

RESEARCH REPORT

Young Workers in the Urban Industrial Sector in the Context of the Impact of the 2008/09 Global Financial Crisis

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ABSTRACT

Young Workers in the Urban Industrial Sector in the Context of the Impact of the 2008/2009 Global Financial Crisis

Hastuti, Syaikhul Usman, Deswanto Marbun, and Alma Arief

At a time when many countries were experiencing negative economic growth as a consequence of the 2008/09 global financial crisis (GFC), the Indonesian economy continued to grow positively. Nevertheless, it did not completely escape the negative effect of the 2008/09 GFC, which took the form of a reduction in growth. This reduction in itself had an impact in that it weakened the capacity of the economy to absorb labor. The present report is the outcome of quantitative research concerning labor in urban areas in Kota Samarinda and Kota Tangerang in the context of the 2008/09 GFC. The study is a part of the Monitoring the Socioeconomic Impact of the 2008/09 GFC in Indonesia research, which has been carried out by The SMERU Research Institute since July 2009. In general, the findings of the present study indicate that many companies, especially those that are export-oriented, have been affected by the impact of the crisis, yet at the same time most workers did not feel the effects because the economy was restored relatively quickly. In the two study locations, the livelihoods of industrial workers are still of some concern, particularly if linked to hopes of improved welfare as a result of policies related to the current shift in the structure of the economy from agriculture to industry. The level of unemployment is still high and it influences the already low bargaining position of workers. The bargaining position of workers has become weaker as a consequence of the expansion in the practice of outsourcing, which has made workers' lives more difficult. Furthermore, the minimum wage tends to be applied by companies as a maximum wage. In this connection, in addition to acting as the maker of regulations (wages), the government should seek to be the enforcer of regulations that aim for workers to obtain a wage that is adequate to meet the requirements of a proper life.

Keywords: global financial crisis, labor force, urban

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LIST OF ABBREVIATIONS

Apindo	: Association for Indonesian Entrepreneurs
AusAID	: Australian Agency for International Development
Bappenas	: National Development Planning Agency
BPS	: Statistics Indonesia
BTO	: Build, Transfer, Operate
FE UI	: Faculty of Economics, Universitas Indonesia
FGD	: focus group discussion
ILO	: International Labour Organization
Jamsostek	: Social Security for Labor
Kemnakertrans	: Ministry of Labor and Transmigration
KHL	: proper standard of living
KHM	: minimum living needs
GFC	: global financial crisis
GRDP	: gross regional domestic product
PKWT	: work agreement for a fixed period of time
PKWTT	: work agreement for an indefinite period of time
PT	: limited liability company
PUK	: labor union's work unit in a company
RT	: a neighborhood unit consisting of a number of households
RW	: a unit of local administration consisting of several RT within a <i>kelurahan</i>
SIUP	: trade permit
STM	: technical vocational high school
TDP	: company registration certificate
THR	: special holiday bonus
TNI	: Indonesian National Armed Forces
TPAK	: level of labor force participation
TPK	: container terminal
TPT	: level of open unemployment
TPTI	: Indonesian selective felling system
UMK	: <i>kabupaten</i> (district)/ <i>kota</i> (city) minimum wage
UMP	: provincial minimum wage
UMR	: regional minimum wage

EXECUTIVE SUMMARY

Although Indonesia did not experience an impact as severe as that felt by other countries, it could not avoid the negative effects of the global financial crisis (GFC) of 2008/09. Indonesia's economic growth and exports at the end of 2008 and the beginning of 2009 underwent a drop that caused a decline in labor absorption. In this context, it is suspected that young workers were the group most affected by the impact because of the high level of unemployment and the lack of security in employment.

In order to see the impact of the 2008/09 GFC on labor, The SMERU Research Institute, in conjunction with the National Development Planning Agency (Bappenas) and with support from the Australian Agency for International Development (AusAID), undertook a study of the dynamics of the labor market for young workers (aged from 15 to 24 years) and young adult workers (25–34 years) in urban areas. This qualitative research is one of the case studies of the Monitoring the Socioeconomic Impact of the 2008/09 Global Financial Crisis study, which began in July 2009.

Field work for the study was carried out in two *kelurahan* (urban villages) in Kota Tangerang, Banten Province, and in two *kelurahan* in Kota Samarinda, East Kalimantan Province, between mid-May and mid-June 2010. In total, for the purposes of this study, 8 focus group discussions (FGDs) and 131 in-depth interviews were held with workers, both those who were still employed in the industrial sector and victims of severance in working relations, private entrepreneurs, odd-job workers, and unemployed individuals. In addition, interviews were conducted with members of the government apparatus from the level of the *kota* government down to the RTⁱ level, the management staff of a number of companies, the managers of trade unions, and activists from nongovernmental organizations.

Labor Growth in Indonesia

In the 2001–2009 period, the number of people of working age (15 years and over) and the size of the labor force underwent increases and reached 169 million and 113.8 million respectively. Meanwhile, the level of labor force participation (TPAK) fell from 68.6% to 67.2%, while the educational level of the labor force rose, even though in general it was still regarded as low. In 2009, the greater part of the labor force (69%) was educated to the level of junior high school or less.

This increase in the quantity and quality of the labor force was not accompanied by any expansion in job opportunities and, therefore, the number of unemployed people remained high and reached 9 million people, with a level of open unemployment (TPT) of 7.9%. The majority of unemployed people were young males who had a low level of education and lived in urban areas. Besides the problem of unemployment, Indonesia also faced the problem of underemployment, which accounted for 37.6 million people, or 35.9% of all workers. This fact explains the low productivity of the labor force.

During the 2001–2009 period, the number of people of working age increased, while the size of the labor forces of young people and young adults also rose. Supported by their physical strength, people in these groups formed a potential human resource and their productivity

ⁱRT, or neighborhood unit, is the smallest unit of local administration consisting of a number of households.

should have been high. Because of limited job opportunities, however, open unemployment among these groups was high and was even dominant in the number of unemployed people. The proportion of unemployed young people was 53.8%, while that of young adults was 26.4%. The number of unemployed young people and young adults was dominated by males who were educated to senior high school level and lived in urban areas.

The high level of unemployment had an effect in the form of the low bargaining position of workers, which in turn had implications for the level of wages. The minimum wage, which should have guaranteed proper living standards for workers, was usually set at a lower level than the value of the goods and services needed for a proper standard of living (KHL). At the national level, the average provincial minimum wage (UMP) was always lower than the KHL. In 2009, only two provinces set an UMP that was higher than the KHL. In fact, after several years of experiencing a rise, a comparison of the UMP and the KHL showed a drop in 2009, which is assumed to have been one indication of the impact of the GFC.

A Picture of the Study Areas

Economic Development and Population

The main support of the economy of Kota Samarinda is the timber processing industry, along with trade, and hotels and restaurants. The timber industry began to grow in the 1970s and experienced a peak in expansion after the beginning of the 1980s. The economy and labor absorption in Kota Samarinda relied greatly on this industry. At the end of the 1990s, the timber industry began to decline mainly because of difficulty in obtaining raw material and the question of marketing. As a result, many companies closed down and were forced to dismiss large numbers of workers. Although the beginning of the 2000s saw the development of coal mining, the latter industry could not compensate for the jobs that had been lost because in nature mining tends to be capital-intensive. During the past two years, however, the economy of Kota Samarinda has been stimulated somewhat by expansion in oil-palm plantations and gold mining.

Kota Tangerang, which is an industrial city in Banten Province, is the location of a number of international companies. In 2008, Kota Tangerang had 687 factories, consisting of 281 large-scale and 406 medium-scale factories. Given the presence of these factories, Kota Tangerang has become one of the destinations of people seeking employment. The population of the city has expanded quickly because many of the people who work in Jakarta live in this city.

The welfare levels of the people in the study *kelurahan* in Kota Samarinda and Kota Tangerang are relatively the same, that is, the majority of the residents can be classed as belonging to the “medium group”. The meaning of this term “medium group”, however, is based on the local context. Clarifications obtained from FGDs and the results of field observations indicate that, in terms of living standards, the majority of workers are not yet free from the shackles of poverty. Their meals are extremely simple, and so is their clothing and other requirements. In Kota Samarinda, because of the availability of land, the size and condition of houses of the medium group are relatively adequate. This differs from the situation in Kota Tangerang, where the houses of this medium group tend to be situated one against the other and located partly in narrow passageways. Rented houses consist of only one multi-purpose room with a bathroom and lavatory, which are shared by the people who live in the same building.

The Impact of the 2008/09 GFC

Not all workers who were respondents or participants in FGDs knew that there had been a GFC in 2008/09. The majority of respondents knew only that, since the middle of 2008, the price of basic necessities had increased, but in general this had not had much effect on socioeconomic conditions. The reason was that the community had become accustomed to facing price rises of this kind. All informants in Kota Samarinda and Kota Tangerang said that the 2008/09 GFC had not had much impact on their livelihoods and had not been felt very greatly by the community. There were no mass dismissals and no drops in purchasing power could be felt. Activities in the streets appeared to be as usual and no *warung* (food stalls) closed down. Meanwhile, community members could still afford to send their children to school.

The impact of the 2008/09 GFC was felt by a number of export-oriented companies, or those depending on imported raw material. This impact took the form of a fall in demand and prices and an increase in production costs. The result was that businesses were forced to reduce output. This in turn had an impact on workers, especially contract workers and pieceworkers, in the form of loss of jobs or a reduction in income due to a reduction in days or hours of work. The impact did not exert a wide influence because it lasted for only a relatively short period of time, that is, about 1 to 3 months.

The Labor Situation

The population of working age and the labor force are not evenly distributed in East Kalimantan Province and tend to be concentrated in the big cities such as Kota Samarinda and in the southern region. This is related, among other things, to expansion in infrastructure, the presence of centers of industry and trade, and soil fertility. In Kota Samarinda, there is a range of industries in the service, trade, mining, and processing sectors. Nevertheless, the jobs that are available are not yet able to absorb the existing labor force, with the result that the level of open unemployment in Kota Samarinda is even higher than the national level. This high level of open unemployment, which is dominated by the young age group, is due, among other things, to the low quality of human resources and the lack of business sectors that have a high level of labor absorption.

In Banten Province, the size of the labor force in each *kabupaten* (district)/*kota* takes in more than 60% of the people of working age. The large size of the labor force is influenced by the strategic position of this province, which directly borders the Special Capital Region of Jakarta and the island of Sumatra. Because of its position, many investors choose Banten Province as the location for various kinds of industrial activity. From the point of view of absorption of labor, this is a reflection of the tendency towards increased labor force participation. Even so, the level of open unemployment in Kota Tangerang is still high, reaching more than 18% or more than double the national level of open unemployment. This is due, among other things, to the fact that the majority of workers have only a primary school education, whereas companies prefer to recruit workers who are at least senior high school graduates.

Job Opportunities

On the whole, workers in Kota Samarinda complain about the difficulty of obtaining work. This differs from the situation ten years ago, when every person who wanted work could easily get a job because many timber factories were operating. Nowadays, the sector that absorbs young workers is that of hotels, malls, and shopping complexes. The timber factories

that are still operating absorb labor from among people living around the factories. Mining undertakings that are still developing also represent a source of jobs, but their rate of absorption is limited and they tend to recruit male workers with specific skills. In Kota Tangerang, which is an industrial area, there are many assorted employment opportunities. However, as competition for jobs gets tighter as a consequence of the number of jobseekers coming from other regions, the people of this city feel that it has become more difficult to obtain employment, especially in the past five years.

In the midst of competition to obtain work, the existence of a relation is a factor that helps to determine success in getting employment. A relation can be a person in the company or among the apparatus of the *kelurahan*, or a community figure. Usually, successful jobseekers give some sort of repayment. Recently, the practice has become so widespread that demands for payment have increased in size and tend to be regarded as a normal practice, especially since outsourcingⁱⁱ companies have also become involved in a similar practice as a channel for labor. A prospective worker must pay a registration fee of Rp20,000 to Rp50,000 and then, when he obtains a job, he must pay a placement cost that varies in amount between Rp300,000 and Rp2,000,000. For that reason, the availability of placement money (or bribe money, according to the community) is an important factor, especially since it is not uncommon for the prospective worker to be asked to pay the whole of the bribe money at the time when the work contract is about to begin.

Newcomers tend to have greater chances of obtaining work because their level of education is generally higher than that of local people and usually their performance is also better. This is due to the fact that newcomers are under special pressure in that they have left their homes in order to seek a better life.

The following are three other factors that influence a person's chances of obtaining work:

1. Age
Young people are the ones who find it easiest to obtain work because they are physically stronger and usually have a higher level of education than others. In Kota Tangerang in particular, many companies require job applicants to be less than 25 years of age.
2. Gender
Women have a comparative advantage, especially in the timber, garment, shoe, and food industries, because they are considered to be more industrious, careful, and painstaking, and because they observe regulations and obey their superiors; meanwhile, the demand for male workers is more limited, as men are needed mainly for jobs as operators and mining workers.
3. Level of education
People who have a senior high school education or the equivalent find it easier than other people who are less educated to obtain a job.

The Development of Work Relations

Various forms of relations can be found between workers and those who give work. Workers can be permanent workers, contract workers, or pieceworkers/daily workers. They can be recruited directly by the company offering work or through an outsourcing company. In the

ⁱⁱStipulations about outsourcing are contained in Article 64 of Law No.13/2003 on Labor. This article states that a company can hand over a part of its work to another company through a written agreement to supply work or to provide services in the form of workers/laborers.

study locations, there has been a tendency during the past five years for a shift to occur from permanent workers recruited directly by a company to contract workers or pieceworkers who are recruited directly or through an outsourcing company. The practice of outsourcing has spread rapidly since 2005, when it was triggered by the issuance of Law No. 13/2003.

According to the regulations, the work that is outsourced must, among other things, be an activity that provides support for the company and not its primary activity. Nevertheless, in actual practice, the work that is outsourced is not limited to supporting activities but also takes in the primary activity. In reality, it can happen that outsourced workers and permanent workers do the same work together at the same time. The reasons why the management of a company does this include the following: (i) business conditions are slow and not stable; (ii) the difference between the primary activity and supporting work is still unclear; (iii) regulations do not set a firm boundary between core work and supporting work; (iv) the government's supervisory function does not operate properly; and (v) backing or support for outsourcing companies is strong.

Work agreements should be made in written form, but some of the respondents who are contract workers have no work agreement. A more worrying situation is to be found among pieceworkers who generally have no work agreement at all because they are employed only when the company has a large number of orders that must be completed immediately.

Outsourcing is an alternative work relation that benefits a company because the company can concentrate on its core work and avoid the consequence of having to discharge workers when facing a drop in production or closing down the business. On the other hand, workers are disadvantaged because, as contract workers or pieceworkers, they usually receive lower wages and allowances than those received by permanent workers. Protection of outsourced workers is weak because they cannot join workers' organizations.

Security in Employment

With work relations of the type described above, security in employment is critical for workers. Most workers are contracted for one month to one year. Many are contracted several times in sequence but with very short contracts. Normally, companies place a limit of three years on contracts as the maximum cumulative limit for a contract period, after which the worker's contract is usually ended.

Concern about security in employment is felt by all age groups. Even so, there is a tendency for young workers to be the most vulnerable group because (i) they usually have the status of contract workers, pieceworkers, or daily workers; (ii) as novice workers, they are regarded as lacking in experience; and (iii) although they receive a certain amount of severance pay, it is relatively small in value.

Industrial workers who are discharged, particularly as the consequence of the company (such as timber companies) closing down, generally experience difficulty in obtaining new jobs because their skills differ from those needed in the jobs that are available. For that reason, many are forced to return to their hometowns to restructure their lives. They are able to do this thanks to the cultural support system of the extended family, which is always ready to accept family members who are facing difficulties.

Level of Wages

The Labor Law basically prohibits entrepreneurs from paying wages below the minimum wage. Of 52 factory workers who were interviewed as respondents, more than one quarter (mainly contract workers) said that they received wages below the *kabupaten/kota* minimum wage (UMK). The majority of respondents received a wage in accordance with the UMK and only a few received a little more than the UMK, that is, if they had the opportunity to work overtime or to receive allowances.

The UMK should apply only to workers who have worked for less than one year, but usually companies apply the UMK as the basic salary for all workers without distinguishing among them by length of employment, marital status, gender, age, and level of education. The UMK cannot provide a proper life for workers who have families because the KHL that is used as the basis for the calculation takes into account only the needs of a single (unmarried) worker.

Although some workers knew the stipulations of the minimum wage, they did not have the courage to express objections and were forced to accept the wages that they were paid because their bargaining position was very weak and they had no alternative work. Since their income was not sufficient to meet the needs of a proper life, workers endeavoured to find a way out (i) by having both husband and wife work in the formal or informal sector; (ii) by economizing and reducing the quality and quantity of the goods that they bought; (iii) by asking parents for help, including leaving children with grandparents; (iv) by buying goods on credit or in installments; and (v) by utilizing inheritances from parents.

Conclusions

1. The living conditions of industrial workers are a matter of some concern. Since the level of wages does not meet the criteria for a proper standard of living, workers have to be able to live on what they are paid.
2. While the 2008/09 GFC did not have a very strong impact, it had a certain influence on export-oriented industries and on industries that use imported raw material; in any case, it was rather short-lived, as it lasted for only around three months.
3. Jobs in the industrial sector are becoming limited. As a consequence, workers seeking employment must have a connection as well as a sum of money to offer as a bribe. These practices have been spreading since the recruitment of workers through an outsourcing company became common.
4. On the whole, employment for young workers is more open, but the majority of young workers are employed on a contract basis or as pieceworkers or daily workers. As a consequence, security in employment is not guaranteed and, in many cases, workers receive wages and allowances that are lower than those stipulated in regulations.
5. Employment of workers in the industrial sector, where a senior high school education or the equivalent is required as the minimum level of education, means that employment for 69% of the labor force with a lower level of education is increasingly limited.
6. Government policies are not implemented in accordance with regulations because they are not accompanied by a strict system of supervision. For example, the practice of

outsourcing is not limited to supporting work and the minimum wage is applied to all workers and not only to those who have been employed for less than a year.

7. To make a profit, companies tend to reduce the number of permanent workers and to replace them with contract workers or pieceworkers, to the point where security in employment for workers is not guaranteed.
8. Workers who are discharged from industries that have collapsed (such as the timber industry) find it hard to obtain new jobs because their skills are not in keeping with market demands.
9. For dismissed workers from other regions, returning home to their place of origin is one form of social security that can at the same time reduce problems for the region that they have left.

Recommendations

1. In order to avoid any negative implications for workers' welfare and to be able to create harmonious industrial relations, outsourcing must be done in accordance with regulations, that is, only for supporting work.
2. Outsourced workers need protection or rights that are similar to those of permanent workers in wages, freedom to join unions, the giving of welfare allowances, and the handling of broken work contracts.
3. The tendency for companies to offer short contract periods (1–3 months) means that workers have less security in employment. Because of this, there must be a review of the stipulation on the length of contracts in Law No. 13/2003, which does not state a minimum limit.
4. Because of the tendency of the industrial sector to expect workers to have a senior high school education at the minimum, the government must consider and provide a solution for members of the labor force who have only a junior high school education or less, as they constitute 69% of the total labor force. This can be conducted, among other things, by
 - a) urging and promoting an increase in education and skills through the provision of inexpensive study packets that are well programmed, and
 - b) revitalizing the agricultural sector and developing good infrastructure throughout Indonesia, including border areas. In order to undertake the development of infrastructure in connection with efforts to provide jobs in a genuine manner, a national policy, as well as a nationwide agreement, on mobilizing resources in a programmed way is needed.
5. In accordance with the mandate contained in the 1945 Constitution, every citizen has the right to obtain a proper livelihood. The government is therefore obliged to guarantee workers a minimum wage that is in keeping with the standards implicit in meeting the needs of a proper life:
 - a) The minimum wage, including the UMP, the UMK, and the sectoral minimum wage, must be set at least at the same level as a proper standard of living.

- b) The minimum wage must be set as a safety net in the form of limitations on the lowest wage for workers with a period of employment less than one year.
6. To guarantee the application of the various labor regulations, an implementation of a strict supervisory system and an enforcement of firm sanctions are needed.
- a) To support this, the various agencies/institutions related to labor affairs must work in a consistent manner in accordance with their primary tasks and functions and with the support of an adequate number of personnel;
 - b) To prevent any conflict of interests, the parties related to the making and supervision of labor policies and also activists from labor unions are prohibited from being involved in the ownership and management of outsourcing;
 - c) In an attempt to increase transparency and accountability, it is necessary to provide an open mechanism for supervision and complaints that enables the general community to be involved.

I. INTRODUCTION

1.1 Background

At the time when the global financial crisis (GFC) occurred in 2008/09, the Indonesian economy was still growing and in 2008, the figure for economic growth had even reached 6.01% (FE UI, 2009). In 2009, although economic growth had fallen to 4.4%, this figure was still regarded as high by comparison with figures for other countries (Table 1). This growth was supported by, among other things, improvements in the management of the macro economy and control of the financial sector, the size of the portion for household consumption in the gross domestic product by comparison with exports, and the jump in domestic consumption in connection with the legislative and presidential elections in 2009 (ILO, 2009).

Table 1. Comparison of Economic Growth in Several Countries, 2009

Country	Economic Growth (%)	
	Original	Revised
United States of America	0.1	-0.8
England	-0.1	-1.3
China	9.3	8.0
Japan	0.5	-0.2
Korea	3.5	2.5
Australia	2.2	1.7
India	6.9	6.0
Singapore	3.5	-5.0
Thailand	4.5	2.0
Malaysia	4.8	0.2
Indonesia	6.0	4.5-5.5

Source: Sri Mulyani Indrawati, 2009.

Nevertheless, Indonesia did not completely escape the negative effects of the 2008/09 GFC. According to Bank Indonesia¹ (2009), the Indonesian economy, which in the first three quarters of 2008 had grown above 6%, declined to 5.2% in the fourth quarter. Meanwhile, BPS² (2009a) reported a significant drop in Indonesia's exports. Export growth in December 2008 and January 2009 declined by 20.6% and 36.1% respectively, compared with the same months in the previous year. Besides that, ILO³ (2009) noted that exports of oil and gas fell by 55.4% and the output of processing industries went down by 26.9%.

The drop in economic growth in itself had an effect on the capacity of the economy to absorb labor. In other words, the decline in economic growth encouraged a drop in the growth of paid employment. Therefore, the economic crisis caused many people in the labor market to

¹Bank of Indonesia.

²Statistics Indonesia.

³International Labour Organization.

be vulnerable to unemployment. The group that was most affected by the impact of the crisis consisted of outsourced workers⁴, workers on temporary contracts, and daily workers. In addition, because such a large number of people belonged to the group facing near-poverty, even the smallest impact on their income could push households in this group into poverty. Then, as the way out of this situation, they were often forced to reduce their expenditure on items whose benefits would be obtained only in the long term, such as education (ILO, 2009).

Adult workers (35 years and over) were assumed to already have relatively stable jobs, while young workers (15–24 years) and young adult workers (25–34 years) very probably still faced problems of job security. Based on BPS data (2009c), in August 2009, the proportions of the two groups of workers among a labor force of 114 million were 10.1% and 26.8% respectively. More specifically, ILO (2009) was worried about the impact of the 2008/09 GFC on young workers who, even before the crisis, faced a possibility of not working that was 4.9 times greater than the figure for adult workers; meanwhile, in 2008, the level of open unemployment (TPI) among young workers was 23.3%. Besides that, in August 2009, Statistics Indonesia reported that the proportion of unemployed young people had reached 53.8% and the proportion of unemployed young adults was 26.4% of all unemployed people.

The GFC had made the labor market for young workers in Indonesia even worse, although it had already been classed as very bad. Young workers, who on the whole did not have experience, faced the big possibility of becoming the first victims of dismissal and the last candidates to be considered for employment. The 2008/09 GFC caused a lot of jobs to be lost in export-oriented industries, which were generally located in urban areas (ILO, 2009). The proportion of young workers in urban areas was 20.2% and the proportion of unemployed people in this group to the urban unemployed was 48.9%. Meanwhile, the proportion of young adult workers in urban areas was 29%, with a proportion of unemployment of 28.8% (BPS, 2009b). These figures indicate the size of the problem of unemployed young people and young adults in urban areas, especially if related to the impact of the crisis that mostly swept over the urban economy.

In order to see the impact of the 2008/09 GFC on labor, The SMERU Research Institute undertook a study of the dynamics of the labor market for young workers and young adult workers. The focus of this study was young workers in urban areas, most of whom worked in the industrial sector. The study was undertaken in conjunction with the National Development Planning Agency (Bappenas) and received support from the Australian Agency for International Development (AusAID). It represents one component of the study cases of the Monitoring the Socioeconomic Impact of the 2008/09 Global Financial Crisis study, which began in July 2009 (Figure 1). The topic of this case study was decided upon after considering a number of issues related to the crisis and discussing them with Bappenas.

⁴Outsourced workers are workers recruited by a company offering work through an outsourcing company. Stipulations concerning outsourcing are given in Article 64 of Law No. 13/2003 on Labor, which states that a company can transfer a part of its work to another company through a written agreement to supply work or to provide the services of workers/laborers.

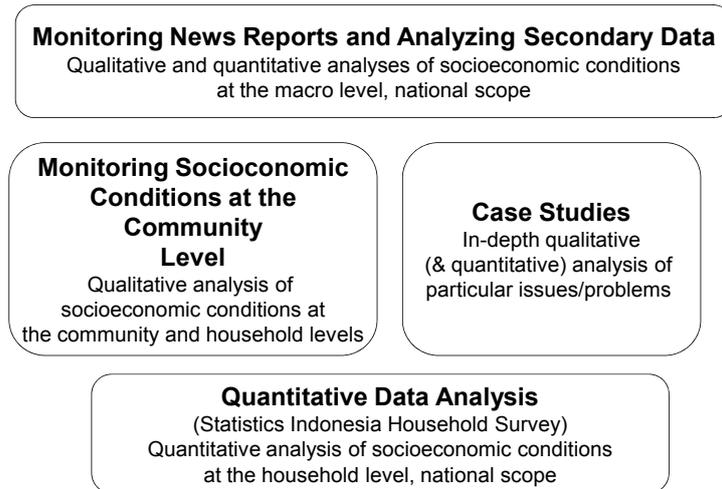


Figure 1. Scope and nature of SMERU's Monitoring the Socioeconomic Impact of the 2008/09 GFC study

1.2 Objectives

In general, the aim of this case study is to examine the impact of the 2008/09 GFC on labor conditions in urban areas. More specifically, the purpose of the study is:

- a) to learn the effects of the 2008/09 GFC on the socioeconomic situation of the community;
- b) to look at problems faced by young workers and young adult workers in urban areas, particularly in the industrial sector, as a consequence of the 2008/09 GFC;
- c) to examine the socioeconomic conditions of young and young adult workers in the industrial sector who were vulnerable to the effects of the 2008/09 GFC; and
- d) to present a report and recommendations to the government hopefully as a source for learning and considering labor policies.

1.3 Methodology

This case study represents an attempt to find a qualitative explanation of the impact of the 2008/09 GFC on the livelihoods of workers, especially young workers in the industrial sector in urban areas. Information was collected in two ways:

- a) In-depth interviews were conducted using a semi-structured questionnaire, while secondary data was collected from the following stakeholders:
 - (1) Government agencies: the labor agency, the *kecamatan* (subdistrict) apparatus, the *kelurahan* (urban village) apparatus, and the head of RW⁵/RT;
 - (2) Managers of workers and providers of jobs: Association for Indonesian Entrepreneurs (Apindo), labor unions, labor unions' work units in companies (PUK), outsourcing companies, and implementers of government programs related to the creation of jobs;

⁵RW is a unit of local administration consisting of several RT within a *kelurahan*. A *kelurahan* is a village-level administrative area located in an urban center, while RT, or neighborhood unit, is the smallest unit of local administration consisting of a number of households.

- (3) Young and young adult workers: based on considerations of gender, level of education, employment status (never worked, unemployed due to dismissal, and dismissed but already employed again), and socioeconomic class (poor, medium, and wealthy).
- b) Focus group discussions (FGDs) were conducted in each *kelurahan* that was chosen as a research location. The groups were as follows: (i) a group of young workers and young adult workers with a junior high school education or less and (ii) a group of young workers and young adult workers with a senior high school education or higher. Selection of FGD participants took into account gender, employment status, and socioeconomic class.

Research locations were selected in a purposive manner in the following way: the territory of Indonesia was divided into two parts, namely Java, which was represented by Banten Province, and Outside Java, which was represented by East Kalimantan Province. These two provinces were chosen because they were the provinces with the highest number of dismissed workers for each region that was represented (Figure 2).

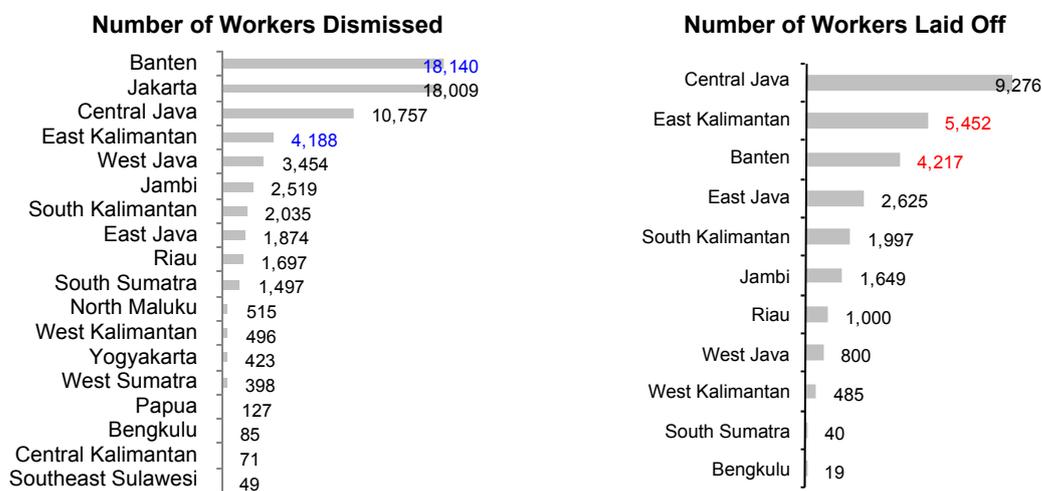


Figure 2. Impact of the 2008/09 GFC on Industrial Relations, September 2009

Source: The SMERU Research Institute, 2010.

Note: Processed from Crisis Center data, Ministry of Labor and Transmigration (Kemnakertrans).

One *kota* (city) was selected in each province that constituted a research location. In East Kalimantan Province, Kota Samarinda was chosen, while in Banten Province, Kota Tangerang was selected. These two *kota* were considered to be the largest in each of their respective provinces. In each *kota*, two *kelurahan* were chosen in a *kecamatan* that was known to be a major location of industrial activities. The choice of the *kecamatan* and *kelurahan* in the two *kota* was made after consultations with the relevant officials in each *kota*. In Kota Samarinda, Kelurahan Rawa Makmur and Kelurahan Bukuan, which are in Kecamatan Palaran, were selected, while in Kota Tangerang, Kelurahan Pasir Jaya and Kelurahan Manis Jaya, which are in Kecamatan Jatiuwung, were chosen.

Field visits to Kota Samarinda were made in the third and fourth weeks of May 2010, while visits to Kota Tangerang were made in the first and second weeks of June 2010. In total, during this research, FGDs were conducted with eight groups of workers and in-depth interviews with 131 workers, including workers who were still employed in the industrial sector, victims of dismissal, entrepreneurs, odd-job workers, and unemployed people.

1.4 Structure of the Report

The presentation of this case study concerning labor in connection with the impact of the 2008/09 GFC is divided into five chapters. The first chapter is an introduction that gives a brief description of the background, objectives, and methodology of the study. The second chapter presents the general picture of the labor situation in Indonesia. The third chapter gives a picture of the study areas and the impact of the 2008/09 GFC on the economy of the community in these areas. The fourth chapter discusses the dynamics of labor in the study areas, particularly in connection with young workers, that is, the young and young adult groups. The fifth chapter contains conclusions about labor in the industrial sector in urban areas and also presents recommendations for labor policies in Indonesia, particularly in the industrial sector.

II. THE GENERAL PICTURE OF LABOR IN INDONESIA

2.1 Development in Labor

The number of people of working age or people aged 15 and over in Indonesia increases from year to year as the total population increases. In 2001, people of working age numbered 144 million, but by 2009, the figure had increased to 169 million, which means that it had risen by 17.6% with an average rise of 2% per year. The increase in the number of people of working age was accompanied by a rise in the size of the labor force, which is defined as people of working age who are working, including those who have work but temporarily do not work, and who are unemployed. In the period from 2001 to 2009, the labor force rose by 15.2% from 98.8 million to 113.8 million, that is, an average rise of 1.8% per year. Even so, the level of labor force participation (TPAK) fell from 68.6% to 67.2%. This points to the fact that the proportion of the population of working age who were attending school, looking after households, and so on and were not included in the labor force underwent a greater increase (Table 2).

Table 2. Growth in Population Aged 15 Years and Over

Year	Population Aged 15 Years and Over (Millions of People)					Level of Labor Force Participation (%)	Level of Open Unemployment (%)
	Total	Non-Labor Force	Labor Force				
			Total	Working	Unemployed		
2001	144,03	45,22	98,81	90,81	8,01	68.60	8.10
2002	148,73	47,95	100,78	91,65	9,13	67.76	9.06
2003	152,65	52,33	100,32	90,78	9,53	65.72	9.50
2004	153,92	49,95	103,97	93,72	10,25	67.55	9.86
2005	158,49	52,63	105,86	93,96	11,90	66.79	11.24
2006	160,81	54,42	106,39	95,46	10,93	66.16	10.28
2007	164,12	54,18	109,94	99,93	10,01	66.99	9.11
2008	166,64	54,69	111,95	102,55	9,39	67.18	8.39
2009	169,33	55,49	113,83	104,87	8,96	67.23	7.87

Source: BPS, 2001–2009.

Note: The year 2005 shows data for November; while other years use data for August.

Based on region, the number of people of working age in rural areas in 2001–2009 was greater than the number in urban areas, with a difference of 15 million to 20 million every year. The same occurred with the size of the labor force. Based on gender, the number of males and females of working age in 2001–2009 was almost the same. A difference occurred, however, with the labor force. During this period, there was a difference between the male and female labor forces, the former being greater than the latter with a difference of between 24 million and 30 million annually (see Figure 3).

Statistics Indonesia data shows that the level of education of the labor force has increased. This can be seen from the decrease in the proportion of the labor force with a junior high school education or less, and the increase in the proportion of the labor force with a senior high school

education or higher. Even so, on the whole, the level of education of the Indonesian labor force is still low because the number of workers with a junior high school education or less in 2009 was still 69% of the total labor force (BPS, 2009b).

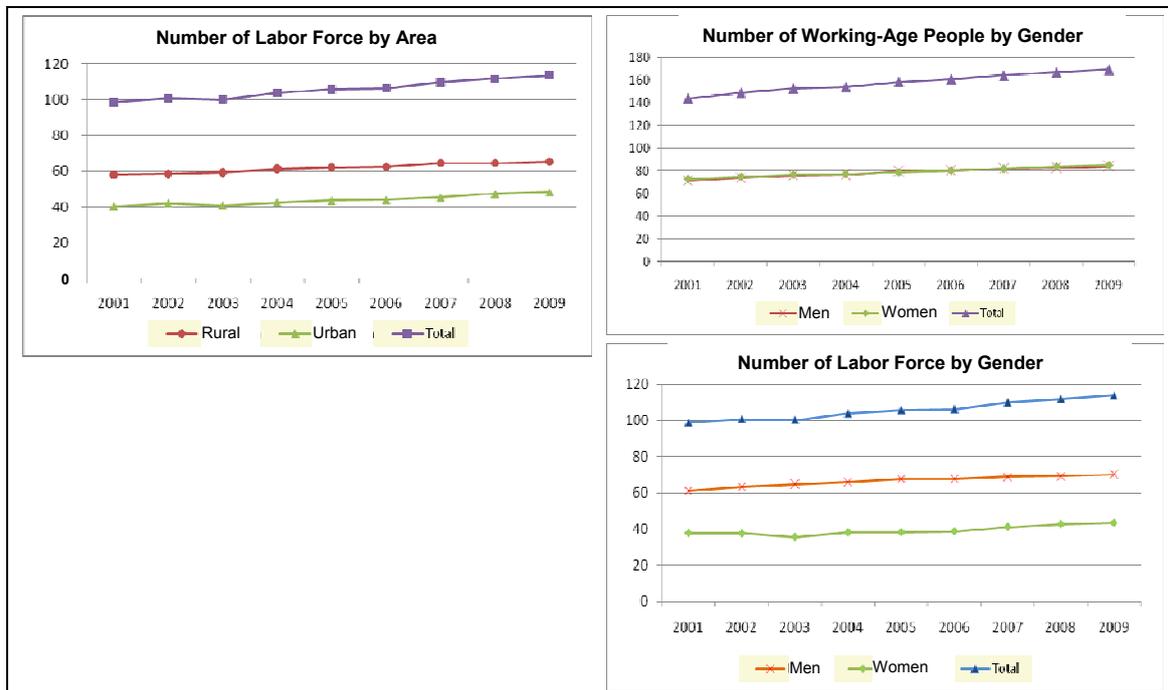


Figure 3. Number of people of working age and the labor force (in millions)

Source: BPS, 2001–2009.

Note: The year 2005 shows data for November, while other years use data for August.

The increase in the number of people of working age and the size of the labor force was unfortunately not accompanied by an expansion in economic conditions that could provide sufficient jobs, the result being unemployment. Even so, in the last few years, this situation has shown a positive movement in the form of a drop in the figures for the TPT in both number and proportion. From Table 2 and Figure 4, it can be seen that open unemployment underwent a rise, reached its peak in 2005 (11.9 million), and then fell, even though the number in 2009 (9 million) was still higher than the number in 2001 (8 million). A similar movement occurred with unemployment. If seen from the extent of the movement, however, the level of open unemployment experienced a greater fall than the fall in the number of unemployed people. This indicates that the proportion of people who were employed had risen steadily from year to year. The level of open unemployment in 2009, which was 7.9%, also showed a lower value than the figure for 2001 (8.1%).

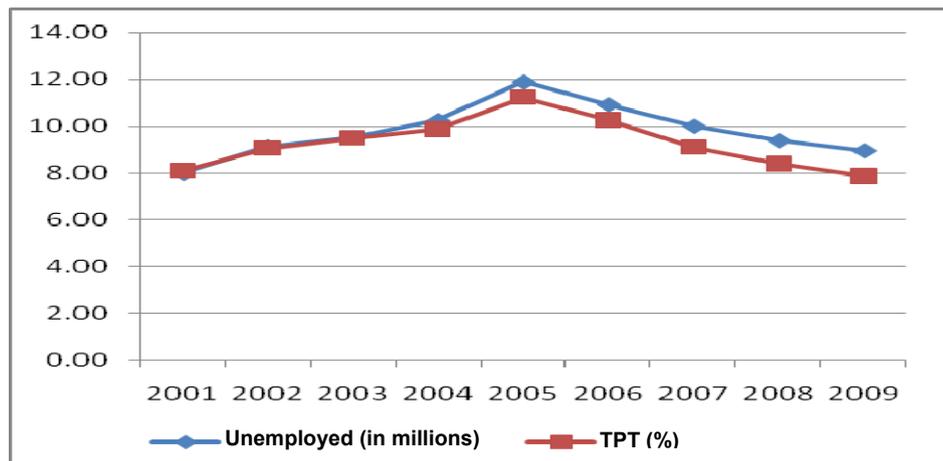


Figure 4. Size and level of open unemployment

Source: BPS, 2001–2009.

Note: The year 2005 shows data for November, while other years use data for August.

By region, open unemployment was higher in urban areas than in rural areas, but from year to year the movement of these two figures shows trends that are almost the same. In terms of gender, the level of open unemployment for women was higher than for men, but they revealed different tendencies. At first, the figures for men and women rose together and reached a peak in 2005, but then the level of open unemployment for women experienced a sharper fall so that in 2009 the level of open unemployment for women did not differ greatly from the figure for men, that is, 8.5% and 7.5%, or a difference of only 1.0 percentage point. This perhaps occurred because employment for women was increasingly open; family welfare declined to the point where women were expected to work; or the need for women to actualize themselves became greater, as the level of women’s education became higher.

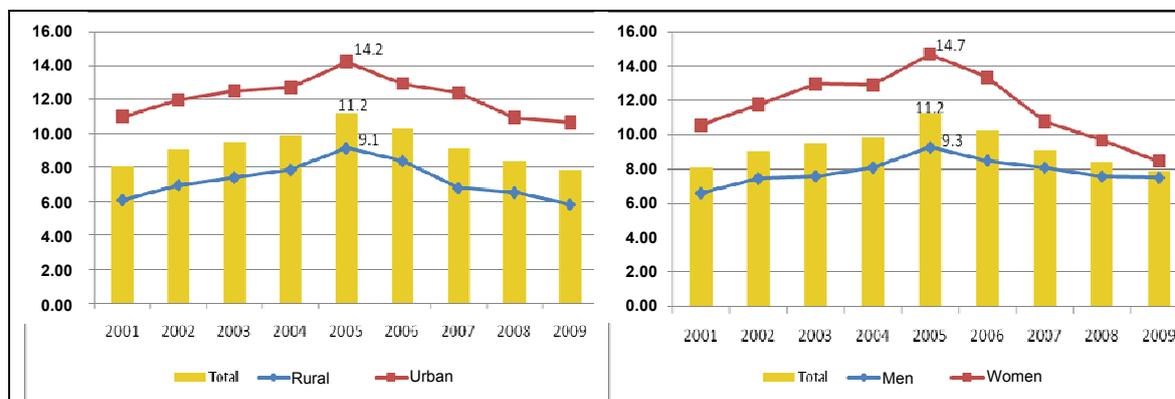


Figure 5. Level of open unemployment by region and gender (%)

Source: BPS, 2001–2009.

Note: The year 2005 shows data for November, while other years use data for August.

Table 3 shows that a large proportion of unemployed people are male and young, have a low education, and reside in urban areas. Based on age group, unemployed young people, who should be in a school from junior high school level up to tertiary level, constitute the greatest proportion, that is, above 50%, even though the figure is steadily decreasing. A different situation occurred with the other age groups, which have all experienced an increase. Based on the level of education that they have completed, the proportion of unemployed people with a low education (junior high school and primary school or lower) was still quite high, but the

number was steadily declining. On the other hand, the proportion of unemployed people with a higher education (senior high school, diploma, and university) experienced a rise. The tendency for the proportion of unemployed people by age and educational level to go down could also indicate the presence of an improvement in educational levels. In other words, the extent of unemployment among young people experienced a drop because more people in this age group went to school, or else unemployed people with a low education steadily declined, while those with a higher level of education steadily increased due to the fact that in general educational levels had risen.

Table 3. Characteristics of Unemployed People, 2001–2009 (%)

Unemployed Group		2001	2002	2003	2004	2005	2006	2007	2008	2009
Urban		55.7	55.2	53.8	53.0	54.2	52.2	56.2	55.2	57.5
Male		50.4	51.8	51.7	52.1	50.5	52.8	55.7	55.8	59.0
Age	15–24 years	61.2	63.3	59.9	61.2	60.8	62.4	56.5	53.6	53.8
	25–35 years	21.4	20.8	20.2	20.0	21.4	22.9	28.6	29.6	26.4
	≥ 35 years	17.4	15.9	19.8	18.8	17.8	14.7	14.8	16.9	19.8
Education	≤ primary school	34.3	35.3	35.1	32.0	32.7	30.8	27.1	28.2	24.2
	junior high school	22.3	23.5	24.6	26.2	24.7	25.0	22.6	21.0	19.8
	senior high school	36.6	35.5	35.6	36.0	36.0	38.0	40.7	40.6	43.3
	diploma/university	6.7	5.7	4.7	5.7	6.5	6.2	9.6	10.2	12.8

Source: BPS, 2001–2009.

Note: The year 2005 shows data for November, while other years use data for August.

Table 4. Development of Underemployment, 2001–2009

Year	Number of Underemployed People	
	People	%
2001	30,211,028	33.27
2002	31,410,763	34.27
2003	30,907,815	34.05
2004	30,213,692	32.24
2005	32,052,165	33.76
2006	33,898,187	35.51
2007	35,774,890	35.80
2008	36,687,369	35.77
2009	37,639,729	35.89

Source: BPS, 2001–2009.

Note: The year 2005 shows data for November, while other years use data for August.

Apart from the problem of unemployment, there is also the problem of underemployment, which is usually referred to as hidden unemployment. This category refers to people who work but for less than 35 hours per week. The figure for this group is fairly high. In 2009, it was 37.6 million or 35.9% of all workers. In the 2001–2009 period, the number and proportion of underemployed workers underwent a rise. The large size of this group is a complex problem and partly explains the low level of labor productivity.

2.2 Growth in Young Workers

As was the case with the size of the working-age population, the number of young people and young adults experienced a rise during the 2001–2009 period from 20 million to 23.7 million and from 18 million to 19.5 million people respectively. Even so, the average increase per year was lower than that of the working-age population (2%)—1.6% for young people and 1.7% for young adults. During this period, the proportion of young people and young adults in the total working-age population was relatively stable. However, the proportion of these two groups, if combined, fell from 51.2% in 2001 to 49.6% in 2009. The size of the young and young adult labor forces also rose a little, averaging 0.9% and 1.7% per year. The proportion of the labor force in these age groups tended to go down, while the proportion of the young labor force was lower than that of young adult labor force (see Table 5).

Table 5. Proportion of the Working-Age Population and the Young and Young Adult Labor Forces

Year	Working Age (%)		Labor Force (%)	
	Young People	Young Adults	Young People	Young Adults
2001	26.40	24.78	20.58	26.94
2002	25.84	24.30	20.54	26.30
2003	26.07	25.02	20.42	27.03
2004	25.50	24.26	20.42	26.01
2005	26.70	24.15	21.72	26.50
2006	26.21	24.24	20.94	26.39
2007	26.24	24.31	20.48	26.13
2008	25.47	24.05	19.28	26.82
2009	25.49	24.07	19.08	26.80

Source: BPS, 2001–2009.

Note: The year 2005 shows data for February, while other years use data for August.

Figure 6 shows that growth in the TPAK of these two groups is relatively stable. In the last few years, the participation of young people in the labor force has tended to decline, whereas labor force participation by young adults has tended to rise. This indicates a reverse movement in the proportion of the non-labor force in each of these age groups.

The increase in the number of people of working age and the labor force in the young and young adult groups reveals the potential human resources that are available, especially since many say that people in the young age group have higher productivity because of their physical condition. Nevertheless, because this increase has not been accompanied by a greater increase in jobs, open unemployment has still occurred. Indeed, as described above or as can

be seen from Table 3, young people dominate the number of unemployed people. During 2001–2009, the number of unemployed people in the young and young adult groups experienced a rise and then dropped again. The number of unemployed young people underwent a rise and fall that was greater than that of unemployed young adults. The number of unemployed young people, which was 4.9 million in 2001, fell to 4.8 million in 2009, while the number of unemployed young adults rose from 1.7 million to 2.4 million in these years. The proportion of unemployed young people also fell from 61.2% to 53.8%, while the proportion of unemployed young adults rose from 21.4% to 26.4%. Figure 6 also reveals that the level of open unemployment of young people was greater than that of young adults but, after experiencing a rise, the fall in the level of open unemployment of young people was sharper than that in the level of open unemployment of young adults.

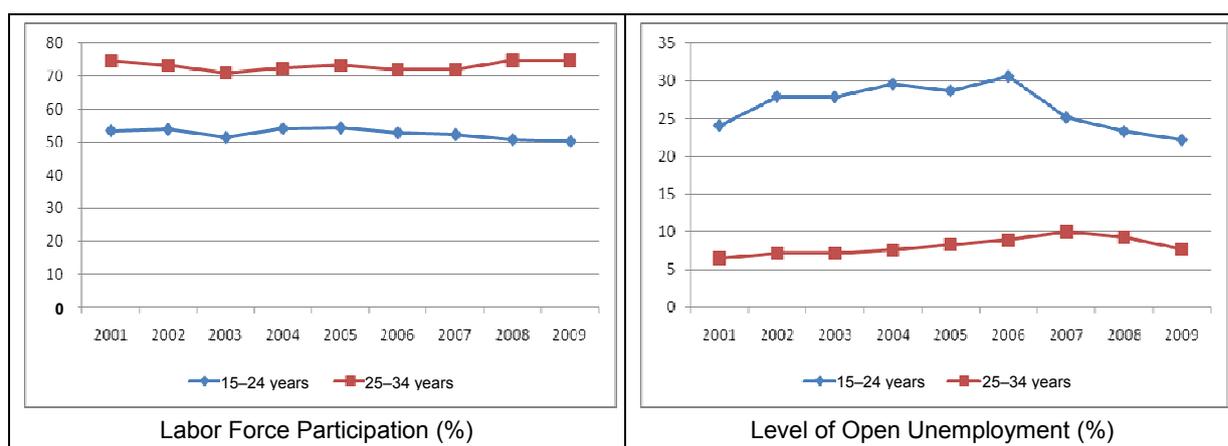


Figure 6. Labor force participation and open unemployment of young people and young adults

Source: BPS, 2001–2009.

Note: The year 2005 shows data for February, while other years use data for August.

Seen from their characteristics, unemployed young people and young adults are both dominated by men, those who have a senior high school education, and those who live in urban areas (see Table 6). From 2001 to 2009, the proportion of unemployed men in these two age groups rose by 5.4 percentage points and 11.5 percentage points respectively. The number also rose from 12 million to 13.3 million. This indicates that the proportion and number of unemployed women were getting smaller.

Table 6. Characteristics of Open Unemployment among the Young and Young Adult Groups (%)

Unemployed Group	2001	2002	2003	2004	2005	2006	2007	2008	2009	
Young people (15–24 years)										
Urban	51.6	51.7	50.5	49.3	51.0	48.2	53.0	52.4	52.2	
Men	53.6	54.1	54.8	53.8	52.2	54.1	57.9	56.0	59.0	
Education	≤ primary school	21.9	27.5	24.4	24.2	26.1	26.0	23.3	23.6	21.9
	junior high school	21.2	25.7	27.7	31.1	29.7	28.9	25.8	24.7	24.0
	senior high school	32.3	36.0	36.6	41.3	40.1	41.4	45.4	46.1	48.5
	diploma/university	2.6	2.8	2.3	3.3	4.2	3.7	5.5	5.7	5.6
Young adults (25–34 years)										
Urban	65.9	65.9	63.7	57.4	60.8	61.3	59.8	59.6	62.9	
Men	46.6	50.2	49.6	50.1	50.4	52.4	50.7	55.6	58.1	
Education	≤ primary school	25.5	26.8	25.8	23.8	22.8	23.4	25.0	25.9	21.6
	junior high school	16.2	17.8	19.3	23.1	20.8	21.6	19.4	17.8	16.4
	senior high school	39.9	40.6	42.2	38.6	40.8	40.7	38.1	38.1	40.3
	diploma/university	18.4	14.7	12.7	14.5	15.5	14.4	17.5	18.2	21.7

Source: BPS, 2001–2009.

Note: The year 2005 shows data for February, while other years use data for August.

On the other hand, the proportion of unemployed urban people experienced a slight rise in the young age group and a fall in the young adult age group. Based on educational level, unemployed people in the two age groups tended to have a better level of education. This was apparent from the proportion of unemployed people with a lower education, which tended to fall, and the proportion of those with a higher educational level, which increased. This happened because young people with a fairly high education (senior high school and diploma/university) generally came from relatively well-off families that could afford to educate their children at a time when the cost of schooling was increasingly expensive. Despite the fact that job opportunities are limited, given the economic background of families that could provide family necessities, people in the young age group were not motivated to seek work immediately. Moreover, at this age, it was very likely that they had completed their education not long before and were not yet married, and so there was very little pressure on them to meet household needs. This formed a dilemma in itself, especially if the young people remained in this situation for too long, because they would become a burden on their families, find it hard to obtain work, and lose some of their self-confidence.

2.3 Minimum Wage and Proper Standard of Living

The high level of open unemployment and number of underemployed people had an effect on the low bargaining position of workers, which in turn had implications for the low level of their wages. To protect workers, every year the government sets a provincial minimum wage (UMP) and a *kabupaten* (district)/*kota* minimum wage (UMK). The minimum wage constitutes the lowest wage for new workers or workers with a work period of less than one year. It was hoped that the minimum wage would form a safety net for workers in this group so that they would not be paid a wage below the proper standard or level.

The minimum wage is fixed through negotiations between entrepreneurs and trade unions, using as a yardstick the value of the needs for a proper standard of living (KHL) in each region. The minimum provincial wage is supposedly set higher or at least equal to the value of the KHL. Nevertheless, in reality, almost all values of the UMP are lower than the value of the KHL. Figure 7 shows that in 2009 only two provinces, namely North Sumatra and North Sulawesi, set an UMP that was higher than the value of the KHL. The value of the UMP in 30 other provinces was lower than that of the KHL. In Maluku Province and North Maluku Province, the value of the UMP did not even reach 70% of the KHL.

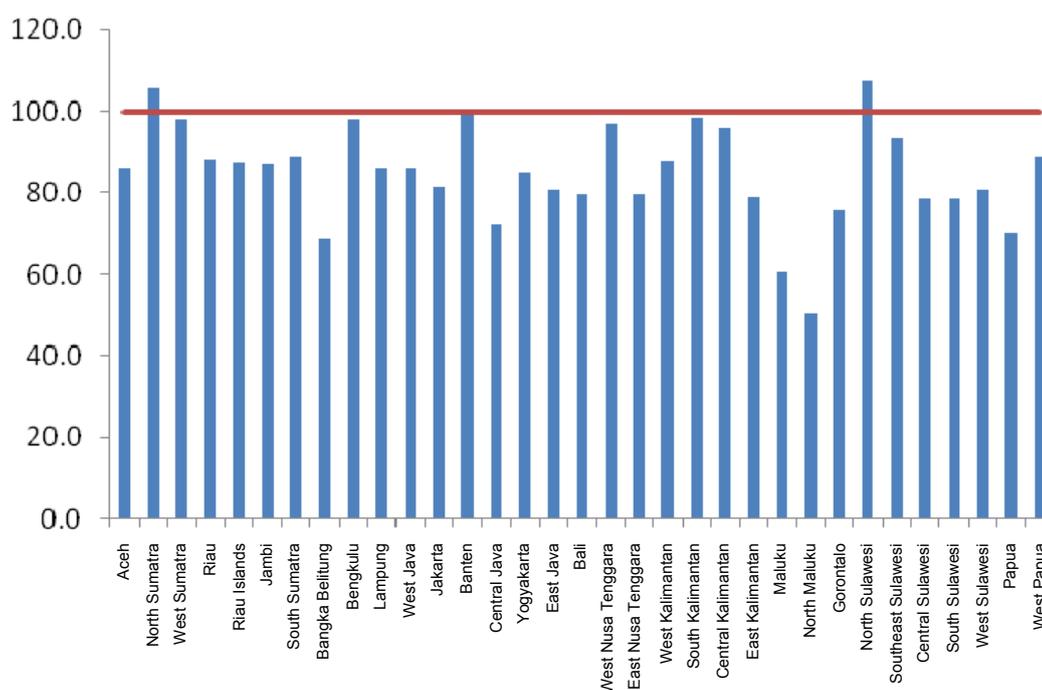


Figure 7. A comparison of the UMP and KHL in 2009 (%)

Source: Ministry of Labor and Transmigration, 2009.

Note: Data have been processed.

A comparison of the values of the UMP and KHL in the two study provinces in 2009 shows differences. In East Kalimantan Province, which is well known as a province that is rich in natural resources, the value of the UMP (Rp955,000) was lower than the value of the KHL (Rp1,209,870) and reached only 78.9% of the value of the KHL. Meanwhile, in Banten Province, which is a new province,⁶ the value of the UMP (Rp 917,500) was almost the same as the value of the KHL (Rp 917,638).

⁶On 17 October 2000, as part of nationwide political decentralization, Banten was separated from West Java Province and made into a new province.

Table 7. Growth in the Average UMP and KHL, and the Comparisons

Year	Average UMP (Rp)	Average KHL ^a (Rp)	UMP/KHL (%)
2001	286,117	318,481	89.84
2002	362,744	416,451	87.10
2003	414,715	478,417	86.68
2004	458,499	509,236	90.04
2005	508,342	530,082	95.90
2006	608,828	726,539	83.80
2007	673,965	767,445	87.82
2008	756,612	855,604	88.43
2009	841,316	1,010,372	83.27

Source: Ministry of Labor and Transmigration, 2009.

Note: Data have been processed.

^aUp to 2005, the KHM, or minimum living needs, was used.

At the national level, the average value of the UMP was always lower than the average value of the KHL. The ratio of the two continued to rise until 2005, but in 2006 there was a sharp fall. This was due to the fact that a change occurred in the necessities of life used as the yardstick in setting the UMP. Up until 2005, the UMP used the minimum living needs (KHM), but since 2006, the UMP has used the KHL, whose value tends to be higher. After 2007, the ratio of the UMP to the KHL rose, but in 2009 there was a fall, making its value lower than the ratio in 2006. This situation could perhaps be one of the forms of the impact of the GFC.

III. THE GENERAL PICTURE OF THE STUDY AREAS AND THE IMPACT OF THE 2008/09 GFC

This chapter gives a general picture of the study areas and in particular describes their economic activities and livelihoods, as well as the level of community welfare. The first study area is Kelurahan Rawa Makmur and Kelurahan Bukuan in Kecamatan Palaran in Kota Samarinda, East Kalimantan Province, while the second area is Kelurahan Pasir Jaya and Kelurahan Manis Jaya in Kecamatan Jatiuwung in Kota Tangerang, Banten Province. This chapter also describes the impact of the 2008/09 GFC on labor, in particular on young workers and young adult workers, both men and women.

3.1 The General Picture of the Study Areas

3.1.1 Economic Growth and Livelihoods in Kota Samarinda

Kota Samarinda is the capital of East Kalimantan Province which is one of the major industrial centers in Kalimantan. The rate of economic growth of Kota Samarinda from 2000 to 2008 reached 7.12% per year, which is higher than the average national economic growth of 5% per year in the same period. The largest contributor to the gross regional domestic product (GRDP) of Kota Samarinda is the processing industries sector, followed by the trade sector and the hotels and restaurants sector. For the last three years, the latter sectors have continued to make a large contribution to the GRDP of Kota Samarinda (BPS Kota Samarinda, 2009).

From the GRDP of Rp9.87 trillion, the contribution of the trade sector was Rp2.56 trillion (25.96%), while the processing industries sector contributed Rp2.32 trillion (23.54%). The various economic activities, including trade, were supported by the availability of satisfactory accommodation facilities. In Kota Samarinda, there are 44 hotels, 6 of which with star rating indicating their quality.

In the trade sector, exports amounted to more than US\$1 billion and showed a tendency to rise every year. The dynamics of the trade sector are also reflected in the number of trade permits (SIUP) and company registration certificates (TDP) that have been issued. In 2006, for example, 1,630 trade permits were issued. Most of these (978) were issued for large-scale traders, while 431 were given for medium-scale traders and 221 for small traders.

In the industrial sector, there are at least 867 business units in Kota Samarinda. The industrial group that takes in forest products, chemicals, and printing has 390 business units and absorbs the largest number of workers and the biggest amount of investment with 3,443 workers and more than Rp90 billion in investments. Other industrial groups include the metal and engineering industries with 240 business units, agro industries with 169 business units, and the electronics industry and assorted industries with 68 units (BPS Kota Samarinda, 2009).

The timber industry began to grow in Kota Samarinda in the 1970s and experienced a peak around the beginning of the 1980s. It developed until it became the backbone of the economy and absorbed much labor. Near the end of the 1990s, however, the timber industry began to decline. According to an official from the labor agency in Kota Samarinda (male, interview, 20 May 2010), this decline was caused, among other things, by (i) greater difficulty in obtaining raw material and the fact that the area where trees were now felled was further away, which made the cost of obtaining raw material even higher; (ii) marketing, which was increasingly difficult

because of the appearance of competitors like Malaysia, China, and Taiwan, which were able to offer products of better quality; (iii) the introduction of conditions by importing countries, which required the source of raw material to be stated and the raw material to be obtained legally; and (iv) the large number of government regulations that caused difficulties and were burdensome for timber companies. According to a lecturer from Mulawarman University (male, interview, 26 May 2010), the difficulty in obtaining raw material was due to the decline in the natural support system. The decline is especially caused by the fact that companies did not obey stipulations to carry out selective felling and replanting, that is, the stipulations of the Indonesian selective felling system (IPTI). In the end, this situation forced the majority of timber companies to give up business and dismiss workers on a large scale, especially in the 2003–2005 period.

The decline in the timber business was compensated for by expansion in mining, in particular coal mining, at the beginning of the 2000s. Even so, seen from the aspect of absorption of labor, these two industries were very different because the timber industry was labor intensive, whereas mining tended to be capital intensive. However, the timber and mining industries had already encouraged expansion in the hotel and trade sectors. In the past two years, the economy of Kota Samarinda has also been stimulated by oil-palm plantations and gold mining.

Kota Samarinda consists of six *kecamatan*, which since the beginning of 2010 have been expanded into ten *kecamatan*. One *kecamatan* that forms an industrial center is Kecamatan Palaran, which is located on the edge of Kota Samarinda and has semi-urban characteristics. There is an assortment of sources of living in this *kecamatan*, which has at least 15 kinds of livelihoods. In the agriculture sector, there are farmers who own land, tenant farmers, sharecroppers, and farm hands. Other people work as fishers, entrepreneurs (medium and large), small industry craftspersons, industrial workers, merchants, civil servants, members of the Indonesian National Armed Forces (TNI), pensioners from the civil service and TNI, carriers, animal breeders, and others (Government of Kecamatan Palaran, 2009). Among these different livelihoods, the main ones are farming (23.82%), industrial work (10.42%), and trade (9.77%).

In Kecamatan Palaran, Kelurahan Bukuan and Kelurahan Rawa Makmur are the centers of industrial activity. For that reason, unlike the situation in Kecamatan Palaran as a whole, the majority of people in these two *kelurahan* earn a living as company workers, especially in timber companies (Table 8). The number of people employed in companies, however, is now far smaller than it was a decade ago, at the time when there were still many timber companies in the two *kelurahan*. Today, the companies in the two *kelurahan* consist of only two timber businesses and a company that produces glue (which it supplies to the timber companies), whereas previously, there were nine timber companies and three glue businesses.

Table 8. Population of Kelurahan Bukuan and Kelurahan Rawa Makmur by Livelihood

No.	Source of Livelihood	Population (people)	
		Kelurahan Bukuan	Kelurahan Rawa Makmur
1	Employees		
	• Civil servants	70 (2.1%)	264 (3.3%)
	• TNI members	10 (0.3%)	40 (0.5%)
	• Workers in the private sector (employed in a company)	1,819 (55.6%)	3,274 (41.3%)
2	Merchant	589 (18.0%)	1,658 (20.9%)
3	Farmer	343 (10.5%)	1,569 (19.8%)
4	Pensioner	21 (0.6%)	86 (1.1%)
5	Fisher	38 (1.2%)	125 (1.6%)
6	Craftsperson	69 (2.1%)	426 (5.4%)
7	Services	313 (9.6%)	455 (5.7%)
8	Scavenger	0 (0.0%)	21 (0.3%)
	Total	3,272 (100.0%)	7,918 (100.0%)

Source: Administration of Kelurahan Rawa Makmur, 2010; Administration of Kelurahan Bukuan, 2010.

At the present time, there are several other companies in the two *kelurahan*, such as coal stockpile and cement bagging businesses. However, their absorption of labor is relatively limited and they use workers from outside the *kecamatan*. In addition, since the middle of 2010, a port has been officially established and it will soon begin to operate as a container harbor. It is hoped that this harbor will develop into a port of international quality for passengers and cargo and that it will be supported by adequate office facilities.

The population of the study areas at the *kelurahan* and *kecamatan* levels and also in Kota Samarinda is of a multiethnic nature. Newcomers originate mainly from Central Java, East Java, South Sulawesi, South Kalimantan, and Timor. The ethnic variations in the population are due to the fact, among other things, that Kota Samarinda has long been a destination for jobseekers, especially in the 1980s when the timber industry was developing. In fact, several companies sought to recruit labor specifically in certain cities in Java. Ethnic variations in Kelurahan Rawa Makmur are also the result of the fact that this *kelurahan* was the location of a transmigration settlement for people from Java in the 1950s.

3.1.2 Economic Growth and Livelihoods in Kota Tangerang

Kota Tangerang is the largest city in Banten Province and is located on the border with the Special Capital Region of Jakarta. The rate of economic growth of Kota Tangerang is above the rate of national economic growth, even though a drop occurred from 6.86% in 2007 to 6.37% in 2008. This fall in economic growth was caused more by the increase in fuel prices, the result of which was an increase in raw material prices and a fall in the volume of output from the industrial processing sector (BPS Kota Tangerang, 2009b). The obvious impact of the increased fuel prices on the the level of economic growth was a direct consequence of the significance of the industrial processing sector in the GRDP of Kota Tangerang. For three years in a row, the contribution made by the industrial processing sector reached more than 50% (BPS Kota Tangerang, 2009b).

Kota Tangerang is an industrial city and many international companies have factories in this area. The rapid expansion of industry in Kota Tangerang is due, among other things, to the shortage of land in Jakarta for business sites, which means that investors have been forced to look for locations in the surroundings of Jakarta. This development can be seen, for example, along Jalan Daan Mogot in Kecamatan Batuaceper, along the course of the Cisadane River in Kecamatan Tangerang, in the industrial zone in Kecamatan Jatiuwung, and in a small part of Kecamatan Cipondoh. The rapid growth of industry in these areas is a new economic strength for Kota Tangerang. Various kinds of goods are produced through existing industrial activities. These include household furniture, shoes, garments, processed wood products, and electronic equipment (Soegeng Sarjadi Syndicate, 2010).

According to BPS Kota Tangerang (2009a), there were 687 factories consisting of 281 large factories and 406 medium factories in this area in 2008. With a situation of this kind, Kota Tangerang has itself become a destination for jobseekers. Besides that, this city has also become a place of residence for people working in Jakarta. As a result, there is an assortment of people living here and many commute daily to Jakarta and back.

Kota Tangerang consists of 13 *kecamatan*; of these, Kecamatan Jatiuwung is the center of industrial activities. In this *kecamatan*, there are 229 factories, or more than 30% of all factories in Kota Tangerang; they consist of 121 large factories and 108 medium factories. This *kecamatan* has six *kelurahan*, but the greatest number of businesses and factories is to be found in Kelurahan Pasir Jaya and Kelurahan Manis Jaya. In Kelurahan Pasir Jaya, there are 48 large factories and 28 medium factories, while in Kelurahan Manis Jaya, there are 18 large factories and 25 medium factories (BPS Kota Tangerang, 2009a). In these two *kelurahan*, large- and medium-scale companies and factories can be found in several places. There are also cases where several factories have been established in one location, to the point where the area looks like an industrial estate. The business activities carried out in this area range from plastic and stationery production to the making of spare parts for vehicles; in addition, there are factories that produce paint, metal, rubber, and timber.

In keeping with the characteristics of the region, the majority of the people of Kelurahan Pasir Jaya and Kelurahan Manis Jaya earn a living as company or factory workers (private-sector workers). According to the book "Monograph of Kelurahan Manis Jaya" (Administration of Kelurahan Manis Jaya, 2009), more than 85% of the 10,049 people who have jobs in this *kelurahan* are employed as private-sector workers. Others work as merchants, craftspersons, civil servants, members of TNI, pensioners, service providers, and scavengers.

3.1.2 Level of Welfare of the People

A picture of welfare levels was created through eight FGDs with young people and young adults. From the results of these FGDs, three classifications of welfare according to local standards were made, namely well-off, medium/simple, and poor households. FGD participants made these classifications on the basis of a number of indicators, the most common of which were level of education, ownership of assets, type of employment, condition of house (dwelling place), pattern of consumption, and size of income. Other indicators, each of which emerged in only one to three FGDs, were clothing, health facilities, frequency of recreation, and pattern of debts.

In general, the characteristics of indicators for the welfare of the three community groups in Kota Samarinda and Kota Tangerang were almost the same. The characteristics of the well-off were, among other things, education of children to senior high school level or higher;

ownership of a large house on spacious land with brick or ceramic walls, a ceramic floor, and a wall or iron fence. Other indicators were ownership of a car, motorcycle, savings, and expensive household equipment; employment as an entrepreneur, ownership of rental property, ownership of a minimarket, employment as a civil servant, or worker at managerial level; consumption of food of good quality that was varied and met the criteria of the “Empat Sehat Lima Sempurna”⁷ principle; and a monthly income above three million rupiah.

The characteristics of the medium group were, among others, education of children to junior high school-senior high school level; ownership of a simple house with board or plastered walls and a ceramic floor or plastic carpet; ownership of a motorcycle and simple household equipment; employment as a factory worker, or a trader in a market or in a small shop; sufficient food to eat but a simple menu; and a monthly income of 1–2 million rupiah. People in this group generally lease a house, but some may have their own house. Those who have their own house are usually the local people.

The characteristics of the poor group were education of children to junior high school level or lower; ownership of a house with woven bamboo walls, a zinc or asbestos roofing, and a floor of earth or rough cement; ownership of very few assets, the main ones being a bicycle and a small black-and-white television set; employment as a scavenger, odd-job laborer, assistant to a public vehicle driver, farmhand, or driver of an *ojek* (motorcycle taxi); and a monthly income below one million rupiah. There are poor families who own their own house, but in these cases the houses have been inherited from parents and are of low quality and small in size.

The welfare situation of people in the study areas can be said to be relatively the same, that is, the majority belonging to the medium or simple group (Table 9). Although the general characteristics of the people in Kota Samarinda and Kota Tangerang are very similar, the proportions in each group differ somewhat. In Kota Tangerang, the proportion in the medium group ranges between 40% and 70%, while in Kota Samarinda the range is from 70% to 80%. This indicates that from the aspect of equitability, Kota Samarinda is relatively better off than Kota Tangerang. Both cities show a tendency to develop as places in which competition in life is increasingly difficult.

⁷Literally translated into “Four Healthy Five Perfect”, the principle means that a diet of four food groups, namely grains, meat, vegetables, and fruit, will provide one with a healthy diet and adding another food group, milk, would give one a perfect diet. The principle is similar to the “Basic Four” food guide introduced in the US in 1956.

Table 9. Proportion of People in the Study Areas by Level of Welfare

<i>Kota/Kelurahan</i>	FGD Group	Welfare Group (%)		
		Well-Off	Medium	Poor
Kota Tangerang				
Kelurahan Manis Jaya	Junior high school	20	50	30
	Senior high school	10	70	20
Kelurahan Pasir Jaya	Junior high school	20	40	40
	Senior high school	20	50	30
Kota Samarinda				
Kelurahan Bukuan	Junior high school	5	75	20
	Senior high school	10	70	20
Kelurahan Rawa Makmur	Junior high school	10	80	10
	Senior high school	10	70	20

Source: FGD with young and young adult workers (May–June 2010).

The meaning of the term “medium” group or middle class, according to the results of the FGDs, is to be seen in the local context, although there is a similarity between FGD results in Kota Samarinda and those in Kota Tangerang. This means that the interpretation of the term “middle class” cannot be taken as middle class in the socioeconomic structure of a more macro context because this interpretation applies only at the level of the *kelurahan* involved in the study. We would like to emphasize this to avoid creating a wrong perception of daily living conditions and welfare in the study areas.

From the findings of field observations and FGDs, it is obvious that standards of living, specifically among workers, are still at a low level, or in other words the people are still in the shackles of poverty. In the study locations in Kota Samarinda, the fact that land is available allows the houses occupied by community members in the medium category to be relatively adequate. Even though many houses are small, they generally consist of a number of separate rooms for use as a guestroom or family room, bedrooms, and kitchen, and they usually have a yard. In Kota Tangerang, houses tend to be crowded together and some are located in narrow alleyways. Rental houses usually consist of one multifunctional room that is used as a family room and also as a place to receive guests, to cook, and to sleep. Some of the occupants have simple household equipment like rice cookers, electric fans, and a television set. On the whole, the environment around the houses appears dirty and neglected. The occupants use communal bathrooms and lavatories that are uncared for. Their food menu is extremely simple and the same applies to their use of clothing, where they generally economize on quantity.

3.2 The Impact of the 2008/09 GFC in the Study Areas

Not all worker respondents and FGD participants knew that there had been a GFC in 2008/09. Some worker respondents only knew that the GFC had occurred after the company had given them an explanation in anticipation of the GFC being a long one. Very few realized that the GFC had its origin in the housing credit crisis that had occurred in the United States.

The majority of respondents only knew that from the middle of 2008 up to the beginning of 2009, the prices of basic goods had risen, but they did not know why. This increase in prices caused the community to reduce daily shopping expenses. On the whole, however, this did not have much effect on their socioeconomic situation. In fact, they were accustomed to facing changes in the prices of daily needs, which tended to rise from time to time.

All informants who were interviewed in Kota Samarinda and Kota Tangerang said that the GFC did not have much effect on the livelihoods of community members. An official from the Labor Agency of Kota Samarinda (male, interview, 20 May 2010), for example, said that the GFC had not been felt very much in Kota Samarinda. Companies had not carried out mass sackings, no drop was evident in the purchasing power of the community, and activities in the streets appeared to be as usual. In fact, many new vehicles with four wheels and two wheels could be seen. In Kota Samarinda, a member of the RT apparatus in the *kelurahan* where the study was carried out said, “The impact of the GFC has not really been felt because no *waring* [food stalls] or kiosks have closed down and households can still send their children to school and even afford to buy new motorcycles” (male, interview, 21 May 2010). An apparatus member of the *kelurahan* in Kota Tangerang where the study was located (male, interview, 3 June 2010) also stated that the GFC had no effect on the social and economic situations of the local community. An activist from an NGO in Kota Samarinda (male, 38 years old, interview, 25 May 2010) stated that the GFC was felt only by the “big players”, while the ordinary people had felt little or no impact.

Although many people said that the GFC had no impact on community livelihood in general, informants and respondents in the present study admitted that the GFC had in fact exerted an influence on a number of companies, which then passed on the effect to local labor and a part of the labor force. Not all business activities were affected by the GFC, however. Businesses whose activities were affected were generally export-orientated ones or ones that used imported raw materials. In Kota Tangerang, various industrial activities such as the production of garments, shoes, furniture, coloured pencils, and can packaging, which were exported to a number of countries, were affected. In Kota Samarinda, among the businesses affected by the GFC were those handling coal and timber, which underwent a drop in demand and prices, as well as companies that packed cement and asphalt, which experienced a rise in production costs.

The effect of the GFC on these companies caused them to reduce output. At the same time, the companies also tried to adopt efficiency strategies by reducing the number of workers (contract or piece workers), temporarily suspending some workers from employment, reducing the number of working days (introducing free days without wages: working for 1–2 weeks and not working for 1–2 weeks), reducing the number of hours of work, and increasing the number of shifts per day from 1–2 shifts to 2–3 shifts. This then had an impact on workers because they lost their work, their wages were reduced, and they had no overtime wages.

The impact of the GFC was not widespread because it affected only a few companies and a small number of workers and lasted for only a relatively short period of time. Several informants and respondents in this study said that the effect of the GFC lasted for only 1–3 months. After that, prices and orders returned to what they had been. According to an Apindo official in Kota Tangerang (male, interview, 11 June 2010), the effect of the GFC was only a slight shock between the end of 2008 and the beginning of 2009. After that, the situation returned to normal.

Because the impact of the GFC lasted for only a short time, one company that was affected did not even have time to introduce the policies that it had planned. An official of a PUK (male, interview, 15 June 2010) described how the place where he worked had been affected by the GFC and how the management had reached an understanding with the workers that saving the company meant saving the workers. The policy that they had prepared in anticipation of the impact of the GFC was not to apply the regional minimum wage (UMR), to reduce contract workers, and to reduce working couples (husband-wife workers). Nevertheless, as it turned out, none of this was done. Box 1 gives a picture of the experiences of workers in a number of companies in the context of the GFC and its impact on labor.

Box 1
Experiences of Workers in Connection with the GFC and its Impact on Labor

- A woman in Kota Samarinda (28 years old, interview, 21 May 2010) said that her family's food consumption had experienced no changes.
- A male respondent in Kota Samarinda (29 years old, interview, 21 June 2010) knew nothing at all about the GFC and stated that there had been no change in the livelihood of his household.
- A worker in a company that made colored pencils in Kota Tangerang (female, 24 years old, interview, 9 June 2010) said that at the time of the crisis, she felt only a slight impact, that is, a temporary suspension from employment for a month, but then she was asked to work again. She also said that during the GFC, there were no dismissals.
- A furniture worker in Kota Tangerang (female, 21 years old, interview, 9 June 2010) declared that she did not know of the GFC, but that the workload in the place where she was employed had declined to the point where she was asked to do any jobs at all such as sweeping the floor. In addition, she also felt that the prices of various important daily goods had become expensive.
- A worker in Kota Tangerang (male, 27 years old, interview, 11 June 2010) explained that the 2008/09 GFC had caused a fall in production and so the company had done away with overtime. This went on for about a year, but now the situation had returned to normal. The GFC had only a slight effect on workers in the form of a rise in the prices of basic goods but not to the extent of changing family eating patterns.
- A worker in Kota Tangerang (male, 33 years old, interview, 14 June 2010) said that the 2008/09 GFC had had an impact in the form of a fall in production in the company where he worked because the prices of raw materials had become expensive, while selling prices could not be increased. Overtime was only available for a maximum of three hours with the payment system of *jam hidup* (literally "living hours"; the per-hour rate increases by the hour), that is, Rp9,600 for the first hour, Rp12,000 for the second hour, and Rp15,000 for the third hour. The respondent found that their income had decreased because of the reduction in overtime and the increase in the cost of daily necessities. To economize, he had made a few changes in his family's eating pattern.
- A respondent in Kota Tangerang (male, 31 years old, interview, 11 June 2010) said that the impact of the GFC had been felt very strongly by garment and shoe companies, causing several to stop production. This situation had had an effect on the respondent's business. Previously, the respondent had had a business making various kinds of goods from cloth and imitation leather, such as the wrappings for cellphones. When the GFC occurred, his business went bankrupt because the raw material from the waste from garment and shoe factories was no longer available; the factories had closed down.
- A worker in Kota Tangerang (female, 34 years old, interview, 13 June 2010) explained that, due to the impact of the GFC, the company where she worked temporarily suspended 30% of its workers from employment and paid them a wage of 50% of the normal wage for three months. She also felt that there was a crisis in the form of increases in the prices of various daily necessities. In order to economize, she reduced her habit of going out and buying toys for her children.

IV. LABOR CONDITIONS IN THE STUDY AREAS

This chapter describes a number of basic aspects, including the general picture of labor conditions in Kota Samarinda and Kota Tangerang as the study areas, employment opportunities and security in employment, developments in work relations, and the living conditions of young workers. A number of descriptions and analyses are presented in order to give a more complete picture of important aspects of inter-related labor conditions that are difficult to understand if seen separately. These descriptions and analyses cover labor supply and demand, the available business sectors, the regulation of labor and its implementation, and the socioeconomic conditions experienced by workers, especially young workers.

4.1 The General Picture of Labor Conditions

4.1.1 Kota Samarinda

In August 2008, the working-age population, that is, people aged 15 and over, in East Kalimantan Province was 2,203,411. The working-age population in this province was not evenly distributed (BPS Provinsi Kalimantan Timur, 2009), with Kota Samarinda as the provincial capital having the largest number of working-age population, namely 434,603. Other regions that had a large working-age population were Kabupaten Kutai Kartanegara and Kota Balikpapan. By contrast, Kabupaten Malinau, which had been subdivided from Kabupaten Bulungan, had less than 40,000 people of working age. This imbalance in the distribution of working-age population is the result of two main factors. First, from the point of view of infrastructure, the southern part of East Kalimantan Province is relatively more advanced than the northern part. Development of the southern region is supported by the presence of a road network that connects many industrial and commercial centers such as Kota Samarinda, Kota Balikpapan, and Kabupaten Kutai Kartanegara. In many respects, this phenomenon also reveals a tendency for urban-based economic growth to become more widespread in Indonesia (The World Bank, 2009). Second, the southern region is more fertile than the northern region, where much of the land is covered in protection forest that is rarely inhabited by people (Ooesternan, 1999).

A calculation of the working-age population by age group shows that the proportion of young people and young adults is relatively greater than that of adults. Around 53% of the working-age population is made up of a combination of young people and young adults. This pattern, in which the proportion of young people and young adults dominates the working-age population, occurs in all *kabupaten* and *kota* in East Kalimantan Province, especially in Kota Samarinda, Kota Balikpapan, and Kabupaten Kutai Kartanegara (BPS Provinsi Kalimantan Timur, 2009). Nevertheless, it must be understood that not all of the working-age population in East Kalimantan Province belong to the labor force. In keeping with the definition used by Statistics Indonesia, the working-age population consists of the labor force and the nonlabor force. The labor force consists of those who are working and those who are seeking work or are unemployed.

In terms of the proportion of the labor force in the working-age population, it can be seen that Kabupaten Kutai Kartanegara, Kota Balikpapan, and Kota Samarinda are the regions that have the highest proportions of labor force in East Kalimantan Province. Kota Samarinda has the largest labor force in terms of the number of people, that is, 267,593 people, while Kabupaten Malinau, although it is the *kabupaten* with the highest percentage of the labor force

(78%), has the lowest number of people, that is, less than 29,000 people (BPS Provinsi Kalimantan Timur, 2009).

From the point of view of labor, several important aspects can be summed up from this information. First, the large labor force in Kota Samarinda, Kota Balikpapan, and Kabupaten Kutai Kartanegara reveals the direct effect of urban-based economic growth that occurs in Indonesia (The World Bank, 2009). As will be discussed in more detail below, Kota Samarinda offers various businesses in the sectors of services, trade, mining, and processing industry that can absorb more workers than those in other regions. Secondly, the high absorption rate of the labor force in these sectors is supported by the availability of the human resources needed to respond to job opportunities in these various sectors. As much as 41% of the labor force in this city consists of people with a senior high school education or the equivalent (BPS Kota Samarinda, 2009). Thirdly, the small labor force in the Kabupaten Malinau, apart from being traceable to the small number of people residing in that *kabupaten*, is also due to the fact that most of the *kabupaten* (90%) is forested. The direct implication is that the forest is an obstacle to the development of businesses that can absorb labor.

On the other hand, even though the percentages of the labor force in Kota Samarinda, Kota Balikpapan, and Kabupaten Kutai Kartanegara are high, the figures for TPT in these three regions are also high. The TPT figures in the three regions are even higher than the national TPT figure, being respectively 16%, 12%, and 9.8%, while the national TPT figure is 8.7% (BPS Provinsi Kalimantan Timur, 2009).

If these figures are further examined, it can be seen that the top three age groups in the labor force with the highest TPT figure are the age groups of 15–19 years, 20–24 years, and 25–29 years. The figure for the 15–19 age group is even twice as great as the figure for open unemployment in the 25 years and over age group. For two consecutive years, this situation has experienced no significant change (Figure 8).

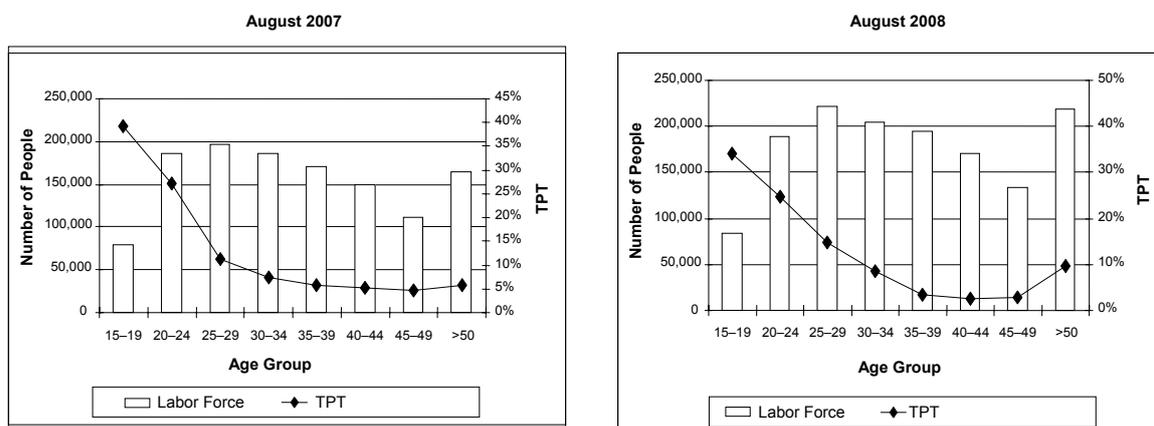


Figure 8. Labor force and TPT in East Kalimantan Province, August 2007 and 2008

Source: BPS Provinsi Kalimantan Timur, 2009.

If seen from the supply side, one reason for the high level of unemployment is the low quality of human resources. Data for August 2008 reveals that only 7% of working-age population in East Kalimantan Province had finished higher education. The majority of the working-age population in this province had completed primary school (27%) and junior high school (23%). The low figure for the number of tertiary-level graduates is also apparent in the labor force in East

Kalimantan Province. Most people in the labor force in this province (53%) have graduated from primary school. Even so, the proportion of secondary school graduates in the labor force is quite high at 41%; this figure is almost twice as great as the percentage at the national level, which is 22% (BPS Provinsi Kalimantan Timur, 2009).

On the demand side, the high 'TPT' figure in East Kalimantan Province is the result of the absence of key business sectors that can absorb a lot of labor, such as the timber processing industry, which developed rapidly from the 1970s up until the 1990s. Meanwhile, the businesses that are starting to develop at the present time, such as coal mining and gold mining, have a very low capacity to absorb labor.

The proportion of male and female workers per economic subsector in the whole East Kalimantan Province reveals that male workers far exceed women workers in number. The same can also be seen in the composition of the labor force (BPS Provinsi Kalimantan Timur, 2009). Based on these proportions, the conclusion can be drawn that (i) the representation of women in the labor force of East Kalimantan Province is still low and (ii) the absorption of women in various economic activities is also low.

4.1.2 Kota Tangerang

By August 2008, the number of people aged 15 and over in Banten Province was 6,674,895 people. Kota Tangerang occupied second place in terms of working-age population size, namely 1,105,301 people (BPS Provinsi Banten, 2008).

Of the working-age population, the percentage of people included in the labor force in Banten Province was more than 60% in each *kabupaten/kota* (BPS Provinsi Banten, 2008). This high percentage is primarily influenced by the location of the province, which shares a border with the Province of Jakarta and is close to the island of Sumatra. This means that the economic position of the province is high. This strategic position has caused Banten Province to function as an alternative place for industrial investment and at the same time as a distributor of goods needed in Sumatra. The implication is that Banten Province, in particular Kota Tangerang and its surroundings, is the destination of workers from various regions in search of work. Expansion of the industrial sector in this province has encouraged the development of other economic sectors, such as trade, hotels and restaurants, transportation, and communications. In terms of labor absorption, this is reflected in the trend towards growth in the size of the labor force and the TPAK in Kota Tangerang during the past six years (Figure 9).

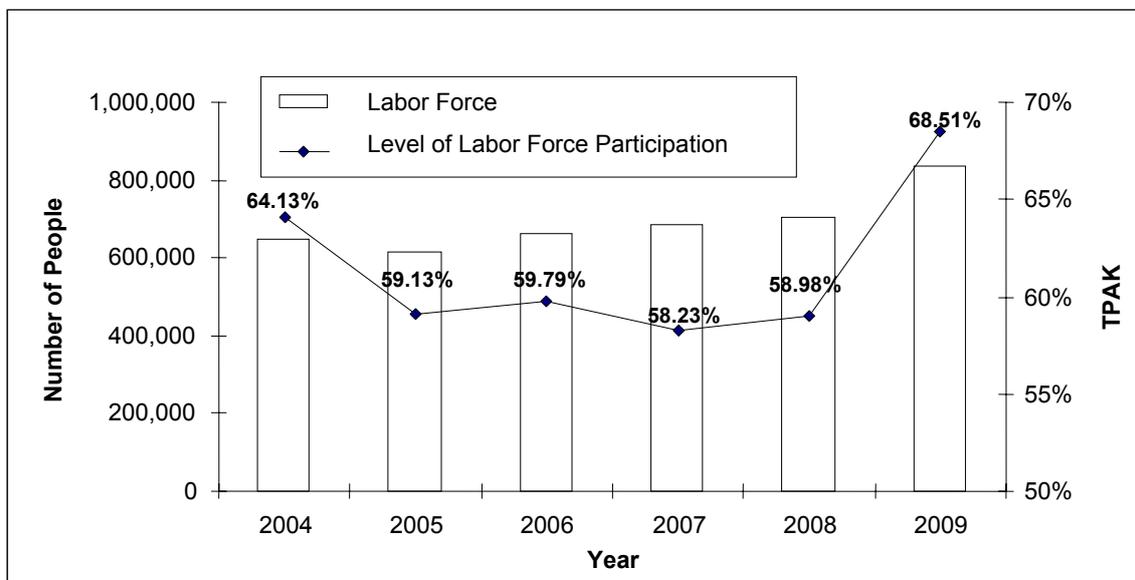


Figure 9. The trend towards growth in the labor force and the TPAK in Kota Tangerang, 2004–2009

Source: Labor Agency, Kota Tangerang, 2009.

Although the percentage of the labor force in Banten Province is quite high, the TPT figure is also high. In Kabupaten Tangerang, which is the region with the greatest absorption of labor in the whole Banten Province, the TPT figure is more than 15%. This is almost twice as high as the national-level TPT. Meanwhile, in Kota Tangerang, the TPT figure has even reached more than 18% (BPS Provinsi Banten, 2008).

Although the combination of young and young adult workers forms the biggest working-age group (54%), the highest TPT in Banten Province occurs in the productive age group, that is, in the 15–19 years age group, where the figure is 44%. This is followed by the 20–24 years age group (28%), the 25–29 years age group (18%), and the 35–39 years age group (11%). In addition, if seen from the composition of unemployed people based on gender, the TPT figure for men is higher than that for women (Figure 10).

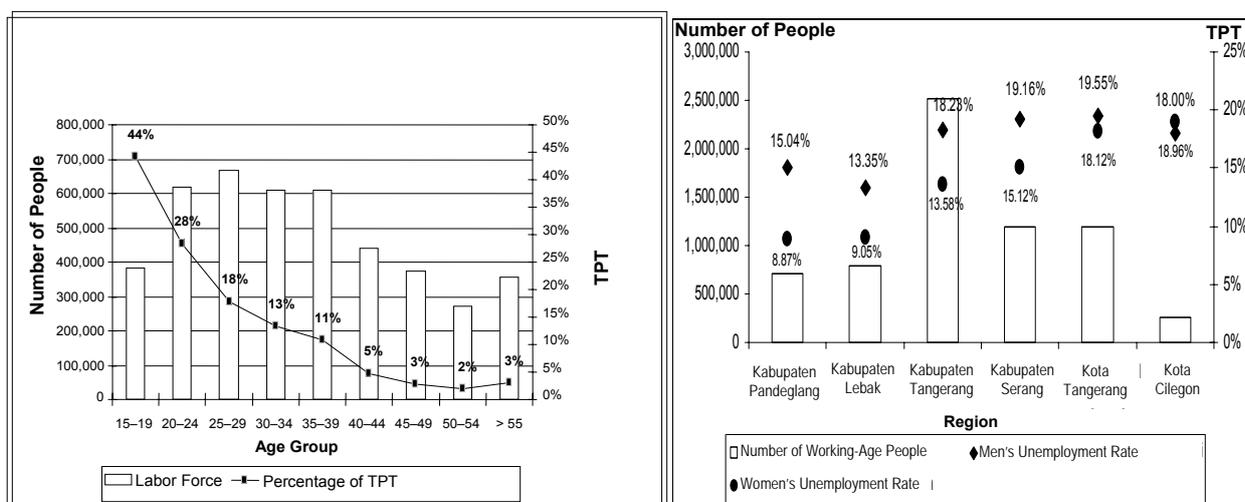


Figure 10. The employed labor force, the TPT, and the level of gender-based TPT in Banten Province, August 2008

Source: BPS Provinsi Banten, 2008.

As is the case with the same phenomenon in East Kalimantan Province, the reason for the high unemployment figure on the supply side in Banten Province is the low educational level of the labor force. The majority of workers have finished basic education (primary school and junior high school). Some 33% have completed primary school, while 18% have finished junior high school. Meanwhile, only 26% of workers have finished senior high school (BPS Provinsi Banten, 2008).

From the demand side, in the context of meeting the standards of the International Organization for Standardization (ISO), companies have been recruiting only senior high school graduates in the last few years. Most members of the labor force with a senior high school education in Kota Tangerang are employed in the sectors of trade, restaurants, and accommodation. The general practice of recruiting workers with a senior high school education has become a requirement in itself of outsourcing companies in accepting workers. This requirement obviously makes it difficult for the labor force in Kota Tangerang to get employment because the majority of workers have only finished basic education. Another factor that exerts an influence on the extent of unemployment in Kota Tangerang is the big number of workers who are daily contract workers or piece workers. Status of this kind reduces the level of security in employment because the contracts of workers can be easily broken, even though the workers may have long work experience.

4.2 Employment Opportunities

4.2.1 Kota Samarinda

As it turns out, high economic growth, marked by the appearance of hundreds of business units in the trade and industrial sectors, is not necessarily accompanied by a large number of jobs that can absorb the available labor force. The results of interviews and FGDs during this research reveal that a large part of the labor force, primarily workers in the young age group, is unemployed. In general, in-depth interviews with respondents and participants in FGDs produced complaints about the difficulty of getting work. This differed from the situation approximately ten years ago. At that time, every person who wanted to work could easily obtain a job. The number of timber processing businesses at that time exceeded 150 and there were several large-scale factories along the Mahakam River, whose banks have now been restored to create a city park (labor union official, male, Kota Samarinda, interview, 20 May 2010; and a male respondent, Kota Samarinda, interview, 21 May 2010). To become a factory worker, it was sufficient for a person to go directly to a factory, taking with him his identification card without having to bring a school certificate. In fact, even though a prospective worker had not finished primary school, he could obtain a job provided that he had an identification card. In that period, thousands of workers in wood-processing factories came and went to work every morning and afternoon (Kaltimpost, 2010). Today, only eight companies are still operating and even then their production capacity is declining (labor union official, male, Kota Samarinda, interview, 20 May 2010).

The timber processing industry, which covers a range of upstream and downstream jobs (felling and transporting logs, drying material, making various products, and packing and sending goods), needs workers in large numbers. The rapid growth of industry in the 1980s encouraged companies to mobilize thousands of workers from outside the region, including from Central Java and East Java. Their arrival was often facilitated by the transmigrants from Java who had settled in Kota Samarinda many years earlier (RT head, male, 57 years old, Kota Samarinda, interview, 22 May 2010). In Kecamatan Palaran, which was the location of the

present study, there were once 23 timber processing companies in which approximately 70% of the workers were women. More than half of these were newcomers who originated mainly from Java and Sulawesi. Today, only two of the companies in this *kecamatan* are still operating (labor union official, male, Kota Samarinda, interview, 20 May 2010).

As a direct consequence of the closing down of hundreds of companies, which occurred from the beginning to the middle of the 2000s, the population decreased because many of the workers returned to their place of origin. According to an official of the Kecamatan Palaran Government, the number of people in Kelurahan Bukuan had reached 27,000 in the beginning of the 2000s. This number fell from year to year and now only 14,000 people remain (male, interview, 20 May 2010). This in turn had an effect on the level of occupancy of rented houses/rooms, which then affected the incomes of the local people. One respondent explained that, with the large number of former workers who had returned to their region of origin, the *kelurahan* had become quiet and there were many empty rented houses/rooms; she mentioned the house next to hers, where only 2 of 14 rooms that had previously been completely full were now occupied (35 years old, Kota Samarinda, interview, 21 May 2010). Besides the drop in the number of people, however, another consequence related to labor was the shortage of jobs.

In the middle of May 2010, with the story of the closure of many timber processing companies as the backdrop, a newspaper in Kota Samarinda reported that the police had confiscated 23,000 illegal logs. At the very least, this indicated that there was still a certain amount of raw material that could be exploited by timber-processing companies operating in East Kalimantan Province. As an informant said, “This is a very large amount of raw material. Where did these logs come from and who is behind all this? This means that there is still quite a lot of timber in East Kalimantan Province” (Apindo official, male, Kota Samarinda, interview, 25 May 2010).

Part of the answer to the question put by the Apindo official was obtained from two Mulawarman University lecturers in Kota Samarinda (male, interview, 26 May 2010). They said that when the timber factories found it difficult to obtain legal raw material and it was complicated to obtain timber certificates legally, on the market, raw material was available; in any case it was not hard to get timber that had been felled illegally. There were also companies that worked together with local *adat* (customary) communities to cut down trees, which were then sold to the companies concerned. In fact, according to an NGO activist, “Some companies began to cut down trees in protected forests; on the market this timber was called ‘spanyol’, or ‘separo nyolong’ [meaning ‘partly stealing’], wood” (male, Kota Samarinda, interview, 26 May 2010).

One aspect of this information that is both interesting and important is that there was a trade-off between the opportunity to work and the damage done to the environment by the practice of illegal logging. In other words, to maintain the operations of a company, which had direct implications for security in employment of employees, the price that had to be paid was the cutting down of forests, which did not take into consideration the hydrological and climatological functions of the forests.

At the present time, although timber processing has experienced a decline in terms of both volume of production and absorption of labor, this sector is still promising, especially for prospective workers who live in the vicinity of factories that are still operating. Besides that, along with the expansion in mining undertakings in East Kalimantan Province, job opportunities in this sector are available. Even so, this sector can accommodate only a relatively few workers, the number of whom is limited by expertise and gender. Unlike timber processing,

which can absorb thousands of workers, the mining sector needs only a few hundred workers, the majority of whom are male. Furthermore, certain expertise is required to be able to work in this sector. As one respondent said, “In mining, a person has to possess certain skills” (female, 23 years old, Kota Samarinda, interview, 24 May 2010). Further confirmation revealed that the meaning of “skills” is the ability to drive a truck or to operate heavy equipment. Other sectors that also absorb quite many young workers, according to FGD participants in Kelurahan Rawa Makmur, are hotels, malls, and shopping complexes, which are located in Kota Samarinda (FGD with workers who have a junior high school education or less, Kota Samarinda, 24 May 2010).

Other employment opportunities that are open, particularly in and around Kelurahan Bukuan, can be found in the transportation sector, particularly with the commencement of the operations of the Palaran Container Terminal (TPK) (official in Kecamatan Palaran, male, interview, 20 May 2010). The operations of the Palaran TPK have been undertaken through a consorsium that consists of PT⁸ Pelabuhan Samudera Palaran, which is a subsidiary of PT Samudera Indonesia, PT Pelabuhan Indonesia IV, and the Government of Kota Samarinda; the operational model is the Build, Transfer, Operate (BTO) model for 50 years (Bataviase, 2010). According to the explanation given by the Director of PT Samudera Indonesia, the absorption of local labor at the TPK has reached 60%. The remainder of the workers are from Surabaya, Makassar, and Jakarta. In future days, if the transfer of technology goes well, all workers at the Palaran TPK will come from the local area (Pemerintah Kota Samarinda⁹, 2010). Absorption of local workers will be carried out through the *kelurahan* officials, who have already begun to make a list of prospective workers. Nevertheless, the local people feel that the chance of obtaining work at the Palaran TPK is limited. According to a number of respondents who live in Kelurahan Bukuan, the management of the TPK still gives priority to workers from outside the *kelurahan* (*kelurahan* officials, male, 25 and 31 years old, interview, 25 May 2010).

From the results of FGDs and in-depth interviews, it was found that at times when it is difficult to get work, the presence of a connection is an important factor. This has been especially true in the last five years. The system of recruiting through connections developed because of relationships and friendships or similarity in ethnic background and religion. The higher the position of the connection (such as the head of a section or of the personnel department), the greater the possibility of obtaining work. The majority of respondents who were workers or former workers said that they had obtained work through a relative, acquaintance, or neighbor who was already employed in the company in question. Some of them gave nothing at all in return, especially if the connection was a relative. Others gave an amount that was usually between Rp100,000 and Rp500,000 as a token of gratitude. This practice was not binding and it usually occurred in the timber industry for contract or piece workers in the production section. To become a security guard or office boy (through an outsourcing company), a rather large sum of money that could be as much as Rp2 million was usually required. In fact, to get work in other sectors such as mining, the required payment was even larger, being around Rp2.5 million. A piece of information was obtained that in a certain mining location, the payment was determined by a forum of local people; these people at the same time acted as a channeling body for workers.

The factor of the prospective worker’s place of origin, that is, whether he was a newcomer or a local resident, also influenced his chances of getting work. Newcomers were considered to have a better chance. According to an RT official in Kelurahan Rawa Makmur, newcomer

⁸PT stands for *perseroan terbatas*, which is the Indonesian for limited liability company.

⁹Government of Kota Samarinda.

adults on average had a junior high school or senior high school education and their children had a senior high school certificate; a small number of their children were tertiary graduates or were still attending lectures. On the other hand, the local people on average had concluded only primary school or junior high school; among their children many had dropped out of junior high school (male, 40 years old, interview, 21 May 2010). Some respondents believed that in Kota Samarinda, the number of newcomers seeking work was greater because they had more opportunities. Apart from the fact that their level of education was relatively higher, their work performance was better because they were encouraged by the goal of finding a better livelihood. On the other hand, members of local communities tended to follow the principle of taking a job after their money ran out.

FGD findings reveal three other important factors that influence the chances of a prospective worker obtaining employment:

a) Age

People in the younger age groups find it easier to obtain work than those in other age groups. Prospective workers in these groups are considered to be physically stronger and in general to have completed a satisfactory level of education. They are more readily accepted as shop assistants in the malls that are beginning to appear in Kota Samarinda. On the other hand, people in relatively older age groups have difficulty in finding work because they are regarded as less productive due to their physical limitations.

b) Gender

Relatively speaking, women have a competitive advantage by comparison with men. Information from FGDs revealed that there is a general view among timber-processing companies that female workers are more industrious, more careful, and more obedient to regulations and to superiors. In this respect they differ from male workers, who tend to be less careful, frequently absent, and prepared to stand up to their superiors. In the mining sector, however, there is a greater need for male workers because the type of work is more in keeping with the physical condition and skills of men.

c) Level of education

With the present expansion in outsourcing companies, the requirements for entering the working world are not as easy as they were a decade ago. At present, the level of education required of job applicants by outsourcing companies is senior high school, which means that jobs in the formal sector for people with a junior high school education or lower are very limited.

The tendency for increasingly more senior high school graduates to be employed in the business world in Kota Samarinda was also mentioned by a number of other respondents. A worker in a timber company, for example, said that at the time when he started work in the company in the year 2000, the number of workers with a junior high school certificate was greater than the number with a senior high school certificate. But now, the number who have a senior high school education is almost the same as the number of junior high school graduates, and the majority of the latter are new employees (male, 30 years old, interview, 21 May 2010).

4.2.1 Kota Tangerang

As a rapidly growing industrial area, Kota Tangerang offers employment opportunities that appear promising. Among the various kinds of businesses that at present absorb a lot of labor are the leather and leather-goods industries (Figure 11).

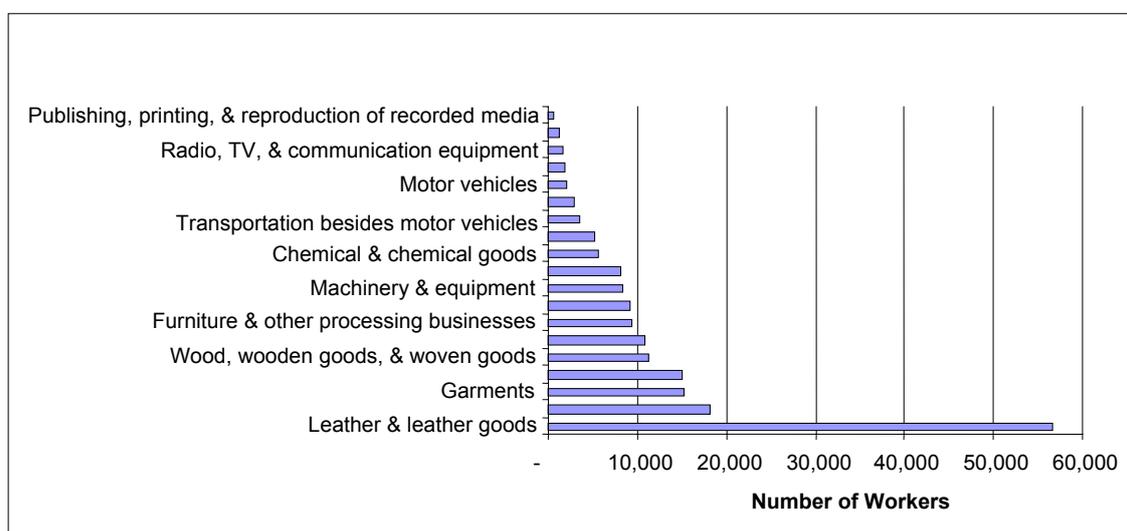


Figure 11. Number of formal workers by field of activity

Source: Dinas Tenaga Kerja Kota Tangerang¹⁰, 2009.

Kelurahan Manis Jaya and Kelurahan Pasir Jaya in Kecamatan Jatiuwung have respectively 136 and 86 companies that produce various kinds of goods, such as string/thread, pipes/hoses, spare parts/tyres for vehicles, shoes, and household furniture (Pemerintah Kelurahan Manis Jaya¹¹, 2009b; Pemerintah Kelurahan Pasir Jaya, 2009). This situation has attracted jobseekers from various regions, both in Java and outside Java, to seek employment in Kota Tangerang, the result being ever tighter competition to obtain work.

Respondents who participated in FGDs and in-depth interviews said that since 2005 it has been difficult to obtain work in a factory or company. Before that, members of the labor force found it relatively easy to get jobs by applying or going directly to a company. Requirements were relatively easy to meet, as it was sufficient to bring an identification card without a letter of application. Furthermore, educational limits were not yet too strict, which meant that even those with nothing higher than a primary school education could easily obtain jobs. After 2005, factories/companies in general introduced more complete requirements, such as an application letter, a statement of good behavior from the police, and a school certificate, which meant that to apply for work, a prospective worker had to possess a sum of money (see Table 10). In addition, companies generally stipulated an education to senior high school level or the equivalent and an age not exceeding 25 for first workers. Many companies also set additional stipulations such as body height of at least 160 cm so as to meet the needs of operating production machinery. Stipulations that were relatively less strict were usually applied in the case of piece workers.

¹⁰Kota Tangerang Labor Agency.

¹¹Administration of Kelurahan Manis Jaya.

Table 10. Documents Supporting Job Application Letters, and Costs

Type of Document	Cost (Rp)
Statement of good behavior (from the Police—lasts for three months)	50,000
Yellow card (labor agency)	15,000
Photographs 3x4 cm ² and 4x6 cm ²	15,000
Photocopies of certificates and other documents	5,000

Source: Worker, woman, 30 years old, Kota Tangerang, 10 June 2010.

Note: Some companies require prospective workers to attach the result of an X-ray, which costs Rp50,000.

As in Kota Samarinda, the findings of FGDs and in-depth interviews provided the information that the presence of a relation or connection is an important factor in obtaining work. The connection can be informal, such as a person inside the company, an official of the *kelurahan* administration, or a community figure, or else a formal institution, such as a labor-channeling foundation or an outsourcing company. The RW heads, RT heads, and community figures, who are referred to as *jaro* in one *kelurahan* in the research area, all admitted that they can channel workers to certain companies and these workers are usually their relatives or neighbors who meet the companies' requirements. One RW head stated that he usually gets jobs for around 20 workers per year in companies in his vicinity and that he is well known to the company managers (male, 62 years old, interview, 9 June 2010).

According to the statements of RW/RT heads and a number of workers, RW/RT heads do not ask for any payment from the workers whom they channel to companies. Nevertheless, workers usually give them one or two packets of cigarettes to show their appreciation after they get a job. It is a different matter if workers get jobs through an outsourcing company and are under the management of either the outsourcing company or the company that employs them.¹² Prospective workers who put in an application through an outsourcing company must pay a registration charge of Rp20,000–Rp50,000. Then after they have been accepted, they must pay a placement fee of between Rp300,000 and Rp2 million, depending on the length of the contract and their position in the company.

For that reason, the availability of money for this placement fee, which people usually refer to as “bribe money” or “smoothing money”, is an important factor in obtaining work. In some cases, the money has to be paid in full when the work contract is about to commence, while in other cases it is paid when the new worker receives his first salary. In some instances, it can be paid in installments over a period of several months.

In Kota Tangerang, the factor of place of origin, that is, whether the individual is a newcomer or a local person, can also influence his/her chances of getting work. Newcomers tend to be preferred by company managers because, apart from the fact that newcomers tend to have higher educational levels, they are also regarded as more persevering. According to one RW head (male, 62 years old, interview, 9 June 2010), the majority of newcomers have a senior high school education or the equivalent, whereas the local people have in most cases

¹²In cases where the workers are under the management of the company that employs them, the outsourcing company acts only as a channeling institution. Such practice has become increasingly widespread with the rapid growth in outsourcing companies. Obtaining workers in this way is to the advantage of companies offering work because they only have to test the applicants who have already been sorted out by the outsourcing company in accordance with the required conditions. Outsourcing companies also benefit because they receive a fee from the company giving work, the registration charge from prospective workers, and a placement fee from the workers who are recruited.

finished only junior high school. Besides that, the local workers often cause difficulties because of their “attitude”. An official of the *kelurahan* administration (male, interview, 7 June 2010) also said that in general the labor policies of companies do not favor local residents. The companies prefer to recruit newcomers because the enthusiasm of the latter for work is greater and they are always willing to observe company regulations. This is due to the fact that newcomers are under special pressure in that they have left their homes in order to seek a better life. Generally, newcomers also have at least a senior high school education, which means that this meets the Indonesia National Standard (SNI) and ISO accreditation, while the level of education of the majority of the local people is junior high school.

The results of FGDs and in-depth interviews also identified some other factors that influence the likelihood of a prospective worker getting a job:

a) Age

People in the younger age groups have the greatest chance of obtaining work because they are still strong and many companies seek workers under 25 years of age. Young adults can still obtain jobs if they have experience, have a connection in a company, or can afford to pay bribe money. By contrast, those in the adult group have the greatest difficulty in getting work because they are regarded as no longer productive and their experience is often not suited to the demands of the market.

b) Gender

Women have greater opportunities because many garment, shoe, and food companies need female workers. Demand for male workers is more limited because many companies use machines that enable them to produce thousands of items with one operator. Female workers are also preferred because they do not make many comments; are more industrious, persevering, orderly, and attractive; and do not smoke (that is, they do not waste time smoking), whereas men often demonstrate and argue if they are reprimanded by their superior.

c) Education

Workers with a junior high school education or lower have greater difficulty in obtaining a job because many companies now require workers to have a senior high school education at the minimum. However, they can easily get work if someone inside the company helps them. Workers with a senior high school education can obtain work more easily simply due to meeting the educational requirement. They can also get work by registering through an outsourcing company and paying for its services.

4.3 Development of Work Relations

Work relations are created because of the existence of a work agreement between an entrepreneur and a worker. In general, work agreements can be divided into two groups, those in which the period of time is indefinite (PKWTT) and those that are valid for a fixed period of time (PKWT). Workers who are employed under a PKWTT become permanent workers, without or else after a probationary period of three months at the most. Those who work under a PKWT become contract or piecework workers because a PKWT is based on an agreed period of time or the completion of a certain task.

Workers can be recruited directly by a company that offers work or they can be recruited through another company. This other company is usually referred to as an outsourcing company and the workers are called outsourced workers. Outsourcing involves a company working together with another company through a transfer of some of its work. The practice of outsourcing has been

known in Indonesia for a long time, but the government regulated it formally only in 2003 through Law No. 13/2003 on Labor. According to this law, a company can transfer the implementation of part of its work to another company through a written agreement to let out work or to recruit workers via this other company to do the work. Outsourcing was further regulated in Decree of the Minister for Labor and Transmigration (Kepmenakertrans) No. 220/2004 on the Conditions for Transferring Part of Work to Another Company. It was hoped that regulation through the law and ministerial decree would protect outsourced workers.

In the study location, work relations between workers and companies experienced a shift related to the status of workers and the companies that recruited them. Up until the beginning of the 2000s, workers in Kota Samarinda and Kota Tangerang were generally recruited directly by companies seeking workers and were appointed as permanent workers without or sometimes after a probationary working period of around three months. After that time, workers who had just been recruited could rarely become permanent workers. They were usually only contract workers or piece workers. Some of them were recruited directly by the company that was employing the workers, while others were recruited by an outsourcing company.

The practice of outsourcing has undergone rapid expansion since around 2005. According to a number of respondents, this expansion was, among other things, triggered by the announcement of Law No. 13/2003, which was the first attempt to regulate the outsourcing system. At the same time, the law functioned as a means of disseminating information, as well as promotion, of this activity. In the case of Kota Samarinda, expansion in outsourcing was also encouraged by the decline in the timber industry, which caused many timber companies to become bankrupt and forced them to dismiss large numbers of workers. The consequence was that the companies had to pay large amounts of severance pay.

Various sources have said that there is now a balance between the proportion of permanent workers and the proportion of contract workers/pieceworkers in industrial businesses in Kota Samarinda (labor agency official, male, interview, 20 May 2010; *kelurahan* administration official, male, interview, 21 May 2010; and RT head, male, interview, 23 May 2010). It appears that in coming years, managements will increasingly expand the proportion of contract workers, particularly in companies that employ poorly skilled workers.

Outsourcing companies establish direct connections with companies that provide jobs by making an agreement or contract to carry out certain work during a certain time and at a certain cost. Outsourcing companies have direct contact with workers and are free to determine work agreements with the workers whom they recruit. This means that, in work relations, the company that gives work makes an agreement with an outsourcing company and the outsourcing company makes an agreement with the workers.

According to Article 65 of Law No. 13/2003, the work that can be transferred to an outsourcing company must meet certain stipulations. Among others, these include the fact that the activity must be carried out separately from the company's core activity and must form a supporting activity of the company. In practice, however, the work that is transferred to an outsourcing company is not limited just to supporting activities but also includes core activities such as production. In fact, according to many respondents, outsourced workers and permanent workers in some companies do the same work in the production division and they work together.

According to an official of the Kota Samarinda Labor Agency (male, interview, 20 May 2010), the involvement of outsourcing companies in the core activity of companies has occurred because the situation of timber businesses at present is slow and unstable. The same opinion was put forward by an official of Apindo in Kota Samarinda (male, interview, 25 May 2010). According to a member of the management of an outsourcing company in Kota Tangerang (male, interview, 14 June 2010), this occurred, among other reasons, because the difference between core and supporting work was not clear. Furthermore, since the regulation itself did not give a clear boundary between what was meant as core work and what supporting work referred to. According to the head of a labor union in Kota Tangerang (male, interview, 15 June 2010), this happened because, on the one hand, the government's supervisory function did not run well, but, on the other hand, there was strong backing for outsourcing companies, many of which were owned by people in decision-making circles, such as the staff of the labor agency, members of the legislature, and officials/former officials of labor unions. "The thief screams out thief," so the saying goes. The same can be said of certain labor union activists who shout out against outsourcing but quietly manage outsourcing businesses (male, Kota Tangerang, interview, 15 June 2010).

The above information indicates that there are infringements of several of the articles in Law No. 13/2003. If employees, officials, or activists in institutions that are supposed to arrange and supervise work relations between companies and workers become the managers of outsourcing companies, there is a strong possibility that a conflict of interests will occur. The further consequence is that protection of workers will become increasingly weak.

Some outsourcing companies also have a close relationship with companies that provide employment, such as a family connection between the owner of a company that gives work and the owner of an outsourcing company or a relation between a company and its business unit (subsidiary company). Perhaps because of this situation, there are many outsourcing companies in Kota Samarinda that have their office within the companies that offer work.

For a company that gives work, outsourcing is a promising alternative work practice because by transferring a part of the management and implementation of its work to another party, the company can concentrate more on its core work in the hope of encouraging the expansion of its business. By using outsourcing, the company that gives work can operate in a more efficient way because it no longer has to handle workers directly. Furthermore, in recent years, many companies have had to face problems triggered by events that have affected the country's economy, such as the 1997/98 monetary crisis, the rise in fuel prices, and the global financial crisis of 2008/09. Because of these events, commercial activities have experienced uncertainty. In a situation of this kind, many companies have not been prepared to employ permanent workers with all the consequences that this would involve, especially the giving of severance pay if the company had to put off workers when facing a decline in or closure of its business.

Another party that benefits from the practice of outsourcing is the outsourcing company itself because this activity can produce a quite large profit. On the other hand, the losers are the outsourced workers because they remain only contract/piece workers (not permanent workers). Generally, they do not obtain the same amount or type of allowance that is received by permanent workers (food money, transport money, Jamsostek¹³, uniforms, and THR¹⁴) and are very exposed to nonsecurity in employment.

¹³Jamsostek, or Social Security for Labor, is a social security for formal private workers.

¹⁴Special holiday bonus.

The work contract can be renewed only after 30 days have passed since the end of the old PKWT and this can only be done once with a contract duration of two years at the most. This means that a contract worker can at the most be contracted three times or for five years, but after two contracts or during the first three years, there must be a gap of at least 30 days.

In practice, contract workers in the study area are usually on contracts that run for different periods of time and vary in length from one month to one year. After their contracts end, some workers receive an extension but some do not mainly because work is limited due to fluctuations in orders or a shortage of raw material. Restriction to two contracts in the first three years is not always carried out. Many respondents were found to have been given short-term contracts several times in sequence. They had no objection to this situation because they needed work. An Apindo official in Kota Samarinda (male, interview, 25 May 2010) admitted that the practice of work contracts that exceeded the stipulation of three times in sequence was still carried out because the business situation was not yet stable.

Companies usually impose a work contract period of three years as the maximum cumulative limitation for a contract worker. According to respondents, in the places where they worked, there were no workers who had been on contract for more than three years. Usually, if the cumulative contract period of a worker had already reached three years, his contract would not be extended any further. On the other hand, if a company very much needed a certain worker, the worker concerned would be asked to continue working on the usual wage but without a contract for 30 days, although this rarely occurred.

Regulations concerning contract periods are basically intended to protect workers. After a worker had gone through the time periods and the number of contracts that were permitted and was still being employed by a company, that worker had to be promoted to the status of a permanent worker. However, in practice, the objective of protection of contract workers was not achieved. In reality, contract workers were disadvantaged because, while companies tried not to infringe these regulations, they did not want to accept the consequences of contract workers becoming permanent workers. Among the strategies adopted by companies was the setting of an empty period between work contracts so that during this empty period the worker did not lose his income (see the explanation above) or else the company did not extend the contract after the worker had been on contract twice although the company may still have needed the worker and he/she had performed well. With a practice of this kind, any guarantee of security in employment for a contract worker became increasingly small.

4.4 Security in Employment

In both Kota Samarinda and Kota Tangerang, respondents generally said that since 2005 it has been extremely rare or even unknown for factory workers to be made permanent workers. The workers who were recruited by companies offering work or outsourcing companies have become only contract or piecework workers. In fact, some companies asked permanent workers to resign with a certain amount of severance pay and then to apply to be recruited again as contract workers.

Given these conditions, another major problem faced by workers is security in employment. The industrial world, which appears to be extravagant, in reality cannot always give a guarantee of security in employment for workers. Among workers, there is a general unrest about uncertainty in employment security. Many workers have contracts of only between two and six months. There are only a few whose contracts are for a relatively long period time such as one

to two years. Security in employment for those who do piecework is even less guaranteed because they are usually called only when a company receives an order that it cannot complete on time with the existing number of workers.

Lack of a guarantee of security in employment to a certain degree causes workers to be anxious in doing their work and this in turn could affect their performance. Besides that, they must always be ready to look for other employment, as the following worker said:

I hope to be able to become a permanent worker so that every three months I don't have to be concerned about the end of my contract and won't have to worry about looking for and applying for a job through an outsourcing company (female, 24 years old, Kota Tangerang, interview, 11 June 2010).

The low level of security in employment is also indicated by the fact that the majority of respondents had moved from one place of employment to another two or three times, even though they are classed as young workers. The reasons for moving were that they were dismissed because the company reduced production or else became bankrupt. Some were dismissed because they had made an error of some kind or were frequently absent, including absent because of illness. Some stopped working because their contract had ended. In a few cases, the reason was that they themselves wanted to stop working.

The question of security in employment was felt by workers in all age groups, not only the young and young adult groups but also the adult groups. According to the findings of an FGD, people in the young group tended to be the most susceptible because they had just entered the working world and were regarded as lacking in experience, their work ethic was relatively lower, and their status was generally still that of contract, piecework, or daily workers. For the adult group in Kota Samarinda, the question of security in employment was related more to a company's preference to reduce the number of workers aged 35 and over in anticipation of a decline in its volume of production due to the supply of wood being less.

In terms of level of education, workers with a junior high school education or lower were more likely to be dismissed because their low educational level did not meet ISO standards. On the other hand, if seen in terms of gender, male workers were more prone to dismissal because they tended to be hard to manage and to break regulations by, for example, causing provocations, fighting, and being absent. On the other hand, female workers, especially newcomers, had the tendency to give up work when they had a child. They preferred to look after the child themselves because they had no one else to do it; in any case, it was difficult to find a baby sitter and to pay one was also hard because the salary that was required was not very different from what they themselves received.

A tendency was also found for companies to break the contracts of contract and piecework workers approaching *Lebaran*¹⁵ (Eid ul-Fitr) in order to avoid having to give them the annual THR. The bargaining position of these groups of workers was indeed very low because, apart from the fact that their status enabled the company to be free to determine work contracts, these groups did not belong to labor unions. According to an official of a labor union in a company (male, Kota Tangerang, interview, 14 June 2010), contract workers in his company could not become members of the labor union because the outsourcing company that employed them could not be regarded as the place where they worked.

¹⁵Islamic festival at the end of Ramadan.

For permanent workers, security in employment was more guaranteed. One reason was that permanent workers usually belonged to a labor union. Another was that the process of breaking work relations was rather complex and the workers had rights to severance pay, which had to be paid by the company. When business was slow, companies tended to adopt certain strategies to avoid dismissing workers. The strategies, usually carried out in sequence by a company, were to reduce working hours, reduce working days, temporarily suspend workers from employment¹⁶, and finally dismiss workers.

In cases where workers faced a very bad situation in the form of dismissal, they took a number of measures to solve the problem. These included returning to their homes in their place of origin. Since in many industrial locations the majority of workers were newcomers, this was one way to “save” themselves (temporarily) and then start restructuring their lives. They could do this because of the firmly rooted culture in their hometown which placed each individual within the ties of an extended family. Half of the population of Kelurahan Bukuan in Kota Samarinda, for example, left this *kelurahan* when the local timber factories in which they had been employed closed down. A second approach was to try to find formal work in another company. This approach was more commonly taken in Kota Tangerang because, with the large number and wide variety of businesses available in this *kota*, it was still possible for former workers to obtain jobs in other companies. This approach, however, had constraints in the form of age, educational level, skills, and the lack of a connection or bribe money. The third approach was to undertake other employment of an informal nature such as farming, selling, or construction work. In the case of workers in Kota Samarinda, this approach was taken by former workers after a fairly long period of time had passed. In the beginning, most workers faced a mental obstacle in transferring to the new kind of work because in general their status as industrial workers was higher than the status related to any other work that they could obtain. Besides that, in the technical sense of skills, workers who had been dismissed encountered difficulty in adjusting to new work. Box 3 describes the experiences of a respondent who had been dismissed and finally tried to run a business himself, after experiencing difficulty in obtaining other work.

¹⁶Employees temporarily suspended from employment still received their wages and were called back if there were production activities.

Box 3

Security in Employment and Entrepreneurship

Abidin was a worker who had been born in Bandung and had graduated from a technical vocational high school (STM). He was married and had two children. His wife was the daughter of a transmigrant from Java who had come to Kota Samarinda in 1962. Abidin and his family lived in their own home, which he had built on the land of his parents-in-law. Abidin had been building the house since 2004 and even now it is not completely finished. He even made the concrete bricks for the house himself. Meanwhile, his wife spent most of her time looking after their children at home. For the last month, however, Abidin has been working as a daily piecework worker at a wage of Rp30,000 per day.

Abidin has worked in various places such as at a gas company in Sumatra. In 1999, he worked in a timber company as the operator of a lathe. Because of the streamlining of the company due to difficulty in getting raw material, he was dismissed in 2005 and given severance pay of Rp14 million, a sum of money that he described as “reasonable”. In 2006, Abidin was accepted to work at a company located in a certain village. On the first day that he worked, however, the local people protested about the company accepting workers from outside the village. Since then, he has had difficulty in obtaining work and has been forced to take odd jobs such as employment as an artisan in various development projects.

Since the beginning of 2010, Abidin has been a self-taught mushroom grower. He develops the seeds himself, after studying the way to cultivate mushrooms from books for two years. The seed nursery, which he constructed next to his house, can hold 1,500 seedlings, but at present it contains only 300 seedlings because he is short of capital. Each seedling is worth Rp3,000 and after they have been looked after for three months, the seedlings can be harvested and sold at a price of Rp15,000. The mushrooms are generally sold in the Kota Samarinda market. Usually, the mushrooms are completely sold out within no more than an hour.

Source: worker, male, 34 years old, Kota Samarinda, interview, 21 May 2010.

4.5 Living Conditions of Young Workers

According to Rahayu et al. (2008),

The mission to be accomplished by economic development is an increase in the income of the people so as to give birth to communities that enjoy a rise in welfare in a relatively equitable way. Accomplishment of this mission requires great and continuous efforts. At present, the conditions of the labor market are characterized by a high level of unemployment, a low level of labor absorption in the formal sector, a low level of education among the labor force, and a low level of productivity. At the same time, since the reform era, the Indonesian labor market has tended to be inflexible because it is over regulated to the point where it has given rise to a high-cost economy and obstructs investment as well as the creation of new employment.

Empirically, there are countries in which the welfare of the people has undergone a rise after they were able to shift their economy from an agrarian to an industrial structure, irrespective of whether this shift was due to market dynamics (natural) or the pressure of government policies. For the last three decades, the policies of the Government of Indonesia have shown a tendency to shift the structure of the economy towards industry (Purwanto, 2003; Tjandraningsih and Herawati, 2009). In view of Indonesia’s large population and natural wealth, this policy was not chosen without good reason. The following is a picture of the conditions of workers in two communities whose lives depend on and who live in the spaces between the rows of dozens of factories that are the result of industrialization policies in Indonesia. No definite figures were obtained for the number of young workers in these two locations, but the results of general observations of the workers who go in and out of the factories and live in the vicinity of the factories indicate that there are many workers of a young age, that is, less than 35 years of age.

Employment in and around the factories consists of two main kinds of work: managerial and nonmanagerial (Purwanto, 2003). In general, managerial workers consist of company leaders, administration employees, and supervisors or foremen. Nonmanagerial workers consist of implementers/operators, security officers, drivers, and unskilled workers such as those who load and unload goods and those who handle cleaning. The existence of managerial and nonmanagerial work stratifies workers by position and awareness as “the group that gives orders” and “the group that takes orders”. In most factories, the latter group forms the majority and can in fact consist of more than 90% of all workers in a factory.

4.3.1 Level of Wages

According to Article 88 of Law No. 13/2003,

- (1) Every worker/laborer has the right to receive an income that meets proper living needs for a human being.
- (2) To provide an income that meets proper living needs for a human being as intended in section (1), the government has established wage policies that protect workers/laborers.
- (3) Wage policies that protect workers/laborers as intended in section (2) above include:
 - (a) minimum wage;
 - (b)
- (4) The government sets a minimum wage as intended in section (3) subsection (a) based on proper living needs and taking into consideration productivity and economic growth.

It is clear that the Labor Law requires the government to set a minimum wage that is based on the KHL. In practice, in Kota Tangerang, for example, the minimum wage is set based on the findings of a survey carried out separately by four institutions, namely the local labor agency (the local government), Apindo (entrepreneurs), labor unions (workers/laborers), and independent parties (universities/research institutions). During the last two years, Apindo of Kota Tangerang has not undertaken a minimum wage survey. According to an official of a labor union, it is feared that this could constitute a reason for companies to avoid being tied by a decision concerning the minimum wage (male, Kota Tangerang, interview, 14 June 2010). As it turned out, this fear was well founded because, according to the explanation given by an official of a PUK, 75% of the 1,858 industrial businesses in Kota Tangerang were still paying workers at rates below the minimum wage (male, Kota Tangerang, interview, 15 June 2010).

Basically, the labor law prohibits entrepreneurs from paying wages below the minimum wage. In the case of entrepreneurs who cannot afford to pay the minimum wage, the law allows for a deferment. This deferment, however, can only be obtained through a method that is regulated in a ministerial decree (see Article 90 of Law No. 13/2003). When individuals from various institutions who should function as the protectors of workers start getting involved in managing outsourcing companies, it is difficult for workers to obtain protection in a just manner through the enforcement of labor legislation.

The minimum wage is calculated on the basis of the KHL of an unmarried worker. This means that the minimum wage does not provide any allowance for a worker’s wife/husband and children, unlike the structure of a civil servant’s salary. Even the length of the period of work is not taken into consideration in the calculations of the minimum wage. Based on these points and the results of observations of the conditions of the daily lives of workers, a PUK official concluded that the minimum wage of workers cannot meet the KHL (male, Kota Tangerang, interview, 15 June 2010).

From interviews with 52 factory workers, it was found that the majority received wages in accordance with the minimum wage, which at the time was Rp1,047,500 in Kota Samarinda and Rp1,030,000 in Kota Tangerang. Some of them received a slightly higher wage if there was overtime or if the company gave additional money in the form of an allowance for a worker's position or a food allowance. In general, the company where they worked applied the minimum wage as a basic salary for all workers without differentiating by length of work period, marital status, gender, age, and level of education (primary school to senior high school). In connection with the length of the period of work, such application of the minimum wage infringed the regulations because according to the labor law, the minimum wage was the lowest wage for new workers or workers with a work period of less than one year. In connection with marital status, the application of the minimum wage, which—according to the labor law—is aimed at meeting the KHL, did not in fact observe the law because the KHL, which is used as the basis for determining the minimum wage, takes into account only the needs of a worker who is a bachelor. Infringements in the application of the minimum wage by a number of companies can be seen more clearly from the statements of more than a quarter of respondent workers who received less than the minimum wage.

Tjandraningsih and Herawati (2009) found several similar matters, such as the fact that (i) the minimum wage is based on only the needs of a worker who is single; (ii) the minimum wage tends to be set as the maximum wage; (iii) the minimum wage is applied to all workers, irrespective of the length of their work period; and (iv) the minimum wage is still far below the monthly physical, nonphysical, and social needs of workers in seeking to obtain a proper life. When faced with the culture of the community that lives within the social bonds of the extended family, a single worker's minimum wage, which does not meet the requirements of a proper life, causes the life of a worker to be increasingly a matter of concern. In the culture of the extended family, it is not just workers who are already married that are responsible for the life of the family; many bachelors have family members whose lives depend on their earnings.

Although some workers know about the minimum wage stipulations, they do not dare put forward any objections and are forced to keep on working because they realize that their bargaining position is very weak and they have no alternative work that is better. A worker in Kota Samarinda who had been working for more than a dozen years said that he kept working in the company even though his salary was only equivalent to the minimum wage because if he did not work in this company, it would be extremely difficult for him to find other employment, especially since he was already over 40 years of age (male, Kota Samarinda, interview, 25 May 2010).

The fact that workers are forced to keep working, even though their earnings do not meet the basic requirements of a proper life, encourages them to keep trying to find a way to survive. Among the different ways that they adopt are the following. First, both husband and wife may work in a factory; if they cannot both be employed in a factory, one of them takes up some kind of business, such as running a *warung*, farming, or itinerant selling/selling goods on credit. Besides that, the wife might get nonfactory work that is limited to women such as looking after a neighbor's child, while the husband might get nonfactory employment as a construction worker, or else loading and unloading goods, or driving an *ojek*. Second, they economize on their shopping by reducing the quality and amount of goods that they buy. Third, they ask their parents for help, including leaving their children with the parents. Fourth, they buy goods on credit. Fifth, they ask for and make use of bequests from parents, especially bequests in the form of land and/or housing.

4.3.1 Housing

The places where workers live in factory locations vary. Some live in a flat, rented cubicle in a house (*rumah petak*), rented room in a tenement house (*bedeng*), rented single, company dormitory, their parents' or relatives' homes, or their own home. In general, each room is occupied by at least two people. An unmarried worker usually lives together with a relative or fellow worker, while a married worker lives with the husband/wife. Among the couples, some already have children. A room measuring approximately 3 x 4 m² is the place where all the activities of all occupants are carried out. Eating, watching television, doing domestic work such as cooking and ironing clothes, sleeping, and, for children, playing: everything is done in this room. During the day, mattresses are rolled up or placed against the wall to provide space for these family activities.

In Kelurahan Bukuan in Kota Samarinda, there is a company that provides a dormitory for single female workers whose employment status is permanent. They can live there free of charge. Because free dormitory is provided, in the interests of justice for all workers, the company provides a housing allowance for permanent workers who live outside the dormitory. In Kelurahan Manis Jaya in Kota Tangerang, there is a flat where rooms can be rented at a cost of between Rp130,000 and Rp350,000 per month, depending on the size of the room. A charge of Rp300,000 already includes the cost of electricity and water. The capacity of the flat is 540 rooms; obviously this is not sufficient to meet the needs of the many thousands of workers employed in the 86 factories located in this *kelurahan*.

Most of the other workers in Kota Tangerang live in rented *bedeng* located between the buildings of large factories. The flat and rented *bedeng*, as well as their surrounding environment, appear to be uncared for (Figure 12). The houses of poor farmers in rural areas are generally more comfortable to live in than the flat and *bedeng*. The cost of renting a *bedeng* room is about the same as the rental of a room in a flat, that is, between Rp150,000 and Rp350,000 per month. In several places, the occupants of the *bedeng* still have to spend Rp20,000 per week on water for drinking and cooking. The bathroom and lavatory in most *bedeng* are used in common by all occupants of the *bedeng*. The location of these facilities, which are often at some distance from the *bedeng* and rooms, makes it difficult for occupants to use them, especially at night.



Syaikhul Usman, SMERU

Figure 12. A row of rented *bedeng* rooms for workers with neglected surroundings in Kota Tangerang

In general, the conditions in which industrial workers live in Kota Samarinda are relatively better than those in Kota Tangerang. In Kota Samarinda, industrial workers usually live in their own home, a house owned by their parents, or a rented house of adequate size; whereas in Kota Tangerang, most live in narrow rented rooms. With such conditions, interviews with workers in Kota Samarinda for purposes of the present study, for example, were done inside the house (Figure 13), even though it was rare to find a table and chairs. In Kota Tangerang, however, most interviews were conducted on the terrace of the rented room where the worker lived (Figure 14).



Syaikhu Usman, SMERU

Figure 13. An interview with a worker inside a house, Kota Samarinda



Hastuti, SMERU

Figure 14. An interview with a worker on the terrace of a rented room, Kota Tangerang

V. CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

- a) The shift in the structure of the Indonesian economy from agriculture to industry which in theory was expected to raise the quality of life of the community did not do so in many cases. In all study locations, the conditions in which industrial workers live are still a matter of some concern. This is reflected in the level of wages, which do not meet the KHL. Workers can afford to live with only what is available and they occupy small rented rooms and barracks in very bad surroundings.
- b) The limited linkage of the Indonesian economy with the global economy meant that the impact of the 2008/09 GFC was not felt very strongly. The GFC affected only industries that were export-oriented or that used imported raw materials. The effect of the GFC on industry lasted for a relatively short period of time, that is, around three months on average, and, therefore, workers and communities on the whole did not feel it.
- c) Employment in the industrial sector became increasingly limited because growth in the labor force was not accompanied by expansion in jobs. As a result, to obtain jobs, potential workers had to have a connection and a sum of money for bribes. This practice of bribery in order to obtain work has become more widespread since the development of the process of recruiting workers through outsourcing companies.
- d) In general, employment for workers in the young group is more open, but in terms of status, the majority of these workers are contract, piecework, or daily workers. The consequence is that security in employment is not guaranteed, as they are susceptible to loss of jobs or to dismissal. Companies also frequently reduce these workers' basic rights as in the case of payment of wages and allowances. In fact, based on regulations, as workers they should receive standard treatment that is more or less the same as that given to permanent workers.
- e) The tendency for companies in the industrial sector to recruit workers with at least a senior high school, or the equivalent, education means that jobs for workers with a lower level of education are increasingly limited. Even if they can obtain work, their bargaining position relative to the company is very weak.
- f) Government policies aimed at protecting workers and helping companies are not implemented in keeping with regulations because they are not accompanied by a good, strict system of supervision; the result is that they are more to the disadvantage of workers such as the practice of outsourcing and application of the minimum wage. The practice of outsourcing is not limited to supporting work but also takes in core work. The minimum wage is applied not only to workers who have a work period of less than one year but also to those who have a longer work period.
- g) The weakness of the supervisory system also leaves open opportunities for companies to seek the greatest possible profit, for example, by keeping the proportion of permanent workers as small as possible and replacing these workers with contract and/or piecework workers, most of whom are recruited through outsourcing companies. The earnings and facilities received by outsourced workers tend to be lower than those that permanent workers receive. Work relations through the outsourcing system do not guarantee security in employment for these

workers because this system depends very much on the availability of work and the time limits of contracts that are usually made very short.

- h) Workers who have been dismissed from certain industries that have gone out of business, such as the timber industry, have trouble in obtaining new jobs because their skills are not suited to the needs of the market. Besides that, dismissed workers who have been employed for quite a long time in the formal sector need a certain period of time to accept the fact and to be willing to make adjustments in order to enter the informal sector as farmers, construction workers, and merchants.
- i) Returning to the place of origin, which is supported by the culture of the extended family in that place, represents social capital that functions as a safety net for the majority of dismissed workers who often move from one place to another to seek employment. This culture not only saves dismissed workers but also reduces the social burden for the region which they have left.

5.2 Recommendations

- a) So that there will be no negative implications for the welfare of workers and harmonious industrial relations can be created, outsourcing must be carried out in accordance with stipulations, that is, only for supporting work.
- b) Outsourced workers need to obtain protection or rights that are equivalent to those of permanent workers in such matters as wages, freedom to form unions, welfare allowances, and the breaking of work contracts.
- c) The tendency of companies to make short contract periods (1–3 months) means that workers have increasingly less security in employment. For that reason, stipulations about the length of time for a work contract, as contained in Law No. 13/2003 on Labor, which do not set a minimum limit, need to be revisited.
- d) The tendency of the industrial sector to make it a condition for workers to have a minimum educational level of senior high school requires the government and relevant stakeholders to think about and provide a way out for members of the labor force who have a junior high school education or less, as their proportion is 69% of the total labor force. This can be carried out, among other ways, by:
 - (1) Encouraging, as well as creating more opportunities for, the improvement of education and skills in the labor force through the provision of affordable study packets that are well programmed;
 - (2) revitalizing the agricultural sector and ensuring equitability in the development of infrastructure throughout Indonesia, including in border regions. In order to develop infrastructure that is linked to strategies to provide employment, there is need for policies that mobilize all resources in a well-thought-out manner with the support of national agreement.
- e) In keeping with the mandate of the 1945 Constitution, every citizen has the right to obtain a proper livelihood. Hence, the government is obliged to guarantee that workers receive a minimum wage that is in accordance with standards to meet the KHL.

- (1) The minimum wage, in the form of the provincial or *kabupaten/kota* minimum wage or sectoral minimum wage, must be set at least at the same level as the KHL.
 - (2) The minimum wage must be treated as a social safety net in the form of the lowest wage for a worker with a work period of less than one year.
- f) To ensure that the various regulations on labor are applied, there is a need for a strict system of supervision and the imposition of firm sanctions.
- (1) To support this, the various agencies and institutions related to labor matters must work consistently in keeping with their own respective basic tasks and functions with the support of an adequate number of personnel and an adequate budget.
 - (2) To avoid any conflict of interests, those parties that are connected with the making or supervision of labor policies and activists from labor unions are forbidden to be involved in the ownership or management of outsourcing companies.
 - (3) In an attempt to increase transparency and accountability, it is necessary to make available an open mechanism for supervision and complaints handling that will make possible the involvement of the wider public.

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