

ABSTRAK

This study examines the effect of agglomeration economies on productivity growth in Indonesian manufacturing industries for the period of 2008-2012. Productivity growth is measured by using Fare-Premont Productivity Index. The firm productivity growth is regressed against two types of agglomeration: specialization and diversity. Then, it is also regressed against set of firm and industry characteristic variables: size, ownership, industry concentration, firm exit and firm entry. The results show that specialization affects the industry positively while negative effect is encountered for diversity to the aggregate manufacturing industry.

Keywords: Agglomeration Economies, Productivity Growth, Specialization, Diversity.