

## **Strategy of Community Economic Development in Border Area with Timor Leste through Cross Border Trade**

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**ABSTRACT:** *Poverty is not only related to the lack of consumption and basic needs fulfillment but creating the issue regarding the low of education level, unemployment rate, malnutrition and the low quality of human resources in development access. The strategy of regional government to overcome poverty is by creating economic activities in the region which is marked with region's ability to create economic growth. Data from Statistical Center Agency shows that the province of Nusa Tenggara Timur is at the sixth position of poorest province in Indonesia. This public condition gives inspiration to regional government in reducing public poverty level with various approaches and work program with orientation on economic growth. Post Timor Leste's independence as a new nation, the location of Nusa Tenggara Timur province is as a border region. Cross border trade between two countries through Nusa Tenggara Timur province is unavoidable. Correct step to set strategy in order to develop people's economy in the border area through cross border trade sector is by SWOT analysis approach.*

**KEYWORDS:** *Strategy, SWOT analysis, Cross border trade.*

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Date of Submission: 20-02-2019

Date of acceptance: 05-03-2019

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### **I. INTRODUCTION**

Poverty is a complex issue because it is not only being associated with economic issue but social impact to society. Poverty according to Perry et al. (2006), is due to educational factor and society culture. Due to lack of education, someone will face difficulty to equip himself with adequate skill. Educational factor is very influential toward poverty level. Education is believed to shape human as a whole (holistic) who has character, developing physical, emotional, social, creativity, spiritual and intellectual aspects optimally and as a lifelong learner. Society culture views employment as an irreplaceable source of income. Contractive culture also takes part in influencing, in one side is the lack of income but at the same time consumption pattern of social activity is very high, such as cultural ceremony, marriage, cultural house and so on. This cultural aspect is allegedly as one of the sources which make people becomes poor, according to Spicker (2002), poverty issue was considered as destiny that would never change.

Data from Statistical Center Agency of NTT showed that poverty level in 2013 was at 20.03 percent. In March 2015 it was recorded that the number of poor people was at 1,159,840 individuals (22.61 percent), the increase of 168,000 individuals compared with poor population on September 2014 which numbering 991,880 individuals or 19.60 percent. The data showed that the province of Nusa Tenggara Timur was still in the sixth position of the poorest province in Indonesia.

This condition of people gives inspiration to regional government of the province of Nusa Tenggara Timur to alleviate community poverty level with various approaches and real work program with orientation on income improvement and welfare as well as economic growth, among others is Red Wine Program and other programs. The facet of regional government program of Nusa Tenggara Timur province is directed to public participation and optimization of agricultural land effectively and efficiently, and stimulated with a number of business funds. Initial step which is carried out by regional government is by provision and improvement of facilities such as the construction of environmental utilities, public needs such as the setup and quality improvement of roadway infrastructure, program of electricity entering villages, fresh water facility, restructuring and improvement of public market facilities in border area.

Along with the independence of Timor Leste after freed from Indonesia as a new nation, economic relationship between countries in the form of trade is performed legally between two countries and running well, both individually and institutionally by government and private parties by fulfilling applicable provisions in international trade. Trade sector in the province of Nusa Tenggara Timur in particular export to Timor Leste region experiencing significant increase. However, trading which is conducted by individual along border line also increases. Cross border path is unavoidable due to community residential proximity factor, cultural similarity, and kinship attachment. Contribution of cross border trade gives positive value on people welfare which marked by basic needs fulfillment on food, clothing, housing and other supporting facilities.

To avoid and minimize cross border trade practice through black market, government of Nusa Tenggara Timur province and related agencies is preparing concrete steps to provide understanding on society through socialization, provision and improvement of border market facilities, shorten the bureaucracy of licensing for trading goods between countries, and tighten security along border line.

The interest of border community on black market is quite high due to lower price. The main cause that goods' price in black market is cheaper from goods' price in legal market is because goods being traded across border are not involving customs and immigration or is not imposed with tax as licensing requirement from customs and passport. Unit price of traded goods is calculated during the process of ongoing transaction activity, starting from procurement up to consumer. This new phenomenon gives big contribution on the income increase for cross border traders which can be seen from economic stability.

The picture of economic condition of society being experienced and the presence of new economic opportunity post Timor Leste's independence then it requires strategic step from the government and other related elements in developing public economy in border area such as provision of infrastructure, shorten the bureaucracy path of processing license for crossing people and goods, improving human resources through formal and informal education, providing capital loan with low interest, law enforcement to minimize illegal practices, reviewing of protected forest area owned by government due to the increase of population and leads to less area for public agricultural land.

Provincial government has correct step to determine the strategy in order to develop economy of community in border area with SWOT analysis approach. This approach is intended to be able to see external strategy (EFAS) influenced by opportunities and threats as well as internal strategy (IFAS), which is influenced by strengths and weaknesses. The usage of this approach is easier to determine correct strategy in developing cross border trade between province of Nusa Tenggara Timur and the nation of Timor Leste.

Strategy determination is interpreted as an effort to increase people income in border area in order to reposition as underdeveloped region which identical with poverty, economic disparity, low of education level, to become leading region and capable to become economic growth center in the future. Reposition of economic development in border area with Timor Leste is interpreted as economic growth perspective through real strategy as an effort to answer the complexity of development problems in border area which identical with poverty, economic disparity, low of education level, to become leading region as well as capable to become economic growth center in the future.

## **II. LITERATURE REVIEW**

### **2.1. Strategy to improve the income**

Basically in general the development being carried out by a region aims to improve real income per capita which is still low generally. Therefore it really needs a strategy to achieve the target in short and long term. According to Hitt et al in Rangkuti (2015), strategic management was the process to help organization to identify what to achieve and how it supposed to achieve the valuable result.

According to Sukirno (2006), income was amount of revenue being received by people due to their work performance for one certain period, either it was daily, weekly, monthly or yearly. Several qualifications of income among others: 1) Personal income that is all type of revenues acquired without providing any activity received by population of one country. 2) Disposable income that is personal income reduced by tax to be paid by income receiving persons, this net of income that ready to be spent is called disposable income. 3) National income that is the whole value of finished goods and services being produced by one country in a year.

According to Susilowati et al (2002), income by most of households in rural area was not coming just from one source, instead it was from multiple sources or it might be said that household doing job diversification or having various sources of income.

According to Freddy Pieloor (2006), strategies being done in order to increase income were: (1) getting training and other informal activities to prepare for independent and competitive workforce, (2) wages should consider work requirement and adjusted with rules, (3) increase the income if consumption could not be controlled, (4) work volume should be increased, (5) opening home industry which stimulating related economic unit.

### **2.2. Theory of Economic Growth in Border Area**

The change of border paradigm from security concept to prosperity concept has an impact on economic growth side in border area. The occurring interaction leads to the growth of activities and economic activities by people in border area. This section describes about concepts in economic growth and indicators related to economic growth.

Associated with economic growth perspective in border area, theoretically economic growth has an impact on economic integration effect which followed by spatial change or land usage. This condition occurred with requirement of suitable climate between economic model, spatial impact, and policy to support this matter.

Model of traditional location and new model of economic geography indicates that external trade can change spatial pattern of land usage in border area (Niebuhr & Stiller, 2001).

Related to regional development, according to Branch (1998), there were multiple factors which affected regional development, among others were: physical form (land usage and space structure), regional function (economic function, trade and industry) which was influenced by people activity, community's character (culture and faith, social and lifestyle), availability of public infrastructure (road network, clean water, etc.). These multiple factors have important roles in the development of border area. The growth of economic activity can be characterized with the changing on spatial, social, and infrastructure aspects which is growing. The development of economic activity in border area cannot be separated from market potential that it has. By reviewing location model and consideration of market area in a region, border area may be viewed as a less profitable area for the development of market potential.

An economy is said to experience economic growth if the total of goods and services production increases. Growth in general is a term which illustrates the presence of growth rate. According to Simon Kuznets (1995), economic growth is the increase in capacity on the long term from one country to provide various economic goods for its population. The increase in capacity itself is determined or made possible by technology progress or adjustments, institutional, and ideology toward multiple demands which exists.

According to Simon Kuznets (1995), factors which influencing economic growth were: capital goods, technology, workforce, natural resources, management, entrepreneurship, information. Economic growth was long term economic issue and became reality which always experienced by any region. In terms of economic aspect, economic growth raised two important effects, namely welfare or people's standard of living was improving and creation of new job opportunity due to the increasing of population.

### **2.3. Theory of Economic Development Strategy in Border Area**

Policy is decision making process to set a goal and means or best alternative in achieving the goal (Keban, 2004). Policy dimension is associated with decision regarding what to do. If being analogous, policy is concept work which decides what will be done so that heart and artery (management) and body's organ (organization) ready to move and executes what has been decided. Meanwhile according to Graycar (in Keban, 2004), policy could be seen as a concept of philosophy, a product, a process, as well as a framework.

Siagian (2005), suggested that strategy was a term which initially originated from military which had a meaning of "tricks being used to win a war". A win was a goal that wanted to be achieved in a war, so it might mean that strategy in essence was a way, trick, or tactic to achieve the goal. Opinion from Siagian was in line with Echols (1996), who stated that strategy was "tactic science in war", meanwhile strategic was defined as an effort being carried out according to a tactic or plan. From expert's opinion above, a definition can be made that what it means with strategic policy is a decision making process to set a goal and means or best alternative to achieve the goal based on certain tactic or trick or strategy.

Kartasasmita (1996) suggested that there were three main subjects that should be considered in empowerment strategy of public economy in order to developing public economy. First, it should be a targeted effort, it was popularly called siding which aimed directly to the one who needed the program which was planned to overcome the problem and compatible with the requirement. Second, this procedure should directly involving or even carried out by community who was the target of it. Involving the community (target group) had multiple goals namely so as the aid was effective since it was matching with the wish and recognizing their capability and needs. In addition at once it increased people empowerment with experience in designing, executing, managing, be responsible to effort by themselves and their economy. Third, using group approach, because on their own effort, poor people were difficult to solve the problems they encountered.

Policy strategy needs to be done considering multiple factors which has to be considered and has an impact toward final product of a policy. Factors which are influencing in setting a policy are external factor in the form of environmental effect, socio-political as well as stakeholders who have interest toward policy product, and internal factor such as institutional issue, human resources. Strategy that needed to be executed in setting a policy according to Nugroho(2004), was through three main activities, namely policy formulation, policy implementation, and policy evaluation.

Definition of strategy related to the context is interpreted as target setting and long term objective, direction setting, action, and resource allocation needed in achieving development objective (Chandler, 1962). This strategy combines main themes which provide coherence toward direction of action that will be taken as well as involving commitment on resources in certain period. This strategy is important and provide the way out for certain and specific problem.

The advantage in managing a correct strategy in its function to achieve development objective is the existence of effective framework, the presence of coordination system, setting to priority, integration of executors or stakeholders to achieve the goal. These multiple advantages are expected to become reference in formulation of correct strategy, related to the problems being encountered.

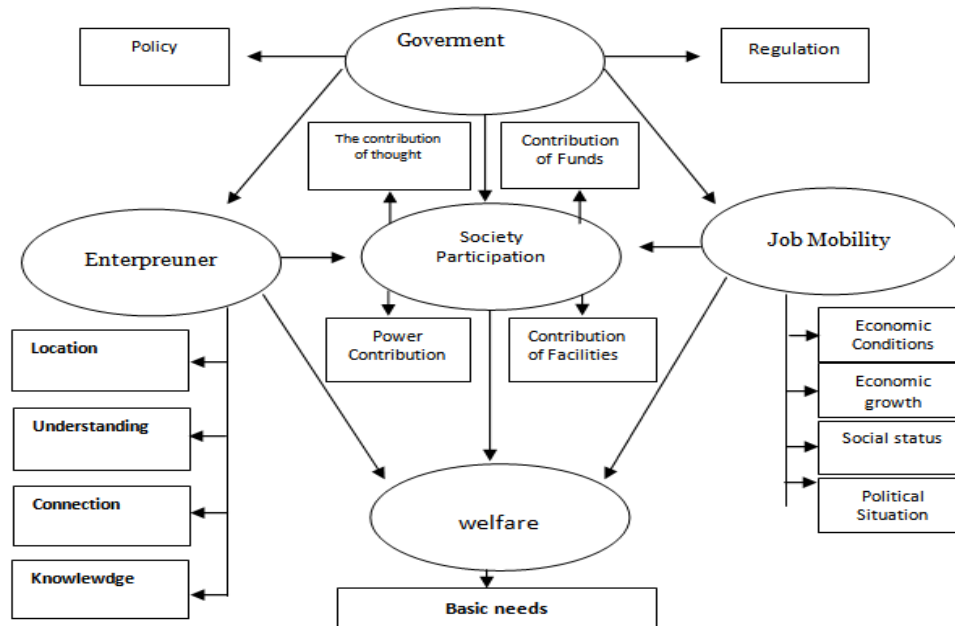
### III. FRAMEWORK OF RESEARCH CONCEPT

The strategy of regional government is to put forward the principle of trickle-down effect by paying attention to the needs of local community in accordance with resource potential that it has particularly in achieving development equalization level, overcomes the unemployment and poverty, the presence of new employment. Strategy being carried out by government is in the form of policies and regulations which being oriented to *nawacita* (nine programs) spirit namely to build from the edge to minimize partition of backwardness and economic disparity.

Framework of research concept of economic development strategy in border area can be seen in Figure 3.1

Figure 3.1

Concept Research Framework



### IV. RESEARCH METHODOLOGY

This research is conducted by using quantitative descriptive research approach namely collecting data and information, tested and analyzed descriptively in order to answer research problems. The study with descriptive format aims to explain various conditions, situations and variables being emerged (Burhan, 2004).

#### 4.1. Site of Research

Site of research was conducted in the province of Nusa Tenggara Timur in particular at the regency which in direct border with country of Timor Leste, namely regency of Belu, regency of Malaka, regency of Timor Tengah Utara and regency of Kupang.

#### 4.2. The Method of Data Collection and Analysis

Data source being used in this research originated from policy makers and community who were actively involved in the process of cross border trade. Strategy of policy making was conducted by creating SWOT analysis as academic platform in formulating and taking the strategy of cross border trade development in the province of Nusa Tenggara Timur and Timor Leste. Concrete steps being taken were to identify the strengths, weaknesses, opportunities, and threats to be encountered both internally and externally, and later to make calculation and analysis maturely in developing a strategy.

### V. DISCUSSION

Policy being taken in developing people's economy in border area of Nusa Tenggara Timur province and Timor Leste through trading is to create strategy which using the strength by exploiting opportunity. Strategy of policy making is correctly done, so it is necessary to plan carefully, starting by creating SWOT analysis as academic platform in formulating and strategy making of developing cross border trade between NTT and Timor Leste. Concrete step which must be done is to identify and calculate internal and external factor, followed with calculation and analysis maturely.

**Table 1. IFAS Calculation**

Strategic Factors	Bobot	Rating	Total
<b>Internal</b>			
<b>Strength ((S))</b>			
Entrepreneurial spirit	0,20	3	0,60
Availability of infrastructure	0,20	3	0,60
Regulation	0,20	3	0,60
Aksesibility	0,20	3	0,60
The proximity of the settlement	0,20	3	0,60
<b>Total Strength (S)</b>	<b>1,00</b>		<b>3,00</b>
<b>weakness (W)</b>			
Limited community capital	0,20	2	0,40
Many financiers from the city	0,20	3	0,60
Community education level is low	0,10	2	0,20
Lack of creations orientation to social activities	0,20 0,10	2 2	0,40 0,20
	<b>0,80</b>		<b>1,80</b>
<b>Total S + W</b>	<b>1,80</b>		<b>4,80</b>

**Table 2. EFAS Calculation**

Strategic Factors	Bobot	Rating	Total
<b>Eksternal</b>			
<b>Opportunities (O)</b>			
Timor Leste new country	0,20	3	0,60
The demand level increases	0,20	3	0,60
NTT strategic border areas	0,20	3	0,60
Masyarakat kedua negara have The same cultural culture	0,20	3	0,60
Cooperation between regions	0,20	3	0,60
Access to information and transportation	0,20	3	0,60
	<b>1,00</b>		<b>3,60</b>
<b>Threat (T)</b>			
Trade globalization	0,20	2	0,40
Proximity of Timor-Leste Australia.(723 km)	0,10	1	0,10
East Timor's political instabilization	0,10	1	0,10
Security-prone	0,10	1	0,10
American dollar exchange tool	0,20	2	0,40
	<b>0,70</b>		<b>1,30</b>
<b>Total O + T</b>	<b>1,70</b>		<b>4,90</b>

From the calculation of IFAS and EFAS, so SWOT position can be identified with calculation as follows:

**Table 3. Calculation of SWOT Analysis**

IFAS	4,80	EFAS	4,10
Total Strength Score (S)	3,00	Total Opportunity Score (O)	3,60
Total Weakness Score (W)	1,80	Total Threat Score (T)	1,30
S-W	1,20	O-T	2,30

From SWOT analysis matrix above, so strategy which has to be taken in developing people's economy in border area with Timor Leste through trading are:

- A. Creating strategy which using strength (S) by exploiting opportunity (O) through effort to encourage entrepreneurship spirit of community to change economic life by exploiting the strategic of border area and increasing market demand, providing infrastructure to facilitate people in both countries to make relationship by utilizing the similarity of social, cultural and historical background which has been long established. Regulation being issued is intended to manage cooperative relationship and strengthen social relationship and business, information system and smooth transportation is utilized to improve accessibility between people in order to be more open.
- B. Creating strategy which using strength (S) to overcome threats (T) from outside. Strategy being taken is by providing supporting infrastructure for economic activities and provision of regulation to become driving factor for community to establish business relationship in order to drive the flow of globalization away and the proximity of Australia as a competitor from geographical side which has proximity distance. Political and security instability of Timor Leste is exploited as an opportunity in creating business relationship especially for people in border area to fulfill their basic needs. The proximity of settlement, social relationship, the amount of community's demand can be exploited by people as strength to draw purchasing power of Timor Leste's people in border area who using dollar as an exchange rate.
- C. Creating strategy which minimizes weakness to exploit opportunity, called Strategy of Weaknesses (W)-Opportunities (O). Strategy being taken is to encourage community with various approaches to drive creative power by exploiting geographical proximity, the increase of people's demand. Similarity of culture and other social relationship as an opportunity to create a creation to overcome limitation of education level. Furthermore relationship is established by using relation in economy, social and access of information and transportation.
- D. Creating strategy which minimizes weakness and avoid threat. Weaknesses (W)-Threats (T) through strategy, encourage people's creation power in exploiting advantage of social capital to compete in global market, political and economic instability, the increase of market demand, and dollar as transaction tool.

Strategy of economic development in border area is intended to push affirmative policy regarding the funding of developing underdeveloped region, encourage the management of natural resources of underdeveloped region based on leading commodities, encourage and increase the quality of human resources through the program of strengthening education and health of the society, formulating the direction and policies of central and regional development, and proactive to make coordination with the whole stakeholders in developing underdeveloped region.

## **VI. CLOSING**

### **6.1. Conclusion**

Cross border trade is a strength to develop economy in border area. However, weaknesses from inside and threats from outside must be minimalized well by optimizing all the resources. Education level of the people which is still low, limitation of capital, bureaucracy to process a license which is still difficult, becoming internal problems and weaknesses of the community to compete exploiting market demand. Strategy to be taken is by creating strengths to overcome threats.

### **6.2. Suggestion**

In order to develop cross border trade, so it needs the improvement of human resources through education, providing the capital with low interest rate, and easiness in licensing administration process.

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Kamilaus Konstane Oki" Strategy of Community Economic Development in Border Area with Timor Leste through Cross Border Trade" *International Journal of Business and Management Invention (IJBMI)*, vol. 08, no. 03, 2019, pp 24-30