

The Development and Labor Situation in Indonesia

Hayati Sari HASIBUAN
University of Indonesia

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I. Introduction

Indonesia is a sovereign archipelago in Southeast Asia made up of more than 17,508 islands, including nine big islands (Java, Sumatera, Kalimantan, Sulawesi, Maluku, Papua, Bali, East Nusa Tenggara, and West Nusa Tenggara). Indonesia has a population of 258,784,986 in 2016, and estimated at 263 million in 2017, which makes it the fourth most populous country on earth after China, India, and the United States. Indonesia's population share is 3.51% of world population. Indonesia has more than 300 distinct ethnic and linguistic groups. About 56.7% of its population lives on Java, the most populous island.

Indonesia has experienced a major structural shift in its economy. The manufacturing share of GDP increased by 19 percentage points while agricultural share fell by 35 percentage points. Rapid economic growth is highly correlated with structural change in the nation's economy. But the manufacturing share of employment absorption is slightly increased by 1.8 percentage points while agricultural share fell by 30 percentage points. Based on formal and informal category, the number of people working in informal sector was higher than in formal sector. By August 2016, 50.21 million people (40.42%) worked in formal sector, meanwhile 68.20 million people (57.60%) were in informal.

By 2010 half the population lived in urban areas and with the increasing pace of urbanization it is expected that 67% will be living in urban areas by 2030. This shift will have profound implications for the labor market. In particular, rural labor force participation tends to be higher than rural unemployment. If these trends continue, there is a risk of lower labor force participation and higher unemployment in the years to come.

The other main issue in the Indonesia's manpower is the education and skill gaps. Based on the graduation, workers was dominated by level of education of primary school graduated, at about 49.97 million (42% of the total workers). Only small percentage of workers are diploma graduated, 2.88%. The lack of education and skill of workers worsened with the mismatch of labor market demand.

II. The development in Indonesia: Current status and outlook

Typically, as a country's economy develops, the proportion of contribution from the agriculture sector declines relative to the contribution of the manufacturing and service sectors. While the growth of the service sector in Indonesia has been slower compared to other countries in the region and manufacturing contributes proportionately less to the economy. Overall trends indicate that the country is becoming less reliant on agricultural activities. Manufacturing and services play an increasingly important role. This can be expected to result in an increased rate of urbanization, since both manufacturing and services tend to be based in urban locations.

Employment and economic growth are dependent on one another. The economic growth contributes to

Table 1. Economic and Employment Growth, 2005–2014 (%)

Sectors	2005-2009		2010-2014	
	GDP Growth Rate	Employment Growth Rate	GDP Growth Rate	Employment Growth Rate
Agriculture, Forestry, Hunting, Fishery	3.9	0.2	4.2	-1.6
Mining and Quarrying	2.2	6.3	2.4	2.7
Manufacturing	3.8	1.8	5.2	2.0
Electricity, Gas, and Water	10.3	3.5	6.4	4.3
Construction	7.9	4.7	7.2	5.4
Wholesale trade, Retail trade, Restaurant, Hotels	5.8	5.2	6.2	2.0
Transportation, Storage, Communication	15.2	2.0	9.4	-1.9
Financing, Insurance, Real Estate, Business Service	6.7	6.8	7.4	11.7
Community, Social, and Personal Services	6.3	Na	5.8	Na
Total	5.6		5.7	

Source: Statistical Bureau 2016.

the employment growth from the labor activities created by economic sectors, manufacturing, and services. The government has set targets to create as many as 2 million jobs per year; this would require at least 7% of economic growth rate.

Table 1 displayed GDP by category and the elasticity of the employment growth from 2005 to 2014. Agriculture sector still had positive growth on those two periods, but the employment growth on that sector significantly diminished. Mining sector growth rate was stable in two periods, but contributed to the higher employment growth in the first period 2005-2009, and declined in the period 2010-2014. The highest economic growth was in financing sector and it contributed to the highest rate of employment growth rate. Manufacturing sector has positive economic growth and contributed to the positive employment growth, but the additional points in employment growth rate is lower than in economic growth.

III. Indonesia's population growth and demographic bonus

Indonesia experienced a condition of high population growth with more than 2% yearly growth rate in 1980s and before. This yearly growth rate slowed down in the rate of 1.9% in 1990s. In the period of 2013 and 2016, the yearly growth was about 1.2% and 1.17% respectively. The total fertility rate was 2.2 in 2013. And in 2016 it increased to 2.47. The annual number of births continues to grow, making Indonesia's population doubled within just 40 years from 119 million in 1971 to 241 million in 2010. In 2016, the population was 257 million and projected to increase to 345 million in 2030.

Age demographics have seen that Indonesia's population is youthful. In 2014 the percentage of the population aged 14 or younger was 25.42%, the percentage of working-age population (15-64) was 67.78% and the percentage aged 65 and above was 6.79%. This mostly same percentage happened in 2016 and these figures stood at 27.09%, 67.40%, 5.50% respectively (Figure 1).

The heavy concentration of population was seen in some urban areas in Indonesia, such as Greater Jakarta, Greater Surabaya, Greater Medan, and Greater Makassar. Indonesia's urban population was about 54% of the total population in 2016. The trend of urban population concentration has been increasing

yearly, and as of 2010 national census, approximately 49.7% of Indonesia's population centers in some urban areas. It has increased sharply from 30.1% in 1990 (Table 2).

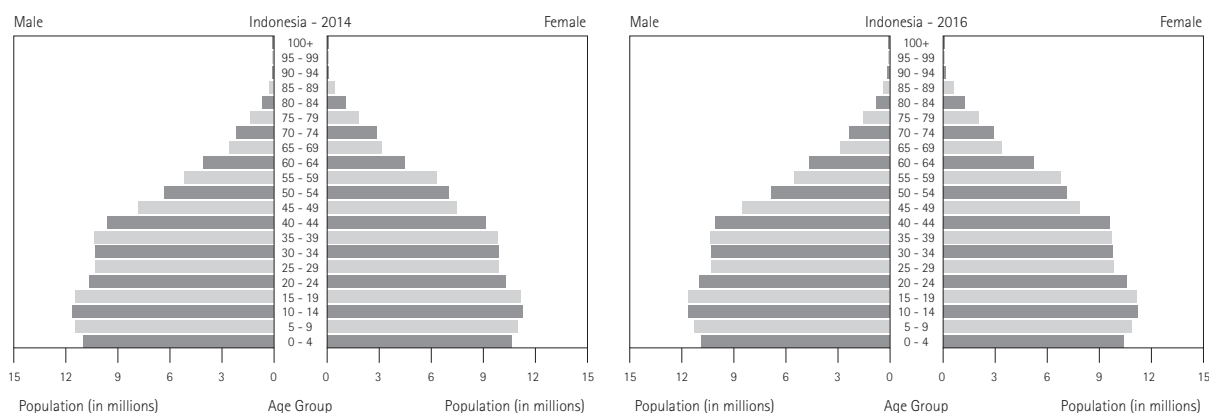


Figure 1. Indonesia population pyramid 2014 and 2016 (source: Statistical Bureau)

Table 2. Population projections for urban and rural areas, 2010–2030

Variable	2010	2015	2020	2025	2030
Number of people (millions)					
Urban	118.8	136.2	153.7	170.9	187.9
Rural	119.7	119.3	117.4	113.9	108.5
Percentage of the population (%)					
Urban	50	53	57	60	63
Rural	50	47	43	40	37

Source: Statistical Bureau, Indonesia population projection, 2010-2030

IV. Characteristics of recent labor issues

Indonesia's total population stands at 258.7 million in 2016. Of this total, 70 million are aged 0-14, 174.4 million are in the 15-64, and 14 million are 65 or above (Table 3). The population aged 15 and older in August 2013 was 180 million, and increased to 183 million in August 2014, 186 million in August 2015, and 188.6 million in 2016. The data showed that population aged 15 and older increased approximately 3 million per year. The labor force yearly increased around 1.7 million per year during the period 2013 to 2016.

Employment tends to fluctuate by the years between 2013 and 2016, and fluctuate substantially between February and August of each year. The number of employment in Feb 2013 was about 115.9 million and the number increased in 2014, 2015, and 2016. Interestingly, the number of employment in August tends to be lower compared to the number in February of each year.

Indonesia is still facing the big problem of unemployment with more than 7 million unemployment every year during 2013-2016. While unemployment rate remain stable throughout the year, unemployment rate in August 2016 was 5.61% increased by 0.11 percentage point from February 2016 (5.5%) and slowed 0.57 percentage point compared to 6.18% in August 2015. Labor participation rate in Indonesia on August 2016 was 66.34% that is lower compared to Feb 2016 (68.06%).

Formal job creation has slowed considerably in recent years. In August 2015 growth in employment slowed sharply year on year. As Table 3 illustrates, fewer than 200,000 jobs were created in between August 2014 and August 2015, while the population aged 15 years and over increased by 3.1 million persons. In the same period, the number of unemployed workers increased by over 300,000 people in one year. The rate of unemployed was in the range of 5.5% to 6.2%. In 2013, the labor force participation ratio was 69.2%, and stand at the same percentage in 2014 and 2015, but it declined to 68% in 2016.

In resume, Indonesia's labor is still facing some big issues. First, 33.66% of people are not economically active. Second, 7.03 million people are unemployed. Third, 8.97% half employment. Fourth, 57.60% people are working in informal sectors. Table 4 presented labor force participation ratio classified by gender from 2013 to 2015. It points out the following characteristics of Indonesia's labor force ratio. (1) The labor force participation rate of men was in the range of minimal 82.7% and maximal 85.0% during the period 2013 to 2016. (2) This rate was much higher (approximately two times higher) than that of women which was in the range of 48.9% and 54.5%, hovering at around 50% of the workforce.

Urban concentration of labor

The concentration of economic activity rises with development: no country has developed without the growth of its cities. As countries become richer, economic activity becomes more densely packed into towns, cities, and metropolises. The share of a country's population settled in towns and cities rises rapidly with its development from low to middle income. Urbanization rate is 52% and GDP per capita \$3,475.

Employment in urban areas grew by 45% since 2001, against 6% growth in rural areas. Urban

Table 3. Indonesia key labor market indicators (2010–2016)

Key Indicator	2013		2014		2015		2016	
	Feb	Aug	Feb	Aug	Feb	Aug	Feb	Aug
Total population (millions)	247.7	249.4	251.0	252.2	254.4	255.5		258.7
Population aged \geq 15 years (millions)	178.1	180.0	181.2	183.0	184.6	186.1		188.6
Labor Force (millions)	123.2	120.2	125.3	121.9	128.3	122.4	127.6	125.4
Employed (millions)	115.9	112.8	118.2	114.6	120.8	114.8	120.7	118.4
Unemployed (millions)	7.2	7.4	7.2	7.2	7.5	7.6	7.0	7.0
Employment to population ratio (%)	65.1	62.7	65.2	62.6	65.5	61.7		
Labor force participation ratio (%)	69.2	66.8	69.2	66.6	69.5	65.8	68.0	66.3
Unemployment rate (%)	5.8	6.2	5.7	5.9	5.8	6.2	5.5	5.6

Source: Statistic Bureau, 2017.

Table 4. Changes in labor force participation by sex, 2013–2015

Labor Force Participation Rate (%)	2013		2014		2015	
	Feb	Aug	Feb	Aug	Feb	Aug
Men	85.0	83.4	85.0	83.0	84.6	82.7
Women	53.4	50.3	53.4	50.4	54.5	48.9

Source: Statistic Bureau, 2017.

employment growth has gradually outpaced rural areas over the last decade. Since 2008, jobs in urban areas have been growing faster than the working age. Importantly, urbanization has been associated with the rise in formality, with 72% of jobs created in urban areas being formal.

Indonesia's major urban area, Jakarta, which makes up an 11% share of the country's population, figures prominently internationally, showing a population on par with other megacities like Shanghai, Delhi, and Tokyo. In fact, if Jakarta's current levels of growth continue, it is expected to overtake Tokyo and become the largest metropolis in the world by 2028 (World Bank, 2016). Other major cities operate as economic engines for their respective countries. As such, Jakarta will play a critical role in helping Indonesia achieve its stated target of a sustained 7% growth rate.

Structure employment by sector

Structure of employment sector did not change significantly during the period 2013-2016 (Table 5). Agriculture sector, trade sector, service sector, and industry sector still stand as the most dominant absorption of employment in Indonesia. Meanwhile, in 2008, the service sector overtook agriculture as the sector accounting for the largest proportion of jobs in the Indonesian economy, excluding transport, communication, and financial services.

Table 5. Employment growth by sector, 2013-2016 (million)

Sector	2014	2015		2016	
	Aug	Feb	Aug	Feb	Aug
Agriculture, Forestry, Hunting, and Fishery	38.97	40.12	37.25	38.29	37.77
Manufacturing	15.26	16.38	15.25	15.97	15.54
Construction	7.28	7.72	8.21	7.71	7.98
Wholesale trade, Retail trade, Restaurants and Hotels	24.83	26.65	25.68	28.50	26.69
Transportation, Storage, and Communication	5.11	5.19	5.11	5.19	5.61
Financing, Insurance	3.03	3.65	3.27	3.48	3.53
Community and Personal Services	18.42	19.41	17.94	19.79	19.46
Others (Mining, Electricity, Gas, and Water)	1.73	1.73	1.61	1.72	1.83

Source: Monthly report of Social and Economic, Statistic Bureau, 2017.

The changes of employment pattern have been happening over time. In 1985, 54.7% of employed people worked in agriculture, 13.4% worked in industry, and 31.8% worked in services. By 2015, 30 years later, the composition of employment had further developed, with 37.2% of employed people working in agriculture, 15.2% worked in industry and 47.6% worked in services. Data in August 2016 shows, compared to that in August 2015, the employment working at service sector rose as many as 1.52 million (8.47%), trade sector rose as many as 1.01 million people (3.93%), transportation sector rose as many as thousand people (9.78%), manufacturing rose as many as 280 thousand (1.83%), and financing sector rose as many as 260 thousand (7.95%).

In the economic structure as a whole, the sector's absorption capacity of employment is still very low. The percentage of people working in agriculture declined approximately 20% in 30 years. But the percentage of people working in industry increased slightly 1.8% in 30 years, which means that the industry sector did not develop well in economic structure of nation. With this limited absorption capacity

of employment, therefore, 72.5% of employment in Indonesia is in the informal sector.

Education and skills trends

Indonesia has significantly increased rates of school enrollment and the average years of schooling in recent years. The supply of workers with more years of schooling and higher levels of education is increasing. However, the composition of the labor force continues to be dominated by workers with lower level of education. The characteristic of education level and age was as follows: the population aged over 40 years have primary school or below as their highest level of education, those aged below 40 years are more likely to have completed junior high school or senior high school, those aged below 30 years have the highest rates of high school completion and many have completed undergraduate.

Table 6. Indonesia human resources parameter, 2015

Parameter	2015	
	Number (million)	Percentage (%)
Total Workforce (million)	120.82	100
Workforce of primary school graduates	54.6	45.19
Workforce of junior high school graduates	21.47	17.77
Workforce of Senior high school graduates	18.91	15.65
Workforce of diploma (3 years) graduates	3.10	2.57
Workforce of undergraduates	10.00	8.28
Workforce not passing of primary school	12.74	10.55

Source: Ministry of Economic Affairs, 2016.

Challenges remain, particularly in terms of the quality of education outcomes. Indonesia's performance based on international assessment programs has uncovered issues related to the quality of mathematics, science, and literary education.

In average, wage of farm worker in December 2016 was 48,627 IDR/day, while construction worker was 83,190 IDR/day. Farmer exchange rate in January 2017 was 100.91 declined 0.56% compared with December 2016 and regional (village) inflation was 0.79%. In supply side, weaknesses in the education and skills of the labor force have hindered productivity gains.

Regional disparities in the employment situation have existed for a long time in Indonesia. A major factor underlying regional disparities in the employment situation is the uneven geographic distribution of industries with significant employment absorption capacity. According to the analysis of regional development in Indonesia, there were some regions with few employment opportunities and some regions with a high proportion of tertiary industry such as wholesale and retail trade, dining and accommodation, and the service sector.

The disparity in employment opportunities is causing an outflow of the labor force from less urban areas to more urban areas, which has the potential to weaken local communities, and develop into a full-blown crisis. In recent years the excessive concentration of young people in the urban regions, and the exodus of young people from provincial areas, have been the focus of growing concern. The migration of the nation's youth from rural to urban areas has repeatedly emerged as an issue every time.

V. Labor policy for equality and wellbeing of people

The Government policy is calling for wide policies to promote the growth of regional economies under the banner of nine Development Agenda (Nawacita) of Joko Widodo-Jusuf Kalla: (1) returning the state to its task of protecting all citizens and providing a safe environment; (2) developing clean, effective, trusted, and democratic governance, (3) developing Indonesia's rural areas, (4) reforming law enforcement agencies, (5) improve quality of life, (6) increasing productivity and competitiveness, (7) promoting economic independence by developing domestic strategic sectors, (8) overhauling the character of the nation, and (9) strengthening the spirit of unity in diversity and social reform. In short, this nine-priority agenda of government is to improve the quality of Indonesians by improving the quality of education and training through "smart Indonesia" program and increasing the social welfare and health through the "healthy Indonesia and prosperous Indonesia" programs.

Based on National Development Planning Phase, the period of 2015-2019 is the term of: more competitive, economic, efficient national resources, qualified human resources, and science and technology. National target of unemployment rate reduction is from 6.18% in 2015 to 4.0-5.0% in 2019. And national target of poverty rate reduction is from 11.13% in 2015 to 7-8%. In the last five years, 2010-2015, the number of poor people reduced around 486 thousand per year, or 2.43 million within five years. This number is only a half reduction from the period of 2005-2010 with 4.08 million of poor people reduction.

VI. Conclusion and recommendation

To ensure sufficient populations and workforces in rural areas, it is essential to alleviate the overconcentration of people in major conurbations, particularly the greater Jakarta area. Migration is most prevalent among young people aged 15 to 24, who are moving to cities to attend school or start jobs. And to stem the outflow of this demographic from regional communities, there is a need to boost attendance at universities and to encourage young people to return to their regions of origin to work after completing university in urban areas. To stabilize populations in local communities, jobs are required, but the reason young people most commonly give for not seeking jobs outside major urban areas is a lack of desirable employers there.

To boost the quality of labor, it is vital that each individual worker continues developing and heightening his/her professional skills. Indonesia needs to ensure that new entrants to the labor force are equipped to support economic development. Labor market institutions need to provide an enabling environment for supporting economic growth and job creation. There is a pronounced disconnect between the jobs companies offering and the skills workers have. So the strategy to overcome this sort of profound mismatch of what employers are offering and what labor force is having is to enhance the vocational training based on labor market demand.

Integrated solutions are badly needed to overcome regional disparity and rural-urban labor's problem. It is vital that regions utilize local resources to boost industry and generate employment. Social productivity and social security systems need to support the productivity of the labor force and help to resolve issues related to poverty and inequality. The connectivity between rural-urban and center growth dispersion is needed in providing economic and social services for people. And the other two key strategies are: diversifying economic activities in rural areas and strengthening economic rural-urban relations.

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