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INFORMATION REPORT

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COUNTRY Indonesia

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SUBJECT 1. Smuggling from North Borneo
2. Security and Economic Conditions in Bandjermasin

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1. Business is booming in North Borneo. The area is not a breeding place for Communism because everyone is working and making more money than ever before. As long as this continues, Communism will not take hold. North Borneo has a surplus of exportable merchandise, especially timber and rubber. As a result, shipping to Borneo has increased three to four times. Jardine Matheson & Co., Ltd. has set up new runs and put on additional ships to handle the Hong Kong-Borneo and Japan-Borneo trade. Although the busy ports of Labuan and Jesselton are engaged in legal traffic, a great deal of smuggling occurs from Sandakan and Tawau. Goods smuggled from these ports are taken to the South Philippines, particularly Zamboanga, and to the Celebes. Tawau is considered a smugglers' paradise. It is a small place, supposedly under strict British control, because of the huge revenue they receive from the copra brought back into North Borneo. This copra is repacked, leaving the island as a Borneo product; hence, it is dutiable. The British are estimated to receive approximately \$ 200,000 per month from this duty.
2. All fishing boats in the area are engaged in smuggling. Small ships come into port and take on bicycles, dry cell batteries, cigarettes, cloth, radios, and radio parts. Most of them leave by night. They go either to the Celebes or to Zamboanga, where they unload, bringing back copra and sugar in return for the merchandise delivered. There is also a substantial barter trade between Dutch Borneo and Tawau; the items involved are not known. Nor is it known whether strategic materials, such as gas, oil, arms, and the like are smuggled.
3. A brisk trade is also going on in firewood. It is shipped in small sampans or junks from Labuan and Sandakan to Hong Kong, where this fuel is in short supply. There is no check on coastal ships, smaller junks, and sampans strict enough to determine if they are reverting to China. Most ships come to Indonesia and Borneo on a charter basis, since this is the only way they can take out complete loads.
4. Two large Chinese firms in Tawau, Tek Guan Company and Nam Fong Shing Company, ship at least two thousand cases of cigarettes each per month. These cigarettes, labeled Herald cigarettes, are manufactured in the United States by Martin Brothers and sold to the Chinese firms through Hong Kong or Singapore by the Stephano Brothers, a New York firm. The Chinese company in Singapore handling these cigarettes is Kong Hoa Ltd., No. 1 Church Street. The companies in Borneo

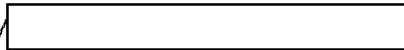
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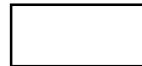
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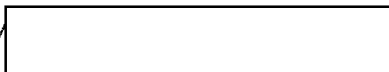
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- 2 -

insist that the cigarettes do not bear the marking, "For Export Only". These firms prefer Camel cigarettes, which are more in demand, but they settle for the Herald brand because they are cheaper and easily secured.

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5. Travel in North Borneo is very much restricted. There are few roads and it is necessary to take a boat or a plane to move around the country. The whole of North Borneo has only about 300 miles of roads.
 6. Angkatan Darat Republik Indonesia (ADRI) security action in the Bandjermasin area during June 1951 produced less favorable results than expected. The only noticeable improvement in security is in the larger towns.
 7. Rubber prices declined from rphs. 750 per 100 kgs. at the beginning of April to rphs. 450 at the end of June 1951. During the same period rice prices fell from rphs. 500 to rphs. 300 per 100 kgs. Because of insecure conditions in the interior, rubber production was limited. Many rubber workers went over to rice and guttapercha production, which yielded greater profits.

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