

INTERNATIONAL MIGRATION
PAPERS

20

Emigration pressures and
structural change

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Foreword

This is a paper of the ILO's Migration Branch. The ILO's Migration Branch aims to contribute to (i) the evaluation, formulation and application of international migration policies suited to the economic and social aims of governments, employers' and workers' organizations, (ii) the increase of equality of opportunity and treatment of migrants and the protection of their rights and dignity. Its means of action are research, technical advisory services and co-operation, meetings and work concerned with international labour standards. The Branch also collects, analyses and disseminates relevant information and acts as the information source for ILO constituents, ILO units and other interested parties.

Since 1990 the ILO has undertaken a number of studies to look into the question of migration pressures and in 1992 organized an international conference jointly with UNHCR to look into their implications for development assistance. In 1994 the ILO, through its Southeast Asia and Pacific Multidisciplinary Team (SEAPAT) and the East Asia Multidisciplinary Team (EASMAT), undertook studies of emigration pressures in four Asian countries: China, Indonesia, the Philippines and Vietnam. These studies aimed to provide some indication of the magnitude of emigration pressures and to identify structural variables which may in one way or another be influencing them. Of particular interest is the impact, direct or indirect, of socio-economic policies such as measures to redistribute productive assets, to support agriculture with infrastructure and easier access to credit, to stimulate industrialization and to influence the geographic concentration of employment opportunities.

This report on Indonesia by Deepak Nayyar examines emigration pressures in a country which had undergone a long period of sustained growth during which per capita incomes rose at the rate of 4.5 per cent per annum. Notwithstanding very large improvements in poverty alleviation and the very rapid expansion of manufacturing employment during the 1980s, emigration pressures in Indonesia however appear to have increased rather than declined. Average emigration flows, in Nayyar's estimation, rose from 1000 to 130,000 persons per annum during the 25 year period from 1969 to 1994. What is surprising is Nayyar's finding that the rapid expansion of employment in the urban sector may not have reduced, but indeed contributed to increasing propensities of Indonesians to emigrate.

Indonesia is of interest not only because of its huge potential as a supplier of labour in the region but also because it has experienced rapid growth and structural transformation which might permit an early transition in migration. In this paper Nayyar examines how labour has been absorbed during the growth process and uses it to explain the phenomenon of rising emigration pressures.

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1. Introduction

The object of this study is to analyse the relationship between international migration and economic development with reference to the Indonesian experience over the past twenty-five years. In doing so, it also attempts to explore the relationship between emigration pressures and structural change at a macro-level. The endeavour constitutes a modest beginning, for the subject is relatively unexplored in terms of both theoretical work and empirical research. It is, therefore, meant to raise important issues, which may have policy implications, rather than reach definite conclusions.

Section 2 sets the stage for discussion by outlining the broad contours of economic development in Indonesia since 1970, with a focus on employment and poverty, to consider the changes in the living conditions of the people.

Section 3 constructs a profile of international labour migration from Indonesia. This is important because the literature and the evidence on this subject is sparse, which provides a sharp contrast with the other labour-exporting countries in Asia. The evidence on the outward migration and the destination of migrants is, perhaps, the most complete. The much more limited evidence on return migration, illegal migration and the skill composition of migrants is also presented. The picture is completed by putting together the slender evidence that exists on remittances from migrant workers.

Section 4 examines the macro-economic impact of the labour flows and the financial flows associated with international migration from Indonesia. It considers the possible impact of the outflows and the return flows of migrant workers on output and employment. It also considers the macro-economic significance of remittance inflows in relation to the balance of payments, consumption, savings and investment.

Section 5 seeks to analyse the factors underlying emigration pressures making a distinction between the supply side and the demand side. It presents the available evidence on the relative importance of internal migration within Indonesia and international migration from Indonesia, to suggest that, in both, the pressures to migrate were attributable to the same set of factors on the supply side. But the story is not complete without considering the demand side. For emigration pressures surfaced, or emerged stronger, only when the demand for workers in labour-scarce countries opened up destinations for migrants.

Section 6 attempts to explore the relationship between structural change and the migration process. It starts with a simple analytical construct, based on stylized facts, about the structural transformation of economies associated with the process of industrialization and development. This is followed by an examination of structural changes in the composition of output and employment in Indonesia during the past twenty-five years. The object of the discussion is to consider the implications and consequences of this structural change for emigration pressures in Indonesia.

In conclusion, Section 7 sets out some suggestions and prescriptions, in the sphere of policies, which would facilitate the maximization, and if possible the socialization, of benefits from international migration in the wider context of economic development.

2. Economic development in Indonesia

The development experience of Indonesia during the late twentieth century is impressive and, in some respects, comes close to the success stories of East Asia.¹ In 1967, it was one of the poorest countries in the world with a per capita income of only \$50, which was less than half that of India. In 1992, its per capita income was \$670, which was more than double that of India. This record should not be discounted because per capita income is measured in current prices and at current exchange rates. The performance was just as impressive in real terms. During this period of twenty-five years, per capita income increased at a rate of 4.5 per cent per annum while the growth in GDP was almost 7 per cent per annum (World Bank, 1994, p.2). Economic growth was combined with human development.² Life expectancy rose from 45.7 years in 1970 to 61.5 years in 1990. The infant mortality rate fell from 145 per thousand in 1970 to 68 per thousand in 1990. The adult literacy rate jumped from 54 per cent in 1970 to 82 per cent in 1990. The literacy rate for males rose from 66 per cent to 88 per cent and the literacy rate for females rose from 42 per cent to 75 per cent. Between 1960 and 1990, the crude birth rate declined from 44 per thousand to 28 per thousand, the crude death rate dropped from 23 per thousand to 9 per thousand, and the under-five mortality rate fell from 225 per thousand to 97 per thousand.

The process of economic development in Indonesia led to a dramatic reduction in the incidence of absolute poverty. The available evidence presented in Table 1 shows that the proportion of the population living below the poverty line, which was as much as 40 per cent in 1976, came down to just 15 per cent in 1990. The reduction in the incidence of poverty was about the same in rural and urban areas. Between 1976 and 1990, the total number of the poor was reduced from 54 million to 27 million, even as the total population increased from 135 million to 179 million. The performance is even more impressive if we take 1970 as a point of comparison. The data for earlier years is less reliable but estimates suggest that, in 1970, the proportion of the population living below the poverty line was in the range of 50 per cent and may have been as much as 60 per cent (Booth, 1993, p. 59 and World Bank, 1994, p.5). In this context, it is worth noting that there is an extensive literature on poverty in Indonesia (see, for example, World Bank, 1990; Ravallion and Huppi, 1991; Booth, 1993; Bidani and Ravallion, 1993). Different studies use different poverty lines and different methodologies to arrive at different estimates. The estimates cited here are those of the Central Bureau of Statistics (Central Bureau of Statistics, BPS, 1992). The literature does not quite accept these, as different studies reach different conclusions about the incidence of poverty, the spatial distribution of the poor and the trends in poverty over time. However, the proposition that there has been a substantial reduction in the incidence of absolute poverty in Indonesia, over the past two decades, is widely accepted.

It is worth noting that the process of economic growth has not been associated with a worsening of economic distribution. The Gini Coefficient estimated from the distribution of consumption

Table 1. Estimates of poverty in Indonesia. 1976 - 1990

Year	1976	1980	1984	1990
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¹ There is an extensive literature on the subject. For evidence on, and a discussion of, Indonesia's economic performance in the wider context of the Asian development experience, see ESCAP, 1990 and World Bank, 1993.

² The evidence on indicators of human development, cited in this paragraph, is obtained from UNDP, 1992 and 1994.

Proportion below the poverty line (percentages)					
Rural	40.4	28.4	21.2	14.3	
Urban	38.8	29.0	23.1	16.8	
Total	40.1	28.6	21.6	15.1	
Number below the poverty line (million)					
Rural	44.2	32.8	25.7	17.8	
Urban	10.0	9.5	9.3	9.4	
Total	54.2	42.3	35.0	27.2	

Source: Central Bureau of Statistics (BPS).

Note: These BPS estimates on the incidence of poverty are based on Household Expenditure Surveys (SUSENAS).

expenditure was 0.35 per cent in 1970, 0.34 per cent in 1980 and 0.32 per cent in 1990 (World Bank, 1994, p. 5). What is more, the share of the poorest 20 per cent of the population in total consumption expenditure increased from 6.9 per cent in 1970 to 7.7 per cent in 1980 and 8.9 per cent in 1990 (*ibid.*). Given these trends in income distribution, it is not surprising that rapid economic growth led to a sharp reduction in absolute poverty.

The population growth rate in Indonesia was 2.4 per cent per annum in the 1970s and 2 per cent per annum in the 1980s, while the rate of growth of the labour force was significantly higher at 2.7 per cent per annum in the 1970s and 3.5 per cent per annum in the 1980s (Central Bureau of Statistics, *Population Census Reports*, 1971, 1980 and 1990). The labour force grew much more rapidly than the population for two reasons.³ For one, large numbers of young people reached working age. This was a consequence of rapid population growth in earlier years. For another, female labour force participation rates registered a significant increase. This was a consequence of the decline in birth rates, the rise in age at marriage, the spread of education and the change in attitudes about women's work outside the home. It is striking that the expansion in employment almost kept pace with the expansion in the labour force. This is borne out by evidence available from the census and the national labour force surveys. Total employment in Indonesia increased from 39 million in 1971 to 72 million in 1990 at a rate of 3.1 per cent per annum. Between 1971 and 1990, the rate of growth of employment was the slowest in the agricultural sector at 1.7 per cent per annum and the fastest in the manufacturing sector at 5.2 per cent per annum, with the services sector a close second at 4.7 per cent per annum (Manning, 1993, p. 69). In an economy where open unemployment rates are low, it is not surprising that total employment, which is largely supply determined, increased at the same rate as the labour

³ For a discussion of the underlying factors, see Manning, 1993 and Godfrey, 1993a.

Table 2. Distribution and expansion of employment in Indonesia

Sector	Total Employment (million persons)		Wage Employment (million persons)		Growth: 1980-1990 (per cent per annum)	
	1980	1990	1980	1990	Total Employment	Wage Employment
Agriculture	28.0	35.9	4.4	5.6	2.5	2.5
Mining	0.4	0.8	0.1	0.7	7.6	17.6
Manufacturing	4.4	8.3	2.2	5.8	6.7	10.3
Electricity	0.1	0.2	0.1	0.1	6.4	8.2
Construction	1.6	2.9	1.0	2.0	6.3	7.8
Trade	6.6	10.8	0.6	1.4	5.0	9.7
Transport	1.5	2.7	0.7	1.4	6.3	6.3
Banking and Finance	0.2	0.5	0.2	0.5	8.9	9.9
Other Services	8.7	9.9	4.8	7.7	2.4	5.0
Total	51.15	72.0	14.1	25.2	3.5	6.0

Source: Population Census Reports for 1980 and 1990. For the average annual rate of growth of total employment and wage employment, Godfrey (1993).

force (Godfrey, 1993b). It is, perhaps, necessary to make a distinction between total employment and wage employment. Table 2, which is based on data from the population censuses for 1980 and 1990, confirms the story about the growth in total employment, with some differences between sectors as employment expansion in agriculture was relatively slow. But it also reveals that wage employment increased at a rate of 6 per cent per annum during the 1980s. The expansion of wage employment, again, was the slowest in the agricultural sector and the fastest in the manufacturing sector.

It would seem that the process of economic development in Indonesia has brought about a significant improvement in the living and the working conditions of the people. Yet, there remains a reservoir of surplus labour and poor people, particularly in rural Indonesia. This is, perhaps, the most important factor underlying internal (both rural-rural and rural-urban) migration and international migration, as people move in search of higher wages and better living conditions.

3. International labour migration from Indonesia

The data base for migration across national boundaries is slender. Information is available from administrative sources such as registration systems rather than statistical sources. Migrants from Indonesia, who wish to work abroad, need approval from the Department of Manpower and are required to register with one of its offices. These procedures and formalities are often completed by recruitment agencies on behalf of the migrant workers. Those who emigrate through official channels are entitled to an exemption from travel tax. The discussion that follows is based largely on information compiled from this source. To sketch as complete a picture as possible, it is necessary to examine the available evidence, however limited or however disparate, on out migration, return migration, illegal migration, skills of migrants and remittances from workers.

3.1. Out migration

Table 3 provides an overview of international labour migration from Indonesia. It sets out the dimensions of labour outflows for the successive five-year-plans during the period from 1969 to 1994. International migration increased at a rapid pace from about 5,000 during the first plan (1969-1974) to about 650,000 during the fifth plan (1989-1994), so that average outflows rose from 1,000 persons per annum to 130,000 persons per annum. During this twenty-five year period, the total emigration from Indonesia was a little more than 1 million persons. There were three major destinations for Indonesian migrants. Of the 1 million persons who migrated, 62.8 per cent went to Saudi Arabia, 19.4 per cent went to Malaysia and 6.3 per cent went to Singapore. These aggregates, which provide an overview, suggest a high degree of concentration in the destinations, in so far as three countries absorbed almost 90 per cent of Indonesian migrants.

There were, however, three discernible phases in international migration from Indonesia. In the first phase, from 1969 to 1979, almost one-half of the total emigration was to Europe, mostly to the Netherlands, which was shaped by post-colonial ties. In the second phase, from 1979 to 1989, three-fourths of the total emigration was to the Middle East, mostly to Saudi Arabia, which was induced by the economic boom in these labour-scarce economies that followed dramatic increases in world oil prices. In the third phase, from 1989 to 1994, the Middle East, essentially Saudi Arabia, remained an important destination for migrants, but there was a striking increase in the relative importance of South East Asia which accounted for one-third of total emigration, as Malaysia and Singapore became labour-scarce economies and began to import labour from neighbouring Indonesia. It is worth noting, that in this third phase, labour-scarce East Asian countries - Hong Kong, Taiwan (China), Japan and the Republic of Korea - also emerged as destinations for migrant workers from Indonesia.

Table 4 presents time series data on annual labour outflows from Indonesia, to major destinations, for the period 1983 to 1993. The picture that emerges supports the inferences drawn above. Throughout this period, migrant flows to the industrialized world were modest, in the range of 1,000 persons per annum to the Netherlands and 2,000 persons per annum to the United States. The migrant flows to Saudi Arabia were far and away the largest as these outflows rose from less than 20,000 persons in 1983 to more than 100,000 persons in 1993. Countries in South East Asia - Malaysia, Singapore and Brunei - emerged as increasingly important destinations beginning in the late 1980s, as the migrant flows to these three countries rose from a modest 6,000 persons in 1988 to an annual average of almost 50,000 persons per annum during the early

Table 3. Emigration from Indonesia (1969 - 1994)

Destination	Plan I 1969- 1974	Plan II 1974- 1979	Plan III 1979- 1984	Plan IV 1984- 1989	Plan V 1989- 1994
Number of persons					
MIDDLE EAST	-	4,752	60,093	226,030	390,556
Saudi Arabia	-	3,817	55,976	223,573	384,822
SOUTH EAST ASIA	21	3,008	16,461	49,251	215,492
Malaysia	12	536	11,441	37,785	156,312
Singapore	8	2,432	5,007	10,537	48,896
EAST ASIA	473	1,748	2,681	2,308	21,569
EUROPE	3,794	7,083	14,020	7,543	10,118
Netherlands	3,332	6,637	10,104	4,375	5,515
UNITED STATES	146	176	2,981	6,897	13,993
OTHERS	1,190	275	164	233	-
Total	5,624	17,042	96,410	292,262	652,272
Percentages					
MIDDLE EAST	-	27.9	62.3	77.3	59.9
Saudi Arabia	-	22.4	58.1	76.5	59.0
SOUTH EAST ASIA	0.4	17.7	17.1	16.8	33.0
Malaysia	0.2	3.1	11.9	12.9	24.0
Singapore	0.1	14.3	5.2	3.6	7.5
EAST ASIA	8.4	10.3	2.8	0.8	3.3
EUROPE	67.5	41.6	14.5	2.6	1.6
Netherlands	59.2	38.9	10.5	1.5	0.8
UNITED STATES	2.6	1.0	3.1	2.4	2.1
OTHERS	21.1	1.5	0.2	0.1	0.1
Total	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Manpower

Table 4. The distribution of annual labour outflows from Indonesia by country of destination: 1983-1993

Destination	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Number of persons											
Saudi Arabia	17116	27940	47963	27497	48741	52349	54980	54246	64785	95908	101680
Malaysia	2967	5031	3824	183	5763	2237	5853	26923	40715	45040	33372
Singapore	2515	1128	1338		1705	3503	4311	7235	9937	12945	11842
Brunei		180	159	48	76	288	1850	2053	1469	2401	2010
Hong Kong	269	322	320	207	332	413	642	534	1079	1159	1421
Japan	136	134	166	39	72	35	79	527	873	804	1982
Rep. of Korea								1	426	1091	1672
Taiwan (China)		147	102	1	4	8	43	109	190	1577	5204
Netherlands	1720	781	853	511	754	1081	1147	1271	1095	939	1098
United States	1948	686	985	736	1231	2127	2007	2643	2618	2862	3459
Others	2286	1508	968	1497	684	1957	1192	1139	3058	2809	2504
Percentages											
Saudi Arabia	59.1	73.8	84.6	89.5	82.1	81.8	76.2	56.1	51.3	57.2	61.2
Malaysia	10.2	13.3	6.7	0.6	9.7	3.5	8.1	27.8	32.3	26.9	20.1
Singapore	8.7	3.0	2.4	0.0	2.9	5.5	6.0	7.5	7.9	7.7	7.1
Brunei	0.0	0.5	0.3	0.2	0.1	0.5	2.6	2.1	1.2	1.4	1.2
Hong Kong	0.9	0.9	0.6	0.7	0.6	0.6	0.9	0.6	0.9	0.7	0.9
Japan	0.5	0.4	0.3	0.1	0.1	0.1	0.1	0.5	0.7	0.5	1.2
Rep. of Korea	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.7	1.0
Taiwan (China)	0.0	0.4	0.2	0.0	0.0	0.0	0.1	0.1	0.2	0.9	3.1
Netherlands	5.9	2.1	1.5	1.7	1.3	1.7	1.6	1.3	0.9	0.6	0.7
United States	6.7	1.8	1.7	2.4	2.1	3.3	2.8	2.7	2.1	1.7	2.1
Others	7.9	4.0	1.7	4.9	1.2	3.1	1.7	1.2	2.4	1.7	1.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Manpower

1988 to an annual average of almost 50,000 persons per annum during the early 1990s. Taken together, Saudi Arabia, Malaysia, Singapore and Brunei absorbed as much as 91.8 per cent of the migrants from Indonesia during the period 1983-1993.

3.2. Return migration

It is important to recognize that a significant proportion of the migration from Indonesia to the Middle East, particularly to Saudi Arabia, is temporary rather than permanent. The migrant workers move without their families, stay for a limited duration and, as a rule, return to Indonesia thereafter.⁴ A few may succeed in staying on, and some may return a second time around, but this proportion is small. The situation is similar but not quite the same for migrants to Malaysia and Singapore. The available evidence on return migration is presented in Table 5 which compares emigration outflows with return migration inflows during the period 1989-1993. It confirms that migration to Saudi Arabia was essentially temporary, in so far as return migration inflows constituted more than 70 per cent of emigration outflows over this period. In contrast, return migration inflows as a proportion of emigration outflows, during the same period, were just 10 per cent for Malaysia and a mere 3 per cent for Singapore. Available evidence suggests that a significant proportion of Indonesian migrants with official documents in Malaysia, as also Singapore, are permanent settlers. The incidence of return migration from the industrialized world was much higher. Return migration inflows as a proportion of emigration outflows were about 40 per cent for the Netherlands and roughly 30 per cent for the United States. For all countries of destination, taken together, return migration inflows were 46 per cent of emigration outflows, so that the net labour outflow from Indonesia during the period 1989-1993 was about 337,500 persons.

There is no information on the size of the Indonesian workforce or population abroad. It is, however, possible to estimate the stock of migrants from the data on out migration and return migration. The total emigration from Indonesia up to the end of 1993/94 was 1,063,610 persons, whereas total return migration up to the end of 1993/94 was 438,510 persons, so that the stock of the Indonesian migrant population abroad at the end of 1993/94 can be estimated at 625,100 persons.⁵

3.3. Illegal migration

It must be stressed that the dimensions of international labour migration from Indonesia outlined so far are based on information about emigration through official channels. But a large number of Indonesian migrant workers still pass through illegal channels. Such illegal migration is constituted, in part, by persons who travel on visas as Haj pilgrims or tourists to Saudi Arabia and stay on. This is common knowledge, which is readily accepted in government circles, but the number is not known (Ministry of Manpower, 1993, pp. 119-122). Most of the illegal migration from Indonesia, however, is to Malaysia. It is conjectured that, during the 1990s,

⁴ This conforms to the standard pattern of Asian labour migration to the Middle East. For a systematic analysis of the experience of the major Asian labour-exporting countries and a discussion on the economic impact of such migration, see Amjad, 1989.

⁵ These figures are based on information compiled by the Ministry of Manpower, Republic of Indonesia, Jakarta.

Table 5. Emigration, return migration and net labour outflows Indonesia: 1989-1993

Country	Emigration Outflows	Return Migration Inflows	Net Labour Outflows
Saudi Arabia	371,509	264,721	106,788
Malaysia	151,903	15,539	136,364
Singapore	46,270	1,227	45,043
Brunei	9,783	106	9,667
Hong Kong	4,835	570	4,265
Japan	4,265	408	3,857
Taiwan (China)	7,123	145	6,978
Netherlands	5,550	2,295	3,255
United States	13,589	4,043	5,546
Others	13,892	2,225	11,667
Total	628,719	291,279	337,440

Source: Ministry of Manpower

Note: The figures in this table are the sum of outflows and inflows during the five-year period from 1989 to 1993.

migration from Indonesia to Malaysia through official channels was only one-third of that through illicit channels.⁶ Official statistics report that there are 220,000 Indonesian migrants in Malaysia. The evidence available from a wide range of sources suggests that there are at least 750,000 Indonesian migrants in Malaysia and that their number may be as large as 1 million.⁷ These estimates are both plausible and reasonable. It is reported that, in 1990, more than 130,000 Indonesians working illegally in Malaysia were given proper documentation under a legalization programme (reported in *Straits Times*, 26 October 1990, as cited in Hugo, 1993). There was another attempt to regularize illegal migrants from Indonesia in Malaysia in 1992, when they were given an opportunity to register and obtain a temporary resident status. It is reported that about 320,000 Indonesian workers availed of this amnesty (Vatikiotis, 1992).

⁶ This proportion is based on the author's discussions with the Manpower Suppliers' Association (APJADI) at Jakarta in July 1995. It suggests that illegal migration to Malaysia is in the range of 120,00 persons per annum. This seems plausible given the fact that the deportation of illegal workers from Malaysia to Indonesia was in the range of 10,000 persons per annum. It is reported that, in 1993, 11,029 Indonesian workers were deported from Malaysia (*New Strait Times*, Kuala Lumpur, 6 March 1995). In 1994, it is reported that 9,194 illegal workers from Indonesia were deported from Malaysia through Riau alone in Sumatra (the source of this information is the Provincial Office of the Ministry of Justice, Pekanbaru, Riau as quoted in *Kompas*, 22 July 1995).

⁷ See, for example, Ministry of Manpower, 1993, Hugo, 1993 and Godfrey, 1994. These orders of magnitude are also confirmed by recent newspaper reports: *New Straits Times*, Kuala Lumpur, 6 March 1995 and *The Jakarta Post*, Jakarta, 18 May 1995.

There is both history and economics underlying illegal migration from Indonesia to Malaysia. The two major routes for the illegal migrants - from East Java and North-West Sumatra to Peninsular Malaysia and from Sulawesi and East Kalimantan to Sabah - go back not just to the colonial era but earlier to the eighteenth century as the routes for trade in coconuts and rice.⁸ The geographical proximity, now combined with cheaper and faster transportation, obviously makes such movement easier. But that is not all. The Indonesian migrants share a culture, a religion and, most important perhaps, a common language with the Malaysians. The economic factors underlying this illegal migration are just as important. For employers in Malaysia, the wages payable to illegal workers are, on an average, only one-half the wages payable to registered migrant workers,⁹ while the levy on foreign workers, in the range of US \$100-200 per worker, is simply not payable on illegal workers (Godfrey, 1994, p. 4). For migrants from Indonesia, wages in Malaysia are four to eight times what they are at home. What is more, the illicit channels for migration to Indonesia are much cheaper, less cumbersome and consequently faster than the official channels of recruiting agencies and government procedures.¹⁰

3.4. Skill composition

The available evidence on the skill composition of migrants from Indonesia is set out in Table 6. This information on the occupational distribution of migrant workers by sectors-of-employment is available only for plan periods IV and V from 1984 to 1994. It shows that between the two plan periods, 1984-1989 and 1989-1994, the proportion of migrant workers engaged in domestic services decreased from 70 per cent to 60 per cent and the proportion of migrant workers engaged in agriculture increased from 12 per cent to 22 per cent, while the proportion of migrant workers in transportation remained almost unchanged at 14 per cent. Taken together, however, these three sectors employed more than 96 per cent of the migrant workers in both periods. It is important to recognize that these migrants from Indonesia were essentially unskilled workers: housemaids in domestic services, plantation workers in agriculture and drivers in transportation. Although data on the occupational distribution are not available by country-of-destination, it is known that the most important categories of migrant workers from Indonesia are (a) housemaids, particularly in Saudi Arabia, but also in Singapore, Malaysia and Hong Kong; (b) plantation workers in Malaysia, particularly Sabah; (c) drivers, particularly in Malaysia and Singapore but also in East Asian countries; and (d) construction workers, particularly in the Peninsular Malaysia (Godfrey, 1994 and Hugo, 1993).

Table 6. Occupational distribution of migrant workers from Indonesia by sector of employment 1984-1994 (in percentages)

⁸ This is based on the author's discussions with the Director General of Immigration, Ministry of Justice, the Manpower Suppliers Association (APJADI), and the Manpower Recruiting Agency (PT BIJAK), at Jakarta in July 1995. See also, Hugo, 1993.

⁹ According to the Manpower Suppliers' Association (APJADI), the average wage is MYR 13-15 for legal migrant workers and MYR 7 for illegal migrant workers in Malaysia.

¹⁰ It is reported that Manpower Supplier Companies (PPTKI) in Indonesia charge migrant workers a fee of Rupiah 650,000. The formal procedures are also cumbersome: completing 20 documents, collecting 33 signatures and waiting 3 months (Priyono, 1993). Illegal migration through middlemen (*taikong*) is much cheaper (as little as Rupiah 50,000 from Batam and Bintan to Johore) and much faster (migrants can leave as soon as a minimum number of 50 workers is gathered together).

Sector	Plan IV 1984 - 1989	Plan V 1989 - 1994
Domestic Services	70.2	60.2
Agriculture	11.8	22.3
Transportation	14.2	13.8
Construction	1.5	0.1
Electricity	0.3	1.0
Others	2.0	2.6
Total	100.0	100.0
Number of migrants	(292,262)	(652,272)

Source: Ministry of Manpower

There are two attributes of international labour migration from Indonesia which need to be emphasized because they are unusual among the labour-exporting countries of Asia. For one, the majority of the migrants are women. For another, there are almost no migrants with professional expertise or technical qualifications. The presence of this gender dimension and the absence of any brain drain deserves more than a mention, if not an explanation.

During the period 1984-1994, two-thirds of the migrants from Indonesia were women. The gender composition of migrants varied across sectors-of-employment and countries-of-destination. Almost 95 per cent of the migrants engaged in domestic services were women, but less than 25 per cent of the migrants engaged in agriculture were women. There were almost no women among the migrants engaged in other sectors.¹¹ More than 90 per cent of the migrants to Saudi Arabia were women, almost all of them housemaids, and the proportion was only slightly lower for the Middle East as a whole. The proportion of women among migrants from Indonesia was 60 per cent in Singapore, 30 per cent in Malaysia and somewhere in-between in the East Asian countries.¹² It should be obvious that the gender composition of labour outflows from Indonesia is determined on the demand side in so far as the labour-importing countries seek women migrant workers. This is, of course, matched by a surplus of unemployed and under-employed women in rural Indonesia, who are willing to migrate across national boundaries in search of higher wages or better employment opportunities. It is worth noting that apart from the Philippines, Sri Lanka and Indonesia, there is no other country in Asia which exports women workers on a significant scale. Thus, the demand conditions for such migration are, in a relative sense, favourable. But Indonesia is the only Islamic country in Asia which allows the recruitment of women for work as housemaids overseas, and there is a sense of unease about this in Indonesia.

¹¹ These proportions on the gender composition of international labour migration from Indonesia, by sectors of employment, are based on information compiled by the Ministry of Manpower, Republic of Indonesia, Jakarta.

¹² The figures on the proportion of women among migrants to the specified countries of destination are also based on information compiled by the Ministry of Manpower, as reported in Godfrey, 1994. From time to time, newspapers report the mistreatment of women workers by their overseas employers or their poor living conditions. This is a cause for concern both inside and outside the government of Indonesia. As a result, perhaps, the government banned the export of domestic servants to the Middle East between 1980 and 1982. And there is occasional pressure for a reimposition of the ban.

Indonesia is most unusual among the Asian labour-exporting countries for, unlike India, Pakistan, Sri Lanka, Philippines and Thailand, the permanent migration of persons with professional expertise or technical qualifications is almost absent. This is somewhat puzzling not only because it provides a sharp contrast with countries at similar levels of income and development which have experienced a braindrain, but also because there has been a significant increase in the incidence of unemployment among the educated in Indonesia, particularly those with higher education, during the 1980s.¹³ The explanation may be that those who could find employment abroad are still in short supply at home. What is more, even if salaries are much lower, the chances of rapid promotion to positions of power and influence are much higher. There may be other underlying factors.¹⁴ First, professional and technical qualifications in the higher education system of Indonesia are, perhaps, not as well known as those of the other Asian countries, so that the Indonesian professional is not yet competitive in the world market. Second, Indonesians are not as fluent in the English language as their counterparts in South Asia, the Philippines or the Republic of Korea. Third, as many in Indonesia proudly emphasize, the educated Indonesians simply prefer the comforts of home, with a strong preference for their own culture and environment and a sense of unease with the outside world.

3.5. Remittances

There is little systematic information on the financial flows associated with international labour migration from Indonesia. The Indonesian Rupiah is convertible and there are no restrictions on transactions in foreign exchange. Foreign currency is convertible into rupiah without any questions asked. Foreign currency accounts are opened with ease. Thus, it is simply not possible to identify financial flows attributable to migrants. So much so that it is difficult to find reliable data even on remittances from Indonesian workers abroad.

There are two sources of information on remittances: the Bank of Indonesia and the Ministry of Manpower. The Bank of Indonesia has a very narrow definition of remittances which are estimated on the basis of transfer payments reported by banks in the Middle East and Malaysia. The Ministry of Manpower provides estimates for remittances, which are based partly on estimates about the number of migrants working abroad, their average wage and the proportion of income remitted home. Table 7 presents these two sets of estimates on remittances from migrant workers to Indonesia during the period 1987/88 to 1994/95. The estimates are similar but there are some differences. Between 1987/88 and 1994/95, total remittances increased from US\$ 90 million to US\$ 350 million according to the Bank of Indonesia, and from US\$ 90 million to US\$ 480 million according to the Ministry of Manpower. These remittances were the equivalent of roughly 1 per cent of export earnings.

Table 7. Remittances from Indonesian workers (in US\$ million)

Year	Bank of Indonesia Estimates	Ministry of Manpower Estimates
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¹³ For evidence on higher, and increasing unemployment among the educated in Indonesia, see Ministry of Manpower, 1993, pp. 85-88.

¹⁴ For a discussion of the factors underlying the absence of a braindrain from Indonesia, see Godfrey, 1994, pp. 5 and 17.

1987/88	90	90
1988/89	103	114
1989/90	188	188
1990/91	139	180
1991/92	150	239
1992/93	264	264
1993/94	291	353
1994/95	344	480

Source: Bank of Indonesia and Ministry of Manpower

Table 8. Estimated composition of remittances to Indonesia by origin (in US\$ million)

Country	Plan III 1979-1984	Plan IV 1984-1989	Plan V 1989-1994
Saudi Arabia	41.6	351.3	1171.8
United Arab Emirates	2.2	9.6	26.6
Kuwait	0.5	2.1	11.9
Malaysia	-	-	1.8
Singapore	-	0.2	2.2
United States	-	-	2.8
Others	0.4	0.2	6.3
Total	44.7	363.4	1223.4

Source: Ministry of Manpower

The composition of remittances to Indonesia by country-of-origin, based on estimates made by the Ministry of Manpower for plan periods III, IV and V, from 1979 to 1994, is set out in Table 8. The data show that remittances increased from US\$ 45 million during 1979-1984 to US\$ 1,223 million during 1989-1994, so that average annual remittances rose from US\$ 9 million to US\$ 245 million.

In both these periods, more than 90 per cent of estimated remittances originated in Saudi Arabia, while the contribution of Malaysia and Singapore was negligible.

The evidence on remittances is puzzling. For one, remittances from countries other than Saudi Arabia are negligible. For another, the level of remittances per capita is only a fraction of what it is in other Asian labour-exporting countries.¹⁵ At the end of 1993/94, there were 625,000 Indonesian migrants working abroad according to official statistics. The evidence on illegal migration suggests that there were at least another 500,000 Indonesian migrants abroad. This would make for a total migrant population abroad of 1.1 million, which is roughly comparable with the migrant population abroad from India, Pakistan or the Philippines. But remittances from migrant workers to these countries are in the range of US\$ 3 billion per annum. In this context, remittances to Indonesia in the range of US\$ 300 million are obviously an under-estimate. Given the skill composition of Indonesian migrants, it is possible that their income per capita, worldwide, was lower than that of migrants from other Asian countries. But the skill composition and the wage levels of Asian migrants in the Middle East were roughly similar. And if the saving propensities were similar, remittances per capita could not be very different. But evidence available suggests that workers' remittances to Indonesia, even from the Middle East, were significantly lower. It is not clear why. There can be no significant remittances through illicit channels because there is no market premium on the official exchange rate for the rupiah and transactions costs in any parallel market are likely to be higher. It is, therefore, reasonable to infer that remittance inflows to Indonesia are under-estimated because they are unreported.

4. Macro-economic impact of international migration

In analysing the implications and consequences of international labour migration for Indonesia, it is necessary to distinguish between the macro-economic impact of labour flows on the one hand and financial flows on the other, although the two are often interwoven.¹⁶

The impact of labour flows associated with international migration depends on the magnitude of the outflow of workers, the employment status before emigration, the skill composition of the migrants and, in the case of temporary migration, also on the size of the return flow. In a surplus labour economy which is characterized by disguised unemployment among the peasantry in the agricultural sector or the workers in the informal services sector, and by open unemployment in the rural non-agricultural sector or the urban industrial sector, the impact of international migration on output would be negligible, whether at the micro-level or at the macro-level, particularly if migration flows are small as a proportion of the increments in the workforce, or as a proportion of the existing surplus labour. What is more, if the emigrants are unemployed or under-employed before their departure, it would lead to a direct reduction in the level of open or disguised unemployment. The migration of employed workers, on the other hand, may also lead to an indirect reduction of unemployment if they can be readily replaced from a pool of surplus labour. The extent of the reduction in unemployment or under-employment would, of course, depend on the size of the outflow. The skill composition of the migrants is important in this context. The migration of unskilled workers should have little or no impact on output and should reduce unemployment.

¹⁵ For evidence on remittances inflows to the labour-exporting Asian countries from the Middle East see Amjad, 1989.

¹⁶ The analytical approach adopted in this section, to examine the macro-economic impact of international migration, draws upon earlier work of the author. For a detailed discussion, see Nayyar, 1994 a, pp. 3-11.

However, the migration of skilled workers or high-skill professionals is likely to affect both output and employment if the migrants cannot be replaced without training, which absorbs resources and needs time. In situations where the migration of workers is temporary, we need to analyse not only the initial impact of the withdrawal on output and employment, but also the subsequent impact of the re-entry. Once again, if the return migration is small as a proportion of the increments in the workforce, or of the surplus labour, the impact of re-entry on output and employment is likely to be marginal, if not negligible, in a macro sense. The acquisition of skills by migrants while abroad and the utilization of such skills on return may, of course, influence productivity and output.

In 1990, labour outflows from Indonesia amounted to a minuscule 0.13 per cent of the total workforce, but constituted a more significant 6 per cent of the increment in the workforce.¹⁷ Although estimates of unemployment and under-employment are characterized by serious conceptual and statistical limitations, it is worth noting that, in 1990, emigration from Indonesia was 4 per cent of the total unemployment and 0.35 per cent of the total under-employment in the economy.¹⁸ There is no substantive evidence on the employment status of the migrants before their departure but, in view of the fact that an overwhelming proportion of these migrants were unskilled workers, it is likely that most of them were drawn from under-employed or unemployed members of peasant households in the rural sector, and from under-employed or unemployed workers, particularly casual wage labour, in the urban sector. Given the magnitude of labour outflows and the reservoir of surplus labour, it would be reasonable to infer that the impact of the withdrawal of labour, if any, on output in Indonesia would have been negligible. In so far as the emigrants were unemployed or under-employed before their departure, it would have led to a direct reduction in open or disguised unemployment, but the extent of it was probably marginal. In so far as the emigrants were employed before their departure, it would have led to an indirect, though once again marginal, reduction in unemployment, since replacement workers would have been drawn from the available surplus of labour.

Some of the emigration from Indonesia, particularly to the Middle East, was temporary so that the withdrawal of labour was followed by a re-entry. In 1990, return migration amounted to a tiny 0.07 per cent of the total workforce and about 3 per cent of the increment in the workforce. This return migration was 2 per cent of the total unemployment and 0.18 per cent of the total under-employment in the economy.¹⁹ The impact of the return flow on output, if any, would have been negligible. The impact on unemployment or employment would, once again, have been marginal for the economy as a whole. Needless to add, return migration may have increased the incidence of open or disguised unemployment, but only at the margin by exerting pressure on the labour market wherever job opportunities were scarce. The problem of unemployment may have been aggravated among return migrants if they were reluctant to enter the same occupation on return, but may have been eased if they were able to use their savings out of remittances as an investment fund for self-employment.

The macro-economic impact of financial flows associated with migration, essentially remittances in the case of Indonesia, is somewhat more complex. In a situation where the departure of migrants

¹⁷ The total workforce in Indonesia was 72 million in 1990 (*Population Census Report*, 1990), while the increment in the total workforce in 1990 was 1.6 million (*National Labour Force Survey*, 1987-1992).

¹⁸ In 1990, open unemployment in Indonesia was 2.4 million, while under-employment (those working less than 35 hours per week) was 27.8 million (*Population Census Report*, 1990).

¹⁹ The total return migration to Indonesia in 1990 was 50,391 persons (Ministry of Manpower). The proportions in this paragraph are derived from this figure and the data on the size of the workforce, the increment in the workforce, open unemployment and under-employment, for 1990, cited previously.

does not reduce domestic output, remittance inflows should increase national income. Alternatively, so long as the value of remittances exceeds income foregone as a consequence of migration, which is a plausible assumption, the migration of workers across national boundaries should lead to some increase in national income. An increase in income would, then, lead to a consequent increase in private consumption expenditure, private investment expenditure and imports. An increase in consumption expenditure would lead to an increase in output in a demand-constrained situation but would lead to an increase in prices or in imports in a supply-constrained situation. The difference between the increase in income and the increase in consumption attributable to remittances would be saved. The rate of saving may rise or fall depending on how the propensities differ as between domestic and foreign incomes. The utilization of savings would influence the level and the mix of investment. The consequent increase in investment, or its productivity, would lead to a further increase in income through the multiplier effect. The increase in income arising from remittances may enable the economy to realize an excess of investment over savings, through a corresponding excess of imports over exports, with a smaller draw on external resources than would otherwise be the case.²⁰ In principle, therefore, the remittance inflows attributable to international labour migration can alleviate either the savings constraint or the foreign exchange constraint, thus enabling the economy to attain a higher rate of growth, which is somewhat akin to the role of foreign capital inflows in two-gap models. Remittances arising from migration may, then, lead to increases in income and employment by stimulating consumption, adding to savings and investment or by allowing the economy to sustain an excess of investment over savings at a macro-level.

Remittance inflows to Indonesia, as reported in official statistics, are small enough to be treated as negligible in the context of the national economy. In the early 1990s, remittances were the equivalent of a mere 1 per cent of export earnings. They were almost insignificant in relation to macro variables. In 1992, for example, remittances were the equivalent of 0.2 per cent of GDP, 0.4 per cent of private consumer expenditure and 0.8 per cent of gross domestic fixed capital formation.²¹ It must be stressed that this equivalence is a hypothetical comparison. What is being said is simply that if all remittances had been used for consumption, they would have accounted for 0.4 per cent of consumer expenditure, or that if all remittances had been invested they would have accounted for 0.8 per cent of domestic investment. Unfortunately, there is no evidence at the macro-level which would enable us to allocate remittances by actual use as between consumption, savings or investment. Casual empiricism suggests that the domestic resource equivalent of remittances was utilized by migrants or their households to liquidate debt, support consumption, create saving and finance investment in that order.²² Thus, debt repayment and consumption expenditure were the first claim on remittances. The balance was saved and used to finance investment, particularly by return migrants in self-employment, as also in housing and education.²³

²⁰ This proposition may appear paradoxical at first sight because, in an accounting sense, it follows from the national income identity that there would be a corresponding increase in savings. But it is gross national saving rather than gross domestic saving that would rise and the economy would be able to realize an excess of investment over the latter.

²¹ Remittances were US\$264 million, the equivalent of Rupiah 536 billion, during the financial year 1992-93 (Table 7). In 1992, GDP was Rp 259,885 billion, private consumption was Rp 135,880 billion and gross domestic fixed capital formation was Rp 70,820 billion (Central Bureau of Statistics). The proportions cited here are derived from these figures.

²² This statement is based on the judgement of concerned officials at the Bank of Indonesia and emerged from the author's discussion with them at Jakarta in July 1995.

²³ Some confirmation is provided by evidence compiled at a micro-level. In a survey of 200 return migrants carried out in 1987 (quoted in Godfrey, 1994, p. 8) when asked about the intended use of their funds, the most frequently mentioned use of funds was as business capital (23 per cent of total mentions), followed by land purchase (20 per cent), house construction or repair (20 per cent), education of family member (18 per cent) and bank deposits (12 per cent). The most popular planned business venture, by far, was a shop or foodstall (65 per cent of total mentions), followed by a repair shop (15 per cent), agriculture or fishing (12 per cent) and

The dimensions of the labour flows and the financial flows associated with international labour migration from Indonesia are small, almost negligible, in the wider context of the national economy. The macro-economic significance, therefore, is qualitative rather than quantitative and the impact of international migration on the national economy is far less than in other Asian countries, say, the Philippines or Pakistan. But it cannot be ignored. The more important issue, however, is how the process of economic development in Indonesia has induced and shaped international labour migration.

5. Emigration pressures and underlying factors

The search for evidence on emigration pressures in Indonesia, or elsewhere, is futile, for there is not much to go on. It is, perhaps, more instructive to analyse the factors underlying emigration pressures. In doing so, it is essential to make a distinction between the supply side and the demand side. On the supply side, demographic factors combined with unemployment and poverty obviously created pressures for the internal migration (mostly rural-urban but also rural-rural) in Indonesia, as in other surplus labour economies. The same factors probably led to a spillover of migration across national boundaries. However, the existence of surplus labour alone is not sufficient to create emigration pressures. And the story cannot be complete without considering the demand side. Emigration pressures surfaced, or emerged stronger, once destinations for migrants were opened up by a demand for workers in labour-scarce countries, whether in neighbouring Malaysia or in distant Saudi Arabia.

Consider, first, the supply side. Indonesia has experienced a rapid growth in its population during the past 25 years. Between 1971 and 1980, its total population increased by 23.7 per cent at an average rate of 2.4 per cent per annum. Between 1980 and 1990, its population increased by another 21.5 per cent at an average rate of 2 per cent per annum. The growth in the labour force was even more rapid. Between 1971 and 1980, the labour force increased by 27 per cent at an average rate of 2.7 per cent per annum. Between 1980 and 1990, the labour force increased by 41.9 per cent at an average rate of 3.5 per cent per annum. The sharp increase in the rate of growth of the labour force during the 1980s, explained earlier, was attributable to a combination of demographic factors (as young persons reached working age) and increasing female participation rates (as women entered the labour market).

Table 9 presents the evidence on trends in population, labour force, unemployment and under-employment in Indonesia during the period from 1961 to 1990. It confirms the rapid growth in the population and the labour force. The trends in unemployment and under-employment need more careful interpretation.

In a surplus labour economy such as Indonesia the concept of open unemployment is of limited use, in so far as the poor cannot afford to be unemployed but engage in any work that is available even if the income earned is not sufficient for a living. Thus, open unemployment rates in Indonesia have always been low. The unemployment rate was high at 5.5 per cent of the labour force in 1961, declined to 2.2 per cent in 1971 and 1.7 per cent in 1980 but rose to 3.2 per cent in 1990. It would appear that the unemployment rate has been in the range 2-3 per cent for much of the period under review. But this aggregate figure conceals two important dimensions of the unemployment problem.

tailoring (9 per cent).

For one, the unemployment rate in the urban sector (more than 5 per cent) is significantly higher than the unemployment rate in the rural sector (less than 2 per cent). For another, the unemployment rate among females is significantly higher (about one percentage point) than the unemployment rate among males.²⁴

Under-employment is even more difficult to measure than unemployment. The population census in Indonesia provides information on the incidence of under-employment in terms of the number of hours worked per week. Under-employment, defined as a proportion of the working population working less than 35 hours per week, was 36.9 per cent in 1980 and 38.6 per cent in 1990. If under-employment is defined as a proportion of the working population working less than 25 hours per week, the unemployment rate was 22.7 per cent in 1980 and 22.5 per cent in 1990 (census data reported in Ministry of Manpower, 1993, p. 92). In terms of either definition, the under-employment rate among females was 20 percentage points higher than the under-employment rate among males both in 1980 and in 1990 (*ibid.*, p. 92). This suggests that emigration pressures were probably much greater among female workers. It may also be an important part of the explanation, on the supply side, for the gender composition of international labour migration from Indonesia. Of course, it must be recognized that the incidence of under-employment so measured may be deceptive for a variety of reasons such as multiple jobs, seasonal work, long hours with little work and part-time work. If availability for additional work is the criterion, so that we focus on job-seekers among the under-employed, the proportion of the labour force recorded as under-employed is much lower at about 10 per cent (Manning, 1993 and

Table 9. Labour force, unemployment and underemployment in Indonesia

	1961	1971	1980	1990
Population (million)	97.1	119.2	147.5	179.2
Labour force (million)	34.6	41.3	52.4	74.4
Working population: Employment (million)	32.7	40.4	51.5	72.0
Job-seekers (million): Unemployment	1.9	0.9	0.9	2.4

²⁴ The unemployment rate in the urban sector, and among female workers, was higher throughout the period 1971-1990. See Ministry of Manpower, 1993, p. 84. It is worth noting that the problem of unemployment among women in rural Indonesia may be accentuated by the nature of technological change in agriculture. The evidence is not conclusive but it appears that, in recent years, innovations in harvesting and post-harvest processing of rice are reducing employment opportunities for women and may, in fact, have displaced women workers given the traditional gender division of labour in agriculture). This might also be a factor underlying stronger emigration pressures, on the supply side, among female workers.

UNEMPLOYMENT RATE (percentage of labour force seeking jobs)	5.5	2.2	1.7	3.2
UNEMPLOYMENT (percentage of working population working less than 65 hours per week)	n.a.	n.a.	36.9	38.6

Source: Central Bureau of Statistics, Population Census Reports: 1961, 1971, 1980 and 1990.

Godfrey, 1993a). This percentage was even lower at 6 per cent in the non-agricultural sector but higher at 14 per cent in the agricultural sector and even higher at about 20 per cent in the agricultural sector in Java (Manning, 1993, p. 67).

There are problems of measurement. But it is important to emphasize that under-employment rates, whether defined in terms of the proportion of persons working shorter hours or in terms of the proportion available for more work, do not appear to have changed much since 1970s.²⁵ In this context, it is not surprising that emigration pressures have persisted despite the sharp decline in the incidence of poverty. Indeed, it is plausible to suggest that rapid economic growth associated with employment expansion, particularly outside the rural sector, may have intensified emigration pressures. The reason is simple. The need to migrate has remained but the ability to migrate has increased.

Table 10 sets out the available evidence on migration flows in, and from, Indonesia. It makes a distinction between transmigration, inter-regional (inter-provincial) migration, intra-regional (inter-district) migration and international migration. The cumulative total of migration until the end of 1988/89 was 3.3 million persons. In this, transmigration was the largest at 42.8 per cent, while inter-district migration came next at 37.9 per cent; inter-provincial migration was the smallest at 7.5 per cent, while international migration constituted 11.8 per cent of the cumulative total. The data presented in this table clearly show that, despite the sharp reduction in absolute poverty over the period from 1970 to 1990, internal migration within Indonesia and international migration from Indonesia remained substantial even in the early 1990s. Indeed, during plan period V (1989-1994), total migration was as much as 2.4 million persons. Of this, international migration was 27 per cent and internal migration was 73 per cent. The composition of internal migration was as follows: inter-district migration was the largest at 54 per cent, inter-provincial migration was the smallest at 9 per cent, while transmigration was just 10 per cent of the total migration flows.

There are three inferences that can be drawn from this evidence. First, there was a basic misconception in the enormous internal transmigration programme conceived by the Government and financed by assistance from the World Bank. Large sums of money were borrowed and spent to assist migrants in moving from the overcrowded island of Java to settlement areas in the other islands that people would not have chosen as destinations on their own. The experience, which was

²⁵ This proposition is widely accepted. See, for instance, Ministry of Manpower, 1993, pp. 91-97. It follows that increased incomes in Indonesia are attributable to people working in higher productivity activities - using more complementary capital, skilled labour and managerial inputs - rather than working longer hours (Manning, 1993, p. 67).

not a success, shows that migration is driven by incentives and not by assistance (Godfrey, 1994). The scale of inter-district and inter-provincial migration within Indonesia, which was not sponsored by the government, shows that Indonesian people were ready to move from their homes provided they were able to obtain secure employment and higher wages elsewhere. Second, international migration, which is small in relation to the size of the total workforce or the incidence of under-employment in the economy, constitutes a significant proportion of total migration flows. Third, the basic factors underlying the pressures to migrate, mostly from the rural hinterland, to destinations in urban Indonesia or to the outside world, are probably similar, at least on the supply side. In other words, migrants are driven from their homes by economic necessity in search of better employment opportunities or higher incomes. The choice of destination is, to a significant extent, determined by the demand for migrant labour.

Consider next the demand side. The process of rapid economic growth in Indonesia has been associated with a rapid expansion of employment in the manufacturing sector and in the services sector. The policy regime has also been employment-friendly.²⁶ This has created a demand for labour within Indonesia, in the non-agricultural sector, which has absorbed migrant labour from the rural hinterland. It has also shaped the dimensions and the composition of internal rural-urban migration. Similarly, international migration has materialized as the demand for migrant workers has surfaced and gathered momentum in labour-scarce economies, to begin with in Saudi Arabia, then in Malaysia, Singapore and Brunei, and now in Hong Kong, Taiwan (China), the Republic of Korea and Japan. The surplus of unskilled workers, particularly women who are unemployed or under-employed, has enabled Indonesia to meet this demand. Emigration pressures on the supply side, combined with the much higher wages abroad even for unskilled workers, mean that many more Indonesians would be willing to migrate across national boundaries. The size and composition of these labour outflows, however, is determined almost entirely on the demand side, not only for migration through official channels but also for illegal migration. This is the reason

**Table 10. Migration flows in and from Indonesia
(number of persons)**

Type of Migration	up to 1988/89	1989/90	1990/91	1991/92	1992/93	1993/94
Transmigration	1,408,776	26,553	50,052	61,773	59,202	49,440
Inter-regional (AKAD)	246,253	26,174	26,168	44,379	60,250	55,950
Intra-regional (AKL)	1,249,590	185,410	176,061	359,057	299,464	273,466
International (AKAN)	390,192	84,074	86,264	149,782	172,157	159,995

Source: Implementation of REPELITA V: April 1989 to March 1994, President's Speech at the House of Representatives,

²⁶ For a detailed discussion on employment expansion and employment policies with reference to the Indonesian development experience, see Godfrey, 1993a and 1993b.

Republic of Indonesia, Jakarta, August 1994.

Note: The data in the first column report the cumulative total of migration, in each of the categories, until 31 March 1989. The cumulative total for transmigration is obtained from Manpower and Employment Situation in Indonesia: 1993, Ministry of Manpower, Jakarta, October 1993.

why international labour migration from Indonesia emerged on a significant scale, beginning in the early 1980s, only when the demand for migrant workers surfaced in Saudi Arabia (following the oil price increases) and Malaysia or Singapore (as a consequence of labour shortages), even though emigration pressures on the supply side were there much earlier.

6. Structural change and the migration process

The process of industrialization and development is associated with a structural transformation of economies. In a long-term perspective, the most important dimension of such transformations is a structural change in the composition of output and employment over time. To begin with, the share of the agricultural sector in both output and employment is overwhelmingly large. As industrialization proceeds, the share of the manufacturing sector and later the services sector in output and employment rises while that of the agricultural sector falls. The absorption of surplus labour is reflected in the migration of unemployed or under-employed workers from rural hinterlands to urban settlements. Given the massive differences in employment probabilities and wage levels, wherever possible, migration of workers across national boundaries also absorbs a part of the labour surplus. Over time, the process of economic development is associated with a migration transition. Rural-urban migration comes to an end when the surplus of labour in the subsistence sector is exhausted. Emigration flows are also significantly reduced in part because surplus labour is not readily available, and in part because economic development provides more employment, higher wages and better living conditions at home, even if differences in the level of income or the quality of life persist vis-a-vis the world outside. In some economies, rapid industrialization and sustained growth, which creates full employment, may even open up the possibilities of a turn-around in migration flows as labour imports begin. Late industrializers in Southern Europe and East Asia have indeed experienced such a transition during the second half of the twentieth century.

It is possible to discern a set of stylized facts, from historical experience, about the structural transformation of economies, which is associated with changes in the composition of output and employment as also, in some countries, a transition from labour-surplus to labour-shortage or from labour-exports to labour-imports.²⁷ There are two stages in the structural transformation of the economies which have succeeded in terms of industrialization and development. In the first stage, there is an absorption of surplus labour from the rural sector, outside agriculture in manufacturing, at existing levels of wages and productivity. This is associated with a decline in the share of agriculture and a rise in the share of manufacturing in output and in employment. The process can be described as the extensive margin of labour absorption. In the second stage, there is a transfer of labour from low productivity to high productivity occupations in the manufacturing sector while, at the same time, there is an increase in the average productivity of labour in the agricultural sector. Real wages rise in both sectors. There is a further increase in the share of manufacturing, and a further decrease in the share of agriculture in output and in employment. The process can be described as the intensive margin of labour-use.

It is worth noting that, to some extent, such a process of economic growth and structural change conforms to the historical experience of the now industrialized countries (see, for example, Clark, 1940 and Kuznets, 1966). There is a third stage of structural transformation that emerges from the experience of the industrialized world. Once countries have industrialized and reached an advanced stage of economic development, the share of the manufacturing sector in both output and employment declines while the share of the services sector rises. The recent historical experience on some surplus labour economies which have not succeeded at industrialization reveals a curious asymmetry, in so far as structural changes in output and employment are characterized by a move

²⁷ This analysis of the relationship between structural change and migration transitions draws upon earlier work of the author; see Nayyar 1994 b.

from the first stage where agriculture dominates to the third stage where services dominate, without passing through the second stage where manufacturing dominates (Kuznets, 1971 and UNCTAD, 1985). Consequently, there are major differences in wages and productivity of labour which persist not only between sectors but also within sectors. It is obvious that such countries do not experience a transition from surplus labour to scarce labour, or from labour-exports to labour-imports, the explanation for which lies in their pattern of development.

In any event, during the early stages of industrialization, labour exports from surplus-labour economies are a common occurrence. This is attributable not only to the actual differences in wage-levels and employment-probabilities at a point in time, between labour-exporting countries and labour-importing countries, but also to the perceived differences in the stream of income and the quality of life over a period of time. Given the massive differences, actual or perceived, international labour movements would be much larger in an unconstrained world. In fact, they are not. In labour exporting-countries, the desire to migrate, arising from both push and pull factors, is constrained by the ability to migrate which depends on the endowment of skills, education or savings among the potential migrants. Their ability to migrate is constrained further by the patterns of demand for labour and the barriers written into immigration laws or consular practices in the labour-importing countries. Thus, the size and the composition of emigration flows is influenced by a wide range of economic and non-economic factors.

It would be instructive to consider the Indonesian development experience with reference to the simple analytical construct set out above. The structural changes in the composition of output and employment in Indonesia, during the period from 1971 to 1993, are outlined in Table 11. It shows that, between 1971 and 1993, the share of agriculture in GDP fell from 40.2 per cent to 18.5 per cent, while the share of manufacturing in GDP rose from 9.8 per cent to 22.3 per cent and the share of services in GDP increased from 35 per cent to 42 per cent. However, between 1971 and 1993, the share of agriculture in employment fell much less from 64.2 per cent to 50.6 per cent, while the share of manufacturing in employment rose much less from 6.5 per cent to 11.4 per cent, and the share of services in employment increased from 27.4 per cent to 33.4 per cent. The Indonesian development experience reveals asymmetries in this process of structural change. The share of the agricultural sector decreased much more in output than in employment. The share of the manufacturing sector increased much more in output than in employment. The share of the services sector in output increased somewhat more than in employment but the disproportionality was less pronounced.

It would seem that economic development and structural change in Indonesia, so far, has not enabled the economy to make a transition from a labour-surplus to a situation of full employment let alone a labour-shortage. Given that the incidence of unemployment and under-employment has remained almost unchanged, migration pressures in the rural hinterland of Indonesia persist for two reasons. First, the pace of domestic labour absorption outside agriculture is slow. This is borne out by the evidence presented in Table 11. Second, despite rapid economic growth, there is a stagnation in real wages. The evidence in support of this proposition, available in the literature on the subject, is fairly conclusive.

The wages of unskilled workers, particularly in the agricultural sector and in construction activities, stagnated for much of the 1970s. There was a modest increase in real wages in plantations and in manufacturing in the late 1970s and the early 1980s but this did not last as real wages experienced a stagnation or decline during the 1980s, both in the agricultural sector and in the manufacturing

sector.²⁸ This may appear paradoxical when juxtaposed with rising average incomes. But it is not. A stagnation in wage rates in real terms is consistent with increases in average earnings. Real wage rates, say, of unskilled workers refer to payments made to a specified category of labour engaged for the normal length of a working day but average earnings also reflect the fact that the hours worked may have increased or the skills acquired may have improved over time (Manning, 1993, pp. 79-80).

It has been shown that, during the 1980s, there was a significant increase in wage employment in Indonesia but there was no discernible increase in real wages or labour costs.²⁹ This was so for wage employment of both male and female workers in the agricultural sector in Central Java, East Java and West Java. The same was true of the construction sector in the main cities of Java. Similarly, the rapid growth of employment in the manufacturing sector, for both male and female

Table 11. Structural change in the composition of output and employment in Indonesia

A. Percentage of GDP at current market prices.

Sector of Origin	1972	1980	1985	1990	1993
Agriculture, forestry and fishing	40.2	24.8	23.2	21.5	18.5
Mining and quarrying	10.8	25.7	14.0	13.3	10.2
Manufacturing	9.8	11.6	16.0	19.9	22.3
Electricity, gas and water	0.4	0.5	0.4	0.6	0.9
Construction	3.8	5.6	5.5	5.5	6.0
Services	35.0	31.8	40.9	39.2	42.1
Total	100.0	100.0	100.0	100.0	100.0

B. Percentage of Total Employment

Sector of Origin	1971	1980	1985	1990	1993
Agriculture, forestry and fishing	64.2	55.9	54.7	50.1	50.6
Mining and quarrying	0.2	0.8	0.7	1.0	0.9
Manufacturing	6.5	9.1	9.3	11.4	11.4
Electricity, gas and water	0.1	0.1	0.1	0.2	0.2
Construction	1.6	3.2	3.4	4.1	3.5
Services	27.4	30.9	31.8	33.2	33.4
Total	100.0	100.0	100.0	100.0	100.0

Source: Central Bureau of Statistics (BPS).

Note: The data on employment are from the Population Census Reports for 1971, 1980 and 1990. The figures for employment-by-sector in 1985 are based on the Intercensal Population Survey, while the figures for employment-by-sector in 1993 are based on the National Labour Force Survey. Labour engaged for the normal length of a working day but average earnings also reflect the fact that the hours worked may have increased or the skills acquired may have improved over time (Manning, 1993, pp. 79-80).

²⁸ For evidence on the trends in real wages cited in this paragraph, see Ministry of Manpower, 1993, pp. 112-116. See also, Manning, 1993, pp. 79-81.

²⁹ Godfrey, 1993 b, presents detailed, disaggregated, evidence in support of this proposition and also provides an analysis of the underlying factors.

workers, was associated with almost unchanged real wages. The nominal wages can be deflated either by consumer prices or by producer prices to obtain the trend in real wages over time. But available evidence suggests that the choice of the deflator does not affect the trends.

It is, then, plausible to suggest that Indonesia is in the first stage, described as the *extensive margin of labour absorption*, where surplus labour is being transferred from the agricultural sector into the manufacturing or the services sector at existing levels of wages. This is similar to what was characterized by Lewis as economic development with unlimited supplies of labour where employers in the capitalist sector are faced with a perfectly elastic supply of labour at a subsistence-plus wage.³⁰ Thus, the pressures to migrate from the rural hinterland remain. And, despite the much reduced incidence of poverty, there remains a reservoir of surplus labour and people below the poverty line in rural Indonesia. Large numbers of unskilled workers, particularly national boundaries is that much more attractive as wages in possible countries of destination are four to eight times wages in Indonesia. The steady depreciation in the real effective exchange rate of the Rupiah has tended to make these differences larger over time (Godfrey, 1993b, p. 7 and Godfrey, 1994, p. 12). In the circumstances, it is not surprising that large numbers of unskilled women are willing to work as housemaids in Saudi Arabia and Singapore. Large numbers of unskilled men are willing to work as plantation and construction workers in Malaysia. And those with some skills, such as drivers, also migrate. Emigration pressures are thus likely to persist for some time to come and may even intensify if labour-scarce countries in Asia sustain or increase their demand for migrant workers. The increasing economic integration between countries in South East Asia and East Asia, combined with the rapid globalization of the international economic system, may also facilitate labour mobility between countries in this region, given the geographical proximity and the cultural similarity. The pressures to emigrate would, ultimately, be reduced only by economic development in labour-exporting countries. The turning point would come if and when Indonesia makes the migration transition from being a labour surplus economy to one where there is full employment. This would happen in the second stage, described as *the intensive margin of labour use*, when there is an increase in average productivity of labour in the agricultural sector which leads to an increase in real wages in the countryside. Until then, the pressures to migrate from rural Indonesia would persist on the supply side, and workers would continue to move to urban settlements or overseas destinations attracted by better employment opportunities or higher wages on the demand side.

7. Main conclusions and recommendations

In a sense, international labour migration from Indonesia represents a Pareto-optimal situation. Some people, the migrants and their households, are better off. No one is worse off. Economic planners and policy makers in the government are content, since there are obvious benefits for the economy. Remittances, even at a modest US \$ 300 million per annum, provide support to the balance of payments. The domestic resource equivalent of remittances is spent, in part, on consumption (mostly in poor households), but a significant proportion is devoted to housing, education and investment in agricultural land or in self-employment. The migrant workers pay fees to the government and create incomes for recruitment agencies. Those who leave would have

³⁰ This characterization provided the analytical foundation for surplus labour models that were presented as theories of development. See Lewis, 1954, also Fei and Ranis, 1961.

contributed little, if anything, to output had they stayed on. Their departure provides employment for them and may even create employment opportunities for those who stay behind. Thus, the impact on output is negligible while the impact on employment is favourable. Fortunately, there is no migration of persons with professional expertise or technical qualifications to the industrialized countries, so that the social costs associated with a brain drain do not arise. And the government turns a blind eye to the illegal migration because, despite the poor working conditions or even exploitation, these migrants are better off than at home.

Such perceptions, perhaps, shape the attitude of the Government towards migration across national boundaries. The objective of current policy is twofold: increase the export of workers as much as possible and shift to the export of skilled workers as soon as possible. These objectives are, in fact, enunciated by planners and incorporated in targets. But this cannot suffice. There is need to evolve a framework of policies, where the object of intervention should be to maximize the social benefits and minimize the social costs of international migration so as to enhance its contribution to the development of the economy as a whole. The preceding analysis highlights a few lessons that emerge from experience and suggests some prescriptions. These policy conclusions make a distinction between labour flows, financial flows and the wider macro-economic context.

Consider, to begin with, the *labour flows*. First, it is imperative to develop an *information system* that would monitor the dimensions and the composition of the labour outflows as well as return flows. After all, there can be no systematic analysis let alone policy formulation in a vacuum. For out migration, the data on the destination and the skill composition of workers needs to be streamlined and developed further in terms of the skill-classification, the employment status and the location of workers before departure. What is more, a comprehensive data base on actual emigration should be developed through immigration checks at airports and ports. The task would not be so difficult as it would require only one appropriate question, with specified alternative answers, on the embarkation cards which are, as it is, completed by all departing passengers. For return migration, similarly, the minimum necessary information can be obtained through an appropriate question in the disembarkation cards which are completed by all arriving passengers. In addition, there are distinct possibilities of improving statistics on migrants abroad through small modifications in the census questionnaire and in the labour force surveys.

Second, it is not possible to increase, or maximize, the export of workers from Indonesia, which is demand determined, without a matching demand in labour-importing countries. For the same reason, it is not possible to change the *skill composition* of migrant workers, which is also determined by the pattern of demand in labour-importing countries, and also at the same time requires requisite investment in education and skills to respond to this demand when it so arises. These constraints on the size and the composition of labour outflows need to be recognized. At the same time, there is need to monitor and anticipate structural and other changes (including the ageing of the population) in the advanced and fast growing economies, especially in the Asian region, and try to capture or increase the share of Indonesian workers in the newly emerging pattern of demand for migrant workers.

Third, the policy regime for the export of workers is statutory, but its administration monitors the letter rather than the spirit of the law particularly with reference to the conditions of the employment contract. The actual working conditions of migrants overseas are seldom monitored. In this context, some *interventions* at home could be counter-productive. For example, raising barriers to entry into the world of recruitment agencies (through financial requirements or guarantees) may reduce the exploitation of workers but may also drive migration into illegal channels which are much cheaper. Or, any directive about restricting the export of unskilled workers may only succeed in reinforcing

clandestine emigration so long as there is a demand for these migrant workers in neighbouring labour-importing countries.

Fourth, there is a genuine concern about the reported abuses and *exploitation of women workers* by both intermediaries at home and employers abroad. This led to a ban on the export of domestic servants in the early 1980s. There are pressures for a reimposition of the ban from time to time. It has been reported recently that the Government is seriously considering restrictions on the outflow of women workers. This would be a mistake. For it would be difficult to curb such migration so long as there are large wage differentials and attractive employment opportunities created by demand in the labour-importing countries. In the face of restrictions, outflows would simply shift away from official to clandestine channels. It would be much better to control and regulate the activities of domestic intermediaries in this sphere. And it would clearly help if potential women migrants are provided with information about the likely working conditions and the realities of working overseas as housemaids or contract labourers. Concerted action to combat the exploitation and physical, sexual and other abuse of migrant workers, especially the more vulnerable female migrants is required at both the national and international level. The adoption and respect for International Labour Standards for protecting the rights of migrant workers could be an important step in this direction by the labour-sending and, more importantly, the labour-receiving countries.

Fifth, the problem of *illegal migration* should be addressed by simplifying procedures, cutting fees, reducing waiting-time and minimizing transactions costs so that clandestine channels become less attractive. But it must be recognized that this problem can be resolved only through bilateral consultation and agreement between the Governments in Malaysia and Indonesia.

Sixth, *return migration* deserves the attention of policy makers. It tends to be ignored because the magnitudes are not large enough to exert any significant pressure on the labour market at a macro-level. What is more, there is a perception that return migrants should not receive preferential treatment, as compared to non-migrant-residents, because they are invariably better endowed to fend for themselves in the labour market. But it must be recognized that return migrants are a potential asset embodied in work-experience, skills-acquired or investible savings - who can be mobilized for the development of the economy. This needs a change of attitudes. Return migrants should be seen as human resources to be utilized rather than problem persons to be rehabilitated. Such an approach would facilitate the absorption of return migrants and benefit the economy at the same time.

In the sphere of *financial flows*, also, the need for an adequate *information system* is paramount. It is essential to develop a data base on remittance inflows, in the aggregate and by country of origin, instead of relying on partial information or on estimates derived from rule-of-thumb assumptions. Without such a firm statistical foundation, it is not possible to monitor trends on a disaggregated basis and to discern changes in remittances per capita. Much needs to be done. And it must receive priority attention. Fortunately, remittance inflows to Indonesia through illicit channels are probably negligible. Hence, even if a substantial proportion of remittances is unreported, the actual inflows contribute to foreign exchange receipts and support the balance of payments. But the use of the domestic resource equivalent of remittances is another matter.

At a micro-level, from the perspective of the migrant household, liquidation of debt, increased consumption, or investment in housing, from remittances, is perfectly rational. At a *macro-level*, however, it needs to be recognized that remittance inflows are not simply foreign exchange receipts which can be used to finance the balance of trade deficit or reduce the current account deficit but provide a counterpart in terms of domestic resources. It would be desirable to direct as large a proportion of the financial flows, made available by international labour migration, to sustain higher

rates of investment. Admittedly, the allocation of the domestic-resource-equivalent of remittances between consumption and investment is a function of individual or household decisions on the part of migrants or their families, which the government can only seek to influence through policies. It might, for example, be worth experimenting with higher rates of return on remittance receipts placed in specified assets or deposits in the domestic capital market, which could provide an incentive to save more out of remittances and, in so far as migrants are better savers than investors, transfer their savings to investors through financial intermediaries. Alternatively, existing schemes for self-employment or small-enterprises might be modified to attract investment by migrants. In other words, some direction of consumption into investment, to support future consumption when remittances decline, would be a means of maximizing the development benefits from international migration.

In the wider macro-economic context, it must be stressed that, in surplus labour economies, the same underlying factors on the supply side induce both internal migration and international migration. And people move whenever or wherever the demand for labour materializes. Thus, **migration pressures** are an integral part of the process of economic development. An appropriate policy regime should ease rather than resist these pressures, by facilitating the movement of labour in response to economic incentives. In such an approach, the emphasis of the transmigration programme would have to be changed. It should endeavour to create a demand for labour in the selected destination areas and facilitate the movement of people who respond to that demand, instead of subsidizing the movement of people even before the demand for that labour has surfaced (for a more detailed exposition of this argument, see Godfrey, 1993a, 1994, p. 12). Similarly, it would serve little purpose to restrict the export of women workers in a situation where demand in labour-importing countries is matched by strong emigration pressures on the supply side, given the much higher incidence of under-employment, as also unemployment, among women and the rising female labour force participation rates. This migration cannot be stopped. The object of a sensible policy regime should be to minimize the social costs and maximize the social benefits from such international migration with a focus on development objectives. In the long run, emigration pressures are bound to decline as economic development provides more employment, higher wages and better living conditions at home. This is, in fact, an important lesson which emerges from the Asian industrialization experience over the past three decades. Migration transitions are a corollary of successful economic development.

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