



International
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Promoting Decent Work in Export Promotion Zones in Indonesia

Working Paper

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Introduction

Over the past three decades export processing zones (EPZs) have become popular instruments of trade policy, offering enterprises located in them free trade conditions and a liberal regulatory environment. Many countries see export promotion as an important policy for economic growth in developing countries. Various measures are being adopted by the governments in these countries to promote export competitiveness. As a policy means of achieving this goal, the concept of EPZs has gained noticeable significance in recent years. Terms such as EPZs, free trade zones (FTZs), special economic zones (SEZs) and export processing factories (EPFs) refer to similar concepts, with variations in policy prescriptions and objectives. As EPZ is most commonly used, this paper uses it interchangeably with FTZ and SEZ.

EPZs provide customs-free and tax-exempt, export-oriented manufacturing facilities, investment incentives and streamlined administration, cheap utilities, and better infrastructure. According to Kankesu (2003), most enterprises in EPZs are engaged in processing intermediate imports for exports. Also included are labour-intensive light manufacturing such as garment production, assembly of light electrical goods and electronics. Among the benefits offered are exemption from: some or all export taxes; some or all duties on imports of raw materials or intermediate goods; direct taxes such as profits taxes, municipal and property taxes; indirect taxes such as VAT on domestic purchases; national foreign exchange controls. Foreign companies also benefit from free profit repatriation. EPZs offer streamlined administrative services, especially to facilitate import and export, and provide free enhanced physical infrastructure for production, transport and logistics (Milberg, 2007). Consequently, the opportunities for Indonesia under the new government initiative to push for the export oriented industrialization and using EPZ's as the spearhead, included access for more workers to formal sector employment.

The two most important Export Processing Zones are in the greater Jakarta area and in Bantam which over the years have attracted reasonable amounts of investment and contributed to the success of the industrialization strategy in Indonesia.

Indonesia- Macro Economic Perspective

Indonesia has a market-based economy in which the government plays a significant role. The Government, is implementing a "pro-growth, pro-poor, pro-employment" economic programme to reduce unemployment and poverty significantly. This is set out in the Indonesian government's *National Medium Term Development Plan 2004– 2009*, which focuses on four broad objectives: creating a safe and peaceful Indonesia, a just and democratic Indonesia, a prosperous Indonesia, and establishing a stable macroeconomic framework for development. -Making the New Indonesia Work for the Poor (Jakarta, 2006).) (This was announced in a Presidential Instruction (INPRES) No. 3/2006.)

Despite an annual average GDP growth of 5% between 2002 and 2006, Indonesia's open unemployment rate has risen from 9.1% to 10.4% during the same period and half the population of 220 million continue to live under the US\$2 per day poverty line. (ILO 2006). In February 2006,

the Government announced new policy measures to improve the investment climate in Indonesia for both domestic and foreign investors, so as to generate employment. The package consists of policies designed to strengthen investment services, harmonize central and regional regulations, improve customs, excise, and taxation services, **create jobs**, and **support small and medium enterprises**.(ILO Jakarta 2006)

In addition to unemployment, underemployment also remains prevalent, at 30%, and more than two-thirds of the employed are in the informal economy. Many Indonesians seek better opportunities abroad – there are about four million documented migrant workers from Indonesia and it is estimated that the number of undocumented migrants is 2 to 4 times higher. The skills base and productivity of the labour force is insufficient and there is continued exploitation at work. Socio economic exclusion of the marginalized and vulnerable in society is a continuing concern, with young women and men and those living in conflict and crisis affected areas most at risk. Youth, as one example, are three times more likely to be unemployed than adults. Over the last few years, the government has been looking to the manufacturing sector particularly the textiles\ garment sector and the electrical/electronics sector, many of them situated in the Export Processing Zones EPZ's to minimise unemployment in the country.

Population, Labour force and Unemployment

The Indonesian population in 2007 is estimated to be 223 million. The labour force is also estimated to be 160 million in 2007. Open unemployment is primarily an urban phenomenon. It is very high amongst youths, particularly amongst high school leavers. The unemployment rate in 2005 was registered at 10.26% but the rates for the age group of 15-19 years and 20-24 years were 34.88% and 25.24% respectively. The rate of unemployment in urban areas was almost double the rate of unemployment in rural areas. The rate of unemployment in rural areas was 7.98% while in urban areas it was 13.51%. (ILO Declaration Project 2006)

To day the main contributor to the GDP is the manufacture sector (26.2%), then agriculture sector (16.1%), and the trade, hotel and restaurant sector (16.0%). During the last three decades, significant sectoral shifts occurred in the Indonesian economy and were reflected in the sectoral distribution of employment. The proportion of people engaged in the agricultural sector decreased from 67.3% in 1971 to 46.3% in 2003. At the same time, the proportion of people working in the manufacturing sector increased from 6.8% in 1971 to 12% in 2003. Likewise, the proportion of people working in the services sector increased from 21.5% to 27.0% and to 30.7% respectively. (ILO Declaration 2006)

The Industrialization Process and the Switch To Export Oriented industrialization

During the long Soeharto era (1966-98) the Indonesian economy grew at a rapid rate which enabled Indonesia to graduate from the ranks of one of the poorest low income countries in the mid-1960s to one of the eight high-performing Asian economies in the early 1990s, along with

Japan, the four Asian Tigers, and Indonesia's two Southeast Asian neighbors, Malaysia and Thailand (World Bank 1993: 1, 37). During this period, the Indonesian economy was growing at an average annual rate of 7.0 per cent over the period 1965 -97. Indonesia's real gross national product roughly doubled every 10 years over this period. This was largely due to the surge in manufactured exports since the late 1980s.

As the manufacturing sector throughout this period was growing at double digits, much faster than the two other main sectors, agriculture and services, the Indonesian economy underwent a rapid transformation, as reflected by the rapid decline in the relative importance of agriculture and an equally rapid rise in the relative importance of manufacturing. By 1991 manufacturing's contribution to GDP for the first time exceeded the contribution of the agricultural sector (Aswicahyono 1997:).

The Shift to Export Oriented Industrialization Policy and Development of EPZ,s

In the mid 1980,s the government made a shift gradually to export-promoting policies. This was achieved by introducing a series of deregulation measures to improve the investment climate for private, including foreign, investors, and to encourage them to invest in export-oriented projects. The government also introduced a series of trade reforms to reduce the anti-export bias of a highly protectionist trade regime. A significant step in encouraging an export-promoting path of industrialization was the introduction of EPZ's and the introduction in May 1986 of a duty exemption and drawback scheme, which provided export-oriented firms with the opportunity to purchase inputs, whether imported or locally made, at international prices. This scheme turned out to be a crucial factor in encouraging foreign and domestic firms to export. (Thee Kian Wie 2006)

However, since 1993 up to the crisis year of 1997, the growth of the manufacturing sector slowed to an average of 12 per cent, as the growth of manufactured exports grew only at a sluggish 7 per cent (Dhanani 2000:). A study conducted by Sanjaya Lall and Kishore Rao in 1995 for Indonesia 's National Planning Board (Bappenas) found that manufactured exports had been led by relatively few products, textiles, garments and electrical /electronics the competitiveness of which was mainly based on low wages and access to natural resources. Although these advantages can be improved and extended, they are vulnerable to competition from new entrants notably the People's Republic of China (henceforth PRC) and India with lower wage costs. (Thee Kian Wie 2006)

The Labour Relations Framework

After the end of the Suharto era in 1998, numerous pieces of repressive labour legislation in Indonesia were repealed. The legal framework to protect the worker rights in ILO Conventions 87 and 98 was thus improved. A key issue in the EPZ pertains to compliance of Labour Standards, In the last decade, Indonesia was often quoted as an example of a country that was able to reform the existing labour laws and enact three key legislation within a relatively short time. Act No. 21 of 2000 concerning Trade Unionism, Act No. Act No.13 of 2003 regarding Manpower; and Act No.2

of 2004 concerning Industrial Relations Dispute Settlement were enacted within a relatively short period of time thanks to the excellent work of the ILO-Jakarta's effective implementation of the US Declaration Project for promoting Good Industrial Relations in Indonesia in the post Suharto era.

Notwithstanding this, the compliance of these laws is still a major issue. In the case of Indonesia, it is not the lack of enabling law like the problems faced in Pakistan Bangladesh and Togo as workers' rights are legally mandated. Rather, the problem is in its capacity to deliver labour administrative services due the existing lack of manpower and skills leading to weak enforcement of labour laws.

International Labour Standards

Although Indonesia has ratified ILO Convention no. 87, the Freedom of Association and Protection of the Right to Organise Convention, and has ratified ILO Convention no98 on collective bargaining, the ICFTU was of the view that there were -still numerous restrictions of these rights and the ability for workers to exercise them in practice.(CEACR report 2007). This applies to the right to form a trade union, the right to bargain collectively and the right to strike which was one of great legal uncertainty and instability in industrial relations with a general result of insufficient protection of workers' rights. (ICFTU 2006)

Until the end of 2005, Indonesia has ratified seventeen (17) ILO Conventions including the eight (8) ILO Core Conventions and two (2) Priority Conventions. Those conventions follow:

Core Conventions

- ◆ Convention No.87 concerning Freedom of Association and Protection of the Rights to Organize
- ◆ Convention No.98 concerning Right to Organize and Collective Bargaining
- ◆ Convention No.29 concerning Forced or Compulsory Labour
- ◆ Convention No.105 concerning Abolition of Forced Labour
- ◆ Convention No.100 concerning Remuneration for men and Women Workers for Work of Equal Value
- ◆ Convention No.111 concerning Discrimination in Respect of Employment and Occupation
- ◆ Convention No.138 concerning Minimum Age for Admission to Employment
- ◆ Convention No.182 concerning Prohibition and Immediate Action for the Elimination of Worst Forms of Child Labour

General Conventions

- ◆ Convention No.19 concerning Equality of Treatment for national and Foreign workers as regards Workmen's Compensation for Accident
- ◆ Convention No.27 concerning The Marking of the Weight on Heavy Packages Transported by Vessels
- ◆ Convention No.45 concerning The Employment of Women on Underground Work in Mines of All Kinds

- ◆ Convention No.69 concerning The Certification of Ships' Cooks
- ◆ Convention No.88 concerning Employment Service
- ◆ Convention No.106 concerning Weekly Rest in Commerce and Offices
- ◆ Convention No.120 concerning Hygiene in Commerce and Offices

Priority Conventions

- ◆ Convention No.81 concerning Labour Inspection
- ◆ Convention No.144 concerning Tripartite Consultations to Promote the Implementation of International Labour Standards

Labour Relations Framework :Growth of Trade Unions

As we have seen earlier, in the years following the Asian Monetary Crisis in 1997, a major reform in industrial relations came about with the implementation of the ILO Declaration Project on Industrial Relations by the ILO Jakarta Declaration Project. As one of the flagships of ILO - US DOL initiatives in Indonesia, the project facilitated the enactment of the trade union, manpower, and dispute settlement law and also the development of labour relations in Indonesia.

In 1997, in anticipation of a new general election, many political parties were established. This political reform has stimulated the reform of the trade unions in Indonesia. With the advent of political reformation, many workers felt that they had regained their right to organize specially with the ratification of ILO Convention No.87 on freedom of association and protection of the right to organize. The number of the trade union started to increase. By the end of 2004, more than 80 federations of unions had been established and registered at the Department of Manpower and Transmigration. In addition, more than 100 non-federated unions were also registered. To day, the unionized workforce in Indonesia is around 10% and in the EPZ's, the unionized rate is estimated by trade unions to be between 20 to 30% (ILO Declaration Project 2006)

Table 1 Verified Trade Union Members, 2005

Trade Union	National Level	No. of Company Unions	Members
Confederation of SPSI	16	6,122	1,657,244
Confederation of SPSI Reformation	8	1,121	793,874
Confederation of SBSI	8	1,307	227,806
Other National Federation	3	833	269,509
Non Federated Unions	31	847	403,714
Company-Level Union	-	1,237	305,959
Total	64	11,467	3,388,597

Source : Directorate General of Industrial Relations

Company regulations are usually formulated in companies in which trade unions have not yet been established. Collective Labour Agreements (CLAs) are executed in companies where a trade union or trade unions exist. CLAs are formulated based on agreements between the management and workers' representatives. Company Regulations and CLAs contain the conditions on terms of employment and labour protection, including the rights and obligations of both workers and employers or management. The Company Regulations and CLAs are aimed at improving working conditions and industrial relations.

A company regulation shall be formulated in any company employing ten (10) workers or more. Each company should have only one company regulation applied to all workers. If the company has several branches, it may have one principal company regulation applied to all branches with or without additional regulation for each branch.

Employers are responsible for preparing the draft of the company regulation. They are encouraged to invite inputs and recommendations from the workers' representatives for the refinement of the draft. Final draft of the company regulation should be submitted to the Office of Manpower Service for approval. The Office of Manpower Service will examine the contents of the company regulation to make sure that there are no conditions lower than the requirements stipulated by laws and regulations.

Collective Labour Agreement (CLA) is formulated based on the negotiation between the employer and one or more registered trade union in the said company. The negotiation shall be conducted in good faith and freewill and intention of both parties. Any employer should agree to the trade union request to negotiate a CLA provided that the Trade union has been registered at the Government office of Manpower Service; and the Trade union is supported by more than 50 percent of the workers.

By May 2002, Company Regulations have been adopted in 38,118 companies and CLAs in 9,053 companies. Company Regulations and CLAs last for two years and can be extended for a maximum period of one year. Company Regulations should be reviewed and renewed every two (2) years. Likewise, CLAs should be reviewed and renegotiated every two years. To make sure that the contents of the Company Regulations and CLAs are consistent with the existing laws and regulations, the Government should approve all Company Regulations and CLAs. (ILO Declaration Project 2006)

The Development of EPZ's in Indonesia

EPZ's today is growing to be an important feature of the labour market in Indonesia. The number of Zones themselves have increased over the years and in a recent move to revamp the EPZ's, the government has issued new regulations and have renamed the EPZ's as Special Economic Zones [SEZ's } In August 2006, A new government proposal to day is the setting up of three special economic zones (SEZ) in North Sumatra, South Sulawesi and in Bojonegara. In August 2007 the government announced the setting up new management agencies for the special economic zones in the Batam, Bintan and Karimun islands.

However, prior to this, the first EPZ in Indonesia was established in the main island of Java. This EPZs situated in Jakarta produce mainly garments for the EU and US markets. Aiming to increase labour competitiveness in the country's free trade zones, the government is formulating a mechanism for the establishment of local tripartite labor committees within each FTZ. It is expected that the committees, which will consist of representatives of the local government, employers and labor unions, will serve as local social dialogue forums that can successfully address labor-relations problems.

As discussed above, EPZ's in Indonesia are concentrated in two main areas. The oldest is the Kawasan Berikat Nusantara KBN on the outskirts of Jakarta and the second important area is at the Batam island in the **Riau Islands Province of Indonesia**, as a part of the **Sijori Growth Triangle**,

The Kawasan Berikat Nusantara (KBN)

The KBN EPZ being the oldest is located in the North Jakarta within the greater Jakarta area. The establishments located within the Kawasan Berikat Nusantara employing a total of 75,551 workers. There are two major industrial sites as follows :

Cakung area, located on Jalan Raya, Cakung-Cilincing about 5 kms from the main port of Tanjung Priok, having the status of bonded zone. At this site there are 104 establishments that have been in operation and 75 of them are operated by foreign investors. Most of the establishments are producing textiles and garments.

The other site is the Tanjung Priok area, located in Tanjung Priok Port which wholly has the status of bonded zone. At this site there are 10 establishments, which are in operation and 6 of them operated by foreign investors and all ten of them are producing garments for export.

The Kawasan Berikat Nusantara. KBN is the administrative authority entrusted with the Governance of the zones. They are responsible for maintaining infrastructure and collection of rent. They do not have responsibility for labour matters.

Within the the Kawasan Berikat Nasuntara, Cakung in the Jakarta area is by far the most important FTZ. Among the factories are 6 footwear and 30 garment factories supplying to the main buyers being Nike, Adidas, Gap etc., Other companies include wood products, plastics chemicals, electrical\electronics. The number of workers employed from 1990 to 2006 is shown in Table 2 According to the EPZ authorities, there has been a fall in the number of workers due to factory closures and outsourcing.

Table 2 Number of workers employed in Cakung –Jakarta in 2006

1990	42.488
1995	77, 767
2000	110,891
2002	96,986
2006	75,511
Data provided at Interview on 23-8-07	

Batam Free Trade Zone

The second major area is the Batam Free Trade Zone which was developed with assistance from the Singapore Government. The Batam zone was the Singaporean government's first regional industrial park project outside Singapore. (Kumar and Lee 1991). The self-contained industrial estate is situated on the east of Batam Island, is part of the Sijori Growth Triangle. The island of Batam was approximately 20 km from Singapore. The Indonesians felt that industrial transnational corporations could take advantage of Batam's geographic proximity to Singapore, in addition to the island's low labour and land costs, which were one-quarter of those in Singapore in 1989. (Kumar and Lee 1991). In 1991, 15 industrial transnational corporations began operations at Batam. All of these enterprises had relocated part of their Singapore-based production to Batam especially their lower value-added activities, while retaining a regional headquarters in Singapore. By 2007, the number of industrial tenants had grown to 77.

Strategically located on the Indian and Pacific Oceans, Batam Island is also the second most popular international tourist destination in Indonesia. Due to its Free Trade Zone status since 1971, strategic location, low cost structure, skilled work force, and tax and other investment incentives, The table below shows the distribution of key industries In 2007 in the EPZ.

Table 3 Distribution of Key Industries In Batam EPZ

Electronics	40%
Precision Parts	18%
Plastic Moulding	11%
Electrical	10%
Packaging	6%
Pharmaceutical	4%
Others	11%

Source—Data provided at the interview.

Unlike the Cakung, area electronics emerged as the most important industry followed by precision parts and electrical goods. Prominent investors include McDermott International, AT&T, PerkinElmer, Bechtel, Seagate Technology, Babcock & Wilcox, Holiday Inn, Matsushita, Kyocera, Hitachi, Sanyo, Nippon Steel, Hyundai, Siemens, Sony and Philips.

In both the two key EPZ's, women workers are an important component of formal employment. In Batam by the end of July 2007, there were 80% women compared to 20% male workers, This illustrates the predominance of women workers in the zone workforce and the high percentage of textile and garment plants which are female labour-intensive.

The government has recently announced through its circular 1\2007 the setting up of a new management agency for the special economic zones (SEZs) in the Indonesian Batam, Bintan and Karimun islands. According to this circular, by September 2008, the management agencies of these SEZ's will report directly to the President. In the more advanced Batam Free Trade Zone, the announcement indicated that the existing Batam Authority would be one of the management agencies, with a higher body known as a "SEZ council"—to be set up. The council would determine and supervise the implementing policies for the SEZ. The SEZ council will comprise representatives of the local administration, the customs service, the immigration service, the investment board, and the provincial council, so that all the policies can be properly coordinated so as not to hamper business and investment. The new regulations also stipulated that the management agencies must be set up not later than September 2008.

The SEZs, which will cover most of the three islands, involve the establishment of free ports, a one-stop investment office and easier immigration procedures for business people and investors. An important point to note is that Indonesia is working together with Singapore on the further development of Batam, Bintan and Karimun islands in the Riau Islands SEZ project.

The Indonesian Government investment in Batam to date is put at more than \$US2 billion with private investment amounting to around \$7 billion. The bulk of the Economic activities is in export-oriented manufacturing. The success of Batam in attracting investments is largely due to the willingness and determination of officials to adopt measures that cut through the red tape with one-stop interfaces, speedy processing of development proposals and co-operative handling of visa applications for key people. Potential investors also have been wooed with investment allowances, tax concessions and exemptions going beyond the benefits of Batam's duty free status.

Laws have been relaxed to allow foreign ownership of houses and commercial property and enterprises can be established without any requirement for Indonesian ownership participation – the business or company can be wholly foreign owned.

Secure land leases are available for up to 80 years and are extendable. Another attraction for investing in Batam is the duty-free importation of Batam-made technology and medical equipment components into the U.S. as 'extensions' of Singapore's manufacturing base under the recently enacted U.S.- Singapore Free Trade Agreement, Batam's overall developmental impact can best be described as being 'both positive and negative'. The most positive aspect of the Batam EPZ project was its effectiveness as a cheap and efficient industrial production site for industrial transnational corporations. In 1988, just over 10,000 persons were employed in Batam. But by 1996, this grew to 125,000, of which over 85,000 were employees of companies located within Batam EPZ managed by the Singaporeans. What is interesting here is that there are seven other industrial estates on the Indonesian island, which are managed by Indonesian agencies, which are not so successful. Thus, Batam future is heavily dependant on Batam EPZ,s itself. If the Batam EPZ project had to suddenly cease operations, there would be a serious employment issue on the island. This was made clear during the interview with the management. The other major issue was the state of industrial relations which was the which was a major cause for concern affecting the relationship between management and unions in the development of the Batam FTZ.

Linkages to Local Economy

Despite Batam EPZ 's growth, there have not been many local business linkages with the local economy. according to the unions, the employers preferred to import and re-export products (usually from and to Singapore) in order to take advantage of the duty free tax relief available. Batam 's growth has also been uneven for example, despite the large population increase in Batam, there has not been a corresponding increase in housing projects and this has consequences for workers housing as not all companies provide accommodation to their workers.

Key Labour Issues

Strategies for coping in a post-MFA environment

The Indonesian garment industry has experienced steady growth since the 1980's and continues to be the one of the important sectors in manufacturing. In the first quarter of 2007, three factories producing shoes for Adidas closed leaving 11 000 workers without their jobs. The main reason for closure was lack of competitiveness over products made in China and India.

The government of Indonesia has an important role to play in facilitating the process for sustainability of EPZ strategy in the post MFA environment. The government can, in consultation with employers' and workers' organizations, offer guidelines and incentives in developing a coherent industrial policy in which the contribution of the industry to social and economic development would be clearly identified including the issue of linkages with the domestic economy.

In the garment and electronics industries, the competitiveness of enterprises, and therefore their capacity to create wealth and generate employment, rests on four major principles: producing the right product, at the right price, at the right time, under the right conditions. Each of these principles has a social content. For example, it is impossible to produce the right product if the workers involved have not been adequately trained and quality awareness has not been made known to them. (ILO 2005)

Although the ending of quotas has had, an overall positive effect on the ability of the garment industry in Indonesia to compete and contribute to economic and social development, the present post MFA environment with its competition from China and India is likely to have some adverse effects on workers in the longer term. Given that women make up the majority of the labour force in the both electrical and garment industries they will be particularly affected by possible mass layoffs. Measures will therefore have to be taken to ensure that the gender dimension is managed in such a way that they are mainstreamed into the national strategies on social protection.

Freedom Of Association

Although all national laws apply to zones, trade unions officials interviewed in both the zones were of the view that in some establishments were witnessing victimization as well as dismissals for union activities as seen in much as in the rest of the country side. However, Information from some unions suggested that compared to a few years ago, as a result of the Declaration Projects activities, there has been some overall improvements to this situation particularly union access to workers in the EPZs. Apart from legal restrictions of the rights to freedom of association and collective bargaining, there is considerable anti-union sentiment and activity in Indonesia, and even those rights recognized in law are not always protected in practice.

Frequently, when workers try to set up trade unions, companies either fire or demote union leaders and members, making workers afraid to organize or join a union. During the early years of the EPZ, trade unionists cited attacks on their organizers by paramilitary groups, supported by the military and police. However, this activity is on the decline as a result of awareness workshops organized by the Declaration Project particularly to the uniformed staff including the police. Consequently, unions in Indonesia have resorted to complaints to the ILO's supervisory mechanisms to address this issue.

In its previous observation, the ILO's Committee Of experts On Application Of Conventions and Recommendations(CEACR) had requested the Government, pursuant to allegations of violent intimidation and assault of union organizers, and dismissals of union activists in the EPZs, to provide information on the number of collective agreements in force in the EPZs and the percentage of workers covered. The Committee noted in its report in 2007 with regret that the Government does not provide any information in this respect and reiterated its request for information on the promotion of collective bargaining in EPZs.(CEACR report 2007)

The unions also stated to the mission that while collective bargaining is permitted in law but limited in practice, with many agreements being offered to workers to sign, rather than being negotiated. According to union leaders, the law on dispute settlement provides for unilateral recourse to arbitration in the event of an industrial dispute, which serves to greatly restrict the practical value of collective bargaining.

Stepping Up labour Inspections in the EPZ's

The meeting with the Labour inspectorate and workers revealed that there are many problems with non payment of statutory dues due to weak enforcement of the law. These pertain to gender discrimination, excess hours of work and significant health and safety violations, poor conditions of work, etc. In a number of cases the poor conditions of work in EPZs are very similar to those in the economy proper in the rest of the country. Inspection reform is already under way in the MOM but the inspectorate's document entitled REVITALISATION of labour inspections itself needs to focus on a key strategic areas for its effective implementation. It needs to address in a strategic way compliance of labour laws within the country as well as within the zones as a matter of priority. The Ministry Of Manpower has maintained that they need to increase the number of inspectors as many field offices lacking in, funding, staff, and transportation resources.

The Labour Inspection System and Inspections in the Zones

The total number of labour inspectors in Indonesia up to the year 2006 was 1,697. Among them, 445 persons carry out inspections and 155 persons work outside of the labour inspector function, therefore, the total number of labour inspectors who are effectively performing inspection is 1,097. More than 100 Manpower Offices in Indonesia have no labour inspectors and specialist inspectors.

In 2005, labour inspectors performed a total of 8,422 inspections, with an annual average of 27.9 visits per Office, equivalent to 10.18 visits per inspector (this means that the national average is less than one visit per month). Article 179 of the Manpower Act establishes that the working units for labour inspection at the provincial governments and district/city governments are obliged to submit reports on the implementation of labour inspection to the Minister. Decree No. ep.09/MEN/V/2005 determines and specifies procedures for the submission of reports on the conduct of labour inspections (Jose Luis A.Sivananthiran 2006).

The Jakarta Utara Office for example has 18 officers to look after about 3.000 establishments which included the EPZ's During the visit of the mission to the manpower office in Jakarta Utara, the interviewed officers stated that the labour inspectors only intervene when there is a complaint. Although the basic requirement is that each inspector has to inspect 8 enterprises a month, this was not strictly followed as labour inspectors had many other duties to perform. This actually means that the national labour inspection service only inspected 4.76 per cent of registered companies in a given year. With these figures, it is clear that the present labour inspection system could not effectively monitor labour standards in the EPZ's and it is not surprising that many of EPZ factories will continue to remain without inspections being undertaken (Interview on 15-8-07) It also means and there was no system in place in the labour administration system to effectively conduct regular inspections to workplaces. (Jose Luis/Sivananthiran 2006)

As per the information obtained during the mission, there are work plans or programmes of labour inspection at the provincial/district level. Labour inspection activities are also demand driven i.e. acting on complaints. According to data available,, complaints about potential violations

of laws are scarce. There are no complaints register which can be used as a potential source for targeting inspections. The Labour Inspection Offices presently do not have a complaints form at the disposal of the workers. In case of a complaint, the worker would either have to go to the District Office and explain the problem to the Labour Officer, or to send a letter of complaint. Thus it is important that such a standardized form be made available to workers or representatives of workers who believe that a violation of a labour law or health and safety regulation exists so that they can request an inspection.

Each labour inspector who conducts a visit to the company must be equipped with an official letter of duty, containing the authority of such labour inspection. Each official is obliged to prepare a report on the result of investigation or examination conveyed to his/her superintendent. The heads of district offices are responsible for managing labour inspections to ensure that the number of inspections allocated to each officer is completed and proper follow up made. Labour Inspectors are obliged to deliver reports on the result of examinations, periodically, to the Minister of Manpower and Transmigration, in this case, the Director General of Manpower Supervision.

Given the increasing number of complaints made by the unions on non compliance of statutory dues, it is critical for labour inspectors to inspect all the EPZ factories at least once a year. To increase the presence of labour inspectors in establishments, it is recommended that annual national inspection plans prepared between Ministry and regional authorities be monitored and evaluated. These plans would determine priorities, objectives, type of establishments to be inspected, standard number of inspections per office, and a method of evaluation

Coordination with Private Systems of Assessment and the MOM's Labour Inspectorate in the EPZ's

From the discussion above, it is clear that the number of labour inspections are in decline all over the country, and with this the number of regular inspections within the zones have also fallen. Unions have stated that this has resulted in an increase in the number of disputes over payment of statutory benefits to workers mainly over wages over wages. Closures of factories within the zones have often happened abruptly and without adequate notice, and workers were left without compensation or back-pay and national insurance payments this has been the fate in the closure of the three establishments supplying shoes to Adadis.

In the vacuum created by the lack of regular labour inspections from the Ministry of Labour, many garment buyers and multinational enterprises – comprising 80 per cent of the total number of EPZ establishments in Jakarta area – now implement a system in their supply chain through which their suppliers are assessed for conformity with a code of conduct. These assessments are also known as “social audits”. For example, Nike employs 200 such compliance officials as its own compliance officials in its factories. The assessment form used is more complex than the Ministries labour inspection form. A large number of companies within the zones in the garment export trade have also recruited their own compliance officials who work together with the personnel department. One company visited in the Jakarta area EPZ paid US\$1,000 for each the audits conducted by different buyers during the past 12 months.

In this regard, for the MOL and the ILO, the following issues are raised: given that the ILO international instruments are most frequently cited in Codes of Conduct, what can ILO do in terms of implementation to apply the principles underpinning these international instruments to private enterprises; second, what is the relationship between these private systems of assessment and the MOL's labour inspectorate, and how can their activities be coordinated?

Targeting EPZ Factories Outside the EPZs for Labour Inspections

At present, there are many factories producing for export outside the Zones. Data on these enterprises were not available to the mission. These factories are establishments with the same conditions as inside the zones. The fate of these factories remains the same as those within the bonded area. One of the constraints faced by Manpower Officials is understaffing and the lack of formal training in either labour inspection skills, dispute settlement or basic monitoring of labour standards and undertaking assessments as a preventive activity.

This situation of non-compliance in some EPZ factories regarding statutory dues, particularly payment for social security, has been compounded by the growth in outsourcing third-party contracts in the production chain. Some of these establishments outside the zones also act as suppliers for the larger factories inside the zones. It is therefore imperative that proper labour inspections be undertaken for the factories on a priority basis.

Computerising Data on Labour Inspections undertaken in EPZs

Both the EPZ authority in Jakarta and Batam and the MOM and its Manpower Officers presently lack an effective mechanism for monitoring and analyzing inspections of enterprises. The MOM's administrative and information processes in Indonesia have in the past relied heavily on manual procedures, resulting in a massive flow of paperwork pertaining to inspections. Data on compliance required by the Ministry of Commerce /Industry or the Ministry of Small Enterprises on for example the extension of EPZ status were also handled manually. It is now well recognized that that the manual, paper-intensive system is low in productivity, inefficient, and not consistent with a modern approach to labour administration.

The ILO-DIALOGUE Better Factories Cambodian Project is currently reviewing the computerization of garment factories. In Southern Africa, the ILLSA- Improving Labour Systems in Southern Africa Project has also developed a software programme for monitoring and evaluating labour inspections. These are being implemented in four Southern African countries.

To address this, it is highly recommended that a computerized system be put in place targeting EPZ factories both inside and outside for labour inspections. The MOL's work on effective monitoring of the BOI factories will be greatly enhanced by computerization. In this manner both the EPZ authorities and MOM will be able to tap into a common database.

Increasing the number of Skilled Labour Inspectors

With the expansion of the Indonesian economy, the number of enterprises liable to inspection also increases. In order to maintain and increase the quality inspection penetration rate within the zones, more and better trained inspectors will be needed. This will also require shifting the emphasis to prevention. Improving the planning, monitoring, and implementation of labour standards, is a priority for the MOM if its EPZ policy is to be sustainable. The labour inspectors need to understand the important link between inspections, compliance with labour standards and export promotion. Indonesia has ratified ILO Convention No. 81 on labour inspection and is thus obliged to maintain a system of inspection in order to secure the enforcement of laws relating to working conditions and the working environment, provide information and advice to employers and workers on how to comply with national laws, and ensure that defects.

Compliance with Minimum Wages

Wages and benefits appear to be one of the key issues where compliance appears to be generally improving over the past years. In the period after its implementation in 2002 and 2004 there were major strikes including in the EPZs over the implementation of statutory minimum wages. Thanks to the good work of the ILO Jakarta office and the Declaration Project, there has been an overall improvement in compliance to minimum wages in Indonesia and in particular in the EPZs.

Various studies indicate that wages tend to be higher in EPZs than outside of them. (Hendrani 2003) This is consistent with ILO studies that find wages are generally better in EPZs. (ILO 2007.) There is also evidence that legal minimum wages are being respected more in EPZs for most workers, but, like in many countries, compliance of minimum wage laws are lower for casual workers and outsourced workers. Similar to wages, benefits generally are more likely to be provided in EPZs. Benefits, such as health care and social security, than other sectors of the economy and in general compliance with OSH in EPZs is better than outside the EPZs.

However, the generally higher wages in EPZs, and reports of compliance with minimum wage laws, do not necessarily mean that workers are receiving living wages. The formulation and implementation of minimum wages in the EPZs is still a thorn in the labour relations between employers and workers. For the EPZs employers, the yearly increases in minimum wages need to take into account productivity and prevailing wages in countries which Indonesia is competing with. The workers, on the other hand maintain that the minimum wages are still low given the rising inflation. According to workers the formulation and implementation of minimum wages are one of the two most critical issues in the EPZs along with and the rising tide in outsourcing.

Currently the country has regional minimum wages. The highest monthly minimum wage is in Jakarta, at Rp 900,000 (US\$97). For the unions the appropriate national minimum wage would be around Rp 1.5 million per month. (Interview with unions in Batam)

The employers in the EPZs argue that the minimum wage should protect those at the bottom of the wage distribution rather than be used to set industry-wide wages, as it appears to be doing now and that workers and employers should be encouraged to use collective bargaining at the firm level to set wages against productivity growth. (Interview with Batam Employers.)

Government officials interviewed stated that the levels and structures of wages in most companies for all occupations above the minimum wages in Indonesia are pre-determined by the management. In the companies where the trade unions and negotiation have been effective, the levels of wages are normally implemented by the outcome of their negotiations.

**Table 4 Regional Minimum Wages and Basic Needs per Month
Indonesia, 2005
(in thousand rupiahs)**

Province and Sub Region	Minimum Wage	Decent Needs
Aceh	820.0	775.0
North Sumatra	737.8	737.8
West Sumatra	650.0	668.7
Riau	637.0	870.6
Riau Archipelago - Jambi	760.0	991.2
South Sumatra	563.0	571.1
Bangka Bilitung	604.0	853.0
Bengkulu	640.0	714.0
Lampung	516.0	586.0
Jakarta Metropolitan	505.0	589.5
West Java	819.1	831.3
Banten	447.6	542.6
Central Java	661.6	735.1
Yogyakarta	450.0	582.1
East Java	460.0	673.5
Bali	390.0	580.0
West Kalimantan	510.0	742.0
Central Kalimantan	512.0	605.0
South Kalimantan	634.3	850.0
East Kalimantan	536.3	597.9
South Sulawesi	701.6	764.7
Central Sulawesi	612.0	672.6
South East Sulawesi	575.0	615.0
North Sulawesi	573.4	573.4
West Sulawesi	713.5	691.2
West Nusa Tenggara	612.0	672.6
East Nusa Tenggara	550.0	570.0
Maluku	550.0	670.6
North Maluku	575.0	1.076.7
Gorontalo	528.0	926.3
Papua	527.0	677.1
	822.5	941.1

Source : Department of Manpower and Transmigration

One US dollar is approximately 8.5 Rupiah

Table 5 Minimum Wages in Batam EPZ from 2002 to 2006

2002	535,000
2003	555.000
2004	602.000
2005	635.000
2006	815.000
Source Information handed down during meeting	

In both EPZ's the main suggestions emanating from the employers on the implementation of minimum wages can be summed up as follows.:

- ♦ Timely and reliable data (local labor conditions) for setting minimum wages to be made available.
- ♦ Clarify the roles of the various participants on the Tripartite Board and Wage Commission.
- ♦ As the wage determination process is timely and resource intensive, the suggestion is to limit minimum wage increases to every two years.
- ♦ Capacity building of trade union representatives and employers to use collective bargaining at the enterprise level to resolve the wage issue.

Collective bargaining, Strikes and Settlement of labour disputes in EPZ,s

Although the bipartite bodies exist for promotion of collective bargaining and settlement of disputes, upgrading the capacity of its membership will be the key for preventing disputes and promoting collective bargaining. In both the EPZ's, the mission was unable to obtain information on strikes, disputes within the Zones. The table below shows the national data on collective agreements. However it should be noted that many collective agreements are being offered to workers to sign, rather than being negotiated. The general impression was that the number of strikes within the EPZ's were declining although disputes over termination of employment increased slightly. A major issue for the employers and trade unions in the EPZ,s is to promote good faith collective bargaining.

Table 6
Company Regulations and Collective Labour Agreement

Year	Company Regulations	Collective Labor Agreement
2001	36,030	8,997
2002	36,152	9,081
2003	36,174	9,102
2004	36,339	9,131
2005*	36,483	9,154

*As of October 2005- Source: Directorate General of Industrial Relations

According to the EPZ employers in the Batam,, the presence of bipartite committees was a step forward and urged the ILO to target the EPZ,s for training in conciliation, mediation and productivity training and good faith collective bargaining. In particular they requested that the existing training centre in Balai Latahen Kerajain Batam be upgraded and to seek the assistance to trade unions labour laws, workers rights and responsibilities and productivity related issues.

Promoting Social Dialogue at the EPZ Zone level and at the national Level.

The government has enacted new regulations on EPZ's which came into force on 1-8-07 requiring the EPZ's to form new management agencies for the special economic zones in the Batam, Bintan and Karimun islands,. The zone management is still not clear on the role of these mechanisms, their functioning etc. Aiming to increase labour competitiveness in the country's free trade zones, the government through the circular 1 of 2007 has called for the establishment of local tripartite labor committees within each EPZ.

It is expected that the committees, which will consist of representatives of the local government, employers and labor unions, will serve as local social dialogue forums that can successfully address labor-relations problems. Although some enterprises have established bipartite bodies for promotion of collective bargaining and settlement of disputes, the trade unions in Batam felt the need for closer coordination among the larger unions to speak with one voice and requested assistance from the ILO to improve collective bargaining skills and to deal with the management of the zones in a more strategic way. During the mission, trade union leaders informed the mission that that they facing an uphill task in developing appropriate responses to globalization in EPZs.

The table below shows the national data on collective agreements, however it must be borne in mind that many collective agreements are being offered to workers to sign, rather than being negotiated.

Table 7
Company Regulations and Collective Labour Agreement

Year	Company Regulations	Collective Labor Agreement
2001	36,030	8,997
2002	36,152	9,081
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*As of October 2005- Source: Directorate General of Industrial Relations

One of the most important untapped resources for improving the governance in the EPZ's is the social dialogue between government agencies and the social partners' organization, and civil society. Promoting decent work in the zones is not the sole responsibility of government institutions alone. A network of institutions and agencies are directly or indirectly involved in managing different aspects of workers welfare. Private sector organizations especially the organizations that conduct audits, the trade unions and civil society are powerful social forces that can contribute substantially in addressing many labour market challenges. Building bridges of social dialogue between zonal authorities and social partners is an important task ahead for the MOM.

Social dialogue at the zonal level or at the national level in Indonesia is still very limited, there are some examples of tripartite social dialogue at the national level regarding appropriate strategies to attract FDI, including the EPZ option (as in Mauritius, Kenya and South Africa).

At the international level, framework agreements between a few multinationals and global union federations are playing an important role in upgrading the conditions in EPZs as elsewhere. The unions and employers are of the view that in both Jakarta \ Batam EPZ's will benefit from of social dialogue. In the absence of adequate mechanisms and processes for information-sharing, consultation, negotiation and dispute settlement, it is difficult for conflicts to be adequately addressed and channeled. This is further complicated by the foreign management of many zone enterprises who are unfamiliar with the country. But where at the zone level, through union pressure, employer or government initiative, bipartite dialogue has taken place, it appears to have benefited from lower levels of industrial unrest and labour turnover.

At the international level, some zone authorities have included trade unions on their boards (such as the Philippines, Singapore and Trinidad and Tobago). Others have promoted labour-management committees at enterprise level to deal with working conditions and occupational safety and health issues, though some of these committees are seen by unions as a means of undermining independent workers' representation. Alliances between trade unions, women's organizations and solidarity networks need to be forged to improve the working conditions of workers in EPZs.

Key Conclusions and Recommendations

EPZs today is growing as an important feature of the labour market in Indonesia. The number of Zones themselves have increased over the years. The opportunities for Indonesia under the new government initiative include access for more workers to formal sector employment. However, EPZs working conditions, labour relations and human resource development are areas in the EPZ's which require further improvement. In Indonesia,, the lack of enforcement of labour legislation, the weakness of workers' organizations representation at the zone level on labour management issues and employers inability to device mechanism at the enterprise level to promote sustainable bipartite dialogue and the absence of a national forum to address EPZ issues have been the major constraining issues. Furthermore, the shortage of good quality human resource development programmes have undermined the ability of the zones to upgrade the skills, improve working conditions and productivity and thereby to emulate the Malaysian \Singapore neighbors in becoming dynamic and internationally competitive platforms

Issue of Securing Compliance on Labour Legislation. Strengthening institutions of governance

The continuing spread of the global market economy has still to be matched by the development of adequate institutions for its governance. This certainly poses risks and dangers, if globalization will continue to generate exclusion and insecurity.

While it was clear that the Indonesian government is looking to the EPZs as the cutting edge of globalization, it did not seem to have a clear strategy to address compliance of labour standards in the zones as a long term strategy to manage social and economic issues. For example in the two major zones visited by the mission, the social issues remained a major issue The impact of labour inspection to secure effective compliance of existing legislation was hardly evident due to various factors including lack of labour inspectors. In the Batam zone alone where there were 3000 establishments, with only 4 inspectors who undertook about 5 inspections a month each. Core labour standards as defined by the ILO provide a minimum set of global rules for labour in the global economy and respect for them should be strengthened in all countries. Stronger action is required to ensure respect for core labour standards in the EPZ's.

Hence, a critical issue to address in the zones is the issue pertaining to compliance of labour standards. In the absence of effective enforcement of the law, Nike one of the key brands sourcing garments and footwear from Indonesia has employed 200 Compliance Officers in Jakarta to undertake audits which are looking more and more like labour inspections. This has been followed by other brand names too. If Indonesia is to continue to produce goods for the EU market or the US market, effective inspections and coordination with buyers and compliance to national labour laws will be a prerequisite for the Ministry of Manpower.

Although Indonesia derive benefits from employment and from exports from the EPZ's, the labour inspectors both in the HQ and Field do not regard the monitoring the FTZ's as a priority for the sustainability of the zones. In fact, the quality of governance in the EPZ's will be a major factor in determining whether Indonesia will be able to obtain GSP Plus status(Status Given By the EU for

complying with ILO's Core standards, the UN Human Rights and Environmental Standards which will allow the country to export more than additional 7,200 items duty free.) which the nation is hoping to obtain which will give the country export subsidy to EU. If this is to materialize, the countries goods must be produced under decent work conditions. Improved labour inspections and safe work management will lead to a decline in the number of accidents, an increase in the motivation of the labour force and thus higher **productivity** and **better quality products**.

In this regard, the ILO Jakarta Office need to undertake measures to implement the project proposal entitled " **Adapting and streamlining industrial relations and labour market governance mechanisms in Indonesia.**" .to enhance productivity, competitiveness". This project proposal was prepared by the ILO Jakarta at the request of the Government and the social partners in early 2007. It requires donor support. Good governance of the labour market is vital in maintaining or enhancing productivity and competitiveness, particularly in the face of mounting pressure from the Indonesian government policies to open up markets and meet the challenges of globalization. The key to competitiveness is quality, and products (and services) of high quality can only result from high quality working practices and production methods. To this effect the labour inspectorate should be strengthened, through effective planning, monitoring and implementation of inspections, increased resources and better training.

Greater Collaboration Between Key Stakeholders In EPZ,s

Cooperation and joint action between the labour inspectorate and the zone authorities, with the involvement of workers' organizations where appropriate, could provide additional scope for compliance. The mission is of the view that given the growing importance of the manufacturing sector to the national economy and the possibility of Indonesia bidding for GSP PLUS status, there is a need for close collaboration and coordination and dialogue between the EPZ Authority,, Ministry of State Owned enterprises which has overall responsibility for EPZ's Ministries of Trade and Industry, the leading brands, the MOM, employer organizations and the trade unions.

This is best achieved through a multi stakeholder forum. For this to be implemented, the Ministry of Manpower needs to select one of the zones as a pilot project and reorganize the inspection system in a more collaborative and in a more preventive mode so that the experience gained here can be replicated in the other zones

The proposed Multi Stakeholder forum can be established at the national level and be as a subcommittee of the National Tripartite Labour Advisory Councils. It can be set up with the objective of developing a framework for integrated and risk-based inspections in the zone to monitor compliance in the enterprises in EPZ,s. It has to function as a **Technical Committee**, with the objective of providing guidance and information regarding the regulatory environment, supervising labour conditions at factories, including actual inspections, and implementing a follow-up mechanism for the factories

.Better compliance with international and national labour standards can also be promoted through information, education and awareness-raising programmes aimed at investors, managers of enterprises, workers, employers, and their organizations. Issues to be covered could include training in labour-management relations, freedom of association and collective bargaining, non-

discrimination, gender sensitivity and cross-cultural management, tripartite and bipartite consultation and cooperation.

One of the key component of the proposed project could be to increase the efficiency of the government inspectorates. Inspection reform is already under way in the MOM with the publication of the document entitled REVITALISATION of labour inspections. However, the focus of inspections itself needs to focus on a key strategic areas including the EPZ's. It needs to address in a strategic way compliance of labour laws within the country as well as within the zones. This is clearly a top priority given that most of the disputes are over rights and over non payment of statutory dues. Furthermore, the document "revitalization "of labour inspection system that needs to also focus on prevention of disputes.

Establishing a Computerised Labour Inspection Management System

For effective monitoring of labour standards, MOM has to eventually develop a computerized system to enter key outcomes of the labour inspection, and plan, monitor and evaluate the state of compliance of labour standards. This will enable the MOM to brief the employers and trade unions on the and the **state of compliance** and **competitiveness** of the EPZ's. The present system, including the present inspection form needs to be revised, and a comprehensive master register of establishments introduced and inspectors trained on basic computer skills. Therefore a key recommendation is for MOM with ILO assistance develop a computerized Information Management system (IMS), similar to those found in countries such as Singapore, Hong Kong, Malaysia Namibia, Lesotho Swaziland and Cambodia.

Promoting Tripartite Dialogue at the National Level and Bipartite Dialogue at the Enterprise level

As recognized from discussions with the constituents there is an urgent need to enhance the sustainability of the EPZ's through regular national consultations and policy making through a revamped National Labour Advisory Council. Within this new national tripartite body there is a need to constitute a Subcommittee on of NLAC on EPZ's to monitor labour relations, working conditions, and productivity and quality enhancement of EPZ's. This committee could also coordinate the work of local tripartite bodies being set up in the EPZ's. ILO Technical assistance will be needed to establish such a mechanism.

Strengthening Trade Unions Capacity to promote collective bargaining and increase membership base

Remuneration packages, including non-wage benefits, should be determined through collective bargaining. However the trade unions admitted there is a need for closer coordination among the larger unions to receive assistance from the ILO to improve collective bargaining skills and to deal with the management of the zones in a more strategic. way. They recommended that the training programmes be undertaken not only in Jakarta but in Batam as well.

A major source of concern is the growing phenomena of outsourcing and third party contracts where workers are coerced into becoming independent contractors, forced to work long hours for low wages in exploitative conditions. According to the union leaders, many workers in outsourced companies do not benefit from social security provisions as well. In the absence of regular and systematic inspections by the MOL they fear that many workers may lose in terms wages and benefits and underlined the need for establishing a legal basis for the determination of an employment relationship in the same context as the need for enhancing collective bargaining skills. They felt that workers were at the losing end and requested ILO assistance in strengthening the labour administration system to provide redress. Their basic complaint was that legislation regarding hours of work should be respected in EPZs. Excessive hours and overtime should be avoided to reduce the health and safety risks, inefficiency and the negative social consequences. Workers working late, women in particular, they argued also face increased risks and special measures should be taken to ensure adequate transport and security and crèche facilities. **An important outcome of the discussions with the unions underlined the importance for the ILO to sensitize the tripartite constituents on Recommendation 198 on Employment Relationships**

Strengthening Employers Capacities to promote productivity and good labour management relations

Discussions with employers in the –Batam EPZ revealed that whilst strikes have come down in (2001 – 32 strikes, 2002: 23 strikes, 2003: 12 strikes, and 2006: 1 strike,, the labour management relations had continued to be a problem. The Batam EPZ was developed with investments mainly from Singapore with electronics dominating the composition of enterprises. The employers explained that the decline in number of companies and workers employed are mainly due to poor labour relations. The general feeling among employers was that the trade unions in Batam need to have better understanding of the strategic role of EPZ's in the global economy and also for adopting good faith bargaining in their negotiation with the employers.

.Human resource development was cited by the management as one of the key elements in improving the social and labour conditions in the Batam EPZ. Activities such as the Factory Improvement Programme used effectively by the Employers Federation Of Ceylon in the EPZ's could raise the human capital base through the development of skills and provides workers with the means of improving the quality of life. The Employers also pointed out that skill development could be promoted through a levy fund such as developed in Singapore which compensates government agencies, employers' and workers' organizations which undertake training and retraining initiatives. For longer term sustainability, lifelong learning, multiskilling and career path systems should be encouraged.

Obtaining Donor Support for the ILO Jakarta's Project Proposal

As discussed earlier, as follow up to the ILO Declaration Project, **ILO Jakarta has prepared a project proposal entitled "Adapting and streamlining industrial relations and labour market governance mechanisms in Indonesia."** to enhance productivity, competitiveness and respect for fundamental rights at work. This sprout needs to take into account the recommendations made in

this report and obtain donor support. This will build the foundations for sound and stable EPZ policy and labour market governance that foster opportunities for decent work, productivity and competitiveness upgrading, and respect for the fundamental rights at work in an increasingly complex and global open market system.

Mobilizing Action for Change

The mission believes that broad-based dialogue on our recommendations, especially on the need to gain donor for the project proposal is the essential first step in mobilizing action for change. It is of primary importance that such dialogue begins at the national level in order to construct the foundations of the necessary consensus and political will.

During the mission, the tripartite constituents repeatedly requested the ILO to organise such a forum at the national level deal with emerging labour issues in EPZ's in relations to the decent work strategy of the ILO. This they feel could lead to development of a more focussed plan of action which ILO Jakarta may consider for integration with the on going DWCP of Indonesia and possibly lead to the implementation of the project proposal on "Adapting and streamlining industrial relations and labour market governance mechanisms in Indonesia."

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