Political Economy of the Indonesian Sugar Market

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Declaration

I certify that the substance of this thesis has not already been submitted for any degree and is not currently being submitted for any other degree or qualification.

I certify that any help received in preparing this thesis, and all sources, have been acknowledged in this thesis.

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Abstract

The objective of this study was to develop a political economy framework to explain policies in the Indonesian sugar market. The study investigated government intervention in the sugar market and made an attempt to explain why the policies were in place.

The method was traced from the economic theory of regulation and special emphasis was given to the Political Preference Function (PPF) framework. The PPF acted as a governing function or a criterion for government policy decision making. With regard to this framework, the participants in the sugar market were disaggregated into three main players, producers, consumers and government. The study focused on the analysis of political weights embodied in the PPF framework.

The PPF framework in the study was applied by developing an empirical model capturing political and economic markets. The policies were evaluated in terms of their efficiency. Following the political economy framework, this study investigated policy efficiency in both political markets (demand side) and economic markets (supply side). This approach was also used to show that reform in agricultural policy can only be evaluated with the existence of the PPF.

Results of maximising the objective function revealed that the policymakers give the highest weight to the government itself. This implied that there was government self interest in the policy decision making. The analysis showed that the policy objective of supporting producers was achieved at a cost to consumers, while at the same time the government took revenue from the policy.

With regard to the optimal policy, the study revealed that producer price and consumer price policy was found to be quite efficient; on average it was 0.9 during the period of the study. This means only 10 per cent of wealth are wasted for every unit of wealth transferred between the groups.

In regard to the alternative policy, the study showed that setting producer price and consumer price was more efficient than applying import quota. It confirmed the claim made by Bulog that it treated import as a residual, only to fill the gap between domestic production and consumption.

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I am alone responsible for any deficiencies and omissions in the thesis.