Indonesian government threatens mass layoffs over minimum wage rises

John Roberts
21 February 2013

Facing renewed mass protests by workers over employer and government moves to scrap or postpone minimum wage rises promised last year, the administration of President Susilo Bambang Yudhoyono has warned that almost a million workers would lose their jobs if the pay increases went ahead.

Indonesian Industry Minister MS Hidayat last week declared that unless government authorities postponed the increases granted last year then labour-intensive industries would lay off around 900,000 workers by April. According to Hidayat, 1,320 food and beverage, footwear and leather, textile, tobacco, toy and furniture factories could close.

Yudhoyono's government pledged to raise wages following a strike wave last year that included stoppages by two million workers in industrial complexes across 24 cities on October 3. Central to the strikes were demands for higher pay, universal health insurance and an end to growing social inequality.

By introducing minimum wage decrees, the government hoped to head off a movement that had the potential to break out of the framework of limited and regional protests called by the country's trade unions.

The wage rises were supposed to average 40 percent, but were set on a region-by-region basis. Even where the increases were about 40 percent, the minimum wage for skilled and semi-skilled workers still only rose to around $US220 a month. In many regions, the rises were lower. In Bali, the provincial administration set the minimum wage at 1,181,000 rupiah ($US123) per month.

Late last year, however, Yudhoyono agreed to an exemption for labour-intensive industries following objections by employer groups. Hidayat denounced other ministries for not following suit quickly enough. In particular he condemned the Manpower and Transmigration Ministry for not scrapping a 2003 decree that permitted companies to freeze wages only if they had suffered financial losses for two consecutive years. Hidayat stated: "We need to review the decree because we are in an emergency situation. This is a special case where we need to prevent massive layoffs and save these businesses."

The manpower ministry replied that it was granting employer demands for wage freezes. Of the 946 companies that had made wage freeze applications, 50 percent had already been approved.

Employer groups are pushing for a wider de facto wage freeze. Indonesian Employers Association chairman Sofjan Wanandi claimed that 15,000 workers in Greater Jakarta had already lost their jobs in recent months because of the new wage policy.

Hidayat's job destruction threat was issued a week after tens of thousands of workers joined protests called by the Indonesian Metal Workers Federation in five industrial centres on February 6 to protest the delays to the minimum wage rises. In Jakarta, an estimated 35,000 metal workers were involved.

Having helped limit last year's strikes by concluding the wages deal with Yudhoyono's administration, metal union president Said Iqbal expressed concern over the wage freezes. "What's the point of announcing a minimum wage increase if the government lets the companies avoid their responsibilities?" he told journalists. The unions fear that any backtracking on the minimum wage will fuel social unrest that they will not be able to control.

Protesters also demanded that Yudhoyono issue a presidential decree that would lead to universal health insurance by 2019, and a guarantee of a pension fund for workers from 2015. Demonstrators also objected to two bills on national security and social organisation, saying the legislation would curb their right to protest, on the grounds of "security." The Indonesian Labour Workers Association has proposed further rallies for February 26 and May 1.

Workers are also angry over unemployment. Central Statistics Agency figures show that 41.4 million people, or 35 percent of the workforce, are either unemployed or under-employed, that is, working only a few hours each week.

Economic uncertainty has fuelled the employers' revolt over the minimum pay rise. Indonesian economic growth in 2012 fell to 6.1 percent, the lowest rate in two years. Even this level was achieved only because of high domestic spending and an increase in foreign direct investment (FDI). In the last quarter of 2012, private consumption rose by 5.4 percent, while FDI increased by 26 percent over 2011. But exports fell by 6.6 percent and the country recorded its first annual trade deficit, $1.63 billion.

Foreign investors are primarily attracted by Indonesia's wealth of natural resources, its large and cheap labour force and relatively high domestic consumption. The inflow has been boosted by the increased liquidity in international money markets resulting from the "quantitative easing" policies in the US and Europe, even as the slump in these markets is reducing demand for Indonesian exports.

While opposing wage increases, the international financial press is demanding major government spending on roads, ports and airport infrastructure. A Reuters report on February 5 commented that Yudhoyono had promised to spend billions on infrastructure "but little has been seen so far." The article supported corporate demands that fuel subsidies be slashed to help pay for the projects that foreign investors need, while noting this would be a "risky move" in term of social unrest.

The fight by Indonesian workers for higher wages and basic social rights is emerging alongside those developing throughout Asia, including China and South Korea. The social and class tensions produced by the government's minimum wage backtracking will mount in the weeks and months ahead.