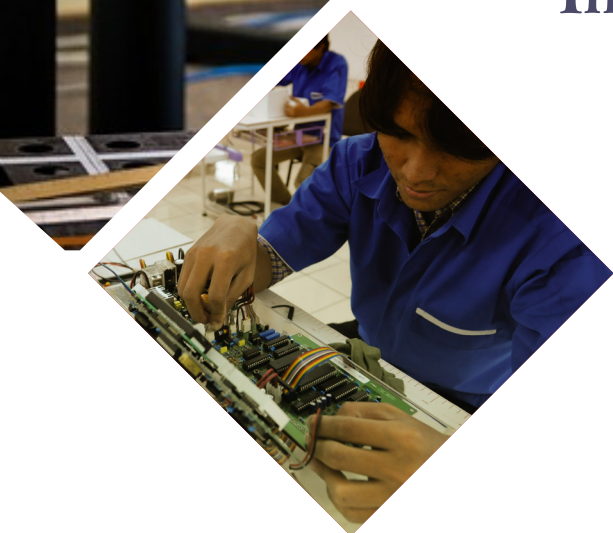




International  
Labour  
Organization



# Summary

## Indonesia Jobs Outlook 2017

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# Indonesia Jobs Outlook 2017:

## *Harnessing technology for growth and job creation*

*Indonesia Jobs Outlook 2017* is the flagship report of the International Labour Organization (ILO) in Indonesia. Besides providing the reader an in-depth analysis of the labour market situation, the report explores the potential impact of rapid technological changes which are affecting production processes and work. Taking a longer perspective, the report looks at the employment situation in Indonesia over the last two decades. The report finds that there are indeed several positive trends, but many people are still engaged in low-productivity employment. The current wave of technological developments offers opportunities, but also poses new challenges. Below are key findings from the report and recommendations to address deficits in the job market and shape the *future of work*.

### Key Findings

Indonesia has maintained a steady momentum in a global environment which has seen more moderated levels of economic growth compared to the period before the global financial meltdown in 2008. Looking back, Indonesia can be considered as a good country example that has experienced a relatively balanced growth. But, the nature of growth since the 1997 crisis has changed which has invariably affected jobs. Before 1997, Indonesian manufacturing sector was growing rapidly with a commensurate growth of jobs. But pace of job creation in manufacturing has slowed.

Manufacturing has traditionally provided the pathway for industrialization and economic development. Almost all the developed countries achieved industrialization through an expansion of manufacturing and subsequent growth of high value services. The slowdown of manufacturing growth which some have even termed as “deindustrialization” does not augur well for employment. Although in absolute terms more Indonesians are employed in manufacturing, the share of employment in this sector increased only slightly to 13.1 percent in 2016 compared to 2006 when it was 12.5 percent<sup>1</sup>. Together services and trade now account for 46.7 percent of the employed.

Unemployment rate has further fallen to 5.3 percent in 2017<sup>2</sup> from a high of 11.2 percent in 2005. However, relatively low unemployment rate in Indonesia does not fully reveal the challenges that the economy faces to create adequate number of good and decent jobs. There are still major deficits in employment outcomes by productivity, quality of work, gender, and disparities across the provinces. A lot of workers are engaged in low-productivity employment as seen by relatively high proportion of workers in vulnerable employment (30.6 percent). If employers assisted by temporary workers and casual workers are added, the vulnerable employment rate increases to as high as 57.6 percent. The rate is even higher for female workers (61.8 percent).<sup>3</sup>

Compared to 1996, there are more workers and job seekers with higher educational qualifications in the labour market. But, the proportion of them remains relatively low. Moreover, proportionally there are still fewer women in the labour force. In fact, the labour force participation rate of females hardly changed from 1996 when it stood at 50.6 percent compared to 2016 (50.8 percent). Although declining, the unemployment rate among youth is still very high (19.4 percent). An equally worrying trend is the number of young people who are neither employed, in education or training

1 ILO staff calculations using the Sakernas microdata.

2 This figure is from the labour force survey (Sakernas) 2017, February series. In this report, only Sakernas data from August series has been used owing to a larger sample and for the sake of consistency when making comparisons.

3 ILO calculations using Sakernas 2016.

(NEET). The proportion of NEET in Indonesia is quite high (23.2 percent) and in fact it is one of the highest rates in Asia.

## Technology: A blessing or doom for future jobs?

As the country moves forward, Indonesia, like several other emerging and industrialized economies, is confronted by a new wave of technological advancements which are likely to shape the economy and jobs of the future. Technological forces including digitalization and use of machines are converging and changing production, distribution, and consumption patterns. In Indonesia, there are understandably divergent views on the way the technology will affect firms and jobs.

Some see technology playing its “creative destruction” role to spur innovation and growth. According to this view, while jobs will be lost initially, new and better jobs will be created which in turn will improve overall welfare of the people. This view emanates from historical trends where technology indeed minimized need for human intervention, but at the same time created new jobs and industries. In other words, technology complemented rather than made labour redundant.

In Indonesia we can see rapid growth in online platforms creating opportunities for e-commerce, on-demand services, and transportation. A digital marketplace has brought buyers and sellers as well as potential workers and employers even closer. It appears that new work opportunities resulting from technological uptake is much more widespread in the trade and services sector. It is possible that this development may have contributed in lowering the unemployment rate in Indonesia.

A clear trend in Indonesia is the growing number of people who are getting connected to the digital space which is happening mainly through hand-held devices. Considering the growth in internet users and a huge population using social media, potentially, Indonesia is well placed to benefit from the digital revolution. But, owing to the poor state of physical infrastructure, especially outside Java and Bali, low investment in research and development, Indonesia faces considerable challenges. In technological readiness, Indonesia is placed very low (80) on the Global Competitiveness Index (GCI), much lower than its overall global ranking of 36 in 2017<sup>4</sup>

A slightly opposing view on jobs and technology is that the two are competing against each other. And, it is not long that a large number of human occupations will be lost. Studies have shown that several occupations involving routine tasks are facing the greatest threat from automation and machines. According to an ILO estimate more than 60 percent of salaried jobs in Indonesia are at risk.<sup>5</sup> Increasingly, jobs will become more polarized i.e. a concentration of very high skilled and low skill work. Occupations involving repeated functions that can be converted into an algorithm or can be learned by machines will become obsolete.

Recent developments show that compared to the past technological diffusion is happening faster than before. And, this is happening alongside rapid reduction of costs and thus quickly making it commercially viable. Interestingly, in the last few years the sale of industrial robots is increasing in countries like Indonesia. According to a survey, more firms in Southeast Asia are planning to upgrade their technology.<sup>6</sup> In fact, in some quarters there are concerns that Indonesian manufacturing sector is quite susceptible to technology and automation. It is important to note here that even before the current wave of digitalization, Indonesia was already losing ground in manufacturing.

4 Global Competitiveness Report 2016-2017, World Economic Forum

5 ILO, 2016 ASEAN in Transformation

6 ibid

1. Indonesia needs a “second wave” of structural transformation. The country has to move away from its dependency on extractive industries and create new sources of growth in manufacturing and high value services. Technology can be used a catalyst for ushering in this next wave of structural transformation. Indonesia needs to pursue a pro-employment industrial policy. In this regard, the government can tailor its support in the revival of manufacturing as well as growth of new and creative industries.
2. In a globalized world, resisting the use of technology in the production processes may be difficult, if not impossible. Adoption of improved technology should be the means for achieving higher levels of development. It is inevitable that with new technology including digitalization and machines carrying out certain tasks, in the short-term, there will be disruptions in the labour market including jobs losses. It is here that public policy can be critical. Active labour market policies and programmes can be initiated to enable people to learn new skills, assist them in job placements, and provide incentives to firms to invest in human capital.
3. Related to above, there is now even a stronger case for continued and even more public investment in skills development. Indonesia already spends 20 percent of its budget on education. While education spending has increased over the years, the quality of education and learning achievement of students is still fairly low. With a single ASEAN market, there is greater urgency to ensure that investment in education is closely linked to outcomes. Education and learning should not be limited to academic institutions, but it should form an integral part of the work place. A culture of life-long learning should be instituted to enable workers to adapt to the changes in the labour market.
4. With a large young population, many Indonesians are receptive to technology. There are already a large number of internet users who use social media quite regularly. Connectivity will be important for those living in the outer islands of Indonesia where access is still a problem. Bringing more people to the digital world will undoubtedly spur innovation, encourage use of new mediums for learning, and open up avenues for small enterprises and young entrepreneurs. The opportunities for businesses can come in the form of greater market penetration and raising capital through online portals.
5. In light of the changes in the labour market and growth of the so called gig economy, the current labour governance systems should be revisited. In this regard, an ongoing dialogue on the standards of work should be initiated among key stakeholders such as the government, private sector employers, worker representatives, and other civil society organizations representing youth who after all will be most affected in future. Moreover, social security coverage should include non-standard forms of work. A simplified and portable system for independent workers or groups with innovative financing options should be explored to provide greater coverage.
6. Indonesia needs to rethink its social protection framework. The country already spends a considerable amount of public resources for social transfer including cash and non-cash supplements to the poor. While social security schemes can provide temporary support to the unemployed, there may be those who need longer to get back on their feet. Globally, the idea of a universal basic income (UBI) is gaining more currency as a measure to provide a social safety net for workers against job losses. This is something worth looking into.

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