

**DOES GOVERNMENT DEFICIT SPENDING HELP THE ECONOMY?: LESSONS  
FROM FIVE SOUTHEAST ASIAN NATIONS**

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**ABSTRACT**

Government fiscal policy affects a country's economic performance. However, the debate about the economic impact of government budget deficit remains unsettled. On the one hand, deficit is believed to reduce a country's productivity and private investment. On the other, deficit spending is assumed to complement business investment and stimulate economic productivity. This article assesses the probability of such claims with a longitudinal study of five large Southeast Asian economies, including Indonesia, Malaysia, Singapore, Thailand, and Vietnam from 1989 to 2011. Using an econometric technique, this study finds that government budget deficits in the five Southeast Asian countries were not related to the economic performance patterns. Instead, two important determinants of growth were volumes of foreign direct investment and fluctuations in the exchange rate. When the deficit-growth relationship is assessed for each country, the study reveals a statistically negative relationship for Thailand. For other countries, the national governments' deficit spending did not affect economic performance. Rather, these countries' economies were influenced by foreign capital and real interest rates.

**Keywords:** Fiscal Policy, Government Budget Deficit, Foreign Direct Investment, Southeast Asia, Economic Performance