

Trends in 2015 have seen the economy slow...

Economic performance during the first three quarters of 2015 slowed to 4.7 per cent (yoy), largely attributed to volatility in Asian markets, deteriorating commodity prices and delayed government spending. In 2015 it is expected that GDP growth will remain close to 4.7 per cent, with challenges such as forest fires and the realization of government spending likely to influence overall performance. The outlook for 2016 is more positive, with the recent policy reforms enacted in 2015 expected to bear fruit and see private sector investment pick up (see Box 1). Recent forecasts anticipate that GDP growth in 2016 will be moderate and range between 5.1 and 5.4 per cent.¹ This slower growth represents new challenges and highlights a need for strengthening competitiveness and productivity while promoting the creation of more and better jobs.

Box 1: Policy reform in Indonesia

In support of attracting new investors and spurring on economic growth, the Joko Widodo Government announced a series of economic reform packages from September 2015 onwards. The key focus of the reforms relate to reducing constraints to doing business and improving the investment climate in the medium term. Package one focused on streamlining overlapping trade and industry regulations. Package two and three focused on the acceleration of strategic projects of national interest through improving access to permits, solving land acquisition problems, reforming energy policies and reducing procurement time. Package four focuses on labour market reform, particularly on the minimum wage fixing system. Package five and six focus on regional policy and support the expansion of special economic zones.

... and seasonal factors have played a role in labour market performance.

The labour force was estimated at 122.4 million people in August 2015, an increase of half a million people compared with August 2014. The number of people employed in August 2015 reached 114.8 million, which is a marginal increase from 114.6 million in August 2014. While trends may suggest that Indonesia is experiencing jobless growth, it is important to note that employment outcomes have continued to fluctuate between February and August substantially, pointing to both seasonal and other factors playing a role in labour market churning. To illustrate, in February 2015 there were 120.6 million employed people, while in August 2015 the number of employed people reduced to 114.8 million – a decline of 6 million people that reported to be in employment (see Table 1).

Table 1: Key labour market indicators (2013-2015)

Key indicator	Feb 2013	Agt 2013	Feb 2014	Agt 2014	Feb 2015	Agt 2015
Labour force (million)	123.6	120.2	125.3	121.9	128.3	122.4
Employed (million)	116.4	112.8	118.2	114.6	120.6	114.8
Unemployed (million)	7.2	7.4	7.2	7.2	7.5	7.6
Labour force participation rate	69.2%	66.8%	69.2%	66.6%	69.5%	65.8%
Unemployment rate	5.8%	6.2%	5.7%	5.9%	5.8%	6.2%

Source: BPS (2015) Pasar Tenaga Kerja Indonesia Agustus 2015, Badan Pusat Statistik, Jakarta.

The unemployment rate in August 2015 was estimated at 6.2 per cent, which is high in comparison to recent periods. However, in terms of absolute figures, the increase in the number of unemployed workers is marginal, with an additional 110,000 workers becoming unemployed between February and August 2015. The increase in the

unemployment rate coincides with reduced participation in the labour force. In addition, it is important to note that fluctuations in employment tend to be linked to inactivity more than unemployment, with outflows from employment to inactivity higher than outflows from employment to unemployment.

In terms of sectoral trends, agriculture maintained its dominance, employing 37.8 million people, followed by trade (25.7 million) and the community, social and personal services sector (17.9 million) in August 2015. Employment in the agricultural sector declined in August 2015, largely due to the reduced labour force participation of unpaid family workers and own account workers in rural areas. The community, social and personal services sector also declined in August 2015, with delayed government spending a factor contributing to this trend (see Table 2).

Table 2: Employment by sector (millions, 2014-2015)

Variabel	Feb 2014	Aug 2014	Feb 2015	Aug 2015
Agriculture, Forestry, Hunting and Fishery	40.83	38.97	40.12	37.75
Manufacturing	15.39	15.26	16.38	15.25
Construction	7.21	7.28	7.72	8.21
Wholesale Trade, Retail Trade, Restaurant and Hotels	25.81	24.83	26.65	25.68
Transportation, Storage and Communication	5.33	5.11	5.19	5.11
Financing, Insurance, Real Estate and Business Services	3.19	3.03	3.65	3.27
Community, Social, and	18.48	18.42	19.41	17.94
Other activities	1.93	1.83	1.73	1.61
Total	118.17	114.63	120.85	114.82

Source: BPS (2015) Pasar Tenaga Kerja Indonesia Agustus 2015, Badan Pusat Statistik, Jakarta.

of sectoral share and absolute numbers) than its pre-1998 status, when it was a driver of economic and job growth in Indonesia. However, it is important to note that employment outcomes in manufacturing tend to fluctuate throughout the year, in response to the demand driven nature of the sector. Interestingly, data from the survey of large and medium enterprises in the manufacturing sector indicates that economic performance in manufacturing has been comparable to previous years even though overall GDP growth has slowed.²

Another noteworthy trend is in the construction sector, which has experienced strong and sustained job growth in recent years. The construction sector employed 8.21 million people and expanded by 12.8 per cent between August 2014 and August 2015. The combination of growth trends in manufacturing and construction provide important information on investment and growth for Indonesia. These trends are underpinned by policy initiatives that are prioritizing investment in infrastructure and promoting a reindustrialization of the Indonesian economy.

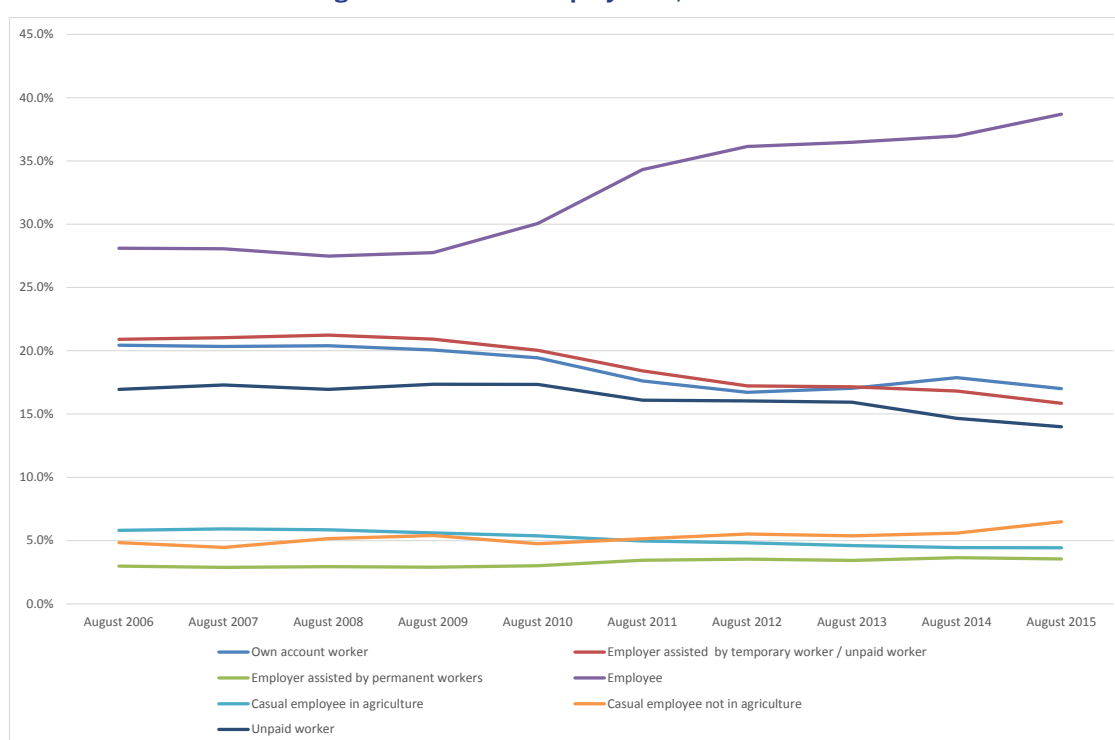
... and wage employment continues to expand.

Growth trends continue for regular employees,³ with 44.43 million people or 38.7 per cent of those employed as working as regular employees in August 2015 (see Figure 1). This trend is very positive as it means that more people have access to stable sources of income as well as access to health care (BPJS Kesehatan) and pensions (BPJS Ketenagakerjaan).⁴ It also means that the number of people considered to be “wage employees” has increased over the period, and this entails that “wage income” is becoming increasingly important as a source of income for Indonesian people. Subsequently, wage policies are important for a greater portion of the population.

The manufacturing and construction sectors continue to deliver jobs

The manufacturing sector employed 15.3 million people or 13.3 per cent of total employment in August 2015. Employment in manufacturing has been experiencing sustained growth in recent years and is now higher (in terms

Figure 1: Status in employment, 2006-2015



Source: BPS (2015) Pasar Tenaga Kerja Indonesia Agustus 2015, Badan Pusat Statistik, Jakarta.

With the increase in the number of people working as regular employees, vulnerable employment and informal employment⁵ have decreased - both in terms of share of employment and absolute numbers. To illustrate, in 2006 68.9 per cent of employed persons were considered to be in vulnerable employment, while in 2015 those in vulnerable employment had reduced to 57.8 per cent of employed people. This is a remarkable transformation over a short period of time. These positive trends coincide with increasing educational attainment and the expansion of employment in the services sectors, as well as the expansion of employment in the manufacturing sector and use of short-term contracting.

Trends in status in employment have also seen the number of people working as own account workers and unpaid family workers decline between August 2014 and August 2015. Interestingly, seasonal factors seem to be playing a role for these workers, with fluctuations in the February and August employment estimates considerable. The data points to issues of labour market attachment for unpaid family workers and own account workers, with these workers shifting in and out of labor force participation regularly. This situation and highlights a need for labour market policies and programmes to strengthen the labour force participation of these groups.

The compositional shift towards wage employment is accompanied by increasing gains in labour productivity. As observed in the Table 3, labour productivity has been increasing gradually over time. Trends indicate that productivity gains accelerated after the global financial crisis and coincide with the growth in wage employment and comparatively higher rates of growth in the manufacturing sector.

Table 3: Productivity and employment trends

Variabel	2011	2012	2013	2014
Employment (millions)	107.4	112.5	112.8	114.6
Regular employees (millions)	37.8	40.9	41.1	42.4
GDP, IDR Constant 2010 (trillions)	7,287.6	7,727.1	8,158.2	8,568.1
GDP per employed person (millions)	67.9	68.7	72.3	74.7
Growth in GDP per employed person	8.3%	1.2%	5.3%	3.4%

Source: BPS (2015) Labourer situation August 2015, Badan Pusat Statistik, Jakarta.

Peningkatan produktivitas pekerja (PDB per pekerja) ini perlu diikuti dengan dialog tentang bagi hasil, karena dialog ini dapat menghasilkan pekerjaan yang lebih bermutu, termasuk upah dan kondisi kerja yang lebih baik yang dibutuhkan untuk meningkatkan standar kehidupan para

pekerja. Kotak 2 membahas lebih jauh tentang tren-tren upah, pekerjaan dan produktivitas di sektor pengolahan.

Box 2: Firm level wages and productivity

Research analysing employment, wages and productivity using firm level data of manufacturing establishments found that there is a general trend of a de-linking between wages and productivity across sectors in the Indonesia economy. However, the Indonesian manufacturing sector has experienced improvements in the wage-productivity ratio since 2008, particularly in large and medium firms.

Analysis of data from the survey of large and medium manufacturing enterprises confirms a positive causal relationship between wages and productivity in a two-way direction. Productivity is the most important determinant of the wage. Capital intensity per worker positively and significantly affects wages and productivity. The two-way positive causal relation between wages and productivity are also found in micro and small firms in the manufacturing sector.

Surprisingly, analysis found that export orientation and foreign ownership have no significant effect on wage and productivity across firm size and factor intensity. This implies that the domestic market and domestic sources of investment have become more important for the Indonesian manufacturing sector, which is in contrast to the situation prior to the late 1990s Asian crisis.

In addition, findings support a general positive relationship between wages and employment after taking into account the effect of productivity on the wage. These results challenge the conventional wisdom postulating a negative relationship between wages and employment. Evidence challenging the orthodoxy is strongest among the modern, more dynamic and more organized large and medium manufacturing establishments.

Source: Tadjoeddin, Z. and Auwalin, I. (2015) Wage and productivity at the firm level: A study on micro, small, medium and large firms in Indonesia's manufacturing sector, ILO Country Office for Indonesia and Timor-Leste, Jakarta.

attainment for the unemployed population. It shows that unemployment is highest for those with either senior high school or vocational high school as their highest level of educational attainment.

Table 4: Unemployment rates by educational attainment

Sector	Feb 2014	Aug 2014	Feb 2015	Aug 2015
Primary school or less	3.69	3.04	3.61	2.74
Junior high school	7.44	7.15	7.14	6.22
Senior high school	9.10	9.55	8.17	10.32
Vocational high school	7.21	11.24	9.05	12.65
Diploma I/II/III	5.87	6.14	7.49	7.54
University	4.31	5.65	5.34	6.40
Total unemployment	5.70	5.94	5.81	6.18

Source: BPS (2015) Pasar Tenaga Kerja Indonesia Agustus 2015, Badan Pusat Statistik, Jakarta.

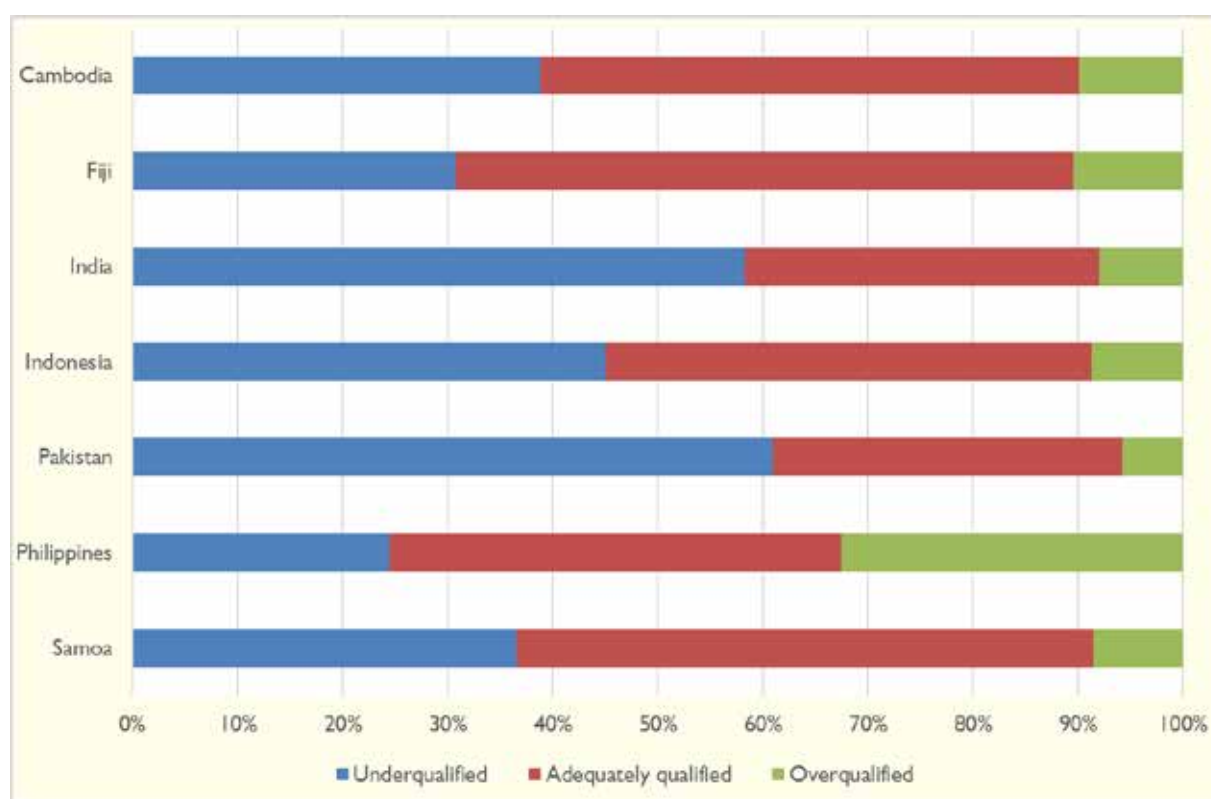
Trends in unemployment for high school graduates point to issues related to “school-to-work” transition and are in part a reflection of the degree to which the curriculum within educational institutions is aligned with the needs and requirements of employers. Persistent rates of high unemployment for high school graduates highlight that it is important to foster a dialogue on skills anticipation between employers and training institutions. Employers have information about the skills that they need and dialogue on training needs can help training institutions adapt curriculum in favour of increasing the employability of graduates. Dialogue can be fostered through the involvement of employers and workers in the design of occupational standards and training systems. Employers can also develop closer cooperation with training institutions through providing guest trainers and offering students apprenticeship opportunities.⁶

Due to low education attainment and poor career guidance, young people often leave school and enter the workforce with qualifications that do not match the needs of employers. Qualification mismatch is a significant issue in Indonesia and in countries within the region (see Figure 2). Analysis finds that almost half of employed youth in Indonesia are under-qualified for their occupations due to their low level of educational attainment. With an underqualified workforce, there is a risk of weaker productivity growth and a slower structural transition to higher value added activities.

Unemployment for high school graduates is a continuing concern.

Youth unemployment is a longstanding concern in Indonesia. Youth account for over 50 per cent of the unemployed population and most unemployed youth have high school as their highest level of educational attainment. Table 4 presents data on unemployment by educational

Figure 2. Qualification mismatch of employed youth, (per cent)⁷



Source: ILO (2015) Asia Pacific Labour Market Updates, October 2015, ILO Regional Office, Bangkok.

Policy implications

A number of implications arise from review of the current employment situation in Indonesia, including:

- ♦ To sustain **economic and labour market momentum**, a focus on both employment creation and labour productivity is needed to support quality jobs and job-rich growth. The slowing economic outlook adds additional challenges for policy makers on creating more jobs and better quality jobs.
- ♦ Trends associated with the manufacturing sector, as well as the expansion of wage employment, are likely to be accompanied by continuing **gains in labour productivity**. Productivity gains may be further optimized through investments in labour market institutions. A better linking of wages and productivity increases can help to promote equitable growth.
- ♦ Further reducing the number of people in **vulnerable employment and informal employment** is a priority. Strengthening the labour market attachment of vulnerable workers and helping these workers to access regular employment is likely to have significant development dividends, including gains on gender equality.
- ♦ The large number of **unemployed people with high school** as their highest level of educational attainment warrants the strengthening of partnerships between the private sector and training institutions, particularly in the areas of school-to-work transition, in order to ensure that young people can access emerging employment opportunities.



Endnotes

- 1 IMF, Economic Outlook, October 2015; ADB (2015) Asian Development Outlook 2015 Update, Asian Development Bank, Manila; World Bank (2015) East Asia and Pacific economic update, October 2015, World Bank, Washington D.C.
- 2 BPS (2015) The Growth of Quarterly Large and Medium Manufacturing Production, Badan Pusat Statistik, Jakarta.
- 3 According to BPS an “Employee, is a person who work permanently for other people or institution/office/company and gains some money/cash or goods as wage/salary. Labor who have no permanent employer is not categorized as a laborer/ worker/employee but casual worker. A laborers, in general is considered to have a permanent employer if he has the same employer during the past month, particularly for building construction sector is 3 months. If the employer is an institution, more than 1 (one) is allowed.”
- 4 It is important to note that many workers that are considered to be “regular employees” by official labour force statistics, are working on short-term rather than permanent contracts and therefore still have precarious contracting arrangements. In particular, approximately 40 per cent of regular employees have a job tenure of 36 months or less. Manpower Act No. 13/2003 specifies that short term contracts can be provided for an initial period of two years with an option to extend for an additional 12 months at maximum.
- 5 Informal employment estimates in this note follow the national definition of informal employment, which is different from data based on ICLS definition.
- 6 ILO’s approach to quality apprenticeship emphasizes social dialogue, clear definition of roles and responsibilities, legal framework and shared-financing arrangement as the four building blocks of quality apprenticeship. A quality apprenticeship is a sophisticated learning mechanism based on mutual trust and collaboration among the stakeholders: youth, labour and education authorities, employers and workers.
- 7 This metric of qualification mismatch is based upon aligning educational attainment levels according to the International Standard Classification of Education (ISCED) with occupational groups according to the International Standard Classification of Occupations (ISCO). ISCO occupational groups 1, 2, and 3 are considered high-skill and align with ISCED-97 levels 5 and 6. ISCO groups 4, 5, 6, 7 and 8 are considered medium-skill occupations and align with ISCED levels 3 and 4. ISCO group 9 of low-skill occupations correspond with ISCED levels 1 and 2. Following this normative approach, workers whose occupation match the assigned education attainment level are considered adequately qualified. Those with a higher level of education are considered overqualified and those with a lower level are classified as underqualified. Together, the overqualified and underqualified are considered mismatched. That is, their education levels are not in line with job requirements.

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