

## ABSTRACT

*This research aims to analyze the impact of Foreign Direct Investment (FDI) and trade openness on the creation of Manufacturing Value Added in the ASEAN-5 region (Indonesia, Malaysia, Thailand, the Philippines, and Vietnam). Responding to the trend of industrial productivity divergence in the region, this study integrates the average years of schooling as a moderating variable to measure the technology absorptive capacity of the domestic workforce. Utilizing a balanced panel dataset over the 2005–2023 period, the quantitative analysis was conducted using a Fixed Effect Model (FEM) approach corrected by Robust Standard Error, incorporating Gross Domestic Product (GDP) per capita as a control variable.*

*The estimation results indicate that, independently, FDI negatively impacts Manufacturing Value Added due to the crowding-out effect on local industries, whereas trade openness yields a positive impact. However, when interacted with the average years of schooling, the impact of FDI reverses to become positive and significant, further strengthening the benefits of trade openness. This finding affirms that educational quality is an absolute prerequisite acting as a catalyst in the industrialization process. Furthermore, the negative coefficient of GDP per capita provides empirical evidence confirming the symptoms of premature deindustrialization in the ASEAN-5 region. In conclusion, policy strategies to attract foreign investment and integrate into global markets must be accompanied by investments in improving the quality of human resources to prevent detrimental effects on domestic industries.*

**Keywords:** *Manufacturing Value Added, Foreign Direct Investment, Trade Openness, Human Capital, Absorptive Capacity, Southeast Asia.*

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