

# Labor Market Issues in Indonesia: An Analysis in a Globalization Context<sup>1</sup>

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*Abstract. Indonesian economy has grown significantly for the past quarter of century. However, welfare of the labors are still in a poor condition. This was indicated by their wages which only around the minimum wages, even after the government of Indonesia raised them several times. In the era of globalization or in a borderless economic framework, factors of productions become more mobile. Mobility of both capital and labor could be driven by comparative advantages of local and regional markets. When the wage is too low domestically, and when there is a high demand for low-skill workers abroad, the labor will migrate to higher-wage countries. On the other hands, when the wage is too high in Indonesia, foreign investors who invest in footloose industries may relocate their industries to lower-wage countries. In addition, employer can cut down employment to reduce production cost if the wages are too high. Thus, the scissor effects have to be dealt wisely. Increasing minimum wages is not the only way to increase worker's welfare. Improving the productivity of the labor through formal and informal education is an indirect way of raising the welfare of workers. Considering that the quality of Indonesia's labor is still very low and the fact that factors of production are more mobile in this globalization era, improving the quality of workers to be more competitive globally is seen as a key situation to the problem.*

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**Keywords:** employment; labor productivity; wage level; labor mobility; migrant workers; foreign investments; industrial development.

## 1. Introduction

Over the past quarter of a century, increasing recognition has been given to the significant performance of Indonesia's economic development. The only sluggish performance of the economy was discovered in the early years of 1980's (Sundrum 1986). However, despite the progress that has been made in improving the wealth of the nation as a whole - including gains in employment absorption capacity- many of the fundamental problems of labor market remain. In the globalization era, special attention in solving the labor market problems become crucial.

This introductory section will briefly review the Indonesian economy and its labor market during the period 1980-1990. A brief discussion of the impact of globalization on the Indonesian's economy will be reviewed in this section as well.

### **1.1 An overview of Indonesia Labor Market**

Indonesia's economy has experienced rapid economic growth and structural changes. In 1980, in real terms, the share of the agricultural and manufacturing sectors in the GDP were 23.2% and 12.6%, respectively. In 1990, these shares became closer together to 19.6% and 19.3%, consecutively. The above phenomena indicate that in 1990 the manufacturing sector has taken over the dominant role of the agriculture sector in early years of the present decade. This, moreover, has been a result of the huge investment since 1980 on the GDP growth.

However, the rapid development of the Indonesian economy has not been accompanied by sectoral changes in employment. Some rigidity in labor mobilization has occurred in the Indonesian economy despite the abundance of labor in the agricultural sector. Although the abundance of the agricultural labors puts strong pressure for the labors to move out of agriculture, it appears that the pressure has not been working effectively. The manufacturing sector requires much different skills compared to those have been utilized in the agriculture.

Table 1 shows the distribution of workers across sectors in 1980 and 1990. The table shows that the percentage of employment in the agricultural sector decreases from 55.9% in 1980 to 49.2% in 1990. The decrease in the contribution of the agricultural sector to employment is lower than those to production. This indicates the labor intensive characteristic of the sector.

The opposite phenomenon is seen in the manufacturing and services sectors. The increase in the contribution of these sectors toward employment is smaller than those toward production. During the period 1980-1990, the growth of contribution (percentage) of workers in manufacturing sector toward employment was 25.3%, while its contribution toward production increased by 53.2%. Similarly, during the same period, the contribution of the services sector toward employment increases by 7.9%, while that toward production increased by 21.7% (Anwar 1992).

The indicator of employment transformation by type of occupations and employment status is reflected by, among others, the change in the percentages of blue collar<sup>2</sup> and those who work in informal sector.<sup>3</sup> The economic growth is, usually, accompanied by the decline in the percentage of blue collar workers and workers in informal sector.

**Table 1**  
**THE PERCENTAGE OF WORKERS AND SHARE OF GDP BY SECTORS:**  
**INDONESIA, 1980 AND 1990**

Sectors	Workers		Share of GDP	
	1980	1990	1980	1990
1. Agriculture	55.9	49.2	23.2	19.6
2. Mining and quarrying	0.7	1.0	26.1	15.2
3. Manufacturing	9.1	11.4	12.6	19.3
4. Electricity, gas and water	0.1	0.2	0.3	0.6
5. Construction	3.2	3.9	5.4	5.8
6. Trade, Restaurants and Hotels	13.0	14.7	13.7	16.1
7. Transportation, storage and communication	2.8	3.7	4.2	5.5
8. Other services	14.5	14.3	14.5	17.9
9. Not stated	0.6	1.5	-	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Note:* GDP based on 1983 constant price.

*Source:* Anwar (1992).

Table 2 indeed, shows that the percentage of blue collar workers has been declining from 74.8% in 1980 to 71.7% in 1990. However, in line with the economic growth that has been achieved so far, the decrease in the percentage of blue collar workers is only due to the decrease in the percentage of agricultural, animal husbandry and forestry workers, fishermen, and hunters. Production workers, transport equipment operators and labors, on the other hand, is still showing an increasing trend.

Employment in the informal sector, which is characterized by easy-entry and easy-exit, appears to provide an alternative for employment in the manufacturing sector for workers from the agricultural sector. Such informal activities do not require much skills, and thus making it possible for the agricultural workers to enter the sector with high anticipation that they will, eventually, be absorbed in the manufacturing sector or at least in the informal activities of the manufacturing process. Moreover, the earlier they enter the informal sector the more information they gather about the employment opportunities elsewhere in urban area. Thus, the amount of information on the market increases with the length of stay while searching for jobs with better remuneration (Harris and Todaro 1970).

The attractiveness of the informal sector is even more alluring merely due to the fact that the sector may generate relatively higher income compared to the agricultural sector. Such employment transfer is one of the reasons for real income to increase since it necessarily means that labors move from low productivity agricultural activities to higher productivity informal sector.

**Table 2**  
**THE PERCENTAGE OF WORKERS BY OCCUPATIONS:**  
**INDONESIA, 1980 AND 1990**

Occupations	Year	
	1980	1990
1. Professional, technical, and related workers, administrative, and Managerial workers	3.5	3.8
2. Clerical and related workers	3.5	5.0
3. Sales workers	12.7	14.6
4. Services workers	4.3	4.1
5. Agricultural, animal husbandry and forestry workers, fishermen and hunters	55.8	49.5
6. Production and related workers, transport equipment operators and labors	19.0	22.2
7. Others	0.7	0.0
8. Not stated	0.8	0.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Source: Anwar (1992).

However, such assumption seems not applicable to the Indonesian situation. Except the family workers, the percentage of workers in the informal sector has been decreasing from 69.4% in 1980 to 62.9% in 1990. The percentage of family workers (which is one component of the informal sector) is increasing, from 17.8% to 19.3% (see Table 3). This may be caused by the higher growth rate in the labor force relative to the growth rate of the GDP during the same period.<sup>4</sup>

**Table 3**  
**THE PERCENTAGE OF WORKERS BY EMPLOYMENT STATUS:**  
**INDONESIA, 1980 AND 1990**

Employment Status	Year	
	1980	1990
1. Self employed (own account worker)	25.5	19.6
2. Self employed assisted by family members/ temporary employee	26.1	24.1
3. Employer	1.7	1.5
4. Employee	28.2	34.8
5. Family worker	17.8	19.3
6. Not stated	0.6	0.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Source: Anwar (1992).

Pasay (1990) indicates that the increasing growth rate of the Indonesian labor force was due to both increasing propensity to participate in the labor market and increasing growth rate of manpower. However, the pressure that comes from the age structural change is still dominant.

It is true that majority of the labor force has been absorbed in the market, given the present generally accepted standard of the labor force concepts. Based on this definition, open unemployment rate recently reached the figure of 2.6% by the 1991. The incidence of unemployment is lower even compared to that in most of the presently developed countries.<sup>5</sup>

## 1.2 Globalization and Labor Mobility

The 1980s have witnessed an accelerating trend towards a closer integration of the world economy. This increasing internationalization of production, more popularly termed as globalization, has meant that for an increasing economic activity the importance of national boundaries is fast decreasing. This trend is reflected in increasing economic liberalization and falling tariff barriers, modern communications, freer flow of capital and technology, integrated financial markets and corporate strategies of multinational companies that operate on the premise of a homogeneous world market. This rapidly increasing global integration, which has coincided with a decisive shift in favor of market economics, has far reaching implications for the way in which countries manage their economies and a profound impact on the quantum, quality and distribution of job worldwide.

Compared to other areas in the world, Asian countries have experienced an enormous growth in economic development and international trade. This pattern and prospect are likely to continue in the following decade. The Asian NIEs and China in particular were recorded as the most rapid growing economies, followed by the four ASEAN countries (Malaysia, Thailand, Philippines and Indonesia).

There were some internal factors contributed to this phenomenon which revealed the strong commitment of each country to undergo an outward looking orientation in their industrialization strategy. This strategy involves not only international trade, but also international flow of capital, technological transfer and managerial expertise, and development of labor quality to meet the changing environment. It is important to mention the changing role of the regulation by which the government facilitates the market to work more accurately based on its internal forces and keeps the macroeconomic environment conducive to private sector growth and development.

The economic cooperation such as APEC and NAFTA includes several countries with different level of economies. However, the comparative advantage of developing countries - such as Indonesia - lies in its unskilled/semi skilled labors. Hence, if the developing countries are requested to remove any barriers for investment, capital and technology flows, then the developed countries should allow the unskilled and semi skilled labors from the developing countries to move and work in the developed countries.

In the future -with the access to information, communication, and transportation becoming easy- the mobility of people between countries which is already taking place, will be a very common phenomenon. As now, although people do move -e.g. from Indonesia to Malaysia, to work, many of them are illegal. This has been caused by, among others, the expensive cost of moving, especially the cost of paper work. The above discussion shows the importance of labor mobility between countries as one topic in the economic cooperation, especially one that consists of developing as well as developed countries.

### **1.3 The Organization of the Paper**

The idea of this paper is to present analysis on Indonesian labor market in the context of globalization. However, data on labor market variable in the context of foreign investment as well as foreign workers is very limited. Thus, a comprehensive analysis on the impact of globalization on the Indonesian labor market is not possible.

Continuing the discussion on the effect of globalization on the economy as a whole in the following section, Section 3 elaborates some issues of the labor market. Finally, the last section concludes the discussion. The suggested policies and further research agenda will also be presented in this section.

## **2. Globalization Effects**

Globalization affects the Indonesian economy. One form of globalization is regional economic cooperation e.g. APEC. Such regional economic cooperation consists of countries with different level of economies. To take advantage of such cooperation, the readiness of the Indonesian human resources is important. Not only should the industrial mix be determined properly, but also the transfer of technology should be guaranteed. Along this same line, research and development should also play a significant role. This will also influence the wage/salary of the workers. For example, to promote research and development, the compensation for researcher should be made more attractive.

As already mentioned in the previous section, most of the Indonesian work force are unskilled labors. Indeed, excess supply for this type of worker now exists. Globalization enables unskilled labors to access information about foreign labor markets. The international labor markets offer higher wages than the unskilled workers can earn in the local labor market. Faced with the limited vacancies as well as lower wages in the local market, the abroad labor market becomes more interesting for the unskilled who are searching for jobs.

This section will examine the role of foreign investment in job creation. It will proceed with discussion on the type of industries in Indonesia. The discussion on international migration will be presented in the last section.

## 2.1 Foreign Investment and Job Creation

The choice of a location for foreign investment is influenced by several factors, such as political environment (i.e., pro-foreign investment policy government), social and economic stability, availability of natural and human resources (including cheap labor), market expansion, and the availability of infrastructure. Indeed, in the case of Indonesia the above factors seem to attract foreign investment to locate in Indonesia.

Foreign investment has been playing a significant role in the Indonesian economy. Transfer of technology, acquisition of technical know-how, and the absorption of excess labor supply are several examples of advantages resulting from foreign investment. Despite the controversies on the negative effects of foreign investment, many developing countries appears to depend on foreign investment. Moreover, with globalization the flow of foreign investment becomes unavoidable. Hence, taking advantage (i.e., minimizing the negative impacts) of the existence of foreign investment is, indeed, significant.

In 1990, 76.3% of the Indonesian labor force only completed primary school or lower (CBS 1993). Compared to the neighboring countries (e.g., Singapore and Malaysia) the quality of the Indonesian work force is the lowest. As a consequence, most of the foreign investment flow to Indonesia is not high-tech industries, such as textile, garment, electronics and shoes (see Table 4).<sup>6</sup> These industries employ unskilled and semi skilled labors. The value added that remain in Indonesia is, mainly, wages for these unskilled/semiskilled labors.

In the era of globalization, the above phenomenon should be taken into account. Globalization is reflected in the economic cooperation among several countries. One example is APEC. APEC is an Asia-Pacific Economic Cooperation which intends to remove any trade restrictions or barriers, so that the flow of investment, capital, goods and services among the member countries can occur

more efficiently. Indeed, one of the objectives of APEC is to achieve the most efficient use of production factors, through the market mechanism, among the member countries.

**Table 4**  
**THE PERCENTAGE OF**  
**CUMULATIVE FOREIGN INVESTMENT BY SECTOR:**  
**INDONESIA, 1967-1990 AND 1967-1994**

Sector	Investment	
	1967- 1990	1967-1994
1. Food Crops	0.09	0.07
2. Plantation	2.04	1.49
3. Livestock	0.29	0.23
4. Fishery	0.64	0.64
5. Forestry	1.82	1.06
6. Mining	19.78	17.49
7. Food	4.56	3.91
8. Textile	8.59	7.99
9. Wood	1.44	1.42
10. Paper	2.93	4.76
11. Pharmaceutical	1.43	1.12
12. Chemical	13.18	14.48
13. Non Ferrous Metal	3.63	3.92
14. Basic Metal	17.87	13.23
15. Metal Goods	6.49	10.50
16. Other Industries	0.16	0.36
17. Construction	6.88	1.83
18. Hotel	2.35	2.76
19. Office Building	2.37	3.76
20. Real Estate	0.29	1.31
21. Transportation	0.54	0.39
22. Other Services	2.64	6.31
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>

Source: BKPM (1990, 1994)

However, to take advantage of the regional economic cooperation, Indonesia must improve its human resources. Transfer of technology as well as research and development should be promoted. Without any effort in these respects, foreign corporations will choose to invest in other countries, such as Vietnam and Myanmar. Indonesia needs to shift its comparative advantage from unskilled labors to more skilled labors.

It is important for the government to guarantee that transfer of technology takes place. In this context, improvement in the quality of human resources becomes crucial. Indeed, the government has some regulations to make sure that transfer of technology occurs in the foreign companies.



For example, firms that employ foreign workers are required to provide training for the Indonesian workers, so that in the future foreign workers can be replaced by Indonesian workers. In exchange, these foreign companies receive a tax deductible profit for as long as they perform the training. Unfortunately, as shown in a survey held by the Demographic Institute,<sup>7</sup> many foreign firms are not aware of the existence of this regulation. As a result, very few of them perform training to replace foreign workers with Indonesian workers.

Another way to transfer the foreign technology is through a Research and Development (R&D) department. This R&D department can improve the quality of the product, solve many problems that occur during the production line or find a better way to market the company's products. However, most foreign companies do not locate their R&D division in Indonesia. The lack of educated/skilled labors is one of several reasons that cause foreign companies to locate their R&D divisions in other countries, e.g., Singapore.

**Table 5**  
**THE PERCENTAGE OF**  
**CUMULATIVE FOREIGN COMPANIES EMPLOYEE BY SECTOR:**  
**INDONESIA, 1967-1990 AND 1967-1994**

Sector	1967-1990		1967-1994	
	Indonesian	Foreigners	Indonesian	Foreigners
1. Food Crops	0.34	0.37	0.27	0.29
2. Plantation	16.82	2.76	10.85	1.96
3. Livestock	0.01	0.62	0.33	0.38
4. Fishery	1.46	3.69	1.27	2.41
5. Forestry	5.55	8.12	3.34	4.17
6. Mining	2.34	2.67	3.99	7.09
7. Food	6.98	3.45	5.32	2.65
8. Textile	22.22	13.31	32.83	17.83
9. Wood	5.49	4.53	3.50	3.51
10. Paper	1.39	4.56	1.81	4.92
11. Pharmaceutical	3.60	3.29	2.68	2.05
12. Chemical	7.84	10.11	7.45	7.61
13. Non Ferrous Metal	2.37	1.86	2.75	2.15
14. Basic Metal	2.71	2.83	1.92	2.24
15. Metal Goods	11.11	13.84	10.79	13.34
16. Other industries	0.36	0.31	1.02	0.73
17. Construction	4.27	15.37	3.15	11.06
18. Hotel	1.98	3.11	1.48	2.19
19. Office Building	0.69	1.33	0.70	1.31
20. Real Estate	0.53	0.27	0.40	0.50
21. Transportation	0.26	1.10	0.32	0.89
22. Other services	1.13	2.60	3.01	8.12
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source : BKPM (1990, 1994)

The low quality of labors increases the likelihood that multinational firms will use foreign workers to fill professional positions. In accordance with the type of foreign investment in Indonesia - and as mentioned before - most unskilled/semi skilled Indonesian workers are employed in industries such as food and beverage, textiles, apparel, chemicals, metals, plantation, mining and construction. These are sub-sectors that require only minimum levels of education/skill in the production line. Table 5 presents the percentage of Indonesian and foreign employees in foreign companies by sectors. The table shows that from 22 sub-sectors, the percentage of foreign employees in about 11 sub-sectors are higher than the Indonesian employees.

One consequence of polarization of workers by nationality and occupation is the existence of disparity between the wages received by the Indonesian workers and foreign managers.

## **2.2 Trends in Indonesia's Manufacturing Development**

Table 6.a shows that most of the manufacturing firms in Indonesia are classified as home industry. This industry absorbed the majority of employment in the manufacturing sector. Although declining - from 79.51% in 1974/1975 to 52.44% in 1986 - the role of home industry in absorbing the employment is still dominant.

Exceptions occur in some sub-sectors such as paper, chemical, metals and machinery industries. In these industries, employment absorption is dominated by medium-large manufacturers. This phenomenon indicates that medium-large manufacturers in those industries are labor intensive. The future prospects of industrialization due to globalization is expected to create greater employment opportunities in medium-large industries.

Although home industries contribute the largest percentage to the employment in the manufacturing sector, the largest percentage of the total labor cost in the manufacturing sector is made by medium-large manufacturers. Labors in medium-large firms are paid on a regular basis with wages/salaries. On the other hand, home industries have different reward system, e.g., the employer provide food and place to live. Indeed, home industries tend to employ relatives, most of their labors are not paid workers.

Medium-large manufacturers contribute most to the value added of manufacturing sector. This reflects the higher productivity in these industries compared to small and home industries. Productivity is a function of capital, labor, and technology adopted in the production. Since the medium-large industries have the advancement and ability to acquire the above factors, the high productivity in medium-large industries is as expected.

The above discussion shows that firms with high productivity tend to have low labor absorption while firms with high labor absorption tend to have low productivity. This is valid for the manufacturing industry in Indonesia as a whole, except for sub-sectors with ISIC<sup>8</sup> 4, 5, and 8 which have high labor absorption, high labor cost and also high productivity.

**Table 6.a**  
**THE PERCENTAGE OF EMPLOYMENT IN MANUFACTURING SECTOR**  
**BY SIZE: INDONESIA, 1974/1975, 1979 AND 1986**

ISIC	Manufacturing Industry			
	Medium-Large	Small	Home-ind	Total
31				
1974/75	14.74	8.30	79.96	100.00
1979	14.29	19.58	66.13	100.00
1986	29.27	17.94	52.79	100.00
32				
1974/75	26.21	8.33	65.46	100.00
1979	37.20	14.93	47.88	100.00
1986	51.14	17.45	31.41	100.00
33				
1974/75	1.31	2.44	96.25	100.00
1979	5.70	12.35	81.94	100.00
1986	16.60	9.71	73.69	100.00
34				
1974/75	55.61	20.41	23.98	100.00
1979	71.46	28.54	-	100.00
1986	63.23	21.72	15.05	100.00
35				
1974/75	71.52	10.60	17.80	100.00
1979	85.67	14.33	-	100.00
1986	58.69	8.70	5.62	100.00
36				
1974/75	7.35	14.02	78.63	100.00
1979	10.81	33.61	55.58	100.00
1986	18.58	24.34	57.08	100.00
37				
1974/75	100.00	-	-	100.00
1979	100.00	-	-	100.00
1986	100.00	-	-	100.00
38				
1974/75	41.77	16.53	41.70	100.00
1979	45.04	21.11	33.86	100.00
1986	60.58	13.20	26.22	100.00
39				
1974/75	9.99	6.51	83.50	100.00
1979	5.09	7.41	87.51	100.00
1986	3.28	5.05	91.67	100.00
All Mfg.				
1974/75	13.49	7.00	79.51	100.00
1979	19.37	18.41	62.22	100.00
1986	32.68	14.88	52.44	100.00

Source: Pasay et al. (1993).

**Table 6.b**  
**PERCENTAGE OF LABOR COST IN MANUFACTURING SECTOR**  
**BY SIZE: INDONESIA, 1974/1975, 1979 AND 1986**

MANUFACTURING INDUSTRY				
ISIC	Medium-Large	Small	Home-ind	Total
<b>31</b>				
1974/75	88.11	-	11.89	100.00
1979	66.10	20.60	13.31	100.00
1986	79.84	11.82	8.34	100.00
<b>32</b>				
1974/75	96.56		3.44	100.00
1979	86.14	10.56	3.30	100.00
1986	81.51	13.45	5.05	100.00
<b>33</b>				
1974/75	63.16		2.95	100.00
1979	47.21	35.87	16.92	100.00
1986	71.05	14.03	14.92	100.00
<b>34</b>				
1974/75	97.05		2.95	100.00
1979	89.07	10.93		100.00
1986	86.73	10.50	2.76	100.00
<b>35</b>				
1974/75	98.35		1.65	100.00
1979	96.25	3.75		100.00
1986	97.04	2.62	0.34	100.00
<b>36</b>				
1974/75	72.04		27.92	100.00
1979	56.51	34.72	8.77	100.00
1986	67.84	19.23	12.93	100.00
<b>37</b>				
1974/75	100.00	-	-	100.00
1979	100.00	-	-	100.00
1986	100.00	-	-	100.00
<b>38</b>				
1974/75	95.33		8.67	100.00
1979	83.45	8.49	8.05	100.00
1986	90.56	5.39	4.04	100.00
<b>39</b>				
1974/75	90.08		9.92	100.00
1979	25.61	12.89	61.50	100.00
1986	21.00	12.82	66.18	100.00
<b>All Mfg.</b>				
1974/75	90.29		9.71	100.00
1979	74.86	16.30	8.84	100.00
1986	82.11	10.00	7.90	100.00

Source: Pasay et al. (1993).

**Table 6.c**  
**PERCENTAGE OF NUMBER OF ESTABLISHMENT**  
**IN MANUFACTURING SECTOR BY SIZE:**  
**INDONESIA, 1974/1975, 1979 AND 1986**

ISIC	Manufacturing industry			Total
	Medium-Large	Small	Home-ind	
31				
1974/75	0.51	5.27	94.22	100.00
1979	0.36	8.46	91.19	100.00
1986	0.80	8.00	91.20	100.00
32				
1974/75	1.40	3.93	94.67	100.00
1979	1.14	5.13	93.74	100.00
1986	1.71	9.02	89.27	100.00
33				
1974/75	0.08	1.01	98.92	100.00
1979	0.14	3.36	96.50	100.00
1986	0.24	2.98	96.78	100.00
34				
1974/75	7.64	22.91	69.45	100.00
1979	22.09	77.91		100.00
1986	5.97	23.29	70.73	100.00
35				
1974/75	11.83	18.19	69.98	100.00
1979	31.54	68.46		100.00
1986	13.58	22.16	64.27	100.00
36				
1974/75	0.55	7.68	91.77	100.00
1979	0.54	15.79	83.67	100.00
1986	1.00	11.26	87.74	100.00
37				
1974/75	100.00	-	-	100.00
1979	100.00	-	-	100.00
1986	100.00	-	-	100.00
38				
1974/75	2.65	15.65	81.70	100.00
1979	2.01	17.20	80.79	100.00
1986	3.13	12.33	84.54	100.00
39				
1974/75	0.29	3.15	94.56	100.00
1979	0.16	2.33	97.51	100.00
1986	0.09	1.27	98.64	100.00
All Mfg.				
1974/75	0.55	3.74	95.71	100.00
1979	0.52	7.35	92.14	100.00
1986	0.84	6.20	92.96	100.00

Source: Pasay et al. (1993)

**Table 6.d**  
**PERCENTAGE OF VALUE ADDED IN MANUFACTURING SECTOR BY SIZE:**  
**INDONESIA, 1974/1975, 1979 AND 1986**

ISIC	Manufacturing Industry			Total
	Medium-Large	Small	Home-ind	
<b>31</b>				
1974/75	78.27	8.85	12.88	100.00
1979	75.76	9.27	14.97	100.00
1986	80.80	8.41	10.80	100.00
<b>32</b>				
1974/75	84.35	7.32	8.33	100.00
1979	81.39	10.84	8.07	100.00
1986	85.21	8.38	6.41	100.00
<b>33</b>				
1974/75	30.22	16.86	52.92	100.00
1979	41.81	19.51	38.68	100.00
1986	73.84	8.56	17.60	100.00
<b>34</b>				
1974/75	84.05	12.43	3.53	100.00
1979	91.36	8.64		100.00
1986	84.58	13.29	2.13	100.00
<b>35</b>				
1974/75	93.31	4.99	1.70	100.00
1979	96.80	3.20		100.00
1986	95.81	3.59	0.60	100.00
<b>36</b>				
1974/75	54.23	14.68	31.09	100.00
1979	71.66	11.55	16.79	100.00
1986	70.85	10.58	18.57	100.00
<b>37</b>				
1974/75	100.00	-	-	100.00
1979	100.00	-	-	100.00
1986	100.00	-	-	100.00
<b>38</b>				
1974/75	89.82	5.77	4.41	100.00
1979	85.73	5.42	8.85	100.00
1986	92.56	3.74	3.70	100.00
<b>39</b>				
1974/75	79.11	5.40	15.49	100.00
1979	13.54	4.89	81.57	100.00
1986	9.35	4.90	85.74	100.00
<b>All Mfg.</b>				
1974/75	77.86	8.66	13.48	100.00
1979	77.62	8.76	13.62	100.00
1986	82.16	6.81	11.02	100.00

Source: Pasay et al. (1993).

In addition, the pace of human resource development and technical know-how improvement in the medium-large firms is expected to be faster than that in small and home industries. The established reward system, job enlargement and enrichment through education and training, and adequate quality of human resources make the above development possible.

Thus, the development of medium-large scale industries with global market orientation is essential to provide jobs for the growing number of labor in the future. However, the role of small and home industries in providing employment is still important. Hence, the strategy for future industrialization should emphasize on strengthening the linkages between medium-large manufacturers and small/home industries. The outputs of small and home industries should become inputs for medium-large industries. Thus, it is important that the output of small and home industries is as required by the medium-large industries. Managerial and skill improvement - to increase productivity - in small and home industries is essential to promote a stronger structure of the national manufacturing sector and to ensure the dynamic comparative and competitive advantage of the Indonesian manufacturers in global market.

### 2.3 The Export Structure

The enormous growth in export is followed by a change in the structure of commodities exported. A country's export performance reflects its ability to produce and compete with other countries in the world market. Basically, those abilities reveal the country's comparative advantage as a function of, for example, its natural resources abundance. By exploring the changing performance of different classes of commodities, the changing structure of a country's comparative advantage can be analyzed.

Classifying those commodities by factor usage, this structural change can be translated into changing structure of demand for inputs. Based on ISIC codes, export commodities can be broadly classified into:

- Unskilled Labor Intensive commodities (ULI)  
SITC=65, 664-666, 81-85, 89 except 896 and 897
- Natural Resources Intensive commodities (NRI)  
SITC=53, 61, 63, 66 except 664,665, and 666
- Physical Capital Intensive commodities (PCI)  
SITC=51, 52, 67, 68, 71, 72, 73, 74, 751
- Science/Technology Intensive commodities (STI)  
SITC=54, 56-59, 752, 759, 76, 77 except 775, 87, 88 except 885
- Human Capital Intensive commodities (HCI)  
SITC=55, 62, 64, 69, 775, 78, 79, 885, 896, 897

Table 7 indicates that significant changes occur in NIE's comparative advantage. Unskilled labor intensive industries recorded a declining Revealed Comparative Advantage (RCA) from 1980 to 1985 as a result of, in part, increased labors' wages. The mounting amount of investment in Human Capital

Intensive (HCI) and Physical Capital Intensive (PCI) industries in those countries also contributed to weakening the ULI comparative advantage.

The process of globalization and international trade liberalization has provided wide-open opportunities for industrial relocation and intra-industry trade between countries to grow more rapidly. This has, indeed, been reflected in the changing pattern of foreign investment in the second-line NIE's, i.e., Malaysia, Thailand and Indonesia. This changing pattern of foreign investment will, in turn, change their local production structures, export structures, and finally, change their requirements of the type of labor demanded. Together with the newly-opened country, Vietnam, these countries are competing with each other to attract foreign investment from developed countries. The Asian NIEs will also be considered as important sources of investment in the future since they have experienced a declining comparative advantage in some commodities due to the increasing price of labor and other inputs. Indonesia's manufacturing export structure has its own characteristics as indicated in Table 8.

**Table 7**  
**REVEALED COMPARATIVE ADVANTAGE (RCA) INDEXES EXPORT:**  
**JAPAN AND THE NIEs, 1970-1985**

Commodities	Year	Countries				
		Japan	Hongkong	Korea	Singapore	Taiwan
ULI	1970	2.61	7.10	5.43	0.94	na
	1976	1.38	6.91	6.06	0.94	na
	1980	1.17	6.48	5.63	0.93	6.14
	1985	0.89	5.74	4.18	0.72	5.58
HCI	1970	1.62	0.45	0.20	0.39	na
	1976	2.25	0.70	0.76	0.61	na
	1980	2.42	1.23	1.19	0.51	0.81
	1985	2.10	0.87	1.84	0.43	0.78
STI	1970	2.46	1.59	0.62	0.63	na
	1976	2.10	2.06	1.39	1.75	na
	1980	2.13	1.59	1.46	1.80	1.81
	1985	2.08	1.45	1.16	1.19	1.44
PCI	1970	1.37	0.13	1.16	0.26	na
	1976	1.68	0.18	0.39	0.45	na
	1980	1.80	1.23	0.74	0.56	0.43
	1985	1.50	0.44	0.53	0.59	0.48

Source: Azis (1990).



**Table 8**  
**STRUCTURE OF MANUFACTURING EXPORT:**  
**INDONESIA, 1986 AND 1989**

Export Commodities (SITC 5-8)	Export (Million US \$)		Average Growth 1986-1989 (%)
	1986	1989	
Total export (SITC 5-8)	2985.39	7696.77	33.7
NRI	1214.03	2797.65	17.1
ULI	920.22	2682.62	49.0
PCI	489.72	1235.04	34.9
HCI	158.95	583.11	65.2
STI	202.47	398.35	54.2

Source: Aziz (1990).

## 2.4 International Migration

The Department of Manpower data shows that the number of Indonesian labors who work outside Indonesia has increased from 19,332 people during PELITA II (1974-1979) to 641,000 people during PELITA V (1989-1994).<sup>9</sup> The record from the International Labor Office (ILO) also indicates that Indonesian labor migration outflow through official channels has increased from 16,186 labor migrants in 1980 to 63,998 labor migrants in 1988. The common destination for most of these migrants is the Middle East and Asia (see Table 9).

**Table 9**  
**PERCENTAGE OF REGIONAL DISTRIBUTION**  
**OF INDONESIA LABOR MIGRANTS:**  
**1980-1988**

Region	Year				
	1980	1982	1984	1986	1988
Middle East	71.06	45.36	75.82	90.85	83.14
Asia	7.58	39.90	18.34	4.46	10.13
America	-	5.13	1.81	2.24	3.32
Europe	21.22	9.61	3.88	2.44	3.27
Others	0.15	-	0.15	0.01	0.14
TOTAL	100.00	100.00	100.00	100.00	100.00

Source: Stahl (1992).

Table 10 shows that intra-Asia movement of Indonesian labors is dominated by movement to South East Asia countries, such as Malaysia, and Singapore. In 1984, 59.54% of Indonesian migrant workers (5,763 people) chose Malaysia as their destination. The percentage decreased significantly between 1984 and 1988.

However, this percentage only accounts for the legal migrant workers. The Indonesian Director General of Immigration estimated that there were 330,000 Indonesian illegal migrants in Malaysia. On the other hand, the Malaysian Deputy Home Minister responded that there were only 116 Indonesia labors working legally in Malaysia.<sup>10</sup> In 1986 and 1988, the largest percentage of migrants chose Sarawak/Sabah and Singapore, respectively, as their destinations.

**Table 10**  
**PERCENTAGE OF INTRA-ASIAN DISTRIBUTION OF INDONESIA**  
**MIGRANT WORKERS BY COUNTRY: 1984-1988**

Country of Employment	1984	1986	1988
Brunei	2.59	0.28	4.5
Hong Kong	4.64	1.33	6.38
India	-	0.13	-
Japan	1.93	0.19	0.54
Malaysia	72.47	91.05	34.54
Philippines	-	0.01	0.02
Singapore	16.25	7.02	54.08
Taiwan	2.12	0.01	0.12
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: Stahl (1992).

Table 11 shows that the largest percentage, i.e., 78.14%, of Indonesian labor migrants in 1988 were absorbed in domestic services, followed by the transportation and agriculture sectors. Indeed, over the decade of the 1980's, domestic services was the most chosen sector and attracted more than half of those labor migrants from Indonesia. This is unfortunate since this sector is the most out of reach sector for protection. Protection becomes more difficult since many migrants who work in the domestic services are illegal migrants.

The condition of labor migrants in the agriculture sector, i.e., plantations, appears to be similar to those working in the domestic service sector. For example, plantations in Johor employed many illegal workers from Indonesia. These migrants work without any social security, medical facilities and other non-payment benefits. Moreover, to avoid legal responsibility for these labors, the plantations management use contractors.<sup>11</sup> The Indonesian workers are preferred since they were willing to be paid lower than Malaysian workers.

**Table 11**  
**PERCENTAGE OF DISTRIBUTION OF INDONESIA MIGRANT**  
**WORKERS BY OCCUPATIONAL GROUP: 1984-1988**  
 (percent)

Occupations	1984	1986	1988
Agriculture	8.28	29.34	3.34
Mining	-	-	0.01
Industry	-	-	0.00
Electricity	0.95	-	0.06
Construction	3.47	0.52	0.34
Trade and Hotel	1.59	0.72	0.12
Transport	27.20	12.54	17.53
Company Services	1.36	0.72	0.48
Domestic Services	57.16	56.16	78.14
Others	-	0.00	-
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: Stahl (1992).

The large percentages of the Indonesian labor in the agriculture and domestic service sectors reflects the low quality of Indonesian migrants workers. The movement of these workers are caused by their desire to earn higher income than they can earn at home. This can also be seen from the large remittances sent back by these workers to their home villages.

Globalization will not only increase the number of Indonesian working abroad, but also the number of foreign workers in Indonesia. According to Indonesian regulations, foreign workers are permitted to work only in an occupation that can not be done by any Indonesian. 'Consultants' or 'advisors' are common occupation for foreign workers. The flow of consultants is expected to increase as the open economic region is implemented especially from Pacific OECD and Asia NIEs countries.

Demographic Institute (1992) indicated that many foreign workers occupy many positions - such as leader and professional worker to technician or operator - which actually can be done by Indonesian. In fact, the inflow of foreign workers increases the competition among workers in the labor market. In the future, when the open area is implemented, the competition among workers will be stronger.

The government regulation no.20/1994 (PP20/1994) permits foreign investor to invest up to 100% in vital sectors, i.e., telecommunication, water supply, and electricity. The regulation increases the opportunities for foreigners to locate their business in Indonesia. In this respect, the improvement in the quality of Indonesian workers becomes significant.

The discussion above indicates that to obtain the advantages of globalization, the improvement in human resources in Indonesia becomes necessary. Priority should be put on research and development. The comparative advantages should shift from unskilled to skilled labors. Similarly, the migration of unskilled workers should be replaced by skilled workers.

### **3. The Indonesian Labor Market**

As mentioned in the previous section, globalization "removes" the boundaries between countries. One of the consequence is the ability of transnational cooperations to locate in "any" country. The existence of the foreign investment brings about many impact on the Indonesian labor market.

Globalization also means that information, locally and internationally, becomes more accessible. Labors have more information about their counterparts in other countries. This also implies that they learn what their rights are. As a consequence, labors will be more able and "dare" to express themselves in an attempt to demand their rights. Riots undertaken by labors, that has been occurring lately, is one form of labors' action.

This section discusses the impact of globalization on the Indonesian labor market. This section begins with analyzing the minimum wage and trend in wage. A discussion on the roles of labor unions as well as women's participation and gender discrimination will also be presented.

#### **3.1 Minimum Wage**

As mentioned in the previous section, home industries absorbed the largest percentage of employment in the manufacturing sector. However, these workers are not paid workers. Similarly, in the agriculture sector, family farms and self employment in Indonesia engage almost all persons in the labor force who are not wage earners. Consequently, the discussion on wage patterns includes only a portion of Indonesian workers. However, this does not necessarily preclude that the discussion on wages and minimum wage in Indonesia is not important.

The wage rates that workers receive are determined by their social and economic characteristics, such as education, skill and expertise as well as productivity. Wage rates reflect the relative abundance (scarcity) of different types of labor. However, if the wage structure is strictly based on the above factors, the less educated/unskilled, who are available in a large number, are expected to earn low wages and the income gap between the uneducated/unskilled and the educated/skilled workers will become larger.

If workers are not able to fulfill their basic physical requirements, their productivity may be low, assuming that a positive correlation between productivity and nutrition exists. Also, if wages are set to be equal to the marginal productivity of workers, this low productivity of workers also implies low wages. Hence, the less educated and unskilled workers are trapped in a "low-wage - low-productivity" situation.

As mentioned before, most of Indonesian labors are uneducated workers. Although some improvement in workers' education has observed, this improvement has been significant. Hence, in the next several years Indonesia's comparative of advantage will still lie in its (unskilled) abundance. In such a case, minimum wage regulation is needed to protect these workers from earning exceptionally low wages to support their lives and those of their household members. A minimum wage provision should be designed to guarantee each worker a reasonable wage for his/her effort and thus, to reduce the incidence of poverty. There are, at least, two aspects that need to be considered in determining the minimum wage.

First, the minimum wage should function as incentive for the workers to perform, i.e., it should increase the workers' productivity. As a result, the minimum wage should, at least, guarantee the minimum physical requirement or even minimum standard of living beyond those required physically for the workers (and their families). Secondly, determination of the minimum wages should not cause any disruption on the part of workers and their performances in the production process.

In Indonesia the minimum wages are set differently across provinces, because the minimum physical requirements differ across provinces. In addition, the minimum wages are set differently according to the sectoral and sub-sectoral level in each province. Although the minimum wage rates are supposed to be set based on the minimum physical requirement (*Kebutuhan Fisik Minimum-KFM*), most of the regional minimum wage rates are set lower than the corresponding KFM for single workers, not to mention KFM for workers with family. Moreover, based on 1992 data, in some provinces wage rates are only 50% of the KFM (see Table 12.a). Until right now, from 1995 data, the wages are still considered low.

To improve the welfare of workers, Indonesian government adjusted the minimum wages several times. Last January, the government announced new minimum wages that should be effective in April 1995. The increase is between 10% to 35%. The previous wage increase was in April 1994 and the rate was between 15% to 46%. However, Table 12.b shows that the minimum wages are still low relative to KFM for single worker.

**Table 12.a**  
**REGIONAL MINIMUM WAGE (UMR) AND MINIMUM PHYSICAL**  
**REQUIREMENT (KFM): INDONESIA, 1992**  
**(RUPIAH)**

Region	UMR	KFM*	UMR/KFM (%)
1. D.I. Aceh	2,600	2,590	100
2. North Sumatera	3,100	2,984	100
3. Riau	2,700	3,658	74
4. West Sumatera	1,900	2,310	82
5. Jambi	2,400	2,563	94
6. Bengkulu	2,000	2,709	54
7. Lampung	2,450	2,815	87
8. South Sumatera	2,300	2,952	78
9. DKI Jakarta	3,000	3,659	82
10. West Java	2,400	2,758	87
11. Central Java	2,000	2,847	70
12. D.I. Yogyakarta	1,250	2,498	50
13. East Java	2,175	2,643	82
14. Bali	2,500	3,568	70
15. East Nusa Tenggara	1,800	2,569	70
16. West Nusa Tenggara	2,100	3,305	63
17. South Kalimantan	2,275	2,896	79
18. Central Kalimantan	2,350	3,196	73
19. West Kalimantan	2,250	3,256	69
20. East Kalimantan	2,400	4,193	57
21. South Sulawesi	1,750	2,968	59
22. Central Sulawesi	1,750	2,728	64
23. Southeast Sulawesi	2,125	2,516	84
24. North Sulawesi	2,000	2,668	75
25. Maluku	2,300	3,580	64
26. Irian Jaya	3,500	4,015	87
27. East Timor	2,000	3,916	51
28. Batam Island	5,550	5,298	105

Note: \* KFM for single worker  
Source: Department of Manpower

Table 12.a shows the comparison between the provincial minimum wage and the corresponding KFM. As can be seen from the table, only two provinces (D.I. Aceh and North Sumatera) and one island of Riau province (Batam Island) enjoy the minimum wages higher than/equal to the KFM. The same table also shows that regions having KFM close to each other do not necessarily have minimum wages close to each other (e.g., D.I. Aceh and D.I. Yogyakarta). This indicates that the KFM is not the only factor determining the minimum wage rates. However, since the KFM measures an individuals basic needs which directly affect his/her productivity, it should play a significant role. In other words, a large difference between the minimum wages and KFM should, indeed, be avoided. Since a large portion of the labor force is remunerated below the KFM, provision must be given at the highest priority that the minimum wage should be increased as close as possible, if not equal, to the KFM.

**Table 12.b**  
**REGIONAL MINIMUM WAGE AND MINIMUM PHYSICAL REQUIREMENT:**  
**INDONESIA, 1994 - 1995**  
**(RUPIAH)**

Region	UMR 94	KFM 94	UMR/KFM	UMR 95	KFM 95	UMR/KFM
1. DI Aceh	3150	2983	106	3500	3252	108
2. North Sumatera	3750	3437	109	3750	3747	100
3. Riau						
- Out of Batam	3100	4214	74	4150	4593	90
- Batam Island	6750	6103	111	6750	6652	101
4. West Sumatera	2500	2661	94	3250	2900	112
5. Jambi	3000	2952	102	3300	3218	103
6. Bengkulu	3000	3121	96	3000	3401	88
7. Lampung	3000	3243	93	3500	3535	99
8. South Sumatera	3000	3400	88	3500	3707	94
9. DKI Jakarta	3800	4215	90	4600	4594	100
10. West Java	3800	3177	120	4600	3463	133
11. Central Java	2700	3280	82	2700	3575	76
12. DI Yogyakarta	2200	2878	76	2850	3136	91
13. East Java	3000	3045	99	3000	3319	90
14. Bali	3300	4110	80	3900	4480	87
15. East Nusa Tenggara	2350	3807	62	2950	4150	71
16. West Nusa Tenggara	2500	2959	84	2500	3226	78
17. South Kalimantan	3000	3336	90	3500	3636	96
18. Central Kalimantan	2750	3682	75	2750	4013	69
19. West Kalimantan	3000	3751	80	3500	4088	86
20. East Kalimantan	3250	4830	67	4200	5265	80
21. South Sulawesi	2300	3419	67	3100	3727	83
22. Central Sulawesi	2300	3142	73	2800	3425	82
23. Southeast Sulawesi	2800	2898	97	3350	3159	106
24. North Sulawesi	2700	3073	88	2700	3350	81
25. Maluku	3100	4124	75	3800	4495	85
26. Irian Jaya	4500	4625	97	4500	5041	89
27. East Timor	3000	4511	67	3800	4917	77

*Notes:* KFM 94,95 - calculated from KFM 1992, adjusted by inflation;  
 US\$1 = Rp 2200 (approximately).

*Source:* Indoline News Letter (1994)  
 Suara Pembaruan (1994)

The annual adjustment of the minimum wages ought to take into account both inflation rate and improvement in labor productivity. Without proper adjustments, inflation may erode the real impact of the minimum wage legislation on the welfare of the workers. Most provinces have not been able to make annual adjustments of their minimum wages. For example, during the period 1985-1989 Riau was the only province that adjusted its regional minimum wage annually. Some provinces had only adjusted their regional minimum wages once while other provinces had never made any adjustment during the same period. Without the annual adjustment, the difference between minimum wage and KFM will become greater.

With the annual adjustment in the minimum wage, the wage received by the low-paid workers, who comprise most of the less educated as well as unskilled workers, is expected to increase gradually. Hence, the wage differentials are expected to stay the same, if not decrease. However, since Pelita I (the first Five-Year Development Plan) the wage differentials in many firms appear to be growing. This implies that the welfare of the uneducated/unskilled has been deteriorating.

There are at least two main factors that may have caused such a deterioration in the welfare of the workers. First, instead of functioning as a barrier for employers not to set wages lower than the minimum wage, the minimum wage rates are used by the employers to legalize their behavior in paying the workers sufficiently around the minimum wage. Evidence indicates that, during the period 1980-1991, 78% of firms in Jakarta, West Java, Central Java, Yogyakarta, East Java and North Sumatera paid their workers only around the minimum wage, in spite of the fact that enforcement of the minimum wage law has been very limited until recently.

Secondly, even though the number of workers earning below the minimum wage are large, they possess only meager bargaining power. Moreover, not only are these workers unable to bargain, but they also are not aware to what they are entitled to. These are most likely related to the low educational attainment and skill attributes of the workers.

The above phenomenon implies that the minimum wage provision does not guarantee an adequate improvement in income distribution. As mentioned above, given the minimum wage, differences in wages across occupational levels can be large. Consequently, the minimum wage regulation has not enhanced the income position of the less educated and unskilled workers, who are supposed to be the major target group of the minimum wages regulation. To avoid eventual social unrest, these matters should be addressed. If the minimum wage provisions are meant to reduce the incidence of poverty and create social peace, not only the determination of minimum wage rates, but also the ratio between wages, i.e. wage structure, should be considered in determining the minimum wage rates.

Table 13 presents a comparison between average wage received by the workers and the KFM. The table shows that the average wage/salary in each province is higher than the KFM for a single worker in the corresponding province. However, when the average wage is compared to the KFM for a family with two children, the opposite results is observed for all provinces. This implies that the average wage is only sufficient to fulfill the basic needs of a single worker but not the members of the workers' families.



**Table 13**  
**COMPARISON BETWEEN AVERAGE WAGE AND MINIMUM PHYSICAL**  
**REQUIREMENT (KFM) BY PROVINCE: INDONESIA, 1990**  
**(RUPIAH)**

Region	Average wage Salary per Month	Average KFM per Month SW <sup>1)</sup>	F2 <sup>2)</sup>
1. D.I. Aceh	110,699	69,446	159,788
2. North Sumatera	92,627	75,004	155,288
3. West Sumatera	99,947	62,681	141,928
4. Riau	145,079	97,357	199,640
5. Jambi	104,089	62,936	139,826
6. South Sumatera	108,193	77,124	179,208
7. Bengkulu	93,312	72,269	148,392
8. Lampung	83,380	75,027	149,180
9. DKI Jakarta	150,625	76,230	161,448
10. West Java	86,872	68,889	154,449
11. Central Java	63,698	70,578	154,236
12. D.I. Yogyakarta	82,703	61,250	140,770
13. East Java	71,981	58,158	140,840
14. Bali	98,109	78,753	172,928
15. West Nusa Tenggara	70,635	63,581	144,480
16. East Nusa Tenggara	103,777	85,164	166,265
17. East Timor	135,711	106,632	224,224
18. West Kalimantan	109,905	84,890	190,099
19. Central Kalimantan	115,382	87,044	194,040
20. South Kalimantan	117,811	76,950	173,138
21. East Kalimantan	147,948	111,092	206,722
22. North Sulawesi	97,275	65,716	140,286
23. Central Sulawesi	91,365	71,770	147,662
24. South Sulawesi	108,231	78,138	163,033
25. Southeast Sulawesi	97,113	71,000	148,948
26. Maluku	113,025	96,800	205,089
27. Irian Jaya	158,977	109,058	211,125

Notes: 1) SW: single worker

2) F2: family with two children

Source: Central Bureau of Statistic (1990).

Note also that the average wage/salary is calculated by taking into account the wages and salaries of all workers, including workers that received high salaries, such as managers. Thus, the average monthly wage/salary as shown in Table 13 may even be higher than the average monthly wage received by the workers for whom the minimum wage regulation are primarily intended.

It is clear from the discussion above that, although the minimum wage legislation is meant to guarantee the welfare of the low-paid workers, it may instead work against the program's goals of reducing poverty. This is especially true if the employers are able to use the minimum wage legislation to justify paying their workers only around the minimum wage rates even in a situation in which labor productivity may have grown faster than the actual wage.

Another (negative) impact of the minimum wage is the reduction in employment. The coverage of the minimum wage in Indonesia is partial. The legislation is confined mainly to the manufacturing sector. Thus, despite the minimum wage legislation, the excess supply of the unskilled/uneducated workers who are unemployed - and thus, are willing to work at any wage rates (even, if it is lower than the minimum wage) - may result in the wage rates in manufacturing sector that are below the institutional minimum wage. Hence, a large number of manufacturing workers may still earn less than the minimum wage. Alternatively, if the covered sector is not allowed to pay wage rates below the minimum wage, it may choose to reduce employment. Thus, there is a trade off between minimum wage and employment creation. Indeed, it appears that some employers use the trade off as a reason to pay wage below the minimum wage set.

As already mentioned, most of foreign investment who locate in Indonesia are industries who use unskilled and semi-skilled labors. In the context of globalization, the number of this type of industries are expected to increase. In this case, the implementation becomes crucial.

### 3.2 Trend in Wage

Although agriculture has been the only sector that experienced steady but low rate of growth of its productivity over the course of development in Indonesia (Pasay 1988 and 1990), recent evidence suggests that wage-earners do not seem to enjoy the benefit of such growth. In all three provinces of West, Central and East Java, Godfrey (1991) found that the agricultural real wages (1983=100), deflated by food prices, had increased significantly during the period 1983-1984, fallen slightly for 1986-1988, and then risen in a slight manner till 1990. However, even after the latter hike the real wages in 1990 were still lower than those in 1985. For similar development, see also Jayasuria and Manning (1990).

Similar findings have also been shown by Godfrey (1991) for construction workers specifically in Jakarta and Yogyakarta; and for production workers in the mining, hotel, land transportation and manufacturing sectors. Here, again, the real wages were more or less stagnant during the period of 1985-1990, increasing before 1985, declining till 1988, and at last meagerly rising to 1990. These are again obvious indications that the workers in these sectors had not been able to take advantage of the most recent "fruits" of the development in Indonesia economy.

In support for such a development in the manufacturing sector for the period 1974-1987, Pasay and Taufik (1990) discovered that, having controlled

for such other factors as real value-added growth and technical progress index, productivity of labor had increased at a rate of 20% higher than every percentage increase in real wage rate. The evidence appears to suggest not only that the manufacturing entrepreneurs had not behaved optimally in allocating resources, but it also proves that the workers had lagged behind in enjoying the benefits of manufacturing growth.

Since a higher growth rate of labor productivity implies that entrepreneurs possess some flexibility, the same evidence also suggests that entrepreneurs have ample opportunity to accommodate their welfare-related policies, that are also economically sound, to improve the quality of human resources. The policies may include improving the production process and the quality of product and services, increasing job safety, maintaining healthy working environments, enhancing competitive advantage, reducing working hours, improving the wages, salaries and other benefits for workers, and expanding employment.

The recent stagnation of real wages may signal another form of interesting distinctive behavior on the part of entrepreneurs, particularly those who are engaged in the modern sector of the economy, in which the minimum wage regulation has been enforced. The minimum wage has been adjusted upward several times, including the most recent increase of around 50%. Casual observations indicate that the entrepreneurs have behaved in accord with the regulation in order to avoid any legal problems of wage determination. Consequently, the nominal wage increases only with what is determined by the regulation without regard to any improvement in the labor productivity. In addition to such entrepreneurial behavior, the determination of the minimum wage is in reality much influenced by changes in the consumers' price index. This, consequently, implies that the welfare of the workers remains the same. Inflation indexation would not benefit the workers unless wage determination takes into consideration future improvement in the productivity of labor.

In summary, although the patterns vary slightly among the sectors, the evidence clearly indicates that the real wages had behaved in a similar fashion to those in agriculture; and more importantly, such a homogeneous behavior of more or less stagnant welfare has been widespread across all sectors of the Indonesian economy, in particular regarding the welfare of blue collar workers. In other words, there has been no sign of general shortage in the supply of labor though the generally accepted unemployment rate has been in a quite low position, even compared to those found in most of developed countries. The phenomenon suggests that development policies in the near future, specifically those on technology, ought to take into account the lack of progress in reducing labor surplus in the Indonesian economy.

### 3.3 Roles of Labor Union

A labor union values not only the wage and fringe benefits and working conditions of its members, but also the employment levels. As a direct consequence of these objectives, the position and wage elasticity of the labor demand curve are the fundamental market constraints that limit the ability of the union to accomplish its objectives on behalf of the union's members.

Unlike labor unions in developed countries which have been set up by workers, the labor union in Indonesia is established by the government. This union (*Serikat Pekerja Seluruh Indonesia-SPSI*), therefore, can not be expected to function as labor unions in developed countries. SPSI is set up mainly to keep the industrial peace. Labor disputes are solved by the three-parties: the employers, SPSI, and the government, i.e., Department of Manpower. However, since SPSI is represented by people from the government (although its members are the workers), it has not played an active role in protecting the less educated and unskilled workers at large.

In the era of globalization, the existence of the labor union that represent the workers (and thus, is set by workers, not by government) in Indonesia becomes important. The employment shares in manufacturing, construction, transportation, and public utility sectors arise. These are sectors that the most chosen by foreign investment. These sectors tend to have low price elasticities of demand and low wage elasticities of demand. Low wage elasticities enable unions to increase their members' wages without substantial employment declines. Also, workers in this sector are subject to many disadvantages, e.g., wages lower than the minimum wage and poor working condition. Hence, an active role of a more labor-oriented union is certainly needed in these sectors.

One way for the union to raise the wages of its members is to lower the employment level. In other words, the union only increases the wages for the members who are able to keep their jobs. The decrease in employment may be viewed as a negative effect of the union. However, the existence of the union can also be positive to both the employees and employers. A union may enhance productivity by increasing worker morale, motivation, and effort. This, however, may only be achieved when the workers have a sense of belonging to the company through internalization of cost and benefit to the economic unit as a whole. In other words, the union may be more effective when it is localized at the firm level, instead of at the regional or national level. The labor union at the firm level is effective because both employers and employees are more directly related to the same production process; and thus, they all possess the same interest in enhancing the performance of the firm.

In an optimal condition, wages paid to the workers should reflect their

productivity, which really represents both the workers' contribution to the firm and the firm's ability to pay. To determine the wage rates that are acceptable to both employers and employees, the firm's performance must be made transparent to the workers. This may be achieved by adopting an open management. If both the employers and workers have the same knowledge about the condition of the firm, then the bargaining process may take place with full understanding from both parties involved. The success of such a managerial approach is largely depend on the extent to which the owners are willing to make relevant information available to the workers.

### **3.4 Women's Participation and Gender Discrimination**

Much progress has undoubtedly been made in improving women's status and opportunities during the course of Indonesia's development since 1967. Evidence for this includes a persistent increase in the participation rates of women in the labor force. The improvement in these rates in the 1970's was not as pronounced as the increase in the 1980's, during the early years of which Indonesia's economy had in particular experienced sluggish movement. The women labor force participation rate was 33.1% in 1971, decreased meagerly to 32.7% in 1980, increased markedly to 37.6% in 1985, and finally increased slowly to 38.8% in 1990. Much of the increase was attributable to those of both most of the child bearing aged women between 15-49 years old (with the exception of those 15-19 years old) as well as older women up to 65 years of age (see Table 14).

The participation of women continued to increase, though in a much slower fashion, for the remaining half of the decade. Again, this was most likely attributable to the increasing difficulty in obtaining jobs for those years. These facts suggest that women are more likely to participate in a situation in which the family is facing the harshness of a slowing-down economy, when additional income is sought to supplement the existing low income of the family. This is true even if they are in a cycle of bearing and caring for children and old enough to enter the retirement period from working.

The above phenomenon indicates that a greater female involvement is considered necessary to sustain the life of their family. It is precisely in such instances that appropriate labor market policies are required to give an impetus for women to perform to their full human resource capacities that are most likely to enhance not only their own welfare, but also the welfare of their family members.

Despite the tendency of higher participation rates of females in the labor force, there has been no significant indication of the withdrawal of females from

the labor force. Even for women of the hypothetical presupposition is rendered to explain the phenomenon, the indication seems to disappear from the surface. In fact, the evidence depicts that such a drop in labor force participation rates did not occur until the women had completed the child-bearing period.

**Table 14**  
**WOMEN LABOR FORCE PARTICIPATION RATE**  
**BY AGE: INDONESIA, 1971-1990**  
(percent)

Age Groups	1971	1980	1985	1990
10-14	13.7	9.5	8.0	8.9
15-19	30.8	31.3	30.4	33.6
20-24	33.4	34.2	41.0	43.5
25-29	35.3	36.1	43.6	45.7
30-34	39.0	39.5	48.1	48.4
35-39	41.4	42.7	51.6	51.4
40-44	44.7	46.0	54.5	53.4
45-49	44.9	46.8	56.6	53.9
50-54	43.0	44.4	54.3	51.6
55-59	40.0	40.8	48.6	48.1
60-64	34.7	32.9	39.1	40.3
65+	22.0	19.0	22.6	23.5
Total	33.1	32.7	37.6	38.8

Source: Central Bureau of Statistics (1973, 1983, 1987 and 1993).

The rise and fall in the participation rates of women in the labor force certainly contain important direct implications for their own welfare. The fact that women participate in the labor force in itself implies that they have acquired a certain amount of human capital stock, which may take such forms as active participatory traits, experience as well as learning by doing, given the other characteristics, such as education and training, health and security. Hence, a rapid increase in the participation rates simply means that their human capital also grows at a speedy rate.

Similarly, a gradual decrease in the women participation rates toward the end of their life cycles accordingly implies that the women may not be able to fully utilize their capacities or even to employ their human capitals at all, particularly in a situation in which labor market is unable to provide opportunities for them to reenter the market. Moreover, any change in the existing requirements to hire for labors may also prohibit them from reentering the labor market merely due to the fact that certain knowledge they have acquired is considered obsolete for the next process of development.

The accumulated human capital describing the productive capacity of women will generate a level of labor productivity, which will in turn determine how much income they could earn at their present employment as well as in

future potential employment. In a situation in which many older women participate less during the period of post-reproductive age, the decision to reenter or not to reenter the market much depend on their anticipation of the earnings and probability of obtaining the secured jobs as well as sex discrimination in the future labor market.

Although the market participants are equipped with exactly identical human capital, the market may be far from perfect. For example, Indonesia's labor market differentiates between female and male labors. Male labors tend to be rewarded better than female labors with the same human capitals. Such discrimination may discourage women from reentering the market, and thus force women to waste their acquired human capitals that they could use to supplement their family members' welfare.

In almost all sectors of the Indonesian economy and the provinces, male workers earn more than their female co-workers. The ratio of daily wages between the two groups even reached as high as 2.9 in 1989 in the Aceh province. That is men earned nearly three times what women earned. The next highest ratios of 2.5 and 2.1 are also found in the same sectors of Riau and South Sulawesi provinces, respectively (calculated from Godfrey 1991).

The non-agricultural sector's ratio of daily wage is lowest in the provinces of Central Kalimantan and Maluku, wherein the ratios below unity are found, i.e., 0.99 and 0.97, respectively (Godfrey 1991). Similar evidence are also discovered in agricultural sectors of the Special Region of Yogyakarta, West Sumatera, Southeast Sulawesi and North Sulawesi. The relative daily wage rate between male and female workers are around unity. These phenomena indicate a more or less equal pay for male and female workers in these sectoral provinces.

In general, the relative wage in the non-agricultural sector is higher than that in the agricultural sector. This implies that the problem of sex discrimination in the labor market is more pronounced in non-agriculture than in the agriculture. It is thus important to see the wage differentials in greater detail. However, the most recent information available on this matter is given in terms of income per month rather than daily wage rate.

The wage differentials between male and female is observed in the sectoral context. In 1990 the lowest income ratios are found among those who work in transportation and construction, rather than in agriculture. The relative income ratios are 0.69 in transportation and 0.97 in construction, compared to 1.95 in agriculture. While an equal pay principle is on average adopted in the construction sector, it is generally to the advantage of women workers in the transportation. Meanwhile, male co-workers enjoy the greatest advantage both in mining and manufacturing. The ratios in the two sectors of the economy are 2.14 and 2.15, respectively.

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The above figures do not control any difference in human resources characteristics of the workers, they do illuminate the acuteness of sex discrimination in the Indonesian economy. While, in the economy as a whole, male workers enjoy most of the benefits over female workers, the reverse is true in some sectors and some provinces, and in particular in the sectors of construction and transportation. The welfare implication of such a sex discrimination is obviously substantial in the light of the supplementary nature of the women's earnings or income to the welfare of their family members. Any policy that would improve women's participation leading to full utilization of their human capital will raise their household income in the future.

#### 4. Concluding Remark

In the era of globalization or in a boundless economic framework, factors of productions become more mobile. Mobility of both capital and labor could be driven by comparative advantages of local and regional markets. In this study, we try to investigate the impacts of globalization on the Indonesia labor market.

We find that we have received a sizeable foreign direct investment (FDI) to be invested, mostly, in low-tech industries in Indonesia due to low quality of our labor. Cheap labor, very big local market, and conducive investment environments are the main reasons why foreigners invested in Indonesia. In addition to capital mobility, we have also experienced labor flows to and from foreign countries. Since we have excess supply of low-skill labors and because of high demand of low skilled labor abroad, we have exported that types of workers to several countries. On the other hand, we also have flows of foreign workers to Indonesia who have come together with the flow of capital. Moreover, we also have witnessed the flow of foreign accountant workers to Indonesia because they are cheaper than their Indonesian counter-parts. We also indicate that even-though Indonesian economy has grown significantly for the past a quarter of century, however, welfare of our labors are still in very bad conditions. Their low welfare can be indicated by their wages which only around *minimum wages* that are far from meeting the *minimum physical requirements* for single worker across provinces. The question is then, who benefit most from Indonesia economic growth.

Indonesia's economy has experienced rapid economic growth and structural changes over the past quarter of a century. The manufacturing sector has taken over the dominant role of the agricultural sector. However, these structural changes have not been accompanied by sectoral changes in employment because manufacturing and agriculture require different skills of labors. Over the period of study (1980 - 1990), there were indications of



employment transformation by type of occupations and employment status. The percentages of blue collar workers and workers in informal sector both declined. Because of population growth, both manpower and labor force grow as well. The rate of unemployment is considered low.

We have shown that the wages of Indonesian labors are still relatively low even after the government of Indonesia raised them several times. On the other hand, we can not push the wage up too high or to keep the wage down too low. In the country-without-border era, when the wage is too low domestically, and when there is a high demand for low-skill workers abroad, the labor will migrate to higher-wage countries. However, when the wage is too high in Indonesia, foreign investors who invest in foot-loose industries may relocate their industries to lower-wage countries. In addition, employer can cut down employment to reduce production cost if the wages are too high. Thus, we need to deal with the *scissor effects* wisely. The question is then, should the minimum wages be raised further until they can, at least, meet the minimum physical requirement for workers and their families? Will the new wages will improve the welfare of the labor? By increasing the wages domestically, will the flow of low skilled labors to foreign countries be decreased? What are the effects of the wage increase to the economy in general?

We also have indicated that eventhough Indonesian economy has grown significantly for the past a quarter of century, welfare of our labors are still in very bad conditions. Increasing minimum wages is not the only way to increase worker's welfare. Improving the productivity of the labor through formal and informal education is an indirect way of raising the welfare of workers. When the productivity increase the wage will also increase as well. Improving the health of workers can also improve workers' productivity and hence can improve their welfare. Considering that the quality of Indonesia's labor is still very low and the fact that factors of production are more mobile in this globalization era, we need to improve the quality of our workers to be more competitive globally. The next question is how to improve their qualities and who will pay the education or training of the workers. Should it be foreign companies, domestic companies, government, or all of them?

## Notes

1. A version of this paper was presented by Nachrowi at the Forum on "Labor in a Changing World Economy" Fourth ILO/ILIS Meeting *Regionalization and Labor Market Interdependence in East and South-East Asia*, Bangkok, 23-26 January 1995.

2. Blue collar workers consist of (1) agricultural, animal husbandry and forestry workers, fishermen, and hunters, (2) production and related workers, transport equipment operators and labors.

3. Workers who work in informal sector consist of (1) self employed, (2) self employed assisted by family members/temporary employee, and (3) family worker.

4. See Anwar (1992), p.366.

