Discussion: “Broken Ladders? Labour Market Inequality in Indonesia and India”

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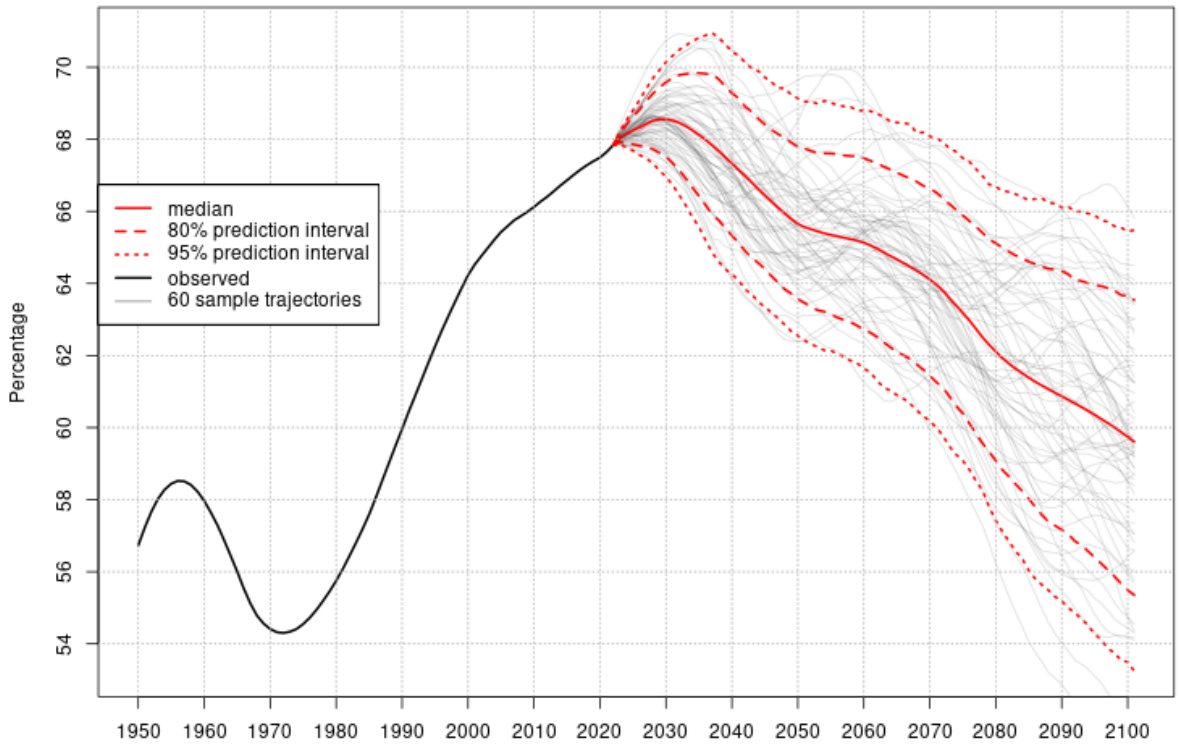
By Maria Monica Wihardja

ISEAS-Yusof-Ishak Institute

Demography will start to weigh Indonesia's and India's economies down in 10-15 years

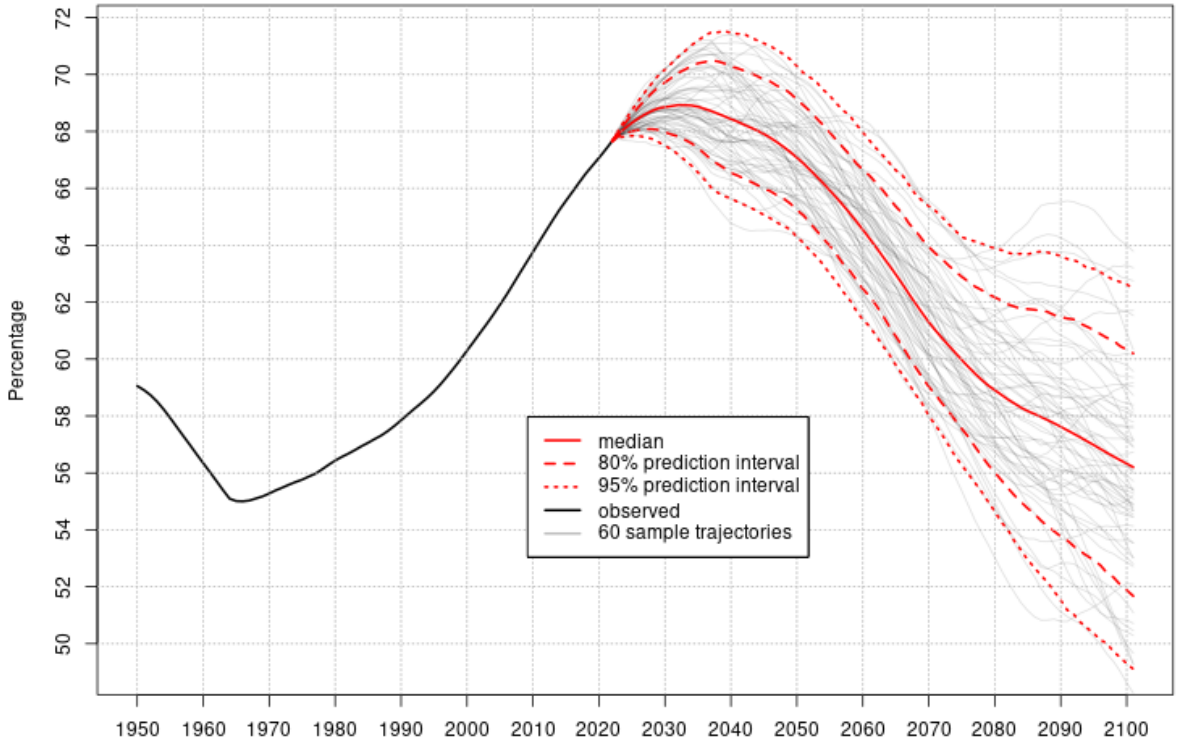
Share of Working Age (15-64 yrs old) Population (%)

Indonesia



United Nations, DESA, Population Division. *World Population Prospects 2022*. http://population.un.org/wpp/

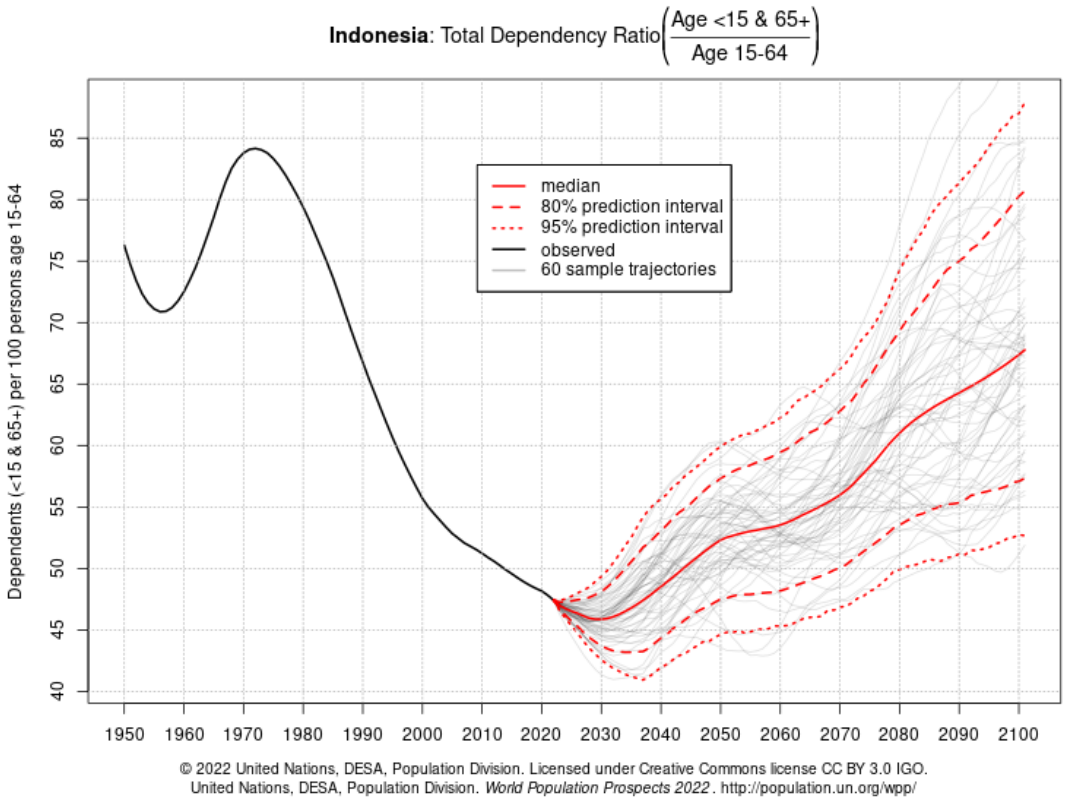
India

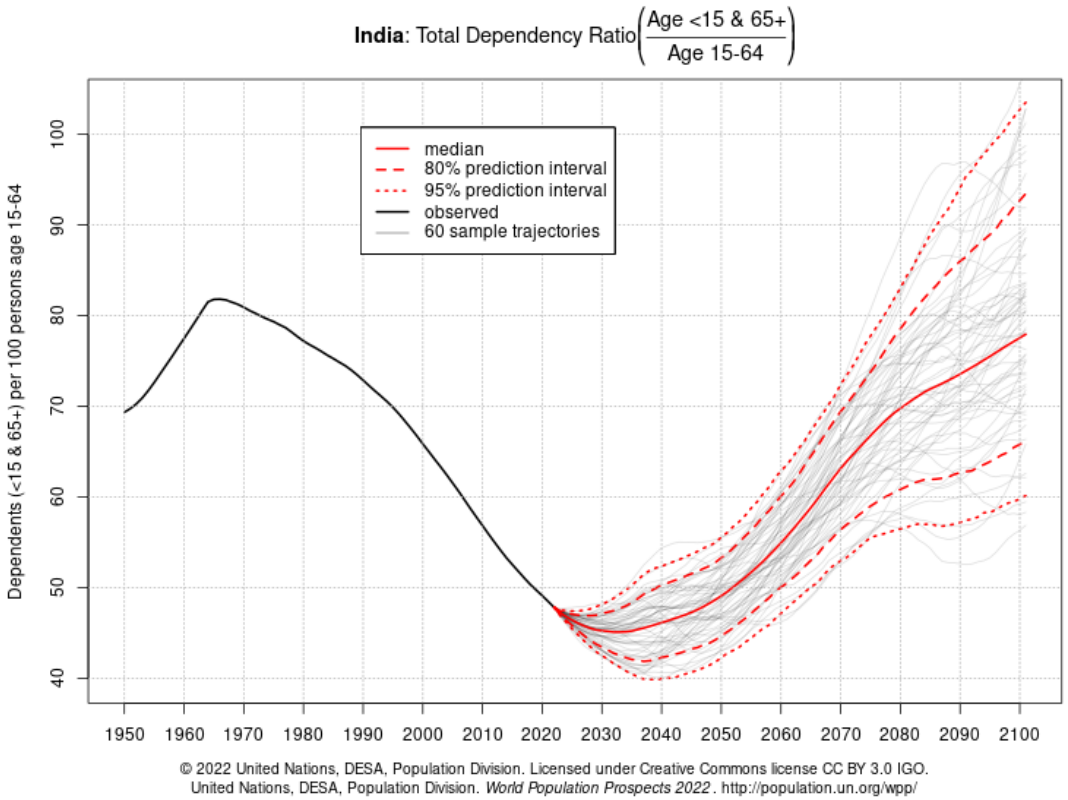


United Nations, DESA, Population Division. *World Population Prospects 2022*. http://population.un.org/wpp/

… as demographic dividend runs out

Total Dependency Ratio



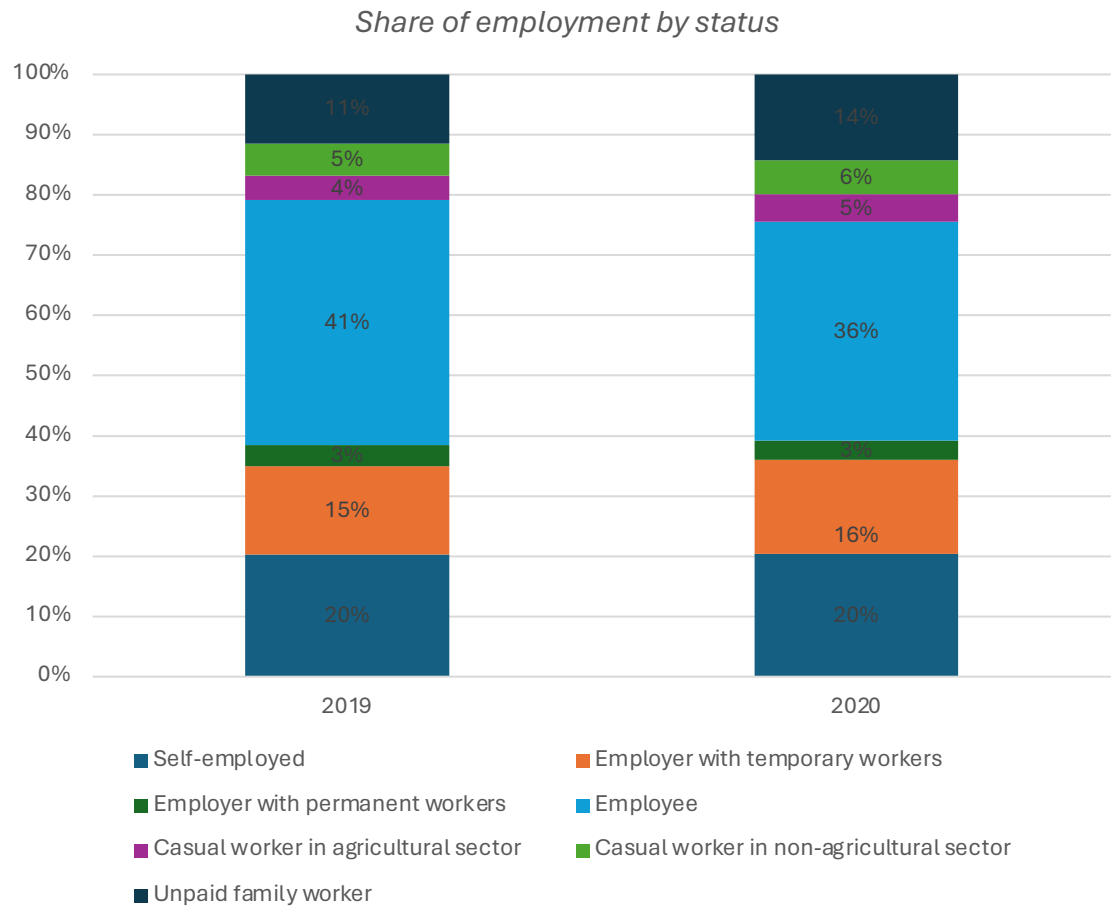


Economic and industrial policies in the past couple of decades have not created enough good jobs

	INDONESIA	INDIA
GDP Growth in the last decade	5% (excluding 2020)	7% (excluding 2021)
Industrial/ Economic Policies	• Import substitution in 1970s and export oriented in 1980s-1990s • Macroeconomic and financial reforms in 2000's • Omnibus Law in 2020's • COVID-19 lockdown • Downstream policy	• Economic reforms in 1991 • Demonetisation in 2016 • Introduction of GST in 2017 • COVID-19 strict national lockdown • Product-based manufacturing strategy for 14 mostly capital-intensive sectors
Investment Climate	Poor	Poor
Trade and investment barriers	High	High
Human Capital Index (2020)	0.54	0.49
FDI to GDP (2022)	1.68%	1.44%
Share of Manufacturing to GDP (2022)	18.7% from 32% in 2002	13% from 18% in 2010
R&D to GDP (2022)	0.24%	0.69%
Youth unemployment (2023)	13.3%	18%

COVID-19 further robbed their demographic dividends

Indonesia's share of wage employees went down by 5pp in one year

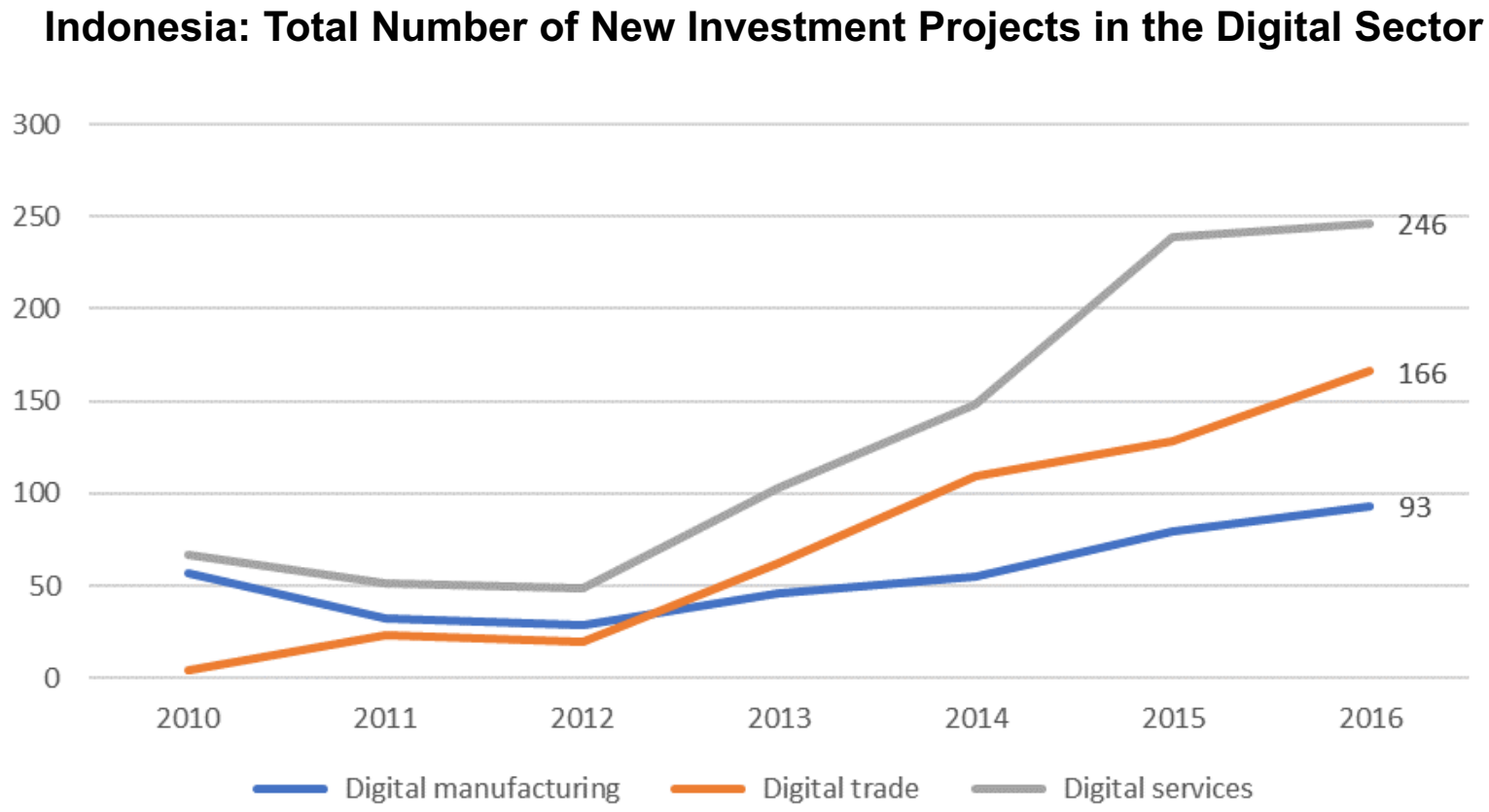


Source: Sakernas August 2020

The Case of Indonesia

- **Excess deaths:** 736,000, five times the officially reported COVID- 19 death tolls.
- **Learning loss**: Indonesian 4th graders lost 11 months of learning for both maths and language studies, but students from poor households lost 18 and 27 months.
- **Lifetime loss of earnings**: 31% for men and 39% for women compared to what it would have been without the pandemic.
- **Unemployment rate and reduced income:** Have not come back to the pre-pandemic level. By March 2023, a third of workers were still earning less than the pre-pandemic.

Digital technological and AI investment bring economic growth and productivity



Sources: Wihardja et al (forthcoming 2024) based on investment data from the Ministry of Investment (retrieved in 2020). See Annex for Industry Codes for digital sectors.

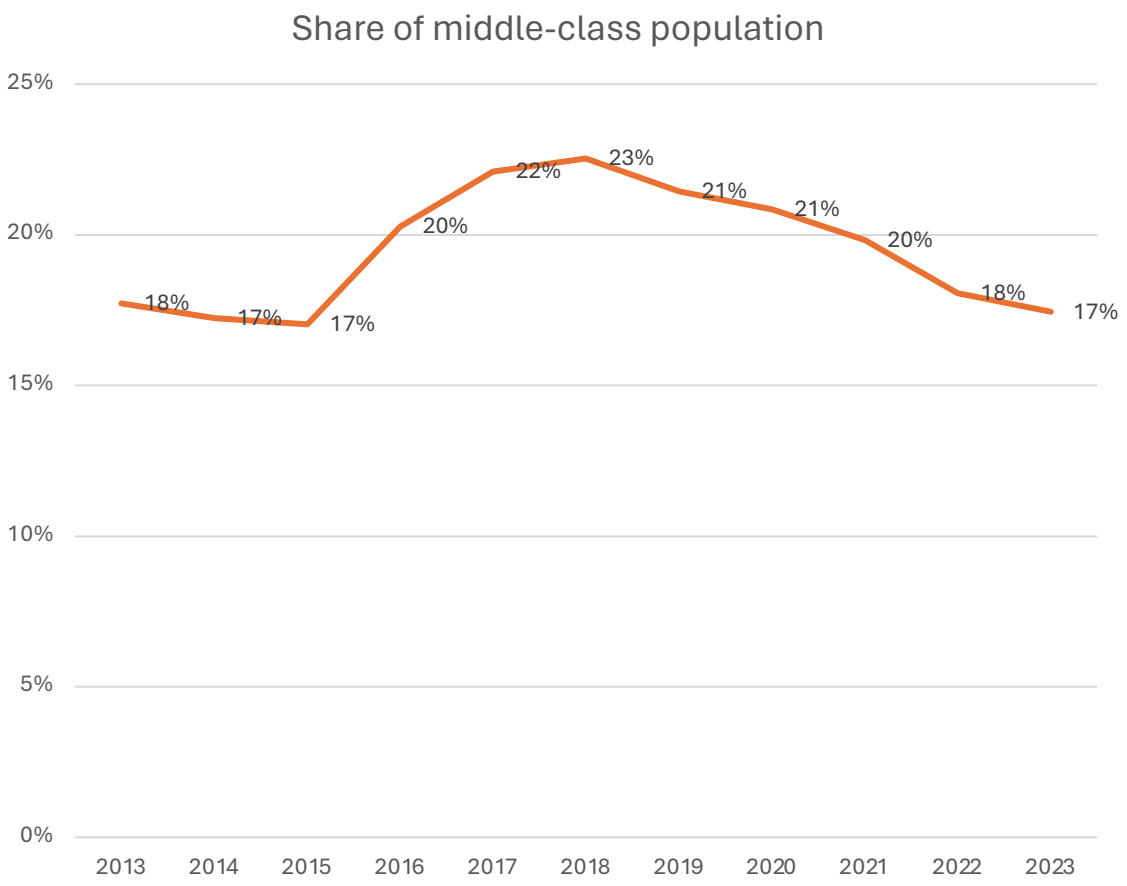
… but risks replacing labour and polarizing the labour market

Indonesia: Marginal Impact of New Investment Projects in the Digital Sectors on Wages

Sources: Wihardja et al (forthcoming 2024) based on investment data from the Ministry of Investment (retrieved in 2020).

Investment in the digital manufacturing sector in Indonesia has a heterogeneous impact on wages across income quantiles, favoring high-income workers.

Faltering middle class risks social crisis



Source: Wihardja (forthcoming 2024); SAKERNAS and SUSENAS 2013-2023

Both India and Indonesia have succeeded in rolling out social assistance, facilitated by digitalization

Indonesia

- Targeted social assistance: from the conditional cash transfers (PKH) to food voucher (BPNT).
- Price subsidies: electricity, fuel, LPG, fertilizer
- Digitalizing some of the payment for targeted SA, e.g., from Raskin/Rastra to BPNT
- Digital ID will soon be rolled out. Improved but incomplete social registry system.
- Integrated QRIS has been game changing especially for MSMEs
- Subsidy and compensation worth 2.8% of GDP

India

- Universal identity scheme
- Unified Payment Interface (UPI)/ National payment schemes
- Personal data management scheme, e.g., tax payments
- Single market: homogenous payments for SA and tax systems
- By 2022, real-time digital payment accounted for 46% of total transactions
- Welfare payments worth 3% of GDP

… but just simply giving ‘fish’ and not the ‘fishing rods’ may not be fiscally sustainable nor desirable for the people.

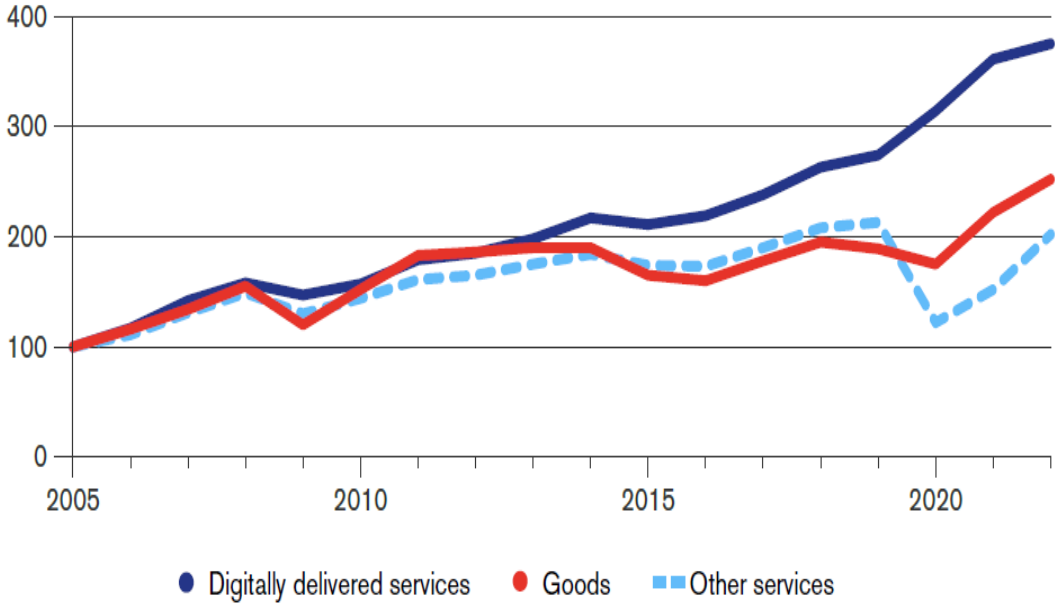
Emerging Economic Opportunities: Chip and Green Technology

- The **reconfiguration of the global supply chains** (away from China) creates opportunity to grab some market share in the global manufacturing.
- Both countries rolled out **tax incentives and subsidies** for investment in these emerging industries.
  - Indonesia prioritizes the **downstream policy** including tax subsidies in the nickel smelter industry to build a national **EV (battery) industry.**
  - India pledged US$10 billion **subsidy scheme for semiconductor** companies to build plants domestically. E.g., Foxconn doubling investment and Micron (US$2.75 billion new plant).
- Success in reaping these new economic opportunities will depend on improving **investment climate (e.g., local content requirement in Indonesia), infrastructure/logistics, and workforce.**

Emerging Economic Opportunities: Digitally Delivered Service Exports

The service sector has become more tradeable and digitalized, with growing demand for digitally delivered service exports especially from advanced economies.

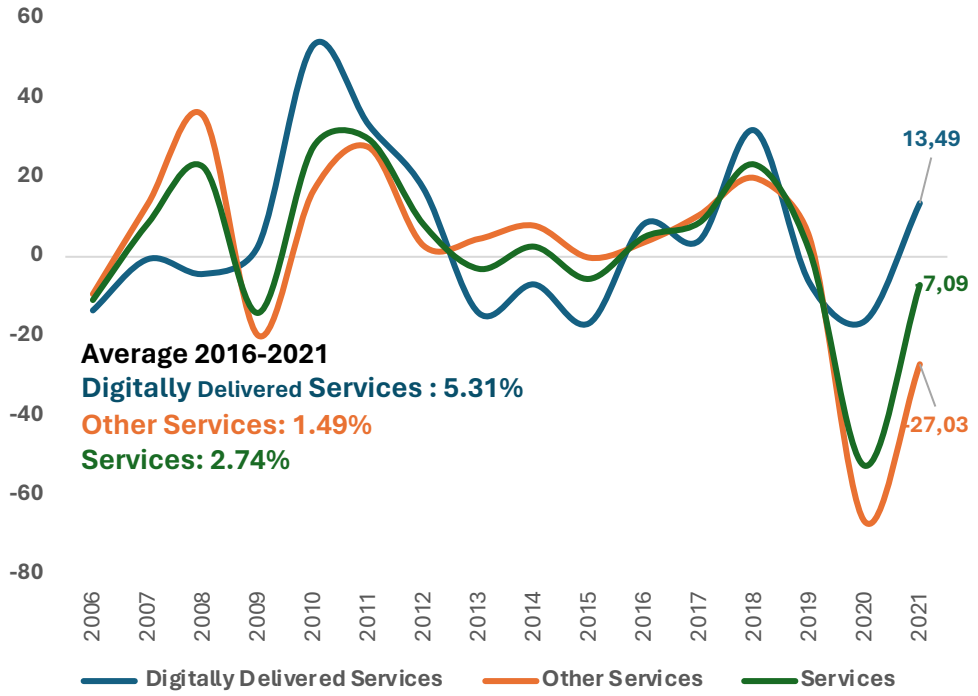
Growth of digitally delivered services exports, 2005-2022
(Index 2005 = 100)



Source: WTO estimates (WTO, 2023).
Note: 'Digitally delivered services' comprise mode 1 exports of the following BOP categories: financial services, insurance and pension services, charges for the use of intellectual property not included elsewhere, telecommunication, computer and information services, and selected categories in business services and personal, cultural and recreational services.

Source: WTO-World Bank (2023)

Growth of Indonesia's overall services exports and its components (digitally delivered services and other services)



Source: Wijaksana and Wihardja (2024)

Concluding Remarks

- High level of **informality and vulnerable jobs** in both countries, partly due to incoherent economic and industrial policies.
- Both countries are **running out of time** to harness their demographic dividend.
- There are **emerging economic opportunities** from the reconfiguration of global supply chains, mainly away from China.
- However, there are **headwinds** such as the risk of labour-replacing AI advancement and rising protectionist policies.
- Both countries have rolled out huge **social assistance** but this cannot replace good job creation especially for the middle class.
- Both countries need to focus more on **labour-intensive** instead of capital-intensive **industrialization strategy** while turning global challenges in geopolitical rivalry, climate change and digital technology into opportunities.

Substantive Comments for the Lecture Paper

- Indonesia experienced **premature deindustrialization** after AFC-1997 and it is no longer pursuing labour-intensive, export-oriented industrial policy like it used to be in the 1980s and 1990s.
- The paper could discuss more on the impacts of **COVID-19 and digitalization** on the labour market, e.g., the constant share of upper-tier informal jobs may be due to automation/job polarization that impact sales and production workers.
- Women may seem to be disadvantaged in the labour market but perhaps the question is whether we should monetize **work women do at home.**
- The paper could discuss more about **India's labour regulation** that has been hindering the growth of formal/wage employment.
- **Minimum wage** is not binding in Indonesia due to high non-compliance so increasing minimum wage may not necessarily protect workers but may potentially cut employment.

Technical Comments for the Lecture Paper

1. Definition of in/formality:
   - Need a matrix/table/charts to explain the definitions
   - Wihardja and Cunningham (2021) use new definitions of in/formality proposed by ILO ICLS-17 (similar to Fields et al 2023) and SAKERNAS 2019 to calculate level of informality: 75%
   - Different definitions for Indonesia and India
2. Different periods:
   - Indonesia's starting period is after AFC-1997 reforms while India's starting period is before economic reforms in 1991
   - Indonesia's ending period is during COVID-19 where some labor market indicators went haywire while India's ending period is after the pandemic
3. Aggregate vs individual-level panel analysis:
   - Rizky et al (2023) use IFLS because it is a panel dataset. Not sure if IHDS and EUSGI have panel respondents.
   - When talking about job ladder, it may be more insightful to track individuals across the years instead of looking at changes of nationally aggregated numbers. Changes at the aggregate level may be due to new workers.
4. Income data is not available for all workers, e.g., SAKERNAS data does not have income data for employers nor unpaid family workers.
5. Urbanization may not mean people move from rural to urban areas but simply there is a change in the status of many rural areas as they develop.

THANK YOU

ANNEX: Industry Codes for Digital Sectors

- UNSD ICT Sector:
  - Manufacturing:
    - 2610: Manufacture of electronic components and boards
    - 2620: Manufacture of computers and peripheral equipment
    - 2630: Manufacture of communication equipment
    - 2640: Manufacture of consumer electronics
    - 2680: Manufacture of magnetic and optical media
  - Trade:
    - 4651: Wholesale of computers, computer peripheral equipment and software
    - 4652: Wholesale of electronic and telecommunications equipment and parts
    - 4741: Retail sale of computers, peripheral units, software and telecommunication equipment in specialized stores
    - 4791: Retail sale via mail order houses or via Internet
  - Services:
    - 581: Publishing of books, periodicals and other publishing activities
    - 5820: Software publishing
    - 591: Motion picture, video and television program activities
    - 592: Sound recording and music publishing activities
    - 60: Broadcasting and programming activities
    - 6110: Wired telecommunications activities
    - 6120: Wireless telecommunications activities
    - 6130: Satellite telecommunications activities
    - 6190: Other telecommunications activities
    - 6201: Computer programming activities
    - 6202: Computer consultancy and computer facilities management activities
    - 6209: Other information technology and computer service activities
    - 6311: Data processing, hosting and related activities
    - 6312: Web portals
    - 639: Other information service activities
    - 9511: Repair of computers and peripheral equipment
    - 9512: Repair of communication equipment

Note: Blue denotes additional definition based on OECD (2021)