International Economic Journal

ISSN: 1016-8737 (Print) 1743-517X (Online) Journal homepage: http://www.tandfonline.com/loi/riej20

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INTERNATIONAL ECONOMIC JOURNAL, 2016
VOL. 30, NO. 1, 123–146
http://dx.doi.org/10.1080/10168737.2015.1136666

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ABSTRACT

This research investigates trends and conditional convergence of industrial concentration and price-cost margin in 410 subsectors of the Indonesian manufacturing industry. This study uses firm (establishment) level survey data provided by the Indonesian Bureau of Central Statistics (BPS) in the period 1980–2011. The conditional convergence model is employed using four-year intervals. This research finds that the industrial concentration and price-cost margin are relatively high for most of the subsectors. Moreover, the Indonesian manufacturing industry is classified as a tight oligopoly structure. This research also reveals that the industrial concentration and price-cost margin for all subsectors tend to converge to the same value in the long run. The competition law supports the convergence of the industrial concentration and price-cost margin for the subsectors. This research concludes that the higher industrial concentration can create a higher market power in the industry.

ARTICLE HISTORY
Received 14 April 2015
Accepted 2 November 2015

KEYWORDS
Conditional convergence; industrial concentration; price-cost margin; competition law

1. Introduction

The manufacturing industry has the highest contribution to the Indonesian economy. Data from the Bureau of Central Statistics revealed that the industry output contributed about 25% to the Indonesian gross domestic product and 40% to the labor absorption since 2010. In spite of this, previous studies showed that most of the subsectors in the industry were characterized by high industrial concentration and price-cost margin, suggesting low competition between firms and high inefficiency of the firms in the industry (see Bird, 1999; Hill, 1987; Setiawan, Emvalomatis, & Oude Lansink, 2012a,b). This inefficiency may create welfare losses in the Indonesian economy.

The connection between industrial concentration and price-cost margin in Indonesian manufacturing has been rarely investigated. In addition, the study is limited in terms of the period of estimation and the sectors. For example, Hill (1987) only investigated the CR4 (the concentration of the four firms of the subsectors of the Indonesian manufacturing industry) during the period from 1975 to 1983 and found that industrial concentration for

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This article was originally published with errors. This version has been corrected/amended. Please see Corrigendum http://dx.doi.org/10.1080/10168737.2016.1155297