



Indonesia:

Labour and social trends update August 2014



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An improving labour market¹

While economic growth slowed in the first and second quarters of 2014, Indonesia's labour market has continued to improve, with evidence of employment expanding and conditions of work improving as vulnerable employment decreases and formal employment expands. Structural changes across sectors and occupations have continued to unfold. These developments place Indonesia in a favorable position as the ASEAN Economic Community comes into effect in 2015. To continue to support the expansion of quality employment in Indonesia, it is important that policy makers further develop strategies that promote decent work for equitable growth. Focus on issues such as labour productivity, women's participation in employment, and school-to-work transition is needed for continued labour market success.

The labour force was estimated at 125.3 million people in February 2014, an increase of 5.2 million people compared August 2013 or 1.7 million people compared to February 2013. The labour force participation rate was estimated at 69.2 per cent and number of people employed in February 2014 reached 118.2 million. The increase in labour force participation was driven by a rise in the number of women in urban areas entering the labour force. However, gender disparities in labour force participation continue to persist, with the labour force participation rates for men and women at 85.0 per cent and 53.4 per cent respectively in February 2014.

The unemployment rate in February 2014 was estimated at 5.7 per cent - a significant decline from previous periods. In Indonesia unemployment is an issue for youth, with the unemployment rate for people aged between 15 and 24 years estimated at 17.1 per cent in February 2014. Youth account for over 50 per cent of the unemployed population and most unemployed youth have never worked before. Work experience as well as educational attainment play a large role in employment outcomes, with the highest unemployment rates among those with junior or senior high school as their highest levels of educational attainment. Access to labour market information and employment services are also important factors in successful school-to-work transition.

In terms of sectoral trends, agriculture maintained its dominance, employing 40.8 million people, followed by trade (25.8 million) and the social and government services sector (18.5 million) in February 2014. The manufacturing sector employed 15.4 million people or 13 per cent of total employment in same period. Employment in manufacturing has been growing rapidly in recent years and is now higher (in terms of sectoral share and absolute numbers) than its pre-1998 status, when it was a driver of economic and job growth in Indonesia. Similarly, the construction sector is now experiencing strong job growth. The construction sector employed 7.21 million people or 6.10 per cent of total employment in February 2014, which is the strongest performance of the sector in over a decade.

Table: Key labour market indicators

Variable	Feb 2012	Aug 2012	Feb 2013	Aug 2013	Feb 2014
Labour force (million)	122.7	120.3	123.6	120.2	125.3
Employed (million)	115.1	113.0	116.4	112.8	118.2
Unemployed (million)	7.6	7.3	7.2	7.4	7.2
Labour force participation rate	69.9%	67.8%	69.2%	66.8%	69.2%
Unemployment rate	6.2%	6.1%	5.8%	6.2%	5.7%
Employment-to-population ratio	65.3%	63.7%	65.2%	62.7%	65.2%

Source: BPS (2014) Pasar Tenaga Kerja Indonesia Februari 2014, Badan Pusat Statistik, Jakarta.

¹ This policy brief was supported by the Korea/ILO Partnership Programme.

Tabel: Indikator penting pasar tenaga kerja

Variable	2011	2012	2013	2014
Employment (millions)	108.2	113.0	112.8	118.2 ¹
Regular employees (millions)	37.8	40.9	41.1	43.4 ¹
Casual employees (millions)	11.1	11.7	11.3	11.5 ¹
Simple average minimum wage (IDR thousands) ²	988.8	1,119.1	1,332.4	1,595.9
Average wage for employees (IDR thousands) ²	1,552.5	1,641.50	1,917.2	1,885.8 ¹
GDP (constant 2000 prices, trillions)	2,456.7	2,618.9	2,770.3	NA
GDP per employed person ³	22.7	23.2	24.6	NA
Consumer price index (annual, 2007=100)	127.4	132.9	142.2	NA

Source: BPS (2014) Labourer situation February 2014, Badan Pusat Statistik, Jakarta. Note: Labour force data is from the August Labour Force Survey, unless indicated. 1 Denotes February 2014 labour force survey. 2 Simple national average of provincial minimum wages in nominal prices. 3 Trillions, IDR constant 2000 prices.

The combination of growth trends in manufacturing and construction provide important information on investment and growth for Indonesia. In addition, these trends are likely to be underpinned by the implementation of Indonesia's Masterplan for the Acceleration and Expansion of Economic Development, which focuses on investment to support connectivity and sectoral growth.

Growth trends continue for regular employees,² with 43.4 million people or 36.7 per cent of those employed as working as regular employees. Labour productivity has been increasing gradually (see table below). Growth in nominal wages has been constant, while gains in real terms are still being realized. Gains in labour productivity (output per worker) and dialogue on gains sharing are important for Indonesia, as they can translate into better quality jobs, including better wages and working conditions that are critical for raising living standards.

With the increase in the number of people working as regular employees, vulnerable employment and informal employment³ has decreased - both in terms of share of employment and absolute numbers. In February 2014, 46.4 per cent of those employed were working in the formal economy, and 53.6 per cent of those employed were working in informal employment. The pattern of economic growth since 2010, as well as gains in labour productivity, regulatory reform and social security expansion are likely to have played an important role in the shift towards formal employment in Indonesia (see box below).

Indonesia: A growing formal economy through investments in productivity and social protection

The share of employment in the formal and informal economies⁴ in Indonesia has been shifting in recent years. In August 2010 it was estimated that approximately 59.0 per cent of those employed were working in the informal economy and by February 2014 this had reduced to 53.6 per cent. In addition, most of the jobs that have been created in Indonesia since 2001 have been in the formal economy. For example, of the 22 million jobs added to the Indonesian labour market between 2001 and 2013, approximately 82 per cent are considered formal.⁵ Despite solid progress, many jobs in Indonesia are still informal, and thus provide little protection to workers.

The considerable progress toward formalization of employment has been driven by strong labour demand and improved access to formal employment resulting from better education. On the demand side, robust investment and domestic consumption have been the twin motors of Indonesia's economic growth momentum. Investments in pro-poor social programmes and increases in minimum wages have bolstered household incomes, and thus contributed to aggregate demand. While these factors have supported formalization, job quality - in terms of vulnerability and labour productivity - have been a persistent concerns for Indonesia. Many workers are employed in activities with low productivity, which has kept real incomes low for most Indonesians. In addition, many workers in the formal economy still do not have formal contracts and are often paid below the minimum wage. The

2 According to BPS an "Employee, is a person who work permanently for other people or institution/office/company and gains some money/cash or goods as wage/salary. Labor who have no permanent employer is not categorized as a laborer/ worker/employee but casual worker. A laborers, in general is considered to have a permanent employer if he has the same employer during the past month, particularly for building construction sector is 3 months. If the employer is an institution, more than 1 (one) is allowed."

3 Informal employment estimates in this note follow the national definition of informal employment, which is different from data based on ICLS definition.

4 National Statistics Office (Badan Pusat Statistik) defines informal and formal employment by a matrix of employment status and main occupation. See BPS (2012) *Labour force situation in Indonesia: August 2012, Jakarta*. The matrix differs from the conceptual framework of informal employment endorsed by the 17th International Conference of Labour Statisticians in 2003. The framework uses type of production unit and type of job to distinguish formal and informal employment. See ILO (2003) Guidelines concerning a statistical definition of informal employment (Geneva). Note that population data weights were changed in 2011.

5 ILO staff calculation based on national labour force survey data.

combination of low incomes, limited social protection systems and informal employment means that many Indonesians are vulnerable to shocks.

Escaping the middle-income trap and growing the formal economy are some of Indonesia's most eminent challenges. To support the expansion of the formal economy, Indonesia is focusing on a combination of policies to enhance productivity through facilitating the movement of workers to higher productivity activities and through improving worker protections. In particular, Indonesia has been actively reforming its social security system and expanding social assistance programmes - both of these measures have expanded the number of protected workers.

For Indonesia, improving job quality and transitioning to a formal economy requires investment across many fronts, including reducing barriers to doing business, investing in social protection systems, increasing access to vocational training and tertiary education, and increasing the efficiency of labour markets to promote formalization. Protection policies on minimum wages, severance pay, outsourcing and social security benefits are closely linked and use of collective bargaining is still limited. There is a need to engage in dialogue to consider how these policies and regulations can work in tandem to protect workers while creating more and better jobs in the formal economy.

Both men and women's access to formal employment has improved over time, but outcomes on formality have differed across genders. For example, 57.9 per cent of employed women work in the informal economy, while only 50.9 per cent of employed men work in the informal economy. There have been efforts to support women to access job opportunities in the formal economy, such as gender quotas in parliament and flexible working hours, however, further efforts are needed to bridge the gender gap, particularly regarding discrimination, job quality in sectors dominated by women and provisions that allow for maternity leave.

Employment outlook for 2014-2019

The Indonesian working age population, the labour force participation rate and the employment rate are expected to continue to increase as Indonesia reaps the benefits of a demographic dividend. The working age population (15 years and over) is projected to increase to 197.4 million by 2019.⁶ By 2019 Indonesia's labour force is projected to have increased to between 129 and 131 million people and the number of people employed is expected to reach between 120 and 123 million people.⁷ The labour force participation of young women

is expected to increase, due to benefits from greater access to education and training, and it will be important that strategies are in place to support these women to access emerging employment opportunities.

Indonesia's unemployment situation is projected to remain steady or improve slightly, with the unemployment rate projected to remain close to 6 per cent by 2019. However, given the projected fast growth in the working-age population and labour force, and Indonesia's history of high youth unemployment, policies to support school-to-work transition will be needed to facilitate outcomes for youth and avoid the emergence of structural issues.

The number of people working as employee is expected to grow and vulnerable employment is expected to decrease. To further illustrate, the number of people working as employees is projected to increase by as much as 14 million workers by 2019, and vulnerable employment is projected to decline to 51 per cent of total employment by 2019.⁸ The gender gap in vulnerable employment is also projected to narrow, driven by a decline in women working as unpaid family workers. As it is challenging to transition from being a family worker to the world of work that is external to the family unit, programmes that support women to build their skills and access formal employment are needed.

Structural change will continue to unfold, entailing the movement of workers from primary to secondary and tertiary sectors. Employment in agriculture is projected to decline from 34 per cent in 2013 to between 25 per cent to 32 per cent of employment in 2019. The share of employment in industry is projected to increase from 20 per cent in 2013, to between 22 per cent to 24 per cent in 2019. The share of services is projected to increase from 45 per cent of employment in 2013, to between 46 per cent to 50 per cent in 2019. These structural changes will have implications for labour productivity and prosperity in Indonesia.

Structural changes will also have implications for the factor composition of the labour force across skills and occupations. Employment is projected to grow for professionals and associate professionals occupations and by 2019. It is projected that there will be up to an additional 5 million people working in these occupations. Employment is expected to decline for unskilled and low skilled labourers in the agricultural sector, with this sector shedding a minimum of 1 million workers in these occupations by 2019. The bulk of new jobs created will be for service workers and production labourers as the services and manufacturing sectors expand.

6 BPS (2013) Indonesia population projections 2010-2035, Badan Pusat Statistik, Jakarta.

7 Projections are based on estimates from 1) the ILO's Global employment trends model (GET Model), 2) the exponential smoothing with damped trends (ESWDT) model based on methods from the Department of Employment, Australia, and 3) the Indonesia Employment Projection Model (IEPM) from ILO Trends.

8 The Indonesian definition of vulnerable employment and the ILO definition of vulnerable employment varies somewhat. ILO defines vulnerable employment as the sum of own-account workers and contributing family workers, while Indonesia also includes casual workers and employers assisted by temporary worker/unpaid worker in their definition of vulnerable employment. This is because of the nature of casual employment in Indonesia, which is often informal and characterized by inadequate earnings, low productivity and poor working conditions.



Policy implications

A number of implications arise from review of the current employment situation and analysis of the projections of key labour market indicators in Indonesia, including:

- ♦ To **sustain economic and labour market momentum**, a focus on both employment creation and labour productivity is needed to support quality jobs and job-rich growth. The projected fast growth in the working-age population and labour force highlights the importance of having productive employment and livelihoods as a core objective of a development strategy.
- ♦ The high number of **young people** entering the labour force in the future warrants further investments in school-to-work transition strategies, in order to ensure that young people can access emerging employment opportunities.
- ♦ With a large share of workers employed in the informal economy with poor quality and low-paid jobs that have intermittent and insecure work arrangements, greater focus needs to be given to addressing the **challenge of vulnerable employment and informal employment** as progress in this area is likely to have significant development dividends, including gains on gender equality.
- ♦ The **structure of the Indonesian labour market** will change between 2013-2019, including shifts in industrial structure and in the factor composition (including occupational and skills composition) of industries. Structural change can carry significant adjustment costs, highlighting the need to strengthen education, training, and social protection systems to mitigate the costs.
- ♦ With continuing investment, **growth in labour productivity** is likely to continue to be strong. Previous experiences indicate that productivity increases are optimized when accompanied by investments in wage-setting institutions. This process can help to ensure that gains are shared, therefore reinforcing equitable growth while encouraging enterprises to upgrade and enhance productivity.
- ♦ This situation highlights the need for **policies and targets to support structural change and quality employment**, particularly as the impact of faster growth may be more evident in changes in employment quality rather than quantity. In the next development plan, the unemployment reduction target could be coupled with qualitative employment targets such as informal employment or vulnerable employment.
- ♦ In particular, targets and policies, such as maternity leave and flexible working hours, to raise **women's participation in employment** are needed. Furthermore, policies that focus on labour market discrimination, as well as policies that support the extension of protection to sectors and occupations dominated by women, are required to address gender disparities in labour market outcomes.

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