



## Institutionalized Rent-Seeking: The Case of Sugar Imports at the Indonesia-Malaysia Land Border

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### A B S T R A C T

This article explored the rent-seeking phenomenon in sugar imports at the Indonesia-Malaysia land border. The rent-seeking phenomenon in sugar imports involves many actors interested in importing sugar for business purposes. This study is intriguing because many actors conduct rent-seeking through regulatory loopholes controlled by the bureaucracy on the border of the two countries. Therefore, this study focused on the actor's strategy to realise sugar imports through rent-seeking practices. This article applied the Rational Choice Institutionalism (RCI) theory as an analytical framework. Using a qualitative phenomenological approach in data collection, this article found that sugar imports for business purposes involve two networks of interest groups, namely communal networks and associational networks. These interest group networks import sugar for business purposes through rent-seeking practices. As a form of actor's choice of action, rent-seeking is a strategy in responding to obstacles and incentives from formal institutions to maximise profits from the reality of the gap in the sugar trade at the border. The variations in the strategies of interest actors in the two sugar import periods (2011-2014 and 2015-2018) have shown that rent-seeking is a form of a rational choice institution created within an institutional framework. This investigation suggests a review of the formal institutional structure, which is the rule of the game in sugar imports because reality demonstrates that formal institutional structures can become an arena of rent-seeking that interest actors exploit.

### INTRODUCTION

Rent-seeking is a concept first introduced by Krueger in 1974 in his writings which explained the practice of obtaining import quotas in international trading activities (Tollison, 2012). In the political economy literature, rent-seeking is not interpreted neutrally because the tendency of rent-seeking behaviour is negative behaviour (Dasgupta, 1997; Hessami, 2014; Li et al., 2022). The assumption is that every interest actor seeks to obtain maximum economic benefits but is performed in an uncompetitive manner. At this point, all political economy resources owned were mobilised to achieve this goal (Yustika, 2013). The main problem is that if the product used to gain profit is in the form of a policy that concerns the public interest, the implications will be enormous. Moreover, (Rachbani, 2006) also elucidates that rent-seeking behaviour in political economy must be distinguished from profit-seeking behaviour in business ventures. In a healthy business, companies produce value and gain mutually beneficial transactions. However, in seeking economic rents, business actors (business people) invite power or influence power to take from a value that is not compensated. Bhagwati & Srinivasan (1980) defined their behaviour as either directly unproductive profit-seeking or by Angeletos & Kollintzas (2000) as unproductive entrepreneurs.

Based on the explanation above, the rent-seeking terminology utilised in this article is terminology in the political economy literature. It refers to cases of sugar imports that occurred during the 2011-2018 period on the formal Entikong-Tebedu route, which is in the land border area of Indonesia-Sarawak Malaysia. Sugar imports performed by interest actors in the Entikong-Tebedu formal route are part of small-scale cross-border trade activities guided by the provisions of the 1970 Border Trade Agreement (BTA) agreement agreed upon by the governments of

Indonesia and Malaysia (Widodo, 2016; Elyta, 2017). The BTA agreement has provided privileges for border communities in Indonesia in obtaining imported products from Malaysia, i.e. the provision of an import quota of 600 Malaysian Ringgit and the exemption of import duties on the import quota. These provisions only apply if the imported goods employ KILB documents (Cross Border Identity Cards). However, it turns out that the privileges received by border communities are often misapplied by interest actors (business people) to import sugar in large quantities as a business commodity and to illegally trade these imported products outside the border area (Ombudsman Kalbar, 2017). It violates the game's rules in the 1970 BTA agreement, which only authorised products from cross-border trade to be used for household consumption and could only distribute in border areas.

Data from the study of the Ombudsman of West Kalimantan (Ombudsman Kalbar, 2017) and Entikong Customs and Excise (KPPBC, 2019) showed that sugar is the most abused imported commodity by border communities because it has a better economic value than local sugar sold in the market. Interest actors executed the entry of imported sugar from Malaysia for commercial purposes through rent-seeking practices by exploiting loopholes or weaknesses in regulations that apply in the formal Entikong-Tebedu route. Interest actors (entrepreneurs) desire to lease KILB documents (Cross Border Identity Cards) belonging to border communities in order to facilitate imports through formal channels (Sunandar, A, 2012; Lay, 2015; Elyta, 2017).

The phenomenon of rent-seeking in sugar imports is interesting to discuss because each actor involved certainly has different goals with a resource base that is also different from one another. Thus, the question is how the actor's strategy is to realise

sugar imports through rent-seeking practices during the import period from 2011-2018. Also, investigating the rent-seeking phenomenon becomes interesting when interest actors create rent-seeking through formal regulatory loopholes. This condition shows efforts to seek rent within an institutional framework. According to Parker (2011), rent-seeking in a policy context can be comprehended as entrepreneurs attempting to fulfil an interest by acquiring convenience from regulations set by the government.

Therefore, to explain how the strategy of interest actors realises rent-seeking practices in sugar imports, this study employed the rational choice institutionalism (RCI) approach as an analytical framework. The reason for using the RCI approach as an analytical framework is that the practice of rent-seeking that occurs in the import of sugar in the formal Entikong-Tebedu route is a manifestation of the pathology of public policy implementation, which is influenced by the interests of actors and institutional structures. As a product of public policy, import regulation is a formal institution with a structure to regulate and control the behaviour of actors in cross-border trade. Thus, the actor's choice of action in rent-seeking practices is a form of actor rationality responding to formal institutional structures.

In RCI theory, the basic assumptions of the rational choice theory are still employed, primarily in the nature or characteristics of actors who tend to be selfish, rational, profit-maximising, and always oriented towards achieving interests (Diermeier, 2015). Transformation occurs when rational choice theory meets old institutional theory emphasizing the significance of regulation and organization in controlling actor actions. By combining these two theories, RCI focuses on internal processes in interactions between actors and the institutions that encompass them (endogenous relationships). The analysis strategy of this approach is to identify a two-way process simultaneously, where the first direction focuses on the role of institutions in controlling actor behaviour, and the second direction focuses on the responses of actors who seek to use institutions to realize their interests (March, & Olsen, 1984; Putera & Sanusi, 2019). Therefore, RCI is an approach that combines the two theories into a more concrete theory in explaining the actor's choice of action (Fürstenberg, 2016).

The RCI theory also views that individual rationality is not defined as perfect rationality because no single actor can achieve perfection. It is because the information received by the actor as an individual is limited, as well as the actor's cognitive capacity, which is also limited. Rationality in the RCI approach is a decision-making process based on cost-benefit calculations rather than intuition or other irrational considerations (Ingram & Clay, 2000). This explanation concludes that rationality in the RCI approach is rationality that is directly and deliberately used as a reference in action; thus, rationality is a strategy employed to achieve specific goals by making the best possible use of the rules of the game in the policy arena (Bara & Pennington, 2008; Putera & Sanusi, 2019).

Based on a literature search, studies that mainly address rent-seeking in the context of international trade in Indonesia have been conducted by several previous researchers, such as Riawanti, dkk (2015) on rice imports by the Government of Indonesia and Soemarinda, dkk (2019) on oil imports by Petral. Both studies were examined using a political economy approach. Meanwhile, this study uses a neo-institutionalism approach in examining the problem of sugar imports at the Indonesia-Malaysia land border. Thus, the difference in this study lies in the

approach used in examining rent-seeking issues in the context of international trade. The Neo-Institutionalism approach in this study uses the analytical framework of the Rational Choice Institutionalism (RCI) theory.

By using the theory of rational choice institutionalism as an analytical framework, this study digs deeper into how interest actors' strategy realises the rent-seeking practice in sugar imports on the formal Entikong-Tebedu route (Indonesia-Malaysia border). Specifically, RCI is a theory that explains how institutions affect actors' behaviour as rational individuals through barriers, restrictions, and incentives created through standard rules of the game (formal institutions) and how actors as rational individuals use these institutions to maximize profit or utility. The purpose of this study is to explain the choice of actors' actions in responding to the existence of formal institutions that affect their interests.

## METHOD

This study applied a qualitative approach through a phenomenological research strategy (Creswell, 2012). The phenomenological strategy in data collection relies more on in-depth interviews with key informants as rent-seeking actors and informants outside of rent-seeking actors. The informants were chosen by using purposive sampling and snowball sampling techniques. The informants in this study consisted of two small entrepreneurs, two medium entrepreneurs, two apparatus in the Entikong formal channel, four border community members who owned KILB, two brokers (calo), two porters (pengaleng), chairman of the border trader's association and frontier community leaders. The interviews aimed to gather information and experience from the informants involved and informants who were aware of the rent-seeking phenomenon in the 2011-2018 sugar import period on the formal Entikong-Tebedu route. To strengthen the interview data, data collection was also performed on other secondary data such as books, journals, institutional data, and online media.

Moreover, this research focused on rent-seeking activities that occurred in the two periods of sugar imports in the formal Entikong-Tebedu channel, namely in the period 2011-2014 (the era easing of sugar imports) and 2015-2018 (the era of tightening sugar imports). The rent-seeking activity explored relates to the actor's strategy in realising sugar imports. In this analysis, the study's locus was the Entikong-Tebedu formal route administratively in line 1 (one) of Indonesia's land border with the state of Sarawak, Malaysia. The Entikong formal route is in the Sanggau Regency area (West Kalimantan Province), while the Tebedu formal route is in the Serian Division area (Sarawak Malaysia). The primary reason for choosing the research locus was that the formal Entikong-Tebedu route is a favourite route often used by border communities in the West Kalimantan region to import sugar from the Sarawak region of Malaysia.

Furthermore, the data collected will be analysed employing data analysis techniques from (Neuman, 2006), which begins from the data organising stage, the data processing stage (open coding, axial coding, selective coding), and the data interpretation stage. For the data collected to be valid and credible, triangulation of data sources was applied by re-interviewing different informants with identical questions.

## RESULTS AND DISCUSSION

### *The Context of Imported Sugar Trade Issues*

The emergence of cross-border trading activities carried out through the formal Entikong-Tebedu route is inseparable from the historical process that has shaped it as a centre for commodity exchange transactions (export-import) between Indonesia and Sarawak, Malaysia. It commenced when the Entikong border was in Indonesian territory and designated as the only entrance and exit for the first land border built in Indonesia (Hendro, 2014). Since the opening of the official border that carries out customs, immigration, quarantine, and security (CIQS) functions, the formal route in Entikong-Tebedu has experienced rapid development of various cross-border trading activities. This situation has altered the role of the Entikong border area as the primary gateway for connectivity with Malaysia, which was previously performed traditionally (Kurniadi, 2009).

One of the favourite products mostly imported through the formal Entikong-Tebedu route is sugar (KPPBC, 2019). Commodity import data from the West Kalimantan Ombudsman revealed that sugar is the product that has an enormous import

transaction value for 5 types of products (sugar, shallots, sweetened condensed milk, chicken eggs, and sausages). Border communities imported this product in the 2017 period in Entikong-Tebedu formal channel (Ombudsman Kalbar, 2017). It demonstrates that imported sugar has excellent potential to be commercialised by border communities.

Data from the Trade Office of West Kalimantan Province displays that most of the sugar imported from the Sarawak region of Malaysia through the formal Entikong-Tebedu route originates from Thailand. The packaging of sugar imported by border communities is generally sugar in 50 kg sacks of the refined sugar type. This sugar dominates the market on the border; even local sugar of the white crystalline sugar (GKP) type cannot compete with imported sugar from Sarawak, Malaysia (Dinas Perdagangan Kalbar, 2019). These circumstances indicate a trade gap between local and imported sugar in border markets. Based on the study's results, data were obtained regarding the trade gap between local sugar and imported sugar in border markets in table 1 below.

**Table 1.** The Gap in the Sugar Trade at the Entikong-Tebedu Land Border

Sugar	Imported sugar	Local sugar
Packaging	50 kg	50 kg, 5 kg 2.5 kg, 1 kg
Type of sugar	Rafination sugar	White Crystal Sugar
The origin of sugar	Produced from Thailand	Produced from Java region
Sugar price for each 1 Kg	Rp 5.000- Rp 8.000	Rp 12.000- Rp 15.000-
Availability at Distributors	Huge	Limited
Access to distributor	Tebedu (Sarawak) Distance: 7 Km, Time: 10 Minutes	Pontianak (Kalimantan Barat) Distance: 245 Km, Time: 5 Hours
Freight fees	Cheap	Costly

Source: Primary data, 2022

Table 1 above shows several aspects that indicate a gap in the trade of local sugar and imported sugar at the Entikong-Tebedu land border. The gap is closely related to sugar availability, transaction costs, and the price of sugar. The sugar availability can be seen from the sugar supply to sugar distributors. Then transaction costs can be seen from access to the product and the cost of transporting sugar, while the price of sugar can be viewed from the difference in the price of local sugar products and imported sugar. The table above shows that imported sugar has advantages over local sugar; thus, the potential to make it a commercial product will undoubtedly open up for people on the border. The discrepancy between imported and local sugar trade has ultimately triggered the rise of imported sugar commercialised by border communities to various regions or cities in West Kalimantan (Antique, 2011). Many farmers on the border have switched professions to become distributors of imported sugar products (Detik, 2015). This reality makes imported sugar the most imported product by border residents using the import via the KILB mechanism. In practice, a sugar that is imported using KILB is illegally smuggled in large quantities outside the border area by businessmen (Zaenal, 2014).

### *Institutions in the Context of Sugar Imports in the Entikong-Tebedu Formal Line*

After knowing the problem's context in the imported sugar trade at the border, the next step is identifying which institutions are the basis for regulating sugar imports in the Entikong-Tebedu

formal route. Institutions are policy arenas and interests to be achieved by actors. The actors discover that their interests can be realised only through institutions as the rules of the game. Based on the research results, 3 formal institutions, which are the standard rules of the game in sugar imports, can be described as follows.

First, the Border Trade Agreement (BTA) of 1970, as a form of a bilateral agreement between the governments of Indonesia and Malaysia, is a formal institution that serves as a guide in trade relations for the two countries in the border area. In particular, this institution is the primary foundation for regulating cross-border trading activities on land border routes. The substance of the 1970 BTA contained provisions that border crossers must obey in performing trading activities. It includes limiting the circulation of imported goods only around the line 1 border area (Entikong and Sekayam sub-districts), limiting imported goods only to be used to meet daily needs, and only to consumer goods and household appliances. In order to provide benefits for border communities in carrying out trading activities, BTA 1970 has facilitated border communities by providing an import quota of 600 ringgit/month and providing an exemption from import duties for each import transaction with a maximum value of 600 ringgit/month.

Second, Regulation of the Minister of Finance Number 188/PMK.04/2010. As a form of technical regulation that describes the 1970 BTA, the Minister of Finance Regulation of the Republic of Indonesia has administered rules of the game that border crossers must obey in applying trading activities on border

routes. Technically, this regulation requires using KILB (Cross Border Identity Cards) in cross-border trading activities for every border community, meaning that cross-border trading activities can only be performed using KILB. The advantage of using KILB is that border communities get an import quota of 600 ringgit/month and an exemption from import duties with a maximum transaction value of 600 ringgit per month.

Third, Entikong Customs Technical Policy. As a form of technical arrangement that regulates and controls the flow of goods traffic on the Entikong-Tebedu formal route, the rules of the game that apply follow the provisions of the Customs authority. For imports of goods that enter Indonesia through the Entikong border, technical policies are prescribed by the Entikong Customs Authority. These technical policies of Entikong Customs in the import period of 2011-2014 tended to provide concessions to sugar imports. They can be noticed from the several rules of the game that were enforced, such as facilitating 2 import mechanisms, namely imports via KILB and general imports. Also, these policies provide convenience in making, using, and inspecting imported goods using KILB.

In comparison, the technical policy of Entikong Customs and Excise during the 2015-2018 import period tended to tighten sugar imports. It can be seen from the several rules of the game that are enforced, such as limiting only 1 valid import mechanism. They are imports through the KILB mechanism, limiting the mechanism for making and using the KILB mechanism to import certain products (sugar) and restricting inspection of imported goods using the KILB mechanism through formal channels. The technical policies implemented by Entikong Customs and Excise in the 2015-2018 period were a form of response to the dynamics of imports during the previous import period (2011-2014). In the 2011-2014 import period, many problems were in the public spotlight regarding violations committed by the customs bureaucracy and by passers-by boundaries that utilize formal channels (Firmansyah, 2014; Prabowo, 2014). The policy enforced by Entikong Customs and Excise is a form of policy that protects against the import of goods through formal channels.

**Actors' Strategy to Realize Sugar Imports Through 'Rent-Seeking Practices**

After identifying the formal institutions that form the basis for regulating sugar imports on the Entikong-Tebedu formal route, this study then identified which actors are interested in importing sugar for business purposes through rent-seeking practices during the 2011-2018 import period on the Entikong formal channel. Based on the research results, the main actors who practice rent-seeking in sugar imports for business purposes are small entrepreneurs (traders) and medium entrepreneurs (cukong). These actors have different networks in their endeavors to import through the formal Entikong-Tebedu route during the 2011-2018 import period. The rent-seeking network formed by these actors forms a node in interest groups adopted from (Heywood, 2013), groups in communal networks built by small entrepreneurs and groups in associational networks built by medium entrepreneurs. The network built by these two interest groups involves many supporting actors. Table 2 describes the rent-seeking network in the two interest groups that import sugar for business purposes.

**Table 2. Rent-Seeking Network in Sugar Imports on the Entikong-Tebedu Formal Line.**

Import Period	Community Network	Associational Network
2011-2014	Main actor: Small Entrepreneurs (traders)	Main actor: Middle Entrepreneurs (cukong)
	Supporting actor: Family or Neighbors who have KILB	Supporting actor: 1. Border Communities Owners of KILB 2. Broker (Calo KILB) 3. Officers at the Border
2015-2018	Main actor: Small Entrepreneurs (traders)	Main actor: Middle Entrepreneurs (cukong)
	Supporting actors: 1. Family or Neighbors who have KILB 2. Porter (Pengaleng)	Supporting actors: 1. Broker (Calo KILB) 2. Porter (Pengaleng)

Source: Primary data, 2022

Table 2 shows that the bonds between actors in communal networks are solid because the main actors and supporting actors have personal closeness based on kinship and brotherhood in one community. Rent-seeking networks in communal groups created by small entrepreneurs cover the small-scale imported sugar business, in which imported sugar is only sold directly from small shops around the line 1 area of the border (Entikong and Sekayam Districts). Therefore, the business orientation of small entrepreneurs is to meet the demand for imported sugar for consumption by the local community. Meanwhile, rent-seeking networks in associational groups created by middle entrepreneurs do not have strong ties like communal networks because the middle entrepreneurs do not have family relationships with their supporting actors. Thence, middle entrepreneurs prioritise transactional relationships. Rent-seeking networks in associational groups created by medium-sized entrepreneurs have an enormous scope of imported sugar business than small-scale entrepreneurs. The imported sugar of medium-sized entrepreneurs is marketed wholesale from sugar stockpiling warehouses they own around the line 1 area of the border (Entikong and Sekayam Districts). The study results found that the business clients of these middle-sized entrepreneurs are domiciled outside the line 1 border area, where they have essential food businesses in various cities in the West Kalimantan region.

Through communal and associational networks, actors with business interests in sugar imports seek to practice rent-seeking by exploiting loopholes or weaknesses in regulations that apply in the formal Entikong-Tebedu route. The practice of rent-seeking is a form of actor strategy to realise sugar imports to get around the formal rules of the game that do not accommodate business interests. In the two sugar import periods (2011-2014 and 2015-2018), there were variations in the strategies of interest actors in realising sugar imports. These variations were a

response to the shifts in the rules of the game in formal institutions that regulate sugar imports through formal channels.

In the era easing of sugar imports (2011-2014), rent-seeking practices occurred through the use of two points of the area of regulatory loopholes that apply in the Entikong formal channel, namely through the use of KILB documents and the use of import

regulatory loopholes that do not limit sugar imports. Whereas in the era of tightening imports (2015-2018), rent-seeking practices occurred through the use of three points area of regulatory gaps that apply in the Entikong formal channel, namely through the use of KILB documents, the use of cross-border regulatory loopholes at the border and the use of neutral zones.

**Table 3.** The Strategy of Actors Realising Sugar Imports in the 2011-2014 Period

Actors' Strategy	Community Network	Associational Network
Utilisation of KILB	<ul style="list-style-type: none"> <li>o Entrepreneurs rent KILB owned by family and neighbors directly without intermediaries</li> <li>o Entrepreneurs directly manipulate KILB data during the inspection of goods and documents through formal channels</li> </ul>	<ul style="list-style-type: none"> <li>o Entrepreneurs rent KILB owned by border residents through brokers (KILB Calo).</li> <li>o Entrepreneurs through brokers (KILB Calo) manipulate KILB data during the inspection of goods and documents through formal channels.</li> </ul>
Utilisation of Sugar Import Regulations	<ul style="list-style-type: none"> <li>o Entrepreneurs take advantage of import regulation loopholes in formal channels that do not limit sugar imports within the KILB quota</li> </ul>	<ul style="list-style-type: none"> <li>o Entrepreneurs take advantage of import regulation loopholes in formal channels that do not limit sugar imports within the KILB quota</li> </ul>

Source: Primary data, 2022

**Table 4.** The Strategy of Actors Realising Sugar Imports in the 2015-2018 Period

Actors' Strategy	Community Network	Associational Network
Utilisation of KILB	<ul style="list-style-type: none"> <li>o Entrepreneurs rent KILB owned by family and neighbours directly without intermediaries.</li> <li>o Entrepreneurs request KILB owners to manipulate KILB data during the inspection of goods and documents through formal channels.</li> </ul>	Do not perform
Utilisation of Border-Crossing Regulations	<ul style="list-style-type: none"> <li>o Entrepreneurs take advantage of regulatory loopholes in formal channels that have yet to sterilise border crossers around the border.</li> </ul>	<ul style="list-style-type: none"> <li>o Entrepreneurs take advantage of regulatory loopholes in formal channels that have yet to sterilise border crossers around the border.</li> </ul>
Utilisation of the Neutral Zone	<ul style="list-style-type: none"> <li>o Entrepreneurs take advantage of the neutral zone to get around the rules on a load of goods carried by car.</li> <li>o Entrepreneurs carry out the loading and unloading of goods in the neutral zone.</li> <li>o Entrepreneurs hire Pengaleng services to distribute goods from the neutral zone to the inspection area of KILB and goods at the Entikong border.</li> </ul>	<ul style="list-style-type: none"> <li>o Entrepreneurs take advantage of the neutral zone to avoid using KILB in importing goods.</li> <li>o Entrepreneurs, through Brokers (Calo), carry out the loading and unloading of goods in the neutral zone.</li> <li>o Entrepreneurs through Brokers (Calo) hire Pengaleng services to distribute goods from the neutral zone to informal (illegal) routes on the left and right wings of the neutral zone to Entikong without going through Customs inspection on the Entikong formal route.</li> </ul>

Source: Primary data, 2022

Based on the descriptions in table 4 and table 3 above, there were variations in the actors' actions in importing sugar in the two periods of sugar imports. The variations in the actor's actions are a form of the dynamics of the actor's strategy in realising the import of sugar for business purposes and as a response to changes in the rules of the game in formal institutions imposed by the Entikong Customs Authority.

The emergence of rent-seeking in sugar imports in the Entikong-Tebedu formal route is motivated by business opportunities developed from the gap between the local sugar trade and imported sugar at the border. Imported sugar provides a business potential that can provide benefits if it can be put to good use. However, the rules of the game in the Border Trade Agreement (BTA) of 1970 only legalised the import of commodities for the consumption needs of border communities. They could only circulate in line 1 border areas. The rule of the game does not legalise the import of sugar for business purposes; thus, the interests of entrepreneurs at the border are not legally

accommodated in seizing business opportunities for imported sugar. On the other hand, the rules of the game that applied in the 1970 BTA provided incentives in a trading quota of 600 ringgit and an exemption from import duties for every trading transaction using KILB. This situation creates a significant profit potential if sugar imports can be executed for business purposes using KILB.

In response to these conditions, small businessmen (traders) and medium-sized entrepreneurs (cukong) who have business interests seek to seize these opportunities. One way is to create rent-seeking practices by exploiting regulatory loopholes that apply in formal channels. The choice to engage in rent-seeking practices results from calculations made by actors on the benefits that can be obtained. The study's results found that middle entrepreneurs (cukong) were actors who violated the use of imported sugar to be commercialised outside the border area. It violated the game's rules in the 1970 BTA, which only allowed imported products from the KILB mechanism to circulate in line

1 border areas. The calculations of medium-sized entrepreneurs are rational when viewed from their efforts to get the maximum business profitability. This considerable profit can be obtained when they import sugar in large quantities without paying taxes (import duties) on imported goods and then distribute the imported sugar to various regions in Indonesia. Thus, the profits derived from the imported sugar business will be far greater than those obtained by small entrepreneurs.

On the other hand, rent-seeking, created through exploiting policy gaps that apply in the formal (border) channel, indicates that the bureaucracy in the Entikong formal channel indirectly influences rent-seeking. It can be noticed from the activities of brokers (calo KILB) and porters (pengaleng) who are free to operate in formal channels as intermediaries for the interests of medium-sized entrepreneurs to manage sugar imports. Thus, indirectly the government has created a rent-seeking arena in cross-border trading activities in a formal way. This phenomenon indicates that the bureaucracy at the Entikong border is also interested in importing goods from entrepreneurs.

From the perspective of RCI (March, J.G & Olsen, 1984), the practice of rent-seeking created by actors from small and medium entrepreneurs in the import period 2011-2018 is a form of rational action in maximising profits from the potential of cross-border trade that provides business opportunities. Also, it occurred because of the existence of institutional structures that provide barriers and incentives. The three pillars of formal institutions that form the basis of cross-border trade arrangements not only play a role in setting limits or standards that are permissible or not but also provide opportunities or incentives that actors can utilise to realise their interests. In the 2011-2014 import period, the formal institutions that became the rules of the game in sugar imports tended to provide opportunities or concessions to actors with business interests. Whereas, in the 2015-2018 period, the formal institutions that became the rules of the game in sugar imports tended to provide restrictions or obstacles to actors with business interests. Therefore, formal institutions are one of the leading environmental factors that influence the rationality of actors in determining actions; in this case, the actor chooses to practice rent-seeking as a strategy in responding to the existing rules of the game.

The actor's strategy in conducted rent-seeking practices is a form of individual rationality that seeks to be realistic and pragmatic in maximising material gain. Thus, the rent-seeking practices are considered a framework for rational action. RCI's perspective views that rationality is not defined as perfect rationality because no single actor can achieve that rationality perfection. Access to information obtained by actors and the cognitive capacity of actors is also limited, so rationality in RCI is a decision-making process based on cost-benefit calculations rather than other irrational considerations (Peters, 2012). Rational actors will always use their rationality to achieve specific goals by making the best possible use of the applicable rules of the game (Bara & Pennington, 2008).

The variations in actor strategies in the two sugar import periods (2011-2014 and 2015-2018) have shown that small entrepreneurs (traders) and medium-sized entrepreneurs (cukong) try to keep around the rules of the game that touch their interests. In the context of rent-seeking that occurs in sugar imports in the formal channel, the interests or preferences of actors are manifested into a strategy through the use of KILB, the use of sugar import regulations and cross-borders and the use of neutral zone conditions. These conditions indicate that rent-

seeking as a result of actor rationality includes relations between actors as outlined in the strategy to anticipate game rules that hinder their interests. Thus, rent-seeking is a solution or rational choice to realize the interests of the imported sugar business for entrepreneurs at the border.

This research found a new finding through RCI's analysis of actor strategies in rent-seeking practices. The novel finding is that the actor's choice of action in maximizing economic profits is not only affected by the formal institutional structure but also determined by how large the scope of the actor's interests (business scale). It can be seen from the strategies of the main actors in the two periods of importing sugar, where small and medium entrepreneurs have different strategies in responding to the institutional structure. This difference occurs due to differences in the scale of business run by actors.

## CONCLUSION

The gap in the trade of local sugar and imported sugar at the Indonesia-Malaysia land border) has provided significant business opportunities for entrepreneurs at the border to gain economic benefits. In response to these conditions, with their rationality, entrepreneurs will tend to act pragmatically in addressing the applicable rules of the game. In this case, rent-seeking is a choice of actor actions employed to respond to obstacles and incentives from formal institutions to maximize profits from the reality Gap in the sugar trade at the border. The practice of rent-seeking resulted from an internal process that coincides (endogenous relationship) with the interaction of actors with institutions, where institutions influence the behaviour of actors and actors to respond by utilizing institutions to realize their interests. In addition, the actor's choice of action to practice rent-seeking is also inseparable from the way the actor positions the existence of formal institutions. When formal institutions tend to provide barriers and incentives to actors, the actor will position the institution not only as a rule of the game but also as an aggregate the interests of actors that must be utilised as well as possible.

However, not all actors have the same response in addressing institutions as the rules of the game that influence their interests. The actors have varied rationalities; thus, the resulting actions are also different when there is a change in the rules of the game in formal institutions that regulate sugar imports. The existence of differences in the strategies of actors from interest groups in communal and associational networks in creating rent-seeking practices has shown that the rationality of actors is highly dependent on the scope of the actor's business interests and the institutional structure prevailing in the formal channels. Therefore, this study recommends a review of the formal institutional structure, which is the rule of the game in sugar imports, because reality shows that formal institutional structures can become an arena of rent-seeking exploited by interest actors. These circumstances imply that there are drawbacks to cross-border trade governance.

The limitations of this article are twofold. First, the overall analysis in this research was derived from the perspective of several actors. Thus, the actors' interests are only caught from the perspective of the chosen informants (clients). Therefore, future research needs to examine a more significant number of informants and use mixed methods; thus, generalisations can be made comprehensively. Second, this study captures the rent-seeking phenomenon in sugar imports in the formal Entikong-Tebedu route, mainly in areas on the Entikong border and the

neutral zone. Thus, future studies need to examine a specific picture of the rent-seeking phenomenon in the Tebedu border (Malaysia).

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