CHAPTER 2

A Land of Diverse Natural Beauty
CHAPTER 2
Build High-Margin Services Sector in Tourism and Logistics

2.1 Current Context

The services sector is a major contributor to Sabah’s GDP. Its share of Sabah’s GDP was 48.9% in 2005, in which wholesale and retail trade, and government services were the highest contributors, each contributing 24.4% and 21.7% respectively. The services industry also provides the highest number of jobs: 639,000 persons were employed in the services sector in 2006, which accounted for 53.3% of total employment in Sabah\(^1\).

Tourism is envisaged to be the key driver for the services sector in Sabah and the programmes outlined in this chapter have taken into account the existing local tourism masterplans of the state.

2.2 Tourism

The vision for tourism is to make Sabah among the most liveable places in Asia by 2025. This will be achieved over a three-phase period:

Phase 1 will focus on addressing the basics to support tourism development and laying the foundations for future growth. World-class tourism infrastructure and services will be put in place, including nurturing a vibrant arts and culture scene.

Phase 2 will focus on strengthening Sabah’s position as a premier eco-adventure destination through conservation, research and sustainable development of new tourism products anchored by signature resorts.

Phase 3 will see Sabah being transformed into one of the most liveable places in Asia – a bustling metropolis within a tropical paradise.

\(^1\) Yearbook of Statistics Sabah 2006, Department of Statistics Malaysia, Sabah.
Tourism is an important economic driver for Sabah. Tourism is the third highest contributor to Sabah’s economy after agriculture and manufacturing. It contributed 7.4% to Sabah’s GDP in the 8MP period and its contribution is expected to increase to 10% in the 9MP period².

In 2006, Sabah recorded arrivals of 2.09 million visitors with receipts of over RM2.8 billion. Growth is strong as seen by the positive trend in visitor arrivals with a compounded annual growth rate of 17.2% over the last five years compared to the national average growth of 7.2% over the same period.

**Figure 2.1 Visitor Arrivals in Sabah**

Sabah tourism also recorded strong growth in tourism receipts with an annual compounded growth rate of 27.4% (domestic and international) over the last five years. Per capita international tourist spending of RM2,517 is also higher than the national average of RM2,067; its compounded annual growth rate is three times the growth rate recorded by Malaysia – 5.05% vs. 1.60%³.

² UPEN
³ Malaysia Tourism Promotion Board; Sabah Tourism Board
In general, international tourists spend twice as much as domestic tourists. Main expenditure components are shopping, food and beverages, accommodation, entertainment and recreation.

Local food and leisure activities are part of the appeal of Sabah.
Sabah is endowed with rich natural resources, culture and heritage, which are already well-known among discerning travellers. Sabah’s increasing international connectivity is also contributing to the growing number of foreign arrivals.

2.2.2 Sabah’s Tourism Strengths

Sabah is endowed with rich natural resources, culture and heritage, which are already well-known among discerning travellers. Sabah’s increasing international connectivity is also contributing to the growing number of foreign arrivals.

i) Natural Resources

Sabah is rich in biodiversity, contributing significantly to Malaysia being one of the 12 mega biodiversity hotspots in the world. It is home to many nature and wildlife conservation areas and parks, including South East Asia’s highest peak Mount Kinabalu. It also boasts an abundance of tropical rainforest and wildlife such as the protected orang utan, as well as pristine beaches and diving sites. Its natural endowments provide the perfect destination for nature-inspired and adventure-seeking travellers.

Source: Tourist Expenditure Survey, Sabah Tourism Board (September 2004)

Tourist spending can be increased by increasing their length of stay. Currently, average length of stay of domestic and international visitors is 3 nights and 8.2 nights respectively.
Major nature and adventure-based attractions include:

• Nature and Wildlife
  - UNESCO World Heritage Site – Mount Kinabalu, Sipadan Island, Maliau Basin, and Tun Sakaran Park which is also applying for World Heritage listing
  - Kinabalu Park / Poring Hot Springs
  - Tunku Abdul Rahman Park
  - Sepilok Orang Utan Sanctuary and Rehabilitation Centre
  - Danum Valley Conservation Area
  - Tabin Wildlife Reserve
  - Selingan Turtle Islands Park
  - Gomantong Caves
  - Lower Kinabatangan Wildlife Sanctuary (Corridor of Life)

• Adventure
  - Diving – Sipadan Island, Langkayan, Kapalai, Mantanani
  - Mountaineering and trekking – Mount Kinabalu, Crocker Range Park, Mount Trusmadi, Maliau Basin
  - Whitewater rafting – Padas River and Kiulu River
  - Off-road 4x4 safari driving

Diverse attractions await visitors to Sabah.
ii) Culture and Heritage

Sabah with its myriad of ethnic cultures offers diverse experiences for the culture-seeking traveller. There are more than 32 different indigenous groups in Sabah with each tribe generally unique to a particular district, lending to a distinctive way of village living, music, dance and festivals, as well as unique handicrafts.

There is great demand for local handicrafts and souvenirs among tourists in Sabah. A survey conducted by the Sabah Tourism Board revealed that an average of 7%-10% of tourist expenditure is on handicraft. Handicraft production is already an active tradition among many of Sabah’s natives – Kadazandusun, Murut, Bajau, Rungus, Lundayeh and Melayu Brunei – and can be a good income source for these communities.

The friendly people of Sabah also provide a pool of trainable resources for the tourism and hospitality industry.

Major cultural attractions include:

• Sabah Museum
• Tingkayu Archeological Sites
• Rungus Longhouse at Kampung Bavanggazo, Matunggong
• Water Village at Mengkabong, Tuaran
• Pesta Kaamatan or Harvest Festival
• Lepa-Lepa Regatta at Semporna
• Murut Cultural Centre at Tenom
• Handicrafts

More than 32 indigenous groups call Sabah home.
iii) Geographic Location and Connectivity
Sabah is strategically located in the northeast corner of Borneo, with approximately 77.1 million and 139.4 million potential tourists within a 3-hour and 6-hour flight radius respectively. Sabah also has the potential to tap into the 34.5 million international visitor arrivals at the region’s major aviation hubs – Kuala Lumpur, Hong Kong, Singapore and Bangkok.

---

5 UNWTO; Outbound tourism figures for Australia, Hong Kong, Japan, Korea, China and Thailand (2005).
Sabah enjoys good air links with major cities in Asia-Pacific. Direct flights as well as transit flights via Bangkok, Brunei, Hong Kong, Taipei, Kaohsiung, Manila, Cebu, Seoul, Shenzhen, Macau, Singapore and Tokyo offer frequent and easy access. There are currently eight airlines flying directly into Kota Kinabalu – MAS, Air Asia, Asiana, Dragonair, Silk Air, Royal Brunei Airlines, Korean Air, and Far Eastern Airways.

There is also an increasing trend in cruise tourism. In 2005, six cruise ships arrived in Sabah with 3,673 excursionists compared to 13 cruise ship arrivals in 2006 with 13,591 excursionists. The main port of call is Kota Kinabalu, with the main ports of origin being Singapore and Hong Kong.

Direct connectivity has contributed to the high number of tourist arrivals from these countries.
Kota Kinabalu’s Harbour Front can expect to see an increase in cruise tourism.

According to the World Tourism Organisation, modern travellers want ‘activity-based’ attractions as opposed to ‘destination’ travel. Sabah is already a destination for nature, cultural and activity-based tourism, and has tremendous potential to grow by leveraging on its appeal as an ecological and adventure wonderland.

**Figure 2.6 Top 12 International Visitor Arrivals by Nationality**

<table>
<thead>
<tr>
<th>% of Total International Visitor Arrivals</th>
<th>100% = 750,923 international visitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>1.52% (38.92%)</td>
</tr>
<tr>
<td>Brunei</td>
<td>8.98%</td>
</tr>
<tr>
<td>South Korea</td>
<td>7.60%</td>
</tr>
<tr>
<td>Philippines</td>
<td>2.73% (3.87%)</td>
</tr>
<tr>
<td>Taiwan</td>
<td>6.20%</td>
</tr>
<tr>
<td>Japan</td>
<td>4.75%</td>
</tr>
<tr>
<td>China</td>
<td>4.30%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>3.90%</td>
</tr>
<tr>
<td>UK &amp; Ireland</td>
<td>3.35%</td>
</tr>
<tr>
<td>Singapore</td>
<td>2.66%</td>
</tr>
<tr>
<td>Australia</td>
<td>2.64%</td>
</tr>
<tr>
<td>USA</td>
<td>1.48%</td>
</tr>
</tbody>
</table>

Source: MASB, Sabah/Immigration Dept, Sabah/Malaysia Airlines, KL/Air Asia/ FAX
Although Sabah’s tourism industry has witnessed tremendous growth over the last decade, key supporting services need to be upgraded, particularly the availability of sound infrastructure, skilled human resources and public security.

Support for Tourism Industry Operators

Tourism in Sabah is largely driven by the private sector. It is crucial that the following supporting services are enhanced to attract and facilitate private sector investment:

- Infrastructure support, particularly utility services such as water supply, electricity and waste disposal; currently, supply of basic utility services is limited
  - Sewerage systems in Kota Kinabalu are already having difficulty coping with current demand
  - Due to lack of regular water and electricity supply, some tourism operators have to truck water supplies in and install their own electricity generating equipment which impact operating costs
  - Potential new tourist sites such as the coastal areas along Tuaran-Kota Belud-Kudat and Kuala Penyu to Mempakul have limited access to water and electricity
• Sufficient skilled manpower for hotels and related facilities within Sabah and/or the flexibility of gaining access to it from outside
  ◦ Shortage of skilled manpower is prevalent throughout the tourism sector, particularly at middle and upper management, as well as a lack of skilled tour guide, naturalists and language skills
• Ability to acquire good quality land on a leasehold or freehold basis at levels which do not compromise a project’s commercial viability
• Government delivery system; lengthy planning approval processes often lead to bureaucracy and unnecessary delays

Services for Visitors to Sabah
Apart from Kota Kinabalu and the major towns in Sabah, most inland tourist destinations are not accessible via sealed roads.

Tourism infrastructure and facilities also require upgrading. Currently there is a lack of mid-range hotels, poor public transportation, absence of lay-bys and rest-stops along roads, and inefficient information distribution such as road signages and tourist maps. Poor maintenance, hygiene and cleanliness are also major complaints among tourists to Sabah.

Figure 2.8 Visitors’ Touch Points

Source: IDS
In developing Sabah’s tourism strategy, the focus is on attracting quality, high-yield and long-stay visitors. The tourism strategy must also fulfil the goal of spreading the benefits of tourism to the people of Sabah. As such, a three-zone concept is being adopted to ensure balanced development. Kota Kinabalu will remain as the state’s primary gateway and central hub to both Eastern and Western Sub-Regions. Existing air linkages provide spokes from Kota Kinabalu to Sandakan, Lahad Datu and Tawau, all of which function as secondary hubs to the scattered Eastern tourism sites, which are home to most of Sabah’s natural and marine treasures. The Western Sub-Region will be further enhanced with coastal developments along its Northern and Southern Circuits to accommodate integrated beach resorts, marina, and cruise terminal, among others. This will facilitate the growth of tourism and take pressure off key Western attractions such as Mount Kinabalu. The Central Sub-Region will be devoted to adventure tourism, which includes activities such as white-water rafting and jungle-trekking.

Figure 2.9 Sabah Tourism Development Concept

Source: Sabah Tourism Masterplan, IDS
With appropriate branding and aggressive marketing, Sabah envisions to attain RM24 billion in tourism receipts by 2020 or doubling of receipts every five years.

2.2.4.1 Enhance Sabah’s Position a Premier Eco-Adventure Destination

Sabah has few regional competitors in the realm of natural attractions. The combination of Mount Kinabalu, coral reefs, beaches, rainforest and wildlife is a strong differentiator for Sabah, in comparison to other more developed and well-known eco-tourism destinations in the region, such as Indonesia and Thailand.

Sabah is already positioning itself as a premier eco-adventure destination. Its adventure attractions cater to enthusiasts interested in activities like mountain climbing, white-water rafting and diving, while nature inspired holiday-makers seek out wildlife sighting and nature walks among others.

Figure 2.10: Eco-Adventure Destinations in Sabah

Source: Sabah Tourism, IDS
The World Tourism Organisation predicts that the trendiest destinations in the future will be the tops of the highest mountains, the depths of the deepest oceans and the ends of the earth. Therefore, conservation and conscientious tourism are important to ensure sustainability. With the increasing environmental sensitivities and greater awareness among discerning travellers, eco-tourism has become the fastest growing segment in the tourism industry. It is estimated to be increasing 20% annually compared with 7% for tourism overall\(^6\).

To cater to rising demand, existing natural attractions need to be enhanced and new nature sites need to be developed in line with the eco-tourism concept. The Ecotourism Society defines the concept as “responsible travel to natural areas which conserves the environment and sustains the well-being of local people”. Environmental impact, carrying capacity, visitor experience and incorporation of local communities into the tourism development as well as natural area management process will be key considerations for the development of all eco-tourism sites.

Develop New Tourism Products Anchored by Signature Resorts

Sabah tourism is presently experiencing a tremendous growth. At current arrivals, there is already a shortage of 4,000 5-star rooms. With the completion of the new Kota Kinabalu International Airport (KKIA) in 2008 and the impending ASEAN open skies policy in 2009, there is a need to intensify the development of new tourism products to cater to the increasing number of tourists arrivals.

There has been an up-market trend in tourism over the last few decades. With the rise in disposable income coupled with greater leisure time, better education and increasing sophistication, there is now a stronger demand for better quality products. As such, the market for mass tourism is fragmenting – tourists want more personalised, life-enhancing travel in attractive natural environments with quieter resorts, family-oriented holidays or niche market destination hotels. This is witnessed from the declining popularity of beach-based, mass tourism destinations such as Cancún.

In view of the above, the strategy is to attract renowned signature resorts, such as Four Seasons, Ritz-Carlton, Shangri-La and Bvlgari, to anchor new tourism products such as spa and wellness tourism in Kundasang and marine tourism in the islands. Signature resorts conduct their own market research and are attuned to what their customers want. They also have a loyal customer following which bodes well in promoting Sabah to well-heeled travellers.

\(^6\) The International Ecotourism Society, Ecotourism Fact Sheet (September 2005)
Sabah is competing against other tourism destinations in the region for FDIs. As such, it is crucial that the public delivery system is enhanced to ensure a hassle-free and efficient application and approval process. Stringent service levels need to be instituted and enforced. A one-stop implementation authority will be tasked to look into this matter.

**Market Sabah as an Exclusive Holiday Home Destination**

Sabah has long been renowned as an exotic and mystical destination that has successfully managed to avoid mass tourism. It is poised to become one of the most desirable destinations for luxury holiday homes, with its stunning coastal and inland landscape, and diverse cultural heritage. While neighbouring islands such as Bali and Phuket have been ravaged by over-development with thousands of holiday villas springing up in recent decades, Sabah has remained largely pristine.

The strategy is to market Sabah to high-end investors and holiday-makers across the globe who are seeking a luxury escape in an exclusive tropical paradise. The Kudat Riviera is a fine example of one such development. Owners of the private villas here have access to an idyllic stretch of untouched beaches, can enjoy sunset cruises in the azure waters, and are within reach of the exquisite virgin rainforest and exotic wildlife.

In order to ensure exclusivity and seclusion, there must be a concerted effort among the government and quasi-government agencies involved in tourism development to control the type and nature of tourism projects in designated areas. Long-term social visit visas should be provided to encourage these high net worth individuals to make Sabah not just a holiday home but their second home. Foreigners with a single investment of USD1 million and above in a luxury residential home in Sabah should also be granted a long-term visa.
Community-based tourism is aimed at dispersing the benefits of tourism to the rural community. The goal is to move beyond generating local employment to facilitating local participation through management partnerships and provision of training for communities interested in tourism. The emphasis will be on village-stay and handicrafts.

Currently, the village-stay and handicrafts programmes are poorly organised. Most villagers are involved on a part-time basis and cannot make a viable living from these activities. There is small-scale local handicrafts production, with most retailers preferring to import handicraft products from Indonesia and the Philippines as they are cheaper and can be made to resemble ethnic Sabahan crafts. As for village-stay, there are issues with communication, inadequate facilities and lack of attractions. Communities intending to participate in the village-stay programme should be strategically located near main tourism sites or be able to offer a unique rural lifestyle experience through their daily activities such as paddy farming and handicraft-making, among others.

The strategy is to organise and professionalise community-based tourism in Sabah. Native handicrafts will be developed and promoted under the ‘One District One Product’ programme. High potential areas such as the Kampung Air in Semporna, Mengkabong Water Village in Tuaran and other interior villages in Kudat and Tenom will be rehabilitated and actively promoted as tourist attractions and for village-stay.

Various strategies will be implemented over three phases. The programmes will be implemented in line with key principles such as sustainable development and coastline management which prohibit further reclamation of land.
2.2.5.1 Kinabalu Harbour Front Development

Kinabalu Harbour Front, which will span from Tanjung Aru to One Borneo, is poised to become the new landscape for Kota Kinabalu, much like the Sydney Harbour in Australia. The waterfront areas and surrounding hinterland are being rehabilitated and developed into a world-class waterfront city. A Waterfront Development Masterplan will be commissioned to ensure careful and coordinated development. No reclamation of land will be allowed to ensure environmental sustainability and to maintain the aesthetics of the areas.

The Kinabalu Harbour Front will be anchored by a few key projects among which include Jesselton Waterfront and Kinabalu Integrated Convention Centre (KICC). These key locations will be served by water taxis and water buses which will ply along the harbour front starting from KKIA near Tanjung Aru up to One Borneo. Jetties will be built and hotels will be encouraged to use this service to ferry their guests.

The RM2 billion Jesselton Waterfront project will be completed over 15 years and will feature a myriad of facilities for commercial, residential, entertainment, retail, accommodation and convention needs. It will also house a maritime museum and the new ferry and cruise terminal.
The KICC is poised to tap into the fast-growing and high-margin MICE business. It will house a convention centre that can accommodate 5,000 seated delegates, a convention hotel and a high-end spa resort.

When completed, the Kinabalu Harbour Front development will transform the face of Kota Kinabalu, making it a major destination for both leisure and business tourism.

### Kinabalu Integrated Convention Centre

### Jesselton Waterfront

#### 2.2.5.2 Tourism Property Development Trust

In order to promote Sabah as a high-end tourist destination, it is imperative that priority be given to attract world-renowned brand names to operate in Sabah. Research suggests that the quickest way for a destination to gain world-wide recognition is through the establishment of a cluster of signature resorts\(^7\), as witnessed from the success of Nusa Dua in Bali. From a quaint fishing village, Nusa Dua was transformed into a premium resort destination with 17 branded hotels, making it the largest contributor to Bali’s economy.

The Tourism Property Development Trust will establish and implement plans for tourism cluster developments, as well as facilitate and support private sector investments in Sabah. Potential tourism areas will be identified, and the concept and area masterplan will be developed to ensure controlled and sustainable development. Development will exclude zones which have been alienated for conservation, such as mangrove swamps. The first development will be the 3,000-acre Sapangar Resort and the beaches along Tuaran to Kota Belud, which will be developed into a 5-star beach resort destination much like the Gold Coast in Australia. The entire stretch of coastal land for the Sapangar-Tuaran-Kota Belud development will be placed under a Development Trust Fund. The Trust Fund will ensure that affected rural landowners can enjoy receiving a recurring income from the development of their land.

\(^7\) Based on interviews and case studies of successful tourism destinations.
Infrastructure and facilities such as water and electricity supply systems, sewage treatment and waste disposal plants, storm drainage and irrigation systems, telecommunications, and roads will be built. The land will be parcelled out and leased to private sector investors who own or have partnerships with international hotel brands. Developers will need to be aligned to the development theme and guidelines of the Trust Fund, for example, buildings must be in harmony with the environment and built in the style of local architecture, local communities must be involved, and so forth.

A special incentive package may also be offered to attract private sector investment in the development areas, such as relaxation of Bank Negara Malaysia’s guidelines with regard to foreign financing sources and tax exemptions for import of specific building materials.

The Trust Fund will be a corporatised entity with the Sabah State Government as the major shareholder and supported by the Ministry of Tourism, Culture and Environment.

### ‘One District One Product’ Programme

Sabah has 24 districts and numerous sub-districts, each producing their own distinctive products based on their unique ethnicity. The ‘One District One Product’ (ODOP) programme is aimed at improving incomes in village communities to help alleviate rural poverty. Village communities are encouraged to make products indigenous to their community such as tonics and other food-based items, and create handicrafts from locally available materials utilising local wisdom and skills handed down the generations.

ODOP will be a joint effort by the Ministry of Tourism, Culture and Environment, Ministry of Rural Development of Sabah, Ministry of Industrial Development, and supported by Kraftangan Malaysia and Yayasan Sabah. Communities participating in the programme will receive strong support from the ODOP Taskforce in identifying potential products as well as providing advice on production, quality control, packaging and designs that are attractive to domestic and export markets. Training will also be provided to upskill local producers, crafters and artisans.

Collection centres will be set up in major ODOP participation areas, which will include treatment facilities for handicraft products as well as supply of raw materials. Village-made ODOP products that meet approved international quality standards will be promoted and marketed under the proposed ODOP label, which will be determined by the Taskforce during implementation. This will be a unique branding for authentic ‘Made in Sabah’
products. By buying ODOP products, customers are not only assured of quality but will also be supporting the rural communities. A minimum price will be set for approved ODOP products to ensure sustainable income for the villagers. Support in the form of start-up grants will also be provided for entrepreneurs interested in ODOP production full-time.

The Keningau Handicraft Production Village will function as the primary product development and training centre for ODOP. It will also aim to preserve the diverse handicrafts of Sabah’s natives through research and documentation, demonstrate traditional production methods as well as showcase and retail ODOP products.

Homestay will also be promoted under the ODOP programme as a community tourism product. Villages that are in close proximity to major tourist attractions or feature distinct lifestyles and activities will be selected to pilot the ODOP Homestay programme. Funding will be provided for the upgrading of rooms and facilities to ensure visitors enjoy basic comforts.

A Visitors Centre will be set up in the pilot homestay village. It will manage and co-ordinate the homestay programme for the village as well as act as an information centre for visitors. Training will also be provided by the Centre to villagers participating in the programme and will focus on courtesy, basic language skills, and tour or activity guiding.

The ODOP Homestay programme will ensure that tourism dollars directly benefit rural communities and visitors enjoy a rich homestay experience.

Sabah’s handicraft is made using locally available materials and traditional artistry.
Consort and research are a strong driving force for eco-tourism, as witnessed through the success of the Danum Valley Conservation Area. The Danum Valley Field Centre (DVFC) is recognised as one of the top three field centres in the world for tropical rainforest research. The DVFC has strong collaborations with the Royal Society, national academy of science of the U.K. and Commonwealth countries. The Society's South East Asia Rainforest Research Programme (SEARRP) is based mainly at the DVFC. Since 1985 almost 200 MSc, PhD or post-doctoral projects have been completed as part of SEARRP at Danum Valley, with more than 30 projects currently underway.
Aside from Danum Valley, Sabah can leverage other conservation areas such as Maliau Basin, Imbak Canyon and the islands off the coastline to establish a Centre of Excellence for Tropical Biodiversity Research. Aside from attracting leading scientists and top talents to Sabah, being globally recognised as a leading authority for conservation and tropical biodiversity research will place Sabah firmly on the world map.

The Centre of Excellence will be located at the Sandakan Education Hub, within the Agrobio Innovation Zone with satellite field stations in the conservation areas. It will be strategically linked to a cross-disciplinary, collaborative network of research centres of excellence in biodiversity and biotechnology through the Sabah Bio-X Programme (see Chapter 7). This is based on a decentralised structure where the nexus links the dispersed research activities which are on-going across Sabah state. This promotes cross-disciplinary research where methodologies used in engineering, computer science, physics, chemistry, biology and other fields are focused on important challenges in preserving biodiversity. It aims to link together the following centres of research:

- Forest Research Centre Sepilok
- Sabah Parks
- Sabah Fishery Department (Ministry of Agriculture and Food Industry)
- Yayasan Sabah Group
- Danum Valley Field Research Centre
- Maliau Basin Conservation Station
- Universiti Malaysia Sabah
- Herbarium
- Marine biodiversity, including conservation of coral reefs by exploring a strategic alliance with researchers involved in the Great Barrier Reef in Queensland to spawn an exchange of expertise, mobility of talents and spill-over of commercialisation
- Institute for Development Studies (Sabah)

Aside from biodiversity, efforts to undertake documentation of traditional knowledge of major tribal communities in Sabah will also be promoted. This would facilitate matching of therapeutic and healing properties of local indigenous plants, herbs and shrubs with future targeted screening for active compounds.

The aim of the Centre of Excellence is to develop local research talents by deepening their knowledge and skills, while protecting Sabah’s intellectual property rights. A Tropical Biodiversity Research Fund will also be set up to finance research and conservation projects. Funding will be from the government and private sector.
Figure 2.12: Rainforest and Marine Conservation Areas

Concerns about the environmental, socio-cultural, and economic impacts of travel and tourism have increased in recent years. In the U.S. alone, nearly 55.1 million people express a preference for unique and culturally authentic travel experiences that protect and preserve the ecological and cultural environment\(^8\), while 58.5 million people say they would pay more to use travel companies that strive to protect and preserve the environment\(^9\).

---

\(^8\) The Geotourism Study - Phase I Executive Summary, Travel Industry Association of America (TIA), National Geographic Traveler 2002.

Given Sabah tourism’s aim to be a premier eco-adventure destination and the rising global demand for sustainable tourism, the Sabah Eco-Certification Programme (SECP) will be developed. The SECP is designed to assist travel and tourism providers in measuring and managing their impacts.

The Ministry of Tourism, Culture and Environment of Sabah in collaboration with the travel and tourism industry players as well as internationally-recognised environmental NGOs, will establish the standards and assessment criteria for the SECP, which will include economic sustainability, environmental sustainability and social sustainability. The SECP will accredit products, not operators; the types of products that can be accredited are tours, attractions, accommodations and transportation service providers.

**Table 2.1 Eco-Certification Assessment Criteria**

<table>
<thead>
<tr>
<th>Triple Bottom Line</th>
<th>Nature Tourism or Eco-Tourism Product Principles:</th>
<th>Nature Tourism</th>
<th>Eco-Tourism</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic Sustainability</strong></td>
<td>1. Business Management and Operational Planning</td>
<td>✔️ ✔️</td>
<td>✔️ ✔️</td>
</tr>
<tr>
<td></td>
<td>2. Business Ethics</td>
<td>✔️ ✔️</td>
<td>✔️ ✔️</td>
</tr>
<tr>
<td></td>
<td>3. Responsible Marketing</td>
<td>✔️ ✔️</td>
<td>✔️ ✔️</td>
</tr>
<tr>
<td></td>
<td>4. Customer Satisfaction</td>
<td>✔️ ✔️</td>
<td>✔️ ✔️</td>
</tr>
<tr>
<td><strong>Environmental Sustainability</strong></td>
<td>5. Natural Area Focus</td>
<td>✔️ ✔️</td>
<td>✔️ ✔️</td>
</tr>
<tr>
<td></td>
<td>6. Environmental Sustainability</td>
<td>✔️ ✔️</td>
<td>✔️ ✔️</td>
</tr>
<tr>
<td></td>
<td>7. Interpretation and Education</td>
<td>N / A N / A</td>
<td>✔️ ✔️</td>
</tr>
<tr>
<td></td>
<td>8. Contribution to Conservation</td>
<td>N / A N / A</td>
<td>✔️ ✔️</td>
</tr>
<tr>
<td><strong>Social Sustainability</strong></td>
<td>9. Working with Local Communities</td>
<td>N / A N / A</td>
<td>✔️ ✔️</td>
</tr>
<tr>
<td></td>
<td>10. Cultural Respect and Sensitivity</td>
<td>N / A N / A</td>
<td>✔️ ✔️</td>
</tr>
</tbody>
</table>

Source: Ecotourism Australia

The SECP will provide local communities and travellers with the assurance that a certified product is backed by a commitment to best practice, ecological sustainability, natural area management and the provision of quality eco-tourism experiences. Assistance will be provided to help operators plan and develop their nature or eco-tourism product, including guidance during implementation. Certified SECP products can use the recognised ‘SECP Eco-Certified’ logo for their premises or marketing materials.

Application for the SECP will be reviewed and scored by independent trained assessors and approved by the SECP Management Committee which will ascertain quality of applicants.
based on published assessment criteria. The SECP Certification will only be valid for three years.

Sabah will be the model for sustainable tourism development in Malaysia and the region. On top of the SECP, focus will also be given to eco-tourism human resources development, particularly naturalist guides.

**Arts and Culture Development Fund**

The colourful imagery of Borneo lends itself to spectacular special events. Sabah has an excellent range of well-promoted cultural events such as the International Folklore Festival and Harvest Festival, as well as exciting sporting fixtures such as the Mount Kinabalu International Climbathon, which has attracted wide media coverage and is helping to establish Sabah’s image as a world-class tourist destination.

Moving forward, the arts and culture scene needs to be further nurtured in order to promote Sabah as a lifestyle destination. Investment in the arts is central to the vitality, liveability\(^\text{10}\) and growth of the city; as witnessed by how the vibrant arts and culture scene in Melbourne and Vancouver has contributed to them being listed as being among the world’s most liveable cities.

A dedicated Performing Arts Centre will be developed to nurture Sabah’s creative industries and artists. The centre will have modern stage machinery and state-of-the-art lighting as well as sound and audio-visual facilities.

A RM250 million Arts and Culture Development Fund will also be set up to support budding creative talents such as playwrights, choreographers and composers, as well as emerging arts organisations in the fields of indigenous art preservation, community cultural development, dance, music, theatre and visual arts and craft.

Grants will be provided to seed new arts projects, fund technical skills development such as stage lighting and sound engineering, support international tours and marketing programmes, as well as encourage preservation of native culture and heritage. Funding will come from the government and private sector organisations, and managed by the Sabah Arts Council.

\(^\text{10}\) The liveability of a city is assessed via a basket of metrics: safety, education, employment, healthcare, transportation and communications infrastructure, recreation and culture.
2.3 Logistics

The logistics sector plays a vital role in promoting industrialisation and international trade. At present, the logistics sector in Sabah is still very much in its development stage, with the focus primarily on seaports.

There are eight seaports in Sabah, all operated by Sabah Ports Sdn Bhd (SPSB) under concession. The Sapangar Bay Container Port (SBCP), a fully dedicated container port, has recently started operations and will take over the entire containerised operation of the Kota Kinabalu Port over the next three years.

Table 2.2 Sabah Ports and Types of Cargo Handled

<table>
<thead>
<tr>
<th>Sabah Ports</th>
<th>Dry Cargo</th>
<th>Liquid Cargo</th>
<th>Container</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Kota Kinabalu Port</td>
<td>✔</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Sapangar Bay Oil Terminal</td>
<td>✔</td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>3. Sapangar Bay Container Port</td>
<td></td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>4. Kudat Port</td>
<td>✔</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Sandakan Port</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>6. Lahad Datu Port</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>7. Kunak Port</td>
<td></td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>8. Tawau Port</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
</tbody>
</table>

Source: Sabah Ports Sdn Bhd

In 2006, Sabah ports handled 28.14 million tonnes of cargo and 226,721 TEUs of containers. Both cargo and container volumes are expected to grow significantly in the next 5-10 years.
Figure 2.13 Total Cargo Handled at Sabah Ports

Source: Sabah Ports Sdn Bhd

Figure 2.14 Total Containers Handled at Sabah Ports

Source: Sabah Ports Sdn Bhd
2.3.1 Sabah’s Logistics Strength

SBCP is strategically located along the busy shipping lane between the Far East and Europe. It has a planned capacity of 500,000 TEUs, is capable of handling two container vessels of up to 2,500 TEUs at a time and equipped with modern container handling equipment and adequate container yards.

Currently, almost all of the containers handled at Sabah’s ports are locally generated. There is potential for SBCP to grow its container throughput volume by increasing transhipment activities.
Despite heavy investment in port services, Sabah has yet to emerge as a substantial player in the logistics sector due to the following challenges:

i) **Regional Competition**  
Bintulu Port in Sarawak and Muara Port in Brunei are both vying to be the regional transhipment port. Both have undertaken aggressive port expansion plans to improve their facilities to compete as the regional hub.

ii) **High Cost of Shipping**  
The lack of manufacturing and downstream processing activities has led to insufficient container volume; volume of import containers is twice as large as export containers, hence impacting freight rates with ships having to return half empty.

The average size of shipment or container exchange in Kota Kinabalu Port was 287 TEUs in 2005, compared to the 500-1,200 TEUs container exchange prevailing at the container ports of Peninsula Malaysia. As such, there is no compelling proposition for main line operators to call at Sabah ports. Containers have to be transhipped at Port Klang or Singapore, leading to Sabah having uncompetitive shipping costs. Ship operators in Sabah also impose congestion surcharge on shippers, due to longer turnaround time arising from delays in port services.

There is a need to review the Cabotage Policy for transhipment traffic between East and West Malaysia ports. The Cabotage Policy was implemented on 1st January 1980 and essentially reserves domestic trade to Malaysia’s own flagged vessels. The purpose of the policy is to encourage local participation in domestic shipping by encouraging local registration of ships and incorporation of companies participating in domestic shipping. In the 27 years since the implementation of the Cabotage Policy, Malaysian shippers have been improving and are now in a stronger position to face foreign competition and expand regionally. Should the government decide to review the Cabotage Policy, this is expected to engender shipping rates which are determined by market forces, thereby reducing the overall cost of doing business and increasing efficiency.

iii) **Infrastructure Lagging Behind Port Development**  
The inland transport system and infrastructure in Sabah are lagging, and restricting the growth of the logistics sector. There is also a shortage of hinterland land bank for future expansion of SBCP.

---

11 Port Competitiveness Study for East Malaysia, Ministry of Transport, December 2006 (pg. 5-5).
High cost of shipping is often cited as the main challenge in attracting investment in industrial activities in Sabah. As such, it is imperative to reduce the cost of shipping through rationalising Sabah ports to ensure critical volume of container throughput in a single location.

SBCP will be the hub for all containerised cargo in Sabah. Other domestic ports will act as feeder ports to SBCP. Regional hubbing by leveraging on existing shipping hubs in Thailand, Vietnam, Southern Philippines and Hong Kong will also be explored to increase cargo volume. There is potential for barging of raw materials and goods from the smaller neighbouring ports in Southern Philippines and Indonesia to Sandakan Port or Tawau Port, from which further processing and packing can be done, with the finished products containerised and exported through SBCP.

To further enhance SBCP’s competitiveness, port fees and charges will be reviewed. Port productivity will continue to be enhanced to attract more transhipment cargo to Sabah. Strategic alliance with world-class international port operators will also be explored to strengthen the position of SBCP.

Figure 2.16 Domestic Hubbing
Position Sandakan as the Regional Trade Hub

With its strategic location between the affluent markets of North Asia such as Japan, Hong Kong and China and the resource-rich region of Kalimantan, Brunei and Southern Philippines, Sandakan is well-positioned to be a regional trade hub. Currently, barter trade contributes substantially to the district’s economy, with some RM2 million in local goods shipped out to Mindanao monthly and a similar amount in goods entering Sabah from the Southern Philippines.

A RM315 million Sandakan Integrated Trade Exchange Terminal (SITExT) is currently being developed, which includes grain terminal facilities, cold storage area, passenger and cargo jetty, hotel, a Customs, Immigration, Quarantine and Security (CIQS) complex and a commercial centre. Apart from facilitating regional trade, SITExT will help stimulate local commercial activities and related small-scale industries which will leverage AFTA for expansion of regional trade.

Establish Sapangar Free Zone as Catalyst for Industrial Development in Sabah

In order to stimulate industrial growth, particularly resource-based manufacturing and downstream agricultural processing, SBCP and part of KKIP will be designated as the Sapangar Free Zone (SFZ). All land in Sapangar Bay will also be gazetted as port area to allow for future expansion of SBCP.

An attractive incentive package is currently being considered for prospective investors to set up their manufacturing facilities and distribution centres in the SFZ. Companies looking at operating within the SFZ are entitled to apply for corporate tax exemption of up to 10 years from the government. In addition, all goods and products brought into the free zone area are exempted from duty, sales tax and service tax. Foreign companies within the SFZ are also exempted from Malaysia’s Foreign Investment Committee rules, which place a restriction on 100% foreign ownership or equity in foreign companies investing in Malaysia. Industries located in the SFZ will also enjoy preferential port handling charges.