ABSTRACT


Sugar industry is among the most developed agricultural industry in Indonesia but is highly regulated by the government. As regulations create economic rents, many interested parties compete for the rents and involve in rent seeking activities. This paper aims at estimating the economic rents in Indonesia sugar industry and measuring the potential social costs of rent seeking since rents are dissipated through rent seeking activities. In addition, it also tests the relationship between producers’ political lobby on self sufficiency rate and the size of rent obtained. Results show that during 2003-2009 protection on sugar industry has created Dead Weight Loss and the economic rent consecutively as large as Rp. 29 billion and Rp. 6.9 trillion annually. Moreover most of the rent went to the government/state (32.7%) and the rest were collected by importers (20.5%), private sugar mills (16.1%), and local traders (15.3%). Ironically sugar cane farmers only receive 15.4 % of the rents. Since rents were dissipated through rent seeking activities, the social cost of sugar protection would be Rp. 7.1 trillion per annum or approximately 34.41 percent of the value of sugar consumption that achieved Rp. 20.8 trillion. Furthermore, the results indicate that these welfare losses are positively associated with producers’ political lobby/pressure and negatively related to self sufficiency rate. Consequently, in order to minimize rent seeking activities the government should not concentrate on pursuing self sufficiency but rather on removing inefficiencies in sugar industry especially those operating in Java. Without that self sufficiency is simply becoming an arena for rent seeking activities.

Key words: sugar, rent seeking, self sufficiency, lobby.