

# Time for Indonesia to bring social investment to the forefront

Indonesia is currently in the midst of transitioning from a growth-oriented focus. However, what will replace it is highly uncertain.

What is certain is an increase in macroeconomic stresses due to financial instability, unpredictable international trade prospects and the transformation of industrial structures, translating to weaker economic performance and narrower job opportunities in the period ahead.

Younger generations already feel the effects of this situation, as they find it difficult to find jobs. According to data from the World Bank, Indonesia's youth unemployment rate reached 16 percent in 2021, the second highest in Southeast Asia.

If this situation drags on, the repercussions could be catastrophic. There is a possibility that the demographic boon we are currently relying on for a prosperous Indonesia will turn into a demographic curse, especially as our population has started to age, calling for a greater portion of the state budget to protect them from old-age risk.

Many reports have linked the recent unemployment trend among youths to the digital skills gap or industry's inability to find professionals with technology-based competencies, such as cloud computing, data analysis and operations. Another major problem relates to non-technological competencies, such as leadership, research, marketing, project management and analytical skills, which some youths also do not master.

This skills gap is exacerbated by the shallow literacy level of Indonesia's human resources. A 2023 UNESCO report ranked the country second from the bottom in literacy with 0.001 percent, meaning that only one in 1,000 Indonesians has a reading preference.

It has been widely demonstrated that individuals with solid literacy skills are more likely to advance their careers than those with weaker skills. Recent studies have shown a positive correlation between literacy and socioeconomic status, with higher incomes linked to higher literacy levels. In addition, people with solid literacy skills are more likely to think critically, systematically and creatively, enabling them to solve problems independently.

Additionally, having strong literacy habits can facilitate career transitions when opportunities become more limited for jobs that match the applicant's educational profile.

Without a rise in literacy, parallel to persistently low human



Antara/Olha Mulalinda

**Luring recruits:** Employees speak to a potential applicant at their company's booth on Sept. 18 at a regional job fair held at the Aimas Building in Sorong, Southwest Papua.



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resources, we are at risk of socioeconomic instability and any hope of progress. To solve this problem, our welfare system ultimately requires a new wave of reform, moving away from conventional approaches to be more relevant to the needs of today's industry.

Raising the idea of "from cradle to the grave" that politicians advocate in Western welfare states is a highly challenging task in today's vastly different situation. In the established welfare state, over 90 percent of people work in the formal labor market to pay taxes for social policies. However, the large informal system here presents few clues about how to create a welfare state.

We don't want to say that the protectionism of the welfare state is outdated. However, the government must act now, without delay, to overlay the protectionist system with programs that lead to productivity. This is mainly because chronic issues like lower competitiveness and skill gaps require urgent attention. Exceptions can be made for those who cannot carry out productive activities.

Productivist welfare has been credited with the rapid transformation of several formerly underdeveloped regions, including South Korea, Taiwan, Singapore and Hong Kong, into some of the world's wealthiest societies in just one generation (Holliday, 2000; Ahn & Lee, 2012; Choi, 2012; Hwang, 2012).

Their approach combines pro-work policies with traditional social compensation poli-

cies, known as social investment. This common practice has introduced conditional social assistance, which requires recipients to engage in productive economic activities, facilitating labor market flows.

However, it was not an overnight success.

In my book, *Social Policy in East Asia*, I contend that imperialism and colonialism played a significant role in the evolution of the welfare system in all four countries. For South Korea and Taiwan, the historical ties between Japan's annexation, which left behind a legacy of infrastructure and technology, and America's interest in making these countries a bulwark against communism after Japan's defeat, fostered the growth of welfare capitalism.

Regardless of their colonial history, in my view, the social investment strategy commonly employed in East Asia has tremendous potential for adoption in nations in the early or middle stages of industrialization, before establishing a welfare state.

During the 32 years of the New Order government (1966-1998), Indonesia followed a welfare approach that placed productivity at its core. However, unlike East Asian countries, Indonesia focused primarily on state-driven development rather than creating superior human resources. It concentrated on exploring natural resources instead of diversifying its economy. Social security benefits were also limited to civil servants, military personnel and police officers, as these

groups were deemed essential for political stability.

Although Indonesia had social security, it needed to be more present in recognizing the significance of the knowledge-based economy (KBE) as an alternative to traditional approaches. The KBE relies on intellectual capabilities rather than physical inputs or natural resources, and its primary output is the production of intangible assets such as technology, property rights and patents.

An effective KBE is only achievable in countries that prioritize research and development (R&D). Over the years, countries in East Asia have consistently ranked high in gross domestic product allocations for R&D, averaging 2.8 percent in 2020. In contrast, Indonesia only earmarked 0.28 percent of its GDP for R&D in the same period, even lower than the allocation in some of its Southeast Asian neighbors.

I believe Indonesia can take the earliest step to catch up with its East Asian counterparts by investing more in the R&D sector and by ensuring that the government-university-business synergy works harmoniously.

The next step is to focus on reeducation policies, mainly targeting young people who find it challenging to find jobs. This will enable the ecosystem of the national economy to support climate 4.0 and 5.0 investments. To achieve this, established programs like vocational education, preemployment programs and vocational training centers can be optimized to play a more central role.

Alongside reeducation, reforming the learning system is necessary, covering all education levels with a science, technology, engineering and mathematics (STEM) curriculum. The main objective is to make technological mastery a foundational skill as urgent as literacy competence. This way, local graduates will have qualified technological competencies irrespective of their academic disciplines, so they are ready to compete in the contemporary labor market.

One of the vital components of social investment is welfare-to-work. This concept combines policies similar to social assistance with the objectives of labor market programs, and aim at transforming social assistance from a "free money handout" to a conditional scheme. The purpose is to condition welfare recipients to engage in activities that contribute to a productive economy, such as obtaining licensed training or pursuing entrepreneurship.