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TABLE of CONTENTS

FORECASTING THE MALAYSIAN RINGGIT (MYR) EXCHANGE RATE: ARIMA VS GARCH 1 - 16
Rabi'atul Adawiyah Muhamad Shah & Nurul Nisa' Khairol Azmi*

BEHIND THE SCREEN: A SYSTEMATIC REVIEW OF CONTEMPORARY CHALLENGES IN DIGITAL LEARNING 17 - 36
Siti Noorsiah Jamaludin[1*], Abd Samad Hasan Basari[2]

INVESTIGATING THE EFFECTIVENESS OF COLLABORATIVE LEARNING STRATEGIES IN MASTERING THE ARABIC LANGUAGE 37 - 52
Abd Rahman Jamaan*

IMPLEMENTING CLAY SCULPTING AS AN IDEATION STRATEGY IN TEACHING PRODUCT FORM DESIGN TO FIRST-YEAR INDUSTRIAL DESIGN STUDENTS 53 - 68
Mohd Hamidi Adha Mohd Amin[1*]

EXPLAINING ENTREPRENEURIAL INTENTION OF MALAYSIAN PUBLIC UNIVERSITY STUDENTS: THE MEDIATION MODERATED MODEL 69 - 88
Ahmad Nabil Mohd Zahariman [1], Nur Fatin Syazliana Zahar [2] , Nurul Hidayana Mohd Noor[3*] & Syeliya Md Zaini[4]

SUPPLIER SELECTION OF HALAL KOREAN RESTAURANT USING FUZZY TOPSIS 89 - 102
Norpah Mahat[1*], Nurul Aqilah Ahmad [2]

RAINFALL INTENSITY CLASSIFICATION IN SUBANG 103 - 116
Mohamad Aiman Hakim Mohamad Nizam[1], Isnewati Ab Malek[2*] & Jaida Najihah Jamidin[3]

SYNCHRONOUS AND ASYNCHRONOUS CORRECTIVE FEEDBACK FOR GRAMMAR ACCURACY: ESL NOVICE TEACHERS' BELIEFS AND PRACTICES 117 - 130
Aiman Zulaikha Mohd Fadzli [1], Sheela Faizura Nik Fauzi[2*] & Abdul Azim Mahda[3]

DIGITAL SPORTS GRAPHICS AND BRAND PERSONALITY IN THE MALAYSIAN SEPAK TAKRAW LEAGUE 131 - 142
Muhammad Asyraf Hanafi[1] , Neesa Ameera Mohamed Salim[2*] & Azhar Abd Jamil[3]

TOWARDS INCLUSIVE GAMIFIED LITERACY INTERFACES FOR MALAYSIAN STUDENTS WITH DYSLEXIA: INTEGRATING THE DELONE AND MCLEAN INFORMATION SYSTEMS SUCCESS MODEL 143 - 163
Safura Adeela Sukiman[1*]

UNDERSTANDING RECYCLING BEHAVIOR: A STUDY ON UITM SEGAMAT STUDENTS 164 - 176
Nur Diana Zaman[i1], Fatin Farazh Ya'acob[2*], Basri Badyalina[1], Muhammad Zulqarnain Hakim Bin Abd Jalal[1],Amir Imran Zainoddin[2] & Kerk Lee Chang[1]

DOES FDI BENEFIT ALL? EXAMINING INCOME INEQUALITY ACROSS 10 ASEAN NATIONS 177 - 190
Bee-Hoong Tay[1*], Nurulrahwani Hamsan[2], Nurul Dhihani Md Idris[3] & Nurul Hafiizzati M Roslee[4]

MESOPOTAMIAN ARCHITECTURE AS BACKGROUND DESIGN IN CONTEMPORARY ANIMATED SERIES 191 - 209
Nureen Qistina Affandi[1] , Siti Nur Ain Abd Rahman[2*]

TRANSFORMING HRM EDUCATION THROUGH VALUES-BASED PEDAGOGY: THE ADAB+ APPROACH AND CORPORATE RELEVANCE 210 - 224
Muhammad Aiman Awalluddin[1*], Anisa Safiah Maznorbalia[2] & Mohd Ramlan Mohd Arshad[3]

COMPARATIVE ANALYSIS OF PSEUDOCODE AND FLOWCHARTS IN ALGORITHM DEVELOPMENT AMONG FIRST-YEAR COMPUTER SCIENCE STUDENTS 225 - 239
Satria Arjuna bin Julaihi[1], Zubaidah binti Bohari[2*], Rumaizah binti Che Md Nor[3] & Abdul Hadi bin Abdul Talip[4]

EXPLORING THE STUDENT PERCEPTION OF ACRONYM-BASED LEARNING APPROACH IN LEARNING ACCOUNTING PRINCIPLES AMONG NON-ACCOUNTING MAJOR STUDENTS 240 - 258
Siti Aimi Mohamad Yasin[1] , Corina Joseph[2*] & Nur Izyan Ismail[3], Nuraisyah Fitrie Abdullah@Abd Jalil[4], Azmira Abdullah[5]

ZAKAT DISTRIBUTION DECISION BASED ON FUZZY EVALUATION APPROACH 259 - 272
Zamali Tarmudi[1], Noor Syazana Ngarisan[2*] & Muhammad Yassar Yusri[3]

LEAN PRACTICES IN CONSTRUCTION: A COMPREHENSIVE LITERATURE REVIEW ON ENHANCING PROJECT PERFORMANCE 273 - 284
Syed Nasrul Fadzli Syed Mohamad[1*], Mohd Shahnaz Bin Mahbook Ali[2] & Amir Ahzlina Jasni[3]

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DOES FDI BENEFIT ALL? EXAMINING INCOME INEQUALITY ACROSS 10 ASEAN NATIONS

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ABSTRACT

Foreign direct investment (FDI) is commonly known as the driver of economic growth. However, there is no clear consensus regarding its impact on income inequality. This study examines the impacts of FDI on income inequality, together with gross domestic product and inflation, in ten ASEAN countries between 2009 and 2022, using a panel ordinary least squares approach. The findings reveal a positive and significant relationship between FDI and income inequality, supported by the skill-biased technological change hypothesis, which suggests that FDI disproportionately benefits skilled labour and capital owners. On the other hand, in line with the Kuznets hypothesis, gross domestic product is found to have a negative influence on inequality, which suggests that economic growth eventually encourages a more equitable distribution of income. The findings further show that inflation has a marginally significant negative association with income inequality, suggesting that inflation's distributive impacts are complex. Overall, the study emphasizes that to promote inclusive growth, ASEAN policymakers should tailor FDI policies with a focus on institutional quality and human capital development.

1. Introduction

Foreign Direct Investment (FDI) has been regarded as a key driver for economic growth in the Association of Southeast Asian Nations (ASEAN). FDI is important in driving industrialization, technological advancement and job creation. Research on FDI-income inequality nexus revealed

mixed results. On one hand, FDI is found to promote inclusive growth by creating employment and rising wages. On the other hand, FDI is found to excessively benefit capital owners and skilled workers, which then exacerbates income disparities. Therefore, despite the region's prominent GDP expansion over the past two decades, income inequality remains a persistent challenge. Income inequality refers to the unequal distribution of income within a country. The U.S. Bureau of Economic Analysis (2025) explains income inequality using the Gini coefficient (GINI), a widely recognized indicator of how income is divided within a population. Perfect equality is represented by a Gini coefficient of 0, where everyone has the same income. In contrast, perfect inequality is represented by a Gini coefficient of 1, which means one person gets all the income. Greater income disparity in society is correlated with higher Gini coefficients. The degree to which income distribution deviates from ideal equality is captured by this metric, which shows that income concentration among higher incomes increases as the Gini coefficient grows. Consequently, the disparity between the poor and the rich would continue to rise.

Income inequality is a concern facing developing countries in ASEAN. Income inequality in ASEAN is a complex issue and is a severe concern for countries in the region. This issue arises due to the inequality in income between different populations and regions in ASEAN. Even though a region's economic growth level continues to increase, income inequality is still an unresolved problem. While some economies, such as Thailand, the Philippines, and Malaysia, have managed to combine FDI inflows with relatively stable inequality levels, other countries, such as Singapore and Indonesia, continue to experience perpetuated income gaps despite increasing foreign capital inflows (Farhan et al., 2014). Based on Gini index data compiled by the World Bank, income inequality across ASEAN nations is still relatively high. This disparity raises a critical question of whether FDI promotes inclusive growth or exacerbates income inequality in ASEAN. Existing studies on FDI and income inequality have primarily focused on developed economies or single-country analyses, leaving a gap in cross-country comparative research on ASEAN. Given the region's economic diversity and reliance on FDI, a comprehensive examination is necessary to determine whether FDI contributes to equitable growth or worsens inequality.

This study addresses these gaps by conducting a regional data analysis of FDI's impact on income inequality using panel data of the ten ASEAN nations from 2009 to 2022. The ASEAN region offers a unique case for study due to its varying levels of economic development, diverse FDI policies, and contrasting inequality trends among member states. Using panel data on FDI, this study examines whether FDI inflows affect income inequality in ASEAN economies, along with the impact of gross domestic product (GDP) and inflation. Our findings contribute to both academic and policy debates. For scholars, this study resolves contradictions in prior literature by providing a unified, regional perspective. For policymakers, it offers evidence-based recommendations to harness FDI for equitable growth, particularly as ASEAN navigates evolving challenges like automation and green transition. By answering whether FDI truly benefits all, this research aims to inform strategies that ensure the region's economic integration leaves no one behind.

2. Literature Review

The relationship between Foreign Direct Investment (FDI) and income inequality is rooted in two competing theoretical perspectives. According to the neoclassical growth model, FDI reduces inequality by creating jobs, transferring technology, and raising wages for low-skilled workers (Borensztein et al., 1998). In contrast, the skill-biased technical change (SBTC) hypothesis (Feenstra & Hanson, 1995) argues that FDI widens income gaps by favoring skilled labor and capital-intensive sectors. Recent studies in ASEAN support both views, highlighting the need for contextual analysis.

FDI's impact on income inequality in ASEAN nations is not uniform. Several papers report that FDI may increase income disparities, while others show a reduction in inequality. For example, Khan et al. (2021) showed that, between 1990 and 2016, inward foreign direct investment (FDI) had an impact on the distribution of wealth in five South Asian nations: Bangladesh, India, Nepal, Pakistan, and Sri Lanka. In their investigation of the relationship between innovation and foreign direct investment (FDI) in the Vietnamese provinces, Pham et al. (2025) find that FDI and income inequality are inversely correlated, meaning that FDI lowers inequality. The study's conclusions advance Sustainable Development Goal (SDG)10 on inequality reduction by offering insights and policy implications for encouraging inclusive innovation and sustainable investment. However, Abdi et al. (2025) found that FDI is significantly connected to falls in income inequality only in the short run in Somalia from 1990 to 2020. Nguyen (2018) identifies significant thresholds in Vietnam at 4.38% and 11.96% of GDP, where FDI was correlated with higher inequality. Beyond these thresholds, FDI exerted a negative effect on income equality. The results show that FDI can influence inequality indirectly through its impact on GDP. Anasta and Sylviana (2024) document that increasing FDI can reduce income inequality, where a 1% rise in FDI leads to a 0.38% decrease in the Gini coefficient across ASEAN countries. Other studies report findings that vary by country, sector, and moderating factors such as GDP, trade openness, education, employment patterns, and institutional quality. In Malaysia, Indonesia, Thailand, and the Philippines, the effects range from reductions consistent with broader economic growth to increases driven by sectoral differences in FDI. In Malaysia, the Philippines, and Thailand, Farhan et al. (2014) report that FDI tends to lower inequality, whereas in Singapore and Indonesia, FDI appears to increase it. Ridzuan et al. (2014) distinguish between time horizons by showing that an increase in FDI inflow reduces income inequality in the long run while producing mixed short-run outcomes in the selected ASEAN countries, namely Malaysia, Indonesia, Thailand, Singapore, and the Philippines.

In contrast, Pham et al. (2023) report that, when trade openness, education, and GDP across nine ASEAN countries are taken into account, FDI is associated with rising inequality from 1990 to 2020. Nurazi and Usman (2019), focusing on financial development, do not find evidence that FDI directly affects income inequality. Conditional factors emerge across these studies. For example, both country-specific characteristics and macroeconomic variables such as GDP per capita and trade openness modulate the FDI-inequality relationship. These results illustrate how FDI's influence hinges on context: in some settings, it supports pro-equity outcomes, while in others, it contributes to widening disparities. Using a panel data regression model, Fazaalloh (2019) investigates how foreign direct investment (FDI) affected income inequality in 33 Indonesian regions between 2012 and 2016. The findings demonstrated that FDI directly and insignificantly affects income inequality. Through economic expansion, FDI was found to have an indirect and detrimental impact on income disparity. Additionally, there is no evidence of a non-linear relationship between FDI and income inequality, and the indirect impacts of FDI on income disparity through trade and education are statistically insignificant. Arshad and Islam (2020) suggest that FDI perpetuates income inequality in ASEAN using panel data for the period 1990-2015.

Several studies support the Kuznets Hypothesis, which posits that inequality initially rises with economic development but eventually declines as economies mature (Kuznets, 1955). Recent research indicates that GDP growth can reduce inequality through employment creation, pro-poor fiscal policies, and technology diffusion. Nonetheless, GDP per capita shows divergent effects on income inequality. Maichal et al. (2024) examined the GDP-GINI nexus based on the panel data regression analysis method of 34 provinces in Indonesia from 2015 to 2023. The results signify that higher per capita GDP contributes to increased income inequality across the Indonesian provinces and highlight the critical role of regional governments in addressing these disparities. Anasta and Sylviana (2024) observe that higher GDP per capita elevates inequality, as evidenced by a positive and statistically significant relationship with income inequality in ASEAN from 2009 to 2021.

Ramadhan et al. (2023) demonstrated that the income inequality between districts/cities in East Java Province will increase with more Gross Regional Domestic Product (GRDP), suggesting that GDP has a positive and significant effect on income inequality between districts/cities in East Java Province. GDP is one of the crucial factors of income inequality in the Asian region.

According to Deyshappriya (2017), income inequality is positively impacted by the log of GDP (lnGDP), however, in 33 Asian economies, the square of lnGDP has a negative impact. The existence of a parabolic relationship between GDP and income inequality is evident from this relationship. Income inequality, in particular, rises first when GDP rises and then falls with subsequent GDP increases. Even though economic progress is typically associated with higher living standards, several emerging nations have seen rising rates of poverty and widening income gaps in spite of ongoing economic growth (Mohamed & Abdi, 2024). The fact that growth by itself does not guarantee widespread prosperity is reflected in this conundrum. The benefits of economic growth tend to accrue disproportionately to already wealthy portions of society in the absence of efficient redistributive processes, thus widening social divides (Estes, 2019). Because high income disparity reduces aggregate demand, which in turn limits investment in human capital and fuels social instability, it can jeopardize long-term economic performance (Arifin, 2024).

Conversely, Ridzuan et al. (2014) indicate that GDP plays a mitigating role by reducing inequality using data from five ASEAN countries. Pham et al. (2023) supported the results using data from 1990 to 2020 for nine ASEAN countries, proving that GDP per capita negatively affects income inequality. In Thailand, Nittayakamolphun et al. (2024) further supported the impacts of GDP per capita on the reduction of income inequality, but the relationship between income inequality and GDP can yield different outcomes. Claveria (2025) found diverse evidence of the impact of GDP on income inequality across 53 Asian economies using Kuznets' curve theory from 1990 to 2021. While significant U-shaped and inverted N-shaped relationship patterns were found in East and South Asia and Central Asia, West and Southeast Asia demonstrate similar U-shaped trends, but the results were not statistically significant. Salim et al. (2020) found that economic growth in Indonesia has not significantly reduced income inequality during the period 2003-2018.

Inflation effects are similarly mixed. According to Sieroń (2017), the increase in wealth disparity in the United States throughout the 1970s may have been caused by inflation, which picked up speed following the Bretton Woods system's collapse in 1971. According to the author, inflation adds to the rise in income and wealth disparity since the relatively poor spend a larger proportion of their income on consumer goods that increase in value more quickly than financial assets. According to Zandi et al. (2022), inflation has a strong positive correlation with the GINI index, making it one of the main causes of rising income inequality in 12 developing Asian nations from 2006 to 2020. A long-term, positive, and significant correlation between inflation and income disparity between 1990 and 2015 is confirmed by Muhibbullah and Das (2019). According to the authors, income inequality rises by 4.99% for every 1% increase in inflation.

On the other hand, Maneethai (2021) discovered that while the inflation rate had a negative effect on income disparity in Thailand during the 1980s to 1999, it had a favorable effect during the 2000s to 2020s. Pham et al. (2023) report that inflation reduced inequality significantly in nine ASEAN countries from 1990 to 2020. According to Suratman and Mayudi (2022), inflation has a major effect on income disparity. The report emphasizes how important inflation is to lower inequality and advancing ASEAN economic integration. From 1990 to 2017, Berisha et al. (2023) found that inflation has a negative contemporaneous effect on inequality and that this effect gets stronger as income inequality increases in the US. However, only when income inequality is initially relatively modest do the authors find that an increasing inflation rate over a one-year period raises income inequality.

In a study spanning data from 1990 to 2013, Deyshappriya (2017) emphasized that inflation is one of the important factors influencing income distribution across 33 Asian nations. According to the study, unemployment and inflation both raise income, and higher inflation has a negative impact on the purchasing power of the poor relative to the rich, which in turn causes the income gap between the two groups to widen. According to Thye et al. (2021), inflation may make the ASEAN-5 countries' income inequality worse. According to the findings, there would be a three-percentage-point increase in income disparity for every 1% increase in Singapore's per capita income. This means that while the lower-income group would continue to live in poverty, the wealth of the top-income or elite group would increase as the nation's average income rose. Because inflation would raise the sales revenue and net income of affluent businessmen, it is not shocking to learn that it would widen the income gap between the rich and the poor. However, in a study that examines how monetary policy affects income distribution, Altunbaş and Thornton (2022) used a panel of 121 advanced and developing economies from 1971 to 2015 to examine the effects of implementing an inflation targeting regime to direct monetary policy. They discovered that the inflation coefficients are never statistically significant.

3. Data and Methodology

This study employed annual data of all ten ASEAN countries from 2009 to 2022, with a total of 140 observations that account for the effects of the COVID-19 pandemic. The income inequality is represented by the GINI coefficient (GINI), foreign direct investment (FDI) is represented by the foreign direct investment net inflows (% of GDP), gross domestic product (GDP) is represented by the gross domestic product per capita, and the inflation rate (*INF*) is calculated based on consumer prices. The GINI and GDP data are derived from the World Income Inequality Database (WIID), and data for FDI and INF are derived from the World Bank Database.

The following is the study's hypothesis statement. As the null hypothesis, we postulated that there is no meaningful correlation between income inequality and the variables we have chosen, specifically foreign direct investment, gross domestic product, and inflation rate.

H_0: There is no significant relationship between the chosen variables and income inequality.
H_1: There is a significant relationship between the chosen variables and income inequality.

The study is analyzed using the pooled ordinary least squares (POLS) approach, which is stated as follows:

$$GINI_{it} = \beta_0 + \beta_1 FDI_{it} + \beta_2 GDP_{it} + \beta_3 INF_{it} + e_{it} \quad (1)$$

where $GINI_{it}$ represents income inequality, β_0 represents a constant, and β_1, β_2, and β_3 denote coefficients of independent variables. FDI_{it} stands for foreign direct investment, GDP_{it} for gross domestic product per capita, INF_{it} for inflation rate, and e_{it} for error term. *i* represents ten ASEAN countries: Malaysia, Thailand, Singapore, the Philippines, Indonesia, Brunei, Cambodia, Laos, Vietnam, and Myanmar, while *t* represents the years 2009-2022.

This study hypothesizes that FDI is positively related to income inequality. FDI is frequently regarded as a key driver of economic growth, fostering job creation, capital formation, and technology transfer (Magazzino & Mele, 2022). Multinational firms' arrival, however, might worsen pay inequality in the host countries, making FDI a driver of inequality. This is because, instead of being reinvested locally, a sizable amount of the earnings made by these firms is sent back to their home nations (Indra, 2019). Furthermore, a significant portion of the local population is often left out of FDI-driven

employment prospects due to their skill-intensive character, especially in developing nations with inadequate education and training systems (Borensztein et al., 1998).

On the other hand, the study posits a negative impact of GDP on income inequality. According to the Kuznets hypothesis, income inequality and economic progress have an inverse U-shaped relationship (Kuznets, 1955). The hypothesis holds that when industrialization concentrates wealth among a small group of people, especially urban elites, inequality tends to rise in the early phases of economic expansion. However, as economies grow and diversify, structural changes like increased access to education, urbanization, and the institutionalization of redistributive policies lead to a more equitable distribution of wealth over time (Thomas, 2015). According to the concept, economic expansion modifies the sectoral distribution of income and employment. Initially, workers move from low-productivity agriculture, which is usually characterized by relative income homogeneity, to the industrial sector, where wage disparities are more pronounced. Inequality is originally made worse by this shift. However, it is anticipated that gaps will decrease as industrialization progresses due to increasing investment in human capital, the formal expansion of the labor market, and the state's ability to execute inclusive policies (Melikhova & Čížek, 2014; Riveros et al., 2022).

This study postulates that inflation is positively associated with income inequality. This is based on the observation that macroeconomic instability brought on by higher inflation discourages long-term investment and jeopardizes the chances of sustained economic growth (Albanesi, 2007). Inflation exacerbates already-existing gaps by disproportionately reducing the real incomes of lower-income households, who allocate greater proportions of their income to necessities (Abdi et al., 2024; Law & Soon, 2020).

4. Results

Table 1 reported the descriptive statistics relating to the panel data of the GINI coefficient (GINI), foreign direct investment (FDI), gross domestic product (GDP), and inflation rate (INF) for the ten ASEAN nations, covering 140 annual observations from 2009 to 2022. The mean values for GINI, FDI, GDP, and INF are 39.34, 5.83, 12663.36, and 3.31, respectively. The variable FDI stands out with the lowest mean value of -1.75, while GDP exhibits the highest mean value of 88428.72, indicating variation across the observed series during the study period. The variable inflation demonstrates the smallest deviation from the mean, with a standard deviation of 3.43, while GDP exhibits the highest standard deviation of 19234.71. While the GINI series are comparatively symmetric, the FDI, GDP, and INF data are all right-skewed, with inflation data showing the highest degree of skewness. With a minimum value of 3.52 for the GINI and a maximum of 14.09 for the inflation rate, the distributions' overall kurtosis is greater than three, indicating that the observed series exhibits significant leptokurtic behavior. Consequently, the skewness and kurtosis results demonstrated that neither of the return series was normally distributed. The Jarque-Bera test results verified that all of the variables had non-normal distributions.

Table 1
Descriptive Statistics

Variable	GINI	FDI	GDP	INF
Mean	39.34	5.83	12663.36	3.31
Median	40.00	3.77	3562.50	2.94
Maximum	49.00	31.62	88428.72	22.96
Minimum	27.00	-1.75	593.45	-1.26

Std. Dev.	4.85	6.48	19234.71	3.43
Skewness	-0.64	2.27	1.97	2.63
Kurtosis	3.52	7.84	5.90	14.09
Jarque-Bera	11.14	256.89	139.69	879.60
Probability	0.00	0.00	0.00	0.00
Sum	5507.04	816.75	1772870.00	463.91
Sum Sq. Dev.	3268.14	5836.84	5.1E+10	1631.03
Observations	140	140	140	140

Note: GINI denotes income inequality; FDI, GDP, and INF denote foreign direct investment, gross domestic product and inflation rate, respectively.

Table 2 reports the correlation analysis between the GINI and the explanatory variables, i.e., FDI, GDP, and INF. Both FDI and INF recorded positive low correlations with the GINI; however, only FDI and GINI exhibit significant correlation. In contrast, GDP has a significant negative correlation with GINI. While GDP and INF reported a negative significant correlation, FDI revealed a positive and significant correlation with GDP (0.7280) but a negative and non-significant correlation with INF.

Table 2
Correlation Analysis

Variable	***Gini***	***FDI***	***GDP***	***INF***
Gini	1			
FDI	0.1883**	1		
GDP	-0.3348***	0.7280***	1	
INF	0.0924	-0.1019	-0.2941***	1

Note: GINI denotes income inequality; FDI, GDP, and INF denote foreign direct investment, gross domestic product and inflation rate, respectively. *** and ** indicate significance at 1% and 5% levels.

Table 3 shows the results of pairwise Dumitrescu-Hurlin panel causality tests. The results indicate that FDI Granger causes GINI significantly at five and one percent levels for the countries in the panel. Homogeneous causality is rejected, indicating that causality is present but may vary across units. Moreover, there is strong evidence to reject the null hypothesis that GDP does not homogeneously cause GINI. GDP Granger causes the GINI index in at least some of the panel units, with statistical significance at a one percent level. This suggests a robust predictive causal effect of GDP on income inequality. However, the study failed to reject the null hypothesis for inflation. There is no strong evidence that inflation Granger causes GINI across the panel units homogeneously. Thus, the causality from inflation to income inequality is not supported by the data.

Table 3
Panel Causality Tests

Null hypothesis	W-Stat.
FDI does not homogeneously cause GINI	2.8137**
GDP does not homogeneously cause GINI	3.4447***
INF does not homogeneously cause GINI	2.0103

Note: GINI denotes income inequality; FDI, GDP, and INF denote foreign direct investment, gross domestic product and inflation rate, respectively. *** and ** indicate significance at 1% and 5% levels.

In the three models, FDI was the variable with statistically significant links to the GINI, as shown in Table 4. Similarly, in Models 1 and 2, GDP and GINI have a significant association. In Model 1, there is a considerable negative correlation between the inflation rate and GINI; however, this is not the case in Model 3. While the inflation rate had no discernible impact on the GINI in Model 3, it did have a weakly significant negative association with the GINI in Model 1.

A good regression model should only include significant independent variables. Therefore, the chosen model is Model 1, which includes three significant factors that influence the GINI, namely FDI, GDP, and INF. This is supported by Model 1's lowest Akaike info criterion of 5.3058 and greatest adjusted R-square of 0.5122 out of the three models. Consequently, the null hypothesis of no significant relationship between the chosen variables and the income inequality for Model 1 is rejected. An R-squared of 0.5227 indicates that approximately 52.27 percent of variation in income inequality can be explained by the three explanatory variables. Nonetheless, the residuals of Model 1 show a substantial positive autocorrelation, as indicated by the Durbin-Watson (DW) value of 0.3475. This implies a considerable potential for the model residuals to be correlated over time, which could lead to misleading inference, e.g., inflated t-statistics and underestimated standard errors. As a result, the model needs to be carefully interpreted.

Table 4
Summary of Regression Models

Variable	Model 1	Model 2	Model 3
C	39.16***	38.53***	37.94***
FDI	0.7098***	0.6878***	0.1495**
GDP	-0.0003***	-0.0003***	
INF	-0.1744*		0.1596
R-squared	0.5227	0.5092	0.0480
Adjusted R-squared	0.5122	0.5021	0.0341
F-statistic	49.64***	71.08***	3.4559**
Akaike info criterion	5.3058	5.3193	5.9818
Durbin-Watson stat	0.3475	0.2828	0.0469

Note: GINI denotes the income inequality; FDI, GDP, and INF denote foreign direct investment, gross domestic product and inflation rate, respectively; R-squared represents the coefficient of determination. ***, **, and * indicate significance at 1%, 5%, and 10% levels.

The following equation represents the model 1 mathematical equation:

$$GINI = 39.16 + 0.7098FDI - 0.0003GDP - 0.1744INF + e \quad (2)$$

According to model 1, the GINI can be explained by GDP and FDI at the one percent statistical significance level. FDI and GINI are positively correlated; for every unit increase in FDI, the GINI rises by 0.7098 units. GDP and GINI, on the other hand, have a weakly significant negative association. GINI will decrease by 0.0003 for every unit rise in GDP. At the low significance level, INF and GINI are likewise negatively correlated. The GINI decreases by 0.1744 units for every unit increase in the inflation rate.

5. Discussion

The study's findings regarding the nexus between FDI and income inequality align with the skill-biased technical change (SBTC) theory, which asserts that FDI exacerbates income disparities by privileging skilled labor and capital-intensive industries (Feenstra & Hanson, 1995). The finding of FDI being a driver of inequality is supported by Pham et al. (2023). Although FDI has a good impact on economic growth, it is especially concerning for ASEAN because it creates income disparity in the region. This is because FDI-induced increases in income disparity have the potential to subsequently counteract economic development by slowing growth rates and causing other unfavorable social, political, and economic repercussions. Therefore, the participating nations must concentrate on local factors like absorptive capacity, human capital, and institutional quality in order to reduce the negative externality of FDI on income inequality for ASEAN in the future. Equal access to education and sufficient assistance for reducing the reliance of educational potential on social and personal conditions should be guaranteed by the expanding ASEAN economies (Arshad and Islam, 2020).

SDG 10, which focuses on reducing inequality, aligns closely with policy implications aimed at lowering income disparity (Pham et al., 2025). To accomplish SDG10 and other related goals, policymakers should encourage investment in new devices and equipment that increase labor productivity and revenue. Furthermore, policies should ensure that advantages of innovation are broadly shared across society, by enforcing regulations that prioritizes education and skill development to assist workers in adjusting to new technologies. By providing financial, technical, and training support to businesses in rural and remote areas, policymakers can draw foreign direct investment (FDI) to priority sectors that promote equitable development. They can also encourage collaboration and knowledge transfer between domestic and foreign businesses through partnerships and technology-sharing programs. Additionally, encouraging domestic companies to participate in the global value chain can result in the creation of many job opportunities and steady incomes. Policies that provide funding and tax benefits can encourage both international and domestic investment in innovation.

The results of the negative impact of GDP on income inequality are aligned with Ridzuan et al. (2014), Pham et al. (2023), and Nittayakamolphun et al. (2024). In line with the theoretical framework put forth by Kuznets (1955) and backed by empirical data, the study's findings validate the existence of the Kuznets curve in ASEAN. According to this inverted U-shaped relationship, income inequality first rises in the early phases of economic development as growth-related gains are not fairly dispersed because of disparities in access to capital, education, and job possibilities. However, when the economy develops, the income gap may start to close as a result of redistributive policies, social safety system development, and investments in human capital. According to this pattern, long-term inequality reduction may be greatly aided by inclusive policy initiatives, institutional improvement, and steady economic growth (Abdi et al., 2025). This is supported by Islam and Azad (2024), who explained that during its early stages of growth, income

disparity rose. However, as investments in human capital grew, the gaps started to close. According to Chowdhury et al. (2021), inequality rose during times of economic liberalization, highlighting the need for redistributive measures to be implemented alongside growth-oriented policies. Mdingi and Ho (2021) assert that governmental interventions and structural changes are necessary for the effects of growth on income distribution.

The result of inflation contrasts with the hypothesized relationship. The study found a negative impact of inflation on income inequality, which indicates that higher inflation reduces inequality. The results support the findings of Maneethai (2021), Pham et al. (2023), Suratman and Mayudi (2022), and Berisha et al. (2023). According to Hu et al. (2021), the relationship is dependent on both a nation's technological advancement and global real interest rates. Through efficient monetary policies and focused social protection initiatives, nations with robust governance frameworks are better equipped to lessen the distributional effects of inflation (Haini et al., 2023; Law & Soon, 2020). In order to preserve the purchasing power of low-income households, these phenomena necessitate coordinated labor market and macroeconomic policies centered on job creation, especially for young people and low-skilled workers, and price stability (Abdi et al., 2025). These policies could significantly lessen income inequality if they are well thought out and put into action.

6. Conclusion

Despite the ASEAN countries' steady economic growth and rising foreign direct investment (FDI) inflows, income inequality is still a significant and enduring problem. In line with the skill-biased technological change theory, which maintains that FDI benefits skilled workers and capital-intensive industries, this study offers solid empirical evidence that FDI inflows in ASEAN nations typically result in greater income inequality. The Kuznets curve theory, which holds that long-term development promotes income equity, is supported by the finding that economic growth, as indicated by GDP per capita, lowers income disparities. Curiously, inflation seems to have a negligible detrimental effect on income inequality, indicating that national characteristics like social safety nets and monetary policy frameworks may mitigate its consequences. The findings of the study have some important implications for policy, as it highlights the need for ASEAN nations to build institutional frameworks, boost education and skill development, and increase absorptive capacities in order to lessen the unequal distributive consequences of foreign direct investment. Sustainable economic growth combined with targeted redistributive measures may provide more equitable prosperity in the area.

This study, however, is subject to several shortcomings. First is its dependence on aggregate national-level statistics, which could mask sectoral and intra-country differences in the relationship between FDI and inequality. Furthermore, the model finds significant autocorrelation in the residuals, suggesting potential; time-series dependencies. Future studies should address this issue using more sophisticated econometric methods such as instrumental variable approaches or dynamic panel models (including system GMM) to obtain more reliable and robust inference. The pooled ordinary least squares (POLS) approach used in the study is subject to bias when heterogeneous slopes eist across countries. Therefore, future studies should consider more advanced methodologies that address this limitation, such as fixed-effects or random-effects estimation, to ensure a more appropitate model specification. Additionally, the study's period does not include more recent global economic upheavals that occurred after 2022 due to the availability of the GINI dataset, indicating the need for continued examination. This work could be expanded in the future by evaluating nonlinear dynamics and threshold effects across ASEAN nations, integrating micro-level data, and investigating the role of trade openness, institutional quality, and technology advancement in mediating the impacts of FDI on income inequality.

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