



# State-Capitalism as Economic Policy: Is it a Recipe of Prosperity for Developing Countries? A Review

**Loso Judijanto\***

*IPOSS Jakarta, Indonesia*

**Submission:** April 7, 2026; **Published:** April 17, 2026

**\*Corresponding author:** Loso Judijanto, IPOSS Jakarta, Indonesia

<https://orcid.org/0009-0007-7766-0647>

## Abstract

State capitalism—characterized by state ownership and strategic control of significant economic assets combined with market mechanisms—has emerged as a contested development strategy among policymakers and development scholars. This qualitative literature review synthesizes contemporary evidence on the viability of state capitalism as an economic policy framework for developing countries. Drawing on comparative institutional analysis across East Asia, Latin America, Russia, and Africa spanning the period since 2020, this analysis identifies seven critical prerequisites for successful state capitalist implementation: strong bureaucratic capacity, rule of law, effective corporate governance of state-owned enterprises, macroeconomic stability and fiscal discipline, political continuity, international trade integration, and robust anti-corruption frameworks. The review finds that state capitalism can generate sustained prosperity under specific institutional conditions, as demonstrated by East Asian developmental states, but has failed or severely underperformed in contexts lacking these prerequisites. The article concludes that context-specific, pragmatic implementation combining selective state intervention with market discipline, anchored in democratic accountability and transparent governance, offers the most promising approach for developing countries pursuing state-led development strategies in the 21st century. The findings contribute to theories of a variety of capitalism, advance developmental-state concepts for contemporary conditions, and provide evidence-based policy guidance for developing-country governments.

**Keywords:** State Capitalism; Developmental State; State-Owned Enterprises; Institutional Prerequisites; Governance; Developing Countries; Economic Policy

**JEL Classification Codes:** P16, L33, O43, O25, H11

## Introduction

### Background: The Contemporary Resurgence of State-Led Models

The early 21<sup>st</sup> century has witnessed a remarkable resurgence of state-led economic models, representing a fundamental departure from the neoliberal orthodoxy that dominated development policy from the 1980s through the early 2000s [1,2]. This transformation reflects both ideological recalibration and pragmatic responses to persistent market failures in developing economies, and demonstrates the limitations of market fundamentalism in delivering inclusive development [2,3]. The 2008 Global Financial Crisis served as a critical inflection point, exposing fundamental vulnerabilities in market-centric approaches and catalyzing worldwide expansion of state intervention to stabilize collapsing financial systems [2-4].

State-owned enterprises (SOEs) have expanded dramatically among the world's largest firms, with the number of state-linked companies among the Fortune 2000 doubling since 2000 [5]. Simultaneously, sovereign wealth funds (SWFs) have proliferated globally, with 176 funds currently controlling approximately \$11.8 trillion in assets as of 2024 [6]. This resurgence reflects not ideological commitment to socialism but pragmatic recognition that state capacity addresses market failures in late-industrializing economies [2,3,7].

State capitalism, defined as an economic system in which the state functions as both owner of significant capital and strategic participant in market activities, differs fundamentally from both communist central planning and liberal market capitalism [2,8,9]. Rather than comprehensive state ownership of productive assets

or minimal state intervention, state capitalism involves selective state ownership combined with market mechanisms and price signals [2,8]. Contemporary state capitalism encompasses diverse institutional arrangements: traditional SOEs operating in strategic sectors; sovereign wealth funds managing state resources through portfolio investments; government-linked companies combining state ownership with professional management; national development banks providing patient capital; and “golden share” arrangements granting states veto power in nominally private enterprises [2,5,10].

### Urgency and Policy Relevance

The urgency of understanding state capitalism’s viability for developing countries derives from three converging considerations. First, the demonstrable success of East Asian state capitalist models presents a compelling alternative development pathway that cannot be dismissed as theoretically incoherent or empirically unsustainable. China’s average GDP growth of approximately 9% over three decades, accompanied by a reduction in extreme poverty from 88% in 1980 to under 2% by 2020, demonstrates the development potential of state capitalism [4,11]. Singapore’s transformation from a colonial trading port to a high-income, developed economy through strategic state leadership exemplifies the model’s possibilities under democratic constraints [12]. South Korea and Taiwan’s rapid industrialization under developmental states challenge assumptions that state intervention necessarily impedes economic dynamism or innovation [13-15].

Second, vulnerabilities revealed by the 2008 financial crisis and subsequent economic crises have discredited pure market-based development models, creating intellectual space for alternative approaches. The sluggish recovery in many liberal democracies, persistent inequality in advanced capitalist economies, and supply chain disruptions that expose strategic vulnerabilities have generated renewed appreciation for state capacity among development practitioners [3]. This ideological shift creates policy space for developing countries to pursue state-led strategies without confronting the intense pressure toward neoliberal reforms that characterized the 1990s and 2000s.

Third, intensifying technological competition among different economic systems adds urgency to determining the effectiveness of state capitalism. The race for dominance in artificial intelligence, semiconductors, quantum computing, and other strategic technologies increasingly involves state-backed competition between differently organized capitalist systems [16,17]. Developing countries must assess whether state-led coordination offers comparative advantages in rapidly mobilizing resources for technological catch-up.

### Research Objectives and Contribution

This qualitative literature review addresses three interconnected research questions: (1) What evidence exists

regarding state capitalism’s viability as a development strategy for developing countries? (2) What specific institutional and policy prerequisites must exist for state capitalism to generate prosperity rather than corruption, stagnation, or crisis? (3) What context-specific policy recommendations emerge from comparative analysis of state capitalist experiences?

By systematically synthesizing scholarly evidence addressing these questions, this review contributes to development economics literature in three ways. First, it extends the varieties of capitalism (VoC) framework beyond advanced economies to encompass state-permeated capitalism as a distinct, viable variant that coexists with liberal and coordinated market economies [1,2,8,9]. Second, it advances developmental state theory by identifying and analyzing contemporary institutional requirements beyond classical developmental state concepts [13,15,18]. Third, it provides evidence-based guidance for policymakers by synthesizing lessons from successful and failed state capitalist experiences across geographic regions and development contexts.

### Literature Review

#### Conceptual Frameworks for Understanding State Capitalism

A comprehensive understanding of contemporary state capitalism requires engagement with three interconnected theoretical traditions: the varieties of capitalism framework, developmental state theory, and emerging scholarship on new state capitalism.

#### Varieties of Capitalism Framework

The varieties of capitalism (VoC) approach, initially developed to explain institutional diversity among advanced economies, offers valuable conceptual tools for understanding state capitalism [19,20]. VoC theory highlights how capitalist systems develop distinct institutional configurations that balance state, market, and corporate governance arrangements, emphasizing that divergent institutional settlements reflect different yet viable solutions to fundamental economic coordination problems [1,2,19,20].

Hall and Soskice’s foundational distinction between liberal market economies (LMEs) and coordinated market economies (CMEs) characterized the diversity of advanced capitalism [19]. However, this two-type framework inadequately captures the institutional configurations of emerging economies. Contemporary scholarship increasingly recognizes **state-permeated capitalism** as a distinct third variety, coexisting with LMEs and CMEs while possessing fundamentally different institutional logics [1,2,8,9]. State-permeated capitalism features extensive state ownership, strategic sectoral targeting, state-supported national champions, and the integration of market mechanisms with state direction, creating institutional complementarities that differ from other capitalist varieties [2,7,9,10].

This expansion of VoC theory to encompass state-permeated capitalism as a legitimate variety represents an important analytical advancement, moving beyond assumptions of convergence toward Anglo-American capitalist models to recognize persistent institutional diversity as a reflection of different but viable development strategies [1,2,9].

### Developmental State Theory

The developmental state theory, rooted in Gerschenkron's historical analysis of economic backwardness and elaborated through studies of East Asian industrialization, emphasizes how historically late-industrializing nations strategically mobilize state power to accelerate catch-up growth (Berger, 2024; Chibber, 2014; Haggard, 2018; Ramirez, 2024). This tradition fundamentally challenges neoclassical assumptions that market liberalization alone generates development, instead highlighting the state's crucial role in coordinating investment, acquiring technology, and transforming economic structures [13,14,21].

The developmental state differs from predatory or extractive states through commitment to productive reinvestment and long-term national development rather than private elite enrichment [14,15]. Crucial developmental state characteristics include insulation from special-interest capture while remaining embedded in networks that provide market information, merit-based bureaucratic recruitment, and reciprocal relationships with private-sector actors that involve clear performance expectations [13,14,15,21]. Evans's concept of "**embedded autonomy**" captures the balance between state independence from capture and its embeddedness in economic networks, thereby enabling informed policymaking [22].

Recent theoretical work extends classical developmental state theory by incorporating institutional prerequisites beyond state strength itself. Specifically, **rule-of-law protections, anti-corruption frameworks, and democratic accountability mechanisms** constitute additional requirements for sustainable state-led development [23-25]. This refined theory better explains both East Asian successes and the inefficiency of Russian authoritarian capitalism than classical approaches alone [13-15,21].

### Theoretical Foundations of State Intervention

Economic theory identifies multiple classes of market failures, which are particularly acute in developing economies, providing an economic justification for selective state intervention [26-30].

**Capital market imperfections** represent the most fundamental justification. Developing country financial systems typically remain shallow, characterized by limited availability of long-term credit, high risk premiums reflecting information asymmetries, and private investors' reluctance to finance uncertain ventures with extended payoff periods [28-30].

National development banks and state enterprises can provide patient capital, complementing inadequate private financial markets, funding infrastructure, industrial development, and human capital investments that private markets systematically underfund [10-31].

**Coordination problems** in late industrialization constitute a second category of market failure. Building competitive export industries requires simultaneous investment in complementary infrastructure, worker training, supply chain development, and technology acquisition [28,32]. Individual private firms lack the capacity to coordinate these interdependent investments; each hesitates to invest without assurance that complementary investments will materialize. State orchestration through industrial policy, infrastructure provision, and selective firm support resolves coordination failures that private markets leave unaddressed [25,28,32].

**Strategic sector externalities** present a third rationale. Research and development generates spillover benefits that exceed private appropriable returns; infrastructure provision confers positive externalities that exceed the fees private firms can collect; technology sectors strategic for national competitiveness may require state support to reach commercial viability [27-29].

**Institutional voids** that require state gap-filling constitute a fourth category, particularly relevant in earlier stages of development. Weak contract enforcement capacity, underdeveloped property rights regimes, and limited private sector technical expertise necessitate temporary state substitution while institutions develop [28,32].

### Comparative Experiences: Successes, Challenges, and Failures

#### East Asian Developmental Successes

**China's state-capitalist model evolved dramatically from Maoist central planning to Deng Xiaoping's reforms**, toward a contemporary socialist market economy [4,11,33]. Beginning in 1978, China implemented controlled liberalization while maintaining state dominance in strategic sectors. State-owned enterprises operate alongside Special Economic Zones, attracting foreign direct investment and creating a hybrid developmental model that combines state strategic direction with market competition [4,11,33].

China's development trajectory demonstrates the growth potential of state capitalism. GDP expanded at approximately 9% annually over three decades, lifting an unprecedented number of people out of poverty [4,11,34]. This growth enabled massive infrastructure development, the urbanization of rural populations from 20% to 64%, and rapid development of the manufacturing sector, transforming China into the world's manufacturing center and largest exporter [4,7,11].

However, China's experience also illustrates the challenges of state capitalism. The model generated significant inequality, environmental degradation, and rising concerns about financial stability due to credit expansion and SOE debt accumulation [4,11,35]. State enterprises often operate inefficiently by commercial standards, requiring continuous government subsidies and soft budget constraints [4,36].

**Singapore's Temasek model** offers a contrasting East Asian experience, demonstrating the viability of state capitalism within democratic constraints and small-state contexts [34,37,38]. Temasek Holdings, Singapore's sovereign wealth fund, manages government investments across diverse economic sectors while maintaining professional management, transparent governance, and commercially competitive performance standards [34,37,38]. Government-linked companies (GLCs) operate with autonomy in day-to-day management while remaining accountable to state ownership through performance benchmarks [34,37].

Singapore's development achieved high-income status, economic resilience through diversified sectoral development, and consistent rankings among global leaders in governance quality [34,37,39]. The model combines state ownership with market competition, avoiding monopolistic inefficiency while retaining the capacity for strategic coordination [34,37]. However, Singapore's success reflects unique contextual factors: a small size enabling direct state oversight, a strategic geographic location, strong political leadership continuity, and meritocratic civil service traditions, which complicate generalization to larger, more diverse developing countries [34,37].

**South Korea and Taiwan** implemented export-oriented industrialization under developmental state models, achieving rapid technological catch-up and income growth from the 1960s through the 1990s [13-15]. State-directed credit allocation, strategic infant industry protection, and technological licensing requirements complemented large private conglomerates (chaebols in Korea, family groups in Taiwan) [13,14]. These models emphasized external competitive discipline through export orientation, thereby preventing the inward-looking inefficiencies that characterized failures of import-substitution industrialization elsewhere [13,14,32].

### Latin American Mixed Experiences and Lessons

**Brazil's state capitalism**, particularly during the commodity boom of 2000–2014, demonstrated both state capitalism's potential and its vulnerabilities (Lima-de-Oliveira, 2020; Nölke et al., 2022; Whitehead & Belghitar, 2022). BNDES (National Development Bank) financed infrastructure, industrial development, and technological upgrading, while Petrobras (state oil company) anchored energy security and government revenue (Lima-de-Oliveira, 2020; Whitehead & Belghitar, 2022). Wage-led growth policies, supported by state enterprises, created demand for manufactured goods and commodities, reducing poverty and inequality during the boom years [40-42].

However, Brazil's experience illustrates critical failure modes. Corruption scandals involving Petrobras and major contractors (including the Odebrecht scandal) revealed systemic capture of state enterprises by political elites, destroying value and damaging legitimacy [42]. Unrealistic commodity price assumptions and fiscal mismanagement led to unsustainable deficits when commodity prices collapsed after 2014 [41].

Comparing East Asian and Latin American experiences illuminates critical institutional differences (Bizberg, 2018; Kay, 2001). Asian developmental states maintained relative insulation of economic policy from electoral cycles and political pressures. Latin American democracies faced pressures for immediate redistribution and political patronage, undermining productive investment and fiscal sustainability [18,43]. Asian states prioritized reinvesting surplus to upgrade industry; Latin American states emphasized immediate increases in wages and consumption [18,43].

### Russian Authoritarian State Capitalism: Institutional Capture Risks

**Russia's evolution toward authoritarian state capitalism** following the chaotic privatization period of the 1990s illustrates the dangers of state capitalism divorced from democratic accountability [24,44,45]. Putin's administration reasserted state control over strategic sectors, particularly energy (Gazprom, Rosneft), defense, and banking, creating state corporations combining economic scale with political leverage [24,44].

Russia's model demonstrates state capitalism's vulnerability to political capture and elite enrichment disguised as a development strategy. State enterprises functioned simultaneously as revenue sources for the state and mechanisms for enriching connected oligarchs, with blurred boundaries between private and state ownership [44]. The Russian case demonstrates that state ownership, absent institutional constraints that ensure accountability and competitive discipline, produces neither development effectiveness nor even the long-term benefit of elite interests [44,45].

### African Experiences: Import-Substitution Industrialization Failures

African experiences with state capitalism reveal the critical importance of institutional prerequisites, particularly state capacity and governance quality. **Import-substitution industrialization (ISI)** policies pursued in the 1960s–1980s by many African nations created state enterprises intended to develop domestic manufacturing sectors protected from competition (Ramirez, 2024). In numerous cases, these enterprises became tools of political patronage, employing surplus workers and serving as vehicles for elite enrichment rather than productive industrialization (Ramirez, 2024).

Weak state capacity to manage enterprises, combined with patronage pressures and corruption, meant that protected

industries failed to achieve competitiveness, created fiscal drains on government budgets, and ultimately collapsed when protection was removed [15]. The contrast between these outcomes and East Asian export-oriented industrialization demonstrates that state ownership alone, without capability and commitment to enforce commercial discipline, generates failure rather than development [15].

## Market Failures and State Intervention Rationales

Contemporary developing economies confront documented market failures, validating selective state intervention. **Infrastructure financing gaps** remain acute, with private capital hesitating to fund extended-payoff infrastructure projects that require 30–40-year horizons before generating returns, given political and currency risks in developing countries [31,46]. State enterprises and development banks fund infrastructure that private markets consistently underfund, creating a foundation that enables private-sector productivity [31,46].

**Capital market imperfections** continue to limit long-term credit availability. Developing country financial systems remain underdeveloped, with credit concentrated in short-term trade finance and real estate. Patient capital for industrial development, technology acquisition, and human capital investment remains scarce [31,46]. National development banks fill this gap, as BNDES in Brazil, China's policy banks, and Korea's development bank have historically demonstrated [31,46].

## Methodology

### Research Design and Approach

This study employs a **qualitative literature review methodology** that combines narrative synthesis with systematic thematic analysis, distinct in structure from systematic literature reviews (SLRs) while maintaining scholarly rigor. This methodological choice reflects the study's exploratory, theory-building objectives, which require flexible engagement with diverse conceptual frameworks and complex institutional contexts [21,26,47].

### Literature Search Strategy

The literature search strategy employed multiple complementary approaches: (1) targeted database searches in Scopus, Web of Science, and Google Scholar using keywords combining "state capitalism," "state-owned enterprises," "developmental state," and "emerging markets"; (2) consultation of authoritative reports from international organizations (World Bank, IMF, OECD, ADB); (3) targeted searches of journals publishing on state capitalism (Competition & Change, Development and Change, Review of International Political Economy, Journal of World Business); and (4) examination of bibliographic references in identified key papers for additional sources.

**Temporal scope** prioritizes literature from 2020 to 2026 for contemporary relevance while also including seminal earlier works that establish theoretical foundations (developmental state classics, varieties of capitalism foundational texts). **Geographic scope** encompasses all developing regions: East Asia (China, Singapore, South Korea, Taiwan), Latin America (Brazil, Argentina), Sub-Saharan Africa (South Africa, various nations), Russia and post-Soviet economies, South Asia, and Southeast Asia. **Disciplinary scope** integrates economic, political science, management, and policy literatures, recognizing state capitalism's inherently multidisciplinary nature.

### Inclusion and Exclusion Criteria

**Inclusion criteria** encompass: (1) studies examining state capitalism in developing or emerging economies; (2) research on prerequisites, determinants, and outcomes of state intervention in economic development; (3) comparative analyses across countries and regions; (4) theoretical and empirical contributions to understanding state-led development; and (5) policy-relevant analyses of institutional factors and governance in SOE performance.

**Exclusion criteria** encompass: (1) purely descriptive journalism without analytical depth; (2) single-firm case studies lacking broader theoretical implications; (3) technical analyses disconnected from policy relevance; (4) outdated literature not reflecting contemporary practices; and (5) opinion pieces lacking empirical grounding or theoretical coherence.

### Data Extraction and Thematic Analysis

Information was extracted and organized around five principal themes: (1) theoretical frameworks explaining state capitalism and market failures justifying intervention; (2) country and regional experiences with state capitalism, emphasizing outcomes; (3) institutional prerequisites and enabling conditions for successful implementation; (4) risks, challenges, and failure modes; and (5) policy recommendations and best practices. Findings were analyzed for convergent and divergent patterns across sources, with particular attention to contextual factors explaining outcome variation.

### Quality Assurance and Limitations

Source credibility assessment prioritized peer-reviewed journal articles, especially those published in Scopus/WoS-indexed journals; reports from authoritative international organizations; and publications from established research institutions. Methodological rigor was considered in source selection. The review acknowledged several limitations: potential selection bias in literature sampling; language limitation to English-language sources; publication bias toward successful cases; and difficulty establishing causality from observational studies.

## Results and Discussion

### State Capitalism's Development Effectiveness Under Institutional Conditions

#### Quantitative Development Outcomes

Quantitative evidence on state capitalism's effectiveness reveals conditional, rather than universal, performance patterns. **Economic growth outcomes** demonstrate enormous variation. East Asian state-capitalist economies achieved exceptional growth rates during their development phases: China, averaging 9% annually from 1978 to 2020; South Korea, achieving 7–8% through the 1990s; Singapore and Taiwan, similarly rapid trajectories [4,11,13,34,48]. These growth rates far exceeded those of Latin America, Africa, and most other developing regions, demonstrating that state capitalism can drive rapid expansion [4,11,48].

**Structural transformation outcomes** provide stronger evidence. East Asian state capitalisms achieved rapid industrialization, urbanization, and technological upgrading, transforming agrarian societies into manufacturing and service-based economies within decades [4,34,35,48]. Infrastructure provision—high-speed rail networks, modern ports, digital telecommunications, and power generation—proceeded at scales and speeds private markets achieved nowhere [4,37].

**Poverty reduction** constitutes perhaps the most compelling evidence. China's reduction in extreme poverty from 88% in 1980 to under 2% by 2020 represents an unprecedented reduction in poverty [4,11]. While not exclusively an achievement of state capitalism (market liberalization also contributed significantly), state enterprises' profitability, alongside market reforms, enabled sustained growth, infrastructure investment, and public service provision, thereby supporting poverty reduction [4,11,12].

#### Identification of Seven Critical Prerequisites

Comparative analysis of diverse state capitalist experiences identified seven critical prerequisites for successful implementation:

**First, strong state capacity and bureaucratic quality** fundamentally determine effectiveness [49,50]. East Asia's developmental states invested heavily in civil service quality, recruiting based on competitive examination, providing competitive compensation, and establishing merit-based promotion, creating career incentives [32,50]. Weberian bureaucracy characteristics—specialized expertise, functional division of labor, consistent, impersonal rules, and clear hierarchies—enable complex policy implementation [49,50]. Singapore's civil service and China's technocratic elite exemplify the capacity required for state capitalism to function [37].

**Second, the rule of law and predictable legal frameworks** prove essential [23,24,31]. Successful state capitalism requires that property rights be protected, contracts be enforced, and regulatory burdens remain predictable [23,24]. When political decision-making determines economic outcomes rather than law, uncertainty increases, investment horizons shorten, and entrepreneurs hesitate from long-term commitments [24]. The rule of law particularly constrains state arbitrariness, requiring that state enterprises operate under established legal principles rather than ad hoc political directives [23,24].

**Third, anti-corruption institutions with enforcement capacity** provide essential safeguards [51,52]. State capitalism's concentration of economic power and state control of resources create inherent risks of corruption [10,53]. Political leaders directing state enterprises toward favored constituencies, bureaucrats awarding contracts to connected firms, and enterprise managers embezzling public resources represent constant temptations. Effective anti-corruption institutions include independent agencies with investigative authority, prosecutorial resources, transparent procurement processes, and consistent application across political factions [51,52].

**Fourth, effective SOE governance, combining commercial discipline with transparency, ensures accountability** [31,50,54,55]. Professionalized enterprise management requires meritocratic appointment processes insulating managers from political patronage pressures [31,50]. Performance-based compensation aligned with achieving financial and operational objectives creates efficiency incentives [31]. Clear mandates distinguishing between commercial and social objectives prevent mission creep and unrealistic performance expectations [31]. The OECD Guidelines on Corporate Governance of State-Owned Enterprises establish international best practices implementing these principles [31,50].

**Fifth, macroeconomic stability and fiscal discipline** prove critical [56,57]. State capitalism requires inflation control, manageable public debt, and sustainable fiscal balances [56,57]. Macroeconomic instability undermines long-term investment planning and erodes savings incentives. Fiscal discipline is particularly critical to state capitalism's sustainability: the potential fiscal drain of state enterprises is a primary risk factor [56,57]. Accumulating losses in unprofitable SOEs transform state ownership from productive asset to fiscal liability [56,57]. Soft budget constraints, which allow enterprises to avoid commercial discipline, create endless demands for government bailouts. Latin American experiences illustrate these dynamics, in which subsidized, inefficient state enterprises created massive fiscal imbalances and currency crises, ultimately requiring drastic austerity [41,56].

**Sixth, political stability and long-term policy commitment** surviving leadership transitions prove essential [25,32]. Successful developmental strategies require multi-decade policy commitment. State enterprises embodying development strategies cannot function effectively when facing the constant threat of reversal under new administrations [25,32]. Institutionalizing a development strategy by embedding it in bureaucratic structures and achieving cross-party consensus enhances credibility and the probability of survival [25,32].

**Seventh, international trade integration with competitive discipline** encourages efficiency [25,32,48]. Successful developmental states integrated with global markets, accepting competitive discipline through exports while strategically protecting infant industries temporarily [25,32]. Exposure to international competition forces domestic enterprises to remain competitive, prevents the monopolistic abuse of protection, and encourages innovation [25,32]. Singapore and South Korea's export-oriented development contrasted with many countries' inward-looking import substitution industrialization, which extended protections indefinitely, creating inefficient industries unable to compete globally [15,32].

### Contextual Contingency: When State Capitalism Works and When It Fails

State capitalism's appropriateness varies significantly based on the country's circumstances [50,58].

**Large domestic markets** enable state enterprises to achieve economies of scale. Small economies like Singapore succeed through globally integrated state enterprises, but domestic markets alone cannot efficiently support the scale of state enterprises [50,58].

**Resource richness** gives rise to specific state-capitalism arguments. Sovereign wealth funds manage natural resource revenues, avoiding Dutch disease effects and intergenerational equity concerns [59,60]. State ownership of extractive industries protects resource sovereignty and ensures revenue accrues to public accounts [59,60].

**Institutional capacity levels** fundamentally constrain the viability of state capitalism. Countries with weak bureaucratic capacity, endemic corruption, and dysfunctional legal systems face higher risks of the concentration of power under state ownership, which can degenerate into kleptocracy [32,50,58]. Countries with stronger institutions leverage state capacity for development purposes more effectively [32,50,58].

**Political system types** affect the viability of state capitalism. Authoritarian systems can enforce long-term policy commitment but risk corruption and policy error without accountability. Democracies provide accountability but face electoral cycle pressures [23-25]. Both can implement successful state capitalism

with appropriate institutional design, though challenges differ [23-25].

**Development stages** affect the appropriateness of state capitalism. Early stages of development, when private-sector capacity remains limited and institutional voids loom large, justify temporary state entrepreneurship. Advanced development stages, when the private sector matures, and innovation diversity becomes a priority, suggest gradual state withdrawal from commercial sectors [61,62].

### Policy Recommendations for Developing Countries

Drawing from comparative evidence, several evidence-based recommendations emerge:

**Prioritize institutional development over ownership decisions.** Governance quality proves more determinative than ownership structure itself. Professionally managed state enterprises frequently outperform poorly-governed private firms [31,50]. Rather than pursuing automatic privatization or nationalization, focus on ensuring effective governance regardless of ownership [31,50].

**Implement selective, strategic state intervention.** Rather than comprehensive state direction across many sectors, focus state entrepreneurship on addressing specific market failures: infrastructure, strategic technology sectors, capital market gaps [31,50]. Avoid state ownership in competitive sectors where private competition drives efficiency [31,50].

**Establish transparent performance accountability.** Develop clear key performance indicators combining financial returns with social objectives explicitly priced. Publish regular performance reports enabling public scrutiny. Subject SOEs to external audits and international benchmarking [31].

**Maintain hard budget constraints.** Establish credible consequences for persistent underperformance including management replacement and enterprise closure. Soft budget constraints where governments persistently bail out failing enterprises destroy discipline and waste resources [56,57].

**Ensure macroeconomic stability.** Maintain fiscal discipline preventing unsustainable deficits. Control inflation through prudent monetary policy. Accumulate foreign reserves enabling countercyclical investment during downturns while avoiding procyclical excess during commodity booms [56,57].

**Anchor policy through institutions.** Embed development strategy in bureaucratic structures and legislative frameworks surviving leadership transitions. Build cross-party political consensus on long-term development direction. Create technocratic agencies with operational autonomy from electoral pressures [25,32].

**Combine state intervention with market discipline.** Expose state enterprises to international competition, market-based pricing, and private sector benchmarking rather than protections from competition. Allow private sector entry into sectors state enterprises dominate where feasible, creating competitive dynamics encouraging efficiency [50].

**Strengthen anti-corruption institutions.** Establish independent anti-corruption agencies, implement transparent procurement, require asset disclosure, and prosecute corruption across all political factions. Build rule of law foundations limiting arbitrary state action [51,52].

## Conclusion

### Synthesis of Key Findings

This qualitative literature review addressed whether state capitalism constitutes a viable economic policy framework for achieving sustained prosperity in developing countries. Drawing on comparative institutional analysis across East Asia, Latin America, Russia, and Africa, the review demonstrates that state capitalism's viability is fundamentally contingent on institutional context rather than on economic determinism.

**First, state capitalism demonstrates measurable development effectiveness under specific conditions.** East Asian state capitalist models achieved unprecedented results: China reduced extreme poverty from 88% in 1980 to under 2% by 2020, expanded urban populations from 20% to 64%, and developed world-class manufacturing and infrastructure capacity. Singapore transformed from a colonial trading post into a high-income, developed economy while maintaining democratic governance and consistently ranking among the highest in governance quality. South Korea and Taiwan achieved per capita incomes that matched those of developed economies within two generations through export-oriented industrial policy and technological upgrading. These outcomes reveal that state capitalism, when embedded in strong institutions, can generate rapid growth, structural transformation, and poverty reduction.

**Second, institutional prerequisites prove determinative of outcomes.** This review identified seven critical prerequisites for successful state capitalism: (1) strong state capacity and merit-based bureaucracy; (2) rule of law and predictable legal frameworks; (3) effective anti-corruption institutions; (4) professional SOE governance combining performance discipline with commercial orientation; (5) macroeconomic stability and fiscal discipline; (6) political continuity and long-term policy commitment; and (7) international trade integration providing competitive discipline. Their joint presence explains East Asian success; their joint absence explains the failures of African ISIs and the inefficiency of Russian authoritarian capitalism.

**Third, context contingency supersedes ideological universalism.** Neither comprehensive statism nor reflexive market fundamentalism suits all developing countries. Optimal

strategies depend upon institutional capacity levels, development stages, political system types, resource endowments, and specific sectoral characteristics.

**Fourth, governance quality matters more than ownership structure per se.** Professionally-managed state enterprises frequently outperform poorly-governed private firms. What determines enterprise performance is transparent accountability, clear performance metrics, competitive exposure, and merit-based management—characteristics achievable through either state or private ownership.

### Theoretical Contributions

This review contributes to development economics and comparative capitalism literature through several dimensions:

**Advancing the varieties of capitalism framework.** This review demonstrates that state-permeated capitalism constitutes a distinct, viable third variety coexisting with liberal and coordinated market economies. Contemporary state capitalism integrates market mechanisms with state ownership and strategic direction, creating institutional configurations fundamentally different from both pure socialism and liberal capitalism. This expansion of VoC theory to late-industrializing nations significantly advances understanding of global capitalism's diversity.

**Refining developmental state theory.** This review extends developmental state theory by incorporating **three additional dimensions: (1) rule of law and institutional constraints on state power; (2) anti-corruption frameworks ensuring accountability; and (3) compatibility of both authoritarian and democratic state capitalism when institutional designs appropriately address accountability deficits.** This refined theory better explains both East Asian successes and Russian failures.

**Clarifying state capitalism's institutional heterogeneity.** This review systematizes the understanding of diverse state capitalism configurations (SOEs, SWFs, GLCs, development banks) and their differential effectiveness across sectoral characteristics and development contexts, advancing conceptual clarity beyond earlier homogenizing treatments.

### Definitive Answer to Central Question

Returning to the central question—**Is state capitalism a recipe for prosperity for developing countries?**—the evidence supports a definitive but conditional answer:

**State capitalism CAN generate prosperity when embedded in strong institutions, focused on addressing documented market failures, implemented with genuine commercial discipline, subject to competitive exposure, and anchored in democratic accountability with rule-of-law protections.** Under these conditions, as East Asian examples demonstrate, state capitalism drives rapid growth, industrialization, poverty reduction, and technological advancement.

**State capitalism DEGENERATES into crony capitalism, fiscal drain, and stagnation when institutional prerequisites are absent; when political capture permits elite enrichment disguised as development; when commercial discipline is absent, allowing indefinite subsidies; when competitive pressures are eliminated through protection; and when democratic accountability and the rule of law are compromised.**

## Policy Guidance and Strategic Recommendations

Developing countries should neither reflexively embrace nor categorically reject state intervention based on ideology or past experiences elsewhere. Instead, they should:

- i. **Honestly assess institutional capacity** regarding bureaucratic quality, rule of law, and anti-corruption capability
- ii. **Build institutional foundations** as prerequisite for effective state capitalism implementation
- iii. **Learn from comparative experiences** across diverse contexts rather than importing single-model prescriptions
- iv. **Design context-appropriate strategies** combining state direction and market discipline in measures appropriate to their specific circumstances
- v. **Prioritize governance quality** over ownership structure as the ultimate determinant of enterprise performance
- vi. **Pursue pragmatic eclecticism** combining selective state involvement in market-failure sectors with dynamic private sectors in competitive sectors

The 21<sup>st</sup> century economy admits multiple capitalist variants coexisting and competing. Developing countries' strategic challenge involves **crafting context-specific combinations of state and market mechanisms anchored in strong institutions and democratic accountability that address their particular development challenges**. The diversity of successful development pathways validates this pluralism while insisting that **governance quality, institutional strength, and policy discipline remain non-negotiable requirements regardless of ownership structure**.

State capitalism can indeed generate prosperity, but only through pragmatic implementation reflecting honest institutional self-assessment, commitment to governance excellence, and recognition **that ultimate development outcomes depend less on whether the state owns enterprises than on how effectively those enterprises—under any ownership—serve productive purposes contributing to long-term national development**.

## Future Research Directions

Several important research gaps merit investigation: (1) state capitalism and green development transitions; (2) digital economy

governance and state capitalism; (3) geopolitical competition and technological state capitalism; (4) democratic accountability mechanisms in state capitalism; (5) middle-income trap escape and state capitalism's role; and (6) comparative effectiveness of state capitalism variants. These questions will determine state capitalism's continued relevance in addressing 21<sup>st</sup> century development challenges.

## References

1. Bartha Z (2024) Changes in varieties of capitalism within the OECD between 2010 and 2020. *International Journal of Public Policy* 17(4): 284-301.
2. Wright M, Wood G, Musacchio A, Okhmatovskiy I, Grosman A, et al. (2021) State capitalism in international context: Varieties and variations. *Journal of World Business* 56(2): 101160.
3. Alami I, Dixon AD, & Mawdsley E (2021) State Capitalism and the New Global Development Regime. *Antipode* 53(5): 1294-1318.
4. Sliwoski H (2025) China 2025: Navigating Uncertainty and Capturing Opportunities. *Harris Sliwoski China Law Blog*.
5. Curi C, Mancuso P, & Scarpa A (2025) State-owned enterprises: A bibliometric review and research agenda. *Finance Research Letters* 74: 106749.
6. Johnson D, & Aguilar JC (2024) Sovereign Wealth Funds 2024: Resilience and Growth in a New Global Landscape.
7. Alami I, & Dixon AD (2020) State capitalism(s) redux? Theories, tensions, controversies. *Competition & Change* 24(1): 70-94.
8. Loewen B (2022) Revitalizing varieties of capitalism for sustainability transitions research: Review, critique and way forward. *Renewable and Sustainable Energy Reviews* 162: 112432.
9. Schmidt VA (2007) Bringing the State Back into the Varieties of Capitalism and Discourse Back into the Explanation of Change. *Proceedings of the Annual Meetings of the American Political Science Association* 2006 1(1): 1-33.
10. Nölke A (2019) Comparative Capitalism. In: Shaw TM, Mahrenbach LC, Modi R, & Yi-chong X (Eds.), *The Palgrave Handbook of Contemporary International Political Economy*. Palgrave Macmillan UK, pp. 135-151.
11. The World Bank (2022) *Four Decades of Poverty Reduction in China: Drivers, Insights for the World, and the Way Ahead*. The World Bank.
12. Liu C, Yap N, Yin C, & Zhou S (2021) The effect of sovereign wealth funds on corporations: Evidence of cash policies in Singapore. *Research in International Business and Finance* 56: 101354.
13. Berger PL (2024) An East Asian Development Model? In *In Search of an East Asian Development Model*. Routledge, pp. 3-11.
14. Chibber Vi (2014) *The Developmental State in Retrospect and Prospect: Lessons from India and South Korea*. In *The End of the Development State?* (1<sup>st</sup> edition.), Routledge Taylor & Francis Group, p. 25.
15. Ramirez C (2024) Revisiting Developmental State Theory in East Asia and Latin America. *Journal of International Studies* 9: 25-41.
16. Adami I, & Dixon AD (2024) *The Spectre of State Capitalism: Critical Frontiers of Theory, Research, and Policy*. Oxford University Press (OUP).
17. Leoni Z, & Lilli E (2026) *The US-Sino Tech War Through the Eyes of Secondary States: An Analysis of the Reactions of the US Five Eyes Allies to Huawei's 5G*. *Global Society*, p. 1-23.

18. Bizberg I (2018) Varieties of capitalism, growth and redistribution in Asia and Latin America. *Brazilian Journal of Political Economy* 38(2): 261-279.
19. Hall PA & Soskice D (Eds.). (2021) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage (20th Anniversary Edition)* (20<sup>th</sup> edition.), Oxford University Press, England.
20. Nölke A, Brink T Ten, May C, & Claar S (2019) State-permeated capitalism in large emerging economies. In *Routledge Studies in the Modern World Economy* (1<sup>st</sup> edition.). Routledge Taylor & Francis Group.
21. Haggard S (2018) *Developmental States*. Cambridge University Press.
22. Evans PB (2012) *Embedded Autonomy: States and Industrial Transformation*. Princeton University Press, United States.
23. Chen LS (2022) Getting China's Political Economy Right: State, Business, and Authoritarian Capitalism. *Perspectives on Politics* 20(4): 1397-1402.
24. Sallai D, & Schnyder G (2021) What Is "Authoritarian" About Authoritarian Capitalism? The Dual Erosion of the Private-Public Divide in State-Dominated Business Systems. *Business & Society* 60(6): 1312-1348.
25. Singh JN, & Ovadia JS (2018) The theory and practice of building developmental states in the Global South. *Third World Quarterly* 39(6): 1033-1055.
26. Andreoni A, & Chang HJ (2016) Bringing production and employment back into development: Alice Amsden's legacy for a new developmentalist agenda. *Cambridge Journal of Regions Economy and Society*, 10(1).
27. Hasanov F & Cherif R (2019) The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy. *IMF Working Papers*, 2019(074): 1.
28. Lin J, & Chang HJ (2009) DPR Debate: Should Industrial Policy in Developing Countries Conform to Comparative Advantage or Defy it? A Debate between Justin Lin and Ha-Joon Chang. *Development Policy Review* 27(5): 483-502.
29. Rodrik D (2022) Policy Proposal: An Industrial Policy for Good Jobs.
30. Stiglitz JE (2021) The proper role of government in the market economy: The case of the post-COVID recovery. *Journal of Government and Economics* 1: 100004.
31. OECD (2024a) *OECD Guidelines on Corporate Governance of State-Owned Enterprises 2024*. OECD Publishing.
32. Karas D (2020) *Developmental States in Dependent Market Economies and Low-Tech Sectors*. PPE: Progress in Political Economy The University of Sydney.
33. McNally CA (2020) Chaotic mélange: neo-liberalism and neo-statism in the age of Sino-capitalism. *Review of International Political Economy* 27(2): 281-301.
34. Lin C, Zhai H, & Zhao Y (2022) Industrial Poverty Alleviation, Digital Innovation and Regional Economically Sustainable Growth: Empirical Evidence Based on Local State-Owned Enterprises in China. *Sustainability* 14(23): 15571.
35. Al-Haschimi A, & Spital T (2024) The evolution of China's growth model: challenges and long-term growth prospects. *ECB Economic Bulletin*, 5.
36. Tian Z (2025) China's 2025 Economy: Can bold policies drive a turnaround? CEIBS-Europe Faculty and Research.
37. Leutert W (2024) Singapore's Temasek Model and State Asset Management in China Influence and Limits. *Asian Survey* 64(4): 700-726.
38. Valentina RA, & Guo V (2025) Sovereign Wealth Fund (SWF): Comparison between Indonesia, Singapore and Malaysia. *Unram Law Review* 9(2).
39. Illes K (2023) Temasek Holdings' Investment Strategy. In *Singapore Inc.: A Century of Business Success in Global Markets* (1<sup>st</sup> edition.), Routledge Taylor & Francis Group, p. 2.
40. Lima-de-Oliveira R (2020) Corruption and local content development: Assessing the impact of the Petrobras' scandal on recent policy changes in Brazil. *The Extractive Industries and Society* 7(2): 274-282.
41. Nölke A, May C, Mertens D, & Schedelik M (2022) Elephant limps, but jaguar stumbles: Unpacking the divergence of state capitalism in Brazil and India through theories of capitalist diversity. *Competition & Change* 26(3-4): 311-333.
42. Whitehead M, & Belghitar Y (2022) Responding to a corruption crisis through disclosure and remedial action: The case of Petrobras. *The British Accounting Review* 54(5): 101119.
43. Kay C (2001) Asia's and Latin America's development in comparative perspective: landlords, peasants, and industrialization (19081; ISS Working Papers - General Series).
44. Marandici I (2024) Oligarchs, Political Ties and Nomenklatura Capitalism: Introducing a New Dataset. *Europe-Asia Studies* 76(5): 739-769.
45. Schimpfössl E (2024) Oligarch Moralities of Wealth: The Russian Case. *East European Politics and Societies: And Cultures*, 38(1): 283-302.
46. Klingler-Vidra R, & Pardo RP (2024) Bridging developmental state and entrepreneurial state theory: A typology of startup policies' incumbent firm benefits. *Journal of Asian Public Policy* 17(3): 524-540.
47. Lim WM (2024) What Is Qualitative Research? An Overview and Guidelines. *Australasian Marketing Journal*.
48. Zadorian A, Szanyi M, Farazmand A (2021) Introduction to the Special Issue: The Rise of State Capitalism. *International Journal of Public Administration* 44(14): 1195-1200.
49. Adebayo A, & Ackers B (2022) Insights on Corporate Governance Practices of State-Owned Enterprises (SOEs). *Journal of Accounting and Investment* 23(1): 170-195.
50. OECD (2024b) *Ownership and Governance of State-Owned Enterprises 2024* (3<sup>rd</sup> edition.). OECD Publishing.
51. Schutte S, Ceballos JC, & David-Barrett E (2023) Measuring Effectiveness of Anti-Corruption Agencies.
52. UNDP (2022) *Strategic Programming for Anti-Corruption Agencies: Regional Guidance Note for ASEAN*.
53. Nolan J (2025) Corporate accountability for human rights abuses. In *Research Handbook on Accountability for Human Rights Violations* (1<sup>st</sup> edition). Edward Elgar Publishing, pp. 101-115.
54. Mauludina MA, Azis Y, Sukmadilaga C & Susanto H (2023) Determinants of SOE's performance: A systematic literature review. *Cogent Business & Management*, 10(2).
55. Mulenga CP (2024) Effect of Corporate Governance on the Performance of State-Owned Enterprises in Zambia. *African Journal of Commercial Studies* 4(2): 138-153.
56. Greco L, Pintus FJ, & Raggi D (2025) When fiscal discipline meets macroeconomic stability: The Euro-stability bond. *Journal of International Financial Markets, Institutions and Money* 103: 102196.

57. Muslim M, Bata Ilyas MFG, & Sani A (2024) Linking Fiscal Policy to Economic Stability through Financial Sustainability. *Vifada Management and Social Sciences* 2(2): 36-55.
58. Dale G & Unkovski-Korica V (2023) Varieties of capitalism or variegated state capitalism? East Germany and Yugoslavia in comparative perspective. *Business History* 65(7): 1242-1274.
59. Johnson D (2025) 2025 Sovereign Impact Report.
60. Petry J, & Nolke A (2025) State, Capitalism, and Finance in Emerging Markets: Between Subordination and Statecraft (1<sup>st</sup> edition.). Bristol University Press, United Kingdom.
61. Korwatanasakul U (2023) Thailand and the Middle-Income Trap: An Analysis from the Global Value Chain Perspective (202; Discussion Paper).
62. Li S, & Wu Y (2022) Government subsidies, ownership structure and operating performance of state-owned enterprises: evidence from China. *Applied Economics* 54(56): 6480-6496.



This work is licensed under Creative Commons Attribution 4.0 License  
DOI: [10.19080/ASM.2026.13.555855](https://doi.org/10.19080/ASM.2026.13.555855)

Your next submission with Juniper Publishers  
will reach you the below assets

- Quality Editorial service
- Swift Peer Review
- Reprints availability
- E-prints Service
- Manuscript Podcast for convenient understanding
- Global attainment for your research
- Manuscript accessibility in different formats  
( Pdf, E-pub, Full Text, Audio)
- Unceasing customer service

**Track the below URL for one-step submission**  
<https://juniperpublishers.com/online-submission.php>