



# HOME BIAS AND NETWORK EFFECT OF INDONESIAN MIGRANT WORKERS ON MALAYSIA'S EXTERNAL TRADE

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## *Abstract*

Limited studies on the effect of immigrant workers on trade have been carried out in Asia even though some Asian countries have become important labour sending or labour receiving countries. This study attempts to fill the gap by examining the effect of Indonesian migrant workers on the external trade of Malaysia. Three objectives are proposed. The first objective is to examine the long-run relationship between Indonesian migrant workers, and export and import, respectively. This is followed by examining the causality between Indonesian migrant workers and Malaysia's external trade, as well as the extent to which Indonesian migrant workers affect Malaysia's external trade in the third objective. The secondary data are analysed utilizing the Vector Autoregressive (VAR) framework. The findings show that Indonesian migrant workers do not have any significant effect on Malaysia's import, thus indicating the insignificance of the home bias effect. The outcomes also reveal a negative and significant effect of Indonesian migrant workers on exports implying the absence of a network effect. This could be due to several factors, such as similarities in culture between Malaysia and Indonesia, low-skilled immigrant workers, the immigrants working in non-tradable sectors, the import substitution policy in Indonesia, and Indonesia not being the main trading partner of Malaysia.

## *Key words*

*Import; Export; Migrant Workers; Indonesia; Malaysia*

## **INTRODUCTION**

Previous studies concerning the relationship between external trade and migrant workers tend to examine either the effect of trade on migrant workers or the effect of migrant workers on trade, which raise different issues. The main issue pertaining to