



The Effect of Labor Movement or Migration on the Indonesian Economy

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Abstract

This article examines the impact of migration and labor movement on the Indonesian economy, highlighting key areas such as economic growth, employment, consumer spending, and remittances from migrant workers. Labor migration has been a significant aspect of Indonesia's economic structure, affecting both the domestic labor market and the broader economic landscape. The article explores how the outflow of Indonesian workers abroad influences employment dynamics, with some sectors benefiting from reduced domestic competition, while others experience labor shortages. Additionally, remittances from migrant workers play a crucial role in boosting household income, contributing to consumer spending, and stimulating local economies in various regions. The study also delves into the Indonesian government's policies and initiatives aimed at managing labor migration, including the protection of migrant workers' rights, improving workforce skills, and addressing challenges related to illegal migration. By analyzing the multifaceted impacts of labor migration, this article provides a comprehensive understanding of its role in shaping Indonesia's economic development. The findings suggest that while labor migration offers significant benefits through remittances and economic growth, challenges such as labor exploitation and brain drain require effective policy responses to maximize the positive impacts on the national economy.

1. Introduction

One significant way for individuals to increase their income and obtain capital for business ventures in their home countries is by working abroad. Many Indonesian migrant workers, after returning to their areas of origin, choose to migrate again, either to the same country they previously worked in or to another destination. This cyclical pattern of migration reflects the desire to improve living standards, accumulate savings, and acquire skills that can be utilized upon return. The trend of working abroad has become an important aspect of the Indonesian economy, with labor migration contributing to both individual and national economic growth (Muttaqien et al., 2023). International migration, particularly labor migration, continues to grow in line with the evolving relations between countries in various sectors. This dynamic phenomenon is driven by a complex interplay of economic, social, and

political factors, which influence both the migrants' decisions and the destinations they choose (Sudarwati, 2014).

The increasing number of international interactions has had a profound effect on migration patterns and identities, contributing to the formation of a globalized labor market. As countries continue to engage in more interconnected relationships, both economically and socially, migration flows become more fluid, with migrants often seeking better job opportunities and living conditions. The formation of a single global economic market, a key feature of globalization, has raised hopes for greater economic opportunities. Labor mobility is now viewed not only as a way to improve individual welfare but also as a vital component of the global economy (Karina, 2021). In contrast, the movement of capital, goods, and services is increasingly intertwined with labor mobility,



creating a more integrated world economy where people are central to the development and redistribution of wealth (Lee, 1966).

Labor migration, much like general population migration, is influenced by several key factors. Lee (1966) identifies four categories that affect migration: the relationship with the origin area, the relationship with the destination area, intervening obstacles, and personal factors. These elements shape how and why people migrate. The relationship between the origin and destination areas often involves economic disparities, which are powerful motivators for migration. For instance, countries with lower wages and fewer job opportunities often see their citizens migrating to countries offering better economic prospects. Intervening obstacles, such as legal barriers, geographic distance, and cultural differences, can either hinder or shape the course of migration. Personal factors, such as family ties, aspirations, and the desire for social mobility, further influence individuals' decisions to migrate (Van Hear, Bakewell, & Long, 2012).

In addition to Lee's framework, Van Hear, Bakewell, and Long (2012) identify four main reasons for migration. The first reason, "predisposition," includes structural differences between the origin and destination economies, such as disparities in economic policies and job market conditions. The second factor, "push elements," refers to adverse conditions in the origin country, such as economic decline, insecurity, political instability, and human rights violations. These push factors often force people to seek better living conditions elsewhere. The third factor, "triggering elements," accelerates migration, such as rising unemployment, limited access to education, and disruptions in social services. The fourth factor, "facilitating conditions," involves factors that make migration easier, such as improved transportation networks, communication systems, and access to information. These elements play a crucial role in reducing the barriers to migration and

facilitating the movement of labor (Massey et al., 1993).

Microeconomic and macroeconomic factors significantly shape global population movements. Neoclassical economic theory suggests that international labor migration is primarily driven by wage disparities and job opportunities between the origin and destination countries (Massey et al., 1993; de Haas, 2008). Migration typically occurs from countries with low wages and limited job prospects to those with higher wages and better employment opportunities. This phenomenon reflects a rational decision-making process where individuals weigh the potential benefits of migration against the costs and risks involved. From an individual perspective, international migration is seen as an investment in human development, where migrants aim to utilize their skills and abilities in more productive environments. This perspective views migration not just as a physical movement but as an opportunity to enhance one's human capital and achieve economic betterment (Sudarwati, 2014).

However, migration is not without challenges. It requires financial resources to cover the costs of travel, accommodation, and other related expenses. Furthermore, adapting to a new job market can be difficult, particularly in terms of integrating into the local culture, learning a new language, and navigating a different work environment. Migrants may also face discrimination or difficulties in securing stable employment. Despite these challenges, the economic rewards of migration are often seen as outweighing the risks. The theory suggests that migration is a long-term investment in human capital that leads to improved job prospects and higher earning potential (Mita Noveria, 2017).

The aforementioned theories provide valuable insights into the dynamics of international labor migration, particularly in terms of its driving forces. As long as wage gaps and job opportunities persist, migration from countries with fewer economic

opportunities to those with higher demand for labor will continue. This trend is particularly evident in the global South, where many countries experience high levels of unemployment and underemployment. At the same time, developed countries, particularly those in the global North, face labor shortages in certain industries, creating a demand for migrant workers. The process of migration is further facilitated by globalization, technological advancements, and the expansion of communication networks. Access to information on job opportunities and migration routes has become easier, enabling individuals to make more informed decisions about migration (Constant et al., 2012). Furthermore, improvements in transportation systems have made it cheaper and more efficient for people to travel internationally (The Global Commission on International Migration, 2005).

Social networks, such as diasporas, also play a crucial role in facilitating migration by providing support, information, and a sense of community for migrants in destination countries. The existence of these networks creates a feedback loop, where new migrants can rely on the experiences and assistance of those who have already settled in the destination country. This social capital can significantly ease the migration process, providing newcomers with a sense of security and access to job opportunities (The Global Commission on International Migration, 2005). Consequently, global migration is expected to continue expanding, shaped by economic, technological, and social factors that influence both the decision to migrate and the integration of migrants into new communities. As globalization continues to evolve, migration will likely remain a key element of the global economic and social landscape (Borjas, 1994).

2. Literature Review

a. Migration/Moving

Migration refers to the movement of populations across administrative boundaries, where individuals settle in a new location for at

least six months. According to the Central Bureau of Statistics (BPS, 2020) and Chotib (2014), migrants are categorized into three groups: migrants who have just moved, lifelong migrants, and total migrants.

- 1) **Lifetime migration** refers to individuals whose place of residence at the time of the census is different from their place of birth.
- 2) **Recent migration** occurs when an individual's place of residence at the time of the census is different from their residence five years prior. This data reflects population changes over a five-year period.

Migration can be either permanent or non-permanent, depending on the individual's goals and motivations. Various factors, such as economic, social, and psychological opportunities in the destination, influence migration decisions. Non-permanent migration includes forms such as circular, seasonal, and shuttle migration. In Indonesia, migration is influenced by the disparities in growth and prosperity between regions. Jakarta, as a metropolitan city, attracts many migrants from across the archipelago seeking better opportunities. A large number of migrants in Jakarta work in the informal sector, which supports the city's economy. Individual factors such as education, work experience, personal characteristics, and level of need all play a role in shaping migration decisions.

b. Labor

Labor, according to Law No. 13 of 2003, refers to every person who has the ability to work and produce goods or services to meet personal and community needs. Every worker has the right and equal opportunity to choose, obtain, or change work and receive fair wages, whether domestically or internationally. Employment placement is conducted based on principles of transparency, freedom, non-discrimination, justice, and equality. Employers are obligated to provide appropriate protection to workers with disabilities, taking into account the type and degree of their disabilities. Moreover, employers cannot hire



children or women under the age of 18 for certain jobs. Pregnant female workers, based on a doctor's recommendation, cannot be required to work between 11:00 PM and 7:00 AM if such work jeopardizes their health or safety. Every employee has the right to a wage that meets human needs.

Indonesia's population continues to grow annually, leading to an expanding workforce. However, this growth often outpaces the creation of job opportunities, contributing to unemployment, which can hinder economic progress. Some key issues related to Indonesia's labor force include:

- 1) **Low Labor Quality:** The majority of workers in Indonesia have limited education, leading to low technological proficiency and low productivity. Solutions include vocational training, apprenticeships, government education programs, and enhancing workers' quality of life.
- 2) **Imbalance Between Labor Force and Available Jobs:** Unemployment arises when the growth of the workforce does not match the number of available jobs. Expanding the job market and promoting family planning programs can address this imbalance.
- 3) **Uneven Distribution of Labor:** Java Island has the largest share of the workforce, while other regions, particularly in agriculture, plantations, and forestry, face labor shortages. Solutions include local business development, worker empowerment, and increased transmigration.
- 4) **Unemployment and Layoffs:** The economic crisis has caused many businesses to close, leading to job losses. Providing job vacancy information through accessible platforms can help match job seekers with available opportunities.
- 5) **Low Salaries:** Improving workforce quality and aligning salaries with the minimum wage standards of each district or city can help address issues of low pay.

c. Indonesian Labor Migration

The modern trend of labor migration in Southeast Asia began to emerge in the 1960s and grew significantly in the 1970s and 1980s, partly due to rising oil prices. Middle Eastern countries, in particular, required a large number of migrant workers from Southeast Asia and South Asia. Indonesia, along with the Philippines and Thailand, saw this as an opportunity to send workers to the Middle East. Later, Indonesia began sending laborers to Malaysia and Singapore, which were also facing labor shortages.

Labor migration typically occurs when there is a shortage of workers in the receiving country. Local workers in the destination countries often do not want to work in certain sectors due to economic development. Indonesian workers, attracted by higher wages, often migrate to countries offering better financial prospects. Cultural factors also play a role; for instance, Indonesian workers prefer Malaysia due to its geographic proximity, shared cultural characteristics, and the ease of communication.

Each ASEAN member state recognizes the importance of facilitating labor mobility within the region, as closer cooperation is critical for addressing migration-related challenges. This cooperation is vital because migration intersects with immigration policies, economic sectors, and gender issues in the destination country, all of which can affect migrant workers' contracts, legal status, and personal circumstances. Indonesia has worked to address issues such as illegal labor and workplace violence through regional agreements. However, countries with less-developed human resources, like Indonesia, face challenges in welcoming the ASEAN Economic Community (AEC) in 2015.

d. Indonesian Economy

The foundation of Indonesia's economic relations is enshrined in the 1945 Constitution, which outlines not only the structure of the government and the state but also provides comprehensive guidelines for managing the



nation's economy. Article 33 of the Constitution explicitly states that Indonesia's economy must be managed for the public interest, following a collectivist approach that prioritizes social justice. This reflects Indonesia's socialist economic stance, emphasizing the equitable distribution of wealth and resources.

Mohammad Hatta, one of Indonesia's prominent independence figures, supported this approach, arguing that a good economic system should be based on kinship principles. According to Hatta, Indonesia's economic system should prioritize the well-being of all its citizens, regardless of their social or economic class. The goal is to achieve general prosperity and social welfare. This idea resonates with the Pancasila, Indonesia's national ideology, which emphasizes social justice as a pillar of national development.

In this context, the Indonesian economy is conceptualized as one that fosters kinship, solidarity, and cooperation among its citizens. As social beings, humans inherently rely on mutual assistance, and Indonesia's economic model seeks to ensure that this cooperation benefits everyone, creating a more equitable society.

3. Research Methods

This research was conducted through library research, which means that researchers can read books and magazines about the impact of labor migration on the Indonesian economy (Melfianora, 2019). With this method, researchers do not need to visit the field to meet respondents. Researchers use libraries, electronic media, and the internet to conduct this library research. Researchers define variables and look for sources that explain the required variables or the impact of labor migration on the Indonesian economy. After finding relevant information, researchers review and compare the literature and reach conclusions.

4. Results and Discussion

4.1 Why Labor Migration Occurs

International migration, including the movement of workers, is a global phenomenon that has hit many countries in the world, resulting in labor migration. This phenomenon continues to develop along with the pattern of relations between countries in various aspects. Identity or movement to the country in question is influenced by increasing relations between countries. The formation of a single global economic market, one of the characteristics of globalization in the current era, has triggered greater economic optimism compared to the past. On the other hand, the mobility of capital and human resources is so attractive that international labor migration is inevitable.

One sign of globalization or international integration is the increasing number of migrant workers working abroad every year. As an important part of the world economy, Indonesia cannot avoid labor movement. migrants abroad, which has a major influence on macroeconomics. Thus, the number of countries accepting Indonesian Migrant Workers (TKI) continues to increase. An increase in GRDP, which refers to the overall monetary value of all goods and services that have been produced in a particular region, is one sign or parameter of economic development in a region. The total production of goods and services can be used to calculate gross regional domestic product.

Even though the income received by migrant workers (in the form of remittances) is a source of income for foreigners which is not included in the GRDP calculation, if it is used to increase consumption for household needs, investment and domestic savings, this will have an impact on regional GDP.

4.2 Labor Migration Influencing the Indonesian Economy

Before diving into the main topic, it is important to understand how labor migration can affect the Indonesian economy. Labor migration has a significant impact on the Indonesian economy because many Indonesian workers move abroad in search of better job

opportunities, which in turn affects the economic activity within Indonesia. This phenomenon brings both positive and negative effects. On the positive side, labor migration leads to an increase in income and remittances. Migrant workers typically send money back to their families, which is often used for consumption, investment, or savings.

This transfer of money can stimulate the local economy and enhance the purchasing power of residents in the areas from which the migrants originate. Additionally, labor migration can improve human resource competence. Workers who migrate abroad often acquire new knowledge, skills, and experiences. These workers can bring back valuable expertise, which can be transferred to local workers, enhancing their qualifications and supporting the growth of specific economic sectors. Labor migration also helps fulfill the labor needs in particular industries. When local industries experience worker shortages, migrants can fill these gaps, especially if they possess specific skills required in sectors such as manufacturing or services.

However, labor migration also has negative impacts on the Indonesian economy. One major issue is labor insufficiency in certain regions. As many local workers migrate abroad, there is a shortage of workers in key sectors within their home areas. This lack of a local workforce can hinder economic growth and the development of various industries in these regions. Another negative effect is the phenomenon of "brain drain," where skilled and educated workers leave their regions in search of better job opportunities abroad. This leads to a loss of valuable human capital that could contribute to the economic growth and development of the region. Additionally, migrant workers often face vulnerability and exploitation. Many migrant workers encounter poor working conditions, low wages, and violations of their rights due to limited legal protections, cultural differences, and job insecurity. This exploitation not only affects the workers but also has financial consequences for their families and communities back home.

4.3 Positive and negative impacts/influences of Indonesian labor migration to other countries and how the government manages or finds ways to address this

On the one hand, Indonesia has abundant human resources, but on the other hand, these resources are not efficiently managed, leading to a mismatch between available job fields and the potential workforce. This is one of the reasons why many Indonesian workers seek employment in Malaysia. Over the past seven years, the placement of foreign workers abroad has raised several issues that need careful consideration. Until now, no real solutions have been found to these problems, and the addition of more foreign workers only exacerbates the unresolved issues. Both countries need to work together to address employment challenges effectively.

- a. The placement of Indonesian migrant workers has both positive and negative impacts. On the positive side, it provides job opportunities for Indonesian migrant workers and generates foreign exchange earnings for the country. These workers can earn money to support their families back home. However, negative impacts include increased incidents of violence and exploitation of migrant workers, which must be addressed.
- b. Malaysia has a significant demand for workers in both official and unofficial sectors, particularly in industries like plantations and personal services. The majority of foreign workers in Malaysia come from low-education backgrounds and are employed as domestic helpers or in palm oil plantations. The presence of these workers benefits Malaysia's economy by providing a competitive workforce for sectors like plantations and informal labor markets, including household assistants.
- c. Many Indonesians choose to work abroad, especially in Malaysia, due to the low wages in domestic jobs within Indonesia. Even though there are job opportunities in



the country, the wage gap often drives workers to seek better-paying jobs abroad.

- d. Most foreign workers without formal education in Malaysia are employed as domestic helpers or plantation workers. Some even resort to becoming illegal workers due to the lack of support from the government. This situation leads to numerous incidents of violence and violations of basic human rights. Although these workers contribute to the country's economy and earn higher wages than in their home country, their exploitation remains a serious issue.
- e. The need for low-cost labor in sectors like plantations and domestic work has driven the influx of Indonesian migrant workers to Malaysia. This has a positive effect on Malaysia's economic growth, as it provides a cheap workforce. Unfortunately, this also leads to a decline in Indonesia's reputation in neighboring countries, where workers are sometimes seen as less valued or important.
- f. Issues such as violence and other humanitarian concerns are common and sometimes lead to conflicts between Indonesia and Malaysia. Despite the positive effects of labor migration, both countries need each other and should work together to address employment issues without involving emotions. Cooperation is essential to resolve these problems efficiently.

To address the humanitarian challenges in the employment sector, the governments of both countries must collaborate more frequently. It is hoped that the Indonesian government can reduce the number of undereducated migrant workers by providing more job opportunities domestically and improving the education and skills of the workforce, helping them become more professional, educated, and competent. This will increase the value of Indonesian workers. The government should also commit to preventing the exploitation of its workers abroad.

In conclusion, the migration of Indonesian workers to Malaysia has both positive and negative effects for both countries. The positive aspects include increased state revenue, more job opportunities, and improved incomes and living standards for migrant workers. However, the negative aspects involve Indonesia's growing dependency on foreign countries for employment and a decline in the country's reputation abroad. Malaysia benefits from the availability of cheap labor, which accelerates its economic growth, but the exploitation of migrant workers remains a significant challenge.

4.4 How the Government responds to the problem of labor migration which is increasing from year to year

The government plays a crucial role in addressing the growing challenges of labor migration each year. In this context, we will explore various efforts the government can make to reduce migration while focusing on actions that promote economic development and improve the welfare of local residents.

The government can take the following steps to respond to the increasing issue of labor migration:

- 1) **Invest in Domestic Economic Development:** To increase job creation within the country, the government can invest in economic development by supporting local industries, encouraging the growth of new industries, and providing incentives for businesses to establish factories and new enterprises.
- 2) **Attract Foreign Investors:** By attracting foreign investors to establish companies in the country, the government can help increase local job opportunities. Offering incentives such as tax relief or improved investment facilities can also contribute to job creation.
- 3) **Provide Social Protection and Economic Support:** Migrant families may not need to seek work abroad if they are given social protection and economic support in their home country. Strengthening social safety

nets could reduce the pressure to migrate for employment.

- 4) **Tighten Immigration Policies:** The government can introduce stricter immigration policies, such as increasing visa and work permit requirements, to deter illegal work abroad and ensure proper documentation for migrant workers.
- 5) **Redirect Remittances for Domestic Development:** To reduce dependency on foreign migration, the government could encourage migrant workers to use the remittances they send home for supporting domestic development projects, thus contributing to local economic growth.
- 6) **Ensure Fair Wages and Working Conditions:** The government must ensure that local jobs offer decent wages and good working conditions, which can reduce the incentive for workers to seek employment abroad.
- 7) **Public Education Campaigns:** Conducting public education campaigns can inform people about the risks and challenges associated with illegal or uncontrolled migration. This can help raise awareness of the potential dangers and encourage more informed decisions about migration.
- 8) **Collaborate with Source Countries:** The government should work with countries that are the sources of migration to understand and address the root causes of migration, such as poverty, conflict, and lack of opportunity. Joint efforts can help mitigate the need for labor migration.
- 9) **Monitor and Improve Existing Policies:** To effectively reduce unwanted migration, the government must ensure that existing policies are functioning well by continuously monitoring migration trends and adapting policies to address emerging challenges.

To successfully reduce migration, it is important to take these steps in a comprehensive manner, considering the economic, social, and policy aspects. Additionally, the protection of human rights

must remain a priority, ensuring that those who still choose to work abroad are safeguarded from exploitation and harm.

5 Closing

5.1 Conclusion

International migration, including displacement labor, is a global event that occurs in most large countries in the world, resulting in the migration of labor. This phenomenon continues to grow along with the pattern of relations between countries in various aspects. Introduction or displacement to the relevant country influenced by the increasing relations between countries. The transfer residence a person, whether of a good nature permanent and temporary called migration. Purpose main migration is increase welfare life migrants and their families resulting in migration problems Still rated from perspective growth economy.

Employment opportunities will decline due to unsustainable labor growth. In balance with expand chance work. Economic growth is negatively and insignificantly affected by immigration. In other words, the more immigration, the more economic growth will decline and vice versa. Health expenditure has a negative and insignificant impact on Indonesia's economic growth, meaning that the more health expenditure increases, the more economic growth will decline. Conversely, education expenditure has a negative and insignificant impact on economic growth in Indonesia, meaning that the more education expenditure increases, the more economic growth will decline, and vice versa.

5.2 Suggestion

Considering domestic investment funds No sufficient For fulfilling investment funds needs For absorbing power Work more, government must more emphasize the importance of increasing the role of foreign investment in the economy. special like relief tax investment, improved infrastructure, more licensing processes easier, enforcement laws and employment regulations that benefits investors

and workers work. Repair infrastructure and facilities required For attractive investment must be accompanied by improved quality sources Power humans, and improved research and development technology For increase capacity absorption i a country. With this method, the government encourages community to create new work fields, so power Work abroad No need to go overseas.

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