

# The Underground Economy, Deindustrialization, and Poverty: A Study on the Trade Network of Textiles and Product Textiles in Indonesia

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**Submission date:** 24-Mar-2021 11:21AM (UTC+0700)

**Submission ID:** 1540911642

**File name:** 4.The\_Underground\_Economy.pdf (536.9K)

**Word count:** 8365

**Character count:** 47367



# 2 The Underground Economy, Deindustrialization, and Poverty: A Study on the Trade Network of Textiles and Product Textiles in Indonesia

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This paper discusses the underground economy, a form of economic activity whose definition is often not clear and overlaps with the concepts of informal economy and illegal economy. This paper discusses the differences between the concepts and describes perspectives related to the existence of an underground economy. One standpoint views underground economy as a manifestation of new economic activities in the context of production and trading, reorganizing the current global economic situation. In this context, the underground economy is regarded as a new opportunity for economic freedom. However, there is also another perspective which assumes that the underground economy is a form of deindustrialization and social exclusion, which can be described as a decrease of social and individual freedom that influences social inequality and poverty. Marginalisation, exploitation, and vulnerability become important dimensions in the discussion on underground economy. This paper focuses on trade network of the textile and textile products sector in Indonesia. This sector is very strategically positioned in Indonesia's economy because it can engage much labour and have a large contribution to Indonesia's gross domestic product. Important findings of this study show the underground economy as a large and strong social network indeed, because not merely related to the informal economy and illegal economy, but also formal economy. This paper also discusses relations with state control (state regulatory powers), the role of society, and norm opposition in these cases. How can the



underground economy develop a new institutionalism and maintain formal and informal mechanism? How can the underground economy affect, either positively or negatively, Indonesia's economy especially in the textile and textile products sector? How can underground economy related with deindustrialization fact and affect to poverty especially in textile and product textile sector.

**Key words:** *underground economy, informal economy, illegal economy, opposition norm, deindustrialization, poverty, textile and product textile.*

## Introduction

### Foreword

The economic and multi-dimensional crisis of 1997 was followed by the downfall of the Soeharto regime in 1998. This event has led to changes in the Indonesian political and economic structure. It began with cooperation of the IMF (*The International Monetary Fund*) to work together on the process of democratization and to lead to the establishment of a new phase of the economy. The recommended solution to the economic conditions was to liberalize the market, leaving it cradled and affected by changes in the society and economy, lessening the role of the State. The liberalization of trade was considered a remedy to cure Indonesia's sickness. On the political front, the State changed drastically, from an authoritarian state to a democratically liberal political system

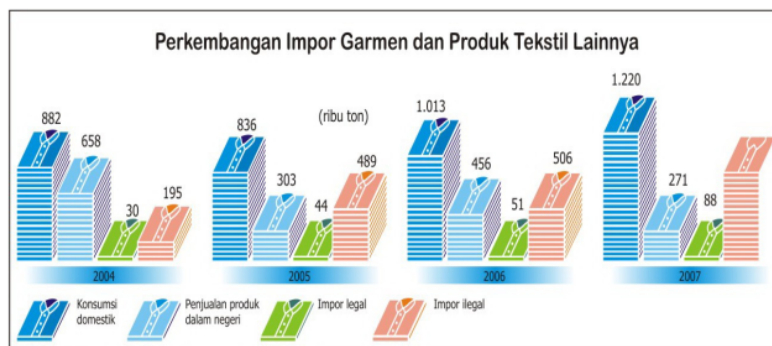
Changes also occurred in the economic sector. The years of 1997 to 1998 became a turning point to the changes that occurred in Indonesia. The industrial sector, which in the past two decades has been the source of economic contribution with added value, high employment and foreign exchange, as well as its contributions to the country's cultural transformation towards a more modern way of life, was experiencing a decline.

This period became the most difficult for the industrial sector as well as other economic sectors. To illustrate further, the textile industry also experienced a major decline. More than 450 factories closed down, and more than half of the labour force were discharged. In the region of Majalaya, West Java, one of the oldest centres for the textile industry in Indonesia dropped from 222 pre-existing textile industries to only 82 managing to survive (taken from Liputan6.com). This illustration will surely be more devastating if compared to the entire data gathered on the numbers of companies that had to shut down all over Indonesia. Unfortunately, the entire data of the numbers of factories that closed down and the numbers of laid off workers is not available comprehensively. As another example is the end of year report from the *Centre for Labor and Development Studies* (CLDA) which shows that the economic crisis and its recovery time has resulted in unemployment and massive lay offs

during the year of 2005, affecting up to 40.1 million workers. This number explicitly implies that there are 40.1 million workforce that are included in the category of fully unemployed, partially unemployed, and hidden unemployment (Kompas, 2005). From that data, it is specified that between 11.6 to 11.9 million people are completely without a job. That number is estimated to rise with the new macro policy of the increase in the cost of fuel up to twice in a year and significantly burdens and narrows down the movement of business.

The bankruptcy of the industrial sector, especially in the TPT (Tekstil dan Produk Tekstil – Textile and Textile Products) sector, should logically influence the decrease of productivity of the national textile sector as a whole. However, the reality shows the exact opposite. On one side, the national textile companies are facing difficulties in producing and surviving in the current conditions. On the other hand, there is a variety of textiles and its by-products in the market with cheap prices. These products are not only distributed or sold in shopping malls or by its large-scale central distributor, but also in the informal sector and has broadened its distribution area to different provinces in Indonesia. The question is, where have these products originated from? and how are these products are able to be sold with a relatively cheap price, well below the normal calculation of production costs?

One of the factors identified as the trigger to the loss of the competitiveness in the textile industry on the national market is the rampant practice of smuggling textiles and textile products (Kompas; 2005, Data API;2005). Data from the Indonesian Garment Association shows that more than half of the textile market and textile products in Indonesia are dominated by illegally imported products from China, Korea, Japan, Taiwan and Hong Kong. Even the official report of the Indonesian Textile Association (Asosiasi Pertekstilan Indonesia or API) states that the number of smuggled textiles and textile products continues to increase. The latest data show that the domestic consumption in Indonesia is filled with illegal imported products, as shown on the diagram below :



Source : Kompas December 28th, 2008



The important question to be asked of this phenomenon happening in Indonesia is not only the economic aspect concerning the loss of income from taxes, but also the narrowing of the freedom of movement of the national textile industry. The loss of employment opportunities as a result of the bankruptcy of large-scale to medium-scale textile companies, and the creation employment opportunities from the illegal product trade that is foreseen as only short-termed or temporary must also be questioned. Another important matter is the development of economic activities leading to illegal economic activity, also known as the *underground economy*, *shadow economy* or *black economy*. The activity of the *underground economy*, in reality, is marked by its production activity or processing half completed goods or completed goods and distributing it based on raw materials that are obtained illegally.

The spread of the *underground economy* with the abovementioned characteristics becomes an important and interesting matter for further study about that specific economic activity. What is the conceptual difference and similarity between the informal economy and illegal economy? How do we position the *underground economy* in Indonesia's current economic system? Is *underground economy* a form of economy of the global economy production network? Or is it part of the social exclusion or inclusion in the context of the new international division of labour? Does *underground economy* influence poverty in Indonesia?

#### ***The Debate Between Informal Economy Versus Underground Economy***

The selection and use of the *underground economy* concept still pose questions and debates. The concept of the *underground economy* is often inaccurately interpreted or used in an overlapping manner with the concept of the informal sector, micro-scale business, or even illegal economy.

According to Portes (2005), in the *sociology economy*, it clearly differentiates between the definition of informal economy with criminal economy and *underground economy*, based on the characteristics that they possess. The relationship between the State and civil society becomes one of the characteristics of the informal sector, and according to Portes, that relationship is a constant flow. In other words, the change of opinion towards the formal or informal economy is very much influenced by the changes of limits set by the State as part of the authority that the State possesses. According to Portes (?), the element that governs the informal economy is different between across nations and across time. Furthermore, Portes (2005) also explains that the informal economy is characterized as a constructed response of society towards the involvement of the State. A general characteristic of this phenomenon reflects on society's resistance over the State's power. The practice then becomes illegal because it develops with definite regulation, without registration and is unreported. The economy sector outside of regulation then grows to become the *underground economy*.



There are paradoxes that developed due to the presence of the informal economy that has a positive influence on the position of the State, and the repressing institution. The adoption of this paradox is highly dependent on the context or characteristics of the State. In the context of a developing country, for example, the State has policies concerning the protection of labour force and has limited capacity in the provision of working fields. In this context, the practitioners of informal economy are often positioned in 2 (two) functions, that are: as cheap labour and as the provider of income to most of the members of society in fulfilling their subsistent needs. In the context of that function, the informal economy is relied upon to be the provider of stability that can condition and avoid political instability and various employment problems in that country (Meagher;1995, Cheng and Gereffi ; 1994; Diaz;1993 in Portes).

Informal economy practitioners provide cheap goods and services for consumption by the labourers of the formal economy sector. The production and distribution processes are built to support the needs of the formal economy. That is why informal economy practitioners contributes to the livelihood of the formal labourers. Through that mechanism, the informal economy has contributed to the stability and economic perseverance in poor and/or developing countries. This reality explains how so many informal economy activities are generally more tolerated by the government, even though it is against regulations concerning licenses and tax law that applies in the country (Cross;2000, Kempe;1993, Birbeck; 1978 in Portes).

Another paradox is the presence of the informal economy is naturally assumed to be in existence and is growing to fulfill its role to support the continuation of the formal sector, whether from the labour, formal companies, or the State's point of view. On the other hand, the informal economy is positioned indirectly as the supporter of the government as the subsistent provider of employment for those who can accommodate in the formal sector due to the limited capability of the State. Through the role they play, the informal economy has a big part to play in maintaining the political stability of a country, especially in developing countries.

The use of the word informal in regards to informal economy is immediately faced with its opposite of the formal economy. In the usage of the concept of formal and informal, it is assumed that there is a natural division of space between those two types of economy. This division is based on the relations between the activities and the actors that are involved in the related economy with the role and authority run by the State. The State, in this context, has the authority to determine the economic activity as well as its dynamic relations as formal or informal. Generally, the authority of the State is based on the legal procedure and mechanism in the form of government policy, business license regulations, regulations on business taxes, regulations on business capital, and so forth. In Portes' definition of the concept and paradox,



it is also assumed that informal economy positively grows as a supporter of the previously on-going and developing formal economy.

Based on the studies conducted in several developing countries, it is found that the informal economy is not a planned development as part of the economy sector that balances the developments and dynamics of the formal economy. The presence of the informal economy, especially in Third World countries, accurately describes how weak the State's management towards social structure, economics, and political structures in a country is. The phenomenon of urbanization in Indonesia, for example, shows how weak the social, economic, and political structure is in the villages. This leads to a flow of mobility of inhabitants and the dynamics of the economy of society affects the economic, social, and political structure in the cities. This reality illustrates the type of transformation of the economic system production and the structure of labour from the villages to the cities.

In the context of transformation, the changes in the presence of the informal economy is often unplanned or expected by the State. The informal economy appears as society's response towards the weak and dysfunctional role of the State in providing space in the economy and income for most of its citizens. The State's limited ability in providing equal opportunities to certain groups of society forces them to earn a living and surviving on something they created naturally.

In reference to the characteristics and reality mentioned above, the informal sector cannot be wholly interpreted as a form of resistance of certain groups of society towards State control, as stated by Portes. The actors in the informal sector in developing countries, including Indonesia, are a group of economic activities that includes business practitioners (under-employment) in various sectors of business as well as all the related that cannot be included in the formal sector as a form of a modern economy. The illustration of the economic activity that is created often describes the limitations to the role of the State in creating formal employment opportunities and massive urge coming from the free market. The participation of individuals or groups of people in the economic activity is a non-selection situation and condition. In other words, informal economy is the only room of activity that is open for entrance in order to survive in a short term or long-term basis.

The shift and change in the relations between State, the market, and the society in the context of neoliberalism causes the role of the State in creating regulations in the economic sector for its citizens to become weaker. That is why the tendency of informal economy activities becomes uncontrollable. Every opportunity and room/space in this sector is used as an opportunity for work, for income, and a strategy in survival for one's self and family of most of the members of society. The resulting outcome is not only that it is physically disorganized, but such economic activity can make room for the growth and development of



the economic activity, relations, and institutions in the illegal economy. There is a connection between informal economy and the illegal economy as part of the strategy of subsistence of groups and sectors excluded from the global economic development that is going on in the meantime. This can also be seen as a form of mechanism and response of survival in conditions where there is a disability or limitation towards the capability of an individual or group, and they enter and try to adapt with the modern pattern of work. In Indonesia's context, this reality highlights that the number of individuals involved in this economic activity increases. This pattern can be observed on a large scale during the economic crisis of 1997-1998. During that time, large and medium-scaled formal companies adopted a policy of massive lay-offs due to the huge financial burden. Even the locations of large corporations moved to other developing countries such as China, Vietnam, etc. based on cheaper production costs. Those unfortunate to be laid off their jobs, in the end, opted to join the informal economy sector.

In the explanation and reality illustrated above, it is implied that there is a sense of individuals, groups, or sectors that do not meet the requirements of the formal economy being 'catapulted' into a group/room of their own. These actors are in the position of being defeated by the new economic policy that surfaces from the change in the relations between the State, the market, and society. This character is one of the characteristics mentioned by Feige (2005) as the character of the underground economy which is an economic activity that is excluded from the protection of law and administration. This includes matters concerning property, commercial license, labour contract, financial credit, as well as the social security system.

The implications of not having legal and administrative protection on their activities then result in their economic activity to be unreported therefore they can avoid tax regulations. Unreported economic activities lead to this activity to be unrecorded. The gap between this economic activity from the legal and administrative regulations of the State and the weak control and monitoring by the State leads to the closeness between this economic activity to the illegal economy that includes production and distribution of goods and services that is legally forbidden by the State (Feige;1990;991-992).

Based on the reality and the supported characteristics formulated by Feige (2005) for underground economy, this paper chooses to use the underground economy concept as it is more relevant in representing the emerging economic phenomenon. The activity of underground economy is also considered to be the spontaneous answer and full of creativity from the marginalized economic group, towards the conditions in the country that is not capable of fulfilling the basic needs and welfare for a large portion of the poor people living in the country.



Furthermore, No-Wook Pak characterized the underground economy into 2 (two) economic aspects: 1) recorded economy, and 2) hidden or unrecorded economy. Included in the hidden economy category is the non-market economic activities, consisting of home production industries, illegal economy activities, the production and distribution of illegal goods, dangerous chemicals, acts of legal market but are hidden due to reasons to avoid certain taxes. However, the study of underground economy focuses on hidden legal market activities (No-Wook Park ; 2005). This is also a more definite limit to the activity of underground economy. The division of underground economy as described by Park can be seen on the table depicted below:

	Monetary Transactions		Non-monetary Transactions	
Illegal Activities	Trade in stolen goods; drug dealing and manufacturing; prostitution; gambling; smuggling and fraud.		Barter: drugs, stolen goods, smuggling, etc. Produce or growing drugs for own use.	
Legal Activities	Tax Evasion	Tax Avoidance	Tax Evasion	Tax Avoidance
	Unreported income from self-employment; Wages, salaries and assets from unreported work related to legal services and goods	Employee discounts, fringe benefits	Barter of legal services and goods	All do-it-yourself work and neighbor help

Source : Rolf Mirus and Roger S. Smith (1997, p. 5), with additional remarks.

In his study, No-Wook Park explains several factors behind the reason of the emergence of underground economy, which are : 1) the high level of tax (regulation), 2) low social security, 3) increase in regulation, 4) the large effect of decreasing working hours in a week for laborers, 5) unemployment, 6) rejection on city/urban supremacy and loyalty towards public institutions (No-Wook Park ; 2005).

Based on the explanation above, it is evident that there is a cross-section of characteristics between what is understood as underground economy and informal economy. Both economic activities, as well as their dynamics, emerge from weak state conditions. Therefore, this results in a large gap to develop a form of the economy outside the control of the State. The implications will be that both activities will be unrecorded and unreported in the State's economic book entry (statistics, etc.). Both of these activities are a form of economic activity that emerged due to several factors that are : government policy as well as company strategy that impacts on work layoffs or decreasing working hours for laborers and effects on the high number of unemployment. In other words, the several factors stated by the No-Wook Park as



the triggering influences to the underground economy are also the reasons behind the emergence of informal economy.

The difference lies in the fact that the underground economy is a practice that purposefully tries different ways to avoid taxes, or an economic activity that develops different strategies to outwit government policy. This is only possible in a situation and under the condition where there is weak monitoring and low social security in a country. Underground economy can take the form of companies with large or medium-scale industries with a wide network to distribute their illegal goods. Meanwhile, the informal economy is generally an economic activity in a micro, small or medium-small scale. On that scale often times the business practitioners are not adequate enough to fulfil the formal requirements for business as well as their eligibility to fulfil tax duty, recording as well as government monitoring.

Conceptually, there is a definite division between the formal sector, informal sector, underground economy, and criminal economy. Referring to one of the limits mentioned by Portes (2005) with the limit on the production process, distribution, and end-product, it can be categorized into 3 (three) types of economy. To clearly explain Portes' categorization, can refer to the table below:

**Table 1 : Characteristics and Categories of Economy**

Production & Distribution Process	End Product	Type of Economy
Legal	Legal	Formal Economy
Illegal	Legal	Informal Economy
Illegal	Illegal	Underground Economy/ Criminal Economy

**Source :** Portes

The most interesting matter to discuss is how far these three types of economy are truly differentiated? How does structure and network relate the three type of economy? And to what extent is there a transformation of institutional structure and relations due to the interaction between the three types of economy? To what extent is the transformation enabling the emergence of another type of economy?

Field research findings show that the three types of economy merge with one another in different intensity. Practices of illegal imports are conducted by companies with legal importing licenses. Field findings also demonstrate that it is difficult to differentiate into legal and illegal categories the 4 (four) phase categories because often legal and illegal practices are fused on a certain level. The provision of raw materials is done by companies with a legal



permit but the mechanism in obtaining the raw materials are conducted illegally by developing different strategies to avoid taxes. Or in another finding, it is discovered that raw materials are obtained illegally through illegal markets or distributors, but the production process are done by companies with legal/formal permits and the end products and distribution are available in legal markets. In other words, even within the legal economy, there are practices of illegal economy. Findings from field research show that the category of economy is also influenced by the process of obtaining and provision of raw materials that will then determine the process of production, distribution and the end product. The addition of that criteria changes the characteristics defined by Portes and implicates on the differentiation of economy categorization, as shown in the table below:

**Table 2:** Economy Characteristics and Categories

Staple Supply Obtaining Mechanism	Production and Manufacturing Process	Final Product	Economy Type
Legal	Legal	Legal	Formal Economy
Legal/Illegal	Illegal	Legal	Informal Economy
Illegal	Illegal /legal	Legal	Underground Economy
Illegal	Illegal	Illegal	Illegal Economy/Crime Economy

**Source:** Field Research

The assimilation of the economic activities is connected to the lack of proper government supervision, the strong mechanism of informal regulations between underground economy practitioners, and the complexity to carry out the formal regulations (licensing) for a business. However, the practice of illegal importing that formal enterprises do is supported by strong finances and a vast information network within the context of passing state borders. Field research shows that illegal importing is supported by a network of business practitioners that distributes information among supplier's countries (China being the biggest one) and business practitioners in Indonesia. The said textile commodities and products are then being distributed to multiple chains of local distributors within many provinces, from manufacturers to final consumers.

The assimilation of several economic categories within practical order is facilitated and supported structurally through mechanism and rules of the game at the stage of staple supply provisioning and other stages. There is a variety of illegal staple supply provisioning strategies developed by business practitioners that are supported by government agents. Several of the strategies connected to tax aversion are:

**Diagram.** Business Practitioners' Illegal Importing Strategy



**Source:** Field Research

The variety of developed strategies, such as above, are conducted an act of tax aversion by reducing the value of taxes they are obliged to pay or total aversion of their obligation to pay taxes. The strategy does reduce the amount of cost while raising the amount of profit. The variety of developed strategies is supported by certain mechanisms and rules of the game so that the illegal economy persists on going. The said mechanism and/or rules of the game materialize in a network that involves several actors including business practitioners and government agents. The network is invisible yet possesses the power to keep illegal activities going and keep fulfilling the involved business practitioners' self-interest. The mechanism built using the network as a base works by overstepping government regulation implementations.

In the context of the model of new institutionalism by Victor Nee, field research shows the reality of institutional environment in macro levels (government regulation) that works against micro structures (individual and social group levels) for the establishment of a new institution that provides a place for those two levels in an institutional framework in the form of formal regulations and social relations that act as a base of economic acts. In other words, the decoupling of institutional macro and micro economic environments, for the establishment of a basic implementation regulation is for the sake of developed economic acts. The establishment of new economic institutions emphasizes on structural incentives through monitoring and enforcement of formal regulations as a mechanism for the rule of the game in effect.



***Underground Economy and Poverty in Production Reorganization Context of Global Economy***

There is a debate concerning how to face the emergence of underground economy. There are at least 2 (two) views about this. The first is to view underground economy as an impact of production and trading reorganization process that happened in global economy context. Current changes in the world make it highly possible for fast cross-state movements of information, communication, goods, finance, technology, and services. It implies that it's possible for a production process not to be integrated within tight geographical borders. Production processes can be divided into different geographical ranges. In other words, limitations of geographical borders in production processes and goods trading are no more. In relation to the changes, a new framework is needed to understand the patterns of production, distribution, and competition relation within the global economy context.

Within the context of those changes, there are 3 (three) new aspects regarding the production process and global trading, they are: 1) the improvement of introduction and trading in the form of close-ranged inputs, 2) dividing between production process stages to be done in many places that are geographically or state-wise, different, 3) the importance of a global production network framework that provides pressure to change government structures and distribution to that suitable of global economy (Gereffi ; 2005:166).

To understand the context of the said changes, Arndt and Kierzkowski in Gereffi (2005) used the word "fragmentation" to describe international work distribution that is marked by the location of production process placed in different states with different ownership structures that points out to a specific management. In a different theory, Hummel, Rapaport, and Yi in Gereffi (2005) used the concept of vertical specialization to describe changes in the production process in production and global trading. Vertical specialization caught the idea that the state can simultaneously build in-state and inter-state networks to produce and manufacture goods. There will be no more integration processes employing "production process under one roof" with that concept.

Those changes make it possible for a flexible shift and transfer in production process and trades. Comparative integrate strategy that specifically emphasizes the benefits of having a specific and competitive production location (specific enterprises) going massively. Along with the transformation process, there is a tendency to concentrate production process with high profit, extra points and expertise in certain states. Thus, shifting production processes with low profit, extra points, and expertise to other states, especially to developing countries. Changes in the global economy and trades in the 90's resulted in a new framework known as the Global Commodity Chains (GCC). In this new framework, there is the "global buyer" concept that defines the movement of enterprises with famous brands that distributes their



production process to different states. Gerrafrin (2005) defines the tendency as “manufacturers without factories” that acts as a key to move production and distribution networks in global formation.

<sup>6</sup> Within the context of this view, the underground economy phenomenon is understood as one of the new economic forms because of the economic and trading system within the new framework. Third world states, including Indonesia, became part of the area where production process concentration of mass-produced, finished, and half-finished goods has a lower calculation of production costs; a new form of the industry for Third World states. During the early stages, an unavoidable shift caused by the transformation is the orientation of third world states as a market for mass-produced goods from first world states. However, it is then followed with a shift in orientation between third world states where they act as markets for one another, from a third world state with high basic technology implementation and low production costs to other third world states with big market base with the characteristically low-technology-based industry. This includes markets for illegally imported goods. The tendency emerged as an open chance caused by the massive flow of information, goods, and services and the lack of proper supervision from the states.

Informality and underground economy are believed to be the fundamental characteristics of a developing country. The cause is a shift in inherent production mode in an economic transition caused by industrialization, modernism, and neoliberalism. Several works of literature have found that the tendency where informal sectors raise in quantity and the establishment of underground and illegal economy is caused by a shift in relations that happened <sup>12</sup> between the State, market, and society in neoliberalism context at the moment. The shift and <sup>14</sup> reduction of the State's roles in the form of retraction of various regulations that reduce subsidies for <sup>14</sup> people's basic needs and the role of the market in the form of massive financial <sup>5</sup> movements are viewed as the conditions that caused informal and underground economy. (see Johnson et al,1997; Schneider and Enste, 2000; Friedman et al., 2000; and Loayza, Oviedo, and Serv'en, 2005).

This paper's purpose is in understanding the underground economy phenomenon, not merely as an economic act, but concerning flexible economy specialisation and the translation of new economic freedom. This paper also goes over the possibility about to what extent underground economy is as an impact of a social exclusion process, reduction of freedom that implies to discrepancy and poverty, as well as the structures, institutions, and even cultural aspects contained within the economic activity.

Field research shows that there are various categories of workers or laborers that are involved in underground economy activities. Looking closely, those categories tend to overlap with the



categories of laborers from informal sectors. Sometimes even they substitute positions to one another. This condition is influenced by macro and micro situations around the area.

Some of the laborers involved in underground economy activities are laborers that no longer have the chance to work in formal sectors (factories). Some others struggle to find chances to work to provide for themselves and their families. One way to explain and categorize laborers that are involved with underground economy activities and informal sectors is that they are akin to an illusion. Those economic activities develop and represent their measures to meet their necessities and survival. What they do in order to meet those goals is more focused on income generating rather than the establishment of new working fields.

The characteristics of the laborers involved in underground economy activities falls under secondary laborers in Fevre's category. Doeringer and Piore then explained that secondary laborers are characterized by being a group of poor laborers that work low wages with a relatively bad working condition. This group is marked by a high labourer turnover rate. It is possible because secondary laborers have low working skills and are part of supportive production process. (Doeringer and Piore; in Jary; 1991). These laborers are involved in micro and small to medium-scaled businesses, whether they work independently or are under a production relation subcontract.

Reality on the field shows that laborers involved in underground economy activities work without formal work contracts that would regulate both the laborers' and the employers' rights and obligations. The payment system used is the informal contract work system. Laborers are not protected by work insurance privileges, nor are their work continuation guaranteed.

Even though there are several business practitioners that stated that they get more profit compared to while they work in formal sectors, but they must compensate for the lack of work insurance and the fragility of the work's continuation. A source interviewed for the research implies it as the following:

*It hasn't been long since I started working in the convection business. I used to work in a big garment factory, for nearly 17 years. But I didn't have anything, so I decided to resign. From what little savings I had I bought a used sewing machine. Then I started making these products. –source shows their “legging” products, Capri pants made from materials imported from Korea— This business is very profitable, miss. From this business I managed to buy a house. I used to rent this warehouse, now I can still use it as a place to pack my products before sending them to customers. I send my products to Mangga Dua Market. I have a regular there. No matter how many products I make,*



*they will take them all. Miss –source mentions the Chinese customer's name— (Lely, producer of Capri pants made from Korean-imported materials)*

The characteristics of the laborers involved in this research support other researches that were done to show that tax compositions are crucial. High taxes for small enterprises and self-employment pushed them to get involved in underground economy. Then the research defines types of workers who are involved in underground economy activity as: typically, workers in the underground economy were young people with minimal educational and professional qualifications. Many were single women, often those without family responsibilities. This sector of the economy was marked by high labor turnover. Its employees earned substandard wages, and they often toiled in unhealthy surroundings, frequently at home. Though wages were low, those who worked in the underground economy could avoid paying taxes and social security contributions--an aspect of the sector that made it attractive to employers as well as to laborers.

Research results concerning the underground economy in Indonesia shows that the practitioners involved show the characteristics of being low-educated, poor, unskilled, and are mostly immigrants. Moreover, they work without social protection whatsoever. There's no guarantee about the continuation of their activities, such as when they become targets of sweeping because they're considered illegal, cause bad traffic, become sources of crimes, or spoil the city's order, those factors cause they survival rate to sink even more. Underground economy activities are viewed as marginal, the practitioners involved are vulnerable because they're unprotected by work regulations. In other words, the characteristics of underground economy practitioners defines the social exclusion they experience and put them under the "poor people" category. They got involved in underground economy to survive because the State neglects them. They didn't exclude themselves voluntarily, but the exclusion was done by external agents. This introductory research shows the deep connection between underground economy practitioners, poverty, and social exclusion. Even though it is important to understand its further connection.

There is researched evidence that states that poverty is caused by underground economy. From their point of view, the activity they do as an alternative to opening a new employment opportunity despite the lack of profit of having social securities. By understanding underground economy as a method of survival for those low-educated, poor, unskilled, and immigrant practitioners, to mention several of the characteristics; macro economy regulations concerning the widening of modern sectors for workers and wages as an effort to develop the nation and lower poverty rate needs to be improved. Those macro economy regulations should be made in consideration to the importance of market institution, the State, and civil society as well as the relation caused by them.





The flow of goods through the economy transnationalization mechanism in effect has caused a massive decrease in number of job opportunities and the raise of unemployment rate. This is common in developing countries, including Indonesia, where rapid liberalization happens so private enterprises have no chance to respond and found new employment opportunities, while the government's role and power in this matter are very low to begin with. These groups removed by the regulations now go under underground economy sector.

Some exclusion patterns look very relevant to define the phenomenon that happened, thus practitioners concentrate on underground economy activities. The practitioners' characteristics and the economic activities they make direct social exclusion patterns that happen while defining the said practitioners' characteristics and economic activities. Practitioners concentrated within are practitioners removed due to exclusion patterns of macro economy development strategies, exclusion patterns of job markets, exclusion patterns of goods and services, exclusion patterns of lands, and exclusion patterns of security and protection from the State as a part of people's rights.



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