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Analysis of the Influence of Foreign Labor, Local Labor, and Investment on the Gross Regional Domestic Product of Central Java Province

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Abstract

Economic globalization has driven increased investment flows and labor mobility across countries, including Indonesia, which is one of the main destinations for foreign investors and workers in Southeast Asia. This study aims to analyze the influence of foreign workers (TKA), local labor (TKL), and investment on the Gross Regional Domestic Product (GDP) in Central Java Province. This study uses secondary data in the form of numerical data from 2013 to 2023, which was collected in the period December 2024 to March 2025. Data sources include GDP on a constant price basis (ADHK), the number of licensed foreign workers, and local workers who work. The analysis was carried out by multiple linear regression using the EViews 12 software. The results of the study show that the local workforce has a positive and significant influence. Foreign investment (PMA) also has a significant and positive effect on GDP, while domestic investment (PMDN), although it has a positive effect, is not statistically significant. On the other hand, foreign workers did not show a significant influence on Central Java's GDP, which indicates that the contribution of foreign workers is still limited in encouraging regional economic growth.

Keywords: Foreign Labor, Local Labor, Investment, GDP, Central Java, Economic Growth, Multiple Linear Regression.

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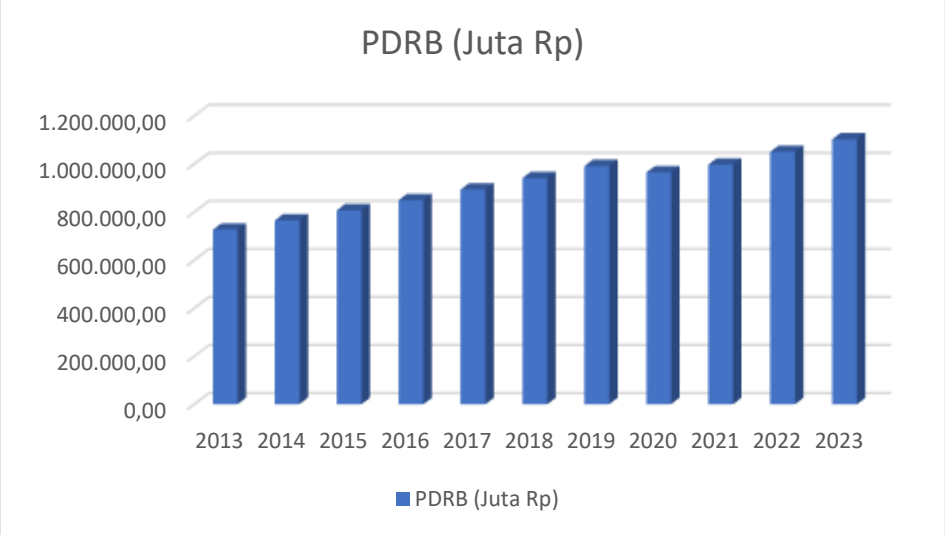
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INTRODUCTION

Economic globalization is a crucial issue where globalization encourages investment and labor flows across countries, economic globalization makes Indonesia one of the main destinations in Southeast Asia. Along with the opening of the global market and the implementation of the ASEAN Economic Community (AEC) since 2015, the entry of foreign workers into Indonesia is a real reality and is even able to play an important role in the economy in Indonesia (Fajriawati , 2019).

Regional growth is the main key to national economic growth, with each region needing to develop superior sectors based on its characteristics. Central Java shows significant economic growth supported by equitable development, district/city contributions, and resource management by the provincial government. The Central Java Provincial Government plays an important role in directing development and facing challenges to increase domestic production and community welfare (Cape Et Al. , 2024).

Figure 1 GDP of Central Java Province 2013 – 2023



Source : Central Statistics Agency, Central Java Province, 2023

GDP is an important indicator to assess the economic strength of a region in a given period, reflecting the ability of the region to manage resources as well as the seriousness of the local government in encouraging development (Tanjung et al.). The Central Java GDP chart shows an upward trend every year, although it had decreased by 0.03% in 2020 due to the impact of the COVID-19 pandemic, to 965,227.27 million

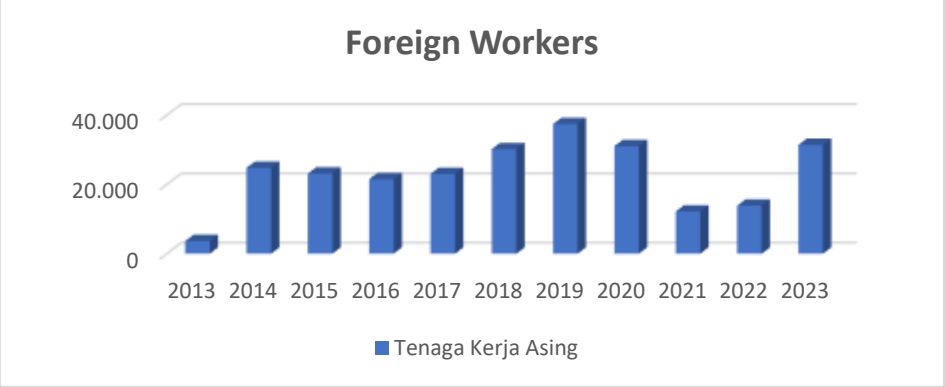
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rupiah. However, GDP reached its peak in 2023 of 1,102,473.58 million rupiah. This increase was influenced by increased investment, growth in the industrial sector, as well as labor involvement, including foreign workers who contributed to the increase in industrial production.

According to. The existence of foreign workers (TKA) in Indonesia has both positive and negative impacts. Positively, foreign workers can contribute to increasing the company's production, which has an impact on regional and national income growth. However, negatively, the presence of foreign workers has the potential to reduce employment opportunities for local workers, which can affect national economic conditions. Therefore, the regulation of foreign workers is regulated in Permenaker Number 16 of 2015, which states that companies must have a permit to use foreign workers from the Ministry of Manpower, and must regulate and prioritize the absorption of local labor over foreign workers. (Rizky, 2020)

Figure 2 Foreign Workers in Central Java Province in 2013-2023



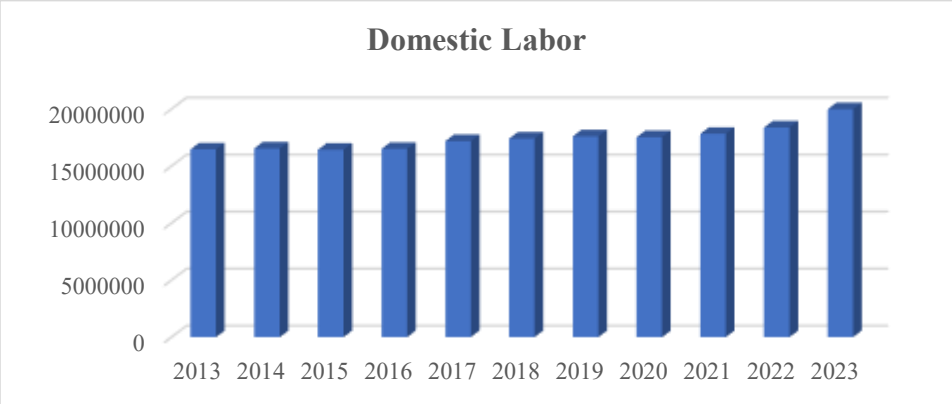
Data : BPS (data processed)

With the development of the global market, Central Java also feels the impact through the entry of foreign workers (TKA), which is reflected in the data of work permit holders. The number of foreign workers in this region shows fluctuations from year to year. The peak occurred in 2019 with 37,456 foreign workers, then decreased drastically in 2021 to 12,193 due to the COVID-19 pandemic which hampered global economic activities. In addition to the pandemic, the dynamics of the number of foreign workers are also influenced by the investment climate conditions and regulations that apply during that period.

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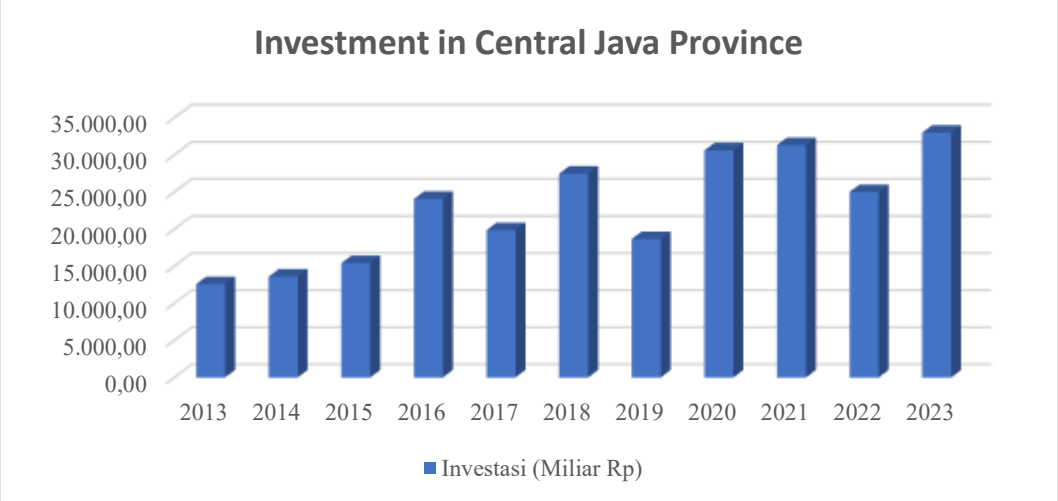
Figure 3 Domestic Labor in Central Java Province in 2013 - 2023



Data : BPS (data processed)

Based on BPS data (data processed), the problem of job opportunities is often a challenge in development, especially when the growth of the labor force is not proportional to the creation of jobs (Rikko, in his thesis). This imbalance can lead to an increase in the unemployment rate. In Central Java Province, the number of workers tends to increase from year to year. In 2019, it was recorded as many as 17,602,917 people, then decreased by 0.37% in 2020 due to the impact of the pandemic. However, the upward trend occurred again in the following years, with the peak in 2023 reaching 19,988,875 people.

Figure 4 Investment in Central Java Province



Source : BPS (data processed)

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Sustainable economic growth requires strong capital support, both through Domestic Investment (PMDN) and Foreign Investment (FDI). In Central Java, the realization of investment from these two sources fluctuates in terms of value and growth rate. Investment plays an important role in regional development, as it can increase production capacity, create new capital goods, and create jobs, ultimately reducing unemployment and poverty. Therefore, local governments need to create a conducive investment climate through policies that support and strengthen infrastructure (Source). However, the effectiveness of investment is highly dependent on the quality of its management, so efficient and sustainable planning and implementation are needed to ensure the maximum impact of each investment value that comes in. (Hamid Shahab Et Al., 2025)

Based on Figure 4, investment in Central Java shows fluctuations from year to year, but still shows an overall upward trend. The lowest investment was recorded in 2019 of 18,654.70 billion rupiah, while the highest value occurred in 2023 of 32,987.20 billion rupiah. Despite the ups and downs, this positive trend reflects increasing investor confidence in the investment climate in Central Java. This also shows that the province has a stronger economic attractiveness, both for domestic investment (PMDN) and foreign investment (PMA).

Regional economic growth is the main indicator to assess regional development performance, which is generally measured through Gross Regional Domestic Product (GDP). Central Java BPS data shows a trend of increasing GDP from year to year, although it fluctuates due to the dynamics of investment, employment, and other external factors. In regional development, GDP is not only influenced by consumption and exports, but also heavily dependent on investment and labor. This is in line with Solow's Neoclassical theory of economic growth (1956), which states that the growth of economic output is determined by capital, technological advances, and labor. Empirically, increasing investment realization, both PMDN and PDI, is one of the main factors driving regional economic growth.

Increased investment ideally contributes directly to GDP growth through the addition of production capacity and the multiplier effect, where investment encourages increased consumption, production, and job creation (Keynes, 1936; Mankiw, 2014). However, in Central Java, the trend of GDP growth has not always been in line with increased investment, raising questions about the effectiveness of the absorption and management of available capital. In addition, the involvement of foreign workers (TKA) in national strategic projects also affects regional economic dynamics. Based on global

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human capital theory (Becker, 1993), high-skilled foreign workers can accelerate the diffusion of technology and increase production efficiency. Even so, the presence of foreign workers also raises concerns about the employment opportunities of local workers. Meanwhile, the local workforce has great potential, but its productivity is not necessarily optimal. Within the framework of human capital theory, improving the quality of human resources through education and training is the key to increasing economic output. This is reinforced by the theory of derived demand, which states that labor demand arises as a result of demand for output. Therefore, the contribution of labor to GDP is highly dependent on the level of productivity and the effectiveness of its utilization.

Based on previous data and research, there is a lack of studies that comprehensively discuss the contribution of foreign workers, local labor, and investment to the Gross Regional Domestic Product (GDP) in Central Java Province, even though these three variables have a strategic role in encouraging regional economic growth. Therefore, an in-depth analysis is needed to understand the extent of the influence of each variable in efforts to strengthen the regional economy.

LITERATURE REVIEW

Neoclassical Economic Growth Theory

The Neoclassical theory of economic growth by Robert Solow (1956) states that long-term growth is determined by investment, labor, and technological advancement. Economic outputs such as GDP are influenced by a combination of capital and labor, with models using the Cobb-Douglas production function and the assumption of a "constant return to scale". Therefore, the increase in both local and foreign labor and capital accumulation will have a positive impact on regional output growth. This view is reinforced by Mankiw (2014), who states that a country's standard of living and economic growth is determined by the level of productivity, which is influenced by physical capital, the quality of human resources, and technological advances.

Human Capital Theory

The theory of human capital emphasizes the importance of individuals as the main asset in the organization. According to Rio N. et al. (2022), human capital includes knowledge, skills, experience, creativity, and innovation that add value to organizations, including social, emotional, and cultural aspects. This theory was first developed by Theodore W. Schultz and further developed by Gary S. Becker, who stated that investments in education, training, and health will increase individual productivity. Thus,

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human capital is a key element in encouraging economic growth, organizational sustainability, and competitiveness in the market. (Tuberose Et Al., 2022)

Global Human Capital Theory

The Human Capital Theory developed by Gary S. Becker emphasizes that investment in education, training, health, and work experience can directly increase productivity, income, and well-being of individuals and the economy. Becker views education and training as a form of capitalization of human resources that results in returns in the form of efficiency and increased revenue. Globally, human capital is a key factor in the country's competitiveness in facing modern economic dynamics. He also emphasized that improving the quality of the workforce is a rational decision based on the calculation of long-term costs and benefits, just like investment in physical capital (Becker , 1993)

Labor Mobility Theory

The theory of labor migration explains that workers tend to move from low-wage countries to high-wage countries until wage convergence is achieved, which overall increases global output because marginal product of labor (MPL) is higher in destination countries. Krugman emphasized that labor mobility increases global efficiency and productivity, although it can lead to uneven income redistribution. George J. Borjas, through the Roy Model, explained that migration is a process of self-selection based on economic incentives and is a form of human capital investment. Foreign workers consider the long-term economic benefits rather than the cost of migration. The impact of foreign workers depends on the skills brought. Skilled foreign workers contribute greatly to productivity, economic growth, and technology transfer. Therefore, the existence of foreign workers is relevant to be analyzed in relation to GDP as an indicator of the structural transformation of the workforce.

Labor Demand and Supply Theory

In the labor market, there is an interaction between the supply and demand of labor. Simanjuntak (1998) states that labor demand is the relationship between the number of workers demanded and the wage level, which is determined by the needs of the company. This demand depends on public demand for goods or services produced by the company. When people's consumption of a product increases, companies will need more labor to increase productivity (Dani Pramusinto & Akhmad Daerobi, 2019). This

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concept is known as *derived demand*, which is the demand for labor that arises as a result of increased demand for goods or services. (Borjas, 2013)

Harrod-Domar's Investment Theory

Based on Harrod-Domar's theory and Keynesian multiplier, Domestic Investment (PMDN) has an important role in supporting the economic growth structure of a region. Therefore, the effectiveness of PMDN needs to be improved through selective and efficient allocation, with a focus on high-value-added and labor-intensive sectors that are able to absorb labor on a large scale and sustainably.

RESEARCH METHODS

Research Location

The research was carried out in Central Java Province. The selection of Central Java as the location of the study was based on its national economic significance, complex investment and employment dynamics, and the availability of supporting data to be empirically analyzed. The combination of these factors makes Central Java a relevant, strategic, and representative research object to be studied.

Data and data sources

This study uses secondary data, the secondary data used covers the period 2013-2023 and collects from December 2024 – March 2025. Data in the form of numerical data to measure the relationship between foreign workers, foreign workers, investment, and GDP. The source of information consists of GDP based on Constant Prices (ADHK), foreign workers (who have work permits), and local workers who are currently working obtained from BPSProvinsi Central Java. Meanwhile, data on investments that are PMDN and PMA are obtained from the Central Statistics Agency (BPS).

Data Analysis

The analysis method is used to test existing hypotheses. This study used multiple linear regression analysis, using the Eviews 12 software. To find patterns of relationships between various variables, use a statistical technique commonly referred to as multiple linear regression analysis. (Scott, 2021)

In this study, multiple linear regression equations can be obtained as follows:

$$\boldsymbol{PDRB = \alpha + \beta_1 TKA + \beta_2 TKL + \beta_3 PMDN + \beta_3 PMA + e}$$

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Information:

MTKA	= Gross Regional Domestic Product
α	= Constant
β_1TKA	= Regression Coefficient of Foreign Labor
β_2TKL	= Local Labor Regression Coefficient
β_3 PMDN	= PMDN Regression Coefficient
β_3 PMA	= PMA Regression Coefficient
e	= Disruptive Variable (error)

RESULTS

Classic Assumption Test

Multicoloniality Test

Table 1 Multicollinearity Test Results

Variable	VIVID	Conditions	Information
TKA (X1)	1.338088	≤ 10	Multicollinearity Does Not Occur
TKL (X2)	2.047228	≤ 10	Multicollinearity Does Not Occur
PMDN (X3)	2.476042	≤ 10	Multicollinearity Does Not Occur
PMA (X4)	1.643155	≤ 10	Multicollinearity Does Not Occur

Source : Eviews *12 data processing*

Referring to the results in the table, it is known that the VIF value of each independent variable is ≤ 10. It can be concluded that the relationship between the free variables is still at normal limits and does not show excessive influence on each other.

Heteroscedasticity Test

Table 2 Heteroscedasticity Test Results

Prob. Chi-Square (4)	Sig
0.0596	0.05

Source : Eviews *12 data processing*

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Based on the table above, the results of the heteroscedasticity test show the value of Prob. The chi-square is 0.0596, which is greater than the significance level of 0.05. Therefore, H0 is accepted, indicating that there are no symptoms of heteroscedasticity in the regression model. Thus, the data is declared to be spread normally and meets one of the classic assumptions of regression.

Normality Test

Table 3 Normality Test Results

Jarque-Bera	Probability	Sig
0,859022	0,650827	0.05

Source; Eviews *data processing 12*

Referring to the table above, it can be seen that the probability value is 0.650827. This indicates a probability value > 0.05, so it can be said that the data follows a normal distribution.

Autocorrelation Test

Table 4 Autocorrelation Test Results

Prob. Chi-Square (2)	Sig
0,3744	0.05

Source : Eviews *12 data processing*

Referring to the table, that the value of Prob. Chi Square = 0.3744, which means > 0.05. This means that there is no autocorrelation problem in the regression model.

Multiple Linear Regression Analysis
Partial test (t-test)

Table 5 Results of the t-test (partial)

Variable	**t-Table**	**t-Count**	**Probability**
Y (PDRB)			
X1 (TKA)	2,447	0.544917	0.6055
X2 (TKL)	2,447	5.005977	0.0024

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X3 (PMDN)	2,447	2.052743	0.0859
X4 (PMA)	2,447	3.106925	0.0209

Source : Eviews *12 data processing*

The following is a summary of the results of the hypothesis test on the variables that affect the GDP in Central Java Province:

Foreign Workers (TKA)

The t-statistical value of 0.544917 and the probability of 0.6055 > 0.05 show that TKA does not have a significant effect on GDP in Central Java.

Local Labor (TKL)

With a t-statistic of 5.005977 and a probability of 0.0024 < 0.05, TKL has been proven to have a positive and significant influence on GDP, which means that local labor plays an important role in driving regional economic growth.

Domestik Investment (PMDN)

PMDN has a t-statistic of 2.052743 and a probability of 0.0859 > 0.05, so it does not have a significant effect on GDP. However, the trend remains positive but not strong enough to show significant influence.

Foreign Investment (FDI)

With a t-statistic of 3.106925 and a probability of 0.0209 < 0.05, FDI has a positive and significant effect on GDP in Central Java, showing the importance of foreign investment in encouraging economic growth in the region.

Simultaneous Test (F Test)

Table 6 F Test Results (Simultaneous)

F-Statistics	Probability
39,00149	0,000198

Source : Eviews *12 data processing*

Based on the calculation results, it was found that the F-calculation was worth 39.00149 > F-table was worth 4.53, and the probability value was 0.000198 < 0.05. It can be interpreted that simultaneously the variables of TKA, TKL, PMDN, and PMA have a significant influence on the GDP in Central Java Province. This means that the four

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variables el can collectively explain the fluctuations in GDP over the period 2013–2023. With a probability value of 0.000198 (< 0.05), the regression model used proved to be feasible to explain the variation in GDP in the region.

Coefficient of Determination Test (R2)

Table 7 Results of the Decimination Coefficient Test

R-squared	Adjusted R-squared
0.962964	0.938274

Source : Eviews *12 data processing*

Based on the results of the analysis, the value of the determination coefficient (R^2) of 0.962964 shows that 96.3% of the variation in Central Java's GDP for the 2013–2023 period can be explained by independent variables, namely TKA, TKL, PMDN, and PMA. The remaining 3.7% is influenced by factors outside the model. The Adjusted R^2 value of 0.938274 reinforces that the model remains accurate even after adjusting for the number of variables and observations, so that it does not overfit and can be relied upon to draw conclusions.

DISCUSSION

The Influence of Foreign Labor on Gross Regional Domestic Product (GDP)

The results of the analysis show that the TKA variable has a coefficient of 0.010067 with a probability value of 0.6055 (> 0.05), so that statistically it does not have a statistically significant effect on the GDP in Central Java Province. Although the relationship is positive, the contribution of foreign workers to economic growth has not been proven to be real during the observation period. This indicates that the presence of foreign workers has not provided a substantial boost to the increase in regional added value, possibly due to the limitations of their role in certain sectors or technical positions.

These findings are in line with human capital theory and the study of Lestari & Caroline (2021), which states that although the influence of foreign workers (TKA) on economic growth is not necessarily statistically significant in the short term, their existence still has the potential to drive growth through skill transfer and increased production efficiency, especially if supported by the right employment policies. These results are also in line with the findings of Aida et al. (2021), which show that foreign workers, such as those from China, have a symbolic positive impact on the economy,

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although their substantial influence is still limited. In addition, Fajriawati (2018) highlights the dualism of the influence of foreign workers, namely on the one hand increasing efficiency and skill transfer, but on the other hand having the potential to reduce job opportunities for local workers. Therefore, the effectiveness of foreign workers on GDP is highly dependent on the number, quality of expertise, and economic sectors entered. In Central Java, the optimization of the role of foreign workers needs to be directed as knowledge transfer agents that can synergize with the development of local labor capacity, not just as a complement.

The Influence of Local Labor on Regional Domestic Product (GDP)

The regression results showed that Local Labor (TKL) had a positive and significant effect on Central Java's GDP, with a coefficient of 1.273 and a probability of 0.0024 (< 0.05). This means that an increase in TKL by 1% is estimated to increase GDP by 1.27%. These findings confirm the important role of the local workforce, not only in terms of numbers, but also in terms of productivity in strategic sectors such as industry, agriculture, and trade.

These results are in line with the research of Novianto and Atmanti (2013), which showed that an increase in the labor force by 1% can raise GDP by 2.35% significantly, supporting the view that labor drives economic growth according to Neoclassical and Human Capital theories. Setijawan et al. (2021) also found that productive labor contributes significantly to economic growth in Central Java. These findings confirm that the labor-intensive sector is highly dependent on the quality and availability of local labor, so improving human resource competence and productivity is an important strategy for sustainable economic development.

The Effect of Domestic Investment on Gross Regional Domestic Product

The regression results showed that the PMDN variable had a coefficient of 0.098740 with a probability of 0.0859, which means that it had a positive effect but was not significant at the significance level of 5%, although it could be considered significant at the level of 10%. An increase in PMDN by 1% is estimated to increase GDP by 0.098%. However, the influence is relatively weaker than that of local workers and PMAs.

This finding is in line with the research of Winarni et al. (2020) which states that PMDN has a positive but insignificant effect on economic growth in Central Java. However, these results are different from the study of Setijawan et al. (2021) which found that PMDN has a significant impact, especially through productive sectors such as the

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processing and trade industries. This difference is likely due to variations in research periods, analytical approaches, and fluctuations in PMDN realization between years and sectors. However, based on Harrod-Domar's theory and Keynesian multiplier, PMDN still plays an important role in supporting the structure of economic growth. Therefore, the effectiveness of PMDN needs to be increased through selective, efficient, and focused allocation on high-value-added and labor-intensive sectors.

The Effect of Foreign Investment on Gross Regional Domestic Product

The results of regression analysis showed that the PMA variable had a coefficient of 0.070877 with a probability of 0.0209, which means that it had a positive and significant effect on Central Java's GDP at a significance level of 5%. This means that an increase in FDI by 1% is expected to increase GDP by 0.071%. Although the impact is not as large as the local workforce, these results confirm that foreign investment remains an important factor in driving regional economic growth

This study is in line with the findings of Aida et al. (2021), which show that FDI, especially from China, has a positive influence on the Indonesian economy, although its contribution is not dominant. A similar thing was also found by Sutawijaya (2007), who concluded that FDI contributes significantly to long-term economic growth. This consistency supports the Neoclassical theory of growth (Solow, 1956), which emphasizes the role of investment in capital accumulation to drive output, as well as the Keynesian multiplier theory, which states that foreign investment creates a chain effect on job creation, consumption, and purchasing power. Although FDI has proven to be significant, its effectiveness remains dependent on the destination sector, project quality, and technology transfer. Therefore, the Central Java Provincial Government needs to encourage FDI to strategic sectors such as the processing, energy, and technology industries to create added value and strengthen the regional economic structure in a sustainable manner.

CONCLUSION

Based on the research objectives and analysis results, it can be concluded that economic growth in Central Java Province is significantly influenced by local labor, PMDN, and PMA, with local labor showing the most dominant influence on GDP, reflecting the importance of labor quality and productivity in driving regional economic growth. FDI is also significant and positive, confirming the role of foreign investment in expanding production capacity and creating jobs, although its effectiveness depends on

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sectoral distribution and technology transfer. Meanwhile, PMDN has a positive but not statistically significant effect, which shows that its impact on economic growth has not been optimal, possibly due to inefficient investment allocation. The foreign workers did not show a significant influence on GDP, indicating that their contribution was still limited, both because of their small number and because of the limited role in certain sectors.

SUGGESTION

Based on the findings of the research, it is recommended that the Central Java Provincial Government optimize the potential of the local workforce through training, competency improvement, and certification relevant to industrial needs in order to strengthen the productive sector and regional competitiveness. Efforts to strengthen PMDN need to be carried out through improving regulations, fiscal incentives, and allocating investment to labor-intensive sectors with high added value. For FDIs, the government needs to attract investment to priority sectors such as manufacturing, technology, and energy, on the condition that technology transfer and utilization of local labor are used. The use of foreign workers should be focused as a catalyst for increasing the capacity of local human resources, not as a substitute, with strict supervision so that they are only placed in positions with special expertise. In addition, regular policy evaluation and monitoring as well as data-driven policy formulation are needed to ensure inclusive, sustainable, and broadly beneficial economic growth for the community.

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