How significant was government intervention to the economic development of the independent Southeast Asian states?

Every Southeast Asian state's pursuit of economic development — defined by its three goals of growth, nationalism and equity — involved some government intervention, taking the form of economic planning, policies and participation. The extent of significance varied depending on the regime's ideological leaning, the specific economic aim and the type of intervention: government intervention was especially consequential in socialist economies. Additionally, it was consistently essential in the pursuit of economic nationalism and equity, and in the form of planning and policies. Conversely, the significance of other types of intervention for other aims — particularly state economic participation to stimulate growth — would decline by the 1980s. While it was not the sole determinant of development, government intervention was ultimately a highly significant factor: it was markedly beneficial or detrimental based on the extent of intervention and the motivations underlying it.

Between capitalist and socialist states, government intervention was more significant in the economic development of the latter given their structure of a command economy. Since socialism demands the abolition of private property and the free market, the government must become the principal participant in the centrally-managed economy. In Burma, Ne Win passed the 1965 Law to Invest Powers to Construct the Socialist Economy, legalising state control over all economic activities and resources. Additionally, state corporations like Trade Corporation No. 1 and The People's Stores held total monopolies on distributing rice and consumer goods respectively. With the government directly controlling 60% of manufacturing and 90% of legal trade by 1965, Burma's average annual GDP growth of 4% from 1961-80 was largely attributable to the state's economic participation. In North Vietnam, more than 90% of the industrial and agricultural sectors were nationalised, making the state's intervention key to the growth of overall industrial output by 15% per annum. In the South after reunification, the government abruptly nationalised all major private enterprises in March 1978 and seized privately-owned land, agricultural equipment and livestock. With near-complete government control over agriculture and industry, government intervention was largely responsible for the limited 18.7% and 17.3% increases in agricultural and industrial output under the 2nd Five-Year Plan. While nationalisation was limited to *strategic* industries in capitalist economies, such as state control of oil and shipping under Article 33 in Indonesia, direct state participation in *all* sectors of socialist economies made government intervention comparatively more significant to their development.

This greater importance can be further explained by the essential role government intervention played in achieving economic nationalism and equity, which constitute larger ideological priorities in socialist states. Since no other entity has the incentive and ability to seize and redistribute wealth to locals and the poor, government intervention is often necessary to achieve these aims. In Burma, the state expropriated the British-owned Burma Oil Company in 1963 and enacted “comprehensive restrictive laws” to squeeze foreigners out of Burma’s economy, leading to an exodus of 300,000 Indians in 1964. Further, the state intervened to promote equity: it reallocated land under the 1963 Tenancy Law and provided loans to needy farmers, with agricultural credit ballooning 350% from 1962-73. This did succeed in narrowing the income gap: the wealthiest quartile made only 5x that of the poorest quartile. However, capitalist states also witnessed substantial government intervention when nationalism and equity were pursued. In Thailand, nationalism was state-led: it partially acquired the foreign-owned Siam Steam Navigation Company, and issued a 1952 directive forcing the Chinese to form associations for gold trading and banking for easier state control. In Malaysia, achieving equity under the 1971 New Economic Policy (NEP) was highly dependent on state intervention: authorities screened firms for NEP characteristics under the 1975 Industrial Coordination Act, while state agencies like PERNAS and PNB funded bumiputera ventures. Consequently, the Malay share of the economy increased ten-fold to 20%, indicating progress towards equity. Thus, while more prevalent in socialist states, government intervention remained important to achieving nationalism and equity regardless of regime philosophy.

Among different forms of intervention, government planning and policies were the most significant as they jointly created an overarching strategy for growth. As the only actor with extensive political control across all economic sectors, the responsibility of charting and implementing economic directions to catalyse growth fell on governments’ shoulders. In Thailand, the National Economic and Social Development Board introduced regular plans from 1959, with export-oriented industrialisation increasingly emphasised from the fourth plan (1977-81) onwards. This was complemented by policies to promote exports: in 1985, the government abolished several export taxes and the Bank of Thailand established special credit facilities for exporters. Further, the state pegged the baht at a low rate against the USD, keeping Thai exports competitive. Such plans and policies contributed to Thailand’s 14% annual export growth in the 1980s, indicating rapid economic development. In socialist Vietnam, the National Planning Board was established in 1955, producing regular Five-Year Plans. In particular, after the Third Five-Year Plan (1981-85) emphasised decentralisation, accompanying policies were introduced to encourage market forces: state subsidies on consumer items were abolished, private commerce was recognised in forestry, fisheries and retail trade, and import-export corporations were allowed in four major cities. These policies led to annual growth rates of 10% and 5% for industrial and grain output respectively. Hence, government planning and policies were critical in both capitalist and socialist economies as they created and effected strategies that spurred growth, making these the most significant forms of government intervention.

However, there are also limits to its significance — the importance of intervention, particularly government participation to promote economic growth, would diminish in the 1980s. While extensive state participation was necessary in the early years post-independence due to the lack of an indigenous business class, governments eventually needed to scale back participation to allow free-market competition to develop efficient industries for export-orientation. In Malaysia, as state corporations accounted for 64% of the budget deficit in the early 1980s, Mahathir introduced the concept of "Malaysia Inc", contracting out services to private firms and privatising 13 state enterprises by 1992. This decline in government intervention enabled Malaysia's export volume to increase by a remarkable 20% annually in the 1990s, illustrating the reduced importance of state involvement. In Singapore, the Public Sector Divestment Committee was formed in 1986, and by 1992, state enterprises such as Singapore Airlines, Singapore General Hospital and Singapore Bus Service had been privatised. Hence, it was mainly the growing private sector rather than state participation that drove Singapore's 7% annual GDP growth in the 1990s, making government intervention less significant to Singapore's later development. Thus, as countries privatised to develop efficient industries for growth, government intervention — specifically government economic participation — declined in importance.

Additionally, government intervention was insufficient to ensure economic development by itself: it must be complemented by an abundant supply of foreign direct investment (FDI), which spurs growth by boosting industrial output, creating jobs and facilitating technology transfer. This is best illustrated by the development trajectory of the socialist economies: their economies suffered when they failed to receive FDI, only registering record growth when they opened themselves up to investment. In Burma, the state's ideological commitment to autarky left it without any FDI before 1988, resulting in poor GDP growth that dipped to 1.4% in the 1980s. However, after free market reforms were pursued from 1988 onwards, 28 US firms and 80 Thai firms invested in Burma from 1988-93 and FDI increased to 11% of its GDP in 1991. This enabled Burma's GDP growth to jump to 7.4% in the 1990s, illustrating the importance of FDI and the insufficiency of government intervention alone. Similarly, Vietnam suffered when an extended US embargo prevented it from accessing FDI: Vietnam's GDP per capita stagnated at around US$200 from 1975-85. However, market reforms enabled Vietnam to attract $173m in investments across 34 projects by 1991, and once the embargo was lifted in 1994, over $52bn in new investments and projects were approved from 1995-2005. This catalysed Vietnam's record growth in the 1990s: GDP growth averaged 8.2% in the 1990s and reached 9.5% from 1995-96, the highest in the world. Hence, the availability of FDI as determined by ideological and geopolitical factors was also crucial to economic development, limiting the significance of state intervention.

Overall, government intervention was undeniably significant because of the state's immense political control: it is the only entity with the power to implement wide-ranging economic plans and policies, expropriate property for nationalism and redistribute capital for equity. Given that the socialist economies prioritised nationalism and equity, along with emphasising a command economy managed by the state, government intervention naturally played a more significant role in their development.

It is clear that intervention can be both beneficial and detrimental to development, depending on whether the *extent* of government intervention was appropriate: while nationalisation was needed in the early years to reduce foreign economic domination and create a local business class, excessive state intervention was often counterproductive for long-term development. Unbridled nationalisation in Burma and Vietnam led to declining productivity and economic stagnation, with growth picking up only after intervention was scaled back under SLORC's free-market reforms and Nguyen's Doi Moi. When entrenched cronyism meant Indonesia, Thailand and the Philippines could not reduce state participation to pursue export-orientation, inefficient industries and non-performing loans built up and caused economic catastrophe during the Asian Financial Crisis. Conversely, in Singapore and Malaysia, the limited nationalisation of strategic industries and the successful downsizing of government intervention from the 1980s ensured sustained, rapid growth. Ultimately, the motivations underlying intervention determined whether the right extent of intervention was achieved: intervention was often excessive when governments intervened for ideological motives (Burma and Vietnam) or cronyistic benefit (Indonesia, Thailand and the Philippines), while governance based on sound, transparent principles uniquely helped Singapore find this optimum level.