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978-0-521-59412-7 - Indonesian Labour in Transition: An East Asian Success Story?

Chris Manning

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This book deals with the transformation of labour markets in Indonesia over 30 years of New Order government under President Soeharto. It traces the impact of rapid economic growth on employment, wages and labour productivity in an initially poor labour surplus economy. Key elements of the process include a growing industrial and informal sector work force, rising labour incomes, increasing mobility of rural labour, regional integration and greater female participation in the economy. Challenges include high rates of urban unemployment, dissatisfaction with tight controls imposed on industrial workers and rising aspirations created by sharp increases in minimum wages.

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Preface

The book had its origins in my early experiences in Indonesia in the late 1960s. As a volunteer working for the Indonesian government – together with much more senior colleagues from the Bogor Agricultural University – I had the rare opportunity to stay for several months in two villages, and participate in field work on problems of agricultural and rural development in Karawang District, in northern West Java. That experience and subsequent long periods of work in Indonesia convinced me that Indonesia's fundamental development problem was rural poverty, a perspective which I have retained to the present

Although only superficially, I encountered the problems of poverty first hand – insecurity, dependence, infant mortality and a lack of self esteem associated with little education and choice in economic and social life. Many of these problems were associated with low labour earnings among landless households. My approach to the problem of labour markets developed on the basic premise that there would have to be a massive shift of workers out of agriculture in land-scarce Java, if some of these problems were to be overcome.

Subsequent involvement in a variety of research projects and institutions, working and living with Indonesians in Yogyakarta and Bogor, led to a more specific interest in labour problems – from the perspectives of rapid population growth and associated problems, the wage structure, the informal sector and unemployment. Increasingly I felt it necessary to try to understand the national dimensions of the labour problem from aggregate statistics, however imperfect. I developed an approach of trying to match the story implicit in aggregate figures with the not always consistent findings of micro studies.

At the same time, both the literature and my colleagues convinced me of the importance of the macroeconomic environment and of policies for a labour market transition which would contribute to poverty alleviation. The experience of other East Asian success stories loomed large in suggesting that many problems of rural deprivation could be overcome in a

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relatively short time frame – certainly in less than the life span of one generation. I remained sceptical, however, that this could be achieved on Java and in Indonesia more generally. For much of the 1970s and 1980s – as for much of the previous century – it seemed that the problems of rural poverty were endemic, and it would take a lifetime of several generations before they could be substantially overcome, even with the most favourable policies and considerable luck.

At the end of the project, I have had to admit that my colleagues were probably closer to the mark than I expected. The Indonesian story of labour market transformation is remarkable. However, my implicit message for the optimists is that Indonesia has still a long way to go before it can be described as successful in terms of levels of living rather than merely rates of change. Employment conditions and wages still have to undergo substantial improvements to guarantee sufficiently high living standards for the majority of the population – by almost any criteria which might be considered satisfactory in most industrial countries.

The book is an account of Indonesian economic development viewed from the perspective of labour market change. It covers a wide range of labour market experience, although some issues – such as child labour and education and training have only been dealt with summarily. The book has tended to concentrate more on processes on Java, primarily because much more is known of labour market change on this island compared with the Outer Islands of Indonesia.

The story of labour market change in this book has thus been long in the melting pot – and a considerable time stewing quite vigorously as well. I have laboured long in trying to make sense of the labour statistics and to reconcile the tale which they seemed to tell with both macroeconomic developments and the findings of community and firm-based micro studies. Ambitiously, the book has attempted to compare and contrast the Indonesian experience with those of other countries in the region. However, I believe it is only from such a comparative framework that we can gain some understanding of the significance of developments in Indonesia.

The book is written primarily for those interested in economic development and labour markets in Indonesia and the Asian region. Labour economics is not a fashionable field of specialisation in Indonesia and I hope that the book will stimulate more interest in this subject. I also hope that the book will be read by non-economists as well as economists. I suspect that many from disciplines other than economics might be sceptical of the ‘success’ implicit in the findings of much of the analysis – although the results by no means suggest that labour market processes have benefited

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all workers, or benefited them optimally at all times. In my view, a more fruitful dialogue is much needed between seemingly optimistic economists and other social scientists who hold less sanguine views on the processes of economic development, and their implications for social and political change. This book attempts to contribute to such a dialogue.

I am indebted to many individuals and institutions for their support and encouragement. Ross Garnaut, Professor and the Head of the Economics Division, and Hal Hill, Head of the Indonesian Project, both in the Research School of Pacific Studies, have given their full support to the project from the outset and gave valuable comments on the entire manuscript at various stages of writing. Peter McCawley read a first draft of the entire book (over Christmas in Manila as he was in the midst of moving!). His comments have made a major contribution to the clarity of the arguments. Several other colleagues in the Economics Department – Professors Jamie Mackie and Heinz Arndt, Premachandra Athukorala, Colin Barlow, George Fane, K. Kalirajan and Ross McLeod – gave helpful comments on various drafts of chapters or on the articles on which they are based. Professor Gavin Jones also contributed valuable comments. The stimulus which I received from joint research efforts with Gavin Jones, Sisira Jayasuriya and P. N. Junankar is also gratefully acknowledged.

Several institutions have had a hand both directly and indirectly in assisting the development of the book. Foremost, I wish to acknowledge the contribution of the Indonesian Project, the Department of Economics and the School of Pacific Studies at the Australian National for providing material support and a stimulating environment for research. I also developed some of the ideas for the book at Flinders University in South Australia, and while working at the Population Studies Center at Gadjah Mada University and later for the Agro-Economic Survey in Bogor in the early 1980s. I cannot mention individually all the many people from these and other institutions who helped me along the way, although I should especially thank Gunawan Wiradi, the late Yusuf Saefudin and Professor Dipak Mazumdar. I gratefully acknowledge the permission of the Central Bureau of Statistics in Jakarta for the right to use computer tapes on labour force and industry, and also the provision of materials by the Ministry of Manpower.

I owe thanks to several mentors for helping my understanding of Indonesia and development processes – Professor Peter Drysdale, Professor Masri Singarimbun, Dr Thee Kian Wie, the late David Penny and my late father, Alan Manning. The work has also been stimulated by the work of many researchers, both in and outside Indonesia, and who have assisted my learning of the intricacies of the Indonesian economy and

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labour market processes. Many Indonesian employers gave up their valuable time to provide information of wages and other matters. And, of course, I owe a great debt of thanks to many Indonesian workers – both in towns and villages – from whom I have gained insights, and about whom this book is primarily written.

Many people also helped in the production of the book. My inability to produce good tables meant that I depended on the support of Sonya Bodger, Iain Rowe and Jesmin Fernando at various times. Abrar Yusuf provided valuable assistance in computer programming and helped with the figures. Norma Chin applied her considerable keyboard skills, working long hours, and Maree Tait offered valuable advice and encouragement, to help me put together the final manuscript in a publishable form. I am extremely grateful for the cheerful and willing assistance of all these people – despite my grumpiness at times, disorganisation and sometimes outrageous requests.

Finally – although it sounds like a cliché which many male academics spout – I thank my generous and wonderful wife Tri for her patience and support. My two understandably sometimes miffed children – Ned and Karina – have also put up with long absences and lack of attention, and have also been kind enough not to drive their helpless Mum around the bend, to boot.

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Glossary

Many Indonesian constructions are not acronym as such, but formed from the initial syllable or first few letters of the composite words, e.g., *Pungli* from *Pungutan Liar*. These are shown in lower case.

- ASEAN Association of South East Asian Nation
 ASTEK (Asuransi Sosial Tenaga Kerja) Government insurance fund
batik Batik
becak rickshaw
betawi the original inhabitant of Jakarta
ceblokan and traditional system of harvesting
tebasan
 CPI Consumer Price Index
calo jobbers, labour recruiters, middleman
 FLPs Female Labour Force Participation rates
 FBSI (Federasi Buruh Seluruh Indonesia) All-Indonesian Labour Federation
 GDP Gross Domestic Product
 GOLKAR (Golongan Karya) The ruling party
 GSP General System of Preferences
 ILO International Labour Organisation
 INDOC Indonesian Documentation Centre
 INPRES Presidential Instruction
 ISI Import Substitution Industrialisation
jamu herbal medicines
kekeluargaan principles of family cooperation
 JABOTABEK (Jakarta, Bogor, Tangerang, Bekasi) planning region encompassing the city of Jakarta and districts of Bogor, Tangerang and Bekasi
 JAMSOSTEK (Jaminan Sosial Tenaga Kerja) Worker Social Security
kampung village
kadaluwarsa outdated

xxii *Glossary*

- kretek* clove cigarettes
- keterbukaan* openness
- Kompas* one of the biggest Indonesian Newspapers
- LDC Less Developed Country
- M-Sector manufacturing, construction, mining and utilities
- MFN Minimum Physical Needs or KFM (Kebutuhan Fisik Minimum)
- MW Minimum Wages
- ngobjek* and hiring out government vehicles, for private gain
- ngompreng*
- NIEs New Industrialised Economies
- OPEC Organization of Petroleum Exporter Countries
- OPIC The Overseas Private Investment Corporation
- PERTAMINA Perusahaan Pertambangan Minyak dan Gas Bumi (Indonesia's State Owned Oil Company)
- Pancasila (Five Principles) the state ideology
- penghinaan* insult
- pungli* (pungutan liar) illegal charge
- PERTEKSI Perserikatan Perusahaan Tekstil Seluruh Indonesia (All Indonesia Union of Textile Company)
- PKI (Partai Komunis Indonesia) Indonesian Communist Party
- REPELITA Rencana Pembangunan Lima Tahun (Five Year Development Plan)
- RGDP Regional Gross Domestic Product
- SBM (Serikat Buruh Merdeka) The Solidarity Independent Labour Union
- SBSI (Serikat Buruh Sejahtera Indonesia) The Prosperous Labour Union
- SMA (Sekolah Menengah Atas) Senior High School
- SPSI (Serikat Pekerja Seluruh Indonesia) All Indonesia Workers Union
- SOBSI (Serikat Organisasi Buruh Seluruh Indonesia) All Indonesia Workers Organisation
- S-Sector the service sector (banking, government administration, petty trade, transport and personal services)
- sawah* irrigated rice field
- tahu* and *tempe* bean curd cakes
- TFC Textile, Footwear and Clothing
- THR (Tunjangan Hari Raya) Idul Fitri Allowance
- unjuk rasa* strikes, stop work protests
- tukang* artisan
- warung* street stall