



The Effect Of Domestic Investment And Foreign Direct Investment On The Increase Labor Absorption In Indonesia During 2015–2024: An Islamic Economics Perspective

Lora Ayu Agustina¹, Muhammad Iqbal², & M. Yusuf Bahtiar³

¹⁻³Universitas Islam Negeri Raden Intan Lampung, Indonesia.

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Abstract

Purpose: This study aims to analyze the effect of domestic investment and foreign direct investment on employment absorption in Indonesia during the 2015–2024 period from the perspective of Islamic economics.

Methodology: The study employs a quantitative approach using panel data analysis. The data were obtained from Statistics Indonesia (BPS) and the Indonesia Investment Coordinating Board (BKPM).

Findings: The results indicate that both domestic investment and foreign direct investment have a significant effect on employment absorption, both partially and simultaneously. The coefficient of determination of 34.1% suggests that variations in employment absorption can be explained by these two variables, while the remaining 65.9% is influenced by other factors outside the scope of this study. From the perspective of Islamic economics, investment is not solely intended to generate profits but must also uphold the principles of justice, public welfare (maslahah), and social well-being through job creation and the reduction of social inequality. This study is expected to serve as a reference for formulating investment policies that prioritize labor-intensive sectors to increase employment absorption, reduce unemployment, and promote a more inclusive and equitable distribution of welfare in Indonesia.

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Corresponding Author:

Lora Ayu Agustina

Universitas Islam Negeri Raden Intan Lampung, Indonesia.

E-mail: ayucarissa910@gmail.com

A. Introduction

An increase in employment refers to a condition in which the number of individuals participating in various economic sectors rises over a given period, reflecting the

expansion of employment opportunities and economic activity. Labor is a crucial component of the economy, as it serves as a key factor of production and plays a significant role in determining a country's economic efficiency (Etika & Agus, 2021).

During the study period, the realization of domestic investment and foreign direct investment (FDI) in Indonesia continued to increase. This growth occurred across various provinces, particularly in regions characterized by rapid industrial and economic development (Lita & Yunita, 2024). On the other hand, the number of employed individuals also exhibited an upward trend over time. This condition suggests that investment remains one of the key drivers of economic activity and employment expansion in Indonesia. From a theoretical perspective, an increase in capital investment, whether originating from domestic or foreign sources, is expected to stimulate economic development and generate new employment opportunities by facilitating the establishment of new businesses or expanding production capacity (Widya Putra et al., 2022). However, in practice, this relationship is not always straightforward. Although investment may experience substantial growth, it does not necessarily lead to an optimal increase in employment opportunities (Astuti & Gunawan, 2023). In certain circumstances, high levels of investment do not always result in a significant reduction in unemployment. This may occur because some investments are more capital-intensive than labor-intensive and rely more heavily on technology than on human labor (Zar et al., 2024). Therefore, a gap often exists between the expectation that investment will create a large number of jobs and the reality that its impact on employment opportunities may be relatively limited or may only become evident over a longer period of time (Y.Lumban & Joko, 2024).

The total number of individuals aged 15 years and above who were employed across the ten sample provinces increased from 89.09 million in 2015 to 108.92 million in 2024, despite a temporary slowdown during the 2019–2020 period. Provinces on the island of Java accounted for the largest share of the workforce, particularly Central Java, where employment rose from 25.49 million to 29.71 million individuals, East Java from 19.36 million to 23.36 million individuals, and West Java from 18.79 million to 24.41 million individuals. Jakarta also experienced a consistent increase, with employment ranging from 4.7 million to 5.1 million individuals. Meanwhile, Banten, North Sumatra, and West Nusa Tenggara recorded gradual growth in employment, whereas Riau and East Kalimantan exhibited more fluctuating patterns due to their dependence on commodity-based and natural resource sectors. By 2024, the workforce in East Kalimantan had reached approximately 1.9 million individuals, while Riau recorded around 3.15 million employed individuals. High levels of employment absorption play an important role in reducing unemployment, poverty, and social inequality. Consequently, the provision of employment opportunities has become a central focus of Indonesia's economic development policies. Investment constitutes one of the key factors supporting economic growth and enhancing employment absorption. Both domestic and foreign investment are expected to increase production capacity, expand economic activities, and create employment opportunities. Nevertheless, the increase in investment realization in Indonesia has not been fully accompanied by an optimal increase in employment absorption.

The value of domestic investment across the ten sample provinces in Indonesia during the 2015–2024 period exhibited an overall upward trend, despite experiencing fluctuations, particularly in 2020. Jakarta recorded the highest level of domestic investment realization, increasing from IDR 15,512.7 billion in 2015 to IDR 128,402.1 billion in 2024. West Java also demonstrated substantial growth, rising from IDR 26,272.9 billion to IDR 101,552.1 billion, followed by East Java, which increased from IDR 35,489.8 billion to IDR 92,410.1 billion. These figures reflect the strong industrial and economic

activities concentrated on the island of Java. Outside Java, Riau and East Kalimantan experienced considerable increases in domestic investment, rising from IDR 9,943.0 billion to IDR 61,097.6 billion and from IDR 9,611.3 billion to IDR 55,078.9 billion, respectively, by 2024. Banten, South Sumatra, Central Java, and North Sumatra also exhibited positive investment trends. Meanwhile, West Nusa Tenggara experienced relatively sharp fluctuations but ultimately recorded an increase to IDR 43,385.0 billion in 2024. Overall, domestic investment realization in Indonesia remained concentrated in the provinces located on the island of Java, particularly Jakarta and West Java (BPS, 2024).

The realization of foreign direct investment (FDI) across the ten sample provinces in Indonesia during the 2015–2024 period exhibited diverse trends. West Java recorded the highest level of FDI, increasing from USD 5,738.7 million in 2015 to USD 9,972.3 million in 2024, followed by Central Java, where FDI rose from USD 3,398.2 million to USD 5,386.3 million over the same period. The increase in FDI in these manufacturing-based provinces was generally accompanied by growth in domestic investment and employment absorption, as their economies were dominated by labor-intensive industries. Jakarta also experienced a substantial increase in FDI, rising from USD 3,619.4 million in 2015 to USD 7,563.4 million in 2024, despite a temporary decline during the 2019–2021 period. In contrast, resource-based provinces such as East Kalimantan, Riau, and South Sumatra exhibited more volatile FDI patterns that did not always generate a significant impact on employment absorption. East Kalimantan's FDI declined to USD 378.0 million in 2020 before recovering to USD 1,417.1 million in 2024, while Riau reached its highest FDI realization of USD 2,748.7 million in 2022 before decreasing to USD 1,813.3 million in 2024. Meanwhile, South Sumatra recorded FDI of USD 3,330.6 million in 2015, which increased to USD 4,793.7 million in 2024; however, investment was largely concentrated in capital-intensive sectors. Overall, the effectiveness of FDI in enhancing employment absorption was greater in provinces dominated by manufacturing industries than in those relying primarily on primary sectors (BPS, 2024).

Several previous studies have examined the relationship between investment and employment absorption. In Indonesia, a study conducted by Salsabillah Nurul Izza (2025) found that both domestic and foreign investment influence the open unemployment rate on the island of Sumatra (Nurul & Joko, 2025). Similarly, a study by Octavia and M. Afdal Samsuddin (2025) revealed that foreign direct investment affects the unemployment rate in Indonesia, although its impact is not always statistically significant (Octavia & Afdal, 2025). Nevertheless, the findings of these studies remain inconsistent, indicating a research gap regarding the direct effects of both domestic and foreign investment on employment opportunities. Furthermore, most existing studies continue to employ conventional economic approaches, while only a limited number have examined this issue from the perspective of Islamic economics.

Against this background, the novelty of this study lies in integrating the analysis of domestic and foreign investment with employment creation through the lens of Islamic economics. This study also utilizes recent data and panel data analysis to provide more comprehensive and robust findings. In addition, the relationship between investment and employment creation is influenced by labor quality and government policies that foster a more favorable investment climate. Workers with adequate qualifications and educational backgrounds are more likely to be absorbed into productive sectors that expand because of investment. On the other hand, supportive government policies, such as streamlined licensing procedures, tax incentives, and infrastructure development, enhance the effectiveness of investment in generating employment opportunities (Fadlullah, 2023). Therefore, the synergy between investment, labor quality, and public policy constitutes a key factor in promoting greater employment absorption in Indonesia.

Over time, various economic activities have emerged, including investment. From an Islamic perspective, investment is permissible and even encouraged, if it is conducted

in a lawful (halal) and just manner and is directed toward the public interest. Investment is regarded as a means of preparing for the future and anticipating potential uncertainties (Nelda & Amelia, 2025). Investment-related activities have existed since the time of Prophet Muhammad, both in the context of worldly affairs and as preparation for the hereafter. References to investment can also be found in the Qur'an, particularly in Surah Yusuf, verses 46–49. Furthermore, within the framework of Islamic economics, investment must consider sustainability and social responsibility. This view is supported by Ibn Khaldun's theory of production, which explains that the development of economic activities and the division of labor can enhance productivity and expand employment opportunities (Rianto, 2010). Therefore, increased investment is expected to stimulate productive activities, which in turn contribute to greater employment absorption. This indicates that Islam strongly encourages productive economic activities as long as they comply with Islamic principles and legal rulings (Sharia) (Rozalinda, 2014). Investments that not only pursue short-term profits but also consider their social impact and contribution to public welfare are expected to generate broader and more sustainable benefits (Zalfa et al., 2025). Principles such as distributive justice, the prohibition of exploitation, and the promotion of productive economic activities provide the foundation for encouraging high-quality and socially responsible investment (Elif, 2017).

Therefore, integrating conventional economic approaches with the perspective of Islamic economics is expected to provide a more comprehensive understanding of the role of investment in enhancing employment levels in Indonesia. In this regard, the present study aims to evaluate the impact of both domestic investment and foreign direct investment on employment levels, while also examining these relationships through the lens of Islamic economics.

B. Method

This study employs an associative research design using a quantitative approach. The study not only describes phenomena related to the variables under investigation but also examines the relationships and effects of domestic investment and foreign direct investment on employment levels. This approach enables the researcher to conduct a systematic analysis using statistical techniques, allowing the findings to be objectively verified and supported by empirical data. This study utilizes secondary data that have been organized into a panel data format and analyzed using EViews 12 software. Panel data combine time-series and cross-sectional observations, allowing for a more comprehensive analysis of the relationships among variables. The observation period covers ten years, from 2015 to 2024. The population of this study consists of all provinces in Indonesia, while the sample comprises ten provinces: Jakarta, West Java, Central Java, East Java, Banten, North Sumatra, South Sumatra, Riau, East Kalimantan, and West Nusa Tenggara. The sample was selected using a purposive sampling technique, whereby sample units are chosen based on specific criteria relevant to the research objectives. The selection of these ten provinces was based on their relatively large contributions to the realization of domestic investment and foreign direct investment in Indonesia during the observation period. In addition to serving as major centers of national economic activity, these provinces consistently recorded higher investment values compared to other provinces. Therefore, they are considered representative of regions with dominant investment activities, making them suitable for analyzing the relationship between domestic and foreign investment and employment absorption. All data analyzed in this study are quantitative in nature, making them appropriate for the applied research methodology. The data were collected from official sources, including publications issued by Statistics Indonesia (BPS) and the Indonesia Investment Coordinating Board (BKPM), at both the national and regional levels. To strengthen the theoretical and empirical

foundations of the study, various supporting references were also utilized, including books, scientific journals, and other academic sources relevant to the research topic.

C. Results and Discussion

1. Results

Descriptive Analysis Results

The analysis in this study began with descriptive statistical analysis, which aimed to examine the basic characteristics of the research data. Subsequently, the Chow test, Hausman test, and Lagrange Multiplier test were conducted to determine the most appropriate panel regression model. After the optimal model had been selected, hypothesis testing was performed to examine the relationships and effects among the variables.

Table 1. Descriptive Analysis Results

No	Statistical Measure	Employment Absorption	Domestic Investment	Foreign Direct Investment
1	Mean	9813393	3214609	233466.6
2	Median	5075069	2596575	157110.0
3	Maximum	29712182	12840210	997230.0
4	Minimum	1423957	34780.00	13210.00
5	Std.dev	9115447	2467907	190578.6

The descriptive statistical analysis provides an overview of the general patterns and distribution of the data throughout the study period. This preliminary analysis is essential for understanding the underlying characteristics of the dataset and identifying variations among the observed values prior to conducting more advanced analyses. The descriptive statistics results are presented as follows:

- a) The employment absorption variable (PPTK) recorded a mean value of 9,813,393, with a maximum value of 29,712,182 and a minimum value of 1,423,957. The substantial difference between the maximum and minimum values indicates that employment absorption varied considerably across the study period. From an economic perspective, this condition suggests that employment opportunities across provinces are influenced by differences in economic activities and investment levels. Therefore, the government should promote a more balanced distribution of economic development and expand employment opportunities, particularly in sectors capable of absorbing a large workforce. From the perspective of Islamic economics, increased employment absorption reflects efforts to enhance social welfare through productive economic activities.
- b) The domestic investment variable recorded a mean value of 3,214,609, with a maximum value of 12,840,210 and a minimum value of 34,780. The wide disparity between these values indicates that the realization of domestic investment across provinces was uneven during the study period. From an economic perspective, an increase in domestic investment can stimulate production activities and business expansion, thereby increasing the demand for labor. Therefore, the government should strengthen support for domestic investment through streamlined licensing procedures and the development of labor-intensive sectors to enhance employment absorption. This finding is consistent with Ibn Khaldun's view that the growth of capital and economic activity contributes to higher productivity and greater demand for labor (Khodijah et al., 2023).
- c) The foreign direct investment (FDI) variable recorded a mean value of 233,466.6, with a maximum value of 997,230 and a minimum value of 13,210. Although its level of dispersion was relatively lower than that of the other variables, FDI still

exhibited fluctuations throughout the study period. From an economic perspective, this condition indicates that foreign investment remains concentrated in specific sectors or regions, resulting in an uneven impact on employment absorption. Therefore, the government should direct foreign investment toward sectors with greater labor absorption capacity so that the benefits of investment can be more broadly distributed across society. From the perspective of Islamic economics, investment should not be solely profit-oriented but should also generate social benefits through job creation and the improvement of social welfare (Rita et al., 2022).

Overall, the three variables exhibit differences between their mean and median values, indicating that the data are not symmetrically distributed. Furthermore, the relatively large standard deviation values for each variable suggest the presence of considerable variation and fluctuations in the data throughout the study period.

Classical Assumption Tests

Classical assumption tests were conducted to ensure that the panel data regression model used to examine the effects of domestic investment and foreign direct investment (FDI) on employment absorption satisfied the required underlying assumptions. Consequently, the results of the study can be interpreted reliably and accurately.

a) Multicollinearity Test

Table 2. Multicollinearity Test

No	Variable	Domestic Investment	Foreign Direct Investment
1	Domestic Investment	1.00000000	0.69655630
2	Foreign Direct Investment	0.69655630	1.00000000

Based on the results of the multicollinearity test, the correlation coefficient between domestic investment and foreign direct investment was 0.696, which is below the commonly accepted threshold of 0.85. This result indicates the absence of a strong relationship between the independent variables, suggesting that the regression model is free from multicollinearity issues. Therefore, domestic investment and foreign direct investment can be jointly included in the model to examine their effects on employment absorption. From an economic perspective, this finding suggests that the two types of investment possess distinct characteristics and contribute differently to economic activities. Consequently, policymakers should optimize both domestic and foreign investment in a balanced manner to support economic growth and enhance employment absorption. From the perspective of Islamic economics, productive and balanced investment management that adheres to Sharia principles can generate broader economic benefits for society by stimulating business activities and creating employment opportunities.

b) Heteroskedasticity Test

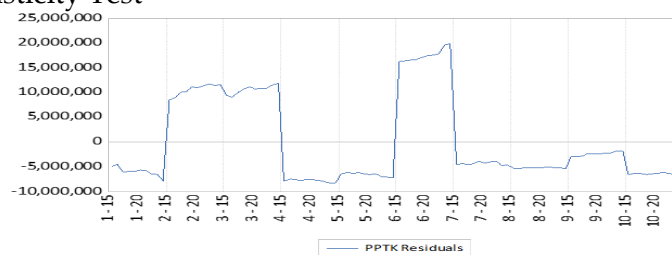


Figure 1. Heteroskedasticity Test

Based on the heteroskedasticity test graph, the residuals exhibit a non-constant pattern with varying fluctuations across observation periods. This finding indicates the presence of heteroskedasticity in the model. In relation to the study variables, it suggests that the effects of domestic investment and foreign direct investment on employment absorption are not stable, resulting in varying levels of prediction error within the regression model. The occurrence of heteroskedasticity in this study is likely attributable to differences in the scale and distribution of investment across regions, which generate varying impacts on employment absorption.

c) Heteroskedasticity Correction

Table 3. Heteroskedasticity Correction

Variable	Coefficient	Std. Error	t-Statistic	Probability
C	8.655.956	3.188.699	2,714573	0,0238
Domestic Investment	0,229465	0,056219	4,081629	0,0028
FDI	1,798107	1,070629	1,679486	0,1274

Based on the heteroskedasticity test results, heteroskedasticity was detected in the research model. The table above presents the estimation results of the Random Effects Model (REM) after correcting for heteroskedasticity using the White Cross-Section Robust Standard Errors method. According to White (1980), the presence of heteroskedasticity may lead to inefficient estimates of coefficient variances, thereby reducing the accuracy of statistical tests. Therefore, this study applies the White Cross-Section Robust Standard Errors method to the Random Effects Model (REM) to address this issue (White, 1980). This method produces consistent and robust standard errors in the presence of violations of the homoskedasticity assumption, ensuring that the resulting t-statistics and probability values remain valid for statistical inference and decision-making. The estimation results after the correction indicate that domestic investment has a positive and statistically significant effect on employment absorption, with a probability value of 0.0028. In contrast, foreign direct investment (FDI) exhibits a positive but statistically insignificant effect, as indicated by a probability value of 0.1274.

Chow, Hausman, and Lagrange Multiplier (LM) Tests

Table 4. Chow, Hausman, and Lagrange Multiplier tests

No	Test Results	Probability
1	Chow	0,0000
2	Hausman	0,5320
3	Lagrange multiplier	0,0000

Based on the results of the Chow, Hausman, and Lagrange Multiplier tests, the most appropriate panel data regression model can be concluded as follows:

- a) The Chow test yielded a probability value of 0.0000, which is lower than the 0.05 significance level. Therefore, the Fixed Effects Model (FEM) was determined to be more appropriate than the Common Effects Model (CEM). From an economic perspective, this result indicates that each province possesses distinct characteristics that influence the relationship between investment and employment absorption. Consequently, policymakers should tailor investment policies to the specific conditions and economic potential of each region. From the perspective of Islamic economics, policies that take regional characteristics into account reflect the principles of justice and equitable welfare distribution.
- b) The Hausman test produced a probability value of 0.5320, which exceeds the 0.05 significance level. Therefore, the Random Effects Model (REM) was determined to

be more appropriate than the Fixed Effects Model (FEM). From an economic perspective, this result suggests that variations across provinces are random in nature and can still be used to explain the relationship between investment and employment absorption. Consequently, policymakers should maintain overall investment stability to promote employment opportunities across different regions. From the perspective of Islamic economics, economic stability constitutes an essential element in achieving *maslahah* (public welfare) and enhancing societal well-being.

- c) The Lagrange Multiplier (LM) test yielded a probability value of 0.0000, which is below the 0.05 significance level. Therefore, the Random Effects Model (REM) was selected as the most appropriate model for this study. From an economic perspective, this result indicates that differences in provincial characteristics continue to influence employment absorption. Consequently, policymakers should promote a more balanced distribution of investment so that its economic benefits can be more widely shared across regions. This finding is consistent with the principles of Islamic economics, which emphasize equitable welfare distribution and the broad dissemination of economic benefits throughout society.

Based on the results of the Chow, Hausman, and Lagrange Multiplier (LM) tests, the Random Effects Model (REM) was identified as the most appropriate panel data estimation model for this study and was therefore selected for subsequent analysis.

Hypothesis Test

- a) T-Test, F-Test, and Coefficient of Determination (R^2) Test

Table 5. T-Test, F-Test, and Coefficient of Determination (R^2) Test

Variable	Coefficient	t-Statistic	Prob.	Decision
C	8655910.	2.836991	0.0055	H_0 Rejected
Domestic Investment	0.229456	4.477567	0.0000	H_0 Rejected
FDI	1.798350	1.722075	0.0882	H_0 Accepted
R-squared	0.341090			Model explanatory power: 34,1%
Adjusted R-squared	0.327504			
F-statistic	25.10641			H_0 Rejected
Prob(F-statistic)	0.000000			

The partial estimation results indicate the contribution of each independent variable to the dependent variable, which can be explained as follows:

- Based on the results of the t-test, the domestic investment variable (PMDN) has a probability value of 0.0000, which is lower than the 0.05 significance level, with a coefficient value of 0.229456. Therefore, the null hypothesis (H_0) is rejected, and the alternative hypothesis (H_1) is accepted. This result indicates that domestic investment has a positive and statistically significant effect on employment absorption. From an economic perspective, an increase in domestic investment can stimulate production activities and business expansion, thereby increasing the demand for labor. Therefore, policymakers should strengthen domestic investment by supporting productive and labor-intensive sectors. This finding is consistent with the perspective of Islamic economics, which views productive investment as a means of enhancing social welfare through the creation of employment opportunities. Meanwhile, the foreign direct investment (FDI) variable has a probability value of 0.0882, which exceeds the 0.05 significance level. Therefore, the null hypothesis (H_0) is accepted, and the alternative hypothesis (H_1) is rejected. This

result indicates that foreign direct investment does not have a statistically significant effect on employment absorption. From an economic perspective, this finding suggests that foreign investment has not yet been fully effective in generating employment opportunities, as it tends to be concentrated in capital-intensive sectors. Therefore, policymakers should encourage foreign direct investment to be directed toward sectors with greater labor absorption capacity. From the perspective of Islamic economics, investment should not be solely profit-oriented but should also provide social benefits to society.

- The results of the F-test show that the Prob(F-statistic) value is 0.000000, which is lower than the 0.05 significance level. Therefore, the null hypothesis (H_0) is rejected, and the alternative hypothesis (H_1) is accepted. This indicates that domestic investment and foreign direct investment jointly have a statistically significant effect on employment absorption. From an economic perspective, this finding demonstrates that investment plays an important role in stimulating economic activity and expanding employment opportunities. Therefore, policymakers should maintain investment stability and promote investment growth to enhance employment absorption more effectively. From the perspective of Islamic economics, productive investment activities can contribute to the realization of public welfare (maslahah) and social well-being.
- The R-squared value of 0.341090 indicates that 34.1% of the variation in employment absorption can be explained by the domestic investment and foreign direct investment variables, while the remaining 65.9% is explained by other factors outside the research model. From an economic perspective, this finding suggests that employment absorption is influenced not only by investment but also by other factors, such as economic growth, wages, education, and the number of industries. Therefore, policymakers should take these supporting factors into account when formulating strategies to increase employment opportunities. This is consistent with the concept of Islamic economics, which emphasizes the balance of various economic aspects in achieving comprehensive social welfare.

2. Discussion

The Effect of Domestic Investment on Labor Absorption

Based on the results of the partial test (t-test), the domestic investment variable has a positive and statistically significant effect on employment absorption. This is evidenced by a probability value of 0.0000, which is below the 0.05 significance level, and a regression coefficient of 0.229456. Therefore, the alternative hypothesis (H_1) is accepted, indicating that an increase in domestic investment is associated with a significant increase in employment absorption. More specifically, the coefficient value of 0.229456 suggests that a one-unit increase in domestic investment tends to increase employment absorption by 0.229456 units, holding all other variables constant. This finding confirms that domestic investment makes a direct contribution to job creation and employment opportunities within the study area.

The findings of this study are consistent with the neoclassical growth theory, which emphasizes that capital accumulation is a fundamental factor in enhancing economic output. Furthermore, according to the theory developed by Paul Samuelson, domestic investment refers to capital investment undertaken by domestic economic agents in various productive assets. Such investment contributes to increasing production capacity and promoting sustainable economic growth (Boediono, 2012). The results of this study are also in line with the findings of Rista Y. Lumban Gaol and Joko Suharianto, who reported that domestic investment has a positive and significant effect on employment absorption. Domestic investment continues to play an important role in absorbing local

labor, possibly because it is better able to adapt to local economic conditions and labor market characteristics (Y.Lumban & Joko, 2024).

The substantial impact of domestic investment on job creation can be understood from the fact that such investment is generally directed toward labor-intensive sectors. Domestic investment typically flows into manufacturing, trade, construction, and small and medium-sized enterprises (SMEs), all of which require a considerable workforce (Eka et al., 2024). In addition, domestic investors tend to have a better understanding of local labor market conditions, enabling them to recruit workers from the surrounding communities more effectively. Furthermore, in line with the endogenous growth theory proposed by Paul Romer, investment serves as a key factor in expanding productive capacity and stimulating economic growth through capital accumulation and improvements in labor productivity (Mai & Hendra, 2026). In this context, domestic investment not only functions as a source of capital accumulation but also acts as a catalyst for economic activity, ultimately leading to increased demand for labor. As domestic investment rises, productivity also increases, indicating that firms require a larger workforce to support their production and operational activities (Diana et al., 2025). Moreover, the findings of this study are consistent with the Harrod-Domar theory, which emphasizes that investment, through increased output and capital accumulation, is a primary driver of economic growth. Growth in domestic investment enhances production capacity and directly generates new employment opportunities (Sumitro, 1993). Therefore, higher levels of domestic investment tend to strengthen the capacity of economic sectors to absorb labor.

Moreover, the impact of domestic investment on employment opportunities is generally observed more quickly in the short to medium term compared to other types of investment, as it does not require complex technological adaptation processes. Thus, domestic investment becomes one of the most crucial elements in reducing unemployment rates and improving community welfare (Rastri & Ratna, 2017). This research source indicates that investment originating from within the country is a key factor in creating job opportunities. Therefore, government efforts to stimulate domestic investment such as simplifying approval procedures, providing tax incentives, and supporting small and medium-sized enterprises are very important for increasing employment opportunities.

The Effect of Foreign Direct Investment on Labor Absorption

Based on the partial hypothesis test (t-test) results, Foreign Direct Investment (FDI) does not have a significant effect on labor absorption, as indicated by a p-value of 0.0882, which exceeds the 0.05 significance level. Despite possessing a positive coefficient of 1.798350, these findings demonstrate that FDI has not yet been able to make a tangible contribution to increasing labor absorption.

Theoretically, the results obtained are not fully consistent with the theoretical foundations of your study. According to the neoclassical growth theory (Solow model), foreign investment is expected to enhance production and generate employment through capital accumulation and technological advancement (Arini & Novi, 2025). In addition, Todaro and Smith argue that foreign investment also contributes to the expansion of productive capacity, which in turn increases the demand for labor. From an empirical perspective, this can be explained by the fact that foreign direct investment (FDI) tends to flow into capital-intensive and high-technology sectors, which rely more on machinery than on human labor (Elizabet et al., 2025). Furthermore, the labor required by foreign investment is generally skill-specific (skilled workers), meaning that not all local workers are able to participate. This condition limits the contribution of FDI to employment creation (Arif et al., 2024). On the other hand, the regional economic context, which is still

in a developing stage, may also act as a constraining factor, as foreign investment tends to prioritize production efficiency rather than job creation. Therefore, the impact of foreign direct investment on employment generation is not yet significant in this study, even though theoretically it plays an important role in economic development.

Thus, the findings of this study indicate that foreign direct investment (FDI) has not been able to exert a significant impact on job creation. Therefore, policy measures are needed to better direct foreign investment so that it can support employment generation as well as improve the quality of the local workforce. Empirically, this result can be explained by the fact that most FDI inflows in Indonesia tend to be concentrated in capital-intensive and technology-based sectors, such as large-scale manufacturing industries, mining, and the energy sector, which rely more on machinery and automation than on human labor. This condition implies that increases in foreign investment are not always accompanied by a significant rise in labor absorption. In contrast, labor-intensive sectors such as the textile industry, agriculture, and micro, small, and medium enterprises (MSMEs) rely more heavily on human labor and therefore have a higher capacity for employment absorption (Rusdy & Ade, 2025). Consequently, increases in FDI do not necessarily translate into a significant increase in employment opportunities.

In addition, the quality of human resources in several regions of Indonesia is still not fully aligned with the needs of foreign industries, which generally require skilled labor with specific technological competencies. As a result, foreign companies tend to be more selective in hiring workers or rely more on technology to enhance production efficiency (Dewi, 2020). Therefore, the impact of Foreign Direct Investment (FDI) on employment absorption has not been optimally observed in this study. This is consistent with the study conducted by Yogi Hermawan Setya Budi and Maulidiah Indira Hasmarini (2025), which finds that FDI has a negative effect on employment absorption (Setya & Indira, 2025).

Based on the estimation results using the Random Effect Model (REM), the F-statistic probability value is 0.000000, which is less than 0.05. This result indicates that, simultaneously, Domestic Investment and Foreign Direct Investment have a significant effect on employment absorption during the 2015–2024 period. Therefore, the model used in this study is considered appropriate for explaining the relationship between investment variables and employment absorption. More specifically, over the 2015–2024 period, the development of both domestic and foreign investment shows dynamics that contribute to changes in employment absorption. The increase in Domestic Investment in several years within this period tends to be followed by an increase in production activities and the expansion of domestic businesses, thereby driving higher labor demand. On the other hand, Foreign Direct Investment (FDI) also fluctuates, but its contribution to employment absorption is not always directly observable. In relation to the partial test (t-test) results, it is found that only Domestic Investment has a significant effect, while FDI does not. This indicates that although both variables are jointly significant, the main contribution in explaining employment absorption during the 2015–2024 period comes from Domestic Investment. Meanwhile, FDI plays a complementary role in the model but does not exert a strong individual effect.

D. Conclusion

Based on the results of the analysis regarding the effect of Domestic Investment and Foreign Direct Investment on the increase in employment absorption in Indonesia, with the research areas covering DKI Jakarta, West Java, East Java, East Kalimantan, Riau, Central Java, Banten, South Sumatra, North Sumatra, and West Nusa Tenggara, it can be concluded that both variables jointly have a significant effect on employment absorption. However, on an individual basis, only Domestic Investment is proven to have a positive and significant effect, while Foreign Direct Investment (FDI) does not show a significant

impact. Although FDI plays a role in promoting economic growth, its contribution to employment absorption in this study has not been clearly evident.

This study indicates that the government needs to increase domestic investment by improving the investment climate and providing support for labor-intensive sectors to expand employment opportunities. In addition, the government should also direct foreign investment toward sectors that are more capable of absorbing labor. This study has limitations in terms of the sample size, which only covers 10 provinces with the highest levels of investment, as well as the use of variables that are still limited to domestic investment and foreign direct investment. Therefore, future research is expected to employ a broader regional scope and include more extensive variables.

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F. Author Contributions Statement

The authors contributed substantially to all stages of this research, including the conception and design of the study, data collection and analysis, interpretation of the findings, and the preparation, revision, and finalization of the manuscript.

G. Conflict of Interest

The authors declare that there are no conflicts of interest that could have influenced the conduct of this research, the interpretation of the findings, or the presentation of the results.

H. AI Usage Statement

The authors used Artificial Intelligence (AI) technology in a limited capacity to assist with the translation of text from Indonesian into English. AI was employed solely as a language-support tool and did not contribute to the development of ideas, research design, data analysis, interpretation of findings, or the formulation of conclusions. All content, analyses, and interpretations presented in this manuscript remain the sole responsibility of the authors. The authors carefully reviewed and edited all AI-assisted translations to ensure their accuracy, clarity, and academic appropriateness.

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