



International
Labour
Organization

Indonesia Labour Market Outlook

August 2016

Table 1: Key economic and labour market indicators

	2013	2014	2015
Real GDP (% change y-o-y)	5.6	5.0	4.8
Investment (% of GDP)	32.0	32.6	33.2
Exports of goods and services (% of GDP)	23.9	23.6	21.1
Consumer prices (% change y-o-y)	8.1	8.2	3.2
	Female	Male	Total
Labour force (million)	49,543	78,138	127,672
Employment (thousand)	116.0	227.9	344.0
Labour force participation rate (%)	52.7	83.5	68.0
Unemployment rate (%)	5.3	5.7	5.5
Adult, ages 25+	2.6	3.4	3.1
Youth, ages 15-24	18.6	17.4	17.8
Monthly earnings (Rp. Thousands)	1,878	2,348	2,181
Informal employment rate (%)	72.9	72.3	72.5

Note: All labour market indicators are based on February 2016 estimates for the population aged 15 and above, except for informal employment (2010/11).

Source: Economist Intelligence Unit (EIU) Country Data [Accessed on 22 July 2016]; Badan Pusat Statistik (BPS), 2016. Labour force survey (Sakernas), February 2016 (BPS, Jakarta)

Overview¹

Indonesia is currently weathering the global decline in commodity prices and corresponding slowdowns among its major trading partners. These factors have weighed heavily on the growth outlook – reducing the likelihood of achieving 7 per cent growth by 2018 – with severe ramifications for the labour market. Many of which, in terms of unemployment and

job quality, are likely to compound pre-existing challenges that include high youth unemployment and persistent informality. Moreover, further policy shifts are required to make greater headway in achieving gender equality in the labour market and reducing income inequalities, particularly in light of the newly adopted Sustainable Development Agenda.

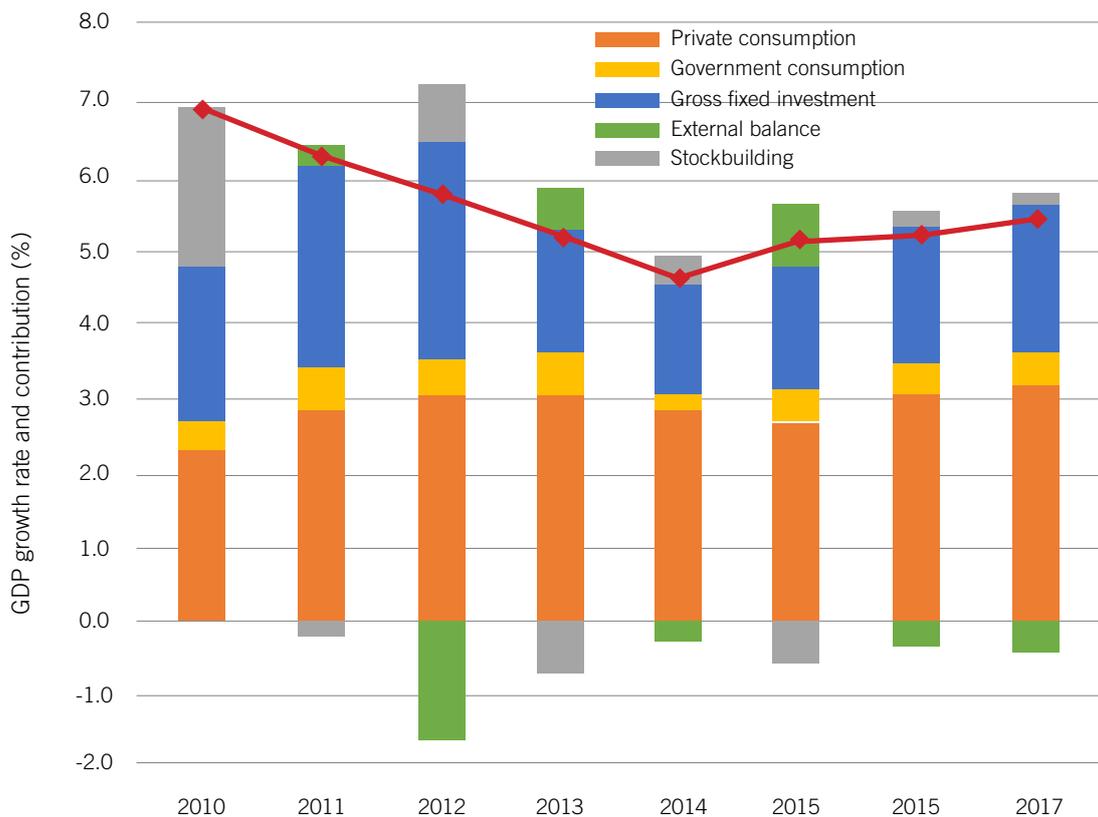
¹ This update was prepared by Richard Horne, Sameer Khatiwada (ILO Regional Office for Asia and the Pacific), and Owais Parray (ILO Country Office in Jakarta). Excellent data related help was provided by Rosamaria Dasso Arana (ILO Regional Office for Asia and the Pacific).

Reduction in commodity exports has led to a slowdown of economic growth, yet the near term outlook looks positive

After a period of relatively strong growth when the Indonesian economy grew by 6 per cent (per annum) between 2011 and 2013, growth slowed down to 5 per cent in 2014 and 4.8 per cent in 2015.² In the first quarter of 2016, the economy expanded by 4.9 per cent year-on-year (y-o-y). Slower export and investment growth on the back of declining commodity prices played a key role in the economic slowdown.³ Weak economic performance among regional trading partners, namely China and Japan – accounting for 11 per cent and 13 per cent of Indonesia's exports respectively – will dampen Indonesia's export revenues.

As commodity prices bottomed out in 2016, GDP this year is expected to grow by 5.1 per cent and in 2017 by 5.3 per cent, stemming from increased public investment in infrastructure and private consumption (Figure 1).⁴ However, economic growth for the next two years is expected to fall short of the government's target of 7 per cent, which it anticipates to achieve by 2018. Slower growth of the economy is likely to have an impact on the labour market and social outlook, as Indonesia grapples with high youth unemployment, informality and persistent gender gaps in the labour market.

Figure 1: GDP growth rate, by main component, 2010-2017 (%)



Note: 2016 and 2017 data are forecasts

Source: EIU Country Data [Accessed on 22 July 2016]

² EIU Country Data [Accessed on 22 July 2016]

³ Indonesia's major export products include coal, palm oil, petroleum gas, crude petroleum and rubber.

⁴ Country Report: Indonesia, Economist Intelligence Unit (EIU), June 2016.

Longer-term outlook will require diversification away from commodities, particularly in manufacturing

In the medium to long-term, Indonesia needs to find new engines of growth to support job creation and productivity. In this regard, policies will need to focus on manufacturing and high-end services to ensure that future growth is more inclusive and employment-friendly. This is particularly true for manufacturing, which has yet to return to a similar level of growth experienced before the financial crisis in 1997. According to a recent study,⁵ the share of Indonesia's global exports in manufacturing has remained stagnant at 0.6 per cent. Moreover, while the share of employment in the trade and services sector has grown over the years, this has happened mainly at the low-end of the value chain, resulting in jobs that are not very productive.

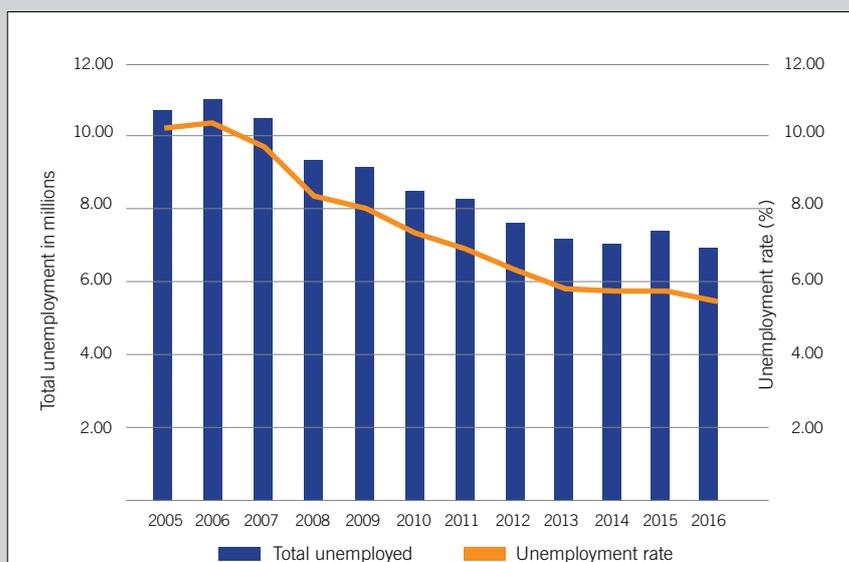
Over 7 million remain unemployed despite continued decline of unemployment rate

In February 2016, more than 7 million people were unemployed in Indonesia, down from 8.3 million in 2010 and 10.1 million in 2007 (Figure 2). The labour force stood at 127.1 million in February 2016, but the number of people in the labour force had declined from 128.3 million a year earlier. Correspondingly, the labour force participation rate fell from 69.5 in February 2015 to 68 per cent in February 2016. The female participation rate, at 52.1 per cent, continues to be considerably lower than males at 83.4 per cent.

Meanwhile, the unemployment rate in February 2016 was recorded at 5.5 per cent, down from 5.8 per cent a year before. The unemployment rate has been on a declining trend from 6.3 per cent in 2012 and 7.4 per cent in 2010. This is partly attributed to the net reduction in the labour force over the same period.

⁵ World Bank. Indonesia Economic Quarterly, "Resilience through reforms", June 2016

Figure 2: Total unemployed and unemployment rate in Indonesia, 2005-16



Source: Sakernas (February series), 2005-2016.

Considerable heterogeneity in employment rates by provinces

Wide disparities are observed in provincial unemployment rates. In February 2016, the unemployment rate in Riau was estimated to be 9 per cent – the highest of all the provinces. Similarly, unemployment rates in Aceh, East Kalimantan, and West Java were above 8 per cent.

High rates in these provinces are likely related to the drop in commodity exports, while in the case of West Java stagnant growth in manufacturing may have played a role. It is, however, important to note that unemployment in these provinces has been historically higher than the national average.

Provinces with the lowest unemployment rates include Bali, Papua and Yogyakarta, where it was below 3 per cent in February 2016. Bali is the premier tourist destination in Indonesia and continues to draw millions of foreign and domestic tourists every year. As a result, the Balinese economy tends to be more resilient to unemployment volatility and has been able to maintain a relatively low unemployment rate of less than 3 per cent.

Other areas with low unemployment rates include Central Sulawesi, North Maluku and Nusa Tenggara Timur. Unlike Bali, low unemployment rates in these provinces may instead reflect higher incidence of working poverty and

informal employment which tends to “disguise” employment situation in what are relatively under-developed provinces of Indonesia.

High youth unemployment remains a major challenge, alongside prevalent informality

In February 2016, the youth unemployment rate in Indonesia stood at 17.8 per cent, down from 20.6 per cent a year earlier. However, youth unemployment in Indonesia is relatively high in comparison with other countries in the region. For example, in China the youth unemployment rate in 2015 was 12.1 per cent.

According to ILO regional estimates, in 2015, the average youth unemployment rate for Eastern Asia was 11.7 per cent and for South-Eastern Asia it was 13.1 per cent.⁶

Moreover, the ratio of youth to adult unemployment in Indonesia – 5.8 times as high as the adult rate – was considerably higher than the regional average. The youth-to-adult unemployment ratio for Eastern Asia was 3.2, while for South-Eastern Asia it was 5.1.

One of the ongoing labour market challenges facing Indonesia is the high incidence of informality. Based on the latest global estimates, informal employment, as a per cent of total non-agricultural employment, was estimated at 72.5 per cent in Indonesia.⁷

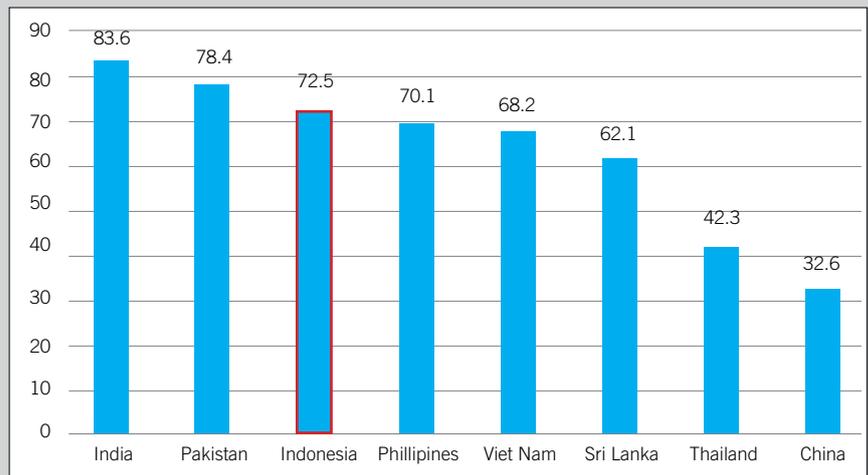
This rate is considerably higher than China and Thailand (Figure 3). The level of employment informality in Indonesia is more comparable to India and Pakistan - countries with some of the highest levels of informality globally.

Given the prevalence of informality, vulnerable employment (sum of own account and unpaid family workers) out of total employment is also relatively high in Indonesia.⁸ In

fact, in February 2016 it was estimated to be 58.2 per cent, considerably higher than the average among the major Eastern and South-Eastern Asian countries.

In 2015, for example, vulnerable employment in countries such as China, Malaysia and the Philippines was 45.5 per cent, 22.1 per cent and 37.4 per cent, respectively.

Figure 3: Informal employment as a share of non-agricultural employment in Asia, 2012



Note: Data on informality is not available across all the countries in Asia and the Pacific.

Source: “Statistical update on employment in the informal economy”, ILO Statistics, June 2012.

Sizable gender gaps in the labour market undermine wider gender equity

In Indonesia, women tend to fare worse than men in the labour market. Across all the indicators of labour market outcomes, women lag behind. In light of the recently adopted Sustainable Development Agenda, this makes the objective of gender equity by 2030 – one of the 17 Sustainable Development Goals (SDGs) – an uphill task.

For example, according to February 2015 data, labour force participation among women in Indonesia was 50.9 per cent – lower than most of its regional counterparts (Figure 3). In fact, the gap in labour participation rates between males and females is 33 percentage points, less than Fiji but higher than most of the other economies in the region.

Likewise, the gender pay gap remains an issue. According to February 2016 labour force data, women on average were earning incomes 78 per cent of their male counterparts (Rp. 2.3 million for men vs. Rp. 1.8 million for women).⁹

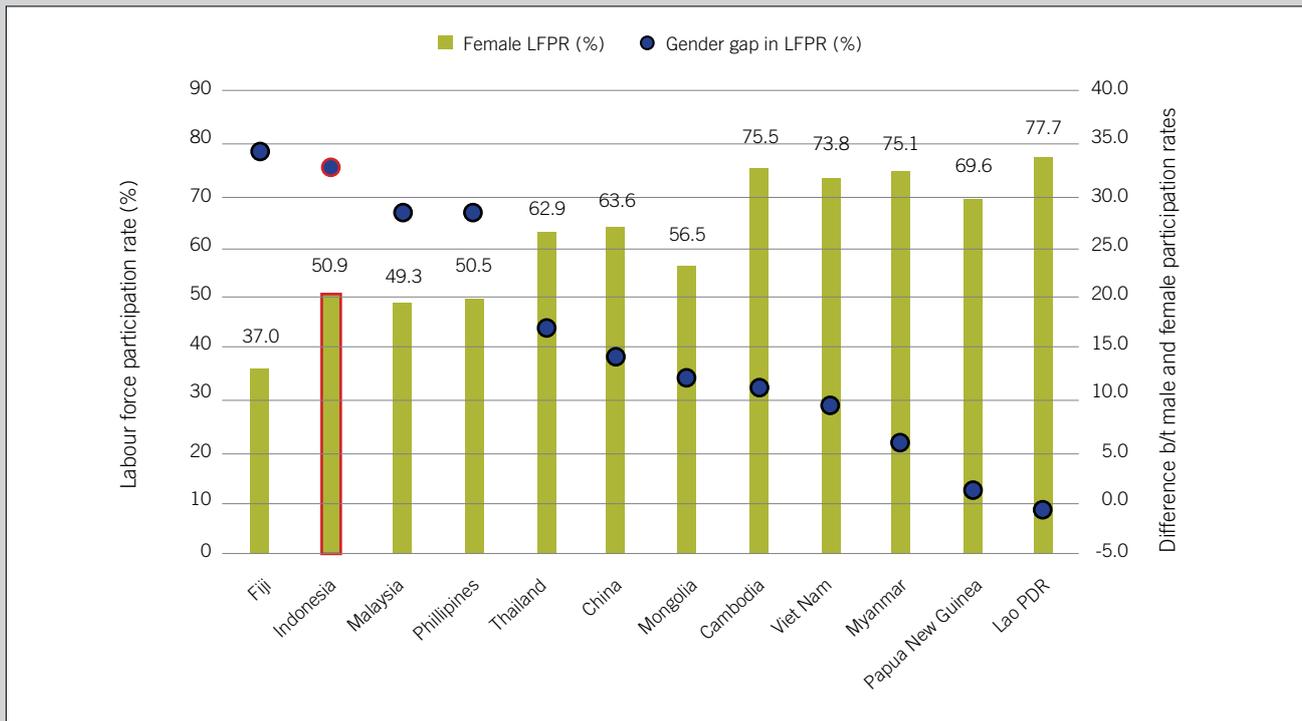
9 BPS, 2016. Sakernas, February 2016 (BPS, Jakarta)

6 ILO Trends Econometric Models, November 2015

7 Source: Statistical Update on Employment in the Informal Economy, ILO Dept. of Statistics, June 2012.

8 ILO Trends Econometric Models, November 2015 BPS, 2016. Sakernas, February 2016 (BPS, Jakarta)

Figure 4: Gender gap in labour force participation rates, 2015



Source: ILO - Trends Econometric Models, November 2015.

Income inequality continues to rise, underscored by skills gaps in the workforce

In the recent years, income inequality in Indonesia has been creeping up at a much faster pace than its East and South East Asian neighbours. For example, in 2000 Gini coefficient – one of the measures of income inequality – was at 0.30 (among the lowest in the region), which increased to 0.41 by 2013.¹⁰

Furthermore, consumption per person for the richest 10 per cent of Indonesian grew by 6 per cent per year between 2003 and 2010, while it grew by less than 2 per cent among the poorest 40 per cent.

One of the key determinants of inequality in Indonesia, as underlined in the Medium Term Development Plan (RPJM), is unequal access to good quality employment. The government's objective of reducing inequality – Gini coefficient of 0.36 by 2019 – and achieving SDG 10 will be

challenging unless concerted public interventions are put in place to address the inequities. While there is a need to strengthen social protection programmes, Indonesia also needs to promote skills training opportunities for the workforce to enhance productivity.

Indeed, recent evidence shows that less than 9 per cent of the people (11.1 million) in the work force have a university degree. Among those with a university education, only 2.7 million (less than a quarter) are from rural areas.

Furthermore, more than 16 per cent (20.6 million) have either not completed elementary school or have never been to school and a large share of them (67 per cent) are from rural areas. Structural transformation of the economy towards more productive sectors will require addressing the skills gap and enhancing education and training opportunities.

10 World Bank, 2015. *Indonesia's Rising Divide* (World Bank, Jakarta)

Outlook and Policy Avenue

Despite Indonesia's anticipated slowdown in the medium-term, the economy is still one of the largest and fastest growing economies worldwide. Nonetheless, further efforts are needed to develop strong foundation for structural transformation underpinned by decent work and quality employment.

Looking forward, an industrial policy that creates greater number of productive jobs should be a key area of focus. Furthermore, effectively addressing skills gaps through quality education and training should be prioritized. To this end, anticipating the skills needs of a technologically more sophisticated economy will be important in bolstering productivity growth (see Box 1).

Addressing Indonesia's more chronic labour market challenges, including widespread informality, gender gaps and high youth employment, require a set of decent work policies. To ensure coherence across economic and social policies, a constructive dialogue involving the government, employers, workers, and other relevant stakeholders is needed.

The newly adopted Sustainable Development Agenda, while vast in scale and aspiration, provides a unique opportunity to build a shared development vision in Indonesia. Not only can it help shape policy towards sustainable socio-economic outcomes, it provides a new avenue and platform for policy coherence and coordination underpinned by evidence-based approach to policymaking.

Box 1: Skills development needed to offset job losses to automation

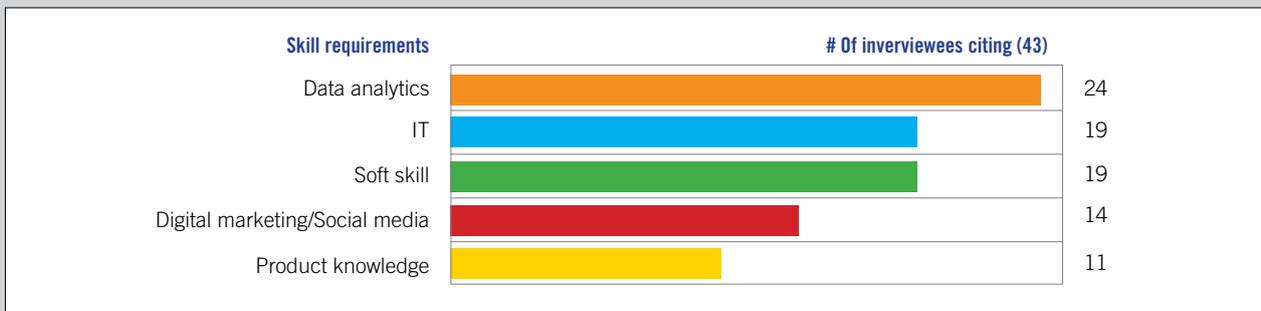
Over 60 per cent of salaried workers in selected high-employment industries in Indonesia face high risk of automation, according to a recent ILO report.¹ Indonesia is highly susceptible to technological disruptions owing to the high-concentration of labour-intensive manufacturing and service jobs – i.e. those most susceptible to replacement to automation. Moreover, while manufacturers are likely to seek higher-skilled workers to help boost and manage technological capacity, low-skilled workers are more likely to be displaced in favour of automation.

The report, based on surveys conducted across ASEAN countries (1,224 surveys in Indonesia), looks at a selection of industries identified for their contribution to growth and employment, namely: automotive and auto parts; electrical

and electronics (E&E); textiles, clothing and footwear (TCF); business process outsourcing; and retail. It finds the share of Indonesian salaried workers at risk in these industries was as high as 85 per cent in retail and 64 per cent in TCF and over 60 per cent in automotives and E&E.

In anticipation of changes ahead, it is imperative that the workforce is equipped with appropriate and in-demand skills, such as data analytics and IT (Figure B1). Accordingly, it is critical that employers, government, workers and other relevant stakeholders actively prepare and respond to changes taking place in the workplace. Constructive engagement between government, social partners, and educational and training institutions is crucial to anticipate skills demand and training programmes for future.

Figure B.1: Changes in skills requirements of ASEAN's labour force to the rising use of technology



Note: Responses to the question: "Can you specify the functional areas where you believe that requirement of labour would change the workplace?"

Source: ILO retail survey, 2016; in ILO (2016) op. cit

¹ Source: ILO, 2016. ASEAN in Transformation: How technology is changing jobs and enterprises (ILO, Bangkok)