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Policy Neutralisation and Market Constraints: A Political Economy Analysis of How Liberalisation Fails Private Universities in Indonesia

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ABSTRACT

This study provides a political economy analysis of how higher education liberalisation fails private universities in Indonesia through policy neutralisation and market constraints. Using path analysis, we conducted a census of 20 private universities in Sukabumi, with 60 respondents, to investigate the direct and mediated effects of liberalisation policies on economic performance through student enrolment. Our findings reveal that liberalisation policies have no significant effects on either economic performance or student enrollment, accounting for only 6.7% of enrollment variance. In contrast, student enrollment shows a robust positive relationship with economic performance, accounting for over 50% of institutional performance variance. These results demonstrate how market constraints – demographic limitations, competitive saturation, and resource scarcity – systematically neutralise the benefits of liberalisation for private universities. The absence of liberalisation effects contradicts neoliberal theoretical expectations, while the strong enrollment-performance linkage confirms resource dependence in tuition-dependent models. Our political economy analysis reveals that state policy advantages for public universities create asymmetric competition that undermines private institutions. The study demonstrates how market constraints generate policy-neutralisation effects, necessitating direct enrolment support mechanisms rather than market-oriented reforms for sustainable private university development in constrained contexts.

Keywords: *Indonesia; Liberalisation Failure; Market Constraints; Political Economy; Policy Neutralisation; Private Universities*

1. Introduction

The liberalisation of Indonesian higher education since 1998 represents a pivotal shift away from centralised state control toward institutional autonomy and market mechanisms facilitating competition and operational flexibility (Suryomenggolo, 2020). This transformation, embedded within the broader autonomy policy framework, sought to infuse higher education governance with competitive mechanisms, institutional flexibility, and operational efficiency. The liberalisation process has evolved through various regulatory frameworks, including the State-Owned Legal Entity (BHMN) status for state universities, the Independent Campus policy (Kampus Merdeka), and ongoing discussions on the National Education System Draft Law (RUU Sisdiknas) (IndoProgress, 2023). Notably, the liberalisation entailed granting universities substantial managerial autonomy, enabling them to set tuition fees, design curricula, and adopt market mechanisms aligned with neoliberal governance paradigms (McClure, 2020). Such changes reflect a global trend toward higher education marketisation, aimed at increasing institutional responsiveness, efficiency, and diversity.

However, these reforms have disproportionately affected private universities, particularly those categorised as small to medium-sized institutions. Unlike large or state-funded universities, which often enjoy diverse funding sources and established reputations, smaller private institutions in Indonesia grapple with intensified competitive pressures without the equivalent resource buffers (Marginson et al., 2022). The Indonesian context further complicates these pressures due to pronounced regional disparities; institutions outside metropolitan centres operate in constrained environments marked by limited student populations, weaker economic bases, and generally fewer infrastructural supports (Yusuf, 2022). These constraints undermine the efficacy of liberalisation, which presumes an expanding market and capacity for competition.

Small to medium-sized private universities (PTS), particularly those located in resource-constrained regional markets such as Sukabumi city, have faced profound challenges. Sukabumi exemplifies an intensely saturated market in which 21 private universities compete for an annual cohort of approximately 7,000 high school graduates, creating fierce competition for student enrollment and straining economic sustainability. With roughly 7,000 high school graduates annually, the student base is insufficient to sustain the city's densely populated market of 21 private universities. The demographic constraint severely limits enrollment growth opportunities, fostering zero-sum competition that disproportionately disadvantages smaller institutions.

Concurrent expansion of state universities, endowed with State-Owned Legal Entity (BHMN) status enabling competitive tuition and operational independence, exacerbates this landscape by diminishing the private institutions' market share (Suryomenggolo, 2020). The BHMN framework endows state institutions with operational independence and commercial flexibility, often enabling them to set competitive tuition fees and expand branch campuses in regional areas, thereby challenging private universities' market positioning. Concurrently, initiatives such as the Independent Campus policy (Kampus Merdeka) facilitate student mobility across institutions, undermining the revenue stability traditionally reliant on exclusive enrollment in private universities (Jesudason et al., 2018).

This competitive saturation, compounded by the expansion of state university presence, including new branch campuses, creates a challenging operational milieu for private universities in Sukabumi (Ahmad, 2021). Institutional data from 2019 to 2022 reveal enrollment declines of 15-30% at 14 of 21 universities, and budget deficits exceeding 20% of operational costs at eight institutions (BPS Kota Sukabumi, 2023). These trends mirror national patterns, in

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which over 500 private universities ceased operations between 1998 and 2021, primarily among small- and medium-sized providers unable to adapt to intensified market competition (Suryomenggolo, 2020).

This research aims to systematically assess whether liberalisation policies affect economic performance directly or indirectly, through student enrolment as a mediating factor, in Sukabumi's private higher education context. The study employs a political economy perspective to enrich the analysis, probing how state-market relations, power asymmetries, and institutional resource dependencies shape policy outcomes. Situating the liberalisation discourse within political economy elucidates the mechanisms by which policy neutralisation arises, explaining the limitations of reform efficacy in developing-country regional contexts often neglected by market-efficiency paradigms.

Higher education liberalisation is deeply embedded in the political economy nexus, intertwining state-market relations, institutional governance, and struggles over resource allocation. Situating the Indonesian reform experience within this broader framework enables a deeper understanding beyond surface-level policy effects. Marketisation of education, while often heralded for promising efficiency and innovation, also invokes tensions around public responsibility, equity, and institutional survival under resource scarcity.

Economic sustainability for private universities is contingent not merely on market forces but on complex interactions involving state policies, funding mechanisms, and socio-political power relations. In constrained regions, institutions adopt adaptation strategies that can neutralise policy intentions—a phenomenon termed "policy neutralisation"—reflecting institutional resistance or reconfiguration in response to structural constraints and competitive dynamics. This process reveals how political-economic tensions manifest: where market-oriented policies designed for expansionary, resource-rich contexts falter amid limited enrollment pools and regional socioeconomic challenges.

Financial vulnerability among private universities nationwide further underscores the urgency of context-sensitive investigations. Ministry of Education and Culture data indicate that only 7% of approximately 4,500 private universities attain financial independence, with the majority being either moderately healthy or financially precarious (Marginson et al., 2022). Hence, Sukabumi presents a microcosm that captures critical themes of market saturation, diminished student inflows, and institutional fragility, rendering it an ideal empirical setting for examining the localised impacts of liberalisation on economic sustainability.

2. Literature Review

2.1. Conceptual Foundations: Liberalisation, Privatisation, and Marketisation

Liberalisation in the higher education context refers to policy measures that reduce governmental regulation and expand institutional autonomy, aimed at injecting market-like dynamics of competition and choice (Fryar, 2012). Privatisation extends this concept to involve greater private sector ownership, management, and funding participation. Marketisation promotes efficiency, consumer choice, and competitive pressures but raises enduring concerns regarding quality assurance, equity, and public accountability (McClure, 2020).

Privatisation in higher education is a multifaceted process that entails shifting ownership, management, and financing from public control to private-sector involvement. Liberalisation specifically refers to the reduction of governmental regulatory oversight to facilitate market mechanisms, competition, and institutional autonomy. Marketisation, as an ideological and policy trend, operationalises these concepts by fostering competition, efficiency, choice, and flexibility, which are seen as drivers of quality and innovation.

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These dynamics reflect global trends observed in contexts such as China, Brazil, and India, where rapid private-sector expansion complements policy liberalisation but introduces governance and quality tensions (Qureshi & Khawaja, 2021; Shree, 2023; Wu & Zha, 2017). Globally, liberalisation and privatisation have spurred the rapid expansion of private higher education sectors, especially in countries with constrained public capacity. India, Brazil, and China exemplify contexts where market-oriented policies have led to increased private institutions and student enrollment (Tilak, 2024). However, these processes introduce risks such as commercialisation, unequal access, and quality disparities, raising equity and governance concerns (Kotzmann, 2018). The literature emphasises that while liberalisation can enhance choice and efficiency, it may simultaneously erode public accountability and reinforce socioeconomic inequalities if left unchecked.

Importantly, contextual differences dictate reform outcomes. Expansionary economies with growing middle classes often see positive feedback loops where marketisation stimulates demand and institutional growth. In contrast, developing regions with constrained economic and demographic conditions may experience intensification of competition without market expansion, leading to adverse outcomes for vulnerable institutions. These divergent trajectories underscore the necessity of nuanced perspectives accounting for local conditions when evaluating privatisation impacts.

2.2. Economic Performance and the Crucial Role of Student Enrollment

Sustainability in private higher education is inexorably tied to economic performance metrics focused on financial health, including revenue adequacy and cost management (Baum & McPherson, 2023). Economic sustainability in higher education is commonly assessed through indicators encompassing financial health, enrollment trends, and diversification of revenue streams (Toutkoushian & Paulsen, 2016). Notably, student enrollment is a critical determinant of economic viability, given the predominant tuition-based funding models in private universities (Cheben et al., 2020). Enrollment emerges as the principal determinant of financial viability, given prevailing funding models tied to tuition fees and student numbers. Financial independence represents a critical benchmark, though many institutions maintain moderate or vulnerable statuses reliant on external support or susceptible to market fluctuations.

Enrollment expansions generate scale economies and improve financial stability, yet dependency on fluctuating student numbers accentuates vulnerability in saturated or declining markets (Goksu & Goksu, 2015). Balancing economic viability with academic quality remains a persistent challenge, especially where resource limitations constrain investments in faculty, research, and infrastructure (Leiber, 2019). Institutions must navigate between achieving sufficient enrollment to ensure operational sustainability and maintaining reputational standards essential to competitiveness.

Strategies for revenue diversification, such as research grants and industry collaboration, are underutilised but increasingly advocated for robust economic sustainability (Navas et al., 2020). Diversification of funding sources, including external research grants and industry partnerships, is advocated to mitigate overreliance on tuition-based income. Governance capacity and institutional management effectiveness serve as key mediators in sustaining economic performance (Volchik & Maslyukova, 2017). Capacity development initiatives that enhance adaptability, resource optimisation, and stakeholder engagement are vital amidst increasing market competition and regulatory complexity.

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2.3. Path Analysis Model: Liberalisation, Enrollment, and Economic Performance

This study adopts a theoretical model in which liberalisation (X) is hypothesised to exert a direct effect on economic performance (Y) and an indirect effect through student enrollment (Z) as a mediator. The theoretical model underpinning this study is predicated on the hypothesised relationships among higher education liberalisation (X), student enrollment (Z), and economic performance (Y), with student enrollment functioning as a mediating variable.

The liberalisation-enrollment pathway is posited on the premise that policy-driven institutional autonomy unlocks curricular flexibility and service improvements, potentially attracting greater student numbers. While liberalisation aims to enhance institutional autonomy and curricular innovation to attract students, intensified competition, notably from state universities with pricing advantages, complicates this relationship. Conversely, intensified competition from state actors may diminish private university appeal, complicating the relationship.

The enrollment-economic performance linkage is theorised as positive and substantial, reflecting tuition revenue dependency and economies of scale effects, where increased enrollment amplifies financial resources and institutional visibility. The direct effect of liberalisation on economic performance embodies market mechanism influences, such as operational efficiencies and the attraction of private investment. However, competitive pressures may counterbalance such gains.

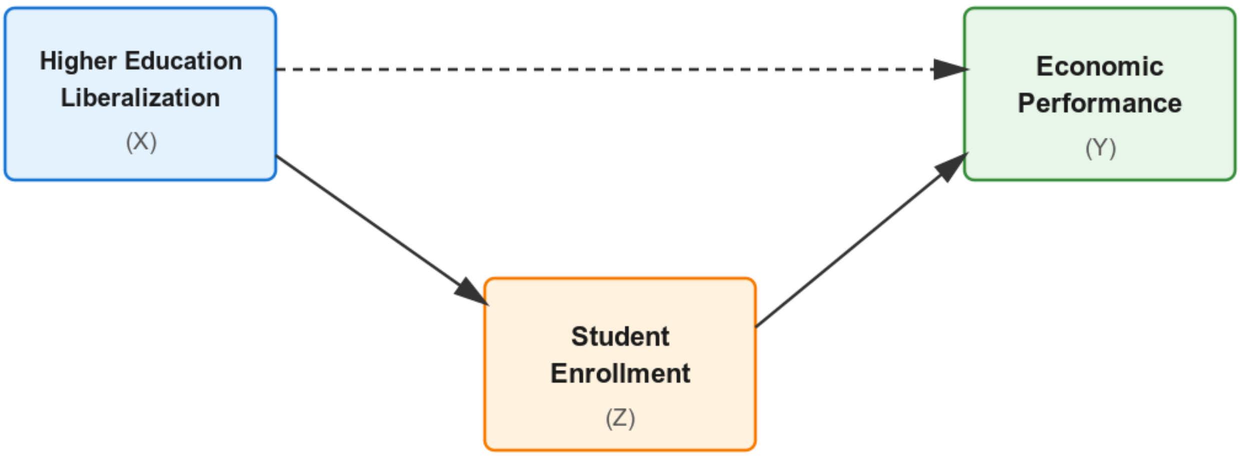

Figure 1. Path Analysis Model

Path analysis *provides a robust framework for dissecting* these complex causal networks, which conventional univariate analyses may obscure (Leohlin, 2004). This path analysis framework enables *the simultaneous assessment of direct and indirect effects, facilitating an understanding of complex relational dynamics that are* often obscured in univariate analyses (Streiner, 2005). The mediation analysis approach is particularly suited to disentangle how state policies translate, or fail to translate, into tangible institutional outcomes, acknowledging nuanced causal pathways instrumental for informed policy formulation.

3. Research Methodology

3.1. Sampling and Data Collection Strategy

The research employs a complete census of all 20 accredited private universities in Sukabumi to ensure exhaustive regional coverage, addressing typical small-sample path analysis challenges through bootstrapping and robust estimation techniques (Snedecor &

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Cochran, 1967). This study employs a complete census sampling of all 20 accredited private universities within Sukabumi, Indonesia, ensuring exhaustive coverage of the regional institutional landscape (PDDikti, 2023). While the sample size falls below conventional minimums for path analysis (typically 30-50 units), the comprehensive approach obviates traditional sampling errors and delivers full population representation.

To address methodological challenges inherent in small samples, the study incorporates bootstrap resampling and robust estimation procedures, and prioritises effect-size interpretation over mere significance testing to enhance inferential validity. Triangulated data from 60 respondents across academic affairs, finance, and student services provide composite institutional measures, minimising single-source biases and enhancing variable construct validity. Data collection involves multiple informants per institution—representatives from academic affairs, financial offices, and student services—resulting in sixty respondents whose triangulated input constructs a composite institutional data point. This methodological triangulation reduces single-source bias and enhances variable coverage, thereby strengthening data reliability and representativeness. The focus on institutional composites rather than individual responses aligns with the unit-of-analysis clarification, emphasising macro-institutional rather than micro-individual phenomena.

3.2. Measurement Instruments

Instrumentation underwent rigorous piloting with 15 respondents to assess scale reliability and validity prior to data collection. Measurement of liberalisation (X), economic performance (Y), and student enrollment (Z) utilised established scales adapted from prior research, ensuring construct validity.

The variables were operationalised as follows: (1) Liberalisation (X): Quantified through a 23-item Likert-scale encompassing program diversification, competition, autonomy, accountability, and market mechanisms per established scales; (2) Student Enrollment (Z): Measured via official institutional enrollment data per academic year; and (3) Economic Performance (Y): Captured using 23 indicators aligned with Global Reporting Initiative (GRI) standards, including direct economic value and financial assistance received.

Construct validity metrics showed robust correlations exceeding critical thresholds across all items, with liberalisation and economic performance scales demonstrating excellent internal consistency (Cronbach's alpha > 0.9). Reliability analyses reveal excellent internal consistency for liberalisation ($\alpha = 0.923$) and economic performance ($\alpha = 0.914$). The student enrollment scale shows acceptable reliability ($\alpha = 0.728$), indicating cautious but sufficient measurement confidence.

The self-assessed nature of the liberalisation variable introduces inherent challenges due to potential subjectivity and incomplete capture of the policy dimension. However, alignment with established operational definitions, multi-informant triangulation, and strong reliability coefficients mitigate concerns about measurement error, supporting data credibility.

3.3. Analytical Procedures and Statistical Assumption Testing

Prior to path analysis, the data met the classical regression assumptions critical to model integrity. All classical linear regression assumptions—normality via Kolmogorov-Smirnov test ($p = 0.200$), absence of multicollinearity (VIF < 1.1), and homoscedasticity via Glejser test (p-values > 0.1)—are satisfied, ensuring the validity of regression and path analyses. Normality tests confirmed appropriate residual distributions facilitating parametric inference.

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Multicollinearity diagnostics revealed tolerance values above 0.10 and variance inflation factors below 2, indicating negligible intercorrelation among predictors. Heteroscedasticity testing further established the residuals' constant variance, thereby upholding the homoscedasticity assumptions vital for unbiased coefficient estimates.

The small sample size is addressed by emphasizing effect sizes and bootstrapped confidence interval estimates. The path model was specified based on theoretically hypothesised pathways. Estimation employed regression-based techniques with bootstrapped standard errors, enhancing robustness to sample-size limitations. Model fit was evaluated using R-square statistics and overall regression model significance, thereby balancing statistical rigour with practical interpretability.

4. Results and Discussion

4.1. Liberalisation's Non-Significant Role in Enrollment and Economic Performance

The regression analysis reveals that liberalisation policies do not significantly predict student enrollment ($\beta = 0.259$, $t = 1.137$, $p = 0.270 > 0.05$). The model explains only 6.7% of the variance in student enrollment ($R^2 = 0.067$), indicating weak explanatory power.

Table 1. Regression Results – Model 1 (X → Z)

Predictor	B	SE	β	t	p	95% CI
Constant	−4.279	24.633	—	−0.174	0.864	[−55.45, 46.89]
Liberalisation	0.276	0.243	0.259	1.137	0.270	[−0.237, 0.789]

Note. $R^2 = 0.067$; Adjusted $R^2 = 0.015$; $F(1, 18) = 1.293$; $p = 0.270$.

The simultaneous regression analysis demonstrates that student enrollment significantly predicts economic performance ($\beta = 0.716$, $t = 3.948$, $p = 0.001$), while liberalisation shows a non-significant negative direct effect ($\beta = -0.194$, $t = -1.067$, $p = 0.301$).

Table 2. Multiple Regression Results – Model 2 (X, Z → Y)

Predictor	B	SE	β	t	P	95% CI	VIF
Constant	48.641	21.323	—	2.281	0.036	[3.65, 93.63]	—
Liberalisation	−0.232	0.217	−0.194	−1.067	0.301	[−0.690, 0.226]	1.072
Enrollment	0.805	0.204	0.716	3.948	0.001	[0.375, 1.235]	1.072

Note. $R^2 = 0.478$; Adjusted $R^2 = 0.417$; $F(2, 17) = 7.795$; $p = 0.004$.

The low proportion of variance explained in enrollment (6.7%) and the minimal effect size associated with liberalisation ($f = 0.038–0.071$) indicate that market-oriented policy reforms fail to meaningfully influence institutional student recruitment or financial outcomes within the Sukabumi context. This null finding challenges foundational neoliberal assumptions promoting competition and autonomy as drivers of performance improvement. Instead, it suggests that structural and contextual constraints, such as limited student populations and intensified institutional competition, neutralise the anticipated benefits of liberalisation.

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4.2. Student Enrollment's Predominant Positive Impact on Economic Performance

Contrastingly, student enrollment demonstrates a robust, statistically significant positive impact on economic performance ($\beta = 0.716$, $p < 0.001$), accounting for over 50% of the variance in key financial indicators and yielding a large effect size (Cohen's f = 1.051). Student enrollment significantly predicts economic performance ($\beta = 0.716$, $p < 0.001$), accounting for over 50% of the variance and demonstrating a large effect size (1.051) per Cohen's conventions. This affirms that enrollment is the critical driver of financial sustainability in Sukabumi's private universities.

The direct linkage between enrollment and financial health reflects the tuition-dependent funding model prevalent in Indonesian private universities, in which securing and retaining sufficient student numbers is paramount for operational viability. This resource dependency underscores the vulnerability of private institutions to demographic constraints and market saturation, and the futility of liberalisation efforts in the absence of increased demand.

4.3. Mediation and Policy Neutralisation in Practice

The path decomposition reveals complex mediation dynamics: (a) Direct effect of liberalisation on economic performance: $\beta = -0.194$ (ns); (b) Indirect effect through student enrollment: $\beta = 0.185$ (based on non-significant X→Z path); and (c) Total effect: $\beta = -0.009$ (ns).

Table 3. Path Decomposition of Effects

Pathway	Direct Effect	Indirect Effect	Total Effect
X → Z	0.259	–	0.259
X → Y (direct)	−0.194	–	−0.194
X → Y (via Z)	–	0.185	0.185
X → Y (total)	−0.194	0.185	−0.009
Z → Y	0.716***	–	0.716

Note. ***p < 0.001.

The proposed mediation pathway is more clearly illustrated in **Figure 2**, which visually depicts the relationships among liberalisation (X), student enrollment (Z), and economic performance (Y).

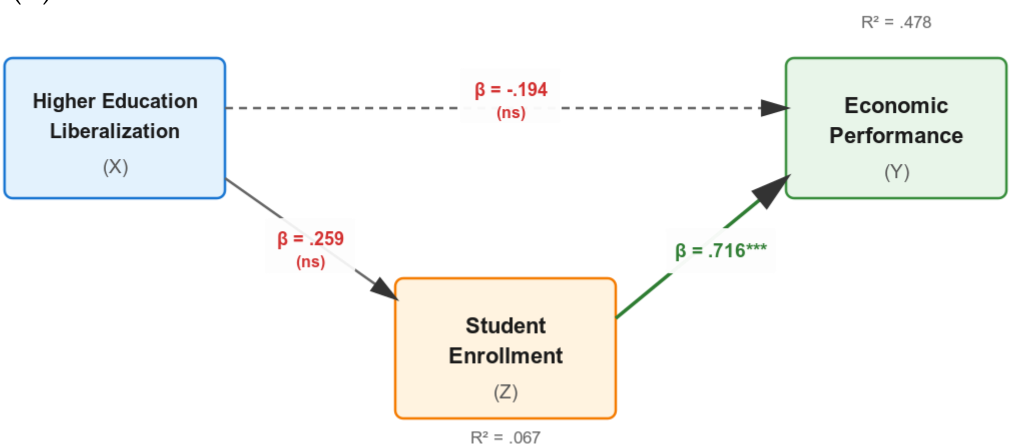

Figure 2. Path Analysis Model with Standardised Coefficients

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Note: Standardised beta coefficients (β) are shown with significance levels. *** $p < 0.001$, ns = not significant. R^2 values represent the variance explained in endogenous variables. The model demonstrates that student enrollment is the primary predictor of economic performance, while liberalisation shows no significant direct or indirect effects.

Indirect liberalisation effects on economic performance mediated via enrollment were positive but statistically insignificant (β = 0.185) due to the weak liberalisation-enrollment path. This reflects the phenomenon of "policy neutralisation," in which institutional adaptive behaviours and the structural constraints of a saturated educational market prevent reform policies from translating into increased enrollment or economic gains.

In this framework, private universities enact strategic responses that offset the imposition of market disciplines, often emphasising enrollment-centric resource acquisition while resisting operational changes demanded by liberalisation. This phenomenon highlights institutional resilience but simultaneously calls into question the efficacy of reforms designed without consideration of entrenched resource dependencies and regional socioeconomic realities.

4.4. Effect Size and Practical Significance

Using Cohen's conventions, only the student enrollment → economic performance relationship demonstrates large practical significance ($f^2 = 1.051$), while liberalisation effects show minimal practical importance (Cohen, 2013).

Table 4. Effect Size Interpretation

Relationship	β	Cohen's f^2	Effect Size	Practical Significance
X → Z	0.259	0.071	Small	Minimal
X → Y (direct)	−0.194	0.038	Small	Minimal
Z → Y	0.716	1.051	Large	Substantial

Note. Effect size classification based on Cohen (1988): small = 0.02, medium = 0.15, large = 0.35.

4.5. Discussion

This study provides compelling empirical evidence that fundamentally challenges neoliberal assumptions underlying Indonesian higher education liberalisation since 1998. The absence of significant relationships between liberalisation policies and both student enrollment (β = 0.259, $p = 0.270$) and economic performance (β = -0.194, $p = 0.301$) directly contradicts market-oriented reform expectations. In contrast, the robust enrollment-performance relationship (β = 0.716, $p < 0.001$) demonstrates that resource availability, rather than market mechanisms, drives institutional sustainability in constrained regional markets.

These findings reveal a critical theoretical tension between market efficiency models and resource dependence theory in higher education contexts. Rather than the anticipated efficiency gains and innovation typically associated with competitive pressures (Marginson et al., 2022), our evidence demonstrates institutional success depends primarily on securing adequate student numbers—the fundamental resource upon which tuition-dependent private universities operate (Cheben et al., 2020). This contradicts foundational assumptions that autonomous, market-driven reforms catalyse performance improvements through competition, suggesting theories must integrate understandings of institutional embeddedness within constrained socioeconomic environments.

From a political economy perspective, the comprehensive failure of liberalisation policies to deliver anticipated benefits can be traced to fundamental misalignment between reform design

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and local market realities. The concept of "policy neutralisation" emerges as a critical theoretical contribution, reflecting how institutional adaptation mechanisms absorb reform pressures, preventing intended outcomes from materialising within constrained environments. In Sukabumi's saturated educational market—20 private universities competing for approximately 7,000 annual high school graduates—liberalisation creates zero-sum competition dynamics rather than the market expansion assumed in policy design.

State universities' preferential treatment through the BHMN (State-Owned Legal Entity) framework creates market distortions that systematically neutralise the benefits of liberalisation for private competitors. These institutions receive operational independence, enabling competitive tuition pricing while maintaining state subsidies, creating an uneven playing field that undermines theoretical assumptions about fair market dynamics (Suryomenggolo, 2020). Additionally, policies like Kampus Merdeka facilitate student mobility across institutions, further undermining revenue stability for private universities (Jesudason et al., 2018).

These findings contrast sharply with successful liberalisation experiences in expanding markets such as China (Wu & Zha, 2017), Brazil (Sampaio, 2015), and India (Tilak, 2024), where growing middle-class populations and rising higher education demand create positive feedback loops. Unlike these expansionary contexts, regional Indonesian markets face structural constraints, including limited secondary education capacity, cultural preferences for public institutions, and restricted employment opportunities that require higher education credentials. These contextual differences explain why market-oriented reforms succeeding in expansionary environments fail to generate benefits in resource-constrained settings.

Our empirical evidence supports critical perspectives on education privatisation, emphasising implementation challenges and contextual constraints (Ball & Youdell, 2007; Verger et al., 2016). The statistical pattern—strong enrollment-performance linkage combined with null liberalisation effects—confirms arguments that developing-country contexts may neutralise liberalisation benefits through institutional adaptation mechanisms and market limitations, challenging the fundamental assumptions underlying reform initiatives.

For private university management, the evidence yields clear strategic imperatives. Given that student enrollment explains over 50% of economic performance variance while liberalisation shows no measurable impact, institutions must fundamentally reorient strategies toward enrollment-centric resource allocation rather than market-oriented operational changes. This entails intensifying recruitment efforts, improving student services, and developing community linkages while prioritising resource optimisation over abstract market mechanisms. Diversification of funding sources, while theoretically advocated (Navas et al., 2020), remains challenging in contexts with limited external research and partnership opportunities.

For policymakers, the comprehensive absence of liberalisation benefits raises fundamental questions about continued emphasis on market-oriented reforms. The statistical evidence suggests that direct enrollment support mechanisms—targeted scholarships, improved secondary education pathways, and regional economic development initiatives—may be more effective than competitive pressures in improving institutional performance. Such interventions acknowledge the real constraints of saturated, resource-limited markets, calling for nuanced, context-dependent governance approaches that balance market principles with regulatory oversight and public responsibility.

The articulation of "policy neutralisation" represents a novel theoretical contribution to policy implementation literature, encapsulating how institutions actively mediate policy effects through resource-focused strategies, bypassing pressures intended to evoke market-driven change. This concept advances understanding of reform failures by explicating processes

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through which policy impacts are structurally constrained, particularly in resource-limited settings. Policy neutralisation positions institutional adaptation not as policy resistance but as a rational response to structural constraints, offering a nuanced understanding of why market-oriented reforms may fail to generate intended outcomes in developing country contexts characterised by resource scarcity and competitive saturation.

The contrast with global liberalisation patterns reveals critical contextual moderators that existing literature often overlooks. While Mok and Jiang documents successful massification in Greater China through market expansion and middle-class growth (Mok & Jiang, 2018), and studies in India and Brazil (Qureshi & Khawaja, 2021; Tilak, 2024) highlight positive outcomes from private sector growth, these contexts benefit from expanding economies with increasing demand for higher education credentials. Our findings align more closely with critical analyses by previous studies (Ball & Youdell, 2007; Verger et al., 2016) regarding hidden privatisation risks, particularly their warnings about market failures in contexts lacking supportive conditions. The Sukabumi case demonstrates how structural constraints—demographic limitations, employment market restrictions, and state policy favouritism—create conditions in which liberalisation not only fails to improve outcomes but may actively undermine institutional sustainability through intensified competition without market growth.

Policy implications extend beyond simple enrollment-focused strategies to fundamental reconsideration of governance frameworks in developing country contexts. Unlike recommendations for market-oriented reforms prevalent in international development discourse, our evidence suggests hybrid governance models incorporating direct state intervention may prove more effective. The failure of liberalisation to generate measurable benefits while enrollment remains paramount indicates that policies should prioritise demand-side interventions—scholarship programs, improvements in secondary education quality, and regional economic development—over supply-side market mechanisms. This challenges World Bank and other international organisation frameworks that emphasise competition and privatisation as universal solutions, suggesting that context-sensitive approaches that acknowledge regional resource constraints and demographic realities are essential for sustainable higher education development.

The mediation analysis reveals positive but non-significant indirect effects ($\beta = 0.185$) through enrollment, highlighting the complexity of policy transmission mechanisms in constrained markets. This pattern suggests that while theoretical pathways for liberalisation benefits exist, structural barriers prevent their realisation—a finding that enriches understanding beyond simple policy success-or-failure narratives. The phenomenon indicates that liberalisation creates potential for enhanced performance through improved institutional autonomy and flexibility, but market saturation and resource limitations neutralise these advantages before they can influence enrollment or economic outcomes. This nuanced finding contributes to political economy literature by demonstrating how policy effects can be simultaneously theoretically sound and empirically nullified by contextual constraints.

Several methodological limitations warrant acknowledgement without diminishing the core contributions. The sample size (N=20), though representing comprehensive coverage of Sukabumi's private university population through census sampling, inherently limits generalizability to broader contexts. The self-reported liberalisation measures pose challenges due to potential response biases and limited understanding of the policy, thereby restricting the comprehensive capture of multifaceted liberalisation dimensions. Despite strong reliability coefficients ($\alpha = 0.923$) and multi-informant triangulation, these limitations mitigate concerns about measurement. Path analysis with small samples, even when augmented by

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bootstrapping, bears limitations in statistical power and model robustness, necessitating cautious interpretation focused on effect sizes rather than significance testing alone.

These results contribute substantively to political economy discourses by demonstrating how state-market relations, power asymmetries, and institutional resource dependencies shape policy outcomes in ways that neutralise intended reform effects. The findings advocate reevaluation of prevailing market-based governance models, proposing context-sensitive frameworks that accommodate structural constraints while promoting equitable access, financial sustainability, and quality assurance suited to regional conditions. Future research should deploy multi-regional, longitudinal designs incorporating qualitative insights to capture nuanced mechanisms of policy neutralisation across heterogeneous contexts, while alternative statistical frameworks such as Bayesian structural equation modelling might offer greater flexibility in small-sample contexts. Comparative international research can inform refined policy frameworks responsive to diverse socioeconomic and political landscapes.

5. Conclusion

This article conclusively demonstrates that higher education liberalisation policies have negligible direct and mediated effects on the economic sustainability of small- to medium-sized private universities in resource-constrained regional markets such as Sukabumi. The study conclusively demonstrates that higher education liberalisation in Indonesia's regional contexts fails to significantly influence student enrollment or economic performance outcomes. Instead, resource availability proxied by enrollment volumes emerges as the paramount economic determinant, revealing a misalignment between market-based reform assumptions and constrained regional market realities.

Student enrollment remains the dominant predictor of economic viability. Policy neutralisation elucidates institutional adaptive responses that blunt reform impacts, challenging neoliberal market efficiency dogmas. These findings contribute substantively to political economy discourses by advancing the "policy neutralisation" concept, emphasising how institutional adaptation impedes reform efficacy and necessitating a paradigmatic shift in understanding higher education reform dynamics in developing countries.

Political economy perspectives highlight the interplay between structural constraints and power dynamics, advocating contextually calibrated policies that embrace direct enrollment support, balanced autonomy, and enhanced governance to foster sustainable higher education ecosystems in developing countries. For private universities, the imperative is clear: prioritise enrollment-centric strategies as the foundation of sustainability. Policymakers must complement liberalisation with direct support mechanisms fostering enrollment growth and economic demand for higher education. Collaborative, context-aware planning involving government, institutions, and communities is essential to designing effective intervention frameworks.

Several methodological constraints affect the validity and generalizability of the results. The small sample size (N=20), while ensuring complete census coverage, limits statistical power and restricts generalizability beyond Sukabumi's specific context—a methodological choice prioritising comprehensive local analysis over broader representativeness. Self-reported liberalisation measures introduce potential response biases despite strong reliability and multi-informant triangulation. The cross-sectional design precludes causal inference, limiting the attribution of performance outcomes to policy effects rather than confounding variables. These limitations collectively suggest that while findings provide compelling evidence of policy

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neutralisation within constrained market contexts, replication across diverse regional settings and longitudinal validation remain essential for broader theoretical confirmation.

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7. Declaration of Conflicting Interests

The authors declare that they have no financial or personal affiliations that could have influenced the research or findings presented in this article.

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