

Improving Traders' And Buyers' Understanding Of The Exchange Rate In Economic Transactions In The Border Market

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Abstract.

This community service carried out at the Wini (Indonesia) border market and Regiao Administrativa Especial de Oecusse (Ambeno) Timor Leste. There are 3 problems that occur at the Wini border market, namely 1) During transactions, traders do not have a certain formula for determining and fixing exchange rates. Determining exchange rates in the market is only based on bargaining between sellers and buyers, 2) In the bargaining process, sellers and buyers do not see the exchange rate that applies when the transaction takes place and 3) traders in the border market determine the exchange rate during the transaction only following the exchange rate that has been made by other traders in the border market. The service was carried out using socialization methods and Focus Group discussions with 20 traders/buyers from Indonesia, Timor Leste and the governments of the two countries. The results of this community service provide understanding to buyers and sellers from two countries about the obligation to use the currency of the country where the transaction occurs, the importance of exchanging foreign money at a legal money changer, the rules regarding international trade, as well as an understanding of the basis for determining the selling value of products that bring business profits. . By doing business according to government regulations and international business standards, people in border markets can win profits.

Keywords: Understanding, Exchange Rates, Transactions in Border Markets, Economy and product selling price.

I. INTRODUCTION

Transactions in border markets will bring economic benefits to local border resident of both countries. Apart from material benefits, the international market allows producers to obtain many customers on a global scale and consumers also benefit because there are many product choices that suit consumer needs and desires. Furthermore, with the existence of commercial activities between two or more countries, bilateral and multilateral relations occur between the parties involved. According to Krugman and Obstfeld (2003), there are two reasons a country engages in trade, namely: **first**, each country has different comparative advantages, so that by engaging in trade, both parties will gain benefits from trade. **Second**, countries that trade with the aim of achieving economies of scale in production, meaning that by specializing they will become more efficient so that a larger economy of scale is obtained than producing all the goods needed. With specialization, it is hoped that the country will have the ability to produce goods that can compete in foreign markets (Sukirno, 2015). International trade involves more than one currency, namely the currencies of the transacting countries. Because of the involvement of two types of currency, problems often occur in determining the exchange rate. Exchange rate is a comparison of the value of a currency with the currency of another country. Each currency owned by a country has a different price or value. Every day the exchange rate changes. So the price value of a currency today can go down or up compared to other currencies. Jimmy (2014) said that the exchange rate is the price of local currency against foreign currency. So the exchange rate is the value of one Rupiah currency translated into another country's currency. For example, the Rupiah exchange rate against the US Dollar, the Rupiah exchange rate against the Yen, and so on.

The exchange rate is an indicator that influences activity in the stock market and money market because investors tend to be careful in what they do investment. The decline in the Rupiah exchange rate against foreign currencies, especially the US Dollar, has a negative impact on the economy and markets (Perdana et al., 2014). The exchange rate plays an important role in encouraging the stability of the

Indonesian economy because the exchange rate acts as a shock absorber. With shock conditions and economic dynamics, domestic economic conditions are influenced by the depreciation and appreciation of the Rupiah exchange rate itself (Djuranovik et al., 2020). This exchange rate problem is experienced by service partners, namely traders and buyers at the Wini border market. This market accommodates transactions between Indonesian citizens (Wini-North Central Timor) and Timor Leste - Regiao Administrativa Especial de Oecusse (Ambeno). The selection of partners is based on the fact that traders and buyers involved in transactions at the Wini border market do not understand the exchange rate when making transactions, which cause losses for both parties. Based on research (Naben, Sonbay and Manehat: 2023) it was found that on average the traders in this market are local residents of Humusu C Village and some traders come from outside the border area, such as traders from Belu Regency. Meanwhile, buyers in the market are generally Indonesian people and Timor-Leste people. The people of Timor Leste still depend on Indonesia to obtain basic necessities. Most of the basic necessities (rice, oil, sugar, etc.) circulating in the Timor-Leste region are dominated by goods from Indonesia.

With the composition of buying traders above, the problems experienced are: **first**, at the time of the transaction the traders do not have a certain formula for determining and fixing the exchange rate. Determining the exchange rate in the market is only based on bargaining between the seller and the buyer, the seller first sets the price and the buyer will bid until an agreement is reached between the two business actors, the seller and the buyer. **Second**; In the bargaining process, traders and buyers do not see the exchange rate that applies when the transaction takes place. Traders set the exchange rate without looking at the exchange rate standards set by Bank Authority of both countries and consequently buyers also suffer losses because the quality of what they buy is not commensurate with the nominal amount issued, raising and lowering the Rupiah exchange rate per dollar unit according to market mechanisms and not in line with the applicable rules by not following the official exchange rate set by the central bank. **Third**; traders in border markets determine the exchange rate at the time of transaction only following the exchange rate that has been made by other traders in the border market. With the three main problems above, it can be stated that the practice of determining the exchange rate that occurs in the Wini border market is not in accordance with the rules that have been established, Law of the Republic of Indonesia number 24 of 1999, which states that "Bank Indonesia implements exchange rate policy based on an exchange rate system and Law of Timor Leste number 5 of 2011 "The Central Bank shall develop and adapt a foreign exchange regime after consulting the government, provided it does not compromise or jeopardize in any manner whatever its main goal of maintaining the domestic price stability. The problems experienced in border markets above can lead to economic weakness in border markets. Thus, this service is expected to improve the economy in border markets.

II. RESULT AND DISCUSSION

2.1 Rules Concerning Transactions in International Markets

Global environmental dynamics cause changes in economic demand. The market is not limited to transactions within one country but extends between countries. The increasing flow of investment and capital that moves freely without recognizing national borders has resulted in "free trade" so that transactions involve at least two countries which of course have their own currencies. This not only happens in large-scale companies but also occurs in traditional markets between national borders which of course have their own rules. For the territory of Indonesia, Bank Indonesia Regulation Number 17/3/PBI/2015 has regulated the Obligation to Use Rupiah in the Territory of the Unitary State of the Republic of Indonesia. This regulation states that all transactions occurring in Indonesian territory must use the Rupiah currency. This aims to achieve stability in the Rupiah exchange rate.

Apart from large-scale export and import activities, this BI Regulation also regulates the obligation to use Rupiah in service trade activities that exceed national borders, namely cross-border supply that occurs in border markets between countries. In international accounting, transactions in foreign currency are also explained, including the purchase and sale of goods and services, borrowing and borrowing funds, receiving or paying dividends and so on. Based on foreign exchange rates, namely the price of one unit of one currency

expressed in another currency (Prasetyanto, et al, 2023). Referring to the BI regulations above and linked to BI regulations, it can be stated that when transactions are carried out in Indonesia, purchases and sales of goods must be expressed in rupiah currency exchange rates and if there are citizens of other countries making transactions in Indonesia they must convert their currency based on the applicable exchange rate. to Indonesian currency.

2.2 Facts that occur in border market transactions and their causal factors

In reality, not all border markets apply Bank Indonesia Regulation Number 17/3/PBI/2015 concerning Obligatory Use of Rupiah in the Territory of the Unitary State of the Republic of Indonesia. As happened at the Wini Border Market (Indonesia) and Dili (Timor Leste), people from Timor Leste who entered to make transactions at the border market used dollars in transactions at markets located in Indonesia. In addition, if dollars held by buyers/sellers are exchanged for rupiah before the transaction is carried out, market players do not know the basis for determining the exchange rate of dollars against rupiah when the exchange occurs. Another problem is that international people who made transactions do not exchange their foreign currency at licensed money changers such as at the nearest bank or money changers belonging to National Border Posts (PLBN) which of course comply with Bank Indonesia standards, but instead exchange them at unlicensed mobile money changers. This causes the exchanger not to confirm the position of the currency exchange rate to be purchased/exchanged which then results in losses.

Buyers and sellers do not check the value of the currency to be exchanged, do not learn about foreign exchange rates through various sources both online and offline to get the best price for the exchange made because they do not have knowledge of this. This situation makes it vulnerable to mobile money changers providing unreasonable exchange rates. Apart from that, transacting at illegal money changers also refers to the act of supporting international crime considering that Bank Indonesia, in 2017 there were recorded 783 money changers or Non-Bank Foreign Currency Exchange Business Activities (KUPVA BB). Illegal money changers are vulnerable to fraud. In addition, According to Krugman and Obstfeld (2003), there are two reasons a country engages in trade, namely: first, each country has different comparative advantages, so that by engaging in trade, both parties will gain benefits from trade. **Second**, countries that trade with the aim of achieving economies of scale in production, meaning that by specializing they will become more efficient so that a larger economy of scale is obtained than producing all the goods needed. With specialization, it is hoped that the country will have the ability to produce goods that can compete in foreign markets (Sukirno, 2015).



Fig 1. Socialization to traders and buyers from Indonesia and Timor Leste about exchange rate rules

2.2 Solution: The Importance of Understanding Exchange Rates When Transactions in Border Markets

In order to resolve the problems described above, this community service is carried out by providing outreach and Focus Group Discussions (FGD) regarding exchange rates and the use of currency in border markets to market players from both Wini (Indonesia) and Dili (Timor Leste) by involving the Government. via PLBN, Immigration, Customs hangar, PLBN Wini health quarantine team, PLBN Wini agricultural quarantine, PLBN Wini fish quarantine coordinator, PLBN Wini sub-sector police chief, Brimob Sector

Danki and RI - RDTL Yonkav 1 civil service task force as the parties responsible at the border. In socialization and FGD with 20 market players and related agencies, it was found that market players had no knowledge about exchange rates, they only thought about how to transact with the rupiah currency, sell the goods they brought during the transaction or buy the goods they want in the market without thinking that when exchanging money at the mobile money changer they will incur losses. They only focus on how to get the item they want even though the price is not right. The rules regarding the obligation to use rupiah when making transactions in Indonesian border markets are also ignored because there are no penalties for this action.



Fig 2. Explanation of international trade rules from Timor Leste

Market players do not understand the stability of the rupiah through the use of the rupiah currency when transactions are carried out in Indonesia, there are no economic calculations, profits or losses, they only focus on how to buy or sell the goods they want/have. Socialization is carried out by outlining regulations regarding international trade because regulations in border markets are not clearly regulated, there is also no socialization from the government regarding these rules and there are no sanctions for violating transactions. There are also no penalties for those who provide mobile money changer services so that the illegal business is carried out without fear and leads the public to made transactions at illegal money changers which are detrimental.



Fig 3. FGD about legal money changer

It is hoped that collaboration between the community service team from the University and the government can made the FGD comprehensive by dissecting it from a scientific, regulatory and practical perspective. It is hoped that the involvement of educational institutions between the two countries (Indonesia and Timor Leste) can provide more understanding to the citizens of the two countries who carry out international trade.



Fig 4. Explanation of the Indonesian Embassy in Timor Leste regarding international trade rules

In the FGD, material was also provided regarding the basis for determining selling prices for the products being sold. One of the basics for determining product selling prices is using a cost-based product pricing method. This method of setting the selling price can cover the costs incurred and allow the seller to make a profit. With this method, sellers need to calculate the total costs.



Fig 5. PLBN Wini's explanation of government regulations regarding international trade

The costs in question include variable costs, which change with the level of production or sales, and fixed costs, which remain constant regardless of output. Variable costs can include raw materials, labor, and production costs, while fixed costs usually include rent, utilities, and equipment costs. By understanding and accounting for all of these costs, market participants can determine what price to set for a product or service to cover them. After determining the total cost, the seller can add a profit margin to determine the selling price. Profit margin is the amount of money the seller is willing to make as a return on investment. It is important to consider factors such as market demand, competition, and customer perception when setting profit margins (Sabijono, 2014).



Fig 6. Traders and buyers involved in activities

This was confirmed by Soei, Subijono and Runtu (2014) who stated that the Cost Plus Pricing Method is a method in the form of a company approach, to be able to determine the selling price of a unified product where this selling price can cover all costs and produce the level of return on investment that the Company desires. Kotler and Keller (2009:138) state that the objectives of pricing are: 1. Survival 2. Maximum current profit 3. Maximum current income 4. Maximum sales growth 5. Maximum market skimming 6. Product quality leadership. Understanding price setting is important for market players to carry out business that brings profits as per business goals, rather than causing losses. With the right business processes, market players can gain profits to expand their business.



Fig 7. Traders and buyers involved in activities

III. CONCLUSION

International trade involves citizens between two countries. However, the use of currency during international trade must be in accordance with the currency of the place where the transaction is carried out. All transactions involving foreign nationals and occurring in Indonesia are required to use rupiah currency in accordance with Bank Indonesia Regulation Number 17/3/PBI/2015 which regulates the Obligation to Use Rupiah in the Territory of the Unitary State of the Republic of Indonesia. Furthermore, in order for business in border markets to generate profits, market players must understand the exchange rate. Exchanging foreign money must be at a legal money changer, not at an illegal money changer. Understanding product selling prices is also an important factor so that transactions in border markets bring benefits to all parties.

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