

## Governance Quality, Foreign Direct Investment and Economic Growth: Evidence from ASEAN Countries

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### **Abstract:**

This study investigates the impact of Foreign Direct Investment (FDI) and governance quality on economic growth in ASEAN countries, using panel data from 2011 to 2022. Applying the System Generalized Method of Moments (GMM) estimator, the study examines the mediating roles of governance quality, human capital development, financial development and trade openness in shaping the FDI-growth nexus. The analysis is further disaggregated into two income-based groups; high & upper-middle-income and lower-middle-income ASEAN countries to account for heterogeneity across development levels. The findings reveal that FDI significantly contributes to economic growth, particularly in higher-income ASEAN countries. Governance indicators, especially regulatory quality, rule of law, and control of corruption enhance growth directly, with stronger effects observed in lower-income economies, highlighting the important role of government in achieving sustainable economic growth for lower-middle-income countries. Mediating roles reveal that trade openness and governance quality consistently amplify FDI's positive impact, especially in more developed ASEAN nations. Interestingly, human capital development appears less effective in lower-income countries.

### **Keywords:**

Economic Growth, Foreign Direct Investment (FDI), Governance Quality, Generalized Method of Moments (GMM), ASEAN.