

New Research in
Global Political Economy



Hariati
Sinaga

**Dress- and Auto- Makers in the
“Free Trade” Arena:**

A Case Study of the Impact of Free Trade
on Labour Standards in Labour- and
Capital-intensive Industries in Indonesia

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V E R S I T Ä T

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Dress- and Auto- Makers in the “Free Trade”

Arena:

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Standards in Labour- and Capital-intensive Industries in
Indonesia

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Table of Contents

Abstract	iii
List of Tables	vi
1. Introduction	1
2. Literature Review	3
3. ASEAN Free Trade Area and Labour Rights in ASEAN	6
3.1. <i>ASEAN Free Trade Area</i>	6
3.2. <i>Labour Rights in ASEAN Member Countries</i>	6
4. Indonesia	8
4.1. <i>Indonesia and Trade Liberalisation</i>	8
4.2. <i>Indonesia and AFTA</i>	8
4.3. <i>Garment and Automotive Industries in Indonesia</i>	9
4.3.1. <i>Garment Industry</i>	9
4.3.2. <i>Automotive Industry</i>	11
4.4. <i>Labour Regulations in Indonesia</i>	13
5. Theory	15
6. Hypotheses and Operationalisation	18
7. Data and Methodology	23
7.1. <i>Data</i>	23
7.2. <i>Methodology</i>	24
8. Empirical Findings	25
8.1. <i>Trends of Labour Standards in Garment Industry and Automotive Industry in Indonesia</i>	25
8.2. <i>Free Trade or Trade Openness and Labour Standards</i>	36
8.3. <i>Other External and Internal Variables</i>	41
9. Conclusion	45
Bibliography	46
Appendix 1: Figures and Tables	54
Appendix 2: Constructing Qualitative Indicators	77
Appendix 3: List of Interviews	80
Appendix 4: Average Political Rights and Civil Liberties Scores for ASEAN Countries, Excluding Indonesia	81

Abstract

Even though there have been many studies on the impact of trade liberalisation on labour standards, most of the studies are at national level, and there is a lack of research at industry level. This paper examines the impact of free trade on labour standards in capital- and labour-intensive industries in a developing country. For empirical findings, I take the case of the garment industry, representing labour-intensive industry, and automotive industry, representing capital-intensive industry, in Indonesia in the face of ASEAN Free Trade Area (AFTA). Since the garment industry is a women-dominated industry, while the automotive industry is a men-dominated industry, this paper also employs a feminist perspective. As such, this paper also investigates whether free trade equally affects men and women workers. Besides free trade, other independent variables are also taken into account. Employing quantitative and qualitative methods, empirical evidence shows that there is an indication that free trade has a negative relationship with labour standards in the garment industry, whereas a positive relationships with labour standards in the automotive industry. This implies that free trade might result in decreasing labour standards in labour-intensive industry, while increasing standards in capital-intensive industry. It can also be inferred that free trade unequally affect men and women workers, in that women workers bear the brunt of free trade. The results also show that other internal and external independent variables are indicated to have relationships with labour standards in the garment and automotive industries. Therefore, these variables need to be considered in examining the extent of the impact of free trade on labour standards in labour- and capital-intensive industries.

List of Abbreviations:

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
ASEAN	Association of Southeast Asian Nations
CEPT	Common Effective Preferential Tariff
CBU	Completely Built Up
CKD	Completely Knocked Down
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
FSBI	Federasi Serikat Buruh Indonesia (Indonesian Trade Union Federation)
F-SP LEM	Federasi Serikat Pekerja Logam, Elektronik dan Mesin (Metal, Electronic and Machine Trade Union Federation)
FSPMI	Federasi Serikat Pekerja Metal Indonesia/ Indonesian Metal Workers Union Federation
F-SB Garteks	Federasi Serikat Buruh Sejahtera Indonesia Garmen, Tekstil, Kulit dan Sepatu (Indonesia Prosperity Trade Union Federation for Garment, Textile, Leather Handicraft and Shoes)
GDP	Gross Domestic Product
ICFTU	International Confederation of Free Trade Unions
IL	Inclusion List
ILO	International Labour Organization
IMF	International Monetary Fund
ITUC	International Trade Union Confederation
Jamsostek	Jaminan Sosial Tenaga Kerja (Worker Social Assurance)
MFN	Most Favoured Nation
MPV	Multi-purpose Vehicle
MNC	Multinational Corporation

List of Figures

	<u>Page</u>
Figure 3.1: Average Political Rights Score and Civil Liberties Score for ASEAN Countries, excluding Indonesia (2002-2005).....	68
Figure 3.2: Average Labour Rights Score in ASEAN countries, excluding Indonesia 1999-2002.....	68
Figure 4.1: Indonesia Garment Export and Import with ASEAN and the World, 1999-2005.....	69
Figure 4.2: Trade-to-GDP Ratio for Garment Products, 1999-2005.....	69
Figure 4.3: Indonesia's Exports and Imports of Automotive Products, 1999-2005	70
Figure 4.4: Trade-to-GDP Ratio for Automotive Products, 1999-2005.....	70
Figure 8.1: Trends of Labour Standards in Garment and Automotive Industries in Indonesia, 1999-2005.....	71
Figure 8.2: Trade Openness and Labour Standards 1999-2005.....	71
Figure 8.3: Trade Openness for Garment Trade and Labour Standards, 1999-2005	72
Figure 8.4: Trade Openness (Automotive) and Labour Standards, 1999-2005.....	72
Figure 8.5: Trends of Foreign Direct Investment and Labour Standards, 1999-2005	73
Figure 8.6: External Debt and Labour Standards, 1999-2005.....	73
Figure 8.7: Average ASEAN Countries' Labour Rights (excluding Indonesia) and Labour Standards, 1999-2005.....	74
Figure 8.8: Income, Economic Growth and Labour Standards, 1999-2005.....	74
Figure 8.9: Population (thousands) and Labour Standards, 1999-2005.....	75
Figure 8.10: Regime Authority Characteristics, Civil Conflict, Human Rights NGOs and NGOs Working With Gender Issues, Labour Standards, 1999-2005.....	75
Figure 8.11: Trends of Unemployed People based on First and Second Levels of	

Educational Background Relative to Total Unemployment (thousands) and Labour Standards (Garment Industry), 1999-2005.....	76
Figure 8.12: Trends of Unemployed People with Third Level of Educational Background Relative to Total Unemployment (thousands) and Labour Standards (Automotive Industry), 1999-2005.....	76

List of Tables

Table 3.1: Average CEPT Rates of AFTA (1993-2003).....	54
Table 3.2: Indonesia's Average CEPT and MFN Rates, 2002-2005.....	54
Table 4.1: Statistics on Workforce in Garment Industry, 1996-2005.....	55
Table 4.2: Statistics on Workforce in Automotive Industry, 1996-2005.....	55
Table 4.3: Selected Labour Regulations.....	56
Table 4.4: Selected Labour Regulations on Working Hours, Occupational Safety and Health, Wages.....	58
Table 4.5: Indonesia's Status of Ratifications of the ILO Core Conventions.....	59
Table 4.6: Other ILO Conventions Ratified by Indonesia.....	59
Table 4.7: Comparison on Several Issues relating to Women Workers Stipulated in General Regulations on Employment.....	60
Table 6.1: Operationalisation of Independent Variables and the Expectations on Dependent Variable.....	61
Table 7.1: Model of Indicators.....	62
Table 7.2: Indicators Scoring Scheme.....	65
Table 8.1: Summary of Trend of the Scores for Labour Standards and the Enforcement in Garment and Automotive Industries for the Period between Two Years.....	66
Table 8.2: Summary of Relationship between Independent and Dependent Variables.....	67

1. Introduction

A large body of discussions has been raised concerning trade liberalisation, particularly in the field of international political economy. Among others is the relationship between trade liberalisation and labour standards. It is argued that liberalised trade contributes to the abuse of labour rights (Pillay 2007:2), placing countries into the so-called “race to the bottom” (Scherrer and Greven 2001: 53; Kucera 2002:31, Jansen and Lee 2007:13). A report by the International Confederation of Free Trade Unions (ICFTU), which then became the International Trade Union Confederation (ITUC), claimed that there are numbers of violations of workers’ rights documented every year (ICFTU, as cited in Scherrer and Greven 2001:15; Scherrer 2007:135). Particularly in developing countries, the relationship between export-oriented industries and trade liberalisation, partly indicated by the establishment of Export Processing Zones (EPZs), has often been associated with the abuse of workers’ rights (see studies on EPZs). These countries are competing to lower their labour standards based on a belief that it will fuel their competitiveness in terms of attracting more foreign investments. The intense competition in employing cheap and flexible labourers between these countries is related to the fact that they substantially rely on trade as a pathway to reach development, or the so-called export-led growth. The case of the Four Tigers, with the exception of Korea, shows that unskilled workers faced a decrease in wages due to the competition after the countries focused on enlarging their labour-intensive industries (Wood 1999 as cited in Scherrer and Greven 2001: 54-5). South-south competition becomes a particular case since the countries have generally similar factor of endowments (labour abundance) and market position. Trade liberalisation among developing countries will divert jobs to market with lower labour costs and, therefore, labour standards will erode. Consequently, the developing countries by and large view, say, the attempt to integrate “Social Clause” in the World Trade Organisation (WTO) as a form of protectionism from the part of the North (Franck 2008: 7; Kabeer 2004: 7-8).

Although there have been many studies concerning the debates about race to the bottom, most of them are at the macroeconomic level or cross-countries comparisons. There is still a lack of study to find out what happen in a specific country, particularly comparing two different industries in the face of trade liberalisation. In a recent study, David Kucera (2002) attempted to measure the effect of core labour standards on foreign direct investment (FDI) location using alternative measures of labour standards and evaluate

comparatively considerable country samples in order to improve prior studies in the similar topic. However, Kucera only looked at total foreign direct investment as a macroeconomic average and, therefore, did not specifically target different types of foreign direct investments engaged in different sectors. This urges, as Kucera also suggested (2002: 63), a study which compares between industries, as different industries engage with different types of foreign direct investment. It also puts more emphasis on comparison between capital- and labour-intensive industries as capital-intensive industry mostly engages with horizontal foreign direct investment (FDI)¹, whereas labour-intensive industry generally engages with vertical FDI². The comparison between labour- and capital-intensive industries coincides with feminist studies on women workers since women workers dominate labour-intensive industry. Moreover, Stephanie Seguino (2003: 6) criticised previous studies on foreign direct investments and labour standards because of using inadequate measure to capture improvement in gender equity in terms of reflecting the way that investment, trade, gender and labour standards interact. Consequently, it is essential to employ a feminist perspective on the issue.

This paper is intended to fill this research gap. In this research, I focus on the impact of free trade on labour standards and the enforcement in capital- and labour-intensive industries in a developing country. The case study of automotive industry and garment industry in Indonesia in the face of ASEAN Free Trade Area (AFTA) is chosen in order to provide empirical findings. For the structure of the paper, I begin with the literature review in chapter 2. Chapter 3 provides a brief descriptive picture of AFTA and labour rights in the Association of Southeast Asian Nations (ASEAN). Chapter 4 focuses on the profile of Indonesia, particularly on garment and automotive industries as well as labour regulations. Chapter 5 elaborates the theoretical frameworks used in this paper. While chapter 6 sketches the hypothesis and operationalisation, chapter 7 explicates data and methodology. Empirical findings are discussed in chapter 8, with conclusions in chapter 9.

¹ A type of FDI used by investor to establish a company in certain country, which is aimed at providing sales into that country's domestic market.

² A type of FDI used by investor to locate production in certain country that offers cheaper labour cost. This is because the purpose is to export the products.

2. Literature Review

A comparative study (Berik and Rodgers 2008) which examined Bangladesh and Cambodia shows that these two countries experience strong pressures to cut labour costs and improve the price competitiveness of their textile and garment exports. However, after having a textile agreement with the United States that offers trade incentive for labour standards enforcement, Cambodia's compliance with labour rights has improved. A study by Mosley and Uno (2007) shows that there is a negative relationship between trade openness with labour rights, while a positive relationship between FDI and labour rights. As such, countries with greater level of exports and imports tend to treat workers poorly, while a greater inflow of FDI generates more respect of labour rights. On the other hand, there are also numbers of studies which contend that appropriate labour standards are necessary so as to improve country's competitiveness. Studies have been conducted by the ILO, which particularly look at certain international labour standards, for example, on: (1) the Social Security (Minimum Standards) Convention, 1952 (No. 102) (van de Meerendonk et al. as cited in ILO 2007); (2) the Occupational Safety Health Convention, 1955 (No. 155) and its associated Recommendation (No. 164) and the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187) and its associated Recommendation (No. 197) (Nahmias and Gifford, as cited in ILO 2007); (3) Human Resources Convention 1975 (No. 142) (Nübler and Schömann, as cited in ILO 2007); (4) the Equal Remuneration Convention, 1951 (No. 100), and the Discrimination (Employment and Occupation) Convention, 1958 (No. 111) (Chicha, as cited in ILO 2007). All these studies show that compliance to labour standards positively contribute to country's competitiveness and good economic performance. David Kucera (2002) used econometric models to investigate the effects of core labour standards on foreign direct investment location. He found no solid evidence in holding up the conventional wisdom that upholding core labour standards discourages FDI. Similarly, Neumayer and de Soysa (2006 as cited in Jansen and Lee 2007: 66) argued that there is no evidence of race to the bottom in the freedom of association and collective bargaining rights. In the same vein, Keith E. Maskus (1997: 2) found out that "...deficient provision of core labour standards generally diminishes export competitiveness rather than improving it, because of the distortionary effect of those deficiencies." The recent joint study by ILO and WTO (Jansen and Lee 2007) provided inconclusive argument concerning the race to the bottom by showing contrasting evidences. The study did recognise theoretical literature arguing that trade, particularly combined with

foreign direct investment, may lead to increasing labour market volatility. However, the study also pointed to the statistics on labour market reallocation, which is argued as not revealing a systematic pattern of increased labour market volatility. In a study on the effects of multinational production on wages and working conditions in developing countries, Drussila K. Brown, Alan V. Deardorff and Robert M. Stern (2003) argued that better wages as well as working conditions are provided by multinational companies than those provided by local companies and that the former companies are not attracted to weak labour standards. In a micro level, a study of the most unionised airline (O' Reilly and Pfeffer 2000, as cited in Rogovsky and Sims 2002: 68) argues that the success of the airline is due to its healthy industrial relations climate. A similar study on an automobile plant (O' Reilly and Pfeffer, 2000; Adler, 1993; Rogovsky, interviews at NUMMI, 1995-96, as cited in Rogovsky and Sims 2002: 71) shows that good labour relations at the automobile plant are a factor that paves the way to innovative management systems and, in turn, the plant's success.

Furthermore, there are many texts pertaining to the impact of trade liberalisation on women, including women workers (Joekes 1995; Fontana 2007; Williams 2007). It is argued that trade expansion will give more job opportunities for women which, in turn, places women in a higher status and more autonomy with some decision-making powers within the household (Tran-Nguyen 2004: 18). Nonetheless, feminist scholars have contended that trade expansion rooted from trade liberalisation is not followed by wage equality between men and women (Berik, Rodgers and Zveglic, Jr. 2003; Berik 2007; Kongar 2007), and brings about adverse impacts on women workers as women are mostly concentrated in jobs highly characterised by violations of labour standards, such as, poor working conditions and less or no union rights (Barrientos 2007; Seguino and Grown 2007). Export Processing Zones (EPZs) are dominated by women workers (ICFTU 2004: 11). Studies and reports on EPZs have largely illustrated restricted labour rights (ICFTU 2004) and poor working conditions, such as long working hours (Kusago and Tzannatos 1998: 15; Kabeer and Mahmud n.d.: 146; ICFTU 2004:12), unhealthy and unsafe working conditions (ICFTU 2004: 12); and particularly on women: lower wage (ICFTU 2004: 12) and violations on reproductive rights (Reysoo 2005). Women are not only facing segregated labour market but also exploitation in the workplace in the interest of the firms having cheap labour. This also largely takes place in the developing countries, including East Asian³, which are

³ East Asia and Southeast Asia terms are used interchangeably

countries that adopt an export-led growth policy basis. This policy basis paves the way to the expansion of labour-intensive manufacturing industries which entails dexterous and obedient workers as well as workers who are willing to work long hours and less paid (Chu 2002: 62). Stephanie Seguino (1997) argued that the success of export countries, such as Korea, has been contributed by wage inequality.

Shannon L. Blanton and Robert G. Blanton (2009) studied whether human rights serve as a decisive factor for locating FDI across different type of industries. In this context, Blanton and Blanton (2009: 473-474) argued that the link between human rights and FDI location can be found through skill levels and social license. On skill levels, they contended that people have more opportunities to obtain skills in a society where human rights are more respected. Consequently, companies that hire workers with higher skill levels will likely to perceive human rights conditions as important factor. However, as Blanton and Blanton realised (2009: 473), this perhaps might not be the case for lower-skill sectors. In this case, industries in such sectors are more concerned with low wages and compliance, and workers are perceived as “expendable” if low-skill labour supply is abundant (ibid). On social license, some companies attempt to manage social license for several purposes, such as, for recruitment of skilled workers, promotion of companies’ goods and services for domestic consumption, and prevention from conflict with societal groups. In other words, social license shows the integration of the companies to the society in the host countries. Indeed, social license is not the main concern of all companies. Blanton and Blanton (2009: 474) argued that some companies may have “silo mentality”, that is, “...where corporations view the host in purely instrumental terms and tensions with the host society as seen as outside of corporate purview”. The results generally showed that, “...countries where physical integrity rights are respected are more successful in attracting FDI in sectors that seek higher skill levels and greater levels of integration within the host society” (Blanton and Blanton 2009: 483). Human rights are of most significance in market-seeking FDI, that is, chemical manufacturing and financial services (both of these companies require high-skilled workers and social license) as well as fabricated metals (this company requires lower-skilled worker and high level of social license). The significance of human rights for efficiency-seeking is varied, e.g. human rights are a decisive factor for electrical manufacturing. On the other hand, human rights are not substantial in resource-seeking firm. In sum, human rights are a significant determinant factor for four of the 10 sectors observed.

3. ASEAN Free Trade Area and Labour Rights in ASEAN

3.1. ASEAN Free Trade Area

The step to establish a free trade area in the ASEAN region was decided in the Fourth ASEAN Summit of Heads of Government, which took place in Singapore, 27-28 January 1992 (Cuyvers and Pupphavesa 1996: 3). It was aimed at liberalising intra-ASEAN trade as well as promoting investment in the region (Cuyvers and Pupphavesa 1996: 6).

It is argued that the Asian Free Trade Area (AFTA) paves the way to more efficient and more competitive ASEAN countries' manufacturing sectors in the global market (Kaihatu 2003: 113). In the longer term, ASEAN leaders agreed to impose zero tariff rates on virtually all imports by 2010 for the six original member countries and by 2015 for the four newer member countries (Chowdury 2007: 5).

There are contending arguments concerning the assessment of AFTA. On one hand, AFTA is appraised for boosting economic liberalisation in the ASEAN region., leading to the more efficient ASEAN's manufacturing sectors. Consumers will source goods from the more efficient producers in ASEAN (Kaihatu 2003:2). On the other hand, it is argued that the implementation of economic integration under AFTA has been less impressive (Soesastro 2005: 2). Additionally, the concern that a regional trading bloc will provide less welfare gain for the involved countries resulting from trade diversion appears to be ambiguous in the case of AFTA since trade creation exceeds trade diversion in the region (DeRosa 1998, as cited in Robinson and Thierfelder 1999: 8).

3.2. Labour Rights in ASEAN Member Countries

As will be mentioned in chapter 6, the competition is evaluated on a regional basis. In this case, competition specifically refers to competition between countries in lowering labour standards. Thus, competition is measured by average labour rights score in ASEAN countries, excluding Indonesia.. Even though I do not focus on this variable, it remains important to see how competition influences labour standards and the enforcement in Indonesia, especially in labour- and capital-intensive industries. It is inevitably not a simple thing to measure labour rights on the regional level. However, to avoid complexity, I choose average labour rights score. To this end, I begin with looking at labour rights score in each country in the region, excluding Indonesia. Indonesia is excluded because I am looking for the competition, in terms of labour rights practices, that comes from other countries in ASEAN region. In this step, I rely on data developed by Mosley and Uno

(2007). However, the data only provides information of labour rights score until 2002, whereas I also need labour rights score until 2005. As a way out, I make an assumption for the average labour rights score from 2003 until 2005 based on data on political rights score and civil rights scores provided by the Freedom House (for more discussions, see *Average Political Rights and Civil Liberties Scores for ASEAN Countries, Excluding Indonesia* in Appendix 4).

In the country-level labour rights score developed by Mosley and Uno (2007), greater score indicates better labour rights outcomes with the mid-30s as maximum scores. Figure 3.2 (see Appendix 1) demonstrates that, between 1999 and 2005, average labour rights scores for ASEAN countries, excluding Indonesia, were roughly half of the maximum scores. It indicates a rapid competition in terms of lower labour standards from other ASEAN member countries during that time. As demonstrated in the graph, the lowest average score between 1999 and 2001 is 15.50. However, in 2002, the average score is even lower than this score, that is, 14.47. The year 2002, as mentioned, is the completion deadline for applying 0-5% Common Effective Preferential Tariff (CEPT) scheme for the six original ASEAN member countries. This might show the link between free trade and labour rights outcome in ASEAN countries.

Indication of the race to the bottom shown in figure 3.2 is fortified by the level of FDI stock in ASEAN countries. As demonstrated in Mosley and Uno's (2007) dataset, most ASEAN countries experienced an increase in FDI stock, particularly between 2000 and 2002. Astonishingly, some of these countries also experienced increases in income per capita, despite the decreasing average labour rights score during these years. Other alternative explanation to this lowering performance of labour rights is connected to the characteristic of authoritative regimes within these countries. According to Mosley and Uno's (2007) dataset, the characteristic of authoritative regimes in ASEAN countries mainly remained authoritative regime, and some are at the beginning step in the path towards democratic countries. Countries that are already at further steps in these paths are Thailand, the Philippines and Indonesia.

4. Indonesia

4.1. Indonesia and Trade Liberalisation

While financial liberalisation has been started in the 1960s (Hamilton-Hart 2000: 21), trade liberalisation has been increasingly implemented since the 1990s, illustrated by three important events, namely, the establishment of AFTA in 1992, Indonesia's accession to the WTO in 1995, and Indonesia's decision to follow the IMF package⁴ as a response to the Asian Crisis in 1997. Despite this, Indonesian nationalism has remained dominating much of the country post-colonial economy history (Chandra 2008: 77).

4.2. Indonesia and AFTA

In the regional level, Indonesia's trade liberalisation takes place predominantly within AFTA (Hidayat and Widarti 2005: 24). Although Indonesian trade to ASEAN countries shows an increasing trend through the years, the country's trade share is only 11% of intra-ASEAN trade in 2005, left far behind the more advanced ASEAN members, Singapore and Malaysia, and slightly behind Thailand (Chowdury 2007: 8). Consequently, it is argued that Indonesia will not gain much from AFTA (Chowdury 2007: 9). Studies (Feridhanusetyawan and Pangestu 2003; Hartono 2007, as cited in Chowdury 2007: 9) also show that AFTA does not significantly contribute to additional welfare benefit, in terms of GDP growth, for Indonesia in comparison to global trade liberalisation, such as the Uruguay Round and the Asia Pacific Economic Cooperation. In the sectoral level, it is contended that AFTA contributes to positive output growth in some capital-intensive sectors, for instance, automobile, machine, metal and construction, but negative impact on labour-intensive sectors, for example, textiles and leather (Chowdury 2007: 10). The fear of losing in AFTA is evident when Indonesia reluctantly agreed to accept the principle of AFTA contained in the Framework Agreement on Enhancing ASEAN Economic Cooperation (Chowdury 2007: 2). Although the country is one of founding members of ASEAN, Indonesia hesitated to market sharing, fearing that its market will be flooded by exports of other more competitive ASEAN members (*ibid*). Indonesian industrialists show lack of enthusiasm as they feel that they are not yet ready for the race of trade liberalisation (Kaihatu 2003: 119). This is related to the historical development of Indonesian industries

⁴ Trade liberalisation was indeed one among others requirements of the IMF package that Indonesia agreed with after the Asian Crisis (Bullard, Bello and Malhotra 1998: 93-4).

which was substantially influenced by protectionism policy during Suharto's regime for about 30 years (ibid).

4.3. Garment and Automotive Industries in Indonesia

4.3.1. Garment Industry

Indonesia serves as one of the largest garment and textile exporters to the world (Pillonel and Hazir 2002). This industry is one of the most important manufacturing activities in terms of its contribution on industry's value added and employment absorption in Indonesia (Hidayat and Widarti 2005: 39). Garment and textile industries, together with footwear production, in Indonesia grew considerably during 1975-1990, particularly in the late 1980s and early 1990s (Aswicahyono and Mairid 2003: 1). In 1993, however, this growth was halted given the rapid competition from other low wage countries, such as China and India, and the decrease in Indonesia's relative competitiveness resulting from the government's policy of minimum wage which was not followed by the increase in labour productivity (Pangestu 1997, as cited in Aswicahyono and Mairid 2003: 4). When the Asian Crisis hit Indonesia, garment exporters shifted more sales from the domestic to the export market and offered lower prices (Aswicahyono and Mairid 2003: 10). In 2000, there was a sign of recovery of garment export when both volume and value of export continued to increase (Aswicahyono and Mairid 2003: 11). However, Indonesian firms faced a significant competitive challenge resulting from China's accession to the WTO (ibid). Furthermore, the garment industry also encountered a more intense competition as the worldwide quota system⁵ as required by the WTO ended in 2005 (Hidayat and Widarti 2005: 41; ILO and ASEAN 2005: 15). Additionally, smaller textile and garment producers that focused on domestic market experienced a less positive situation, facing rampant smuggling and a flood of Chinese imports.

As we can see in figure 4.1 (see Appendix 1), the world market remained to be the biggest market for Indonesian garment exports between 1999 and 2005. Whereas garment imports from the world generally declined, the imports from ASEAN countries increased between 1999 and 2005. The recovery of exports to the world in 2000 was followed by a decline up to 2002. Noting that China's accession to the WTO was in December 11, 2001, the decline was most likely due to the intense competition with China. On garment exports to ASEAN countries, graph A.5 shows that Indonesia garment exports to ASEAN countries

⁵ On January 1, 1995, the Multi Fibre Arrangement (MFA), which provided a quota for developing countries' exports to developed countries, was replaced by WTO Agreement on Textiles and Clothing (ATC) that serves as a transitional instrument for liberalisation on textile and clothing products. While the MFA stipulated quota, the ATC provided transition process on free competition in textile and clothing.

experienced improvement between 2001 and 2005. This indicates that Indonesian garment producers increased their exports to ASEAN countries, fearing of losing out in the more intense competition in the world market. Import of garment products from ASEAN countries also experienced modest improvement between 2001 and 2005. The modest improvement of exports and imports of garment product to and from ASEAN shows that AFTA was yet to make ASEAN a significant market for garment products during that time. This is because purchasing power of consumers in ASEAN countries remains to be low, although the size of the ASEAN market is big. Besides, other ASEAN countries, such as Thailand, Vietnam and Cambodia are also known as garment producers to the world market. Instead of targeting the ASEAN market, the privilege provided by AFTA is used by garment producers to strengthen garment products' competitiveness so that the products can compete in the world market (Interview with Indonesian Garment Producers Association, May 15, 2009). Although ASEAN has not yet been the main market, it is expected that it will become a big market for Indonesia's garment products in the future (ibid).

Although the export of garment products increased both to the world market and to the ASEAN market, figure 4.2 (see Appendix 1) shows that trade-to-GDP ratio for Indonesia's trade in garment decreased between 2001 and 2005, at both the world and regional (ASEAN) levels. A slight increase in the ratio, however, occurred in 2005 for trade at ASEAN level. Figure 4.2 also demonstrates that world trade on garment is more important for Indonesian economy than ASEAN trade on garment. The decline in trade-to-GDP ratio does not directly mean that Indonesia was less open for trade in garment during the period. In fact, when we examine average Common Effective Preferential Tariff (CEPT) rates for garment product, the average rates were overall falling between 2002 and 2005 (see Table 3.2 in Appendix 1), implying a more liberalised trade for garment products. Average Most Favoured Nation (MFN) rates, however, modestly increased between 2002 and 2005. The decrease in ratio implies that trade in garment at world and ASEAN levels played a relatively lower important role in Indonesian economy between 2001 and 2005.

As labour-intensive industries, garment and textiles industries have contributed to employment generation, particularly in 1993 when employment generation in this sector increased to 33 percent overtaking the contribution of food beverages and tobacco industries, the previous largest industry in terms of employment absorption (Aswicahyono and Maidir 2003: 1). In 1996, medium and large garment firms employed about 18.2 thousands workers, or about one percent of total manufacturing employment during that

year (Hidayat and Widarti 2005: 40). In 2000, garment industry continued to account for an increasing share of total employment and surpassed the weaving industry, which placed the garment industry as the largest employer compared to the fibre, spinning and weaving industries (Aswicahyono and Maidir 2003: 5). During that year, medium and large garment firms employed 458 thousand workers (Hidayah and Widarti 2005: 40). However, this number declined to 453 thousand in 2002. Garment and textiles industries are dominated by women. Table 4.1 (see Appendix 1) demonstrates that there was an increase in female employment in garment industry between 2002 and 2004. While there is a significant gap between the numbers of men workers and those of women workers in production department, this gap is relatively slight for the non-production department. Furthermore, the fact that home-based subcontracting in garment industry is apparently pervasive in Indonesia brings about even more importance of this industry for women livelihood (Hidayat and Widarti 2005: 40).

4.3.2. *Automotive Industry*

The automotive industry plays a role as one of Indonesia's designated strategic industries (Hidayat and Widarti 2005: 44). Indonesia is also considered as one of East Asia's leading auto part producers (Doner, Noble and Ravenhill 2006: 5). With regard to AFTA, Indonesia has initially requested to put automotive products to be exempted from tariff reduction schedule under CEPT by putting them in Temporary Exclusion List (TEL), although some components are already under CEPT. However, due to the decision of the ASEAN economic ministers to accelerate the realization of AFTA, Indonesia had to move all the automotive products from the TEL to the Inclusion List (IL) by January 1, 2000, lowering the maximum tariff imposed to 20 percent (Aswicahyono, Anas and Rizal 1999: 12). The tariff is even lower nowadays (see table 3.2 in Appendix 1). The proponents of AFTA contend that AFTA offers an opportunity for Indonesia to expand the regional market for Indonesian automotive products, whereas the opponents point to the competitive threat from other ASEAN countries, such as Thailand (Doner, Noble and Ravenhill 2006: 62).

Figure 4.3 (see Appendix 1) portrays that Indonesia's automotive exports to and imports from the world improved between 1999 and 2005, with imports outperformed exports. A similar thing happened to exports to and imports from ASEAN countries. The graph also shows that the world market was still the largest market for Indonesia's automotive exports and imports during that time. Nonetheless, it should be kept in mind that the automotive industry mostly engage with horizontal FDI, implying the focus on the domestic market.

An increase in import from ASEAN is followed by a decrease in import from Japan, showing a restructuring of the automotive industry in ASEAN region conducted by Japanese companies. As Takii (2004: 9) argued, Japanese companies have considered regional strategies in ASEAN under the liberalised trade regime, that is, concentrating their production bases in one country and export to other countries. Some Japanese companies and part-makers, however, have decided to use the existing facilities in each country, resulting in the inward benchmarking of automotive companies. As such, their benchmark is not the competitors, instead, the assembling and component industries in different countries (Puraka 2008: 63). For instance, competition takes place between a Toyota assembling companies in Indonesia and Thailand. Gaikindo points out the regional strategies of Japanese companies, although in different way (Interview May 13, 2009). According to Gaikindo, there are companies that spread their productions of different type of vehicle in different countries based on countries' competitive capacity. To exemplify, Indonesia is a competitive producer for Multi-purpose Vehicle (MPV), while Thailand can produce Sedan competitively. Based on the strategies, Indonesia exports more MPV to ASEAN for Completely Built Up (CBU) vehicle and at the same time remains exporting Completely Knocked Down (CKD) vehicle and components. This strategy, as Gaikindo pointed out, makes it difficult to mention which country dominates the ASEAN market (Interview May 13, 2009). However, it does not mean that there is no competition (ibid). Although the market for these types of vehicle is actually segmented, Gaikindo argued that the difference in price can induce consumers to shift their preferences. Moreover, Gaikindo also claimed that Indonesian automotive products are competitive, assessed by looking at the sales in domestic market.

Figure 4.4 (see Appendix 1) shows a recovery trend of trade-to-GDP ratio on automotive products at the world level and a generally increasing trend for the ASEAN level. After losing importance for the Indonesian economy between 2000 and 2003, trade on automotive products to the world as well as to ASEAN became more important again after 2003. Figure 4.4 demonstrates that, between 2001 and 2005, Indonesia became more economically sensitive to trade in automotive products in the ASEAN level, although the sensitivity level was still below the level for trade to the world. Again, it should be noted that the decline in trade-to-GDP ratio does not directly imply a more closed country. For example, while graph figure 4.4 shows that between 2002 and 2003 trade-to-GDP ratio declined for the world level, table 3.2 (see Appendix 1) demonstrates that MFN rate for automotive products actually stayed the same during the same period. Additionally, table

3.2 shows that trade in automotive products was generally more liberalised in ASEAN level (declining average CEPT rate), while it was more restricted at the world level (increasing average MFN rate). Indeed, trade in automotive products at the world level has not been liberalised. In ASEAN level, however, it has been liberalised under AFTA.

Motor vehicle components and parts manufacturing, both for production and non-production, tend to be more labour-intensive than motor vehicle and motor vehicle body manufacturing (Hidayat and Widarti 2005: 47). Women workers share a small percentage of employment in motor vehicle and related industries, yet, more than 10 percent women are employed in components and part industry (ibid). Table 4.2 (see Appendix 1) portrays that, between 1996 and 2005, women were not mainly employed in production department, except for component industry. This implies that women tend to be more employed in the less capital-intensive industry. Another example of this is the more important employment of women in electronic companies. Unlike the employment in the garment industry (shown in table 4.1 in Appendix 1), table 4.2 illustrates that there was a significant gap between men and women employment both in production and in non-production departments in automotive industry, indicating a high domination of men workers in the automotive industry during that time.

4.4. Labour Regulations in Indonesia

When we look at the history of labour regulations in Indonesia, there were several laws that generally stipulate manpower or labour in Indonesia. Before the 1990s, there were three laws that had been applied (see table 4.3 in Appendix 1). There was no significant change of labour regulations until the 1990s (Rahayu and Sumarto 2003: 4). In 1997, during Suharto's ruling, the government passed Law No. 25/1997 on Manpower Affairs, replacing Law No. 14/1969. Aiming at improving the labour law that accommodated social and economic situations during that time, the government considered the new law a comprehensive improvement (Rahayu and Sumarto 2003: 4). It is argued that the law was enacted after the World Bank openly claimed that Indonesian workers are "overprotected" (Kühl 2006: 135). The new law was objected by the workers because it was not in line with workers' interests and the ILO Core Conventions (ibid). The fall of the authoritarian regime of Suharto⁶ gave a proper impetus for workers to urge the law to be revoked (ibid)⁷.

⁶ Suharto's regime fell on May 21, 1998 when the President officially announced that he left the office.

⁷ Year 1998 was marked as the moment of labour law reform in Indonesia (Rahayu and Sumarto 2003: 4; Kühl 2006: 135). Since then, Indonesia has ratified most of the ILO Core Conventions (see table 4.6 in Appendix 1).

Consequently, the ensuing President, Bacharuddin Jusuf Habibie, postponed the Law until October 1, 2002 (Rahayu and Sumarto 2003: 4; Kühl 2006: 135). In 2001, the Government revoked Law No. 25/1997⁸, as part of the responses towards workers' protests against the government's plan in passing three new labour laws, the so-called "three-labour-law package" namely, the Trade Union Act, the Industrial Relations Dispute Settlement Act, and the Manpower Development and Protection Act⁹. Despite the protests, on February 23, 2003, the government passed the bill on Manpower Development and Protection Act under Law No. 13/2003 on Manpower (Lembaran Buruh 2004: 18). Afterwards, the government did not find any meaningful difficulty in passing the last law in the three-labour-law package, that is, the Industrial Relations Dispute Settlement Act under Law No. 2/2004 (ibid).

Several issues in Law No. 13/2003 are the points of workers' contention, especially in the area of freedom of association and collective bargaining (Kühl 2006: 137). The Law is also considered as supporting outsourcing and contract-based works, which implies less protection to workers (Lembaran Buruh 2004: 18-19). On the other hand, from the employers' side, the Law is more towards workers' interests, particularly because the Law requires employers to pay dismissed workers a relatively high severance pay. From the government's perspective, Law No. 13/2003 seems to be unattractive to investors, shown by the government's initial intention to revise Law No. 13/2003 through Presidential Instruction No. 3/2006 on Investment Climate Improvement Policy Package.

As Kühl (2006: 135) argued, Indonesia codifies aspects contained in some of the ILO Conventions although the country has not yet ratified the Conventions, such as, Law No. 13/2003 stipulates that normal working hours for a week are 40 hours (seven hours from Monday to Friday and five hours on Saturday) and that overtime consists of 14 hours maximum in a week. The Law provides better provision compared to ILO Convention No. 1 on Working Hours, which allows 48 hours plus 8. The Indonesian government also provides a regional minimum wage endorsed annually, even though the country has not yet ratified ILO Convention No. 26 and 131 on Minimum Wages. The labour law also requires a health and safety manager in factories with at least 50 workers, and a health and safety committee with the participation of workers in factories with at least 100 workers.

⁸ It shows that Law No. 25/1997 has actually never been applied since the government passed it.

⁹ Since the package implies a more flexible labour market, reflecting a more liberal and more towards business interests policy package, workers were strongly against this package (Lembaran Buruh 2004:18).

5. Theory

The notion of “race to the bottom” has been by and large used to indicate the competition between countries in lowering their labour regulations in order to attract more foreign investments. This is related to “conventional wisdom,” which contends that countries with low standards serve as haven for foreign investors (Rodrik 1996:57, as cited in Kucera 2002: 32). The hypothesis of “race to the bottom” basically refers to a competition that brings about negative results for all involved parties. Indeed, this hypothesis takes the stance of absolute advantage. The theory of comparative advantage holds the assumption that resources (capital and labour) are immobile. In reality, investment is liberalised and labourers are free to move between countries. It is argued that, “...But if that capital is mobile, as is the case in a post-Cold War world where most nations are open for business, then corporations are no longer constrained to settle for comparative advantage but can pursue *absolute* advantage based on the cheapest adequate labor” (Fletcher 2005).

The use of cheap and flexible labour in a global division of labour has been captured by the Regulation School, which offers explanation on precondition for the existence and reproduction of capitalism. The Fordist system, characterised by Taylorism, enjoyed its Golden Age during the 1950s and 1960s and faced crisis in 1970s. The crisis was partly due to the emergence of new industrialising countries, such as, Brazil, Mexico, and the ‘Four Tigers’ (Hong Kong, Singapore, Taiwan and South Korea) that paved the way to the so-called “new international division of labour.” Toyotism, a method of production introduced by a Japanese car company in 1980s which puts emphasis on flexible specialisation, as well as the opening of the financial market in the West also served as challenges to the Fordist system (O’ Brien and Williams 2007: 248; Munck 2002: 77-8). As such, the discourse of labour ‘flexibility’ was of main concern during that time (Munck 2002: 78). The emergence of new international division of labour was marked by the establishment of free trade zones perceived as “main sites of capitalist development’ and the use of so-called ‘bloody Taylorisation’¹⁰ in such zones (Munck 2002: 108). Flexibilisation also led to ‘feminisation’ both in the North and in the South as it attracted more women to participate in the workforce (Munck 2002: 97). The shift from new international division of labour to the so-called ‘global division of labour’ was marked in the beginning of 21st century (O’ Briens and Williams 2007: 249; Munck 2002: 111). In

¹⁰ Bloody Taylorism, a term adopted by Alain Lipietz, refers to deregulated labour markets, labour force repression (‘bloody’) and a detailed division of semi-skilled labour (‘Taylorism’) (Jessop and Sum 2005: 156).

this context, technological improvement enabled companies to locate different parts of the production process in different countries, making geographic space less constraining. Workers become more substantial, as Manuel Castells (1996: 147, as cited in Munck 2002: 111) argued, "...the position in the international division of labour does not depend, fundamentally, on the characteristic of the country but in the characteristics of labour (including embodied knowledge) and of its insertion in the global economy". As such, the issue of 'competitiveness' is more about the labour regime than the nation-states (Munck 2002: 111).

Feminist trade theory contributes to the discussion that specifically focuses on the impact of trade on women. According to Diane Elson, Caren Grown and Nilüfer Çağatay (2007: 34), feminist trade theory concerns itself with gendered impacts of trade performance,

"...in terms of changing patterns and conditions of work, including paid and unpaid work; changes in gender gaps in wages, earnings, patterns of ownership, and control over assets; technical change; changes in consumption patterns, and use of technology by men and women: changes in public provisioning of services through impacts on taxes and expenditures and their gendered impacts, as well as the gender differentiated empowerment implications of trade flows."

Combined with heterodox theory of trade, which argues that trade is not benefiting all involved parties and that high-cost producers will lose, feminist trade theories detect social relations through which production and distribution take place and is transformed as companies search for competitive advantage in the world market (Elson, Grown and Çağatay 2007: 47). Feminist-heterodox theories identify the ways in which gender inequality affects the roles of women as achievers of competitive advantage and as sources of competitive advantage (Elson, Grown, Çağatay 2007: 44). Women as achievers of competitive advantage refer to the roles women play as business owners or as own-account, or self-employed producers. Women as sources of competitive advantage refers to women as unpaid family workers and waged workers contributing to business carried out by others, mostly men. In order to achieve competitive advantage, a business owner or own-account producer needs to access land, technology, finance, a labour supply, social networks, markets, and a favourable policy environment, such as, tax breaks or subsidies. It is harder for women to access these resources in a society marked with gender inequality and it, therefore, limits their competition with men as well as their benefit from the marketplace (Elson, Grown, and Çağatay 2007: 44). Furthermore, women serve as sources of competitive advantage in labour-intensive industries resulting from gender gap in power within households and labour markets (ibid: 45).

Stephanie Seguino (1997: 104-105) addressed two contrasting theses on the relationship between gender and development. On one hand, the integration thesis contends that the process of capitalist expansion will lead to increased gender equality. This is because the process will give more opportunities for women taking part in paid employment, which, in turn, will give them more access to and control over resources. On the other, the exploitative thesis argues that although women participate in production activities, they are in an inferior position in comparison to that of men caused by inequalities in the patriarchal gender system. These patriarchal norms, embedded in cultural, political, legal and economic institutions, pave the way to women's segregation in the lowest paying jobs, the limits of women's position and mobility, and the justification of their relatively lower wages. Similarly, Guy Standing (1999: 600, as cited in Munck 2002: 119) argued that while women's participation in the labour force seems to show the path towards gender equality, the conditions under which they are working have not been improved, but are characterized by even greater inequality and insecurity.

Stephanie Seguino (2006: 97) argued that the attempt to address gender equality through labour standards has to consider restraints resulting from the globalisation process. Globalisation, in terms of investment liberalisation, gives rise to the relatively easier situation for firms to locate their production to countries that provide favourable conditions in terms of regulations and labour costs. This certainly takes the stance of absolute advantage. It has an obvious influence to workers' bargaining power. Furthermore, it has a gendered impact since women are concentrated in "mobile industries", whereas men in "immobile industries" (Seguino 2006: 98). Mobile industries refer to industries whose sunk costs are limited and it is easier for company to enter or leave the industry (ibid). These industries are usually fuelled by vertical foreign direct investment, serving as the effort of the firm to place labour-intensive part of the production in countries which are able to provide cheap labour costs. Export is the main destination for this type of industry. On the other hand, immobile industries are backed by horizontal foreign direct investment where the companies locate production in a country to provide sales to that economy. In this kind of industries, labour costs play a small influence on investment decisions. Garment industry serves as an example of mobile industries, whereas automotive industry is an example of immobile industries. Departing from this theoretical approach, one can argue that workers in mobile industries face lower bargaining power than workers in immobile companies. It explains the remaining lower wage of female labour despite the increasing labour demand.

6. Hypotheses and Operationalisation

The research question is, “What kind of impact does free trade have on labour standards and the enforcement in labour- and in capital-intensive industries in a developing country?” The question expresses the concern whether or not free trade results in a change (i.e. decreasing or increasing level) in labour standards and the enforcement in labour- as well as in capital-intensive industries. Additionally, the garment industry is dominated by women workers, whereas men workers dominate the automotive industry. Therefore, the research also takes into account a feminist perspective. As such, it examines whether free trade equally affects men and women workers. I am also aware that there are several other factors which might affect labour standards and the enforcement. In this case, I am at one with Layna Mosley and Saika Uno (2007) in the argument of certain factors that might influence labour rights, namely, external debt, competition with other countries and some internal factors, which are explained further in the later section of this chapter. Therefore, I have, on one hand, all these factors, including free trade, as the independent variables, and on the other, labour standards and the enforcement, as the dependent variable.

My hypothesis takes a stance that, in a developing country, free trade results in a change in labour-intensive industry, in terms of decreasing labour standards and their enforcement, but not in capital-intensive industry. In this context, either free trade does not affect labour standards and their enforcement in capital-intensive industry or it has positive effect. This is further discussed subsequently on the operationalisation of concepts. I would, therefore, argue that workers in labour-intensive industry face decreasing labour standards and enforcement, whereas workers in capital-intensive industry do not. However, the extent of the liberalised trade, in the sense whether or not it creates intense competition, shapes the size of the impact of free trade on labour standards and other factors that might influence labour standards should also be taken into account. Moreover, the garment industry, an example of labour-intensive industry, is a female-dominated industry, while the automotive industry, an example of capital-intensive industry, is a male dominated industry. Stemming from this, I would argue that the unequal impact of free trade on labour standards in labour- and capital-intensive industries also partly reflects the unequal impact of free trade on women and men workers, in the sense that free trade negatively affects women workers in terms of decreasing labour standards and the enforcement.

The term “labour standards” denotes “...the rules that govern how people treated in a working environment” (ILO-ADB 2006: 10). For this concept, I also refer to international labour standards. The international labour standards “embrace numerous aspects of labour markets, ranging from minimum wages and equal pay to health and safety regulations” (OECD Glossary of Statistical Terms). Amongst the labour standards, the ILO identified core labour standards at the Copenhagen Summit when the Organisation adopted Declaration on Fundamental Principles and Rights at Work (*ibid*). The core labour standards are: (1) freedom of association and collective bargaining; (2) elimination of all forms of forced and compulsory labour; (3) effective abolition of child labour; (4) elimination of discrimination in respect of employment and occupation. I also take into account three other labour standards, namely, wage, working hours and occupational safety and health since violations on such standards largely occur in a women-dominated industry. Additionally, there are also other alternatives of labour regulations tools, as Bianca Kühl (2003) provided in detail, namely, (1) social clause; (2) codes of conduct; (3) ILO-Declaration on Multinational Enterprises and OECD Guidelines for MNCs; (4) framework agreements; (5) Global Network of Trade Unions and international workers’ council on MNC level; (6) social labeling or ethical consumption; (7) UN Global Compact and UNIDO Triple Bottom Line; (7) Social Protection Strategy and Poverty Reduction Strategy Programmes (PRSP) of International Financial Institutions (IFIs).

As mentioned, this paper focuses on the causal link between free trade and labour standards and the enforcement. I also use Mosley and Uno’s argument (2007) on other factors which also might influence labour standards and the enforcement as well as their operationalisations with some relevant changes. These variables and the operationalisations are discussed in the following paragraphs (see also table 6.1 in Appendix 1).

An element which is related to free trade is trade openness. I borrow Mosley and Uno’s (2007: 934) operationalisation on this variable, in that, they measured trade openness by examining the ratio of imports and exports to GDP. The significance of this operationalisation is that it enables us to capture country’s participation in the subcontracting component of global production networks. There is actually a lack of information concerning subcontracting activities (World Trade Organisation 2005, as cited in Mosley and Uno 2007: 929); however, global production networks contribute to large flows of import and exports as they depend on the movement of goods between countries (*ibid*). I expect a negative relationship between free trade and labour standards in labour-

intensive industry, whereas positive or no relationship takes place between free trade and labour standards and the enforcement in capital-intensive industry. This is because free trade generates an intense competition between firms in the labour-intensive industry, creating more pressures on labour costs, whereas the competition between firms in the capital-intensive industry is not necessarily followed by downward pressures of labour costs since capital factor production has greater share in this kind of industry. Moreover, free trade is often connected with efforts to liberalise investment which, in turn, has different impacts on labour- and on capital-intensive industries. Labour-intensive industry, which serves as an example of mobile industry, is expected to have lower workers' bargaining power than that in capital-intensive industry in the face of investment liberalisation. This difference of workers' bargaining power is expected to lead to different impact on labour standards in labour- and capital-intensive industries.

Free trade is one factor of economic globalisation. In the case of foreign direct investment, Mosley and Uno (2007: 934) looked at the inflow of FDI relative to GDP, focusing on the impact of new direct investment on labour rights, as well as at FDI stock, which captures the overall presence of such investment in a country. Consequently, even though FDI stock demonstrates the cumulated FDI from previous years, the variable of FDI inflow depicts the more immediate impact on labour standards. Reiterating the explanation on investment liberalisation in the previous paragraph and the expectation that FDI in capital-intensive industry will try to attract skilled workers partly by providing more respect on labour rights, the measures of FDI are expected to have positive relationships with labour standards and the enforcement in capital-intensive industry. Negative relationships are expected to take place between the measures of FDI with labour standards in labour-intensive industry.

Another external factor is external debt. According to Mosley and Uno (2007: 933), external debt has a negative relationship with labour standards, because high debt will lead to more pressures from private international investors and international financial institutions on the governments. Evidence to this argument is the structural adjustment policies endorsed by these international actors which have negative consequences for labour and human rights (Abouharb and Cingranelli 2006; Richards et al., 2001, as cited in Mosley and Uno 2007: 933). However, in an industry-level analysis, I expect that a negative relationship takes place between high debt and labour standards in labour-intensive industry, whereas no relationship is expected between this variable and labour standards in capital-intensive industry.

As for competition variables, Mosley and Uno (2007: 934) focused on competition between “peer nations” in regional and economic domain. The regional variable demonstrates, “the extent to which competition for FDI takes place among neighbouring countries” (ibid). In the meantime, economic peer variable captures competition between countries with similar levels of economic development and factor endowments. Regional variable is examined through average labour rights score for every other country in the region, whereas economic peer variable is measured through average labour rights score for all other nations in the same per capita income decile. Since I take the case of AFTA which takes place within ASEAN, I focus on this region for the regional variable. I leave out the economic peer variable because I concentrate on AFTA as regional free trade group. Moreover, countries in the ASEAN region generally have similar economic developments – except some more developed ones, such as Singapore – and factor endowments. Regional competition is expected to have a positive relationship with labour standards in both industries.

Internal factors may also play a role in influencing labour standards and the enforcement, consisting of income, economic growth, population, democracy, civil conflict, presence of nongovernmental organizations (NGOs) and potential labour power.

As Mosley and Uno argued (2007: 936), a wealthier country is expected to have more respect for labour rights. In the same vein, an increase in economic growth is expected to result in greater opportunities for workers’ political participation, which implies a positive relationship between economic growth with labour standards and the enforcement (ibid). In industry-level, positive relationships are expected to take place between these variables and and labour standards in both types of industry.

Concerning the relationship between population and labour rights, Mosley and Uno (2007: 936) argued that it has positive and negative relationships. Smaller population will cause repression to be carried out more easily. On the other hand, larger populations will provide more opportunities for labour rights’ violations. In an industry-level analysis, I expect that either a positive or a negative relationship takes place between population and labour standards in labour-intensive industry. Population is, however, expected to have either a positive or no relationship with labour standards in capital-intensive industry. Indeed, smaller population will make repression easier to be conducted, which might influence labour standards in capital-intensive industry. Nonetheless, having a larger population is not necessarily followed by more labour rights’ violations in capital-intensive industry.

Moreover, more labour standards violations are expected to occur in a country with a civil conflict (Mosley and Uno 2007: 936). In industry-level analysis, negative relationship is also expected between civil conflict and labour standards in both types of industry.

It is argued that the higher the level of democracy, the better protection of labour rights (Cingranelli and Tsai 2003; Neumayer and de Soysa 2006; Poe, Tate and Keith 1999; Richards et al. 2001, as cited in Mosley and Uno 2007: 935). This variable is measured through Polity IV measure of democracy. In this context, Mosley and Uno (2007) did not focus on government ideology. In industry-level analysis, positive relationship is expected to take place between democracy and labour standards in both types of industry.

Mosley and Uno (2007: 936) argued that the presence of human rights NGOs can have both positive and negative relationships with labour rights. A negative relationship is shown by NGO activity which may lead to increased reporting of labour rights abuses in developing countries. On the other hand, human rights NGOs also monitor the MNCs compliance with labour standards, creating a positive relationship. In an industry-level comparison, either a positive or a negative relationship is expected to occur in both types of industry.

The potential labour power variable is measured by Mosley and Uno (2007: 933) through skilled and unskilled workers relative to surplus labour and is expected to have a positive relationship with labour rights. As for this research, I measure potential labour power by looking at labour surplus in terms of the share of unemployed people based on educational background in total unemployment. It is expected that the increasing share of unemployed people with first¹¹ and second levels of educational background in total unemployment will give more opportunities for downward pressures of labour rights in the labour-intensive industry, creating a negative relationship. On the other hand, increasing share of unemployed people with third level of educational background in total unemployment is not necessarily associated with downward pressures of labour rights' in capital-intensive industry.

¹¹ According to International Standard Classification of Education (ISCED-76), the standard used by the ILO, the first level of education equals to elementary school where students get basic education in reading, writing and arithmetic. Third level of education equals to practical programmes designed to prepare students for specific vocational fields in which they can qualify as high level technicians, teachers, nurses, supervisors, etc. These programmes lead to an award which is not equivalent to first university degree. First university degree or other equivalent qualifications also belong to the third level of education. Second level of education, therefore, is between elementary school and practical programmes or first university degree.

7. Data and Methodology

7.1. Data

For data on labour situations, I rely on labour regulation documents, local reports concerning labour standards and the enforcement, Annual Survey of Violations of Trade Union Rights by International Trade Union Confederation (ITUC), formerly International Confederation of Free Trade Unions (ICFTU), and other relevant texts (see Sources for Labour Standards Performance in Bibliography) during three years before and after 2002, the completion deadline for the six ASEAN original member countries. Therefore, the timeframe observed is between 1999 and 2005. By taking a starting point from 1999, I also anticipate the remaining impact of the Asian Crisis (which occurred in 1997) on labour rights performance in Indonesia.

As mentioned previously, independent variables under scrutiny consist of internal and external variables. In this case, I rely on various data sources for these variables.

In the case of external variables, Trademap provided by the International Trade Centre becomes the main source for data on Indonesia exports and imports of garment and automotive products to the world as well as to the ASEAN region. Data on FDI stocks and total FDI inflows are collected from UNCTAD Statistics, while data on FDI inflows from ASEAN are from the ASEAN Statistical Yearbook 2005 and the ASEAN Statistical Pocketbook 2006. As for external debt, I rely on Mosley and Uno (2007) data appendix for the period of 1999-2002 as well as the IMF Country Report 2007 for the period of 2003-2005. Additionally, Mosley and Uno (2007) data appendix is also the data source for regional competition. As explained in the previous chapter, I also use assumption based on the data by Freedom House since Mosley and Uno's data is only up to 2002.

As for internal variables, I collect data on GDP and GDP growth from the World Development Indicators Database, as cited by NationMaster. I rely on the data by the Central Bureau of Statistics for population data. Data for regime authority characteristics is drawn from Polity IV version 2007, whereas UCDP/PRIO Armed Conflicts dataset version 4.2008 is used for data on civil war. SMERU Research Institute NGO Database and Human Rights Internet provide statistics on human rights NGOs and NGOs working with gender issues. In addition, I rely on Laboursta for the statistics on unemployed people based on educational background.

7.2. Methodology

Since this paper attempts to investigate the impact of free trade on labour standards in labour- and capital-intensive industries, I use a comparative method to find similarities as well as differences. I choose Indonesia as the suitable country for the empirical case. Indonesia, one of the ASEAN countries, is on the way in its search for competitiveness in AFTA. As an emerging regional trade bloc, AFTA is currently enhanced by ASEAN member countries in relation to their objective on further economic integration within the region. Garment and automotive are two major industries in Indonesia. Noting that the garment industry represents labour-intensive industry, and automotive industry serves as an example of capital-intensive industry, it seems reasonable to take the case of Indonesia in the face of AFTA.

I employ quantitative combined with qualitative methods. As such, I look at statistical trends on factors that might influence labour standards in garment and automotive industries. I also generate statistical trends of labour standards in garment and automotive industries based on analysis of literatures, documents, and texts. These statistical trends of labour standards are generated using qualitative indicators that I borrow from Dan Viederman and Erin Klett (2007) with some relevant adjustments (see Constructing Qualitative Indicators in Appendix 2 as well as tables 7.1 and 7.2 in Appendix 1). I do not employ regression analysis since my focus is statistical trends. I conduct graphical analyses by demonstrating statistical trends of factors that might influence labour standards together with statistical trends of labour standards in the expectation that relationship between the two can be traced. On the qualitative part, I conducted interviews with representatives of workers, employers and the government (see Appendix 3). The interviews are conducted in order to go beyond statistical numbers. As such, the interviews may validate these numbers or they may also provide explanations what is behind these statistical numbers. Due to geographical limitation, the interviews were conducted through emails and telephone. The interviewees were asked general as well particular questions (questions guidelines can be found in Appendix 3). All interviews were conducted in Indonesian language.

8. Empirical Findings

8.1. Trends of Labour Standards in Garment Industry and Automotive Industry in Indonesia

After analysing reports, documents, texts and other literatures using indicators and scoring scheme discussed in the previous chapter, the statistical trends of labour standards in the garment industry and the automotive industry are drawn.

The scoring scheme provides 40 points for the perfect score. As we can see from graph figure 8.1 (see Appendix 1), between 1999 and 2005, scores of labour standards in both of the industries are below the perfect score, with scores of labour standards in automotive industry surpassing those in garment industry. When we look at the trends, labour standards in both industries experienced increasing scores after 1999. This is contributed by an improvement in labour law resulting from labour law reform. The first example of the reform is the enactment of Trade Union Acts under Law No. 21/2000 that serves as the first labour law ever stipulating freedom of association. The increasing trends of labour standards in both industries also occurred after 2003 contributed by the enactment of Law No. 13/2003 on Manpower that provides improvement of normative labour rights. Despite these increasing trends, the scores of labour standards in both industries remain below the perfect score. This is mainly because problems in the implementation or the enforcement of labour standards in both industries remained in existence despite the improvement in the labour laws. Other than this, the government is perceived to have weak institutional capacity, indicating low government's effectiveness in monitoring and implementing labour laws.

As mentioned, the scores for labour standards in the automotive industry outperform those in garment industry during 1999-2005. The gap is mainly resulting from the difference in scores of implementation of labour standards between these two industries. In this case, problems in the implementation of labour standards concerning freedom of association and collective bargaining, child labour, unequal remuneration and other forms of gender discrimination, occupational health and safety, wage and working hours predominantly occurred in the garment industry. Lack of enforcement of these labour standards also took place in EPZs which results in the downgrade of the implementation score in the garment industry. This is because garment factories are also located in EPZs. Apart from this, the

gap is also contributed by the difference in scores of institutional capacity. While the capacity of NGOs is perceived to be strong in both industries, the government capacity is viewed to be stronger in the automotive industry than that in the garment industry. This is because the government capacity in enforcing labour laws was still weak in small companies and informal sector during that time, noting that garment companies are mostly middle and small level companies (Interview with Indonesian Garment Producers Association, May 15, 2009) and that the garment industry also involves home-based workers, this again results in the downgrade of institutional capacity in the garment industry.

It is also of importance to examine the trend of labour standards in each of the industries. Table 8.1 (see Appendix 1) provides the summary for the trend for the period between two years for both of the industries. In general, there was an improving trend of labour standards in the automotive industry. The scores of the last two years, namely, 2004 and 2005, are higher than those in 2000 and 2001, despite a decrease in 2002. In the garment industry, overall, there was a decreasing trend in labour standards between 1999 and 2005. The scores during the last two years, namely, 2004 and 2005, are below the score in 2000; however, the scores in 2004 and 2005 are better than the score in 1999. The increase between 1999 and 2000 was mainly resulting from labour law reform that also occurred in the automotive industry. After 2000, labour standards decreased. This picture is dissimilar to the picture of the trend of labour standards in the automotive industry that generally shows an increasing trend in the period after 2000.

It is salient to note that there are inevitably limitations of the labour scores results. This is because the research was conducted in Germany, not in Indonesia, and, therefore, some reports, documents or texts related to labour issues are not available or not accessible. Some of these documents were also not accessible due to time constraint.

The statistical trends of labour standards and the enforcement in garment and automotive industries show that labour standards and the enforcement in garment industry were lower than those in automotive industry between 1999 and 2005. Noting that women dominate garment industry and men dominate automotive industry, this finding supports the exploitative thesis which argues that although women are given more opportunities for taking part in the production process, they are placed at inferior position to men. In this case, patriarchal norms give rise to women's segregation to jobs with more vulnerable labour standards and to the justification of poor labour standards and the lack of their

enforcement in the workplace. Additionally, this finding also fortifies feminist-heterodox theories that identify how gender inequality affects women's role as source of competitive advantage. A gender-bias perspective within household and labour market paves the way to the domination of women workers in the garment industry. That these workers are perceived only as helpers for men, who serve as the head and breadwinners of the households, justifies the poor labour standards and the lack of enforcement in the garment industry. Likewise, this finding also supports research on women workers as discussed in chapter 2 as well as Tamar Diana Wilson's (2001) argument that capital accumulation corresponds to the exploitation of women workers as cheap labour. However, recalling Leslie Salzinger's (2003: 153) argument, this feminised cheap labour has been both cause and consequence of the process of capitalist's search for and the creation of the price of cheap labour. As Salzinger (2003: 15) also argued, different social settings and workplace play a role in addressing the image of "productive femininity."

Interviews with two workers union federations in each of these two industries (F-SB Garteks and FSBI from the garment industry, while FSPMI and F-SP LEM from the automotive industry) showed similar perceptions concerning the labour laws. In their opinions, there is no difference with the recent labour regulations compared to the past or the situation even worsened. Some of them referred the worsening of labour regulation to the stipulation of contract workers as well as of workers recruited through outsourcing according to Law No. 13/2003. The issue of contract workers and workers recruited through outsourcing seems to be the unions' main concern nowadays. This is obvious since contract workers were previously stipulated in ministerial regulation (or other similar level regulation) and workers recruited through outsourcing was previously not stipulated in any regulation (Sembodo 2008: 5).

When the representatives from employers' associations in the garment and automotive industry were asked concerning labour regulations, the answers differ from each other. Gaikindo, the Indonesian automotive producers association, argued that there is no complaint pertaining to labour issues (Interview May 13, 2009). On the other hand, Indonesian Garment Producers Association did notice that there is a problem concerning labour issues, that is, the increasing wage level which is not accompanied with an increase in worker's productivity (Interview May 15, 2009). Although the employers' associations from garment and automotive industries have different opinions on the problems related to labour issues, they actually share the same concern, namely, wage level. Indonesian

Garment Producers Association did also complain about regulation on severance pay, but this is also related to the payment that company should give to workers. This seems giving an impression that a problem related to something other than wage or other kind of payment is not considered as an actual problem for the employers.

When the representatives of the Ministry of Manpower and Transmigration were asked concerning the pertinent labour regulations, they have similar views, that is, these regulations – most likely referred to the three-labour-law package – are already good (interview May 20 and 21, 2009).

When we step into the observed labour standards specifically, the results of the interview show differences in violations occurring within these two industries in line with differences in trends of labour standards and the enforcement portrayed previously. With regard to freedom of association, trade unions in the garment industry experience more problems compared to those in the automotive industry. The first problem is restriction from the company. The second problem is the high member turnover within the unions resulting from the closing or relocation of garment factories. This is a factor that does not exist in the case of the automotive industry, making it difficult for organising workers in the garment industry. It should be kept in mind that this occurred specifically after the textile quota expired in 2005. Nonetheless, it could be also expected that phasing out of the quota might serve as a threat to the companies that, in turn, could also lead to a closure or relocation of the companies even before the phasing out takes place. Apart from this, noting that members of trade unions in the garment industry are mostly women, problems in trade unions also arise since women usually do not continue to be active in the unions when they get married. First, married women workers are expected to stay at home besides working at the factories. The high member turnover is even because women worker are supposed to stop working soon after they get married (Interview with FSBI May 6, 2009). Second, women workers are expected to stay at home besides working at the factories because they are also responsible for domestic works. This also contributes to them not having much time for unions' activities. All these demonstrate the gender-bias perspective held by the society. Consequently, the claim that organising is men's activity arises. Not only the people who limit women workers to be active in unions, but these women workers themselves have a lack of desire to know more about organising and their rights. The interviews also show that unions in both industries experience problems resulting from the low sense of workers to join union. In the automotive industry, workers who are perceived

to have low sense to join a union are contract workers and workers recruited from outsourcing. Some factors become the driving forces, such as, restriction from the company to these types of workers for joining and forming a union (Interview with F-SP LEM, May 5, 2009), and the short working period for contract workers as well as the lack of time owned by these types of workers (Interview with FSPMI, May 11, 2009).

Furthermore, although Law No. 13/2003 stipulates that collective agreement is a form of industrial relation and provides legal justification on it, collective agreement has not been widely used both in the garment and in the automotive industries (Interview with FSPMI Interview with FSPMI, May 11, 2009; Interview with F-SB Garteks, May 5, 2009). This is possibly due to several reasons. First, unions mainly still focus on recruiting members (Interview with F-SB Garteks, May 5, 2009). Second, unions do not have sufficient bargaining power in negotiating collective agreement.

While no one mentioned about forced labour, F-SB Garteks indicated the case of child labour in the garment industry, though not many cases happen (Interview May 5, 2009). The case of child labour is actually difficult to be traced as it may involve age manipulation.

On the issue of gender discrimination, representatives of federations covering workers in automotive companies did not say much about violations regarding these issues in the automotive industry. Meanwhile, the representative from F-SB Garteks pointed out violations against women workers' rights (Interview May 5, 2009). Violations include matters related to facilities that women workers should get when they work at night. This is likely because providing shuttle transportation is costly.

Concerning the issue of occupational safety and health, violations occur in both industries. However, in the automotive industry, violations mostly appear in Korean component companies as well as supporting companies, and not in assembling companies as well as Japanese and European component companies (Interview with FSPMI, May 11, 2009). This might indicate that the more capital-intensive the automotive industry, the better the compliance with labour standards. It also signals that Japanese and European companies are more respectful towards labour standards than Korean companies. A striking point is that, in the garment industry, violations are not only coming from the employers' side, but also from the workers' side. Workers feel reluctant to wear safety instruments, such as mask (Interview with FSBI, May 6, 2009). This shows that both employers and workers actually

have low sense of complying with labour standards relating to occupational safety and health. The interview with FSBI also seems to show that violations concerning occupational safety and health are not the main concern as long as the worker is registered in Jamsostek¹². In garment industry, the violations do not only include the insufficient instructions pertaining to occupational safety and health, but also violation concerning Jamsostek. Companies do not register their workers for health insurance, one of four schemes offered by Jamsostek.

With regard to working hours, workers both in garment and automotive industries often take overtime. Overtime in the garment industry exceeds the amount of overtime according to the labour regulation. In this case, "...Even though workers realise that it is not according to the law, they still do it because they need money" (Interview with F-SB Garteks, May 5, 2009). In the bonded zone, not only overtime exceeds the amount stipulated in the labour regulation, the overtime itself is often not paid (Interview with FSBI, May 6, 2009). This shows that the situation is even worse for garment workers in the bonded zone. In the meantime, in the automotive industry, the unpaid overtime occurs in the supporting industry (Interview with FSPMI, May 11, 2009). This again fortifies the argument in the previous paragraph that claims the more capital-intensive automotive industry, the better performance of labour standards and the enforcement in automotive industry.

According to the interviewees, high level of overtime is due to the low level of wage. The interviewees also argued that the wage level is not yet enough to afford a decent living. This problem does not only appear in the garment industry, but also in the automotive industry. Based on the interview, permanent workers receive a higher level of wage. Compared to the wage level in the garment industry, the wage level for permanent workers in the automotive industry is higher. However, compared to the living cost, the wage level in the automotive industry is still not enough for someone to pursue a proper living. The situation is, therefore, worse for workers in the garment industry.

¹² Jamsostek (Jaminan Sosial Tenaga Kerja/ Worker Social Assurance), insurance service provided by state-owned enterprise, is intended to, "protect workers suffering from occupational accidents, and to provide benefits in the event of sickness, death and old age" (Quinn 2003: 47, as cited in Kühl 2006: 140). A company that hires more than ten workers or that pays more than one million rupiahs in monthly salaries has to register with Jamsostek (Kühl 2006: 141). There are four schemes provided by Jamsostek, namely, health insurance, work accident insurance, pension insurance and life insurance. Only health insurance can be signed with private insurance companies, while the rest are obliged to sign with Jamsostek.

Moreover, provincial minimum wage is calculated using a single worker's need as a standard. At the same time, employers use minimum wage standard as maximum wage standard (Halo Perempuan dan Anak 2000: 4; Lembaran Buruh 2006). This is the point of criticism from workers' side as the wage level will certainly not be enough especially for those who are not single. Furthermore, the single worker used as a basis for determining minimum wage is single male worker. This is certainly not beneficial for women workers as women's needs are obviously different from men's needs.

Representatives of the Ministry of Manpower and Transmigration were asked about the monitoring of the enforcement of labour regulations. The representative admitted problems on monitoring the enforcement of labour standards coming from the Ministry, that is, the absence of a comprehensive labour monitoring system as well as the lack of numbers of monitoring officers (Interview with Ministry of Manpower and Transmigration, May 21, 2009). Problems on monitoring also come from the different interpretation of provision in labour regulation by workers, law enforcer and employers.

Interviews with the representatives from workers union federation in garment and automotive industries also pointed out another picture of labour standards which is not captured in the trends of labour standards and the enforcement.¹³ In this context, all of the representatives from the workers' union federation raised the issue of contract work and outsourced work, showing the issue of flexibilisation.

Law No. 13/2003 actually provides limitation on the maximum term of contract work. In reality, there is an indication that companies violate this provision. There are workers who have been for years hired as contract workers (Interview with F-SP LEM, May 5, 2009). This shows that there is a tendency that hiring contract workers for a long period of time appears to be beneficial for the companies as the companies may anytime terminate the working contract without any "burdening" payment and even hold the settlement of this payment in order to switch worker's status from contract worker to outsourced worker.

Moreover, the Law also allows outsourcing mechanism used only for certain works, such as, supporting works and works that are not the main business of the company. In reality,

¹³ As explained in *Constructing Qualitative Indicators* (see in Annex), the indicators used in generating the trends of labour standards and the enforcement are developed based on universal benchmarks, namely, the ILO Conventions. Therefore, the indicators only capture phenomena covered in the ILO Conventions, in this case, the ILO Core Conventions. Other than the ILO Core Conventions, the indicators also observe other labour standards, such as, working hours, wage and occupational safety and health. There are also ILO Conventions for these labour standards.

works which are outsourced are the main business of the companies. The use of outsourcing mechanism for main business leads to the shift of the purpose of conducting outsourcing mechanism, as F-SB Garteks clearly argued, "...It is not only the job which is outsourced, but also the person" (Interview May 5, 2009).

According to Law No. 13/2003 on Manpower, there is no difference between rights entitled to contract workers or workers recruited through outsourcing and permanent workers. Indeed, contract workers will not receive severance pay in case they are dismissed. They will only receive payment related to their remaining time based on the contract. Meanwhile, workers recruited through outsourcing are not different from permanent workers, except that they have an indirect work relationship with employers. Their direct work relationship is with the outsourcing agent. In practice, as the interviewees indicated, contract workers and workers recruited through outsourcing have lower rights than permanent workers. First, they are facing pressures from employers for not joining union. An example of this has been mentioned previously, particularly on the issue concerning violation of freedom of association. At the same time, these workers also have low sense to join union. This is possibly because they face pressure by employers. As their work relationship is more flexible than that of permanent workers, these pressures significantly influence their decision concerning joining union. Particularly contract workers have a low sense to join union due to their working period that only lasts six months or one year, although in practice companies employ contract workers more than the period of time allowed by regulation. Other than this, it is because contract workers and workers recruited through outsourcing often have to take overtime, giving them less time for activities in union. That they often have to take overtime related to the relatively low level of wage received by these workers will be explained later.

Second, FSPMI argued that contract workers and workers in both industries recruited through outsourcing are usually covered by individual contract, and not collective agreement (Interview May 11, 2009). This is because they are usually not union members (notice that there is a restriction from the company for these types of workers to join union). If they are union members, their rights are covered by collective agreement. At the same time, employers attempt to avoid rights entitled to contract workers and workers recruited through outsourcing to be similar to those entitled to permanent workers by regulating their rights separately. Rights entitled to contract workers and workers recruited through outsourcing are stipulated in individual contract. The wage level stipulated in individual

contracts is the minimum wage (Interview with FSPMI, May 11, 2009). As mentioned in the previous section, minimum wage is not enough for someone to afford a decent living. Therefore, contract workers and workers recruited through outsourcing need to take overtime. This eventually makes these workers not having much time for unions' activity. As for workers recruited through outsourcing, it is even worse. Not only do they receive a minimum wage that is not enough for a decent living, but also a certain amount still has to be deducted from this minimum wage for payment to the outsourcing agent (Interview with FSPMI, May 11, 2009). Deduction is carried out every time worker receives wage.

The third problem is that workers recruited through outsourcing are usually registered only for three of four schemes of assurance in Jamsostek. They are not registered for health insurance (Interview with FSPMI, May 11, 2009). It very much depends on the outsourcing agents, whether or not they register these workers for all four schemes of assurance in Jamsostek. However, as FSPMI argued, there is only a very few outsourcing agents that do this (interview May 11, 2009). The fourth problem is that contract workers who are union members will not receive a pension (Interview with FSPMI, May 11, 2009). This is again because their rights are covered by individual contract and not by collective agreement.

The garment industry also involves home-based workers in the production process. Since MWPRI¹⁴ is the source of information for the situation of home-based worker analysed in this section, the notion of home-based worker used during the analysis in this section mostly refers to "putting out system home-based worker." "Putting out system home-based worker" refers to a worker, like the worker in a company, yet who conducts the work at home (Interview with MWPRI, June, 25, 2009). Home-based workers are dominated by women, particularly married women (Interview with MWPRI, June 18, 2009). This is unsurprising since the patriarchal system remains dominating in Indonesia. This system paves the way to a gender-bias perspective on women, claiming women's responsibility for domestic works.

Subcontracting mechanism has placed home-based workers in the garment production process. An option of subcontracting mechanism used by garment companies when they are out of capacity while at the same time they have to meet orders placed by buyers. The

¹⁴ MWPRI stands for Mitra Wanita Pekerja Rumahan Indonesia (Partner of Indonesian Women Home-based Worker). MWPRI clearly stated that it focuses on super micro self-employed workers and putting out system workers since micro and middle-level self employed worker have already been given attention by the government as well as by private companies through the application of corporate social responsibility (Interview with MWPRI, June, 25, 2009).

process of garment companies placing orders to home-based workers is a long chain, from the factory, the outsourcing agent, to the “juragan” or “pengepul”, a person who connects the agent or the factory to the home workers (Interview with MWPRI, June 18, 2009). “Juragan” or “pengepul” also involves many levels. This makes the chain of subcontracting process longer. Consequently, it is not surprising that home-based workers only know work relationship between them and “pengepul.” They most likely do not know the company that initiates the orders. Furthermore, this chain of subcontracting process is mainly invisible, in the sense that it is closed, forming a black economy that embraces the domestic sphere (Stephanus 2007: 5). The long and complicated chain of subcontracting mechanism also makes it difficult to trace the company that places the orders. This means that it is difficult to find out which company that the home-based workers have indirect work relationship with. This will be a challenge in defending these workers’ rights in the bargaining process with companies. The interview also showed that it is beneficial for a company to subcontract the works to home-based workers since the company can “exploit” worker, in terms of unlimited working hours, production place, additional labour resources, and low wage (Interview with MWPRI, June 18, 2009). These practices can be seen as violations of labour standards. Ironically, these workers do not feel that they are exploited (Stephanus 2007: 3, 5). When we look at the long chain of the process of placing orders, we may also suspect that the low wage received by home-based workers is one of the impacts of this long chain. In this case, each agent in every level, either the outsourcing agent or “juragan” or “pengepul,” takes profit in this subcontracting process that eventually results in the low wage received by home-based workers. Another important thing, which was not mentioned in the interview, is that these workers are not organised (Stephanus 2007: 3). This is due the separation of location between these workers and workers in the companies (Stephanus 2007: 6). Apart from it, they are also not yet recognised as workers. This negligence does not only come from the government, but also from labour organisations (ibid). Another possible reason is that home-based workers most likely will not have much time for organising activity. However, the establishment of Himpunan Pekerja Wanita Rumahan Indonesia (Indonesian Women Home-based Workers Association) with the support of MWPRI proves that organising is possible. Although the Association does not act as a trade union, but its fight for the recognition of home-based workers serves as a first important step in defending home-based workers’ rights. On the issue of occupational safety and health, MWPRI mentioned that this issue is only home-based workers’ business and not the company’s business (Interview June 18, 2009). In a broader extent, the company also does

not supervise the compliance with labour standards. This is not surprising, noting that home-based workers mainly do not know the company that places orders as there is no direct contact between them. It is also argued that the employer, either it is “pengepul” or the company itself, does not care of how home-based workers conduct their work (Stephanus 2007: 1). This implies that whether or not there is a direct work relationship between companies and home-based workers, compliance with labour standards remains outside of companies’ concern. Moreover, this situation is also connected with the absence of a formal work contract for home-based workers. Consequently, there is no legal paper that assures their rights, including rights concerning occupational safety and health. Other than this, we should also remember that the production process takes place at home. This may cause these workers’ houses to no longer have proper conditions to be dwelled in (Stephanus 2007: 5). Ironically, home-based workers themselves do not place occupational safety and health as their main concern (Stephanus 2007: 4). On the other hand, MWPRI also indicated that there is no attention from the government because the government practically does not recognise them as actual workers (Interview with MWPRI, June 18, 2009). The government regards them as those who only want to spend their time to earn additional money. This once again indicates a gender-bias perspective on the government’s side that views home-based workers, who are dominated by women, as only helping their households’ economy and not as the breadwinners. Sembodo (2008: 5) argues that based on its definition on worker, Law No. 13/2003 on Manpower actually also applies to home-based workers. However, it is commonly held that there is no regulation that protects home workers. Indeed, other than the general regulation of Law No. 13/2003, there is no specific regulation, at both national and local levels, for home-based workers. Therefore, there is no legal protection of home-based workers’ rights and their social security. Up to now, Indonesia has not yet ratified the ILO Convention No. 177 on Home Work (Stephanus 2007: 1). In the interviews, it is also mentioned that there is no monitoring from the government concerning the compliance with labour standards in home-based work (Interview with MWPRI, June 18, 2009). Apart from this, home-based workers are also not covered in the national or local statistics on workforce (Stephanus 2007: 4). This shows that home-based workers are not taken into account in the Indonesian economy. Besides hinting at a gender-bias perspective, all these also indicate the ignorance from the government’s part, leading to a conclusion that keeping home workers invisible seems to be more beneficial.

A gender-bias perspective on women as well as the economic factor interact, paving the way to the invisibility and unprotected home-based workers. This situation provides an opportunity for the companies to gain more through subcontracting mechanism.

The invisibility and the lack of protection of home-based workers supports feminist-heterodox theories that investigate how gender inequality affects women's role as sources of competitive advantage. As mentioned, the choice for women entering a job as home-based workers is certainly influenced by the gender gap in household. Since they are perceived as 'additional breadwinners', they are not recognised as workers, which, in turn, makes them exploited due to their invisibility. Furthermore, the case of home-based workers in the garment industry shows how capitalism articulates male domination and female subordination.

After examining the situation of home workers, it is also important to know how they are exposed in the international level. As quoted below, MWPRI mentioned that both local-oriented and export-oriented garment companies place orders to home-based workers (Interview with MWPRI, June 18, 2009). This implies that home-based workers are partly exposed to international trade. This might be a good sign since it is expected that there are still local-oriented garment companies that will place orders in case there is no longer an order from export-oriented garment companies or vice-versa. However, the impression from the interview indicates that it does not matter whether or not home workers are exposed to international trade. In this context, home-based workers are still "invisible" and unprotected, regardless whether they produce for local or foreign market.

8.2. Free Trade or Trade Openness and Labour Standards

The expected relationship between free trade and labour standards is negative in the case of labour-intensive industry and positive or no relationship in the case of capital-intensive industry. It is measured through the ratio of exports and imports to GDP and trade-to-GDP ratio. Figure 8.3 (see Appendix 1) shows the trends for trade openness for garment trade and labour standards and the enforcement in the garment industry between 1999 and 2005.

As for trade on garment to the world (total), a declining trend of trade-to-GDP ratio between 2001 and 2003 was followed by a declining trend of labour standards and the enforcement in the garment industry. This downward movement is significant for both variables. Initially, it can lead us to a conclusion that less engagement in the world trade brings about decreasing labour standards and their enforcement in the garment industry.

However, this should be examined carefully, otherwise the indicator, particularly the indicator that measures trade openness, can be misleading.¹⁵ As the trade-to-GDP ratio shows the degree of the domestic producers' dependence on foreign market as well as the degree of domestic consumers' dependence on foreign suppliers, this ratio shows the main orientation of exporters as well as the orientation of main suppliers for domestic consumers. Although garment exports to the world generally increased between 1999 and 2005 (more discussions in chapter 4), the decreasing trend of trade-to-GDP ratio during the time shows that export market was not the main orientation for exporters. One possible reason for this is because garment producers were worried that Indonesian garment products would not be competitive compared to those produced by other countries after the quota expires. Therefore, although exports to the world increased during the time (see again chapter 4 as well as figure 4.1 in Appendix 1), the main orientation was shifted to domestic market.

This shift led garment producers to offer garment products at even lower prices. This is because purchasing power in Indonesia is certainly lower than that in foreign market, particularly, in developed countries. This opinion is expressed by the Indonesian Garment Producer Association (Interview May 15, 2009). Cheaper garment products from China as well as illegal garment products flooding domestic market paved the way to an even more intense competition within the country. In consequence, it is expected that garment producers offered cheaper prices in the domestic market at the expense of labour standards in the garment industry. This means that the shift of garment producers' orientation to the domestic market led to the decrease in labour standards and the enforcement in garment industry. This shift of orientation is possibly due to the threat coming from the more open international trade indicated by the expiration of the textile quota. Therefore, it is the threat from a more intense international competition for garment trade that gives rise to decreasing labour standards and the enforcement in the garment industry. Another possible explanation is that the increase in exports of garment products between 1999 and 2005 shows that there is an effort by garment industry to use the opportunity provided by trade liberalisation. The generally decreasing trend of labour standard and the enforcement in garment industry during the same years shows that the effort to increase exports was at the expense of garment workers. Nevertheless, this increase in exports did not successfully increase the significance of the garment industry in the country's economy, shown by the declining trend of trade-to-GDP ratio during that time. This also shows that trade

¹⁵ This shows that using trade-to-GDP ratio as an indicator to measure trade openness or liberalised trade can be problematic.

liberalisation likely results in decreasing labour standards, although lowering labour standards does not necessarily mean that the country will win in the competition within the global trade. All these explanations imply that careful analysis leads to the conclusion that there is an indication that free trade has a negative relationship with labour standards and the enforcement in the garment industry. As such, it indicates that free trade brought about a change in terms of decreasing labour standards and their enforcement in the garment industry.

In the ASEAN level, the relatively small trade-to-GDP ratio between 1999 and 2005 for garment trade shows that garment trade was relatively significant for the Indonesian economy during that time. This should be kept in mind when the impact of free trade or trade openness on labour standards and the enforcement is examined. The analysis focuses on the impact of labour standards and the enforcement between 1999 and 2005. Between 2001 and 2005, the general trend of trade-to-GDP ratio for ASEAN trade in garment was decreasing. This decreasing trend was followed by an overall decreasing trend of labour standards and the enforcement in the garment industry. Between 2004 and 2005, a slight increase in trade-to-GDP ratio was accompanied by a slight increase in labour standards and the enforcement in the garment industry. An initial examination, therefore, will lead to a conclusion that, at ASEAN level, there is an indication that trade openness has a positive relationship with labour standards and the enforcement in the garment industry, implying that the more open Indonesia is to garment trade in ASEAN level, the better labour standards and the enforcement in the garment industry within the country will be. However, this should be analysed carefully, otherwise the indicator, particular the indicator for trade openness, might be misleading. Similar to the case of garment trade to the world explained in previous paragraph, a declining trend of trade openness for garment trade does not directly mean that the country is less open to ASEAN trade. Instead, this means the declining importance of garment trade in ASEAN level for Indonesian economy.

The declining trend of trade-to-GDP ratio shows that Indonesian garment producers became more focused on the domestic market, despite the increasing exports to ASEAN market (more discussions in chapter 4 and see also figure 4.1 in Appendix 1). Noting that the due date for Indonesia entering free trade mechanism under AFTA is in 2002, garment exports to ASEAN market increased after this year even though the increase was not significant. On the other hand, trade-to-GDP ratio after 2002 for garment trade in ASEAN level declined. This may indicate that Indonesian garment producers mainly target domestic market.

One possible reason for this less engagement is the concern of Indonesian garment producers on whether Indonesian garment products may compete with garment products from other ASEAN countries, especially Vietnam and Cambodia. Indeed, Indonesian garment producers increased their exports to ASEAN market using privilege provided by AFTA. At the same time, these producers also focused on domestic market. This is plausible especially because Indonesia has a big market due its large population. However, this big market is not accompanied with high purchasing power. Therefore, producers have to offer cheaper prices. As explained in the previous paragraph, competition from China and smuggled garment products also put pressure on domestic garment producers to be competitive in the domestic market. This seems to be at the expense of garment workers. Consequently, labour standards decreased during the time. Another possible explanation is that the increasing exports to ASEAN market particularly after 2002 show that the Indonesian garment industry used the opportunity provided by AFTA. The generally decreasing trend of labour standards in the garment industry during the same period indicates that these increasing exports were possibly at the expense of garment workers. However, the declining trend of trade-to-GDP ratio for garment trade at the ASEAN level during that time shows that these increasing exports did not successfully increase the importance of garment trade in the Indonesian economy. This may also serve as a signal that AFTA possibly gives rise to decreasing labour standards and the enforcement in the garment industry, although decreasing labour standards does not necessarily lead the country to winning the competition within the regional trade. Both of the possible explanations illustrate that there is an indication of a negative relationship between AFTA and labour standards in garment industry. This implies that there is a signal that free trade, in this case AFTA, brought about a change in terms of declining labour standards in garment industry. It should be noted that the impact is relatively small since garment trade in the ASEAN level remained less important for the Indonesian economy compared to that in the world level between 1999 and 2005.

Figure 8.3 as well as the information by Indonesian Garment Producers concerning AFTA and trade in garment products (see the interview, more in chapter 4) also indicate that the competition between Indonesian garment producers and garment producers of other ASEAN countries was possibly not very intense between 1999 and 2005. This, as mentioned before, likely makes the impact of free trade within ASEAN on labour standards and the enforcement in garment industry relatively small.

Regarding the automotive industry, figure 8.4 (see Appendix 1) shows the trends of trade openness for automotive trade and labour standards and the enforcement in automotive industry. The graph shows that the trade-to-GDP ratio for trade to the world generally shows a recovery trend. The significant decline between 2000 and 2003 indicates that the involvement of Japanese parent companies in coping with low domestic demand during and after the Asian Crisis might not successfully increase the importance of international trade on automotive products in the Indonesian economy. The decline seemed not significant in changing the labour standards in the automotive industry for the same period of time. A generally recovery trend of trade-to-GDP ratio for trade to the world was accompanied with the overall increasing trend of labour standards in automotive industry. It implies that there is an indication that the participation in the world trade contribute positively to labour standards in automotive industry. It should be noted, however, that automotive trade in the world level is not yet too open. Therefore, it is unclear whether competition from free trade has a positive impact on labour standards in automotive industry. At this point, we should turn to ASEAN market where automotive trade is liberalised under AFTA.

Figure 8.4 also shows that trade-to-GDP ratio for automotive trade in the ASEAN level experienced an increasing trend between 2001 and 2005. This means that the privilege of liberalised market provided by AFTA was used by automotive producers, although the ratio was still lower than the ratio for world trade. This also implies that ASEAN market became more important for the Indonesian economy during that time. This increasing trend was followed by a generally increasing trend of labour standards in the automotive industry. Although the increasing trend during that time was not significant and the scores for labour standards were still lower than perfect scores, labour standards in the automotive industry remained better than those in the garment industry in the same period. There seems to be a relatively intense competition between car producers in Indonesia and those in other ASEAN countries occurring between 2003 and 2004 (see trademap database). During this period of time, as figure 8.4 portrays, labour standards in the automotive industry increased, despite intense competition and free trade. All these indicate a positive relationship between free trade and labour standards in the automotive industry. As such, it signals that free trade may result in an increase of labour standards in the automotive industry. Nonetheless, it should be kept in mind that the impact is possibly not large since the ASEAN market is still not the main market for Indonesia automotive industry.

As explained in chapter 4, regional strategies conducted by transnational automotive companies may induce inward benchmarking. It is argued that inward benchmarking will lead the companies to maximise machines and workers in order to meet certain production requirements (Puraka et al. 2008: 63). To maximise machines, it is expected that companies replace old machines with more sophisticated machines. This will make the companies employ less skilled workers and certain high skill will no longer be required. When demand increases, companies may employ contract workers, who eventually will be more preferred. In sum, the regional strategy may place workers in a vulnerable situation. By contrast, Gaikindo explained that even though an automotive factory has already used many robots, it still employs great number of workers (Interview May 13, 2009). However, Gaikindo did not specifically mention whether or not these workers are contract workers. The argument, claiming that the regional strategy will in turn result in a vulnerable situation for workers, seems to be plausible. This is, unfortunately, not captured in the qualitative indicators for generating scores of labour standards employed in this thesis.

When we recall that garment and automotive industries mostly engage with different type of FDI, the trends of trade-to-GDP ratio both for garment and automotive trade show an astonishing result. The garment industry mostly engages with vertical FDI, a type of FDI used by investors to locate production in a certain country that offers cheap labour because the products are to be exported. The decreasing trend of trade-to-GDP ratio for garment trade both at the world level and the ASEAN level between 1999 and 2005 demonstrates that the domestic market became more important during that time. On the other hand, the automotive industry mostly engages with horizontal FDI, a type of FDI used by investor to establish a company in a certain country that will provide sales to that country. An increasing trend of trade-to-GDP ratio for automotive trade between 1999 and 2005, particularly at the ASEAN level, shows that foreign market became more important.

*8.3 Other External and Internal Variables*¹⁶

There is an indication that FDI stock has a positive relationship with labour standards in the automotive industry, whereas there is an indication that FDI stock has a negative relationship with labour standards in the garment industry (figure 8.5 in Appendix 1). The same happens to FDI inflow, both for total FDI inflow and FDI inflow from ASEAN (figure 8.5). There is an indication that FDI inflow has a positive relationship with labour

¹⁶ Table 8.2 (Appendix 1) presents the summary of relationships between all the independent and dependent variables observed.

standards in the automotive industry, and an indication of a negative relationship with labour standards in the garment industry. These indications of relationships between FDI stock, FDI inflow and labour standards in the garment and automotive industries show that FDI may bring about change in labour standards in both garment and automotive industries. However, a clear picture of these relationships can only be generated when one examine FDI inflow specifically to the garment industry and the automotive industry. In this thesis, due to the limitation of obtaining such data, this picture cannot be drawn.

Another important economic indicator which might influence labour standards is external debt. In this context, total external debt is defined as, "...a sum of public, publicly-guaranteed and private non-guaranteed long-term debt, use of IMF credit and short-term debt" (Mosley and Uno, Appendix 2007:2). Looking at the general trend, the declining external debt relative to GDP was accompanied by an overall increasing trend of labour standards in the automotive industry as well as by an overall decreasing trend of labour standards in garment industry (figure 8.6 in Appendix 1). This shows that, in general, there is an indication that external debt has a negative relationship with labour standards in the automotive industry. The explanation for a negative relationship between external debt and labour standards in automotive industry is obvious, that is, less external debt leads to less pressure from private international investors and international financial institutions on the government that positively contribute to labour standards performance. However, this explanation is not applicable for the case of the garment industry. It is insufficient to argue that less external debt will lead to decreasing labour standards in the garment industry. Therefore, it seems safe to argue that there is no relationship between external debt and labour standards in the garment industry. Moreover, we should notice that the numbers of external debt presented here are number for the national level and not for the industry level (data for the industry level is not available). Therefore, it could be the case that external debt actually influences labour standards at the aggregate (national) level.

The competition variable observes regional competition in terms of labour rights. As explained in chapter 6, regional practices are measured through average labour rights of ASEAN countries, excluding Indonesia. A declining trend on average in ASEAN countries labour rights, excluding Indonesia, was followed by a generally declining trend in labour standards in the garment industry and an overall increasing trend in labour standards in the automotive industry (figure 8.7 in Appendix 1). If we focus on the year 2002 as a starting point – noting that countries in the region started to recover from the Asian Crisis during

the year – we can see that the decreasing trend in average ASEAN countries labour rights score was followed by a decreasing trend of labour standards in the garment industry, despite a slight increase in labour standards between 2003 and 2004. On the other hand, labour standards in the automotive industry increased after 2002.

Income is measured through income per capita or GDP per capita and economic growth is measured through annual change in income or GDP per capita. There is an indication that a positive relationship takes place between economic growth and labour standards and the enforcement in the automotive industry (figure 8.8 in Appendix 1). In the meantime, economic growth might not be an influential factor for the performance of labour standards in the garment industry. Additionally, there is an indication that income has a positive relationship with labour standards and the enforcement in the automotive industry (figure 8.8). Similarly to economic growth variable, income might not be an explaining factor for labour standards performance in garment industry. All these again indicate that a country with higher income will possibly give more respect to labour standards in capital-intensive industry, but not necessary to labour standards in labour-intensive industry. However, these factors have to be investigated in more detail and are out of the scope of this study.

There is an indication that population has a positive relationship with labour standards in the automotive industry (figure 8.9 in Appendix 1). This may show that larger population will make it more difficult to conduct repression. On the other hand, there is an indication that population has a negative relationship with labour standards in the garment industry. This fortifies the argument that larger population will provide more opportunities for labour rights' violations.

The increasing trend towards a democratic regime was in general followed by an overall increasing trend of labour standards in the automotive industry between 1999 and 2005, indicating a positive relationship (figure 8.10 in Appendix 1). In the meantime, regime authority characteristics might not influence the performance of labour standards in the garment industry. All these imply that the more democratic a country, the more it respects labour standards in capital-intensive industries, and not necessarily in labour-intensive industries. The independent variable of civil conflict was constantly of minor importance between 1999 and 2005 (figure 8.10). This trend was followed by an overall increasing trend in labour standards in the automotive industry and an overall decreasing trend in labour standards in the garment industry. This indicates that civil conflict has no relationship with labour standards in these two industries. There was an increasing trend in

the number of human rights NGOs between 1999 and 2005 (figure 8.10). This was accompanied by an overall increasing trend in labour standards in the automotive industry and an overall decreasing trend in labour standards and the enforcement in garment industry. This indicates that a positive relationship occurs between numbers of human rights NGOs and labour standards in the automotive industry. It shows that human rights NGOs monitor the multinational companies' (MNCs) compliance with labour standards, which may lead to better labour standards performance in the automotive industry. The increasing trend in the number of human rights NGOs was followed by an overall decreasing trend of labour standards in the garment industry, showing a negative relationship. This implies that the increase in number of human rights NGOs led to increased reporting of labour rights abuses in the garment industry. As the garment industry is dominated by women, it is also salient to examine the relationship between the numbers of NGOs working with gender issues and the performance of labour standards in garment industry. Figure 8.10 also portrays that while the number of NGOs working with gender issues was increasing between 1999 and 2005, labour standards in the garment industry were generally decreasing. This indicates a negative relationship between these two variables, which suggests that the increasing numbers of NGOs working with gender issues led to increased reporting of labour rights abuses in the garment industry.

There is an indication that the variable of unemployed people with first and second levels of education has a negative relationship with labour standards in the garment industry (figure 8.11 in Appendix 1). A similar relationship is also indicated when we specifically look at the share of unemployed women with first and second levels of educational background in total unemployment. All these imply that the larger share of unemployed people, particularly women, with first and second levels of educational background in total unemployment led to more pressures on labour standards in labour-intensive industry. Notice that these trends only account for women employed in formal economy. If we take into account women workers who are not recognised as workers, such as home-based workers, the picture will possibly show even lower labour standards and reduced enforcement. On the other hand, the generally decreasing share of unemployed people with third level of educational background in total unemployment was associated with more respect on labour rights in the automotive industry (figure 8.12 in Appendix 1). A similar relationship is also indicated when we examine the relationship between the general trend of unemployed men with third level of educational background relative to total unemployment and labour standards in the automotive industry.

9. Conclusion

Empirical evidence shows that there are indications of a positive relationship between free trade and labour standards in the automotive industry, whereas a negative relationship between free trade and labour standards in the garment industry. This means that free trade is likely to bring about a change, in terms of increasing labour standards in a capital-intensive industry (positive effect) and decreasing labour standards in a labour-intensive industry (negative effect), inferring that the hypothesis argued in this research is accepted. As women dominate the garment industry and men dominate the automotive industry, the next hypothesis which argues that free trade does not equally affect men and women workers, is held. Furthermore, the issues of flexibilisation and home-based work are found in the interviews. While the issue of flexibilisation will downgrade labour standards in both industries, the phenomenon of home-based workers, who experience large violations of labour rights, will lower labour standards in garment industries even more. It should be noted that AFTA might have a relatively small influence on labour standards in these two industries. This can either be because AFTA has not yet been used by producers in ASEAN to gain market share in the region or, it has already been used by these producers, but at initial level. However, AFTA serves as a piece of the economic globalisation ‘cake’ for Indonesia. Additionally, there are indications that some other external and internal factors have relationships with labour standards. Therefore, these factors need to be taken into account in understanding the relationship between free trade and labour standards.

Since this paper focuses only on one developing country, further research will be needed in order to investigate the impact of free trade on labour standards in different types of industries within developed and developing countries. Moreover, further study that employs regression analysis as well as time series analysis is required to analyse the impact of free trade on labour standards in labour-intensive and capital-intensive industries by taking into account other variables that might influence labour standards in these two types of industry. Qualitative indicators employed in this research use the ILO Conventions as a benchmark and, consequently, do not capture the issue of flexibilisation in labour market. Even though it has been mentioned before that this issue will downgrade the scores of labour standards, it suggests further research that investigates to what extent the inclusion of flexibilisation in labour market in the qualitative indicators will downgrade the scores for labour standards.

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Appendix 1: Figures and Tables

Table 3.1: Average CEPT Rates of AFTA (1993-2003)

Country	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Brunei D.	3.78	2.64	2.54	2.02	1.61	1.37	1.55	1.26	1.17	0.96	1.04
Indonesia	17.27	17.27	15.22	10.39	8.53	7.06	5.36	4.76	4.27	3.69	2.17
Malaysia	10.79	10	9.21	4.56	4.12	3.46	3.2	3.32	2.71	2.62	1.95
Philippines	12.45	11.37	10.45	9.55	9.22	7.22	7.34	5.18	4.48	4.13	3.82
Singapore	0.01	0.01	0.01	0.01	0	0	0	0	0	0	0
Thailand	19.85	19.84	18.16	14.21	12.91	10.24	9.58	6.12	5.67	4.97	4.63
ASEAN 6	11.44	10.97	10	7.15	6.38	5.22	4.79	3.64	3.22	2.89	2.39
Cambodia								10.39	10.39	8.89	7.94
Lao PDR						5	7.54	7.07	7.08	6.72	5.86
Myanmar						2.39	4.45	4.43	4.57	4.72	4.61
Vietnam				0.92	4.59	3.95	7.11	7.25	6.75	6.92	6.43
ASEAN 10				7.03	6.32	4.91	5.01	4.43	4.11	3.84	3.33

Source: Chowdury (2007:5)

Table 3.2: Indonesia's Average CEPT and MFN Rates, 2002-2005

Year	Garment		Automotive	
	Average CEPT rate	Average MFN rate	Average CEPT rate	Average MFN rate
2002	4.8	10.4	4.6	25.6
2003	1.4	10.4	3.8	25.6
2004	1.88	10.71	4.55	31.77
2005	1.5	10.71	4.48	31.77

Source: Own calculation based on data by ASEAN Statistics

Table 4.1: Statistics on Workforce in Garment Industry, 1996-2005^a

Year	Production Worker		Other Workers		Total
	Men	Women	Men	Women	
1996	1.908	15.708	364	327	18.307
1998	65.308	233.505	13.487	14.337	326.637
2000	80.893	338.074	18.329	20.236	457.532
2001	n.a.	n.a.	n.a.	n.a.	458.009
2002	76.458	317.591	18.301	22.958	435.308
2003	n.a.	n.a.	n.a.	n.a.	460.716
2004	99.387*	343.990*	n.a.	n.a.	443.377
2005	n.a.	n.a.	n.a.	n.a.	441.284

Notes: ^a workforce in medium and large companies

* Number is not specifically for production department

Sources: Data on 1996, 1998, 2000 and 2002 are from Central Bureau of Statistics as cited in Hidayat and Widarti 2005: 41; data on 2001, 2003, 2004 and 2005 are from Central Bureau of Statistics.

Table 4.2: Statistics on Workforce in Automotive Industry, 1996-2005^a

Year	Production/ Non- production Workers	Motor Vehicle		Motor Vehicle Body		Motor Vehicle Components and Apparatus		Total
		Men	Women	Men	Women	Men	Women	
1996	Production	10.310	15	15.321	218	20.107	2.398	61.442
	Non- production	3.835	429	1.816	680	5.316	997	
1998	Production	7.685	76	4.045	85	14.394	2.080	38.352
	Non- production	4.138	502	674	254	3.567	852	
2000	Production	10.695	342	5.930	96	18.298	3.034	49.726
	Non- production	3.283	357	1.198	460	5.018	1.015	
2001	Production	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	48209
	Non- production	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
2002	Production	8.268	57	9.359	156	27.187	3.435	60.092
	Non- production	2.735	265	1.520	464	5.478	1.168	
2003	Production	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	55.482
	Non- production	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
2004	Production	52.417*	6.196*	n.a.	n.a.	n.a.	n.a.	58.613
	Non- production	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
2005	Production	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	65.418
	Non- production	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	

Note: ^a Workforce in Medium and Large Companies

* Overall number for employment in automotive industry

Sources: Data on 1996, 1998, 2000 and 2002 from Central Bureau of Statistics, as cited in Hidayat and Widarti 2005:49; Data on 2001, 2003, 2004, and 2005 from Central Bureau of Statistics

Table 4.3: Selected Labour Regulations

General Regulations on Manpower	Regulations on Freedom of Association and Collective Bargaining	Regulations on Child Labour	Regulations on Forced Labour	Regulations on Elimination of Discrimination in respect of Employment and Occupation
<p>Law No. 12/1948 on Labour</p> <p>Law No. 1/1951 concerning the Application of Law No. 12, 1948 in all Indonesian Provinces</p> <p>Law No. 14/1969 on the General Provisions concerning Labour.</p> <p>Law No. 25/1997 on General Employment (the Law had never been applied)</p> <p>Law No. 13/2003 on Manpower</p>	<p>Law No. 18/1956 on the Ratification of ILO Convention No. 98</p> <p>Law No. 22/1957 on Labour Dispute Settlement)* repealed</p> <p>Ministerial Regulation No. PER-01/MEN/1975 on the legislation of labour organizations</p> <p>Ministerial Decision No. 645/Men/1985 on “Pancasila Industrial Relations “</p> <p>Decree of the Minister of Manpower No. Kep-438/MEN/1992 regarding guidelines for the establishment and building of a worker union in a company.</p> <p>Regulation of the Ministry of Manpower on the Registration of Workers' Organizations (PER-03/MEN/1993)</p> <p>Decree of the Minister of Manpower No. PER01/MEN/1994 concerning the establishment of a trade union at the enterprise level.</p> <p>Registration of workers organizations (PER-05/MEN/1998).</p>	<p>Law No. 20/1999 on the Ratification of the ILO Convention No. 138 on Minimum Age</p> <p>Law No.1/2000 on the Ratification of the ILO Convention No. 182 on Abolition of the Worst Forms of Child Labour</p> <p>Decree of the Minister of Home Affairs and Regional Autonomy No. 5 dated January 8, 2001 on Control of Child Workers</p> <p>Presidential Decree on National Action Plan for Elimination of the Worst Forms of Child Labour (No. 12/2001)</p> <p>Plan of National Action for the Elimination of the Worst Forms of Child Labour (Presidential Decree No. 59/2002)</p> <p>Law on Child Protection (No. 23/2002).</p>	<p>Law No. 19/1999 on the Ratification of the ILO Convention No. 105 on Abolition of Forced Labour</p> <p>Presidential Decree No. 88/2002 on National Plan of Action for the Elimination of Trafficking of Women and Children</p> <p>Law No. 21/2007 on the Elimination of Human Trafficking Crime</p>	<p>Law No. 80/1957 on the Ratification of the ILO No. 100 on Equal Remuneration</p> <p>Government Regulation No. 8 of 1981 on the protection of wages</p> <p>Law No. 7/1984 on the Ratification of Convention on the Elimination of Discrimination against Women (CEDAW)</p> <p>Law No. 21/1999 on the Ratification of the ILO Convention No. 111 on Discrimination in respect of employment and occupation</p>

	<p>Act No. 21 of 2000 Concerning Trade Union/Labour Union.</p> <p>The Decision of the Minister of Manpower and Transmigration No. 16/MEN/2001 Concerning Trade Union/Labor Union.</p> <p>Act No. 2 of 2004 concerning Industrial Relations Disputes Settlement</p> <p>Minister of Manpower and Transmigration Decision No. Kep.48/MEN/IV/2004 concerning Procedures for the Making and Legalization of Company Regulations and Procedures for the Making and Registration of Collective Labor Agreements.</p> <p>Guidelines on the Conduct of Indonesian National Police in Handling Law and Order in Industrial Disputes, 2005</p> <p>. Regulation No. PER-08/MEN/III/2006 to amend the Minister of Manpower and Transmigration Decision No. Kep-48/MEN/IV/2004 concerning Procedures for the Making and Legalization of Company Regulations and Procedures for the Making and Registration of Collective Labor Agreements</p>	<p>Minister of Manpower and Transmigration Decree No. Kep.235/MEN/2003 concerning Jobs that Jeopardize the Health, Safety and Morals of Children.</p> <p>Minister of Manpower and Transmigration Decree No. Kep.235/MEN/2003 concerning Jobs that Jeopardize the Health, Safety and Morals of Children.</p> <p>Law No. 23/2004 on Domestic Violence</p> <p>UU No. 21/2007 tentang pemberantasan tindak pidana orang (Elimination of Human Trafficking Crime)</p>		
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Table 4.4: Selected Labour Regulations on Working Hours, Occupational Safety and Health, Wages

Regulations on Working Hours	Regulations on Night Works	Regulation on Occupational Safety and Health	Regulations on Wages
<p>Instruction No. INS/3/DP/1976 of the Director General of Industrial Relations development and Manpower Protection concerning the uniformity and orderliness of the settlement of granting the permission to deviate from the provision on hours of work and rest period.</p> <p>Decision No. Kept-69/MEN/1980 of the Minister of Manpower and Transmigration on extension of application of annual leave for workers.</p> <p>Decision No. KEP-72-MEN/84 of the Minister of Manpower on the Basis for the Calculation of Overtime Wages.</p> <p>Decision No. KEP-72-MEN/84 of the Minister of Manpower on the Basis for the Calculation of Overtime Wages.</p> <p>Decision of the Minister of Manpower (No. KEP-1808/MEN/1987) respecting the transfer of authority for the issuance of working permits to expatriates and deviation of working time to those who work in the area of the PT Nusantara Bonded Zone</p> <p>Minister of Manpower and Transmigration Decree No. Kep.233/MEN/2003 concerning Types and Nature of Jobs that Must be Performed Uninterrupted.</p> <p>Minister of Manpower and Transmigration Decree No. Kep.51/MEN/IV/2004 concerning Long Period of Rest in Certain Enterprises.</p> <p>Ministry of Manpower and Transmigration Decree No. Kep.102/MEN/VI/2004 concerning Overtime Work and Overtime Pay.</p>	<p>Regulation on the Procedure to Employ Women Workers at Night No.04/MEN/1989</p> <p>Decree No. KEP-224/MEN/2003 on obligations of entrepreneurs employing female workers between 11:00 p.m. and 07:00 a.m</p>	<p>Regulation No. 7/1964 of the Minister of Labour on conditions of health, cleanliness and lighting in workplaces;</p> <p>Law No. 1/1970 on Safety</p> <p>Regulation No. 11/1975 concerning safety against radiation</p> <p>Minister of Manpower and Transmigration Regulation No. PER-03/MEN/1982 on medical services</p> <p>Regulation of the Minister of Manpower and Transmigration No. PER-02/MEN/1980 on medical examination of workers</p> <p>Regulation of the Minister of Manpower and Transmigration No. PER-01-MEN/1981 on the obligatory report on occupational diseases</p> <p>Regulation of the Minister of Manpower and Transmigration No. PER.03/MEN/1982 in medical services</p> <p>Law No. 3/1992 on Workers' Social Security Assurance</p> <p>Law No. 23/ 1992 on Health</p> <p>Regulation of the Minister of Manpower No. PER-04/MEN/1995 on Occupational Safety and Health Service Companies</p> <p>Decree of the Minister of Health on health development policy toward a healthy Indonesia 2010 (No. 574/MENKES/SK/IV/2000)</p> <p>Decree No. 1075/MENKES/SK/VII/2003 on Guidelines for Occupational Health Management Information System.</p>	<p>There are many local regulations concerning provincial minimum wage</p>

Table 4.5
Indonesia's Status of Ratifications of the ILO Core Conventions

Freedom of Association and Collective Bargaining		Elimination of Forced Labour and Compulsory Labour		Elimination of Discrimination in Respect of Employment and Occupation		Abolition of Child Labour	
Convention No. 87 Freedom of Association, 1948	Convention No. 98 Collective Bargaining, 1949	Convention No. 29 Forced Labour	Convention No. 105 Abolition of Forced Labour, 1930	Convention No. 100 Equal Remuneration, 1951	Convention No. 111 Discrimination (Employment and Occupation), 1958	Convention No. 138 Minimum Age, 1973	Convention No. 182 Worst Forms of Child Labour, 1999
Ratified on June 9, 1998, under Presidential Decree No. 8 1998	Ratified on July 15, 1957, under Law No. 18 1956 (cf. Law No. 25 1997 Art. 27 and 48-54)	Ratified on June 12, 1950	Ratified on June 7, 1999, under Law No. 19 1999	Ratified on August 11, 1958, under Law No. 80 1957	Ratified on June 7, 1999 under Law No. 21 1999	Ratified June 7, 1999, under Law No. 20/1999	Ratified March 28, 2000, under Law No. 1/2000

Source: ILOLEX; Kühl 2006: 134

Table 4.6
Other ILO Conventions Ratified by Indonesia

Conventions	Date of Ratifications
Convention No. 19 Equality Treatment (Accident Compensation), 1925	June 12, 1950
Convention No. 27 Marking Weight (Packages Transported by Vessels), 1929	June 12, 1950
Convention No. 45 Underground Work (Women), 1935	June 12, 1950
Convention No. 69 Certification of Ship's Cook, 1946	March 30, 1992
Convention No. 81 Labour's Inspection, 1947	January 29, 2004
Convention No. 88 Employment Service, 1984	August 8, 2002
Convention No. 106 Weekly Rest (Commerce and Offices), 1957	August 23, 1972
Convention No. 120 Hygiene (Commerce and Offices), 1964	June 13, 1969
Convention 144 Tripartite Consultation (International Labour Standards), 1976	October 17, 1990
Convention No. 185 Seafarer's Identity Documents, 2003	July 16, 2008

Source: ILOLEX

Table 4.7: Comparison on Several Issues relating to Women Workers Stipulated in General Regulations on Employment

Issues	Law No. 13/2003	Law No. 25/1997
Night work	According to Article 76 verse (1), women whose ages are below 18 years as well as pregnant women ¹⁸ are not allowed to work at night. On the other hand, employers who employ women workers at night ¹⁹ should provide healthy meals and shuttle transportation, as well as maintain security and morality during the night work	According to elucidation of Article 98, employers are not allowed to employ women for night work because night time is women's time for family and because working at night is risky for women's safety, health and moral
Menstruation Leave	Women workers who suffer from illness during menstruation are given a paid two-day leave (Article 81). As such, women workers should provide medical statement from a doctor. The regulation, however, does not give any provision that ensures women workers receive full wages during menstruation leave.	Article 104 verse (1) stipulates that women workers who suffer from illness during menstruation are given a paid two-day leave. Article 106 ensures that these women receive full wage during the leave.
Maternity Leave	According to Art. 82 verse (1), women workers have the right to take maternity leave, one and half month before giving birth, and another one and a half month thereafter	Article 104 verse (3) stipulates that women workers have the right to take maternity leave, one month before giving birth, and two months thereafter
Opportunity for breastfeeding	Based on Article 83, women workers who are still breastfeeding their babies are given the opportunity to breastfeed their babies during working hours. Law No. 13/2003 does not provide any provision that guarantees the availability of breastfeeding facility during working hours.	Art. 104 verse (2) provides similar provision concerning opportunity for breastfeeding. Art. 105 provides guarantee of the availability of breastfeeding facility during working hours.
Prohibition to terminate women workers only because they are married, are pregnant and give birth	Married and pregnant women workers as well as women who give birth are protected by the labour law (Article 153) from the risk of being terminated.	Article 86 prohibits employers from dismissing workers who are married, pregnant, giving birth, having miscarriage
Elimination of discrimination against women	Based on Article 5, there is no difference between men's and women's rights to apply for a job. Law No. 13/2003 provides no provision that ensures equal remuneration between men and women for work with the same value	Article 98 serves as provision that discourages women workers to enter certain jobs. Article 113 that provides legal protection for equal remuneration.

¹⁸ If, based on doctor's suggestion, working will endanger the safety and health of these pregnant women workers as well as their babies.

¹⁹ The Law refers night time to time between 11 PM and 6 AM.

Table 6.1: Operationalisation of Independent Variables and the Expectations on Dependent Variable

Independent Variables	Operationalisation	Expected Relationship with Labour standards	
		Labour-intensive industry	Capital-intensive industry
Economic globalization			
FDI flows	FDI inflows divided by GDP	Negative	Positive
FDI stocks	FDI stock divided by GDP	Negative	Positive
Free trade	Imports plus exports divided by GDP	Negative	Positive or no relationship
Other external variables			
External debt	Total external debt divided by GDP	Negative	No relationship
Competition variables			
Regional practices	Average labour rights score in ASEAN countries, except Indonesia, by year	Positive	Positive
Internal variables			
Income	Income per capita	Positive	Positive
Economic growth	Annual change in income per capita	Positive	Positive
Population	Total population	Positive or negative	Positive or no relationship
Democracy	Polity IV measure of democracy	Positive	Positive
Civil conflict	Uppsala measure of civil war	Negative	Negative
Human rights NGOs	Numbers of human rights NGOs	Positive or negative	Positive or negative
Potential labour power	Unemployed people with third level of educational background relative to total unemployment		No relationship
	Unemployed people with first and second level of educational background relative to total unemployment	Negative	

Source: Mosley and Uno (2007:933) with relevant changes

Table 7.1
Model of Indicators

Category	Subcategory	Section	Indicators
Laws and legal system (25% of total score)	Convention-related Issues (75% of category)	<ul style="list-style-type: none"> Freedom of Association (25% of subcategory) 	<p>Indicator 1: Workers' organisations have the right to draw up constitutions and rules, freely elect their representatives, organize their administration and activities, and formulate their programs, as defined in ILO Convention No. 87</p> <p>Indicator 2: Workers' organizations are protected from governmental interference and from being dissolved or suspended by administrative authority, as defined in ILO Convention No. 87</p> <p>Indicator 3: Workers' organizations are freely able to join international labour organizations, as defined in ILO Convention No. 87</p> <p>Indicator 4: Workers are protected from discrimination if they join a labour union or participate in union activities outside working hours, as defined in ILO Convention No. 98</p> <p>Indicator 5: Workers' organizations are free from interference by and are able to be independent of employers' organizations and business, as defined in ILO Conventions No. 98</p> <p>Indicator 6: Measures are taken to encourage negotiation between workers' organizations and employers' organizations through collective bargaining and the use of collective agreements, as defined in ILO Convention No. 98</p> <p>Indicator 7: The right to strike is protected by law (for this indicator, 2 points are awarded if the legal system provided no or few restrictions on the right to strike, 1 point if the legal system provided significant restrictions, and 0 points if the legal system nearly or totally prohibit the right to strike)</p> <p>Indicator 8: Deduction: the legal provisions are not extended to EPZs</p>
		<ul style="list-style-type: none"> Forced Labour (25% of subcategory) 	<p>Indicator 9: Forced labour is illegal, as defined in ILO Convention No. 29</p> <p>Indicator 10: Forced labour is illegal as a means of political and labour punishment, as defined in ILO Convention No. 105</p> <p>Indicator 11: Deduction: the legal provisions are not extended to EPZs</p>
		<ul style="list-style-type: none"> Child Labour (25% of subcategory) 	<p>Indicator 12: Child labour is illegal as defined in ILO Convention No. 138</p>

		subcategory)	Indicator 13: Child labour is illegal as defined in ILO Convention No. 182
		<ul style="list-style-type: none"> Equality/Discrimination (25% of subcategory) 	<p>Indicator 14: Deduction: the legal provisions are not extended to EPZs</p> <p>Indicator 15: Workers' equality of opportunity and treatment in employment is protected, as defined in ILO Convention No. 111</p> <p>Indicator 16: Equal remuneration among women and men for work of equal value is ensured by law, as defined in ILO Convention No. 100</p> <p>Indicator 17: Deduction: the legal provisions are not extended to EPZs</p>
	Conditions of Work (25% of category)		<p>Indicator 18: Laws, legal provisions and/or regulations establishing a minimum wage</p> <p>Indicator 19: Deduction: the legal provisions are not extended to EPZs</p> <p>Indicator 20: Laws, legal provisions and/or regulations that regulate hours of work and overtime</p> <p>Indicator 21: Deduction: the legal provisions are not extended to EPZs</p> <p>Indicator 22: Laws, legal provisions and/or regulations protecting the health and safety workers</p> <p>Indicator 23: Deduction: the legal provisions are not extended to EPZs</p> <p>Indicator 24: Laws outlawing sexual harassment</p> <p>Indicator 25: Deduction: the legal provisions are not extended to EPZs</p>
Alternative of Labour Regulations Tools (10% of total score)	Conventions-related issues.		Indicator 26: alternative of labour regulations tools related to Freedom of Association, forced labour, child labour and equality/discrimination
	Working conditions		Indicator 27: alternative of labour regulation tools related to minimum wage, hours of work and overtime, as well as health and safety of workers
			Indicator 28: Deduction: if the alternatives of labour regulations tools are not extended to EPZs
Institutional Capacity (15% of total score)	Governmental Capacity		Indicator 29: Effectiveness of governmental capacity to develop, monitor, correct and implement labour laws
	Non-Governmental Capacity		Indicator 30: lack of legal and de facto restrictions on involvement of NGOs in social issues

Implementation Effectiveness (50% of total score)	Convention-related issues (80% of category)	<ul style="list-style-type: none"> Freedom of Association (25% of subcategory) 	<p>Indicator 31: Independence of trade union</p> <p>Indicator 32: Non-Formal Restrictions (i.e. restrictions not codified in law) and restrictions from company</p> <p>Indicator 33: Collective Bargaining</p> <p>Indicator 34: Deduction: violation in Export Processing Zones</p>
		<ul style="list-style-type: none"> Forced Labour (25% of subcategory) 	<p>Indicator 35: Scale of Forced Labour</p> <p>Indicator 36: Government activities and effectiveness: forced labour</p> <p>Indicator 37: Deduction: violation in Export Processing Zones</p>
		<ul style="list-style-type: none"> Child Labour (25% of subcategory) 	<p>Indicator 38: Scale of Child Labour</p> <p>Indicator 39: Government Activities and Effectiveness: Child Labour</p> <p>Indicator 40: Deduction: violation in Export Processing Zones</p>
		<ul style="list-style-type: none"> Equality/Discrimination (25% of subcategory) 	<p>Indicator 41: Scale of unequal remuneration and other forms of discrimination, including sexual harassment</p> <p>Indicator 42: Government activities and effectiveness: non-gender discrimination</p> <p>Indicator 43: Government activities and effectiveness: gender discrimination</p> <p>Indicator 44: Deduction: violation in Export Processing Zones</p>
	Conditions of Work (20% of category)	<p>Indicator 45: Health and safety</p> <p>Indicator 46: Deduction: violations in Export Processing Zones</p> <p>Indicator 47: Wages and hours of work</p> <p>Indicator 48: Deduction: violations in Export Processing Zones</p>	

Source: developed from Viederman and Klett's (2007) model with some relevant adjustments

Table 7.2
Indicators Scoring Scheme

1	For indicators in the first and the second categories, except indicators for deduction: 3 points are awarded if laws are judged to offer full protection for labour right defined in the ILO Convention; 2 points if laws are judged to offer protection with only minor deficiencies (partial protection); 1 point if laws are judged to offer protection with significant deficiencies (partial contradiction); 0 points if laws are judged to offer no protection or expressly and fully contradict the labour right
2	For indicator 26-27: 2 points are awarded if alternative labour regulation tools are adopted by most of companies; 1 point if the tools are adopted by some companies; 0 point if the tools are adopted only by few or no company.
3	For indicator 29: 3 points are awarded if the government is judged to have strong institutional capacity; 2 points if it is judged to have effective institutional capacity but significant holes in effectiveness; 1 points if it is judged to have institutional capacity of limited effectiveness; 0 points if it is judged to have a seriously limited or ineffective institutional capacity
4	For indicator 30: 3 points are awarded if there is no significant restrictions on the ability of NGOs operate in society; 2 points if there are restrictions that prevent NGOs from addressing some key issues; 1 point if there are significant restrictions that prevent NGOs from operating freely on many issues, or which put NGOs under undue governmental control in significant ways; 0 points if NGOs are completely restricted in their operations
5	For indicator 31: 3 points are awarded if trade unions are able to organize workers without government interference; 2 points if trade unions are able to organize workers in most cases without government interference; 1 point if trade unions are closely affiliated with governmental bodies or political organizations ; 0 points if trade unions effectively controlled by government
6	For indicator 32: 3 points are awarded if there are rare or insignificant non-formal restrictions from the government or insignificant restrictions from company; 2 points if there are restrictions of limited impact from the government or from the company; 1 point if there are moderately significant restrictions from the government or from the company; 0 points if there are significant restrictions from the government or from the company.
7	For indicator 33: 3 points are awarded if collective bargaining is widely used and generally effective; 2 points if collective bargaining is used in limited circumstances and/or with some limitations; 1 point if collective bargaining is used with significant limitations; 0 points if collective bargaining is ineffective and/or not widely used
8	For indicator 35: 2 points are awarded if scale of forced labour is small or non-existent; 1 point if scale of forced labour is moderate; 0 points if scale of forced labour is large
9	For indicator 36: 2 points are awarded if government is active and effective; 1 point if government is somewhat active and effective; 0 points if government activity is limited, or inactive and ineffective
10	For indicator 38: 2 points are awarded if scale of child labour is small or non-existent; 1 point if scale of child labour is moderate; 0 points if scale of child labour is large
11	For indicator 39: 2 points are awarded if government is active and effective; 1 point if government is somewhat active and effective; 0 points if government activity is limited, or inactive and ineffective
12	For indicator 41: 2 points are awarded if scale of unequal remuneration between men and women or other forms of discrimination is small/rare; 1 point if scale of unequal remuneration between men and women or other forms of discrimination is moderate/occasional; 0 points if scale of unequal remuneration between men and men or other forms of discrimination is significant
13	For indicator 42: 3 points are awarded if government is active in ensuring equality and lack of discrimination in opportunity for employment among demographic groups, not including gender discrimination; 2 points if government is somewhat active in ensuring equality and lack of discrimination in opportunity for employment among demographic groups, not including gender discrimination; 1 point if government is inactive in ensuring equality and lack of discrimination in opportunity for employment among demographic groups, not including gender discrimination; 0 points if government policies have exacerbated and/or provided framework for the problem of non-gender discrimination in opportunity for employment to persist
14	For indicator 43: 3 points are awarded if government is active in ensuring equality and lack of discrimination in opportunity for employment among men and women; 2 points if government is somewhat active in ensuring equality and lack of discrimination in opportunity for employment among men and women; 1 point if government is inactive in ensuring equality and lack of discrimination in opportunity for employment among men and women; 0 points if government policies have exacerbated and/or provided framework for the problem of gender-based discrimination in opportunity for employment to persist
15	For indicator 45: 2 points are awarded if implementation of health and safety laws is effective; 1 point if

	implementation of health and safety laws is effective, with some significant holes in effectiveness (violations in common); 0 points if implementation of health and safety laws is ineffective (violations widespread)
16	For indicator 47: 2 points are awarded if implementation of laws relating to wages and hours of work is effective; 1 point if implementation of laws relating to wages and hours of work is effective with some significant holes in effectiveness (violations in common); 0 points if implementation of laws relating to wages and hours of work is ineffective (violations widespread).

Source: developed from Viederman and Klett's (2007) scoring scheme with some relevant adjustments

Table 8.1: Summary of Trend of the Scores for Labour Standards and the Enforcement in Garment and Automotive Industries for the Period between Two Years

Period	Labour Standards		Driving Factor	
	Garment Industry	Automotive Industry	Garment Industry	Automotive Industry
1999-2000	Increased	Increased	Increase after 1999 due to labour law reform. One example is Trade Union Act in 2000.	Increase after 1999 due to labour law reform. One example is Trade Union Act in 2000.
2000-2001	Increased slightly	Increased slightly	A stronger legal protection of child labour took place in 2001	A stronger legal protection of child labour took place in 2001
2001-2002	Decreased	Decreased	In spite of an improvement in labour law occurred in 2002, more violations of labour standards relating to working conditions were documented during the year.	Despite improvement in labour law, problems in the implementation of labour standards concerning freedom of association and collective bargaining occurred in 2002
2002-2003	Decreased	Increased	More violations on labour standards relating to freedom of association and collective bargaining as well as relating to forced labour reported during 2003, despite the improvement of labour law relating to freedom of association and collective bargaining.	Although Law No. 13/2003 on Manpower was issued during that time, showing a general improvement of labour laws, problems in the implementation of labour standards relating to working conditions took place. As implementation score comprises 50% of the total score, score in 2003 did not increase into the same level as that in 2001.
2003-2004	Increased	Increased	The implementation of labour standards was better, although it was not as good as the implementation of labour standards in 2002.	Increasing compliance with labour standards relating to working conditions that decreased in the previous year
2004-2005	Stayed the same	Stayed the same		

Table 8.2: Summary of Relationship between Independent and Dependent Variables

Independent Variables	Labour Standards in Garment Industry		Labour Standards in Automotive Industry	
	Expected relationship	Empirical Evidence	Expected Relationship	Empirical Evidence
Economic globalisation				
FDI stock	Negative	Negative	Positive	Positive
FDI inflow	Negative	Negative	Positive	Positive
Trade	Negative	Negative	Positive or no relationship	Positive
Other external variable				
External debt	Negative	No relationship	No relationship	Negative
Competition variable				
Regional practices	Positive	Positive	Positive	No relationship
Internal variables				
Income	Positive	No relationship	Positive	Positive
Economic growth	Positive	No relationship	Positive	Positive
Population	Positive or negative	Negative	Positive or no relationship	Positive
Civil conflict	Negative	No relationship	Negative	No relationship
Democracy	Positive	No relationship	Positive	Positive
Human rights NGO	Positive or negative	Negative	Positive or negative	Positive
Potential labour power	Negative	Negative	No relationship	Negative

The relationship presented is the relationship that takes place between the general trends of the independent variables and the general trends of labour standards in garment and automotive industries. For FDI stock, the relationship presented is in the context of the global level and not specifically of the ASEAN level since the data on FDI stock in Indonesia particularly coming from ASEAN is not available. For variables of FDI inflow and trade, the relationships presented are both in the context of ASEAN as well as global level as the relationships occur at both levels are alike.

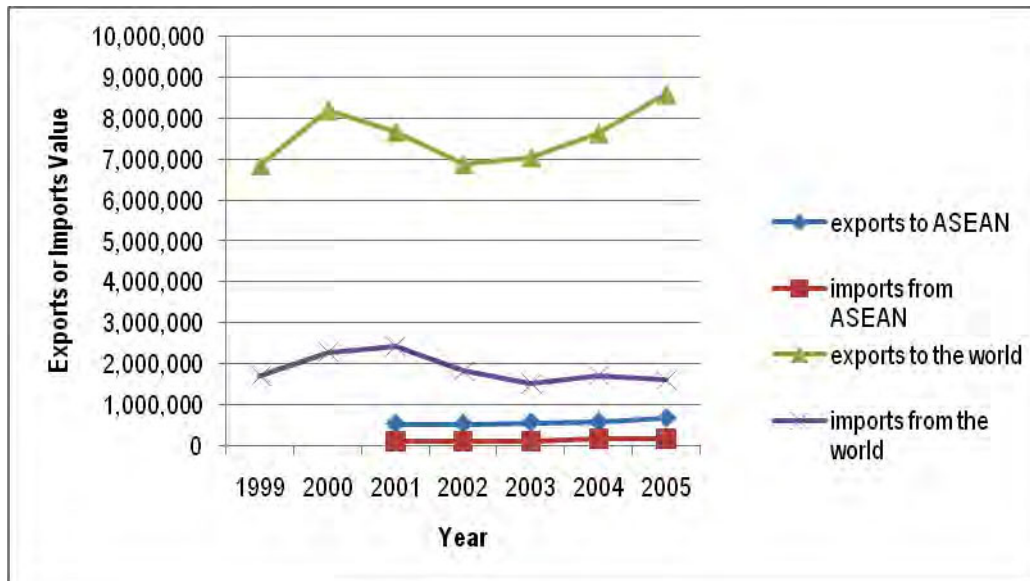
Figure 3.1
Average Political Rights Score and Civil Liberties Score for ASEAN Countries,
excluding Indonesia (2002-2005)

Source: the Freedom House

Figure 3.2
Average Labour Rights Score in ASEAN countries, excluding Indonesia 1999-2002

Sources: for 1999-2002, own calculation based on Mosley and Uno data appendix (2007); for 2003-2005, own assumption based on data by Freedom House on average political rights score and civil liberties

Figure 4.1
Indonesia Garment Export and Import with ASEAN and the World, 1999-2005



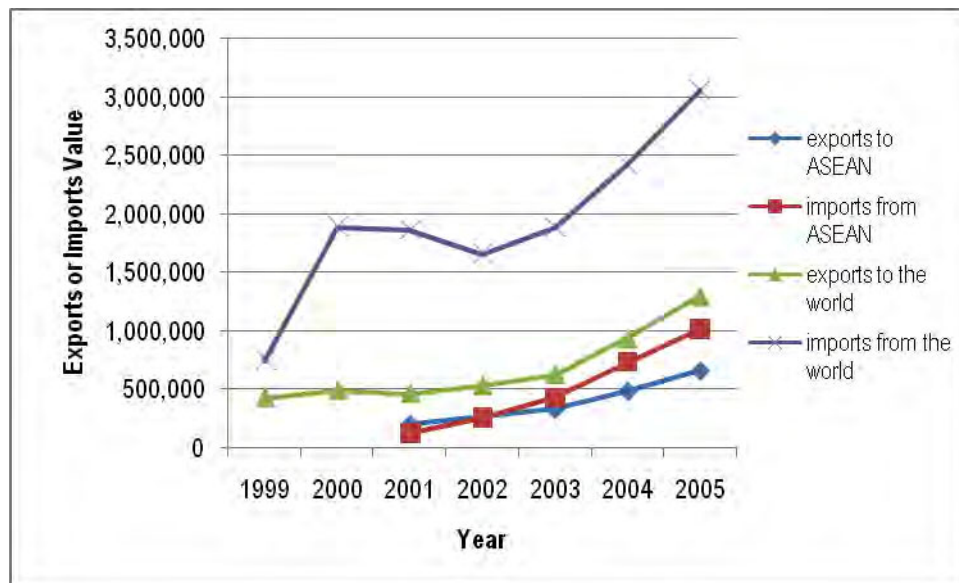
Note: In US Thousands Dollar;

Sources: International Trade Centre (HS code 50-63) for data on exports to and imports from ASEAN; Ministry of Trade for data on exports to and imports from the world

Figure 4.2
Trade-to-GDP Ratio for Garment Products, 1999-2005

Source: Own calculation based on data by International Trade Centre, Ministry of Trade, and NationMaster.

Figure 4.3
Indonesia's Exports and Imports of Automotive Products, 1999-2005



Note: in US Thousand dollars

Sources: International Trade Centre for Data on exports to and imports from ASEAN; Ministry of Trade for Data on total exports and total imports; GDP data from NationMaster

Figure 4.4
Trade-to-GDP Ratio for Automotive Products, 1999-2005

Source: Own calculation based on data by International Trade Centre, Ministry of Trade and NationMaster.

Figure 8.1
Trends of Labour Standards
in Garment and Automotive Industries in Indonesia, 1999-2005

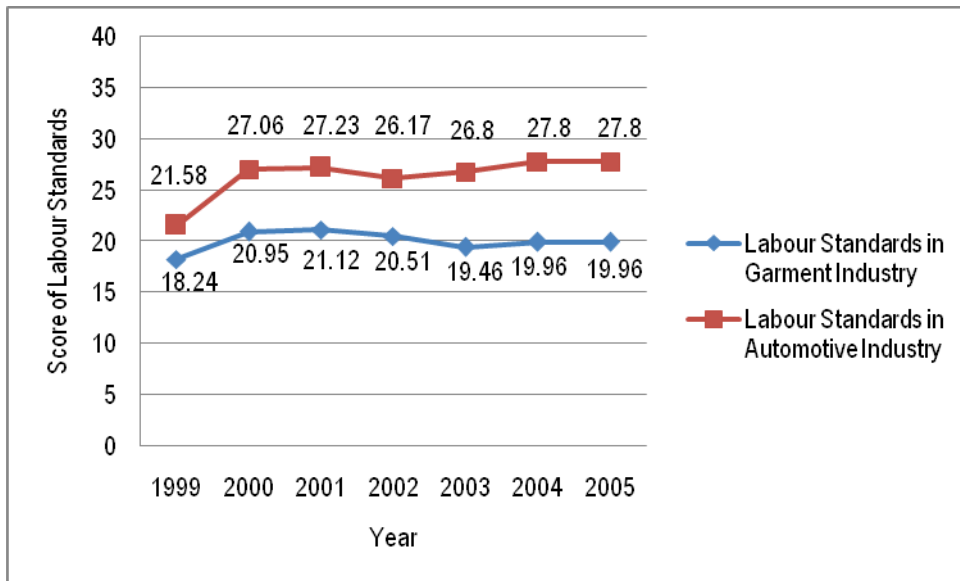
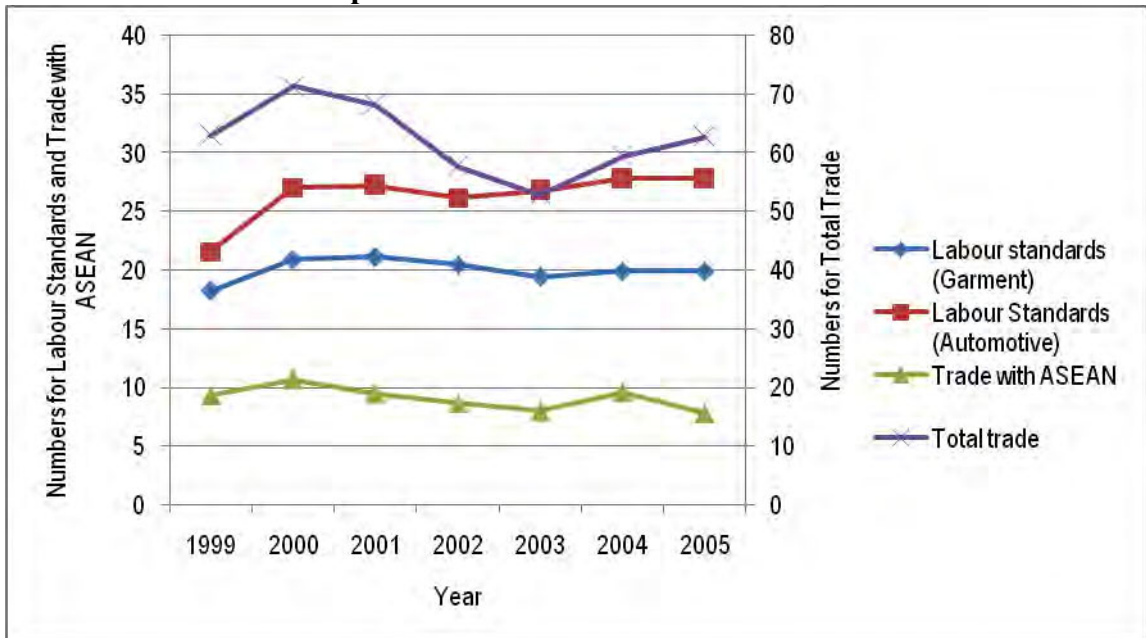


Figure 8.2
Trade Openness and Labour Standards 1999-2005



Sources: World Development Indicators, as cited in NationMaster for data on Total Trade; Own calculations for data on trade with ASEAN based on ASEAN Statistical Yearbook 2005, Central Bureau of Statistics, and NationMaster; Own calculation for data on labour standards

Figure 8.3
Trade Openness for Garment Trade and Labour Standards, 1999-2005

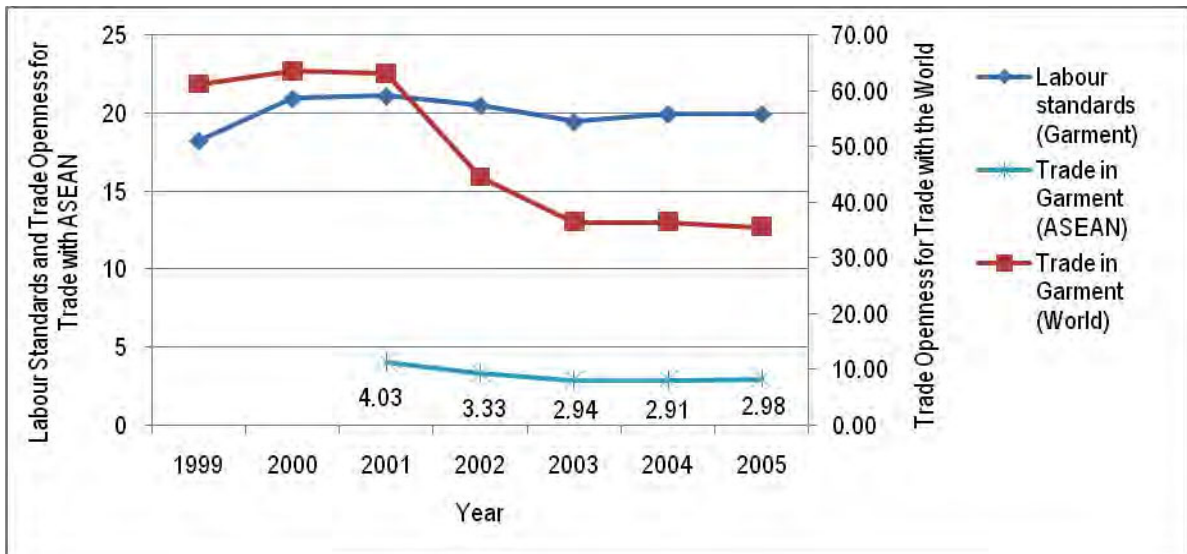


Figure 8.4
Trade Openness (Automotive) and Labour Standards, 1999-2005

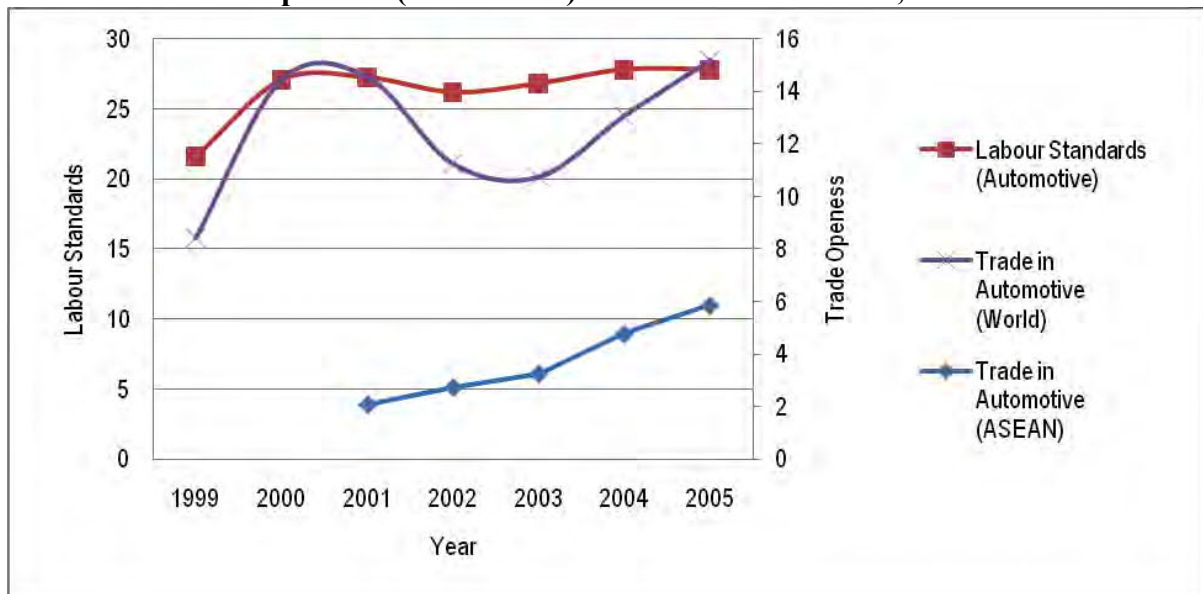
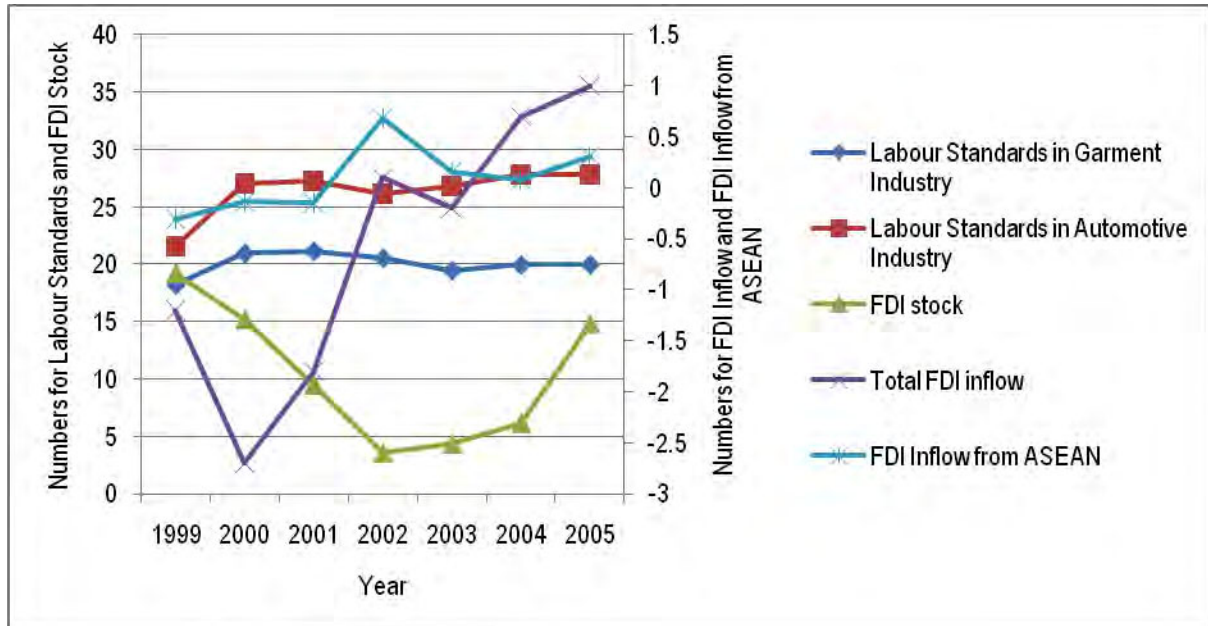
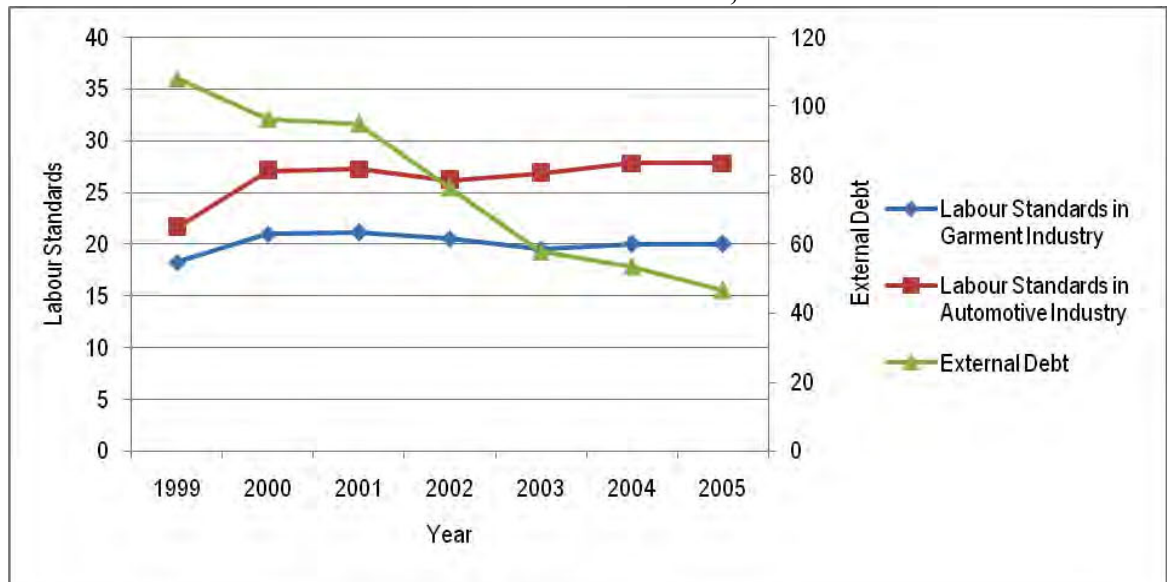


Figure 8.5
Trends of Foreign Direct Investment and Labour Standards, 1999-2005



Sources: UNCTAD Statistics for data on FDI stock and Total FDI inflow; Own calculations based on ASEAN Statistical Yearbook 2005, ASEAN Statistical Pocketbook 2006, World Development Indicators and CIA World Factbook, as cited in NationMaster, for data on FDI inflow from ASEAN; Own calculation for data on labour standards

Figure 8.6
External Debt and Labour Standards, 1999-2005



Sources: Mosley and Uno (2007) for data on external debt 1999-2002; IMF Country Report 2007 for data on external debt 2003-2005; Own calculation for data on labour standards

Figure 8.7
Average ASEAN Countries Labour Rights (excluding Indonesia)
and Labour Standards, 1999-2005

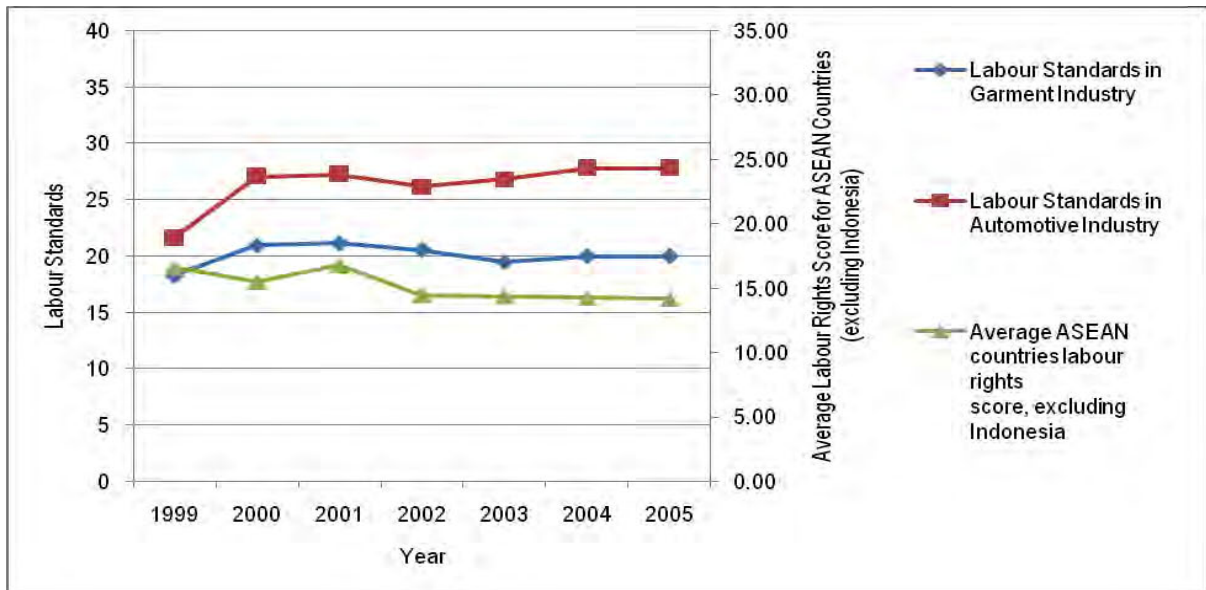
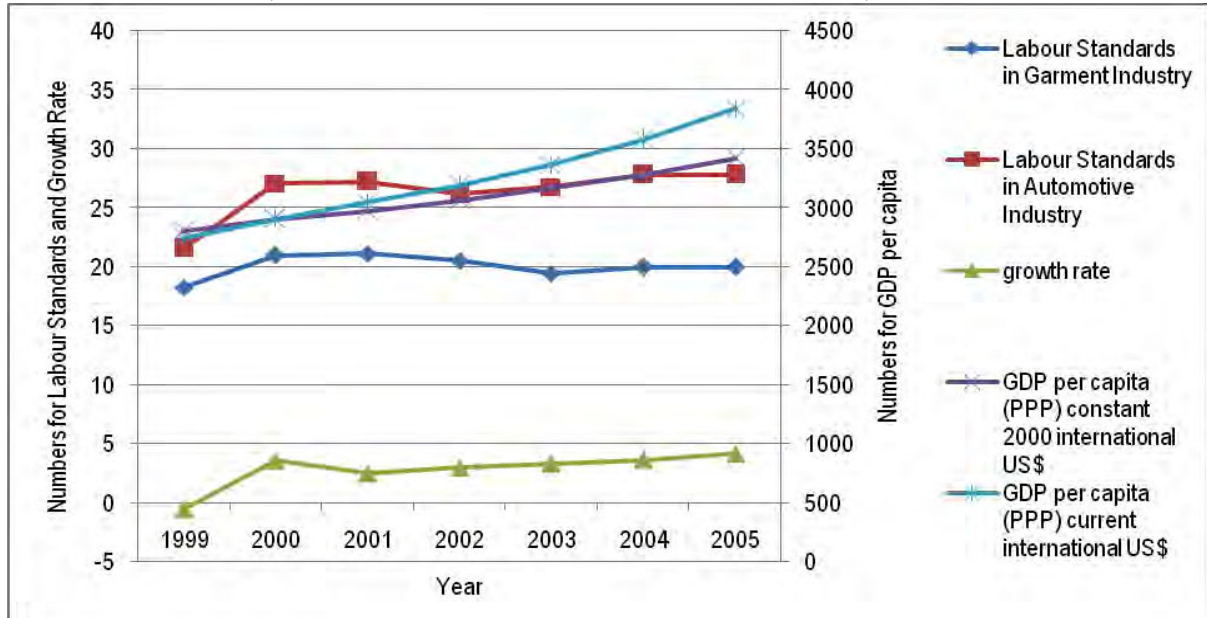
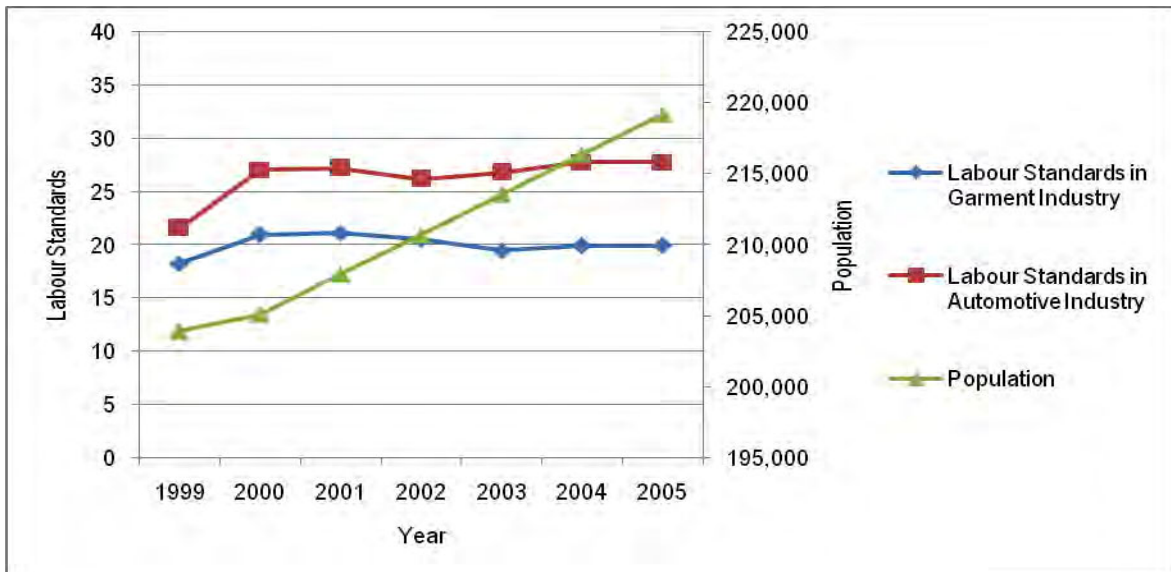


Figure 8.8
Income, Economic Growth^a and Labour Standards, 1999-2005



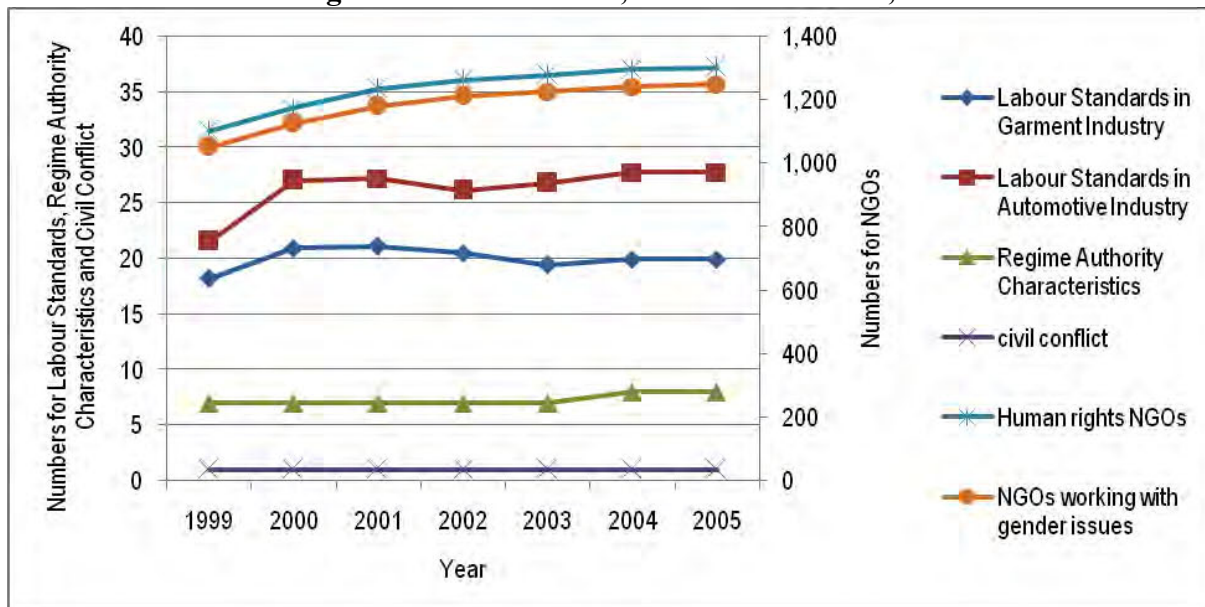
Note: ^aAnnual percentage growth rate of GDP per capita based on local currency
 Sources: World Development Indicators Database, as cited in NationMaster for data on GDP per capita and economic growth; Own calculation for data on labour standards

Figure 8.9
Population (thousands) and Labour Standards, 1999-2005



Sources: Central Bureau of Statistics for data on population; Own calculation for data on labour standards

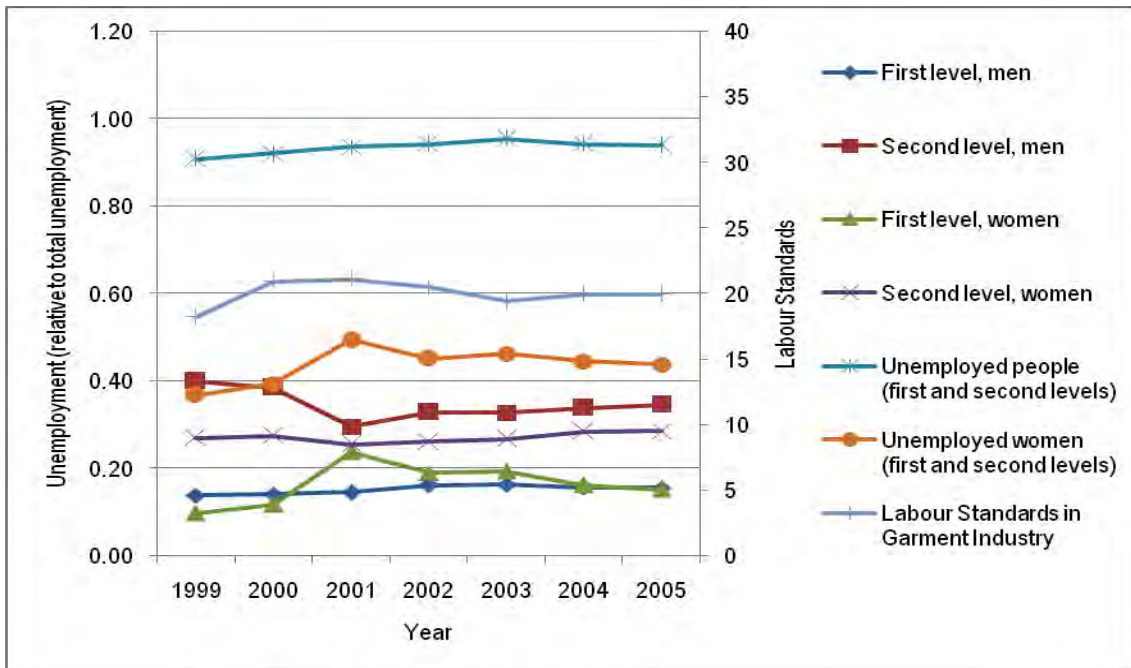
Figure 8.10
Regime Authority Characteristics, Civil Conflict, Human Rights NGOs and NGOs Working With Gender Issues, Labour Standards, 1999-2005



Notes: -10 means strongly autocratic, +10 means strongly democratic for regime authority characteristics; in the case of civil conflict, 1= minor (between 25 and 999 battle-related deaths in a given year); 2= war (at least 1000 battle-related deaths in a given year)

Sources: Polity IV version 2007 for regime authority characteristics; UCDP/PRIO Armed Conflict Dataset Version 4.2008 for civil conflict; SMERU Research Institute NGOs Database and Human Rights Internet for numbers of Human Rights NGOs and NGOs working with gender issues; Own calculation for data on labour standard

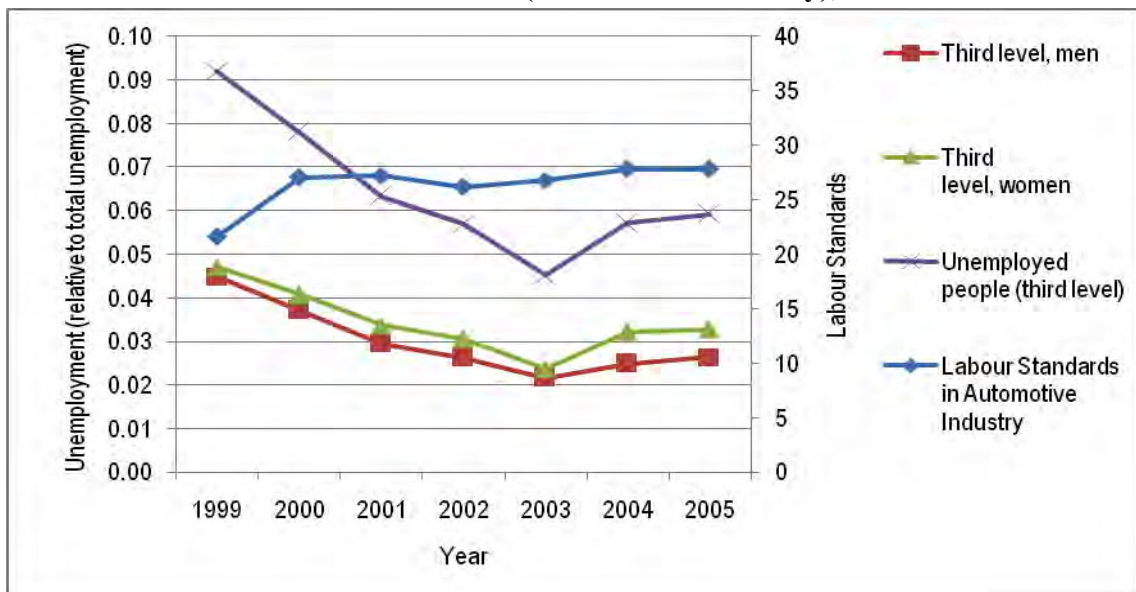
Figure 8.11
Trends of Unemployed People based on First and Second Levels of Educational Background Relative to Total Unemployment (thousands) and Labour Standards (Garment Industry), 1999-2005



Note: Compare to Statistics for Graphs provided in Annex for clearer figure

Source: Own calculation based on data by Laborsta for data on Unemployment

Figure 8.12
Trends of Unemployed People with Third Level of Educational Background Relative to Total Unemployment (thousands) and Labour Standards (Automotive Industry), 1999-2005



Source: Own calculation based on data by Laborsta for data on Unemployment

Appendix 2: Constructing Qualitative Indicators

In the pursuit of measuring labour standards, many scholars have come up with different ways. Block and Roberts (2000, as cited in Block 2007: 46) employed a relativistic labour standards measure with a narrow labour standard definition. According to them, such measure is more appropriate in their study which compares cross-jurisdiction, allowing specific contextual issues to be captured. However, other scholars have by and large relied on a more universal framework, namely, the ILO Conventions (Rodrik 1996, Mai 1997, Busse 2001, Böhning 2003, Maskus 2003, Flanagan 2003, as cited in Block 2007: 46-7). For this work, I rely on these universal benchmarks, focusing on the ILO Core Conventions. The use of these universal benchmarks will be favorable as they serve as internationally recognised benchmarks (Block 2007: 47).

The next step is to clarify measures of labour standards used. Some scholars are more concerned with measures based on law and legislation, either limited to laws related to labour market regulation or extended by including political and social rights (Block 2007: 47). In the meantime, there are also some scholars who focus on legislative and labour-market outcome measures (*ibid*). In this case, I combine legislative measures and the implementation. As such, I am not only interested in the legal provisions themselves, but also the enforcement of the provisions.

Kucera (2002) developed indicators to measure labour standards which are solely based on freedom of association and collective bargaining rights. Mosley and Uno (2007) also used these indicators with some additions. This is based on a belief that these rights serve as key elements of core labour standards (Mosley and Uno 2007: 930). The advantage of this is obvious; it will allow a more in-depth observations as well as analysis on labour standards than a researcher focusing on one or two types of labour rights. However, one should also not overlook other fundamental rights. I argue that other ILO Core Conventions are also substantial. I, therefore, develop indicators, functioning as units of analysis, based on this position. Apart from this, I also take into consideration provisions concerning conditions of work. As such, I borrow Dan Viederman and Erin Klett's (2007) model of indicators, including the structure for scoring and weighting, with some relevant adjustments. These indicators, I believe, do not only capture labour standards, but also the practical implementation of such standards.

Dan Viederman and Erin Klett (2007) developed qualitative indicators based on four categories, namely: (1) ILO Conventions; (2) laws and legal system; (3) institutional capacity; and (4) implementation effectiveness. They are weighted 10%, 25%, 15% and 50%, respectively, of total scores. Of these categories, Viederman and Klett developed subcategories, based on which the indicators are then generated. One should, however, bear in mind that they develop this indicator for Verité, an independent NGO monitoring labour rights abuses, "...to provide an assessment of country compliance with labour standards for institutional investors" (Viederman and Klett 2007: 57). Since I do industry-level analysis, I omit the first category, that is, the category which captures the countries' status of the ratification of ILO Conventions.

The second category of Viederman and Klett's model comprises two subcategories: (1) convention-related issues; (2) conditions of work. They are weighted 75% and 25%, respectively, of the category scores. The first subcategory constitutes four sections, consisting of freedom of association, forced labour, child labour and equality/discrimination. Each of them is weighted 25% of subcategory. I keep this as the first category in my model of indicators in my model of indicators. Since I also attempt to capture alternatives to labour regulations tools as defined by Bianca Kühl (2003), I place this category as the second category of my indicator model since these tools cannot be perceived as laws and legal system (i.e. are not enacted by the government). This category should, therefore, be weighted less than laws and legal system category.

The third category of Viederman and Klett's model of indicators comprises two subcategories, namely: (1) governmental capacity; and (2) non-governmental capacity. I keep both of these subcategories.

The fourth category of Viederman and Klett's model of indicators consists of two subcategories: (1) Convention-related issues; and (2) conditions of work. They are weighted 80% and 20%, respectively, of the category. Similar to those in laws and legal system category, the convention-related issues subcategory comprises four sections, illustrating the four core labour standards, with each of them weighted 20%. In the meantime, the conditions of work subcategory comprises: (1) health and safety conditions; and (2) wage conditions. Each of them is weighted 50% of subcategory. I maintain this categorisation in my model of indicators.

Stemming from these categories, subcategories, and sections, Viederman and Klett developed the indicators. In my model of indicators (see Table 7.1 in Appendix 1), I make some adjustments on these indicators. First, I leave out the ILO Conventions, the category which shows countries' status of ratification of ILO Core Conventions. In consequence, I do not employ the indicators stemming from this category. Second, Viederman and Klett provided deduction resulting from freedom of association laws suspended in EPZs which reduces the total scores of indicators in laws and legal system category. They did not specifically mention the percentage of this reduction. Instead of summing all the scores of indicators in this category and then deduct the total score with points resulting from the absence or the lack of such legislations in EPZs, I decide to address this deduction in each of labour rights observed. In so doing, I believe that it allows more accurate points reduction. I propose a 50% reduction from the score of labour rights observed in this category. Considering that liberalisation creates intense competition, especially between firms or manufactures located in EPZs, this amount of reduction is plausible. Furthermore, the deduction used by Viederman and Klett only captures the absence or lack of legislations concerning freedom of association rights. Consequently, deductions resulting from the absence or the lack of legislations concerning other rights in EPZs are undermined. In the same vein, I address deduction in each of the labour rights observed in implementation effectiveness category. This is dissimilar to Viederman and Klett's model which addresses the deduction only for Freedom of Association right. Additionally, while Viederman and Klett propose a reduction of 25% of Freedom of Association score for the deduction, I propose a 50% reduction. This is also in order to capture the intense competition of lowering labour rights that takes place in EPZs.

After the indicators are developed, it is also salient to sketch scoring scheme. The purpose of the scoring is to help in measuring the level of observed indicators or units of analysis. In that way, it is expected that findings may demonstrate a picture of labour standards and the enforcement during certain years, in that, one can find whether or not changing takes place. As I develop model of indicators from Viederman and Klett's model, I also use their scoring scheme (2007: 64-71) with some relevant changes (see Table 7.2 in Appendix 1). Generally, the scheme gives more scores for better performance of each indicator.

Appendix 3: List of Interviews

- a. Elly Rosita Silaban, President of F-SB Garteks (Federasi Serikat Buruh Sejahtera Indonesia Garmen, Tekstil, Kulit dan Sepatu/ Indonesia Prosperity Trade Union Federation for Garment, Textile, Leather Handicraft and Shoes)
Interview via telephone, May 5 and June 3, 2009
- b. Idrus, Secretary-General of F-SP LEM (Federasi Serikat Pekerja Logam, Elektronik dan Mesin/ Metal, Electronic and Machine Trade Union Federation)
Interview via telephone, May 5, 2009
- c. Ade Mulyadi, Secretary-General of FSBI (Federasi Serikat Buruh Indonesia/ Indonesian Trade Union Federation)
Interview via telephone, May 6, 2009
- d. Said Iqbal, President of FSPMI (Federasi Serikat Pekerja Metal Indonesia/ Indonesian Metal Workers Union Federation)
Interview via telephone, May 11, 2009
- e. Noegardjito, Vice Secretary-General of Gaikindo (Indonesian automotive producers association)
Interview via telephone, May 13, 2009
- f. Baari La Inggi, Vice Chairman of Indonesian Garment Producers Association
Interview via telephone, May 15, 2009
- g. Laurend Sinaga, Chief of Child Labour Standard Monitoring Subdirectorate, Ministry of Manpower and Transmigration
Interview via telephone, May 20, 2009
- h. Muji Handoyo, Director of Labour Standard Monitoring, Ministry of Manpower and Transmigration
Interview via email, May 21, 2009
- i. Cecilia Susiloretno, Secretary-General of MWPRI (Mitra Wanita Pekerja Rumahan Indonesia/Partner of Indonesian Women Home-based Workers) as well as Organisational Consultant of HWPRI Himpunan Pekerja Wanita Rumahan Indonesia (Indonesian Women Home-based Workers Association)
Daniel S. Stephanus, Vice Secretary-General of MWPRI as well as Financial Consultant of HWPRI
Interview via email, June 18, 24 and 25, 2009

Appendix 4: Average Political Rights and Civil Liberties Scores for ASEAN Countries, Excluding Indonesia

In order to provide a trend of average labour rights score for ASEAN countries, excluding Indonesia, I rely on the data by Mosley and Uno (2007). The data, however, only provides information of labour rights score until 2002, whereas I also need labour rights score until 2005. The only suitable data to fill this gap is political rights score and civil rights scores provided by the Freedom House. I take the data for the period of 2002 until 2005 and generate average scores both for political rights and civil rights covering all countries in the region, excluding Indonesia. This picture is expected to support an assumption for the average labour rights score from 2003 until 2005.

Average political rights score is ranging from 5.11 to 5.33, whereas average civil liberties score is ranging from 4.8 to 5 during the period of 2002-2005. According to the Freedom House, countries with rating 3-5 in political rights are appraised to be less free due to factors, such as political corruption, violence, political discrimination against minorities, and foreign or military influence on politics. Additionally, there are other damaging elements, for instance, civil war, heavy military involvement in politics, lingering royal power, unfair elections, and one-party dominance. However, there are still some elements of political rights, including the freedom to organise quasi-political groups, reasonably free referenda, or other significant mean of popular influence on government. Countries with rating 3,4,5 in civil liberties rights are marked with certain level of oppressions, particularly in areas of censorship, political terror, and the prevention of free association. Consequently, Figure 3.1 (see Appendix 1) shows that countries in ASEAN, excluding Indonesia, are perceived to be less free in terms of political rights as well as of civil liberties. This obviously influences labour rights outcomes in these countries during the same period.

Figure 3.1 demonstrates that both average political rights score and civil liberties scores in ASEAN countries, excluding Indonesia, decreased since 2002. From 2004-2005, however, average civil liberties score stays in the same rate. It can be noted that the declining level is modest, amounting to 0.1 in average. Based on this information, one can assume that average labour rights outcome is decreasing from 2002 until 2005 with moderate declining level, say, 0.1.