

Case City Report: Semarang Regency, Central Java

SMALL CITIES, URBANIZING REGENCIES

The Front Lines of Indonesia's
Employment, Migration and Urban Challenges

December 2018





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Introduction

In Indonesia and across the developing world, the focus of urban policy and scholarship has frequently revolved around large cities. Indonesia's urbanization process is popularly imagined as a deluge of rural migrants flooding into Jakarta in search of livelihood opportunities – leading to notorious “closed city” policies in the capital and periodic calls for moving the national capital elsewhere.^{1,2} In reality, the processes of structural transformation, urbanization and economic development in Indonesia have always been far more complex, as suggested by Terry McGee's famous description of Java as a collection of *desakota* regions – an intense, undulating mixture of rural and urban economic activity that refuses to obey any simple boundary between village and city.³

As Indonesia's urbanization and economic development processes continue to unfold – with the country recently becoming more than half urban – the importance of urban environments beyond Jakarta continues to grow. Over the last 20 years, medium-sized cities of 500,000 to 1 million people have performed best in maximizing the benefits of agglomeration economies.⁴ Most of the growth in Indonesia's urban population is now occurring in small and medium-sized cities; with the country's urban population projected to grow by 30.7 million people between 2010 and 2025, 85 percent of new urban dwellers will be absorbed by urban areas of less than 750,000 people.⁵ The other

critical trend is that the phenomenon described by McGee – *desakota* – is spreading, especially in parts of Java where firms in sectors such as manufacturing are moving in search of lower-cost labor and land. Rural-to-urban transformations are occurring throughout parts of Indonesia that have no official designation as cities, or jurisdictional *kotas*. As of 2015, about 60 percent of Indonesia's urban dwellers now live outside the country's 98 designated *kotas* – meaning they live in peri-urban or “urbanizing” regencies (*kabupaten*) – and the share is rising, up from 57 percent in 2010 and 28 percent in 1971.⁶

Against the backdrop of urban growth led by small and medium-sized cities and urbanizing regencies (kabupaten), Indonesia faces the major challenge of creating productive employment opportunities for its expanding workforce.

Against the backdrop of urban growth led by small and medium-sized cities and urbanizing regencies,ⁱ Indonesia faces the major challenge of creating productive employment opportunities for its expanding workforce. The time for realizing the country's much-anticipated “demographic dividend” is no longer in the future. Indonesia's working-age population has been expanding rapidly in recent decades, and its dependency ratio is expected to reach its lowest point by 2030.⁷ The juncture at which Indonesia finds itself today

ⁱ We define an ‘urbanizing’ kabupaten as one whose urbanization rate was at least 27 percent – half the rate of Indonesia as a whole – in 2015.

is the same period of demographic transition in which the world's advanced economies made major strides in expanding the middle class through productive jobs.

Indonesia's window of demographic opportunity, therefore, coincides with the growth of small and medium-sized cities, 'urban' and peri-urban places. In other words, urban areas outside of Indonesia's biggest cities are on the front lines of some of the country's greatest development challenges: lifting people out of poverty, facilitating and managing migration, creating economic opportunities for youth, and harnessing the productive potential of urbanization.

Non-metropolitan cities – defined as *kotas* outside of the nine largest metropolitan regionsⁱⁱ – have rates of in-migration higher than large cities or their suburban peripheries (see **Figure**

1). About half of the rural migrants to these small and medium-sized cities are moving in search of educational opportunities – suggesting that Indonesian youth searching for economic mobility and employable skills are increasingly turning toward provincial and district capitals, as opposed to big cities like Jakarta, Surabaya and Medan.⁸ Meanwhile, in the urbanizing *kabupatens* that now characterize large swaths of Indonesia's most densely populated islands, a complex mixture of migration patterns is evolving – permanent moves by urbanites to suburban and peri-urban areas, circular migration between rural and 'urban' settlements for factory employment, and increasing levels of commuting in many different directions.

This diverse range of urban settlements – from small towns to peri-urban regencies – represent a

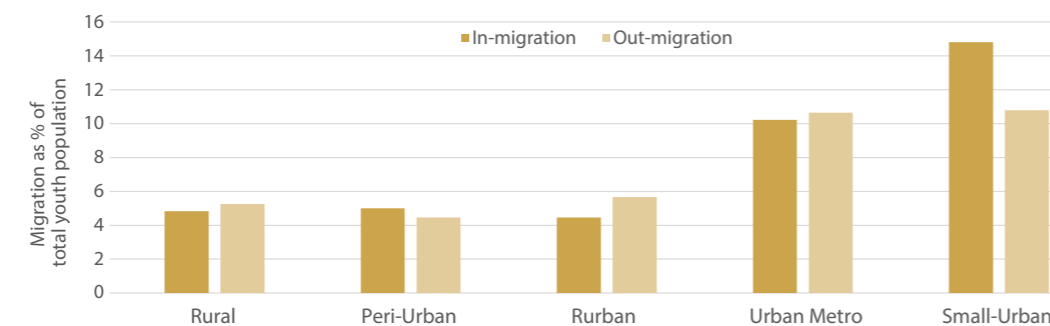
mixture of opportunity and risk for young people seeking productive urban livelihoods. On the one hand, data suggest they are budding centers of entrepreneurship: as compared to 3.1 percent in large cities, 3.7 percent of youth workers (ages 15-29) in small cities and 6.1 percent in urbanizing regencies are business-owners who employ at least one other worker. On the other hand, greater shares of young people find themselves in marginal or precarious work. Almost 17 percent of youth working in non-metropolitan cities and 39.6 percent in urbanizing regencies are own-account, unpaid or casual workers; in big cities, the figure is only 11.4 percent.⁹

Whether Indonesia proves successful in harnessing the opportunities of urbanization and demographic transition will hinge in large part on its ability to promote local economic

development and job creation in small cities and urbanizing regencies. This involves expanding the potential indicated by aspiring young migrants seeking education and skills and fostering conducive climates for small and medium-sized businesses to grow.

This policy brief focuses on a *kabupaten* in Central Java – Kabupaten Semarang – that has experienced rapid growth and urbanization over the last two decades. The first section utilizes secondary data to explain the context of Semarang Regency – including its recent development and local economy. The second section shares findings of original primary data collected in 2017 and 2018, and the final section offers policy recommendations toward expanding the regency's potential as a center of social and economic mobility in Central Java.

Figure 1
In-Migration and Out-Migration Across Subnational Geographies in Indonesiaⁱⁱⁱ, 2015



Source: SUPAS, 2015

ii Indonesia's nine major metropolitan areas are defined in a 2012 report prepared by the World Bank (Ellis, P. (2012). The Rise of Metropolitan Regions: Towards Inclusive and Sustainable Regional Development in Indonesia. Jakarta: World Bank. Retrieved from: <http://www.worldbank.org/en/news/feature/2012/08/13/towards-inclusive-and-sustainable-regional-development>). They are defined as the urban core and peripheral suburbs that surround the following cities: Balikpapan/Samarinda, Bandung, Denpasar, Jakarta, Makassar, Manado, Medan, Semarang, and Surabaya

iii In the graph, urban metro refers to *kotas* (officially designated cities) lying within Indonesia's nine major metropolitan areas (see Footnote 1); urban non-metro refers to *kotas* outside of these major metropolitan areas; peri-urban refers to urbanizing *kabupatens* (regencies) lying within one of the major metropolitan areas; and rurban refers to urbanizing *kabupatens* outside major metropolitan areas. An urbanizing *kabupaten* is defined as one with an urbanization rate at least half that of Indonesia as a whole – 27 percent as of 2015, when Indonesia was 54 percent urban.

Semarang Regency: Setting the Context

Semarang Regency is a part of the Jawa Tengah (Central Java) Province, situated south of the city of Semarang on a densely populated corridor between Semarang and Surakarta (Solo). The urbanized areas of the regency are concentrated along the major roadway that links Semarang to Surakarta and Yogyakarta, the other major urban centers of the region. Less than a kilometer from this major road corridor, population densities fall, though this is slowly changing as urbanization penetrates deeper into erstwhile rural parts of the regency.

The regency was originally agriculture-based and dependent upon Semarang City for much of its administrative and non-farm economic activities. However, over the last two decades, rapid growth of labor-intensive manufacturing in the regency has driven a more autonomous pattern of urbanization and expansion. Though the port in Semarang City remains important for these export-oriented industries, Semarang Regency now has its own economic dynamism. The growth of the regency has led to an increase of urban services and commercial land use

patterns. In turn, the labor market has also been transformed—with more households transitioning out of agriculture and into industrial or service-oriented occupations.

The pattern of industrial growth in the regency is part of a broader economic restructuring in Indonesia. While export-oriented manufacturing activities once clustered predominantly around Greater Jakarta, rising land and labor costs have led these firms to search elsewhere in order to keep their production costs low. Places like Semarang Regency—with abundant labor, relatively low minimum wages, and low-cost land—have become top destinations for firms engaged in low-cost, labor-intensive manufacturing. For example, as of 2018, the minimum wage in Tangerang Regency, an industrial area outside

Jakarta, stood at approximately IDR 3.56 million (US\$ 242) per month,¹⁰ and in Semarang Regency it stands at 1.9 million IDR (US\$ 129) per month.¹¹ The spatial restructuring has been aided by large infrastructure investment by the state in roads and ports, and by local officials in places like Semarang Regency promising a friendly business climate. Moreover, the strength of the labor movement in West Java – the province located to the south and east of Jakarta, where manufacturing has been concentrated historically – has been a boon for growth and investment in Semarang Regency and elsewhere in Central Java.

Industrial growth in the Semarang Regency has generated increased demand for labor in sectors like garment manufacturing. The workers taking these jobs are both natives of the regency and

migrants from surrounding areas—both those who come to live and work with potential of remaining permanently as well as those who commute daily.

GEOGRAPHY

Semarang Regency borders eight different regencies/cities (*kabupaten/kota*) and fully envelops the city of Salatiga. The administrative borders of the regency are shown in **Figure 2**.

The total area of Semarang Regency is spread over approximately 950.21 square kilometers—about 35 percent larger than the land area of Singapore. This area is divided into 19 sub-districts (*kecamatan*) and 235 rural villages and urban wards (*desa/kelurahan*). The regency holds 1,565 Rukun Warga (RW), or community units,

and 6,628 Rukun Tetangga (RT), or neighborhood units.

DEMOGRAPHY

The population in Semarang Regency stands at almost 1 million (see **Figure 3**), and about 4 in 10 of these residents live in the urban areas that line the regional road corridor. In the regency as a whole, population growth has been significant but not explosive; between 2010 and 2016, the regency’s population grew at an average annual rate of 1.4 percent.¹² However, the distribution of that growth is important to note: the sub-districts that are experiencing rapid industrialization and urbanization are absorbing the highest share of new residents. These include Bawen, Pringapus, Ungaran Barat, and Ungaran Timur (see **Figure 4**).

Figure 2
Central Java, Rural and Urban Areas



Source: Interior Ministry of Indonesia

Figure 3
Semarang Regency Administrative Map

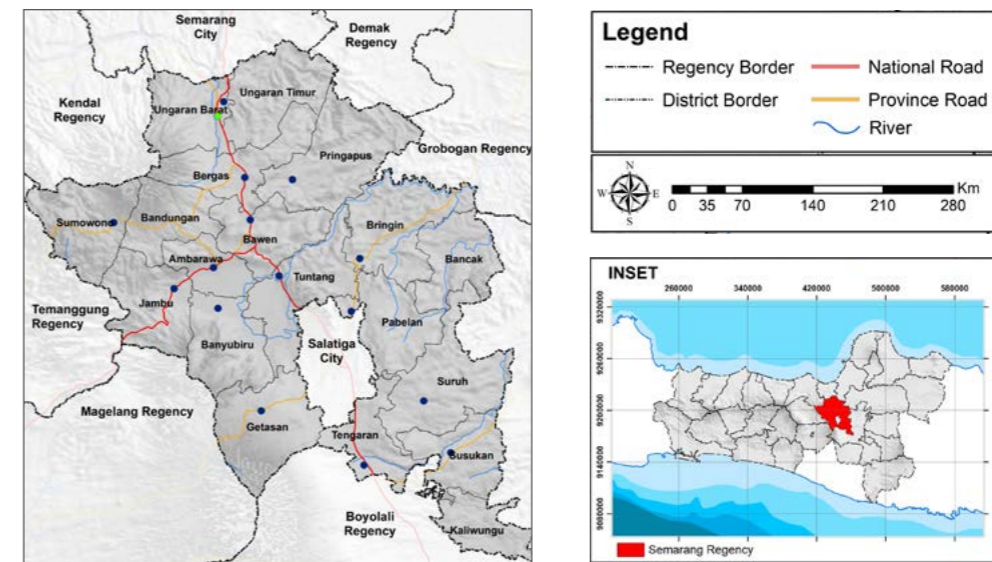
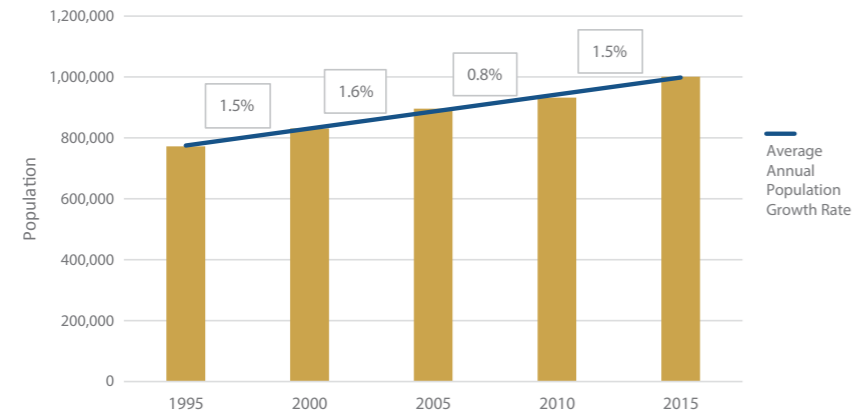
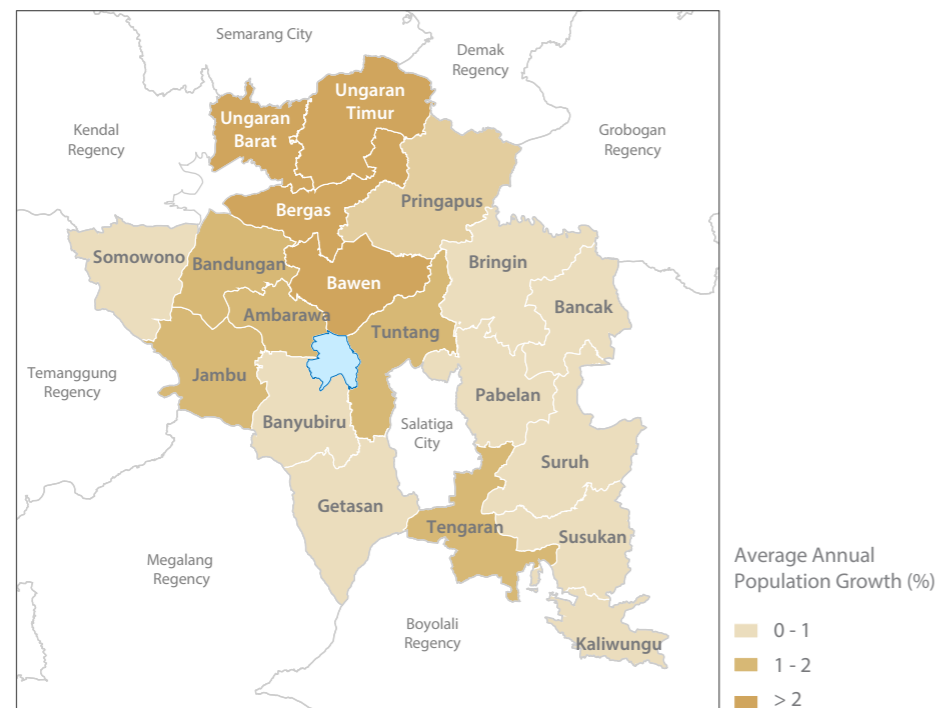


Figure 4a
Population of Semarang Regency, 1995-2015



Source: Semarang Regency Statistics, 1995-2015

Figure 4b
Sub-district Average Annual Population Growth (%) of Semarang Regency, 2010-2016



Source: Semarang Regency Statistics, 2010-2016

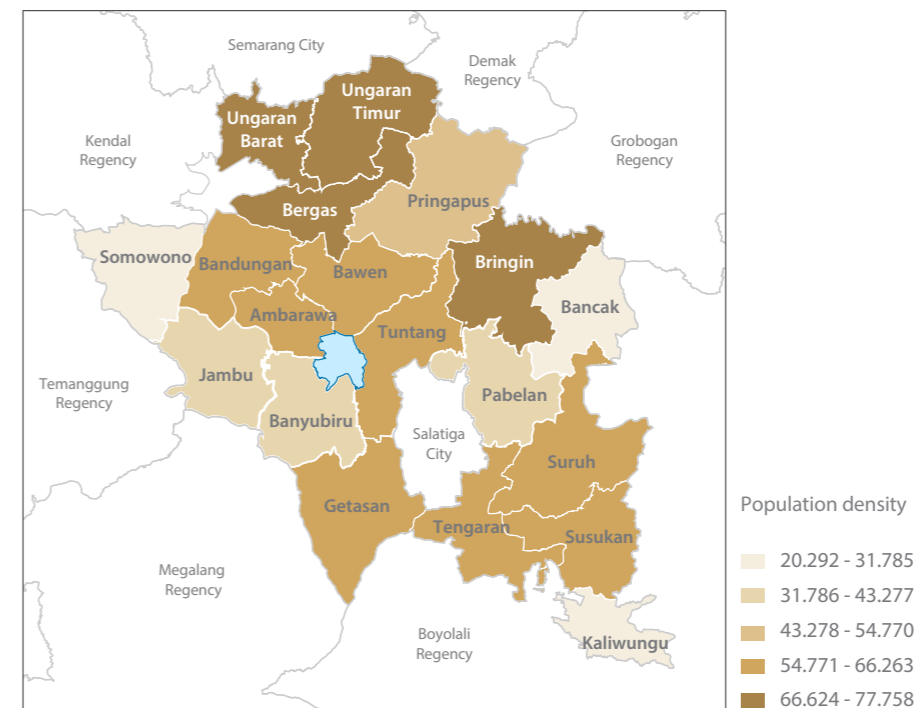
Due to their function as centers of urban facilities and activities, the sub-districts of Ambarawa, Ungaran Barat and Ungaran Timur have the highest population density in the regency, while Bergas and Tengaran have moderately high population density due to the growth of industrial activity (Figure 5).

Meanwhile, Bawen, Bergas, Pringapus, East Ungaran, West Ungaran, Bawenm and Tengaran have experienced the highest average annual population growth (Figure 4).

MIGRATION

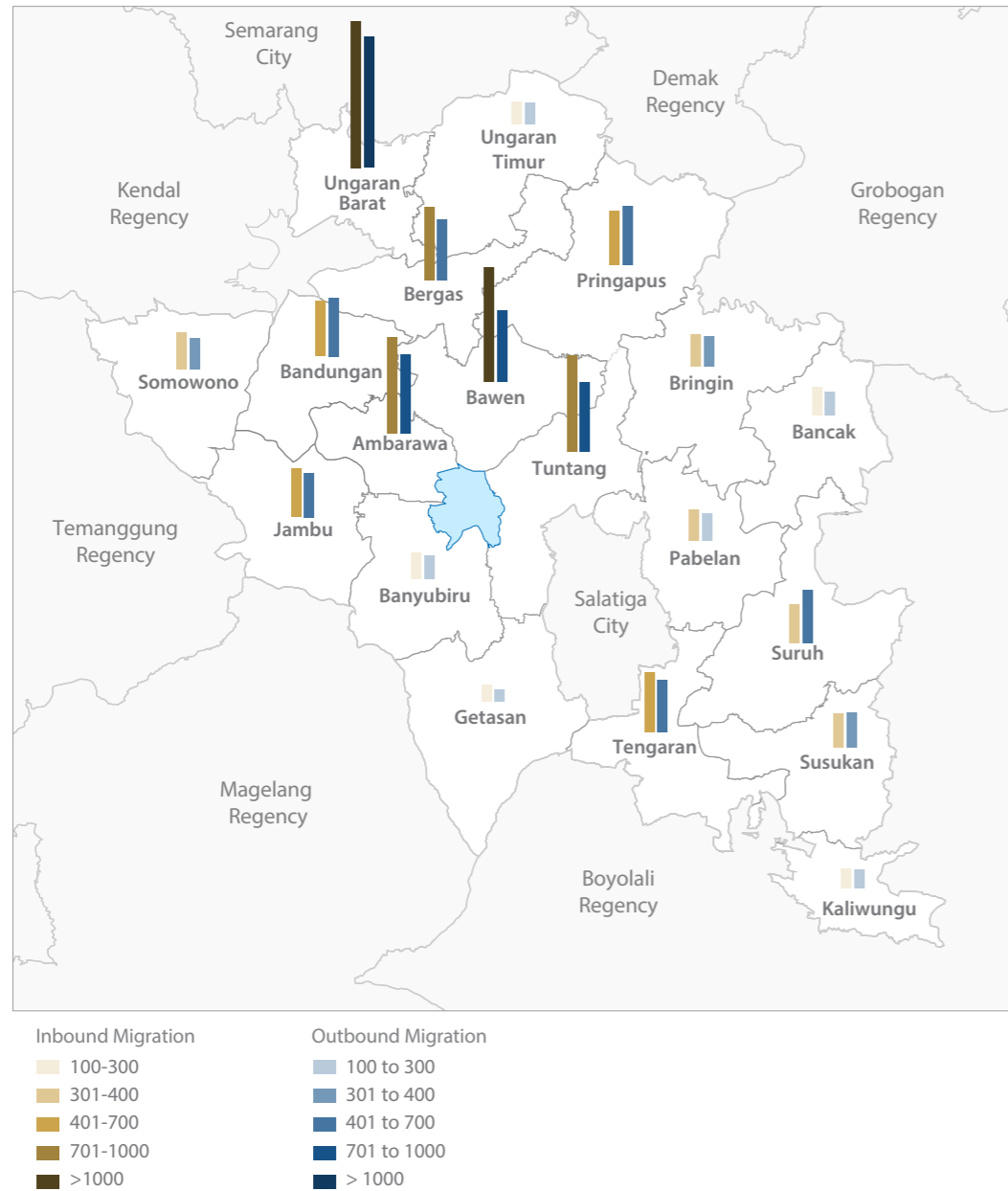
Semarang Regency experiences high rates of in- and out-migration (Figure 6). In 2015, there were 10,541 inbound migrants and 9,220 outbound migrants. This phenomenon is due in large part to the combination of rural and urban geographies in the regency. The highest number of in-migrants came to West Ungaran, which functions as the urban center the regency and contains its government administration. After this, Bawen, Ambarawa, Tuntang and Bergas saw the highest numbers; these are all areas where

Figure 5
Distribution of Population Density in Semarang Regency, 2015



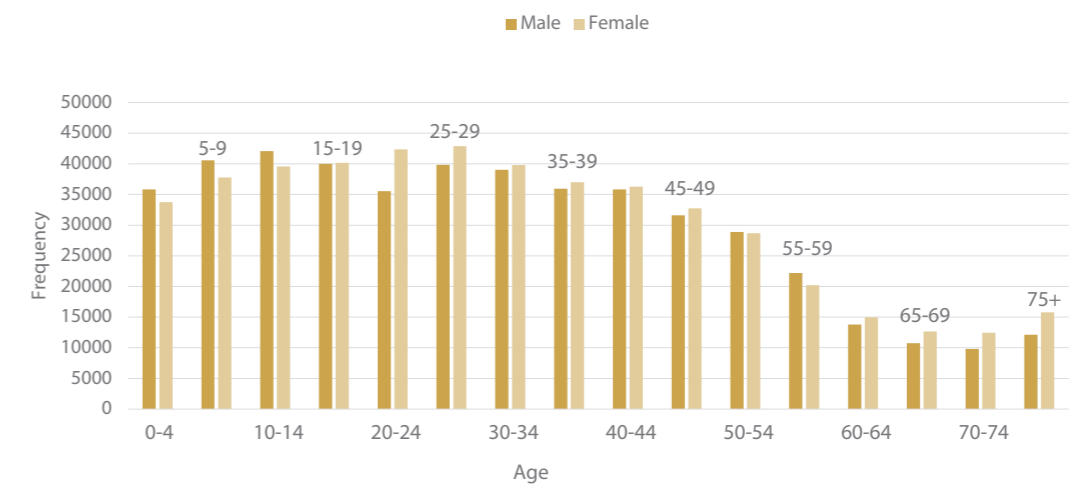
Source: Central Bureau of Statistics, 2016

Figure 6
Inbound and Outbound Migration in Sub-districts of Semarang Regency, 2015



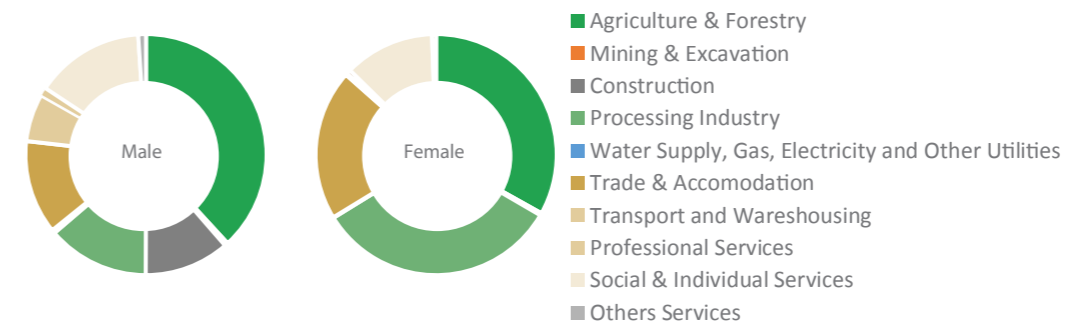
Source: Statistical Bureau of Semarang Regency, 2015

Figure 7
Frequency Distribution of Age in Semarang Regency, 2016



Source: Semarang Regency Statistics, 2016

Figure 8
Employment By Sector & Gender In Semarang Regency, 2016



Note: Professional Services include information & communications, financial institutions, real state, leasing and corporate services

Source: Semarang Regency Statistics, 2016

industrial activity has grown quickly. Meanwhile, the sub-districts of Suruh, Bandungan, Pringapus and Susukan saw more out-migration than in-migration. All have agriculture-based local economies.

Even though industrializing districts are witnessing high rates of in-migration, they also see a large volume of out-migration, suggesting that many of those who come for factory employment eventually move out. This and other migration-related trends are discussed in greater detail later in this report.

AGE AND GENDER

68.45% percent of Semarang Regency’s population falls within the working age range (15-64). Approximately 16.44 percent falls in the 15-19 and 20-24 age groups (Figure 7), slightly lower than in Indonesia as a whole (17.06 percent).¹³ The high share of youth in the regency illustrate

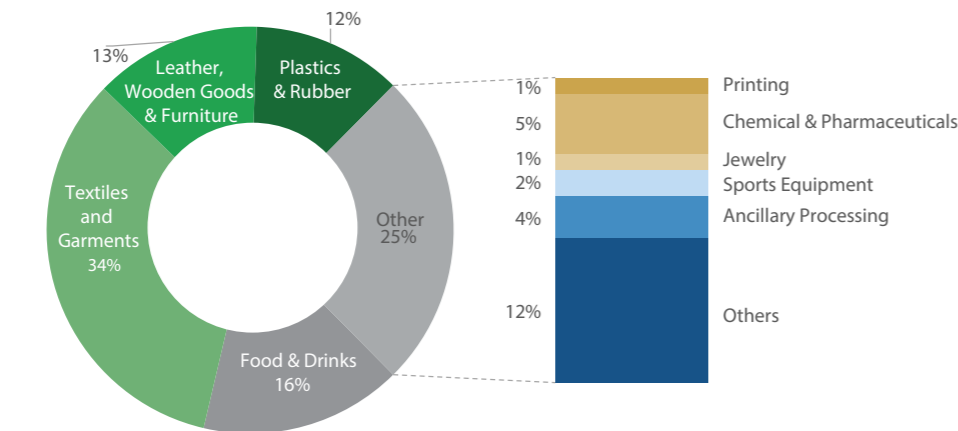
how the growth in factory jobs has shifted its demographics; most factory employees are youth.

Similarly, the gender distribution in Semarang Regency is affected by the rapid growth of garment manufacturing—a sector in which employers prefer to higher female employees. In the processing industry, women make up 66 percent of the workforce (Figure 8). Unsurprisingly, the widest gender gap is in the same age range where industrial employment is most common: 15-29 years of age.

ECONOMY

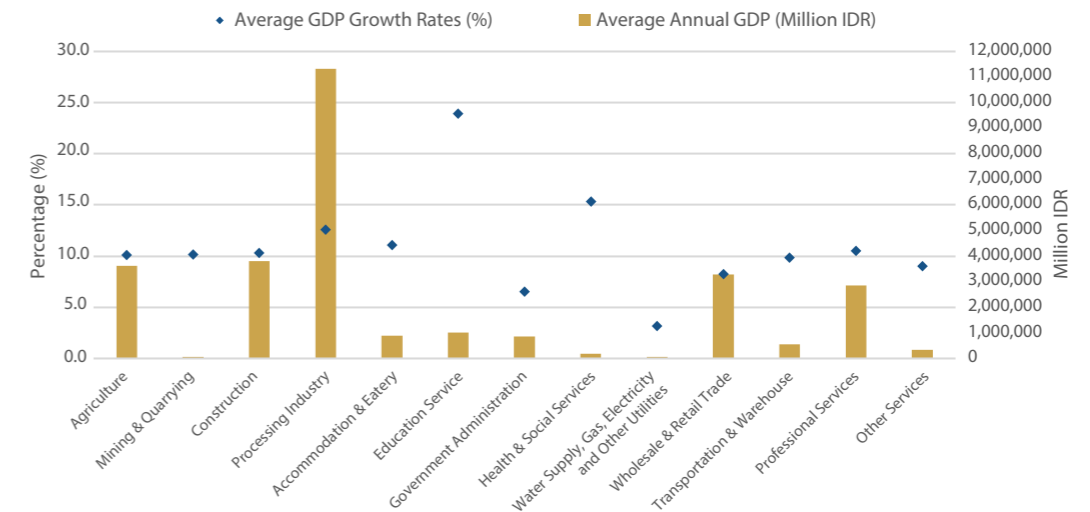
As discussed, manufacturing in Semarang Regency has become the driving force of the local economy. While the presence of large industries has a big impact on the economy, the contributions of small and medium industries have been also significant.

Figure 9
Distribution of Industrial Firms by Sector in Semarang Regency, 2016



Source: Semarang Regency Statistics, 2016

Figure 10
Average Annual GDP (Million Rupiah) and Average GDP Growth rates (%) by Sector, Semarang Regency, 2010-2015



Note: Professional Services include information & communications, financial institutions, real state, leasing and corporate services

Source: Semarang Regency Statistics, 2010-2015

Figure 11
Growth of Industry Distribution in Semarang Regency

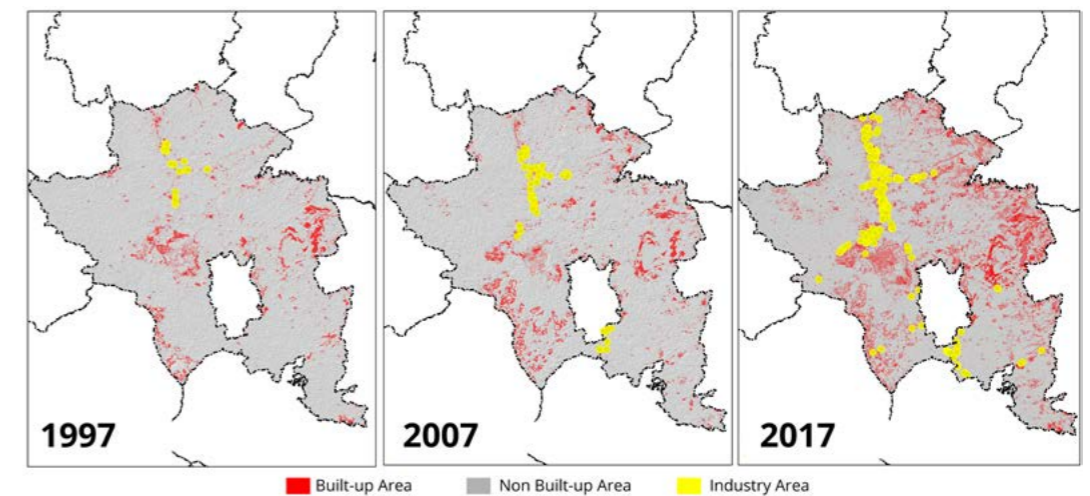
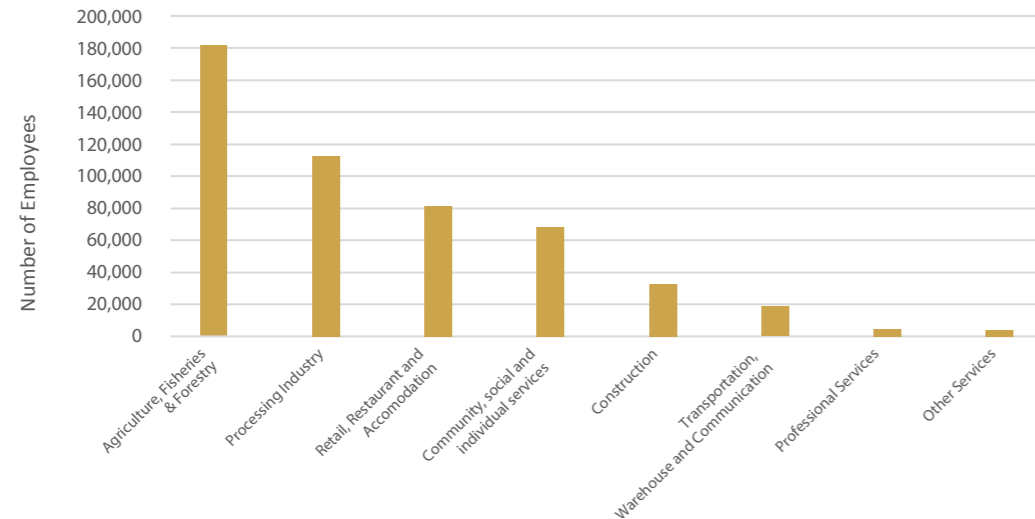


Figure 12
Average Annual Employment by Sector, Semarang Regency, 2010-2015



Note: Professional Services include information & communications, financial institutions, real state, leasing and corporate services

Source: Semarang Regency Statistics 2016

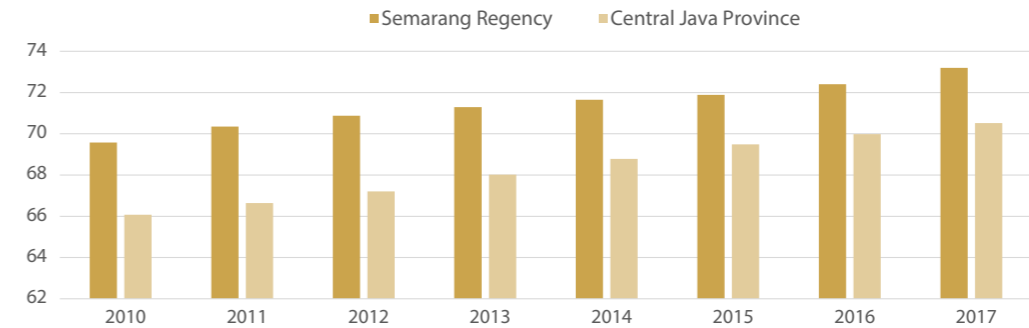
The industrial area in Semarang Regency has been developing since the 1990s, but in recent years has picked up speed. Between 2010 and 2014, the sub-districts of Tengaran, Bawen, Tuntang, and East Ungaran witnessed growth of over 200 percent in the number of enterprises operating, and 644 hectares of land (6.44 square kilometers) throughout the regency have been officially designated as industrial zones.¹⁴ While apparel and accessories dominate the manufacturing sector, food and beverage processors, furniture-making, and plastic manufacturers also have a strong presence in the regency (see **Figure 9**). By 2015, the sector constituted 40 percent of economic output—making it the largest contributor to the local economy (Semarang Regency Statistical Bureau, 2016). Construction

ranks second and agriculture a close third, but these sectors each contribute only about a third of the economic output of the industrial sector (**Figure 10**).

As of 2017, large and medium-sized firms were concentrated in Bergas (35,6%), Tengaran (14,3%), East Ungaran (10%), Bawen (11,2%), Pringapus (10%) and West Ungaran (4,3%)¹⁵—all proximate to the main road corridor running south from Semarang City toward Surakarta and Yogyakarta. Small industries are more spatially distributed across the regency. **Figure 11** shows the diffusion and growth of industrial activity over the period from 1997 to 2017.

With industrialization concentrated along the major infrastructure corridors and much of

Figure 13
Human Development Index, 2010-2017



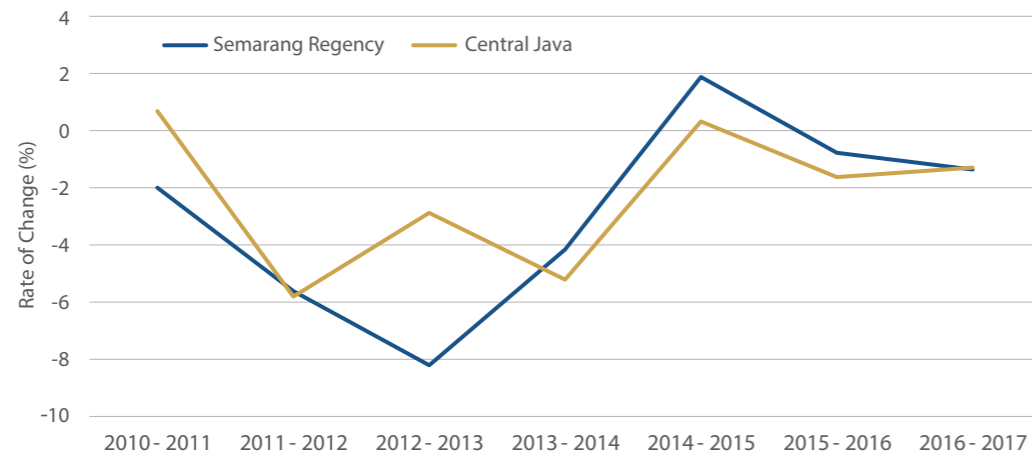
Source: Semarang Regency Statistics, 2010-2017

Table 1
Human Development Index, Semarang Regency and Neighboring Cities and Regencies, 2010-2017

	Year							
	2010	2011	2012	2013	2014	2015	2016	2017
Magelang Regency	63.28	64.16	64.75	65.86	66.35	67.13	67.85	68.39
Boyolali	68.76	69.14	69.51	69.81	70.34	71.74	72.18	72.64
Grobogan	64.56	65.41	66.39	67.43	67.77	68.05	68.52	68.87
Semarang Regency	69.58	70.35	70.88	71.29	71.65	71.89	72.4	73.2
Temanggung	63.08	64.14	64.91	65.52	65.97	67.07	67.6	68.34
Kendal	66.23	66.96	67.55	67.98	68.46	69.57	70.11	70.62
Magelang City	73.99	74.47	75	75.29	75.79	76.39	77.16	77.84
Salatiga City	78.35	78.76	79.1	79.37	79.98	80.96	81.14	81.68
Semarang City	76.96	77.58	78.04	78.68	79.24	80.23	81.19	82.01
Jawa Tengah Province	66.08	66.64	67.21	68.02	68.78	69.49	69.98	70.52

Source: Semarang Regency Statistics, 2010-2017

Figure 14
Poverty Growth Rate in Semarang Regency, 2010-2017



Source: Semarang Regency Statistics, 2010-2017

the regency still rural, the agricultural sector comes across as the largest employment creator. Meanwhile, the industrial sector has also contributed significantly towards employment generation (see **Figure 12**). As later sections of the report discuss in greater detail, industrial development has triggered the creation of new support activities in the surrounding area, such as workers' dormitories, restaurants, shops, and transportation services.

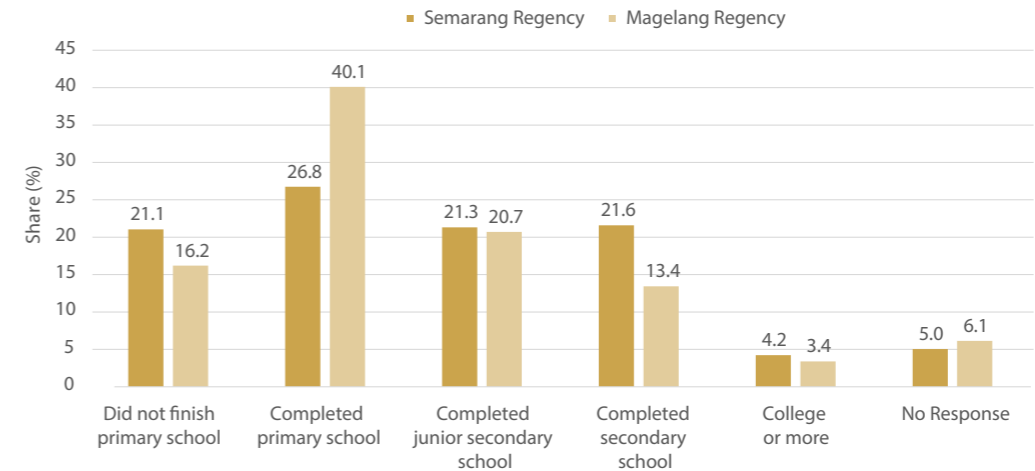
HUMAN DEVELOPMENT

As industrial growth has taken off in recent decades, household earnings in Semarang Regency have increased, the share of people living in poverty has decreased, and HDI levels have increased (see **Figures 13 & 14**). These indicators, however, have generally tracked similarly to the province as a whole. The average HDI for the province increased from 66.1 to 70.5 between

2010 and 2017, while in Semarang Regency it increased from 69.6 to 73.2. The poverty levels for the province has decreased by 14.69 percentage points over the same time period, and by 18.63 percentage points in Semarang Regency.¹⁶ These trends indicate that Semarang Regency fits within a broader context of growing prosperity and economic development in Central Java, which has historically been the least developed part of Java.

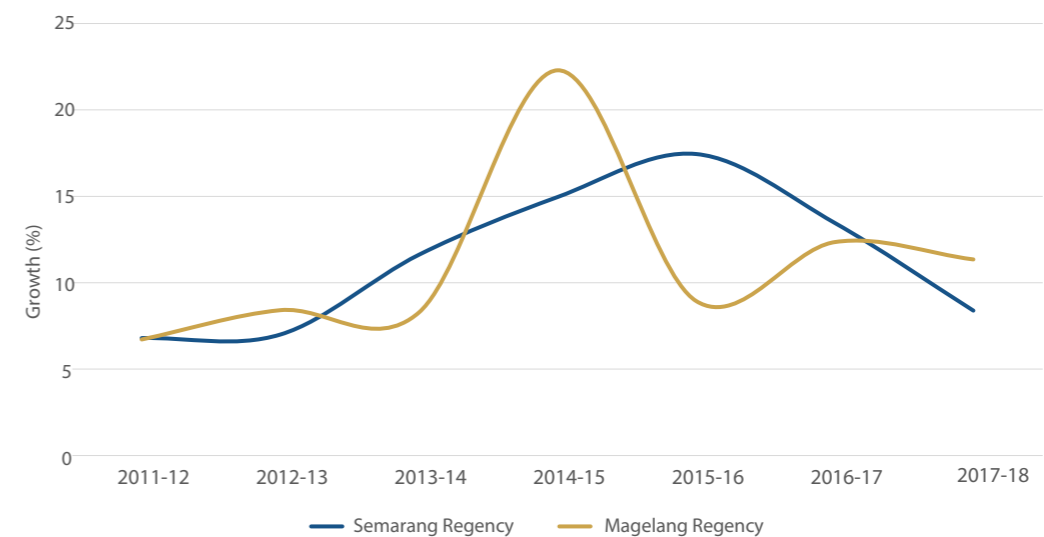
Education levels in Semarang Regency reflect the manufacturing activity that the regency hosts. Semarang Regency has a high share of high school graduates - 21.6 percent as compared to 13.4 percent in Magelang Regency. However, the two regencies have relatively similar shares of college graduates - 4.2 percent in Semarang Regency and 3.4 percent in Magelang. This illustrates that, while the labor market in Semarang Regency incentivizes graduation from

Figure 15
Distribution Across Highest Education Qualification Categories (%), 2017



Source: Central Java Province Statistics, 2017

Figure 16
Growth In Minimum Wage (%), Semarang Regency vs Magelang, 2011-2018



Source: Semarang Regency Statistics, 2010-2018

high school – which greatly enhances the chance of accessing industrial work – it does not offer much for college graduates.

Further, possibly because of a greater concentration of less educated workers in Magelang Regency (see **Figure 15**), minimum wages here are lower, as compared to in Semarang Regency, barring the unusually high growth in 2014-15 (see **Figure 16**). However, an interesting trend for Semarang Regency is the decline in minimum wage growth rates post 2015-16. It is possible that steady increments in the minimum wage growth rates up until 2015-16 may have attracted a large number of less skilled workers, leading to an excess supply.

The development of the industrial sector has improved the economic prosperity of Semarang Regency. This is evident from the fact that low welfare levels mostly exist in sub-districts without industrial growth, while the highest number of families in the most prosperous category is in the Bergas sub-district. This indicates that industrial activities directly and indirectly affect the welfare levels of the population.

GOVERNANCE

With growth in the formal economy, government revenue has increased markedly. In 2015, local government revenue reached over IDR 1,677 million rupiahs (US\$ 125,140) —an increase of 9.7 percent compared to the previous year.¹⁷ The largest share of this revenue is the balancing fund (56.8 percent), with locally generated revenue constituting 16.6 percent and the rest coming from other regional income.¹⁸

In recent years, Semarang Regency's government has received strong performance evaluations from the central government—ranking 28th out of nearly 500 regencies and cities in 2018.¹⁹

As in other local governments, the process of planning and development in Semarang Regency is carried out through a *musrenbang* process (*musyawarah perencanaan pembangunan*, or development planning dialogue). Examining implementation against the proposals outlined in the *musrenbang* is one way of assessing governance capacity. In 2015, 1,253 development proposals outlined in the *musrenbang* were implemented—73 percent of the target. The attendance rate of community representatives in the present *musrenbang* was 85 percent.

The *musrenbang* outline five priorities for the regency: 1) improving the quality of human resources; 2) developing competitive local products, 3) promoting good governance, 4) providing equitable regional infrastructure, and 5) promoting social development through community participation, gender equality and child protection.

While the government has implemented a series of policy measures in order to encourage the industrial sector, there are still some challenges that need to be addressed. For example, no government policies exist related to services for industrial workers. Moreover, much of the tax revenue generated by industrial development goes to the central government and is not captured at the local level.

Migration, Work and Life in Kabupaten Semarang: Findings from Primary Data

An extensive survey with 446 working youth (ages 15-29) living in Kabupaten Semarang, and 51 youth (ages 15-29) commuting to Kab. Semarang for work every day, was undertaken in 2017 and 2018, alongside detailed qualitative interviews and focus group discussions with working youth, government officials, business owners, and civil society organizations. Taken together, the data offer an important glimpse into who is coming to Semarang Regency in search of opportunity, what their experiences of the labor market are, and the kind of relationship they develop with the place. This section will speak to these three concerns before identifying their intersections and the important issues they raise for policymakers concerned with the positive role that Semarang Regency could play in creating opportunities for youth, and young migrants in particular.

WHO IS COMING TO SEMARANG REGENCY?

Migrants to Kabupaten Semarang are nearly all Javanese, and the vast majority also come from within Central Java. In fact, only 4.47 % of all those surveyed were migrants from outside the province. This reflects a broader trend in Indonesia, where peri-urban and small urban locations generally draw from a regional, rather than national, migration catchment area.

As described above, Semarang Regency straddles the murky line between rural and urban – given its

location on the peripheries of the city of Semarang and its strategic position on a large provincial highway that connects Semarang to Surakarta and Yogyakarta. Not only does the geographical location of the regency lend itself to the *desakota* pattern of urbanization, it also shapes the nature of migration to and from the regency. Specifically, migrants come from a mixture of rural, urban and 'rurban' locations.

On the one hand, Semarang Regency exemplifies the extended field of agglomeration that accompanies suburbanization – with coinciding migration and commuting patterns. Of those surveyed who migrated to Kabupaten Semarang at the age of 15 or older,^{iv} about one-quarter were born in the city of Semarang. Of the respondents who are commuters – living outside the regency of Semarang but commuting in from other regencies and cities – 80.4 percent live in the city of Semarang. Secondary data confirm that the prevalence of commuting in the other direction – from regency to city – is much higher.²⁰ These figures highlight the intimate economic and labor market linkages between Semarang Regency and Semarang City.

However, in-migration to Semarang Regency takes many other forms. Over 40 percent of youth migrants surveyed in the regency are from the "rurban" regencies of Magelang, Boyolali, Pati

^{iv} Throughout this report, "migrant" refers to those who moved at the age of 15 or older. We apply this definition in order to capture those whose migration involved some degree of individual agency, and because 15 is the standard age at which young people are counted as part of the working-age population.

and Kendal – meaning other regencies that, like Semarang Regency, are quickly urbanizing and host a mix of rural and urban activities.^v Another 28.1 percent of the migrants surveyed come from rural regencies, with the highest number originating in Grobogan and Temanggung.

In contrast to the way that internal migration is generally imagined – as a rural-to-urban pathway – the routes that migrants travel to Semarang Regency are a mix of rural-to-rurban, rurban-to-rurban and urban-to-rurban.

Therefore, in contrast to the way that internal migration is generally imagined – as a rural-to-urban pathway – the routes that migrants travel to Semarang Regency are a mix of rural-to-rurban, rurban-to-rurban and urban-to-rurban. One of the major implications of this migration landscape is that the distinctions between origin and destination on key metrics of social and economic development are not actually very significant. **Table 1** shows that Semarang Regency is situated in a geography of relatively high levels of human development – without stark differences between rural, ‘rurban’ and urban territories. What distinguishes Semarang Regency is the abundance of labor-intensive manufacturing firms, which offer formal economy jobs that generally pay the mandated minimum wage. In addition, it offers suburban quantities of space attractive to natives of Semarang City.

^v We define ‘rurban’ regencies as those with an urbanization rate higher than 27 percent – which is half the rate of urbanization of Indonesia as a whole.

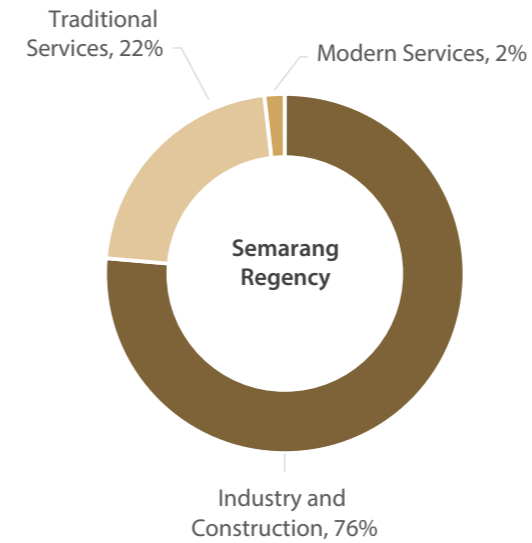
Those who come from rural and ‘rurban’ areas are more likely to be women, whereas urban migrants are more likely to be men. This is partially driven by the nature of work for which men and women move to the regency, which will be discussed further below. Those who come from urban areas, however, do not have dramatically different levels of education than those arriving from more rural geographies. In our survey, over 80 percent of migrants coming from cities (*kotas*) to Kabupaten Semarang have at least a high school (SMK or SMA) degree, while the figure is 60 percent among migrants coming from regencies. Few of the migrants from either cities or regencies have a university degree – just 1.2 percent overall. Moreover, because there is minimal disparity in development levels between these origins and Semarang Regency, the educational backgrounds of migrants and non-migrants are almost equivalent. Likewise, migrants and non-migrants come from similar socio-economic backgrounds. Among migrants, 54.5 percent have at least one parent working in agriculture, similar to the 50.6 percent among non-migrants. Roughly equal shares of migrants and non-migrants own land.

WHAT IS THE NATURE OF SEMARANG REGENCY’S LABOR MARKET?

As described above, the labor market in Semarang Regency – particularly in its urbanized corridor running along the regional highway – is strongly influenced by the presence of major manufacturing firms.

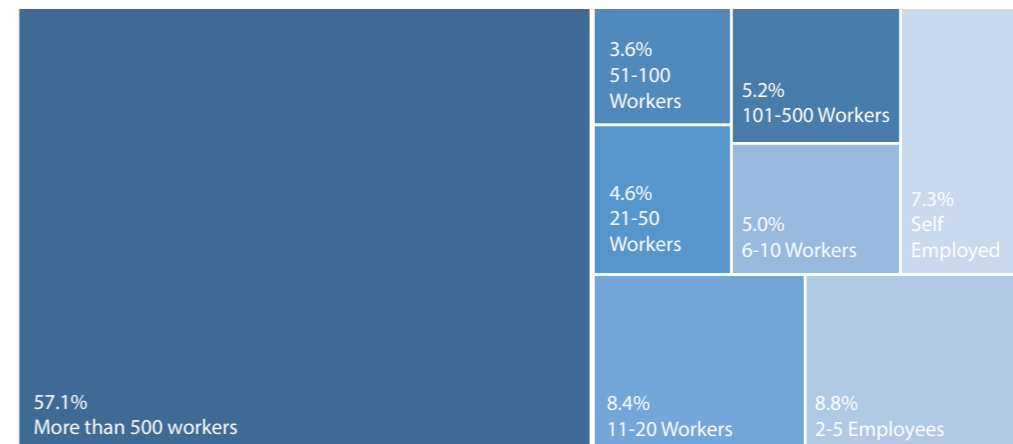
Given the volume of jobs created by these firms, 64.4 percent of the young workers in our survey are employed in industry (see **Figure 17**), and

Figure 17
Employment Distribution of Youth (Ages 15-29) by Sector, 2017



Source: Authors’ Calculation Based on Primary Data

Figure 18
Distribution of Employed Youth (Ages 15-29) by Size of Firm, 2017



Source: Authors’ Calculation Based on Primary Data

57.1 percent are employed in firms with more than 500 workers (see **Figure 18**).

Given the size of these companies and the fact that they are operating in the formal economy, workers generally receive the regency-level minimum wage – 1.745 million (US\$ 117) as of 2017^{vi} – an income higher than most would receive in the informal economy, let alone in agriculture. However, qualitative research helped to shine a light on the practices that many firms employ to keep wages low. For one, many follow a target-based production model. Workers must meet a certain target in the course of their workdays, and if they fail to meet this target, they stay longer – i.e. work overtime without additional compensation. Moreover, occupational hazards are extremely common. In our survey, 42 % of industrial workers reported that they had faced problems with their work environment, with 40.6 percent of these experiencing hostility from co-

workers or a supervisor, 14.84 percent facing a physical injury or health hazard, and nearly 44.5% reported facing both (see **Figure 19**). Only 28.2 percent of industrial workers described their job satisfaction as “somewhat” or “very” satisfied.

While such practices have come under scrutiny internationally as well as elsewhere in Indonesia, Semarang Regency has built a competitiveness strategy around the principle of minimal government interference in business operations in order to woo international investment. Moreover, officials in Semarang Regency advertise their workforce as “disciplined” – a subtle suggestion that they are unlikely to carry out strikes or other forms of organized protests against such management practices. Employers in labor-intensive manufacturing also view women as less likely to spur labor unrest. While the share of male industrial workers in our survey is substantial (45.6 percent), regression analysis

shows that women are 20 percent more likely^{vii,viii} to enter a factory job as compared to men.

Women’s participation in factory work is also guided by their familial relationships. Quantitative and qualitative data suggest that decisions by women to work in factories are treated as household decisions – with young women from lower- and lower-middle-class backgrounds in Java contributing to overall household income by working in labor-intensive industries. Whereas men are more likely to see their migration as an opportunity for personal advancement or even career-building, women are more likely to view migration with the objective of earning and contributing to family income. This helps to explain why female migrants are more likely to send remittances than male migrants – at rates of 57.7 versus 44.7 percent. Nevertheless, both men and women travel home frequently – an average of 8 to 9 times per year – and about six out of 10 hold plans to eventually return to their hometowns.

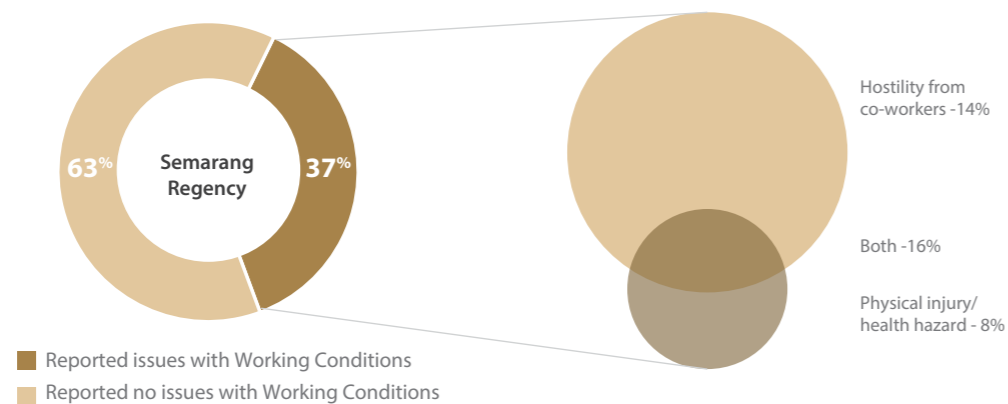
and in most cases proximate to their place of work. Over 70 percent of migrants live within five kilometers of their workplace and 23.5 percent walk to work. Due to the prevalence of *kosts*, 63.6 percent of female migrant workers aged 15-19 live with colleagues – providing a support network. The formal banking system also appears highly accessible to women; in our sample, a greater share of female migrants have bank accounts than male migrants (87.4 percent of female migrants as compared to 57.5 percent of male migrants). Women are also more likely to be part of a workers’ organization or union than men (37.8 percent of migrant women versus 8.5 percent of migrant men). Viewing these institutions as supportive of women may be a generous interpretation, but they nonetheless might play a role in explaining why families in rural parts of Java are comfortable allowing their daughters to migrate for work.

The formal economy of manufacturing in Semarang Regency is interwoven with a burgeoning informal economy of service providers. About 17 percent of those surveyed are employed in wholesale and retail trade and hospitality. Small enterprises catering directly to factory workers are clustered around industrial sites. *Kosts*, food vendors, motorcycle parking lots, laundry services, and mobile phone stores are just a few examples of the businesses that set up near factories. Another type of business that represents an economic “spillover” from the industrial sector is the small-scale informal manufacturer that uses scrap material produced by factories to

The formal economy of manufacturing in Semarang Regency is interwoven with a burgeoning informal economy of service providers.

Despite the burdens that fall on women – migration, factory work, and financial obligations to family – there exist certain kinds of formal and informal institutions that support them in navigating the labor market. For example, the *kost*, or boardinghouse system, offers women accommodation that is decent, safe, affordable,

Figure 19
Working Conditions Among Surveyed Industrial Workers



Source: Authors’ Calculation Based on Primary Data

^{vi} The official minimum wage was raised to 1.9 million IDR in the beginning of 2018. However, our data collection took place in 2017.

^{vii} Probabilities are calculated based on predictions from the regression model that controls for education, migrant status and labor union participation.

^{viii} Dependent variable: Whether the respondent works in a factory; Independent variables: Gender, migrant status, education, & labor union participation.

produce goods for the local market. For example, one entrepreneur makes scrap fabric into mats, cleaning towels and cushions, employing three other workers and supplying to vendors who sell his products in local markets. Nevertheless, the employment profile of the regency suggests that this latter type of spillover effect is relatively small.

The owners of informal enterprises that have clear linkages to the regency's factories are frequently former factory workers themselves. Of the entrepreneurs interviewed in qualitative research, many of those with previous labor market experience had worked in an industrial job. Given the exhausting nature of factory work – and the working conditions described above – neither factory workers nor owners view these jobs as a long-term career plan. Entrepreneurship is viewed by most factory workers as their exit from industrial life. Among migrants working in factories, 62.8 percent plan to return home, and 84.2 percent of these plan to open a business upon returning.

The exit from factory life is particularly relevant for women, who comprise 54.6 percent of the industrial workers in our sample. While working at a factory after marriage is common – 51.2 percent of female industrial workers in our sample are married and 47.6 percent have at least one child – the additional care work responsibilities that arise for women once they start a family make entrepreneurship attractive. Qualitative research revealed that the flexibility associated with running a small shop or home-based enterprise is highly valued among women.

^{ix} Refer to note 14 and 15.

^x Dependent variable: Time taken by the respondent to find a job; Independent variables: Gender, migrant status, education, labor union participation, & age.

The exit from factory life is particularly relevant for women. While working at a factory after marriage is common, the additional care work responsibilities that arise for women once they start a family make entrepreneurship attractive.

Importantly, industrial work in Semarang Regency is not specific to migrants. In fact, regression analysis confirms that being a migrant has no statistically significant bearing on the probability that a young person works in the industrial sector.^{ix} This complements the broader story – highlighted above – that the social and economic backgrounds of migrants and non-migrants are not substantially different. Apparently, this translates into similar outcomes in the labor market of Semarang Regency. For example, there is no statistically significant difference^x in the amount of time it takes for migrants in the regency to find a job or the likelihood that they will face an occupational hazard. One difference, however, highlighted in qualitative data, is the fact that non-migrants are able to use their networks to navigate out of factory jobs and into other jobs more quickly than are migrants. They also use their networks to find better factory jobs – for example, with a better supervisor. Another difference is that migrants are far less likely than their non-migrant counterparts to earn a salary in the lowest income bracket – less than 500,000 IDR (US\$ 35) per month. Rather than indicating higher levels of ability or education among migrants,

this simply signals that – given the similar levels of economic development between Semarang Regency and its surrounding geographies – an individual is unlikely to migrate for an income that could also be earned in his or her hometown. This is supported by the fact that not a single migrant in the survey reported that he or she moved due to agricultural distress.

HOW DO MIGRANTS RELATE TO THE CITY?

Gender and migration status emerge as important determinants of the day-to-day experience of living and working in Semarang Regency. Despite the roughly equivalent outcomes that migrants and non-migrants find in the labor market – owing to their similar socio-economic backgrounds – there are particular ways in which the migrant experience diverges from that of Semarang Regency natives. For example, the dependence on public transportation is much higher among migrants than non-migrants, especially among women. The share of migrant women using public transportation, while still low (12.3 percent), is twice as high as the share of non-migrant women and four times as high as the share of migrant men. In contrast, public health infrastructure is accessed least by migrant women. Only 11.3 percent of migrant women rely on government hospitals or *puskesmas* facilities for their health care, in contrast to 32.4 percent of non-migrant women, 24.2 percent of migrant men, and 52.3 percent of non-migrant men. This gap shows that there is still much room for improvement in ensuring that migrants – especially women – can access basic public services.

The migrants to Semarang Regency view it as similar to their hometowns, but with more factories and a higher minimum wage. This makes the motivation to migrate less complex than it might be for a migrant whose origin and destination are more starkly dissimilar.

The *kost* system is a major influence on migrants' experience, and particular female migrants' life in Semarang Regency. Over half of migrant women live in rented accommodation where they share a kitchen and washroom – a proxy for *kost*-style living. The figure is less than a third for migrant men. The communities that form around *kosts* become essential for young women in navigating a new environment and labor market, especially given that only 55.7 percent feel safe leaving home at night – in contrast to nearly all migrant men.

Perhaps the most important finding – emerging from qualitative focus group discussions – is that migrants to Kabupaten Semarang do not imagine it as a city at all. The “classic” rural-urban migration story, which is defined not only by a search for higher wages but also by a quest for excitement and new social and cultural experiences – exemplified by the Indonesian term “*merantau*” (which means to migrate, but in the sense of exploration). In contrast, the migrants to Semarang Regency view it as similar to their hometowns, but with more factories and a higher minimum wage. This makes the motivation to migrate less complex than it might

be for a migrant whose origin and destination are more starkly dissimilar. This is not to suggest that migrants have a one-dimensional world or that their life is limited to factory work; the fact that, according to our survey, the average migrant spends about 15 percent of the minimum wage income (IDR 275,000, or about \$20) on entertainment and leisure activities signals that young people moving to Semarang have a vibrant social life. Nevertheless, they do not perceive their experience outside of work as fundamentally different from what is available at home.

While very few participants in the survey or qualitative research had a specific plan to migrate from Semarang Regency to another city (other than their hometown), it was also a minimal share that said they would *not* consider migrating out if given a better opportunity or quality of life elsewhere. Migrants do not seem to be giving up ties to their hometowns very quickly; both men and women are more likely to have voted in local elections in their home city or regency than in Semarang Regency. These facts point to a kind of transience embedded in the economy and lifestyle of the regency.

Semarang Regency's Key Labor Market Challenges

As Semarang Regency experiences industrialization and new migration patterns – linking the cities of central Java to their rural regencies – it faces a particular set of challenges in creating a labor market that ensures newfound prosperity is shared and sustainable. In this section, we highlight these challenges before recommending particular approaches toward tackling them.

DEAD-END JOBS AND ASPIRATIONS FOR ENTREPRENEURSHIP

Both young people born in Semarang Regency and migrants who have made the regency their home see factory employment as a dead-end job. It is not difficult to see why. While the jobs provide a minimum wage and entrance into the formal economy – an opportunity that young people and their families clearly value – they do not

provide a career pathway. It is not only the target-based production model, frequent scolding from supervisors, and occupational hazards that cause young people to eventually leave their factory jobs. It is also boredom, which many young factory workers describe as among the biggest challenges of the job. They also feel frustrated that their work comes with so few opportunities for advancement. The assembly line workers who are promoted to the level of supervisor often wait up to seven years, according to focus group participants. Finally, as one focus group participant put it, there is “no future in factories.”

It is little secret that the business model of labor-intensive manufacturing in the form found in Semarang Regency is designed to extract value from young workers who are physically capable of enduring long, difficult working days, with the

expectation that they will leave the factory once they reach their early to mid-30s. Government officials in the regency acknowledge that the jobs being created through large-scale industrialization are not meant to provide lifelong careers.

Facilitating young people's transition out of factory work and into productive forms of employment is one of the greatest challenges that Semarang Regency faces.

Nonetheless, our interviews with local stakeholders offered little evidence that current policies are forging career pathways for young people making the inevitable exit from factory work. The vocational training infrastructure is designed for high school-aged youth, not workers with five to ten years of labor market experience who are “retiring” from factory jobs. Young people hold aspirations to run their own enterprises, but most admit that they do not have a specific idea of what type of business they could run, or what kind of skills and capital would be required to start. In fact, focus group participants agreed that youth working in small, informal enterprises were generally more equipped to become entrepreneurs, having gained a broader range of skills through exposure to more aspects of running and managing a business. In contrast to garment manufacturing, which is part of a complex global supply chain, youth working in the informal economy also tend to be employed by firms resembling the kind they might one day start themselves – a motorbike repair shop or restaurant, for example.

Facilitating young people's transition out of factory work and into productive forms of employment is one of the greatest challenges that Semarang Regency faces – especially as the number of factory “alumni” grows. The challenge also extends to the regencies from which migrant factory workers come – as many return home with as much as 30 years of their working lives yet to come. Entrepreneurship might be central to a strategy to help former factory workers find productive work, but it cannot be the only strategy. What's more, policy frameworks will have to help young people overcome the significant barriers to enterprise creation. These barriers are often higher for women – who form the bulk of former factory workers. For example, female entrepreneurs who we surveyed were less likely to receive start-up capital from external sources – such as financial institutions and family members – as compared to men.

THE INEVITABLE LOSS OF “FOOTLOOSE” INDUSTRIES

Local government in Semarang Regency built an economic development strategy around labor-intensive manufacturing – and this strategy can be credited with spurring large-scale job creation and inviting an influx of youth from around Central Java. However, in the same way that factory employment is ultimately a “dead-end job” for a young person, a local economy built on low-skilled production is also unsustainable. In addition to the problem of limited upward mobility for youth seeking something more than a factory job, the regency will find it increasingly difficult to retain these industries over time. Known internationally as “footloose industries,”

labor-intensive manufacturing in simple products like garments is notorious for moving swiftly in search of lower land and labor costs. In qualitative research, large producers complained about the constricted labor supply. While this hasn't yet taken the form of labor unrest – which is partly what drove manufacturers away from the peripheries of Jakarta – it currently takes the form of poaching: a firm will convince a pool of workers to move factories for better wages and working conditions. One interviewed firm had lost about 100 workers in a single year.

That factory workers are now empowered to seek out higher wages and better working conditions is a sign of economic development in the regency; employers now find themselves compelled to offer better jobs. However, international experience shows that this could eventually drive companies to relocate from Kabupaten Semarang. The long-term challenge is to support the development of a different kind of economy, with better jobs and more local roots. While the local government has identified tourism as a priority sector, there is still a lack of comprehensive support for sectors other than industry. Possible approaches to tackling this challenge are described below.

UNPLANNED URBANIZATION

Partly due to its governance structure as a *kabupaten* rather than *kota*, Semarang Regency has not yet evolved a comprehensive approach to managing urban development. The regency's current spatial structure is essentially a ribbon of dense, urbanized settlements stretching along the highway, with population densities diminishing as one moves away from the major road. Despite

the fact that much of the regency's population is still involved in agriculture, the scale of industrial development has affected employment and commuting patterns across the entire territory. The pace of change calls for stronger investment in urban planning; whether or not the regency is officially designated as a *kota*, it is becoming a collection of towns and cities that are confronting urban governance challenges.

Strengthening urban planning frameworks is crucial in ensuring that Semarang Regency mitigates the increased risks to quality of life that come with rapid urbanization.

Strengthening urban planning frameworks is crucial in ensuring that Semarang Regency mitigates the increased risks to quality of life that come with rapid urbanization – challenges around affordable housing, water and sanitation, and environmental degradation, for example. Urban planning is also crucial to ensuring that the economy continues to thrive. If the regency begins to experience the kinds of urban mismanagement that have become commonplace in large metropolitan areas of Indonesia – congestion, pollution, poor public transit – this will become another barrier to retaining jobs and supporting enterprise development. The national highway that runs through Kabupaten Semarang served as a boon to its development, but the areas directly adjacent to this trunk infrastructure are becoming saturated; a more holistic plan for urban development would open up new spaces for enterprise clusters to flourish.

Policy Recommendations

1. DEVELOP A LONG-TERM PLAN FOR UPGRADING MANUFACTURING AND CREATING A DIVERSE, RESILIENT LOCAL ECONOMY

Given the “footloose” nature of the manufacturing firms that have set up in Semarang Regency, it is only a matter of time before land and labor costs drive these businesses elsewhere. While the local government should seek to manage this transition carefully, they should not seek to stop it. The kinds of working conditions that factory workers in Semarang now face are the reason why they describe the jobs as a dead end.

An effective long-term strategy should be multi-pronged.

- First, **the regency must attract and retain the factories that will offer the highest-quality jobs** – which will mean basing its competitive advantage on a skilled and productive workforce, rather than the current strategy of promoting its workers as more “disciplined” than those in other parts of Indonesia. This will mean promoting skill development initiatives in higher-value-added skills – such as automobile and small electronics manufacturing.
- Second, **the government ought to promote stronger linkages between large manufacturing firms that locate in**

the regency and the local private sector.

These connections will help to entrench external investment in local business relationships. Not only will this facilitate knowledge spillovers, with local businesses becoming more productive by working with large companies; it will also create more incentive for these large manufacturers to stay. Such spillovers could also promote spatial diffusion of development into areas of the regency that are far away from the ribbon of industrial activity running along the highway corridor.

- Third, **local government must move more decisively toward diversifying the economy of the regency beyond manufacturing.** Several opportunities exist, some of which have already been identified by local government. For example, the hilly regions of Semarang Regency – such as Bandungan – are sensible locations for nature- and recreation-based tourism for the entire metropolitan region. The agriculture sector of the regency can also be upgraded to focus on higher-value-added goods like organic products, horticultural products, and the like. The flower market in Bandungan is already successful but could use more state support to flourish.

2. FORGE CAREER PATHWAYS FOR FORMER INDUSTRIAL WORKERS

Both factory workers and employers understand that the exit from factory work is inevitable and comes early in young people's working lives – usually when they are still in their 30s, a few decades before retirement. Yet so far little thought has been given to facilitating long-term career pathways for these workers. Many show interest in becoming entrepreneurs, but they infrequently have a specific plan or a particular skill they plan to harness. Others may want to continue working in the formal economy but with better working conditions and higher pay.

An effective policy framework for supporting workers transitioning out of factory work contains two broad components

- The first thing local government must do is **support those factory workers who seek to start their own businesses**. One step could be a savings program targeted at factory workers, which gives them a simple financial infrastructure for building seed capital that could be used to start a business in the future. The program could be a partnership with a public or private bank, and it could be tied in with low-cost start-up loans.

The government in Semarang Regency should also develop an entrepreneurship training program targeted specifically at factory workers who are exiting industrial work. The value of a curriculum geared toward this population is that it could

be designed to build on the kinds of skills that factory work helps to cultivate while filling gaps in the sorts of skills that a routinized job does not foster. For example, former apparel factory workers may have some technical skills when it comes to operating machinery, but may need more support when it comes to the financial aspects of running a business.

And third, these budding entrepreneurs will need a broader supportive infrastructure in order to succeed. This could take the form of a labor market matching program, which connects local training institutes or vocational schools (SMK) to new enterprises that are hiring. It could also take the form of strengthening business development services so that enterprises can not only form but grow.

- Second, **re-training programs should be offered to those who want to enter different kinds of formal economy work**. While supporting former factory workers in their quest to become entrepreneurs is important, the local government must not imagine that all those who are leaving factory work in their 20s and 30s are destined to become business owners. For one, creating thousands of micro-enterprises, each operated by one person, is not an effective job creation strategy. Rather, the focus of any entrepreneurship strategy should be supporting small and medium-sized enterprises with potential to grow and succeed in the formal economy.

Factory workers leaving the apparel sector could be the perfect candidates for re-training programs that equip them to work in higher-value-added manufacturing sectors. These workers already possess many of the soft skills required for working in the formal industrial economy. Offering re-training programs for those who want to continue in an industrial job, but with better pay and working conditions, would also help to provide the workforce needed to attract higher-value-added industries, as outlined above.

3. SUPPORT LOCAL COMMUNITIES IN PLANNING FOR THE RURAL-URBAN TRANSITION

Urbanization in Semarang Regency is now moving swiftly into erstwhile rural communities. While the last 20 years of urban development in the regency were concentrated along the highway corridor, these areas are now fully urban and land is no longer available for more development. This means that the pressures of urbanization are affecting a greater share of communities in the regency, and in particular communities that are still designated as *desas* – i.e. rural villages. Many places in the country where this process has already played out managed the transition poorly, and in many cases the result is congestion, environmental degradation and deteriorating quality of life.

Semarang Regency still has the opportunity to plan better for an urban transition that is on the verge of consuming a much greater share of its territory. This involves several steps:

- First, **local authorities in *desas* must be equipped to contribute to regional planning efforts**. This means sensitizing the leaders of these communities to the opportunities and challenges that come from urbanization and giving them toolkits for measuring change and determining community needs. These leaders should also be given technical support to use their central government block grants (*Danah Desa*) for projects that seek to manage urban growth (for example, through sanitation or road improvements).
- Second, **the regency government must make proactive rather than reactive decisions when it comes to managing urban growth**. For example, urban improvements such as public transportation, water and sanitation infrastructure, street lighting and sidewalks should be adopted now rather than when conditions become extreme. The regency government could work with village leaders to put *Danah Desa* funds toward these initiatives in a coordinated manner.
- Third, **planning and zoning should encourage a mixed, diverse and resilient economy** of the kind described above. The regency government should avoid the further creation of large industrial zones that fragment urban development and are accessible to only highly capitalized enterprises; rather, plans should create space for local enterprises that require smaller parcels of land and can be more

effectively integrated into a vibrant, connected urban fabric.

These policy recommendations are all linked. For example, supporting a more diverse and resilient economy is a key facet of forging career pathways for workers transitioning out of factory work. And managing the urban transition through effective, integrated and community-based planning will

enable a local private sector and job-rich economy to thrive in the long run. For this reason, these policies cannot be implemented in isolation of one another; effective coordination is imperative. Moreover, **these policies must be implemented with sensitivity to the needs of women, youth and migrants.** These groups are the backbone of Semarang Regency's economy today, and they remain key to its future.

Endnotes

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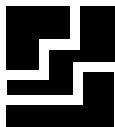
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