# Indonesia Assessment 1993

## *Labour: Sharing in the Benefits of Growth?*

Chris Manning and Joan Hardjono
editors




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Political and Social Change Monograph 20

This monograph is based on papers presented to the ANU's *Indonesia Update 1993*, organised by the Indonesia Project, Department of Economics, and the Department of Political and Social Change. *The Update* – and this volume – consists of two parts: an overview of recent economic and political developments and a major theme in contemporary debate and discussion in Indonesia. The theme on this occasion is labour – sharing in the benefits of growth?


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*Proceedings of Indonesia Update Conference, August 1993*
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*Department of Political and Social Change*
*Research School of Pacific Studies*
*ANU*

**Chris Manning and Joan Hardjono**
**editors**

Department of Political and Social Change
Research School of Pacific Studies
Australian National University
Canberra, 1993

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## Foreword

## The Hon. Kim Beazley, M.P.

This is the tenth anniversary of the *Indonesia Update* conference. They are probably the most important platform we have in this country for establishing constructive dialogue about our relationship with Indonesia. In a previous portfolio I did from time to time wonder whether dialogue was possible at all. It intrigues me now to see my successor as Minister for Defence enjoy such a close and detailed relationship with his Indonesian counterpart. It causes me not a little twinge of regret. At the time I was Defence Minister the best we could do was to try to reduce cooperation as much as possibly could to ensure that there was not any activity going on which could be held hostage, if you like, to good relations in either country.

It has been quite an extraordinary shift for me to see the changes which have occurred since the latter half of the 1980s. All of you would be familiar by now with the statistics on the changing economic relationship between Indonesia and Australia. It has burgeoned in the last five years as Indonesia's economy has grown. There has been an extraordinary annual growth rate of some 30 per cent in two-way trade over the last five years. That has brought Indonesia to the position, from Australia's point of view, where it is now our tenth largest trading partner: tenth in exports, twelfth in imports.

That's a substantial statistic and one to conjure with. But when one contemplates the proximity of Indonesia to Australia, perhaps it is too small. Perhaps what ought to be commented on is why trade is *not* more intense. How can it become more intense, given that we are such close neighbours? If we take a country with equivalent proximity, New Zealand, we find that the trading relationship is a great deal more significant. Dialogue is enormously important to intensifying the relationship, as indeed are all the other points of cooperation which have burgeoned over the last five years. You will be aware of very important developments such as the conclusion of the Timor Gap Treaty, and the establishment of the Australia Indonesia Institute. A plethora of agreements that have now been

reached in areas such as search and rescue, quarantine, environmental cooperation, fisheries, science and technology, copyright, extradition, and many others. And of course in my old portfolio area of Defence, cooperation is now back to a level of very considerable intensity.

The subject of your conference here today is highly specific, and goes to critical issues in the Indonesian labour market. The changes in both our countries over the last decade mean that this is a particularly apposite topic for us at this time. Because of changes in the importance of training activities, vocational education and education policy, Australia developed a number of policy responses which are very useful underpinnings for future cooperative relationships with Indonesia. I have recently had an opportunity to tour through Southeast Asia, and Indonesia specifically, and to talk to my counterparts, Indonesian Ministers Mr Wardiman and Mr Latief and other counterparts in Southeast Asia. They have told me that the next development of manufacturing industry in their country requires above all, detailed attention to skills.

Australia has over the years built a very substantial relationship with countries in the region in training students in higher education at universities. But that is a level where the demand both of their economies and indeed in ours is beginning to taper off somewhat. Where there are yawning gaps both in the economies of Indonesia and Australia is in the provision of skilled labour. We find ourselves in this country at a fortunate point in being able to provide opportunities for training in that area.

I am impressed by the Commonwealth Employment Service (CES). a body which has enjoyed an indifferent reputation over the years. But it is one which has been obliged over the last couple of years dramatically to improve its performance. It is the only organisation which stands between the long-term unemployed and a lifetime of unemployment and it has become better and better at doing its task. So much so that it is now winning contracts to provide employment advice in Russia (and if ever there is an opportunity to impose order on chaos the opportunity arises there). I am impressed by the fact that when I visited both my Ministerial contemporaries in Indonesia how interested they were in systematic, detailed across-the-board advice about the labour market which can be supplied by an organisation such as the CES. I would never have thought that the CES would be an exportable commodity as far as Australia was concerned. I now know differently.

But what was most interesting in the conversations which I had with those Ministers was the direct relationship between the way in which business perceived its needs for the development of skills in a particular community, and how their provision could be effectively coordinated by government to ensure that those skills were provided. The watchword was flexibility. In the vocational education area, Australia has learnt a great deal over the last few years. In many of our labour market programs what started as temporary responses is getting a degree of permanency. For example, our skillshare programs are tuned to the sorts of flexible responses needed for creation of skills that a country like Indonesia now requires as it goes through its next phase of development in manufacturing industry.

So I am very hopeful that the various arrangements and dialogue between my department and the equivalent departments in Indonesia are going to produce a new level of functional intensity in the relationship between our two countries. I suspect that many of the issues that you will discuss here today are going to impinge directly upon the quality of that dialogue over the next couple of years. Therefore I am delighted to be in a position to open this conference and more importantly, I am delighted that you are having it. The papers that you produce here today are going to be part of my essential reading over the next couple of weeks.

From the point of view of my portfolio, I cannot think of a more important international relationship or a greater opportunity internationally. This applies not just to the bureaucrats in my department but more importantly for the various providers of training in this country. It is a tremendous opportunity for them, both here and in Indonesia and they too, I am sure, will be most interested in the proceedings of this conference which I am delighted to declare open.

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# Glossary

Many Indonesian contractions are not acronyms as such, but formed from the initial syllable or first few letters of the composite words, eg. Bimas from *Bimbingan Massal*. These are in lower case.

| | |
|---|---|
| AAFLI | Asian American Free Labour Institute |
| *arisan* | rotating credit groups |
| ASEAN | Association of Southeast Asian Nations |
| *Astek* | (*Asuransi Sosial Tenaga Kerja)* Workers' Social Insurance Agency |
| *bapak/anak angkat* | large firm support *(bapak)* for small firms*(anak)* |
| *Bapepam* | Capital Market Supervisory Agency |
| *Bappenas Pembangunan* | (*Badan Perencanaan Nasional* ) National Development Planning Agency |
| *bedeng* | barrack |
| *beras* | milled rice |
| *Bimas* | *(Bimbingan Massal)* literally 'mass guidance' an agricultural extension programme for food crops (now discontinued) |
| *borongan* | piecework, contract labour |
| BPPT | (*Badan Pengkajian Penerapan Teknologi* ) Agency for Technological Assessment and Application |

| | |
|---|---|
| BPS | *(Biro Pusat Statistik)* Central Bureau of Statistics |
| BRI | Bank Rakyat Indonesia |
| *buruh lepas* | casual labourer |
| *buruh tani* | agricultural workers |
| *calo* | Labour recruiters, middleman |
| CASA | Centre for Asian Studies Amsterdam |
| CPI | Consumer Price Index |
| *Deklarasi Persatuan Buruh Indonesia* | Declaration of Indonesian Workers Unity |
| DKI (Jakarta) | *(Daerah Khusus Ibukota)* The Special Capital City Region (of Jakarta) |
| DPR | *(Dewan Perwakilan Rakyat)* People's Representative Council, the national parliament |
| FAO | Food and Agriculture Organisation |
| FBSI | All Indonesia Workers Federation |
| *fiskal* | exit tax |
| FLP | female labour force population rates |
| Golkar | *(Golongan Karya )* Functional Political Groups The military-backed political organisation |
| GSP | General System of Preferences |
| *harian* | daily time rate |
| ICFTU | International Confederation of Free Trade Unions |

| | |
|---|---|
| ICMI | (*Ikatan Cendekiawan Muslim Indonesia*) Indonesian Muslim Intellectuals Association |
| IGGI | Inter-governmental Group On Indonesia |
| ILO | International Labour Organisation |
| INDOC | Indonesian Documentation Centre |
| *Inpres Desa Tertinggal* | Presidential Instruction on villages which have been left behind (in development-programs) |
| *Inpres* | Presidential Instruction |
| ISIC | International Standard Industrial Classification |
| Jabotabek | planning region encompassing the city of Jakarta and *kabupaten* Bogor, Tangerang, and Bekasi |
| *kabupaten* | district |
| *kecamatan* | sub-district |
| *keluarga berencana* | family planning |
| *kenek* | assistant to driver of minibus |
| KFM | (*Kebutuhan Fisik Minimum*) Minimum Physical Needs Index |
| KIK | (*Kredit Industri Kecil*) Credit for Small-scale Industry |
| KMKP | (*Kredit Modal Kerja Permanen*) Credit for Working Capital |
| Kopassus | Special Forces Command |

| | |
|---|---|
| Kostrad | Army Strategic Reserve Command |
| LDC | Less-developed countries |
| *lepas landas* | take off |
| LIK | *(Lingkungan Industri Kecil)* Small Industrial Centre |
| *Lomba desa* | village competition |
| *loper* | an itinerant trader |
| *lurah* | village head |
| *magang* | apprentice |
| MPN | Minimum Physical Needs |
| MPR | *(Majelis Permusyawaratan Rakyat)* People's Consultative Assembly |
| *Muhammadiyah* | Muslim Organisation |
| NIC | newly industrialised country |
| *ojek* | motor cycle transport |
| *Orde Baru* | New Order (the period from 1966) |
| PDI | *(Partai Demokrasi Indonesia)* The Indonesian Democracy Party |
| *pekarangan* | house garden |
| *pemerataan* | greater equality |
| *pendatang haram* | illegal migrant workers |
| *Perteksi* | Indonesia Textile Industries Association |
| PJPT II | *(Pembangunan Jangka Panjang Tahap II)* Second Long-term Development Strategy |
| PKI | *(Partai Komunis Indonesia)* The Indonesian Communist Party |

| | |
|---|---|
| PPLH-ITB | Centre for Environment Studies, Institute of Technology Bandung |
| PPP | *(Partai Persatuan Pembangunan)* Development Unity Party |
| PSP-IPB | Development Studies Centre, Bogor Agricultural University |
| *Puskesmas* | *(Pusat Kesehatan Masyarakat)* Community Health Centre |
| *Repelita* | *(Rencana Pembangunan Lima Tahun)* Five-year Development Plan |
| RK | (*rukun kampung*) village administrative unit |
| RMW | Regional Minimum Wages |
| *ruko* | *(rumah toko)* two-story building with a dual commercial and residential function |
| *satpam* | security guards |
| *sawah* | irrigated rice field |
| *SBBPU* | *(Serikat Buruh Bangunan Pekerjaan Umum)* Construction Workers' Labour Organisation |
| SBM(Setiakawan) | *(Serikat Buruh Merdeka)* The solidarity Independent Workers Union |
| SMA | *(Sekolah Mengengah Atas)* senior high school |
| SMP | *(Sekolah Menengah Pertama)* junior high school |

| | |
|---|---|
| SOBSI | *(Serikat Organisasi Buruh Seluruh Indonesia)* (All Indonesia Workers Organisation |
| SPSI | *Serikat Pekerja Seluruh Indonesia* (All Indonesia Workers Union) |
| SUPAS | Intercensal Survey |
| *Susenas* | *(Survei Sosial Ekonomi Nasional)* National Socio-economic Survey |
| *taikong* | middleman |
| *tetap* | permanent |
| TGF | Textiles, Garments and Footwear industries |
| *transmigrasi* | transmigration |
| *tukang dalam, tukang muka, tukang bawah* | special shoe craftsmen, inside, front and sole respectively |
| *umroh* | muslim pilgrim |
| underemployment | people involuntarily working fewer hours than they wish |
| *warung* | street stall |
| *Yayasan Lembaga Bantuan Hukum* (YLBH) | Legal Aid Foundation |
| *Yayasan Pesat* | Foundation for Community Self-Development |

## Contributors

**Tadjuddin Nur Effendi** is a Senior Researcher at the Population Studies Center and Lecturer in the Faculty of Geography at Gadjah Mada University. He has written on migration and labour issues in Indonesia and completed his dissertation on the subject of non-farm employment in Java.

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scholars to write about problems of rural poverty in Indonesia under the New Order, based on his research in Sriharjo.

**Dr Kartini Sjahrir** is a lecturer in Anthropology at the University of Indonesia. She has worked for OBOR and CPIS, and has written papers on women in development and other issues. More recently, she has been engaged in a study of the informal sector in Indonesia, and is compiling a book on construction workers based on her Ph.D. thesis.

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In addition to the papers presented at the Update conference, seven papers were written specifically for this Assessment volume. The contributed papers were by Graeme Hugo, Benjamin White, H. P. Lok, Mayling Oey, Mies Grijns and Anita van Velzen, and Tadjuddin Nur Effendi. We greatly appreciate the effort which all the contributors to this volume put into drafting and revising their papers and meeting deadlines. Their 'patience' in the face of sometimes overzealous editorial intervention is also much appreciated.

The text of the opening address given by the Hon. Kim Beazley, the Minister for Employment, Education and Training is included as the foreword to this volume. We thank the Minister, His Excellency Sabam Siagian the Indonesian Ambassador to Australia, Professor Merle Ricklefs, the Director of the Research School of Pacific Studies, and the other chairpersons for finding time in their busy schedules to participate in the Update program.

The holding of the Update and completion of this Assessment volume were made possible through the assistance of many people. Bev Fraser and Allison Ley from the Department of Political and Social Change provided highly professional, cheerful and unflappable assistance with the organisation and successful completion of the conference and the book. Lyn Yu-Mackay, formerly of the Indonesia Project, played a major role in the organisation of the Update, and other project members, Liz Drysdale and Lyn Moir, also assisted with the conference. Thanks are also due to several graduate students from the Division of

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In preparation of the Assessment volume, Norma Chin lent a skilled hand with some of the keyboard work together with Julie Garret and Claire Smith. Helen Hookey and Helen Wilson also assisted Allison Ley with proof-reading. We are also grateful for the assistance of Ross McLeod and Professor Heinz Arndt for some valuable help with editing.

From its humble beginnings in 1988, the Assessment volume is now well established as a major annual publication on Indonesia. We thank all the contributors and persons involved with production of this volume for helping us to continue and contribute to this tradition.

*C.M. and J.H.*

# 1

# Introduction

Chris Manning

The year 1993 promised to be an important, indeed possibly a watershed, year in Indonesia's political cycle. It was a year which saw the re-election of the President, the election of a new Vice-President by the People's Consultative Assembly (MPR) and the appointment of a new cabinet for the period 1993-1998.

Despite initial uncertainties, these events passed relatively smoothly. The re-election of President Suharto and his deputy, former armed forces chief, General Try Sutrisno, was no surprise. However, as the President moves towards an uncertain date for completion of his long term in office, there is increasing speculation regarding the succession. Appointments to the cabinet, major military commands and other positions of influence have taken on an added significance.

The uncontroversial outcomes in politics were paralleled by a similar absence of dramatic developments on the economic front. There were no financial scandals or unexpected economic reversals. Economic progress has been relatively steady, and growth rates for 1993 are projected to be similar (around 6 per cent per annum) to those of the previous year. A few issues — for example, substantial bad debts at several major banks, a jump in the rate of inflation early in the year and the need to maintain controls over off-shore funded mega-projects — have received considerable attention. Two new reform packages were announced in June and October. The first was widely regarded as disappointing. The second, which involved further deregulation of foreign investment procedures and tariff reductions on nearly 200 items, was more favourably received among economists.

Despite the appearance of overall calm and stability, 1993 may nevertheless be judged an important year in Indonesian political and

economic history. The new cabinet will oversee the formulation of the Sixth Five Year Plan which will take the country through to the end of this century (1994/5-1998/1999). The cabinet will also preside over completion of the second 25 Year Plan, the major national, long-term document on economic and social strategy.

The changed composition of key groups within the cabinet is likely to influence the direction of policy laid out in these two documents. Most important has been the apparent eclipse of the economic technocrats as the major force in economic and social planning and the rise of the Habibie group to key positions within (and outside) the cabinet.[1] While there has been little indication of changes to economic policy in the first six months of the new cabinet, Minister Habibie might be expected to make a greater imprint on the five and 25 year plan than he has in the past. More emphasis on high-technology projects, and on the development of human resources to operate them , is likely to be one important new direction in social-economic planning.

## Indonesia Assessment 1993

Like its predecessors, the Indonesia Assessment volume for 1993 is based on papers given at the Indonesia Update conference, which was held in Canberra on August 27. The format of the book also follows that of previous years: the first part contains two papers on general economic and political developments, and the second includes papers (16 in all) on the special topic for the conference: *Labour: Sharing in the Benefits of Growth?*

Labour was chosen as the special theme for the conference mainly because of the growing national and international focus on labour issues in Indonesia in recent years. While the country has made important steps forward on a number of fronts - in general economic conditions, education, health and poverty decline — there has been a growing feeling that labour has been left behind in the development process. In part this is reflected in increased industrial unrest arising from the limited rights of many workers and the low level of wages in factories, compared with the growing incomes of the middle class. Because of Indonesia's impressive economic growth

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1 See Liddle (Chapter 2) and McLeod (1993) for details.

performance over the past 25 years, there has been considerable domestic and international attention to these issues. The sending of a high level delegation by the United States administration in September 1993 to investigate labour standards in Indonesia is symptomatic of much greater international interest in this issue than in the past.

## Economic and political developments

In the book, the discussion of these labour issues is placed in the context of economic and political developments in 1993. Sjahrir and William Liddle combined with the Indonesian Ambassador to Australia, H. E. Sabam Siagian (as Chairperson), to produce an absorbing session on these subjects at the Update conference. In his paper, Sjahrir focuses on the dilemma of good macroeconomic performance combined with disappointing progress in microeconomic reform. Liddle investigates the successful formula applied by Suharto for the retention of power, especially in the context of recent political events.

While recognising that Indonesia continues to register economic growth rates comparable to other East Asian economies, Sjahrir notes that the economic deregulation process appears to have stalled.[2] He draws attention to the tame reform package introduced in June 1993 as an example. Although not discussed at length in the paper, this is set against the backdrop of the new cabinet and the different vision regarding economic strategy of the strengthened Habibie 'high-tech' lobby.[3]

Sjahrir also highlights problems of developing the stock exchange (which in 1993 has begun to grow very rapidly again) into an institution where companies are more accountable. This is illustrated with specific reference to controversy surrounding the public float of P.T. Barito Pacific Timber, the giant conglomerate run by the well-known businessman Prajogo Pangestu. Sjahrir has been a fervent critic of special favours given to conglomerates and other

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2 His paper was written prior to the announcement of the second reform package in October

3 See also McLeod (1993) for a more detailed discussion of some of these issues.

politically well placed business groups. He suggests that the considerable attention given to the float reflects, in part, continuing public suspicion regarding the special access of conglomerates to high-level favours.

William Liddle places some of these economic issues in the context of a changing political environment, albeit one in which the President appears to be sticking to his successful 'formula' for political management. Liddle judges Suharto to be still very much in control, despite a seeming early setback when the army pre-empted his choice by nominating General Try as their candidate for the Vice-Presidency. The cabinet is described by Liddle as very much Suharto's own, a master-stroke of checks and balances, with several surprises for all would-be contenders to the throne. The President also reasserted his control over the military through a number of strategic appointments, following the dumping of the powerful, former Defence Minister, General Benny Murdani. The election of civilian Information Minister Harmoko to the chairmanship of Golkar in late October can be seen as a further indication that the President remains firmly in command.

At the same time, Liddle emphasises that not all is likely to be plain sailing over the next five years. The presumption that the President is planning to step down (which Liddle questions), and the growth of a more politically oriented and organised middle class are two factors which are likely to influence the political climate. Another is the greater international attention to Indonesia's human rights record, especially in East Timor. All of these suggest that there is likely to be more effective opposition to the past policies of corporatism and a more searching test of the strength of his formula for retaining power.

## Labour: sharing in the benefits of growth?

Labour issues are discussed in four sections in the book. The first deals with macro issues and developments, the second with wage labour (especially in manufacturing), the third with women and children in the work force, and the fourth with village workers. The book deals with labour in a variety of situations and work environments: wage workers in large and small factories, mining sector workers, self-employed 'informal sector' workers, and village workers in a range of wage and non-wage employment situations. This approach has been taken intentionally to emphasise the point

that 'labour' encompasses much more than wage workers in larger factories, who have received much public attention owing to labour disputes in recent years.[4]

As noted above, the emphasis is on how much the successful economic record of the Suharto regime has benefited labour. This topic is pertinent to a general questioning of the welfare effects of the regime's development strategy. It also touches on its broader political *modus operandum*, which is relevant to the subject of labour freedoms and rights.

The subject of gains made by labour is controversial. Conclusions depend on the framework and approach of different observers and also the 'facts' which they choose to present (or ignore). In the literature, two extreme viewpoints can be distinguished. In what might be termed the 'World Bank view', economists in particular have emphasised the gains in employment and productivity which have accompanied rapid economic growth. Such an approach also emphasises the relative efficiency of the labour market and the positive effects of changing employment structure on household incomes, income distribution and welfare.[5]

At the other extreme, the development process in Indonesia has been perceived as fundamentally exploitative of labour. Such a view emphasises hardship endured as a result of rapid structural change, wage repression and 'abuse' of workers by the state and capitalist employers. In addition to poor labour standards compared with those in more developed countries, such an approach also emphasises restrictions placed on labour 'rights' and freedoms. These are highlighted in the context of human rights violation and limitations of democratic processes more generally.[6]

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4 Well over half of the labour force is in self-employed occupations or family enterprises, and many more are wage workers in small-scale enterprises. See Chapter 5 for more details.

5 See especially The World Bank (1985 and 1990). Of course, these views are not necessarily those of the World Bank as an institution or of all its staff. For a dissenting view from two World Bank economists on Indonesian labour, see Lluch and Mazumdar (1985).

6 Good examples of such an approach may be found in INDOC (1981-1987/88), and reports on labour contained in *Inside Indonesia* (see especially June 27 1991).

A similar range of perspectives is reflected in the contributions to this book. On the positive side, both Simanjuntak and Manning (Chapters 4 and 5) provide arguments stressing gains made by labour, partly in defence of the government record. Hugo (Chapter 7) discusses the economic gains made by Indonesian workers through international labour migration. Lok and Klingner (Chapters 10 and 11) present employers' viewpoints on labour standards. Lok describes conditions of work in a garments factory; they are poor by East Asian standards but not as poor, nevertheless, as some observers would lead one to believe. She also details employer attitudes which show some sensitivity to the needs of workers. Klingner describes the very high wages and labour standards, by Indonesian standards, of regular employees in a multi-national mining establishment.

Other chapters also stress the gains made by labour. Oey-Gardiner (Chapter 13) draws attention to the gains made by women in terms of education and work force participation. Kartini Sjahrir (Chapter 16) notes the relatively high incomes earned by skilled workers in the informal sector in the building industry in Jakarta. The three village perspectives in Part IV (Singarimbun, Hardjono and Effendi) all note the gains which village workers have made, associated with diversification of employment opportunities outside the village in particular.

On the other hand, several chapters are quite critical of Indonesia's labour record. McLeod (Chapter 6) questions government policy towards worker social security on the grounds that it is unlikely to achieve its lofty ideals. White, Thamrin and Tjandraningsih (Chapters 8, 9 and 15) emphasise the low level of labour standards in both large, export-oriented factories and in small-scale enterprises. They also note the systematic transgression of labour laws by employers; Tjandraningsih takes up this issue in relation to the widespread illegal employment of child labour. Hadiz (Chapter 12) discusses the rise of working-class consciousness and action in response to labour 'repression'. He suggests, optimistically, that informal labour action and organisation have begun to challenge the corporatist nature of state controls, and they provide a focus of pressure for labour reforms. Grijns and van Velzen (Chapter 14) note the insecurity and discrimination faced by many rural, female workers engaged in non-farm employment.

At the same time, few of the writers are prepared to praise, or condemn, Indonesia's record in labour affairs unconditionally. For example, besides indicating positive developments, Simanjuntak

and Manning deal with unemployment and underemployment, the slow growth of modern sector employment, the role of the informal sector in labour absorption, and Manning discusses the abuse of labour rights. Lok indicates that wages are still very low in garment factories and Kartini Sjahrir finds that construction workers have virtually no social security protection. All three of the village based studies note that labour incomes are still very low, and are generally insufficient to raise levels of living much above the poverty line.

Among the stronger critics, White — although emphasising low wages and labour incomes — also notes the major gains to labour in terms of employment creation in manufacturing industries. Tjandraningsih points out that children and their families have benefited from illegal wage employment. Grijns and van Velzen draw attention to advantages that some groups of females, especially young unmarried women, have experienced from rapid industrial growth. They, and most other writers, note that rapid labour force growth and competition for jobs have been major factors limiting the improvement in labour conditions.

Thus the papers in this volume present something of a smorgasbord of views on labour gains and losses under Suharto. To a considerable extent, they represent the reality of labour market conditions and change in Indonesia. In a country so large, and one where such a range of employment situations exist (state, private domestic and foreign farms; large, small and cottage enterprises) there is bound to be a range of labour standards. As in many other LDCs, labour markets are segmented in Indonesia, in both urban and rural areas.[7] Even without strong government and union intervention, there are major groups of relatively protected workers. Given the speed of economic change, it is not difficult to identify both gainers and losers in terms of employment and labour standards more generally.

Hence differences in overall conclusions regarding gains to workers to some extent provide us with different glimpses of labour realities. There are nevertheless, substantive differences of opinion regarding the facts and policy implications to be derived from them. For example, Simanjuntak's view that the government has created an environment for 'bipartite' (employer and employee) negotiation

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7 See especially Lluch and Mazumdar (1985).

of labour standards based on mutual interest does not accord closely with the reality of industrial relations discussed by several writers. White's finding that factory earnings in some peri-urban locations in West Java are generally so low that they do not even cover the basic cost of living of an individual worker does not seem to apply to the situation in Majalaya described by Hardjono; in the latter case, factory wages of a single worker frequently cover the basic needs of an entire family - albeit at close to subsistence level. Kartini's portrayal of high incomes among informal sector workers in Jakarta does not accord with the findings of research in several locations discussed by other authors.

These different findings suggest that there is a need for careful research to indicate what generalisations can safely be made about Indonesian labour, and which labour circumstances differ substantially and systematically (by type of enterprise, industry and region) and for what reason. Because labour issues are controversial and because the interests of government, employers and workers often conflict, there is considerable 'research' now being undertaken with the prime purpose of showing how bad or how good labour conditions are. The main objective is to justify particular 'special interest' policies and political agendas. Informed and useful policy debate and formulation ultimately rests, however, on empirical research that provides accurate quantitative measurement (not an easy task), distinguishes between opinion and fact, and is clear about the limits within which the research findings can be reliably generalised.[8]

Although an attempt has been made to deal with the major issues regarding labour in Indonesia in the 1990s, several topics are not dealt with in the book. In particular there is no detailed treatment of training and human resource development issues, which are an increasingly important focus of government policy. Other issues, such as labour unions and rights, are not given as much attention as we would have liked. Given the breadth of the

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8 Of course, the values of researchers, and the design and the instruments of research, inevitably influence results and their policy implications. Provided these are transparent - they generally are not so in special interest research — it is not difficult to for readers to evaluate the usefulness of particular findings.

coverage, even within sections, important subjects are only covered summarily. Issues such as a macroeconomic change and labour market adjustment, the labour conditions and rights of factory workers, and female participation and rewards are worthy subjects for books in their own right.

We trust, however, that most of the pressing and topical issues regarding labour in Indonesia have been raised in the book. It is hoped that the range of contributions will stimulate interest, debate and further research on these important determinants of the quality of life of many Indonesians.

# PART A:

# ECONOMIC AND POLITICAL DEVELOPMENTS

# 2

# The Indonesian Economy: A Case of Macro Success and Micro Challenge

by Sjahrir

## Introduction

President Suharto reported to Parliament on 16 August that Indonesia's economic growth rate in 1992 had been 6.3 per cent. An annual growth average of close to 7 per cent per annum in the last four years epitomises Indonesia's tremendous success in macroeconomic terms. Not only has the growth rate been high, but economic stability has been achieved also. The annual inflation rate in Indonesia was only 5 per cent in 1992, and the current account deficit fell significantly, from US$4.4 billion in fiscal year 1991/92 to only US$2.6 billion for 1992/93. The president's speech also highlighted Indonesia's success in promoting the welfare of the poor.[1]

No one can dispute the tremendous success achieved in the last 26 years — the 'New Order Era' under President Suharto — in terms of the government's three goals: growth, stability and equity. But running alongside the record of macroeconomic success there has been a current of disturbing news which is mostly microeconomic in nature. The international business community has noted the liquidation of Bank Summa (a large private foreign exchange bank), culminating in the demise of conglomerate chief William Soeryadjaya, as well as the failures or troubles of several other large companies — all of which have undoubtedly reduced Indonesia's credit standing in the international capital market.

While the contrast between these problems at the micro level and the macroeconomic success achieved by the New Order has been widely noted, little attention has been paid to the links between

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1 The World Bank in a recent report also stressed Indonesia's success in reducing poverty, together with that of the People's Republic of China.

macro and micro developments, and particularly to their international implications. Thus the next three sections of this overview will deal in turn with macroeconomic achievements, some microeconomic issues thrown up by recent developments, and the linkage between them as illustrated by recent changes in trade policy.

## Macroeconomic achievements

Tables 2.1 and 2.2 show the latest figures available after the president's speech in parliament in August 1993. The growth figure reported for 1992 6.3 per cent. The development of Indonesia's economic structure is apparent from the tables — including the strong performance of the non-oil/gas manufacturing sector. This has consistently posted double digit growth in the last six years. Indeed, double digit growth in Indonesia's manufacturing has been evident since 1983. Its annual growth from 1983 through 1988 was 13.2 per cent, and 11 per cent from 1989 through 1992. This rapid growth of industry, which contrasts sharply with the slower growth of the agriculture and mining sectors, has brought about substantial structural change in the Indonesian economy. In 1986 the combined share in GDP of the 'primary sector' — agriculture (including livestock, forestry and fisheries) and mining (and quarrying) — was 40.1 per cent. By 1992 this had fallen to 32.5 per cent. During the same period, the share of manufacturing (including oil and gas manufacturing), infrastructure (electricity, gas, water supply, transport and communication) and construction rose from 27.1 per cent to 33.4 per cent.

The second major macro achievement of the New Order is economic stability — domestic stability with a controlled inflation rate, and external stability with a strong performance in the balance of payments (Table 2.3). The current account deficit for fiscal year 1992/93 reported in the President's speech was US$2.9 billion, while the table puts it at US$2.6 billion. Even if one uses the higher figure, however, the current account deficit fell significantly from US$4.4 billion in the previous year. This turnaround largely reflects the spectacular success of Indonesia's non-oil/gas exports. In the last two years, these increased by 23.6 per cent and 30.6 per cent, respectively, so that non-oil/gas exports reached US$24.8 billion in fiscal year 1992/93.

**Table 2.1: Growth rate of Gross Domestic Product at Constant 1983 Market Prices**

| | 1987 | 198 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|---|
| Agriculture, Livestock Forestry and Fishery | 3.61 | 3.14 | 3.32 | 2.00 | 1.34 | 5.94 |
| a. Farm Food Crops | 3.12 | 2.91 | 3.97 | 0.52 | -0.58 | 7.97 |
| b. Farm Nonfood Crops | 4.32 | 3.42 | 1.16 | 3.93 | 4.92 | 3.73 |
| c. Estate Crops | 10.67 | 6.91 | 9.34 | 9.07 | 5.73 | 3.61 |
| d. Livestock | 4.74 | 3.08 | 1.45 | 3.74 | 4.95 | 2.33 |
| e. Forestry | 0.38 | -1.07 | -3.87 | 2.97 | -1.02 | -2.25 |
| f. Fishery | 5.00 | 5.45 | 6.78 | 4.95 | 5.01 | 5.08 |
| Mining and Quarrying | -0.27 | 4.65 | 4.85 | 5.21 | 10.32 | -1.43 |
| a. Crude Petroleum and Natural Gas | -0.55 | 3.38 | 4.76 | 4.15 | 9.21 | -4.16 |
| b. Others | 3.65 | 17.45 | 5.98 | 18.00 | 22.16 | 24.58 |
| Manufacturing Industry | 12.94 | 10.24 | 9.20 | 12.50 | 9.60 | 9.70 |
| a. Non Oil and Non Gas Manufacturing | 12.16 | 11.51 | 11.57 | 12.97 | 10.86 | 10.66 |
| b. Petroleum Refinery | 22.28 | 5.03 | 0.90 | 10.53 | 2.14 | 6.84 |
| c. LNG | 13.95 | 6.50 | 2.52 | 11.07 | 8.33 | 8.20 |
| Electricity & Gas Water Supply | 11.83 | 14.03 | 12.15 | 17.88 | 16.14 | 10.13 |
| Construction | 2.73 | 11.65 | 11.77 | 13.52 | 12.02 | 9.31 |
| Transport and Communications | 4.92 | 9.87 | 11.51 | 9.57 | 7.88 | 10.56 |
| a. Transport | 4.60 | 9.46 | 11.36 | 8.64 | 7.26 | 10.64 |
| b. Communication | 7.68 | 12.97 | 12.76 | 16.86 | 12.34 | 10.03 |
| Trade, Hotel & Restaurant | 6.52 | 7.65 | 10.74 | 7.10 | 5.41 | 7.44 |
| a. Wholesale & Retail | 5.85 | 7.38 | 10.83 | 6.77 | 4.89 | 7.12 |
| b. Hotels and Restaurant | 10.27 | 8.98 | 10.29 | 8.72 | 7.93 | 8.98 |
| Banking and Other Financial Intermediary | 9.73 | 13.64 | 14.35 | 14.06 | 13.63 | 12.53 |
| Ownership of Dwelling | 3.24 | 4.14 | 4.18 | 4.21 | 4.03 | 4.15 |
| Public Administration and Defence | 6.79 | 4.11 | 5.86 | 4.60 | 3.06 | 2.96 |
| Other services | 3.53 | 5.57 | 6.19 | 5.01 | 5.30 | 5.77 |
| Gross Product Domestic | 5.19 | 6.97 | 7.46 | 7.24 | 6.90 | 6.29 |
| Gross Product Domestic Non Oil and Non Gas | 6.01 | 7.63 | 8.25 | 7.59 | 6.58 | 8.11 |

*Source:* Main tables of National Income of Indonesia

**Table 2.2: Percentage Distribution of Gross Domestic Product at Constant 1983 Market Prices**

| | 1987 | 198 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|---|
| Agriculture, Livestock Forestry and Fishery | 22.89 | 21.22 | 20.40 | 19.40 | 18.40 | 18.34 |
| a. Farm Food Crops | 14.33 | 12.98 | 12.56 | 11.77 | 10.94 | 11.12 |
| b. Farm Nonfood Crops | 2.96 | 2.84 | 2.67 | 2.59 | 2.54 | 2.48 |
| c. Estate Crops | 0.48 | 0.62 | 0.63 | 0.64 | 0.64 | 0.62 |
| d. Livestock | 2.26 | 2.21 | 2.09 | 2.02 | 1.98 | 1.91 |
| e. Forestry | 1.28 | 1.01 | 0.91 | 0.87 | 0.81 | 0.74 |
| f. Fishery | 1.57 | 1.56 | 1.55 | 1.51 | 1.49 | 1.47 |
| Mining and Quarrying | 20.75 | 15.90 | 15.51 | 15.22 | 15.70 | 14.56 |
| a. Crude Petroleum & Natural Gas | 19.46 | 14.69 | 14.33 | 13.91 | 15.70 | 12.82 |
| b. Others | 1.29 | 1.26 | 1.18 | 1.30 | 1.49 | 1.75 |
| Manufacturing Industry | 12.75 | 18.19 | 18.48 | 19.39 | 19.88 | 20.52 |
| a. Non Oil & Non Gas Manufacturing | 9.88 | 13.61 | 14.13 | 14.88 | 15.44 | 16.07 |
| b. Petroleum Refinery | 0.46 | 0.98 | 0.92 | 0.95 | 0.91 | 0.91 |
| c. LNG | 2.41 | 3.60 | 3.43 | 3.55 | 3.53 | 3.53 |
| Electricity & Gas Water Supply | 0.40 | 0.55 | 0.57 | 0.63 | 0.68 | 0.71 |
| Construction | 5.92 | 5.26 | 5.47 | 5.79 | 6.07 | 6.24 |
| Transport and Communications | 5.28 | 5.21 | 5.41 | 5.53 | 5.38 | 5.80 |
| a. Transport | 4.76 | 4.63 | 4.79 | 4.86 | 4.87 | 5.07 |
| b. Communication | 0.52 | 0.59 | 0.61 | 0.67 | 0.70 | 0.73 |
| Trade, Hotel & Restaurant | 14.71 | 15.66 | 16.14 | 16.12 | 15.89 | 16.06 |
| a. Wholesale & Retail | 12.64 | 13.04 | 13.45 | 13.39 | 13.14 | 13.24 |
| b. Hotels & Restaurant | 2.07 | 2.62 | 2.69 | 2.73 | 2.75 | 2.82 |
| Banking and Other Financial Intermediary | 3.04 | 3.75 | 3.99 | 4.25 | 4.32 | 4.78 |
| Ownership of Dwelling | 3.03 | 2.76 | 2.68 | 2.60 | 2.53 | 2.48 |
| Public Administration & Defence | 7.36 | 7.93 | 7.82 | 7.62 | 7.35 | 7.12 |
| Other services | 3.87 | 3.57 | 3.53 | 3.46 | 3.40 | 3.39 |
| Gross Product Domestic | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| Gross Product Domestic Non Oil & Non Gas | 77.67 | 80.73 | 81.32 | 81.59 | 81.35 | 82.74 |

*Source*: Main tables of National Income of Indonesia

**Table 2.3: Balance of Payments 1988/89-1992/93 (in million US$)**

| Description | End of Repelita IV | Repelita V | | | |
|---|---|---|---|---|---|
| | (1988/89) | 1989/90 | 1990/91 | 1991/92 | 1992/93[1] |
| Goods and Services | | | | | |
| 1. Exports (f.o.b.)[2] | 19,824 | 23,830 | 28,143 | 29,714 | 35,304 |
| - non-oil and gas | 12,184 | 14,493 | 15,380 | 19,008 | 24,823 |
| - oil | 5,007 | 6,288 | 8,053 | 6,869 | 6,363 |
| - liquid natural gas[3] | 2,633 | 3,049 | 4,710 | 3,837 | 4,118 |
| 2. Imports (f.o.b) | -14,311 | -17,374 | -23,028 | -24,803 | -27,317 |
| - non-oil and gas | -12,239 | -14,845 | -19,448 | -21,660 | -23,751 |
| - oil | -1,912 | -2,342 | -3,388 | -2,915 | -3,314 |
| - liquid natural gas | -160 | -187 | -192 | -228 | -252 |
| 3. Services (netto) | -7,372 | -8,055 | -8,856 | -9,263 | -10,548 |
| - non-oil and gas | -4,864 | -5,158 | -5,683 | -5,262 | -7,149 |
| - oil | -1,560 | -1,635 | -1,783 | -1,796 | -1,722 |
| - liquid natural gas | -948 | -1,262 | -1,390 | -1,205 | -1,677 |
| 4. Current Account | -1,859 | -1,599 | -3,741 | -4,352 | -2,561 |
| - non-oil and gas | -4,919 | -5,510 | -9,751 | -8,914 | -6,077 |
| - oil | 1,535 | 2,311 | 2,882 | 2,158 | 1,327 |
| - liquid natural gas | 1,525 | 1,600 | 3,128 | 2,404 | 2,189 |
| Government Loans | 6,588 | 5,516 | 5,006 | 5,600 | 5,755 |
| 1. Program aid[4] | 882 | 1,037 | 718 | 127 | 125 |
| 2. Project aid[5] | 3,610 | 2,939 | 3,358 | 3,867 | 3,651 |
| 3. Other project aid | 1,111 | 722 | 853 | 1,298 | 1,791 |
| 4. Other aid | 985 | 818 | 77 | 308 | 188 |
| Government Debt Repayments[6] | -3,763 | -3,686 | -4,082 | -4,182 | -4,840 |
| 1. Debt before July 1966 | -88 | -87 | -158 | -98 | -127 |
| 2. Debt after July 1966 | -3,675 | -3,599 | -3,924 | -4,084 | -4.713 |
| Other Capital Flows (netto) | -211 | 575 | 5,856 | 4,133 | 4,282 |
| 1. Direct investment | 878 | 1,071 | 1,849 | 2,037 | 2,464 |
| 2. Repayment of investment loan | -293 | -349 | -425 | -506 | -759 |
| 3. Other loan | 707 | 289 | 1,301 | 1,238 | 2,264 |
| 4. Amortisation on Other loan | 470 | -509 | -471 | -477 | -949 |
| 5. Other loan | -1,033 | 72 | 3,602 | 1,841 | 1,264 |
| S.D.R. | - | - | - | - | - |
| Monetary Movements | 677 | -248 | -3,302 | -981 | -1,440 |
| 1. IMF credit position (netto) | 5 | - | -7 | 2 | -169 |
| 2. Short term debt (netto) | - | - | - | - | - |
| 3. Short term claim | 672 | -248 | -3,295 | -983 | -1,271 |
| Errors and Omissions | -1,432 | -558 | 263 | -218 | -1,198 |

Notes:
1. Preliminary figure.
2. Export figure based on PEB (*Pemberitahuan Ekspor Barang*) report on export goods document, processed by the Central Bank with an "open date system". This figure is different than the Central Bureau of Statistics (BPS) figure which used the PEB document with a "cut-off date system".
3. Including liquid petroleum gas (LPG).
4. Including funded through fast disbursing assistance.
5. Including fast disbursing assistance outside program loan.
6. Amortisation.

This rapid growth has brought about a significant change in the structure of exports. Whereas during the oil boom, oil and gas exports accounted for 80 per cent of the total, by 1992/93 their contribution had declined to less than 30 per cent.

Although Indonesia's foreign debt is managed carefully, it still constitutes a long-term concern. Debt outstanding is at present of the order US$75-80 billion. What makes foreign debt an issue is that the international community takes a strong interest in Indonesia's policies and performance, and if Indonesia were perceived as an unreliable debtor, the whole structure of the balance of payments might be adversely affected. The task for policy makers is now much more difficult because the private sector has become a major player in the international capital market. Thus the government has established a team to coordinate Indonesia's foreign commercial borrowings, but worries about these still linger among foreign observers. This has not been helped by problems created by such developments as the Bank Summa liquidation and the debt problems of other large companies.

A third major macroeconomic achievement of the New Order is the dramatic reduction in poverty. In the 1970s, 60 per cent of the population lived below the poverty line. By 1990 only 15 per cent of the population were estimated to live in poverty. The reduction in the number of such people from 70 million to 27 million in two decades owes much to the government's budgetary policies. Besides having a progressive income tax system, Indonesia has allocated significant resources from government saving to poverty alleviation and programs to meet the basic needs of the population. The major instrument has been the *Inpres* (Presidential Instruction) program for building schools, establishing health centres, and making funds available for labour-intensive projects at the provincial, regency, sub-district and village levels. In his August 16 speech, President Suharto vowed to intensify the fight against poverty by establishing a new *Inpres* program called *'Inpres Desa Tertinggal'* (literally, Presidential Instruction on villages which have been left behind). This program will give cash to the poorer villages (estimated at around 20,000 out of 65,000 villages) to be used by them according to their perceived needs.

## Micro problems: the stock market

The last five years have witnessed impressive progress of the Jakarta Stock Exchange. At the end of 1988 there were only 24 companies listed, but by August 1993 the number was 163. More spectacular has been the increase in market capitalisation, which rose from only Rp482 billion at end of 1988 to a huge Rp40 trillion by August 1993. This has been accompanied by dramatic increases in trading activity. In 1988 the daily average value of shares traded was a mere Rp122 million, but for 1993 (January until August 20) this rose to Rp59 billion.

This remarkable growth has convinced many observers that the stock exchange — previously of negligible macroeconomic significance — is now an important factor that should be taken into consideration when observing the Indonesian economy. For example, it is very common nowadays to link macroeconomic indicators to developments on the stock exchange. The release of economic growth figures and news of international trade performance now have appreciable effects on stock price indices. This is a clear example of micro reaction to changes in macroeconomic conditions. What is striking about this is that it is an entirely new development, and that the degree of sophistication in relating macro to micro data is increasing every day.

An example of increased interest in developments on the stock exchange is the acquisition by PT Indocement (a cement manufacturer) of PT Bogasari (a flour miller) in 1992 (Tomich 1992:5-6). Bogasari was a non-listed part of the Salim conglomerate while Indocement was a publicly listed company, of which the majority of shares were also owned by the Salim family and close associates. This 'internal acquisition' (and several others of a similar nature which occurred at around the same time) generated vigorous discussion in the media, focussing on the possibility that the assets being purchased may have been overpriced — to the disadvantage of the minority shareholders in Indocement. As a result of this debate the Minister of Finance introduced a new regulation through the Capital Market Supervisory Agency (Bapepam) regarding internal acquisitions. This new regulation requires the agreement of at least 50 per cent of the minority shareholders in order for such internal acquisitions to proceed.

More recently, the announcement by PT Barito Pacific Timber (BPT) of its intention to seek stock exchange listing became a highly

controversial issue, reported and discussed at length — and sometimes with considerable emotion — in the Indonesian and foreign media. This resulted in lengthy questioning in Parliament of the head of BPT, Mr Prajogo Pangestu, on matters relating to the intended float. This was the first time the head of a conglomerate had been invited by Parliament to brief members on its affairs.

There are at least five reasons why BPT has become a target for public scrutiny. The first is the major role played by Prajogo in putting together a syndicate of buyers for shares of the blue chip company PT Astra International, when the Soeryadjaya family had to sell its equity in the latter in order to meet obligations incurred in their ultimately unsuccessful attempt to save Bank Summa (MacIntyre and Sjahrir 1993). Prajogo had been relatively unknown previously, but rose to national prominence as this saga unfolded.

The second is the fact that shortly before the company announced its intention to go public, the state-owned civil servants' pension fund, PT Taspen, bought a 20.32 per cent shareholding in it, at a total cost of around $185 million. One of the last actions of the former Finance Minister, J.B. Sumarlin, before his retirement from the cabinet, was to approve this purchase, but it did not become public knowledge until the company had to open its books because of the planned flotation. This reminded observers of an episode in the mid 1980s, also involving PT Indocement, when the government bought 35 per cent of Indocement's shares. Many considered that the government had improperly used its resources to help out the company (and thus the Salim group), which was in considerable financial difficulty at the time because of poor market conditions and a heavy debt burden. Actually, however, the case of BPT is quite different from that of Indocement, because the former has vast timber concessions and appears to be financially sound. Indeed, with the benefit of hindsight, Taspen's investment in BPT has been remarkably profitable. The public issue of BPT's shares has been vastly oversubscribed at a price well over twice that paid by Taspen (*Asian Wall Street Journal* 10-11 September 1993), leaving the latter with a very large capital gain over a very short period.

The third reason is the inclusion of the Barito conglomerate in a 'mysterious list' of some 26 large companies or groups whose borrowings from the state banks were purported to be seriously in arrears — that is, amounts of at least Rp100 billion were classified as 'doubtful' or 'stuck' (*macet*). Barito was placed at the head of the list, with almost Rp1 trillion of its borrowings said to be in these

categories. The list is widely believed to have been leaked from a high-level government committee, drawn from the central bank and the finance ministry, which was formed to investigate the extent of the state banks' bad debt problems — although the government has made no comment on it.

Authentic or not, the list helped strengthen the suspicion that the reason for BPT wanting to go public was to use the injection of equity funds to pay off some of its debt, rather than to finance new productive investments. By implication, if the company was indeed having trouble servicing its bank loans, new shareholders might face the prospect of low or zero dividends. To allay these fears, Prajogo produced statements from the state banks as part of the public relations exercise aimed at building support for the intended flotation, assuring the public that none of the Barito group's borrowing whatsoever was in arrears. This statement itself even generated controversy, with some observers arguing — naively — that such disclosures breached the secrecy provisions of the banking law.

Fourth, there was also much concern about whether BPT's timber concessions had been included amongst the company's assets in the balance sheet. Some argued that this would conflict with Article 33 of the Constitution, which states that Indonesia's natural resources are under the control of the state and are to be used to enhance the welfare of the people. Nevertheless, there does not seem to be any argument that logging concessions may not be granted to private sector entities,[2] and it would have been unrealistic for the company not to impute a value to these concessions in its prospectus.

The fifth reason is the fact that Prajogo is the major backer of the highly controversial Chandra Asri olefin project. As is well known, this project was originally blocked by the coordinating team for foreign commercial borrowings (on the grounds that it would have posed too much of a burden on the balance of payments), but later it was given the green light when the project was reconstituted as a 100 per cent foreign investment. This manoeuvre involved a nominal shift of ownership of the former domestic component to a Hong Kong based corporation, but the identities of the domestic backers remained the same. It was also necessary for the government

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2 Although many would argue that much greater royalties could be extracted than is now the case.

to relax the previous rules on foreign investment under which 100 per cent foreign ownership was not permitted.

The Minister of the State Secretariat justified the government's switch to approval of the Chandra Asri project by arguing that its new 100 per cent foreign ownership status meant that there would now be no adverse impact on Indonesia's balance of payments. In fact this statement had little to do with reality, because the link between ownership status and balance of payments impact is tenuous, and because in practice the company is still largely (if indirectly) owned by Indonesian citizens — most prominent of whom is Prajogo Pangestu.

In light of these five issues, it has been difficult for PT Barito Pacific Timber to explain its rationale for going public. The scope of public discussion of the flotation has been far broader than the usual focus on technical capital market considerations such as the price-earnings ratio and the like. Clearly, the whole BPT issue became highly politicised because of Prajogo's strategic relationship with the power centre: he is close to the President, and has been careful to have the President's children as partners in several of his major ventures.

It is clear that conglomerates such as Barito these days are trying to win greater public acceptance of their activities, and that bringing the public on board as shareholders is a means to this end. Thus the internal acquisitions by PT Indocement (not only of Bogasari, but of several other companies owned by Indocement's majority owners) was also an attempt to get better public acceptance of the companies in the Salim group as a whole. But, as the BPT case shows, there will always be problems gaining public acceptance or approval if the success and growth of the group in question is perceived to rely heavily on favoured treatment by the government. Indeed, this often generates widespread resentment. Thus public acceptance of PT Indocement continues to lag, because the main company acquired, PT Bogasari, still has a monopoly on flour milling — thanks to government policy.

Concern on the part of the public about the distribution of Indonesia's national income thus leads to justifiable questioning about the prevalence of special treatment for the conglomerates. Economists emphasise also the importance of competitive markets — in other words, the absence of favourable treatment for particular firms or industries — because of their positive impact on efficiency. This consideration is also of fundamental importance to those policy

makers trying to push for further deregulation of economic activity. Policies at the micro level, such as the granting of monopoly privileges to certain politically well-connected companies, are not irrelevant to the prospects for continuance of the good macro performance described above.

## Micro-macro linkage: trade policy as an example

As a recent textbook in international economics puts it: 'The key insight ... is that conflicts of interest within nations are usually more important in determining trade policy than conflicts of interest between nations' (Krugman and Obstfeld 1991:5). There is no better illustration of this comment than Indonesia's latest trade policy changes, and it will be argued here that a macro-micro linkage analysis can be used in discussing trade policy.

Two days before the meeting of the Peoples' Consultative Assembly in March 1993, the then Minister of Finance decided — with little or no publicity — to increase the tariff on imported plastic pellets from 5 per cent to 40 per cent. This was generally interpreted as being intended to provide protection to PT PENI (Petrokimia Nusantara Interindo), a recently established, 200,000 tonne per year polyethylene producer controlled by one of the President's sons. The implications for downstream industries may be imagined.

Then in June, the government announced a deregulation package for the 'real' sector — that is, the sector producing goods for the domestic market. The package was regarded as seriously disappointing, in particular because it failed to increase competitive pressure on the automotive industry — long notorious as one of the most highly protected. Another major disappointment was the treatment of soyabean meal. The tariff rate was indeed reduced from 40 per cent to 5 per cent in the June package, but another distortionary regulation was introduced two weeks later. Users, while free to import soyabean meal at the lower tariff, were now required to buy 40 per cent of their supplies from a conglomerate-controlled company, PT Sarpindo, at a price fixed by the latter.

These three cases well illustrate the weakness of current efforts to pursue further deregulation of the real sector of the economy in the face of political pressures from domestic vested interests. This not only slows down improvements in the productive efficiency of the economy which deregulation is designed to promote, but also has

adverse macroeconomic repercussions. For this reason, the progress of deregulation is being watched closely by foreign investors. For example, the investment advisor JP Morgan, in its August 1993 analysis of Indonesia, warned that 'if a further deregulation package falls short of expectations (like its June predecessor), investor confidence could be hit'. It is this linkage with micro problems beneath the impressive macro performance which gives grounds for concern.

## Prospects

The President's August 16 speech also touched on the sixth five-year plan (*Repelita VI*), covering the period 1994/95 through 1998/99. This is more ambitious than the previous plan, with a growth target of 6.2 per cent per year on average, by comparison with the *Repelita V* target of only 5 per cent. This optimism reflects the success of the first four years of *Repelita V*, in which the 5 per cent target has been exceeded. In fact, if we focus on non-oil/gas GDP, the average growth rate for 1989-1992 has been around 7.5 per cent — a high growth rate by any standard — reflecting in part the fact that Indonesia lies in east Asia, the most rapidly growing region in the world.

There are at least two important problems to be faced, however, in the quest for continued rapid growth. The first is the issue of inequality. Although President Suharto has highlighted Indonesia's success in reducing the incidence of absolute poverty, inequality in respect of income and wealth remains a fundamental concern. The conglomerates mentioned previously are mostly owned by ethnic Chinese Indonesians, who comprise only about 3 per cent of the population.[3] This dominance of the large-scale corporate sector of the economy by non-indigenous Indonesians is a major obstacle in the quest for continuing political stability. The listing of companies on the stock exchange allows more widespread participation in their ownership, and thus will help promote stability, although much more than this will be needed to achieve this aim.

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3 I have estimated that of 162 companies listed on the Jakarta Stock Exchange, at least 80 per cent are owned by ethnic Chinese.

The second problem is the need for Indonesia to continue with the structural transformation of the economy, in order to bring a much higher proportion of the labour force into the modern sector. Although only 18 per cent of GDP is contributed by the agricultural sector, it still accounts for roughly half of the labour force. To reduce the proportion of workers dependent upon agriculture for their livelihood will require perseverance with the struggle to cut back the privileges and protection now enjoyed by particular firms and industries, so that others which are more able to expand into world markets — thus rapidly creating more job opportunities for Indonesia's millions of low-skill workers — will be given a better chance to make their contribution to Indonesia's development.

In summary: for Indonesia to enjoy continued success in regard to economic growth and poverty reduction, it will need to continue to pursue sound and well coordinated macroeconomic policies — including control of inflation, careful exchange rate management, and fiscal prudence. But that will not be enough. Indonesia will also need to continue pushing for economic reform, with deregulation of product, factor and asset markets as its guiding philosophy.

# 3

# Politics 1992-1993: Sixth Term Adjustments in the Ruling Formula

R. William Liddle

The secret of President Suharto's longevity in office, and of the stability of his government, lies in his 'ruling formula', or combination of alliance partners, public policies, and legitimation principles. This formula was developed in a series of choices made from October 1965, when the then Major General Suharto was first thrust into prominence as military leader and head of an anti-communist coalition, until 1973, when he was chosen president by an MPR (*Majelis Permusjawaratan Rakyat*, People's Consultative Assembly) partially constituted by the 1971 general elections.

With adjustments, he has maintained the formula through four subsequent general elections over two decades. The major political events of 1992-1993, which began with the latest of these elections, are best understood as further modifications made by Suharto as he entered his sixth five-year term. They reflect both his apparent determination to stay in office at least until 1998 and his recognition that his advancing age makes him more vulnerable to pressure that he step down soon.

Briefly, Suharto's ruling formula contains the following three key ingredients, listed in descending order of importance: (l) reliance on support from the armed forces, dominated by the army, to coerce opponents; (2) recruitment of civilians, individuals and groups in the state bureaucracy and in society, to generate financial resources for political purposes, create a bigger coalition, and lessen dependence on army support; and (3) construction of a legitimating ideology and accompanying policies that stress, on the political doctrinal side, adherence to the Constitution of 1945, Pancasila,[1] and the *dwi-*

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1 Five Principles of 'Belief in the One and Only God, Just and Civilized Humanity, the Unity of Indonesia, Democracy Guided by Inner Wisdom in Unanimity Arising out of Deliberation among Representatives, and Social

*fungsi* (twin functions) of the armed forces, and on the economic side developmental performance in both growth and distribution.

Support from the armed forces requires control over them. Suharto early established his personal dominance by promoting loyal officers and retiring or reassigning doubtful or hostile ones. He also began early a practice of appointing to the highest positions within the armed forces officers who for reasons of birth — as non-Javanese and/or non-Muslims — could not expect to succeed him as president. The military command structure was then reorganised into a single hierarchy with himself at the head.

Both serving and retired loyal officers have been given opportunities for extra income and for high-status positions in the government outside the Department of Defense and Security. Many of these positions, for example in the Department of Home Affairs or in the state political party Golkar (*Golongan Karya*, Functional Groups), have significantly extended the president's reach into the civilian state bureaucracy and into society outside the state.

The most important civilians recruited into the governing coalition were the technocrats, Western-trained professional economists under the leadership of Professor Widjojo Nitisastro. The economists offered two major resources: knowledge about how to organise and run a modern market economy; and the ability to win the material support of Western governments and financial institutions for their policies.

These resources were especially critical in the mid to late 1960s, but have continued to be highly valued ever since. They are the basis for the country's general prosperity, and for that of many specific social groups, such as civil servants, urban upper, middle and working classes, rice farmers, and the rural service sector. They also provide the licit and illicit revenues that grease the patronage machine, which now includes a vast network of military officers and civilians, state officials and societal leaders.

Suharto and the technocrats have never shared quite the same vision of a modern economy, however. The latter rely heavily on the competitive market as the engine of progress, believe in a relatively

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Justice for All the People of Indonesia.' Indonesia 1990: An Official Handbook, Jakarta, Department of Information, Republic of Indonesia, 1990, p.13.

conservative version of the theory of comparative advantage, and recognise that development is a slow process.

The president has accepted much of the technocrats' view of the economy. But he is also a visceral statist touched by a vision of national economic grandeur and in a hurry to achieve developed country status. Moreover, he worries — perhaps as an ideological populist, perhaps with an eye to political constituencies — about the distribution impact, racial and class, of market-oriented growth policies. And he has always been concerned to ensure that a portion of the profits generated by the economy is channeled to him, and denied to potential opponents, for patronage purposes.[2] Beyond economics, the president has been concerned to control various social groups with the capacity to help or hurt him politically. The main strategy here, developed in the late 1960s by then Major General Ali Moertopo, has been corporatist: the creation or cooptation of organisations comprising representatives of social groups willing to endure the tight grip of the government in return for some combination of financial or status reward and political influence for their constituency. Two other Suharto men who played this role over long periods are former Armed Forces Commander and Defense Minister General (ret.) L. B. Moerdani and former vice-president Lieutenant General (ret.) Sudharmono.

All three political parties, the government's own Golkar, the Islamic PPP (*Partai Persatuan Pembangunan,* Development Unity Party), and the nationalist-Christian PDI (*Partai Demokrasi Indonesia,* Indonesian Democracy Party) are examples of this corporatist strategy, as are dozens of less-directly-political interest organisations. Persistent mass opposition to the New Order, to the limited extent it has existed, has been most strongly rooted in the devout Muslim community. Devout Muslims have therefore been one of the major, but also the most elusive, targets for cooptation from the beginning of the New Order. PPP has never been fully representative of Islamic political aspirations, nor have any of the other organisations sponsored or penetrated over the years by

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2 For an analysis of these various economic objectives and strategies, see R. William Liddle, 'The Relative Autonomy of the Third World Politician: Suharto and Indonesian Economic Development in Comparative Perspective,' *International Studies Quarterly* 35(4):403-427 (December 1991).

Moertopo, Moerdani, Sudharmono, and other presidential agents, both military and civilian.

Finally, the ideological package designed to legitimate this collection of policies and alliance partners is often summed up as the trilogy of development: stability, growth, and equality. Growth and equality goals are articulated in the government's annual budget bill, its development policies and programs, five year plans, and popularisation of phrases like *lepas landas* (take-off) and PJPT Ke-II (*Pembangunan Jangka Panjang Tahap Ke-II*, Second Stage Long Term Development).

Stability is elaborated as 'Pancasila Democracy' based on the Constitution of 1945, which was unconstitutionally decreed back in force in 1959 by the then-President Sukarno, in alliance with the armed forces leadership. The core elements of Pancasila Democracy include quinquennial national elections with the three corporatist parties as the only contestants; a subsequent session of the MPR, consisting of 50 per cent newly elected parliamentarians and 50 per cent presidential appointees, to elect the president and vice-president and determine the 'broad outlines of state policy' for the next five years; and the formation of a new cabinet, almost all of whose members typically serve a full five-year term.

This cluster of recurring events has always been carefully managed by Suharto. The armed forces' 'twin functions' doctrine has been linked to Pancasila Democracy and used to justify: appointment of large numbers of military officers to Parliament, the MPR, and regional legislatures; the placement of first serving, then retired officers in controlling positions in Golkar; military supervision of the internal workings of the other parties and of the general elections; military intelligence surveillance of the press, legitimated through a doctrine of a 'free and responsible' press; and the appointment of many officers to cabinet and sub-cabinet positions.

The political events of 1992, a general election year, and 1993, an MPR and cabinet reappointment year, reaffirm this well-established pattern. These events include: the parliamentary election, in which Golkar once again won a large majority; the MPR session, in which Suharto was reelected president and General Try Sutrisno became vice-president; the formation of a new cabinet, whose members collectively strike a new policy balance between technocrats and their import-substituting opponents; the appointment of new armed forces leadership, dominated by figures

personally loyal to the president; and moves by Suharto to reconcile with some old enemies and to reassert his control over the Indonesian Democracy Party and Golkar.

There is also a difference, however, between the events of this year and those of previous general and presidential election years. Suharto's age — he turned 72 in June, 1993 — and growing speculation about the presidential succession add a certain *fin de regime* intensity and anxiety to an otherwise familiar scene. Does Suharto intend to step down in 1998, at the end of his current term? If so, does he have a successor in mind? Is that successor a military man, and will he be acceptable to the senior active duty officers (and perhaps to other potentially influential groups of junior and retired officers)? Do some groups in the military have ideas and/or ambitions of their own? What role will civilian groups play in the succession, and under what leadership? What consequences will the succession have for continuation of the regime and of its policies, especially toward the economy?

In the last five years or so, these questions have increasingly provided the dominant interpretive frame in which political meaning is sought in Jakarta. At each turn in the political cycle, after every initiative taken by the president or other major politicians, previous answers are reassessed and new speculations are offered.

There is, to be sure, good reason for speculation. Suharto's regime and policies have commanded the stage for more than a quarter century, and the possibility, simultaneously frightening and exhilarating, of major change in the post-Suharto era is real. Yet we risk a misreading of events by overplaying the succession issue and underplaying the extent to which, perhaps more for Suharto but also for others, it is just politics-as-usual in what might, after all, turn out to be still only the late middle (or early late?) part of the Suharto era. In what follows, I will try to provide an analysis that takes both perspectives into account.

The June 1992 general election offered few surprises.[3] Golkar, under the leadership of Lieutenant General (ret.) Wahono, a Suharto appointee, won 68 per cent of the vote, down from 73 per cent in 1988 but still a commanding majority. PDI did well, especially in the provinces of East and Central Java, and overall increased its

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3 For results and analysis, see *Tempo*, 20 June 1992, pp. 21-31.

vote from 11 per cent to 15 per cent and its seats in parliament from 40 to 56. The PDI gains were attributed to a number of factors, including effective campaigning by the late President Sukarno's son Guruh, a pervasive feeling that PDI's leaders were willing to stand up to regime leaders on issues like President Suharto's reelection, and local concerns such as collapsing clove support prices and the disaffection from Golkar of defeated village head candidates.[4] PPP increased its vote slightly in the Javanese provinces, but added only one parliamentary seat for a total of 62, representing 17 per cent of the electorate.

After the election, public attention quickly focused on the MPR session scheduled for March 1993, in particular on Suharto's choice for vice-president. Before 1988, the post had been considered relatively insignificant politically. At the March 1988 MPR session, it became an important part of the ruling formula for the first time because the succession was now a matter of concern to the political elite. Without consulting armed forces leaders, Suharto selected his close confidant and patronage dispenser, State Secretariat Minister and national Golkar chair Sudharmono, a *bête noire* to the military establishment.

The armed forces MPR fraction, led by Moerdani, publicly opposed the nomination but failed to persuade the president to withdraw it. The national armed forces leaders subsequently reestablished their control over most district and provincial branches of Golkar, which they had allowed to be penetrated by Sudharmono's operatives since 1983. In late 1992 there appeared to be two strong candidates to succeed Vice-President Sudharmono: Armed Forces Commander General Try Sutrisno and Minister of Research and Technology B. J. Habibie. Try, from a Surabayan Javanese devout Muslim family, had been an adjutant to President Suharto in the early 1970s. He subsequently rose, clearly with Suharto's blessing, to ever more responsible positions, finally becoming Armed Forces Commander in 1988.

Until the very late 1980s Try was generally considered Suharto's personal choice for the vice-presidency and also ultimately for the presidency. During his period as commander, however, the relationship seems to have cooled, perhaps because the president

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4 Interview, Kwik Kian Gie, Head of PDI's Research and Development Office, 6 March 1993.

came to believe that Try was not a skillful enough politician or that he was too much under the influence of Moerdani. His blustery, politically inept, response to the massacre by army troops of unarmed civilians in Dili, East Timor, in late 1991 is said to have further disappointed Suharto.

By late 1992, in any event, Try had become the candidate of the armed forces, and Suharto was keeping his own counsel. On February 12, 1993, Lieutenant General Harsudiyono Hartas, chair of the Armed Forces fraction in the MPR, made it official by issuing a statement that Try was the armed forces' nominee (*Kompas* 13 February 1993). This announcement was apparently made — in a significant departure from tradition — without consulting the president.[5]

B.J. Habibie's star, already high in the Indonesian political firmament, has risen further in the last three years. A German-trained aeronautical engineer, from a devout Muslim family in South Sulawesi who had known Suharto in 1950,[6] Habibie became a cabinet minister in 1978. He now holds more than two dozen high government posts, including chair of the strategic industries agency and of the agency for technological assessment, plus director of the state aircraft industry, the Batam Island development authority, the state shipbuilding industry, and the army's munitions factory.[7]

In 1990 Habibie helped to found and has since headed the Association of Indonesian Muslim Intellectuals (ICMI, *Ikatan Cendekiawan Muslim se-Indonesia*). ICMI is in large part a patron-client network of Muslim government bureaucrats, and as such has become a major political resource for Habibie's inside-the-state

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5 Interview, Minister of Defense L. B. Moerdani, Jakarta, 2 March, 1993.

6 Suharto writes that, as a young brigade commander in Makassar, he had his office across the street from the Habibie family home. When Habibie's father had a heart attack and died in front of Suharto, his eyes were closed by Suharto. One of Suharto's officers later married a sister of Habibie, making Habibie's mother and Suharto *'besanan'* (in-laws). Suharto, *Pikiran, Ucapan, dan Tindakan Saya Otobiografi* [My Thoughts, Words, and Actions: Authobiography], as told to G. Dwipayana and Ramadhan K.H., Jakarta: PT. Citra Lamtoro Gung Persada, 1988, pp. 72-73.

7 See the brief biography in The Editors, 'The Sixth Development Cabinet Announced March 17, 1993', *Indonesia* 55:174 (April 1993).

influence-building.[8] But it has also reached out successfully to the large and growing group of Islamic intellectuals and educated devout Muslims who have been outside and often alienated from the government.

Habibie has been playing an increasingly visible role in Golkar, serving for example for much of 1993 as the Daily Chair of its all-powerful Overseers Council, chaired by Suharto himself. The composition of the Golkar delegation to Parliament elected in 1992 and of the government controlled fractions in the 1993-1998 MPR shows a considerable ability to find places for his ICMI proteges and supporters (*Tempo* 3 October 1992).

Habibie's attractiveness to Suharto stems in part from his personal closeness and apparent total loyalty. More important, however, he serves three substantive needs of the president. First, he is a daring 'technolog' (a neologism made necessary by the Indonesian *teknolog*) to put against the boring technocrats, a visceral statist like Suharto who believes in state enterprises and rapid development of an industrial economy. In this capacity, he is the direct descendant of Ibnu Sutowo, the president's first *teknolog* favorite, for whom he worked at Pertamina in the early 1970s.

Second and third, Habibie is a civilian to put against the military and a devout Muslim shepherd to lead the Islamic community into the New Order fold. In these roles he is the direct descendant of Sudharmono, who as Minister for the State Secretariat and national Golkar chair had his own extensive patron-client network inside and outside the state, a part of which consisted of Muslim activists looking for an open door to state influence.

Like Sudharmono, and for many of the same reasons, Habibie is anathema to the armed forces. He takes state contracts away from them, runs their businesses better than they had done, and makes foreign military deals — like the 1993 purchase of 24 Hawk fighter airplanes from Britain and 39 ships from Germany — over their heads (Clifford 1993). He is an alternative source of patronage for

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8 For the history of ICMI, see the excellent account by M. Syafi'i Anwar, *'Islam, Negara, dan Formasi Sosial Dalam Orde Baru'* [Islam, the State, and Social Formation in the New Order], *Ulumul Qur'an* 3(3) (1992), Supplement, pp. 1-28.

politically or bureaucratically ambitious retired officers.[9] His cultivation of constituencies outside the state, especially the Islamic one, raises military fears of loss of control and of mass political unrest which they will at some point have to suppress.

After keeping the players and the public on tenterhooks for months — until the day of the MPR vice-presidential selection some close observers believed that the outcome was uncertain[10] — Suharto finally accepted the unanimous nomination of Try by the five MPR fractions. The conclusion of most Jakarta observers was that in this struggle Suharto had been bested by the armed forces.

Within days, however, when the new Sixth Development Cabinet was announced, the tables had clearly been turned. Observed Mohammad Sadli, an economist, former Minister of Mines, and one of the most astute long time observers of cabinet politics: 'This is really Suharto's cabinet. Pak Harto this time is really awesome (*hebat*)' (*Tempo* 27 March 1993).

The centerpiece of the story was the shakeup in economic ministries. In the new cabinet, Habibie gained considerable influence, placing associates in the Ministries of Trade, Education, Communications, and Health. He also succeeded in having the superministerial Coordinating Ministry for Economic, Financial, and Industrial Affairs broken in two, with the creation of a new Japanese-style Coordinating Ministry for Trade and Industry. The new Coordinating Minister, Hartarto, is however considered an ally of the technocrats rather than of Habibie.

One of the most surprising, and still little commented on, appointments was that of former Minister of Mines and Energy Ginandjar Kartasasmita as Minister of State and Chair of Bappenas, the National Development Planning Agency. Bappenas is responsible for preparing the annual request for financial assistance to the CGI (Consultative Group on Indonesia, formerly

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9 A case in point is the recent reelection of Major General (ret.) Raja Inal Siregar, a former Special Forces Command (KOPASSUS) officer, as governor of North Sumatra. Siregar was opposed by a candidate from Armed Forces headquarters, but won with support from Habibie. '*Memilih Gubernur yang Jenderal atau Bukan*' [Choosing a Governor who is a General or Not], *Tempo*, 8 May 1993, pp. 28-29.

10 Interview, Abdurrahman Wahid, Jakarta, March 1993.

IGGI, Inter-Governmental Group on Indonesia) and for processing and overseeing a wide range of domestic development projects.

Ginandjar is a Bandung Institute of Technology and Tokyo University educated chemical engineer, and a career air force officer. His political advancement has been closely tied to that of former Vice-President Sudharmono, for whom he worked at the State Secretariat before becoming Junior Minister for Domestic Production in the 1983-88 cabinet. In President Suharto's 1988 autobiography, Ginandjar is one of just three officials singled out 'who have been given an opportunity to achieve something, and who have succeeded'. [11]

Since his appointment, Ginandjar has not received much press coverage, but appears to be regarded primarily as an ally of Habibie's. The reasons for his choice may include his closeness to Japanese government and business interests, and his experience as Junior Minister for Domestic Production. This job gave him valuable experience in promoting import substitution programs and in developing the capacities of indigenous entrepreneurs.

In terms of Suharto's ruling formula, Ginandjar's assignment is probably to find ways of advancing Suharto's *pemerataan* (equalisation) agenda. In Indonesian political discourse, *pemerataan* encompasses state policies designed to ameliorate two distinct social conditions: the class gap, narrowed by helping the poor to become richer; and the race gap, narrowed by helping indigenous Indonesians, typically would-be entrepreneurs who are already at least in the middle class, to approach the level of prosperity of the Sino-Indonesians who still dominate the modern private sector. Ginandjar's history suggests that he will opt for the latter definition. But his early moves, like appointing the Gadjah Mada University agricultural economist Mubyarto Assistant Minister and consulting with private non-governmental organisations that work with the poor, indicate the former.

Within days of Ginandjar's appointment, Professor Widjojo — without a formal governmental position since 1983 but still working out of Bappenas — had relocated to the office of the Coordinating Minister for Economy, Finance, and Development Supervision in the

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11 *Suharto, Pikiran. Ucapan dan Tindakan Saya: Otobiografi*, p. 426. The other two are then Vice-President Sudharmono and Moerdiono, then and now State Secretariat Minister.

complex of the Ministry of Finance. While obviously diminished, the influence of the technocrats has not entirely disappeared. Widjojo proteges or allies continue to hold the Coordinating Ministries for Finance and Trade and Industry, Bank Indonesia, the central bank, and the Ministry of Finance.[12] In early April 1993, in a move designed to assuage the concerns of foreign investors and financiers about the continuity of economic policy, the president announced the appointment of Widjojo and former Coordinating Minister for the Economy Ali Wardhana as special presidential advisers.

The number of coordinating ministers, ministers, and ministerial level officials with military background was reduced slightly in the new cabinet from 12 to 10 (out of 41 in both cases).[13] More importantly, former Minister of Defense Moerdani, now on the president's enemies list, was not given even an honorific position in the new government (though he was later reported to have turned down an offer to become ambassador to the United States).[14] The outspoken Lieutenant General Hartas campaigned hard for the Ministry of Home Affairs, but had to settle for membership in the toothless Supreme Advisory Council, home of retired politicians.

After the cabinet installation, the president next turned his attention to his most important power base, the active duty armed forces, long influenced by Moerdani and his intelligence colleagues.[15] The independent (but perhaps closer to Moerdani than to the president) Army Chief of Staff General Edi Sudradjat was appointed Armed Forces Commander in February. In March he was

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12 Muslims and Christians also took note of the fact, in the context of the rise of ICMI, that the three Christian technocrats in the old cabinet were all replaced by Muslims. See Liddle W., 'RMS" *Tempo* 10 April 1993, p. 104.

13 Of the two women members of the new cabinet, however, one is the wife and the other the widow of a general. The new Minister for Youth and Sports is the son of a general.

14 '*Benny Moerdani: Saya Tidak Bersedia Jadi Dubes!*' [Benny Moerdani: I am not Willing to be an Ambassador!], *Forum Keadilan*, 29 April 1993.

15 The most complete account of the changes is 'Current Data on the Indonesian Military Elite January 1, 1993-April 3, 1993, *Indonesia* 55 (April 1993): 177-198.

concurrently named Minister of Defense and Security, a prestigious but politically weak administrative post.

Edi held both jobs until June, when he relinquished the Armed Forces Commander position to General Feisal Tanjung. Tanjung is an ethnic Batak Muslim from Sumatra, and therefore in the tradition of Suharto's non-Javanese military appointees. He had been chosen personally by the president to head the Military Honor Board appointed to investigate the military's role in the Dili massacre in November 1991. The Army Chief of Staff position went to Lieutenant General Wismoyo Arismunandar, the president's brother-in-law, who is widely tipped to become the next Armed Forces Commander. The new Deputy Army Chief of Staff is Major General Suryadi, adjutant to the president from 1981 to 1985. Another key position, KOSTRAD (Army Strategic Reserve Command) Commander, is held by Major General Kuntara, a classmate and reported close associate of Wismoyo.

Under General Tanjung's new leadership, the armed forces' first political moves have been rather ineffective. This is perhaps just the way the president wants it, in order to maintain the military's subordination to him, an important element in his ruling formula. In June, Habibie, a civilian, opened the door to reconciliation with Indonesia's most prominent political dissidents, the so-called 'Petition of 50' group, many of whose members are retired officers. At a meeting at the house of General (ret.) Abdul Haris Nasution, Habibie invited former Jakarta governor Marine Lieutenant General (ret.) Ali Sadikin and other dissidents to visit the state ship-building factory in Surabaya.

It is not clear whether the meeting was a Habibie or a Suharto initiative, but the invitation appears to have been offered spontaneously and to have been approved later by the president (*Tempo* 12 June 1993). For Habibie, it was a natural move given his earlier success in embracing antiregime Islamic activists, some of whom are linked to the 'Petition of 50' dissidents. He is also clearly looking to broaden the base of support for his economic policies (Gaffar 1993). Suharto, who has always wanted to be president of all the people, must be pleased with his new ICMI following and perhaps decided to use Habibie to break down the resistance of another major group of opponents. He probably understood that a reconciliation with the dissident retired officers, engineered by his agent, the civilian Habibie, would also confound the military and remind them who is the boss.

Sadikin readily agreed to the visit, but took advantage of the rare opportunity for press coverage to criticise the government's two decades long ostracisation, or 'civil death' sentence, of the now ill Nasution (called by Sadikin the founder of the Indonesian army). The embarrassed armed forces leaders reacted first by claiming that they were just carrying out presidential policy. They then issued a statement that Nasution had never been formally barred from travelling abroad, and finally paid a hastily-arranged but highly-publicised hospital visit to him and another leading dissident, Lieutenant General (ret.) H. R. Dharsono.[16] This was followed by a brief formal meeting between Suharto and Nasution. The reconciliation process effectively stalled at this point, perhaps primarily because of the unwillingness of the major players on both sides to change their views on the substance of what divides them.

The next major event in national politics was the national congress of the Indonesian Democracy Party (PDI), held in Medan in July. From deconstruction of press reports, President Suharto seems to have indicated to General Tanjung his displeasure with the sitting PDI chair, Soerjadi (who had been 'dropped' into his position by the government after the last party congress, in 1986, had deadlocked).[17] Tanjung issued a statement sharply critical of Soerjadi and then decamped to Medan together with the Minister of Defense and Security and other top officers.

In Medan, the generals appear not to have adopted the old Moertopo-Moerdani *modus operandi* of inserting their own agents and mobilizing sympathetic forces in the party. Instead they just

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16 See for example the story and photo coverage in *Kompas* 14 July, 1993, p. 1.

17 One reason for Suharto's displeasure may have been PDI's electoral successes, under Soerjadi's leadership, in 1987 and 1992. Though modest, they could indicate future trouble for Golkar, especially in the most populous provinces of East and Central Java. Another piece of the puzzle is the armed forces' quiet backing for PDI in the 1992 election, and persistent reports that some military leaders would like to switch armed forces support entirely from Golkar to PDI. In the weeks before the PDI congress, a number of officials spoke of the importance of maintaining Golkar's *mayoritas tunggal* (absolute majority). See for example former Vice-President Sudharmono's press conference reported in *Kompas*, 15 June, 1993, p.1.

waited for the congress delegates to reject Soerjadi. Perhaps their mistake was to believe that their words were sufficiently powerful weapons. If so, they failed to take into account the daring of their erstwhile pawns, who promptly reelected Soerjadi by acclamation. The congress was subsequently adjourned without resolution of the conflict.

The armed forces' next challenge is to influence the selection of the national chair of Golkar for 1993-1998 at the party's national congress in October. If and when the succession issue heats up, control of Golkar, as the 'ruling party' with 'democratic support' from nearly 70 per cent of the voters, is likely to be an important legitimating asset to a would-be president (Liddle 1993).

As Armed Forces Commander, General Edi Sudradjat had proclaimed loudly in late April that the armed forces was entitled to and would have a candidate of its own.[18] General Tanjung has avoided questions on this subject, and it is now widely believed in Jakarta that the military has accepted Suharto's apparent choice of a personal favorite, Minister of Information Harmoko, for this job. If elected, Harmoko will be Golkar's first chair without a military background.

How is one to interpret these events, from the general election of 1992 to the struggle for control of Golkar today? At the beginning of this chapter I describe at length the basic characteristics of the regime and of President Suharto's ruling formula, in order to be able to show that almost all that has happened can be understood within this framework. Golkar's election victory, Suharto's reelection, the choice of Try as vice-president, the economic and political unleashing of the civilian, Islamic, hi-tech Habibie, the appointment of the pro-equality Ginandjar, the reassertion of control over the armed forces and probably over PDI and Golkar as well, are all the actions of the Suharto we have known from the late 1960s.

Of course, the president must also have the succession in mind, even if only in terms of trying to structure the competing forces and individuals so that whoever takes over after he dies will be friendly to the interests of his family. In this context civilian figures whom he favors, like Habibie (and the quasi-civilian

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18 *Kompas*, 24 April 1993, p.1. By mid-May, however, he was backing off. *Kompas*, 17 May 1993, p. 1.

Ginandjar), are interesting to watch, but only in so far as they impact on the vital centre of the regime, the struggle for power within the armed forces.

Speculation about the succession that focuses on such figures as Try, Habibie, and Wismoyo tends to forget three important facts. One is that these players' most valuable political resource is support from Suharto. The second is that the armed forces hold most of the other high cards in the New Order deck. When Suharto is himself no longer a player, his support in earlier times will count for very little.

Third, demographic, economic, social, and cultural changes in Indonesian society since the beginning of the New Order are almost certainly preparing the ground for the transformation of old political forces and alliances and the emergence of entirely new ones. Most Indonesians are better educated than they were a quarter century ago. A larger percentage are now devout Muslims, partly as a result of the spread of the state education system, in which religion is a required subject. Children of nominal Muslims receive instruction in basic religious practices not available to their parents' generation.

In 1991, manufacturing's share (19.9 per cent) of Gross Domestic Product surpassed that of agriculture (18.5 per cent) for the first time in Indonesian history (Tomich 1992). A new pattern of social differentiation is the inevitable byproduct of a structural transformation of the economy. One can see its presence in the growth of the state bureaucracy, of an upper and middle business and professional class in the large cities, an urban labor force, a small town bourgeoisie, a prosperous class of small farmers, plus an increasing diversification of both rural and urban employment structures that is blurring the old rural-urban distinction, especially around major cities (Jones and Manning in Booth 1992).

Differentiation has sown the seeds of conflict, already visible in mushrooming labor disputes, especially in the Greater Jakarta area, more class and racial tension between indigenous and Sino-Indonesians, and the protests of farmers forced to give up their land to relentlessly expanding cities. The swelling of the educated work force continues to outpace suitable employment opportunities. Some regions of the country, notably Sumatra, Java, and Bali, have grown rapidly, while most of eastern Indonesia has stagnated. A quarter century of authoritarian control has suppressed the political consequences of these changes, but they may well begin to find

expression when President Suharto is no longer there to keep the lid on.

The subject of this paper has been domestic political developments from mid-1992 to mid-1993. One dimension of those developments that I have not yet discussed is the impact of international relations. The crucial event here is in fact a domestic one: the November 12, 1991 massacre by Indonesian troops of 75-200 unarmed East Timorese at the Santa Cruz cemetery in Dili. International outrage at the massacre continued throughout 1992 and 1993 to have consequences at home.

Two of these consequences are especially worth mentioning. One is the absence in 1993 of any public pressure on the government for human rights or political reform from the CGI, the group of creditor nations and international lending institutions that contributes an annual financial assistance package. Under the CGI's predecessor, the IGGI, annual aid negotiations had in recent years become a stage for domestic and foreign human rights and pro-democracy groups, and an opportunity for their allies in the creditor nation governments to criticise publicly the Indonesian government's human rights record. In 1992, Dutch and other foreign post-Santa Cruz reproaches prompted Suharto to refuse further aid from the Dutch and to replace the Dutch-chaired IGGI with the CGI, chaired by the World Bank. This hard line seems to have had the desired effect. In 1993, human rights criticisms were apparently *sotto voce, in camera* and bilateral, not brought up at the CGI meeting itself.[19]

The second — more positive for human rights advocates — consequence is the announcement in June of a new National Commission on Basic Human Rights, to be headed by former Supreme Court Chair Ali Said, with a membership not yet chosen (*Tempo* 19 June 1993). The formation of the Commission is part of a series of events triggered by a United Nations Human Rights Commission resolution adopted in Geneva in March 1993 condemning continued Indonesian violations of human rights in East Timor, including the treatment of captured Fretilin guerrilla leader Xanana Gusmao. The United States delegation, reversing the don't ask, don't tell, don't

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19 See the accounts in *Kompas*, 1 July 1993, p. 1; and *Tempo*, 10 July 1993, p. 72.

pursue policy toward East Timor of the previous Bush Administration, was one of 22 supporting the resolution (12 voted no and 15 abstained).

How much impact the new commission will have is unclear. Chair Ali Said is a long time Suharto associate, and has no record of opposition to human rights violations that occurred during his tenure in various high posts in the justice bureaucracy. Continued international attention may persuade the president to appoint at least a few independent members, however. Another positive sign is the recent return, after several years study abroad, of Adnan Buyung Nasution, Indonesia's most respected and combative human rights lawyer, to head the influential and prestigious Legal Aid Institute (*Tempo* 31 July 1993). These changes, taken together with the recent relaxation of restrictions on the press (also perhaps in part a response to international censure) may be more than enough to offset the loss of the IGGI as a forum for pro-human rights activities.

Finally, yet another year of turmoil in and about East Timor raises a bigger concern. Outsiders, myself included, often expect that what happens in East Timor must reverberate at the highest levels of Indonesian domestic politics (Liddle 1992). It is, after all, the armed forces leaders who control Indonesia as a whole and the same leaders who have been the principal formulators and implementers of policy in East Timor. Moreover, those who rise to the top in the military are with few exceptions officers, often from KOPASSUS (Special Forces Command), with years of service there (The Editors 1992-93).

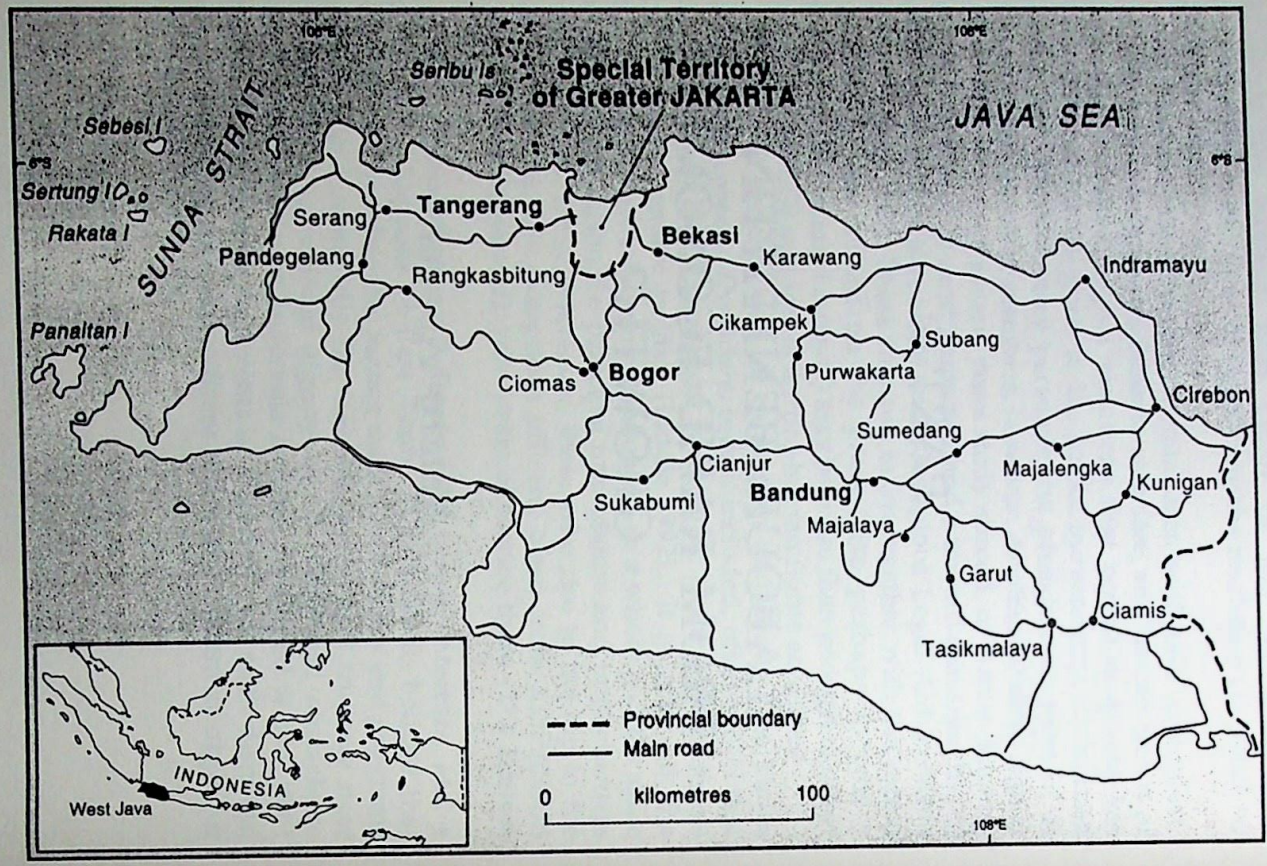
These officers must have deeply-held views, interests, and a stake in what happens in East Timor. It is hard to believe that there are no serious disputes among them over policies and programs that have failed repeatedly for eighteen years, and that are now such an affront to national dignity and a prominent obstacle to normal relations between Indonesia and the developed world. Yet I can find no evidence in the events of 1992-1993 for such disputes, much less that they play a significant role in the current struggle for power and influence.

# PART B:

# LABOUR: BENEFITTING FROM RAPID ECONOMIC GROWTH?

## *I. Macro Aspects*

# Map of West Java



# 4

# Manpower Problems and Policies

Payaman J. Simanjuntak

## Introduction

Indonesia experienced rapid economic growth in the late 1980s, with GDP growing by over 7 per cent in 1989 and 1990, although it fell to 6.6 per cent in 1991 and 6.3 per cent in 1992. This was well above the *Repelita V* target of 5 per cent per year. Growth rates have varied widely across the various sectors, resulting in a much more diversified economy. A decline occurred in the agricultural sector (including livestock, forestry and fishing) as well as in the mining and quarrying sector, while manufacturing, electricity, gas and water, trade, hotels and restaurants, transport and communications, and banking and other financial services grew substantially.

A major part of Indonesian economic policy since 1983 has been a succession of market-oriented deregulation packages. Attempts to reduce import controls, including tariff and non-tariff barriers, have been successful. Licensing systems were simplified to assist in the expansion of labour-intensive manufacturing for export and of employment.

Indonesia's labour force is still growing rapidly and at a substantially faster annual rate than the population as a whole. The number of young people leaving school, together with graduates and drop-outs, all entering the work force for the first time, is the most important factor influencing labour supply. Over the last decade there have been increased labour force participation rates, particularly for females. This increase is placing additional pressure on the Indonesian job market.

The agricultural sector has continued to absorb large numbers of workers, although there has been a decline in the proportion of employed persons working in this sector. Growth of non-agricultural employment, covering all the major service industries, manufacturing and construction, has become broad-based. During the

same period, the contribution of the agricultural sector to GDP decreased from 24.8 per cent in 1980 to 19.4 per cent in 1990, while that of manufacturing increased from 11.6 per cent in 1980 to 19.4 per cent in 1990.

These data indicate that for the first time in the nation's history the share of the manufacturing sector was equal to the share of the agricultural sector in GDP. On the other hand, the figures also imply a widening gap in income distribution. The population employed in the agricultural sector receive only a small share of national income.

There are considerable variations in wage levels among the Indonesian provinces. The highest average wages tend to be in areas with substantial formal sector activities, while the lowest wages tend to be in the rural areas, especially in Java. The average wage in Indonesia has been relatively low, but through wage policy the government has continuously improved minimum wage levels in all regions.

## Population and labour force trends

Indonesia has undergone a demographic transition involving significant declines in both fertility and mortality over the last two decades. There has been a gradual reduction in population growth rates from 2.4 per cent per year in the 1970s to 2.2 per cent in the early 1980s and 1.8 per cent in the late 1980s. The rate is expected to decrease to 1.6 per cent during the 1990s. Indonesia's population in 1990 was 179.3 million and is expected to increase to 210.3 million by the year 2000 (Table 4.1).

The 1980 and 1990 population censuses show that the total male population aged 10 and over increased by 30.2 per cent over the 1980-1990 period, while the size of the labour force increased by 33.5 per cent. In the same period female labour force participation increased much more markedly than that of males. Female participation rose from 32.7 per cent in 1980 to 39.2 per cent in 1990, while the male rate increased only from 68.4 per cent to 71.2 per cent in 1990. Along with population growth and greater labour force participation, the size of the labour force increased from 52.4 million in 1980 to 72.4 million in 1990 and is expected to increase to over 100 million by the year 2000.

Table 4.2 shows that the growth of the urban labour force was three times (7.5 per cent) compared to its labour force growth in rural areas (2.4 per cent). Along with this growth, the proportion of the

labour force in rural areas increased from 19.1 per cent in 1980 to 27.7 per cent in 1990.

**Table 4:1: Indonesian Population and Labour Force, 1961-1990 (thousands)**

| Year | Population | Labour Force | | |
|---|---|---|---|---|
| | | Male | Female | Total |
| 1961 | 97,019 | 25,193 | 9,641 | 34,834 |
| 1971 | 119,233 | 27,009 | 13,360 | 40,369 |
| 1976 | 131,797 | 33,537 | 17,477 | 51,014 |
| 1980 | 146,777 | 35,099 | 17,322 | 52,421 |
| 1985 | 165,154 | 42,541 | 24,501 | 67,042 |
| 1990 | 179,322 | 46,723 | 25,692 | 72,415 |
| 1995 | 195,756 | 53,681 | 34,815 | 88,496 |
| 2000 | 210,264 | 60,269 | 41,357 | 101,626 |

*Source:* Cosmas Batubara, *Manpower Problems and Policy in Indonesia*. Jakarta: Department of Manpower, 1991, p.2.

**Table 4:2: The Growth of Labour Force by Sex and Region, 1980-1990 (per cent per annum)**

| Labour Force | Rural | Urban | Rural + Urban |
|---|---|---|---|
| Male | 1.92 | 6.83 | 3.09 |
| Female | 3.25 | 8.91 | 4.42 |
| Male + Female | 2.39 | 7.48 | 3.55 |

*Source*: Population Censuses 1980 and 1990.

The greater part of the labour force has a low level of education, although there has been a dramatic change in the levels of educational attainment in recent years. In 1980, 68.5 per cent of people aged ten years and over and 67 per cent of the labour force

had either no education or had not completed primary school. This had been reduced to 47.6 and 45.6 per cent respectively by 1990 (Table 4:3). The proportion of the labour force with low levels of education is higher in rural areas than in urban areas.

On the other hand, the proportion of the population aged ten years and over completing junior and senior high school increased from 10.4 per cent in 1980 to 21 per cent in 1990, while the proportion attaining higher education (diploma, academy or university) increased from 0.6 per cent in 1980 to 1.3 per cent in 1990. The proportions of the labour force completing junior and senior high school rose and attaining higher education rose by similar amounts in the same period. Educational institutions are concentrated in urban areas and most graduates are reluctant to go back to rural areas, preferring to look for jobs in urban areas.

## Open unemployment and underemployment

Over the period of 1980-1990, the level of open unemployment in Indonesia rose from 1.7 to around 3.2 per cent. This is particularly due to the increased unemployment in urban areas, where the figure rose from 3 per cent in 1980 to 6 per cent in 1990. During this period the level of open unemployment of females was higher than that of males, reaching 3.9 per cent by comparison with 2.8 per cent for males. A major feature of unemployment in Indonesia is its concentration among the young educated labour force, particularly in urban areas (Table 4.4). In 1980 the highest level of open unemployment rates was in the 15-19 age group for both females and males. In 1990, the highest level of unemployment rates was in the 10-14 age group.

In terms of educational attainment, the highest level of open unemployment was among general senior high school leavers for two reasons. First, most senior high school leavers lack experience. Secondly, most senior high school leavers look for employment in the organised sector, where jobs are in fact very limited, unlike most primary school leavers who are ready to accept jobs in the informal sector.

The structure of economic activities in developing countries such as Indonesia is based substantially on informal and traditional activities, where more people are registered as having jobs. It implies that registered unemployment rates are low. Most of these people, however, are absorbed in marginal jobs, either as unpaid

family workers or self-employed. A significant problem related to employment in this sector is the high level of underemployment. The 1990 Population Census showed that around 38.7 per cent of people work less than 35 hours a week, while around 34.3 per cent work more than 45 hours a week. The percentage of people working less than 35 hours a week is higher in rural areas (45.1 per cent) than in urban areas (21.1 per cent) (Table 4.5). Long working hours in urban areas are reflected in lower income per hour. People tend to work more than normal working hours in order to obtain an adequate income. On the other hand, working hours in rural areas are generally short because most households work in traditional agriculture, and own and cultivate very small holdings.

**Table 4.3: Population Aged 10 Years and Over and the Labour Force by Educational Attainment, 1980-1990 (per cent)**

| Educational Attainment Level | Manpower | | Labour Force | |
|---|---|---|---|---|
| | 1980 | 1990 | 1980 | 11990 |
| No Education | 27.5 | 16.1 | 29.5 | 17.5 |
| Some Primary School | 41.0 | 31.5 | 37.5 | 28.1 |
| Primary School | 20.7 | 30.1 | 21.3 | 31.5 |
| Junior High School | 6.0 | 10.8 | 5.2 | 8.9 |
| Senior High School/ Diploma I/II | 4.4 | 10.2 | 5.8 | 12.0 |
| Academy/Diploma III | 0.3 | 0.5 | 0.4 | 0.8 |
| University | 0.3 | 0.8 | 0.4 | 1.2 |
| All Levels | 100.2 | 100.0 | 100.1 | 100.0 |
| Absolute No. (millions) | 104.4 | 135.3 | 52.4 | 72.0 |

*Source*: Population Censuses 1980 and 1990.

**Table 4.4: The Level of Open Unemployment by Age Group, Sex and Region, Indonesia, 1980-1990 (per cent)**

| | Urban | | Rural | |
|---|---|---|---|---|
| Sex | 1980 | 1990 | 1980 | 1990 |
| 10-14 | 5.84 | 22.31 | 2.34 | 6.67 |
| 15-19 | 8.23 | 18.25 | 2.64 | 5.38 |
| 20-24 | 6.76 | 5.40 | 1.88 | 4.11 |
| 25-25 | 2.29 | 5.56 | 0.90 | 1.19 |
| 30-39 | 0.93 | 1.45 | 0.60 | 0.41 |
| 40+ | 0.94 | 0.88 | 0.53 | 0.35 |
| Male | 2.99 | 5.46 | 1.10 | 1.69 |
| 10-14 | 4.69 | 15.06 | 3.71 | 7.72 |
| 15-19 | 5.68 | 14.09 | 3.69 | 7.89 |
| 20-24 | 6.54 | 16.62 | 2.94 | 5.80 |
| 25-25 | 2.61 | 7.21 | 2.01 | 2.07 |
| 30-39 | 1.32 | 2.12 | 1.63 | 0.99 |
| 40+ | 0.77 | 0.73 | 1.34 | 0.73 |
| Female | 1.25 | 7.36 | 2.17 | 2.69 |
| 10-14 | 5.20 | 18.47 | 2.88 | 7.08 |
| 15-19 | 9.78 | 15.88 | 3.04 | 6.34 |
| 20-24 | 6.75 | 15.88 | 2.25 | 4.74 |
| 25-25 | 2.39 | 15.88 | 2.25 | 4.74 |
| 30-39 | 2.39 | 6.08 | 1.29 | 1.51 |
| 40+ | 0.89 | 0.95 | 0.80 | 0.49 |
| Male + Female | 2.75 | 6.09 | 1.40 | 2.05 |

*Source*: Population Censuses 1980 and 1990.

**Table 4.5: The Number of Working Hours by Sector and Region, Indonesia, 1980-1990 (percentage of workers)**

| | Number of Working Hours | | | Total |
|---|---|---|---|---|
| | 0-34 | 35-44 | > 44 | 100 |
| Urban | 21.11 | 27.12 | 51.77 | 100 |
| Agriculture | 44.62 | 23.77 | 31.61 | 100 |
| Mining, Manufacturing, Electricity, Gas and Water | 11.85 | 26.11 | 62.04 | 100 |
| Trade, Transportation, Insurance, Business, Public Services | 20.52 | 28.30 | 51.18 | 100 |
| Rural | 45.06 | 27.03 | 27.91 | 100 |
| Agriculture | 51.74 | 27.65 | 20.61 | 100 |
| Mining, Manufacturing, Electricity, Gas and Water | 30.66 | 24.12 | 45.22 | 100 |
| Trade, Transportation, Insurance, Business, Public Services | 33.49 | 27.36 | 39.15 | 100 |
| Urban + Rural | 30.76 | 29.23 | 40.01 | 100 |

*Source*: Population Censuses 1980 and 1990.

## Employment trends

The significant sectoral shifts in the Indonesian economy during the last two decades have been reflected in the sectoral distribution of employment. Over the 1980-1990 period, the proportion of people engaged in the agricultural sector decreased from 56.3 to 50.4 per cent. At the same time the proportion of people working in the manufacturing sector increased from around 10 to 13 per cent, while the proportion employed in the service sector increased from 33.7 to

36.4 per cent (Table 4:6). The majority of people still work in traditional jobs in the informal sector. The 1990 population census showed that only 36.4 per cent of people worked in wage jobs or the formal sector, while round 63.6 per cent were employed in the traditional and the informal sectors (Table 4:7). In both the agricultural and the informal sectors, productivity is very low.

## Wages and poverty

Levels of income are generally low, particularly in the agricultural and the informal sectors. There are considerable variations in wage levels among provinces. The 1988 National Labour Force Survey found that the highest average wages are received in the most remote areas (Irian Jaya), those experiencing some insecurity (East Timor) and those with substantial formal sector activities (Jakarta) and other major resource exploitation activities (Riau, South Sumatra and East Kalimantan).

The lowest wage rates tended to be in the rural areas of Java. However, increasing formal sector development, especially of manufacturing in West Java, has led to significantly higher average rates in this province than in Central and East Java. The most striking pattern here is the contrast between Java outside Jakarta, with its lower wages, and elsewhere in Indonesia.

There has been significant inequality in income distribution among sectors of the economy and among different jobs. As mentioned above, over 50 per cent of the agricultural labour force share less than 20 per cent of national income. This means that a high proportion of the population belongs to low income groups. It should be acknowledged, however, that economic development in Indonesia has succeeded in reducing the number of people living below the poverty line. The percentage of people below the poverty line decreased from 60 per cent to 70 million people in 1970 to 15 per cent or 27 million people in 1990.

Lower income groups of workers receive very low wages, even lower than the value of minimum physical needs (MPN) for one person. To stimulate employers to increase wage levels and social security, the government has set minimum wages for each province. The government has increased the average minimum wage level from about 40 per cent of MPN in 1988 to 76 per cent in 1993 (Table 4.8). It is the policy of the government to raise the minimum wage so that it will equal MPN in all provinces by 1995.

**Table 4.6: The Proportion of Workers and the Growth Rates by Sector, Indonesia, 1980-1990**

| Sector | 1980 | 1990 | Growth Rates 1980-1990 (%, p.a.) |
|---|---|---|---|
| Agriculture | 56.27 | 50.40 | (2.20) |
| Mining, Manufacturing, Electricity, Gas and Water | 10.02 | 12.70 | (5.80) |
| Trade, Transportation, Insurance, Business, Public Services | 33.71 | 36.90 | (4.27) |
| | 100.00 | 100.00 | |

*Source*: Population Censuses 1980 and 1990.

## Manpower policies

Policy formulation in the field of employment and labour relations should be based on the trends described above and on the mission or function of the Department of Manpower. The mission of the department consists of three broad services to the community, namely; pre-employment services, within-employment services, and post-employment services.

Pre-employment services include services such as labour market information, through the operation of employment exchanges, occupational guidance and counselling, training and apprenticeship programs, manpower mobilisation and placement, and public works or creation of special employment opportunities. Within-employment services are those provided for employed workers, particularly those who are working as salaried or paid workers.

Within-employment services include provision of sound industrial relations, supervision of working conditions, policy on wage and social security, occupational safety and health, and labour protection in general. Post-employment services include the

provision of occupational accident insurance, old age allowances and/or pension schemes, and unemployment benefits.

**Table 4.7: The Distribution of Workers by Employment Status and Sector, Indonesia, 1990**

| Employment Status | Sector | | | Total |
|---|---|---|---|---|
| | A | M | S | |
| Self-employed | 15.73 | 8.08 | 28.45 | 19.35 |
| Self-employed + Temporary Help | 35.42 | 7.98 | 14.47 | 24.29 |
| Family Worker | 32.43 | 10.34 | 6.09 | 19.94 |
| Informal Sector | 83.58 | 26.40 | 49.01 | 63.58 |
| Employer | 1.33 | 1.32 | 1.67 | 1.47 |
| Employee | 15.09 | 72.28 | 49.32 | 34.95 |
| Formal Sector | 16.42 | 73.60 | 50.99 | 36.42 |
| Total | 100.00 | 100.00 | 100.00 | 100.00 |

*Source*: Population Censuses 1980 and 1990.
*Notes*: Sector A : Agriculture;
Sector M : Mining, Manufacturing, Electricity, Gas and Water.
Sector S : Trade, Transportation, Insurance, Business, Public Services.

Table 4.8: Regional Minimum Wages and Minimum Physical Needs (January-March 1993)

| No. | Province | Regional Minimum Wage (Rp) | Minimum Physical Needs (Rp) | Per cent[1] |
|---|---|---|---|---|
| 1 | Aceh | 2,600 | 2,590 | 100 |
| 2 | North Sumatra | 3,100 | 2,984 | 104 |
| 3 | Riau | 2,700 | 3,658 | 74 |
| 4 | West Sumatra | 1,900 | 2,310 | 82 |
| 5 | Jambi | 2,400 | 2,563 | 94 |
| 6 | Bengkulu | 2,000 | 2,709 | 54 |
| 7 | Lampung | 2,450 | 2,815 | 87 |
| 8 | South Sumatra | 2,300 | 2,952 | 78 |
| 9 | Jakarta | 3,000 | 3,659 | 82 |
| 10 | West Java: | - | - | - |
| | Sub Region I | 2,200 | 2,758 | 80 |
| | Sub Region II | 2,300 | 2,758 | 83 |
| | Sub Region III | 2,500 | 2,758 | 90 |
| | Sub Region IV | 2,600 | 2,758 | 94 |
| 11 | Central Java | 2,000 | 2,847 | 70 |
| 12 | Yogyakarta | 1,250 | 2,498 | 50 |
| 13 | East Java: | - | - | - |
| | Sub Region I | 2,100 | 2,643 | 79 |
| | Sub Region II | 2,150 | 2,643 | 81 |
| | Sub Region III | 2,200 | 2,643 | 83 |
| | Sub Region IV | 2,250 | 2,643 | 85 |
| 14 | Bali | 2,500 | 3,568 | 70 |
| 15 | West Nusa Tenggara | 1,800 | 1,569 | 70 |
| 16 | East Nusa Tenggara | 2,100 | 3,305 | 63 |
| 17 | South Kalimantan | 2,275 | 2,896 | 79 |
| 18 | Central Kalimantan | 2,350 | 3,196 | 73 |
| 19 | West Kalimantan | 2,250 | 3,256 | 69 |
| 20 | East Kalimantan | 2,400 | 4,193 | 57 |
| 21 | South Sulawesi | 1,750 | 2,968 | 59 |
| 22 | Central Sulawesi | 1,750 | 2,728 | 64 |
| 23 | South East Sulawesi | 2,125 | 2,516 | 84 |
| 24 | North Sulawesi | 2,000 | 2,668 | 75 |
| 25 | Maluku | 2,300 | 3,580 | 64 |
| 26 | Irian Jaya | 3,500 | 4,015 | 87 |
| 27 | East Timor | 2,000 | 3,916 | 51 |
| 28 | Batam Island | 5,550 | 5,298 | 105 |
| | Average | 2,380 | 3,126 | 76 |

*Source*: Department of Manpower, unpublished data.

[1] Column 2 /1 multiplied by 100.

*Policy on employment creation*

Employment creation has been referred to as one of the indicators of successful national development in the State Guidelines of 1988 and 1993, the Fifth Five-Year Plan and the various Presidential Addresses. In these documents emphasis is placed on the fact that employment has not only an economic but also a human meaning, that is,;creation of self-reliance and respect.

Therefore, in the context of employment creation, the government has formulated inter-sectoral policy in the following way:

1. Employment creation policy covers policies on production, investment, technology, fiscal matters, exports and imports, prices and so on.
2. Sectoral policy emphasises expansion of employment opportunities as one of the objectives of each sectoral development program, which means that a widening of employment opportunities is an integral part of national development.
3. Regional development policy covers efforts to expand employment opportunities through distribution of development undertakings at regional level. Each region in Indonesia differs, both in terms of human and natural resource potential, and in terms of capacity for development. Therefore, regional development should be directed to improvement in capacity and distribution of development in each region, so that employment can be expanded at regional level.
4. Special policy covers programs directed towards certain groups in the labour force such as the unemployed in rural areas, low-income people, young people, women, disabled workers, small entrepreneurs, poor farmers and fishermen and others.

During the Fifth Five-Year Development Plan, there is need to provide for an estimated 11.51 million jobs in various sectors. Most are to be created in the agricultural sector (4.1 million), the trade sector (2.7 million) and the manufacturing sector (2.3 million).

*Strategy for entrepreneurship development*

It is necessary to develop entrepreneurs, since the modern sector is limited in its capacity to absorb labour. Entrepreneurship can be developed through education and training. During the past five years the Department of Manpower has attempted to develop entrepreneurship by recruiting foreign and domestic experts and consultants and by implementing a number of pilot projects. The development of entrepreneurship is a priority in assisting those who are unemployed or underemployed. The majority of these people have graduated from senior and junior high school. A system of self-employment has been formulated and a number of pilot projects have been implemented to help them. In addition, a system of mobile training units has also been formulated and conducted. Through pilot projects, many people have been trained and prepared for self-employment.

Priority is given to self-employment and the development of small-scale enterprises. Further development in entrepreneurship is directed towards medium- and large-scale enterprises. Observations of the background of successful entrepreneurs, particularly in developing countries like Indonesia, suggest that an entrepreneur should be innovative and creative, self-reliant, achievement-oriented, ready to face challenges and risks, and capable of running a business.

*Business climate and industrial relations*

Efforts to increase job opportunities are closely related to expansion in business opportunities through the opening of new businesses as well as reinvestment. To attract new business and reinvestment, government must create and guarantee a sound business climate and stable industrial relations. Industrial relations reflect the relationship between an employer and his employees in a production process. Good industrial relations create and maintain industrial peace and work safety in a company, so that employers and employees can perform their respective functions and duties effectively, the production process can function smoothly, corporate production can increase and national stability can be ensured.

The first principle of industrial relations states than an employer and employees must have a mutual interest in the

continuity and success of a business. Failure means a loss of jobs and sources of income for the employer and his employees.

The second principle states that an employer and his employees are partners in the production process. A modern organisation requires management to guide it and to direct employees, while employees carry out the operational functions. A manager cannot function without subordinates to implement organisational duties. Supervisors and subordinates represent a division of functions, roles and responsibilities rather than a difference of interests or positions.

The third principle refers to a family atmosphere. As members of a family, workers or trade unions should not force their wishes on the employer by staging a strike, while on the other hand, an employer should not force his wishes by ordering a lock-out. Each party must be willing to hear out the other and be responsive to suggestions, self-corrections and opinions. Likewise, if a difference of opinion arises between an employer and employees, both parties must try first to discuss and resolve the difference as they would in a family relationship.

The fourth principle calls for bipartite and tripartite cooperative bodies which serve as the means not only of consultation but also of communication. The function of these bodies is to formulate policies on the resolution of company problems.

The fifth principle spells out the need for the regulating of employment relationships. This calls for collective labour agreements in a company that has a trade union and for employment regulations in companies without trade unions.

The basic policy is to create harmonious and sound industrial relations based on *Pancasila*. This involves the following measures:

1. Establishment of a bipartite forum in each company, consisting of representatives of the workers and of the employer. Its main function is to accommodate and discuss the aspirations, suggestions, demands and even grievances of the workers. In this matter, a joint project between the Australian Congress of Trade Unions (ACTU) and the SPSI has been set up.
2. Establishment of trade unions at the plant level and a strengthening of their capacity to communicate, negotiate and bargain with employers. It should be made clear that the government is not entitled to establish trade unions. It is the

responsibility of workers to establish a union within the company in which they are working. The government function is to facilitate and protect them in doing so.

It is also important to note that the government does not regulate the structure of trade unionism, that is, whether it should be one or more than one federation. Rather, the government of Indonesia respects the national consensus of trade union leaders reached at their meeting on 20 February 1973, when they formulated the *Deklarasi Persatuan Buruh Indonesia* or Trade Union Declaration. On the basis of this declaration, all trade unions in Indonesia then merged themselves into a federation called the FBSI, which has since been renamed the SPSI and now has 13 sectoral or trade unions. Recently there has been a growing misperception and misinterpretation of the right of workers to organise as stipulated in the ILO Convention No. 98. Workers have the right to organise. In other words, a trade union should be established by workers in the company in which they are working. An organisation which is established by non-workers outside companies does not satisfy the criteria of a trade union. It should be made clear that the organisation established by workers at the company level is free to choose to stand alone as an association or to join SPSI. The government never requires or forces such workers' associations to join the SPSI, but for practical reasons and to respect the Trade Union National Consensus and Declaration of 1973, the government requests them to join the SPSI.

3. The third policy concerning the development of industrial relations is to extend the establishment of collective labour agreements (CLA) and company regulations.

4. It is the policy of the government of Indonesia to review existing labour laws and regulations continuously.

As part of its protection policy in the field of wages, the government consistently and continuously increases minimum wage levels in all provinces. Five or six years ago, the minimum wage averaged only about 40 per cent of basic needs, but now it is nearly 80 per cent of income required to supply basic needs. This implies that wage levels of all occupational groups have been increased substantially.

The government concentrates its efforts on intensification of labour protection and law enforcement. A number of employers who have violated laws such as those on minimum wages, workers' insurance and child labour have been brought to court. Equally important, the government has also introduced policies on employment creation, productivity enhancement, elimination of poverty and social security, including pension funds.

## Conclusion

Indonesia experienced rapid economic growth in the late 1980s. However, the majority of the labour force still works in traditional or informal jobs. Productive employment has only limited capacity to absorb the rapidly growing labour force. In addition, there has been a mismatch between the types of education that are provided and the qualifications required to fill available jobs.

There have been some significant sectoral shifts in the Indonesian economy during the last two decades. The proportion of the labour force employed in the agricultural sector has decreased, while the proportion working in the manufacturing sector and the service sector has increased. In 1990, the majority of people still worked in the traditional or the informal sector. Because these people generally have a low level of education and skills, most have low incomes.

Because of the limited capacity of the modern sector to absorb labour, it is necessary to develop self-employment and encourage entrepreneurship in small and medium enterprises.

Sound industrial relations should be developed to create peace at work as well as corporate viability and to attract new business and reinvestment. Policies must be introduced to prevent those who are already employed from losing their jobs and create new employment opportunities that will absorb new entrants to the labour market. The enhancement of peace and tranquillity at work will generate an increase in productivity and facilitate business expansion as well as opening up new job opportunities.

# 5

# Examining Both Sides of the Ledger: Economic Growth and Labour Welfare Under Suharto*

Chris Manning

## Introduction

Three events in particular drew attention to labour issues in Indonesia in 1993.[1] First there was the mysterious murder of the East Javanese labour activist, Marsinah, who had just taken part in a stop-work action. This was followed by a highly publicised strike of workers demanding increased wages and union representation in Sarinah Jaya, one of the firms associated with the new Manpower Minister's business interests. Finally, the first national congress of SBSI, a serious rival organisation to the government-backed union, SPSI, was banned in July, purportedly on technical grounds.[2] In the context of on-going threats by the US government to withdraw special trade rights to Indonesia, these were followed by the highly publicised invitation extended by the Indonesian government for a US Trade Delegation visit to Indonesia in September 1993 to 'investigate' labour practices first hand.

These events, although not directly connected, are examples of contemporary concerns regarding labour rights and welfare, in

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* The author wishes to thank Gavin Jones and Ross McLeod for very useful comments on an earlier draft.

1 See especially *Media* June 15 1993, *Indonesia Business Weekly* August 20 1993 (pages 5-8), *Far Eastern Economic Review*, August 26 1993 (pages 23-24).

2 SBSI is an acronym for *Serikat Buruh Sejahtera Indonesia* and SPSI for *Serikat Pekerja Seluruh Indonesia*.

particular the use of force in the settlement of labour disputes, continued government opposition to the formation of alternative trade unions and the low levels of wages. Wage rates in US dollar terms were still among the lowest in Southeast Asia and a high proportion of the work force was engaged in sweat-shop or near sweat-shop work in both small- and large-scale factories. One indicator — a steep increase in officially recorded industrial unrest since 1990 — suggests Indonesian workers themselves have become increasingly dissatisfied with the slow progress made in improving labour conditions (Manning 1993a).

On the other hand, the government and economic analysts have emphasised the gains to working people associated with economic transformation. These include relatively abundant, cheap supplies of staple foods, more employment opportunities in modern industry and services and improvements in human capital. The government has also pointed to efforts by the Department of Manpower, in particular, to improve labour market information, health and safety, worker protection through labour agreements and minimum wages.[3] It has also fostered non-confrontational work places where high rates of growth in employment and productivity have been major goals. The substantial decline in the incidence of poverty and widely reported improvements in general living standards have been held up as major gains made by working people during the New Order period.[4]

This paper discusses some of the advances experienced by labour and some of the problems which have emerged regarding employment, wages and labour rights during the New Order period. It examines both the positive and negative sides of the ledger. The focus is on trends in economic welfare and absolute magnitudes of employment, labour incomes and wages of relatively unskilled

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3 See especially a book of collected speeches given by the former Minister for Manpower, Cosmas Batubara, over the period 1988-1991 (Batubara, 1991). See also Payaman Simanjuntak's paper in this volume.

4 Examples are given in the President's annual 17 August address to the nation. Documentation of poverty decline and income gains are found in World Bank (1990) and Booth (1993a, 1993b).

labour, with which government policies are mainly concerned at early stages of development in poor countries.[5]

Labour is defined in this paper to include all employed persons — not only workers in factories which have been a focus of domestic and international concern, but also self-employed and family labour engaged in informal sector work and agriculture. It is assumed that it is quite unrealistic to discuss labour conditions and policies regarding wage workers without reference to the latter. Returns to unskilled wage workers are likely to be closely related to those in self-employed work, once account is taken of differences in the intensity and conditions of work between sectors and jobs. This is especially so, given improvements in information flows and labour mobility, and an absence of strong unions or pervasive government controls of labour processes which have typified Indonesian labour markets over the past two decades.

## Positive aspects

Positive developments include the creation of many new jobs, more opportunities to earn better wages and participate in higher productivity work, and government policies which encourage employment and skill formation, and also provide workers with labour protection.

### *Many new jobs have been created*

On the positive side, the first point is often overlooked. Although labour standards are low, most people do have some productive work.[6] The emphasis is on most; there are of course still many poor

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5 Disquiet regarding the relative position of poorer segments of the work force compared with more skilled and professional workers - the growing 'middle class'—is also an important political and social issue in Indonesia today. This paper deals only briefly with that subject.

6 Data and trends mentioned in this paper are mainly taken from Population Census and National Labour Force Surveys adjusted by the author for varying coverage in different years. It should be borne in mind that although the basic measures have been adapted to reflect Indonesian conditions, they are of more relevance to assessing formal sector and urban employment conditions.

people: around 27 million persons out of a total population of 180 million were defined by the Central Bureau of Statistics as poor in 1990. Scavengers and beggars are still a common sight in Jakarta, Surabaya, Medan and other urban areas. But the proportions of the poor are very much smaller than they were in the early 1970s when around half the rural population, in particular, were defined as poor.

***Coping with rapid labour force growth.*** This is no small achievement given the high rates of labour force growth and urbanisation experienced in the past three decades. The labour force has grown much more quickly over this period (from just under 3 per cent in the 1970s to 3.4 per cent in the 1980s) than it did at any previous stage in Indonesian history or in the economic history of western countries. The numbers are breathtaking, as they have been in many other Asian and African countries. For example, the work force grew by about 2 million each year or by almost 20 million in the decade of the 1980s. Approximately the same total number of persons entered the work force (and the increase in the labour force was 3-4 times faster) in Indonesia in the 1980s as in all of Europe, USA and Japan combined a century ago (1880-1890) when these countries were industrialising rapidly. [7]

***More jobs for females.*** Labour force growth rates have been much more rapid than population growth, mainly as a result of rising female participation rates. As in other East Asian countries, female labour force participation rates (FLPs) have risen by close to one-third in Indonesia in the past decade.[8] Increases in FLPs occurred across all age and education groups, although the increase in activity rates among urban women aged 15-24 has been particularly striking. Declining fertility, delayed marriage, expansion of education, greater population mobility and changing values

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7 Europe is defined here to include Great Britain and Turkey but exclude the USSR (Bairoch and Limbor, 1968: 313-15).

8 Over the period 1965-1987, female activity rates rose 40 percent in South Korea and Malaysia, and well over 50 percent in Taiwan. Recorded rates were already very high in Thailand in 1965.

regarding women's work outside the home have all influenced these increases.[9]

FLPs began to rise steeply prior to recent rapid growth in female employment in export oriented manufacturing industries. Over the period 1971-1990, the increase in new jobs was more marked in service industries such as trade, government, domestic service and tourism than in manufacturing (Manning 1992). However, employment in labour-intensive textile, clothing and footwear industries (which employ a high proportion of females) rose quite steeply from 23 per cent of total medium and large-scale industry employment in 1985 to just under 30 per cent in 1990 (Table 5.1).

This increase in FLPs can generally be considered a positive development.[10] While wages are still very low even in large-scale establishments, the scope of employment creation — involving several hundred thousand jobs in manufacturing alone since the early 1980s — must have had a substantial impact on household welfare and female autonomy and independence in general.[11]

***Unemployment and underemployment.*** Growth of the urban labour force has been much more rapid than that of the total labour force, yet the large majority of those moving to urban areas, or born in urban areas, have obtained jobs. The urban labour force approximately tripled over the 1971-1990 period and has doubled since 1980 to reach nearly 20 million people in 1990. Despite this growth, open unemployment has remained relatively low; it averaged around 2-3 per cent per annum overall and 5-6 per cent in urban areas throughout the 1980s, although there is some indication of a worsening trend in urban areas in more recent years.[12] Open

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9 See for example Widarti (1991) and Raharto (1992), and also Oey-Gardiner in this volume.

10 Of course, it should also be borne in mind that increasing female FLPs can be partly attributed to economic pressures, and that there is also considerable discrimination against females in the labour market. See, for example, Grijns and van Velzen in this volume.

11 This is true even if, as some authors have suggested, living costs of these young workers are subsidised by their families at home (see Yusuf 1991; Wolf 1992).

12 These data are taken from the annual National Labour Force Surveys (SAKERNAS) (1976-1991). There is some slight indication from

unemployment has been lower in urban Indonesia than in most neighbouring Southeast Asian countries, where unemployment rates were closer to 10 per cent, and generally lower than in countries of comparable size in Africa and Latin America (Nigeria, Brazil and Mexico) in the 1980s and early 1990s.[13]

**Table 5.1: The Changing Structure of Employment in Manufacturing, Large and Medium Establishments, 1975-1990 (Percentages)[1]**

| Year | Industry | | | | | Total |
|---|---|---|---|---|---|---|
| | Food Processing | TEC & Other Labour Intensive[2] | Wood & Paper | Heavy Industry/ Processing | Metal Goods | |
| 1975 | 38 | 33 | 8 | 13 | 8 | 100 |
| 1980 | 33 | 27 | 10 | 16 | 14 | 100 |
| 1985 | 31 | 23 | 14 | 20 | 12 | 100 |
| 1990 | 23 | 29 | 19 | 19 | 11 | 100 |

*Source:* Central Bureau of Statistics, *Statistik Industri*, various years (data compiled and kindly provided to the author by Hal Hill).

1. All firms with 20 employees or more.
2. Includes ISIC 32 (textiles, footwear and clothing) and 39 (other).

Of course, the fact that people have jobs is not necessarily a sign of progress if incomes from those jobs are very low, or if persons have little work or have to work very long hours for meagre returns.

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Population Census data that urban unemployment rates rose quite considerably in 1990 compared with 1980.

13 See data recorded in ILO (1993).

Underemployment — people involuntarily working fewer hours than they wish — has been emphasised by many researchers as a much more serious problem than unemployment in countries like Indonesia.[14] This problem has been overstated, however, partly because national statistics do not define employment adequately and do not capture the extent of multiple job holding.

Approximately 40 per cent of the population reported working less than 35 hours a week in 1990. If availability for additional work is taken into account, however, the proportion recorded as underemployed falls sharply: only around 10 per cent of all employed persons were working less than 35 hours a week and were available for more work. The percentages were much higher in agriculture (14 per cent) than in non-agriculture (6 per cent), and especially among employees and family workers in agriculture on Java (approximately 20 per cent). These figures suggest that the main problem of underemployment is where one might expect: among those rural Javanese who have limited or no land under their control but are still dependent on agriculture as their major source of income, either as wage or family workers.

Overall rates of underemployment, defined either in terms of the proportion of persons working shorter hours or, alternatively, as those working few hours and available for more work, do not appear to have changed much since the late 1970s. Increased earnings have been principally achieved through people working in higher productivity activities — using more complementary capital, skilled labour and managerial inputs — rather than working longer hours per se.[15]

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14 Many early development theorists suggested that 'disguised unemployment', defined as a situation where too many people were working at low levels of productivity and effort, was likely to be a much greater problem than open unemployment in over-populated, mainly agricultural societies like Indonesia. Geertz (1963) concept of shared poverty in Java is akin to the notion of disguised unemployment.

15 Changes in the sectoral allocation of labour have had conflicting effects on total hours worked. People have moved **out** of more seasonal and underemployed jobs in agriculture, but many have also moved out of home industry which often involves very long hours of work at low returns. There has also been movement **into** jobs which tend to involve more regular hours of work (although sometimes involving quite long working weeks, such as in low wage, factory occupations). But this has been

*People have better jobs than in the past*

The second positive aspect has been that most people have better jobs than they or their parents had in the past. There has been movement into a range of new occupations covering all sectors of the economy, as can be seen from Table 5.2. As the share of agricultural employment has fallen, manufacturing, construction, trade, transport and services have all absorbed substantial amounts of labour.

Average labour incomes of wage workers have risen in all sectors. There is a lack of accurate data on the precise order of magnitude, but it is probably in the order of around 30-60 per cent across sectors since the late 1970s (according to National Labour Force Survey data).[16] The major factors contributing to these changes have been higher levels of education and more skilled jobs taken by new job seekers, and the movement of people out of very low productivity and wage activities, such as hand loom textiles, traditional basket and mat weaving and coconut sugar production (Hill 1990; Jayasuriya and Manning 1990).

For example, the share of secondary (junior and senior) and tertiary graduates in total employment more than doubled over the 1971-1990 period, increasing from less than 10 to nearly 25 per cent of total employment. Starting from a very low base, the educational status of the population has improved faster in Indonesia than in any other East Asian economy. The increase in the share of more educated wage earners — in particular senior secondary (academic stream) and tertiary educated graduates — has made an important contribution to income growth, although many more persons with higher levels of education have been pushed into less prestigious and less skilled positions (Keyfitz 1989). For example, approximately 30 per cent of the increase in incomes of all wage earners over the 1977-1990 period can be attributed to a higher share

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counterbalanced by rising female labour force participation rates, including a rising proportion of part-time workers in the labour force as a whole.

16 Average incomes refer to real wages per week or month (that is, money wages adjusted for inflation); this measure does not take into account changes in hours worked. See Manning (1993c) for details.

of educated persons in the work force.[17] These gains have undoubtedly been a major factor contributing to poverty decline.

**Table 5.2: Distribution of Employment in Indonesia by Major Sector 1971 and 1990**

| Sector | Distribution of Employment (%) 1971 | 1990 | Growth in Employment (% per annum) |
|---|---|---|---|
| Agriculture | 66 | 50 | 1.7 |
| Industry | 10 | 17 | 5.6 |
| Manufacturing | 8 | 12 | 5.2 |
| Construction and other | 2 | 5 | 7.4 |
| Services | 24 | 33 | 4.7 |
| Trade and transport | 13 | 19 | 4.9 |
| Government and other | 11 | 14 | 4.4 |
| All Sectors | 100 | 100 | 3.1 |

*Sources*: Central Bureau of Statistics, *Population Censuses 1971 (Series C) and 1990 (Series S2).*

Labour productivity has also risen very rapidly, mainly in manufacturing, both because of the changing structure of industry towards more skill and capital-intensive activities and because of technological change within industries such as textiles, footwear and *kretek* cigarettes (Hill 1990). A phenomenal 5 per cent increase per annum in (real) value added per worker in manufacturing over the 1970s and 1980s is comparable with that which occurred in the NICs during their period of rapid industrialisation. It has enabled

17 The above calculation is based on a comparison of actual incomes in 1990 with hypothetical incomes if the distribution of educational classes had remained constant over the period 1977-1990 (data from National Labour Force Surveys).

*total* labour productivity to increase by around 3-4 per cent per annum.

One important development related to both the number and quality of jobs, has been the emergence of a much wider range of opportunities for work among the poor. This has been primarily the result of improved transport and the flow of information regarding jobs to previously isolated areas. The movement of poor rural, Central Javanese to industrial areas in West and East Java, and to new jobs in the Outer Islands has been widely documented in the literature.[18] The literature has also documented a similar shift to higher income non-farm jobs in rural areas throughout Java. There has also been a reverse flow of migrants to Java, and especially to Jakarta. For example, nearly 300,000 persons from Sumatra had moved to Jakarta and West Java in the five years prior to the 1990 population census; this was a substantial increase (close to 50 per cent) compared with the number moving five years prior to the 1980 Population Census X.[19]

*Policies which support employment and labour protection*

Beside policies which have emphasised economic growth, the government has pursued specific programs which have had a generally favourable impact on labour.[20] These include support for agriculture (especially rice) and small-scale industry, and expenditure on public infrastructure. The most important of the public works projects have been the INPRES programs which have

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18 See, for example, Tjandraningsih *et al.* (1991) and Singarimbun in this volume. In the intercensal period 1980-1990, many more persons from Central Java were recorded as recent migrants (ie. moved in the past 5 years) to Jakarta and West Java than in the previous decade (an increase of over 60 per cent). A high proportion of these were females who had moved to urban locations. Central Javanese also dominated flows to Sumatra and total flows of Javanese to the Outer Islands in the recent past (see 1980 and 1990 Population Census data).

19 A similar but much smaller increase in recent migration occurred among eastern Indonesians moving to urban East Java in the five years prior to 1990.

20 Many of these government policies are dealt with in the paper by Payaman Simanjuntak in this volume.

spread throughout the country, partly on a per capita basis and partly according to need, and involve construction of irrigation networks, roads, schools and government offices. The involvement of provincial, district and village administrations in the regions has provided a degree of regional autonomy not common in many government programs.

In recent years, the INPRES programs have accounted for around 5-8 per cent of the total budget and close to 20 per cent of the development budget.[21] If one assumes, conservatively, that around 30 per cent of all INPRES expenditure is devoted to wages, then around Rp 1.5 trillion in the early 1990s would have created jobs of 100 days duration for around 5 million persons — a figure almost double the number of persons who reported that construction was their main job in 1990. [22]

***Training.*** In addition to government support for the expansion of formal education at all levels, vocational schooling accounts for around one-third of graduates at senior high school level, mainly in three-year teaching training courses which produce primary school teachers. At tertiary level, the introduction of polytechnics in the 1980s has been an important attempt to tailor formal educational experience more closely to labour market needs.

The Department of Manpower has also run vocational training courses for primary and secondary school graduates, covering a wide range of trade occupations. In recent years 153 government training centres have provided training for 20,000 to 40,000 persons annually, and a similar number of graduates have completed training courses offered by mobile training units. Because of problems of quality and the lack of demand for the skills gained in these institutions, recent

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21 The much smaller public works program, *padat karya*, has been administered by the Department of Manpower has been targeted to regions suffering short-term hardship and where people are in urgent, immediate need of work.

22 For estimates of the employment creation effect of INPRES in the early 1970s, see Patten, Dapice and Falcon (1980: 169-172). Under much more favourable assumptions regarding the share of projects devoted to labour, they estimated that around 500,000 persons were employed in INPRES projects by the mid 1970s. As in the 1990s, many of these persons would be farmers and labourers involved in construction work for short periods only.

emphasis has been on involving private sector firms in training programs. The new Minister for Education is particularly keen to promote apprenticeship schemes in private enterprise for vocational school graduates.

***Labour protection.*** Labour protection legislation is relatively comprehensive for a country at Indonesia's stage of development.[23] Considerable efforts have been made to bring legislation up to date and extend it in fields of health and safety and in associated areas of labour protection. One example is the recently introduced workers' social security legislation (Jamsostek), which is extraordinarily comprehensive for a country at Indonesia's stage of development.[24]

***Minimum wages.*** Minimum wage legislation, first introduced largely in name only in the early 1970s, has been extended to all provinces of Indonesia by the late 1980s. In 1989-90 the Department of Manpower set specific guidelines for implementation as well as legal sanctions for non-compliance. Minimum wages have been set conservatively and are still substantially lower (as low as 50-60 per cent in some provinces) than the official estimates of minimum physical needs (MPN), even for a single worker.[25] The stated goal is to raise the average level of wages to at least the level of the MPN. In practice the main effect of minimum wage legislation appears to be to begin to set a floor to the price of labour for lower paid adult workers in modern sector establishments. Payment of wages below even these quite conservative minimum wage levels appears to be still quite common in services (for shop assistants, for example), and especially among illegal and semi-legal 'backyard' operators who

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23 Regulations cover restrictions on child and female employment, maternity and monthly menstruation leave, minimum wages, hours of work (40 rather than 42 or 48 hours found in many other developing countries), overtime, annual leave, health and safety regulations, and separation procedures and compensation payments.

24 It would seem that Jamsostek may be more a political move to counter critics of labour standards than a carefully designed policy initiative. See McLeod, Chapter 6 in this volume.

25 The latter is calculated on the basis of the FAO minimum recommended calorie intake (2100) and the value of other, additional minimum consumption needs of individual workers and their families per day (in total, the MFN was approximately Rp80,000 or US $40 per month in 1993).

often employ a high proportion of child and female labour.[26] It is unlikely that the government will be able to extend controls over the latter in the forseeable future.

Minimum wages are now widely publicised in the media and there is increasing pressure especially on the larger scale and foreign owned establishments to adhere to them. This is especially true of the Jabotek region (Jakarta and surrounding districts) where a high proportion of stop-work actions has occurred because firms have been reluctant (or tardy) to adjust minimum wages to the new levels set each year by the Department of Manpower (Manning 1993a). At the same time, more widespread adherence to minimum wages does not appear to have dampened employment growth in labour-intensive industries in recent years.

## Negative aspects

On the negative side of the ledger, four broad sets of problems can be highlighted. First, there are the costs associated with rapid economic change. In particular, this pertains to adjustment processes in a poor society in which the government is unable to provide anything but the barest of safety nets for those suffering disruption and displacement. The second problem is the relatively small role of the modern sector, and the pervasive influence of the informal sector in employment growth. A third cause for concern is relatively stagnant real wage rates and generally low labour standards. Finally, there is the area of labour rights, which has received considerable national and international attention.

### *Adjustment costs of economic change*

The flip side of the gains in productivity discussed above has been the displacement of workers from traditional or protected activities, either because of technological change or changes in the competitive environment (greater or less competition) in product and factor markets. There have been several well-known episodes of adjustment: in the 1970s, traditional manufacturing processes were increasingly replaced by new techniques and products and highly

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26 Examples are given in papers in this volume. See especially Chapters 8-10.

labour-intensive technology in agriculture gave way to new methods of cultivation, harvesting and processing; in the 1980s, the liberalisation of international trade, investment procedures and banking has meant greater competition both from imports and within the domestic economy.

Hardship caused by the displacement effects of the introduction of new technology in agriculture and manufacturing appears to have been especially important in the early years of the New Order. These effects were greatest on Java, where labour had long been intensively used in rice cultivation and other crops, and traditional home industries had played an important role in employment since colonial times. The underlying factors behind labour displacement were quite similar in both sectors. Returns to investment in new, often still quite labour-intensive, technology have been high and there has been increasing access to capital, in many cases subsidised by the state in special schemes such as Bimas in rice cultivation and small industry and enterprise loan schemes such as KIK and KPMP.[27] In addition, new technology contributed to new work processes which reduced employment or tended to favour certain groups of labour, often placed the very poor at a disadvantage.[28]

The speed of these changes in the early years of the New Order caused considerable alarm among agricultural researchers, who found that the impact of new technology such as the sickle in rice harvesting and machinery in rice milling (hullers) caused substantial displacement of labour in Java in the 1970s (Collier 1981). In manufacturing, total factor productivity has been higher in new firms than in traditional industry, partly because of protection and differential access to capital and other facilities which gave new investors the edge in industries like plastics and textiles, in earlier years in particular (Hill 1980).

The macro data support a picture of relative stagnation in agricultural employment especially among females in Java during the 1970s, despite quite large increases in agricultural output (Table 5.3).

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27 The acronyms refer to *Kredit Industry Kecil*, and *Kredit Modal Kerja Permanen*, programs respectively.

28 Hart (1986) coined the term 'exclusionary' labour contracts to describe some of these more selective labour arrangements.

**Table 5.3: Proportion of Additional Jobs Created in Major Economic Sectors by Gender and Region in Indonesia, 1971-1990 (percentages)[1]**

| Gender/ Sector | Java | | Outer Islands | |
|---|---|---|---|---|
| | 1971-1980 | 1980-1990 | 1971-1980 | 1980-1990 |
| MALE | | | | |
| Agriculture | 19 | 11 | 41 | 54 |
| Industry | | | | |
| Manufacturing | (15) | (25) | (9) | (8) |
| Services | 50 | 46 | 39 | 29 |
| Trade | (14) | (23) | (12) | (12) |
| Govt., Comm., and Personal | (27) | (7) | (20) | (9) |
| All Sectors | 100 | 100 | 100 | 100 |
| N (m.) | 5.0 | 6.3 | 3.2 | 4.8 |
| FEMALE | | | | |
| Agriculture | 3 | 26 | 39 | 55 |
| Industry | 23 | 26 | 11 | 13 |
| Manufacturing | (21) | (250) | (9) | (12) |
| Services | | | | |
| Trade | (41) | (28) | (26) | (17) |
| Govt. Comm., and Personal | (32) | (25) | (23) | (14) |
| All Sectors | 100 | 100 | 100 | 100 |
| N (m.) | 2.3 | 4.5 | 1.5 | 3.8 |

*Sources:* Central Bureau of Statistics, *Population Census 1971 (Series C), 1980 and 1990.*

1. The data refer to the distribution of the *net* increase in employment over the two time periods.

A very high proportion of new jobs was created in services, especially government, community and personal services. The latter accounted for close to twice the share of new jobs created in agriculture, which was still by far the most important sector of employment in 1971. Services also contributed a much higher share of additional jobs than manufacturing, especially among males.

In the 1980s, both agriculture and manufacturing played a more important role in employment creation in Java and the Outer Islands (see Table 5.3). There are several reasons why labour displacement appears to have been less important and caused less hardship in this latter period. Rural households earned more income from non-farm jobs, and were less dependent on agriculture for a living; modern sector manufacturing growth was more labour-intensive and human capital and infrastructure investments in the previous decade made it more easy for people to adjust to changes in labour demand. [29]

Although there are inevitably labour displacement effects arising from continuing structural change, it appears that fewer people were displaced from low productivity activities in this decade, partly because many had already been attracted out of such work and into higher paying jobs. Added to this, mechanisation of smallholder agriculture was not rapid even in Java in the 1980s, and it did not contribute to substantial labour displacement, in contrast to the effect of the introduction of the sickle and hullers in the previous decade.[30]

*Limited employment growth in the modern sector*

Despite the extraordinarily rapid growth of manufacturing output, primarily (although by no means exclusively) in large and medium establishments, employment growth in this sector has been relatively slow in Indonesia compared with neighbouring East Asian countries or even Malaysia (Table 5.4). By far the largest proportion of new jobs was created in services, including government administration, education and health. In part, slow growth of jobs in

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29 See especially Huppi and Ravallion (1990), Jayasuriya and Manning (1990), World Bank (1990) and Thorbecke *et al.* (1992).

30 However, mechanisation appears to have gathered pace in cultivation and threshing, in part in response to labour shortages in rice agriculture, towards the end of the decade (Naylor 1992).

the modern private sector can be attributed to capital-intensive investments made during the oil-boom period. These were made either in a wide range of protected consumer goods industries or through state investments in heavy industries such as steel, fertiliser, cement and paper (Hill 1990). Over the period 1975-1985, the share of total employment in capital-intensive, heavy industry almost doubled while that in the labour-intensive industries declined (see Table 5.1 above).

**Table 5.4: Distribution of employment in Indonesia and selected East Asian Countries (1965 and 1990).**

| Country | Sector of Employment | | | |
|---|---|---|---|---|
| Years | Agriculture | Industry | Services | All Sectors |
| South Korea | | | | |
| 1965 | 55 | 15 | 30 | 100 |
| 1990 | 28 | 35 | 37 | 100 |
| Malaysia | 58 | 13 | 29 | 100 |
| 1965 | 58 | 13 | 29 | 100 |
| 1990 | 26 | 28 | 46 | 100 |
| Thailand | | | | |
| 1965 | 82 | 5 | 13 | 100 |
| 1987 | 63 | 13 | 24 | 100 |
| Philippines | | | | |
| 1965 | 58 | 16 | 26 | 100 |
| 1990 | 45 | 15 | 40 | 100 |
| Indonesia | | | | |
| 1971 | 66 | 10 | 24 | 100 |
| 1990 | 50 | 17 | 33 | 100 |

*Sources:* World Bank, *World Development Report 1988*: ILO *Yearbook of Labour Statistics* (various years).

Thus despite improvements in the past decade, the rapidly growing labour force has continued to be absorbed in a very large informal sector in Indonesia's rapidly growing cities and towns. Self-employed and family workers increased at almost the same rate as the total non-agricultural and urban work force over the period 1971-1990, despite the growth in wage employment opportunities in government, banking, construction and large scale manufacturing. These two work status groups accounted for a much higher percentage of the non-agricultural work force in Indonesia (43 per cent of males and over 60 per cent of females) than in other countries in the region where the percentages were closer to 20-30 per cent (Table 5.5).

**Table 5.5: Some characteristics of the work force in Indonesia and other countries, circa 1990.**

| Country | Informal Workers as a % of non-Agricultural Employment[1] | | 'White collar' Workers as a % of total Employment[2] |
|---|---|---|---|
| | Male | Female | |
| South Korea | 26 | 31 | 22 |
| Malaysia | 23 | 25 | 19 |
| Philippines | 23 | 36 | 11 |
| Thailand | 31 | 42 | 5 |
| Indonesia | 43 | 63 | 9 |

1. All self-employed and family workers are classified as informal
2. All professional, managerial and clerical employees classified as white collar.

*Source:* ILO, *Year of Labour Statistics 1992* (Geneva, 1993).

Within the informal sector, the involvement of many self-employed persons in marginal activities because they do not have alternative job opportunities is an indication of labour market stress. While paupers are not as visible in Indonesian cities as they are in some parts of South Asia, numerous studies indicate that this latter group of poor, informal sector workers, often harassed by the state, is still an important component of employment in Indonesia today.[31] Putting-out workers tied to modern manufacturing are one group of ostensibly self-employed persons whose incomes are very low, and who have little access to protection under the labour laws.

On the other hand, it should be noted that not all informal sector work is necessarily poorly paid. The growth of a vigorous petty trading class serving the growing middle class is also one important development. Huppi and Ravallion (1990: Tables 1 and 2) found, for example, that for the short period 1984-1987 poverty decline among the self-employed in a range of sectors, including petty trade, was generally as great as among wage earners. Average incomes and consumption per capita were also quite similar among wage earners and wage self-employed workers.[32] Continued prominence of the informal sector is not necessarily a sign of failure, and it might be argued that its pervasive presence provides urban labour markets with a considerable degree of flexibility.

### *Low wages and stagnation in real wage rates*

The rapid economic growth and transformation of the labour market described above has been associated with significant increases in labour productivity and average labour incomes. But wage rates have not risen on a sustained basis and remain low by East Asian standards.

Data on wage rates of relatively unskilled labour in selected sectors — rice, estates, textiles and construction, and also for lower levels of the civil service — suggest that there has been only limited growth in real wage rates over the past 20 years (Figure

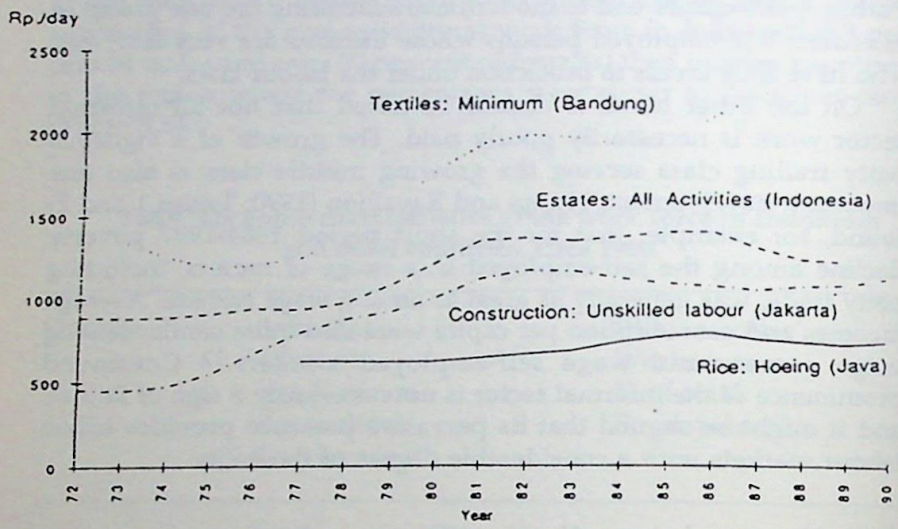
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31 See especially Sasono (1989), and cases of putting-out workers and marginal household enterprises cited in Thamrin's contribution to this book. See Grijns *et al* (1992) for case studies of poor self-employed women in rural areas.

32 The main differences were between urban and rural areas.

5.1).[33] Wage growth was much higher in modern sector activities and in non-agricultural activities than in agriculture.

Figure 5.1: Real Daily Wages in Selected Activities in Indonesia, 1972-1990 (3 year moving averages, 1983 prices)




Note: See Manning (1993) for details of sources, measures of wages and deflators. Three year moving averages are presented to provide smoother series. All data are expressed in 1983 prices, deflated by regional or national cost of living indices. Hoeing and construction wages are for males only, textiles and estates are for both sexes.

*Sources*: Central Bureau of Statistics, Unpublished data and *Average Wages on Estates* (various years); PERTEKSI (The Textile Producers Association), Annual Wage Agreements (various years), Department of Finance (unpublished data).

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33 Stagnation in wage rates is not inconsistent with the increases in average earnings mentioned above. Whereas unskilled wage rates refer to payments for a given time period (usually a 7-8 hour day) for the same categories of labour, average earnings also reflect changes over time in hours worked and skills . Data on wage trends are taken from Manning, 1993c.

From the early 1970s, real wage rates for unskilled labour grew at around five per cent per annum in textile factories and the public sector, by three per cent in construction and by only around one per cent in agriculture. While these growth rates are high by developed country standards, they began from a very low base. For example, even after 20 years of five per cent growth, minimum daily wages negotiated in Bandung textiles were still only around the equivalent of US$ 1.00 or four kilograms of milled rice per day in 1990-1991.[34]

Real wages increased much more slowly in the 1980s in all sectors as Indonesia adjusted to lower oil prices and a tighter fiscal situation. Combined with slower growth in labour demand, excess labour supply appears to have continued to restrain wage growth. Despite the apparent tightening of labour markets during the oil-boom period, the country has not yet made a clear transition from a 'labour surplus' economy.

The increases which have occurred in real wages appear to have been too small to affect differentials in wages with neighbouring Southeast Asian countries significantly. Indonesia (and especially Java) started with much lower base year wages compared with most other countries in the Southeast Asian region in the late 1960s, after a period of substantial real wage decline in the early years of that decade (Papanek 1980). At approximately Rp2000-3000 per day (US$ 1.00 -1.50), the wages of unskilled labour are still very low. Around 1990, Jakarta minimum wages in US dollar terms were approximately one-half of those in Manila, one-third to one-quarter of minimum wages in Bangkok and substantially below an average labourer's wage in Malaysia.[35]

Do these data on wage rates provide support for the argument that Indonesian worker incomes have been suppressed in the

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34 While the real rupiah value of wages (nominal wages deflated by the CPI) increased, the nominal US dollar value of Indonesian wages largely stagnated and remained less than $1.00, mainly because of currency depreciation.

35 See especially US Department of Labor, International Labor Trends (reports for each country in the region in 1990-1991/2). However, although low wages gives Indonesia an edge in labour intensive export industries, labour costs per unit of output are not necessarily much lower because labour productivity tends also to be low by East Asian standards.

interests of industrial peace and capital accumulation? There is no doubt that industrial peace has been supported by repressive policies towards unions. But the low level of wages, and their slow increase compared with other countries in East Asia is another matter. Greater labour supply pressure rather than government repression would seem to have been the major factor contributing to low wages. Union or government action would not have been able to raise wages significantly above levels determined by the market other than a very small proportion of the work force. As noted above, a high proportion of the work force is still employed in marginal sized farms and earns close to subsistence income in agriculture. There is a pervasive informal sector and most manufacturing workers are concentrated in small-scale and cottage industries. Labour standards in all these work situations, which accounted for around 80 per cent of the total work force in 1990, are largely beyond the influence of government controls.

*Limited labour rights and enforcement of labour laws*

Although the government has introduced quite comprehensive labour laws, the practice of labour legislation is another matter. Major articles of the labour code are widely flouted especially in medium and smaller scale enterprises which account for a high proportion of total wage employment. Failure to implement basic aspects of the labour law is also quite common in larger, export-oriented establishments.[36]

The most common breaches of the labour legislation include failure to pay overtime rates, failure to pay the required minimum wages, lay-offs of pregnant women, discrimination against married women in recruitment, and employment of child labour below the minimum required age (14 years in factory employment) or for durations which exceed stipulated hours for minors.[37] Implementation is hampered for a variety of reasons: the shortage of labour inspectors (approximately 1000 for over 100,000 registered

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36 See especially chapters by White and Tjandraningsih in this book.

37 Abuses of the labour law are documented in annual publications in INDOC (1981-1987/88) and reports on law and human rights in Indonesia published each year by the legal aid foundation YLBH (see, for example, YLBH, 1991 and 1992).

enterprises in 1991) who are capable only of monitoring labour conditions in larger, more visible firms; lack of effective legal sanctions for non-compliance and unwieldy procedures for conflict resolution; and the ineffectiveness of central and enterprise unions established under the umbrella of the government-sponsored All Indonesia Labour Union, SPSI.[38] One might add to this the fact that some legal standards are unrealistic in relation to Indonesia's level of development.

***Labour rights and trade unions.*** Following the 1965 coup and the banning of all left-wing political organisations and unions, the remaining unions were persuaded by the government to join one body, the All-Indonesia Labour Union (initially FBSI and later SPSI). Government controls over SPSI were strengthened in the mid 1980s following a period of industrial unrest. The Indonesian government has followed three sets of policies to direct and control the labour movement. First, it has discouraged any opposition to the SPSI by making the requirements for the registration of independent unions extremely difficult to fulfil and by undermining attempts by independent unions to establish themselves.[39] Second, national and regional leadership positions in the SPSI have been tightly controlled. Third, enterprise union leaders are closely vetted by security authorities and until very recently could be appointed only with the approval of company managers. Lack of effective unions to represent worker aspirations and negotiate on their behalf at the plant level in particular has probably been a major factor behind the quite substantial increase in wildcat strikes in recent years.[40]

Official controls have been backed up by a tight security network which views labour disputes as a threat to stability and has sanctioned the involvement of military or police personnel in

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38 See especially Manning (1993a) for a discussion of industrial relations, trade unions and labour welfare during the New Order period.

39 To be able to register with the Department of Manpower as a labour union and collect dues on behalf of workers, organisations must prove that they have established 25 district (*kabupaten*) offices and at least 10,000 members. The celebrated case of the mysterious 'disappearance' of the head of the SBM (*Serikat Buruh Merdeka*) leader in 1991 and the banning of the national congress of the SBSI (*Serikat Buruh Sejahtera Indonesia*) in July 1993 are two examples of heavy-handed intervention.

40 Data on this are presented in Hadiz in this volume.

the settlement of disputes. Recourse to the use of force by employers backed up by military intervention in the settlement of labour disputes was institutionalised in the early years of the New Order.[41] This has been sustained by the business interests of the military, close ties between private business and law enforcement agencies, and the ineffectiveness of conflict resolution mechanisms and legal institutions.

Labour rights have become an important issue in association with demands for greater recognition of human rights more generally. The visit of a US trade delegation in September 1993 provided a catalyst for the airing of government and 'opposition' positions on labour rights.[42] The Minister for Manpower argued that recognition of many unions was a backward step and that labour unions should be devoted to improving the welfare of their members instead of becoming an arena for political action. The YLBH and Non-Government Organisation representatives of the Workers Solidarity Forum, on the other hand, put the opposing view that independent unions are necessary for protection of wage worker rights and improvement of their welfare. They also argued that workers' wages should be raised at least to a level which accords with the minimum physical needs standard.

Both, one suspects, have hidden agendas. The government's political managers are concerned that recognition of independent labour unions could pose a threat to the corporate controls of political organisations which have been so prominent during the New Order period. Their recognition may also challenge the cooperative spirit projected in the ideological framework of *panca*

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41 There are many documented cases of leaders in protest actions and strikes being interrogated and beaten by local and on some occasions central military authorities. See, for example, the case of the celebrated strike which occurred in Gadjah Tunggal factory in Tangerang in August 1991, which is documented in YLBH (1991).

42 See especially *Jakarta Post*, September 18 1993 (p. 2) and *Kompas* September 23 1993 (pp. 1,11). It is somewhat ironic that government criticism of the new unions (SBM and SBSI) has been made on the grounds that their leaders are not 'genuine' worker representatives — a curious charge given the tenuous worker links of the current head of SPSI (a businessman) and many of the other leaders of SPSI.

*sila* industrial relations.[43] On the other hand, many critics of the government see the international focus on Indonesia's labour record (and special trade access under GSP) as an opportunity to exert political pressure for reform in the general area of human rights.

## Conclusion

On balance, what can be concluded regarding the benefits and costs of rapid economic growth for Indonesian labour, especially in the recent past? In part, the answer to this question is determined by the relative importance one attaches to economic (and especially pecuniary) benefits accruing to labour as against those which involve less tangible labour rights and freedoms. Many economists have viewed labour developments in a more favourable light because measurable economic gains, especially from macro data, have not been insignificant. They argue, moreover, that the most urgent improvements in human rights for poor persons are a rise in incomes and the capacity to meet basic physical needs. Other social scientists, contrarily, have tended to give greater weight to labour rights in their analysis and therefore have generally been more critical.

One's assessment also depends on theoretical and ideological frameworks. At two extremes, Marxists and neoclassical economists examine different processes and look at different data in assessing labour outcomes. There are similar, less contrasting debates approach among other groups of social scientists.[44]

The assessment attempted in this paper has been based on trends in absolute incomes of unskilled labour. It has been made in the context of the nature of the employment problem when the New Order Government took over in the mid 1960s and which it faces in

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43 It should also be remembered that the uncompromising *de facto* government, and especially military, stand on union recognition has its origins in both a perception of unions as left wing organisations and the experience of confrontation between military managers of nationalised industries and unions during the Sukarno period (Murtopo,1975).

44 It is common for those who tend to emphasise macro developments to take a more sanguine view than those who are concerned with micro level processes.

the early 1990s. The conclusion is that labour has gained considerably in terms of economic welfare, although an excess supply of labour at going modern sector wage rates has limited the gains made, and wage rates of the large majority of employees are still verylow.

Economic gains made by labour have contributed to poverty decline, in spite of rapid labour force growth. Intersectoral shifts in employment, and improved human capital, in particular have contributed to increased economic welfare of a substantial share of the work force — a work force which experienced very low levels of labour income before the Suharto regime took over.[45]

Two main qualifications have been suggested in the paper regarding benefits which have accrued to labour The first is that adjustment problems associated with technological and structural change were substantial for a significant proportion of workers, especially in the early years of the New Order; greater sensitivity to these processes could have reduced the hardship faced by poorer sections of the community. Second, employment growth in the modern private sector has been slower than it could have been. Mainly, this can be attributed to continuing protection of domestic business interests during the oil-boom period.

Concern has been raised in the paper, however, regarding both the impact of controls imposed over labour organisations and *de facto* processes of conflict resolution for labour welfare and standards in general. These controls affected only a relatively small proportion of employed persons, mainly in the modern sector. Nevertheless, they are important, especially in the context of labour rights. It is doubtful that the de facto controls which have been exercised throughout the New Order period could ever really have been justified on the grounds of encouraging either investment or employment growth. It is even harder to argue for the maintenance of these controls on the same grounds today. The main reason for labour controls has been political rather than economic: a fear — particularly on the part of the military — of the potential political strength of organised labour, especially against the

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45 For discussion of these conditions in the early late 1960s and early 1970s see, for example, Penny and Singarimbun (1972) and White (1976).

backdrop of the latter's considerable influence in the political arena in the pre 1965 period.

In conclusion, therefore, I suggest two answers to the counterfactual question: how much would economic welfare or the rights of workers have been improved if different policies or strategies have been followed? The first is that the economic welfare of workers would not have been improved much, in general, by a different mix of economic policies. Given Indonesia's stage of development, the outcomes of policies for rapid economic growth and involving considerable public investment in physical and human capital have generally been pro-labour. The second is that fewer controls over labour organisations and greater political freedoms for organised labour could have made a significant difference to the well-being of a small proportion of wage workers, mainly in the modern sector. Greater freedoms in this area could bring considerable benefits and involve few costs: they are unlikely to threaten potential economic benefits of workers; they would contribute to better labour standards on the factory floor as more workers move into wage employment; finally, they could contribute significantly to a general improvement in the human rights environment in Indonesia.

# 6

# Workers' Social Security Legislation

Ross H. McLeod

## Introduction

Development economists are interested in measuring and explaining economic growth, and in devising policies to make it more rapid. To a lesser extent, they are also interested in measuring and explaining the distribution of national income amongst individuals, and in devising ways of modifying that distribution in accordance with their own, or someone else's, value judgement about what the distribution should look like.[1]

Indeed, many people — not just economists — have ideas about how the distribution of income could and should be changed; hence, the theme of the 1993 Update Conference — 'Labour: sharing the benefits of growth'. Some believe that the key is a strong trade union movement, which would be powerful enough to be able to bargain for higher wages and better conditions for employed labour. Others prefer to try to effect changes in income distribution indirectly through the budgetary process, with the rich taxed more heavily than the poor, and tax revenue then spent on things presumed to benefit the poor — like education, health, public transport and low cost housing.[2]

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1 Economics has nothing to say about whether a particular distribution is better than another, but it has much to offer by way of advice on the relative efficiency of various ways of redistributing income.

2 Still others argue that the most effective way to help the poor is not through direct attempts to manipulate the distribution of income but indirectly, through growth oriented policies which increase the demand for low-skill labour — for example, by promoting the expansion of labour-intensive exports.

This paper discusses a third approach to income redistribution, which recently has been launched in Indonesia: Jamsostek, or *Jaminan Sosial Tenaga Kerja* — best translated as Workers' Social Security. This approach substitutes the coercive power of government for the bargaining power of trade unions in attempting to force employers to provide improved benefits (of a particular kind) to their employees.[3] The Jamsostek law (Government of Indonesia 1992b) was enacted on 17 February, 1992. Finer operational details are contained in a set of Government Regulations (Government of Indonesia 1993a; hereafter 'Regulations (a)'), and Ministerial Regulations (Government of Indonesia 1993b and 1993c; hereafter 'Regulations (b) and (c)'), all of which were announced about a year later.

*Social security benefits*

Jamsostek provides the following 'social security' benefits to workers (Law, Articles 6-16): a) life insurance; b) retirement (provident fund) benefits; c) free health care for workers, their spouses and up to three children; and d) workers' compensation insurance for work-related accidents and illnesses. The latter encompasses: (i) payment of expenses incurred (including transportation, examination, medication and/or treatment, and rehabilitation); (ii) income maintenance in cases of disablement (whether permanent or temporary, partial or total); (iii) compensation for loss of parts of the body, loss of bodily functions, or mental impairment; and (iv) compensation for dependants of workers who die as a result of work-related accidents or illnesses.

Every worker is entitled to Jamsostek coverage, although there is provision for participation to be phased in over time (Law, Articles 17 and 19; see below).[4] Most of the cost of the new social security arrangements is to be funded by contributions from employers, with a much smaller contribution (2 per cent of wages) by

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3 The Suharto government has always sought to discourage the emergence of a strong trade union movement, partly for fear it could form a basis of support for political opposition parties (Manning, 1993:65-70).

4 The workers' compensation component, however, is compulsory for all employers from the outset.

workers themselves (Regulations (a), Article 9; see details below); there is no explicit provision for any government (i.e. taxpayer) subsidy. There are heavy penalties for failure to comply with the law (Law, Article 29): six months' gaol or a fine of Rp50 million.[5] The entire program is to be administered by a state-owned enterprise, PT Astek, which previously has been responsible for administering a far more limited workers' compensation insurance, life insurance and retirement benefits program (Batubara 1993).

If it were possible to create a worker's utopia by legislation, then Law No.3 of 1992 would appear to be just what is required. It will be argued here, however, that Jamsostek is likely to be a failure from almost every important aspect, and that it has the potential to become an extremely costly embarrassment to the government.

## Will the poor benefit?

For analytical purposes, Jamsostek is best conceptualised as the imposition of a tax on the use of labour by employers, in order to fund the various benefits outlined above to employees. Provided we are prepared to assume that employers are wealthy and workers are not, this sounds rather like income redistribution as practised by governments in many countries: taxing the rich in order to subsidise the poor. But there is a crucial difference here, which arises from the fact that the object of taxation is not employers' *incomes*, but rather, their *purchases of labour inputs*.

Taxing wages effectively reduces employers' demand for labour. If previously workers were employed at a wage of, say, Rp1100 per day, then the imposition of a tax of, say, 10 per cent will mean that they will now be prepared to offer only Rp1000 for the same amount of labour. In other words, they will try to shift the tax burden to employees; this would mean that the total cost of labour would still be Rp1100 per day as before. At the same time, the provision of benefits to workers effectively increases the *supply* of labour. Assuming for the moment that the benefits are in the form of an

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5 A fine of this size (about US$25,000) would be trivial for a large firm, of course, but few employers would regard the prospect of six months' gaol lightly.

immediate cash payment, then employees will be prepared to work at the lower wage now offered, because their total daily earnings will still be Rp1100. Thus employers and employees alike will be neither better off nor worse off, because employees receive the subsidy funded from tax paid by employers. In short, *no redistribution of income will have been achieved.*

The oft quoted assertion that only death and taxes are certain is surely incorrect, because if there is taxation, there is also a third certainty: tax avoidance. The present case is simply an example. The basic flaw in the design of Jamsostek (to the extent it is intended to redistribute income from employers to workers) is that employers effectively *can avoid paying the tax by paying lower wages.*[6]

The above analysis is of course highly simplified, and it will be necessary to discuss various aspects which complicate the story somewhat. Nevertheless, the inherent shortcoming of Jamsostek is already clear. The notion that this piece of legislation will result in a simple and straightforward redistribution of the national income from employers to employees is naive.

### *Non-cash benefits*

Let us now relax the assumption that the tax collected is paid over directly to employees as a cash subsidy. As we have seen, the benefits actually are many and varied, and employees have to make some contribution to their cost themselves. This package of benefits (net of own contributions) will have some value to employees, and we can suppose that there is some cut in wages which, if combined with the package, would leave employees feeling neither better nor worse off.

If this equivalent wage value of the benefits package happens to be exactly the same as the tax imposed on employers, the previous result still obtains. Wages offered will fall by the amount of the employer tax, and employees will accept this wage because the value of the benefits package exactly offsets the loss in wages.

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6 It is not necessary to assume the wage cut will be imposed immediately a firm becomes subject to Jamsostek. It can be brought in more subtly within a year or two — for example, by holding nominal wages constant while inflation erodes their real value.

Again, the shifting of the tax to workers means that no redistribution of income will be achieved.

If the benefits package is valued *less* than the tax on employers, workers will tend to resist the attempted wage cut.[7] Employers will then respond to the implied increase in the cost of labour by reducing their demand for it. Thus although employers will be worse off, so too will workers — because the value of the benefits package will still not compensate for the reduction in wages.

In summary, to fund the various benefits, employers are to be taxed in accordance with their expenditure on labour. They will try to pass the tax on to employees in the form of lower wages, and employees will accept this, provided the expected benefits are valued at least as highly as the wage cut. If they are valued less highly, the total cost of labour to employers will rise, and the total (equivalent) return to labour will fall, so that both parties will be worse off. In neither case is income redistributed from employers to workers.

*Interaction with minimum wages*

The outcome will be rather different if minimum wage regulation is effective. The minimum wage itself will have induced employers to substitute capital for labour (i.e. shift to more sophisticated technologies), and more highly skilled for low-skill labour. They also will have raised their product prices to cover the higher cost of labour, and this will have had a negative impact on demand for their output and therefore their level of production. In short, the impact of minimum wages will have been to reduce the quantity of labour which otherwise would have been employed. When the new

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7 It would not be surprising if employees put a low value on the benefits they expect from Astek, given its past performance. Noor (1992) refers to 'many complaints directed to Astek's administration [of the then far smaller and more limited workers' compensation program]'. Similar comments were made at a meeting between members of Parliament and spokesmen for the Employers' Association of Indonesia (*Jakarta Post*, 4 March 1993): 'Compared to the premiums there are only 20 per cent claims for workers' accidents ... It can take a year for Astek to issue the membership cards and the worker may give up after tending to it three months'.

Jamsostek tax on wages is added, the effect is just the same as increasing the minimum wage by the amount of the tax: employment is reduced even further. Employers now are worse off because they pay more per unit of labour, while those employees lucky enough to keep their jobs will continue to receive the same (regulated minimum) wage. Provided they value the expected benefits at more than the equivalent of their own Jamsostek contributions (2 per cent of this wage), they will be better off.

It would seem then that for Jamsostek to redistribute income from employers to employees, it will be necessary to have effective minimum wage regulation. Although Indonesia has a system of minimum wages, however, it is well known that regulation of them is largely ineffective: they are simply impractical to enforce, except in relatively few large enterprises (which jointly account for a small proportion of the total work force).

From this we can draw the following conclusions. First, Jamsostek is incapable of redistributing income in favour of all those workers who receive wages *above* these minima (i.e. those with more valuable skills); it will be pointless therefore to enrol such workers in the program. Second, Jamsostek also will be incapable of redistributing income to workers who in practice are paid *less than* the stipulated minima. For both these groups, the previous analysis applies.

The negative impact on employment in those firms where the minima *are* enforced should not be ignored. Workers in these firms are already amongst the elite, and certainly better off than those outside them. Jamsostek may make many of them even better off, but the side effect will be to push more workers onto the labour market outside the regulated firms, where they will receive lower wages than previously. Moreover, their very presence will tend to compete down the earnings of all the less well-off workers in the unregulated sector — which includes, of course, agriculture, fisheries, and the whole informal sector, and accounts for the majority of workers.[8]

In short, to the extent Jamsostek will succeed in providing benefits to workers, it will be to a small minority of higher productivity employees already better off by virtue of locally

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8 In practice, this effect is likely to be small, precisely because the proportion of workers outside the reach of minimum wage regulations is so great.

effective minimum wage regulations. The majority of workers — poorer to begin with — will if anything be made worse off.[9]

## Other considerations

To this point the analysis has concentrated on the likely impact on workers and employers, assuming that the Jamsostek program *operates* as intended, in an attempt to demonstrate that its intended *objectives* will not be attained. Now let us consider some other matters.

### *Size of potential Jamsostek cash flows*

It is important to have some estimate of the size — or, more precisely, the cost — of the Jamsostek program. If this seems small, the program might be regarded as a minor aberration, able to be safely ignored. On the contrary, however, it appears that the potential costs of Jamsostek are frighteningly high.

The size of Jamsostek contributions as a percentage of wages is as follows (Regulations (a), Article 9):

| | |
|---|---|
| Health Insurance | 3.00 or 6.00% |
| Workers' Compensation Insurance | 0.24-1.76% |
| Retirement Fund | 5.70% |
| Life Insurance | 0.30% |

The health insurance contribution depends on the worker's marital status. The rate for single workers is 3 per cent, and for married workers 6 per cent — regardless of how many children they have. Workers' compensation insurance rates depend not on workers' occupations (as is typical elsewhere), but on the classification of the type of enterprise in which they are employed.

For the purpose of the current exercise, it is assumed that 70 per cent of all workers are married; this means that the average health

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9 It should be noted as well that those few employers who do find themselves paying more for the use of labour can be expected to try to pass the cost increase on to consumers of their output. To the extent they can do so, the redistributive impact of Jamsostek becomes very unclear. For example, if their products are consumed by the poor, the latter effectively will pay for the benefits received by the lucky few.

cover contribution is roughly 5 per cent. Further, a representative contribution level for workers' compensation insurance is taken to be 1 per cent. The total contribution for the average worker is then estimated at 12 per cent of wages.

The level of both average and total wages can be estimated from data presented in Manning (1992; 29-36). The total work force in 1990 was put at 72 million, growing at about 3.3 per cent per year. Projecting this growth rate suggests a total of around 80 million workers by 1994. Many workers will not be covered by Jamsostek in the first phase, however, because its scope is restricted initially to firms with ten or more employees (see below). If we exclude the entire agricultural work force (50 per cent of the total), two-thirds of that employed in trade, restaurants and hotels (2/3 of 15 per cent, i.e. 10 per cent), four-fifths of that in personal and community services (4/5 of 14 per cent, i.e. 11 per cent), plus a further 4 per cent drawn from the remaining sectors, we are left with about 25 per cent of the work force — about 20 million persons — being covered.

Monthly average earnings in manufacturing and agriculture were reported as Rp89,000 and Rp43,000, respectively. Since most agricultural workers will not be covered, it is assumed here that an average wage near the upper end of this range — say, Rp90,000 — will reasonably reflect the earnings of those who will. The average monthly contribution per worker is then estimated as 12 per cent of this amount, or Rp10,800.

On this basis, *and assuming full compliance*, the monthly flow of contributions from Jamsostek in 1994 is estimated to be around Rp216 billion, or Rp2.6 trillion (approximately $US1.3 billion) in a full year. This is much the same as the government's total tax revenue from liquified natural gas production in 1992/93, or around a fifth of total budgeted tax revenue from oil and LNG in 1993/94. From another perspective, it is of the same order of magnitude as the expenditure on a group of high technology shipping projects planned by the Minister for Technology, B.J. Habibie, which was announced early in 1993 (*Far Eastern Economic Review*, 13 May 1993), and greeted with considerable dismay because of concerns about the prospective low or negative return. It is important to appreciate then that a similar volume of funds — effectively, savings and insurance premia contributed by workers to be invested on their behalf — will be channelled to PT Astek every year (in theory, at

least); the prospect of low or negative net returns on Astek's investment portfolio is just as real.[10]

Indeed, it is hard not to think of the former Manpower Minister, Cosmas Batubara (who brought in the Jamsostek legislation), as Minister Habibie's kindred spirit in the services sector; the social security program is every bit as grand — and every bit at odds with Indonesian economic realities (as is discussed below) — as the technology minister's aircraft factory and shipbuilding yards. The surprising thing is that the social security legislation was accepted by the Parliament (DPR) with so little fuss and so little public discussion. No doubt it would have been difficult for legislators even to consider the possibility that a program with such laudable stated objectives could be incapable of achieving them.

*Practical realities*

The ambitiousness of Jamsostek is breathtaking. Eventually, *all* employers and workers are to participate in the program, and 'worker' is defined to include those who are self-employed (Law, Article 1.2). One can only wonder how it is envisaged that Indonesia's tens of millions of peasant farmers, fishermen, petty traders and the like, scattered widely throughout thousands of villages and hundreds of towns and cities, are to be identified and brought into a system that (amongst other things) requires monetary contributions to be made on a monthly basis. The question of how the size of contributions for the self-employed is to be determined — given that by definition they receive no identifiable wage — is also pertinent, but is not addressed by the law. It is hard to imagine that those who framed the legislation seriously entertained the notion that universal coverage would ever be possible. Presumably the requirement for coverage of the self-employed was included purely to ease the passage of the law through Parliament — by strengthening the impression that Jamsostek was capable of benefiting the poorest workers.

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10 In 1991, Astek reported a gross rate of return of only 14.4 per cent on its investment fund (that is, before allowing for administrative overheads), while the average return on state bank time deposits ranged from 20-22 per cent, depending on maturity. (Data are from Government of Indonesia, 1991, and Bank Indonesia, *Indonesian Financial Statistics*.)

The law itself, as we have seen, provided for the phasing in of coverage, leaving the details to be determined by Government Regulation. Such Regulations do not need to be ratified by the DPR, whose members probably felt justified in assuming that the government would consider the matter carefully before acting. In the event, however, this does not seem to have been the case. From the outset, coverage is to extend to firms as small as those with only ten employees, or with a monthly wages bill of only Rp1 million (Regulations (a), Article 2 (3)). There are hundreds of thousands of such firms in Indonesia and, as we have seen, the number of employees to be covered may be of the order of 20 million. But to this must be added the spouses of married workers (perhaps 14 million) and up to three of their children (say 36 million). In short, the system will need to keep track of some 60 million persons, and hundreds of thousands of firms, in its *initial* implementation phase.[11] Even the process of registering the details of all these persons in a database and issuing personalised health care cards to them will be an enormous task, let alone administration of contributions and benefits.

Moreover, it must be emphasised that Jamsostek is not a single program, but a collection of four separate programs: workers' compensation insurance, health insurance, life insurance, and pension benefits. Administration of any of these programs alone would be a massive undertaking for a single entity, given the numbers of participants. Despite the former Minister's assurance, therefore, that the phasing-in of the program would be in accordance with the readiness of the implementing agency (Batubara 1993), in the writer's opinion, there is little or no likelihood that such a huge expansion in the scope of Astek's activities will be able to be managed successfully in the near future.

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11 This may be compared with the number of workers already covered by Astek workers' compensation insurance, reported by Batubara (1993) to be around 5.3 million. Another indication of the quantum leap that Jamsostek implies for Astek is the size of the annual cash inflow (roughly estimated above at Rp2.6 trillion for 1994) by comparison with total premium income of only Rp0.25 trillion in 1991 (Government of Indonesia, 1991).

*Impact on labour relations*

As discussed elsewhere in this volume (see chapters 5 and 12), labour unrest has been on the increase recently in Indonesia. One of the most frequent of workers' complaints is the failure of employers to pay the minimum wages specified by the authorities. This problem is unlikely to disappear soon, given the propensity to set minima far above market clearing levels, combined with an inability to enforce them effectively. Workers can hardly be blamed for claiming their entitlements under the regulations. But on the other hand, it is unrealistic to expect employers meekly to accept the demand that they pay much higher wages, knowing that there are many individuals prepared to work for less.

The reckless promises of Jamsostek are likely to add fuel to the fire. Workers will become aware of their new entitlements, and can be expected to complain if their employers fail to enrol them in the program — as tens of thousands of them are sure to do. There will be pressure on Astek to extend coverage to all workers supposed to be included in the first phase, but it will surely lack the capacity to achieve this. The government will then be vulnerable to the criticism that it is failing to protect workers in line with its own regulations — just as it is now, in respect of minimum wages. In short, it seems that it is poor strategy to make promises which cannot be made good.

*Scope for corruption*

An important aspect of the design of economic policies is the scope that they create for corruption. The design of Jamsostek seems virtually to ignore this consideration; opportunities for officials of both the government and the implementing agency to supplement their incomes by this means abound, and it would be unrealistic to assume that Jamsostek will not suffer greatly as a result. At the low end of the spectrum, the requirement for officials to certify eligibility to receive retirement and death benefits opens the door for the further spread of institutionalised petty bribery of the kind in which, for example, citizens wanting to obtain a passport are compelled to engage, if they wish to avoid unreasonable delays. Higher up the scale, the fact that employers of ten or more workers are in breach of the law if they are not yet contributing to Jamsostek means that they are now vulnerable to the kind of petty extortion

commonly practised by police on drivers who commit minor traffic violations.

Higher still, officials whose responsibility it is to check that all workers are properly enrolled in Jamsostek, and that full contributions are being made on their behalf, will now find themselves in positions similar to those of customs and taxation officials, with much discretion effectively to negotiate employers' liability to pay this additional form of tax. And at the very top end of the spectrum, the directors and funds managers of Astek will be bound to experience the same real world pressures as those facing their counterparts in the state banks.[12] Encouragements will be offered for investment of Jamsostek funds in highly risky enterprises, or at artificially low rates of return, and directives will emerge from on high to channel funds to politically well-connected entities. Corruption in all these forms is already commonplace; Jamsostek can only be expected to add to the problem.

*Inconsistency with the general thrust of economic policy*

In Indonesia over the last decade or so there has been a clear tendency for the introduction of policies which have as their main rationale belief in the superior ability of free markets rather than government intervention to secure faster growth and improvement in the distribution of income. Nowhere has this been more clearly evident than in the financial sector (McLeod 1993:27-30).

Jamsostek moves in the exact opposite direction from these welcome and beneficial reforms. First, it puts the whole implementation of the program in the hands of a single state-owned enterprise — PT Astek. Instead of competition, Jamsostek dictates monopoly; instead of private ownership (with its built-in incentives for efficiency), it dictates state ownership (with its manifest record of inefficiency). Second, it imposes price and quantity controls throughout the program. Employees in effect purchase various kinds of insurance, plus retirement endowments, in amounts over which

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12 Many Indonesians have been shocked recently by allegations of the extent to which state bank loans have been concentrated amongst the business conglomerates — and the extent to which these loans appear to be in default.

they have no control, and at prices which are handed down by the bureaucracy.

The Jamsostek law is also very much at odds with two other laws enacted at virtually the same time, relating to pensions and insurance respectively (Government of Indonesia 1992a and 1992c). These laws are intended primarily to safeguard the interests of those who choose to purchase any of the various kinds of insurance (life, general, health) and pension benefits, and secondarily, to promote economic development by strengthening the financial sector (in which insurers and pension funds play a far more prominent role in more highly developed countries than in Indonesia at present). There is no element of compulsion; the entire focus is on setting and enforcing standards of prudential behaviour on the part of insurance companies and pension funds, respectively, in an attempt to minimise the possibility of large losses to their clients.

Competition is implicitly accepted as desirable. There are no price controls, and no government subsidies. Although there are a small number of state-owned insurers, they are (in theory, at least) to be treated no differently from private companies. Pension funds may be operated by employers themselves, or on their behalf by financial institutions (banks or insurance companies), which may be either private or state-owned.

By contrast, the Jamsostek law sees nothing beneficial in either competition between firms or in private sector provision of 'social security' services. This is quite clear because, setting aside the issue of compulsion, none of the other anti-market aspects of Jamsostek discussed above is inherent to the program. Voluntary life insurance and health insurance services are already being provided by private sector insurers, and there is a growing interest on the part of employers in setting up pension schemes for their employees. Workers' compensation insurance has been monopolised by Astek, but there is no reason why private insurers could not extend their activities to this field. In short, having decided upon making the purchase of social security benefits[13] by or for workers compulsory, the Department of Manpower could just as easily have left the

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13 Roughly speaking, this is the approach being followed in Australia at present, where the federal government has made purchase of superannuation (i.e. pension) benefits on behalf of employees compulsory. Employers are free to choose the provider of these benefits.

provision of those benefits to competing private companies. Why it chose to channel this business in its entirety through a single state enterprise is a question about which we can only speculate.

### *Implications of Jamsostek for voluntary programs*

Presumably, one of the factors motivating the introduction of Jamsostek was the notion that employers typically disregard the welfare of their employees: that they care not about workers' health problems, or what happens to them in retirement, or the fate of their dependants if they die or become incapacitated at an early age. Thus Jamsostek appears to provide the means of *forcing* employers to meet these supposed 'moral obligations' to their employees.[14] As we have seen, however, such an outcome is illusory: the employees are likely to end up paying for their own 'social security' coverage by virtue of a reduction in the wages they earn. To put it another way, although the program has been fashioned to look like one which redistributes income from rich to poor, in fact it is basically a device for forcing all workers indirectly to purchase a rigidly defined package of 'social security' benefits for themselves, whether they want them or not.[15]

It should be noted, however, that the assumption that employers will not voluntarily provide any benefits other than wages to their employees is clearly incorrect. For example, it is common for employers to provide transportation to and from work, uniforms or other special work clothes, canteen facilities and the like. To be sure, these things do not have the characteristics of insurance benefits, but many employers also assist workers to meet health-related expenditures, and almost certainly there are many

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14 The former Manpower Minister has been quoted as saying that the law 'stipulated punishment [for] unscrupulous businessmen, who ignore proper protection and social security for their workers' (*Jakarta Post*, 24 February, 1992).

15 The notional extension of Jamsostek to the self-employed strengthens this conclusion. A further consideration is Indonesia's image in the eyes of the international community. The former Manpower Minister pointed out, for example, that 'the International Labor Organization will appreciate the government's efforts in giving better protection to workers' (*Jakarta Post*, 15 January 1992).

also who routinely provide *ex gratia* payments to families of employees who happen to pass away.

The considerations here have little to do with whether there is any 'obligation' on the part of the employer to provide such benefits. Rather, it is a question of cost (widely interpreted). The employer always has the option of providing any given facility or benefit — or of not providing it, but compensating the employee with a higher wage. The rationally chosen option is the cheaper one. For example, if it would cost workers Rp1000 on average to travel to and from work each day, whereas the employer could provide transport at a cost of only Rp800, it would be in the interests of both parties for him to do so, and to set a wage, say, Rp900 less than might be offered without transportation. Both parties would then gain Rp100 per day.

Exactly the same kind of cost-benefit analysis applies to insurance and pension benefits. If the employer can find a way to provide such benefits cheaply enough, and if workers value them highly enough — assuming they have no other way of acquiring similar benefits more cheaply through some other channel — then it will be in both parties' interests to include them as part of the overall employment package.

It is precisely these considerations which underlie the voluntary arrangements covered by the new pensions law. That is, it is recognised that there will be many employers who will want to set up pension programs, knowing they can do so at a cost which is less than the valuation put on the benefits by their employees, and that therefore they can attract the labour they want by offering a wage and pension package, the total cost of which will be less than the wage alone which would otherwise need to be offered.

Voluntary pension plans typically provide not only retirement benefits, but also life insurance and disability benefits. In other words, they cover much of what Jamsostek seeks to provide. It is astonishing, therefore, that the law forces employers to participate in these aspects of Jamsostek, regardless of whether they operate a voluntary pension plan — even one with superior benefits.[16] It seems

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16 This is not the case for the health insurance component (Regulations (a), Article 2 (4)). If employers provide their workers with health care benefits at least as comprehensive as those provided under Jamsostek, they are not required to participate in this aspect of the program. This is a perfectly sensible approach — Jamsostek's only concession to competition

highly likely that this will create a serious disincentive to the establishment of voluntary plans: why would an employer go to the considerable trouble of administering an additional complex and costly program, side by side with the compulsory one? Likewise, the life insurance component of Jamsostek conflicts needlessly with voluntary life insurance. There will be many individuals in the emerging middle class for whom the envisaged Rp1.2 million (less than $US600) death benefit is far too small to satisfy their requirements, yet they will still be obliged to purchase this insignificant life cover in addition to the more substantive policies they purchase elsewhere.

These conclusions have regrettable implications for financial sector development, and therefore for the economy as a whole. The proliferation of voluntary pension programs envisaged by the new law would see large numbers of entities competing with each other for access to the steady and growing flow of pension fund contributions, to be invested in stocks, bonds, bank deposits, real estate and so on. This competition would provide incentives for prudent and efficient management of funds, for the development of pension programs with characteristics regarded as desirable by employers and employees alike, and for the careful control of administrative costs. Instead, a large part of this potential flow is to be compulsorily channelled through a single, state-owned entity. The latter will have no competitors (and therefore little incentive to be efficient), a captive market (and therefore no incentive to develop insurance and pension products in line with its customers' preferences), and be owned by that most forgiving kind of shareholder, the hapless taxpayer, with virtually no power whatsoever to make life difficult for management if it performs poorly.

### *The health insurance program*

By far the most difficult component of Jamsostek to implement will be the health insurance program. This envisages the supply of

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and private sector provision — and it is hard to understand why it does not extend to the workers' compensation, retirement and life insurance components.

health care services to Jamsostek cardholders, equal in scope and standard to a 'Basic Health Care Packet' as defined by Astek (Regulations (a), Articles 33-35), by a list of approved doctors, clinics, hospitals, pharmacies, opticians and manufacturers of prosthetic appliances, throughout Indonesia (Regulations (b), Article 20). Each of these entities is to enter into a contractual agreement with Astek which will specify, amongst other things, the scope of services offered, billing and payment procedures, and the fee or price for each kind of service (Regulations (b), Article 34). Astek is also required to evaluate each such entity (presumably on an ongoing basis) in respect of patient visits, use of medication, referrals to diagnostic specialists, and duration of hospitalisation episodes, with a view to fulfilling effectiveness and efficiency targets.

It is probably no exaggeration to say that there is not a country in the world which operates such a program with much success. Indeed, government-sponsored health insurance programs have a strong tendency to become financial disasters (as they are in Australia, the USA, and the UK, for example).[17] It is saddening to see Indonesia rush headlong down the same road, seemingly oblivious to the dangers of which many other countries are now painfully aware.

The outcomes are easily predicted. They follow directly from the fact that Jamsostek aims to make health services readily accessible (eventually) to the entire work force, and yet totally ignores the physical constraints on expansion of provision of such services. Since doctor consultations, medication and hospital treatment are very expensive relative to incomes, most Indonesians now make very sparing use of them. When health care to some minimum standard becomes free to the patient under Jamsostek, therefore, we can expect a dramatic upsurge in demand for it. While supplies of pharmaceutical products can be rapidly expanded — to the delight of their manufacturers — the supply of doctors, specialists, and hospital services cannot. The increased demand for medical and hospital services can therefore be expected to lead to price increases, queueing, and a decline in service quality, rather

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17 McLeod (1987) discusses Australia's experience in trying to provide universal health insurance. Friedland (1993) provides a brief review of the problems currently being experienced with Japan's system of universal health care.

than expansion of supply. Doctors and specialists will increase their fees; they will cut down on the average time spent with each patient; and they will prescribe more medications, diagnostic tests, and hospitalisations than previously, knowing that patients do not have to pay.

Profit-oriented hospitals will raise their charges, and their higher profitability will encourage them to expand in the longer run. But Indonesia also has many state-owned hospitals and community health centres, which will find themselves in a difficult position. They will request more financial resources to be able to employ more staff and expand their facilities, but the government's response will be constrained by the availability of tax revenues. Much will depend, therefore, on the level at which hospitals and clinics are remunerated by Astek for the services they perform. If this is high enough to cover costs and leave a surplus for reinvestment, some expansion will be made possible (although both state and private facilities will still be constrained by the availability of doctors and specialists). But the history of similar programs in other countries suggests this happy outcome is unlikely. There seems to be an inevitable tendency to keep payments for services low because of taxpayer pressure (or, in this case, pressure from employers and employees to keep contributions low), which always leaves the health care institutions starved for funds.

In the absence of sufficient capacity expansion, bribes will be paid by those better off, or more desperate, in order to advance more quickly to the head of the queue. There will be pressure on the government to eliminate queuing and improve other aspects of service quality, while avoiding any increase in Jamsostek contributions and any budgetary subsidy to the program. This will manifest itself in attempts to impose price controls on service providers, and to penalise doctors deemed guilty of 'over-prescribing' diagnostic tests, medication, and hospitalisation.[18] All of this will create ever increasing demands for bureaucratic inputs,

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18 Indeed, prices have already been specified in the Ministerial Regulations for things such as normal maternity cases, spectacle lenses and frames, false eyes, teeth, arms and legs, and hearing aids (Articles 23 and 27). Other fee schedules negotiated with providers are unlikely to be adjusted upwards in line with inflation once Astek's financial viability is seen to be at risk.

the cost of which will further undermine Astek's financial viability. In short, since Jamsostek pays no attention to the supply side of the market for health services, the dream of making them readily available to the poor can be expected to remain just that.

*Budgetary implications*

Indonesia has a fine record for fiscal responsibility. Ever since the late 1960s, the government has attempted — with great success — to keep expenditures down to the level which could be financed by tax revenues and foreign borrowing. Jamsostek now threatens this record. In principle, the entire program is to be funded by contributions from employers and employees, but clearly there is no guarantee that these contributions will suffice to cover the cost of benefits promised.

The retirement fund should be the least problematical component of the program, since the only promise here is to pay to retirees the full amount of contributions in their names plus earnings thereon. The life insurance benefit (Rp1.2 million paid to survivors, of which Rp0.2 million is earmarked for burial expenses; Regulations (a), Article 22 (1)) and the workers' compensation arrangements may be viable at the level of contributions specified; the writer has no reason to believe the contribution levels here are inadequate, bearing in mind that Astek is experienced in both these lines of business.

It is the health care component discussed above that poses the greatest danger to Astek's viability. Health insurance is still in its infancy in Indonesia. Few insurers offer it, and no institution has any experience operating on such a huge scale. (Recall that the number of people to be covered in the initial phase theoretically is of the order of 60 million.) Indeed, Astek's lack of experience in health insurance shows up in the poor design of this component of the program: there is no patient co-payment,[19] which would otherwise help to keep demand manageable (by providing a disincentive to over-use of health services for relatively trivial problems); there is no front-end loading,[20] which would otherwise obviate the need for

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19 That is, the patient is not called upon to pay any portion of the cost of health services provided.

20 That is, there is no requirement for the patient to meet her own health costs up to some level within a given time period. (The majority of

Astek to become involved with every single health transaction (and thus allow it to concentrate its resources on assistance to families unlucky enough to experience multiple health problems within a given period); there are no rebates or low-claim discounts for employers who manage by whatever means to keep their work forces healthy;[21] and so on.

In summary, the poor design of the health insurance component, Astek's disappointing track record in the much less demanding business of workers' compensation insurance, its lack of experience in administering this kind of health program, and the failure of Jamsostek to do anything directly to expand the supply of health care services, virtually guarantee that this component of the scheme will run at a loss. Resistance from employers and employees to any further increase in the contribution levels then implies that budgetary subsidies will be needed to keep Astek afloat. Given the huge scope of the program, even in its initial phase, this does not augur well for the continuation of Indonesia's proud record of fiscal discipline.

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individuals and families have little demand for health services in a normal year, and it is needlessly costly to insure against such small outlays).

21 An essential ingredient of well-designed health and accident insurance schemes is that they provide strong incentives for the insured party to minimise the risks insured against. Thus, for example, individuals who manage to avoid being involved in car accidents typically pay lower insurance premia than those who do not. There appears to have been no attempt to create such incentives in either the workers' compensation or health care components of Jamsostek.

# 7

# International Labour Migration

Graeme Hugo

## Introduction

One of the major global changes of the last decade has been the increased mobility of capital between nations and this has been an important factor in Indonesia's recent development. While this increased mobility has not been matched to the same extent by the other factor of production, labour, there has been an exponential increase in the scale, complexity and significance of international labour migration, and this has especially impinged upon the Asia-Pacific region. The scale and impact of international labour movements in Indonesia is not as great as in countries like the Philippines, Thailand, Sri Lanka and Pakistan but it is becoming increasingly significant not only in the regions which the labour migrants leave but in Indonesia more widely.

This paper reviews some recent trends in Indonesian labour migration. It begins by briefly outlining the major trends in flows of international labour migration out of Indonesia over the first five Repelita periods as they are detected in official statistics. However as is the case in many less developed nations, official migrants are far outnumbered by undocumented labour migrants and the next section of the paper addresses this issue. There is then a brief discussion of some of the implications of labour migration for economic and social change in Indonesia. Finally some comments are made on the reciprocal flow of expatriate workers into Indonesia associated with the rapid economic growth of recent years.

At the outset it should be mentioned that, as is perennially the case in studies of temporary international labour migration throughout Asia, official statistics are limited, scattered and incomplete and can rarely be relied upon to indicate the number of

people who have moved, let alone their characteristics, origin, destination etc.[1] This is nowhere more true than in Indonesia. Indonesians wishing to work overseas are legally required to register with the Ministry of Labour and obtain appropriate documentation from them. This is usually undertaken on migrants' behalf by labour agents who must be registered with the Ministry. Since 1984 an Office for Overseas Employment (AKAN) has been set up within the Department of Labour to encourage, control and coordinate the recruitment and sending of Indonesian labour abroad and also to maintain data on those sent overseas. It is clear however that only a selective part of Indonesian overseas labour migration is detected in the AKAN statistics. In the mid 1980s around 160 recruiting agencies were registered with the Department of Labour but by 1991 this had increased to 247. Most of these agencies are involved in worker recruitment for the Middle East. However it is apparent that not all movement to the Middle East passes through these channels, although there is an incentive to have the Rp150,000 *fiskal* or exit tax waived if correct documentation is held. Workers continue to go to the Middle East using other visas, especially the *umroh* visa which is used by pilgrams going on the *Haj* to Mecca and other holy places.

If the data for labour migration to the Middle East is incomplete, that for the much larger flows to Malaysia is almost totally lacking. While middlemen and recruiters (known as *taikong* or *calo*) are usually involved in the transfer of workers to Malaysia, in the mid 1980s only two companies active in sending workers to Malaysia (both based in Surabaya) were registered with the Ministry of Labour (Habir 1984: 166) and unregistered labour agents and *taikong* overwhelmingly dominate in this flow. The bulk of movement to Malaysia thus goes unregistered and the great majority of migrant workers are illegal (*pendatang halam*).

## Official labour migration out of Indonesia

Table 7.1 draws together available data on the legal flows of Indonesian workers overseas. The increasing tempo of movement is

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1 For a more detailed discussion of Indonesia's international migration data sources (see Hugo 1993 forthcoming).

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## Official labour migration out of Indonesia

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immediately apparent. The table shows that the number of 'official' international labour migrants was very small in the First Five Year Plan (1969-1974) but more than trebled to be nearly 20,000 in the Second Plan. During the Third Five Year Plan it quadrupled to almost attain the target of 100,000. In the following two years the number moving was almost as great as the total over the entire first three Five Year Plans. This reflects both the government's growing interest in promoting this movement and also perhaps the 'capturing' of a greater proportion of movement in official statistics than was previously the case.

Table 7.1 shows that after a levelling off in the 1987-1989 period there was a substantial increase in the number of overseas workers processed to a record 84,074 in 1989-1990. There was an even greater increase in 1991-1992 with 149,777 being processed and another 145,852 in the first nine months of the 1992-1993 financial year.

The significance of the Middle East and Saudia Arabia in official labour migration is readily apparent in Table 7.1 and Saudi Arabia accounted for 99 per cent of all migrants destined for the Middle East over the 1984-1989 period. Among these migrants 83 per cent were women. It has been reported (*Kompas* 28 February 1990: 1) that remittances through official sources from these migrants between 1983 and 1989 amounted to US$551,523,406 of which $535,616,207 originated in Saudi Arabia. The target of the Department of Labour in sending labour migrants overseas in the Fourth Five Year Plan (1984-1989) was 225,000 and it is clear from Table 7.1 that this was exceeded. This encouraged the government to increase the target for Repelita V (1989-1994) to 500,000 (*Tempo* 45(19) 6 January 1990:15) and the table indicates that it is well on target to achieve this aim.

The official statistics in Table 7.1 underestimate the scale of the movement to the Middle East. As noted, it is clear for example that significant amounts of worker movement overseas occur on tourist visas as well as through people getting visas to make a pilgrimage to Mecca. However the scale of recent Indonesian labour migration to the Middle East can be appreciated from a statement by the former Manpower Minister Cosmas Batubara. He indicated the government's alarm at the prospect of 250,000 Indonesians 'fleeing the Gulf crisis and returning home to swell the ranks of the unemployed' (*Straits Times* 31 August 1990).

**Table 7.1: Number of Indonesian Overseas Workers Processed by the Ministry of Manpower, 1979-1993**

| Year (single Year) | Middle East | | Malaysia / Singapore | | Other | Total | % Change Over Previous Year |
|---|---|---|---|---|---|---|---|
| 1992/93** | 43,478 | 55 | 29,773 | 38 | 5,849 | 79,100 | - |
| 1991/92 | 88,726 | 59 | 51,631 | 34 | 9,420 | 149,777 | 74 |
| 1990/91 | 41,810 | 48 | 38,688 | 45 | 5,766 | 86,264 | 3 |
| 1989/90 | 60,456 | 72 | 18,488 | 22 | 5,130 | 84,074 | 37 |
| 1988/89 | 50,123 | 82 | 6,614 | 11 | 4,682 | 61,419 | 1 |
| 1987/88 | 49,723 | 81 | 7,916 | 13 | 3,453 | 61,092 | 11 |
| 1986/87 | 45,405 | 66 | 20,349 | 30 | 2,606 | 68,360 | 26 |
| 1985/86 | 45,024 | 83 | 6,546 | 12 | 4,094 | 54,297 | 18 |
| 1984/85 | 35,577 | 79 | 6,034 | 13 | 4,403 | 46,014 | 57 |
| 1983/84 | 18,691 | 66 | 5,597 | 20 | 5,003 | 29,291 | 38 |
| 1982/83 | 9,595 | 47 | 7,801 | 38 | 3,756 | 21,152 | 18 |
| 1981/82 | 11,484 | 63 | 1,550 | 9 | 4,570 | 17,904 | 11 |
| 1980/81 | 11,231 | 70 | 564 | 4 | 4,391 | 16,186 | 56 |
| 1979/80 | 7,651 | 74 | 720 | 7 | 2,007 | 10,378 | |
| 1977 | | | | | | 3,675 | |

Five Year Planning Periods

| | | |
|---|---|---|
| V: | 1989/94* | 465,972 |
| IV: | 1984/89 | 295,037 |
| III: | 1979/84 | 94,921 |
| II: | 1974/79 | 19,332 |
| I: | 1969/74 | 5,423 |

*Sources:* Suyono 1981; Singhanetra-Renard 1986: 52; Pusat Penelitian Kependudukan, Universitas Gadjah Mada 1986: 2; AKAN Offices, Bandung and Jakarta; AKAN (Antar Kerja Antar Negara)

* Statistics from 1 April 1989 to 31 January 1993.
** Statistics from April 1992 to September 1992.

As was mentioned earlier one of the features of the migration to the Middle East has been the substantial involvement of women. Table 7.2 shows that over the last decade women have far outnumbered men in the officially documented outflow. Indeed the table shows that in four of the last nine years women have outnumbered men by more than two to one. While the dominant movement of women has been to work as domestics in the Middle East there has been an increasing flow of this type to Malaysia and Singapore (Hugo, forthcoming) and Hong Kong (Krisnawaty and Muchtar 1992). As has been discussed elsewhere (Hugo 1992) the government's strong encouragement of this movement has attracted controversy with frequent reports of exploitation of the women involved, especially in Saudi Arabia where in-house workers are outside the protection of labour legislation.[2] Some labour sending nations in Asia have banned this type of female migration but it continues to dominate the official outflow from Indonesia.

**Table 7.2: Sex Ratio of Indonesian Overseas Workers Processed by the Ministry of Manpower, 1983-1993**

| Year | Total Official Migrants | Sex Ratio (Males/100 Females) |
|---|---|---|
| 1992/93* | 145,852 | 54 |
| 1991/92 | 149,782 | 48 |
| 1990/91 | 86,264 | 73 |
| 1989/90 | 84,074 | 35 |
| 1988/89 | 61,419 | 29 |
| 1987/88 | 61,092 | 35 |
| 1986/87 | 68,360 | 61 |
| 1985/86 | 54,297 | 44 |
| 1984/85 | 46,014 | 79 |
| 1983/84 | 29,291 | 141 |

*Sources:* Unpublished official statistics, Indonesian Ministry of Manpower

* May 1992 to January 1993 inclusive.

2 For a study stressing the benefits of this migration see Kelana (1993).

As is the case with other Asian labour sending nations there is an increasing tendency for labour migration from Indonesia to be directed toward other Asian countries, especially those experiencing significant labour shortages. This is shown in Table 7.3 which shows that whereas the major Asian destinations accounted for only 19.8 per cent of official labour migrants in Repelita III this proportion had increased to 37.5 per cent in Repelita IV. Malaysia alone is now accounting for more than a quarter of 'official' labour migrants.

**Table 7.3: Indonesia: Destinations of Official Overseas Migrant Workers, 1969-1993**

| Destination Country | Repelita I 1969/74 | Replita II 1974/79 | Replita III 1979/84 | Replita IV 1984/89 | Replita V 1989/94 | Total No | Total % |
|---|---|---|---|---|---|---|---|
| Saudi Arabia | - | 3,817 | 55,976 | 223,573 | 268,858 | 552,224 | 62.9 |
| Other Middle East | - | 1,235 | 5,349 | 3,428 | 5,145 | 15,157 | 1.7 |
| Malaysia | 12 | 536 | 11,441 | 37,785 | 122,941 | 172,715 | 19.7 |
| Singapore | 8 | 2,432 | 5,007 | 10,537 | 34,496 | 52,480 | 6.0 |
| Brunei | - | - | - | 920 | 7,794 | 8,714 | 1.0 |
| Hong Kong | 144 | 1,297 | 1,761 | 1,735 | 3,575 | 8,512 | 1.0 |
| Japan | 292 | 451 | 920 | 395 | 2,435 | 4,497 | 0.5 |
| Korea | - | - | - | - | 1,693 | 1,693 | 0.2 |
| Taiwan | 37 | - | - | 178 | 2,025 | 2,240 | 0.3 |
| Netherlands | 3,332 | 6,637 | 10,104 | 4,375 | 4,336 | 28,784 | 3.3 |
| USA | 146 | 176 | 2,981 | 6,897 | 9,842 | 20,042 | 2.3 |
| Other | 1,653 | 461 | 2,871 | 2,439 | 2,832 | 10,256 | 1.2 |
| Total | 5,624 | 17,042 | 96,410 | 292,262 | 465,972 | 877,310 | 100.0 |

*Sources:* Unpublished official statistics, Indonesian Ministry of Manpower

Intra-Asian movement can be expected to increase as the effects of early fertility decline in the 1960s and 1970s in countries like Singapore flows through into reduced numbers of local people entering the work force age groups.

## Undocumented migration

Tables 7.1 and 7.3 show that the number of international migrant workers destined for Malaysia and Singapore officially registering with the Ministry of Labour has greatly increased in recent years. Nevertheless the bulk of worker movement between Indonesia and Malaysia remains undetected by official statistics as is described elsewhere (Hugo and Singhanetra-Renard 1987; Hugo, forthcoming). This movement occurs along two major routes from East Java-North-West Sumatra to Peninsular Malaysia, and Flores-South Sulawesi to Sabah respectively. Illegal entry is neither difficult nor excessively expensive. Much of the movement involves syndicates, recruiters (*calo*) and middlemen (*taikong*). Due to its illegality, we have no accurate data on the numbers involved and estimates vary widely. Regarding the movement into Peninsular Malaysia, the more conservative estimates indicate a migrant worker population of between 200,000 and 300,000 (Habir 1984: 168), while the other end of the range is as high as 700,000 (*New Straits Times* 19 December 1981). Lim (1985: 3) says that in Johore alone it is estimated that there are 100,000 Indonesian workers which would equate to a twelfth of that State's population. A more recent estimate (*Straits Times* 6 December 1990) is that there are more than half a million Indonesian workers in Peninsular Malaysia. Guinness (1990) shows that most of the illegal migrants in Johore are employed in low-skilled manual jobs located outside of the major cities especially in the plantation and construction sectors and on government land development schemes. This movement is the latest in successive waves of migrants from Indonesia to the west coast of Malaya which date back several centuries (Hugo, forthcoming).

Turning to East Malaysia, in 1990 one estimate put the figure of total illegal immigrants (including Filipinos) at half a million (Aznam 1990a: 12). As in Peninsula Malaysia the bulk of migrants are employed in unskilled rural-based work, especially on plantations, and in forestry. The most recent estimates of the numbers of Indonesian immigrants in Sabah (*Kompas* 13 July 1992) put their numbers at 136,000 legal and 100,000 illegal migrants working in coconut, oil palm and cocoa plantations. Of these it is estimated around 60,000 originate from South Sulawesi and the bulk of the remainder from East and West Nusa Tenggara. Pillai (1992) has estimated the total numbers of foreign workers in several economic sectors in Malaysia and his results are presented in Table

7.4. This indicates a foreign work force of 1.2 million persons in Malaysia of whom the bulk would be Indonesians.

**Table 7.4: Approximate Number of Foreign Workers In Various Sectors in Malaysia, 1991**

| Economic sector | Employment by sector 1991[1] | Approximate % of foreign workers[2] | Approximate number of foreign workers |
|---|---|---|---|
| Agriculture and forestry | 1,835,000 | 30 | 550,500 |
| Construction | 456,000 | 70 | 319,200 |
| Non-government services | 2,290,000 services[3] | 10 | 229,000 |
| Manufacturing | 1,374,000 | 3[4] | 41,220 |
| Total | 5,955,000 | 20 | 1,200,920 |

*Source:* Pillai 1992: 43

Notes:

1 Estimates from Annual Report, 1991, Bank Negara Malaysia: 233.

2 These percentages were proposed by Ching Cha Bo, Assistant Secretary (Research) of the Malaysian Trades Union Congress in her paper 'Dynamics of the Current Labour Market and its Implications for Workers', at the National Tripartite Seminar on Labour Market Information, Petaling Jaya, Malaysia, 21-22 November 1991, organised by the Human Resource Ministry and the ILO. Both government and private sector participants did not dispute these proposed percentages.

3 Includes electricity, gas and water, transport, storage and communications; wholesale and trade, hotels and restaurants; finance insurance, real estate and business and other services.

4 These would comprise foreigners in the small-scale and back-yard industries.

In 1990 it was reported (*Straits Times* 26 October 1990) that more than 130,000 Indonesians working illegally in Malaysia had been given proper documentation under a legalisation program. In early 1989 a special arrangement was made to recruit labour for Malaysian plantations legally in Indonesia and within the first year some 27,000 were recruited (Aznam 1990b: 22). However most workers still chose to migrate illegally to avoid the Indonesian exit tax and bureaucratic delays. Moreover the networks of illegal migration have become well established and entrenched (Spaan forthcoming). In 1992 there was the most significant attempt to date to regularise the movement, by offering Indonesians working illegally the opportunity to register and be given temporary resident status. By the time the 30 June deadline passed, some 320,000 Indonesian workers had registered but it is widely acknowledged that this still represented a minority of the Indonesians in Malaysia (Vatikiotis 1992).

## Some implications

There is insufficient space here to explore in detail the causes and consequences of Indonesia's international labour migration. However to take the case of the movement to Malaysia it would seem that at the very least half a million Indonesians are working in Malaysia and the number is almost certainly closer to 1 million. This represents an enormous impact on the economy of Malaysia where the total work force in 1990 was estimated to be only 7 million. In Indonesia, where the work force is much larger, around 72 million in 1990 (Hugo 1993), it also cannot be overlooked. This is especially true when it is considered that much of the movement is essentially circular, so that some turnover of workers is involved, which means that the proportion of the Indonesian work force involved would be even larger than indicated here.

There is little evidence that international labour migration is having any significant 'brain drain' effects in Indonesia. Table 7.5 shows the sectors in which Indonesians worked overseas during the last two five year plan periods. It is apparent that the bulk of workers are in unskilled or semi-skilled categories. This also is the case in the undocumented migration to Malaysia (Hugo forthcoming). There is no evidence of the movement causing shortages of skilled labour in Indonesia.

**Table 7.5: Indonesia: Sector of Employment of Official Overseas Workers, 1984-1993**

| Work Sector | Repelita IV | | Repelita V | |
|---|---|---|---|---|
| | No. | Percent | No. | Percent |
| Personnel Services | 205,079 | 70.2 | 268,328 | 57.6 |
| Plantation | 34,398 | 11.8 | 119,482 | 25.6 |
| Transport | 41,438 | 14.2 | 66,108 | 14.2 |
| Construction | 4,409 | 1.5 | 381 | 0.1 |
| Utilities | 760 | 0.3 | 5,234 | 1.1 |
| Hotels | 958 | 0.3 | 111 | - |
| Finance | 5,189 | 1.8 | - | - |
| Oil | 19 | - | 3,346 | 0.7 |
| Other | 12 | - | 2,982 | 0.9 |
| Total | 292,262 | 100.0 | 465,972 | 100.0 |

*Source:* Unpublished official statistics, Indonesian Ministry of Manpower

There has been considerable debate in the literature about the scale of remittances sent back by labour migrants and the economic and social significance of those remittances. Whereas in the past there has been a tendency to downplay the impact of remittances more recently opinion has generally shifted to accept that they can and do play a significant role in regional and national economies in LDCs. Russell and Teitelbaum (1992: 1) for example concluded in a recent World Bank study .....

> The total value of official remittance inflows (credits) worldwide was US$65.6 billion in 1989. This figure, while large does not begin to capture the value of other financial transactions directly or indirectly associated with the movement of people. For reference as to orders of magnitude official development assistance in 1988 was US$51 billion.

The Indonesian data on remittances are very incomplete. Official data on transfers of money from the various major origin nations indicates that towards the end of the four year in the Fifth Five Year Plan over 800 million US dollars had been transferred through those official channels. The equivalent figure for Repelita IV was US$363.4 million. The fact that these represent only the tip of the iceberg of the actual total transfers is evident in the low level of official remittances from Malaysia. It is clear that the bulk of remittances from Malaysia to Indonesia are passed through informal channels and all of the evidence points to the flows being very substantial indeed. Just to quote an example from one of the main origin areas of undocumented labour migrants, Lombok, which is among the poorest areas of Indonesia (Corner 1989) .....

> Once in Malaysia, few migrants face difficulty finding work. Compared with an average daily wage in Lombok of Rp500-1,000, migrants say they can make Rp7,000-8,000 a day on palm-oil plantations in Malaysia. Remittances reaching Lombok through the BNI 1946 State Bank in Mataram total Rp200 million a month. Villagers in southeastern Lombok say this is the only way they can escape the cycle of debt that new, more expensive, agricultural methods and the shrinking availability of land to farm have imposed on them. (Vatikiotis 1990, 21)

The involvement of a substantial number of women in Indonesia's international labour migration has attracted particular attention and controversy, especially among religious and women's groups. Cases of mistreatment, excessively heavy workloads and rape are given prominent coverage in the media. One newspaper story of case studies of mistreatment (*Kompas* 1 March 1990, 1: 5) was headlined 'Report on the Problems of Female International Workers: Hammer, Broom Handle and Sex'. While there are also success stories it is clear that these workers are exposed to considerable risk of exploitation. Notwithstanding the Indonesian government regulations, it is apparent, as one Indonesian commentator (Anon 1984: 14) has put it, that the Middle Eastern employer is in a stronger position than the Indonesian worker. Local labour legislation does not apply to domestic workers. Moreover if the worker is not regarded by the employer as satisfactory or she has to leave before the end of the contract all travel costs expended by the employer have to be refunded. The Indonesian woman has to have

three male eye witnesses to successfully bring a complaint about her employer in Saudi Arabia. There is little research to guide us as to what the effects of migration are on the women involved. It is clear however that this international movement does not always result in an improvement in women's autonomy or status at home, although it can have that effect (Hugo 1992).

There is a general lack of research into the impacts of international labour migration on Indonesia, especially in areas from which undocumented migrants originate. There are a growing group of non-governmental organisations who are becoming involved in efforts to protect the interests of migrant workers and to assist them in adjusting back to life in Indonesia. Their focus is particularly upon women migrants working as domestic helpers in the Middle East (e.g. see *Yayasan Pengembangan Pedesaan* 1992).

## Expatriate workers in Indonesia

It is a longstanding pattern in all migration systems that each major flow has its own 'counter' flow. In addition to the flow of returning Indonesian workers there has been an increasing flow of foreign workers into Indonesia. The boom of the late eighties and early nineties has been concentrated in the modern sector of the economy and created substantial demands for highly skilled technical and managerial labour which cannot be fully met internally within Indonesia (Manning 1992: 31). As Schwarz (1992: 40) points out:

> Over 80 per cent of Indonesia's 78 million workers have an elementary level education or less, while only 1 per cent are university educated. The rapid growth of private industry has put a great strain on the supply of middle and upper managers. Increasingly Indonesian companies are importing expatriate professionals, particularly from India and the Philippines, to staff their middle management ranks.

Table 7.6 shows that there was a more than doubling of expatriate workers obtaining work permits for Indonesia between 1988 and 1991. There was an overall increase in the number of foreigners with work permits in Indonesia of 7,163 (34.5 per cent) between 1990 and 1991, and 9,739 (34.9 per cent) between 1991 and 1992. There have been especially rapid increases in the numbers of new permit holders (a 42 per cent increase between 1991 and 1992) but

also in the number of extensions of work permits (25.6 per cent). This rapid increase was seen by the Manpower Minister to be an inevitable consequence of increasing 'globalisation' of the Indonesian economy and the rapid growth of the economy outpacing the nation's ability to train certain types of skilled workers (*Indonesian Times* 19 February 1993: 1). Nevertheless there has been some controversy in this area. For example, a great deal of comment was created in 1992 (*Indonesian Timess*20 August 1992: 1) when it was revealed that a private turnkey construction project for steam power plants being built in Serang, West Java and Riau by a Chinese company employed around 700 personnel from the People's Republic of China.

**Table 7.6: Indonesia: Work Permits Issued to Foreign Residents, 1984-1992**

| Type of permit | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|---|---|---|---|
| New | 6,597 | 7,691 | 7,628 | 7,508 | 6,124 | 8,119 | 9,290 | 16,049 | 22,786 |
| Extension | 11,030 | 10,779 | 11,372 | 11,321 | 6,561 | 11,278 | 11,242 | 11,620 | 14,589 |
| Change of job | 439 | 233 | 211 | 324 | 223 | 226 | 229 | 255 | 288 |
| Total | 18.066 | 18.703 | 19,211 | 19,153 | 12,908 | 19,623 | 20,761 | 27,924 | 37,663 |

*Source;* Department of Manpower, Jakarta

It seems also that the official figures may underestimate the number of foreign workers in Indonesia. For example, it has been reported (Clifford 1992: 26) that ..... 'There are now about 10,000 Japanese in Jakarta, a number matched by expatriates from South Korea'. There are certainly some expatriates working illegally in Indonesia. For example, an operation by the Riau provincial office of the Department of Justice found 177 expatriates working illegally in the province, most of them in Batam (*Indoline Newsletter* 1(12), December 1992).

In 1992 around a half of expatriate workers gaining permits worked in a managerial or professional capacity compared with less than a third in 1984. Similarly the proportion who were technicians doubled from 11.1 per cent in 1984 to 21.2 per cent in 1991. On the other hand foremen and operators had a smaller share in 1991 than in 1984.

**Table 7.7: Indonesia: Expatriate Workers by Nationality, 1984, 1991 and 1992**

| Nationality | No. | Percent | No. | Percent | No. | Percent |
|---|---|---|---|---|---|---|
| USA | 1,870 | 10.4 | 4,075 | 14.6 | 5,002 | 13.3 |
| Australia | 481 | 2.7 | 2,356 | 8.4 | 2,370 | 6.3 |
| Netherlands | 549 | 3.0 | 884 | 3.2 | 952 | 2.5 |
| UK | 1,241 | 6.9 | 2,570 | 9.2 | 2,459 | 6.5 |
| Germany | 508 | 2.8 | 889 | 3.2 | 878 | 2.3 |
| South Korea | 1,918 | 10.6 | 1,544 | 5.5 | 2,428 | 6.4 |
| Canada | 283 | 1.6 | 1,037 | 3.7 | 1,101 | 2.9 |
| Malaysia | 1,627 | 9.0 | 1,504 | 5.4 | 1,526 | 4.1 |
| France | 791 | 4.4 | 1,025 | 3.7 | 1,583 | 4.2 |
| Philippines | 737 | 4.1 | 1,415 | 5.1 | 1,659 | 4.4 |
| Singapore | 384 | 2.1 | 1,268 | 4.5 | 1,690 | 4.5 |
| Taiwan | 3,133 | 17.3 | 1,457 | 5.2 | 2,110 | 5.6 |
| Other | 1,811 | 10.0 | 5,175 | 18.5 | 8,233 | 21.9 |
| Total | 18,066 | 100.0 | 27,924 | 100.0 | 37,663 | 100.0 |

*Source:* Department of Manpower, Jakarta

The origins of the expatriate workers in Indonesia are shown in Table 7.7 and it can be seen that they are drawn from over a wide area with several North American, European, Oceanic and Asian countries being represented. It would appear however that Australia and several Asian countries have assumed much greater significance in recent years.[3]

A number of important policy issues are associated with the importing of skilled expatriate labour. In particular there is concern

3 It is interesting to note that among the illegal migrants apprehended in Riau in 1992 there were 70 Singaporeans, 21 Malaysians, 13 Filipinos and Americans, 3 Dutch and South Koreans, 2 Taiwanese and Australians, and 1 British, Japanese and Greek national (*Indoline Newsletter*, No. 1, Vol. 12, December 1992).

that it will lead to training of Indonesians being neglected. As a result there are a range of regulations which require greater numbers of Indonesians to be employed in supervisory and managerial positions. Since the beginning of the 1980s the government has funded a training program from mandatory fees paid by foreigners, to fill positions occupied temporarily by foreigners. Between 1981 and 1988, 11,688 people were trained under that program in the oil and gas industry, forestry, commerce, diversified industries, machinery and basic metal industry, general mining, animal breeding, tourism and plantation (Batubara 1991:35). Foreign companies are required to meet manpower targets and there is an expectation that they will contribute towards the training and development of Indonesian nationals. Meanwhile, companies allowed to employ foreigners have to employ Indonesian counterparts to ultimately replace them.

## Conclusion

The increasing outflow of Indonesian workers to overseas destinations is part of globalisation trends which are impinging upon Indonesia in many ways. Increasing levels of foreign investment, the 'overspill' of Singapore into Batam in the Growth Triangle and the possible emergence of a Northern Triangle involving North Sumatra, Penang and Southern Thailand are other manifestations. While international labour movements are not as significant in Indonesia's economy as they are in some of its ASEAN neighbours, it could be argued that they have not been accorded sufficient attention by both policy makers and researchers. In the emerging regional and global economies of the 1990s the potential for international labour migration will undoubtedly increase. At a time when the labour force is still increasing substantially faster than the population as a whole (at more than 2 per cent per annum) and unemployment and underemployment may affect as much as 40 per cent of the work force (Hugo 1992), this potential should not be neglected.

In particular as the ASEAN nations move closer to the setting up of a free trade zone among the six nations (Tiglao 1992), the possibilities of legalising current undocumented flows, expanding movements to labour deficit areas in Malaysia, Singapore, Brunei and perhaps even Thailand should be explored. From the perspective of the welfare of Indonesian labour migrants

themselves, their families and communities and the Indonesian economy as a whole it is important that policies be developed to maximise the advantages to be derived from such movement. At the same time, and the exploitative and other negative elements associated with the movement must be identified and minimised. This can only be achieved if there is a base of sound knowledge regarding the scale, patterns, causes and consequences of existing flows, and this at present is largely lacking.

# II. *Factory and Wage Workers*

# 8

# Industrial Workers on West Java's Urban Fringe

**Benjamin White**

> Reebok, Nike and Levi Strauss — always on the prowl for cheaper labour markets free of unions and safety codes — have descended on Indonesia...
>
> At industrial estates like Tangerang, exhausted labourers ... keep the export machine cranking, working around the clock for minuscule wages.
>
> Labour in Indonesia is cheap, after all so cheap that it costs an employer less to hire uniformed goons to rough up would-be labour activists than to negotiate (Goodman 1993:26, 28).
>
> The Indonesian factories are miles ahead of anything I have seen anywhere else in the shoe-producing world, and that includes facilities in the United States. They also offer benefits even American companies do not offer [...] Factories where things are made tend not to be the most hospitable of surroundings, and workers and managers in start-up operations usually struggle to get things right for a while. But I know the long-term prospect is that by placing orders in factories in Indonesia, we bring a better standard of living and prospects for better education, health care and housing to thousands of people (Nike Public Relations 1993).

Of the nearly three million manufacturing jobs created in Java during the 1980s, a great many were concentrated in the province of West Java and in particular in the urban-fringe regions of Jakarta and Bandung (some details of these developments are given in the next section; see also Manning 1993). Export-oriented manufacturing has been one main stimulus of this employment growth, in which the textile, garment and footwear (TGF) industries have played a leading role, as they have in the early export drive stages of all East Asian nations (Hill 1991).

The immediate and longer-term developmental implications of this rapid growth in 'footloose', labour-intensive, export-oriented industry are matters of debate, in which those concerned — whether policy makers, researchers or activists — tend to have strong views, as highlighted in somewhat exaggerated form by the two quotations above.

A recently completed collaborative research project on West Java's Rural Non-farm Sector (1986-1991)[1] included, as one of its research themes, studies of the types and quality of employment which West Java's rapidly growing labour-intensive manufacturing sector was providing for workers of rural origin. Our main focus was on the TGF industries, both because of the concentration of a large number of these industries in West Java but also, more generally, because of the role these industries have played historically (in both Europe and Asia) in the industrialisation process and particularly in the large-scale movement of rural labour into industrial employment.

This paper makes use of several individual studies carried out within the project to see what can be said of the characteristics of this growing mass of factory workers, mainly concentrated on the fringes of large cities. Who are these workers? What kinds of rural backgrounds do they come from? Why do they move to factory employment, and why do factory managers recruit them? What kinds of working conditions and remuneration do they face? What kind of an industrial working class do they constitute?

The main sources used for this paper are first, three studies focusing specifically on the TGF industries: Yusuf's study of labour force formation in the export garment industry (Yusuf 1991), Hardjono's study of developments in the Majalaya textile industry (Hardjono, 1990) and a comparative study of 'traditional' (workshop) and 'modern' (factory) industries in the footwear sector (White 1992; this itself is based on the longer, detailed case studies

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[1] This paper contains results of research carried out in the framework of the collaborative research project 'Rural productivity and the Nonfarm Sector in West Java [ID/86/957] by the Institute of Social Studies, The Hague; the Centre for Development Studies, Bogor Agricultural University; and the Centre for Environmental Studies, Bandung Institute of Technology and financed by the Netherlands Ministry of Development Cooperation (Section for Research and Technology).

of Tjandraningsih (ed.) 1991; Maspiyati (ed.) 1991 and Thamrin (ed.) 1991).

In addition, a number of other studies on industrialisation within the project, but not specifically focusing on the TGF industries, have analysed various specific aspects of the phenomenon of peri-urban factory employment. These include White and Tjandraningsih's study of child and youth labour in various small-scale and factory industries (White and Tjandraningsih 1992), Braadbaart's study on the employment effects of export industry growth in the Bandung region (Braadbaart 1992), and the relevant chapters in a volume on 'gender, marginalisation and rural industries' which pulls together much of the project's work on rural women (Grijns *et al.* 1992).

First, however, we will briefly look at the broader context in which these studies took place.

## Rapid urbanisation, rapid industrialisation and the market for rural labour

Java's demographic and labour-force profile shows a number of important changes in the 1980s. First, Java's rural population virtually stopped growing during the 1980s (Table 8.1), not mainly because of fertility decline (although this also occurred) but because of movement to towns and cities. In ten years urban population grew by more than one-third from 23 to 38 million while rural population grew only from 68 to 69 million; the most rapid growth took place not in the capital city Jakarta but in the urban areas of Java's provinces. During the same period, non-agricultural employment for the first time became considerably greater than agricultural employment (Table 8.2). The tertiary or 'supporting' sectors (trade, transport, construction, services etc.) have finally taken the place of primary production (agriculture) as the biggest single employer, while secondary production (manufacturing) has also grown rather rapidly with the addition of almost three million manufacturing jobs.

As Table 8.2 also shows, the level of manufacturing employment in Java (as a proportion of all employment) had only by 1990 regained and slightly surpassed the level it had reached in 1930. We should thus perhaps speak not so much of the 'industrialisation' as the '*re*-industrialisation of Java, thanks mainly to the labour-intensive exports boom.

**Table 8.1:Annual Population Growth Rates by Region, 1980-1990 (in percentages)**

| Region | Rural | Urban | Total |
|---|---|---|---|
| Jakarta | - | 2.4 | 2.4 |
| West Java | 0.6 | 7.8 | 2.6 |
| Central Java | 0.1 | 4.9 | 1.2 |
| Yogyakarta | -2.8 | 7.9 | 0.6 |
| East Java | -0.3 | 7.3 | 1.2 |
| Indonesia | 0.8 | 5.4 | 2.0 |

Source:*Sensus Penduduk 1990*, 1991a

**Table 8.2: Employment by Sector in Java, 1905 - 1990 (Rural and urban, male and female in millions)**

| | Agriculture | | Manufacture | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|
| Year | (mln) | % | (mln) | % | (mln) | % | (mln) | % |
| 1905 | 9.5 | 73 | 0.9 | 7 | 2.6 | 20 | 13.0 | 100 |
| 1930 | 9.4 | 71 | 1.7 | 13 | 2.1 | 16 | 13.2 | 100 |
| 1961 | 14.6 | 69 | 1.5 | 7 | 5.0 | 24 | 21.1 | 100 |
| 1980 | 16.3 | 50 | 3.4 | 10 | 12.7 | 39 | 32.4 | 100 |
| 1990 | 18.6 | 42 | 6.3 | 14 | 19.5 | 44 | 44.4 | 100 |

*Sources*:: *Overzicht* Vb, 1908 and VIb, 1909 (figures adjusted as in White, 1991:44); *Volkstelling 1930*, 1936:VII; *Sensus Penduduk 1961*, 1964; *Sensus Penduduk 1980*, 1982; *Sensus Penduduk 1990*, 1991.

Comparison of the 1974/75 Industrial Census and 1986 Economic Census data suggests that there have been increases in employment in small-scale (5-19 workers), medium (20-49) and large-scale (50 and above) manufacturing enterprises at the expense of 'household' or micro-enterprises (White 1991:64). About one-third of manufacturing employment is in medium and large-scale enterprises (that is, roughly in 'factory' employment), which meant about 2.1 million persons in 1990.

Manufacturing employment is also concentrating itself geographically. By 1990, the two regions of Jabotabek (Jakarta, Bogor, Tangerang and Bekasi) and Greater Bandung (Bandung municipality and Bandung district) in West Java, together with Surabaya-Malang-Mojokerto-Gresik in East Java, accounted for almost two-fifths of all Indonesian manufacturing employment and more than half of all manufacturing employment in Java.

According to 1990 Census data (Table 8.3), more than half of Java's manufacturing workers are still 'rural' (that is, according to the Census they *live* in areas classified as rural), but the rural-urban distinction is neither precise enough nor particularly relevant to characterise the environment of the new factories or of the complexes where industrial workers live, which are largely best characterised as 'urban-fringe' or 'peri-urban' areas.

While the new (and primarily export-oriented) factories may be (peri)-urban, their labour-force generally comes overwhelmingly from rural areas, either local on a commuting basis or distant on a circular-migration basis. We may thus analytically incorporate them in both the 'urban' and the 'rural' labour markets, in the sense that they are participating in the '(peri)-urban market for rural labour'.

**Table 8.3: Java's Manufacturing Labour Force, 1990(in millions)**

| | Male | Female | Total |
|---|---|---|---|
| Urban | 1.8 | 1.0 | 2.8 |
| Rural | 1.8 | 1.7 | 3.5 |
| Total | 3.6 | 2.7 | 6.3 |

*Source: Sensus Penduduk 1990*, 1991

## Characteristics of the peri-urban factory work force

General stereotypes of Third World industrial workers during rapid industrialisation are out of fashion, yielding to greater recognition of diversity in trends (Pearson 1992). Earlier studies of these processes in the late 1970s and early 1980s in Java have in fact yielded already more than one stereotype (compare, for example, Mather's study in Tangerang [1983] with Wolf's in Ungaran [1992]). Our own studies in West Java also suggest not a single general stereotype but a variety of identifiable patterns. Thus, for example, if we consider the origins of the factory labour force:

a. On the eastern periphery of Bandung where Braadbaart's study of an area of rapid new factory development was carried out, the workers in the varied sample of factories which produced a variety of commodities, were overwhelmingly of local origin and this seems to have been part of a conscious strategy of management to begin by hiring local labour, mainly to forestall potential local unrest in an area characterised by high youth unemployment (Braadbaart 1992).

b. In the export garment factories on the western and southern periphery of Bandung studied by Yusuf, in contrast, the overwhelmingly female workers generally came from greater distances (necessitating a 'dormitory' circular-migration rather than daily commuting pattern) although still mostly from within the 'Bandung Raya' region; there had never been a pattern or strategy of initially recruiting workers from the immediately surrounding kampungs (Yusuf 1991).

c. In the Tangerang and Bogor regions where our studies of export footwear industries were located, however, the great majority of workers came from much more distant origins (common places of origin were Sukabumi and Cianjur in West Java, and the southern parts of Central and East Java). These factories have a strong preference for an in-migrant labour force, considering these workers easier to control and less likely to make trouble than local workers (Tjandraningsih 1991; White 1992).

Large-scale, factory-based export production has, in general, meant a distinct feminisation of the industrial work force. Thus, for example, garment factories actually released male sewing-machine operators and took on new female workers as they shifted to export production (Yusuf 1991); export footwear factory workers in

Tangerang and Bogor are overwhelmingly female, in contrast to West Java's 'neo-traditional' (small-scale) footwear industry centres of Ciomas and Cibaduyut, producing mainly for domestic markets, which employ hardly any women at all (Tjandraningsih 1991; Maspiyati 1991; Thamrin 1991; White 1992b).

The labour force of the new export industries is generally composed quite uniformly of young adults, roughly from the late teens to the late twenties. Some children are also employed, but at least in the export garment and footwear industries one cannot speak of a *systematic* strategy of child recruitment, in contrast to the sample of other factories covered in our child-labour study (White and Tjandraningsih 1992). Whether, however, these new factories will maintain the same age-profile of their work force five, ten or more years ahead is open to question. Many of Java's longer-established labour-intensive factory industries have a much more varied age profile; examples are the cigarette and *batik* industries of East and Central Java. In West Java the same is true of the older-established textile weaving industries of Majalaya, where a more bi-modal age profile is found, the majority of female workers being either young, unmarried teenagers or older married women in their thirties (Hardjono 1990: 29).

At least in the export footwear industry and probably in most other large-scale export factory production, education levels of the recruits are relatively high, even though the management generally do not insist on more than a primary school background. Junior and senior secondary school graduates, and even some with tertiary education, are quite commonly recruited as unskilled operators in these factories. These and other factors suggest that the majority of the export footwear labour force (and perhaps a smaller proportion of export garment workers) is drawn not from the 'poorest of the rural poor' but from the next level above that, and especially from those who can give their children a relatively good education, and for whom it is then a priority to get jobs other than farmwork or similar 'dirty' jobs.

For the overwhelming majority of export factory workers, factory employment is their first job; they are new entrants to the labour market rather than persons who have shifted out of other branches of employment. Such skills as are required (in sewing, etc.) are learned on the job in the first weeks; the export-garment factories on the fringe of Bandung do not draw labour from the small-scale garment workshops in nearby Soreang, nor do the export-shoe

factories of Tangerang, Bogor or Bandung recruit from the small-scale shoe industries of nearby Ciamis or Cibaduyut. This highlights the de-skilled nature of most operations in the footloose export industries.

## Work conditions, earnings and relations with parental households

At the time of our research (most of the studies collected field data during 1989-1990), working hours were generally long and included compulsory overtime (10 hours/day in footwear, and frequently more than that in garments). Wages, as may be expected, were generally low with monthly earnings, including overtime, commonly Rp45,000 - 55,000 in footwear factories (1990), but closer to Rp70,000 in garment factories (1989). These wage levels are generally not higher, and often lower on a daily or hourly basis, than those available in either agricultural wage work or various small-scale rural non-farm activities, particularly when the extra living costs faced by migrant workers are taken into account (see Grijns et al. 1992: Appendix B). Earnings levels are certainly not themselves the main source of the attraction of factory employment for rural youth, with a larger role being played by considerations of relative security of earnings and the relative 'cleanness' and status of the job.

Work conditions, also, leave much to be desired. Workers are normally not allowed to talk while at work, to bring food or drinking-water flasks to the workplace, or to wear shoes. As researchers we were struck by what seemed quite unnecessarily degrading conditions, both those relating to work discipline (rough treatment by overseers, including sometimes physical punishment) and those relating to workers' health and welfare (lack of adequate ventilation and poor quality of drinking water) or safety (lack of safety clothing for those working on machines). There are indeed poignant contrasts between the harsh, degrading and often humiliating conditions of factory work and factory workers' lives on the one hand, and the image of their jobs and lives in the eyes of their parents in Garut or Yogyakarta, who will describe with pride their son's or daughter's success in obtaining a factory job in Tangerang.

Our studies of in-migrant workers in Bandung, Tangerang and Bogor have found (as did Mather in Tangerang and Wolf in Ungaran) that factory earnings do not cover the basic living expenses even of a young, single worker, so that the workers still depend on

varying degrees of support (cash or food) from their parental households. Workers only rarely reported sending remittances to parental households, and the prevailing wage levels are certainly not sufficient to cover any emergencies such as medical costs. Workers use various kinds of economic strategies to survive on their low incomes, including shared purchases between room-mates in the *bedeng* (barrack) accommodation (cooking equipment and other utensils, meals, soap, clothes, cosmetics, toothpaste etc.), the purchase of food or cooked meals on credit from local stores and foodstalls; going home and obtaining 'subsidies' from parents or other relatives (in the form of cash or food).

There is however, something of an unexplained paradox in these findings. We also studied (as already noted) a special sample of factories in Tangerang and Jakarta which systematically employed large numbers of children; these children (in factories making metal locks and hinges, electric fuses, toilet soap, mosquito coils and plastic goods) earned even less than their young adult counterparts in the export garment and sportshoe factories, but all of them contributed at least part of their wages to their parents (White and Tjandraningsih 1992). The widespread participation of export manufacturing workers in *arisan* (rotating credit groups) also suggests that factory workers' earnings allow at least some possibility of saving to buy needed items such as clothing or domestic utensils.

The other important difference between these two kinds of young workers is that the child workers were generally primary school drop-outs and came universally from landless or marginal-farm households, which implies that their parental households were probably poorer than those which can manage to give their children some secondary education. The parents of the export-boom factory workers perhaps have still some possibility of providing small subsidies to their children (which, as Wolf noted in her study in Ungaran, is still more advantageous than providing full support to an unemployed child who stays in the village).

## The peri-urban industrial work force as working class

The wealthier rural residents in areas surrounding the new factories have been quick to invest in housing for the new in-migrant population, mainly by building barrack-like (*bedeng*) extensions to their houses or separate structures in their backyards. In some places, these are becoming the new peri-urban slums of Java:

crowded and cramped rooms, poorly lit and ventilated, often with damp earthen floors and with minimal facilities for cooking, personal hygiene etc. Furniture is minimal (no beds or chairs) and even basic items like soap and toothpaste are likely to be shared by the room's two, three or four occupants.

These young workers, although generally having themselves made a choice (rather than being sent by their parents) to leave home and seek factory work, often have to accustom themselves to considerable social isolation. Those coming from other regions tend, outside the workplace, to have very limited social contacts except with their room-mates. Given the long hours away from home, there is little time for anything except cooking, eating, bathing, washing and ironing clothes, and sleep; the low wages also mean that only very limited recreational activities are possible.

However, it would be quite incorrect to characterise these workers as a passive, docile and un-political work force. The quite spectacular wave of industrial unrest and strikes in the peri-urban industrial zones (particularly Tangerang) in recent times exposes contradictions in both governmental and management strategies towards industrial labour. On the one hand, the government hopes to attract continued foreign manufacturing investment with the attraction of low wages and a trouble-free labour regime; minimum wage regulations and many other aspects of labour legislation, are not enforced, autonomous unions are prohibited and most factories do not even have operating branches of the SPSI. Managers hope that their young, mainly female, mainly in-migrant labour force (at least in Tangerang) will conform to its (docile, compliant) stereotype. But in 1990 and 1991 hardly a day passed without reports of factory workers' protests and strikes, particularly in the Jabotabek region (and most commonly of all in Tangerang) with its largely in-migrant, often female work force. Government policies and management labour strategies may therefore actually be creating the conditions of labour unrest which will make potential investors look for other poor countries in which to place their factories.

## Conclusions

In the light of the research findings we have briefly summarised, both the contrasting views of labour conditions in the footloose export industries — such as those quoted at the beginning of this chapter — need modification. It is not realistic or helpful, on the one hand, to refer to these conditions as a new form of 'slavery plain and

simple' (Goodman 1993); on the other hand, the professional journalists hired by the big-name corporations such as Nike and Levi Strauss for whom these factories produce on contract (and, in this world where image is all-important, fear their image may be tarnished by reports of shocking conditions and starvation wages) give an equally impossible rosy picture (Nike Public Relations 1993).

The argument that attempts to promote substantial improvements in manufacturing wages and working conditions threaten the viability of Indonesia's export-oriented industrialisation drive may be questioned at many points. First, the view that Indonesia can follow other Asian countries through the same footloose-industry road to industrialisation and to the Lewisian turning-point — the point at which industrial absorption of surplus labour causes labour markets to tighten and real wages to rise in response — probably ignores crucial differences between Indonesia's situation and those of earlier Asian entrants into export manufacturing. Indonesia is such a large country, with many new labour force entrants each year that even very rapid growth in export TGF manufacturing will not make the same impact in the labour market that it has done at times in other, smaller countries. There are also grounds for doubt whether the reliance on the TGF industries as the major vehicle of transfer of rural labour into industry is a reliable strategy in the longer term, as advances in automatisation mean that many currently labour-intensive processes may in the foreseeable future be transferred back to wealthy countries.

TGF-based industrialisation, which may indeed at first seem like a development planner's dream (with every new factory creating between two and seven thousand jobs, at very little cost to the government beyond provision of basic infrastructure), can become a development nightmare if countries like Indonesia can only achieve it by falling over each other in the attempt to offer the lowest wages in Asia. When that happens, the tail has begun to wag the dog and 'industrialisation' and 'employment' have become ends in themselves rather than means to other developmental goals.

Indeed, low wages are not the only, not even the main criterion for many investors deciding to place their TGF operations in Indonesia; more important ultimately are the prospects of obtaining a quality product, delivered on time and to specifications, in an environment not plagued with chronic labour unrest. It can be

reasonably argued that substantial improvements in factory working conditions and wages (and realisation of workers' rights to free and active self-organisation that is likely to be the precondition for this) are — besides being important developmental goals in themselves — also in the best longer-term interest of maintaining the attractiveness of Indonesia to foreign manufacturing investors. It is therefore important to support efforts, both inside and outside official circles and both inside and outside Indonesia, towards this end. The raising of official minimum wage rates during the past two years (Manning 1993) in Jakarta and West Java (which, if enforced, will keep factory wages ahead of inflation) suggests that some policy makers also share this view.

# 9

# Labour in Small Scale Manufacturing: The Footwear Industry in West Java*

Juni Thamrin

## Introduction

The group of industries that produce textiles, garments and footwear (TGF) historically played an important role in industrialisation in both Europe and Asia. In general, these industries have linkages with agriculture (upstream-downstream production linkages), the rural economy and the supply of young workers for the formation of the work force. In particular, they divert surplus rural labour from agriculture into manufacturing activities. An understanding of labour dynamics in this sector will enable us to obtain a picture of transformation processes and will provide a general description of the formation of the labour force of rural origin (White 1992).

Labour force formation in the West Java shoe industry has undergone dynamic changes, especially since the relocation of industries from the newly industrialised countries (NICs) during the 1980s and early 1990s. These changes included a pattern of

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* This report contains the results of research carried out in the framework of the collaborative research project 'Rural Productivity and the Nonfarm Sector in West Java' by the Institute of Social Studies, The Hague, The Centre for Development Studies, Bogor Agricultural University and the Centre for Environmental Studies, Bandung Institute of Technology, and financed by the Netherlands Ministry of Development Cooperation (Section for Research and Technology). Like other project reports on the footwear industry (Maspiyati ed. 1991; Thamrin ed. 1991; Tjandraningsih ed. 1991; White ed. 1991; Thamrin, 1992) this paper reflects the combined work of the project's footwear industries research team, although prepared in this version by the author. All views and interpretations are, however, the sole responsibility of the author.

relationships which exerted reciprocal influences on labour structure, production organisation, employment, wages and working conditions. During virtually the same phase the existing segment of the shoe industry tended to fall into internal crisis and to undergo restructuring of various jobs. In this situation, developments in the division of technical work led increasingly towards a reduction in quality and a worsening of working conditions (Thamrin *et al.* 1991).

The West Java shoe industry has a bi-modal structure. On the one hand, there is a small-scale industry that consists of workshops and household artisanal undertakings and is concentrated in two major industrial centres: Ciomas near Bogor, and Cibaduyut near Bandung. On the other hand, there is a large-scale industry that produces shoes for export and is mechanised yet remains labour-intensive in its production process. These two structures in the shoe industry are undergoing differentiation as a consequence of internal shifts in power and external intervention. The bi-modal nature of the West Java shoe industry can be traced back at least 60 years to the time when Indonesia's first large-scale shoe factory was established in 1931 in the form of a branch of the Bata shoe company, not long after the small-scale centres of shoe production at Ciomas and Cibaduyut began to function in the 1920s.

It is paradoxical that the earnings of workers in the household and small-scale establishments are frequently higher in Ciomas and Cibaduyut than in recently established larger scale firms. The levels of wages that can be achieved by workers in the highly disorganised small-scale shoe industry even offer fairly good prospects, even though the price to be paid for attainment of those wages is 'self-exploitation'.[1] However, we shall also see that not all categories of workers in the small-scale shoe industry receive adequate wages.

This study focuses on three main issues. The first is the relationships within the small-scale shoe industry itself; this includes the supply of raw materials, relations between large and small workshops, the division of labour, wages and working conditions, family labour, and workers' survival mechanisms. The

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1 The term 'self-exploitation' is used in the following sense: in order to survive a worker must work for an average of 12 hours a day (see A.V. Chayanov *The Theory of Peasant Economy*, English version edited by Daniel Thorner *et al.*).

second is the survival strategies (including sub-contracting) adopted by the small-scale shoe industry in the face of competition from the large-scale industry. The third issue is the dilemma of interventions aimed at assisting the small-scale shoe industry in West Java.

## The agrarian context of West Java

West Java, which has a lower population density than other provinces in Java, does not belong to what Geertz (1963) has called 'inner Indonesia'. The pattern of control over land in West Java, however, as in other parts of Java, is characterised by great inequity and landlessness. In 1986 almost 50 per cent of the 5.3 million rural households in the province had no access to agricultural land, 30 per cent controlled marginal holdings of less than 0.5 hectare and only 22 per cent had holdings of more than 0.5 hectare (BPS 1986). Most rural households have income from non-agricultural sources such as small industry, wage labour, trade or handicrafts. Data from the 1987 *Susenas* indicate that only 27 per cent of rural households in West Java obtain their income solely from their own agricultural land.

According to the 1905 Census, the number of persons employed in small and household industry in West Java at the beginning of the century was around 77,000. Of these, 33 per cent were women; they represented 2.1 per cent of all workers in West Java at that time (Seger 1987). A comparison with the 1986 Economic Census shows that the number of workers had increased to more than one million in 1986. Household establishments remained dominant (91 per cent in 1986), but labour absorption dropped sharply from 70 to 50 per cent during 1974/5-1986. The small-industry category expanded proportionally, with an increase of 80 and 87 per cent respectively in establishments and workers in the same period.

Industry in West Java is concentrated in four industrial groups, namely: ISIC 31, which takes in food processing, beverages and tobacco; ISIC 32, which covers textiles, garments and footwear; ISIC 33, which includes the wood, bamboo and rattan industries, and ISIC 36, which consists of non-metallic minerals. In recent years, employment in household-scale industries in the textile, garment and footwear group has declined but small-scale and especially medium and large-scale industries have increased their labour absorption. This is a consequence of relocation of factories from the NICs, a new international division of labour and expansion in sub-

contracting between large and small-scale industry (Sayogyo *et al.* 1992).

## The structure of the small-scale shoe industry

In the literature and in statements of policy concerning the process of industrialisation, emphasis is often placed on the importance of the development of small-scale industry in conjunction with the growth of large industry. Small-scale industry is often seen as a strategic element in efforts to eliminate poverty and provide an income alternative for marginal farmers and rural people who have become landless as a consequence of the penetration of capital into rural areas, population pressure and inequitable distribution of land (Islam 1987; White 1991).

Expansion in small undertakings in Indonesia is coloured by the pressure of relatively strong nationalistic feelings. In reality, it is rare to find small business undertakings that are independent in the small-scale shoe industry in West Java. This is in keeping with a general feature of small industry in the Third World, which is characterised by structural differentiation and by a pattern of internally dependent relationships (Scott 1979; White 1991). Thus, small industry is characterised more by the phenomenon of wage labour than by the phenomenon of true entrepreneurs. Very often there are several categories of labour that are disguised and subordinated, as in the case of women putting-out workers, child labourers and other forms of marginal wage labour. This is a common picture at the initial stage of industrialisation (Saith 1987; Pinchbeck 1991; White 1992).

Cibaduyut and Ciomas are the largest centres of small-scale shoe production in Indonesia. In the 1920s the number of business units was still very limited and production involved individual skills. At that time shoe-makers did not turn out mass products. A fundamental structural change that involved innovations in production techniques occurred in both production centres in the 1950s and 1960s. It involved the replacement of leather soles with rubber and fibre soles and the introduction of glue to replace nails.

This change in shoe production techniques was accompanied by changes in commercial and organisational institutions among shoe-makers in both locations. Entry of the banking system into economic activities at the beginning of the 1970s encouraged further change in the internal structure of production organisation in Ciomas and

Cibaduyut. Workshop owners and craftsmen gradually became familiar with credit ('the economics of debt'), which they referred to as *bon putih* (white dockets). This trend accompanied the introduction of various forms of sub-contracting between those who placed orders (the principals) and the owners of workshops.[2]

The small and medium-sized establishments produced shoes for the domestic market.[3] During the past 15 to 20 years this form of manufacturing has undergone a basic change from a relatively simple structure based on a number of relatively independent household or artisan enterprises to a more differentiated structure. The pattern has become one of large workshops that employ a considerable amount of labour side by side with small workshops that also rely on paid artisans. Another aspect of the same process is the transformation of many producers who were formerly independent into putting-out workers who are employed in their own homes. These artisans can be better described as 'disguised labourers'.[4]

It is interesting to look at the motives of the large workshops in the two production centres in expanding sub-contracting strategies with the small workshops located around them. The strategy of sub-contracting generally represents an effective way for the large workshops to maintain stability in production of the regular orders that they receive. It is also intended to transfer most of the risk of

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2 Sub-contracting is a form of production relations in which the principal who places an order with a producer agrees to buy the final product or certain components of that product from the producer at a price fixed by the principal.

3 Scale limits referred to in this study are *not* the same as those used by BPS or the Department of Industry. In the present study (a) household establishments are those that use only the labour of household members; (b) small workshops are shoe establishments that have fewer than 15 paid workers; (c) large shoe workshops are those that have 15 or more paid workers. A factory is distinguished from a workshop on the basis of quality criteria: namely, the production site is not joined to the owner's house, the owner is not directly involved in the production process, there are strict working hours and the division of labour tends towards detailed specialisation.

4 In the sense of a paid or wage worker who is not affected by manpower regulations and official labour organisations.

potential loss (including the labour risk) to the small workshops, especially at times when market demand is low. At such times the large workshops, having established a sub-contracting strategy, can optimise the use of all the resources at their disposal, including the production assets in their own workshops. In the slack season, regular orders can still be met but they are free from the burden of other costs because of the form of sub-contracting that they have developed.

For small and household workshops, acceptance of orders in the form of sub-contracts is motivated by the fact that it gives them a guarantee of work and marketing that is more continuous than if they try to sell their products directly. Another advantage lies in the fact that there is a guarantee of working capital and especially of raw materials and cash loans with which to advance wages to their workers. The supply of materials is often a major constraint when firms lack working capital, which is always a problem in small industry. Even so, small producers must accept a 10 to 30 per cent mark-up on the price of materials by comparison with cash purchases and 10 to 25 per cent interest on cash loans per shoe-production cycle (which is normally one to two weeks). This is cut directly by the principal at the time when the goods ordered are handed over.

The owners of small shoe workshops and household units hold down their own production costs by economising on their use of raw materials and wages. As far as possible they use unpaid household labour. Even when household labour is paid, wage rates differ greatly from those paid to other employees. Although experienced artisans are used, small producers often employ relatives because they are more likely to accept a reduction in wages from time to time or delays in the payment of wages. Another means by which the small workshops hold down their expenditure on wages is by putting out some of the jobs to women and children, who work in their own homes.

In these circumstances, those involved in the small-scale shoe industry have the flexibility to change jobs temporarily. When there are no orders, the owners of small establishments become itinerant traders or factory labourers; otherwise they find work in the informal sector.

## The dynamics of labour relations

In the production of shoes at the workshop level there is a system of limited specialisation that involves three kinds of artisan: (1) the so-called *tukang dalam* (the inside craftsman), who among other things draws the pattern and does some of the finishing work; (2) the *tukang muka* (the front artisan), who cuts and sews the uppers of the shoes; and (3) the *tukang bawah* (the sole artisan), who joins the soles to the uppers. The specialisation that has developed from this division of labour is the first step in the de-skilling process. As a consequence of specialisation, it is now difficult to find an artisan who can make a complete pair of shoes by himself.

Within the labour market these three occupations are dominated by men, although there are a few women who do the same kind of tasks as putting-out workers. The labour situation is quite different from that which prevails in the large shoe factories, where the majority of workers are women. The market for wage labour in both centres of small-scale shoe production is characterised by a high level of mobility. Workers move from one workshop to another because of the sharp fluctuations in demand for products. As a consequence of this mobility, there are no permanent ties between workers and workshop owners. Workers in shoe workshops are normally paid on a piecework basis.

The rapid expansion in marketing in Cibaduyut has created a number of jobs (primarily for young women and girls) as assistants in the shops and kiosks that sell shoes. The majority come from around Bandung, though there are those who come from other parts of West Java. Employment as a shop attendant is regarded as temporary work since in general they complain about the long working hours (from 8.30am to 8.30pm). There are no holidays and the wage that they receive is far lower than that which the shoe-makers receive. It would seem that these wage conditions are the result of a combination of labour surplus and the traces of a 'patriarchal ideology' that treats women's work as marginal work.

Historically, bad wage conditions were also experienced by women workers in the colonial period. Pleyte (1911, cited in White 1991) describes working conditions for women employed in small industry in West Java at that time as being no better than the conditions that pet animals enjoyed, even though the handicraft industries in which they worked were able to export their products to America and France. To compensate, workers developed strategies

that involved mobilisation of all family members (including children) for labour purposes, introduction of a pattern of occupational multiplicity in the agricultural and non-agricultural sectors and reduction of certain kinds of consumption.

A paradoxical situation has developed in the labour segment that involves artisans (both *tukang atas* and *tukang bawah*). There is such a shortage of labour in this segment that workshops often 'steal' workers from one another. This can be traced in part to the fact that a worker who wants to enter the small-scale shoe labour market must have certain skills, which are normally acquired through the apprentice (*magang*) system. Another factor that explains the shortage of skilled shoe-makers in Cibaduyut and Ciomas is the fact that a number of medium-scale shoe factories have been established close to the two production centres. Skilled shoe-makers are usually recruited by these factories, which are not as specialised as the large-scale shoe factories.

## Working conditions, wages and income stability

Small workshops are normally constructed from wood as a part of the owner's house, whereas large workshops are usually brick buildings that stand separate from the house. Household-scale producers usually work in a part of their house, whether it be on a small veranda, in the sitting room or even in the kitchen. The craftsmen and their assistants work with very simple tools, often made by themselves from second-hand materials. Only a few of the large workshops use electrical equipment; where it is found, it is very simple. The general impression of the workshops is that they are small and untidy, are lit by lamps for work at night and are dominated by the smell of glue but have enough ventilation.

The wages and incomes of those employed in the small-scale shoe industry can be seen from Table 9.1. These are the incomes that they normally receive. During the peak period (which in Ciomas lasts for four months of the year) the wage of an artisan who makes shoe uppers can reach Rp80,000 a week. To achieve maximum returns, an artisan usually works for as many as 14 hours a day during that period.

**Table 9.1: Wages and Incomes in the Cibaduyut and Ciomas Small-scale Shoe Industry, June 1993 (in rupiah)**

| Type of product | Type of work/worker | Monthly earnings | |
|---|---|---|---|
| | | Ciomas | Cibaduyut |
| **Tukang** | | | |
| Leather shoes | uppers | -- | 160,000 |
| | soles | -- | 200,000 |
| Leather sandals | uppers | -- | 130,000 |
| | soles | -- | 150,000 |
| Sports shoes (imitation leather) | uppers | 143,000 | -- |
| | soles | 155,000 | -- |
| Sandals (imitation leather) | uppers | 75,000 | -- |
| | soles | 112,500 | -- |
| Others:(1) | | | |
| | patterns | 80,000 | 120,000 |
| | insides | 50,000 | 60,000 |
| | *kenek* | 20,000 | 20,000 |
| | shop assistant | 40,000 | |

*Source*: Field research, 1993.
(1) Normally working time is 6 days/week for 9 to 10 hours/day; shop assistants work 7 days/week for 10 to 12 hours/day.

## Survival strategies

### *Small workshop and putting-out workers*

In many instances the survival strategy adopted by workers and their families is to economise on consumption items and to mobilise their whole family (including children) to do jobs of any kind. This

pattern of multiple income enables them to survive. At times when shoe-making slows down, they can easily move to other employment, normally in the informal sector or as labourers. On the whole, these workers constitute a source of reserve labour for the larger factories in the JABOTABEK area surrounding the capital city. In normal times, when the workshops still have orders, they work with speed to maximise income. If the order placed with one workshop is completed, workers look for work of the same kind in other workshops while waiting for new orders to be placed.

Workers who have large families often entrust children to their grandparents, their excuse being that the grandparents will thus have 'companions' or 'substitutes' for their own sons or daughters. This strategy, which is mainly adopted in the case of children under five years of age who are too small to work, is a great help to women workers as it enables them to accept putting-out work in their own homes. In both of the production centres, numbers of small shops have appeared that sell daily needs on credit to workers employed in the shoe workshops.

*Household units and small workshops*

Almost all of the small workshops and household production units in both locations operate on a sub-contracting basis with middlemen, shops or wholesale traders (the principals).[5] The producers receive orders from a principal, after showing him samples; this task is often undertaken by the wives of workshop owners. Extremely small-scale producers sometimes obtain orders through a *loper*, that is, an itinerant trader who operates as a middleman. When an order is received, the sub-contracting workshop then receives a voucher (*bon putih*) with which to buy raw materials from the shops around Cibaduyut or, in the case of Ciomas, from shops in Bogor. The *bon putih* is usually accompanied by an amount of cash that is used for the wages of workers and as advance payment for the workshop owner himself. The cost of materials bought with such vouchers is usually 10 to 30 per cent higher than what buyers would pay for cash purchases. Some of the shoes ordered by the principal are usually

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5 In Cibaduyut there are also a few small workshops that have their own kiosks.

dispatched every week and payment by the principal is made by means of a bank draft or cheque dated three months in advance.

Since cheques can only be cashed three months later, the owners of small workshops and household units that need a supply of cash adopt a number of strategies such as running up debts with shops that sell raw materials, cashing a part of their voucher, economising on the use of materials, holding down costs (including wages), diversification of principals, and/or establishing contacts with retail traders who are willing to pay cash to buy shoes in small quantities.

There is cooperation between the owners of small workshops in lending or exchanging raw materials in kind. At the same time, there is competition between them, especially when there is heavy demand for shoes. The form of competition, which occurs very often when market demand rises, generally involves the 'stealing' of skilled workers. One strategy that the workshop owners and household producers adopt is to make products at low cost and poor quality by reducing raw material inputs below standard requirements.

*Investment of surplus by local elites*

The owners of large workshops in the two shoe production centres have responded to macroeconomic changes by undertaking integration of establishments and capital accumulation. The large workshops in Cibaduyut, for example, have tended towards downstream integration by investing their surplus income in the opening or expansion of shoe shops.

In the expansion that has occurred in recent years, members of the local entrepreneurial elite in Cibaduyut have tried to strengthen their control over the Cibaduyut shoe trade and to protect it from outside capital interventions, especially capital owned by ethnic Chinese businessmen. This has been done informally by preventing Chinese businessmen from establishing shoe shops in Cibaduyut. This local protectionism has led to various kinds of disguised transactions. The result has been the establishment of a number of new shops that officially belong to local people but are financed and controlled by people of Chinese origin.

Competition among the local elite to control marketing channels in Cibaduyut has had an unfavourable impact on continuity in the activities of the shoe-marketing cooperative. In effect, it is not

really a cooperative because in the marketing of shoes there tends to be conflict between the cooperative's interests and the personal interests of its managers. Thus it functions only as a way to provide access to certain government facilities and support schemes.

A similar pattern has evolved among the local elite who own shoe workshops in Ciomas. These owners are more inclined to invest their profits in general trade, and in trade in the raw materials needed for shoe production, than in the production side of the industry. Members of this elite, who now operate as industrial traders, strive to dominate production only to safeguard stocks for their own trade network. Suppliers of shoe materials in Ciomas are in reality sales agents for the large factories that produce glue, fibre, soles, thread, rubber, tanned leather and the like. Business is done on a consignment basis and in practice the profits of the local elite are largely invested in the construction and operation of retail warehouses. Business undertakings of this kind contain little risk of failure since the market is relatively established.

## The dilemma of intervention

One important characteristic of differentiation within the small-scale industry is that most production is no longer undertaken by the household units that are the traditional target of various kinds of intervention intended to assist small industry.[6] Another implication is that the majority of small-scale producers (household and small) are no longer true 'entrepreneurs' because now they work in a sub-contracting system that does not allow them to make decisions about styles, materials, capital or marketing. These producers will remain outside the scope of intervention oriented towards entrepreneurs unless there are basic structural and institutional changes.

Any intervention that is made without a knowledge of working methods, the pattern of dependence within the production network or labour relations will become a new burden instead of a form of assistance. Certain kinds of intervention that have a neutral or positive impact on growth have also strengthened and sharpened

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6 'Outside' interventions here refer to actions by the government, private sector and NGOs whose purpose is to increase value added; these actions include extension services, help with capital and technical assistance. There are also interventions that lead to an absorption of local resources.

the pattern of internal differentiation in the centres of small and household shoe production. A few notes can be made about the general form of interventions that have influenced labour in the small-scale shoe production centres in West Java:

(a) *Formal bank credit*. This intervention is undertaken by both private banks and government banks (BRI). Only the large workshops, however, have had access to this credit and these have diversified their commercial undertakings. The owners of small workshops have had difficulty in meeting bank requirements. Furthermore, the format of the feasibility assessment made by banks is rigid, requiring a proper system of accounts, business permits and an easily examined cash flow. These requirements are a major problem for small industry.

(b) *Formalisation*. Interventions that are intended to transform small-scale shoe producers into formal business institutions often bring new burdens. Interventions of this kind are based on the assumption that formalisation will be useful in increasing the stability of undertakings, access to bank credit and marketing. What often happens, however, is that this kind of intervention increases costs in the form of various levies and taxes. Formalisation introduced through the Department of Industry through its LIK (*Lingkungan Industri Kecil* or Small Industrial Centre) concept has greatly increased transportation costs because the small producers have been moved quite far from their traditional production centres. They have then incurred additional production costs (for water, electricity and waste disposal) which had previously been part of their personal household expenditure.

(c) *Technical and management training*. This is the form of intervention most frequently undertaken by the government, NGOs and universities. The curricula presented during training programs, however, are based on a framework used by the parties introducing the intervention, so frequently it proves of little benefit for the owners of small workshops. There are several reasons for this. First, since workshop owners very rarely produce shoes independently, training courses present shoe designs that are irrelevant because the principal not the workshop decides the style.

Second, training of this kind is always oriented towards improvements in the quality and amount of products, but if small producers adopt this supply-side approach they will lose their market. Improvements in product quality make it difficult for small producers to compete with large producers who are already established in a particular market segment. Improvements also mean that the shoes will last longer, which in turn means that the shoe production period will be longer and returns smaller. Third, training courses tend to contain certain biases: there is a scientific bias that tends to transfer the standard knowledge of universities to participants who are not familiar with the terminology; a bureaucratic bias that tends to treat participants as inferiors; a middle-class and 'missionary' zeal bias whereby participants are often regarded as stupid; and a modernism bias that tends to encourage participants to adopt techniques that require expensive equipment.

(d) *Joint marketing*. This is a kind of intervention that is often a 'disguised form' because it is very difficult to reconcile the interests of individuals who are in competition with each other, especially in the marketing of the same product. An obvious example is the attempt made by cooperatives to introduce common marketing of shoes in the two production centres. None of these marketing programs has proved successful. Such programs do not receive support from all participants and are often used by the cooperative managers themselves, for they often have better access to market information. It is the large workshops that most commonly fail to observe agreements about quotas. In a situation characterised by sub-contracting, small-scale craftsmen no longer have any access to markets.

This intervention directly and indirectly works more to the advantage of principals who already have their own marketing channels. One example is the *bapak-anak angkat* ('adoption') program, which was introduced in both production centres to help the small-scale shoe industry. This experienced the same failure as other forms of intervention.

## Conclusions

The West Java shoe industry is a good example of the economic liberalisation and deregulation now taking place in Indonesia. In the bi-modal structure of this industry, the large-scale and the small-scale industries which exist side by side have their own dynamics although they are related in several respects, such as in the labour market.

In the small-scale shoe industry the main obstacle to further expansion lies in the low purchasing power of the community. Small-scale, traditional shoe-production centres like Ciomas and Cibaduyut, which were once genuine household enterprises using traditional technology, have changed in recent decades in such a way that the terms 'small' and 'traditional' are no longer applicable. These changes have led to:

(a) a process of differentiation between businesses, which means that household units are no longer prominent.

(b) changes at the level of work organisation, technology and work techniques from traditional methods that involve 'artistic' skills to work that is specialised in a limited way and involves de-skilling; these changes in work techniques have occurred as a response to rising mass demand for products and carry with them the consequence of a decline in earnings, although they open up new employment opportunities for shoe craftsmen and workers.

(c) the replacement of traditional materials with factory-made production inputs (such as the substitution of glue for nails to join soles to uppers and use of imitation leather or rubber for soles). This has been accompanied by the entry of capital and by widespread debt among sub-contractors. Such changes have given rise to upstream commercial ventures (suppliers of raw materials) and the downstream shoe merchants in the same location; this in turn has created new low-wage jobs, especially for women.

Linked to wage differentiation and poverty in the small-scale production centres is the emergence of two categories of workers. The first consists of artisans (*tukang muka* and *tukang bawah*) who receive relatively good wages in comparison with agricultural labourers or those who perform other kinds of manual work, and

better than those paid to workers employed in large-scale shoe factories. The second category consists of apprentices, who are generally children aged between 7 and 16, *tukang dalam*, who are often treated as domestic servants and expected to perform all kinds of jobs, and shop-attendants, who are normally young, unmarried girls. Workers in this second category are in a marginal position, particularly with respect to working conditions and wages. They are not protected by labour regulations or by the official workers' union (SPSI), which gives attention only to workers in the formal sector or in large and medium industry. Even the NGOs give little attention to shop attendants since they usually focus on entrepreneurs as an independent unit. The role of women is not readily apparent, although they play an important part. For example, women are often involved in the job of stitching shoes but only as unpaid family workers in household industry and in putting-out work.

# 10

# Labour in the Garment Industry: An Employer's Perspective

H. P. Lok

## Introduction

The garment export industry in Indonesia has expanded so rapidly since the 1970s that by 1990 there were 406 large and medium factories employing 104,875 people in West Java (*Jawa Barat Dalam Angka* 1991).[1] The expansion has occurred in response to the government's strategy of stimulating national economic development by promoting labour-intensive industry for export in such fields as textiles, garments, footwear and electronics. Deregulation measures in investment, customs and trade procedures and assurances of an abundant, low-cost and orderly work force attracted local and foreign investment in light manufactured goods for the world export market.

This economic strategy has successfully met the goals of reducing dependence on oil and gas exports and of creating employment opportunities. But there has been strong criticism that it has been accompanied by exploitation of the work force. Labour issues such as low wages, few benefits, poor working conditions and union repression are at the centre of considerable controversy. There have been some strikes in export industries, with demands for minimum wage payments and protests over dismissals. Also, a number of studies have reported that exploitative practices do exist in some large-scale factories. A recent study of the footwear industry, for example, cites the 'deplorable' wage levels and asserts that some foreign-owned, export-oriented shoe factories in Bogor and Tangerang pay below the minimum wage and enjoy 'apparent

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1 Large and medium establishments are those with 20 or more workers.

freedom ... from enforcement of government regulations on minimum wages' (White *et al* 1992:42). This study states that the conditions in the garment export industry are 'strikingly similar' (White *et al* 1992:25).

The aim of the present paper is to examine how an employer regards these labour issues. The case study is sited in a large garment factory in Bandung, West Java. The paper outlines the characteristics of the labour force in this factory and offers a picture of how the management views the labour component in its labour-intensive, export-oriented business, which employs large numbers of manual workers in the production process. Attention is given to the attitudes and concerns of those who run the business and to their response to criticisms that there is exploitation of the labour force in this industry. Information is based on access to the company's files, interviews with the management and staff and direct observation of the labour force at work. The management's general response is that it does not consider that its labour force is exploited and it offers reasons rather than excuses for the present wages and conditions.

## Factory profile

The garment factory, which is here referred to as A-tex, was established in 1974 as a new section in a textile weaving establishment. It is a family business belonging to Indonesians of Chinese origin and was expanded in 1980 when the garment export business became an important and viable industry and again in 1989 with Japanese investment in a joint-venture arrangement in one of the production sections. It presently employs 1,518 people, including an office staff of 116 people, in the manufacture of wovenwear and knitwear garments. All products from this factory are intended for export; items include a range of styles of T-shirts, polo-shirts, jogging suits, ladies' nightwear and blouses and men's casual and dress shirts. These garments are exported primarily to Canada, the United States, Europe (Holland, Germany, Denmark and England in particular) and Japan. The main factory area, which is under one roof, has a floor space on one level of approximately 10,000 sq. metres in which there are more than 700 machines. The work area resembles a sea of machinists, yet the work environment is not unpleasant as it is open, there is a low noise level, it has good lighting and airflow, and most people work sitting down. A

disadvantage is that it sometimes becomes very hot, due to the vast aluminium roof.

## Labour profile

In common with light industrialisation in other sectors and with garment manufacture in other developing countries, a feature of this garment factory is that most of the employees are women. At A-tex 92 per cent of the 1,402 non-staff employees on the factory floor are women. Approximately 75 per cent of the women are machinists, each of whom works on one of several specialised types of sewing equipment. The remaining 25 per cent of the women do other jobs which include cutting, ironing, sorting, packing, quality control and general cleaning. The jobs of the 112 non-staff male employees include those of technicians, motor mechanics, drivers, warehouse and heavy packing workers, cleaners and security guards. Among the 116 persons classed as staff, 34 per cent are male. Staff jobs are divided among nine departments: sales, purchasing, warehouse, production, shipping, finance, accounting, personnel and general affairs.

Analysis of the factory files reveals details of the age, educational level and marital status of the women employees. The major characteristic of the A-tex labour force is that it is comprised of a very high percentage of young and unmarried women. Table 10.1, which presents an analysis of the 788 women working in A-tex's main section, the wovenwear section, shows that 59 per cent of the total number are aged from 15 to 24 years. The mode age is 19. An analysis of the industrial mobilisation of women in Singapore, Korea, Taiwan and Hong Kong in the 1960s and 1970s notes similar characteristics, stating that 'most of the new female manufacturing workers are young and unmarried and have entered the work force primarily to earn extra money for themselves and their families prior to forming a family of their own' (Deyo 1989:185).

Table 10.1 also shows that there is a distinct drop in numbers in the 25-30 year age group. Many of the girls marry at this age, giving up factory work when they have their first child. Whereas two-thirds of the 20-24 age group are unmarried, 81 per cent of the 25-30 age group are married and 68 per cent are married with children. Another feature of the A-tex work force is that nearly one quarter of female employees are in their thirties and are married with children. According to the A-tex Personnel Department, many of

these women have returned to work to earn extra income while their children are still at school and not yet old enough to contribute to their families' needs. Many of the women are divorced and some are widowed.

The educational level of the 788 female employees in the wovenwear section is not high; 82 per cent have only primary school qualifications while among the 18 per cent with further education, 86 per cent have no more than a junior high school certificate. A-tex has a minimum requirement of a primary school certificate but frequently employs girls with junior or senior high school certificates. The experience of this factory, as reported by the Personnel Department, is that those with 'higher' education often last only a few days if they cannot master the job quickly. Feeling frustrated or embarrassed that women with only primary school education are coping with the same work, they leave rather than persevere.[2] A-tex management believes that other garment factories in Bandung have a similar labour profile, although some are reportedly beginning to recruit girls from junior high school.

### *Management views of the labour component*

A-tex takes an entirely businesslike view of the labour component in the production process. The factory is highly labour-intensive and this necessitates procedures and policies for the efficient organisation of the large work force. The factory management is also preoccupied with many other aspects of mass production such as sales, production flow, import-export work and finance, all of which require high levels of coordination. Within this context the main concerns of the management at A-tex towards its labour force are centred on matters of recruitment and training, labour costing, wages and benefits, turnover, security and labour relations.

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2 Among the 30+ age group a slightly higher percentage has post-primary education but mainly in the form of sewing courses rather than formal schooling.

Table 10.1: Age, Education and Marital Status of Women in the Wovenwear Section, A-tex, 1992

| Age Group | Women | | Education | | | Marital Status | | | |
|---|---|---|---|---|---|---|---|---|---|
| | No. | % | Primary only | Post-primary | | Not married | Married without children | Married with children | |
| 15-19* | 264 | 34 | 89 | 11 | 100 | 97 | 3 | 0 | 100 |
| 20-24 | 210 | 26 | 84 | 16 | 100 | 65 | 9 | 26 | 100 |
| 25-30 | 126 | 16 | 79 | 21 | 100 | 19 | 13 | 68 | 100 |
| 30+ ** | 188 | 24 | 74 | 26 | 100 | 6 | 3 | 91 | 100 |
| Total | 788 | 100 | | | | | | | |
| % of total | | | 82 | 18 | 100 | 50 | 7 | 43 | 100 |

*Source:* A-tex Personnel files.
Note: * only eight 15-year-olds.
** 90.5 per cent of women in this age group are under 40 years.

*Recruitment and training*

A-tex's main method of obtaining staff is by advertising in local newspapers, while the main way of recruiting for factory jobs is by placing a notice on the front gate of the factory. In both cases there is also scope for introductions through friends or acquaintances. In Indonesia it is often said that new employees pay for information about job vacancies; while A-tex reports that it did once dismiss a security guard who was running his own 'employment agency' and extracting payments from prospective employees, the Personnel Department believes that this is not happening now and also that there is no need for it. There is more concern about the occasional case of organised 'poaching' of experienced employees by competing factories.

The requirements at A-tex for recruits to the factory floor are not exacting but consideration is given to experience, age and willingness to do piecework. A-tex finds that nowadays there are large numbers of experienced women to choose from; there are even 16-year-olds who come with proof of two years' experience in large garment factories, which means that they began work while under the legal working age of 15. Among the most recent intake in April 1993, when 205 new people were needed at A-tex to replace those who did not return after Lebaran, nearly 90 per cent were experienced in garment production and over 75 per cent were 19 and 20 years of age. There is a preference at A-tex for additions to its work force to be no less than 16 and no more than 35 years of age. Since 1988, A-tex has adopted a policy that new applicants for sewing jobs are given preference if they agree to join the piecework system. The daily wage system is being phased out where possible because it is considered to be less productive.

Although sex is not stipulated in recruitment notices, nearly all applicants for sewing jobs at A-tex, as in other garment factories, are women. Several reasons are advanced to explain this: it is reasonably light work, women have so far proved easier to control than men[3], the one-shift system suits women workers, sewing has become regarded as a woman's field of work and the supervisors are

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3 Deyo questions 'such presumed female docility' and cites examples of high levels of militancy among female workers in light industries in Hong Kong, Singapore and Taiwan (Deyo,1989:190).

usually women. Except in the production of sweaters on flatknit machines, where strength is needed to ensure speed, the garment industry therefore has become a female preserve. It has provided new employment opportunities for large numbers of young, unskilled Indonesian women.

Because of overtime transportation costs, one further recruitment consideration at A-tex is the place of residence of new employees (as indicated by the address on the KTP identification card). The factory's policy is that employees should live within the range of certain public transport fare rates, although this tends to be self-regulating as the employees are also influenced by transport costs. A-tex is located on the southern outskirts of Bandung in an industrial zone where two main arteries lead into the city from rural areas to the south and south-east. Approximately 55 per cent of the present employees reside in rural areas along these two roads, within the range of single fare limits (Rp300 in 1993) which extend approximately 15 km to the south-east and 20 km to the south.

Only 10 per cent of the non-staff employees travel daily from the direction of the city and many of the remaining 35 per cent who live in the immediate area of the factory in fact come from outside Bandung and have rented accommodation in the industrial area. Among this group, there are many women at A-tex who were born and educated in the Garut and Tasikmalaya districts. They report that they originally came to Bandung to accompany their husbands or that they came to join friends when they heard that jobs were available in the city.

The labour force at A-tex is therefore one which is comprised largely of young women from rural backgrounds; they have migrated permanently to the city or else travel daily from their relatively close rural homes. Staff employees, by contrast, all live in town and travel out to the factory. Deyo's study again seems relevant to Indonesia's experience as he states that many of the women working in the factories of Singapore and Hong Kong were immigrants from Malaysia and China respectively and that in Taiwan in the 1965-75 period 'the female work force shifted out of agriculture and into services and manufacturing' (Deyo 1989: 179,181).

The residence pattern, while influenced by the factory's recruitment policy, is not created or determined solely by the factory; similar patterns are found in other Bandung garment factories that are located on arterial routes in the same or different directions. A-tex managers do not know of any garment industries in

Bandung which 'import' their work force from Central or East Java in the way that a number of large garment factories in the Jabotabek area are reported to do. A-tex provides no transportation for workers, but some Bandung garment factories own or hire buses and bring workers across town from collection points on the urban fringe.

Since most recruits are experienced, there is no longer a special training program at A-tex for inexperienced workers. The system now is that they learn on the job under the guidance of the line supervisor, mastering the easiest jobs first and progressing as their abilities allow. Those claiming to be experienced are given three days to prove it; those without previous experience are assessed after two weeks.

### *Labour costs*

From a business point of view, labour costs are only one component of product costs. According to the A-tex Sales Department, when an order is negotiated with an overseas' buyer, the two main points that are discussed are the cost of the fabric and the CMT (Cost of Making and Trims). Fabric cost accounts for 60-65 per cent and CMT for 35-40 per cent of the garment price, usually calculated in US$ per dozen. At A-tex, CMT includes direct labour, overheads such as power and freight, administration including staff salaries, sales and export costs, bank obligations, and tax payments; direct labour costs represent 7 to 8 per cent of the total cost of a garment.

A number of points are evident here. First, the labour content is only a small percentage of the cost. In a $10 garment, for example, the labour cost is only 70 to 80 cents. A major constraint to increasing the percentage that is allocated to direct labour expenditure, as explained by A-tex, is that the buyers are fully aware of the present costing breakdown and will not negotiate higher prices for the sake of higher wages for workers. In reality, their primary interest in placing orders in Indonesia is the availability of cheap labour, a commodity which the government has actively promoted. When the expectations of the buyers are not met, they are quick to state that they will move to more competitive countries such as Bangladesh and Vietnam. The management at A-tex accepts this situation and its immediate concern is not to increase the percentage allocated to direct labour costs but to focus on improvements in the efficiency of the work force in order to gain higher productivity for the same

costs. As it is, in this mass-production industry, profits are very small per piece ex-factory.[4]

Secondly, even although the labour cost is a small percentage of total costs, the management at A-tex remains dissatisfied and asserts that factories in Indonesia are over-staffed. The Production Department, for example, claims that in the Korean garment industry there are 1.1 employees per machine (non-automatic) and that in Indonesia there should be no more than 1.5 employees per machine though in reality there are nearly 2 persons per machine. Management and production staff, justifiably or not, frequently complain about the lack of discipline and the poor attitudes of the labour force. Complaints include accusations of a lack of care and cleanliness, slowness and chatting, long visits to the toilets and prayer room, avoidance of tasks that require extra effort and a lack of responsibility, for example in the cover-up of small faults that can later lead to garment rejects or even to the cancellation of an entire order. A-tex claims that it must employ extra Quality Control staff due to work force casualness and irresponsibility.

### *Wages and benefits*

A-tex is aware of the criticisms of the low wages and limited benefits received by the labour force in the garment industry but considers that it pays fairly. The management states that A-tex observes provincial-level wage policies and never pays below the government's minimum daily wage rates, pointing out that to do so would not be worth the risk of worker dissatisfaction. The last increase in wage rates was in September 1992 when a minimum daily wage of Rp2,600 (US $1.25) was set for industry in West Java. *Perteksi* (the Indonesian Textile Industries Association), after its annual consultations with the SPSI (All-Indonesian Workers Union), announced its approval of a 20 per cent increase to Rp3,100 in May 1993, and it is expected that the Department of Manpower will

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4 A-tex makes the point that the final price of a garment to an overseas' consumer is at least three times ex-factory price when an order is handled directly by a department store and at least four times ex-factory price when it is handled through an importer (and even more if the item is a brand name).

endorse this later in the year as the new minimum wage in West Java's.

A-tex has developed a number of ways of calculating salaries. It has three types of wage payments: daily or time-rate (*harian)* and piecework (*borongan*) systems for non-staff and monthly rates for staff and others such as some of the drivers. Approximately 60 per cent of those employed on non-monthly systems are on piecework rates while 40 per cent are still on daily rates. All employees have permanent status (*tetap*) after the three-month probation period, during which they have casual status (*lepas)* and usually earn only the basic wage rate.

Calculation of daily rates depends on the individual's rank. Ranks of 1 to 8 are assigned on the basis of type of job, from non-sewing jobs such as cleaning to senior supervision. In 1993, with the US dollar worth Rp2,090, rates are as follows:

Rp2600-4000/day basic rate, determined by rank, plus
Rp2400-4200/week attendance bonus (including punctuality), plus
Rp1000-6750/week years-of-service bonus (1 to 25 years).

Pay packages for daily-rate, non-staff employees therefore vary from Rp18,000 per week or approximately Rp75,000 per month to Rp35,000 per week or Rp145,000 per month excluding overtime.. The mean for those on daily wage rates is Rp85-90,000 per month.

Employees engaged on a piecework basis are guaranteed the minimum daily wage but most earn more. At A-tex piecework employees are paid fortnightly; the average earnings are Rp46,000 to 50,000 per fortnight, with some receiving as much as Rp110,000 per fortnight, including overtime. According to the management, all piecework employees could earn this amount by working faster but most are satisfied with a leisurely pace and an average salary of Rp92-100,000 per month. These daily and piecework wage rates at A-tex are approximately double the monthly wages reported in the shoe factory study in 1989 (White *et al* 1992:29), although consideration needs to be made for the fact that A-tex does not provide food or transportation allowances unless employees work late.

In addition to daily and piecework rates there is overtime. The government regulations; this may be extended to a maximum 54-hour week with overtime. Overtime is paid at rates of 1.5 times for the first hour and double rates for successive hours and on Sundays and

public holidays, with the provision of transport home for female workers after 6 pm and Rp300 food money after 8 pm. A-tex, like other garment factories, works only one shift a day, but regularly has two to four hours overtime schedules, which means that most of the women work from 7.30 am to 3.15 pm with a 45-minute lunch break, then continue until 5.30 or as late as 7.30 pm, after a 15-minute rest. A-tex rarely works after 8 pm to avoid the compulsory food money payment. It also usually avoids working after 5.30 pm. Daily transport costs for those who work until later than 6 pm amount to between Rp150,000 and Rp200,000 as the factory has only one bus and has to hire local public transport vehicles at the factory gate.

The Personnel Department reports that most of the employees are willing to do overtime, as they increase their salaries considerably in this way. There are two peak work periods every year in June and December, which correspond with the end of the quota years for orders from Europe and the United States respectively. During these two months outstanding orders are rushed and even more overtime may be offered for periods of two to three weeks. Occasionally, production continues for a 24-hour period; it is the job of the Production staff to persuade as many people as possible to do this excessive overtime work, which is usually concentrated in the packing area. The employees are not physically forced to stay on by, for example, being locked in, although there have been newspaper reports of this happening in a few factories. At A-tex workers are persuaded to stay by having the reasons explained to them and by the extra income; most comply.

The factory, however, tries to limit excessive overtime as it is costly, all the more so because production efficiency tends to be lower during periods of overtime than earlier in the day. The alternative, at present being avoided or postponed, is investment in more machines and a larger work force. Meanwhile, current overtime arrangements will be continued in the short term as they are the most efficient use of existing machinery; furthermore, the work force has become accustomed to these arrangements and many employees complain when overtime schedules are low or irregular.

The salaries of the 116 persons classed as staff vary greatly. At A-tex the highest salaries are paid to the four foreign production experts and to the five managers, with a range of US$1000 to $5000 per month. The nine senior staff, who are the department heads, receive as much as Rp1,200,000 per month and the other 98 staff members are paid between Rp200,000 and Rp 800,000 per month. The

explanation given for the relatively high salaries paid to the staff is that there is a lack of reliable people at middle-management level and the factory must pay high salaries to keep these staff members.

The benefits provided for all employees at A-tex include medical benefits and maternity leave as well as bonuses for attendance, years of service and Lebaran; there are no lunch or transport provisions. The medical benefits provided are those of a free consultation and medication from the factory doctor and 50 per cent payment of hospital bills for employees who have worked for three months or more. Maternity leave with pay for three months is given to employees of two years' service or more. Those who have worked more than three months but less than two years understand that they are entitled to maternity leave without pay; when they enter the factory the women are asked to sign a statement which clarifies this point. The traditional Lebaran bonus follows the government recommendation and amounts to a 13th month wage payment.[5]

The management pays a certain amount of attention to the work environment and has recently improved the toilet and prayer room facilities and has built a covered outdoor area where seating is provided for use as a canteen during the lunch break. Four years ago an attempt was made to provide free lunches but this was abandoned due to frequent complaints about the food. The employees rarely bring food from home; most buy snack foods from food sellers at the factory gate. A scheme is now being organised to allow some of the food sellers into the canteen area in return for a fee which will be

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5 At the time of writing the Department of Manpower had just announced that a compulsory government social security insurance scheme (*Jamsostek*), which is an extension of the existing *Astek* scheme, is to be introduced in 1993. The new scheme has four sections: accident insurance, death insurance, age pension and health insurance and covers the immediate family of married workers. All payments are to be contributed by the employer (except for a part of the age pension) on the basis of a percentage of the wages of each employee. Garment industry employers will have to contribute funds equal to 0.24 per cent of each worker's wages for accident insurance, 0.30 per cent for death insurance, 3.7 per cent for age pension (to which employees must add 2 per cent of their wages) and 6 per cent for health insurance (*Pikiran Rakyat*, 5 and 6 April, 1993).

paid into the funds of the factory cooperative. The management's main reasons for this new arrangement are to lower security risks and to reduce the traffic jams on the main road outside the factory's front gate as well as to provide a service for the work force.

A-tex follows a six-day week, with holidays on Sundays and public holidays and a week to ten days of total shut-down each Lebaran. To induce a high attendance after the annual holiday, a special monetary incentive of Rp10,000 is given to employees who return to work on the first day. This system began two years ago and has resulted in a 75 per cent attendance both years, whereas previously only approximately 25 per cent returned on the first day.

### *Turnover*

The management at A-tex regards turnover as well as security and labour relations as problem areas in most respects. It judges the high turnover rate as the major problem of the labour force. A study of figures from May 1992 until May 1993 reveals that at the end of the period 48 per cent of employees had been at A-tex for two years or more while 52 per cent had been there less than two years. Monthly resignations vary greatly and the Personnel staff see in this a recurring pattern. Large numbers leave in the four to five months preceding Lebaran in order that they will be eligible for the Lebaran bonus in their new places of work. Many also move immediately after Lebaran. In 1992 exit rates at A-tex were high in October and November, when the turnover was 10.8 per cent and 11.2 per cent respectively (or total numbers of 151 and 157 leaving the factory), whereas the rate dropped noticeably in December to 1.4 per cent and was 3.1 per cent in January 1993. The total turnover of non-staff employees during the 12-month period prior to March 1993 (*Lebaran*) was 1,156, with some positions being changed repeatedly. Turnover rates are highest in the 20-24 year age group.

The most common reasons given by the employees for leaving their jobs are that they feel weak and need a rest, or that they are needed at home. They never state that they want to try working at another factory, which the management at A-tex maintains is the major reason. There is a great deal of job shifting and many young women workers seem to do this habitually every one or two years or less. Sometimes former employees return to ask for jobs and A-tex accepts them back if they were sufficiently skilled. The management considers the high labour force turnover to be a constant

problem and has been unable to find a solution, concluding that this is a characteristic of the labour force in Indonesia at this period of time and contending that the solution is not simply a matter of increased wages. It is of interest that Deyo, while noting a similar phenomenon among young female workers in Singapore, Hong Kong and Taiwan, suggests that the turnover problem is a result of the characteristics of both the workers and the jobs, because work that 'provides but minimal rewards or advancement opportunities not only attracts short-term workers but also results in low commitment to the firm or job' (Deyo 1989:194). The point being made here is that jobs and workers' attitudes tend to be closely associated with each other.

### *Security and labour relations*

A-tex does not belong to the SPSI; indeed, few garment factories in the Bandung area are members. The reasons advanced for this are that the garment industries are relatively new and that most of the employees are young women who are unfamiliar with union representation. The employees at A-tex have not shown any interest in forming a union branch and the management has not encouraged them to do so, believing that union officials do not offer any real benefits to workers. The company has not had any strikes or strike threats and it seems that its employees find their own solution to any discontent with factory conditions by simply moving to other factories.

A-tex claims to have had few labour disputes. Dismissals sometimes occur, most frequently among the daily workers and the male warehouse employees. Among the warehouse workers, dismissals have been for wrong-doing, usually theft. When an employee is dismissed, the Personnel Department staff interview the person and explain what severence pay will be given. The majority of individuals accept this decision. Occasionally, in instances of dispute, a case has been taken by the employee to the Department of Manpower and a decision has been reached there.[6]

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6 On rare occasions a disgruntled employee or ex-employee has brought a relative or friend from the armed forces or the police, in uniform, in an attempt to force a certain settlement.

A constant security problem is that of petty stealing as it is very easy for women workers to conceal garments or cut pieces of garments and walk out with them. Body searches are conducted at intervals but the management knows that it still loses a great many pieces. A constraining factor in assuring against theft and in improving general discipline at A-tex is that the supervisors are women who have risen up through the ranks and who therefore find it difficult to be strict with workers.

The only employee association in the factory is the cooperative, which is supported by the management. Most of the members are staff but some factory employees have also joined and it is reported to have paid out dividends last year.

## Issues

In answer to accusations that the wage rates offered to garment industry workers are far too low or exploitative, the A-tex management presents a number of counter-arguments. One argument is that the wage rates are not determined by the factory as it follows the regulations fixed by the Indonesian government and the standards set by the foreign buyers who represent world market trends and realities. Cheap labour has been promoted successfully by the Indonesian government as an economic advantage for the country, one that attracts investment and develops exports, although since 1991 there has been less government stress on this 'commodity'.

The management at A-tex also points out that there are now regular yearly wage increases. Table 10.2 shows the increases in minimum wage rates for garment and weaving employment in West Java from 1980 to 1993. It can be seen that until 1988 the garment rate was fixed at the same level as the weaving rate but since then there have been greater increases. The *Perteksi* wage rate for garment workers has doubled in the five-year period from 1988 to 1993. This point is supported by Hill in his statement that 'real earnings appear to be rising over time' in the garment industry (Hill 1992:14).

A-tex management is nevertheless aware of the further argument that the present wages in the garment export industry are still too low to cover subsistence needs. As indicated in Table 10.2, the minimum wage rate has always been below the minimum

physical needs index (KFM).[7] A-tex counters that it is paying many employees above the KFM level already. Even so, the management at A-tex also argues that there are definite limits to basic wage increases. A-tex believes that in relation to the labour market and the wage structure of the whole country, the present rates are a given and insists that it is not logical to adopt a higher wage policy in one field just because the industry produces for export.

**Table 10.2: Minimum Daily Wages for Bandung Garment and Weaving Workers and West Java Minimum Physical Needs Values, 1980-93**

| Year | Garments (Rp) | Weaving (Rp) | KFM* (Rp/day) |
|---|---|---|---|
| 1980 | 675 | 675 | 799 |
| 1982 | 1015 | 1015 | 1118 |
| 1984 | 1185 | 1185 | 1322 |
| 1986 | 1285 | 1285 | 1652 |
| 1988 | 1540.5 | 1498.5 | 2035 |
| 1990 | 1898 | 1796 | 2296 |
| 1992 | 2690 | 2500 | 2758 |
| 1993 | 3100 | 3000 | 3292 |

*Source*: Wage rates from *Perteksi*, Bandung.
KFM from *Jawa Barat Dalam Angka 1991* and *Nilai Rata-Rata dan Indeks Kebutuhan Fisik Minimum 1980-1988 and 1984-1989*, BPS Jakarta.

Note: * KFM = Kebutuhan Fisik Minimum (Minimum Physical Needs) for a single worker in West Java

7 Booth points out that 'the KFM data need to be treated with some caution' as the data are collected by staff of the Department of Manpower who may inflate the figures in order to justify a higher minimum wage" (Booth, 1993:68).

In A-tex's opinion, the current garment industry wages are realistic when viewed in relation to those in agriculture or small industry, which constitute the possible alternative jobs for these low-skilled workers.

In answer to the suggestion that substantial salary increases and improved benefits are a possible solution to the problems of low productivity and the high turnover of labour, A-tex management remains sceptical and contends that even a doubling of wages would not necessarily have the desired results. Here the debate enters uncharted waters, a realm of conjecture and opinion about the attitudes and characteristics of the newly industrialised labour force.

A recurrent theme in discussions with the management at A-tex was the lack of a work ethic among its labour force. The management asserts that many of its employees are unreliable and do not aim at excellence. A-tex criticises common behavioural patterns among employees to follow friends and to take offence very easily, all of which result in frequent job changes.[8] The management at A-tex does not deny that factory work is repetitive and monotonous, but it is not convinced that higher wages would have immediate or significant positive results.

A-tex has also noted criticism about the lack of involvement of the labour force in decision-making. It is unwilling, however, to embark on this course, declaring that it has had little success whenever it has made an effort to explain the reasons for factory procedures and goals. The factory, like many others, has developed a paternalistic mode of operation, a type of management that A-tex feels is understood and accepted by employees.[9]

Far from agreeing that the labour force is exploited in the garment export industry, A-tex's basic attitude towards labour issues is that the garment export business is beneficial because it provides

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8 Deyo also describes how in Hong Kong and Taiwan 'friends seek work and quit together' (Deyo 1989:193).

9 The only occasion when there is active participation of the work force is in the planning of events for the annual Independence Day celebrations conducted by the factory.

much-needed employment in a labour-surplus economy. There is, in fact, a wide gap between the basic attitudes of employers and employees. The company's overall view of its labour force is coloured by its primary concerns, which are mainly pragmatic ones that focus on efficiency and productivity. Since the company's main purpose is to sustain its business, it adopts a detached and businesslike approach to labour, outlaying only what it judges to be necessary or mandatory. The management's focus is directed towards achieving maximum productivity from the work force and towards the success of the business, whereas the focus of the work force is directed towards maximum salaries; workers are not concerned with, or even aware of, the factory as a business. The two groups are operating on entirely different levels.

In conclusion, it can certainly be said that the labour force has gained some limited benefits from the development of the garment export industry. The gain is mainly in the increased availability of badly-needed employment, although the jobs are largely limited to women and are not located in rural areas so the women are being pulled to the urban fringes. Another gain is that those employed develop some skills. On the other hand, the wages are still low and labour appears to be getting only a small slice of the development cake. There is a possibility that, in the longer term, as work force skills develop further and the factories succeed in moving up-market and securing orders for higher-priced garments, the labour cost percentage will be able to improve significantly. There is a trend in this direction now and the SPSI is currently urging the government to legislate that the minimum wage be set at the same level as the KFM.

It is clear from this case study, however, that employers generally will continue to increase wages and improve conditions only in response to government initiatives. It is also clear that while there continues to be a huge demand for jobs from a vast labour supply, the competition for jobs will limit the levels of wage increases and of working benefits.

# 11

# Labour in Mining: The Kaltim Prima Coal Experience*

G.D. Klingner

PT Kaltim Prima Coal is an Indonesian incorporated company jointly owned by BP p.l.c. and CRA Ltd. In 1982, KPC entered into a Coal agreement with the Indonesian State Coal Company PT Tambang Batubara Bukit Asam (PTBA). This Agreement forms the legal framework under which KPC operates and covers exploration, production and marketing of coal from its Agreement Area in East Kalimantan. The project is located on the coast, near the town of Sangatta, 200 km north of Balikpapan.

Construction of the project commenced in January 1989 and was completed on schedule on 1 September 1991 at a total cost of US$550 million. Output exceeded the initial design capacity of 7 million tonnes per annum (mtpa) in 1992, the first full year of production. Production will reach 8.5 mtpa in 1993 and 10 mtpa by 1995. At present all of the coal produced is exported to consumers in The Netherlands, Germany, Spain, Italy, Japan, Hong Kong, Taiwan, Malaysia and the USA. Supply to the domestic coal-fired power industry is planned in the future.

The project is fully integrated and self-supporting. It includes a series of open cut pits, coal preparation facilities, a 13 km overland conveyer to the coast and a marine terminal capable of handling bulk carriers up to 180,000 DWT. The remote location requires supporting infrastructure including a power station, housing, schools, a hospital, water supply and recreation facilities.

KPC's legal status is as a contractor to the State Coal Company, PTBA. All capital assets built or purchased for the project are the

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* The permission of PT Kaltim Prima Coal to publish this paper, and the assistance of the Human Resource Division in its preparation, is gratefully acknowledged.

property of PTBA and PTBA receives a proportion of coal in kind as a royalty (13.5 per cent). This is a similar arrangement to that between Pertamina and the foreign oil companies. KPC also pays corporate tax in accordance with a schedule set out in the Coal Agreement.

## Organisation

KPC employs 2,276 people, of whom 123 are expatriates. Expatriate employee numbers will reduce over time in line with the company's Indonesianisation policy.

KPC has a very flat organisation with only six levels of hierarchy. Within levels there is a further subdivision into grades for the purpose of being able to differentiate jobs on the basis of skills and other specific job requirements, including ability and experience. While an employee at the same level may be designated the leader of a work team, only an employee at the next higher level has the authority to accept the appointment of an employee into a team, initiate removal and to differentially reward. KPC is divided into divisions, each headed up by a general manager, with each division being responsible for a particular aspect of KPC's operation. The organisation details are set out in Table 11.1.

KPC's status as a contractor to PTBA means that its employees are considered as government employees and belong to Korpri, the civil servants' workers organisation, rather than to the SPSI (Serikat Pekerja Seluruh Indonesia), the union for workers in private industry.

## Collective employment agreement

Despite the membership of all employees in Korpri, there is a collective employment agreement which covers all Indonesian employees. This is unusual in that government employees generally do not have a collective agreement. In fact, there is little to distinguish KPC employees from those of any other large private employer apart from the fact that they are members of Korpri and consequently are entitled to wear the Korpri uniform, their elected representatives are invited to attend regional Korpri functions, and an assembly is held before work on the 17th day of each month, attendance at which is entirely voluntary.

Table 11.1: Number of Employees by Level, PT Kaltim Prima Coal , 1993

| | KPC Level | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 6 | | 5 | | 4 | | 3 | | 2 | | 1 | | Total | |
| Department | Exp | Ind | Exp | Ind | Exp | Ind | Exp | Ind | Exp | Ind | Exp | Ind | Exp | Ind |
| Mining Dir | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 1 |
| Mining | 0 | 0 | 1 | 0 | 5 | 1 | 23 | 3 | 23 | 72 | 0 | 1213 | 52 | 1289 |
| Commercial | 0 | 0 | 1 | 0 | 6 | 1 | 9 | 3 | 1 | 22 | 0 | 115 | 17 | 141 |
| Human Res | 0 | 0 | 1 | 0 | 2 | 2 | 7 | 7 | 4 | 70 | 0 | 195 | 14 | 274 |
| Marketing | 0 | 0 | 1 | 0 | 3 | 0 | 2 | 0 | 0 | 5 | 0 | 2 | 6 | 7 |
| Gen Affairs | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 2 | 0 | 6 | 0 | 15 | 0 | 24 |
| Projects | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 8 | 0 | 21 | 2 | 29 |
| Processing | 0 | 0 | 1 | 0 | 3 | 0 | 10 | 2 | 17 | 39 | 0 | 347 | 31 | 388 |
| Total | 1 | 0 | 5 | 1 | 20 | 4 | 52 | 17 | 45 | 223 | 0 | 1908 | 123 | 2153 |

Exp = Expatriate; Ind = Indonesian

Salaries, allowances, leave and other terms and conditions are competitive with other private enterprises with which foreign investors are involved and are far above the minimum levels prescribed by government.

The collective staff agreement covers a two-year period. It is negotiated between two teams of five to six Indonesian employees, one team representing the company and one representing Korpri. The company team is appointed by the senior management and is led by a level-four employee with the remaining members being level-two or three employees drawn from different divisions of the organisation. The Korpri team is elected by the membership and is currently led by a level-three employee with the remaining members being level-one and two employees usually selected so that all divisions of KPC are represented.

The negotiation of the agreement takes place over a period of about a month. The teams meet frequently over this period, members being released from normal duties to enable them to do so. They confer with their principals as new issues arise or as further data or other inputs are required. They may mutually elect to withdraw to a place removed from the site of operations in the final stages to avoid distractions.

During the tenure of the agreement a meeting may be called by either party to confer on some aspect of the agreement which is unclear or which in some other way is not working as intended. In any case the parties meet not less than once every six months specifically to discuss the operation of the agreement.

The agreement covers virtually every aspect of the relationship between the company and the employee. The agreement is subject to approval by the Directorate General for Industrial Relations within the Department of Manpower. After approval the agreement is printed and every employee issued with a copy.

The agreement covers *inter alia* the following: hiring, probation, transfer; training and development; work days and hours; performance appraisal; salary, overtime and allowances and benefits (including medical and hospital benefits); safety; disciplinary measures, grievance and dispute procedures, and termination; employees' cooperative/credit union, and social and cultural relations.

Specific salaries and benefits are only enumerated for level one employees in the base agreement. The details for level two employees and above are contained in a supplementary agreement

issued specifically to them. The rules and regulations contained in the base agreement are of general application to all employees.

## Salaries and allowances

Salaries in Indonesia are low by Australian standards. The lowest paid Indonesian employee of KPC would have a wage approximately one tenth the minimum adult wage in Australia. If comparison is made with the highly unionised Australian coal industry, probably the highest paid industry in Australia, the multiple would increase to thirty or forty times the Indonesian equivalent.

There is also a much wider range of salary levels in Indonesia. The highest paid Indonesian employee of KPC would earn 100 times the salary of the lowest paid, whereas in Australia this multiple would be nearer ten. Thus the salary difference between a top Indonesian manager and an expatriate manager is not huge. The main difference is that, in the case of an expatriate, there are allowances, taxation matters, school fees, annual leave air fares, etc. which add considerably to the cost of employment whereas for an Indonesian manager the company does not incur these expenses.

Allowances are a major component of Indonesian remuneration, particularly at the lower levels where allowances can significantly exceed salary. At KPC, employees are paid a site allowance, a living allowance if not residing in company barracks and a shift allowance if on shiftwork. In addition, the company provides loans for rental and purchase of accommodation, free medical and hospital benefits (with limits), and provides schooling to junior high school at nominal cost.

In summary, the allowances, loans and grants for special occasions such as Independence Day, the expectation of the work force for substantial annual rises and the difficulty in down-sizing a work force, all mean that cheap labour is not a reality. 'Cheap' in comparison to Australia might be a more appropriate description.

## Composition of the work force

Under the terms of the agreement with the government KPC is committed to the progressive Indonesianisation of the work force shown in Table 11.2.

**Table 11.2: Planned and Actual Indonesianisation of the KPC Work force**

| Category | Government Requirement (% Indonesian) | | | KPC Actual |
|---|---|---|---|---|
| | 1994 | 1996 | 1999 | 1992 |
| Unskilled Labour | 100 | 100 | 100 | 100 |
| Skilled Labour | 75 | 75 | 100 | 100 |
| Clerical | 75 | 90 | 100 | 100 |
| Technical & Supervisory | 50 | 75 | 85 | 81 |
| Management, Professional | 50 | 75 | 85 | 22 |

**Table 11.3: Ethnic Origin/Place of Birth of KPC Employees, 1993**

| Ethnic Origin/Place of Birth | Number | Percentage |
|---|---|---|
| Java | 636 | 30 |
| South Sulawesi (Toraja, Makassar, etc.) | 617 | 29 |
| Kutai | 254 | 12 |
| North Sumatra (Batak, Malay, etc.) | 178 | 9 |
| Sunda | 83 | 4 |
| Banjar | 54 | 3 |
| Minang (West Sumatra) | 47 | 2 |
| Betawi | 46 | 2 |
| Flores | 45 | 2 |
| North Sulawesi, (Menado, Sangir, etc.) | 39 | 2 |
| South Sumatra, (Palembang, etc. ) | 29 | 1 |
| Ambon | 20 | 1 |
| Other[a] | 51 | 3 |
| **Total** | **2099** | **100** |

[a] Includes Jambi, Bali, Aceh, Lampung, Irian, Madura, Lombok, West and East Nusa Tenggara, Riau, Bangka, Bengkulu and Kalimantan (Dayak).

In keeping with the wishes of the government, KPC has adopted a policy of recruiting the work force from East Kalimantan as far as possible. As a result, 79 per cent of the employees were employed in this province and all were registered for work with local offices of the Department of Manpower as the regulations require. However, a much smaller proportion were born in the province or can be considered as Kutai people, the dominant ethnic group (*suku)* of coastal East Kalimantan. The ethnic composition of the work force is set out in Table 11.3. (Senior Indonesian employees nonresident at Sangatta are not included). KPC is well ahead of requirements, having met 1994 limits in 1992.

## Training and development

KPC has a comprehensive human resource development program for its employees. Based on the needs of the company, KPC provides or supports the development of employees by way of appropriate training programs, to enable all employees to initially reach a level of skill sufficient to do their job safely. The objective of all training is to carry out the tasks required of a job to a world-class standard. In addition, further development opportunities are given to provide employees with the skill to participate in the company's program of business improvement. This program requires and encourages employees to provide input to the consideration of ways in which both individuals and KPC can improve their work, and has a considerable focus on communication and openness, particularly with respect to business affairs. Opportunities are also provided, based on company needs, to develop employees for future jobs within the company.

All permanent KPC jobs have basic skill requirements that demand further training. A prerequisite for a position with the company therefore requires that the candidate is basically literate and numerate. Most KPC employees have completed junior high school. A knowledge of English is not a requirement.

Training is carried out both on and off the job and is conducted in distinct modules. This allows employees to develop progressively in the organisation while carrying out worthwhile tasks. It also avoids reteaching skills that new employees have already acquired. Outside Department of Manpower courses, there is virtually no trade training in Indonesia. Skills previously acquired by employees have nearly always been obtained on the job and may

be recognised by KPC after testing. No assumptions are made about employee skill levels based on prior experience or previous training.

In addition to the training of operators and supervisors, there are programs that provide vocational development.

The graduate development program is designed to equip new graduates with a comprehensive range of practical work skills that are not normally acquired in degree studies. The ultimate aim is to train and develop graduates so that they may occupy the many professional and supervisory roles currently occupied by expatriates. Graduates are recruited to the program from all over Indonesia. However, those occupations non-specific to mining or engineering, for example. accounting, computing and law, mainly tend to attract graduates from non Java based institutions.

Secondly, the company has a secretarial training program. Good secretarial and word processing skills in English are critical to a business competing internationally. Polytechnic graduates are recruited to this program. English skills are a prime requirement. Strong preference is given to graduates from East Kalimantan institutions. After a six-week program of classroom instruction, trainees are placed throughout the company for work experience. As positions become available, trainees may apply for permanent employment.

Finally, the mine maintenance accreditation program program based on an accredited Australian TAFE curriculum and has been specifically adapted to suit the KPC and Indonesian environment. All maintenance employees undergo this training. The three year program consists of a first year common core syllabus with specialisation in later years. Locally recruited employees generally come straight from junior or senior high school and do the entire program. However, older age recruits with existing skills complete only selected modules.

In addition to training to meet its own requirements, KPC conducts a number of liaison and assistance programs for the community, government departments and educational institutions. For example there are work experience programs to provide university students with research or work opportunities to enable them to meet degree requirements; there is an industrial orientation program intended to provide junior university/polytechnic teachers and lecturers with practical experience in the industrial workplace; and there is an on-the-job training program for school leavers in the local community.

## Recruitment, turnover and absenteeism

Recruiting of skilled people, especially during the rapid build-up to production proved very difficult for KPC. For this reason the company decided to concentrate on young people who had sufficient basic education to be trainable, and to put in place the major training program previously described. The result is that the average age of KPC employees is between 25 and 30. This young, keen, energetic and ambitious work force has aspirations which prove a challenge to meet. Skills are more highly valued by them than experience, and there is pressure to acquire more skills and to advance in the company. Educating employees to understand that some aspects of a job can only be learnt through experience and recognition of their present role and its contribution to the company's progress, are ongoing tasks for line management.

University graduates are particularly keen to get on. They see themselves and are seen by the company as the future managers. Bringing them to understand the depth of knowledge required to be a manager and the time taken to acquire it requires special attention. Whenever possible, graduates are rotated through different roles both within and between divisions. The company also endeavours to ensure a reasonable distribution of ethnic groups (*suku*). There is some tendency for certain *suku* to predominate in certain areas. For example, there is a tendency for a disproportionate number of Batak to seek employment as commercial graduates and managers. This is because of the reluctance of persons from Java to seek employment in Kalimantan in these fields, largely due to the huge demand for them in Jakarta. While a completely even distribution of *suku* in all areas is not necessary, to promote harmony management attempts to ensure that there is no dominance of any *suku* in any one area.

The work force is predominantly male; only six per cent are female. While the company is an equal opportunity employer, the work is dominated by the operation of heavy equipment, an occupation not conducive to the employment of women, particularly in Indonesian society. Nevertheless, KPC has specifically provided opportunities for women to work, with encouraging results to date.

Turnover in the work force is presently running at approximately ten per cent per annum. However, KPC's operating history is short and while it is expected that turnover in level one jobs is likely to prove low, turnover in highly skilled trade jobs and in positions requiring professional staff may be higher because of the demand for

experienced employees with these skills in Indonesia. In anticipation of this and recognising that some turnover in staff is healthy in an organisation, KPC has a policy of employing new trades and graduate trainees in excess of the company's present requirements. Turnover details for the first half of 1993 are set out in Table 11.4.

**Table 11.4: Turnover of Indonesian Employees in KPC from 1 January 1993 to 30 June 1993**

| Reason for Leaving | Number | Percentage |
|---|---|---|
| On own request | 46 | 44 |
| Completion of assignment/contract | 29 | 28 |
| Very serious transgression | 10 | 10 |
| Unauthorised absence | 9 | 9 |
| Excessive manpower/reorganisation | 4 | 4 |
| Other | 5 | 5 |
| **Total** | **103** | **100** |

Absenteeism is rare. Employees miss work mostly because of genuine illness or family problems. Because of the importance of the extended family in Indonesia however, there are more requests to attend weddings, and funerals of relatives than would be the case by Australian standards. Because of the relative remoteness of the site and the clear definition of what is and is not allowed in the staff employment agreement, these requests can be sensibly handled and do not present a significant problem.

## Further work opportunities

In addition to the 2,276 people directly employed, the project has led to the employment of a further 2,397 people by companies carrying out ongoing construction for KPC or providing services to KPC's operations. These services encompass contract mining, mining services, plant maintenance, catering, medical services, education, town services, revegetation, town beautification and general labouring, amongst others. The very basic nature of some of these

services provides work opportunities for the people in adjacent community of Sangatta, many of whom have little education and few skills. This community has grown rapidly since the project started in 1989 and now totals 22,000 people from the original 11,000. The ethnic diversity has increased from the originally mainly Kutai and Banjar mix to peoples from all parts of Indonesia.

This influx of people is in addition to people who have been brought to the area by the company and its contractors and who have been settled in the company-built satellite town of Sangatta Baru. It is estimated that this satellite town will eventually host a population of 10,000. In addition to providing all of the infrastructure for Sangatta Baru (including roads, water, civic centre, schools, hospital and recreation facilities), KPC has worked with the regional government in assisting to provide basic planning for the development of the informal community. It has also contributed to the provision of basic services such as roads, drainage, potable water, medical clinic and schooling. A whole service and retail industry has arisen catering to the needs of the local population. The government, recognising the development of a new industrial and population centre, has elevated Sangatta to a *Kecamatan* (sub--district status).

## Interface with the local community

The potential for social friction between the relatively affluent company community and the local population was recognised by management during project planning and early implementation. The provision of basic services to the local community referred to above was undertaken to assist in reducing social jealousy. At least as important as providing the basic facilities was development of ways of running them which involved the local community, and avoided the company becoming the *de facto* local government (or *ayah angkat*). This was largely accomplished by setting up local community cooperatives to run the school, distribute water, regulate the local market and so on. The company also supplies medicines to the clinic and helps train paramedics to assist the government-supplied doctor. The company's own medical facilities are reserved for employees and their immediate families. However, gravely ill people, especially children, mothers with birth complications and trauma victims have access to company facilities, either by referral by the government doctor or directly in an emergency.

The company community has also supplied specific assistance to the local community through various fund-raising activities. This assistance has ranged from infant immunisation campaigns and supply of books and classroom material for the school to the collection of used clothing and other goods in excess of company community needs for distribution to the local people. This people-to-people assistance has gone a long way to promote goodwill.

A sociological study of the impact of KPC on the local community is in progress by researchers from Monash University. This study, carried out with the assistance of KPC but independent of company influence, is aimed at providing data on the local community which the company can use to manage its relationship.

## Conclusion

The whole approach of KPC to the organisation of its work force has been that there should be no 'Indonesian Factor' that would ultimately make the operation less efficient, than any equivalent operation elsewhere in the world. Of course the remoteness of the site has necessitated the provision of social infrastructure that may not have been necessary elsewhere. Similarly, the lack of large-scale mining in Indonesia and the scarcity of trades and management skills has led to a greater training effort than may have been necessary elsewhere and the need for an expatriate component in the work force for some years. However, once these special factors are put aside (training is proceeding at a vigorous pace and is expected to meet present and future needs) KPC is one of the most efficient and lowest-cost export steam coal producers in the world. While the quality of the coal and the location of the project close to the coast and in the rapidly growing Asian market region are important factors, the efficiency of the work force has made an important contribution. The work practices at KPC are amongst the best in the world and are far more advanced than equivalent practices in Australia, for example. This is no more clearly demonstrated than in safety, where lost time due to injury is

approximately four shifts lost per million man hours worked[1] which is less than one tenth the equivalent rate in Australia.

1 Calculation based on the lost time/injury Frequency Rate.

# 12

# Workers and Working Class Politics in the 1990s

**Vedi R. Hadiz**

> Rather than being motivated by a vision of a radically new social order, the ordinary worker has generally been motivated by the wish to obtain things which in principle — though often not in practice — can reasonably be accomodated within the existing social system. Thus, revolutionary situations partly occur when these simple demands are thwarted (Scott 1985: 341).

For the last three years manufacturing centres in many parts of Indonesia have been shaken by a sustained wave of industrial action on an unprecedented scale. Though a very large proportion of these actions has taken place in the so-called Jabotabek (Jakarta-Bogor-Tangerang-Bekasi) area, which is the most important manufacturing centre in the country, the wave of industrial unrest has spread to other regions in Java and beyond. This rise of tension on the labour front contrasts sharply with the relative calm — aside from periodic outbreaks of industrial action in the late 1970s and early 1980s — that has been maintained within the framework of existing state-capital-labour relations. Thus, while most of the industrial action continues to occur in the central Jabotabek area, factories in regions as geographically diverse as the outskirts of Surabaya at the eastern end of Java and around Medan near the northernmost end of Sumatra have experienced the effects of this rise of working class action.

What follows is an analysis of the contemporary labour situation in Indonesia. It focuses on the political ramifications of the emergence of a new industrial working class. The discussion will deal with the emergence of new forms of expression of working class politics and the role of new kinds of working-class based organisations, as well as some state responses to the challenge posed

by these developments. What is being suggested here is that the rise of industrial action in Indonesia, together with the proliferation of alternative, independent, working-class based organisations, is posing an increasingly serious challenge to the forms of labour control exercised by the state for over twenty years.

**Table 12.1: Industrial Action in Indonesia, 1988-1992**

| Year | Strikes[a] | % of strikes in manufacturing |
|---|---|---|
| 1988 | 39 | 82 |
| 1989 | 19 | 68 |
| 1990 | 61 | 89 |
| 1991 | 114 | 96 |
| 1992 | 177[b] | n.a. |

Source: Manning (1992) Table 4

Note: [a] It is safe to say that these figures represent a conservative estimate as many strikes go unreported. For example, Harry Wibowo (1992) cites 195 strike cases for West Java alone in 1991, on the basis of figures presented by the West Java branch of the SPSI, far exceeding the 114 cases cited for that year in this table.

[b] *Kompas*, 18 November 1992, quoting Minister for Manpower Cosmas Batubara. The Asian-American Free Labour Institute (AAFLI) is reported to have estimated the involvement of over 142,000 workers in strikes during January-November 1992 (LBH 1992). If the strikes occurring in December that year are taken into account, the total number of strikes for 1992 would have easily reached 200.

## New tensions on the labour front

The rise of industrial action in the last three years in Indonesia has been particularly significant, given Indonesia's push to develop a more export-oriented economy since the mid 1980s. In large part this push been based on light manufacturing industries benefiting from a labour force that is abundant, cheap and politically docile. Indeed,

these are the industries which are considered among the most important in maintaining Indonesia's level of economic growth during this post-oil boom period. According to the World Bank, the share of such manufactures in Indonesia's total exports is expected to rise to 65 per cent by the year 2000 compared to the current 45 per cent. Moreover, the non-oil manufacturing sector has also raised its share of the Gross Domestic Product. It is expected to account for 23 per cent of GDP in 2000 and up to 33 per cent in 2010, compared to the current 16 per cent (World Bank 1993). Thus, these labour-intensive industries will quite clearly remain Indonesia's main area of comparative advantage in the foreseeable future, despite the current heated discussion in Indonesia over the future direction of economic and industrial policy.[1]

Unfortunately for state planners, industrial action has been heavily concentrated in precisely the industries which are seen to have been crucial to the growth of Indonesia's manufacturing sector, such as textiles, garments and footwear. According to one labour affairs observer, 74 per cent of strikes in West Java in 1991 took place in textile and garment factories, while another 12 per cent took place in leather and footwear factories. Interestingly, about 90 per cent of such cases reportedly involved worker demands for employer compliance with the officially stipulated minimum wage (Wibowo 1992).

Pressures for reform in the area of industrial relations have also emanated from abroad, including from such international organisations as the ICFTU (International Confederation of Free Trade Unions), which have criticised Indonesia's non-compliance with international labour standards and practices. It is also noteworthy that the SPSI (All-Indonesia Workers Union) has failed to gain international recognition as a legitimate trade union, in spite of continuing efforts by state officials to campaign on its behalf, particularly during Cosmas Batubara's tenure as Minister for Manpower between 1988 and 1993.

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1 It is far from certain that the push for a more high-technology based industrialisation policy, led by State Minister for Research and Technology Habibie, will result in much change to the general, overall strategy of integrating Indonesia's economy into the world economy on the basis of the country's comparative advantage in such sectors as light manufacturing..

Such pressure may have important consequences for the success of Indonesia's export drive, which could be seriously jeopardised by the country's elimination from the United States' GSP (General System of Preferences) list, as has been threatened many times in recent years. That this may yet take place was indicated in 1993 when Indonesia's labour policies received a sharp rebuke as the US Trade Representative ordered that Indonesia's status be reviewed for non-compliance with international labour standards (*FEER* 13 May 1993). A final decision on Indonesia's status will be made in February 1994.

In a recent paper I pointed out that the major elements of the framework of labour control in the New Order may be traced to the political requirements and circumstances of the late 1960s and early 1970s and to a large extent to the political struggles between the army and the Left in the late 1950s and early 1960s (Hadiz forthcoming). As Hawkins noted three decades ago, Army involvement in labour affairs increased significantly after members of the Armed Forces assumed management positions in state firms, often directly pitted against an increasingly belligerent union movement led by the communist SOBSI (Hawkins 1963a and1963b). Partly because of the legacy of those times, state labour policy in the early years of the New Order was geared towards establishing the kind of political stability which in large part was seen as dependent on the degree to which Left-wing influences could be curtailed. As this objective was to be partly achieved by redeveloping the idea, first hatched in the early 1960s, of forming a single, state-sanctioned, corporatist organisation to oversee labour organising, the effect was to render illegitimate any kind of independent worker organisation operating outside the state-imposed framework.

The continuing relevance of this framework, however, has had to be increasingly questioned in the face of the growing tensions on the labour front, which, at this stage, appear quite difficult to resolve. These tensions in turn have arisen in relation to the gradual emergence of a new industrial working class, itself the product of over two decades of gradual but sustained industrialisation in Indonesia. Thus, what is at stake here is the viability of the existing framework of state-capital-labour relations in the face of changes in Indonesian society which have been ushered in by the very process of development itself.

Within this state-imposed framework, the FBSI (All-Indonesia Workers Federation), created with the cooperation of anti-communist labour groups in the early 1970s, became the sole, state-sanctioned workers organisation. For twenty years this organisation, which was transformed in 1985 into the more centralised and hierarchical SPSI, has been an essential component of the strategy of labour control exercised under the New Order, as its very existence has precluded the possibility of any kind of alternative, independent union. However, as this corporatist strategy of labour control faces increasing challenges, represented by the establishment of an amalgam of labour-oriented organisations in recent years, it is the legitimacy of the SPSI as a vehicle of workers' representation that is perhaps most immediately under threat. Unable to present itself as an effective protector of workers' rights and long perceived by workers themselves as being no more than a tool of state control, the SPSI has had to try to contain the influence of new, albeit 'illegitimate', competitors in the area of labour organising in recent years.

These competitors range from the SBM Setiakawan (the Solidarity Independent Workers Union) formed in 1990[2] and the SBSI (the Indonesian Prosperous Workers Union) formed in 1992, which are fledgling independent trade unions, to a wider array of small, grassroots organisations which ostensibly carry out activities as diverse as promoting workers' education, cooperatives, the organisation of training programs and discussion groups. These are the organisations that have played a substantial part in recent labour organising. So far, their influence has not been successfully contained and they continue to play a significant role in shaping current workers' struggles. An uneasy relationship exists between them and the official state institutions as they clearly do not have a 'legitimate' role to play within the existing framework of state-capital-labour relations. Some state officials have even accused them of being instigators of worker unrest and disruptors of the harmony cherished in the concept of Pancasila Industrial Relations (*Jakarta Post* 22 August 1991). Though a concerted clamp-down has not taken place in response to the rise of working class action, there have been widespread instances of harassment, often

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2 A useful account of the establishment of Setiakawan is provided by David Bourchier (forthcoming).

involving high levels of violence, towards workers as well as labour organisers (*Asiawatch* 23 January 1993).

## Workers, industrialisation and social change

Sustained capitalist development over almost three decades has gradually brought into existence an industrial working class concentrated in Indonesia's rapidly growing industrial centres, mostly in Java but increasingly in some of the other islands also. The development of this working class can be clearly observed. In 1971 the number of workers employed in the manufacturing sector was 2.7 million, comprising 6.5 per cent of the total work force; in 1980 the number of such workers was 4.4 million, representing 8.5 per cent of the total work force; by 1990, there were 8.2 million workers employed in the manufacturing sector, representing 11.6 per cent of the total work force (World Bank 1993). Similar to the earlier experience of the East Asian NICs, this industrial working class has developed in the low-wage, labour-intensive industries which characteristically employ large numbers of young female workers. The numbers of women and men in manufacturing — 3.6 million and 4.6 million respectively — are not as unbalanced as they are in the total Indonesian work force (Hull forthcoming).[3]

A more strictly labour-market based analysis of labour affairs in Indonesia might conclude that the condition of excess labor supply would preclude the development of any working-class movement (Manning 1993) and that the recent rise of working-class action is a fleeting phenomenon. The protracted nature and growing seriousness of the recent wave of labour unrest, however, suggest otherwise. Of primary importance are the vast social and economic changes, ushered in by almost three decades of sustained industrialisation,

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3 In his work on labour subordination in the East Asian NICs, Deyo (1989:8;168-195) observes that the development of working-class movements was hampered by the fact that these industries attract young, low-skilled, and often female workers to employment characterised by low pay and lack of job security which encourages a high turnover and a low degree of attachment to work groups or firms. This, he says, constrained the development of working-class solidarity and independent organisational efforts. In Indonesia, however, female workers employed in precisely these industries have been in the forefront of worker action.

which have altered forever the landscape of many portions of Indonesia and the lives of those who are affected by them. The changes brought about by the industrialisation process, it is argued here, have facilitated the gradual process of class formation and the development of a greater degree of class identity. Thus, rather than being a mere fleeting phenomenon or a freak product of chance, the rise of working-class action in Indonesia may reflect more fundamental changes in the class structure of Indonesian society as industrialisation proceeds.

Speaking of the working classes in England in the late 18th and early 19th centuries, E.P. Thompson once observed how class consciousness developed out of the body of fragmented worker thoughts, feelings, shared knowledge, experiences, values, and suffering, rooted in a network of worker organisations and institutions.[4] This consciousness enabled workers to 'form a picture of the organisation of society, out of their own experience and with the help of their hard-won and erratic education, which was above all a political picture' (Thompson 1966:710). In Thompson's account this class consciousness emerged as 'the objective social structures' conjured up by the industrialisation process. 'Working class neighbourhoods with their myriad of institution, along with factories and their vast numbers of embedded social relationships, became infused with highly charged debates concerning the nature of worker exploitation, worker rights, and the place of workers in the overall social order' (Morris 1993:353). At the same time, 'workers were engaged in numerous confrontations with the capitalist class and the state', confrontations which were 'characterised by limited goals and initiated by segments of workers and not guided by a coherent social and political vision'. Thus, it may be said that 'working class consciousness emerged slowly through a process of concrete social and political struggle, information sharing and organisation building' (*ibid.*).

In the case of contemporary Indonesia some of the conditions for the development of a greater level of working-class identity and consciousness are also increasingly present as the process of industrialisation continues. Among the structures erected by this

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4 I am borrowing heavily from Aldon Morris' (1992) very neat summary and discussion of Thompson's great work *The Making of the English Working Class*.

process are the industrial estates, which have been growing in number, particularly since the mid 1980s when economic policy was redirected towards a more export-oriented industrialisation strategy. It is mainly within the factories hosted by these industrial estates that workers are experiencing the process of industrialisation and, through participation in the social relations embedded in these factories, are developing an understanding of what it means to take part in modernising, industrialising Indonesia. In addition, the growth of vast, more distinctly working-class communities around these sprawling industrial centres undoubtedly also provides a milieu for the development of a greater level of class identity and awareness among Indonesian workers.

Thus, workers now find themselves in a social environment which is qualitatively different from that of their predecessors. For these workers, most of whom are too young to know an Indonesia outside the one that has been created by industrialisation during the New Order, there is little possibility of opting out of the hardships of city life in favour of some kind of safe, undisturbed village environment (Hadiz forthcoming). The present generation of Indonesian industrial workers has become much more urbanised in their material as well as their cultural existence.

Such a development is supported by what Young calls the 'urbanisation of the rural' (Young forthcoming), a process by which areas usually regarded as rural gradually take on many of the characteristics of urban areas. This is especially true for Java, but also applies to certain regions in other islands, where many rural areas now have population densities and access to facilities such as education, transport and communications that would be regarded as 'urban' under current definitions. Thus the lifestyle and outlook of much of the population classified as rural are in many ways qualitatively similar to those of urban dwellers, and the distinction between rural and urban is not as clear cut as is suggested in contemporary census results (a point that is raised in Hull forthcoming). In this sense it may be said that the changing outlook of contemporary factory workers has also been the result of the great changes that are reshaping the landscape of much of what is regarded as 'rural'.

This observation is relevant to an understanding of the gradual development of a more distinctly working-class consciousness and identity among contemporary Indonesian workers. For many workers the transition from a 'rural' lifestyle and outlook to one that is more

clearly associated with an urban existence no longer involves a great cultural, or for that matter physical, leap.

The implication is that workers have more naturally come to feel that they have a more permanent stake in struggles to improve their work and living conditions in factories and cities. It is not difficult to imagine how a growing sense may develop among workers of how the quality of their lives in factory and city is in large part dependent on their ability to secure their rights against infringement by others. As a consequence, and despite the presence of stringent controls, labour organising clearly has greater potential for success in the 1990s than it had fifteen or twenty years ago. The higher level of education that the Indonesian labour force now possesses is also a factor that has helped in developing a more critical awareness among workers of the situation in which they find themselves (Jones 1989). This in turn has contributed to the recent progress in labour organising.

This potential for greater levels of organising is beginning to be realised through the work of a number of small, independent labour organisations that have been able to carve out a space for themselves in labour affairs largely outside the official state system. Through such groups workers engage in discussions, debates and other activities (Cahyono 1992) which help develop a 'big picture' of their society and the place of workers in it.[5] There are, however, clear differences among these groups in terms of social vision and strategy as well as organisational characteristics, some of which will be discussed in the following section.

## The alternative organisations

The most celebrated of the new crop of alternative workers' organisations has clearly been the SBM Setiakawan, the first organisation to challenge directly the SPSI's monopoly as a trade union. While Setiakawan and the more recent SBSI have opted for the trade union path, other organisations have assumed a lower profile, but have arguably been no less effective, by adopting roles

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5 Much useful work has been done by NGOs on this subject. An interesting and more detailed work is a preliminary study by M. Arief Rusli, *Buruh dan Kesadaran Kelas*'(LINK-YMB 1992).

as educational groups, self-help associations or cooperatives. By taking the NGO path — a description used here for lack of a better one — they are able partly to by-pass constraints imposed on formal organising at the factory level precisely because they are not formally involved in labour organising.[6]

Compared to that of labour organisers of a decade ago, a more militant outlook can be discerned among some of the new groups engaged in current labour organising. While the adoption of such an outlook by groups that are barely accommodated within the official state-dominated system is not surprising, their militancy can be partly attributed to interaction between some of these groups and a small but apparently growing radical undercurrent in Indonesian politics, best represented by the new student movement of the late 1980s and early 1990s.[7] More peripheralised from the formal political process than students of the 1960 and 1970s, they have been forced to seek out allies among workers and in some cases the peasantry, to adopt a more radical political stance, and generally to eschew cooperation with elite-level political actors. Significantly, some of the new labour organisations have partly served as the focus of interaction between radical students and experienced labour organisers. Given the experience of countries such as South Korea (AMRC 1987), in which radical students played an important role in the resurgence of the labour movement in the 1980s, their influence on working-class politics in Indonesia in the 1990s needs to be explored in further research.

Of these two paths — the 'trade unionist' and the more informal 'NGO' one — the latter may better fulfill the needs of workers at the present time in view of the heavily regulated nature of formal

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6 In addition, it is worth mentioning that the Indonesian Legal Aid Institute, one of the more established of Indonesian NGOs, has also had an important role in promoting the cause of workers in recent years.

7 Such a radical stream has developed because of the increasing exclusion of students from mainstream political life since the late 1970s. Emerging as the result of efforts to resurrect the student movement under the more constraining circumstances of the 1980s, when virtually all the formal institutions of civil society had successfully been subordinated to the state, the experience that has shaped the political outlook of this generation of student activists is substantially different from that of their predecessors.

trade union activity. Though the strategy of delegitimising the SPSI's monopolistic hold over workers' representation has been very important in attracting international attention to the causes of labour unrest, Setiakawan and SBSI activities will continue to be severely hindered by the state's intransigence concerning the right to organise. This can be seen in the regulations that continue to govern the establishment of trade unions in Indonesia, making the successful formation of legitimate, fully functioning alternative unions a rather tall order.

Though the regulations regarding the establishment of trade unions continue to be tough, it is important to note that they have, in fact, been quite significantly 'softened' recently, no doubt in response to domestic and international pressure. A 1987 regulation governing the establishment of trade unions required that a trade union have representation in 20 of 27 of Indonesia's provinces, 100 districts and at least 1000 workplaces. In a new Minister for Manpower regulation (Per 03/Men/1993), these requirements were reduced to just five provinces, 25 district-level branches, 100 workplace unions and 10,000 members. Indeed, the SBSI, whose prominence as an alternative trade union has recently surpassed that of the internally crippled Setiakawan,[8] now claims that it is able to fulfill these requirements.[9] However, there is a 'Catch-22' in the further requirement that newly established unions obtain a recommendation from the existing federation of worker unions (meaning the SPSI). In addition, as *Asiawatch* has observed, the formation of an alternative union federation would be hampered by still a further requirement: that it must have at least ten registered

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8 It is widely known that the SBSI was formed by individuals who were dissatisfied with Setiakawan, including some of the latter's own founding members. In a journal produced by an NGO that played an important role in the creation of the SBSI, there are several references to the 'lack of genuineness' and other failings of Setiakawan as a workers' organisation (*Suara Pinggiran*, 9 April-June 1992).

9 In an interview for a forthcoming edition of the journal *Prisma*, SBSI officials claim a membership of 26,100 members, spread throughout Indonesia. Although this is probably an exaggeration, it is an indication of the recent progress this organisation has made since its establishment. I am indebted to the editors of *Prisma* for making the transcript of the interview available to me.

unions as members, all of which must meet the individual membership requirements and each of which would need SPSI approval to register (*Asiawatch* 23 January 1993). It is highly unlikely that either Setiakawan or the SBSI will be able to meet such stringent conditions in the foreseeable future, which means that the government can continue legalistically to dismiss their challenge to SPSI monopoly.

Thus, in spite of their trade union aspirations, both Setiakawan and SBSI will have to settle for the kind of activities that are also being undertaken by smaller, less celebrated NGOs, at least for the moment. While the activities they engage in — training, education, promotion of self-help associations, etc. — appear to be rather modest, they have so far been an effective means of enhancing the organisational capacities of workers. Undoubtedly this strategy has its limitations, especially given the desire among labour activists to establish full-fledged, functioning, independent unions and union federations eventually. These limitations, however, are compensated for by some of the obvious advantages. As mentioned earlier, it is less easy to monitor and regulate the educational and welfare activities that NGOs carry out, thus making it more possible for them to develop creative ways of by-passing the restrictions on labour organising that aspiring trade unions would have to grapple with directly. For those who harboured hopes that the attitude of the state towards alternative unions was about to change, the recent forced break-up by military and police personnel of the the first SBSI Congress (Reuters 29 July 1993) should serve as a strong reminder of the difficulties with which aspiring trade unions still have to contend.

## State responses

In response to domestic as well as external pressure, the Indonesian government has taken some steps towards reform on the labour front, although a more fundamental review of the existing framework of state-capital-labour relations has not yet taken place. Besides the 'softening' of regulations regarding the establishment of trade unions, other notable though partial reforms have been initiated recently. Chief among these were increases in the minimum wage across a broad range of industries and areas. For example, in Jakarta, the average minimum wage was raised in September 1992 from Rp2500 to Rp3000 a day, while in West Java it was raised to Rp2600

from Rp2100 (LBH 1992). Particular attention has been given to the issue of the minimum wage because, as stated earlier, it has sparked off most of the cases of industrial unrest due to employer refusal to comply with the stipulations. One labour observer notes how the minimum wage has been increased in Jakarta, West Java and East Java, the site of most of the labour unrest, while it has remained unchanged in Central Java, where things have been relatively quiet — demonstrating the kind of reform that has been successfully elicited by recent working-class action (Katjasungkana 1993). Further efforts to improve worker welfare have been promised repeatedly as state officials talk of raising the minimum wage to a level which is more adequate to meet the real needs of workers (*Kompas* 15 June 1992) and of taking measures to ensure employer compliance with minimum wage stipulations (*Jakarta Post* 7 May 1992).

It is also noteworthy that in recent years a more accommodating tone has been adopted to workers' demands by a range of state officials, while businessmen, in contrast, have received some harsh words, both for their non-compliance with minimum wage regulations and for their reluctance to allow the establishment of factory-level SPSI units.[10] Thus, rather than blame being placed completely on workers, problems in the smooth practice of the non-confrontation ideas prescribed under Pancasila Industrial Relations (HIP) have more recently been attributed to non-cooperation on the part of businesses. Certain state and SPSI officials have even taken to describing the escalation of working-class action as reflective of the workers' growing maturity and of their growing awareness of their rights (*Kompas* 18 November 1992).

The limited reforms initiated so far and the change in official rhetoric, however, have not had the desired effect of alleviating industrial strife. Nevertheless, if sustained economic growth continues to depend on the success of an export-led development strategy, there is a greater likelihood of further reforms in order to contain the spread of industrial unrest. As the then Minister for

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10 The President himself has criticised employers for hindering the establishment of SPSI units (*Jakarta Post* 28 April 1992). Criticism of employers has also been expressed by senior Department of Manpower and SPSI officials (*Jakarta Post* 28 and 29 December 1992).

Manpower Cosmas Batubara stated to businessmen last year, attempts to hold down wages will cause instability, disrupt the economy and make Indonesia unattractive to foreign investors (*Kompas* 17 December 1992). Foreseeing greater challenges on the labour front, he identified such 'volatile issues' as wages, working regulations, and workers' ability to establish SPSI units at the factory level, and stressed that the government should not 'underestimate the situation' (*Jakarta Post* 29 December 1992). Clearly though, efforts to persuade business that certain concessions to workers are in their longer-term interests are complicated by the fear of competition from countries like China and Vietnam, the new providers of low-wage production sites in the global economy.

While improvement in workers' welfare has been promoted to placate workers, the issue of allowing greater room for independent worker organisations has been largely dismissed as irrelevant. Thus, few state officials, while critical of the SPSI's ineffectiveness, have gone so far as to suggest the desirability of alternative organisations. Allowing such organisations would involve a more fundamental redirection of state policy towards labour.

Although the main purpose has been to deflect international criticism, there have been concerted efforts to improve the image of the SPSI. For example, in response to the charge that the SPSI is a stifling, monolithic structure, much emphasis has been placed in recent official rhetoric on the revitalisation in 1990 of some of the sector-based industrial unions which comprise the SPSI (see LBH,1992; Batubara 1992). Earlier, the change from the federation-style FBSI to the unitary SPSI had involved the virtual elimination of the role of sector-based unions. However, there is much ground still to be covered in doing away with the image of the SPSI as a military-dominated instrument for the control of labour, dependent on the state, not workers, for purpose and direction. Thus, besides strike action for better wages and work conditions, another persistent worker demand continues to be the dismantling of existing factory-level SPSI units, regarded as being either powerless or working against the interests of employees (see LBH 1992). As was summed up by labour activists recently, '... intervention from the government, employers and even the security apparatus in the management and election of SPSI coordinators has reduced the ability of that organisation to channel worker aspirations' (*Kompas* 20 February 1993).

## Conclusion

The rise of working-class action, supported by the increasing international attention accorded to labour affairs in Indonesia in the last few years, has so far succeeded in eliciting limited reforms from the state. The rise in minimum wage levels and a noticeable softening of attitude towards worker demands indicate that the rise of working-class action has been regarded as a serious enough danger to the pursuit of Indonesia's current economic objectives to warrant conciliatory gestures from the state. Notwithstanding the recent softening of regulations regarding the establishment of trade unions, however, there has not been much change in the basic state policy of defending the corporatist framework by maintaining the SPSI as the sole, state-sanctioned workers' organisation in Indonesia. Thus, calls for a loosening of the authoritarian reins on the labour front and for a greater degree of pluralism in labour organisation have not received much positive response.

Nevertheless, the presence and activities of the new worker organisations, which have proliferated in recent years and which have had an important role in recent labour organising, will continue to pose a challenge to this corporatist framework. Moreover, as reforms have been partial and slow, labour unrest is likely to continue, perhaps with greater intensity and wider geographical spread. Greater international attention to the plight of Indonesian factory workers will also add to domestic pressure for more substantive reform on the labour front. Hopes for such reforms, however, must be tempered by some recent events: the banning of the SBSI Congress in July 1993 and such blatantly violent acts as the murder of a protesting female worker during a recent strike in East Java (*Surabaya Post* 8 June 1993), both of which may yet signal the re-adoption of a tougher attitude by the state towards labour unrest.[11]

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11 By the end of 1992, the then Minister for Manpower Batubara had begun to threaten 'illegal strikers' with harsh punishment (*Jakarta Post* 31 December 1992).

# III. *Women and Child Workers, and the Informal Sector*

# 13

# A Gender Perspective in Indonesia's Labour Market Transformation*

Mayling Oey-Gardiner

## The national scene

While there is an abundance of macro data available on the labour force, the role of women in work force growth and structural transformation can be best understood from an analysis of the last three population censuses. As these data sources too suffer from under-reporting of agricultural workers in particular, adjustments have been applied to the published data.[1] The findings suggest that a number of patterns of change or transformation are symptomatic of future patterns of growth and change.

Even though fertility has declined substantially over the past two decades, as witnessed by a slow-down in the overall population growth rate from 2.4 per cent during the 1970s to 2.0 per cent during the 1980s, the labour force and work force grew faster and at an accelerated rate; the respective average annual growth rates for the last two intercensal periods were 2.9 and 3.4 per cent for the labour force and 3.0 and 3.3 per cent for the work force.

The differential growth rates between the population and the labour force are a result of two forces operating simultaneously. First, as fertility declined the working-age population grew faster than the total population, at 2.9 and 2.6 per cent during each of the last two intercensal periods. Secondly, and more important, labour

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* This paper constitutes a summary of *A Study of Women's Issues in Agricultural Transformation* (1992), a report prepared by Insan Harapan Sejahtera for the World Bank.

1 Details of the adjustment procedures can be found in Chapter 2 of the report.

force participation rose substantially, especially among women, thereby feminising the overall labour force. Overall labour force participation rose from 50 per cent for the period 1971 to 1980; to 55 per cent in 1990. Female labour force participation rose from 32 to 33 and then to 39 per cent. Consequently the percentage of women in the labour force rose from 33 to 36 per cent.

Rising work force participation, however, occurred simultaneously with rising unemployment, which was slightly higher among females than among males. The unemployed are mainly the young who tend to gravitate toward urban centres and this raises important socio-political concerns. However, this is basically a flow rather than a stock problem, as by age 30 unemployment has already fallen. Even the better-educated, new entrants into the labour market eventually adjust their expectations of 'appropriate' jobs and wages. Moreover, rising open unemployment, especially among 'educated' youth, is regrettably often discussed as a problem of mismatch and the poor quality of education, irrespective of the number of graduates produced by the system.

Several transformations have been occurring. The first structural transformation concerns the age structure of the slowly ageing labour force. This transformation has occurred in waves. The proportion of new entrants into the labour force aged 10-24 years rose between 1971 and 1980 and declined thereafter. Similarly, the proportion of young adults in the highly productive ages of 25 to 39 years declined during the 1970s and rose again during the 1980s. Not surprisingly female workers tend to be relatively young, as the proportion of new entrants is somewhat larger among females than males.

These patterns are indicative of a likely shift in the nature of the main labour force problem. Today the major issue is one of limited access to 'appropriate' employment opportunities for new entrants who are better educated. As future cohorts of new entrants are expected to contract, the young and increasingly better educated entering the labour market can be expected to be in a better bargaining position *vis-à-vis* employers. In the future, the problem is expected to shift towards maintaining gainful employment for those already in the labour market. It can also be anticipated that this problem will be greater for those women who have 'benefitted' today from low-paid employment opportunities in factories, trade and service categories, which rely on a continuous stream of young and trainable girls. These women will continue to be in a rather

weak position as they age and are in need of paid employment; they may not want (or may be unable) to revert to unpaid work.

The next transformation concerns the impressive gains in the education of the work force. During the last decade about 12 million people with primary education were added to the labour force, of whom five million were female. A further net increase of around six million upper secondary school graduates (two million females) and another 1.2 million academy and university graduates (close to half a million females) joined the labour force during same period. In fact, 37 per cent of the total net increase in the labour force had upper secondary education or more in the 1980s, and 12 per cent were female. Having observed how older generations have benefited from such education in the formal sector, the push-up effect towards higher educational standards has been strong and can be expected to increase in the future. These are vast magnitudes for any economy to absorb.

The message is clear. The Indonesian labour force, and especially the female labour force, has become increasingly more educated and therefore also more trainable. It is time to reverse the prevailing view and emphasis regarding the poor quality and inappropriate skills of the Indonesian labour force. As rising numbers of more educated young people enter the labour force, they should be regarded not as a problem but rather as an asset in a rapidly industrialising economy. Indonesia today, and even more so in the future, is endowed with relatively vast assets of young and trainable workers, many of whom are women and quite capable of adapting to changing technologies. Even though during the last few years large investments have been made in export-oriented and labour-intensive industries, even greater investments are required to absorb the rapidly increasing numbers of educated labourers in the formal sector where on-the-job training opportunities can rapidly transform them into skilled workers whose productivity is similar to that of workers in other countries.

This phenomenal growth in the educational qualifications of the labour force during a relatively short period has not occurred without creating other problems. The absorptive capacity of the formal sector is still rather limited relative to the rapidly growing educated labour force seeking paid employment. As young graduates enter the labour market expecting similar, if not better, jobs and wages than the preceding generation, they are quickly faced with disappointment. The waiting time for an 'appropriate' job to come

along can be rather lengthy, maybe even a few years if they can afford it. Increasingly more are faced with the fact that eventually they will have to accept jobs which, in the past, were occupied by people with less education. In the meantime these people, especially those with upper secondary and tertiary education, contribute to a rise in unemployment. This trend is more obvious among females than males.

Even though Indonesia remains less urbanised than other nations in the Asian region, spectacular growth was recorded in the size of the population classified as urban in the last three Censuses. It increased from 20.8 million in 1971 to 32.8 million in 1980 and 55.4 million in 1990. These figures imply very high and accelerating average annual intercensal growth rates of 5.04 and 5.75 per cent respectively. This is especially true when compared with the rural population, which grew from 97.7 million to 113.9 million and 123.8 million over the same period. The data imply a slow-down in rural growth rates from 1.69 to 0.91 per cent per annum, and a widening gap in growth rates between urban and rural areas.

The much higher growth rates among total urban (7.5 per cent per annum) and urban female (8.8 per cent) workers compared with total rural (2.5 per cent) and rural male (2.0 per cent) workers during the last decade, is associated with the industrialisation occurring in and around major urban centres. Many of the industries, which have been established for the export market, are fairly labour-intensive, and, following the pattern in other East Asian countries, employ more women. Besides, there is also the effect of rising incomes and the widening base of the urban middle class, which employs more women as household help.

These statistics, which are residence-based, do not yet tell the whole story of the urbanisation process. The rapidly expanding infrastructure and public transportation facilities in Java have the effect of increasing numbers of commuters to the city and thereby substantially increasing the urban daytime population. In addition, others maintain their rural residence but commute for slightly longer periods, thereby further reducing the economically active rural population available in rural areas.

The urban labour force has become younger relative to the rural labour force. This is especially true of females, among whom the urban-rural difference in the proportion of new labour force entrants has increased over time. Thus the rapidly declining proportion of

new female entrants into the rural labour force and the complementary rise in the proportion of older women is striking.

Unlike the usual pattern of males exceeding females in the labour force, the net increment among urban female new entrants exceeded that of males between 1980 and 1990. In rural areas, there was an almost equal net increment of 2.5 and 2.4 million respectively among young adult male and female workers. While the urban phenomenon is attributed to rapidly expanding employment opportunities, that is, to rising demand, in rural areas it is more likely a function of more women having to participate in the labour market. This is the general issue of oversupply of people badly needing any kind of gainful economic activity.

Even though the better educated are still highly concentrated in urban areas, education beyond primary school is rapidly spreading to rural residents. While the 1980 Census had already recorded slightly larger numbers of rural workers with lower secondary education, the urban-rural absolute difference had further widened by 1990.

With urbanisation, the structure of the labour market has also been transformed towards greater diversity and reduced dependence on agriculture. Only two decades ago Indonesia was still referred to as an agricultural society. At that time, around two-thirds of workers were absorbed in agriculture; today only around half the work force is involved in this sector. In the meantime the role of trade in particular and also of services and manufacturing has become more prominent. Together these three categories have absorbed an increasing share of the work force, rising from 29 to 40 per cent. There is also a trend towards greater diversity in jobs as other and smaller industrial categories are absorbing increasing numbers of workers; their share has risen from 5 to 10 per cent.

Greater diversity in economic activities was enjoyed by urban workers while rural areas were mainly characterised by a decline in concentration in agriculture. Particularly on Java during the 1970s, urbanisation was associated with population pressure; the 'agricultural revolution' partly pushed people, and especially women, out of agriculture. During the decade of the 1980s, on the other hand, accelerated urbanisation occurred partly because urban economic activities expanded into previously rural areas and further pulled people out of agriculture.

During the last decade, the work force became more formal, increasing from 31 to 36 per cent, as large numbers of wage and salary

jobs were created. The process was, of course, concentrated among urban workers, among whom formal sector workers rose from 57 to 62 per cent. Reliance on unpaid family labour by wives and daughters remains strong in rural and especially agricultural household enterprises. However, formal sector or paid employment opportunities have also become increasingly available to rural workers (although at a slower pace) rising to 27 per cent of all rural employment in 1990.

Feminisation of overall employment is primarily attributable to feminisation of the urban formal sector (in which the percentage of women rose from 25 to 31 per cent) and the rural non-formal sector (wherein women constituted 34 per cent in 1980 and 39 per cent in 1990). Feminisation of the urban formal sector occurred as the secondary (mainly manufacturing) and tertiary sectors absorbed increasing numbers of women. In secondary activities the proportion of females rose from 23 to 29 per cent and in tertiary activities from 26 to 34 per cent. In the rural non-formal sector rising feminisation was a result of increasing numbers of women assisting husbands and/or other relatives as unpaid family workers in the primary sector (from 28 to 36 per cent) and the secondary sector (from 46 to 49 per cent).

The above statistics clearly tell an important story about the options available to women, given their resources and constraints, in the transformation of the Indonesian labour market. The story is not about the relatively small group of elite wives and daughters but rather about the many millions of less endowed women becoming involved in the labour market. Young and educated women wishing to participate in the formal sector have better chances in the urban labour market, where, again depending on their resources, including information, they are likely to be faced with an increasingly wider range of alternatives. Their alternatives are far more limited if, on the other hand, they have little or no education, are older or are rural residents, especially in places far away from urban centres. If on top of that they are poor, then quite likely they join the work force as assistants to husbands or other relatives; their choices are confined to agriculture, trade or manufacturing of the cottage industry type where returns to labour are low. In the meantime, the role of agriculture in absorbing rural workers has generally contracted in relative terms, and increasingly the rural population will have to rely on non-agricultural activities as a source of livelihood.

## The regional context

Behind broad generalisations of inter-regional population movement between inner and outer Indonesia, are substantial variations in the outer islands.[2] Recent inter-regional variation is far more complex in inner and outer Indonesia, as the dynamics of population growth and change have been responsive to positive as well as negative social and economic incentives. Throughout the archipelago both fertility and mortality have declined rapidly while age at marriage and mobility have risen. Increasingly, patterns of inter-regional migration have become more prominent in affecting provincial population growth and change.

Regional patterns and trends in the growth of the work force cannot be simply dichotomised into inner and outer Indonesia. The decline in the overall share of the work force in Java occurred as a result of declining shares in Central Java, Yogyakarta and East Java, which were partially offset by rising shares in Jakarta and West Java. Interprovincial dynamics in outer Indonesia too resulted in rising shares in some provinces but declining shares in others. These dynamics reflect increasing inter-regional diversity in economic activities.

Inter-regional diversity in work force growth since 1971 is related to changes and variations in work force participation, not only among women but also among men. Over time, however, the variation is declining for both men and women. Nevertheless, while levels of work force participation tend to converge to around 70 per cent for men, there remains substantial interprovincial variation for women. In general, women and men respond differently to incentives and disincentives to participate in the labour market. For most women, participation in the work force is still widely considered in terms of their earnings being supplementary to their husbands' incomes. If the men do not earn enough, wives may have to contribute or help, often as unpaid family workers. On the other hand, the middle class tends to be relatively under-represented in the labour market. There is a small group of elite women who are highly active in the labour market in response to sufficiently attractive opportunities which emerged during the last two decades.

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2 'Inner' Indonesia includes Java, Lampung and Bali, 'outer' Indonesia covers other outer island provinces.

Regardless of concerns about rising open unemployment among better-educated youth, the demand for education can be expected to continue to rise. Now that the value of education in the labour market, especially for women, is widely recognised throughout the archipelago, it would seem that this tendency to acquire increasingly more education is irreversible. By comparison with cultural legacies, social and economic developments have become increasingly more important determinants of women's involvement in the labour market. However, cultural diversity also affects inter-regional patterns of response to social and economic incentives and disincentives.

There are many examples of regional diversity in work force participation. For instance, new opportunities for wage employment recently created in manufacturing and service sectors have resulted in over-representation of young and new labour force entrants in Jakarta. On the other hand, similar over-representation of the middle and upper classes and 'educated' women in Jakarta has led to low participation in the labour market in all age categories. Low work force participation across all age categories is difficult to explain among women in South Sulawesi. Female education is low and average incomes are substantially below the national average. In other contexts, poverty may induce women to share the burden of household survival strategies as shown by high levels of participation in the labour market among women living in Yogyakarta and East Nusa Tenggara. Then we have Balinese women, who are very active and remain so for most of their lives, not just in response to poverty but also in response to a range of opportunities. When set in different cultural and social environments, women tend to respond differently to positive and negative economic incentives.

As noted, structural transformation of the labour market has basically meant declining participation in agriculture. This decline has occurred throughout the country, but has been faster in some provinces than in others. In spite of two decades of rapid economic growth, particularly in the non-agricultural sectors of the economy, most outer provinces of the archipelago are still predominantly agrarian.

The absence of broad regional trends in the sectoral composition of the work force during the past two decades is another characteristic of the Indonesian labour market. The most dramatic declines in the role of agriculture have occurred in West Java (from

58 to 37 per cent) and in Bali (from 71 to 44 per cent), which have benefitted from rapid growth in labour-intensive industries and employment in a variety of service-sector activities. At the other end of the spectrum in West Kalimantan, people have moved out of agriculture at a much slower pace (from 83 to 73 per cent), presumably because few non-agricultural activities are available.

Throughout the archipelago agricultural activities, particularly subsistence agriculture, are left behind whenever better opportunities appear on the horizon. Both male and female labour displacement continues to increase in agriculture as a result of a number of forces working simultaneously on rural life. Seasonal migration to participate in urban informal-sector activities is one force, which contributes to rural labour shortages in certain localities and has led to substitution of technology for labour. However, the impact on rural development varies between regions, and is largely intertwined with broader economic developments in regions.

In the final analysis, identification of patterns of regional diversity depends on the focus. If the focus is on agriculture, then there is a clear regional dichotomy which distinguishes between inner and outer provinces. Both 'push' and 'pull' factors away from agriculture have been stronger on workers in inner than in outer provinces. If, on the other hand, the focus is on non-agricultural and formal sector workers, then there are no geographical patterns to speak of, but rather pockets of high concentrations of workers involved in non-agricultural activities among whom a good proportion is employed in formal sector or paid jobs.

## The future role of women in the labour market

If rapid economic and social development continues well into the future in accordance with the Second Long Term Development Strategy (*PJPT II*, or *Pembangunan Jangka Panjang Tahap II*), then we should anticipate the following: for various social, demographic and economic reasons, female labour force and work force participation will continue to rise, leading to further feminisation of the labour market. Obviously, for women's status, this is not enough. The question is what role will women play in the labour market. This encompasses their jobs and levels of remuneration.

Future labour problems will not be limited to new entrants only but will affect the current cohort of recent entrants. For example, it is

often claimed that some women, particularly among production workers in factories, are laid off when they start families. No studies, however, are available on what these women do thereafter, especially among those from rural and agricultural backgrounds.

In the meantime, the number of new entrants into the labour market will contract, initially in relative terms and later in absolute terms. They will be even better educated than recent entrants. If investment in labour-intensive industries continues to expand and the upper and middle classes continue to grow, then eventually demand will exceed supply, causing real wages to rise.

Urbanisation will continue to increase, both as a function of migration to urban areas but more likely as a function of the transformation of previously rural to urban settlements. In this regard, rural development programs, including agricultural development programs, should not be thought of as just holding back the tide. Not only males but females too, especially when they are young and educated, are increasingly inclined to seek paid employment opportunities, and these are more readily found in and around urban areas.

In the foreseeable future, new female entrants into the labour market will gravitate even more towards urban areas in search of formal sector employment opportunities (and also in search of greater independence and freedom from parental supervision or control). The past has already given us a glimpse of the consequences for the age structure of the rural and agricultural work force. Female agricultural workers are getting older due to declining proportions of new entrants and rising participation among middle-aged women, whose main activity is housekeeping but who have to assist their husbands as unpaid family workers. This is not surprising as agricultural enterprises are still mainly conducted as family enterprises. At the same time the gap in the educational composition of the urban and rural work force can also be expected to widen even further.

It should be anticipated that, whether by design or by default, the use of and dependence on labour-displacing technology in agriculture will expand. The challenge for women's participation in future agricultural development is to design the proper combination of incentives within as well as outside agriculture. This will stimulate not only older and less educated women to work as unpaid family workers in agriculture but also younger and better educated

women to respond to market demand for a greater variety of agricultural products.

It should be remembered that cultural diversity affects the way in which women react incentives to participate in the labour market. While positive incentives, that is, rising real wages, are more likely to attract women into the labour market, negative incentives or poverty may not draw a universal response.

Irrespective of the process of labour displacement, the agricultural work force will continue to grow in absolute terms in the near future. Where the majority of the agricultural work force remains engaged in foodcrop production, however, agricultural activities and enterprises in general are basic survival strategies among many rural households. As such, they are left behind when better opportunities appear. However, throughout the archipelago changes in the size of the agricultural work force are strongly affected by the dynamics of the wider economy.

Far more attractive incentives, together with improvements in infrastructure, are needed to draw labour-intensive industries to outer Indonesia. Unless this happens, industrialisation and urbanisation will continue to be concentrated in Java and Bali and a few resource-rich enclaves in the other islands. If that is the case, then most of outer Indonesia will continue to remain agrarian and women will continue to rely on agriculture as their main economic activity as well as their primary household survival strategy.

# 14

# Working Women: Differentiation and Marginalisation

Mies Grijns and Anita van Velzen

## Introduction

Imagine coming back to West Java after some twenty years and taking a trip through the province. On leaving Jakarta one wonders where West Java really begins. Where are the fruit orchards, rubber plantations and *sawah* which surrounded Indonesia's capital in the early 1970s? Where are the women who used to work in the paddy-fields along the road? Only after an hour's drive or more the traditional scene of a little boy washing his water buffalo appears. But even he is surrounded by a landscape of crowded hamlets and road-side workshops and an endless stream of Japanese vehicles transporting young women to and from factories.

West Java has made a shift from the mainly agricultural region it was in the 1960s to a rapidly industrialising province, at least in the northern part. The growth in transportation and the general improvement of infrastructure such as roads, electricity and telecommunications, together with a policy of welcoming foreign investment, has helped industries to expand and has attracted new companies to the region. Population growth, better education and lack of job opportunities, agriculture have encouraged village people to seek employment in non-farm activities. This has not only influenced migration to urban centres but also changed rural life.

If we compare the employment figures for rural women in West Java — the focus of this article — a shift can be seen from 29 per cent of the female labour force working outside agriculture in 1971 (BPS 1974) to 39 per cent in 1985 (BPS 1987). In actual figures this is an increase from about 505,000 to 950,000 women. Thus in 1985 nearly twice as many women worked in the non-farm sector. Trade attracted most of them (19 per cent), but services (9 per cent) and manufacturing

(10 per cent) also offered a substantial number of jobs to those who could not find primary employment in agriculture.

What does the increase in female non-farm employment mean? What do these figures tell us about rural women's work? Do these changes indicate progress, or do they spell marginalisation? If so, who is affected?

From 1987 to 1991 the West Java Rural Nonfarm Sector Research Project[1] conducted a policy-oriented study of the impact of growth in rural industries and other non-farm activities in the province on employment generation and income distribution among the rural population in general. This article is based on a report which summarises specifically the project's findings on women's work in several rural industries (Grijns *et al.* 1992). Thus, it focuses on the manufacturing sector.

The most interesting result of this study is the differentiation it shows among women and the great variation in trends in women's work. This article discusses first the variety in employment opportunities between geographical regions and sectors of industry. It then continues with the different work status categories of women. Thirdly, women's working conditions are compared to those of men. The article concludes with the question of what the changes in rural industries mean to women in terms of marginalisation.

## Regional and sectoral differences

Travelling out from Jakarta one realises that not all West Java has become a modern factory yard. There are still areas dominated by agriculture and traditional manufacturing. Rural industries tend to be concentrated in specific areas. The urban fringes of Botabek, Bandung and Cirebon accommodate large factories, but many smaller towns and villages also have an industrial area. Sometimes they are highly visible as in brick-making villages, where the landscape is dotted with dug-out claypits and smoke curls from the stacks of drying bricks, or in food processing centres where pink and yellow

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1 The research was carried out by the Institute of Social Studies (ISS, The Hague) in collaboration with the Development Studies Centre, Bogor Agricultural University (PSP-IPB) and the Centre for Environmental Studies, Bandung Institute of Technology (PPLH-ITB). It was financed by the Netherlands Ministry for Development Cooperation (ID/86/957).

*krupuk* can be seen drying in every space available. Sometimes they are less visible as in the artisanal shoe industry or in embroidery, where most work is performed inside workshops and homes and only verandas filled with leather soles or the drone of embroidery machines indicate the presence of such an activity.

The distribution of rural industries in West Java is not very even. Three ecological zones with a specific pattern of industrialisation can be discerned.

In the north there is the lowland zone along the coast where irrigated rice-growing is the dominant form of agriculture. Differentiation in employment is most advanced in this zone, with 46.6 per cent of the rural labour force working in agriculture in 1980 and 18.4 per cent in industry and construction. The most striking feature of the transition that has taken place here over the past twenty years is the growth of the new industrial region of Botabek adjacent to Jakarta. There is a second growth centre around Cirebon in the east and another in Serang in the west, where the industrial complex of Cilegon is located. This northern zone is characterised by medium, and large-scale industries producing chemicals, plastics, basic metals, metal goods and machinery and — mainly for export — textiles, garment, sport-shoes and rattan furniture.

The central part of West Java is a region of hills and uplands. This zone had 51.2 per cent of its rural labour force working in agriculture in 1980 and 15.2 per cent in industry and construction. The biggest percentages of businesses and workers, irrespective of scale and type of industry, are to be found in this part of the province. Important centres of growth are Bandung, the provincial capital, and Bogor, which is actually included in the Botabek area. Important industries in the heartland of West Java are textiles, garments, leather and footwear, printing and publishing, building materials and metal products and machinery.

The southern zone consists of the hilly and mountainous districts bordering on the Indian Ocean. This is a relatively underpopulated, more isolated area, which depends heavily on its plantations. In this zone 66.1 per cent of the rural labour force was engaged in agriculture in 1980 and only 10.4 per cent in industry and construction. It is clear that women's work opportunities are influenced by the type of industry available. In the northern zone large and medium scale industries dominate and many young women are employed as factory workers. The central part of West Java shows the greatest variety. Women are employed as factory workers, but especially in

the areas around Bandung and Cirebon many also work in small-scale industries, either as workers or as entrepreneurs. In the southern part, female non-farm employment opportunities are scarce. Migration by women occurs only to the large factories located in Botabek and the Bandung region. They attract significant numbers of female migrants, not only from within the province of West Java but also from other parts of Java and Sumatra. Smaller firms usually employ women from the surrounding area.

**Table 14.1: The Rural Industrial Labour Force by Sex and Sector, West Java, 1985**

| Industrial Sector | Percentage | |
|---|---|---|
| | M | F |
| Food, beverages, tobacco | 19.9 | 26.6 |
| Textiles, garments, footwear | 20.5 | 25.2 |
| Wood, rattan, bamboo | 27.9 | 28.1 |
| Paper, printing, publishing | 2.3 | 0.8 |
| Chemicals, rubber, plastic | 4.1 | 4.7 |
| Non-metallic minerals | 16.4 | 10.4 |
| Basic metals | 2.2 | 0.5 |
| Metal products, machinery | 2.9 | 0.3 |
| Other manufacturing | 3.8 | 3.4 |
| Total | 100.0 | 100.0 |
| N = | 435,891 | 247,991 |

*Source*: BPS, 1987.

Certain sectors of industry offer employment to rural women. According to 1985 SUPAS findings (Table 14.1), the most important industrial sectors are wood, rattan and bamboo industries (employing 28.1 per cent of the female and 27.9 per cent of the male industrial labour force), the processing of food, beverages and tobacco (respectively 26.6 and 19.9 per cent), and textiles, garments, leather and footwear production (25.2 and 20.5 per cent). In all three

groups the percentage of male workers is smaller than that of women, although in actual numbers more men than women obtain a living in these sectors. The non-metallic minerals industry (building materials and the like) is an important sector for men, employing 16.4 per cent of the male and 10.4 per cent of the female industrial labour force. Industrial expansion is concentrated in these four sectors.

Although the first three sectors are relatively important to women, there are indications of a long-term change, if a comparison is made between the situation in 1930 and 1985. It can be said that for the whole of West Java (urban and rural) the ratio of women employed in the industrial sector fell from 116 in 1930 to 52 in 1985, which means that, while there were originally more women than men in the manufacturing sector of West Java, the position is now the reverse. The industrial sectors that have experienced major declines in the proportion of women workers are the textile, garment, leather and footwear category (from a ratio of 273 to 65) and the wood, bamboo and rattan category (from 152 to 50). All of these are industries that were once mainly undertaken by women as small-scale activities. With the era of industrial expansion that began in Indonesia in the early 1970s, many small and household industries experienced a decline. So many women lost their jobs. At the same time opportunities for male workers expanded. Medium-scale textile and garment factories were developed that absorbed a considerable amount of male labour. The construction-wood industry and the fast developing rattan-furniture industry also employ quite a large proportion of men these days.

The changes in the food processing and building-materials sectors have not been so dramatic. They actually show an increase in the female share (from 62 to 76 and from 16 to 33 respectively), although men continue to dominate these sectors. The most recent trend, which is not yet apparent in these statistics, is the expansion in modern, large-scale factories that, by contrast with the medium-sized factories, employ large numbers of women workers.

The sectors discussed above are very broad categories, within which sub-sectors show great variation. Food processing is a good example. In virtually every village one can find women who try to earn money from the production of snacks, meals or confectionery. But there are also villages and small towns with a highly specialised food industry ranging from fishpaste to colourfully wrapped sweets and spiced crisps for export. In one case earnings are barely enough to

cover production costs; in another female entrepreneurs are able to finance their children's education to university level.

In order to better understand the implications of the diversity in women's jobs in the non-farm sector, we need not only to observe regional and sectoral differences but also to look at variations in the work status of women and to compare women's working conditions as entrepreneurs, wage and family workers with those of men.

## Work status

A superficial observer could conclude that women are slowly being excluded from productive employment if a comparison is made of 1971 and 1985 data. The statistics show that the percentage of female wage workers in rural industries has declined from 54.9 per cent of the female labour force in 1971 to 43.1 per cent in 1985, compared to a much smaller decline for men, from 63.8 per cent in 1971 to 60.9 per cent in 1985. The proportion of women in the rural industrial labour force, however, did not decline, but rose slightly from 35 per cent in 1971 to 36 per cent in 1985. Productive employment is not limited to wage workers, however. The decrease in the share of wage employment for women has been balanced by an increase in the other categories. More specifically there was an increase in entrepreneurs (self employed) from 25.9 to 34.7 per cent between 1971 and 1985 (compared with 30.9 to 33.2 per cent for men). For women there was also an increase in the category of unpaid family workers from 19.2 per cent in 1971 to 22.3 per cent in 1985 (compared to only 5.3 per cent for men in 1971 and 5.9 per cent in 1985).

It is difficult to interpret what exactly these shifts mean. It could be that more wage workers acquired enough savings to start their own business or to join their husbands in some undertaking. But it can also mean, as some of our case studies indicate, that the formal labour market could not absorb the growing numbers of women seeking employment, and so they were forced to create their own businesses. It should be noted that self employed entrepreneurs are not necessarily better off than wage workers or family labourers. A wage worker who has achieved the position of *harian tetap*, that is, of being permanently employed, might enjoy better earnings and working conditions than an entrepreneur who struggles to survive in her one-woman enterprise in a stagnating branch of industry. Similarly, some family workers enjoy better conditions of work than paid workers in spite of the absence of payment, while others

perform functions very close to those of the recognised head of the enterprise.

Before analysing the various factors which influence the capacity in which women can find employment, we first need to elaborate on the three types of work status. The findings of our research show that in fact reality is not covered adequately by the three distinct categories of work status. Between the category of self employed and family workers, for instance, there is a group of women who manage their enterprise together with their husbands, although the husband is very often considered the *de jure* entrepreneur. Similarly, between wage workers and entrepreneurs we find women in various sub-contracting relations, and between unpaid family workers and labourers there is the category of apprentices. Unpaid family work is itself an unclear category, because it assumes that productive work is carried out by relatives who do not receive financial compensation. In reality the work is very often paid for, although wages are sometimes not much more than pocket money or else are paid in kind. Besides, there are cases of people who are not related to the owner of a family business but who perform unpaid work. The person concerned might be a neighbour who is helping out or an apprentice who is hoping to learn the trade. The only person in the category of family labour who never gets paid is the spouse of the owner/entrepreneur.

The main factors influencing women's opportunities to obtain work as entrepreneurs, wage workers or unpaid family workers are the type of industry and scale of enterprise, class background and women's life cycle.

The capacity in which women can find employment very much depends on the industrial sector and the scale of enterprise. In very large down to medium-scale factories women only find employment as wage workers. This is, for instance, the case in the modern, foreign-owned, export industries we studied, such as garment and sport-shoe factories. The same holds for certain modern, domestically owned industries, where the productive processes are all concentrated within one unit, such as in factories producing plastic bags, buckets, toilet soap, mosquito coils and the like. These factories employ mainly young women and girls as workers. There is another type of industry, which tends to be domestically owned and to have developed from existing, smaller enterprises. Factories of this kind are characterised by extensive use of sub-contracting and putting-out arrangements. Here women and girls also work as

employees, but more often as domestic out-workers. This is, for instance, the case in the rattan and embroidery industries and also in the textile factories which produce for the cheaper sections of the domestic market. Men form the majority of the factory workers and women perform most of the sub-contracted work in their homes.

The smaller the scale of enterprise and the less capital-intensive the production process, the more varied women's work status seems to be. In food processing, handicrafts and the production of bricks and tiles, female entrepreneurs, wage workers and family labourers can all be encountered. If a sector is considered a male domain, as is the case in artisanal shoe-making, dairying and poultry-raising or the production of tin-plate products and iron tools, for instance, women more often work as family labourers. In the opposite case, where a sector has been the domain of women, as in small-scale food processing and in handicrafts, women can operate as independent entrepreneurs, employing both male and female wage workers and family labourers.

A woman's class position also influences whether or not she can operate as an entrepreneur or has to accept wage work. The few women who manage medium- or large-scale enterprises are all from the rural middle-class. They often started their enterprise with money from their parents or husbands. Women entrepreneurs at household and small-scale level almost invariably come from landless or near-landless households. A surprising phenomenon, given the bad working conditions, is the class background of quite a number of the young women employed in the large-scale modern factories. They do not originate from the lowest rural strata, and they often have a more than average education. They come to work in these factories because in their home villages there is no suitable employment for them and it seems more attractive to work in a modern factory in urban surroundings.

There is a clear link between work status and life cycle. Women can change work status at different stages in their life cycle. With the changing labour market this happens more frequently than before. When young, most girls start their working life as family workers, helping with domestic work and also with production. In household enterprises and in many small-scale businesses children are also employed as wage workers from a very young age. Seven-year-olds help with the wrapping of confectionery or the scraping out of copra from coconut shells. Bigger factories prefer to hire young women in their teens and early twenties. These companies select

unmarried workers without family responsibilities and try to avoid paying pregnancy benefits. Entrepreneurship is an exception among young, unmarried women. A good proportion of rural industries are home industries. The first condition to become entrepreneur or domestic out-worker is thus to possess some working space like a room or a kitchen.

Marriage and children is a turning-point in women's careers. Some young mothers continue as wage workers, especially if they are divorced or widowed. They work mainly in small-scale industry and seldom in the larger factories. In small-scale industries working hours are more flexible and the enterprises are often located in the midst of residential areas, so labourers can go home occasionally to check on children or to perform household duties. When a working mother has two or more small children it becomes too much work for relatives to look after them and the mother has to take care of them herself. This is the point at which many women wage workers turn to sub-contracting work, if available, or become family labourers. A young married woman with small children who works as an entrepreneur usually operates a business together with her husband. The wife alternates her attention between production and child care while the husband concentrates on production only. At this stage of the life cycle availability of help with domestic and child-care tasks is crucial for income-earning women.

Women with older children, if they are entrepreneurs, tend to have larger enterprises. This reflects the fact that they have more time, more assistance from children and greater mobility. Also, they have been able to enlarge their businesses over time. Moreover, unsuccessful entrepreneurs have dropped out already at this stage. Whether husbands are still around does not seem to matter much for the businesses of older entrepreneurs. Older wage workers, in contrast, often work in the same factories as their husbands, as in the textile industry. In parts of the building-materials industry, as well as in starch processing and poultry-raising, husband-wife teams are employed. Usually they have children of at least primary school age, although in some instances infants are brought along to the workplace.

Elderly women, especially widows and divorced women, are worst off. They can seldom find jobs as wage workers, so most of them assist relatives as unpaid family labourers or else they become self-employed workers. As entrepreneurs they usually work on their own without help and they sell their products themselves; for instance,

small amounts of snacks or preserved fish. In handicrafts and also in metal work (*pandai dingin*) they are often involved in the production of the more traditional items. Their income is very low and is barely sufficient for survival.

## Gender differentiation

If we compare women to men, there is a trend for women to be found more often in the stagnating, unproductive sectors. Within each branch of industry, there is a tendency for women to work at the bottom end and in the smallest enterprises. A case in point is the wood, bamboo and rattan sector, where women seem to be concentrated in small-scale units, for instance producing traditional handicrafts from woven bamboo for local consumption, whereas men dominate the booming rattan-furniture industry, which is producing not only for the domestic market but also for expensive export markets. Some sectors, however, show contrasting developments. Whereas artisanal garment and footwear industries employ mainly men, the export-oriented factories in the same sectors prefer to employ young women. Cases are known where an enterprise stopped production for a short time and dismissed the entire labour force of men and women. When production recommenced, a female-only work force was hired.

In almost all paid work there is a marked segregation of tasks by gender, which makes direct comparison difficult. But in terms of working conditions in general, women's position is often weaker than men's. Also, if compared by work status, women seem to encounter more difficulties than male colleagues.

Women entrepreneurs are found in the smallest enterprises with low capital, simple technology and a narrow range of activities. They experience many constraints. One of these concerns capital. Women usually start with initial capital from their husbands or parents or else they use savings from previous wage employment, but they have more problems than men in obtaining loans and credit from official sources. The low level of capital and technology needed to start a small business also means that earnings are very low compared to working hours. Another important constraint is the fact that women operate from their own house, and for local markets. By comparison with men, their mobility is limited. Their range of operations is very narrow and, more important, they have to adjust their working hours to the demands of child care and

housework. Female entrepreneurs are also constrained in access to family labour. Whereas men can utilise the labour of their wives and children, women can count only on the assistance of their children.

Another problem which influences women's work as entrepreneurs is the demand for their products. Demand in some 'female' branches such as certain handicrafts and food processing is very irregular, being linked to seasonal factors such as the holidays or tourist periods. The supply of raw materials too can be very irregular in the industries in which many women are involved as access to scarce materials is often dominated by men. Finally, women have less access to skill training and management courses, both because of time problems and because they are often not selected as potential participants, in contrast to men.

Women wage workers are located in the lowest paid, least skilled jobs of all scales and types of enterprises. In addition, large numbers of women work in the most dependent types of sub-contracting arrangements. Women wage workers face constraints mainly related to job security, career prospects, income levels and working conditions. Many women work in small enterprises where labour regulations are not applied and where job security depends on their personal relationship with the entrepreneur. The majority of rural workers, men and women alike, work as casual labourers. But management in larger undertakings seems to prefer men for the few permanent positions available. This preference is partly to avoid having to pay benefits such as pregnancy leave to women. But it is also influenced by the incorrect assumption that men are the heads of their households and thus mainly responsible for the family income.

The opportunity for women to reach higher career levels is far smaller than for men because their working years are more broken as a consequence of the role they play in child care and also because their levels of education and opportunities for training while working as apprentices are far fewer by comparison with men. Furthermore, community views do not favour an employment situation in which a woman is higher than a man.

The average wages of women workers are lower than those paid to men. Women are also more often found in situations where piece rates are paid; this does not necessarily mean that they earn less, but it does imply income insecurity. Jobs that bring high returns because special skills are required, as in the case of artisans in

certain rural industries, are nearly always performed by men. It is only in traditional industries, like various kinds of handicrafts and the processing of food, that women workers who have some capital can become entrepreneurs in their own right on the basis of the skills and contacts that they have acquired. But even this tends to apply in fields of business where income is lowest. New job opportunities, such as those created by the very large modern industries, do not favour women since they do not demand special experience nor do they increase skills. Earnings per day might seem attractive, but calculated on an hourly rate they turn out to be very low due to the incredibly long working hours (often 12 to 14 per day) in these plants.

Working conditions for women wage workers, like those for men, are generally unsatisfactory, being characterised by lack of space for movement, poor ventilation, dirty workplaces and inadequate supplies of food and drinking water. Special regulations for women workers, such as those concerning menstruation and pregnancy leave and also concerning night shifts, are still commonly neglected. Most women are quite ignorant of their rights as labourers and only know about regulations concerning minimum wages. Autonomous labour organisations are also an unheard of possibility.

Family work is the only employment where women outnumber, far outnumber, men. This has everything to do with the existing gender ideology and the division of labour, especially child-care between women and men. The major share of domestic work and child-care is performed by women, and family workers carry a great part of this burden. This is the only type of work which is never paid for. In small enterprises run by a woman alone or by a couple, daughters often do a great deal of the house work. Also, older women like grandmothers and sometimes neighbours help out.

The main constraints faced by unpaid family workers are their weak bargaining position and the reluctance of outsiders to interfere in family matters as well as their lack of access to skill formation and general work-related information. Family workers are not protected by labour regulations and because of the overlap between working and living in the same area they are very vulnerable to inadequate conditions. Because they are not recognised as a specific category of workers, they are often excluded from access to training and credit programs.

Inequality between women and men starts at a young age. Girls who are family workers are often engaged in domestic work and

have opportunities to become apprentices and thus improve their knowledge and skills. It is a different matter with boys, for while they assist in the family business they obtain the opportunity to learn. Later on, when they are skilled, they can earn a livelihood by becoming wage workers or even entrepreneurs. Exceptions occur, however, in the sectors where women dominate, as in the small-scale food processing industry. In this sector girls are trained from the time when they are small to take over the role of their mothers in business.

It may be noted that, apart from the opportunity to be apprenticed, male family workers, both child and adult, are more likely to receive some kind of payment than women family workers. Even though tasks may be small and easy, such jobs are always taken by men, both boys and adults, if they have an economic value. Thus the general impression emerges that the types of jobs performed by women family workers are 'scrap heap' jobs that do not attract the interest of male workers or entrepreneurs either because they are considered inappropriate and of low status or else because they are of very low economic value. Family workers can be as skilled as all other workers, but in general their types of skills are not recognised by the community and give the women no additional value in the work force. The tasks that they do include such things as decorating shoes, sanding puppets, feeding poultry, or cutting, drying and wrapping various kinds of processed foodstuffs.

Another difference between women and men is that women spend longer periods of their life as family labourers. Girls and boys often start their working life helping a relative, but young men then continue as wage workers and/or entrepreneurs, and do not return to unpaid family work. Women do return at certain stages of their life to unpaid work, however, for instance, when helping a husband, or later on, assisting children in their enterprises.

## Conclusions

Between 1971 and 1985 the number of women employed in the non-farm sector almost doubled. Many of these women work in rural manufacturing. The character of rural industry itself has changed considerably. Large-scale modern factories have invaded the countryside and certain traditional industries have become linked to big enterprises through sub-contracting arrangements. Improved infrastructure has facilitated communication between villages and

urban areas and has thus expanded the range of non-farm jobs open to rural people.

Increasing industrialisation has strengthened the existing regional differentiation. The northern part of West Java has attracted most new big industries, while the south has mostly remained agricultural in character. There is a flow of rural labourers, men and young women, migrating to the north. Next to regional differentiation there is also growing differentiation between industrial sectors. Some of these sectors are booming, like the rattan industry and garment and sport-shoe production for export. Others are stagnating, such as traditional handicrafts, metal crafts and some parts of the textile industry. In general, the organisation of production has become more complex, enterprises have developed more sub-contracting links and work has become more specialised. This has had its consequences for the division of labour and fragmentation of the labour force.

What does this mean for the employment of women? If we compare women with men, it seems that in general men fare better. Women are stuck in stagnating sectors of industry, while men manage to enter the booming sectors. An exception is the young women who dominate the work force in modern and foreign-owned factories. However, their wages are lower and conditions of work worse than in many other industries. Within each branch women are concentrated at the bottom end, in the smallest and least capital-intensive enterprises.

A specific comparison between the genders within branches is difficult because of gender segregation, which applies to nearly all tasks. But if we compare working conditions, women seem to encounter more problems than men. They are less mobile and have less access to capital and to training programs, both government and private. Their earnings are on average lower than men's and career development is more difficult. Furthermore, they are given the least skilled jobs, experience less income-security and have less access to the labour of others.

Between women themselves there are also big differences. In the first place women can be divided by work status categories: entrepreneurs, wage workers and unpaid family labourers. The boundaries between these three categories tend to become more complex with the increasing fragmentation of the labour force. An example can be found in the different sub-contracting relationships. The chances of becoming an entrepreneur, wage worker or family

labourer are related to type of industry and scale of enterprise, class background and the women's life cycle. With the growing variation in rural manufacturing, life cycle has become a more important factor. Employment in modern industry, for instance, is open only to young, unmarried women. Older women have to rely on their relatives for a job, or work as self-employed small entrepreneurs. Individual women experience more changes in type of work and work status during their life.

Does growing differentiation mean marginalisation? This very much depends on the groups one compares. Developments tend to be very selective in their effects on the employment of specific categories of women. As the number of large factories increases, the job opportunities for women are also expanding. But only a specific category of workers is attracted, namely young, unmarried and relatively well-educated women; furthermore, their level of welfare is not particularly improved. At the same time the growth of these industries causes competition for existing smaller-scale enterprises where older, married women with little education tend to work. For the majority of women insecurity has increased. They switch jobs more often. Small enterprises often survive a short time only. Women increasingly do not know how they will survive when they become older. If we compare women with men, it seems that men are not pushing particular women out of their jobs but rather that they are more able (and stimulated) to move into new jobs or sectors with better prospects.

# 15

# The Dilemma of Child Labour in Factories*

Indrasari Tjandraningsih

## Introduction

Child labour in factories forms only a small part of the problem of young workers in Indonesia. Although it is a striking phenomenon, it is one that receives little attention. This is despite various observations and studies which indicate that the contribution made by child labour to certain sectors of the economy is not insignificant (FBSI-YKA 1985; Dept. of Manpower 1986; Asra 1993).

Child workers in Indonesia can be divided into a number of categories based on the location and types of work that they perform. In rural areas children work in the agricultural sector (including the plantation sub-sector) and in processing industries as family workers and as paid labourers. In urban areas children are involved in the informal sector, especially in trade and services, as both labourers and independent workers, and in factories as labourers in the formal sector.

The number of working children in rural areas far exceeds the number in urban areas. According to the 1990 Population Census, the number of working children aged from 10 to 14 is 2.4 million, of whom 80 per cent work in rural areas.[1] In discussions of the problems of working children, however, it is usually this group that is often

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* This is a translated version of the paper prepared for the Update Conference.

1 This figure is only a very rough estimate. The number of working children would certainly be far higher if figures took in both elementary and junior high school drop-outs, the assumption being that some of the children not attending school were in fact working. In 1992 the figure for elementary school drop-outs was 1.2 million; a similar number did not go on to junior high school (Jiyono et al, 1993).

overlooked. Attention tends to be on working children in urban areas and to focus on those who are employed in the informal sector, known popularly as street children, and on child factory labourers. These groups are more obvious than are their counterparts in rural areas.

In general, working children face the same problems, namely, lack of attention and lack of protection. They also encounter specific problems in connection with types of work and the form of labour relationships. Child factory workers are dealt with here as an example to illustrate how, despite efforts to protect them, working conditions are no better than many instances of child workers in small rural industries. This example of child workers in factories is also relevant in the context of the increased agitation regarding child workers in the formal sector. This is now being used by the United States government as one justification for the removal of Indonesian export facilities (GSP) to that country.

This paper assumes that, in view of the state of the Indonesian economy, it is neither necessary nor possible to prohibit the employment of child workers. In an economy that is still characterised by poverty and inequality, prohibition of child labour would only create greater poverty and suffering. Children, in particular from the poorer strata of society, may work and indeed have the right to do so. What is necessary is protection to shelter them from physical and psychological damage and to provide them with the opportunity to develop themselves. The attempt to achieve protection of this kind is by no means easy since it requires resolve and cooperation on the part of the government, entrepreneurs and the wider public.

## The situation of child workers in Indonesia

Given rapid industrialisation in Indonesia (and despite increasing school enrolment rates), there are signs that the number of child workers in factories is increasing.[2] The majority of these children

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2 The information in this section is very largely based on a study concerning the problem of child and youth labour in rural West Java, which was undertaken by Indrasari Tjandraningsih and Benjamin White in 1988-1990 in the framework of the collaborative research project 'Rural Productivity and the Nonfarm Sector in West Java, Indonesia' [ID/86/957] by the Institute of Social Studies, The Hague, the Centre for

come from rural areas and have moved to urban areas. It is difficult, however, to estimate the increase in child labour in the urban manufacturing sector. There are no official figures on the number of children employed in this sector. As a rough indication of the number of children in factories, the figures obtained in the Population Censuses (Series S2) indicate that the number of children aged 10-14 seeking work in urban areas almost doubled (from 7.4 to 13.1 per cent) between 1980 and 1990, while the number of children actually working rose from 7.3 per cent in 1980 to 11.6 per cent in 1990 (Effendi 1992). These sources also indicate that more girls than boys are working and seeking work in urban areas.

Child factory workers, the majority of whom are girls, are generally employed in medium-sized and smaller local factories. These tend to be labour-intensive in nature and domestically owned. In general, they produce such goods as foodstuffs and drinks, electric light globes, insect repellant, cosmetics, plastic goods, cigarettes and furniture for domestic markets. Nevertheless, there are also factories producing goods for export that rely on child labour, such as rattan factories. The factories that employ child labour are usually hard to identify because they are situated in relatively isolated locations and frequently do not have name boards.

As employees, the children are in many respects such as wages and the type and duration of work, treated in the same way as adults. Child labourers work an average of seven to ten hours a day six days a week; they do shift work as required and they work overtime. The work that they do is usually gender-based, with girls tending to perform the same tasks as adult women. Female jobs typically involve light tasks that require neither strength nor skill and range from the processing of raw materials or semi-finished products or finishing jobs such as wrapping and packing. These jobs are performed both manually and with machines.

In general, child labourers work side by side with adults, even though there are sometimes one or more sections in a factory where all workers are children. For example, in factories that make food products and mosquito-repellant coils the tasks of wrapping and

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Development Studies, Bogor Agricultural University and the Centre for Environmental Studies, Bandung Institute of Technology and financed by the Netherlands Ministry of Development Cooperation (Section for Research and Technology).

packing are done by both adults and children, but in factories that produce transparent bath soap the job of getting rid of dirt from the soap is done only by children. Adults always supervise the children's work, a method adopted to maintain working rhythm and discipline.

Based on interviews with child workers in various regions of West Java, it was found that the wages that child workers receive average less than Rp20,000 a week (in 1988-1990) and often already include overtime. The basis on which their wages are calculated is often unclear to the children and the size of pay package that they receive often changes without explanation. Faced with this situation, child labourers tend to remain silent. Apart from fear, they usually do not know to whom they should complain. Manipulation of children's wages is very common. Generally, the factories that employ children rarely provide food, drink and medicine or work-safety equipment. Child workers often experience accidents while working, especially when they operate machinery in factories that make such products as hinges and furniture.

Most child workers in urban factories no longer attend school. The majority have only an elementary school (SD) education which in most cases they have not completed. The average age of child workers places them in the elementary school range (11 to 14 years). The education of child workers is usually not important to factory managers since the work has no connection with level of education. The only qualification that the factories want is willingness to work. In their job applications, children must present a statement that they are more than 16 years of age. This can be readily obtained from the local village or hamlet head, for a cost of between Rp500 and Rp1,000. This widespread practice of age falsification makes it difficult to identify child workers in the establishments where they are employed since they are recorded as being of working age.

In seeking work in towns and cities, children often depend on an intermediary who recruits workers to meet the labour needs of a certain factory. They pay agents substantial sums, up to R10,000 more. Children also obtain factory work through parents or friends. As migrants, they generally live together in a group with other child workers or with adult labourers from the same village. Normally they rent a simply furnished room on a group basis (three to five persons) and share the cost between them.

In the factory, child workers not infrequently experience double exploitation in the treatment they receive from the factory management and from adult workers. The latter frequently order children to perform adult tasks while foremen often order children to perform tasks that adult workers are unwilling to do. Children also constitute a threat to adult workers because their employment can lead to the loss of jobs for adults. In a number of factories, such as furniture establishments, the employment of young girls has pushed out adult men. Anxiety over this threat often causes adult workers to adopt a somewhat extreme attitude towards child workers. The adult workers can be said to be in a position where they have lost their competitive advantage: they are not prepared to work for lower wages, they are more conscious of their rights and they are unwilling to be treated in an arbitrary manner.

Children are not represented at all in labour unions. Since Indonesian labour-union circles are themselves occupied in the struggle to improve the lot of adult workers, they have neglected child workers. In this context the idea of forming a union for child workers is perhaps worth more thought.

## Factors affecting the emergence of child workers

The majority of children work to meet household needs, or at the very least their own needs. Their income is often essential for the survival of the family, especially if the parents are unemployed. In a pilot survey carried out by the Central Bureau of Statistics in the Bandung Municipality and the Bandung District in April 1993, approximately 30 per cent of parents stated that children's earnings amounted to 40 per cent of total household earnings (Asra 1993). Because of poverty the children had no choice in deciding where they would work and no opportunity to bargain over wages. Similarly, they did not care about the conditions in which they had to work. The important thing was to obtain employment and earn income.

Education is the dominant factor in encouraging children to seek employment. The present system of education is not attractive in the eyes of either parents or children for the latter to remain at school.

The high school drop-out rate[3] not only reflects inability to afford schooling but also shows the influence of attitudes to education. Many children themselves decide to look for a job instead of continuing their schooling, after observing the fact that education is not a requirement for obtaining many kinds of work. Also, quite a few parents encourage children to give up school after elementary level and to look for work because a higher level of education does not guarantee a better job. The nature of the school curriculum and the way in which lessons are presented also play a part in discouraging children to stay at school.

Besides being an attempt to hold down production costs, the employment of children is also a strategy to hold down adult wages. If adult workers perform the same job as children, they usually receive the same daily wage rate, although they may earn more if payment is made on a piecework basis.

Child labourers are also preferred because they are easily controlled and disciplined. They are more obedient and often more industrious than adults. It is quite likely that children are more profitable than adults from the point of view of productivity relative to wage costs but this has not been examined quantitatively in areas where children commonly work.

Many children enter the labour market to obtain non-basic needs goods which are advertised through the media. The systematic and continuous advertising of a variety of products has succeeded in creating new needs among children. For young girls these goods include ornaments, body-care products, clothing and the like, while for boys the needs take in cigarettes, clothing, shoes and the like. The children need money to obtain these things but cannot expect their parents to provide them. Thus, the supply of children entering the labour market is not just a reflection of absolute poverty but is also related to relative poverty in the context of the creation of new needs.

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3 The latest data showed that in 1991 there are 1.2 million children drop-outs from primary school (Jiyono et. al, 1993).

## Dilemmas

Child labourers in Indonesian factories are in practice largely unprotected owing to several factors. First, their presence tends to be ignored by the government even though several studies have discussed their existence (FBSI-YKAI 1985; White and Tjandraningsih 1991). One statement by the Department of Manpower, as the agency most concerned in this matter, declares firmly that there are no child workers in Indonesia because no reports mention any under-aged children employed in factories (*Jayakarta* 16, 17 July 1991). Secondly, existing legislation, namely, Statute No. 1 of 1951, states clearly that children aged 14 years and under may not work. In 1987 the Minister for Manpower issued a regulation (Kep.Men.No.1/1987) to protect children below the age of 14 who were 'forced to work to earn income because of socio-economic reasons'. This regulation is far more realistic in spirit than the Statute referred to above since it demonstrates an awareness that children cannot be prevented from working and that they should be protected.[4] Unfortunately, this regulation has not been accompanied by stipulations dealing with enforcement, and hence child workers still remain unprotected.

The root of the problem that child workers face lies in lack of legal clarity and the attitudes that have given rise to a number of negative consequences such as health, work safety and social and intellectual development.

The absence of clear restrictions on working hours and the monotonous rhythm of the tasks that children perform frequently result in physical fatigue, headaches, eye strain and pains in the hands, feet and back. Besides this, the question of work safety often tends to be ignored by both employers and the children themselves to the point where there is a very high risk of work accidents in certain industries, especially where children operate machinery or come into contact with chemicals. Long working hours reduce their opportunity to undertake recreational activities or to develop any social or intellectual life. The routine of work under the continuous supervision of a foreman undermines the potential development of these children.

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4 Legally, however, this Ministerial Regulation cannot be enforced because it conflicts with the Statute referred to above.

Obviously, in the long term this undermines the development of human resources needed to support industry. Rather, it is likely to create apathetic and passive individuals unable to contribute to the advancement and development of the nation. Besides, lack of human capital improvements reduces the country's capacity to attract foreign investors. Furthermore, Indonesia, which is a signatory to the Convention on the Rights of Children and has a Child Welfare Statute, is obliged to introduce a better living environment for working children.

The phenomenon of child workers has already become a dilemma. For the government, this phenomenon has a dark side which causes embarrassment. This explains why it has taken the easy way out by insisting that the problem does not exist, while at the same time maintaining legislation, the purpose of which is to prevent children from working. In reality, however, the existing prohibition gives the impression of being intended to demonstrate that Indonesia has paid attention to the matter, although there are no concrete follow-up measures to enforce the legislation.

The most recent development in connection with the question of child workers is the tacit admission by the government that there are children who work and that the matter must be dealt with. This admission is implicit in the inclusion of Indonesia in the ILO International Program for the Elimination of Child Labour (IPEC).[5] In the implementation of this program during 1992-1993, child workers who are recognised as constituting a problem are those employed in the informal sector in urban areas. Child workers in the formal sector do not yet represent a priority. In connection with the IPEC program, a national conference was conducted in Bogor, West Java, at the end of July 1993 to discuss how to deal with the question of children who are forced to work.[6] The conference produced a

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5 IPEC is a program whose long-term objective is to eliminate child labour in developing countries. An IPEC representative in Geneva has admitted that the program is an impossible one and that no timeframe can be set for the attainment of the goal unless the program is accompanied by significant efforts to reduce poverty in participating countries. The short-term objective of the program is to introduce protection for child labourers.

6 The conference sought to identify problems relating to child workers, to instill and increase community awareness of the issue, to improve the capacity of both government and non-government institutions that deal

number of recommendations that in essence urge the government to take immediate steps to protect working children by reviewing all legislation with the aim of providing legal security of a protective nature.

## Conclusions and recommendations

The tendency towards an increase in the number of children in the work force points to a serious problem. But since there are no specific and accurate statistical data on the number of child workers, there is need for a national survey that will reveal the number and distribution of such children. Policymakers usually have more confidence in statistics, which they often use as the basis in decisions about policy priorities. In the collection of data the following things need to be recorded: the age at which children began working, distribution of the sectors in which they are employed, location of work, types of work relations, types of jobs that children perform, working conditions (hours of work, wages and the like), the role of the child's earnings as a proportion of family income and the employment of parents. Such data would to some extent provide a picture of the world in which working children are involved and the importance of their employment for the children themselves and for their families. The data, in combination with the findings of existing studies, would be valuable in helping the design of policies.

The Department of Manpower could ensure greater functioning of the Sub-directorate for Supervision of Women, Child and Young Workers, which comes under the Directorate for Supervision of Labour Standards and Protection. A number of competent and knowledgeable staff members who show serious concern over the issue of child workers have already been placed in this sub-directorate. They need to be given the necessary authority to consider and implement recommendations concerning child labour. In keeping with Department of Manpower policies which stress child labour in the formal sector, the responsibility of the Department should be limited to this sector or to children who work for wages.

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with this matter and to attempt to formulate recommendations for the planning of national action to deal with the issue.

Responsibility for other groups of working children can be shared with agencies such as the Department of Social Affairs.

Legislation relevant to child labour needs to be reviewed immediately in order that clearly defined and realistic legal protection can be introduced. Such legislation must be improved through genuine enforcement. For example, it should include sanctions for infringements, preparation of details of implementation and the introduction of a system of labour inspection which is adequate in both number and quality of inspectors; finally it should include the dissemination of the legislation to all parties that are involved. Dissemination of legislation is essential, particularly among employers, who may be unaware of regulations concerning the employment of children.[7] Genuine support for the implementation of regulations could then be expected.

Employers should also be involved in the preparation of activities and programs for working children, especially since employees tend to be overlooked in efforts of this kind. The literature frequently refers only to the role of the government and NGOs in program implementation and overlooks the participation of entrepreneurs and managers (Bequele and Boyden 1988; Fyfe 1989; Myers 1991). Of course it is not easy to persuade profit-oriented entrepreneurs to introduce social welfare activities. Yet in reality any program that is attempted will prove to be more effective if employers are involved. Between 1980 and 1984 the Department of Manpower conducted a 'learning-while-working' program as a means of providing protection for child workers in a number of factories in eight provinces. This experience demonstrated that an approach of this kind can achieve satisfactory results if employers are willing to allow child workers to take part and provide a place where the program can be conducted (Dept. of Manpower 1986). Unfortunately, this excellent program was not continued, because it was no longer considered high priority by the Department.

There is a need to prepare many more programs that can facilitate the growth and development of child workers, based on comprehensive knowledge about the conditions of child workers. Since the conditions and problems faced by each group of child

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7 It would be ideal if the introduction and dissemination of this information could be accompanied by an explanation of the background to the legislation so that all would be aware of the real nature of the problem.

workers vary, the programs to be introduced must obviously be suited to a range of situations. Preparation of programs is by no means an easy task because it often happens that an action which aims to protect working children works to their disadvantage when it comes to implementation (Myers 1991).

Some of these recommendations, which are directed to the government, can be undertaken with the assistance of NGOs. The two parties need to work together in creating a protective atmosphere for child workers.

At the present stage in Indonesia's development and growth, child workers represent a group that can be said to be in a marginal position. Since they make a significant contribution to industrialisation, they also have the right to receive more attention. As workers, they also deserve the right to receive legal protection. However, because these children are in a specific category, there must also be special regulations concerning them. These regulations, if implemented, can guarantee the future development of competitive workers of high quality in the interests of industrial development.

# 16

# The 'Informality' of Employment in Construction: The Case of Jakarta

Kartini Sjahrir

## Introduction

This paper examines characteristics of the construction industry labour market in Indonesia. It discusses the mechanism and dynamics of labour supply and labour demand, job mobility, labour organisation, health and safety work and training programs. The examination is based mainly on my own field research conducted in Jakarta from 1986 to 1988 (K. Sjahrir 1990) and on observations since 1992.

## An overview of Indonesia's construction sector

The construction sector plays a major role in physical development and is considered to be the basis for further development of infrastructure such as bridges, hospitals, office buildings and roads. For Indonesia, the intense activity that has occurred in this sector has been one indication of the success of government development programs. Comparing Indonesia now with some twenty years ago, one sees the dramatic change in physical infrastructure that has taken place all over the country. In Java, for instance, city and village have come closer together due to major improvements in roads, electricity installations, bridge rehabilitation and other physical infrastructure. The role of the construction sector has also resulted in changes in migration patterns and labour recruitment for urban employment.

The growth of the construction sector has been relatively high (Table 16.1). Between 1986 and 1991 growth was ten per cent and a similar rate of growth has been projected for 1993. In terms of labour, there has been a significant increase in demand according to the population censuses conducted by the Central Bureau of Statistics. In

1971, the number of people involved in the construction sector was only 0.68 million; this number jumped to 1.66 million in 1980 and to about 2.0 million in 1990.

The significant increase in employment in the construction industry is mainly due to the high demand for physical infrastructure. Between the mid 1970s and early 1980s Indonesia had abundant revenue from the oil boom. This revenue made it possible for the government to establish schools, housing, community health centres (*Puskesmas*), roads and bridges on a large scale.

**Table 16.1: Percentage Contribution of the Major Sectors to Gross Domestic Product**

| | 1969 | 1978 | 1983 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|---|
| Agriculture | 34.69 | 23.32 | 22.89 | 21.22 | 20.40 | 19.42 | 18.46 |
| Mining | 7.51 | 30.26 | 20.75 | 15.90 | 15.51 | 15.19 | 15.57 |
| Industry | 6.85 | 10.28 | 12.75 | 18.19 | 18.48 | 19.35 | 19.93 |
| Construction | 2.10 | 4.69 | 5.92 | 5.26 | 5.47 | 5.80 | 6.03 |
| Others | 48.86 | 31.46 | 37.69 | 39.44 | 40.14 | 40.24 | 39.99 |
| | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

*Sources*: Central Bureau of Statistics.
Note: Oil refining and gas processing are excluded.

Post-oil-boom developments since 1985 have not greatly affected the activities of the construction sector. In the first two years after the end of the oil boom, construction sector activity declined. It soon expanded again, however; the contribution of the construction sector to GDP was six per cent in 1991. The greater contribution made by the construction sector partly relates to the greater role of the private sector in the economy since deregulation was introduced in 1983. Its participation is highly visible in urban centres such as Jakarta, particularly in property activities.

As the centre of business activity, Jakarta has expanded rapidly not only in size but also in physical infrastructure (see Table 16:2 and 16.3). The physical expansion of Jakarta is seen in the enormous number of office buildings and shopping centres that have been and even now are being built. The high demand has, for example, led to a significant increase in the area devoted to office space, which rose from 86,000 sq m, in 1977 to 550,000 sq m in 1985; it reached 1,199,000 sq m in 1991. Large office buildings have been built in every strategic location all over Jakarta. When one walks along the main streets of Jakarta, one sees that these streets are now occupied by high-rise buildings. Some ten years ago, most of them were the residential areas of well-to-do Jakartans.

Besides the rapid demand for office buildings, another striking demand has been for shopping centres. Several malls and other shopping blocks have been established and there are still more to come. There are now at least sixteen big shopping centres like Plaza Indonesia (42,000 sq m), Citraland Grogol in West Jakarta (4,900 sq. m.) and JITC in North Jakarta (4,800 sq m). About five years ago Jakartans were happy to have only six or seven malls. The same trend has also appeared in the construction of new *ruko* buildings.[1] The number of *ruko* increased from 360 in 1985 to 7,000 in 1992. The average *ruko* consists of 15 to 20 units, though there are some with more units. *Ruko* buildings are generally constructed next to housing estates. Among major cities in Indonesia, Jakarta is at the top of the list for registered *ruko* (5,446), followed by Batam Island (347 *ruko*), Balikpapan (154 *ruko*), Medan (120 *ruko*), Semarang (69 *ruko*) and Surabaya (64 *ruko*).

As the role of the private sector in the construction industry has become more pronounced during the last five years, one question which arises is the nature of employment in the industry. Studies show that the construction labour market is characterised by workers without direct access to formal institutions or legal protection (K. Sjahrir 1990; Firman 1989).

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1 *Ruko* is the acronym of *Rumah-Toko*, which is a two-storey building with a dual function. The ground floor is a shop (*toko*), while the upper floor is the owner's residence (*rumah*). The *ruko* is not a new phenomenon. It has existed since the colonial period. One of the first *ruko* buildings in Jakarta is located in the Senen triangle area in Central Jakarta.

**Table 16.2: Jakarta's Working Population by Sector, 1980- 1990, (thousands and percentages)**

| Sector | 1980 | | 1985 | | 1990 | | Growth 1980-90 (% p.a.) |
|---|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % | |
| Agriculture | 37 | 1.9 | 20 | 0.8 | 32 | 1.1 | -1.4 |
| Mining & quarrying | 14 | 0.7 | 19 | 0.8 | 8 | 0.3 | -5.6 |
| Manufacturing | 285 | 14.8 | 393 | 16.4 | 603 | 20.5 | 7.5 |
| Utilities | 11 | 0.6 | 13 | 0.5 | 27 | 0.9 | 9.0 |
| *Construction* | 129 | 6.7 | 158 | 6.6 | 146 | 5.0 | 1.2 |
| Transport & Communications | 159 | 8.2 | 208 | 8.7 | 213 | 7.2 | 2.9 |
| Trade | 471 | 24.4 | 695 | 29.0 | 871 | 29.6 | 6.1 |
| Banking & Finance | 64 | 3.3 | 52 | 2.2 | 124 | 4.2 | 6.6 |
| Public Services | 740 | 38.4 | 834 | 34.8 | 912 | 31.0 | 2.1 |
| Others | 1 | 0.1 | 2 | 0.1 | 2 | 0.1 | - |
| Not Stated | 17 | 0.9 | 1 | 0.0 | - | - | - |
| Total | 1928 | 100.0 | 2395 | 100.0 | 2938 | 100.0 | 4.2 |

*Source*: Central Bureau of Statistics, *Labour Force Situation in Indonesia*, several issues.

The 'informality' of the construction industry labour market can be understood by examining two major components that affect the condition of that market. One is the formal component, which consists of the government apparatus, the private sector and contractors. The other is the informal component, which consists of those who carry out the work. While some of these men are foremen (*mandor*), the majority are manual workers with different levels of skill (*tukang*). These two components have their own mechanisms, although they complement each other.

The construction industry labour market depends mainly on the availability of projects, which is largely determined by the formal component. The process of labour supply and the execution of work are handled by the informal component. The construction industry is labour-intensive. This means that the completion of work is in the hands of the *tukang*, regardless of the size of the projects. In terms of numbers, the *tukang* are the dominant figures in construction activities. Once the construction project is ready to operate, the *tukang* are mobilised and the rest of the work is left in their hands.

**Table 16.3 Jakarta's Working Population by Status (1980-1990)**

| | 1980 | | 1990 | |
|---|---|---|---|---|
| Status | No. | % | No. | % |
| Self employed | 360 | 18.7 | 640 | 21.8 |
| Self-employed (with assistance) | 145 | 7.5 | 160 | 5.4 |
| Employer | 43 | 2.2 | 46 | 1.6 |
| Employee | 1300 | 67.4 | 1966 | 66.9 |
| Family worker | 69 | 3.6 | 127 | 4.3 |
| Not stated | 11 | 0.6 | - | - |
| Total | 1928 | 110.0 | 2939 | 100.0 |

*Source:* Central Bureau of Statistics *Labour Force Situation in Indonesia*, various issues.

Informal characteristics have long existed in the construction industry. This pattern has not changed. Through the provision of insurance and encouragement of labour organisations, the government has made efforts to reduce the 'informality' of the industry's labour market. The results have been minimal, however. With the greater role of the private sector, it can be asked to what extent the sector will participate to reduce the 'informality' of the construction industry labour market. Possibly the private sector may find it better to leave the situation just as it is, since this approach is likely to be more profitable than introducing changes. In considering the response of the private sector, however, it is necessary to look at profiles of the *tukang* and the *mandor*.

## Profiles of workers and foremen

The *tukang* are in general not natives of Jakarta. My study found that the majority of skilled workers who were interviewed came from villages in Central and East Java. Most of them had been aged about fifteen or sixteen when they left their home and village for the first time. At that time they were single. Only after they had stable work (like being promoted from the level of apprentices to that of *tukang*) did they look for wives. Married workers lived in Jakarta without taking their family with them. They visited their family once in a while when time permitted.

Most of these *tukang* were former wage labourers in areas of wet-rice cultivation. Their educational level is relatively low, usually only primary school level. As the majority of rural households rely on income from labour, education is not a high priority. Bearing in mind that households in rural Java are poor, the sooner a household member enters the labour market the better. Most of the workers that I studied said that education is important but is too expensive. They have to meet their basic needs and this cannot be combined with school.

A *mandor* is considered to be a person with skill and leadership qualities. He is more than just a foreman on the construction site. He is expected to be able to secure jobs for his *tukang*, to find solutions to their personal and occupational problems and to impose discipline whenever necessary. To be a *mandor*, a high level of education is not a

requirement, although in many cases the *mandor* has more education than his workers and has usually graduated from junior high school.[2]

A *mandor* is usually appointed by the contractor on a basis of the latter's evaluation of the *mandor*'s working performance and his ability to deal with his own *tukang*. The *mandor* usually comes from the same village as his *tukang*. Thus, for the *mandor* the main source of labour is his home village. He often asks his senior *tukangs* to do the recruitment and they recruit from their own village or from among their close relatives. It seldom happens that a *mandor* travels to other villages to find labour unless he is familiar with those places, which may be the homes of distant relatives or of his wife's family. These recruiting patterns help explain why workers often come from several villages.

A *mandor* has the same working experience as a *tukang*. In the beginning he works as a *kernet* (apprentice). If he does the job well, he is promoted to be a *tukang* after two years of work. In this phase, he specialises in a certain activity, becoming a carpenter, brickmaker or blacksmith. When he has sufficient experience in this field, he is promoted to *tukang ahli* (senior *tukang*). At this stage, he might be appointed as a *mandor* if he is considered to have leadership qualities. Otherwise he remains a *tukang ahli* until he retires.

## Migration and labour recruitment

One striking phenomenon in Indonesia during the last twenty years has been migration from villages to cities, particularly the city of Jakarta. As the centre of economic and political activities in Indonesia, Jakarta has been the 'target' for many migrants.

The arrival in Jakarta of the *tukang* interviewed in my study can be divided into two phases. The first phase occurred between 1970 and 1980. There are two major reasons why these migrants left their home villages. One is political and the other is economic. After 1967 the government launched an action directed towards those who had had affiliations with the banned Communist Party (PKI). Thousands of people left their home village hoping to find a place where they

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2 In my study, only one out of ten *mandor* had nothing more than a primary school background. This man was appointed as a *mandor* because he had vast experience in the construction field and his *tukang* always followed his instructions.

were politically not recognisable. One of my respondents said that at that time there were signs, according to the village authorities, that his father and his uncle were loyal PKI supporters. As a consequence, his family was isolated from many activities in the village. At school, he was yelled at by his classmates as *anak PKI* (child of the PKI). He then refused to go to school even though he knew that his dream of becoming an army officer would never be realised. At the age of fourteen he left for Jakarta with a relative. He has never been back home since, even though he misses his home village very much.[3]

The second reason for migration to Jakarta during this first phase is economic in nature. Greater agricultural intensification in the 1970s resulted in an increase in rice production, yet at the same time it caused labour dislocation in many rice-growing areas. Villagers had increasing difficulty in finding jobs that offered a wage sufficient for a decent life. One of the solutions was to leave the home village and look for a job elsewhere. The best place to go was Jakarta.

The second phase of migration took place in the 1980s. This phase was characterised by major improvements in roads and bridges and by an abundance of public transportation, which reduced the distance between city and village. The rapid flow of information made possible by radio, newspapers and television and more recently by public phones[4] resulted in migrants obtaining information on job availability and places to move to. Therefore, migrants already knew about their jobs before they left home.

Direct migration from the village to the place of destination has been a phenomenon for the last ten years due to improvements in physical infrastructure. In his study of construction workers in Bandung, the capital of West Java, Firman (1989) has shown that road

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3 When I met with my former respondent of the village of Jeber recently, I asked him if the action against former Communists, *bersih lingkungan* (clean environment), still applied. To my surprise he said that it did not. The village authorities are nowadays more concerned with so-called Muslim extremists. This might have something to do with religious movements due to economic disparity which have emerged in some villages in the last three years. The collapse of the Communist regime in Russia and associated developments have resulted in less pressure on former Communists in Indonesia.

4 This new phenomenon started about 1990; public phones are now available down to the village level.

improvements have made it possible for the majority of workers to commute between their villages and places of work. Construction workers in Jakarta do not commute, however, since their homes are mostly quite far from Jakarta. Even so, road improvements enable them to go back home any time they want to without difficulty. Before 1980 it took up to ten hours to go by car or bus from Jakarta to Pekalongan in Central Java. Nowadays it takes only six to seven hours and the choice of transportation is more varied.

The disparity between rural and urban wages has encouraged rural people to enter urban areas in Africa and other regions (Harris and Todaro 1970; Safa and Du Toit 1975). This is true of the construction workers that I studied. The jobs that they previously had were not enough to support a family, yet options for better jobs were not available in the village. Thus they moved to the city, which they knew could offer them employment with higher earnings.

## Workers' activities and wages

The *tukang* start work early in the morning around 8.00 am and continue until 5.00 pm in the afternoon. They work seven days a week and only take days off when they are sick or when the project is delayed. According to Law No. 1 of 1950, Article 10, a worker should not work more than seven hours a day and 40 hours a week at normal rates of pay. Construction workers usually work eight hours a day and 56 hours a week (see Table 16:4 for details of hours worked in Indonesia).

It is interesting to observe the work atmosphere on construction sites. There is much physical activity and work is undertaken in an open space under the sun's heat. The workers have to be able to maintain their stamina. The way they do this is by singing songs or telling jokes while working. During the lunch break, which lasts for about an hour, the men have a heavy meal with sweet tea. Paid overtime work seldom occurs, unless the project has to be completed earlier than scheduled.

The wages of the *tukang* vary, depending upon the type of occupation. In 1992, carpenters received the highest wage, which was then around Rp10,000 a day, followed by bricklayers (*tukang batu*) and

blacksmiths (*tukang besi*), who both earned Rp7,500 a day. Apprentices earned Rp5,000 a day.[5]

**Table 16.4: Distribution of the Indonesian Working Population by Hours Worked, 1985 and 1990 (%)**

| Hours worked | 1985 | 1987 | 1990 |
|---|---|---|---|
| Temporarily not working | 1.7 | 1.5 | 1.4 |
| 1 - 9 | 3.2 | 3.2 | 3.3 |
| 10 - 24 | 17.9 | 19.5 | 20.9 |
| 25 - 34 | 15.6 | 17.3 | 18.2 |
| 35 - 44 | 26.0 | 26.5 | 25.7 |
| 45 - 59 | 25.0 | 24.0 | 22.5 |
| 60+ | 10.7 | 8.0 | 8.0 |
| Total | 100.1 | 100.0 | 100.0 |

*Source*: Central Bureau of Statistics, *Labour Force Situation in Indonesia*, various issues.

In general, the wages of *tukang* are higher on large-scale projects than on small and medium-size projects. In the large projects, for example, bricklayers received Rp10,000 a day instead of Rp7,500. This is due to two factors. First, the *tukang* on large projects faces a higher risk in his work since he is engaged on a high-rise building project or a project using high technology. Secondly, large projects always

5 In 1988 the wage for a carpenter was Rp 6,000 a day, whereas *tukang batu* and *tukang besi* earned Rp 4,500 a day. An apprentice was paid Rp3,000 a day. These were the wages earned by men who worked on the construction of public utilities like primary schools built under the *SD Inpres* program. If they worked for private housing projects, the wage was much higher. A highly skilled carpenter might receive Rp15,000 a day on a private housing project.

require a higher level of skills due to more complex specifications and the precision needed in the work.

A comparison of a *tukang*'s income with that of a man employed in agriculture shows that in absolute terms the *tukang* receives at least twice what he could earn as a wage labourer in rice cultivation. In 1992 the highest wage in rice cultivation in Central Java did not exceed Rp1,500 or at the most Rp2,000 for a working day of six to seven hours.[6] The *tukang*'s earnings are higher and an apprentice's slightly lower than those of a *tukang becak* (pedicab driver), who earns between Rp5,000 and Rp7,000 for eight to ten hours. The *tukang*'s wage is also higher than that of low- and middle-level employees in the formal sector.

Needless to say, few *tukang*, if any, complain to their employers because of the level of wages. We almost never hear of labour strikes launched by these workers, even when their accommodation facilities are poor.

## Household expenses, remittances and savings

With regard to living expenses, there are two households that workers have to take care of. One is the Jakarta household; the other is the village household. The *tukang*'s household in Jakarta is located in barracks, where he shares living costs with other workers. Although barrack accommodation is provided free during the work phase, workers still have to pay for basic needs like meals and laundry and other expenditure like recreation and savings.

Every two weeks the workers receive their wages, and every month they send remittances to the village. The amount varies depending on marital status, number of dependants and the income they have from construction work. In general, a *tukang* spent between Rp2,000 and Rp2,500 a day for meals and other necessities in the late 1980s. Married men spent less than that in order to send more money back to the village. Single workers were likely to spend more since they did not have dependants in the village. Married *tukang* could

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6 The Regional Minimum Wage (UMR) in 1991 for Jakarta was Rp2,500. Three years ago it was Rp1,600. There was a significant increase in the UMR for Central Java, where it rose from Rp780 in 1988 to Rp1,600 in 1991. For more information see Rudiono, 'Kebijakan Perburuhan' in *Prisma* No. 1, 1992.

send as much as Rp50,000 to Rp 75,000 (approximately US$25 to US$35) a month to their family in the village.[7] If a man wanted to send more, he reduced his expenses in Jakarta, as a certain Mr Am did. Every month he sent a remittance of about Rp50,000. He kept trying to increase the amount by living modestly. He ate meat only once a week. A bowl of clear soup with salted fish was enough for his daily meals, provided that he had plenty of rice. Recreation like watching a movie was absent from his life. The way Mr Am pursued his life was rather different from Mr Un's lifestyle. The latter spent his money generously on food and fun. His daily meals consisted of meat, egg and fish and he liked to have a snack in the afternoon. Every Saturday or Sunday afternoon he went to see a movie or listened to music in a public park.

The extent to which construction workers save money varies. Savings have various purposes. First, they are used for emergencies like an accident at work. Secondly, they are used for working capital, for when an apprentice is promoted to be a *tukang*, he uses his savings to buy his own tools. Thirdly, they are used for children's annual school fees. Fourthly, they are used to buy assets like cattle, to build a house or to purchase a piece of agricultural land in the worker's home village.

Not all construction workers save, as I found in my study. No more than ten per cent of all respondents stated that they had savings. This is closely related to the level of income and of expenses. On average, those workers who save money put aside around five to ten per cent of their total income every month. They do not put the money into a bank; instead, they keep the money themselves or ask the *mandor* to keep it for them. Most apprentices do not have savings in the first years of employment as they do not have enough income to put any money aside. Income is only enough to meet basic needs, and other necessities like going to the theatre. They do not feel the need to save money because they are bachelors.

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7 The amount would be much smaller for apprentices or unskilled labourers (*kuli*) working on construction sites.

## The barrack

Why is the barrack (*bedeng*) where workers live important and why is it relevant to an understanding of the dynamics of the construction industry labour market in Indonesia? To discuss the *bedeng*, one needs to conceptualise or define it. It can be defined as a 'socioeconomic unit where *tukang* live together, share a set of interests and perform the same economic activity. The *bedeng* is also a place to organise and distribute the labour force' (K. Sjahrir 1990:215).

The *bedeng* is located close to or on the construction site and is made from leftover materials. Constructed with triplex walls, an iron roof and an earth floor, the *bedeng* can be large enough to accommodate fifteen to twenty men. In general, it is a very modest building with poor facilities. It has no electricity nor is there clean water. Water comes from a shallow well nearby and it is used for many purposes. The well water itself is far from clean and therefore the men often suffer from diarrhoea and dengue fever. My study in the Plumpang area of North Jakarta showed how poor the facilities were. At night the *tukang* used simple kerosene lamps. About forty people slept in the *bedeng*, which made them look like sardines packed in a tin (see K. Sjahrir 1990:223).

Although the conditions in the *bedeng* are far from adequate, it seldom happens that a *tukang* looks for another place to stay. Being with others is more important for many workers than a good place to stay. Besides that, job information, gossip and other news can be shared and passed from one to another. The fact that they can get together socially and the fact that the *bedeng* is a place to exchange information encourage workers to stay there, regardless of the poor facilities.

Djayusman (1992) in her article about the life of female workers in a textile establishment located in Tangerang, West Java, wrote that women workers live in an *asrama* (dormitory) which '... consists of 187 rooms and each room is occupied by eight to ten female workers. Every room is headed by a senior worker. After the work is over the workers return to their *asrama*. They are not allowed to meet and to communicate with outsiders. They are practically isolated from the outside world. They are there only for work ...'

The life of the *bedeng* in which construction workers live is different from life in the *asrama*. The men are free to go outside sightseeing or shopping. There is no rule in the *bedeng* that prevents them from having networks outside. A *tukang* can invite his friends

and colleagues to visit him any time he wishes. In many cases, these guests can even stay there overnight. The *bedeng* and the *asrama* are similar, however, in that facilities are equally poor. Despite the poor facilities, it seldom happens that workers in *bedeng* conflict over such things as use of the bathroom and choice of the best spot in the bedroom. In the case of the *asrama*, studies have found that these poor facilities cause women workers to come into severe conflict with each other.

## Health insurance and safety

In any discussion of the condition of Indonesia's workers, health and safety are important subjects to be addressed.

The workers employed on a construction project are insured through *Astek* (Asuransi Sosial Tenaga Kerja), a state-owned enterprise under the supervision of the Minister for Manpower. The money for the insurance is obtained from the contractor and is deducted directly from the project budget. The insurance premium is not paid on an individual basis but by the size of the project. If the project is classified as a B or medium-level project, then around five per cent of the total cost is usually paid to *Astek*, regardless of the number of workers employed on the project. For a large (A level) project, the percentage for *Astek* is around two to three per cent of the total cost.

The workers themselves know very little about *Astek*. Nor do they have any idea of how to claim the *Astek* insurance when an accident or illness occurs during work. If they have an accident or illness, they cure it themselves or go to the nearest community health centre (*Puskesmas*). The foremen also know little about *Astek* and do not pay much attention to its existence.

Lack of interest in *Astek*, even when health problems occur, partly relates to the nature of *Astek* itself. *Astek* was established under Government Regulations No. 33 and No. 34, 1977, by the Minister for Manpower as social insurance (*jaminan sosial*) for educated and trained labour and workers in the 'formal' sector.[8] In connection with

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8 According to Decision of the Minster for Manpower No: KEP 116/MEN/1977, the claim procedure and the payment process for working accident insurance and death insurance are to be handled by *Astek*. It is also stated in Ministerial Regulation No: KEP 577/MEN/1989

the above regulations, the question is whether individual workers are entitled to *Astek* insurance and whether a deduction should be made from their wages for this purpose. This does not happen. Instead, the cost of *Astek* is deducted from the project budget. The contractors themselves act passively in informing both *mandor* and *tukang* about the *Astek* program. Perhaps in the mind of the contractors *Astek* is nothing more than a bureaucratic procedure that they have to follow when dealing with government projects. The *Astek* apparatus also displays a similar attitude by not informing manual labourers about the importance of insurance.

As the *tukang* looks to the contractor in a submissive way, he looks to the *Astek* apparatus in a similar way. For a worker, it is hard to imagine making a claim to *Astek* (assuming he knows about it and wants to do so), as it is a formal institution far removed from workers. Thus, if there is a serious health problem, workers usually seek help from the *mandor;* if it is only a common illness like flu or fever they cure it themselves by using *jamu* (traditional medicine made from herbs). Many of the construction workers have health problems however. Besides an appearance of anemia, lung disease and skin diseases (including scabies) are common.

Like the problem of health, the workers also face work safety problems. It is widely known that they work with minimum safeguards. They seldom wear shoes, gloves, hats, protective garments, glasses or other necessary equipment. Thus, in many construction projects, work is risky. It often happens that a *tukang* works on a high-rise building in bare feet, without a hat or gloves and supported only by bamboo scaffolding. Men can often be seen working on electricity installations without safety equipment of any kind.

In 1985 the Minister for Manpower issued Regulation No. PER 04/MEN/ 1985 about safety. It states that safety equipment must be provided when high technology is used for physical development. In another regulation it is stated, among other things, that power shovels should be well maintained; when the machine is in operation workers

are not allowed to work around it (Article 45).[9] The contractor is responsible for the safety equipment. and has to ensure that the site where the workers are employed is a safe area (Article 67). The contractor also has to provide workers with safety equipment in accordance with the type of work that they have to perform (Article 99).

Despite the clear statements in these regulations, contractors never instruct their foremen that the workers have to use safety equipment during work. Nor do the contractors provide the workers with safety equipment. The contractors believe that the workers are not their responsibility. It is the foreman's job to think about the safety of workers. From the worker's point of view, getting a job is of more concern than discussing safety.

Since legal sanctions are hard to impose effectively on contractors, the latter can easily avoid any responsibility. Actually, if the construction workers' labour organisation participated actively in representing the needs of workers, the contractors would be encouraged to play their part in providing safety equipment. Although there is a *Serikat Buruh Bangunan Pekerjaan Umum* (Construction Workers Labour Organisation), the majority of construction workers do not feel that they are part of that organisation. The presence of SBBPU is seen only on paper rather than in the performance of concrete activities.

## Training programs, processes and problems

As previously mentioned, the actual work of a construction project is in the hands of the *tukang*. In connection with their important contribution to the final stage of work, a working certificate is necessary. This certificate is obtained through a training program.

In 1980 the Department of Manpower established the Construction Industry Promotion Project in which the main goal was

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concerning a Social Insurance Program for Workers in the Oil and Gasoline Sub-sector that the monthly payment for accident insurance and death insurance is to be about 12 per cent of monthly salary.

9 Regulation No. PER 01/MEN/1980 issued by the Minister for Manpower in conjunction with the Minister for Transmigration, which specifically deals with the issue of safety for construction workers.

to improve the skills of foremen and workers. This project did not function well, since it lacked qualified instructors. Another training program was established in 1987 initiated by the Department of Public Works in cooperation with the Department of Manpower. The program has worked more effectively and still exists. The aim of the program is to develop workers' skills. In 1987 and 1988 560 workers from various parts of Indonesia took part in the training program. This figure jumped dramatically to 26,163 in 1989/90 when the government intensified the program by recruiting *tukang* from twelve provinces.[10] The Jakarta Special Region (DKI Jakarta) is at the top of the list in the number of *tukang* who took part in this program.

The increased number of training program participants shows that there has been a change in attitude towards the importance of work certification. The greater role of the private sector in the construction industry has resulted in a greater demand for qualified *tukang*, the reason being that the private sector generally engages in large projects that need technical precision in work. Without qualified *tukang* it is difficult to complete the work. Besides the greater role of the private sector, another reason is the growing concern of the government for the quality of the human resources, which is a priority in both *Repelita V* and *Repelita VI*.

Problems remain, however, despite a quantum jump in the number of participants attending the training program. Work certificates should be accompanied by an improvement in wages, working facilities and the quality of tools. This depends on improvements in other institutions like the Department of Manpower, the Department of Finance and the Department of Public Works. The extent of their involvement and the importance of training for *tukang* are major questions.

The following example illustrates some of the problems connected with training. In the construction project that I studied, some *tukang* participated in the training program in Surabaya for three weeks. When the training was over, they went back to their former jobs. Soon, they faced problems in using their new skills. As bricklayers, they were used to using a rectangular dipper in their work. Through training, they were taught to use a triangular dipper, as this new method is considered more effective and it saves in the use of materials. When they introduced the new method to other *tukang*

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10 This figure was obtained from the Department of Public Works.

there was no response. The *mandor* even discouraged it by saying that the triangular dipper was not available in the market. I asked the *mandor* his opinion about the training program. He said that training is not very useful, especially if it slows down the work. According to the *mandor*, the new method uses different tools and in turn demands a different size of brick. The *tukang* agreed with the *mandor*. On one hand, the training programs give them self-confidence, but on the other hand the training itself can cause these workers to face difficulties on their return to the field.

## Conclusion

It is widely recognised that the government's economic role is not only to assist activities in rural areas but also to develop urban centres. The development of urban centres has attracted many rural migrants to these places, including construction workers. Rural areas still remain the major source of construction industry labour.

As briefly discussed above, since 1988 the private sector has played a greater role in the construction sector, especially in urban centres. With the expanded role of the private sector, the construction industry has a brighter future. The government can entrust some of its projects to the private sector, especially profit-making projects like toll roads and property development.[11] At the same time optimism about the role of the private sector is growing and there is hope that its presence will improve the quality of the construction industry's human resources.

Even today, however, there is no evidence of a positive correlation between the greater role of the private sector and the demand for workers with skill certificates. The existence of training centres known as BLK (*Balai Latihan Kerja*) is certainly something positive. But to have more participants attending the BLK, this program needs to be established in every major city and in places where construction work is concentrated. The BLK can be useful only if consideration is given to certain issues. First, there must be a change in the attitude of foremen, who should look at the training program in

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11 One important question is how long this large-scale involvement of the private sector can continue, considering the situation of bad debts that has been a major concern of the business community in 1993.

a more positive way. Many workers who have certificates face a situation in which the *mandor* avoids their presence after they complete the training program. Secondly, the contractors, in cooperation with the *mandor*, should provide these workers with a competitive wage, better working and health facilities and other incentives. This would prove a great incentive for *tukang* to join the program. Thirdly, the BLK should formulate training curricula in accordance with workers' needs. Fourthly, the participants should receive sufficient compensation (in the form of cash) to support them during the training program. Fifthly, the BLK should make basic skills a main requirement for entry to the training program.

Another important issue involves the future career of workers. Since the work includes heavy physical activities, health and safety are extremely important. These two factors have seldom been a priority among contractors, foremen or even workers. Since almost no legal sanctions are imposed on the contractors, they have never been pushed to take action. The workers are in a weak position in dealing with their contractors, but they might have a stronger bargaining position if their labour organisation played an active role on their behalf. It could, for example, educate them in understanding worker rights.

# *IV. Village Workers*

# 17

# The Opening of a Village Labour Market: Changes in Employment and Welfare in Sriharjo

**Masri Singarimbun**

## Introduction

Over the last two decades, a significant socio-economic change has taken place in rural Java. This change has been closely related to the rapid economic growth which has run parallel with an increase in oil revenues, foreign and domestic investments in industry as well as agricultural development, especially irrigation and agricultural intensification.

Along with these new developments, there have been developments in transport facilities, electrification and extended opportunities for education. On the other hand, these changes have been followed by economic and occupational diversification in the rural areas, which has opened up new employment in the villages, especially in off-farm and non-farm jobs.

Employment opportunities in the cities have also increased, both in the formal and informal sectors. The part of the labour force that has difficulty in finding jobs in the villages goes into the cities. These people maintain contact with their villages by setting aside some of their incomes to be sent to their families.

This paper describes the development of the economic life of the people in the village of Sriharjo, Yogyakarta, during these past two decades. It deals with changes in land ownership patterns, employment structure, and the types of employment of those who leave their hamlets to work in other places. It also discusses the decline in the number of those who live in poverty.

Most of the analysis in this paper has been based on data collected in 1969, 1973 and 1989.[1] Miri, which is one of the 13 hamlets in Sriharjo, was chosen for research into the economic life of this community. This hamlet lies by the main road and is the 'gateway' to Sriharjo.

## Economic and social infrastructure

In 1969 the choice of Sriharjo as the object of my research on family planning was made because it was then a relatively remote area which was well suited to the need at that time for an investigation into traditional methods of family planning. The two bridges that linked Sriharjo and neighbouring areas (Yogyakarta, Gunung Kidul, and Parangtritis) had collapsed. The most widely used means of transportation were horse-carts (*andong*), ox-carts, bicycles, and — for those who could afford them — motorbikes.

The traders mainly used horse-carts and ox-carts to carry their commodities. In those days, people such as banana-sellers walked all the way through the night and arrived in the city of Yogyakarta early in the morning. Although a bus service was available, the relatively poor traders choose to go on foot because they could not afford to take a bus or even go by horse-cart and would rather spend their money on food. During *paceklik* (the lean season), the villagers had to make do with *gaplek* (dried cassava).

In 1975 one of the broken bridges that linked Yogyakarta and Imogiri was rebuilt so that Sriharjo was reachable by bus. The other one was also later rebuilt; the road was then asphalted and became one of the most important roads that linked Yogyakarta, Imogiri, Parangtritis, and Gunung Kidul. As more and more motorised vehicles passed along this road, the atmosphere of remoteness gradually disappeared, especially when people began to set up repair workshops for bicycles and motorbikes along the roadside. There was an increase in the number of and variety of means of transport. In 1975 there were 20 motorbikes and no four-wheeled

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1 A series of surveys was carried out in Sriharjo in 1969, 1973, 1979, and 1989. In these surveys, there were differences in focus, and this makes it sometimes difficult to make a proper comparison.

motor vehicles. At the moment, there are 75 motorbikes, four mini-vans and one lorry owned by the villagers.

Thanks to the 'Lomba Desa' (Village Competition) program in 1986/1987, a stone fence was built along the road, which makes the village look neat and well taken care of. To the casual traveller, Sriharjo no longer shows signs of poverty.

There has been substantial progress in the provision of educational and health-care facilities. In 1970 there were only one kindergarten, three primary schools, and no junior high schools. In 1989, there were three kindergartens, six primary schools and one junior high school.

In the past, there was only one auxiliary health centre which opened once a week and was run by a paramedic from Yogyakarta. Now they have a health centre (*Puskesmas*) which opens daily and is frequently visited by patients not only from Sriharjo but also from the neighbouring village. It has a resident doctor who also runs a private practice in the afternoon.

## Land ownership

Within a period of 17 years there has been a decrease in the population of Miri from 918 (in 1972) to 859 (in 1989). The number of households has also decreased from 164 to 159, and there has been a slight decrease in the average number of family members from 5.6 to 5.4. Transmigration to the outer islands (13 households) and a decline in the fertility rate are the factors affecting this drop in population.

Table 17.1 shows that the number of landless farmers has increased from 37 per cent in 1969 to 48 per cent in 1989. The number of landowning farmers (with 0.2 hectare of land and under) has increased from 84 to 90 per cent. These farmers can be classified as belonging to the category of people experiencing 'land shortage' (Hardjono 1987:247). On the other hand, the proportion who own land above 0.2 hectare has decreased from 16 to 10 per cent. There seems to be no trend towards greater concentration of land ownership.

## Changes in employment opportunities

Changes in the economic life of Miri-Sriharjo are clearly reflected in the diversification of economic activities of household heads. In

1969, as many as 34 per cent of household heads were farmers and 35 per cent were agricultural workers. Thus agriculture was the major source of employment of two-thirds of all the household heads. Next in importance to these occupations were village officials, civil servants and members of the armed forces (15 per cent). They constituted the upper layer of the social stratum here as in other rural areas.

**Table 17.1: Miri: Distribution of Land Ownership (*Sawah* only)**

| Area of land (ha) | Percentage of families in each category | |
|---|---|---|
| | 1969[1)] | 1989[2)] |
| None | 37 | 48 |
| 0.001-0.05 | 13 | 16 |
| 0.051-0 10 | 17 | 13 |
| 0.101-0.20 | 17 | 13 |
| *Sub-total* | *84* | *90* |
| 0.021-0.40 | 11 | 6 |
| 0.401-0.80 | 4 | 4 |
| 0.801 and above | 2 | 0 |
| | 101 | 100 |
| N | 164 | 159 |

*Sources:* l) D.H. Penny and M. Singarimbun, 1973:10.
2) Miri-Sriharjo Survey, 1989.

In the past there were no industrial labourers working outside the village, very few artisans/workmen (6 per cent), not many traders/ shopkeepers (3 per cent), and no persons engaged in public transport (lorry-drivers, assistants to drivers, or pedicab-drivers). Owing to the bad condition of the roads and bridges, Yogyakarta (16 km away) was too far away for job opportunities, which in any case were also scarce at that time.

**Table 17.2: Changes in Major Source of Household Income,[1] Miri-Sriharjo, 1980 and 1989 (percentage distribution)**

| Occupation | 1980 | 1989 |
|---|---|---|
| Office workers | 21.4 | 28.9 |
| Farmers | 17.3 | 13.2 |
| Tappers of coconut trees | 14.5 | 13.8 |
| Traders | 12.4 | 11.9 |
| Construction workers | 10.3 | 8.2 |
| Services | 9.0 | 6.3 |
| Agricultural labourers | 8.3 | 5.7 |
| Industrial workers | 2.8 | 8.2 |
| Tailors | 2.1 | - |
| Others[2] | 2.1 | 3.8 |
| | 100.2 | 100 |
| N | 145 | 159 |

*Source:* Miri-Sriharjo Survey, 1989.
Notes: 1. Refers to heads of households.
2. Includes hairdressing, transport and tile manufacturing.

An important change has taken place since the late 1970s. There has been a sharp decline in the number of people whose major source of income is from agricultural activities. As shown in Table 17.2, only 40 per cent of households reported a main source of income from agriculture in 1980. They consisted mainly of farmers (17 per cent), agricultural labourers (8 per cent) and tappers of coconut trees (15 per cent). On the other hand, there was a rise in the number of those employed as traders and construction workers. New types of employment beauty parlours, and a variety of jobs such as industrial wage workers, female construction workers, *bakso* (meatball soup) vendors, and lorry drivers.

A comparison of the main sources of income of the family (not only those of household heads) in 1980 and 1989 shows a notable change. The proportion of office workers has gone up and the proportion of farmers and agricultural workers has gone down. The

share of traders and coconut tappers remains relatively high. There is an increase in the number of industrial wage workers but a slight decrease in construction workers, though the proportion remains relatively high.

In general, each household has a multiple source of income, which is a strategy to cope with poverty (White 1986). Table 17.3 shows that according to secondary sources of income 21 per cent were farmers, 19 per cent office workers, 16 per cent coconut tappers and 14 per cent agricultural labourers. Those who worked in repair workshops and the construction industry had no additional sources of income.

**Table 17.3: Primary, Secondary and Tertiary Sources of Household Income, Miri-Sriharjo, 1989 (percentages)**

| | Source of Income | | |
|---|---|---|---|
| | Primary | Secondary | Tertiary |
| No other source | - | 3.1 | 21.4 |
| Office worker | 28.9 | 18.9 | 15.1 |
| Tapper of coconut trees | 13.8 | 15.7 | 24.5 |
| Farmer | 11.9 | 21.4 | 17.0 |
| Trader | 11.9 | 4.4 | 2.5 |
| Construction worker | 8.2 | 1.9 | 1.9 |
| Industrial worker | 6.3 | 7.5 | 0.6 |
| Services | 6.3 | 2.5 | 1.9 |
| Agricultural labourer | 5.7 | 13.8 | 6.3 |
| Livestock breeder | 1.3 | 4.4 | 8.8 |
| Tailor | - | - | 0.6 |
| Other | 5.1 | 5.7 | |
| Total | 99.4 | 99.3 | 100.6 |
| N = | 159 | 159 | 159 |

*Source*: Miri-Sriharjo Survey, 1989

In spite of the high socio-economic status of office workers in rural areas, many of these people earn more from other sources of income. As many as 15 per cent recorded office salaries as tertiary sources of income, which suggests that their incomes are relatively high. A small number of those who derived income from trade also mentioned this as the third most important source of income, also implying relatively high incomes.

On the other hand, those whose main source of income was derived from working as coconut tree tappers usually earned low incomes. However, a considerable number (25 per cent) of those who earned their living as tappers recorded this as a tertiary source of income. Those whose main source of income was from working as agricultural labourers also tended to have low incomes.

## Employment opportunities outside the village

Along with the economic progress experienced during the 1970s, migration from Miri-Sriharjo increased and has continued to do so ever since. Records show that 141 inhabitants of Miri left their village in search of employment from the 1960s, most of them moving after 1975: 21 per cent migrated in 1976-80, and 25 per cent in both 1981-85 and 1986-89 respectively.

Most of those who work outside Sriharjo have received relatively high education. More than half of them (52 per cent) are high-school graduates, some of whom had even had some tertiary schooling, 16 per cent were junior-high-school and 27 per cent primary school graduates; only 7 per cent were primary school drop-outs. Only one person never went to school. This means that their levels of education are higher than those of the household heads, among whom nearly half were illiterate or primary school drop-outs.

The majority of these villagers work in other provinces. Out of the 141 who had left the village, only 16 settled in the Special Region of Yogyakarta (outside of the Imogiri District). The rest worked outside Yogyakarta: 7 people in East Java, 33 in Central Java, 40 in West Java and 22 in Jakarta, while 23 people have left Java to work in Sumatra and Kalimantan. They worked mainly as teachers (22 per cent), office workers (21 per cent) and industrial wage workers (18 per cent), and also in services, farming, and trade. A considerable number (11 per cent) were job-seeking in 1989 (Table 17.4).

Improvements in transportation and information media have changed the people's perception of distance. An informant's remark that big cities like Jakarta, Surabaya and Bandung are 'almost like your neighbours' represents this change of perception. In the past these cities were seen by villagers as extremely distant places.

**Table 17.4: Occupation/Sector and Place of Work of Out-Migrants from Miri-Sriharjo, 1989**

| | YSR* | East Java | Central Java | West Java | Jakarta | Outside Java | Row Total |
|---|---|---|---|---|---|---|---|
| | Number of Cases | | | | | | (No./%) |
| Unemployed | 1 | - | 6 | 3 | 4 | 1 | 15<br>10.6 |
| Office workers | 1 | 3 | 7 | 6 | 5 | 8 | 30<br>21.3 |
| Teachers | 3 | 3 | 6 | 12 | 5 | 2 | 31<br>22.0 |
| Agriculture | 4 | - | 2 | - | - | 9 | 15<br>10.6 |
| Traders | 2 | - | 1 | 1 | 2 | 2 | 8<br>5.7 |
| Services | 2 | - | 6 | 5 | 4 | - | 17<br>12.1 |
| Industry | 3 | - | 5 | 14 | 2 | 1 | 25<br>17.7 |
| Column N | 16 | 7 | 33 | 41 | 22 | 23 | 141 |
| Total* % | 11.3 | 4.3 | 23.4 | 29.1 | 15.6 | 16.3 | 100.0 |

Note: *Other Sub-Districts in Yogyakarta Special Region.

Information on employment opportunities is generally obtained from a variety of sources: the local office of the Department of Manpower, announcements made by village heads or advertisements

in newspapers and on the radio. In addition, another important source of information comes from those who have already found jobs in cities, thereby creating a kind of 'chain migration'. As an example, a man called Parjo who works as an industrial wage worker in the large Bogasari flour mill near Jakarta has attracted, over time, 10 fellow villagers to go to work in the same place.

Many of the inhabitants of Miri have gone to the SPG (Primary Teachers Training School), which is run by the Muslim organisation *Muhammadiyah* and is situated only two kilometres from the village. Since 1975 there has been a great demand for teachers in many regions in Indonesia. A number of requests from West Java to employ SPG graduates, including those from Miri, are typical examples of this demand. The levels of education of those who work as teachers and office workers are generally higher than those taking up other jobs. Those with the lowest level of education generally work in the agricultural sector.

Many villagers point out the advantage of migration by referring to 'success stories'. They often mention that villagers who migrate to the cities or work abroad manage to save up and come back to the village to renovate their old houses, or even build new ones. The newly-built houses, they say, are also of better quality because the builders have had better experience or developed skills when working in the cities. Remittances are used for a variety of purposes: for example, to open *warung* (stalls), purchase livestock, pay school fees, buy medicine and purchase consumer durables. However, quite a number of those who work in the cities cannot afford to help their relatives in the village financially because of their own low wages.

When asked about the traditional and well-known Javanese saying *mangan ora mangan angger kumpul* (literally, 'even if you don't have anything to eat, it doesn't matter as long as members of the family stick together'), the village head said that it no longer applies nowadays. He believes that, in any case, community members who have received some sort of education will eventually leave the village. In Sriharjo, high school graduates have dreams of working abroad, in such places as Malaysia and Singapore.

This indeed has been a trend during these last few years. At the moment, fifty people are working in Malaysia and Singapore. There are cases of two women (married, with children) who went to Malaysia and left the care of their children in the hands of their husbands. One of them returned, built a house, and went back again

to Malaysia. There were also some women who worked as domestic helpers in Saudi Arabia. In general, however, the villagers who have been sent to school are not very keen on working abroad as domestic helpers, especially in Saudi Arabia. They have heard of rough treatment, including cases of rape, experienced by other female migrant workers.

## Family welfare

Occupational diversification and the new employment opportunities described above have had a positive impact on the welfare of the Miri people. Within a period of 17 years household incomes, measured in rice, went up by as much as one-third: from 1,655 kg rice equivalent in 1972 to 2,187 in 1989 (Table 17.5).

**Table 17.5: Average Household Income in Rice Equivalents (kg), Miri-Sriharjo, 1972 and 1989**

| Source | 1972[1)] | | 1989[2)] |
|---|---|---|---|
| Agriculture | 1389 | | 679 |
| - Wet rice field | 578 | 354 | |
| - House gardens | 749 | 224 | |
| - Livestock farms | 62 | 101 | |
| Non-agriculture | 266 | | 1508 |
| **Total family income** | **1655** | | **2187** |
| Mean size of household | 5.6 | | 5.4 |
| Income per capita (kg rice/year) | 296 | | 406 |
| Percentage of very poor < 240 kg rice equiv./year | 44.3 | | 28.3 |
| Percentage of poor < 320 kg rice equiv./year | 69.5 | | 41.5 |

*Sources*: 1) Penny and Ginting, 1984.
2) Miri-Sriharjo Survey, 1989.

The contributions of non-farm and off-farm employment to this increase stand out, while incomes from the agricultural sector have gone down absolutely. In 1972 incomes from non-farm employment were 16 per cent of the total income; in 1989, the figure was 69 per cent.

As a result, the proportion of poor households in Miri has decreased. The proportion of the 'very poor' (that is, with an income of 240 kg of rice equivalent per capita) has gone down from 44 per cent (1972) to 28 per cent (1989). Using the criterion of an income of 320 kg of rice equivalent, the proportion of 'poor' households decreased from 70 to 42 per cent.

## Concluding remarks

On the basis of our research findings in 1960-70, Penny and I came to the conclusion that solutions to the problem of poverty in Sriharjo were agricultural intensification, family planning, industrialisation and transmigration (Penny and Singarimbun 1973).

Improvements due to agricultural intensification and diversification have been negligible in Miri-Sriharjo. This is partly because gains in rice yields have been more than swallowed up by population increase. As a matter of fact, agricultural production as a whole has been falling since 1975 owing to irrigation problems. The riverbeds in catchment areas are so seriously eroded that some ricefields are no longer well irrigated.

The family planning program in Miri and other hamlets in Sriharjo has been successful. In 1970 only one person used an IUD. By 1991 over half of all eligible couples used modern methods of family planning, and the expected number of children had fallen from five to less than three on average. The number of transmigrants who went to the outer islands has also been relatively high, reaching 199 families within the period of 1970-90; 13 of these were from Miri. There were ten families who decided to come back to Sriharjo, however. The industrial sector has not developed. But quite a number of people have left the village and have become industrial wage workers.

One thing we did not anticipate was the important role of off-farm employment outside Sriharjo in increasing the incomes of the people of Miri. Although there has been little improvement in agricultural production, there has been significant economic

diversification and employment outside agriculture now accounts for a much larger proportion of the people's income.

Although there has been a decrease in the number of poor people, the number living in poverty is still relatively high: nearly one-third belonged to the 'very poor' group in 1989. Despite efforts to improve incomes from various sources, many people still live below the poverty line. It is true that employment opportunities are more widely available but there remains a general phenomenon of low returns to labour. The low minimum wage (Rp1760 or about US$0.85 per day in Central Java before April 1993) may be taken as one indicator of this — especially bearing in mind that many firms pay their workers even less.

In 1969 David Penny and I wrote mainly about too many people for too little land in Sriharjo-Miri. Now the problem is too many people searching for too little work, both within and outside Sriharjo-Miri. This has lowered returns to labour within the village and, at critical times, left some persons without means of livelihood or work. The problem is no longer not enough land. Sufficient work is now available and access to land is no longer a major factor affecting poverty status. For a not insignificant number of persons who have had access to upper secondary education or above, white-collar work guarantees a low but stable income, above that enjoyed by most villagers.

The problem for the majority of villagers however, is that too many people are competing for jobs, many of them well beyond Sriharjo, where villagers join a large pool of job seekers. Outmigration has reduced the pressure on limited resources. It has also meant that now people mostly get jobs which guarantee incomes close to or slightly above the poverty line. But these changes have not yet meant a significant increase in returns to labour, or in standards of living, for most households.

# 18

# From Farm to Factory: Transition in Rural Employment in Majalaya Sub-District, West Java

Joan Hardjono

## Introduction

Changes have long been anticipated in rural Java. Indeed, they have been seen as inevitable, given the growth that is still occurring in the labour force, the relatively limited scope for any further intensification and extensification of agriculture and the expansion that is taking place in industrialisation and transportation. The aspect that has perhaps been less anticipated is the speed at which these changes would take place and traditional patterns would be modified in response to the emergence of new forces.

The purpose of this chapter is to examine the changes that have occurred over a period of eleven years in the employment pattern in a West Java village. When the village was first studied in 1981-82 (Hardjono 1984), it seemed that population growth and the absence of any possibility of further employment in agriculture would force new labour force entrants to leave the village in search of jobs. This has not happened, however, because of unexpected growth in the textile industry located in the sub-district (*kecamatan*) town.

## Socio-demographic and economic change

Sukahaji (a pseudonym) consists of two RKs (*rukun kampung* or administrative sub-divisions) within a village located in Majalaya Sub-district. The village is six kilometres south of the town of Majalaya and 36 kilometres from Bandung, the capital of West Java. Of the 18 villages that make up Majalaya Sub-district, the village in which Sukahaji is situated is the most distant from the town. In its pattern of land use and population density, it is typical

of rice-growing villages located on lower mountain slopes around the Bandung plateau.

In the eleven-year period since 1982, relatively few changes have occurred in land use in Sukahaji. In 1982 some 84 per cent of Sukahaji's land consisted of wet rice-fields (*sawah*). Despite population increase, less than half a hectare of *sawah* has been filled in to provide new home-lots (*pekarangan*). Sukahaji families have endeavoured to keep their land under crops as far as possible, although home-lots have been further sub-divided and there is now much less space between houses in the hamlets of Sukahaji.

Rapid population expansion, most of it traceable to natural increase, has occurred since 1982, when Sukahaji had a population of 757. By February 1993, the number had risen to 1,115. The average annual increase of 3.59 per cent in the five hamlets of Sukahaji was only slightly lower than the figure of 3.68 per cent recorded in the 1990 Population Census as the average annual growth rate for the whole village between 1980 and 1990. Between 1982 and 1993 the number of households increased from 178 to 246, little below the 1990 Census figure of 3.19 per cent for the whole village in the preceding decade.[1] Meanwhile, with 464 persons aged less than 15, the proportion of the Sukahaji population in this age group has decreased from 48 to 42 per cent. In 1993 the average number of children per household was 1.88 or 2.39 if childless households are excluded, by comparison with 2.04 and 3.03 per cent respectively in 1982.[2] While there has been a certain amount of return migration of people originally from Sukahaji and of in-migration of people from the town of Majalaya and from other villages seeking land for house sites, the high rate of growth in Sukahaji is very largely explained, however, by the limited understanding and acceptance of family planning (*keluarga berencana*) in this part of the sub-district during the 1980s.

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1 By comparison, in the 1980-1990 period the population of the whole of Majalaya Sub-district grew by an average of 2.43 per cent per year. Adjacent villages in the southern part of Majalaya sub-district also recorded annual average growth rates over 3.0 per cent.

2 Figures for households with children give a better picture of the distribution of children than overall figures since several households are made up of elderly couples or widows whose adult children live elsewhere, while others consist of young couples only recently married.

Relatively little change has occurred in the educational situation in Sukahaji since 1982. In contrast to national trends, the greater majority of Sukahaji children still go no further than the end of elementary school (SD), and a number still drop out in fourth or fifth grade every year. There is, however, a little more interest in secondary education. In 1982 only six Sukahaji children were attending junior high school (SMP); none were in senior high school (SMA) or tertiary education. In 1993, however, 21 children were studying in SMP (either in the town of Majalaya or in neighbouring Pacet Sub-district since the village itself has no high schools). Seven were in SMA in Majalaya and two were doing tertiary-level courses in Bandung. As yet, however the majority of Sukahaji parents can see no point in the recently introduced government policy that requires all children to have nine rather than six years of basic schooling.

Out-migration either to urban areas in Java or to other islands through transmigration has never been a major trend in Sukahaji, very largely because of the existence of a number of factories in the town of Majalaya, which has formed an important centre of cloth production for several decades. After the introduction of hand-loom weaving as a cottage industry in the early 1930s, textile production gradually moved into factories and became mechanised. Hand-weaving was still significant in both output of cloth and employment patterns in the mid 1960s (Matsuo 1970) but since then has been in a state of irreversible decline (Hill 1980:87). Even so, several small hand-loom factories and even cottage producers still managed to survive in villages around the town in the early 1980s, despite the rapid expansion that had occurred in mechanised weaving during the 1970s.

## The employment pattern today

While the system of land use has undergone very little modification during the past eleven years, the employment pattern has altered considerably. The most striking changes that have occurred are the overall increase in industrial employment and the sharp rise in the number and percentage of women working in factories. In 1982 almost half of Sukahaji's household heads and their spouses (referred to here as householders) obtained a livelihood from agriculture. Industry, in the form of both hand-loom and mechanised weaving, provided employment for 20 per cent. In 1993, however, only 30 per

cent of householders were employed in agriculture, while 33 per cent worked in textile factories.

**Table 18. 1: Occupations of Sukahaji Household Heads and Spouses, 1982 and 1993 (in percentages)**

| | Men | | Women | |
|---|---|---|---|---|
| | 1982 | 1993 | 1982 | 1993 |
| Agriculture | 48.3 | 36.6 | 48.6 | 24.6 |
| Textile industry: | | | | |
| - mechanised | 22.9 | 38.9 | 4.5 | 25.8 |
| - hand-loom | 3.9 | 0 | 10.7 | 0.8 |
| Trade/*warung* | 13.1 | 8.8 | 7.9 | 7.4 |
| Transport | 5.9 | 2.8 | 0.0 | 0.0 |
| Other fields | 5.9 | 12.9 | 5.1 | 2.1 |
| No employment | 0 | 0 | 23.2 | 39.3 |
| N = | 153 | 216 | 177 | 244 |

*Source*: Field research, 1982 and 1993

Table 18.1 presents a comparison of the occupations of Sukahaji householders in 1982 and 1993. Agriculture (crop cultivation, fish-breeding, the raising of ducks and sheep, brick-making and the digging of river sand) now employs only 37 per cent of male householders by comparison with 48 per cent in 1982. Among women householders the drop in agricultural employment from 49 to 25 per cent has been even greater.[3] Among male householders employment

3 Figures for employment in agriculture should be treated with caution, particularly in the case of women, since most who describe themselves as agricultural labourers are rarely employed more than one day a week, though such women usually keep sheep and spend much time cutting grass for their animals. Some women work only on their own land or that of relatives, but there are also those who can more accurately be called *buruh tani* in that they go looking for work to support themselves or

in factories has risen from 23 to 39 per cent, while for women the figure has increased more dramatically from 4 to 26 per cent. Women who eleven years ago would not have imagined themselves employed in any kind of factory are now loom-operators in mechanised weaving establishments.

Factories now provide jobs for 40 per cent of the total adult population of Sukahaji, that is, persons aged 15 and over (Table 18.2). An increasingly greater percentage of non-householders (adult children as well as sons/daughters-in-law still living in the parents' home) works in factories than in agriculture. In other words, industrial employment has involved new entrants to the work force and has not implied any shift out of agriculture or other sectors.

On the whole, the people who seek factory jobs are those without access to land; increasingly, however, young men and women who will ultimately inherit a small piece of land are working in factories instead of sharecropping family land as they once did. Access to factory employment is not limited in any way, although managers prefer girls and young women. In 1993 some 20 Sukahaji teenagers aged 13 and 14 were employed in factories. Although officially factories do not employ persons under 16, age presents no problems; the letter of identification signed by the village head (*lurah*) which must accompany a job application can state a higher age if needed! Most factories require women to have an elementary school certificate, whereas men often have to have a lower secondary school (SMP) certificate, the latter being a means of selecting from among numerous applicants rather than a reflection of any need for a higher level of education. Married women are asked to submit a letter signed by husbands agreeing to their employment, while many factories also require them to produce a certificate stating that they practise family planning. Although factories occasionally place a notice showing vacancies on their gate, people seeking jobs usually go through a self-appointed 'agent', the average charge for his services being Rp15,000 in 1993. In all cases the agents are men already employed in factories; not infrequently they are gate-keepers or security guards (*satpam*).

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supplement the husband's earnings. In all cases, those employed in agriculture, work far fewer hours than people in factories, where employment is always full-time and averages 55 hours a week.

Certain patterns are discernible among factory workers. It is very common for a young married couple to work together in the same establishment; indeed, young Sukahaji residents are tending increasingly to meet future marriage partners in their place of employment. Husbands and wives with small children usually work different shifts unless they have an unemployed grandmother to look after the children. Young girls starting work for the first time almost invariably accompany mothers who are already employed in a factory, as they did a decade earlier in the hand-loom industry. Where a mother is not employed in factory work, it is unlikely that her young daughter will be, at least until the girl is somewhat older (around 17 or 18), when she might accompany friends or more commonly a husband.

**Table 18.2:**

**Sukahaji Population Aged 15 and Over by Occupation, 1993**

| Field of Employment | No. | % |
|---|---|---|
| Over 65 (not working) | 22 | 3.4 |
| Agriculture | 146 | 22.4 |
| Textile industry | 261 | 40.1 |
| Trade | 21 | 3.2 |
| *Warung* (food stall/shop | 17 | 2.6 |
| Transportation | 12 | 1.8 |
| Other occupations * | 44 | 1.8 |
| Still at school | 20 | 3.1 |
| Not employed | 108 | 16.7 |
| | 651 | 100.0 |

*Source*: Field research, 1993

* see Table 18.3 for details of 'other occupations'

Trade and transportation now provide employment for a smaller percentage of the population than in 1982; among male householders the figure for trade has fallen from 13 to 9 per cent and that for transportation from 6 to 3 per cent. The same number of men — in fact, the same six individuals rather than younger men — is employed in the wholesale purchasing of cabbages in the uplands to the south of Sukahaji for sale in Bandung central market. Two men still deal in sheep in surrounding villages, but the small-scale rice traders who used to push their bicycles along narrow paths between rice-fields at harvest time have disappeared as a consequence of the establishment of two rice-hullers in Sukahaji. Farmers who wish to sell rice can now deal directly with the owners, who do not merely offer a hulling service but are also rice-traders.

Among women, the decrease in the percentage engaged in trade has been much less (8 to 7 per cent), although there has been a slight increase in the number of *warung* (food-stalls)in Sukahaji. Many now sell non-perishable commodities as well as cooked food in response to the greater number of factory workers whose regular cash wages enable them to pay for consumer goods. A few more people, both men and women, are engaged in the preparation and sale of foodstuffs like noodles, *bakso* (meat-ball soup) and cakes, often on an itinerant basis within Sukahaji and nearby hamlets, while some three or four individuals run small shops in Pacet and Majalaya markets, as they did a decade ago.

As Table 18.2 shows, just on 17 per cent of the total adult population of Sukahaji is not employed. Among women householders, unemployment has increased from 23 to 39 per cent, though it should be noted that some who once described themselves as agricultural workers now prefer to call themselves 'housewives' (*ibu rumah tangga*), perhaps influenced by the terminology of the Population Census. Some of those women who have no employment choose not to work because husbands earn enough money to support the family; more often, however, the reason is that they have very small children to care for. Most of the women who do not work because of age or infirmity depend on the support of children; only two have income from their own land.

While there are no unemployed, unmarried teen-aged girls over 14 in Sukahaji, there are several youths in this category. A certain pattern is discernible among young men. Boys just out of elementary school normally remain unemployed for a year or two before trying factory work. After a couple of years, they usually give it up

because of boredom. They turn either to a different occupation such as that of a minibus assistant driver (*kenek*) or more commonly doing nothing for a few months before moving to a different factory. Until they are married and have the responsibility of a family, they tend to take frequent breaks from factory work. The girls, on the other hand, are more willing to persevere with the long hours and monotony of factory employment, even before they are married.

A certain amount of diversification in employment has taken place. Table 18.3, which gives details of the occupations classified in Table 18.2 as 'other fields'. The wide variety of jobs reflects some of the social changes that are now occurring. For example, one young man (one of the very few with an SMA education) is employed to collect the monthly licence fee payable by owners of television sets, while another installs cables for the Majalaya telephone office, a job that was created when the sub-district was linked to Bandung District's direct-dial system and the local telephone network was subsequently extended. In many cases, however, jobs in the 'other fields' category are held either by men who have moved into Sukahaji as the result of marriage to a local woman or by former Sukahaji residents who have returned to the area.[4] As far as women are concerned, there has been no similar expansion in the variety of jobs to which they have access. For women, employment usually means work in the fields, in a factory or in a *warung*.[5]

Daily and weekly commuting to Bandung is still not a major feature of the Sukahaji employment pattern, nor has any out-migration occurred. In 1982 only one household head commuted daily to the provincial capital, while one worked in the town of Cikampek on the north coast, returning home once a fortnight. By

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4 For example, the medical orderly, the two men employed by the electricity agency and the man employed in a printing shop live in Sukahaji only because of marriage, the tradition in this area being for husbands to settle close to the wife's family, which usually provides a part of their own *pekarangan* for a house.

5 Only five have other forms of employment; one teaches in a local elementary school, one gives religious instruction in the Sukahaji mosque, one works locally as a masseur (*tukang pijat*) and one makes mattresses on an order basis. The fifth produces ice-blocks (*es lilin*), having invested in a second-hand refrigerator and a number of thermoses; local children retail the ice-blocks throughout Sukahaji.

1993 the number of daily commuters had risen to seven, while another six were weekly commuters. Of those who commute to Bandung daily, one works in the central Bandung telephone exchange as he did in 1982, one is employed as a medical orderly (mantri), two are army recruits, two are parking attendants, and one helps his brother in a small construction business. Most of the weekly commuters are construction workers, though one drives a truck for a furniture factory, one is a porter in the city market and one is a roadside vendor. Only one husband works in Jakarta, where he is employed in the construction industry.

**Table 18.3: Other Occupations of Sukahaji Population Aged 15 years and over**

| Occupation | Men | Women |
|---|---|---|
| Carpenter | 12 | |
| Construction worker | 6 | |
| Village official | 3 | |
| Public servant/teacher | 2 | 2 |
| Parking attendant | 2 | |
| Medical orderly (*mantri*) | 1 | |
| Masseur (*tukang pijat*) | | 1 |
| School janitor | 1 | |
| Printing shop worker | 1 | |
| Army recruit | 2 | |
| Porter in city markets | 1 | |
| Mattress-maker | | 1 |
| Traditional musician | 1 | |
| Maker of artificial flowers | 1 | |
| *Delman* driver | 1 | |
| Telephone office employee | 2 | |
| PLN (electricity) employee | 2 | |
| Television fee collector | 1 | |
| Ice-block producer | | 1 |
| | 39 | 5 |

*Source*: Field research, 1993

## Factors responsible for change

With no further expansion of the cultivated area possible and greater intensification of agriculture equally impossible, Sukahaji residents have had to look beyond farming for jobs. They have been fortunate in that employment opportunities have expanded in an area that is within easy distance of their homes.

The main factor that explains the emergence of these opportunities is the unanticipated growth that has occurred since the mid 1980s in the Majalaya weaving industry. In the early 1980s there had been a slow-down in the industry because traditional markets were oversupplied and by 1982 Sukahaji workers were finding it difficult to obtain jobs, particularly since they had to compete with labour from other villages in the sub-district. After the introduction of the government drive to promote non-oil/gas exports, the major textile centres like Bandung turned increasingly to export-oriented production, which meant that Majalaya producers were able to meet more of the domestic demand for cloth.

Recent industrial expansion in Majalaya Sub-district has included the establishment of new factories and the rehabilitation and extension of older ones. On the whole, it has not involved the introduction of high-technology weaving equipment except in the case of two new factories that produce for export. Many of the looms in both new and rehabilitated factories are actually second-hand machines.[6] While these looms produce cloth of a lower quality that can rarely be exported except to certain Middle East countries (*Pikiran Rakyat* June 1993). The use of older equipment is keeping the Majalaya weaving industry relatively labour-intensive, for in the majority of factories one operator can handle only two or at the most three looms.

As far as employment for the people of Sukahaji is concerned, a second factor, namely, electricity, has been significant. Until the late 1980s the power network was limited to the town of Majalaya. With expansion in rural electrification program in the second half of the 1980s, power lines have been installed along the roads leading from the town in different directions. Sukahaji is situated on the road that runs southwards, more or less parallel to the Citarum

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6 In 1993 a factory was established in Bandung specifically for the reconditioning of mechanised looms.

River. Since electricity became available, several factories have been constructed along this road. Although as yet there are no factories within four kilometres of Sukahaji, the development that has taken place has brought opportunities for industrial employment closer to the village.

A third factor in the form of a change in rural transportation policies has played a part in reshaping the Sukahaji employment pattern. Prior to 1986 Majalaya Sub-district authorities did not permit minibuses to operate on the Sukahaji road, the purpose of the policy being to protect the livelihoods of *delman* and *ojek* drivers. In the early 1980s there was already pressure from minibus owners for a revision of policy; however, active opposition from *delman* drivers (and more particularly from the younger and more vocal *ojek* drivers, who hurled stones at minibus drivers attempting to use the road) discouraged any change in policy. Ultimately, however, the more traditional forms of rural transportation lost the battle and minibuses now dominate on the Sukahaji road.[7]

The change in policy concerning the operation of minibuses was basically associated with the establishment of new textile factories along the road leading to Sukahaji. Previously, Sukahaji people had to walk to Majalaya, unless they could afford to travel by *delman* or *ojek*. The minibuses are not only faster but also cheaper; minibus drivers offer factory workers a low fare that *delman* and *ojek* drivers, with their limited passenger capacity, cannot match. The availability of a relatively cheap means of transport has encouraged Sukahaji people to take up factory work. At the same time, it suits factory owners to employ people from Sukahaji and villages further south. The lack of jobs in those areas makes workers recruited from Sukahaji less demanding about working conditions than workers who live in or close to the town of Majalaya where there are employment alternatives, including opportunities in the tertiary sector.

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7 Although *delman* have declined greatly in number, they are still to be found in closely settled areas near the town, where they have a comparative advantage over minibuses in that the latter have to keep to a fixed route whereas *delman* can operate wherever they wish. The *ojek* have almost disappeared, though a small number operate at night when minibus owners find it unprofitable to use their vehicles because of the small number of passengers.

## Jobs gained, jobs lost

The jobs that have been gained are almost exclusively in mechanised weaving and in the dyeing and finishing establishments that operate in conjunction with weaving. With the expansion in factories, the greatest demand has been for loom-operators, but workers are also needed for associated tasks like packing and loading. Job opportunities that are new to Sukahaji people have appeared; for example, three Sukahaji men are employed as gate-keepers and security guards. Two of them, however, are 'return migrants' who had been working in the vegetable trade in the town Majalaya for some years. Similarly, a young woman who does secretarial work in a weaving factory is also a 'return migrant', having grown up and completed SMA in Jakarta, where her father, originally from Sukahaji, has worked as a bus driver for more than twenty years.

Jobs have also increased, though on a far smaller scale, in the construction of houses made of timber. This has led to growth in the number of men engaged in carpentry and similar work. This trend is itself a consequence of expansion in factory employment rather than of population growth as such. Factory wages now enable more young couples to build their own house, almost invariably on the parents' home-lot, soon after marriage. At the initial stage young couples can afford only a traditional timber house with a board floor; it is only much later that they can build a brick house. Today twelve men, ten of them household heads, are engaged in constructing houses, sawing large logs into floorboards and roofbeams or making furniture, doors and window frames. While the furniture-makers are self-employed, the others work on a daily-wage basis for the only supplier of building materials in Sukahaji, a person who is the dominating figure in the local economy.

Jobs have disappeared in certain fields, the major loss being in the hand-loom industry. In 1982 hand-weaving provided work for 8 per cent of all householders and 11 per cent of women householders. With the virtual demise of the industry, older men once employed as hand-weavers have turned to agriculture as *buruh tani* (agricultural labourers), younger men have moved to mechanised factory employment, where one has a job as a factory *satpam*. In the case of women handweavers, most of those who were already middle-aged in 1982 are no longer working. Among the younger weavers, two now run *warung* while others have become *buruh tani*.

The two women who still work as handweavers have dropped lower down the income scale to the production of floor-cloths, as this is one of the few fields where there is still a market niche for cheap hand-woven products (Hardjono 1990).

In 1982 a number of otherwise unemployed women earned supplementary income from hand-embroidery. This occupation, which was always of a marginal nature, has also disappeared. The entrepreneur who used to put out the work to women in Sukahaji and other villages has found it more economical to have embroidery done by machinery in a Bandung factory.

Very few jobs have been lost in agriculture as such, though there has been a decline in sand digging and brick making. Only one man (compared with five in 1982) now excavates sand from the bed of the Citarum River as a source of livelihood; the others have turned to agriculture as *buruh tani*. In the trade sector occupations of a marginal nature like the sale of traditional, homemade drinks have disappeared. The elderly men who once produced these drinks have not been replaced; younger men find that they can make more profit from foodstuffs like noodles. This 'opening' has, however, been taken up by the Sukahaji woman who produces ice-blocks in her home. Similarly, the collection and sale of leaves for wrapping purposes has disappeared as younger men are not interested in work with such low returns to labour.

Although in the transportation sector new opportunities have opened up for men as minibus drivers and assistants, other men have lost jobs as *delman* and *ojek* drivers. Only one man in Sukahaji now drives a *delman* by comparison with ten in 1982. Former *delman* drivers have turned to agricultural labouring as they have not had the skills required to move into the mechanised transportation sector. The young men and boys who were once *ojek* drivers have for the most part taken up factory work while one or two are engaged in trade; a few have become minibus drivers, though many of the drivers are newcomers who have married local girls, or older men who have moved to Sukahaji from Majalaya to purchase cheaper land for a house site.

## Wage trends

Table 18.4 shows the average daily wages for employment in agriculture and in the Majalaya weaving industry during the first quarter of 1982 and the first quarter of 1993. Since not only factory

workers but also agricultural labourers and even small farmers have to buy rice, the average price of milled rice (*beras*) in Sukahaji is also shown to convey some impression of purchasing power.

In money terms, agricultural wages have increased steadily since 1982, with the wages paid to men for hoeing and other agricultural work and to women for weeding, planting and the application of fertiliser rising by more than 300 per cent. In 1993 the hoeing wage was Rp2,500 without food or Rp2,000 with food for a working day (*bedug*) of five hours; women received Rp1,000 with food, for weeding, a rate that also applied to planting. Although there is a trend towards cash-only payment for men, Sukahaji women refuse to accept a wage that does not include food.

By comparison, the average daily wage paid to semi-skilled factory workers (the category to which most Sukahaji workers belong) rose from Rp800 to 2,500 in the period from 1982 to 1993. The average weekly wage in 1993 was between Rp15,000 and Rp18,000, factory wages vary according to skill and experience; however the extent to which additional payment is given depends more on the factory manager than on specific regulations. Except for a small number of relatively modern establishments, most Majalaya factories operate two ten-hour shifts a day. Workers are rarely paid overtime, although Department of Manpower regulations stipulate seven hours of work per day.

Basic wage rates for the weaving industry and also for finishing, dyeing and spinning establishments and garment factories are set by *Perteksi* (the Indonesian Textile Industries Association), which represents the interests of textile factories in the Bandung region and which most Majalaya entrepreneurs belong. The wage system allows for the age of looms as well as for the number of looms operated by one person. Since 1989 *Perteksi* has differentiated between Bandung and Majalaya workers in its minimum wage, the justification for the lower wage in Majalaya being that many small-scale factories find it hard to pay the same rates as those in Bandung (Hardjono 1990:32). The difference between the two rates, however, is very small; between 1989 and 1993 it averaged only Rp50 a day for workers in the lowest category.

It has become customary for *Perteksi* to announce an annual wage increase every May, some three or four months before the minimum wage for each district (*kabupaten*) in West Java is announced by the Department of Manpower. The wage paid in Majalaya factories would appear to be increasingly determined by this overall

provincial wage system, which is to a certain extent influenced by the agreement that *Perteksi* reaches with its Bandung members. In 1982 the majority of Sukahaji factory workers received somewhat less than the *Perteksi* wage of Rp875. In the first quarter of 1993, however, most were receiving at least Rp2,500, which was slightly above the *Perteksi* rate prior to the annual increase payable from 1 May 1993. Many were already receiving Rp3,000, though new workers were paid around Rp2,000 for the first three months of employment.

**Table 18.4: Sukahaji Agricultural and Factory Wages, 1982 - 1993 (in rupiah)**

| | Price of milled rice in Sukahaji (RP/kg) | Agriculture 5 hours | | Weaving factories (men & women) 10 hours |
|---|---|---|---|---|
| | | hoeing (men) | weeding (women) | |
| 1982 | 237.5 | 500*<br>750** | 300* | unskilled: 500<br>semi-skilled: 800<br>skilled: 1,200<br>*Perteksi*: 875 |
| 1993 | 650 | 2,000*<br>2,500** | 1,000* | unskilled: 2,000<br>semi-skilled 2500<br>skilled: 3,000<br>Perteksi: 2,450*** |

*Source*: Field research, 1982 and 1993

Note: * with food
** without food
*** applicable to Majalaya only

## Conclusion: the future

Employment of a large part of the Sukahaji labour force in Majalaya factories has had little effect on the deployment of labour in agriculture. There has been neither an increase nor a decline in

agricultural output. At the same time, there is no shortage of labour for hoeing, weeding or other work, nor is there any more need to employ 'outsiders' from other villages or regions than there was eleven years ago. As holdings become smaller with continued fragmentation of ownership through inheritance, the once-sharp distinction between small farmers and *buruh tani* is fading. Most young people from landless or near-landless families do not even consider work in agriculture; even those who own small holdings of their own seek factory employment and cultivate the land in their free time.

The development that has occurred in employment in Sukahaji is a special case, however, and cannot be regarded as a model for rural manufacturing since weaving is not a newly introduced activity. The same scope for expansion in rural employment may not exist elsewhere. Apart from expansion in textile factories, there has been virtually no development in any kind of local industry. The ice-block production that one woman undertakes is the only instance of the availability of power creating an income-generating activity within Sukahaji itself.[8] The only effect of the electrification program, apart from houselighting, has been to stimulate rapid expansion in the number of television sets.

To a certain extent industrialisation is transforming the Sukahaji way of life from a 'traditional' to a 'modern' one. Factory employment is, for example, providing more encouragement for family planning than the official government extension service has done so far. In 1982 only three Sukahaji women practised contraception, though the family planning program was already well established in Majalaya and villages adjacent to the town. As noted earlier, a *keluarga berencana* certificate is usually needed in a job application, added to which women already employed in factories are reluctant to give up their jobs because of pregnancy. While some factories allow them to take three months unpaid maternity leave, others dismiss them completely.

The influence of factory employment is also apparent in clothing styles and the type of consumer goods that workers purchase. But factors other than industrialisation have played a role too. Of these, the most important has been television, the impact of which,

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8 The two rice-hullers are diesel-powered and equipment cannot be converted to electric power.

although difficult to measure, cannot be underestimated. Similarly, expansion in transportation has brought Sukahaji people into more frequent contact with outside trends and ideas, for the availability of minibuses enables them to visit Majalaya and Bandung more than they once did.

It is difficult to generalise about levels of welfare among Sukahaji households. Those who work entirely in agriculture are in much the same economic position as they were eleven years ago, as are families dependent on small-scale trade or on one person's factory wages. The households that are best off are those with both husband and wife employed in a factory and with no more than two children to support. Increasing numbers of young couples are in this category, which was rare a decade ago. Equally well-off are those households in which the husband drives a minibus. The poorest are female-headed households dependent solely on the mother's earnings in agriculture.[9]

Further growth in industrial employment for the people of Sukahaji will depend on whether investment in new factories continues and on the level of technology that is adopted. *Perteksi* complains about the low productivity of factories equipped with old looms, and its members would like assistance with credit to buy new machinery. The use of modern weaving equipment, however, would reduce the need for labour in these factories, a situation that could be to the disadvantage of people in Sukahaji and the other villages around Majalaya. There are clear signs that the rate of population growth in Sukahaji is at last slowing down. Even so, more jobs will be needed for new entrants to the work force for some time to come. If those jobs are not available in or near Majalaya, the alternative will be out-migration or, more probably, greater more daily and weekly commuting to Bandung.

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9 In 1993 12 per cent of Sukhaji households were headed by women, by comparison with 14 per cent in 1982.

# 19

# Diversification of the Rural Economy: Non Farm Employment and Incomes in Jatinom, Central Java*

Tadjuddin Noer Effendi

## Introduction

Many studies have demonstrated the importance of non-farm employment in rural development in developing countries.[1] Although these studies have different approaches to rural non-farm employment, all agree that it is an important strategy for increasing rural household incomes, in particular those of landless and marginal households, and for stimulating the growth of the rural economy.

Recent empirical evidence suggests that rural non-farm activities and employment have increased over time in absolute terms in developing countries and that non-farm employment is large in most rural areas (Chuta and Liedholm 1979). Using census data from 15 developing countries. Anderson and Leiserson have estimated that 30 to 40 per cent of the rural labour force (including rural towns with up to 20,000 or 30,000 inhabitants) are engaged primarily in non-farm activities (Anderson and Leiserson 1980:229). Mukopadhyah and Lim found that the share of the economically active rural population which worked primarily in rural non-farm activities was approximately 46 per cent in Bangladesh, 28 per cent in Korea, 25 per cent in Malaysia, 32 per cent in Pakistan and 25 per

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* This paper is based on research conducted for the author's dissertation at Flinders University, Adelaide. See Effendi (1991) for details.

1 Non-farm employment is defined as all activities which are non-agricultural in nature. Major studies of the subject include Chuta and Liedholm (1979); Anderson and Leiserson (1980); Mukopadhyay and Lim (1985); Shand (1986); White (1986); and Islam (1987).

cent in the Philippines. The contribution of rural non-farm employment to household income ranges from some 26 per cent in Bangladesh and about 35 per cent in Thailand to 55 per cent in the Philippines (Mukopadhyah and Lim 1985: 7-8).

Regarding income distribution, most authors believe that rural non-farm employment helps to reduce income inequality since it is able to provide employment and income for landless and marginal farm households. Mukhopadhyah and Lim, however, argue that rural non-farm employment does not necessarily enhance income equality (Makhopadhyah and Lim 1985:17). They assert that the rural poor remain poor because they have no opportunities to become involved in the rural non-farm sector, compared with landowners. They point out, however, that rural non-farm employment has made a significant contribution to improving income distribution in East Asia but that this has not been the case in South Asian countries.

## Rural non-farm activities in Java: an overview

Historically, non-farm activities have played an important role in the rural economy of Java since the colonial period (Boomgaard 1991). In 1815 about 15 per cent of the rural labour force was employed in non-farm activities. By 1880 this figure had increased to about 25 per cent; by 1971 it was 28 per cent (Leiserson 1974). Using the 1980 Population Census, White has estimated that about 37 per cent of the labour force of Java was involved in non-farm activities in that year (White 1986:43). According to Jones (1983), Java has traditionally had one of the highest proportions of rural non-farm employment among Third World countries (Jones 1983).

The significance of the contribution of non-farm activities to rural household incomes has also been indicated by several empirical studies.[2] Hart and Sisler (1978:823), for example, found that both males and females from small landowning households spent some 73 per cent of their income-earning time in non-farm activities; of this 67 per cent was in wage labour (Hart and Sisler 1978:823).

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2 See especially Hart and Sisler (1978); Wiradi (1986: 309); Bandiyono and Conroy (1986: 327) and Rietveld (1986).

There is a difference, however, between the type of non-farm employment engaged in by poor and by rich rural households (White 1986; Husken 1989). Studies of rural traders in Java (Peluso 1981; Chandler 1985; Alexander 1987) indicate that many of the women from landless and marginal farm households are involved in petty trade, such as home-based shops and stalls, market trading and door-to-door hawking as well as in a wide range of self-employed enterprises. The increase in these activities has been associated with improvements in roads and transport and with the changing pattern of rural consumption.[3] In addition to these activities, many landless and marginal household members also work in activities such as the collection of sand and gravel and construction work in rural or urban areas, and as domestic servants, washer women, and the like.

By contrast, wealthier rural households tend to be engaged in trade that requires relatively more capital, such as shop keeping or the selling of clothing and factory-made goods from urban areas (Husken 1984; White and Wiradi 1989). Also, many of them are involved in taxi or truck enterprises, or household enterprises such as the making of *kerupuk, emping* and other kinds of chips. Many members of wealthier rural households are also engaged in services such as motorbike repairs, electronic repairs, money lending or other personal services like hairdressing. Many are engaged in government services such as teaching, nursing and rural banking (White 1986:36).

This paper examines the effects of expansion in non-farm activities on the income and welfare of rural households. The key questions posed are: how important is non-farm employment, how much has it grown and how has it affected the lives of different classes in society? Most of the data is based on a census of non-farm enterprises in Jatinom Sub-district in Central Java and on a household survey conducted in three villages in the same sub-district in March-October 1989. The sub-district was chosen because the region had experienced agricultural intensification and rural

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3 Anderson (1979) and Hardjono (1985), however, argue that expansion of the rural infrastructure has had a negative effect on rural trading in West Java. They assert that improvements in roads and transport have made the villages more integrated into the urban economy. This tends to discourage rural trade, especially traditional trade.

development in the mid 1970s, and agricultural diversification since the mid 1980s, and contains many rural non-farm activities.

Jatinom is located north of the district town of Klaten, through which the main road from Solo to Yogyakarta passes, and to the south of the poor region of Boyalali. The total population of the sub-district in 1990 was just over 52,000. It has experienced relatively high population growth in recent years, with an average annual rate of increase of 1.5 per cent per annum in the period 1985-1989.[4] In 1990 population density was 1,505 persons per sq km, which was higher than the Java figure of 755 per sq km in 1985. The average area of land owned among landowners was very small (just over 0.2 hectare); only one per cent of all households owned 0.8 hectare or more, accounting for under ten per cent of total land owned in the village. Thus land was generally more evenly distributed than in many other regions of Java, a fact which can be partly attributed to the land redistribution that occurred in the early 1950s and the absence of a significant trend towards land concentration in the predominantly dry land areas since then. The proportion of landless households was around 50 per cent.[5]

The main roads which connect Jatinom to nearby towns and cities such as Klaten, Boyolali, Solo, Salatiga, Yogyakarta and Semarang are in good condition. This allows easy access and cheap travel by bus and minibus to and from the area. Although the roads within Jatinom are not in as good condition as the main roads, they are wide enough for use by four-wheel vehicles. Good road networks have led to close integration of Jatinom into the economy of the rich rice-growing area of Klaten and nearby urban areas in the past decade.

Commercial and service activities within the district increased significantly towards the mid 1980s, by which time considerable agricultural diversification had taken place. The introduction of dairy cattle in 1976 was sponsored by the local *kabupaten* (district) government and a few larger farmers initiated the planting of orange (*jeruk*) trees after 1979. Both activities provided a stimulus to the rural economy. Agricultural diversification also included

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4 The comparable figure for rural Java was 1.81 per cent per annum in the period 1980-1985.

5 This figure was approximately in the middle of the range in the proportion of landless households found in various studies of rural Java (see Hart, 1986; White and Wiradi, 1989).

production of vegetables for the market. Increased demand for the agricultural products of the area came not only from urban areas but also from nearby lowland rice-growing areas in Klaten, and was associated with increasing income generated from rice production.

Commuting and circular migration also increased. Many traders, government employees and labourers worked outside the area and were involved in commuting and circular migration. The proportion of traders (52 per cent) involved in commuting is relatively high compared with other occupational groups. Most traders sell agricultural products to markets in rural towns in rice-growing areas or nearby urban areas. They buy vegetables and fruit from Jatinom market in the morning for sale in these other markets and return home in the afternoon. Among government employees and wage labourers in manufacturing, the proportion engaged in circular migration was also relatively high. As in other regions of Java, government employees (such as teachers and army officials) and wage labourers in manufacturing who work in cities like Semarang, Solo and Salatiga are involved in circular migration to reduce the housing and the education costs of their children. Circular migration in particular increased after 1976.

## Rural non-farm activities in Jatinom

The enterprise survey referred to above identified approximately 2,590 enterprises. More than half of these enterprises (51 per cent) were services, about 43 per cent trade and 6 per cent manufacturing (Table 19:1). The manufacturing share of employment was higher than its share of enterprises, due to greater use of wage labour, but was still somewhat small (12 per cent).

Most of the people involved in trade and services were self-employed and only a small proportion of owners employed wage labour. Thus, most non-farm activities in this area can be classified as 'one-man enterprises 'and 'household enterprises'. From an analysis of gender differentials, it was found that females were involved in trade, bamboo weaving, food processing, commerce/business, foodstalls/hawking, art and decoration rather than in other activities. It is noteworthy that the younger educated generation was more involved in trade and service activities than in rural manufacturing. This is because service enterprises (repairs, tailoring, construction and transport) tend to require more skills than other activities.

From an examination of dates for the year of establishment this study found that most rural non-farm activities were established after 1967. This was related to factors such as improved rural transportation, increasing demand for agricultural products in urban areas, and the rise in rural incomes in lowland areas associated with greater rice production. In addition, agricultural diversification (oranges and cattle) within Jatinom Sub-district also stimulated the growth of these activities.

**Table 19.1: Non-Farm Activity by Sector, Jatinom, 1988-89**

| Sector | Enterprises | | Workers | |
|---|---|---|---|---|
| | % | N | % | N |
| Manufacturing | 6 | 156 | 12 | 656 |
| Trade | 43 | 1142 | 29 | 1640 |
| Services | 51 | 1293 | 59 | 3306 |
| Total | 100 | 2591 | 100 | 5602 |

*Source*: Jatinom Enterprise Survey, 1988 and 1989.

Whereas rural trade and services have increased considerably since 1976, this is not the case for rural manufacturing. A few manufacturing activities such as bamboo weaving, the production of soya bean cake, rice milling and cassava chip production have increased, but blacksmithing and tile making have decreased since 1976, the reason being that their products are not able to compete with urban products that have entered rural markets.

In contrast, agricultural trade and non-agricultural trade have expanded significantly since 1976, although the increase in non-agricultural trade has been somewhat greater than that in agricultural trade. The increase in the number of villagers involved in selling non-agricultural goods was partly the result of a higher level of expenditure by many villagers, coupled with increased incomes. Most of these activities were street and market trade with only a small portion taking place in shops. Service activities such as

transport, repairs, construction and foodstalls/hawking were mostly established after 1976.

Consumption linkages account for the largest proportion of rural non-farm activities in Jatinom; production linkages and especially backward linkages to manufacturing have had less effect. Forward linkages from agricultural development have generated rural non-farm activities mainly in the distribution of agricultural products for both regional and urban markets. The weakness in backward linkages at the local level, which might be expected to consist of more use of farm inputs, is partly related to government intervention, especially control of the marketing of inputs in the case of dairy cattle. In addition, the composition of agricultural products, the level of agricultural mechanisation, and the small size of land holdings have also contributed to the weakness of backward linkages.

## Non-farm income and household economic status

Who has benefited from the expansion of rural non-farm activities in Jatinom? It is surprising that the very low and low economic status groups seem to have fewer opportunities for involvement in these activities than the medium and higher status households. Table 19.2 indicates that only 49 per cent and 43 per cent respectively of the very low and low economic status households were involved in non-farm activities compared with some 63 per cent and 71 per cent respectively of middle and high economic status households. Lack of capital and of education may have limited the ability of the very low and low economic status households to become involved in non-farm activities. This issue will be discussed below.

What is the contribution of rural non-farm activities to rural household income? For all economic status groups proportionally more income was obtained from rural non-farm activities than from agriculture. For the very low and low economic status groups about 42 per cent of total income was earned from non-farm activities, while the proportions for the medium and the high group were about 46 per cent and 56 per cent respectively. As expected, income from non-farm activities is much higher among the high economic status group than among the poor. This implies that households belonging to the former group tend to be engaged in the more profitable types of non-farm activities, whereas those in the low and very low economic status groups are involved in low income non-farm activities.

In what kind of non-farm activities were the low and high economic status groups involved? We examine first the major income sources of households belonging to the very low economic status group. Quite a high proportion of those in the very low economic status group were involved in services and manufacturing. As might be expected, only a relatively few of the very low economic status households were employed in government positions. The lack of education of persons in the very low economic status group prevented them from being employed by government agencies.

**Table 19.2: Households Involved in Non-Farm and Other Activities by Economic Status, Jatinom , 1989 (% of households)**

| Economic status | | Activities (%) | | Total | |
|---|---|---|---|---|---|
| | | Non-farm | Others | % | N |
| Very low | | 49 | 51 | 100 | 45 |
| Low | | 43 | 57 | 100 | 176 |
| Medium | | 62 | 38 | 100 | 128 |
| High | | 71 | 29 | 100 | 51 |
| All samples | % | 53 | 47 | 100 | |
| | N | 214 | 186 | | 400 |

*Source*: Jatinom Household Survey, 1989.

In terms of activities, quite a high proportion of the very low economic status households earned an income from construction (9 per cent), foodstalls/hawking (10 per cent), street/market trading (13 per cent), tile-making, and blacksmithing (26 per cent). There is no doubt that there is easier access to these activities since they need less skill and capital, except for blacksmithing. The high proportion of households belonging to the very low economic status group who obtained an income from manufacturing provides some indirect evidence that traditional rural manufacturing is unlikely to be able to compete with more modern urban industries.

For households belonging to the medium and higher economic status group, quite a high proportion of income was obtained from

personal services, shops, stall/depot trade activities, teaching and government employment. Teachers and government employees mostly had easier access to credit programs to buy consumer goods (TVs and motorbikes). It is not surprising, therefore, that most of them belonged to the high economic status group. Personal service activities which were common to the higher economic status group were bridal preparation, beauty salons, puppeteering, rental of party/music equipment, and motorbike sales (middlemen).

One obvious reason why these households had a higher economic status is that they earned higher daily incomes from non-farm jobs (Table 19.3). A high proportion of puppeteers, traditional singers, people involved in party/music equipment rental and bridal preparation, car repairers, minibus/truck owners, motorbike middlemen, and cattle middlemen had a daily gross income of more than Rp 5,000. However, only a small proportion (less than 5 per cent) of construction workers and foodstall/hawkers had a daily gross income of more than Rp 5,000. Most of these belonged to the low economic status group.

In the very low and low economic status groups, which were mainly engaged in foodstalls/hawking, construction, street/market trading, blacksmithing and tile-making, most of the owners/operators were less educated and less trained in formal sector skills (Table 19.4). With the exception of stall owners and hawkers, only a small portion had obtained bank credit. In addition, more members of this group, especially tile-makers and blacksmiths, had learned their skills through the apprentice system, compared with households in the medium/high group.

Among the higher economic status groups, quite a large percentage of owners had graduated from secondary school, the exception being cattle brokers. A high proportion had learnt their trade through formal channels, especially in the case of bridal preparation. About half the owners of minibuses, trucks and shops and about half the cattle brokers had obtained bank credit. It seems clear, therefore, that the difference in economic status between the very low/low and high group was related not only to sector of employment but also to skills and capital, especially access to bank credit.

Although most owners of blacksmith activities recorded very low or low status, a few recorded a high economic status (Table 19.4). The few owners who were using mechanical equipment and electrical

power and able to increase the quality of their products had better incomes than those who used traditional and manual equipment.[6]

**Table 19.3: Previous Week's Gross Daily Income from Selected Service Activities by Economic Status, Jatinom, 1989 (% of owners)**

| Index of economic status/activity | Gross income (per day/last week) | | | | N |
|---|---|---|---|---|---|
| | Less than Rp1000 | More than Rp5000 | Mean | Stand. Dev. | |
| | % of Cases | | (Rp) | (Rp) | |
| **Very Low/ Low** | | | | | |
| Construction worker | 2 | 4 | 3083 | 4795 | 318 |
| Foodstall/hawker | 90 | 5 | 1490 | 7299 | 125 |
| **Middle/High** | | | | | |
| **Personal services** | | | | | |
| Puppeteer/traditional singer | - | 83 | 30888 | 39577 | 18 |
| Party/music equipment rental | 15 | 69 | 16077 | 14163 | 13 |
| Motorbike middleman | - | 40 | 12916 | 24910 | 15 |
| Cattle middleman | 11 | 40 | 8800 | 10353 | 35 |
| Bridal preparation | 7 | 89 | 26111 | 28246 | 18 |
| **Car repairs** | - | 60 | 27719 | 39165 | 10 |
| **Minibus/truck owner** | 3 | 66 | 14084 | 13659 | 40 |
| **All activities** | 28 | 15 | 5390 | 13460 | 1293 |

*Note:* We were not able to compare this daily gross income with that of persons who were involved in trade or the public sector, since we did not ask these two groups for income data on a daily basis.

*Source*: Jatinom Service Survey, 1989.

6 For example, one of the higher income blacksmith owners was Pak Kemi (42 years old), who graduated from a technical high school and attended a training course about blacksmithing conducted by the government. After attending the training course he changed his equipment to that used in the training centre and this improved the quality and increased production. To do this he borrowed capital from the blacksmiths' union.

**Table 19.4: Selected Characteristics of Enterprise Ownersby Economic Status, Jatinom , 1988-89 (per cent of owners)**

| Economic status/activity | Education | | Skill Acquisition | | Ever received bank credit | N |
|---|---|---|---|---|---|---|
| | <Prim. | Sec.+ | Formal | Apprentice | | |
| **Low/Very Low** | | | | | | |
| Foodstall/hawker | 54 | 12 | - | 7 | 38 | 128 |
| Construction | 51 | 25 | 5 | 30 | 12 | 318 |
| Street trader | 92 | 3 | - | - | 11 | 836 |
| Tile-maker | 96 | 4 | 4 | 96 | - | 22 |
| Blacksmith | 94 | 6 | 3 | 97 | 12 | 33 |
| **Medium/High** | | | | | | |
| Bridal preparation | 28 | 44 | 68 | 7 | 22 | 18 |
| Repairs | 31 | 45 | 20 | 24 | 23 | 132 |
| Minibus/truck owner | 15 | 48 | 18 | 5 | 55 | 40 |
| Motorbike middleman | 33 | 44 | 13 | - | 20 | 15 |
| Cattle broker | 57 | 8 | - | - | 46 | 35 |
| Shop-keeper | 48 | 21 | - | - | 43 | 89 |

*Source*: Jatinom Enterprises Survey, 1988 and 1989.

Additionally, in most cases the better-off farmers who obtained greater income from oranges and livestock activities had more opportunities to invest their surplus in profitable non-farm activities. The availability of capital from agricultural diversification made it possible to engage in these activities. Richer farmers used profits from oranges and livestock to buy minitrucks or to become involved in big trade (*juragan*) or shop enterprises.

The poor and marginal households have also benefited from agricultural diversification, but the opportunities to become involved in profitable non-farm activities have been limited. This is partly due to the fact that most of their income or profit obtained from agricultural diversification was spent on daily consumption needs or the purchase of consumption goods. As a result, their ability to undertake non-farm activities was limited because they had much less capital by comparison with rich households (refer back to Table 19.2). If poor or marginal households are able to reinvest the surplus obtained from agricultural diversification, they mostly choose low-level non-farm activities such as small trade (*bakul adang-adang*) and hawking, or employment as construction workers, all of which require little capital. This suggests that agricultural diversification has probably contributed to increased income inequality in Jatinom.

## Conclusions

This paper has focused on the effects of rural non-farm activities on employment and the welfare of rural households. The major findings of the study suggest that rural non-farm activities have the potential to absorb labour and make a contribution to the income of all rural households. But richer households have gained more benefit from these activities than poorer households. Many poor rural households are involved in low-income non-farm activities, whereas richer households are generally involved in the more profitable non-farm activities. Lack of skills, limited access to capital, and the use of traditional technology have forced poor rural households to engage in low-income activities. On the other hand, some households have benefited from the spread of education and skill training for rural enterprises, and from the availability of rural credit in the early 1980s. These may have also contributed to widening inequality in income distribution in Jatinom.

What conclusions can be drawn for the future of employment in the sub-district, especially with regard to non-farm employment? There is no doubt that the population of Jatinom has taken advantage of quite a considerable range of employment opportunities, which have emerged in the non-farm sector over the past decade in response to agricultural diversification, public sector spending and a consequent intensification of trade and transport linkages. But in the foreseeable future excess labour competing for work in rural non-farm activities in this area will continue to keep returns at a low level. Any significant improvement in incomes for the majority of the population without access to capital or physical resources will depend on the more educated younger generation being able to take advantage of still relatively limited opportunities for skill-intensive employment in the modern sector outside the sub-district. In the longer term, more sustained and widespread growth in living standards will have to wait for substantial labour absorption in non-farm activities outside Jatinom. This would create a condition of relative labour scarcity and bring about a general increase in returns to labour in both farm and non-farm activities. There is little evidence that Jatinom is close to such a turning point.

With respect to inequality and income distribution, it is important that the needs of the poor are given priority in rural development policies. This means that agricultural development programs, education and skill training, and rural credit need to be targeted to poor rural households to enable them to become involved in more profitable non-farm activities and to help to reduce inequality in rural areas.

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