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The Effect of Poor Population, Open Unemployment Rate, and Domestic Investment on Labor Absorption in East Java in 2020–2024

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A B S T R A C T

Labor absorption remains a problem in several provinces in Indonesia, particularly East Java. This study aims to analyze the influence of the poor population, the Open Unemployment Rate (TPT), and domestic investment (PMDN) on labor absorption in East Java during 2020–2024. The study employed panel data from 38 districts/cities and used a fixed-effects model (FEM) regression, based on the Chow and Hausman tests. The results show that the poor population and TPT have a negative and significant effect on labor absorption, while domestic investment has a positive and significant effect. Simultaneously, all three variables are significant and able to explain 69.68% of the variation in labor absorption. Consequently, PMDN investment is needed to optimize labor absorption and reduce poverty and unemployment.

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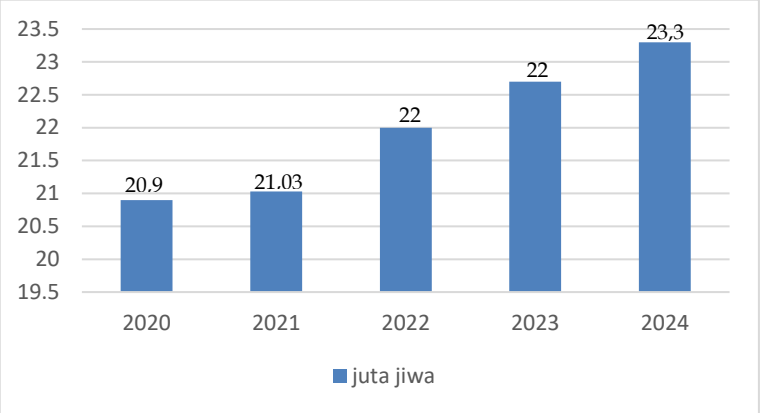
INTRODUCTION

Efforts to improve public welfare are the primary goal of implementing economic development in developing countries. However, Indonesia, as a developing country, still faces fundamental challenges, particularly related to high levels of unemployment and poverty. According to Sandika et al (2014), this condition is inseparable from the development inequality between regions. Differences in economic structure and regional development levels cause job opportunities to be unequally distributed, thus creating gaps in job opportunities between regions (Kuncoro, 1997). This phenomenon is indicated by the inequality of job opportunities between regions in East Java Province.



Source: BPS JATIM 2024 (processed).

Figure 1. Labor Absorption Data in East Java, 2020-2024.

Based on data from the Badan Pusat Statitstik (BPS) of East Java Province for the period 2020 to 2024, there was an increasing trend in labor absorption in East Java Province throughout the period 2020 - 2024. This phenomenon indicates a phase of economic recovery after the COVID-19 pandemic, as conveyed by Putri & Wicaksono (2023). In the initial period, specifically in 2020, the total workforce absorbed reached 20.9 million people. This figure then showed a positive movement with an increase to 21.03 million people at the end of the year.

Entering the post-pandemic economic recovery era, the labor market in East Java is showing positive dynamics. The East Java BPS (2024) noted that this transition was marked by the resumption of operations in most business sectors, although the recovery was not yet fully stable. Subsequently, 2022 saw a sharper surge, with the number of workers reaching 22 million. This increase indicates a stronger economic recovery, particularly as informal workers, such as those in trade and services, began to fully recover from large-scale social restrictions (Anggara & Alfahma, 2025). Entering 2023, the number of workers increased to 22.7 million, indicating continued labor market growth, albeit at a slightly slower rate than the previous year.

This positive trend continued until 2024, when the number of workers absorbed reached 23.3 million. This reflects increasingly stable economic conditions and increased job absorption across various sectors. Overall, the data shows that labor absorption in East Java has experienced continuous growth year after year. In line with the regional economic recovery post-COVID-19, job opportunities in East Java have increased. Previously, only around 20.9 million

people had job opportunities, but this number has since increased to 23.3 million (BPS, 2024).

Table 1. Data on the Working Population in 3 Regencies in East Java for the 2020-2024 Period.

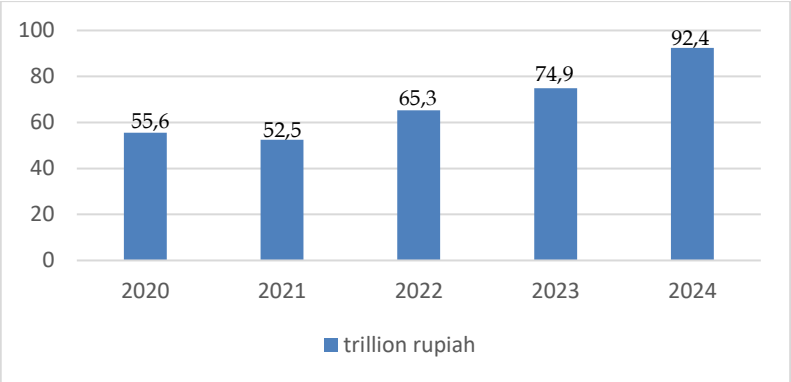
Regency Year	2020	2021	2022	2023	2024
Trenggalek	411.7	397.5	389.7	462.2	464.7
Tulungagung	578.7	573.4	563.8	627.9	650.3
Ponorogo	490.9	500,9	498.8	565.7	5.92.3

Source: BPS JATIM 2024 (processed).

Furthermore, labor dynamics in three regencies in East Java showed fluctuating conditions throughout 2020 and 2024. Trenggalek, Tulungagung, and Ponorogo regencies experienced diverse patterns. According to Anggara & Alfahma (2025), these three regions experienced fluctuations in labor absorption capacity as a result of COVID-19. This health crisis triggered mass layoffs in the formal sector, which in turn increased unemployment and encouraged workers to shift to the informal sector. Nevertheless, in aggregate, East Java recorded a positive trend in labor absorption capacity during the 2020-2024 period. Theoretically, labor absorption can be explained through Keynes's effective demand theory, where the level of employment depends on the available aggregate demand Keynes (2018). If aggregate demand increases through investment and consumption, more jobs are opened and unemployment is suppressed. However, certain sectors may require specialized skilled labor that is not available to the local population. As a result, despite investment inflows, local labor absorption is not optimal (Matsuura & Saito, 2023). Weakening sectors include trade and large-scale industry (Anggara & Alfahma, 2025). For example, Trenggalek's workforce declined from 411.7 thousand in 2020 to 389.7 thousand in 2022. However, from 2023 to 2024, all three regions showed a recovery trend, with employment increasing again following the end of the Large-Scale Social Restrictions (PSBB) period, leading to the re-absorption of formal workers. Consequently, these three regions experienced an increase in the employed population: Trenggalek Regency reached 464.7 thousand, Tulungagung Regency reached 650.3 thousand, and Ponorogo Regency reached 592.3 thousand.

This phenomenon reflects post-pandemic economic recovery, but also reveals structural issues in the three regencies. BPS (2025), fluctuations in the workforce are influenced by the dominance of the informal sector, which is vulnerable to economic shocks. The low quality of human resources (the majority of whom have secondary or lower education) also hampers regional productivity and competitiveness. The lack of labor-intensive investment and limited economic diversification also slows the creation of new jobs.

By increasing production capacity, investment has the potential to open new job opportunities and accelerate economic growth. However, the impact of investment on labor absorption depends on the characteristics of the targeted sector.



Source: BKPM 2024 (processed).

Figure 2: Domestic Investment Data in East Java 2020-2024.

Based on BKPM data from 2020 to 2024, fluctuations in domestic investment (PMDN) from year to year indicate instability in the economic climate that could potentially impact a region's ability to create jobs. Therefore, it is necessary to re-examine the relationship between the poor population, the open unemployment rate, and PMDN investment on labor absorption capacity based on previous research findings. Various previous studies have analyzed the factors influencing labor absorption capacity, poverty, unemployment rates, and PMDN investment. The results of previous studies have shown empirical inconsistencies. Several studies, such as those by Ramly et al (2023), found that PMDN investment had a positive and significant effect on labor absorption capacity because it increased production capacity and expanded employment opportunities. Meanwhile, Jaya & Kholilah (2020) found a negative effect of PMDN investment on labor absorption capacity. Meanwhile, research by Yustitia et al (2022) indicates that poverty and unemployment rates are related to labor absorption capacity. However, several other studies have shown that these two variables have no significant effect on labor absorption.

These differing empirical findings indicate that the relationship between poverty, unemployment, and investment levels on labor absorption remains inconsistent. Therefore, further studies are needed to reconfirm the relationship between these three variables, particularly in East Java Province during the 2020-2024 period, which experienced quite complex economic dynamics following the COVID-19 pandemic. The theoretical rationale for selecting these research variables is that poverty is a structural factor that influences labor quality according to the poverty cycle theory (Nurkse, 1953). The urgency of this research lies in efforts to boost labor absorption in East Java, which is a real solution to reducing poverty and unemployment and strengthening the regional economic structure.

THEORETICAL REVIEW

Employment theory in Pristiyanto (2024), the concept of labor market theory introduced by John Maynard Keynes is known as Effective Demand Theory. This theory is an important part of the Keynesian macroeconomic approach, which explains how aggregate demand plays a role in determining the level of production and employment opportunities in an economy. The main point of this

theory is that the level of economic activity and labor absorption is influenced by the size of aggregate demand for finished goods and commercial services. When aggregate demand decreases, the business world reduces production and the number of workers, which ultimately leads to unemployment.

The poverty cycle theory, introduced by R. Nurske (2018), describes the poverty cycle as a concept introduced by Wijayanti (2018). The poverty cycle theory explains that developing countries are like poor people. Because they cannot meet their needs, low productivity and low incomes lead to poverty.

This view is further reinforced by Susanto & Pangesti (2019), who argue that the poverty cycle theory demonstrates that socioeconomic underdevelopment and limited capital lead to low levels of human productivity. Low productivity results in minimal income, which in turn limits people's ability to save and invest. These investments can take the form of investments in human resources through education, along with investments in physical capital, as reflected in consumption levels.

Model Selection Test

In the literature, three assumptions are commonly used in panel data regression modeling. In line with Widarjono's view Iqbal (2015), the three estimation models commonly used to process panel data are as follows:

Chow Test

In panel data regression analysis, the Chow test compares the fit between (CEM) and (FEM). This test aims to detect significant differences between districts/cities as cross-sectional units. The hypotheses proposed in the Chow test are:

*H*0: The best model is CEM

*H*1: The best model is FEM

Hausman Test

The Hausman test compares the fit between (FEM) and (REM). The main purpose of this test is to detect whether there is a correlation between the independent variables and the unobserved error components in the REM model. The hypotheses proposed in the Hausman test are:

*H*0: The best model is REM

*H*1: The best model is FEM

Lagrange Multiplier Test

The Lagrange Multiplier Test (LM Test) is used to select the REM or CEM model in panel data analysis. The LM test helps identify the presence of random effects in panel data. Therefore, the hypotheses used are as follows:

*H*0: The best model is CEM

*H*1: The best model is REM

Classical Assumption Test

According to Gujarati (2021), this study conducted a classical assumption test to ensure the model met the blue criteria. To meet the blue criteria, the model

must be robust to the classical assumption test. The following are the classical assumptions:

Multicollinearity Test

According to Napitupulu et al (2021), a multicollinearity test is conducted by examining the correlation coefficient between independent variables. Multicollinearity is a condition where there is a perfect or definite linear relationship between independent variables in a regression model. As a reference, if the correlation coefficient between independent variables exceeds 0.80, this indicates strong multicollinearity and requires attention, as it can cause unstable regression coefficient estimates and a tendency for standard errors to increase.

Heteroscedasticity Test

According to Napitupulu et al (2021), the heteroscedasticity test examines whether residual values in a model have a variable or fixed variance. A suitable model has a fixed residual variance. Heteroscedasticity symptoms occur because the residual variance is unstable at the X (independent) variable level. However, this problem can render partial and simultaneous tests irrelevant.

Hypothesis Testing

1. Partial t-Test

According to Gujarati (2021), the t-test in statistical decision-making is based on a comparison of probability values (p-values) with $\alpha = 0.05$. If the p-value is less than 0.05, H_0 is rejected, and the independent variable is declared to have a significant effect. Conversely, if the p-value is greater than 0.05, then H_0 cannot be rejected, meaning there is insufficient evidence to confirm a statistical effect for the variable at the 5% significance level.

2. F Test (Simultaneous)

According to Gujarati (2009), the F test is used to test the significance of the effect of all independent variables simultaneously on the dependent variable. The null hypothesis (H_0) in the F test is that all regression coefficients are equal to zero, meaning there is no simultaneous effect. If the calculated F-value > F-table or the p-value < 0.05, then H_0 is rejected, indicating that the regression model is suitable for use.

3. Coefficient of Determination (R^2)

According to Gujarati (2009), the coefficient of determination (R^2) measures the proportion or percentage of total variation in the dependent variable that can be explained by the independent variables in the regression model. The R^2 value ranges between 0 and 1. The closer it is to 1, the greater the ability of the independent variables to explain the variation in the dependent variable. Conversely, if the R^2 value is close to 0, the independent variables are very limited in explaining the variation in the dependent variable.

METHODOLOGY

This study aims to quantitatively examine the influence of the number of poor people, the open unemployment rate, and domestic investment on labor

absorption. A quantitative approach was chosen because of its ability to provide objective results through statistical analysis of structured numerical data.

The data analyzed in this study were sourced from the (BPS). Among the data obtained from this agency are statistics on the poor population. The open unemployment rate, the state of the labor force in East Java, and domestic investment data were obtained from the (BKPM). As data providers, BPS and BKPM have distinct roles: BPS provides national data that supports the national economic and social policy process, while BKPM presents investment realization data and accelerates realization by connecting the interests of the government and the business world. By using data from these two official institutions, this study is expected to have a high level of accuracy and validity because it is sourced from nationally standardized data.

This study uses labor absorption as the dependent variable, with the number of poor people, the open unemployment rate, and domestic investment as the independent variables. Data processing was carried out using actual data. To simplify interpretation and ensure more consistent estimates, data on the poor population, domestic investment (PMDN), and labor absorption were transformed into logarithms.

This study uses panel data regression to test the partial and simultaneous effects of independent variables on the dependent variable. Estimation was performed using Stata 17 through the stages of model selection (Chow and Hausman tests), classical assumption tests (heteroscedasticity and multicollinearity tests), and hypothesis testing. Gujarati (2009) defines panel data as a combination of cross-sectional and time series data with the same observation unit observed periodically, thus capturing behavioral dynamics across time and between individuals. Based on the established analytical method, the panel data regression equation model in this study is formulated as follows:

$$Log\_PTK_{it} = \alpha + \beta_1 Log\_PM_{it} + \beta_2 TPT_{it} + \beta_3 Log\_PMDN_{it} + \varepsilon_{it}$$

Which one :

Log_PTK_{it} = Labor Absorption
α = Constant
Log_PM_{it} = Poor Population
TPT_{it} = Open Unemployment Rate
Log_PMDN_{it} = Domestic Investment
$\beta_1, \beta_2, \beta_3$ = Regression Coefficient
i = Crossection (City/Regency)
t = Time Series Unit (2020-2024)
ε_{it} = *Error Term*

RESULTS

Estimation Model Selection

Chow Test

Table 2. Chow Test Results

F test that all u_io: F (37, 149) = 129.41	Prob > F=0.000

Source: Stata 17 Output Results

The Chow test results obtained a probability of 0.0000, which is less than 0.05. Therefore, the selected and most appropriate model for panel data analysis in this study is (FEM).

Hausman Test

Table 3. Hausman Test Results

Prob > Chi2 = 0.0000

Source: Stata 17 Output Results

The Hausman test yielded a probability of 0.0000, which is less than 0.05. Therefore, the selected and most appropriate model for panel data analysis in this study is the Fixed Effect Model (FEM).

Classical Assumption Test
Multicollinearity Test

Table 4. Multicollinearity Results

	Log_Y	**Log_X1**	**X2**	**Log_X3**
Log_Y	**1.000**			
Log_X1	**0.922**	**1.000**		
X2	**-.043**	**-0.184**	**1.000**	
Log_X3	**0.509**	**0.307**	**0.299**	**1.000**

Source: Stata 17 Output Results.

The test results show that the probability value (prob > chi²) exceeds the 0.05 significance level. This indicates that there is no significant difference in residual variance between observations, indicating that the residuals are homoscedastic. Therefore, it can be concluded that the regression model used is free from heteroscedasticity. By fulfilling this classical assumption, the model is deemed suitable for further analysis.

Heteroscedasticity Test

Table 5. Heteroscedasticity Test Results

Chi2 (1)	= 1.37
Prob > Chi2	= 0.2420

Source: Stata 17 Output Results.

The test results show that the probability value (prob > chi²) exceeds the 0.05 significance level. This indicates that there is no significant difference in residual variance between observations, indicating that the residuals are homoscedastic. Therefore, it can be concluded that the regression model used is free from heteroscedasticity. By fulfilling this classical assumption, the model is deemed suitable for further analysis.

FEM Regression Results

$$\boldsymbol{Log\_PTK_{it}} = 13.462 - .13279\ \boldsymbol{Log\_PM_{it}} - .02174\boldsymbol{TPT_{it}} + 01990\boldsymbol{Log\ PMDN_{it}} + \varepsilon_{it}$$

Referring to the regression equation, the following interpretation can be obtained:

The constant of 13.462 indicates that if the number of poor people, the open unemployment rate, and domestic investment are all at zero, then labor absorption is estimated to average 13.46%. This value reflects the baseline condition of labor absorption that occurs without the influence of these three independent variables.

The poverty coefficient (X1) of -.13279 indicates that every 1% increase in the poor population will decrease labor absorption by 0.13%, assuming other variables are held constant. This finding indicates that an increase in the poverty population can hinder labor absorption due to low human resource quality, limited access to education and training, and a lack of skills, which ultimately reduces competitiveness in the labor market.

The TPT coefficient (X2) of -.021744 indicates that every 1% increase in the open unemployment rate will cause a decrease in labor absorption by 0.021%, assuming other variables remain constant. These findings indicate that the rising unemployment rate reflects weakening labor market conditions, which ultimately limit the economic sector's ability to absorb labor.

The Domestic Investment Coefficient (X3) of 0.01990 indicates that every 1% increase in Domestic Investment will increase labor absorption by 0.01%, assuming other variables remain constant. This finding indicates that increased Domestic Investment plays a role in stimulating economic activity and expanding employment opportunities, although its impact on labor absorption is relatively small. This indicates that domestic investment tends to be directed more toward capital-intensive sectors than labor-intensive ones, resulting in an increase in labor absorption that has not been optimal.

Hypothesis Testing

F-Test (Simultaneous)

Table 6. Simultaneous F Test

F (3.149)	**= 4.27**
Prob > F	**= 0.000**

Source: Stata 17 Output Results.

Based on the estimation results listed in the table, the F-statistic probability value is 0.000. This value is less than the 0.05 significance level, so the null hypothesis (H_0) is rejected. Therefore, it can be concluded that simultaneously, the number of poor people, the open unemployment rate (TPT), and domestic investment significantly influence labor absorption.

Partial t-test

Referring to Appendix 3, the p-value of 0.005 for the poverty rate variable indicates that the poverty rate has a significant effect on labor absorption at the 5% significance level. This confirms a strong relationship between the poverty

rate and labor absorption. The negative coefficient for the poverty rate of -.13279 indicates that every 1% increase in the poverty rate tends to be followed by a decrease in labor absorption of approximately 0.13%, assuming other variables remain constant.

The p-value of 0.000 for the open unemployment rate (TPT) variable indicates that the TPT has a significant effect on labor absorption at the 5% significance level. This confirms a strong relationship between the TPT and labor absorption. The negative coefficient for the TPT of -.21744 indicates that every 1% increase tends to be followed by a decrease in labor absorption of approximately 0.021%, assuming other variables remain constant.

The p-value of 0.000 for the PMDN Investment variable indicates that PMDN Investment has a significant effect on labor absorption at the 5% significance level. Thus, there is empirical evidence that PMDN investment influences employment in this regression model. The positive coefficient value of .01990 indicates that every 1% increase in PMDN investment will lead to a 0.01% increase in employment, assuming other variables remain constant.

Determination Coefficient (R^2)

Table 7. Results of the Determination Coefficient (R^2) Test

R- squared:	
Within	= 0.4538
Between	= 0.7999
Overall	= 0.6968

Source: Stata 17 Output Results.

Table 7 presents a coefficient of determination (R^2) value of 0.6968. This figure indicates that 69.68% of the variation in labor absorption can be explained by variations in the three independent variables: the poverty rate, the open unemployment rate (TPT), and domestic investment. This indicates that the model has a fairly strong predictive ability for the phenomenon studied. The remaining 30.32% is contributed by other factors not included in this study.

DISCUSSION

The Influence of Population on Employment

Poverty is defined as the condition of those whose average monthly per capita expenditure falls below the poverty line, determined based on the basic needs approach. Based on the statistical analysis obtained in this study, the number of poor people has been shown to have a significant negative impact on employment. This indicates that an increase in the number of poor people can hinder employment due to the low quality of human resources, limited access to education and training, and a lack of skills. These conditions reduce the competitiveness of the workforce in the job market, thus limiting employment opportunities.

Empirically, this condition is also reflected in the dynamics of poverty in East Java. According to data from the (BPS), the number of poor people in East Java remains relatively high compared to other provinces in Indonesia, although it has

been gradually decreasing in recent years. In 2024, the number of poor people in East Java will remain at around 3.9 million. This high number of poor people is largely concentrated in rural areas and areas with an economic structure still dominated by the informal sector. This situation indicates that some people still face limitations in obtaining productive employment and earning a decent income. The findings of this study align with the cycle of poverty theory proposed by Nurkse (1953), which states that poverty is a complex set of interrelated and mutually reinforcing conditions. Low income leads to limited access to education, health care, and skills training, thus maintaining the low quality of human resources. This ultimately leads to limited employment opportunities and low labor productivity, which in turn reinforces poverty.

This phenomenon is evident in several regencies in East Java that still have relatively high poverty rates, such as Sampang and Bangkalan Regencies. These areas generally face limited formal employment opportunities, low education levels, and the dominance of the traditional economic sector. As a result, the majority of the workforce works in the informal sector with relatively low productivity, thus limiting the absorption of qualified labor.

Furthermore, research by Masniarita & D. Vitale (2016) also shows that limited access to education in poor households results in low productivity and income, which further reinforces intergenerational poverty. The results of this study are also consistent with the findings of Arrazaq (2024), who stated that poverty has a negative and significant impact on labor absorption, particularly in the manufacturing sector on the island of Java.

Thus, poverty can be viewed as a structural factor hampering labor market performance. The high number of poor people not only reflects low community welfare but also indicates fundamental problems in the quality of the workforce. Therefore, poverty alleviation efforts through improving the quality of education, job training, and expanding economic opportunities are important strategies for increasing labor absorption and encouraging more inclusive economic growth in East Java.

The Effect of the Open Unemployment Rate on Labor Absorption

The Open Unemployment Rate (TPT) is an employment indicator that reflects the percentage of the labor force that is unemployed but is trying to find work or starting a business. The TPT reflects the balance between the number of job seekers and the availability of jobs in an economy. The higher the TPT value, the greater the proportion of the labor force that is not absorbed in productive economic activities.

Based on the statistical analysis obtained in this study, the Open Unemployment Rate (TPT) has a negative and significant impact on labor absorption. This means that an increase in the open unemployment rate is accompanied by a decrease in the number of workers absorbed. Empirically, this finding indicates that high unemployment reflects the weak capacity of the labor market to create or provide new job opportunities. This condition indicates an imbalance between labor force growth and job growth.

This phenomenon is also evident in employment conditions in East Java. According to data from the (BPS), the open unemployment rate in East Java increased in 2020 due to the economic slowdown following the COVID-19 pandemic. However, in recent years, the TPT has shown a downward trend in line with the recovery of economic activity. Nevertheless, the continuously increasing labor force each year means that competition in the labor market remains intense, so not all workers can be optimally absorbed.

This research finding aligns with the employment theory proposed by John Maynard Keynes, through his Effective Demand Theory, which states that the level of labor absorption is strongly influenced by aggregate demand in the economy. When demand for goods and services decreases, companies tend to reduce production, thereby reducing the need for labor. As a result, the unemployment rate will increase.

In addition to economic cycles, the high unemployment rate (TPT) can also be influenced by structural factors, such as a mismatch between workforce skills and industry needs (skill mismatch). The development of East Java's economic structure, which is increasingly shifting toward the manufacturing industry, modern services, and a technology-based economy, demands a workforce with higher competencies. If the quality of education and training cannot meet these needs, a portion of the workforce may not be absorbed even though job opportunities are available (Brunello & Wruuck, 2021)

Empirically, this phenomenon is evident in several large cities in East Java, such as Surabaya and Malang, which have a relatively large educated workforce of around 600,000 (BPS, 2025). The high number of secondary and tertiary education graduates is not always accompanied by the availability of jobs that match their qualifications, so some educated workers still face the risk of unemployment.

The results of this study align with research by Vidiana & Setyowati (2023), which showed that the TPT has a negative and significant effect on labor absorption in East Java. This means that the rising unemployment rate tends to reduce the labor market's ability to absorb workers. This situation confirms that although the Open Unemployment Rate (OPT) in East Java is showing a downward trend, challenges to labor absorption remain due to high labor force growth and the unmet need for skilled workers.

Thus, open unemployment not only reflects the state of the economic cycle but also indicates structural problems in the labor market. Therefore, improving the quality of education, strengthening job training programs, and developing economic sectors capable of creating productive jobs are crucial steps to increase labor absorption in East Java.

The Impact of Domestic Investment (PMDN) on Employment

Domestic investment (PMDN) is an activity by domestic investors to operate businesses in Indonesia. Examples include factory construction, business expansion, purchasing machinery and equipment, or developing service and trade sectors. In regional development, PMDN provides financing that stimulates economic activity and creates new jobs.

Based on the statistical tests in this study, PMDN investment has been shown to have a positive and significant impact on employment. This indicates that increased domestic investment realization will be followed by an increase in the number of workers absorbed. In other words, the greater the inflow of domestic investment, the greater the economic sector's ability to absorb labor.

This condition is also reflected in investment developments in East Java, which have continued to show a positive trend in recent years. According to data from the Investment Coordinating Board and the Central Statistics Agency, realized PMDN investment in East Java has reached over IDR 51 trillion and has created over 100,000 jobs. The significant investment value is distributed largely across the manufacturing, trade, and service sectors, which are labor-intensive and contribute significantly to regional job creation.

The positive relationship between investment and employment can be explained by increased production capacity. When investment increases, companies tend to expand, open new production units, or increase production scale. This process directly increases the need for labor, both skilled and unskilled. Furthermore, investment also creates a multiplier effect in the economy, where the growth of one sector stimulates the growth of other related sectors, creating additional job opportunities (Paramita & Christianingrum, 2022).

This finding aligns with the theory put forward by John Maynard Keynes, which states that the level of employment is strongly influenced by aggregate demand in the economy. Increased investment will increase demand for goods and services, thus encouraging companies to increase production. This increased production activity will ultimately increase the need for labor.

Empirically, the impact of investment on employment is also evident in industrial areas in East Java, such as Gresik Regency, Sidoarjo Regency, and Pasuruan Regency, which are centers of manufacturing industry development. The influx of domestic investment into the region has driven industrial growth and expanded employment opportunities for the surrounding community.

The results of this study align with previous research by Mustika & Khairani (2025), which stated that the realization of domestic investment has a positive and significant impact on labor absorption in Indonesia. This means that the greater the domestic investment realized in various economic sectors, the greater the number of workers absorbed in production and business activities.

Therefore, domestic investment can be viewed as a crucial factor in increasing labor absorption in East Java. Increased investment not only drives regional economic growth but also expands employment opportunities and improves community welfare through increased economic activity in various sectors.

CONCLUSIONS AND RECOMMENDATIONS

Based on the conclusions drawn from this study, several strategic recommendations can be put forward for consideration by future policymakers, namely:

1. The poverty rate has a significant negative impact on labor absorption. These results confirm that an increase in the number of poor people significantly reduces the labor absorption rate. Therefore, integrated efforts

are needed by local governments to reduce poverty rates by improving the quality of human resources, expanding access to education and job training, and creating sustainable, productive jobs.

2. The open unemployment rate (TPT) has a significant negative impact on labor absorption. These results confirm that an increase in unemployment significantly reduces the labor absorption rate. Therefore, policies are needed that focus on expanding employment opportunities through increased investment, development of labor-intensive sectors, strengthening training programs, and improving workforce skills to meet labor market needs.
3. Domestic investment (PMDN) has a positive and significant impact on labor absorption, meaning that higher PMDN investment results in higher labor absorption rates. Therefore, local governments need to encourage increased PMDN investment oriented toward labor-intensive sectors, simplify licensing processes, and ensure equitable investment distribution across regions to sustainably increase labor absorption.
4. Simultaneously, the number of poor people, the open unemployment rate, and domestic investment significantly influence labor absorption. Therefore, increasing labor absorption cannot be achieved in isolation but requires integrated policies that address poverty alleviation, unemployment reduction, and sustainable optimization of domestic investment.

FURTHER STUDY

For future researchers, it is recommended to add other relevant variables, such as minimum wages, education levels, economic growth, or local government spending, to obtain a more comprehensive picture of the factors influencing labor absorption. Furthermore, future research can use a longer time period, different analytical methods, or expand the scope of the research area to increase the accuracy of the results and identify differences in characteristics between regions.

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