namely Sebatik-Indonesia and Nunukan. Road infrastructure that connects the entire Sebatik area to West Sebatik which is close to the location of the proposed Sebatik Barter Trade Center is already available. Likewise, the port infrastructure in Nunukan which will connect it to Kg. Wallace Bay also already exists, namely Tunontaka and Liem Hie Djung ports. With the cooperation of the Indonesian government and traders, the viability of the Sebatik Barter Trade Center will provide locals with economic and job opportunities, thus promoting development on Sebatik Island.

Alternative 2: Sebatik Special Border Economic Zone. The second alternative is to integrate the border region on Sebatik Island as a Special Border Economic Zone (SBEZ). As conceptualized by Lord and Tangtrongjita (2014), a SBEZ generally refers to a geographic region located along an international border crossing that is designated as a bilateral project area targeting a range of activities like infrastructure development, construction of transport and logistics hubs, and the overall facilitation of cross-border trade and investment. The objective is to bolster the economic development of a border area as part of a subregional development strategy. The SBEZ operates under the following principles: (i) investors are allowed to import and export free of duties and exchange controls; (ii) licensing and other regulatory processes are facilitated; and (iii) firms are usually freed from paying value-added taxes, corporate taxes, and local taxes. However, it encompasses a wider set of components that support physical connectivity in the form of transport, communications and energy links, and soft infrastructure related to; (a) governance (business laws and regulations affecting the facilitation of trade, investment and finance); (b) economic infrastructure (logistics facilities and systems, finance, and processing, and storage facilities; and (c) social infrastructure (border towns, education and research systems, and social welfare and healthcare systems). The fairly broad range of soft and hard infrastructure needed in the common territory between the two countries required close institutional collaboration for the joint planning and management of trans-boundary flows of goods and services as well as the movement of people.

The Sebatik SBEZ is proposed in Kg. Sg. Melayu (Malaysia) and Desa Sei Pancang (Indonesia). These two regions are contiguous and both have a comparative advantage in agriculture, especially palm oil, and aquaculture. The establishment of SBEZ will generate development in Sebatik Island through capital inflows into the SBEZ and further promote cross-border trade. The Malaysian government's decision to build a PGA post in Kg. Haji Kuning will enhance the viability of the SBEZ. On the Indonesian side, the existing CIQ Sei Pancang will serve as an official trade gateway to Tawau.

As of now, the only cross-border trade that is still permitted from Sebatik is the export of fish from Sebatik to Tawau through the Sebatik Integrated Marine Fisheries Center (SKPT). This SKPT was established in 2017. In 2018, this SKPT has succeeded in exporting various types of fish to Tawau (SKPT Sebatik, 2019). Crab is the dominant commodity, which is around one-third of total fisheries products exported to Tawau in 2018 (Table 4).

Table 4. Indonesian fisheries products export to Malaysia through SKPT Sebatik, 2018 (ton)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Average (monthly)
2018	688	529	680	685	719	504	654	647	607	536	563	591	617

**Source:** SKPT Sebatik 2019.

According to Bayu and Umi (2020), the development of SKPT in Sebatik Island is expected to become a new centre of fishery activities along the Indonesia-Malaysia border region. Therefore, this SKPT can be established as a pilot project to develop SBEZ with the involvement of fish traders and entrepreneurs from Malaysia. In addition to the fisheries sector, a palm oil industrial cluster can also be developed in SBEZ, since oil palm is a major agricultural commodity on Sebatik Island. Economic cluster activities will create cross-border networks of productive activities and strengthen industrial links between border economies.

## 6. Conclusion

Transnationalism on Sebatik Island is attributed to formal and informal cross-border activities and practices, as well as the intensity of cross-border exchanges. Ethnic and religious bonds also strengthen cross-border activities. Trade ties also indirectly promote bonds of togetherness between communities on Sebatik Island. In assessing the feasibility of creating Sebatik Border Trade Center, this paper proposes two alternatives: Sebatik Barter Trade Center and Sebatik Special Border Economic Zone. A one-stop inspection system must be designed for the Sebatik Barter Trade Center in Wallace Bay to increase the efficiency of the barter trade system and achieve seamless supply chain connectivity between Nunukan and Tawau. Since Sebatik Barter Trade Center is located on Malaysian territory, it also requires the cooperation of the Indonesian government and barter traders to comply with the Malaysian government's rules and regulations. As the volume of barter trade between Nunukan and Tawau intensifies, the Sebatik Barter Trade Center is expected to provide locals with economic and employment opportunities.

A unified set of policies and incentives in finance, taxation, investment, trade, and customs regulations need to be enacted for SBEZ. This means that close institutional collaboration between the Malaysian and Indonesian governments, especially at the Malaysia-Indonesia Socio-Economic Cooperation Committee (Sosek Malindo) level, is crucial for the establishment of the SBEZ on Sebatik Island. In order for SBEZ to succeed, both governments must develop soft and hard infrastructure components in the SBEZ. The hard and soft infrastructure components will strengthen transboundary economic activities and further facilitate the development of Sebatik Island. The current issues, such as the suspension of Indonesian PLB for cross-border mobility and Indonesian vessels' compliance with international maritime safety standards imposed by the Malaysian government, as well as outstanding border problems between the two countries, must all be addressed for the Sebatik Barter Trade Centre or SBEZ to succeed.

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