WHY DEVELOPMENT FEELS HARDER

Muhamad Chatib Basri

Precarious employment and rising expectations are fueling frustration across emerging economies

Affan Kurniawan was completing a food delivery order in Jakarta on the night of August 28, 2025, when he got caught up in protests outside Parliament. An armored police vehicle ran him down and did not stop. By morning, video of the 21-year-old's death was everywhere, sparking violent protests across Indonesia.

Discontent had been building ever since legislators voted themselves a lavish housing allowance and videos spread of them dancing as it passed. But it was Kurniawan's death—and the viral footage of it—that turned grievance into a mass movement.

Kurniawan was not poor. Drivers for Jakarta's super-app companies earn about $272 a month, nine times the $30 poverty line, according to a University of Indonesia study. Yet the streets filled with students and gig workers, a "precariat" anxious about jobs and justice, not the next meal.

To outsiders, this may seem puzzling. Indonesia's macroeconomic performance has been relatively strong: two decades of 5 percent growth, low inflation, fiscal deficits below 3 percent of GDP. Yet in Indonesia and across emerging Asia, prosperity on the dashboard coexists with anger on the street. Why does development feel harder even where countries grow?

My argument is simple. Growth changes the composition of jobs. When growth stops creating secure employment and upward mobility, insecurity spreads beyond the poor into the aspiring middle. Expectations outrun opportunities, and politics becomes the binding constraint.

Development is harder

Growth across emerging Asia has slowed since COVID, most visibly in Sri Lanka, Bangladesh, and Nepal. But the malaise is not only about slower growth. Thailand reached middle-income status, yet political turmoil has stalled its structural transformation. The Philippines leapt from agriculture to services—call centers and remittances—without building factories to carry workers into the middle class; its industrial output share peaked at far lower income than its neighbors'. The pattern rhymes: growth that no longer reliably means secure work.

Indonesia is an outlier, growth holding at its pre-COVID 5 percent—yet still it was rocked by protests. The issue is not slower growth but growth that no longer generates enough secure jobs.

Thirty years ago, 5 percent growth translated almost mechanically into formal manufacturing jobs. That conveyor belt has stalled. Value chains are dominated by a few incumbents, and automation and reshoring shrink the labor-intensive work that once absorbed school leavers. Growth now flows through capital-intensive resources—nickel smelting and other mineral processing, which spur output and exports but employ few workers—and through services.

The Harvard economist Dani Rodrik calls this premature deindustrialization: Countries shed manufacturing jobs before the income point at which advanced economies did. The mechanism is debated, but the pattern is clear—growth continues but absorbs less labor. The common thread is a middle class large enough to have expectations but not secure enough to feel safe.

The shrinking middle

Indonesia's experience sheds light on this paradox. Poverty declined, stability held, the nation reached middle-income status. But what kind of growth lay beneath?

There was an important shift after 2019. The middle class had shrunk from 21 percent of the population in that year to 16.6 percent by 2025, while the aspiring middle expanded to nearly half the country—about 137 million people in 2024. Indonesia's statistics office defines this group as households spending at between 1.5 and 3.5 times the national poverty line: families, in other words, that are no longer poor but far from secure, with almost nothing between them and the next shock. Even as the poorest were cushioned by social protection, households between the 50th and 80th percentiles saw their real consumption fall from 2019 to 2022, University of Indonesia economists Teguh Dartanto and Keanu Can show. Spending is equally cautious: Across emerging Asia, consumption runs lower relative to income than in peer economies, a hedge against thin safety nets that itself depresses welfare and feeds grievance.

The pattern echoes across emerging economies: The middle class is also shrinking in India, Thailand, Vietnam, and Brazil, where job losses and rising living costs, especially for housing, have reshaped the income distribution, according to IMF research. And it's not just in Indonesia that discontent has led to violence. In Chile, a 30 peso (US 4 cent) rise in Santiago subway fares triggered the country's worst unrest in a generation in 2019, spearheaded by a middle class squeezed by stagnant wages despite years of growth.

Open unemployment, as Aris Ananta, of the University of Indonesia, once observed, is a luxury

A demonstrator holds a portrait of Affan Kurniawan, who was run over by a police vehicle on August 28, 2025.

JUNI KRISWANTO/AFP VIA GETTY IMAGES

reserved for those with savings or family. The rest end up in the shadow economy. In Indonesia, 80 percent of new jobs in 2019–24 were informal, paying about $114 a month, below the $181 minimum wage. The educated young would rather wait for a job matching their aspirations than take informal work. The result is a middle class with credentials beyond employment options.

When reform gets harder

When the middle class feels insecure, governments grow cautious about policies that impose visible costs. Reform becomes hardest precisely when it is most needed.

A decade ago, Indonesia's fuel subsidies were shown to benefit mostly upper-income households that had cars and motorcycles. The rich gained most from the subsidies and could afford to lose them, while the poor could be compensated with cash payments. That logic carried important cuts in 2013–14. But as incomes rose, vehicle ownership spread further down the distribution. Removing subsidies no longer hits only the wealthy; it hits the anxious aspiring middle too.

With manufacturing thinned out, the natural place to look for jobs is services. But the old manufacturing-services dichotomy no longer describes how economies grow. Production has become "servicified": Design, software, logistics, and R&D add more value in a manufactured product than the parts and labor that go into assembly. The real divide is no longer between making things and providing services but between what can be traded across borders and what cannot. Still, services run into two limits.

The first is polarization, related to Baumol's "cost disease," named after the US economist who first described it in the 1960s. High-skill tradable services raise productivity but absorb few workers. Meanwhile, labor-absorbing services—care, education, hospitality—offer little productivity yet must pay wages that rise with the economy. As these labor-intensive services grow as a share of jobs, their relative cost climbs, while output per worker stagnates, raising prices for the very services the middle class depends on.

The second limit is that most services are not tradable. Barbers, nurses, food-stall owners cannot export their work, so services-led growth is capped by domestic purchasing power, itself bounded by the productivity of the rest of the economy. Manufacturing can outgrow the home market by selling to the world; services cannot, which is why deindustrialization at low income is corrosive: It removes the one sector that can lift the wage floor for everyone else.

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Political economy of the possible

The temptation is always the grand solution: a sweeping industrial policy with an impressive title and a flash launch. But reform works only when it fits the politics of the moment. As a former finance minister, I have seen this firsthand: There is always less room to maneuver than the plan requires. Resources, time, and political capital are limited, so you prioritize the feasible—and some of the most powerful reforms are nearly free.

Top priority is to protect the aspiring middle. The fix is not new spending but recalibration. Take electricity. Indonesia's state-owned electricity company holds data by name and address, including each customer's usage. Combined with social protection data, this can identify the poor and aspiring middle more accurately and direct subsidies to them while others pay full price. Targeting isn't perfect, but refining it reduces leakage. Conditional cash transfers can be recalibrated the same way. Compensate first, then reform.

Protection alone is not enough. The greater challenge is to restore labor absorption. The 2000s commodity boom produced mild Dutch disease: Favorable terms of trade pulled capital into resources, and a large home market gave manufacturers little reason to compete abroad. Today, less than 10 percent of export growth comes from new products in new markets, and capital keeps flowing into trading and resources, not manufacturing.

The real challenge is faster scalable, productive employment. Export-oriented investment in global value chains has done it before, bringing capital, markets, and training; tradable services may do it next. The constraint is scarce skills. High-skill activities such as advanced software design and specialized engineering absorb few workers and soon hit a skill ceiling. A better path is to absorb mid-skilled labor while raising capabilities on the job: electronics and components assembly, garment and footwear production for export, food processing, and digitally enabled work such as logistics and back-office services. The urgency is sharpened by AI—which threatens to cap how much labor even these activities absorb—and drives home more clearly the need to upgrade skills so that workers complement rather than compete with automation.

This argues for lean industrial policy, capability focused and fiscally disciplined, whose strongest lever is not state-run training but incentives for firms to train workers themselves, since they know their needs best.

But the real binding constraint is political economy. Over time, red tape generates income for those who administer it. Cutting it is not just about simplifying procedures; it takes away some bureaucrats' income, and they will resist. Good arguments won't win them over; the private sector must do more of the work. Indonesia has stayed relatively closed in trade, leaning on its home market until it approached that market's limits; lower barriers to trade in goods and services would pull firms into export-oriented value chains that bring capital, markets, and training. A cleaner business climate, broader financial inclusion, and lighter regulation will let private firms, not the state, create the jobs educated young Indonesians want. No new money needed. Letting go and taking on the interests that profit from the status quo are what it takes.

This is why institutions matter more than any single reform. A policy that rests on one minister's conviction can be undone by the next. The task is to write reform into law and institutions so that it outlives the person who originated it.

A long conversation

Across emerging Asia and beyond, economic policy alone is not enough. As incomes rise, middle-class demands shift from public goods that exist to public goods that work, from fairness as slogan to fairness as habit. People want and deserve honest explanations and transparent rules. This thread runs from Santiago to Jakarta to Manila. Even honesty is not always enough. Indonesia's 2013 fuel subsidy cuts were sound: The poor were compensated, the case was made openly—yet still people resisted. Being right is not the same as being accepted.

Kurniawan was not heard while he lived, only when he died. The work ahead is not only economic; it is the slower task of rebuilding trust that efforts will be rewarded. Indonesia shares this challenge with every economy whose dashboard prosperity has outrun confidence on the street. F&D

MUHAMAD CHATIB BASRI *is a visiting scholar at the Harvard Center for International Development and a former finance minister of Indonesia.*

App-based motorcycle taxi riders cruise a street in Jakarta.

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