

Tourism Driving Growth: ASEAN 5 Policy Challenges

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Abstract

Research Originality: This study presents a unified dynamic panel approach for the ASEAN-5, offering fresh empirical insights by integrating tourism and macroeconomic dimensions to reveal unexplored growth-policy linkages.

Research Objectives: The main objective is to examine short-run and long-run determinants of GDP growth, with emphasis on tourism, macroeconomic stability, and fiscal policy.

Research Methods: The study employs a robust fixed-effects panel model and a dynamic Panel VAR, complemented by IRF and VD, to capture short-run shocks, long-run responses, and determinants of change in ASEAN-5.

Empirical Results: Tourism, inflation, exchange rate, and fiscal expenditure are the main factors shaping GDP growth in ASEAN-5. In the short run, tourism expansion and moderate inflation support growth, while fiscal imbalance and currency depreciation weaken it. In the long run, tourism remains a structural driver, but persistent fiscal imbalances and exchange rate depreciation have negative effects. Inflation's influence fades over time. FDI and trade openness show no significant impact, reflecting dependence on sectoral allocation and institutional quality.

Implications: Policymakers should strengthen tourism, optimize FDI for infrastructure development, pursue pro-growth fiscal strategies, and safeguard stability, aligned with ASEAN integration goals.

Keywords:

tourism impact; inflation effects; exchange rate depreciation; fiscal imbalance; trade openness

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INTRODUCTION

Economic growth is widely acknowledged as a primary indicator of development success in Southeast Asia. The ASEAN-5—Indonesia, Malaysia, Thailand, the Philippines, and Vietnam—account for more than 70% of ASEAN's total GDP, making them the central engines of regional prosperity (Baek et al., 2023). Their growth trajectories directly shape ASEAN's competitiveness in the global economy, while their integration into global supply chains underscores their strategic role in international development. In 2025, ASEAN-5 economies contributed approximately 72% of ASEAN's total GDP, highlighting their dominance in regional ASEAN output (ASEAN Secretariat, 2025; Baek et al., 2023). With populations exceeding 600 million, -5 provides both a vast consumer base and a competitive labor force that attracts multinational corporations (World Bank, 2025). Their expanding industrial bases have positioned them as hubs for manufacturing, services, and tourism, with Vietnam and Indonesia emerging as leading destinations for export-led manufacturing and FDI inflows exceeding USD 20 billion annually (Sumani & Saadah, 2026; UNCTAD, 2024; Voa & Hob, 2025).

Integration into international trade and investment flows further reinforces ASEAN's relevance in global markets. Malaysia and Thailand, for instance, record trade openness ratios above 100% of GDP, reflecting their deep integration into global value chains (Yong et al., 2024). Meanwhile, Thailand's tourism sector welcomed nearly 40 million international arrivals pre-pandemic, highlighting the sector's contribution to foreign exchange earnings and employment (World Tourism Organization, 2024). Fiscal expansion in infrastructure and digital innovation has also strengthened competitiveness, with ASEAN-5 governments allocating 5–7% of GDP to public investment (Prasetyia et al., 2026). This combination of scale, openness, and sectoral diversity explains why IMF and World Bank studies consistently treat ASEAN-5 as the core analytical group. Their economic performance not only drives ASEAN's aggregate growth but also shapes the region's resilience against global shocks (Baek et al., 2023).

Stable growth in ASEAN-5 is essential not only for global integration but also for domestic welfare. Sustained expansion raises per capita income, creates employment opportunities, and reduces poverty. Consequently, identifying the drivers of growth in ASEAN-5 is critical for designing effective development policies (Prasetyia et al., 2026). This study examines both short-run and long-run determinants of GDP growth in ASEAN-5, with particular emphasis on tourism, fiscal policy, and macroeconomic stability. By integrating these dimensions, the research aims to provide comparative evidence to inform both academic debates and policy design.

Despite extensive empirical work, scholarly debates remain unsettled regarding the relative importance of tourism, FDI, fiscal expenditure, trade openness, inflation, and exchange rate stability. Some studies emphasize the tourism–growth nexus, arguing that tourism expansion generates foreign exchange and employment (Liu et al., 2025). Others highlight the role of FDI in financing industrial upgrading and infrastructure (Herasymenko, 2025). Fiscal expansion has also been studied as a driver of productivity and competitiveness (Prasetyia et al., 2026; Yong et al., 2024). However, these contributions

often remain fragmented, focusing on bilateral relationships or single-country case studies. While valuable, such approaches fail to capture the simultaneous and interactive effects of multiple growth drivers. In reality, tourism, finance, and fiscal policy are interdependent: tourism attracts FDI, fiscal expenditure supports infrastructure that enables both tourism and investment, and macroeconomic stability conditions the effectiveness of all three. Without a unified framework, the literature risks oversimplifying ASEAN-5's growth dynamics and underestimating the complexity of regional interdependence.

Few studies have systematically integrated fiscal, financial, and tourism variables into one empirical model using annual panel data across ASEAN-5, as most existing research remains country-specific with limited comparative evidence (Yong et al., 2024). Moreover, prior analyses often fail to account for dynamic interactions and temporal shocks that characterize emerging economies, leaving the literature fragmented and incomplete. This study addresses that gap by presenting a unified panel framework that incorporates tourism arrivals, FDI inflows, government expenditure, trade openness, inflation, and exchange rate stability. By analyzing standardized data from 2010–2025, the research captures both static relationships and dynamic interdependencies, thereby offering a more holistic understanding of growth trajectories. This approach is novel not only because it strengthens empirical validity but also because it enhances policy relevance, as ASEAN leaders need integrated insights to design coordinated strategies under the ASEAN Economic Community (ASEAN Secretariat, 2025; Baek et al., 2023).

This study examines short-run and long-run determinants of GDP growth in ASEAN-5, with particular emphasis on tourism, fiscal policy, and macroeconomic stability. Specifically, it seeks (1) to identify the relative contributions of tourism, fiscal expenditure, inflation, and exchange rate movements to GDP growth, (2) to assess the persistence of these effects over time using dynamic panel methods, and (3) to provide comparative evidence that informs academic debates while supporting policy design for sustainable growth in ASEAN-5.

This research makes a twofold contribution. First, it enriches academic discourse by moving beyond fragmented bilateral analyses to present a comprehensive cross-sectoral nexus that reflects the realities of ASEAN-5's economic development. By employing both fixed-effect panel regression and dynamic Panel VAR analysis, the study captures country heterogeneity, short-run shocks, and long-run equilibrium relationships. Second, it provides actionable recommendations for policymakers. Tourism emerges as a sustainable growth engine, fiscal discipline proves essential for resilience, and exchange rate stability is critical for maintaining competitiveness. While FDI and trade openness show weaker statistical significance, their strategic importance remains, particularly when supported by institutional reforms and sectoral allocation.

METHODS

This study employs annual panel data from 2010 to 2025 covering the ASEAN-5 economies—Indonesia, Malaysia, Thailand, the Philippines, and Vietnam. The period

2010–2025 captures the post-global financial crisis recovery, the implementation of ASEAN Economic Community initiatives, and recent structural shifts in tourism and macroeconomic policy. The ASEAN-5 countries are chosen because they represent the region's largest and most dynamic economies, with significant tourism sectors and diverse macroeconomic policy experiences. This selection ensures comparability, data availability, and relevance for regional growth analysis, while excluding smaller economies with limited or inconsistent data coverage.

The model uses independent variables that represent fundamental drivers of economic growth (Minteh et al., 2025; Tabash et al., 2023) and are consistently reported in international databases for cross-country comparability. By focusing on these core determinants, the study builds a representative framework of growth dynamics, formally expressed in the equations below. Data are drawn from the World Bank, IMF, UNWTO, and ASEANstats, ensuring empirical reliability and transparency

The empirical framework adopts a panel regression model to estimate the direct effects of macroeconomic variables on GDP growth. The specification is expressed as:

$$GDPG_{it} = \alpha + \beta_1 TOUR_{it} + \beta_2 FDI_{it} + \beta_3 FISC_{it} + \beta_4 TRADE_{it} + \beta_5 INF_{it} + \beta_6 EXCH_{it} + \mu_i + \varepsilon_{it} \quad (1)$$

where:

$GDPG_{it}$ = GDP growth of country i in year t

$TOUR_{it}$ = Tourism arrivals

FDI_{it} = FDI inflows

$FISC_{it}$ = Government expenditure (% of GDP)

$TRADE_{it}$ = Trade openness

INF_{it} = Inflation rate

$EXCH_{it}$ = Exchange rate stability

μ_i = country-specific effect (capturing unobserved heterogeneity)

The methodological design combines panel regression (FEM) and Panel VAR to examine growth determinants in ASEAN-5. FEM captures country heterogeneity and provides static estimates of GDP growth drivers, while Panel VAR extends the analysis to dynamic interrelationships and temporal shocks. This dual approach is well suited for emerging economies, balancing static significance with dynamic insights. Lag structures are selected using AIC and SC to ensure optimal model fit and parsimony. The Panel VAR can be expressed as:

$$Y_{it} = A(L)Y_{it} - 1 + \mu_i + \varepsilon_{it} \quad (2)$$

where Y_{it} is the vector of endogenous variables ($GDPG$, $TOUR$, $DFISC$, INF , $EXCH$), $A(L)$ is the lag polynomial that contains the coefficients of the relationships among variables at specific lags, μ_i captures country-specific fixed effects (ASEAN-5), and ε_{it} is the error term.

Robustness checks include alternative lag lengths, exclusion of outliers, and comparison with Fixed Effects Models (FEM) to validate consistency of results. High R^2 values for TRADE and EXCH, alongside significant F-statistics, confirm the robustness of the Panel VAR specification. Dynamic effects are examined through Impulse Response Functions (IRF) and Variance Decomposition (VD). IRFs trace GDPG's response to shocks in fiscal expenditure, inflation, and the exchange rate, identifying short- and long-term dynamics. VD quantifies the proportion of GDPG variance explained by each variable, complementing IRF by highlighting the relative importance of shocks.

RESULTS AND DISCUSSION

The empirical analysis begins with panel unit root testing to validate data properties and ensure robustness of estimation. Using LLC, IPS, and Fisher ADF procedures, most variables—GDP growth, tourism, FDI, trade openness, and inflation—were stationary in levels, while fiscal expenditure required first differencing to achieve stationarity. These results established a reliable foundation for subsequent modeling. The Chow and Hausman tests further indicated that the Fixed Effect Model (FEM) was the most appropriate specification, capturing country-specific heterogeneity across ASEAN-5. Building on this static framework, the study then advanced to dynamic analysis through Panel VAR, complemented by Impulse Response Functions (IRF) and Variance Decomposition (VD), allowing exploration of both short-run shocks and long-run interactions among fundamental growth drivers.

Panel model specification was determined through Chow and Hausman tests. The Chow Test confirmed that the Fixed Effect Model (FEM) outperforms the Common Effect Model, with both F and Chi-square statistics significant at the 5% level. The Hausman Test further validated FEM over the Random Effect Model, yielding a Chi-square value of 34.139 (Prob. = 0.0000), highly significant at the 1% level. These results decisively establish FEM as the most appropriate framework, capturing country-specific heterogeneity across ASEAN-5 and serving as the foundation for subsequent regression and dynamic analysis.

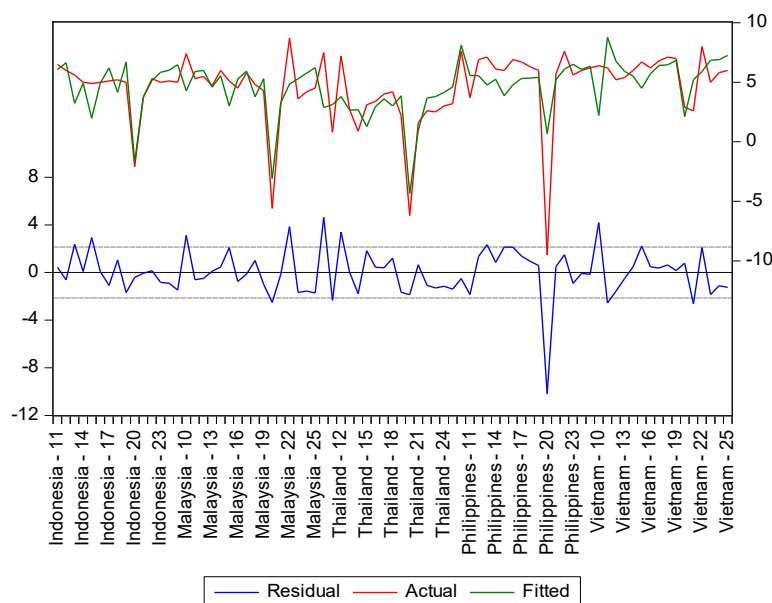
Table 1 presents the panel regression outcomes and robustness checks, comparing alternative specifications before establishing FEM as the preferred model. The robustness analysis confirms that the Fixed Effects Model (FEM), validated by RobustLS FEM, provides the most reliable estimates of ASEAN-5 growth determinants. Tourism shows a consistently positive and significant effect, reinforcing its role as a structural driver of GDP expansion. Fiscal expenditure changes ($\Delta FISC$) register a negative and significant impact, highlighting the risks of fiscal imbalance or inefficient spending. Inflation contributes marginally and positively, suggesting that moderate price increases can accompany growth, though its effect is less stable across contexts.

Exchange rate depreciation exerts a strong negative influence, underscoring ASEAN-5 economies' vulnerability to currency volatility. By contrast, FDI and trade

openness are not statistically significant, reflecting their dependence on institutional quality and absorptive capacity. Overall, the FEM results emphasize tourism as the most reliable growth engine, fiscal discipline and exchange rate stability as critical safeguards, and inflation as a conditional factor, while FDI and trade openness require deeper institutional support to generate meaningful growth outcomes. To assess the FEM's adequacy, Figure 1 compares actual values, fitted values, and residuals. This diagnostic graph provides a visual check of model performance across ASEAN-5 economies.

The Actual vs Fitted vs Residual graph demonstrates that the Fixed Effects Model (FEM) successfully captures the main trends in GDP growth across ASEAN-5 economies. The fitted values closely follow the actual observations, confirming the accuracy of the model's estimations. Meanwhile, the residuals fluctuate around zero within a moderate range, indicating that prediction errors are relatively small and unsystematic. This visual evidence reinforces the statistical results, showing that FEM can explain country-specific heterogeneity without leaving systematic bias in the error terms.

Figure 1. Actual, Fitted, and Residual Values of GDP Growth (ASEAN-5)



From an academic perspective, this diagnostic graph strengthens the credibility of the empirical findings. The alignment between actual and fitted values supports FEM as the most appropriate specification, while the random distribution of residuals suggests that classical regression assumptions are reasonably satisfied. By presenting this figure, the study provides robust visual confirmation that complements the numerical tests, thereby enhancing confidence in the model's validity and ensuring that subsequent regression and robustness analyses rest on a reliable foundation.

The VAR coefficient estimates highlight the dynamic role of key macroeconomic variables in ASEAN-5 GDP growth. Tourism (TOUR) emerges as a strong positive

driver, with significant effects at lag 1 and lag 3, confirming its role as a stable growth engine. However, the negative coefficient at lag 4 suggests that tourism volatility may temporarily reduce GDP, reflecting seasonality or external shocks.

Table 2. VAR Coefficient Estimates

Variable (Lag)	Coefficient	t-Statistic	Prob.	Significance and Interpretation
TOUR(-1)	1.1496	4.15	0.0001	Positive and highly significant (1%). Tourism expansion drives GDP growth.
TOUR(-3)	0.2178	2.47	0.0149	Positive and significant (5%). Tourism contributes to GDP in the medium run.
DFISC(-6)	-0.6597	-1.77	0.0792	Negative and significant (10%). Fiscal imbalance undermines long-run GDP growth.
INF(-1)	1.1604	2.32	0.0220	Positive and significant (5%). Moderate inflation accompanies short-run growth.
INF(-2)	-1.1862	-2.40	0.0179	Negative and significant (5%). Inflationary pressures harm long-run GDP.
INF(-5)	-0.3696	-2.57	0.0114	Negative and significant (5%). Persistent inflation reduces GDP growth.
EXCH(-1)	-0.9043	-3.03	0.0030	Negative and significant (1%). Exchange rate depreciation weakens GDP immediately.
EXCH(-4)	-0.5684	-3.42	0.0009	Negative and significant (1%). Currency instability undermines GDP.
EXCH(-6)	1.1887	3.81	0.0002	Positive and significant (1%). Exchange rate shock shows a reversal effect in the long run.

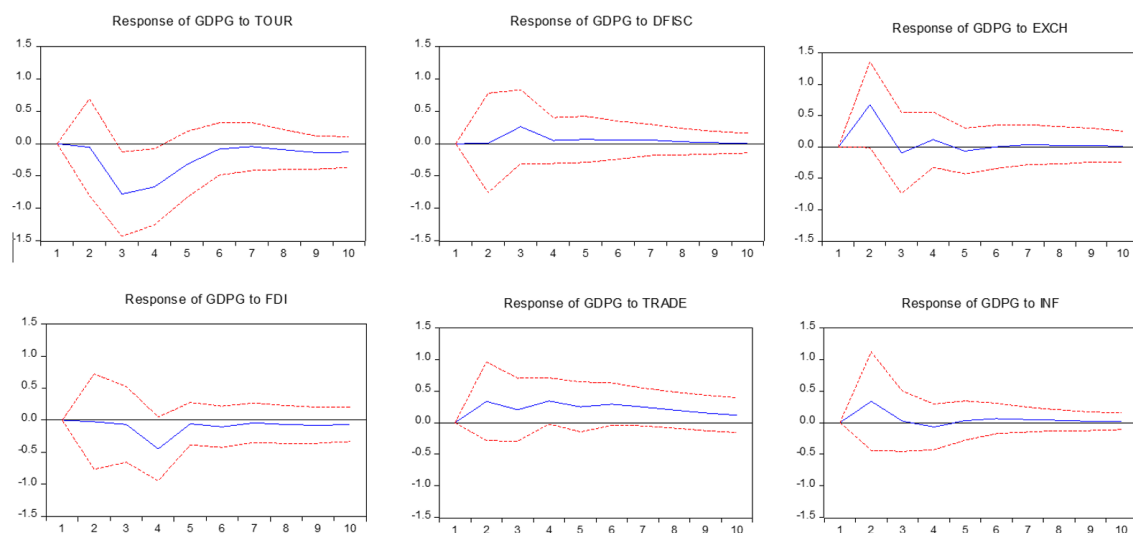
Source: EViews output.

Fiscal expenditure (DFISC) shows a significant negative effect at lag 6, indicating that fiscal imbalance undermines long-run growth. This result underscores the importance of fiscal discipline and efficient government spending for sustainable economic performance. Inflation (INF) demonstrates a dual role: positive and significant in the short run (lag 1), reflecting demand-driven expansion, but negative in the long run (lags 2 and 5), suggesting that prolonged inflationary pressures erode economic stability. This confirms that moderate inflation may accompany growth initially, but persistent inflation becomes harmful. Exchange rate (EXCH) shocks consistently weaken GDP growth in the short run (lag 1 and lag 4), underscoring vulnerability to currency depreciation. Interestingly, the positive coefficient at lag 6 suggests a reversal effect, possibly due to adjustment mechanisms or competitiveness gains in the long run. Overall, the VAR estimates reinforce the conclusion that tourism, fiscal expenditure, inflation, and exchange rate are the most influential variables shaping GDP dynamics in ASEAN-5.

The Impulse Response Function (IRF) analysis reveals how GDP growth in ASEAN-5 responds dynamically to shocks in key variables. Tourism shocks have a positive, persistent effect, confirming its role as a stable driver of expansion, while fiscal expenditure shocks generate sharp, lasting declines, underscoring the risks of fiscal imbalance. Inflation

shocks show modest, less stable positive effects, and exchange rate shocks produce strong negative impacts, highlighting vulnerability to currency volatility. Residuals clustering near zero further validates the model's reliability, indicating unbiased estimates and stable forecasts. Figure 2 presents the IRF results, illustrating both short-run fluctuations and long-run adjustments in growth dynamics.

Figure 2. Impulse Response Functions of GDP Growth to Macroeconomic Shocks



The IRF analysis provides dynamic evidence of how GDP growth in ASEAN-5 responds to shocks across key variables. Tourism shocks generate a positive and persistent effect, with confidence intervals consistently above zero, confirming the tourism-led growth hypothesis and its catalytic role in driving consumption and investment. Fiscal expenditure shocks, by contrast, produce a sharp and lasting decline, underscoring the negative impact of fiscal imbalance, inefficiency, and crowding-out effects on private investment. Inflation shocks show a mixed pattern: moderate inflation supports growth in the short run, but its influence diminishes over time as confidence intervals converge toward zero, indicating only a temporary role. Exchange rate shocks have a strong negative effect, supporting the hypothesis that depreciation undermines growth by eroding purchasing power and destabilizing trade and investment flows.

GDP growth is initially driven by its own past values, but external shocks gain influence over time. Tourism emerges as a consistent long-run contributor, while exchange rate shocks become the most dominant external factor, explaining nearly 59% of GDP variance by horizon 10. Inflation shows short-run relevance but loses explanatory power in the long run, and fiscal imbalance remains marginal despite its negative IRF effects. These findings reinforce the IRF evidence, highlighting tourism as a growth engine and exchange rate depreciation as a persistent constraint.

ASEAN-5 must pursue a balanced growth strategy. Tourism requires continued investment in infrastructure and service quality. FDI, though weak in the short run,

can become a long-term driver with regulatory reforms and stronger absorptive capacity. Trade openness shows limited impact, meaning liberalization must be strategic and competitiveness-oriented. Macroeconomic stability is crucial: moderate inflation can support demand, but volatility and exchange rate depreciation undermine growth. Fiscal discipline is essential to ensure spending targets high-multiplier sectors such as infrastructure, education, and innovation.

Across FEM, IRF, and VD, tourism consistently emerges as the most reliable growth driver, while fiscal imbalance and exchange rate depreciation act as enduring constraints. Inflation plays only a conditional role, and FDI and trade openness remain insignificant without institutional reforms. These results align with prior studies in Indonesia, Thailand, and Malaysia, while diverging from evidence in China, India, and Latin America where FDI and trade openness were stronger drivers. The findings emphasize that ASEAN-5 growth depends not only on macroeconomic variables but also on institutional quality, policy coherence, and structural reforms.

The Fixed Effects Model (FEM) results highlight tourism arrivals (TOUR) as the most consistent and statistically significant driver of GDP growth, reinforcing the tourism-led growth hypothesis through multiplier effects in hospitality, transport, and consumption (ASEAN Secretariat, 2025; ASEANStat, 2024). Foreign direct investment (FDI) shows a positive but insignificant coefficient, suggesting its impact depends on absorptive capacity, sectoral allocation, and institutional quality, consistent with findings that FDI promotes growth when supported by education and governance reforms (Borensztein et al., 2025). Trade openness (TRADE), though positively signed, lacks robust significance, reflecting structural imbalances such as import dependence; studies confirm its benefits only under strong governance and ICT penetration (Lestari et al., 2024; Nguyen & Nguyen, 2025). Inflation (INF) is positively significant, indicating that moderate inflation stimulates demand and investment, though excessive inflation undermines growth (M. H. Rahman & Ismail, 2024). Conversely, the exchange rate (EXCH) carries a negative and significant coefficient, showing that depreciation erodes purchasing power and weakens competitiveness, consistent with evidence from emerging Asian markets (An et al., 2020; Purba et al., 2025; Yilmazkuday, 2024).

Fiscal expenditure, transformed into its first-difference form (Δ FISC) due to non-stationarity, exerts a negative and significant effect, suggesting that increases in government spending often fail to translate into productive investment. This aligns with studies showing that fiscal expansion directed toward consumption rather than infrastructure undermines long-term growth (Lee & Santoso, 2025; A. Rahman & Putri, 2024). Comparative evidence further emphasizes that fiscal discipline and targeted investment in education, technology, and infrastructure are essential for maximizing growth multipliers (Bolarinwa et al., 2025; Purba et al., 2025). Taken together, FEM results distinguish short-run drivers—tourism, inflation, and exchange rate movements—from long-run fundamentals such as FDI, trade openness, and fiscal expenditure, which require structural reforms to enhance effectiveness. This nuanced interpretation underscores the importance of macroeconomic stability and institutional quality in sustaining ASEAN-5 growth trajectories.

The robustness check shows that using robust standard errors in the FEM strengthens statistical validity without changing coefficient estimates. Tourism (TOUR), inflation (INF), exchange rate (EXCH), and fiscal expenditure ($\Delta FISC$) remain consistently significant, confirming their role as reliable growth determinants in ASEAN-5. Meanwhile, foreign direct investment (FDI) and trade openness (TRADE) lose statistical significance under the robust specification, indicating their effects are weak and dependent on structural reforms. Overall, the findings underscore that ASEAN-5 growth dynamics are driven primarily by tourism, inflation, exchange rate stability, and fiscal discipline. At the same time, FDI and trade openness require stronger institutional reforms to have greater long-term influence.

The policy implications highlight that ASEAN-5 must pursue a balanced growth strategy. Tourism stands out as the most reliable engine and requires continued investment in infrastructure and service quality. FDI, though weak in the short run, remains a potential long-term driver if supported by regulatory reforms and stronger absorptive capacity. Trade openness shows limited impact, meaning liberalization must be strategic, focusing on competitiveness and reducing import dependence. Macroeconomic stability is crucial: moderate inflation can support demand, but volatility and exchange rate depreciation undermine growth, making monetary and currency management priorities. Finally, the negative effect of fiscal expenditure changes ($\Delta FISC$) calls for fiscal discipline, ensuring spending is directed toward high-multiplier sectors like infrastructure, education, and innovation. Collectively, these findings emphasize the need for integrated policies that combine tourism promotion, investment facilitation, strategic trade liberalization, macroeconomic stability, and efficient fiscal management to secure resilient and inclusive growth.

This study's findings align with and diverge from prior literature on ASEAN and other emerging markets. The robust significance of tourism arrivals as a driver of GDP growth is consistent with evidence from Indonesia and Thailand, where tourism has been shown to generate strong multiplier effects on employment and consumption (Herasymenko, 2025; Liu et al., 2025). Similarly, inflation's role as a moderate growth stimulant echoes results from Malaysia, where controlled inflation was associated with dynamic domestic demand (Dery et al., 2025). The negative impact of exchange rate depreciation also corroborates studies in Vietnam and the Philippines, which found that currency instability undermines trade competitiveness and purchasing power (Choudhry, 2025).

In contrast, the weak significance of foreign direct investment (FDI) in this study diverges from earlier findings in China and India, where FDI was a major catalyst for industrial upgrading and growth (Borensztein et al., 2025; Huang et al., 2023). This discrepancy may reflect structural differences in absorptive capacity and sectoral allocation within ASEAN-5 economies. Likewise, the limited role of trade openness contrasts with evidence from Latin America, where liberalization policies were strongly linked to growth acceleration (Onafowora & Owoye, 2024).^f The most notable divergence lies in the negative effect of $\Delta FISC$, which suggests inefficiencies in fiscal expenditure. While prior studies in OECD countries emphasized the positive role of government spending in

infrastructure and education (Hajebi et al., 2023; Herrera et al., 2025), this highlights the importance of institutional quality and fiscal discipline in determining whether public spending translates into sustainable growth.

Beyond ASEAN-5, these findings contribute to the wider debate on growth determinants in emerging and developed economies. The robust role of tourism echoes evidence from Mediterranean countries such as Spain and Greece, where tourism has long been recognized as a structural growth engine (OECD, 2024). The negative impact of fiscal imbalance and exchange rate depreciation aligns with studies in Sub-Saharan Africa, which highlight how weak fiscal discipline and currency instability undermine competitiveness (IMF, 2025). Meanwhile, the limited significance of FDI and trade openness contrasts with East Asian success stories like South Korea, where institutional reforms and sectoral targeting transformed FDI into a catalyst for industrial upgrading (Kuznietsova, 2024). By situating ASEAN-5 within this global comparative context, the study underscores that growth outcomes depend not only on macroeconomic variables but also on institutional quality and policy coherence.

CONCLUSION

This study demonstrates that tourism, inflation, exchange rate, and fiscal expenditure are the most consistent determinants of GDP growth in ASEAN-5 economies. Short-run analysis confirms that tourism expansion and moderate inflation stimulate growth, while fiscal imbalance and currency depreciation weaken it. Long-run dynamics highlight tourism as a structural growth driver, whereas persistent fiscal imbalance and exchange rate depreciation exert negative effects, and inflation's role diminishes over time. By contrast, FDI and trade openness remain insignificant, reflecting dependence on sectoral allocation, institutional quality, and structural reforms. Variance Decomposition further supports these findings, showing tourism and exchange rate shocks as the strongest influences on GDP fluctuations.

From a policy perspective, ASEAN-5 governments should prioritize tourism development by investing in infrastructure, enhancing service quality, and promoting international branding to sustain its role as a long-term growth engine. At the same time, fiscal discipline must be strengthened, ensuring that public expenditure is directed toward high-multiplier sectors such as education, technology, and infrastructure rather than short-term consumption. Exchange rate stability requires coordinated monetary and currency management to mitigate depreciation risks and preserve competitiveness. In contrast, inflation management should focus on maintaining moderate levels that stimulate demand without triggering volatility.

Complementary reforms are also essential. Pursue FDI facilitation through transparent regulation, reduced bureaucratic barriers, and targeted incentives that channel investment into strategic sectors. Trade liberalization must be selective and competitiveness-oriented, reducing import dependence while deepening regional integration under the ASEAN Economic Community framework. Collectively, these recommendations highlight the need for an integrated policy strategy that combines tourism promotion, fiscal discipline,

exchange rate stability, and institutional reforms. By aligning short-run stimulus with long-run structural safeguards, ASEAN-5 economies can secure resilient, inclusive, and globally competitive growth trajectories.

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