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Situation in Indonesia

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# COVID-19 and Vulnerability: An Analysis on Labor Market Situation in Indonesia

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## Abstract

COVID-19 is a current problem that impacts not only to state security but also to socio-economic stability. The spread of COVID-19 has caused various economic and social problems for society. Economic performance during the pandemic has become more sluggish, thus pushed an increase in Termination of Employment (ToE) for labor in Indonesia. It caused a decrease in labor welfare and job uncertainty. Economic globalization also played a major role in the welfare of labor during the pandemic. In response to the current crisis, the idea of labor market flexibility rose as a consequence of this pandemic. A flexible scheme is considered to contain the unemployment rate and improve the welfare of labor in the context of economic uncertainty. Therefore, this paper aims to identify and explain the relations between globalization and COVID-19 and how the COVID-19 pandemic increases the uncertainty and flexibility of labor. In this paper, the globalization approach is used and elaborated with the flexibility of the labor market as two lenses of analysis.

*Keywords: Labor, Covid-19, flexibility, Indonesia, Termination of Employment*

## Introduction

The world is currently faced with Coronavirus Disease (COVID-19), which is increasingly spreading. COVID-19 is a contagious disease that is quite troubling considering that this disease makes difficult breathing and causes respiratory infections accompanied by various symptoms, such as flu and even lung infections. Not infrequently COVID-19 causes many victims regardless, ranging from infants to the elderly can be affected by this virus. COVID-19 spreads through transmission of water droplets from the mouth or nose of sufferers when coughing and sneezing. In the end, the uncontrolled spread of COVID-19 made the World Health Organization (WHO) determine that the virus was a form of pandemic faced by the world. Until July 5, 2021, COVID-19 cases jumped by 184 million sufferers and 3.97 million people died; therefore, WHO decided to designate COVID-19 as a pandemic considering that there are no signs of ending the spread of the virus (WHO 2021). The occurrence of this pandemic then also had an impact on countries in the world, including Indonesia.

COVID-19 began to enter in Indonesia in March 2020 and started spreading out of control. As of July 3, 2021, the number of COVID-19 cases in Indonesia has reached 2.23 million with 62.908 deaths (WHO 2021). The ongoing spread of COVID-19 has also caused various economic and social problems in Indonesian society, considering that the pandemic has undermined the economic sector. One of those affected is labor, many of whom have been forced to layoffs and

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even faced the Termination of Employment (ToE) due to the COVID-19 pandemic which continues to increase. The restrictions on mobility and activity that had to be imposed by the government due to the pandemic have resulted in many business sectors closing and their labor starting lose their primary source of livelihood. Referring to this, the paper attempts to find out and explain the relationship between globalization and COVID-19 and how the COVID-19 pandemic increases the uncertainty and flexibility of labor considering that the current pandemic makes it more difficult for labor to find work so that the flexibility scheme becomes an alternative in encouraging increased employment opportunities for labor.

In answering the formulation of the problems discussed, this paper will use globalization and labor market flexibility approach to explain how COVID-19 has contributed to the increasing of uncertainty and flexibility for labor. The authors attempt to use a literature review method from "Trends in labour market flexibilization among Dutch school leavers: The impact of economic globalization on educational differences" by De Lange et al. (2012) and data researches from the Indonesian Institute of Sciences (LIPI), the Statistics Indonesia (BPS), and JobStreet Indonesia regarding the impact of COVID-19 on labor. The phenomenon of globalization is a phenomenon that manifests a transformation of various types of connections and relationships formed at the local, regional, national to global levels (L'Hoete 2010). In this case, multiple technologies and information that are increasingly developing capable to facilitate community mobilization and to create a more borderless world where countries have increasingly established open access to entry and exit. This later became one of the reasons why COVID-19 spread uncontrollably, considering the globalization system that made the world more open and the people interacting with each other. As a result, the uncontrolled spread of the virus also affects multidimensional sectors in Indonesia, including the flexibility of the labor market. In this case, the flexibility of the labor market is increasing, which is considered an alternative to reduce the unemployment rate considering that employers prefer flexible labor over full-time labor during the COVID-19 pandemic.

On the other hand, the increased flexibility of the labor market also creates instability for labor given the changing posture of the labor market. In this case, labor who are facing a bigger impact of instability are labor that can be classified as low-skilled labor, while labor with high skills tend to be survived. Thus, the authors also seek to analyse a gap between low-skilled labor and high-skilled labor, which then leads to an increase in unemployment in Indonesia. In this case, not everyone gets a high education, so they will find it difficult to get a job, especially during the current pandemic. Moreover, labor with low education and skills will be more easily eliminated by labor with high education and skills (De Lange et al. 2020). Therefore, the COVID-19 pandemic has further reduced the welfare of labor given the increasing number of ToE and the difficulty of finding sources of livelihood in the current pandemic era.

## **Discussion and Results**

### **Impact of Economic Globalization and Mobility on the Emergence of COVID-19**

Discussing labor and flexibility in this pandemic COVID-19 era, then absolutely it will be closely related to the phenomenon of globalization which brings a very significant intensification in various aspects. Friedman (2000) explains that globalization provides a new system that offers comprehensive integration. Other scholars such as Giddens (2013) argues that globalization

intensifies international social relations that occur by connecting distant regions and vice versa as a phenomenon of modernization, which are local interference and interactions between distances.

The features brought by globalization, such as interdependence, interconnection, and integration, have made more accessible access to the mobilization of people, goods, and services. All of these things are mostly caused by modernization, a process of social organization that began to take the initiative and be creative in making various technologies developed in the 17th century and then expanded and covered multiple aspects of the world. Modernization then impacts to the creation of increasingly sophisticated technology that contributes to facilitate the efficiency and effectiveness of human activities (Giddens 2013). The combination of technological sophistication and high intensity of mobility causes globalization to impact the emergence of a term called borderless. The term refers to the world outlook where there are seemingly no longer any boundaries or barriers to interact between state and individual so that any event including crisis event can be quickly spread and affect other regions (Ohmae 1995).

Referring to these propositions, it can be clearly seen through the example of the spread of the crisis in Asia in 1997, which originated in Thailand and South Korea and then led to the surrounding countries until it became a regional crisis. Another example can be seen in the situation in 2008 in the US, which then spread to a global problem (Pauly 2008). To this day, the world is also faced with a crisis due to the COVID-19 pandemic which has a global systemic impact. The COVID-19 pandemic was identified as coming from a small area in China, namely Wuhan, a mutated form of the SARS virus that then formed a new genetic composition. Wuhan's extreme and unhealthy lifestyle was identified as one of the factors that caused the virus to infect humans (Isfandiari 2020).

In addition to the features of globalization related to the acceleration of world mobilization, globalization specifically also brought many changes to the economic aspect. Globalization led the global actors to the conditions of competition and interdependence because of worldwide interconnection. This competition and interdependence causes them to have difficulty to predict the future of the market or to make choices between various alternatives and strategies. Therefore, economic globalization is increasing uncertainty, especially in the financial aspect. This uncertainty in economic globalization occurs because of the casino capitalism that happened after the collapse of the Bretton Woods System (BWS) in 1973. The fall of the BWS then ended the function of the unholy trinity, which guaranteed the stability of the world economy by the United States. The consequences that arise due to the fall of the BWS system have created the Flemming Mundell Trilemma scheme. The state will no longer be able to control the exchange rate, policy autonomy, and capital flows simultaneously. Therefore, countries in the world must choose two options among those three things. It creates more substantial interdependence and interconnection because countries must work together to complete one of the options that they cannot control as described above (Helleiner 2008). The fall of BWS also impacts the increasingly significant role of the market. Through the various causes above, the uncertainty's condition leads to the creation of casino capitalism in economic globalization (Strange 1986).

The consequence of the increased uncertainty is that the investors and entrepreneurs do not want to take risks in the uncertainties of globalization. Therefore, they implement various business strategies such as implementing a contract or part-timer system, conducting layoffs, implementing

global value chains, and different other strategies, which will be explained in the following sections. However, these methods that investors and company owners generally implemented has changed the structure and contours of labor which exacerbate the crisis conditions in the era of the COVID-19 pandemic. Seeing the impact of the COVID-19 pandemic, especially in Indonesia, has caused much systemic instability. The lack of prevention efforts at the beginning of the pandemic in Indonesia has caused the rapid spread of virus to all over Indonesia region. The Indonesian government then responded to the spread of COVID-19 by implementing a lockdown policy in the Large-Scale Social Restriction (PSBB) scheme and the Enforcement of Community Activity Restrictions (PPKM). Implementing these policies has changed the flow of Indonesian people's lives to be online-based at home. This has directly had an impact on changes in the existing work structure in Indonesia. The existence of a significant economic crisis then required business owners and companies to impose ToE in a large number of labor (Nasruddin and Haq 2020).

### **Labor Posture and Contours in the COVID-19 era**

The profound impact of government's lockdown policies in limiting high mobility activities also has a particular effect on the dynamics of economic supply which has pushed many companies, shops, and other supply sectors to be hampered, stalled, even stopped and also highly contributed to the decline of Indonesia's economic productivity. According to the survey of the Indonesian Institute of Sciences (LIPI) (2020), it can be seen that on April 20, 2020, there are 39% of businesses and industries in Indonesia had to go bankrupt, 57.1% experienced a drastic decrease in production and 3.5% who were not affected by the systemic instability of the COVID-19 pandemic. Consequently, there has been a rapid decline in the community's socio-economic activity, which has led to the economic recession through the increasing vulnerability of ToE and the decreasing income trends for labor in Indonesia (Rahman et al. 2020). It was also noted through the LIPI survey that 15.6% of labor had to be laid off and 40% of labor had to experience a significant decrease in salary. In comparison, 44.4% were still employed because they are permanent and crucial labor in some companies.

According to the Statistics Indonesia (BPS) (2020 in Akhlas 2020), Indonesia has experienced the highest increase of unemployment since 2011 with the potential pandemic vulnerabilities that have caused at least 2.67 million Indonesians to have lost their jobs. The data also shows that around 24 million labor has reduced their tenure and income, and 1.7 million labor have also been furloughed due to Indonesia's economic recession. Meanwhile, several sectors that have predominantly experienced a decline in labor welfare through the indications of high unemployment and income decline changes can be identified from the manufacturing industry, construction industry, trade, accommodation, food and beverage services, as well as transportation and communications, which most of them have experienced an accumulation of ToE and a decline of labor income trends. Moreover, Rahman et al. (2020) emphasize that the vulnerability of ToE and income decline predominantly have a more significant impact on low-skilled labor who have low education and salary levels. It can be identified more from the Jobstreet Indonesia's reports (2020 in CNBC Indonesia 2020) that 74% of labor affected by the COVID-19 pandemics are considered low-skilled labor with a low-income level of 2.5 million rupiahs per month.

Referring to the trends of disproportionate impact to the labor, it does not only lead to the decline of labor's welfare as a whole, but also the decline of labor equality's prospects because most of the

labor who are deeply affected are labor which have a low educational and salary level. Therefore, it can be said that the COVID-19 pandemics has exacerbated the inequalities between labor, which can be seen through its impact to low-skilled labor (Syahrial 2020). On the other hand, this phenomenon is also followed by an increasing number of labor's trends who shifted their work massively to the informal sectors. Dekker (2020) argues that this massive increase of labor population in the informal sector can be accumulated as much as 60%, which implies a great difficulty for labor to find decent jobs. Thus, this situation further hinders Indonesia's development in achieving the Sustainable Development Goals (SDGs) agendas, especially the plan to create opportunities for good and decent job environments.

Through some of this data and evidence, it can be said that the COVID-19 pandemic which has damaged the global supply-demand chains has led to the decline of the world economic productivity and the deterioration of labor welfare and equality. It can also be analyzed that the trends reflect the causal relationship of the government's lockdown policies that have interrelated impacts on multidimensional sectors, especially the posture and contours of labor welfare. The high-intensity spread of COVID-19 as one of the results of globalization's significance, which has prompted governments to create lockdown policies to reduce the high level of mobilization, has damaged the global supply-demand sides. Referring to these situations, it can be seen how the government's lockdown policies have brought supply sectors in the community to become more sluggish and contribute to the failure of business operations and the deterioration of labor welfare. According to the report of the International Labor Organization (ILO) (2021), most of the government's lockdown policies in responding to COVID-19 pandemic in the Asian region, especially Southeast Asia, has a major impact on 90% of the labor welfare particularly for those who live in Indonesia with the loss of working hours, the rapid decline of income, and even the massive of ToE. It can be said that the damage caused by the COVID-19 pandemic has had a more significant impact on the labor welfare than for those who were in the Global Financial Crisis in 2008.

### **Labor Market Flexibilization: An Alternative**

The impact of the COVID-19 pandemic on the labor market is an increase in the unemployment rate (ILO 2020). Furthermore, the International Labor Organization (2020) added that although they did not experience ToE, labor received reduced working time, decreased wages, and low social insurance costs. Thus, it can be seen that the COVID-19 pandemic is disrupting economic and social performance through long-term effects on employment, income and working conditions (Eichhorst et al. 2020). The continuation of this phenomenon in the long term indirectly perpetuates uncertainty in the economic sector. In the end, this uncertainty will increasingly have an impact on job uncertainty that affects labor. However, in the COVID-19 phenomenon, some situations indicate an anomaly. This is because demand in the hospitality sector, tourism, cultural and artistic activities, local retail trade and logistics has declined. On the other hand, the health sector, supermarkets, online retail business, and delivery services are experiencing increasing demand (Eichhorst et al. 2020). Verily, this shows that the COVID-19 pandemic did not attack all sectors of the economy and only specific sectors.

The recession and declining performance of the economic sector during the COVID-19 pandemic are believed to further pushed flexibility in the labor market as a way out of the unemployment

problem. According to a report from the Ministry of Manpower, as of May 27 2020, 3.066.567 labor have experienced work termination (F 2020). This phenomenon then shows that the economic crisis amid the COVID-19 pandemic has at least had implications for employment in two ways: (1) an increase in the number of unemployed and (2) a change in the posture of the labor market after the crisis (SMERU 2020). At this time, governments worldwide are more inclined to use short-term employment schemes for labor to keep the unemployment rate from increasing (Eichhorst et al. 2020). During this pandemic, it is seen as increasing the flexibility of the labor market. Flexibility in the labor market can be interpreted as increasing efficiency and reducing costs (De Lange et al. 2012). This is because there is a shift in demand from less-skilled labor to skilled labor in this concept. This cost reduction also occurs because of mainly carried out part-time, freelancers, and outsourcing (De Lange et al. 2012).

In contrast to the employer's point of view, in the perspective of labor, this flexibility puts them in a position of job instability (De Lange et al. 2012). This instability also affects aspects of income, fixed jobs, and social security. According to De Lange et al. (2012), in the concept of labor market flexibility, there is also a hierarchical structure in which permanent labor occupies the top position, then flexible labor, and last unemployed. However, the flexibility of the labor market plays an essential role in the current situation of economic uncertainty. This is because in economic uncertainty, employers are less interested in full-time or permanent labor. On the other hand, flexible labor are attractive to employers because they can be hired and dismissed as needed. The flexibility of the labor market is also an alternative in overcoming unemployment even though it is temporary. Eventually, in times of uncertainty like this, employment security takes precedence over job security.

There are three influencing aspects of the labour market's flexibility: education, skills, and mastery of technology (De Lange et al. 2020). These three aspects are indicators of demand in the labor market. Due to the pandemic, there has been a change in the posture of the labor market, which led to the elimination of low educated and low-skilled labor from the formal sector. This phenomenon will continue to occur after the COVID-19 crisis. Even though there is a work from home (WFH) mechanism at this time, the tendency to do such work is carried out by people who have high positions, such as managers, directors, and certain others (Evans and Dromey 2020). This shows that in the WFH mechanism itself, it is only beneficial for those with higher education, so that they have a high position as well, and those who have skills and mastery of technology.

The reason why the flexibility phenomenon will continue until after the crisis is due to four factors: (1) the absorption rate of labor after the crisis will not be as much as the number of ToE, (2) companies tend to recruit labor who have high productivity and multitasking, (3) the field the businesses that will develop after the crisis are those related to technology as the need for technology during the pandemic is multiplying, and (4) outsourcing systems and contract labor are becoming more attractive to employers due to their high flexibility (SMERU 2020). Thus, it shows that labor market flexibility can solve job uncertainty during and after the Covid-19 crisis. Nevertheless, the government's role in this flexibility is still needed, especially in terms of (1) social security in a more flexible labor scheme, (2) conducting continuous skills training for labor to be able to compete in market flexibility, and (3) providing support for Small and Medium Enterprise (SMEs) to be able to absorb labor rejected by companies or the formal sector (SMERU 2020).

## Conclusion

Through the explanation above, the authors conclude that the presence of COVID-19 has also increased the uncertainty and flexibility of labor, which has also driven by the phenomenon of globalization. In this case, globalization has made it easier for human mobility to create a borderless world. In the end, events can quickly spread and affect other regions, including COVID-19, spreading uncontrollably. One of the results, it also affects to the welfare of labor where they experience a decrease in income and ToE which leads to an increase in the number of unemployed in Indonesia. On the other hand, the recession pandemic and declining performance are the deriving factors of the labor market flexibility, which is considered as an alternative solution to the unemployment problem. This flexibility is due to employers shifting low-skilled labor to more skilled labor. In addition, the COVID-19 pandemic has made employers prefer flexible labor over labor who work full time or permanent. However, this flexibility creates instability in terms of income, permanent employment, and social security for labor.

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