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An empirical analysis of tax revenue and FDI influence on GDP in Southeast Asian Countries

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ABSTRACT
This study examines the effect of tax revenue and FDI on Gross Domestic Product of nations in Southeast Asia covering 2009- 2023. The objective is to determine whether higher tax collection and increased FDI inflows significantly influence GDP performance in the region. Southeast Asia, with its dynamic economic transitions and growing global integration, provides a relevant context for assessing the roles of fiscal capacity and external capital in supporting economic development. The study uses a quantitative method based on secondary panel data gathered through the World Bank, IMF e-Library, CEIC and YCharts platforms. The examination was conducted in STATA 17, using common, fixed, and random effects models for assessing how the variables are related. Results indicate a strong link between tax revenue and GDP, significant at the 1% threshold. FDI also demonstrates a significant positive effect, at the 5% level. These results show that improving how countries collect taxes and making it easier for foreign investors to invest can help boost overall GDP performance. The study also provides governments clear guidance on how better tax policies and investment strategies can strengthen their economies.

Keywords: Foreign Direct Investment, GDP, Panel Data, Southeast Asia, Tax Revenue

1. Introduction

Southeast Asia has developed into a major hub of economic expansion, with a crucial role in worldwide commerce, production activities, and capital flows. Over the past decade, Southeast Asian countries have shown resilience, supported by fiscal expansion and structural reforms. Studies indicate that GDP growth in Southeast Asia has been partly driven by an expanding tax base and consistent FDI inflows [1]. Macroeconomic drivers like average income, trade integration and industrial development are influencing tax revenue [2]. Despite disruptions from the COVID-19 pandemic, Vietnam, Indonesia, Malaysia, and the Philippines experienced a swift recovery due to proactive macroeconomic policies that restored investor confidence [3]. Improvements in infrastructure, labour competitiveness, and regulatory conditions have boosted FDI [4]. Singapore, Thailand, and Brunei Darussalam continue to serve as financial hubs, supported by strong institutions and stable policies [5].

However, structural disparities remain. Cambodia, Laos, Myanmar, and Timor-Leste face challenges such as weak tax administration, limited institutional capacity, and overreliance on natural resources [6],[7]. Political instability and governance issues continue to affect public finance and investor trust [8]. These variations highlight the need for studies that consider both macroeconomic indicators and institutional differences.

This study adopts Public Policy Theory as a framework to analyse the economic role of taxation and foreign capital in Southeast Asia. Public policy is described as an organized framework of government actions created to tackle social and economic problems [9]. Furthermore, it enables strategic allocation of resources and shapes regulatory frameworks [10]. Policy is also viewed as the state's response to external and internal pressures [11]. In this context, countries with transparent and effective institutions are more likely to attract sustainable FDI and mobilize public revenue effectively [12].

Analysing fiscal and investment trends through the lens of policy theory offers insight into how governments manage economic tools to promote growth. Evaluating revenue systems within a policy framework reveals their broader economic effects [13]. Transparency in fiscal institutions has been found to enhance the impact of tax revenue on GDP [14] (Chodorow-Reich et al., n.d.). Similarly, policy-guided tax reforms, such as reduced corporate tax rates, can incentivize private investment [15]. Well-coordinated public policy attracts capital and promotes long-term development [16].

Tax revenue is essential for financing government services and maintaining economic functions [17]. Greater tax revenue also enhances better provision of public services, including health, education, and infrastructure [18], while increased tax income enables public investment that stimulates economic output [19] and contributes to fiscal autonomy [20]. However, overly burdensome tax rates can raise production costs and deter investment, whereas balanced tax policy supports economic activity [21].

Foreign direct investment (FDI) is characterized as sustained capital contributions from foreign entities involving ownership and management control and serves as a strategic cross-border investment [22]. FDI contributes to capital formation and corporate integration in host economies [23], and has emerged as a leading source of external financing in emerging markets [24]. It promotes productivity and employment especially when paired with flexible labor policies [25] and strengthens long-term economic performance through technology transfer and capital deepening [26].

Numerous studies confirm that tax revenue and FDI are each closely linked to GDP: both contribute significantly to long-term national income [27]. Maintaining a tax-to-GDP ratio above 15% promotes economic stability [28], and increasing tax revenue from 7% to 15% of GDP supports expanded social spending [29], which in turn improves human capital [30]. Administrative reforms that raise tax revenue by 3% of GDP can yield sustained growth [31], and the ratio of taxation to GDP continues to serve as an important measure of fiscal capacity [32]. On the FDI side, countries with strong institutions experience more stable FDI-led development [33], and tax revenue and FDI often act as complementary forces in supporting GDP [34].

However, despite strong evidence that both tax revenue and FDI influence GDP, most previous studies have not examined them together within a single, integrated framework especially using long-term data across Southeast Asian countries. While each variable has been studied on its own, there is limited research assessing their simultaneous or independent effects on GDP growth in the region. This leaves a significant gap in understanding how fiscal policy and foreign capital jointly influence economic performance.

Previous studies often examined only one factor or focused on small country samples. For example, one study explored the FDI–GDP relationship in select Southeast Asian countries [1]. Another investigated tax and FDI roles without integrating their interaction [35], and a third linked tax revenue to GDP per capita without considering foreign investment [36]. Some research focused on structural disparities [37], while others examined disruptions from global shocks [38].

This study addresses the research gap by examining how tax revenue and FDI influence GDP across the Southeast Adian counties from 2009 to 2023. Grounded in Public Policy Theory and using panel data analysis, it explores how fiscal capacity and foreign capital influence national output, aiming to inform evidence-based policymaking and long-term economic strategy within Southeast Asia countries.

More specifically, this research seeks to: 1. Investigate the beneficial role that tax revenue plays in GDP levels among Southeast Asian countries from 2009 to 2023, by testing if increases in tax revenue are associated with higher GDP. 2. Determine how inflows of Foreign Direct Investment add to GDP across Southeast Asia, evaluating whether greater FDI is associated with higher GDP. 3. Confirm that both tax revenue and FDI individually contribute positively to GDP, based on panel data regression results over the 15-year period.

This study investigates how tax revenue together with foreign direct investment (FDI) influence the GDP of Southeast Asian economies between 2009and 2023, making use of panel data techniques. Grounded in relevant theoretical perspectives and prior empirical findings, the study formulates the following hypotheses to be tested:

H1: Tax revenue has a meaningful positive impact on the GDP of Southeast Asian countries.

H2: Foreign direct investment (FDI) has a meaningful positive impact on the GDP of Southeast Asian countries.

By testing these hypotheses, the research aims to contribute empirical evidence to policy discussions on fiscal reform and investment strategy, supporting Southeast Asian governments in designing balanced approaches to long-term economic growth.

2. Method

Research Design

This research adopts a quantitative approach to analyse how tax revenue and FDI influence on GDP in selected Southeast Asian countries from 2009 to 2023. By applying panel data analysis, the research captures both country and time variations, improving the strength and consistency of the outcomes. The examination of data was conducted with Stata 17, a statistical package appropriate for macroeconomic and policy-oriented studies.

Population and Sampling

The target population consists of nations within the Southeast Asia region. A purposive sampling approach was used to select countries that maintain consistent and complete annual data on GDP, tax revenue, and FDI over the 15-year period. The final sample comprises 11 nations Republic of Indonesia, Malaysia, Vietnam, Thailand, the republic of Philippines, the Republic of Singapore, the Kingdom of Cambodia, the Lao PDR, the republic of the Union of Myanmar, Brunei Darussalam and Republic and Democratic of Timor-Leste. These countries were selected for their diverse economic structures, providing meaningful insights into fiscal and investment trends in the region.

To ensure relevant insights, this research uses purposive sampling, a non-random method where samples are deliberately chosen according to defined criteria aligned with the study's aims.

From the defined population, a group of countries was chosen according to two key conditions: (a) the availability of consistent and reliable data, and (b) the countri's economic relevance within the Southeast Asian region. The selected sample includes all southeast Asian countries where sufficient time-series data are accessible.

This approach resulted in a data set covers 11 countries over 15 years (2009-2023), producing a total of 165 observations (11 counties x 15 years = 165 data points). Each observation corresponds to one country-year combination, containing annual values for GDP, tax revenue, and FDI in billions of U.S. dollars.

Data Collection

This study makes use of previously compiled datasets obtained from globally recognised institutions, including the World Bank, IMF e-library, YCharts, and CEIC data.

The variables GDP, tax revenue, and FDI are all reported in billion USD and measured annually from 2009 to 2023 for each country in the sample.

GDP (in billion USD) serves as the dependent variable, while tax revenue and FDI (both in billion USD) are used as independent variables. This research adopts a numerical method and draws on secondary panel datasets covering the years 2009 to 2023 for selected Southeast Asian countries. The analysis is conducted using Stata 17. The following steps outline the analytical process:

Descriptive Statistics

Descriptive analysis was carried out to outline the main features of the datasets. This includes calculating the mean, minimum, maximum, and standard deviation for each variable, namely tax revenue, FDI, and GDP. These figures give an initial overview of the data's distribution and variation.

Correlation Analysis

To analyse the degree and nature of the association between the variables, the Pearson correlation was applied tax revenue, FDI and GDP. This step helps determine whether the independent variables show direct or inverse relationship with the dependent variables.

in the same or opposite direction as the dependent variables. Examining correlations is an initial stage that precedes regression analysis.

Panel Data Regression Analysis

The dataset combines information across countries and years, and its evaluation was utilized panel data egression, which forms as the core of the analysis. This allows the study to control for time series and cross-sectional variations. The general equation is:

$$\mathbf{GDP_{it} = \alpha + \beta_1\ TaxRevenue_{it} + \beta_2\ FDI_{it} + \mu_{it}}$$

Where: GDP_{it} = Represent gross domestic product, measured in billions of US dollars, of country i in year t (dependent variable).

$TaxRevenue_{it}$ = Tax revenue measured in billions of US dollars, of country i in year t

Where: FDI_{it} = Foreign direct investment inflows measured in billions of US dollars, of country i in year t ; β_1, β_2 = Coefficients of the independent variables; μ_{it} = Error term capturing unobserved influences.

The following regression approaches within a panel framework were applied:

Common Effect Model (CEM): this approach considers one overall intercept and slope that remain constant for every country and time period. It ignores unobserved heterogeneity across cross-sectional units and over time.

$$\mathbf{CEM: GDPit = \alpha + \beta1TaxRevenueit + \beta2FDIit + \mu it}$$

Where: Assumes a single intercept and slope for all countries and time periods. Does not take into account differences related to specific countries or time periods.

Fixed Effects Model (FEM): addresses country-level factors that remain unchanged over time (such as geography, legal systems, or long-term policies) by allowing each country to have its own intercept. This helps control for omitted variable bias related to time-invariant factors.

$$\mathbf{FEM: GDPit = \alpha i + \beta 1 TaxRevenueit + \beta 2\ FDIit + \mu it}$$

Where: Controls for country-specific factors that do not change over time, such as geography or legal systems, by allowing each country its own intercept. **αi** is country-specific, time invariant effect. Captures within-country variation over time. Helps reduce omitted variable bias related to fixed country-level factors.

Random Effects Model (REM): This method considers that the variation unique to each country occurs randomly and are unrelated to the explanatory variables. This model is generally more efficient if the assumption is accurate, but it may introduce bias if the unobserved effects are linked to the independent variables.

$$\mathbf{REM: GDPit = \alpha + \beta 1 TaxRevenueit + \beta 2\ FDIit + ui + \mu it}$$

Where: **α** = Common intercept; **ui** = Country-specific random error component; **μit** = Idiosyncratic error term; Assumes **ui** is uncorrelated with the regressors (Tax Revenue and FDI).

The Hausman

The Hausman test helps determine between FEM and REM for the dataset. This assessment compares the estimates from the two models to check whether the differences are systematic. If the test indicates a significant difference between the models, suggesting. That the assumptions underlying the random effects model are not satisfied, thereby favouring the fixed effects model. On the other hand, if the difference is not statistically significant, the random effects model can be used for its greater efficiency.

Diagnostic and Robustness Checks

Assessment procedures such as multicollinearity (checked using the Variance Inflation Factor, VIF), served to detect multicollinearity, the Breusch-Pagan method was applied to identify heteroskedasticity, and Durbin-Watson statistic was used in assessing autocorrelation. These procedures are carried out to confirm the accuracy and consistency of the regression models. If any issues are detected, robust standard errors or alternative model specifications are applied.

Hypothesis Testing via Panel Data Regression

This research adopts a hypothesis-driven analytical framework to quantify how variations in tax revenue and FDI contribute to GDP performance across Southeast Asian nations over the 2009-2023 period. At the heart of this analysis is a panel data regression model, selected for its capacity to uncover structural patterns across both spatial (country-level) and temporal(yearly) dimensions. This method provides a robust empirical platform for isolating the economic effects of fiscal and investment variables on GDP performance. This research evaluates the hypotheses outlined below:

H1: Tax revenue has a meaningful positive impact on the GDP of Southeast Asian countries.

H2: Foreign direct investment (FDI) has a meaningful positive impact on the GDP of Southeast Asian countries.

Each hypothesis reflects a distinct yet interrelated economic mechanism - fiscal, cash inflow, and their combined structural impact on national output. To test these hypotheses, this research applies both a model that captures constant country-specific traits over time and another that treats these traits as random and uncorrelated with predictors. The choice between these modelling approaches is informed by the Hausman test, which assesses whether it is more appropriate to treat country-level differences as fixed characteristics or as random variations.

Once the appropriate model is identified, estimation proceeds by evaluating the statistical significance of each independent variable (tax revenue and FDI) in explaining GDP. The findings indicate that both variables exhibit positive and meaningful coefficients, thereby supporting the acceptance of both hypotheses. In addition, the joint inclusion of tax revenue and FDI in the model

significantly improves its explanatory power, affirming their complementary roles in driving economic development. The significance of each independent variable is tested using t-tests, while the F-test evaluates the overall model fit. The R^2 statistic measures how much variation in GDP can be explained by tax revenue and FDI. Hypotheses are accepted if a P-value under 0.05 serves as the criterion for hypothesis acceptance.

3. Results and Discussion

This part explains the findings derived from the panel data analysis conducted to assess how tax revenue and FDI affect GDP of Southeast Asian countries over the period 2009–2023. The sequence of analysis was organized to ensure clarity: data preparation came first, followed by descriptive statistics for initial insights. Diagnostic tests were then performed to verify classical assumptions. The normality of data was assessed using the Kolmogorov-Smirnov test. An assessment of multicollinearity was performed through the Variance Inflation Factor (VIF), while the Glejser test was used to evaluate heteroscedasticity.

After completing the diagnostic tests, three panel data estimation approaches were utilized: CEM, FEM, and REM. To select the most consistent specification, the Chow procedure was applied to evaluate FEM against REM. According to the results, the chosen model is then re-estimated using heteroscedasticity consistent standard errors to address the presence of variance irregularities detected earlier. The empirical results are interpreted in line with the study's objectives and hypotheses, offering insights into the fiscal and investment dynamics shaping economic growth in the region.

Descriptive Statistics

Descriptive statistics results showed that the average log of GDP is 5,51, while tax revenue and FDI have means of 3,34 and 2,99, respectively. FDI has the highest deviation standard (1,09), indicating considerable variation among observations.

Multicollinearity Test

The VIF scores calculated for each independent variable were found to be under 10, which shows ther is no multicollinearity and that the predictors are independently contributing to the model.

Heteroscedasticity Test

Results showed no significant relationships between the absolute residuals and the independent variables ($p > 0,05$), indicating constant error variance across observations.

Panel Data Approaches

Common Effect Model (CEM): The result shows that both tax revenue and FDI have positive coefficients, n either variable is linked to an overall rise in GDP. The standard errors are relatively small, suggesting precise estimates. Both variables are statistically significant, with t-values above 2 and p-values below 0,05. An F-statistic of 29,34 ($P = 0,000$) confirms that the model as a whole is statistically valid. With $R^2 = 0,4513$, it can be interpreted that tax revenue and FDI together account for about 45,13% of the variation observed in GDP.

Fixed Effect Model (FEM): In the FEM, the coefficients for tax revenue and FDI remain positive, consistent with both theoretical expectations and previous results. The standard errors are still low, reflecting reliable estimates even after controlling for country-specific effects. The t-values for both variables exceed 3,9; with p-values of 0,000, confirming strong statistical significance. The model's F-statistic is 10,44 ($p = 0,000$), indicating overall significance. The within R-squared is 0,5757, meaning 57,57% in temporal differences observed within countries is explained by an independent variables.

Random Effect Model (REM): Under the REM, both tax revenue and FDI continue to show a positive relationship with GDP. The analysis uses z-values instead of t-values due to the model's random-effects assumptions, and both variables are highly significant ($z > 47$, $p = 0,000$). The Wald chi-square test yields a value of 135,95 ($p = 0,000$), confirming that the model is statistically valid.

An overall $R^2 = 0,5376$ indicating tax revenue and FDI together explain 53,76% of the differences in GDP observed across countries and over time.

Model Selection Tests

Table 1. Model Selection tests result

Component	Result
Chow Test	F = 5,218; P = 0,000_ - FEM prefered
Hausman Test	F = 5,218; P = 0,000_ - FEM prefered
Final Model	Fixed Effect Model (FEM) with Robust SE
R-squared	0,7587 (≈76% variance in GDP explained)
Tax Revenue Effect	Coefficient = 0,532; P = 0,000 (positive and significant)
FDI Effect	Coefficient = 0,294; P = 0,000 (positive and significant)

Source: Processed by the author using Stata 17, based on secondary data (2009–2023)

The suitability of CEM versus FEM was evaluated using the Chow test. With a P – value less than 0,05, the test result led to the rejection of the null hypothesis, showing that FEM was the preferable choice. This result suggests that there are significant individual differences across the entities in the dataset that need to be captured by the model. The Hausman test was then employed to decide between FEM and REM. With the P-value under 0,05, the null hypothesis was dismissed and results supported FEM as the more suitable model. This indicates that the individual effects are correlated with the independent variables, making FEM the more reliable choice.

Final Model Especfication: FEM Estimated Using Robust Standard Errors

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Fixed-effects (within) regression               Number of obs      =       156
Group variable: country_id                      Number of groups   =        11

R-squared:                                      Obs per group:
     Within  = 0.5757                                         min =        10
     Between = 0.7632                                         avg =      14.2
     Overall = 0.7587                                         max =        15

                                                F(2,143)           =     96.99
corr(u_i, Xb) = 0.1657                          Prob > F           =    0.0000

------------------------------------------------------------------------------
     gdp_log |      Coefficient   Std. err.      t    P>|t|     [95% conf. interval]
-------------+----------------------------------------------------------------
     tax_log |       .4128463   .0471704     8.75   0.000     .3196049    .5060878
     fdi_log |       .0991477   .0285046     3.48   0.001     .0428029    .1554925
       _cons |       3.069735   .1294486    23.71   0.000     2.813855    3.325615
-------------+----------------------------------------------------------------
     sigma_u |        .9573762
     sigma_e |       .18462206
         rho |       .96414543   (fraction of variance due to u_i)
------------------------------------------------------------------------------
F test that all u_i=0: F(10, 143) = 133.96                     Prob > F = 0.0000
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Source: Processed by the author using Stata 17, based on secondary data (2009–2023)

Figure 1. Results of the FEM Estimation Adjusted using Robust Standard Errors

The result confirmed that tax revenue and foreing direct investment contribute meaninfully to GDP. Robust testing FEM model demonstrated an R-squared of 0,7587; explaining approximately 76% of the variance in GDP.

Discussion

Impact of Tax Revenue on GDP

Regression outcomes indicate that tax revenue exerts a meaningful influence on GDP, confirmed at the 5% significance level (P > 0,005). this outcome validates the first hypothesis: higher tax revenue leads to higher GDP in Southeast Asia. The positive coefficient shows that effective revenue collection translates to greater national output.

This result aligns with the view that tax revenue funds infrastructure, public services, and social programs-key drivers of GDP development. In Southeast Asia, tax revenue enables governments to fund infrastructure development, public services, and social programs, all of which contribute to GDP generation. Strengthening domestic tax systems is thus essential not only for fiscal health but also for sustaining economic growth. Evidence supporting this is found in studies that link improved tax administration to sustained econmoic expansion [4], highlight an importance associated on transparent tax system in driving long-term susutainable development [39]. The regression findings further suggest that FDI contributes positively to GDP, with statistical conformation validated at the 5% threshold (P < 0,05).

Impact of FDI on GDP

The regression results also indicate that FDI exerts a substantial contribution to GDP, with the effect confirmed by a P- value below 0,05. This finding confirms the second hypothesis: that higher levels of foreign direct investment with GDP in Southeast Adian countries. The positive coefficient suggests that foreign capital inflows contribute directly to increases in national output. FDI supports GDP by enhancing productive capacity, transferring technology, creating employment, and improving infrastructure. In the Southeast Asian context, consistent FDI inflows have been linked with higher levels of industrial activity, trade expansion, and integration into global value chains factors that contribute to output growth. This aligns with the conclusions of researchers who highlight institutional quality and openness as essential conditions for maximizing the benefits of FDI [40], [41].

Institutional Influence and Interpretation

Although the regression reflects regional averages, results likely vary by country depending on institutional strength. Nations with stronger governance may experience greater benefits from tax revenue and FDI, while weaker institutions could limit these effects. Due to data gaps, these factors could not be included in the analysis, but future studies could use measures like the Worldwide Governance Indicators to enhance the analysis.

Study Limitations

This research has a few key limitations. Governance quality and tax system efficiency were not included, although they may influence outcomes. Potential endogeneity with FDI, as higher GDP can also attract more investment. Some countries and years had incomplete data, which may affect robustness. Future studies could address these gaps by using instrumental variables, dynamic panel models, and broader institutional indicators.

4. Conclusion

This research analysed how tax revenue and FDI affect the GDP of Southeast Asia nations over the period 2009-2023, applying a panel data regression approach. Among the models tested, FEM emerged as the best fitting option, as confirmed by both the Chow and Hausman tests. FEM was identified as the most appropriate, as it effectively controls for time-invariant, country-specific characteristics.

Findings confirm that both tax revenue and FDI significantly contribute to GDP. Tax revenues provide financial capacity to governments to support infrastructure development, and the delivery of public facilities, while FDI supports growth through capital inflows, technology transfer, and integration into global markets.

While the findings reveal significant relationships, they must be understood within the context of the study's limitations, which were discussed earlier. In particular, the absence of institutional indicators and the potential for endogeneity, especially in FDI, may have influenced the results. Future research could enhance the model's explanatory power by integrating governance measures and employing more dynamic methodologies.

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