



Key points of the ILO's New Report:

Labour and Social Trends in Indonesia 2013 - Reinforcing the role of decent work in equitable growth

Rational behind the theme

In 2013 the Indonesian economy has faced adjustments in its macroeconomic indicators, and these adjustments have been reflected in a decline in selected employment indicators, such as labour force participation and unemployment. However, in general we can see that outcomes across a range of employment indicators have been positive over the last number of years. More workers are working in the formal economy and more workers have higher levels of educational attainment than before. These trends demonstrate that Indonesia is making progress on the road to decent work, however, there are core challenges that persist in realizing decent work for all. The productivity of labour, access to social protection and wages remain contentious issues. Therefore, this year our message is about maintaining the gains that have been made in the world of work, while at the same time reinforcing the role of decent work in equitable growth.

Employment trends in Indonesia

Economic trends

- In 2013 the Indonesian economy has faced adjustments in its macroeconomic indicators, with *GDP growth slowing* to 5.6 per cent in 2013 and likely to only reach 5.3 per cent in 2014. In general, the Indonesia economy has been able to achieve rates of economic growth that are much higher than rates of job creation. The GDP growth rates have generally been between 5 and 6 per cent over the last period, however, employment growth rates have declined over time. Analysis of data between August 2012 and August 2013 now indicates that Indonesia is experiencing jobless growth with employment growth at zero.
- The slowing of the economy has had *implications for employment* August 2013. To illustrate, employment in manufacturing, which provides important information on trade and investment trends, has experienced a decline for the first time in five years. The economic downturn over the course of 2013 has been driven by a tightening of monetary policy in the US, modifications to trade policies, fiscal uncertainty and pressures on domestic consumer prices that were associated with modifications to the fuel subsidies.
- Overall *inequality has been on the rise*, with the Gini index reaching a peak of 0.41 in 2011 and 2012. However, poorer households typically have higher rates of labour force participation than more affluent households, indicating that current labour force participation is not sufficient to close the income inequality gap. This situation highlights the urgency for improving employment quality and extending social protection coverage.

Employment trends

- Data on employment growth between August 2012 and 2013 indicates that Indonesia is experiencing a period of *jobless growth*. Labour force participation has also declined from 67.9 per cent in August 2012 to 66.9 per cent in August 2013. Gender disparities in labour force participation continue to persist, with the labour force participation rate for men ranging between 84 and 85 per cent, and the rate for women ranging between 50 and 53 per cent during 2012 and 2013.
- Unemployment in Indonesia had been declining due to positive economic growth and in May 2013 unemployment was estimated at 5.8 per cent, the lowest unemployment rate on record. However, the recent downturn in economic indicators saw the August 2013 *unemployment rate rise* to 6.25 per cent. An increase of 0.45 per cent in three months. This is the first time that unemployment has increased in Indonesia since 2005. Of the people

that were unemployed in 2013, over 70 per cent were aged between 15 and 29 years. The highest unemployment increases were seen among senior high school and vocational high school graduates.

- In 2013 *underemployment has declined and part time work has increased*. The decline in underemployment is due to women shifting from being underemployed to becoming part time workers, with underemployment for women decreasing by 1.8 million workers and part-time work for women increased by 1.8 million workers between August 2012 and August 2013.
- Trends in *declining vulnerable employment and informal employment* in Indonesia have been maintained due to the increasing number of people on *employee contracts*. However, these trend should be read with caution as estimates account for both contract workers and permanent employees.
- The employment situation in the agriculture sector has remained relatively steady in 2013, rather than increasing as in previous times of economic downturn. In general, structural shifts in the composition of employment in the economy have continued to gradually unfold. However, manufacturing employment has declined from the August 2012 high of 15.37 million people, to 14.88 million people in August 2013.

Wage trends

- While there has been *increases in nominal average wages, inflation has subdued real wage growth*. The average nominal wage for employees in Indonesia increased from IDR 1,630,193 in August 2012 to IDR 1,909,478 in August 2013. This is a substantial increase in the average nominal wage, and a departure from moderate increases in average wages over the last three years. In comparison, real average wages for employees have only experienced marginal increases or remained stagnant in recent years.
- *Minimum wages have been increasing*, with the simple average nominal minimum wage for Indonesia estimated at IDR 1,288,242 in 2013, an increase of 14.87 per cent from 2012. High inflation in 2013 has been associated with real losses to minimum wage growth.
- While minimum wages have been increasing, growth in average wages has been slower and over time the gap between average minimum wages and average nominal wages has been narrowing. To further illustrate, in 2001 the minimum wage was 58.5 per cent of the average wage. By 2013 this ratio had increased to 67.5 per cent. This trend reflects the focus on minimum wage bargaining and that the *minimum wage may have become more binding in recent years*, with its adjustments having a greater impact on wage costs and the labour market. This trend also highlights that there is a need for strengthening wage bargaining by sector and occupational structures to promote the growth of average wages.
- In August 2013, the percentage of employees earning less than the provincial minimum wage was estimated at 36.2 per cent. Trends in the number of employees receiving a wage that is above or below the minimum wage display a cyclical pattern throughout the year. More workers receive wages above the minimum wage in August than in February, and this may reflect the minimum wage implementation over the course of the year.

Reinforcing the role of decent work in equitable growth

Employment creation for inclusive and sustainable growth

- Trade policies and infrastructure investment have boosted productivity and employment growth. However, at the micro level, gains in labour productivity have been experienced unevenly by firms of differing sizes and there are indications of an increasing skills mismatch. Labour market institutions, particularly active labour market programmes, skills policies and labour market information systems, therefore have an important role to play in reinforcing access to decent work for equitable growth.

Sound industrial relations

- Indonesia has taken major steps to develop its labour market institutions, with particular focus given to the role of labour inspection for improving the employment conditions of vulnerable workers. However, provision of such services still face critical constraints, particularly for the inspection of various types of non-standard work. Home work is one type of non-standard work and these workers are typically found in industrial or

commercial subcontracting arrangements - often referred to as the 'putting-out' system. Regulating home work is particularly challenging due to informality and lack of effective supervision mechanisms, as well as lack of consensus on the legal status of homeworkers and the corresponding obligations of employers.

Social protection for all

- Current social protection systems in Indonesia largely exclude non-poor workers in the informal economy, while other workers, such as domestic workers, are not recognized under the labour law. This raises concerns on the vulnerability of workers, due to gaps in social protection provision and lack of access to existing protections. This situation emphasizes the need to promote equitable growth through decent work.

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