

# THE ECONOMIC EFFECTS OF INTERNATIONAL LABOUR MIGRATION ON THE DEVELOPMENT IN INDONESIA

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## ABSTRACT

*International labor migration has become an integral part of the development process in Indonesia. In fact, there has been an indication that international labor migration from Indonesia to East Asia and the Middle East has given social and economic contributions to the Indonesian economy. The major reason to migrate has been mainly to seek employment opportunities and higher wages. This paper, using data and information gathered from the existing literatures and my studies, aims at discussing the economic effects of international labor migration on the development in Indonesia. It is argued that international labor migration from Indonesia has given economic effects. These effects include foreign exchange earnings, reduction of the incidence of unemployment and poverty. However, the economic effects of labor migration in terms of per capita remittance to the economy is very much low. Therefore, in order to maximize the economic contribution of international labor migration on development, the government must shift the supply of labor migration from the unskilled labor type category to more semiskilled and skilled type labor categories. This can be done by increasing the quality of workers' resources through education and training. The importance of this labor migration policy shift is also critical to reduce inappropriate treatment and other harassment received by the migrant workers abroad and to increase the welfare of migrant workers.*

**Keywords:** Economic effects, remittances, unskilled and semiskilled labor, host and home countries.

**JEL Classification:** J600, J610, J690, F220.

## I. INTRODUCTION

International migration has been considered as one of the significant ways to seek better employment opportunities and higher wages by some people in Indonesia. The reasons are partly because those two factor conditions are not yet available in Indonesia. These conditions are certainly associated

with the increasing number of population on one hand and the scarcity of domestic employment opportunities on the other hand.

In 2011, for instance, the total population of Indonesia was estimated at about 241.6 million people, which placed this country in the fourth rank in terms of the population number

following China, India and the United States of America. Of this total population, almost 7.8 per cent of the labor force was estimated to be unemployed (CBS, 2011). Apart from the present still of unemployment problem, the bulk number of people in this country was also considered poor as measured by the Central Board of Statistics (CBS, 2010 and 2011). The number of the poor was estimated to be about 12.48 percent in 2011. As a consequence, employment opportunities abroad are selected as one possible solution by the poor people to sustain their living.

It was argued that international migration has begun since many years ago, although there is no detail historical document to support this argument. In fact, some archeological studies have postulated that movements or inter-migration of the people in Malayo-Polynesian regions (including Malaysia and Indonesia) had taken place as early as 500 B.C. (King, 1985 quoted in Tirtosudarmo, 1996). However, only since the 1970s, a detail record of the international human migration particularly migrant workers was officially available when the government deployed 5,600 workers overseas in the first Five Year Development Plan (Repelita I, 1969–1974).

Since then, the deployment of workers overseas increased significantly up to 652, 272 people in the period between 1989 and 1994. The peak deployment of migrant workers overseas was in 1999 after the country hit badly by the Asian economic crisis in 1997/1998. In 2008 the number of

migrants' workers sent to overseas by the government was about 748,825 people. However, due to the global financial crisis the number of migrant workers sent abroad declined to 632,172 people in 2009 and it further declined to 575,804 people in 2010 as a result of the government moratorium policy associated with the inappropriate treatment toward migrant workers in some migrants' receiving countries. Today, the number of Indonesian labor stocks abroad (excluding the so called illegal or undocumented migrant workers) was estimated to be more than 6.2 million people (BNP2TKI, 2010).

It is worth noted that before the 1980s the largest flow of migrant workers from Indonesia moved to the developed countries or the non-Asian countries (particularly to the United States, Europe and Australia) as the destination countries. But, after 1980s the bulk of migrant workers were heading to the East and the Southeast Asian countries and to the Middle-east countries. Of the South-east Asian countries, Malaysia has been the main destination of migrant workers from Indonesia. While for the Middle East countries, Saudi Arabia is one of the significant destinations for Indonesian labor migrants. Due to a consider number of the Indonesian labor migrants abroad, Indonesia in 2008 was grouped as one of the nine major sources of migrant workers in Asia (Ananta and Arifin, 2008).

During the first five Repelita (1969–1994), Saudi Arabia accounted for 62.8 per cent of the total amount

officially deployed workers by the government (Hugo, 1995). Saudi Arabia remains the main destination country of Indonesian migrant workers until this year. While within Asia, Brunei has replaced Malaysia as the destination country of Indonesia labor migrants since the year 2009. This is because of the significant harassment received by Indonesian migrant workers in Malaysia (Hidayah, 2010).

In the future the volume of international migrant workers from Indonesia will no doubt be increasing. However, type of future migrant workers who are going to work overseas will not only be dominated by the unskilled and semi skilled workers, but also by the skilled workers. The reason for this is not merely due to economic factors, but it is also because of economic globalization and massive reductions in the costs of travel. In fact, in recent years Indonesia together with other ASEAN countries committed to open their employment opportunities for the ASEAN workers under the agreement so called The ASEAN Economic Community (AEC) by 2015.

These factors certainly will lead to an increase in the scale and complexity of movement of people between nations, including in the ASEAN countries. The complexity of the problems raise since the official barriers erected by each nation state to the inflow of people have been substantially more resistant to the process of globalization than barriers to information flows and movements of finance and traded goods.

This paper aims at discussing the economic effects of international labor migration on the development in Indonesia. The focus of the discussion throughout this paper is mainly on unskilled and semi-skilled migrant workers. The paper begins with the theoretical concepts of international migration in section 2. This is followed by the overview of the recent development of employment situation in section 3. This overview is intended as a background analysis to highlight reasons why international migration has been formally targeted in the Indonesian development plans. Section 4, then, examines the types and nature of labor migrants. This is followed by the discussion of the economic effects of labor migration in section 5. Finally, some concluding remarks are drawn in section 6.

## II. THEORETICAL CONCEPT OF INTERNATIONAL LABOUR MIGRATION

There are many theories explaining the reasons why people migrate from one country to another. However, these theories on the international migration are dominated by the economic theories. In this context, at least there are four main streams of economic theories of international migration, namely, neoclassical economics theory of migration, the new economics of migration, dual labor market theory, and the world systems theory (Aswatini, 2011).

The neoclassical economics theory of international migration emphasizes

the importance of migration from the perspective of economic development. Harris and Todaro (1970), for instance, argued that people migrate internationally because of wage differences between countries. However, the decision made to migrate by the migrants' workers is based on the cost and benefit analysis by the individual migrant only. In other words, family members do not have any significant role in decision making process for an individual migrant to work abroad. Cost factors that are considered by the migrants include transportation costs, communication costs, and other psychological costs.

Unlike the neoclassical theory above, the new economics theory of migration emphasizes the importance of the role of family members in decision making process for any individual in the family who likes to migrate abroad. Not only that, the family members even provide some financial assistance to the individual member who is going to migrate internationally. This financial assistance is given to the potential family member in the expectation he or she will repay it later after she or he works overseas. Also, it is worth noted that in the process of family decision making, consideration on the economic benefit and cost of migration has been one of the significant factors considered by the family members (Stark and Bloom, 1985).

In terms of dual labor market theory of international migration, it was argued that people migrate internationally is not because of limited

job available and/or low wage in the home countries as push factors, but it is mainly because of the shortage of blue collar workers in the host countries. Thus, the excess supply of blue collar workers in the home countries has attracted industries and households in the host countries to employ them. The shortage of blue collar workers in host countries is indeed associated with the development progress achieved by these countries (Piore, 1979).

The fourth theory of international migration is so called the world system theory. In this theory it was argued that international migration occurs because of economic globalization. As a country becomes globalised, it attracts workers from one country migrate to another country. The movement occurs because economic globalization brings economic openness in terms of production as well as technological relation between countries, apart from structural economic changes in capital and employment opportunities. These changes brought by the economic globalization further lead to workers from countries which have abundant labor force to migrate to countries with limited labor force (Wallerstein, 1974).

Having considered the four theories of international migration, it is quite clear that the reasons for workers to migrate internationally have been due to many factors. In other words, international labor migration in Indonesia may not only be determined by labor wage differences alone, but it may also be influenced by other factors including the social economic openness

associated with globalization and the role of the family members. However, further detail studies are necessary to confirm these matters.

### III. OVERVIEW OF RECENT DEVELOPMENT OF EMPLOYMENT SITUATION

As it was mentioned above that Indonesia is one of the most populous countries in the world. Although the growth of population has decreased significantly from 2.4 per cent per annum (1971–1980) to 1.41 percent per annum (1990–2010), Indonesia will remain the leading low and semi-skilled labor exporters in Asia. This is because rapid economic growth that has been reached by Indonesia for many years has not been able to improve living conditions of the population. The structure of labor market that has undergone remarkable changes from agricultural employment to a rapid rise in manufacturing employment and a faster increase in the proportion of service sector jobs still had a limited capacity to absorb a significant share of the growing low skilled work force.

Beside that, wage rates still remain relatively low and a small proportion of workers are employed in non agricultural or skilled occupations and the ubiquitous informal sector in the cities. The need for new employment opportunities, both for the unskilled urban unemployed and rural under-employed and for graduates of high schools and universities, is growing every year. These problems indicate that a meaningful improvement in labor welfare

is still a long way-off, despite a rapid economic growth and labor market transformation since 1980s (Manning, 1998).

The above problems are still continuing at the recent years. As shown in Table 1, a relatively strong economic growth rate has not yet been able to reduce significantly the unemployment rate and the incidence of poverty. Whilst the annual growth rate remains at the average 6 per cent between 2007 and 2011, the proportion of unemployment rate in these periods decreased by only 2.5 percent. This relative insignificant impact of growth on labor absorption also occurred in term of the incidence of poverty in that the proportion of the poor as measured using the official poverty line declined only by 3.5 percent in those periods. This once again confirms that high rates of economic growth are only a necessary condition, but not a sufficient condition for rapid generation of employment and poverty alleviation. Hence, a direct policy to tackle the problem of unemployment and the incidence of poverty is critical, apart from a sound macro economic policy to maintain rapid economic growth.

In terms of the unemployment, it was estimated that the proportion of the unemployed in 2011 was about 7.8 per cent of the total workforce. Most of the unemployed were dominated by workers at the young age group between 15 and 24 years. In 2011, for instance, the proportion of youth unemployment was estimated at about 52.8 percent. This percentage of

**Table 1.** Macroeconomic Performance 2007–2011

Items	2007	2008	2009	2010	2011
GDP:					
- Growth rate	6.0	6.1	6.3	6.1	6.5
- Nominal (trillion Rp)	2,774.3	3,339.2	3,949.3	4,954.0	5,401.6
Inflation y-o-y (%)	17.1	6.6	6.6	6.8	4.5
Average Exchange rates (Rp/US\$1)	9,705	9,164	9,140	8,910	8,600
Income per capita (Million Rupiah)	12.7	15.0	20.8	32.8	34.1
The incidence of poverty (%)	16.0	17.7	16.6	13.4	12.5
Unemployment (%)	10.3	10.3	9.8	8.1	7.8

Source: Ministry of Finance, 2011.

unemployed remained the same as in 2010 at about 53.4 percent. Between males and females, it was estimated that the proportion of female youth unemployment was higher than male youth unemployment. In 2010 the proportion of female youth unemployment was about 29.5 per cent, while for male youth unemployment it was about 22.9 per cent (CBS, 2011). The large number of unemployed workforce in this productive age group indeed have a great potential to seek employment opportunities abroad.

In terms of employment category, using the same data source published by the Central Board of Statistics (2011) the largest proportion of employment in 2010 was in the self-employed category (40.3 %), followed by the formal sector category (32.0 %). The rest of employment was in the categories of unpaid family workers and casual workers. The proportion of the employment in unpaid family

workers was about 17.6 per cent, while in the casual employment category it was about 10.1 per cent. Note that, the employment distribution under this category has been recorded since 2007. Once again this confirms that the formal sector employment has limited ability to absorb the growing labor force (Athukorala, 2003 and Manning, 1998 for the detail reasons).

Within the formal sector employment, however, agricultural and construction sectors have been the dominant economic sectors that showed decreasing ability to absorb the labor force. From the year 2007 to 2010, the ability of the agricultural sector to absorb formal employment decreased by 49 per cent, while the construction sector decreased by 33 per cent (CBS, 2011). Formal sector employment that showed an increasing ability to absorb formal employment at the same years was transportation, telecommunication and other services sectors.

The consequence of the decreasing ability of formal non-services sector status employment to absorb the growing labor force led to an increasing number of employment in the informal sector. This sector is defined as the sector consisting of self-employed persons, self employed assisted by family members, farmer employees and unpaid family workers. It was recorded that the numbers employed in the informal sector increased from 68.8 million in 2007 to 82.4 million in 2010 (CBS, 2011).

Looking at the employment situation above, the future outlook of employment in Indonesia will still be gloomy if the development policy and programs only depend on rapid economic growth alone. Therefore, the government needs to rethink seriously other development priorities and programs that were directed to reduce the long standing dual social and economic problems of unemployment and poverty. If not, the outflows of international migration will not only be difficult to be reduced, but it will also raise social and political unrest that complicate the future efforts to achieve a successful sustainable development in Indonesia.

#### **IV. TYPES AND NATURE OF LABOR MIGRANTS**

As mentioned at the outset the international migration of workers has been considered as one solution to reduce unemployment and the incidence of poverty problems in Indonesia. The main destination countries of the large

Indonesian labor migrants since 2009 were to Brunei, Malaysia and Saudi Arabia, followed by Singapore, Hong Kong, Taiwan, and the Republic of Korea. Most of these migrant workers are the semi-skilled and unskilled workers. They were sent to these countries because these countries had a demand for these types of unskilled and semi-skilled workers such as maids, constructions workers and the like.

In 2010, for instance, the number of Indonesian migrant workers that were sent to Malaysia was about 234,710, while for Saudi Arabia it was recorded about 234,643 workers. This is followed by Taiwan (62 433), United Arab Emirate (38,200) and Hong Kong (30,297). The destination countries that have a relatively small number of Indonesian migrant workers are Jordan and Qatar. The number of migrant workers that were sent to these two countries were about 11,165 and 8,716 respectively (BNP2TKI, 2011).

However, in terms of the types of job engaged by the migrants, there have been differences between one country and another. In Malaysia, for instance, most Indonesian migrant workers are engaged in the agricultural sector (especially plantation sector), while the rest are engaged in construction sector, manufacturing and certain service sectors. This indicates that most of the migrant workers that were sent to this country were males. In Taiwan, Hong Kong and Singapore, most of the Indonesian migrants are engaged in 3 Ds (Dirty, Dangerous, and Difficult) types of work such as domestic maids,

construction workers, manufacturing, marine and service industries. However, the detail number of these migrant workers was not available (Athukorala, 2003).

Apart from unskilled and semi-skilled workers, there are also professional and technical workers that have been sent by the government of Indonesia to work in Malaysia, Singapore, Republic of Korea, Japan, and Brunei. However, these workers still account for a small share of total labour migrant flows and they consist predominantly of contract workers (who migrate for a duration of around 2 to 3 years) rather than permanent settlers. These workers were sent to work abroad as these labor receiving countries (especially Japan and Republic of Korea) had begun to export capital in the process of industrial adjustment and upgrading. However, the detailed number of these types of workers is not well recorded and it is still limited in number. Therefore, movement of skilled and professional manpower ('brain circulation') from Indonesia has gained importance in the recent years and this has been argued to be associated with greater regional integration through trade and investment (Stahl, 2002; Firdausy, 2006).

In terms of sex distribution, male formal (e.g. nurses) migrant workers have been twice as many as the formal (nurses) female workers (Firdausy, 2006; Aswatini, 2011). Whereas for the informal sector (mostly domestic helpers), female workers have been much larger than the male workers. These

differences seem to be dependent on the nature of the jobs demanded by the host countries. Female workers tend to migrate to countries where the domestic jobs are needed, such as domestic helpers and entertainment jobs, while the large number of male formal workers tend to migrate to countries where the availability of jobs are related with hospitals, construction, transportation, agricultural, and estate sectors.

The increasing demand for migrant workers by the host countries in Asia have been due to many complex factors. In the case of the labour receiving countries in East Asia, for example, Athukorala (2003) and Stahl (2002) argued that factors affecting labor migration to these countries can be grouped into two, namely, changes in demographic patterns associated particularly with population growth and a better economic growth performance. This suggests that the influx of international migration from Indonesia to East Asia was mostly due to economic factors as well as demographic factors.

In the case of the Middle East countries, factors that caused the increasing number of Indonesian people migrate to these countries were associated with the large development of infrastructure in these countries. This infrastructural development was associated with the increasing oil prices since the early 1980s. Most of these migrant workers are from West Java and they mostly work in the domestic and construction sector (Aswatini, 2011).



Unlike the above countries, in the case of Japan, inflows of migrant workers have been associated with the rapid decline in fertility-brought about by economic affluence coupled with the aging population. The increasing welfare of the Japanese led them to become reluctant to engage in 3-D (Dirty, Dangerous, and Difficult) jobs and other jobs which do not provide future career advancement (Athukorala, 2003).

Similarly, in Korea and Taiwan, the inflows of migrant workers in these countries have been due to rapid industrialization which creates growing labor shortages faced by non-traded goods sectors, small-medium scale manufacturing firms, and the reluctance of domestic labor to undertake 3-D jobs. While inflows of migrant workers to Hong Kong and Singapore have been associated with a significant structural shift from traditional activities towards the services sector and modern more skilled intensive operations. These conditions consequently led to Hong Kong's and Singapore's dependence on unskilled and semi-skilled migrant workers have declined slowly (Global Development Network, 2010).

Moreover, in Thailand and Malaysia, rapid inflows of the migrant workers to these countries have taken place due to labor shortages mainly in self-employed and contract jobs particularly in construction, agriculture, and fishing sectors. This situation further led to the increase of international labor migration from Indonesia to these economies. These migrant workers,

mostly work in construction, plantations, domestic service and manufacturing sectors in Malaysia and Thailand (Dang Nguyen Anh, et. al., 2010).

Therefore, the types and nature of migrant workers from Indonesia are very much subject to the demand for labor in the receiving countries and the stage of economic development. Semi-skilled and unskilled workers are still demanded particularly by the labor receiving countries in Asia which have lack of these types of workers. As changes in demographic patterns and better welfare conditions in those countries continue in the future, international labor migration for these types of workers from Indonesia cannot be avoided.

## **V. THE ECONOMIC EFFECTS OF LABOR MIGRATION**

It is true that the growth of the labor migration from Indonesia has given many positive contributions to the domestic economy. Apart from the contribution to minimize the unemployment problem, labor migrants also contribute in increasing foreign exchange earnings that are badly needed by the country, as well as reducing the number of the poor.

In terms of unemployment reduction, for instance, Indonesian labor migration has contributed to provide annual employment opportunities for more than 2 million workforces since 2000. Whilst in terms of foreign exchange earnings, it was estimated that in 2010 labor migration has contributed to an increase in the annual foreign

exchange earnings by US\$ 6.617 billion (Hidayah, 2010). This remittance is greater than the foreign remittance that was sent by the foreign professionals, managers, and technicians who work in Indonesia. Of the total 46 476 foreign workers in Indonesia, the amount of remittance that was sent to their own country was about US\$ 0.62 billion (Yudanto, 2010).

The largest contribution of remittances came from Asia and Pacific regions and it was followed by the Middle East countries. This is not surprising as the number of Indonesian workers who were sent to work in the Middle East is relatively small compared to those were sent to work to East Asian countries. However, the above contribution excluded the earnings given by 3.5 million of the illegal migrants (Kompas, June 17, 2010). This suggests that if the foreign exchange earnings from the illegal migrant workers can be well calculated, the total contribution of labor migrants to foreign exchange earnings can be higher.

However, the annual per capita remittance sent by the Indonesian migrant workers was only US\$ 2000/capita/year, while the annual per capita remittance that was sent by the foreign workers in Indonesia to their own country was estimated to be about US\$ 13,300 (Detik Finance, 2011). This is not surprising as the nature of jobs undertaken by Indonesian migrant workers overseas are in the “dirty” job category. Thus, to increase the foreign exchange earnings given by the migrant

workers, the government must improve the skills of the migrant workers from the unskilled labor category into the skill labor category.

Apart from the above positive gains, the policy to send unskilled and semi-skilled workers abroad has given positive contribution to reduce the incidence of poverty in Indonesia. This is simply because most of the labor migrants are able to remit their salaries to their poor families in the home country. These remittances were not only used for their daily family needs, but also for other purposes, such as renovating their houses, and working capital for establishing small businesses. Also, there have been positive impacts in terms of the migrants’ children education. A better educational attainment of migrants’ children is received as the result of the remittances sent by the migrant workers. However, detailed quantitative data to support these arguments are not available yet.

Besides the above positive gains, there are also certain issues faced by these migrants including bad treatment, sexual harassment, unpaid salary and other inhuman working practices by the employers. Apart from this, bad treatment is also received by the migrants from the recruitment companies when they are applying for the job overseas. This bad treatment includes low salary payment and high administration fees.

Also, there has been an indication that the increasing number of labor migration has a positive relationship with the increase in the number of divorce.

This was particularly so for the labor migrants who work for a long period. In addition, male domination in the migration flow increases the proportion of females taking control of their family activities and causes a decline in the fertility rate in the area.

Furthermore, high rates of male out-migration also increase the women's burden in the family since they must (with the help of children) undertake tasks traditionally performed by men (Aswatini, 2001). Therefore, the government policy to send workers abroad does not only give benefits to the economy, but it also creates negative social impacts for the individual migrant and their families.

## VI. CONCLUDING REMARKS

Unemployment and the incidence of poverty are still the dual longstanding problems in Indonesia. High rates of economic growth that have experienced for many years have only been able to transform labor market structure in Indonesia, but they have limitation to create employment opportunities for the bulk of the unskilled workers. Therefore, a direct employment policy targeted to these unskilled workers cannot solely be dependent on the policy to send workers abroad. This is simply because the present number of the unskilled workers is still abundant, and hence it will be difficult for the government to employ them overseas.

Of the many programs to solve the bulk number of unskilled workers,

the government needs to intensify public infrastructure programs in both rural and urban areas. This program is suggested as it can absorb the bulk number of the unskilled workers. In addition to this program, there is also a need for the government to provide special training for the unskilled workers. This special training is a must as it can improve the quality of workers from unskilled category to semi-skilled and skilled categories.

Toward future international labor migration policy, there is a need for the government to improve the management of international migrant workers program. The purpose of this management improvement is partly to increase social and economic benefits of international labor migration for the economy and for the individual migrant. Of the many management aspects that have to be given particular attention, at least the following three aspects are important. The first is in relation to the management of labor recruitment and training system before sending workers to work overseas. Second, the policy and rules as well as management that relate to place labor migrants in the receiving countries and when the migrant workers work and return from the labor receiving countries. Third, there is a need for the government to protect migrant workers from the bad treatments when they apply for working overseas, and when they work in the destination countries.

Finally, future policy and program to increase the quality of human resources in general and the workers

in particular should be given a high priority in the development plan. The importance of this policy and program is because the future Indonesian development will be different than it is nowadays. Economic globalization in general and the commitment toward

ASEAN Economic Community in 2015 in particular are among the difficult challenges that need immediate government solution. This is because this economic openness will give a wide and deep implication toward the labor market structure and employment opportunities in Indonesia.

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