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Automotive Manufacturing Industry & the Increase of Labour Cost in Developing Country: A Sociological Analysis on the Impact of Neoliberalism towards Automotive Industry *Pt. Yamaha Manufacturing Indonesia*

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Abstract: This article focuses on the effect of Neoliberalism towards the relation between the state and corporate. Between the year 1970-1980's, capitalism and free trade has produced modernized economic atmosphere and economic growth in Indonesia's New Order period. The Yamaha Manufacturing Industry, a Japanese firm, is one concrete manifestation of the foreign economic apparatus that has not only provide infrastructural needs but has also boosted the Indonesia's economy. However, the Neoliberalist approach to economic growth may not always provide a balanced social-economic development. The free market tendency to pursue profit accumulation, in return, has indirectly caused the continual rise of wage cost. Social security is not covered completely by the state, and the corporate on the other hand, has become the receiving party to cover the Non-Wage cost.

Keywords: Neoliberalism, Labour Cost, Non-Wage Cost, Automative Industry.

Introduction

This article discusses on the positive and negative effect of economic growth on the state and industry. Manufacturing industries have brought significant contribution for Indonesia's economic development. The rise of Gross Domestic Product in the Indonesian economic structure (Elias & Noone, 2011) is supported by the manufacturing industries. During 1993-1998, 24.8% of the GDP is contributed by industries, and its continual development until the year 2010 has brought Indonesia as to be one of the major automotive-manufacturing states in the world (Utama, 2014: 20; EMIS, 2013: 4). One example of automotive industry that assembles motorcycle spare parts is *Yamaha Manufacturing Indonesia*, contributing up to 34.07% of the market sales in the year 2012 (IPSOS, 2013: 7).

In line with modernization theory, industrialization is one of the many important elements which promote development. Lewis and Rostow stated that economic development can be measured by the increase of Income per Capita (Martinussen, 1997: 61). Rostow argues that industrialization has encouraged a faster pace for developing countries to evolve into a more modern stage. However, Mrydal has also argued that development should also be accompanied with non-economic aspect of development, namely social development (Martinussen 1997: 80). Industrialisation is necessary to stimulate development process, but I would argue in this paper that there should be a balance and interdependence between economic and social development. Imbalances of the two aspects would cause indirect but significant disadvantages towards automotive industries and the long-term development of social-economy.

Previous Studies

Social Security is the resource funded by the state to protect workers from social-economic difficulties by providing adequate access to stable income/wage. The idea of Social Security would help local workers to provide sufficient funds to accomodate health requirements, pension, and other forms of needs (ILO, 1984: 2-3 in Leviveld, 1991: 3). The problem with imbalanced social-economic growth is developing countries tend to ignore the issue of social security, otherwise also known as non-wage cost. As industrial corporates now hold the responsibility of providing non-wage cost, they are demanded by the state to contribute from their profit margin (Allen, 2016: 27).

In addition, the 30% rise of Regional Minimum Wage Cost (*Upah Minimum Regional*) in Bekasi has accumulated higher Labour Cost that in turn has become a major difficulty for automotive industries such as *Yamaha Manufacturing Indonesia* (Allen, 2016; EMIS, 2013: 11, ILO, 2015; IPSOS, 2013:11). The increase of Labour Cost will lead to various consequences. Previous studies have argued that the increase of non-wage cost to manufacturing industries in OECD countries will result in job losses and the rise of unemployment (Azemar & Desbordes, 2009). Other Studies opposed, arguing that industries may not dismiss their workers since higher wage motivates higher productivity (Papps, 2011).

In this article, I will argue that the rise of labour cost may not result in unemployment from the automotive industry due to cheap labour cost in developing countries (Allen, 2016:15; Nag, 2007; Martinussen, 1997: 115-120). However, considering the continual rise of minimum wage, I argue this has become huge disadvantage for automotive industries such as *Yamaha Manufacturing Indonesia*, disabling the industry to compete on international scale (Okamoto & Sjohoolm, 1999). Effective production and capital accumulation are crucial elements for industries to maintain competitive pace in the global market; it would be difficult if industries have to split resources due to increasing labour cost.

Research Question

The question which I will attempt to discuss is: What are the positive and negative impacts of Neoliberal economic development have towards automotive industries such as *Yamaha Manufacturing Indonesia*? In order to describe both the benefit and imbalances of social-economic development, I would analyse by applying the Neo-Institutionalism perspective. The basic assumption of this perspective is that corporates are not the only social institution that constructs the national economy in developing countries (Martinussen, 1993 in Martinussen, 1997). It is the interplaybetween the state (Bekasi Regional Governmet) and corporate (*Yamaha Manufacturing Indonesia*) which promotes development.

The State's Role on the Internationalisation of Capital

Neoliberalism is the political-economic practices that propose freemarket and freetrade; the state is to protect the institutional framework for such practices (Harvey, 2005). I should begin this analysis by stating that it is the state's initiative which allowed foreign capital to enter Indonesia. Foreign investments have had a dominant role in the process of industrialisation in Indonesia. During 1967, Indonesia's policy on foreign capital (*Undang-Undang Penanaman Modal Asing*) had declared an open invitation for Transnational Corporates to invest capitals (Heryanto, 2003; Tijaja & Faisal, 2014). The arrival of International capital from manufacturing industrieshas boosted economic development through the production of transporatation and other types of infrastructures.

In 1970-1980, the New Order government had adopted the modernization paradigm and economic development has become the state's primary agenda. The Ministry of Trade and Industry together with the Investment Coordinating Body (*Badan Koordinasi Penanaman Modal*) had administered various policies to manage foreign capital inflow into the market (Tijaja & Faisal, 2014: 7). Yamaha entered Indonesia on 1971-1974 as an automotive industry specializing in assembling automotive spare parts. These foreign industrial capitalisations in ASEAN have not only provided cheap and effective transporation, it has indeed promoted major economic developments in Third World countries.

From the above description, I would like to highlight that the relationship between political and economic institution - between the state and industries, have stimulated industrialization through the means of manufacturing and automotive industries. And it is indeed factual, through various legislation and political protection of the free market, the Indonesia government had realised positive economic growth. This is proven by the fact that Indonesia had become the 15th biggest automotive-manufacturing state in the international world (Utama, 2014: 20; EMIS, 2013: 4).

The Latent Impact of Neoliberalism towards Manufacturing Industries

As the economic system reflects the Neoliberalist paradigm stressing that economic development should be maximised, various developing countries tend to focus on just economic development (Suharto, 2009: 3). Contrary to this, one should be critical that the premature society's growing demands cannot be met just by economic supply. It is indeed true that foreign investments and job opportunities are vital for economic growth and to reduce statistical fact of unemployment, but this paradigm omits importance of social security which should also be the state's major concern to achieve a balanced development (Martinussen, 1997: 80).

The Neoliberalistic economic development in Indonesia does not pay much attention to social development (Suharto, 2009). This leads down to another form of consequence, the state's responsibility to provide social security resources is transferred to corporates and industries as non-wage cost. The result is the inevitable and continual escalation of minimum wage cost, otherwise known as, labour cost (Azemar, 2009; Tabor, 2015) At the end, majority of manufacturing industries have to provide social security funds up to 10.24% - 11.74% from their profit margin.

The state initiates the inflow of foreign capital and has protected it with legal constitutions, but unknowingly it is also the state which indirectly left foreign investments open to social-economic threats due to uncontrolled escalation of non-wage cost. Non-wage cost will cut down corporates' investment resources to maintain international competition, and the weight of non-wage cost will reduce the flexibility to circulate resources and accumulate capitals effectively (Okamoto & Sjohoolm, 1999).

In order to accommodate this economic threat, corporates devise new strategies to increase product life cycle (Martinussen, 1997: 115). There are several methods that are used by industries such as *Yamaha Manufacturing Indonesia* to maintain competitive marketing: increase market sales on service or tertiary sector, while also producing new innovative products. The manufacturing industries shifted from producing homogenous automotive products for the mass society into producing heterogenous products which meet consumers' variety transportation usage patterns (Cusumano, 2007; Gecevska, 2010).

While automotive industries attempt to escape the aftershock of Neoliberalism by reducing manufacturing cost and emphasizes on researching new innovative products, I would still argue that these strategies are incapable to tackle the problem of escalating labour cost. These marketing and "cost-reduction" strategies delay the oncoming waves of escalating non-wage cost but may not be able to avoid it sooner or later. Rising labour cost will continue to remain while cost-reduction steps may not be able to "break-even" the continual accumulation of non-wage cost.

Thus, it is an irony when the state attempts to maximise economic growth, its latent effect has transferred the burden of "social security" to corporates which backlashed the orginial idea of freemarket and freetrade. This proves that the Neoliberalist approach to promote capitalism, competition, and freemarket economy may not always have the consistency to be maintained in the long run. The lack of social development logically has brought negative impact towards industries, and also to local workers who greatly depend on social security funded by formal economic sector (Allen, 2016). Perhaps this "aftershock effect" of Neoliberalism in developing countries such as Indonesia, if without control, is more negative than positive.

Conclusion

The Neo-Institutionalism perspective describes the political-economic relationship between the state and corporate in the scheme of social-economic development. I have found that at the beginning Neoliberalism has contributed to economic development in developing countries such as Indonesia. The state has an important role to initiate inflow of foreign capital through legal policies, protected foreign investments and industries to encourage economic growth and foreign corporates have also contributed to the country's national economic growth.

However, due to the omission of social development, the state has failed to protect foreign capitals for healthy competition. Since the state no longer holds major responsibility to distribute resources for social security, the problem of lacking social development has increased non-wage cost, bringing negative impact to corporates. While previous findings argue that the lack of social development by the corporates have caused disadvantages to local workers (Harrison & Scorse, 2004; Utama, 2014), the notion of this paper's argument may be just the reverse: corporates, or the capitalists, have become the "victims" of Neoliberalism.

The theoretical discovery in this study is: the maximisation for economy in a Neoliberalistic manner may not guarantee stable economic growth in the long run. If the state would provide sufficient attention on social development, this would be in another way, a protection for foreign investments and healthy competition in the market. It is quite unfortunate to note that the difficulty faced by foreign automotive industry such as Yamaha will not only endanger the employment of local workers in the future, but this also remarks the loss of trust for foreign corporates to invest in Indonesia. Neoliberalism may provide stimulating credits for prior economic growth, but without social development, it demands a greater "interest rate" in return.

Author Profile

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