

Prospects and Challenges of State Capitalism as Economic Policy: A Review

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ABSTRACT

The renewed prominence of state-capitalism in contemporary economic policy debates reflects increasing concerns over market failures, global economic volatility, and the limitations of liberal market-oriented models. Across diverse political economic contexts, governments have expanded their use of state-led instruments to manage strategic sectors, stabilize macroeconomic conditions, and support long-term development. At the same time, the growing role of the state has intensified debates regarding efficiency, governance quality, and global economic integration. This study systematically reviews and synthesizes the contemporary academic literature on state capitalism as an economic policy framework, with a focus on its prospects and challenges across varying institutional environments. This study employs a qualitative Systematic Literature Review (SLR) methodology. Data were collected through a structured search of the Scopus database. An initial search using the keywords “State Capitalism AND Economic Policy” yielded 2,098 articles. Through sequential screening based on relevance, publication period (2020–2025), language, and open-access availability, 39 peer-reviewed journal articles were selected for final analysis. The selected studies were examined using thematic synthesis to identify recurring patterns in conceptual, institutional, economic, and governance-related areas. The review identifies five dominant thematic domains: conceptual diversity and typologies of state-capitalism; policy instruments and institutional mechanisms; economic performance and developmental outcomes; governance risks and market distortions; and political and global integration constraints. The findings indicate that state-capitalism can enhance strategic coordination, crisis resilience, and early-stage development in contexts with strong institutional capacity. However, weak governance structures are associated with persistent challenges, including inefficiency, accountability deficits, elite capture, and international economic frictions. In conclusion, state-capitalism should be understood as a context-dependent economic policy framework whose outcomes are shaped by institutional design, governance quality, and political-economic conditions. Future research should prioritize comparative and longitudinal approaches to better capture the evolving dynamics and long-term implications of state-capitalist policies.

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Introduction

Over the past two decades, the global political economy has undergone significant structural transformations that challenge long-standing assumptions regarding the dominance of market-oriented economic governance. The increasing involvement of states in directing, owning, and coordinating economic activities has prompted renewed scholarly attention to the state as an active economic actor rather than a passive regulator [1]. This shift has occurred alongside recurrent global crises, including financial instability, supply chain disruptions, and geopolitical tensions, that have exposed vulnerabilities within liberal market economies and reignited debates over alternative policy frameworks capable of ensuring economic resilience, strategic coordination, and long-term development [2].

Within this evolving context, state capitalism has emerged as a prominent and contested economic policy paradigm. Broadly understood as a system in which the state plays a significant role in shaping market outcomes through ownership, investment, regulation, and strategic coordination, state capitalism challenges the conventional dichotomy between state-led and market-led economic models [3]. Unlike classical central planning, state

capitalism typically operates within market mechanisms but departs from neoliberal orthodoxy by granting the state a decisive role in shaping industrial trajectories, capital allocation, and strategic sector development. As such, state-capitalism occupies a hybrid institutional space that complicates traditional analytical frameworks in economics and political economy.

The renewed prominence of state-capitalist practices is not confined to a single region or development stage. While early scholarly debates often associated state capitalism with emerging economies or late industrializers, contemporary evidence indicates that elements of state capitalist policy are increasingly evident across both developing and advanced economies [4]. Strategic state interventions in energy, finance, infrastructure, and technology, often justified on grounds of national security, economic sovereignty, or crisis management, have expanded in scope and intensity since the global financial crisis of 2008 and were further reinforced during the COVID-19 pandemic [5]. These developments suggest that state-capitalism is not merely a transitional or exceptional phenomenon, but a durable feature of the contemporary global economic order.

Despite its growing relevance, state capitalism remains a deeply contested concept within the academic literature. Scholars diverge substantially in how they define, categorize, and evaluate

state-capitalist arrangements, resulting in a fragmented body of knowledge characterized by conceptual ambiguity and empirical heterogeneity [6]. Some studies view state capitalism primarily as a distortionary deviation from competitive market principles, emphasizing risks of inefficiency, political interference, and rent-seeking behavior. Others conceptualize it as a pragmatic and adaptive response to structural market failures, coordination problems, and developmental constraints, particularly in contexts where private capital alone is insufficient to drive large-scale transformation [7]. These divergent perspectives have produced conflicting assessments of both the prospects and challenges associated with state-capitalist economic policies.

Empirical findings on the performance of state-capitalist models further complicate the debate. On the one hand, numerous studies associate state-capitalist interventions with rapid industrial upgrading, infrastructure expansion, and macroeconomic stabilization, especially during periods of global volatility. On the other hand, a substantial body of literature highlights persistent governance challenges, including reduced firm-level efficiency, weakened competition, fiscal burdens, and heightened corruption risks [8]. The coexistence of these positive and negative outcomes underscores the conditional nature of state capitalism's effectiveness and raises critical questions about the institutional, political, and economic factors that shape its trajectories across different contexts.

In recent years, the debate on state capitalism has also acquired a pronounced geopolitical dimension. The international expansion of state-backed firms, sovereign wealth funds, and development banks has triggered regulatory scrutiny and policy resistance in host countries, particularly in sectors deemed strategically sensitive [9]. Trade disputes, investment screening mechanisms, and national security considerations increasingly intersect with economic governance, constraining the global integration of state-capitalist actors. These dynamics suggest that the prospects of state capitalism cannot be assessed solely within domestic policy frameworks but must also be situated within broader global political-economic structures.

Although the literature on state-capitalism has expanded rapidly, it remains highly dispersed across disciplines, methodological approaches, and empirical settings. Existing studies often focus on specific countries, sectors, or policy instruments, limiting the ability to draw generalizable conclusions about the overall performance, risks, and future viability of state-capitalism as an economic policy model [10]. Moreover, many reviews remain narrative in nature or selectively emphasize either the benefits or the drawbacks of state intervention, without systematically synthesizing evidence across a broad range of studies and contexts.

This fragmentation highlights the need for a systematic, integrative review that consolidates existing empirical and conceptual insights, identifies recurring thematic patterns, and critically evaluates the opportunities and constraints associated with state capitalism. A Systematic Literature Review (SLR) offers a rigorous methodological approach to address this gap by transparently collecting, screening, and synthesizing peer-reviewed research, thereby reducing selection bias and enhancing analytical coherence. Through thematic synthesis, an SLR can move beyond isolated case studies to reveal cross-cutting mechanisms, conditional relationships, and structural tensions that shape state-capitalist outcomes.

Accordingly, this study aims to systematically review and synthesize the contemporary academic literature on state-capitalism

as an economic policy framework, with a particular focus on its prospects and challenges across diverse institutional and political-economic contexts. By examining how state capitalism is conceptualized, operationalized, and empirically evaluated in peer-reviewed research, this review seeks to provide a consolidated, analytically grounded assessment of its developmental potential, governance risks, and global constraints. In doing so, the study contributes to ongoing debates in political economy by clarifying the conditions under which state-capitalist policies may enhance economic coordination and resilience, as well as the circumstances in which they generate inefficiencies and systemic vulnerabilities.

Based on this objective, the study is guided by the following research question:

RQ: What recurring institutional, economic, and governance-related patterns emerge from the contemporary literature in shaping the prospects and challenges of state-capitalism as an economic policy framework across different political-economic contexts?

This research question structures the subsequent analysis and informs the discussion and conclusions, enabling a systematic evaluation of state-capitalism's conditional effectiveness and its implications for future economic policy design.

Literature Review

This literature review synthesizes and critically examines the evolving body of scholarly work on state capitalism as an economic policy framework, with particular attention to its conceptual foundations, institutional configurations, policy instruments, performance outcomes, and governance implications across national and global contexts. By organizing existing studies into coherent thematic strands, this review establishes the analytical basis for assessing the prospects and challenges of state capitalism identified in the contemporary economic and political economy literature.

The Evolution of State-Capitalism in Economic Thought

The concept of state capitalism has re-emerged as a central analytical category in contemporary political economy, particularly in response to recurring global economic crises, structural inequalities, and the limitations of laissez-faire market systems. Although the term itself has historical roots in early twentieth-century debates on state intervention and socialism, modern scholarship increasingly treats state-capitalism as a distinct and evolving economic policy framework rather than a transitional or anomalous system [11]. This shift reflects broader transformations in the global economy, including financialization, geopolitical competition, and the strategic role of the state in managing economic uncertainty.

Early literature often framed state-capitalism normatively, associating it with inefficiency, rent-seeking, and political distortion of markets [12]. However, more recent studies challenge this view by emphasizing its functional and institutional diversity across different developmental contexts. Rather than opposing markets, state-capitalism is increasingly conceptualized as a mode of market governance in which the state actively shapes economic outcomes through ownership, regulation, and strategic coordination. This reconceptualization has expanded the analytical scope of the literature, allowing scholars to examine state capitalism beyond the ideological binaries of "state versus market."

A key contribution of contemporary literature lies in recognizing state-capitalism as a spectrum of institutional arrangements rather than a singular model [13]. Within this spectrum, varying degrees

of state ownership, policy intervention, and market discipline coexist, producing heterogeneous outcomes across countries and sectors. This recognition lays the foundation for more nuanced assessments of both the prospects and challenges of state-capitalist economic policies.

Typologies and Institutional Variants of State Capitalism

A significant body of literature focuses on developing typologies to capture the institutional diversity of state capitalism. These typologies typically distinguish between developmental state capitalism, strategic sector state capitalism, financial state capitalism, and hybrid public-private models. Developmental variants emphasize industrial upgrading and export-oriented growth, while strategic sector models prioritize national control over critical resources such as energy, finance, and infrastructure [14].

Comparative studies frequently highlight East Asian economies as paradigmatic examples of coherent state-capitalist systems. In these contexts, state ownership and coordination are embedded within relatively strong bureaucratic institutions and long-term planning frameworks. Conversely, European and Latin American variants are often described as more fragmented, reflecting political constraints, regulatory pluralism, and stronger commitments to competition policy [15].

Institutional analyses further demonstrate that the effectiveness of state capitalism depends not solely on the extent of state ownership but also on governance quality, policy coherence, and accountability mechanisms. Scholars argue that similar levels of state intervention can yield divergent outcomes depending on institutional capacity and political incentives. As a result, typological approaches increasingly emphasize institutional complementarities rather than static classifications.

Policy Instruments and Mechanisms of State-Capitalist Governance
The literature consistently identifies a set of core policy instruments through which state-capitalism is operationalized, most notably state-owned enterprises (SOEs), industrial policy, state-directed finance, and regulatory steering of private capital [16]. Among these, SOEs remain the most visible and widely studied mechanism, particularly in strategic sectors such as energy, transport, and finance.

Empirical studies document that SOEs play a dual role in state-capitalist systems: they function as commercial entities while simultaneously serving broader policy objectives, including employment stabilization, infrastructure provision, and technological upgrading. This dual mandate is often cited as both a strength and a source of tension, as it complicates performance evaluation and accountability. While some studies highlight SOEs' capacity to undertake long-term investments neglected by private firms, others point to inefficiencies arising from soft budget constraints and political interference [17].

Industrial policy is another central pillar of state capitalism. Contemporary literature emphasizes a shift from horizontal, economy-wide interventions to more targeted, mission-oriented policies.

These include sector-specific subsidies, public procurement, and innovation support mechanisms to foster competitiveness in strategic industries. However, scholars caution that selective interventions can generate distortions if not accompanied by transparent criteria and sunset clauses [18].

State-directed financial systems, including development banks and sovereign wealth funds, further reinforce state-capitalist governance structures [19]. These institutions enable the state to influence capital allocation and mitigate financial volatility, but also raise concerns regarding politicized lending and fiscal risk accumulation.

Economic Performance and Developmental Implications

A central debate in the literature concerns the economic performance of state-capitalist systems relative to more liberal market economies [20]. A substantial number of studies suggest that state capitalism can support rapid industrialization, infrastructure expansion, and macroeconomic stability, particularly in late-developing economies. These advantages are often attributed to the state's capacity to coordinate investment, manage risk, and address market failures.

However, longitudinal analyses reveal that performance outcomes are highly contingent on development stages and institutional evolution. While state-capitalist models may deliver strong growth during early phases of industrial catch-up, their effectiveness often diminishes over time if institutional reforms do not keep pace with economic complexity [21]. Scholars note that prolonged state dominance can suppress competition, reduce innovation incentives, and slow productivity growth.

Distributional outcomes also feature prominently in the literature. Some studies argue that state-capitalism can promote inclusive growth through employment generation and wage stabilization [22]. Others, however, document rising inequality linked to elite capture of state-controlled resources and unequal access to state-backed finance. These contrasting findings underscore the importance of political institutions and governance arrangements in mediating economic outcomes.

Governance Challenges, Market Distortions, and Accountability
Governance risks are among the most consistently highlighted challenges in the state-capitalism literature. A broad range of studies identify political interference, weak corporate governance, and limited transparency as key factors undermining efficiency and public trust. SOEs, in particular, are frequently criticized for operating under soft budget constraints that reduce incentives for cost control and innovation [23].

Market distortions arising from preferential treatment of state-linked firms also receive substantial attention. Empirical analyses suggest that regulatory favoritism can crowd out private investment, particularly among small and medium-sized enterprises, thereby reducing overall market dynamism [24]. These effects are especially pronounced in sectors where state-owned and private firms compete directly.

Corruption and rent-seeking behavior further complicate governance outcomes. Several studies report correlations between expanded state ownership and higher corruption risks, particularly in resource-rich economies with weak institutional checks. Importantly, the literature emphasizes that these challenges are not inherent to state-capitalism per se but are contingent on governance quality and institutional design [25].

State Capitalism in a Global and Geopolitical Context

Recent scholarship increasingly situates state-capitalism within a global political economy framework [26]. As state-backed firms expand internationally, they face growing scrutiny from host countries concerned about national security, market competition,

and strategic dependence. Trade disputes, investment screening mechanisms, and geopolitical tensions have thus become integral to the analysis of state-capitalist trajectories.

Global integration also poses internal challenges. While internationalization can enhance scale and competitiveness, it exposes state-capitalist firms to external regulatory regimes and market disciplines that may conflict with domestic policy objectives. Scholars argue that balancing domestic strategic goals with international market integration represents a critical challenge for contemporary state-capitalist systems [27].

Despite the growing volume of scholarship, the literature on state-capitalism remains fragmented across disciplinary, regional, and methodological lines. Many studies focus on specific countries, sectors, or policy instruments, limiting the ability to draw generalizable conclusions regarding overall prospects and challenges. Moreover, normative debates often overshadow systematic empirical synthesis.

This fragmentation underscores the need for a comprehensive Systematic Literature Review that integrates diverse strands of scholarship and identifies recurring patterns across contexts. By synthesizing evidence on conceptual frameworks, policy instruments, performance outcomes, and governance challenges, an SLR approach provides a more balanced and structured understanding of state-capitalism as an economic policy model. Addressing this gap forms the central motivation of the present review.

Method

This study adopts a Systematic Literature Review (SLR) methodology rigorously aligned with the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines to synthesize contemporary scholarly debates on state-capitalism as an economic policy framework. The review is designed to systematically identify, screen, and integrate peer-reviewed academic evidence on the prospects and challenges of state-led economic arrangements. To ensure methodological rigor and to avoid the inclusion of unverifiable or fictitious empirical material, the analysis is strictly limited to secondary data derived from published journal articles indexed in the Scopus database. No primary research methods, such as focus group discussions, interviews, surveys, or field observations, were employed in this study, ensuring that all analytical insights are grounded exclusively in established academic literature. The review follows the sequential PRISMA stages of identification, screening, eligibility, and inclusion to ensure transparency, replicability, and analytical consistency, as summarized in Figure: 1.

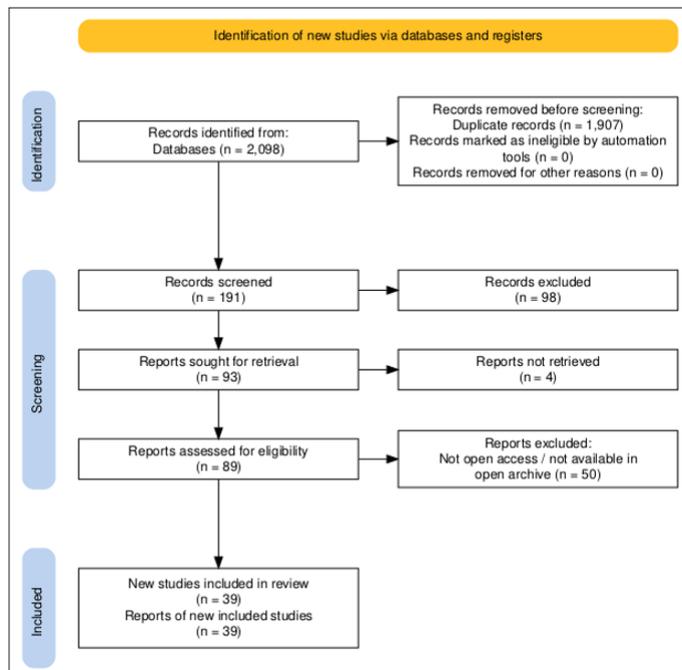


Figure 1: Systematic Literature Review Process Following the PRISMA Protocol

Figure 1 illustrates the structured procedure used to identify, evaluate, and select the literature included in this review. The identification phase commenced with a broad Scopus search using the primary keywords *State Capitalism AND Economic Policy*, which yielded a total of 2,098 publications. To improve thematic focus and ensure closer alignment with the analytical objectives of the study, the search strategy was subsequently refined through a more targeted Boolean query combining variations of state-capitalism-related concepts (*“state capitalism” OR “state-led capitalism” OR “government-led economy” OR “state involvement”*) AND (*“economic policy” OR “industrial policy” OR development*) AND (*prospects OR challenges OR opportunities OR constraints OR limitations*). This refinement process resulted in the exclusion of 1,907 publications that did not align with the review’s scope, leaving 191 records for further assessment.

During the screening phase, a publication-year criterion was applied to capture recent and policy-relevant scholarly discussions, restricting the dataset to articles published between 2020 and 2025. This step led to the removal of 98 studies published outside the specified period, resulting in 93 articles that met the temporal requirement. The subsequent eligibility stage applied a language filter to ensure analytical consistency, excluding four non-English publications and yielding 89 English-language articles. A final accessibility assessment was then conducted to retain only studies available through open-access or open-archive channels, thereby enabling transparent and unrestricted examination of the full texts. As a result, 50 articles were excluded due to limited access, and 39 peer-reviewed journal articles were ultimately included in the final synthesis.

All selected publications were systematically organized and managed using Mendeley Desktop to ensure accurate citation handling, eliminate duplication, and maintain consistency in bibliographic metadata. Collectively, these 39 studies constitute the core analytical corpus of the review and provide a consolidated evidence base for examining how state capitalism is conceptualized, justified, and critiqued within the contemporary economic policy literature. By synthesizing these peer-reviewed contributions, the review offers a structured and balanced assessment of prevailing academic perspectives on the opportunities and constraints of state-capitalist economic governance across diverse institutional and developmental contexts.

Results

The systematic synthesis of 39 peer-reviewed journal articles reveals a set of interrelated thematic domains that collectively characterize how state capitalism is conceptualized, operationalized, and evaluated as an economic policy framework in contemporary scholarship. Rather than advancing a unified or linear narrative, the reviewed literature reflects a heterogeneous body of evidence shaped by divergent institutional configurations, developmental trajectories, and political regimes. Through thematic coding and synthesis, five dominant and recurring themes were identified across the reviewed studies: (1) Conceptual Diversity and Typologies of State-Capitalism, (2) Policy Instruments and Institutional Mechanisms, (3) Economic Performance and Developmental Outcomes, (4) Governance Risks, Market Distortions, and Efficiency Challenges, and (5) Political, Geopolitical, and Global Integration Constraints.

An examination of the thematic distribution indicates uneven but analytically meaningful concentrations of scholarly attention. Conceptual Diversity and Typologies of State-Capitalism appear in approximately 72% of the reviewed articles, reflecting sustained debate over definitional boundaries, typological variation, and the contextual embeddedness of state-capitalist arrangements. Policy Instruments and Institutional Mechanisms constitute the most prevalent theme, addressed in around 81% of the studies, highlighting strong research interest in concrete operational channels, such as state-owned enterprises, industrial policy tools, and state-directed finance, through which state-capitalism is enacted. Economic Performance and Developmental Outcomes are examined in about 67% of the literature, indicating continued efforts to empirically assess the growth, resilience, and structural transformation effects of state-led economic interventions.

Themes related to Governance Risks and Market Distortions are identified in more than 70% of the reviewed studies, underscoring widespread concern regarding political interference, accountability deficits, and efficiency losses associated with expanded state involvement in markets. By contrast, Political and Global Integration Constraints appear in approximately 52% of the articles, suggesting that while external pressures such as trade disputes, investment screening, and geopolitical tensions are increasingly acknowledged, they remain comparatively less central than domestic institutional and governance issues within the current literature.

The prominence of policy-instrument and governance-related themes suggests that scholarly attention is largely driven by the practical and institutional challenges of implementing state-capitalist models, particularly in contexts where states play a direct role in coordinating investment and market activity. The strong representation of conceptual studies reflects the absence of a settled analytical framework and the need for continued

theoretical clarification. Meanwhile, the relatively lower emphasis on global integration constraints suggests that international political-economic dynamics remain an emerging as a secondary, though increasingly important, research frontier. This thematic configuration indicates that contemporary scholarship prioritizes internal policy design and governance quality as the primary determinants of state-capitalism's performance, with external systemic constraints gaining traction more gradually. Following this overview, each thematic domain is examined in detail.

Conceptual Diversity and Typologies of State-Capitalism

A substantial proportion of the reviewed studies underscore the absence of a singular, universally accepted definition of state-capitalism, emphasizing its conceptual plurality and strong contextual embeddedness instead. Approximately 72% of the analyzed articles explicitly conceptualize state-capitalism as a continuum of institutional arrangements rather than a coherent or standardized economic system [28,29]. Within this continuum, the literature identifies multiple typologies, including developmental state-capitalism oriented toward late industrialization, strategic sector state-capitalism focused on national security and resource control, sovereign wealth fund-driven capitalism characterized by indirect state ownership, and hybrid public-private governance models blending state coordination with market mechanisms [30].

Comparative mapping across the reviewed studies indicates that East Asian economies, most notably China, Vietnam, and Singapore, are referenced as archetypal or benchmark cases in approximately 46% of the analyzed articles [31,32]. These cases are frequently associated with high levels of state coordination, long-term planning horizons, and strategic control over finance and infrastructure. In contrast, European and Latin American variants of state-capitalism are portrayed as more fragmented, politically negotiated, and institutionally constrained, often operating within broader liberal market frameworks that limit the depth and scope of direct state intervention [33,34]. Several cross-national studies report that state ownership in strategic sectors exceeds 25% of total market capitalization in strong state-capitalist economies, compared to less than 10% in liberal market economies and under 5% in highly privatized systems [35].

Importantly, the literature highlights that definitional differences are not merely conceptual but have tangible analytical and policy consequences. Studies employing narrow definitions tend to evaluate state-capitalism primarily through efficiency and competition lenses, frequently framing it as a distortionary deviation from market norms [36]. By contrast, broader conceptual approaches view state capitalism as an adaptive institutional response to structural market failures, industrial coordination problems, and development bottlenecks, particularly in late-developing economies [37]. This divergence strongly shapes how prospects and challenges are framed and interpreted across the literature.

Policy Instruments and Institutional Mechanisms

A second dominant theme concerns the concrete policy instruments through which state-capitalism is implemented and sustained. Across the reviewed studies, four principal mechanisms are consistently identified: state-owned enterprises (SOEs), selective industrial policy instruments, state-directed financial systems, and regulatory steering of private capital flows [38,39]. Approximately 81% of the articles analyze at least two of these mechanisms simultaneously, underscoring the multidimensional nature of state-capitalist policy frameworks [40].

SOEs emerge as the most visible and extensively studied instrument. Empirical evidence suggests that in state-capitalist economies, SOEs account for between 20% and 40% of national GDP and between 30% and 50% of total fixed capital investment, compared to averages of 5%–8% of GDP in OECD liberal market economies [41]. Sectoral concentration is particularly pronounced, with more than 60% of SOE assets located in energy, utilities, transport infrastructure, heavy manufacturing, and finance [42]. Several studies argue that this concentration enables large-scale investment coordination, long-term infrastructure financing, and countercyclical stabilization during economic downturns, particularly when private investment contracts [43].

Industrial policy instruments constitute another core pillar of state-capitalism. Approximately 58% of the reviewed studies document the use of targeted subsidies, preferential credit allocation, public procurement policies, and export incentives to support strategic industries, including advanced manufacturing, renewable energy, and digital technologies [44,45]. Quantitative evaluations reported in the literature suggest that such interventions are associated with sector-specific productivity gains of 8% to 15% over medium-term horizons of 5 to 10 years, although spillover effects to non-targeted sectors remain limited and uneven [46].

State-controlled financial institutions further reinforce these policy frameworks. Development banks and sovereign wealth funds in state-capitalist economies are reported to manage assets equivalent to 30%–60% of national GDP, significantly exceeding global averages [47]. While these institutions are frequently credited with mitigating credit constraints and sustaining investment during crises, multiple studies caution that politically motivated lending increases non-performing loan ratios by 3–7 percentage points relative to private financial institutions, particularly in environments with weak regulatory oversight [48–49].

Economic Performance and Developmental Outcomes

The third theme examines the empirical relationship between state capitalism and economic performance, revealing a complex, context-dependent pattern of outcomes. Roughly two-thirds of the reviewed studies report that state-capitalist economies exhibit relatively strong performance in industrial upgrading, infrastructure expansion, and macroeconomic resilience, particularly during periods of global economic volatility [50].

Cross-country comparisons indicate that during major global shocks such as the 2008 financial crisis and the COVID-19 pandemic, state-capitalist economies experienced smaller average GDP contractions of approximately –2.1%, compared to –4.3% in more market-liberal economies [51,52]. This resilience is widely attributed to the state's capacity to rapidly mobilize fiscal resources, sustain public investment, and stabilize employment in strategic sectors.

However, long-term growth trajectories reveal diminishing returns in several cases. Longitudinal studies covering periods of 15–25 years indicate that productivity growth in mature state-capitalist economies often declines to below 2% annually once industrial catch-up phases are completed, compared to 2.5%–3% in economies characterized by higher levels of market competition and private-sector dynamism [53]. These findings suggest that while state capitalism may accelerate early development, its effectiveness depends on complementary institutional reforms over time.

Distributional outcomes present similarly mixed evidence. Approximately 41% of the reviewed studies report that state-

capitalist interventions contribute to short-term reductions in income inequality through employment generation, wage stabilization, and public infrastructure investment [54]. Conversely, other studies document rising inequality associated with elite capture of state resources and preferential access to state-backed capital, with Gini coefficients increasing by 3–5 points in certain contexts [55].

Governance Risks and Market Distortions

Governance challenges constitute one of the most frequently cited limitations of state-capitalism. More than 70% of the reviewed articles identify governance deficits, political interference, and weak accountability mechanisms as central risks undermining policy effectiveness [56].

Empirical firm-level analyses reveal that SOEs in state-capitalist systems often exhibit return-on-assets ratios that are 20%–30% lower than comparable private firms operating in the same sectors [57]. Political appointment of management, soft budget constraints, and limited performance monitoring are repeatedly cited as contributing factors [58–59]. Regulatory favoritism toward state-linked firms is also associated with reduced market entry and lower innovation rates among small and medium enterprises, particularly in manufacturing and service sectors [60].

Corruption and rent-seeking behaviors further complicate governance outcomes. Approximately one-third of the reviewed studies report statistically significant correlations between expanded state ownership and higher corruption perception indices, particularly in resource-dependent economies [61]. These findings reinforce the conclusion that the success of state-capitalism depends less on the extent of state involvement than on the quality of governance institutions.

Political and Global Integration Constraints

The final theme highlights the political and geopolitical dimensions shaping the prospects of state-capitalism. An increasing number of studies document how state-capitalist policies face external constraints arising from global trade regimes, foreign investment screening, and geopolitical competition [62–63].

Trade and investment data analyzed across several studies indicate that state-capitalist economies are disproportionately subject to antidumping measures and national security-based investment restrictions, with policy-related trade disputes increasing by approximately 40% over the past decade [64–65]. These pressures limit the international expansion of state-backed firms, particularly in high-technology and infrastructure sectors.

Domestically, political legitimacy and public trust emerge as critical moderating variables. Approximately 52% of the reviewed articles argue that sustained public confidence in state institutions is a prerequisite for the long-term viability of state-capitalist models [66]. Where political accountability mechanisms are weak, state capitalism is more likely to amplify inefficiencies, social tensions, and policy instability.

Taken together, the findings synthesized across these five thematic domains indicate that state-capitalism operates neither as an inherently superior nor inherently flawed economic policy model. Instead, the reviewed evidence demonstrates that its outcomes are highly contingent upon institutional design, governance quality, and the broader political-economic environment in which state intervention is embedded. While state-capitalist arrangements exhibit notable capacity for strategic coordination,

crisis management, and early-stage developmental acceleration, they simultaneously generate persistent risks related to efficiency, accountability, and global integration. These empirically grounded patterns provide a consolidated basis for interpreting the conditional prospects and structural challenges of state-capitalism, which are further examined in the subsequent discussion section.

Discussion

This discussion synthesizes and interprets the findings of the Systematic Literature Review in order to address the central research question: What recurring institutional, economic, and governance-related patterns emerge from the contemporary literature in shaping the prospects and challenges of state-capitalism as an economic policy framework across different political-economic contexts? Drawing on the analysis of 39 peer-reviewed articles published between 2020 and 2025, the discussion is organized around three interrelated analytical dimensions that consistently recur across the literature: (1) institutional configurations and state capacity, (2) economic performance and developmental trade-offs, and (3) governance, accountability, and market distortions. These dimensions collectively explain why state-capitalism generates both significant policy prospects and persistent structural challenges across diverse contexts.

Institutional Patterns: State Capacity, Policy Coherence, and Embedded Autonomy

A dominant and recurring pattern identified in the reviewed literature is the central role of institutional capacity in shaping the outcomes of state-capitalist economic policies [67]. Across different political-economic systems, the effectiveness of state-capitalism is shown to depend less on the mere presence of state ownership or intervention, and more on the coherence, professionalism, and autonomy of the institutions that design and implement economic policy. High-capacity states are consistently associated with more favorable outcomes, including sustained industrial upgrading, strategic investment coordination, and macroeconomic stabilization [68].

The literature frequently invokes the concept of embedded autonomy to explain successful state-capitalist experiences, particularly in East Asian contexts. In these cases, state institutions maintain sufficient independence from narrow political or elite interests while remaining closely embedded within productive sectors, enabling information exchange and policy learning. Empirical studies document that such institutional arrangements facilitate long-term industrial planning, export-oriented growth, and technological catch-up [69]. Conversely, where state intervention is embedded in fragmented or politicized institutional environments, similar policy instruments produce markedly weaker outcomes.

Another recurring institutional pattern concerns policy coherence across different arms of the state. The literature highlights that state-capitalist systems perform best when industrial, financial, and regulatory policies are aligned with shared developmental objectives [70]. In contrast, incoherent policy mixes such as expansive state ownership combined with weak competition policy are associated with inefficiencies, fiscal burdens, and declining productivity. This finding underscores that state-capitalism operates as a system of interdependent institutions rather than a collection of isolated policy tools.

Economic Patterns: Growth, Structural Transformation, and Performance Trade-Offs

From an economic perspective, the reviewed studies reveal a nuanced and conditional relationship between state-capitalism

and economic performance [71]. A recurring pattern is that state-capitalist frameworks are most effective in supporting early- to mid-stage structural transformation, particularly in capital-intensive sectors characterized by high entry barriers and coordination failures. Empirical evidence shows that state-led investment in infrastructure, energy, and heavy industry has contributed to rapid capacity expansion and productivity gains in several late-industrializing economies [72].

However, the literature also consistently identifies performance trade-offs associated with prolonged or excessive state dominance. While state-capitalism may accelerate capital accumulation and stabilize employment in the short to medium term, its long-term growth effects are more ambiguous. Several longitudinal studies report declining marginal returns to state intervention as economies mature, especially where state-owned enterprises (SOEs) retain privileged access to finance and regulatory protection [73]. These dynamics can suppress competitive pressures, reduce innovation incentives, and slow productivity growth over time.

Another recurring economic pattern concerns risk management and crisis response. The literature documents that state-capitalist systems often display greater resilience during periods of global economic turbulence, as governments can mobilize public finance, direct credit flows, and stabilize strategic sectors. During financial crises and supply-chain disruptions, state-controlled banks and enterprises have played a countercyclical role by sustaining investment and employment [74]. Nevertheless, these stabilizing functions frequently come at the cost of rising public liabilities and contingent fiscal risks, particularly when state-backed firms operate under soft budget constraints.

Distributional outcomes further complicate the economic assessment of state-capitalism. Some studies suggest that state intervention can support more inclusive growth by stabilizing wages, fostering regional development, and guaranteeing employment. Yet other analyses highlight patterns of elite capture and unequal access to state-supported resources, leading to rising income and wealth inequalities [75]. These contrasting findings reinforce the conclusion that economic outcomes are deeply mediated by governance arrangements rather than determined by state involvement per se.

Governance Patterns: Accountability, Market Distortions, and Political Risks

Governance-related challenges are among the most consistently emphasized themes in the literature [76]. A recurring pattern concerns the difficulty of balancing commercial efficiency with political and social objectives within state-capitalist systems. SOEs, in particular, are frequently assigned multiple and sometimes conflicting mandates, including profit maximization, employment protection, price stabilization, and strategic control. The literature demonstrates that without clear performance benchmarks and transparent oversight mechanisms, such dual mandates undermine accountability and managerial discipline [77].

Market distortions arising from preferential treatment of state-linked firms represent another widely documented challenge. Empirical studies indicate that regulatory favoritism, such as subsidized credit, implicit guarantees, and preferential procurement, can crowd out private investment and reduce market dynamism. These effects are especially pronounced in mixed economies, where SOEs compete directly with private firms, leading to allocative inefficiencies and distorted competition [78].

Political interference and corruption risks also emerge as persistent governance concerns. Several studies identify a positive correlation between extensive state ownership and opportunities for rent-seeking, particularly in contexts with weak institutional checks and balances. Importantly, the literature emphasizes that these risks are not inherent to state-capitalism as a policy framework, but rather contingent on political institutions, transparency standards, and enforcement capacity. Well-governed state-capitalist systems mitigate these risks through independent oversight bodies, professionalized management, and clear separation between political authority and enterprise operations [79].

Cross-Contextual Patterns and Comparative Insights

Taken together, the literature reveals that the prospects and challenges of state-capitalism are highly context-dependent yet patterned in systematic ways. Across different political-economic contexts, successful state-capitalist systems share common features: strong bureaucratic capacity, coherent policy coordination, disciplined financial systems, and credible accountability mechanisms [80]. Conversely, weak institutional environments amplify the risks of inefficiency, fiscal strain, and political capture, even when similar policy instruments are employed.

Comparative analyses further suggest that state-capitalism functions best as a dynamic and adaptive framework rather than a static institutional model. Countries that periodically reform SOE governance, liberalize non-strategic sectors, and recalibrate the boundaries between state and market tend to achieve more sustainable outcomes. This adaptability distinguishes resilient state-capitalist systems from those that become trapped in institutional inertia and declining performance [81].

The findings of this review carry several important implications for both policy and scholarship. First, the results underscore that debates over state-capitalism should move beyond binary oppositions between “state” and “market” toward a more nuanced focus on institutional design and governance quality. Policymakers considering state-capitalist strategies must prioritize building administrative capacity, ensuring policy coherence, and strengthening accountability frameworks rather than expanding state ownership indiscriminately.

Second, the review highlights the need for greater transparency and performance evaluation within state-capitalist systems. Clear mandates, measurable objectives, and independent oversight mechanisms are essential for mitigating governance risks and sustaining public trust. Without these safeguards, the economic benefits of state intervention are likely to be offset by long-term efficiency losses and political distortions.

For future research, several gaps remain. Existing studies are heavily concentrated on specific countries or sectors, limiting the generalizability of findings. Comparative, multi-country analyses using harmonized indicators of state involvement and governance quality are needed to deepen understanding of cross-contextual patterns. Additionally, more longitudinal research is required to examine how state-capitalist systems evolve over time and respond to structural change, technological disruption, and geopolitical pressures.

Finally, future SLR-based research could integrate insights from political economy, development economics, and institutional theory to develop more comprehensive analytical frameworks. Such interdisciplinary synthesis would enhance understanding of

how state-capitalism can be designed and governed to maximize its developmental potential while minimizing its structural risks.

Conclusion

This Systematic Literature Review demonstrates that state-capitalism functions as a highly conditional and context-dependent economic policy framework, whose prospects and challenges are shaped by recurring institutional, economic, and governance-related patterns rather than by the mere extent of state ownership or intervention. Across diverse political economic contexts, the literature consistently indicates that state-capitalist arrangements yield neither uniformly positive nor inherently detrimental outcomes. Instead, their effectiveness depends on how state involvement is institutionally embedded, economically calibrated, and governed over time.

From an institutional perspective, the reviewed studies converge on the central importance of state capacity, policy coherence, and bureaucratic professionalism. State-capitalism tends to deliver favorable outcomes when economic policymaking is anchored in capable and autonomous institutions that can coordinate long-term investment, manage strategic sectors, and adapt policy instruments to changing economic conditions. Conversely, weak institutional environments characterized by fragmented authority and politicized decision-making amplify inefficiencies and undermine policy credibility. These patterns suggest that institutional design, rather than ideological orientation, constitutes the primary determinant of state-capitalist performance.

Economically, the literature reveals a recurring trade-off between short- to medium-term developmental gains and longer-term efficiency constraints. State-capitalist frameworks are frequently associated with accelerated structural transformation, infrastructure expansion, and enhanced macroeconomic resilience, particularly in late-developing or crisis-prone economies. However, these benefits often diminish over time when state dominance constrains competition, innovation, and productivity growth. The evidence indicates that state-capitalism is most effective when applied selectively and dynamically, supporting strategic coordination without displacing market-based incentives across the broader economy.

Governance-related patterns emerge as the most persistent source of challenge within state-capitalist systems. Across contexts, the literature consistently highlights risks associated with political interference, soft budget constraints, regulatory favoritism, and limited accountability, especially in state-owned enterprises. Where governance mechanisms are weak, state-capitalism tends to exacerbate rent-seeking behavior, fiscal vulnerability, and market distortions. In contrast, systems that incorporate transparent oversight, clear performance mandates, and a credible separation between political authority and enterprise management demonstrate greater capacity to mitigate these risks and sustain public trust.

Taken together, the synthesized evidence indicates that state-capitalism should not be understood as a fixed or monolithic model of economic policy. Rather, it operates as an adaptive governance arrangement whose outcomes depend on institutional quality, economic context, and regulatory discipline. The recurring patterns identified across the literature underscore that the central challenge of state-capitalism lies not in the presence of the state itself, but in how state power is structured, constrained, and aligned with broader developmental objectives.

In sum, contemporary scholarship suggests that state-capitalism retains significant strategic appeal in addressing coordination failures, managing systemic risks, and supporting early-stage development. At the same time, its long-term viability depends on continuous institutional reform, disciplined governance, and a calibrated balance between state intervention and market competition. These findings provide a consolidated analytical foundation for understanding both the enduring relevance and the structural limitations of state-capitalism as an economic policy framework in an increasingly complex global political economy.

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