

## Challenge 8

### Challenges to Fighting Social Disparities in Indonesia

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#### **Poverty, Inequality, and Vulnerability**

The decline in poverty incidence in Indonesia has been continuous but has recently slowed. Inequality was at an acceptable level during the 1980s and 1990s, but started to rise to an unprecedented level towards the end of the 2000s. The vulnerability rate – the proportion of people who are near poor or at risk to become poor – has been high. By 2045, Indonesia aims for zero poverty; a Gini coefficient of 0.36; low vulnerability; and a middle class comprising 80% of the population, up from 19% in 2010.

These targets, particularly for vulnerability and size of the middle class, will not necessarily be easy to achieve. In 2015, over 90% of the populations of Malaysia and Thailand were secure and well off, as were 66% in Viet Nam and 43% in the Philippines. In Indonesia, however, only 32% of the population could be classified as secure and middle class, with 67% either poor or vulnerable (World Bank, 2018). Indonesia's Vision 2045 aims to turn this around.

#### **Equitable Quality Education and Training**

Indonesia envisions high-quality education for all, with almost universal coverage of senior secondary school enrolment and 60% coverage of tertiary enrolment in 2045. Education is key to social mobility, low inequality, and the end of social disparity. Demand-driven vocational education and training can enhance skills and equip the young population for employment. The government must pay more attention to the education of workers from the bottom 40%, including by helping finance skills development.

### **Reducing Informal Labour**

In 2015, only 42% of workers were in the formal sector. The extensive informal sector is associated with low productivity and low workers' protection, which are incompatible with reducing social disparity. Formal sector employment is expected to be at 85% in 2045, accompanied by better social protection. As Indonesia strives to achieve universal social security, informal workers will also benefit.

### **Ending Malnutrition**

Relative to its per capita income, Indonesia is an underachiever in reducing malnutrition, especially stunting and wasting amongst young children. The stunting rate is the second highest amongst Association of Southeast Asian Nations (ASEAN) countries and the wasting rate is the highest. Malnutrition contributes to children's low cognitive quality, hampering social mobility. Indonesia envisions ending malnutrition by 2035.

### **Comprehensive and Sustainable National Social Security System**

Indonesia envisions a comprehensive and sustainable national social security system to protect all its citizens. The continuum of care concept will underlie healthcare, with each citizen's needs supported from the first 1,000 days of life until old age. The focus will be not only be on curative care but also, and more importantly, on prevention and healthy lifestyles. The social security system will eventually cover even workers in the informal sector.

### **Equal Access to Quality Health Services**

Access to quality healthcare is yet to be provided for all. Indonesia envisions substantially reducing the disparity in both access and health status by 2045. The poorest 20% of the population has significantly less access to healthcare and worse health than the richest 20%.

## **Redistribution of Economic Opportunity through Micro, Small, and Medium Enterprises**

Indonesia envisions a more substantial role for micro, small, and medium enterprises (MSMEs), empowered through the adoption of science and technology, innovation, and access to financing. MSMEs must be linked to large enterprises to generate multiplier effects and reduce socio-economic disparity.

## **Enhanced Socio-Economic Participation of Women**

Indonesia aims to increase women's socio-economic participation to help the country become an economic powerhouse. The 48.9% female labour participation rate is targeted to increase to 65% by 2045. This will not only directly reduce the economic gender divide but also indirectly promote social equality by reducing early-age marriage, which is a serious issue; improving female access to quality education, particularly at the tertiary level; enhancing skills; and increasing women's political representation, which will lead to gender-sensitive development programmes and policies.

## **Seven Challenges**

Indonesia faces seven related challenges: slower economic growth, structural transformation, a low tax base, decentralisation, geography, automation, and urbanisation.

### *Slower Economic Growth*

Economic growth has slowed since the Asian financial crisis of 1997/98. International agencies project that slower growth will continue into the distant future, and some experts say that recent growth has been lower than it should have been (Resosudarmo and Abdurrohman, 2018).

Higher economic growth is important to create jobs and to accumulate resources needed to finance redistribution, social programmes, and a comprehensive national social security system. Higher and sustained growth rates will bring more people into the middle class, which will generate savings and demand for more, varied, and quality goods.

The overall benefit of higher economic growth will depend on its sources. Numerous studies have shown that manufacturing or industrialisation transform the economy,

provides jobs, and has a multiplier effect. However, industrialisation has recently stagnated in developing and emerging countries and given rise to services sectors that are often informal and do not contribute much to the economy.

### *Structural Transformation*

Like many other developing and emerging countries, Indonesia experienced premature deindustrialisation. Industry drove formal job creation in the 1980s and 1990s but has since been stagnant and slightly decreasing while services have predominated.

Economic structural change must promote sectors that generate growth, create jobs, and have a multiplier effect. The absence of a strong industry may pose a big challenge to Indonesia enlarging its formal sector by 2045 and providing universal workers' social protection. After the economic and political crisis of 1998, the economy suffered from more unskilled labour intensity, higher informal urban intensity, higher informal labour intensity, and higher informal unskilled labour intensity.

### *Low Tax Base*

A comprehensive and sustained social security system requires strong tax financing. Indonesia's tax ratio of less than 11% in 2017 is lower than that of other developing and emerging countries. Of interest is the still-sizeable contribution of corporate income tax and value-added tax to overall tax revenue. The contribution from personal income taxation still lags behind. More progressive tax reform to widen the personal income tax base and ensure more rigorous compliance will help Indonesia mobilise domestic revenue – a prerequisite for sustainable financing of a comprehensive social welfare system.

### *Decentralisation*

While the central government has a strong role in redistributing income through taxation, local governments also have a redistributive impact by providing education and health services, thereby promoting the national agenda. Decentralisation has had mixed development outcomes, however, and does not guarantee the provision of more inclusive and progressive social services such as education.

### *Geography*

Meeting a target of zero poverty and ensuring that no children are malnourished will require access to pockets of poverty and hunger, including indigenous communities and remote islands or regions. Indonesia's vastness is a challenge to realising the Sustainable Development Goals' vision of leaving no one behind.

### *Automation, Robotisation, and Artificial Intelligence*

The World Bank (2016) estimated that 1.8 billion jobs or two-thirds of the current labour force in developing countries are threatened by automation. The McKinsey Global Institute (2017) estimated that around half of all jobs in Indonesia could be automated using existing technologies. In a country where unskilled labour is still dominant and employment is the main driver of the income of the poor, this poses a challenge to social equality.

### *Urbanisation*

Urban regions have higher inequality than rural ones. By 2045, almost 70% of the population will live in urban areas. By 2035, two-thirds of Indonesia and three-fourths of Java will be urban. These trends are due to people migrating from rural to urban areas for better jobs, and rural areas being transformed into urban ones. If the typical pattern of correlation between inequality and urbanisation continues, overall inequality will increase along with urbanisation.

### **Indonesia–Japan Cooperation in Enhancing Japan's Foreign Direct Investment and its Linkage to Micro, Small, and Medium Enterprises**

Only technical progress can promote growth. It comes from investment in research and development, which has been low in Indonesia. One breakthrough is through technological spillover brought about by foreign direct investment (FDI) from more technologically advanced countries such as Japan. Indonesia and Japan should enhance their economic cooperation through FDI.

Japan's FDI should support production of industrial components. Many MSMEs produce standardised parts and components to support large industries. Existing and potential industries that can be supported by MSMEs and linked with Japanese companies should be mapped.

### Indonesia–Japan Cooperation in Vocational Education and Training and Its Linkage to Industry

LaRocque (2015) pointed out that education in Indonesia does not produce an industry-ready workforce. Many employers reported that most graduates lack the required skills. Curriculums are not linked to the needs of the labour market and have not kept pace with advances in pedagogy, technology, and innovation. Equipment is old and obsolete, and workshops and learning facilities are inadequate.

The government plans to increase enrolment in senior secondary education and vocational education while aligning them more closely with national development goals. However, Indonesia still needs to develop a modern system of technical education and vocational training with strong employer engagement and national coordination (OECD/ADB, 2015).

In Japan, vocational training is provided by the state through public institutions and by private firms and authorised by the state (McCormick, 1989). The main arena for vocational training is mostly in private industry, including apprenticeship training, non-formal training centres, and enterprise-based training. Normally, four types of industrial training are provided: basic training for new recruits; updating training; upgrading training for experienced workers; and 'occupational capacity redevelopment training', which enables workers to acquire skills suitable for re-employment in case they have to quit their jobs.

The government and private sector can initiate or enhance cooperation. Japan's long experience in vocational education, particularly government cooperation with the private sector, has valuable lessons for Indonesia.

In Japan, privately initiated vocational training within firms is incentivised by the Vocational Training Law, which says that if a corporation meets standards and obtains approval from the prefecture and municipal governments, it qualifies for financial and other assistance.

Small firms, either independently or in cooperation with other small firms, can get subsidies from the central and prefectural governments amounting to about two-thirds of the running and capital costs of training. This shows that firms need incentives to conduct training and that governments – central, regional, and local – can play key role.

Local governments in Indonesia know the local labour market situation well and can tailor training not only to secure employees but also to ensure equal opportunity. Japanese firms in Indonesia can more actively enhance vocational education by offering it within their firms or by engaging with other firms, particularly local firms and MSMEs. Other avenues are apprenticeship or training cooperation. Community colleges (*akademi komunitas*, <http://akademikomunitas.id/>) provide polytechnic education (diploma 1, diploma 2), and firms can set up or help set up and implement polytechnic education to cater to industry needs.

### Indonesia–Japan Cooperation to Develop Infrastructure to Mitigate Urban Social Disparity

Inequality resulting from urban development can be mitigated by providing public infrastructure that will support cities' populations at a low cost, such as mass public transportation and efficient housing. In Jakarta, for example, households spend an average of almost 25% of their disposable income on housing and transportation. Clean air regulations can reduce out-of-pocket health costs, and market connectivity will make transactions cheaper.

Towards 2045, Indonesia, particularly Java Island, will experience massive urbanisation and the emergence of larger urban areas. The Jakarta–Bandung megalopolis, for example, is the result of the physical development of the Jakarta Metropolitan Area (JMA) and the Bandung Metropolitan Area, which form a 200-kilometre urban belt from Jakarta to Bandung, marked by a mixture of rural and urban activities that blur the rural–urban divide (Firman, 2009). Although the JMA takes up only 0.33% of the national land area, it accommodates as much as 12% of Indonesia's population and produces nearly 25% of gross domestic product.

The challenge is how to make the megalopolis more egalitarian and inclusive by ensuring that it (a) has infrastructure that can provide low-cost, reliable public goods such as public mass transportation within the megalopolis and to other regions; and affordable housing, including basic facilities such as water, sanitation, waste management, and so on; (b) has a good system to address urban-related environmental problems, particularly those related to air and water quality that have direct consequences for various health-related problems; and (c) provides quality basic education and health facilities. These are necessary to avoid the emergence of a megalopolis that is highly unequal and segregated, with low social cohesion that eventually can lead to more social problems.

Japan had a similar experience with mega-urbanisation after World War II. The formation of the Jakarta–Bandung megalopolis resembles that of the Greater Tokyo Area (which includes Tokyo metropolis, Yokohama, Kawasaki, Saitama, Chiba, and Sagami-hara) and the even larger Tokaido megalopolis in the 1960s.

Japan's experience in managing massive urban development is highly relevant for Indonesia, which has started transit-oriented development (TOD), notably in the JMA. TOD will support sustainable city and urban development by spreading out economic and business centres and linking them through railway-based public transportation and connecting stations with nearby public amenities, shopping centres, office buildings, and apartments. TOD will optimise scarce land and space and support urban renewal through vertical land development, which will create settlements that are more liveable than slums.

Cooperation between government and the private sector can be enhanced in regional planning, investment, and technological transfers in areas such as railway-based public transportation, utilities, sewerage system, waste management, and others. Lessons learned from large-scale urban development cooperation on the Metropolitan Priority Area, started in the early 2010s, can benefit future cooperation.

### Indonesia–Japan Enhanced Educational Cooperation in Selected Fields of Study

Science, technical, engineering, and mathematics (STEM) education has been the backbone of Japan's technological progress. The government of Indonesia is facilitating



cooperation between schools and universities with their counterparts in Japan, focusing on STEM education and research and sending students and researchers to Japan for basic and applied research.

### **Benefiting from Japan's Growing Employment Opportunities**

With its rapidly aging and declining population, Japan needs to sustain its workforce. With its population of over 260 million, Indonesia could potentially supply Japan with much-needed semi-skilled workers, skilled industrial workers, caregivers, and hospitality workers. Indonesia and Japan should cooperate on worker training, including language training and specific standardised skills training, to enable Indonesian workers to adapt to job requirements and to Japanese society.

There are challenges. Language is a big barrier. Japanese language is not necessary for highly skilled workers, but only a handful of companies in Japan work in English. Japan also needs to do more to help integrate foreigners. By accepting only a small number of highly skilled workers, Japan has been able to get away with not having an integration policy.

Sending unskilled Indonesian workers abroad as domestic helpers will be phased out in the next few years in line with government policy. The opportunity to send semi-skilled and skilled workers abroad will relieve domestic job pressure and provide good job opportunities with excellent pay and benefits. This will translate into better welfare for workers' families in Indonesia.

### **Indonesia–Japan Cooperation to Accelerate Improvement in Social Security**

Japan has been managing social security and universal healthcare since the 1960s, with both successes and failures. It has a great deal of knowledge on the impact of an ageing population on taxation revenue, and on expenditure and subsidies to support an ageing population. Indonesia can learn from this extensive experience on how to sustain social security and healthcare and how to adjust and adapt to changes.

Based on Indonesia's Population Projection 2010–2035 (BPS, 2013), more than 7% of the population will be 60 years or older in 2022. By 2045, Indonesia's aging population will be even larger, with greater needs and challenges. Indonesia may benefit from Japan's knowledge and investment in, for example, health information technology.

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