

# LINKAGES BETWEEN INCOME RESOURCES, THE COST OF LIVING AND THE REMITTANCE: CASE OF INDONESIAN MIGRANT WORKERS IN SABAH MALAYSIA

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## Abstract

*In international migration, income resources, cost of living and dynamics of remittance have attained a great importance, however, Indonesian migrant workers in Sabah (Malaysia) have not been studied thoroughly in this regard. This article would like to investigate Indonesian migrant workers in Malaysia's remitting behavior or decisions in light of their pre and post sources of income, cost of living, and how employers contribute in their cost of living. This study is based on the results of the ILMS survey conducted in 2010 and also in-depth informal interviews with legal and illegal workers. Under the survey, 896 respondents were interviewed. The article found that migrants' living expenses at the destination included daily consumption and accommodation usually formed the biggest portion of monthly expenditure, which affected the migrants' remitting behavior. This research extended Russell's model of remittances by including expenses at the destination that can influence the decision to remit, particularly among migrants accompanied by their family. It has been demonstrated that the costs of living expenses were higher among migrants with family in Sabah than among single migrants. This explains the tendency to send less frequently and a lower volume of remittances among the former. Hence, the trend of being accompanied by the family to Sabah has implications for migrants' remitting behavior. The article concludes that migrant workers with families were less likely to send remittance to their remaining family members in Indonesia. They had to fulfill family needs in the destination country. It shows that migrants with families opt to spend and support the local economy, and do not remit to their home countries.*

*Keywords: migration, remittance, Russell, Malaysia, Indonesia*

## **Introduction**

Neo-classical economic theory views migration in developing countries as an outcome of individual cost-benefit decisions to maximise expected income (Todaro, 1969). By sending a family member abroad, a household makes an investment that is recovered when migrants send remittances home (Stalker, 1994; Alam, Siwar, Talib, & Islam, 2011) thus explaining why migrants from areas with low earnings tend to move to countries with high earnings. Ullah (2010) analysed migrants' decisions based on income, working conditions and costs of living in the country of origin in comparison to post-migration conditions and travel costs. His study revealed that push factors, such as unemployment, poverty and family pressure, influenced the decision to migrate and that there was usually a wage differential between origin and destination. In addition, travel costs which often become a debt payable at the destination, coupled with costs of living, had a negative impact on the volume and scale of their remittances. Similarly, Gunatilleke (1992) and Ullah (2010) found that attention has been given to single migrants leaving their family behind but very few studies have analysed the cost and benefits of migration among those who bring their dependents to the destination.

Russell (1986, p. 679) rationalised that the volume and scale of remittances are determined by several factors such as the number of workers present at the destination, wage rates, economic activity at both destination and origin, exchange rates and relative interest rates between the destination and origin. Other factors include political risks, modes and convenience for transferring funds, marital status and education level of migrants, number of female migrants at the destination, years since out-migration, household income levels and employment of other household members at the origin. He said, "Cost and benefit of migration is a focal point of many researchers which approach often fails to define the complicated relationships between determinants and effects of remittances" (Russell, 1986, p. 678).

A model of the remittance system proposed by Russell (1986) is an economic framework for the analysis of remittances that highlights the key decision points and the choices faced by migrants. The intermediate effects of remittance flows, namely, the available pool of remittances, decision to remit, how to remit, amount to remit and their uses are influenced by the set of determinants mentioned earlier. For example, low educational levels among migrants limit them to low-skilled jobs that pay low wages (Hugo, 1993; Kassim, 1997; Djelantik, 2011). However, a higher real exchange rate between the destination and origin operates so that when the wage at the destination is

transferred to the family left behind, it translates into larger purchasing power and rationalises migration from low- to high-income countries (Ku, 2008, p. 2).

The decision to remit or to spend the wages at the destination can be influenced by migrants' return intentions. Many studies have found that migrants with the intention to return home tend to remit more than those who plan to stay permanently at the destination (Massey & Akresh, 2006; Collier, Piracha, & Randazzo, 2011). In addition, marital status and location of spouse and children (left at the origin) have a positive relationship to remittance-sending behavior (Dustmann & Mesters, 2010; Lee et al., 2011). In contrast, family unification at the destination reduces the volume of remittances (Anderloni, 2007).

The tendency of migrants to use formal or informal modes of money transfer is related to the services offered by agencies. Lower remittance fees charged by formal money transfer agencies and the expansion of service locations may increase the frequency of remittances through formal modes (Yang, 2011). While migrants usually lack direct control over the use of remittances, the household income level of the family left behind often influences the uses. Many papers on low-skilled migrants have argued that remittances are often used for basic daily needs and rarely fund productive investments (Barrero, Garcia, & Montijano, 2009).

This study will attempt to extend Russell's model of the remittance system by focusing on Indonesian migrants who bring their dependents to Sabah. Considering that living with a family incurs higher living expenses than living alone, this study looked into how the decision to remit (particularly in terms of the volume and frequency of remittances) is influenced by the living expenses incurred at the destination. Therefore, taking the standard neo-classical economic theory approach introduced by Todaro (1969) in examining the costs and benefits of migration, this study also extends Russell's model of the remittance system to analyse the economic impacts of Indonesian migration to Sabah.

To understand the economic linkages between the destination and origin at the micro level, this article will look into income resources, living expenses and the dynamics of remittances as shown in Figure 1.

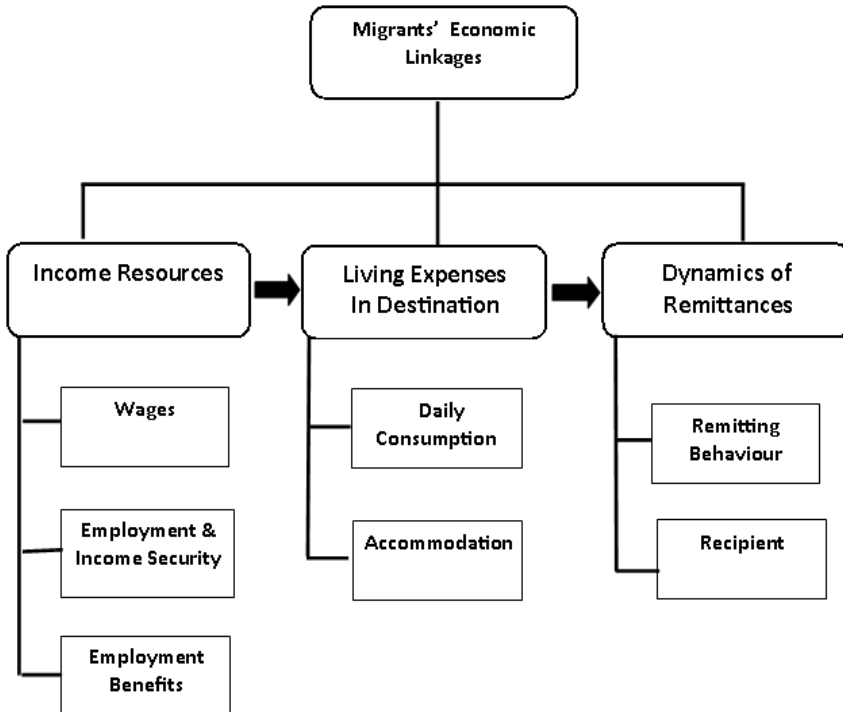
In the ILSM Survey (2010), sources of income are mainly basic wages<sup>1</sup>; but on top of these are financial incentives that provide extra income outside basic wages and employee benefits that help reduce living expenses with the

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<sup>1</sup> In this study, wages and remittances were measured in MYR (Malaysian ringgit). The currency conversion used in this chapter was fixed at MYR1 equals to IDR3030 (Indonesian rupiah): USD1 (US dollar) was set at MYR3.

provision of accommodation, food allowance, medical coverage and other benefits. Wage differentials, along with pre- and post-migration employment conditions between origin and destination are compared to rationalise migrants' decision to seek jobs abroad.

**Figure 1: Migrants' Economic Linkages. Source: ILMS Survey (2010)**



This article looked into migrants' living expenses at the destination where daily consumption and accommodation usually form the biggest portion of monthly expenditure (Ullah, 2010). Finally, the migrants' remitting behavior, as well as the recipients and uses are analysed. The analysis of migrants' economic linkages is conducted based on selected determinants of remittances identified by Russell (1986, p. 679) such as sex, employment before and after migration, marital status, income level, exchange rate and facility for transferring funds.

### **Methodology**

This article is based on qualitative and quantitative methods. Between October 2009 to December 2010, the Indonesian Labour Migration Sabah (ILMS) survey

was conducted, and structured face to face interviews was conducted with 896 Indonesian workers that included 570 workers in the plantation, 219 in manufacturing, 35 in construction, 24 in services and 56 in informal sectors. There were also conducted 37 interviews of employers that include 14 in Plantation, 11 in manufacturing, 9 in services and 3 in the construction sector. A convenience sampling technique was used to access 37 employers.

Snowball sampling technique was used to identify the respondents. Both legal and illegal Indonesian workers were found in the informal sector, as well as Indonesian recruiting agents (*calos*) are examples of respondents interviewed using this sampling method. This method allowed a level of flexibility as samples are selected based on availability and the convenience to both researchers and respondents. Respondents were representatives of companies who were able to provide information about the company and workers (e.g., human resource personnel, manager, etc.). A self-administered survey was undertaken by 37 company representatives from four employment sectors to gain information on the company's profile, recruitment of foreign workers and opinion on the recruitment process and issues. Using this snowball sampling method, the number of legal and illegal workers reached its target of 20 respondents through the networking system of the enumerators and the respondents themselves. About 20 legal Indonesian workers from the formal sectors also undertook in-depth interviews. This method was also used to interview six recruiting agents, known as *calo*, on Nunukan Island, Indonesia. Using the snowball sampling method, the respondents were introduced by the key informant who accompanied and assisted the researcher on Nunukan Island.

## **Results and Findings**

In the ILMS Survey (2010), it was found that sources of income are mainly basic wages<sup>2</sup>; but on top of these are financial incentives that provide extra income outside basic wages and employee benefits that help reduce living expenses with the provision of accommodation, food allowance, medical coverage and other benefits. Wage differentials, along with pre- and post-migration employment conditions between origin and destination are compared to rationalise migrants' decision to seek jobs abroad.

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<sup>2</sup> In this study, wages and remittances are measured in MYR (Malaysian ringgit). The currency conversion used in this chapter is fixed at MYR1 equals to IDR3030 (Indonesian rupiah): USD1 (US dollar) is set at MYR3.

## **Pre- and Post-Migration Employment**

This section compares the nature of migrants' pre- and post-migration employment. It explains migrants' occupation and employment by sector, for males and females in pre-migration employment. Then, it compares pre- and post-migration employment by sector to see if previous skills and job experience matter in obtaining new jobs at the destination and it also compares wage differentials between origin and destination.

### ***Pre-Migration Employment***

The ILMS (2010) survey shows that before coming to Sabah Malaysia, 584 (65.2 percent) of respondents (mostly men, 77.1 percent) were in some employment, 11 percent were in school and 23 percent were unemployed. The data also suggests that it is a common practice among youth to leave secondary school to enter the labor force.

The ILMS Survey (2010) depicts a distinct feature of rural employment in Indonesia. It shows that some 70 percent of respondents were in the agriculture sector where the majority worked either as farmers in their rice fields or were landless farmers, casual workers or unpaid workers. Some 11 percent who worked in the services sector held jobs as gardeners, cleaners, domestic workers, drivers, and tailors, while 5 percent were petty traders and sold homemade food, vegetables and groceries. The rest worked in non-agricultural occupations as production workers (3 percent), fishermen (3 percent) and construction workers (5 percent). Most importantly, 99 percent of pre-employed respondents worked in the informal sector, and only 1 percent worked in the formal sector as clerks, replacement teachers or village representatives. The ILMS Survey (2010) also found a high percentage of men worked in the agriculture sector (68.8 percent) and, to a lesser extent, in male-dominant sectors, such as fishery and construction.

### ***Post-Migration Employment***

As presented above the majority of respondents had little education and were currently working in the plantation/agriculture sector. Since the labor market situation in Sabah demanded low-skilled foreign workers who were willing to work in 3D jobs eschewed by local people, the pre-migration experience had little influence on the choice of their after-migration occupation. The ILMS Survey (2010) found that 52.6 percent of migrants who had prior experience in plantations were recruited to a similar sector in Sabah, with less than 12 percent in services, followed by the construction and manufacturing sectors.

Although work conditions at the destination are 3D in nature, many respondents interviewed in the ILMS Survey (2010) said that they would rather risk pursuing jobs in Sabah for higher wages and income security than living on less than USD2 per day (in purchasing power parity, PPP terms) as experienced by 50 percent of Indonesians in 2009 (Wihardja, 2012).

Generally, in Sabah, employment opportunities are found in agriculture and, to a certain extent, manufacturing, construction, and services in the formal sector (Department of Statistics, Malaysia 2010). The majority of respondents in the ILMS Survey (2010) were legal Indonesian workers in the formal sector in oil palm plantations located in rural Sabah. These permanent workers were bound to at least a three-year contract, extendable yearly after that for another two years, and usually work in jobs classified according to skills requirement, gender preference and specific characteristics (ILO Bureau for Workers' Activities [ACTRAV], 1997, p. 12). Most migrants in the plantation sector are employed as field operation workers and are involved in preparation, harvesting and maintenance jobs (Adnan, 2012). Men dominate in the physically demanding jobs such as harvesting and carrying fresh fruit bunches (FBB) and pruning; thus, they receive higher wages, while women are found in less physically demanding jobs, such as collecting loose fruit and weeding, thus receiving lower wages (ILMS Survey 2010).

The plantations take care of workers' welfare, namely, medical benefits, accommodation, transport, social security benefits, termination and lay-off benefits (ILO Bureau for Workers' Activities [ACTRAV], 1997, p. 12; Felda Plantations Sdn. Bhd., 2008). According to Manan (2006, p. 80), these requirements need to be fulfilled by employers applying for an employment of foreign workers' license. As all legal foreign workers are registered under the Sabah Labour Force Department and protected under the *Sabah Labour Ordinance 1967 (Revised) 2005* (Kelab Kebajikan dan Sosial [KESERU], 2005; Manan, 2006, p. 96), legal Indonesian workers with 'contract of service', generally experience better terms and conditions of employment, representation of labour, collective bargaining and grievance compensation than those with a 'contract for service' or of illegal status.

All respondents in this study were employed under a 'contract of service.' However, it is important to highlight the fact that illegal migrants in the plantation sector are often recruited as casual workers verbally bonded under 'contract for service' by out-sourcing companies or self-employed contractors, also known as 'contractors for labor services.' They supply workers to plantations based on seasonal needs especially during good harvests and when facing labor shortages. The in-depth interviews in the ILMS Survey (2010) found that this service is preferred by employers in small and medium

enterprises (SMEs) and in general all sectors, especially plantation, construction, and services. Employers who are not directly liable to workers can keep production costs low (Navamukundan, 2002, p. 118).

The self-employed contractors receive a lump sum payment for completion of jobs and pay wages to their contract laborers. A study by the ILO Bureau for Workers' Activities (ACTRAV) (1997) found that the utilisation of such contract labor in the plantation sector involves several unfair labor practices. Some self-employed contractors pay wages that are lower than the market rate and do not provide employment benefits, such as medical coverage and housing. Since self-employed contractors are paid by commission, they tend to reduce workers' wages to gain more personal profit. "Abuses about wages and terms and conditions of employment by self-employed contractors often go unchecked because of the informal social control mechanisms available to labor contractors" (Navamukundan, 2002, p. 118).

### **Migrants' Economic Linkages**

The majority of Indonesian migrants in this study migrated for economic reasons. Therefore, it is important to analyse migrants' economic linkages at the destination which include income resources, living conditions, and remittances to understand the economic impacts. This section compares the economic conditions among provinces in Indonesia and the wage differentials between the origin and destination. Income security and employment benefits offered by the formal sector in Sabah are highlighted, in contrast to their absence in informal employment in Indonesia. As most Indonesian migrants in this study brought their dependents, living expenses at the destination, in terms of consumption and accommodation, are another important factor.

### **Wages**

Wage differentials between the origin and destination have proven to be one of the most important determinants in making decisions to migrate and have been the main focus of many researchers (OSCE, 2006; Ku, 2008; Ullah, 2010). Similarly, wage differentials have been proven to be one of the main drivers of Indonesian emigration to Malaysia (Hugo, 1993; Raharto, Romdiati, Hugo, & Bandiyono, 1999). Eki (2002, p. 172) found that economic pressure in Eastern Nusa Tenggara was the main push factor for emigration to Sabah for better jobs and higher wages.



**Table 1: Summary Statistics of Monthly Wages (MYR) by Sex and Sector**

Characteristics	Workers	Mean	Median	Minimum	Maximum
<b>Sex</b>					
Male	558	778	750	350	1400
Female	338	528	500	200	950
<b>Sectors</b>					
Plantation	563	637	590	300	1400
Manufacturing	218	685	595	350	1100
Services	35	566	450	320	950
Construction	24	675	695	400	1100
Informal	56	515	490	200	980
<b>Overall Total</b>	896	634	590	200	1400

Source: ILMS Survey (2010)

The ILMS survey (2010) revealed that the wage comparison between the origin and destination shows that in pre-migration employment, respondents' lowest income was somewhat less than MYR165 (USD55), while the highest was from MYR826-MYR989 (USD275-USD329). The higher end of income suggests that about two percent of respondents in this study were landowners working on their rice fields assisted by family workers. 43.5 percent earned from MYR165-MYR330 (USD55-USD110) a month in pre-migration employment. Due to their involvement in informal rural agricultural employment, 42.5 percent of respondents earned less than MYR165 (USD55). The majority of respondents experienced a wage increase in their post-migration employment. Respondents' monthly income including basic wage, financial incentives, and extra allowances ranged from MYR165 (USD55) to more than MYR1320 (USD440). In addition, some 70 percent had wages ranging from MYR331-MYR825 (USD110-USD275) with the biggest group (144) among them earning from MYR496-MYR660 (USD165.30-USD220).

A further analysis of wages found that the majority of respondents (68.7 percent) experienced an increment of at least 100 percent. Of the total, 38.4 percent respondents had an increment of 250 percent and above, while 31.3 percent had an increment of less than 100 percent. Of the total respondents who experienced a 250 percent increment, 43.6 percent were males, and 23.4 percent were females. On the other hand, of the total respondents who experienced less than 100 percent increment, 24.8 percent were males, and a high 49.6 percent were females. The findings indicate that males experienced a higher wage increment than their female counterparts.

**Table 2: Estimation of Wage Rates by Selected Sector and Job Type**

<b>Plantation Sector</b>		
<b>Job Type</b>	<b>Job Description</b>	<b>Wage Rates</b>
<i>Mandors</i>	Requires work experience derived from substantial job tenure. Responsible for workers' productivity, job quality, and discipline.	↑ MYR1 400
FFB Harvesters	Requires physical strength and some work experience. Skill is gained from job tenure. Wage rate is higher when harvesting in difficult terrains.	
FFB Carriers	Requires physical strength to carry FFB from the plantation to the roadside. Wage rate is higher in the absence of machinery.	
Machine operators/lorry drivers	Requires skills, knowledge and some job experience.	
FFB loaders	Requires physical strength to load FFB from the roadside onto the lorry.	↑ MYR3 00
Maintenance/general field operation workers	Requires some physical strength and little work experience.	
Loose fruit collectors	Does not require physical strength/work experience	
<b>Manufacturing Sector</b>		
Supervisors	Requires work experience derived from substantial job tenure. Responsible for workers' productivity, job quality, and discipline.	↑ MYR1 100
Machine operators/maintenance	Requires skills, knowledge and some job experience.	
Lorry drivers	Requires skills and a little job experience.	
Production workers in palm oil/ wood/brick factory	Most positions require some physical strength, skill, and work experience. Usually involves big companies.	
Production workers in food/coal/ animal feed factory	Usually involves small size companies.	↑ MYR3 50

Source: ILMS Survey 2010

Male respondents earned more than females with the latter receiving an average of MYR250 less than males per month (see Table 1). The minimum and maximum wage rates were also lower for females than males. Overall, the average monthly wages of respondents in this study was MYR634 (USD211.3). Manufacturing and construction paid the highest wages while the informal sector paid the lowest. Similarly, Sabah's current average wage was MYR577 (USD192) at the time of the study.

Table 2 shows the estimation of wage rates in the plantation and manufacturing sectors based on in-depth interviews. The findings indicate that jobs requiring greater physical strength and skills, as well as those involving higher risk and greater difficulty, pay higher than jobs with lesser requirements. Job tenure which is closely related to work experience, skill level and knowledge also determines a migrant's wage rate particularly for *mandors* (supervisors).

Monthly wages paid to local and foreign workers, indicating that wage discrimination is apparent in all formal sectors in Sabah. Foreigners were paid lower than local people in the manufacturing, services and construction sectors. While around 61 percent of employers paid foreign workers monthly wages of MYR500-MYR999 (USD166.7-USD333), local workers mainly received wages that ranged from MYR1,000-MYR1,499 (USD333.3-USD499.6). It is interesting that a high percentage of employers in the plantation sector paid foreign workers higher wages than local people, perhaps due to greater willingness of foreign workers to take up more demanding tasks than the local people.

### ***Employment and Job Security***

Job security usually refers to the security (of income) with employment as an employee (Dekker, 2010, p. 1). The labor market in Malaysia is divided into formal and informal sectors where migrants in the former sector are usually bound by a 'contract of service' while, in the latter, this is by a 'contract for service.' "Workers in [the] informal sector cannot expect full compliance with provisions of the Employment Act and other labor legislation" and cannot join trade unions (Navamukundan, 2002, p. 118). In addition, they are excluded from most bonuses and allowances (Bormann, Krishnan, & Neuner, 2010) with this also applying to illegal migrant workers.

As most respondents in the ILMS Survey (2010) were formally employed, they were protected under the *Employment Act 1955 Labour Ordinance (Sabah Cap 67 revised 2005)* that ensured that they received the minimum wage fixed by the government (Jaafar, 2012). The minimum wage rate gazetted in July 2012 enabled all contract migrant workers in Sabah and Sarawak to receive the minimum pay of MYR800 a month, and in the Peninsular, MYR900 a month, effective January 2013 (Gooch, 2012). An interview with an official in the SLFD revealed that currently an average wage rate of MYR17-MYR25 per day is stated in the written contract between an employer and a contract migrant worker in all formal sectors in Sabah.

In addition, migrant workers also have rights to other benefits such as overtime pay, paid leave and paid maternity leave. Migrant workers are to

receive overtime pay if they have worked more than the maximum of eight hours a day or 40 hours a week. In addition, they enjoy one paid public holiday a week and, after two years' tenure, they are granted eight days of paid leave a year. Female workers have the right to 60 days of paid maternity leave. In short, a job as a regular full-time foreign contract worker directly employed by a company in the formal sector has more labor protection and a higher level of employment security than in the informal sector.

Besides the benefits received under the Sabah Labour Ordinance, regular full-time foreign workers also benefit from a variety of financial incentives offered by principal employers in the formal sector in Sabah. Financial incentives are given based on a worker's job performance and are included in the monthly salary (except for the annual bonus). Interviews with 37 employers found that financial incentives differed between sectors and enterprises. They depended on the size of an enterprise and whether it was private or government-owned. For example, a larger, government-owned plantation offers higher wages, better incentives and work conditions than a small, privately owned plantation. Table 3 shows that foreign workers from the services sector received the least financial incentives compared to those in other sectors. This was due to the small size of operation in most restaurants, tyre shops, laundromats and small traders in the town area in Tawau.

Financial incentives are the main source of extra income received by foreign workers on top of their basic monthly salary. This increase in total monthly income affects workers' ability to save money and send remittances. The in-depth interviews with Indonesian workers found that they would work hard to maximise their monthly earnings. They could earn from MYR300-MYR450 (USD100-USD150) in extra income a month if they were productive and willing to take job risks, undertake difficult tasks and work long hours. Most employers agreed that financial incentives motivate foreign workers to work harder and, more often than not, they outperform local people.

On the other hand, illegal foreign workers do not benefit from financial incentives. The in-depth interviews with illegal Indonesian workers revealed that the only incentive received on top of their basic salary was overtime payment. They had to accept low wages and little financial incentives as their illegal status allowed employers to conduct unfair labor practices.

**Table 3: Benefits and Financial Incentives above Basic Income for Foreign Workers in Main Job Sectors in Sabah**

	List of benefits and financial incentives	Jobs sector			
		Plantation	Manufacturing	Constructio n	Services
<i>Sabah Labour Ordinance 1955 (revised 2005) *</i>	Overtime	√	√	√	√
	Paid leave	√	√	√	√
	Paid maternity leave	√	√	√	√
Company Incentives#	Quality of work	√	X	X	X
	Productivity	√	√	X	X
	Risk/difficulty level	√	√	√	X
	Skills	√	√	√	√
	Price bonus (monthly) (profit sharing scheme)	√	X	X	X
	Annual bonus	√	√	√	√
	Job tenure	√	√	√	√
	Full attendance	√	√	√	√

Source: ILMS Survey (Employers) 2010

\**Sabah Labour Ordinance 1955 (Sabah Cap 67 revised 2005)*

### ***Employee Benefits***

Employee benefits in kind are non-wage compensation provided to employees in addition to their monthly salary and financial incentives. Employee benefits help increase workers' economic security and improve worker retention across the organisation. The National Compensation Survey groups employee benefits into five categories: paid leave, supplementary pay, retirement, insurance, and legally required benefits. This study compares employee benefits received by workers at their origin and destination. It includes employee benefits commonly found in the formal sector in Sabah such as accommodation (employer-provided or paid), life insurance, minimum medical coverage, paid leave, transport (employer-provided or paid) and food (employer-provided or paid). This is important in investigating the working conditions experienced by the majority of Indonesian workers who stay for short periods in Sabah.

**Table 4: Employee Benefits: Comparison Between Origin and Destination**

Employee Benefits	Jobs Sector							
	Plantation		Manufacturing		Construction		Services	
	Indonesia	Sabah	Indonesia	Sabah	Indonesia	Sabah	Indonesia	Sabah
Accommodation (provided/paid)	×	√	√	√	√	√	√	√
Food allowance	×	×	√	√	No info	×	√	√
Life insurance	×	√	×	√	×	√	×	×
Medical coverage	×	√	√	√	No info	√	√	√
Transport (provided/paid)	×	√	×	√	×	×	×	×
Paid leave (sick, public holiday)	×	√	×	√	×	√	×	√

(ILMS Survey (employers and respondents) (2010))

In the in-depth interviews, workers were asked if they received any form of employee benefits in pre- and post-migration employment. Table 4 shows that the manufacturing and plantation sectors in Sabah offered the most employee benefits while the construction and services sectors offered the least. The majority of respondents were legal migrant workers bound by a contract of service, under which employers provided at least benefits such as life insurance, minimum medical coverage and paid leave. In a study of Indonesian workers in Sabah, Manan (2006, p. 34) stressed that employers are required to provide insurance coverage as stated in the *Workers' Compensation Act 1952 (Act 273)* and *Regulations and Orders* that protect the social safety of migrant workers from becoming an industrial casualty. In addition, employers of rural plantation and mining sectors who provide accommodation must comply with the *Standard of Housing and Amenities Act 1990 (Act 446)*. On the contrary, most migrants received few employee benefits in their pre-employment at their origin due to its informal nature.

Working conditions were expected to be poor in informal rural agriculture sector from which the most migrants came. Employers did not provide any form of employee benefits and workers were not protected under any labor regulations. For example, although the real national wage for agricultural workers was IRP28,582 per day (USD3.14) (Berita Resmi Statistik,

2012), in practice most farm workers received IRP10,000-IRP20,000 (USD1.10-USD2.20). Extra allowances or bonuses were not applicable (ILMS Survey, 2010).

Based on the above discussion, it is clear that most legal Indonesian migrants working in Sabah received wage increases and experienced some form of employment and job security as well as employee benefits. On top of the wage differentials, migrants could earn extra monthly income from financial incentives and could reduce monthly living expenses especially through the provision of accommodation, transport, food and health coverage by employers. Therefore, higher income coupled with lower living expenses enable migrants to save some money for remittances.

### **Living Expenses at Destination**

Most research on international migration highlights the benefits of remittances to families left behind and to the sending countries (Gunatilleke, 1992; Ku, 2008; Yang, 2011), but there are not many studies on migrants' living expenses at the destination and how these influence their remitting behavior. The ILMS Survey (2010) found that the majority of respondents (670) were married and 91 percent of them had spouses living with them in Sabah.

### ***Daily Consumption***

The ILMS Survey (2010) analysed monthly consumption and average wages among migrants of different family status. In this study, single migrants included those who were married but left their family behind, as well as divorced and unmarried migrants. Table 5 shows the different pattern in daily consumption expenditure between male and female migrants, with women spending nearly 50 percent of their wage on daily consumption while men spent around 40 percent. The in-depth interviews found that female migrants who mostly had working spouses spent more on family daily consumption, while most of their spouses' income went to savings and remittances. Most male migrants received financial support from their spouses who had some form of a permanent or part-time job.

This study also analysed the cost of daily consumption according to family status and its proportion to mean wage. Respondents with family in Sabah used up to nearly half (49.1 percent) of their income on daily consumption. As expected, single migrants (married but with family left behind, unmarried and divorced) spent only about a quarter of their income. It is important to highlight that the lower proportion of income migrants spend

on their daily consumption at the destination, the more money they could put into savings and remittances.

**Table 5: Daily Consumption at Destination by Sex and Family Status**

Characteristics of migrants	Workers	Average consumption per month in 2010 (MYR)	Mean wage (MYR)	Proportion of income in 2010 (%)
<b>Sex</b>				
Male	558	311	778	39.9
Female	338	296	628	47.1
<b>Family status</b>				
Family in Sabah	449	361	735	49.1
Family left behind	61	208	770	27.0
Family in Sabah & Indonesia	200	301	757	39.8
Divorced/widowed	5	190	674	28.2
Unmarried	181	189	702	26.9

Source: ILMS Survey ( 2010)

### ***Accommodation***

In addition to daily consumption, accommodation consumes a big portion of monthly income (Ullah, 2010). A study of survival strategies of foreigners in Sabah showed that squatter areas had become a popular choice of migrants partly because of the relatively low rental (Kassim & Md. Shah, 2004). The ILMS (2010) survey (see Table 6) found that more than three-quarters of respondents had their accommodation arranged by employers. This is expected as housing provision was part of the employee benefits received by many foreign workers, particularly in rural plantations and construction sites. Less than a quarter of the migrants arranged their accommodation, through a family or relatives and others. If they worked in the plantation sector, they received a housing allowance of MYR50 a month (Felda Sdn. Bhd., 2008). The in-depth interviews found that most family or relatives allowed migrants to stay free of charge, while others only asked for small rental fees.

A more detailed analysis was conducted to determine the mean accommodation cost of migrants by sex and family status as displayed in Table 7. Migrants who arranged their accommodation paid amounts ranging from less than MYR100 to more than MYR300 (USD33.3-USD100) for house rental. When the family status is considered, migrants with family in Sabah who arranged their accommodation paid the most (MYR160.79 [USD53.59]) for



house rental. However, the cost would be lower if they were receiving the housing allowance from their employers.

**Table 6: Arrangement of Initial Accommodation at Destination**

Individual(s) who arranged current accommodation	Value	Percentage
Oneself	84	9.4
Family/relative in Sabah	69	7.7
Employer	708	79.0
Others	35	3.9

Source: ILMS Survey (2010)

In the in-depth interviews, the workers (mostly men) shared that they had worked for more than five years and some were married to local partners. On the other hand, migrants who had left their family in Indonesia and those who never married spent the least on their accommodation because they opted for shared housing arrangements.

**Table 7: Accommodation Cost at Destination by Sex and Family Status**

Characteristics of Migrants	N=896	House Rental in MYR				Provided by Employer	Own House/Relatives	Others	No info
		<100	101-200	301+	Mean				
<b>Sex</b>									
Male	558	9	21	1	138.87	484	36	4	3
Female	338	12	15	1	139.68	265	34	8	3
<b>Family Status</b>									
Family in Sabah	449	4	12	1	160.79	391	31	7	3
Family left behind	61	7	4	0	108.18	46	2	2	0
Family in Sabah & Indonesia	200	7	11	0	147.74	166	12	2	1
Divorced/widowed	5	0	0	0	0	3	2	0	0
Unmarried	181	3	9	0	126.15	143	23	1	2

Source: ILMS Survey (2010)

The ILMS Survey (2010) showed that migrants with family in Sabah spent more on their monthly consumption and accommodation than single

migrants. However, provision of accommodation by employers to most migrants, coupled with employee benefits, such as medical coverage as well as provision or allowance of transport and food, helped reduce their overall living expenses. In addition, financial incentives received on top of their basic wages helped increase their monthly earnings. The ratio of monthly living expenditure to the mean wage determines migrants' savings and eventually remittances. Indeed, living conditions and cost of living at the destination are important determinants of remitting behavior (Lundius et al. 2008).

### **Dynamics of Remittances**

Remittances are transfers of money by a foreign worker to his or her home country. It is an important source of income to many developing countries as "it constitutes the largest monetary inflow, exceeding worldwide aid" (Alam et al. 2011: 22). Indonesia is mainly a remittance-recipient country where the flows of remittances are a stable and consistent source of foreign exchange (World Bank, 2009, p. 12).

Indonesian remittance flowed had been experiencing a steady increase from USD5.722 billion in 2007 to USD6.1 billion in 2011. Malaysia has been the main remittance sender contributing 45 percent, and 30 percent of total remittances received in 2007 and 2011, respectively. This is consistent with the Indonesian Government policy that promotes the export of labor and remittances, and the Malaysian authorities allowing the use of foreign labour to help generate the country's economic development (Sukamdi, Striawan, & Haris, 2004; Kanapathy, 2006).

### ***Remittance Patterns***

Although many factors influence remitting behavior, this study focused on the tendency to send remittances, and their volume and frequency. In addition, it discusses the medium of transfer, as well as the recipients and uses of remittances. It analyses the influence of family status and sex on remitting patterns and behavior particularly for migrants with dependants abroad.

Some 80.1 percent of migrants interviewed in the ILMS Survey (2010) sent money home in the same year. Table 8 shows no significant difference between male and female migrants in their propensity to remit money. When compared to family status, almost half of the migrants with family in Sabah sent remittances followed by a quarter of migrants with family at both the origin

and destination. In comparison, those who did not remit included mostly migrants with family in Sabah (62.1 percent).

**Table 8: Percentage of Respondents Sending Remittances by Sex and Family Status**

Characteristics of Migrants	N=896	Send Remittances	
		Yes	No
<b>Sex</b>			
Male	558	450	108
Female	338	277	61
Total	896	727	169
<b>Family status</b>			
Family in Sabah	449	344	105
Family in Indonesia	61	53	8
Family in Sabah & Indonesia	200	182	18
Divorced/widowed	5	5	0
Not married (single)	181	143	38

Source: ILMS Survey (2010)

The in-depth interviews found that migrants who had worked less than two years in Sabah lacked the economic stability to remit, while the majority who had stayed longer with an intention to stay permanently tended to remit less. Similarly, in a study of Mexican migrants in the US, Orozco (2003) found that migrants in their fifth to a sixth year abroad sent the most, whereas both recent migrants and migrants who stayed more than ten years tended to remit less.

Migrants were asked about the total amount of cash remittance they had sent in 2010. As summarised in Table 7.15 in the ILMS Survey (2010), the mean amount remitted was MYR2,720 (USD906.7) a year which is equivalent to an average of USD75.7 per month per sender. On average, migrants remitted almost one-third of their income earned in Sabah in 2010. The Bank of Indonesia estimated that, on average, Indonesian overseas workers sent 45 percent of their monthly income home (World Bank, 2008) which is very close to the findings of this research.

The value of cash remittance sent by migrants in 2010 was analysed for males and females by family status. Table 9 shows that, although female migrants earned MYR150 (USD50) less than male in a month, their remittance was 3.5 percent higher, consistent with other findings that female migrants tend to remit a higher proportion of their income (IOM, 2010). A variation in the proportion of remittance to income is noted among different family types. It appears that unmarried migrants remitted the highest proportion of income

(33.1 percent) in contrast to migrants with family in Sabah who remitted the least (19 percent). This finding indicates that remittances are “carved out of the disposable income that migrants receive after deducting the cost of living expenses and, in some cases, savings and other costs” as demonstrated in Russell’s remittance system model (Ullah, 2010, p. 158). The ILMS Survey (2010) indicates that the provision of financial incentives and employee benefits, for example, housing, food, transport and medical coverage, have helped them to increase their income and reduce the cost of living expenses. However, migrants’ average wage of MYR704 (USD234.7) which is just above the Sabah current average wage of MYR577 (USD192.3) hindered them in remitting more even if they intended to do so.

**Table 9: Cash Remittances and their Proportion to Wages by Sex and Family Status**

Characteristics of Migrants	Workers 727	Mean amount remitted in 2010 (MYR)	Average remitted per month in 2010 (MYR)	Mean wage (MYR)	Proportion remitted in 2010 (%)
<b>Sex</b>					
Male	450	2808	234	778	30.1
Female	277	2634	211	628	33.6
<b>Family status</b>					
Family in Sabah	344	1669	140	735	19.0
Family left behind	53	2946	246	770	32.0
Family in Sabah and Indonesia	182	2817	235	757	31.0
Divorce/widowed	5	2360	196	674	29.1
Unmarried	143	2772	231	702	33.1
<b>Overall total</b>	<b>727</b>	<b>2720</b>	<b>227</b>	<b>704</b>	<b>32.2</b>

Source: ILMS Survey 2010

The majority of migrants, particularly divorced migrants, migrants with family in Sabah and migrants with family at the origin and destination, sent money irregularly, twice or three times a year. Most migrants with family left behind, and unmarried migrants sent money more frequently (4-5 times). While 46.2 percent of unmarried migrants tended to remit every two months, some 38.4 percent of migrants with family in Sabah tended to remit only once a

year. The results indicate that remittance sending was higher among single migrants and lower among migrants with family abroad.

**Table 10: Frequency and Value of Cash Remittances**

Value of remittances per transaction	Frequency in sending cash remittances				Total
	Once a year	2-3 times a year	4-5 times a year	More than six times a year	
	N=168	N=321	N=151	N=87	N=727
<MYR 200	0	4	13	6	23
MYR 200-399	0	32	35	43	110
MYR400-599	0	87	86	36	209
MYR600-799	9	148	17	2	176
MYR800-999	34	37	0	0	71
MYR1,000 +	124	10	0	0	134
No info	1	3	0	0	4

Source: ILMS Survey (2010)

Table 10 shows a higher frequency inversely related to the value of remittance per transaction, and vice versa. Some 84 percent of migrants who remitted four times or more a year sent from MYR200-MYR599 per transaction, while about three-quarters of those who remitted three times or less a year sent from MYR600 to over MYR1,000.

The ILMS Survey (2010) found food to be the main item sent home. The in-depth interviews revealed that food items sold in Tawau were much cheaper and of a higher quality in comparison to food items at the origin.

Included among the popular items were manufactured foods such as Milo, Nescafe, condensed milk, skimmed milk and cooking oil. These items are usually brought home upon migrants' return for cultural and religious festivals or as special gifts much valued by family members and relatives. These goods are also transported by foreign worker agents who often travel by boat to and from Tawau and Indonesia (Plate 7.1b). Goods sent by this courier service are charged at approximately MYR30-MYR40 (USD10-13) per *karung guni* (bundle). According to Eki (2002, p. 255), the flow of goods, particularly construction material, is apparent in Eastern Flores region. Upon their return, migrants charter a boat from Sabah to deliver the goods. From the findings, it can be said that Indonesian migrant workers in Malaysia prefer sending goods that are value for money and useful for sustaining daily household economic activities and that symbolise their success in working abroad.

### ***Mechanisms of Remittance Transfers***

The network of cross-border remittance transfer in Malaysia–Indonesia remittance corridor constitutes both formal and informal funds' transfer entities. The former comprises banks, money transfer operators (MTOs) and postal money orders at the post office, while the latter includes money changers, hand delivery, employment agencies and courier services (World Bank, 2009, p. 35). Given this wide variety, the choice of remittance transfer is often determined by several factors such as trustworthiness, accessibility, service and transaction costs (Sander, 2003, p. 9).

The ILMS Survey (2010) found that formal entities, such as banks, were the most preferred medium of remittance transfer (64 percent) in comparison to informal entities (36 percent), such as hand delivery and money changers. Similarly, a survey on Indonesian migrants in Malaysia found that 75 percent of migrant workers used formal channels such as telegraphic transfer or bank draft while a quarter used informal channels such as agents, money changers, friends and relatives (Kanapathy, 2006, p. 15). Consistent with the above findings, interviews with Bank Negara Malaysia found that 90 percent of formal remittance transfers go through bank institutions.

The in-depth interviews with employers showed that some Indonesian workers, particularly those who worked in the plantation and manufacturing sectors, received their monthly salaries through their bank accounts. This system is practiced to minimise the risk of migrant workers being robbed when keeping a lot of cash at home and to ensure that every migrant worker receives his or her full salary on time every month. Despite the high cost of remittances in relation to migrants' low income, banks have been the most popular choice due to trustworthiness, accessibility, and services.

It is estimated that 30 percent of total remittances are not recorded in official accounts in Asian countries such as India, Indonesia, the Philippines and Sri Lanka (Ghosh, 2006, p. 15). In the ILMS Survey (2010), preference for sending remittances through informal channels was more inclined towards hand delivery (30.2 percent) through returning friends or relatives and by the migrant himself or herself. Given the proximity between the origin and destination countries, hand delivery can be convenient, and the cheapest and fastest way of sending remittances among Indonesian migrants. Although money changers often offer a competitive exchange rate and are highly accessible even in remote areas in Malaysia and Indonesia, they were not a popular choice for sending remittances according to this study.

### ***Recipients and Uses of Remittance***

In the ILMS Survey (2010), the reasons migrants sent remittances home is reflected by who received them (Table 11) and how they are used.

In this study, migrants were given a multiple answer question in which more than one recipient of remittances could be chosen (Table 11). It appears that parents (60.1 percent) and, to a much lesser extent, siblings (10.6 percent) were recipients of remittances for all migrants of different family status. Single migrants (divorced and unmarried), as well as migrants with family in Sabah, sent remittances mainly to their parents. Similarly, Hugo (1983, p. 18) found that unmarried temporary migrants remitted money mainly to their parents; whereas married temporary migrants who left their family behind sent money to wives or children. The ILMS Survey (2010) found that sending remittances to spouses was not a popular choice because the majority of migrants in this study had their spouse with them in Sabah.

The location and presence of spouse and children play a major role in influencing migrants' choice of recipients for remittances. In the absence of spouse and children at the origin, migrants with family in Sabah chose parents (78 percent) as recipients of their remittances. This pattern of behavior is also apparent among divorced migrants and those who have never married. However, migrants with family in Indonesia and migrants with family located at the origin and destination sent lesser amounts of remittance to their parents. The former gave priority to their own nuclear family comprising spouse (34.3 percent) and children (41.4 percent) as recipients of remittances before their parents. The latter sent remittances to children followed by parents in the absence of their spouse.

In terms of motivation for sending remittances, the results indicate that all migrants who sent money to their parents were motivated by altruism. In his study on international migration in West Java, Hugo (1983, p. 19) found that strong obligations towards supporting parents among most married and unmarried West Javanese drove migrants to send remittances to their parents. He added that the strong "bonds of filial loyalty" are another reason migrant send remittances. In other words, sending remittances can be seen as fulfilling expectations and social obligations in taking care of old parents as is widely practised in the Asian region.

**Table 11: Main Recipients of Remittances by Family Status**

Sender of remittance by family status	Recipient of remittance				
	Parent/s	Spouse	Child/ren	Sibling/s	Relative/s
Family in Sabah N=344	277 (78%)	0	0	55 (15.5%)	23 (6.5%)
Family in Indonesia N=53	23 (23.2%)	34 (34.3%)	41 (41.4%)	1 (1.0%)	0
Family in Sabah & Indonesia N=182	109 (40.67%)	5 (1.8%)	141 (52.0%)	10 (3.7%)	3 (1.1%)
Divorced/widowed N=5	4 (80%)	0	0	1 (20%)	
Never been married (single) =143	113 (76.4%)	0	0	26 (17.6%)	9 (6.0%)
Total	526 (60.1%)	39 (4.0%)	182 (20.8%)	93 (10.6%)	35 (4%)

Source: ILMS Survey (2010)

Migrants with family in Indonesia seem to be driven by both altruism and self-interest when sending money to their family left behind. They made sure that their spouse and children lived comfortably and that children received education before putting aside some money for savings. Figure 7.9 shows that spouses of migrants often kept some cash remittances in savings which could later be used to build or improve their house and buy land. While repaying family loans was often associated with remittances sent to relatives, it is interesting that in this study, some migrants who had stayed abroad for more than 10 years and received a higher salary, sent remittances to siblings and relatives as a loan to pay for their travel costs and enable migration from the origin to Sabah. The small percentage of remittances used for paying debts was relative to the small number of new migrants involved in this study.

The ILMS (2010) survey showed that about 60 percent of remittances sent by migrants was used for household expenses. According to Hugo (1993, p. 108), “remittance can be of great significance to a rural family and comprise a considerable portion of the household income.” The fact that less than a quarter of remittance was used for education is explained by the tendency of migrants in this study to bring their spouse and children to the destination. However, as found in most research, only a small portion of remittances sent by migrants was spent on savings and investment (in this case, for building or renovating their house).



## **Conclusion**

This article has discussed the economic linkages and impacts of Indonesian labor migration to Sabah. Economic differences between Malaysia and Indonesia provide support for the standard neo-classical economic theory that partly explains the movement of migrant workers from low- to high-wage countries (Todaro, 1969). The decision to move tends to include elements such as wage differentials, employment opportunities and job security and, to a certain extent, employee benefits at the destination.

The article shows that main sources of income were mainly basic wages but on top of these were financial incentives from the employers that provide extra income outside the basic wages and employee benefits that helped reduce living expenses with the provision of accommodation, food allowance, medical coverage and other benefits. Wage differentials, along with pre- and post-migration employment conditions between origin and destination are compared to rationalise migrants' decision to seek jobs abroad. The article finds that migrants' living expenses at the destination included daily consumption and accommodation usually formed the biggest portion of monthly expenditure, which affected the migrants' remitting behavior.

This research extended Russell's model of remittances by including expenses at the destination that can influence the decision to remit, particularly among migrants accompanied by their family. It has been demonstrated that the costs of living expenses were higher among migrants with family in Sabah than among single migrants. This explains the tendency to send less frequently and a lower volume of remittances among the former. Hence, the trend of being accompanied by the family to Sabah has implications for migrants' remitting behavior.

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