

POLITICAL ECONOMY OF CROSS-BORDER TRADE BETWEEN INDONESIA AND MALAYSIA: LOCAL PRODUCT OPPORTUNITIES AND CHALLENGES IN WEST KALIMANTAN

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ABSTRACT. As a key element of the political economy, cross-border trade makes a substantial contribution to community welfare while also supporting national economic growth. West Kalimantan, which borders Sarawak, Malaysia, serves as a strategic economic corridor in Indonesia, facilitating the movement of people and goods through the National Border Post. Although local products are the main commodities traded at this border, issues of product competitiveness, market stability, and border security pose major challenges to trade. Within the framework of cross-border political economy, this study examines both the opportunities and challenges in trading local products. It emphasizes how government initiatives, institutional coordination, and security management shape sustainable trade. Data was collected using a qualitative approach through in-depth interviews with institutional representatives, the Indonesian Consulate General in Kuching, central and local government officials, and document analysis. Triangulation of methods and sources was used to ensure data validity. The study shows that good political coordination, institutional synergy, and border stability are essential to improving the competitiveness of local products in cross-border trade.

Keywords: Political Economy; Cross-Border Trade; Local Products; West Kalimantan; Indonesia-Malaysia

ABSTRAK. Salah satu komponen penting dari ekonomi politik untuk meningkatkan kesejahteraan Masyarakat serta mampu berkontribusi signifikan terhadap pertumbuhan ekonomi nasional adalah perdagangan lintas batas. Kalimantan Barat, yang berbatasan langsung dengan Sarawak, Malaysia, berfungsi sebagai jalur ekonomi strategis di Indonesia, memungkinkan orang dan barang bergerak melalui Pos Perbatasan Nasional. Meskipun produk lokal merupakan komoditas utama yang diperdagangkan di perbatasan ini, masalah daya saing produk, stabilitas pasar, dan keamanan perbatasan menjadi tantangan besar bagi perdagangan. Dalam kerangka ekonomi politik lintas batas, penelitian ini meneliti baik peluang maupun tantangan dalam perdagangan produk lokal. Penelitian ini menekankan bagaimana inisiatif pemerintah, koordinasi kelembagaan, dan manajemen keamanan membentuk perdagangan berkelanjutan. Data dikumpulkan dengan pendekatan kualitatif melalui wawancara mendalam dengan perwakilan lembaga, Konsulat Jenderal Indonesia di Kuching, pejabat pemerintah pusat dan daerah, serta analisis dokumen. Triangulasi metode dan sumber digunakan untuk memastikan validitas data. Penelitian menunjukkan bahwa koordinasi politik yang baik, sinergi kelembagaan, dan stabilitas perbatasan sangat penting untuk meningkatkan daya saing produk lokal dalam perdagangan lintas batas.

Kata Kunci: Ekonomi Politik; Perdagangan Lintas Batas; Produk Lokal; Kalimantan Barat; Indonesia-Malaysia

INTRODUCTION

Cross-border trade is an economic activity that is closely related to the daily activities of communities in border areas and economic actors in other regions who can use it to increase their export activities. Cross-border trade, which is not limited to border trade but also includes foreign trade opportunities, provides opportunities not only for economic development in border areas but also for the national economy. Utouh (2025) observed that cross-border trade can drive a country's economic growth. In Africa, cross-border trade is considered to contribute to economic growth. The positive side of cross-border trade can also facilitate the smooth flow of goods, especially with the construction of Land Customs Stations (LCS) and Integrated Check Posts

(ICP), such as those on the border between India and Myanmar. Traded products include daily goods and strategic commodities (Shahriar, 2022).

Cross-border trade activities through the National Cross-Border Post (PLBN) in West Kalimantan refer not only to border trade under the Border Trade Agreement (BTA) between Indonesia and Malaysia, which was renewed in 2023, but also to export trade through the PLBN, including traditional export activities. Traditional exports refer to the loading and unloading of goods in the neutral zone on the border between Indonesia and Malaysia. Products sold in Malaysia are picked up directly by buyers from Malaysia using Malaysian vehicles in a neutral zone.

In this regard, the political economy of cross-border trade highlights how economic interactions

at the frontier are shaped by the interplay of state policy, institutional power, and local agency. Trade across borders is affected not just by market needs but also by regulatory systems, diplomatic ties, and governance capabilities at different levels. According to Çaykent (2022), border politics emerged with contemporary nation-states and now include concerns of commerce, immigration, territorial control, and regional cooperation, representing the intersection of political authority and economic interests in borders. Border politics highlights how borders are used strategically by state and non-state actors to regulate the flow of goods, capital, people, and information, including in cross-border trade. Thus, cross-border trade is not merely an economic activity but also a political arena where power relations, national interests, and global pressures interact (Scott, 2015).

Several studies have discussed cross-border trade from a political and political economy perspective, as well as the economic activities involved in it. From a political perspective, Chaiwong et al. (2019) show that border trade in Kengtung, Myanmar, is a political arena influenced by political reform, domestic stability, and regional integration strategies. Krainara (2008) also observes that cross-border trade in Thailand is a phenomenon with significant political dimensions, in which the state plays a central role through regulation, security policy, and bilateral diplomacy.

Sharma (2011) analyzes cross-border trade on the Indo-Myanmar border as a political arena shaped by colonial legacy, security-development paradox, and tensions between formal state policies and the transnational realities of border communities. Borderlands provide a rich environment for researching how state power is established and challenged in outlying areas, how social contracts include or exclude marginalized tribes and trading communities, and how various constituencies that are frequently overlooked in mainstream analysis influence political settlements (Malik & Gallien, 2020).

In contrast, Ngo & Hung (2019) discuss the political and economic aspects of border areas and view border checkpoints as a form of state presence. Border checkpoints can be considered political and economic arenas involving state and non-state actors. Erkihun Engida (2024) see that politics and economics interact to create economic conditions in border areas. Cross-border trade frequently promotes limited institutional cooperation, such as joint border committees, customs coordination mechanisms, or cross-border development projects, and localized forms of economic interdependence (Brunet-Jailly, 2022).

Regarding economic activity, the existence of PLBN is considered to have an impact on increasing trade. According to Pugu & Pusung (2025), since the inauguration of the Sota PLBN in October 2021, there has been a socio-economic transformation on the Merauke-Papua New Guinea border, where previously informal trade has become more structured, transaction volumes have increased and exports have risen mainly for rice, coconuts, and local agricultural products. The development of local products in cross-border trade is inseparable from the existence of special economic zones (Anuar & Harun, 2018). Strengthening local products through various innovations is important for increasing competitiveness with imported goods in the cross-border market (Widjaja & Wagiman, 2025). Agusriyanti et al. (2024) observed that local trade between Sebatik Island and Tawau, Malaysia, exhibits the unique dynamics of border trade, which has grown naturally due to the geographical, social, and economic proximity between Indonesia and Malaysia.

According to Patiung & Taus (2022), cross-border trade in the Indonesia-Timor Leste border region, particularly in the Oecusse District, shows that cross-border trade accelerates economic turnover. The impact on local economic growth is also being studied by Timisela (2015) sees cross-border trade between Indonesia and Papua New Guinea (PNG) in the Muara Tami District as having great potential to drive local economic growth. However, security issues, customary land rights issues, weak infrastructure, and a lack of official facilities pose a threat to the sustainability of trade.

Cross-border trade improves economic efficiency by allowing resources and goods to flow to areas where they are most valued, creating mutual benefits for the trading partners (Phillip, 2020). The success of cross-border trade in local products is highly dependent on regional integration and cross-border interactions facilitated by developing countries (Rosaline & Nagar, 2014).

From the above studies, local products are one of the attractions in the development of cross-border trade. In addition, previous studies have found that cross-border trade provides benefits in terms of wider market access. However, several challenges remain in cross-border trade related to infrastructure, security factors, and trade sustainability. In-depth research on the position and role of local products in cross-border trade has not been a major focus of research.

Existing research has not yet focused on the discussion of local products in cross-border trade in the political economy perspective. Therefore, this

study aims to provide an in-depth analysis of the opportunities, challenges, and efforts to strengthen local products in cross-border trade, particularly in the West Kalimantan region. This study contributes to the development of border political economy studies by emphasizing the role of local products as the main driver of cross-border economic integration and offering policy recommendations to strengthen the competitiveness and sustainability of local products in the Indonesia-Malaysia border region.

METHOD

This qualitative case study examines cross-border land trade between Indonesia and Malaysia in West Kalimantan Province, focusing on local product opportunities and challenges in the framework of political economy. The qualitative case study approach was chosen because it can explain in depth the interactions between actors, policies, and local contexts in the dynamics of cross-border trade, which cannot be measured solely through quantitative data. Field research was conducted in West Kalimantan at both the provincial and district levels, namely, Sanggau and Sambas Districts. The analysis of local products in cross-border trade focused on trade through the National Cross-Border in Entikong and Aruk. The data collection techniques used were in-depth interviews and FGD. Purposive sampling was used in the interview process. In-depth interviews were conducted with 12 informants from ministries and institutions at the central and regional levels, representatives from the Indonesian Consulate General in Kuching, and representative from the Entikong Village-owned Enterprise (BUMDes Entikong). The FGD was attended by three speakers from Tanjungpura University and representatives from the West Kalimantan Provincial Office.

The selection of informants in this study followed several key considerations. First, the participants included representatives from ministries or institutions at the national level, as well as regional agencies directly engaged in cross-border trade, both in terms of regulatory aspects and practical implementation of trade activities. Second, this study also involved academics and community representatives who have demonstrated a sustained interest or direct experience in research and economic activities related to cross-border trade in the region.

The informants who meet the first criterion are representatives from the Ministry of Trade of the Republic of Indonesia (Informant 1) and the National Border Management Agency (BNPP) (Informant 2). Meanwhile, for institutions and agencies at the

regional level, there were representatives from the West Kalimantan Provincial Office of Industry, Trade, Energy, and Mineral Resources (Informant 3), the West Kalimantan Provincial Border Management Agency (Informant 4), the Representative of the West Kalimantan Regional Secretariat (Informant 5), the National Cross-Border Post of Entikong (Informant 6), the National Cross-Border Post of Aruk (Informant 7), the Sanggau Regency Government (Informant 8), Sambas Regency Cooperative, Small and Medium Enterprises, Industry, and Trade Agency (Informant 9), the Border Management Agency of Sambas Regency (Informant 10), the Indonesian Consulate General in Kuching (Informant 12), representatives from the Transportation Agency in West Kalimantan Province (informant 13.2) and West Kalimantan Regional Land Transportation Management Agency (13.3). Interviews were also conducted with representatives from BUMDes Entikong (informant 11) and resource person from Tanjungpura University (informant 13.1) as representatives of academia and the community.

In the data analysis, Miles et al. (2020) explained that data analysis in qualitative research is carried out in several stages: data reduction, data display, and drawing conclusions and verification. Data reduction was performed by filtering the data obtained through interviews and document studies. In this case, data filtering was carried out on the topic of local products in cross-border trade, the potential and opportunities, and challenges of local products in cross-border trade. The results of the data filtering are presented in the form of descriptive analysis and figures. Figures are used to present the analysis of the interview results. The next stage is to draw conclusions from the analysis that has been conducted. Triangulation was also carried out by comparing data obtained from interviews, FGD, and document studies.

RESULT AND DISCUSSION

Political Economy Dynamics of Cross-Border Trade

Border regions can now actively participate in transnational trade networks thanks to improved market access, lower tariff barriers, and the growth of regional value chains (Okabe, 2025). Darmawan & Riyadi (2024) observed that cross-border activities not only emphasize economic activities but also involve interactions between public policy, state power, and the economic dynamics of communities at the border. Border policy is determined by various aspects, ranging from administrative aspects to the state's ability to manage interactions between

government agencies related to activities at the border and to create inclusive governance.

The political economic dynamics of cross-border trade in West Kalimantan-Sarawak reveal complex interactions between development disparities, central-regional power relations, and sovereignty issues. Cross-border trade in West Kalimantan reflects economic rationality and mirrors political negotiations between local, national, and regional interests within the framework of cross-border cooperation (Karim, 2015).

According to Prameswari et al. (2024), the examination of policies at the Kalimantan border also reveals obstacles to Indonesia and Malaysia's institutional and political integration. The efficiency of formal cross-border trade is impacted by inadequate infrastructure, disparities in national rules, and the requirement for policy harmonization. Bariyah et al. (2012) sees that in cross-border trade between Sarawak and West Kalimantan, there is a role for macroeconomic policies, government intervention, and the dynamics of regional integration in shaping trade flows.

The above description shows that border areas have become dynamic spaces for economic and political interaction, where policies, power, and community activities mutually shape the direction of cross-border trade. This situation opens great opportunities for local products to penetrate regional markets, provided they are supported by harmonious policies, adequate infrastructure, and inclusive cross-border collaboration.

Opportunities for Local Products in Cross-Border Trade Between Indonesia and Malaysia in the West Kalimantan Region

Economic activity in border areas not only serves as a means of exchanging goods, but also as a means of strengthening social and cultural identity between regions. Local products, such as traditional foods, handicrafts, and basic necessities, are the main commodities traded informally across national borders. This trade occurs because of the flexibility of local economic actors in adjusting to market demand and filling gaps not covered by the formal system. However, limited access to capital, infrastructure, and business legality makes it difficult for local products to penetrate formal markets or to compete with imported goods (Pentanurbowo & Al-Amin, 2025).

Meanwhile, economic activity in the Indonesia-Malaysia border region is not only oriented towards formal trade but is also characterized by the important role of local products, which are the main source of

livelihood for the local community. Local products, such as agricultural and plantation products, processed foods, and traditional handicrafts, are the leading commodities traded informally across national borders. Although the role of local products is vital, limitations in infrastructure, unsynchronized regulations, and a lack of institutional support mean that this cross-border trade often takes place outside formal channels and struggles to develop into a highly competitive economic activity (Wangke, 2013). This shows that local products can contribute to the regional economy positively. In addition, local products demonstrate cultural differentiation in cross-border trade. However, despite the potential of local products in foreign markets, several challenges remain.

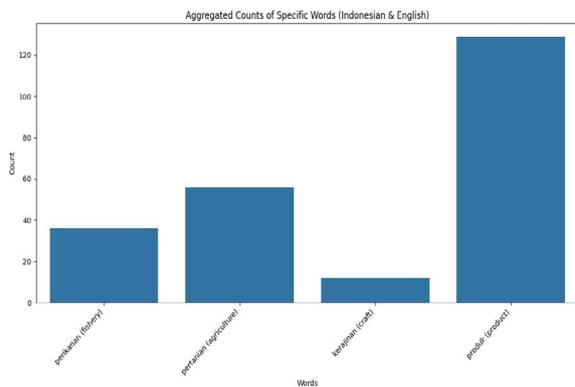
In cross-border trade, local products refer to goods that are produced, grown, or processed within the domestic territory of a particular country and then traded across international borders to neighboring or foreign markets. The designation "local" emphasizes the territorial origin and domestic production of goods before crossing borders, distinguishing them from imported goods or goods that only transit through a country without significant domestic value added (Daniel B, 2006). Local products are characterized using domestic factors of production, including land, labor, capital, and local resources, which create economic value in the country of origin. In cross-border trade, these products move from domestic to international markets when production exceeds local consumption needs, neighboring markets offer better prices, or there is regional demand for certain goods. This is particularly evident in agricultural trade between neighboring countries and in border regions, where formal and informal trade channels facilitate the exchange of locally produced goods (Tronstad & Wong-González, 1999).

In general, agricultural products, particularly food commodities, dominate cross-border trade. For example, fruit products have their own market among Malaysians (Antonius et al., 2024). Regarding cross-border trade opportunities, Ruangsriroj et al. (2023) cross-border trade potential and determinants of importer commitment.

Theoretical framework: The theoretical framework of research explains importer's perspective and provides a conceptual foundation for understanding how importer estimate a business environment to choosing products import to achieve business goals. Which is related to the factors including: customer behavior, cross-border trade potential, and determinants of importer commitment measures.

Design/Methodology/Approach: The research

collected data from importers and distributors in Cambodia with experience in importing goods from Thailand, consisted of 400 establishments. And use structural equation modeling (SEM) explain that the acceptance of traded products is relatively rapid because of the similar lifestyles in border areas. In addition, cross-border trade has the potential to drive economic development due to trade opportunities through the reduction of tariff and non-tariff barriers and the existence of cooperation networks with neighboring countries. The informants in this study also revealed economic opportunities in cross-border trade activities. The opportunities for local products to be marketed in cross-border trade are enormous. Figure 1 illustrates the informants' explanations of several local products that dominate Indonesia-Malaysia cross-border trade in the West Kalimantan region.



Source: Data processed by the authors, 2025

Figure 1. Local Products in Indonesia-Malaysia Cross-Border Trade in West Kalimantan

From figure 1, the informants mentioned products as the main concern in cross-border trade and agricultural products became products of interest in cross-border trade, followed by fishery and handicraft products.

Local agricultural products from West Kalimantan, especially rice, have strong export opportunities in Malaysia. West Kalimantan's strategic location in the border region allows this area to become a producer and frontline for national food exports, with rice as a commodity with excellent export prospects to Malaysia. Local rice varieties have a special advantage, although the medium-grade rice produced in West Kalimantan does not yet fully meet Malaysian taste preference. This opportunity is further strengthened by government initiatives to promote organic rice production in border areas to increase market access to Malaysia and boost the income of border communities (Ariningsih et al., 2021).

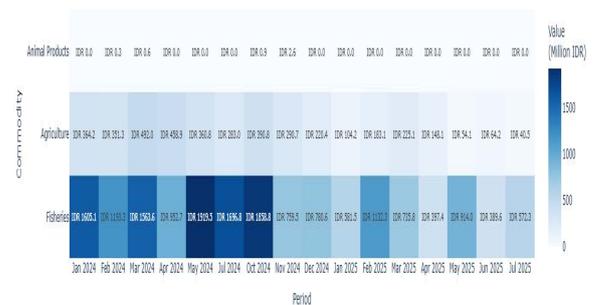
In addition to agricultural products, handicrafts such as woven goods are also among the commodities

avored by the Malaysian people. The Malaysian market's demand for local food commodities and handicrafts illustrates the enormous potential of these products (Antonius et al., 2024). Informant 11 explained that agricultural products such as fruits are in high demand in Malaysia. The key to cross-border trade is that there is a market in Malaysia, the products offered are suitable, the prices are right, and the quantities are adequate. Therefore, these products have great potential in the Malaysian market.

The informants in this study and the sources in the FGD also emphasized that agricultural products, fruits, and fisheries are local products traded in cross-border trade (Informants 1, 3, 4, 5, 6, 7, 8, 9, 12, 13.1, 13.2, and 13.3). Meanwhile, informants 8 and 9 explained that handicraft products have great potential in cross-border trade. The opportunities for Micro, Small, and Medium Enterprises (MSMEs) are enormous and support this potential. Therefore, to encourage MSMEs creativity, the Sanggau Regency Government provides training to MSMEs actors, such as training in finance and digital marketing. Informant 6 explained that the opportunities for local products encouraged the community to engage in small-scale export activities by supplying fruit to BUMDes.

The export value of local agricultural and fishery products through Aruk PLBN is shown in Figure 2.

Export Value Heatmap Per Commodity



Source: Badan Nasional Pengelola Perbatasan & Pos Lintas Batas Negara Aruk (2025), data processed by the authors

Figure 2. Heatmap of Export Values by Commodity Through the Aruk Border Crossing Point

In Figure 2, darker shades of blue indicate higher export values, whereas white or very light blue indicate low or even zero values. The horizontal axis represents the timeline from January 2024 to July 2025, while the vertical axis shows the three types of commodities. Based on the data visualized in the export value heat map, the volume of exports of the three main commodities, namely animal products, agriculture, and fisheries. Overall, fisheries dominated the export volume with consistently

high values throughout the period, as indicated by the dark to medium blue areas for almost the entire period. Exports peaked in May 2024, with a value of IDR 1,919.5 million. Despite experiencing a decline, such as in June 2025 (IDR 389.6 million), this commodity remains the largest contributor to exports. Meanwhile, agricultural commodities show lower export values than fisheries, as indicated by the lighter blue color. The highest value was achieved in March 2024 at IDR 492.0 million. A downward trend in export value was observed over time, particularly in 2025, which is visualized by a color closer to white. In contrast, animal products contributed very little to total exports.

The opportunities for local products from West Kalimantan in Indonesia-Malaysia cross-border trade can be seen in the trading activities that pass through the Aruk border crossing. However, many export activities are still traditional in nature because the Aruk PLBN has not been officially designated as an export-import gateway by the central government. Efforts to improve Immigration, Customs, Quarantine, and Security (ICQS) by Malaysia and encouragement from forums such as Sosek Malindo and local government coordination have opened opportunities for MSMEs to export processed and halal products to Malaysia, increasing local added value and income (Yuliansyah et al., 2025). Darmawan & Riyadi (2024) seeing that the opportunities for local products from West Kalimantan in cross-border trade between Indonesia and Malaysia can be seen from the local products of West Kalimantan that play a role in cross-border trade, including agricultural and processed food products such as garden produce, fish, homemade processed food products, local handicrafts, and micro and household business goods circulating in border markets such as Sebatik Island. In addition, the development of the creative industry is being pursued as an alternative to increase the added value of local products in cross-border cooperation.

Local products traded across the border in the Indonesia-Malaysia region, particularly in areas such as Sebatik Island, mostly come from the primary sector and are daily necessities. From the market perspective, Malaysian regions such as Tawau utilize the Sebatik area as a source of supply and an alternative market for their products, while Indonesians depend on the Malaysian economy to meet their various needs, creating real demand for local products such as seafood, agricultural products, and locally processed goods. For local products

to compete in cross-border markets, product quality, hygiene, and packaging must be adapted to consumer preferences and health regulations in both countries. Without such adjustments, products risk being abandoned by consumers or causing sanitation problems in the future. However, informal trade, which often occurs, also poses risks, such as practices that exceed quotas or regulations, for example, by splitting shipments into many small shipments, which has the potential to cause legal issues, distributor monopolies, and losses for consumers and the state. These conditions illustrate the complex dynamics of cross-border trade between Indonesia and Malaysia in the border region (Sarjono & Rudiati, 2022).

Several products sold to Malaysia, such as agricultural products that have been sold in their raw form, have the potential to be processed into high value-added products. Agricultural products can be processed into food products. To respond to this opportunity, it is crucial to increase farmers' capacity and utilize technology (Hamidin, 2025). Agricultural products that dominate cross-border trade between Indonesia and Malaysia (Sarawak) in West Kalimantan show that there is a high demand from the people of Sarawak. It can be said that trade in agricultural products such as fruits can provide economic benefits for communities in border areas and other economic actors who engage in export activities through the PLBN. However, unprocessed products do not have significant added value. Although the opportunities for local products in cross-border trade are quite large, several challenges remain, particularly related to added value, innovation, and institutional aspects, which are discussed in the next subsection.

Cross-border agricultural trade between Indonesia and Malaysia, particularly in West Kalimantan and Sarawak, reflects the complex interplay between local livelihoods, regional interdependence, and state regulatory frameworks. The high demand for agricultural products generates tangible economic benefits for local farmers and contributes to rural income diversification, the predominance of raw and unprocessed commodities indicates a structural limitation in capturing higher value in local production systems. This underscores the asymmetric nature of cross-border economic relations. Therefore, it is crucial to strengthen the political and institutional capabilities of border areas through innovative policies, cooperative frameworks, and fair-trade governance to transform border trade from a subsistence-based activity into a sustainable catalyst for local economic empowerment.

Challenges of Local Products in Cross-Border Trade Between Indonesia and Malaysia in the West Kalimantan Region

The discussion of local products and the international market is an interesting topic. To be accepted internationally, local products must be innovative and differentiated to meet market demands. Collaboration and partnerships are crucial for marketing local products internationally (Rumapea & Gerardo, 2024). Creating added value and developing marketed products are crucial to meeting market demand. Therefore, understanding customer needs is crucial in cross-border trade (Ruangsriroj et al., 2023) cross-border trade potential and determinants of importer commitment.

Theoretical framework: The theoretical framework of research explains importer's perspective and provides a conceptual foundation for understanding how importer estimate a business environment to choosing products import to achieve business goals. Which is related to the factors including: customer behavior, cross-border trade potential, and determinants of importer commitment measures.

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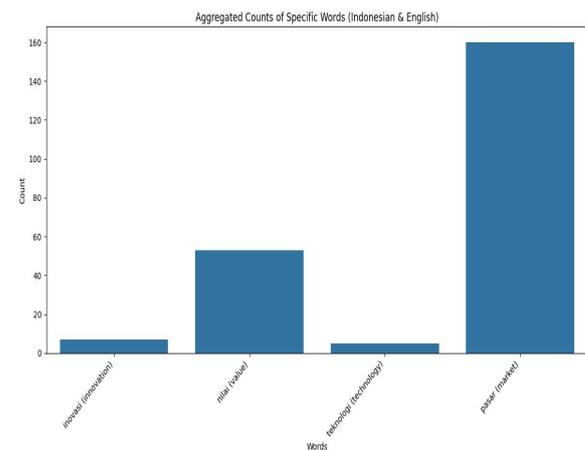
Cross-border trade between Indonesia and Malaysia, facilitated in part by the BTA, presents numerous challenges. In West Kalimantan, Indonesian products are dominated by extractive commodities. These include raw materials such as forestry products and other materials. In contrast, Malaysia focuses more on processed products. This imbalance creates a greater advantage for Malaysia, as the added value is more favorable (Apriani & Daniah, 2021).

Local products from West Kalimantan face significant challenges in cross-border trade due to inadequate infrastructure and unfair competition from the smuggled goods. In some border areas, rudimentary customs facilities are poorly supported by adequate accessibility, making it difficult for local products to reach formal markets (Elyta, 2017).

Local products struggle to compete with similar commodities from other regions that offer better quality, consistency, and more competitive prices, leaving West Kalimantan at a disadvantage in the Malaysian market. Local products often lack the quality standards and certifications necessary to meet Malaysian consumer expectations and regulatory requirements, making them less attractive than alternatives from more established suppliers. The lack of product differentiation and branding makes

West Kalimantan products perceived as generic commodities rather than unique offerings, limiting their market appeal and forcing them to compete solely in price. Furthermore, local products lack value-added processing and packaging, resulting in lower product value and shelf appeal than processed products from competitors who have invested in modern processing facilities. In addition, many local products lack halal certification and food safety standards essential for the Malaysian market, effectively excluding them from formal retail channels and limiting market access to informal trade at the border (Ariningsih et al., 2021).

This overview of the challenges reflects the complexity of the potential of local products in cross-border trade. Several aspects of offering local product advantages pose unique challenges in the Malaysian market. The challenges faced by local products in cross-border trade between Indonesia and Malaysia in West Kalimantan also drew the informants' attention. Figure 3 illustrates a visualization of the challenges expressed by informants.



Source: Data processed by the authors, 2025

Figure 3. Challenges of Local Products in Cross-Border Trade between Indonesia and Malaysia in West Kalimantan

Figure 3 shows that the informants believe that the biggest challenges facing local products in cross-border trade between Indonesia and Malaysia are market share, product added value, innovation, and technology issues. Informant 10 explained that innovation is the primary obstacle faced by MSMEs in marketing their products. Furthermore, creating added value from traded local products is also a major challenge, as the products traded are still predominantly raw or unprocessed (informants 2, 7, and 13.2)

Latifah & Novianti (2022) observed that exporting low-value raw materials results in suboptimal benefits. Furthermore, selling raw commodities results in the loss of greater profit.

Another challenge that still dominates cross-border trade, according to Informant 8, is the tendency for economic actors to sell products without considering the sustainability of the product market. This is despite the significant opportunity for local Indonesian products to enter Sarawak supermarkets. Currently, only products from large companies are sold in supermarkets in Sarawak. Market sustainability was also a concern for Informant 5, who emphasized that local production sometimes cannot meet large market demand.

In addition to issues related to innovation, market access, and added value, the limited function of the PLBN as gateways for cross-border economic activity is a challenge. PLBN, such as Aruk/Biawak, currently serve as human crossing points than as centers for goods trade. As a result, only raw materials or primary commodities can be exported through these routes, while processed products from MSMEs with higher added value lack adequate export-support facilities. This situation results in the loss of potential added value for the local economy and hinders the development of downstream sectors in border areas that should drive regional economic growth. The supporting infrastructure for tourism and logistics in border areas is minimal. Limited facilities such as accommodation, transportation, and public facilities have direct implications for market access and the efficient distribution of local products (Yuniarti et al., 2025).

Superior products such as bananas (the most consistent commodity), whole coconuts, durian, dragon fruit, oranges, pumpkins, watermelons, stink beans, and vegetables (long beans, bitter melon, okra), as well as seafood, face serious obstacles in shipping and marketing because of limited road networks and cold storage facilities. Sustainability and institutional issues also pose fundamental challenges. The lack of strong coordination between agencies at both the central and regional levels in managing cross-border trade has resulted in a lack of policy synchronization to support local products. The lack of a formal supply chain and solid border economic institutions have resulted in sporadic and informal trade in local products in the region. Therefore, strengthening local economic institutions is necessary through the establishment of cross-border cooperatives, border MSMEs clusters, and value chain integration mechanisms that can ensure the sustainability of local product production and distribution in regional markets (Yuniarti et al., 2025).

The complexity of local product challenges extends beyond the issue of added value. Supporting infrastructure is also evident in the reality of suboptimal support. These challenges can

undoubtedly impact on consistent product marketing strategies. A lack of innovation and added value can reduce a seller's bargaining power over the buyers. These complex challenges require a swift response from all relevant stakeholders, given the significant potential of local products in cross-border trade.

Regulatory and institutional factors also pose challenges to cross-border trade. For example, while the communities of Jagoi Babang and Serikin have economic potential through agricultural products and handicrafts, much of their trade occurs informally. The main obstacle arises from the unclear authority between the central and regional governments and management agencies, such as the National Board for the Provision of Goods and Services and the Border Management Agency, resulting in weak coordination and suboptimal border markets. Furthermore, Malaysia has not yet opened new border posts; therefore, trade remains unequal and tends to disadvantage Indonesia (Yuniarti, 2019).

Similar conditions also occur in border areas such as Entikong, Aruk, and Badau, which show significant potential, but implementation is still hampered by a lack of synchronization of policies between the agencies. National regulations that limit import and export activities to international ports also restrict access to local products from West Kalimantan for official trading. Furthermore, coordination between the central and regional governments and border management agencies is ineffective, resulting in the underdevelopment of trade infrastructure. As a result, much trade occurs informally, and local Indonesian products often lose out to Malaysian products, which have easier market entry owing to more flexible policy support. This demonstrates that rigid and overlapping regulations are a major obstacle to strengthening the competitiveness of local products in cross-border trade (Bangun, 2022).

The challenges facing local products in cross-border trade are not only about increasing added value, innovation, technology, and market access but also related to policy challenges. The main problem in encouraging local products to excel in cross-border trade is not only product quality and standardization but also the suboptimal supporting ecosystem in the field. This challenge can ultimately become a barrier to optimizing the benefits of cross-border trade to strengthen the local economy. The analysis concludes that the main challenges facing local products in cross-border trade relate not only to product quality and innovation but also encompass the broader support system: infrastructure, regulations, and economic institutions. This complexity demands an integrated strategy from the government, business

actors, and supporting institutions to transform local products from raw commodities into high-value-added products capable of competing in cross-border markets. Therefore, a strengthening strategy oriented towards increasing production capacity, innovation, and cross-institutional cooperation is needed.

From a political economy standpoint, the constraints faced by local products in cross-border trade are rooted not only in market inefficiencies but also in institutional and policy asymmetries. Limited infrastructure, fragmented regulations, and weak coordination among state agencies constrain local producers' ability to capture greater value. These structural barriers reveal how power relations and uneven state capacity shape economic opportunities at borders. Consequently, enhancing local competitiveness necessitates not only technological advancement but also comprehensive governance reforms and collaborative institutional support that align national goals with local requirements.

Strengthening Local Products in Indonesia-Malaysia Cross-Border Trade in the West Kalimantan Region

The opportunities for local products in cross-border trade are significant. This is evident in the agricultural, fishery, and craft products sold to Malaysia through PLBN. However, in practice, cross-border trade is still dominated by unprocessed goods. This is undoubtedly the biggest challenge in cross-border trade, which could provide greater benefits. Therefore, training related to innovation, network expansion, and product promotion is the focus to strengthen the added value of local products. A similar point was conveyed by Informants 8 and 9. In addition to training, informants also explained the importance of investors in processing local products so that traded products have added value (Informant 7). Improving the quality of local products is an urgent matter that local governments must follow up on by conducting market mapping (Informant 2).

Regarding challenges related to market access, a representative from the Indonesian Consulate General in Kuching (Informant 12) explained that facilitation for business actors is assisted by meeting buyers and holding exhibitions to introduce Indonesian products to the public in Malaysia, especially in Sarawak. Collaboration between relevant agencies involved in cross-border trade is also needed to encourage the strengthening of local products in cross-border trade through PLBN. The role of relevant ministerial institutions is also a concern for Informant 1 in mapping MSMEs that produce products sold to Malaysia. Data collection on MSMEs in border

areas is crucial for strengthening MSMEs in cross-border trade. In addition, mapping market needs are fundamental to strengthening local products in cross-border trade. In this map, Informant 13.1. sees that mapping is necessary to determine the extent of Malaysian market demand for raw materials and processed products.

Efforts to facilitate market access through exhibitions, institutional collaboration, and MSMEs mapping reflect the interplay between state initiatives and local economic agencies. Such measures reveal how state institutions act not only as regulators but also as intermediaries in shaping cross-border economic relations. However, the effectiveness of these initiatives depends on the balance of power, coordination, and resource distribution among the government bodies. Therefore, strengthening institutional synergy and policy coherence is essential to ensure that local producers can move beyond their dependence on informal trade networks and gain equitable access to regional markets.

Lubis & Muniapan (2024) note that technology, culture, and trade barriers are important considerations when developing strategies for entering international markets. Identifying market segments is also necessary to achieve this. Product adaptations to meet market preferences, including modifications to packaging and consumer tastes, are considered strategies for increasing product appeal. According to Lestari et al. (2024) improving product quality is crucial. In this case, product quality can be improved through product design development and innovation, ensuring that the marketed product has market appeal.

Regarding marketing, Bouchouar & Souaf (2024) suggested that marketing strategies should emphasize the authenticity, origin, and sustainability of food products. Similarly, local product suppliers need to learn more about the characteristics of their target markets and develop more efficient distribution and communication plans to promote their products. Effectively marketing these products, creating demand, supporting sustainable development, and contributing to the local economy can be achieved by understanding market specifics, identifying barriers, and adapting to various customer profiles.

Strengthening local products requires a combination of infrastructure, markets, and community capacity to ensure that superior products are competitive in the Malaysian market. However, low competitiveness and limited supporting facilities remain major obstacles to capitalizing on cross-border trade opportunities. Local products are not yet fully competitive in the cross-border market due

to limitations in terms of quality and certification. Regulatory differences between Indonesia and Malaysia also hinder the formal export process for small businesses in the border region. Improving hygienic packaging and issuing Business Identification Numbers (NIB) help MSMEs expand their marketing reach and increase buyer confidence in the border regions. By optimizing the function of the PLBN as a logistics and promotion center, local products from West Kalimantan can penetrate the Malaysian market more efficiently and effectively (Latifah et al., 2025).

Akbar et al. (2024) emphasized that joint export promotion programs help introduce superior regional products to international markets. However, these efforts still face challenges in the form of intense global competition and market fluctuations, which require a more comprehensive strategy for product diversification and improving quality. Therefore, strengthening local products in border regions depends not only on physical aspects and promotion but also on policies that can encourage innovation, added value, and economic sustainability of border communities.

Local government support through training, certification facilitation, and strengthening logistics infrastructure are key factors in helping small and medium-sized businesses meet regional market standards. Furthermore, collaboration between the West Kalimantan regional government and businesses in Sarawak could open new, more efficient distribution networks for agricultural products, processed foods, and handicrafts, further strengthening local product markets. Empowering craft products such as woven fabrics by emphasizing local motifs and leveraging digital marketing networks is also a crucial strategy for building the identity of border-specific products (Kurniawan et al., 2024). These efforts are expected to increase community income and strengthen Indonesia's position in cross-border economic cooperation and support border development based on prosperity and national economic independence. This is in line with Informant 6's explanation, namely that the opportunity to develop local products has at least encouraged the community to begin small-scale export activities, for example, by supplying fruit to BUMDes as a link for cross-border trade. This finding indicates that public awareness of the economic potential of local products is growing, albeit still carried out in a simple manner. This phenomenon is clear evidence that the empowerment and strengthening of local products at the border has a direct impact on increasing community economic activity in the border area.

Strengthening local products refers not only to improving product quality but also to the sustainability of local product markets in cross-border trade. Market sustainability has a positive impact on local economic actors. Training and collaboration among all relevant stakeholders, including the government, business actors, and communities, are necessary to develop local products that can compete in international markets. The synergy of policies and strategies is important so that mentoring programs in strengthening local products do not operate in isolation. The training provided to business actors does not stop providing materials but requires comprehensive support from the production process to marketing. Promotion and support from the government are important keys to strengthening the position of local products in the international market, which can ultimately provide economic benefits to the local community. Overall, strengthening local products in the West Kalimantan border region must be achieved through four main pillars: (1) innovation and increasing added value, (2) cross-institutional collaboration, (3) strengthening local economic institutions, and (4) infrastructure support and policies that favor border businesses. If these four pillars are implemented in an integrated manner, local products will serve as economic commodities and instruments for sustainable border region development. These strategies illustrate that strengthening local products is a strategic step towards border economic independence.

CONCLUSION

Local products in Indonesia-Malaysia cross-border trade in the West Kalimantan region have significant potential. This can be seen from the well-established trade activities, ranging from border trade to exports. This potential can also be seen from the increase in trade activities after the construction of PLBN at several points in West Kalimantan. Trade activities at the Entikong and Aruk PLBNs, for example, show that there is interest from the community in utilizing facilities and support to increase trade. Agricultural products, such as fruits and handicrafts, are in high demand in cross-border trade. However, despite this potential, there are still several challenges in optimizing the potential of local products.

The challenges are not only about product quality or the added value of local products but also about building a system that supports the sustainability of local products in cross-border trade. This system encompasses all supporting aspects, both from the products themselves and at the policy and

infrastructure levels of the system. Collaboration among stakeholders, for example, is expected to support the optimization of local products in cross-border trade, both through policies and various activities that can increase the capacity of economic actors to improve the bargaining power of local products and the sustainability of the market. Sustaining the growth of local products in cross-border trade requires more than just market participation. This demands an inclusive governance framework that aligns local capacity with national and regional priorities. The future of border trade thus lies in how effectively state institutions, local actors, and market forces can negotiate power, resources, and opportunities to create a more equitable and resilient border economy

GRATITUDE

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