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**Labour Standards under Decentralisation and
Globalisation: The Impact of the Minimum Wage
Policy in West Java, Indonesia**

**A thesis presented in partial fulfilment of the requirements for the
degree of**

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ABSTRACT

This study explores the importance of the minimum wage policy in West Java, Indonesia, within the overall framework of development and in the face of globalisation and decentralisation. A holistic approach to the minimum wage policy is applied. Generally, the study assesses the impact of decentralized minimum wage fixing processes on employment and participation of trade unions. In addition, it explores whether the minimum wage policy assists workers in coping with the negative effects of globalisation. It also explores the link between minimum wages and *decent work*.

This study reveals that while there is some evidence of employment losses due to increases in wage levels in West Java, it did not find conclusive evidence that minimum wage levels were the main factor responsible for the employment decline. It is likely that a combination of factors such as a decrease in global demand for Indonesian manufacturing products and the current macro-economic conditions in the country, are also responsible for the employment decline.

This study finds that the process of minimum wage fixing at local level has a positive impact on trade union participation in wage bargaining. The empowerment of trade unions through new legislation has enabled independent trade unions to flourish, which allows workers to join any trade unions. Consequently, minimum wage bargaining at district/city level is more dynamic than the centralized system of minimum wage bargaining in the past. Trade unions are able to express their views on what the minimum wage levels should be.

Moreover, the minimum wage fixing processes at local level have the potential to promote *decent work*. The minimum wage fixing processes are an alternative to wage bargaining and can accommodate even sectors where trade unions are least active or non-existent. The minimum wage processes at district/city level are already established and

they are in position to expand to a wider framework of providing welfare for workers. However, decent work objectives will not be achieved without the full cooperation of both central and local governments. Under the current decentralisation process, where central and local government views are still not in agreement, it is difficult to see how *decent work* can be applied nationally.

Thus, the minimum wage policy and trade union development are important in the overall development paradigm. Both ensure the existence of a rights based approach to development where workers are given rights to organize as well as earn a basic living. Nevertheless, the development of trade unions in developing countries is under threat from flexibilisation of the workplace in which jobs have become less and less secure. The minimum wage policy, however, is still viable because it covers all types of workers. At the very least, minimum wages provide a safety net wage that can prevent real wages from falling.

The writer suggests that more studies should be conducted on the extent and effectiveness of trade union participation in minimum wage bargaining. In addition, further studies should be conducted on the effect of minimum wages and trade unions on non-standard or flexible workers. Flexible workers, whether they are fixed-term contract and outsourced workers, are becoming an important part of the global labour market and increasingly pose a challenge to the increasingly important role of trade unions in developing countries.

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LIST OF ABBREVIATIONS

- 2SLS** – Two-stage least squares estimation method, also known as TSLS.
- AFTA** – Asian Free Trade Area
- APINDO** – *Asosiasi Pengusaha Indonesia* (Indonesian Employers Association)
- APEC** – Asia Pacific Economic Cooperation
- ASEAN** – Association of South-east Asian Nations
- Bappenas** – *Badan Perencanaan Pembangunan Nasional* (Indonesia’s Development Planning Board)
- BGDC Method** – Birth, growth, death and contraction of firms method to calculate net employment change
- BPS** – *Badan Pusat Statistik*, Indonesia’s statistical agency. Also referred to as Statistics Indonesia
- CAFTA** – China and ASEAN Free Trade Area
- EJIP** – East Jakarta Industrial Park
- EOI** – Export Oriented Industrialisation
- FNPBI** – Front Nasional Perjuangan Buruh Indonesia
- FDI** – Foreign Direct Investment
- FKTU** – Federation of Korean Trade Unions
- FSP-LEM** – *Federasi Sekerikat Pekerja – Logam, Elektronik dan Mobil*.
- Gasbiindo** – *Gabungan Serikat Buruh Industri Indonesia* – Federation of Industrial Trade Unions of Indonesia
- GDP** – Gross Domestic Product
- GDRP** – Gross Domestic Regional Product
- GSBI** – *Gabungan Serikat Buruh Indonesia*
- GSP** – Generalised system of Preferences
- HDI** – Human Development Index
- ICFTU** – International Confederation of Free Trade Unions
- IMF** – International Monetary Fund
- ILO** – International Labour Organisation
- IOE** – International Organisation of Employers
- ISIC** – International Standard Industrial Classification

IV – Instrumental Variables

JABOTABEK – Jakarta, Bogor, Tangerang and Bekasi Regions

JAMSOSTEK – *Jaminan Sosial Tenaga Kerja* – Workers' social security benefit

KBN – *Kawasan Berikat Nusantara* (Bonded Industrial Zones)

KEPMEN – *Keputusan menteri Tenaga Kerja* – Manpower Ministerial Decree

KFM – *Kebutuhan Fisik Minimum* (Minimum Physical Need)

KHM – *Kebutuhan Hidup Minimum* (Minimum Subsistence need)

KSPI – *Konfederasi Serikat Pekerja Indonesia* (Confederation of Independent Workers Union of Indonesia)

KSPSI – *Konfederasi Serikat Pekerja Seluruh Indonesia*

MERCOSUR – *Mercado Común Del Sur* (South American Free Trade Agreement)

MM2000 – Bekasi Industrial Park

MNC – Multi-national Corporations (also see TNC)

NAFTA – North American Free Trade Area

Nakertrans – *Tenaga Kerja dan Transmigrasi* (Manpower and transmigration)

NGO – Non-governmental Organisation

NIC – Newly Industrialised Countries

OECD – Organisation of Economic Cooperation and Development

OLS – Ordinary Least Squares estimation method

PERMENAKER – *Peraturan Menteri Tenaga Kerja* – Manpower Minister's Regulation

PIR – *Pancasila Industrial Relations*

PJP – *Pembangunan Jangka Panjang* (Long Term Development)

PPHI – *Penyelesaian Perselisihan Hubungan Industrial* (Industrial relations dispute resolution)

REPELITA – *Rencana Pembangunan Lima Tahun* (Five Year Development Plan)

Sakernas – *Survei Tenaga Kerja Nasional* – The National Labour Force Survey

SBM – *Serikat Buruh Merdeka* (Freedom Workers Union of Indonesia)

SBSI – *Serikat Buruh Sejahtera Indonesia* (All Indonesia Workers' Welfare Union).

SMERU – Smeru Research Institute

SOBSI – *Sentral Organisasi Buruh Seluruh Indonesia* (All Indonesia Central Organization of Trade unions)

SPMI – *Serikat Pekerja Metal Indonesia* (Indonesian Metal Workers Union)

SPSI – *Serikat Pekerja Seluruh Indonesian* (All Indonesia Workers union). Currently known as *KSPSI or Konfederasi Serikat Pekerja Seluruh Indonesia* (Confederation of All Indonesia Workers Union)

SPSI-Reformasi – *Serikat Pekerja Seluruh Indonesia Reformasi* (Reformed All Indonesia Workers Union)

SPTSK – *Serikat Pekerja Tekstil, Sandang dan Kulit* (Textile, footwear and leather industrial workers' union)

TGF – Textile, Garment and Footwear

TNC – Trans-national Corporations, also known as Multi-national Firms (see MNC)

UNDP – United Nations Development Programme

US – United States of America

UU – *Undang-undang* (law or legislation)

WB – The World Bank

WTO – World Trade Organisation.