

ABSTRACT

Absorptive capacity remains a primary challenge in developing ASEAN countries, preventing host nations from fully optimizing foreign direct investment. This study aims to analyze the role of foreign direct investment (FDI) on national income and other determinants such as labor force, mean years schooling, and inflation in five ASEAN countries from 2009-2023.

This study employs a quantitative approach utilizing secondary data. The method employed is panel data regression analysis using fixed effect model (FEM). The dependent variable is national income (GDP at constant 2015 prices in USD), while the independent variables include FDI, total labor force, mean years schooling, and inflation. The data for these variables are sourced from World Bank, UNCTAD, and UNDP.

The result indicate that FDI does not have a significant effect, as capital flows have not contributed optimally, suggesting low absorptive capacity in the countries under study. Labor force and mean years schooling have a positive and significant effect on national income, indicating that raising in the workforce and education levels drive national income growth. Meanwhile, inflation has not significant effect. This study concludes that economic performance in the ASEAN region is more influenced by domestic factors, such as the quantity and quality of labor force and economic stability, more than foreign investment flows. These findings provide implications for policymakers to enhance the role and optimization of foreign investment to driving national income.

Keywords: *FDI; Labor Force, Mean Years Schooling; Inflation; National Income; ASEAN*

