Worker unrest shows need for labor law overhaul

November's unrest by workers in Batam, Riau Islands demanding an increase of the regional minimum wage appears to have subsided for the time being and a large-scale strike looming over Jakarta was called off at the last minute.

But the vocal demonstrations and eruptions of violence reflect growing frustration at the low end of the pay spectrum and could be a harbinger of much wider labor unrest. The rushed and under-pressure resolutions of these disputes suggest industrial relations in Indonesia may be at a turning point and wage councils may find themselves increasingly sidelined.

It is clear the workers in Batam took encouragement from the minimum wage quarrel in Jakarta earlier in November, which resulted in an upgraded settlement after unions warned they would mobilize thousands of workers for strike action, threatening to bring much of the city to a standstill. Initially, the Jakarta Remuneration Board recommended to increase the minimum monthly wage for 2012 to Rp1.50 million from the current level of Rp1.29 million, but then upgraded the recommendation to just under Rp1.53 million.

Jakarta Governor Fauzi Bowo vowed on November 28 to approve the recommendation. The board said it had not yielded to union pressure and insisted the reassessed minimum wage was based on new data on the cost of living in the capital. The Employers Association (Apindo), for its part, has called the wage-hike invalid and warned of lay-offs.

Meanwhile in Batam, the chairman of the All-Indonesian Workers Union, Syaiful Badri, said local unions had reluctantly accepted the recommended minimum-wage hike for that province to Rp1.31 million from the current Rp1.2 million. Badri said he could not guarantee the decision would bring an end to the protests, claiming the new wage level was still far below the regional basic cost of living.

The two cases highlight the fact that the tripartite format of negotiations for setting minimum wages may be losing

its ability to foster consensus between employers and workers. The mechanism, which dates back to 2003 and is part of the Manpower Law ratified under the administration of then-President Megawati Sukarnoputri, gives governors the final word on the matter, after wage councils reach a decision, typically based on estimates on the cost of basic needs. But it appears governors are facing increasing pressure from unions, who are currently riding a populist wave of worker protest and are emboldened by successes in high-profile wage disputes at a number of large companies, including foreign-owned miner PT Freeport Indonesia in Papua.

Labor unrest is as much a political issue as it is an economic one, and is partly driven by a notion of unfairness amid a widening gap between the rich and the poor. This perception is exacerbated by the impression of widespread graft in the government. At the same time, labor laws are under pressure from employers, who are voicing unease over the difficulty of laying-off staff members.

The Manpower Law mandates high severance pay on top of service pay and compensation for workers with three or more years of service. The law also includes generous provisions on strike action. Therefore, employers often prefer fixed-term employment contracts, but the Manpower Law puts restrictions on that too. A study conducted by the World Bank in 2010 finds that "severance pay is estimated to be equivalent to a 'hiring tax' of around one-third of a worker's annual wage." The same study adds, however, that the full severance pay mandated by the law is often avoided in practice. While hourly wages in Indonesia are low compared to other countries in the Association of Southeast Asian Nations (ASEAN) and represent a pull-factor for foreign investment, the rigidities in the overall labor legislation tends to outweigh this effect.

The government seems to understand the pitfalls of the current laws and has promised reform, but so far nothing concrete has emerged. Muchtar Lutfie, the secretary general at the Manpower and Transmigration Ministry, said on November 28 that revisions concerning outsourcing, fixed-term contracts, minimum wages and redundancy payments were expected to be completed by the end of 2012. In a report published on November 29, the Organization for Economic Cooperation and Development (OECD) listed labor laws as one of the biggest challenges for economies in the region.

Referring to Indonesia, Mario Pezzini, director of the OECD Development Center, said reducing the rigidity of labor regulations was necessary to increase employment, adding that overly high minimum wages could also discourage hiring. On the back of these factors, coupled with workers' increasing willingness to resort to strikes, protests and even violence, and investors calling for more flexibility amid uncertainty in the global economic outlook, a review of labor laws appears long overdue.

However, revising the Manpower Law and other employment regulations would be politically sensitive, especially if the changes significantly curtail workers statutory rights. The closer the country moves towards the 2014 general election, the less inclined the government will likely be to tackle the sensitive issue of revising the country's rigid labor laws.

Source: Concord Consulting (www.concordreview.com)