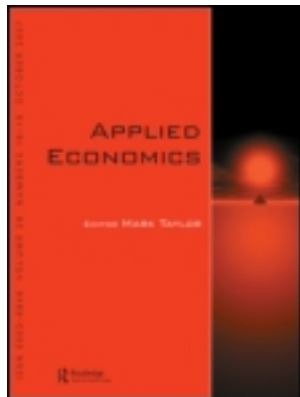


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# Industrial concentration and price-cost margin of the Indonesian food and beverages sector

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This article investigates trends in industrial concentration and its relationship with the price-cost margin in 54 subsectors of the Indonesian food and beverages sector in the period 1995 to 2006. This study uses firm-level survey data provided by the Indonesian Bureau of Central Statistics (BPS), classified at the five-digit International Standard Industrial Classification (ISIC) Level. The results show a significant increase in industrial concentration in 1995 to 1999, which coincided with the period of the economic crisis in Indonesia. After 1999, the industrial concentration exhibits a slightly decreasing long-term trend. Furthermore, the industrial concentration for all subsectors tends to converge to the same value in the long run. Additionally, results show that higher industrial concentration yields a higher price-cost margin. Finally, the introduction of the competition law in 1999 has slightly lowered industrial concentration and the price-cost margin.

**Keywords:** industrial concentration; price-cost margin; competition law; food and beverages sector

**JEL Classification:** D43; L16; K21; C33; L11

## I. Introduction

It is well known that the industrial concentration in almost all the economic sectors of Indonesia is relatively high (Bird, 1999). Some sectors in the industry may have a stable and high industrial concentration because of the barriers to entry for new potential firms. The barriers may be caused by natural conditions, such as economies of scale

moulded by incumbents, or formal regulations, such as exclusive monopolies or business strategy.

One of the industry sectors with a high concentration is the food and beverages sector. Data presented by Bird (1999) showed that almost all the subsectors of the food and beverages sector are highly concentrated. Furthermore, Bird concluded that for some of them, high concentration is particularly persistent.

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