RSIS COMMENTARY

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COVID-19 & Its Impacts

Indonesia's Joblessness: Worsened by the Pandemic

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SYNOPSIS

With the economy contracting, millions lost jobs last year. Returning to growth in 2021 should help reduce unemployment, but much has to be done to raise the labour force's skill levels.

COMMENTARY

IF INDONESIA has luck and performs better than it has in battling COVID-19, it could climb out of recession in the first quarter of 2021. The quicker the exit, the better as the country badly needs to get millions back to work and to generate new jobs.

Some economists maintain that the world's fourth most populous nation, with 270 million people, needs six percent annual growth to create enough jobs. The last time that rate was achieved was 2011, when world commodity prices were strong. COVID-19 brought Indonesia its first recession since 1998, the tumultuous year long-time leader Suharto fell from power.

Unwelcome Shift

For 2020, Southeast Asia's largest economy contracted 2.1 percent. On top of other damage, COVID-19 compounded the big employment challenges Indonesia faces. The coronavirus pandemic, in the words of the head of Indonesia's statistics bureau, has had an "extraordinary impact" on the labour market.

Nearly a decade of progress in reducing the unemployment rate was wiped out by COVID-19 in 2020. Also, last year saw a change to the structure of the labour force, as the percentage of Indonesians in the informal sector – in work not providing a secure income, like street vending – shot up as factory jobs got axed.

This shift is unwelcome because it means more people not on payrolls, and instead surviving on daily income, as opposed to getting a fixed wage plus at least some legal protection and benefits, like workers in the formal sector are entitled to.

Furthermore, COVID-19 could well dent the prospects for Indonesia collecting what is called a "demographic dividend", when the number of people of working-age – in Indonesia that is defined as between 15 and 64 is much larger than the number that are younger or older. So there are more people working and supporting dependants not in the labour force.

COVID-19 and Growing Joblessness

However, COVID-19 jacked up the unemployment rate. The latest government statistics, covering until August 2020, put unemployment at 7.1 percent. That was the highest since 2011 and a significant rise from 4.9 percent six months earlier.

Another finding of the latest survey was a sharp drop in working hours, as the proportion of full-time workers – defined as working 35 hours a week – fell to 63 percent from 71 percent in August 2019. The next set of official employment data, for surveys completed in February, will be released in May.

The report on August 2020 employment showed a striking change as the labour force became less "formal". For August, 60.5 percent of those working were in the informal sector, compared with 56 percent one year earlier. The number in the informal sector, and dependent on scratching up some kind of daily income to meet a family's daily needs, was five million higher than in August 2019.

During COVID-19, President Joko Widodo has tried to help the poor in the informal sector by large outlays for a social safety net, and secondly avoiding full lockdowns of urban areas, which hurt people who cannot work from home. But that approach has limited COVID-19 mitigation efforts, and left the government relying on its vaccination campaign proceeding rapidly in spite of huge logistical challenges.

Missing the Demographic Dividend?

Indonesia did a population census in 2020 and the results, reported last month, support the theory that the country ought to get a demographic dividend – if not for the damage done by COVID-19. Nearly 71 percent of the population was between age 15 and 64, the highest in modern times.

And the census showed how young the population is. A total of 28 percent were Gen-Z, born between 1997 and 2012, and 26% are labelled millennials, born between 1981 and 1996. But naturally a key question is how skilled are the big numbers of young people. Among foreign investors, it's often said that in Indonesia it's "hard to hire", given shortages of some skills, and "hard to fire" because a past labour law allowed huge severance pay, now being scaled down under controversial new legislation called the “omnibus” law.

Job losses caused by COVID-19 have made it harder for Indonesia to reap a dividend from its demographics, as the job picture has deteriorated. Regarding the dividend, there is “either a window of opportunity or a door to disaster here,” Indonesian Institute of Sciences researcher Nawawi told the Jakarta Post last month.

While Indonesia has multiple digital “unicorns” and seen as great potential for investments in digitalisation, it also has tens of millions of younger people who got inadequate education and have few employable skills.

Job Creation and Omnibus Law

For job creation, the government places big hopes on the omnibus law to cut red-tape, attract investors (who have poured into Vietnam) and help small, informal businesses to get formalised and get access to capital. But the provisions have angered labour unions and environmentalists.

Shinta Kamdani, deputy chairwoman of the Indonesian Chamber of Commerce and Industry, says the law is welcomed by small businesses “as it makes it much simpler and much cheaper for them to be a formal business”. For her, a big concern is how Indonesia’s work force will get the skills needed to compete. The government has made many efforts, but “most of them so far have not shown significant changes to the skills-set problems”.

Shinta says education is key to solution, and the quickest way to improve is by “revitalising the vocational and higher education institutions and incentivising companies to educate their employees”.

A World Bank report released in November noted that there were gains in education but a great deal of change is still needed. “Most students do not meet the national learning targets Indonesia has set itself,” the Bank said, adding that 70 percent “could not demonstrate basic literacy” on the Programme for International Student Assessment (PISA) 2018.

Among its recommendations was giving all children a good start, with two years of quality and compulsory early childhood education so children “come to school ready to learn”. “*Going* to school is not the same as *learning*,” the World Bank commented.

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