

SIGNIFICANCE OF INFORMAL CROSS BORDER TRADE INDONESIA AND MALAYSIA FOR AGRICULTURAL COMMODITIES DEVELOPMENT IN NUNUKAN REGENCY, EAST KALIMANTAN

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Abstract

The border region of Nunukan Regency with the City of Tawau, Sabah state, Malaysia has great potential to be developed as a center of agricultural production and raw material supplier. The research aims to: (a) Investigating the structure, the actors and the potency of agribusiness in the region, (b) Identification of informal cross border trade mechanisms in Nunukan-Tawau on agricultural commodities (c) Determine the strategy and policy improvements of ongoing trading system. The study shown Nunukan economic structure was still dominated by the potential of agricultural commodities, forest products, and cross-border trade activities through Sebatik Island. Lack of support infrastructure and accessibility of product flow causes agricultural commodities in the border region was inhibited. To improve the efficiency of the lucrative trade, and development of agribusiness in the Nunukan border region, it is needed synergies between farmers, traders, businessmen and strong support from the government.

Keywords: *informal cross border trade, agricultural commodities, Nunukan, East Kalimantan*

Introduction

The East Kalimantan border region stretching from east to west along the \pm 1038 km or an area of 57731.64 km² (23.54% of the area of East Kalimantan), with extensive details of the border area of 12,128 Km² of Nunukan Regency (4.95% of the area of East Kalimantan), West Kutai Regency 8911.1 km² (3.6%), and Malinau Regency 36692.54 km² (14.96%). This region consists of 12 sub district which includes the sub district of Long and Long Pahangai Apari in West Kutai Regency, Kayan Hulu, Kayan Hilir and Pujungan in Malinau Regency, subdistrict of Krayan, South Krayan, Lumbis, Sebuku, Nunukan, Sebatik islands and West Sebatik islands in Nunukan Regency. In total, it is consist of 319 otal number of border villages [1].

However, in this wide-ranging border region there is only one official border gate that has a CIQS system facility that is Custom, Immigration, Quarantine, and Security. The border community in both sides using the informal border gates as a traditional path for economic and social link purposes. The Sebatik-Tawau path is one of the important traditional trade links in the region. Base on FAO definitions, Informal Cross

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Border Trade (ICBT), refers to registered or unregistered business activities undertaken across the borders based mainly on popular economy. One of the main characteristics of this trade is that it is not mandatory to submit tax returns at the end of each financial year hence not entered in national accounts. Generally cross border trade is conducted by small-scale quasi-professional traders including women, who use various means to move small quantities of goods across national frontiers, conduct trade [7].

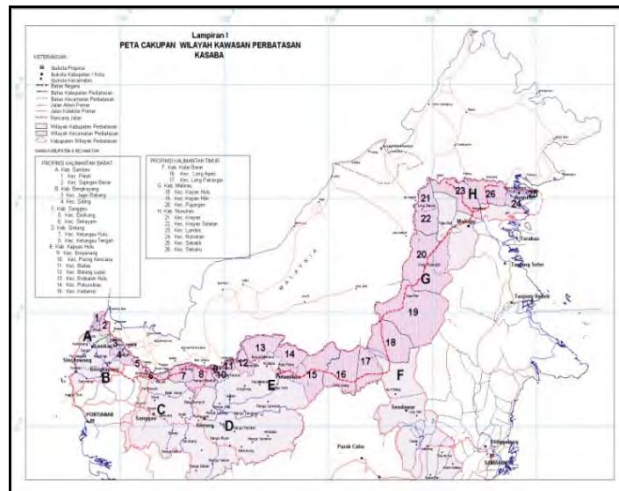


Figure 1. Indonesian-Malaysian Land Border Areas in Kalimantan Source: [1]

Research Methods

The research aims to: (a) Investigating the structure, the actors and the potency of agricultural business in the region, (b) Identification of informal cross border trade mechanisms in Nunukan-Tawau on agricultural commodities, (c) Determine the strategy and policy improvements of ongoing trading system. Primary data obtained through the method of RRA (Rapid Rural Appraisal) and FGD (Focus Group Discussion) with the players of agribusiness and informal cross border traders in both side regions. In-depth discussion (deep interviews) conducted with farmers, traders and agribusiness in some border locations Nunukan and Tawau (one of the administrative area of the State of Sabah, Malaysia). Secondary data from the border area of statistical information obtained from documents, books annual reports, and official publication of the District Government and the Province of East Kalimantan. The research was conducted in 2008 by conducting an intensive survey for 3 weeks in July, September and November in both regions (Nunukan and Tawau).

Results and Discussion

Structures, Actors and Potential Agribusiness Region

Nunukan Regency has potential of natural resources and a large trade in agricultural commodities. With podzolic soil type and enough year round rainfall environments, this border region is ideal to develop as production areas of various agricultural crops of fruits and vegetables. Supply of products from fruit and vegetables are alternated according to the season (for fruits) and the choice of commodities (for vegetables). With the hot climate that supported a short dry season, the region can become a center of agriculture production area in northern Kalimantan, moreover, if it is supported by human resources in managing their own potential.

In general, the economic structure of Nunukan Regency was still dominated by the contribution of agriculture, forest harvesting and it derived. Cross-border trade was also a joint economic foothold in the region. More than half of the population (56%) worked in the agricultural sector. It was proved that the local resource-based businesses especially agribusiness activity still showed its dominance (Table 1).

Table 1. Employment Proportion of Nunukan in 2006 (%)

Employment types	Male	Female	Total Population
Agriculture	57.43	50.00	56.04
Finance and service	14.50	28.23	17.07
Trade	6.13	20.16	8.76
Construction	10.22	0.80	8.46
Transportation communication	7.06	0	5.74
Mine work	2.42	0	1.97
Industry	1.50	0.81	1.36
Electricity, gas, water supply	0.74	0	0.60

Source: [2]

Agricultural commodities dominated agricultural and economic activity in the District of Nunukan. Sebatik Subdistrict (island) and Nunukan Subdistrict were the main producing areas of fruits and vegetables. Potential vegetable and fruit commodities in the two districts were already grown very intensive and commercial (Table 2 and 3). In addition, this region has the advantage when viewed from the market development strategy. The supply chain and networking from both of these districts had already existed those supplies supreme agricultural commodities which directly bring in to the Sabah market, Malaysia, through the crossing border in Tawau. Communities in these two regions are has

been connected for a long time through informal cross border trade system agreed by two countries. Agricultural commodities to be high preferred by traders in cross border area Nunukan-Tawau, whereas the other commodities are such as cocoa and palm oil.

Table 2. The Potential Development of Vegetables in Nunukan Regency (2007)

Vegetable commodity	Cultivated Crop ' (Ha)	Harvested Crop (Ha)	Total Production (Kw)	Productivity (Kw/Ha)
Yard long bean	213	197	18070	84,84
Amaranth	195	181	11583	59,40
mustard greens	181	164	18579	102,65
Kangkoong	177	169	28948	163,55
Cucumber	174	147	24020	138,05
Small Chili	153	143	24888	162,67
Large Chilli	152	145	18309	120,45
Tomato	135	120	10652	78,90
String bean	121	96	10309	85,20
Eggplant	108	105	12773	118,27

Source: [5]

Table 3. The Potential Development of Fruits in Nunukan Regency (2007)

Vegetable commodity	Cultivated Crop ' (Ha)	Harvested Crop (Ha)	Total Production (Kw)	Productivity (Kw/Ha)
Papaya	128651	3544	3544	0,03
Jackfruit	125175	10314	10314	0,08
Mango	22798	6157	6157	0,27
C. Mandarin	18289	8558	8558	0,47
C. Pummelo	18236	1474	1474	0,08
Pinnacle	10727	3665	3665	0,34
Durian	9227	4103	4103	0,44
Java Apple	8551	3267	3267	0,38
Banana	6714	28335	28335	4,22
Rambutan	5070	10711	10711	2,11

Source: [5]

This study also found that people in sub district Sebatik and Nunukan were also highly depended on industrial products from Sabah Malaysia. On the other hand, most of Nunukan agricultural products marketed to Sabah via Tawau. The other alternative marketing channels, such as the city of Tarakan, which is the nearest large city in East Kalimantan, it was less profitable than selling it to Tawau. Cheaper transportation costs

coupled with higher selling prices (in Malaysian Ringgit currency transactions) caused residents prefer to supply their products to nearby towns Sabah. As another consideration, there was the similarity tribal ethnic sentiment (*bugis*) and culture root which strengthened the relationship between those who encouraged the formation of informal cross border trade in agricultural commodities produced between these regions.

Cross Border Trade Mechanism of Agricultural Commodities

There were several factors that support cross-border trade, among others, namely: a.) the geographical closeness, b) infrastructure facilities, c) economic factors, d) family relationships, and e.) socio-cultural linkages [1]. Until now, there are several Agreements of Cross Border Trade (Border Trade Agreement/BTA) between Indonesia and neighboring countries. In particular for Indonesia and Malaysia, cross-border trade agreement between the two countries was signed on August 24, 1970, which allows agricultural products from Indonesia and domestic products from Malaysia across the border. Associated with Cross Border Trade Agreement (BTA), there are several points that needed to note further, including: a) the total limit of the transaction value, b) Definition of border residents, c) Residents who justified conduct cross-border trade, d) The regions include in the Border Trade Agreement and the exit/entry point gates, e) Unit of region (district/sub district), f) commodities that are acceptable in the BTA [3][4].

Several fruit commodities had the potency and large volume capacity for cross border traders such as bananas, rambutan, durian, jackfruit, mango and breadfruit, while the favorite vegetable products were cucumber, eggplant, kangkoong and mustard greens. All of these agricultural commodities were traded freely to country's border through traditional crossing gate in the island of Sebatik via Tawau. The supply chain commodity through Sebatik via Nunukan to Sabah/Tawau is illustrated in Figure 2. Supply chain information using individual communication between traders by order. By means, local collectors from Sebatik island, Indonesia had a relationship before with local collectors in Tawau Malaysia. Sebatik's collectors will contact their friends in Tawau and giving information to them about the numbers, type and quality of goods which they had. When the deal happened, they would bring the ordered commodities by the next day via ship or picked up by the trader from Tawau. In Tawau there was a special dock for the boats cross border traders were located in the Markets area of Tawau.

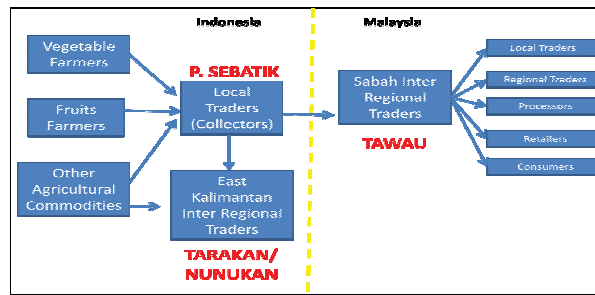


Figure 2. Agricultural Commodities Supply Chain in the Border Area of Nunukan-Tawau (Field Survey, 2008)

Table 4. Channels And Market Share Of Principal Commodities From Nunukan Regency

Type of Products	Local Traders (%)	Interregional Traders/ Cros border Traders (%)
Cacao	10	90
Palm oil	30	70
Fruits	30	70
Vegetables	20	80

Source: Field Survey, 2008

Table 4 shows that 70-80% of agricultural and plantation products from Nunukan were brought to Malaysia by cross border traders. Whereas the remainder of these products were distributed to the nearest city including the City of Tarakan and Nunukan. Almost all residents of Tawau , the capital of Sabah, Kota Kinabalu had already known the variety of commodities that were supplied from Nunukan-Indonesia such as various kinds of bananas, especially the banana sour (as the main ingredient of Tawau typical fried bananas), rambutan, mango, kweni Nunukan (typical local vegetables of Sebatik). The prices were relatively cheaply compared to products that produced by Malaysian’s farmers. This condition led to commodities from Indonesia had competitive value better than the similar commodities from Malaysia. However, the quality of agricultural products from Nunukan still considered as second class of quality. Because its treatment since harvest, post-harvest, until transporting at the local level and bought by Malaysian’s traders were still very traditional and minimum adequately transportation. It caused the fruit became defective or damaged and vegetables became less attractive of their physical appearance.

Strategies and Policies for The Improvement of Trading System

The limited support for transportation and telecommunications led to very limited accessibility in distributing products. The constraints of institutional of agribusiness caused

the agribusiness management was not well developed. Systems and institutions had not been managed and had not well structured. It became the lost of economic potency for the region and the entire population [8]. The condition of port infrastructures in Sebatik and Nunukan became a major problem to facilitating the flow of supplies from the traditional traders from Nunukan. The dock restoration was important thing in order to freight goods from the territory of Nunukan or facilitating transit commodities from other regions that transit in Nunukan then distributed to Malaysia via Tawau.

Promotion and advocacy becomes extremely important for agricultural products [6]. Many products from Nunukan had a high value, unique and well liked to Malaysian society such as durian, jackfruit, cempedak, and kweni (ingredient juice / drinks), besides various vegetables fresh from Sebatik. Sometimes- the good quality products from Indonesia were claimed as a local product of Malaysia. The organized promotions were required, continuously in order to provide good market information to consumers. It needed cooperation between departments in the technical area of agriculture and trade to open up promotion and information center for agricultural products in Tawau and East Kalimantan Kinabalu, Sabah with engaged the Consulate General of Indonesia in the region.

Sebatik islands was an important location, its potency and prospective for agriculture development in border regions. This area could be used as th center of production and transit trade in border region. It required a strong organization at the level of farmers, traders, players and other agribusiness sectors (finance, production's infrastructure, information technology, etc) in order to make the region rapidly grew. There are several patterns and models of development which needed to furthered studied and applied in this region. There were also some aspects needed to be considered in agriculture program development for cross border trader in the region, namely:

1. Trade model development at the country border area: a) Nunukan regency as an integrated economic development zone that served as a free trade zone, b) Developing transit and unloading port, c) Making this area as a buffer area of agro-industries, d) Establishing authority of a regional development agency for border area in Nunukan Regency.
2. Some approaches have to be applied: a) Specific agricultural policy for border area (including development of infrastructure, technological innovation system of agriculture, development of farmer institutional agriculture, sustainable resources, raising investment of agriculture products and conducive local government policy), b) Overcoming the

problems of agricultural products market in border area such as : position of farmers as commodity producers were very weak, the absence of a strong bargaining power, there was still market imperfections, unbalance information commodities, high transaction 's costs in agricultural marketing products, the marketing chain was ineffective and inefficient.

3. Trade negotiations, requiring AFB in 1970 by considering renegotiation trade rules border area, because these points of rules could be renegotiated for the terms of agreement of both region (East Kalimantan Province and the State of Sabah) such as: a) the value of the transaction only limited to RM 600 / month per border crossers are very small and needs to be enlarged. b) Recognizing the residents who lived in border area just show their identity card or those who still having special identity card as a crosser border (PLB Card (*Kartu Pelintas Batas*), c) Only the Residents who justified conduct cross-border trade, d) The regions in the Border Trade Agreement (BTA) and the exit / entry points need to be multiplied (the number of ports and heading trajectory). e) Unit of the territory in the area of BTA needs to be expanded (e.g. to Province), f) Goods that are justified in BTA needs to be propagated its kind, not just agricultural raw materials, as well as processed agricultural products and the results of secondary agriculture and forestry.

Conclusions and Policy Implications

This study showed that through the informal cross-border trade in the border region of Nunukan-Tawau, it had a great opportunity to be developed especially for agriculture commodities. Lack of infrastructure support and low accessibility of product causes the commodity flow to the border area's market is still limited. To improve efficiency and benefit to the region as a whole, it is necessary a synergism between the farmers, traders, businessmen and government to facilitate and coordinate among them to develop this area as a center of agriculture development region in East Kalimantan.

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