Enhancing Indonesia’s productivity under global uncertainty: A macro-view

Arief Anshory Yusuf
Dewan Ekonomi Nasional RI/Padjadjaran University

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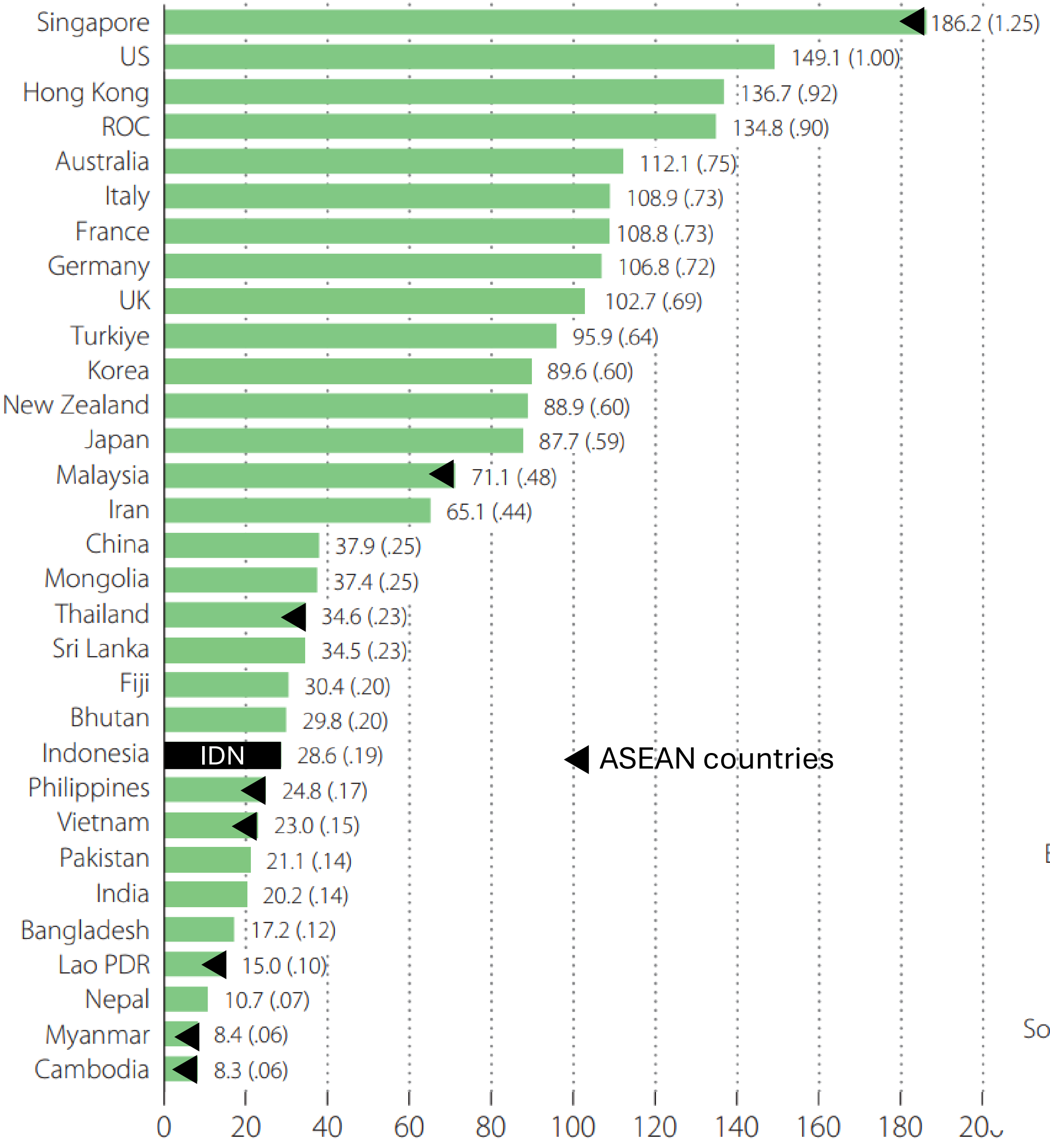


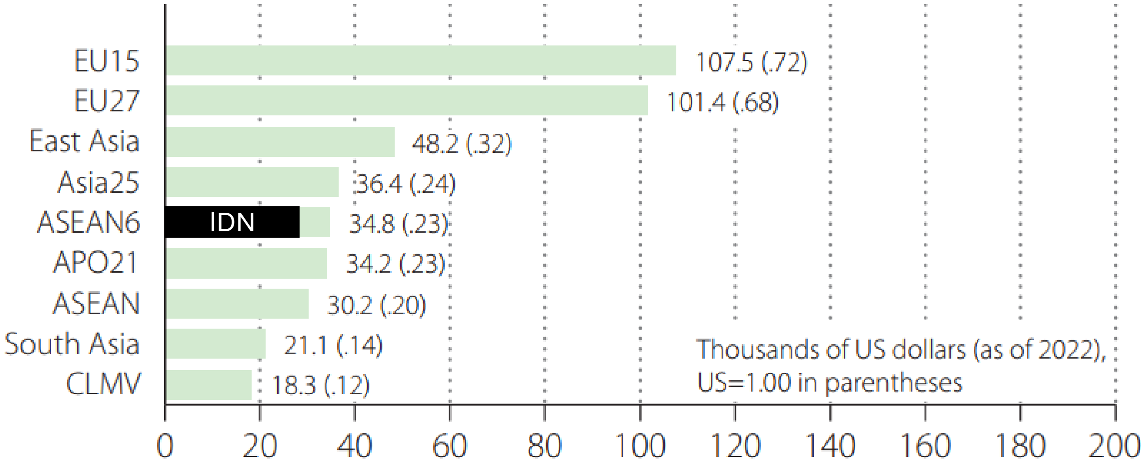
Indonesian per-worker labor productivity is below ASEAN average, and much lower than Singapore, Malaysia and Thailand

Per-Worker Labor Productivity Level in 2022

——GDP at constant basic prices per worker, using the 2017 PPP, the reference year 2022

Unit: Thousands of US dollars. Sources: Official national accounts in each country and APO Productivity Database 2024. Notes: The number in parenthesis is the ratio to the US level. See Table 9.8 for the time-series comparison from 1970.

Source: APO Productivity Databook 2024

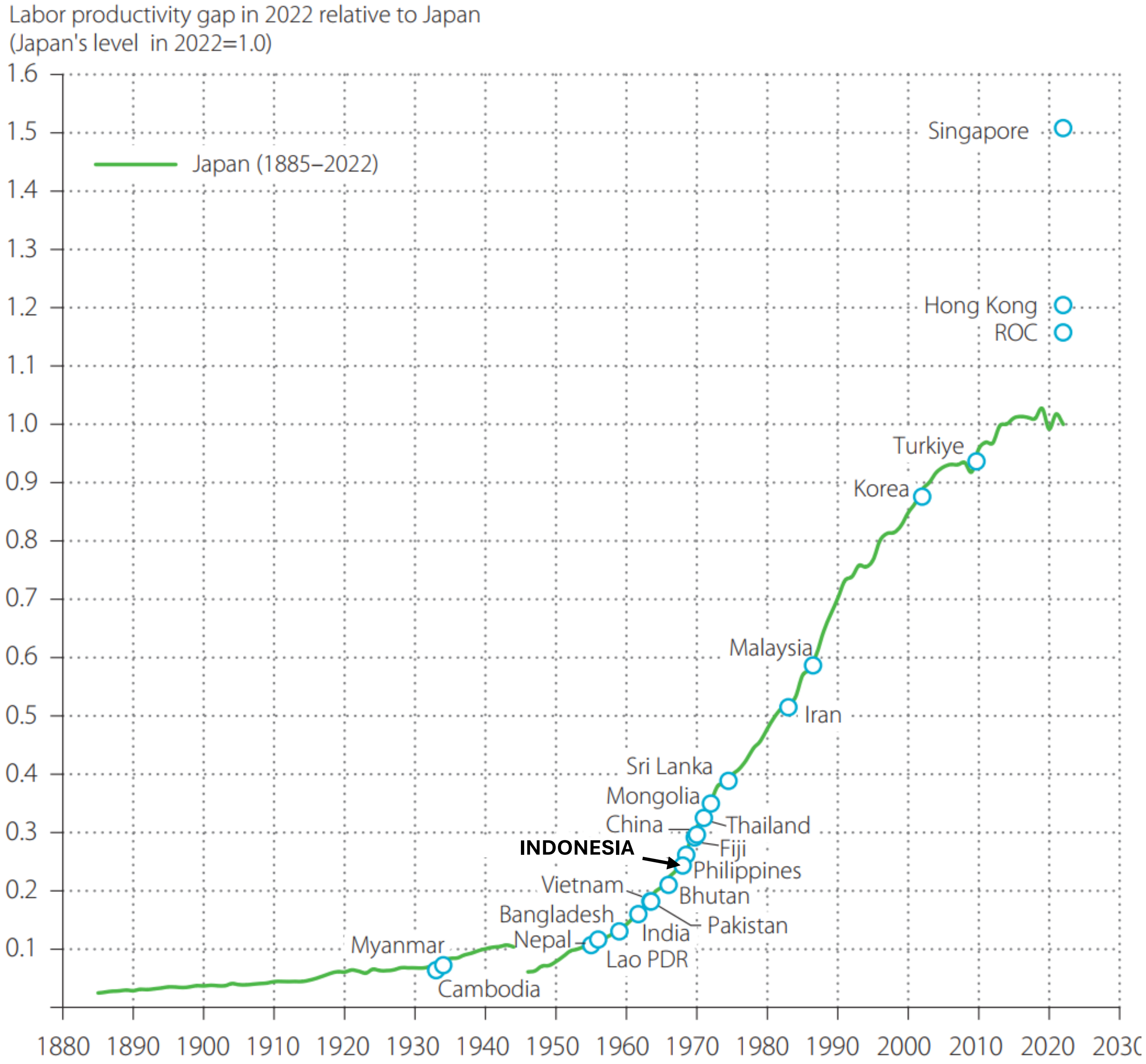


Indonesian per-worker labor productivity is 50 years behind Japan

Historical Labor Productivity Trend of Japan and Current Level of Asia in 2022

——Japan's per-hour GDP at constant prices from 1885 to 2022 and for Asian countries, using the 2017 PPP

Source: APO Productivity Databook 2024



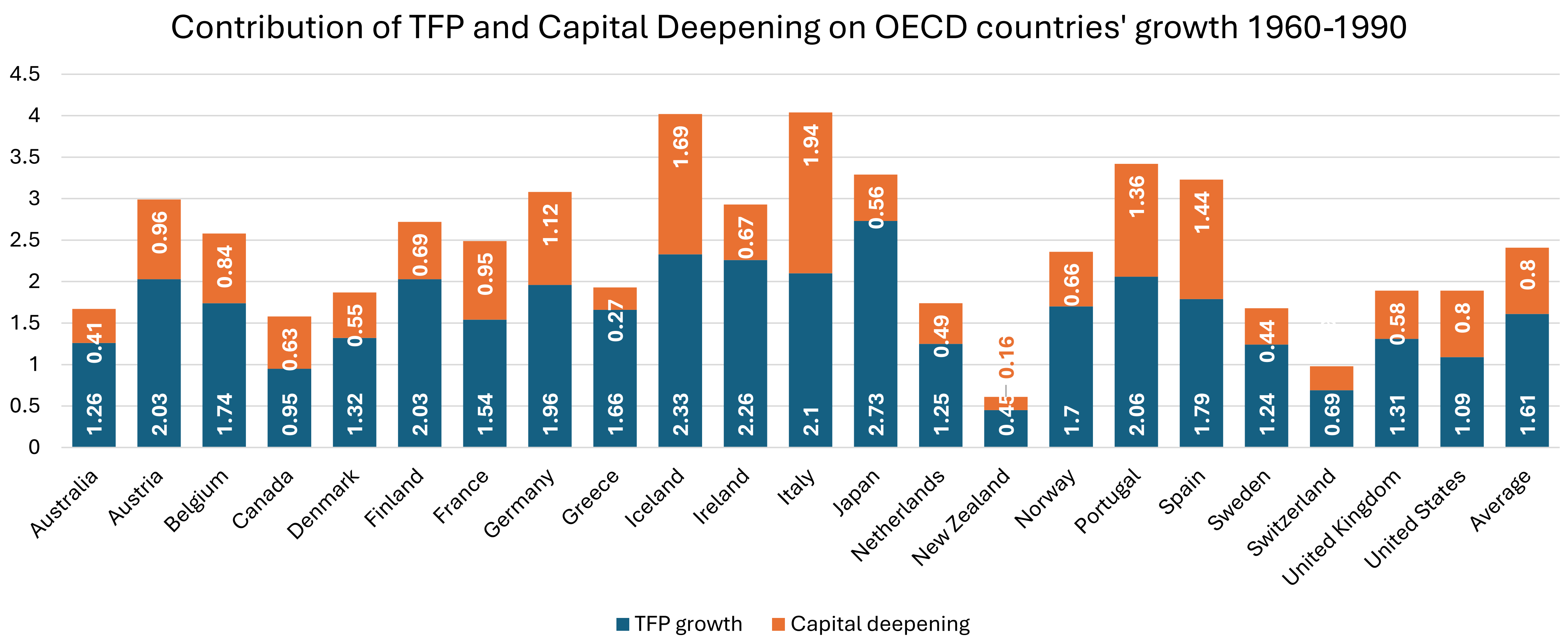
Indonesian output grows slower than its input. Multi-factor productivity (TFP) contribute negatively to economic growth

Annual growth of capital, labor, all input, GDP and TFP 2000-2022 (% pa)

	Capital	Labor	All Input	Output/GDP	TFP
Indonesia	4.97	4.86	4.86	4.71	-0.15
Vietnam	8.82	3.14	6.51	7.10	0.59
Philippines	5.05	3.06	4.33	5.03	0.70
Malaysia	3.60	3.84	3.73	5.13	1.40
India	7.17	2.33	4.61	6.71	2.10
China	10.11	0.95	5.87	7.81	1.95

Source: APO Productivity Databook 2024

TFP contribute 68% to OECD economic growth in GDP per capita from 1960-1990



Source: Aghion and Howitt (2007)

How can we improve labor productivity?

CAPITAL PRODUCTIVITY

LABOR PRODUCTIVITY

$$Q = t(aK)^{\alpha}(bL)^{1-\alpha}$$

OUTPUT

TOTAL FACTOR PRODUCTIVITY

CAPITAL

LABOR

TFP-ENHANCING POLICIES
Infrastructure, public R&D, SEZ

t

EDUCATION AND TRAINING POLICIES
Improve education attainment, upskilling, reskilling, on-the-job training, nutrition intervention, health care

b

LABOR PRODUCTIVITY

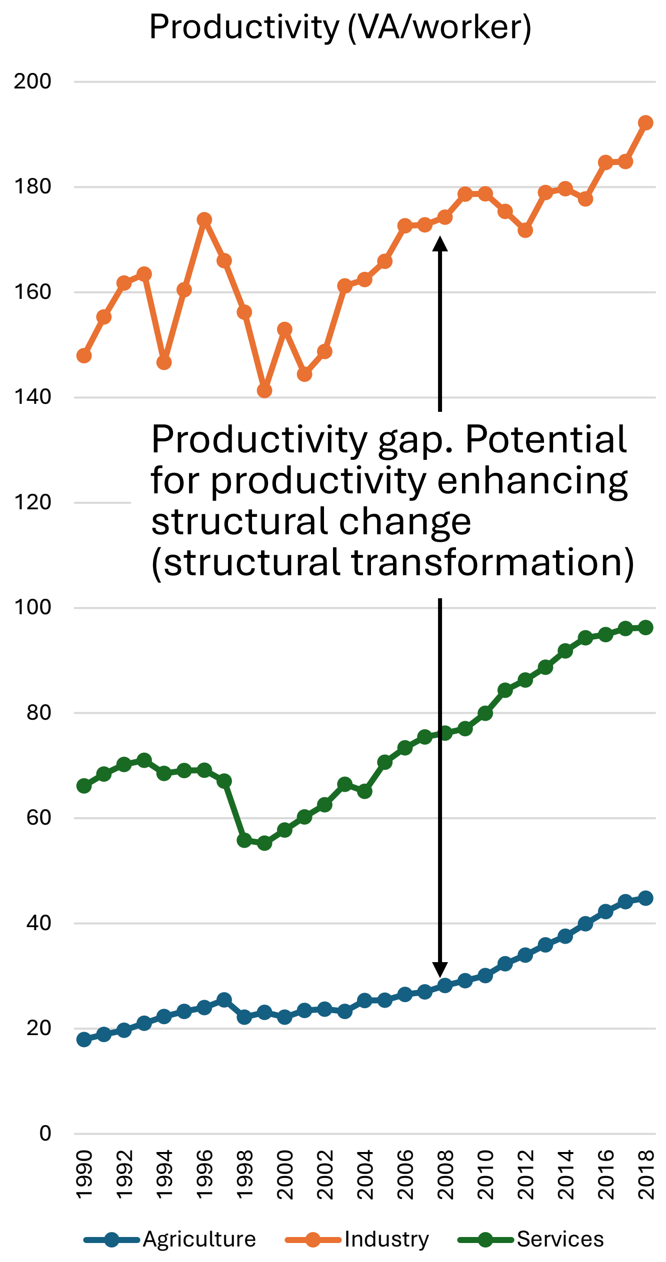
$$\frac{Q}{L} = ta^{\alpha}b^{1-\alpha}k^{\alpha}$$

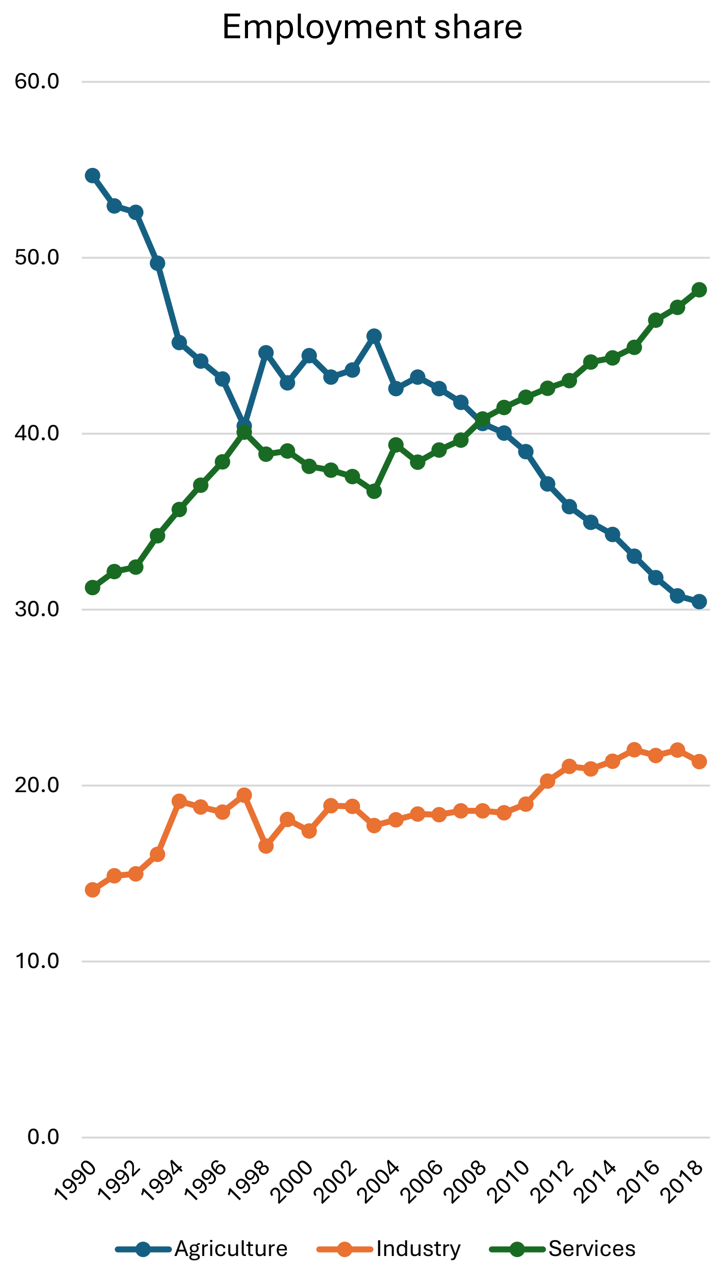
a

TECHNOLOGY POLICIES
Incentives for automation, robotization, digitalization

$k = K/L$

INVESTMENT POLICIES
Deregulation, business permit streamlining, financing, FDI attraction, SWF

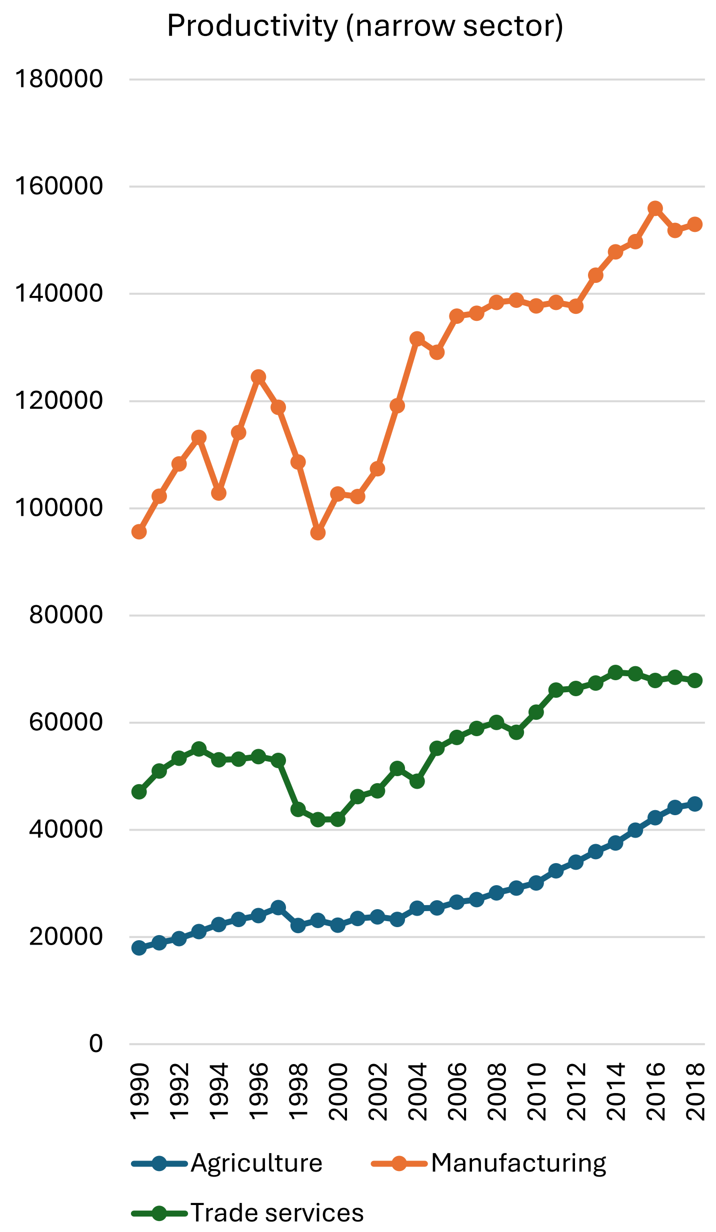


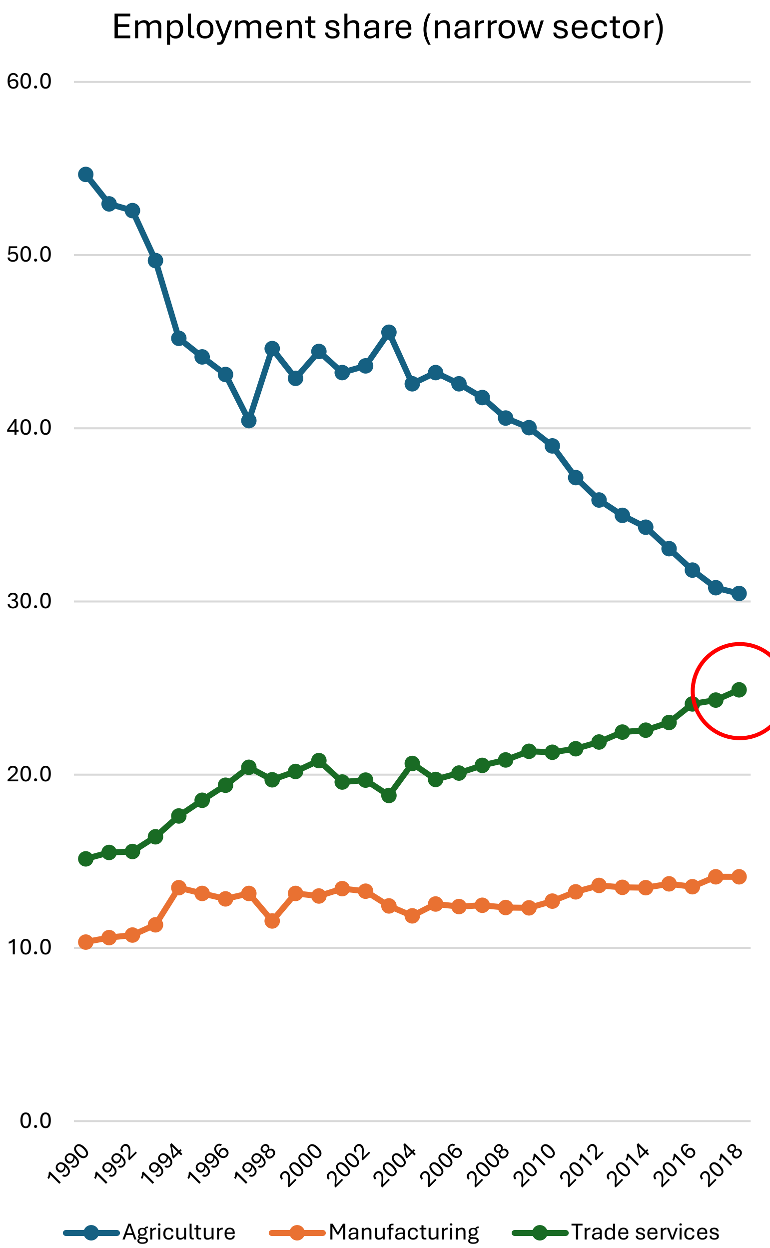


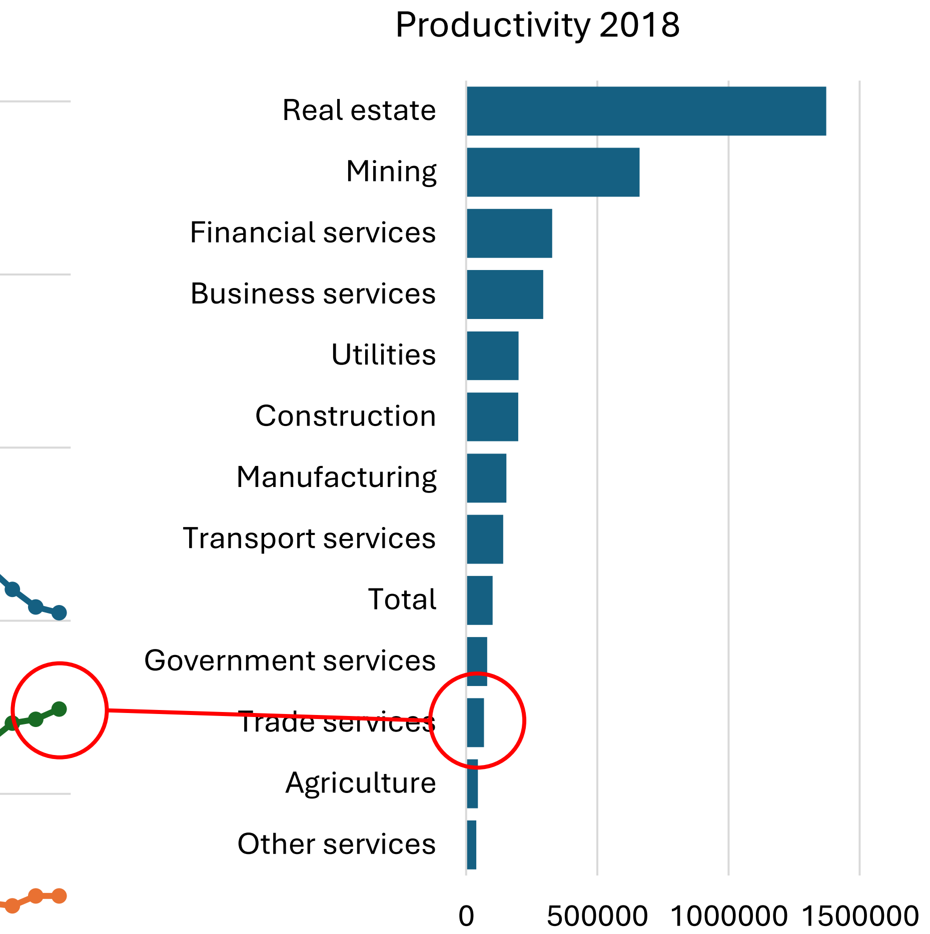
Productivity can increase if labor move from low-productivity sector to high-productivity sector – Structural transformation (ST).

Did it happen?
Yes, but ST is getting weaker.

Source: GGDC Database







Labor moves to among the lowest productivity sectors

Weaker structural transformation: Structural change no longer drive labor productivity growth as strong as in the past.

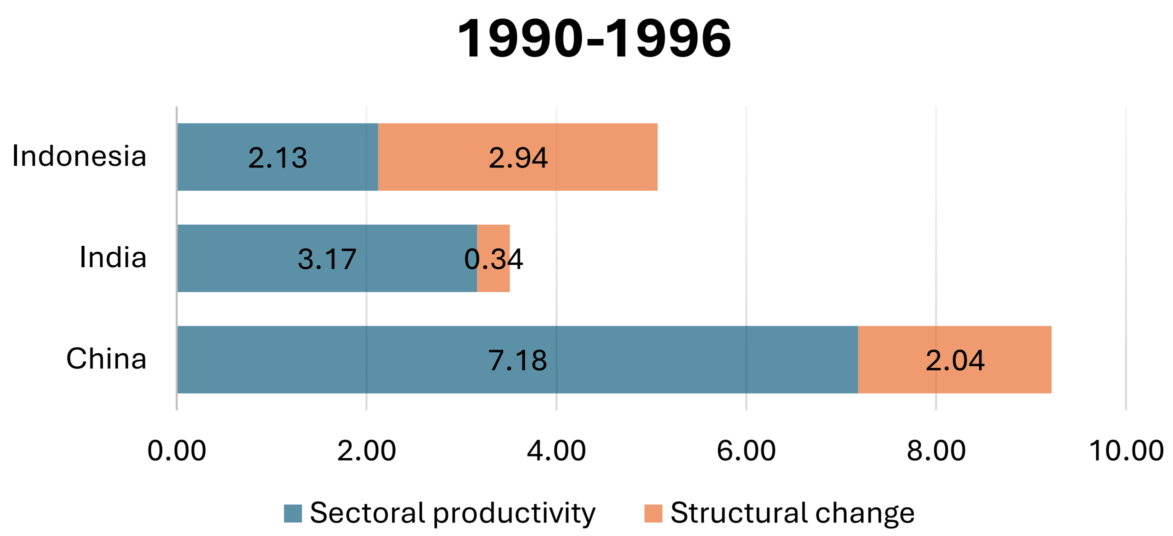
McMillan & Rodrik (2011)

CHANGE IN LABOR PRODUCTIVITY

CHANGE IN SECTORAL PRODUCTIVITY

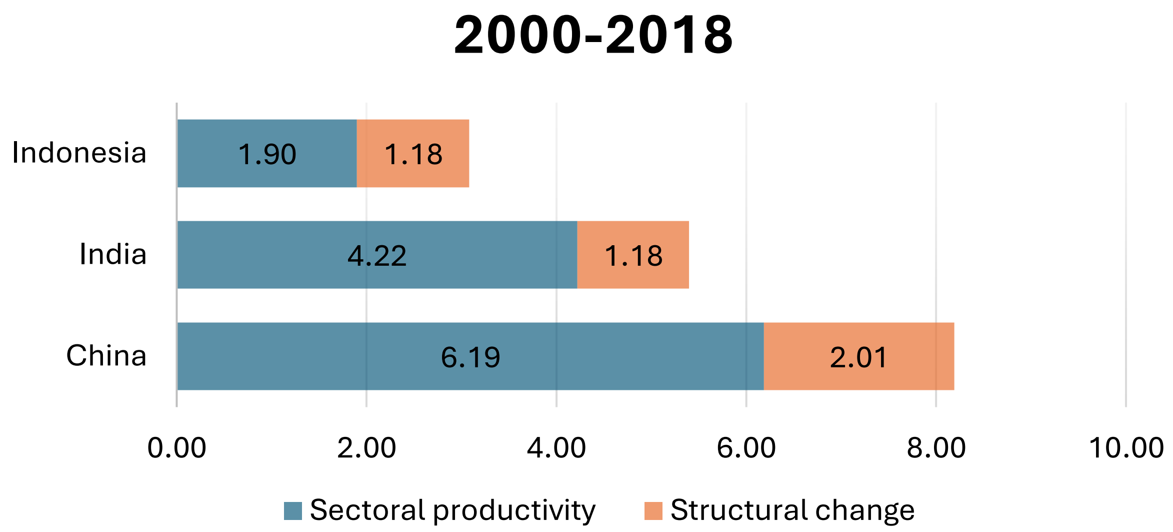
CHANGE IN EMPLOYMENT SHARE

$$\Delta y = \underbrace{\sum_i s_i^0 (p_i^1 - p_i^0)}_{\text{WITHIN SECTOR PRODUCTIVITY}} + \underbrace{\sum_i p_i^1 (s_i^1 - s_i^0)}_{\text{STRUCTURAL CHANGE}}$$



Decomposition of labor productivity growth

Source: Author's calculation with GGDC Database



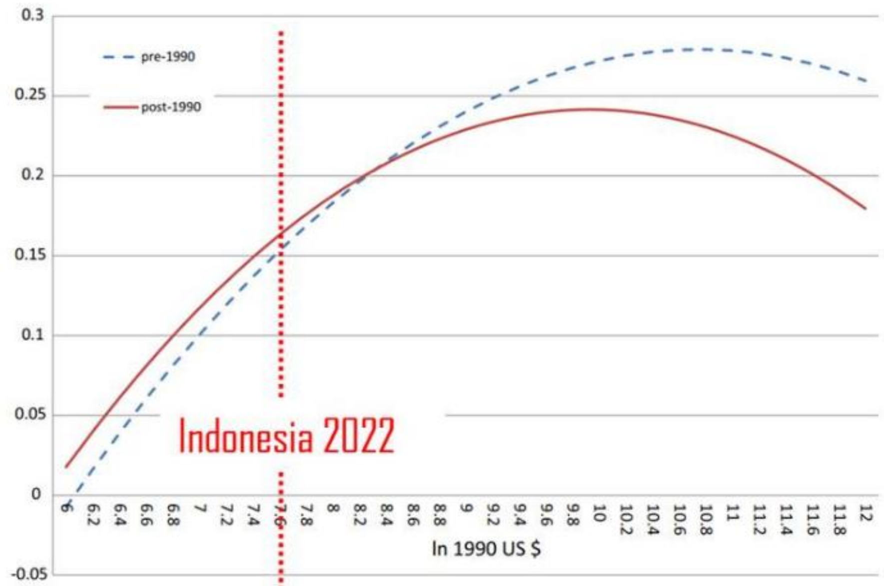
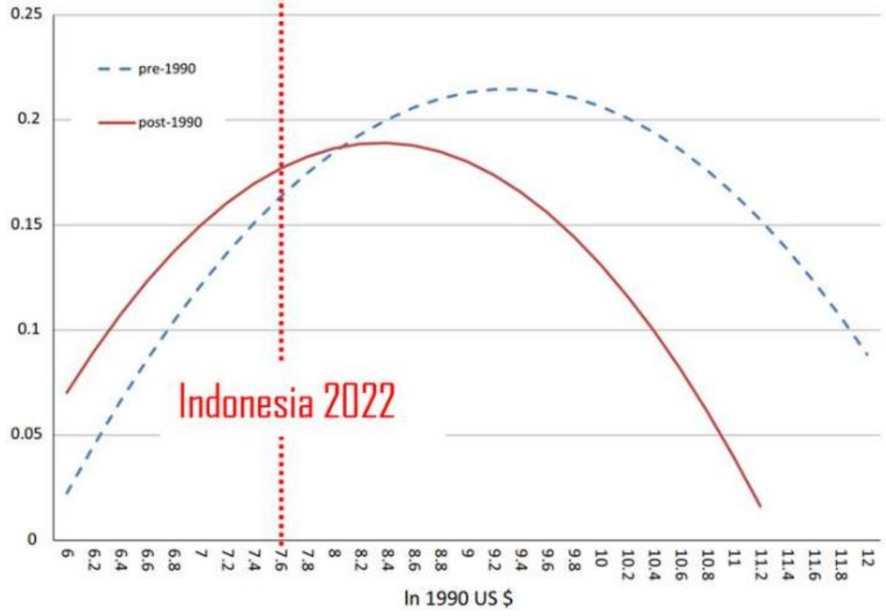


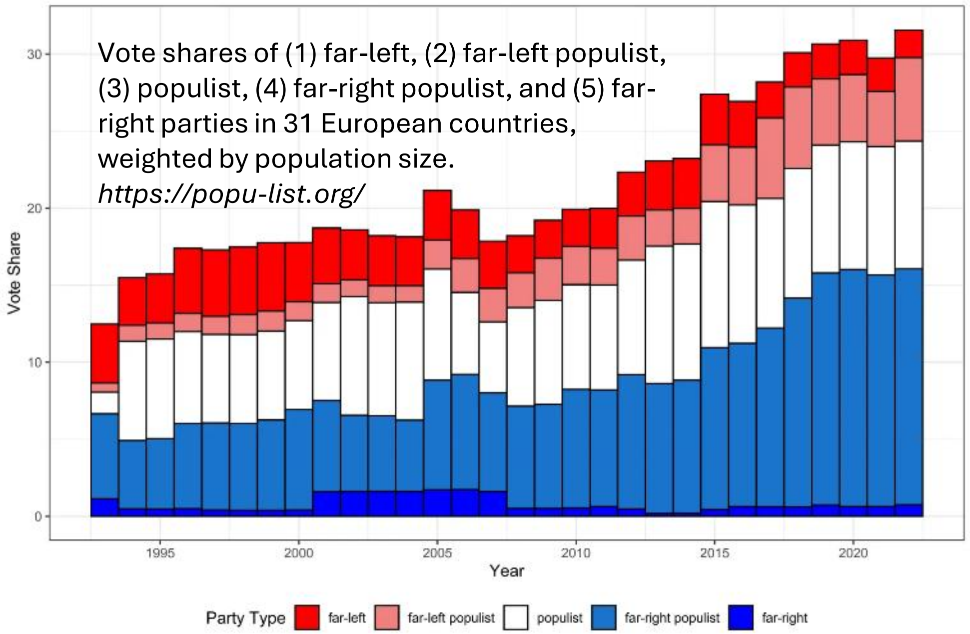
Fig. 7 Simulated manufacturing output shares (MVA/GDP at constant prices)

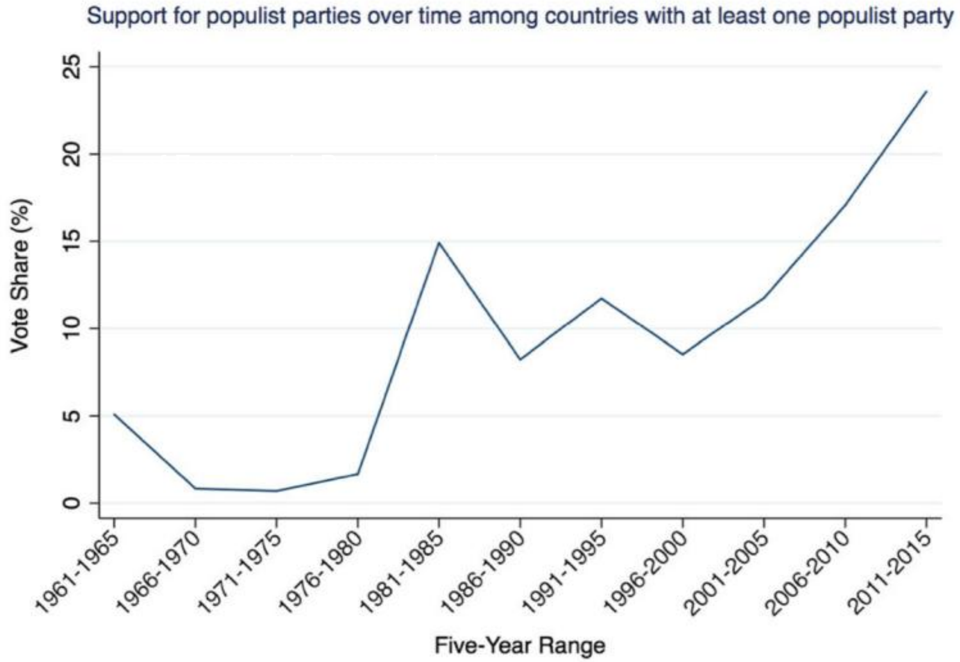


Source: Rodrik (2015)

If Rodrik prophecy of premature deindustrialization is true for Indonesia, re-industralization may happen without much job-creation.

Navigating global uncertainty





Geert Wilders' party became the largest in the 2023 Dutch elections.

Giorgia Meloni leads a coalition government since 2022 in Italy.

Viktor Orbán leads a coalition government since 2022 in Hungary.

Marine Le Pen consistently polls high in French presidential races.

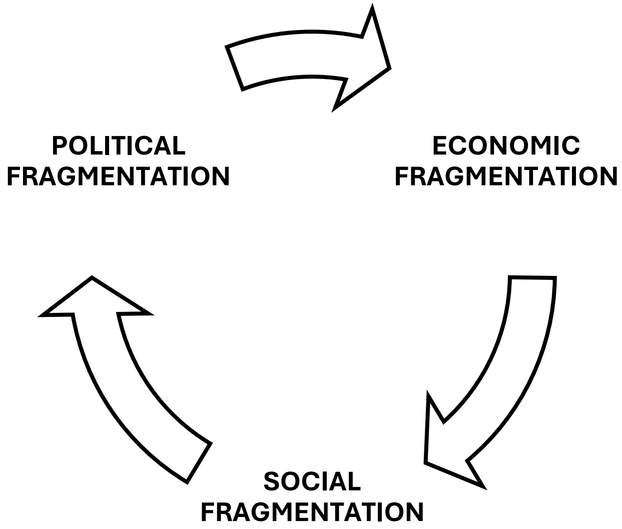
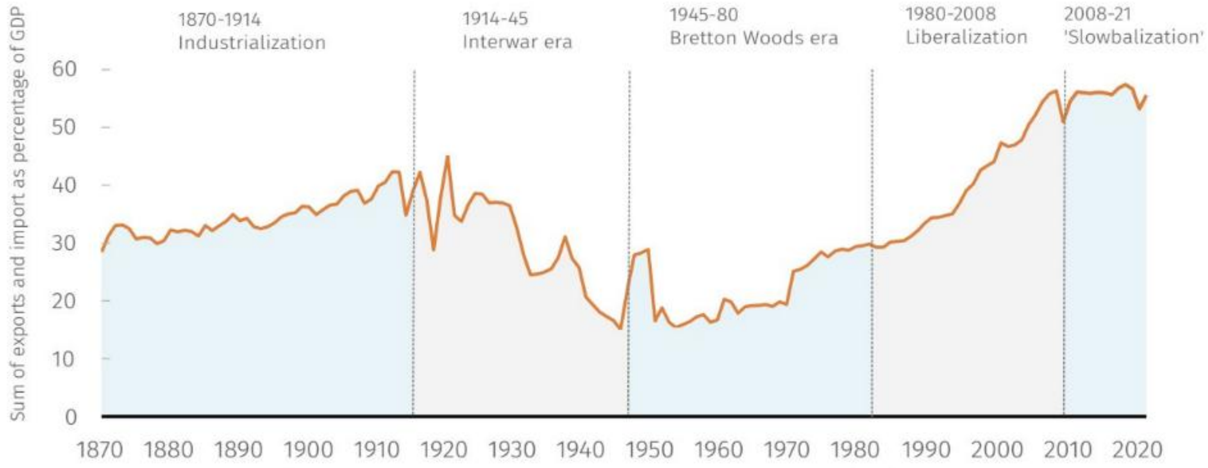
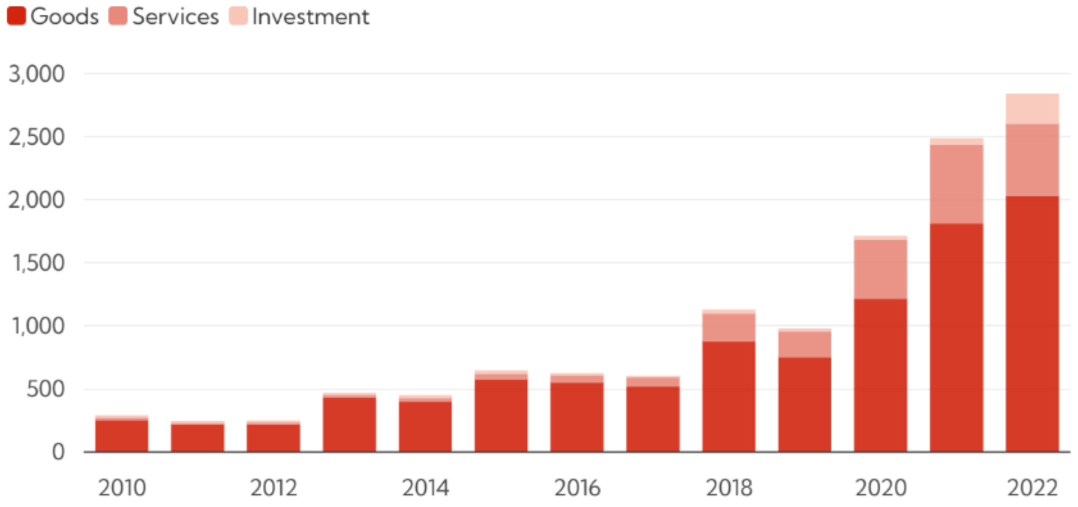


FIGURE 8. SLOWBALIZATION



Source: Aiyar & Ilyina, 2023. Jordà -Schularick-Taylor Macrohistory Database; Penn World Data (10.0); Peterson Institute for International Economics; World Bank; and IMF staff calculations.
Note: Sample composition changes over time.

Number of trade restrictions imposed annually worldwide

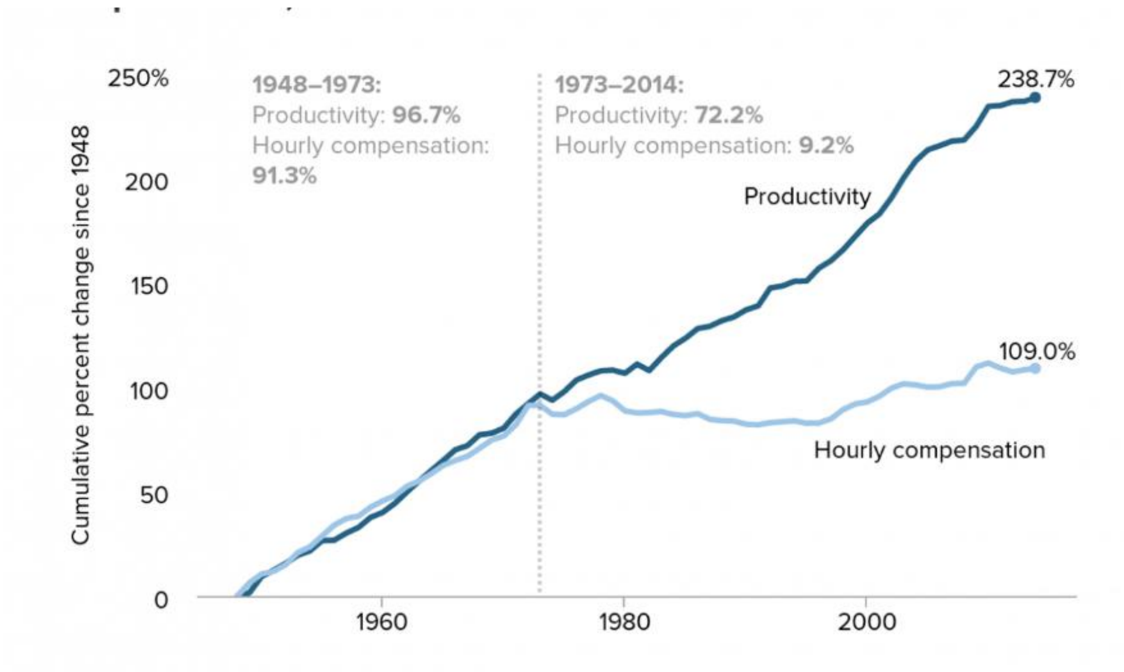


Source: Global Trade Alert and IMF staff calculations.

IMF

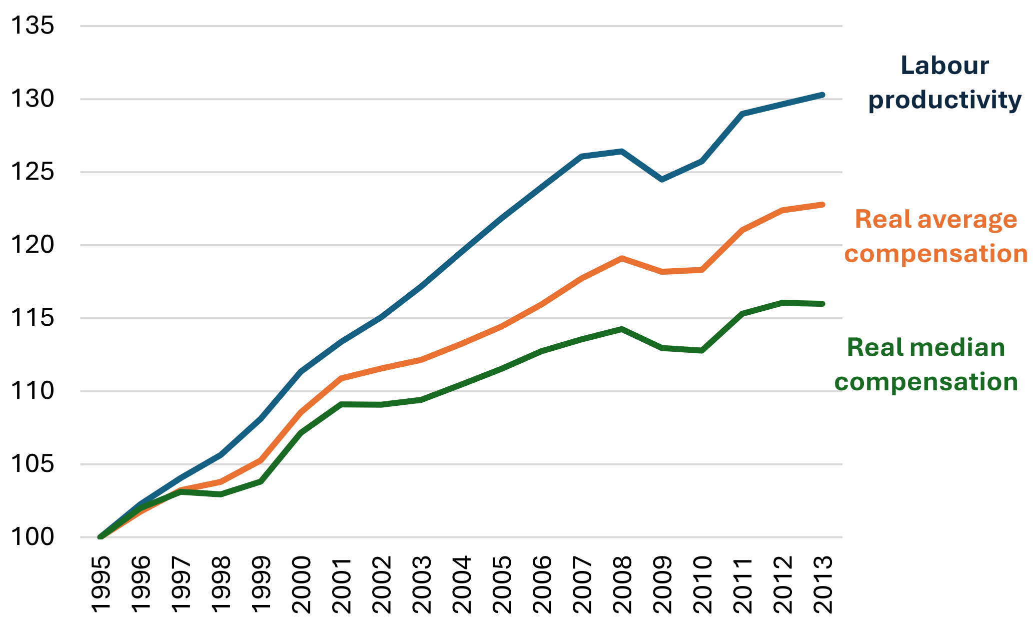
The Great Decoupling

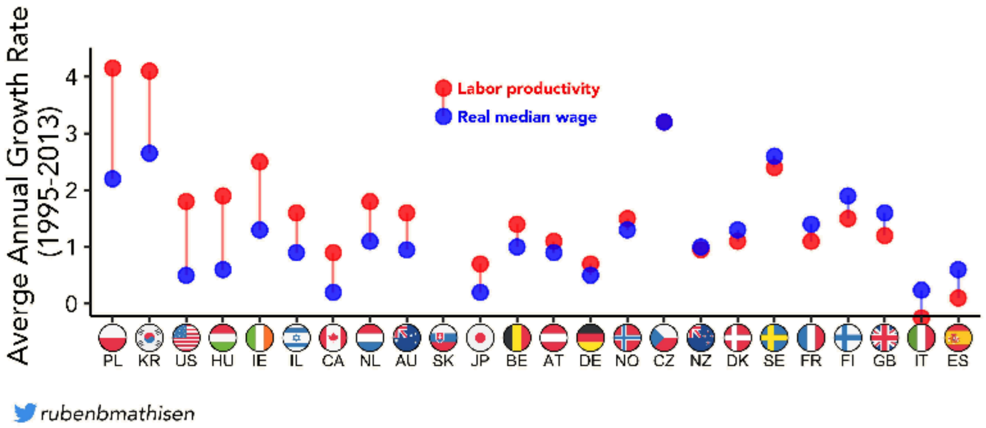
https://hbr.org/2015/06/the-great-decoupling

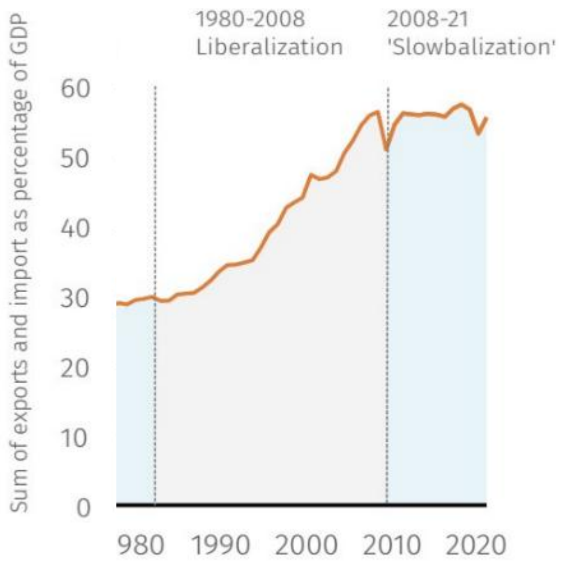


Note: Data are for average hourly compensation of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services minus depreciation per hour worked.

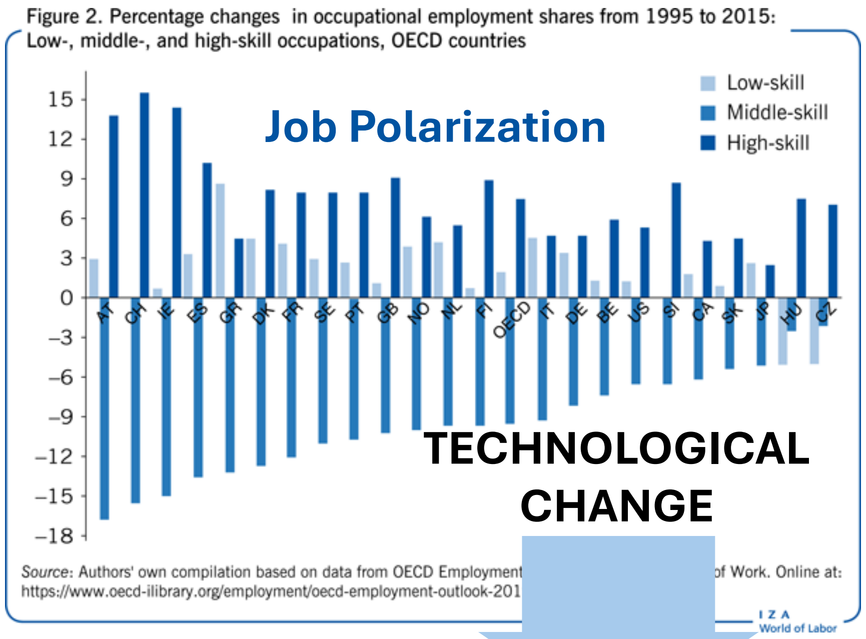
Real median wages have decoupled from labour productivity (OECD countries)



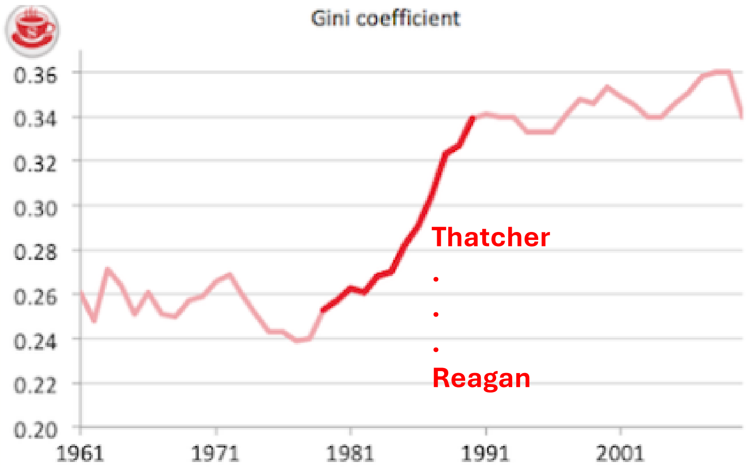




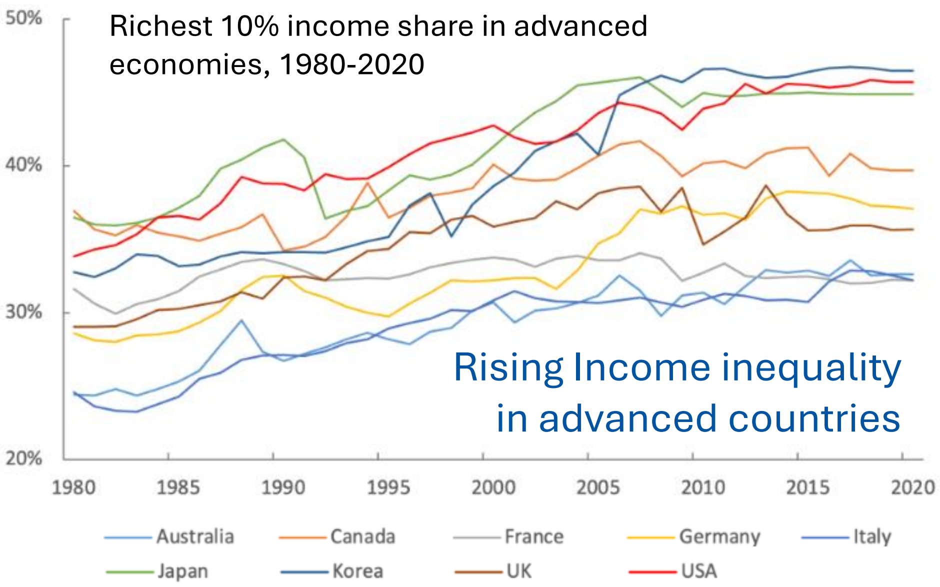
GLOBALIZATION



TECHNOLOGICAL CHANGE

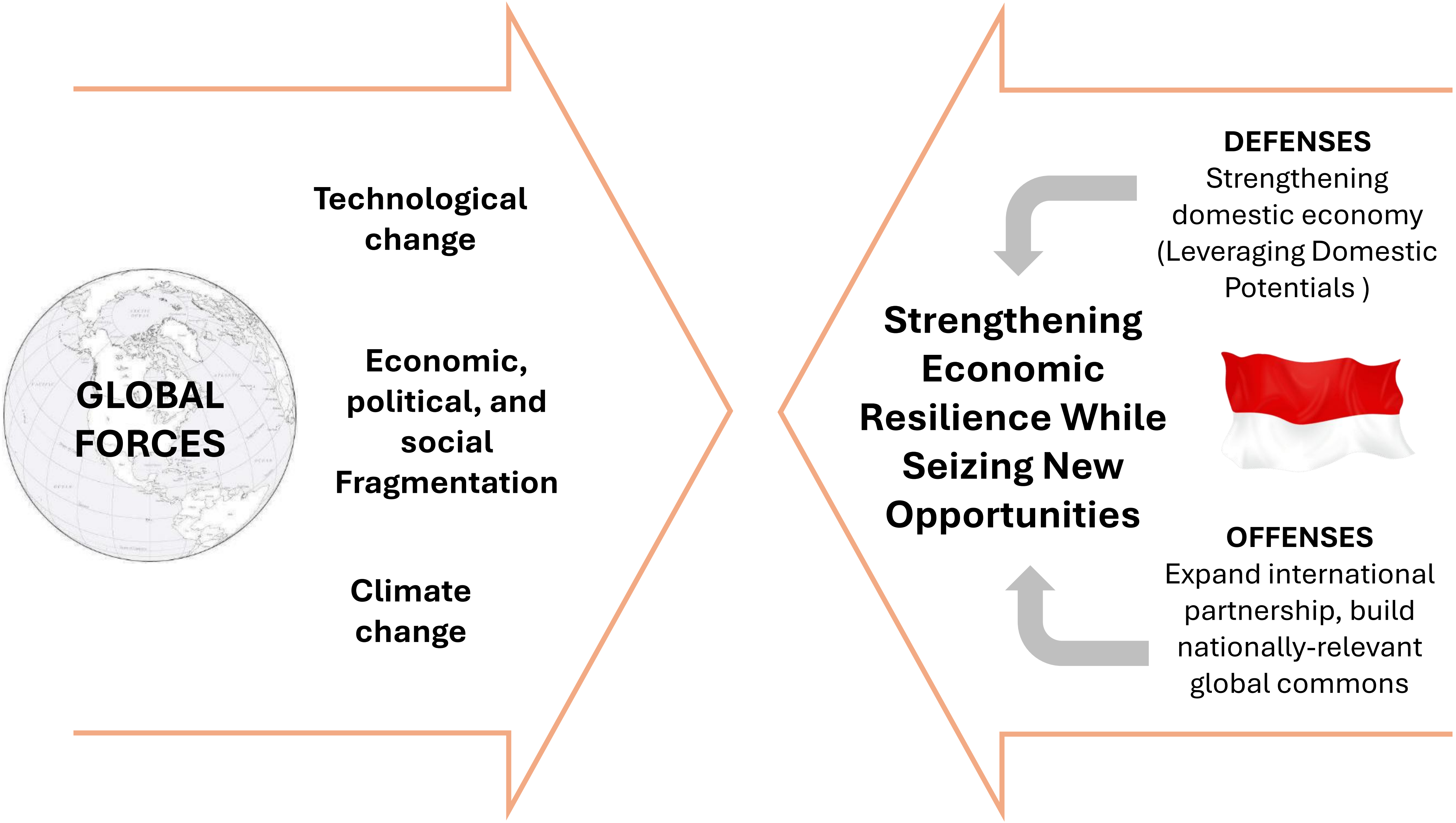


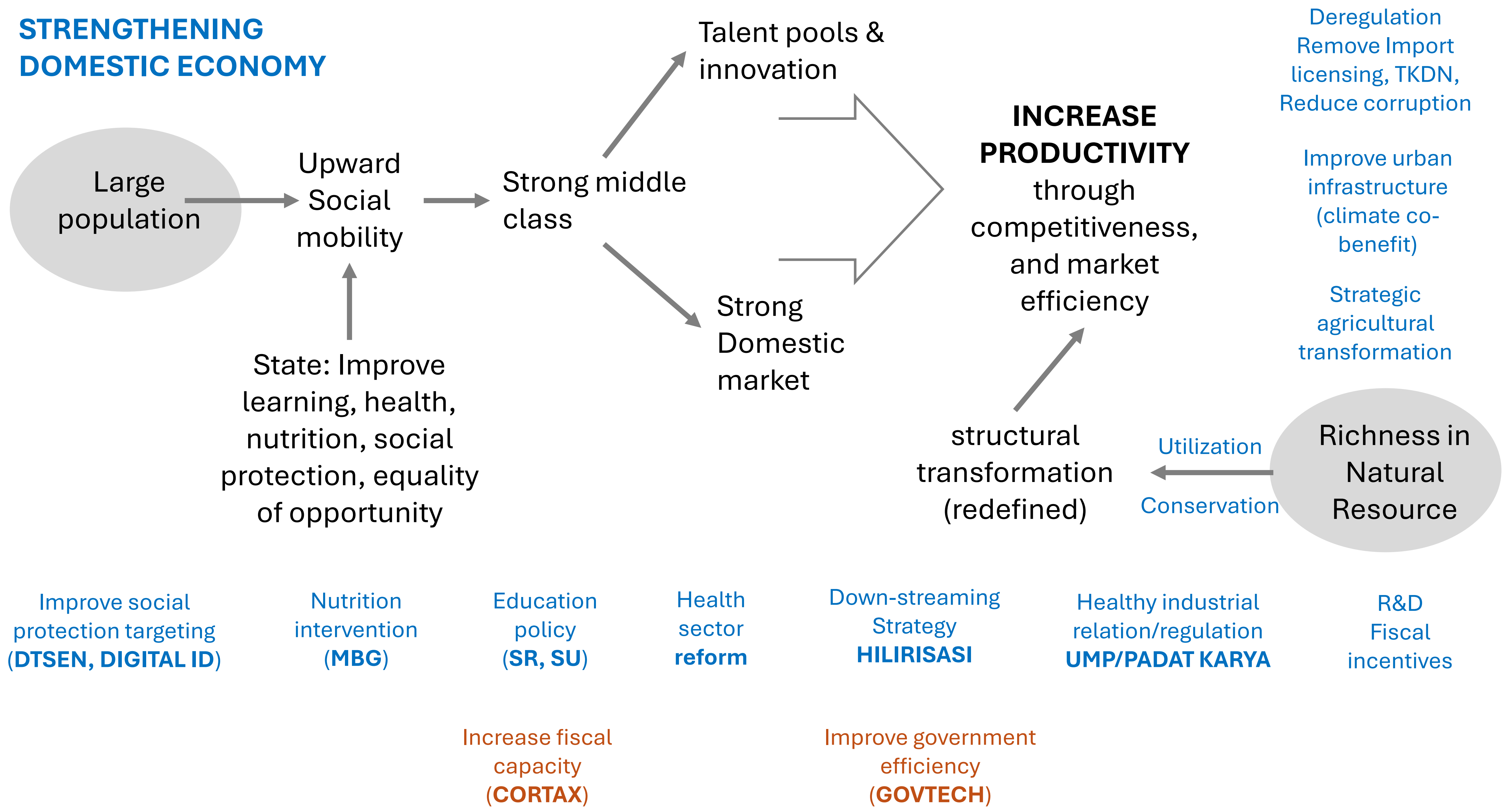
POLITICAL CHOICES



Rising Income inequality in advanced countries

https://www.brookings.edu/articles/rising-inequality-a-major-issue-of-our-time/


GLOBAL FORCES
Technological change
Economic, political, and social Fragmentation
Climate change
Strengthening Economic Resilience While Seizing New Opportunities
DEFENSES
Strengthening domestic economy (Leveraging Domestic Potentials)
OFFENSES
Expand international partnership, build nationally-relevant global commons


STRENGTHENING DOMESTIC ECONOMY
Large population
Upward Social mobility
State: Improve learning, health, nutrition, social protection, equality of opportunity
Strong middle class
Talent pools & innovation
Strong Domestic market
INCREASE PRODUCTIVITY through competitiveness, and market efficiency
Deregulation Remove Import licensing, TKDN, Reduce corruption
Improve urban infrastructure (climate co-benefit)
Strategic agricultural transformation
structural transformation (redefined)
Utilization
Conservation
Richness in Natural Resource
Improve social protection targeting (DTSEN, DIGITAL ID)
Nutrition intervention (MBG)
Education policy (SR, SU)
Health sector reform
Down-streaming Strategy HILIRISASI
Healthy industrial relation/regulation UMP/PADAT KARYA
R&D Fiscal incentives
Increase fiscal capacity (CORTAX)
Improve government efficiency (GOVTECH)

End of slides. Thank You.

Arief Anshory Yusuf
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