

Rising tension over wages

FEELING OF INEQUALITY: The increasing number of strikes by workers threaten to temper investor enthusiasm for the emerging Indonesian economy, write Neil Chatterjee and Olivia Rondonuwu

WHEN the Jakarta governor offered a hefty pay rise last week to workers, he successfully headed off a major strike. But almost immediately, workers went on the rampage in another part of the country demanding a wage hike, too.

It is another illustration of the most recent and, for investors, troubling risk they face in what has become one of the darlings of the emerging economies.

The big drivers for the strikes have been high prices for the commodities that are the backbone of the Indonesian economy, rising costs and a strong sense that the country's widely trumpeted economic successes have not been shared.

The highest profile — and so far most costly — strike has been going on since September at the giant Freeport McMoran Copper & Gold Inc mine, where 8,000 miners in the remote eastern province of

Irian Jaya are demanding better pay.

Though union leaders in other industries deny that the Freeport strike was their trigger, the number of strikes has begun to mushroom across a broad range of industries from supermarket to telecommunication, threatening to temper investor enthusiasm for one of Asia's fastest growing economies.

"These strikes are dangerous and show how weak the government is in facing industrial disputes," said Sofjan Wanandi, a leading businessman and chairman of the Employers' Association of Indonesia.

"With this situation, businesses will reconsider their expansion and investment plans, as well as plans to relocate factories from China to Indonesia."

Investors in Southeast Asia's biggest economy have long factored in industrial-scale corruption, a complex and lethargic bureaucracy and even militant attacks.

But industrial disputes in the densely populated society, which

has had little more than a decade of democracy, is a much newer hurdle.

Union membership is still quite low in a country where militant union leaders, just a few years ago, could expect to be hounded into jail, or worse.

It is estimated that only seven per cent of companies have unions and the total number of workers who belong to unions is 15 per cent. The number, though, appears to be growing.

Some of the strikes have turned violent, and tension over the failure to create enough higher value jobs in the predominately youthful population could become one of the biggest mid-term risks, some analysts say.

A planned strike last week in Jakarta by 85,000 unionised workers was averted after the city governor agreed to hike minimum wages by about 20 per cent.

Almost immediately, there was a similar protest for higher pay by 10,000 workers in Batam, an island home to manufacturers from near-

by Singapore.

This time, the response was slow. The military had to guard industrial estates after a mob burned traffic police posts and cars and attacked a government office.

As Freeport considers lifting pay by as much as double for more skilled contractors to end its crippling strike, any high pay award risks setting a precedent.

"If somebody asks for more, everybody will follow. That's a fact," said Alwin Lubis, president director at Indonesian miner Aneka Tambang.

"That is what we're worried about."

The Freeport strike has come after gold prices doubled in the past two years. Prices for many commodities of which Indonesia is a leading exporter, such as tin, copper, coffee and cocoa, have also hit record highs in recent years.

"These commodity prices are a good opportunity to negotiate for better welfare, pay and wages," said Khoirul Anam, president of the Indonesian Forestry and Allied

Workers' Union.

He said conditions were often little different from the days under Dutch colonial rule, arguing, for example, that oil palm workers should be paid three times as much.

"The bargaining position of labour in Indonesia has increased. However, it is not that much. They have slowly understood their rights and are demanding more," said Andriko Otang from the Trade Unions Rights Centre.

The strikes have coincided with growing wealth on the back of the global price commodity boom and a burst in consumerism.

On the day workers rioted in Batam, others were injured in a 5,000-strong crush to get half-price Blackberry mobile phones in the capital. Also that day, Forbes released a report saying the country had created four more billionaires, with the wealth of its Indonesia "Rich List" up by 19 per cent to US\$85 billion (RM266 billion).

Indonesia is creating millionaires faster than any other in Asia

Pacific, according to wealth manager Julius Baer.

Yet monthly wages average US\$113, less than a half of that in Thailand and a third of China's, according to the Asian Development Bank's latest data.

And half the population survives on less than US\$2 a day, according to the World Bank.

Low-wage workers, seeing pay rises cancelled out by food prices climbing 15 per cent last year, are being surrounded by growing consumerism and displays of wealth. Their expectations and perceptions of inequality are rising, too.

"Many of us don't see any improvements in our life," said Sari, a worker making Adidas shoes in a footwear factory, a sector where plants have relocated from China and Vietnam in the past year after wage costs rose there.

"A factor that would make a person go on strike is when one feels trapped. We are going in that direction, so the likelihood for more strikes in garment, textile and shoe factories is huge." **Reuters**