

THE IMPLICATION OF ECONOMIC CONDITION TO THE EMPLOYMENT SECTOR IN EAST JAVA

Hary Soegiri¹, Slamet Riyadi²

Academy of Engineering and Aviation Safety (ATKPSBY),
University of 17 Agustus 1945 (UNTAG)
SURABAYA, INDONESIA

E-mails: hary_soegiri@yahoo.com, slametriyadi08@yahoo.com

ABSTRACT

East Java with its population of 37.8 million achieved the economic growth of 7.24% in 2012, far beyond the national average economic growth of 6.3%. Thus, this achievement has made the Governor of East Java, Soekarwo, to become optimism to project 7.5% of economic growth in East Java in 2013. To achieve this, East Java required fresh investment of 231 trillion rupiahs. That figure could boost the Gross Domestic Product up to 1,134 trillion rupiahs and could increase the average income per capita per year to 31 million rupiahs. Based on the notes of East Java Investment Agency, during 2012 the amount of investments increased by as much as 90 trillion for total investment, where the investments of domestic investors were higher (53%) than the investments of foreign investors. Nationally, 30% of total new investments in Indonesia were in East Java. This increase percentage in investments must be accompanied by the increase of workforce, in order to be benefited to the existing workforce. There have been four strategic programs to support the economic growth in East Java toward the work expansion and favorable employment conditions:

- 1. Quality Improvement and Workforce Productivity Program by improving the quality of human resources and optimizing the training events in each acting unit of workforce training into internationally-standardized training events.*
- 2. Workforce Expansion and Placement Program to create the expansion of job opportunities in both formal and informal sectors remuneratively, productive, viable and prosperous.*
- 3. Industrial Relationship Development and Working Conditions Program to restore the working conditions and remuneration systems, empower industrial relationship institutions, facilitate the settlement of industrial relations disputes, and foster industrial relations.*
- 4. Workforce Monitoring and Labor Protection Program to improve the professionalism of labor inspectors, protection of women and children labor, occupational safety and health surveillance.*

Keywords: *Economic, Workforce, Quality, Productivity*

INTRODUCTION

The economic of East Java, with its population 37.8 million, and its achievement of key achievement indicator achieved the economic growth of 7.24% in 2012. This was far exceeded the national average of economic growth of 6.3%, thus made the Governor of East Java, Soekarwo, felt optimistic to project the economic growth of 7,5% for East Java in 2013. To achieve that percentage, East Java required fresh investment of 231 trillion rupiahs. This number of fresh investment could boost the Gross Domestic Product (GDP) to 1,134 trillion rupiahs and increased the average income per capita per year to 31 million rupiahs.

What kinds of effort are conducted to achieve such condition? Soekarwo confirmed that the key is regional security for investment. During this time, he said, the reputation of East Java has been known as a prospective investment location. However, he also admitted that the investors, especially foreign investors, were noting the horizontal conflicts that happened. Nevertheless, the Governor considered that the conflicts happened were not too destructive to make the all investors stopped investing. "The temperature has increased, yet has not heats up".

Based on the records of the International Investment Grade, the governor recognized that the performance of the bureaucracy and infrastructure sector needed to be improved. A number of policies that cut a number of regulations about licensing, export-import policy, and the presence of inter-regional trade attaché had been taken to support the business in East Java. About the performance of infrastructure, as admitted by the South Trails (*JLS*) and the *Suramadu* Development Zone, had not been optimal yet and should become the homework of the future government. PR in the future. In 2013, East Java still focused on the development of *on farm* agriculture by applying many technological approaches to improve food productivity. The development of agricultural sector was based on the report of Central Statistics Agency in August 2012, that of the 19.08 million of working people in 2012, most of them, 7.47 million people, were working in the Agricultural Sector (39.16 percent). The second biggest percentage was in micro commerce sector, retail sector, restaurant sector and hotel sector of 3.83 million people (20.09%), and industry sector of 2.83 million people (14.86 %).

Those numbers made the rural areas as characteristic of East Java since rural areas are the biggest area in East Java. This was supported by the record of Central Statistics Agency which showed that the rural areas in East Java could absorb up to 57.50 labors. In additional, Central Statistics Agency also recorded the increase in number of people working in the industry sector (243.30 thousands), construction sector (215.02 thousands), warehousing sector (10.17 thousands) and other sectors (mining, electricity, gas and water, and finance) for 14.85 thousands. If seen from the contribution of gross domestic product the dominant contributors of the East Java economic growth in 2012 were the commerce, hotel and restaurant sectors (30.07%), followed by processing industry (26.78%) and agriculture sector (16.45%). Hence, the economic structure of East Java is agro-based service industry.

As noted by the East Java Investment Agency, the amount of investments increased by as much as 90 trillion as for the total investment in 2012, which the domestic investment was higher (53%) than to foreign investment. Nationally, 30% of total new investments in Indonesia were from East Java. The executive director of INDEF (A.

Erani Yustika) in the 2013 economy outlook seminar in Surabaya delivered her keynote on the national investments during 2012, in which the foreign investors' investments flowed to the tertiary sector (45.01%), especially to the sub-sectors of trade and repair. On the other hand, the investments of foreign investors in the primary sector were mostly found in the sub sector of mining (11:49%), which, if examined from the aspect of the employment, the number of foreign investment was small when compared to the domestic investors which could contribute 53.30% for the investments.

The Governor of East Java, when directing all officials of East Java Government, explained the outcomes of five Key Performance Indicators for 2012, which include Economic Growth, Poverty, Unemployment Rate, Regional Disparities, and the Index of Human Development.

Table 1: Outcome of Key Performance Indicators of the Development in East Java, 2009-2012

No	General performance indicator	2009	2010	2011	2012
1.	Economic growth	5.01%	6.68%	7.22%	7.24%*)
2.	Percentage of poor people	16.68%	15.26%	14.23%	13.40%
3.	Unemployment	5.08%	4.25%	4.16%	4.12%
4.	Index of regional disparities	115.85	115,14	112.53	- **)
5.	Index of human development	71.06	71.62	72.15	-**)

Source: Central Statistics Agency, The Planning Board of East Java; **) data under process

From the data shown in Table 1, the achievement of key performance indicators of development in East Java showed a better direction, even the source of the Central Statistics Agency and The Planning Board of East Java showed that for the economic growth, the decrease number of poverty and unemployment were better than the national outcome number. The number of Index Capital Cost Ratio of East Java during 2012 showed an additional amount of new capital (investment) required to increase or add one unit of output by 3.09%.

Thus, despite the general economic outlook with its various notes based on the input from experts and situation of the global market situation that is likely to decline, the economic growth in 2013 was still positive. Nationally, the economic growth of Indonesia was estimated to range from 6-6.5%, however, by looking at the record of the achievements of macroeconomic indicators supported by strong leadership, the optimistic economic growth projections in 2013 reached 7.5% for East Java. The keys are in improving productivity and synchronization as well as minimizing horizontal conflict.

Strategy of Employment Expansion

The immense number population influences the social, cultural, and economic condition of the people of East Java. The problems and development challenges of employment in the future are still prioritized on basic social problems such as poverty and unemployment, which leads to the welfare improvement of people in East Java (*RPJMD*

2009-2014). Generally, the complexity of the problems in the field of employment in East Java is characterized by relatively low quality of the labor force in terms of both formal education and skills. The impact of this is the low bargaining position of labor and low wages, as well as the frequent occurrence of disputes in industrial relations, termination of employment and the low point of after-work welfare for labor. On the other hand, the development in the market demand of labor and industry competition in global markets, under the efficiency factor, require superior labor that master the use of technology and information. Also, the needs of labor that have professional components that lead to professional qualifications standards-based labor (Indonesian National Occupational Competency Standards: knowledge, skills and attitude, and social) are increased. Additionally, the labor market in future requires the guarantee of conducive, harmony and dialog employment conditions that can create friendly atmosphere of industrial relations and certainty in the rules of business and investment. International Labor Organization states that another factor that has become an important issue in the field of employment sector based on the framework of the global market is the changes of type and activities of work. The changes are marked by the end of the traditional job to the modern job, as indicated by the following descriptions:

1. From production-oriented to knowledge-based work.
2. From individual-oriented work to team work collaboration.
3. From coordinative work to self managing and self direction work.

Based on the perspective of development planning, The Governments (central and regional) should pay high attention to the balance of the various aspects in a single area of economic development, legal, social, cultural, political, governance and environment to support sustainable development, which is followed by an accountable and good governance. The creation of job opportunities in both its number and quality should become the basic consideration of the implementation of development. Labor is not only the object and subject of the production process and the development, but their income can also move the domestic market as well as stimulate the economic growth. Therefore, the labor-friendly economic development strategies should have impact on the creation of job opportunities (pro job) (Suroto, 1992).

The Employment Expansion Program has become third priority in the Medium Term Development of East Java province in 2009-2014. By implementing this priority program, it is expected to encourage the expansion of job opportunities in both formal and informal sectors, improve the quality and productivity of labor, and create labor market flexibility in conducive industrial relations.

Theoretically, at least three things cause the unemployment: (1) **Frictional unemployment** as resulted by imperfect information of labor market information and high cost of acquiring information. (2) **Structural unemployment** as resulted by gap caused by the differences in the job market demand and the skills that the labor have, the location of job available are unreachable for the labor, and the high cost of transition of the skills and work location. (3) **Flexibility of job market unemployment** as resulted by the factors of supply and demand for labor (Supply > Demand) or the prevailing wage rate.

The source from Central Statistics Agency of East Java stated by, up to August 2012, the employment situation in East Java was still relatively improved, even though the industrial relations between employers and workers were not harmonized yet. This

condition was resulted from the labors demand related to the determination of the city minimum wage, sectorial minimum wage, and the removal of outsourcing system.

The national picture of the employment situation can be obtained from the National Labor Force Survey conducted quarterly since 2011. This quarterly employment data can explain in general the seasonal conditions of employment. This is because the majority of the workforce in East Java in particular and Indonesia in general still rely on the agriculture sector that is heavily influenced by climate change. On the other hand, an insignificant increase of the total number of labor force to the labor improvement can illustrate the intense competition among the workforce.

The main indicator of labor that is often used as an indication of success in overcoming the problem of unemployment is the Unemployment Rate which is the ratio between the numbers of unemployed to the labor force. Data of Central Statistics Agency reported that Unemployment Rate in East Java since February 2011 (4.18 %) experienced a slow decline at 0.06 % points up to August 2012 (4.12 %). In line with this, the Labor Force Participation Rate increased from August 2011 to August 2012. Therefore, especially in the development of the employment sector, a joint effort between the Government and its people to overcome the unemployment and poverty, particularly in terms of people's dependence on formal jobs. On the other side of the normative data it was showed that the industrial relations were improved despite a state of relative inharmonic industrial relations between employers and workers, especially after the establishment of the city minimum wage, sectorial minimum wage, and the removal of outsourcing system. Though, in overall, over the last three years, the number of workers in the informal sector in East Java declined and shifted to jobs in the formal sector, especially in the sectors of Industry, Trade, Restaurant and Accommodation Services and Other Sectors comprising Mining, Electricity, Gas and Water, Construction, and Finance.

Table 2: Employment Indicator in East Java, 2010-2012

Employment indicator	August 2010	February 2011	August 2011	February 2012	August 2012
1. workforce	19.527,051	20.251,672	19.761,886	19.831,685	19.901,
- employment	18.698,108	19.406,025	18.940,340	19.012,225	19.081,995
- unemployment	828,943	845,647	821,546	819,460	819,563
- total of productive age		28.368	28.440	28.515	28.572
2. workforce participation rate	69,08	71,39	69,49	69,55	69,62
3. unemployment rate	4,25%	4,18%	4,16%	4,14%	4,12%

Source: Central Statistics Agency of East Java, result of National Workforce Survey, 2010 – 2012

At the macro level, based on the sectorial distribution of data by Central Statistics Agency, the labor absorptions in East Java that has impact on the decrease of unemployment rate was still dominated by the agricultural sector, especially in rural,

which reached 59% in the agricultural labor absorptions. In urban areas, the dominant labor absorptions sectors were trade, services, and industrial sectors.

Table 3: numbers of productive and employment of people above 15
Based on Main Job Status, 2010 – 2012 (thousands)

Main Job Status	2010	2011		2012	
	August	Februari	August	Februari	August
Formal job:					
- work with labor	555,88	600,85	618,44	654,53	645,43
- labor/employment	4.879,82	5.098,73	5.486,71	5.495,47	5.805,16
Informal job:					
- freelance	3.019,91	3.462,76	2.885,29	2.669,67	2.756,05
- work with labor/temporal worker	4.098,25	3.911,26	3.849,41	3.986,67	3.610,85
- freelance at agricultural sector	1.470,16	1.452,91	1.431,75	1.411,13	1.390,53
- freelance at nonagricultural sector	905,98	888,68	1.052,73	1.127,68	1.186,63
- family workers/unpaid	3.768,09	3.990,84	3.616,02	3.667,06	3.687,34
Total	18.698,10	19.406,03	18.940,34	19.012,23	19.081,99

Central Statistics Agency of East Java, result of National Workforce Survey, 2010 - 2012
East Java 2013 Economic Outlook and Its Implications on Employment Sector

The results of economic outlook seminar in 2013 in Surabaya at the end of December 2012, still gave an optimist overview for the economic actors in Indonesia. Especially in East Java where its economic growth reached 7.22%, even higher than the national economic growth that reached an average of 6.4%, the optimism occurs in the macro-economic conditions of East Java which was even projected to grow by around 7.5% (under the direction of the Governor of East Java, 02/03/2013). However, much effort was needed including the consequences on the export market conditions (especially Europeans and Americans) which are getting tighter and tend to decline, the efficiency demand and the pressure of the labor union. Thus, the government role is still required to intervene the pro job, pro poor and pro growth implementation of programs and policies, and maintain the conducive condition of industrial relations.

The economic foundation needs to be built in East Java by strengthening the human resources bureaucracy, the use of information technology, the infrastructure, the empowerment of economic populism and the middle class people. The approach of economic populism has been proven to be strong and crisis resistant and has become a driver of the domestic market, while the empowerment of the middle class is based on the reason that to empower the young job seekers from middle class who are educated and have a certain level of productivity. This middle class society, for East Java, is the impact of 'demographic bonus', which if not properly managed, will not become a drive of productivity but a burden to the local economy (Saparini, 2013).

Central Statistics Agency delivered its analysis prediction result, that the additional number of labor force will be slightly lower than the previous years, due to increasing enrollment rates, especially school-aged population (15-19 years old). This is because of the increase of the education budget as well as several local government policies that required compulsory education from 9 years to 12 years. (Mochtar on National Workforce Planning Workshop 2013-2014, held by The Workforce Planning Center under the Ministry of Employment, at Bidakara Hotel, Jakarta, Wednesday (28/11).

Hence, the economic conditions in 2013 and its implications in the field of employment, was expected to have significant impact on job creation, especially in the sectors of industry, construction and warehousing, and to encourage the people of East Java to work on the more secure and productive formal jobs. An insignificant increasing number of labor force to the improvement of workers, could illustrate that by 2013 the implications for the level of competition among the workforce were increasingly stringent. Therefore, the joint effort between people, especially in the education field, and the Government of East Java to overcome unemployment and poverty was still highly needed, particularly in terms of people's dependence on formal employment as well as enhance the competence based on the labor market needs.

In order to actualize the employment services to improve the quality and competitiveness of the workforce, under the agenda of overcoming unemployment and improvement of employment climate in a holistic and integrated manner, the efforts should be started from the pre-work employment stage, during-work employment stage and post-work employment stage. Efforts of declaring the program of East Java competent, the formation of international-standard training centers, and the establishment of professional certification institutes are some of the priority programs aimed at encouraging the competences and competitiveness of human resources of East Java in the global market. These efforts were done within the framework of ensuring equal employment opportunity as mandated by Law No. 13 of 2003 on employment, Act 32 of 2004 on regional government, and the Decree of Minister of Workforce and Transmigration on the minimum service standards that are required by the government to give to the people in the field of labor.

The policy of workforce development in East Java, on achieving the emerging province (province with high growth rate) and the downward momentum of unemployment rate, has been directed at the workforce friendly-growth policy of an area based on the momentum of economic growth. East Java, with its projected growth of 7.5%, had been driven to have an impact on job creation, so that in turn could reduce the level of unemployment and increasing productivity for underemployed groups (under unemployment) whose number per August 2012 reached 6.22 million people.

3 strategic spirits to sharpen the priority programs of workforce development in East Java were:

1. Trainings, in accordance with the excellence of each areas of work-age population that still have the education workforce. East Java is superior in the agricultural sector, so its need to get training in the skills of agriculture and fisheries, in order to use appropriate technology and compete with foreign countries. Through Productive Village Movement, the efforts on job creation will be formed and the efforts are expected to provide job opportunities for their own people. Additionally, the areas can

become the supply areas for the urban needs, can move the economy as an embryo of centers of productive effort, and can sustain the migration flow.

2. Improving the quality, competence, and labor productivity. New investment or expansion needs to be supported with a favorable climate, especially understanding the tasks and the synergy of normative aspects with the Office of the District/Municipality as a field executive. The provision of infrastructure and the availability of qualified and experienced human resources are conducted, such as by implementing trainings oriented to the development of leading sectors, the development of a decent, productive and quality independent business, so that the impact of economic growth in East Java can be benefited by the community at large.
3. Additional termination anticipation program as impacted from the implementation of city minimum wage for the labor-intensive sector and the implementation of the regulation of The Ministry of Workforce and Transmigration No. 19 in 2012 on the sectors that can be outsourced. The proposed suspension of the labor-intensive industries should be prioritized to be fixed reviewed and processed through prevailing wage deferral mechanism. Those industrial sectors that need attention more are textiles, footwear and toy industries. Thus, the dialogues with the companies and unions should continue to be promoted in order to reach agreement in the bipartite forums at the company level, in order to propose to delay the minimum wage.

At last, the ultimate task of the government and relevant stakeholders is to prepare competitive and superior human resource to make sure that the economic development is linear with the human development. High quality workforce will be achieved and existed if the qualities of human development in East Java are superior and competitiveness. Access to education, health, employment, nutrition, and other public facilities will determine the quality of Indonesian human and labor. Welcome to the great East Java, one of the emerging provinces

APPENDICES:

Four strategic programs to support the economic growth in East Java towards the expansion of employment and favorable working conditions:

1. Quality Improvement and Workforce Productivity Program. To encourage the formation of labors with characters which are able to anticipate changes in technology and job requirements and fill jobs inside and outside the country by improving the quality of human resources and optimizing the training events in each acting unit of workforce training into internationally-standardized training events.
2. Workforce Expansion and Placement Program. To create the expansion of job opportunities in both formal and informal sectors remuneratively, productive, viable and prosperous, both inside and outside the country, and to encourage the increased formal placement services to the needs of the job market in both inside and outside the country.
3. Industrial Relationship Development and Working Conditions Program. To restore the working conditions and remuneration systems, empower industrial relationship institutions, facilitate the settlement of industrial relations disputes, and foster industrial relations.