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**Minimum Wage in Indonesia**

***Salário Mínimo na Indonésia***

**Campinas  
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**UNIVERSIDADE ESTADUAL DE CAMPINAS**  
**INSTITUTO DE ECONOMIA**

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**MINIMUM WAGE IN INDONESIA**

***SALÁRIO MÍNIMO NA INDONÉSIA***

**Prof. Dr. Paulo Eduardo de Andrade Baltar – Orientador**

Dissertação de Mestrado apresentada ao Programa de Pós-Graduação em Desenvolvimento Econômico, área de concentração: Economia Social e do Trabalho do Instituto de Economia da Universidade Estadual de Campinas para obtenção do título de Mestra em Desenvolvimento Econômico, área de concentração: Economia Social e do Trabalho.

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## RESUMO

A Indonésia é um país que tem heterogeneidade em vários aspectos da vida, incluindo seus recursos, tais como fatores geográficos, sociais e econômicos. O emprego na Indonésia é um desses fatores interessantes a serem explorados. O salário mínimo é uma questão muito fundamental no emprego. Na Indonésia, a questão do salário mínimo não é apenas econômica, mas também envolve as questões políticas contidas em leis trabalhistas. Este estudo explora o salário mínimo na Indonésia durante várias épocas políticas: antes de 1980, em 1998 e 2010. Devido às limitações dos dados, estudo usa os dados selecionados que satisfazem os fins da presente pesquisa. A Indonésia ainda não tem um sistema de salário mínimo nacional. As evidências deste estudo sugerem que existem diferentes salários mínimos para cada província. Os dados analisados neste estudo avaliam o salário mínimo de quatro províncias em cada uma das regiões Oeste e Leste, e cinco províncias da região central da Indonésia, representando treze províncias fora da Indonésia de trinta e três, onde, quando combinados, abrangem mais de setenta por cento do total população. Alguns empregadores alegam que a fixação anual dos salários mínimos nas provinciais pode limitar a contratação e reduzir a força de trabalho, prejudicando os níveis de produção. No entanto, os baixos salários impedem os trabalhadores de terem uma vida digna. O autor argumenta que a fixação do salário mínimo é necessária para respeitar a dignidade dos trabalhadores como seres humanos, conforme a *UUD 1945*, Constituição da República da Indonésia. A fixação do salário mínimo não é suficiente para resolver o problema dos salários em geral. É preciso melhorar o salário médio na Indonésia. A melhoria no salário médio deve aumentar a desigualdade salarial, caso não haja um aumento no salário mínimo. Então é necessária uma política para melhorar os salários e, simultaneamente, reduzir a desigualdade de renda. Uma possibilidade seria combinar a política de reajuste do salário mínimo com o fortalecimento dos sindicatos para negociar os salários para um conjunto mais amplo de trabalhadores e, assim, aumentar o salário médio.

**Palavras-chave:** Indonésia em heterogeneidade, salário mínimo, lei e prática política para o salário mínimo, melhoria do sistema de salários.

## ABSTRACT

Indonesia is a country that has heterogeneity in various aspects of life, including its resources, such as geographical, social, and economic factors. Employment in Indonesia is one of these interesting factors to be explored. The minimum wage is a very fundamental issue in employment. In Indonesia, the minimum wage issue is not only economic but also involves the political issues contained in employment laws. This study explores the minimum wage in Indonesia during several political eras: before 1980, in 1998, and 2010. Due to data limitations this study uses the selected data that satisfies the purposes of this research. Indonesia does not have a national minimum wage system yet. The evidence from this study suggests that different minimum wages exist in each province. The data examined in this study evaluates the minimum wages of four provinces in each of the West and East regions and five provinces of Central region of Indonesia, representing thirteen provinces out of Indonesia's thirty-three, where, when combined, over seventy percent of the total population resides. Some employers allege that the yearly fixing of the provincial minimum wage forces them to limit hiring and reduce their workforce, hurting production levels. However, low wages prevent workers from having a dignified life. The author argues that fixing the minimum wage is necessary to respect the dignity of workers as human beings, as mandated by *UUD 1945*, the constitution of the Republic of Indonesia. The fixing minimum wage is not enough to solve the wages problem in general. It is need to improve the average wage in Indonesia. The improvement in the average wage should increase wage inequality, without an increase in the minimum wage. Then it is necessary a policy to improve wages and simultaneously reduce income inequality. One possibility would be to combine the policy of the minimum wage increase with the strengthening of unions to bargain wages for a broader set of workers and thus raise the average wage.

**Keywords:** Indonesia in heterogeneity, minimum wage, law and political practice on the minimum wage, improving wage system.

## **LIST ABBREVIATIONS**

ADB	Asian Development Bank
ASEAN	Association of South East Asian Nation
BI	Bank of Indonesia
BPS	Badan Pusat Statistik/Central Bureau of Statistics
CPI	Consumer Price Index
DEPNAKERTRANS	Departemen Tenaga Kerja dan Transmigrasi (Minsterial of Manpower)
DI Yogyakarta	Daerah Istimewa Yogyakarta/Special Region of Yogyakarta
DKI Jakarta	Daerah Khusus Ibukota Jakarta/Special area of capital city of Indonesia.
GDP	Gross Domestic Product
GNI	Gross National Income
IFLS	Indonesian Family Life Survey
ILO	International Labour Organization
KFM	Kebutuhan Fisik Minimum/Minimum Psysical Needs
KHL	Kebutuhan Hidup Layak/Needs of Decent Living
KHM	Kebutuhan Hidup Minimum/Minimum Life Needs
LABORSTA	Labour Statistics
NIC's	Newly Industrialized Countries
RGDP	Regional Gross Domestic Product
UN	United Nation
UNDP	United Nation Development Program
UNSTATS	United Nation Statistics
USA	United State of America
UUD 1945	Undang-Undang Dasar 1945, Constitution of Indonesia year 1945

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## INTRODUCTION

This paper examine about minimum wage in Indonesia. The studies divided into two chapters are:

1. Chapter 1 examine about “Economic characteristics of Indonesia”
2. Chapter 2 examine about “Wage and Minimum Wage in Indonesia”

Indonesia geographically lie in Asian Region, a geographic position which influence economic and policy dynamic economic and politic. Indonesia has a prominent position in a sub-regional organization called ASEAN (Association of South East Asian Nation) which formed in 1967. This sub region is formed by the following countries:

1. Singapore
2. Brunei Darussalam
3. Malaysia
4. Thailand
5. Indonesia
6. Philippines
7. Vietnam
8. Lao People Democratic Republic
9. Cambodia
10. Myanmar

Indonesia has the largest population and GDP (Gross Domestic Product), however the GNI (Gross National Income) per capita is relatively low.

In all the countries of that sub region, export of goods and services represent a high proportion of the GDP, and there is a clear correlation between income per-capita and balance of foreign trade in goods and services.

Further comparison was doing between the countries in this sub region with a large population and high GDP. These countries are:

- Malaysia,
- Thailand,
- Indonesia
- Philippines

Here, Indonesia compare to three countries in the level of GDP. The comparison by the study shows that in the context of the ASEAN sub region, Indonesia has low income and low inequality because this country has a high proportion of total employment in subsistence agriculture and in others sectors of activity outside agriculture and fishing, income is not as high as in Malaysia and Thailand and inequality is low, as in many other Asian countries.

Further, this study examine about economic characteristic of Indonesia. Indonesia today has thirty three provinces that have different characteristics. However, this study examines thirteen provinces that are representative of the economic diversity of Indonesia.

1. Nanggroe Aceh Darussalam
2. North Sumatera
3. Jambi
4. Bengkulu
5. DKI Jakarta
6. West Java
7. Central Java
8. DI Yogyakarta

9. East Java
10. East Nusa Tenggara
11. South Kalimantan
12. South Sulawesi
13. Papua

This study characterized each province by per capita income, inequality, sectorial distribution of GDP and employment. The sectorial classification is:

- 1) Agriculture
- 2) Mining and quarrying
- 3) Manufacturing and industry
- 4) Construction
- 5) Electricity, gas and water supply
- 6) Trade, hotel and restaurant
- 7) Transportation and communication
- 8) Finance, real estate and business services
- 9) Services

After characterized each province in chapter 1, chapter 2 examine wages and minimum wages in Indonesia. The chapter beginning with fast presentation of economic structure of the country and highlight that Indonesia has a small per capita income but wages of employees represent a small percentage of the GDP. Employees also represent a small percentage of total employment and it is important study evolution of wages and self-employed income. This paper talks about this, based on study from Asian Development Bank (ADB) by Natalie Chun and Niny Khor (2010) about wage and income self-employed in 1993, 2000 and 2007.

This study shows that minimum wage increases was very important to the behavior of low wage. Minimum wage increases contribute to reduce wage inequality between 1993 and 2000

and to maintain inequality between 2000 and 2007. In the period of 1993-2000, especially in the Asian Crises, minimum wage avoided the decrease of low wages, and during the period of 2000-2007 the acceleration of increase minimum wage avoided that the recuperation of purchasing power of the wages increased wage inequality.

Based studies from Martin Rama (1996), Islam and Nazara (2000) and SMERU (20010) about minimum wage in Indonesia, it is possible assert that international complained lead Indonesia government to increase minimum wage since 1989 as a policy to increase wages. In 1996, however, an influential study by the World Bank drew the attention of the Indonesian government to the adverse consequences of the sharp increase in minimum wages (Islam and Nazara, 2000). The concern was that the increased labor cost could encourage investment in manufacturing goods for export to shift from Indonesia to others countries. The debate about this issue put a question about the endogenous character of minimum wage. Provincial wages council influences on minimum wage increases and take in account the situation of each province in term of labor market.

Finally, the last part of this chapter compare the minimum wage and average wage in the 13 provinces and examine income inequality, wage participant in GDP, employees participation in total employment and productivity of employment.

This part of the chapter study the correlation between minimum wage and average wage and compare the relative dispersion of provincial minimum wage and the relative dispersion of provincial average wage. Considerations about economic characteristic of provinces show the complexity of the role of minimum wage in each province and the difficulty for the policy to increase the level of wages with increases in provincial minimum wage.

# CHAPTER 1

## Economics Characteristics of Indonesia

The needs of the industrial revolution made the Europeans look for natural resources beyond their national boundaries. With the invention of the steam engine, industry in Europe was escalated to mass produce production of goods. Fueling this increase in production was a dramatic population growth that rapidly increased human needs of consumption<sup>1</sup>. The need for basic materials was what lies lay behind an their expansion to other continental European nations, as well as including to Africa, Asia, the Americas, as well as to colonialization. Demand for raw materials for industry encouraged economic motive to seek new areas<sup>2</sup>. Rapid industrial growth and its consequences to conditions between capital owners and workers gave rise to class struggle and the labor movement in Europe as described in the writings of Frederic Engels<sup>3</sup>.

Development of the world economy experienced a dynamic wave described in the economics of the Kondratieff wave theory.<sup>4</sup>. Economic dynamics can not be separated from the dynamic powers such as, the map of power ideology, and even financial and capital institutions. The dynamics of the industry lead to a shifting in the map of capital's power in practice. Economic differences between countries result were the more powerful underlying cause of all this the dynamics that happen occuredoccurred in the world, including like Indonesia.

In the Asia region, there is a sub economic region called the ASEAN (Association Southeast Asian Nations), founded in August 08, 1967 by five leaders - the Foreign Ministers of

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<sup>1</sup> Polanyi, K., 1944. *The Great Transformation*. Boston: Beacon Press.  
(Polanyi, The Great Transformation, 1968)

<sup>2</sup> T. de Haan, BBC, 2013. *Industrial Revolution*. [Online] Available at: [https://www.youtube.com/watch?v=JhF\\_zVrZ3RQ](https://www.youtube.com/watch?v=JhF_zVrZ3RQ) [Accessed 14 January 2014].

(Industrial Revolution, T.de Haan, BBC, [http://www.youtube.com/watch?v=JhF\\_zVrZ3RQ](http://www.youtube.com/watch?v=JhF_zVrZ3RQ), 2013) Accessed: January 14, 2013 at 14.26 pm Brazil Time

(Industrial Revolution, T.de Haan, BBC, [http://www.youtube.com/watch?v=JhF\\_zVrZ3RQ](http://www.youtube.com/watch?v=JhF_zVrZ3RQ), 2013) Accessed: January 14, 2013 at 14.26 pm Brazil Time

<sup>3</sup> Tom Clark and Laury Clement: *Trade Unions under Capitalism*, Humanities Press New Jersey 1978.

<sup>4</sup> Alexander Aivazov and Andrey Kobaykov, 200Alexander Aivazov and Andrey Kobaykov, 2008. *Nikolai Kondratiev's "Long Wave": The Mirror of the Global Economic Crisis*. [Online] Available at: <http://www.globalresearch.ca/nikolai-kondratiev-s-long-wave-the-mirror-of-the-global-economic-crisis/11161> [Accessed in 24 January 2014].

Indonesia, Malaysia, the Philippines, Singapore and Thailand<sup>5</sup>. As a founder of ASEAN, historically, Indonesia had a key role in this region. Indonesia has a prominent position in the ASEAN region.: Indonesia is a the country with a the largest population and Gross Domestic Product (GDP) (see Table 1). However, the Gross National Income (GNI) per-capita from Indonesia is relatively low (82% of the regional average and much lower than Singapore, Brunei Darussalam, Malaysia and Thailand).

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<sup>5</sup> (<http://www.asean.org/asean/about-asean/his> ASEAN, 2014. *History the Founding of Asean*. [Online] Available at: <http://www.asean.org> [Accessed in 17 July 2014].

**Table 1 - GNI Per capita, GDP Per capita, Population, Export of Good & Service and Trade Balance in ASEAN Countries in 2010**

No	Country	GNI Per capita in PPP term (constant 2005 International \$)	Population (Thousand)	GDP Total population US\$ (thousand)	Exports of goods and services (% of GDP)	Trade Balance (% of GDP)
1	Singapore	51,259	5,077	265,597,713	203.6	29.5
2	Brunei Darussalam	45,636	401	18,173,021	81.4	48.6
3	Malaysia	12,758	28,276	390,247,275	93.3	17.0
4	Thailand	7,343	66,402	530,364,563	71.3	7.4
5	Indonesia	3,775	240,677	932,174,242	24.6	1.7
6	Philippines	3,568	93,444	332,053,464	34.8	-1.8
7	Viet Nam	2,757	86,932	263,429,954	72.0	-8.2
8	Lao People's Democratic Republic	2,162	6,396	14,340,612	35.5	-2.4
9	Cambodia	1,868	14,365	27,826,081	54.1	-5.4
10	Myanmar	1,688	51,931	na	na	na
Total		4,608	593,901			

\* Data available in 2000

\*\* Data available in 1990

# United Nation Data

GNI per capita in PPP terms (Constant 2005 international \$)

## ADB Data

Accessed: January 20, 2014 at 14.43 Brazil Time

Source:

1 [United Nation Developing Program, https://data.undp.org](https://data.undp.org)

2 [World Bank, Asean Countries Development Indicator](#) (adapted)

by: Enung Yani Suryani Rukman

3 World Bank, Asean Countries development Indicator in 1990, 2000,

<http://databank.worldbank.org/data/reports.aspx>

Accessed January 04, 2014

The trading Trade with other country countries is very important for the performance of the economics of in the ASEAN region. In all the countries of that region, export of goods and services represent a high proportion of the GDP, and there is a clear correlation between income per-capita and balance of foreign trade in goods and services. Indonesia in 2010 had a surplus in foreign trade of goods and services at a level of 1.7% of the GDP. Countries in the region with a

higher income per-capita than Indonesia show a higher surplus in foreign trade and countries in the region with an income per capita that is lower than Indonesia show deficit in foreign trade.

Further, we will look at countries of this region with big a large population and big high GDP. These countries are Malaysia, Thailand, Indonesia and Philippines (and of which they are among those who formed the association ASEAN). Vietnam has big also has a large population too, but it was excluded in this study because no data is not was available to compare. This study will compare Indonesia with Malaysia, Thailand and Philippines (see Table 2).

**Table 2 - GNI Per capita, GINI Index and Urban Population and Value Added of Agriculture in NIC's of ASEAN Countries in 2010**

Country	Income per capita (US\$)	GINI Index	Urban Population (%)	Arable Land (% of land area)	Value Added	Employment	Agriculture Relatif		Non Agriculture Relatif		Relatif Productivity Non Agriculture/
							Produktivitiy Total=100	Value Added	Produktivitiy Total=100	Value Added	
Malaysia	12.758	0.462	72	5	7.7	14.0	0.55	92.3	86.0	1.07	1.95
Thailand	7.343	0.394	33	31	8.1	42.5	0.19	91.9	57.5	1.60	8.35
Indonesia	3.775	0.356	49	13	11.9	40.3	0.30	88.1	59.7	1.48	4.99
Philippines	3.568	0.430	49	18	11.1	35.3	0.31	88.9	64.7	1.37	4.39

Note: Value added in term constant price 2005 US\$

Source:

United Nation Development Program, <https://data.undp.org>  
 International Labour Organization, <https://laborsta.ilo/STP/guest>  
 United Nation, <http://unstats.un.org/unsd/snaama/selbasicFact.asp>

Accessed : Jan 21, 2014 : 16.13 pm Brazil Time

Accessed : Jan 21, 2014 : 03.49 am Brazil Time

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According with As may be seen in Table 2, Indonesia has low income and low inequality. Malaysia has an income per capita that is 3.4 times of Indonesia's income per capita and Malaysia's GINI index is 10.6 percent point higher than Indonesia. It is possible to relate the higher income and higher inequality in Malaysia to the high level of urban population. Malaysia has a small proportion of employment in agriculture and this country has a high productivity in agriculture and especially in others sector out of agriculture (Table 2).

Thailand has an income per capita that is 94% higher than Indonesia. The Thailand GINI index is 3.8 percent points more than Indonesia. Thailand has an income per capita and inequality level that is more than Indonesia but the urban population in Thailand is less than in Indonesia. The proportion of employment in agriculture is similar in Thailand and Indonesia. There is a large subsystem of low income subsistence agriculture in both countries. The average

productivity is higher in Thailand than in Indonesia, but the difference in productivity between the two countries is greater outside of the agriculture sector than in the agriculture sector. The higher income in activities outside the agriculture sector in Thailand explained the higher level and of income and inequality in this country compared to Indonesia despite the low urban population.

Philippines has an income per-capita that is 5.5% less than Indonesia. However, Philippines' GINI index is 7.4 percent points higher than in Indonesia. Philippines' GINI Index is also higher than in Thailand. Philippines has less income but a higher inequality rate than Indonesia. The Urban population rate in Indonesia and Philippines is similar but Philippines' proportion of employment in agriculture is less than in Indonesia. The difference of productivity between Indonesia and Philippines is higher outside the agriculture sector than in the agriculture sector. The greater relative importance of employment in subsistence agriculture contributes to reduce the difference in per capita income in favor of Indonesia and income inequality in sectors outside agriculture in the Philippines is high for the Asian standard.

Indonesia has some slightly more income per capita than Philippines and has smaller lower inequality. In Philippines is high the inequality in sectors outside agriculture is high. Thailand and Malaysia have also more income inequality than Indonesia but the productivity outside agriculture is very high in these countries compared to Indonesia.

In the context of the ASEAN region, Indonesia has low income and low inequality because this country has a high proportion of total employment in subsistence agriculture and in others sectors of activity outside agriculture and fishing, income is not as high as in Malaysia and Thailand and inequality is small low, as in many other Asian countries.

## **Image 1 The Indonesia MapFigure 1 Indonesia Map**



Source: One World-Nations Online, [www.indonesia\\_admin\\_map.jpg](http://www.indonesia_admin_map.jpg)

Indonesia is the largest archipelago in the world. It consists of five major islands and about 30 smaller groups of islands. The archipelago is on a crossroad between two oceans, the Pacific and the Indian, and bridges two continents, Asia and Australia. This strategic position influences the cultural social, political, and economic life of the country. Table 3 shows the administrative provinces. The 13 provinces highlighted in pink are the focus of the minimum wage study in the next chapter.

**Table 3 - Indonesia Province and Population in 2000 and 2010 (in thousands)**

NO	Province	Population in Year	
		2000	2010
1	Nanggroe Aceh Darussalam	3,931	4,494
2	North Sumatera	11,649	12,982
3	West Sumatera	4,248	4,846
4	Riau	4,957	5,538
5	Jambi	2,413	3,092
6	South Sumatera	6,899	7,450
7	Bengkulu	1,567	1,715
8	Lampung	6,741	7,608
9	Bangka Belitung	900	1,223
10	Riau Islands	-	1,679
11	Jakarta	8,389	9,607
12	West Java	35,729	43,053
13	Central Java	31,228	32,382
14	Yogyakarta	3,122	3,457
15	East Java	34,783	37,476
16	Banten	8,098	10,632
17	Bali	3,151	3,891
18	West Nusa Tenggara	4,009	4,500
19	East Nusa Tenggara	3,952	4,683
20	West Kalimantan	4,034	4,396
21	Central Kalimantan	1,857	2,212
22	South Kalimantan	2,985	3,626
23	East Kalimantan	2,455	3,553
24	North Sulawesi	2,012	2,271
25	Central Sulawesi	2,218	2,635
26	South Sulawesi	8,059	8,034
27	South East Sulawesi	1,821	2,232
28	Gorontalo	835	1,040
29	West Sulawesi	-	1,158
30	Maluku	1,205	1,533
31	North Maluku	785	1,038
32	West Papua	-	760
33	Papua	2,221	2,833
<b>INDONESIA</b>		206,264	237,641
Source: Indonesia Statistic Bureau, <a href="http://www.bps.go.id">http://www.bps.go.id</a>			
<a href="http://www.bps.go.id/eng/tab_sub/view.php?kat=1&amp;tabel=1&amp;daftar=1&amp;id_subyek=12&amp;">http://www.bps.go.id/eng/tab_sub/view.php?kat=1&amp;tabel=1&amp;daftar=1&amp;id_subyek=12&amp;</a>			

[http://www.bps.go.id/eng/tab\\_sub/view.php?kat=1&tabel=1&daftar=1&id\\_subyek=12&notab=1](http://www.bps.go.id/eng/tab_sub/view.php?kat=1&tabel=1&daftar=1&id_subyek=12&notab=1) (adapted)

Table 3 Indonesia Province and Population in 2000 and 2010 (in thousands)Source:

[www.bps.go.id](http://www.bps.go.id)

The economy of Indonesia is influenced by natural resources, its geographic position, and by socio-cultural factors. The social cultural context of Indonesia is very complex given that Indonesia's population is approximately over 230 million among with more than 30 different ethnicities. Most of Indonesia's population lives in rural areas. Cultural heterogeneity is especially predominant in the rural social life in Indonesia<sup>6</sup>. For example, on some islands of Indonesia, a culture based on hunting and gathering is still found as a primary means of survival.

Indonesia is a country that experiences conflicts of power between capitalists and labor. Employment history in Indonesia is related to the history of the Indonesian national independence in August 17, 1945. The direction of state policy is based on the Constitution of Indonesia, called the UUD 1945.<sup>7</sup> It was the basis for the government to set up policies, including those affecting employment. Indonesia's labor policies can be found in legislation and in government policies. Since 2003, labor policy formed with the influence of the legal and political interests of the three major groups: the government, capitalists and community. Here, workers are included in the community.

According to the World Bank, the percentage of Indonesia's total population that participated in the labor force was 42% in 1990, 47% in 2000 and increased to 49% in 2010. The unemployment rate was 2.5% in 1990. The unemployment rate increased in 2000 due to the Asian Crisis in 1997, while the increase of unemployment in 2010 was attributed to the global financial crisis<sup>8</sup>. According to Robert Pollin, the unemployment rates in Indonesia in 2000 and 2010 were excessively high.<sup>9</sup> The people's does not have work rate did not increased during

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<sup>6</sup> Jeroen Touwen, 2013. *The Economic History of Indonesia*. [Online] Available at: <http://eh.net> [Accessed 11 December 2013]. (Jeroen Touwen, 2013)

<sup>7</sup> "Constitution of Republic Indonesia Chapter XIV about The National Economy and Social Welfare Article 33: (1). The economy shall be organized as a common endeavor based upon the principles of the communal system. (2) Sectors of production which are important for the country and affect the life of the people shall be under the authority of the state. (3) The land, water and the natural resources within shall be under the authority of the state and shall be used to the greatest benefit of the people. (4) The organization of the national economy shall be conducted on the basis of economic democracy upholding the principles of collectivity, efficiency with justice, sustainability, environmental perspective, and self-sufficiency, as well as keeping a balance in the development and unity of the national economy. (5) Further provisions relating to the implementation of this article shall be regulated by law." [www.embassyofindonesia.org/about/pdf/IndonesianConstitution.pdf](http://www.embassyofindonesia.org/about/pdf/IndonesianConstitution.pdf), Accessed: August 16, 2013.

<sup>8</sup> Vivienne Wee, 2002. *Social Fragmentation in Indonesia: A Crisis from Suharto's New Order*. Working Paper Series 31 ed. Hongkong: Southeast Asia Research Center (SEARC). (Vivienne Wee, 2002)

<sup>9</sup> Robert Pollin, 2012. *Employment and Unemployment in Real World*. In: Immanuel Ness, ed. 3 Economic Affairs Bureau ed. Boston: Dollars & Sense. Immanuel, 2012

that time because they had difficulty to finding a new jobs. According to a study from AKATIGA and ILO Jakarta, most of the people were employed in the informal sector<sup>10</sup>. The size of the informal sector was around 66-67% in 1999, 2000, and 2009, the only years in which data is available from the World Bank.

The distribution of Indonesia's population and the result of economic performance at the provincial level is shown in Table 4.

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<sup>10</sup> Indrasari Tjandraningsih & Rina Herawati, 2009. *Menuju Upah Layak*. Jakarta: FES.

(Indrasari Tjandraningsih, 2009)

**Table 4 - Indonesia Population and GDP by Province in 2000 and 2010**

Province	Population		Population 2010	GDP		GDP Per Capita (in million rupiahs)	GDP Per Capita
	2000	2010	%	2010	%	2010	US\$
Nanggroe Aceh Darussalam	3,930,905	4,494,410	1.9	33,118,170	1.49	7.368747	2.22
North Sumatera	11,649,655	12,982,204	5.5	118,640,902	5.34	9.138733	2.76
Jambi	2,413,846	3,092,265	1.3	17,470,653	0.79	5.649792	1.70
Bengkulu	1,567,432	1,715,518	0.7	8,336,018	0.38	4.859184	1.47
Jakarta	8,389,443	9,607,787	4.0	395,633,574	17.80	41.178429	12.42
West Java	35,729,537	43,053,732	18.1	322,223,816	14.50	7.484225	2.26
Central Java	31,228,940	32,382,657	13.6	186,995,480	8.41	5.774556	1.74
Yogyakarta	3,122,268	3,457,491	1.5	21,044,041	0.95	6.086506	1.84
East Java	34,783,640	37,476,757	15.8	342,280,765	15.40	9.133148	2.75
East Nusa Tenggara	3,952,279	4,683,827	2.0	12,543,821	0.56	2.678114	0.81
South Kalimantan	2,985,240	3,626,616	1.5	30,674,123	1.38	8.458056	2.55
South Sulawesi	8,059,627	8,031,776	3.4	51,199,899	2.30	6.374667	1.92
Papua	2,220,934	2,833,381	1.2	22,407,284	1.01	7.908320	2.39
Others	56,230,849	70,202,905	29.5	660,194,504	29.70	9.404091	2.84
<b>INDONESIA</b>	206,264,595	237,641,326	100.0	<b>2,222,763,050</b>	100.00	9.353436	2.82

<http://www.bps.go.id/>

1US\$=Rp.9084, Bank of Indonesia 2010

1 year=365

[http://www.bi.go.id/biweb/Templates/Moneter/Default\\_Kurs\\_ID](http://www.bi.go.id/biweb/Templates/Moneter/Default_Kurs_ID)

Accessed: March 12, 2013

**Table 4 Indonesia Population and GDP by Province in 2000 and 2010**

Province	Population		Population 2010	GDP		GDP Per Capita (in million rupiahs)	GDP Per Capita
	2000	2010		2010	%		
			%			2010	US\$
Nanggroe Aceh Darussalam	3,930,905	4,494,410	1.9	33,118,170	1.49	7.368747	2.22
North Sumatera	11,649,655	12,982,204	5.5	118,640,902	5.34	9.138733	2.76
Jambi	2,413,846	3,092,265	1.3	17,470,653	0.79	5.649792	1.70
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West Java	35,729,537	43,053,732	18.1	322,223,816	14.50	7.484225	2.26
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Others	56,230,849	70,202,905	29.5	660,194,504	29.70	9.404091	2.84
<b>INDONESIA</b>	<b>206,264,595</b>	<b>237,641,326</b>	<b>100.0</b>	<b>2,222,763,050</b>	<b>100.00</b>	<b>9.353436</b>	<b>2.82</b>
Catatan : Termasuk Penghuni Tidak Tetap							
Sumber : Sensus Penduduk 1971, 1980, 1990, 2000, 2010							
<a href="http://www.bps.go.id/">http://www.bps.go.id/</a>							
1US\$=Rp.9084, Bank of Indonesia 2010							
1 year=365							
<a href="http://www.bi.go.id/biweb/Templates/Moneter/Default_Kurs_ID">http://www.bi.go.id/biweb/Templates/Moneter/Default_Kurs_ID</a>							
Accessed: March 12, 2013							

Source: Indonesia Statistic Bureau, [www.bps.go.id](http://www.bps.go.id) (adapted)

Inequality of income per capita of between provinces in Indonesia is due to the uneven economic development. Indonesia's GDP is concentrated in the DKI Jakarta province, which does not have the potential for natural resource exploitation compared to other provinces. Uneven development was consolidated because investors preferred to invest in areas with adequate infrastructure for businesses.

Data, which is updated every year by the central statistical agency of Indonesia, can be found for these nine sectors:<sup>11</sup>

1. Agriculture
2. Mining and quarrying
3. Manufacturing and industry
4. Construction
5. Electricity, gas and water supply
6. Trade, hotel and restaurant
7. Transportation and communication
8. Finance, real estate and business services
9. Service

In 1990, during the Suharto administration, the GDP growth was 9%, but it then decreased to 4% in 2000 following the Asian Crisis in 1997 and the fall of the Suharto administration in 1998. In 2010, the GDP growth was 6% according to the World Bank<sup>12</sup>. Indonesia is a country that had a was deeply hit by Asian Crises more than others countries in Asia<sup>13</sup>. An analysis of the regional domestic product in individual provinces of Indonesia will be seen in Table 5 below.

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<sup>11</sup> Indonesia Statistic Bureau, [www.bps.go.id](http://www.bps.go.id)

<sup>12</sup> See List 1.

<sup>13</sup> Viviane Wee, 2002    Vivienne Wee, 2002.

**Table 5 - GDP, Inequality, Population Growth and Productivity in Some Provinces in Indonesia 2010**

Province	GDP Per Capita/ day (US\$)	GINI Index 2010	Population Growth	GDP	Agriculture Employment	Relative productivity Total=100	Non Agriculture GDP	Non Agriculture Employment	Relative productivity Total=100	Relative productivity Non-Agriculture/Relative Productivity Agriculture
Jakarta	12.42	0.36	1.4	0.08	1.0	0.08	99.92	99.0	1.01	12.53
North Sumatera	2.76	0.35	1.1	23.50	46.9	0.50	76.50	53.1	1.44	2.88
East Java	2.75	0.34	0.8	15.00	44.7	0.34	85.00	55.3	1.54	4.59
South Kalimantan	2.55	0.37	2.0	4.76	43.1	0.11	95.24	56.9	1.67	15.14
Papua	2.39	0.41	5.4	11.71	75.2	0.16	88.29	24.8	3.56	22.88
West Java	2.26	0.36	1.9	13.08	24.7	0.53	86.92	75.3	1.15	2.18
Nanggroe Aceh Darussalam	2.22	0.30	2.4	26.74	52.2	0.51	73.26	47.8	1.53	2.99
South Sulawesi	1.92	0.40	1.2	26.97	51.1	0.53	73.03	48.9	1.49	2.83
Yogyakarta	1.84	0.41	1.0	14.56	33.7	0.43	85.44	66.3	1.29	2.98
Central Java	1.74	0.34	3.7	18.69	39.2	0.48	81.31	60.8	1.34	2.81
Jambi	1.70	0.30	2.6	29.39	57.3	0.51	70.61	42.7	1.66	3.23
Bengkulu	1.47	0.37	1.7	37.72	62.0	0.61	62.28	38.0	1.64	2.69
East Nusa Tenggara	0.81	0.38	2.1	37.56	68.5	0.55	62.44	31.5	1.98	3.61

Indonesia  
Source:

\* Refer to World Bank

Indonesia Statistic Bureau [www.bps.go.id](http://www.bps.go.id)

adapted

Accessed: February 11, 2014. At 16.22 pm Brazil Time

The economic structure in Indonesia in 2010 was dominated by the manufacturing industry. This sector represents 25.8% of Indonesian GDP. Other important sectors are trade, hotels and restaurant (17.3%) and agriculture (13.2%)<sup>14</sup>. We can compare different provinces by the Regional Gross Domestic Product (RGDP) and others indicators to see the characteristic of each areas.

According to Table 5, Jakarta has an income per-capita that is higher than others provinces in the sample. The income per-capita in Jakarta was 4.4 times the average income per-capita in Indonesia. In Jakarta the employment and GDP is not important in agriculture. However, inequality of income in Jakarta, is similar to the national level<sup>15</sup>. Income is higher in sectors of activity outside agriculture in Jakarta but inequality is relatively small as compared to the Asian standard.

North Sumatera, East Java, South Kalimantan have income per- capita that are slightly less than the average national level, however it is more than the standard US\$2 per-day of poverty line as World Bank mentioned. These provinces has also have similar inequality, but the economics structure are different (in South Kalimantan inequality is higher and income per capita is smaller than both other two provinces). For example in North Sumatera, agriculture represents 23.5% of GDP and in South Kalimantan agriculture participation in GDP is only 4.8%. However, employment in agriculture represents 46.9 % of total employment in North Sumatera and 43.1% in South Kalimantan. Average productivity in North Sumatera is Higher than in South Kalimantan and in North Sumatera agriculture productivity is 50% of overall productivity of province and in South Kalimantan agriculture productivity is only 11 % of the overall productivity of the province. In North Sumatera non agriculture productivity is 2.9 times the agriculture productivity of province and in South Kalimantan non agriculture productivity is 15.2 times the average agriculture productivity of province. So, in South Kalimantan the high participation of low productivity agriculture in total employment of the province contribute to reduce the GDP per-capita of the province but the income inequality is similar to North Sumatera. There are some non-agriculture activities in South Kalimantan that compensates the low

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<sup>14</sup> Indonesia Statistic Bureau, ([www.bps.go.id](http://www.bps.go.id))

<sup>15</sup> (Business dictionary, s.d.) notices a GINI Index as a standard economic measure of income inequality, based on Lorenz Curve. A society that scores 0.0 on the Gini scale has perfect equality in income distribution. Higher the number over 0 higher the inequality, and the score of 1.0 (or 100) indicates total inequality where only one person corners all the income. Named after its inventor, the Italian statistician Corrado Gini (1884-1965). Also called Gini coefficient or index of concentration.

productivity in agriculture in this province and GDP per-capita is not so smaller compare to similar to North Sumatra. Notwithstanding the income inequality outside agriculture in South Kalimantan is not high such as the Asian standard.

Papua, West Java and Nanggroe Aceh Darussalam also had GDP per-capita per day that is higher than the World Bank poverty line. These provinces have also different economic structures. In Papua and West Java agriculture represent 12% of GDP and in Aceh agriculture represent 26.7% of GDP. But, in Papua 75.2% of the total employment is in agriculture and this proportion is 52.2% in Nanggroe Aceh Darussalam and 24.7% in West Java. The productivity in agriculture is 50% of the province overall in West Java and Aceh but in Papua is only 16%.

Income per-capita is similar in the three provinces because in Papua high productivity outside of agriculture sector compensates the agriculture low productivity in this province. The income inequality in Papua is relative high and in Nanggroe Aceh Darussalam the income inequality is relative low. In Aceh half of the employment is in agriculture and productivity outside agriculture is not relatively high.

South Sulawesi, Yogyakarta, Central Java and Jambi have GDP per-capita that are lower than the World Bank poverty line. Central Java and especially Jambi has less income per-capita and less inequality of income. In Jambi this province 57.4% of total employment is in agriculture but agriculture productivity is 50% of province overall. which is low. Central Java has less GDP and employment in agriculture but the difference between productivity of agriculture and non agriculture activity is similar to Jambi. South Sulawesi and Yogyakarta have more income per-capita but also higher inequality. In Yogyakarta, agriculture participation in total employment is lower but the agriculture productivity is also lower than South Sulawesi and Jambi.. Central Java has more participation of agriculture in GDP and employment than Yogyakarta and income inequality is less but more than Jambi.

Finally, Bengkulu and East Nusa Tenggara have lower income per-capita. Agriculture represents more than two-third  $\frac{2}{3}$  of total employment of province and others activities outside agriculture not compensate the low productivity of agriculture. The income inequalities in these provinces are slightly higher than in total of Indonesia.

The economic structure outside agriculture in Jakarta is different from that observed in total of the other provinces of the country. Finance real estate and business services are the more important sectors in Jakarta from the point of view of value added. Outside Jakarta the main

sector is manufacturing. Comparing the sectoral distribution of GDP the main differences are the higher relative importance of finance, real estate and business services and construction sectors in Jakarta and mining, manufacturing, electricity, gas and water outside Jakarta (see Table 6).

**Table 6 - GDP, Employment and Relative Productivity in Jakarta and Out of Jakarta in 2010**

Activities Sectors	Jakarta			Out of Jakarta		
	GDP	Employment	Relative produktivity Total=1.00	GDP	Employment	Relative produktivity Total=1.00
Agriculture	0,08	1,0	0,08	16,11	42,2	0,38
Mining & Quarrying	0,24	0,5	0,48	9,8	1,1	8,81
Manufacturing Industry	15,31	15,6	0,98	28,1	10,6	2,65
Electricity, Gas and Water Supply	0,65	0,8	0,81	0,8	0,3	2,67
Construction	10,40	4,7	2,20	5,7	5,3	1,08
Trade, Hotel and Restaurant	21,73	31,9	0,68	16,3	17,8	0,92
Transportation and Communication	11,82	9,6	1,24	8,9	5	1,78
Finance, Real Estate and Business Services	28,13	4,7	5,95	5,5	0,9	6,11
Services	11,64	31,3	0,37	8,9	16,8	0,53

Source: Indonesia Statistic Bureau  
[www.bps.go.id](http://www.bps.go.id) (adapted)Source: bps.go.id (adapted)

The structure of employment in Jakarta and outside Jakarta is not so different compared to economic structure (GDP) because productivity is relatively higher in sectors that have at disproportionate share of GDP in Jakarta and outside Jakarta. For example, in Jakarta concentrates 28.528,1% provincial GDP is in of finance, real estate and business services in GDP of Indonesia with only 4.7% of employment in this sector. In finance, real estate and business services 52.4% of Indonesia GDP in this sector is generated by companies located in Jakarta that employs only 18.3% of workforce in this sector. In the mining sector we have the opposite: 99.5% of Indonesia's GDP in this sector is generated outside Jakarta. In manufacturing 89.4% of the GDP of this sector in Indonesia is generated out of Jakarta with and 94.1% of employment is in this sector. In electricity, gas and water 85.2 of GDP is generated outside Jakarta with 910.99% of employment in this sector.

*Source: bps.go.id (adapted)* Despite the relative importance of value added in the sectors mentioned both in Jakarta and out of Jakarta, most of the jobs out of agriculture are generated in trade, hotel, and restaurant and others services (63.7% in Jakarta and 59.9% outside Jakarta). Productivity in these sectors is equivalent to 2/3 the average outside agriculture in trade, hotel and restaurant and 1/3 in services. Outside Jakarta productivity is also relative low in construction. Despite the high proportion of employment in low productivity sectors and high productivity in some sectors, income inequality is relative small in Indonesia, even outside agriculture. This is a characteristic of Asian ASEAN countries compared for instance to Latin America countries. In Latin American countries, structural heterogeneity is associated with high income inequality. In Asia countries, per capita income is smaller and income inequality is also smaller than Latin America countries.

In the sample of 13 province of Indonesia sample Besides Jakarta, samples is formed are taken from by twelve others provinces. East Nusa Tenggara and Bengkulu are predominantly agricultural. In these provinces 38% of GDP is generated by agriculture and fishing (Table 7). These are the two provinces of the sample with the lowest income per capita. More than 60% of employment is generated by agriculture and fishing and no activity of high productivity off set the relatively low productivity of agriculture and fishing (see Table 7).

Table 7 GDP, Employment, Relative Productivity Out of Agriculture in East Nusa Tenggara, Bengkulu and Yogyakarta in 2010									
	East Nusa Tenggara			Bengkulu			Yogyakarta		
Activities Sectors	GDP	Employment	Relative produktivity Total=100	GDP	Employment	Relative produktivity Total=100	GDP	Employment	Relative produktivity Total=100
Mining & Quarrying	2.16	4.7	0.46	6.17	2.3	2.68	0.78	1.2	0.66
Manufacturing Industry	2.33	13.8	0.17	6.79	4.7	1.44	16.41	15.7	1.04
Electricity, Gas and Water Supply	0.68	0.4	1.61	0.85	0.4	1.94	1.56	0.4	3.53
Construction	9.93	7.0	1.41	4.99	8.6	0.58	12.40	8.9	1.40
Trade, Hotel and Restaurant	27.24	18.1	1.51	31.91	32.3	0.99	23.11	32.9	0.70
Transportation and Communication	11.92	14.3	0.84	13.53	7.9	1.71	10.57	5.5	1.93
Finance, Real Estate and Business Services	6.01	1.0	5.91	7.97	1.4	5.79	11.68	1.9	6.16
Services	39.72	40.6	0.98	27.79	42.4	0.66	23.49	33.5	0.70

However, income inequality in these provinces is similar to total of Indonesia.

**Table 7 - GDP, Employment, and Relative Productivity Out of Agriculture in East Nusa Tenggara, Bengkulu and Yogyakarta in 2010**

Activities Sectors	East Nusa Tenggara			Bengkulu			Yogyakarta		
	GDP	Employment	Relative produktivity Total=100	GDP	Employment	Relative produktivity Total=100	GDP	Employment	Relative produktivity Total=100
Mining & Quarrying	2.16	4.7	0.46	6.17	2.3	2.68	0.78	1.2	0.66
Manufacturing Industry	2.33	13.8	0.17	6.79	4.7	1.44	16.41	15.7	1.04
Electricity, Gas and Water Supply	0.68	0.4	1.61	0.85	0.4	1.94	1.56	0.4	3.53
Construction	9.93	7.0	1.41	4.99	8.6	0.58	12.40	8.9	1.40
Trade, Hotel and Restaurant	27.24	18.1	1.51	31.91	32.3	0.99	23.11	32.9	0.70
Transportation and Communication	11.92	14.3	0.84	13.53	7.9	1.71	10.57	5.5	1.93
Finance, Real Estate and Business Services	6.01	1.0	5.91	7.97	1.4	5.79	11.68	1.9	6.16
Services	39.72	40.6	0.98	27.79	42.4	0.66	23.49	33.5	0.70

Source: Indonesia Statistic Bureau  
[www.bps.go.id](http://www.bps.go.id) (adapted)

Yogyakarta is not an agricultural province. But Only 15% of the GDP of this province is generated in the agriculture sector few more than in total Indonesia. There are some manufacturing in Yogyakarta (14% of GDP and 10.4% of total provincial employment) but the main activity is around the tourism services. Despite agriculture employment of no more than only 34% of workers, the income per capita of this province is relatively low. and income inequality relatively is high.

Table 8 shows that mining is important economic activity in Papua (52.7% of provincial GDP), Jambi (18.2%), South Kalimantan (9%), South Sulawesi (8.8%) and Nanggroe Aceh Darussalam (7.9%) mining is an important economic activity. In these provinces 8% GDP or more is generated in mining. Agriculture is also important in Jambi (29.4% of provincial GDP), South Sulawesi (27%) and Nanggroe Aceh Darussalam (26.7%) agricultural activities are also

important. But Only in South Kalimantan less than 50% of employment is generated in agriculture (43% of provincial employment). The for this region the income per capita of this province is higher than the others mining provinces. In Papua and Jambi mining have represent more than 18% of GDP but the high proportion of employment in agriculture of low productivity reduce the income per capita in this province (see Table 8). Income inequality in South Kalimantan is similar to total Indonesia. In the others mining provinces, income inequality are high in Papua and South Sulawesi and small in Jambi and Nanggroe Aceh Darussalam. From the point of view of value added, other important activities out of agriculture are service, finance, real estate and business service, transportation and communication in South Kalimantan, manufacturing, trade, hotel and restaurant, transportation and communication, service and finance real estate business service in South Sulawesi, construction in Papua and manufacturing, trade, hotel and restaurant, transportation and communication and services in Nanggroe Aceh Darussalam.

**Table 8 - GDP, Employment and Relative Productivity Out of Agriculture in Papua, Jambi, South Kalimantan, South Sulawesi, and Nanggroe Aceh Darussalam in 2010**

Activities Sectors	Papua			Jambi			South Kalimantan			South Sulawesi			Nanggroe Aceh Darussalam		
	GDP	Employment	Relative produktivity Total=100	GDP	Employment	Relative produktivity Total=100	GDP	Employment	Relative produktivity Total=100	GDP	Employment	Relative produktivity Total=100	GDP	Employment	Relative produktivity Total=100
Mining & Quarrying	59.73	5.1	11.79	25.83	2.7	9.40	9.50	7.5	1.26	12.01	1.0	12.01	10.76	1.0	10.76
Manufacturing Industry	2.11	2.8	0.75	15.74	7.7	2.05	8.23	10.3	0.80	18.37	9.2	2.01	14.39	7.0	2.07
Electricity, Gas and Water Supply	0.19	0.5	0.37	1.28	0.6	2.03	3.69	0.5	6.72	1.42	0.6	2.41	0.50	0.6	0.79
Construction	12.07	8.8	1.38	6.44	9.9	0.65	0.45	8.3	0.05	7.76	10.1	0.77	9.66	10.7	0.90
Trade, Hotel and Restaurant	6.73	24.5	0.27	20.60	34.1	0.60	7.85	33.8	0.23	23.27	30.9	0.75	27.24	29.4	0.93
Transportation and Communication	6.52	12.4	0.52	9.26	9.3	1.00	13.84	8.0	1.72	12.36	11.5	1.07	10.02	8.3	1.21
Finance, Real Estate and Business Services	3.10	1.2	2.61	7.32	1.5	4.94	19.92	1.2	16.70	10.01	1.6	6.11	2.56	0.8	3.38
Services	9.54	44.7	0.21	13.52	34.1	0.40	36.52	30.3	1.21	14.81	35.2	0.42	24.87	42.3	0.59

Source: Indonesia Statistic Bureau  
[www.bps.go.id](http://www.bps.go.id) (adapted)

Finally table 9 shows that manufacturing is important activity , in West Java (42.1% of provincial GDP), East Java (25.4%), Central Java (32.8%) and North Sumatera (22%) and Central Java, manufacturing is important in economic activity. This sector generated more than 20% of GDP of these provinces. In North Sumatera agriculture is also an important economic activity with 23.5% of provincial GDP. In East Java and North Sumatera tourism contributes to a high productivity in trade, hotel restaurant transport finance real estate and business services. For these reasons, income per capita in East Java and North Sumatera is higher than West Java and Central Java. In North Sumatera and East Java the tourism promotes economic activity with higher productivity compared to Yogyakarta (see Table 9). ity

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**Table 9 - GDP, Employment and Relative Productivity Out of Agriculture in West Java, East Java, North Sumatera and Central Java in 2010**

Activities Sectors	West Java			East Java			North Sumatera			Central Java		
	GDP	Relative		GDP	Relative		GDP	Relative		GDP	Relative	
		Employment	produktiviti Total=100		Employment	produktiviti Total=100		Employment	produktiviti Total=100		Employment	produktiviti Total=100
Mining & Quarrying	2.67	0.9	3.05	2.67	1.0	2.66	1.54	0.7	2.15	1.38	1.0	1.40
Manufacturing Industry	48.41	23.4	2.07	29.87	20.1	1.49	28.76	11.4	2.53	40.38	24.3	1.66
Electricity, Gas and Water Supply	2.61	0.7	3.81	1.60	0.5	2.92	0.96	0.7	1.44	1.06	0.4	2.64
Construction	4.22	8.3	0.51	3.78	8.8	0.43	8.89	9.9	0.89	7.24	10.7	0.68
Trade, Hotel and Restaurant	25.02	30.6	0.82	36.51	32.1	1.14	24.14	30.6	0.79	26.34	32.2	0.82
Transportation and Communication	5.48	9.5	0.58	8.62	7.3	1.18	12.82	11.2	1.15	6.44	6.3	1.03
Finance, Real Estate and Business Services	3.77	1.8	2.13	6.41	1.5	4.15	9.69	1.5	6.60	4.62	1.4	3.38
Services	7.82	24.8	0.31	10.55	28.6	0.37	13.19	34.1	0.39	12.52	23.8	0.53

Source: Indonesia Statistic Bureau, [www.bps.go.id](http://www.bps.go.id) (adapted)

<http://sp2010.bps.go.id/index.php/site/tabel?tid=270&wid=0>

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[http://bps.go.id/tab\\_sub/view.php?kat=2&tabel=1&daftar=1&id\\_subyek=19&notab=](http://bps.go.id/tab_sub/view.php?kat=2&tabel=1&daftar=1&id_subyek=19&notab=)

Accessed on March 05, 2014 at 14.06 pm Brazil Time

The sample of 13 provinces these cover all economic heterogeneity of Indonesia. The 13 provinces account for 75% of the population and 70.3% of Indonesia's GDP and per capita oncome of the whole sample in exactly equal to thethe pr capita income of the country.

Differences in per capita income among the provinces are very large. Jakarta is the political, economic and finance center in Indonesia and has per capita income 5 times higher than the rest of the country. The capital appropriate, 17.8% of Indonesia's GDP to 4% population.

The others 12 provinces of the sample can be divided into three groups according to per capita income. The four provinces that after Jakarta have the highest per capita income are North Sumatera, East Java, South Kalimantan and Papua. In this first group of province covering 24% of Indonesia's population and 23.1% of GDP, average per capita income is slightly lower than that of the country.

In North Sumatera, agriculture (23.5%) of provincial GDP and manufacturing (22%) are the main sectors, but trade, hotel and restaurant (18.5%) is also important. In East Java trade, hotel and restaurant (31.6%) is higher than manufacturing (25.4%) and agriculture (15%). South Kalimantan is a province of service. In this province the main activities are services (34.8%) of provincial GDP, finance, real estate, business service (19%) and transportation and communication (13.2%). Finally, Papua is a mining province with 52.2% of provincial GDP generated in this activity.

The group of province with lower per capita income is formed by Central Java, Bengkulu, Jambi and East Nusa Tenggara. This group comprises 17.6% of Indonesia's population and 10.1% of GDP. The average per capita income of this group represents 60% of average per capita income of the first group.

Bengkulu and East Nusa Tenggara are agriculture provinces with 38.5% of provincial GDP in agriculture. In these provinces, trade, hotel and restaurant (19.8% in Bengkulu's provincial GDP and 17% in East Nusa Tenggara) and service (17.3% in Bengkulu's provincial GDP and 24.8% in East Nusa Tenggara) are also important. In Jambi the main activities are agriculture (29.4%), mining (18.25%), trade, hotel and restaurant (14.5%) and in Central Java the main activities are manufacturing (32.8%), trade, hotel and restaurant (21.4%) and agriculture (18.7%).

Finally, Nanggroe Aceh Darussalam, West Java, South Sulawesi and Yogyakarta form the group of intermediate per capita income with an average equivalent to 80% of average of the first group and 35% higher than the average of the low per capita income represent 24.9% of Indonesia's population and 19.2% of GDP.

West Java is a manufacturing province (42.1% of provincial GDP) but trade, hotel and restaurant is also important (21.4%). In Nanggroe Aceh Darussalam and South Sulawesi

agriculture is the main activity (27% of provincial GDP) but mining is also important (8.8% of South Sulawesi's GDP and 7.9% of Nanggroe Aceh Darussalam's GDP). Beside this, in Nanggroe Aceh Darussalam trade, hotel and restaurant (20.1%) and service (18.2%) are also important. In Yogyakarta the GDP is more spread in several sectors that service (20.1%) and trade, hotel and restaurant (19.7%) are the main activities.

The sample theme is representatives of the economic diversity of Indonesia's provinces providing a suitable basis for studying the differences in wages and minimum wages in Indonesia.

## CHAPTER 2

### Wage and Minimum Wage in Indonesia

Indonesia has a relatively low- income per capita of approximately US\$2.82 per day. The highest proportion of employment is in the agricultural sector, which has 40.5% of total workers and 13.2 % of GDP. The productivity of agriculture is 32.5% of the Indonesia's average total mean proproductivity. The averagemean productivity of out of agriculture sector is 145.9% of Indonesia's averagetotal productivity. The ratio between employment and population is 0.442 (104.928.049 workers divide by 237.641.326 of total population). The income per worker is US\$6.38 (income per capita divided by ratio between of employment and population).

The output per worker on agriculture is US\$2.08, while income per workers out of agriculture is US\$9.316.38. Beside this output by sector is indicating in Table 10.

**Table 10 - GDP and Income per worker of outside Agriculture in 2010**

Activities Sectors	Percentage of GDP	Employment	Income per worker per day (US\$)
Mining & Quarrying	9.29	1.8	48.06
Manufacturing Industry	29.67	18.1	15.26
Electricity, Gas and Water Supply	0.90	0.6	13.96
Construction	7.48	8.9	7.82
Trade, Hotel and Restaurant	19.97	30.9	6.02
Transportation and Communication	10.84	8.7	4.12
Finance, Real Estate and Business Services	11.00	1.8	56.88
Services	10.86	29.2	3.46

Source: [www.bps.go.id](http://www.bps.go.id) (adapted)

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<http://sp2010.bps.go.id/index.php/site/tabel?tid=270&wid=0>

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The output per worker in the service sector is 37% of the output per worker in total non-agriculture sector while the output per worker in mining and quarrying, finance and real estate and business services are more than 5 times the output per worker in total non-agriculture sector.

The number of Indonesian employees in 2010 is 33.1% of the total employment. The highest percentage of non-employee workers are self-employed (23% of total employment are self-employed work alone and 13.5% are self-employed assisted by unpaid temporary employees). Other Another important part of non-employee formed by unpaid family workers (14.7%) and casual worker (12.1%) (See Table 11).

**Table 11 - Indonesia Employment 15 Year of Age by Status in Main Job in 2010**

	Employment	Percentage of Employment
Employer assisted by paid permanent employees	3,572,219	3.4
Employee	34,746,979	33.1
Casual worker	12,715,123	12.1
Self employed	24,165,321	23.0
Self employed assisted by unpaid temporary employees	14,204,394	13.5
Unpaid family worker	15,444,908	14.7
Not Asked	79,105	0.1
Total	104,928,049	100.0
Statistics:		
Average Wage ( in Rupiah)	1,374,368	
Total Wage ( Trillion Rupiahs/Month)	47,755	
Total GDP ( Trillion RP/ Month)	18.5	
Participation of Wages in the Total GDP (Percentage)	25.8	
Relative Employee of Employment ( Percentage)	33.4	

Source:

<http://sp2010.bps.go.id/index.php/site/tabel?tid=270&wid=0>

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Table 11 Indonesia Employment 15 Year of Age by Status in Main Job in 2010		
Employment Status of the Main Job Unit: people		
	Employment	Percentage of Employment
Employer assisted by paid permanent employees	3,572,219	3.4
Employee	34,746,979	33.1
Casual worker	12,715,123	12.1
Self employed	24,165,321	23.0
Self employed assisted by unpaid temporary employees	14,204,394	13.5
Unpaid family worker	15,444,908	14.7
Not Asked	79,105	0.1
Total	104,928,049	100.0
Statistics:		
Average Wage ( in Rupiah)	1,374,368	
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Total GDP ( Trillion RP/ Month)	18.5	
Participation of Wages in the Total GDP (Percentage)	25.8	
Relative Employee of Employment ( Percentage)	33.4	
Source:		
<a href="http://sp2010.bps.go.id/index.php/site/tabel?tid=270&amp;wid=0">http://sp2010.bps.go.id/index.php/site/tabel?tid=270&amp;wid=0</a>		
Accessed on February 20, 2014 at 19.26 pm Brazil Time		
<a href="http://bps.go.id/tab_sub/view.php?kat=2&amp;tabel=1&amp;daftar=1&amp;id_subyek=19&amp;notab=13">http://bps.go.id/tab_sub/view.php?kat=2&amp;tabel=1&amp;daftar=1&amp;id_subyek=19&amp;notab=13</a>		
Accessed on March 05, 2014 at 14.06 pm Brazil Time		

Total wage of employees represents 25.8% of the GDP. This proportion is relatively low. Natalie Chun and Niny Khor (2010) considering Indonesia Family Life Survey (IFLS) and only employee and self-employee between 25-55 years old worked 35 hours or more per week and more than 30 weeks per year show that the average nominal wage of employee in 2007 is 22.8 % more than average nominal income of self-employed . Chun and Khor (2010) also show that the relative dispersion of employee wages is lower than the relative dispersion of self-employed incomes. For example, the 90<sup>th</sup> percentile of employee's wage is 7.2 times the percentile 10<sup>th</sup> and the 90<sup>th</sup> percentile of self-employed income is 13.6 times percentile 10<sup>th</sup>. Beside this, the GINI indicator of wage is 0.412 and GINI indicator of self-employed income is 0.548. Chun and Khor's data show that wages are higher and have less dispersion than self-employed income, notwithstanding the fact that total wages is relatively small compared to GDP.

**Table 12 - Wage and Income**

Employee							Self-Employed						
Average Nominal Wage	Average Real Wage	Average Real Percentile 10	Average Real Percentile 90	Ratio Real Wage (P90/10)	Ratio Real Wage (P90/10)	Gini Coeffisien	Average Nominal Wage	Average Real Wage	Average Real Percentile 10	Average Real Percentile 90	Ratio Real Wage (P90/10)	Ratio Real Wage (P90/10)	Gini Coeffisien
1993 172,707	512,442	108,006	1,049,399	9.72	0.4617		1993 122,877	365,975	44,758	856,998	19.15	0.577	
2000 442,921	444,980	112,966	891,998	7.9	0.409		2000 423,033	425,622	79,076	948,264	11.99	0.509	
2007 1,109,002	587,406	161,315	1,162,298	7.21	0.412		2007 903,208	469,558	71,064	967,890	13.62	0.548	

Source :

\*Natalie Chun and Niny Khor , ADB Working Paper Series No 196, March 2010.

\* Individual who are between the ages of 25-55 and who reported their primary activity as work. IFLS statistics are reported for individuals who responded that they work >= 35 hours per week and more than 30 weeks per year

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\* Currency in Rupiah (Rp)

Table 12 Wage and Income													
Employee							Self-Employed						
Average Nominal Wage	Average Real Wage	Average Real Percentile 10	Average Real Percentile 90	Ratio Real Wage (P90/10)	Ratio Real Wage (P90/10)	Gini Coeffisien	Average Nominal Wage	Average Real Wage	Average Real Percentile 10	Average Real Percentile 90	Ratio Real Wage (P90/10)	Ratio Real Wage (P90/10)	Gini Coeffisien
1993 172707	512442	108006	1049399	9.72	0.4617		1993 122877.1	365974.6	44757.56	856998	19.15	0.577	
2000 442921	444980	112966	891998	7.9	0.409		2000 423033.2	425621.6	79076.17	948263.9	11.99	0.509	
2007 1109002	587405.9	161315	1162298	7.21	0.412		2007 903208.1	469558.4	71064.44	967890.2	13.62	0.548	
Source :													
*Natalie Chun and Niny Khor , ADB Working Paper Series No 196, March 2010.													
* Individual who are between the ages of 25-55 and who reported their primary activity as work. IFLS statistics are reported for individuals who responded that they work >= 35 hours per week and more than 30 weeks per year													
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Average real wages in 2007 is 14.6% more than in 1993. The Ppercentage of 14.6% in 14 years mean 1% per year but between 1993 and 2000 average real wage decrease 13.2% and between 2000 and 2007 average real wage increase 32%, mean 4% per year. The behavior of average real income of self-employed was different: They increase 16.34% between 1993 and 2000 and 10.3% between 2000 and 2007 and in 2007 average self-employed income was 28.3% higher than in 1993 equivalent to increase at 1.8% per year.

GINI indicator shows that for wage and for self-employed income, the inequality decreased between 1993 and 2000 and for wage inequality maintain in 2007 the level achieved in 2000. However, inequality for self-employed income increased between 2000 and 2007. Even in the case of self-employed, income inequality in 2007 are is lower than in 1993. The reduction of inequality of wages between 1993 and 2000 was consequence of increase on low real wage and decrease of higher real wage. Percentile 10<sup>th</sup> of real wage increased 4.6% between 1993 and 2000 while percentile 90<sup>th</sup> decreased 15%. In behavior of low real wage was important the increase of minimum wage between 1993 and 2000 (Chun and Khor, 2010) but the effect of the Asia crises in 1997 that was very strong in Indonesia reduce purchasing power of wages higher than minimum wage. In 1993, average wage was 4.7 times percentile 10<sup>th</sup> while in 2000 this proportion was 3.9. GINI indicator for wages reduced from 0.462 to 0.409.

During the period of 2000-2007 real percentile 10<sup>th</sup> for wages increased 42.8%, much more than between 1993-2000, but the real percentile 90<sup>th</sup> also increased 30.3% and GINI indicator was maintained in at 0.41. The Average minimum wage compared to percentile 10<sup>th</sup> reduced from 3.9 times to 3.6 times. Minimum wage increased more during 2000-2007 than in 1993-2000 but wages higher than minimum wage decreased in the period 1993-2000 and increased in 2000-2007. GINI indicator of wage decreased between 1993 and 2000 and maintained in 2007 the level achieved in 2000. Acceleration of minimum wage growth increase after 2000 was very important to maintain GINI indicator of wages in 2007 despite the recuperation of the highest wages higher than minimum wage which whereby purchasing power had reduced a lot in after the crises in 1997.

The behavior of self-employed income since 1993 was different compared to the behavior of wage. In 1993 the differences between wages and self-employed income was very high especially when it is compared with the low incomes. For example, percentile 10<sup>th</sup> of self-employed incomes is only 41 % of percentile 10<sup>th</sup> of wages. In other words, come percentile 10<sup>th</sup> of wages is 2.4 times percentile 10<sup>th</sup> of self-employed incomes. The differences between wages and self-employed incomes is smallest when it is consider considers the high level of workers income. For example, come average wages is 40% higher than average of self-employed income while percentile 90<sup>th</sup> of wages is 22% higher than percentile 90<sup>th</sup> of self-employed income. GINI

indicator of self-employed incomes is higher than GINI indicator of wages especially because of the small level of low self-employed income.

The good performance of Indonesian activity during the 1990<sup>st</sup>, before Asia's crises, benefit more self-employed incomes than the wages and the strong effect of the Asian crises in the end of the decade affect negatively more the wages than the self-employed income. Since a level very small, come the low self-employed incomes increased a lot between 1993 and 2000 (77% or 8.5% per year). The differences between percentile 10<sup>th</sup> of wages and self-employed income reduced from 2.4 times in 1993 to 43% in 2000. Average self-employed incomes increase 15.3% during the period 1993-2000 while average wage decreased 30.2%. Finally percentile 90<sup>th</sup> of self-employed income increase 10.6%, during in the same period, while percentile 90<sup>th</sup> of wages decreased 15%. In this period, self-employed income inequality decreased more than wage inequality but in 2000 inequality continued higher in the case in self-employed income (0.51) compare to and in the case of wage (0.41).

The recuperation of the Indonesian economy after the Asian crisis benefited more the wage income more than the self-employed incomes. Percentile 10<sup>th</sup> of self-employed income decreased 10.1% between 2000 and 2007 while acceleration of minimum wage lead to increase of 42.8% in percentile 10<sup>th</sup> of wages. The differences between percentile 10<sup>th</sup> of wages and self-employed income come back returned to near the level of 1993. The differences between low wages and low self-employed incomes is high but the level of this wages and self-employed incomes in 2007 is higher than in 1993 (49.4% in the case of wages and 58.8% in the case in self-employed income). The recuperation of purchasing power of wages higher than minimum wage increased the relationship between wages and self-employed income between 2000 and 2007. During this period the difference between average of wages and self-employed income increases from 1.05 to 1.25 and difference between percentile 90<sup>th</sup> increases from 0.94 to 1.20.

Minimum wage increases was very important to the behavior of low wage. Minimum wage increases contribute to reduce inequality between 1993 and 2000 and to maintain inequality in equality between 2000 and 2007. In the period of 1993-2000, minimum wage avoided the decreased of low wages, and during the period of 2000-2007 the acceleration of

increase minimum wage avoided that the recuperation of purchasing power of highest the wages to become higher than minimum wage increased the inequality of wages.

In Indonesia, wage inequality is small but wages remain low compare to productivity. The minimum wages increase, since early 1990<sup>th</sup>, helped to reduce wage inequality, but the purchasing power of the average wage has not increase at the pace of productivity. Employees are only one-third of employment and self-employed income is even lower but more unequal than wages.

### **Minimum Wage in Indonesia**

Minimum wage was introduced in Indonesia in the early 1970s. However, until the late 1980s the minimum wage was hardly enforced and it was largely ineffective (Rama, 1996)<sup>16</sup>. During this period the government did not intervene in wage determination and controlled the labor movement by allowing only one government-sanctioned labor union. As a result, as noted by Manning (1994), there was little effective direct government or union involvement in the setting of wages (SMERU, 2000)<sup>17</sup>. The average wage increased less than labor productivity. During the 1970s, the price of oil increased and it affected the economic performance of Indonesia. In the 1980s the price of oil decreased. The changing trade relationship between USA and Japan, associated to appreciation of the yen compared to dollar in the middle of 1980<sup>th</sup>, opened the opportunity for Asia to increase manufacture production for export to the United States and European Union countries. Indonesia developed manufacturing goods for export (textile, garment, footwear and electronic goods). Indonesia's economic growth during 1980s, based on manufacturing goods, created conditions for independent labor movement, despite the government's opposition (SMERU, 2000). On the other side, USA complained against manufacturing the import of manufacturing goods from Indonesia with low

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<sup>16</sup> Martin Rama, 1996. *The Consequences of Doubling the Minimum Wage: The Case of Indonesia*. Jakarta: World Bank.

<sup>17</sup> SMERU, 2001. *Wage and Employment Effects of Minimum Wage Policy in the Indonesian Urban Labor Market*. Jakarta: Rachael Diprose & Kristen Stokes.

wage and threatened excluded to exclude Indonesia from the Generalized Scheme of Preferences to deprive Indonesia of low tariffs on its exports to the USA market. International pressure and the possibility of industrial conflict in Indonesia lead the government to do something to increase the wage in Indonesia. The Indonesia government decided use minimum wage policy to increase the wage in that country.

Since 1989, the Government acted to increase the minimum wage. In Indonesia, provincial wage council informed Governor that formulates a suggestion to be presented to the Minister of Manpower who decided about the level of provincial minimum wage<sup>18</sup>. In the first half of the 1990s, Indonesia minimum wage hiked three-times in nominal terms and two-times in real terms (Rama, 1996). In 1996, an influential study by the World Bank drew the attention of the Indonesian government to the adverse consequences of the sharp increase in regional minimum wages in the 1990s (Islam and Nazara, 2000)<sup>19</sup>. The concern was that the increased labor cost could encourage new investment in manufacturing goods for export to shift from Indonesia to others countries offering lower wages such as Bangladesh and Vietnam (Rama, 1996). Research shows that the effects of minimum wage on average wage was small and not affected did not significantly affect employment or investment (Rama, 1996). Minimum wage affected the wage level for female, youth and less educated workers. There is a debate about the effect of increasing wages for female, youth and less educated workers on the formal employment of this type of workers and the consequences of minimum wage increasing on the distribution of wages for formal employment. There is are several positions about this issue and the statistic evidences are not conclusive.

The researchers put a question about endogenous character of minimum wage. The fact that recommendation of Government to the Minister of Manpower taking into account the local councils considerations, linked minimum wage increase to improvement in labor market conditions and supposedly reduce the effect of minimum wage increased on employment (Rama, 1996).

The composition of the councils is as follows:

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<sup>18</sup> Ministry Regulation No 5/Year 1989.

<sup>19</sup> Iyanatul Islam & Suahasil Nazara, 2000. *Minimum Wage and The Welfare of Indonesia Workers*. Occasional Discussion Paper Series No. 3 ed. Jakarta: ILO.

- (1). Representative of workers.
- (2). Representative of employer and
- (3). Representative of government. Trade union representative stay in the councils for three years. The Labor Law establish that the councils consider<sup>20</sup> :
  - 1). Necessity
  - 2). Consumer price index (CPI)
  - 3). Ability, growth and survival of the enterprise
  - 4). Wages generally occurring in certain areas and among regions
  - 5). Labor market conditions
  - 6). Level of economic development and per capita income.

Needs of a decent living (Kebutuhan Hidup Layak, KHL), is the standard requirement for a worker / laborer for leading a single life can to be able to be physically feasible fulfill their for the needs of for one (1) month (Ministry Regulation No 17 year 2005). The following is a list of items that must be surveyed price as a standard component of decent living need. Price value of all components will be the standard for determining the minimum wage.

When compared with Ministry Regulation No 17 in the year 2005, there are some new items added into new regulations above. The gain value compared to price for basic needs was assumed to not be significant enough to improve for the living conditions of workers. The Ministry Regulation No. 17 year 2005 consists of almost the same items as mentioned in with Regulation No 12 year 2013 except for a the rice cooker, plastic scoop, iron, portable plastic plate rack, kitchen knife, mirror, ball point / pencil, and deodorant (which as highlighted above in yellow, see Annex).

The considerations of the KHL bundle was for the provinces provincial wage council to reduce the endogenous character of minimum wage because KHL are independent from province provincial economic performances and local labor market conditions. But province provincial wage councils consider also the level of wages in the province as well as employment

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<sup>20</sup> Ministry of Manpower Decree No. 226/Year 2000 (article 6).

economic development and per capita income in the province. To ascertain the endogenous character of the determinant determination of the minimum wage is important to compare. It is important to compare the minimum wage to the and average wage of the provinces.

## **The Minimum Wage in the Province of Indonesia**

### **The Minimum Wage in the Province of Indonesia's Provinces**

After observing the changes in the minimum wage, the provinces of Indonesia will be compared in terms of these levels of minimum wage. The explanation follows the order of the provincial minimum wage level and evaluates the role of this institutional instrument used to decrease the dispersion of wage, taking into account economic characteristics of the province.

The minimum wage is relatively high in 6 of the 13 provinces studied (Table 13). The average wage is not relatively small in any of these 6 provinces and between among the 5 provinces with relatively low small minimum wage, in 3 provinces by of them the average wage is not relatively low small. As highlighted in the analysis, the provincial wage councils consider the economic situation and the labor market condition of each province in the definition of the minimum wage, but it is not high the correlation the correlation is not high among between the provincial average wage and the provincial minimum wage and of the province. Furthermore, the, the relative dispersion of the provincial average wage is lower than the provincial minimum wage (the standard deviation of the provincial average wage, is equivalent to 18.2% of the average wage of these wages while the standard deviation of provincial minimum wage is equivalent to 24.6% of the average). wage of these minimum wage). Furthermore the effect of the The effect of minimum of minimum wage on the distribution of labor income of the province depends on the economic characteristic of each province.

**Table 13 - Minimum Wage, Wage, Employment and Productivity by Province in 2010**

Table Minimum Wage, Wage, Employment and Productivity by Province in 2010						
Provinces	Average Wage (%)	Minimum wage/ Average Wage (%)	Wage Participation of GDP	Employee/ Employment	GDP/Employ	Minimum Wage (%)
Papua	143.93	58.17	23.10	32.27	1.08	131.98
DKI Jakarta	135.78	56.98	33.02	28.85	0.56	121.95
East Nusa Tenggara	103.36	49.61	36.31	40.68	0.90	80.82
Nanggroe Aceh Darussalam	102.95	87.38	35.49	22.25	0.49	141.80
West Java	97.03	47.89	24.88	28.87	0.90	73.24
South Kalimantan	96.16	73.72	37.04	31.30	0.63	111.75
Bengkulu	94.00	68.30	29.25	32.29	0.88	101.20
East Java	93.24	46.75	17.24	67.22	4.40	68.72
North Sumatera	93.06	71.75	43.53	36.39	0.56	106.22
South Sulawesi	92.51	74.79	43.34	14.29	0.28	109.07
Jambi	89.39	71.60	22.30	14.57	0.78	100.89
DI Yogyakarta	80.72	63.92	25.74	26.37	0.88	81.34
Central Java	77.86	58.65	25.54	25.95	0.78	71.99
13 provinces	100.00	63.81	30.52	30.87		100.07

Sources: Indonesia Statistic Bureau

<http://sp2010.bps.go.id/index.php/site/tabel?tid=270&wid=0>

Accessed on February 20, 2014 at 19.26 pm Brazil Time

[http://bps.go.id/tab\\_sub/view.php?kat=2&tabel=1&daftar=1&id\\_subyek=19&notab=13](http://bps.go.id/tab_sub/view.php?kat=2&tabel=1&daftar=1&id_subyek=19&notab=13)

Accessed on March 05, 2014 at 14.06 pm Brazil Time

Table 13 Minimum Wage, Wage, Employment and Productivity by Province in 2010						
Provinces	Minimum Wage (%)	Average Wage (%)	Minimum wage/Average Wage (%)	Wage Participation on GDP	Employee/ Employment	GDP/Employment
Nanggroe Aceh Darussalam	141.8	102.9	87.4	25.7	26.4	0.90
Papua	132.0	143.9	58.2	22.3	14.6	0.80
DKI Jakarta	121.9	135.8	57.0	17.2	67.2	4.40
South Kalimantan	111.7	96.2	73.7	29.2	32.3	0.90
South Sulawesi	109.1	92.5	74.8	25.5	25.9	0.80
North Sumatera	106.2	93.1	71.8	23.1	32.3	1.10
Bengkulu	101.2	94.0	68.3	35.5	22.3	0.50
Jambi	100.9	89.4	71.6	37.0	31.3	0.60
DI Yogyakarta	81.3	80.7	63.9	43.5	36.4	0.60
East Nusa Tenggara	80.8	103.4	49.6	43.3	14.3	0.30
West Java	73.2	97.0	47.9	36.3	40.7	0.90
Central Java	72.0	77.9	58.7	33.0	28.9	0.60
East Java	68.7	93.2	46.8	24.9	28.9	0.90
13 provinces	100.1	100.0	63.8	30.5	30.9	1.0

The highest minimum wage is in Nanggroe Aceh Darussalam. Nevertheless, the average wage in this province is not much higher than the average wage of the 13 provinces considered. The minimum wage in this province is correspondent to 87% of the average wage, the largest of these relationships between the 13 provinces. In Nanggroe Aceh Darussalam wages are not very high and minimum wage should contribute to that is relatively wage inequality. small wage inequality. The share of wage in GDP of this province is relatively small because it is small the number of employees in relation to the total number of employed persons employment., since the average wage is not low in the province and productivity of the total employment number of employed people is not high.

As seen in the previous chapter, agriculture employs an half of the people who work represent half of employment in Nanggroe Aceh Darussalam, but agricultural productivity is not so low as in the others provinces of Indonesia where agriculture it represent a

high proportion of provincial employment because this sector employs many people, because it produces 276% of the provincial GDP. Nevertheless, in Nanggroe Aceh Darussalam there is a bigstrong difference in productivity, between agriculture and the total of the others sectors. The productivity of half of the population working outside agriculture isn three times larger than that of agriculture with half the working population of the province., In Nanggroe Aceh Darussalam the others activity sectors outside agriculttue generate three quarter of the provincial GDP.

In Nanggroe Aceh Darussalam, outside agriculture, no sectors of activity have lower average productivity. Service is the sector activity of lower average productivity. In others provinces this sector has very low average productivity, but in Nanggroe Aceh Darussalam average productivity of this sector is not so low, because these sectors activities employ 42% of worker generating 25% of the provincial GDP outside agriculture. In Nanggroe Aceh Darussalam , service has 60% of the average productivity outside agriculture.

Compared to the others provinces, the structural heterogeneity of the economy in Nanggroe Aceh Darussalam is relatively small. Nevertheless, half of the provincial employment is in agriculture that has half the provincial average productivity. andFurthermore 42% of employment outside agriculture is in service with 60% of average productivity outside agriculture. Associated with the lowest structural heterogeneity, income inequality is relatively small (GINI of 0.30), the smallest of 13 provinces considered together with alongside the Jambi province..

In Nanggroe Aceh Darussalam only 26.4% of the working population is employede and wages account for 25.7% of GDP. Income inequality is low because the self-employed are relatively well paid and wage inequality is relatively small. The high minimum wage compares to wages contribute to low income inequality in this province.

In Jambi, income inequality is also small (GINI of 0.30), but in this province wage andwage and minimum wages are relatively lower levelsthan in Nanggroe Aceh Darussalam. and the relationship between the minimum wage and the average wage. However, the share of wage in GDP is much higher in Jambi than in Nanggroe Aceh Darussalam because of the higher

proportion of employees in the working population and lower productivity of their working population.

The share of agriculture in employment and GDP in the two provinces are similar, but the heterogeneity of non-agriculture farm economy is much larger in Jambi. In this province, construction, services, trade, hotel and restaurant have 78.3% of the working population outside agriculture generating only 40.5% of the GDP (52% of average productivity outside agriculture). In Nanggroe Aceh Darussalam these figures are 82.4% of working population and 61.8% of GDP outside agriculture leading to productivity that is 75% of average outside agriculture in this province. So, Jambi has less a productivity and of more employees, but the wage and self-employment income are lower than in Nanggroe Aceh Darussalam. With a much lower minimum wage in Jambi, the similar income inequality in the two provinces is similar to Nanggroe Aceh Darussalam.

So, income inequality in Jambi is also low but with lower wages than in Nanggroe Aceh Darussalam, more employees and lower self-employed income. The difference in per capita income between these two provinces is 31% but the difference in average wage is 15% and in minimum wage 40%. The higher minimum wage in Nanggroe Aceh Darussalam helps to avoid higher income inequality but is not enough to wages of this province express adequately the high productivity.

Papua has the second highest minimum wage of 13 provinces, unlike Nanggroe Aceh Darussalam; Papua has the highest average wage of the 13 provinces, so that the minimum wage in this province is not as high as the fraction of the average wage. Indeed, the relationship between the minimum wage and average wage in Papua is less than the average wage of the 13 provinces.

The wage inequality is relatively high in Papua and despite high wage; its share on GDP is small because, in this province, employees are a very small proportion of the working population. The share of wages in GDP (22.3%) is higher than the share of employees in this working population (14.6%), showing the huge difference that exists in Papua between wages and income from self-employment. The low income self-employment in Papua reflects the enormous structural heterogeneity of this province where agriculture employs 75% of the

working population and generates only 11.2% of the provincial GDP. Furthermore, outside agriculture, 60% of GDP is generated by the mine which employs only 5% of the population working outside agriculture and, service and, trade, hotel and restaurants employ 69% of working population outside agriculture generating only 16% of GDP. Papua has an enclave economy that employs a very small fraction of population working and generates little effect on others activities. The relatively high wage in the enclave leads to high income inequality (GINI of 0.41). The relatively high minimum wage is not even able to avoid wage high inequality relatively high of wages. Average wage in Papua is 40% higher than in Nanggroe Aceh Darussalam and the difference in per capita income favourable to Papua is only 8%. Minimum wage in Papua is 7% smaller than in Nanggroe Aceh Darussalam.

Others provinces with high income inequality are South Sulawesi and Yogyakarta (GINI of 0.40 and 0.41 respectively). In South Sulawesi, the economic structure is similar to Jambi, but income inequality is higher, as in like that of Papua.

In South Sulawesi and Jambi, agriculture generates slightly less than 30% of provincial GDP and is about 45% of working population employment. Furthermore, and sectoral composition is also similar outside agriculture. The main differences are that the mining has a greater weight in Jambi economy while mining productivity is higher in South Sulawesi.

The average wage is few higher in South Sulawesi has higher average wage than in but in Jambi but the latter province has participation of employees in employment and share of wage in GDP has greater employee participant in the working population and the share of wage of GDP, also showing lower productivity of the working population. larger than in South Sulawesi. Furthermore, in South Sulawesi productivity of all jobs is greater than in Jambi. The share of wage in GDP is not greater than the employee's participation in employment the working population in of South Sulawesi, as observed in Jambi.

The highest income inequality in South Sulawesi compared to Jambi reflects the fact that employees are weight less fraction of the population working employment more than income gap between employees and self-employed, because the income from self-employment is not so low in South Sulawesi, as In the latter province, unlike in Jambi, In South Sulawesi,

unlike Jambi, a relatively high in minimum wage compared to average the wage of the province is not enough to lead to a small income inequality.

The difference in average wage between the two provinces is small (3.5%) and the difference in the minimum wage is relatively higher (8.1%) but both are smaller than the difference in per capita income (12.9%). It is possible the greater income inequality expresses the highest income inequality in self-employment of South Sulawesi.

In Yogyakarta, the other province with high income inequality, the average and minimum wages are relatively low and the relationship between them lies in the middle of the 13 provinces. The share of wage in GDP, however, is the largest of the 13 provinces, next to East Nusa Tenggara. In these two provinces, the high share of wages in income occurs simultaneously with high income inequality. However, the economic structure of the two provinces are different and their differences mean that, in Yogyakarta, the high share of wage in GDP occurs with lower average wages and greater participation of employees in the total working population. Minimum wages have the same value in the two provinces but average wage in East Nusa Tenggara is 28% more than in Yogyakarta. But in Yogyakarta employees are a fraction of employment higher than in East Nusa Tenggara. Furthermore, the average productivity of the total the working population in employment in East Nusa Tenggara is still lower than in Yogyakarta.

The share of agriculture in GDP and employment in the province of East Nusa Tenggara is higher than in Yogyakarta., but agriculture productivity is lower. In agriculture are 68.5% of employment working population of East Nusa Tenggara and 33.7% of Yogyakarta. The difference in productivity between these two provinces is lower in total to others sectors outside agriculture. Yogyakarta has more productivity in higher income sectors as in manufacturing, electricity, gas and water, transportation and communication, finance, real estate and business service, higher income sectors but East Nusa Tenggara has lower proportion of the employment working population and more productivity in the lowest income sectors as trade, hotel, and restaurant and others services.

The minimum wage is also low in the two provinces; in East Nusa Tenggara is higher the level and dispersion of wage is higher but the income inequality is higher in Yogyakarta where employees has greater participation in the working population and is not so big agriculture with

low productivity. In East Nusa Tenggara wage inequality is higher than in Yogyakarta and there is a lot of low-income self-employed in East Nusa Tenggara, especially in agriculture but in Yogyakarta is higher income inequality of self-employment. The low minimum wages in East Nusa Tenggara contribute to a higher wage inequality in this province compared to Yogyakarta.

Jakarta has the third highest minimum wage of the 13 provinces and the second average wage. The relationship between the minimum wage and average wage is below and the average wage of 13 provinces and the share of wages in GDP in the lowest of these provinces. The cause of the low share of wage in GDP is the huge disparity between wage and productivity in the Indonesian capital. Employees have a high proportion of the employment population working in Jakarta and while wages are 35.8% higher than the average wage of 13 provinces, the difference in productivity is 333%. Income inequality (0.36) is in the middle between, on the one hand, Nanggroe Aceh Darussalam and Jambi (0.30) and the others, Papua and Yogyakarta (0.41).

The high productivity is sectorial widespread, but there are great differences between sectors in Jakarta. Productivity is very high in manufacturing, construction, transportation and communication and finance, real estate and business services. Nevertheless, two-thirds of the employment working population is employed by trade, hotel, and restaurant and others services that generate one-third of the provincial GDP. However, even in these less productive sectors, productivity is more than twice the average of the 13 provinces. Given this high productivity, which clearly drew attention in Jakarta, is not much the level of minimum wage but the low level of wage in general. Wage differences are relatively small, as in common throughout Asia, but it was by raising the minimum wage that the state of Indonesia decided to act to raise the level of wages in accordance with the country's productivity.

In other provinces the disparity between wage and productivity is not so clear in a low participation of wage in GDP, because of the small proportion employees of the working population employment consist of employees. So, in addition to Jakarta only in West Java is has a more significantly excessive the participation of employees in the

working population employment and employment and this latter province, this proportion is only 41%.

In West Java the average wage is lower than in Jakarta and the minimum wage is among the smallest of the 13 provinces, next to Central Java and East Java. In these three provinces, the ratio between the minimum wage and the average wage is also lower than in others provinces.

Average wages, in West Java are slightly lower than the average of the 13 provinces compared to and the productivity of total employment is relatively low the working population. of this province but the relatively high proportion of employees in the working population lead to a high participation of wages in GDP, compared with the total of 13 province but smaller than the proportion of employees in the employment working population, indicating that wages are low in comparison with productivity.

In West Java, the employees are a relatively high proportion of the employment working population because agriculture contribute with only 25% of employment and do not have much low productivity, generating 13% of this provincial GDP. Outside agriculture, manufacturing contributes with 48% of GDP and employs 25% of the working population while the majority of these population working employment outside agriculture work in low productivity activities as in trade, hotel and restaurant, construction, transportation and communication and services. These sectors employ 73% of the employment working population outside agriculture and generated 42% of GDP, less than manufacturing. Wage in manufacturing, then, are low in relation to productivity and in this province, the minimum wage is not high compared to the average wage.

Manufacturing is also important in Central Java, East Java and North Sumatera. The average wage of North Sumatera and East Java is similar to that of West Java (4% lower) but in Central Java is much lower (20%). The minimum wage is slightly lower in Central Java and East Java (7% smaller in the case of Central Java) but in North Sumatera is much higher (44%).

In North Sumatera and East Java, the disproportionate productivity relative to wage appear on the low share of wages in GDP (less than 25%), but in Central Java, the contribution of low participation of employees in the employment working population and low productivity of the working population total employment cause employment cause relatively high (33%) share of

wage in GDP, despite the lower average wages in this province., the share of wage in GDP is relatively high (33%).

Agriculture has greater contribution to employment and the GDP of these three provinces and the participation of employees in the employmentworking population is smaller than in West Java. The share of manufacturing in GDP and employment outside agriculture is also lower in these provinces than in West Java.

The relationship of higher minimum wage in North Sumatera has not prevented the low share of wage in GDP and income inequality in this province is similar to those of the others three mentioned and Jakarta which has higher expression high participatonparticipation of manufacturing production in outside agriculture GDP. I. in tThese four provinces have 85.6% of employees and 87.4% of GDP of 13 provinces. They are the main provinces from the point of view of manufacturing production.

Finally, in South Kalimantan the average wage is similar to Bengkulu (2% higher) but the difference in minimum wage is higher (10%). However, the share of wage in GDP is higher in Bengkulu, despite their lower participations of employees in the employmnetemploymentworking population, because of the low productivity of this working population. It is possible that wage inequality is lower in South Kalimantan but income inequality is similar and relatively high (GINI of 0.37%).

Bengkulu have fewer employees in relation to the employmenemploymentworking population and productivity of the total employment of the provinceworking population is low because there is a high share of agriculture in employment (62%) and productivity outside agriculture is low. The relation of employment struturestructure outside agriculture is not very different in the two provinces, but South Kalimantan has more employment in mining and manufacturing and less employment in services. However, productivity isn higher in all sectors of South Kalimantan outside agriculture. compare to Bengkulu.

In short, income inequality in Indonesia is not high, but productivity is disproportionately higher than the level of wages. This difference between wage and productivity is especially great in the provinces where the sectors of higher productivity are more important. The policy to increase the minimum wage contributed to reduce wage inequality, but the purchasing power of

wages has not increased in proportion to productivity. Wage council influenced the fixation of minimum wage and the take into account the characteristic of the provinces, but the correlation between average wage and minimum wage is not high and wage inequality varies between provinces as well as the relationship between wages and productivity.

## **CONCLUSION**

Indonesia has low per capita income because a large proportion of the population works in agriculture with low productivity. There is a great structural heterogeneity in this country because many people work in low productivity activities, not only agriculture, but also in trade and service.

In Indonesia, the structural heterogeneity is associated with low per capita income and low income inequality while in many Latin American countries the structural heterogeneity is associated with per capita income not so low and high inequality.

In Latin America the minimum wage is important to reduce income inequality. The minimum wage does not affect all wages but only lower wages (young people, women and workers with less education and professional qualification). In Indonesia, wage inequality is small but wages remain low compared to productivity.

Indonesia has a good economic performance during the 1970s with the high price of oil. However, the oil price decreased during the 1980s and affected to down the economic performance of Indonesia. Concomitant appreciation of the Japanese Yen from Japan compared to the Dollar, economic activity in the Asia region increased in manufacturing and Indonesia had a challenge in this situation to involve in manufacturing activity to export for developed countries.

In the early manufacturing era, the condition of workers in Indonesia leads to protesting in Indonesia. Industrial development in Indonesia favored trade union movement, despite the opposition of government. At the same time, United States complaint against importation of

manufacturing goods from Indonesia that challenge American jobs. The government answered was to improve workers conditions by fixing minimum wage and use the provincial wage council. Roughly, wage council improving the formula of minimum wage consideration. The evolution of worker needs put into list of worker need that periodically change of component by national wage councils that recommend to ministerial of manpower. The evolution worker needs are:

1. Minimum Physical needs (Kebutuhan Fisik Minimum, KFM), regularized in 1989
2. Minimum Life needs (Kebutuhan Hidup Minimum, KHM), enacted in 1995
3. Decent Living Needs (Kebutuhana Hidup Layak, KHL), enacted in 2013.

There was a debate about minimum wage in Indonesia. The researchers put a question about endogenous character of minimum wage. The fact that recommendation of provincial government to the Minister of Manpower taking into account the local councils considerations, linked minimum wage increase to improvement in labor market conditions and supposedly reduce the negative effect of minimum wage increased on employment (Rama, 1996). In the 1990s, Indonesia minimum wages doubled in real terms (Rama, 1996). The Word Bank drew the attention to the adverse consequence of a sharp increase in wages for manufacturing exports in Indonesia. Researchers show that the effect of minimum wages increases on average wage was small and the policy of minimum wage not affect significantly the employment or the investment in manufacturing sector.

In enacted the regulation to fixing minimum wage in Indonesia by local government (base proposal of local wage council) make that the value of minimum wage in each province is not uniform due to depend on the conditions of provincial economic performance and local labor market.

The policy to increase the minimum wage contributed to reduce wage inequality, but the purchasing power of average wage has not increased in proportion to productivity. Wage council influenced the fixation of minimum wage and the take in to account the characteristic of the provinces, but the correlation between average wage and minimum wage is not high and wage inequality vary between provinces as well as the relationship between wages and productivity

The fixing minimum wage is not enough to solve the problem of wage in general. It is need to improve the average wage. The improvement in the average wage should increase wage

inequality, without minimum wage increase. Here, need a tool to improve wage and simultaneously reduce income inequality.

One possibility would be to combine the politics of the minimum wage increase with the strengthening of unions to bargain wages for a broader set of workers and thus raise the average wage. Trade unionist need building capacity to have bargaining position in work place and represent the employee to propose better work condition and wage to enterprises. The political approach, by trade unionist, need to meet in tripartite relationship (workers, employers and government) about employment issue.

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## ANNEX

### COMPONENT DECENT LIFE NEEDS SINGLE WORKERS IN A MONTH WITH CALORIE 3,000 KILO CALORIES PER DAY

NO	Component Need	Value	QTY	Mea Price	Price
			Sure Unit amoth	(\$Rp)	(\$Rp)
	FOOD AND DRINK				
1	Rice	Moderate	10	Kg	
2	Protein sources:				
	a. Meat	Moderate	0.75	Kg	
	b. Fresh Fish	Good	1.20	Kg	
	c. Chicken eggs	Egg ras	1	Kg	
3	Nuts:				
	Tempe / tofu	Good	4.50	Kg	
4	Milk powder	Moderate	0.90	Kg	
5	Granulated sugar	Moderate	3	Kg	
6	Cooking oil	bulk	2	Kg	
7	Vegetable	Good	7.20	Kg	
8	Fruits	Good	7.50	Kg	(banana
	equivalent / papaya				
9	Other carbohydrates	moderate	3	Kg	(flour
	equivalent)				
10	Tea or coffee	dye	1	box/25pcs	
	Coffee	Sachet	4	@75 gr	
11	Spices	(Value 1 s / d 10)	15	%	
	TOTAL				

## II. CLOTHING

12	Pants / skirt / Muslim Clothing	Medium cotton	6/12	piece
13	Shorts	cotton being	2/12	piece
14	Belt	synthetic leather, plain, not branded	1/12	piece
15	Short-sleeved shirt / blouse	cotton equivalent	6/12	piece
16	T-shirts / Bra	Moderate	6/12	piece
17	Underpants	Moderate	6/12	piece
18	Gloves / long cloth	Moderate	3/24	sheet
19	Shoe	synthetic leather	2/12	pair
20	Sock	Cotton, Polyester, Plain, Medium	4/12	pair
21	Shoe cleaning supplies:			
	a. Shoe polish	Moderate	6/12	piece
	b. Shoe brush	Moderate	1/12	piece
22	Slippers	rubber	2/12	pair
23	Bath towels	100 cm x 60 cm	1/12	piece
24	Worship equipment:			
	a. Sajadah	moderate	1/12	piece
	b. Mokena	moderate	1/12	piece
	c. Peci	moderate	1/12	piece
	TOTAL			
	III. HOUSING			
25	Rent a room	can accommodate other types of KHL	1	month
26	Bed	No.3. plain	1/48	piece
27	Bedding:			
	a. Foam	Mattress foam	1/48	piece
	b. Foam	Pillow foam	2/36	piece
28	Bed sheets and pillow cases	cotton	2/12	set
29	Tables and chairs	1 table / 4 chairs	1/48	set
30	Wardrobe	Medium Wood	1/48	piece
31	Broom	Moderate fibers	2/12	piece
32	Eating utensils:			
	a. Dinner plate	plain	3/12	piece
	b. Tumbler	plain	3/12	piece
	c. Spoon and fork	Moderate	3/12	pair
33	Aluminum kettles	size 25cm	1/24	piece
34	Aluminum wok	size 32cm	1/24	piece
35	Aluminum pans	size 32cm	2/12	piece
36	Cooking spoon	aluminum	1/12	piece
37	Rice Cooker	size 1/2 liter 350 watts	1/48	piece
38	Stove and Accessories:			
	a. Gas stove 1 stove	SNI	1/24	piece
	b. Hose and regulator	SNI	1/24	set

	c. Gas tube 3 kg	Pertamina	1/60	piece
39	LPG	gas @ 3 kg	2	tube
40	Plastic bucket	content of 20 liters	2/12	piece
41	Plastic scoop	moderate	1/12	piece
42	Electricity	900 watts	1	month
43	Energy saving light bulb	14 watts	3/12	piece
44	Clean water	PAM standard	2	Cubic Meters
45	Detergent	cream	1.5	kg
46	Dish soap (dab)	500 gr	1	piece
47	Iron	250 Watt	1/48	piece
48	Portable plastic plate rack	Moderate	1/24	piece
49	Kitchen knife	Moderate	1/36	piece
50	Mirror	30 x 50 cm	1/36	piece

TOTAL

#### IV. EDUCATION

51	Reading	Tabloid	4 or	Former
	Or radio	4 bands	1/48	piece
52	Ball point / pencil	Moderate	6/12	piece

TOTAL

#### V. HEALTH

53	Health facilities:			
	a. Toothpaste	80 grams	1	tube
	b. Toilet soap	80 grams	2	piece
	c. Toothbrush	local products	3/12	piece
	d. Shampoo	local products	1	Bottle 100ml
	e. Bandages or shaver 1 set	contents of 10	1:00	box
54	Deodorant	100 ml / g	6/12	bottle
55	Anti mosquito	Grilled	3	box
56	Haircut	barber / beauty	6/12	Time
57	Comb	ordinary	2/12	piece

TOTAL

#### VI. TRANSPORTATION

58	Transport and other work	Public Transport	30	2 ways
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TOTAL

#### VII. RECREATION AND SAVINGS

59	Recreation	neighborhood	2/12	a time
60	Savings	(2% of the value of 1 to 59)	2	%

## TOTAL

### TOTAL (I + II + III + IV + V + VI + VII)

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