

Dissertation Thesis Summary

SUPPLY AND DEMAND SIDE ANALYSES OF
STAGNANT FEMALE LABOR FORCE PARTICIPATION:
EVIDENCE FROM INDONESIA

Submitted by

Oishi Yoko

National Graduate Institute for Policy Studies (GRIPS)

Despite Indonesia's rapid economic growth and various social changes there, such as skill upgrading and fertility decline, the female labor force participation rate has been stagnant at 35 percent for two decades. In this thesis, we examine two large micro-data sets to identify long-term trends in female labor force participation and to acquire an understanding of the relationship between female employment and trade openness.

We investigate the seemingly stagnant female labor force participation rate from 1995 to 2007 using data from the National Labor Force Survey, which is conducted annually by the Indonesian Statistics Bureau. Two main drivers of female labor force participation in textbook models are the income effect and the substitution effect. U-shape theory literature holds that the magnitude of both effects changes as women's attitude toward work changes. When women are secondary earners, female labor supply is negatively associated with spouse's wages and positively

with own offered wage. However, as women become more career-oriented, the magnitude of both effects diminishes (Blau and Kahn, 2007).

We employ the methodology of Blau and Kahn (2007) to examine the evolution of women's own wage and cross-wage elasticities in Indonesia. We find a decrease in the magnitude of both elasticities for married women. Those findings are confirmed by decomposition results. Using the technique developed by Blinder and Oxaca (1973), we decompose the change in female labor force participation by change in average characteristics and change in sensitivity. The decrease in sensitivity to own offered wage and spouse's wage canceled each other, resulting in stagnation of female labor force participation.

We also investigate the impact of trade liberalization on relative demand for female workers, using firm-level data and tariff reduction in the 1990s as a natural experiment setting. Following Amiti and Konings (2007), we focus on two channels of the impact: domestic competition and adoption of technology.

The overall effect of trade liberalization on demand for female labor is uniformly obscure in the literature. Becker (1957) suggests that an increase in domestic market competition force employers to abandon discrimination against of minority workers. Thus, an increase in domestic competition would increase demand for female workers, who are included in minority workers. Galor and Weil (1996) claim new technology is complementary with female blue-collar workers. In contrast, Lee and Wie (2015) empirically illustrate that technology embedded imported material increases demand for skilled workers in Indonesia. If unskilled workers are composed of more female than male, trade liberalization would decrease demand for female workers.

We find that increased demand for female workers through domestic competition is limited, while decreased demand through technology adoption is significant. The decrease in

demand is observed especially in heavy industry and among production workers. This implies that heavy industry, which tends to hire skilled workers, reduces female production workers as the firms import more technology embedded intermediate materials as the input tariff decreases.