

CHAPTER V

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

From the findings of the ARDL estimation, it is clear that the effect of macroeconomic variables on employment opportunity in Indonesia differs in some ways. Economic growth is negatively associated with employment opportunity, meaning that economic growth in Indonesia has not been inclusive in respect to labor absorption. Jobless growth is evident from the negative association, implying that even though there has been growth in output, there has been no proportional increase in employment opportunities. Neither has industrialization nor FDI had any significant impact on labor absorption since they have not been significantly correlated with employment opportunity. GCF has been positively related with labor absorption, implying that capital accumulation influences the growth in employment opportunity in Indonesia.

Temporal-wise, the findings reveal that there are differences between the effects for each variable. While the effects of economic growth on employment opportunity remain positive and significant in both the short run and the long run with the same sign, which implies that increasing output would also increase employment opportunities even in the short run, the effects of industrialization, FDI, and GCF on employment opportunity remain insignificant for the short run. Long run-wise, the effects of economic growth on employment opportunity become negative and significant, implying jobless growth, while those of GCF become positive and significant. Industrialization and FDI remain insignificant in the long run. Overall, these findings suggest that employment opportunity in Indonesia is shaped more by the quality of growth and long-term capital accumulation than by industrialization or foreign investment alone.

5.2 Recommendation

Based on the findings of this study, several recommendations can be proposed for future research and policy development related to employment opportunity in Indonesia.

First, from an academic perspective, this study shows that the relationship between macroeconomic variables and employment opportunity is not uniform. The results indicate that gross capital formation has a positive and significant long-run effect, while economic growth has a negative and significant long-run effect but a positive and significant short-run effect. Meanwhile, industrialization and foreign direct investment are not found to have significant effects on employment opportunity in the estimated model. These findings contribute to the literature by showing that employment creation in Indonesia is influenced not only by the pace of growth, but also by the structure and quality of investment. Therefore, future studies are recommended to develop a more detailed analysis by using a sectoral approach, alternative indicators of employment, or disaggregated labor market data in order to better explain the mechanism of job creation.

Secondly, regarding the policy implications drawn from the findings, the conclusion can be reached that any effort to increase employment opportunities in Indonesia cannot depend on economic growth only. This is because it is possible for economic growth to occur without an equal amount of labor absorption, hence the need for a growth path which would be both inclusive and employment intensive. Therefore, policies that would ensure productive gross capital formation would have to be prioritized, particularly investments that can create positive employment linkages. Meanwhile, industrialization and foreign direct investment policies must not only consider increasing production, but also the employment-generating capacities of these policies. The importance of considering this becomes more pronounced amid changing technologies, automation, and AI where certain jobs might become obsolete whereas other more complex skills will be required.

Third, for future research, it is advised that additional variables which could help in better understanding capital-labor substitution dynamics should be considered, including capital-intensity, technology adoption, automation, AI, labor productivity, and changes in employment structure, among others. Another area for future research would be conducting a comparative analysis between Indonesia and other developing economies which have a similar economic and labor profile,

thereby deriving more general conclusions about the effect of growth, investments, and technology on employment opportunities.

