

ABSTRACT

The influx of imported goods in the domestic market will pressure domestic producers to be more efficient. The more efficient the domestic firm, the more competitive it becomes. This competitive firm will have opportunities to expand to a larger market.

This study analyzes the effect of trade liberalization to industrial performance in Indonesia. This study exploited data at the industry level, ie; 38 industries of 3 digits International Standard Industrial Classification (ISIC) during 2000-2009. The analysis is conducted within Structure Conduct Performance (SCP) framework. Using the fixed effect model, the result showed weak evidence of the effect of trade liberalization to industrial performance (measured by price-cost margins) in Indonesia. Export share was insignificant while dummy AFTA was significant. Furthermore, the result also showed evidence of linear relationship between structure (measured by herfindahl hirschmann index) and performance of industry in Indonesia. The implications of the result is that the government should be careful in agreeing international treaties.

Keyword: trade, liberalization, industrial performance, 3 digits ISIC

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