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## Indonesia's Economic Growth And Its Impact On The Formal Sector Workforce

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**Abstract.** . Indonesia's post-reform economic growth has had a significant impact on the structure of the formal sector workforce, with increased participation of young workers and women. This study aims to analyze the relationship between economic growth and the demographics of the formal sector workforce, as well as the challenges that arise, such as gender gaps, skills mismatches, and inequality in access to education. The method used is demographic analysis, which analyzes secondary data from the Central Bureau of Statistics (BPS) and other related sources, to map the composition of the workforce by age, gender, and education level. The results show that despite progress in the participation of women and young workers, gender gaps in wages and employment opportunities are still significant, while young workers face challenges with skills that do not match market needs. In addition, although the level of formal sector education has increased, access to education in rural areas remains an obstacle. In conclusion, more inclusive policies, such as increasing access to education and skills training, and reducing gender gaps, are essential to ensure sustainable and equitable economic growth for all levels of society.

**Keywords:** Economic Growth; Workforce

### A. INTRODUCTION

Economic growth is a key indicator often used to evaluate a country's progress. In the context of Indonesia, which is the fourth most populous country in the world, economic growth not only reflects economic health but also has a broad impact on various aspects of people's lives. Since the economic reforms in the late 1990s, Indonesia has undergone a number of significant structural transformations. Efforts to diversify the economy, increase investment, and develop infrastructure have become the government's main focus in encouraging sustainable growth. This transformation is visible in various sectors, including agriculture, industry, and services. The formal sector, in particular, has experienced rapid development, with the emergence of various new industries and increased employment opportunities. However, amidst these achievements, Indonesia still faces major challenges.



One of them is the high level of social inequality. Although economic growth shows positive figures, unequal income distribution can cause gaps between groups in society.

This has the potential to hamper long-term growth potential and create social instability. In addition, uncertainty at the global level, such as commodity price fluctuations, changes in trade policies, and the impact of climate change, are also challenges that must be faced. In this context, adaptive and inclusive economic policies are very important to ensure that economic growth is not only sustainable, but can also be felt by all levels of society. In order to overcome these challenges, the government needs to implement a more holistic strategy. For example, better poverty alleviation, education, and health programs can help improve people's quality of life and reduce inequality. In addition, strengthening institutions and good regulations are also needed to create a conducive investment climate, so that it can attract more domestic and foreign investors. The formal sector, consisting of industry, services, and trade, has a crucial role in creating jobs and improving people's standard of living. Increased investment, both from domestic and foreign sources, as well as government policies that support the growth of this sector, have made the formal sector's contribution to economic growth even greater. However, this rapid growth also brings various impacts, both beneficial and detrimental, so it is important to conduct a more in-depth analysis to understand these implications.

This paper aims to explore the relationship between Indonesia's economic growth and its impact on the formal sector. By analyzing the latest data and trends, it is hoped that this study can provide a deeper understanding of how economic growth affects the quality and quantity of labor involved in the formal sector. In addition, this study will also highlight the various challenges that must be faced in efforts to achieve inclusive and sustainable growth. The focus of this study is to identify not only the benefits of economic growth, but also the consequences that may arise, so that it can provide useful recommendations for public policy and economic development in the future.

## **B. LITERATURE REVIEW**

### **Economic Growth**

Economic growth is an effort to increase production capacity to produce additional output, measured by Gross Domestic Product (GDP) or Gross Regional Domestic Product (GRDP) in a region. This process reflects an increase in output per capita over a long period of time. There are three important aspects of economic growth: the process itself, output per capita, and focus on a long period of time. It is important to remember that economic growth is a dynamic process, not just a static picture of economic conditions at one point in time. Therefore, the main focus lies on the changes and developments that occur in the economy over time.

Economic growth is influenced by various interrelated factors:

**Investment:** According to Harrod and Domar (1939), investment plays an important role in increasing production capacity. Research shows that infrastructure investment, such as transportation and energy, can drive economic growth by increasing operational efficiency.

**Human Resource Quality:** Theodore Schultz (1961) suggested that investment in education and training can increase productivity. Research by Hanushek and Woessmann (2015) shows that education quality is positively related to economic growth, where countries with better education systems tend to grow faster.

**Macroeconomic Stability:** Barro (1991) emphasizes the importance of economic stability in creating a conducive investment climate. Low inflation and responsible fiscal policy can attract foreign and domestic investment, driving growth.

**Innovation and Technology:** Aghion and Howitt (1992) show that innovation contributes to growth through increased efficiency and the creation of new products.



Countries with strong innovation systems, including support from the government and research institutions, tend to have higher economic growth.

### **Workforce**

Workforce is one of the important components in the economic structure of a country. In general, workforce refers to all individuals who are able and ready to work, both those who are working and those who are looking for work. In this context, the workforce is the main focus, consisting of those who are of productive age and can contribute to economic activities. Classification of the workforce is often distinguished based on skills and type of work. Skilled workers are those who have special skills and training, so they can do work that requires certain knowledge and skills. On the other hand, unskilled workers include individuals who usually do manual work without special skills. In addition, the workforce is also divided into formal workers, who are registered with official institutions and have work contracts, and informal workers, who are not registered and often work without legal protection.

The role of labor in the economy is very significant. According to classical economic theory, labor productivity contributes directly to economic growth. The higher the quality and skills of the workforce, the higher the productivity produced. In other words, an educated and skilled workforce will be able to produce better output, which in turn will drive a country's economic growth. However, the workforce also faces various challenges. One of the main problems is unemployment, which can be caused by economic, demographic, and technological factors. High unemployment rates can hinder economic growth and create social problems. In addition, there is a skills gap between what the workforce has and what the market needs. Rapid technological change also makes some types of jobs obsolete, requiring the workforce to continue to adapt and improve their skills. The government plays an important role in creating employment policies to address these challenges. These policies can include increasing access to education and training to improve the quality of the workforce, as well as incentives for companies to create more jobs. With the right policies, it is hoped that unemployment rates can be reduced and people's welfare can be improved.

### **Based on Qualifications**

**Skilled Labor:** This includes individuals who have specialized skills and relevant education, such as doctors, engineers, and computer experts. Skilled labor usually requires higher training and education, so that they are able to make greater contributions to productivity and innovation.

**Unskilled Labor:** This type consists of workers who do not require specialized skills or education, such as factory workers or cleaners. Although they may have important jobs, they tend to earn lower wages and have fewer opportunities for career development.

**Semi-Skilled Labor:** Workers in this category have some basic skills but are not fully skilled. Examples include machine operators or administrative staff. They often require short training to perform their tasks efficiently.

### **Based on Employment Sector**

**Agricultural Workers:** This includes all individuals involved in the agricultural sector, such as farmers, farm laborers, and ranchers. They play a vital role in providing food and raw materials for industry.

**Industrial Workers:** The workforce in this sector focuses on the production of goods and services, including factory workers, technicians, and engineers. The industrial sector is often a major driver of economic growth and job creation.

**Service Workers:** This includes individuals working in the service sector such as education, health, and hospitality. These jobs often focus on direct interaction with customers.

### **Based on the Nature of Work**

**Formal Workers:** Formal workers have clear employment contracts, are legally recognized, and usually receive benefits such as health insurance and pensions. Examples include civil servants and private company workers.



**Informal Workers:** Those working in the informal sector do not have formal contracts and often do not receive legal protection. Examples include street vendors and freelancers. Although the informal sector can provide flexibility, workers in this sector often face economic uncertainty.

#### **Based on Employment Status**

**Permanent Workers:** Have long-term contracts and usually receive benefits and job protection. They often have greater responsibilities and a stable position within the organization.

**Contract Workers:** Work for a fixed period of time based on a contract. They often do not receive the same benefits as permanent workers and can be fired after the contract ends.

**Freelancers:** Work independently and usually have different clients. They enjoy flexibility in their work, but also face income uncertainty and lack of job protection.

#### **Factors Affecting the Workforce**

The factors affecting the workforce are very diverse and can be divided into several categories. Understanding these factors is important to optimize the use of labor and increase productivity. Here are some of the main factors affecting the workforce:

##### **Economic Factors**

**Economic Growth:** As the economy grows, the demand for labor tends to increase. Increased investment and consumption can create more jobs.

**Wages and Salaries:** The wage levels offered by companies can affect the number of workers willing to work. Competitive wages tend to attract more workers.

**Job Availability:** The availability of jobs in a sector or region also affects labor decisions. High unemployment rates can cause workers to seek opportunities in other sectors or regions.

##### **Demographic Factors**

**Age:** The age structure of the population has a major impact on the workforce. Younger populations are typically more likely to be involved in the workforce, while aging populations may reduce the number of active workers.

**Gender:** Gender differences in labor force participation can be influenced by cultural factors, education, and labor policies.

**Education:** The level of education and skills of the workforce affect the quality and productivity. The higher the education, the more likely an individual is to get a better job.

##### **Social and Cultural Factors**

**Social Norms:** Culture and societal norms can influence an individual's decision to work. In some cultures, there is pressure to work in a particular sector or maintain traditional roles.

**Family and Social Environment:** Support from family and social networks can influence an individual's decision to enter or remain in the workforce.

##### **Technological Factors**

**Innovation and Automation:** Technological advances can change the types of jobs available. Automation can reduce demand for certain jobs, but also create new opportunities in technology and maintenance.

**Technological Skills:** The workforce must have the appropriate technological skills to adapt to changes in the industry.

##### **Policy Factors**

**Employment Policy:** Government policies related to employment, such as minimum wages, worker protections, and training programs, can affect workforce participation and quality.

**Labor Market Regulation:** Rules and regulations governing the labor market, such as limits on dismissal and contractual arrangements, also affect workforce dynamics.

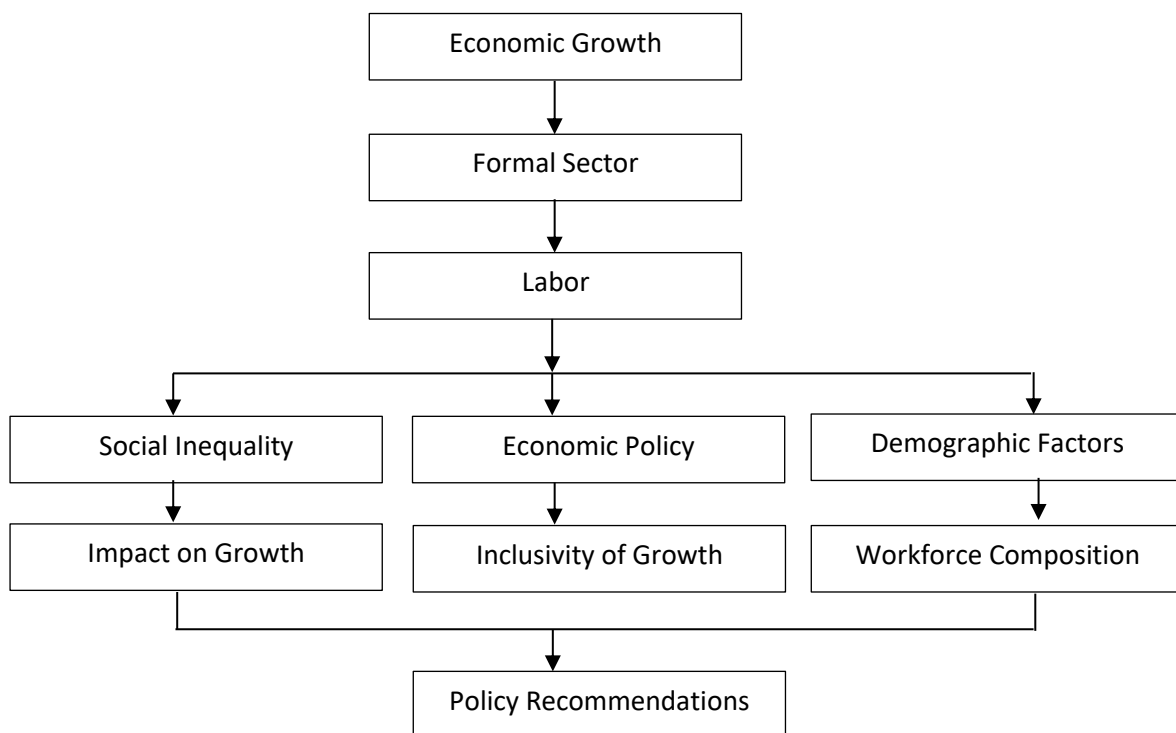
##### **Environmental Factors**

**Working Conditions:** A safe and comfortable working environment can increase productivity and job satisfaction. Conversely, poor working conditions can reduce workforce motivation and performance.

**Access to Transportation:** The availability of good transportation can affect workers' ability to get to work, thus impacting workforce participation rates

### C. RESEARCH METHODOLOGY

Demographic analysis is a method used to understand the characteristics of human populations and the patterns associated with them. This method is very important because it provides in-depth insights into demographic composition, including age, gender, marital status, education, and employment. With this information, policymakers, researchers, and organizations can make better decisions in planning programs and services for the community. Data sources for demographic analysis usually include population censuses, which are official government data collections periodically, and demographic and health surveys, which provide more specific information about the health and social status of the community. Vital statistics data are also an important source, including information on births, deaths, and marriages. In addition, administrative data obtained from official records, such as education and employment records, can also be used. In analyzing demographic data, various techniques can be applied. One of them is descriptive analysis, which uses basic statistics to describe the characteristics of the population, such as the average age or the proportion of sex. Other techniques include composition analysis, which examines the proportions of various groups in the population, and trend analysis, which monitors changes in demographic characteristics over time. Demographic models can also be used to predict population growth or decline based on certain factors. The framework for thinking in this research is as follows :



**Figure 1 The framework of thinking**





## **D. RESULTS AND DISCUSSION**

### **Demographic Analysis of the Workforce**

Gender Data from the Central Statistics Agency (BPS, 2022) shows that women's participation in the formal sector increased from 46% in 2010 to 52% in 2021. This increase reflects social and cultural changes that are more supportive of women's roles in the workforce. A study by Ningsih (2021) highlights that the service sector, especially education and health, has been a major driver of increased female participation. In addition, companies have begun to implement more family-friendly policies, such as flexible working hours and better maternity leave, which make women more able to participate in the formal sector. However, despite the increase in participation, a report by UN Women (2020) shows that the wage gap between men and women in the formal sector is still significant. On average, women's salaries are 20% lower than men's for the same position, creating challenges in achieving gender equality in the workplace.

Age Data shows that young workers (aged 20-34 years) dominate the formal sector workforce, contributing 40% of the total workforce (BPS, 2022). This phenomenon shows that millennials and generations Z are more likely to choose jobs in the formal sector, especially in technology and services. Research by Sari (2021) found that young workers' preference for jobs in the formal sector is due to expectations of financial stability, career development opportunities, and better benefits compared to the informal sector. However, there are challenges related to the lack of experience and skills that match market needs, so some young workers have to face difficulties in getting jobs that match their qualifications.

Education The education level of the formal sector workforce shows a positive trend, with around 65% of workers having a bachelor's degree. Sectors such as information technology and finance are in dire need of educated workers, with demand for technical skills continuing to increase (World Bank, 2021). However, there are still gaps in access to education, especially in rural areas. Research by Aminah (2020) noted that workers from remote areas often have lower levels of education compared to those living in large cities, limiting their opportunities to enter the formal sector.

### **Impact of Economic Growth**

Increased Employment Opportunities: Steady economic growth has created more job vacancies, encouraging companies to expand their workforce. According to the World Bank report (2021), the formal sector in Indonesia has experienced a significant increase in labor absorption, with the service sector and manufacturing industry as the main contributors. These sectors not only create new jobs but also offer opportunities for workers previously in the informal sector to switch to formal employment, which is generally more stable and provides more benefits.

Gender Gap: Despite progress, gender gaps in employment opportunities and wages remain a critical issue. The UN Women report (2020) emphasizes that gender gaps in the workplace remain significant, even though women have begun to fill more positions in the formal sector. In addition, women often face additional challenges, such as household responsibilities that hinder their ability to pursue careers

## **E. CONCLUSIONS AND SUGGESTIONS**

Based on the demographic analysis of the impact of Indonesia's economic growth on the formal sector workforce, several key findings can be concluded:

Increasing Female Participation: Economic growth has created more opportunities for women to participate in the formal sector, with an increase from 46% to 52% in the last decade. However, despite the progress, the wage gap between men and women remains significant, indicating the need for policies that better support gender equality.



**Dominance of Young Workers:** The formal sector workforce is dominated by young workers, especially in the 20-34 age group. This indicates a preference by the younger generation for jobs that offer stability and career development opportunities. However, challenges related to experience and skills remain.

**Increasing Education Levels:** The majority of workers in the formal sector have a university degree, reflecting the high demand for an educated workforce. However, unequal access to education in rural areas is a barrier for some individuals to enter the formal sector.

**Dynamics of Labor Migration:** Economic growth in large cities encourages labor migration from other areas. While it creates opportunities, migration also brings challenges in terms of accommodation and integration into new work environments.

**The Need for Inclusive Policies:** Despite much progress, challenges such as gender gaps, access to education, and migrant integration must be addressed through more inclusive policies and appropriate training programs.

Overall, Indonesia's economic growth has had a positive impact on the demographics of the formal sector workforce, but greater efforts are needed to ensure that the benefits are felt by all levels of society. Policies that support equal employment opportunities and increased access to education will be critical to maximizing the potential of the future workforce.

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