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## Labor Market Conditions in Indonesia

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## Highlights of Labor Market Condition in Indonesia

Indonesia has achieved remarkable success in economic development in recent years. During the last decade GDP growth ran as high as 7.8% per year (in 1996), but since the economic crisis that hit Indonesia in 1997, as a result of the crisis that year in Thailand growth has plunged, falling to just 0.85% in 1999. During the first quarter of 2002, however, GDP growth has rebounded, climbing to 3.25%.

The prolonged economic crisis destroyed many local and foreign businesses and led to the collapse of numerous banks and other financial institutions, all of which has caused a significant increase in the unemployment rate. The general situation in the labor market has been worsening even since, with large-scale shifts in employment from the formal sector to the informal sector (the so-called "informalization of workers").

In the wake of the currency and financial crises, the government of Indonesia sought assistance from the International Monetary Fund. As a result, the government adopted an IMF-endorsed Structural Adjustment Program. The plan, spelled out in a letter-of-intent (LOI) with the IMF, has driven up interest rates, increased the pace of privatization, cut government subsidies, and reduced national economic sovereignty.

<Table 1: Economic growth in 2002>

	Quarter I	Quarter II	Quarter III
Economic Growth (%)	3.25	2.9-3.4	3.5-4
Inflation (%)	14.08	11.48	9-10
Exchange rate (IDR/ USD)	10,299	8,713	8,450-9,000
BI Certificate Deposit for 1 month (%)	16.76	15.11	

Source: Bank Indonesia

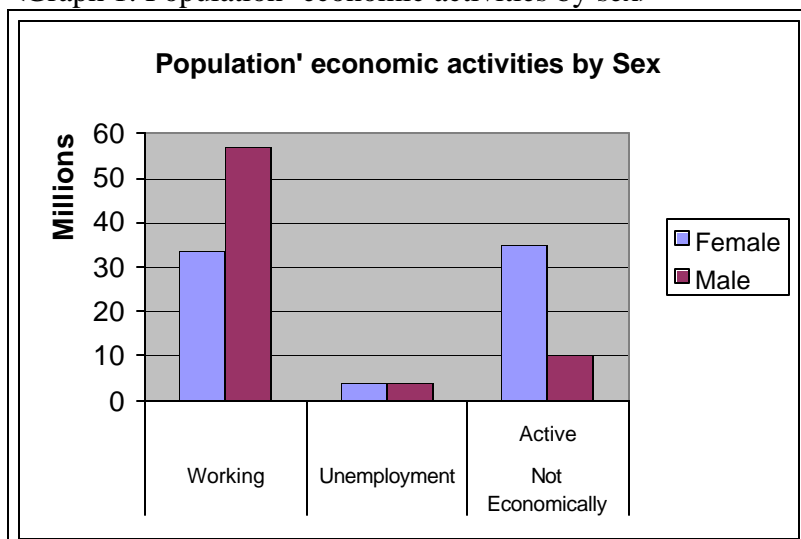
<Table 2: Various Indicators of Macro Economics>

	1996	1997	1998	1999	2000	2001
Inflation	6.47	11.05	77.63	2.01	9.35	12.55
Average Exchange rate	2,342	2,909	10,014	7,855	8,422	10,261
Interest rate	17	16	22	27	15	14
GDP growth rate	6.20	3.00	-14.70	-0.50	3.30	1.90

Source: ADB and CIRCLE

The "economic recovery" in 2000 (see Tables 1 and 2) did not create sufficient new jobs to lower unemployment, especially given the scale of "new entrants" to the labor market among the young. After positive growth in 2000, the labor market softened along with slower growth in 2001.

<Graph 1: Population' economic activities by sex>



Source: CBS and CIRCLE

<Table 3: Economic activity rates, by sex , 2001>

	Working	Unemployment	Not economically active	Total
Male	57,131,424	4,032,435	10,156,796	71,320,655
Female	33,675,993	3,972,596	35,064,629	72,713,218
Total	90,807,417	8,005,031	45,221,425	144,033,873

Source: Central Bureau Statistics

More Indonesian women are now entering the labor market. As of 2001, the labor force participation rate for women had reached 33,675,993 or about 37.1% of the population (see Table 3). The increase in female labor force participation is mainly due to the rising unemployment rate for men, itself a product of the economic crisis.

<Table 4: The growth of population and the economically active population >

Year	1997	1998	1999	2000	2001
Total Population	201,350,000	204,390,000	207,437,000	210,400,000	213,540,000
Economically active population	157,393,266	138,556,198	141,096,417	141,170,805	144,033,873
Labor Force	91,324,911	92,734,932	94,847,178	95,650,961	98,812,448
Employment	87,049,756	87,672,449	88,816,859	89,837,730	90,807,417
Unemployment	4,275,155	5,062,483	6,030,319	5,813,231	8,005,031

Source: Central Bureau Statistics

<Table 5: Total Unemployment / Labor Force by sex>

	1997	1998	1999	2000	2001
Male	2.5	3.1	3.7	3.5	4.1
Female	2.16	2.37	2.64	2.58	4.02

Source: CBS and CIRCLE

<Table 6: Economic activity, women>

No	Year	Working	Unemployed	Not economically active
1	1992	30,351,790	921,067	39,848,133
2	1993	30,464,803	948,574	41,487,054
3	1994	31,729,664	1,717,344	41,691,091
4	1995	NA	NA	NA
5	1996	32,711,849	2,070,145	43,168,242
6	1997	33,079,098	1,975,741	44,485,799
7	1998	33,773,046	2,200,275	34,351,508
8	1999	33,908,174	2,506,124	36,414,298
9	2000	34,398,667	2,472,572	34,461,767
10	2001	33,675,993	3,972,596	35,064,629

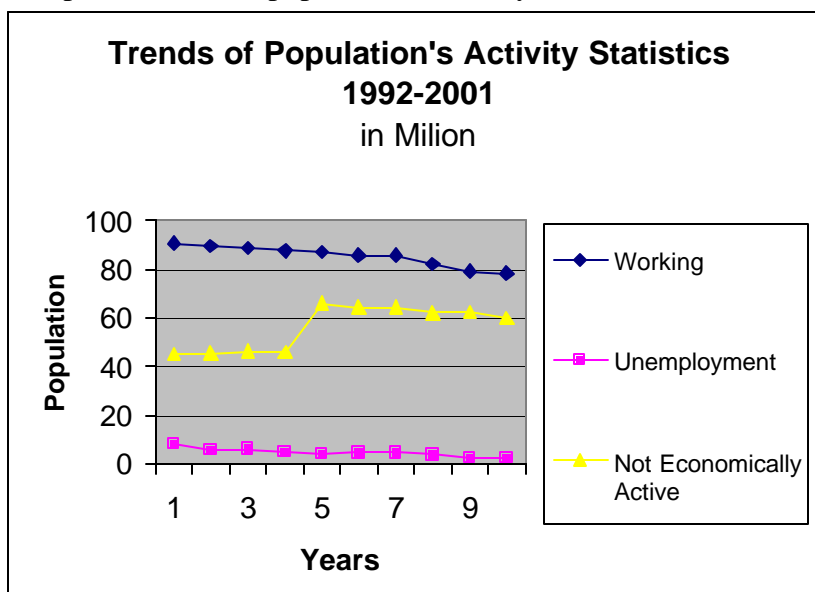
Source: Central Bureau Statistics

<Table 7: Economic activity, men>

No	Year	Working	Unemployed	Not economically active
1	1992	48,166,582	1,264,535	20,222,352
2	1993	48,735,739	1,296,962	20,859,167
3	1994	50,308,445	2,020,180	20,340,591
4	1995	NA	NA	NA
5	1996	52,989,964	2,337,624	21,186,939
6	1997	53,970,658	2,299,414	21,582,556
7	1998	53,899,403	2,862,208	11,469,758
8	1999	54,908,685	3,524,195	11,489,366
9	2000	55,439,063	3,340,659	11,058,077
10	2001	57,131,424	4,032,435	10,156,796

Source: Central Bureau Statistics

<Graph 2: Trends of population's activity Statistics 1992-2001>



The total population of Indonesia was estimated to be 213 million as of 2001. At the same time, the size of the economically active population age 15 and over was estimated to be 144,033,873. Between 1997 and 2001, the employment rate increased 4.32%, from 87,049,756 to 90,807,417. The largest share of the workforce is still dominated by workers with only a primary-school education (50,280,736 workers in 2001). The share of workers with high school and university degrees, however, has been rising in urban areas, but less-well educated workers are still a majority even in cities.

Employment edged up by 1.1% in 2001, but this rise was insufficient to offset the population increase and the rise in the labor force participation rate. Higher employment was mainly in the formal sector, which accounts for about one third of economy, while little job growth occurred in the informal sector, which depends heavily on employment in the poorly performing agriculture sector.

<Table 8: Incidence of poverty (head count index)>

	1990	1993	1996	1998	1999
Urban	16.8	13.5	9.7	21.9	20.0
Rural	14.3	13.7	12.3	25.7	25.9
Urban+ Rural	15.1	13.7	11.3	24.2	23.6

Source: International Labor Organization

Political instability, decaying infrastructure, and the crisis that followed the fall of General Suharto, resulted in capital flight amounting to USD 20.2 billion, as poverty engulfed an estimated 23 million people. The poverty rate in rural areas doubled in the past decade, from 14.3% in 1990 to 25.9% in 1999.

<Table 9: Poverty gap index (P1)>

	1990	1993	1996	1998	1999
Urban	3.2	2.3	1.6	2.5	3.8
Rural	2.1	2.0	1.8	3.7	4.8

Source: International Labor Organization

Between 1990 and 1999, the poverty gap index (P1) (see Table 9) first fell (through 1996) and then rose sharply after the 1997 crisis, both in urban and rural areas.

<Table 10: Real wages: production workers and/or median wage>

	1990	1991	1994	1995	1996	1997	1998	1999
Nominal wage per day in manufacturing sector (in USD)	1.34	1.48	2.01	2.28	2.58	1.54	1.05	1.47
Nominal wage indices (1990=100)	100	111	150	170	193	225	265	327
Consumer Price Index (1990=100)	100	109.3	139.9	153.2	165.3	176.8	278.8	335.4
Real wage in manufacturing index (1990=100)	100	101.5	107.6	111.1	116.9	127.5	95.1	97.5

Source: International Labor Organization

The economic crisis of 1997 lowered the country's per capita annual income from about US\$1,000 to just US\$250. To combat lower wages, the government implemented a minimum-wage policy, but the minimum wages is only enough to cover basic physical needs, not enough to guarantee a minimum standard of living that includes education, health insurance, and other benefits.

Table 10 shows that the Consumer Price Index has increased faster than nominal wages indices, resulting in a serious social problem of decreasing purchasing power for workers.

<Table 11: Regional Monthly Minimum Wages 2001-2002 in USD>

Regions	2001	2002	Hike %
Aceh	28.85	36.95	28.08
North Sumatra	32.74	51.96	58.70
West Sumatra	24.04	43.11	79.33
Riau	31.63	44.12	39.49
Jambi	23.56	34.04	44.48
South Sumatra	24.52	37.12	51.39
Lampung	23.08	34.71	50.39
Jakarta	40.99	66.21	61.53
West Java	23.56	31.44	33.45
Central Java	23.56	35.22	49.49
Jogyakarta	22.84	36.03	57.75
East Java	21.15	27.44	29.74
Bali	29.78	38.19	28.24
West Nusa Tenggara	23.08	35.83	55.24
East Nusa Tenggara	26.44	36.95	39.75
East Kalimantan	28.85	55.99	94.07
West Kalimantan	29.28	42.55	45.32
North Sulawesi	35.77	49.05	37.13
South Sulawesi	28.85	41.99	45.55
Maluku	30.77	31.91	3.70
Papua	38.46	59.35	54.32

Source: Central Bureau Statistics

There is an enormous regional variation in the dispersion of the population and the incidence of poverty in Indonesia. The largest number of absolute poor live on Java, which makes up 7% of the total land area of country, but holds 60% of the national population. However, the proportion of the population below the poverty line is greater in the eastern islands. Kalimantan by contrast has 28% of land area, but only 6% of the total population and 5% of the poor. The eastern most islands of Maluku, NTB, NTT and Papua comprise 30% of the land area, 6% of the population and 11 % of the total poor.

The proportion of the poor varies by region and sub-region. Jakarta has the lowest poverty incidence at 4% while Papua, Maluku and NTT are the poorest with poverty incidence exceeding 40%. As a result of urbanization, the ratio of the urban poor to the rural poor has increased, but the number of rural poor remains by far the largest.

<Table 12: Some Indicators of Regional Variation 1999>

Regions	% Land Area	% Total population	Population Density	Poverty Incidence	% Total Poor
Sumatra	25	21	85	20	18
Java & Bali	7	60	884	23	60
Kalimantan	28	6	19	20	5
Sulawesi	10	7	72	21	6
NTT,NTB, Maluku	30	6	20	44	11
Irian Jaya	-	-	-	-	-
Total pr average	100	100	101	23	100

Source: Asian Development Bank

The financial crisis interrupted Indonesia's track record of steady poverty reduction. According to the best available estimates, poverty increased by 40% between February 1996 and February 1999. The crisis hit urban areas more severely, where poverty increased by 60%. Because of the linkages between urban and rural areas, the repercussions of the crisis were felt widely, and resulted in a steep rise in poverty in rural areas and off Java as well. The Gini index increased from 34.0 (in 0-100 scale) in 1993 to 36.0 in 1996 but then decreased from 1998 to 1999.

<Table 13: Income distribution (GINI index)>

	1990	1993	1996	1998	1999
Urban	34.0	33.0	36.0	33.2	32.6
Rural	25.0	26.0	22.0	25.6	24.4
Urban +Rural	32.0	34.0	36.0	31.9	31.1

Source: International Labour Organization