

# Short-Term and Long-Term Performance of Indonesian Handicraft Industry Exports to GDP and its Implications for The Employment in The MSMEs in The Digital Economic Era

Rudianto<sup>1</sup>, Darwati Susilastuti<sup>2</sup>

<sup>1</sup>Institut Bisnis and Multimedia Asmi

<sup>2</sup>Universitas Borobudur

<sup>1</sup>rudianto@asmi.ac.id, <sup>2</sup>darwatisusi@borobudur.ac.id

## ABSTRACT

In the current digital economic era, the export performance of the Indonesian handicraft industry is still fluctuating. It is hoped that the role of exports in Gross Domestic Product will increase the absorption of labor in the Micro, Small and Medium Enterprises sector. Micro, Small, and Medium Enterprises have proven to be resilient in every economic crisis. Research objectives to examine the effect of short-term and long-term performance of Indonesia's Handicraft Industry Exports on Gross Domestic Product and employment of Micro, Small, and Medium Enterprises. The data analysis method used is multiple regression with the Error Correction Model (ECM), in order to obtain the relationship between the independent variable and the dependent variable in the short and long term. The results showed that the export of Indonesia's handicraft industry had a significant and positive effect on Gross Domestic Product both in the short and long term. Gross Domestic Product has a significant and positive effect on employment in the micro and small business sectors in the short and long term. The model test results show that theoretical plausibility according to the estimate, accurate estimates of the parameters, high explanatory ability, and high predictive ability. Thus, positive government policy is needed that can drive exports of the handicraft industry in the short and long term

## Keywords:

*employment; export; gross domestic product; handicraft industry; MSMEs*

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## 1. Introduction

Globalization drives a digital economy that was born along with the use of information and communication technology. The four previous economic eras were exclusive, while the digital economy was present in an inclusive manner and stretched out an equal opportunity. This characteristic has a competitive concept that becomes the spirit of an industry that is easily lifted by startup players who prioritize collaboration and synergy. Even though micro, small and medium enterprises (MSMEs) have different characteristics from entrepreneurs, that is, they want to grow big and innovate, are

consistent with their business characteristics, and are flexible in doing business as a non-pecuniary advantage (Hurst and Pugsley, 2011; Belghitar, Clark and Salma, 2016). The digital economy, which is a 'sharing economy', will elevate MSMEs to enter world business (Juditha, 2017). MSMEs in Indonesia are proven to be resilient to any economic change and can adapt to crisis conditions (Tambunan, 2012; Salim, Susilastuti and Rafiqah, 2020). Currently, Indonesia is proclaiming the largest digital economy in 2020 and is targeted to be the largest in Southeast Asia. The Indonesian government targets e-commerce transactions to reach the US \$ 130 billion and

create 1000 technopreneurs with a business value of US \$ 10 billion by 2020 (Juditha, 2017).

Exports as a source of state revenue are very strategic and important in supporting the sustainability of the economy. Exports play a role in increasing growth and equity, as well as contributing to the creation of business fields and employment and income. Exports are a source of foreign exchange that can be used to finance imports and debt. Therefore, the government has made various efforts in order to boost export performance (Todaro and Stephen, 2008; Tambunan, 2012; Untari, Dewi and Ridwan, 2019; Warokka et al, 2020). Indonesia's trade balance in 2017 was a surplus of 11.84 billion US dollars, up 16.22 percent and the value of imports increased by 15.66 percent y on y. The weak

performance of Indonesia's trade is partly due to low competitiveness in the trade liberalization arena. Therefore, to anticipate a sustainable total trade balance deficit and a slowdown in non-oil and gas exports, it is necessary to design an export development strategy taking into account the core competitiveness of export products. The export value of the handicraft industry shows an increase from year to year until 2016. On average, during the 2010-2016 period, handicraft exports have increased by 6.93 percent per year. The largest increase in handicraft industry exports occurred in 2014, amounting to the US \$ 2,294.3 million or 14.46 percent (Ministry of Trade, 2014). However, this increase has not been optimal with the average increase that is still fluctuating, given its large potential as shown in Figure 1 below.

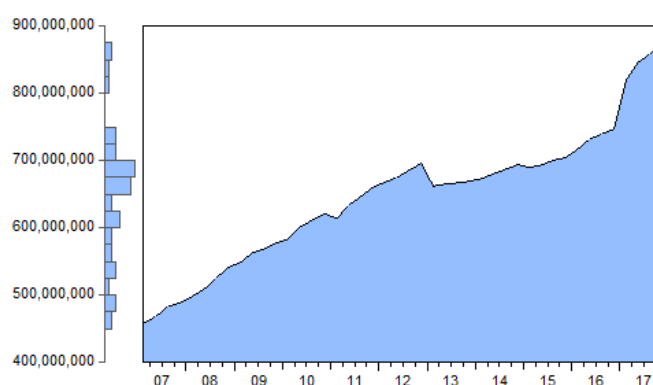


Figure 1. Indonesian Handicraft Industry Exports 2007-2017

Source: Ministry of Trade, 2017.

The main export destinations for the handicraft industry are the United States, Switzerland, Japan, Singapore, Germany, China, Hong Kong, Belgium, South Korea, and the United Kingdom. (Ministry of Trade, 2017). Indonesian handicraft industry exports are constrained by, among others, regulations related to environmental safety, consumer health and safety issues; language; competitors; marketing is still limited so that it becomes an obstacle for MSMEs to develop overseas. MSMEs are the main players in the craft industry. The constraints in developing MSMEs are capital, while those that affect exports are

interest rates, inflation, and exchange rates (Totonchi, 2011; Zhang, 2014; Nicolici et.al., 2015; Lijun, 2016; Rudianto et.al., 2019; Rudianto and Susilastuti, 2019; Salim et. al., 2020).

Indonesia is a country with the most diverse cultures and arts in the world, it is only natural for the government to take advantage of this wealth for the welfare of the nation. However, the fact is that more attention is needed from the government to help develop handicraft exports, whose production is currently still dominated by MSMEs players. This is because the ratio of entrepreneurs in the country is still around 3.1%,

besides that Indonesia's readiness to enter the industrial era 4.0 is in line with the implementation of the Making Indonesia 4.0 road map, which requires many young entrepreneurs as well as competent and technology literate industry players. One of Indonesia's strategies in developing MSMEs is to encourage exports (Bank Indonesia, 2016; Munandar, 2016). Based on data from Bank Indonesia, in 2016 the MSME sector dominated 99.9 percent of business units in Indonesia and was able to absorb nearly 97 percent of Indonesia's workforce (Bank Indonesia, 2016; Melina, 2018).

In this global era, economic independence through MSMEs is expected to have an impact on increasing the nation's competitiveness (Sulaiman and Abdullah, 2015; Thamrin, 2017). The contribution of MSMEs to the formation of GDP was 59 percent and the contribution to Indonesian exports in 2015 was around 15.8 percent (Central Bureau of Statistics, 2017). Therefore, the government and various related parties need to strengthen the role of MSMEs by increasing their quality and quantity in encouraging exports of the Indonesian handicraft industry.

The limitation of the problem in this research is based on observations of several factors that have the potential to contribute to increasing exports of the handicraft industry as part of the creative economy industry so that it contributes to gross domestic product (GDP) and has an impact on increasing labor absorption, especially in the MSMEs sector. The formulation of the problem is as follows: (1) How will the export of the Indonesian handicraft industry affect Indonesia's Gross Domestic Product in the short and long term? and (2). How will the Gross Domestic Product affect the employment of the MSMEs sector in the short and long term?

## 2. Literature Review

### 2.1. Theoretical Basis

Bakti, Rakhmat, and Syahrir (2010); Nafziger (2012) and UMN (2016) state that

macroeconomic policies are always faced with the problems of growth, inflation, and unemployment as central macroeconomic issues. Broadly speaking, macro policy issues cover two main problems. The first problem is short-term balance or stabilization problems. This problem is related to how to "drive" the national economy from month to month, and a quarter to quarter and/or year to year, in order to avoid and three main "macro diseases", namely: inflation, unemployment, and imbalances in the balance of payments. The second problem is long-term balance or growth problems. This problem is about how the country "steers" the economy so that there is a harmony between population growth, increased production capacity, and the availability of funds for investment. Economic growth problems can be viewed as macroeconomic problems in the long run (Sukirno, 2012; Nafziger, 2012, UMN, 2016). In long-term analysis or economic growth problems, the actual source of the increase in economic growth is generally defined as the increase in real GDP per capita (Samuelson and Nordhaus, 2006).

UNDP (2008) formulates that the creative economy is an integrative part of innovative knowledge, creative use of technology, and culture. Indonesia is a country with many ethnicities and cultures, so every region that has a culture can present its culture in unique ways. The creative economy in its development in the field forms creative industries according to their sector. According to the Ministry of Trade (2010), the creative industry is an industry that comes from the use of individual creativity, skills, and talents to create welfare and employment through the creation and utilization of individual creative and creative power. The concept of the Creative Economy needs to be developed in Indonesia because it provides multiple effects on the economy. Besides, statistically, the existence of the creative industry increases GDP, this concept also absorbs a lot of labor (Bank Indonesia, 2018; Melani, 2018).

In the era of the digital economy, digital content is the main choice in the current era, triggering people's mindset to be more creative, innovative, and sensitive to surrounding issues (Simatupang, 2017). People are also required to be more technologically literate, with existing limitations and the talents they have in meeting their needs. The era of globalization and connectivity changes the way of exchanging information, trading, and consuming cultural and technological products from various parts of the world. The world is a very dynamic and complex place so that creativity and knowledge become invaluable assets in economic competition and development. Creative Economy is a concept that places creativity and knowledge as main assets in driving the economy. This concept has sparked the interest of various countries to conduct studies about the Creative Economy and make the Creative Economy the main model for economic development (Ministry of Trade, 2010; Natale and Wassal, 2007).

The craft activity is a creative activity related to the creation, production, and distribution of products made and produced by craftsmen starting from the initial design to the completion of the product. Even though it is processed with relatively simple equipment, handicraft products have very high artistic value so that they have quite expensive selling power (Simatupang, 2017; Simatupang, Apriani and Subawa, 2018). Craft products are generally only produced in relatively small quantities (not in bulk). Indonesia is one of the major handicraft producers apart from China and India. Several types of handicraft products that are quite popular in the export market include crafts made from fiber, woven bamboo, wood, modified batik, ceramics, and natural stone. While the form of products that are in great demand by the export market includes various types of accessories, souvenirs, and interior products (Central Bureau of Statistics, 2017). Some of these explanations indicate that handicraft products are one of Indonesia's main export products. However,

in doing exports, of course, apart from having opportunities, they also have to deal with various obstacles (Ministry of Trade, 2017).

According to Ruin (2008), Yani and Gunawan (2014), and UMN (2016), international trade is the exchange of goods and services that occur between different countries. This definition is almost the same as the definition put forward by Seyoum (2014), namely the exchange of goods and services that cross national borders as a result of globalization.

Export is trade by removing goods from within and outside the country in compliance with applicable regulations. Exports of a country occur because of the benefits obtained from foreign trade transactions. Trade can also increase the consumption capacity of a country and help various efforts to carry out development and increase the role of sectors that have a comparative advantage due to efficiency in production factors (Nafziger, 2012; UMN, 2016). Exports of various kinds of goods and services that are produced domestically and then sold abroad (Mankiw, 2009). From the point of view of expenditure, exports are one of the most important factors of the Gross National Product, so that by changing the value of exports, people's income will also change direction. On the other hand, the high exports of a country will cause the economy to be very sensitive to shocks or fluctuations in the world economy (Irham and Yogi, 2003, UMN, 2016). Mudrajad (2010) states that international trade traffic plays an important role in the economy and development in Indonesia. The role of foreign trade is seen from the ratio between exports plus imports to GDP. International trade is a balance between internal production capabilities and overseas demand (Bachrawi, 2009). To increase production and increase profits, some companies will try to expand their market overseas (Mudrajad, 2010; Sukirno, 2012, Bank Indonesia, 2016).

Gross Domestic Product (GDP) is defined as the value of goods and services produced by the

country in a certain year (Central Bureau Of Statistics, 2018). GDP is the best economic indicator in assessing economic development. The calculation of national income has a major macro measure of the condition of a country (Mankiw, 2009) and Timbergen (2006) argues that this indicator will be achieved if the country is able to produce quality and marketable materials. The GDP of a country is equal to the total expenditure on goods and services in the economy (Todaro and Stephen, 2008; Nafziger, 2012). Mankiw (2009) defines GDP as the market value of all goods and services produced in the economy during a certain period of time. The national income account divides GDP into four expenditure groups (Mankiw, 2009): (1). Consumption; (2) Investment; (3). Government Expenditure; and (4). Net exports. To calculate GDP, there are three approaches, namely (Central Bureau of Statistics, 2012): (1). Production; (2). Income and (3). ) Expenditure. GDP final demand component consists of: (1). Household consumption expenditures and private non-profit institutions (2). Government consumption; (3). Gross domestic fixed capital formation; (4). Change of stock; and (5). Net exports.

The economy of a country cannot be separated from the role of MSMEs (D.L. Birch, 1979 in Tambunan, 2012). In developed countries, MSMEs are very important because they absorb the most labor compared to large businesses. In developing countries, MSMEs play a very important role, especially from the perspective of employment opportunities and sources of income for the poor, income distribution and poverty reduction, and rural economic development (Tambunan, 2012). Judging from its contribution to GDP and non-oil and gas exports, particularly manufactured products, and technological innovation and development, the role of MSMEs in developing countries is relatively low, and this is actually the most striking difference from MSMEs in developed countries.

The employment problem is an imbalance, that is if the supply is greater than the demand for labor, or there is an excess demand for labor. Employment is a matter related to labor before, during, and after the work period (Lalu Husni, 2005). Job opportunities are defined as a demand for labor, which is a condition that describes the availability of jobs that are ready to be filled by job seekers. The high growth of the labor force and limited employment opportunities have resulted in increased unemployment (Payaman, 2005, Susilastuti, 2017).

## 2.2. Hypothesis

The hypothesis proposed is: (1). The export of the Indonesian handicraft industry has an effect on the Gross Domestic Product in the short and long term, and (2). Gross Domestic Product affects the employment of the MSMEs sector in the short and long term.

## 3. Research Methods

This research is a quantitative study with a survey method on secondary data. Secondary time series data are quarterly from 2007 to 2017, or a total of 44 samples determined by purposive sampling. The independent variable is the export value of the Indonesian handicraft industry (Ln\_EXPORT, GDP (Ln\_GDP) as an investment variable and Labor Absorption as the dependent variable (Ln\_EMPLOYMENT) with a recursive relationship. The data analysis method uses OLS Multiple Regression (Ordinary Least Square) with Error Correction Model (ECM) (Gujarati and Parker, 2012). The classical assumption test uses the Normality Test, Multicollinearity Test, Heteroscedasticity Test, and Autocorrelation Test, while the hypothesis test uses the F test and t-test, as well as the Determination test. ECM analysis through 3 steps: (1) data stationary test, (2) co-integration test to determine whether there is a long-term and short-term relationship between variables X and Y, and (3) compile an Error-



Correction Model (Gujarati and Parker, 2012).

The model formulation is:

❖ The Ordinary Least Square (OLS) multiple regression model is:

$$\text{Model 1: } Ln\_GDP_t = \beta_0 + \beta_1 Ln\_EXPORT_t + \varepsilon_t \quad (1)$$

$$\text{Model 2: } Ln\_EMPLOYMENT_t = \beta_0 + \beta_1 Ln\_GDP_t + \varepsilon_t \quad (2)$$

❖ Error Correction Model (ECM) :

$$\text{Model 1: } Ln\_GDP_t = \beta_0 + \beta_1 \Delta Ln\_EXPORT_t + ECT_{t-1} \quad (3)$$

$$\text{Model 2: } Ln\_EMPLOYMENT_t = \beta_0 + \beta_1 \Delta Ln\_GDP_t + ECT_{t-1} \quad (4)$$

Information :

$Ln\_EXPORT$  = Export of Indonesian Handicraft Industry

$Ln\_GDP$  = Gross Domestic Product

$Ln\_EMPLOYMENT$  = Labor Absorption in the MSMEs sector

Model Feasibility Testing is carried out to meet the goodness of an econometric model (Koutsoyiannis, 1997 in Wirasmita, 2008) with the requirements of meeting Theoretical Plausibility, Accuracy of The Estimate of The Parameters, Explanatory Ability, and Forecasting Ability.

## 4. Results And Discussion

### 4.1. Classic Assumption Test and ECM Test

The classical assumption test results for all variables met the requirements. Based on the results of the Jarque Bera histogram test, all variables have a probability value greater than 0.05; based on the Correlation Matrix test, all variables have no variables that have a correlation value above 0.80; with White's Test, all variables Chi-squared Probability value 0.4526 is greater than 0.05. and with the Breusch-Godfrey method, the Chi-squared Probability value is 0.9335 > 0.05.

The first stage of the stationary test was the unit root test. The results of the Augmented Dickey-Fuller (ADF) test at the level that includes

the intercept, all variables at this level have the probability value > 0.05. At this stage, all variables are said to be non-stationary, so it is necessary to test the degree of integration or test of stationary at the degree of the difference until all observed variables are stationary (Gujarati and Parker, 2012). The results of the ADF statistical test on the first difference have shown a probability value <0.05, with all variables not having unit root problems and having stationary data conditions at the first difference level.

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### 4.2. Hypothesis Testing and Determination

#### 4.2.1. Hypothesis Testing Model 1

The long-run estimates of ECM model 1 are presented in the table below:

Table 1. Long-Run Estimation Results Model 1

Dependent Variable: Ln_GDP				
Independent Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	37.19574	5.146388	7.227543	0.0000
Ln_EXPORT	2.862993	0.278094	10.29506	0.0000
<b>R-Squared</b>	<b>0.716194</b>			
Adjusted R-squared	0.709436			

Source: Eviews 8 processed data

The estimation equation is as follows:

$$\text{Ln\_GDP} = 37.19574 + 2.862993 \text{ Ln\_EXPORT} \quad (5)$$

The long-run estimation interpretation is: (1). If the export of the Indonesian handicraft industry is ceteris paribus, then the GDP is worth 37,19574 units and (2). If the export of the Indonesian

handicraft industry increases, the GDP will also increase.

Short Run Estimation Equation Model 1:

Table 2. Short Run Estimation Results Model 1

Dependent Variable: Ln_GDP				
Independent Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.032792	0.004504	7.280566	0.0000
D (Ln_EXPORT)	1.038339	0.042127	2.671292	0.0325
ECT (-1)	-1.020532	0.033487	-2.419503	0.0417
<b>R-Squared</b>	<b>0.678302</b>			
Adjusted R-squared	0.663144			

Source: Eviews 8 processed data

The results of the calculation of the short-term estimate are as follows:

$$\Delta \text{Ln\_GDP} = 0.032792 + 1.038339 \text{ D (Ln\_EXPORT)} - 1.020532 \text{ ECT} \quad (6)$$

Interpretation The results of the short-run model 1 estimate are: (1). If the export of the Indonesian handicraft industry is ceteris paribus, the GDP will be 0.032792 units. (2). If the export of the Indonesian handicraft industry increases, the GDP will also increase. (3). If the Residual / ECT value increases with the assumption that the Indonesian Handicraft Industry Export is constant, then GDP will decrease.

Based on Tables 1 and 2, it is stated that in the long and short term, the export of the Indonesian handicraft industry has a significant positive effect on GDP with a determination coefficient of 0.66 in the short term and 0.71 in the long run.

#### 4.2.2. Hypothesis Testing 2

The results of the estimation of model 2 obtained the results as shown in the table below:

Table 3. Long-Run Estimation Results Model 2

Dependent Variable: Ln_EMPLOYMENT				
Independent Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.72692	0.485367	22.10063	0.0000
Ln_GDP	0.093932	0.005891	15.94630	0.0000
R-Squared	0.858244			
Adjusted R-squared	0.854869			

Source: Eviews 8 processed data

The results of the long-term estimation are as follows:

$$\text{Ln\_EMPLOYMENT} = 10.72692 + 0.093932 \text{ Ln\_GDP} \quad (7)$$

The interpretation of the long-run estimates is: (1). If GDP ceteris paribus, then the MSMEs sector Manpower Absorption is 10.72692 units. (2). If

GDP increases, the MSMEs sector will also increase labor absorption.

#### Short Run Estimation Equation Model 2:

Table 4 Short-Run Estimation Results Model 2

Variable Dependent: Ln_EMPLOYMENT				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.008201	0.007592	2.080183	0.0286
D(Ln_GDP)	0.150448	0.061793	2.434718	0.0195
ECT (-1)	-2.476734	0.113168	-2.637126	0.0311
R-Squared	0.761799			
Adjusted R-squared	0.753563			

Source: Eviews 8 processed data

The results of the calculation of the short-term estimate are as follows:

$$\Delta \text{Ln\_EMPLOYMENT} = 0.008201 + 0.150448 \text{ D(Ln\_GDP)} - 2.476734 \text{ ECT} \quad (8)$$

The interpretation of the short-term estimation results is: (1). If GDP ceteris paribus, then the MSMEs sector Labor Absorption is worth 0.008201 units. (2). If GDP increases, the MSMEs sector will also increase labor absorption. (3). If the Residual / ECT value increases with the assumption of constant GDP, then the MSMEs sector Labor Absorption will decrease.

Based on Tables 3 and 4, it can be stated that in the long and short term, Indonesia's GDP

has a significant positive effect on the MSMEs Sector Labor Absorption with a determination coefficient of 0.75 in the short term and 0.85 in the long run.

#### 4.3. Discussion

##### 4.3.1. The Effect of Indonesian Craft Industry Exports on GDP in the short and long term



Handicraft Industry exports have a significant and positive effect on GDP both in the short and long term. This means that the research results can be used to predict the effect of the export of the Indonesian handicraft industry in a period of less than 1 year or more than a period of 5 years where each increase in the export of the handicraft industry will be followed by an increase in GDP.

The historical development of changes in the industrial era has had a positive effect on the development of the industrial sector and its contribution to GDP, namely from 1965 to increase up to 2010 from 13% to 47%, but decreased until 2017, namely 40% due to increased contributions from the service sector (Bank Indonesia, 2018). The increase in the industrial sector is supported by many things, for example, increased competitiveness of the industry, markets, proactive internal factors (Mwiti, Ofafa, and Jagongo, 2013), conducive macroeconomic factors (Belghitar, Clark and Salma, 2016; Adam et.al., 2017; Simatupang, Apriani and Subawa, 2018; Rudianto et.al., 2019; Rudianto and Susilastuti, 2019), increased consumption (Salim, Susilastuti, Rafiqah, 2020; Saddhono, 2020), as well as an increase in Foreign Direct Investment and export volume (Mahadika, Kalayci, and Altun, 2017). In the era of industry and digital economy, the handicraft industry must be able to increase competitive competitiveness by utilizing information technology, including for industries that produce traditional handicraft products by hand made which are generally carried out by MSMEs.

#### 4.3.2. The effect of GDP on labor absorption in the MSMEs sector in the short and long term.

GDP has a significant and positive effect on Labor Absorption in the MSMEs sector both in the short and long term. This means that the research results can be used to predict the effect of labor absorption in the MSMEs sector in less than

1 year or more than 5 years. Each increase in GDP will be followed by an increase in the absorption of labor in the MSMEs sector.

The development of MSMEs and the creative economy will create new economic sources (Zulaikha, 2014), and encourage regional economic development to create jobs (Herman, 2011), where MSMEs have high economic resilience (Meyer, 2017). MSMEs craftsmen experience a number of obstacles to become committed exporters (Ghouse, 2017), the need for institutional support in entrepreneurship training for the sustainability of the handicraft industry MSMEs (Kazungu et.al., 2018). The absorption of labor by MSMEs not only affects income but what is very important is that it can reduce unemployment and poverty, increase the purchasing power of society and improve welfare (Susilastuti, 2017).

#### 4.4. Model Feasibility Test

The results of the Model Feasibility Test (Koutsoyiannis, 1997 in Wirasasmita, 2008) are Theoretical Plausibility: before and after the estimation is appropriate, namely, the effect is positive, Accuracy of The Estimate of The Parameters: all models  $P\text{-value} \leq 0.05$  means accurate, Explanatory Ability: all SE models  $< \frac{1}{2} \beta$  means high explanatory ability, and Forecasting Ability:  $R^2 > 50\%$  means high predictive ability. Thus the model can be used for policymaking and fulfill the goodness of an econometric model. This is in accordance with the policy direction map by Bank Indonesia in the mapping of the development of MSMEs 2015-2025 (Bank Indonesia, 2016; Utari, Dewi and Ridwan 2019).

#### 5. Conclusion

The conclusion of this research is that the export of the Indonesian handicraft industry has a significant and positive effect on gross domestic product and can be used to predict it in the short and long term. Any increase in handicraft industry

exports can accurately explain an increase in GDP.

Gross Domestic Product has a significant and positive effect on labor absorption and can be used to predict it in the short and long term, each increase in GDP is followed by an increase in the absorption of labor in the MSMEs sector.

Thus, the short-term and long-term policies to increase Indonesia's GDP must always consider efforts to increase exports of handicraft MSMEs that can absorb labor. Increasing labor absorption means reducing unemployment and increasing people's income.

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