



Cross Border Trade: Strategy and Policy (Evidence from Cross-Border Trade in the Republic of Indonesia and the Republic Democratic of Timor Leste)



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ABSTRACT

Objective – This study aims to identify the appropriate strategy that can increase cross-border trade activities and policies that can be applied to reduce the negative impacts caused by parties who take advantage of cross-border trade.

Methodology – The data were collected from interviews with informants and FGD. The data analysis technique is a qualitative and quantitative analysis developed within the study using EFAS, IFAS, and SWOT analysis.

Findings – The study found that Indonesia and the Republic Democratic of Timor Leste (RDTL) border area have the potential and opportunity to be developed. The same cultural background causes cross-border trade interactions to occur between the two countries.

Novelty – Belu Regency, as an area bordering the RDTL, has natural and economic potentials that can be developed as a center for small industrial development and a border area for cross-border trade.

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1. Introduction

Border areas are areas that are geographically adjacent to neighboring countries with the main function of maintaining state sovereignty and community welfare. The areas include a province, regency, or city that is adjacent to the state border line. Various potential products can be distributed through border areas.

On land, Indonesia shares borders with Malaysia, Papua New Guinea, and the Republic Democratic of Timor Leste (RDTL). Each border has its own characteristics in terms of economic, social, cultural, and political conditions. This condition gives Indonesia a strategic position mainly in trade activity. On the other hand, this condition also deals directly with various challenges and threats. Therefore, it is not only necessary to develop infrastructure in the border areas, but also to develop the character of the people living in the border areas, manage conflicts, and improve the welfare of the people.

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Trade is an activity that is fundamental for increasing economic development and people's welfare, as well as a source of foreign exchange to finance development. Therefore, comprehensive and integrated management of the trade sector must be implemented based on the principles of freedom, openness, and justice (Ministry of Trade, 2012). On that note, border trade is trade carried out by Indonesian citizens who live in Indonesia's border areas with residents of neighboring countries to meet their daily needs (Government Regulation of The Republic of Indonesia No 34, (2019), n.d.).

Trade activities that occur between border regions virtually have a large potential for boosting local financial increase, profits, employment, and foreign exchange earnings. This is the case in the border area between Indonesia and the RDTL in which the border area populace trade to meet daily needs.

The problem is projected to be more complex according to the data from the Ministry of State for Development of Disadvantaged Regions 2005. There are still many border areas with economic underdevelopment due to the absence of government and private programs and projects, limited access to communication and information, and poor infrastructure in border areas. The people in border areas still generally experience poverty, underdevelopment, insufficient education, and poor health conditions. On top of that, there is the smuggling of goods and migrant workers, and unsynchronized management of border areas both in terms of institutions, programs, and clarity of authority. Limited supporting infrastructure (transportation) is also a recurring issue in border areas. Therefore, there is a need for regulations that can create legal protection both for the Indonesian people and the various products being traded. For problem-solving to be more focused and targeted, the existing problems should be grouped into several aspects, namely policy, economy and socio-culture, defense and security, natural resource management, institutional and management authority, and interstate cooperation.

Diverse research on cross-border trade discovered that the lifestyles of people living in border areas open up opportunities for monetary pastimes, which results in the increased income of border citizens (Aula et al, 2019) (Shola & Olanrewaju, 2020) (Timisela, 2015) (Wangke, 2013). However, it has also been found that lack of supervision and weak policies motivate violations to occur, which consist of the incidence of smuggling of goods and better product fees (Aung, 2021) (Bouët, A., Cissé, B., & Traoré, 2020) (Sadikov, 2007).

The RDTL is one of the international locations adjacent to the Indonesian territory, specifically in the province of East Nusa Tenggara. There are three cross-border posts here, namely the Motaain, Motamasin, and Wini Posts. Included in these borders are a place of inspection and services for the entry and exit of humans and items from and to the territory of the Republic of Indonesia using passports and/or cross-border passes. As a gateway for cross-border activities, both population and good mobility between countries are quite high, making these three cross-border posts the crossing areas for trade between the residents of Indonesia and the RDTL.

As previous studies have shown, the existence of cross-border posts in the economic activity of the community has an impact on increasing financial growth. On the other hand, however, there are still unresolved problems, in particular within the border areas of Indonesia, including: (a) low quality of human assets in border regions, particularly inside the territory of Indonesia; (b) inadequate facilities and infrastructure for education, health, transportation, information, and communicate, causing some border regions to be remoted; (c) lack of supervision of the government, especially the financial institution of Indonesia when it comes to the growing quantity of freer forex trading activities; (d) the government desires to anticipate the less expensive goods in the RDTL that have been imported from numerous nations; (e) low level of supervision of trade transportation routes, especially for export transit from outside the Belu Regency region through land change routes consisting of the ones immediately from Kupang City to the RDTL; (f) lack of supervision of exchange flows from outside the East Nusa Tenggara Province, along with from Surabaya City immediately to the RDTL without transit at Atapupu Port, so that a national-scale policy

related to global delivery lanes is needed; (g) unlawful human trafficking is still occurring; and (h) illegal activities in cross-border activities such as the imposition of charges inside the management of application for sporting automobiles that is not always in accordance with customs provisions. All things considered, an observation/research on the approach and coverage of cross-border trade in the Indonesia- RDTL borders is necessary.

2. Literature Review

Cross-border trade is a special trade carried out between residents of two bordering countries with a certain value. This is a special treatment given to people living in border areas to provide easy access to fulfill their daily life and marketing of products to improve the standard of living and welfare of border communities.

According to (Government Regulation of The Republic of Indonesia No 34, (2019), n.d.), border trade is trade conducted by Indonesian citizens residing in Indonesia's border areas with residents of neighboring countries to meet their daily needs. This means that border trade can only be carried out in certain places and/or certain areas that have been designated as border trade areas.

Consistent with the aforementioned regulation, cross-border trade is carried out by Indonesian residents who live in Indonesia's border regions with citizens of neighboring international locations to fulfill their daily needs. Therefore, it can be stated that cross-border trade is most effectively accomplished in certain locations and/or regions that have been determined as cross-border trade areas. Border crossers are residents who reside in countrywide border regions possessing official IDs issued by way of legal businesses and those who travel across borders in border regions through cross-border posts. Cross-border posts are designated areas in the country for the notification and settlement of customs, immigration, quarantine, and security obligations for goods transported by border officers.

The legal basis for cross-border trade can be seen in Article 55 and Article 56 of Law No. 7 of 2014 concerning Trade. To date, there are several border trade Agreements between Indonesia and neighboring countries, including Indonesia-Malaysia (24 August 1970), Indonesia-Philippines (08 August 1974), Indonesia-Papua New Guinea (11 April 1990), and Indonesia-RDTL (11 June 2003). Meanwhile, there has been no cross-border trade agreement for Indonesia-Singapore and Indonesia-Thailand even though they have been cited in the trade agreement draft. For cross-border trade between Indonesia and neighboring countries, a trade price restriction is applied.

(Aula et al, 2019) conducted a study on cross-border trade throughout the borders of Indonesia and Malaysia, specifically in Badau District-Lubok Antu District. The study found the interaction between the Badau and Lubok Antu communities causes the status quo of mutually useful financial relations between the two areas. The Badau people sell natural products in the form of rubber, pepper, and wood to Malaysia and the Malaysians sell their daily needs in the form of basic necessities to the bad people. The price of the goods traded depends on the mutual agreement between the people. By avoiding illegal trade between the two countries, the Badau people gradually achieve prosperity, and cross-border trade becomes the main livelihood of the Badau people until now. Prior to the construction of the cross-border post, the infrastructure of the border communities was limited and remoted. Moreover, Badau becomes significantly more advanced compared to different border areas in West Kalimantan. After the development of the cross-border post, their infrastructure improved. Border regions are the focal points for the government to build cross-border posts. This is reflected in the typology of border areas which are characterized by the minimal number of existing economic family members, newly built infrastructure, development of non-primary areas, and non-integrated coverage frameworks. This shows the urgency of a financial-based immediate improvement strategy.

Moreover, (Maisondra, 2019) discovered that the rapid development of the Entikong cross-border post since its inauguration in 2016. This also results in the growing legal exchange and the safe state of affairs

across the Entikong cross-border gate region. However, this effect has no longer substantially affected the improvement of the economic system and the welfare of the encompassing network. Further, it is more important to build and improve the best human resources and other local wisdom and improve infrastructure, especially in villages that may still be isolated to pass through the Entikong border post.

On the one hand, (Wangke, 2013) discovered that border areas have the capacity to boost the economy through trade between countries at the border. Agricultural products and handicrafts can be the mainstays for direct exchange. However, there is no or lack of coordination between the highest royal institutions, critical authorities, and local governments. Therefore, it is very important to improve the quality of families in the international or border areas, due to the fact that Indonesia is a country that is disadvantaged in trade between countries on the border areas due to incomplete agreements in the international locations.

(Sadikov, 2007) found that there is a need to regulate trade in the border areas. In addition, the impact of such trade is the increase in additional transaction costs, the absence of a legal place or facilities for conducting transactions, the price of differentiated products being higher than homogeneous products, and the lack of supporting facilities for trade activities. Other findings explain that there are limited costs in terms of shipping goods in border areas, causing residents who sell their merchandise to choose other alternatives to avoid import duties, in addition to weak regulations that result in the smuggling of goods and lack of coordination between agencies from each country (Aung, 2021).

(Lesser & Moisé-Leeman, 2009) identified that, in conducting cross-border trade, it is necessary to consider measures that help reduce direct & indirect trade transaction costs stemming from export and import activities. There is a simplification of mechanisms related to trade rules and requirements for transactions that have low value, as well as policies that help to reduce costs in cross-border trade.

(Hoekman & Zarrouk, 2009) found that the free trade area cooperation agreement in the Arab region causes all tariffs previously imposed on goods originating from countries in the Arab region to be removed starting January 2005. In addition, there are policies provided by customs related to export and import activities. This suggests that efforts are being made to reduce trade costs, including transportation and logistics services. Furthermore, there is a need for regular monitoring and assessment of trade performance so that the government can know and compare trade performance from previous periods and identify priority sectors in trade between countries both at the national and international levels.

(Lord & Tangtrongjita, 2014) discovered in their study that trade cooperation is important for countries that have borders because they can create collaboration and trade implementation in the short and medium term, especially countries that are in one regional area, such as countries located in Southeast Asia like Indonesia, Malaysia, and Thailand. These activities include training and skills development, improvement of social and gender equality programs, improvement of local government services for businesses, provision of access to capital and finance for SMEs, support for the development of business and trade associations, provision of business and trade, provision of business advisory services, support for research and development, and programs to strengthen security in the area.

Various research found that cross-border trade can create potential and economic opportunities to increase the income of local residents in meeting their basic needs and increase the intensity of trade activities that have an impact on economic growth on a micro, mezzo, and macro level (Bara Lay, J. R. B., & Wahyono, 2018) (Shola & Olanrewaju, 2020) (Timisela, 2015). On the other hand, these trading activities can result in cultural degradation and human trafficking. (Zein et al., 2020) reveal that products made by people in border areas can encourage trade transactions in border areas, but the low quality of the products causes these products to not be able to compete with products originating in the global market.

3. Research Methodology

Data in this study were collected by interviewing key informants and conducting FGD. The data analysis technique used is qualitative and quantitative analysis developed within the study using EFAS, IFAS and SWOT analysis.

4. Results and Discussion

As an archipelagic country, Indonesia has both maritime and land borders with a number of countries with their own characteristics in terms of economy, social culture, and politics. This condition makes Indonesia strategically positioned and deal directly with various challenges and threats. Consequently, there is a need to structure and manage border areas more intensively and seriously, as they have the potential to create conflicts with neighboring countries. In addition, border areas are closely related to the national development mission, in particular, to ensure the territorial integrity and sovereignty of the Republic of Indonesia with a national security defense system.

It is undeniable that border areas have strategic value, and all pillars of the nation's components should be united with the vision and mission to develop border areas. In addition, all state officials should understand the importance of border areas as a foundation to support areas adjacent to neighboring countries. Indonesia and the RDTL have three land border areas, namely Wini (Kefa Regency), Motamasin (Malaka Regency), and Motaain (Belu Regency), which are located in the province of East Nusa Tenggara (Indonesia). These are potential fields for the development and growth of economic activity in the two countries.

One of the country crossing entrances that are quite busy with economic development and growth is Motaain in Belu Regency, which is located in Silawan Village. Silawan Village is a border village between Indonesia and the RDTL. The people of Silawan Village have a close family relationship with the people of the RDTL border. This occurs because communication in the border area has a family relationship and is still tied to the Tetun ethnic group that spreads across West Timor and the RDTL. Most border area residents work in the agriculture sector, both in dryland and wetland. In addition to farming, the informal sector provides additional livelihoods by trading goods and household handicrafts in the form of tenun ikat, which is the handicraft of women as a contribution to additional income. Based on this background, trade between the two border areas has continued.

Since the opening of the Motaain cross-border post as one of the border posts between Indonesia and the RDTL, economic and trade activities between Indonesia and the RDTL have continued to increase. This indicates that the Motaain cross-border gate is not only a gateway to the country but also an embryonic regional economic growth center that can improve the welfare of border communities. Cross-border trade aims to facilitate the trade of people living in border areas, improve the welfare of people living in border areas, and facilitate the movement of people and goods.

The trade relationship between Indonesia and the RDTL is still improving. Since 2019, the two countries' trade balance has continued to increase, with Indonesia's trade position in excess of the RDTL. The people of Timor-Leste usually buy their basic necessities from the people of Indonesia (Atambua City) using dollars and rupiah. Table 1 presents the Indonesian trade balance with the RDTL for the 2019-2021 period:

Table 1. Trade Balance Indonesia-RDTL in 2019-2021 (\$ Million)

Information	Year					
	2019		2020		2021	
	Nominal (US \$)	Share (%)	Nominal (US \$)	Share (%)	Nominal (US \$)	Share (%)
Export	16.279.934,15	92.07	15.865.544,70	94.59	20.818.774,37	92.38
Import	1.401.556,00	7.93	906.612,00	5.41	1.718.279,00	7.62
Balance	14.88 million	Surplus	14.96 million	Surplus	19.10 million	Surplus

Source: Belu Regency Industry and Trade Office, 2022

Table 1 shows that the trade balance between Indonesia and the RDTL for three years has increased, especially in the value of exports. In 2021, it decreased by 2.54 percent compared to 2019 due to the COVID-19 pandemic, which is affecting all economic activity, not only in Indonesia but around the world. As a result, the Indonesian government made a policy to temporarily close the Indonesia-RDTL border gate. The existence of this closure has an impact on the economic transactions conducted by the RDTL community and the Indonesian people, particularly in border areas. In 2021, the trade balance increase again with an export value of US\$ 20,818,774.37. This increase was due to the easing of the spread of COVID-19, so the Government issued a policy of Motaain post reopening with the aim of reviving economic activity between the two countries.

Based on the analysis of IFAS and EFAS, it was found that the difference in the scores of strengths and weaknesses in the IFAS matrix is 1.49, while the difference between the scores of opportunities and threats is 1.04. The combination of values between the IFAS and EFAS matrices translates into a position in quadrant one, which is an aggressive strategy. This position illustrates a favorable situation, where cross-border trade has strengths and opportunities that can be exploited, especially by Indonesia. The strategy to be applied in such a situation is to support an aggressive growth policy.

As a country with a direct land border with RDTL, the movement of persons and goods is an absolute priority that should be considered. Efforts by customs and excises to facilitate the flow of people and goods and prevent the entry of illegal goods to and from both countries include: (a) As a collector of income, that is, as a beneficiary of income derived from the export and import trade. In comparison with the first half of 2021, there was an increase in state revenues of 175 percent, namely Rp2.7 billion in the first semester of 2022; (b) As a community protector, namely acting as a protector of the community from transactions that can harm the community, especially in border areas by issuing and establishing rules or regulations as well as forming a task force; (c) As a trade facilitator, socialize with the public on procedures or mechanisms for conducting cross-border trade, and organize mentoring sessions related to import and export activities; (d) As an Industrial Assistant, assists in overseeing exporters in their export activities.

To develop and improve MSME innovation in border areas, socialization, training, and assistance are provided to MSMEs so that they can develop their businesses and not only try to meet their daily needs but to sustain their businesses. This certainly has the support of the local government to design and plan programs related to the issue of development and improvement of industrial centers with the aim of accelerating economic growth in the context of achieving community welfare, i.e.: (a) Expand medium-sized industries and develop MSMEs, such as building industrial furniture centers; (b) Provide a marketing point to help MSMEs commercialize their products; (c) Export packages that prioritize merchandise needed by way of the RDTL such as agricultural products, livestock, and horticulture; (d) market development to support activities in border areas; (e) Optimization of land through a food service program, namely a monitoring program in order to contribute to agriculture so that it can achieve the right target and right quality. The geographical and cultural closeness between Indonesia and RDTL opens space for the development of economic potential related to potential MSME products, especially in border areas (Silawan village) by empowering local natural and human resources. Utilization of these resources can increase public opinion where the products marketed have added value economically, are market-oriented, and have competitive advantages.

The long distance between the centers of economic activity in the territory of Indonesia and the border areas of Indonesia and the condition of infrastructure have hampered the distribution of goods and services, especially goods for basic needs and essential goods for daily needs. Therefore, local, national, and international government policies are needed so that the strategic conditions of the border areas can benefit the Indonesian people, especially those living in border areas, by providing facilities for cross-border trade to improve economic activities and the welfare of the people in border areas. Cross-Border Cards are in place in lieu of a passport issued by the immigration office, which is given to people in the border area (Silawan Village) with a maximum distance of ten km to the RDTL so that they can conduct trades. This cross-border

card is valid for a period of one year for residents in the border area (Silawan Village). According to the Indonesia-RDTL border trade agreement in 2003, the provisions given to border crossers who use the card when entering the border area (Indonesia) is to pay a fee of US\$ 50. However, based on research results, the currently applicable fee is US\$ 35 or around Rp500,000.

As a center for economic development in border areas, food estate, horticulture, food crops, livestock, and warehouse, programs are designed that can have an impact on increasing production and productivity to achieve economic stability in the Indonesia-RDTL border area. The development of facilities and infrastructure is carried out to improve the economy of the people in border areas, such as markets at the borders between countries. The development of facilities and infrastructure is executed to improve the economy of the humans in border regions which include markets on the borders between countries. Alternate activities that arise in border regions genuinely have an amazing capability in growing economic growth, increasing human incomes, and absorbing labor.

The provision of a Bonded Logistics Center as a bonded stockpile to store goods originating from areas outside the customs area and or goods originating from other places within the customs area may be accompanied by one or more simple activities within a certain period to be re-issued. Bonded Logistics Center's goal is to cut supply chain logistics by cutting logistics costs and streamlining the distribution of goods from upstream to downstream. This policy can facilitate entrepreneurs in managing customs and excise in the form of ease of licensing services, ease of service for operational activities, and/or ease of customs and excise. This facility is provided especially for entrepreneurs by considering risk management. The activity of stockpiling goods at the Bonded Logistics Center is given a maximum period of three years from the date of entry of the goods at the Bonded Logistics Center.

Synergy and cross-institutional collaboration of Customs and Excise, Immigration, and Police to oversee cross-border trade (especially in border areas) are necessary to improve the welfare of people in border areas. Border management is a representative of the state and the fulfillment of the rights of people in border areas that have a strategic and potential position because they are bordered by neighboring countries. It takes commitment from all parties to change the paradigm of border development in all aspects, especially for people in border areas.

As the frontlines of a country, border areas need to be built and developed by the government. Various potential Indonesian products can be traded through cross-border trade. Therefore, it is important to not only develop infrastructure in border areas but also to build and develop the character of the people who live in these border areas. These efforts require support from all parties, including the central government, local government, institutions, and the people in the border areas. The formulation of cross-border trade policies is needed to improve people's welfare. Therefore, it is necessary to design an incentive policy for both countries related to the governance of cross-border trade. Evaluation of trade regulations to avoid harming one country or the people in the border area should be carried out by the central government, which is then implemented by the regional government.

The results of this study are consistent with research conducted by (Wangke, 2013), (Aula et al, 2019), (Tikhonovich et al., 2018), (Kurnia, 2018), (Firdaus, 2019), and (Shola & Olanrewaju, 2020). For instance, the problems that are often found in cross-border trade include: (a) most of the border areas have a low economic level, which impacts the participation of border communities to engage in trade; (b) lack of facilities causes the price of goods to be more expensive; (c) longer time in processing documents for import duties, taxes, and permit fees increase transaction costs; and (d) the lack of functioning of the border market due to the unclear market management authority. On the other hand, cross-border trade has the potential to increase the economy and income of people in border areas.

The results of the study revealed that cross-border trade still plays an important role, especially for residents in the border areas, both in Indonesia and the RDTL. Trade that is currently carried out is to

facilitate the needs of residents in the border area so that the products traded are products that are used to meet their daily needs. This trade can improve the welfare of people living in border areas.

5. Conclusion

The Indonesia-RDTL border area has the potential and opportunity to be developed. The same cultural background causes cross-border trade interactions to occur between the two countries. Belu Regency as an area bordering the RDTL has the potential for natural and economic resources that can be developed as a center for small industrial development and a border area for cross-border trade.

Implementation of strategies and policies that need to be carried out by the government by optimizing potential strengths and opportunities for cross-border trade and developing the economy and welfare of people in border areas. Therefore, cross-institutional synergy is needed to design and implement policies that are made and encourage participation and empowerment of local communities in meeting their social needs and facing changing global conditions that require adjustments from various aspects of life.

6. Suggestion

Cross-institutional synchronization needs to be improved to facilitate cross-border trade for people in the border areas by empowering communities through community leaders, religious leaders, and non-governmental organizations in the fields of economy, education, and health.

Furthermore, it is crucial to implement cross-border trade strategies and policies by looking at the opportunities and potentials of border areas and maximizing the strength of resources in border areas.

The Border Trade Agreement between the Republic of Indonesia and the Republic Democratic of Timor Leste needs to be explicitly socialized to entrepreneurs. This needs to be done if there is a change in cross-border trade regulations and policies that cause changes in the interests of cross-border trade between the two countries.

Belu Regency as the center of economic development in the border area needs to design programs that support cross-border trade strategies and policies that can have an impact on increasing production and productivity to achieve economic stability in the border areas of Indonesia and the RDTL.

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