Labour and Social Trends in Indonesia 2013: Reinforcing the role of decent work in equitable growth

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Introduction

Today’s presentation will discuss a number of trends in the labour market, including:

• Economic trends
• Employment trends
• Wage trends

We then move to discuss issues related to Reinforcing the role of decent work in equitable growth:

• Employment creation for inclusive and sustainable growth
• Sound industrial relations
• Social protection for all

“Employment is one of the most important issues in developing the Indonesian economy. Further efforts are needed to ensure that the Government’s pro-jobs, pro-poor, pro-environment and pro-growth development policy realises its job-rich growth objective,"

Peter van Rooij, Director, ILO Country Office for Indonesia
Economic trends

• Economic adjustments

• Labour force participation by household income
Economic adjustments

• In 2013 the Indonesian economy has seen declines in its macroeconomic indicators, with GDP growth slowing to 5.6%.

• The downturn has been associated with factors such as international financial market volatility, restrictive trade policies, revisions to the domestic fuel subsidy and seasonal fluctuations from Idul Fitri. These factors have spurred on inflation.

• With the slowing of economic growth, Indonesia is now facing a situation of jobless growth. In addition, inflation is impacting on the real wages of workers.

• Fiscal gains from adjustment to the fuel subsidy were envisaged to create space for increasing expenditure on social protection, however, these gains may not be realized due to deteriorating exchange rates.

• The combination of jobless growth and limited social protection provision leaves workers and employers in a vulnerable situation.
Labour force participation by household income

Higher rates of labour force participation in low income households is having a limited impact on reducing income inequality.

Poorer households have higher rates of labour force participation than more affluent households, however, income inequality has been on the rise, with the Gini index reaching a peak of 0.41 in 2011 and 2012.
Employment trends

- Employment growth
- Unemployment and labour force participation
  - Less than normal working hours
  - Status in employment and vulnerable work
- Employment by sector
Employment growth and real GDP growth, 2007-2013

Macro-economic adjustments in 2013 have resulted in labour market adjustments.

Analysis of data between August 2012 and August 2013 indicates that Indonesia is experiencing jobless growth, with employment growth at zero.
Unemployment and labour force participation

• Labour force participation declined from 67.9% in August 2012 to 66.9% in August 2013. Both men’s and women’s participation in the labour force declined, with an additional 1 million men and 1.6 million women reporting that they were not economically active:
  • Women aged between 30 and 45 had largely taken up housekeeping duties;
  • Men in rural areas reported to be undertaking other activities not in the labour market.

• Unemployment in Indonesia had been declining due to positive economic growth and in May 2013 unemployment was estimated at 5.8%, the lowest unemployment rate on record. However, the recent downturn in economic indicators saw the August 2013 unemployment rate rise to 6.25%. Of the people that were unemployed in 2013, over 70% were aged between 15 and 29 years.
Underemployment declined and part-time work increased in 2013.

The decline in underemployment is likely due to women shifting from being underemployed to becoming part-time workers, with underemployment for women decreasing by 1.8 million workers and part-time work for women increased by 1.8 million workers between August 2012 and August 2013.
In general, structural shifts in the composition of employment in the economy have continued to gradually unfold, with share of total employment increasing for services and decreasing for agriculture.

The agricultural sector is still one of the largest employers in Indonesia, accounting for 35 per cent of employment in May and August 2013. The employment situation in the agriculture sector has remained relatively steady in 2013, rather than increasing as in previous times of economic downturn.

Employment in manufacturing, which provides important information on trade and investment trends, has experienced a decline for the first time in five years. Employment in manufacturing employment has declined from the August 2012 high of 15.37 million people, to 14.88 million people in August 2013.
Vulnerable employment has been declining, with the number of people on employee contracts increasing.

To illustrate, wage employment has increased from 27.5% of total employment in February 2007 to 37% in August 2013.
Wage trends

• Real and nominal growth trends in wages

• Wages by educational attainment

• Workers receiving wages above and below the minimum wage
Trends in minimum and average wages for Indonesia, 2008-2012

Averages wages and minimum wages have been increasing, however, inflation has subdued real wage growth.
Workers with higher educational attainment have higher wages and also higher wage growth rates than less educated workers.
In August 2013, 36.2 per cent of employees earned less than the provincial minimum wage.

Workers receiving a wage above or below the minimum wage displays a cyclical trend - more workers receive wages above the minimum wage in August than in February.
Employment creation for inclusive and sustainable growth

• Labour productivity

Gains in labour productivity have been experienced unevenly by firms of differing sizes.
Real labour productivity for the manufacturing sector, 2001-2011

- Large and medium manufacturing firms
- Small and micro manufacturing firms
- All manufacturing firms
Sound industrial relations

• Labour inspection

Labour inspection can improve the monitoring of working conditions and help to identify the most effective ways to improve the workplace and the productivity of firms.
The role of labour market institutions

Textile and products of textile industry is one of the major contributors to growth in Indonesia as well as the largest employer within the manufacturing sector.

However, growth in the sector has been slow and solutions are needed to increase competitiveness. One strategy is to improve working conditions to support productivity growth.

Research finds that the sector faces decent work deficits which are reflected in high stress among employees (physical aches and pains, as well as harassment), and may reduce firm productivity.

Understanding working conditions and how factors such as occupational health and safety impact on productivity is an important element for accelerating the growth of the sector.

Labour inspection can improve the monitoring of working conditions and help to identify the most effective ways to improve the workplace and the productivity of firms.
Social protection for all

• A social protection floor

Social protection floors are nationally defined sets of basic social security guarantees that aim to prevent or alleviate poverty, vulnerability and social exclusion.
1. Employment is one of the most important issues in developing the Indonesian economy. Further efforts are needed to ensure that the Government’s pro-jobs, pro-poor, pro-environment and pro-growth development policy realises its job-rich growth objective.

2. With the slowing of economic growth, Indonesia is now facing a situation of jobless growth. Income inequality has also been on the rise, despite the strong labour force participation of poor households. The situation highlights an urgent need to focus on decent work and equitable growth.
Thank you

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