The role of the private sector and social dialogue in economic development and employment creation

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1 Introduction

Thank you for the kind words of introduction.

It is a great honour for me to address the distinguished participants at this the 8th National Congress of the Employers’ Association of Indonesia. This is my first time in Indonesia, and in the historic and vibrant city of Jakarta. The ILO Director General, Mr. Juan Somavia, sends you his regards and best wishes.

Today, I would like to talk to you about the key role of the private sector and of social dialogue in economic growth, employment creation and poverty reduction, and link this with some of the employment and development challenges that Indonesia is facing. But let me begin with a few comments on globalisation.

The reason I want to start with this is that how each person sees globalisation has a strong influence on that persons’ views on economic development, social policies and the role of government. And because international experience shows that those countries that have managed to create a widely shared vision about how to respond to globalisation, rather than getting trapped in confrontations and mistrust about the key issues, have been the most successful in harnessing the forces of globalisation for their own economic and social progress.

1 Asosiasi Pengusaha Indonesia (APINDO)
2 Globalisation

So, are the problems of poverty and inequality in a country due to the fact that it has globalized too much, or because it has not globalised enough? How to best manage the process of integration to the world economy? And, what is the role of internal policies in responding to globalization? These are questions that confront policy makers, employers and workers everyday in many countries and I am sure Indonesia is not an exception. And the answers you give to these questions have a strong influence not only on the possibility of achieving a national policy consensus but on the very economic and social performance of your country.

The ILO not only has done quite significant research on these questions but, most important, there have been extensive tripartite debates between governments, employers and workers in the ILO about globalisation and some important shared views have emerged.

In 2002 the ILO convened a “World Commission on the Social Dimension of Globalization” to develop a broad consultation on these questions and make recommendations. The Commission was chaired by two incumbent Heads of State and included a cross-section of leading thinkers – Nobel Prize winners, academics, business and labour leaders, civil society activists and political personalities from four continents. It had the explicit mandate to examine the process of globalization through the eyes of ordinary people.

From divergent voices a converging view emerged, at the same time optimistic and sobering, which was expressed by the Commission’s final Report by saying that “The potential (of globalization) for good is immense...the global market economy has demonstrated great productive capacity. Wisely managed, it can deliver unprecedented material progress, generate more productive and better jobs for all, and contribute significantly to reducing world poverty. But, we also see how far short we still are from realizing this potential. The current process of globalization is generating
unbalanced outcomes, both between and within countries. Wealth is being generated, but too many countries and people are not sharing in the benefits.”

The report presents a vision for change. Putting people first, and working at the local level, are key messages of the report. It argues for a series of coordinated changes across a broad front, ranging from reform of parts of the global economic system to strengthening governance at the local level, while stressing that this should and can be achieved in the context of open economies and open societies.

One of the most interesting aspects of the report is its emphasis in that, in some important senses, the response to globalization begins at home. After all, people live locally within nations and therefore the way each country manages its internal affairs is a critical determinant of the extent to which people can benefit from globalization and be protected against its adverse consequences. Therefore, national governance needs to be improved in all countries. The essential areas include:

- Good governance based on democracy, respect for human rights, the rule of law and social equity,
- An effective State that ensures high and sustainable economic growth, and provides public goods and social protection.
- A vibrant civil society, empowered by freedom of association and expression, and
- Strong representative organizations of workers and employers.

The report also argues that high priority must be given to policies to meet the central aspiration of women and men for decent work, as well as policies to raise the productivity of the informal economy, to integrate it into the economic mainstream, and to enhance the competitiveness of enterprises and economies.

The ILO’s response to the challenges of globalization, but also the opportunities it poses for development, is what we call the Decent
Work Agenda – a strategy, centred on people, to make employment creation a global and a local priority. This is also the ILO’s contribution to the Millennium Development Goals…after all, there is no way to eradicate poverty, without creating jobs.

The Decent Work Agenda has four strategic objectives: fundamental principles and rights at work; promotion of full and productive employment; social protection; and social dialogue and participation. It is an integrated and balanced articulation of policy areas that allow economies not only to seize the opportunities of globalization, but also to cushion against its adverse consequences, in particular, the striking growth in inequality.

3 Indonesian context

And this brings me to the opportunities and challenges you are facing in Indonesia and how the Decent Work Agenda and the tripartite visions on employment creation and the role of the private sector may be helpful.

To begin with the positive developments, the Indonesian economy has clearly grown at quite respectable rates since the year 2000. The recovery in the investment rate, in domestic consumption and the healthy growth of exports have been the main drivers of that growth. Macroeconomic balances are sound and external debt as proportion of GDP has been reduced quite dramatically, improving the international credit rating of the country. Indonesia is also making solid progress in improving the business climate. In the World Economic Forum’s (WEF) Global Competitiveness Index for 2007-2008 Indonesia ranked 54 out of 131 countries, a substantial improvement from early 2000. It is not an exaggeration to say that in the short term, the country seems to be going through an economic bonanza.

However, when we look at the employment situation and social indicators, there are clearly many long term challenges:
• Indonesia ranks 107 out of 177 countries in the Human Development Index.

• Despite respectable growth, the open unemployment rate continued to increase until 2005, and although it declined to 9.1% in 2007, this is still one of the highest in the Asian region, and quite rightly a source of concern for the government.

• However, even more serious is the high rate of involuntary underemployment, estimated at 15% in 2007, as well as the preponderance of the informal sector employment at more than 60%. Even after the resumption of growth, there is little evidence that the informal economy is on a downward trend. All these trends combined have justifiably raised concerns about the so called “jobless growth”.

• In addition, today Indonesia has an estimated 40 million people who live below the national poverty line.² And the number of people living below the US$2 a day poverty line is estimated to be 110 million.³ And of course, there are significant variations in poverty levels between different provinces and districts.

• Finally, there is the very important challenge of the high youth unemployment, which stood at 25% in 2007. A 2004 ILO school-to-work transition survey in Indonesia reveals that inadequate education and skills is the biggest problem employers have in recruiting young workers. The government of course has the primary responsibility to educate young women and men, but employers’ organizations and the private sector can also play a critical role through building bridges between educational institutions and the business community. APINDO and the private sector in Indonesia have made many outstanding contributions in this regard. You might be pleased to know that the ILO will soon be publishing an international tool for employers’ organizations that will profile the “Apprenticeship instead of child labour” initiative of APINDO. We thank you for your efforts in this regard and encourage your continued active engagement.

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² Indonesia’s national poverty line definition, based on an individual’s need to fulfil minimum requirements for food (2100 kcal per day), is equal to PPP US$1.55 a day.

³ ILO, Labour and Social Trends in ASEAN 2007: Integration, Challenges and Opportunities (Bangkok, 2007) and World Bank, Making the New Indonesia Work for the Poor (Jakarta, 2006).
Thus while Indonesia has made important progress in reducing poverty since the economic crisis and political transformation of the late 1990s, significant employment challenges remain. And the country needs to use the economic good times to make the necessary investments in infrastructure, human resources and social policies.

Indeed, these challenges are widely recognised and reflected in the government’s National Medium-Term Development Plan of 2004-2009 and in other policy frameworks, where the government has quite commendably defined a three pronged strategy: pro-growth; pro-employment and pro-poor.

4 The GEA and the promotion of sustainable enterprises - A 21st Century vision from the ILO on enterprises, employment and development

The ILO constituents have brought the nexus of economic growth, employment creation and poverty reduction into sharp focus in what we call the Global Employment Agenda (GEA). The GEA is an integrated approach to employment policies that contains policy guidance on demand-side and supply-side measures, macro- and micro-level interventions, as well as quantitative and qualitative aspects of employment. And it provides an integrated diagnostic framework to think about the challenges of growth, jobs and poverty reduction. Let me review some policy messages in five key policy areas of the GEA. And I would like to invite you to think about these as a list of things to do, or checklist, against which to look at what has been done or needs to be done in Indonesia.

4.1 Economic policies to influence the demand for labour

The first policy area is that of the policies for growth and to expand the demand for labour. Key policies here are the macroeconomic and financial policies, the investment climate and the trade and regional integration policies, all of which influence the size of the market and effective demand. No matter how much is done on the supply side, if
there is not enough demand via the expansion of markets or the corresponding dynamism in the private sector, it will be difficult to create more and better jobs.

And here is where the issue of “jobless growth” comes into focus. The GEA recommends promoting not just any kind of growth, but rather “job-rich growth” by explicit efforts to strengthen the link between growth, productivity and jobs. One way of doing this is by not just focusing on the general issue of the investment climate, but going beyond this to more structural and sectorial policies. In other words, it is important to identify sectors, or as Michael Porter calls them, “clusters” or value chains that are more employment-intensive and ensure that the policy environment is not unfavourable to their growth. It is also important to promote the development of high productivity, dynamic sectors, via a range of measures including export promotion and investment attraction policies.

A sectoral or structural approach does not mean picking winners in the old sense of industrial policy, but it does mean having clarity about employment impacts of policies, and having policies that balance interventions and incentives across relevant sectors so that there is a vision about the employment quality of growth in a context of accelerating technological change and productivity. From this perspective APINDO’s concern with what needs to be done to promote investment in labour-intensive sectors in fully justified.

The ability to sustain productivity growth is critically associated with at least three factors: (1) capacity to diversify the production structure by promoting exports and attracting investment into new activities; (2) capacity to strengthen linkages not only with global value chains but within the country and via regional integration; and (3) capacity to create domestic technological capabilities. Skills upgrading is a critical factor underlying all these capabilities. And I will come back to this in a minute. But the point here is that economies need to diversify into dynamic agricultural, industrial and service sector activities. So is Indonesia putting in place the right policies for economic diversification and for stimulating the entrepreneurial spirits to discover the new and competitive ways of doing business with the world?
4.2 Skills, technology and employability

Skills and employability are the second and central component of employment strategies. Not only low costs influence the investment climate. A skilled workforce capable of delivering high productivity is often more important. Therefore, competitiveness and growth in open economies require large investments in human capital.5

There is overwhelming evidence that all high performing countries that have benefited from globalization have invested significantly in their education and training systems (eg. Costa Rica, Ireland). Research shows a high correlation between the share of manufacturing exports in total exports and years of schooling. Education and skills development policies are a key redistribution tool, as well as a major determinant of the capacity of countries and individuals to absorb and adopt new technologies, innovate and deal with change, and therefore to grow and compete.

But skilling the low-skilled is not easy, cheap or quick. Many countries lack the resources to invest in the development of human capital, knowledge, institutions and infrastructure to remove supply side constraints.

The basic framework for ILO work in this area is provided by the “Recommendation concerning Human Resources Development: Education, Training and Lifelong Learning” (Recommendation 195). This recommendation contains a comprehensive vision, and a policy framework, for facing the challenges of Human Resources Development.6

4.3 Enterprise development

Entrepreneurship and enterprise development is at the heart of any successful strategy to promote employment, and is the third and a key element of the Global Employment Agenda.

5 GB.295/ESP/2(Rev.)-2006-02-0271-1-En.doc: Employability by improving knowledge and skills.

In order to take stock with the latest thinking on the role of the private sector, how to promote it and develop a shared view, the ILO constituents decided to have it as a main subject of discussion in their International Labour Conference last year.

The conclusions of this discussion, under the title “the promotion of sustainable enterprises” are truly forward looking. They draw on the latest thinking on sustainable development, entrepreneurship promotion and good corporate citizenship. And since they are a global consensus arrived at by tripartite discussion between governments, employers and workers, they provide a powerful shared vision: very useful for national consensus building on the key priorities for getting the investment climate right. Our Jakarta Office is going to work with the Ministry of Manpower to have this document translated into Bahasa Indonesia.

On the regulatory environment for business, our constituents agreed that “Poorly designed regulations and unnecessary bureaucratic burdens on businesses limit enterprise start-ups and the ongoing operations of existing companies, and lead to informality, corruption and efficiency costs. Well-designed transparent, accountable and well-communicated regulations, including those that uphold labour and environmental standards and promote fair competition, are good for markets and society. They facilitate formalization and boost systemic competitiveness.” They also agreed that “It is important to develop positive attitudes towards entrepreneurship among the young people and in society at large.”

Establishing an enabling environment for sustainable enterprise is, however, only half of the story. Paraphrasing John F. Kennedy, it is important to ask not only what governments and society should do to unleash the forces of entrepreneurship. It is also necessary to ask what enterprises and entrepreneurs must do to maximize their contribution to society.

On this question, the ILO’s tripartite constituents agreed on six enterprise level principles that enterprises should abide by:
1. **First, social dialogue and good industrial relations.** These are effective instruments to promote shared values, trust and cooperation.

2. **Second, human resource development.** Sustainable enterprises view skilled workers as a major source of competitive advantage and view employees both as assets and agents for change. They therefore invest in training as a central element of their competitive strategy.

3. **Third, conditions of work.** Sustainable enterprises offer conditions of work that provide a safe and motivating working environment and flexible work organization. They adopt workplace practices that are free of discrimination, harassment and intimidation. They promote gender equality and equal opportunity. They apply workplace practices that maintain a sustainable balance between work, life and family.

4. **Fourth, productivity, wages and shared benefits.** Workers need to be able to participate in the success of enterprises and to gain a fair share in the benefits of economic activities and increased productivity. This helps to contribute to a more equitable distribution of income and wealth.

5. **Fifth, corporate social responsibility (CSR).** CSR can provide workers and other stakeholders with further opportunities to engage enterprises on the social and environmental impact of their activities. The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) and the OECD Guidelines for Multinational Enterprises provide guidance on good corporate behaviour and citizenship.

6. **Sixth, good corporate governance and business practices.** These should be based on values such as accountability, fairness and transparency, respect for the rule of law and for fundamental principles and rights at work.

As you can see these are not theoretical but very practical principles for responsible business management. And this provides a forward looking agenda for APIINDO and other employers’ organizations to engage with companies in the social dimensions of their operations. For, as you know by your own experience, today more and more demands are being put on companies to behave in a socially and environmentally responsible way. Increasingly, companies are under pressure to report on the so-called triple bottom line: economic, social and environmental; which means that executives
and business leaders have to care at the same time about “profits, people and the planet.”

4.4 Labor market regulations, institutions and policies

The fourth key policy area of the ILO’s Global Employment agenda is on labour market governance, that is, the regulations, institutions and policies for good labour market performance. Here the issue is not whether to regulate or not, but what kind and what level of regulations are appropriate in particular countries.

Job creation and job destruction are two sides of the process of economic transformation, caused by competition, technology, trade, and globalization. It is therefore important to see labour markets in a dynamic way and to try to balance the need for companies and economies to be flexible and adjust to economic conditions, and the need for workers to be adequately protected.

The ILO is engaged in seeking the correct balance between rights and responsibilities of the tripartite constituents (i.e. workers, employers and the governments), in order to strike an optimal balance between flexibility in contracting and security of the work force. The ILO strongly advocates tripartite consultations and social dialogue to come to the right balance. This is a huge challenge in many countries, both developed and developing, and I know you have major issues in this respect at the moment in Indonesia.

4.5 Governance, institutions and social dialogue

The fifth key area of the GEA has to do with governance, institutions and social dialogue. One of the most important results of the development debate in recent years has been the finding of a strong relationship between good governance and better economic performance. Thus efforts to improve governance and social dialogue are required as an essential part of the growth, competitiveness and employment agendas of countries. Dialogue is particularly important among the central actors in the world of work, governments, employers

and workers. *Social dialogue is the cornerstone of credible and effective economic and social reforms at every level.*

This is the reason why the initiative by the employers and workers of Indonesia to strengthen bipartite dialogue around the issues of labour law and other reforms and on labour dispute resolution is commendable and in the ILO’s perspective the right thing to do. The strengthening of this dialogue is important not only at the national level but at all levels, provincial, sectorial and in the enterprise. As the President said yesterday in the inauguration “A good partnership between employers and workers is a win-win situation for them and for the country.” The ILO stands ready to help you in this dialogue and in your search for solutions to these sensitive issues.

### 5 The role of social dialogue and of employers organizations such as APINDO

What is the role of governments, employers and workers in moving these agendas forward?

In the brief checklist of things to do associated with the GEA, I have already touched upon the role of governments.

Employers, workers and their organizations, in turn, have a vital role to play in supporting governments in the development and implementation of policies. But here, in APINDO’s conference, I want to stress the important contributions and responsibilities of employers in addressing these challenges.

Employers can do this in three ways: advocacy, representation and services to members and I know APINDO is very proactive in this regard. Indeed I am very impressed with the commendations received by APINDO for the improvements made and still seeking to make, in these areas.
Advocacy, that includes active participation in the design of policies and regulations to promote employment and sustainable enterprise development.

Representation, that requires broadening and deepening membership, including to micro and small enterprises, and those operating in the vast informal economies of poor countries.

Services, that involves providing business services to members, including knowledge management, training, awareness raising, advice and guidance, research and consultancy, on matters like innovative practices at the workplace, industrial relations and corporate social responsibility.

Given the level of decentralization that is taking place in Indonesia, a challenge for organizations such as APINDO is also to extend your network and services to the local level. Thus I am pleased to see that at this Congress there are representatives from all parts of your large and diverse country.

6 Closing remark

To conclude, let me say that development is not a linear process, and it is not necessarily a historical destination for all societies. Societies need to do many things and do them all well. If not, they can go backwards, like Argentina in the middle of the 20th Century.

Employers, and their organizations, have a vital role to play. And from my observation, this is a very important time in the development of Indonesia for employers to make a contribution: to have the right framework and policies, to have the right approach through dialogue and consensus building, to have the right understanding of issues and challenges, such as productivity, education, skills, and others.

I hope you find the “Global Employment Agenda” and the ILO Tripartite “Conclusions on the Promotion of Sustainable Enterprises”, agreed globally by governments, employers and workers, as useful frameworks in your search for the unique
answers required by Indonesia to strengthen the linkages between economic growth, poverty reduction and employment creation and for taking advantage of the opportunities of globalization in a proactive and constructive way.

All of this calls for new paradigms in our thinking and for new forms of cooperation between government, business, labour and society at large.

Thank you again for inviting me to address the 8th National Congress of APINDO.