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**RESOLVING THE CONFLICTS BETWEEN
THE PHILIPPINES AND MALAYSIA: MEDIATION
ON THE SABAH DISPUTE AND ITS IMPACT ON
SOCIO-ECONOMIC COOPERATION (1986-1998)**

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ABSTRACT

Territorial disputes frequently emerge in the wake of new nation-states asserting their sovereignty and expanding their influence. These claims often hinge on the nebulous grounds of historical entitlement and legal precedent. Sixteen years post-independence from the United States, the Philippines formally staked a claim to Sabah in 1962, a move initiated under President Diosdado Macapagal and escalated by the more assertive policies of President Ferdinand Marcos. The main objective of this article is to explore the degree to which socio-economic cooperation has played a role in rejuvenating and bolstering the Philippines' foreign relations with Malaysia amidst the Sabah dispute. This historical analysis utilises qualitative methodologies to scrutinise primary and secondary sources, encompassing official records and documents pertinent to the dispute over the Philippines'

claim to Sabah. Despite the long-standing and potentially destabilising territorial dispute over Sabah, the Philippines and Malaysia transitioned from confrontation to collaboration, leading to robust socio-economic ties and increased regional stability within ASEAN. The problem lies in understanding how this diplomatic shift occurred, the strategies employed by the administrations of Presidents Aquino and Ramos in redirecting the focus from territorial claims to mutual economic growth, and the implications of this shift for both the bilateral relationship and the broader ASEAN dynamics. The findings indicate that, in contrast to the approaches of Presidents Diosdado Macapagal and Ferdinand Marcos, Presidents Corazon Aquino and Fidel V. Ramos skilfully shifted the focus from the Sabah issue to fostering robust socio-economic collaboration. This pivot served as a critical turning point, establishing the foundation for a comprehensive, multi-layered cooperation that is free from the constraints of the Sabah dispute.

Keywords: Socio-economic cooperation, dormant claim, territorial dispute, backburner policy, conflict resolution.

INTRODUCTION

Territorial conflict has been a significant source of irritation in international politics for many centuries. State leaders seek to gain control of territory that will strengthen their country's economy and security to the extent that they choose military action as a means of securing territory (Senese & Vasquez, 2003). According to Huth (1996), the decision to pursue a territorial dispute is closely tied to the domestic power and influence of political leaders. Leaders may expect to increase their public popularity and credibility by claiming land. Territorial claims are also more likely if there are issues at stake relating to national unification, the restoration of sovereignty over lost national territories, or access to strategic and economic resources; any of these issues might turn leaders into champions of national grandeur (Chiozza & Choi, 2003).

In the early stages of office, President Ferdinand Marcos tended to pursue strategies of military confrontation to deal with the dispute over Sabah. As his time in office extended, he began to look for a peaceful solution and showed good signs of normalising diplomatic relations with Malaysia. Chiozza and Choi (2003) explained that non-democratic leaders are more likely to pursue peaceful territorial

management strategies the longer they serve in office. They are slightly more prone to conflict in the early stages of their tenure and are more likely to seek a peaceful resolution later in their careers than their democratic counterparts. This ‘seasoned-leader hypothesis’ as posited by Chiozza and Choi (2003), ‘should be more likely to have the capacity to withdraw territorial claims’.

Towards the end of the Marcos administration in 1977, he officially announced at the ASEAN conference that the Philippines would drop its claim to Sabah, an archetypal representation of the theory by Chiozza and Choi (2003). The decision was made after very intense conflicts and a series of volatile events between the Philippines and Malaysia. This was due to the aggressive overtures to claim Sabah, including military aggression, as demonstrated in the Merdeka Operation in 1968. The early phases of President Marcos’ administration also involved unilateral action, as he passed Senate Bill 954 which sought to include Sabah within the Philippines borders.

Conversely, a new democratic leader with a fresh mandate might ‘seize the moment’ and resolve a territorial dispute (Chiozza & Choi, 2003). As Chiozza and Choi (2003) have argued, leaders who have just assumed power might find themselves in a better position to resolve a territorial dispute peacefully. It can also be an opportunity for them to become known as leaders who take their countries in a new direction, as demonstrated by President Aquino in her People Power Revolution’s campaign. ‘The leaders are more likely to adopt peaceful strategies of compromise in the early phases of their office tenure because they have received fresh endorsements from their constituents’ (Chiozza & Choi, 2003, p. 257). The Philippines’ stance and firmness towards Sabah gradually changed with the change in its central leadership, which began to adopt a more pragmatic policy by focusing on socio-economic cooperation with the Malaysian government.

The decision to find a peaceful settlement to territorial disputes is more likely to be made by leaders with the political interests and willingness to lead their countries differently (Chiozza & Choi, 2003). Territorial issues involve the use of a foreign policy that depends on the practices of power politics to resolve the territorial issue in one’s favour (Ghatak et al., 2017). The Philippines’ foreign policy towards Sabah began to change during the administration of Presidents Aquino and Fidel V. Ramos, when both rejected irredentist policies and took proactive steps to drop claims on Sabah, entered into

peace agreements with separatist fighters in the Southern Philippines, and strengthened regional cooperation through the Association of Southeast Asian Nations (ASEAN). President Aquino, for example, considered the claim to Sabah as a futile matter and only served as a “political mileage” for President Marcos to strengthen his power. She perceived the spirit of nationalism that was raised by the earlier presidents to claim Sabah did not provide any benefit to the Filipino people, let alone solve the socio-economic problems faced by the Philippines. The priorities of President Aquino’s foreign policy were centered on the “interests of the people” and domestic interests as proclaimed in the People’s Power Revolution struggle. In addition, President Aquino reminded that the people should not fall victim to the political games of the country’s leaders who aimed to be seen as prominent figures in the international political arena.

While President Aquino took an important step by abandoning the claim to Sabah, President Ramos, on the other hand, found that the best strategy was to improve socio-economic relations with Malaysia and other ASEAN countries. Although both leaders realised that they could be seen as weak, especially by the opposition parties, they thought that taking such steps would be the best opportunity to strengthen the Philippines’ economy. Both presidents thus took a lesson from previous presidents who had been reluctant to engage in socio-economic cooperation with Malaysia, as it would prejudice their claim on Sabah.

The second issue to be scrutinised in this article is based on the argument for mutual agreement between both states in order to develop a more effective and significant socio-economic cooperation rather than the stagnant relations resulting from the endless dispute over Sabah. The present study scrutinises the extent to which Presidents Aquino and Ramos played a significant and active role in initiating and mobilising socio-economic cooperation between the Philippines and Malaysia. Based on the theories propounded by Chiozza and Choi (2003), I contend that the decision to resolve the territorial dispute through the dormant policy of Presidents Aquino and Ramos not only normalised diplomatic relations between the two countries, but also managed to build active socio-economic cooperation as the best means of rejecting the claim. This active socio-economic policy also became a stonewalling strategy to avoid the internal political pressure for the government to pursue its claim on Sabah.

METHODOLOGY

This historical study employs a qualitative method to analyse primary and secondary sources, including official files and documents associated with the conflict over the claim of Sabah made by the Philippines and the heirs of the Sultan of Sulu. Concerning data sources, this research draws from a diverse range of materials, covering both primary and secondary sources which included records from Britain, America, the Philippines, and the Federation of Malaya (later Malaysia). This will help to ensure the comprehensive and precise research findings. Notably, extensive references were made to British records, such as the Colonial Office (CO), Foreign Office (FO), Foreign and Commonwealth Office (FCO), and Dominion Office (DO). Other primary sources referenced included reports, agreement documents, correspondences, newspaper clippings, gazettes, constitutions, Philippine Senate bills, and more. The research has also considered newspaper articles from the time of the conflict and negotiations between the Malaysian government and the Philippines. Primary sources were garnered through archival research in various locations, including Malaysia, the Philippines, Singapore, and the National Archives in London, United Kingdom. To bolster the research findings, secondary sources like journal articles, books, conference papers, theses, scholarly works, and authoritative materials were utilised. Quantitative data analysis, incorporating statistics, further reinforces the conclusions. The study involved a meticulous comparison and interpretation of these primary and secondary sources. Drawing on this extensive data and collection of materials, the present research explored the degree to which socio-economic cooperation has played a role in rejuvenating and bolstering the Philippines' foreign relations with Malaysia amidst the Sabah dispute.

HISTORICAL BACKGROUND

The territorial dispute over Sabah, officially claimed by the Philippines in 1962, traces its roots to a claim by the Sultan of Sulu and his descendants, intensifying after the death of the last Sultan in 1936. The contention stems from a 1704 agreement, when the Sultan of Brunei known as Sultan Muhyiddin, amidst a civil war (1660-1673), promised territories from the north to west of Kimanis to the Sultan of Sulu for military aid against Sultan Abdul Mubin (Dalrymple, 1774;

Majul, 1999). Prior to British governance in North Borneo, the region was under Brunei's peak fifteenth-century Sultanate, with separate administrative divisions by the Sultanates of Brunei and Sulu (Low, 1998; Hamzah, 1986). Notably, the concept of Sabah as a distinct state was non-existent, highlighting the historical complexity of this territorial dispute.

Despite the absence of concrete evidence for the territorial grant, the Sultanate of Sulu exerted “*de facto*” control over the land bestowed by the Sultan of Brunei (Wright, 1966). As Brunei's clout waned under escalating foreign influence, the Sultan of Brunei and Pengiran Temenggung transferred Sabah to Baron von Overbeck in 1877 (CO 874/197, 1865-1885; Singh, 2003; Runciman, 1960). The 1878 agreement between Overbeck with Sultan Jamalul Alam of Sulu further ceded the area stretching from the Pandasan to the Sibuko River for an annual cession of \$5,000 (Malayan dollars), later increased to \$5,300 in 1903 by the British North Borneo Company and also to ratify the treaty with an extra \$300 (FCO 15/303, 1968; National Media Production Center, 1968). Overbeck's elevation by the Sultan of Sulu to Datu Bendahara and Raja Sandakan solidified his authority over the region. The Sultan also stipulated that any communications from him under Spanish duress regarding the territory should be disregarded (FCO 24/263, 1968). The United States' acknowledgement of British sovereignty in North Borneo came with the 1930 demarcation agreement between Britain and the United States, further consolidating British dominion over North Borneo (FO 371/160059, 1950).

After its independence on July 4, 1946, the Philippines subsumed the Sultanate of Sulu into its national governance. As the Philippine government ceased recognition of the Sultanate the move was contested by the Sultan's heirs. This period also saw the Philippines engaged in bilateral labour agreements with the British Crown Colony, responding to Britain's initiative to recruit Philippine labour for North Borneo (CO 1022/126, 1953). The British administration prioritised foreign labour for its North Borneo sectors, particularly in agriculture and the rubber industry, leading to a 1954 proposal to the Philippines, which culminated in a labour agreement signed in August 1955 (North Borneo Government, 1960). A subsequent, significant labour agreement between the Crown Colony of North Borneo and Manila was finalised in January 1957, based on an agreement signed in 1955.

The Philippine government's interest in North Borneo began in June 1946 upon its establishment as a British Crown Colony, but active claims were not pursued immediately. It was not until June 22, 1962, that the Philippines officially staked its claim, straining relations with the Federation of Malaya and disrupting cooperation with the Association of Southeast Asia (ASA), which was established in July 1961. To bolster its claim, the Philippines cited the January 22, 1878 treaty between Sultan Jamalul Alam and Baron von Overbeck, asserting that the agreement was a lease, not a cession, and that North Borneo's sovereignty remained with the Sulu Sultanate. The annual payment of \$5,300 by the British North Borneo Company to the Sultan of Sulu was presented as evidence of a lease agreement, prompting the Philippines to question, "If the Sultan of Sulu ceded North Borneo as the British claim, why did the North Borneo Company pay the rentals?" (DO 169/128, 1962). The Philippine government posited that the 1878 treaty between the Sultan of Sulu and Overbeck transferred North Borneo's rights to Overbeck solely as a private entity. This stance implies that neither the British North Borneo Company (BNBC) nor Britain held legitimate sovereignty or ownership over North Borneo's territory (Salonga, 1962).

To solidify the claim's legal grounds, President Diosdado Macapagal and Ferdinand Marcos secured a cession agreement with Sultan Esmai Kiram of Sulu, transferring North Borneo's sovereignty to the Philippines (National Media Production Center, 1968; Institute of Diplomacy and Foreign Relations, 2008). The 'Instrument of Cession of the North Borneo Territory,' signed on April 24, 1962, affirmed this transfer by the Sultan, whose Philippine citizenship was deemed to legitimize the action. Beyond legal claims and interpretations of the 1878 treaty, the Philippines also invoked geographic proximity and cultural affinity, arguing that North Borneo is closer and culturally more aligned with the southern Philippines, sharing similar customs, religions, and ethnic traditions (Meadows, 1962). In addition, Filipino and Indonesian leaders perceived the formation of Malaysia as a manifestation of western colonialism and imperialism, represented by the British (Abdullah et al., 2022).

President Macapagal and Ferdinand Marcos employed a range of strategies to assert the Philippines' claim over Sabah, not shying away from the show of military might. Marcos' tenure was characterized by coercive diplomacy, leveraging threats to signal his readiness to enforce consequences should Malaysia refuse to cede Sabah. Stein

(2013) has defined such threats as conditional statements of intent to cause harm to extract favorable outcomes. Marcos underscored his resolve with both verbal and non-verbal cues, including the strategic recall of the Philippine ambassador and a show of military strength during Operation Merdeka.

Under the presidencies of Corazon Aquino and Fidel V. Ramos, the Philippines' policy on the Sabah claim shifted towards a 'backburner' approach or dormant claim. President Aquino initiated proactive measures towards economic collaboration with ASEAN, a policy that President Ramos further enhanced, leading to a significant transformation in Philippine-Malaysian bilateral relations. The Aquino and Ramos administrations sought to defuse the Sabah dispute, recognizing that the ongoing claim impeded bilateral cooperation with Malaysia. This impasse persisted as the Philippines hesitated to engage in cooperative endeavours that might undermine its claim, while Malaysia withheld collaboration until the Philippines demonstrated a clear intent to rescind its claim to Sabah.

During the administrations of President Macapagal and Ferdinand Marcos, the Philippine stance on Sabah peaked, adamantly rejecting any cooperation that might compromise its territorial claim. This included refusing to engage in any substantive collaboration with Malaysia unless its claim was acknowledged and eschewing multilateral economic cooperation that involved Malaysia. The Philippines feared that such cooperation would imply recognition of Malaysian sovereignty over Sabah. In a move to improve relations, Malaysia proposed a package of cooperation initiatives, contingent on the Philippines renouncing its claim. This proposal was formalized at a cabinet meeting on December 3, 1987, when Malaysia agreed to consider friendship treaties, joint border patrols, and border crossing agreements with the Philippines if it withdrew the claim to Sabah ("Concessions to Manila," 1987).

The Sabah dispute has been a recurrent source of political and diplomatic friction between the two nations, which also encompassed the issues of Filipino immigrants in Sabah. Whenever political or diplomatic tensions flared, the issue of Sabah frequently resurfaced, becoming a topic of both informal dialogues and formal parliamentary debates in both countries. This recurrence often entangled various key issues and further intensified the tensed situation, especially when inflamed by provocative incidents linked to the territorial claim. The

impact of the Sabah issue on Philippine-Malaysian relations hindered the establishment of a Philippine consulate in Sabah, exacerbating issues concerning Filipino immigrants there. Foreign Secretary Raul Manglapus under President Aquino acknowledged this obstacle, advocating for the swift renunciation of the Sabah claim to pave the way for improved bilateral relations. Manglapus emphasized that, “Dropping the Sabah claim will be the signal for the normalisation of our relations with Malaysia, enabling us to settle the problem that we face in the south, including the very serious predicament of our workers in Sabah” (“Sulu Heirs,” 1989, p. 1).

Abandoning the claim on Sabah was viewed as crucial for the Philippines to resolve various diplomatic disputes with Malaysia, particularly those linked to conflicts in the southern Philippines. President Aquino believed that resolving the Sabah claim would clear the way for addressing other issues (“Moving on Sabah,” 1989). Aquino also recognized that any bilateral problem tended to escalate into provocations or become politicized, with the Sabah issue often used as a scapegoat. This scenario was evident when the death of Filipino fisherman Bobby Vijuan in Malaysian custody on April 5, 1988 caused outrage in the Philippines, leading to calls from the opposition for Aquino to cut diplomatic ties and prepare for assertive action against Malaysia. Bobby Vijuan and 48 other fishermen were detained by Malaysian authorities for allegedly entering Sabah’s territorial waters. This incident sparked a strong response in the Philippines, where derogatory terms such as Malaysia’s name was mockingly altered to ‘Mal-ape-sia.’ emerged as expressions of public and political discontent (Ahmad, 1988, p. 6). In the wake of this incident, some Filipino politicians and media suggested re-evaluating and possibly reigniting the Sabah claim, especially as it was seen to impinge upon Philippine national dignity.

Senator Leticia Ramos-Shahani pressed the Philippine government for a prompt resolution of the Sabah issue, highlighting its critical impact on Philippine-Malaysian diplomatic ties. Similarly, Deputy President and Foreign Minister Salvador P. Laurel underscored the dispute’s detrimental effects in a statement to the Philippine foreign council. He argued that settling the Sabah question was essential for fostering bilateral trust and respect, which in turn would strengthen ASEAN unity and mark the beginning of a new chapter in regional cooperation (Laurel, 1986; Weatherbee, 1987). The Speaker of the Philippine House of Representatives, Ramon Mitra, who also

supported the bill to remove Sabah from the Philippine border area in early 1987, also questioned the economic and political repercussions of the claim on Sabah.

Has anybody ever quantified how much it has cost us to pursue this claim? Has anybody ever cited any figures on the losses which we have sustained because one part of the country cannot pursue any legitimate trade with Sabah?... Has anybody ever thought or told out countrymen about the great influence of a hostile Sabah over the insurgency problem in the south, in Sabah where they train those who come to the Philippines and inflame the spirits of those who fight against the Republic? And has anybody cared about the 100,000 Filipinos in Sabah and who are bereft of any kind of government support because we hold the fiction that Sabah is part of the Philippines...?

(Severino, 2011, p. 57)

The persistent claim over Sabah has become more than a point of national pride; it has had tangible consequences on the Philippines' trade, security, and humanitarian fronts. The pursuit of this claim may be interpreted as a nationalistic stance that inadvertently imposes economic self-isolation, limiting potential trade benefits and cooperation with Sabah. Moreover, resolving the Sabah issue is not only a matter of national interest, but also a crucial factor in the peace process in the southern Philippines. The Aquino administration's move to repeal Republic Act 5446, which formally laid claim to Sabah, was a strategic attempt to foster goodwill with Malaysia and solicit its support in addressing separatist challenges. This action was a calculated effort to undermine the Moro National Liberation Front's (MNLF) stronghold in Sabah, thereby facilitating a smoother path to peace and stability in the region ("Concessions to Manila," 1987).

PEACEFUL SETTLEMENT: A NEW DIRECTION IN THE SABAH DISPUTE THROUGH DEMOCRATIC LEADERSHIP

The Philippines entered a new phase regarding its claim to Sabah when the government implemented a policy of dormancy. This policy did not equate to relinquishing the claim nor did it involve actively asserting it; instead, it signified setting the dispute aside to prioritise joint socio-economic development with Malaysia, with plans to revisit

the issue when circumstances deemed it appropriate. Reports by the *Manila Bulletin* on November 10, 1998, and the *Philippine Daily Inquirer* on November 11, 1998, confirmed that the claim had not been abandoned. These publications quoted presidential spokesman Fernando Barican as stating that during President Fidel V. Ramos's tenure, the claim was merely put on hold, not discarded.

The shift to a dormant claim policy, termed the 'backburner' approach, was initiated by the Philippine government under President Ferdinand Marcos in 1977. This shift involved a declaration of withdrawal from the claim to Sabah, prompted by increased pressure from the Malaysian government, ASEAN countries, and ongoing conflicts in the Southern Philippines. The announcement elicited mixed reactions among Philippine citizens, with some in disagreement and others in support. Despite President Marcos' public statement, no substantial actions were taken to formalise the withdrawal of the claim (Samad & Darusalam, 1992).

Upon assuming the Philippine presidency in February 1986 and ending President Marcos's regime, President Corazon Aquino launched a redevelopment programme aimed at revitalising the beleaguered economy, particularly impacted during Marcos's tenure. Her administration marked a significant shift in the Philippines' foreign policy regarding Sabah and Malaysia. Unlike Marcos, who declared but did not act on withdrawing the claim to Sabah, Aquino took concrete steps to formally renounce the claim, despite facing resistance from Senate members. In early 1987, she initiated the process of relinquishing the claim to Sabah and devised a new policy to clarify diplomatic relations with Malaysia. Furthermore, Aquino established six foreign policy priorities, including initiating bilateral and multilateral economic and technical agreements, attracting foreign investment, sourcing advanced technology to enhance competitiveness in agriculture and industry, supporting Filipino businesses, and securing international cooperation to protect exports and markets ("Laurel: We Will Solve," 1986).

President Aquino laid the groundwork for bilateral cooperation with Malaysia, which was further reinforced by President Fidel V. Ramos through a series of socio-economic agreements. Despite his military background, President Ramos's approach to the territorial dispute was not one of confrontation but rather continuation of his predecessor's policy. He focused on maintaining amicable relations with Malaysia

while avoiding any provocative actions that might rekindle calls to pursue the Sabah claim. Recognising the intractability of the Sabah dispute, Ramos pragmatically chose to sideline the issue, opting instead to prioritise socio-economic collaboration with Malaysia.

President Ramos was staunchly committed to actualising ‘open regionalism’ as promoted by ASEAN, embracing initiatives like the Asia Pacific Economic Cooperation and the ASEAN Free Trade Area, which he believed were instrumental in forging a global market network. He saw these cooperative efforts as pivotal, not just for economic integration but also for mitigating international pressures and ensuring sovereign control over national resources. During a period marked by the post-Cold War market’s imbalances, such progress was crucial, particularly for ASEAN nations grappling with these dynamics. For the Philippines, with its significant debt burden and an economy lagging behind its ASEAN counterparts, sustained cooperation was deemed essential for development. Ramos attributed the Philippines’ economic challenges to historically stringent protectionist policies, which had deterred foreign investment. He articulated this in his speeches, stressing the need for a shift toward greater economic openness (“Ramos: Manila Fully Supports,” 1994, p. 6). In delineating his position, President Ramos observed that:

Now we are painfully and belatedly removing the barriers erected against foreign investment and multinational industry. We have also redefined our concept of national security in non-military terms. We now regard national security as founded, ultimately, on our country’s economic strength, its political unity and its social cohesion. Our concept of security is to seek security together with our neighbouring countries and not against them. (“Ramos: Manila Fully Supports,” 1994, p. 6)

Following the aspiration to revive regional cooperation, especially with neighbouring countries, President Ramos made an official visit to Kuala Lumpur in January 1993, and in return this was followed by an official visit from the Malaysian government (Syed Nazri, 1994; Bocobo, 1993). Ramos became the first Philippine president to be invited by the Malaysian government to pay an official visit ever since the Sabah issue had plagued diplomatic relations between the two countries (Villanueva, 1993). These developments became the catalyst for a more harmonious Philippine-Malaysian diplomatic relationship.

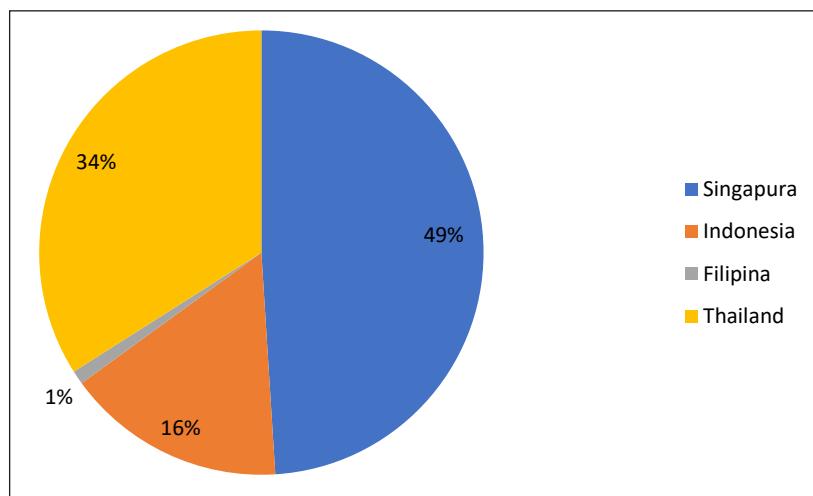
SOCIOECONOMIC COOPERATION AND JOINT DEVELOPMENT

Economic Cooperation

During the tenures of President Macapagal and Ferdinand Marcos, economic and trade collaborations between the Philippines and Malaysia were markedly subdued due to the protracted Sabah dispute. The Philippine government exhibited a discernible hesitancy to engage in any agreements that could potentially undermine its territorial claims over Sabah. Consequently, bilateral trade, notably exports and imports, was conducted on a relatively minimal scale. For instance, between 1973 and 1974, the combined export contributions from the Philippines and Indonesia amounted to a mere 3 per cent of Malaysia's total import commodities.

Figure 1

Total Imports of ASEAN Countries to Malaysia, 1973



Note. Source is the Economic Report, 1973-1974, Ministry of Finance, Malaysia

The Malaysian Economic Report succinctly encapsulated this dynamic, noting that 'Trade with the Philippines remains nascent, characterised by modest imports including metal concentrates and light machinery, alongside exports of tin, pewter, and various alloys' (The

Treasury Malaysia, 1973). A paradigm shift was observed subsequent to the decision of the Philippine government to deprioritise the Sabah issue during President Aquino's tenure. Concurrently, there was a liberalisation of the Philippines' foreign investment policy, aimed at expanding the avenues for international capital infusion. This strategic shift entailed liberalisation measures and a diminution of regulatory constraints on foreign investment influx, coupled with a reduction in export tariffs, thereby fostering a more conducive environment for foreign investment within the Philippines.

The post-Marcos era witnessed a significant enhancement in the bilateral relations and cooperative ventures between the Philippines and Malaysia. Both nations embraced proactive and pragmatic strategies to advance bilateral cooperation, thereby contributing to the peace and stability of the Southeast Asian region. This positive trajectory was particularly discernible in their robust engagement in ASEAN's socio-economic initiatives. The joint efforts of the Philippines and Malaysia in the development of subregional growth areas, notably the Growth Triangle, served to fortify their bilateral relationship, with the 1990s marking a period of vigorous collaboration. Malaysia's active participation in the SIJORI Growth Triangle, also known as the Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT), set a precedent that was subsequently emulated by the establishment of the Indonesia-Malaysia-Thailand Growth Triangle. These regional economic zones not only bolstered bilateral ties, but also underscored the two countries' commitment to ASEAN's overarching goal of regional economic integration.

As other ASEAN member states were advancing their economic growth through regional and international cooperation, the Philippines was still grappling with the aftermath of a financial crisis from the Marcos era. By the time Marcos left office, the nation faced a staggering debt of US \$26 billion owed to over 400 creditors ("What the Future Holds," 1986, p. 8). A significant portion of the country's revenue from foreign investments, which was over 85 percent, was allocated annually to service this debt. Consequently, the Philippines was in dire need of substantial financial assistance for economic recovery. The instability was exacerbated by fluctuations in the global sugar market, a primary Philippine export, which had experienced a decline in market value to eight cents per pound from a production cost of 17 cents per pound in 1986. Although there were concerted

efforts to retract Philippine exports from the international market, this strategy was insufficient in addressing the need for financial inflows. The most lucrative revenue stream was labour exports, generating US\$3 billion annually (“What the Future Holds,” 1986, p. 8). Amidst this economic turmoil, the Philippine Minister of Trade and Industry, Jose Concepcion, called for a more determined effort to resolve the Sabah dispute, emphasising the potential for enhanced economic collaboration with Malaysia as a pathway to bolster the national economy (“Sabah Claim Again,” 1968, p. 13).

The escalation of economic collaboration between the Philippines and Malaysia was conspicuously marked in 1988 when trade volume between the two nations surged beyond the levels observed during President Marcos’ tenure. A remarkable trade volume of \$366 million was documented, positioning Malaysia as the Philippines’ second most significant ASEAN trading partner in terms of bilateral trade volume (Haniff, 1989). President Aquino underscored the importance of expanding trade agreements with Malaysia, particularly with Sabah. This advocacy was publicised on July 4, 1986, subsequent to her dialogue with Jeffrey Kitingan, the Director of the Sabah Foundation (“Corazon Calls,” 1986, p. 10). Their discussions revisited the historical trade relations between the Philippines and Sabah, notably the commerce with Palawan, and identified potential collaborative ventures in the fields of livestock and aquaculture.

The formation of the Joint Commission of Malaysia-Philippines (JCM) in July 1993 signified a pivotal advancement in the socio-economic cooperation between Malaysia and the Philippines. The breadth of discussions under the JCM was comprehensive, encompassing trade, investment, tourism, the circumstances of Filipino workers and immigrants in Malaysia (with a particular focus on Sabah), air transportation, technical collaboration in agriculture, and initiatives in southern Philippines. During President Ramos’ visit to Malaysia that year, the Philippine private sector succeeded in securing seven significant business agreements with Malaysian corporate leaders and entrepreneurs. Among these was a tripartite collaboration between Malaysia’s Hume Industries, the Philippines’ Phinmax Group, and Denmark’s FL Smidth to manufacture cement products (Villanueva, 1993, p. 2). This venture was aimed at producing prefabricated concrete products to cater to the Philippine construction sector’s demand. Another notable agreement involved the Guoco Group of

Malaysia and Buenaventura Filamor Echauz of the Philippines, focusing on capital generation and investment for Manila-based projects. Additionally, Reynolds Philippines and Universal Cable Holdings reached an accord to commence aluminium and rod production initiatives. Furthermore, a memorandum of understanding was inked between Al-Baraka Malaysia and a consortium of Filipino investors, which was spearheaded by congressman Michael Mastura's family, and targeted as a revitalisation scheme for the Philippine Amanah Bank.

An agreement was also signed between Hong Leong Engineering of Malaysia and Sarte Teodoro and Associates of the Philippines to manufacture computer software for export purposes. The Ayala Corporation of the Philippines and Hong Leong Industries made a joint venture agreement for a plastic packaging project. The seventh successful agreement involved Cavalier Shipping and Baliwag Navigation, and created a separate agreement with the Malaysian Mining Corporation to implement two joint venture projects. The first project involved gold and copper mining and the second project involved the excavation of mud and river dams, including in areas severely damaged by lava in Central Luzon. Another substantial Malaysian investment of 1.8 billion pesos in the Philippines involved United Engineers Malaysia (UEM), which was part of Renong Berhad. UEM made significant investments in the construction sector, including the highway construction project from Manila to Cavite, which was also one of the main projects of the Philippine government and cost some seven billion pesos ("Malaysia is Top," 1997, p. 21). President Ramos lauded his mission to Malaysia, describing it as 'successful beyond expectation'. According to Ramos:

The Prime Minister and I agreed that it was time to place trade, investment, and other economic interaction at the centre of relations between our two countries. Just as important is that quite apart from the contentious issues, Prime Minister Mahathir Mohamad and I agreed to look to the future and move our countries' relations forward. (Villanueva, 1993, p. 2; "Ramos: Visit," 1993, p. 2)

Malaysia's investment in the Philippines also increased from US \$7.6 million in 1993 to \$169 million the following year. Malaysia's investment in the Philippines during the Ramos administration era

recorded the highest increase during this period of Philippines-Malaysia diplomatic relations. In this era, Malaysian enterprises emerged as the preeminent foreign investors in the Philippines, surpassing their ASEAN counterparts. A landmark development in 1994 was the establishment of Proton Berhad's first overseas factory, with Manila being selected as the inaugural site for the Malaysian automobile company's expansion (Syed Nazri, 1994, p. 2).

In addition to active bilateral cooperation and collaboration in JCM, socio-economic cooperation between the Philippines and Malaysia was also enhanced through the formation of the Brunei Darussalam-Indonesia-Malaysia-Philippines-East ASEAN Growth Area (BIMP-EAGA) in 1994, which involved regional socio-economic development. The BIMP-EAGA multilateral cooperation involved areas in the Mindanao and Palawan Islands in the Philippines, North Sulawesi, East and West Kalimantan Indonesia, Sabah, Sarawak, and Labuan in Malaysia and Brunei. President Ramos himself also played an instrumental role and contributed greatly to the success of the cooperation plan. He was the first individual to propose the establishment of the EAGA in 1992 and suggested that the EAGA cooperation should involve areas such as Borneo, Sulawesi and Mindanao. He further posited that financial backing could be solicited from the Asian Development Bank (ADB) and recommended the formation of a dedicated secretariat to oversee this collaborative effort. A specific committee for the proposed cooperation was thus finally established in the Philippines (Baharuddin, 1993, p. 15).

Malaysia spearheaded cooperation in tourism development projects and the formation of capital and financial services, energy, and human resource development, and the Philippines led cooperation projects in fisheries expansion, agro-industrial construction and building materials (Dminguez, 1996). The cooperation through the BIMP-EAGA provided great benefits to the countries involved, especially in the development of Mindanao. President Ramos also welcomed more investments in Mindanao, particularly from Malaysia. He further stated, 'We will continue with that path, and we will invite and welcome those from ASEAN, especially Malaysia, which is very well-positioned there and from other parts of the world to help develop Mindanao' ("Ramos: Pro-Business," 1997, p. 21).

The economic and infrastructure development of Mindanao achieved rapid growth compared to the period before the BIMP-EAGA was

implemented. Development in Mindanao continues to receive support and assistance from the Malaysian government, including efforts to promote Mindanao as a tourism, investment, and education centre. For example, Malaysia hosted the Third Mindanao Exposition, which took place in Kota Kinabalu, Sabah, from 9 to 13 August 1996. It was aimed at creating and strengthening a network of cooperation between the focus areas in Mindanao and the EAGA member countries.

This dynamic collaboration significantly fortified the bilateral ties between the Philippines and Malaysia, paving the way for a plethora of investment prospects for both private enterprises and the Malaysian government in the Philippines. This investment prospect also attracted the Ministry of Industry Malaysia to conduct a trade mission to Mindanao Island. In the 1994 mission, companies from Malaysia were allowed to invest more capital and shares in the agriculture and plantation sectors in Mindanao, leveraging Malaysia's expertise and technology in the rubber plantation and palm oil production sectors (Sharifah Fatimah, 1994, p. 18).

A significant development also materialised through air transport cooperation between Malaysia and the Philippines. Malaysia Airlines (MAS) which provides services from Davao to Kota Kinabalu achieved a growth of 932 percent through cargo delivery services and 8.6 percent for passenger services from November 1995 to September 1996. Malaysia also launched SAEGA Airlines in early 1996 as a sign of its commitment to the EAGA. SAEGA, which is also a subsidiary of Ekran Berhad in collaboration with the Sabah and Sarawak State governments, was the first Asian airlines established in the Southeast Asian region ("Ting Off," 1996, p. 23).

By the end of the Ramos administration, Malaysia had once again become the country with the highest investment in the Philippines compared to the other ASEAN member states. In a report released by the Board of Investments (BOI) of the Philippines in 1997, Malaysia was ranked as the top ASEAN country on foreign investment charts in the Philippines ("Malaysia is Top," 1997, p. 21). Malaysia's investment in the Philippines increased by 1,059 per cent in 1996 and achieved a similar increase in the following year. This surpassed investment from Singapore, which was previously the largest investor in the Philippines, while Indonesia and Thailand showed lower investment rates compared to previous years.

Political and Security Cooperation

Almost 19 years after the Malaysian government cancelled the Anti-Smuggling Agreement in response to the Corregidor incident, the Philippines took a new initiative to renew cooperation through President Aquino's leadership. Cooperation between the Philippines and Malaysia resumed when the two sides met in Kuala Lumpur to draft an agreement in the Treaty of Friendship and Cooperation under ASEAN and the Joint Border Patrol and Border Crossing Agreement. At this juncture, there was a dispute over the issue of overlapping areas in the Exclusive Economic Zone of Malaysia (EEZ) between the Philippines and Malaysia. However, it did not affect bilateral relations between the two countries. As part of the precautions to avoid any unexpected crisis, the Malaysian government stressed that negotiations on that matter should not touch or involve the disputes over Sabah at all.

All commitment and efforts during the administration of President Aquino were continued and materialised through the leadership of President Fidel V. Ramos when the Philippines and Malaysia finally reached an agreement to establish a Joint Commission of Malaysia-Philippines (JCM) on 22 July 1993. One of the crucial aims in establishing the JCM was facilitating the process of dialogue and consultation and promoting bilateral relations between the two parties. Although neither government particularly discussed the issue of Sabah in drawing up the treaty, it was clear that the main agenda was to address the Philippines and Malaysia dispute over Sabah. A two-pronged approach was taken to promote and strengthen bilateral cooperation and, at the same time, strive to resolve disputes over Sabah. An agreement was also reached between the two parties to ensure that economic activities forged between the private sector in the two countries would not be affected by the Manila-Kuala Lumpur bilateral negotiation process or any crisis that might arise subsequently.

Among the important successes achieved through the establishment of the JCM was an agreement on the use of entry passes at the Malaysian and Philippine borders, signed on 29 May 1996. Both parties agreed to set up a border crossing station to enable the use of border entry passes that facilitate the entry and exit of residents and merchandise from the borders of the two countries. Border crossing stations were located in Bongao and Sitangkai in the southern Philippines, as well as

Labuan, Kudat, Sandakan, and Tawau in East Malaysia (“Philippines, Malaysia Agree,” 1996, p. 22). Apart from the border crossing agreement, President Ramos was also very open to cooperation in the form of regional defence and security, especially with Malaysia. In 1994, the Malaysian Ministry of Defence undertook a study on defence cooperation with the Philippines (“Najib: Dissatisfied People,” 1994, p. 2).

Filipino Immigrants in Sabah

Apart from being active in economic and political cooperation, Presidents Aquino and Ramos also paid serious attention to the issues of Filipino immigrants in Sabah. Problems that arose regarding the presence of Filipino immigrants in Sabah during the Aquino and Ramos era were often linked to the issue of Philippine lawsuits against Sabah. This situation re-emerged when problems involving the Philippines and Sabah arose, and the question of Sabah’s original sovereignty began to be questioned again. According to statistics released by the Sabah state government, there are some 250,000 illegal immigrants from the Philippines and Indonesia, and 70,000 Filipino refugees who fled the unrest in the Southern Philippines 15 years ago had remained illegally in Sabah and worked as labourers (Lee, 1988, p. 12; Taya, 2007).

A significant development during the administrations of President Aquino and Ramos was the review and restructuring of the management of Filipino immigrants in Malaysia, particularly in Sabah. As part and parcel of a compromise over territorial conflict management, Malaysia and the Philippines not only had to find ways to resolve the legal aspects of the Filipino immigrants in Sabah, but also needed to solve other social elements that may implicitly or explicitly affect both countries, and which may trigger public discontent and ultimately revive the dormant claim to Sabah. In the early stages of improvement in bilateral relations between Malaysia and the Philippines, the issue of Sabah remained sensitive for many stakeholders, especially the citizens of Sabah, Filipino immigrants, and politicians from both sides.

While the increasing number of Filipino immigrants in Sabah was often seen by the Filipino population and their politicians as a non-issue based on the notion that Sabah belongs to the Philippines, the Sabahans, on the other hand, insisted on more serious action to control

this immigration, which affected their social development to the extent that they were afraid of being dominated by the Filipinos (Lee, 1988, p. 12). The status of Filipinos in Sabah was often disputed, with the assumption that Filipinos are the original (indigenous) people of Sabah, and therefore 'more indigenous than the Malaysians in that territory' (Jurado, 1987, p. 6). Feeling threatened by the presence of Filipino immigrants, some Sabahans reported their fears to the police. This included a report by a local Sabahan to the Police Commissioner in Kota Kinabalu, Sabah on 28 March 1988, which was later extended by the Sabah Police Chief to the Kuala Lumpur Police Chief the next day. A letter from a complainant, who did not provide his/her real name, quoted several newspaper reports describing the people of Sabah as living in fear. The growing number of Filipinos in Sabah was regarded by the complainant as '*api kecil menjadi kawan, apabila besar menjadi lawan*' ("Public complaint letter," 1988; Tan, 1988).

Conversely, it was not only the issue of immigrants that caused trouble for the Malaysian government and the Sabahans in particular, but the case of many Filipinos becoming victims of unregistered agencies or labour agents that illegally recruited Filipino workers for Sabah. The agencies told them that they would be employed in jobs in Sabah which did not exist. The illegal agencies succeeded in attracting many Filipinos, especially from the Muslim community, by offering them lucrative salaries and good jobs in Sabah. They were required to pay 9,000 pesos each to cover the cost of their journey from Palawan to Sabah. Upon their arrival in Sabah, the Filipino men were recruited to work as loggers in the forests with unreasonable wages. Meanwhile, the women were sold and forced to work as prostitutes ("Firm Hiring," 1994, p. 7).

In parallel with the dedicated mission to improve bilateral and multilateral relations with Southeast Asian countries, particularly Malaysia, President Aquino started many programmes and organised initiatives to solve the problem of Filipino immigrants in Sabah. This included efforts to bring its people back to the Philippines. This mission was continued by her successor, Fidel V. Ramos. During his term, the Governor of the Islamic Autonomous Region of Mindanao (ARMM), Nur Misuari, visited Sabah in October 1997 and promised to bring the Filipinos back to the Philippines in stages ("Sabah: Syurga Pendatang," 1997, p. 20). Another initiative to solve the problem involved the establishment of a Philippine Consulate in Sabah. However, this effort failed to materialise due to the constant

and significant opposition from members of the Senate and many legal practitioners, including the Chief Presidential Legal Counsel. The Chief Presidential Legal Counsel had warned President Ramos that if the Philippine Consulate Office were established in Kota Kinabalu, Sabah, it would be considered a violation of the Philippine Constitution. From a legal perspective, the establishment of the Philippine consulate office in Sabah was viewed as tantamount to dropping the Philippine claims on Sabah (Tordesillas, 2002). They were not the only group responding to the president's decision to establish the consulate office in Sabah. Another group, which was somewhat moderate and pragmatic in their view towards the problem of Filipino immigrants in Sabah, suggested that the immigrants would be vulnerable to exploitation and persecution by the Malaysian government (Tordesillas, 2002, p. 3).

More than 14,500 illegal immigrants living in Sabah were deported back to the Philippines by the Malaysian government between 1968 and 2000. The Department of Social Welfare and Development (DSWD) established by the Republic of the Philippines in 1997 was responsible for managing the welfare of Filipinos abroad and spent 3.9 million pesos in 2000 to handle the transfer of Filipino immigrants to Zamboanga City, which had covered the travel costs (Avendano, 2000). In 1987, the Republic of the Philippines, under Aquino's leadership, also announced a six-month amnesty period for Filipino refugees and illegal immigrants in Sabah to return to their homeland immediately (Lee, 1988, p. 12). President Aquino also ordered the formation of the Inter-Agency Task Force (IATF) the following year to assist as many as 150,000 Filipinos working in Sabah with travel documents and other legal documents that could qualify them for the amnesty offered by the Malaysian government. The amnesty programme was announced by Sabah Chief Minister, Datuk Joseph Pairin Kitingan, on 28 September 1988 and ended on 31 December 1988.

President Aquino then ordered the Department of Foreign Affairs (DFA) to send a group of consular officials to Sabah in early November to issue passports and other travel documents to Filipino workers working there illegally. The formation of the IATF included staff from the DFA, Immigration, Department of Foreign Workers, Ministry of Health, Ministry of Defence, Social Welfare, Presidential Office, and Municipal Council. Based on the estimates submitted by the DFA, there were some 350,000 Filipinos in Sabah. Of that number, a total

of 100,000 people were refugees, 150,000 employees, 50,000 people working under temporary employers and 50,000 people were self-employed (“Sabah Workers,” 1988, p. 4).

Significant steps were taken by the Philippines Department of Labour to immediately stop the operation of unlawful recruitment agencies sending Filipino workers to Sabah (“Firm Hiring,” 1994, p. 7). Before the emergence of various issues involving the condition of Filipino immigrants in Sabah, the Philippines did not have a particular plan to manage the affairs of its citizens who were working abroad, especially in Malaysia. There was no clear contingency plan implemented by the Philippines in the event of a case involving its citizens in Malaysia (“Sabah Fears,” 1986, p. 3). The Philippines tended to be more reactionary and only acted when a serious issue arose, and when certain issues received extensive coverage in the media.

The Malaysian government, on the other hand, continued to accept an influx of Filipino workers into various sectors. A total of 73.4 percent of Filipino workers were involved in domestic activities in Malaysia in 1998. The main focus of foreign workers from the Philippines includes the agricultural and plantation employment sector, especially in East Malaysia, as well as manufacturing, construction, and the hotel industry. Malaysia also received a professional and skilled workforce from the Philippines in the fields of medicine, technology, and management. A statistics officer at the Ministry of Human Resources, Roslan Ali, stated, ‘We need highly skilled Filipinos especially in the fields of medical, technical and other services’ (“EAGA A Rich Market,” 1996). Filipino workers had a reputation for considerable skills and discipline that made many companies and employers interested in hiring workers from the Philippines (“EAGA A Rich Market,” 1996).

In recent years, the dispute over Sabah has once again become a heated debate, particularly following the Lahad Datu incursion in Sabah by the Royal Sulu Forces. The heirs of the Sultan of Sulu raised issues regarding annual payments that they claimed were not made by the Malaysian government after the attack, leading to claims being filed in arbitration courts in Spain and later in France, resulting in a final award by the court. The Malaysian government ultimately nullified this award and took serious legal action against the arbitrator, Gonzalo Stampa. However, these developments did not involve a dispute between the countries of the Philippines and

Malaysia. Although there were Filipino representatives who expressed their support for the claims of the Sulu heirs, this did not represent the official stance of the government. Consequently, the relationship between the Philippines and Malaysia remains stable and unaffected by these recent developments.

CONCLUSION

The protracted dispute over Sabah has historically been fraught with the potential to devolve into diplomatic and military strife. However, the active bilateral cooperation between the Philippines and Malaysia has ushered in a new era of multilateral cooperation within ASEAN, a stark contrast to the fate of its antecedent, the Association of Southeast Asia (ASA), which foundered due to the Philippines' resolute pursuit of its claim to Sabah.

In light of the multifaceted exploration presented, it has become evident that the journey towards the resolution of the Sabah dispute is intrinsically tied to a broader paradigm of socio-economic and diplomatic cooperation between the Philippines and Malaysia. The gradual shift from a confrontational stance to one emphasizing economic collaboration and mutual development not only underscores a maturation in bilateral relations, but also illuminates a pragmatic pathway that other regional conflicts might want to emulate.

During President Marcos' administration, efforts to hold multilateral cooperation involving ASEAN countries often faced difficulties, especially when it also involved Malaysian participation. The reluctance was rooted in the Philippine government's concern that such cooperation could potentially compromise its position on the Sabah claim. This lingering territorial dispute subtly undermined the confidence of private firms, instilling caution over substantial investments due to the perceived risk of sudden shifts in the Philippine government's policies towards Malaysia, a concern notably prevalent during President Marcos' administration.

The policy of dormant claim implemented under the leadership of President Corazon Aquino, and sustained by President Fidel V. Ramos, though initially viewed as a relinquishment of territorial aspirations, effectively repositioned the Sabah issue within a framework conducive to dialogue and cooperative engagement. This approach,

dovetailed with the Philippines' broader economic strategies and regional commitments. It was able to leverage economic integration as a stabilizing force and a precursor to addressing more contentious political and security concerns. The Philippine economy experienced a surge in the mid-20th century, marked by a substantial increase in the country's Gross National Product (GNP), which was propelled by heightened exports and foreign direct investment.

The engagements under the Joint Commission of Malaysia-Philippines and subsequent economic and infrastructural initiatives not only bolstered bilateral ties, but also created a resilient platform for future negotiations on sensitive issues. This evolving relationship, marked by high-level official visits and strategic economic agreements, reflects a nuanced understanding that economic interdependence can serve as a cornerstone for durable peace and stability.

Moreover, the handling of sensitive issues such as the treatment of Filipino immigrants in Sabah and the overarching framework of ASEAN's cooperative initiatives underscore the complex interplay between domestic concerns and foreign policy objectives. The proactive measures to integrate economic, political, and security dimensions affirm that a holistic approach is paramount in resolving disputes that have historical and ethnic underpinnings.

As this case study of the Philippines and Malaysia illustrates, resolving long-standing territorial disputes requires more than diplomatic negotiations; it necessitates a comprehensive strategy that intertwines economic cooperation with political goodwill and societal integration. Such an approach not only mitigates immediate tensions, but sets a precedent for conflict resolution that is sustainable and respectful of the multifarious nature of international relations. This alignment of economic goals with diplomatic strategies in the context of the Sabah dispute offers valuable lessons for addressing similar conflicts globally, suggesting that peace, when fostered through multiple dimensions of interaction, can achieve a more lasting and impactful resolution.

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