

From Tailor Shops to Factories: Rethinking Upgrading and Labor Role in Indonesia's Trade with the World

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Abstract

This article examines the export-oriented industrial policy, particularly in the textile and garment sector, adopted by President Joko Widodo's administration that ended his two five-year tenures in 2024. While a number of scholars acknowledge that the sector has managed to achieve economic upgrading, primarily proven by better export performance, very few have highlighted its failure to bring about social upgrading, even by normative standards as measured by the Decent Work Agenda of the International Labor Organization (ILO). I argue Indonesia's textile and garment industry should aim higher by attaining social upgrading, namely the fulfilment of labor rights and entitlements that will enhance the quality of their employment. But I suggest that the social upgrading is better understood from a "bottom-up" approach, in which improvement of working conditions results from the balance of power between labor and capital, institutionalized by the state, instead of a "top-down" approach as laid out by the DWA, which justifies the capital's imperative to accumulate surplus through labor exploitation. By understanding social upgrading through a "bottom-up" approach, I argue, one can better grasp the exploitative nature in capitalist relations as well as labor resistance against capitalist exploitation, and consequently, overcome the view that workers are passive victims.

Keywords: labor, upgrading, export, labor rights, capitalist relations

Dari Kios Penjahit ke Pabrik: Menimbang Ulang *Upgrading* dan Peran Buruh dalam Perdagangan Internasional Indonesia

Abstrak

Artikel ini menelaah kebijakan industri Indonesia yang berorientasi ekspor, khususnya di sektor tekstil dan garmen, yang diadopsi oleh pemerintahan Presiden Joko Widodo yang mengakhiri jabatannya selama dua periode di 2024. Kendati sejumlah cendekiawan mengakui bahwa sektor tersebut berhasil mencapai economic upgrading, terutama dibuktikan oleh peningkatan kinerja ekspor, sangat sedikit yang menunjukkan kegagalannya untuk menghasilkan social upgrading, bahkan dalam standar normatif sebagaimana diukur oleh Agenda Kerja Layak (DWA) dari Organisasi Perburuhan Internasional (ILO). Penulis berpendapat bahwa industri tekstil

dan garmen Indonesia seharusnya memperoleh pencapaian yang lebih tinggi, yakni social upgrading melalui pemenuhan hak-hak buruh yang akan meningkatkan kualitas ketenagakerjaannya. Namun saya memandang bahwa social upgrading lebih baik dipahami melalui pendekatan dari “bawah ke atas” (bottom-up), di mana perbaikan kondisi kerja dihasilkan oleh keseimbangan antara para pekerja dan modal yang diinstitutionalisasi oleh negara, alih-alih pendekatan dari “atas ke bawah” (top-down) sebagaimana digariskan dalam DWA oleh ILO yang justru membenarkan tuntutan-tuntutan modal untuk mengakumulasi surplus melalui eksploitasi buruh. Dengan memahami social upgrading melalui pendekatan dari “bawah ke atas” (bottom-up), saya berpendapat bahwa sifat eksploitatif dari hubungan-hubungan kapitalis maupun perlawanan buruh terhadap eksploitasi dapat ditangkap dengan lebih baik dan sebagai konsekuensinya, pandangan bahwa para buruh adalah korban eksploitasi yang pasif dapat dilampaui.

Kata kunci: ekspor, upgrading, buruh, hak-hak buruh, hubungan kapitalis

Introduction

A series of reforms since 1966 has led Indonesia, Southeast Asia’s largest economy, to adopt market-friendly policies. Starting from trade, the reforms have covered nearly all economic sectors including finance, banking and investment, with policies that “somewhat closely approximate neoliberal ideal.”¹ President Joko Widodo during his two five-year tenures from 2014 had maintained an open economy and made both foreign trade and direct investment his top priorities to spur high growth and create jobs. His successor President Prabowo Subianto, who was sworn into office in October 20, 2024, has committed to continue this strategy as his administration aims to achieve annual growth of 8 per cent by 2029.²

In the area of trade, the Widodo administration – whose policies are the focus of this essay—initially targeted an ambitious goal to triple exports by 2019 from US\$184.3 billion in 2014 amid deterioration in the global economy.³ To achieve the target, it sought to attract foreign direct investment (FDI) in the export-oriented industry, mostly the labor-intensive sectors such as tex-

¹ Paul Burkett and Martin Hart-Landsberg, “A Critique of ‘Catch-up’ Theories of Development,” *Journal of Contemporary Asia* 33, no. 2 (January 1, 2003): 147–71, <https://doi.org/10.1080/00472330380000101>.

² Tira Santia, “Lewat Ekspor, Kemendag Kerja Keras Bantu Target Pertumbuhan Ekonomi 8%,” *Liputan6*, November 19, 2024, <https://www.liputan6.com/bisnis/read/5794344/lewat-ekspor-kemendag-kerja-keras-bantu-target-pertumbuhan-ekonomi-8>.

³ Linda Yulisman and Esther Samboh, “Boost Exports or Lose Jobs,” *The Jakarta Post*, December 23, 2014, <https://www.thejakartapost.com/news/2014/12/23/boost-exports-or-lose-jobs.html>.

tile, garment and footwear. Similarly, it also aimed to create two million jobs each year until 2019 to address the high unemployment rate.⁴

This strategy, however, is not new as it can be traced back to the authoritarian regime led by strongman Soeharto. Before being toppled in 1998, Indonesia's longest-serving president adopted a cheap-labor policy to entice external capital, notably in the export-oriented manufacturing sector, and managed to reduce the number of jobless populations. The country, thus, follows the path promoted by United Nations (UN) Millenium Project director Jeffrey Sachs as the first step to force the bulk of population out of poverty: performing sweatshop jobs.⁵

To pave the way for fresh investment in the designated industry, the Widodo administration introduced two major reforms. In 2015 it issued a government regulation (*Peraturan Pemerintah/PP*) that set a formula for labor wage increase based on the inflation rate and economic growth issued by Statistics Indonesia (BPS). The rule was considered to have exacerbated labor conditions as it ignored an annual negotiation to determine the regional minimum wage between workers and employers. It also neglected a survey of prices of basic needs, which previously served as the benchmark to determine components of decent living.⁶

Even with the survey, the labor wage in the garment industry, one of the country's export backbones, was still very low - the fact pointed out as the biggest problem in the industry by the alliance of labor unions and non-governmental organization Clean Clothes Campaign. While the industry enjoyed an increase in the global market share from 1.7 percent in 2005 to 2.9 percent in 2014,⁷ which meant economic upgrading in the global value chain analysis term, it did not translate into social upgrading, measured by improvement in "working conditions, protection and rights."⁸ Workers still saw a significant

⁴ Linda Yulisman, "Govt Prepares Incentives for Labor-Intensive Industry," *The Jakarta Post*, February 12, 2015, <https://www.thejakartapost.com/news/2015/02/12/govt-prepares-incentives-labor-intensive-industry.html>.

⁵ Ben Selwyn, *The Global Development Crisis* (Cambridge: Polity Press, 2014).

⁶ Teri L. Caraway and Michele Ford, "United in Disappointment," *Inside Indonesia*, June 2015, <https://www.insideindonesia.org/editions/edition-123-jan-mar-2016/united-in-disappointment>.

⁷ Paul Roeland, "Indonesia Factsheet February 2015," Clean Clothes Campaign, accessed June 1, 2025, <https://cleanclothes.org/file-repository/resources-publications-factsheets-indonesia-factsheet-2-2015.pdf/view>.

⁸ Stephanie Barrientos, Gary Gereffi, and Arianna Rossi, "Economic and Social Upgrading in Global Production Networks: A New Paradigm for

gap between minimum wage paid by their employers and actual living wage. Indonesian garment workers earned only 43 percent of their actual monthly expenses, according to a report by Asia Floor Wage Alliance (AFWA) released by the end of 2024.⁹

In another labor-regulating reform, the Widodo administration passed in November 2020 the highly controversial Job Creation Law, which made sweeping changes to more than 70 laws at once, including the 2003 Manpower Law, to attract investment and generate jobs. Deliberated during the Covid-19 pandemic without consultations with labor unions and civil society organizations, the law was considered to have detrimental impact on workers, such as raising the number of temporary workers and slowing down wage rises.¹⁰

In this essay, I would first argue that while it succeeds in generating economic upgrading, the export-oriented industrial policy as highlighted by Indonesia's garment industry has failed to bring social upgrading, even by the normative standard as measured by the International Labor Organization's (ILO) Decent Work Agenda. Consequently, I would suggest that it is necessary to rethink about the development strategy in Indonesia, the world's fourth most populous nation with more than 280 million population, especially because the Subianto administration seeks to continue policies adopted by the previous government. Real and meaningful development, I contend, must engage a "bottom-up" approach to understand social upgrading in which improvement of working conditions depends on "the balance of power between labor and capital" institutionalized by the states.¹¹

This essay begins with discussing the conceptions of upgrading, which

a Changing World," *International Labour Review* 150, no. 3–4 (2011): 319–40, <https://doi.org/10.1111/j.1564-913X.2011.00119.x>.

⁹ Textile Insights, "AFWA's 2024 Report Reveals Wages In Asia's Garment Industry Fall Considerably Short Of Living Wage Benchmarks," Textile Insights, December 10, 2024, <https://textileinsights.in/afwas-2024-report-reveals-wages-in-asias-garment-industry-fall-considerably-short-of-living-wage-benchmarks/>.

¹⁰ Scott Nova and Jessica Champagne, "Weakening Legal Protections for Garment Workers in Asia" (Worker Rights Consortium, May 27, 2021), <https://www.workersrights.org/communications-to-affiliates/weakening-legal-protections-for-garment-workers-in-asia/>.

¹¹ Ben Selwyn, "Social Upgrading and Labour in Global Production Networks: A Critique and an Alternative Conception," *Competition & Change* 17, no. 1 (2013): 75–90, <https://doi.org/10.1179/1024529412Z.00000000026>.

comprise economic upgrading and social upgrading. The second part provides an overview about the labor regime and export-oriented garment industry in Indonesia. It will then elaborate on how economic and social upgrading has materialized within its garment industry and highlights how a critical conception of social upgrading may apply in the context of Indonesia's labor situation. The essay concludes by offering alternatives to address the aforementioned issues.

Upgrading, Decent Work and Labor Agency

Internationalization of production has become one of the main characteristics of globalization. Big corporations in the North particularly seek to shift their production overseas in order to markedly reduce costs and reap sizeable profits by tapping into large pool of foreign labor instead of paying high-cost domestic labor.¹² Along with it, raw materials and components are exchanged from a variety of countries for further assembly. The global value chain (GVC) and global production network (GPN) frameworks have been used to analyze the complex process of production and interactions between lead firms and its suppliers.¹³ Both follow the global commodity chain framework (GCC) that has been earlier utilized to explore holistically a wide range activities "involved in the design, production, and marketing of a product".¹⁴

This essay deploys the chain and network frameworks which go beyond assessing the connection between lead firms and suppliers, and particularly for the GPN analysis, it also takes into account the interaction of all actors determining and forming global production, including national governments and international trade unions.¹⁵ It specifically uses the concept of "upgrading" which refers to the shift into value-adding activities to enhance "technology, knowledge and skills" as well as to boost gains by way of involvement in the networks. Here distinctions are made between "economic upgrading" and

¹² John Smith, "Imperialism in the Twenty-First Century," *Monthly Review*, July 1, 2015, <https://monthlyreview.org/2015/07/01/imperialism-in-the-twenty-first-century/>.

¹³ Gary Gereffi, John Humphrey, and Timothy Sturgeon, "The Governance of Global Value Chains," *Review of International Political Economy* 12 no. 1 (2005): 78–104, <https://doi.org/10.1080/09692290500049805>.

¹⁴ Gary Gereffi, "International Trade and Industrial Upgrading in the Apparel Commodity Chain," *Journal of International Economics* 48, no. 1 (June 1, 1999): 37–70, [https://doi.org/10.1016/S0022-1996\(98\)00075-0](https://doi.org/10.1016/S0022-1996(98)00075-0).

¹⁵ Barrientos, Gereffi, and Rossi, "Economic and Social Upgrading in Global Production Networks."

“social upgrading”. Initially coined “industrial upgrading” and later modified as “economic upgrading” to cover areas beyond manufacturing, the term refers to the process to improve production by engagement of capital (through the use of new machinery or latest technology) or labor (skill enhancement or productivity increase).¹⁶ Meanwhile, social upgrading is concerned with enhancement in “the rights and entitlements of workers as social actors” that contributes to better quality of their employment.¹⁷ A number of studies have shown that economic upgrading does not automatically bring about social upgrading in terms of higher wages and better working conditions.

This essay mainly pays attention to social upgrading, which entails “access to better work” as a result of economic upgrading as well as betterment in “working conditions, protection and rights”.¹⁸ This type of upgrading is laid out by International Labor Organization’s (ILO) Decent Work Agenda (DWA), which comprise “employment, standards and rights at work, social protection and social dialogue”.¹⁹ The advancement of labor conditions is made up by two elements: “measurable standards” (tangible aspects that can be quantified), such as wage level and working hours, and “enabling rights” (less measurable things), including freedom of association and non-discrimination.²⁰

Beyond that, this essay also tries to problematize the conception of social upgrading used in the chain and network analyses. Firstly, the globalization of production has been largely driven by the attempt of corporations in Europe, North America and Japan to slash down costs and maximize profits by exploiting cheap labor in the South, a process which John Smith calls “global labor arbitrage”. Offshore outsourcing then becomes an “urgent survival tactic” for many firms in the developed economies.²¹ This leads to “immiserizing growth” in the South as rising exports are achieved by way of stagnant or lower real wages.²² Discussions about globalization of production then should center not only around production of commodities, but also the changes in social relations, especially ones that drive capitalism, namely the capital-labor

¹⁶ Barrientos, Gereffi, and Rossi.

¹⁷ Barrientos, Gereffi, and Rossi.

¹⁸ Barrientos, Gereffi, and Rossi.

¹⁹ Barrientos, Gereffi, and Rossi.

²⁰ Barrientos, Gereffi, and Rossi.

²¹ Smith, “Imperialism in the Twenty-First Century.”

²² Raphael Kaplinsky and Mike Morris, *A Handbook for Value Chain Research* (Brighton: Institute of Development Studies, 2001).

relation, which is “increasingly a relation between northern capital and southern labor”.²³ Selwyn pointed out that the multiplication of global commodity chains has come along with, and indeed, is grounded on, the surging number of laboring class worldwide, tripling between 1980s and the mid-2000s.²⁴ This is attributed to the deprivation of peasants from their land, which eventually leads them to become part of a large pool of exploitable labor force for the interest of the capital.

Secondly, critics have revealed the inadequate integration of labor in the GCC, GVC and GPN frameworks. Marcus Taylor, for instance, have pointed out negligence over labor both as “a social practice and as embodied productive potential” in GCC analysis, leading to “blindness to labor” as he puts it.²⁵ By paying much attention on networks, which some even considers as “network essentialism”, it fails to investigate the foremost process that generates the value which precedes exchanges among firms within the chain.²⁶ Tracing how the value is extracted leads to the fact that labor can produce more wealth than what they receive in the form of wages, thereby disclosing their exploitation.²⁷ By conceiving labor as a “static factor of production”, the analysis also ignores key issues about “power and subjectivity” in the labor process as well as within wider context concerning “the creation and reproduction of labor forces”.²⁸ In the case of GPN framework, Cumbers, Nativel and Routledge underline the lack of elaboration of labor as “an active constituent of the global economy, rather than the passive victim of restructuring processes”.²⁹

The inadequacies of these frameworks to tackle particularly the improvement of labor can be attributed to the “top-down” nature in the way it conceptualizes social upgrading.³⁰ Analytically it is unable to understand “the

²³ Smith, “Imperialism in the Twenty-First Century.”

²⁴ Selwyn, *The Global Development Crisis*.

²⁵ Marcus Taylor, “Rethinking the Global Production of Uneven Development,” *Globalizations* 4, no. 4 (December 1, 2007): 529–42, <https://doi.org/10.1080/14747730701695794>.

²⁶ Taylor.

²⁷ Smith, “Imperialism in the Twenty-First Century.”

²⁸ Taylor, “Rethinking the Global Production of Uneven Development.”

²⁹ Andy Cumbers, Corinne Nativel, and Paul Routledge, “Labour Agency and Union Positionalities in Global Production Networks,” *Journal of Economic Geography* 8, no. 3 (May 1, 2008): 369–87, <https://doi.org/10.1093/jeg/lbn008>.

³⁰ Selwyn, “Social Upgrading and Labour in Global Production Networks,” 76.

nature of capitalist exploitation and indecent work”,³¹ while its political defect is its belief in cooperation between elite institutions to promote enhanced working conditions. The existing conception of social upgrading is shaped by the ILO’s DWA,³² which lies upon the premises of institutionalist political economy framework.³³ Under its assumptions, it is possible that “capital does not exploit labor” as long as it is put into “the right institutional context”.³⁴ It, thereby, fails to grasp the exploitative nature in capitalist social relations.

Given the aforementioned context, to understand such kinds of social relations in a more comprehensive and critical way requires what Selwyn calls a “bottom up” conception of social upgrading, which strongly involves an analysis of the capitalist labor process. The enhancement of labor conditions depends primarily on “the balance of power between labor and capital, and how this balance is institutionalized by states”.³⁵ Central to this process is the inquiry into “how the action by labor may co-determine processes of local capitalist development.”³⁶ Analyzing the characteristics of capitalist exploitation and the resistance against it is necessary in order to build a different understanding about decent work and social upgrading.³⁷ To acknowledge the role of workers beyond victims, Wright’s conception on structural and associational power is an important insight. Structural power refers to “the workers’ capacity to disrupt capital accumulation” and within it find a new position from which they can benefit from the accumulation process.³⁸ Associational power represents the result of workers’ organization that is made

³¹ Selwyn, “Social Upgrading and Labour in Global Production Networks.”

³² ILO defines “decent work” as involving “opportunities for work that are productive and deliver a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men.” See: Shaienne T. Osterreich, “Precarious Work in Global Exports: The Case of Indonesia,” *Review of Political Economy* 25, no. 2 (April 1, 2013): 275, <https://doi.org/10.1080/09538259.2013.775826>.

³³ Selwyn, “Social Upgrading and Labour in Global Production Networks.”

³⁴ Selwyn, “Social Upgrading and Labour in Global Production Networks.”

³⁵ Selwyn, “Social Upgrading and Labour in Global Production Networks.”

³⁶ Ben Selwyn, “Beyond Firm-Centrism: Re-Integrating Labour and Capitalism into Global Commodity Chain Analysis,” *Journal of Economic Geography* 12, no. 1 (2012): 205–26, <https://doi.org/10.1093/jeg/lbr016>.

³⁷ Selwyn, “Social Upgrading and Labour in Global Production Networks.”

³⁸ Selwyn, “Beyond Firm-Centrism.”

up of “the various forms of power that result from the formation of collective organization of workers”.³⁹ Structural power can be transformed into associational power through various ways, including by forming strong and active trade unions.⁴⁰ Taking into account the interplay between these two forms of power in commodity production may help form a more critical analysis from the existing chain and network frameworks.

Indonesia's Path to Upgrading

Labor regime in Indonesia

The history of labor in Indonesia can be traced back to the period after independence in 1945. Under a parliamentary democracy, nearly all labor unions were affiliated with political parties with the largest being All-Indonesia Central Workers Organization (*Sentral Organisasi Buruh Seluruh Indonesia/SOBSI*).⁴¹ Nevertheless, state power consolidation along with greater military role following the transition to Sukarno's Guided Democracy in 1957 put harder pressure on labor unions and restricted workers' collective rights. The labor condition worsened after Suharto took power through a coup and a bloody massacre that took lives of more than 500,000 people deemed as having communist ties. Leftist labor unions were banned and many labor activists were arrested and killed.⁴²

With the establishment of the New Order regime, Indonesia's second president reorganized the party system with non-communist unions being forced to form a single entity under state-backed All-Indonesia Workers Federation (*Federasi Buruh Seluruh Indonesia/FBSI*), later renamed All-Indonesia Workers Union, *Serikat Pekerja Seluruh Indonesia/SPSI* in 1985).⁴³ The absence of independent unions, followed by emerging state and military power, led the nation to create a new industrial relations policy known as

³⁹ Wright, as cited in Selwyn.

⁴⁰ Selwyn.

⁴¹ Steve Beers, “Thinking Globally, Framing Locally: International Discourses and Labor Organizing in Indonesia,” *Advances in Southeast Asian Studies* 6, no. 1 (June 15, 2013): 120–39, <https://doi.org/10.14764/10.ASEAS-6.1-7>.

⁴² Beers.

⁴³ Teri L. Caraway, “Protective Repression, International Pressure, and Institutional Design: Explaining Labor Reform in Indonesia,” *Studies in Comparative International Development* 39, no. 3 (September 1, 2004): 28–49, <https://doi.org/10.1007/BF02686281>.

Pancasila Industrial Relations (*Hubungan Industrial Pancasila/HIP*). Unlike what were dubbed as “foreign models”, this policy stressed harmony and cooperation between employers and workers instead of conflicts between the two parties.⁴⁴

The labor condition saw its most repressive turn when high-profile military figure Sudomo served as Manpower Minister from 1983 to 1988 and exercised the “security approach”. The military further flexed its muscles on labor affairs, while the government formed several bodies to detect and avert industrial disputes.⁴⁵ With surging labor disputes in the 1990s, the efforts to improve labor conditions in Indonesia had caught international attention along with the proliferation of labor rights advocacy groups.⁴⁶ Despite the strong pressure against labor, it is important to note that the Suharto regime also launched a minimum wage policy that caused considerable hikes in real wages, demanded employers to give their workers a bonus for religious festivities equal to a one-month’s wage and merit pay following a dismissal.⁴⁷

The fall of Suharto’s authoritarian regime that marked the transition into a democratic regime paved the way for labor activism and helped pushed arguably “the most worker-friendly labor laws in the region” although in reality these rules have been lack of enforcement.⁴⁸ As the succession to the next regime occurred following the 1997/1998 financial crisis that severely hit the country, Indonesia was also subject to structural adjustment programs imposed by the International Monetary Funds (IMF) that led to further economic liberalization.⁴⁹ One of the impacts of the programs was the introduction of labor market flexibility, which was expected to increase the ability of the domestic labor market to adapt with changes of economic situation by eliminating unfavorable regulations.⁵⁰ Simply put, it would allow employers to

⁴⁴ Beers, “Thinking Globally, Framing Locally.”

⁴⁵ Caraway, “Protective Repression, International Pressure, and Institutional Design.”

⁴⁶ Caraway; Beers, “Thinking Globally, Framing Locally.”

⁴⁷ Caraway, “Protective Repression, International Pressure, and Institutional Design.”

⁴⁸ Beers, “Thinking Globally, Framing Locally.”

⁴⁹ Jonathan Pincus and Rizal Ramli, “Indonesia: From Showcase to Basket Case,” *Cambridge Journal of Economics* 22, no. 6 (1998): 723–34.

⁵⁰ Benny Hari Juliawan, “Extracting Labor from Its Owner: Private Employment Agencies and Labor Market Flexibility in Indonesia,” *Critical Asian Studies* 42, no. 1 (March 1, 2010): 25–52, <https://doi.org/10.1080/14672710903537464>.

hire and lay off workers and outsource all business processes to third parties. Among the instruments was a manpower law that promoted several provisions which eroded workers' gains, including the extension of contract work period and the expansion of outsourcing practices to non-core and temporary works.⁵¹

Despite this shortfall, the law also outlined a regional decent standard of living, or *Kebutuhan Hidup Layak (KHL)*, as the benchmark to set annual minimum wages. They were decided each year at the district level by tripartite wage councils comprising labor unions, employers and representatives from the local governments. The wage councils then recommended an increase in wages to be approved by governors. However, this mechanism was put to an end in 2015 when the Widodo administration introduced the Government Regulation on Wages No. 78/2015, that effectively removed the bargaining process on annual wages, replacing it with a formula based on the inflation rate and economic growth issued by Statistics Indonesia (BPS) and decided by the national government.

The Indonesian government argued that the previous system had caused “unpredictable and overly generous wage increases” that could worsen its investment climate.⁵² However, actual minimum wage rises since 2003 only followed the inflation rate, thereby the real wages were, in fact, stagnant. The situation changed only when labor unions started to lobby local governments to garner support in annual wage bargains. As a result, there had been real upward movement in wages since 2011 and they coped with the minimum living standard as defined by the government in a few industrial regions. This arrangement then finally had brought about trickle-down effects as several governments outside industrial centers approved minimum wage increases exceeding the inflation rate. Nevertheless, minimum wages in major industrial areas remained lower than rival countries, such as Thailand, the Philippines, China and Vietnam. At US\$183, Indonesia's monthly wage was merely a third of China's, according to the ILO's flagship Global Wage Report for 2014–2015.⁵³

In another blow to the workers' rights, the Widodo administration passed in November 2020 the highly controversial Job Creation Law, which made sweeping changes to 77 prevailing regulations, including the 2003 Manpower Law long seen as labor-friendly, to attract investment and generate jobs. La-

⁵¹ Juliawan.

⁵² Caraway and Ford, “United in Disappointment.”

⁵³ Caraway and Ford.

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bor unions and rights groups strongly opposed the new regulation, which was formulated and deliberated by the House of Representatives (DPR) without their participation. Described by Amnesty International Indonesia's executive director Usman Hamid as a "catastrophic law" that would "harm workers' wallets, job security and their human rights as a whole", it would enable employers to keep workers on temporary contracts indefinitely, increase work insecurities and lift sufficient protections for millions of workers⁵⁴. The Government Regulation No. 36/2021 on Wages, a derivative of the Omnibus Law, stipulates that the minimum wage is set based on economy and employment conditions by considering its upper and lower limits.⁵⁵

From tailor shops to factories: Indonesia's garment industry goes global

Before the 1970s garment production in Indonesia only took place in small tailor shops nationwide.⁵⁶ The situation changed in the 1980s as a large-scale garment industry started to emerge, now producing for the world market along with textile and footwear industry.⁵⁷ The entry of the industry into the overseas markets was primarily driven by the inflows of fresh investments from foreign firms, particularly from South Korea, Taiwan and Hong Kong, in response to surging labor wages at home as well as appreciating currencies. This led garment to become the second biggest manufactured export product in 1989 as it accounted for 10.6 percent of the overall overseas shipments, after plywood.⁵⁸ Despite its low value-added content, the industry was vital due to its high labor absorption. In 2002 alone it generated 10 percent of total jobs in the country's manufacturing sector.⁵⁹

⁵⁴ Amnesty International, "'Catastrophic' Omnibus Bill on Job Creation passed into law," Oct. 5, 2020, <https://www.amnesty.id/kabar-terbaru/siaran-pers/catastrophic-omnibus-bill-on-job-creation-passed-into-law/10/2020/>.

⁵⁵ Nabiyla Risfa Izzati, "Indonesia Country Study 2021" (Fair Wear, 2022), <https://www.fairwear.org/resources/indonesia-country-study-2021>.

⁵⁶ Kian Wie Thee, "The Development of Labour-Intensive Garment Manufacturing in Indonesia," *Journal of Contemporary Asia* 39, no. 4 (November 1, 2009): 562–78, <https://doi.org/10.1080/00472330903076818>.

⁵⁷ Indrasari Tjandraningsih, "Gendered Work and Labour Control: Women Factory Workers in Indonesia," *Asian Studies Review* 24, no. 2 (June 1, 2000): 257–68, <https://doi.org/10.1080/10357820008713273>.

⁵⁸ Thee.

⁵⁹ Thee.

After more than one decade of heyday, the industry saw a downturn that begun in 1994 as result of tighter rivalry from Asian peers, including the Philippines, China, India, Pakistan, Sri Lanka and Bangladesh.⁶⁰ The 1997/1998 financial posed a major blow to the industry, further dragging its competitive edge. In spite of the situation, the garment industry managed to maintain its role in the global market. It held 2.9 percent of global garment market share in 2014, up from only 1.7 percent in 2005.⁶¹ It directly employed 1.3 million workers in factories by 2011 and generated indirect employment at approximately similar amount.⁶²

Along with textile, garment was in 2015 among the tenth key products that generated significant export revenues for Indonesia. Garment exports amounted to USD 3.98 billion, representing 3.02 percent of total non-oil and gas exports in 2015, according to Statistics Indonesia (BPS). A market intelligence report projects that Indonesia's textile and apparel exports will further grow thanks to its "low-cost advantage," reaching USD 18.2 billion in 2032 with a compound annual growth rate of around 8.6 percent from 2023.⁶³

While in 2020, the first year of the Covid-19 pandemic, Indonesia's export of textile and garment declined, it bounced back quickly. Overseas shipment from both industrial sectors, which employ more than 3.7 million people, rose by 17.9 percent to USD 6.9 billion in 2021 from a year earlier and by 15.6 per cent to USD 7.9 billion in 2022 from the previous year.⁶⁴

A string of changes in labor regulations introduced by Widodo since assuming power in 2014 might have undermined the position of workers against their employers, especially reducing their chance of getting sufficient increases in annual wages that can cover surging living costs.

Economic upgrading

One of the biggest challenges for the Indonesian garment industry is the phase-out of the Multi-Fibre Agreement (MFA), which provided certain quo-

⁶⁰ Thee.

⁶¹ Roeland, "Indonesia Factsheet February 2015."

⁶² Roeland.

⁶³ Research and Markets, "Indonesia Garment Manufacturing Market Report 2023-2032: Projected to Reach \$18.2 Billion by 2032 at a CAGR of 8.6%," GlobeNewswire News Room, January 29, 2024, <https://www.globenewswire.com/news-release/2024/01/29/2819267/28124/en/Indonesia-Garment-Manufacturing-Market-Report-2023-2032-Projected-to-Reach-18-2-Billion-by-2032-at-a-CAGR-of-8-6.html>.

⁶⁴ Research and Markets.

ta to shield it from direction competition with stronger rivals, in early 2005. Since then, world trade in garments has been subject to the rules of the World Trade Organization (WTO).⁶⁵

Despite the tighter competition, the local industry managed to enhance its position in the world market as proven by its sizeable export volume in 2010, which exceeded the figure during the MFA era, while also expanding its market share in the United States, its major garment market.⁶⁶ This suggests that the industry succeeded in upgrading to enhance its competitiveness.⁶⁷ Hassler also proposed a similar conclusion, saying that higher export performance proved to be affected by the upgrading of production along the chain. Such kind of advancement was supported by its “relatively long-term embeddedness” in regional and global production networks.⁶⁸ In the same vein, Pickles and Godfrey pointed out that Indonesia, along with Bangladesh, Cambodia, China and Vietnam, have seen “economic upgrading in terms of increased export market share and export unit values.”⁶⁹ Figures from Clean Clothes Campaign revealed that the domestic garment industry recorded a gain in its global market share to 2.9 percent in 2014, up from only 1.7 percent in 2005.⁷⁰ Improved production, a basis to measure economic upgrading,⁷¹ applies in all the evidence.

⁶⁵ Thee, “The Development of Labour-Intensive Garment Manufacturing in Indonesia.”

⁶⁶ Yohanes Kadarusman and Khalid Nadvi, “Competitiveness and Technological Upgrading in Global Value Chains: Evidence from the Indonesian Electronics and Garment Sectors,” *European Planning Studies* 21, no. 7 (July 1, 2013): 1007–28, <https://doi.org/10.1080/09654313.2013.733850>.

⁶⁷ Kadarusman and Nadvi.

⁶⁸ Markus Hassler, “Raw Material Procurement, Industrial Upgrading and Labor Recruitment: Intermediaries in Indonesia’s Clothing Industry,” *Geoforum* 35, no. 4 (July 1, 2004): 441–51, <https://doi.org/10.1016/j.geoforum.2003.11.002>.

⁶⁹ John Pickles and Shane Godfrey, “Economic and Social Upgrading in Global Apparel Production Networks,” in *Revised Summit Briefing No. 6.2* (Summit of ‘Capturing the gains in value chains,’ Cape Town, 2012), <https://papers.ssrn.com/abstract=2265831>.

⁷⁰ Roeland, “Indonesia Factsheet February 2015.”

⁷¹ Barrientos, Gereffi, and Rossi, “Economic and Social Upgrading in Global Production Networks.”

Social upgrading

As revealed in other studies, economic upgrading does not automatically lead to social upgrading, and this is also the case of Indonesia's garment industry. Clean Clothes Campaign indicated that suppression of trade unions (enabling rights) and low wages (measurable standards) remain the biggest issues within the industry. A study by Osterreich shows that labor-intensive export-oriented firms, including garment producers, could not offer decent work, especially in terms of benefit provisions, while labor intensiveness is not compatible with livable wages.⁷² Another study exposes the precariousness of contract workers as they never get certainty about the continuity of their jobs apart from a solely basic wage that they receive.⁷³ This situation is further legitimated by the 2003 Manpower Law which gives flexibility to employers for hiring and firing, sub-contracting and the use of fixed-term contracts.⁷⁴

Between 2004 and 2009 the market share and unit value of Indonesia's export surged, and this was followed by the growth of employment. However, the labor condition remained unfavorable as unlike other countries, real wages in Indonesia's garment industry declined.⁷⁵ Since 2013 in fact, the real minimum wages had remained stagnant, merely adjusting with the inflation rate.⁷⁶ Even prior to this, many garment workers had already deployed some strategies to make both ends meet as their incomes did not suffice. They, for instance, tightened their spending by lowering the quality and amount of food and other basic needs or even fast twice a week.⁷⁷

In terms of enabling rights, the picture is also grim. Not many workers engaged in unions and exercised their freedom of association, partly due to the priority to fulfill basic needs. Having a wage is the most important thing, no matter harsh the working circumstances could be.⁷⁸ While prior to the issu-

⁷² Osterreich, "Precarious Work in Global Exports," 274.

⁷³ Tjandraningsih, "Gendered Work and Labour Control," 262.

⁷⁴ Dionisius Narjoko and Chandra Tri and Putra, "Industrialization, Globalization, and Labor Market Regime in Indonesia," *Journal of the Asia Pacific Economy* 20, no. 1 (January 2, 2015): 62, <https://doi.org/10.1080/13547860.2014.974321>.

⁷⁵ Pickles and Godfrey, "Economic and Social Upgrading in Global Apparel Production Networks," 5.

⁷⁶ Caraway and Ford, "United in Disappointment."

⁷⁷ Tjandraningsih, "Gendered Work and Labour Control," 267.

⁷⁸ Tjandraningsih, 267.

ance of the Government Regulation No. 78/2015 and the Government Regulation No. 36/2021 on Wages, a derivative of the Omnibus Law, the multi-level tripartite negotiations had served as a channel to demand labor rights on wage increases, the mechanism was lifted, replaced by the decision of the national government that followed a formula based on economic conditions and other factors that did not take into account the decent living indicators. This actually has prevented the annual wage from being raised in real terms.

Toward a critical conception of social upgrading

The aforementioned issues could be read more critically by way of a Marxist analytical perspective compared to the DWA framework, which assumes that the right institutional setting will avert labor exploitation by capital. An understanding of indecent work must trace the root cause of exploitation, and this is the very failure of the agenda.

Marx revealed several strategies used by capitalists to increase the rate of labor exploitation. Capitalists aim to push up the rate of absolute surplus value by intensification of work and extension of working hours as well as the rate of relative surplus value by way of technological innovation. Marx conveyed that these strategies were closely tied to entrepreneurial innovation.⁷⁹

Capitalist search for the rate of absolute surplus value is illustrated well in the case of Indonesia. In many of its garment factories, firms run “compulsory overtime”, which is a way to prolong working hours that eventually make these extended hours as the regular working hours. During the production deadlines, working hours are lengthened even up to 12 hours or more.⁸⁰ This has led to extreme exhaustion among workers, sometimes expressed through mass trance which commonly occurs within factories and shops in the country.⁸¹

The third strategy of maximizing labor exploitation according to Marx is immiseration, which is achieved by way of slashing down wages. Low wages remain the biggest issue in Indonesia’s garment industry, and it lies in the gap between the actual living costs and minimum wage that workers are paid.

A survey by the AFWA showed that the living wage in Indonesia in 2013

⁷⁹ Selwyn, *The Global Development Crisis*, 113.

⁸⁰ Tjandraningsih, “Gendered Work and Labour Control.”

⁸¹ Sunanda Creagh, “Mass Trance Afflicts Indonesian Women, Factory Workers,” *Reuters*, February 25, 2008, sec. Lifestyle, <https://www.reuters.com/article/lifestyle/mass-trance-afflicts-indonesian-women-factory-workers-idUSSP35858/>.

were IDR 4,048,226 (USD 351), while the minimum wage was much lower than that, only amounting to IDR 2,441,000 (USD 212).⁸² The situation seems to worsen. The latest survey from December 2023 to February 2024 by the labor advocacy group, meanwhile, revealed that the monthly wage of garment workers in Indonesia at IDR 2,300,000 (USD 139) only covered 43 per cent of their actual expenses, while it was only 26 percent of the living wage which should amount to IDR 9,003,687 (USD 543).⁸³

Garment worker Anik Rubiyatun, a 48-year-old mother of three who works in a foreign apparel company that serves the Asian and European markets, earns IDR 4,362,500 (USD 263) monthly. The figure is still lower than the regional minimum wage for the Tangerang regency in Banten province which settles at IDR 4,901,117 (USD 296). However, it is higher than the figure cited in AFWA's survey. Her story goes as follows:

The company still cannot pay us the regional minimum wage. They always argue they have no money. We, on the other hand, always tell them the paid wage does not suffice to cover our living expenses. ... How do I survive with my wage? I always set aside money for my children's education first, then spend the rest for other needs. Our family eat modestly although that doesn't mean we only eat *tempeh* and tofu every day. We make arrangement when to eat chicken, eggs or fish. As a side job, I sell lipsticks, cell phones, rice cookers, washing machines to fellow workers who pay me in instalments.⁸⁴

As the monthly wage paid to workers does not suffice to cover their living expenses, they often resort to debt. Around 81 per cent of garment workers in Indonesia surveyed by the AFWA between December 2023 and February 2024 have financial liabilities as they depend on loans to fulfil their basic needs.⁸⁵

As seen in 2022 when the government raised a value-added tax from 10 percent to 11 percent and prices of the most-widely used gasoline Octane 92 Pertamina, prices of many household items like detergent to dishwashing liq-

⁸² Roeland, "Indonesia Factsheet February 2015."

⁸³ Asia Floor Wage Alliance, "AFWA 2024" (Asia Floor Wage Alliance, 2024), <https://asia.floorwage.org/living-wage/>; Textile Insights, "AFWA's 2024 Report Reveals Wages In Asia's Garment Industry Fall Considerably Short Of Living Wage Benchmarks."

⁸⁴ Interview with Anik Rubiyatun, a worker in a garment factory owned by an Italian investor in Tangerang regency, Banten province, on Feb. 26, 2025.

⁸⁵ Textile Insights, "AFWA's 2024 Report Reveals Wages In Asia's Garment Industry Fall Considerably Short Of Living Wage Benchmarks."

uid surged. This was preceded by a cooking oil crisis that pushed up its price to a record high.

Praptiani, a garment worker in a company that supplies Uniqlo, Adidas and Nike, among other brands, and exports to Asia, the US and Europe, felt double blows from the hikes as her purchasing power fell. This exposed her vulnerability as a wage worker even though she earned a minimum wage in line with the amount set for the Tangerang regency in Banten province:

The transportation costs of my whole family soar, while my wage remains stagnant. It is really burdening me. I was still adapting to the fuel price increase, but then, the tax rise took effect and affected most of my daily needs. ... With 100,000 rupiah (S\$9.50), I used to be able to buy quite many necessary items. But now when I go shopping, I can't get as many.⁸⁶

Why do supplier companies pursue this particular exploitation, namely low wage? The wage accounts for up to 25 per cent of overall production costs of garment manufacturers.⁸⁷ If the annual wage is raised by more than 10 percent, that would significantly reduce their competitiveness.⁸⁸ By keeping their wages low, the domestic garment industry, among other beneficiaries, can maintain or even enhance their competitive edge, especially in the global market, where 70 percent of its output is sold. As clothing companies are increasingly moving out of China, the world's top garment producer, Indonesia, currently among the ten largest suppliers, may become a strong alternative manufacturing base.⁸⁹

The question is how to bring about social upgrading beyond one conceptualized by the DWA as well as chains and network frameworks? The answer can begin on the ground that "action by labor may co-determine processes of local capitalist development".⁹⁰ Some studies cited by Selwyn⁹¹—Herod (2001), Dunn (2005), and Feeley (2008)—reveal that the potential source of

⁸⁶ Linda Yulisman, "Indonesians Hit Hard by Rising Inflation," *The Straits Times*, May 14, 2022, <https://www.straitstimes.com/asia/se-asia/indonesians-hit-hard-by-rising-inflation>.

⁸⁷ Interview with chairman of the Indonesian Filament Yarn Producers Association (APSyfi) Redma Wirawasta on Feb. 24, 2025.

⁸⁸ Interview with chairman of the Indonesian Filament Yarn Producers Association (APSyfi) Redma Wirawasta on Feb. 24, 2025.

⁸⁹ Research and Markets, "Indonesia Garment Manufacturing Market Report 2023-2032."

⁹⁰ Selwyn, "Beyond Firm-Centrism."

⁹¹ Selwyn, "Social Upgrading and Labour in Global Production Networks."

resistance exists within the just-in-time systems of production, which was initially aimed at cutting down inventory fees and allowing flexible sourcing, itself: the vulnerability to disruption of the supply chains once there are some strikes at a few strategic points.⁹²

Brazilian workers united in rural workers' group *Sindicato dos Trabalhadores Rurais (STR)* demonstrate well how the threat or strike action against exporting farms could serve as an effective way to access more favorable working conditions, a considerable social upgrading. As farms must fulfill tight deadlines and quality requirements, skilled labor is key to production and any delay in work can be detrimental to the target. Here, the structural power, which takes form of high buyers' demand, is exercised through the associational power, namely their organizational ability within the union.⁹³

Such concerted efforts have yet to be seen in Indonesia. In the garment industry, workers are sometimes still reluctant to join labor unions. However, evidence shows that in the past exporting companies tended to retain employment than their non-exporting peers when the wages rise.⁹⁴ This may suggest that firms opted to pay higher for skilled labor in order to meet strict requirements from buyers. Under this circumstance, structural power needs to be realized through associational power, which still requires consolidation among workers.

Conclusion

Amid the target to grow the economy of more than seven percent and create sizeable jobs, Indonesia's Widodo administration revived a strategy to rely on export-oriented industry, which included garment manufacturing. However, this essay argues that while the industry enjoyed relatively strong economic upgrading, it did not translate directly into social upgrading, even by normative standard—the ILO's DWA. By any measure, the outlook of working conditions is still gloomy and this particularly covers the basic labor issues—the gap between minimum wage paid by firms and actual living wage necessary for labor's survival.

It is implied here that a “top-down” conception of social upgrading as framed by the DWA justifies the capital's imperative to accumulate surplus

⁹² Selwyn.

⁹³ Selwyn.

⁹⁴ Narjoko and Putra, “Industrialization, Globalization, and Labor Market Regime in Indonesia.”

through labor exploitation. In order to address the issue adequately, grasping the nature of capitalist exploitation against labor and find the space from which workers may resist through collective action, it is necessary to quit such kind of approach and shift into a “bottom-up” conception of social upgrading within chain and network frameworks. Only through such kind of conception, a “blindness to labor”⁹⁵ can be avoided.

Beyond that a “bottom-up” approach may also offer a more comprehensive understanding of capitalism and poverty, which has been primarily occupied by a dichotomy between inclusion and exclusion discourse. Only by grasping the root cause in the capitalist system itself and grasp the nature of capitalism, a “residualist” understanding as Henri Bernstein puts it, can be overcome.⁹⁶

A number of studies in other places have demonstrated that while the current exploitative system makes employment more precarious, at the same time it also offers potentials for labor to improve their position within the accumulation process. Here the structural power exercised through the associational power leads to significant enhancement of working conditions, or social upgrading.

Within the Indonesian context, labor movements have consolidated its power after a series of repressions and flexed its muscle following the fall of authoritarian regime in 1998. Some considerable achievements have been evidenced in recent years when labor pressure through various actions from strikes to factory sweeping has pushed the government to raise minimum wage in real terms quite significantly,⁹⁷ while also forcing employers to fulfill demands pertaining to social security issues. While at the national level labor unions can gain stronger voice when they unite to endorse a single interest, there are still a lot of tasks to be done to enable exercise of both structural and associational power at a smaller level. Only through this realization, meaningful social upgrading within specific industrial setting can be achieved.

Indonesia’s Labour Party, or *Partai Buruh*, was established in 2021 by labor activists with its elected leader Said Iqbal, a chairman of the Confedera-

⁹⁵ Taylor, “Rethinking the Global Production of Uneven Development.”

⁹⁶ Selwyn, *The Global Development Crisis*.

⁹⁷ Andreas Arditya and Novia Rulistyarini, “Jokowi Sets Jakarta’s 2013 Minimum Wage at Rp 2.2m,” *The Jakarta Post*, November 21, 2012, <https://www.thejakartapost.com/news/2012/11/21/jokowi-sets-jakarta-s-2013-minimum-wage-rp-22m.html>.

tion of Indonesian Labor Unions.⁹⁸ It contested in the 2024 legislative election but could not secure a seat in the Parliament.

Before Widodo came into power in 2014, labor unions had secured victories at the regional and national level and became “one of the most powerful organized actors in Indonesia’s democracy”.⁹⁹ Labor’s victories gained through politics instead of negotiations at the workplace highlighted that “lower-class actors could make gains through democratic politics.”¹⁰⁰ While it remains to be seen how influential the Labor Party will be in Indonesian politics, its emergence brings a new hope to consolidate labor power, a crucial step into achieving not only economic upgrading, but also social upgrading.

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⁹⁸ Nur Janti, “Labor Party 4.0? Indonesian Workers Revive Old Political Vehicle - Politics - The Jakarta Post,” *The Jakarta Post*, October 7, 2021, https://www.thejakartapost.com/news/2021/10/06/labor-party-4-0-indonesian-workers-revive-old-political-vehicle.html?utm_campaign=os&utm_source=mobile&utm_medium=android.

⁹⁹ Teri Caraway, “Indonesia’s Job Creation Law a Blow to Labour,” *East Asia Forum*, March 11, 2021, <https://eastasiaforum.org/2021/03/11/indonesias-job-creation-law-a-blow-to-labour/>.

¹⁰⁰ Caraway.

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