ISSN 2477-0531

# UNEMPLOYMENT, POVERTY AND INDONESIAN OVERSEAS WORKERS

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## ABSTRACT

*Indonesia faces unemployment and poverty problems which may cause this country as one of the main countries in Asia to send international migrant workers. The main objective of this paper is to examine whether unemployment and poverty determine Indonesian Overseas Workers (IOWs). The study uses secondary data and the data are analysed by utilizing a Vector Autoregressive (VAR) framework. The findings show that unemployment has a significant negative effect on the IOWs while poverty has a significant positive effect. The unemployed youth in Indonesia mainly have higher education and are not poor which are least likely to migrate while poor people migrate for survival. Hence, freeze on sending the IOWs may not be effective since the poor people will keep working overseas by being illegal workers.*

**Key words:** *Unemployment, Poverty, Migrant Workers, Indonesia*

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## INTRODUCTION

Indonesia is one of the main countries in Asiato send international migrant workers. Up until 2011, Indonesia has sent around 8 million workers overseas, mainly to Saudi Arabia and Malaysia (BNP2TKI, 2012). The Indonesian Government ever stopped sending Indonesian maids to Malaysia following the cases of ill treatment of Indonesian maids by their employers. However, the inflow of Indonesian maids to Malaysia without the approval of the Indonesian Government continues.

Findings on the effect of unemployment and poverty are still inconclusive since this effect can be either positive or negative. Poverty can be a push factor for emigration, especially in developing countries. The lower the income, the greater is the probability of emigration in countries such as Bangladesh (Chowdhury et al. 2009) and Honduras (Stanley 2010) due to being necessity driven. The UNDP (2009) revealed that around 67 per cent of the respondents in Niger migrate for solving food problems. Poor people are able to migrate because they have various ways to afford the migration cost, for example by borrowing money from their own family and non-family members including recruitment agencies or their employers (IOM 2010). However, poverty or low wage may discourage international migration such as in Mexico (UNDP 2009) and the Philippines (Agbola and Acupan 2008).

The high levels of unemployment in countries that are able to produce highly educated people who are able to compete in the international labour market, may encourage emigration. This is supported by the findings in the Philippines (Agbola and Acupan 2008) and Pakistan (Ahmad et al. 2008), which are dominated by skilled and professional workers. However, unemployment can be an obstacle for emigration due to poverty constraints such as in Greece and the Irish Republic (Jennisen 2003).

Unemployment in Indonesia is dominated by the young group having relatively a high education living with their parents (Suryadarma *et al*., 2007). Data issued by ADB (2011) and BPS (2011) indicated that the number and rate of unemployment declined from 2005 to 2010 but the number of unemployed (8.32 million) and unemployment rate (7.14 per cent) in 2010 was higher than those in 2000.

Poverty is another problem in Indonesia. Both the absolute and relative poverty indicators declined between 2000 and 2010; however, the number of poor people in urban areas increased between 2000 and

2005. The number of poor people in Indonesia was still high (31.03 million in 2010). The number of poor people in rural areas was greater than that in urban areas although the difference in the number of poor people in urban and rural areas reduced from more than double in 2000 to less than double in 2010.

Regardless of society's pressure on the Indonesian Government to stop sending low-skilled migrant workers overseas due to various problems, the number of IOWs keeps increasing from 175,187 in 1994 to 581,081 in 2011 (BNP2TKI,2012). The IOWs are predominantly women (around 60 per cent) mainly due to the high demand for service job such as housemaids. The Indonesian migrants mainly work in Saudi Arabia and Malaysia which is around 23 per cent respectively, which reflects the high demand for Indonesian workers in these two countries.

Since Malaysia is much closer to Indonesia compared to Saudi Arabia, the number of illegal workers from Indonesia is mostly found in Malaysia. As an indicator, as many as 201,237 illegal workers from Indonesia were legalized in 2012 in Malaysia under the Comprehensive Legalisation Programme for Illegal Immigrants (6P) programme excluding those who have chosen to return home (Borneo Post 2013). Meanwhile, by 2013, the number of illegal Indonesian workers in Saudi Arabia is expected to reach approximately 43,000 (Kompas 2013). The main objective of this paper is to examine whether unemployment and poverty determine Indonesian Overseas Workers (IOWs).

## RESEARCH METHOD

The proposed model in this study is that the Indonesian Overseas Workers is a function of unemployment and poverty, written as follows:

$$IOW = f(UNP, POV)$$

Indonesian Overseas Workers (IOW) is a dependent variable while unemployment (UNP) and poverty (POV) are independent variables. Unemployment is measured by the number of working age population looking for a job; poverty (POV) is measured by the number of the population living below Indonesia's poverty line.

This study utilizes secondary data published by various institutions. The data for IOW, unemployment and the number of poor people were obtained from BNP2TKI (2012), the Asian Development Bank (ADB) (2011), and Statistics Indonesia (BPS) (2011) respectively. Quarterly data spanning from 1999 to 2010 are employed and the data are transformed into log form.

The Vector Autoregressive (VAR) framework is employed in this study. The steps of the framework include testing stationary of the data utilizing the Kwiatkwoski, Philips, Schmidt and Shin (KPSS) (1992) followed by the Johansen and Juselius (1990) cointegration test and the Vector Error Correction Model (VECM) approach (Masih and Masih, 1996) to examine the effect of unemployment and poverty on IOWs through a normalized equation.

## RESULTS AND DISCUSSION

The results of KPSS test show that the data meet the requirement for cointegration test since the null hypothesis is rejected at level either with intercept or with trend and intercept (Table 1). This step is followed by cointegration test which proved that unemployment, poverty and the Indonesian migrant workers have a long-run relationship (Table 2).

Furthermore, the results of the normalized equation reveal that unemployment negatively determines IOW, while poverty positively determines IOW. The negative effect of unemployment on the IOWs is least likely due to poverty constraints such as in Greece and the Irish Republic (Jennisen 2003). The unemployed youth in Indonesia mainly have higher education but they lack of ability to speak English, which is an important requirement for highly-skilled jobs on the international labour market. The unemployed youth in Indonesia are not the same as the unemployed people in Pakistan (Ahmad *et al*. 2008) and the Philippines (Agbola and Acupan 2008), which are dominated by highly educated persons who are able to compete in the international labour market. Meanwhile the positive effect of poverty in Indonesia on the IOWs confirms the other studies in the home countries of international migrant workers, such as in Bangladesh (Chowdhury et al. 2009) and Honduras (Stanley 2010).

Table 1. The Results of KPSS unit root test

| Variable | Intercept | Trend and intercept | Intercept | Trend and intercept |
|---|---|---|---|---|
| | Level | | 1st Difference | |
| IOW | 0.570** | 0.113 | 0.113 | 0.106 |
| POV | 0.788* | 0.123 | 0.174 | 0.165** |
| UNP | 0.397 | 0.224* | 0.594** | 0.075 |

Notes: Asterisks (*) and (**) denote significant at the 1 and 5 per cent levels, respectively

Table 2. The Results of Johansen-Juselius cointegration Test

| IOW, UNP, POV (k = 2, r = 1) | | | | | |
|---|---|---|---|---|---|
| Null | Alternative | Trace statistic | 0.05 Critical value | Max-Eigen statistic | 0.05 critical value |
| r = 0 | r = 1 | 38.941 | 35.010** | 29.698 | 24.252** |
| r > 1 | r = 2 | 9.242 | 18.398 | 7.249 | 17.148 |
| r ≥ 2 | r = 3 | 1.993 | 3.841 | 1.993 | 3.841 |

Notes: The *k* is the lag length, *r* is the number of co-integrating vector, and asterisk (**) denotes significant at the 5 per cent level

IOW= 5.67 + 3.77POV – 0.42 UNP
[6.10994]* [ - 2.39415]*

## CONCLUSION AND RECOMENDATIONS

This study has proven that unemployment and poverty significantly affects the IOWs. Unemployment negatively affects the IOWs while poverty has a positive effect on the IOWs. Necessity driven accompanied by the high demand for low-skilled workers such as in Malaysia and Saudi Arabia has pushed a greater number of Indonesians working abroad. Working overseas is a survival strategy for poor people whatever the cost which make them easily to be the victim of human trafficking. Hence, freeze on sending the IOWs may not be necessarily effective as long as Indonesia still has many poor people.

The Indonesian Government should empower Indonesians through improving the quality of education formally as well as informally in order to minimize the number of victims of human trafficking. Corruption eradication at all levels of bureaucracy is also very important for reducing the cost of being a legal worker abroad.

The Indonesian Government should also equip the Indonesian manpower with skills required by the international labour market and to become entrepreneurs, which will reduce unemployment. This policy is important since, to date, highly educated youth do not seem to be ready for competition in the international labour market or as entrepreneurs. Being unemployed for a long time is not beneficial for the country because of the loss in income tax and wasted human investment.

## ACKNOWLEDGEMENT

Thanks to the Faculty of Economics and Business Universiti Malaysia Sarawak (UNIMAS) which has facilitated the first author in writing this paper and attending the seminar.

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