

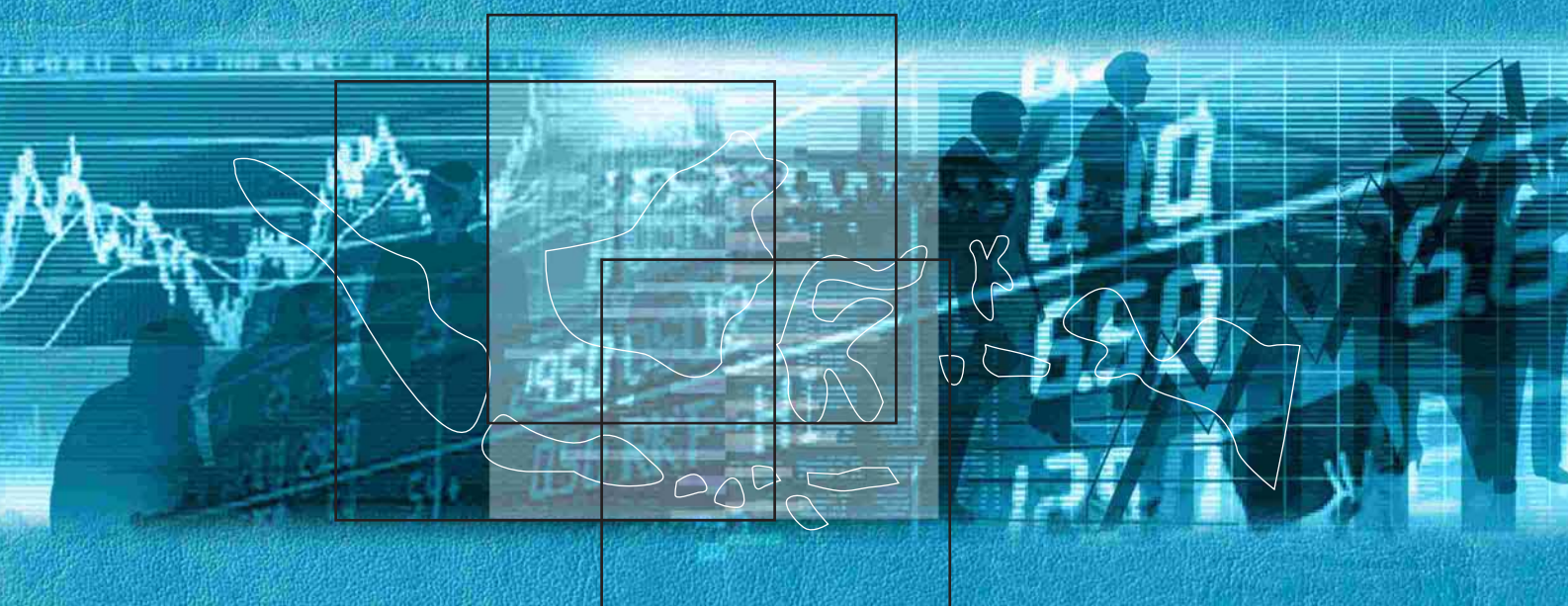
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Labour and Social Trends in Indonesia 2010

Translating economic growth into
employment creation



ILO Office for Indonesia

Labour and Social Trends in Indonesia 2010

Translating economic growth into
employment creation

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Foreword

The third issue of the *Labour and Social Trends in Indonesia* focuses on turning robust economic growth into creation of decent work and productive employment. Indonesia weathered the global financial crisis much better than advanced economies and neighbouring countries, maintaining a positive economic growth. Economic forecasts of various sources unanimously suggest faster economic growth for Indonesia at above six per cent per year in the coming years. It is obvious that opportunities lie ahead of Indonesia.

One must note, however, that employment creation is not always an automatic outcome of economic growth. In fact, many countries in the world have experienced a so-called jobless growth. In addition, not all citizens would benefit from an economic expansion if benefits of a growth were not distributed in the form of productive employment and better working conditions. In short, economic growth, no matter how high the rate of the growth might be, does not automatically create employment nor guarantee access for all workers to newly generated economic opportunities.

Indonesia has been revived from the economic and political turmoil of the Asian financial crisis. It has sustained positive growth for nearly a decade. If we turn our attention to labour market performance during the same period, however, we note for example, that the laudable economic growth did not expand formal employment. Real wages increased only modestly over the last decade. Is Indonesia to repeat the same in the coming years? The representatives of the Government, workers and employers are adopting a policy framework, the Global Jobs Pact, and have expressed their determination to realize a job-rich growth in Indonesia. This is why we firmly believe the central theme of the report, turning economic growth into job creation, is very relevant and timely for policy debate and action in Indonesia today.

The report was produced by Kazutoshi Chatani. The report benefited substantially from technical support and valuable comments provided by ILO Jakarta colleagues; the Regional Economic and Social Analysis Unit of the ILO Regional Office for Asia and the Pacific; and ILO Headquarters in Geneva.

We hope that the report will contribute to Indonesia's job-rich and inclusive growth in the years ahead. We support our Constituents in Indonesia with our technical expertise and technical cooperation programmes, and work together to realize a job-rich path of economic growth that would benefit all citizens, *decent work for all*.

Peter van Rooij
Director
ILO Jakarta Office

List of Acronyms and Indonesian Terms

ADB	Asian Development Bank
ASABRI	<i>Asuransi Sosial Angkatan Bersenjata Republik Indonesia</i> (Pension & endowment insurance benefits to Indonesian Armed forces)
ASKES	<i>Asuransi Kesehatan Indonesia</i> (Health care schemes for government civil servants, their families and for government civil service retirees)
ASKESKIN	<i>Asuransi Kesehatan Orang Miskin</i> – Health insurance for the poor
APINDO	<i>Asosiasi Pengusaha Indonesia</i> (The employers' association of Indonesia)
ASEAN	Association of Southeast Asian Nations
BAPPENAS	<i>Badan Perencanaan Pembangunan Nasional</i> (National development planning agency)
BI	<i>Bank Indonesia</i> (The central bank of Indonesia)
BNP2TKI	<i>Badan Nasional Penempatan dan Perlindungan Tenaga Kerja Indonesia</i> (National agency for the placement and protection of Indonesian overseas workers)
BOS	<i>Bantuan Operasional Sekolah</i> (School operational assistance programme)
BLT	<i>Bantuan Langsung Tunai</i> (Unconditional cash transfer)
BPS	<i>Badan Pusat Statistik</i> (Statistics Indonesia)
EU	European Union
GDP	Gross Domestic Product
ILO	International Labour Organization
IMF	International Monetary Fund
JAMKESMAS	<i>Jaminan Sosial Masyarakat</i> (Social Security for Community)
JAMSOSTEK	<i>Jaminan Sosial Tenaga Kerja</i> (National Social Insurance Fund)
KILM	Key Indicators of the Labour Market
KUR	<i>Kredit Usaha Rakyat</i> (People's Business Credit)
LFS	Labour Force Survey
MDG	Millennium Development Goal
MoMT	Ministry of Manpower and Transmigration
OAW	Own-Account Worker
OECD	Organisation for Economic Co-operation and Development
PKH	<i>Program Keluarga Harapan</i> (conditional cash transfer programme)
PNPM	<i>Program Nasional Pemberdayaan Masyarakat</i> (National Programme for Community Empowerment)
PPP	Purchasing Power Parity
Rp.	<i>Rupiah</i>
TASPEN	<i>Program Tabungan Asuransi Sosial Pegawai Negeri</i> (Pensions for Civil Servants)
RASKIN	<i>Beras Miskin</i> (Rice for the Poor)
SMEs	Small and Medium Enterprises
UN	United Nations

Note: Throughout the report the following exchange rate is applied: 1 USD=Rp. 9,000

Contents

Foreword	iii
List of Acronyms and Indonesian Terms	iv
Executive summary	1
1. Trends in the economy and the labour market	5
1.1 Economic trends	5
1.2 Labour market trends	10
2. Translating economic growth into job creation	25
2.1 Overview	25
2.2 Employment creation	26
2.3 Labour Productivity	34
2.4 Industrial relations	40
2.5 Social Protection	45
Annex I BPS disaggregation of employment in the formal and informal economy	51
Annex II Statistical appendix	52

List of Tables

Table 1.1 National Accounts (at 2000 constant prices)	6
Table 1.2 Wages of production workers in manufacturing below supervisory level	10
Table 1.3 Share of informal employment and underemployment (per cent)	13
Table 1.4 Share of employment by employment status (per cent)	13
Table 1.5 Sector share in employment (per cent)	14
Table 1.6 Share and growth of output and employment by sector (GDP at 2000 constant market prices)	15
Table 1.7 Employment share and growth rate by sector and gender	16
Table 1.8 The number of Indonesian migrant workers by destination (thousand)	20
Table 1.9 Labour force projection	21
Table 1.10 Necessary economic growth rates (annual 2009-2014, %)	22
Table 1.11 MDG Target 1B	23
Table 2.1 Ease of doing business in selected Indonesian cities	28
Table 2.2 Estimates of full-time equivalent employment gain and loss due to free trade agreement with China (selected sectors, 2008)	30
Table 2.3 Annual average labour productivity growth rate (per cent)	35
Table 2.4 Trade unions in Indonesia in 2008	42

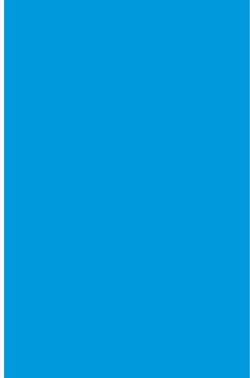
Table 2.5	Employees' social insurance fund (Jamsostek) contribution rates	46
Table 2.6	Social insurance in Indonesia	46
Table 2.7	Key household- and community-targeted social programmes for the poor	47
Table 2.8	Three cluster system of social programmes	48

List of Figures

Figure 1.1	Economic growth rates (selected ASEAN countries, per cent)	5
Figure 1.2	Expenditure on GDP (at 2000 constant prices, trillion Rupiah)	6
Figure 1.3	Composition of Indonesian exports (% of merchandise exports)	7
Figure 1.4	GDP growth by sector (at 2000 constant market prices, per cent)	8
Figure 1.5	Contribution to GDP growth by sector (at 2000 constant market prices, per cent)	8
Figure 1.6	USD-Rupiah exchange rates	10
Figure 1.7	Labour force and employment growth (index, 1991=100)	11
Figure 1.8	Unemployment rates (per cent)	12
Figure 1.9	Real wage index for production workers below supervisory level (2005 March=100)	17
Figure 1.10	Wage gap by educational attainment (wages for workers with primary education=100)	18
Figure 1.11	Workers' remittances and compensation of employees, received	20
Figure 1.12	Unemployment, informal employment and poverty incidence (2009)	24
Figure 2.1	International comparison of students' performance (OECD PISA survey results, 2006 and 2009)	29
Figure 2.2	Labour productivity per person employed (in 2010 US\$ at PPP)	35
Figure 2.3	Agriculture value added per worker (constant 2000 US\$)	35
Figure 2.4	GDP per worker by sector (at 2000 constant market prices, US\$, 2009)	36
Figure 2.5	Skills and agriculture's share in GDP	37
Figure 2.6	Workforce by educational attainment (2007, %)	37
Figure 2.7	High-technology exports (as % of manufactured exports, 2008)	38
Figure 2.8	A framework of skills gap analysis	39
Figure 2.9	Social protection expenditures (as % of GDP, 2004-2008)	49
Figure 2.10	Public social security expenditure (as % of GDP, latest available year)	49

List of Text Boxes

Box 1:	MDG Target 1B: Achieve full and productive employment and decent work for all, including women and young people	22
Box 2:	Sharing best practices to improve the business environment	23
Box 3:	A dynamic social accounting matrix	31
Box 4:	Industrial dispute resolution and key challenges in Indonesia	43



Executive Summary

This report highlights a need for coherent macroeconomic, labour market and social policies that translate economic expansion into the creation of productive employment and decent work, and thus leading to poverty alleviation. A decade of sustained economic growth after the Asian financial crisis failed to generate sufficient productive employment in the formal economy, leaving the majority of citizens engaged in informal employment and living below or vulnerable to falling below the poverty line of US\$2 per day. Overall, Indonesia weathered the global financial crisis better than most countries and economic prospects for the coming years are bright. The question is whether and how Indonesia can seize this opportunity and reinforce the link between economic growth, employment creation and poverty reduction. This report thus focuses on this link and provides analysis and information useful for policymakers.

The Indonesian economy has been expanding for over a decade thanks to rigorous private consumption and investment. Despite the negative impact of the global financial crisis felt across the region, Indonesia maintained positive economic growth both in 2009 and 2010. This sustained growth was led by the services sector with a remarkable growth of the communication sector. Indonesia's prospects for economic growth remain strong in the coming years and there appears to be more fiscal space for investment in enhancing the inclusiveness of economic growth. Monetary policy primarily focuses on controlling inflation. The policy target could be broadened to embrace other policy goals including expansion of real economy and creation of productive employment and decent work. Exchange rates affect employment through their impact on trade volumes and labour cost in foreign investors' currencies.

In many senses the Indonesian labour market has never fully recovered from the Asian financial crisis. The share of informal employment and underemployment remains more or less the same since 1996 before the crisis erupted. Employment opportunities for the youth hardly grew over the last decade. While the growth of wage employment stagnated, casual employment increased rapidly. Recent years' consecutive decline in the

unemployment rate demonstrates a robust growth of the number of jobs but it leaves concerns over the quality aspect of employment.

Reflecting the structural change in the economy, employment opportunities are increasingly opening up in the services sector. This shift in employment has altered the skills demand to reward higher education. However, a shortage of skilled-workers and overabundance of relatively low-skilled labour coexist in Indonesia, which drives wage gaps to be wider. In fact, real wages for production workers has been depressed between 2005 and 2009. On a positive note, more women found employment opportunities in the expanding services sector, which helped narrow gender gaps in the labour market.

In order to address these economic and labour market challenges, the second half of this report highlights four key policy areas, which provide recommendations on translating robust economic growth into productive employment creation. These policy areas are as follows: (1) employment creation (2) labour productivity (3) industrial relations (4) social protection. A main theme of this report is that economic growth is a necessary condition for the creation of productive employment and decent work, however it does not in itself expand job opportunities and reduce poverty. This report highlights areas of opportunity within these four key priority areas that are conducive to productive employment creation and decent work. Provided below is a brief outline of some of the recommendations and issues that require policymakers' attention:

Employment Creation

Economic growth is a necessary condition for the creation of productive employment and decent work. Indonesia can tap into its growth potential by addressing critical constraints to growth: 1) inadequate and poor quality of infrastructure, 2) weaknesses in governance and institutions and 3) unequal access to and poor quality of education. Indonesia also has strong potential in improving the business environment by sharing best practices of public administration within the country. Unleashing the existing potential of the private sector itself spurs economic growth and creates employment. Contribution of strategic skills development to sector development and thus employment creation is another key point that this report highlights.

For economic growth to be inclusive, the access of workers in disadvantaged positions in the labour market (e.g. the working poor, the unemployed and workers on precarious contracts) to productive employment constitutes an important element. Unequal access to and low quality of education in Indonesia, however, limit many workers' access to productive opportunities.

Some observers claim that labour regulations cause high informality in employment and slow employment creation. However, compliance with labour regulations leaves much room for improvement (e.g. severance pay

and the minimum wages are not well enforced), thus undermining the validity of such claims. What is crucially important is that the Government and social partners engage in constructive social dialogue and discuss necessary reform of labour regulations. The current form of employment protection, especially income security for joblessness and retirement, is inseparably linked with the lack of an adequate social security system. Therefore, it is advisable that the development of a social security system that hedges the risks of old age and unemployment proceeds in conjunction with negotiation over labour regulation reforms.

Employment creation and loss in Indonesia are increasingly affected by trade as the Indonesian economy continues to be integrated into regional and the global markets. The volume and labour intensity of export and import items as well as the ripple effect on related sectors of the economy determine the employment effect of trade. In the case of the free trade agreement with China, Indonesia was estimated to have gained employment notably in agriculture. However, job loss occurred in sectors such as textile, garment and apparel where the share of female youth employment is high.

The prevailing economic theories and available empirical evidence clearly show that gains in labour productivity generate significant economic returns in the form of increases in employment and wages. Labour productivity in Indonesia has been on a steady rise. It is however important to note that Indonesia's rivals, Thailand and China, have considerably boosted labour productivity and surpassed the level of labour productivity of Indonesia.

Labour Productivity

Labour productivity can be increased by shifting workers from low productivity sectors to other sectors and/or by adopting modern technologies and innovation and upgrading production capacity of sectors. Shifting workers from agriculture where productivity is low and labour is in surplus to other sectors calls for growth of non-agriculture sectors and necessary skills development. Since the secondary and tertiary sectors demand higher skills than the primary sector, a greater emphasis on education and skills training has become necessary. In addition, boosting labour productivity within a sector requires skilled workforce that can absorb modern production technologies.

A particular challenge in skills development is the time lag between education and/or skills training and the point in time when the skills become available for economic activities. Moreover, forecasting skills demand in the future is not easy. Analyzing growth trends of sectors and understanding implications of national and provincial development policies on skills demand, however, can inform policymakers and training providers about probable skills demand in the future.

Industrial Relations

Social dialogue at the national level can have a strong positive impact on productive employment and economic growth. At the company level, constructive industrial relations leads to improved working conditions, which are positively associated with higher productivity and thus increased profitability. These points are strongly supported by available empirical evidence. Countries such as Japan, the Netherlands and Sweden have been able to forge a consensus between social partners on variety of social and economic issues, which has given these governments the ability to pursue strong economic growth and productive employment simultaneously. In recent years, Indonesia has made a strong push toward improving the culture and practice of social dialogue between the private sector, trade unions and the Government. Despite such recent gains, there remains significant room for improvement, particularly in realm of employee bargaining capacity. This weak bargaining capacity has translated into de-facto wage moderation without alternative gains.

Social Protection

Indonesia's social protection system consists of a combination of social insurance schemes (the core of the system) and a number of targeted pro-poor programs. The current social insurance schemes predominantly cover workers that are relatively well-off. This is supplemented by targeted social programs, which help to alleviate abject poverty. Under this current system, there are large portions of workers in the middle brackets of the income distribution that find themselves left out of such programs. Thus, the Government has been adapting social programs to be more inclusive. Indonesia remains behind neighbouring countries with regards to public expenditure on social protection. Hence, there appears to be room for further fiscal expansion. In addition to expanding social provisions, the Government has also made a strong effort to address the system of placement and protection of Indonesian workers overseas.

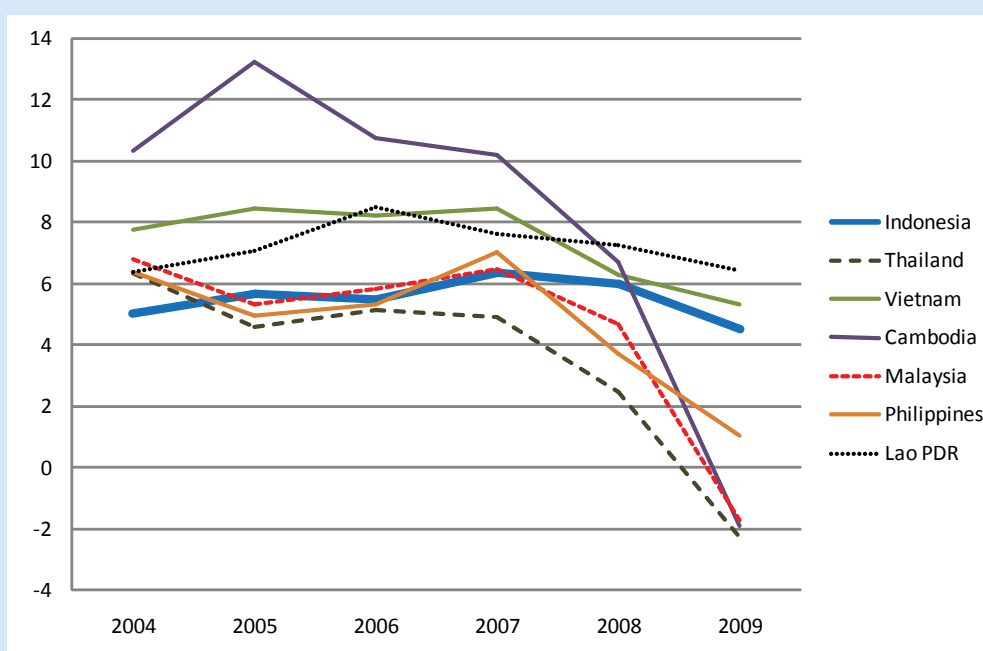
Trends in the labour market

1.1. Economic trends

Indonesia weathered the crisis better than other countries in the region and maintained positive economic growth in 2009 and in 2010. Indonesia's large domestic market helped cushion the impact of the crisis that transmitted through external trades and ailing global financial systems. Various sources indicate even higher growth for 2011. The Government of Indonesia targets annual GDP growth rates to be 6.3 to 6.8 per cent between 2010 and 2014 in the National Medium-Term Development Plan (RPJM). The Asian development Bank (ADB) sees GDP growth in Indonesia at 6.3 per cent.¹ The Asian development Bank (ADB) sees GDP growth in Indonesia at 6.3 per cent in 2011.²

Favourable economic outlook

Figure 1.1
Economic growth rates (selected ASEAN countries, per cent)



Source: World Databank, World Bank

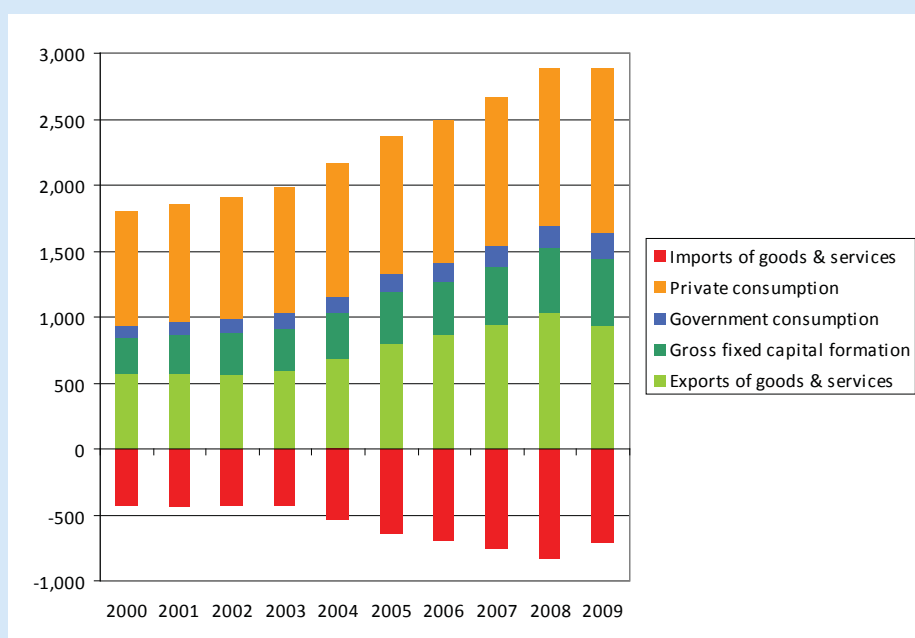
1 ADB (2010) *Asian Development Outlook 2010 Update* (Manila)

2 World Bank (2010) *Indonesia Economic Quarterly: Maximizing opportunities, managing risks* (Jakarta)

*Drivers of growth:
Private consumption
and investment*

The twin motors of economic growth over the last decade have been private consumption and investment (gross fixed capital formation) (Figure 1.2). Private consumption showed no signs of the negative impact associated with the global financial crisis. With private and public consumption having accounted for over 65 per cent of the GDP during the last decade, it appears that the economy is relatively resilient to external trade shocks. The growth of private consumption accounted for 49.8 per cent of the GDP growth between 2000 and 2009. The second contributor was gross fixed capital formation, which generated 29.8 per cent of the economic growth. The annual growth rate of gross capital formation stood at 7.1 per cent, making it the second fastest growth category in the national accounts. Increase in government consumption including various subsidies during this time period accounted for 13.4 per cent of the economic expansion.

Figure 1.2
Expenditure on GDP (at 2000 constant prices, trillion Rupiah)



Source: ADB Statistical Database System, for 2009: BPS.

Table 1.1
National Accounts (at 2000 constant prices)

	Year 2000 (Billion Rupiah)	Year 2009 (Billion Rupiah)	Annual growth rate (2000-2009, %)	Contribution to growth (2000-2009, %)
Private consumption	856798.3	1,249,011.2	4.3	49.8
Government consumption	90779.7	195,907.7	8.9	13.4
Gross fixed capital formation	275881.2	510,118.1	7.1	29.8
Net export	146,172.4	223,537.0	4.8	9.8

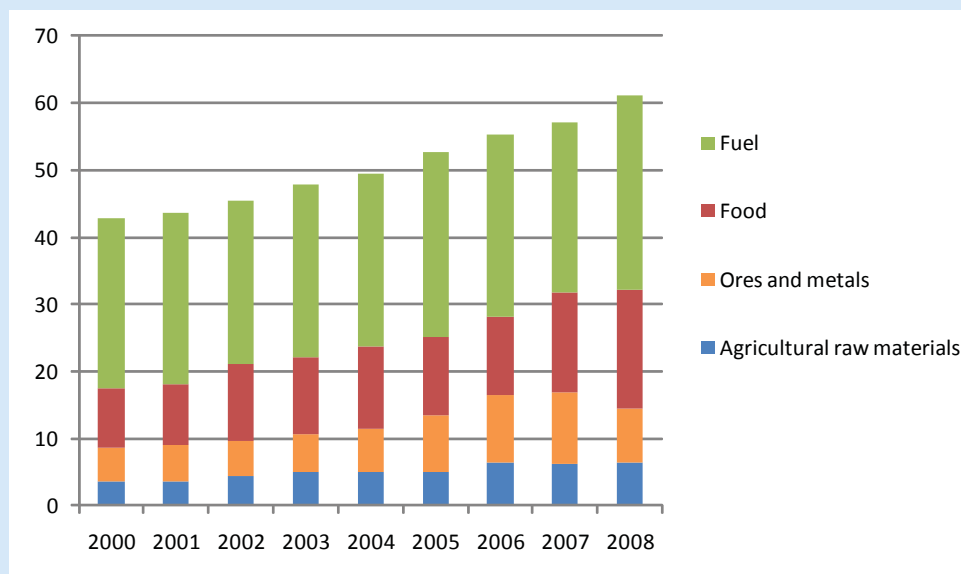
Source: Asian Development Bank's Statistical Database System, ILO staff member's calculation

Note *: Increase in stock and statistical discrepancy were -2.6% and -0.1%, respectively.

Exports and imports of goods and services expanded 5.6 and 5.9 per cent per year respectively between 2000 and 2009. The sustained trend of trade expansion since 2002 was reversed in 2009 due to a decline in the aggregate global demand. Export of goods and services fell by 9.7 per cent from 2008 to 2009.³ Although exports pushed up the Indonesian GDP, it is important to note that the bulk of Indonesian exports are commodities, and the market price of such goods sway the performance of Indonesian exports. In fact, the share of fuel, ore and minerals, agricultural raw materials and food exports in the merchandise export has steadily increased from 42.9 per cent in 2000 to 61.2 per cent in 2008. The commodity boom before the current global financial crisis pushed up Indonesia's economic performance with a modest impact on employment creation.

Growing dependence on commodity exports

Figure 1.3
Composition of Indonesian exports (% of merchandise exports)



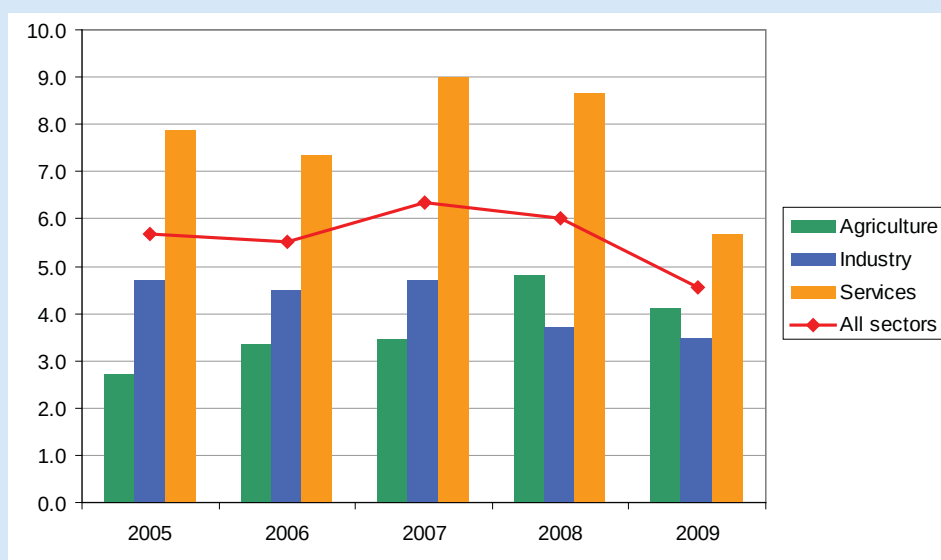
Source: BPS

The sector origin of GDP growth reveals the services sector as the main thrust of the economic expansion of Indonesia between 2005 and 2009. The services sector maintained an annual growth rate of over seven per cent between 2005 and 2008, contributing to more than a half of GDP growth in Indonesia (Figure 1.4 and 1.5). Indeed, 62.2 per cent of the economic growth in 2008 originated from the services. Within the services sector, the communication sector has been charting a remarkable growth. The share of the communication sector in the GDP more than doubled from 2.3 per cent in 2004 to 5.5 per cent in 2009. The sector alone pushed up the GDP by 1.1 and 1.0 percentage points in 2008 and 2009 respectively. The employment impact of the growth of telecommunication sector, however, has been modest.

Services-sector-led growth

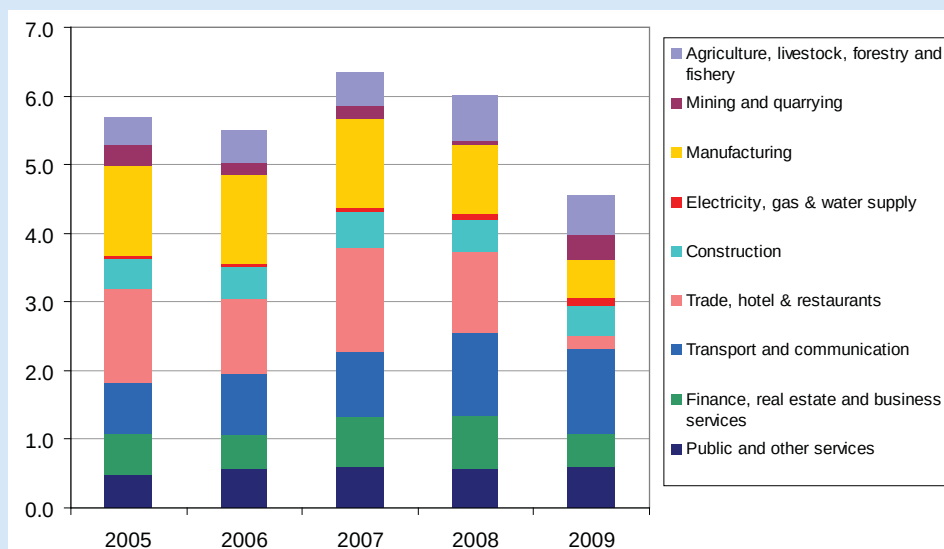
³ The net exports increased in 2009 from the previous year by Rp. 24.5 trillion (USD 2.7 billion) because of a sharper reduction in imports.

Figure 1.4
GDP growth by sector (at 2000 constant market prices, per cent)



Source: ADB, Key Indicators for Asia and the Pacific 2010

Figure 1.5
Contribution to GDP growth by sector (at 2000 constant market prices, per cent)



Source: BPS, ILO staff calculation

Fiscal policy: greater policy space on the horizon

Reflecting the impact of positive economic growth despite the crisis, Indonesia has maintained a strong fiscal position. The Government budget deficit for 2010 is targeted at 2.1 per cent according to the revised 2010 budget approved by the parliament. The actual budget deficit may be smaller than the target because of weak budget disbursement and anticipated higher commodity prices that would increase government revenue⁴. The debt-to-GDP ratio was on the decline between 2005 and 2009. Although the

4 World Bank (2010): *Indonesia Economic Quarterly: Continuity amidst volatility* (Jakarta).

government implemented the IDR 73.3 trillion fiscal stimulus package in early 2009, it appears less likely that the Government will adopt expansionary fiscal policy since the annual economic growth rate is expected to be positive at above six per cent in the coming years. Prudent fiscal management and a likely increase in tax revenue will bring about more policy space for Indonesia, thus creating opportunities for rigorous investment in enhancing the basis for inclusive economic growth.

Article 7 of Act No. 3 of 2004 concerning the Bank of Indonesia stipulates that the goal of the central bank is to maintain the stability of the Indonesian Rupiah. Following this mandate, the Bank of Indonesia adopted the inflation target framework in 2005. For 2010 and 2011 the target rate is five per cent with a margin of one percentage point. The policy rate (BI rate) has been used as a tool to control inflation. Although during 2009 the Bank of Indonesia lowered the policy rate policy from 9.25 per cent in December 2008 to 6.50 per cent in August 2009 in order to mitigate the impact of the crisis on the Indonesian economy, the rate was kept high in the pre-crisis period. In the past, the inflation-target-based monetary policy was ineffective in taming cost-push inflation (e.g. inflation caused by cuts in fuel subsidies in 2005 and by the global food crisis in 2008).⁵ The high interest rates associated with the policy rate might have produced high costs in terms of lost investment and employment creation in the formal economy.

*Monetary policy
focuses on an
inflation target*

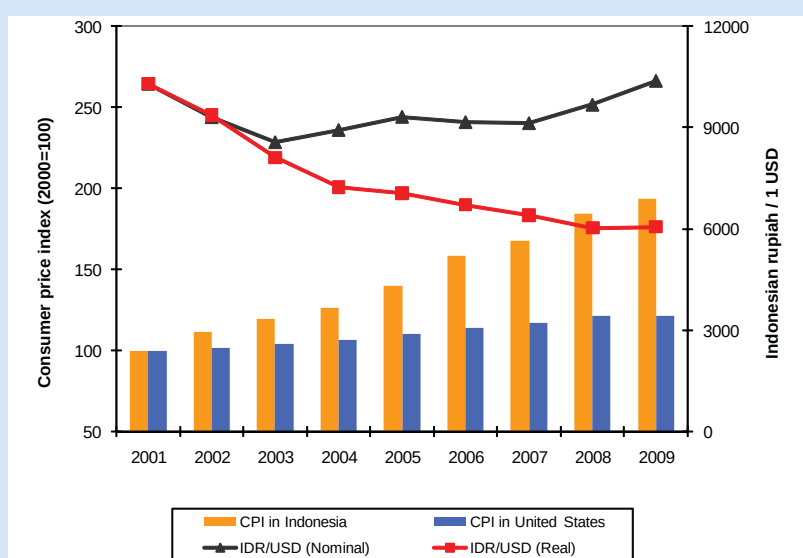
The Bank of Indonesia's exchange rate policy is designed to minimize excessive volatility in exchange rates in order to achieve the inflation target and financial system stability. Over the past decade, the US dollar (US\$) to Indonesian Rupiah (IDR) nominal exchange rates hovered at approximately US\$ 1 = IDR 9,000. Due to higher inflation in Indonesia than in the United States, the Indonesian Rupiah has significantly appreciated against the US dollar in real term since 2001.⁶ This appreciation of the rupiah may have negatively affected Indonesian exporters and producers competing with imported goods and services. Wages of production workers in manufacturing below supervisory level in Indonesia substantially increased in terms of the US dollar (Table 1.2), whereas their real wages in Indonesian Rupiah only increased by about six percent over eight years (2001-2009). Similar results can be found with other major currencies. This labour cost increase in investors' currencies might have reduced investment, subsequently reducing the employment creation capacity of the economy.

*Currency
appreciation affected
domestic industries*

5 Dhanani, D, Islam, I and Chowdhury, A. *The Indonesian Labour Market: Changes and challenges*, (Routledge, London and New York, 2009).

6 This report uses a definition of real exchange rate as the product of nominal exchange rates and the ratio of price levels between two countries.

Figure 1.6
USD-Rupiah exchange rates



Source: Bank Indonesia online database and World Bank, World Development Indicators

Table 1.2
Wages of Indonesian production workers in manufacturing below supervisory level

Year	2001	2009
Nominal wages in rupiah (000)	535	1,116
Nominal wages in US\$	52	107
Inflation (CPI) index in Indonesia (2001=100)	100	196
Real wage index in rupiah (June 2001=100)	100	106

Source: Indonesian wage data: BPS, CPI: International Monetary Fund, author's calculation

1.2 Labour market trends

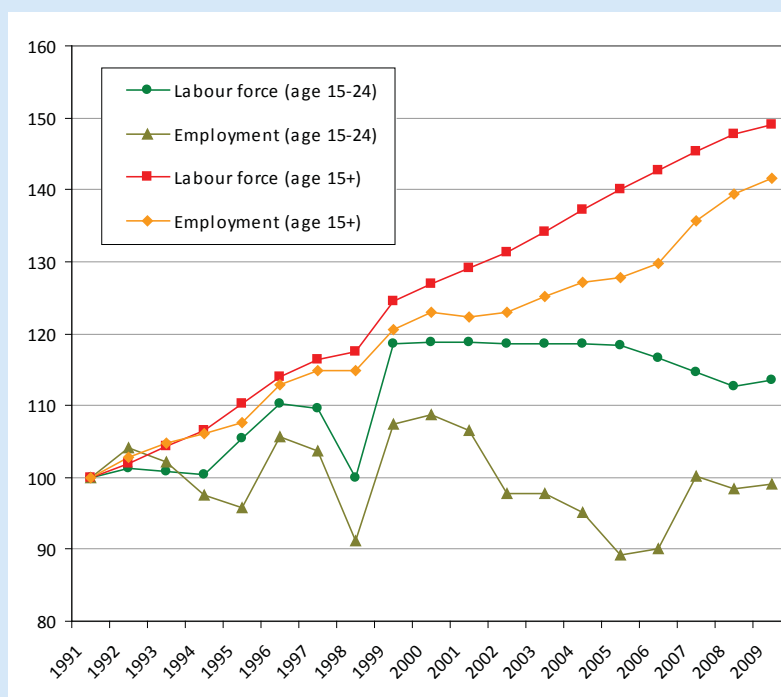
Employment growth has lagged behind labour force growth

Employment growth after the Asian financial crisis of 1997/98 lagged behind labour force growth until 2007 despite a sustained economic expansion. The labour force (age 15+) steadily grew by around 1.7 per cent per year between 2000 and 2009, whereas the pace of employment growth (age 15+) slowed down after the crisis until it picked up in 2007. In particular, it was youth employment (age 15-24) that dragged out the impact of the Asian financial crisis well beyond the late 1990s. The level of youth employment in 2009 was below the level recorded in 1991, engendering a large pool of unemployed youth. Challenges confronting the youth in obtaining a job are particularly severe in Indonesia as evidenced by a high youth unemployment rate standing at 22.2 per cent in 2009, which was significantly higher than the regional (13.9 per cent for the Southeast Asia and the Pacific) and world average (12.8 per cent).⁷ The unemployment rate is higher for young women than men, but the gap has been narrowing

⁷ Source: ILO (2011) *Global Employment Trends*

in recent years. Youth unemployment rates differ considerably by regions: in Bali-Nusa Tenggara 10.8 per cent, whereas in Banten 34.1 per cent. Job opportunities appear particularly scarce for junior- and senior-high school graduates.

Figure 1.7
Labour force and employment growth (index, 1991=100)



Source: ILO, Key Indicators of Labour Market 6th edition; for 2009: BPS, Labour Force Survey

As a result of the maintained economic growth, the unemployment rate (age 15+, men and women) peaked in 2005 and started to decline from 11.2 per cent in 2005, to 8.4 per cent in 2008 and further down to 7.9 per cent in 2009, reflecting growth in jobs in non-wage employment. The pace of decline in the unemployment rate was remarkably faster among women, which narrowed the gender gap in the unemployment rate from 5.4 percentage points in 2005 to a merely 1.0 percentage point in 2009. This trend is a result of stronger employment growth for women than men. In fact female employment increased by 7.2 million between 2005 and 2009, nearly twice as many as the employment gain for men (3.7 million) during the same period. In terms of the pace of job growth, the average annual employment growth rate between 2005 and 2009 was 1.5 per cent for men and 5.1 per cent for women. It appears that strong job growth in the services sector contributed to the fast employment growth for women (Table 1.7).

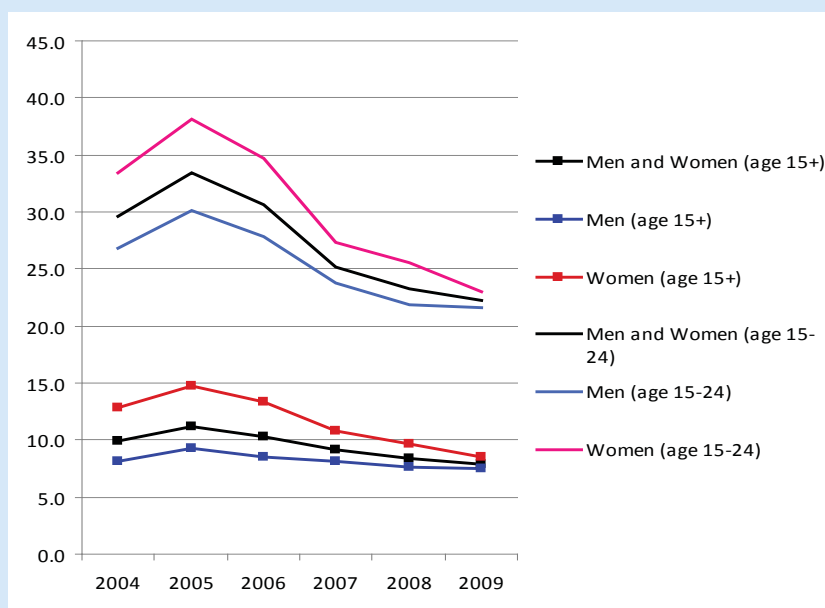
Women gained employment, narrowing gender gaps in employment

Youth unemployment (age 15-24) declined significantly since 2005. One out of three economically active youth was out of a job in 2005 while the ratio in 2009 was one out of 4.5 young workers. Youth unemployment was reduced by about 2.6 million between 2005 and 2009, of which women accounted for about 1.5 million. Faster job growth for young women

Youth confront challenges in entering the labour market

(average annual employment growth rate for men was 2.9 per cent for men and 3.8 per cent for women) narrowed the gender gap in the youth unemployment rate from 8.1 percentage points in 2005 to 1.4 percentage points in 2009. Although the overall trend of youth unemployment is downward, young workers (age 15-24) were still about 4.9 times more likely to be unemployed than workers of older generations (age 25+) in 2009. Whereas the unemployment rate for workers aged 25 or above was 4.5 percent in 2009, the youth unemployment rate (age 15-24) was 22.2 per cent.

Figure 1.8
Unemployment rates (per cent)



Source: BPS

*Improving
employment quality
remains as a
challenge*

One cannot take the unemployment rate alone in judging the performance of the Indonesian labour market since indicators of quality of employment reveal yet another important aspect of recent employment trends: the quality of employment has not improved as much as one would expect from the considerable decline in unemployment. For example, the share of informal employment is now higher than before the Asian financial crisis. Inferior working conditions, insecurity of employment and a lack of social insurance coverage often characterize informal employment. Underemployment (i.e. working less than 35 hours a week) declined sharply among women while only a marginal change is observed for male workers. About half of underemployed workers are estimated to be involuntary. In addition, trends in employment status reveal that the share of casual employment has been on the rise, while the gain in the share of wage employment (employee) between 2002 and 2009 was modest. It is important to note that there are substantial discrepancies in labour market performances by province. DKI Jakarta boasts the lowest incidences of informal employment and headcount poverty since economic activities concentrate on the capital city. Indicators of poverty and informal

employment tend to be high among eastern provinces of Indonesia (Figure 1.12). Turning economic growth into improvement in the quality of employment, therefore, remains a challenge in the coming years.

Table 1.3

Share of informal employment and underemployment (percentage of total employment)

	Informal employment		Underemployment	
	Male	Female	Male	Female
1996	51.9	63.0	26.2	50.2
2002	60.4	68.3	24.7	43.6
2009	59.8	65.8	24.8	38.5

Source: BPS, Labour Force Survey

Note: BPS defines informal employment by employment status and occupation (Annex 1). Under employment refers to those who work less than 35 hours per week.

Table 1.4

Share of employment by employment status (per cent)

	2002	2006	2009
Self employed	19,2	20,4	20,1
Employer, assisted by temporary/unpaid worker	24,0	20,9	20,9
Employer, assisted by permanent workers	3,0	3,0	2,9
Employee	27,3	28,1	27,8
Casual employee in agriculture	4,9	5,8	5,6
Casual employee not in agriculture	3,9	4,8	5,4
Unpaid worker	17,6	16,9	17,3

Source: BPS, Labour Force Survey

The motor of growth in the Indonesian economy has been gradually shifting from agriculture and manufacturing to services as discussed in Section 1.1 and the sector share of employment generally reflects this shift. To recap, the agriculture and the industry sectors recorded growth rates at below the average of all sectors at 5.6 per cent per year between 2005 and 2009, whereas high growth was attained by the services sector. As a result, the share of agriculture employment dropped by 5.6 percentage points from 45.3 per cent in 2000 to 39.7 per cent in 2009. The decline in the share of manufacturing employment was less salient but generally lost its share by 0.8 percentage points during this time (Table 1.5). Overall, these shifts in employment have led to a higher proportion of workers in services sector today as compared to a decade ago.

Employment shift to services sector has changed skills demand and narrowed gender gaps in the labour market

The shift in employment to services has generated two significant consequences in the Indonesian labour market. First, it has altered the skills demand of the economy since higher skills are necessary to support

the expansion of the services sector. As this report points out later in this section, returns on education have increased as evidenced by the widening wage gaps by educational attainment of workers. Another consequence of the growth of services sector employment is a rapid employment growth among women, which narrowed gender gaps in the labour market. Female employment grew on average by 4.7 per cent per year between 2004 and 2009 in trade, hotel & restaurants sectors. The annual growth rate of female employment in transport and communication sectors was 24.7 per cent during this same period. Finance, real estate and business services also recorded high female employment growth. As a consequence of the rapid female employment growth in the expanding services sector, gender gaps in labour participation rates, employment-to-population rates and wages have considerably narrowed.

Table 1.5
Sector share in employment (per cent)

Year	2000	2005	2009
Agriculture	45.3	44.0	39.7
Mining & quarrying	0.5	1.0	1.1
Manufacturing	13.0	12.7	12.2
Electricity, gas & water	0.1	0.2	0.2
Construction	3.9	4.9	5.2
Trade, restaurant & hotels	20.6	19.1	20.9
Transportation, storage & communications	5.1	6.0	5.8
Financing, insurance, real estate & business services	1.0	1.2	1.4
Community, social & personal services	10.7	11.0	13.4
Total	100.0	100.0	100.0

Source: BPS, author's calculation

Services sector boosted output and employment

Juxtaposing sector shares in GDP and in employment reveals labour (or capital) intensity of the sector at a point (Table 1.5). It is apparent that the agricultural sector is labour intensive. 39.7 per cent of total workers in Indonesia engaged in agriculture and generated 13.6 per cent of total output in 2009. Finance, real estate and business services place itself at the other end of the spectrum of the labour/capital intensity of sectors. These sectors are capital-intensive (or knowledge-intensive) and thus GDP shares are relatively high for their employment shares. Generally speaking, a shift of workers from agriculture to services implies a higher aggregate output of the economy.

Another picture emerges when one juxtaposes growth rates of output and employment by sector. Bringing in a certain time span into analysis generates a dynamic picture of the employment intensity of growth. Agriculture is a typical labour-intensive sector in Indonesia when seen in a static picture; however, the employment intensity of the growth of the sector was very low. On average, one per cent growth of the output of the

sector induced merely 0.13 per cent growth in employment in the sector. In other words, the agriculture sector gained productivity. The growth of the communication sector was highly capital intensive because of the rigorous infrastructure investment of the sector. Other parts of the services sector recorded employment elasticity to output growth at above the industry average of 0.40. This reveals that the expansion of the services sector in recent years has been conducive to employment growth. .

Table 1.6
Share and growth of output and employment by sector
(GDP at 2000 constant market prices)

	Sector share in GDP (2009, %)	Sector share in employment (2009, %)	Average annual output growth (2004- 2009, %)	Average annual employment growth (2004- 2009, %)	Employment elasticity to output growth (2004-2009)
Agriculture, Livestock, Forestry and Fishery	13.6	39.7	3.7	0.5	0.13
Mining and Quarrying	8.3	1.1	2.4	2.2	0.94
Manufacturing Industry	26.2	12.2	3.9	3.0	0.77
Electricity, Gas & Water Supply	0.8	0.2	9.4	-0.5	-0.05
Construction	6.4	5.2	7.8	3.9	0.50
Trade, Hotel & Restaurants	16.9	20.9	6.3	2.8	0.44
Transport and Communication	8.8	5.8	14.6	2.2	0.15
Finance, Real Estate and Business Services	9.6	1.4	6.7	5.7	0.86
Services	9.4	13.4	6.1	5.9	0.97
All sectors	100.0	100.0	5.6	2.3	0.40

Source: BPS, author's calculation

Table 1.7
Employment share and growth rate by sector and gender

	Female share in employment	Average annual male employment growth (2004-2009, %)	Average annual female employment growth (2004-2009, %)
Agriculture, Livestock, Forestry and Fishery	37.0	0.3	0.8
Mining and Quarrying	11.9	3.2	-3.6
Manufacturing Industry	43.8	1.6	5.0
Electricity, Gas & Water Supply	9.4	-0.6	0.6
Construction	2.4	3.9	3.4
Trade, Hotel & Restaurants	51.0	1.0	4.7
Transport and Communication	9.6	0.9	24.7
Finance, Real Estate and Business Services	29.4	4.5	9.2
Services	44.2	4.6	7.7
All sectors	37.9	1.5	3.7

Source: BPS

Stagnant or declining purchasing power of wages

Despite sustained economic growth, *real/wage*⁸ growth has been largely stagnant or even declining in some sectors and occupations between 2005 and 2009. The real wages for production workers below supervisory level, for instance, declined by just over ten per cent between March 2005 and September 2009, irrespective of sustained economic growth and a constant increase in minimum wages throughout Indonesia during the period. On the surface, one can ascribe the wage trend to high inflation that offset the nominal increase in wages. Beneath the surface, however, lie structural issues of porous income floor due to high informality in employment and a lack of income protection.

It is particularly important to note a high vulnerability of the purchasing power of wages with regards to sudden policy changes and external shocks. Two points in the Figure 1.9 are worth mentioning. First, the sharp drop in the real wages by about ten per cent in the second half of 2005 was attributable to cuts in fuel subsidies and subsequent price hikes.⁹ Though gradually phasing out fuel subsidies is a suitable policy for Indonesia, a sudden loss of real wages by nearly ten per cent in three months was obviously threatening to welfare of workers and their families since 60 per cent of the Indonesian population lived below the poverty line of US\$ 2 per day in 2007. Real wages in the following years never recovered to the levels recorded before the policy change. Second, the continuous loss of real wages throughout 2008 was due mainly to the negative impact of the global financial crisis on wages. As the global demand declined and more

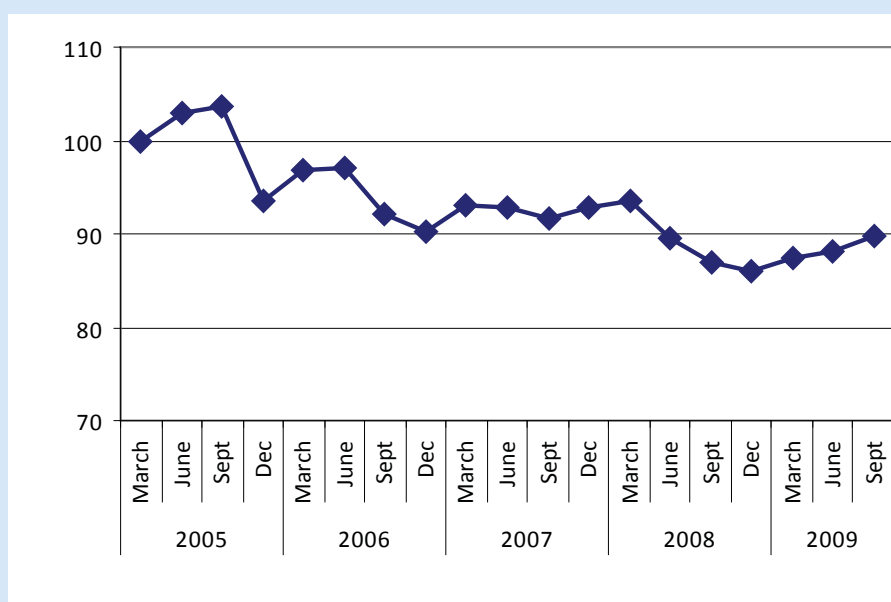
⁸ Nominal wages deflated by inflation rate

⁹ Price rises, especially food prices, adversely affect the poor. The global food crisis in 2008, for example, is estimated to have increased the number of people living in extreme poverty in the world by up to 100 million. See ILO (2011) Global Employment Trends 2011, Box 1, p. 25.

workers lost jobs in the formal sector, downward pressure was put on wages. In 2009 real wages have slowly picked up thanks to abating inflation and a gradual recovery from the worst period of the crisis.

The stagnant wages and the vulnerability of real wages to exogenous shocks reveal two important issues. First, the minimum wages are set in theory based on living wages in each province, assuring upward wage flexibility of the minimum income standard. The minimum wages are, however, poorly enforced since 43.7 per cent of employees received wages below applicable minimum wages in 2009, failing to function as an income floor. The benefit of sustained economic growth did not necessarily trickle down to the working poor, partly because of a high supply pressure of labour and a porous income floor. Second, it appears that the labour market adjusts to external shocks by lowering real wages and reducing working hours¹⁰ rather than by downsizing the workforce since the Indonesian labour market sustained a declining trend of unemployment in the midst of the global financial crisis, while real wages fell.

Figure 1.9
Real wage index for production workers below supervisory level (2005 March=100)



Source: BPS, Quarterly Wage Statistics

Another notable trend in wages is the increasing returns on university education. Hourly wages for workers with a university degree was nearly 3.5 times higher than wages for workers with primary education in 1998. The gap has widened in the past decade as university graduates earned about 4.5 times as much as workers with a primary education per hour in 2009. As the services sector expands and labour-intensive manufacturing slows down, skills demand has been shifting to reward higher education. A shortage of skilled-workers and a labour surplus coexist in Indonesia, which drives wage

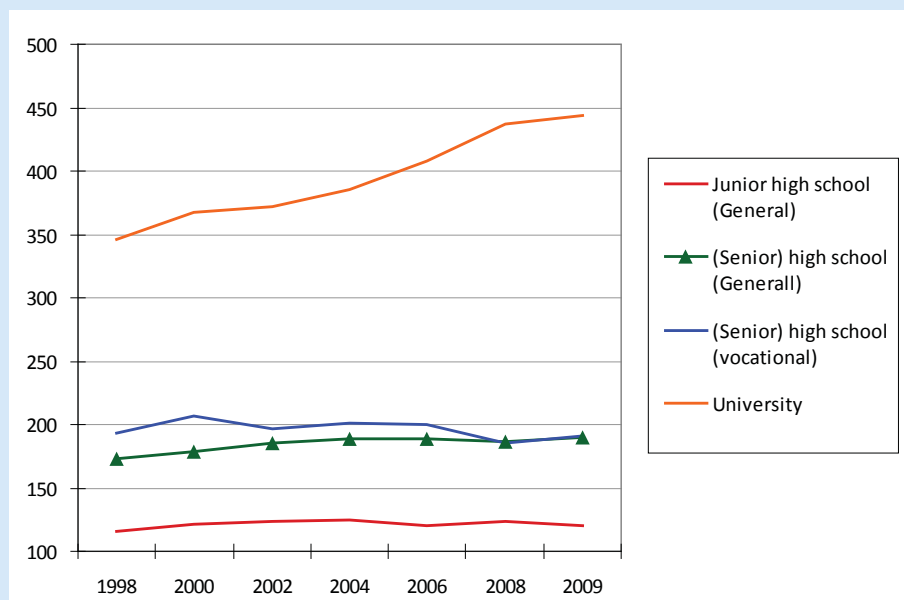
Educational attainment widens wage gaps

¹⁰ ILO (2010) Global Jobs Pact Scan for Indonesia (Geneva)

gaps to be wider. On the one hand this wage trend attracts more youth to higher education. In fact, the share of young workers (age 25 and 30) with university education has been increasing, especially among women. On the other hand, this wage trend is worrying given that university education is not always affordable for all.

Figure 1.10

Wage gap by educational attainment (wages for workers with primary education=100)



Source: BPS, Labour force survey, ILO staff calculation

1.8 million children forego education and engage in labour

Productive employment is the central means for the vast majority of Indonesian workers to earn one's way out of poverty. Although education largely determines the access to such opportunities, too many children, however, forego education and are trapped in poverty. The first Indonesia Child Labour Survey in 2009 revealed that 4.1 million children aged 5-17 out of 58.8 million children worked on average 25.7 hours per week. Moreover, 1.8 million out of the working children were categorized as child labour. A total of 6.7 million children of the age bracket were found to be not in education, training nor working.

The financial burden of education was found to be the primary reason not to continue education. According to the socioeconomic survey (*Susenas*) in 2007, 57.2 per cent of respondents among those who never having attended school or dropped out of school cited financial reasons for not having completed education. Transportation costs, textbooks, school uniform and stationary are not necessarily affordable for all families. To address these concerns, the Government of Indonesia has expanded the conditional cash transfer programme (*PKH*), which mandates that recipient families send their children to school.

Increasing labour migration

An increasing number of Indonesian workers seek employment opportunities abroad due mostly to the employment deficiency in some regions in Indonesia and the higher wages available in some other countries. According to official statistics, about 4.3 million Indonesian migrant workers were employed abroad, about half of whom (excluding sailors) were in a neighbour country, Malaysia. Geographical proximity and cultural similarities including languages and religion contribute to the predominance of Malaysia as the largest destination country. Saudi Arabia was the destination country for about a quarter of Indonesian migrant workers. The majority of Indonesian migrant workers are women and most of them work as domestic workers. In addition to documented migrant workers, there are also a large number of undocumented Indonesian migrant workers abroad. Because of its clandestine nature, it is hard to estimate the number of such undocumented migrant workers.

As more Indonesian citizens are employed abroad, protection of migrant workers has emerged as an important issue. Migrant workers remain vulnerable to abuse and violation of workers' rights in destination countries and this is even more so when they are undocumented. Protection of migrant workers has become a policy concern in Indonesia.

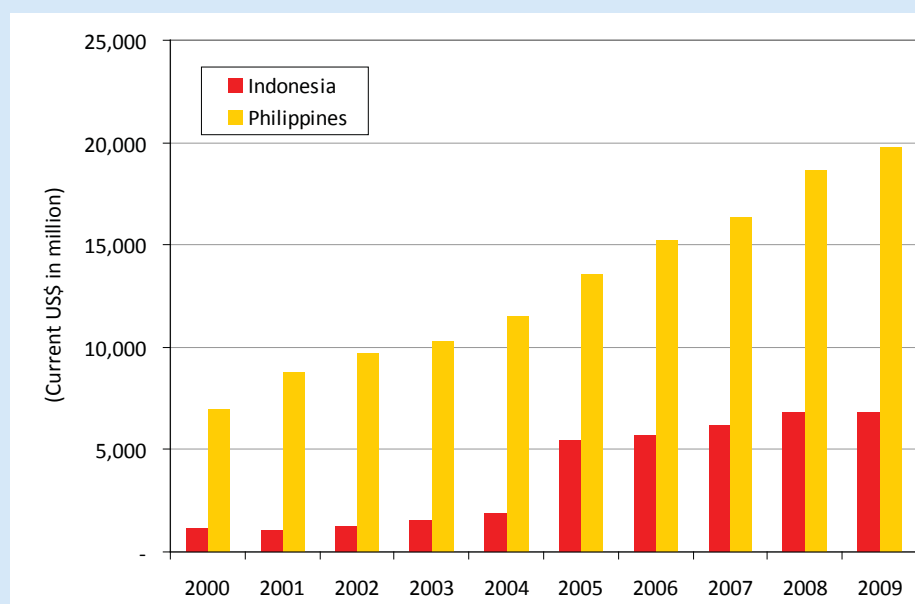
Increasing labour migration also brings an increasing sum of remittances back to Indonesia. Workers' remittances recorded about a three-fold increase between 2000 and 2009. The amount of workers' remittances and compensation of employees sent back to Indonesia was equivalent to 1.3 per cent of Indonesia's GDP in 2009. Since a large share of remittances are spent on consumption, the ILO assists migrant workers' families to use remittances on productive investment so that their income will be more stable and the positive impact of labour migration of family member(s) lasts longer.

Table 1.7
Employment share and growth rate by sector and gender

Country		Country	
Asia and the Pacific		Middle-East	
Malaysia	2,000	Saudi Arabia	960
Taiwan	130	Syria	80
Hong Kong, China	120	UAE	75
Singapore	100	Kuwait	63
Japan	44	Jordan	35
Brunei Darussalam	33	Lebanon	30
South Korea	33	Qatar	25
Papua New Guinea	25	Bahrain	16
Macau	25	Oman	12
Australia	20	Europe	
Americas		The Netherlands	15
USA	73	Germany	13
Canada	12	Sailors	83
		Total	4,300

Source: National Board for Placement and Protection of Indonesian Overseas Workers (BNP2TKI)

Figure 1.11
Workers' remittances and compensation of employees, received



Source: World Databank, World Bank

According to the Population Division of the United Nations, Indonesia will experience a moderate population growth over the coming five years, with a slight decline in youth population (age 15-24) and a rapid increase in the number of senior citizens (age 60+). The working age (age 15+) population in Indonesia is projected to be approximately 181 million in 2014 (Table 1.9). The size of the labour force will be about 125 million.

Labour force projection in 2014

Table 1.9
Labour force projection

	Population in 2009 (‘000)	Labour force in 2009 (‘000)	Employment in Aug 2009 (‘000)	Population projection in 2014 (‘000)	Labour force projection in 2014 (‘000)
Male					
Youth (15-24)	21,874	13,134	10,291	20,578	13,251
Adult (25-59)	53,860	51,903	49,508	58,179	56,079
Senior (60+)	8,440	5,372	5,323	10,735	7,892
Female					
Youth (15-24)	21,287	8,590	6,611	20,011	8,556
Adult (25-59)	54,354	36,332	29,944	58,392	33,823
Senior (60+)	9,513	3,219	3,193	12,832	5,484
Total (15+)	169,328	118,550	104,870	180,727	125,085

Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: the 2008 Revision*; BPS, *Labour force survey August 2009*; ILO, LABORSTA Labour Statistics Database.

In order to achieve the target of reducing the unemployment rate to around five per cent by 2014, Indonesia needs to accelerate economic growth, increase employment intensity of growth, or a combination of the both. Meeting the target requires, for instance, an annual GDP growth of 5.4 to 7.9 per cent between 2009 and 2014.¹¹ Since the impact of economic growth on employment varies depending on numerous factors such as the industry mix and the employment intensity of growth, this projection used three different figures of employment elasticity to GDP growth (0.35, 0.40 and 0.45). Employment elasticity to economic growth between 2004 and 2008 was 0.37. The Government of Indonesia projects economic growth of 6.0 to 6.3 per cent in 2011 and 7.0 to 7.7 percent in 2014.

Achieving the employment target by 2014 require a high economic growth

11 Given the large share of the informal economy, the relation between economic growth and reduction in unemployment is not straightforward. High economic growth may simply shift workers from unproductive sectors to more modern and productive sectors. In addition, various external and indigenous factors affect the economic growth rate, and the labour participation rate may also vary. Therefore, the figures in this analysis need to be interpreted with caution.

Table 1.10
Necessary economic growth rates (annual 2009–2014, %)

	Employment elasticity of 0.35	Employment elasticity of 0.40	Employment elasticity of 0.45
Unemployment rate at 5.5 % in 2014	6.92	6.06	5.38
Unemployment rate at 4.0 % in 2014	7.85	6.87	6.10

Source: Author's calculation

The employment target can be achieved by addressing constraints to economic growth and by enhancing inclusiveness of economic growth. The second half of this report will take up these aspects.

Box 1.

MDG Target 1B: Achieve full and productive employment and decent work for all, including women and young people

In September 2000 world leaders gathered at the United Nations Millennium Summit in New York adopted the Millennium Declaration. The Declaration forged a new global partnership and commitment to reduce poverty and set time-bound targets which later became known as the Millennium Development Goals (MDGs). MDG Goal 1 of eradicating extreme poverty and hunger includes a target for employment and four employment indicators.

Target 1B: Achieve full and productive employment and decent work for all, including women and young people

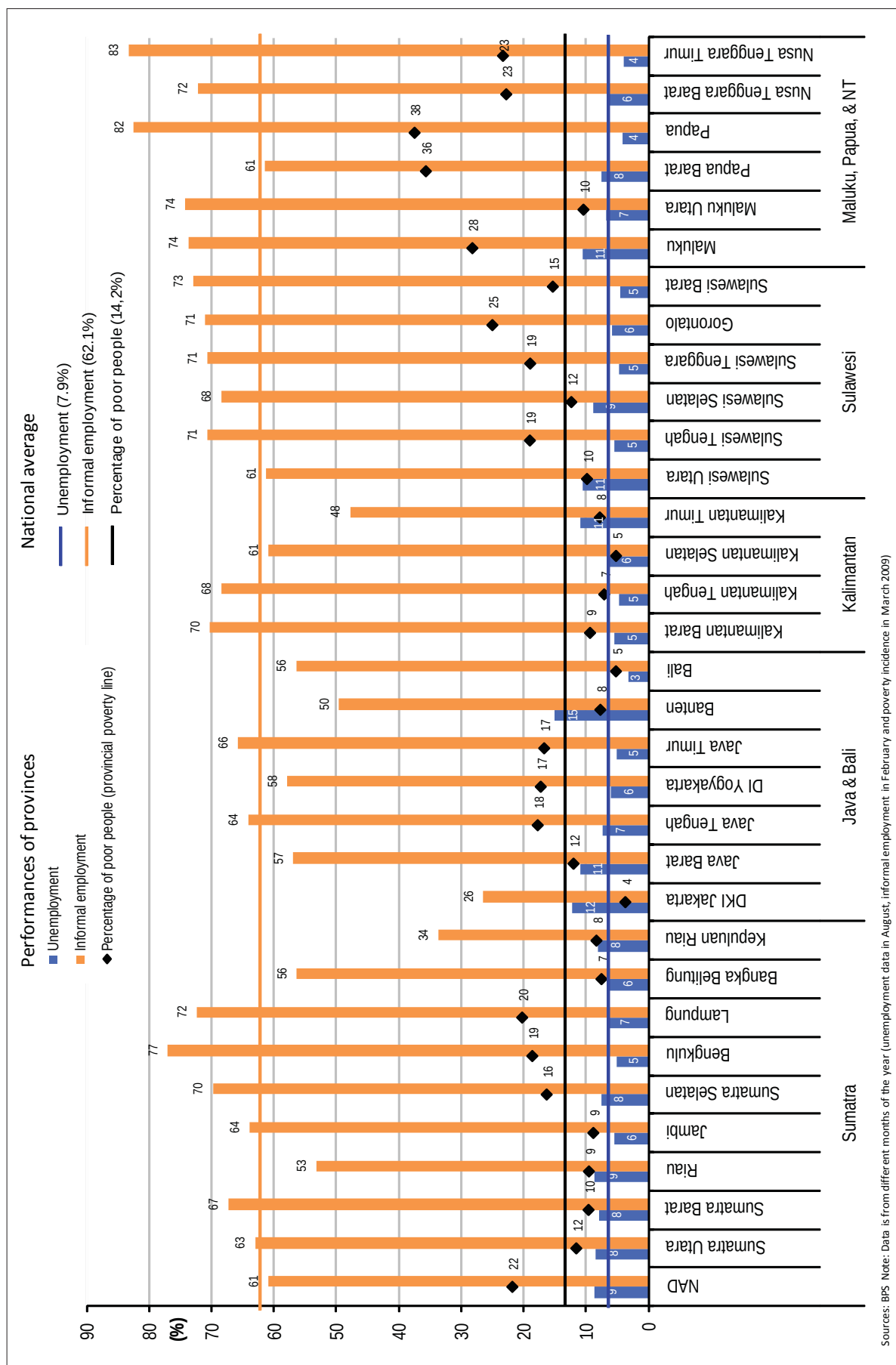
- Growth rate of labour productivity (GDP per person employed)
- Employment-to-population ratio
- Proportion of employed people living below the poverty line
- Proportion of own-account and contributing family workers in total employment (vulnerable employment rate)

As Table 1.11 indicates, the progress of Indonesia towards meeting the target 1B generates a mixed picture. While reduction in working poverty rate and vulnerable employment rate made substantial progress since 2000, the employment-to-population ratio and growth of labour productivity declined during the same period. In general, women face greater challenges in the labour market as evidenced by a lower employment-to-population ratio and higher vulnerable employment rate than men.

Table 1.11
MDG Target 1B

Indicator	2000	2009
Growth rate of labour productivity (GDP per person employed)	3.7 % (1999-2000)	2.2% (2008-2009)
Employment-to-population ratio (age 15-24)	Men 48.8% Women 34.4% Total 41.5%	Men 47.0% Women 31.1% Total 39.2%
Employment-to-population ratio (age 15+)	Men 79.4% Women 48.2% Total 63.6%	Men 77.4% Women 46.7% Total 61.9%
Proportion of employed people living below the poverty line (national definition)	27.1 % (Year 1999)	15.4 %
Proportion of own-account and contributing family workers in total employment (vulnerable employment rate)	Men 61.4% Women 70.5% Total 64.9%	Men 61.8% Women 67.0% Total 63.7%
<i>Source:</i> ILO, Guide to the new Millennium Development Goals Employment Indicators (2009); ILO, KILM 6th edition; ADB's Statistical Database System; The Conference Board Total Economy Database; Author's calculation based on data from BPS		

Figure 1.12 Unemployment, informal employment and poverty incidence (2009)



Translating economic growth into job creation

2.1 Overview

The second half of this report develops a forward-looking discussion on key labour policy areas with a particular focus on translating robust economic growth into the creation of decent work and the improvement of working conditions. High economic growth offers opportunities to address various issues in the labour market since necessary reforms can be implemented with less pain during an upswing in the economy. Indonesia has joined the ranks of middle-income countries and it is now time for the country to strengthen institutions that bolster future economic growth and improve the delivery of decent and productive work and social development.

*Indonesian Jobs
Pact as a policy
framework*

Government leaders, workers and employers of the world met in Geneva in June 2009 and agreed upon a portfolio of well-tested and proven policies that are effective in mitigating the impact of the global financial crisis on labour markets and also conducive to a job-rich recovery. The discussion and consensus among these representatives of the real economy was crystallized into an agreement called the Global Jobs Pact (GJP). Following this global consensus, representatives of the ILO Constituents in Indonesia decided at a tripartite meeting in February 2010 to adapt the GJP to the national context in order to overcome various challenges in the Indonesian labour market and to make economic growth more job-rich and inclusive. Thus, they embarked on a process of developing a policy framework by modifying the GJP to the Indonesian context. The Steering Committee for the Indonesian Jobs Pact (IJP) identified the following priority areas for joint action:

1. employment creation
2. labour productivity
3. industrial relations
4. social protection.

These areas constitute the pillars of the IJP.

The following sections will discuss the four priority areas of the IJP. These four areas are highly relevant to the main theme of this report: translating economic growth into job growth. Employment creation requires broad-based policies and these four priority areas of the IJP offer key ingredients to such a policy portfolio as the report will discuss in detail in the following sections.

2.2 Employment creation

*An increased focus
on inclusive and
pro-poor growth*

Generally speaking, a necessary precondition of employment growth is an increase in economic activities and output. Obviously one can point to work sharing or a reduction in working hours as a means of employment creation in the absence of output growth. Germany, for example, adopted this line of policy in order to mitigate the impact of the global financial crisis on employment. Further, there are instances where employment can be created at the cost of productivity. For example, in developing countries with a large agrarian economy, the agriculture sector can absorb redundant labour when jobs are shed in other sectors. The reaction of the Indonesian labour market to external shock effectively illustrates this point. In the midst of the Asian financial crisis, agricultural employment in Indonesia surged without much increase in output. This can be seen as informal income sharing in a broad sense. Therefore, in terms of employment creation, the goal of this section is to focus on development of productive employment and decent work in the interest of deriving meaningful policy recommendations. The author thus uses the term employment in this section rather narrowly to refer to quality employment unless otherwise specified.

Economic growth is a necessary condition for the creation of productive employment and decent work, but economic growth itself does not necessarily expand job opportunities and reduce poverty. One can easily list examples of economic growth that have failed to generate employment opportunities. For example, an economy with large commodity exports may see an increase in GDP with the rise of commodity prices but this often occurs without any subsequent growth in employment. This is why policymakers and researchers have been increasingly attentive not only to economic growth but to patterns of growth that are also pro-poor and inclusive.

Economic growth has been a central concern of many policymakers and researchers. In recent years a growing number of studies have focused on binding constraints to growth and poverty reduction under the assumption that addressing critical constraints to growth would unleash the growth potential of the economy thus leading to overall higher levels of development. Many of these studies follow the growth diagnostics framework developed by Hausmann, Rodrik, and Velasco.¹¹ The Asian Development Bank (ADB) proposed a conceptual framework of inclusive growth that combines two policy goals of expanding economic opportunities and giving equal access to the opportunities for citizens.¹² The ADB, ILO and Islamic Development Bank (IDB) applied this framework to a growth diagnostic analysis in Indonesia.¹³ The joint research identified 1) inadequate and poor quality of infrastructure, 2) weaknesses in governance and institutions and 3) unequal access to and poor quality of education as critical constraints that impede the nation from faster and more inclusive development.

Economic growth can be higher and more inclusive if critical constraints to growth are addressed

Box 2.

Sharing best practices to improve the business environment

With decentralized governance, business regulations vary by provinces and cities in Indonesia, generating different degrees of the ease of doing business. *Doing business in Indonesia 2010* compared 14 major Indonesian cities in terms of the ease of starting a business, dealing with construction permits and registering property. The cities included in the study are: Balikpapan, Banda Aceh, Bandung, Denpasar, Jakarta, Makassar, Manado, Palangka Raya, Palembang, Pekanbaru, Semarang, Surabaya, Surakarta and Yogyakarta. The best performing cities provide a world-class business environment when it comes to the number of procedures and time required to deal with construction permits. However, even the best performing cities in Indonesia require a substantial reduction in cost and time to start a business before they become competitive at the global level (tabel 2.1).

12 Hausmann, R., D. Rodrik, and A. Velasco Growth Diagnostics. (Cambridge, MA: John F. Kennedy School of Government, Harvard University, 2005)

13 ADB (2007) *Philippines: Critical development constraints*, (Manila)

14 ADB, IDB and ILO (2009) *Indonesia: Critical development constraints*, (Manila)

Table 2.1
Ease of doing business in selected Indonesian cities

Indicator	Best performing city (global rank of 183 economies)	Worst performing city
Number of procedures to deal with construction permits	Yogyakarta 8 procedures (5)	Manado 15 procedures
Days to deal with construction permits	Makassar 56 days (9)	Surabaya 230 days
Days to register property	Manado 12 days (24)	Surakarta 54 days
Days to start a business	Yogyakarta and Bandung 43 days (143)	Jakarta 60 days
Cost to start a business	Jakarta 26% of income per capita (117)	Manado 38.3% of income per capita
<i>Source: World Bank and International Finance Corporation, Doing Business in Indonesia 2010</i>		

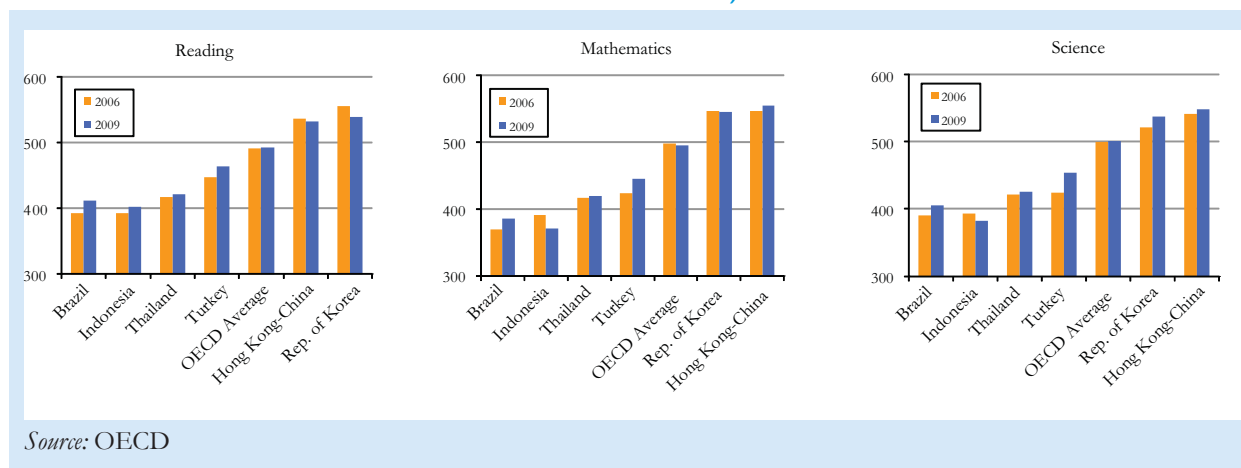
*Economic growth
can be more inclusive
if education is
improved*

For economic growth to effectively reduce poverty, it is essential that such growth spurs job creation and workers in disadvantaged positions in the labour market (e.g. the working poor, the unemployed and workers on precarious contracts) benefit from it. The capacity of such workers to access newly created employment thus determines the inclusiveness of economic growth. The aforementioned joint ADB-IDB-ILO study pointed out that unequal access to and poor quality of education resulted in inequality in access to productive employment opportunities. Although school enrolment rates have been increasing, especially for primary education, rural areas and poor provinces lag behind on such improvement. The financial burdens of education including transportation costs to and from school hamper the access of the poor to secondary and higher education. In addition, the quality of education in Indonesia is below that of comparable countries in the region.¹⁵ Improvement in school facilities and allocation of qualified teachers to remote and rural areas remain as challenges. With a slowdown in labour-intensive manufacturing and the rapid growth of modern services sector, education largely determines the access to wage employment

¹⁵ ADB, IDB and ILO, *ibid.*

opportunities. Hence, the increasing wage gap by educational attainment is most likely to increase income distribution inequality in Indonesia unless the access of the deprived to education opportunities is improved.

Figure 2.1
International comparison of students' performance (OECD PISA survey results, 2006 and 2009)



In addition to generating high and sustainable economic growth and enhancing access to productive employment opportunities, setting favourable macroeconomic conditions for employment creation is another key factor that must be considered. The mainstream macroeconomic policy in the world before the global financial crisis had been to keep inflation low and stable, using the policy rate as a tool for controlling inflation. The monetary policy of many countries followed this pattern and Indonesia was no exception. Adjusting the policy rate (BI rate in Indonesia) to suppress inflation, however, was ineffective in Indonesia in responding to cost-push inflation due to cuts in fuel subsidies and commodity price hikes. In addition, high lending rates increased the cost of capital, making it difficult to start or expand a business or to invest in productivity (e.g. upgrade machineries, incorporating modern technologies in production). High cost of capital thus might have reduced employment opportunities.

A departure from a rigid inflation target to an embrace of wider policy targets

This singular focus of macroeconomic policy on inflation has been brought into question as policymakers and economists continue to learn lessons from the global financial crisis. The emerging thinking as a result of reflection over the policy focus of last decade is that macroeconomic policy requires many targets.¹⁶ The ILO holds the view that employment should be a target of macroeconomic policies. Thus, the ILO has sought to advance the agenda of placing the creation of productive employment and decent work at the core of macroeconomic and social policies.¹⁷

16 Blanchard, Olivier et.al Rethinking macroeconomic policy, SPN/10/03, (IMF, 2010).

17 See ILO (2003) *Global Employment Agenda*, (Geneva). This position is firmly kept in the Global Jobs Pact.

Trade and employment

External trade has an important impact on employment creation and losses in Indonesia. Higher exports lead to direct employment creation in export industries and to indirect employment creation through backward and forward linkages in related sectors. Conversely, more imports may reduce employment in Indonesia. As economic integration deepens in ASEAN and the volume of trade increases through free trade agreements, monitoring and assessing the impact of trade on employment provides indispensable knowledge for labour market policymaking.

Social Accounting Matrix (SAM) allows for the analysis of the trade-output-employment linkages and transmission channels. The ILO assessed the impact of the free trade agreement between Indonesia and China (i.e. tariff reduction) on employment in Indonesia, using trade data of 2008. China is a major trade partner for Indonesia as 9.6 per cent of Indonesian exports were destined to China and 15.3 per cent of imports were from the country in 2009. Indonesia exports mineral fuels, lubricants and rubber to China and imports machinery and transport equipment from China. Since Indonesian exports are from relatively labour-intensive sectors and imports are more capital-intensive, Indonesia is estimated to enjoy a net gain of employment¹⁸ thanks to the reduction in tariffs. Regarding employment creation by sector, a closer look at the assessment results reveals that employment gains were concentrated in agriculture while losses were seen in the manufacturing sectors. It is important to note the impact of job loss was not spread equally among groups of workers. Net job losses occurred in sectors with high female employment shares and textile imports hurt youth employment. By geographical area, more jobs were created thanks to the free trade agreement with China in rural areas whereas urban areas suffered a net loss in employment.

Table 2.2

Estimates of full-time equivalent employment gain and loss due to free trade agreement with China (selected sectors, 2008)

Sector	Employment gain (export)	Employment loss (import)
Crops	31,780	40,006
Other agriculture	164,622	32,350
Textile, wearing apparel, garment and leather	18,542	51,265
Paper, print, transportation, metal product and other industry	7,664	23,922
Trade services	30,222	49,506
Government, defence, education, health and other social services	11,097	14,728
All sectors	329,725	302,279

Source: Ernst and Peters¹⁹

¹⁸ Various non-tariff barriers may affect employment effect of trades.

¹⁹ Ernst and Peters, FTA Indonesia-China: what is the impact on employment, A DySAM analysis (unpublished)

Box 3. A social accounting matrix

A social accounting matrix (SAM) records all economic transactions between households, enterprises and the Government, therefore providing a framework for documenting and analyzing the socio-economic structure of an economy. It brings together - among others- information on inputs and outputs for production, household consumption, government subsidies for production and institutions, workers' remittances, exports and imports. A SAM has the strength of explaining the interaction and transmission channels between macro variables, such as external shocks and public policies, through a framework for multi-sectoral analysis that includes employment and income distribution considerations.

A SAM is a useful tool for policymakers as it allows estimating policy impact. It entails, however, technical limitations. A SAM usually covers one year of data, which means that it is static and reflects the past. It also implies conditions of fix coefficients and no agent behaviour. Results of SAM estimates, therefore, need to be interpreted cautiously taking behavioural changes into consideration.

Some observers of labour markets argue that rigid labour regulations increase the cost of adjustment to demand fluctuations, reducing the appetite of employers to hire workers. Research findings of recent years, however, largely dismissed this argument. In the 1990s high unemployment in Europe generated a stark contrast against the significant employment growth in the United States. Consequently, many researchers attributed this difference in employment growth to labour market regulations. However after years of research, the Organization for Economic Co-operation and Development (OECD) revealed that labour market rigidity does not affect unemployment in a statistically significant manner.²⁰ Indeed if one compares the European and US labour markets today, both suffer from high unemployment of around ten per cent despite considerable differences in the degrees of labour market regulations.

There is also mixed evidence as to the impact of labour regulations on employment in Indonesia. Some researchers believe rigid labour regulations such as generous severance pay, minimum wages and protection of workers from firing deter investment and reduce employment creation. Their claim, however, is often not supported by the available evidence. According to an executive opinion survey by the World Economic Forum, labour rigidity was not among the top-five obstacles in operating a business in Indonesia.²¹ In addition, an investment climate survey²² by the University

*A myth about labour
market regulations
and employment*

20 OECD (2004) *Employment Outlook 2004* (Paris).

21 World Economic Forum, *The Global Competitiveness Report 2009-2010*

22 LPEM-FEUI (2007), *Investment Climate Monitoring. Round IV*, Institute for Economic and Social Research, University of Indonesia, (Jakarta).

of Indonesia echoed the finding by the Forum. It listed macroeconomic instability, transport and corruption as the top three constraints while labour regulation ranked eleventh. Thus, it is unlikely that employers and investors forego business opportunities simply because of rigid labour regulations. Moreover, the World Economic Forum found that the Chinese labour market is almost as rigid as the Indonesian labour market.²³ Thus labour market rigidity itself cannot explain the differences in investment, employment creation and poverty reduction of the two countries. On the other hand, observers do point to a practice where companies circumvent labour regulations by hiring casual employees or outsourcing workers, thus avoiding the costs imposed by such regulations. Anecdotally, it appears then that labour regulations affect the quality of employment rather than the quantity of employment in Indonesia.

*A myth about labour
market regulations
and the informal
economy*

Do labour regulations lead to a larger informal economy and a higher share of informal employment? Again, the empirical evidence does not support this view. A study²⁴ by La Porta and Shleifer used objective measurements of the size of the informal economy²⁵ in order to analyze the factors affecting the informality of economies. Their analysis included the costs of compliance with labour regulations²⁶ as one such factor. The results confirmed that it is a country's development level in terms of GDP per capita and not labour market rigidity that largely determines the size of the informal economy. Even when GDP per capita was controlled for, labour regulations did not show a statistically significant impact on the size of the informal economy. According to their results, the factors that affect the size of informal economy, when GDP per capita is controlled for, included access to capital, infrastructure (i.e. paved roads), total tax rate and bureaucracy (i.e. time that managers take to comply with taxes and the number of procedures to legally start a business).

*Sector development
and employment
creation through
skills*

Human capital constitutes a key factor for employment creation because, at the most basic level, an appropriate set of skills enables people to tap into their economic potential. The success of tourism in Bali serves as a good example to illustrate this point. Bali is the best-known holiday destination in Indonesia. The culturally-rich island attracted about 16,500 visitors per day in 2009. Tourism generates employment and income opportunities for the local people. Hotels alone, for instance, employed about 29,000 workers

23 World Economic Forum (2010) *The Global Competitiveness Report 2010-2011* (Geneva).

24 La Porta, Rafael and Andrei Shleifer *The Unofficial Economy and Economic Development* NBER Working Paper No. 14520 (Cambridge, MA, 2008)

25 Objective measurements such as tax evasion, the share of self-employment, estimated size of the informal economy based on electricity consumption as well as the number of registered firms per one thousand inhabitants

26 The study used the following three indicators to capture the costs of compliance with labour law: 1) an index of the difficulty of hiring a new worker; 2) an index of the difficulty and expense of firing a redundant worker; and 3) the non-wage labour costs such as payroll taxes and social security payments associated with hiring a new employee as a percentage of the worker's salary.

in 2009. It is rather difficult to imagine that four decades ago the island had only one five-star hotel and did not appeal to many tourists.

Various efforts including tourism development and marketing have transformed the island into a mecca for tourism. It is important to note that skills development for the hotel and tourism sector played a key role in this process. Diploma level hotel training institutions in Bandung and in Bali have trained hotel managers and workers, supporting a rapid growth of the tourism industry. Both institutions were initially supported by overseas technical cooperation partners and continue to maintain close ties with the hotel and tourism industry. This example illustrates the contribution of skills training in sector development and employment creation. Local economic development can be accelerated if workers possess the necessary skills that support the growth. In this regard it is important that a skills development policy be integrated into sector and regional development plans.

In addition to employment creation in the private sector, public spending is also an important source of employment. It is therefore critical to maximize the employment effect of public expenditure to the greatest extent possible. The Government of Indonesia swiftly responded to the anticipated impact of the global financial crisis by implementing a stimulus package of 73.3 trillion Rupiahs (US\$ 8.2 billion), approximately 1.4 per cent of GDP, among other measures. Over three quarters of the stimulus package was channelled through various tax cuts, which benefitted relatively high-income households. Of the 73.3 trillion Rupiah package, 12.2 trillion Rupiah was allocated for infrastructure development, including the improvement of highways, ports, bridges and irrigation systems, which created approximately one million temporary jobs in rural areas. With a supplementary budget allocation, the Ministry of Manpower and Transmigration provided additional job training for about 50,000 jobseekers throughout the country.

*Enhancing the
employment effect of
public spending*

2.3 Labour Productivity

A myth and the truth about labour productivity

Some believe that an increase in labour productivity would lead to a reduction in employment since, intuitively speaking, higher labour productivity means that fewer workers are necessary to produce the same output, making some workers redundant. Economic theories and available empirical evidence, however, suggest the opposite holds true. Higher labour productivity leads to increased employment and higher wages. In this light improving labour productivity is beneficial to workers in the aggregate.

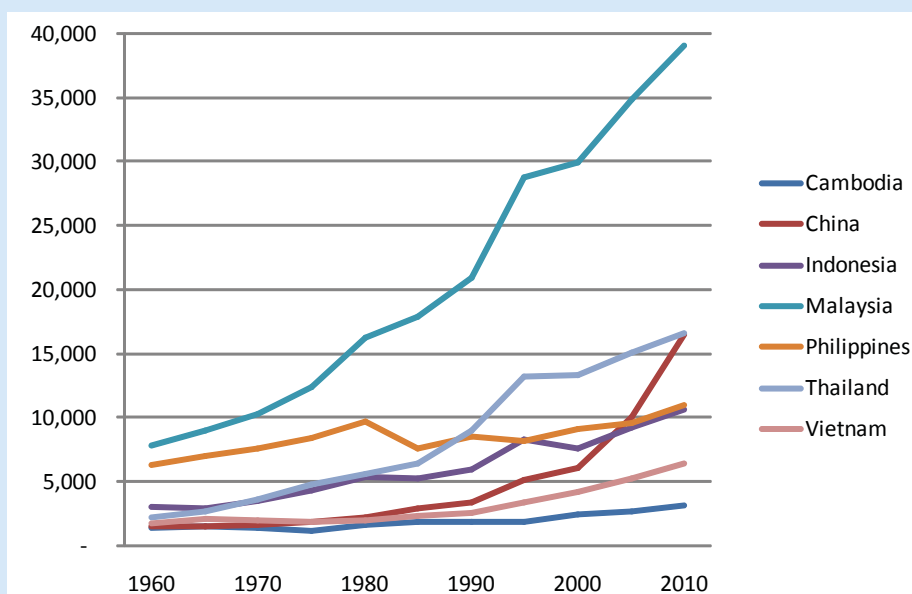
The simplest explanation as to why this myth about labour productivity as detrimental to employment does not hold true is that productive firms can gain market share. With productive firms, one does not need to assume a ceiling on the amount of goods and services a firm produces. Hence, in a competitive market a profit-maximizing firm will continue hiring workers as long as the marginal productivity of labour exceeds real wage. If one assumes other conditions constant, a firm will hire more workers when labour productivity is higher. Another explanation is, though more complex, that a higher growth rate of labour productivity leads to a lower non-accelerating inflation rate of unemployment (NAIRU), the long-run equilibrium rate of unemployment. Overall then, the prevailing economic theories and available empirical evidence clearly show that a gain in labour productivity generates a larger pie for distribution in the form of employment and wages.

Indonesia fares relatively well in the region

Labour productivity in Indonesia has been on the rise since 1960 with some periods of slow growth in productivity. It has almost caught up with the level of the Philippines. Indonesia's gain in productivity over the past five decades, however, is not outstanding in fast-growing Asia. Thailand's successful industrialization boosted its productivity, leaving Indonesia far behind. China's economic growth picked up in the 1990s and significantly increased labour productivity during the last decade. The agriculture sector's value-added per worker in Indonesia is higher than the average of the selected countries in Figure 2.3.

27 ILO (2008): Labour and social trends in ASEAN: Driving competitiveness and prosperity with decent work

Figure 2.2
Labour productivity per person employed (in 2010 US\$ at PPP)



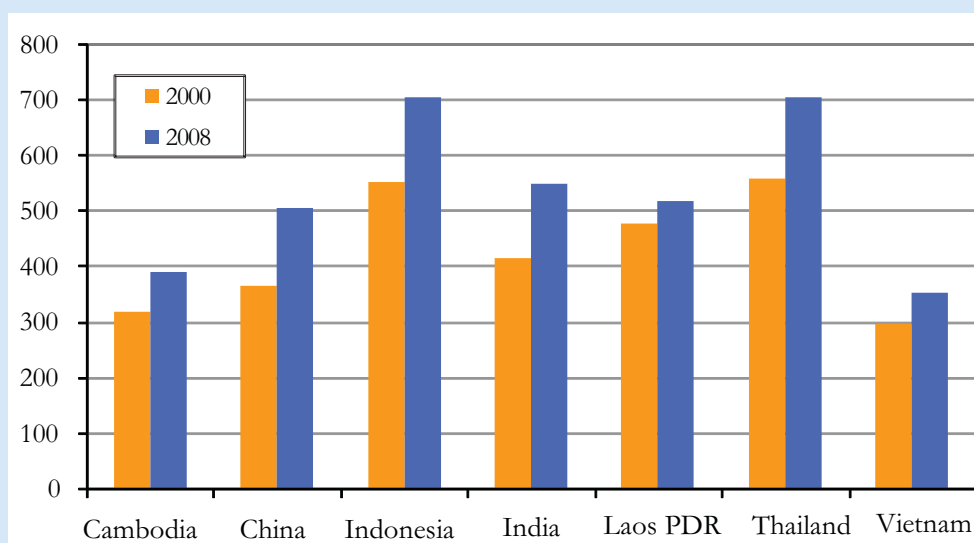
Source: The Conference Board Total Economy Database

Table 2.3
Annual average labour productivity growth rate (per cent)

	Cambodia	China	Indonesia	Malaysia	Philippines	Thailand	Vietnam
1961-1970	0.22	2.90	1.12	2.50	1.61	4.95	0.71
1971-1980	2.47	2.74	4.02	4.28	2.21	4.28	-0.12
1981-1990	1.19	4.18	0.39	2.35	-1.07	5.04	2.78
1991-2000	2.63	5.65	1.67	3.03	1.11	2.89	4.61
2001-2010	3.52	9.46	3.11	2.71	2.32	2.26	4.04

Source: The Conference Board Total Economy Database

Figure 2.3
Agriculture value added per worker (constant 2000 US\$)

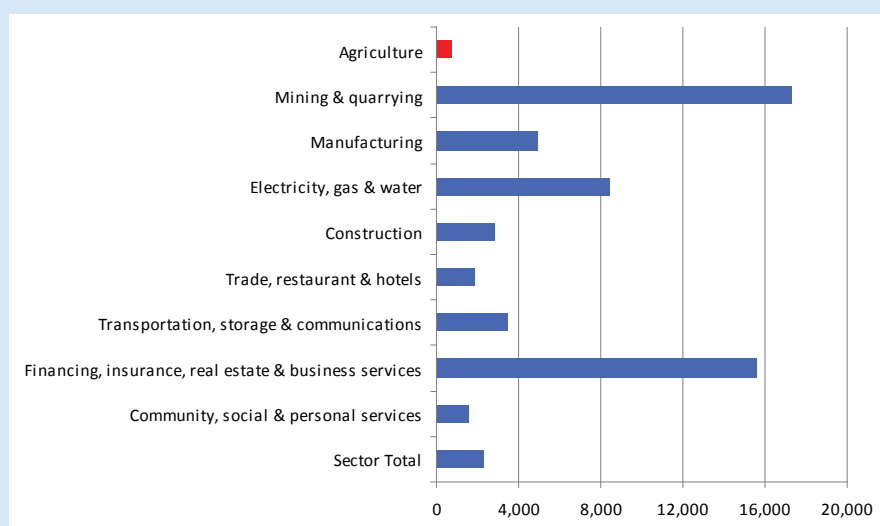


Source: World Bank, World Databank

Labour productivity by sector

On aggregate, increasing labour productivity can be achieved by shifting workers from agriculture where productivity is low and labour is in surplus to other sectors. Labour productivity measured by GDP per worker is lowest in agriculture, which is about a quarter of the average labour productivity of all sectors excluding agriculture, mining and quarrying. The agriculture sector employed 39.7 per cent of workers in 2009 but it shows symptoms of labour surplus such as short average working hours, low productivity and low wages. Enhancing agricultural productivity, reducing labour surplus in the sector and absorbing workers in other sectors are most likely to generate higher economic growth and higher wages for workers. Growth of non-agriculture sectors and necessary skills development is a precondition for such a shift to occur without undermining working conditions in other sectors.

Figure 2.4
GDP per worker by sector (at 2000 constant market prices, US\$, 2009)

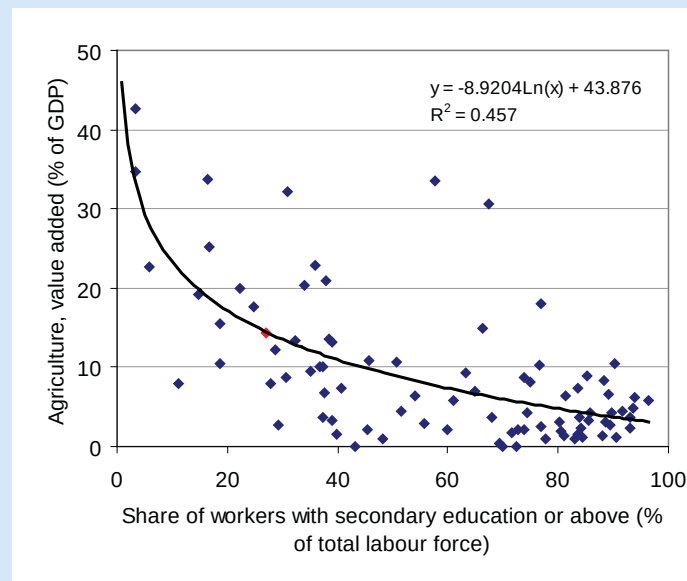


Source: BPS

Skills affect growth of non-agriculture sectors and labour productivity

The growth of non-agriculture sectors requires certain conditions to be met. One such condition pertains to the skills level of workers. Generally speaking, the secondary and tertiary sectors demand higher skills than the primary sector. In this sense the availability of skilled workers is a crucial factor for a structural shift from an agriculture-based or natural resource exploitation based economy to a more capital and knowledge-intensive production system. Figure 2.5 plots agriculture's share in GDP and the skills level of workers of 77 countries from which recent data are available. The chart shows a clear negative correlation between the two variables. One can see that the higher the share of skilled-workers, the greater the share of secondary and tertiary sectors in the economy.

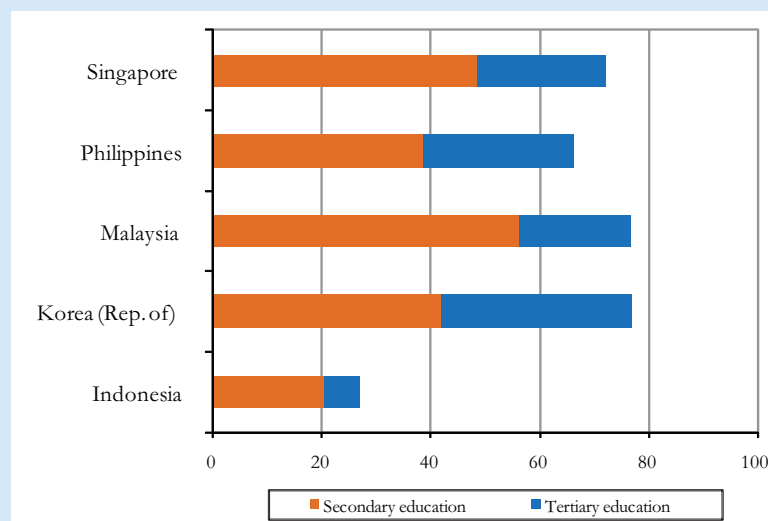
Figure 2.5
Skills and agriculture's share in GDP



Source: World Bank, World Databank, author's calculation

It follows that a greater emphasis on education is necessary, if Indonesia is to create employment in the secondary and tertiary sectors. Indeed, investment in human capital is a key to enhancing the inclusiveness of economic growth.²⁸ Indonesia, however, lags far behind regional rivals in terms of educational attainment of the workforce. With only 27.1 per cent of workers having secondary education or above, skills level of Indonesian workers lags behind competitors in the region. A low high-tech share in exports (Figure 2.7) generally reflects the limited availability of skilled workers.

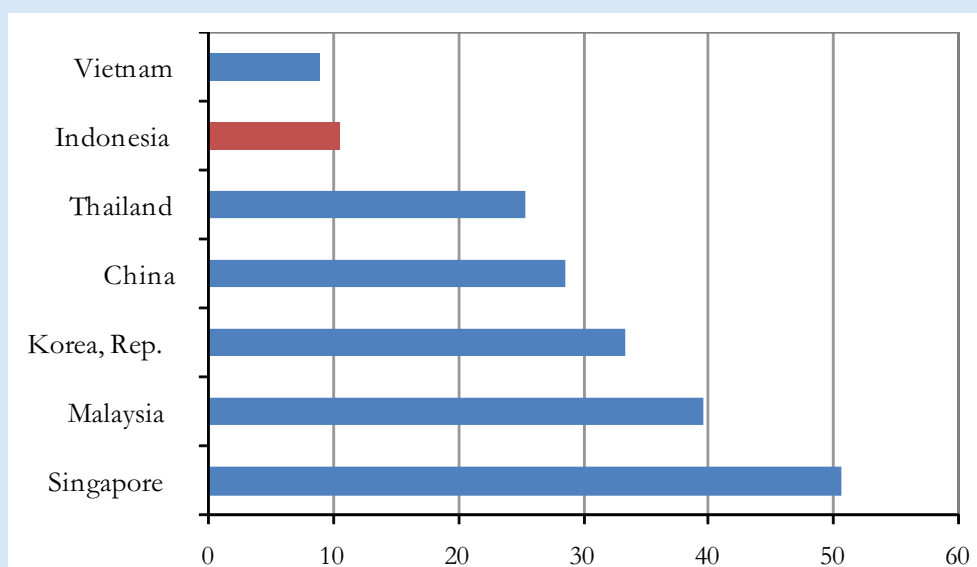
Figure 2.6
Workforce by educational attainment (2007, %)



Source: World Bank, World Databank

28 ADB, IDB and ILO (2010): *Indonesia: Critical Development Constraints* (Manila)

Figure 2.7
High-technology exports (as % of manufactured exports, 2008)



Source: World Bank, World Databank

Note: Data for Vietnam is in 2007

Skills gap analysis for proactive skills development

A particular challenge in skills development is the time lag between education and/or skills training and the point in time when the skills become available for economic activities. Each occupation requires a certain set of skills that require years of training to master. Some occupations require a specific educational background, which expands the time lag. Hence, effective skills training providers and policymakers need to develop skills training programmes that meet the skills demand of today and the future.

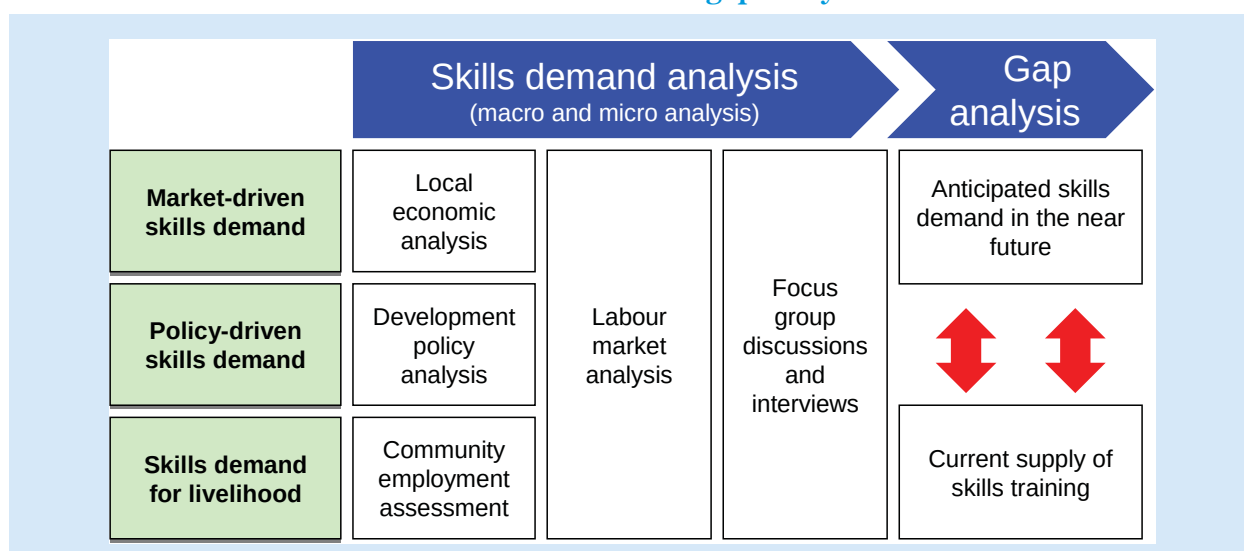
A challenging question is how to forecast skills demand in the future. For some occupations demographic trends give a good clue of future skills demand. For instance, an estimate of the age distribution of a population in a region gives some indication as to how many medical experts and teachers will be necessary in the area. There is, however, no accurate and proven method of skills demand forecast due to various uncertainties that cannot be factored in *a priori* such as innovation in technologies, policy changes, and variation in investment and foreign trades. With this limitation in mind, understanding the nature of skills demand and key factors affecting skills demand is helpful in formulating a skills development policy.

There are three distinct categories of skills demand in developing countries with a large informal economy. First, changes in output by sector determine skills demand (*market-driven skills demand*). For example, an increase in production of automobiles demands more assembly-line workers and auto mechanics. Analyzing economic sectors, investment trends, business potentials and untapped local resources helps foresee market-driven skills demand. Second, industrial policies and mid-term development plans alter skills demand (*policy-driven skills demand*). For instance, if a provincial government successfully invests in tourism development, hospitality skills will be in demand in the province. Therefore, anticipating skills demand

that arises from policies is helpful in forecasting skills. Last but not the least, the informal sector often demands skills that are different in nature and in scale from skills demand in the formal economy. Hence, community-based research²⁹ is necessary to analyze skills demand of small-hold farmers and family businesses.

A combination of analysis on the three types of skills demand, labour market analysis and qualitative information yields a clearer picture of skills demand in the future, even if not very precise. Comparing the anticipated skills demand in the future and the current supply of skills training helps identify gaps where policy intervention is needed. Coordinating various skills training providers and aligning skills development priorities with skills demand from growing sectors and policy priorities would help the economy to effectively tap into its existing economic potential.

Figure 2.8
A framework of skills gap analysis



Skills development successfully improves the employability of trained workers only when it is combined with an effective skills recognition mechanism. In this regard, nation-wide competency standards, uniform skills assessment and certification schemes are necessary for all technical and vocational education and training (TVET). This skills recognition mechanism requires the existence of a compulsory and reliable accreditation system that assures the quality of TVET. In this regard, Indonesia has taken the initial steps toward this direction.

Effective skills recognition

29 Community Employment Assessment is a useful method for community level skills demand analysis. It as developed by the Training for Rural Economic Empowerment (TREE) project. For more information on the TREE project, visit: http://www.ilo.org/skills/what/projects/lang--en/WCMS_103528/index.htm [20 April 2010].

2.4 Industrial relations

Why do industrial relations matter?

Where market mechanisms allocate resources in an optimal manner and determine the size of employment and wage levels, and where judiciaries settle disputes and enforce judgements of courts, what role can industrial relations play? Some economists view unions and collective bargaining as potential disturbances to market mechanisms and that, in theory, the absence of such labour market institutions would lead to maximization of aggregate utility. Readers may ask then why and in what way can industrial relations create more employment, improve working conditions of unionized and non-union workers alike, and thus contribute to eradication of poverty? There are various answers to this and this report notes two of them that are relevant to the discussion in this report. First, social dialogue at the national level can be a strong motor in pursuing economic and social goals. Second, constructive industrial relations at the company level would lead to higher productivity and profitability, which in turn improves working conditions.

Coordinated and strategic equilibrium of collective interests

Industrial relations may lead to equilibrium among various and often-conflicting interests of stakeholders as a result of social dialogue. A number of cases point to collective bargaining that led wages and other working conditions, employment, and social security arrangements to deviate from what prevailing market mechanisms might have determined. Some argue that collective bargaining drives up wages and enhances employment protection of union members at the costs of outsiders. However, though it may sound counterintuitive, there are cases the opposite has held true. In fact, unions sometimes moderate wage demand to the favour of collective interests.³⁰ Social partners in countries that have had a tradition of corporatism or neo-corporatism³¹ have demonstrated their ability to forge consensus on economic and social goals and to collectively determine wage levels in order to advance agreed economic and social goals such as employment creation, employment stability, better working conditions and social security arrangements, and achieving higher employability through skills development.

To illustrate the role that industrial relations can play in advancing economic and social goals, the experiences of Sweden, Japan, the Netherlands and Denmark are worth noting. The Swedish model, more precisely the solidarity wage policy (Rehn-Meidner model) in the 1950s through 1960s, advanced social goals of full employment and equal wage for equal work, while giving a competitive edge to efficient manufacturing companies.

30 Calmfors L. and J. Driffill, "Bargaining Structure, Corporatism, and Macroeconomic Performance," *Economic Policy* 6 1988, 13-61.

31 C. Crouch: "Revised diversity: from the neo-liberal decade to beyond Maastricht", in J. van Ruyssveldt and J. Visser eds.): *Industrial Relations in Europe* (London, Sage publications, 1996), pp.358-375. Crouch characterizes neo-corporatism by a dual role played by capital and labour of promoting the interest of constituents, employers and workers respectively, while moderating constituents' demand from a national level to the favour of collectively agreed interests of the economy and society.

Japan's success of high economic growth during the 1960s and 1970s owed a lot to its particular industrial relations model, which emphasized rigorous investment in human capital and employment stability. This model was underpinned by the so-called seniority wage: workers receive wages less than their productivity when young and subsequently higher wages when they are senior. This wage curve gave incentives to workers to stay with a firm and also provided incentives for the employers to invest in their workers. In late 1990s Dutch trade unions and employers managed a painful social security reform in a coordinated manner in order to lessen the pain on workers and employers while advancing other social goals. Dutch unions accepted cuts in some social security benefits and moderated wage demand in exchange for working hour reductions, a better work-life balance, and improved gender equity in the labour market. In recent years the Danish model is known for its successful combination of generous unemployment benefits, active labour market policies, and flexible labour market. This model has become a prototype of European labour market policies.

In addition to a strategic collective determination of working conditions and labour market policies at the macro level, one must note the benefit of harmonious and constructive industrial relations at the company level. Another salient feature of the Japanese model was a systematic cooperation between management and workers at the shop-floor level. Some notable features of Japanese production systems such as *Kaizen* (improvement) and QC (quality circle) are known for its effect on the improvement of product quality, productivity and arrangements for occupational safety and health. These production systems rely on constructive social dialogue at the shop-floor level. The employers' association (APINDO) therefore has developed training materials to improve industrial relations at the company level.

Social dialogue at company level can increase productivity

Since the introduction of the law on Trade Unions in 2000, there have been notable changes in the culture and practice of social dialogue between the private sector, trade unions, and the Government. Recently, the establishment of a national bipartite forum in February 2008, by the employers' association (APINDO) and major trade union confederations (KSBSI, KSPI and KSPSI) signified a key achievement in social dialogue at the national level. This forum was designed to support the early settlement of labour disputes and to facilitate discussion on national labour law reforms. Commitment to strengthening bipartite collaboration and cooperation was further demonstrated in early 2010 with the establishment of a permanent Secretariat for the forum at APINDO's national office.

Industrial relations in Indonesia today³²

Over the last two years, the Government has played a notable role in encouraging social dialogue at the enterprise level by promoting the

32 Miranda Fajerman contributed to this section

33 Ministerial Decree Number PER.16/MEN/X/2008, 49/2008/933.1/M-IND/10/2008 and 39/M-DAG/PER/10/2008 on maintaining momentum of national economic development in anticipating global economic development.

creation of Bipartite Cooperation Institutes (BCI) through a Joint Ministerial Decree in October 2008.³³ A total of 826 BCI were registered in 2008 and the number of registered BCI had reached 12,417 (out of a total of 14,504 registered companies employing 50 or more workers) by February 2010.³⁴ The MoMT aims to have at least 400 bipartite cooperation units established each year for the next four years in large companies.³⁵ In enterprises with established BCI, the role and function of the BCI as a forum for communication between management and workers within the enterprise still requires clarity and understanding by workers and employers since BCI has sometimes been perceived as competing with the traditional role of trade unions in companies.³⁶

Labour unions have been instrumental in organising workers, particularly those in the formal economy, however membership remains rather low and their bargaining capacity leaves much room for development. Trade unions represent less than 10% of formal sector employees, or approximately 3% of the total workforce in Indonesia. The number of trade unions has been increasing over the past few years, but this has not corresponded to an increase in organised labour. Membership in trade unions in fact is declining. Trade unions attribute decreasing overall membership to an increased use of outsourcing and fixed-term contracts.³⁷ Despite gender-mainstreaming efforts of confederations at the national level, female membership and leadership in trade unions at the enterprise and local levels remain weak.

Table 2.4
Trade unions in Indonesia in 2008

Confederation	Number of federations	Number of organized workers
KSPSI	16	1,601,378
KSPI	7	458,345
KSBSI	12	337,670
Independent federations	26	910,318
Enterprise unions	-	97,924
Total	61	3,405,635

Source: Overseas Vocational Training Association

Out of a total of 208,637 registered companies in Indonesia, including 53,805 with more than 25 employees, only 10,959 have registered collective bargaining agreements.³⁸ Often these collective agreements provide for very few benefits beyond the minimum requirements in the Manpower Act. This

³⁴ Sakernas Februari 2010, Ditjen PHI dan Jamsos

³⁵ MoMT Renstra 2010-2014.

³⁶ ASEAN/ILO (2010), *Emerging Industrial Relations issues and trend in ASEAN Countries in the time of financial and economic crisis – dispute prevention: Indonesia Context*, ASEAN/ILO Japan Project.

³⁷ Miranda Fajerman. *Baseline study of trade unions in 5 provinces Indonesia* (ILO Jakarta Office, forthcoming).

³⁸ Sakernas Februari 2010, Ditjen PHI dan Jamsos

is indicative of the weak position of labour unions and level of collective bargaining and negotiation at the enterprise level throughout Indonesia. Trade unions also remain very fragmented, particularly at the local and provincial levels, and alliances between trade unions and other community groups such as farmer cooperatives are limited, resulting in weak solidarity in the trade union movement in Indonesia.³⁹

Significant commitment from the Government to strengthening tripartite dialogue has been demonstrated through a series of recent decrees. A Presidential Decree issued in April 2009 on Representatives of Tripartite Cooperation Institutions,⁴⁰ attempted to strengthen the functioning of tripartite forum by institutionalizing these bodies and putting an end to ad hoc participation as had been common practice. The Decree requires fifteen representatives to be formally appointed as members of tripartite forums at each relevant level – the national, provincial and district levels. Currently there is one national forum, 32 forums at the province level and 195 at the district level.⁴¹ The National Tripartite Institution meets regularly and has begun to provide recommendations to the national Government on the development and amendment of various regulations. In early 2010, the Government issued a second decree to support the functioning of tripartite cooperation at the provincial and district levels.⁴² This joint ministerial decree aims to strengthen links and consistency in regulations between local, regional and national institutions and to support the functioning of these bodies. Nevertheless, significant institutional weaknesses in capacity of these forums at the provincial and district levels remain. The MoMT aims to create approximately fifty new district-level tripartite forums each year, until 2015.⁴³

Box 4.

Industrial dispute resolution and key challenges in Indonesia

Three step mechanism of dispute resolution

Under Law No.2 of 2004, the Industrial Relations Court (IRC) was established to provide timely, just, appropriate and cost-effective solutions to labour disputes. Before submitting labour disputes to the Industrial Relations Court, parties must go through one of three forms of alternative dispute resolution: conciliation, arbitration or mediation. The first two options are currently underutilized by workers and employers. If parties are dissatisfied with IRC ruling, they can appeal to the Supreme Court.

39 Miranda Fajerman, *ibid.*

40 Presidential Decree No. 37 of 2009 concerning Representatives of Tripartite Cooperation Institutions

41 Sakernas Februari 2010, Ditjen PHI dan Jamsos

42 Joint ministerial decree issued by the Ministry of Manpower and Transmigration and the Ministry of Home Affairs, Decree No. 17 of 2010

43 MoMT Renstra 2010-2014.

Key Challenges in conflict resolution

Mediation, the preferred mechanism for alternative dispute resolution before IRC, is not proving to be successful at resolving disputes. The non-legally binding nature of mediated agreements and lack of positive duties on parties to participate in 'good faith' negotiations provide little incentive for parties to take part in mediations in earnest. Recommendations from mediators are rarely accepted. This is contributing to a growing caseload for the IRC.

The IRC is facing a range of administrative, procedural and human resource challenges preventing the fulfilment of its mandate. At all levels, the courts are failing to resolve labour disputes within the specified time periods due mostly to a significant shortage of judges in the IRC. The majority of labour disputes being submitted to the industrial relations courts are subsequently appealed to the Supreme Court, resulting in significant delays in the rendering of verdicts. As of July 2010, the Supreme Court had a backlog of over 400 labour dispute cases, over 80% of which concern termination of employment disputes.

The long delays in resolving disputes, in turn, greatly increase uncertainty of employment status, income and security for workers and make reinstatement almost impossible and compensation well overdue. For employers, the failure to adhere to stipulated timeframes for resolving disputes render the management of production plans increasingly difficult, particularly in cases involving large numbers of workers. Voluntary execution of judgments remains a challenge, particularly in drawn out cases and cases involving reinstatement of employment orders. Where there is no voluntary execution, the successful party must file an additional petition at the district court to seek execution of the judgment. This adds to the complexity, time delays and costs of labour dispute resolution.

Source: Miranda Fajerman, Training Needs Assessment of Industrial Relations Court Judges (ILO Jakarta Office, 2011).

*Departure from
de-facto wage
moderation without
alternative gain*

Capacity building of negotiation parties is an urgent task, particularly at the provincial and district levels, if Indonesia is to benefit from industrial relations. At present, a lack of strategic coordination at the national level appears to have trapped Indonesia in *de-facto* wage moderation for no alternative gain. Nominal increase in wages has been offset by inflation and real wages increased only modestly in the last decade. Because of a lack of tactical negotiation, workers have not achieved much alternative gains (e.g. working hour reduction, social rights such as paternity leave, social security coverage) for their *de-facto* wage moderation. Wage moderation, if implemented as a strategic choice of social partners, can lead to price competitiveness of export sectors and thus contribute to employment

creation in turn. However, in the case of Indonesia, the appreciation of Rupiah in real terms against major currencies has substantially pushed up labour costs in investors' currencies, wiping out such advantages that wage moderation might have created. Expansion of labour-intensive sectors slowed down despite suppressed improvement of purchasing power of workers.

With a large surplus of labour, the competitive advantage of the Indonesian economy rests in labour-intensive production. This, however, does not suggest that the country should rely on low labour costs. With currency appreciation, industry policy that depends on low costs of labour would receive double penalties. Nominal wages need to be very low to compete with other emerging economies in Asia in terms of dollar wages (or other major currencies), which inevitably traps a greater number of workers in poverty. In fact, about forty per cent of Indonesian workers receive wages at below applicable minimum wages which are designed to be sufficient to sustain a life of one adult, not a family. Another penalty from competing on labour costs is that lowering nominal wages undermines consumption, a motor of economic growth in Indonesia. Since G-20 leaders agreed on refraining from currency market intervention to induce currency depreciation and Indonesia is a G-20 member, devaluation of Rupiah does not appear to be a policy option. The remaining viable policy option is to pursue a productivity-led growth path. In this light the role of industrial relations in Indonesia is clear: productivity enhancement at the company level through constructive social dialogue. Experience from the Japanese model provides useful insights to this end.

*Industrial relations
to strengthen
competitiveness
through improved
productivity*

2.5 Social Protection

Overall, the Indonesian social protection system can be characterized by a combination of social insurance, which serves as the core of the system and community as well as household-targeted pro-poor social programmes that supplement the social insurance schemes. Social insurance schemes cover civil servants, military and police personnel and segments of formal private sector workers. A large portion of those insured are relatively well off among Indonesian workers. Generally speaking, the social protection system in Indonesia largely leaves out workers in the middle brackets of the income distribution. Moreover, poor informal workers that are not in abject poverty often find themselves not covered by social insurance schemes nor targeted by social programmes that benefit the population at the lowest income brackets. Hence, there remain challenges in enhancing social protection coverage.

*Targeted social
programmes
complement under-
developed social
insurance*

*Social insurance
suffers from low
coverage*

The employees' social insurance fund (*Jamsostek*) covers a small fraction of formal private sector workers against the risks of old-age, occupational injury, health and death. It is expected to cover employees in companies with more than 10 employees or employees whose earnings are higher than Rp. 1 million (US\$ 90). The pensionable age for the social insurance fund is 55. Health insurance covers a spouse of the insured and up to three children under age 22. Employers that provide a superior health insurance do not have to contribute a health insurance premium to the fund. For public sector employees, there are three schemes that insure civil servants, police and military officials (Table 2.6). As for the rest of workers, a large majority remain uncovered by social insurance schemes. In fact, about 83 per cent of workers were not covered by social insurance (old-age, occupational injury and death).⁴⁴ Health care coverage was higher at 46 per cent thanks to tax-funded health care provision to the poor (*Jamkesmas*).⁴⁵

Table 2.5
Employees' social insurance fund (Jamsostek) contribution rates

	Contribution rate (as percentage of regular salaries/wages)	
	Born by employers	Born by employees
Occupational injury	0.24-1.74 %*	-
Death benefits	0.3 %	-
Old age savings	3.7 %	2.0%
Health care**	3.0 %	-
* Rates varies by occupation		
** Maximum Rp 60,000/month for a married employee and Rp 30,000 for a single employee		

Source: PwC, Indonesian Pocket Tax Book 2010

Table 2.6
Social insurance in Indonesia

Insurance scheme	Target	Risk coverage
<i>Jamsostek</i>	Formal sector workers	Old-age savings, occupational injury, health and death benefits
<i>Taspen</i>	Civil servants	Pension (old-age, disability, survivors and worker accident)
<i>Askes</i>	Civil servants and retired military and police officials	Health benefits
<i>Asabri</i>	Military and police	Pension and death benefits

Note: Some reports classify Jamkesmas (former Askeskin) as social insurance. This report grouped the scheme as household-targeted social programme since it is tax-funded free healthcare for the deprived.

44 ILO: *Social security in Indonesia: Advancing the development agenda* (Jakarta, 2008)

45 National Social security council, DJSN, 2010

Various government-funded pro-poor programmes help to alleviate abject poverty in Indonesia. Some programmes directly target poor households while others provide support to deprived communities (Table 2.7). The Government initiated many of these programmes as a response to crises. Today's National Programme for Community Empowerment (PNPM-Mandiri) and Rice for the Poor (*Raskin*) trace their origins to policy responses to the Asian financial crisis. Health Insurance for the Poor (*Jamkesmas*, formally known as *Askeskin*), Operational Aid to Schools (BOS) and the unconditional cash transfers (BLT) were implemented to mitigate the impact of a sudden increase in fuel prices due to cuts in fuel subsidies. The conditional cash transfer programme (PKH) was introduced in 2007, following the success of similar programmes in Latin America.

Various social programmes for the poor

Table 2.7
Key household- and community-targeted social programmes for the poor

Programme	Description
Household-targeted social programmes	
Raskin	Subsidized rice provision
BLT	Unconditional cash transfer (re-implemented in 2008 and 2009)
PKH	Conditional cash transfer
Jamkesmas	Free medical treatment (health insurance)
Community-targeted social programmes	
PNPM-Mandiri	Community development projects proposed by local communities and funded by the Government.
BOS	Operational block grant given to schools in poor communities so the school fees are lower or eliminated.

The Government of Indonesia set up a National Team for Poverty Reduction Coordination under the Vice President in 2008 in order to enhance policy coherence and improve the coordination of social protection and poverty reduction initiatives that are managed by various government agencies. The team consists of senior representatives from 22 ministries and the heads of all central institutions with programmes related to poverty reduction. Social protection and poverty reduction programmes are grouped into three clusters: social assistance and social protection, community empowerment and micro-enterprise empowerment. With the enhanced management of social programmes, the Government aims to achieve the poverty reduction target stated in RPJM 2010-2014: a decline in poverty incidence from 14.2 per cent in 2009 to 8.0 per cent in 2014.

Management of social protection initiatives was enhanced

Table 2.8
Three cluster system of social programmes

Cluster I: Social assistance and social protection

Initiatives under this cluster provide cash transfers and subsidies to poor and near poor households. They aim to enable the beneficiaries to meet their basic needs of food, shelter, water, sanitation, health, and education.

Programmes under this cluster: *Raskin, Jamkesmas, PKH, and BOS*

Cluster II: Community empowerment

Programmes under this cluster empower deprived communities and build capacity of local Government in serving these target communities. To finance the programmes, the central Government allocates Community Block Grants. It is worth noting that PNPM-Mandiri assures involvement of women in community planning meetings and submission of programme proposals.

Programmes under this cluster: *PNPM-Mandiri*

Cluster III: Micro and small enterprise development

This cluster intends to support development of micro and small enterprises by improving the access for small-hold business owners or entrepreneurs to capital as well as by providing financial education. Guarantee for the repayment of loans by a public institution and promoting productive use of remittances for business development are measures to this end. The ultimate purpose of this cluster is to enable its beneficiaries to generate income in a sustainable manner.

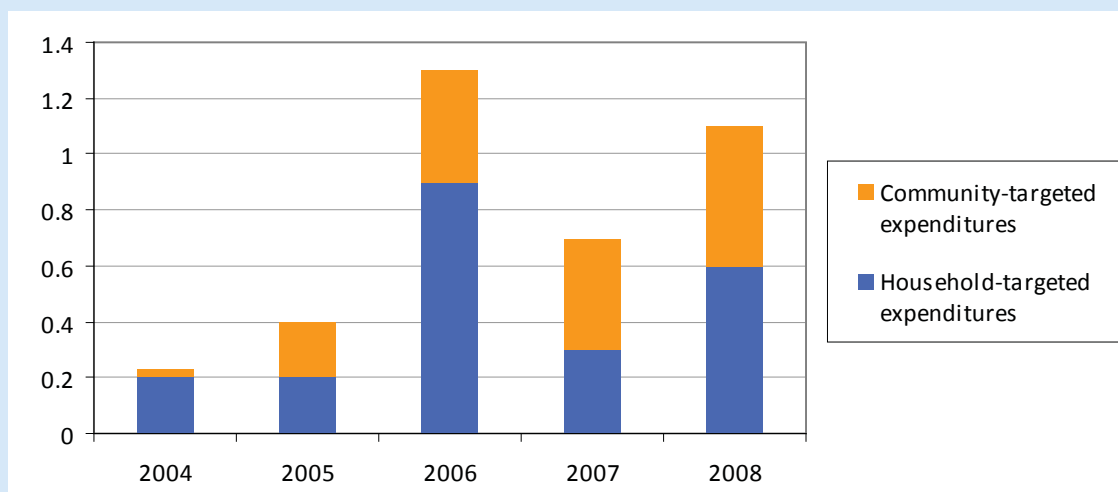
Programmes under this cluster: *KUR*

*Flexible budget
allocation to
social protection
programmes*

A notable feature of the social protection budget is its flexibility. In other words, the Government adjusts the budget as needs arise. Figure 2.9 clearly shows an increase in social protection expenditures in 2006 and 2008 as the Government intended to alleviate the impact of the fuel price hike in 2005 and the global financial crisis that started in 2008. Unconditional cash transfers were implemented as a response to shocks that negatively affect the welfare of poor households.

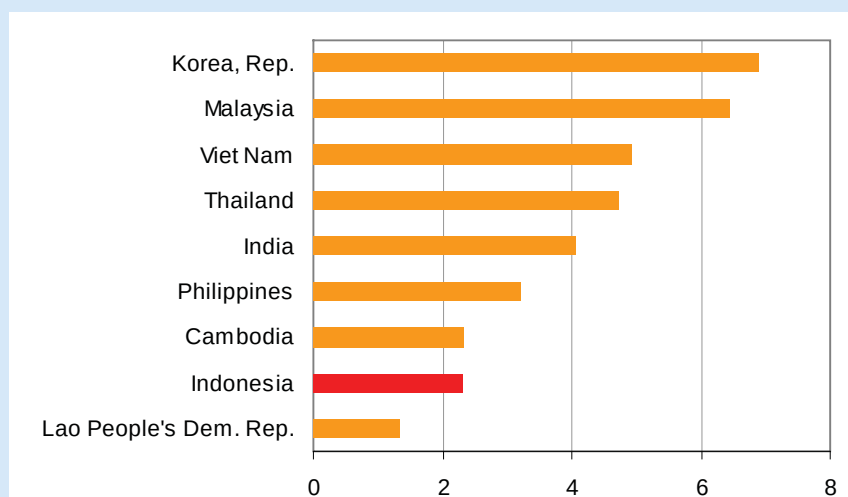
In general, social protection expenditures have been on an expansionary trend. The Government has targeted more households under the conditional cash transfer programme and expanded the National Programme for Community Empowerment. Even with this steady increase in social protection related expenditure, Indonesia still lags behind neighbouring countries in terms of public commitment to social protection (Figure 2.10). Hence, there appears to be room to explore further fiscal expansion for social protection.

Figure 2.9
Social protection expenditures (as % of GDP, 2004–2008)



Source: World Bank and ASEAN Secretariat, *Country report of the ASEAN assessment on the social impact of the global financial crisis: Indonesia*

Figure 2.10
Public social security expenditure (as % of GDP, latest available year)



Source: ILO, *World social security report 2010/11*

The Indonesian government expressed its determination to address problems with the system of placement and protection of Indonesian overseas workers in the National Mid-Term Development Plan 2010-2014. Some of the problems that were identified and mentioned in the Mid-term Plan include: a shortfall in the protection of migrant workers in the light of the existing Law Number 39/2004 (regarding the Placement and Protection of Indonesian Migrant Workers), the existence of middle men, the lack of acknowledgement of and respect to basic labour rights of migrant workers especially those of female migrant workers, the need to expand and strengthen access to banking and insurance systems for migrant workers, and the need to improve the remittance systems for migrant workers.

*Protection of
migrant workers⁴⁶*

46 Albert Y. Bonasahat contributed to this section.

Financial empowerment of migrant workers such as promoting access to micro-finance and utilizing remittances for social protection for migrant workers and their families would also be effective to strengthen protection of Indonesian migrant workers. In December 2010, Indonesia inaugurated a micro-credit programme (*KUR*) to support migrant workers' placement cost. The Indonesian Government also demonstrated its interest to promote entrepreneurship programmes for returning migrant workers.

According to the Plan of Action of the Mid-Term Development Plan 2010-2014 and the Strategic Plan of the Ministry of Manpower and Transmigration, MoMT will take the following actions in the next five years to strengthen the protection of Indonesian migrant workers:

- ◆ Review of national policies and ratification of the UN Convention on Migrant Workers 1990
- ◆ Review and legislative amendment of National Law Number 39/2004 on Placement and Protection of Migrant Workers and issuance of implementing regulations of the amended Law;
- ◆ A higher percentage of prospective migrant workers to receive services given by local manpower offices;
- ◆ More prospective migrant workers attending the pre-departure briefing;
- ◆ Issuance of Migrant Workers Identity Cards;
- ◆ Establishment of a database system of Indonesian Overseas Workers
- ◆ Additional placement of Labour Attachés in missions.

The Ministry of Foreign Affairs intends to increase the number of the Citizen Service Centres abroad, to improve the quality of the database of overseas Indonesian citizens, and to provide legal assistance for overseas Indonesian citizens including Indonesian migrant workers. In addition, the Coordinating Ministry for Economic Affairs plans to help facilitate the development of loans, insurance products and remittance schemes for Indonesian migrant workers.

Annex I. BPS disaggregation of employment in the formal and informal economy

Employment Status	Main Occupation									
	Professional, technical and related workers	Administrative and managerial workers	Clerical and related workers	Sales workers	Services workers	Agriculture, animal husbandry, forestry and fishing industry workers, and hunters	Production and related workers	Transport workers and equipment operators	Labourers	Others
Own account worker, working alone	F	F	F	INF	INF	INF	INF	INF	INF	INF
Own account worker, assisted by temporary worker/unpaid worker	F	F	F	F	F	INF	F	F	F	INF
Employer	F	F	F	F	F	F	F	F	F	F
Employee	F	F	F	F	F	F	F	F	F	F
Casual employee in agriculture	F	F	F	INF	INF	INF	INF	INF	INF	INF
Casual employee not in agriculture	F	F	F	INF	INF	INF	INF	INF	INF	INF
Unpaid worker	INF	INF	INF	INF	INF	INF	INF	INF	INF	INF
Source: BPS										
Note: F denotes formal and INF denotes informal										

Annex II. Statistical Annex

Table II.1.
Labour market indicators -1990, 1995, 2000, 2005-2009

	1990	1995	2000	2005	2006	2007	2008	2009
Population ('000s)								
Men	177,385	191,501	205,280	219,210	221,954	224,670	227,345	229,965
Women	88,886	95,910	102,675	109,513	110,863	112,200	113,518	114,807
	88,499	95,592	102,605	109,697	111,091	112,470	113,827	115,158
Working age population (15+)								
Men	113,540,758	128,801,764	141,170,805	158,491,396	160,811,498	164,118,323	166,641,050	169,328,208
Women	55,699,876	63,283,453	69,837,799	79,738,436	80,441,969	82,079,391	82,841,198	84,174,122
	57,840,882	65,518,311	71,333,006	78,752,960	80,369,529	82,038,932	83,799,852	85,154,086
Not in labour Force								
Men	38,189,135	44,575,774	43,366,311	52,633,743	54,422,563	54,176,964	54,693,785	55,494,928
Women	9,583,392	9,781,213	10,104,712	12,006,917	12,692,078	13,359,504	13,696,861	13,765,035
	28,605,743	34,794,561	33,261,599	40,626,826	41,730,485	40,817,460	40,996,924	41,729,893
Labour force								
Men	75,351,623	84,225,990	97,804,494	105,857,653	106,388,935	109,941,359	111,947,265	113,833,280
Women	46,116,484	53,502,240	59,733,087	67,731,519	67,749,891	68,719,887	69,144,337	70,409,087
	29,235,139	30,723,750	38,071,407	38,126,134	38,639,044	41,221,472	42,802,928	43,424,193
Labour force participation rate (per cent)								
Men	66.4	65.4	69.3	66.8	66.2	67.0	67.2	67.2
Women	82.8	84.5	85.5	84.9	84.2	83.7	83.5	83.6
	50.5	46.9	53.4	48.4	48.1	50.2	51.1	51.0

	1990	1995	2000	2005	2006	2007	2008	2009
Employment								
Men	73,437,376	78,318,036	89,837,730	93,958,387	95,456,935	99,930,217	102,552,750	104,870,663
Women	44,984,297	50,602,267	55,439,063	61,439,086	61,977,289	63,147,938	63,899,278	65,122,526
	28,453,079	27,715,769	34,398,667	32,519,301	33,479,646	36,782,279	38,653,472	39,748,137
Employment-to-population ratio (per cent)								
Men	64.7	60.8	63.6	59.3	59.4	60.9	61.5	61.9
Women	80.8	80.0	79.4	77.1	77.0	76.9	77.1	77.4
	49.2	42.3	48.2	41.3	41.7	44.8	46.1	46.7
Unemployment								
Men	1,914,247	5,907,954	7,966,764	11,899,266	10,932,000	10,011,142	9,394,515	8,962,617
Women	1,132,187	2,899,973	4,294,024	6,292,433	5,772,602	5,571,949	5,245,059	5,286,561
	782,060	3,007,981	3,672,740	5,606,833	5,159,398	4,439,193	4,149,456	3,676,056
Unemployment rate (per cent)								
Men	2.5	7.0	8.1	11.2	10.3	9.1	8.4	7.9
Women	2.5	5.4	7.2	9.3	8.5	8.1	7.6	7.5
	2.7	9.8	9.6	14.7	13.4	10.8	9.7	8.5

Source: Population: UN, World population prospects: the 2008 revision; For all other indicators: BPS.

Table II.2.
Youth (age 15-24) labour market indicators -1990, 1995, 2000, 2005-2009

	1990	1995	2000	2005	2006	2007	2008	2009
Working age population	34,083,155	37,429,551	38,268,568	42,282,753	42,152,876	43,061,390	42,439,529	43,160,687
Men	16,775,258	18,309,565	18,806,152	21,094,391	21,500,254	21,960,724	21,511,842	21,873,697
Women	17,307,897	19,119,986	19,462,416	21,188,362	20,652,622	21,100,666	20,927,687	21,286,990
Not in labour Force	16,705,890	17,279,702	17,297,885	19,969,234	19,872,306	20,548,852	20,855,631	21,436,435
Men	6,539,097	6,311,542	6,802,610	7,982,447	8,233,472	8,164,244	8,591,818	8,739,589
Women	10,166,793	10,968,160	10,495,275	11,986,787	11,638,834	12,384,608	12,263,813	12,696,846
Labour force	17,377,265	20,149,849	20,970,683	22,313,519	22,280,570	22,512,538	21,583,898	21,724,252
Men	10,236,161	11,998,023	12,003,542	13,111,944	13,266,782	13,796,480	12,920,024	13,134,108
Women	7,141,104	8,151,826	8,967,141	9,201,575	9,013,788	8,716,058	8,663,874	8,590,144
Labour force participation rate (per cent)	51.0	53.8	54.8	52.8	52.9	52.3	50.9	50.3
Men	61.0	65.5	63.8	62.2	61.7	62.8	60.1	60.0
Women	41.3	42.6	46.1	43.4	43.6	41.3	41.4	40.4
Employment	15,995,104	16,120,343	15,886,404	14,853,883	15,464,354	16,852,502	16,552,881	16,902,483
Men	9,437,955	9,995,182	9,186,013	9,166,087	9,578,277	10,518,143	10,100,765	10,291,497
Women	6,557,149	6,125,161	6,700,391	5,687,796	5,886,077	6,334,359	6,452,116	6,610,986
Employment-to-population ratio (per cent)	46.9	43.1	41.5	35.1	36.7	39.1	39.0	39.2
Men	56.3	54.6	48.8	43.5	44.5	47.9	47.0	47.0
Women	37.9	32.0	34.4	26.8	28.5	30.0	30.8	31.1

	1990	1995	2000	2005	2006	2007	2008	2009
Unemployment								
Men	1,382,161	4,029,506	5,084,279	7,459,636	6,816,216	5,660,036	5,031,017	4,821,769
Women	798,206	2,002,841	2,817,529	3,945,857	3,688,505	3,278,337	2,819,259	2,842,611
	583,955	2,026,665	2,266,750	3,513,779	3,127,711	2,381,699	2,211,758	1,979,158
Unemployment rate (per cent)								
Men	8.0	20.0	24.2	33.4	30.6	25.1	23.3	22.2
Women	7.8	16.7	23.5	30.1	27.8	23.8	21.8	21.6
	8.2	24.9	25.3	38.2	34.7	27.3	25.5	23.0

Source: BPS.

Table II.3.
Status in employment - 1990, 1995, 2000, 2005-2009

	1990	1995	2000	2005	2006	2007	2008	2009
Total								
Own-account worker (OAW), working alone	14,810,823	19,892,221	19,501,330	17,296,006	19,504,632	20,324,527	20,921,567	21,046,007
OAW, assisted by temporary/unpaid family workers	17,884,242	15,473,358	20,720,366	20,987,165	19,946,732	21,024,297	21,772,994	21,933,546
Employer	584,992	1,250,124	2,032,527	2,849,076	2,850,448	2,883,832	3,015,326	3,033,220
Employee	20,832,755	28,215,271	29,498,039	26,027,953	26,821,889	28,042,390	28,183,773	29,114,041
Casual employee in agriculture	n.a.	n.a.	n.a.	5,534,842	5,541,158	5,917,315	5,991,493	5,878,894
Casual employee not in agriculture	n.a.	n.a.	n.a.	4,325,365	4,618,280	4,458,857	5,292,262	5,670,709
Unpaid worker	19,323,358	13,487,062	18,085,468	16,937,980	16,173,796	17,278,999	17,375,335	18,194,246
Total	73,436,170	78,318,036	89,837,730	93,958,387	95,456,935	99,930,217	102,552,750	104,870,663
Men								
Own-account worker (OAW), working alone	9,965,441	13,537,146	13,222,375	12,358,294	13,551,397	13,557,406	13,536,283	13,761,401
OAW, assisted by temporary/unpaid family workers	14,127,834	11,670,075	16,128,013	16,897,505	15,669,243	15,890,034	16,253,889	16,440,465
Employer	489,313	1,057,996	1,608,168	2,460,974	2,466,231	2,374,922	2,486,057	2,516,447
Employee	14,343,900	19,992,511	19,788,206	17,706,648	17,934,753	18,911,566	18,484,669	18,638,015
Casual employee in agriculture	n.a.	n.a.	n.a.	3,642,291	3,724,423	3,767,045	3,827,136	3,739,483
Casual employee not in agriculture	n.a.	n.a.	n.a.	3,635,460	3,868,884	3,713,920	4,348,290	4,723,354
Unpaid worker	6,057,151	4,344,539	4,692,301	4,737,914	4,762,358	4,933,045	4,962,954	5,303,361
Total	44,983,639	50,602,267	55,439,063	61,439,086	61,977,289	63,147,938	63,899,278	65,122,526

	1990	1995	2000	2005	2006	2007	2008	2009
Female								
Own-account worker (OAW), working alone	4,845,382	6,355,075	6,278,955	4,937,712	5,953,235	6,767,121	7,385,284	7,284,606
OAW, assisted by temporary/unpaid family workers	3,756,408	3,803,283	4,592,353	4,089,660	4,277,489	5,134,263	5,519,105	5,493,081
Employer	95,679	192,128	424,359	388,102	384,217	508,910	529,269	516,773
Employee	6,488,855	8,222,760	9,709,833	8,321,305	8,887,136	9,130,824	9,699,104	10,476,026
Casual employee in agriculture	n.a.	n.a.	n.a.	1,892,551	1,816,735	2,150,270	2,164,357	2,139,411
Casual employee not in agriculture	n.a.	n.a.	n.a.	689,905	749,396	744,937	943,972	947,355
Unpaid worker	13,266,207	9,142,523	13,393,167	12,200,066	11,411,438	12,345,954	12,412,381	12,890,885
Total	28,452,531	27,715,769	34,398,667	32,519,301	33,479,646	36,782,279	38,653,472	39,748,137
Percentage shares								
Total								
Own-account worker (OAW), working alone	20.2	25.4	21.7	18.4	20.4	20.3	20.4	20.1
OAW, assisted by temporary/unpaid family workers	24.4	19.8	23.1	22.3	20.9	21.0	21.2	20.9
Employer	0.8	1.6	2.3	3.0	3.0	2.9	2.9	2.9
Employee	28.4	36.0	32.8	27.7	28.1	28.1	27.5	27.8
Casual employee in agriculture	n.a.	n.a.	n.a.	5.9	5.8	5.9	5.8	5.6
Casual employee not in agriculture	n.a.	n.a.	n.a.	4.6	4.8	4.5	5.2	5.4
Unpaid worker	26.3	17.2	20.1	18.0	16.9	17.3	16.9	17.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

	1990	1995	2000	2005	2006	2007	2008	2009
Men								
Own-account worker (OAW), working alone	22.2	26.8	23.9	20.1	21.9	21.5	21.2	21.1
OAW, assisted by temporary/unpaid family workers	31.4	23.1	29.1	27.5	25.3	25.2	25.4	25.2
Employer	1.1	2.1	2.9	4.0	4.0	3.8	3.9	3.9
Employee	31.9	39.5	35.7	28.8	28.9	29.9	28.9	28.6
Casual employee in agriculture	n.a.	n.a.	n.a.	5.9	6.0	6.0	6.0	5.7
Casual employee not in agriculture	n.a.	n.a.	n.a.	5.9	6.2	5.9	6.8	7.3
Unpaid worker	13.5	8.6	8.5	7.7	7.7	7.8	7.8	8.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Female								
Own-account worker (OAW), working alone	17.0	22.9	18.3	15.2	17.8	18.4	19.1	18.3
OAW, assisted by temporary/unpaid family workers	13.2	13.7	13.4	12.6	12.8	14.0	14.3	13.8
Employer	0.3	0.7	1.2	1.2	1.1	1.4	1.4	1.3
Employee	22.8	29.7	28.2	25.6	26.5	24.8	25.1	26.4
Casual employee in agriculture	n.a.	n.a.	n.a.	5.8	5.4	5.8	5.6	5.4
Casual employee not in agriculture	n.a.	n.a.	n.a.	2.1	2.2	2.0	2.4	2.4
Unpaid worker	46.6	33.0	38.9	37.5	34.1	33.6	32.1	32.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: BPS.

Table II. 4
Employment by sector - 1990, 1995, 2000, 2005-2009

	1990	1995	2000	2005	2006	2007	2008	2009
Total								
Agriculture	40,559,333	34,009,912	40,680,229	41,309,776	40,136,242	41,206,474	41,331,706	41,611,840
Mining & quarrying	512,270	633,224	451,931	904,194	923,591	994,614	1,070,540	1,155,233
Manufacturing	7,468,270	9,901,478	11,641,756	11,952,985	11,890,170	12,368,729	12,549,376	12,839,800
Electricity, gas & water	134,716	215,694	70,629	194,642	228,018	174,884	201,114	223,054
Construction	2,046,415	3,746,553	3,497,232	4,565,454	4,697,354	5,252,581	5,438,965	5,486,817
Trade, restaurant & hotels	10,837,931	13,684,652	18,489,005	17,909,147	19,215,660	20,554,650	21,221,744	21,947,823
Transportation, storage & communications	2,302,014	3,447,218	4,553,855	5,652,841	5,663,956	5,958,811	6,179,503	6,117,985
Financing, insurance, real estate & business services	477,765	658,497	882,600	1,141,852	1,346,044	1,399,490	1,459,985	1,486,596
Community, social & personal services	9,098,662	12,020,808	9,570,493	10,327,496	11,355,900	12,019,984	13,099,817	14,001,515
Total	73,437,376	78,318,036	89,837,730	93,958,387	95,456,935	99,930,217	102,552,750	104,870,663
Men								
Agriculture	24,637,241	21,931,497	24,603,835	26,891,514	26,369,336	25,983,403	25,913,925	26,194,970
Mining & quarrying	429,922	532,821	370,253	765,326	817,716	874,271	938,427	1,017,609
Manufacturing	4,124,470	5,713,677	6,722,850	7,033,757	7,005,482	7,119,262	7,128,631	7,219,614
Electricity, gas & water	123,870	188,928	65,020	179,174	202,721	153,669	183,913	202,129
Construction	1,987,777	3,646,520	3,356,604	4,465,861	4,574,450	5,119,560	5,311,318	5,355,015
Trade, restaurant & hotels	5,190,377	6,973,033	9,684,593	9,711,815	10,330,764	10,372,192	10,514,476	10,747,420
Transportation, storage & communications	2,249,749	3,373,662	4,364,293	5,480,334	5,373,961	5,586,530	5,465,585	5,529,935
Financing, insurance, real estate & business services	353,089	475,122	627,229	835,396	953,079	995,458	1,028,203	1,049,872

	1990	1995	2000	2005	2006	2007	2008	2009
Community, social & personal services	5,887,802	7,767,007	5,644,386	6,075,909	6,349,780	6,943,593	7,414,800	7,805,962
Total	44,984,297	50,602,267	55,439,063	61,439,086	61,977,289	63,147,938	63,899,278	65,122,526
Women								
Agriculture	15,922,092	12,078,415	16,076,394	14,418,262	13,766,906	15,223,071	15,417,781	15,416,870
Mining & quarrying	82,348	100,403	81,678	138,868	105,875	120,343	132,113	137,624
Manufacturing	3,343,800	4,187,801	4,918,906	4,919,228	4,884,688	5,249,467	5,420,745	5,620,186
Electricity, gas & water	10,846	26,766	5,609	15,468	25,297	21,215	17,201	20,925
Construction	58,638	100,033	140,628	99,593	122,904	133,021	127,647	131,802
Trade, restaurant & hotels	5,647,554	6,711,619	8,804,412	8,197,332	8,884,896	10,182,458	10,707,268	11,200,403
Transportation, storage & communications	52,265	73,556	189,562	172,507	289,995	372,281	713,918	588,050
Financing, insurance, real estate & business services	124,676	183,375	255,371	306,456	392,965	404,032	431,782	436,724
Community, social & personal services	3,210,860	4,253,801	3,926,107	4,251,587	5,006,120	5,076,391	5,685,017	6,195,553
Total	28,453,079	27,715,769	34,398,667	32,519,301	33,479,646	36,782,279	38,653,472	39,748,137
Percentage shares								
Total	55.2	43.4	45.3	44.0	42.0	41.2	40.3	39.7
Agriculture	0.7	0.8	0.5	1.0	1.0	1.0	1.0	1.1
Mining & quarrying	10.2	12.6	13.0	12.7	12.5	12.4	12.2	12.2
Manufacturing	0.2	0.3	0.1	0.2	0.2	0.2	0.2	0.2
Electricity, gas & water	2.8	4.8	3.9	4.9	4.9	5.3	5.3	5.2
Construction	14.8	17.5	20.6	19.1	20.1	20.6	20.7	20.9
Trade, restaurant & hotels	3.1	4.4	5.1	6.0	5.9	6.0	6.0	5.8
Transportation, storage & communications								

	1990	1995	2000	2005	2006	2007	2008	2009
Financing, insurance, real estate & business services	0.7	0.8	1.0	1.2	1.4	1.4	1.4	1.4
Community, social & personal services	12.4	15.3	10.7	11.0	11.9	12.0	12.8	13.4
Total	100	100	100	100	100	100	100	100
Men								
Agriculture	54.8	43.3	44.4	43.8	42.5	41.1	40.6	335.6
Mining & quarrying	1.0	1.1	0.7	1.2	1.3	1.4	1.5	13.0
Manufacturing	9.2	11.3	12.1	11.4	11.3	11.3	11.2	11.1
Electricity, gas & water	0.3	0.4	0.1	0.3	0.3	0.2	0.3	92.5
Construction	4.4	7.2	6.1	7.3	7.4	8.1	8.3	2.6
Trade, restaurant & hotels	11.5	13.8	17.5	15.8	16.7	16.4	16.5	68.6
Transportation, storage & communications	5.0	6.7	7.9	8.9	8.7	8.8	8.6	137.7
Financing, insurance, real estate & business services	0.8	0.9	1.1	1.4	1.5	1.6	1.6	70.8
Community, social & personal services	13.1	15.3	10.2	9.9	10.2	11.0	11.6	13.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	745.4
Women								
Agriculture	56.0	43.6	46.7	44.3	41.1	41.4	39.9	38.8
Mining & quarrying	0.3	0.4	0.2	0.4	0.3	0.3	0.3	0.3
Manufacturing	11.8	15.1	14.3	15.1	14.6	14.3	14.0	14.1
Electricity, gas & water	0.0	0.1	0.0	0.0	0.1	0.1	0.0	0.1
Construction	0.2	0.4	0.4	0.3	0.4	0.4	0.3	0.3
Trade, restaurant & hotels	19.8	24.2	25.6	25.2	26.5	27.7	27.7	28.2

	1990	1995	2000	2005	2006	2007	2008	2009
Transportation, storage & communications	0.2	0.3	0.6	0.5	0.9	1.0	1.8	1.5
Financing, insurance, real estate & business services	0.4	0.7	0.7	0.9	1.2	1.1	1.1	1.1
Community, social & personal services	11.3	15.3	11.4	13.1	15.0	13.8	14.7	15.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: BPS.

Table II.
Background indicators

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross Domestic Product (GDP) growth rate (per cent) <i>Source: ADB, Key Indicators for Asia and the Pacific 2010</i>	4.9	3.6	4.5	4.8	5.0	5.7	5.5	6.3	6.0	4.5
GDP per capita (constant 2000 US\$) <i>Source: World Bank, World Development Indicators</i>	804	822	848	877	909	948	988	1,038	1,088	1,124
GDP per capita at PPP (constant 2005 international \$) <i>Source: World Bank, World Development Indicators</i>	2,714	2,788	2,875	2,973	3,082	3,217	3,352	3,521	3,689	3,813
Number of poor (millions, national definition) Percent of Poor <i>Source: BPS.</i>	38.7 19.4	37.9 18.4	38.4 18.2	37.3 17.4	36.1 16.7	35.1 16.0	39.3 17.8	37.2 16.6	35.0 15.4	32.5 14.2