

Country Report

THE INDONESIAN LABOR MARKET

by

Maruli A. Hasoloan

Presented at

The OECD Forum on the restated OECD Jobs Strategy

I. Introduction

During the past two decades, Indonesia's labor markets have been characterized by a considerable degree of turbulence and structural change. These developments were created by important shifts in the industrial and occupational composition of employment, technological change in the work places, corporate restructuring, and the continued globalization of economic activity. Overall, labor market conditions in the nation have improved markedly over the past ten years, although the problems of manpower are still alive, disturbing the progress of development.

This paper is designed to provide an overview of key labor market development in Indonesia in the past few years and to briefly assess the development strategies, particularly in conjunction with the development of training system and employment creation. The paper will conclude with brief suggestions and discussion of human resources policies and programs.

II. Labor Market Condition

In the last two decades, Indonesia has experienced a rapid economic and social transformation that has affected the structure of the labor force and supply behavior as well as labor demand. Particularly in the last 8 years, 1989 to 1996, the country's economy has been one of the fastest growing economies in Asia with an average real growth of more than six percent annually. This performance

has delivered the country from the position of one of the low-income countries to being one of the middle-income countries. However, this fantastic performance was interrupted by an economic and banking crisis that occurred on the onset 1997.

Based on previous data, the country's economic development showed stable conditions. After experiencing recession and stagnation that caused the slowdown of economy in 1998 with the growth rate of economy being negative 13.1%, it then improved with the growth rate of 0.8% in 1999, and further improved with the growth rate of 5.6% in 2005, which was slightly better than 5.13% in the year 2004. It is expected that economic growth will rise again to around 5.7 percent in 2006. With such an economic growth, employment creation, particularly in the formal sector, is limited and not considerable enough to accommodate the increasing amount of labor supply. Those who cannot be employed in the formal sector have to continue either being unemployed or employed in the informal sector that acts as the last resort. Meanwhile, the inflation rate is expected to reach about 7% in 2006, lower than the inflation rate of 17.11% in 2005.

2.1 Supply side of labor market

Labor market, which is a market that distributes workers to jobs and coordinates employment decision, in general, can be a market that brings together all the buyers (employers) and sellers (workers). The labor market problems that Indonesia have to face right now are noted as follows: limited employment opportunity, low quality of labor force, relatively high unemployment rate, globalization effect on employment, and lack of awareness regarding the application of industrial relations.

According to the 2000 population census published by Central Bureau of Statistics (CBS), the estimated population of Indonesia was about 203 million. The average annual population growth rate was 1.97%, where the population increased by 31.7 million between 1980 and 1990. Meanwhile, the population

increased by 24.8 million between 1990 and 2000 with an annual population growth rate of 1.35%. One main factor that caused the decline of population is because of the decrease of mortality and fertility rate. The number of population is predicted about 224 million in the year 2006.

Resembling to the increase of population, the labor force also increased from 71.7 million in 1990 to 95.7 million in 2000, and it will reach 106.3 million in the year 2006. This was not only due to population growth, but also to an increase in women's labor force participation rate. Male labor force increased from 58.8 million in 2000 to 67.67 million in 2006, at the same time female labor force increased from 36.9 million to 38.61 million.

During 2006, the annual average civilian labor force participation rate was 66.7%, implying that two-thirds of the nation's working-age population was either working or actively looking for work.

There are considerable differences in the extent to which men and women participate in the labor force at different stages of their lives. In general, the labor force participation rate of males is higher than those of females for every age group. According to the Indonesia's National Labor Force Survey (NLFS), the labor force participation rate for men between 25 and 54 years of age in Indonesia is relatively high, at about 98% in 2006. However, the labor force participation rate for young men in the 15-24 age group is relatively low, at about 61.56%. This may be attributable to increases in school enrollment for this age group. Interestingly, for men in the 55-59 age group, the labor force participation rate is relatively high at about 91%. Meanwhile, the participation rate for men in the age group 60 and over is 66.95%. This indicates that men may have been to continue working beyond the average retirement age because family incomes may have been relatively low, which may be reflected in the fact that the majority of men in this age group are engaged in self-employment.

The labor force participation rates for women between 25 and 54 years of age in Indonesia are relatively low compared to men. Their participation rate is 53.28% in 1997. The labor force participation rate for young women in the 15-24 age group is about 43.84%, while the labor force participation rate for women in

the 55-59 age group is about 53.22%. In addition, the participation rate for women in the age group 60 and over is about 32.49% (Table 1).

Contrary to the increase in the labor force, the number of employees, who comprised the largest proportion of the employed, decreased from 30.5 million in 1997 to 29.67 million in 2000, and then further decreased into 25.97 million in 2006. With regards to type of employment, male and female workers exhibit very different patterns of behavior. Males are most likely to work as employees, accounting for 28.2% of employed males, while females are most likely to work as unpaid family workers, accounting for 36.9% of employed females in 2006. Differences in employment behavior also exist between urban and rural workers. Of all the employees, 37.98% reside in urban areas whereas 62.02% live in rural areas (Table 2).

According to the report "Laborers/Employees Situation in Indonesia 2002" published by the Central Bureau of Statistics of Indonesia, the average monthly income for female workers is Rp. 475,192 (US\$ 52) and for male workers is Rp. 654.371 (US\$ 72). The average weekly hours worked by females are 41 and that for males is 44. Females work on average 93.18% of males' hours of work, while male workers earn almost 1.38 times more than female workers. Besides gender wage differentials, there are also substantial regional disparities in wages.

The unemployment rate represents the fraction of the civilian labor force that is jobless, actively seeking work, and available for work is slightly high. The number of unemployed was 11.10 million, yielding an unemployment rate of 10.45% which consisted of 5.8 million male and 5.3 million female in the year 2006.

During 2006, the annual average employment/population ratio for the nation was 42.15 %, indicating that 2 of every 5 persons in the population were employed.

Another issue of manpower is the quality of labor. With respect to quality of labor, although there have been major improvements in the education of labor force, the overall level of educational attainment is relatively low, where almost 54 percent of labor force has either an elementary school certificate or lower. The

fraction of labor force with secondary education is 41 percent, while that with diplomas and or university degrees is only 5 percent. Such an underdevelopment problem may lead to the problem of labor underutilization, such as unemployment and underemployment.

2.2. Demand side of labor market

The dramatic structural change in the labor force reflects the character of economic growth and the change of industrial structural in economics. Labor force growth was accompanied by significant changes by the industrial (sectoral) structure of the economically active population. This is an indication of the structural transformation that accompanied rapid industrialization.

In the beginning of the first five year development plan, a larger percentage of the total labor force was already in agricultural activities than in nonagricultural activities. As the most developed countries are characterized by rapid economic growth, the labor force has tended to move gradually from agriculture sector into the manufacturing and services sector. The labor force participation in non-agricultural sectors, particularly in manufacturing and services sector, has increased consistently. On the other hand, during the last 25 years, agricultural activities, now of less importance, experienced small growth. The result of these trends was a change in the labor force composition, at which point the industrial sectors will gradually become the primary economic sector in term of labor force absorption.

Consistent with growth patterns in developing and developed countries, agriculture has expanded less rapidly than the industrial sector although both are a contributor to GDP and are sources of employment. The share of employment in agricultural sector declined approximately from 50.0% in 1993 to 45.1% in 2000, and then further decreased to 44.47% in 2006. At the same time, the share of employment in the manufacturing sector increased from 11.10% in 1993 to 12.98% in 2000, and further slightly decreased to 12.16 in 2006. It is noted that, although growth in the modern industrial sector is important for increasing GDP,

however, it can provide only small share of total employment compared to agricultural sector (Table 3).

III. Labor Policies

The government is not only faced with the task of increasing economic growth, but also the additional challenge of tackling the problems of unemployment, underemployment as well as poverty. It is recognized that robust solutions to the problems of unemployment and poverty can be found in the context of sustained economic growth. The major programs are the expansion and development of employment creation as well as enhancement of quality and productivity of workers.

Overall, in order to tackle the problem and issues mentioned above, the government has launched the Medium Term of Development Plan (RPJM 2005-2009), which focuses on attaining an annual average growth rate of 6.0%, and on job creation, environmental sustainability, and achievement of the Millennium Development Goals (MDGs). This plan includes:

1. Generating flexible labor market through restoring labor regulation.
2. Encouraging employment creation through increasing investment growth,
3. Revitalizing and renewing employment creation programs,
4. Increasing labor quality,
5. Restoring various policy which is in conjunction with externally and internally migrations,
6. Developing the supporting policy program of labor markets.

With respect to medium plan, the development of manpower and labor protection is principally aimed to:

1. Employ and utilize manpower optimally and humanly,
2. Accomplish an even distribution of employment creation and provide labor force which fulfills the needs of national and regional development,
3. Provide labor protection that leads to welfare,

4. Increase the welfare of labor and their family.

As a follow up of the Medium Term Development Plan, the Government recently launched the Presidential Instruction No. 3 of 2006 regarding the policy package for Improvement of the Investment Climate. Investment activity can only be improved and developed where the business climate is conducive. Therefore, the Government will put a lot of effort to create a concrete policy and program that can foster the investment in Indonesia, which is at the end it will create employment and welfare for society

Based on the goal of the development of manpower, the labor programs undertaken are as follows:

First, employment creation policy

This policy is aimed to overcome the problem of labor surplus, unemployment, and underemployment through macro, regional, sector, and special policies. All stake holders, including government and public sectors, should work together in efforts to tackle the problem of limited employment. These efforts include:

1. Encouraging the development of the economy that is aimed not only to concentrate on growth alone but also to create employment.
2. Encouraging employment creation through trade, industry, fiscal and monetary policies, as well as creating a conducive business climate.
3. Developing national, industrial, and regional Manpower Planning to provide targeted employment creation as a guiding principle in the national development.
4. Developing a system and model of employment creation through productive labor-intensive or self-employed programs, small and medium enterprises, and cooperatives. Moreover, development of informal sectors has also become an alternative in reducing the number of unemployed.

5. Developing an employment and placement system that incorporates with the dynamic change of national and international political economic, regional autonomy system, openness, information technology.
6. Developing manpower distribution policies designed to tackle the problem of inequitable population distribution and the low level of manpower utilization. These programs include strengthening both public and private employment services and labor market information as well as developing an employment service online.

Secondly, development of labor quality and productivity

This policy is carried out to develop work competency in order to increase capability and productivity. In order to do that, the government and the Indonesian Chamber of Commerce has set up the National Board for Professional Certification that aims to develop training standardization, accreditation, certification, and licensing. At the same time, the government is also developing a national training system. The efforts in enhancing labor quality include:

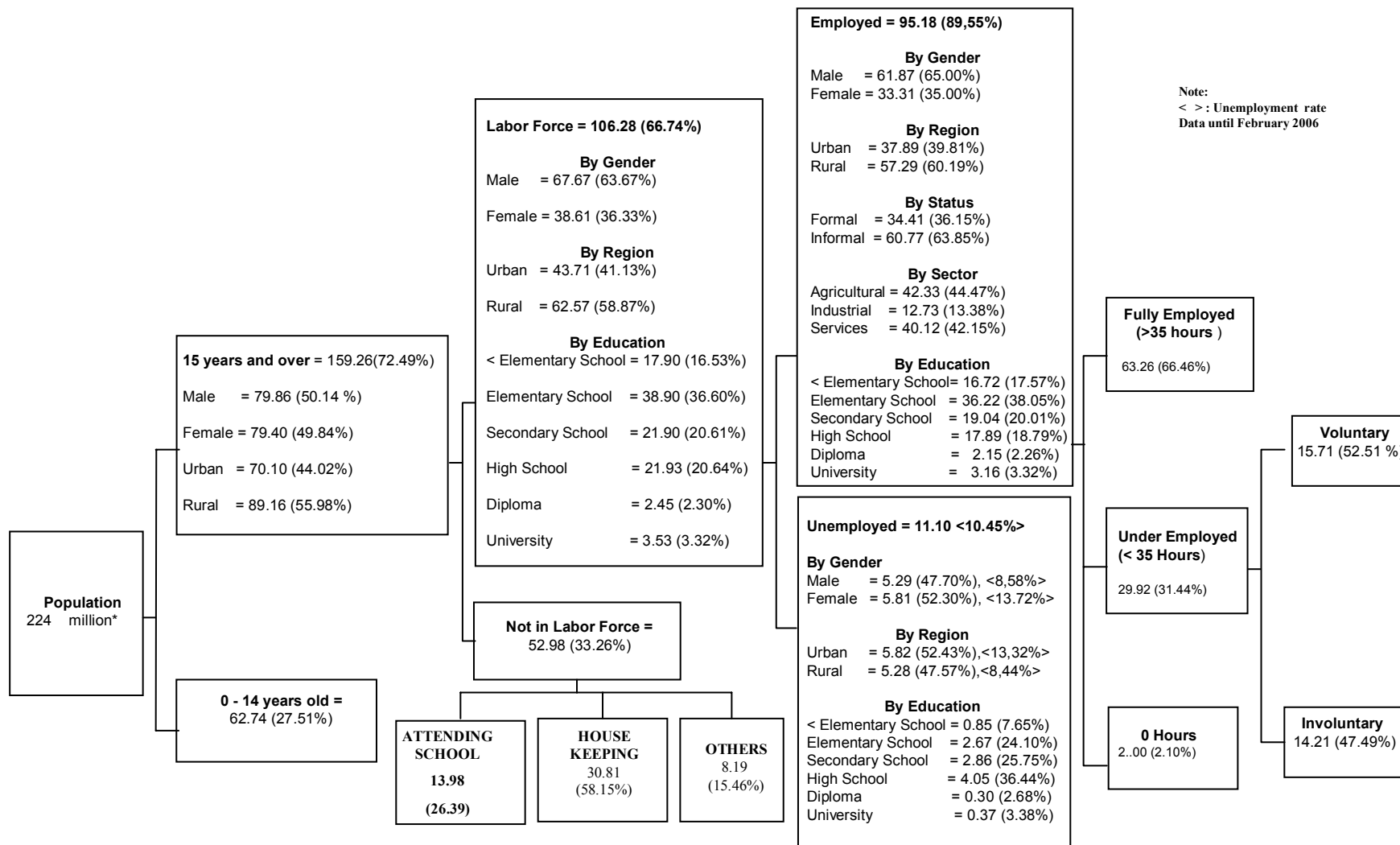
1. Developing “Link and Match” between the world of work and education world.
2. Developing “Three in One Program” that consist of Training, Certification, and Placement activities.
3. Developing training institutions that offer a vast variety of training and a solid program of training to increase the work competency of labor so that the graduates from training institution should be placed commonly in the establishment.
4. Increasing the awareness of productivity and work ethics of labor.

IV. Conclusion

Labor market, which describes the supply of labor and demand for labor, is affected by the economic growth and national development. The manpower problems that Indonesia has to face right now that can be tackled through the human resources are mainly noted as follow: limited employment opportunity, low quality of labor force, as well as high unemployment rate.

In reference to labor issues and employment condition, the strategies and programs are aimed to contribute to the process of economic development. The major programs are the expansion and development of employment creation, as well as enhancement of quality and productivity of labor.

Chart 1 : Human Resources Profile Of Indonesian, 2006



**Table 1 : Labour Force, Employee and Labour Force Participation Rate
(2004, 2005, 2006)**

Year	2000			2005			2006		
LF, E, LFPR									
Labour Force									
Male	58,779,722			66,221,884			67,672,558		
Female	36,871,239			39,580,488			38,609,237		
Total	95,650,961			105,802,372			106,281,795		
Employees									
Male	19,936,358			17,551,791			17,455,666		
Female	9,734,008			8,189,298			8,517,279		
Total	29,670,366			25,741,089			25,972,945		
LFPR	Male (%)	Female (%)	Total (%)	Male (%)	Female (%)	Total (%)	Male (%)	Female (%)	Total (%)
LFPR 15 -24	60.82	43.08	51.80	64.10	44.41	54.34	61.56	43.84	52.87
LFPR 25 -54	97.64	58.14	77.80	98.36	55.55	76.74	98.05	53.28	75.57
LFPR 55 -59	88.55	56.09	72.30	91.23	57.39	74.70	91.00	53.22	73.21
LFPR 60 +	66.81	36.96	51.44	68.46	36.60	52.20	66.95	32.49	49.32
TOTAL	84.17	51.69	67.75	85.55	50.65	68.02	84.74	48.63	66.74

TABLE 2 : POPULATION 15 YEARS OF AGE AND OVER WHO WORK DURING PREVIOUS WEEK
BY MAIN INDUSTRY AND REGION, 2005-2006 (IN THOUSANDS)

Main Industry	Male + Female					
	Pebruari 2005			Pebruari 2006		
	Urban	Rural	U + R	Urban	Rural	U + R
1. Agriculture, Forestry, Hunting and Fishery	4852.1	36962.1	41814.2	4688.4	37634.8	42323.2
	12.87	64.58	44.04	12.37	65.69	44.47
2. Mining and Quarrying	314.9	493.9	808.8	296.5	650.6	947.1
	0.84	0.86	0.85	0.78	1.14	1.00
3. Manufacturing Industry	6977.2	4675.2	11652.4	6991.4	4586.8	11578.2
	18.50	8.17	12.27	18.45	8.01	12.16
4. Electricity, Gas and Water	145.0	41.8	186.8	152.4	54.7	207.1
	0.38	0.07	0.20	0.40	0.10	0.22
5. Contruction	2383.1	2034.0	4417.1	2422.7	1951.3	4374.0
	6.32	3.55	4.65	6.39	3.41	4.60
6. Wholesale Trade, Retail Trade, Restaurants and Hotels	11721.6	7175.3	18896.9	11830.9	6724.1	18555.0
	31.08	12.54	19.90	31.23	11.74	19.50
7. Transportation, Storage and Communication	3293.3	2259.2	5552.5	3149.6	2317.8	5467.4
	8.73	3.95	5.85	8.31	4.05	5.74
8. Financing, Insurance, Real Estate and Business Services.	844.4	198.4	1042.8	994.7	158.6	1153.3
	2.24	0.35	1.10	2.63	0.28	1.21
9. Community, Social and Personal Services	7179.5	3397.1	10576.6	7360.1	3211.9	10572.0
	19.04	5.94	11.14	19.43	5.61	11.11
10. Others						
Total	37711.1	57237.0	94948.1	37886.7	57290.6	95177.3
	100.0	100.0	100.0	100.0	100.0	100.0

Source : Sakemas 2003-2005, BPS

Note : *) Sector others (mining and quarrying, and electricity, gas and water)

Table 3 : Employment by Sector
(2004, 2005, 2006)

N o.	Sector	2004		2005		2006	
		Employment	(%)	Employment	(%)	Employment	(%)
1	Agriculture	40,676,713	45	41,814,197	44	42,323,190	44
2	Manufacturing Industry	11,641,756	13	11,652,406	12	11,578,141	12
3	Construction	3,497,232	4	4,417,087	5	4,373,950	5
4	Trade	18,489,005	21	18,896,902	20	18,555,057	19
5	Transportation	4,553,855	5	5,552,525	6	5,467,308	6
6	Financial	882,600	1	1,042,786	1	1,153,292	1
7	Social & Personal Services	9,574,009	11	10,576,572	11	10,571,965	11
8	Others (mining & quarrying, Electricity, Gas and Water	522,560	1	995,643	1	1,154,199	1
	T o t a l	89,837,730	100	94,948,118	100	95,177,102	100