

## APPROACHING THE TURNING POINT?: LABOR MARKET CHANGE UNDER INDONESIA'S NEW ORDER

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### I. INTRODUCTION

**I**N August 1991 a violent labor dispute broke out over wages and working conditions in the multiplant enterprise Gadjah Tunggal in Tangerang, west of Jakarta. The strike was unprecedented in the new order period in terms of the number of workers involved and its media coverage. By all reports, a significant proportion of the 12,000 strong work force of Gadjah Tunggal were actively involved, the dispute lasted over a month, resulted in considerable damage to property and a strong military involvement in its resolution.

This strike, like many other well publicized labor disputes which occurred in 1991-92, might be seen as symptomatic of the emergence of a new era for labor in Indonesia. It could be argued that Indonesia had entered a new phase of capitalist development in which labor was an increasing force to be reckoned with, both politically and on the factory floor. Parallels could be drawn with neighboring countries and in particular the Republic of Korea, where several years earlier sustained economic growth and labor shortages in the context of a repressive military regime had spilt over into substantial labor unrest. In the Korean case, labor action in 1987-88 had forced the military government to make major concessions to organized labor in terms of labor freedoms, social security, and industrial relations processes [6] [46].

In this paper, it is argued that although the industrial relations climate has changed in Indonesia since the late 1980s, there has not been any change in fundamental labor market circumstances which might sustain a greater role for organized labor. Economic conditions are much less favorable to a change in the relative bargaining power of labor than in Malaysia and even Thailand, much less than in emerging industrialized countries such as Korea and Taiwan. By most criteria, it has still not reached the "turning point" in economic development which might be viewed as marking an important transition from a labor surplus to a labor scarce economy.

Why has Indonesia been slower in achieving a transition in labor markets than several of these other countries? Part of the difference in experience with these

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other countries can be attributed to different initial starting conditions in the early postwar era and the demise of organized labor as a political force in the early new order period. But it shall also be argued that Indonesia's rather unique mix of abundant natural resources and high levels of rural population pressure and poverty have brought about different policy responses and outcomes. Unlike the NIEs, which had no choice but to base their drive for economic development on the cost advantages of labor-intensive industries, economic development in Indonesia has been strongly supported by the rents from natural resource exploitation.

Development programs, especially during the oil boom period, have contributed to different outcomes for labor and have proved a mixed blessing for Indonesian workers. While it can be argued that investment of some of the rents on infrastructure, agriculture, and human resources has been beneficial to unskilled labor, investment in relatively capital-intensive industries has not. These investments tended to favor the creation of a small elite group of highly skilled workers and widening differentials between wage workers. Manufacturing labor absorption has been relatively slow until very recently, although indirect evidence suggests that manufacturing exports have made an important contribution to income growth among the poor in the past decade.

The paper is divided into four major sections. In the second, I deal with the notion of the turning point and its significance for unskilled labor, income distribution, and general economic development. The third section examines the structure of Indonesian labor markets around 1990, the fourth looks at the changing structure of labor markets, and the fifth at labor standards, unions, and the welfare of wage workers.

One point of clarification is warranted. The paper focuses on the fortunes of relatively unskilled labor both absolutely and relative to skilled workers. While developments for more skilled and professional workers are also of relevance—especially to discussions of emerging class structure and the growth of the “middle class”—the paper is primarily concerned with unskilled labor. The main question which is posed is the extent to which labor market developments among the unskilled, from the bottom rather than from the middle or top, have or are likely to become a force for economic and political change.

Unlike many approaches to labor issues which tend to focus either on rural workers in the context of agricultural development and class formation or urban workers in the context of industrialization, I am interested in both rural and urban workers as a group which is linked within a general labor market for unskilled labor. The multiplicity of jobs held by rural workers in particular and high levels of rural-urban mobility justify such an approach. More importantly, an assessment of the prospects for economic and political change depends not only on the conditions experienced by industrial workers but also in the villages from where they come and in services and related industries where they might seek alternative employment.

## II. LABOR MARKET TRANSITIONS: THEORY AND PRACTICE

In this paper, I will adopt the well-known notions of labor surplus and labor scarce economies and the "turning point" in labor markets as a framework for analyzing labor developments in Indonesia. These constructs are helpful for an understanding of the relative bargaining power of labor, patterns of income distribution, and potential changes in industry structure and technology associated with economic development.<sup>1</sup> Both are useful for an understanding of labor market changes and their broader implications in Indonesia over the past twenty-five years. The basic idea is that in the early stages of development real wages of unskilled labor are held down by an abundant supply of labor in agriculture.<sup>2</sup> They begin to rise only after this surplus is absorbed in the modern (industrial) sector.

During the surplus labor phase, cheap labor is the main basis for capital accumulation, the profits share rises, and income disparities increase between capitalists and skilled labor on the one hand unskilled labor on the other. Only when labor becomes scarce in agriculture and the modern sector begins to absorb a significant share of the work force do real wages begin to rise. Market forces then dictate a shift toward more capital- and skill-intensive industries, skill differentials in wages begin to narrow, and the shares of profits fall and wages rise relative to GDP.

Several of the main ideas underpinning Lewis's theory were quite justifiably criticized at the time. But the central notion of constant or even declining real wages in the early stages of economic development, followed by a fairly clearly defined turning point (in countries which have experienced sustained high rates of economic growth), has been empirically vindicated by the experience of East Asian countries in particular.<sup>3</sup>

The basic model needs to be modified in two important respects, however. First, rapid population growth rather than surplus (underemployed) labor in agriculture has been the main labor market factor contributing to excess labor supply and stagnant wages in many countries.<sup>4</sup> It is worth bearing in mind that labor force growth rates in developing countries have been 3–4 times more rapid since the 1950s than was the case in the western industrialized countries in the

<sup>1</sup> The idea of a clearly defined turning point had its origins in early postwar theories of economic development and especially in the work of Lewis [33] and his theory of the labor surplus economy. Lewis wrote of classical and neoclassical phases of economic development before and after the turning point. Fei and Ranis developed a more rigorous model of labor dynamics in a labor surplus economy and preconditions for achievement of a turning point [13].

<sup>2</sup> Throughout, the term real wages refers to money wages adjusted for changes in the cost of living.

<sup>3</sup> See especially [16] [25].

<sup>4</sup> The major criticisms of the Lewis model were directed at his notion of disguised unemployment in agriculture and in particular at the idea that the marginal productivity of labor might be zero.

latter half of the nineteenth century and 2–3 times as rapid as in Japan during the same period.<sup>5</sup> Indonesian labor supply growth has been similar to other developing countries since the 1960s.

Second, the basic dichotomy in intersectoral analysis of the labor surplus economy is not between agriculture and industry as many earlier authors have emphasized. Rather it is between high- and low-productivity jobs or more loosely defined “modern” and “traditional” sectors.<sup>6</sup> The former represent greater inputs of capital, skill, and management in the deployment of unskilled labor, whereas the latter are frequently created partly in response to labor supply pressures. Self-employment in the “fungible” informal sector is one example.

Thus, movements of labor out of agriculture to industry or services may not represent a positive sign. This would be true if people are leaving higher productivity jobs in agriculture or, alternatively, they are being pushed out of agricultural employment into low-paid informal activities. As will be seen below, the significance of intersectoral labor shifts in Indonesia has been one important issue of controversy, especially in the interpretation of national labor force trends.

#### A. *The East Asian Experience*

What has been the experience of East Asian countries (excluding China) in the transition from a labor surplus economy?<sup>7</sup> In the case of Japan, it is now generally accepted that the turning point did not occur until after World War II, more than half a century after Japan began to industrialize [41] [43]. In contrast, the transition occurred much more rapidly in the NIEs. In all these countries real wages began to grow rapidly within the space of approximately one decade after these countries instituted major programs of economic reform and began their outward-oriented programs of industrialization.<sup>8</sup> In Malaysia and Thailand, sustained real wage growth appears to have occurred from around the mid-1980s, also approximately a decade—slightly less in Malaysia and slightly more in Thailand—after these countries began a major push into manufacturing exports (Table I).<sup>9</sup>

A range of factors seem to have played an important role in bringing about a much more rapid transition in the East Asian economies compared with Japan.

<sup>5</sup> The figure for the industrialized countries is around 0.5 per cent per annum and Japan around 1 per cent per annum compared with 2–3 per cent per annum in most LDCs. Labor force growth rates in Indonesia have been close to 3 per cent since the 1960s.

<sup>6</sup> Lewis himself was not guilty of this mistake—he first conceived of the basic idea of the labor surplus economy while walking in the streets of Bangkok.

<sup>7</sup> Since both Hong Kong and Singapore hardly have any agricultural work force to draw on, only fleeting reference is made to the experience of these countries.

<sup>8</sup> Real wage rates had begun to rise in Taiwan and Republic of Korea by the early 1970s: in Taiwan the turning point is estimated to have occurred around 1970 and in Korea around 1975 [32] [3].

<sup>9</sup> Several authors have suggested that real wages had begun to rise much earlier (around the mid-1970s) both in the agricultural and nonagricultural sectors in Malaysia—a development which is more consistent with its much higher level of economic achievement on a range of criteria [4]. However real wages during this period in Malaysia are a matter of controversy.

TABLE I  
GROWTH IN REAL EARNINGS PER EMPLOYEE  
IN MANUFACTURING IN SELECTED  
EAST ASIAN COUNTRIES

	(% p.a.)	
	1970-80	1980-88
Taiwan	6.2	6.3
Korea	8.4	5.3
Malaysia	1.8	3.6
Thailand	1.9	6.5
Philippines	-4.1	0.6

Sources: [52, 1989/90 and 1991/92]. For Taiwan, from [16, Table 4.2]. For the Philippines (1980-88), from [26].

The dual labor market, relative insulation of large-scale firms with permanent employment systems from pressures of surplus labor in traditional sectors, has not been as strong in these countries as it was in Japan. Several other factors delayed the turning point in Japan: relatively capital-intensive investments in heavy industry early in the industrialization process, a much larger economy, slower rates of economic growth, and a less favorable international trading environment for labor-intensive export growth in the first half of this century.

Available wage data need to be interpreted carefully, however, especially bearing in mind that they deal primarily with average earnings rather than wage rates. At least in the early stages of real wage growth, wages increased not because the lowest paid workers were being paid more for the same job. Rather, many workers changed jobs and sectors, worked more intensively than previously, and employees in new sectors were more skilled and educated. The classic example is Korea which for some time has had the dubious honor of recording the longest average working hours in manufacturing in the world: transfer of relatively underemployed labor in agriculture to manufacturing alone appears to account for a substantial share of record rates of real wage growth in the early stages of industrialization in Korea [10] [2].

Aside from real wage trends, two other important indicators which have been used to help identify the timing of the turning point have been trends in the absolute number of persons engaged in agriculture and skill differentials. Although in Japan the size of the agricultural work force had already begun to stabilize in the 1930s, it began to decline steeply in the 1950s, as did skill differentials in wages. Similarly the agricultural labor force began to decline absolutely in Korea from the early 1980s and in Taiwan somewhat earlier, and wage differentials by skill and industry appear to have begun to narrow in Korea since the mid-1970s [3] [2].

The experience of Malaysia and Thailand with regard to agricultural employment has been somewhat different. Although the relative share of employment in agriculture has declined, absolute levels of employment have continued to increase

in this sector despite reported shortages of labor and real wage growth. A more extensive land frontier, albeit now much more limited than in the immediate postwar period, more favorable climatic conditions, and richer agricultural resources per capita help explain this rather different pattern of development compared with Japan, Korea, or Taiwan.<sup>10</sup>

The patterns of development associated with these labor market transitions are well known. In the literature, the move toward export-oriented industrialization and rapid employment growth in manufacturing has been identified as the major stimulus. Less emphasized is the growth of agricultural output, employment, and incomes in the early stages of growth, partly supported by macroeconomic policies which supported agriculture (Oshima [44]). Oshima also emphasizes investment in rural infrastructure and human capital as key factors behind the success of the NIEs.

#### B. *Labor Market Processes and Labor Repression*

The labor surplus model and notion of a turning point assume that wage and employment trends are determined entirely through the market. East Asia has been held up by some observers as a successful example of market-determined processes in labor allocation: outcomes have been favorable to labor precisely because governments have played a minimum role in wage fixing (or enforcement) and trade unions have been weak or tightly controlled by governments [15] [16]. In contrast, others have contended that government repressive actions have limited the gains made by labor through adopting policies which maximize employment growth and tightly control worker welfare and wages [12].

From the standpoint of welfare gains, the former view is more in accordance with the facts. By almost any indicator of labor welfare: wage and income growth, poverty decline, and social indicators such as health and education, workers and their families have done remarkably well in general in the rapidly growing East Asian countries, and better than anywhere else in the developing world [51, 1990] [40].<sup>11</sup>

However, in contrast to the view of some neoclassical economists (for example, [15] [14]), East Asian governments have by no means been noninterventionist in the field of labor, although some have intervened more than others (Korea and Singapore versus Taiwan and Hong Kong). Control and repression of trade union activities and activists has been common throughout the region.<sup>12</sup> Some countries,

<sup>10</sup> Some country-specific factors have also been important. In the case of Malaysia, the availability of a relatively cheap supply of Indonesian immigrant workers has undoubtedly influenced both wage and employment adjustment. In Thailand the highly seasonal patterns of labor demand in the north and northeast in particular may be an important factor affecting the reported absolute size of the agricultural work force.

<sup>11</sup> Among the countries mentioned above, Thailand is the exception. While real wages have begun to rise quite rapidly, the gains to wage labor seem to have been spread quite unevenly and the welfare of wage workers (housing, health standards, etc.) would appear to be far below that of workers in Malaysia and the NIEs. Of course, in the Philippines real wages have declined since the early 1970s.

<sup>12</sup> By far the most extreme cases have been in Korea where the military-backed security organization frequently intervened in labor affairs [42].

especially Singapore and to a lesser extent Korea, also attempted to control wage growth to ensure a steady inflow of investment in labor-intensive industries (Deyo [12]). The latter policies have been far less successful than Deyo and others suggest however: the Singapore policy of encouraging immigrant labor came to a halt in the late 1970s; the indirect guidelines for minimum wage growth appear to have had little impact on wage growth in Korea, especially in the 1980s.

How much does the story of labor gains through rapid employment growth, which facilitated a transition beyond the turning point, need to be qualified by the emergence of a "hyperproletariat" identified by Heyzer [19], Deyo [12], and many others. This term refers to low wage, predominantly young, and unmarried female labor which has dominated the labor-intensive export-oriented industries in most countries. The argument is that new investors, especially multinationals, chose young female labor because they were willing to accept lower wages, manipulated easily, and replaced by a surplus of workers coming from the countryside.

In one sense the claims of the labor exploitation theorists are correct. Unmarried female labor appear to have been more willing to work for low wages, and were less likely to organize and protest against onerous labor standards than males. In many cases they worked for target incomes over a limited number of years before quitting the work force to marry (or being fired once they married) or seek employment in less difficult work. Wages were generally lower and working conditions often worse among these workers than male counterparts in more capital-intensive industries.<sup>13</sup>

Nevertheless, in my view, the labor exploitation argument has been overstated and to some extent misses the central point if we are interested in improvements in labor welfare. First, while labor standards have been very poor compared with developed countries, wage rates were generally not lower in new industries than in alternative traditional agriculture, small-scale industry, and informal sector work. Labor incomes were frequently higher because of more intensive and regular work.<sup>14</sup> Second, as shortages of labor began to emerge, wages did not stagnate in industries like textiles and footwear, despite the attempts of governments to maintain a cheap labor policy in some countries. While a gap in average wages with more capital-intensive activities persisted for some time, frequently rose more rapidly in the labor-intensive industries (and in agriculture) as countries approached the turning point [41] [3].

Finally, dramatic increases in female labor force participation in full time work have been a powerful force toward overall poverty decline throughout the region, a point which is rarely mentioned in the literature. While women worked extremely long hours under sweat labor conditions which have long been outlawed in most developed countries, household incomes rose quite dramatically among the poor households from which these women have come in all the NIEs, especially as countries approached the turning point.

<sup>13</sup> See especially [34] [1] [12].

<sup>14</sup> Precisely the same processes occurred in Britain close to two centuries earlier as peasants moved out of underemployed activities in agriculture to factory work [11].

There are difficult moral issues involved in the assessment of the welfare gains of the "hyperproletariat" in the context of relative deprivation between first and third world countries, and MNCs operating in both.<sup>15</sup> Nevertheless, unqualified, pious condemnation of both national enterprises and MNCs for employing young women of their own volition in low-wage jobs which delivered incomes often far higher than they could have earned elsewhere (given the greater intensity of work effort in new jobs) is misplaced in the context of individual and household welfare. Further, it is patronizing to the individual workers who, for the most part, made the difficult decision themselves to leave their villages and engage in factory work.

### III. LABOR MARKET STRUCTURE IN INDONESIA CIRCA 1990

How does the Indonesian case fit in with this general picture of labor market transitions in the East Asian region? In this section, I will discuss labor market structure around 1990 and compare it with other selected countries in the region. The subsequent section will examine labor market change.

The Indonesian employment structure has several characteristics which are common to labor surplus economies, although it is quite segmented by occupation, gender, and region. Four characteristics are worthy of mention. First, a high proportion of persons were engaged in self-employed and informal sector jobs (around two-thirds of the total), mainly in agriculture and to a lesser extent in trade, services, and manufacturing (Table II). This contrasts with other countries in the region where wage work was much more common, especially among females engaged in nonagricultural work (Table III). Although this is not a definitive indicator of labor surplus conditions, it implies that modern sector employment was relatively small nationally, and rapid growth in this sector alone would be unlikely to substantially affect the labor market in general.

This "informal" nature of the labor market is further indicated by the concentration of work in a few traditional sector occupations. For example, self-employed and family workers in petty trade alone were reported to account for approximately 40 per cent of all employment in services in 1985.<sup>16</sup> Although this share has almost certainly fallen since then, it indicates the continuing dominance of small-scale self-employment in total employment.

Second, the agricultural sector still employed around half of the total work force, a much higher share than countries like Korea and Malaysia, higher than in the Philippines and Pakistan, but lower than in Thailand. Insofar as under-employment on a regular and seasonal basis is more marked in agriculture, this

<sup>15</sup> Of course, in both Korea and Taiwan MNCs have played a relatively minor role in investment in labor-intensive export industries. The MNC labor exploitation story which has been developed to describe developments in Malaysia and Thailand, in particular, is not relevant to these countries.

<sup>16</sup> This figure is taken from the 1985 Intercensal Survey (Central Bureau of Statistics, *SUPAS*, Series S2, 1987). Other prominent low-wage occupations included household servants, *becak* (trishaw) drivers, traditional healers, masseurs, and barbers. The major "formal sector" occupation was teachers which accounted for 10 per cent of all service sector employment followed by government officials (3 per cent).



TABLE II  
STRUCTURE OF EMPLOYMENT OF SELECTED REGIONS IN INDONESIA, 1990

	Region						Indonesia
	Urban				Rural		
	Jakarta	West Java	Other Java	Outer Islands	Java	Outer Islands	
Sector of employment:							
Agriculture	1.1	7.1	12.9	11.6	58.3	71.8	50.4
Manufacturing	20.5	24.3	18.8	10.2	11.3	6.1	11.5
Government & other services	36.3	27.8	28.9	33.3	8.5	6.9	14.1
Other <sup>a</sup>	42.1	40.8	39.4	44.9	21.9	15.2	24.0
Total	100	100	100	100	100	100	100
Employment status:							
Self-employed/ family workers	25.6	36.4	41.4	41.0	67.3	80.2	63.5
Employees	72.2	61.4	56.7	56.2	31.4	18.1	34.9
Occupation:							
Professionals	6.7	6.1	6.1	8.3	2.1	3.0	3.7
White-collar workers <sup>b</sup>	25.4	18.5	16.1	24.4	4.1	5.1	8.9

Source: [22, 1990 (Series S2)].

<sup>a</sup> Includes mining, public utilities, construction, trade, and transport/communications.

<sup>b</sup> Professional, managerial, and clerical workers.

also implies a considerable supply of unskilled labor available for work in growing sectors such as manufacturing.<sup>17</sup>

Third, whereas wage earners were concentrated on Java, in urban Java and especially in JABOTABEK region (in and around Jakarta) where recent manufacturing growth has been most rapid, small farmers, who are generally most associated with problems of underemployment, were concentrated outside Java. Although surplus labor in the Indonesian context has long been associated with the "lilliputian" farms on Java [17], greater employment opportunities might well have turned the balance in favor of Java in recent years.

A fourth factor which points to continuing labor surplus conditions is low absolute level of wages. Even by regional standards, they were quite skewed by region within Indonesia and on average much higher in urban than in rural areas. Monthly wage incomes (including overtime and second jobs) reported in the

<sup>17</sup> Overall, around 25 per cent of persons are recorded as working less than twenty-five hours a week in agriculture according to the 1990 Population Census [22]. It must be borne in mind however that these figures almost certainly quite substantially overstate the extent of underemployment and understate the share of individual households engaged in non-agricultural activities especially on Java: the true figure is probably closer to around 75 per cent in Java and probably slightly less in the outer islands.

TABLE III  
EMPLOYMENT STRUCTURE IN SELECTED ASIAN COUNTRIES CIRCA 1990

	Korea (1991)	Malaysia (1988)	Thailand (1988)	Philippines (1990)	Pakistan (1990/91)	Indonesia (1990)
	(%)					
Employment by major sector:						
Agriculture	16.3	30.6	64.4	41.5	44.5	50.4
Manufacturing	27.0	16.0	8.1	8.9	9.9	11.5
Government & other services	14.6	20.6	9.9	17.2	12.4	14.1
Other	42.1	32.8	17.6	32.4	32.9	26.0
Total	100	100	100	100	100	100
% of females in total manufacturing employment	41.7	45.5	45.3	40.7	15.9	44.9
Work status:						
Employees as % of agricultural employment	7.4	28.8	10.6	20.4	9.5	11.5
Self-employed/family workers as % of nonagricultural employment:						
Males	26.0	22.7	31.4	23.1	39.6	42.6
Females	30.5	25.2	41.8	35.6	25.7	62.7
Occupation:						
White-collar workers as % of total employment	22.0	18.8	5.0	10.8	9.9	8.9
% of nonagricultural employment:						
Professionals	8.9	10.6	6.4	9.8	8.3	7.3
White-collar workers <sup>a</sup>	26.3	27.1	14.1	18.5	17.8	17.6

Sources: [26]. For Indonesia, [22, 1990 (Series S2)]. Except for Indonesia, all data from national labor force surveys.

<sup>a</sup> Professional, managerial, and clerical workers.

*National Labor Force Survey* (SAKERNAS) averaged Rp90,000 or approximately Rp3,000–3,500 (around U.S.\$1.50) per day (Table IV).<sup>18</sup> These labor incomes, however, were substantially higher than minimum wage rates set by provincial governments and the Department of Manpower which were highest in DKI Jakarta at Rp2,100 in 1990 and a much lower Rp750 in Central Java.<sup>19</sup>

<sup>18</sup> The SAKERNAS data are only a crude indication of wage incomes but they are the only national source of wages across sectors and regions in Indonesia. Almost certainly they understate wage incomes at the upper end of the earnings scale.

<sup>19</sup> By 1993 the Jakarta minimum wage had risen to Rp3,000 (approximately \$1.50), the BOTABEK (Bogor-Tangerang-Bekasi) minimum was Rp2,600 and the Central Java minimum was Rp1,600.

TABLE IV  
WAGE INCOME IN INDONESIA BY MAJOR REGIONS, 1990

	% of Wage Earners		Mean Earnings (Rp) (Month)	% of All Wage Earners
	Under Rp 50,000 (Month)	Over Rp 200,000 (Month)		
Urban:				
Jakarta	12.9	23.4	151,000	9.5
West Java	22.9	11.7	114,000	9.5
Other Java	37.6	6.1	92,000	17.0
Outer Islands	12.5	13.9	125,000	11.1
Rural:				
West Java	45.5	2.9	67,000	13.0
Other Java	61.1	1.6	53,000	25.5
Outer Islands	24.7	4.3	89,000	14.4
Indonesia	36.3	7.3	90,000	100

Source: [23].

In U.S. dollar terms, Jakarta minimum rates were less than half those in Thailand (Bangkok) and less than a quarter of laborer's wages in Malaysia, and they were also substantially below minimum wage rates in the Philippines in 1990.<sup>20</sup> These differentials, especially with Malaysia, have probably widened in the past few years; unskilled wage rates in Kuala Lumpur had risen to around 15 ringgit (U.S.\$6) per day, and average wages of semiskilled workers to around 30–50 ringgit (U.S.\$12–15) by 1992.

Surveys of wages and working conditions in large-scale manufacturing establishments in 1989–90 indicate that many firms still paid wage rates below the minimum in the JABOTABEK region, especially in the footwear and garments industries oriented toward export [49]. It is likely that this situation has changed during the past few years as the government, NGOs, and labor organizations increased pressure on larger firms to at least meet minimum wage standards in this region [37].

Nevertheless, as in other countries in the region, the new labor-intensive industries and firms, including those from Korea and Taiwan, are paying wage rates which are closely aligned to market rates in agriculture and the informal sector. Among foreign investors, this contrasts with the quite high wages paid by more established firms in metals and machinery industries where minimum wages of regular employees are frequently well above Rp100,000 per month, 2–3 times the minimum wage.<sup>21</sup>

<sup>20</sup> In 1990 the Bangkok minimum was 90 baht per day (about \$3.50), laborers wages were 160–200 ringgit per month in Malaysia (\$6–7 per day) and the minimum wage in the Philippines was 89 pesos per day (\$3–4). See [48]. Owing to international differences in purchasing power, these are only crude comparisons of real differences in wages.

<sup>21</sup> Data based on information provided by firms in the Jakarta region during visits by the author to several automotive, established textile and pharmaceutical plants in 1989.

Low absolute wage levels are, not surprisingly, associated with a quite skewed distribution of wage incomes. Over one-third of all wage workers made less than Rp50,000 with a high proportion of low-income workers being concentrated in rural Java. At the other end of the distribution, nearly 25 per cent of wage workers in Jakarta earned Rp200,000 or more and average wage earnings per month were more than three times higher in Jakarta compared with rural Central and East Java. Also in accordance with expectations, average wages were lowest in agriculture and highest in mining, public utilities, and finance and banking among the major sectors of the economy (not shown in the table).

In terms of educational status, national labor force data suggest that university graduates earned approximately five times the salary of primary school graduates in 1990, a differential which would probably be much larger if data could be assembled for university graduates in the private sector alone. Of course, these differentials do not capture the quite extreme differentials within the modern sector in particular, where it is not uncommon for foreign trained managers, accountants, and engineers to earn Rp10–20 million (around U.S.\$5,000–10,000) or more per month.

#### IV. LABOR MARKET CHANGE

Rapid economic growth for most of the new order period has been accompanied by structural change similar to that experienced by several other developing countries in the region. This includes a substantial rise in industry's share of GDP offset by steep decline in the agricultural share, the steady growth of services, and the extension of new infrastructure, transport, and construction activities throughout the archipelago.

Indonesia has at the same time experienced its own unique blend of outcomes related to resource endowments and international developments: especially the natural resource, predominantly oil, boom of the 1970s, rapid agricultural growth, and import-substitution-oriented manufacturing development, all ahead of a rather late shift toward export-oriented manufacturing.

##### A. *Employment Trends by Major Sector*

Overall, employment growth has been rapid, mirroring the growth of the labor force.<sup>22</sup> There has been quite a substantial shift of labor out of agriculture into industry and services (Table V). These shifts have not been as rapid as in Korea and Taiwan but they have been on a par with similar shifts in Malaysia, Thailand, and other rapidly growing LDCs.

Three important aspects of labor absorption will be highlighted in the context of the shift toward the turning point. There are the continued importance of labor absorption in agriculture, the relatively high rate of growth of labor produc-

<sup>22</sup> Labor force growth rates appear to have exceeded growth of employment in the 1980s and, consequently, official estimates suggest that unemployment rates rose, although not substantially.

TABLE V  
EMPLOYMENT, VALUE ADDED, AND LABOR PRODUCTIVITY BY  
MAJOR SECTOR, INDONESIA, 1971-90

	Year	Agriculture	Industry	Services	All Sectors
<b>Employment:<sup>a</sup></b>					
Total (1,000)	1990	36,113	12,048	23,409	71,570
Distribution (%)	1971	66.0	10.0	24.0	100
	1990	50.5	16.8	32.7	100
Growth (% p.a.)	1971-80	1.17	6.00	5.69	2.93
	1980-90	2.16	5.65	3.97	3.26
	1971-90	1.69	5.82	4.74	3.10
Distribution of increment (%)	1971-80	24.2	23.8	52.0	100
	1980-90	35.2	26.2	38.6	100
	1971-90	31.1	25.3	43.6	100
<b>Value added and labor productivity:<sup>b</sup></b>					
Growth of value added (% p.a.)	1971-80	4.16	14.23	7.41	7.48
	1980-90	3.17	8.36	8.04	6.78
	1971-90	3.63	11.13	7.73	7.11
Labor productivity indices (1980=100) <sup>c</sup>	1971	77	46	86	66
	1980	100	100	100	100
	1990	110	131	150	142
Labor productivity increase (% p.a.)	1971-90	1.9	5.5	2.9	4.0

Sources: [22, 1971 (Series C)] [22, 1980 (Series S2)] [22, 1990 (Series S2)] and National Accounts (various years).

<sup>a</sup> All employment data adjusted for exclusion of rural Irian Jaya and East Timor from the 1971 census. Owing to lack of data on hours worked in 1971, no adjustments are made for underemployment in different sectors in the data on employment trends over time.

<sup>b</sup> Constant 1983 prices, excludes oil and mining.

<sup>c</sup> Productivity measured by value added per employed worker per year.

tivity in manufacturing, and the important role of services in absorbing surplus labor.

Despite the decline in the agricultural share in employment from around two-thirds to half, this sector has continued to account for a major share of jobs created: approximately 30 per cent of new jobs over the period 1971-90.<sup>23</sup> Even

<sup>23</sup> As in other developing countries, trends in agricultural employment are most difficult to measure because of the high proportion of part-time female and other family workers, substantial underemployment, and seasonality. The absolute number of persons engaged is likely to fluctuate substantially according to the definition adopted. Nevertheless, given that basic definitions of employment have not changed in censuses conducted in Indonesia since 1971, and that the censuses were all conducted at approximately the same time of the year, we have no reason to doubt the validity of the general trends suggested.

TABLE VI  
EMPLOYMENT DISTRIBUTION AND GROWTH BY MAJOR SECTOR, INDONESIA

	Distribution (%)				Growth Rate (1971-90, % p.a.)	
	Java		Outer Islands		Java	Outer Islands
	1971	1990	1971	1990		
Agriculture	60.9	42.5	75.2	62.4	0.9	2.7
Industry:						
Manufacturing	9.3	14.3	5.1	7.3	5.1	5.5
Construction	2.0	4.8	1.7	3.1	7.3	6.7
Other	0.2	1.2	0.6	1.3	11.1	7.6
Services:						
Trade & commerce	13.3	17.6	6.6	10.7	4.3	6.2
Transport	2.6	4.3	2.1	2.9	5.4	5.3
Other services	11.7	15.4	8.7	12.3	4.3	5.5
All sectors	100	100	100	100	2.8	3.6

Sources: [22, 1971 (Series C)] [22, 1990 (Series S2)].

on densely populated Java there has been some growth in agricultural employment and even during the past decade when there has been increasing concern regarding the encroachment of new residential and commercial buildings on scarce agricultural land.

As might be expected, growth in agricultural employment has been much more rapid in the relatively land-abundant regions of the outer islands of Indonesia than on Java (Table VI). The agricultural sector in the outer islands of Indonesia was by far the largest creator of jobs over the period 1971-90, accounting for almost twice the increment in employment in each of the major sectors (manufacturing, trade, and services) on Java over the period 1971-90.

Also, perhaps surprising, employment in agriculture in the outer islands appears to have accelerated during the past decade, rising to close to 3.5 per cent per annum for the decade as a whole. Transmigration based on land settlement, which reached a peak in the early 1980s, and associated and other movement of workers into new agricultural areas probably had an important influence on these figures.<sup>24</sup>

Even on Java agricultural employment continued to increase during these two decades. This was despite the common belief that the densely populated island had long reached a stage when a large pool of surplus labor desperately needed to be directed elsewhere. Although the intensity of employment in agriculture may not have been high—indeed official data suggest that a large proportion of persons (48 per cent nationally) employed in agriculture worked fewer than thirty-five hours—Java had not begun to experience an absolute decline in its agricultural work force.<sup>25</sup>

<sup>24</sup> See especially [50].

<sup>25</sup> Remember that an absolute decline in the agricultural labor forces is one of the criteria suggested by Minami [41] as evidence of achievement of the "turning point."

A second important trend has been rapid growth in value added and labor productivity in industry and especially in manufacturing. Employment growth has not been particularly high when compared with the growth of value added which averaged over 10 per cent in the period 1971–90 and was one of the most rapid in the world over this period (Table V). Labor productivity also rose steeply, over 5 per cent per annum on average (outside oil and mining). This was well above that recorded for the other two major sectors and the country as a whole (3–4 per cent).

This is not to say that employment growth in industry has been particularly disappointing compared with the experience of many other Third World countries. Employment grew on average by just under 6 per cent from a very low base (10 per cent in 1971) and new jobs in this sector accounted for around 25 per cent of all employment growth from 1971. The share of industrial sector employment increased more rapidly than in lower income and lower middle income LDCs (7–11 and 11–16 per cent respectively, 1960–80).<sup>26</sup> However, employment growth in manufacturing has not been nearly as rapid as that which has occurred in the NIEs, especially Korea and Taiwan, where annual rates of growth of 10 per cent per annum were recorded frequently in the 1970s and 1980s [32] [31].

A major contribution to national productivity growth has come from the changing structure of the manufacturing sector. One might expect a substantial share of “surplus” labor in agriculture to flow into low-wage and relatively low-productivity manufacturing employment in the early stages of industrialization. Relatively capital-intensive investments, both resource and skill intensive [20], made during the oil boom period and backwash effects on the large, low-productivity manufacturing sector especially contributed to slower employment growth but a rapid increase in labor productivity.<sup>27</sup>

The third important development has been the important role which services rather than manufacturing have played in absorbing new job entrants and labor from the countryside. Services have accounted for the largest share (44 per cent) of all new jobs created in the period 1971–90, and over half in the 1970s.

Although services labor productivity grew more rapidly than in “agriculture,” the gap in labor productivity with “manufacturing” has narrowed substantially. Labor productivity in services exceeded that in manufacturing by approximately 15 per cent in 1971. However productivity in the former grew much more slowly than in manufacturing and was around 25 per cent lower in 1990. It seems that while manufacturing shed a considerable amount of low-productivity labor, the opposite was true in the case of services: many workers moved into low-wage segments of this sector.

There is an important regional dimension to these developments. Despite the resources boom and associated protection afforded domestic industry, a quite high proportion of all manufacturing development and employment has continued

<sup>26</sup> These data were taken from Bloom and Freeman [5, p. 399].

<sup>27</sup> In 1971 Indonesia had one of the largest traditional manufacturing sectors in the Third World in terms of the share of rural employment in manufacturing and the low level of productivity of most manufacturing activities. It was dominated by food processing, basket weaving, batik and traditional textiles concentrated on Java [35] [28].

to be concentrated on Java (see Table VI). This has occurred principally because there is a more abundant supply of unskilled and skilled labor and infrastructure is more developed on Java.

Within Java manufacturing employment growth has been heavily concentrated around the capital Jakarta in the west and to a lesser extent Surabaya in the east, and away from traditional towns, small cities, and rural Central Java in particular. This applies to some products using outer island natural resources such as rubber, timber, and rattan, consumer goods products for the domestic market, and, more recently, labor-intensive exports.

Unlike in manufacturing, the growth in service sector employment has not been heavily concentrated on Java. Government, community, and personal services in particular contributed to a significant share of total employment and employment growth in the outer islands. As noted, growth in employment in this subsector can be especially attributed to the spread of government administration, health and education services throughout the archipelago. This is in contrast to the plethora of low-wage services which are more common and likely to be related to greater labor supply pressures on Java.

#### B. *Employment Growth in the 1970s versus the 1980s*

The above-mentioned general trends in employment growth during the new order period hide an important contrast in the experience of the 1970s compared with the 1980s. Whereas growth in most of the former period was dominated by the dispersal of economic rents acquired by government from the oil boom, the 1980s was marked much greater diversity in economic performance and the forces driving economic growth: economic slowdown in the early 1980s, deregulation and the takeoff of non-oil exports from the middle of the decade.

These macroeconomic developments were reflected in the changing employment structure. In the 1970s, the service sector—especially other services mainly comprising government administration and public-sector-supported community services—and the smaller construction and mining industries grew more rapidly than manufacturing employment. The situation was reversed in the 1980s. Manufacturing employment increased more quickly than services and accounted for just under 20 per cent of all new jobs created.

This shift toward much greater labor absorption in manufacturing took place mainly in the latter half of the decade as the size of non-oil exports began to impact on the labor market.<sup>28</sup> On the other hand employment in the service sector (including trade, transport, and other services) slowed considerably. In particular, employment growth in other services halved as did the contribution of this sector to employment growth.

As noted, the slow rate of manufacturing employment growth during the 1970s in particular can be partly attributed to investment in relatively capital-intensive

<sup>28</sup> Problems of comparability of national force data from various sources make it hard to establish a figure on the impact of manufacturing exports on employment; one source suggests, however, that the share of employment in the textiles, clothing, and footwear industry (the major manufacturing export industry), and other labor-intensive industries rose quite sharply in the second half of the 1980s [36].



TABLE VII  
SOME CHARACTERISTICS OF EMPLOYED PERSONS IN MAJOR SECTORS,  
INDONESIA, 1990

	Agriculture	Manufacturing	Trade	Government & Other Services	All Sectors
Characteristics of the work force (%):					
Urban	5	42	47	58	27
Senior high school & above	3	15	13	49	14
White-collar	1	5	1	52	9
Family workers	32	11	12	3	20
Female	24	37	44	40	36
Index of worker characteristics (1971=100):					
Urban	204	179	141	125	183
Senior high school & above	1,000	585	420	293	472
White-collar	400	155	87	118	154
Family workers	97	76	91	68	84
Female	107	91	109	138	128

Source: The same as in Table VI.

industries. This is reflected in the more rapid increase in labor productivity in the industrial sector during the 1970s. In part, this was induced by government policies, but in part it was the consequence of exchange rate outcomes and a surplus of foreign exchange accumulated as a result of the oil boom.

In contrast, in the 1980s when the oil prices slumped, the government was forced to look elsewhere for foreign exchange. Deregulation contributed to the rapid growth of labor-intensive exports especially from 1986 when the first major reform package was introduced and Indonesia devalued the rupiah. Greater fiscal stringency, on the other hand, meant that government-supported service sectors no longer played such a dominant role in overall employment growth. All these policies contributed to a real depreciation of the rupiah against the U.S. dollar through to the early 1990s, and provided a major stimulus to exports [18] [21].

### C. Occupation, Gender, and Skill

There have also been significant changes in the structure of employment in terms of location, education, skill, and gender (Table VII). These changes appear to have been most marked in the manufacturing sector in which changes in the size distribution and technological profile of enterprises has probably been most intense. Thus, for example, the percentages of secondary educated and white-collar workers increased by more than fivefold and by over 50 per cent respectively since 1971. The manufacturing work force became much more urbanized and its share of wage workers also increased quite significantly.<sup>29</sup>

<sup>29</sup> It is worth noting that despite these changes, the proportion of educated and white-collar workers was quite small by international standards in manufacturing in 1990, and the majority of workers in the sector were still employed in rural areas.

Similar changes occurred in other sectors but at a slower pace. It is instructive, for example, that in the large trade sector the proportion of white-collar workers and wage employees actually appears to have declined over the period 1971–90, and similar trends were apparent in transport and construction.<sup>30</sup> Despite a fall in the share of family workers, the proportion of relatively poor “informal sector” workers (family workers plus self-employed) has probably increased in trade.<sup>31</sup>

How has structural change affected the involvement of females in employment? Higher participation rates among females has led to an increase in their share of work in trade and especially service sectors. However, perhaps surprising to some in light of the heavy involvement of females in low-wage industries in the region, there has been a fall in the proportion of females employed in manufacturing where female participation was relatively high in 1971. There are two possible explanations for this development. First, the demise of many traditional cottage industries which tended to employ a high proportion of females. Second, low-wage, export-oriented industries have only become prominent in Indonesia from the mid-1980s and many of the new industries (which produce mainly for the domestic market) have tended to employ a high proportion of males.

Even more than males, female workers have experienced a substantial improvement in education, the proportion of female white-collar workers has increased in all sectors, and the proportion of female employees has increased more rapidly, except for manufacturing. The higher rate of increase in skilled and educated workers can partly be attributed to the much smaller base share among females in 1971—even in 1990 less than 10 per cent of all female employees had a senior high school education, and the share of white-collar workers was still very low except in other services (chiefly school teachers, health care workers, and clerical workers). Nevertheless, greater female labor force participation does appear to be associated with a qualitative as well as a quantitative improvement in women’s involvement in the work force.

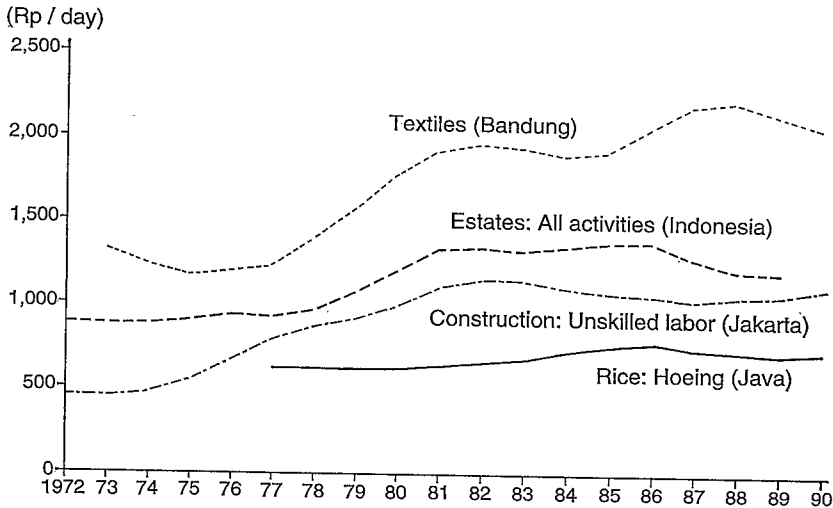
#### D. *Wage Growth*

The rapid transformation of the labor market described above might be expected to be associated with significant increases in wages. Wage incomes increased quite markedly. But growth in wage rates of unskilled and semiskilled labor was generally sporadic. With the exception of the traditional rice sector, real wage rates of unskilled labor rose during the oil boom period but have stagnated since then in most sectors. This contrast in trends in wage rates and productivity is at

<sup>30</sup> The decline in the proportion of white-collar workers suggested in Table VII especially in the trade sector, may be partly due to our definition of white-collar workers (professionals, managers, and clerical employees) based on occupational classifications. The occupational classification also has a category of sales workers and some white-collar workers in sales may be recorded in this category.

<sup>31</sup> The census data imply that the share of family workers has tended to decline in most sectors, and this is consistent with what might be expected in a country experiencing such rapid rates of economic growth (although the enumeration of family workers in censuses and national labor force surveys show such wide variations that one should be wary of reading too much into these figures). See [29] [30].

Fig. 1. Real Daily Wages in Selected Activities in Indonesia, 1972-90



- Notes: 1. See Table VIII for explanation and sources.  
2. Three-year moving averages.

odds with the experience of the NIEs where labor productivity and wage growth are reported to have gone hand in hand in the early stages of rapid industrialization<sup>32</sup>

Data on wage trends in selected activities (hoeing in rice, all activities on estates, unskilled labor in construction, minimum negotiated wages in textiles, and a lower echelon civil servant salary level) in each of these segments of the labor market are presented in Figure 1 and Table VIII. Although wages have grown over the entire period in all series, growth rates have been very much higher in the "modern" sector and in nonagricultural activities than in agriculture. Thus textile and public sector wages grew most rapidly—impressively at an annual rate of around 5 per cent per annum from the early 1970s, whereas wages were recorded as rising at only around 1 per cent per annum in the two agricultural wage series; wages of casual labor on construction sites increased by an intermediate amount of around 3 per cent per annum.

At the same time, there are very clear contrasts in the behavior of wages during different periods. Real wage rates hardly rose in all sectors in the early 1970s. They then increased much more rapidly in the oil boom years from around the middle of the decade to the early 1980s when they began to stagnate. The exception was the rice sector. In rice on Java, real wage growth began later and lasted until the mid-1980s before leveling off in line with the other series.

What factors lie behind these patterns of real wage growth? Nominal wage

<sup>32</sup> In part the difference is due to the measure of wage growth used: most international wage series use average earnings as a basis for computing trend wages, thus ignoring compositional effects of changes in the nature of jobs and worker characteristics.

TABLE VIII  
RATE OF GROWTH IN REAL WAGE RATES OF UNSKILLED/SEMISKILLED LABOR,  
SELECTED SECTORS, 1972-90  
(Three-year moving average)

Activity Location Gender Deflator	Rice <sup>a</sup>	Estates <sup>b</sup>	Construction <sup>c</sup>	Textiles <sup>d</sup>	Civil Service <sup>e</sup>
	Hoeing All Java Male Rural COL (9 commodities)	All field & processing Indonesia Both sexes Rural COL (9 commodities)	Unskilled Jakarta Male Jakarta COL (9 commodities)	Unskilled (minimum) Bandung Both sexes Bandung COL (9 commodities)	Grade Ib Level 9 Indonesia Both sexes Indonesia CPI
Annual growth rates (% p.a.):					
1972-80	-0.3 <sup>f</sup>	3.8	4.1 <sup>g</sup>	9.7	11.9
1980-85	4.3	2.8	1.7	1.6	1.4
1885-90	-0.8	-3.4 <sup>h</sup>	1.6	0.6	-2.1
1972-90	1.3	1.8	2.6	5.0	5.1

Sources: Unpublished data from Central Bureau of Statistics (CBS), Department of Public Workers (Jakarta), and Department of Finance; CBS, *Average Wages on Estates* (various years); PERTEKSI, *Annual Agreements on Wages* (various years).

Note: COL=cost of living index.

<sup>a</sup> Average of monthly data collected 1976 onwards; unweighted mean of daily wage rates for West, Central, and East Java.

<sup>b</sup> Average of half yearly data for permanent employees.

<sup>c</sup> Average of monthly data.

<sup>d</sup> Minimum wage for unskilled labor based on annual agreements between the association of textile producers (PERTEKSI) and the labor union (SPSI).

<sup>e</sup> Basic salary only; generally included in the budget beginning in April.

<sup>f</sup> 1977-80.

<sup>g</sup> 1972-80.

<sup>h</sup> 1985-89.

growth was more rapid in the 1970s than in the 1980s, which might partly be attributed to price expectations forged by the experience of rapid inflation during the previous decade [45]. But as the rate of inflation stabilized during the 1970s, it is clear that wage growth was driven by excess labor demand during the oil boom years, especially as government spending programs expanded and non-tradable sectors grew rapidly during the second half of the 1970s and early 1980s [9] [27].

Conversely, from the early to mid-1980s economic growth slowed as Indonesia reached the limits of the easy phase of import-substitution industrialization. In part, general macroeconomic and stabilization policy also put a damper on labor demand in this period. Government expenditure was pruned for several years in the mid-1980s, and this further slowed down public sector and construction wage growth. In textiles and other labor-intensive sectors of manufacturing, much slower nominal and real wage growth can be partly attributed to relative stagnation of domestic demand which had grown so rapidly during the previous decade.

It is of some interest, despite the quite quick revival of Indonesia's economic fortunes and economic deregulation after 1986, that real wage rates remained flat through to the end of the decade. While manufacturing export growth has been rapid, this sector was not large enough to significantly affect real wage growth, even in the economic boom years of 1989-90. Further, largely due to the transport "revolution," improved communications, and knowledge of job opportunities among more educated young people, interprovincial and interdistrict mobility has probably increased substantially. In recent years, there appears to have been a greater flow of workers from poorer regions to compete for jobs in the centers of manufacturing growth, most notably from the Priangan region of West Java and southern Central and East Java to the JABOTABEK area [47] [49].<sup>33</sup>

Thus, it seems that excess labor supply continued to influence wage growth and that despite the apparent tightening of labor markets in the previous period, the country had not yet made a clear transition to a labor scarce economy. It appears that movements in wage rates have been relatively uniform by region, sector, and gender, although wage adjustments were affected by specific regional circumstances, and also differed between different sectors and segments of the economy [39].

## V. LABOR STANDARDS, UNIONS, AND WELFARE

So far the discussion has assumed implicitly that, as in other East Asian countries, developments in wages and labor welfare have been largely determined by economic changes irrespective of government and union intervention in labor market processes. Such a conclusion would seem to be warranted in the case of Indonesia, given the relatively minor role which the government has played in promoting labor standards, especially minimum wages, and the tight controls imposed over union organizations [37]. An alternative viewpoint, and one which has gained

<sup>33</sup> I have also argued elsewhere that a much more cost conscious attitude among businessmen who had begun to enter the export market also probably influenced wages in these sectors [37].

increased popularity in Indonesia in recent years, is that low wages and poor working conditions are the result of government neglect of labor standards and repressive policies toward unions. There is widespread concern that while Indonesia has made considerable progress in a range of welfare indicators (education and health in particular), conditions among wage workers have lagged and the imbalance needs to be addressed.

Our analysis of labor market conditions and change has stressed the fact that by a range of indicators—the size and growth of agricultural employment, the pervasive influence of the informal sector, and growth in wage rates—Indonesia in the early 1990s is still most aptly described as a labor surplus economy. Although the “modern” wage employment sector outside government employment has grown rapidly, it is still too small to significantly affect wages and working conditions of the majority of the work force.

Has suppression of independent union activity in Indonesia significantly affected wage and labor welfare outcomes? The above analysis suggests no, if one is talking about labor incomes of the large majority of unskilled and semiskilled workers. In two respects in particular, however, employee welfare could have been greater. First, active unions in larger scale firms and especially in public sector enterprises might have driven harder wage bargains. Second, stronger unions, either enterprise, occupation, or industry based, would have prevented many of the abuses of the labor law which have become the focus of labor unrest in recent years.<sup>34</sup> Arbitrary dismissal, forced overtime, cramped and unhealthy work environments would all have been contested by a stronger union movement. At the same time, there may well have emerged a greater gap between “elite” workers in modern sector firms and the mass of employees in smaller establishments and casual employment which tend to be beyond the influence of union activities.

As noted, non-oil manufacturing export growth has been rapid and has given a major stimulus to employment from the mid-1980s. At the same time this has been accompanied by increasing labor unrest in the industrial belt in the BOTABEK region close to Jakarta, in particular. Why has labor unrest emerged at this time and what are the implications for labor’s role in economic and political processes? One possible interpretation is that the poor labor conditions among heavily “exploited” wage workers in the new export factories has contributed to strikes and labor unrest. This would suggest a growing awareness of worker rights and possibly the beginnings of worker organization and activism in the face of poor labor standards.

Although these issues are not dealt with in detail in this paper, it has been suggested that labor conditions are not necessarily worse, in general, in the export factories than in alternative employment opportunities in agriculture or self-employed work from which some of the workers come and their families continue to earn a living. There is frequently illegal but officially sanctioned abuse of labor rights and freedoms. In addition, labor conditions are poor in many of the new factories in terms of international labor standards [47] [49]. However, while

<sup>34</sup> See especially [24] for documentation of many of these abuses.

the former can be addressed by political and government action, the latter are related to broader labor market structure. It is important to bear in mind the unpalatable fact that wages are low primarily because Indonesian workers are still poor, in general, rather than because of repressive activities of the export-oriented factories.

In this context, it seems worthwhile to distinguish between four aspects of labor rights and welfare: basic worker rights, working conditions, worker incomes, and finally the incomes of wage workers relative to other groups in society. Many of the strikes have been focussed on the first and second of these issues: the right to organize and make claims to employers, and the right to negotiate improvements in basic working conditions (food, transport, systems of overtime payments, and bonuses). The first issue in particular has important political implications and involves a wider set of human rights issues. The prerogative of local authorities in particular to intervene in labor disputes and detain local labor leaders—a pattern which has been common in most major strike and labor dispute cases in Indonesia over the past two decades—is increasingly being challenged by political and social groups as no longer acceptable.<sup>35</sup> Conditions of work which are out of step with national standards are similarly receiving considerable attention from both the state and labor activists.

Greater recent political openness (*keterbukaan*), action programs of NGOs, and greater focus on labor issues by international agencies should encourage progress in both of these areas. I have argued, however, that improvements in labor incomes and in the wages of unskilled laborers relative to those of skilled and professional manpower are still heavily dependent on overcoming general conditions of labor surplus in the labor market. Implicitly, it is also argued that attempts to raise wages, through government or union intervention, significantly above what people can earn elsewhere in the economy is unlikely to be successful. Moreover, premature efforts in this area are likely to be harmful to the longer term interests of labor. General improvements in labor incomes are heavily dependent on rapid employment growth outside agriculture and rapid progress toward achievement of the turning point.<sup>36</sup>

Thus, the political agenda of labor activists and concerns regarding the abuse of labor standards and rights by individual employers need to be separated from policies directed to raising the welfare of wage labor in general. The sustained increases in employment in labor-intensive manufacturing export industries is an important element in achieving the goal of increased labor welfare.

#### A. *Wage Stagnation and Poverty Decline: A Paradox?*

Although wage rates (and the price of labor) have not risen markedly for the majority of Indonesian workers in the past decade, average income growth has been rapid and poverty has declined substantially, even by East Asian standards.

<sup>35</sup> See [37] for an elaboration on some of these points.

<sup>36</sup> Direct intervention in the labor market should, of course, be distinguished from government involvement in programs to help the poor—education, health, and housing—which are of very great importance for poverty alleviation, equity, and labor welfare (and also, in the longer term, for labor productivity).

TABLE IX  
EDUCATIONAL ENROLLMENT RATIOS  
(SELECTED ASIAN COUNTRIES)

	Secondary		Tertiary	
	1968	1989	1965	1989
Asian NIEs:				
Taiwan	66	82 <sup>a</sup>	11	26 <sup>a</sup>
Korea	35	86	6	38
Singapore	45	69	10	12 <sup>a</sup>
Hong Kong	29	73	26	29 <sup>b</sup>
ASEAN:				
Malaysia	28	59	2	7
Philippines	41	73	19	28
Thailand	14	28	2	16
Indonesia	12	47	1	8
South Asia:				
Sri Lanka	35	74	2	4
India	27	43	5	—
Pakistan	12	20	2	5
Bangladesh	13	17	1	4

Source: [51, 1992 (Development Indicators)].

<sup>a</sup> 1987.

<sup>b</sup> 1986.

According to Central Bureau of Statistics figures, the incidence of both rural and urban poverty declined from around 40 per cent in the mid-1970s to around 15 per cent in 1990.<sup>37</sup>

How do we reconcile this apparent paradox? The answer is crucial to an understanding of the relationship between economic change and labor processes in a labor surplus economy. Four major factors related to labor markets would seem to have influenced the result. First, workers moved out of highly labor-intensive, low-earning jobs outside agriculture into which they had been pushed in order to survive into higher earning jobs.<sup>38</sup> Second, workers moving out of agriculture and traditional industries have been engaged in longer hours of work in new jobs: the long hours worked by those employed in new export-oriented industries is a prime example of this process in Indonesia as it has been in other East Asian countries.

Third, new entrants into the labor force are better educated on average and command higher wages than those entering employment years ago. While Indonesian enrollment rates are still lower than in Northeast Asia, they have increased very substantially in the 1980s at both secondary and tertiary levels (Table IX).

<sup>37</sup> Booth shows that the extent of the decline depends on the measure of poverty adopted but nevertheless concludes that "...whatever the poverty line used...there seems to be little doubt that the proportion of the population living below the poverty line has declined in both urban and rural areas" [7, p. 69].

<sup>38</sup> These processes are now documented in a wide range of village and macro studies conducted in the 1980s. See especially [27] [20].



Whereas the average wage worker entering wage employment outside agriculture in the early 1970s was only primary educated or less, by the early 1980s most had secondary education and earned more than twice as much as those with only completed primary education (according to the national labor force surveys).

Finally, already mentioned above, female labor force participation rates have risen quite markedly (by around 20 per cent between 1971 and 1990) and this must have made a major contribution to total household incomes of the poor. In particular, young females have experienced all of the above gains from economic transformation: in the early 1970s they were typically concentrated in under-employed or low-income earnings activities, such as part-time work in agriculture, or weaving and food processing, which featured very low returns per hour worked, and also had much lower levels of schooling compared with males.

These changes are reflected in trends in average earnings in large and medium-sized firms in manufacturing according to the annual survey of manufacturing. These suggest a more than doubling in real average earnings both for all manufacturing and for textile, clothing, and footwear workers over the eighteen-year period. Growth in real manufacturing wages was, moreover, sustained over the entire period, with the partial exception of the early mid-1980s, and has continued up to recent years. The SAKERNAS data, broken down by major sectors and computed only for primary graduates, imply less sustained wage growth than the manufacturing wage series. Nevertheless, here too real wages appear to have increased quite significantly, especially during the late 1970s and late 1980s.

Modernization of industry and the relative capital-intensive orientation of manufacturing growth in particular imply greater application of skilled manpower and capacity utilization. Even in the textile industry, which has undergone substantial structural change during the new other period, the same effects could be expected to apply. The shift away from labor-intensive to more capital-intensive production implies a higher share of employment in more stable and skilled occupations in which average wage rates are likely to be significantly higher than in the past.<sup>39</sup>

#### B. *Income Distribution*

This different pattern of manufacturing growth has had implications not only for employment growth but also for income distribution. The more capital-intensive and resource-based industries require a higher share of highly skilled and professional manpower. A priori, one would expect this to contribute to less equal income distribution in Indonesia than the East Asian NIEs. This pattern is confirmed by available secondary data. The gini ratio and other indicators of inequality do not show much change in Indonesia over the 1970s and 1980s [8]. This is in contrast to the gini ratios in both Taiwan and Korea which declined substantially during modernization and are relatively low by third world standards.<sup>40</sup>

<sup>39</sup> See [38] for a discussion of the link between capital intensity and earnings in the textile industry.

<sup>40</sup> One should interpret international comparisons of income distribution with care, however, given large differences in sampling and concepts used.

In addition, the important role of foreign investment in economic development in Indonesia (like the other "ersatz" economies of Southeast Asia) may also contribute to worse income distribution through the effects of international standard wage rates paid to foreign professionals on the Indonesian labor market. The high salaries (U.S.\$10,000–20,000 a month, excluding housing and other fringe benefits) paid to expatriate technical staff in foreign oil and other mining companies are well known in Jakarta, and undoubtedly have had an impact on domestic managerial and professional manpower in that industry. Also, returns to domestic participants in the "foreign affected" segment of the labor market are likely to be very high, partly because of the country's shortage of highly skilled and professional manpower and its need to import persons to fill many of these posts.

## VI. CONCLUSIONS

This paper has examined labor market developments during the Suharto era in the context of transitions toward the "turning point" in other countries in the East Asian region. It has been argued that although there have been some substantial changes in the Indonesian labor market over the last twenty years, it is still basically characterized by labor surplus conditions. An excess supply of labor to the modern sector continues to depress wage rates and make it difficult to sustain improvements in working conditions for industrial workers.

In light of the experience of relatively rapid transformation in labor markets in the NIEs, it might be asked why there does not appear to have been a more rapid transition toward the turning point in Indonesia? Two factors help explain the difference. The first would be the much greater rural "surplus population," in particular the higher proportion of rural landless in Java—a feature of labor markets stretching back to the nineteenth century—when Indonesia began to industrialize rapidly in the 1970s.<sup>41</sup>

The second is the different nature of the industrialization process in Indonesia compared with other countries which were less well endowed with natural resources. Relatively capital-intensive industry was encouraged in many sectors during the oil boom years—partly for import substitution, and partly to take advantage of high-value-added exports in resource-based industries. The exchange rate reflected the latter in particular—to some extent in the form of "Dutch disease" effects during the oil boom—and gave less encouragement to labor-intensive, non-oil exports than might have been the case if Indonesia had not had access to oil and minerals to generate foreign exchange.

Thus, in resource abundant countries like Indonesia, the shift to export-oriented industry is likely to be delayed. This contributes to slower rates of labor absorption outside agriculture and hence a delay in the progression toward the turning point. The period of import-substitution industrialization could be sustained longer because processing of natural resources for the domestic market, which typically

<sup>41</sup> Remember that both Korea and Taiwan instituted land reform in the early 1950s and landlessness has historically been relatively small in both Thailand and Malaysia compared with Java. The situation in parts of the Philippines fits Indonesia somewhat better.

absorbs much less labor, was viewed as a national priority. With similar commitment to rapid economic growth, Korea and Taiwan had no choice but to go into labor-intensive industries to earn foreign exchange, and benefited in terms of employment growth.<sup>42</sup> Even when Indonesia did make the switch, in addition to more labor-intensive activities it specialized in industries such as rubber, tires, timber, palm oil, and sugar processing which use less labor per unit of output.

With the formation of the new cabinet in Indonesia in 1993, there has been increasing debate regarding economic strategy to be adopted over the next twenty-five years. One important choice is between greater emphasis on self-reliant, high-tech, and more capital-intensive projects sponsored by Minister Habibie versus continuation of policies of the economic "technocrats" which reportedly favor an industrial policy based on comparative advantage. The latter policy emphasizes the central role of labor-intensive exports at the present stage in Indonesia's development.

The debate has implications for labor as well as for macroeconomic and general development strategy. As we have seen from the experience of the oil boom period, high-tech, more capital-intensive investments are likely to limit employment growth and promote a more differentiated work force in terms of skill and income. It also places greater strains on the supply of skilled and professional manpower, increasing foreign participation in the short run, and absorbing resources in training and skill formation in the medium term.<sup>43</sup>

I have argued that a strategy broadly based on comparative advantage will provide more employment growth and more equitable outcomes for labor in Indonesia in the 1990s. It supports a move to more capital-intensive areas only once the labor market reaches the turning point and the real price of unskilled labor begins to rise. Such an approach has become much less attractive to many community and political leaders and engineers (and even some economists) who are impatient with slow progress in raising living standards, and many of whom are especially interested in national symbols and concrete displays of development achievements.

Some persons have quite incorrectly attributed slow growth in living standards to technocrat policies which have encouraged comparative advantage in the past. One implication of developments discussed in this paper, in the broader context of East Asian development, is that it is precisely because Indonesia has chosen greater liberalization (deregulation) so late—and has encouraged resource allocation which does not follow the country's comparative advantage—that labor incomes have not risen as quickly as they might have.

Thus our analysis of the labor market suggests that the welfare of poorer workers and potential job seekers, and their families, is at risk in any program which favors high-tech projects at the expense of labor-intensive activities at this

<sup>42</sup> Thus employment growth in these two countries, often averaging close to 10 per cent per annum, was twice as rapid as in Indonesia during the 1970s and 1980s [30].

<sup>43</sup> These effects on resource allocation are not insignificant if one bears in mind that it costs approximately 50–100 times more to produce one graduate from tertiary schooling than it costs to produce a primary graduate.

stage in Indonesia's development. Prior to achievement of the turning point, equity and welfare are both likely to be best served by policies which continue to encourage an allocation of resources to areas of rapid labor absorption.

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