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The Behavior of the Post-Crises Indonesian Banking Industry (An Analysis Based on Oligopoly Theory and Dynamic Panel Data Econometrics)

Moch. Doddy Ariefianto

Abstract

This article focuses on the behavior of Indonesian banking industry, especially after the 1998 Asian Financial Crisis. The analytical approach and hypotheses construction employ the well- known oligopoly theory of Cournot and Stackleberg. This approach for banking was first introduced by Monti (1971) and Klein (1972), which was subsequently developed by Toolsema and Schoonbeck (1999) and Yamazaki and Miyamoto (2004). This study expands the model further through introducing market leadership and the existence of the inter-bank money market. A panel data set composed of 30 banks with a monthly frequency spanning from January 2002 to December 2008 is constructed in order to verify the hypotheses. An econometric method of Dynamic Panel Data (DPD) is employed, since the model is characterized by endogeneity. The estimation and inference therein show that Indonesian Banking behavior is of the Stackleberg-Bertrand variant. Banks suspected to dominate the industry are Bank Mandiri, BCA and Citibank.

The electricity sector before and after the fast track program

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Abstract

Underinvestment is a major problem facing Indonesia's electricity sector after the Asian financial and economic crisis of 1997/98. There are two major issues that will change the structure of Indonesia's electricity sector. First, the Indonesian government in 2009 issued the Electricity Law No 30/2009. This law adopted the autonomy principle, which meant that the local governments assume the responsibility to build power plants. Second, Indonesia has implemented the 'Fast Track' program. This program not only affects the energy mix in the electricity sector, but also the Indonesian government emissions target following the Copenhagen Accord. In a quantitative analysis, we constructed a growth model, diversity index and energy-CO_2 converting formula, and a coefficient variation index. This paper offers policy recommendations on how the Indonesian government can pursue sustainable development in dealing with the fast track program and the new institutional setting.

Rates of Returns to Vocational and General Upper Secondary Education, and to Experience in Addressing the Hollow Middle in Indonesia, 2007

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Abstract

We estimate the rates of returns to Vocational and General Upper Secondary Education, or SMK and SMA respectively, based on Susenas 2007 by taking into account two types of selectivity bias. The first bias is due to school choice (Pasay and Quarina, 2009) and the second one is the inverse Mills ratio in the Mincerian earnings function. Our unit of analysis is restricted to those individuals who at the time of the survey were the sons or daughters of the household heads and whose age ranged between 15 and 60 years, were not attending school and who had the highest education level of general or vocational high school, or lower than the secondary education level (as a reference group).

The study reveals that SMA male graduates, with an average working experience of 6.19 years, will enjoy higher rates of returns when working as employees compared to as employers or others. The highest rate of returns of 11.7% is enjoyed by the employees working in the tertiary sector of the economy; and the next highest rate of 9.56% is in the primary and secondary sectors. For SMK male graduates, at the average experience of 6.23 years, the private rate of returns for male employees in all sectors of the economy is 3.43 percent. For those male who are employers and others in all sectors, the private rate of returns is almost half of the former (1.73%). For females, entering and graduating from high school will be expected to earn an annual rate of return of 10.47% for SMA graduates and slightly higher rate of 10.51% for SMK graduates. There is not much difference in the private rate of returns between SMA and SMK graduates. The rates of returns to experience for SMA male graduates will be at peak when they have a working experience of 14.86 years, and the SMK graduates have an experience of 9.28 years. For females, the peak will be at 11 years of experience.

Policies to promote the quality of general and vocational upper secondary education in accord with market requirements will help overcome the case of 'hollow middle' in labor market.

Theory of Endogenous Institutions and Evidence from an In-depth Field Study in Indonesia

Iwan Jaya Azis and Maria Monica Wihardja

Abstract

We study how endogeneity between welfare and institutions recommends the efficacy of subtle institutional reforms that must be exogenous. We use evidence from a field study conducted in five Indonesian districts, and build a model that illustrates how initial socioeconomic conditions and quality of institutions generate certain institutional attributes, such as a particular level of local capture (that is, gaining of influence over institutions, and hence over policy, by local elites), local leadership and participation. These institutional attributes, which evolve with changing welfare, create self-reinforcing processes in the long run that could be either vicious, virtuous or neutral. The policy question we investigate is how to break a vicious cycle between low welfare and low institutional quality. Reform must be exogenous and multi-dimensional, requiring welfare and institutions to be mutually reinforcing. In the context of post-decentralization Indonesia, any multi-dimensional institutional reform must include not only policies to strengthen local institutions, but also policies to increase welfare.

Keywords : Endogenous Institutions, Welfare and Poverty, Regional Analyses

Volatility of World Rice Prices, Import Tariffs and Poverty in Indonesia:
A CGE-Microsimulation Analysis

Teguh Dartanto

Abstract

This study aims at measuring the impact of world price volatility and import tariffs on rice on poverty in Indonesia. Applying a Computable General Equilibrium-Microsimulation approach and the endogenous poverty line, this study found that the volatility of world rice prices during 2007 to 2010 had a large effect on the poverty incidence in Indonesia. The simulation result showed that a 60 per cent increase in world rice price raises the head count index by 0.81 per cent which is equivalent to an increase in the number of poor by 1,687,270. However, both the 40 per cent decrease in the effective import tariffs on rice enacted by regulation No.93/PMK.011/2007 and zero import tariffs implemented by regulation No. 241/PMK.011/2010 in response to high world rice prices could not perfectly absorb

the negative impact of increasing world rice prices on poverty. The zero import tariffs on rice reduced the head count index by 0.19 per cent equal to 390,160 people. These policies might not be enough to absorb the negative impact of an increase in world rice prices from 2007-10, because, during this period, the world rice prices increased on average by almost 71 per cent, which have impoverished approximately two million people. Moreover, protection in the agricultural sector, such as raising import tariffs, intended to help agricultural producers will have the reverse effect of raising the head count index.

Keywords: Rice Policy, Poverty, Import Tariff, CGE, Microsimulation.