Mass layoffs predicted as Indonesian economy slows

A correspondent
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Analysts and industry associations are warning that millions of workers will be laid-off this year in Indonesia because of the impact of the global economic breakdown.

With the country's exports severely hit, commentators are predicting slowing growth for 2009, following expansion of around 6.2 percent in 2008. The World Bank has forecast growth of 4.4 percent, whilst the government has revised its target of 6.1 percent to between 4.5 and 5.5 percent.

Private institutions are less optimistic. PT UBS Securities Indonesia president Sarah-Jane Wagg told the *Jakarta Post* in November: "Given our global recession call, we are expecting Indonesian growth to moderate quite significantly, falling to 2.5 percent in 2009... The prices of almost all primary commodities are falling and investments will be very weak."

The economy relies heavily on exports. Indonesia was among the worst affected by the Asian financial crisis of 1997-98. During 1998, 3 million workers lost their jobs and GDP contracted by 13.7 percent. Recovery from that crisis largely depended on exports, flowing from the growth of China and continuing US demand. Exports grew by 17.29 percent in 2004, 19.66 percent in 2005 and 17.67 percent in 2006.

Now, Indonesia's three main export markets, Japan, the US and Singapore, have officially entered recession, China's growth has slowed considerably, and commodity prices have plunged.

As a result, the value of Indonesian exports for November declined 11.09 percent from October and 2.9 percent from the previous year, following an 11 percent decrease from September to October. Exports of oil and gas, the largest sector in 2007, decreased by 25.27 percent in October, with other key commodities—coal, chocolate, palm oil copra, rubber, copper, and tin—also declining.

The trend is expected to continue as the global slump deepens. The World Bank predicts that non-oil commodity prices will decrease by an average of 23 percent in 2009.

Indonesian share prices have already plunged. Mining shares fell by 75.15 percent from January to November, agricultural stocks by 73.7 percent and trade, services and investment shares by 65.66 percent.

The Indonesian Stock Exchange (IDX) said market capitalisation declined from $US211.1 billion in 2007 to $91.2 billion in December, with falls particularly dramatic in October. Major losses prompted the IDX to halt all trading from October 8 to 13.

Many foreign investors pulled out of the share market during the October collapse, IDX listing director Eddy Sugito told the *Jakarta Post* on December 12. The newspaper reported: "Eddy blamed the recent departure of foreign investors on the tightening of liquidity worldwide, initially sparked by the subprime mortgage crisis in the United States, forcing global investors to cash in their holdings in emerging markets".

In a sign of the seriousness of the crisis, the government announced a $6.5 billion fiscal stimulus package on January 5. Judging by the results of such packages in other countries, it will do little to ease the crisis, and is designed instead to ease public anger in the lead up to parliamentary and presidential elections this year.

By the government's own estimates, 6 percent economic growth is required to reduce current levels of unemployment. According to the Manpower Ministry's estimate in early December, 10 million Indonesians are unemployed, and around 40 million underemployed.

Suwartoyo, a member of the Indonesian Institute of Science's humanities research centre, told the *Jakarta Globe* that decreasing exports would lead to mass lay-offs.

"We recorded that many exporting industries have had to cut back on their workforce because demand for Indonesian goods from countries like the United States and European countries is declining," Suwartoyo said. "Seventy-five percent of palm oil is exported… As prices have plummeted worldwide, 500,000 workers in West Kalimantan Province, for example, and 380,000 workers in South Sumatra Province could potentially be laid off some time in the near future."

The Indonesian Institute of Science said 600,000 workers were dismissed in 2008, while a meeting of major industry associations on December 19 predicted that millions would be laid off in 2009. Speaking to the *Jakarta Post*, Indonesian Employers Association (Apindo) chairman Sofjan Wanandi predicted retrenchments of 1.5 million from the construction sector alone.

Indonesian Footwear Association (Aprisindo) chairman Eddy Widjanarko predicted 30,000 layoffs in the footwear industry in 2009, on top of an estimated 10,000 in 2008. It is expected that 150,000 workers in the textiles and garments industry will be dismissed this year.

More than 250,000 migrant workers have returned home since the outbreak of the global turmoil, exacerbating the problem. A mass return of Indonesia's 5.8 million migrant workers would also cut incoming financial flows, with their remittances home totalling approximately 60 trillion rupiah ($US5 billion) in 2006.

Broad layers of the Indonesian population are very vulnerable. Of the country's 227 million people, an estimated 102 million, or almost 45 percent, live on less than $US2 a day.

A Roy Morgan Research Survey conducted at the end of October found that 59 percent of Indonesian households do not regularly save any money, while 59 percent spend between 30 and 50 percent of their monthly budget on food.

The plight of the Indonesian masses will significantly worsen as the economic crisis deepens and sackings increase. In the lead-up to this year's elections, social unrest could well produce political crises.