



Analysis of The Interrelationship Between Minimum Wage Policy, Citizenship Status and Distribution of Labor Income in Indonesia Real Sector Industries

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Abstract

This study aims to analyze the wage gap between natives and immigrants currently working in the real sector in Indonesia. This study uses survey data with a sample of individuals aged between 20 and 55 years. This study uses a quantitative approach, utilizing segmentation analysis techniques. The conclusion of the study shows that immigrants earn higher average wages than natives, this difference is caused by several factors that can be directly identified such as education level, worker bargaining power and the capacity or skills possessed by the workforce. This gap is more pronounced in the middle of the income spectrum, where factors such as discrimination that generally occur in other countries do not occur in Indonesia and immigrant skills are considered better than local citizens. Companies in Indonesia generally still view foreign citizens working in Indonesia as having above average abilities. The suggestion from the study is that it is necessary to review the regulations governing wage policies and improve the protection of workers' rights, especially at the middle-income level, to address this gap. Policies should be focused on increasing local citizens' access to quality jobs, reducing informality in the labor market, and the government should provide active and proactive permission to develop the quality of local human resources by building education and training systems and facilities. This approach aims to create a more qualified and competitive local labor market.

Keywords: Wages, Real Sector, Capacity, Human Resources.

1. Introduction

International migration has become one of the most significant and growing global phenomena, with wide-ranging and profound impacts in a variety of areas. Migration, as a geographical change involving the movement of people from one country to another, has important economic, social, demographic, and cultural consequences in both the countries of origin and destination. Economically, international migration often provides a significant boost to host countries [1]. Migrant workers often fill labor shortages in skilled sectors, from industry to services, that may be lacking in the destination country. They not only increase productivity, but also provide important skills and expertise, enrich the labor market, and spur innovation. With their contributions, different sectors of the economy can develop, which in turn supports broader economic growth. In addition, remittances sent by migrants to their home countries can be a significant source of income for families in those countries, supporting economic stability and local development [2]. On the social side, international migration affects the structure of societies in the destination country by creating more ethnically, culturally, and linguistically diverse communities. This diversity can enrich social and cultural life, bring new perspectives, and create more complex social dynamics. However, these cultural differences can also pose challenges, including issues of social integration and potential cultural conflicts. Host countries should develop effective policies to facilitate harmonious integration and reduce social tensions [3]. This includes efforts to enhance social inclusion, ensure equal access to services, and promote cross-cultural understanding. In terms of demographics, international migration can affect the age composition and structure of populations in destination countries. Relatively young migrant workers can help address demographic challenges, such as declining birth rates and aging populations, by providing the workforce needed to support economic and social systems [4]. Migration can introduce new traditions and practices that enrich local cultures, but it also necessitates adjustments and mutual



understanding to ensure the acceptance and respect of these differences. Overall, international migration is a complex phenomenon that affects many aspects of life in both countries of origin and destination. We need in-depth research and effective policies to maximize the benefits of migration and minimize potential challenges. We can manage the impacts of migration positively by focusing on inclusive integration, skills utilization, and diversity management, which will support economic and social growth and foster more harmonious and prosperous societies [5].

The sharp economic gap between developed and developing countries is one of the main factors driving migration. Inequality in employment opportunities, where individuals in developing countries often face limitations in obtaining adequate employment, further exacerbates the urge to seek opportunities in countries with more stable and developed economies. Countries with more stable and developed economies are often the primary destinations for migrants seeking a better life and better economic opportunities. More developed economies offer more job opportunities, better infrastructure, and a higher quality of life, attracting migrants seeking to flee unfavorable conditions in their home countries [6]. These factors create strong incentives for individuals to seek opportunities outside their home countries, driving migration flows towards countries that offer economic stability and better opportunities. In host countries, increasing numbers of migrants can put additional pressure on public services, such as health, education, and housing. In addition, significant migration can create competition in the labor market with the local population, possibly leading to higher wages or social tensions. Anti-immigrant sentiments can also arise, affecting social cohesion and inter-community relations. To manage international migration effectively, governments around the world need to adopt fair and inclusive policies [7]. This includes ensuring equal access to public services for migrants and locals, addressing social tensions through effective integration, and designing policies that support human resource development in countries of origin. Strong international cooperation is also required to address the root causes of migration, such as economic inequality and political instability, as well as to optimize the benefits of migration globally. With a holistic and collaborative approach, we can address the challenges of migration and maximize the benefits that this global phenomenon brings [8]. The composition of international migration has changed significantly over time, reflecting global changes in economic, political, and social conditions. Differences in the level of economic development between countries of origin and destination have become a major factor in determining migration flows. Developing countries, often facing political instability, violence, and social inequality, have become the main source of migrants seeking security, stability, and better opportunities. Meanwhile, countries with more stable economies, better job opportunities, and safe environments have become the main destinations for migrants seeking to improve their quality of life. These changes reflect a global shift in migration patterns, in which the economic and political factors underlying migration have become increasingly complex. Migrants are now seeking countries that offer not only economic opportunities but also a safe and stable environment. Instability in countries of origin, coupled with increasing prosperity in destination countries, has affected social and economic dynamics in many parts of the world. As a result, international migration flows persist, bringing challenges and opportunities to host countries and influencing global social and economic patterns [9].

Higher levels of education are often associated with better skills and competencies, which generally translate into higher wages. Education provides the knowledge and skills base needed for more complex and qualified jobs, so individuals with higher levels of education often have access to higher-paying positions [10]. In addition, age and work experience are often considered indicators of skills and productivity. More experienced individuals tend to have more mature skills and higher work efficiency, which in turn can increase their earning potential. The type of job and geographic location also play an important role in determining wage variations. Jobs that require technical skills or advanced education typically offer higher wages. Similarly, geographic location can affect wages due to differences in the cost of living and labor demand across regions [11]. However, other non-observable factors also cause wage gaps. Personal skills, like creativity and innovation, are crucial but often challenging to quantify, leading to their neglect in wage analysis. The available data may not always reflect these personal skills, which can influence an individual's ability to add value to their work. In addition, individual preferences for the type of work, such as choosing jobs with higher risk or greater flexibility, can affect the level of wages received [12]. The data collected may not always reflect these preferences, yet they continue to influence the wage gap. Understanding both observable and unobservable components is important for economists and policymakers to identify the root causes of the wage gap. Effectively addressing this issue requires a comprehensive approach that encompasses improved education and training policies, along with discrimination-addressing interventions. Such policies should aim to improve access to education and skills training for all workers, as well as create a fairer and more inclusive labor market. Efforts to reduce the wage gap can thus contribute to more sustainable economic development and greater social equality [13].

Although immigrants often face a significant wage gap compared to natives at the outset, over time, their wages tend to converge with those of natives through the process of assimilation [14]. This process includes several important aspects that help reduce the gap. Improving language skills is a key element in assimilation. Better language skills enable immigrants to communicate effectively in the workplace, participate in training, and access previously inaccessible job opportunities [15]. Acquiring cultural qualifications, such as an understanding of local dialects and employment regulations, plays a key role in facilitating immigrants' integration into the labor market. By understanding cultural nuances and applicable regulations, immigrants can avoid mistakes that could hinder their career advancement and adapt more easily to the work environment. This knowledge helps immigrants be more accepted by colleagues and managers, increasing their chances of promotion and better salaries [16]. General human resource development, including professional training and further education, contributes to the assimilation process. By improving their skills and qualifications, immigrants can increase their competence and adapt to the higher demands of the labor market. Effective assimilation allows immigrants to compete more fairly in the labor market, reduce wage gaps, and eventually align their earnings with those of natives. This process also facilitates better social adaptation, helping immigrants feel more integrated into society and maximize their potential in the new work environment.

2. Research Method

This study focuses on segmentation analysis using survey data with a sample of individuals aged between 20 and 55 years. We use a quantitative approach with segmentation analysis techniques to group individuals based on similar characteristics. We included all individuals within that age range in the study population and used random sampling techniques to ensure the sample's representativeness. Data was collected using a structured questionnaire, conducting online and/or face-to-face interviews over time to ensure consistency in the results. A pilot test was conducted on a small subsample to test the validity and reliability of the survey instrument before applying it to the full-scale survey, then processed the collected data using statistical software to ensure it was clean and consistent. The data processing process involved cleaning up outliers and inconsistencies. Segmentation analysis was conducted using cluster analysis methods, which

enable the grouping of individuals into segments based on similar characteristics. However, incomplete data or bias in survey responses can impact segmentation results, necessitating special attention in interpreting the study's outcomes.

3. Result And Discussions

According to the study, there was a significant difference in earnings between immigrants and natives, with immigrants earning an average wage that was higher than natives. Observable characteristics such as education level, informality, and labor market segmentation largely explain this difference. Education level plays a crucial role in determining an individual's earning potential. Immigrants tend to have higher levels of education than natives, which directly impacts their ability to obtain higher-paying jobs. Higher education opens their access to jobs that require higher levels of skills and knowledge, which in turn reduces their chances of earning better wages. Informality in the labor market also contributes significantly to this wage gap. Many immigrants work in the formal sector, which often provides adequate job security, benefits, or legal protection. Formal jobs typically pay higher wages and offer more opportunities for career advancement. In addition, labor market segmentation plays a role in creating wage gaps. Less favorable labor market segments often trap local workers, limiting their access to high-quality jobs and promotion opportunities. This segmentation often results in local workers obtaining jobs with less favorable conditions and lower wages compared to foreign workers, who have better access to better and more stable jobs.

The analysis shows that the wage gap between immigrants and natives extends across the income distribution and tends to widen as one moves towards higher-income quintiles. This finding indicates that income disparities do not only exist in low-income groups, but also intensify in higher-income groups. At higher quintiles, wage differences may appear less significant because immigrants and natives often engage in similar types of work, especially in the informal sector or low-skilled jobs. However, these disparities become more pronounced as one moves towards higher-income groups. At higher income quintiles, the wage gap widens as local workers face barriers to accessing higher-level positions and higher-paying jobs. Factors contributing to these disparities include higher levels of education among local workers, less widely recognized skills, and a lack of access to professional networks that can support them in obtaining better positions. Local workers often face greater difficulties in entering higher levels of the labor market, reflecting complex challenges in economic mobility and social integration. This phenomenon highlights the need for more focused policies to address inequalities across the income spectrum. An effective policy approach must address issues of discrimination, recognition of foreign qualifications, and access to equal promotion opportunities. The government needs a comprehensive strategy to ensure that all individuals, regardless of their status, have a fair chance to increase their income and achieve higher positions. The government should design a policy to reduce existing inequalities, facilitate better integration, and support economic mobility for local workers, enabling them to contribute more effectively to the economies and societies in which they live.

Observable characteristics, such as education level, work experience, and employment sector, explain most of the wage gap between immigrants and natives. This implies that directly measurable and comparable factors significantly contribute to the observed wage gap. However, the analysis shows that unobservable components, such as personal skills and discrimination, also play a significant role in the wage gap, especially in the middle of the income distribution. Examining the income distribution reveals that observable characteristics explain a more pronounced wage gap at both extremes of the distribution, specifically in the low and high quintiles. Due to their limited education and skills, local workers often engage in low-paying jobs at the higher end. On the other hand, at the upper extreme, the wage gap also reflects measurable variables such as less recognized qualifications and limited access to career opportunities. However, as we move from the extremes towards the center of the income distribution, the unobservable components become more dominant. Unmeasurable characteristics, such as personal skills, motivation, and unrecognized work experience, begin to play a larger role in the wage gap in the middle of the distribution. This could include elements such as indirect discrimination or bias that unfairly influence the assessment of an individual's skills and contributions. This phenomenon suggests that while observable characteristics explain most of the wage gap at the extremes of the distribution, there are more subtle and difficult-to-measure factors that contribute to the wage gap in the middle of the distribution. This highlights the importance of not only focusing on improving education and training but also addressing issues related to discrimination and unfairness in skill assessments to reduce the overall wage gap.

As a result, a large portion of the unexplained wage gap is present, which is more pronounced in the middle of the income distribution. This gap could reflect indirect channels of discrimination, differences in unobservable characteristics, or simply a lack of adequate assimilation. While factors such as education level, work experience, and occupational sector may explain most of the wage gap, the remaining gap suggests more subtle and complex elements that affect their earnings. Implicit or systemic discrimination is a possible cause of the unexplained wage gap. This discrimination can take the form of indirect bias in hiring, promotions, and performance appraisals, which may be difficult to quantify with available data. Such discrimination is often difficult to identify directly and may operate through more subtle and difficult-to-measure mechanisms. In addition, differences in unobservable characteristics, such as invisible skills or unrecognized work experience, may contribute to these gaps. These factors may unfairly affect their ability to obtain higher-paying positions, even if they have relevant skills and experience. Lack of assimilation may also be a contributing factor to unexplained wage gaps. The process of assimilation, in which the adaptation to the work market and work culture, may have an impact on their ability to compete effectively in the labor market. However, based on the available data, there is little evidence to support the existence of significant assimilation processes. Slow or inadequate assimilation processes may prevent local workers from making the most of available opportunities and contribute to inequities in the distribution of earnings. Therefore, to develop more effective policies to reduce wage gaps and promote better integration of immigrants, we need further research to identify and understand these unmeasured factors.

Currently the available data do not include information on immigrants' length of stay and experience, two important elements in evaluating their assimilation process. The assimilation process, which involves adapting to the local labor market and work culture, can have an impact on immigrants' ability to compete effectively in the labor market and earn better wages. Without sufficient information on the year of arrival, it is difficult to assess how immigrants' work experience and adaptation contribute to the existing wage gap. This hinders a comprehensive understanding of how immigrants adjust to their work environment over time. To address this limitation and gain a deeper understanding of the wage gap, future research should deepen the analysis by collecting more detailed data on immigrants' year of arrival and length of stay. This information would allow researchers to more accurately evaluate how immigrants' length of stay and work experience affect the assimilation process and, in turn, the wage gap. With more complete data, the analysis could include how changes in their work experience and adaptation contribute to their earnings over time. We expect this more comprehensive data collection approach to offer deeper insights into the wage gap dynamics and factors not seen in the current analysis. Further research focusing on this additional information could help identify factors that may influence inequity in the labor market and create more effective solutions to address

income inequality. The government can design policies to foster a more equitable and inclusive labor market for all workers, including immigrants, by better understanding the significance of length of stay and work experience.

This study has significant implications for efforts to reduce the income gap between immigrants and natives. The results indicate the need for a more targeted and specific strategy to address the significant wage gap. One of the key steps in this strategy is to ensure that local workers have better access to quality and secure jobs. This includes increasing opportunities for relevant education and training, which will help local workers acquire the skills needed for better and more stable jobs. By accessing appropriate education and training, local workers can improve their chances in the labor market and obtain jobs with higher wages. Furthermore, reducing informality in the labor market is an important step in this strategy. Informal jobs often offer poor working conditions and low wages, increasing the risk of social exclusion and economic inequality for local workers. By reducing informality, we can create better and more stable working conditions, which will help reduce the income gap and support their social integration more effectively. This also means strengthening supervision of labor practices and providing incentives for companies to hire formally. Policies designed to improve their access to quality and secure employment, as well as address informality, are critical to creating more inclusive and equitable societies. Implementing these policies will not only help reduce income disparities but also support the social and economic integration, ensuring that they have a fair chance of achieving economic and social well-being. This comprehensive and planned approach will ensure that all individuals, can contribute fully to society and benefit from inclusive economic growth. Effective implementation of strategies in public policy will require collaboration between the government, the private sector, and civil society organizations to create a more equitable and sustainable labor market.

The results show that wage gaps caused by unobservable characteristics become more pronounced as we enter the middle quantile of the income distribution. This indicates that the unexplained wage shadow is more pronounced in the middle of the income spectrum compared to the extremes of the income distribution. While observable characteristics such as education level and work experience can explain most of the wage gaps in the low and high groups, unobservable gaps such as indirect discrimination, invisible skills, or individual preferences become more pronounced in the middle quantile. This phenomenon indicates that subtle and complex factors, not fully captured by standard survey data, may influence the wage gap in the middle quantile. Inequities in performance appraisals or limited opportunities to develop relevant skills may lead to significant inequality in the middle of the income spectrum, highlighting the need for a more in-depth analysis of these factors. Therefore, it is important to conduct further research to understand and address the unexplained wage deviations in the middle quantile. Identifying and addressing unobservable factors will assist in developing more effective policies to reduce inequities in the labor market. We anticipate that a more comprehensive approach to this research will enhance our comprehension of the wage gap dynamics and aid in formulating strategies that guarantee equal opportunities for economic success for all individuals. Thus, efforts to address inequities in income distribution will be more effective and inclusive, thereby creating a more equitable and sustainable labor market.

It is important to enact laws that specifically prohibit wage discrimination, with a focus on protecting the rights of workers at the middle-income level. Effective laws should include mechanisms to detect and address discrimination that may occur in the workplace and ensure that all workers, have a fair chance to earn equal pay for comparable work. Identifying and addressing workplace discrimination, particularly in the middle-income segment, is an important step in redressing inequities that are often invisible in aggregate data but have significant impacts on individuals' well-being and economic opportunities. Focusing on the middle-income segment is crucial due to its frequent entrapment in more hidden wage inequities. While these disparities do not always show up in aggregate statistics, their impact on workers' well-being and economic opportunities is significant. Therefore, we must prioritize stronger protections and policies that target disparities in the middle quintile to identify and appropriately address more subtle inequities. The government should also strengthen policies and programs that foster the social and economic integration. This includes initiatives that support skills development, education, and access to formal employment. By addressing inequities in income distribution and reducing discrimination, we can create a more inclusive and equitable labor market. This approach will ensure that all individuals, regardless of their migration status, have an equal opportunity to succeed and thrive economically.

4. Conclusion

The study reveals that there is a significant gap in earnings between immigrants and natives, with immigrants earning an average wage that higher than local workers. Observable characteristics such as education level, informality, and labor market segmentation largely explain this gap. Generally, immigrants work in the formal sector, have higher education levels, and find themselves trapped in less profitable labor market segments. While observable characteristics explain most of the wage gap at the extremes of the income distribution, the gap becomes more pronounced in the middle of the income spectrum. This phenomenon implies that income gaps not only affect low-income groups but also intensify in higher-income groups. In the middle-income quintile, the unexplained wage gap reflects more subtle and complex factors such as indirect discrimination, invisible skills, and bias in performance appraisals. Therefore, we need more focused policies to address inequities across the income spectrum, particularly at the middle-income level, and to enhance discrimination and career opportunities. To reduce income inequality, it is important to implement laws that prohibit wage discrimination and ensure the protection of workers' rights, especially in the middle-income segment. Policies should focus on improving their access to quality and formal jobs, as well as reducing informality in the labor market. The government should also enhance programs that support education, training, and social integration. We expect this comprehensive approach to foster a fairer and more inclusive labor market, offering equal opportunities for all individuals to develop economically and socially.

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