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Employment and  
Re-Industrialisation  
in Post Soeharto  
Indonesia

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## PREFACE

This volume focuses on the challenge of re-industrialisation in post-Soeharto Indonesia to accelerate decent job creation for reversing rising inequality trend and growing productivity-wage growth gap. It argues that Indonesia cannot re-create the manufacturing miracle of the past based on repression of labour, when it has to respect human and labour rights, accommodate regional diversity and face increased competition from low-wage countries, especially within the Association of Southeast Asian Nations (ASEAN) Economic Community. Uncertainty and subdued recovery of the global economy following the global financial crisis (GFC) have also compounded Indonesia's past export-oriented development model.

Therefore, in this volume, we posit that Indonesia should not only transit to high value-added activities in order to move quickly up the regional flying geese of international division of labour but also develop its internal market by strengthening backward and forward linkages. In other words, for balanced regional development in an era of heightened global uncertainty, Indonesia also needs to develop internal flying geese of its manufacturing sector based on complementarities among diverse subnational entities in terms of their level of socio-economic development and resource endowments (human and natural). This is also necessary to address income inequality and inter-regional socio-economic disparity.

We also suggest that regional minimum wages can be a critical policy variable. Strict compliance with minimum wages closes the wage-productivity gap and hence addresses the rising inequality trend. Regional minimum wages can also accelerate industrial restructuring,

including relocation. Thus, variation in regional minimum wages, reflecting regions' level of socio-economic development and resource endowments, is critical.

This volume draws on the findings of research conducted for the International Labour Organization (ILO) between 2011 and 2015. We remain grateful to ILO for its generous support, especially to Iyanatul Islam, Emma Allen, Nooman Majid, Aurelio Parissoto, Claire Harasty, Kazutoshi Chatani and Robert Kylvoh.

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Professor Raja Junankar of Western Sydney University and the University of New South Wales, Dr Girija Mallik of Western Sydney University, Professor John Lodewijks of SP Jain School of Global Management, Dr Neven Knezevic (UNICEF Jakarta) and Dr Gazi Hassan of University of Waikato (New Zealand) kindly read different parts of the manuscript. We are grateful to them for their insightful comments.

We also thank our two very competent research assistants, Ilmiawan Auwalin and Alona Dwinata.

Some of our research findings were earlier published in the ILO Working Papers Series, ACDE Working Papers in Trade and Development (ANU Crawford School of Public Policy) and journals (*Economic and Labour Relations Review*, *Journal of the Asia Pacific Economy*, *Asian Journal of Social Science*, *Journal of Comparative Asian Development* and *European Journal of East Asian Studies*). However, where possible, we have updated the data and related analysis.

We dedicate this volume to our respective families who have supported our endeavour.

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## LIST OF ABBREVIATIONS

2SLS	Two-stage least squares
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AFC	Asian financial crisis
APINDO	<i>Asosiasi Pengusaha Indonesia</i> (Indonesian Employers' Association)
Bappeda	<i>Badan Perencanaan Pembangunan Daerah</i> (Regional Development Planning Agency)
Bappenas	<i>Badan Perencanaan Pembangunan Nasional</i> (National Development Planning Agency)
BKPM	<i>Badan Koordinasi Penanaman Modal</i> (Investment Coordination Board)
BPJS	<i>Badan Penyelenggara Jaminan Sosial</i> (Social Security Implementing Agency)
BPS	<i>Badan Pusat Statistik</i> (Statistics Indonesia)
CV	Coefficient of variation
DPPD	<i>Dewan Penelitian Pengupahan Daerah</i> (Regional Wage Research Council)
DPPN	<i>Dewan Penelitian Pengupahan Nasional</i> (National Wage Research Council)
DPR	<i>Dewan Perwakilan Rakyat</i> (National Parliament)
GAPRI	<i>Gerakan Anti Pemiskinan Rakyat Indonesia</i> (Anti-improvement Movement for Indonesian Citizens)
GBHN	<i>Garis-Garis Besar Haluan Negara</i> (State Guidelines)
GDP	Gross domestic product

GFC	Global financial crisis
GOI	Government of Indonesia
HDI	Human Development Index
HRD	Human resource development
IDR	Indonesian Rupiah
IJP	Indonesia Job Pact
Inpres	<i>Instruksi Presiden</i> (Presidential Instruction)
ISIC	International Standard of Industrial Classifications
JALA PRT	Jaringan Nasional Advokasi Pembantu Rumah Tangga (National Network for Advocacy for Domestic Workers)
JAMSOSTEK	Jaminan Sosial Tenaga Kerja (Social Insurance for Private Sector Workers)
KFM	<i>Kebutuhan Fisik Minimum</i> (minimum physical needs)
KHL	<i>Kebutuhan Hidup Layak</i> (decent living needs)
KHM	<i>Kebutuhan Hidup Minimum</i> (minimum living needs)
MITI	Ministry of International Trade and Industry
MP3EI	<i>Master Plan Percepatan Pengembangan Pembangunan Ekonomi Indonesia</i> (Masterplan for Acceleration and Expansion of Indonesia's Economic Development)
MPR	<i>Majelis Permusyawaratan Rakyat</i> ( <i>The People's Consultative Assembly</i> )
MVA	Manufacturing value added
NGOs	Non-government organisations
P4BM	<i>Pusat Pengelolaan Pembebasan dan Pengembalian Bea Masuk</i> (Agency for Import Duty Exemption and Restitution)
PDIP	Partai Demokrasi Indonesia Perjuangan (the Indonesian Democratic Party of Struggle)
PJP	<i>Pembangunan Jangka Panjang</i> (long-term development plan)
R&D	Research and development
RAPBN	<i>Rencana Anggaran Pendapatan dan Belanja Negara</i> (State budget)
REPELITA	<i>Rencana Pembangunan Lima Tahun</i> (five-year (medium- term) development plan)
RGDP	Regional gross domestic product
RIPIN	<i>Rencana Induk Pembangunan Industri Nasional</i> (Master Plan of National Industry Development)
RKP	<i>Rencana Kerja Pemerintah</i> (Government Work Plans)

RPJMD	<i>Rencana Pembangunan Jangka Menengah Daerah</i> (Regional Medium-Term Development Plans)
RPJMN	<i>Rencana Pembangunan Jangka Menengah Nasional</i> (Medium-Term National Development Plan)
RPJPN	<i>Rencana Pembangunan Jangka Panjang Nasional</i> (Long-Term National Development Plan)
Sakernas	<i>Survei Angkatan Kerja Nasional</i> (National Labour Force Survey)
SBY	Susilo Bambang Yudhoyono
SMEs	Small and medium enterprises
SOEs	State-owned enterprises
SPSI	<i>Serikat Pekerja Seluruh Indonesia</i> (All Indonesian Workers Union)
Susenas	<i>Survei Sosial Ekonomi Nasional</i> (National Socioeconomic Survey)
UN	United Nations
UNIDO	United Nations Industrial Development Organization

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