



**The Phenomenon of Minimum Wages and Industrial
Competitiveness: A Literature Review**

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INFO ARTIKEL	ABSTRAK
<p>Accepted: 9 March 2025 Revised: 9 April 2025 Approved: 9 May 2025</p> <hr/> <p>Keywords: minimum wage, industrial competitiveness, employment policy, literature review</p>	<p>Minimum wage setting is a strategic issue in economic development that often sparks debate between worker protection and industrial efficiency. This study aims to examine the relationship between the minimum wage phenomenon and industrial competitiveness through a literature review approach. The method used in this study is a literature study of various scientific journals, research reports, and relevant policy documents, within the last five years. The results of the study indicate that minimum wage increases have the potential to increase worker income and productivity, but without the support of increased productivity, technological innovation, and investment, this policy can put pressure on labor absorption and industrial competitiveness, especially in the labor-intensive manufacturing sector. Comparisons with developed countries underscore the importance of synergy between wages, productivity, and technology to maintain industrial competitiveness. Minimum wage policy reform that integrates inflation, economic growth, and regional productivity in Indonesia is a promising adaptive step, but the main challenge lies in the industry's ability to adapt and innovate. The ethical implications of this study emphasize that minimum wage policies must reflect a balance between social justice for workers and the economic sustainability of the industry.</p>

INTRODUCTION

In an era of globalization and increasingly fierce economic competition, employment policy is a crucial element in creating national social and economic stability. One such policy with far-reaching impacts is the minimum wage policy. Setting the minimum wage not only impacts worker welfare but also impacts production cost structures and industrial competitiveness. Therefore, this policy often serves as a meeting point between the interests of workers and employers, frequently sparking debates between social protection and economic efficiency. In the Indonesian context, this issue is further complicated by the diversity of development levels across regions and differences in existing industrial structures. This study seeks to explore in more depth how minimum wage policy affects industrial competitiveness through a literature review approach, with the hope of

providing evidence-based input for the formulation of more balanced and contextual policies.

Minimum wage policy is a crucial instrument in the employment system, aiming to protect workers from exploitation and ensure a decent living. In many countries, including Indonesia, setting the minimum wage is not only an economic issue, but also a social and political one. On the one hand, increasing the minimum wage is considered to improve workers' welfare and public purchasing power. However, on the other hand, this policy also raises concerns about declining industrial competitiveness, particularly in labor-intensive sectors that are highly sensitive to changes in labor costs. Article 88 paragraph (1) Chapter 10 of the Manpower Law Number 13 of 2003 regulates the minimum wage policy in Indonesia. The purpose of implementing this minimum wage is so that workers receive clear wages and do not experience a decrease, so they can meet their daily living needs. In addition, the minimum wage also functions as a guarantee for companies to maintain workforce productivity. Research conducted by Indradewa and Natha (2014), and Wihastuti and Rahmatullah (2018) as cited in Bhagaskara, Herdiansyah, Afandi, and Christie (2020) shows that the minimum wage has a positive impact on the workforce, where wage increases become a motivation for skilled workers.

According to the IMD (Institute for Management Development) report cited by Muhammad and Emalia (2022), Indonesia's competitiveness ranked relatively low, ranking 40th out of 63 countries in 2020. This low competitiveness is caused by rising energy and economic costs, which are also influenced by inadequate road infrastructure and complicated bureaucracy. One solution to address this problem is to coordinate national industrial development between regional and central governments. The debate over the impact of minimum wages on industrial competitiveness has become increasingly relevant in the context of globalization and intensifying international competition. Industries are required to remain competitive not only in terms of product quality but also in terms of production cost efficiency. In this context, minimum wage policies that fail to consider business capacity have the potential to reduce efficiency, encourage industrial relocation, and worsen the investment climate. Conversely, policies that are designed adaptively and contextually can actually increase productivity and create stable industrial relations.

This research aims to conduct a literature review on the relationship between minimum wages and industrial competitiveness. Through a review of various empirical studies and labor economics theory, this article seeks to identify patterns of the impact of minimum wage policies on industrial dynamics across various country and sector contexts. The urgency of this study lies in the need for a strong scientific basis for formulating minimum wage policies that are not only fair to workers but also support the sustainability and competitiveness of national industry. By understanding the complexities and variables influencing the relationship between minimum wages and competitiveness, it is hoped that the results of this study can contribute to more targeted and evidence-based public policymaking.

In the increasingly complex dynamics of economic development, minimum wage policy has become a strategic issue that demands serious attention from

various stakeholders. While striving to improve labor welfare, the government also faces the challenge of maintaining the competitiveness of national industry, particularly in the face of globalization and global economic integration. Differences in economic conditions across regions, variations in industrial sectors, and developments in production technology also influence the effectiveness of minimum wage policy. Therefore, it is crucial to understand in-depth how this policy interacts with the cost structure, productivity, and investment climate of industry. This study aims to comprehensively examine the relationship between minimum wages and industrial competitiveness through a literature review approach. The urgency of this study lies in the need for a strong and contextual scientific basis in formulating employment policies that are not only oriented towards social justice but also capable of supporting inclusive and sustainable economic growth. Therefore, the results of this study are expected to serve as an important reference for policymakers in balancing the interests of workers and business actors proportionally.

LITERATURE REVIEW

Sub-Chapter

The phenomenon of minimum wages (UM) and industrial competitiveness are two interrelated aspects in the context of economic development and employment. The minimum wage set by the government aims to ensure worker welfare, but its implementation often impacts industrial competitiveness, particularly in certain sectors. The minimum wage is a wage policy designed to guarantee a minimum income standard for workers to meet their living needs. Economically, the minimum wage functions as a social protection instrument and a means of income redistribution (Mankiw, 2021). In labor market theory, setting a minimum wage above the equilibrium market level can cause distortions, potentially reducing employment opportunities due to increased production costs for firms (Neumark & Wascher, 2020). However, efficiency wage theory emphasizes that higher wages can increase labor productivity through increased motivation, reduced absenteeism, and lower labor turnover (Akerlof & Yellen, 1990; Prasetyo & Lestari, 2024).

In the context of Indonesian labor policy, Law Number 13 of 2003 regulates the minimum wage as an effort to ensure worker welfare and stable industrial relations (Ministry of Manpower of the Republic of Indonesia, 2025). This policy must take into account macro- and microeconomic conditions so as not to burden the business sector while still providing adequate protection for workers. Suhendra and Wicaksono (2016), as cited in Pasuria and Triwahyuningtyas (2022), stated that the minimum wage has a significant impact on the unemployment rate. Setting the minimum wage can impact changes in the number of unemployed in the labor market. If the minimum wage is set higher, the demand for labor tends to decrease. In other words, an increase in the minimum wage has the potential to increase unemployment.

According to classical labor market theory, as proposed by Smith and Ricardo, minimum wages set above the market equilibrium level tend to create a labor surplus or unemployment because the supply of labor exceeds demand (Wijaya & Mardiana, 2019). However, efficiency wage theory argues that providing a higher minimum wage can increase worker productivity, reduce labor turnover, and lower supervision costs, thus indirectly offsetting the negative effects of wage increases (Kusuma & Hidayat, 2020). Empirical research in Indonesia by Putri and Nugroho (2022) shows that increasing the minimum wage contributes to improving workers' incomes and reducing poverty. However, it also exerts pressure on employment, particularly in the labor-intensive manufacturing sector. This is consistent with the findings of a study by Rahayu and Santoso (2020), which revealed that increasing the minimum wage significantly reduces the number of workers in low-wage sectors but has a positive effect on increasing worker productivity.

In addition, Kusuma and Hidayat (2020) found that industries that invest in technology and training can reduce the negative impact of minimum wage increases on workforce reductions and are able to increase industrial competitiveness. An effective minimum wage policy must balance worker welfare with continued industrial competitiveness. Wibowo and Setiawan (2024) proposed a minimum wage setting formula that integrates inflation, economic growth, and regional productivity to create an adaptive and sustainable policy. However, the main challenge lies in the industry's ability to adapt through innovation and productivity improvements to absorb rising labor costs without sacrificing employment. Several empirical studies further confirm that the effect of minimum wage increases on labor absorption is highly contextual. For example, a study titled *"The Effect of Minimum Wages, Inflation, and GRDP on Labor Absorption in Java"* found that minimum wages had a significant negative effect on labor absorption in Java, while GRDP showed a positive effect (Ridho et al., 2021). Panel research in Banten province also shows that education has a significant positive correlation with labor absorption, while the minimum wage actually has a negative (though insignificant) effect in this context (Rahmatin et al., 2024). More macro studies also reveal a regressive phenomenon in Indonesia's manufacturing sector, where, despite increased production efficiency, labor absorption declines, indicating that increased productivity is not always accompanied by an increase in the workforce (Nababan & Purba, 2023).

METHOD

A critical study by Yasin and Kartini (2023) found that while minimum wage increases can increase workers' income, their impact on employment in the industrial sector is highly dependent on other variables such as investment value and the number of business units. They stated that "the minimum wage is not the sole factor determining industrial competitiveness; it also determines how companies manage investment and business scale" (Yasin & Kartini, 2023, p. 9594).

This is in line with research by Wulandari and Nugroho (2021), which highlights the role of labor productivity in determining industrial responses to minimum wage increases. In this context, high minimum wages without a corresponding increase in productivity can lead to decreased competitiveness and potential workforce reductions. Comparisons of minimum wage policies across countries also show varying impacts on industrial competitiveness. In developed countries like Japan and South Korea, relatively high minimum wages can be offset by high technology and high productivity, thus maintaining industrial competitiveness (Kim & Park, 2020). Conversely, developing countries that rely on cheap labor, such as several countries in Southeast Asia, tend to experience competitive pressures if minimum wage increases are not accompanied by increased efficiency and innovation (Rahman & Aziz, 2022). Therefore, minimum wage policies must be designed holistically, taking into account both micro and macroeconomic conditions.

Recent trends in minimum wage policy in Indonesia indicate a shift toward more flexible adjustments, incorporating variables such as inflation, economic growth, and regional productivity. According to a study by Wibowo and Setiawan (2024), this new formula is expected to “create a balance between worker needs and the continued competitiveness of the industry” (p. 112). However, the biggest challenge remains the industry's ability to increase productivity to absorb rising labor costs without compromising labor or product quality.

A critical analysis of various research findings shows that the impact of minimum wage policies on industrial competitiveness is not linear, but rather highly dependent on the structural context and adaptive capacity of each country and industrial sector. Minimum wage increases can be a driver of welfare improvement if supported by a healthy industrial ecosystem, such as investment availability, efficient production processes, and access to technology and markets. Conversely, in developing countries where supporting infrastructure is suboptimal, wage increases can actually cause distortions in the labor market, particularly in labor-intensive sectors that are vulnerable to relocation. A comparison between developed and developing countries shows that the success of implementing high minimum wages is largely determined by the country's ability to integrate these policies with strategies to increase productivity and industrial innovation.

In Indonesia, recent developments indicate a shift in the approach to setting minimum wages, making them more responsive to economic dynamics, as reflected in the adoption of a calculation formula that incorporates inflation, economic growth, and productivity. This step is a response to previous criticisms that the minimum wage policy was too centralized and insufficiently adaptable to sectoral and regional conditions. However, the effectiveness of this new approach still depends heavily on implementation on the ground, particularly in terms of monitoring and supporting small and medium enterprises (SMEs) to enable them to transform productively. Therefore, this policy trend points to the need for cross-sector collaboration to ensure that wage policies are oriented not only toward worker protection but also toward strengthening the overall industrial structure.

This research employs a literature review as the primary approach to understanding the phenomenon of minimum wages and their impact on industrial competitiveness. This literature review was chosen because it allows researchers to collect, review, and analyze various previous studies, theories, and research findings relevant to the topic under study. This method allows researchers to construct a comprehensive picture of the relationship between minimum wages and industrial competitiveness based on published empirical evidence and conceptual studies.

Literature data collection process. The literature data collection process was conducted by identifying scientific journals, articles, and publications indexed in national academic databases such as Sinta, Scopus, Google Scholar for the past five years, as well as other reliable sources that discuss minimum wage policy, labor productivity, and industrial competitiveness. Literature selection criteria included topic relevance, source credibility, and research output containing empirical data and in-depth analysis.

To ensure the relevance and quality of the literature analyzed, the researcher established the following inclusion and exclusion criteria: Inclusion Criteria

1. Scientific articles and journals that discuss the relationship between minimum wages and industrial competitiveness. 2. Empirical and conceptual studies published in the period 2020–2025 to capture the latest developments. 3. Sources indexed in the national database (Sinta) 4. Articles available in Indonesian and articles with full access (full text) that can be reviewed in full. Exclusion Criteria : 1. Popular articles, opinion pieces, or non-academic writing that lack empirical data or in-depth analysis. 2. A study that discusses minimum wages in relation to aspects of industrial competitiveness.

process was carried out systematically using several steps, namely: Researchers accessed journal databases such as Sinta, Google Scholar, and university journal portals to search for related articles. Keywords used included “minimum wages”, “industrial competitiveness”, and a combination of both keywords. Articles that met the inclusion criteria were read in full to ensure the suitability of the content and methodological quality, and important information such as research methods, findings, study context, and recommendations were collected for analysis.

Data obtained from the literature was reviewed using content analysis methods. Researchers grouped the findings based on main themes, namely: 1. The effect of minimum wages on workers' welfare. 2. The relationship between minimum wages and labor absorption. 3. The impact of minimum wages on industrial competitiveness. 4. Comparison of minimum wage policies between countries. 5. Minimum wage policy trends and reforms. To maintain the validity of the study, this study applies, prioritizing articles published in reputable and Sinta-indexed journals, which guarantees the peer-review process and academic quality, using various sources and types of studies (quantitative, qualitative, and conceptual studies) to obtain a balanced perspective, cross-checking findings from different studies to avoid bias and ensure the integrity of the synthesis of study results, and

recording and reporting the process of literature selection and analysis systematically so that it can be replicated by other researchers.

Over the past five years (2020–2025), various studies have examined the impact of minimum wage policies on industrial competitiveness, particularly in the context of post-pandemic global economic changes and digital transformation. Research by Bhagaskara et al. (2020) shows that minimum wage increases can be a positive incentive for skilled workers and contribute to increased labor productivity. However, the effect is highly dependent on the industrial sector and the company's ability to absorb additional costs. Meanwhile, Wihastuti and Rahmatullah (2021) emphasize that minimum wages play a crucial role in improving worker welfare, but can also burden labor-intensive sectors if not accompanied by increased efficiency and fiscal policy support. A study by Nurhadi and Permana (2022) found that implementing excessively high minimum wages without considering productivity and local economic conditions can reduce competitiveness, encourage industrial relocation, and even increase labor market informality.

At the global level, a World Bank report (2023) shows that countries with flexible, productivity-based minimum wage systems tend to have more competitive industrial sectors. Similar findings were expressed by Prasetyo and Lestari (2024), who stated that harmonization of wage policies and structural reforms, such as simplifying labor regulations and improving infrastructure, is crucial for the success of national industrial competitiveness. Recent research by the Ministry of Manpower (2025) also highlighted the need for a decentralized wage policy, given the significant disparities in economic growth and cost of living across provinces in Indonesia. Although numerous studies have discussed the impact of minimum wages in general, there is limited literature specifically presenting a systematic synthesis of the relationship between minimum wage policies and national industrial competitiveness in a simultaneous regional and global context. Therefore, this study attempts to fill this gap by conducting a comprehensive literature review of scientific publications from 2020–2025, to provide a comprehensive overview that can serve as a basis for formulating more adaptive, equitable, and competitive policies.

RESULTS AND DISCUSSION

Based on a literature review and previous research findings, it can be concluded that the relationship between minimum wages and industrial competitiveness is complex and multifactorial. Setting minimum wages, aimed at improving worker welfare, does not always have a direct positive impact on employment and industrial competitiveness, particularly in the labor-intensive manufacturing sector. Classical literature cited by Wijaya and Mardiana (2019) and Pasuria and Triwahyuningtyas (2022) suggests that minimum wage increases exceeding the labor market equilibrium level have the potential to lead to a labor surplus or unemployment. This is supported by studies by Ridho et al. (2021) and Rahmatin et al. (2024), which found a negative impact of minimum wages on labor absorption at the regional level. However, the wage efficiency theory proposed by Kusuma and Hidayat (2020) offers a different perspective, namely that a higher

minimum wage can increase worker productivity and loyalty, potentially offsetting the negative impact of wage increases.

Empirical research in Indonesia, such as that conducted by Putri and Nugroho (2022) and Rahayu & Santoso (2020), confirms that minimum wage increases have a dual effect: on the one hand, they help increase income and reduce poverty, but on the other hand, they put pressure on labor absorption, particularly in low-wage sectors. This confirms that without a corresponding increase in productivity, minimum wage increases can reduce industrial competitiveness. A study by Nababan & Purba (2023) even revealed a regressive phenomenon in the manufacturing sector, where productivity increases are not accompanied by an increase in the workforce. Industrial competitiveness itself is heavily influenced by internal and external factors that go beyond the minimum wage. According to Nugroho and Lestari (2022), innovation, government policy support, and technology investment are key factors in maintaining and improving the competitiveness of the manufacturing industry. A study by Kusuma and Hidayat (2020) also emphasized the crucial role of technology and employee training in improving efficiency and product quality. Furthermore, local studies, such as Hanifah & Yasin (2023) and Risk & Financial Management (2022), reinforce the finding that limited access to technology and qualified human resources are key barriers to competitiveness, which must be addressed through innovation strategies and supply chain efficiency.

Comparative analysis across countries shows striking differences in the impact of minimum wage policies on industrial competitiveness. Developed countries like Japan and South Korea are able to maintain competitiveness despite high minimum wages, supported by high technology and superior productivity (Kim & Park, 2020). Conversely, developing countries reliant on cheap labor face competitive pressures when minimum wage increases are not accompanied by improvements in efficiency and innovation (Rahman & Aziz, 2022). These findings emphasize the need for minimum wage policies to be aligned with each country's macro- and microeconomic conditions. Recent developments in minimum wage policy in Indonesia, as explained by Wibowo and Setiawan (2024), indicate a shift toward a more flexible and responsive formula for setting the minimum wage to inflation, economic growth, and regional productivity.

This approach is expected to strike a balance between worker protection and sustained industrial competitiveness. However, the effectiveness of this policy depends heavily on the industry's ability to increase productivity through innovation and digital transformation, as well as integrated policy support for small and medium-sized enterprises. Overall, the results of this literature review underscore that the impact of minimum wage policy on industrial competitiveness is not a simple linear relationship, but rather is influenced by various supporting variables such as productivity levels, technological investment, innovation, business scale, and government policies. Therefore, minimum wage policy needs to be designed holistically, taking into account the structural conditions of the industry and the economy's adaptability to support sustainable industrial growth while improving worker welfare.

CONCLUSIONS

The phenomenon of minimum wages and industrial competitiveness is a highly complex and multidimensional issue, where the interaction between wage policies and industrial dynamics must be understood holistically so that the resulting policies can meet the dual objectives of improving worker welfare while maintaining sustainable industrial competitiveness. Based on the results of the analyzed literature, it can be concluded that increasing the minimum wage fundamentally contributes to increasing workers' income and living standards. This increase provides a positive incentive for labor motivation and productivity, especially in the context of the efficiency wage theory that links higher compensation to increased worker performance. Thus, an adequate minimum wage is an effective social protection tool for reducing poverty and income inequality.

However, the study also highlights that minimum wage policy cannot stand alone without considering the macroeconomic and microeconomic context, particularly the productivity and investment capacity of the industry. Empirical studies show that in labor-intensive manufacturing sectors, minimum wage increases that are not accompanied by increased productivity and technological innovation tend to put pressure on labor absorption. This has the potential to reduce industrial competitiveness in the face of increasingly fierce global competition. In other words, high minimum wages without the support of investment in increasing production efficiency and human resource development can result in increased production costs that are not offset by increases in output or product quality, thus endangering industrial competitiveness.

A comparison of policies in developed and developing countries confirms that synergy between minimum wage policies and productivity-boosting strategies is key to success. Developed countries like Japan and South Korea have been able to maintain their industrial competitiveness despite imposing relatively high minimum wages because they have been able to utilize advanced technology and continuously improve the quality of their workforce. Meanwhile, developing countries like Indonesia need to prioritize the importance of technology investment and workforce training to prevent minimum wage policies from becoming a burden that weakens their industry's position in both domestic and global markets.

From a policy perspective, the trend toward reforming the minimum wage formula, which incorporates inflation, economic growth, and regional productivity, demonstrates the government's efforts to balance worker needs with industrial sustainability. This approach provides a more flexible and adaptive basis for setting minimum wages, adapting to economic conditions and regional characteristics. However, this reform must be accompanied by a commitment from the business sector to continuously improve productivity and efficiency, and from the government to provide a conducive business environment and support innovation policies.

Ethically, minimum wage policy has crucial implications for social justice and corporate social responsibility. A decent minimum wage is a fundamental worker's right that must be fulfilled as a form of respect for human dignity and protection against exploitation. Therefore, minimum wage policy is a moral instrument reflecting the state's commitment to ensuring the welfare of workers. However, such policy must also consider economic sustainability to avoid long-term losses such as

job losses, increased unemployment, or decreased industrial competitiveness, which ultimately harm the entire socio-economic ecosystem.

In this context, creating synergy between worker welfare and industrial competitiveness is both an ethical and practical necessity. Governments, employers, and workers must work together to formulate policies and strategies that focus not only on wage increases but also on increasing production capacity, technological innovation, and human resource development. These inclusive, evidence-based policies will create fair and productive working conditions while fostering sustainable industrial competitiveness. Thus, the minimum wage can serve as a tool to advance social welfare without sacrificing economic progress, ensuring inclusive and sustainable development.

IMPLICATIONS AND LIMITATIONS

The implications of this study indicate that minimum wage policies have a complex impact on both workers' welfare and industrial competitiveness. Theoretically, the findings strengthen the *efficiency wage theory*, which emphasizes that increasing wages can enhance motivation, productivity, and employee loyalty, provided that such policies are accompanied by technological advancement and human resource capacity building. From a policy perspective, this study provides valuable insights for the government to formulate adaptive and productivity-based minimum wage policies that take into account macroeconomic variables such as inflation, economic growth, and regional characteristics. Synergy between the government, industry players, and educational institutions is essential in creating a fair and competitive labor ecosystem. Ethically, the study asserts that the minimum wage is not merely an economic issue but also a moral instrument that reflects a commitment to social justice and respect for human dignity, while ensuring industrial sustainability to prevent adverse effects such as unemployment or production relocation.

The limitations of this study lie in the methodological approach, which is based on a *literature review*. As such, the findings depend heavily on the quality and availability of secondary sources, without empirical verification through primary data. The research scope, which focuses on Indonesia and several East Asian countries, also limits the generalizability of the results to other regions with different economic structures. Furthermore, since the reviewed literature covers the 2020–2025 period, the findings are contextual and may need to be updated as global economic conditions and labor policies evolve. Other influential variables such as political stability, investment climate, and global external factors were not analyzed in depth. Another limitation concerns the practical implementation of policy recommendations, as the success of an adaptive minimum wage system largely depends on the institutional capacity of the government and the readiness of industries to innovate and transform their productivity in a sustainable manner.

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