

## **EVALUATION OF THE IMPLEMENTATION OF THE JOB CREATION LAW ON LABOR ABSORPTION IN INDONESIA (PERIOD 2020–2025)**

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### **Abstract**

This study aims to evaluate the implementation of Law Number 11 of 2020 concerning Job Creation on the absorption of labor in Indonesia during the 2020–2025 period. The birth of the Job Creation Law is expected to be able to accelerate investment and expand employment, especially after the COVID-19 pandemic which has reduced the participation rate of the national labor force. However, the effectiveness of this policy still raises debate, both in terms of the substance of the regulation and its impact on the welfare of workers. This study uses a literature review method by examining secondary data sourced from the Central Statistics Agency (BPS), the Ministry of Manpower (Kemnaker), the Ministry of National Development Planning/Bappenas, as well as the results of previous research published in the 2020–2025 period. The analysis was carried out descriptively by comparing trends in the labor force participation rate (TPAK), open unemployment rate (TPT), and absorption of formal-informal sector labor before and after the implementation of the Job Creation Law. The results of the study show that the Job Creation Law has a positive impact on increasing investment and job creation in several labor-intensive sectors, but still faces challenges in protecting workers' rights, skills gaps, and dominance of the informal sector. In the perspective of *maqāṣid al-sharī‘ah*, the implementation of this policy needs to be directed at the fulfillment of the principles of justice and benefit so that job creation also has implications for the quality of work and the welfare of workers.

**Keywords:** Job Creation Law, labor absorption, literature review, Indonesian employment, *maqāṣid al-sharī‘ah*.

## INTRODUCTION

Employment is one of the main pillars of economic development because it is directly related to community welfare, income equity, and social stability. In the Indonesian context, the challenges of labor absorption have become complex, especially after the global economic shocks and the COVID-19 pandemic that affected the structure of the labor market. Official data from the Central Statistics Agency (BPS) shows fluctuations in labor market indicators since 2020; Despite the recovery in several indicators in 2023–2025, the proportion of workers in the informal sector remains significant and job quality is still a major policy issue (Badan Pusat Statistik, 2025; Husna et al., 2024; Riski Murdani, 2024; SY et al., 2024, 2024; Yantika et al., 2025)

To respond to the need for regulatory reform and accelerate post-pandemic economic recovery, the government passed Law Number 11 of 2020 concerning Job Creation (Job Creation Law). This law adopts an *omnibus law* approach that aims to harmonize, simplify, and harmonize various regulations that are considered to hinder investment. The stated goal is to improve bureaucratic efficiency, strengthen the investment climate, and accelerate job creation through ease of licensing and legal certainty. However, the ratification and implementation of this law triggers pros and cons related to the balance between job creation and the protection of workers' rights (Prasetyo, 2024).

Government reports and publications report mixed results. Bappenas and related ministries noted an increase in investment in several sectors that had an impact on job creation, while the Ministry of Manpower presented technical data on employment indicators such as the level of participation and absorption of formal labor. On the other hand, implementation at the regional level and the understanding of micro business actors on the new provisions are still real implementation challenges (Ministry of PUPR, 2025a).

The academic literature shows mixed results: some studies have found the positive effects of the Job Creation Act on investment and absorption in certain subsectors, but many studies have also shown that an increase in the quantity of employment is not automatically followed by an improvement in job quality, real wages, or social security. The main criticism focuses on shifting regulations that give flexibility to employers but can reduce worker protection, for example in PKWT arrangements, outsourcing, and severance pay (Ari Endrawati, 2024)

Theoretically, the analytical framework in this study refers to the economic development literature that highlights the relationship between growth, investment, and labor absorption (e.g. Todaro & Smith) who emphasized that formal job creation requires a combination of investment, upskilling (human capital), and structural changes in the economy in order for the shift from the informal sector to be effective. In addition, this study integrates the normative perspective of *maqāṣid al-sharī‘ah* (Mohammad Hashim Kamali and *maqāṣid* literature) as an ethical basis for assessing

whether employment policies help ensure justice, protection of rights, and the benefit of society.

Based on this national context, this study uses a literature review approach to synthesize official statistical data (BPS, Kemnaker, Bappenas), academic studies 2020–2025, and policy reports. Thus, it is hoped that a comprehensive picture will be obtained of the extent to which the Job Creation Law achieves the goal of creating quality jobs and its implications for the welfare of the workforce in Indonesia (Central Statistics Agency, 2025)

## RESEARCH METHOD

This study uses the literature review method with a descriptive qualitative approach. The research steps include the search and selection of literature (SINTA/Scopus indexed journals, academic books, and official reports such as BPS, Kemnaker, Bappenas) for the 2020–2025 period; extraction of the main issue; as well as a synthesis of findings to assess the impact of the Job Creation Law on labor absorption. The analysis is directed at (1) trends in employment indicators (TPAK, TPT, formal/informal composition); (2) changes in regulations and implementing regulations; (3) empirical evidence of case studies and policy research; and (4) normative assessment according to economic development theory and *maqāṣid al-sharī‘ah*. Primary data sources include BPS publications, Ministry of Manpower documents, Bappenas, as well as academic and related policy articles.

## RESULT AND DISCUSSION

### General Conditions: Labor Structure and the Role of the Informal Sector

BPS data confirms the dominance of the informal workforce in Indonesia with a proportion that remains high in the 2020–2025 period. The BPS publication State of the Workforce (February 2024 & 2025) shows that despite improvements in indicators such as an increase in TPAK and a decrease in TPT in several periods, the number of informal workers remains large and has become a structural issue that affects the quality of the job market. This condition indicates that job creation must be seen not only in terms of quantity but also quality (living wage, social security, and job security). The informal sector generally offers flexible work but minimal legal protection and social security—a phenomenon exacerbated by the many part-time workers and digital-platform-based jobs that have emerged post-pandemic. Media studies and policy studies highlight that the transition from informal to formal does not automatically occur simply because of the passage of legislation; intervention in the field of vocational education, formality incentives, and the expansion of social security are needed (Central Statistics Agency, 2025).

In terms of growth dynamics, the data also shows that between 2023 and 2024, the proportion of informal workers had decreased slightly (for example, in August

2024 data it reached 57.95% or 83.8 million people) (Azzahra, 2024). However, it then increased again to 59.40% in early 2025 (Alfathi, 2025). This indicates fluctuations related to macroeconomic conditions, labor market policies, and changes in work structures. More specifically, the agricultural sector remains one of the major contributors to the informal workforce. According to BPS data, the percentage of informal labor in the agricultural sector in several provinces is very high, for example, West Sumatra will reach 88.81% in the agricultural sector by 2024 (Central Statistics Agency, 2025). This shows that many farmers or agricultural workers do informal work, with informal work arrangements, uncertain incomes, and little social protection

### **The Role of the Job Creation Law on the Investment Climate and Job Creation**

One of the main clauses of the Job Creation Law is the simplification of regulations and licensing intended to attract domestic and foreign investment. The Bappenas report and a number of studies found that there was an increase in investment interest in certain sectors after the implementation of this policy, which has the potential to absorb labor, especially in the manufacturing and modern services subsector. However, these influences are sectoral and uneven between regions, because regional capacity, infrastructure, and the availability of skilled human resources vary (Ministry of PUPR, 2025b). Some empirical research warns that increased efficiency and productivity due to new investments are not always accompanied by large labor absorption; There are subsectors with increased productivity but stagnant or even decreased labor absorption (due to automation or increased capital intensity). This requires the attention of policy-makers so that the investment that comes in is labor-intensive if the main goal is the absorption of mass labor (Ari Endrawati, 2024).

### **Impact on Wages, Labor Relations, and Worker Protection**

The Job Creation Law makes a number of updates to wage provisions, fixed-time work agreements, outsourcing, and severance pay. This change is intended to provide flexibility for employers in workforce management. Legal and policy studies have shown concern that excessive flexibility may reduce worker protections such as reduced severance pay certainty or expansion of non-permanent forms of work that have an impact on the long-term well-being of the workforce (Singhs, Alsabilah, & Rasji, 2023). Empirical evidence from field surveys and policy analyses found that workers in the informal and contract sectors often felt income uncertainty and limited access to social security. Therefore, although the Job Creation Law can facilitate job creation, the quality of work (decent, stable, and protected) should be a benchmark for policy success (Central Statistics Agency, 2025)

The Job Creation Law has introduced flexibility in the provisions of fixed-time work agreements (PKWT) and outsourcing, as well as changes in the amount of severance pay based on the length of service. For example, the Job Creation Perppu abolished the maximum limit on the duration of PKWT which was previously regulated

in the 2003 Manpower Law, so that companies can now renew contracts without having to appoint workers as permanent employees after a certain period of time (Harruma, 2025).

### **Implementation Constraints: Regional Capacity, Regulatory Literacy, and Skills Gap**

The implementation of national policies in Indonesia faces the challenge of decentralization: the capacity of local governments greatly determines the effectiveness of the implementation of the Job Creation Law. Some regions are not ready to organize implementing regulations or build adequate labor supervision. In addition, micro entrepreneurs' literacy about regulatory changes is still low, making it difficult for the intended legal benefits to reach the smallest business base

The quality of human resources is a significant obstacle: the lower middle level of education still dominates the workforce, so the mismatch of skills with the needs of formal industry continues to occur. Vocational education and upskilling policies are crucial so that the workforce can be absorbed by the developing formal sector (BPS, 2025)

### **Theoretical Review: Development Theory and Maqāṣid al-Shari‘ah**

In terms of development theory, Todaro & Smith's work underlines that the migration of labor from the traditional/informal sector to the modern/formal sector requires synergy between investment, human capital increase, and economic structural change (dual-sector transition). Without an increase in human capital, investment tends to utilize technologies that reduce the need for labor or choose skilled labor so that mass absorption is limited. Therefore, regulations such as the Job Creation Law must be accompanied by training and education programs that are in line with the needs of the industry.

Normatively, maqāṣid al-shari‘ah (e.g. the writings of Muhammad Hashim Kamali) emphasizes the purpose of Islamic law to safeguard religion, soul, intellect, lineage, and property; In the context of employment, this is translated as a policy obligation to ensure justice, protection of workers' rights, and the public welfare.

## **Discussion**

According to BPS data, the percentage of informal labor in the agricultural sector in several provinces is very high, for example, West Sumatra will reach 88.81% in the agricultural sector by 2024 (Central Statistics Agency, 2025). This shows that many farmers or agricultural workers do informal work, with informal work arrangements, uncertain incomes, and little social protection. On the other hand, recent empirical studies warn that increased efficiency and productivity due to new investments do not necessarily translate into proportionate labor absorption. According to Nababan & Purba (2023), in the study *Labour Absorption in Manufacturing Industry: Anomalous And Regressive Phenomena*, it was found that 24 manufacturing subsectors in Indonesia showed a regressive pattern in the 2012–2020 period: when efficiency or output

increased, labor absorption stagnated or decreased (Nababan & Purba, 2023). These findings suggest that overly capital-intensive or technology investments without a labor-intensive orientation can fail to meet the key goal of mass job creation. Therefore, investment policies under the framework of the Job Creation Law need to be directed so that growing sectors continue to consider labor-intensive aspects and regional distribution so that the benefits are not diminished.

In addition, the amount of severance pay for a period of service above 15 years in the Job Creation Law is only 6 months of wages; while the service award money for 15–18 years of service also refers to a lower standard than the expectations of some workers or unions (Lestari, 2025). Policy assessments based on *maqāṣid* demand that job creation also bring just social benefits, not just economic efficiency. With this perspective, aspects of distributive justice, living wages, and social security are important parts of the evaluation of the Job Creation Law (Simple, n.d.)

## CONCLUSION

This literature review study concludes that the Job Creation Law (2020) has the potential to encourage investment and open up job opportunities in several sectors, but its effectiveness in increasing the absorption of quality labor throughout 2020–2025 has not been fully achieved. Key challenges include the dominance of the informal sector, skills gaps, variations in regional implementation capacity, and concerns about weakening worker protections due to regulatory flexibility. A comprehensive policy evaluation must measure not only the number of jobs but also the quality, namely living wages, job security, and access to social security. Further implementation needs to integrate vocational education programs, strengthening regional supervision, and protective social policies so that the goal of job creation can be realized in line with the principles of justice and benefit advocated by *maqāṣid al-shari‘ah*.

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