

## Relationship of Unemployment Rate and Remittance with Indonesian Immigration in Malaysia

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### *Abstract*

*Malaysia is among the countries that rely heavily on foreign workers whose origin countries are mostly Indonesia, Bangladesh and Nepal. Indonesia is one of the world's major sources of labour supply. Thus, the paper aims to investigate the flow of Indonesian Immigration to Malaysia based on two selected factors, which are the unemployment rate in Indonesia and remittance received by Indonesia. There is a high unemployment rate in Indonesia, which is approaching 5.9 percent in 2014, and the amount of remittance received in Indonesia is also huge, around USD 8,551,164.47 in 2014. Simultaneously, there are a high number of Indonesian immigrant's workers in Malaysia, and it remains as the large share in the registered foreign workers in Malaysia, which is around 39 percent in 2014 and 2015. Thus, the purpose of this research paper is to study the relationship between Indonesia's unemployment rate and remittance with the migration flow of Indonesian citizen into Malaysia, with the focus that unemployment rate in Indonesia will be the push factor of emigration while the remittance will become the pull factor to the Indonesian migration to Malaysia. The secondary data used is from a period of 1982 to 2011. The variables involved will be Indonesia's unemployment rate, its remittance and the number of foreign workers in Malaysia. From the result, the paper found that both independent variables have a significant relationship with the immigration flow of Indonesian citizen to Malaysia. When the unemployment rate in Indonesia is high, the nation tends to seek for opportunities of employment in Malaysia or other countries. On the other hand, when there is more remittance received by Indonesia, the motivation goes to their citizens to work or stay abroad.*

**Keywords:** *Indonesia, migration, remittance, unemployment, labour*

### **1 Introduction**

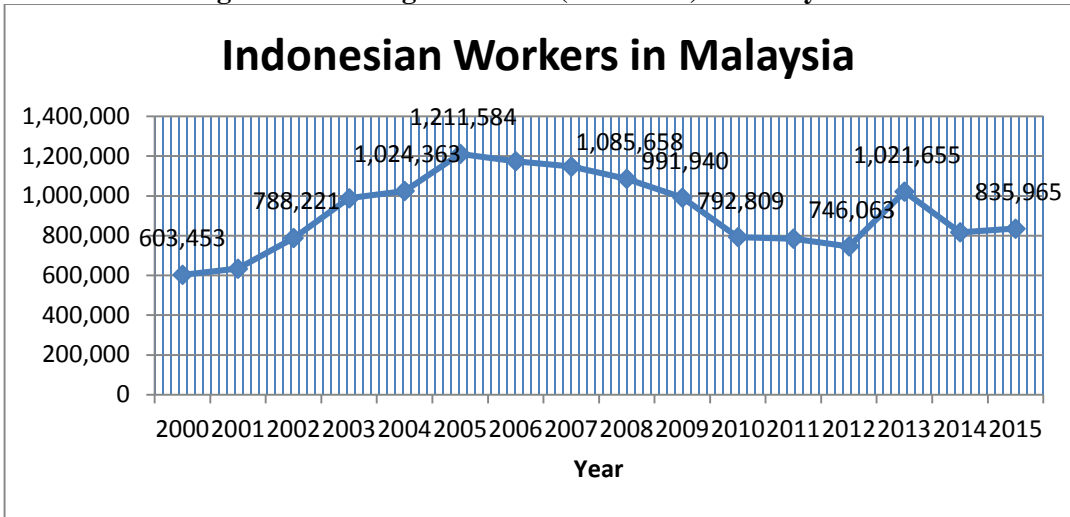
Malaysia is one of the countries with a large number of foreign workers, and the economy of the country is highly dependent on them (Yeoh, 2006). The neighbouring countries such as Indonesia, Bangladesh, Nepal, Myanmar and India mostly play their roles as supplier of foreign labors to Malaysia. Indonesia is one of the world's major sources of unskilled labour migrants. Many Indonesian migrant workers regard

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Malaysia as major destination of resettlement from 1990s. In 2015, Ministry of Home Affairs, Malaysia reported that there is the total number of 835,965 registered Indonesian workers, which comprises 39.2 percent of total foreign workers in Malaysia<sup>1</sup>. These workers are mostly concentrated in labour intensive industries such as construction, plantation and manufacturing. The change in the population of Indonesian workers in Malaysia is illustrated in the figure 1.1 below.

**Figure 1.1: Foreign Workers (Indonesia) in Malaysia**



Source of Raw Data: Immigration Department, Ministry of Home Affairs

Back to early 2000s, according to Human Rights Watch (2004), more than 90 percent of domestic workers in Malaysia are Indonesian. Domestic helpers include being maid, housekeeper and babysitter. It is also estimated that 83 percent of total migrant workers in Malaysia are Indonesian (Kaur, 2004). Statistically speaking, the number of Indonesian workers always precedes the number of other foreign workers in Malaysia. For many years, foreign workers come to seek job opportunities in Malaysia. The situation is more severe especially when the local workers refuse to carry out certain type of jobs, particularly in plantation, manufacturing and construction. Malaysian government adopts a proactive policy by recruiting immigrants, especially from Indonesia to fill the vacancy in particular industry (Yeoh, 2006).

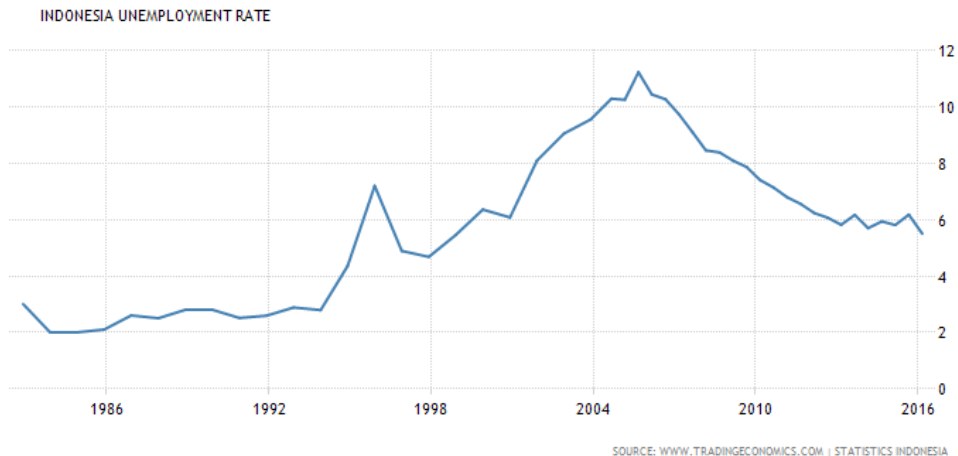
Since the early 1970s, the Indonesian government officially began to facilitate labour migration to the Middle East, East Asia and to wealthier countries within Southeast Asia. The evidence is found in its economic development plan, where the target of workers to be sent between 1979-84 was 100,000 workers; for 1994-99, the

<sup>1</sup> <http://www.epu.gov.my/en/population-and-labourforce>

target was 1.25 million workers, and for 1999-2003, the target increased to 2.8 million workers (Hugo, 2000; Kaur, 2004). Indonesia has a population of 249.9 million (2013). It has a labor surplus economy and unable to accommodate a large percentage of its working age population. As a result, the government of Indonesia views the action plan of sending workers to overseas as a way of generating foreign exchange and promoting economic growth.

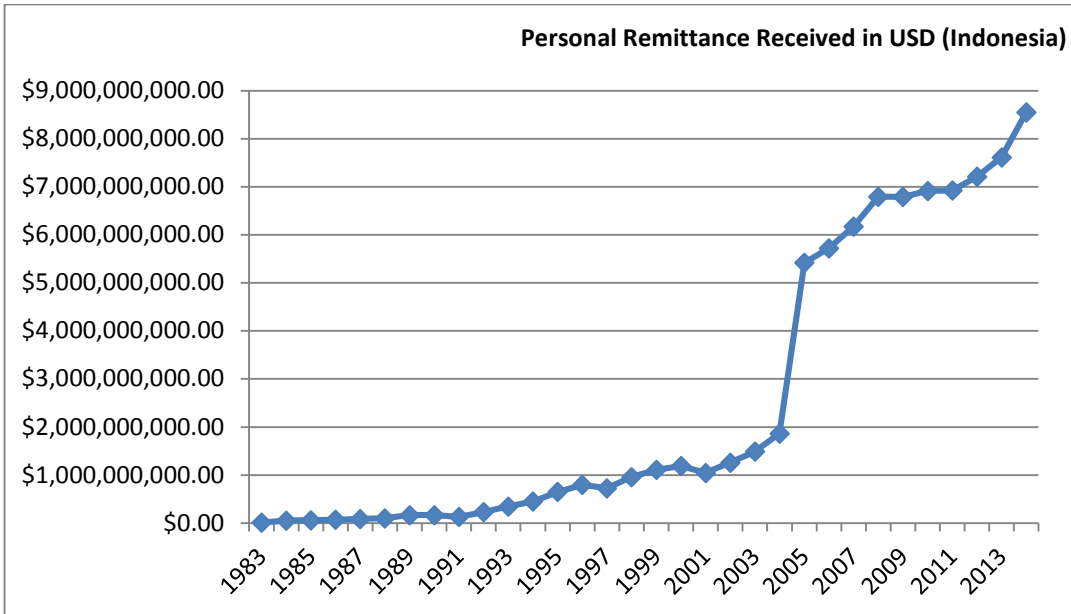
On the other hands, there is also a high unemployment rate in Indonesia, which is approaching 5.94 percent in 2014<sup>2</sup>. With the GDP per capita of USD 3,475.25 (2013), living with limited income in Indonesia will not be a wise choice. Economic reasons might drive the majority of Indonesian migrants to seek employment opportunities abroad, to improve their economic status especially for the sake of their family. At the same time, personal remittance received by Indonesia is sharply increasing year by year. Figure 1.2 and 1.3 illustrate the unemployment rate in Indonesia and personal remittance received by Indonesia over selected period of time.

**Figure 1.2: Unemployment Rate (Indonesia)**



<sup>2</sup> <http://www.indonesia-investments.com/finance/macroeconomic-indicators/unemployment/item255>

**Figure 1.3: Personal Remittances Received (Indonesia)**



Source: <http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?locations=ID>

Consequently, the paper aims to investigate the flow of Indonesian Immigration to Malaysia based on the two selected factors, which are unemployment rate and remittance. Unemployment rate in Indonesia will be the push factor while the personal remittance received in Indonesia will become the pull factor to the Indonesian migration to Malaysia. In general, the paper will be organized into five sections. Section 1 is introducing the study, while literature review will be presented in section 2. Section 3 will review on the methodology and findings will be discussed in section 4. There will be conclusion and recommendation in section 5.

## 2 Literature Review

### 2.1 Migration Flow

Emigration is the act of leaving one's resident country with the intent to settle elsewhere. Conversely, immigration describes the movement of persons into one country from another<sup>3</sup>. Both are acts of migration across national boundaries. Migration contributes to the urbanization and industrialization of a region. According to Usman and Tarmiji (2005), migration refers to a demographic process that involves of people who are moving from one area to another area and this population movement process

<sup>3</sup> <https://en.wikipedia.org/wiki/Emigration>

is significant to the socio-economics in the host country. Migration is complex because there are various types of migration such as temporary, return and return migration (Longhi, 2006).

On the other hand, migration can also happen within the country. Internal migration refers to a person who moved to the new place within a state, country or continent while external migration denotes to someone who wants to move to different state, country or continent. Emigration means leaving the country to live in another country while immigration refers to the action of coming to live permanently in a foreign country. In addition, there is also a seasonal migration which refers to people who moved due to certain circumstances or reasons. International migration is usually based on individual needs or decision given by family. The reasons of migration to other countries can be caused by economic and non-economic factors (Martin et. al., 2008).

## **2.2 Unemployment and GDP Growth in Indonesia**

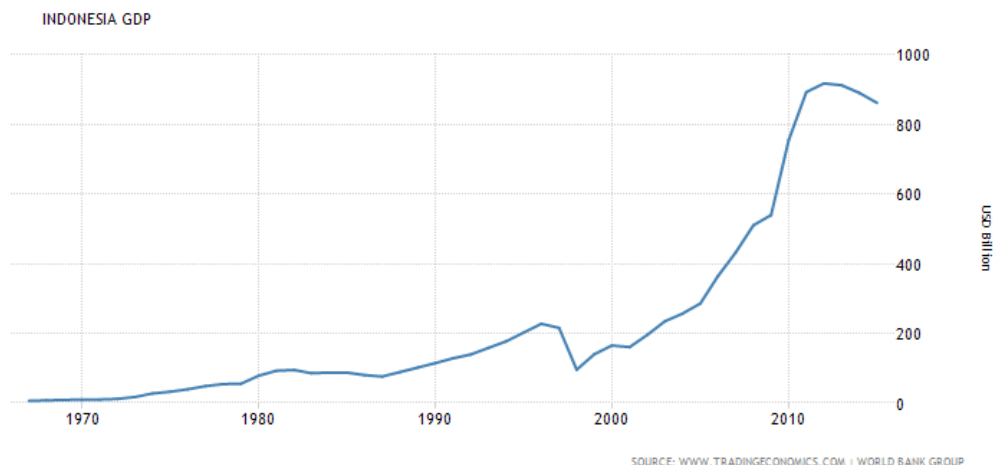
Based on figure 1.2, since 1990s, the average unemployment rate in Indonesia is always above 4 percent and the highest rate approached 12 percent. Jary (2008) stated that from the Indonesia's economic history from 1980 until 2008, the unemployment rate shun only three times: 1989-1990 (-7.1%), 1996-1997 (-4.1%) and 1999-2000 (-5.0%). In those periods, GDP growths were 9.0%, 4.9% and 2.0% respectively (Figure 2.1). In consequence, to reduce unemployment and promote economic growth, Indonesia has to create job opportunities for its nation. Employment opportunities are not limited to inside the country only, but can be found from outside as well.

In one Jamaican case study (2004), it suggested that poor unemployment opportunities and sluggish economic growth have contributed to Jamaican emigration<sup>4</sup>. Poverty rates are below that of comparable countries in Jamaica. Yet, the Jamaican story is marked by the paradoxes of low growth in GDP and high employment, despite high investment, and important achievements in poverty reduction. On the other hand, Indonesian's economy growth got a hit by the financial crisis in 1997. Employment has not fully recovered especially in industrial sector. Unemployment rate in the country steadily increased to about 9 to 10 percent, but started to decrease steadily to 6 percent after 2008. The post-crisis period coincide with the rapid growth in outward migration from Indonesia.

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<sup>4</sup> "World Bank. 2004. The Road to Sustained Growth in Jamaica. World Bank Country Study;. Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/15014> License: CC BY 3.0 IGO."

**Figure 2.1: GDP (Indonesia)**



### 2.3 Remittance Received in Indonesia

Migration flows respond largely to the expected differences in regional disparities in prosperity such as wage differentials (Harris and Todaro, 1970). According to Harris and Todaro (1970), people will migrate from one place to another if the net cost of migration exceeding their expected income. They expect to be better off by migrating. Differences in real income or expected income will drive the supply of migration in a large number of cases. At the same time, the relatively higher income and benefits offered by employers overseas are hard to resist. The important push factor that drives people from labour sending country is the promise of employment opportunities in receiving nations. This is highly important as the promise of employment opportunities in receiving nations allow migrants to send remittances back home to their families. Remittance is one of the important sources of external funding for fueling economic development (Taylor, 1999).

Remittance is defined as fund or other asset sent to their home countries by migrants, either themselves or in the form of compensation for border, short-term and seasonal employees (World Bank, 2013). Data of remittance are provided by the World Bank and follow World Bank definitions adopted from the International Monetary Fund nations. In some cases, trend analysis is restricted to nations with more than \$500 million in annual remittances, where year-to-year trends are less volatile. The World Bank reports only remittances sent via formal channels, such as banks and other businesses that transfer money. If unofficial remittances were counted, the total could be as much as 50% higher or more, according to household surveys and other evidence cited by the World Bank (World Bank, 2005)<sup>5</sup>.

<sup>5</sup> More in <http://www.pewhispanic.org/2013/11/15/remittances-to-latin-america-recover-but-not-to-mexico/>

## **2.4 Number of Non-Citizen in Malaysia**

According to the Department of Statistics of Malaysia (2017), Malaysia's population is estimated at 32.0 million with a population growth rate of 1.3 percent. Out of this number, 28.7 million is citizen and 3.3 million is non-citizen, which means that 1 out of 10 populations is non-citizen. In 2010, out of 28.3 million Malaysia populations, 91.8 percents is the citizen, while the rest (8.2 percent) is the non-citizen. Thus, there is an increasing number of non-citizens in Malaysia throughout the years. In 1980, the number of non-citizen in Malaysia hardly reached 30,000 (World Bank). However, they are around 125 000 in 1990, and boost up to over 200 000 in 2008.

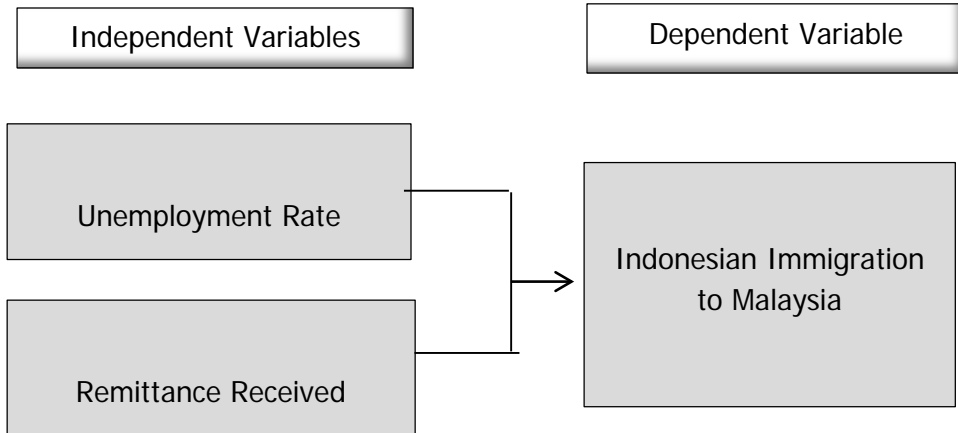
## **2.5 Relationship between Unemployment Rate and Remittance with Immigration**

According to the International Organization of Migration (IOM, 2010), unemployment is one of the main push factors driving international migration. Thus, it is expected to see that there is a positive relationship between the unemployment and immigration. This finding is supported by Amarjit Kaur (2004), Firdausy (2005) and Hugo (2000). It is also predicted that there is a positive relationship between remittances received by the labour sending country to the migration flow of respective country as stated by Harris and Todaro (1970), Bauer and Zimmerman (1999) and Abella and Ducanes (2009).

## **3.0 Methodology**

The main purpose of this study is to examine the relationship between Indonesian Immigration to Malaysia with two selected factors, which are the unemployment rate in Indonesia and remittance received by Indonesia. Indonesia is identified as the labour sending country and Malaysia is the labour receiving country. Two independent variables that are highlighted in this paper were the unemployment rate and the remittance received, both by the labour sending country. The relationship between dependent variable and independent variables is illustrated in the framework shown in figure 3.1.

**Figure 3.1: Research Framework**



This paper will use secondary data as instruments as this is a quantitative study. A sample of 30 years data was collected, which are the unemployment rate in Indonesia, remittance received in Indonesia and population of non-citizen Malaysia from the year of 1982 to 2011. In the analyzing phase, the latest software of SPSS (Statistical Package for the Social Sciences) is applied.

## **4.0 Research Findings and Discussion**

### **4.1 Descriptive Statistics**

The data analysis of reviewing the trend for respective variables in the period of study has been shown in table 4.1. Based on the table, a low standard deviation indicates that the data points tend to be close to the mean (expected value) of the set, while a high standard deviation indicates that the data points are spread out over a wider range of values<sup>6</sup>.

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<sup>6</sup>[https://en.wikipedia.org/wiki/Standard\\_deviation](https://en.wikipedia.org/wiki/Standard_deviation)



**Table 4.1: Descriptive Statistics**

Variables	Mean	Standard Deviation	N
Migration*	90.054846	55.0631440	28
Unemployment**	6.3864	2.87788	22
Remittance***	1.989647E9	2.5878619E9	29

\* The proxy used is the number of non-citizen in Malaysia from 1982 to 2011 (with few years had missing data, from World Bank data source).

\*\* The unemployment rate in Indonesia, from 1982 to 2011 (with few years had missing data, from World Bank data source).

\*\*\* Remittance received in Indonesia, from 1981 to 2011 (with few years had missing data, from World Bank data source).

From the above statistics, larger standard deviations can be found in migration and remittance, while unemployment in Indonesia has a mean of 6.39, with lower standard deviation.

## 4.2 Correlation and Regression Analysis

The summary of correlation and regression analysis for the hypothesis and its results are shown in table 4.2.

**Table 4.2: Correlation and Hypothesis Test Regression Analysis**

No	Hypothesis	Statistic Values	Result
<b>H1</b>	Unemployment rate in Indonesia has a significant relationship with migration inflow to Malaysia	$\beta = 0.381^*$ $\rho = 0.699^{**}$ $\text{Sig} = 0.043^{***}$	Accepted
<b>H2</b>	Remittance received in Indonesia has a significant relationship with migration inflow to Malaysia	$\beta = 0.518^*$ $\rho = 0.751^{**}$ $\text{Sig} = 0.009^{***}$	Accepted

\* At Standardized Coefficients

\*\* Correlation is significant at the 0.01 level (2-tailed)

\*\*\* Both significant values are below 0.05

Based on the above table, both the independent variables are significant to the dependent variables. The correlations between the variables show that there is a significance of 0.751 between remittances received in Indonesia with the number of non-citizen in Malaysia. This shows the strong positive relation between remittances received in neighbouring country, Indonesia with the number of migrants in Malaysia. When there is an increase in remittance received in Indonesia (pull factor), there is also an increase in the number of non-citizen in Malaysia.

The relationship between unemployment rate in Indonesia and the number of non-citizen in Malaysia is also attained. From the above table, there is a significance of 0.699 between the both variables. This also shows there is a strong positive relation between the unemployment rate in Indonesia and the number of non-citizen in Malaysia. Thus, when there is a higher unemployment rates in Indonesia (push factor), the number of non-citizen in Malaysia is also higher.

## **5 Conclusion**

In brief, Malaysia relies heavily on foreign workers especially from Indonesia where Indonesia is one of the world's major sources of labour supply. This paper aims to investigate the flow of Indonesian Immigration to Malaysia based on two selected factors, which are the unemployment rate in Indonesia and remittance received by Indonesia. The study focuses on the relationship between Indonesia's unemployment rate and remittance with the migration flow of Indonesian citizen into Malaysia; with the aim that unemployment rate in Indonesia will be the push factor of emigration while the remittance will become the pull factor to the Indonesian migration to Malaysia. The secondary data used is from a period of 1982 to 2011. The variables involved will be Indonesia's unemployment rate, its remittance and the number of foreign workers in Malaysia. From the result, the paper found that both independent variables have a significant relationship with the immigration flow of Indonesian citizen to Malaysia. When the unemployment rate in Indonesia is high, the nation tends to seek for opportunities of employment in Malaysia or other countries. On the other hand, when there is more remittance received by Indonesia, the motivation goes to their citizens to work or stay abroad.

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