

Wage Fixing Processes in Indonesia :

A Case Study

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AKATIGA – Center for Social Analysis

In Collaboration with



International
Labour
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Acronyms and Abbreviations

APINDO	: Indonesian Employers' Association (<i>Asosiasi Pengusaha Indonesia</i>)
Bappenas	: National development Planning Board (<i>Badan Perencanaan Pembangunan Nasional Republik Indonesia</i>)
BPS	: Indonesian Central Bureau of Statistics (<i>Badan Pusat Statistik/BPS</i>)
CLA	: Collective Labour Agreement (<i>Perjanjian Kerja Bersama/PKB</i>)
KHL	: Cost of Living Indicator (<i>Komponen Hidup Layak</i>)
UMK	: District/City Minimum Wage (UMK)
UMP	: Province Minimum Wage (UMP)
DPN	: National Wage Council (<i>Depenas/DPN</i>)
DPC	: Branch Leadership Council (<i>Dewan Pimpinan Cabang</i>)
Depekab/Depeko	: District/City Wage Council (Depekab/Depeko)
GSBI	: Gerakan Serikat Buruh Indonesia
ILO	: International Labour Organization
KBS	: Koalisi Buruh Sukabumi
LKS Tripartite	: Tripartite Cooperative Body (<i>Lembaga Kerja Sama Tripartit</i>)
LPE	: Economic Growth Rate (<i>Laju Pertumbuhan Ekonomi</i>)
PDRB	: Gross Regional Domestic Product
PHRI	: Indonesian Hotel and Restaurant Association (<i>Perhimpunan Hotel dan Restoran Indonesia (PHRI)</i>)
PPHI	: Industrial Relations Disputes Settlement (<i>Penyelesaian Perselisihan Hubungan Industrial/ PPHI</i>)
Sakernas	: National Labour Survey
TPAK	: The Participation Level of Labor Force
SD	: elementary school
SLTP	: middle school
SLTA	: senior high school
THR	: holiday bonus (<i>Tunjangan Hari Raya</i>)
Union	: union officials (<i>Pengurus Unit Kerja/ PUK</i>)
UMSK	: District/City Sectoral Minimum Wage
MW	: Minimum Wage (<i>Upah Minimum/ UM</i>)

Summary

The process of minimum wage setting at the national and regional levels and in most important industrial areas in Indonesia in the past five years shows a very dynamic process amid escalated labour actions demanding for a higher minimum wage.

Such dynamic process and industrial disputes that came along in this annual process require a study on how minimum wages are actually determined and how collective bargaining is carried out.

The ILO Jakarta Office, in collaboration with AKATIGA-The Center for Social Analysis in Bandung carried out a short study from June to July 2015 to identify *what actually happens in the process of minimum wage setting? What is the role of actors involved in this process? How collective bargaining is performed at corporate level?* This study is carried out at the national, provincial, city/district levels, down to corporate level and is focused on the process of minimum wage setting in West Java Province, particularly in three city/districts, namely Bandung, Sukabumi and Bekasi, which are the centers for tourism, hotels, garment and automotive industries.

The study identified three main characteristics in the minimum wage setting process. *First*, two processes are performed inside and outside the wage council due to the active and strong role of labour/trade unions, which influences the role of government and employer association. It is become the norm in the last five years that large number of union members attend the wage council sessions and organising mass rally during the sessions to show their pressure on the wage council. *Second* the problem with regulations, particularly concerning wage council's members, survey on cost of living indicator (KHL) and the nonexistence of appropriate formula to determine minimum wage. There are several articles in the ministerial decree on KHL and minimum wage that vaguely formulated or subject to debate and the nonexistence of a clear formula to convert the KHL price into the minimum wage. *Third*, regional elections for local heads that intervene the process made by Wage Council. In two research locations i.e. Bekasi dan Sukabumi districts the minimum wage increase became the issue taken by local leaders who run for election to mobilise workers' vote while on the other hand unions also make use of the increase of minimum wage as their bargaining to the local leaders.

1.Rationale and Objectives

Since the start of reform movement in 1998, labour and industrial relations policies, regulations and practices have been shifted. Such change is apparent with the endorsement of Labour Law No. 13 of 2003, Labour Unions/Trade Unions Law no. 21 of 2000 and Industrial Relations Law No. 2 of 2004, which significantly affect labour industrial relations practices and dynamics in the country. In addition, the application of Regional Autonomy Law no. 23 of 2014 (in connection with law no. 32 of 2004) also plays an important role in affecting labour and industrial relations practices in regions.

Among the most prominent issues in industrial relations, after such change is minimum wage increase. In the past five years, the process determining minimum wages at the national and in most important industrial areas in Indonesia has been very dynamic and the process of determining minimum wages by Regional Wage Council and escalated demands for minimum wage increases resulted in enormous labour actions at the national and regional levels.

Such dynamic and industrial disputes following this annual process in the past five years require a study on how the minimum wage is actually determined and how collective bargaining is carried out.

Therefore, ILO Jakarta Office, in collaboration with AKATIGA-the Center for Social Analysis in Bandung, carried out a short study from June to August 2015 so as to respond to the following questions:

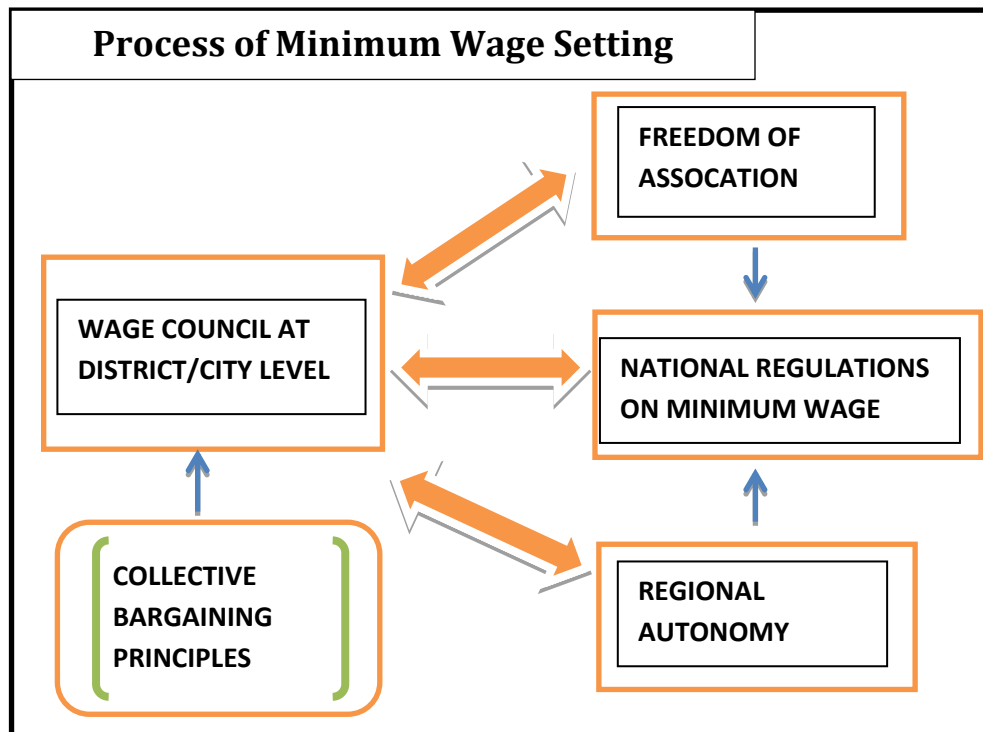
1. Which policy and regulation that underlie and govern the minimum wage setting?
2. How is the actual process of minimum wage setting?
3. How do the actors play their roles in determining minimum wage?
4. What is the role of collective bargaining in determining wage at factory level?

The result of this study will be used as a reference in understanding the process of determining and applying minimum wage so as to identify possible improvements to be carried out by tripartite constituents.

2. Study Method

2.1. Analysis Framework and Literature Review

Analysis on the proces of determining minimum wage in this study is illustrated as follows:



This study is put in a context of post reform, marked with major changes in regional autonomy and freedom of association. Implementation of these policies significantly affect labour policy in general and minimum wage policy in particular, which are the focus of this report.

Since 2000, in line with the enactment of Regional Autonomy Law, the authority to determine minimum wage was delegated *fully from the Minister of Manpower¹ to*

¹ Per-01/Men/1999 concerning Minimum Wage, Article 4

Governors² based on the assumption that it is the provincial governments that know best the situation of the territory under their authority . The delegation is following the decision that the responsibility to deal with employment issues is transferred from national to local governments.

In this context, the process of formulating minimum wages at District/City Wage Council is based on national regulation concerning minimum wage setting, where freedom of association and regional autonomy are determining factors. Freedom of association results in the increased number of trade unions and subsequently increased the number of trade union representatives who sit in Wage Council and equal number of employers' representatives, and based on the regional autonomy law, regional heads, through their officials, must be directly involved and lead the process in Wage Council.

The process of minimum wage setting within regional autonomy and freedom of association laws has been studied and analyzed from various perspectives. Study carried out by Anarita and Setia (2003) in West Java and Bandung District considers a new composition in wage council membership as an opportunity to improve workers' conditions because equal number of representatives assumed to enable trade unions to have equal power as those of other parties. However, this study finds out that trade unions are not ready to perform their roles in defending labour interests through Wage Council. It is particularly because their representatives are not able to hold key positions in the Council.

A study on the impacts of decentralized process of minimum wage setting and participation of trade unions in West Java shows that decentralization process brings positive impacts on trade unions' participation in negotiating wages and freedom of association results in a more dynamic negotiation of minimum wage at district/city level compared to centralized process in the past (Surbakty 2005).

² Kep-226/Men/2000 concerning Amendment of Articles 1, 3, 4, 8, 11, 20, and 21 of Regulation of the Minister of Manpower Per 01/Men/1999 concerning Minimum Wage, Article 4

Another study on the process of minimum wage setting and the role of trade unions in Cimahi city, West Java, shows that trade unions carried out two strategies to defend their interests i.e., inside and outside the wage council. Their strategy inside the wage council was backed up with a political pressure through labour actions, strikes and lobbies. These efforts are aimed at improving workers' poor bargaining power in industrial relations. However the study finds that the strategy was ineffective since the union failed to reach their goal *that is significant increase of minimum wage* (Iryadi 2009).

In addition, another study carried out in Central Java shows that two parties in Wage Council i.e., trade unions and government officials, did not perform their roles well: the former did not have adequate capability and power to hold negotiations while the latter have a poor attendance in Wage Council meetings, ineffective coordination among local offices and insufficient knowledge on labour and wage issues among local government officers (Sunarto 2004).

These four studies show how decentralization policy and freedom of association opens a new space for trade unions to be actively involved in the process of minimum wage setting. This new space, however, cannot yet be used effectively by trade unions in the first half of 10 years reform because they are still not familiar with the mechanism within the Wage Council and they need to understand the situation. Nevertheless, these four studies show trade unions' awareness about their collective power that can be used as a pressure in the process inside the Wage Council.

The active union participation and the practice of collective bargaining in the wage council as shown by the above mentioned study within the decentralized minimum wage policy will frame the analysis of the study.

Decentralized process of minimum wage setting is a new circumstances for regional governments to play their roles in Wage Council. *Within the new situation the appointment of local bureau of manpower officers by the local head in general did not competence-based*

and thus brings the consequence of a poor performance of the government representatives in the wage council.

2.2. Data Collection

This study applies qualitative approach so as to collect information on actors' views and perception about the process of minimum wage setting and to show relations among actors in this process. Primary data collection in this study applies in-depth interviews by using interview guideline to explore information on policies and implementation of minimum wage at central, regional and factory levels, the process of determining and applying minimum wages, factory and trade union profiles and the process of minimum wage implementation at factory level.

Three city/districts in West Java Province, namely Bandung city, and Sukabumi and Bekasi districts were selected as study locations because West Java is the most important industrial area in Indonesia. Bandung city and Sukabumi and Bekasi districts were selected because they are the centers of important service, garment and automotive industries in West Java as well as in Indonesia. Service and industrial sectors are selected because they are labour intensive and where minimum wage has become a major issue. Another consideration in selecting these three city/districts is because they are the basis of labour movements and the centers of labour actions demanding for minimum wage increase³

In order to verify initial findings of the study, *Focus Group Discussions* with the central and regional government officials, trade unions and employers association.

Primary data collection was carried out from June to July 2015 by contacting sources of information and making appointments for interviews. "Snowball" technique was applied in contacting them in addition to recommendations from AKATIGA's contacts. Some sources of information were interviewed in several occasions. These interviewed sources *that is 42 people in total are (see Annex A for detailed category of the interviewees):*

³ See also Anarita and Setia 2003, *Dewan Upah:Strategiskah sebagai Media Perjuangan Buruh?* Working Paper no 12, Bandung: AKATIGA

1. Government officials at the central level from the Coordinating Ministry for Economic Affairs and the National Development Planning Board (Bappenas), trade union representatives and employers' representatives in the National Wage Council and the Tripartite Cooperative Body (LKS Tripartit) at the national and regional levels.
2. The Heads of local manpower offices in selected city/districts
3. Members of the City/District Wage Council from government officials, employer association and trade union representatives and academia
4. Management and members of employers' association at province and district/city levels
5. Management and members of trade unions at province, city/district and corporate levels
6. Factory managements

The interviews are documented in formatted interview notes, which has been adjusted with interview guideline for easy data process and analysis. In this process, interview data and information were tested using triangulation method and cross checking between sources of information. This interview data is then classified based on interview guideline, which is generated from reseach questions.

Not all target sources of information could be interviewed due to technical and non-technical reasons. Data collection held during fasting month and Lebaran festive holidays affect interview process. Officials at the Ministry of Manpower could not be interviewed due to communication issues. Some employers and management of trade unions could not be interviewed due to inappropriate timing, despite appointments have been actually made. Nevertheless, in overall, most target sources of information could be interviewed and research questions could be answered.

This report is consists of seven sections. After the *first* and *second* sections on rationale and study method, including analysis framework and literature review, *third section* presents employment profile and minimum wage in West Java and three districts/city based on

available statistics at province and district/city levels. *Fourth section* outlines study findings on process and issues pertaining to minimum wages in three districts/city based on regulation on how to determine minimum wage after reform. This section also discusses the roles of three parties involved in minimum wage setting, i.e., the government, employers and workers who are respectively represented by related government agency, trade union and employer association. *Fifth section* outlines collective bargaining process and condition at factory level with regards to wage and minimum wage. *Sixth section* presents analysis on factors that affect the process of determining minimum wage and lastly, *seventh section* contains recommendations on how to improve the institution and process of minimum wage setting.

3. Labour Market, Employment Profile and Minimum Wage in West Java

West Java Province is the center of manufacturing industries e.g., electronic, leather, food processing, textile, furniture and aircraft industries. In addition, this province also has geothermal, oil and gas, and petrochemical industries. As the center of manufacturing industries, 54% of the industries are located in West Java⁴. In the first quarter of 2015, like in previous years, the largest contributor for Gross Regional Domestic Products (PDRB) is processing Industry (43.08%), followed by large retail trading (15.04%), agriculture, forestry and fishery (9.63%) and construction (7.91%)⁵. Contribution of these sectors is consistent with the employment absorption. The Central Bureau of Statistics (CBS)⁶ recorded that in February 2015, three sectors with the highest employment absorption in West Java Province are trading, industrial and agriculture sectors with 25.26 percent, 20.88 percent, and 20.37 percent respectively.

3.1. Employment Profile

Based on the result of national labour survey (Sakernas) in February 2015, the participation level of labour force (TPAK) in West Java is about 66.08 percent, or an increase compared to that of previous year, which was recorded at only 64.36 percent. Total number of labour force in February 2015 is 22,332,813 while total number working people is 20,456,889.

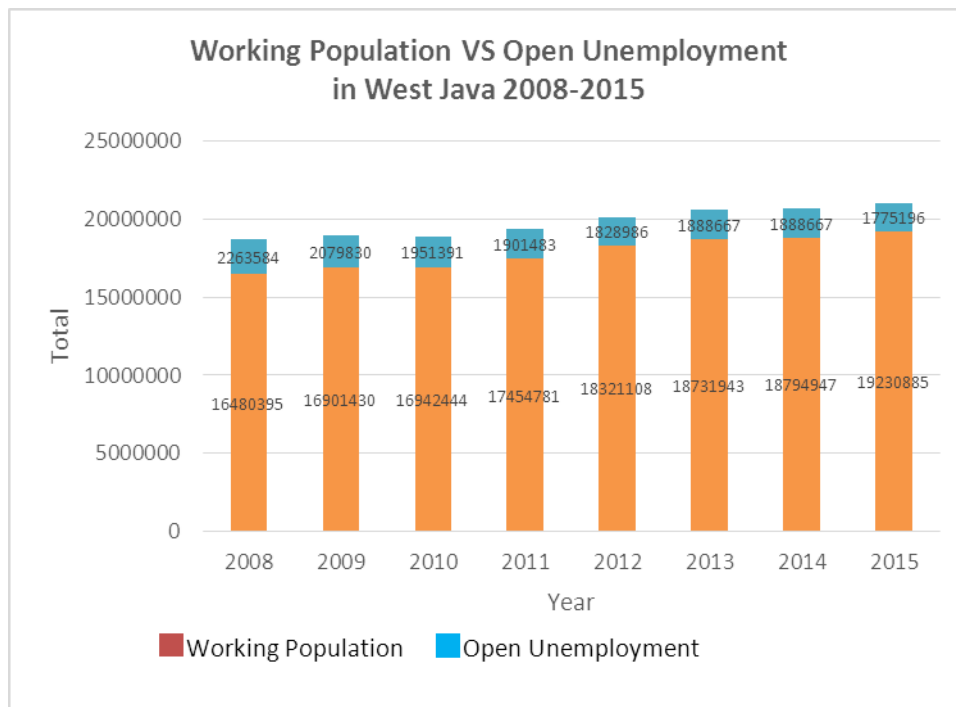
As presented in following table, open unemployment trend in West Java shows a decrease in the past eight years.

⁴ Kompas 18 August 2015

⁵ Official Statistics, West Java Province No. 29/05/32/Th.XVII, 5 May 2015

⁶ Official Statistics, West Java Province No.31/05/32/Th. XVII, 5 May 2015

Table 1. Working Population Vs Open Unemployment In West Java

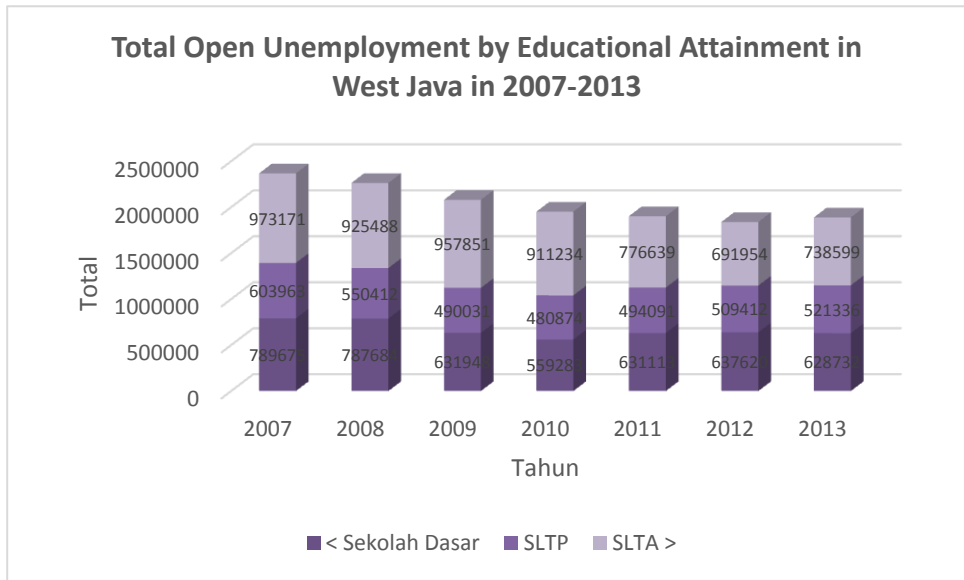


Source: Labour Indicator Statistics, West Java, CBS West Java 2008-2015

Total number open unemployment continued to decrease until 2012. In 2013, it increased but then continued to decrease again until 2015.

Table 2 shows unemployment rate in study areas, in the past eight years, in Bandung City (average 11.28%) and Sukabumi District (average 10.02%) that has the highest unemployment rate compared to Bekasi District (9.28%) and West Java (9.88%). Such condition is in line with open unemployment rate in each region.

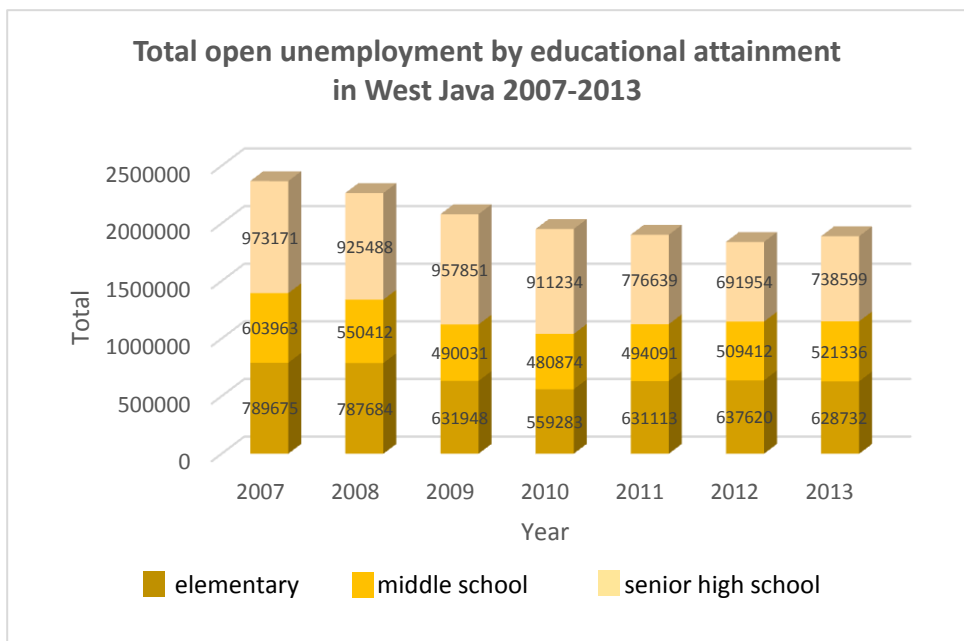
Table 2. Unemployment In West Java, Bandung, Sukabumi, And Bekasi



Source: Labour Indicator Statistics, West Java, CBS West Java 2008-2015

Based on educational attainment in the past seven years, most unemployed in West Java is dominated by those with Senior Highschool (SLTA/and its equivalent) educational background with an average 5.3% per year.

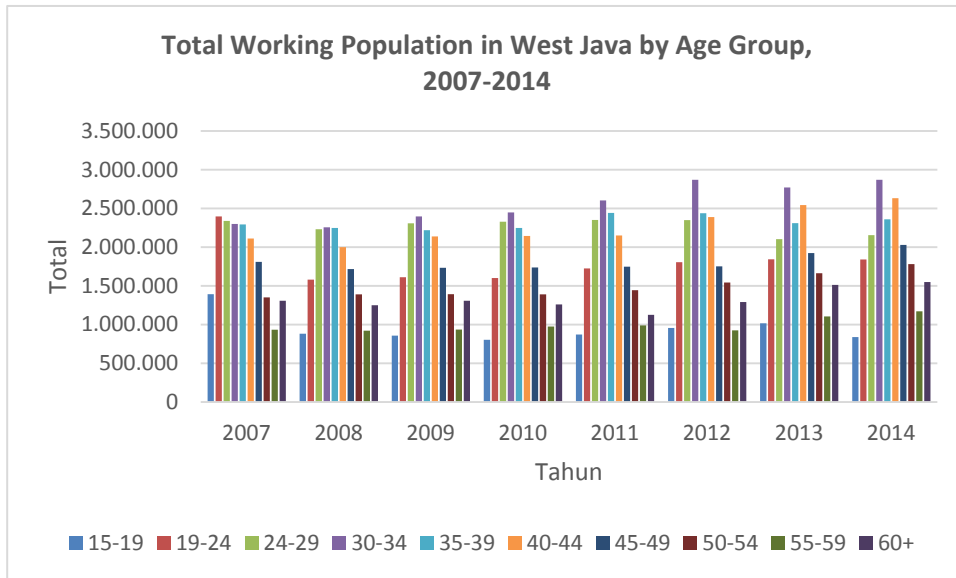
Table 3. Unemployment by Educational Attainment



Source: Labour Indicator Statistics, West Java, CBS West Java 2007-2013

Table 4 shows total working population in West Java by age group

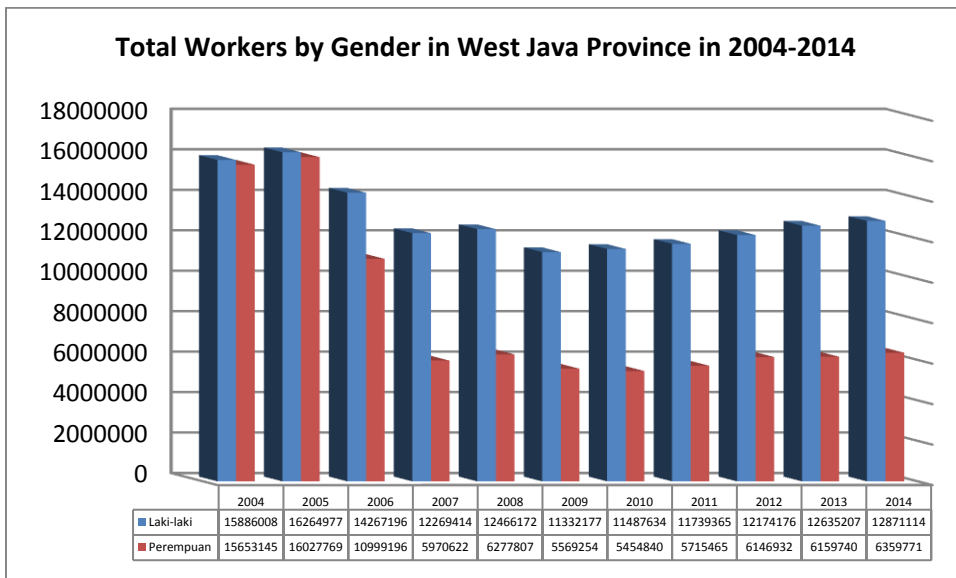
Table 4. Working Population By Age Group



Source: Labour Indicator Statistics, 2008 - 2014 and SUSEDA West Java Province 2004 - 2007

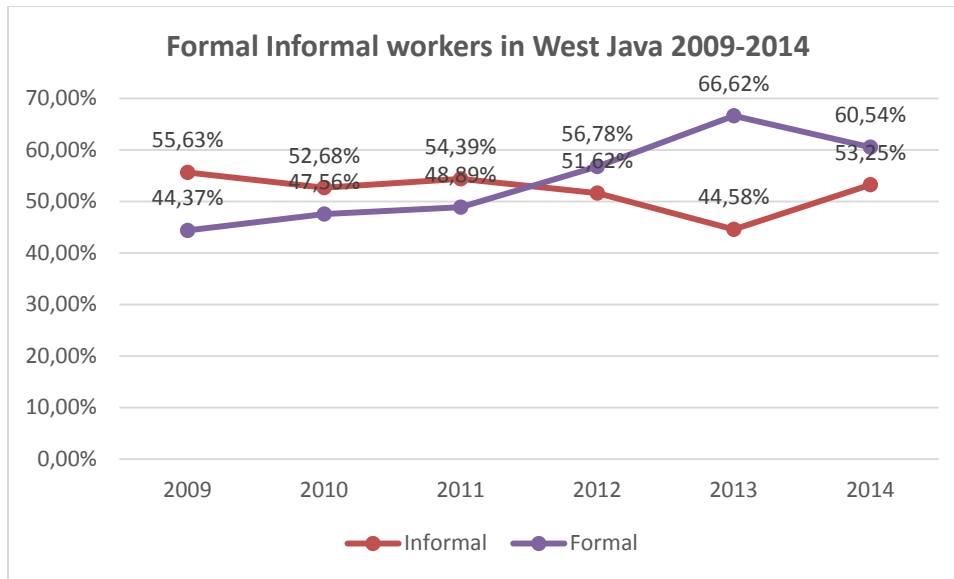
Table 5 shows total working population by sex

Table 5. Workers by Gender



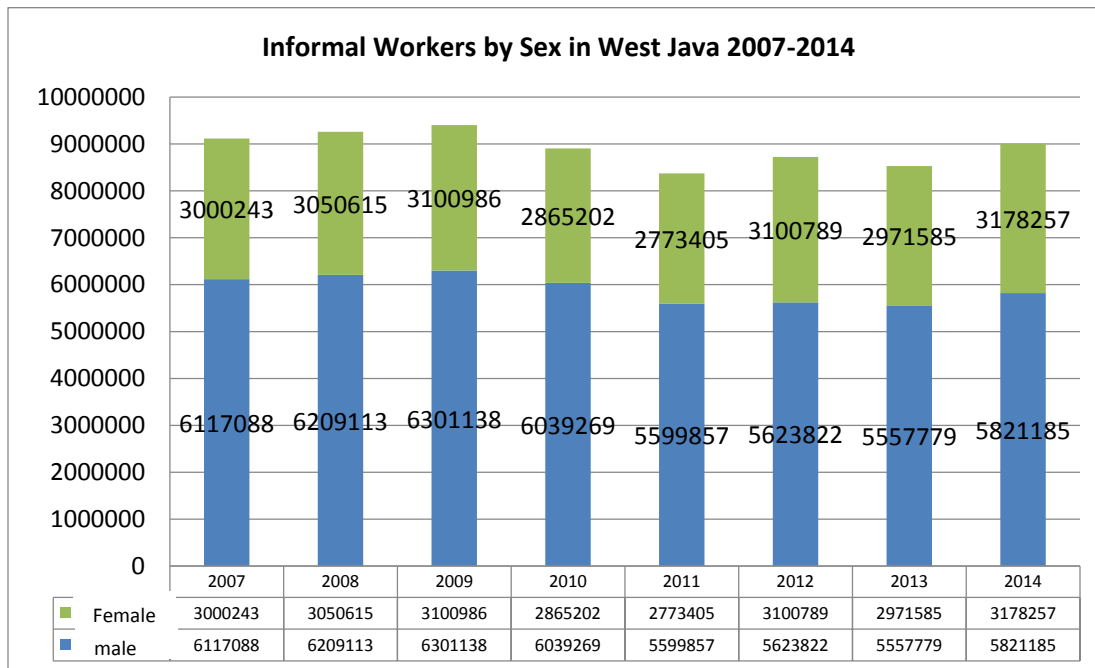
Source: Labour Indicator Statistics, 2008 - 2014 and SUSEDA West Java Province 2004 - 2007

Table 6. Formal – informal workers in West Java 2009-2014



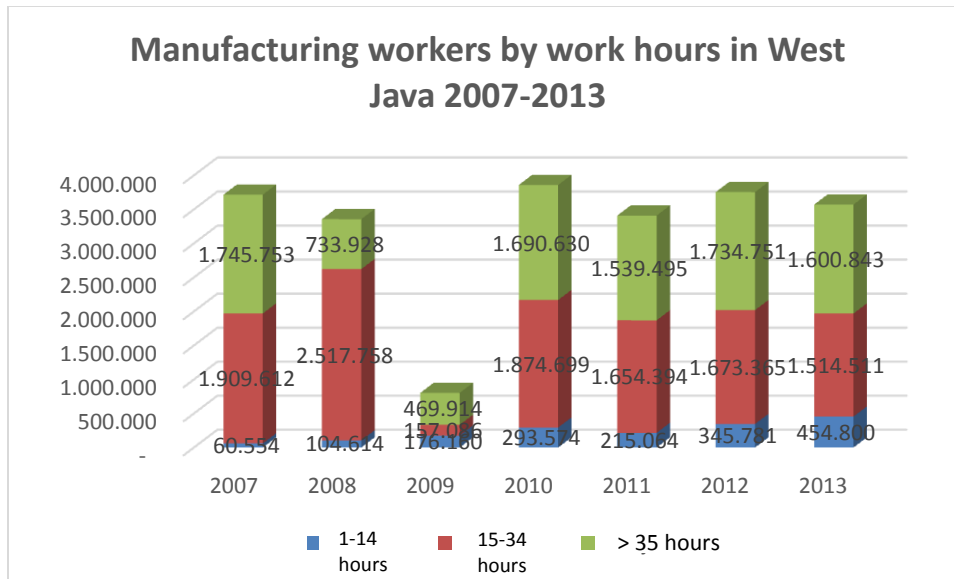
Source: Labour Indicator Statistics West Java

Table 7. Informal Workers by Sex in West Java 2007-2014



Source: Labour Indicator Statistics, West Java

Table 8. Manufacturing workers by work hours in West Java 2007-2013

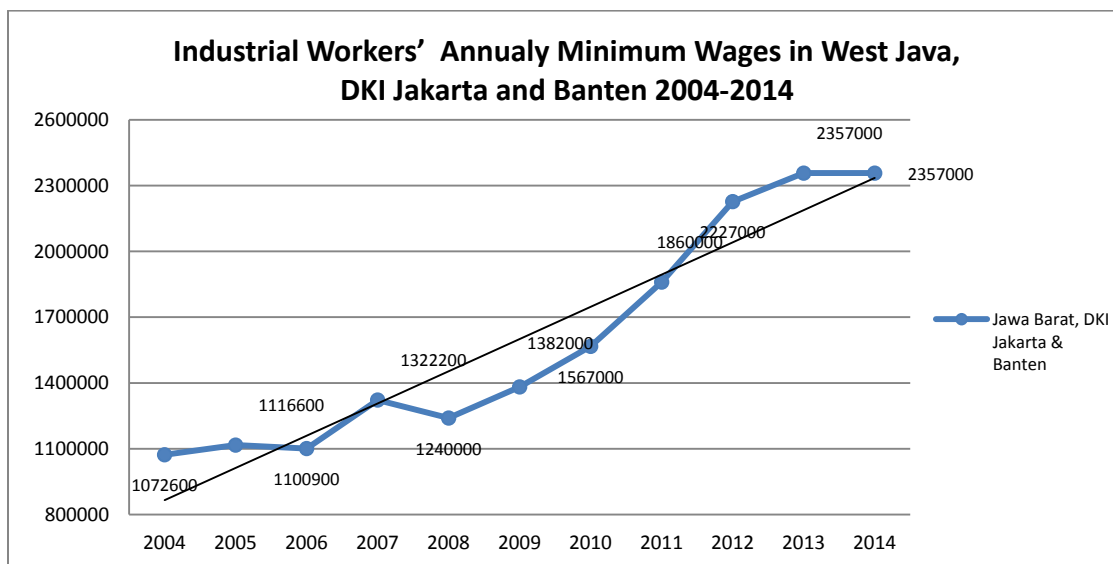


3.2. WAGE IN WEST JAVA

Labour Wage Trends in Industrial Sector

Table 9 shows that the minimum wages of industrial workers in West Java, Banten and DKI Jakarta, tend to increase, except for 2006 and 2008.

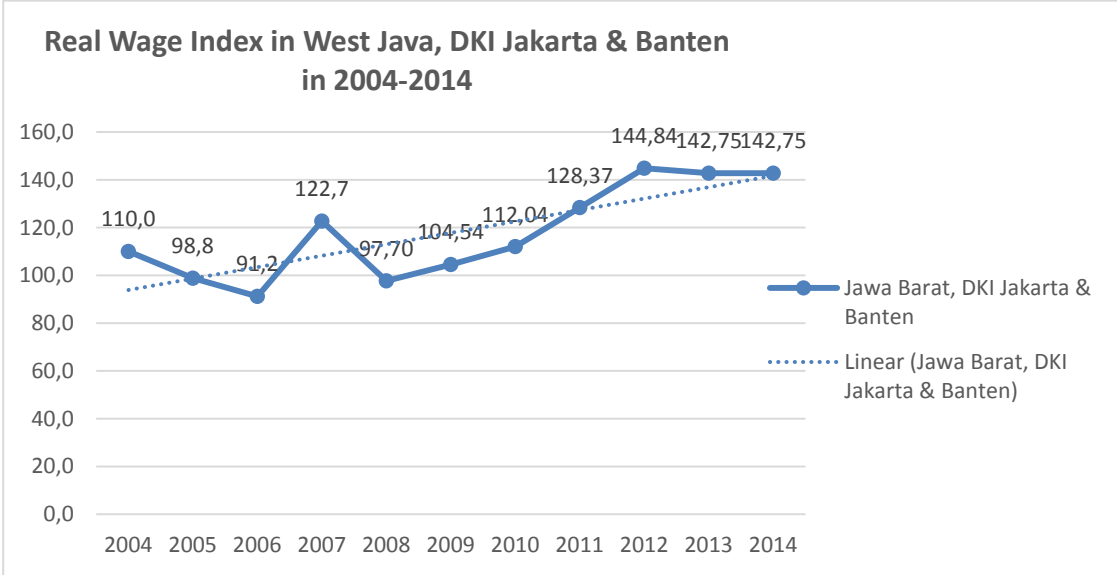
Table 9. Industrial Workers' Annual Minimum Wages in West Java, DKI Jakarta and Banten



Source: CBS West Java 2004-2014

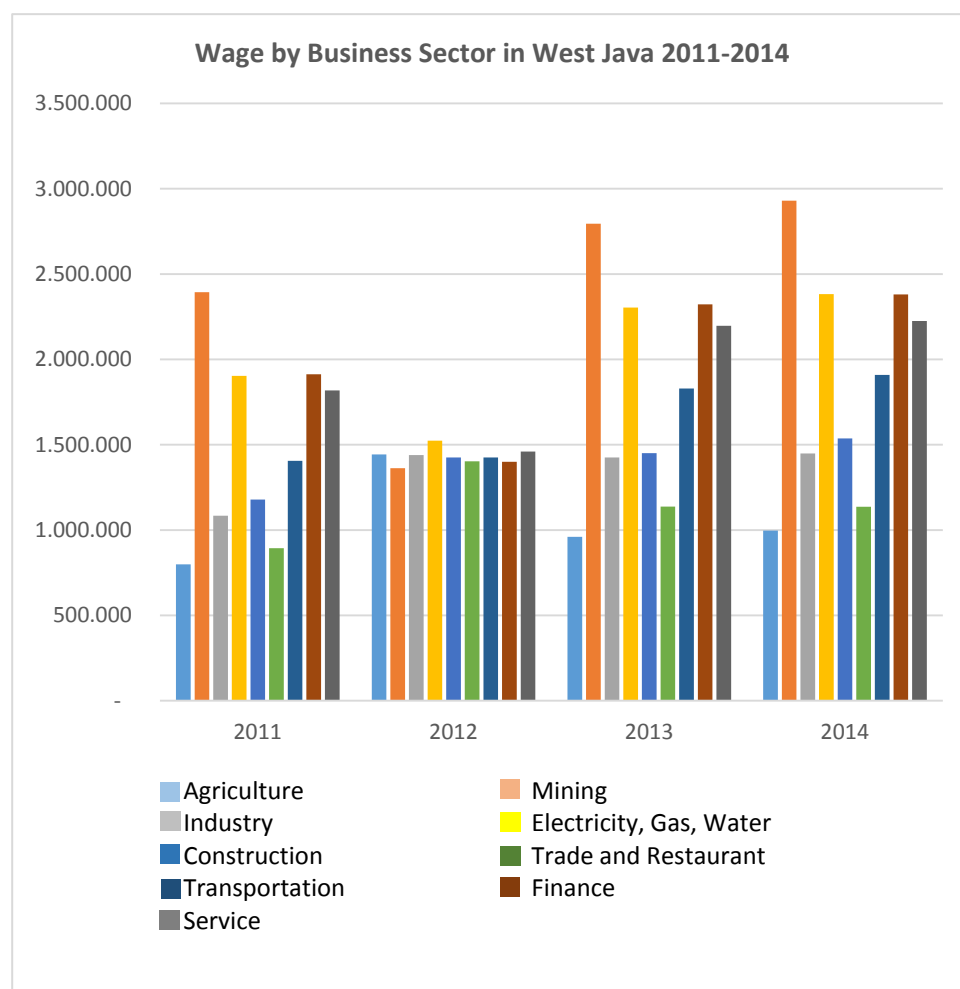
From real wage index viewpoint, the trend is consistent with nominal wage i.e., decreased in 2006, 2008, 2013, and 2014. When we compared it with nominal wage received from 2012-2014, nominal wage increased, but real wage index decreased.

Table 10. Real Wage Index



Source: CBS West Java 2004-2014

Table 11. Wage By Business Sector

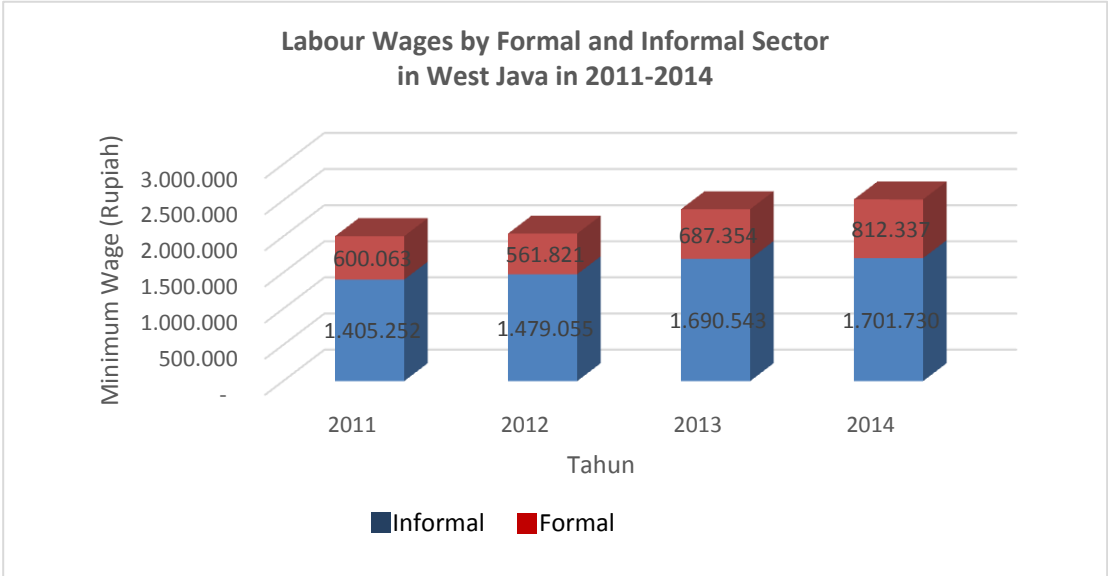


Source: National Labour Survey and CBS, 2011-2014

The highest wages recorded in 2011 are in mining, electricity and financial institution sectors. However in 2012, nearly all sectors have equal wages. While in 2013 and 2014, wages are based on business sector just like in 2012. For industrial sector alone, labour wages are relatively smaller compared to other sectors, the same goes for trading and restaurant sectors.

In West Java, wage difference between formal and informal sectors from 2011 to 2014 is quite significant. Average wage in informal sector is only 41% of that of formal sector.

Table 12. Formal – Informal Workers’ Wages



Source: National Labour Survey and CBS, 2011-2014

Minimum Wage Increase Trends

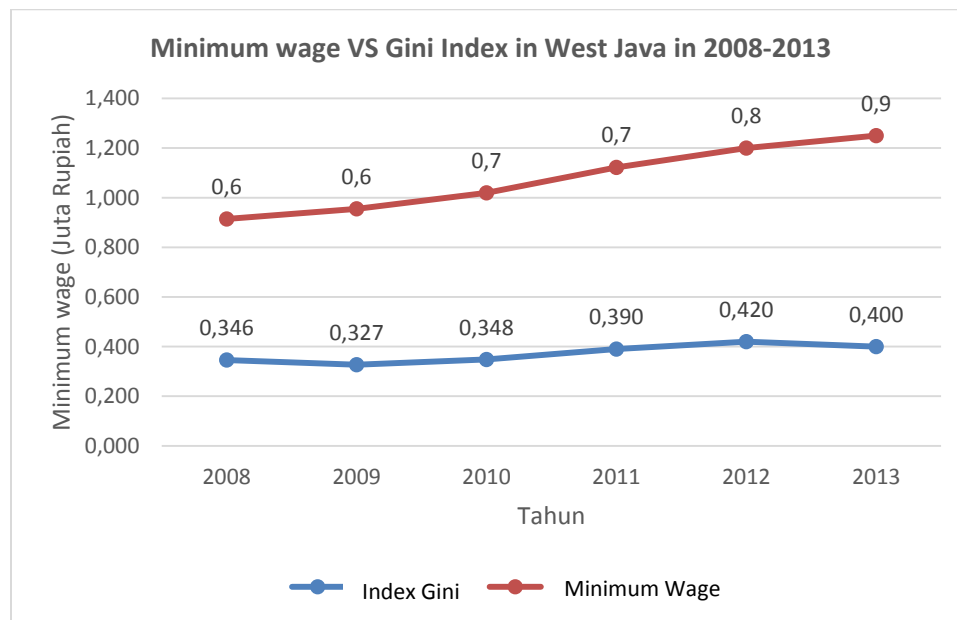
For nine years i.e., from 2004 to 2012, wage increases in West Java are fluctuated. A very high increase was recorded in 2006 but it decreased and then slowly increased in following years. The average minimum wage increase in West Java during nine years period is 9.8%.

Table 13. Minimum Wage Increase In West Java, 2004-2012



Source: CBS Indonesia 2004-2012

Table 14. Minimum Wage And Gini Index In West Java



Source: CBS West Java 2008-2013

4. The Process of Minimum Wage Setting

Three factors affect the process of determining minimum wages i.e., the role of tripartite actors in Wage Councils, the role of regulation on determining KHL and minimum wages and the regional election for local heads.

In determining minimum wages, trade unions play a very active and powerful role that affects the roles of government and employers. At district/city level, the role of regional governments in applying regulation on minimum wage is deemed weak by employers and workers. The government is also deemed to be easy to give up to workers' pressures and demands for higher minimum wages in order to retain their power. On the other hand, the greater number of government officials in the Wage Councils is considered as dominating the process. The employer presents themselves as the party that obey all the rules and regulations in the wage council. With the active role of trade union the process that occurs in the wage councils becomes a tough one for all parties.

Trade unions' greater role also results in dual processes in determining wages i.e., formal process inside and informal process outside Wage Councils. The latter process was carried out by deploying mass, making lobbies and establishing communication among actors in and outside Wage Councils.

Processes and dynamics within Wage Councils are also determined by various regulations concerning minimum wages. Two most prominent and influencing regulations are those pertaining to Wage Council's membership and determination of minimum wages based on the cost of living indicator (KHL). *The vague and unclear formulation of the regulations opens a room for prolonged debate among the tripartite bodies in the council*

Regional election for local heads is an important factor that affect processes inside Wage Councils and escalate conflicts between trade unions and Employers' Association (APINDO) in determining minimum wages. *The study found that the minimum wage is set arbitrarily by district head regardless the council recommendation.*

4. 1. Policy and Regulation on Determining Minimum Wage

In the context of this study, main national regulations that govern the process of determining minimum wages are:

1. Presidential Decree 107 of 2004 concerning Wage Councils, which governs the functions, duties and work mechanism of Wage Councils at the national, provincial and district/city levels. *The Ministry of Employment data shows that there are 229 wage councils in Indonesia.* The wage council consists of the representatives of government's officials, employers' organization, and labour unions/trade unions with 2:1:1 composition, with equal representation where each party has its representative with equal number, depending on the number of labour unions/trade unions registered at the Local Manpower Offices (Anarita & Setia 2003:14). It is in line with the Decision of the Minister of Manpower and Transmigration no 16 of 2001 concerning Labour Unions/Trade Unions Registration Procedure. The Provincial Wage Council shall provide suggestions and considerations to Governor in 1) determining minimum wages at provincial, district/city and sectoral levels, 2) applying provincial wage system and 3) preparing formula in developing the national wage system⁷. The District/City Wage Council shall provide suggestions and consideration to local Regents/Mayors in proposing district/city minimum wage and/or sectoral minimum wage, applying wage system at district/city level and preparing formula in developing the national wage system⁸.
2. Ministerial Regulation no. 03 of 2005 concerning Procedure to Propose Members of the National Wage Council
3. Regulation of the Minister of Manpower and Transmigration No 13 of 2012 concerning Components and Fulfillment of the *Decent Living Needs* (KHL)⁹
4. Regulation of the Minister of Manpower and Transmigration no. 07 of 2013 concerning Minimum Wages¹⁰, which specifies that Governors shall have the

⁷ Presidential Decree no 107 of 2004 concerning Wage Council, Article 21

⁸ Presidential Decree no 107 of 2004 concerning Wage Council, Article 38

⁹ Replacing regulation of the Minister of Manpower and Transmigration No. 17 of 2005 concerning Components and Fulfillment of Cost of Living Indicator (KHL)

authority to determine the provincial minimum wages (UMP) and district minimum wages (UMK), that in determining provincial and district minimum wages, the Governors should consider recommendations given by Provincial Wage Councils, the Regents/Mayors should consider those given by District/City Wage Councils, and about the implementation and monitoring the application of minimum wage.

4.2. Minimum Wage Setting: Process, Dynamics and Roles of Actors

4.2.1. Roles of Actors

As stipulated in Presidential Decree no. 107 of 2004, Wage Councils shall be established as tripartite bodies at the national, province and district/city levels, of which members consist of officials from the government, employers' organization, trade unions, universities, and experts led by a government official with 2 deputies from trade union and employer association's officials. Members of the National Wage Council shall be appointed by the President while members of Wage Councils at District/City level shall be appointed by local Regents/Mayors.

The National Wage Council shall provide suggestions and considerations to the central government in formulating wage policy and developing the national wage system *that covers wage policy, wage protection and minimum wage setting*. In its development, the National Wage Council could not function as it should be. It is because the central government does not use the Council to develop wage and minimum wage policies. For example, when Presidential Instruction no 9 of 2013 concerning Minimum Wage Setting Policy in order to Maintain Business and Improve Workers' Welfare was issued, the National Wage Council was not involved. *Union representatives in the council complained that the central government does not take the council into account when it comes to wider labour policy*. Another reason is that the Council's agenda is more focused on minimum

¹⁰ Revoking Regulation of the Minister of Manpower no. PER-01/MEN/1999 concerning Minimum Wage, which has been amended by Regulation of the Minister of Manpower and Transmigration No. KEP.226/MEN/2000 concerning Revisions to Articles 1, 3, 4, 8, 11, 20, and 21 of Regulation of the Minister of Manpower no. PER-01/MEN/1999 concerning Minimum Wage,

wage that its basic function is neglected. In addition, a policy can also issued due to workers' protests such as on the revision of KHL components with the issuance of Regulation of the Minister of Manpower and Transmigration no 13 of 2012. *The regulation was issued after an intense workers rally in Jakarta at the Ministry of Labour involving hundreds of union members lead by Bekasi-based metal workers union.*

Wage councils at province/district/city levels shall provide suggestions and considerations to the central/province/district/city governments in determining minimum wages at province/district/city levels and prepare materials to formulate the national policy on wage system. In fact, district/city wage councils are central agencies in determining minimum wages and formulate recommendations on minimum wage figures every year. These figures are formulated based on the cost of living indicator (KHL) and it is the district/city wage council's main duty to determine KHL through market researches as stipulated in the regulation of Minister of Manpower and Transmigration no 13 of 2012 concerning Components and Fulfillment of the Cost of Living Indicator and its attachment.

Based on Ministerial Regulation no 13 of 2012 concerning Minimum Wages, District/City Wage Councils shall perform its duties every year. Normatively, Wage Councils in three study areas perform their activities based on regulations. There are at least eight phases in dealing with processes within Wage Councils, they are:

1. Debriefing members of Wage Councils
2. Approving hearing procedures and establishing of work units
3. Negotiating parameters of KHL components
4. Conducting surveys
5. Processing survey data to determine KHL
6. Calculating district/city minimum wages based on KHL
7. Determining district/city minimum wages
8. Reporting its results to regional heads

In every phase, trade unions play active role in dealing with processes in and outside the Councils. Inside the Councils, trade unions provide ideas and suggestions from 3rd to 7th phases. It is as stated by a government official, '*...labour unions have a stronger motivation*

to increase KHL as high as possible'. In Bekasi, labour unions proposed what they called 'upah kelompok' or literally group wage where unions classify the industrial sector based on the level of technology. *There are three group wage i.e: Group 1 (metal, automotive, chemical); group 2 (electronics, wood) and group 3 (garments)*. Group 1 have the highest minimum wage. The proposal was then accommodated by local Wage Council. Only Bekasi has the subsector minimum wage and it distinguishes minimum wage in Bekasi with those of other regions. Outside the Council building, trade union leaders intervened the Councils by mobilize their members to watch closely the Council's hearings. *It is a common scene every year in the three study sites that tens or hundreds of union members flock around the building during the wage council sessions in determining minimum wage*. Such deployment of mass is a new phenomenon since decentralized process of determining minimum wages was introduced in 2000 through the Regulation of the Minister of of Manpower no 226 of 2000. Government officials and employers' representatives considered such as a pressure against the Councils so as to set KHL figures and District/City minimum wages as intended by labour unions. To avoid such pressure, the Council's hearings in Sukabumi and Bandung were held outside the towns. For labour unions, such deployment was not only aimed at giving pressure to Councils but also as 'a forum for education for the members' as well as an effort at creating more transparent hearings. It is as stated by labour unions' representative:

'(We) invited our members to (monitor) the process of determining wages not only to give pressure but to control (our) representatives who sit in the Wage Councils- in anticipation of receiving bribe from the employer and thus betray the union's demand - and it is also an education means' so that (they) know about the process of determining minimum wages after a survey on KHL was carried out. Such mass pressure was carried out because 'in most cases, the government does not side with workers. As an example, the government usually claimed that workers' demand is too high but they never said employers are too demanding'

On the other hand, the Employers' Association (APINDO) feels aggrieved due to pressure from government's officials to fulfill trade unions' demands so as to reduce mass actions and to defend political interests of local head candidates who intervene the agreement reached by trade unions and employers inside Wage Councils, as occurred in Sukabumi and Bekasi¹¹.

¹¹ FGD with employers

Mass mobilization by trade unions in three research areas are action taken outside the Councils. Other actions taken include intensive consultation between labour unions' and employers' representatives with leaders of each organizations in determining proper KHL figures. In addition, local heads were also lobbied in order to get their desired minimum wages at city/district levels in these three research areas. Labour unions' actions outside Wage Councils are deemed effective as their demand was fulfilled. Following box describes what happened in Sukabumi:

Box1: Processes outside the District Wage Council

Sukabumi:Textile, Apparel, and Leather Labour Union (SPTSK), *which is committed to stay out of Wage Council* as a protest because the election of union representatives were against the regulation, managed to make a change outside the system in 2013. They did not change figures but changed the value of one KHL component i.e., room rent, which eventually affected the district minimum wage. In 2013, some 45,000 workers participated in a demonstration outside city hall, which paralyzed the city. In 2014,new strategies were applied in determining minimum wage for 2015by appoarching local leaders(MUSPIDA),although the latter are actually outside the Wage Council. They demanded Rp. 2 million or higher than Wage Council's recommendation for district minimum wage of Rp. 1,750,000 andthreatened to launch a three days strike on 13th, 17th and 18th of November 2014. *But since in the 19th of November, there was a high-profile Police officers meeting, SPTSK made a test case by threatening to deploy mass on this very date. Such manouvre was proven effective because without having to deploy crowds, the Bupati (the Regent) eventually agreed to increase the minimum wage to Rp. 1,940,000 on 12th of November 2014, which is higher than minimum wage set by Wage Council. From these series of events, "we may conclude that actions outside the system are more effective". (Trade union representative in Sukabumi district).*

Bekasi:The process of determining minimum wage is Bekasi district is always followed with deployment of thousands of workers outside local government office.In every negotiation in local Wage Council,the Indonesian Federation for Metal Labour Unions (FSPMI) deployed its members to directly watch the wage formulating process. It has been a normal practice since 2006 and it reached its peak performance in 2012. Mass pressureis needed because the government usually does not side with workers. All-Indonesia Workers Union (SPSI) invited its members to attend the Council's meetings (Trade union's representative in Bekasi district)

Employers, particularly those in Sukabumi district often complained about actions made outside Wage Council because it considered as disregard processes being made by the Council. The process of determining minimum wage in Sukabumi district in the past three years produces figure, which has been set even before hearing is held in Wage Council

because such figure was agreed upon by regional head and trade unions, who are outside Wage Council¹²

Employers and unions alike share similar view on the government's role in Wage Council. In Sukabumi and Bandung for instance, the greater number of government representatives considered as dominating the Council and according to employers, their stance is partial because they tend to side with workers. The government's representatives have no firm action against labour unions' pressure and tend to ask employers to fulfill workers' demand instead. *'Local Office has no power and is under labour unions' pressure and labour unions can simply urge the government to replace its officials who do not side with workers' (Employers' representatives in Bandung and Sukabumi).*

According to labour unions, regional governments have no firm action when dealing with violation of agreement reached within Wage Council and they easily give up to labour actions. *'Figure set at Wage Council may change when (workers) take on streets and it happens – it is about the government's firm stance – labour unions (on the other hand) are happy (with what they have achieved). Law enforcement is on the government's hand – when (the figure) is right, (the government) should respect it. But in reality, the government is very weak because they also aware there are weaknesses in the processes and (poor enactment of) regulation on minimum wage'* (Trade unions' representatives in Bekasi and Sukabumi¹³). In addition, trade unions believe that regional governments *'use minimum wage as a mean to stay in power'* and therefore, it opens a room for negotiations with labour unions to gain workers' supports by fulfilling workers' demand for a higher minimum wage¹⁴.

¹² It is confirmed in an FGD with labour/trade unions and employers

¹³ It is confirmed in an FGD with employers

¹⁴ It is confirmed in an FGD dengan employers

Box 2. Minimum wage and regional elections

In 2010, a labour coalition in Sukabumi entered into a political contract with a regent candidate that includes an agreement that every year, minimum wage must be the same as KHL and freedom of association must be guaranteed. With this contract, this coalition participated in campaigns for this candidate who was then elected. This political contract was fulfilled and minimum wage in Sukabumi district since 2011, significantly increased compared to previous years i.e., from 6.5% to 26.5%. In following years, except for 2012, minimum wage increase was between 24% to 30%. In 2014, the situation was conducive because political power was used to negotiate wages “while cooking” at a secretariate of a labour union between trade union leader, the Regent and Chairman of Local House of Representatives (DPRD) (Trade union’s representative).

When all parties comply with regulations, norms and laws, and regulation on Wage Council, there should not be any deadlock or problem. For example, when a survey has found the figure for KHL and it is decided that minimum wage would be below or higher than KHL by certain percentage and it is agreed upon, then it should be it. The problem is there are certain parties, particularly one trade union who obtrudes their will outside the law. I don’t know if they collaborate with local head for certain political interests or not, but in the past three years, Regent set minimum wage using his own figure without considering Wage Council’s recommendation. In 2014, the Governor even revised regulation on district minimum wage by increasing it from Rp 1.940 million to Rp 1.969 juta due to the fuel price increase for Sukabumi without considering Wage Council’s recommendation (Employers’ representative).

Box 2 shows the general pattern of political interference in minimum wage setting in particular in industrial areas where union leaders intensively lobby and put pressure to the Regent to demand high increase of minimum wage within or outside the wage council. The situation reflects the pragmatism of the parties concerned in order to yield their respective interests. More often than not the attitude put aside the regulations and create a situation where ‘everybody violates the rules including the rule maker’

Within this situation, employers have a limited role and feel like being victimized. In dealing with workers’ actions, the government suggest employers to fulfill workers’ demands. From employers’ viewpoint, all formal processes have been made at Wage Council but in determining minimum wage, KHL figure was not used as a reference and it highly increases minimum wage, exceeding KHL. The principle to determine minimum wage is not clear, ‘.....depending on pressure’.

In this case, employers at the national, province and district/city levels consider that the government fails to perform ministerial regulation on how to calculate KHL because the

government is 'afraid of demonstrations and for political interests, the government wishes to retain power¹⁵. Employers said that in performing their roles in Wage Council, they refer to all existing regulations but labour/trade unions often breach regulations and the government did nothing. Employers' objections on decision made outside Wage Council left unheeded that they are sceptical about the role of Wage Council and some even wish this Council should be dissolved because its works are not respected and it will only waste state budget¹⁶. The process of determining minimum wage in Wage Council in 2014 was considered a breach of regulation that employers' representatives at the Council in Sukabumi 'walked-out' and refused to continue negotiations.

4.2.2. Composition and selection of Wage Council's Members

Based on Presidential Decree no. 107 of 2004, members of District/City Wage Council are Indonesian citizens, at least Diploma-3 (D-3) holders, and have experiences or knowledge about wage and human resource development. In reality, however, trade unions and employers' representatives do not have educational attainment, knowledge or experiences as required. Each party sent their representatives based on condition in their respective organization without proper criteria. Trade unions' representatives, for examples, were selected based on sector, experiences, activities and term of service

Table 15 shows the actual composition of the three district councils

Table 15 Wage Councils Composition

Bandung City	Sukabumi District	Bekasi District
25 people : 12 government officials, 6 employers, 6 unions, 1 academician	33 people: 18 government officials, 8 employers, 8 unions, 1 academician	24 people: 12 government officers, 6 employers, 6 unions

Source: Field data

Selection of trade unions' representatives to sit in the Wage Council often does not comply with existing regulation. Regulation on selection of labour unions' representatives based on majority members and only for unions registered at the local manpower office, as specified

¹⁵ Confirmed in FGD with government 11 August 2015

¹⁶ It is confirmed in FGD with employers.

in Ministerial Regulation no 201 of 2001 concerning Representation in Industrial Relations Agencies is neglected. Regulation on total number of members to determine quota is not fulfilled and they only accommodate labour unions' representatives who join alliance – because they do not fulfill condition on number of members – to sit in Wage Council is carried out by the government so that *'.....they will not put up any demonstration or sweeping on streets (Trade unions' representative)*.

From employers' side, it is difficult to fulfill educational criteria that they sent representatives to sit in Wage Council based on existing human resource available. Those deployed are not the best because the latter are very busy. As a result, employers have a weak position at the Council.

In addition, representatives of each party do not have full mandate, particularly from employers and trade unions that they cannot make decision independently as they have to firstly discuss it with leaders of each organization. Similarly, during a negotiation, they have to consult with organization leaders before making any decision. In other words, decision is not made by representatives at the Council but by organization leaders. Government's representatives consider it as an 'intervention from labour union executives at central level'.

Regional governments, in this case local manpower offices, have different opinions about greater number of government representatives at the Council. An official of local manpower office in Sukabumi district considers that greater number of government representative is inappropriate and will only make the government a target of workers' protests. A local official in Sukabumi said: *"Presidential Decree no. 107 stated that members of Wage Council should be 2:1:1, where 2 members are government's representatives, 1 employers' representative and 1 workers' representative. But it appears that the government is the executor and it is the government's domain. When I was the Chairman of Wage Council I said there should be only three government representatives, together with CBS and employers and labour unions should have more (representatives). In my opinion when they are solid, they should given the opportunity to negotiate, and we should only approve their agreement. At present the government's representatives are more dominant. 2:1:1 composition is*

unfavourable for the government. It should be changed because there are many demonstrations against the government. A different opinion was given by officials of local manpower offices in Bandung and Bekasi who said when this composition is changed to 1:2:2 then Wage Council will be full with debates. They consider 2:1:1 composition is proper because it is actually the government's authority to determine minimum wage.

4.2.3. KHL Survey

The most problematic issue in determining minimum wage is the survey on the cost of living need (KHL). Legal basis to conduct this survey is Regulation of Minister of Manpower no 13 of 2012 concerning Components and Fulfillment of Cost of Living Need (KHL). This regulation grants authority to provincial and district/city Wage Council to 1) give suggestions and considerations to regional heads in proposing minimum wage, applying wage system and preparing formula to develop the national waging system¹⁷; 2) agree upon quality and specification of KHL components; 3) conduct a survey on KHL component prices. This ministerial regulation has an attachment about KHL components and implementation procedure to conduct a market research.

Each party has different interests in this survey: workers wish to set as high price as possible but employers wish otherwise. As a result, this survey has unobjective instruments, mechanisms and methods because labour unions and employers would strive to get their desired values starting from negotiation on parameter for KHL components up to survey activity. An official of local office said , *'Tricks are used because employers want cheap price but workers want high price. And about survey location, although it has been set but they change it. Besides, market price in the morning is different than that of afternoon one, so sometimes they use tricks here, and it often causes disputes'*. Labour unions' representatives openly admit this tricks, set up f strategies to get the price they want. They developed various ways to get the highest price and on the other hand, employers developed different ways to get the lowest price for KHL components. When conducting the survey, trade unions' representatives in Bekasi approached and made a deal with market officials to get a high product price. Trade unions in Sukabumi have different

¹⁷ The national waging system has not been developed so far by regional wage councils; the central government in fact plans to prepare a regulation on waging system without consulting regional governments

opinions about the survey because it is not in accordance with the price expected by a labour union that this survey had to be repeated but no agreement is reached about KHL figure. In Bandung, Apindo's representatives avoid any survey before Ramadhan fasting month because prices are not normal during Ramadhan that they proposed an earlier schedule but it triggered protests from trade unions, claiming that the proposed schedule is against the regulation. These distorted price survey makes the objectivity and validity of survey result questionable.

As a result, counter or independent surveys were carried out by three parties, separated from the one jointly carried by them at the Wage Council. They use survey instruments as determined by the Ministry of Manpower and their results were used as references or comparative data in discussing survey result carried out by Wage Council. These counter surveys indicate their distrust over the Council.

In processing survey results, KHL value often causes debates. In discussing KHL value, their debates are mostly about electricity, water, housing, and transportation expenses because these four items considered as significantly increase KHL value.

A government representative said Wage Council's authority to decide quality and specification of each KHL component causes uncertainty and prolonged debates at the Council.

4.2.4. Determining minimum wage

When KHL value has been agreed upon, another issue to handle is determining minimum wage. Problem arises when there is no clear formula on how to determine minimum wage increase based on KHL value. As a result, each party, particularly trade unions and employer association use different formula to be discussed and this discussion takes a long time because of different reference. As a result, every district/city and tripartite has its own formula which cannot be used as a reference to determine minimum wage for following year because every parameter of product quality in KHL components must be negotiated.

A CBS representative said it is important to have a standard formula in determining minimum wage. She also said that formula currently applied is not the best because it uses different economic indicators in inappropriate ways. For example the relevance in using the Economic Growth Rate (LPE) to see regional competitiveness in determining minimum wage for instance, is not clear.

Members of Wage Council do not have proper capacity to conduct survey and statistical methods and therefore the survey and its result is questionable in its validity. This technical issue makes it difficult to reach any agreement and as a result, no value is set and *deadlock* occurs and voting is carried out. This deadlock means submitting two or three different figures to local regent/mayor. When time permits, the regent/mayor will return these figures to Wage Council to decide one figure but when time does not permit, they will leave these figures to Governor to decide.

5. Collective bargaining at company level

Collective bargaining exist in some of the companies' surveyed while some others do not. The existence of collective bargaining is determined by the unions demand to the management to negotiate and the management's attitude towards the unions. Normatively all company managements accepts union and collective bargaining. Communication between management and unions are good. Some companies carry out monthly meeting with union leaders and some unions have their regular meeting with their members. The regular meeting is a medium of communication between union leaders and members, to gather inputs for collective bargaining. Five out of six companies implement collective bargaining and owned CBA. Table ... shows the profile of collective- bargaining related information.

Table Profile of Company and Collective Baragining

<i>Company & Sector</i>	<i>Ownership and market orientation</i>	<i>Year of company establishment</i>	<i>Number of workers</i>	<i>Union membership/ Density</i>	<i>Year of union establishment</i>	<i>Collective Bargaining Agreement</i>
<i>EI/Auto motive</i>	<i>Foreign -export</i>	<i>1995</i>	<i>2200</i>	<i>1009/45%</i>	<i>2004</i>	<i>Available</i>
<i>YK/Auto motive</i>	<i>Foreign -export</i>	<i>1996</i>	<i>1500</i>	<i>1200/80%</i>	<i>2003</i>	<i>Available</i>
<i>PA/Garments</i>	<i>Foreign -export</i>	<i>2011</i>	<i>17000</i>	<i>13311/78%</i>	<i>2011</i>	<i>Available</i>
<i>MT/Garments</i>	<i>Foreign -export</i>	<i>2006</i>	<i>3300</i>	<i>NA</i>	<i>2013</i>	<i>NA</i>
<i>SH/Hotel</i>	<i>Foreign</i>	<i>1871</i>	<i>185</i>	<i>185/100%</i>	<i>2000</i>	<i>Available</i>
<i>HI/Hotel</i>	<i>Foreign</i>	<i>1997</i>	<i>187</i>	<i>106/56%</i>	<i>2013</i>	<i>Available</i>

Source: Fieldwork

Trade unions in this study are affiliated with the largest unions in Indonesia. Union members are generally young in the age bracet of 20-40 years, the gender composition of the members proportionate to the gender composition of the workers in companies with an average education equivalent to senior high.

In general the issues incorporated in Collective Bargaining Agreement at company level are: company regulations, wage increase, wage structure, bonus and allowances, overtime pay, employment status, appointment of contract workers into permanent workers.

To participate in a collective bargaining, unions applied following procedure: verification of members, selection of a team of negotiators, and organize training with the assistance of Branch Leadership Council (DPC).

Box 3 : Collective Bargaining Issues at Company Level

PT YK applies automotive sectoral minimum wage for all its permanent and contract workers. 800 out of 1,200 workers are contract workers. Permanent workers, who have been working for more than one year, shall be entitled for sectoral minimum wage plus individual performance and positional allowance of which amount is about two to four percent. This additional amount is firstly negotiated by labour union and the management by considering the company's affordability. Beside such difference from sectoral minimum wage, workers also receive bonus and THR. These bonus and THR were given every year. THR is equal with one month basic salary. Bonus is paid every year-end while THR is paid before Lebaran festive. In addition, workers also receive overtime pay, which is calculated based on following formula $1/173 \times \text{basic salary} + (\text{transportation} + \text{meal allowance} + \text{workdays}) + \text{incentive}$.

There is the impression that collective bargaining at the company level is less a priority compare to that at the wage council and unions are more enthusiastic and knowledgeable in talking about the latter. Another preliminary observation is that collective bargaining at company level tend to become a routine and rarely deal with issues beyond what is in the Employment Law. However the observation need to be verified with a more detailed survey on the nature and dynamics of collective bargaining at company level.

6. Analysis

Trade unions' intensified activities and regional autonomy are interrelated dimensions in the process of determining minimum wage. In its implementation, regulation on how to determine minimum wage directly affects the role and function of district/city wage council and determines the process. In addition, relations between the central and regional governments in this process should not be neglected.

Regulation on how to determine minimum wage was actually not clearly formulated hence it is difficult to apply and it opens various interpretations depending on respective interest. These free interpretations result in a prolonged, exhausting and ineffective process due to workers and employers different interests in determining minimum wage: workers wish to have as high minimum wage as possible but employers wish otherwise. This ineffective and prolonged process is also due to political dimension of regional autonomy where local head (candidates) consider minimum wage as a strategic issue to get as many voters as possible. Trade unions see this as an opportunity to determine their expected minimum

wage but on the other hand, employers consider this as an effort to neglect the role of Wage Council.

Regulation on minimum wage prepared by central government was criticized by regional governments, employers and workers. Regional governments consider minimum wage regulation at the national level was issued due to pressure. Workers and employers also have similar perception. However, it favours workers because they can use the power of their members as a pressing tool and in this situation, regional governments and employers are the injured parties. Employers consider minimum wage increase, which is much higher than what has been calculated by Wage Council, sometimes up to 30% above KHL, as a violation of government regulation, in this case the Minister of Manpower but so far no action has been taken against such violation.

This missing action by the government creates a perception that the government is weak and has no firm stance. It is apparent from the government's bow to workers' demand that use mass pressure to get what they want.

Survey on KHL price, as a basis to determine minimum wage, technically has many substantial implications. Guidance provided by the government on how to conduct such survey is very loose and may create many interpretations. Application of regulation on KHL survey in fact result in prolonged debates and disputes. As a result, it encourages independent surveys that consider workers and employers' ambiguous stances. On one hand, KHL survey was carried out based on existing regulation but on the other hand, all parties carry out their own surveys. These counter surveys indicate their distrust over the Wage Council's role and distrust among the Wage Council's three representatives.

Regulation and its implementation procedure on how to determine KHL are available but no implementation procedure on how to determine minimum wage increase. Ministerial regulation on minimum wage and KHL regulation do not provide any direction on how to convert KHL figures into a minimum wage. As a result, it creates a prolonged debates without any clear reference and a very high increase.

All these situations mostly affected by trade unions' greater role inside Wage Council and deployment of members outside the Council by putting up demonstrations and solidarity actions during negotiation process inside the Council. These actions are proven to be effective in all research areas and it will encourage labour unions to use similar actions. On the other hand, communal leaders or regional head candidates consider it as an opportunity to win regional election by using minimum wage to collaborate with trade unions. This type of collaboration may not always bring victory for regional heads and labour unions but success story behind this effort is deemed strategic for both parties.

7.Recommendations for Remedial Strategy and Actions

In determining minimum wage nowadays, institutional, regulation, technical and political aspects affect its dynamics. These four aspects work hand in hand in establishing the process of determining minimum wage. This study recommends remedial actions to be considered

1. Review the Ministerial Regulation no 13 of 2012 concerning the Authority of Wage Council in conducting Survey on KHL component prices. The objectivity and validity of current survey, as identified in this study, remain questionable. Such survey, therefore, should be delegated to CBS so as to produce a valid and objective result
2. Establish a standard formula to convert KHL figure into a minimum wage, as an objective reference.
3. Strengthening the importance of and skill in collective bargaining at company level as the forefront of union existence

In addition, it is also necessary to evaluate the preparation of national regulations so that they can be adjusted with local conditions and situations in regions where such policies would be executed. Consultation with regional level is very important so that such regulations can be applied consistently. Therefore, in preparing a regulation, it is important for the central government to consider regional autonomy and its implications toward regional governments' structure and hierarchy.

Appendix A: Interviewee List

List of key informants	Organisation/ Job Position
BANDUNG CITY, HOTEL INDUSTRY	<ol style="list-style-type: none"> 1. DE, female, member of West Java Province Wage Council and works at Indonesian Central Bureau of Statistics in West Java Province; 2. MA, male, member of Bandung City Wage Council (Depeko Bandung) from City/District Manpower Offices (<i>Dinas Tenaga Kerja Kota/Kabupaten Dinakertrans</i>); 3. DJ, male, member of Bandung City Wage Council (Depeko Bandung) from a university in Bandung. 4. AS, male, member of Bandung City Wage Council (Depeko Bandung) from Indonesian Employers' Association to represent hotel sector and member of Indonesian Hotel and Restaurant Association (Perhimpunan Hotel dan Restoran Indonesia (PHRI). Owned a two-star hotel in Bandung. 5. DW, male, member of Bandung City Wage Council (Depeko Bandung) from Indonesian Employers' Association. Chairman from APINDO Bandung (City/District level). 6. NC, male, member of Bandung City Wage Council (Depeko Bandung) and works at Indonesian Central Bureau of Statistics in Bandung city. 7. DO, male, Human Resources Managers from five-stars hotels in Bandung 8. AGY, male, Human Resources Managers from five-stars hotel in Bandung. 9. AH, male, union officials 10. YUR, male, workers. 11. IM, male, workers. 12. AGS, male, union officials.

	<p>13. IA, female, union officials.</p> <p>14. NU, female, union officials.</p> <p>15. YUP, secretary of Indonesian Hotel and Restaurant Association (Perhimpunan Hotel dan Restoran Indonesia (PHRI)).</p>
<p>SUKABUMI DISTRICT, GARMEN INDUSTRY</p>	<p>16. AA, male, member of Depekab Sukabumi and working as the chairman of City/District Manpower Offices.</p> <p>17. AGU, male, chairman of Depekab Sukabumi and working as staff of City/District Manpower Offices.</p> <p>18. NI, female. member of Depekab Sukabumi and working as Business Director in one of company.</p> <p>19. SU, male, member of Depekab Sukabumi and working as General Manager in one of company.</p> <p>20. RU, male, Human Resource Manager.</p> <p>21. MO, male, union official.</p> <p>22. DA, male, union official.</p> <p>23. HI, male, union official.</p> <p>24. AR, male, union official.</p> <p>25. ME, male, union leader.</p> <p>26. RI, male, worker</p> <p>27. YUN, male, worker.</p>
<p>BEKASI DISTRICT, AUTOMOTIVE INDUSTRY</p>	<p>28. SAE, male, member of Depekab Bekasi from union.</p> <p>29. SO, male, member of Depekab Bekasi from union.</p> <p>30. HA, male, member of Depekab Bekasi from union.</p> <p>31. HE, male, chairman of union.</p> <p>32. SH, male, union officials.</p> <p>33. SAN, male, workers.</p> <p>34. RAT, member of Depekab Bekasi from District Manpower Offices</p> <p>35. PO, male, member of Depekab Bekasi from union.</p> <p>36. TR, male, company human resources.</p>

NATIONALS LEVEL	37. RI, female, director general of Bappenas 38. BH, male, first deputy of Ministry of Coordinating Economy 39. DH, male, chair of DPP SPN 40. AS, male, chair of APINDO 41. AP, male, executive director of APINDO
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