

Increased Labour Activism 2012

Wage, Employment and Equity Issues

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Recent Events

- October-November large demonstrations-strikes in Jakarta, Bandung, Surabaya, Medan and Batam over 3 issues
 - *Upah murah*: government-business conspiracy to keep wages low
 - Outsourcing of employment to third parties: system of “modern slavery” [*pembudakan modern*]
 - Demand for removal of obligations for unions to pay for social security in 2014-15
 - under the national social security system SJSN (health in 2014, other 2015)

Recent Events

- Two main outcomes: both a win for the workers
 - Big increases in minimum wages made by the governors
 - 30-40% increases in MW in the Jabotad**e**bek region (44% in Jakarta); real increases of over 30%
 - Slightly smaller but significant increases in other provinces, although with quite big variations (highest 2x lowest MW)

Recent Events

- Ministerial (Manpower) decision to limit outsourcing to five ‘non-core’ activities mentioned in the labor law
 - security, catering, cleaning service, transport to factory sites, mining workers
- Significant conflict between unionized workers, and non-unionized workers and employers in certain areas (‘sweeping’, locking factory doors, threats of lockouts)
 - Especially Bekasi and Tangerang



Ahok meeting union demonstrators and addressing them outside City Hall, October 23





Placards reading: “
• *Get rid of anti-labor legislation, and of ‘slavery’ or outsourcing*”;
• *“Decent work is the only option”*
• *“The right to organize is a human right”* →

↑
Demonstrating workers at the Hotel Indonesia roundabout, November 21



SOME ISSUES

- Implications of the emergence of a united, focused and effective union movement
- Wages (and labor policy?) increasingly an element in local district and provincial election campaigns
 - Widespread popular/civil society support of aims, though not always the processes
- Central government: representing the public interest or looking for a pragmatic solution?

SOME ISSUES

- Economic and social issues
 - What will be the impact on competitiveness, and employment?*
 - How will labor-intensive and smaller-scale enterprises react
 - Lay off workers or simply not comply
 - The longer term impact on the gap in earnings between formal and informal workers
 - The creation of a 'labor elite'
 - Increased rural-urban migration and pressures of urban sprawl, especially in large cities

THIS PRESENTATION

Outline of the talk

- I. Background to recent conflicts
 - Soeharto period
 - The 1998-9 economic crisis and early 2000s
 - Mid and later 2000s
- II. Developments 2010-11
- III. Three main labor issues in 2012
 - Minimum wages
 - Outsourcing
 - Longer term social security for labor
- IV. Some implications

Very much preliminary work-in-progress: for discussion

I. BACKGROUND

1. The Soeharto period and the crisis

- Tight controls over the union movement and labour repression
 - Single union policy (SPSI), though challenged by Mochtar Pakpahan
 - settlement of labour disputes through extra-legal processes
 - the Marsinah case in 1993

BACKGROUND-Soeharto

- Minimum wage policy: increasingly pro-active policy in the 1990s from Jakarta
 - Seek to gain worker support (criticism of ‘low’ wages in export policy)
- Outcomes in the Soeharto period:
 - Labour was repressed brutally at times, but policies delivered more jobs and wage increases
 - especially in the decade before the crisis

BACKGROUND – Crisis and 2000s

2. The Crisis and the early 2000s

- The crisis: sharp fall in real wages during hyperinflation
- Post-Crisis: Union leaders become Ministers – ‘pro-labour’ stance*
 - Trade Union and Industrial Relations Laws
 - Wage hikes in Jabotabek region (background of sharp fall 1998-9)
 - Disputes over Kepmen 150 (2000) mandates substantial rise in severance pay*

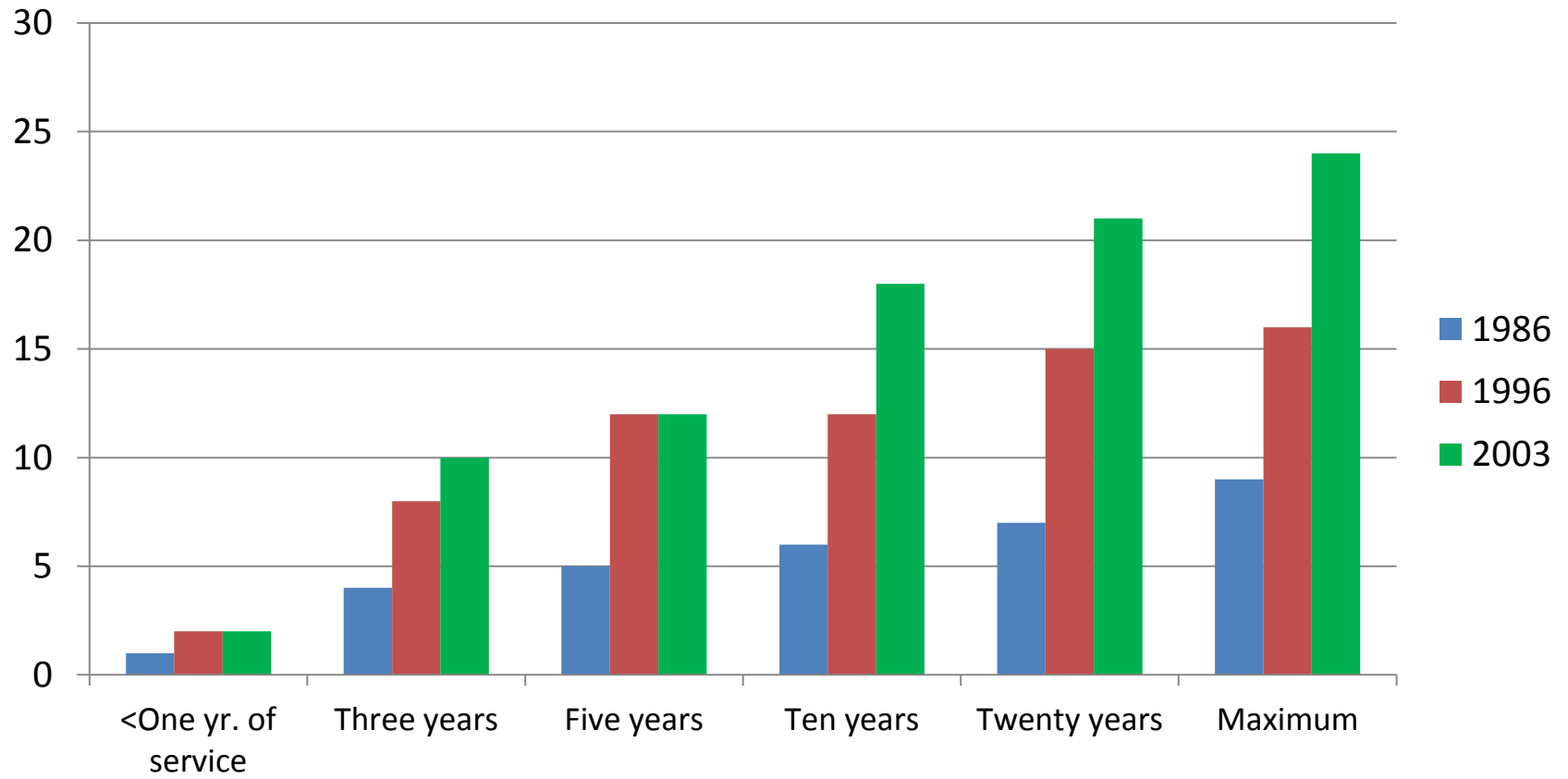
BACKGROUND – the early 2000s

- Minimum wages decisions turned over to the *kabupaten* and *propinsi*
 - Though all other labour matters still with central government
 - MW becomes an issue in local elections (eg. Jakarta 2002)
- **Labor Law of 2003** (Law 13 – the “unlucky” law)
 - Labor law brings together disparate collection decisions/regulations and adds some new items
 - Quite long period of negotiation 2000-03 – Introduced under Gus Dur

BACKGROUND- early 2000s

- Key articles hotly of the labor law contested by the employers and the unions
 - *Employers* on the severance pay (see Figure)
 - *Unions* on contract employment and outsourcing
 - ❖ Clauses on contract employment a way for employers to avoid appointing regular workers
 - ❖ Outsourcing only for non-core operations: but widely used in ‘non-core’ activities, especially in labour-intensive industries

Months of Severance Pay for Dismissed of Workers, Economic Cause, Indonesia 1986,1996, 2003



BACKGROUND - the mid to late 2000s

3. Mid to Late 2000s

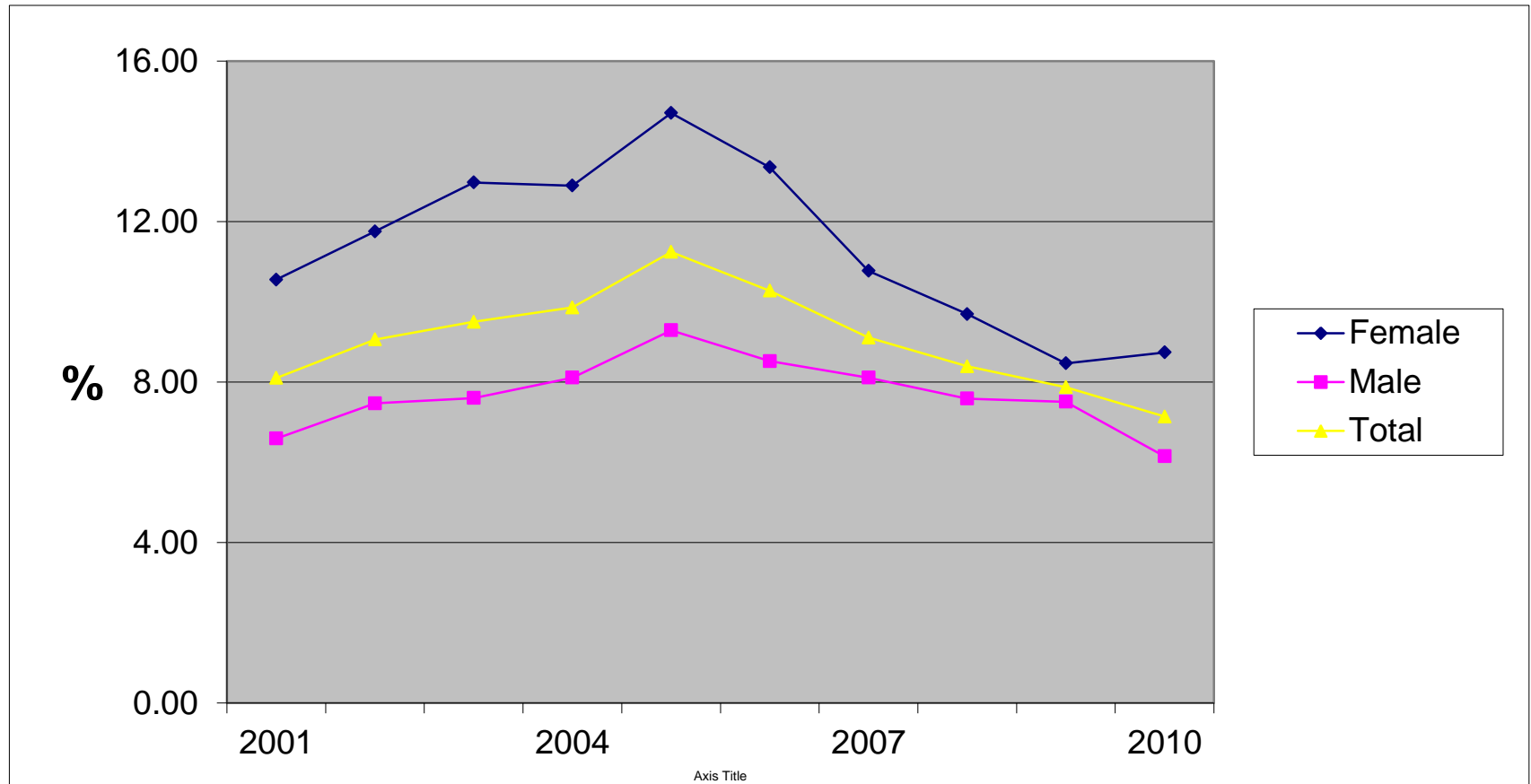
- All attempts to revise UU13/2003 failed
 - Unions did not trust the government and were divided (eg. 2005-2006)
 - Government or employers not really serious
- Nevertheless benign industrial relations environment till around 2010
 - Divided trade union movement, competition among older (KSPSI) and newer federations KSBSI (Moctar and Rekson) and KSPI (metal union dominance)

Mid to late 2000s

- Poor outcomes in terms of jobs and wages
 - Unemployment high (though falls back after 2006), IFS grows rapidly
 - Very few new jobs created, especially ‘regular’ jobs and in manufacturing
 - Most new jobs in services or small enterprises: the missing middle
 - Real wages barely rise

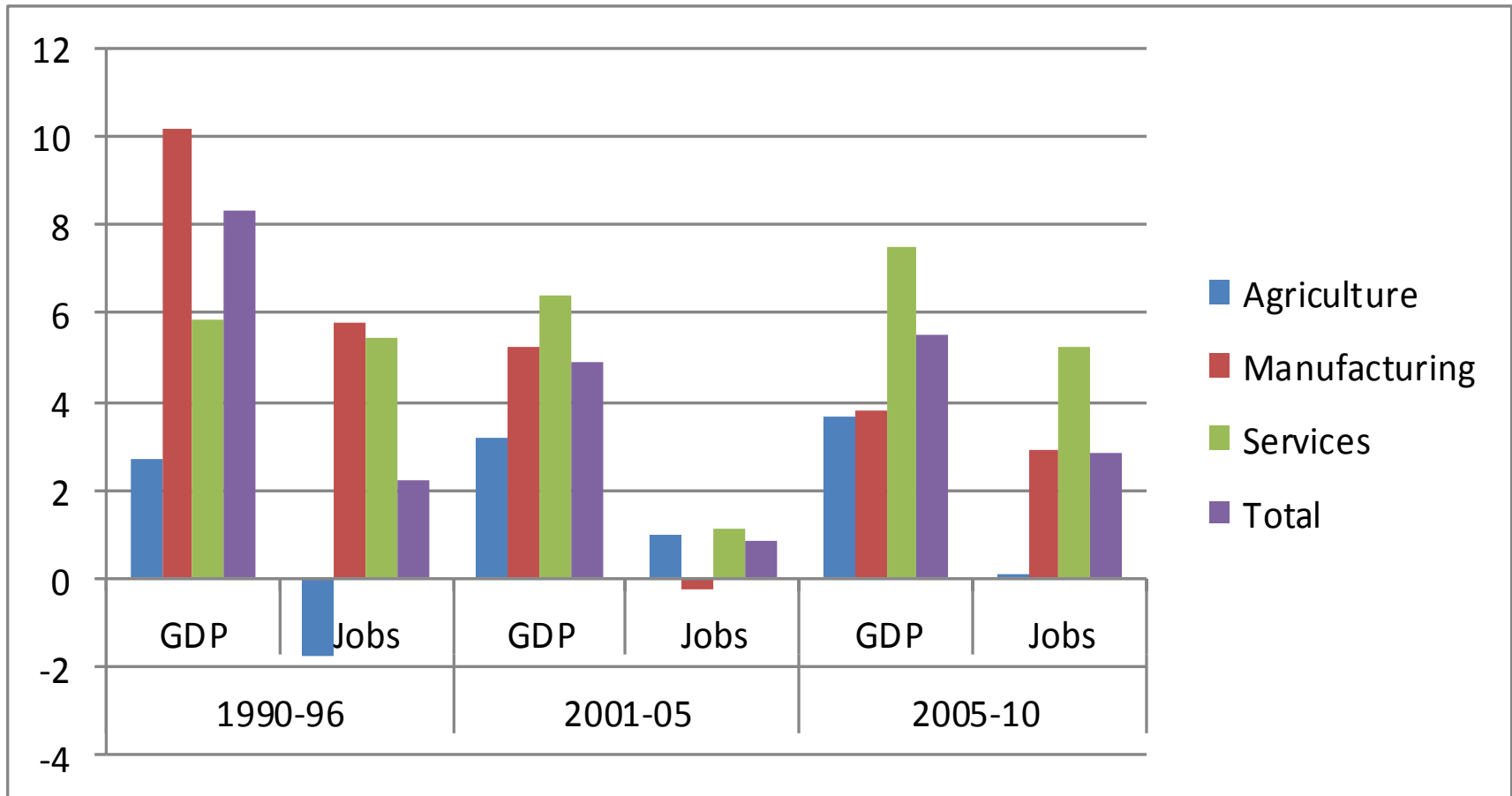
Unemployment Rates by Gender, Indonesia, 2001-2010

(%)

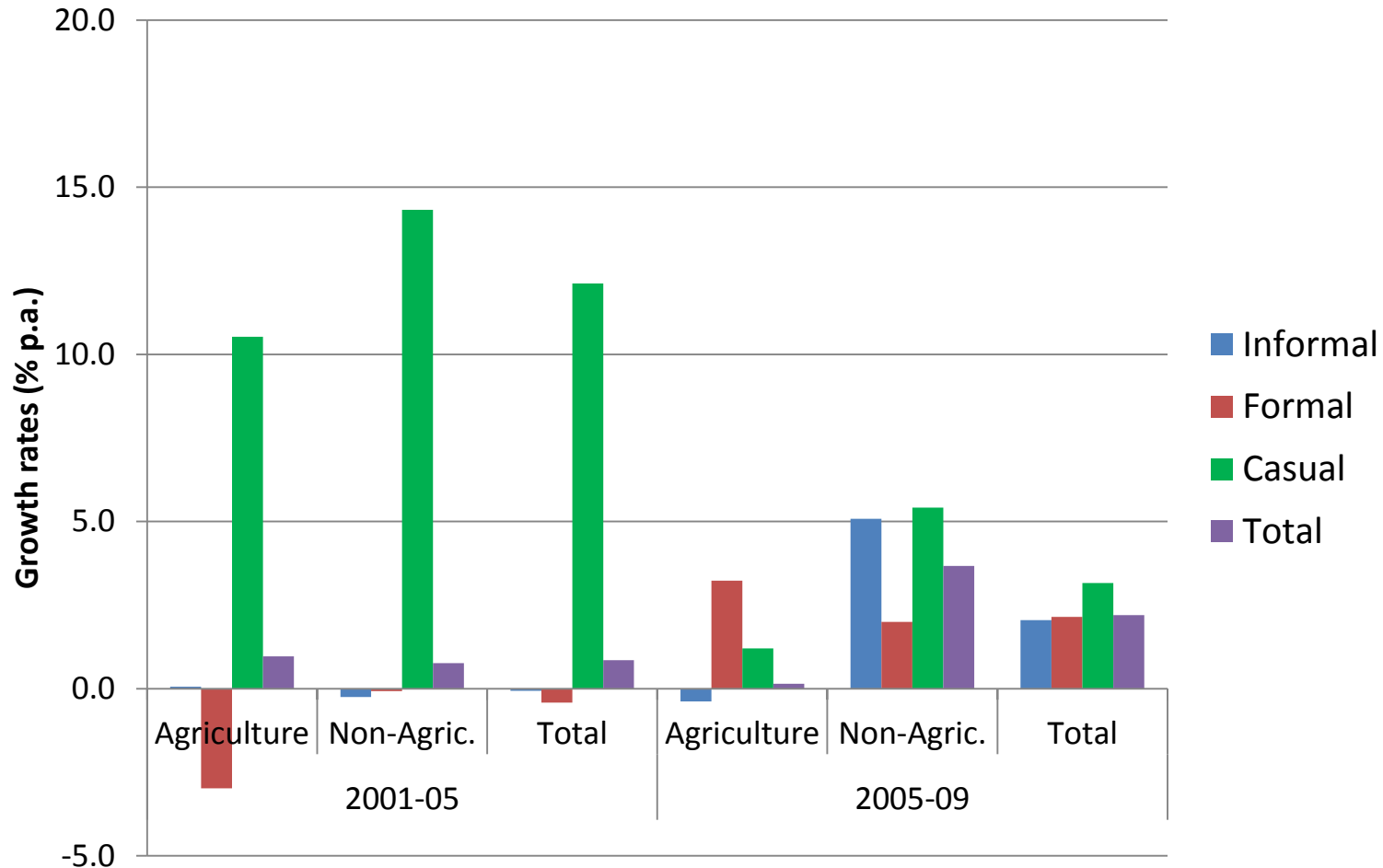


Source: National Labour Force Survey (SAKERNAS) 2001-2010

Growth Rates in GDP and Employment by Major Sector Indonesia, 1990-2010 (% p.a.)



Growth Rates in Employment by Employment Status in Agriculture and Non-Agriculture, Indonesia 2001-2005, 2005-2010

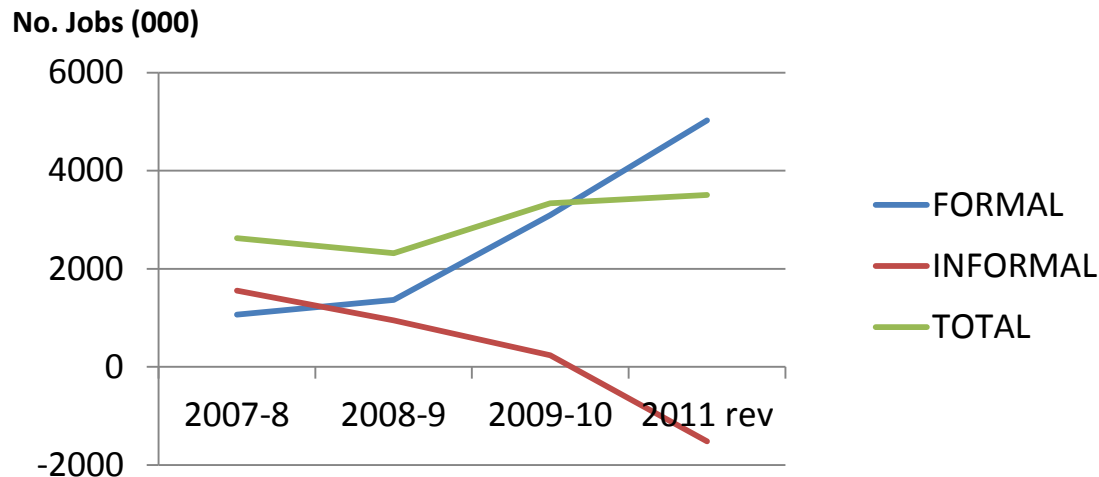


II. DEVELOPMENTS 2010-11

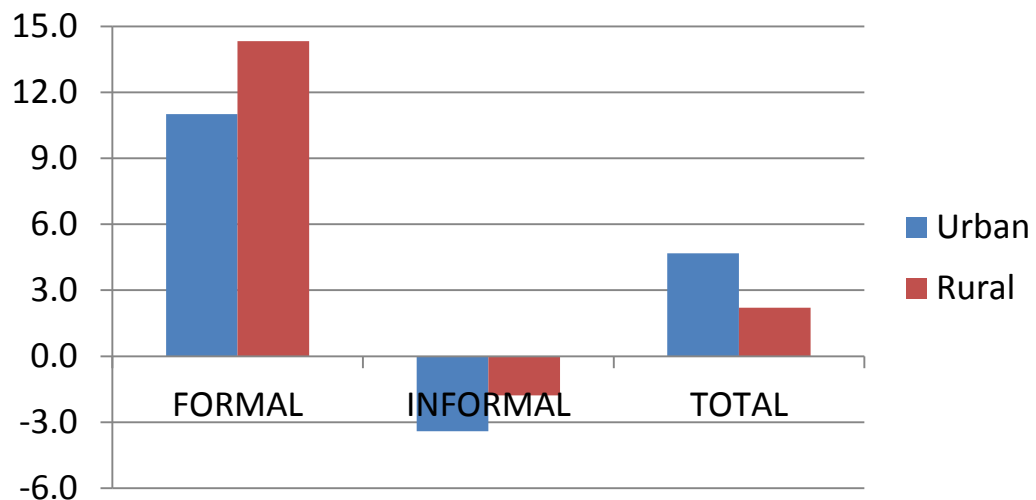
1. The economy: doing well

- Indonesian economy recovers and investment boom
- Labor market improves
 - Unemployment continues to fall
 - More regular jobs created in 2010 and 2011 than in the previous five years *
- ‘Emergence’ of the middle class:*
 - Population with per capita incomes above \$4-10 a day rises steeply

No. New Jobs Formal and Informal Jobs, Indonesia 2007-11 (000)



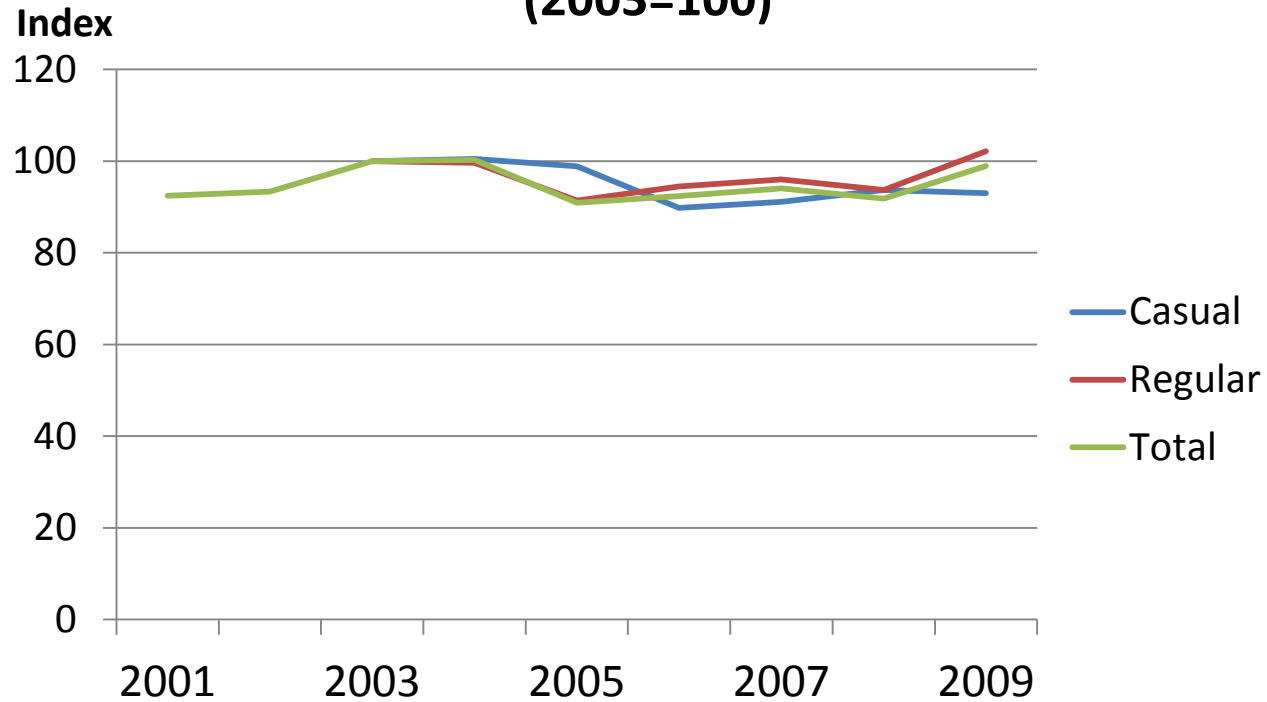
Annual Growth Rates of FS and IFS Employment, Indonesia 2010-11 (%)



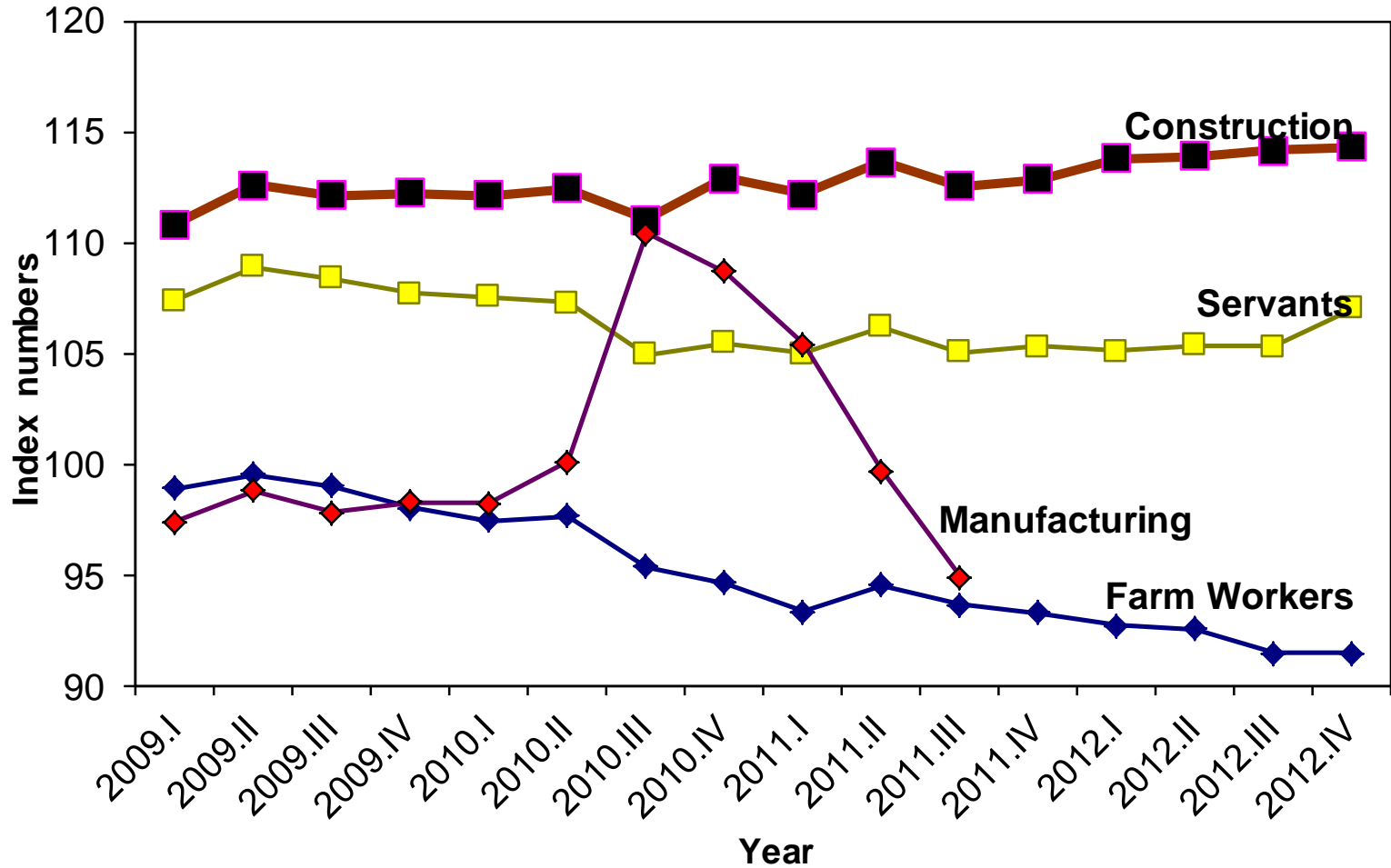
2010-2011

- *but wages flat, and left behind by China*
 - Casual and regular employees 2003-2009 (Nat. Labour Force data)
 - Urban and rural employees 2009-2012 (data from Gus Papanek)
 - Minimum wages rise/or higher elsewhere
 - In China from around 2008, to around \$250 a month (Philippines and Thailand at a similar level)
 - Indonesia still around \$150 in Jakarta in 2010, and less than \$100 in many places

Index of Real Wages Among Regular and Casual Workers, Indonesia 2001[3]-2009 (2003=100)



**Real Wages for Farm, Construction, Manufacturing Workers
and Household Servants (Jan 2009 to Oct 2012)**



2010-11

2. The Labour Movement

- Union movement more strategic and unified
 - emergence of Majelis Pekerja Buruh Indonesia (MKBI) in Bekasi (early 2012)
 - several of the confederations (?KSBSI, KSPI) work together with several federations, esp. KSPMI (metals union)
- A labor leader of stature emerges: Said Iqbal
 - From the active metals union, KSPMI, becomes Head of KSPI in Feb. 2012

2010-11

- Normal round of minimum wage negotiations
- Quite forceful and quite disruptive strike actions over pay claims
 - force a backdown by employers and local governments in the wage negotiations
 - Toll road in West and East of Jakarta blocked Dec-January
- Ratification of quite high minimum wage increases by recent Indonesian and international standards
 - Across the Jakarta region (23%); around 15% in Bandung region
 - Key role of mayors/bupatis in the regions (Bekasi, Serang)



2010-11

- Actions and threatened actions in Bekasi and Tangerang in Dec-Jan 2011-2, follow the a similar pattern:
 1. Tripartite negotiations recommend moderate annual wage increases (around 10% - greater than the CPI)
 2. Local unions protest and governor/mayor ratifies wage increases above tripartite decision
 3. Apindo takes matter to local courts and gets decision overturned (West Java in 2011)
 4. Unions take to the streets, or threaten action
 5. Apindo backs down, unions win, union demands met by the authorities

III. ISSUES IN 2012

- A tightly run campaign by the unions
 - national strike actions announced well in advance for July and October 2012. From the start the 3 issues stand out
 - Low wages, outsourcing and BJSN (SJSN)

ISSUES IN 2012

1. MINIMUM WAGES

- Mainly revised annually on the basis of the KHL – *Kebutuhan Hidup Layak* or Decent Standard of Living Index
 - Decisions by Kabupaten wage councils ratified by the governor
 - Originally based on 46 items in the consumption basket of workers (Ministerial Reg. 2005)
 - Extended to 60 items in 2012
 - Decided through ‘tripartite’ negotiation, though in practice KHL estimates significantly greater than the CPI.*
- The 2012 campaign for higher wages: *hapuskan upah murah* one major focus of demonstrations from June 2012
- Final outcome 44% increase in wages very high by national standards and a victory of the union movement

JAKARTA MINIMUM WAGE 2011-2012

	2011	2012	% increase
Monthly rate			
Rupiah (m.)	1.53	2.22	45
\$	231	170	36
Daily rate: 22 day working week			
Rp.	68,000	100,000	
\$	7.6	10.4	

Minimum wages in several areas, DKI and Wjava
(Rp million per month)

	2012	2013		Increase (%)
	Minimum wage	Union targets	Council decision	
DKI Jakarta	1.52	2.80	2.22	45
Depok	1.42	2.18	2.04	44
Bogor district	1.27	2.00	2.00	58
Bogor city	1.17	2.00	2.00	71
Tangerang	1.38	2.80	2.20	60
Bekasi district	1.49	2.86	2.00	34
Bekasi city	1.42	2.00	2.10	48

Source: "Kompas" reports

/PMcCawley

ISSUES IN 2012

2. *HAPUSKAN OUTSOURCING*

- Only permitted for non-core activities, in practice spread much wider than that
 - Private companies recruit and train workers for industry for a fee (% of wage bill)
 - Workers employed on a fixed term contract (1-2 years)
- Constitutional court ruling Jan. 2012
 - outsourced workers must be paid same wages/get same conditions as regular workers

ISSUES IN 2012

- November 2012 Minister of Manpower issues new regulation (19/2012) which limits outsourcing to 5 sectors
 - Regulates conditions of work in outsourcing companies
 - Regulates the conditions for formation of outsourcing companies*
 - *Kabupaten* labour responsible for implementation of the law

ISSUES IN 2012

3. WORKER CONTRIBUTIONS TO SJSN/BJSN

- Third campaign is to remove the requirement of worker contributions for social security under the law passed in 2009
- Still on-going but
 - worker contributions likely to be critical to the viability of the SJSN
 - Social security coverage, especially pensions, important for any reform of the labour law of 2013

IV. SOME CONCLUSIONS

1. A very big shake-up of labor protection and labour costs
 - Minimum wage increases very large by any standards*
 - Regulations on outsourcing generally accepted as a step forward but problematic
 - not clear how it will apply to services; also covers sub-contracting arrangements (makloon)

IV. SOME CONCLUSIONS

2. The Government(s) role(s)

- An honest broker? Clearly a win for the unions
 - what does this mean for business climate, especially in a national election year (2013-4)*
- Public interest: certainly not articulated with respect to employment in Jakarta
- Another example of government not following its own regulations (eg. KHL as a standard for the setting MW) – governance issue

IV. SOME CONCLUSIONS

3. Employment and Income Distribution

- *Positive:*
 - Fixed term contract jobs still permitted, and many SMEs not follow the law
 - Productivity gains? Spending in industrial zones
- *Negative:* Given the gap with the IFS/SMEs, can expect some increased conflict
 - beginnings of development of a larger labor elite
- Concentration of migrant workers in the major cities, urban tensions (Harris-Todaro)

- These effects do not seem to many bother people (even economists!): overwhelming support for MW increases, seemingly of almost any magnitude.

Last word from the Vice-President (quoted in Jakarta Post Nov. 11):

Labour welfare is “one of the government’s top priorities”. Employers need to understand the needs of labor, or “the goods that lays the golden egg.”