

Key points of the ILO's New Report:

Labour and Social Trends 2014 – 2015:

**Strengthening competitiveness and productivity
through decent work**



International
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Organization

◆ Rational behind the theme

Last year's report focused on reinforcing the role of decent work in equitable growth, in order to share a message about the importance of maintaining the gains that have been made while continuing to strive towards the goal of growth with equity. With the coming of the ASEAN Economic Community in 2015, the structural changes that are currently unfolding within the Indonesian economy are likely to be accelerated. Structural change will entail both shifts in demand for skills and require innovation to strengthen productivity. Labour market institutions, together with social partners, will need to play a responsive role, in order to mitigate costs and boost productivity. Sound industrial dialogue will be a key ingredient to success for workers, employers and society at large. Indeed, our work at ILO shows that sound industrial relations can strengthening the overall competitiveness and productivity of a nation's economy. Therefore, this year we would like to emphasize that decent work plays an important role in strengthening the competitiveness and productivity of a nation. The Government, workers and employers need to work together to ensure that Indonesia can build prosperity through increasing productivity, improving wages and decreasing the incidence of low wages in order to promote decent work for all.

◆ Socio-economic trends in Indonesia

Economic trends

- ◆ The Indonesian economy grew at a rate of 5.02 per cent in 2014 and *trends in 2015 point to a further slowdown of the economy*. This is a change from performance in previous years, where the economy was able to achieve growth rates of over 6 per cent. Key factors that are linked to the slowing growth are the decline of global commodity prices and slowing exports.
- ◆ Price stability has improved over time, however, *food price volatility continues to be a concern* for the working poor, particularly as food expenditure comprises a larger portion of their overall expenditure. Inflation for food stuff was estimated at 10.6 per cent in 2014. In this context it is important that growth in wages and incomes for the working poor keeps pace with fluctuations in order to maintain purchasing power.
- ◆ Poverty has decreased, in line with social protection expansion and wage gains for workers. However, *high inequality has persisted*, with the Gini index remaining at 0.41 over the last 4 years. Urban areas have higher levels of inequality than rural areas, and with the process of urbanization accelerating in Indonesia, it will be important that rural economies diversity and that institutions support the functioning of urban labour markets.

Employment trends

- ♦ Indonesia's *labour market has continued to expand in 2014 and 2015*, with employment growing and unemployment remaining low. While trends are positive, it is important to note that outcomes fluctuate across quarters, pointing to a highly fluid labour market. There are beneficial and detrimental aspects of labour market fluidity and understanding the implications of flexibility vis-à-vis insecurity is important, particularly within the context of a slowing economy.
- ♦ The *unemployment rate was estimated at 5.9 per cent in August 2014 and 5.8 per cent in February 2015*. The achievement of an unemployment rate below 6.0 per cent indicates that the target of reducing the unemployment rate to between 5 and 6 per cent by 2014 that was set in the 2010-2014 medium term development plan has been met by the Government.
- ♦ Structural changes in the composition of the economy are altering demand for skills. Analysis of trends points to the *emergence of a skills mismatch, with many positions filled by underqualified workers*. Substantial gains have been made in education, however, strategies are needed that can strengthen educational outcomes and improve the productive potential of the labour force. Developing a responsive education and training system is key to addressing this issue.
- ♦ *Gender disparities in labour force participation continue to persist*, with the labour force participation rate for men and women estimated at 84.6 per cent and 54.8 per cent respectively in February 2015. Unequal outcomes for men and women have manifestations in the choices that are made in education, training, career development and labour force participation. In Indonesia women tend to be paid less than men and have a weaker attachment to the labour than men – both of these factors highlight the vulnerability of women.

Wage trends

- ♦ *Labour productivity has been increasing steadily over time*. From 2010 to 2014 productivity growth accelerated to average annual rate of 5.1 per cent. This trend has been supported investments and structural changes that have seen the expansion of employment in higher value-added industrial sectors.
- ♦ While *minimum wages have been increasing, growth in average wages has been lagging*. Between 2010 and 2014 the minimum wage grew at an average rate of 6.5 per cent in real terms nationally, while average wages grew at an average rate of 2.4 per cent in real terms. This trend highlights that there is a need for emphasis on collective bargaining and gains sharing in order to reduce inequality and promote equitable growth.
- ♦ *One in three regular employees in Indonesia receives a "low wage"*. The high incidence of low pay in Indonesia is a concern as low pay increases the risk of vulnerability. The situation in Indonesia highlights that a combination of efforts on both wages and skills policies are needed to support workers to move out of low wage employment and access opportunities that are more productive and offer higher levels of remuneration.
- ♦ The high incidence of low pay in Indonesia may be related to the issue of *low levels of minimum wage compliance*, with 51.7 per cent of regular wage employees receiving wages below the lowest wage that is permissible by law in February 2015.

◆ Strengthening competitiveness and productivity through decent work

Employment creation for inclusive and sustainable growth

- ◆ Manufacturing is an important sector of the economy for Indonesia, as it is a source of regular wage employment, particularly in large manufacturing firms. However, the sector is highly diverse, with large firms having high levels of labour productivity and low job growth, while micro and small enterprises have the reverse trend. *Growing employment in large firms and improving productivity in small firms* is the challenge at hand.
- ◆ The economy is changing and investments are needed in training institutions to support this. One option is through strengthening public-private partnerships in the area of apprenticeships. The *ILO promotes a quality apprenticeship system* that is based on social dialogue, clear roles and responsibilities, legal frameworks and shared financing arrangements.

Sound industrial relations

- ◆ Research from ILO's Better Work programme finds *improving compliance with labour regulations can increase reliability for enterprises*. To illustrate, research indicates that factories enrolled in Better Work are more likely to be the preferred factory for buyers due to improving levels of compliance with labour standards. Results from surveys with factory managers show that participating factories have a 24 per cent increase in being the preferred supplier of their most important customers.
- ◆ Recent research with enterprises found that the *primary concern of businesses is macroeconomic stability*. Trends indicate that during economic slowdowns, industrial disputes can be more common. Therefore, it is important to support employers and workers to build a culture of effective dialogue for strengthening competitiveness and productivity.

Social protection for all

- ◆ Current social protection systems in Indonesia largely exclude non-poor workers in the informal economy, while other workers, such as home 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.
- ◆ Migrant worker trends have been changing in recent years, with shifts underpinned by more decisive action from the Government. However, the majority of *migrant workers still face decent work deficits* abroad and better coordination and more responsive services are needed to promote decent work.

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