



The Effect of FDI and GRDP on Industrial Labor Absorption in West Java

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Abstract

This research aims to determine the effect of foreign direct investment FDI in the manufacturing industry subsector and gross regional domestic product (GRDP) on industrial labor absorption in West Java Province. The data analysis method used panel data regression using Fixed Effect Model (FEM) with the help of E-views 12 program. The results of this research show that partially, the FDI in the food and beverage industry has no effect on industrial employment absorption, FDI in the textile and textile product industry has a negative and significant effect on industrial employment absorption, and GRDP Industry has a positive and significant effect on industrial employment. Together, FDI in the food and beverage industry, textile and textile product industry, and industrial GRDP have a significant effect on industrial labor absorption.

Keywords: FDI, GDRP, Manufacturing, Labor, Industry

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INTRODUCTION

Human resources play an important role in development activities that are expected to drive the economic sectors. The growth of human resources is reflected in the high number of labor force. Economic development is carried out in order to create massive employment

opportunities to accommodate the increase in the labor force. Labor demand is the number of employment opportunities available in an economic system, expressed in the number of people working in each sector to carry out production activities. The industrial sector acts as a leading sector that can encourage

development in various sectors so that it will lead to increased employment opportunities and lead to an increase in people's purchasing power (Arsyad, 2010).

Based on Keynes' (2018) theory, investment decisions determine employment growth. Increased investment, especially foreign investment, can lead to increased capital inflows and boost labor demand. Then, Harrod-Domar developed the theory from Keynes stating that the addition of production equipment can increase production capacity so that it will have an impact on the addition of labor to produce goods and services (Jhingan, 2016).

Economic growth is a basic requirement for the development of a region. Economic growth generally has a positive impact on job creation. In particular, growth in the manufacturing and services sectors has a positive impact on employment growth (Warr, 2005). Industrialization can be used as an engine of economic growth and create jobs for the population.

The economic growth of a region can be measured by the size of the Gross Regional Domestic Product (GRDP). An increase in GRDP may indicate an increase in the amount of output produced and sold by businesses so that the demand for labor increases. West Java is one of the provinces with high economic growth in Indonesia. The achievement of West Java's economic performance cannot be separated from efforts to maintain economic stability through investment to increase the availability of capital.

However, like a currency that has two sides, West Java has both potential and challenges that can be seen from one indicator, namely employment. West Java has a large potential workforce and has a dynamic

consumer class that forms a large-scale domestic market. This is an attraction to attract investors to invest in West Java (Bank Indonesia, 2021). In addition, West Java is known as the center of the nation's largest industrial estate and has 3 Metropolitan Cities namely Bodebek, Bandung Raya, and Rebanda with 13 new industrial cities.

West Java's investment contribution to national investment in 2021 reached 15% or 136.1 trillion IDR. The receipt of investment realization in West Java ranks first nationally with the largest investment value in 2021 (DPMPTSP, 2021). However, until now it has not been able to reduce the number of unemployment rates in West Java.

Data from the Central Statistics Agency (BPS) in 2021 recorded that there were 2.43 million unemployed people in West Java. According to Bappenas (2015), high unemployment in West Java is a challenge that must be overcome by encouraging the development of activities in economic sectors that are relatively high in labor absorption, such as the manufacturing industry, trade, and services.

The distribution of investment, labor, and projects developed was initially only around the Jakarta area (Bodebek), then spread throughout West Java. The largest investments are in the Bodebekkapur, Greater Bandung, and Greater Cirebon regions (Muljarjadi, 2018). Based on SIINas data, it is noted that until December 2021, out of a total of 30,578 industrial companies, 9,168 of the largest manufacturing industry factories were located in West Java (Ministry of Industry, 2021).

Industrial Estates can increase employment through factories that absorb labor and will have an impact on increasing people's income, the regional economy, and can

indirectly increase the ability of human resources (Mulyadi, 2012). Table 1 shows data on the realization of cumulative FDI revenue from 2010-2019. Cumulatively, the highest FDI is located in Bekasi Regency, reaching 237 billion IDR. Furthermore, the highest FDI

Table 1. Total FDI Realization of 8 Regencies in 2010-2019

Region	Investment (billion IDR)
Bekasi	237,683.93
Karawang	162,808.04
Purwakarta	47,404.63
Bogor	34,900.31
Cirebon	26,041.24
Sukabumi	11,447.57
Bandung	7,769.98
Sumedang	2,361.42

Source: DPMPTSP of West Java Province, 2019

Located in Karawang Regency reached 162 billion IDR. The next highest rank in order is in Purwakarta, Bogor, Cirebon, Sukabumi, Bandung Regencies with each region obtaining 47 billion IDR, 34 billion IDR, 26 billion IDR, 11 billion IDR, and 7 billion IDR. Meanwhile, the smallest FDI revenue realization was located in Sumedang Regency which only reached 2.36 billion IDR.

In general, sectors that absorb a lot of foreign capital are the manufacturing and service industry sectors. Each industrial sector has different characteristics in absorbing labor. The difference is determined by the use of technology applied. If it is a labor-intensive industry, the use of labor will increase. However, if it is a capital-intensive industry, the use of labor is relatively smaller (Ningrum, 2008). Countries with large amounts of labor and

relatively cheap labor tend to attract large foreign investment in low-skilled labor-intensive manufacturing sectors such as garments and food processing (OECD, 2019).

Based on the Regulation of the Minister of Industry of the Republic of Indonesia Number 51/M-IND/PER/10/2013 concerning Definitions and Limitations and Classification of Certain Labor Intensive Industries Article 2 states that the types of labor-intensive industries include: (1) food, minimum, and tobacco industry; (2) textile and apparel industry; (3) leather and leather goods industry; (4) footwear industry; (5) children's toy industry; and (6) furniture industry.

The potential for investment in the food and beverage sector is very wide open, given the very promising market share with a large population and the potential for abundant available raw materials. In addition, the textile and textile products industry is the highest export commodity, so this industry has high competitiveness that can create new jobs.

Table 2. FDI of Manufacturing Subsector in 8 Regencies in 2021

District	FDI in Manufacturing Subsector (million IDR)	
	Food and Beverage	Textiles and Textile Products
Bogor	71,177	3,426
Sukabumi	38,345	2,684
Bandung	216,976	101,815
Cirebon	211	24,565
Sumedang	12,877	9,523
Purwakarta	18,163	88,839
Karawang	4,143,194	99,582
Bekasi	2,964,863	9,476

Source: DPMPTSP of West Java Province, 2021

Table 2 shows the development of FDI realization in Bogor, Sukabumi, Bandung, Cirebon, Sumedang, Purwakarta, Karawang, and Bekasi, especially in sectors that have the potential to absorb large numbers of workers, namely the food and beverage industry and the textile and textile products industry.

The realization of FDI revenue in 2021 in the food and beverage industry was in Karawang Regency with a total investment of 4 trillion IDR, while for the textile industry and textile products it was in Bandung Regency as the region that received the highest foreign investment revenue of 101 billion IDR.

Table 3. GRDP of Industry Sector in 2021

District	ABDH Industry GRDP Distribution (%)	ADHK Industrial GRDP (billion IDR)
Bogor	53.67	85,414
Sukabumi	16.66	8,367
Bandung	53.21	43,430
Cirebon	20.5	6,984
Sumedang	20.09	4,863
Purwakarta	57.6	27,126
Karawang	70.81	118,943
Bekasi	77.20	169,525

Source: BPS West Java Province, 2022

Economic growth is a quantitative measure of the development of an economy which is one of the indicators to measure the success of development. Economic growth can increase labor absorption through increased output. The industrial sector is considered a sector that is able to have a good impact on labor absorption.

Regional and industrial development areas in the economic structure are supported by the

industrial sector which contributes to GRDP. An increase in income will increase aggregate demand which encourages a greater increase in output so that labor absorption increases.

Table 3 shows data on GRDP of the industrial sector by region in West Java Province in 2021. The industrial sector makes the highest contribution to the economy in Bekasi Regency, seen from the GRDP at current prices (ADHB) of 77.20% with an amount based on constant prices reaching 169,525 billion IDR, then Karawang Regency's economy is supported by the industrial sector reaching 70.81 or a value based on constant prices reaching 118,943 billion IDR. The distribution of the industrial sector to the economy with the smallest percentage is in Sukabumi Regency, but when viewed from the smallest GRDP value is in Sumedang Regency.

The benchmark for successful investment performance is not just the size of the numbers, but the impact on the welfare of the population. Investment should be able to provide a multiplier effect in the form of job creation, poverty reduction, and unemployment. The high realization of incoming FDI is considered not optimal because it is unable to cover the gap from the high unemployment rate.

Previous research related to the effect of investment on labor absorption in West Java is still debatable. The results of Rohadin & Nurcahyo (2021) found that investment has a positive effect on employment in West Java. Different results were found by Kurniawan & Aisyah (2023) that investment has a negative effect on employment in West Java. In addition, Hasanah's research (2021) found that investment has no effect on employment in West Java.

Industrial development that is able to provide added value and higher linkages that can encourage economic development. GRDP is

one of the factors that affect labor absorption. The manufacturing industry is believed to encourage and stimulate the economy. Previous research related to the effect of GRDP on labor absorption in West Java conducted by Emil & Haryatiningsih (2021) found that GRDP has a close relationship with labor absorption because it encourages business growth and increases production activities. However, different results found by Kurniawan & Aisyah (2023) state that GRDP has no effect on labor absorption.

Based on the description of the phenomenon above, there are still differences in research results regarding the effect of investment and GRDP on labor absorption, which is an interesting thing if it is related to the conditions in West Java as the main destination for national foreign investment with the main industrial sector that plays an important role in the economy. However, the high investment and GRDP obtained have not reflected the improvement of labor conditions. Complex problems related to employment are located in the central areas of industrial areas and development in West Java.

Therefore, a study is still needed to be able to answer problems, especially employment in West Java, which can hinder the achievement of development goals. Therefore, to find out what factors have caused a decrease in employment in West Java, a study will be conducted entitled "The Effect of FDI in the Manufacturing Industry Subsector and GRDP on Industrial Labor Absorption in West Java Province Study of Eight Industrial Estate Districts in 2016-2021."

RESEARCH METHODS

This research uses a quantitative approach using secondary data. This research uses panel data, which is a combination of cross section

and time series data and then processed using panel data regression analysis. The data used in the study used data for eight districts in 2016-2021. The research data was obtained from the official publication of the Central Statistics Agency (BPS), West Java Province Dataset, West Java Province Investment and One-Stop Integrated Service (DPMPTSP) Office.

The location of this research is eight regencies in West Java, including Bogor, Sukabumi, Bandung, Cirebon, Sumedang, Purwakarta, Karawang, and Bekasi. The selection of locations by only taking eight regencies is based on the high contribution made by these regions to the West Java economy. The selected districts are investment destinations that are able to attract investment, especially FDI, in large numbers compared to other districts. In addition, the manufacturing industry sector makes a high contribution to the economy.

This research uses data interpolation techniques because there are some data gaps. In this study using the Inverse Distance Weighted Method approach is a simple method of estimating values by considering the surrounding values or the average value of the sample data. In this study, to fill in the gaps in the research data using a one-year vulnerability (before and after) which was then divided by two to produce an average of the sample data. So that the average is the result of data interpolation.

The dependent variable in this study is industrial employment. Meanwhile, the independent variables in this study are FDI in the manufacturing subsector, which includes the food and beverage industry and the textile industry and textile products, and the industrial GRDP. The research model used to determine

the effect of manufacturing subsector FDI and GRDP on industrial labor absorption through logarithmic modwl transformation formulated in the following equation:

$$\text{Log}(\text{Tk_Industry})_{it} = \beta_0 + \beta_1 \text{Log}(\text{FDI_Im})_{it} + \beta_2 \text{Log}(\text{FDI_Tpt})_{it} + \beta_3 \text{Log}(\text{GRDP_In})_{it} + e_{it}$$

Where Y is industrial labor, X₁ is FDI in food and beverage industry, X₂ is FDI in textile and textile products industry, X₃ is industrial GRDP, β_0 is constant, β_1 , β_2 , β_3 are coefficients, e is error, i is individual (district/city), t is period (year).

RESULTS AND DISCUSSION

West Java Province is one of the provinces located on the island of Java. Economically, West Java is one of the provinces that makes the largest contribution to the national economy. In addition, West Java has the advantage of human resources and has the largest population in Indonesia. So it has great potential as a production factor and potential market. The industrial sector is the driving force of the economy and the development of the industrial sector takes place to encourage economic growth. The industrial sector is a productive sector in West Java and is a sector that absorbs a large number of workers.

Investment is also an indicator of economic development in West Java Province. FDI is needed as capital accumulation in order to drive the regional economy. The source of economic growth to increase the output of goods and services in an economy depends on the available inputs in the form of capital, labor, and the productivity of these inputs. Along with the development of inputs and productivity, growth also increases, and vice versa. Economic

growth can be measured using GRDP. Industry has a role as a leading sector, the role of the leading sector in the success of development is expected to be able to encourage and facilitate the development of other sectors along with the development of industry. Rapid industrial growth encourages the expansion of employment opportunities and ultimately increases income and purchasing power demand.

This study discusses the effect of manufacturing sub-sector FDI in the food and beverage industry sector and the textile and textile products industry on industrial labor, as well as industrial GRDP in West Java Province in 2016-2021. This study took eight districts which are industrial and industrial development areas. The method used is the panel data method. This analysis uses a logarithmic model with the Fixed Effect Model (FEM) approach.

Table 4. Regression Results of FEM Model

Variables	Coefficient	Std.Error	Prob.
C	-20.11069	6.135193	0.0023
Log(PMA_Im)	-0.022202	0.014728	0.1402
Log(FDI_Tpt)	-0.038502	0.017778	0.0369
Log(GRDP_In)	2.099867	0.357145	0.0000
F-stat	71.19839		
R ₂	0.950600		

Source: data processed, 2024

Based on Table 4, the equation can be interpreted as follows: The constant coefficient value of -21.9238 means that if the FDI of the food and beverage industry, FDI of the textile industry and textile products, and industrial

GRDP, the absorption of industrial labor in West Java in 2016-2021 will decrease by 21.92%.

The regression coefficient value of FDI in the food and beverage industry is -0.022202 with a t-statistic value of $-1.507377 < t$ table 1.67943 at an alpha level of 0.05. This shows that there is an insignificant negative relationship with industrial employment.

The regression coefficient of FDI in the textile and textile products industry is -0.038502 with a t-statistic value of $-2.165651 > t$ table 1.67943 at an alpha level of 0.05. This shows that there is a significant negative relationship to industrial labor absorption. If there is an increase in foreign investment in the food and beverage industry sector by 1%, there will be a decrease in industrial labor by 0.03% with the assumption of *ceteris paribus*.

The regression coefficient of industrial GRDP is 2.099867 with t-statistic value 5.879621 $> t$ table 1.67943 at alpha level 0.05. This shows that there is a significant positive relationship to industrial labor absorption. If there is an increase in foreign investment in the food and beverage industry sector by 1%, there will be a decrease in industrial labor by 5.87% with the assumption of *ceteris paribus*.

The classic assumption test needs to be done to see whether or not there are deviations in the model. Classical assumption testing in this study includes tests of normality, multicollinearity, autocorrelation, and heteroscedasticity. The following are the results of the classical assumption test on the model used in this study:

The normality test is carried out to determine the distribution of residuals in the model, by looking at the probability value. The Jarque-Bera probability value of 0.907801 is greater than alpha 0.05, so it can be concluded

that the data used in this study is normally distributed.

Multicollinearity test to determine whether there is a correlation between independent variables. If the correlation value is < 0.8 , it can be said that there is no multicollinearity. The output results in this study show < 0.08 , so it can be concluded that there is no multicollinearity problem in the data used in this study.

The autocorrelation test is carried out to determine whether there is a deviation between the residuals in an observation and other observations in the regression model used. Autocorrelation can be seen from the Durbin Watson value (DW test). The DW value in this study is 2.372091. This study uses a total of 48 observations and there are 3 independent variables with an alpha of 5%, the dU value is obtained: 1.6708.

The basis for making the Durbin-Watson Test decision is $dU > DW$. These results show that the Durbin-Watson's stat value is greater than dU ($2.372091 > 1.6708$). So it can be concluded that the model does not occur autocorrelation problems.

The heteroscedacity test aims to test whether there is an inequality of variance from the residuals of one observation to another. The results of the heteroscedacity test can be seen from the probability value of each variable. If the probability value > 0.05 then there is no heteroscedacity problem.

It is known that the probability value of FDI in the food and beverage industry is 0.85, FDI in the textile and textile products industry is 0.12 and industrial GRDP is 0.44. So it can be concluded that there is no heteroscedasticity problem in this study. The F test is a statistical test to see the overall regression coefficient of

the independent variable on the dependent variable. The F test is done by looking at the F-statistic probability value.

Based on table 2. it is known that the F-statistic probability value is $0.00000 < 0.05$, so accept H_0 . These results can be interpreted that the independent variables, namely FDI in the food and beverage industry and FDI in the textile and textile products industry, and industrial GRDP together have a significant influence on industrial employment in West Java Province.

The coefficient of determination (R^2) test is conducted to determine how much influence the independent variable has on the dependent variable. In table 4, the R-Squared value is 0.950600 , which means that the independent variables, namely FDI in the food and beverage industry, FDI in the textile industry and textile products, and GRDP in explaining the dependent variable are 95.06% , while the remaining 4.94% is influenced by other variables outside the model.

The t-test was conducted to determine the effect of independent variables, namely FDI in the food and beverage industry sector, FDI in the textile and textile products industry sector, and industrial GRDP on industrial labor absorption. This test is conducted by looking at each t-statistic probability value of each variable. If the t-statistic probability value > 0.05 then the independent variable affects the dependent variable.

Table 4 shows that the panel data estimation results show that FDI in the food and beverage industry has a t-statistic value of $-1.507377 < t\text{-table of } 1.67943$ with a probability value of $0.1402 > 0.05$. So it can be concluded that there is no significant effect on industrial labor absorption. FDI in the textile and textile

products industry has a t-statistic value of $-2.165651 > t\text{-table of } 1.67943$ with a probability value of $0.0369 < 0.05$. So it can also be concluded that FDI in the textile and textile products industry has a significant effect on industrial labor absorption. Industrial GRDP has a t-statistic value of $5.879621 > 1.67943$ with a probability value of $0.0000 < 0.05$. So it can be concluded that industrial GRDP has a significant positive effect on industrial labor absorption.

Based on the theory of Keynes (1971) states that investment decisions determine employment growth. Increased investment, especially foreign investment, can lead to increased capital inflows and boost labor demand. Then, Harrod-Domar developed the theory of Keynes stating that the addition of production equipment can increase production capacity so that it will have an impact on the addition of labor to produce goods and services (Jhingan, 2016).

Economic growth is a basic requirement for the development of a region. Economic growth generally has a positive impact on job creation. In particular, growth in the manufacturing and services sectors has a positive impact on employment growth. The results showed that FDI in the food and beverage industry had no significant effect on industrial labor absorption.

The results of the study are similar to research conducted by Hasanah (2021) which states that investment has no effect on labor absorption, because business owners invest in production methods to increase product productivity and improve production quality. The results of this study are not in accordance with the theory put forward by Harrod-Domar in (Jhingan, 2016) which states that increasing production capacity through investment can

increase the demand for labor. The development of investment in West Java shows that investment in the manufacturing sector is the main driver of investment in West Java. Meanwhile, investment in the services sector grew faster than other sectors.

Foreign investment by country of origin in West Java comes from South Korea, Japan, Singapore, the Netherlands, the United States, China, and Hong Kong. The largest number of foreign companies came from Japan reaching 820 with 4,492 projects. In addition, investors from South Korea and Japan invest more in capital-intensive industries and services such as the motor vehicle, housing and trade industries (DPMPTSP 2021).

The results showed that FDI in the textile and textile product industry had a negative effect on industrial labor absorption similar to research conducted by Kurniawan & Aisyah (2023), Nguyen et al (2020) and Mehmood & Hassan (2017). Investment has a negative effect on employment due to increased competition between companies and the replacement of more sophisticated technology.

The outsourcing of technology and the use of new machines in assisting the production process result in loss of employment. The results of this study are not in accordance with the theory put forward by Keynes (2018) which states that investment decisions will determine employment growth. An increase, especially in foreign investment, can cause an increase in capital inflows and boost labor demand.

Given the labor-intensive nature of the industry, the high operational expenses incurred for labor is one of the reasons for the decline in labor demand. In addition, the export share of the textile and textile products industry continues to decline. The decline in the export

contribution of the textile and textile products industry was accompanied by an increase in the export share of the vehicle industry. These conditions indicate that the manufacturing industry that developed in West Java, which was initially labor intensive, has turned into capital intensive and medium to high technology.

Data from the West Java Province Investment and One-Stop Integrated Service Office (DPMPTSP) noted that in the first quarter of 2021, there were 59 garment companies from South Korea relocating factories from West Java due to the increasing minimum wage (DPMPTSP, 2021). The relocation of large-scale factories out of the region to areas with lower minimum wages, to obtain greater profits by reducing production costs in the form of labor wages.

The results of this study show that the industrial GRDP variable has a positive effect on industrial labor similar to research conducted by Emil & Haryatiningsih (2021). The higher the industrial GRDP, the more labor absorption. The increase in labor absorption is in line with the increase in the output of goods and services. In addition, an increase in GRDP will increase people's income which will increase purchasing power and create demand for industrial goods produced so that it will create new employment opportunities.

The results of this study are in accordance with the theory of labor demand. According to Sumarsono (2003), labor demand depends on consumer demand for goods and services. The increase in labor demand in the company depends on the increase in public demand for the products produced. The greater the output or sales made by the company will encourage an increase in labor to increase production and sales (Pramusinto, 2023).

An important factor in development is the level of productivity. There are a number of people in an economy, and the amount of goods produced and sold in a certain period of time depends on the production process. The higher the GRDP, the more people's income increases. When people's income increases, their purchasing power increases, creating demand for the manufactured goods produced and allowing more industries to create new jobs.

CONCLUSION

Based on the results of the analysis and discussion of the effect of foreign direct investment (FDI) in the manufacturing subsector including the food and beverage industry and the textile and textile products industry on industrial labor, there are several conclusions that can be drawn.

First, FDI in the food and beverage industry has no effect on industrial labor absorption in West Java Province. There are factors that cause foreign investment to have no effect on industrial labor because capital owners invest in production methods to increase product productivity and improve production quality.

Second, FDI in the textile and textile products industry has a significant negative effect on industrial labor absorption in West Java Province. It can be interpreted that when there is an increase in the acceptance of FDI in the textile industry and textile products, it will cause a decrease in industrial employment.

The factors that cause foreign investment to have a negative effect on industrial labor absorption are due to the relocation of factories due to an increase in the minimum wage every year. In addition, these conditions indicate that the manufacturing industry that developed in

West Java, which was initially labor intensive, has turned into capital intensive and medium to high technology. In addition, FDI in West Java tends to contribute to the increase of capital-intensive sector industries.

Third, industrial GRDP has a significant positive effect on industrial labor absorption in West Java Province. the higher the industrial GRDP, the more labor absorption. The increase in labor absorption is in line with increasing the output of goods and services. In addition, an increase in GRDP will increase people's income which will increase purchasing power and create demand for industrial goods produced so that it will create new employment opportunities.

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