

TRADE IN THE SULU ARCHIPELAGO: INFORMAL ECONOMIES AMIDST MARITIME SECURITY CHALLENGES





The report *Trade in the Sulu Archipelago: Informal Economies Amidst Maritime Security Challenges* is produced for the X-Border Local Research Network by The Asia Foundation's Philippine office and regional Conflict and Fragility unit. The project was led by Starjoan Villanueva, with Kathline Anne Tolosa and Nathan Shea. Local research was coordinated by Wahida Abdullah and her team at Gagandilan Mindanao Women Inc. All photos featured in this report were taken by the Gagandilan research team. Layout and map design are by Elzemiek Zinkstok.

The X-Border Local Research Network—a partnership between The Asia Foundation, Carnegie Middle East Center and Rift Valley Institute—is funded by UK aid from the UK government. The findings, interpretations, and conclusions expressed in this report are entirely those of the authors. They do not necessarily reflect those of The Asia Foundation or the UK Government.

Published by The Asia Foundation, October 2019

Suggested citation: The Asia Foundation. 2019. *Trade in the Sulu Archipelago: Informal Economies Amidst Maritime Security Challenges*. San Francisco: The Asia Foundation

Front page image: Badjao community, Municipality of Panglima Tahil, Sulu

THE X-BORDER LOCAL RESEARCH NETWORK



In Asia, the Middle East and Africa, conflict and instability endure in contested border regions where local tensions connect with regional and global dynamics. With the establishment of the X-Border Local Research Network, The Asia Foundation, the Carnegie Middle East Center, the Rift Valley Institute and their local research partners are working together to improve our understanding of political, economic and social dynamics in the conflict-affected borderlands of Asia, the Middle East and the Horn of Africa, and the flows of people, goods and ideas that connect them. This five-year program, initiated in 2018, produces research to inform more effective policymaking and programming. It builds, maintains and expands local research networks in some of the most remote and difficult conflict-affected regions. Finally, it supports improvements in local research methods and capacity. The X-Border Local Research Network is supported by the UK Department for International Development.

TABLE OF CONTENTS

	Executive Summary	4
1	Introduction	6
2	Research design	8
3	Background	10
4	Barter trade across the Sulu archipelago	12
5	Maritime trade among growing insecurity	19
6	Conclusion	22
	Endnotes	23

LIST OF TABLES AND FIGURES

Maps:

Map 1. The Sulu archipelago in the Southwest Philippines	6
Map 2. Territory of the Sulu Sultanate	10
Map 3. The islands and ports of the Sulu archipelago	11
Map 4. Trade flows in the Sulu archipelago	16

Figures:

Figure 1. Diagram of the trans-border chain of actors	12
---	----

Tables:

Table 1. Value of barter trade goods	14
Table 2. Counter trade goods from the Philippines	15
Table 3. Expenses and profit for a standard medium rice import of 10,000 sacks	17
Table 4. Summary of <i>kotong</i> paid during standard import of 10,000 sacks of rice	18

EXECUTIVE SUMMARY

Cross-border trade in the Sulu archipelago, a practice observed by local communities since time immemorial, is at a crossroads between a changing political environment and shifting trends of violence and conflict. Locally known as ‘barter trade’, the predominance of the practice has led to an environment where goods from Sabah make up a significant portion of the local economy; with rice and other food products, fuels, and cooking oils, more readily available than products produced domestically. The remoteness of these provinces from Manila, and their close proximity and shared cultural traditions to Malaysia greater incentivize an economy distinct from Philippine markets. Despite these realities, barter trade presently exists in a legal grey zone, and much of the activity is either informal or illegal.

This study, conducted between the Asia Foundation’s Philippine office and the regional Conflict and Fragility unit, examines the methods by which goods are transported and traded between Sabah and the Southern Philippines. The project is part of the X-Border Local Research Network, a partnership between The Asia Foundation, the Carnegie Middle East Center, and the Rift Valley Institute, aimed at improving the understanding of border regions that experience conflict or fragility. Over the next five years the project will build up a body of knowledge on the unique experiences of communities in border zones.

Research in the Sulu archipelago was undertaken by a team of local researchers, who conducted over 50 key informant interviews across the provinces of Basilan, Sulu, and Tawi-Tawi, as well as Zamboanga City. Data collected during interviews was triangulated against other primary and secondary research, while findings have been screened with key stakeholders to inform recommendations.

This report details the networks of formal and informal actors that includes traders, boat operators, suppliers, port operators, laborers, and regulatory and security agents—both in the Philippines and Malaysia. Each of these play a role in both facilitating and limiting cross-border movement of goods, sustaining a lucrative yet informal local economy. Barter traders may earn up to 1 million Philippine pesos (approx. 20,000USD) for an average rice shipment (10,000 sacks), with various actors—including some state agents—profiting from the practice. The study found that corruption in the form of extracting rents and other ‘special arrangements’, locally known as kotong, are commonly charged by some state agents and others to help facilitate the transport of goods.

This involvement of some state actors may suggest why barter trade appears to remain resilient despite the fragile security environment across the archipelago. The 2013 events of the Zamboanga siege and the Lahad Datu incident—where a group of Filipinos attempted to invade Sabah to reclaim it for the Sulu Sultanate—have led to both Malaysia and the Philippines enacting restrictions on barter trade. A spate of high-profile kidnappings in recent years by local criminal and terrorist groups have only increased security concerns. While these incidents have at times led to suspensions in cross-border trade, the weight of interests from both traders and state agents has meant that restrictions have only been temporary.

Overall, it is clear from the study that there are no significant direct links between cross-border trade and the larger violent conflict dynamics in the region. The fieldwork identified that those groups engaged in kidnapping and terrorism, or the import of drugs and other illegal substances, tend to associate among different networks of actors, and prefer to use small,



Various wooden-hulled boats docked at Chinese pier (public port), Bongao, Tawi-Tawi

narrow boats with fast outboard motors to navigate the archipelago—rather than the slow, large ships suitable for trade. As such, it does not appear that restrictions on barter trade have a marked impact on limiting conflict. Instead, they contribute to maintaining barter traders in a precarious state, whereby they are buffeted by changes in the local security environment.

The passage into law of Republic Act No. 11054 with the plebiscites in January and February 2019, and the establishment of the new Bangsamoro Autonomous Region in Muslim Mindanao (BARMM), offers a renewed opportunity to enact a legal and security regime which supports local traders. Executive Order 64 signed by Philippine President Duterte in late 2018 allows for the establishment of a Mindanao Barter Council (MBC), as well as the designation of ports in Jolo and Siasi, Sulu, and Bongao, Tawi-Tawi, as areas where legal barter ports will be established. The MBC will continue its function until the Bangsamoro Government establishes its own barter trade office, at which point authority will devolve to the regional level.

How these processes are managed, along with existing and emergent security challenges, will be vital for the future development of the region and the stability of the newly created BARMM. Efforts to formalize barter trade as a practice of significant economic and cultural value need to incentivize barter traders and others directly involved in the practice to participate in a legal and transparent manner.

Based off the findings of this study, the following initiatives might be pursued to support barter trade in the Sulu archipelago:

RECOMMENDATIONS

For the Philippine national government

- ▶ As the new Bangsamoro government comes into existence, it is incumbent on the national government and BARMM regional government to clarify authority and roles in promoting and formalizing cross-border trade.
- ▶ State regulatory agencies and state security agencies concerned with cross-border trade, maritime security, and border control should provide clarity and predictability in regulations and operations concerning the movement of goods across the southern maritime border.

For the Bangsamoro Autonomous Region in Muslim Mindanao

- ▶ The BARMM Ministry of Trade, Investments and Tourism should seek to set up a Bangsamoro Barter Council in charge of cross-border trade as soon as feasible. The Office may be mandated to continue efforts of the Mindanao Barter

Council, by virtue of the sunset clause of Executive Order No. 64.

- ▶ Any Bangsamoro Barter Council office should seek to establish relations with counterparts in Sabah and Kalimantan, and begin discussions on harmonizing cross-border trade policies across the three regions.
- ▶ Similarly, a Bangsamoro Barter Council may seek to establish close relations with relevant the institutions of the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) and Association of Southeast Asian Nations (ASEAN) to support the regulation of legal barter trade between Sabah and the Philippines.
- ▶ A Bangsamoro Barter Council may be mandated to clarify the extent of authority over tariffs and quotas in relation to formal cross-border trade, and explore possible incentives to influence market behavior towards the formalization of cross-border trade, as well as necessary safeguards for local actors.
- ▶ A Bangsamoro Barter Council should explore initiatives aimed at increasing transparency, facilitating ease of movement of goods across borders, and strengthening security protocols in the region, in partnership with relevant national agencies.
- ▶ The regional government may maximize the opportunity for local economic growth in the formalization of barter trade, and seek to promote and support local producers and industries, in order to achieve a trade balance with regional counterparts.

For local government units in Zamboanga City, Sulu Province, Basilan Province, and Tawi-Tawi provinces

- ▶ Local government units may consider investing in infrastructure such as the improvement of public ports as well as designated barter ports, in order to maximize opportunities associated with the formalization of cross-border trade.
- ▶ Local government units should explore opportunities for supporting local industries and products to boost exports and countertrade in Malaysia and Indonesia.

For private sector actors

- ▶ There is an opportunity for private actors in cross-border trade to proactively engage in discussions around formalizing cross-border trade. They may consider creating formal networks and/or organizations of barter traders, port owners, boat owners, and other actors, in order to coordinate on key issues and promote their interests in ongoing policy discussions.
- ▶ Private sector actors might explore the development of policies and clear positions on shared issues, including safeguards for local traders, port operations, maritime security, and other areas necessary for incentivizing the formalization of cross-border trade.

1

INTRODUCTION

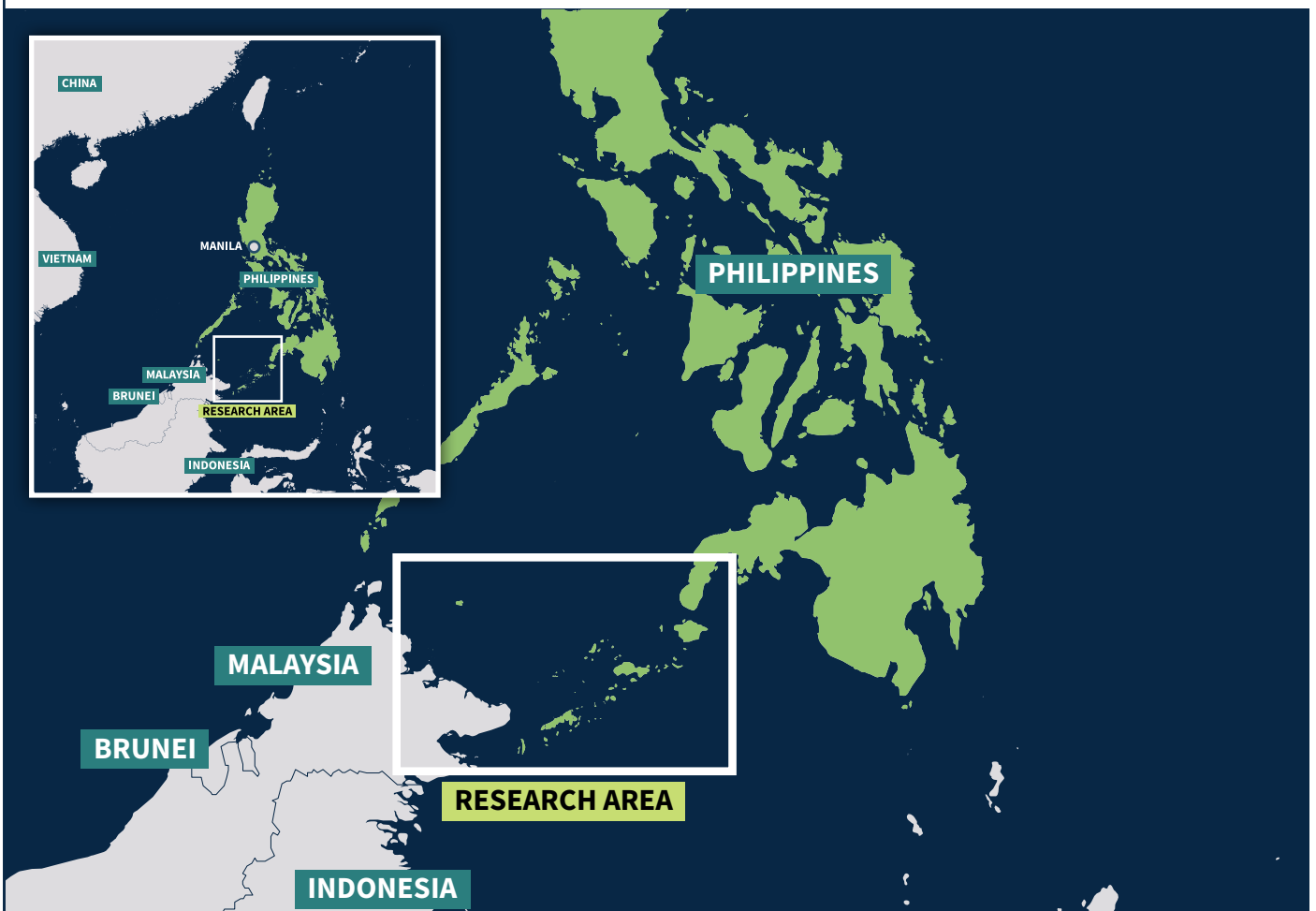
The maritime zone that separates the Southern Philippines from Sabah is a space of largely unregulated economic activity and movement of goods. Informal barter trade and the movement of people, products and produce by small, wooden-hulled boats is central to economies on all sides of the border; particularly in the provinces of Tawi-Tawi, Sulu and Basilan, where goods from Sabah are cheaper and more plentifully available than those produced or imported elsewhere in the Philippines. Familial and ethnic ties sustain sea-faring trading communities which sit across state boundaries.

Informal cross-border trade in the maritime zone that separates the Sulu archipelago in Southern Philippines and Sabah in East Malaysia is an ancient economic and political phenomenon. Also known as barter trade, it dates back centuries, long before the creation of colonial states in the 1500s, and the declaration of independence and legal borders between the two countries in the mid-twentieth century. While the system has evolved

over time with the use of money in exchange of goods, the term ‘barter trade’ is still used to highlight the informality of buying and selling untaxed imported items, and the vital role of traders and transporters in moving these goods across the maritime border. However, while Malaysian authorities have encouraged informal barter trade to continue and flourish,¹ the Philippine government considers these largely unofficial economic activities as illegal trade or smuggling, part and parcel of a looming shadow economy in the region that the state needs to regulate.²

Smuggling, defined in law as an act of fraudulently bringing into the Philippines any imported article violative of customs,³ are of two types: 1) outright smuggling with no supporting documents involved like import entries; and 2) technical smuggling, which entails undervaluation, under-declaration, misclassification and/or diversion of cargo. Persons found to assist the transport and those who receive, conceal, buy or sell

Map 1. The Sulu Archipelago in the Southwest Philippines



such illegally imported articles, including those who illegally export Philippine products across maritime borders are also guilty of smuggling, a crime punishable under Philippine law. Despite this, some state agents and political networks are heavily involved in the trade, extracting bribes locally known as *kotong* during the barter trade process.

While maritime trade has flourished in the region, so too has conflict. Central and Western Mindanao has experienced decades of civil war owing to conflict between Muslim rebel groups fighting for independence from the central Philippine state. While the two main groups—the Moro National Liberation Front (MNLF) and the Moro Islamic Liberation Front (MILF)—have negotiated peace agreements with the government in 1996 and 2014 respectively, deadly violence remains common for the region. Terrorist groups, including those that have pledged allegiance to Islamic State (IS), have continued to engage in violent acts across the region, including kidnap for ransom, IED bombings, and recently, suicide attacks. The five-month siege in city of Marawi in 2017 illustrated the potential for these groups to marshal significant resources and personnel for attacks against the state.

For nearly three decades the Abu Sayyaf Group (ASG), an MNLF splinter group, has engaged in kidnap for ransom, piracy, and other forms of criminality across the seas and islands between the Zamboanga peninsula and Borneo. While its violent acts were previously more commonly associated with profiting financially from their criminality, in recent years factions of the group have increasingly been involved in terrorist violence. Isnilon Hapilon, the leader of the Basilan faction, was pronounced the ‘emir’ of the Southeast Asian faction of the Islamic State, and he and members of the ASG were involved in the Marawi siege. Following Marawi, violence has escalated in Sulu and Basilan, with the January 27 suicide bombings of

a church in Jolo, Sulu, the clearest measure of a new face of terrorism in Southern Mindanao. The Jolo bombing is alleged to have been conducted by an Indonesian couple who had arrived in the Philippines by boat, while other foreigners are known to be living and training alongside other factions of the ASG.

Although the criminality of piracy and kidnap for ransom activity often differs from the ISIS-inspired terrorism epitomized by the Marawi siege and the Jolo bombing, the involvement of ASG has increased the focus on the need to securitise the Sulu archipelago and the maritime movement between Indonesia, Malaysia and the Philippines. While tri-lateral meetings to discuss joint patrols were held as early as 2016, the first exercises took place in June 2017, in the shadow of ongoing Marawi siege. By this stage, while the military effort to wrest control of Marawi was ongoing, security agencies were already looking ahead to containing terrorist and criminal activity in the Sulu Sea. The nuances surrounding which actors were involved, and the overall history and centrality of maritime movement to life in the Sulu archipelago, were lost within the push to respond to insecurity and violence in the region.

Caught within this security dilemma are those that ply the seas for their livelihoods – the traders that are central to local economies and markets. The informal nature through which they make their livelihoods means they are uniquely exposed to fluctuations in the security climate, national and regional policies, as well as pressure from state agents. Isolated from the formal economy, there are opportunities to earn significant profit for those able to absorb the uncertainty that permeates such a fragile environment. This research sheds light on the practices of these barter traders, and outlines their interactions with the state, and their exposure to violence and conflict in this porous maritime border.



Hadji Panglima Tahil Port (private port), Municipality of Panglima Tahil, Sulu

2

RESEARCH DESIGN

The situation in the Sulu archipelago highlights the disparity in what the state considers to be ‘illicit’ or ‘illegal’, which may not necessarily be viewed as such by local communities that are dependent on maritime trade. The prevalence and resilience of informal trans-border trade in the Sulu chain of islands also calls for a deeper analysis of the power relations between the central state and traders whose thriving operations at the fringes of the maritime zone are seemingly beyond the gaze and control of formal political structures. Hence, the need to ‘unpack’ the factors that have shaped these relationship dynamics across time and space, particularly amidst renewed maritime security challenges associated with the rise of violent extremism in Southeast Asia.

The research reveals the relationship dynamics surrounding the informal trans-border trade operations in the Sulu Sea, in view of the resilience of the barter trade system established in the Sulu archipelago with Sabah, Malaysia, and a long history of maritime insecurity and violence in this porous and largely ‘ungoverned’ maritime zone.

This study explores and details the methods by which goods are transported and traded primarily between Sabah and the Southern Philippines. An analysis of the relationship dynamics among different actors in trans-border informal trade revolves around the following research questions:

What formal and informal networks facilitate or limit cross-border movements in the Sulu Sea?

How have efforts to secure the maritime borders impacted the movement of people and goods? What coping strategies have locals adopted in response to increased pressure by security agencies?

Are there direct and/or indirect linkages between trans-border trade and conflict in the Sulu archipelago? What impact do changes in local economic conditions have on conflict dynamics in Zamboanga, the Sulu archipelago and across Mindanao?

Key networks or nodes across the Sulu island chain allow for the movement of goods and people outside of the state’s apparatus. Some across the provinces are seen to gain advantage from the capture of rents in shipping and movement of goods within the maritime region, whereby illicit trade takes place through private or unofficial ports and markets. Landing fees and other rents sustain a system which is seen to provide mutual benefits for some local clans and state authorities, including customs, coast guard, maritime police, and other market and port officials.

Since the latter part of 2016 the Philippine Navy and Coast Guard have increased patrols in the Sulu Sea, in response to a spate in ship hijackings, kidnappings and armed robberies

perpetuated by the ASG, an Islamic extremist group with its base of operations in Sulu and Basilan. This heightened security environment, in conjunction with other factors, has had an impact on the price of rice and other basic commodities coming in from Sabah, including cooking oil and gasoline.

Yet despite this, little is understood of the linkages between economic activities in the Sulu archipelago and the dynamics surrounding conflict and violence more broadly. Considering the growing presence and geographical reach of kidnap-for-ransom groups with perceived linkages to violent extremism within the tri-border area, securing the maritime borders has become a priority for both Malaysian and Philippine authorities in recent years. However, there appears to be no formal linkages between the barter trade industry and terror or kidnap groups, although related studies infer violence to be inter-linked with shadow and coping economic activities. The province of Tawi-Tawi, in particular, has experienced significantly less violence than its Sulu and Basilan neighbours, despite being at the crossroads of illicit trade in drugs and firearms, trafficking in persons, and other trans-border crimes committed in the seas between Sabah and the Sulu archipelago.

Efforts in improving maritime patrols are primarily aimed at blunting the capacity to commit acts of violence by ASG and other armed groups criss-crossing the Sulu Sea. However, the effectiveness of existing security measures needs to be assessed vis-à-vis its objectives and intended outcomes, including its unintended impacts, particularly on informal trade networks that constantly cross the maritime borders.

“

The research reveals the relationship dynamics surrounding the informal trans-border trade operations in the Sulu Sea, in view of the resilience of the barter trade system established in the Sulu archipelago with Sabah, Malaysia, and a long history of maritime insecurity and violence in this porous and largely ‘ungoverned’ maritime zone.

”

METHODOLOGY

The study is highly descriptive and mainly draws from the personal knowledge and experiences shared through one-on-one interviews by barter traders, state regulatory and security agents, and local government representatives. It is supplemented with political mapping and situational analysis among research team members, desk review and analysis of relevant government documents, research papers and news reports. Findings from key informant interviews were assessed throughout the data collection phase to validate the results and identify data gaps. Further interviews were conducted with a select group of illicit traders and ‘insiders’ of smuggling operations, including interviews with development workers and researchers who have substantive knowledge on the peace and security situation in the islands of Basilan, Sulu and Tawi-Tawi, and Zamboanga peninsula areas. Data was triangulated and cross checked where appropriate to ensure the validity of the information collected.

The research was conducted over a six-month period, from November 2018 to May 2019. Data gathering and field work were conducted January and February through a team of local field researchers who were trained and deployed to conduct one-on-one key informant interviews in various research sites in Basilan, Sulu, Tawi-Tawi and Zamboanga City. They visited

major public ports and private landing areas in each research locale and observed, firsthand, the loading and unloading of goods and passengers. They also took pictures of boats and port facilities where safe and appropriate to do so.

A total of 36 traders (20 females, 16 males) participated in the interviews along with 18 local government, security and regulatory personnel (15 males, 3 females). A number of local state agency officers were approached for interview but refused. The identity of all informants have been anonymized in order to minimize risks to their personal safety.

The traders who participated in the study are diverse in terms of their knowledge and experience in trans-border movements. The majority have 10-20 years of experience in barter trading. The least experienced traders have been in the business for 2-3 years while the ‘old timers’ have been trading for more than 30 years. In terms of age, the youngest trader interviewed is 30 years old while the oldest is 62 years old. Most of the traders are married with 3-5 dependents. They had predominantly established the business on their own, with support or in partnership with their spouses. A majority rely on barter trade as their main, if not the only, source of income while a few have alternative sources that they can fall back into in times of crisis.



Waterside township in Bongao, Tawi-Tawi

3

BACKGROUND

A LEGACY OF MARITIME INSECURITY AND VIOLENCE ROOTED IN HISTORICAL INJUSTICE

In understanding the connections between trans-border trade and violent conflict in the Sulu Sea, it should be noted that this maritime region has a long history of maritime insecurity and violence, and the patterns of illicit trade and smuggling observed in the past continue to repeat itself up to the present. This is observed in the long reach of trans-border networks based on family ties and ethnicity; the use of local knowledge, geography and transport; and the powerful force of corruption that facilitates the movement of goods across maritime borders.⁴ These patterns also highlight the co-existence of illicit trade and violent conflict that would sometimes intersect but not necessarily trigger direct physical violence.⁵

The Sulu Sea is historically notorious as a 'hot spot' for piracy and armed robbery. The flourishing barter trade encouraged an increase in piracy along with slave trading among Moro⁶ Muslim groups towards the end of the 18th century.⁷ It was part of the tea trade redistributive economy to supply the needs for farm workers in tea plantations, as well as increasing

demand for sea pearl divers and harvesters of bird's nests and other forest products. The practice of piracy was minimized during the Spanish colonization with the use of faster steamships acquired from the British.⁸ Advancement in maritime navigation technology during the American period further reduced piracy and armed robbery in the early 1900s. However, it made a comeback after the Philippines gained its independence in 1946, with the proliferation of modern firearms and motorized boats powered by inexpensive US military surplus engines brought in by the war.⁹

The early martial law years led to the violent uprising and migration of Moro separatist groups¹⁰ in Southern Philippines who sought refuge in Sabah. Decades of internal conflict and violence that followed, coupled with clan-based politics and weak governance, have resulted in extreme poverty and underdevelopment of Moro communities. The continuing cycle of poverty and violent conflict has had a spillover effect on the coastal peripheries of the Sulu archipelago, with the formation of small armed groups like the ASG that has morphed over the years and elevated the legacy of piracy and armed robbery to a new high level of violence.

Today, trans-border trade operates in a complex conflict environment, the root causes of which have remained unresolved despite the signing of a peace agreements between the government and the MNLF in 1996 and the MILF in 2014. Evidence points to centuries of colonization resulting in prolonged poverty, marginalization, lack of economic opportunities, weak governance and neglect as the main drivers of conflict and violence in the Sulu archipelago. These recurring and inter-locking issues are deeply embedded in a succession of flawed policies and programs designed by a central state that has been insensitive and unresponsive to the needs and aspirations of marginalized Moro groups and island communities. This conflict environment has, thus, been defined by continuing patterns of structural and cultural violence, and historical injustice inflicted upon the Moro people for generations.

Map 2. Territory of the Sulu Sultanate



ZAMBOANGA CITY AND THE ISLANDS OF THE SULU ARCHIPELAGO

The Sulu Sea is a wide maritime zone bounded to the northwest by the Philippine island of Palawan; to the southeast by the Sulu archipelago that comprises the island provinces of Basilan, Sulu and Tawi-Tawi, and the Zamboanga peninsula in mainland Mindanao; and in the southwest by the eastern

Malaysian state of Sabah.¹¹ It converges with the Celebes Sea that is bordered by the Sulu archipelago and Mindanao in the north; Sabah and the Indonesian province of Kalimantan to the west; and Sulawesi to the south.¹² This convergence of two huge bodies of water that connects the maritime borders of the

Philippines, Malaysia and Indonesia is also known as the ‘tri-border area’ that stretches 900,000 km² east of Southeast Asia.

Zamboanga City is the southernmost tip of the Zamboanga Peninsula in mainland Mindanao. It is bounded on the west by the Sulu Sea, on the east by the Moro Gulf, and on the south by the Basilan Strait and the Celebes Sea.¹³ It is the sixth largest city in the Philippines in terms of population, with 861,799 inhabitants.¹⁴ Sixty per cent of the populace are Christian settlers while 35 per cent are Muslims, mainly Tausug, Yakan, Samal and Badjao ethnic groups. Dubbed as “Asia’s Latin City,” it is a testament to 300 years of Spanish colonial rule, with *Chavacano*, a mix of Spanish-based creole and native languages, as the *lingua franca*. As a gateway between the Sulu archipelago and the rest of Mindanao, nearly five million people pass through Zamboanga City’s main public ports each year. Other private ports and berths are known to allow the illicit movement of goods in and out of mainland Mindanao.

The island of Basilan is the largest and northernmost of the major islands of the Sulu Archipelago. It is bounded on the north by the Basilan Strait, on the east by the Moro Gulf, on the southeast by the Celebes Sea and on the west by the Sulu Sea. It sits just off the coast of Zamboanga City, with the island’s largest city being Isabela, despite it not being a part of Basilan province from which the island shares its name. The island’s population is 41 per cent indigenous Yakan, 33 per cent Zamboangueno settlers of Visayan descent, and 25 per cent being other Muslim groups, including Tausug, Samal, Bajau and Iranon. Key market ports are found in Isabela City and Port Holland in the municipality of Maluso.

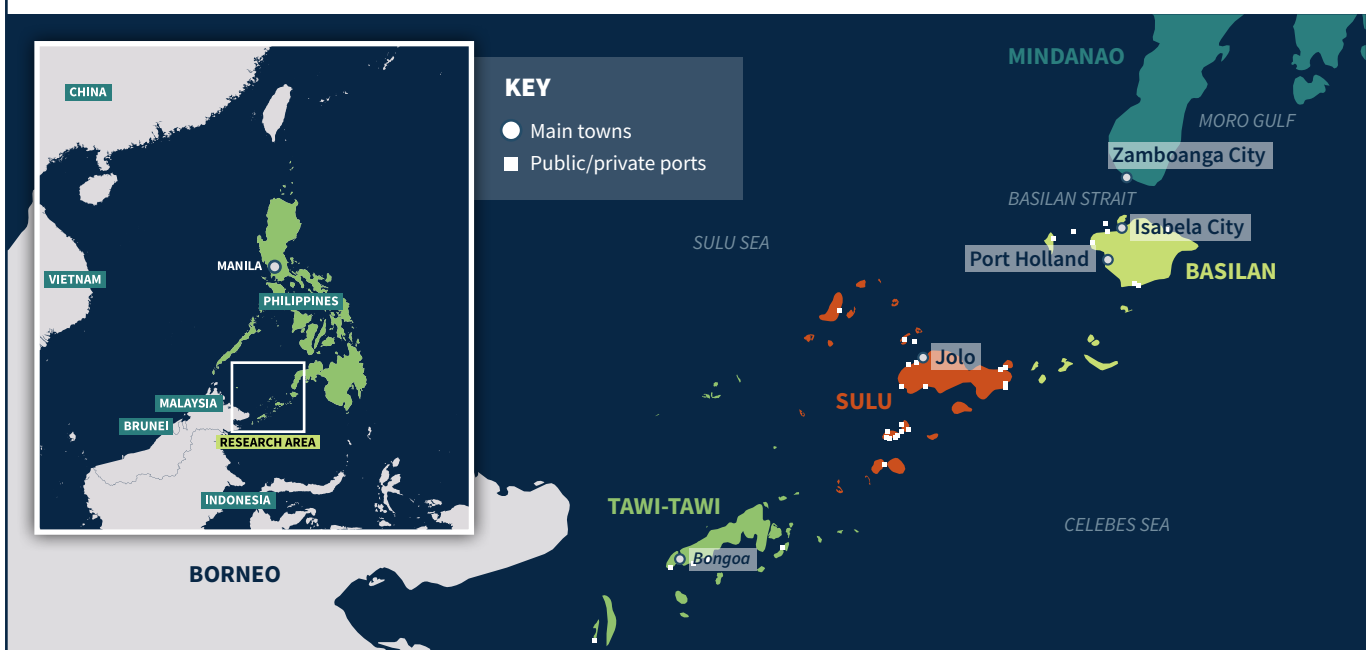
The province of Sulu lies midway between the islands of Basilan and Tawi-Tawi. It is surrounded by the Sulu and Mindanao Seas

on the West and North, and the Celebes Sea on the East.¹⁵ There are over 157 islands and islets in Sulu, and these are divided into four groups: Jolo which is home to the province’s capital of the same name, Pangutaran, Tongkil-Banguingui (Samales), and Siasi-Tapul. Sulu is the most populous of the three island provinces, with 825,000 inhabitants as of 2015. Tausug is the dominant ethno-linguistic group with 90.6 per cent of households identifying as such. Outside of Jolo, key ports and markets are found in the municipalities of Maimbung, Siasi and Pangutaran.

The province of Tawi-Tawi is at the southernmost tip of the Sulu archipelago, and is considered to be the country’s gateway to other Southeast Asian countries. It is bounded on the northwest by the Sulu Sea, and on the south by the eastern part of Celebes Sea.¹⁶ It comprises 307 islands and islets, and these are divided into three groups: Tawi-Tawi, Cagayan de Sulu and the Turtle Islands. The municipality of Bongao in the island of Tawi-Tawi is the center of trade and governance. Half of the population are Sama, 36 per cent are Tausug, and the rest constitutes a minority group of Jama Mapun, Bisaya, Sama Laut, Sama Bajao, and others. The major ports in Tawi-Tawi are in Bongao while there are other smaller transit points in the municipalities of Tandu Banak and Sibutu, Tubig Indangan and Tampakan, and Jambatan Sallangan. A future cargo port is proposed in Brgy. Malassa, Bongao which would have a significant impact on the flow of goods and people across the Sulu archipelago and North Borneo.

Though the archipelago covers only a small area, there is significant cultural and linguistic diversity across islands and peoples. There are also major differences between the island communities and their Moro cousins in Central Mindanao. This diversity inspires a rich and complex history distinct from the majority of the Philippines.

Map 3. The islands and ports of the Sulu archipelago



4

BARTER TRADE ACROSS THE SULU ARCHIPELAGO

TRANS-BORDER CHAIN OF ACTORS IN THE TRADING OF GOODS

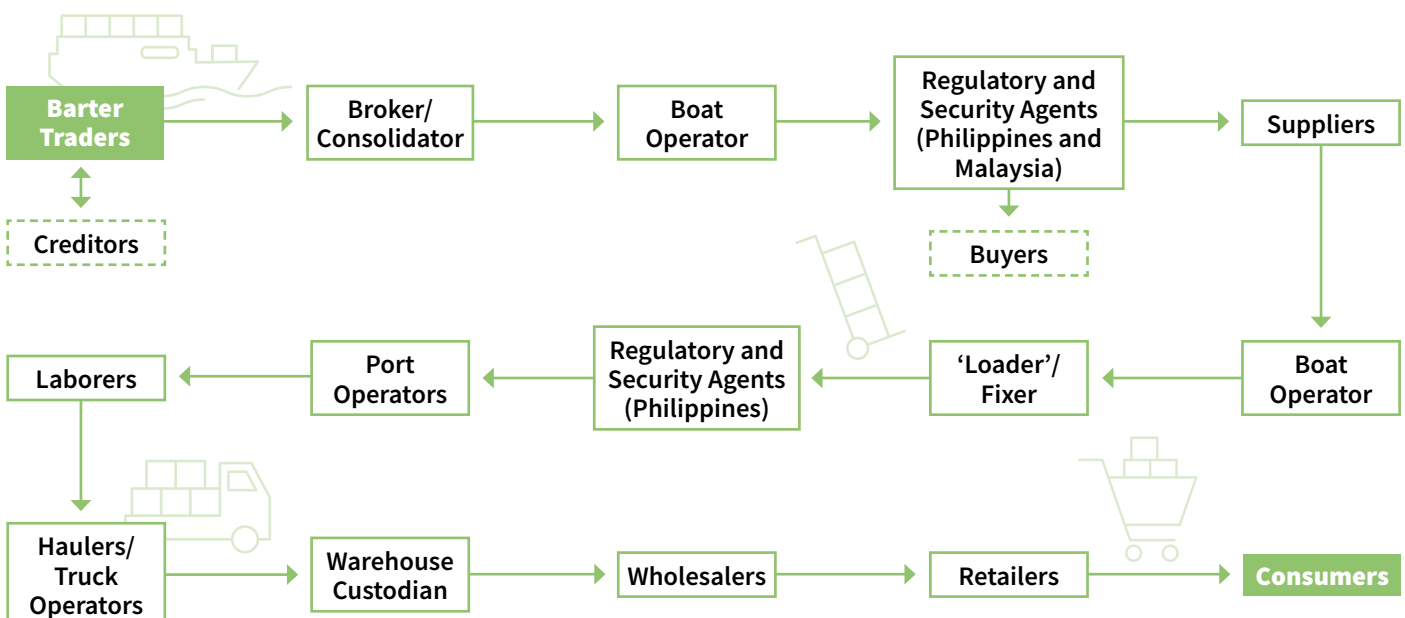
There is no data on the actual number of cross-border traders in the Sulu archipelago, on account of the largely informal and illicit nature of barter trade activities that exist side by side and intersect with licit and formally registered commercial trading operations.¹⁷ Official data from the Department of Trade and Industry (DTI) are said to be significantly below the actual number of traders, the majority of whom are informal and thus not registered with the DTI. In 2016, only a total of 461 micro, small-to-medium enterprise (MSME) traders are registered in the Sulu archipelago, of which 204 are in Tawi-Tawi, 129 are in Sulu, and 128 are in Basilan.¹⁸ These figures represent 39 per cent of the total number of registered MSME traders in the Bangsamoro autonomous region. Anecdotal evidence suggests as few as one in every ten traders is registered with the DTI in Tawi-Tawi.¹⁹ Nonetheless, data from DTI reflects there are more traders operating in Tawi-Tawi than in Sulu and Basilan; considering its proximity to Sabah, this is an advantage in terms of getting a higher margin of profit before the goods are transported to the other island provinces and nearby areas. It is for this reason that Tawi-Tawi is seen to be economically better off than its neighbours, having the highest

household income and lowest poverty incidence among the island provinces.²⁰

While no similar data is available in Zamboanga City, most barter traders based therein have close family and social connections with barter traders in the island provinces due to ethnic-religious ties. All traders based in Zamboanga City who participated in the research have their roots and families in the island provinces that they visit regularly. This is indicative of the extent of trans-border networks that have been established, and the important role they play in facilitating the movement of goods within the Sulu island chain, and across the border with North Borneo.

While the traders are the prime movers of barter trade, they rely on a chain of formal and informal actors that includes boat operators, brokers, regulatory and security agencies, suppliers, port operators, and haulers, to ensure a steady supply would reach the consuming public. Figure 1 below traces the barter trade process and the formal and informal actors involved in each step.

Figure 1. Diagram of the trans-border chain of actors



The chain starts with the traders whose primary concern is to raise the needed capital and sail across the border to Sabah. While most of the traders interviewed for the study claim to have enough capital, there are times when they need to borrow money, mostly from their parents, relatives and other traders who do not charge them with interest. A few would get loans from local cooperatives and informal sources of credit at low interest rates. In Tawi-Tawi, traders are organized and have their own association which provides loans to its members. Women traders would also pawn their jewelry for additional cash. Once capital is secured, the traders would make a list of purchases in preparation for the trip. Small traders would usually pool in their money in order to charter a boat to Sabah, while 'big time' traders would charter or buy their own boats. A broker or consolidator is usually part of the chain to facilitate the process of getting purchase orders from store owners and retailers for a fee. Once completed, he would approach the boat operator and set the schedule for the trip. The boat operator would prepare the documents required for travel.

With a few passengers and an empty boat, traders and boat operators easily pass through state security and regulatory agents within Philippine waters. Upon reaching the maritime border with Sabah, these state agents would facilitate border crossing by forwarding travel documents and copies of purchase orders to their Malaysian counterparts. If problems arise, they also assist traders and boat operators in negotiating entry to Malaysian waters. On the other side of the border, When the security environment is stable, Malaysian security and regulatory agents are generally lenient with Filipino traders and boat operators. Upon reaching the barter ports in Sabah, traders contact their Malaysian suppliers who would bring the goods that they have pre-ordered to the harbor. Walk-in traders can also make purchases. Payment is usually done in cash or through bank transfers, although 'big time' rice traders and cigarette smugglers who have established good business relations with their suppliers are known to have credit lines of up to one month, and up to 50 per cent of the total amount purchased. For example, in one boat load of rice mixed with cigarettes amounting to P30M, the trader would pay P15M

through bank transfer, and the remaining balance would be paid in the next shipment.

A small number of traders interviewed for the study do counter trade or export goods from the Philippines. One trader in Zamboanga City sells South Sea pearls while his counterparts in Basilan and Sulu bring Yakan and Tausug woven clothes, shawls and *ternos* (suits) for their Malaysian and Filipino Muslim buyers across the border. Basilan traders also sell local wines and liquors, perfumes and medicines for Filipino workers in Sabah. These counter trade transactions by informal traders, however, are done surreptitiously and in small quantities since Malaysian authorities do not allow such 'illegal' exchange. On the other hand, formal traders have not encountered such a problem, like the exporter interviewed for the study who has been transporting dried seaweeds from Zamboanga City directly to Sandakan for two decades. This disparity highlights the Philippines' one-sided barter trade relations with Malaysia as "Mindanao traders purchase more than what they sell to Sabah traders."²¹

With a boat fully loaded with goods, traders and boat operator sail back home. Upon entry in Philippine waters, they encounter problems with state security and regulatory agents who now label them as smugglers. It should be noted that while these state agents were facilitative when traders crossed the Philippine border to Sabah, they are now more restrictive, knowing that the boat carries barter goods and contraband items in large volumes. The traders and boat operator are forced to pay rents in the form of "special arrangements," otherwise, the boat or the cargo (or both) would be confiscated, depending on the offense. In order to avoid delays and further problems, traders employ the services of a 'loader' or fixer who negotiates with state agents and port operators to unload the cargoes for a fee. The loader would get laborers who would transfer the cargoes from the boat to a waiting vehicle provided by a hauler/truck operator. The goods would, then, be transported to a warehouse for storage, and would be received by a custodian. From there, it would be distributed to wholesalers and retailers before finally reaching the consumers.



Activity at Chinese pier (public port) in Bongao, Tawi-Tawi

TRADED GOODS: VOLUME, PRICES AND PROFITS

There is high demand for imported goods from Sabah among borderland communities in the Sulu archipelago due to the following factors. First, the proximity of the Sulu islands to North Borneo provides easy access to quality consumer goods at cheaper prices. Rice, for instance, is 50 per cent cheaper in Sabah, along with gasoline. Second, the short supply of goods coming in from mainland Mindanao hardly reaches consumers in remote islands and islets. In the province of Tawi-Tawi, almost 90 per cent of the supply in rice, sugar, flour, cooking oil and fuel comes from Sabah.²² In the island municipalities closest to the border, Malaysian traders supply 100 per cent of the local population's daily needs which include fresh meats and vegetables.²³ A third and equally important factor is consumers' preference for *halal* products since a majority of the islanders are Muslims.²⁴ The Philippine *halal* industry is not properly developed; at present, not all locally

made products are *halal* certified, and this is a growing concern among Muslim groups, especially in Mindanao. The island communities' limited access to quality and affordable consumer goods compliant with Islamic laws has, thus, created a demand and opened market opportunities for the movement of goods across and within the Sulu archipelago's maritime borders.

There is a wide range of consumer goods that traders buy in Sabah and transport across the border for local markets in the Sulu archipelago, Zamboanga and other parts of Mindanao. The table below provides an overview of a selection of the primary products being imported, including the average volume, buying and selling prices, and the margin of profit computed on a monthly basis.

Table 1. Value of barter trade goods

	GOODS	VOLUME (2 trips/month)	BUYING PRICE (per piece)	SELLING PRICE (per piece)	TOTAL PROFIT
CLOTHING	Long dresses	60-100 pc/mo	PHP 435-960	PHP 800-1,500	PHP 21,900-54,000
	Tausug attire	300 pc/mo	PHP 1,000	PHP 1,300	PHP 90,000
	Sari/saree	100 pc/mo	PHP 3,000	PHP 3,500	PHP 50,000
PRIMARY COMMODITIES	Rice (25 kg/sack)	10,000-18,000 sacks/mo	PHP 500-600	PHP 750-800	PHP 2.0-3.6M
	Sugar (50 kg/sack)	10,000 sacks/mo	PHP 1,000-1,500	PHP 2,250	PHP 7.5-12.5M
	Palm oil	2,000 boxes/mo	PHP 730	PHP 900	PHP 340,000
FOOD ITEMS	Noodles (Maggi kari)	2,500-5,000 boxes/mo	PHP 715-750	PHP 800-850	PHP 212,500-500,000
	Canned goods	500-1,000 pcs/mo	PHP 50	PHP 65	PHP 7,500-15,000
	Chocolate drink	245 cans/mo	PHP 245	PHP 265	PHP 4,900
HOUSEHOLD ITEMS	Bath soap	500 pcs/mo	PHP 70	PHP 100	PHP 15,000
	Cigarettes	2,000-5,000 cases/mo	PHP 9,800	PHP 12,500	PHP 5.4-13.5M

* PHP = Philippine Peso

While the prices of barter goods fluctuate based on supply and demand, traders usually earn a margin of profit equivalent to 30 per cent of the capital they put in. Primary commodities like rice and sugar generate a much higher margin of profit compared to clothing, food and household items, except for palm oil which the Malaysian government has strictly limited to 500 boxes per week. Cigarettes generate the highest profit,

although transporting it in large quantities is deemed highly illegal, as is gasoline.

While barter trading is a highly lucrative business, it requires a considerable amount of capital in order to generate a decent margin of profit to sustain the business. Inexperienced traders usually begin with PHP 50,000-100,000 working capital for

clothing, while seasoned traders may can go as high as PHP 10 million per trip for rice, PHP 12.5 million for sugar, and PHP 20-25 million for cigarettes. One informant stated, “only newbies operate on a PHP 1.2 million capital or less.” Another informant claimed that a trader needs a capital of PHP 20 million to make a profit in barter trading. As traders gain more experience in running the business, they increase their capital and explore other goods to import in order to maximise their profit and provide for their families.

As mentioned earlier, a few traders engage in counter trade to increase their income. The table below shows the buying and selling prices of exported items, the margin of profit and volume estimates.

A seaweed exporter earns a monthly income of PHP 400,000, while counter traders who sell South Sea pearls and Yakan

woven clothes/*ternos* (suits) in small quantities earn additional monthly incomes of PHP 40,000 and PHP 30,000, respectively. The table also shows a huge margin of profit in selling local wines and liquors, perfumes and medicines, suggesting there may be potential for greater export of Philippine products to Sabah and the rest of North Borneo.

According to an informant, illicit counter trade is quite rampant, and there is a market for Philippine products among Filipino workers and communities scattered in North Borneo. Furthermore, the federal state of Sabah profits in the transshipment of goods from other countries that pass through its borders. Thus, there are benefits for Sabah traders to sell Philippine products brought in by Mindanao traders. Further research on the economic potential for exports and counter trade may be warranted.

Table 2. Counter trade goods from the Philippines

GOODS	VOLUME (2 trips/month)	BUYING PRICE (per piece)	SELLING PRICE (per piece)	TOTAL PROFIT
Dried seaweeds	20 MT/mo	PHP 50-60/kg	PHP 70-80/kg	PHP 20/kg
Southsea pearls	10 pcs/mo	PHP 5,000/pc	PHP 8,000-10,000/pc	PHP 4,000/pc
Yakan woven clothes/<i>terno</i>	10 sets/mo	PHP 7,000/pc	PHP 10,000/pc	PHP 3,000/pc
Tausug attire, <i>Pis siyabit</i> (shawl)	No data	PHP 3,000-5,000/pc PHP 5,000-10,000/pc	PHP 3,500-6,000/pc PHP 5,500-11,000/pc	PHP 500-1,000/pc
Wines and liquors	No data	PHP 3,000 ²⁵	PHP 8,000	PHP 5,000
Bench perfumes	No data	PHP 10,000 ²⁶	PHP 18,000	PHP 8,000
Medicines²⁷	No data	PHP 13,000/box	PHP 40,000/box	PHP 27,000

* PHP = Philippine Peso

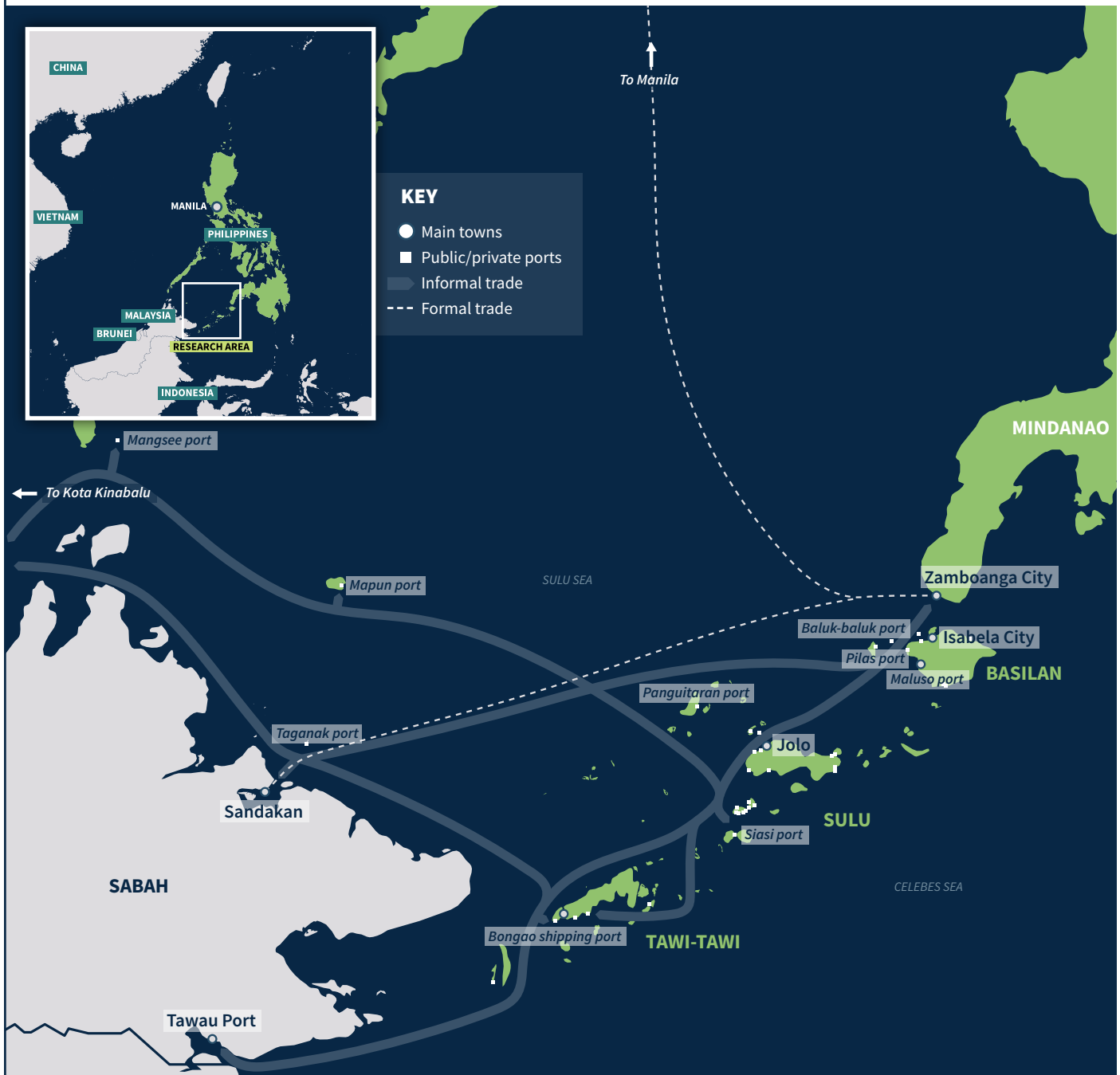
TRADE ROUTES, LANDING PORTS AND MODES OF TRANSPORT

The trade routes, landing ports and modes of transport utilized in moving goods across the borders are largely dependent on the type and volume of such goods, and the level of risk involved in transporting them. Traders are commonly characterized as one of two types: a) formal traders who cross the border through licit and official channels; and b) informal traders who cross the border through illicit and unofficial sea lanes. In practice, however, the notion of what is ‘formal’ and ‘informal’ can be relative and tends to overlap, depending on how traders view themselves and their operations vis-à-vis other traders. For example, formal traders may leave the Philippines from public ports, but return via a series of private ports to unload goods and minimize rents and duties. Or, in addition to importing food items and primary commodities, they may smuggle more illicit items such as cigarettes among their cargo.

It is difficult to separate formal and legal traders and transactions from those that are informal and illegal due to contrasting policies on either side of the border. While the barter export trade is legal and is highly encouraged by Malaysian authorities, imported goods to Malaysia are considered illegal or ‘smuggled’, and transporting them without collecting customs duties is violative of importation laws. The wooden-hulled *lantsa* ships have also at times been barred from Malaysian waters, due to concerns around their safety in open waters, and the fact that they often lack modern communications systems.

Lobbying by Filipino traders with the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) facilitated by the Mindanao Development Agency has relaxed restrictions on wooden-hulled *lantsa* and other non-

Map 4. Trade flows in the Sulu Archipelago



conventional sized boats for as long as these are registered with the Philippine Maritime Industry Authority or MARINA. However, information collected from state agencies in Tawi-Tawi suggests that as many as seven in every ten wooden-hulled boats in the province are not registered. Estimates for other provinces are not available but are likely to be similarly high.

The proliferation of private and public ports across the Sulu archipelago makes mapping trade transit routes challenging. Some smalltime traders make use of charter services to buy and import their goods, taking the regular passenger services between the islands, and then the MV Dona Antonia, a steel

hulled ship that travels directly between Zamboanga City and Sandakan. This formal route is generally quite short, just an overnight trip, not including any onward journey needed once arriving at each main port. Other traders may choose to fly to Kota Kinabalu and other airports in Sabah, transferring in Manila. It appears these official charter routes are preferred by women importing garments and other non-perishable products, as they offer greater security and are less prone to disruption.

In contrast, barter traders who either hire or operate their own wooden-hulled *lantsa* are able to make use of network

of ports across the archipelago. One return crossing from Zamboanga City to Sabah, passing through Jolo, Sulu, and Bongao, Tawi-Tawi, can take two weeks or longer if the journey stops at multiple destinations along the way.

In contrast to Zamboanga City, the vast majority of trading done in the Sulu archipelago is informal. Traders in Basilan typically use the formal port in Isabela City when setting off for Sabah, but on return may land at private port along the way, commonly arriving at the private port of Maluso on the Western side of the island. En route, these boats may make use of major ports in Jolo and Siasi, Sulu, and Bongao, Tawi-Tawi, as well as a plethora of smaller and less formal ports, including Pilas and Baluk-baluk, Basilan, Pangultaran, Sulu, and smaller ports in Tawi-Tawi.

The primary port in Sabah is Sandakan, but traders are also known to visit ports in Tawau and other towns on the western coast where there are known to be Tausug communities and other Filipinos. Some traders bound for the northern side

of Borneo and ports in Kota Kinabalu and Labuan may pass through Mapun and Mangsee (Turtle Islands) in Tawi-Tawi.

Ultimately, these routes are navigated depending on the traders networks, the goods being imported, and other varying factors including state regulations, security, and weather, which all impact the route and duration of a trip. While these trade routes pass through informal channels, traders on board registered wooden boats see themselves as formal traders, in contrast to other traders who utilize unregistered boats as a mode of transport in moving the goods across the border.

The proliferation of private ports in both the Philippines and Malaysia allows the passage of non-registered boats to continue mostly unchecked. These private ports are known to be landing ports of unregistered wooden-hulled boats that carry large volumes of barter goods alongside contraband items. Some of these are connected to local politicians and clans, who use the ports to access barter goods and to extract rents from traders.

IMPORT COSTS AND THE PRICE OF 'KOTONG'

Considering the importance of rice in Filipino cuisine and the high prices of locally-grown product from the mainland, the barter trade in rice is central in the economies of the Sulu archipelago. While traders may stand to make significant profit from importing rice illicitly, so too do unscrupulous members of regulatory and security agencies who leverage the trade to earn additional income on top of their salaries.

In the Philippines, state regulatory and security agencies like the Bureau of Customs (BOC), Bureau of Immigration,

Philippine Ports Authority (PPA), Philippine Coast Guard (PCG), Philippine Navy, Philippine Maritime Police and the MARINA have the mandate to secure the country's seas and coastal waters as well as ensure safety in moving goods and people across borders through various regulations. These regulations can mean restrictions in allowing certain items to cross the border while disallowing certain products to pass through. This can include quotas on the volume or number of goods being imported, or outright restrictions, as well as limiting the size and number of boats that cross the border.

Table 3. Expenses and profit for a standard medium rice import of 10,000 sacks

		Amount per sack of price (25kg) in PHP	Amount for standard trip (10,000 sacks) in PHP
COST SUMMARY	1. Average buying price at Sabah port	550	5,500,000
	2. Freight and handling (also includes <i>kotong</i>)	120	1,200,000
	3. 'SOP/special arrangement'	39.50	395,000
	4. Docking fee (private port)	10	100,000
	5. Labor and hauling	12	120,000
SUB-TOTAL		731	7,310,000
COMPUTATION OF PROFIT	Selling price (wholesale)	800	8,000,000
	Less, expenses (items 1-5)	731	7,310,000
	TOTAL	69	690,000

Operating in a legal grey zone, informal barter traders tend to see themselves to be at the receiving end of these regulations and border restrictions that hinder the movement of goods across the border with Sabah, and within the Sulu archipelago. Enforcement of laws is often seen as inconsistent or arbitrary, with the permissibility of certain imports or activities changing regularly.

Traders are also exposed to bribery and other rent extracting practices. Locally known as *kotong*, such bribes are subtly couched in phrases like ‘special arrangement’ and ‘standard operating procedure (SOP)’, falsely implying that such illicit payments are legal government transactions. The practice is of such a scale that even cargoes that enter Philippine waters legally are not spared. According to one respondent, traders would be charged an additional five per cent for SOP upon entry, based on the cargo’s assessed value. Information from barter traders included a list of illicit tariff rates, collected at each stage of the trip. Using this data as a guide and cross-referencing with other information gathered, the breakdown of costs for a standard shipment of rice on a medium sized boat can be calculated.

A working capital of around PHP 7 million is needed in order to transport 10,000 sacks of rice in a single trip, making a small margin of profit of less than 10 per cent in rice trading. Larger traders who are able to muster their own fleet of boats and trucking services for hauling are able to increase their margin of profit beyond 30 per cent.

Typically, both the barter trade and the boat operator are subjected to paying bribes to sustain their operations. For the barter trader on a standard medium sized rice shipment,

SPOs range around PHP 395,000 or 5.4 per cent of total costs, which is divided across different actors. Freight and handling in the amount of PHP 1.2 million constitutes 16.4 per cent of the cost, which primarily goes to the boat operator if the trader is reliant on hiring a boat, rather than using their own fleet. The trader is also liable to paying up to PHP 100,000 as a docking fee at a private port. All told, the rice trader earns a net profit of PHP 69 per sack which is 9.4 per cent of his capital.

When entering Philippine waters, the boat operator is liable to pay up to PHP 125,000 per wooden hulled *lantsa* with 10,000 sacks of rice on board. This is divided by up to different actors, with senior officers getting the lion’s share. On top of this, a fixed price of PHP 50,000 is collected for each cargo entry. A fixer, also known as a ‘loader’ with strong connections with some corrupt personnel, collects PHP 25,000 for ensuring that the cargo passes through inspection without delay. In transporting the goods from the private port to the warehouse, yet, another SOP payment is collected at various checkpoints. The amount ranges from PHP 20,000 to PHP 40,000, depending on the number of checkpoints that the cargo would pass through. This amount is also deducted in freight and handling.

Overall, dishonest members of regulatory and security agencies reap PHP 615,000-635,000 per standard boat trip importing 10,000 sacks of rice from Sabah, equaling nearly 10 per cent of costs on any one trip. These are captured across different stages of the import chain, and are leveraged by a number of different actors. Rents of different values are due on other imported items, and while the system remains relatively stable in the predictability of rent costs, none of the value is accumulated by the state; rather it goes to supplement the wages of a wide range of actors in the region.

Table 4. Summary of *kotong* paid during standard import of 10,000 sacks of rice

<i>Kotong</i> payments	Amount in PHP
Paid by the barter trader (1)	395,000
Paid by the boat operator	
a. Entry fees	125,000
b. Fixed fees per entry	50,000
c. Fixer fees	25,000
SUB-TOTAL (2)	200,000
Paid during land transport/ warehousing (3)	20,000-40,000
TOTAL (1+2+3)	615,000-635,000

“ Traders are also exposed to bribery and other rent extracting practices, locally known as *kotong*. ”

5

MARITIME TRADE AMONG GROWING INSECURITY

Events over the last decade have increased the security risk in the Sulu archipelago region. In February 2013 over 200 militants claiming allegiance to the Sulu Sultanate landed in Sabah and attempted to claim the Malaysian territory. The incident, known as the Lahad Datu standoff, heightened security fears and brought focus to the dangers or irregular movement in the region. Then, in September 2013, a group of MNLF rebels lay siege to a section of downtown Zamboanga City, battling with the Armed Forces of the Philippines (AFP) for 20 days until the government was able to regain control of the city.

Over the same period, piracy activity escalated in the Sulu and Celebes Seas, culminating in a spike in the first quarter of 2016. The ASG in particular was increasingly engaged in kidnap-for-ransom actions as a method of raising funds. ASG targeted large freight ships and other private vessels passing through the Sulu seas, as well as kidnapping Malaysian fisherman off the coast of Sabah. A total of 23 actual and attempted abductions were reported in less than a year, from March 2016 up to June 2017.²⁸ The highly lucrative

kidnap-for-ransom business generated around USD 7.3 million in 2016 alone, with ransom money allegedly often used to bribe local officials, military and law enforcement agencies, as well as providing local communities with necessary services.²⁹

The spike in kidnapping incidents also highlighted the vulnerability of the maritime zone to trans-border crimes and violent extremism, with some labelling the region as the 'New Somalia'. In response to the attacks Indonesian authorities temporarily blocked ships from sailing to the Philippines in April 2016, and announced a moratorium on the transport of coal from East Kalimantan to Mindanao until the Philippine government could guarantee maritime security and safe passage of Indonesian vessels in its waters. The Malaysian state of Sabah also closed down its borders to Filipino barter traders in April 2016 in response to kidnappings of Malaysian nationals. Both countries placed pressure on the Philippine government to address the problem, and trilateral patrols aimed at improving maritime policing as a security measure have been underway since June 2017.



Zamboanga City Port (public port)

IMPACT OF BORDER RESTRICTIONS ON TRADERS AND THE LOCAL ECONOMY

With restrictions on sea travel and barter trade activities with Sabah in recent years, the supply of goods has fluctuated, resulting in rising food and fuel prices in the Sulu archipelago area. In 2016 following the closure of the Malaysian border to barter trade, the Muslim Mindanao regional government said the price of a sack of rice (25 kg) increased by 50 per cent; overall, food and fuel prices were claimed to increase by up to 70 per cent.³⁰ While the closure was temporary, key informants noted that maritime patrols along the borders had been more frequent, and customs' checking of cargoes has become more stringent. Travelers had to present legal papers to immigration officers as proof of their intent and purpose not to engage in activities other than barter trading.

Barter traders have at different times lobbied for the easing of restrictions on trade and movement. Traders in Tawi-Tawi have an association and are active members of the local chamber of commerce, with representation in the Mindanao Business Council, BIMP-EAGA and ASEAN. They have been engaged in efforts to allow wooden-hulled boats and other non-conventional sized ships to traverse international waters in the Sulu and Celebes seas, and for the lifting of bans on barter trade. On the other side of the border, Malaysian traders strongly lobbied for the lifting of the ban on barter trade, claiming to have lost MYR 1,680,000-3,750,000 (PHP 20 million-47 million) a month after the closure.³¹ In Sandakan, barter trade generates an estimated average of MYR 9 million (PHP 111 million) monthly, while in Tawau it accounts for an average of MYR 12 million (PHP 149 million).³² Prolonged suspension of barter trade activities, thus, have had adverse effects on the local economies of both countries, resulting in significant reduction of labor and employment in Sabah,

which includes trade-dependent ancillary services such as supermarkets, restaurants and the transport sector.

While cross border trade was formally restricted in Malaysia for almost a year, in practice trading across the maritime border resumed a few weeks after its initial closure. The failure to uphold cross-border restrictions underscores the weak capabilities of state agencies in maritime security enforcement as well as the resilience of cross-border barter trade. The Philippines, Malaysia and Indonesia have their own share of security challenges owing to the large expanse and difficult geographical terrain of the Sulu and Celebes Seas, competing geopolitical priorities, institutional constraints, budget restrictions and overlapping mandates.³³ Furthermore, the conflated roles and economic interests of formal and informal actors, along with high financial rewards that extend to security and regulatory agencies through rent payments, are pull factors that traders, local communities and state agents have exploited to negotiate for the easing of restrictions on trans-border trade.

According to traders interviewed for the study, the impact of the crackdown in 2016 was far less compared to what they experienced following the Lahad Datu incident and the Zamboanga siege. Informants reported that in 2013 a total lockdown was strictly implemented by both Malaysian and Philippine authorities for up to six months. Traders at the time were hesitant to take risks in crossing the border illicitly to Sabah for fear of being jailed if caught. Malaysian authorities were observed to be not as lenient as before, and suspicious of Tausug-speaking Filipinos who would cross the border to Sabah even through formal channels.³⁴

COPING STRATEGIES OF TRADERS

At the height of cross-border restrictions, most traders report having stopped crossing the border temporarily to wait for the situation to normalize. Some traders decided to change routes for security reasons, especially women traders importing clothing and other non-perishable goods, who have shifted to either travelling by plane or the formal Zamboanga City-Sandakan route via the MV Dona Antonia. Small traders without adequate capital during crises are forced to look for alternative sources of income. Larger traders engaged in the smuggling of cigarettes and other contraband items are more tenacious and persistent, and sought to evade state agents by hiding in nearby islands for hours, waiting for navy and coast guard to finish their patrols.³⁵

In contrast, formal traders and importers reported little disruption to their business, as long as they continued to secure the travel documents and clearances from state authorities. They also reported to have complied with both Philippine

and Malaysian regulations and paid customs duties for their purchases.

Overall, while state regulations may temporarily disrupt informal trade between Sabah and the Sulu archipelago, trading remains a common and resilient part of people's everyday lives. The high demand and dependence of local communities on barter trade products, high financial rewards, familiarity with trade routes, strong social network and clan-based support system are also important factors that have contributed to the durability of trans-border trade networks. The high financial rewards that benefit state regulatory and security agents provides added incentives to overlook state regulations, as well as providing a platform for traders to lobby for policies that would facilitate the movement of goods for the benefit of local economies. Strong family and social ties among traders also provide a much-needed support system especially in times of crisis.

MARITIME TRADE AND VIOLENCE

States responses to piracy and violent conflict have often directly or indirectly targeted barter trade and the peoples and vessels engaged in the activity. Limiting cross-border movement is seen as necessary for stopping the activities of the ASG and other criminal actors in the region, and for preventing violence more generally. Border restrictions in 2013 and 2016 were a direct response to increases in conflict in the region, while trilateral maritime patrols that commenced in June 2017 were given greater significance in the face of the Marawi siege that began a month earlier.

As a tactic, restrictions on border crossings and trade are most acutely felt by communities in the Sulu archipelago, where fluctuations in trade have resulted in increased prices for core household products. While this vulnerability is felt across the island communities, barter traders have been able to demonstrate their continued resilience, either by circumventing security restrictions or waiting until conditions are more favorable.

In that sense, it is not clear that restrictions on maritime trade and the movement of barter trade vessels are effective at minimizing violence. The study does not reveal any direct links between trade and piracy and terrorism; the perceived connections are more associative, for instance with traders passing through the same maritime channels utilized by other groups that may be involved in trans-border crimes (narcotics trading, trafficking in persons, kidnap for ransom, etc.) closely linked with direct physical violence. Those engaged in piracy and kidnap for ransom use small, narrow boats with large outboard engines that allow them to move around the

islands quickly and with minimal detection—not the slow, bulky, wooden-hulled *lantsa* that are most suited for trade. Barter traders interviewed for the study noted that they have not encountered ASG or other terrorist groups while at sea. For security reasons, these traders have always tried to avoid interacting with other groups outside of their own circle while in transit.

In addition, it is not confirmed that restricting maritime border crossing and an increased security presence has a notable impact on reducing piracy, kidnap-for-ransom, and other violent activities of groups like Abu Sayyaf. While there was a lull in 2017 and the first half of 2018, the kidnapping of Malaysian fisherman in September 2018 and the attempted raid on an Indonesian tugboat in December illustrate that increased trilateral cooperation halted the practice.³⁶

Ultimately, the connections between trans-border illicit trade and violence are more indirect and latent, systemic and structural rather than explicit and direct physical conflict manifested in killings and other physical injuries. The linkages between barter trade and violence is felt when exploring the practices of state actors, and the coercive collection of rent payments from vulnerable traders. Such display of coercive power is a form of structural violence that is more subtle, yet, equally effective at maintaining a fragile environment where traders risk the confiscation of goods and boats that would harm business operations.³⁷ These activities by state regulators are a symptom of weak governance in the Sulu archipelago, conditions which pose a challenge both for state and regional governments.



Wooden-hulled boats docked at Bongao ports, Tawi-Tawi

6

CONCLUSION

The study sheds light on the practice of barter trade in the Sulu archipelago, and its interactions with various state apparatuses, and the conflict environment more broadly. While cross-border movement and trade are often characterised diametrically—either legal and formal, or informal and illegal—in practice local traders exist in a grey zone across and between these two states. For example, a trader and boat operator may act in an entirely legal manner when travelling to Malaysia, and then use the vast network of private and public ports in the Sulu archipelago to minimize customs dues and dodge state involvement. In addition, varying state laws and practices mean that the permissibility of the environment is often changing.

It is also quite clear that state agents play a role in sustaining barter trade as an informal practice with legal ambiguity. Through the raising of rents and other under the table payments locally known as *kotong*, some state and security agents may have become dependent on barter trade to supplement their income. This enables a ‘parallel shadow economy’ in which fixers and others are reliant on the barter trade economy. Together, these actors are able to wield power and control over barter trade transactions.

This co-dependence between barter trade and those that profit from it weakens the capacity for the state to regulate border crossings and disincentivizes activities towards formalizing barter trade and providing greater stability to traders and markets in the region. Recent attempts to limit trade during periods of increased insecurity have shown the industry’s resilience to fluctuations in the political and security environment, even if the instability has had adverse effects on the price of common goods and products.

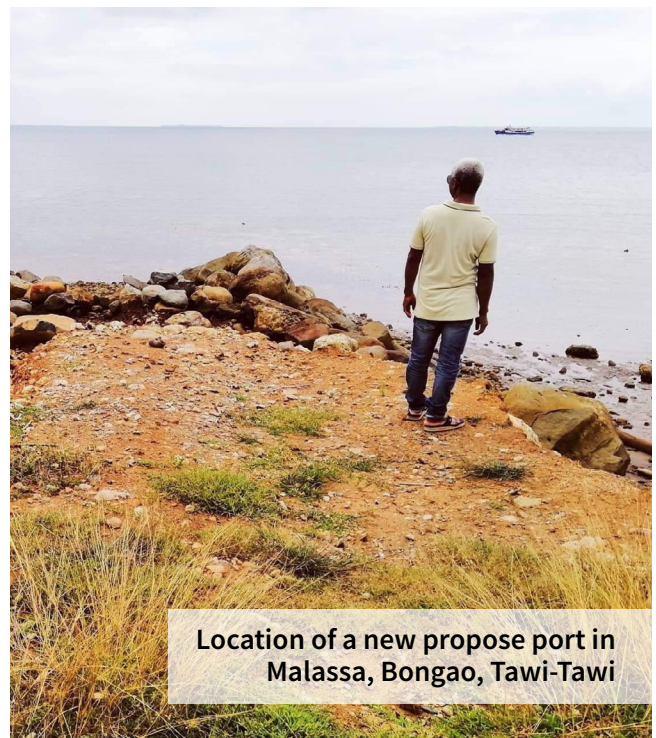
It is because of these factors that it remains difficult to assess the success of measures to limit overt violence and terrorism by groups such as Abu Sayyaf. Barter traders have often bore direct and indirect consequences of movement and security restrictions enacted in response to increases in kidnappings, piracy, and other violence in the region. Ultimately it is not clear that restrictions on cross-border trade makes a measurable improvement in security in the region, and only goes to destabilize local communities dependent on imported products.

Although the historical roots of trade in the region call back to a system of reciprocity and exchange, inconsistent policies between states and the persistent underdevelopment of the Sulu archipelago region has led to an environment where there is a significant trade imbalance. While barter trade is a lucrative business for those involved, especially the largescale traders who run their own boats and warehouses, overall it contributes to maintaining the Sulu sea islands—and Mindanao

more broadly—in an impoverished and underdeveloped state.³⁸ Despite this, trans-border trade continues to be a vital lifeline for communities at the periphery of the Philippine economy.

Opportunity exists with the establishment of the new Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) to improve the conditions around barter trade, with the aim of formalizing what is a historical and cultural practice and reducing fragility in local economies. The signing of Executive Order 64 by President Duterte in October 2018 is positive, with the creation of a the Mindanao Barter Council and the aim to designate the port in Bongao in Tawi-Tawi as a Special Economic and Freeport Zone, as well as the ports in Jolo and Siasi in Sulu. These efforts need to be sustained, while local and domestic efforts need to be coordinated at the regional level through the institutions already established to do so—ASEAN and the BIMP-EAGA.

Actions to improve conditions for barter trade likely will have minimal impact on reducing terrorism in the region. While some of the conditions that make violence and criminality attractive are the same that sustain barter trade, it is a distinct phenomenon that requires its own set of policy and security interventions. What is clear though is continued efforts to contain violence in the region by limiting cross-border movement are not effective, and potentially having a continuing destabilizing impact on local markets and communities in the Sulu archipelago.



Location of a new propose port in Malassa, Bongao, Tawi-Tawi

ENDNOTES

1. From Mak, J. N. (2009). Pirates, barter traders, and fishers: Whose rights, whose security? User conflicts and maritime nontraditional security in Malaysian waters. p. 24.
2. For more on shadow economies, see Lara, Jr., Francisco J., and Steven Schoofs, eds. (2016) *Out of the Shadows: Violent Economy and the Real Economy of Mindanao*. 2nd Edition. Quezon City: Ateneo de Manila University Press, International Alert.
3. Section 3519 of the Tariff and Customs Code of the Philippines
4. Tagliacozzo, E. (2002). Smuggling in Southeast Asia: History and its contemporary vectors in an unbounded region, *Critical Asian Studies*, 34 (2), 193-220.
5. See Tagliacozzo, E. (2002). Smuggling in Southeast Asia: History and its contemporary vectors in an unbounded region, *Critical Asian Studies*, 34 (2), 193-220; and Villanueva, S. (2013). Cross-border illicit trade in Sulu and Tawi-Tawi: The coexistence of economic agendas and violent conflict. In F. Lara, Jr. & S. Schoofs (Eds.), *Out of the Shadows: Violent Conflict and the Real Economy of Mindanao* (pp. 197-218). Quezon City: International Alert.
6. Moro is the term for the indigenous Muslim Filipino cultures that inhabit the Southern Philippines.
7. Mak, J. N. (2009). Pirates, barter traders, and fishers: Whose rights, whose security? User conflicts and maritime nontraditional security in Malaysian waters. In E. Laipson & A. Pandya (Eds.), *The Indian Ocean: Resources and Governance Challenges* (pp. 23-27). Washington, DC: The Henry Stimson Center.
8. Eklöf Amirell, S. (2005). The Return of Piracy: Decolonization and International Relations in a Maritime Border Region (the Sulu Sea), 1959–63. (Working papers in contemporary Asian studies; No. 15). Centre for East and South-East Asian Studies, Lund University.
9. Ibid.
10. Mainly combatants of the Moro National Liberation Front
11. Storey, I. (2018). Trilateral Security Cooperation in the Sulu-Celebes Seas: A work in progress, *ISEAS Perspective*, 48, 2. https://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2018_48@50.pdf
12. Ibid.
13. Zamboanga City Socio-economic Profile in Figures, 2017.
14. Based on the 2015 census.
15. ARMM Regional Development Plan 2011-2016, p. 15.
16. ARMM Regional Development Plan 2011-2016, p. 16.
17. Villanueva, S. (2013). Cross-border illicit trade in Sulu and Tawi-Tawi: The coexistence of economic agendas and violent conflict. In F. Lara, Jr. & S. Schoofs (Eds.), *Out of the Shadows: Violent Conflict and the Real Economy of Mindanao* (pp. 197-218). Quezon City: International Alert.
18. ARMM Regional Development Plan, 2017-2022, Table 9.13, p. 182.
19. Key informant interview with a local government representative.
20. World Bank (2017). Mindanao Jobs Report.
21. As expressed by Amrullah Maraiming, Research Officer of the Universti of Malaysia Sabah.
22. Villanueva, S. (2013). Cross-border illicit trade in Sulu and Tawi-Tawi: The coexistence of economic agendas and violent conflict. In F. Lara, Jr. & S. Schoofs (Eds.), *Out of the Shadows: Violent Conflict and the Real Economy of Mindanao* (pp. 197-218). Quezon City: International Alert.
23. Ibid.
24. Information gathered during interviews with barter traders.
25. Aggregate figure provided per trip.
26. Aggregate figure provided per trip.
27. Include Medicol (branded paracetamol), mefenamic acid and amoxicillin.
28. Quintos, M. (2017). Finding Solutions for Maritime Security Challenges in the Tri-border Area, Center for international Relations and Strategic Studies, Vol. IV, No. 27.
29. Ibid.
30. Orante, Rappler, April 16, 2016.
31. Chan, J. et. al. (2017). The Effects of Barter Trade Suspension in Sabah. *Journal of BIMP-EAGA Regional Development* Volume 3. No 2.
32. Ibid.
33. Amling, A., et. al. (2019). Stable Seas: Sulu and Celebes Seas. *One Earth Future*.
34. Based on actual interviews with former MNLF combatants in Kota Kinabalu and Sandakan in December 2015.
35. Ibid.
36. Institute for Policy Analysis of Conflict (2019), *Protecting the Sulu-Sulawesi Seas from Abu Sayyaf attacks*. Report 53. Jakarta
37. Naylor, R. T. (2009). Violence and illegal economic activity: a deconstruction. *Crime, Law & Social Change*, 52, 231–242.
38. World Bank (2017). Mindanao Jobs Report



The Asia Foundation

Improving Lives, Expanding Opportunities