Otoritas: Jurnal Ilmu Pemerintahan Vol 15, No. 1, 2025
DOI: https://doi.org/10.26618/ojip.v15i1.17864

Struggle for fair oil royalties in Sabah: the dynamics of federal-state government relations in Malaysia 2003-2018

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Abstract

This study investigates the dynamics of federal-state relations in Malaysia, specifically focusing on Sabah's efforts to secure increased oil royalties from 2003 to 2018, particularly during the tenure of Chief Minister Musa Aman. Despite the political alignment between the federal government and the Barisan Nasional led state government of Sabah, attempts to raise the oil royalty rate from five percent to 20 percent were ultimately unsuccessful. Employing a qualitative methodology, this research incorporates interviews, official documents, and legislative records, and augments these findings with quantitative data regarding oil production, revenue trends, and socioeconomic indicators. This comprehensive approach assesses the broader implications of the royalty dispute on Sabah's development. The findings reveal that factors such as federal dominance, institutional constraints, and historical agreements continue to restrict Sabah's fiscal autonomy. Notably, despite being the largest oil-producing state in Malaysia, Sabah remains the poorest state, underscoring the disconnection between resource generation and regional development. By contextualizing Sabah's experience within both global and national frameworks, and drawing comparative insights from other oil-producing federal states, including Nigeria, Canada, and Brazil, this study emphasizes how centralized control over oil revenues, coupled with political and constitutional inflexibility, can hinder equitable development. The article advocates for more inclusive federal-state negotiations and encourages a reevaluation of resource sharing mechanisms within Malaysia's federal system.

Keywords: *struggle, dynamic, state-federal relations, oil royalties, federalism*

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Introduction

In most countries, the petroleum resources are owned by the federal government. Such ownership can affect the size and source of the oil profits earned and allows enforcement by the federal government to obtain oil profits without taxing the oil-producing companies (Ross, 2012). Oil producing nations frequently encounter political and economic instability, a trend that has been prominent since the 1980s. Many countries in the Middle East, Africa, Latin America, and Asia, despite possessing abundant petroleum resources, have struggled to attain peace and development (Ross, 2012). As noted by Ross, this phenomenon is referred to as the resource curse, which results in challenges such as authoritarian governance, civil conflict, unstable financial conditions, and limited opportunities for women in political and economic spheres. In contrast, Malaysia distinguishes itself in Asia by maintaining political and economic stability, thereby fostering its development. Otto et al., (2006) identify Malaysia, alongside Norway, Botswana, and Chile, as exemplary cases of countries that have successfully managed their oil wealth. Sabah's ongoing challenge regarding the equitable distribution of oil royalties is fundamentally linked to the 1976 agreement, which transferred ownership of its petroleum resources to the federal government through Petronas, as established under the Petroleum Development Act of 1974. Although Sabah significantly contributes to Malaysia's overall oil production, the state has failed to achieve substantial economic development. This circumstance has resulted in persistent tensions stemming from perceived inequities within the federal-state resource-sharing framework (Rahim & Liwan, 2012; Yacob, 2021).

Segal et al., (2011) assert that profits generated from natural resources serve as a critical source of government revenue. They delineate three primary allocations for oil revenues: first, through the national budget; second, towards development expenditures; and third, for social programs aimed at alleviating poverty. Notwithstanding its status as a prominent oil-producing state, Sabah has encountered persistent disputes concerning demands for increased oil royalty payments. Fiscal federalism in Malaysia is delineated in the Ninth Schedule of the Federal Constitution, which stipulates that the federal government possesses predominant authority in revenue collection, resulting in a revenue capacity that surpasses that of state governments. This authority is further reinforced by the federal government's control over all significant sources of income and borrowing capabilities (Ghani et al., 2019). Such a framework indicates that the federal system in Malaysia endows the federal government with the power to regulate development policies and facilitate profit-sharing among states (Ghani et al., 2019). The implementation of fiscal federalism in Malaysia is strategically designed to maintain state governments dependence on the federal government. Consequently, the federal government exercises the authority to allocate laws pertinent to development, determine industrial location, and oversee the distribution of expenditures at the state level.

The shift occurred when the federal government gained full power to monopolize the structure of all revenue sources, while the state governments experienced a significant reduction in their authority to manage local revenue-generating resources. This led to a financial dependence on allocations from the federal government (Anuar, 2000). The fiscal system for petroleum in Malaysia has also undergone frequent changes from 1976 to 2010, aimed at accommodating the growing number of investors involved in the country's petroleum sector (N. A. A. Manaf et al., 2014). Royalty payments under the Production Sharing Contract (PSC) system follow specific guidelines based on water depth: 12 percent for oil sources located in waters 201 to 500 meters deep, eight percent for depths of 501 to 800 meters, four percent for depths of 801 to 1000 meters, and zero percent for depths exceeding 1000 meters. Meanwhile, oil production on land is subject to a royalty payment of ten percent (Ola et al., 2021).

The emergence of kinship based politics within Sabah's political landscape is distinctly observable during the leadership of Datu Mustapha Datu Harun, who strategically appointed qualified individuals to key positions to mitigate potential challenges to his authority (Manaf, 2020). In a similar vein, Musa Aman's administration favored the appointment of family members as elected representatives while marginalizing other diligent and capable individuals. This practice of appointing family members as political representatives within a party can adversely affect cooperation and cohesion in promoting the party's ideological framework. Furthermore, kinship politics can enhance the unity among party members in endorsing decisions made by the upper echelons of leadership. It serves as a reflection of a constructive relationship between federal and state governments; shared political ideologies between these entities fortify the connection between leaders at both levels, facilitating the achievement of mutual objectives. For example, the robust political relationship between Datu Mustapha Datu Harun and Tunku Abdul Rahman significantly contributed to the formation of the Federation of (Idris & Mohamad, 2014). Similarly, during Musa Aman's tenure, kinship politics fostered strong affiliations with the federal government under the leadership of Dato' Sri Mohd Najib Bin Tun Abd Razak. These familial connections enabled more efficient administrative coordination and allowed the federal government to exert enhanced influence over decisions enacted at the state level.

Consequently, the examination of kinship-based politics in the context of oil royalty issues during Musa Aman's era is warranted given the significant influence of political kinship between federal and state leaders in addressing these matters in Sabah. This study investigates the persistent issue of oil royalty distribution between the Malaysian federal government and the state of Sabah, particularly during the administration of Musa Aman from 2003 to 2018. Despite Sabah being Malaysia's largest oil producer and sharing political affiliation with the federal Barisan Nasional (BN) government, the state's endeavors to increase its oil royalties from five percent to 20 percent proved unsuccessful. The research emphasizes the impact of federal dominance, institutional constraints, and historical agreements, notably the 1976 agreement under the Petroleum Development Act of 1974, which have curtailed Sabah's fiscal autonomy and contributed to its economic marginalization. Distinct from previous studies that typically isolate political or legal facets, this research adopts a comprehensive approach. It integrates qualitative interviews, legislative and financial document analysis, and quantitative data regarding oil production and revenue. Furthermore, this study contextualizes Sabah's situation within an international framework by comparing it with oil-producing federal systems in countries such as Nigeria, Canada, and Brazil. This broader perspective elucidates how centralized control over oil revenues can impede equitable development, thereby establishing this study as a valuable and thorough contribution to the discourse on Malaysian federalism.

Many studies have shown that the distribution of oil royalties in oil-producing countries is deeply influenced by federalism and political ideology, often becoming a source of conflict between central and regional governments. In countries like the United States, the implementation of a transparent federalism system has enabled effective cooperation between federal and state governments, with most oil resources falling under state jurisdiction, allowing states to benefit significantly from oil revenues (Ross, 2012). In contrast, Canada's Alberta royalty system has been criticized for causing inequities among provinces and for being outdated in the face of current economic realities (Crisan, 2016). Brazil has faced disputes between oil-producing and non-producing states, leading to efforts to reduce political tensions through penalties for dissatisfied political party members (Béland et al., 2020). In Africa, nations like Chad, Congo, Nigeria, and Sudan illustrate how oil discoveries often fuel civil wars and political instability such as Chad's diversion of oil revenues to military spending and Nigeria's prolonged conflict in the Niger Delta due to uneven resource distribution (De Montclos, 2014; Nachega & Wieczorek, 2012; Ross, 2012).

Southeast Asia mirrors this pattern, particularly in Indonesia's Aceh province, where the discovery of oil intensified demands for independence. The Free Aceh Movement (GAM) was partly fueled by claims that Aceh's oil wealth contributing up to 30% of national revenues was unfairly centralized by the federal government (Ross, 2012; Stange & Patock, 2010). GAM's rhetoric even suggested that Aceh could be as wealthy as Brunei if not for the central government's control over its resources.

Similarly, in Sudan and South Sudan, civil war has been driven by struggles over oil control, especially following discoveries in resource-rich regions like Bentiu and Khartoum (Ziada, 2005). These global cases demonstrate a recurring issue: centralized control over oil revenues, when combined with political or ideological differences, often leads to unrest and weakens national cohesion. Equitable, transparent, and decentralized revenue-sharing mechanisms rooted in strong federal principles are essential to preventing such conflicts and ensuring sustainable development.

The objective of this essay is to examine the influence of the relationship between federal and state governments on Sabah's pursuit of increased oil royalties during the administration of Musa Aman. This analysis will specifically focus on how political allegiance, leadership dynamics, and intergovernmental negotiations have affected the state's initiatives to secure a greater share of oil revenues, despite being governed by the same political party as the federal government. Through this investigation, the essay aims to provide a comprehensive understanding of how political factors shape resource allocation and state-federal negotiations within Malaysia's petroleum sector. This study posits that, despite the political alignment between the federal government and the Sabah state government, several factors, including institutional constraints, historical agreements, and economic marginalization, have impeded Sabah's ability to secure higher oil royalties. This situation underscores the limitations of centralized federalism in effectively addressing the resource demands of individual states.

Research Methods

Structured interviews were conducted with two Malaysian politicians who are actively engaged in the political discourse regarding oil royalties in Sabah. These interviews adhered to a predefined set of questions aimed at collecting consistent and comparable information pertaining to political negotiations, the underlying motivations for advocating higher oil royalties, and the dynamics of the relationship between the state and federal governments. Employing structured interviews ensures that the data acquired is systematic and aligned with the research objectives.

Primary data was gathered from official statements issued by the Sabah Legislative Assembly, Financial Statements of the Sabah State Government and Financial Management Reports of State Departments and Agencies for the years 2003 to 2018 and the National Energy Balance Report for the period 2010 to 2019. These documents offer formal and institutional perspectives on the issue of oil royalties, including the state government's official positions. The statements were analyzed to understand how the government articulated its demands for higher oil royalties and to explore the legal, political, and economic arguments presented.

Primary data was systematically collected from the official statements issued by the Sabah Legislative Assembly, Financial Statements of the Sabah State Government and Financial Management Reports of State Departments and Agencies for the years 2003 to 2018 and the National Energy Balance Report for the period 2010 to 2019. These documents provide authoritative insights into the significant issue of oil royalties and reflect the formal positions taken by the state government. Analyzing these statements allows for a comprehensive understanding of how the government has articulated its demands for increased oil royalties, as well as an examination of the legal, political, and economic arguments presented.

In addition to analyzing media sources and official statements, a comprehensive review of documentary evidence was conducted. This included government reports, economic analyses, and historical records pertaining to the Petroleum Development Act of 1974, as well as the associated oil royalty agreements. This examination was designed to provide a thorough historical and legal context for the ongoing dispute. The data obtained from structured interviews and official documents were analyzed through thematic analysis. This approach entails the identification of key themes and patterns present within the data set. Thematic analysis facilitates the recognition of recurring ideas, issues, and perspectives pertinent to the political dynamics, economic interests, and historical context of the oil royalty debate. A content analysis was undertaken on the secondary data obtained from media articles and news reports. This methodology involves the categorization and interpretation of textual data to elucidate how the media frames the issue of oil royalties, the tone of public discourse regarding the topic, and the degree of political engagement associated with the matter.

The methodology employed in this study, including structured interviews and document analysis, was systematically selected to comprehensively examine the political dynamics and federal-state negotiations pertaining to oil royalties in Sabah. The use of structured interviews facilitates consistency across respondents, thereby allowing for comparable responses and minimizing the risk of interviewer bias, which is especially critical in politically sensitive matters (Lambert & Loiselle, 2008). Furthermore, document analysis of state legislative records and official financial reports serves to substantiate the interview data, grounding the study within formal institutional discourse (Jupp, 2011). While the limited sample size of two politicians may constrain representativeness, this study acknowledges the importance of future research to broaden the participant base to incorporate economic experts, civil society members, and local community representatives, in order to capture a more diverse array of perspectives (Beardsworth & Stuart, 2019). Thematic analysis was conducted to discern patterns and meanings within the qualitative data, with codes developed around themes such as political allegiance, fiscal negotiation, and federal dominance. This coding process was iterative and refined throughout the review phase, complemented by triangulation through secondary sources including media reports, legal documents, and historical records, which serves to enhance the validity of the findings (Jupp, 2011). Ethical protocols were rigorously followed by ensuring informed consent, safeguarding participant anonymity, and maintaining impartiality throughout the data collection process, in accordance with the accepted standards of social research (Lambert & Loiselle, 2008). This study employs structured interviews and official documents; however, it is recommended that future research incorporates public opinion data, academic economic evaluations, and international case studies. Notable examples include Nigeria’s derivation-based royalty system and Canada’s provincial oil management model. Integrating these components would enhance the analysis and provide valuable comparative insights (Ross, 2012).

Results and Discussion

The Relationship Between State of Sabah and the Federal Government

The formation of federalism in Malaysia, when viewed through a historical lens, was explained by Abdul Aziz Bari (2008), who noted that the term federation had already been used as early as 1895 by the British during the establishment of the Federated Malay States. It was formally adopted under the Federation of Malaya Agreement in 1948, following the rejection of the Malayan Union in 1946 by the Malays. According to Yusoff & Agustino (2016), both internal and external factors were the main reasons behind the formation of the Federation of Malaysia. These factors are supported by the arguments of Sopiee (1974), who stated that the process of forming federalism in Malaysia was based on the theory of peace and the theory of expansion. Internally, there was concern over the possibility of a Chinese majority surpassing the Malay population if Malaya were to unite with Singapore. Thus, to balance this demographic, the plan to merge Singapore, North Borneo (Sabah), and Sarawak was initiated. Externally, there were threats from the Philippines, which laid claim to Sabah as part of its territory, and Indonesia, which also posed a regional threat.

Malaysia's federal government is located in Asia and divides power between the federal and state governments (Sopiee, 1974). As a federation, Malaysia consists of 13 state governments. Each state has its own legislation and executive body that operates under the framework of the Federal Constitution. Mokhtar (2021) also explains that even before independence, the Malay rulers had been recognized under the Malaysian Constitution. The rulers carried out their duties and responsibilities as outlined in their respective state constitutions. There is a strong interdependence between the Malay rulers and the federal system. Malaysia’s federal system was established based on the Federal Constitution, which evolved from the former Federation of Malaya. According to Yusoff & Agustino (2016), after the formation of Malaysia, the division of powers between the federal and state governments was outlined in the Constitution to prevent overlap and future conflict. This division of powers is covered under Articles 71 to 81 of the Federal Constitution.

One example of federal authority can be found in the Ninth Schedule, which includes matters such as foreign affairs, internal security, and financial issues like foreign exchange. While state governments also hold some financial powers, they are limited to managing local sources of revenue. Under the Ninth Schedule, List II, states have jurisdiction over areas such as Islamic affairs, land, and forestry. Sabah and Sarawak, however, have additional autonomous powers under List IIA, which include rights related to native laws and customs and control over ports. The Ninth Schedule also clearly outlines the functions and powers of both federal and state governments. Anuar (2000) stated that the Federal Constitution distributes power between the executive and legislative branches of both federal and state governments, though it is evident that power is largely dominated by the federal government. Through Parliament, the federal government is authorized to legislate based on the federal list and the concurrent list (shared with state governments). However, state governments are also given the authority to legislate on matters listed in the state list and in the concurrent list, within the scope granted to them.

The study conducted by Yusoff & Agustino (2016) explains the relationship of federalism or federation between the federal government and the state government of Sabah. According to them, the relationship between Sabah and Peninsular Malaysia, after the formation of the Federation of Malaysia, also faced tensions among Sabah’s political leaders such as Donald Stephens, Datu Mustapha Datu Harun, and Pairin. These tensions led the leaders of Sabah to consider the option of withdrawing Sabah from Malaysia. This was because the Sabah leaders claimed there was dissatisfaction with the treatment by the federal government and a perceived threat to Sabah's autonomy, which diminished after the formation of the Federation of Malaysia. Tensions regarding federalism also resurfaced before the 14th General Election (GE14), when opposition parties demanded the oil autonomy rights for the state of Sabah. The oil autonomy rights for Sabah were claimed to be part of the Malaysia Agreement 1963 (MA63). According to Abdullah et al., (2018), the Malaysia Agreement 1963, or MA63, is a legal document that was signed in London on July 9, 1963, by representatives from five parties: the United Kingdom (UK), the Federation of Malaya (Malaya), North Borneo, Sarawak, and Singapore. This agreement marked the transfer of sovereignty over the three regions North Borneo, Sarawak, and Singapore from the UK to Malaysia.

Abdullah et al., (2018) argued that the 11 agreements within MA63 can be summarized into five main points that remain relevant and applicable to this day. These five key points are: Annex A: The Malaysia Bill, which was later enacted as Act No. 26, the Federal Constitution of Malaysia 1963 (FMA, 1963); Annex B: The Constitution of the State of Sabah; Annex C: The Constitution of the State of Sarawak; Annex E: The Immigration Bill, which was later enacted under Act No. 27, the Immigration Act; and Annex H: Agreements concerning Government Officials in Sabah and Sarawak.

Socio-Historical based of the Oil Royalties Struggle by the State of Sabah

Sabah is a major oil-producing state in Malaysia, is rich in oil resources, yet it remains plagued by high poverty rates. In addition to raising the issue of increasing oil royalty rates beyond five percent, there is also the need to address how the distribution of oil royalties received by the state government of Sabah is directed to benefit the economic and social development in the state. Effective management of oil revenues can contribute to national development and poverty eradication. Oil resources are also a key driver of the economy and modernization (Huber, 2013). The revenue from oil is a source of national income, making the country highly dependent on oil resources, which are distributed for national development, such as the establishment of schools and universities. In addition to contributing to national income, oil resources also provide job opportunities and investments. The issue of oil royalties related to development in Sabah arises because the state is one of the poorest in Malaysia. Sabah has abundant natural resources, such as oil and natural gas, yet it has failed to provide significant returns for development and the welfare of its people. There has been an increase in oil production in Sabah, making it the first state to become the largest producer of crude oil in Malaysia from 2016 to 2019, after Peninsular Malaysia and Sarawak. Additionally, based on the Financial Statement and Management Reports of the State Government and State Agencies of Sabah for the years 2003-2017, there are other significant contributions to Sabah's income, such as sales taxes, forestry, water resources, and forestry revenues. However, only in 2017 did oil revenue during the administration of Musa Aman become the main contributor to the state. This, in turn, contradicts claims that oil resources are the primary contributor to the state.

Poverty in the state can be categorized into three types: extreme poverty, relative poverty, and absolute poverty, as outlined in reports by the Department of Statistics, Malaysia. The absolute poverty rate in Sabah is measured to assess the percentage of poverty in the state, as it reflects individuals or households that are unable to meet basic needs for a minimum and reasonable standard of living. These basic needs include food, clothing, housing, education, and healthcare (Che Mat et al., 2020). From 2004 to 2016, the state of Sabah was under the administration of Musa Aman. The poverty rate was very high in 2004 at 24.2 percent. However, this number decreased to 16.4 percent in 2007. The absolute poverty rate slightly increased to 19.7 percent in 2009. In 2012, the poverty rate dropped by 8.1 percent, and this percentage further decreased to four percent in 2014. However, there was a significant increase in absolute poverty to 23.9 percent in 2016. The high poverty rate is often linked to oil royalty revenues. Despite Sabah having abundant natural resources like oil and natural gas, it has failed to deliver substantial returns for development and the well-being of its people.

Therefore, oil royalties in the state could be used to benefit the poor and needy, providing them with essential needs such as food, clothing, housing, education, and healthcare. A question arises regarding the allocation of oil royalties in the state, which should ideally be directed to sectors like education, as oil royalties are a significant source of Sabah's income. These oil revenues could be allocated to improve schools in the state. During Musa Aman's administration, there were many reports of insufficient funding for schools, preventing the construction and improvement of school facilities. Additionally, many school buildings were in poor condition and were still using wooden structures. Moreover, the budget allocation provided by the federal government was also insufficient. For example, the federal government allocated RM1 billion to improve infrastructure in Sabah, which was deemed inadequate.

Dynamics of Federal-State Government Relations in Oil Royalties

The development of petroleum royalty revenues for the state government of Sabah is divided into three periods: from 2003 to 2007, 2008 to 2012, and 2013 to 2017. From 2003 to 2006, the total oil royalty revenues doubled, increasing from RM207.36 million to RM409.73 million. However, in 2007, the oil royalty revenue slightly decreased to RM365.37 million. Then, from 2008 to 2012, there was a consistent increase, with revenues rising from RM750.90 million in 2008 to RM941.25 million in 2012. From 2013 to 2016, oil royalty revenues declined, from RM975.34 million to RM787.83 million. However, the oil royalty revenue significantly increased in 2017 to RM1,264.44 million. The main factor influencing the differences in these oil royalty revenues is the production of petroleum and oil prices throughout those years (Financial Reports of the State Government and Financial Performance of State Agencies in Sabah from 2003 to 2017).

The collaborative relationship between the Sabah state government and the federal government ensures an equitable distribution of petroleum revenues among Malaysian states. This is grounded in the principle of equitable allocation, which governs the management of natural resources within the nation. The revenue sharing framework instituted by Rahman Yaakob was designed to guarantee that both oil-producing and non-oil-producing states benefit from the nation's resource wealth. This strategy is consistent with the fundamental objective of Malaysia's federal system, which aims to foster shared prosperity across states, irrespective of their natural resources. A comparable mechanism is present in the palm oil sector, where profits are distributed in such a way as to include states that do not possess palm oil plantations. Such instances illustrate the advantages of a unified nation state (Interview with Former Minister of Finance, 2023). Moreover, the ideological alignment between the ruling political coalitions at both the state and federal levels does not confer an unfair advantage to Sabah in its negotiations for higher oil royalties. For instance, the proposal made by former Chief Minister Musa Aman in 2016 for a twenty percent oil royalty was regarded as excessive by federal authorities and was ultimately rejected. Despite receiving only five percent in royalties, Sabah continues to benefit from targeted financial assistance from the federal government, which has significantly contributed to infrastructure development and the enhancement of living conditions within the state. The success of this assistance reflects constructive federal-state relations under the Barisan Nasional administration. Additionally, the participation of Petronas in managing petroleum operations in Sabah is critical, as it alleviates the fiscal and administrative burdens faced by the state government in independently overseeing the oil sector (Interview with Former Prime Minister, 2023).

The petroleum royalty revenue records detailed in the State Government Financial Statement Report and the Financial Management of Sabah State Departments/Agencies for the period from 2003 to 2018 reveal notable annual variations in the amount of petroleum royalty revenue. These variations are primarily influenced by fluctuations in oil prices throughout each year. The revenue generated from petroleum royalties constitutes a significant source of income for the Sabah state government. It is pertinent to note that the Sabah state government currently receives only five percent of the total petroleum royalty revenue, a figure that many stakeholders consider insufficient. As an oil-producing state, Sabah is positioned to advocate for a more equitable allocation, with proposals suggesting that it should receive between 15 and 20 percent, as previously endorsed by the opposition party during the Musa Aman administration. Table 1 presents a comprehensive overview of the petroleum royalty revenue accrued by the Sabah state government from 2003 to 2024. Although Sabah's petroleum royalty revenue increased significantly from RM207.36 million in 2003 to RM1.6 billion in 2018, the state remains the poorest in Malaysia, with persistent underdevelopment, limited infrastructure growth, and widening rural-urban disparities issues compounded by the continued five percent royalty rate, which restricts fiscal autonomy and hampers economic diversification when compared to more economically resilient oil producing states like Sarawak (World Bank, 2017; Sabah State Financial Reports, from 2003 2018; Ross, 2012; Idris & Mohamad, 2014).

Table 1. Total Revenue from Oil Royalties for the Years 2003 to 2024

The total revenue generated from petroleum royalties that contributes to the income of the government of Sabah.	
Year	**Total Income from Petroleum Royalties**
2003	RM207.36 juta
2004	RM254.89 juta
2005	RM276.65 juta
2006	RM409.73 juta
2007	RM365.37 juta
2008	RM750.90 juta
2009	RM742.98 juta
2010	RM826.56 juta
2011	RM831.18 juta
2012	RM941.25 juta
2013	RM975.34 juta
2014	RM978.54 juta
2015	RM961.94 juta
2016	RM787.83 juta
2017	RM 1,264.44 juta
2018	RM1,606.6 juta
2019	RM1.700 juta
2020	RM1.130 juta
2021	RM1.470 juta
2022	RM1.350 juta
2023	RM1.350 juta
2024	RM1.300 juta

Source: financial statements of the Sabah State Government and financial management reports of State Departments and Agencies for the years 2003 to 2024.

According to the National Energy Balance 2019 published by the Energy Commission, Sabah stands as the primary oil producer within Malaysia. The state supplies a total of 36,000 barrels of oil equivalent per day to clients in Kota Kinabalu and Labuan (Upstream Energy Explored, 26 February 2023). The three principal oil wells in Sabah are Telaga Sabah, Telaga Timur Laut Sabah, and Telaga Barat Laut Sabah. The Sabah Well is positioned offshore within the waters of Sabah, whereas Telaga Timur Laut Sabah and Telaga Barat Laut Sabah are located along various northeastern and southeastern coastlines of the state (Ghani et al., 2019). The subsequent table delineates total crude oil production from 2010 to 2019, providing a comparative analysis with the outputs from Sarawak and Peninsular Malaysia.

Table 2. Comprehensive Overview of Crude Oil Production in Malaysia

Crude Oil Production Statistics in Malaysia										
Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Sabah	164.3	134.0	140.8	143.9	156.61	210.15	232.37	258.12	267.22	222.23
Sarawak	121.3	119.3	111.7	110.5	120.12	125.54	118.29	113.54	102.90	113.43
Semenanjung Malaysia	235.6	207.7	218.8	208.0	217.61	220.02	210.60	182.82	170.79	165.14

Source: adapted from the National Energy Balance Report for the period 2010 to 2019.

In 2010, Sabah's crude oil production reached 164.3 million barrels. However, there was a decline in output in 2011, with production dropping to 134.0 million barrels. From 2012 to 2019, a consistent upward trend in production was observed, beginning with 140.8 million barrels in 2012 and culminating at 222.23 million barrels in 2019. This increase in oil production can be attributed to the discovery of offshore projects in the Baram Delta and North Sabah. Consequently, Sabah emerged as the primary crude oil-producing state in Malaysia from 2016 to 2019, following Peninsular Malaysia and Sarawak.

Conclusion

Despite being one of Malaysia’s richest states in terms of natural resources, Sabah continues to grapple with persistent poverty and underdevelopment. The state’s limited oil royalty rate of five percent has proven insufficient to address the wide socioeconomic disparities, especially when compared to more economically resilient oil producing states like Sarawak. While Sabah's petroleum revenue has seen significant growth over the years from RM207.36 million in 2003 to RM1.6 billion in 2018 the benefits have not translated meaningfully into improved infrastructure, quality education, healthcare, or poverty eradication. The findings reveal a disconnect between resource wealth and equitable development outcomes, exacerbated by structural challenges in revenue allocation, dependence on federal aid, and inefficiencies in governance. Moreover, the volatility of global oil prices further affects the stability of state income, highlighting the need for greater fiscal autonomy and diversified economic planning.

To move forward, a comprehensive reassessment of the petroleum royalty framework is crucial. Increasing Sabah’s share of oil royalties, ensuring transparent and needs-based allocation of revenues, and strengthening institutional capacity could significantly improve the state's development trajectory. Ultimately, leveraging oil wealth responsibly and equitably is key to unlocking Sabah’s full potential and uplifting the standard of living for all its people.

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