Globalization, Growth, and the Face of Disadvantage Labor: Analysis and Policy Implication

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• Literature Review
• The Context: structural transformation in Indonesian economy and labour market
• The Face of Disadvantaged Labours in Indonesia
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Introduction

- Globalization has not only created opportunities, but also risks and unequal impact for different groups.

- In Indonesia, Deregulation and liberalization policies since mid 1980s has resulted high economic growth, especially in manufacture sector.

- The high growth of labor-intensive manufacture sector has provided employment opportunity and increased the wages of Indonesia workers.

- Yet, there was an increasing discontents among labors employed in this industries.
Objectives and Methodology

• Objectives
  ▫ Examining the status and characteristic of disadvantaged workers
  ▫ Finding the determinants of earning of workers
  ▫ Providing potential policies recommendation

• Methodology
  ▫ Statistical Descriptive (cross tabulation) on the characteristic of unemployment, underemployment, and wages status
  ▫ Mincer (1958;1974) earning regression model and Oaxaca Decomposition (1973)
Literature Review: Trade & Labour Market

Heckshel-Ohlin-Stolpel-Samuelson

• Countries should export the commodities that use the relatively abundant factors intensively and import the goods that uses the relatively scarce factor intensively.

• Given the presumption of their each common comparative advantage, trade liberalization encourage the industrialized countries to export goods, which are intensive in skilled labour and capital to less developed countries, while the less developed countries export goods, which are intensive in unskilled labour to the industrialized countries.

• In developed nations trade liberalization reduce demand for unskilled workers, and thus decreasing the real wages and increasing unemployment of unskilled workers (and vice versa in the less developed nations).
Is that cases always occur in the real world?

- Empirical works on this subject also show mixed results.

- The impact of globalization on labor condition is depend on a host of socioeconomic and political factors affecting the processes of liberalization (ILO 1996)
Disadvantaged Labours: Scope & Definition

• No clear consensus on the definition of disadvantaged worker, although some similar aspects and characteristics have been intertwined.

• The concept of disadvantaged is a flexible one, and researchers and policy makers have adopted a variety of perspectives in identifying characteristics associated with poor job opportunities.
Disadvantaged Labours: Scope & Definition (Cont....)

• Workforce NT Report (2004): the employment disadvantaged are those groups of people who, because of barriers such as gender, race, language, disability, literacy and numeracy, experience more difficulties than other groups in gaining sustainable employment.

• Berthoud (2003): the disadvantaged group as ‘non-employment’ defined as men and women who are not working at least 16 hours per week, nor in full-time education, and they do not have working partners.

• Bradburry (2000) referred the groups that are classically disadvantaged in the labour market to blacks, women, teens and the less educated workers.
The Context: Structural Transformation in Indonesian Economy and Labour Market

- Indonesia experienced high economic growth rates with substantial structural change.
  - the relative importance of agriculture gradually declined.
  - share of manufacture sector in GDP increased

- There has also been remarkable demographic and social change.
  - The nationwide family planning program introduced in the early 1970s has succeeded in turning down the fertility rate significantly
  - The large-scale school building programme and education campaign have increased substantial investment in human capital.
  - The labour force has grown dramatically both in term of size and quality.
Overview of the Indonesian Labour Market, 1986-2000

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Labour force (million)</td>
<td>67.5</td>
<td>75.4</td>
<td>76.2</td>
<td>83.7</td>
<td>88.2</td>
<td>89.6</td>
<td>95.7</td>
</tr>
<tr>
<td>Labour force participation rate (%)</td>
<td>66.5</td>
<td>66.4</td>
<td>67.8</td>
<td>66.8</td>
<td>66.9</td>
<td>66.9</td>
<td>67.7</td>
</tr>
<tr>
<td>Female labour force (%)</td>
<td>39.2</td>
<td>38.8</td>
<td>39.0</td>
<td>38.9</td>
<td>38.5</td>
<td>38.8</td>
<td>38.6</td>
</tr>
<tr>
<td>Urban labour force (%)</td>
<td>21.6</td>
<td>25.5</td>
<td>28.7</td>
<td>31.3</td>
<td>33.9</td>
<td>36.0</td>
<td>38.0</td>
</tr>
<tr>
<td>Formal Employment (%)</td>
<td>28.1</td>
<td>27.6</td>
<td>30.7</td>
<td>36.1</td>
<td>37.9</td>
<td>35.4</td>
<td>35.3</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>2.7</td>
<td>2.5</td>
<td>2.8</td>
<td>4.4</td>
<td>4.9</td>
<td>5.5</td>
<td>6.1</td>
</tr>
</tbody>
</table>
Disadvantaged Labours in Indonesia: Unemployment

- During 1986-2000 the open-unemployment rate in urban area was ranging from 5.7% to 9.7%, while the highest rural open-unemployment rate was only 3.7%.

- Yet, the urban-rural unemployment gap dropped from 5 times to slightly above 2.5 times between 1986 and 2000.

- The open unemployment rate for female increased continuously from 2.7% in 1986-1989 to 6.6% in 1998-2000, and overlapped the male unemployment since 1990-1993, both in urban and rural area.
Disadvantaged Labours in Indonesia: Unemployment (Cont...)

- the 15-29 age group accounted about 85% to 90% of all open unemployment during 1986-2000, and the open unemployment rates of the 15-19 and 20-24 age groups were the highest among other groups.

- The percentage of unemployment for tertiary education graduates raised by almost two fold from 7% to 12% between 1986 and 2000, while the proportion of senior secondary school leavers in the openly unemployed was about 57% during that respective period.
### Urban median job-search duration by education level, 1986-1998

<table>
<thead>
<tr>
<th>Education Level</th>
<th>86-89</th>
<th>90-93</th>
<th>94-96</th>
<th>98</th>
<th>Male</th>
<th>Female</th>
<th>Male+Female</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>86-89</td>
<td>90-93</td>
<td>94-96</td>
<td>98</td>
<td>86-89</td>
<td>90-93</td>
<td>94-96</td>
</tr>
<tr>
<td>Less than primary</td>
<td>4.2</td>
<td>3.7</td>
<td>3.7</td>
<td>4.0</td>
<td>4.3</td>
<td>3.3</td>
<td>3.8</td>
</tr>
<tr>
<td>Primary</td>
<td>5.2</td>
<td>4.5</td>
<td>4.8</td>
<td>4.0</td>
<td>5.1</td>
<td>4.1</td>
<td>5.0</td>
</tr>
<tr>
<td>Junior Secondary</td>
<td>6.6</td>
<td>5.5</td>
<td>6.1</td>
<td>5.0</td>
<td>6.6</td>
<td>5.4</td>
<td>5.8</td>
</tr>
<tr>
<td>Senior general</td>
<td>7.8</td>
<td>6.8</td>
<td>6.6</td>
<td>6.0</td>
<td>7.2</td>
<td>6.6</td>
<td>6.3</td>
</tr>
<tr>
<td>Senior vocational</td>
<td>8.1</td>
<td>6.4</td>
<td>5.7</td>
<td>6.0</td>
<td>6.9</td>
<td>6.6</td>
<td>6.4</td>
</tr>
<tr>
<td>Tertiary</td>
<td>7.0</td>
<td>6.5</td>
<td>6.4</td>
<td>6.0</td>
<td>5.7</td>
<td>6.2</td>
<td>6.5</td>
</tr>
<tr>
<td>All categories</td>
<td>7.0</td>
<td>6.0</td>
<td>6.0</td>
<td>6.5</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
</tr>
</tbody>
</table>
Unemployment rate and poverty incidence by educational attainment, 1999
Open unemployment rates by expenditure quintiles, 1997 and 1999

<table>
<thead>
<tr>
<th>Rp. 000/capita/month (% of total population)</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q5</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Male</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>3.2</td>
<td>3.9</td>
<td>4.5</td>
<td>4.9</td>
<td>5.3</td>
<td>4.3</td>
</tr>
<tr>
<td>1999</td>
<td>4.7</td>
<td>5.9</td>
<td>5.7</td>
<td>6.6</td>
<td>6.3</td>
<td>5.8</td>
</tr>
<tr>
<td><strong>Female</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>4.7</td>
<td>5.8</td>
<td>7.1</td>
<td>8.3</td>
<td>8.1</td>
<td>6.6</td>
</tr>
<tr>
<td>1999</td>
<td>6.7</td>
<td>7.1</td>
<td>7.6</td>
<td>8.6</td>
<td>7.8</td>
<td>7.5</td>
</tr>
<tr>
<td><strong>Male + Female</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>3.7</td>
<td>4.6</td>
<td>5.4</td>
<td>6.1</td>
<td>6.3</td>
<td>5.1</td>
</tr>
<tr>
<td>1999</td>
<td>5.4</td>
<td>6.3</td>
<td>6.4</td>
<td>7.3</td>
<td>6.9</td>
<td>6.4</td>
</tr>
</tbody>
</table>
Disadvantaged Labours in Indonesia: Unemployment (Cont...) 

- The total employment for those working less than 25 hours per week declined from 24% in 1986-1989 to 23% in 1994-1997,

- And for those working less than 35 hours decreased from 42% to 38 in the respective period

- By 1998, however, the part-time employment rate in urban and rural areas was increased respectively by 3 and 1 percentage point compared to that of the 1994-1997 period.

- And the incidence of part-time work for female also increased higher by 3 percentage point, compared to 1 percentage point of that male.
Disadvantaged Labours in Indonesia: Unemployment (Cont...)

- Almost 90% of total part-time workers in 1986 located in rural area and most of them were engaged in agriculture sector.

- And the share of part-time workers in rural (46%) was higher than of that in urban (21.6%).

- Female workers accounted nearly 55% of the part-time workers, while they only formed less than 29% of full-time workers.

- And the share of worker working shorter hours in women group was about 57.3%, higher than of that in the male worker group, which was only about 30.6%.
Workers aged 15-19 and 20-24, young worker, accounted nearly 28% of part-time worker whereas this proportion was only less than 20% in full-time work.

The share of part-time worker in these two age groups was respectively 55% and 40%, compared to 35% in 25-29 age group and 38% in 30+ age group.

Worker with less primary, primary school and secondary education formed 94.5% of all part-time workers.

And the share of part-time workers in lower education group was respectively 47.4% for less primary education, 38% for primary education, and 33% for secondary school, higher than 25% in senior secondary education, and 20% in tertiary education.
Rate of underemployment among prime-age males, females, and youth, 2002
Wage Structure and Its Characteristics

• The nominal earnings of wage employees rose by an average of 11.7% per annum,

• While the consumer prices on average increased by 8.3% annually, resulting the 3.3% per annum increase in real earning during 1982-1997

• The national poverty incidence registered before the crisis also declined from 27% to 11% between 1982 and 1997

• However, the crisis increased the poverty incidence from 11% in 1997 to 24% in 2000.
Wage Structure and Its Characteristics (cont...)

- Females and rural workers earned less than 70% of male and urban earning respectively and female in rural areas persistently to receive the lowest earning during 1982-2000.

- Workers in agriculture have continued to receive the lowest earning, followed by workers in manufacturing.

- During 1982-2000, however, the agricultural earning increased from 48% in 1982 to slightly less than 55%.

- While the manufacturing earning increased from 95% increased to 100% in 1990, before contracting again to 93% of national average in 1998.
Wage Structure and Its Characteristics (cont...)

- Although female earning remained lower than male earning across sector, the female earning increased higher than those of male in all sector

- Between 1990 and 2000, female earning relative to those male increased from 51% to 56% for agriculture and from 47% to 63% for manufacturing

- The earning differential by education generally got smaller in line with the increasing education attainment of overall population.

- The earning differential was widest at lower education level and progressively narrowed with more education, ranging from about 50% for the primary school level and below to only 20% for senior secondary school.
## Poverty incidence and relative wages by sector, 1999 and 2000

<table>
<thead>
<tr>
<th>Sector</th>
<th>1999 Poverty incidence (%)</th>
<th>1999 Contribution to total poor (%)</th>
<th>2000 Relative wage (national=100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>39.7</td>
<td>58.4</td>
<td>54</td>
</tr>
<tr>
<td>Trade</td>
<td>17.6</td>
<td>11.1</td>
<td>93</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>22.9</td>
<td>7.7</td>
<td>93</td>
</tr>
<tr>
<td>Civil, social &amp; private</td>
<td>13.1</td>
<td>7.4</td>
<td>127</td>
</tr>
<tr>
<td>Transport &amp; communication</td>
<td>24</td>
<td>5.6</td>
<td>127</td>
</tr>
<tr>
<td>Construction</td>
<td>29</td>
<td>5.5</td>
<td>98</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>29.8</td>
<td>1.00</td>
<td>152</td>
</tr>
<tr>
<td>Others</td>
<td>32</td>
<td>0.27</td>
<td>-</td>
</tr>
<tr>
<td>Finance</td>
<td>5.23</td>
<td>0.23</td>
<td>175</td>
</tr>
<tr>
<td>Electricity, gas &amp; water</td>
<td>14.5</td>
<td>0.17</td>
<td>145</td>
</tr>
</tbody>
</table>
Determinant of earning in Indonesia

- Education positively and significantly contributes to individual earning.

- There is also a significant quadratic trend meaning that the increase in marginal effect is increasing at a faster rate with the increase in education level.

- Experience also plays a substantial role on individual earning.

- The marginal effect of education is larger for individuals living in urban areas than in rural areas.

- The signs (negative) experience estimates also suggest that there is a quadratic effect, or an inverted U-shape curve.
Determinant of earning in Indonesia (cont...)

- The effect of FDI on the individual earning was positive and significant in the same period, excluding in 1992.

- The gender wage gap has decreased significantly during 1986-2004 as can be seen from the coefficient estimates of gender dummy.

- Regional dummy also played significant role in determining the individual wage differential, partly representing role of regional minimum wages.
Determinant of earning in Indonesia (cont...)


- The persistent decline in gender wage inequality during 1986-2000, as reflected in the decrease of coefficient estimates of sex variables, was mainly driven by the decline in wage structure effect rather than the composition effect.
Conclusion & Policy Implications

- While the unemployment was a greater problem in urban areas and the underemployment and low income in rural areas,

- Younger, female and less educated/unskilled workers, especially those who come from poor family, were categorized as disadvantaged workers.

- The unemployment rate, the underemployment rate, and the incidence of low income workers in those groups remained high.

- The increasing incidence of unemployed workers, underemployed workers, and low earning workers during the crisis in youth, female and less educated workers made them likely to be more vulnerable in the labour market.
Conclusion & Policy Implications (cont...)

- Any kind policies that support jobs creations and better earning should be targeted to these disadvantaged groups (female, youth and lower education workers).

- Any kind policies to expand the formal sector jobs outside agriculture is likely to be of central important in reducing unemployment rate, underemployment rate, and low earning for these advantaged workers.

- The government should focus its assistance for unemployed school leavers and graduates on better matching of job seekers with potential employers, and better market labour market information and labour exchange.
Thank You